Center for American Progress

Economic Snapshot for February 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 losses are accelerating, contributing to sharp increases in families' economic distress. This crisis was precipitated by a sharp drop in consumer spending, but also by a decline in business investment and by the fact that foreigners continue to purchase fewer U.S. exports than Americans are buying imports, especially as a global recession strikes the rest of the world.

The only sector of the economy that can turn this situation around is the federal government, although large looming deficits created by irresponsible management in the past will make it harder to achieve optimal results from the American Recovery and Reinvestment Act that was signed into law last week by President Barack Obama.

1. **GDP growth turns negative.** Gross domestic product declined at an annual rate of 3.8 % during the fourth quarter of 2008, the largest decline since the third quarter of 2001. The drop in growth was coupled with a 3.5% decline in consumer spending during the fourth quarter after declining 3.8% in the previous quarter. Spending on homes also declined by 23.6% in the fourth quarter of 2008, marking the 12th quarterly decline in a row and thus the longest continuous decline in residential real estate spending since the Bureau of Economic Analysis began tracking the data in 1947.

2. **Job losses accelerate.** The U.S. economy shed 588,000 jobs in January 2009. The economy has lost 3.6 million jobs since the recession began in December 2007, including 1.8 million jobs in just the last three months.

3. **Unemployment rates reflect broad labor market recession.** The unemployment rate was 7.6% in January 2009—the highest level since September 1992. Last month, the African-American unemployment rate stood at 12.6%, the Hispanic unemployment rate at 9.7%, and the unemployment rate for whites at 6.9%.

4. **The job market recession is the most severe in decades.** Between December 2007 and January 2009, the labor market shrunk by 2.6%—the fastest decline during the first 13 months of a recession since the recession that started in May 1960. The unemployment rate rose by 2.7 percentage points during the first 13 months of the current recession, the fastest such increase since the recession that started in August 1957

5. **Wages temporarily outgrew inflation.** Factoring in inflation, hourly wages were 4.7% higher and weekly wages were 3.1% higher in December 2008 than in December 2007. These increases followed lower prices in December 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.

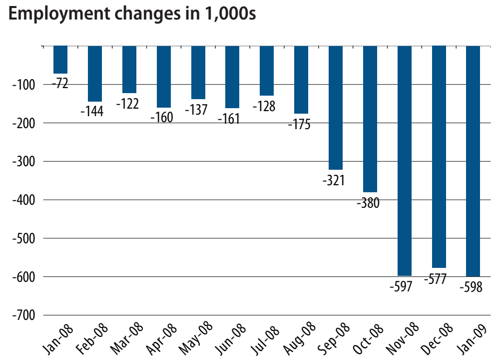
8. The housing crisis deepens. New home sales in December 2008 were 44.8% lower and existing home sales were 3.5% lower than a year earlier. Median sales prices for new homes had dropped by 9.3% and those for existing homes by 15.3% at the same time. At the current rate of new home sales, it will take almost 13 months to sell all new houses on the market, making this the worst new home sale market since the Census 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, marking 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.

10. Mortgage troubles mount. One in 10 mortgages are 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.

FIGURE 1

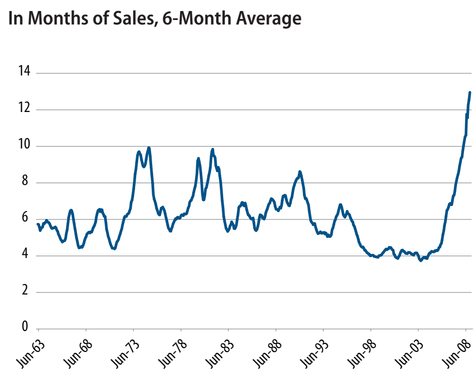
Monthly non-farm payroll employment changes (in 1,000s) in 2008



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

FIGURE 2

Supply of New Homes for Sale



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

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 19.1% during the fourth quarter of 2008, the largest decline since the first quarter of 1975. Business spending on equipment and software also dropped by 27.8%, the largest decline since the first quarter of 1958.

13. The trade deficit remains high. The trade deficit was at 3.7% 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 deficit is expected to reach $1.2 trillion in 2009, even before the effect of the necessary economic stimulus has been included.