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Several indicators point toward a weak and weakening economy, especially in the housing and labor markets. The slowdown in economic activity is largely a result of the end of the housing boom, which has spilled into the economy at large and which so far has not been replaced by another driver of stronger economic activity. At the same time, the economy still faces large risks, such as massive household debt, a comparatively high trade deficit, and continued budget deficits.

1) **Wage growth is low.** Factoring in inflation, hourly wages were 2.6% higher and weekly wages were 1.7% higher in July 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 43.2% in 2006, the last year for which data are available, and the share of people with employer-provided health insurance dropped from 64.2% to 59.7%.

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 first quarter of 2007, families spent 14.3% of their disposable income to service their debt, up from 13.0% in the first quarter of 2001.

4) **Families feel the pressure.** The share of new mortgages entering foreclosure was 0.7% in the second quarter of 2007, reflecting the fifth increase in a row to the highest level on record since 1979.

5) **Housing market slows.** New home sales in July this year were 10.2% below the level of July 2006 and existing home sales were 9.0% lower. The median sales price of existing homes was 0.6% lower in July 2007 than a year earlier and the median sales price of new homes was 1.0% higher than a year earlier. The average monthly supply of homes for the six months ending in July was 7.7 months, the highest since June 1991.

6) **Home equity declines:** Home equity dropped by 1.8 percentage points relative to disposable income in the first quarter of 2007, the largest such decline since the second quarter of 1992.

7) **Already weak job growth drops sharply.** Monthly job growth since March 2001 has averaged an annualized 0.6%. In August, employment declined by 4,000 jobs, the first job decline since August 2003. Over the past 12 months, the average monthly job growth was 133,300 jobs, compared with 191,600 in the preceding 12 months and 210,800 in the 12 months before that.

8) **Poverty stays high.** The poverty rate fell slightly to 12.3% in 2006, down from 12.6% in 2005. But this is still substantially higher than the last low point in 2000, when it was 11.3%.

9) **Improvements in the government's finances are temporary.** In August 2007, the Congressional Budget Office estimated that the deficit for 2007 amounted to $158 billion, $14 billion less than projected in January. Yet the cumulative budget deficit from 2008 to 2012 increased sharply from $194 billion to $696 billion in the CBO's projections.

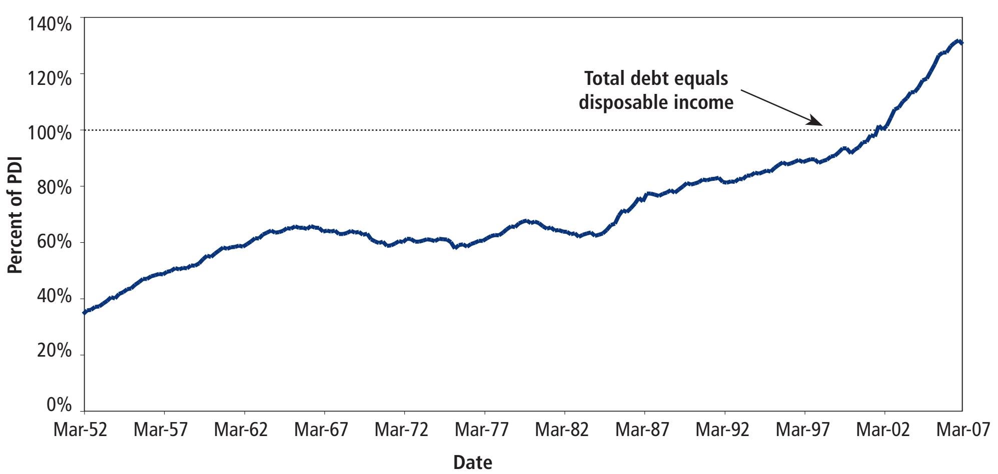
10) **Tax cuts do not pay for themselves.** The Joint Committee on Taxation estimated that the tax cuts enacted since 2001 would cost $300 billion in 2007 alone. The federal government would therefore have shown a surplus had it not been for President Bush's tax cuts.

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

12) **Trade deficit remains high despite strong export growth.** In the second quarter of 2007, the trade deficit fell slightly to 5.2% of the Gross Domestic Product from 5.3% in the first quarter of 2007. Yet the last trade deficit is still larger than any trade deficit since the Great Depression recorded before the second quarter of 2004.

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

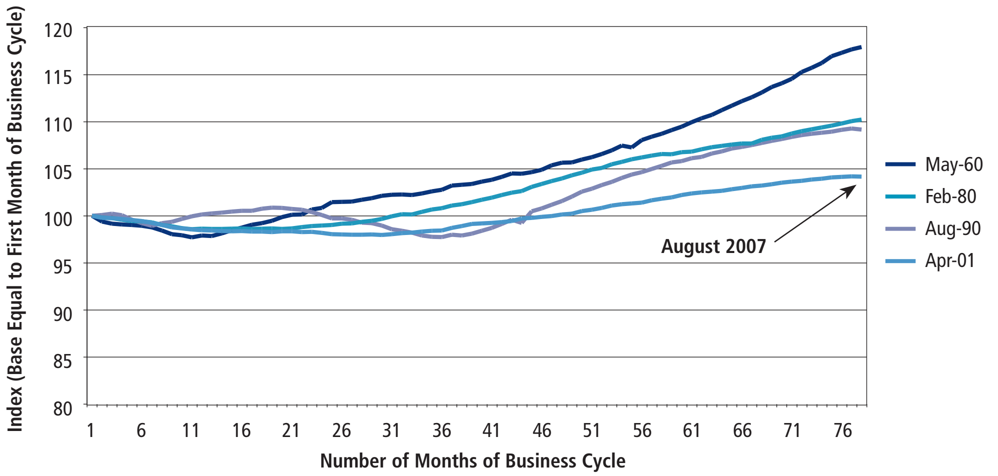
HOUSEHOLD DEBT RELATIVE TO PERSONAL DISPOSABLE INCOME (PDI), 1952 TO 2007



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

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.

EMPLOYMENT GROWTH IN BUSINESS CYCLES THAT LASTED AT LEAST 77 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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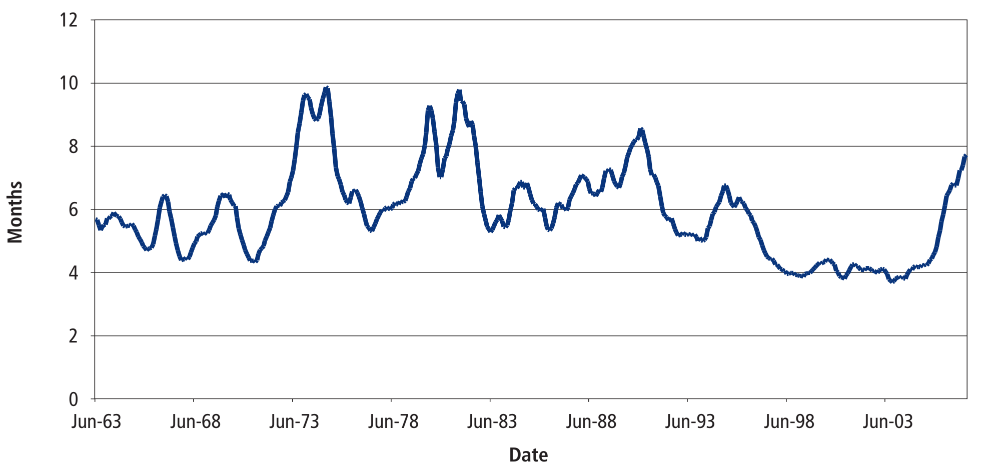
SUPPLY OF NEW HOMES FOR SALE (IN MONTHS OF SALES), 6-MONTH AVERAGE



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

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