Center for American Progress

Economic Snapshot for December 2011

Christian E. Weller on the State of the Economy

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The nation's economic growth, albeit positive, is mostly too low to substantially reduce the unemployment rate. Millions of unemployed Americans who have been out of work and looking for a job for long periods of time—5.7 million have been out of work for at least six months—are looking for policymakers to improve the economic outlook.

It's unlikely that economic growth will quickly strengthen on its own, so it will require some additional policy support in the near term. A number of factors hold back economic growth, mainly the crushing debt burdens on American households.

Policymakers hence have to focus on two separate short-term goals.

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

And second, they need to extend unemployment-insurance benefits for millions of unemployed Americans until the economy and the labor market improve significantly more.

1. **Economic growth remains low.** Gross domestic product, or GDP, grew at an annual rate of 2 percent in the third quarter of 2011[1]. Business investment expanded at a strong 14.8 percent in the third quarter of 2011, while export growth stayed slow with 4.3 percent, consumption grew only 2.3 percent, and government spending fell by 0.1 percent. Economic growth is relatively weak because of low consumer demand due to high unemployment and a crushing

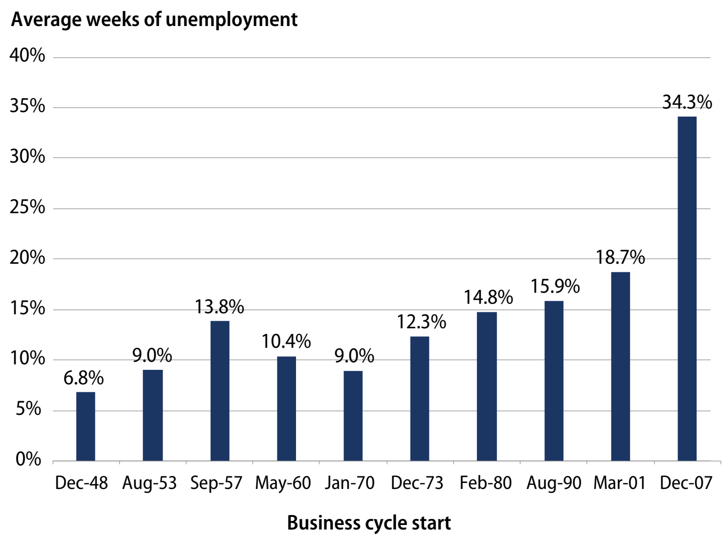
debt burden on consumers. But it's also that way because of slow demand for U.S. exports in the wake of European economic turmoil and because of the fiscal struggles of federal, state, and local governments.

2. **The trade deficit stays high.** The U.S. trade deficit stood at 3.7 percent of GDP in the third quarter of 2011, 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 and thus larger oil imports. This puts more pressure on other parts of the economy—consumption and business investment chief among them—to generate faster economic growth and more jobs.

3. **The labor market recovery is slow.** The private sector continuously added jobs from February 2010 to November 2011 for a total of 2.9 million jobs.[3] But private-sector job growth slowed substantially starting in May 2011 through November 2011. It averaged only 128,000 per month during that time, down from 185,000 jobs per month in the preceding six months. Private-sector job growth is further offset by job losses in state and local governments, where teachers, bus drivers, firefighters, and police officers, among others, are being let go, reflecting governments' budget troubles. A total of 430,000 state and local government jobs were lost between February 2010 and November 2011.[4] Private-sector job growth is too weak to improve the economic fortunes of America's middle class, making jobs policymakers' top priority. (see Figure 1)

FIGURE 1

Share of long-term unemployment, business cycle averages



Source: Bureau of Labor Statistics, Current Population Survey (Department of Labor, 2011).

4. **Unemployment stays high amid weak job growth.** The unemployment rate stood at 8.6 percent in November 2011.[5] Long-term unemployment ballooned in recent years as the unemployment rate stayed high. In November 2011, 43 percent of the unemployed had been out of work and

looking for a job for more than six months. The average length of unemployment reached a new record high of 40.9 weeks in November 2011. 2.2 million unemployed Americans stand to lose their benefits by February 2012 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 November 2011 stayed well above average at 15.5 percent, and the Hispanic unemployment rate stayed high at 11.4 percent, while the white unemployment rate was 7.6 percent. Youth unemployment stood at 23.7 percent. And the unemployment rate for people without a high school diploma stayed high at 13.2 percent, compared to 8.8 percent for those with a high school diploma and 4.4 percent for those with a college degree.[6] 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, 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.[7]

7. **Income inequality on the rise.** Households at the 95th percentile—incomes of $180,810 in 2010—had incomes that were 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 record in 1967.[8]

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

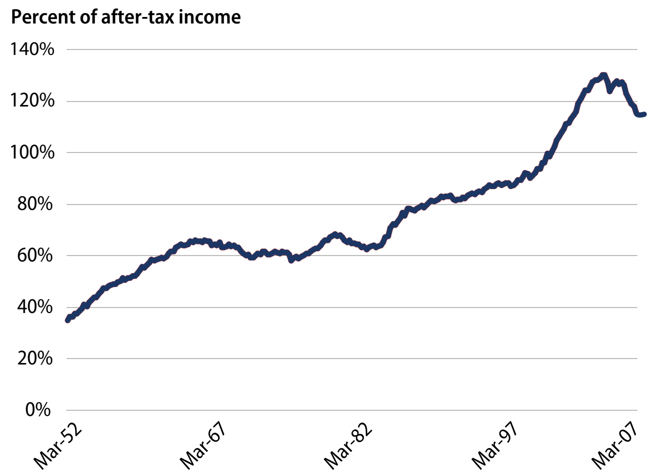
18 stood at 22 percent. More than one-third of African American children (39.1 percent) lived in poverty in 2010, compared to 35 percent of Hispanic children and 12.4 percent of white children.[9] These numbers tell us that the prolonged economic slump, following an exceptionally weak labor market before 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.[10] 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 $15.1 trillion (in 2011 dollars) from June 2007—its last peak—to September 2011. Home equity stays low, such that homeowners on average still own only 38.7 percent of their homes, with the rest owed to banks.[11] Households, already struggling with low incomes in a weak labor market, consequently feel growing pressures to save more and consume less. 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 114.2 percent of after-tax income in September 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.[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. (see Figure 2)

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

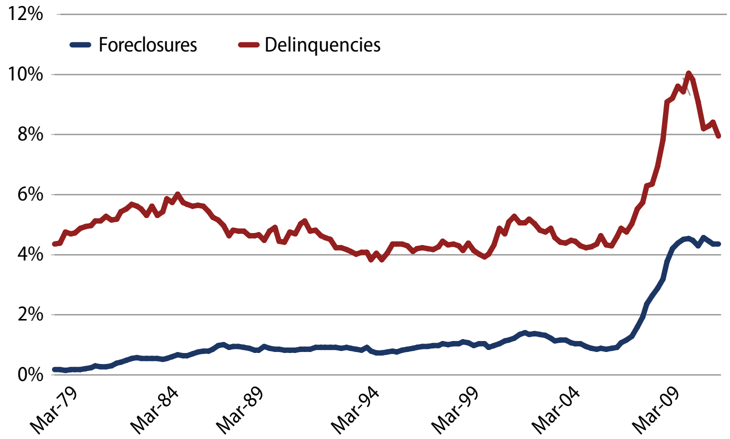


Source: Calculations based on: "Federal Reserve Statistical Release Z.1 - Flow of Funds Accounts of the United States," available at http://www.federalreserve. gov/releases/z1/.

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. (see Figure 3)

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 77.3 percent in inflation-adjusted terms from December 2008, the most recent low point in profitability, to September 2011.[14] Cash holdings rose to 14.2 percent of financial assets in September 2011, their highest share since September 1977. Nonfinancial corporations built up more cash holdings since December 2007, when the Great Recession started, even as they spent on average more than all of their after-tax profits—107.6 percent—buying back their own shares and paying out dividends. In other words, nonfinancial corporations needed to borrow money to keep shareholders happy, even as they built up an ever-larger trove of cash. The weak labor market is therefore not a reflection of employers not having the money to hire more workers, but rather employers focusing on other priorities, such as hoarding cash and keeping shareholders happy.

Endnotes

1 All GDP data are from the Bureau of Economic Analysis, "National Income and Product Accounts" (Washington: 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 The discussion here focuses on private-sector job creation since private-sector employment is vastly larger than public-sector employment and since public-sector employment fluctuated widely in 2010 due to temporary hiring associated with the 2010 Census. The private-sector employment numbers thus offer a more accurate picture of the health of the labor market than the total non-farm payroll numbers.

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

5 Unemployment numbers are taken from the Bureau of Labor Statistics, "Current Population Survey" (Washington, 2011). The Current Population Survey is also known as the household survey.

6 Unemployment rates by demographic characteristics are taken from the Bureau of Labor Statistics, "Current Population Survey."

7 Data for family incomes are from the U.S. Census, "Income, Poverty, and Health Insurance Coverage in the United States: 2010" (Washington: 2011). This report is occasionally referred to as the poverty report.

8 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 U.S. Census Bureau, " Income, Poverty, and Health Insurance Coverage in the United States: 2010."

9 Data for poverty rates are from the U.S. Census, " Income, Poverty, and Health Insurance Coverage in the United States."

10 Data for health insurance are from the U.S. Census, " Income, Poverty, and Health Insurance Coverage in the United States."

11 Wealth calculations are based on the Board of Governors, Federal Reserve System, " Release Z.1 Flow of Funds Accounts of the United States" (Washington: 2011). Real wealth is the nominal wealth deflated by the price index for the Personal Consumption Expenditure index. The Personal Consumption Expenditure index is from the Bureau of Economic Analysis, "National Income and Product Accounts."

12 Debt calculations are based on the Board of Governors, Federal Reserve System, " 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 the Mortgage Bankers Association, "National Delinquency Survey" (Washington: 2011)

14 Calculations are based on the Board of Governors, Federal Reserve System, " Release Z.1 Flow of Funds Accounts of the United States."