Center for American Progress

Economic Snapshot for October 2010

Christian E. Weller on the State of the Economy

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October 29, 2010

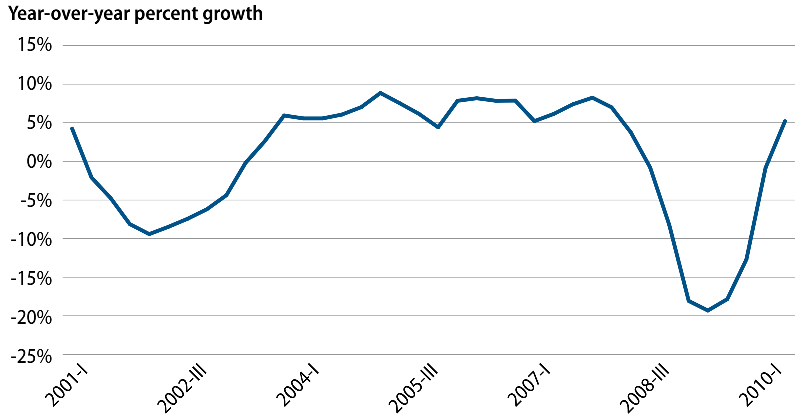
Private businesses are profitable and increasing their investments and hiring, but they aren't hiring fast enough to reduce the high unemployment rate. American families thus continue to struggle with the lack of jobs and massive debt burdens.

Policy needs to intervene to create more and well-paying jobs quickly so that businesses see more customers and American families can finally shake the economic burdens left over from this severe crisis. Public policy can accomplish this by stemming the tide of public-sector job losses among teachers, firefighters, and police officers, among others; promoting demand for U.S. exports; and pushing banks to help families who still struggle with massive amounts of outstanding debt.

1. **The U.S. economy is recovering.** Gross domestic product, or GDP, grew at an annual rate of 1.7 percent in the second quarter of 2010, the fourth consecutive quarter with expanding economic activity. The American Recovery and Reinvestment Act provided additional income to consumers and businesses, which led to more business investments. Changes in business investment in inventory stockpiles, commercial construction, and equipment such as computers and software was large enough to explain all of the second quarter growth and compensate slightly for the adverse growth effect of the U.S. trade deficit. SEE FIGURE 1

FIGURE 1

Investment growth, year over year, 2001 to 2010



2. **The trade deficit rises again.** The U.S. trade deficit stood at 3.7 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, capital goods, and petroleum imports.

3. **The labor market recovery takes hold.** The U.S. economy continuously added private-sector jobs for the first nine months of 2010 for a total of 863,000 jobs. But state and local governments lost 269,000 jobs during the same nine months. This causes a problem since the economy still has 7.8 million fewer jobs in September 2010 than at the start of the recession in December 2007.

4. **Unemployment stays high among the most vulnerable.** The unemployment rate was 9.6 percent in September 2010. The African-American unemployment rate that month stood at 16.1 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 26.0 percent. And the unemployment rate for people without a high school diploma stayed high at 15.4 percent, compared to 10.0 percent for those with a high school degree and 4.4 percent for those with a college degree.

5. **Employer-provided health insurance benefits continue to disappear.** The share of people with employer-provided health insurance dropped from 64.2 percent in 2000 to 55.8 percent in 2009. This is the lowest share since 1987 when the Census started to track these data.

6. **Family incomes drop sharply in the recession.** Median inflation-adjusted household income fell 3.6 percent in 2008 and by another 0.7 percent in 2009. It stood at $49,777 in 2009, its lowest level in inflation-adjusted dollars since 1997. White family income stood at $54,461, compared to African-American family income, which was $32,584, or 59.8 percent of white income. Hispanic family income was $38,039 in 2009, or 69.8 percent of white income.

7. **Poverty continues to rise.** The poverty rate stood at 14.3 percent in 2009—its highest rate since 1994. The African-American poverty rate was 25.8 percent, the Hispanic rate was 25.3 percent, and the white rate was 9.4 percent in 2009. The poverty rate for children under the age of 18 stood at 20.7 percent. More than one-third of African-American children (35.7 percent) lived in poverty in 2009, compared to 11.9 percent of white children and 33.1 percent of Hispanic children.

8. **Corporate profits soar.** Profits in the nonfinancial corporate sector rose in inflation-adjusted terms by 124.3 percent before taxes and 127.5 percent after taxes from December 2008 to June 2010. Corporate nonfinancial inflation-adjusted profits in

December 2009 were thus at their highest point since December 2007, when the recession started.

9. **Family wealth losses linger.** Total family wealth was $15.8 trillion below its peak in June 2007 even though it increased by $5.3 trillion in 2010 dollars from March 2009—the lowest point during the recession—to June 2010, largely as a result of higher stock prices. Home equity is also recovering, but homeowners on average still own only 40.7 percent of their homes, with the rest owed to mortgage banks.

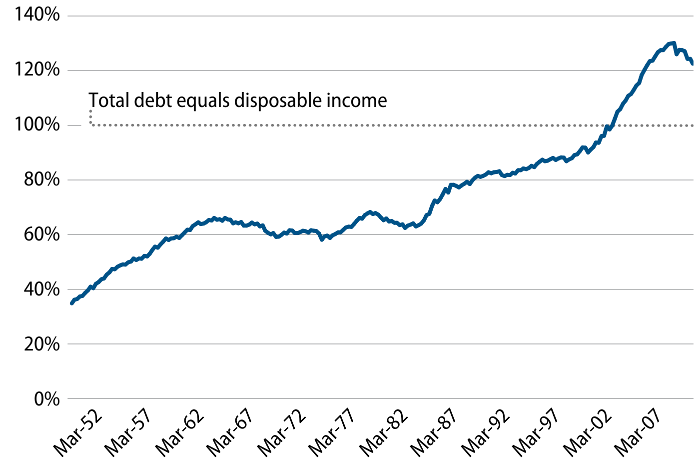
10. **Debt levels are still high.** Total household debt equaled 118.4 percent of after-tax income in the second quarter of 2010. This is down from a record high of 130.2 percent in the first quarter of 2008, but still higher than at any point before the second quarter of 2005. SEE FIGURE 2

11. **Mortgage troubles stay high.** One in seven mortgages is delinquent or in foreclosure. The share of mortgages that were delinquent was 9.9 percent in the second quarter of 2010, and the share of mortgages that were in foreclosure was 4.6 percent. SEE FIGURE 3

12. **Families feel the pressure.** Credit card defaults rose to 10.7 percent of all credit card debt by the second quarter of 2010—an increase of 155.4 percent from the fourth quarter of 2007.

FIGURE 2

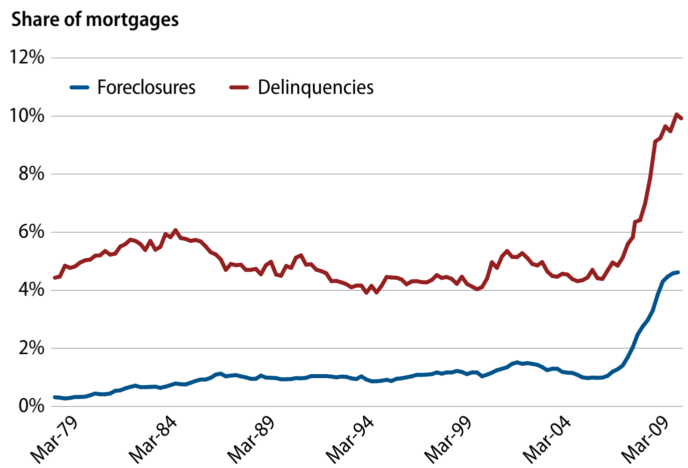
Household debt relative to personal disposable income (percent of PDI), 1952 to 2009



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.