Economic Snapshot

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The slowdown in job growth continues this month. This adds to the economic worries of a middle class already burdened by record amounts of debt. And families are not alone with their debt burden. The federal government has piled on massive budget deficits, and the trade deficit continues on at a high level. These debt burdens jeopardize future economic opportunities and contribute to the slowing economy amid a weakening housing market. Consider that:

1) **Wage growth is low.** Factoring in inflation, hourly wages increased only 2.8% from March 2001 to October 2006, and weekly wages rose only 2.3% during the same time. All wages and salaries stayed near historic lows as a share of the economy in the second quarter of 2006.

2) **Benefits are disappearing.** The share of private sector workers with pensions dropped from 50.3% in 2000 to 45.0% in 2005, the last year for which data is available. The share of people with employer-provided health insurance also dropped from 63.6% to 59.5% during the same period.

3) **Family debt is on the rise**. By June 2006, household debt rose to an unprecedented 129.3% of disposable income. From March 2001 to June 2006, personal debt relative to disposable income grew each quarter by 1.5 percentage points—more than four times faster than in the 1990s. In the second quarter of 2006, families had to spend 14.4% of their disposable income to service their debt—the largest share since 1980.

4) **The housing market is slowing.** The median price of new homes sold was 9.7% lower in September 2006 than in September 2005—the largest year-over-year decline since 1970.

5) **Savings are plummeting.** The personal savings rate of -0.5% in the third quarter of 2006 was the sixth quarter in a row with a negative personal savings rate.

6) **Job growth is the weakest of any business cycle.** Despite the 2003 tax cut, job growth has averaged only 1.3% since then—the lowest growth increase of any recovery of the same length. Monthly job growth since March 2001 has averaged an annualized 0.4%.

7) **The unemployment rate overstates the strength of the labor market.** Since the employed share of the population has remained low, millions of workers have given up looking for jobs. If the employed share of the population had not dropped since March 2001, there would be 2.4 million more jobs, or the unemployment rate would be 5.9%.

8) **Poverty is rising.** The poverty rate climbed from 11.3% in 2000 to 12.6% in 2005, the last year for which data is available.

9) **Government deficits remain large.** The expected deficit for 2006 is $260 billion. This will be the largest six year deterioration in 50 years, declining from a surplus of 2.0 percent of GDP in 2000 to a deficit of 2.4 percent of GDP in 2006.

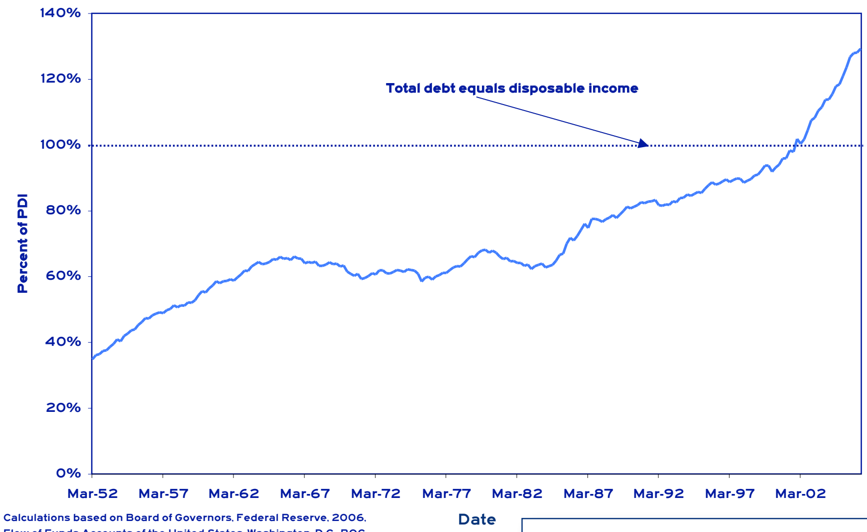
10) **These deficits won't shrink.** Making the tax cuts permanent and introducing relief from the Alternative Minimum Tax would bring the deficits to $3.5 trillion for the next decade, according to the Center on Budget and Policy Priorities. In this scenario, the deficits will never dip below $284 billion, even if the costs of operations in Iraq and Afghanistan decline substantially.

11) **Our economic independence is endangered.** Foreign investors bought 78% of new Treasury debt between March 2001 and June 2006. The share of U.S. foreign-held debt grew from 32% to 45% over the same period, and the quarterly interest payments from the federal government to foreign lenders increased from $21 billion to $36 billion.

12) **Record trade deficits mount.** In the third quarter of 2006, the trade deficit again surpassed 6% of Gross Domestic Product. This feat was only accomplished once since the Great Depression, in the fourth quarter of 2005.

In the fall of 2006, America's middle class continues to struggle and the economy remains on an unsustainable path.

Household Debt Relative to Personal Disposable Income (PDI), 1952 to 2006



Calculations based on Board of Governors, Federal Reserve, 2006, Flow of Funds Accounts of the United States, Washington, D.C.: BOG

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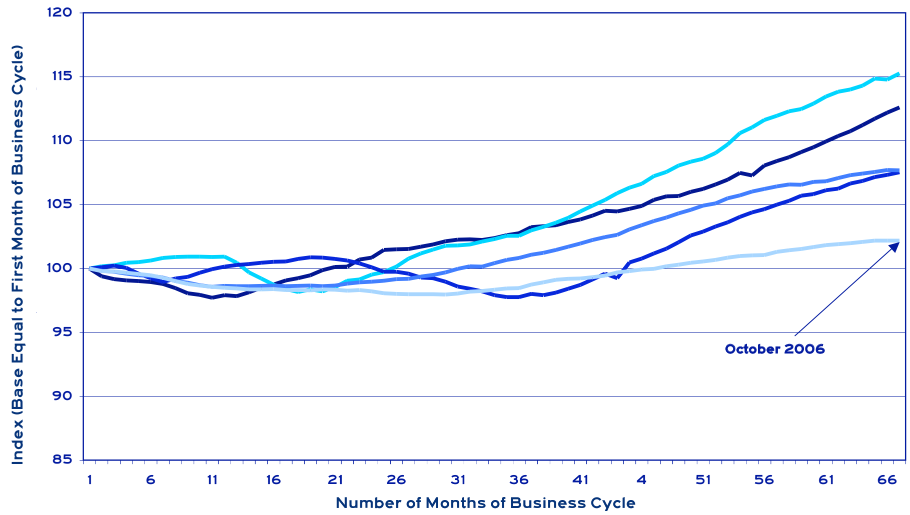
Employment Growth in Business Cycles That Lasted at Least 67 Months, Indexed to First Month of Business Cycle



Calculations based on Bureau of Labor Statistics, 2006, Current Employment Survey, Washington, D.C.: BLS

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Trade Balance Relative to Gross Domestic Product (GDP), 1947 to 2006

Calculations based on Bureau of Economic Analysis, 2006, National Income and Product Accounts, Washington, D.C. BEA; U.S. Census Bureau, FT900 U.S. International Trade in Goods and Services, Washington, D.C.: Census.

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