



Economic Snapshot for February 2013

Christian E. Weller on the State of the Economy

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Economic growth and job creation continue at a modest pace in the fourth year of the economic recovery from the Great Recession. The private sector and the labor market have continued to expand during much of the recovery despite massive obstacles, such as the lingering European financial crisis, high U.S. household debt levels, and large-scale fiscal uncertainty in the United States. There is substantial room for the U.S. economy and labor market to gain strength if policymakers pursue a number of key steps in the short run.

Now that Congress has resolved some of the fiscal mess that created our massive economic uncertainty, policymakers can invest in infrastructure, offsetting weak business investment and export growth; boost personal incomes with a minimum-wage increase to bolster consumption; and help households ease the still-high burden of debt through facilitating higher personal incomes and the refinancing of existing mortgages.

1. **Economic growth slowed markedly at the end of 2012.** Gross domestic product, or GDP, was essentially flat, falling slightly at an annual rate of 0.1 percent in the fourth quarter of 2012. Domestic consumption increased by an inflation-adjusted annual rate of 2.2 percent, housing spending grew by 15.3 percent, and business investment accelerated by 8.4 percent. In the fourth quarter of 2012, however, exports fell by 5.7 percent, and government spending shrank by 6.6 percent.¹ Therefore, policy should ease the strain of fiscal austerity on the economy by dampening spending cuts, and it should boost domestic private-sector economic activity to offset the fall-off in overseas demand.
2. **The moderate labor market recovery continues in its fourth year.** There were 4.3 million more jobs in January 2013 than in June 2009, when the economic recovery officially started. The private sector added 5 million jobs during this period. The difference between the net gain and the private-sector gain is explained by the loss of nearly 697,000 state and local government jobs in this period, as budget cuts reduced the number of teachers, bus drivers, firefighters, and police officers, among

others.² Job creation is a top policy priority since private-sector job growth is still too weak to quickly overcome other job losses and rapidly lower the unemployment rate. Once again, removing the uncertainty over fiscal changes is a key step toward strengthening economic and job growth.

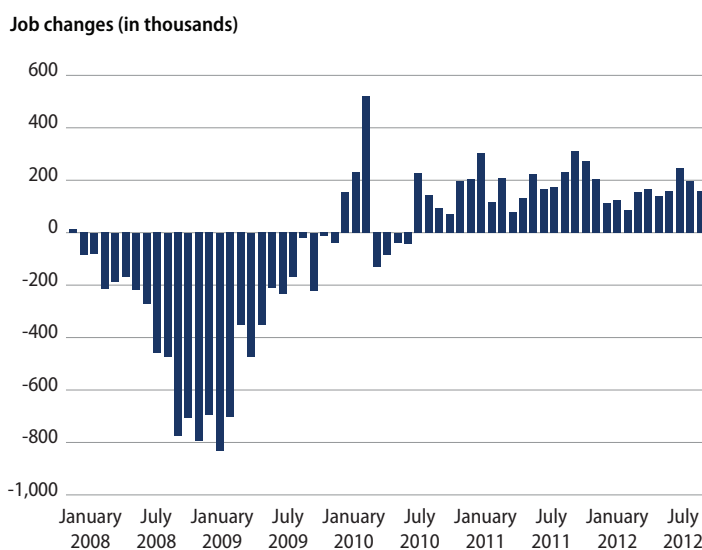
3. **Long-term unemployment slowly improves.** The unemployment rate stood at 7.9 percent in January 2013. And long-term unemployment—defined as those people out of work and looking for a job for more than six months—slowly edged down. In January 2013, 38.1 percent of the unemployed were considered long-term unemployed—the lowest share since October 2009. The average length of unemployment also continued to drop in January 2013, falling to a still relatively high 35.3 weeks—the lowest level, nonetheless, since December 2010.³ Those out of a job for a long time struggle to regain employment because their skills atrophy and re-entry into a new job becomes increasingly harder.

The continuation of extended unemployment insurance benefits as part of the resolution to the fiscal showdown on January 1, 2013, was thus a welcome policy that helped many of those most vulnerable to economic shocks.

4. **Labor-market troubles fall especially hard on communities of color, young workers, and those Americans with less education.** The African American unemployment rate in January 2013 was a high 13.8 percent; the Hispanic unemployment rate was 9.7 percent; and the white unemployment rate was 7 percent. Youth unemployment stood at a high 23.4 percent. The unemployment rate for people without a high school diploma stayed high at 12 percent, compared to 8.1 percent for those with a high school degree, 7 percent for those with some college education, and 3.7 percent for those with a college degree.⁴ These population groups—which typically have low incomes and little wealth—have struggled disproportionately more amid the weak labor market than white workers, older workers, and workers with more education, creating greater need for progressive policy actions to strengthen job creation for everybody.

5. **Household incomes continue to drop amid prolonged weaknesses in the labor market.** 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. Median income fell by 1.5 percent in 2011, drop-

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



ping for the fourth year in a row. American families have experienced no income gains during the current economic recovery since 2009, exacerbating the losses that occurred during the Great Recession.⁵

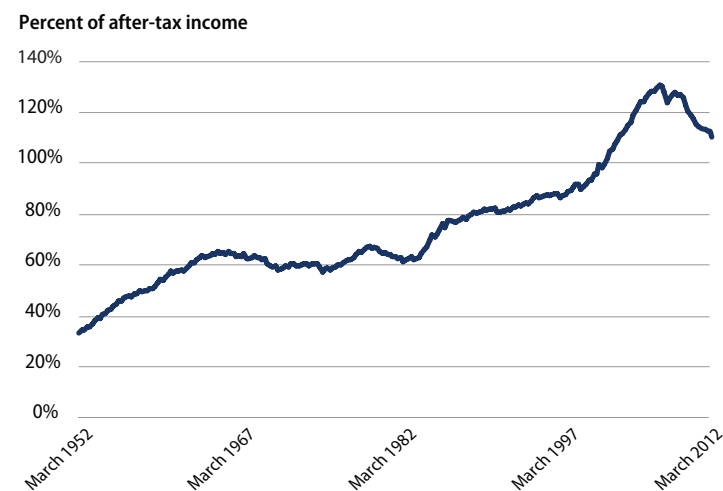
6. **Income inequality on the rise.** Households at the 95th percentile, with incomes of \$186,000 in 2011, had incomes that were more than nine times—9.2 times, to be exact—the incomes of households at the 20th percentile, whose incomes were \$20,262. This is the largest gap between the top 5 percent and the bottom 20 percent of households since the U.S. Census Bureau started keeping record in 1967.⁶
7. **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. 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.⁷ The prolonged economic slump, following an exceptionally weak labor market before the crisis, has taken a massive toll on the most vulnerable.
8. **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 2011.⁸ The share of private-sector workers who participated in a retirement plan at work fell to 39.2 percent in 2011, down from 42 percent in 2007.⁹ Families have less economic security than in the past due to fewer employment-based benefits, requiring more private savings to make up the difference.
9. **Family wealth losses linger.** Total family wealth is down \$9.1 trillion (in 2012 dollars) from March 2007—its last peak—to September 2012. Homeowners on average own only 44.8 percent of their homes—compared to the long-term average of 61 percent before the Great Recession—with the rest owed to banks.¹⁰ Homeowners still have a lot of debt. This slows consumption growth, as households still do not have a lot of collateral for banks to loosen their lending standards.
10. **Household debt is still high.** Household debt equaled 107.7 percent of after-tax income in September 2012, down from a peak of 126 percent in March 2007.¹¹ The unprecedented fall in debt over the past few years has resulted from tight lending standards, falling interest rates, massive foreclosures, and increased household saving. But further deleveraging will likely slow unless incomes rise faster than they have in the past, since most factors that have helped reduce household debt in the past have slowed or disappeared, such as falling interest rates and the payroll tax holiday. This high debt could continue to slow economic growth, as households focus on saving rather than on spending more.

11. **The housing market is finally and slowly recovering from historic lows.** New home sales amounted to an annual rate of 369,000 in December 2012—an 8.8 percent increase over the 339,000 homes sold in December 2011 but well below the historical average of 698,000 before the Great Recession.¹² The median new home price in December 2012 was 13.9 percent higher than one year earlier.¹³ Existing home sales were up by 11.5 percent in December 2012 from one year earlier, and the median price for existing homes was up by 10.1 percent during the same period.¹⁴ The housing market has a lot of room to grow and to contribute to economic growth because the recovery in the spring of 2012 started from historically low home sales, and the housing market fell throughout most of the recovery. The fledgling housing recovery could gain further strength if policymakers focus on personal income gains in the near term.

12. **Homeowners' distress remains high.** Even though mortgage troubles have gradually eased since March 2010, one in nine mortgages is still delinquent or in foreclosure. In the third quarter of 2012, the share of mortgages that were delinquent was 7.4 percent, and the share of mortgages that were in foreclosure was 4.1 percent.¹⁵ Many families delayed and defaulted on mortgage payments amid high unemployment and massive wealth losses. This caused some banks to be nervous about extending new mortgages, which further prolonged the economic slump. Policymakers could accelerate economic growth by helping households lower their debt burdens through refinancing help and debt forgiveness.

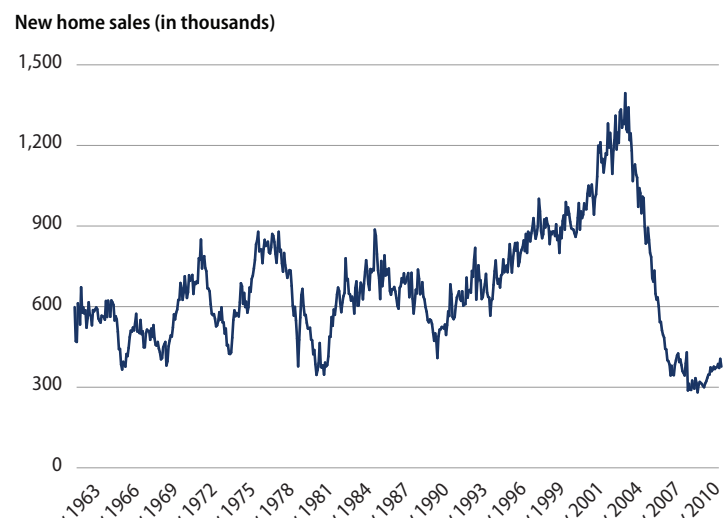
13. **Near precrisis peak profits are not reflected in investment data.** Inflation-adjusted corporate profits were 87.7 percent larger in September 2012 than in June 2009, when the economic recovery started. The after-tax corporate profit rate—profits to total assets—stood at 3.1 percent in September 2012, nearing the previous peak

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).

after-tax profit rate of 3.2 percent that occurred prior to the Great Recession.¹⁶

Corporations used their resources for purposes other than investments in plants and equipment. The share of investment out of GDP stayed low, with 10.2 percent in the third quarter of 2012, compared to an average of 10.9 percent during the prior business cycle from March 2001 to December 2007.¹⁷

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Endnotes

- 1 Bureau of Economic Analysis, *National Income and Product Accounts* (U.S. Department of Commerce, 2013).
- 2 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.*
- 3 Unemployment numbers are taken from Bureau of Labor Statistics, *Current Population Survey* (U.S. Department of Labor, 2012). *The Current Population Survey is also known as the household survey.*
- 4 Ibid.
- 5 Data for family incomes are from Bureau of the Census, *Income, Poverty, and Health Insurance Coverage in the United States: 2011* (U.S. Department of Commerce, 2012). *This report is occasionally referred to as the poverty report.*
- 6 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.
- 7 Ibid.
- 8 Ibid.
- 9 Craig Copeland, "Employment-Based Retirement Plan Participation: Geographic Differences and Trends: 2010/2007" (Washington: Employee Benefits Research Institute, 2011).
- 10 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.*
- 11 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.
- 12 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 started. Calculations are based on Bureau of the Census, *New Residential Sales Historical Data* (U.S. Department of Commerce, 2012).
- 13 Ibid.
- 14 National Association of Realtors, "November Existing-Home Sales and Prices Maintain Uptrend" (2012).
- 15 Data are taken from Mortgage Bankers Association, "National Delinquency Survey" (2012).
- 16 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 the Bureau of Economic Analysis, *National Income and Product Accounts.*
- 17 Author's calculation based on *ibid.*