Center for American Progress

Economic Snapshot for August 2010

Christian E. Weller on the State of the Economy

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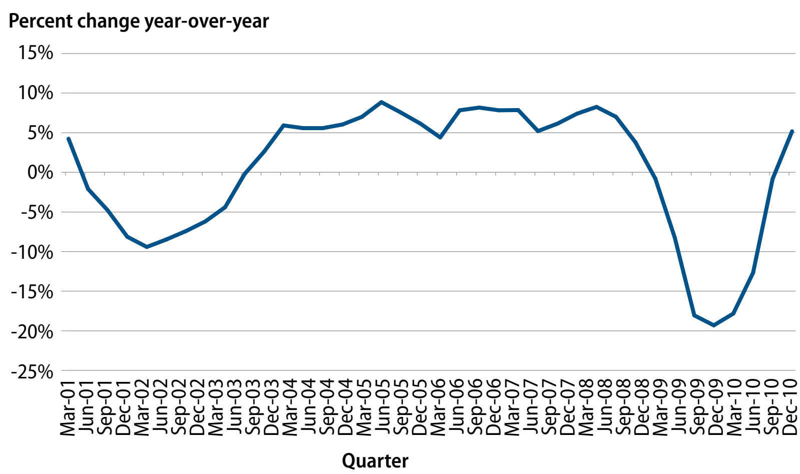
The private sector is on the road to recovery. Investment, production, and hiring are all up for 2010 after large losses in 2009. This turnaround would not have been possible without strong policy interventions in 2009. Yet private-sector momentum is in danger of substantially slowing due to continued large household debt, rising U.S. trade deficits, and weaknesses in state and local government finances.

1. **The U.S. economy has turned the corner.** Gross domestic product grew at an annual rate of 2.4 percent in the second quarter of 2010, the fourth quarter in a row with expanding economic activity. The American Recovery and Reinvestment Act provided additional income to consumers and businesses, which led to more business investments. Increased business investment in inventory stockpiles, commercial construction, and in equipment such as computers and software, was large enough to explain all of the second quarter growth and compensate slightly for the widened U.S. trade deficit.
   SEE FIGURE 1

2. **The trade deficit rises again.** The U.S. trade deficit stood at 3.6 percent of GDP in the second quarter of 2010, up from its latest trough of 2.4 percent of GDP in the second quarter of 2009. U.S. exports are still rising, but U.S. imports are growing even faster, especially for industrial supplies and capital goods.

FIGURE 1

Year-over-year growth of real business investment, 2001 to 2010



3. **The labor market recovery takes hold.** The U.S. economy added a total of 630,000 private-sector jobs in the first seven months of 2010. But state and local governments had 212,000 fewer jobs in July 2010 than in July 2009. This is a problem since the economy still has 7.7 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 9.5 percent in July 2010. The African-American unemployment rate that month stood at 15.6 percent, the Hispanic unemployment rate at 12.1 percent, and the unemployment rate for whites at 8.6 percent. Youth unemployment stood at a high 26.1 percent. And the unemployment rate for people without a high school diploma stayed high at 13.8 percent, compared to 10.1 percent for those with a high school degree and 4.5 percent for those with a college degree.

5. **The unemployed are out of a job for long periods.** In July 2010, 6.6 million people had been looking for a job for 27 weeks or more. The average length of unemployment that month was a comparatively high 34.2 weeks, and 44.9 percent of the unemployed were out of a job for 27 weeks or more.

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 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.

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. **Corporate profits soar.** Profits in the nonfinancial corporate sector rose in inflation-adjusted terms by 70.3 percent before taxes and 73.5 percent after taxes from December 2008 to March 2010. Corporate nonfinancial inflation-adjusted profits in December 2009 were higher than at any point before 2005, although they are still far from the peaks of the last boom.

10. Family wealth begins to recover. Total family wealth increased by $5.3 trillion, or 10.8 percent in 2010 dollars, from its lowest point in March 2009 to March 2010, largely as a result of higher stock prices. Home values rose by only $177 billion, or 1.1 percent, during the same period. Household wealth was still $14.8 trillion below the level of June 2007—the last peak of family wealth.

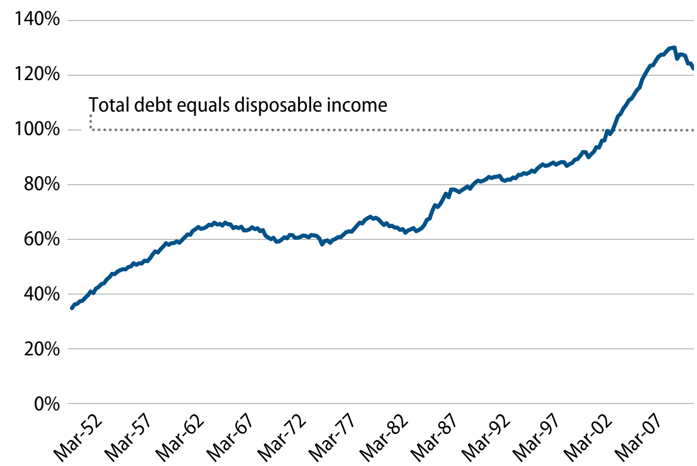
11. Debt levels are still high. Total household debt equaled 121.7 percent of after-tax income in the first quarter of 2010. This is down from a record high of 130.7 percent in the first quarter of 2008, but still higher than at any point before the second quarter of 2005. SEE FIGURE 2

12. Mortgage troubles remain. One in seven mortgages is delinquent or in foreclosure. The share of mortgages that were delinquent in the first quarter of 2010 was 10.1 percent, and the share of mortgages that were in foreclosure was 4.6 percent.
SEE FIGURE 3

13. Families feel the pressure. Credit card defaults rose to 10.0 percent of all credit card debt by the first quarter of 2010—an increase of 137.4 percent from the fourth quarter of 2007.

FIGURE 2

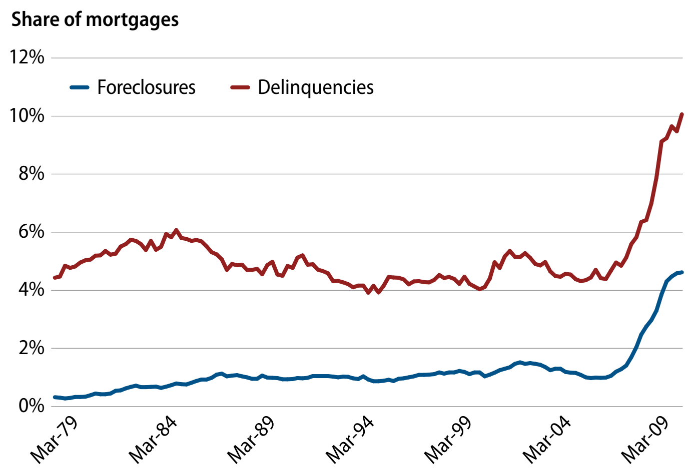
Household debt relative to personal disposable income (percent of PDI), 1952 to 2009



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

FIGURE 3

Share of mortgages that are delinquent or in foreclosure



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