Center for American Progress

Economic Snapshot for March 2010

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

March 23, 2010

The economy has grown again since the middle of 2009, in large part because the economic stimulus—the American Recovery and Reinvestment Act—helped to fill the hole in the private sector left by the recession. Private sector economic activity is expanding and boosting companies all across the country. Nonfinancial corporate profits have handsomely risen since the end of 2008, corporations are sitting on more cash than they have at any point in the past 45 years, and they are beginning to spend this money. But they're primarily using it to pay dividends and buy back their own shares instead of making investments and hiring.

Economic policy now must ensure stronger job growth and more business investments. The focus first needs to be on personal income through job creation and support for the unemployed. More income will mean fewer foreclosures, credit card defaults, and bankruptcies, which in turn will mean more consumer demand and lower credit costs that will both boost business investment. Policy can then create a more predictable investment climate, especially through health care and energy reform. Prices for health insurance and energy will become more predictable and thus more manageable, enticing more business investments. Companies have the money to help the economy. Policy now needs to create the right environment to boost private sector employment and investment.

1. **The U.S. economy has turned the corner.** Gross domestic product grew at an annual rate of 5.9 percent in the fourth quarter of 2009, the largest gain since the third quarter of 2003. The Recovery Act provided additional income to consumers and businesses, which led to more business investments. Investment in inventory stockpiles and in equipment, such as computers and software, explained more than three-quarters, or 76.3 percent, of the fourth-quarter growth. The initial policy intervention in the economy thus helped boost private business spending at the end of 2009. SEE FIGURE 1

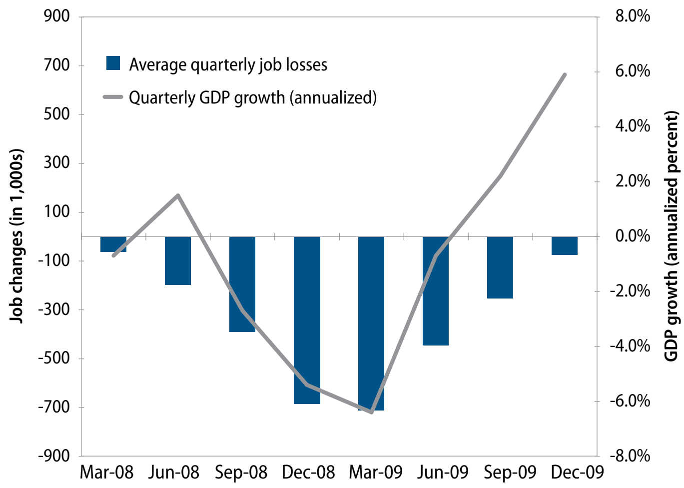
2. **Job losses continue.** The U.S. economy shed 36,000 jobs in February 2010. The economy has lost 8.4 million jobs since the recession began in December 2007—60.8 percent of which were lost before the stimulus was enacted in February 2009. SEE FIGURE 1

3. **The rate of job loss has markedly slowed since the stimulus was enacted.** Job losses averaged 57,000 from December 2009 to February 2010, down from an average monthly job loss of 726,000 in the three months before the stimulus was passed in February 2009.

4. **Unemployment stays high among the most vulnerable.** The unemployment rate was 9.7 percent in February 2010. The African-American unemployment rate that month stood at 15.8 percent, the Hispanic unemployment rate at 12.4 percent, and the unemployment rate for whites at 8.7 percent. Youth unemployment stood at a high 25.0 percent. And the unemployment rate for people without a high school diploma stayed at 15.6 percent, compared to 10.5 percent for those with a high school degree, and 5.0 percent for those with a college degree.

FIGURE 1

Employment and economic growth 2008 and 2009



5. **The unemployed are out of a job for long periods.** In February 2010, 6.1 million people had been looking for a job for 27 weeks or more. The average length of unemployment that month was 29.7 weeks, and 40.9 percent of the unemployed were out of a job for 27 weeks or more. Long-term unemployment is slightly down from its record in January 2010, but still remains higher than during any other month.

6. **Employer-provided benefits continue to disappear.** The share of private sector workers with a pension dropped from 50.3 percent in 2000 to 45.1 percent in 2007 and 43.6 percent in 2008, and the share of people with employer-provided health insurance dropped from 64.2 percent in 2000 to 59.3 percent in 2007 and 58.5 percent in 2008.

7. **Family incomes drop sharply in the recession.** Median inflation-adjusted family income fell by $1,860 to $50,303 (in 2008 dollars) in 2008 from 2007. This was the lowest family income since 1997. White family income stood at $55,530, compared to African-American family income, which was $34,218, or 61.6 percent of white income. Hispanic family income was $37,913 in 2008, or 68.2 percent of white income.

8. **Poverty continues to rise.** The poverty rate stood at 13.2 percent in 2008—its highest rate since 1997. The African-American poverty rate was 24.6 percent, the Hispanic rate was 23.2 percent, and the white rate was 8.6 percent in 2008. The poverty rate for children under the age of 18 rose to 19.0 percent—also the highest level since 1997. More than one-third of African-American children (34.7 percent) lived in poverty in 2008, compared to 10.6 percent of white children and 30.6 percent of Hispanic children.

9. **Family wealth begins to recover.** Total family wealth increased by $5.7 trillion, or 11.7 percent in 2009 dollars from March 2009—the lowest point—to September 2009, largely as a result of higher stock prices. Home values rose by only $585 in comparison, or 4.0 percent during the same period. Household wealth was still $11.8 trillion below the level of June 2007—the last peak of family wealth.

10. **Corporate profits soar.** Profits in the nonfinancial corporate sector rose in inflation-adjusted terms by 64.4 percent before taxes and 85.8 percent after taxes from December 2008 to September 2009. This was the fastest four-quarter before-tax gain since the four quarters that ended in December 2002 and the fastest after-tax gain over four quarters on record. Corporate nonfinancial inflation-adjusted profits in December 2009 were thus higher than at any point before 2005, although they are still far from the peaks of the last boom.

11. **Companies build cash and spend money on shareholders.** Liquid assets, or cash, made up 6.8 percent of the total assets of nonfinancial corporations in December 2009—the largest share since December 1964. Nonfinancial corporations also spent all of their after-tax profits (106.8 percent) on dividend payouts and share repurchases in that quarter. Cash, dividend payouts, and share repurchases thus took precedent over hiring and investments. SEE FIGURE 2

FIGURE 2

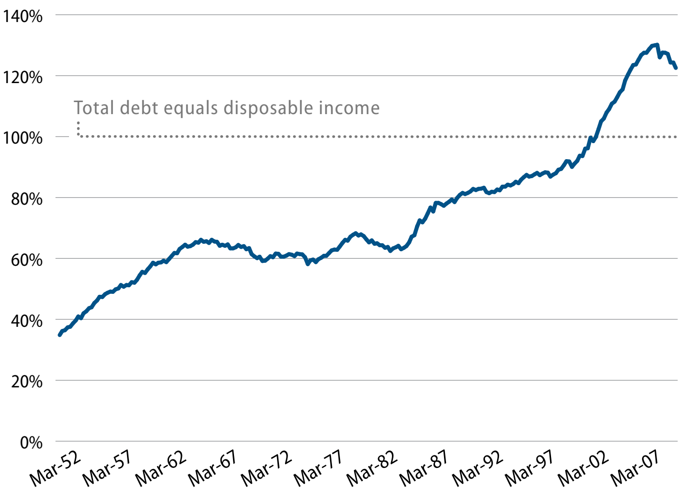
Liquid assets—cash—as share of total assets of nonfinancial corporations

12. **Home sales show a mixed picture.** New home sales in December 2009 amounted to an annualized, seasonally adjusted rate of 309,000—6.1 percent lower than a year earlier. And median new home prices were 2.4 percent lower than a year earlier. In contrast, existing home sales were 11.5 percent higher and existing home prices were unchanged from a year earlier.

13. **Debt levels remain high.** Total household debt equaled 122.5 percent of after-tax income in the fourth quarter of 2009. This is down from a record high of 130.1 percent in the first quarter of 2008, but still higher than at any point before the third quarter of 2005. SEE FIGURE 3

FIGURE 3

Household debt relative to personal disposable income (percent of PDI), 1952 to 2009



Calculations based on Board of Governors, Federal Reserve, 2009, Flow of Funds Accounts of the United States, Washington, D.C.: BOG

14. **Mortgage troubles stay high.** One in seven mortgages is delinquent or in foreclosure. The share of mortgages that were delinquent was 9.5 percent in the fourth quarter of 2009, and the share of mortgages that were in foreclosure was 4.6 percent.

15. **Families feel the pressure.** Credit card defaults rose to 9.5 percent of all credit card debt by the fourth quarter of 2009—an increase of 126.2 percent from the fourth quarter of 2007.