Center for American Progress

Economic Snapshot: October 2014

Christian E. Weller on the State of the U.S. Economy

By Christian E. Weller and Jackie Odum October 27, 2014

This month's economic data show us that the economy is in much better shape than at any other point since the Great Recession ended in June 2009, but that isn't saying much. The United States economy has reached a postrecession record low of 5.9 percent in unemployment; gross domestic product, or GDP, increased at an inflation-adjusted annual rate of 4.6 percent in the second quarter; employment prospects have improved significantly for vulnerable populations; and the uninsured rate is at an all-time postrecession low.[1] However, despite these postrecession landmarks, we are still far from an economy that works for most people, largely because the economy and the labor market have been moving at a comparatively slow pace in this recovery.

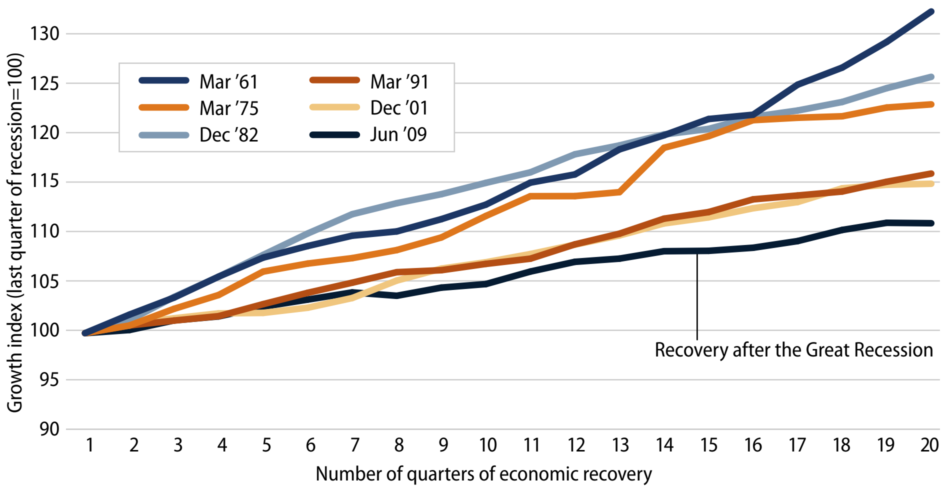
Inflation-adjusted median household income—half of all households had less than that and the other half more than that—was $51,939 in 2013. This was more than $2,000 below the 2009 level and more than $4,000 below the median income in 2007, the last full year before the Great Recession. The poverty rate remains slightly higher than it was in 2009, at 14.5 percent. But, as the nation's lower- and middle-income families struggle to regain the economic security they once had, corporate profits are skyrocketing, and the share of income for the nation's wealthiest people continues to grow from already absurdly high levels.

President Barack Obama has taken important steps toward creating a postrecession economy that works for everyone—from his historic push for financial reform and universal healthcare to a series of executive orders on equal pay and responsible contracting. Policymakers need to continue the president's effort by implementing common-sense policies that boost economic growth and help lower- and middle-class Americans gain real economic security and find meaningful economic opportunities. Such policy interventions can start with raising the minimum wage, extending unemployment insurance, strengthening workplace policies such as paid family leave, and creating effective savings incentives. It is time for Congress to play its part in building a better economy from the middle out, rather than from the top down.

1. **Economic growth in this recovery lags behind that of previous business cycles.** GDP increased in the second quarter of 2014 at an inflation-adjusted annual rate of 4.6 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 8.8 percent, while business investment growth also increased at a rate of 9.7 percent. Exports increased 11.1 percent in the first quarter, which was offset by even faster import growth of 11.3 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.[2] This compares to an average of 13.4 percent during all previous recoveries of at least equal length.[3] 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 467,000 in September 2014—a 17 percent increase from the 399,000 homes sold in September 2013 but well below the historical average of 698,000 homes sold before the Great Recession.[4] The median new-home price in September 2014 was $209,700, up from one year earlier.[5] Existing-home sales increased by 2.4 percent in September 2014 from one year earlier, but the median price for existing homes was up by 5.6 percent during the same period.[6] Home sales have to go a lot further, given that homeownership in the United States stood at 64.8 percent in the first quarter 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.[7] 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 8.5 million more jobs in September 2014 than in June 2009. The private sector added 9.2 million jobs during this period. The loss of some 562,000 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.[8] The total number of jobs has now grown by 6.5 percent during this recovery, compared to an average of 12.9 percent during all prior recoveries of at least equal length.[9]

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 76.7 percent in September 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 3.3 percentage points at this stage during previous recoveries of at least equal length.[10]

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.[11] 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.[12] 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.

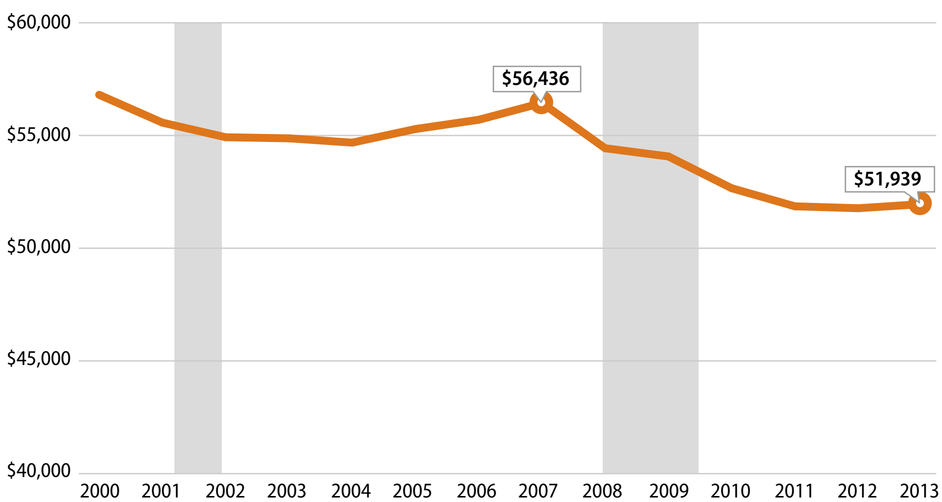
7. **Some communities continue to struggle disproportionately from unemployment.** The unemployment rate fell to 5.9 percent in August 2014. The African American unemployment rate fell to 11 percent, the Hispanic unemployment rate moved down to 6.9 percent, and the white unemployment rate fell slightly to 5.3 percent. Meanwhile, youth unemployment increased to 20 percent. The unemployment rate for people without a high school diploma fell to 8.4 percent, compared with 5.3 percent for those with a high school degree, 5.4 percent for those with some college education, and 2.9 percent for those with a college degree.[13] 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.[14]

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.

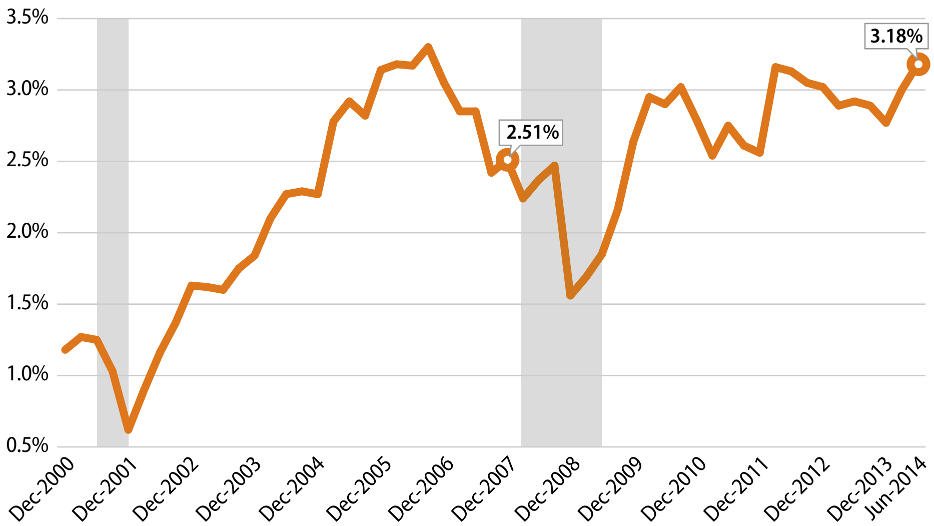
Source: U.S. Bureau of the Census, "Table H-6. Regions by Median and Mean Income," available at http://www.census.gov/hhes/www/income/-data/historical/household/ (last accessed September 2014).

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.[15] 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.[16] 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.[17]

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.[18] 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 Jenna Levy, "In U.S., Uninsured Rate Holds at 13.4%," Gallup, October 8, 2014, available at http://www.gallup.com/poll/178100/uninsured-rate-holds.aspx.

2 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).

3 Ibid.

4 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).

5 Ibid.

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

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

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

9 Ibid.

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

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

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

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

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

15 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*.

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

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

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