



# Economic Snapshot: April 2015

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

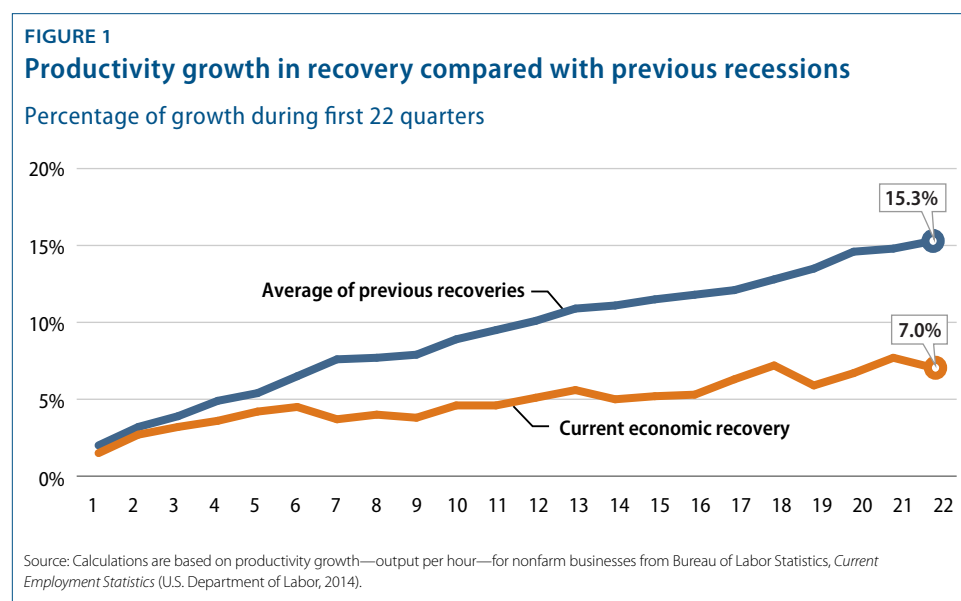
By Christian E. Weller and Jackie Odum      April 29, 2015

The most recent economic data continue to highlight a persistent challenge. The economy is growing, employers keep adding jobs, and unemployment is falling; however, the pace of improvements is modest and leaves many families economically vulnerable. Long-term unemployment is still high, as is poverty and economic inequality. And wages are growing very slowly, while employers are offering few benefits to their employees. The result is that American middle-class families of all stripes—but especially communities of color, single women, and households with less education—continue to struggle economically in this expanding economy.

Policymakers face three distinct yet related challenges to improve families' economic security. First, they need to boost economic growth beyond its current levels. This requires substantial investments in infrastructure, education and research—all important and known contributors to faster long-term economic growth. Second, policymakers need to make sure that faster growth does not just end up boosting corporate profits but also leads to higher wages and better benefits for American families. This will require rebalancing the scales between workers and companies through a range of measures such as higher minimum wages, improved paid time off to take care of family members, easier ways to join unions, and more access to low-cost retirement and health insurance benefits. Third, policymakers need to pay close attention to the disproportionate struggles of some groups of families. This requires promoting policies that will have a particularly beneficial effect on communities of color, single women, and those with less education. Such policies could include making college more affordable; boosting manufacturing employment; stabilizing state and local government finances; providing more apprenticeships and other training opportunities; and enforcing existing anti-discrimination legislation, among a broad range of additional steps. All three steps—accelerating growth, boosting jobs, and helping the most vulnerable—are necessary to build an economy that works for all.

1. **Economic growth, while positive, has been lackluster for years.** Gross domestic product, or GDP, increased in the first quarter of 2015 at an inflation-adjusted annual rate of 0.2 percent, after an increase of 2.2 percent in the previous quarter. Domestic consumption increased by an annual rate of 1.9 percent, and housing spending rose by 1.3 percent, while business investment decreased by 3.4 percent. Exports decreased by 7.2 percent in the first quarter, while imports increased by a rate of 1.8 percent, resulting in a widening trade deficit. Government spending continues to be a weak spot in the economy, as federal government spending increased by only 0.3 percent, and state and local government spending fell by 1.5 percent. Economic growth improved in 2014 compared with earlier years of this economic recovery, which began in June 2009. But the economy needs to maintain and even accelerate its momentum in order to create real economic security for America's families. After all, the economy expanded 13.6 percent from June 2009 to December 2014, far below the average of 26.9 percent during recoveries of at least equal length.

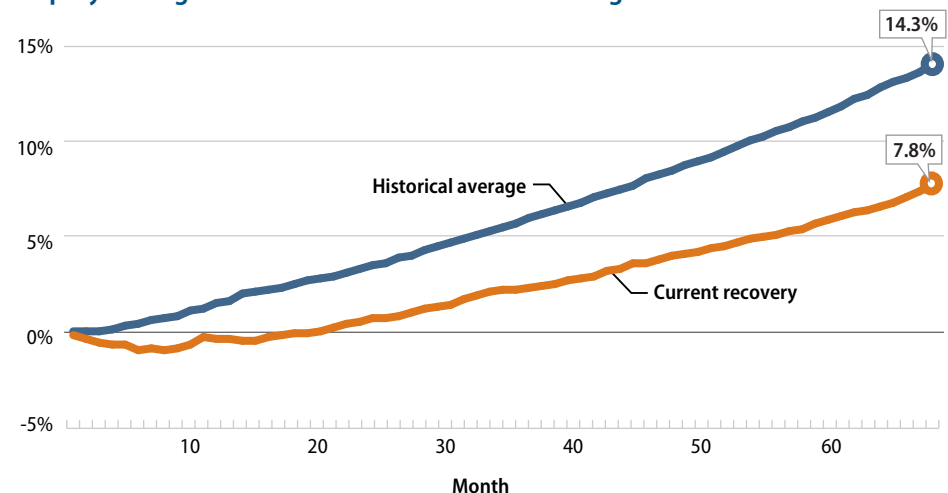
2. **Improvements to U.S. competitiveness fall behind previous business cycles.** Productivity growth, measured as the increase in inflation-adjusted output per hour, is key to strong economic growth over the longer term and to increasing living standards, as it means that workers are getting better 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 7 percent from June 2009 to December 2014, the first 22 quarters of the economic recovery since the end of the Great Recession.<sup>1</sup> This compares to an average of 15.3 percent during all previous recoveries of at least equal length.<sup>2</sup> No previous recovery had lower productivity growth than the current one. This slow productivity growth—together with high income inequality—contributes to the widespread sense of economic insecurity and slowing economic mobility.



3. **The housing market is still only a shadow of its former self.** New-home sales amounted to an annual rate of 481,000 in March 2015—a 19.4 percent increase from the 403,000 homes sold in March 2014 but well below the historical average of 698,000 homes sold before the Great Recession.<sup>3</sup> The median new-home price in February 2015 was \$277,400, up from one year earlier.<sup>4</sup> Existing-home sales rose by 6.1 percent in March 2015 from one year earlier, and the median price for existing homes was up by 7.5 percent during the same period.<sup>5</sup> Home sales have a lot further to go, given that homeownership in the United States stood at 63.7 percent in the first quarter of 2015, down from 68.2 percent before the start of the recession at the end of 2007. The current homeownership rates are similar to those recorded in 1996, well before the most recent housing bubble started.<sup>6</sup> 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. **The outlook for federal budgets improves.** The nonpartisan Congressional Budget Office, or CBO, estimated in March 2015 that the federal government will have a deficit—the difference between taxes and spending—of 2.7 percent of GDP for fiscal year 2015, which runs from October 1, 2014, to September 30, 2015.<sup>7</sup> This deficit projection is slightly down from the deficit of 2.8 percent of GDP for FY 2014.<sup>8</sup> The estimated deficit for FY 2015 is much smaller than deficits in previous years due to a number of measures that policymakers have already taken in order to slow spending growth and raise more revenue than was expected just last year. The improving fiscal outlook should generate breathing room for policymakers to focus their attention on targeted, efficient policies that promote long-term growth and job creation, especially for those groups disproportionately impacted by high unemployment.
5. **Moderate labor-market gains follow in part from modest economic growth.** There were 10.2 million more jobs in March 2015 than in June 2009. The private sector added 10.9 million jobs during this period. The loss of some 590,000 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.<sup>9</sup> The total number of jobs has now grown by 7.8 percent during this recovery, compared to an average of 14.3 percent during all prior recoveries of at least equal length.<sup>10</sup> Faster economic growth is necessary to generate more labor-market momentum.

FIGURE 2

### Employment growth falls behind historical average

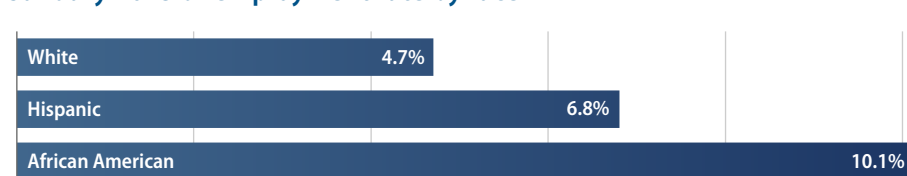


Source: Bureau of Labor Statistics.

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.<sup>11</sup> The share of private-sector workers who participated in a retirement plan at work fell to 40.8 percent in 2013, down from 41.5 percent in 2007.<sup>12</sup> Families now have less economic security than they did in the past due to fewer employment-based benefits, not just because of modest job and wage gains.
  
7. **Some communities continue to struggle disproportionately from unemployment.** The unemployment rate was 5.5 percent in March 2015. The African American unemployment rate fell slightly to 10.1 percent, the Hispanic unemployment rate rose slightly to 6.8 percent, and the white unemployment rate remained constant at 4.7 percent. Meanwhile, youth unemployment increased to 17.5 percent. The unemployment rate for people without a high school diploma was 8.6 percent, compared with 5.3 percent for those with a high school degree, 4.8 percent for those with some college education, and 2.5 percent for those with a college degree.<sup>13</sup> 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.

FIGURE 3

### January 2015 unemployment rate by race



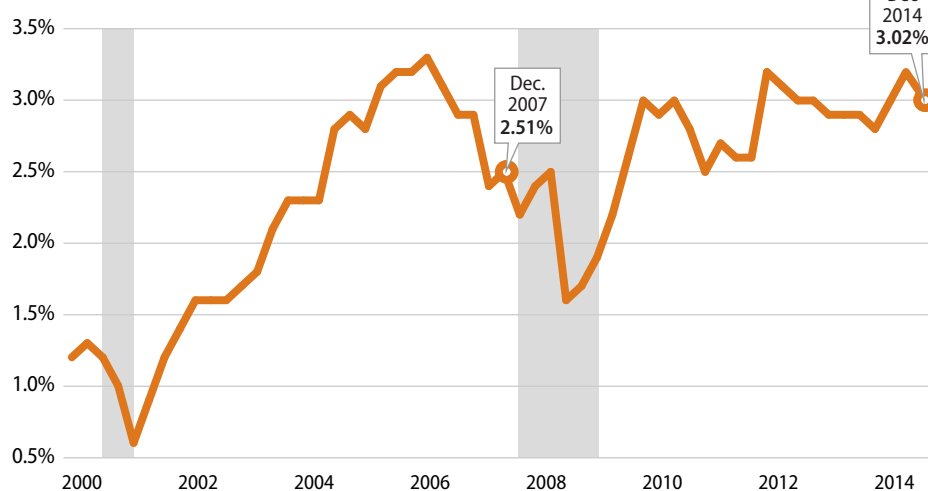
Source: Bureau of Labor Statistics, *Current Population Survey* (U.S. Department of Labor, 2015).

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.<sup>14</sup>
9. **Corporate profits stay elevated near pre-crisis peaks.** Inflation-adjusted corporate profits were 102.7 percent larger in December 2014 than in June 2009. The after-tax corporate profit rate—profits to total assets—stood at 3 percent in December 2014.<sup>15</sup> 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 4

### Corporate profits stay elevated near prerecession 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* (U.S. Department of Commerce, 2000–2014).

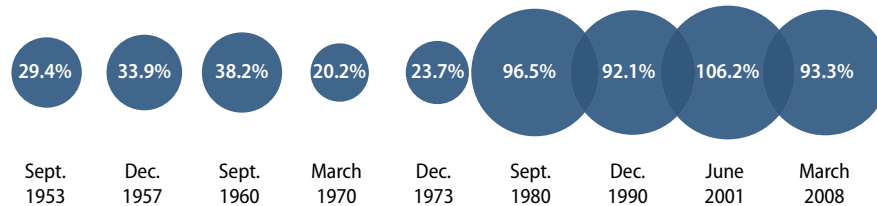
10. **Corporations spend much of their money to keep shareholders happy.** From December 2007—when the Great Recession started—to December 2014, nonfinancial corporations spent, on average, 97.8 percent of their after-tax profits on dividend payouts and share repurchases.<sup>16</sup> In short, almost all of nonfinancial corporate after-tax profits have gone to keeping shareholders happy during the current business cycle. Nonfinancial corporations also held, on average, 5.4 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, 168.7

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.

**FIGURE 5**

### Dividend and share repurchases as a share of after-tax profits

Average share of after-tax profits



Source: Average of dividend and share repurchases as a share of after-tax profits 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* (U.S. Department of Commerce, 2000–2014).

**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 rates 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.<sup>17</sup>

**12. Household debt is still high.** Household debt equaled 102.5 percent of after-tax income in December 2014, down from a peak of 129.7 percent in December 2007.<sup>18</sup> But nonrevolving consumer credit—typically installment credit such as student and car loans—has outpaced after-tax income growth. It has grown from 14.6 percent of after-tax income in June 2009 to 18.4 percent in December 2014. A return to debt growth outpacing income growth—which was the case for total debt prior to the start of the Great Recession—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 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, 2015). The most recent GDP data can be found at Bureau of Economic Analysis, "National Income and Product Accounts: Gross Domestic Product: First Quarter 2015 (Advance Estimate)," Press release, April 29, 2015, available at [http://www.bea.gov/newsreleases/national/gdp/2015/gdp1q15\\_adv.htm](http://www.bea.gov/newsreleases/national/gdp/2015/gdp1q15_adv.htm).
- 2 Ibid.
- 3 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, 2015).
- 4 Ibid.
- 5 National Association of Realtors, "Existing-Home Sales Slightly Improve in February, Price Growth Gains Steam," Press release, March 23, 2015, available at <http://www.realtor.org/news-releases/2015/03/existing-home-sales-slightly-improve-in-february-price-growth-gains-steam>.
- 6 Bureau of the Census, *Housing Vacancies and Homeownership* (U.S. Department of Commerce, 2015).
- 7 Congressional Budget Office, "Updated Budget Projections: 2015 to 2025" (2015), available at <http://www.cbo.gov/sites/default/files/cbofiles/attachments/49973-UpdatedBudget-Projections.pdf>.
- 8 Ibid.
- 9 Employment-growth data are calculated based on Bureau of Labor Statistics, *Current Employment Statistics*.
- 10 Ibid.
- 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, 2013" (Washington: Employee Benefit Research Institute, 2014), available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2515930](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2515930).
- 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."