Center for American Progress

Economic Snapshot for January 2009

Christian E. Weller on the State of the Economy

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The U.S. economy is experiencing its worst recession in decades. Jobs and wealth are falling at a rapid pace, driving families more quickly into default, foreclosure, and bankruptcy. This crisis is precipitated by a sharp drop in consumer spending, as well as a decline in business investment and the fact that the United States continues to import more than it exports. The only sector of the economy that can turn the situation around is the federal government, but irresponsible management in the past has created large, looming deficits that will make it harder to design the necessary stimulus and economic recovery package.

1. **GDP growth turns negative.** The gross domestic product declined at an annual rate of 0.5 percent in the third quarter of 2008—the largest decline since the third quarter of 2001. The drop in growth followed a 3.8% decline in consumer spending—the largest decrease since the second quarter of 1980. Spending on homes also declined by 16.0% in the third quarter of 2008, marking the 11th quarterly decline in a row and the longest continuous decline in residential real estate spending since the 11th quarter period that ended in March 1958.

2. **Job losses accelerate.** The U.S. economy lost 2.6 million jobs in 2008, including 524,000 jobs in December. Fifty-nine percent of job losses came during the last quarter. SEE FIGURE 1

3. **Unemployment rates reflect broad labor market recession.** The unemployment rate was 7.2% in December 2008—the highest level since January 1993. The African-American unemployment rate stood at 11.9%, the Hispanic unemployment rate at 9.2%, and the unemployment rate for whites at 6.6% in December 2008.

4. **The job market recession is the most severe in decades.** The labor market shrunk by 1.9% over the course of 2008—the fastest decline during the 12 months after a recession started since the recession that started in May 1960. The unemployment rate rose 2.3% during the first 12 months of the recession—the fastest such increase since the recession that started in January 1970.

5. **Wages have temporarily outgrown inflation.** Factoring in inflation, hourly wages were 2.3% and weekly wages were 3.3% higher in November 2008 than in December 2007. These increases followed lower prices in November 2008 and are unlikely to continue.

6. **Benefits decreased before the crisis.** 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. **Families are still burdened by high levels of debt.** 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.

8. **The housing crisis deepens.** New home sales in November 2008 were 35.3% lower and existing home sales were 10.6% lower than a year earlier. Median sale prices for new homes dropped by 11.5% and those for existing homes by 13.2% during the same time. It would take more than 11 months to sell all houses at the current rate of new home sales. This has been true for four months in a row now, making this the worst new home sales market since the Census Bureau collected these data in 1963.

9. **Homeowners lose wealth.** The values of all homes fell by $656 billion in the third quarter of 2008 after accounting for inflation, and they were 13.6% or $2.4 trillion lower than a year earlier, making it the largest such drop since the Federal Reserve collected these data in 1952. Home equity as a share of home values also fell to a record low of 44.7% in the third quarter of 2008. SEE FIGURE 2

10. **Mortgage troubles mount.** One in 10 mortgages is delinquent or in foreclosure. The share of mortgages that were delinquent during the third quarter of 2008 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 FIGURE 3

11. **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.

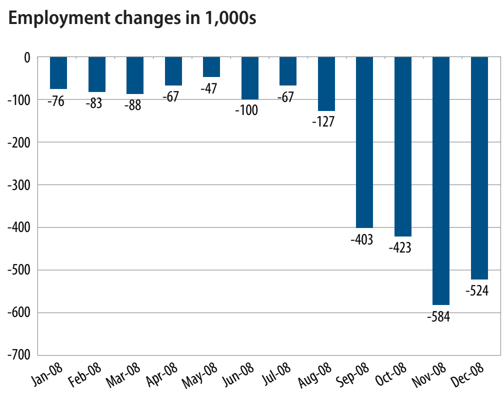
12. **Business investment declines.** Business investment declined by 1.7% in the third quarter of 2008—the largest decline since the first quarter of 2004. Business spending on equipment and software also dropped for the third quarter in a row, the longest such decline since the first quarter of 2002.

13. **The trade deficit remains high.** The trade deficit stood at 4.9% of GDP in the third quarter of 2008. Despite declining slightly, the trade deficit remains at a historically high and ultimately unsustainable level.

14. **Large deficits are looming.** Following years of fiscal and economic mismanagement, the federal government's deficit is expected to reach $1.2 trillion in 2009, even before a necessary economic stimulus has been enacted.

FIGURE 1

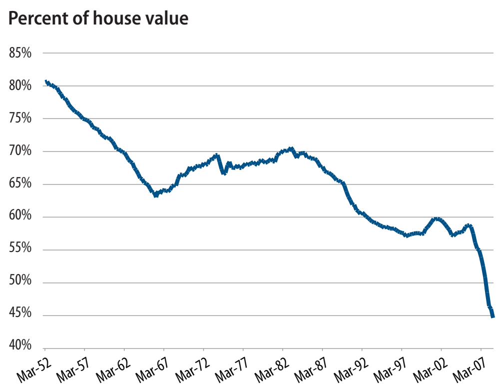
Monthly non-farm payroll employment changes (in 1,000s) in 2008



Source: Calculations based on U.S. Department of Labor, Bureau of Labor Statistics. 2008. "Current Employment Statistics." Washington.

FIGURE 2

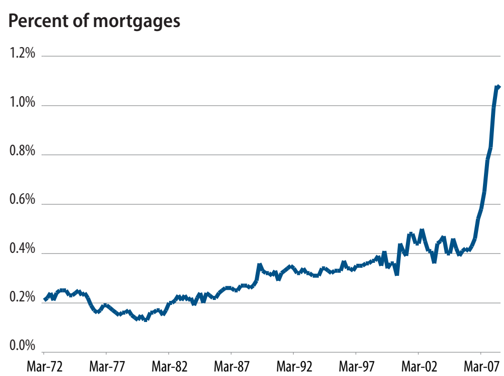
Home equity as share of house values



Source: Calculations based on Board of Governors, Federal Reserve System. 2008. "Release Z.1 Flow of Funds Accounts of the United States, Washington.

FIGURE 3

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



Source: Calculations based on Mortgage Bankers Association. 2008. "National Delinquency Survey." Washington.