



Economic Snapshot for August 2011

Christian E. Weller on the State of the Economy

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Economic policy discussions remain front and center. Policymakers need to strengthen the weak recovery so that faster employment gains will become large enough to substantially lower the unemployment rate. Policy also needs to lay the foundation for stronger long-term growth as the U.S. economy is struggling with low business investment and comparatively weak productivity growth. At the same time, federal policymakers need to consider steps to lower the long-term fiscal deficits without impeding economic growth and job creation in the short run and long term.

Striking a balance between job growth, long-term productivity gains, and deficit reduction is a tall order but not an impossible challenge. It is, however, not a problem that lends itself to ideological rhetoric but rather requires thoughtful discussion and respectful compromise among all stakeholders. The so-called “super committee,” a congressional bipartisan 12-member team charged with finding ways to lower the federal deficit by \$1.5 trillion over the next decade by Thanksgiving, presents an opportunity to put job growth, innovation, and long-term economic prosperity at the top of the agenda in Washington.

1. Economic growth remains low. Gross domestic product, or GDP, grew at an annual rate of 1.3 percent in the second quarter of 2011—the eighth quarter of positive growth in a row. The economy expanded by 5.0 percent in inflation-adjusted terms during the first eight quarters of the recovery, which is the slowest growth in the first eight quarters of an economic recovery since World War II. Business investment expanded at a reasonable 6.3 percent and exports at 6.0 percent in the second quarter of 2011, while consumption was almost flat, expanding at only 0.1 percent, with government spending falling by 1.1 percent.¹ Economic growth is slowed in particular because of weak consumer demand as families struggle under a weak labor market and high debt levels.

2. The trade deficit stays high as imports outpace exports. The U.S. trade deficit stood at 3.9 percent of GDP in the second quarter of 2011, up from its last trough of 2.4 percent of GDP in the second quarter of 2009 and the largest deficit since the end of 2008.² The solid U.S. export performance of the past few years is not enough to overcome even larger import increases, which puts more pressure on other parts of the economy—consumption chief among them—to move the economy forward to faster growth.

3. The labor market recovery slows. The U.S. economy continuously added private-sector jobs from February 2010 to July 2011 for a total of 2.4 million jobs. Job growth slowed substantially in May, June, and July 2011, adding only 111,000 per month, down from an average of more than 240,000 jobs per month between January and April 2011. Private-sector job growth also was offset by a loss of 402,000 public-sector jobs at the state and local level between February 2010 and July 2011,³ reflecting the budget troubles of state and local governments.

SEE FIGURE 1

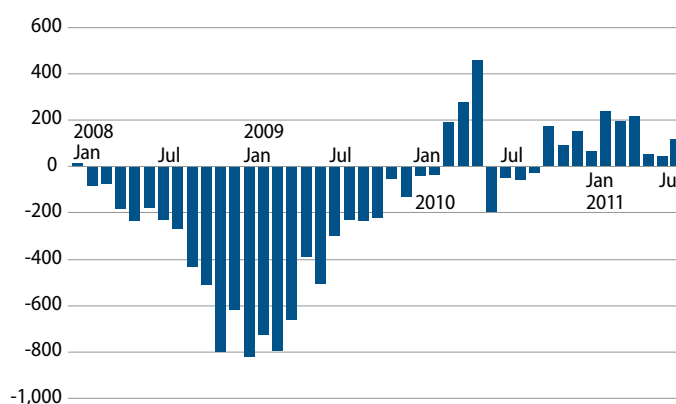
4. Unemployment stays high amid weak job growth. The unemployment rate stood at 9.1 percent in July 2011. Long-term unemployment ballooned as the unemployment rate stayed high. A little more than 44 percent of the unemployed have been out of and looking for a job for more than six months. The average length of unemployment soared to a record 40.4 weeks in July 2011.⁴

5. Labor market pressures fall especially on communities of color, young workers, and those with little education. The African American unemployment rate in July 2011 stayed well above average with a high 15.9 percent and the Hispanic unemployment rate stayed high with 11.3 percent, while the white unemployment rate was 8.1 percent. Youth unemployment stood at a high 25.0 percent. The unemployment rate for people without a high school diploma stayed high with 15.0 percent compared to 9.3 percent for those with a high school degree and 4.3 percent for those with a college degree.⁵ Vulnerable groups have struggled disproportionately amid the weak labor market of the past few years compared to white workers, older workers, and workers with more education.

FIGURE 1

Monthly job change since start of Great Recession

Jobs (in thousands)



6. Household incomes drop amid prolonged labor market weaknesses. 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.⁶

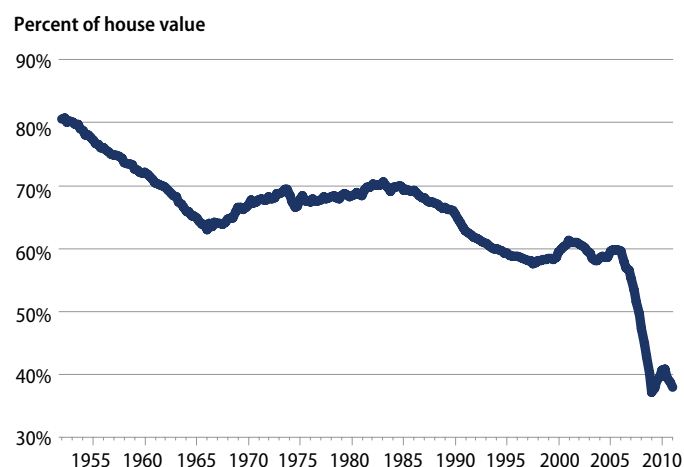
7. Poverty continues to rise as incomes drop. The poverty rate stood at 14.3 percent in 2009—its highest rate since 1994. The African American poverty rate was 25.8 percent, the Hispanic rate was 25.3 percent, and the white rate was 9.4 percent in 2009. The poverty rate for children under the age of 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.⁷

8. 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.⁸ Families' income woes are thus further exacerbated by less access to affordable health insurance since families will have to save more than in the past to prepare for eventual economic emergencies.

9. Family wealth losses linger. Total family wealth was down \$12.4 trillion (in 2011 dollars) from June 2007—its last peak—to March 2011 despite strong gains in the stock market since early 2009. Home equity stays low, such that homeowners on average still own only 38.0 percent of their homes, with the rest owed to banks.⁹ This is the lowest share on record going back to 1952. Households, already struggling with low incomes in a weak labor market, consequently feel growing pressure to save more and consume less. The personal savings rate increased from 2.3 percent of after-tax income in June 2007 to 5.1 percent in June 2011.¹⁰ The dual challenge of low income and wealth thus holds back consumption growth. [SEE FIGURE 2](#)

FIGURE 2

Home equity as share of house values



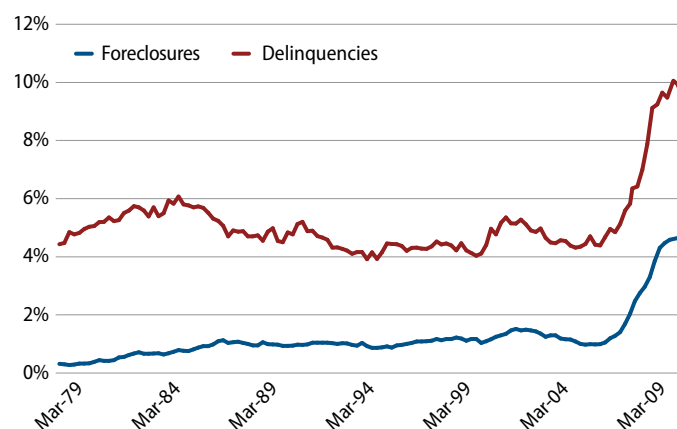
10. Households are burdened by large debt levels. Total household debt equaled 114.1 percent of after-tax income in March 2011. This is down from a record high of 130.2 percent in September 2007 but still higher than at any point before September 2004.¹¹ This unprecedented household deleveraging resulted from a combination of factors—tight lending standards, falling interest rates, and massive foreclosures—that are slowly abating, suggesting that deleveraging will also slow unless incomes rise faster than they have in the past.

11. Financial distress is widespread among families.

One in eight mortgages is delinquent or in foreclosure. The share of mortgages that were delinquent was 8.3 percent in the first quarter of 2011, and the share of mortgages that were in foreclosure was 4.5 percent at the same time.¹² What's more, credit card defaults amounted to a high 7.2 percent of all credit card debt by the first quarter of 2011—still 70.3 percent above the rate in fourth quarter of 2007 just before the Great Recession started.¹³ A weak job market coupled with massive wealth losses has pushed comparatively large shares of families into desperate situations. **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.

12. Profitable corporations prioritize cash holdings and other activities over hiring.

After-tax profits of nonfinancial corporations increased by 101.8 percent from December 2008, the most recent low point in profitability, to March 2011. Cash holdings rose to 13.1 percent of financial assets in March 2011¹⁴ in the wake of higher profits. This was the highest level since June 1984. Nonfinancial corporations have built up more cash holdings since December

2007 even as they spent more than all of their after-tax profits—117.8 percent on average—on share repurchases and dividend payouts. The weak labor market is thus not a reflection of employers not having the money to hire more workers but rather employers not wanting to hire more workers in the face of weak domestic sales and preferring to spend their money on keeping their share prices high.

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 Data for family incomes 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.
- 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).
- 8 Data for poverty rates are from: Bureau of the Census, *Income, Poverty, and Health Insurance Coverage in the United States: 2009* (Department of Commerce, 2010).
- 9 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*.
- 10 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.
- 11 Data are taken from: Mortgage Bankers Association, "National Delinquency Survey" (2011).
- 12 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.
- 13 Data are taken from the Board of Governors the Federal Reserve System, "Charge-off and Delinquency Rates on Loans and Leases at Commercial Banks" (2011). The charge-off rates reported here are the seasonally adjusted rates for all banks.
- 14 Calculations are based on the Board of Governors of the Federal Reserve System, "Release Z.1 Flow of Funds Accounts of the United States" (2011).