



Economic Snapshot for November 2011

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 economy is growing but that growth remains too weak to substantially reduce the unemployment rate. Millions of unemployed workers will have to wait for either the economy to gain some steam on its own or for policymakers to help the economy grow more quickly. The former seems unlikely, especially since consumers are still burdened by crushing debts. Consumption spending will likely stay subdued for some time.

So public policy must focus on two short-term goals.

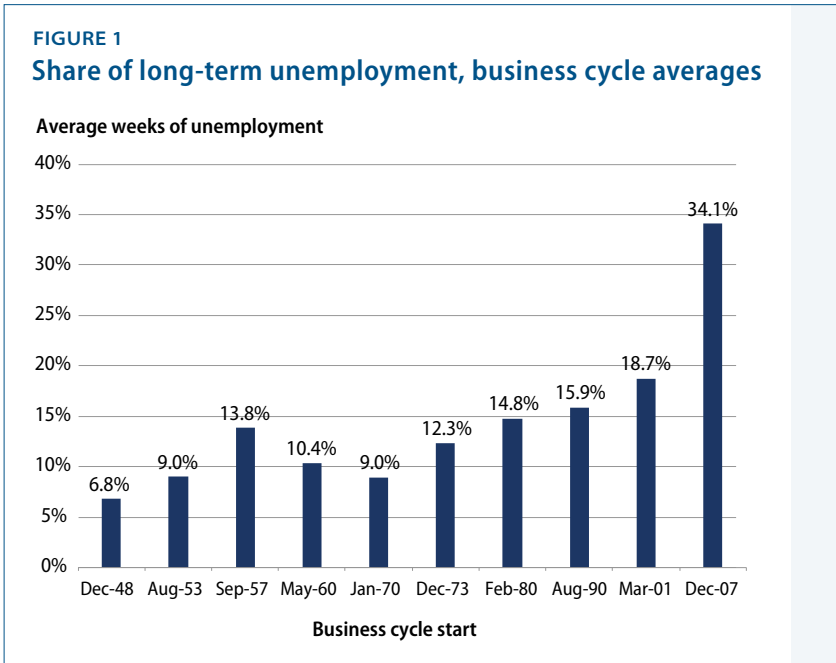
First, policymakers need to strengthen the economy by increasing infrastructure spending on schools, roads, and bridges, which creates jobs, and by extending key middle-class tax cuts, such as the temporary payroll tax cuts, for an additional year.

Second, policymakers can help millions of unemployed workers who cannot find a job by continuing extended unemployment insurance benefits.

1. **Economic growth remains low.** Gross domestic product, or GDP, grew at an annual rate of 2 percent in the third quarter of 2011. Business investment expanded at a strong 14.8 percent in the third quarter of 2011,¹ while export growth stayed slow at 4.3 percent, consumption grew only 2.3 percent, and government spending fell by 0.1 percent. Economic growth is relatively weak because of weak consumer demand due to high unemployment and a crushing debt burden of consumers. But it's also that way because of slow demand for U.S. exports in the wake of global economic turmoil, especially in Europe.

2. **The trade deficit stays high.** The U.S. trade deficit stood at 3.7 percent of GDP in the third quarter of 2011, which is slightly below the 4 percent recorded in the second quarter of 2011 but still substantially up from its last trough of 2.4 percent of GDP in the second quarter of 2009.² U.S. export growth, even when it was strong in recent years, has not been enough to overcome even larger import increases, following in part higher oil prices. This puts more pressure on other parts of the economy—consumption and business investment chief among them—to generate faster economic growth and jobs.

3. **The labor market recovery is slow.** The private sector continuously added jobs from February 2010 to October 2011 for a total of 2.8 million jobs. But private-sector job growth slowed substantially starting in May 2011 through October 2011. It averaged only 119,000 per month during that time, down from 196,000 jobs per month in the preceding five months. Private-sector job growth is further offset by job losses in state local governments, where teachers, bus drivers, firefighters, and police officers, among others, are being let go, reflecting governments’ budget troubles. A total of 435,000 state and local government jobs were lost between February 2010 and October 2011.³ In sum, private-sector job growth is too weak to improve the economic fortunes of America’s middle class, making jobs policymakers’ top priority.



4. **Unemployment stays high amid weak job growth.** The unemployment rate stood at 9 percent in October 2011. Long-term unemployment ballooned as the unemployment rate stayed high. In October 2011 42.4 percent of the unemployed were out of work and looking for a job for more than six months. The average length of unemployment stayed close to a record high with 39.4 weeks in October 2011. Millions of unemployed (5.9 million in October 2011)⁴ stand to lose their benefits if Congress does not extend unemployment insurance benefits for the long-term unemployed at the end of 2011.

5. **Labor market pressures fall especially on communities of color, young workers, and those with little education.** The African American unemployment rate in October 2011 stayed well above average with a high 15.1 percent, and the Hispanic unemployment rate stayed high with 11.4 percent, while the white unemployment rate was 8 percent. Youth unemployment stood at a very high 24.1 percent. The unemployment rate for people without a high school diploma stayed high with 13.8 percent, compared to 9.6 percent for those with a high school diploma and 4.4 percent for those with a college degree.⁵ Vulnerable groups struggle disproportionately more amid the weak labor market of the past few years than white workers, older workers, and workers with more education. But even those groups that fare better than their counterparts in the weak labor market suffer tremendously from high and long-term unemployment.

6. **Household incomes continue to plummet amid prolonged labor market weaknesses.** Median inflation-adjusted household income—half of all households have more and the other half have less—stood at \$49,445 in 2010, which is its lowest level in inflation-adjusted dollars since 1996. It fell again by 2.3 percent in 2010, an accelerated decline after median income dropped by 0.7 percent in 2009. American families saw few gains during the recovery before the crisis hit in 2008 and experienced no income gains during the current economic recovery after 2009.⁶

7. **Income inequality on the rise.** Households at the 95th percentile—incomes of \$180,810 in 2010—made more than nine times (9.04 times to be exact) the incomes of households at the 20th percentile, who made \$20,000. This is the largest gap between the top 5 percent and the bottom 20 percent of households since the U.S. Census Bureau started keeping records in 1967.⁷

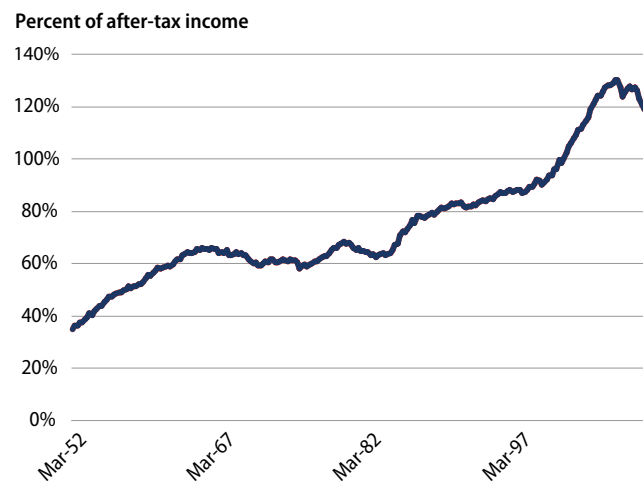
8. **Poverty continues to rise across a wide spectrum.** The nation's poverty rate rose to 15.1 percent in 2010—its highest rate since 1993. The African American poverty rate was 27.4 percent, the Hispanic rate was 26.6 percent, and the white rate was 9.9 percent in 2010. The poverty rate for children under the age of 18 stood at 22 percent. More than one-third of African American children (39.1 percent) lived in poverty in 2010, compared to 35 percent of Hispanic children and 12.4 percent of white children.⁸ These statistics tell us that the prolonged economic slump, following an exceptionally weak labor market before the crisis, has taken a massive toll on the most vulnerable.

9. **Employer-provided health insurance benefits continue to disappear.** The share of people with employer-provided health insurance dropped from 65.1 percent in 2000 to 55.3 percent in 2010. This is the lowest share since 1987 when the Census started to track these data.⁹ Families thus face further income woes because of less access to affordable health insurance. They will have to save more than in the past to prepare for eventual economic emergencies.

10. **Family wealth losses linger.** Total family wealth is down \$12.8 trillion (in 2011 dollars) from June 2007, its last peak, to June 2011. Home equity stays low, such that homeowners on average still own only 38.6 percent of their homes, with the rest owed to banks.¹⁰ 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 pressures to save more and consume less. The personal savings rate increased from 2.3 percent of after-tax income in June 2007 to 5.2 percent in June 2011.¹¹ The dual burden of low income and decimated household wealth puts the brakes on consumer spending, holding back economic and job growth.

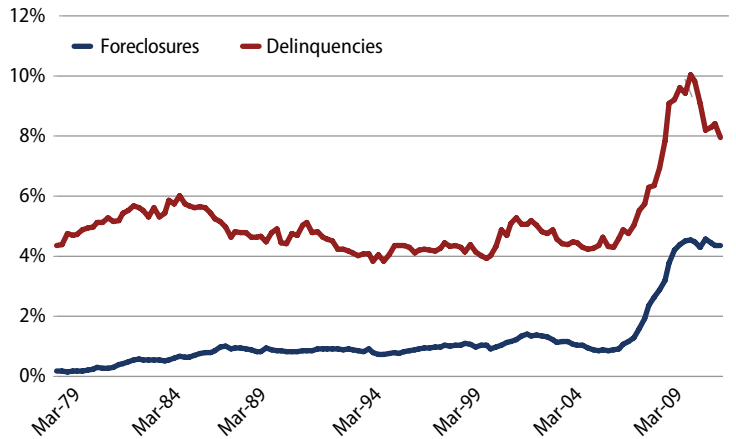
11. **Households are burdened by large debt levels.** Total household debt equaled 114.3 percent of after-tax income in June 2011. This is down from a record high of 130.2 percent in September 2007 but it's still higher than at any point before September 2004.¹² The unprecedented decrease in household indebtedness during the crisis resulted from a combination of factors including tight lending standards, falling interest rates, and massive foreclosures. These are slowly abating, suggesting that further decreases in household indebtedness, or deleveraging, will also slow unless incomes rise faster than they have in the past. High household debt will hence continue to slow economic growth in the future as households focus on saving more rather than on spending more.

FIGURE 2
Household debt to after-tax income, 1952 to 2011



12. **Financial distress is widespread among families.** One in eight mortgages is still delinquent or in foreclosure, even though mortgage market troubles are slowly easing. The share of mortgages that were delinquent was 8 percent in the third quarter of 2011, and the share of mortgages that were in foreclosure was 4.4 percent at the same time.¹³ A weak job market coupled with massive wealth losses has pushed comparatively large shares of families into a desperate situation, reflected in delayed mortgage payments and very high foreclosure rates for several years now. This household economic distress reverberates across the economy as banks are nervous about extending new credit, thus prolonging the economic slump.

FIGURE 3
Share of mortgages that are delinquent or in foreclosure



Source: Mortgage Bankers Association, 2011, National Delinquency Survey, Washington, DC: MBAA.

13. **Profitable corporations prioritize cash holdings and other activities over hiring.** After-tax profits of nonfinancial corporations increased by 85.2 percent from December 2008, the most recent low point in profitability, to June 2011.¹⁴ Cash holdings rose to 13.6 percent of financial assets in June 2011, their highest share since March 1984. Nonfinancial corporations built up more cash holdings since December 2007 even as they spent more than all of their after-tax profits—104.8 percent—on average on buying back their own shares and paying out dividends. The weak labor market is therefore not a reflection of employers not having the money to hire more workers but rather employers focusing on improving their profitability. Corporations are prioritizing building up their cash reserves and propping up their share prices over hiring new employees.

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: 2010* (Department of Commerce, 2011). This report is occasionally referred to as the poverty report.
- 7 Other measures of income dispersion also show a growing gap between families in the top 5 percent, top 10 percent, and top 20 percent, relative to families in the bottom 20 percent and bottom 50 percent. See: Bureau of the Census, *Income, Poverty, and Health Insurance Coverage in the United States: 2010*.
- 8 Data for poverty rates are from: Bureau of the Census, *Income, Poverty, and Health Insurance Coverage in the United States: 2010*.
- 9 Data for health insurance are from: Bureau of the Census, *Income, Poverty, and Health Insurance Coverage in the United States: 2010*.
- 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 All GDP data are from: Bureau of Economic Analysis, *National Income and Product Accounts*. 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.
- 12 Debt calculations are based on: "Federal Reserve Statistical Release Z.1 - Flow of Funds Accounts of the United States." Debt levels are the ratio of the nominal debt levels divided by the nominal disposable personal income. Debt refers to total credit instruments.
- 13 Data are taken from: Mortgage Bankers Association, "National Delinquency Survey" (2011).
- 14 Calculations are based on: "Federal Reserve Statistical Release Z.1 - Flow of Funds Accounts of the United States."