Center for American Progress

Economic Snapshot for June 2012

Christian E. Weller on the State of the Economy

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American families continue to face large economic uncertainties as the economic recovery slowly moves into its fourth year. The U.S. economy has fortunately avoided slipping back into recession after the Great Recession of 2007–2009. But the combination of domestic issues such as large household debt burdens and fiscal challenges for local, state, and federal governments together with international challenges such as the European sovereign debt crisis and wide swings in oil prices have created an environment in which the economy, the labor market, and household incomes only improve very modestly, if at all.

The result is that families continue to struggle, even though unemployment and household debt are decreasing and jobs and wealth are increasing. Unemployment and debt remain unacceptably high and jobs and wealth remain unacceptably low. And improvements in key areas, particularly job creation and the housing market, remain remarkably slow. Policymakers have acted decisively in the past with payroll tax cuts and infrastructure investments, for instance, to strengthen the economic recovery. The same should be true now.

These families need more solid economic footing. Sustained and faster job creation should be policymakers' top concern, especially for vulnerable groups such as African Americans, young labor force participants, and people without a high school diploma. Also required are income supports through, for instance, extended unemployment insurance benefits, higher minimum wages, and more opportunities for employees to join a union.

Policymakers also need to focus on helping households build wealth faster through measures to strengthen the housing market, help households save more money, and allow families to lower their debt burden even more than in the past.

1. **Economic growth remains positive but modest.** Gross domestic product, or GDP, grew at an annual rate of 1.9 percent in the first quarter of 2012. Government spending actually fell by 3.9 percent and business investment grew at a modest pace of 1.9 percent in the first quarter of 2012, while consumption grew by 2.7 percent and exports expanded at a strong 7.2 percent growth rate.[1] Cutbacks in government spending reflect the continued fiscal crisis among federal, state, and local governments and declining business investment. The slow pace of business investment may indicate businesses' uncertainty about the economic outlook.[2]

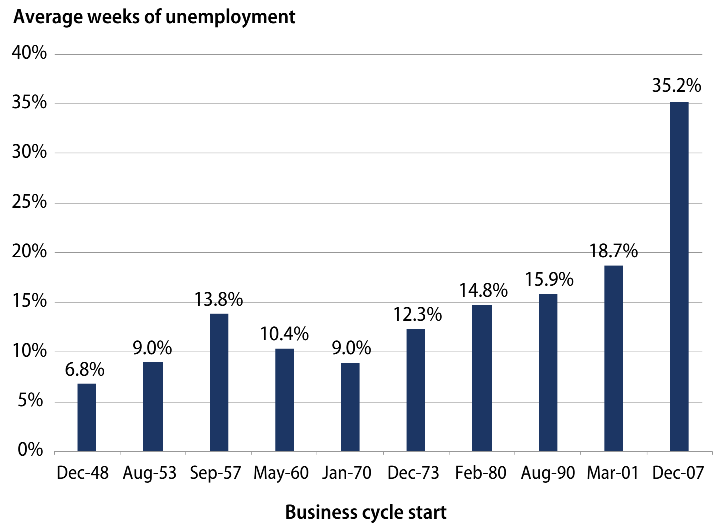
2. **Competitiveness falls back.** Worker productivity—the amount of goods and services produced in an hour of work in the nonfarm business economy—is a key measure of the economy's global competitiveness. It decreased by 0.9 percent in the first quarter of 2012. Productivity now stands 6.8 percent larger than in December 2007, at the start of the Great Recession, but well below the average increase of 9.3 percent for similar periods in the past.[3]

3. **The labor market recovery continues.** The economy has continuously added jobs since October 2010 and had 2.5 million more jobs in May 2012 than in June 2009, when the economic recovery started. The private sector added 3.1 million jobs during this period. The difference between the net gain and private-sector gain is explained by the loss of 605,000 state and local government jobs, as budget cuts reduced the number of teachers, bus drivers, fire fighters, and police officers, among others.[4] Job creation is a top policy priority since private-sector job growth is still too weak to quickly overcome other job losses and to rapidly improve the economic fortunes of America's middle class.

4. **Unemployment stays high.** The unemployment rate stood at 8.2 percent in May 2012. Long-term unemployment has also ballooned in recent years as the unemployment rate stayed elevated. In May 2012, 42.8 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 with 39.7 weeks in May 2012.[5] The long-term unemployed are still struggling even as private-sector job creation proceeds apace since millions of unemployed workers vie for the newly created jobs.

FIGURE 1

Share of long-term unemployment, business cycle averages



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

5. **Labor market pressures fall especially on communities of color, young workers, and those with less education.** The African American unemployment rate in May 2012 stayed well above average at 13.6 percent, the Hispanic unemployment rate was 11 percent, and the white unemployment rate was 7.4 percent. Youth unemployment stood at a high 24.6 percent. And the unemployment rate for people without a high school diploma stayed high with 13 percent, compared to 8.1 percent for those with a high school degree, 7.9 percent for those with some college education, and 3.9 percent for those with a college degree.[6] Vulnerable groups have struggled disproportionately more amid the weak labor market 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 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 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 is 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 kept 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 35.0 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.

9. **Employer-sponsored benefits disappear.** The share of people with employer-sponsored health insurance dropped from 59.8 percent in 2007 to 55.3 percent in 2010.[10] The share of private-sector workers who participated in a retirement plan at work fell to 39.5 percent in 2010, down from 42.0 percent in 2007.[11] Families have less economic security than in the past due to fewer employment-based benefits, requiring more private savings to make up the difference.

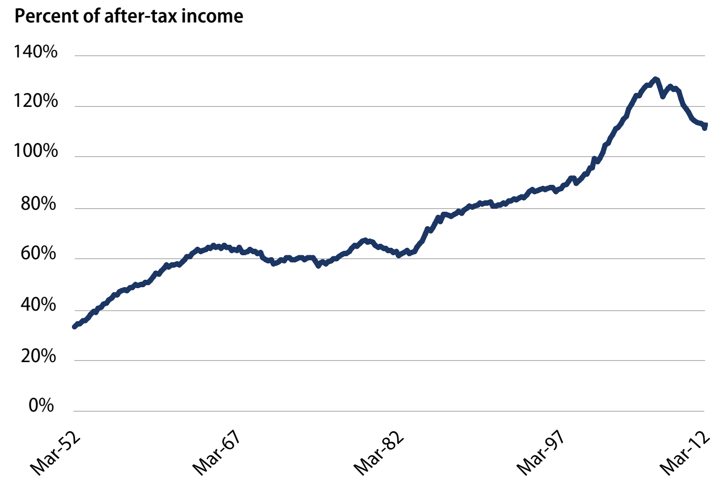
10. **Family wealth losses linger.** Total family wealth is down $10.9 trillion (in 2012 dollars) from June 2007—its last peak—to March 2012. Home equity stays low, such that homeowners on average own only 40.7 percent of their homes, with the rest owed to banks.[12] Households, already struggling with 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 breaks on consumer spending, holding back economic and job growth.

11. **Household debt is still high.** Household debt equaled 109.2 percent of after-tax income in March 2012, down from a peak of 129.1 percent in September 2007.[13] The unprecedented fall in debt over the past four years resulted from several factors—tight lending standards, falling interest rates, massive foreclosures and increased household saving—that are unlikely to continue. Further deleveraging will likely slow, then, unless incomes rise faster than they have in the past. High debt could hence continue to slow economic growth as households focus on saving rather than on spending more.

12. **The housing market remains depressed.** New home sales amounted to a low annual rate of 343,000 in April 2012, and the median house price in April 2012 was 4.9 percent higher than a year earlier.[14] Existing home sales were up by 9.6 percent in May 2012 from a year earlier, and the median price for existing homes was up by 7.9 percent during this period.[15] The housing market improved from very low levels in the spring of 2012.

FIGURE 2

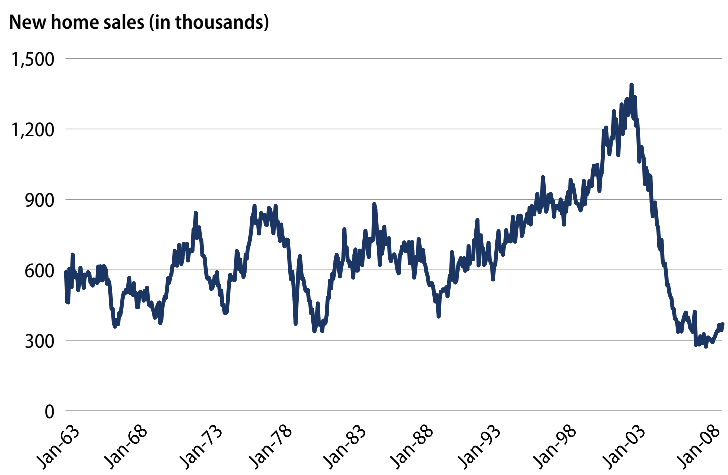
Household debt to after-tax income, 1952 to 2011



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

FIGURE 3

Annual new home sales, 1963 to 2012



Source: U.S. Census Bureau, New Residential Historical Data (U.S. Department of Commerce), available at http://www.census.gov/construction/nrs/historical_data/.

13. **Financial distress is widespread among families.** One in eight mortgages is still delinquent or in foreclosure even though mortgage troubles have gradually eased since March 2010. The share of mortgages that were delinquent was 7.4 percent in

the first quarter of 2012, 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. Household economic distress reverberates across the economy as banks are nervous about extending new mortgages, prolonging the economic slump.

14. **Corporate profits rise to near pre-crisis peaks.** Inflation-adjusted corporate profits were 97.7 percent larger in March 2012 than in June 2009, when the economic recovery started. The after-tax corporate profit rate—profits to total assets—stood at 3.1 percent in March 2012, its highest level since September 2006, well before the crisis started and near the peak after-tax profit rate of 3.2 percent prior to the Great Recession. That is, corporate profitability regained its footing to pre-crisis levels in the spring of 2012.[17]

Endnotes

1 All GDP data are from the Bureau of Economic Analysis, *National Income and Product Accounts* (U.S. Department of Commerce, 2012).

2 Christian Weller, "GDP Data Show Policymakers Still Have Work to Do" (Washington: Center for American Progress, 2012).

3 Calculations based on Bureau of Labor Statistics, *Output per Hour* (U.S. Department of Labor, 2012). Business cycle dates are taken from National Bureau of Economic Research, "Business Cycle Dates" (2012). See also Adam Hersh and Christian Weller, "Making Investments Today for a Competitive Economy Tomorrow" (Washington: Center for American Progress, 2012) for more data on U.S. competitiveness..

4 Employment growth data are calculated based on Bureau of Labor Statistics, *Current Employment Statistics* (U.S. Department of Labor, 2012). 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* (U.S. Department of Labor, 2012). 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* (U.S. Department of Labor, 2012).

7 Data for family incomes are from U.S. Census Bureau, *Income, Poverty, and Health Insurance Coverage in the United States: 2010* (U.S. Department of Commerce, 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 U.S. Census Bureau, *Income, Poverty, and Health Insurance Coverage in the United States: 2010*.

10 Data for health insurance are from U.S. Census Bureau, *Income, Poverty, and Health Insurance Coverage in the United States: 2010*.

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, "Release Z.1 Flow of Funds Accounts of the United States" (Washington: Federal Reserve System, 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*.

13 Debt calculations are based on the Board of Governors, "Release Z.1 Flow of Funds Accounts of the United States" (Washington: Federal Reserve System, 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* (Department of Commerce, 2012).

15 National Association of Realtors, "April Existing-Home Sales Up, Prices Rise Again" (2012).

16 Data are taken from the Mortgage Bankers Association, "National Delinquency Survey" (2012).

17 Profit rates are calculated based on data from the Board of Governors, "Release Z.1 Flow of Funds Accounts of the United States." And, inflation-adjustments are based on the Personal Consumption Expenditure index from the Bureau of Economic Analysis, *National Income and Product Accounts*.