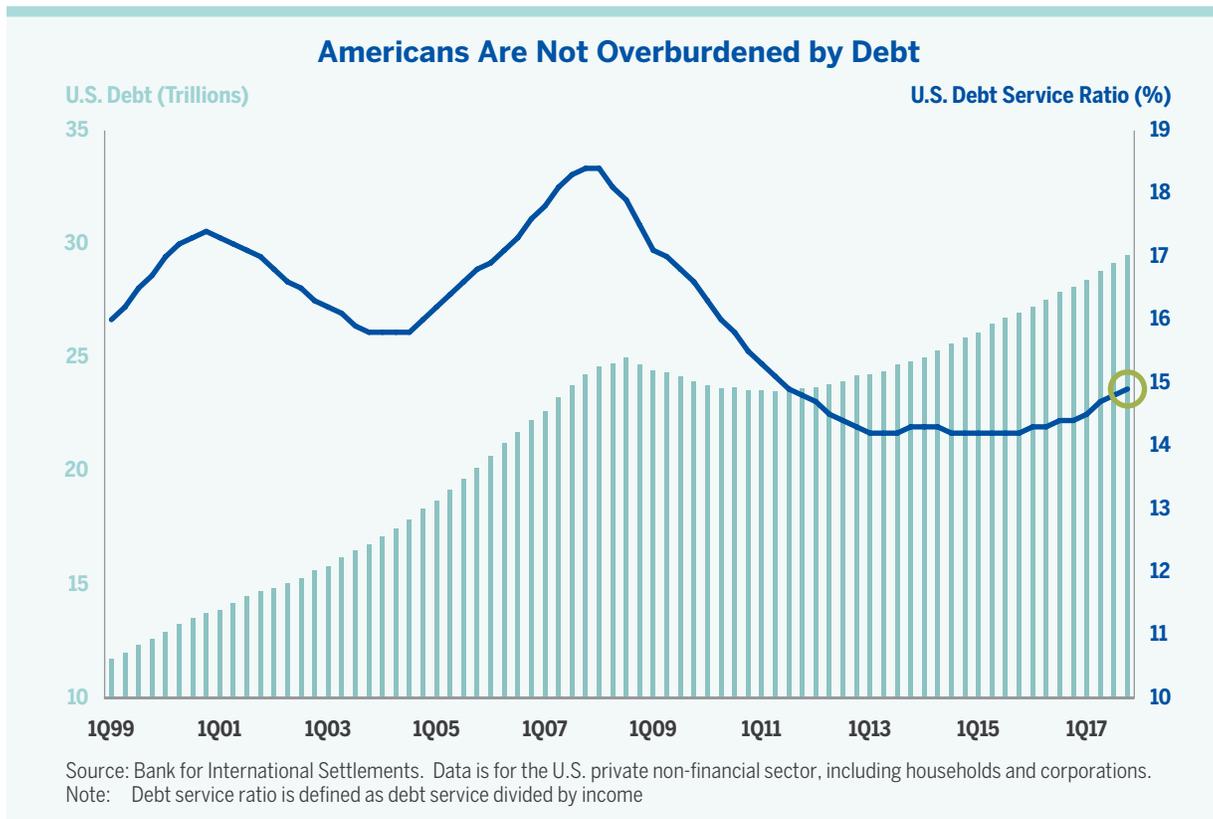


## Doomed by Debt?

Many investors are fearful of the amount of debt in the U.S. and the rest of the world. While it is true that debt levels are elevated, debt service, or the share of income used for interest payments and amortizations, is quite low relative to history. The two metrics tell very different stories about the economy.



- U.S. debt of households and non-financial corporations climbed to a record of nearly \$30 trillion at the end of last year. As a percent of GDP it was also quite high at 152%, up from 127% in the late 1990s but below the recent peak of 169% set right before the Global Financial Crisis in 2008.
- However, U.S. debt service ratios are low relative to historical levels. Just prior to the past two recessions, debt service ratios peaked at 18.4% and 17.3%, respectively. Those numbers are higher than the current 14.9%.
- The story is much the same in the rest of the world. Countries such as Germany, Japan and the U.K. have debt service ratios that are near decade lows.
- Low debt service ratios indicate that debt payments are not a burden to household and corporate borrowers. This implies debt levels are manageable and not an impediment to the economy.

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