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Signs of trouble abound and consumers and businesses have become more cautious amid a weakening economy. This could add to the existing problems of low income gains, declining benefits, and rising debt payments. And large risks to economic and job growth persist—record household debt and massive budget and trade deficits—which could put a damper on future improvements.

1) **Wage growth is low.** Factoring in inflation, hourly wages were 2.3% higher and weekly wages were 1.5% higher in April 2007 than in March 2001.

2) **Benefits are disappearing.** 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.** In the first quarter of 2007, household debt fell relative to disposable income for the first time in five years, but still stayed at a comparatively high 130.7%, the third highest on record. In the fourth 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 new mortgages entering foreclosure was 0.5% in the fourth quarter of 2006, the highest level on record since 1979. The default rate on credit cards grew to 3.9% in the first quarter, an increase of 29.5% over the first quarter of 2006. And the personal bankruptcy rate, measured as bankruptcy cases relative to the U.S. population, grew by 51.5% from the first to the fourth quarter of 2006.

5) **Housing market slows.** New home sales increased in April 2007, spurred by an unprecedented decline in prices. The median price of new homes sold dropped by 11.1%, the largest one-month drop since the Census first recorded these data in 1963.

6) **Gas prices rise sharply.** In the first week of June, gasoline prices averaged $3.15 per gallon. In inflation-adjusted terms, gasoline was at its highest level since June 1981 and it was 91.9% more expensive than in March 2001.

7) **Savings plummet.** The personal savings rate of -0.8% in the first quarter of 2007 marked the eight quarter in a row with a negative personal savings rate.

8) **Already weak job growth slows.** Monthly job growth since March 2001 has averaged an annualized 0.6%. Over the past 12 months, the average monthly job growth was 160,400 jobs, compared to 213,400 in the preceding 12 months.

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

10) **The government's finances deteriorated.** In 2001, the CBO anticipated that the government balance between 2002 and 2011 would be in the black to the tune of $5.6 trillion. Today, the CBO projects deficits between 2002 and 2011 of $2.9 trillion. This constitutes a deterioration for the period 2002 to 2011 of $8.5 trillion.

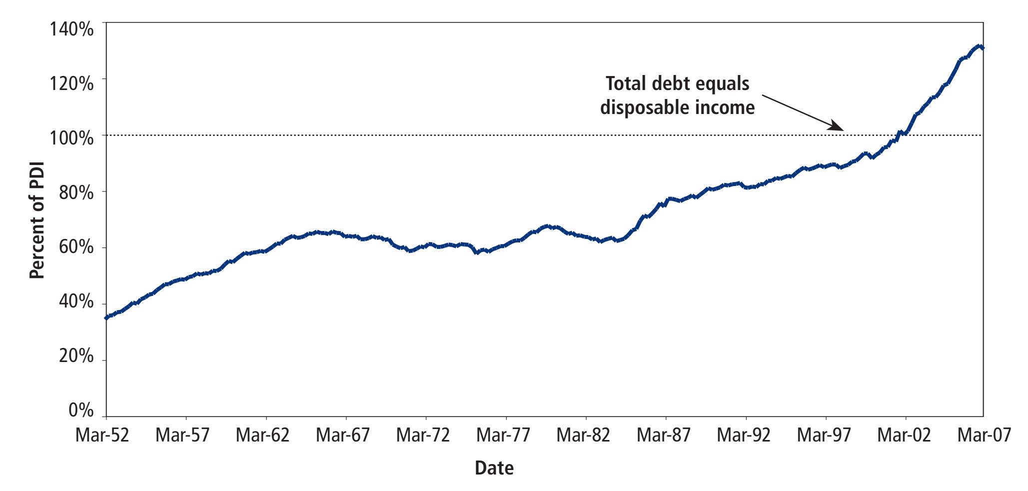
11) **These deficits won't shrink:** Between 2007 and 2016, the CBO predicts cumulative deficits of $1.8 trillion. If AMT reform and permanent tax cuts for the wealthy are included, the total deficit for the next decade would come to $3.5 trillion—even if the costs for the wars in Iraq and Afghanistan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

12) **This endangers our economic independence.** Foreign investors bought 82% of new Treasury debt and the share of U.S. foreign-held debt grew to 46% from 32% from March 2001 to March 2007. The quarterly interest payments from the federal government to foreigners rose to $38 billion in the fourth quarter of 2006 from $21 billion in the first quarter of 2001.

13) **Trade deficit remains high despite strong export growth.** In the first quarter of 2006, the trade deficit rose slightly to 5.3% of gross domestic product from 5.2% in the fourth quarter of 2006. Yet these last trade deficits are still larger than any trade deficit since the Great Depression recorded before the third quarter of 2004.

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 2007



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

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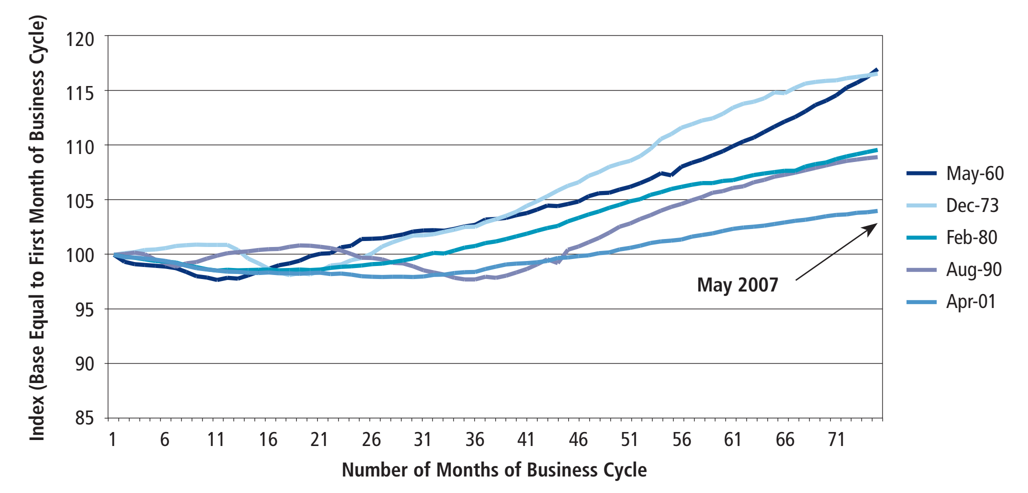
EMPLOYMENT GROWTH IN BUSINESS CYCLES THAT LASTED AT LEAST 74 MONTHS, INDEXED TO FIRST MONTH OF BUSINESS CYCLE



Calculations based on Bureau of Labor Statistics, 2007, Current Employment Survey, Washington, D.C.: BLS.

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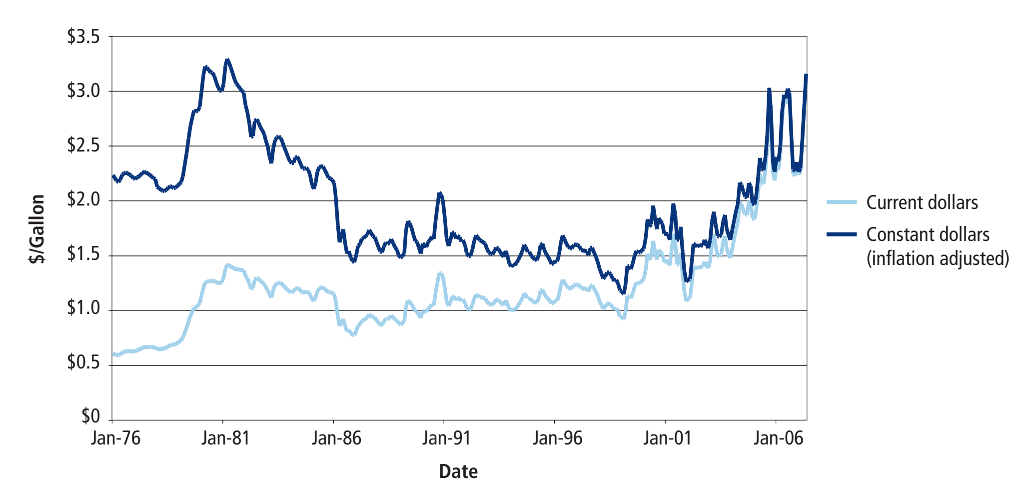
NOMINAL AND INFLATION ADJUSTED GASOLINE PRICES ($/GALLON), 1976 TO 2007



Source: Energy Information Administration, Department of Energy, 2007, Short-Term Energy Outlook, Washington, D.C.: EIA. CPI for May is EIA forecasts. Gasoline price for June is for first Monday in June.

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