Center for American Progress

Economic Snapshot

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The U.S economy in this new year is overshadowed by large uncertainties. The housing boom is coming to an end and it is unclear what could take its place. Employment growth remains subdued, especially in construction, housing-related sectors, and retail. Economic growth may be further dampened by heavy debt. Families and the federal government have amassed record amounts of debt, threatening future economic opportunities. Consider these facts and figures:

1) **Low wage growth.** Factoring in inflation, hourly wages were 3.2% higher and weekly wages were 2.7% higher in November 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 a pension dropped to 45% in 2005, the last year for which data is available, from 50.3% in 2000, and the share of people with employer-provided health insurance dropped to 59.5% from 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 third quarter of 2006, families spent 14.5% of their disposable income to service their debt—the largest share since 1980.

4) **Housing market slows.** Prices of existing homes grew by 0.9 percent in the third quarter of 2006, the smallest increase since the middle of 1998 and only about a quarter of the increase in the third quarter of 2005.

5) **Savings plummet.** The personal savings rate of -1.2% 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 2.0 million more jobs, or the unemployment rate would be 5.7%.

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

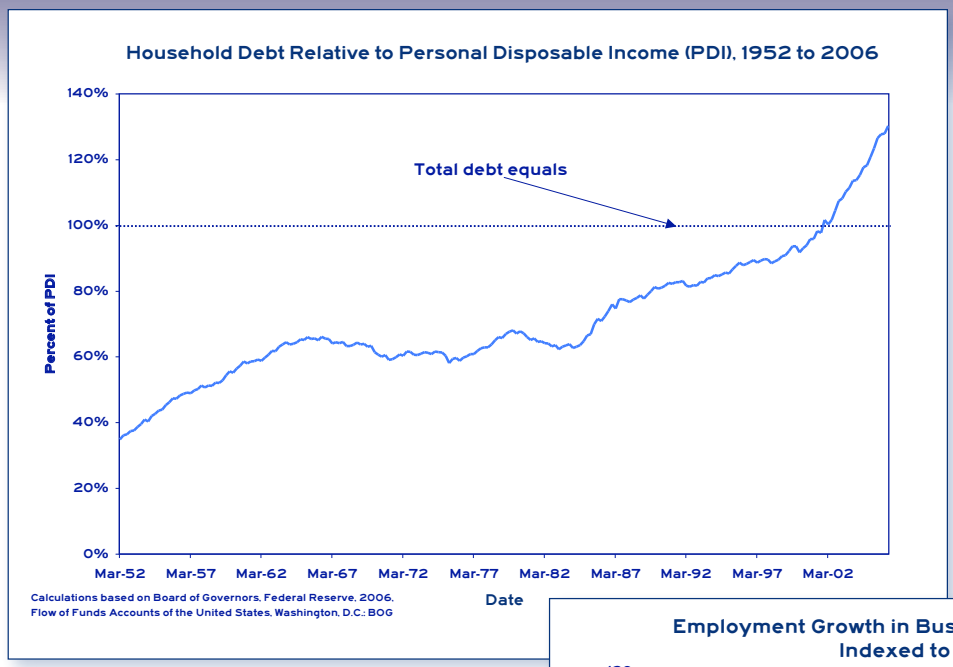
9) **Government deficits remain large.** For 2006, the deficit was $248 billion, reflecting the largest six-year deterioration in 50 years, from a surplus of 2.0 percent of GDP in 2000 to a deficit of 2.4 percent of GDP in 2006.

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 substantially.

11) **This endangers our economic independence.** Foreign investors bought 78% of new Treasury debt between March 2001 and September 2006. Over the same period, the share of U.S. foreign-held debt grew to 45% from 32%. The quarterly interest payments from the federal government to foreign lenders increased 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. Payments on the international debt borrowed to pay for these deficits were $3.8 billion larger than the earnings on assets held by Americans abroad in the third quarter of 2006. The past four quarters were the first time the U.S. spent more on its debt than it earned on its assets since the government started to collect this data in 1960.

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



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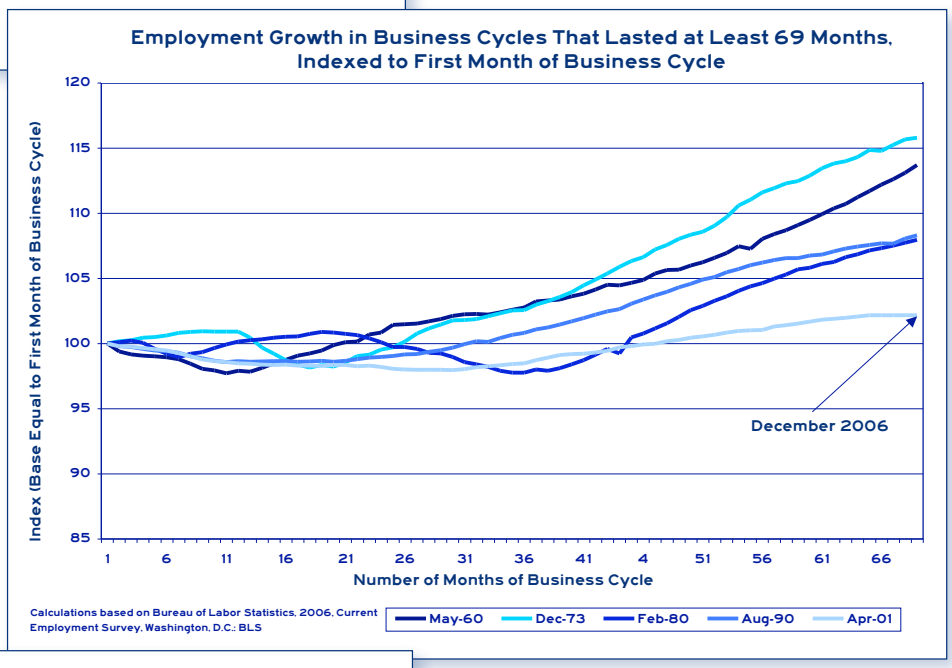

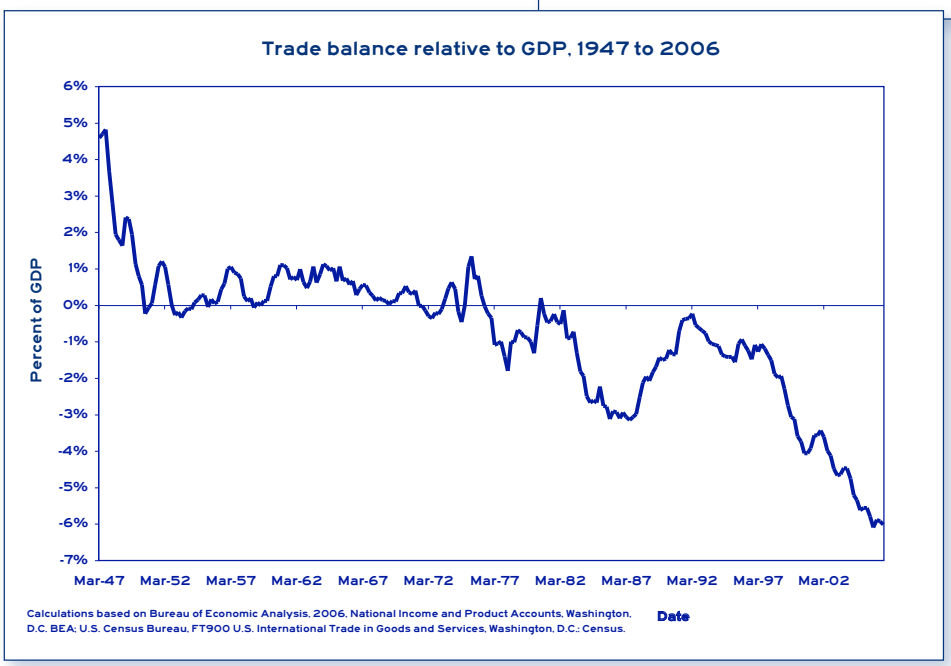

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