



Economic Snapshot for November 2010

Christian E. Weller on the State of the Economy

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

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The private sector maintains its momentum in the recovery but that momentum is too little to overcome other formidable obstacles. The result is that economic growth is subdued and job creation stays sluggish. The unemployment rate is therefore still high and families are experiencing massive financial distress as foreclosures and credit defaults hover near record highs.

Building a stronger, self-sustaining recovery should remain a top policy priority. American families will have to do more with less if policymakers fail to build on the successes of recent policy interventions such as the American Recovery and Reinvestment Act. Help for struggling states to stem 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 should be high on the agenda.

1. The U.S. economy is recovering.

Gross domestic product, or GDP, grew at an annual rate of 2.5 percent in the third quarter of 2010, the fifth quarter of positive growth in a row. Much of this growth would not have happened without the American Recovery and Reinvestment Act. It 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 were large enough to explain 90.4 percent of the third quarter growth. **SEE FIGURE 1**

Investment growth, year over year, 2001 to 2010

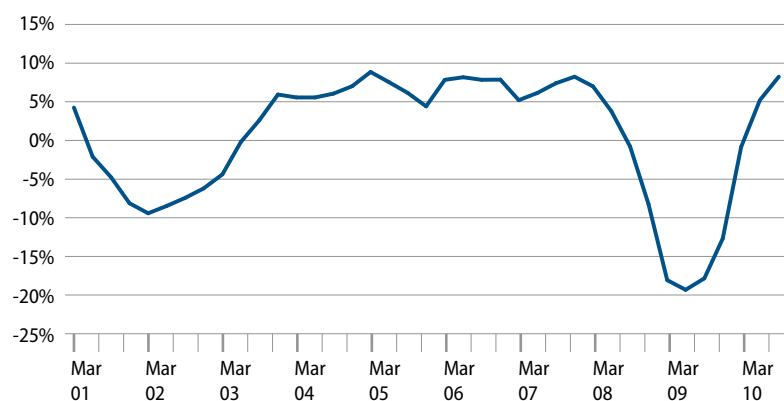


FIGURE 1

2. The trade deficit rises again. The U.S. trade deficit stood at 3.7 percent of GDP in the third 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, especially for industrial supplies, capital goods, and petroleum imports, are growing more than twice as fast.

3. The labor market recovery takes hold. The U.S. economy continuously added private-sector jobs for the first 10 months of 2010 for a total of 1.1 million jobs, compensating for government job losses. State and local governments lost 260,000 jobs during the same 10 months. Total job growth for 2010 through October thus amounted to 874,000 jobs. This causes a problem since the economy still has 7.5 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 October 2010. The African-American unemployment rate that month stood at 15.7 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 27.1 percent. And the unemployment rate for people without a high school diploma stayed high at 15.3 percent, compared to 10.1 percent for those with a high school degree and 4.7 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.

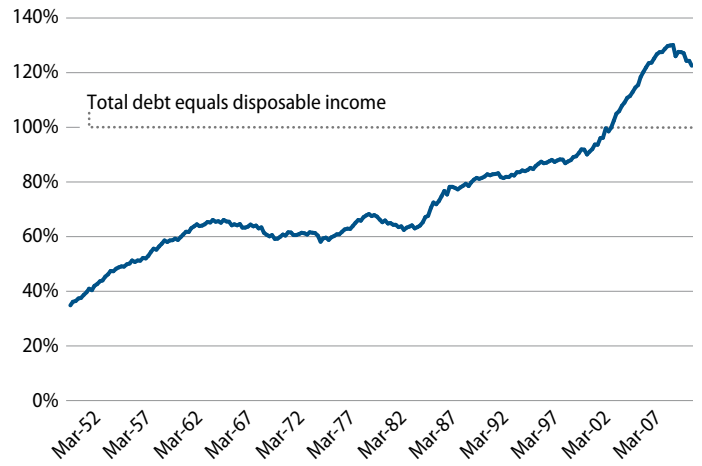
SEE FIGURE 2

11. Mortgage troubles stay high. One in seven mortgages is delinquent or in foreclosure. The share of mortgages that were delinquent was 9.1 percent in the third quarter of 2010, and the share of mortgages that were in foreclosure was 4.4 percent. SEE FIGURE 3

12. Families feel the pressure. Credit card defaults stayed high with 8.4 percent of all credit card debt by the third quarter of 2010—still up 93.3 percent from the fourth quarter of 2007.

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

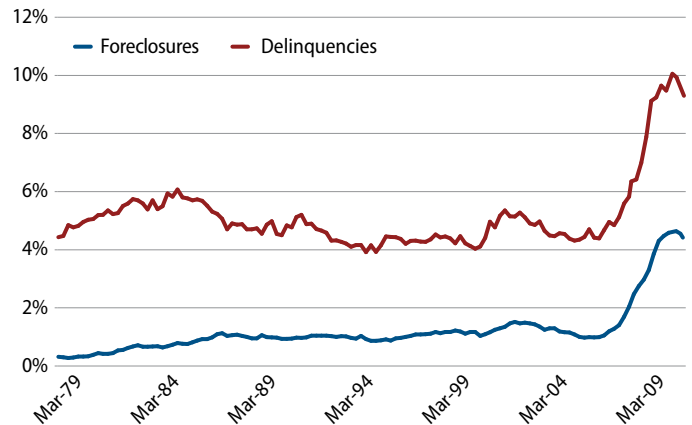
FIGURE 2



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

Share of mortgages that are delinquent or in foreclosure

FIGURE 3



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