



Economic Snapshot for April 2010

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The economic recovery is beginning to take shape. Growth returned in the second half of 2009, in large part because the American Recovery and Reinvestment Act helped fill the hole in the private sector left by the recession. Nonfinancial corporate profits have risen handsomely 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 at least in part for investments and hiring. And the job market is inching toward positive growth with employment growing faster than the population for the past two months.

This is just the start of a long process. The economy and the labor market need to expand swiftly and for a long period of time to recover the losses of the largest recession since the Great Depression. 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, financial regulation, and energy reform. Prices for health insurance and energy and business credit will become more predictable and thus more manageable, enticing more business investments. Companies have the money to help the economy. They just need stronger incentives to spend it on hiring and investment.

1. **The U.S. economy has turned the corner.** Gross domestic product grew at an annual rate of 5.6 percent in the fourth quarter of 2009, the largest gain since the third quarter of 2003. The American Recovery and Reinvestment 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 76.8 percent, of the fourth-quarter growth. The stimulus thus helped boost private business spending at the end of 2009. **SEE FIGURE 1**

2. **The labor market is improving.** The U.S. economy gained 162,000 jobs in March 2010, 123,000 of which were created in the private sector—the largest jobs gain since March 2007. The labor market still has 8.2 million fewer jobs than it had at the start at the recession in December 2007. **SEE FIGURE 1**

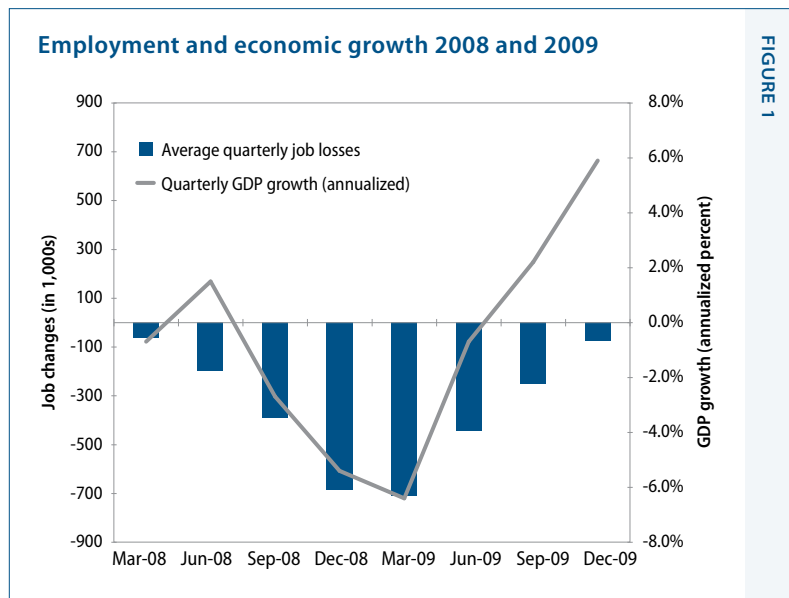
3. **Unemployment is still high among the most vulnerable.** The unemployment rate remained steady at 9.7 percent in March 2010. The African-American unemployment rate that month stood at 16.5 percent, the Hispanic unemployment rate at 12.6 percent, and the unemployment rate for whites at 8.8 percent. Youth unemployment stood at a high 26.1 percent. And the unemployment rate for people without a high school diploma stayed at 14.5 percent, compared to 10.8 percent for those with a high school degree and 4.9 percent for those with a college degree.

4. **The unemployed are out of a job for long periods.** In March 2010, 6.5 million people had been looking for a job for 27 weeks or more. The average length of unemployment that month was 31.2 weeks, and 44.1 percent of the unemployed were out of a job for 27 weeks or more. This is a new record for long-term unemployment. The highest percent of long-term unemployment prior to March 2010 was in January 2010, when 41.2 percent of unemployed people were unemployed for 27 weeks or more.

5. **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. 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.

6. **Family incomes dropped sharply in the recession.** Median inflation-adjusted family income fell by \$1,860 to \$50,303 in 2008 from \$52,163 in 2007 (in 2008 dollars). 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.

7. **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 chil-



dren 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.

8. **Family wealth begins to recover.** Total family wealth increased by \$4.9 trillion, or 9.9 percent, in 2009 dollars from its lowest point in December 2008 to December 2009, largely as a result of higher stock prices. Household wealth was still \$15.0 trillion below the level of June 2007—the last peak of family wealth.
9. **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 December 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.
10. **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**
11. **Home sales show a mixed picture.** New home sales in February 2010 amounted to an annualized, seasonally adjusted rate of 308,000—13.0 percent lower than a year earlier. And median new home prices were 5.2 percent higher than a year earlier. In contrast, existing home sales

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

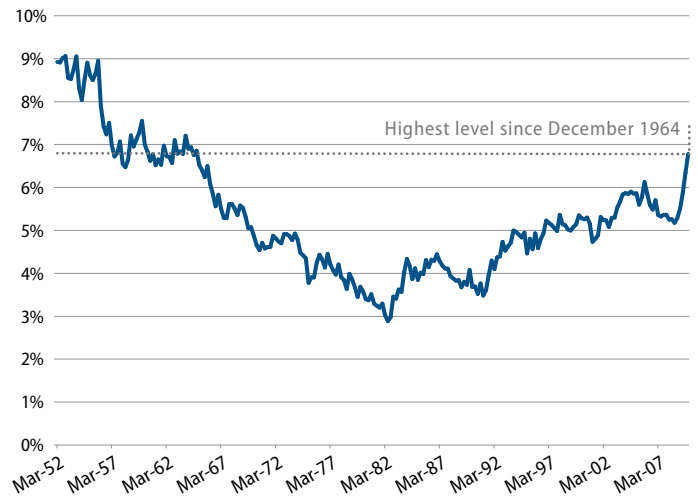


FIGURE 2

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

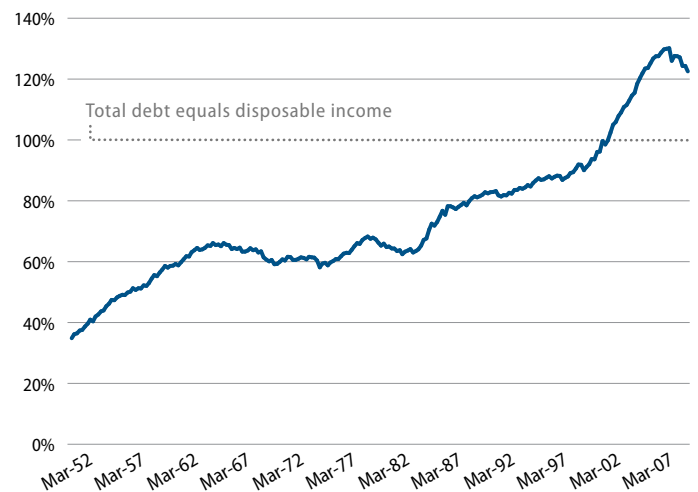


FIGURE 3

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

were 7.0 percent higher and existing home prices were 1.8 percent lower than a year earlier in February 2010.

12. **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**
13. **Mortgage troubles stay high.** One in seven mortgages was 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.
14. **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.