Economic Snapshot for May 2010

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The economic recovery that has been under way since the middle of 2009 is gaining momentum. The labor market is finally adding jobs at an accelerating pace. The economy has now added jobs for four straight months, with April's job gains being the largest since March 2006.

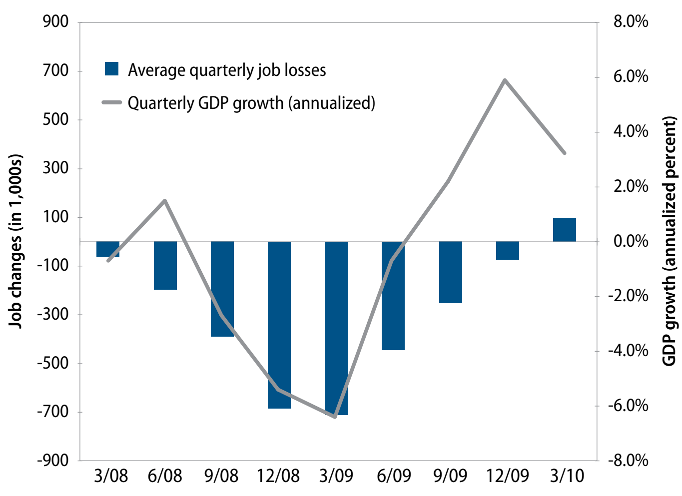
There are a number of trouble spots, though, that require policy attention to ensure a strong and durable recovery for years to come. The U.S. trade deficit is growing again because imports are increasing faster than exports, thereby reducing current economic growth. Also, state and local governments are struggling with their troubled finances, laying off workers and thus weakening the accelerating jobs growth. And jobs and wage growth will have to continue to allow families to reduce their still large debt burdens while also increasing their consumption.

1. **The U.S. economy has turned the corner.** Gross domestic product grew at an annual rate of 3.2 percent in the first quarter of 2010—the third quarter of increasing economic activity in a row. 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 three-quarters or 75.0 percent of the first-quarter growth. The initial policy intervention in the economy thus helped boost private business spending into 2010. SEE FIGURE 1

2. **The trade deficit rises again.** The U.S. trade deficit stood at 3.5 percent of GDP in the first quarter of 2010 up from its latest trough of 2.4

FIGURE 1

Employment during the recession



percent of GDP in the second quarter of 2009. U.S. exports are still rising, but U.S. imports, especially for industrial supplies and capital goods, are growing even faster.

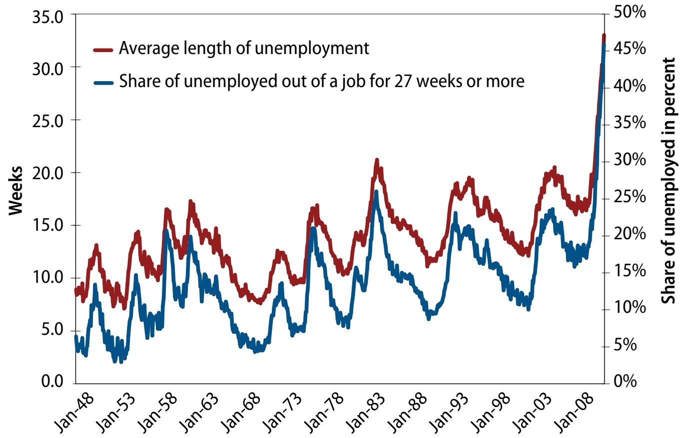
3. **The labor market recovery takes hold.** The U.S. economy added 290,000 jobs in April 2010 after adding 230,000 in March, 39,000 in February, and 14,000 jobs in January. Almost all sectors are now contributing to job growth, except for state and local governments, where employment fell by 6,000 in April. The economy still has 7.8 million fewer jobs than at the start of the recession in December 2007.

4. **Unemployment stays high among the most vulnerable.** The unemployment rate was 9.9 percent in April 2010. The African-American unemployment rate that month stood at 16.5 percent, the Hispanic unemployment rate at 12.5 percent, and the unemployment rate for whites at 9.0 percent. Youth unemployment stood at a high 25.4 percent, and the unemployment rate for people without a high school diploma stayed high at 14.7 percent compared to 10.6 percent for those with a high school degree and 4.9 percent for those with a college degree.

5. **The unemployed are out of a job for long periods.** In April 2010, 6.7 million people were looking for a job for 27 weeks or more. The average length of unemployment that month was 33.0 weeks and 45.9 percent of the unemployed were out of a job for 27 weeks or more. This is the highest long-term unemployment on record since 1967. SEE FIGURE 2

FIGURE 2

Long-term unemployment



6. **Employer-provided benefits continue to disappear.** The share of private sector workers with a pension dropped from 50.3 percent in 2000 to 45.1percent 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 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.

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 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, though they are still far from the peaks of the last boom.

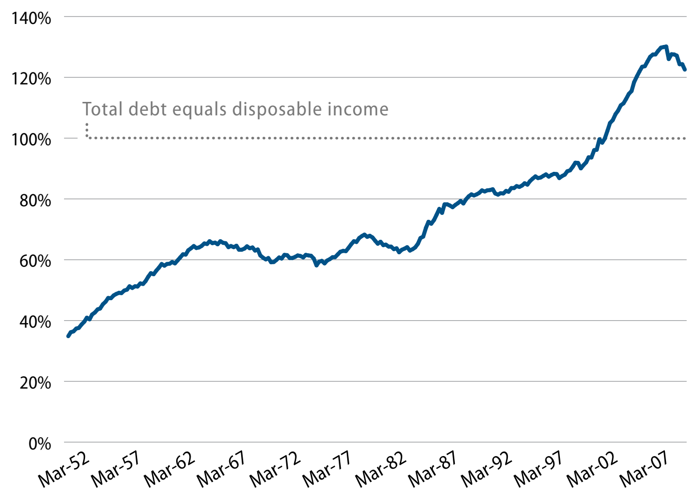
10. **Family wealth begins to recover.** Total family wealth increased by $5.7 trillion, or 11.7 percent in 2009 dollars from March 2009—the lowest point—to September 2009, largely as a result of higher stock prices. Household wealth was still $11.8 trillion below the level of June 2007—the last peak of family wealth.

11. **Home sales gain.** New home sales in March 2010 amounted to an annualized, seasonally adjusted rate of 411,000—23.8 percent higher than a year earlier—and median new home prices were 4.3 percent higher than a year earlier. Existing home sales were 16.1 percent higher and existing home prices were up 0.4 percent from a year earlier. It remains to be seen if the housing market growth will continue since homebuyer tax incentives expired in April.

12. **Debt levels are still 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 it is 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

13. **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.

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.