

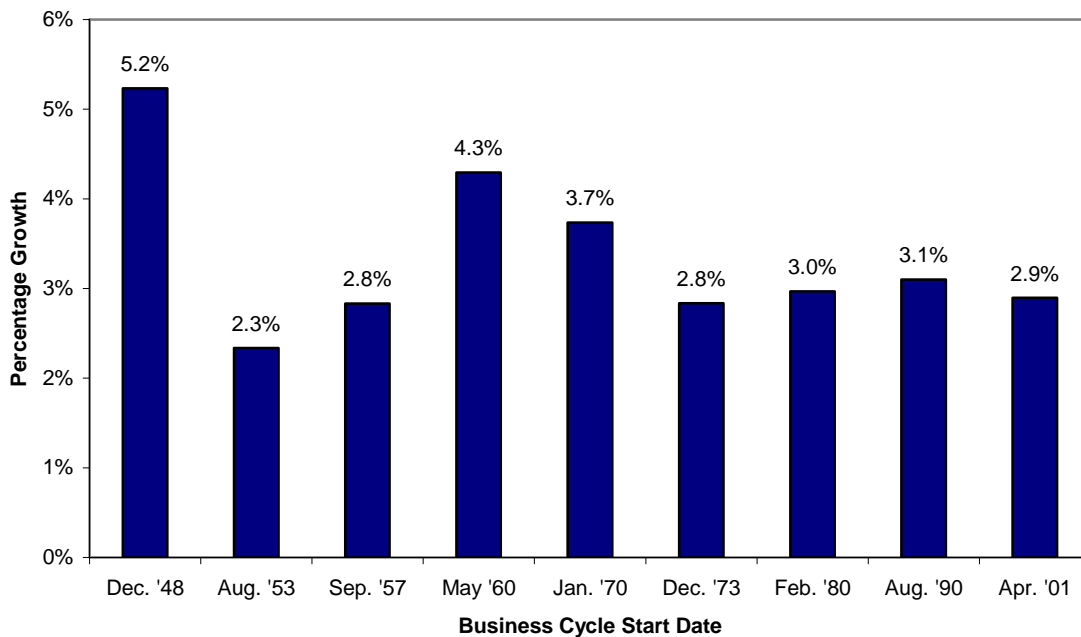
Center for American Progress



Economic Outlook: Middle-Class Families Find Little Relief from Stagnant Wages and Rising Prices

The first half of 2005 was hard on middle-class families. As wage and employment growth trends remain at near-zero levels, energy prices are rising at an accelerated pace. The unaffordable corporate tax cuts continue to take their toll on the federal budget as government revenue remains low by historic standards.

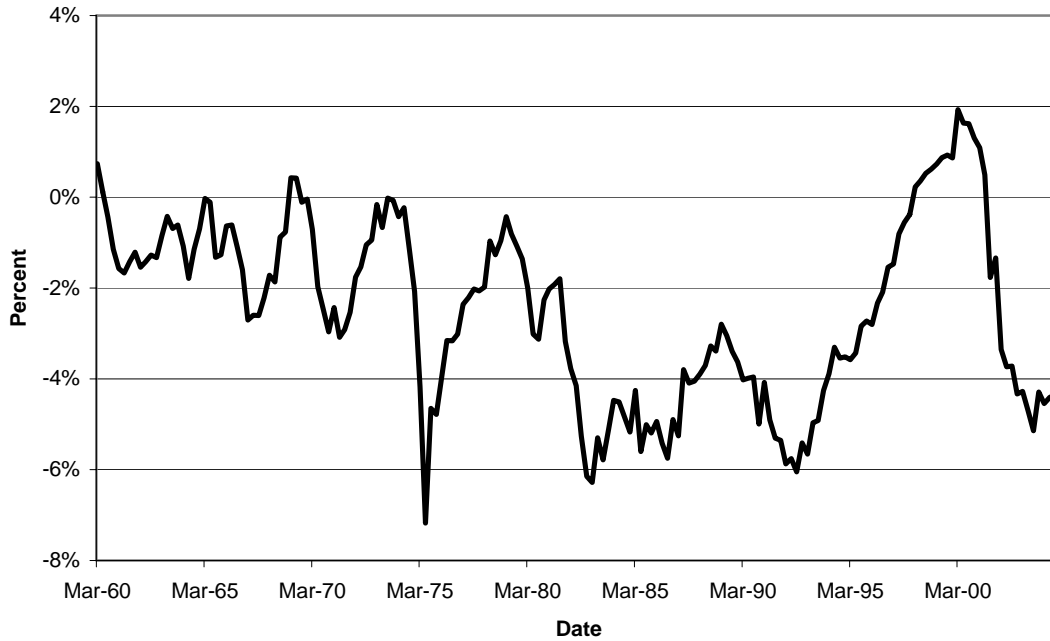
Figure 1: Average Quarterly GDP Growth (Annualized)



Notes: Figures are based on real gross domestic product (GDP). Calculations based on data from Bureau of Economic Analysis, National Income and Product Accounts, Washington, D.C.: www.bea.gov.

In the first four years of this business cycle, gross domestic product (GDP) grew at an average rate of 2.9 percent, which is the lowest rate that we have seen in decades.

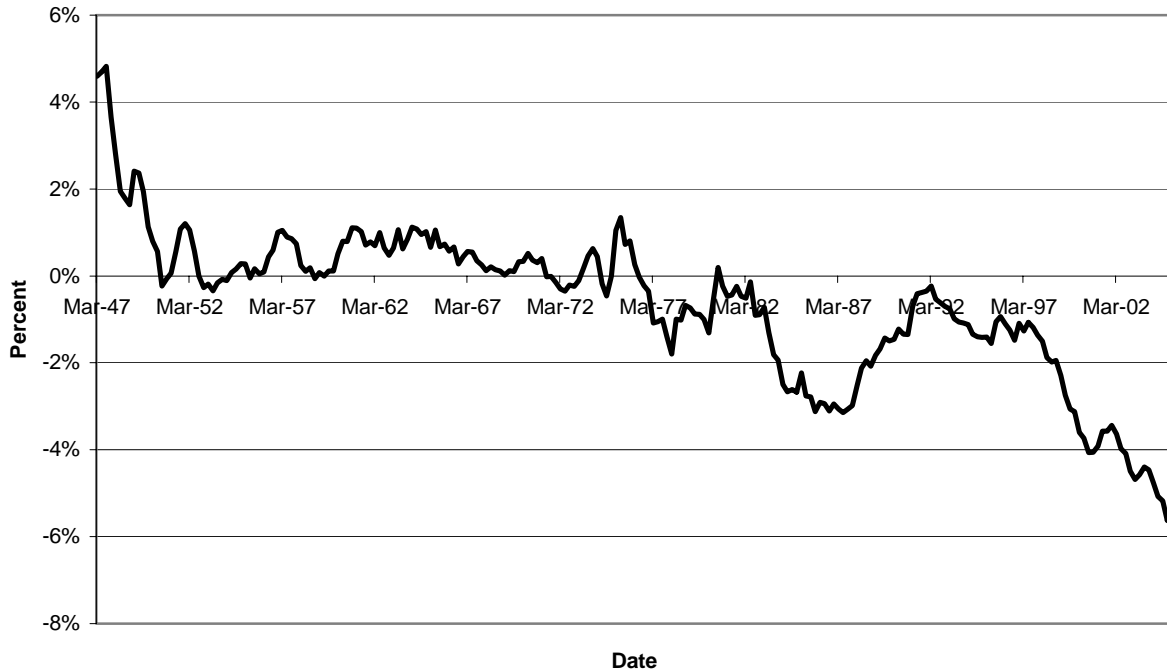
Figure 2: Federal Budget Balance Relative to GDP



Notes: Calculations based on data from Bureau of Economic Analysis, National Income and Product Accounts, Washington, D.C.: www.bea.gov.

In this business cycle, the federal budget balance turned from its largest surplus in four decades of 2 percent of GDP to a deficit that approaches 4 percent of GDP, where it remained for two and a half years. This swing in the federal budget balance comes at a time when the administration has continued its push for more tax cuts.

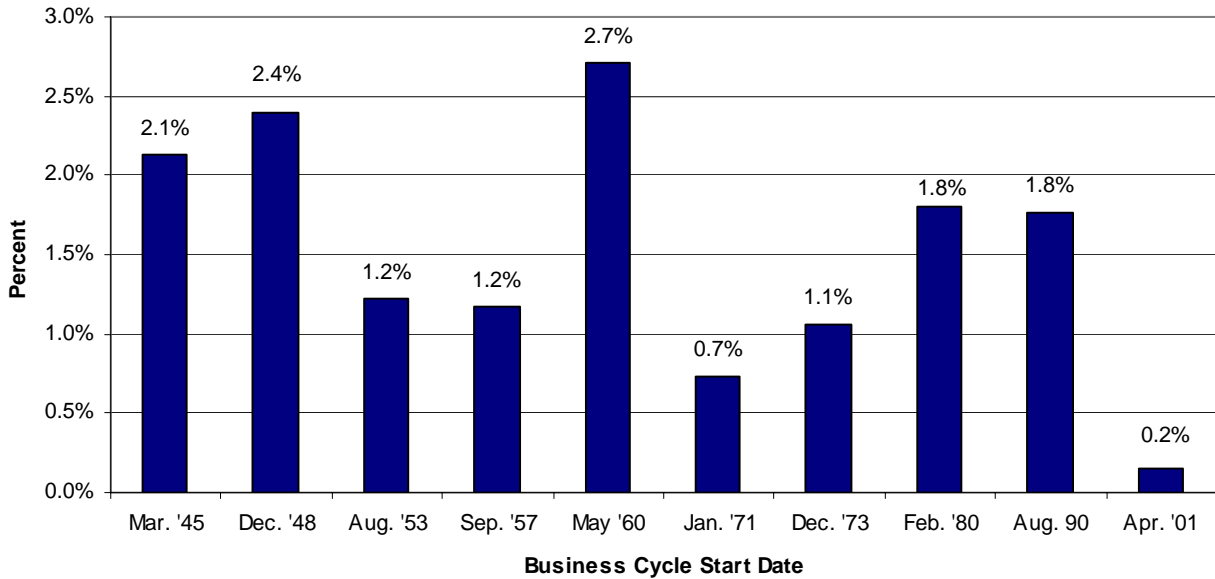
Figure 3: Trade Balance Relative To GDP



Notes: Calculations based on data from Bureau of Economic Analysis, National Income and Product Accounts, Washington, D.C.: www.bea.gov.

Throughout the business cycle, the trade deficit soared to new highs. By the end of the first quarter, the trade deficit had risen to close to 6 percent of GDP.

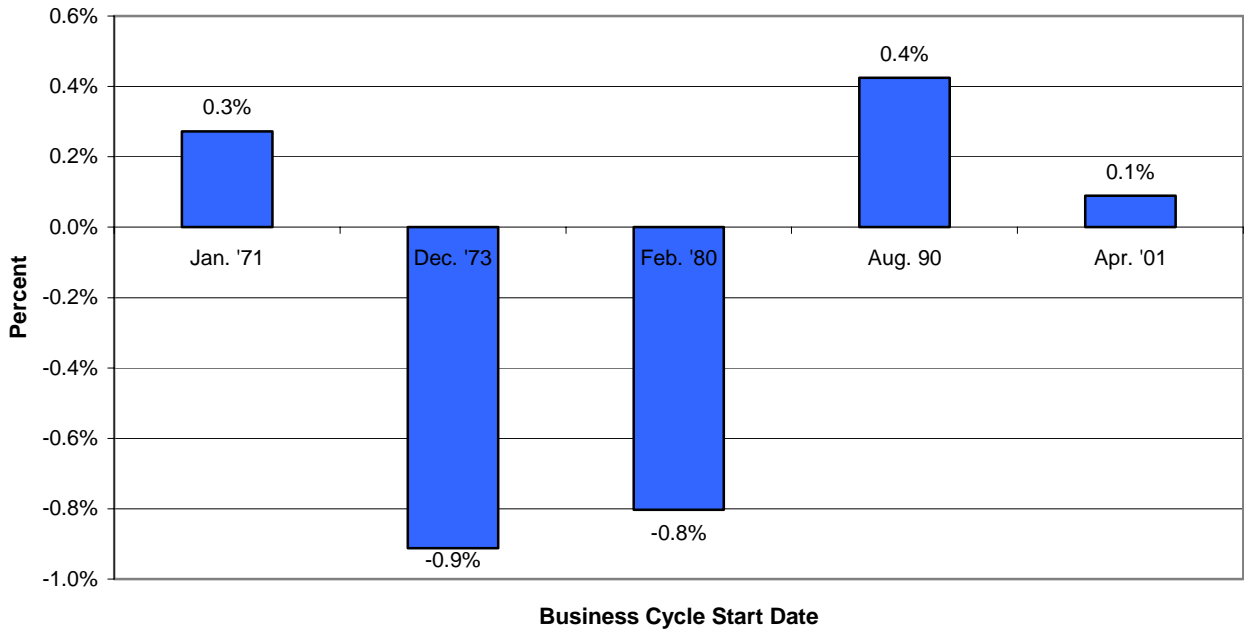
Figure 4: Average Monthly Employment Growth (Annualized)



Notes: Calculations are based on data from the Bureau of Labor Statistics, Non-farm Payroll Employment, Washington, D.C.: www.bls.gov

One of the striking characteristics of this business cycle has been the anemic job growth, despite an economic expansion. For the first 50 months of the business cycle employment gains were essentially flat. The growth rate of 0.2 percent is lower than any on record since the 1940s.

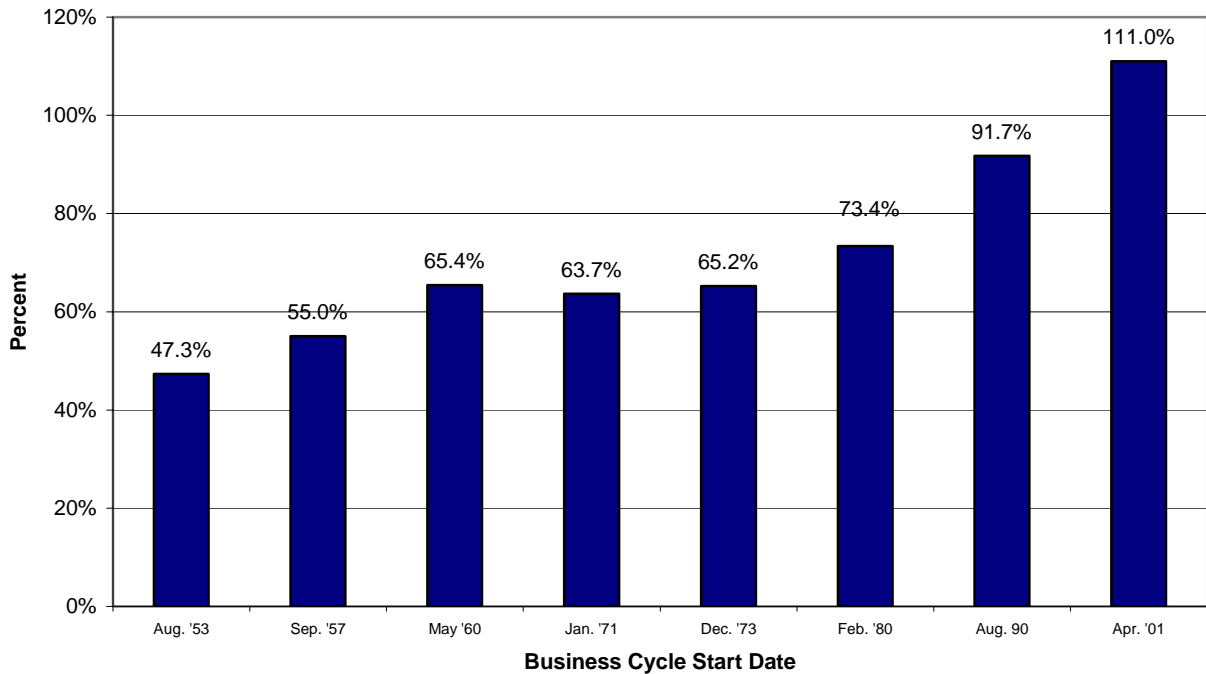
Figure 5: Average Weekly Earnings Growth Per Month (Annualized)



Notes: Calculations are based on data from the Bureau of Labor Statistics, Average Weekly Earnings (1982 dollars), Washington, D.C.: www.bls.gov

The worst employment record during a business cycle since World War II was matched by comparatively low earnings growth. For the first 50 months of the business cycle, weekly earnings grew by 0.1 percent in inflation-adjusted terms.

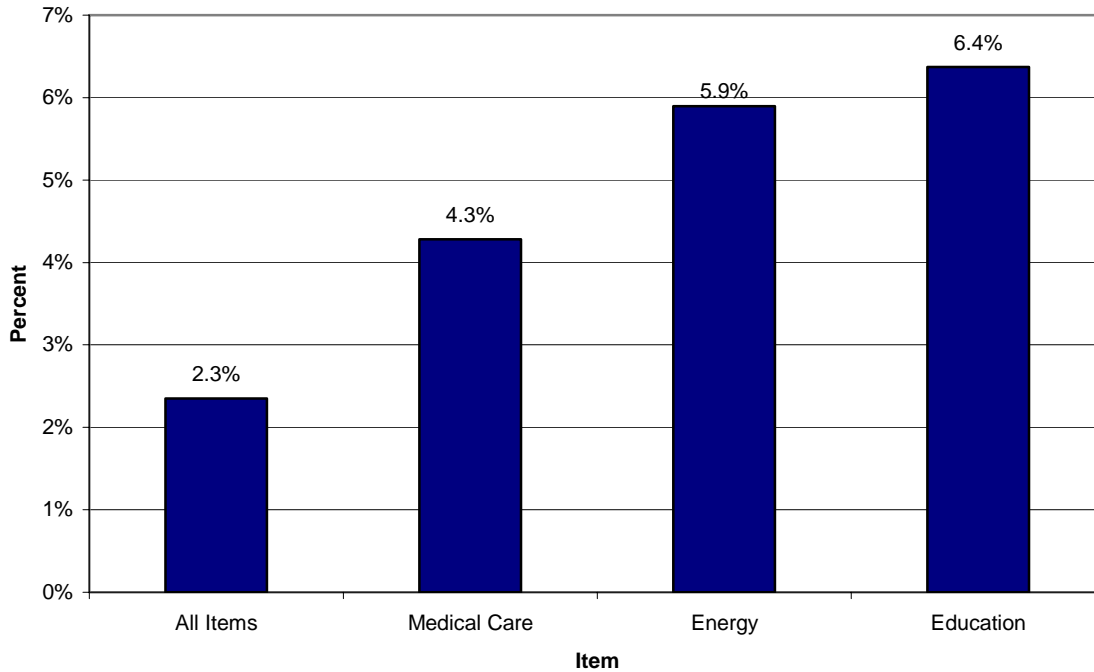
Figure 6: Total Debt Relative to Personal Disposable Income



Notes: Calculations are based on data from the Board of Governors of the Federal Reserve System, Release Z.1 Flow of Funds, Washington, D.C.: www.federalreserve.gov.

With employment and wage growth flat, households were caught in a bind. They borrowed more money to maintain their consumption, but they also had a harder time repaying the new debt. Consequently, debt levels reached record highs of over 110 percent of disposable income throughout this business cycle.

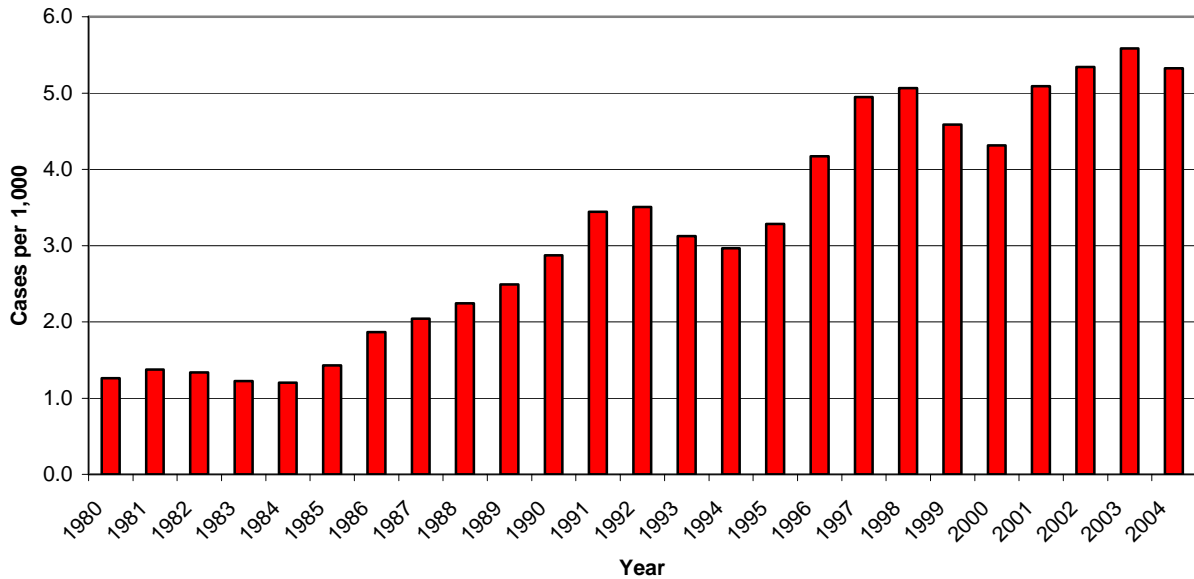
Figure 7: Average Monthly Price Changes Since March 2001 (Annualized)



Notes: Calculations are based on Bureau of Labor Statistics, CPI-All Urban Consumers (Current Series), Washington, D.C.: www.bls.gov

During the current business cycle, energy, health care and education costs have risen largely unchecked. For instance, costs for education increased two and a half times faster than overall prices. Data from the BLS (not shown here) indicate that between March and May, energy inflation has accelerated from a 5.6 percent growth rate to the current 5.9 percent growth rate.

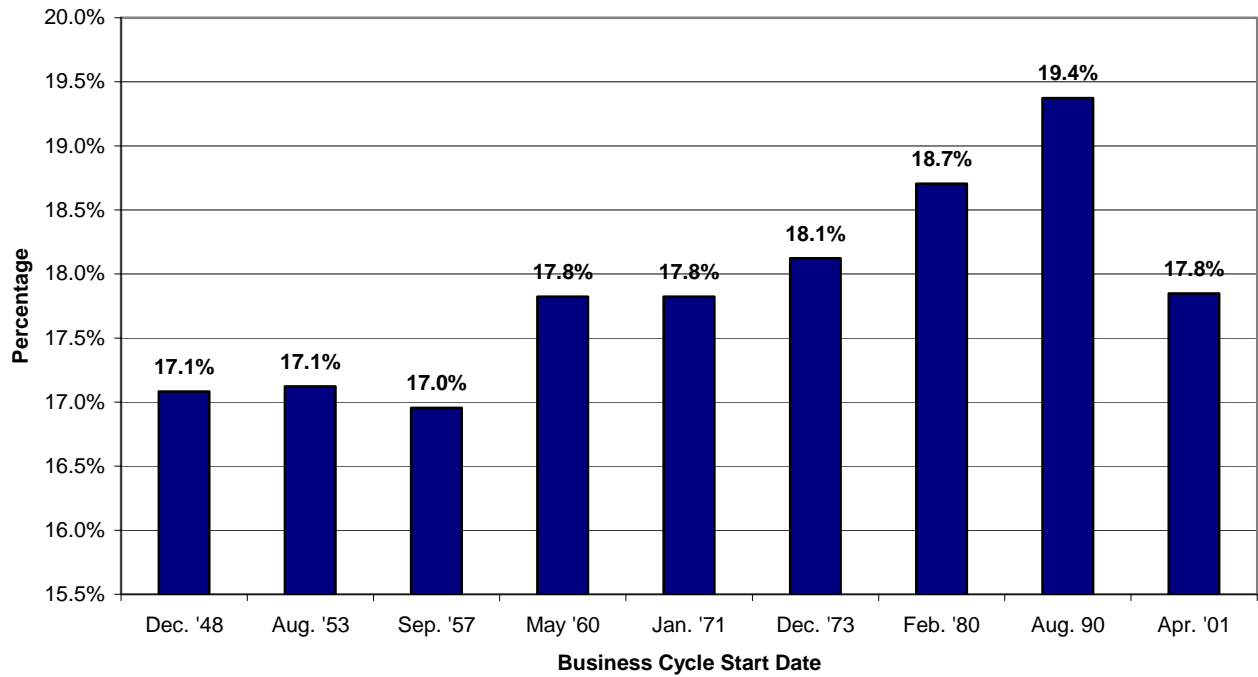
Figure 8: Personal Bankruptcy Cases per 1,000 People



Notes: Calculations are based on American Bankruptcy Institute, Non-Business Filings, Washington, D.C.: www.abiworld.org, and U.S. Census Bureau, Population, Washington, D.C.: www.census.gov.

Rising costs amid a flat labor market are reflected in continuously high bankruptcy rates. In 2003, the bankruptcy rate reached a record high of 5.6 filings per 1,000 people. In 2004, the bankruptcy rate was still at its second highest level since the ABI started collecting data in the 1980s.

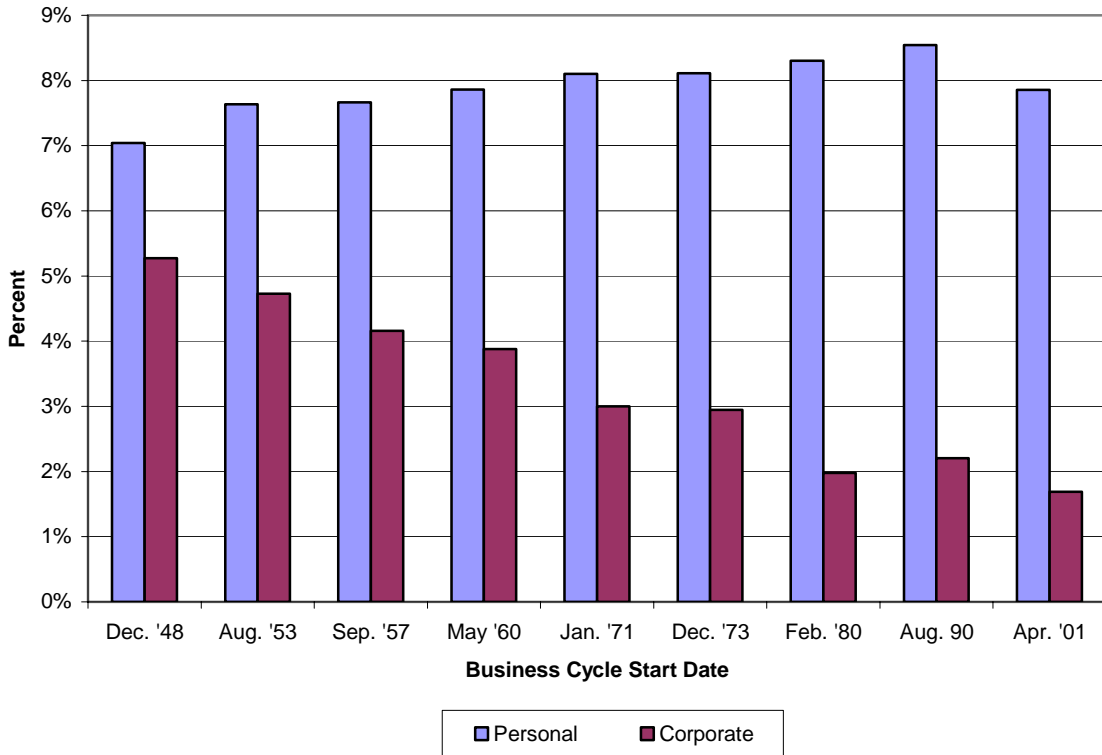
Figure 9: Federal Government Revenue Relative to GDP



Notes: Calculations based on data from Bureau of Economic Analysis, National Income and Product Accounts, Washington, D.C.: www.bea.gov.

The weak labor market persisted despite massive tax cuts, which were targeted especially at higher income earners and corporations. The result was the lowest revenue collection relative to GDP since the early 1970s.

Figure 10: Personal and Corporate Tax Revenue Relative to GDP



Notes: Calculations based on data from Bureau of Economic Analysis, National Income and Product Accounts, Washington, D.C.: www.bea.gov.

While massive tax cuts trickled down to households on average, corporations, which saw record profit levels, continue to see their contribution to the federal government's finances drop to its lowest levels since World War II.