



Economic Snapshot for November 2012

Christian E. Weller on the State of the Economy

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The U.S. economy is in its fourth year of a moderate recovery. The continued expansion in the economy and the labor force is the result of past policy interventions to strengthen the recovery against broad and large obstacles, such as high household debt, the lingering European crisis, and states' fiscal struggles. Smart, targeted policies make a difference, and in recent years policymakers have shown a willingness to work together to move the economy forward.

But those obstacles remain serious threats to the recovery, and policymakers need to keep the recovery's momentum going instead of stalling it by, for instance, not resolving the current fiscal showdown in Congress a little more than a month before a series of automatic federal spending cuts and tax hikes go into effect.

We should build on the momentum with targeted initiatives that keep teachers and other key public employees in their jobs, invest in key industries such as manufacturing and construction, and help the middle class get out from under a still-crushing mountain of debt by maintaining key income support measures and tax cuts.

1. **Economic growth remains positive but modest.** Gross domestic product, or GDP, grew at an annual rate of 2 percent in the third quarter of 2012. Government spending grew by 3.7 percent due to a boost in defense spending, and consumption grew by 2 percent, partly because of less saving. Business investment fell by 1.3 percent in the third quarter of 2012, and exports declined by 1.6 percent.¹ The decline in exports and investment poses a potential challenge to the strength of the recovery, and income growth is not yet strong enough to overcome these weaknesses by supporting self-sustaining consumption growth.²
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 in the third quarter of

2012 stood 7.9 percent larger than at the start of the Great Recession in December 2007 but below the average increase of 8.9 percent for similar periods in the past.³

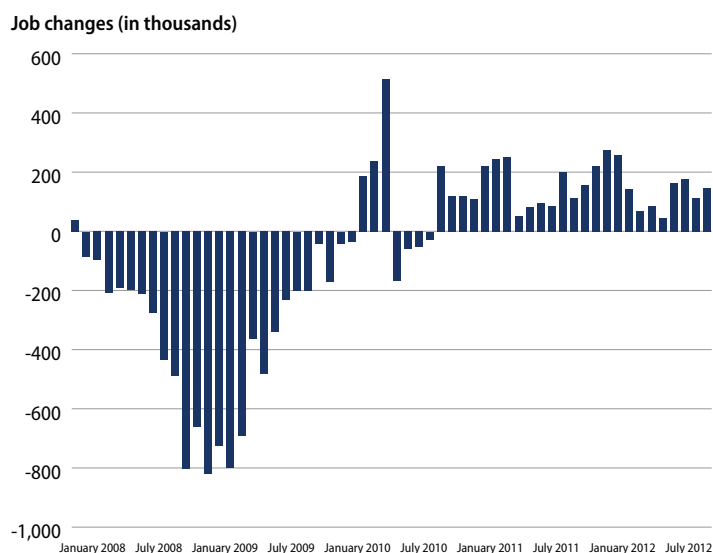
3. **The moderate labor market recovery continues in its fourth year.** There were 3.3 million more U.S. jobs in October 2012 than in June 2009, when the economic recovery officially started. The private sector added 3.8 million jobs during this period. The difference between the net gain and private-sector gain is explained by the loss of close to 600,000 state and local government jobs, as budget cuts reduced the number of teachers, bus drivers, firefighters, and police officers, among others.⁴ 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 7.9 percent in October 2012, and long-term unemployment also remained high. In October 2012 still 40.6 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 with 40.2 weeks in September 2012.⁵ 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.

5. **Labor market pressures fall especially on communities of color, young workers, and those with less education.** The African American unemployment rate in October 2012 stayed well above average at 14.3 percent, the Hispanic unemployment rate was 10 percent, and the white unemployment rate was 7 percent. Youth unemployment stood at a high 23.7 percent. And the unemployment rate for people without a high school diploma stayed high with 12.2 percent, compared to 8.4 percent for those with a high school diploma, 6.9 percent for those with some college education, and 3.8 percent for those with a college degree.⁶ 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 have more and the other half has less—stood at \$50,054 in 2011, its lowest level in inflation-adjusted dollars since 1995. It fell by 1.5 percent in 2011—its fourth drop in a row.

FIGURE 1
Monthly job change since start of Great Recession in 2008



Source: Bureau of Labor Statistics, *Current Employment Statistics* (Department of Labor, 2012).

American families experienced no income gains during the current economic recovery after 2009, exacerbating the losses experienced during the Great Recession.⁷

7. **Income inequality is rising.** 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 started keeping record in 1967.⁸
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.⁹ 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 2011.¹⁰ 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 2007.¹¹ Families have less economic security than in the past due to fewer employment-based benefits, requiring more private savings to make up the difference.
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.¹² 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 2007.¹³ 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 spending more.
12. **The housing market is finally and slowly recovering from historic lows.** New home sales amounted to an annual rate of 389,000 in September 2012, a 27.1 percent increase over the 306,000 homes sold in September 2011 but well below the historical average of 698,000 before the Great Recession.¹⁴ The median new house price in

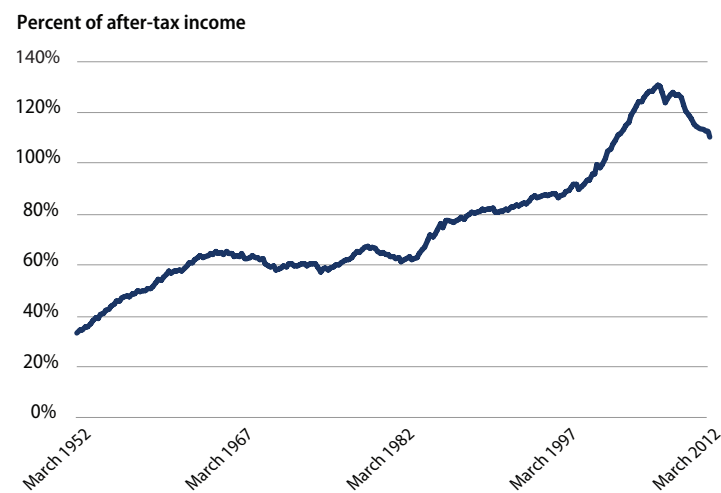
September 2012 was 11.7 percent higher than a year earlier.¹⁵ Existing home sales were up by 10.9 percent in October 2012 from a year earlier, and the median price for existing homes was up by 11.1 percent during this same period.¹⁶ The housing market has a lot of room to grow and to contribute to economic growth since the recovery in the spring of 2012 started from historically low home sales and the housing market fell throughout most of the recovery.

13. **Homeowners' distress remains high.** Nearly one in eight mortgages are still delinquent or in foreclosure even though mortgage troubles have gradually eased since March 2010. The share of mortgages that were delinquent in the third quarter of 2012 was 7.4 percent; the share of mortgages that were in foreclosure was 4.1 percent during the same time period.¹⁷ Many families delayed and defaulted on mortgage payments amid high unemployment and massive wealth losses. As a result, banks are nervous about extending new mortgages, prolonging the economic slump.

14. **Near pre-crisis 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 March 2012, near the last peak after-tax profit rate of 3.2 percent prior to the Great Recession.¹⁸ Corporations used their resources for purposes other than investments in plants and equipment. The share of investment out of GDP stayed low at 10.4 percent in the second quarter of 2012.¹⁹

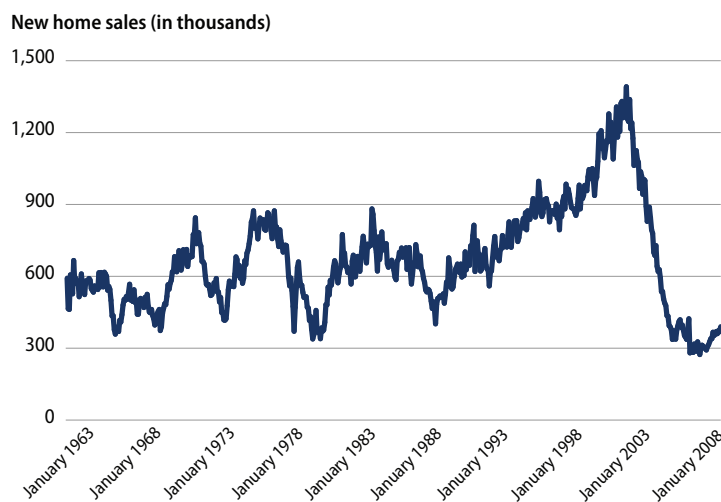
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FIGURE 2
Household debt to after-tax income, 1952 to 2011



Source: Board of Governors, Federal Reserve System, "Release Z.1 Flow of Funds Accounts of the United States" (2012).

FIGURE 3
Annual new home sales, 1963 to 2012



Source: Bureau of the Census, *New Residential Sales Historical Data* (Department of Commerce, 2012).

Endnotes

- 1 All GDP data are from: Bureau of Economic Analysis, National Income and Product Accounts (Department of Commerce, 2012).
- 2 See: Christian E. Weller, "GDP Data Show Policymakers Still Have Work to Do" (Washington: Center for American Progress, 2012).
- 3 Calculations are based on: Bureau of Labor Statistics, Output per Hour (Department of Labor, 2012). Business cycle dates are taken from: National Bureau of Economic Research, Business Cycle Dates (2012).
- 4 Bureau of Labor Statistics, *Current Employment Statistics* (Department of Labor, 2012).
- 5 Unemployment numbers are taken from Bureau of Labor Statistics, Current Population Survey (Department of Commerce, 2012). The Current Population Survey is also known as the household survey.
- 6 Unemployment rates by demographic characteristics are taken from *ibid.*
- 7 Data for family incomes are from: Bureau of the Census, Income, Poverty, and Health Insurance Coverage in the United States: 2011 (Department of Commerce, 2012). This report is occasionally referred to as the poverty report.
- 8 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. *Ibid.*
- 9 Data for poverty rates are from *ibid.*
- 10 Data for health insurance are from *ibid.*
- 11 Craig Copeland, "Employment-Based Retirement Plan Participation: Geographic Differences and Trends: 2010/2007" (Washington: Employee Benefits Research Institute, 2011).
- 12 Wealth calculations are based on: Board of Governors, Federal Reserve System, "Release Z.1 Flow of Funds Accounts of the United States" (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 Bureau of Economic Analysis, National Income and Product Accounts.
- 13 Debt calculations are based on: Board of Governors, Federal Reserve System, "Release Z.1 Flow of Funds Accounts of the United States." Debt levels are the ratio of the nominal debt levels divided by the nominal disposable personal income. Debt refers to total credit instruments.
- 14 The historical average refers to the average annualized monthly residential sales from January 1963, when the Census data start, to December 2007, when the Great Recession starts. Calculations are based on: Bureau of the Census, New Residential Sales Historical Data (Department of Commerce, 2012).
- 15 *Ibid.*
- 16 National Association of Realtors, "September Existing-Home Sales Down, but Prices Continue to Improve" (2012).
- 17 Data are taken from: Mortgage Bankers Association, "National Delinquency Survey" (2012).
- 18 Profit rates are calculated based on data from the Board of Governors, Federal Reserve System, "Release Z.1 Flow of Funds Accounts of the United States." Inflation adjustments are based on the Personal Consumption Expenditure index from: Bureau of Economic Analysis, National Income and Product Accounts.
- 19 Calculation based on: Bureau of Economic Analysis, National Income and Product Accounts.