Center for American Progress

Economic Snapshot

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As the housing boom comes to an end, it is unclear what other engines of economic growth might take its place. Slower employment and wage growth are two key concerns, as is record household debt. But the federal government is also piling on massive budget deficits and the trade deficit continues at a high level. These debt burdens jeopardize future economic opportunities and exacerbate the effects of a weakening housing market. Consider these facts:

1) **Low wage growth.** Factoring in inflation, hourly wages were 2.8% higher and weekly wages were 2.3% higher in October 2006 than in March 2001. As a share of the economy, all wages and salaries fell to historic lows in the third quarter of 2006.

2) **Benefits disappear.** The share of private sector workers with pensions dropped to 45%, the last year data are available, from 50.3% in 2000, and the share of people with employer-provided health insurance dropped to 59.5% from 63.6% over the same period.

3) **Family debt is on the rise.** By September 2006, household debt rose to an unprecedented 130.9% of disposable income. From March 2001 to September 2006, personal debt relative to disposable income grew each quarter by 1.6 percentage points—almost five 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) **Housing market slows.** The supply of homes for sale each month averaged 6.9 months of supply for the six months ending in October 2006—the largest supply since 1991.

5) **Savings plummet.** The personal saving rate of -1.3% in the third quarter of 2006 marked the sixth quarter in a row with a negative personal saving rate.

6) **Job growth is the weakest of any business cycle.** Despite the 2003 tax cut, job growth averaged only 1.3% since then—the lowest growth increase than any recovery of the same length. Monthly job growth since March 2001 has averaged an annualized 0.5%.

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 2.2 million more jobs, or the unemployment rate would be 5.9%.

8) **The poverty rate climbed** to 12.6% in 2005, the last year data are available, from 11.3% in 2000.

9) **Government deficits remain large.** For 2006, the expected deficit is $260 billion, reflecting the largest six-year deterioration in 50 years, from a surplus of 2.0 percent of GDP in 2000 to a deficit of 2.4 percent of GDP in 2006.

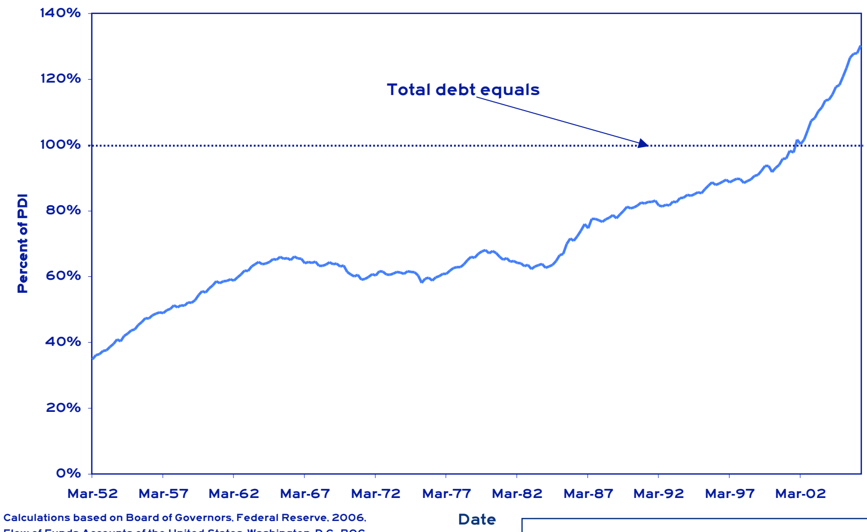
10) **These deficits won't shrink.** Making the tax cuts permanent and introducing relief from the Alternative Minimum Tax would bring the deficits to $3.5 trillion for the next decade, according to the Center on Budget and Policy Priorities. In this scenario, the deficits will never dip below $284 billion,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

11) **This endangers our economic independence.** Foreign investors bought 78% of new Treasury debt and the share of U.S. foreign-held debt grew to 45% from 32% from March 2001 to September 2006. Quarterly interest payments from the federal government to foreign lenders grew to $36 billion in June 2006 from $21 billion in March 2001.

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

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

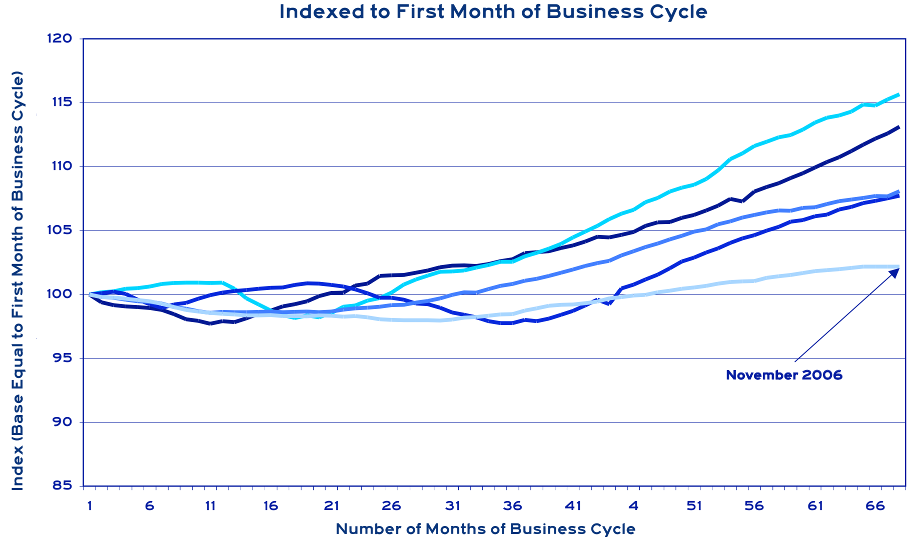
Household Debt Relative to Personal Disposable Income (PDI), 1952 to 2006



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

Family debt is on the rise. Household debt rose to an unprecedented 130.9% of disposable income by September 2006. From March 2001 to September 2006, personal debt relative to disposable income grew each quarter by 1.6 percentage points—more than four times faster than in the 1990s.

Employment Growth in Business Cycles That Lasted at Least 68 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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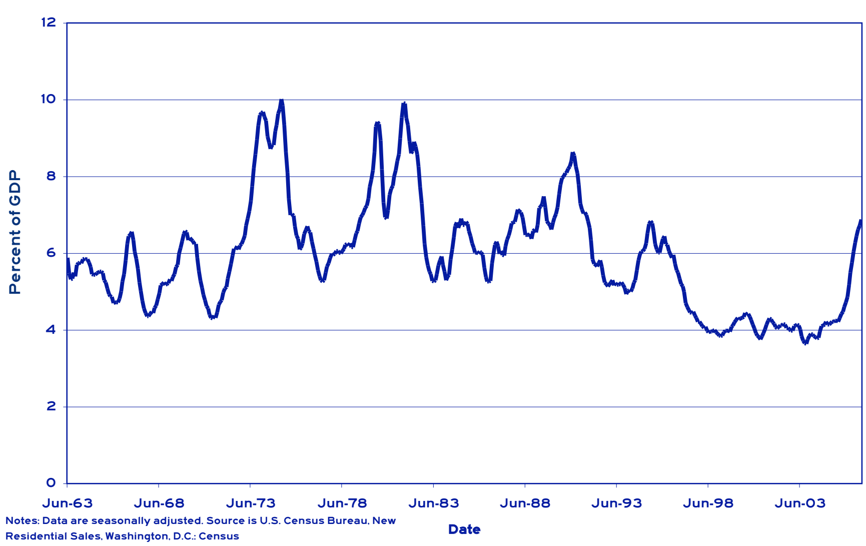
Supply of Homes for Sale (in Months of Sales), 6-Month Average



Notes: Data are seasonally adjusted. Source is U.S. Census Bureau, New Residential Sales, Washington, D.C.: Census

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