Center for American Progress

Economic Snapshot for October 2008

Christian E. Weller on the State of the Economy

Christian E. Weller, Associate Professor, Department of Public Policy and Public Affairs, University of Massachusetts Boston, and Senior Fellow, Center for American Progress

October 15, 2008

House and stock prices are plummeting, and threatening to take the economy down with them. The labor market contraction could get worse and sharply lower economic growth. Troubles on Wall Street have already translated into tighter credit for Main Street. Businesses and homeowners, among others, now have less access to credit, which means that consumption and investment will likely be slow.

Less economic activity also means less hiring. The U.S. economy has already lost jobs for nine months in a row. This year's job losses followed a very weak labor market that left families woefully unprepared for the current crisis. Employment growth has been the weakest since the Great Depression, wages have been flat, and benefits have declined during this business cycle, which started in March 2001. At the same time, prices rose for many items, driving families deeper and deeper into debt. As the labor market slump deepens, more and more families are succumbing to economic pressures, declaring bankruptcy and defaulting on their loans. Easing the burden on families will not be easy as massive trade deficits drain our national resources and budget deficits due to tax cuts for the rich pose obstacles to real solutions for America's families.

1. **Businesses can't finance investment.** In the second quarter of 2008, credit-market borrowing financed 35.2% of fixed investment by non-financial corporate businesses, down from 80.1% a year earlier.

2. **Homeowners pay more for loans.** Traditional mortgages are perceived as much riskier than in the past and borrowers need to pay a bigger premium over risk-free, long-term treasury bonds. From March 2001, when the current business cycle started, through the end of 2007, the average difference between these two interest rates was 1.7 percentage points. For 2008, this difference averaged 2.3 percentage points. The risk premium that the market charged for giving out mortgages thus increased by 35.3% in 2008.

3. **Job losses mount.** The U.S. economy lost a total of 760,000 jobs in the first nine months of 2008, including 159,000 jobs in September 2008. The United States lost on average 43,300 jobs each month during the past 12 months, after gaining an average of 109,100 in the previous 12 months, and 188,600 in the 12 months before then. SEE GRAPH ▸

4. **Unemployment rates reflect broad labor market recession.** In September 2008, the unemployment rate was 6.1%—the highest level since September 2003. The African-American unemployment rate stood at 11.2%, the Hispanic unemployment rate at 7.8%, and the unemployment rate for whites at 5.4% in September 2008.

5. **Wages are flat.** Factoring in inflation, hourly wages were only 0.9% higher and weekly wages were actually 0.3% lower in August 2008 than in March 2001.

6. **Fewer people have pensions and health insurance.** The share of private-sector workers with a pension dropped from 50.3% in 2000 to 45.1% in 2007, and the share of people with employer-provided health insurance dropped from 64.2% in 2000 to 59.3% in 2007.

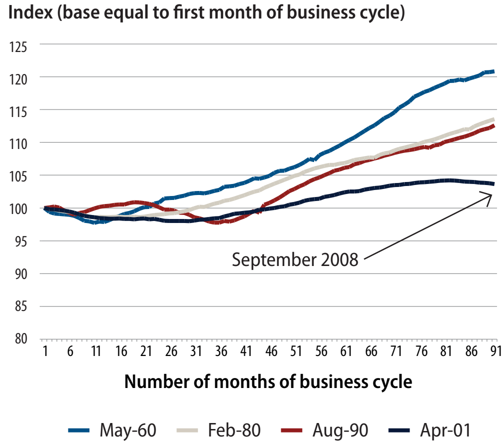
7. **Family debt contracts from record high levels.** Household debt averaged 129.3% of disposable income in the second quarter of 2008— its lowest level since March 2006—down from a record high of 133.5% at the end of 2007.

8. **The housing crisis deepens.** New home sales in August 2008 were 34.5% lower than a year earlier, and existing home sales were 10.7% lower. The median price for existing homes fell by 9.5% and prices for new homes by 6.1% during the same period.

9. **Homeowners lose wealth.** The values of all homes fell by 2.5% or $351 billion in the second quarter of 2008 after accounting for inflation. Home equity as share of home values also fell to a record low of 45.2% in the second quarter of 2008.

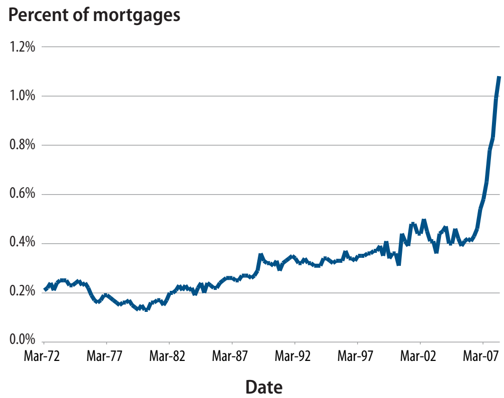
10. **Mortgage troubles mount.** One in 11 mortgages is delinquent or in foreclosure. In the second quarter of 2008, the share of mortgages that were delinquent was 6.4% and the share of mortgages that were in foreclosure was 2.7%. The share of new mortgages going into foreclosure continues to new record highs with 1.1% in the second quarter. SEE GRAPH ▸

Employment growth in business cycles that lasted at least 90 months, indexed to first month of business cycle



Calculations based on Bureau of Labor Statistics, 2008, Current Employment Survey, Washington, D.C.: BLS.

Share of mortgages, where foreclosure has been started, 1972 to 2008



Source: Mortgage Bankers Association, 2008, National Delinquency Survey, Washington, DC: MBAA.

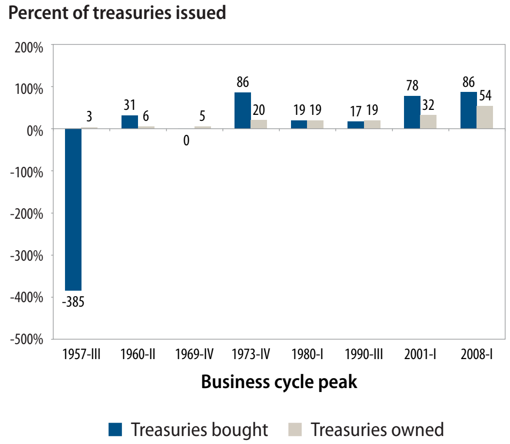
11. **Families feel the pressure.** Credit card defaults rose to 5.5% of all credit card debt by the second quarter of 2008—an increase of 14.7% from the first quarter of 2001—even though a new bankruptcy law was passed in 2005 to make it harder for people to get a fresh start free of debt, especially credit card debt. The personal bankruptcy rate also rose to 3.2 cases per 1,000 people in the second quarter of 2008, an increase of 115.9% since the first quarter of 2006, immediately after the new bankruptcy law passed.

12. **The budget deficit increases sharply.** For fiscal year 2008, which runs through September 30, the deficit amounted to an estimated $438 billion, up from $162 billion in 2007.

13. **The U.S. government is increasingly indebted to foreigners.** Since March 2001, foreigners have purchased 86.5% of all new treasury debt. By June 2008, foreigners owned an unprecedented 53.6% of all publicly held treasury debt. In the second quarter of 2008, the U.S. government spent $43.0 billion in interest payments to foreigners—more than double the $20.9 billion it spent in the first quarter of 2001. SEE GRAPH ▸

14. **The trade deficit remains high.** In the second quarter of 2008, the trade deficit was at 5.20% of gross domestic product for the third quarter in a row.

Share of treasury issues purchased and owned by foreigners, business cycle averages



Calculations based on Board of Governors, Federal Reserve, 2008, Flow of Funds Accounts of the United States, Washington, D.C.: BOG.