Center for American Progress

Economic Snapshot for September 2012

Christian E. Weller on the State of the Economy

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Household debt, lingering wealth losses, fiscal challenges for state, local, and federal governments, and overseas economic crises weigh down economic growth and job growth. Yet both the economy and the labor market are still expanding at a modest pace.

Progressive policy efforts at the depth of the Great Recession helped to turn the corner for the economy, but since then conservative policymakers have impeded new steps to strengthen the recovery, as they apparently never felt the necessary sense of urgency to respond to the continuing crisis of falling incomes, rising poverty, high unemployment, and massive foreclosures. Progressive ideas to invest in people and in the economy have thus far faced an insurmountable political blockage in Congress, and America's middle class has paid the price in the form of widespread economic insecurity during the economic expansion.

The Center for American Progress recently released a report, "Making Our Middle Class Stronger," detailing 35 ideas to help the middle class.[1] Many of these policies such as lower mortgage payments and lower student loan payments could quickly offer relief to families and thus boost economic growth. Policymakers should not let partisan politics stand in the way of boosting economic and job growth.

1. **Economic growth remains positive but modest.** Gross domestic product grew at an annual rate of 1.7 percent in the second quarter of 2012. Government spending actually fell by 0.9 percent. Business investment grew by 4.2 percent in the second quarter of 2012, while consumption grew by 1.7 percent and exports expanded at 6 percent.[2] Government spending cuts reflect the continued fiscal crisis among federal, state, and local governments. The reasonable business investment and export growth were not enough to overcome lackluster consumption and shrinking government spending growth.[3]

2. **Competitiveness stays back.** Worker productivity—the amount of goods and services produced in an hour of work in the nonfarm business economy—is a key

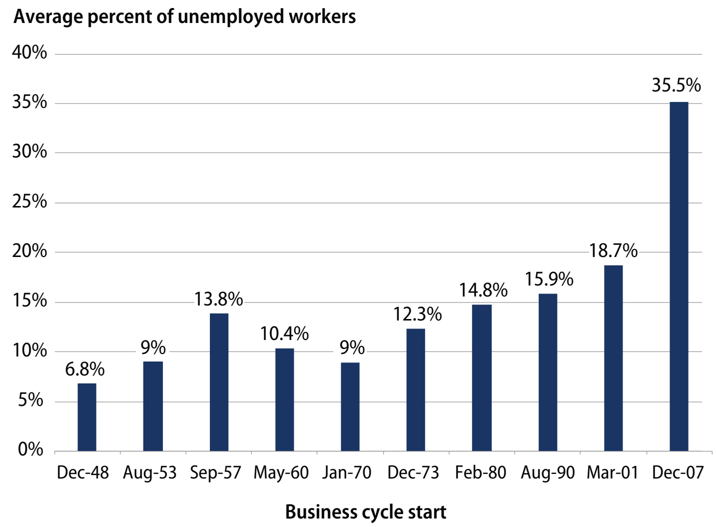
measure of the economy's global competitiveness. Productivity now stands 7.4 percent larger than in December 2007 at the start of the Great Recession but is well below the average increase of 8.5 percent for similar periods in the past.[4]

3. **The slow labor market recovery continues.** There were 2.8 million more jobs in August 2012 than in June 2009, when the economic recovery officially started. The private sector added 3.5 million jobs during this period. The difference between the net gain and private-sector gain is explained by the loss of 659,000 state and local government jobs, as budget cuts reduced the number of teachers, bus drivers, fire fighters, and police officers, among others.[5] Job creation is a top policy priority since private-sector job growth is still too weak to quickly overcome other job losses and to rapidly lower the unemployment rate.

4. **Suffering of the unemployed stays high.** The unemployment rate stood at 8.1 percent in August 2012. Long-term unemployment ballooned in recent years alongside high unemployment rates. In August 2012 still 40 percent of the unemployed were out of work and looking for a job for more than six months. The average length of unemployment stayed high at 39.2 weeks in August 2012.[6] Those out of a job for a long time struggle because job growth has proceeded at a slow place. Millions of unemployed workers hence vie for the newly created jobs.

FIGURE 1

Share of long-term unemployment, business cycle averages



Source: Bureau of Labor Statistics, Current Population Survey (Department of Labor, 2011).

5. **Labor market pressures fall hardest on communities of color, young workers, and those with less education.** The African American unemployment rate in August 2012 stayed well above average at 14.1 percent; the Hispanic unemployment rate was 10.2 percent; and the white unemployment rate was 7.2 percent. Youth unemployment stood at a high 24.6 percent. The unemployment rate for people without a high school diploma stayed high at 12 percent, compared to 8.8 percent for those with a high school degree, 6.6 percent for those with some college education, and 4.1 percent for those with a college degree.[7] Vulnerable groups have struggled disproportionately more amid the weak labor market than white workers, older workers, and workers with more education.

6. **Household incomes continue to drop amid prolonged labor market weaknesses.** Median inflation-adjusted household income—half of all households has more

and the other half has less—stood at $50,054 in 2011, its lowest level in inflation-adjusted dollars since 1995. It fell again by 1.5 percent in 2011—the fourth drop in a row. American families experienced no income gains during the current economic recovery after 2009, exacerbating their losses during the Great Recession.[8]

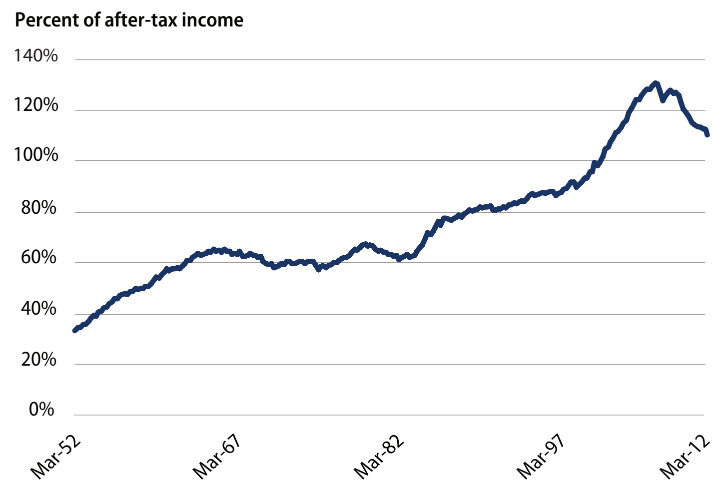
7. **Income inequality on the rise.** Households at the 95th percentile, with incomes of $186,000 in 2011, had incomes that were more than nine times—9.2 times, to be exact—the incomes of households at the 20th percentile, with incomes of $20,262. This is the largest gap between the top 5 percent and the bottom 20 percent of households since the U.S. Census Bureau began keeping record in 1967.[9]

8. **Poverty stays high.** The poverty rate fell to 15 percent in 2011, down from 15.1 percent in 2010. The African American poverty rate was 27.6 percent; the Hispanic rate was 25.3 percent; and the white rate was 9.8 percent in 2011. The poverty rate for children under the age of 18 stood at 21.9 percent. More than one-third of African American children (38.8 percent) lived in poverty in 2011, compared to 34.1 percent of Hispanic children and 12.5 percent of white children.[10] The prolonged economic slump, following an exceptionally weak labor market before the crisis, has taken a massive toll on the most vulnerable.

9. **Employer-sponsored benefits disappear.** The share of people with employer-sponsored health insurance dropped from 59.8 percent in 2007 to 55.1 percent in 2011.[11] The share of private-sector workers who participated in a retirement plan at work fell to 39.5 percent in 2010, down from 42 percent in 2007.[12] Families have less economic security than in the past due to fewer employment-based benefits, requiring more private savings to make up the difference.

FIGURE 2

Household debt to after-tax income, 1952 to 2011



Source: Calculations based on Board of Governors, Federal Reserve, 2011, Flow of Funds Accounts of the United States, Washington, D.C.: BOG.

10. **Family wealth losses linger.** Total family wealth is down $11.2 trillion (in 2012 dollars) from June 2007—its last peak—to June 2012. Homeowners on average own only 43.1 percent of their homes, with the rest owed to banks.[13] Homeowners feel pressure to save more and consume less to rebuild their equity, slowing consumer spending and holding back economic growth.

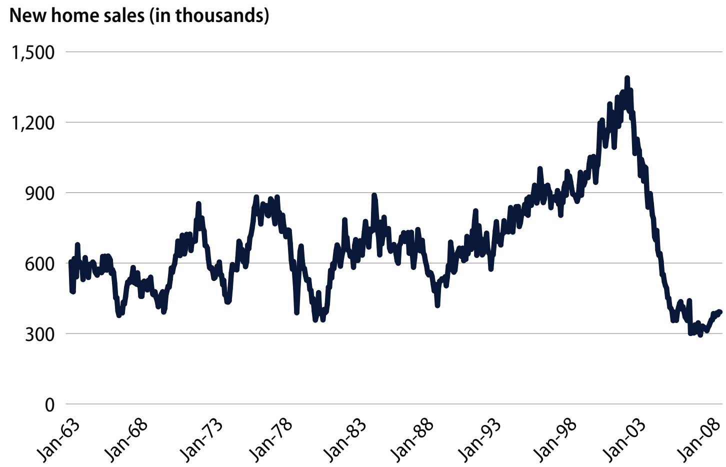
11. **Household debt is still high.** Household debt equaled 108.5 percent of after-tax income in June 2012, down from a peak of 129.3 percent in September 2007.[14] The

unprecedented fall in debt over the past four years resulted from tight lending standards, falling interest rates, massive foreclosures, and increased household saving. Further deleveraging will likely slow, then, unless incomes rise faster than they have in the past. High debt could hence continue to slow economic growth, as households focus on saving rather than on spending more.

12. **The housing market slowly recovers from historic lows.** New home sales amounted to an annual rate of 373,000 in August 2012—up from 292,000 in August 2011 but well below the historical average of 698,000 before the Great Recession.[15] The median new house price in August 2012 was 17 percent higher than a year earlier.[16] Existing home sales were up by 9.3 percent in August 2012 from a year earlier, and the median price for existing homes was up by 9.5 percent during this period.[17] The housing market has a lot of room to grow and to contribute to economic growth since the recovery in the spring of 2012 started from historically low home sales.

FIGURE 3

Annual new home sales, 1963 to 2012



Source: U.S. Census Bureau, New Residential Historical Data (U.S. Department of Commerce), available at http://www.census.gov/construction/nrs/historical_data/.

13. **Homeowners' distress remains high.** One in eight mortgages is still delinquent or in foreclosure even though mortgage troubles have gradually eased since March 2010. The share of mortgages that were delinquent was 7.6 percent in the second quarter of 2012, and the share of mortgages that were in foreclosure was 4.3 percent at the same time.[18] Many families delayed and defaulted on mortgage payments amid high unemployment and massive wealth losses. Banks then may be nervous about extending new mortgages, prolonging the economic slump.

14. **Near precrisis peak profits are not reflected in investment data.** Inflation-adjusted corporate profits were 84.6 percent larger in June 2012 than in June 2009, when the economic recovery started. The after-tax corporate profit rate—profits to total assets—stood at 3 percent in June 2012, near the previous peak after-tax profit rate of 3.2 percent prior to the Great Recession.[19] Corporations used their resources for purposes other than investments in plant and equipment. The share of investment out of GDP stayed low, with 10.4 percent in the second quarter of 2012.[20]

Endnotes

1 David Madland, "Making Our Middle Class Stronger" (Washington: Center for American Progress, 2012), available at http://www.americanprogress.org/issues/2012/08/middle_class_policies.html.

2 All GDP data are from the Bureau of Economic Analysis, National Income and Product Accounts (U.S. Department of Commerce, 2012).

3 Christian Weller, "GDP Data Show Policymakers Still Have Work to Do," (Washington: Center for American Progress, 2012).

4 Calculations based on Bureau of Labor Statistics, Output per Hour (U.S Department of Labor, 2012); Business cycle dates are taken from National Bureau of Economic Research, "Business Cycle Dates" (2012).

5 Employment growth data are calculated based on Bureau of Labor Statistics, Current Employment Statistics (U.S. Department of Labor, 2012). The Current Employment Statistics are also known as the payroll survey.

6 Unemployment numbers are from the Bureau of Labor Statistics, Current Population Survey (U.S. Department of Labor, 2012). The Current Population Survey is also known as the household survey.

7 Unemployment rates by demographic characteristics are taken from the Bureau of Labor Statistics, Current Population Survey (U.S. Department of Labor, 2012).

8 Data for family incomes are from the U.S. Census Bureau, Income, Poverty, and Health Insurance Coverage in the United States: 2010 (U.S. Department of Commerce, 2011). This report is occasionally referred to as the poverty report.

9 Other measures of income dispersion also show a growing gap between families in the top 5 percent, top 10 percent, and top 20 percent, relative to families in the bottom 20 percent and bottom 50 percent. See U.S. Census Bureau, Income, Poverty, and Health Insurance Coverage in the United States: 2010.

10 Data for poverty rates are from the U.S. Census Bureau, Income, Poverty, and Health Insurance Coverage in the United States: 2010.

11 Data for health insurance are from the U.S. Census Bureau, Income, Poverty, and Health Insurance Coverage in the United States: 2010.

12 Craig Copeland, "Employment-Based Retirement Plan Participation: Geographic Differences and Trends: 2010/2007" (Washington: Employee Benefits Research Institute, 2011/2008).

13 Wealth calculations are based on the Board of Governors, Federal Reserve System, "Release Z.1 Flow of Funds Accounts of the United States," (Washington: Federal Reserve System, 2012). Real wealth is the nominal wealth deflated by the price index for the Personal Consumption Expenditure index. The Personal Consumption Expenditure index is from the Bureau of Economic Analysis, National Income and Product Accounts (2012).

14 Debt calculations are based on Board of Governors, Federal Reserve System, "Release Z.1 Flow of Funds Accounts of the United States" (Washington: Federal Reserve System, 2012). Debt levels are the ratio of the nominal debt levels divided by the nominal disposable personal income. Debt refers to total credit instruments.

15 The historical average refers to the average annualized monthly residential sales from January 1963, when the Census data begin, to December 2007, when the Great Recession starts. Calculations based on U.S. Census Bureau, New Residential Sales Historical Data (U.S. Department of Commerce, 2012).

16 U.S. Census Bureau, New Residential Sales Historical Data.

17 National Association of Realtors, "August Existing-Home Sales and Prices Rise" (2012).

18 Data are taken from the Mortgage Bankers Association, "National Delinquency Survey" (2012).

19 Profit rates are calculated based on data from the Board of Governors, "Release Z.1 Flow of Funds Accounts of the United States." And inflation-adjustments are based on the Personal Consumption Expenditure index from the Bureau of Economic Analysis, National Income and Product Accounts.

20 Calculation based on Bureau of Economic Analysis, National Income and Product Accounts.