Center for American Progress

Economic Snapshot

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Economic and labor market growth appears to be settling in at lower levels than in previous years, and substantial risks remain. These include an uncertain future over the residential housing market, large long-term budget deficits, and continuously high trade deficits, among others. None of these trends bode well for American families who are struggling with low employment growth, flat wages, declining benefits, and record amounts of debt.

1) **Wage growth is low.** Factoring in inflation, hourly wages were 3.2% higher and weekly wages were 2.3% higher in January 2007 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 from 50.3% in 2000 to 45.0% in 2005, the last year for which data are available, and the share of people with employer-provided health insurance dropped from 63.6% to 59.5%.

3) **Family debt is on the rise.** By December 2006, household debt rose to an unprecedented 132.4% of disposable income. The growth of debt to disposable income between March 2001 and September 2006 was almost five times faster than in the 1990s. And in the third quarter of 2006, families spent 14.5% of their disposable income to service their debt—the largest share since 1980.

4) **Families feel the pressure:** The share of loans that were in foreclosure rose to 1.1% in the third quarter of 2006 and the share of new loans entering foreclosure was 0.5%, the highest level since 2004. The default rate on credit cards grew to 4.0% in the fourth quarter, an increase of 32.9% over the first quarter of 2006. And the personal bankruptcy rate, measured as bankruptcy cases relative to the U.S. population, grew by 46.5% from the first to the third quarter of 2006.

5) **Housing market slows.** Spending on new homes and home improvements dropped by 19.1% in the fourth quarter of 2006. This was the largest decline in residential real estate spending since March 1991, and the fifth quarter of decline, marking the longest decline in this sector since 1982. For the entire year of 2006, residential real estate spending declined by 4.2 percent, the largest annual decline in 15 years.

6) **Savings plummet.** The personal savings rate of -1.2% in the fourth quarter of 2006 marked the seventh quarter in a row with a negative personal savings rate.

7) **Job growth is the weakest for any business cycle.** Despite the 2003 tax cut, job growth has averaged only 1.5% since then—the lowest growth of any recovery of at least the same length. Monthly job growth since March 2001 has averaged an annualized 0.6%.

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

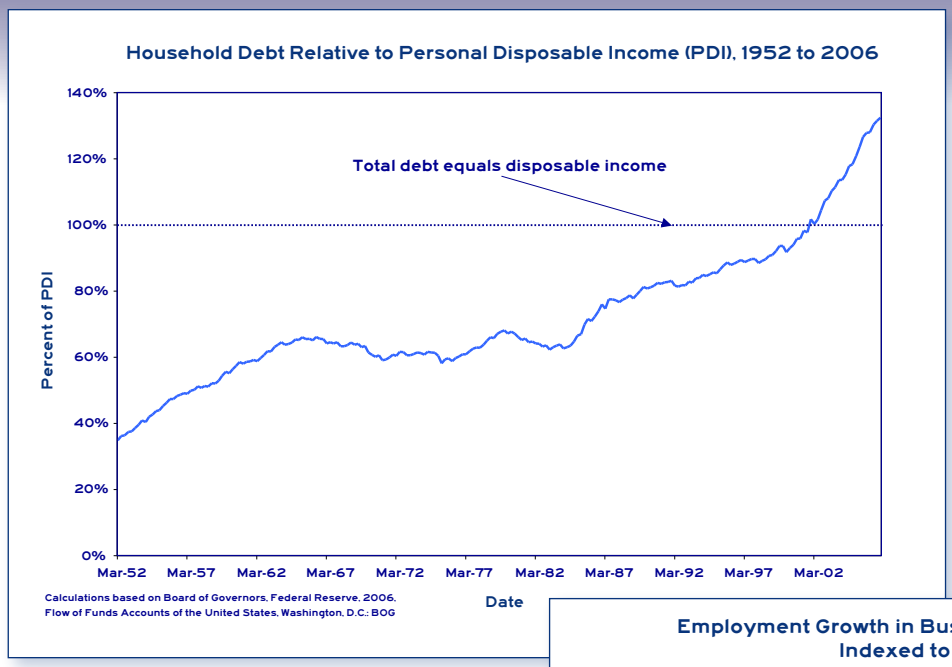
9) **Government finances deteriorate.** In 2001, the Congressional Budget Office anticipated that the government balance between 2002 and 2011 would be in the black to the tune of $5.6 trillion. For the fiscal year 2006, the CBO projected a surplus of $505 billion. Today, the CBO projects deficits between 2002 and 2011 of $2.9 trillion, and for fiscal year 2006 the actual deficit amounted to $248 billion. This constitutes a deterioration of $8.5 trillion for the period 2002 to 2011 and a decline of $753 billion for fiscal year 2006.

10) **These deficits won't shrink.** Between 2007 and 2016, the CBO predicts cumulative deficits of $1.8 trillion. If Alternative Minimum Tax reform and permanent tax cuts for the wealthy are included, the total deficit for the next decade would come to $3.5 trillion—even if the costs for the war in Iraq and Afghanistan drop below current projections in a few years.

11) **This endangers our economic independence.** Foreign investors bought 80% of new Treasury debt and the share of U.S. foreign-held debt grew to 46% from 32% from March 2001 to December 2006. The quarterly interest payments from the federal government to foreign lenders rose to $37 billion in September 2006 from $21 billion in March 2001. Payments on all of the U.S. international debt were $3.8 billion larger than the earnings on assets held by Americans abroad in the third quarter of 2006.

12) **Trade deficit remains high despite strong export growth.** In the fourth quarter of 2006, the trade deficit declined to 5.2% of gross domestic product, down from 6.0% in the third quarter, due to strong export gains. Yet this last trade deficit is still larger than any trade deficit since the Great Depression recorded before the first quarter of 2004.

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



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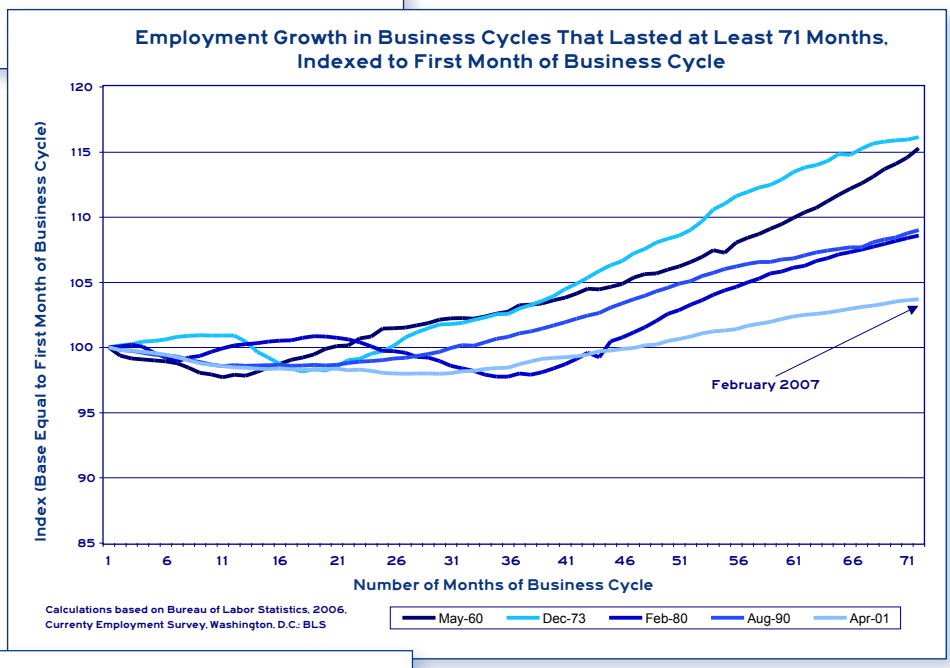

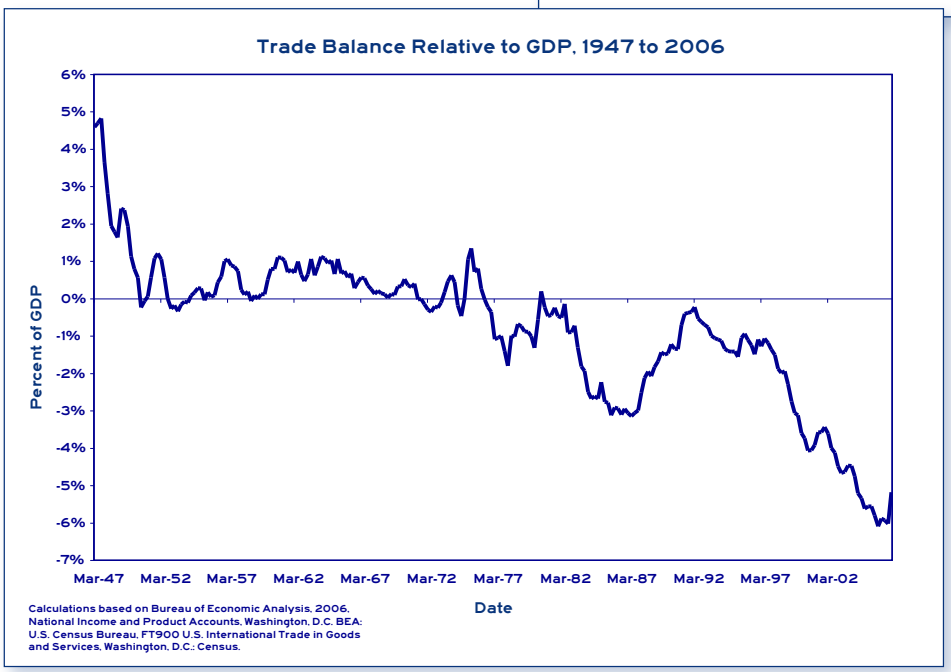

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