



# Economic Snapshot for April 2009

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

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The current recession is the worst the U.S. economy has seen in decades. Job and wealth losses are accelerating and hurting families, while all private sectors of the economy—consumers, investment, and exports—are shrinking.

The federal government is the only sector that can turn the economy around. The government thus has to address a multitude of challenges, including slowing the recession and putting the economy on a path to a stronger recovery, while also dealing with the large looming deficits created by irresponsible management in the past. If these large challenges are not addressed, though, families will experience growing economic pains for years to come.

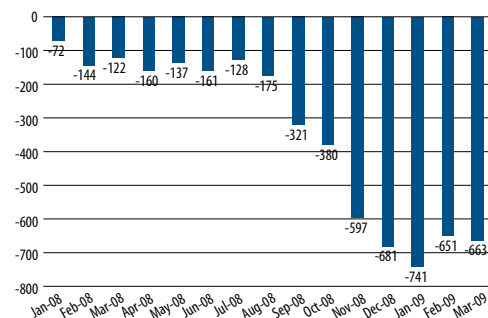
**1. GDP growth turns negative:** In the fourth quarter of 2008, GDP declined at an annual rate of 6.3 percent, the largest decline since the first quarter of 1982. The drop in growth reflected a 4.3% decline in consumer spending, a 22.8% fall in spending on homes, a 21.7% decrease in business investment spending, and a 23.6% drop in exports.

**2. Job losses accelerate:** The U.S. economy shed 663,000 jobs in March 2009. Since the recession began in December 2007, the economy has lost 5.1 million jobs, 2.7 million of them—or 53.4 of the total—in just the last four months. **SEE FIGURE 1**

**3. Broad rise in unemployment rates:** In March 2009, the unemployment rate was 8.5%—the highest level since October 1983. The African-American unemployment rate stood at 13.3%, the Hispanic unemployment rate at 11.4%, and the unemployment rate for whites at 7.9% in January 2009. Youth unemployment has soared to 21.7%; meanwhile, the unemployment rate for people without a high school diploma grew to 13.3%, compared to 9.0% for those with a high school degree and 4.3% for those with a college degree.

**Monthly non-farm payroll employment changes (in 1,000s) after December 2007**

Employment changes in 1,000s



Source: Calculations based on U.S. Department of Labor, Bureau of Labor Statistics, 2009, "Current Employment Statistics," Washington.

FIGURE 1

**4. Hours at work at historic low:** Average weekly hours amounted for production workers—the vast majority of the American workforce—fell to 33.2 hours in March. This was the lowest level since the Bureau of Labor Statistics started to calculate these data.

**5. Wages still up due to low inflation:** In February 2009, inflation adjusted weekly earnings were 2.5% higher and hourly earnings were 4.1% higher than a year earlier, largely because of low inflation in recent months. This is unlikely to last. Inflation adjusted weekly and hourly wages have already decreased in January and February 2009.

**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. Family wealth disappears at record pace:** From June 2007—the last peak of family wealth—to December 2008, total family wealth decreased by \$15 trillion in 2008 dollars. This reflects a drop of 22.8% during these 18 months, the fastest decline in any 18-month period since the Federal Reserve started to collect these data in 1952. Total family wealth stood at 483.3% of after-tax income—the lowest level since March 1995. **SEE FIGURE 2**

**8. The housing market stalls:** New home sales in January 2009 amounted to an annualized, seasonally adjusted rate of 337,000, 41.1% lower than a year earlier, despite a year-over-year drop in median new home prices of 18.1%. At the current rate of new home sales, it will still take 12.2 months to sell all new houses on the market. Existing home sales were 4.6% lower and their median sales price 15.5% less than a year earlier.

**9. Homeowners' wealth losses mount:** The values of all homes fell by \$3.9 trillion from December 2006—the last peak of housing wealth—to December 2008. Home equity to after-tax income has dropped to 74.0%, the lowest level since September 1967, and home equity as share of home values dropped to record low of 44.7% by December 2008.

**10. Mortgage troubles mount:** One in nine mortgages is delinquent or in foreclosure. In the fourth quarter of 2008, the share of mortgages that were delinquent was 7.9% and the share of mortgages that were in foreclosure was 3.3%. The share of new mortgages going into foreclosure stayed at its record high of 1.1%. **SEE FIGURE 3**

**11. Families feel the pressure:** Credit card defaults rose to 6.3% of all credit card debt by the fourth quarter of 2008, an increase of 52.4% from the fourth quarter of 2007.

**Household wealth to after-tax income**

Percent of after-tax income



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

**Share of mortgages that are delinquent or in foreclosure**

Share of mortgages



Source: Mortgage Bankers Association, 2009, "National Delinquency Survey," Washington.