Center for American Progress

Economic Snapshot for May 2011

Christian E. Weller on the State of the Economy

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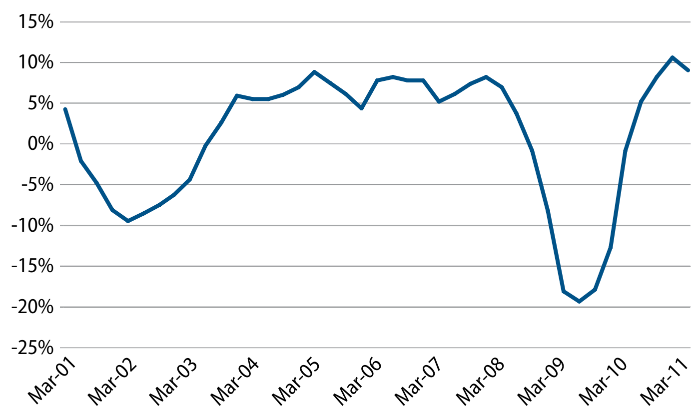
The debate over federal budget priorities has kept its momentum as Republicans are threatening not to raise the federal debt ceiling unless programs are aggressively cut back. Keeping the debt ceiling in place could lower growth and jeopardize job creation, while severe spending cuts could substantially reduce middle-class economic security. American families are only now starting to see a modest labor market recovery strengthening. The unemployment rate is dropping, household debt continues to decline, and financial distress shows signs of easing. These tentative gains could quickly evaporate if growth, job creation, and income gains slowed.

Policymakers have to secure the gains of the recovery while strengthening America's middle class. This means maintaining consumption and investment growth in the short run and addressing trade and budget deficits in the medium term. The current budget negotiations thus need to find a growth-enhancing balance between spending and revenue changes that do not unduly burden middle-class families who have already suffered a lot from the economic fallout of the Great Recession.

FIGURE 1

Investment growth, year over year, 2001 to 2011



1. **The U.S. economy continues a moderate recovery.** Gross domestic product, or GDP, grew at an annual rate of 1.8 percent in the first quarter of 2011, the seventh quarter of positive growth in a row. Consumption grew

at an annual rate of 2.7 percent, and year-over-year business investment growth was 9 percent in the first quarter of 2011.[1] Both consumption and investment slowed from their growth rates at the end of 2010 as the economy struggled with higher oil prices. SEE FIGURE 1

2. **The trade deficit stays high.** The U.S. trade deficit stood at 3.8 percent of GDP in the first quarter of 2011, up from its last trough of 2.4 percent of GDP in the second quarter of 2009—the largest deficit since the end of 2008. U.S. export growth slowed to 4.9 percent in the first quarter of 2011, down from 8.6 percent, and U.S. import growth accelerated to 4.4 percent, up from -12.6 percent in the fourth quarter of 2010.[2]

3. **The labor market recovery slowly takes hold in the private sector.** The U.S. economy continuously added private-sector jobs from February 2010 to April 2011 for a total of 2.1 million jobs. This included 268,000 new jobs in April 2011.[3]

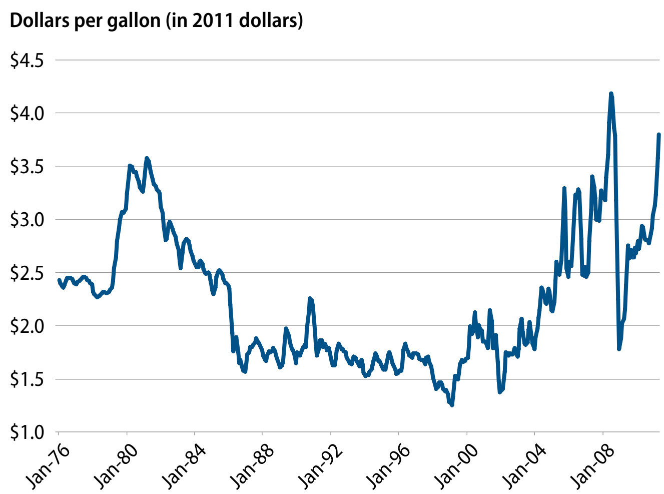
4. **Unemployment stays high because of a massive jobs hole.** There were still 7 million fewer jobs in April 2011 than at the start of the recession in December 2007 and the population has also grown since then, putting the labor market deeper into the hole than the raw number suggests. The unemployment rate has hence remained stubbornly high at 9 percent in April 2011.[4]

5. **Unemployment stays high among the most vulnerable.** The African American unemployment rate in April 2011 rose to 16.1 percent, the Hispanic unemployment rate to 11.8 percent, and the unemployment rate for whites to 8 percent. Youth unemployment stood at a high 24.9 percent. And the unemployment rate for people without a high school diploma climbed to 14.6 percent, compared to 9.7 percent for those with a high school diploma and 4.5 percent for those with a college degree.[5]

6. **Rapidly rising oil prices threaten a fledgling recovery.** A gallon of regular gasoline cost at least $3.96 through the first three weeks of May 2011. This is the highest gasoline price since July 2008.[6] SEE FIGURE 2

FIGURE 2

Inflation-adjusted gasoline prices for a gallon of regulargasoline, 1976 to 2011



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

7. **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.[7]

8. **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.[8]

9. **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.[9]

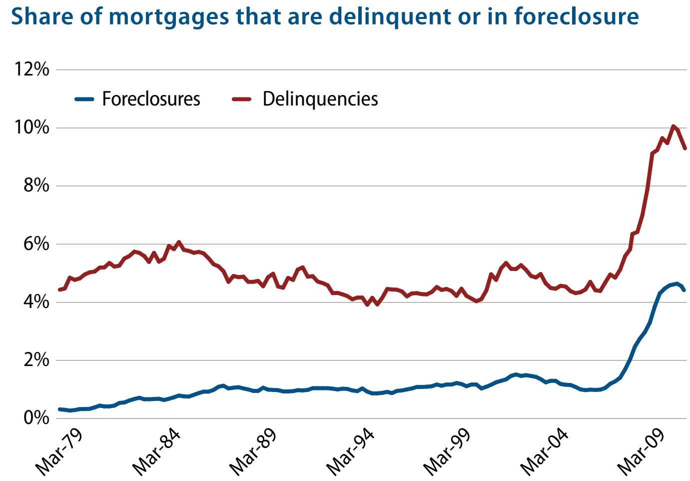
10. **Family wealth losses linger.** Total family wealth was down $12.8 trillion (in 2010 dollars) from June 2007—its last peak—to December 2010, despite an increase of $6.6 trillion in 2010 dollars from March 2009—the lowest point during the recession. Home equity is also recovering but homeowners on average still own only 38.5 percent of their homes, with the rest owed to mortgage banks.[10]

11. **Debt levels are still high.** Total household debt equaled 116.1 percent of after-tax income in December 2010. This is down from a record high of 130.2 percent in September 2007 but still higher than at any point before 2005.[11]

12. **Mortgage troubles stay high.** One in eight mortgages is delinquent or in foreclosure. The share of mortgages that were delinquent was 8.2 percent in the fourth quarter of 2010, and the share of mortgages that were in foreclosure was 4.6 percent—the highest share on the Mortgage Bankers Association's records, which date back to 1979.[12]

13. Families feel the pressure. Credit card defaults amounted to a high 7.7 percent of all credit card debt by the fourth quarter of 2010—down 29.4 percent from its peak in the second quarter of 2010 but still 85.5 percent above the rate in the fourth quarter of 2007, just before the Great Recession started.[13] SEE FIGURE 3

FIGURE 3



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

Endnotes

1 All GDP data are from: Bureau of Economic Analysis, *National Income and Product Accounts*, (Department of Commerce, 2011). Investment growth is expressed as year-over-year change, rather than the most recent quarterly change by itself, as quarterly investment data can be more volatile than consumption data.

2 Trade deficit as share of GDP are calculated as share of net exports out of nominal GDP, based on: Bureau of Economic Analysis, *National Income and Product Accounts.*

3 Employment growth data are calculated based on: Bureau of Labor Statistics, *Current Employment Statistics* (Department of Labor, 2011). The Current Employment Statistics are also known as the payroll survey.

4 Unemployment numbers are taken from: Bureau of Labor Statistics, *Current Population Survey* (Department of Labor, 2011). The Current Population Survey is also known as the household survey.

5 Unemployment rates by demographic characteristics are taken from: Bureau of Labor Statistics, *Current Population Survey*.

6 Gasoline prices are taken from: Energy Information Administration, *Petroleum Prices* (Department of Energy, 2010). Prices refer to the average for regular gasoline since it offers the longest period for time comparisons.

7 Data for health insurance are from: Bureau of the Census, *Income, Poverty, and Health Insurance Coverage in the United States: 2009* (Department of Commerce, 2010). This report is occasionally referred to as the poverty report.

8 Data for family incomes are from: Bureau of the Census, *Income, Poverty, and Health Insurance Coverage in the United States: 2009.*

9 Data for poverty rates are from: Bureau of the Census, *Income, Poverty, and Health Insurance Coverage in the United States: 2009.*

10 Wealth calculations are based on: "Federal Reserve Statistical Release Z.1 - Flow of Funds Accounts of the United States," available at http://www.federalreserve.gov/releases/z1/. Real wealth is the nominal wealth deflated by the price index for the Personal Consumption Expenditure index. The Personal Consumption Expenditure index is from: Bureau of Economic Analysis, *National Income and Product Accounts*.

11 Debt calculations are based on: "Federal Reserve Statistical Release Z.1." Debt levels are the ratio of the nominal debt levels divided by the nominal disposable personal income. Debt refers to total credit instruments.

12 Data are taken from: Mortgage Bankers Association, "National Delinquency Survey" (2011).

13 Data are taken from: "Charge-Off and Delinquency Rates on Loans and Leases at Commercial Banks," available at http://www.federalreserve.gov/releases/chargeoff/. The charge-off rates reported here are the seasonally adjusted rates for all banks.