Center for American Progress

Economic Snapshot for January 2011

Christian E. Weller on the State of the Economy

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January 31, 2011

American families continue to consolidate their finances. Household debt is declining and the housing market is no longer deteriorating, while credit card defaults and foreclosures stay stable at very high levels. Other parts of the economy are expanding. Economic growth is positive yet moderate, business investment is slowly expanding, and U.S. exports are performing well.

The combination of household consolidation and moderate expansion elsewhere, though, translates into a comparatively weak labor market and continued economic pain for millions of American families.

The challenge is clear. Policymakers have to focus on jobs, especially for groups seeing extraordinarily high unemployment such as communities of color, young job entrants, and people with little educational attainment.

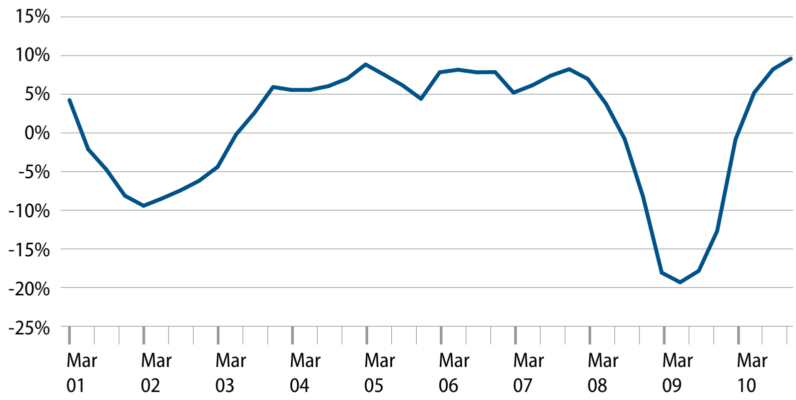
Policies should be aimed at creating good jobs that offer stable career opportunities, solid wages, and basic benefits. These jobs will make it easier for families to dig out from under their mountain of debt. More good jobs will especially help communities of color, where the lack of good jobs in the past has translated into greater economic insecurity.

Policymakers need to build on the successes of past initiatives, such as the American Recovery and Reinvestment Act, to turn the labor market around. Additional steps include more investment in infrastructure, education, and training, and promising industries that will be able to offer strong career opportunities in the future.

1. **The U.S. economy continues a moderate recovery.** Gross domestic product, or GDP, grew at an annual rate of 3.2 percent in the fourth quarter of 2010, the sixth quarter of positive growth in a row. Much of this growth was due to the intervention of the American Recovery and Reinvestment Act of 2009. ARRA provided additional income to consumers and businesses, which led to more business investments. SEE FIGURE 1

FIGURE 1

Investment growth, year over year, 2001 to 2011



2. **The trade deficit finally narrows.** Exports grew by 8.5 percent in the fourth quarter and imports declined by 13.6 percent at the same time, the first import drop in six quarters.

3. **The labor market recovery slowly takes hold.** The U.S. economy continuously added private-sector jobs for all of 2010 for a total of 1.3 million jobs, which compensated for government job losses. State and local governments lost 250,000 jobs over the course of the year. All told, job growth for 2010 through December amounted to 1.1 million. Unfortunately, the economy still has 7.2 million fewer jobs in December 2010 than at the start of the recession in December 2007, and the population has also grown since then, putting the labor market deeper into the hole.

4. **Unemployment stays high among the most vulnerable.** The unemployment rate was 9.4 percent in December 2010. The African-American unemployment rate that month stood at 15.8 percent, the Hispanic unemployment rate at 13 percent, and the unemployment rate for whites at 8.5 percent. Youth unemployment stood at a high 25.4 percent. And the unemployment rate for people without a high school diploma stayed high with 15.3 percent, compared to 9.8 percent for those with a high school degree and 4.8 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, which is 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.

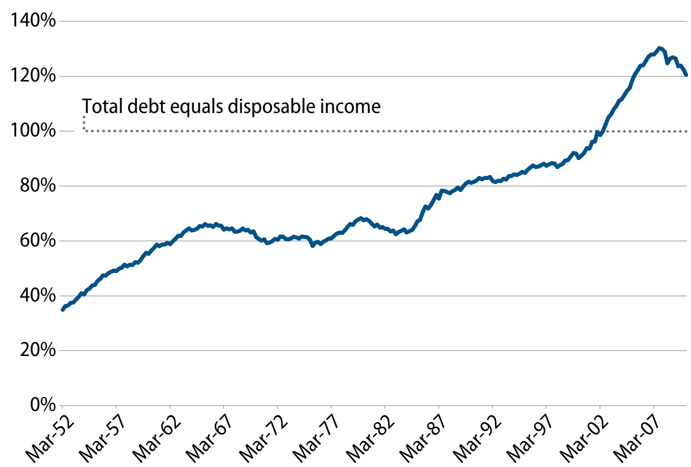
8. **Corporate profits soar.** Profits in the nonfinancial corporate sector rose in inflation-adjusted terms by 92 percent before taxes and 93.3 percent after taxes from December 2008 to September 2010. These profits in September 2010 were thus at their highest point since at least September 2007, before the recession started.

9. **Family wealth losses linger.** Total family wealth was down $14.6 trillion from June 2007—its last peak—to September 2010 despite an increase of $4.7 trillion in 2010 dollars from March 2009—the lowest point during the recession—to September 2010. Home equity is also recovering, but homeowners on average still own only 38.3 percent of their homes, with the rest owed to mortgage banks.

10. **Debt levels are still high.** Total household debt equaled 117.6 percent of after-tax income in the third quarter of 2010. This is down from a record high of 130.2 percent in the third quarter of 2007, but still higher than at any point before 2005. SEE FIGURE 2

FIGURE 2

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



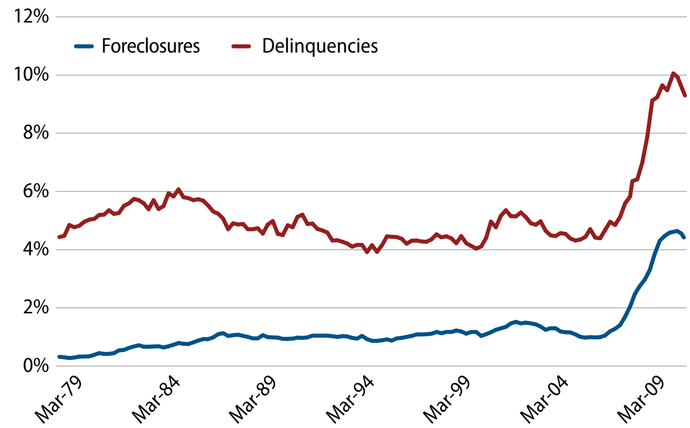
Calculations based on Board of Governors, Federal Reserve, 2009, Flow of Funds Accounts of the United States, Washington, D.C.: BOG

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.

12. **Families feel the pressure.** Credit card defaults amounted to a high 8.4 percent of all credit card debt by the third quarter of 2010—up 93.3 percent from the fourth quarter of 2007. SEE FIGURE 3

FIGURE 3

Share of mortgages that are delinquent or in foreclosure



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