



Economic Snapshot for March 2012

Christian 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 nation's economy and labor market are gradually gaining strength. Job creation is up and the unemployment rate keeps falling. But American families need more months of much-stronger job creation to eliminate the massive economic pain that the crisis and its aftermath brought.

Substantial trouble spots remain in the economy and in households' economic security. Economic growth is robust but not stellar, the housing market remains sluggish, and government finances continue to struggle. Unemployment is still high, incomes are low, poverty is high, and household wealth remains low.

Growth and job creation are coming from the private sector but the current economic recovery would have been weaker and would have happened later had policymakers not taken steps in the past few years to invest in infrastructure and help the most vulnerable. Smart economic policy can continue to strengthen the recovery and help accelerate private-sector job creation, especially if it focuses on the most vulnerable population groups—particularly communities of color, the long-term unemployed, and younger and lower-income employees.

1. **Economic growth remains robust.** Gross domestic product, or GDP, grew at an annual rate of 3 percent in the fourth quarter of 2011. No single sector stands out as driving economic growth to higher terrain. Consumption grew only 2.1 percent and business investment grew 2.8 percent in that quarter, while export growth stayed relatively slow with 4.3 percent and government spending actually fell by 4.4 percent.¹ Economic growth remains weak because of low consumer demand—due to high unemployment and households' crushing debt burden—but also because of slow demand for U.S. exports in the wake of European economic turmoil and because of fiscal struggles of federal, state, and local governments.

2. **Competitiveness grows at slow pace.** Worker productivity—the amount of goods and services produced in an hour of work in the nonfarm business economy—is a key measure of the economy’s global competitiveness. It increased by 0.9 percent in the fourth quarter of 2011, decelerating from 1.8 percent growth in the previous quarter. Productivity now stands 6.6 percent larger than in December 2007, at the start of the Great Recession, but well below the average increase of 7.9 percent for similar periods in the past.²

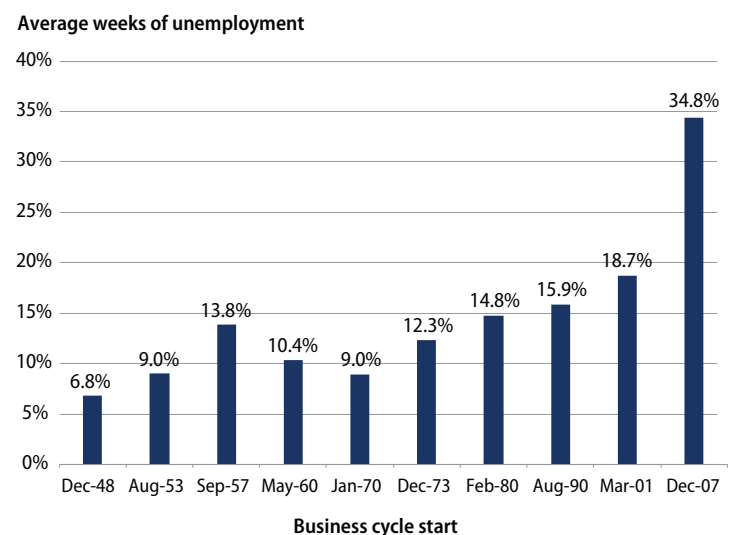
3. **The labor market recovery continues.** The economy has added jobs continuously since October 2010 and had 2.2 million more jobs in February 2012 than in June 2009, when the economic recovery started. the private sector has added 2.8 million jobs during this period.³ The difference between the net gain and private-sector gain is explained by the loss of 590,000 state and local government jobs, as budget cuts reduced the number of teachers, bus drivers, firefighters, and police officers, among others.⁴ Job creation is a top policy priority since private-sector job growth is still too weak to overcome other job losses and to improve the economic fortunes of America’s middle class.

4. **Suffering of the unemployed stays high.** The unemployment rate stood at 8.3 percent in February 2012. long-term unemployment has ballooned in recent years as the unemployment rate stayed high. In February 2012, 42.6 percent of the unemployed were out of work and looking for a job for more than six months. The average length of unemployment stayed high at 40 weeks in February 2012.⁵ The long-term unemployed are still struggling, even as private-sector job creation accelerates, since there are still millions of unemployed workers vying for the newly created jobs. (see Figure 1)

5. **Labor market pressures fall especially on communities of color, young workers, and those with less education.** The African American unemployment rate in February 2012 stayed well above average at 14.1

percent, and the Hispanic unemployment rate stayed high at 10.7 percent, while the white unemployment rate was 7.3 percent. Youth unemployment stood at a high 23.8 percent. And the unemployment rate for people without a high school diploma stayed high at 12.9 percent, compared to 8.3 percent for those with a high school diploma and 4.2 percent for those with a college degree.⁶ Vulnerable groups have struggled disproportionately more amid the weak labor market than white

FIGURE 1
Share of long-term unemployment, business cycle averages



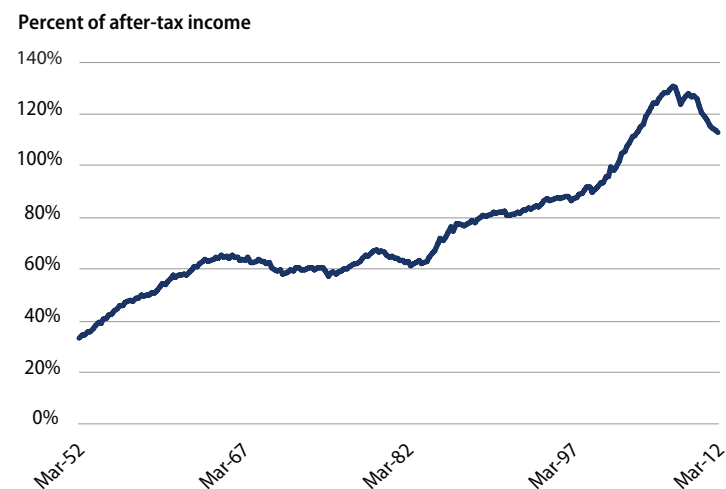
Source: Bureau of Labor Statistics, Current Population Survey (Department of Labor, 2011).

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 drop amid prolonged labor market weaknesses.** Median inflation-adjusted household income—half of all households have more and the other half has less—stood at \$49,445 in 2010, its lowest level in inflation-adjusted dollars since 1996. It fell 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 have experienced no income gains during the current economic recovery after 2009.⁷
7. **Income inequality on the rise.** Households at the 95th percentile, with 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, with incomes of \$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 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 The prolonged economic slump, following an exceptionally weak labor market before the crisis, has taken a massive toll on the most vulnerable populations.
9. **Employer-provided benefits continue to disappear.** The share of people with employer-provided health insurance dropped from 59.8 percent in 2007 to 55.3 percent in 2010.¹⁰ And the share of private-sector workers who participated in a retirement plan at work fell from 42 percent in 2007 to 39.5 percent in 2010.¹¹ Families thus have less economic security than in the past due to less access to key employment-based benefits, requiring more private savings to make up the difference.
10. **Family wealth losses linger.** Total family wealth is down \$14.4 trillion (in 2011 dollars) from June 2007—its last peak—to December 2012. Home equity stays low, such that homeowners on average still own only 38.4 percent of their homes, with the rest owed to banks.¹² 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 112.8 percent of after-tax income in December 2011. This is down from a record high of 130.2 percent in September 2007, but still higher than at any point before March 2004.¹³ The unprecedented decrease in household indebtedness since the crisis began resulted from a combination of factors—tight lending standards, falling interest rates, and massive foreclosures—that are slowly abating, suggesting that further decreases in household indebtedness—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)

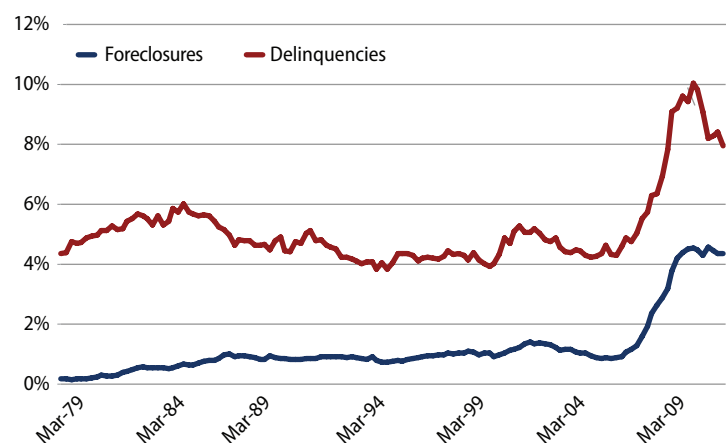
FIGURE 2
Household debt to after-tax income, 1952 to 2011



Source: Calculations based on Board of Governors, Federal Reserve, 2011, Flow of Funds Accounts of the United States, Washington, D.C.: BOG.

12. **The housing market remains depressed.** New home sales totaled 313,000 in February 2012, up slightly from a low annual rate of 307,000 in December 2011, but the median house price in February 2012 was 6.2 percent lower than a year earlier.¹⁴ Existing home sales were up by 8.8 percent in February 2012 from a year earlier, and the median price for existing homes was up by 0.3 percent during this period.¹⁵ Despite some improvement the housing market and hence construction and the economy are held back by high unemployment and crushing household debt burdens.

FIGURE 3
Share of mortgages that are delinquent or in foreclosure



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

13. **Financial distress is widespread among families.** One in eight mortgages is still delinquent or in foreclosure, even though mortgage troubles have been gradually easing since March 2010. The share of mortgages that were delinquent was 7.6 percent in the fourth quarter of 2011, and the share of mortgages that were in foreclosure was 4.4 percent at the same time.¹⁶ High unemployment coupled with massive wealth losses has pushed many families to delay or even default on mortgage payments. This household economic distress reverberates across the economy as banks are nervous about extending new mortgages, prolonging the economic slump. (see Figure 3)

Endnotes

- 1 All GDP data are from the Bureau of Economic Analysis, "National Income and Product Accounts" (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 Calculations based on Bureau of Labor Statistics, "Output per Hour" (Business cycle dates are taken from National Bureau of Economic Research, "Business Cycle Dates" See also Adam Hersh and Christian Weller, "Productivity Snapshot" (Washington: Center for American Progress, 2012) for more data on U.S. competitiveness.
- 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 nonfarm payroll numbers.
- 4 Employment growth data are calculated based on Bureau of Labor Statistics, "Current Employment Statistics" (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" (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" (2011). The Current Population Survey is also known as the household survey.
- 7 Data for family incomes are from the U.S. Census, "Income, Poverty, and Health Insurance Coverage in the United States: 2010" (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, "Income, Poverty, and Health Insurance Coverage in the United States: 2010" (2011).
- 9 Data for poverty rates are from the U.S. Census, "Income, Poverty, and Health Insurance Coverage in the United States: 2010" (2011). This report is occasionally referred to as the poverty report.
- 10 Data for health insurance are from the U.S. Census, "Income, Poverty, and Health Insurance Coverage in the United States: 2010" (2011). This report is occasionally referred to as the poverty report.
- 11 Craig Copeland, "Employment-Based Retirement Plan Participation: Geographic Differences and Trends: 2010/2007" (Washington: Employee Benefits Research Institute, 2011/2008).
- 12 Wealth calculations are based on the Board of Governors, Federal Reserve System, "Release Z.1 Flow of Funds Accounts of the United States" (2012). 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" (2012).
- 13 Debt calculations are based on the Board of Governors, Federal Reserve System, "Release Z.1 Flow of Funds Accounts of the United States" (2012). Debt levels are the ratio of the nominal debt levels divided by the nominal disposable personal income. Debt refers to total credit instruments.
- 14 U.S. Census Bureau, "New Residential Sales Historical Data" (2012).
- 15 National Association of Realtors, "December Existing-Home Sales Show Uptrend" (2012).
- 16 Data are taken from the Mortgage Bankers Association, "National Delinquency Survey" (2011).