Center for American Progress

Economic Snapshot: September 2014

Christian E. Weller on the State of the Economy

By Christian E. Weller and Jackie Odum September 26, 2014

The Great Recession officially ended in June 2009—more than five years ago. Although the United States has experienced an economic recovery since then, it sure does not feel that way for many Americans. In fact, 49 percent of participants in a recent poll believed the United States was still in a recession.[1]

This is no surprise considering the relevant economic data about middle-class families. Inflation-adjusted median household income was $51,939 in 2013—more than $2,000 below the 2009 level and more than $4,000 below the median income in 2007, the last full year before the Great Recession.[2] Similarly, the poverty rate stood at 14.5 percent in 2013 —slightly higher than it was in 2009 and substantially higher than the already unacceptably high 12.5 percent recorded in 2007.[3] Other economic indicators are gradually improving, but middle-income families generally have less economic security now than they did at the end of or just before the Great Recession.

Many of the substantial economic gains of the past few years have accrued to the richest households. The economy, after all, has expanded for more than five years now, and the stock market has risen to its highest level in more than three decades, reflecting the quick recovery of the corporate profit rate.[4] Consequently, the share of income going to the top 5 percent of families quickly increased after the recession ended, as did the share of wealth going to the top 3 percent of households.[5]

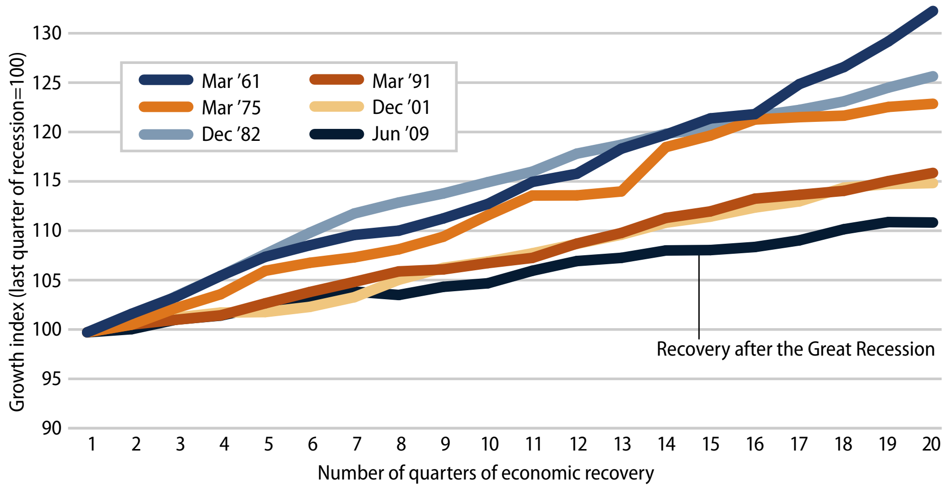
Policymakers need to have the same sense of urgency that many middle-class families feel. Enacting a higher minimum wage, giving everybody access to paid family leave, and making it easier for workers to join a union are sensible first steps that could help create real economic opportunities for all.

1. **Economic growth in this recovery lags behind that of previous business cycles.** Gross domestic product, or GDP, increased in the second quarter of 2014 at an inflation-adjusted annual rate of 4.2 percent, after contracting 2.1 percent in the previous quarter. Domestic consumption increased by an annual rate of 2.5 percent, and housing spending rose substantially by 7.2 percent, while business investment growth also

increased at a rate of 8.4 percent. Exports increased 10.1 percent in the first quarter, which was offset by even faster import growth of 11 percent. Government spending fell 0.9 percent. The economy expanded 10.3 percent from June 2009 to June 2014—its slowest expansion during recoveries of at least equal length.

FIGURE 1

GDP growth in recovery in comparison to previous recoveries



Source: Authors' calculations based on Bureau of Economic Analysis, National Income and Product Accounts (U.S. Department of Commerce, 2014). Calculations only done for recoveries that have lasted at least four years.

2. **Improvements to U.S. competitiveness fall behind previous business cycles.** Productivity growth, measured as the increase in inflation-adjusted output per hour, is key to increasing living standards, as it means that workers are getting better at doing more in the same amount of time. Slower productivity growth thus means that new economic resources available to improve living standards are growing more slowly than would be the case with faster productivity growth. U.S. productivity rose 6.5 percent from June 2009 to June 2014, the first 20 quarters of the economic recovery since the end of the Great Recession.[6] This compares to an average of 13.4 percent during all previous recoveries of at least equal length.[7] No previous recovery had lower productivity growth than the current one.

3. **The housing market recovery still struggles to gain momentum.** New-home sales amounted to an annual rate of 504,000 in August 2014—a 33 percent increase from the 379,000 homes sold in August 2013 but well below the historical average of 698,000 homes sold before the Great Recession.[8] The median new-home price in June 2014 was $275,600, up from one year earlier.[9] Existing-home sales fell by 5.3 percent in July 2014 from one year earlier, but the median price for existing homes was up by 4.8 percent during the same period.[10] Home sales have to go a lot further, given that homeownership in the United States stood at 64.8 percent in the first quar-

ter of 2014, down from 68.2 percent before the 2007 recession. The current homeownership rates are similar to those recorded in 1996, well before the most recent housing bubble started.[11] A strong housing-market recovery can boost economic growth, and there is still plenty of room for the housing market to provide more stimulation to the economy more broadly than it did before the recent slowdown.

4. **Moderate labor-market recovery shows less job growth than in previous business cycles.** There were 8.1 million more jobs in August 2014 than in June 2009. The private sector added 8.9 million jobs during this period. The loss of some 582,000 state and local government jobs explains the difference between the net gain of all jobs and the private-sector gain in this period. Budget cuts reduced the number of teachers, bus drivers, firefighters, and police officers, among others.[12] The total number of jobs has now grown by 6.2 percent during this recovery, compared to an average of 12.5 percent during all prior recoveries of at least equal length.[13]

5. **Employment opportunities grow very slowly for people in their prime earning years.** The employed share of the population from ages 25 to 54—which is unaffected by the aging of the overall population—was 76.8 percent in July 2014. This was just above the level recorded in June 2009 and well below the levels recorded since the mid-1980s and before the Great Recession started in 2007. The employed share of the population has, on average, grown by 3.2 percentage points at this stage during previous recoveries of at least equal length.[14]

6. **Employers cut back on health and pension benefits.** The share of people with employer-sponsored health insurance dropped from 59.8 percent in 2007 to 53.9 percent in 2013, the most recent year for which data are available.[15] The share of private-sector workers who participated in a retirement plan at work fell to 39.4 percent in 2012, down from 41.5 percent in 2007.[16] Families now have less economic security than in the past due to fewer employment-based benefits, which requires them to have more private savings to make up the difference.

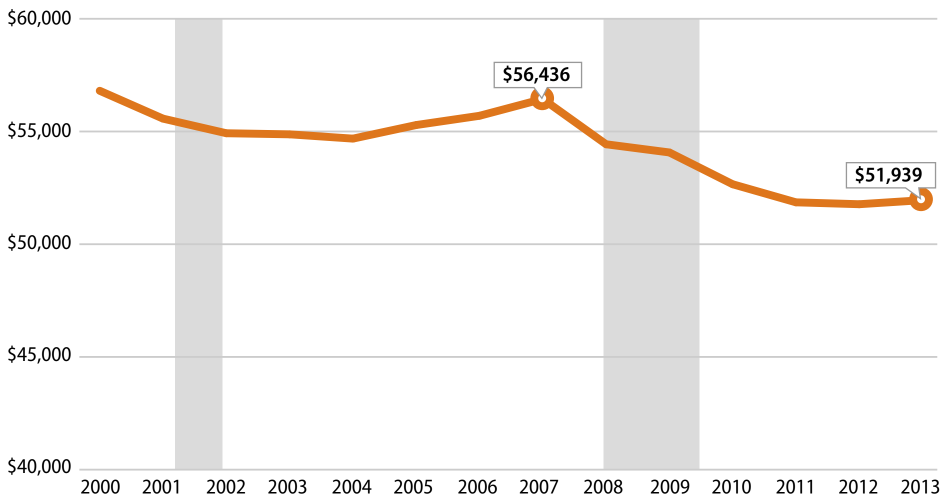
7. **Some communities continue to struggle disproportionately from unemployment.** The unemployment rate rose slightly to 6.1 percent in August 2014: The African American unemployment rate held steady at 11.4 percent; the Hispanic unemployment rate moved down slightly to 7.5 percent; and the white unemployment rate stood at 5.3 percent for the third consecutive month. Meanwhile, youth unemployment fell to 19.6 percent. The unemployment rate for people without a high school diploma fell to 9.1 percent, compared with 6.2 percent for those with a high school degree, 5.4 percent for those with some college education, and 3.2 percent for those with a college degree.[17] Population groups with higher unemployment rates have struggled disproportionately more amid the weak labor market than white workers, older workers, and workers with more education.

8. **The rich continue to pull away from most Americans.** Incomes of households at the 95th percentile—those with incomes of $196,000 in 2013, the most recent year for which data are available—were more than nine times the incomes of households in the 20th percentile, whose incomes were $20,900. 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 records in 1967. Median inflation-adjusted household income stood at $51,939 in 2013, its lowest level in inflation-adjusted dollars since 1995.[18]

FIGURE 2

Median household income remains far below pre-recession levels

Median household income, 2013 dollars



Note: Shaded bars indicate recessions as defined by the National Bureau of Economic Research.

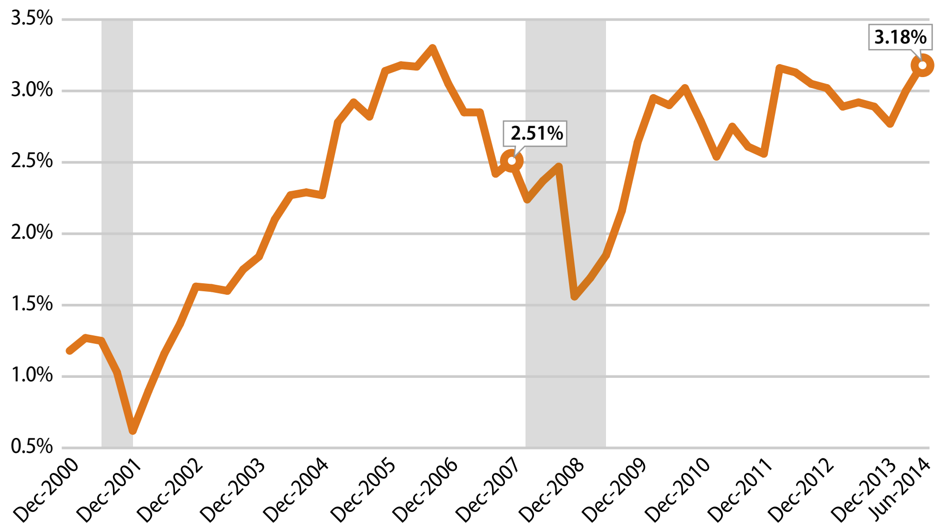
Source: U.S. Bureau of the Census, "Table H-6. Regions by Median and Mean Income," available at http://www.census.gov/hhes/www/income/-data/historical/household/ (last accessed September 2014).

9. **Corporate profits stay elevated near pre-crisis peaks.** Inflation-adjusted corporate profits were 94 percent larger in June 2014 than in June 2009. The after-tax corporate profit rate—profits to total assets—stood at 3.2 percent in March 2014.[19] Corporate profits recovered quickly toward the end of the Great Recession and have stayed high since then. Addressing income inequality that arises from the rich receiving outsized benefits from their wealth through tax reform is a crucial policy priority.

FIGURE 3

Corporate profits stay elevated near pre-recession peaks

After-tax corporate profit rate



Note: Shaded bars indicate recessions as defined by the National Bureau of Economic Research.

Source: Profit rates are calculated based on data from Board of Governors of the Federal Reserve System, "Z.1 Release--Financial Accounts of the United States" (2014). Inflation adjustments are based on the Personal Consumption Expenditure Index from Bureau of Economic Analysis, National Income and Product Accounts.

10. **Corporations spend much of their money to keep shareholders happy.** From December 2007—when the Great Recession started—to June 2014, nonfinancial corporations spent, on average, 99.6 percent of their after-tax profits on dividend payouts and share repurchases.[20] In short, almost all of nonfinancial corporate after-tax profits have gone to keeping shareholders happy during the current business cycle. Nonfinancial corporations also held, on average, 5.3 percent of all of their assets in cash—the highest average share since the business cycle that ended in December 1969. Nonfinancial corporations spent, on average, 166.6 percent of their after-tax profits on capital expenditures or investments—by selling other assets and by borrowing. This was the lowest ratio since the business cycle that ended in 1960. U.S. corporations have prioritized keeping shareholders happy and building up cash over investments in structures and equipment, highlighting the need for regulatory reform that incentivizes corporations to invest in research and development, manufacturing plants and equipment, and workforce development.

11. **Poverty is still widespread.** The poverty rate was 14.5 percent in 2013, down from 15 percent in 2012. This change, however, was statistically insignificant. Moreover, the poverty rate for this recovery increased at a rate of 0.2 percentage points, compared to an average decrease of 0.7 percentage points in previous recoveries of at least equal length. Some population groups suffer from much higher poverty rate than others. The African American poverty rate, for instance, was 27.2 percent, and the Hispanic poverty rate was 23.5 percent, while the white poverty rate was 9.6 percent.

The poverty rate for children under age 18 fell to 19.9 percent. More than one-third of African American children—37.7 percent—lived in poverty in 2013, compared with 30.4 percent of Hispanic children and 10.7 percent of white children.[21]

12. **Household debt is still high.** Household debt equaled 102.4 percent of after-tax income in June 2014, down from a peak of 129.7 percent in December 2007.[22] A return to debt growth outpacing income growth, which was the case prior to the start of the Great Recession in 2007, from already-high debt levels could eventually slow economic growth again. This would be especially true if interest rates also rise from historically low levels due to a change in the Federal Reserve's policies. Consumers would have to pay more for their debt, and they would have less money available for consumption and saving.

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Endnotes

1 Patrick O'Connor, "Poll Finds Widespread Economic Anxiety," *The Wall Street Journal*, August 5, 2014, available at http://online.wsj.com/articles/wsj-nbc-poll-finds-widespread-economic-anxiety-1407277801?tesla=y&mg=reno64-wsj.

2 Bureau of the Census, *Income, Poverty, and Health Insurance Coverage in the United States: 2013* (U.S. Department of Commerce, 2014). This report is occasionally referred to as the poverty report.

3 Ibid.

4 Profit rates are calculated based on data from Board of Governors of the Federal Reserve System, "Z.1 Release—Financial Accounts of the United States" (2014). Inflation adjustments are based on the Personal Consumption Expenditure Index from Bureau of Economic Analysis, *National Income and Product Accounts*.

5 Bureau of the Census, *Income, Poverty, and Health Insurance Coverage in the United States: 2013*.

6 Calculations are based on productivity growth (output per hour) for nonfarm businesses from Bureau of Labor Statistics, *Current Employment Statistics* (U.S. Department of Labor, 2014).

7 Ibid.

8 The historical average refers to the average annualized monthly residential sales from January 1963, when the Census data started, 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, 2014).

9 Ibid.

10 National Association of Realtors, "Existing-Home Sales Slightly Lose Momentum in August as Investor Activity Declines," Press release, September 22, 2014.

11 Bureau of the Census, *Housing Vacancies and Homeownership* (U.S. Department of Commerce, 2014).

12 Employment-growth data are calculated based on Bureau of Labor Statistics, *Current Employment Statistics*.

13 Ibid.

14 Calculations based on Bureau of Labor Statistics, *Current Population Survey* (U.S. Department of Labor, 2014).

15 Bureau of the Census, *Income, Poverty, and Health Insurance Coverage in the United States: 2013.*

16 Craig Copeland, "Employment-Based Retirement Plan Participation: Geographic Differences and Trends, 2012" (Washington: Employee Benefit Research Institute, 2013).

17 Unemployment numbers are taken from Bureau of Labor Statistics, *Current Population Survey*.

18 Bureau of the Census, *Income, Poverty, and Health Insurance Coverage in the United States: 2013.*

19 Profit rates are calculated based on data from Board of Governors of the Federal Reserve System, "Z.1 Release--Financial Accounts of the United States" (2014). Inflation adjustments are based on the Personal Consumption Expenditure Index from Bureau of Economic Analysis, *National Income and Product Accounts*.

20 Calculations are based on Board of Governors of the Federal Reserve System, "Z.1 Release--Financial Accounts of the United States."

21 Calculations are based on Bureau of the Census, *Income, Poverty, and Health Insurance Coverage in the United States: 2013*.

22 Calculations are based on Board of Governors of the Federal Reserve System, "Z.1 Release—Financial Accounts of the United States."