



# Economic Snapshot for December 2008

## Christian E. Weller on the State of the Economy

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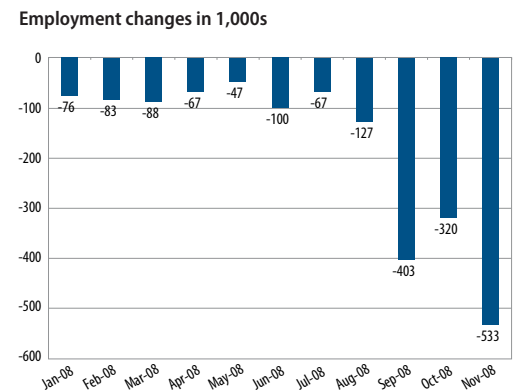
December 17, 2008

What many Americans have felt all year is now official: The U.S. economy has been in a recession since December 2007. And things aren't looking to get better. The labor market recession is worsening at an accelerated pace. Economic growth is unlikely to strengthen significantly any time soon as people are losing their jobs and businesses are pulling back their investments. This recession makes a bad situation worse for America's families.

The last business cycle that ended in December 2007 was marked by the weakest employment growth since the Great Depression, flat wages, declining benefit coverage, and deep indebtedness—in short, we are woefully unprepared for the current crisis. As the labor market recession accelerates, more and more families are succumbing to the pressures, declaring bankruptcy, and defaulting on their loans. Policymakers need to step in before the current economic downturn becomes even longer, deeper, and more painful for more Americans.

- 1. Job losses accelerate.** The U.S. economy lost 1.9 million jobs in the first 11 months of 2008, including 533,000 jobs in November. This was the largest negative job growth rate since May 1980. Almost half of all job losses in 2008—44.6%—came during the last two months. [SEE GRAPH ▶](#)
- 2. GDP growth turns negative.** In the third quarter of 2008, GDP declined at an annual rate of 0.5 percent, the largest decline since the third quarter of 2001. The drop in growth was caused by a drop in consumer spending by an annualized rate of 3.7%—the largest decrease since the second quarter of 1980.
- 3. Unemployment rates reflect broad labor market recession.** In November 2008, the unemployment rate was 6.7%—the highest level since September 1993. The African-American unemployment rate stood at 11.2%, the Hispanic unemployment rate at 8.6%, and the unemployment rate for whites at 6.1% in November 2008.

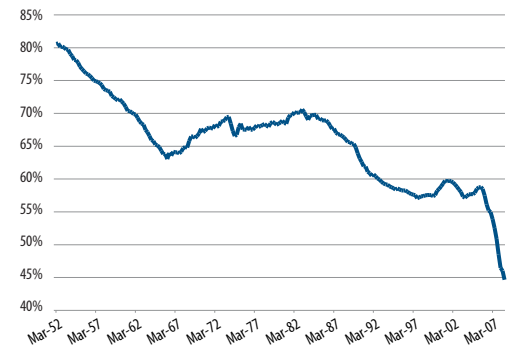
**Monthly non-farm payroll employment changes (in 1,000s) in 2008**



4. **Wages remain flat.** Factoring in inflation, hourly wages were only 0.6% higher and weekly wages were the same in October 2008 as in December 2007, when the last business cycle ended.
5. **Americans never recovered benefits lost during the last business cycle.** 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.
6. **Family debt contracts from record high levels.** Household debt averaged 130.3% of disposable income in the third quarter of 2008, down from a record high of 133.5% at the end of 2007, but higher than any level recorded before September 2006.
7. **The housing crisis deepens.** New home sales in October 2008 were 40.1% lower than a year earlier with only 433,000 units sold, which was also the lowest level since January 1991, even though median sales prices dropped by 7.0% since October 2007. Existing home sales were 1.6% lower in October 2008 than a year earlier, but their prices also dropped by 11.3% during the same period.
8. **Homeowners lose wealth.** The value of all homes fell by 4.1%, or \$656 billion, in the third quarter of 2008 after accounting for inflation. Over the course of one year, families lost \$2.4 trillion in home values. Home equity as a share of home value also fell to a record low of 44.7% in the third quarter of 2008. **SEE GRAPH ▶**
9. **Mortgage troubles mount.** One in 10 mortgages is delinquent or in foreclosure. In the third quarter of 2008, the share of mortgages that were delinquent was 7.0%, and the share of mortgages that were in foreclosure was 3.0%. The share of new mortgages going into foreclosure stayed at its record high of 1.1% in the third quarter. **SEE GRAPH ▶**
10. **Families feel the pressure.** Credit card defaults rose to 5.6% of all credit card debt by the third quarter of 2008, an increase of 35.4% from the fourth quarter of 2007.
11. **The trade deficit remains high.** In the third quarter of 2008, the trade deficit was at 4.9% of gross domestic product. Despite declining slightly, the trade deficit remains at a historically high and ultimately unsustainable level.

### Home equity as share of house values

Percent of house value



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

Percent of mortgages



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