



Economic Snapshot: September 2015

Christian E. Weller on the State of the U.S. Economy

By Christian E. Weller and Jackie Odum September 28, 2015

Middle-class Americans should still be concerned about the state of the economy for good reason. Economic growth has been relatively slow—contributing to a modest job growth rate that has only gradually brought the benefits of an expanding economy to most Americans—while still leaving many groups, such as communities of color, to suffer from high levels of unemployment and poverty.

That is not to say that there has not been any good news. Profits, for instance, are very high, having recovered faster than any other economic indicator both during and after the Great Recession. High-income earners have also seen handsome gains alongside rising profits and an equally impressive run-up in the stock market due to the fact that they receive large shares of their income from capital gains and dividends.

Congress can and should act to strengthen the economy in order to boost the economic fortunes of middle-class families. A gradually improving economy and an improved fiscal outlook give policymakers the room to invest once again in American families. Laying the foundation for faster growth; making sure that this growth translates into solid job and income gains for all Americans; as well as helping those most vulnerable should be top policy priorities. Investments in infrastructure, such as roads and bridges, could contribute to faster growth.¹ A higher minimum wage and easier ways for workers to join a union could strengthen economic income growth—as could a greater emphasis on shared prosperity by reducing short-termism and shortsightedness in the allocation of corporate resources. Reversing past harmful budget cuts to social programs that disproportionately help families caught amid a maelstrom of economic insecurity would be a good first step toward bolstering the economic fortunes of the most vulnerable. The means exist to build a stronger, more inclusive economy: It is now just a matter of political will to enhance economic security for Americans.

1. **Economic growth, while positive, has been uneven and lackluster for years.** Gross domestic product, or GDP, increased in the second quarter of 2015 at an inflation-adjusted annual rate of 3.9 percent, after an increase of 0.6 percent in the previous quarter. The economy has expanded at an average annual rate of 2.2 percent since the recession ended in June 2009. This is far below the historical average growth rate

of 3.4 percent from December 1948—when the first recession after World War II started—to December 2007, when the last recession started.² Personal consumption increased at an annual rate of 3.6 percent, and spending on housing rose 9.3 percent—a rather modest rate, considering that the housing market still has a lot of catching up to do. Business investment, on the other hand, increased 4.1 percent, highlighting one of the economy’s persistent weak spots. Exports increased a reasonable 5.1 percent in the second quarter of 2015, and imports grew as well, at a rate of 3 percent. Government spending—which is crucial for infrastructure spending on roads, bridges, and schools, as well as for public services, such as education, public safety, and transportation—continues to be another weak spot in the economy. Federal government spending held steady in the second quarter, and state and local government spending increased a modest 4.3 percent.³ The economy needs to maintain and even accelerate its momentum in order to create real economic security for America’s families, especially in light of increasing headwinds, most notably economic weaknesses overseas, that could result in weaker exports in the future.

2. **U.S. competitiveness is increasing very slowly.** Productivity growth, measured as the increase in inflation-adjusted output per hour, is key to strong economic growth over the longer term and to increasing living standards for American families because it means that workers are getting better at doing more in the same amount of time. Slower productivity growth thus means that new economic resources available to improve living standards and to pay for a wide range of services, such as the retirement of Baby Boomers, are growing more slowly than would be the case with faster productivity growth. U.S. productivity rose a total of 5.9 percent from June 2009, the end of the Great Recession, to June 2015.⁴ This is an average annualized quarterly growth rate of 1.0 percent in annual terms, far below the quarterly average of 2.2 percent from December 1948—when the first recession after World War II started—to December 2007, when the last recession started.⁵ This slow productivity growth—together with high income inequality—contributes to the widespread sense of economic insecurity and slowing economic mobility because the economic resources for families to get ahead are increasing slowly and are very unequally distributed.
3. **The housing market still operates at a low level.** New-home sales amounted to an annual rate of 552,000 in August 2015—a 21.6 percent increase from the 454,000 homes sold in August 2014 but well below the historical average of 698,000 homes sold before the Great Recession.⁶ The median new-home price in August 2015 was \$292,700, up from one year earlier.⁷ Existing-home sales fell 4.8 percent in August 2015 from one year earlier, and the median price for existing homes was up 4.7 percent during the same period.⁸ Home sales have a lot further to go, given that homeownership in the United States stood at 63.4 percent in the second quarter of 2015, down from 68.2 percent before the start of the recession at the end of 2007. The current homeownership rates are similar to those recorded in 1996,

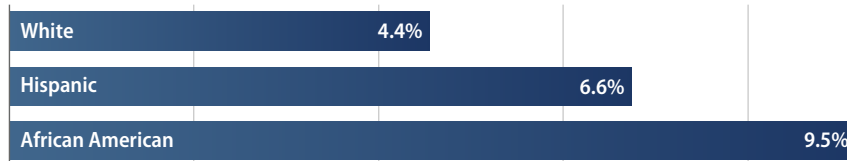
well before the most recent housing bubble started.⁹ A strong housing market recovery can boost economic growth and household economic security, and there is still plenty of room for the housing market to provide more stimulation to the economy more broadly.

4. **The outlook for federal budgets improves, which creates breathing room for policymakers.** The nonpartisan Congressional Budget Office, or CBO, estimated in August 2015 that the federal government will have a deficit—the difference between taxes and spending—of 2.4 percent of GDP for fiscal year 2015, which runs from October 1, 2014, to September 30, 2015.¹⁰ This deficit projection is slightly down from the deficit of 2.8 percent of GDP for FY 2014.¹¹ The estimated deficit for FY 2015 is much smaller than deficits in previous years due to a number of measures that policymakers have already taken in order to slow spending growth and raise more revenue than was expected just last year. The improving fiscal outlook should generate breathing room for policymakers to focus their attention on targeted, efficient policies that promote long-term growth and job creation, especially for those groups disproportionately impacted by high unemployment.

5. **Moderate labor market gains follow in part from weak public-sector growth.** There were 11.3 million more jobs in August 2015 than in June 2009. The private sector added 11.9 million jobs during this period. The loss of some 505,000 state and local government jobs explains the difference between the net gain of all jobs and the private-sector gain in this period. Budget cuts reduced the number of teachers, bus drivers, firefighters, and police officers, among others.¹² The average monthly annualized employment growth rate from June 2009 to August 2015 was just 1.4 percent, well below the long-run average of 1.9 percent from December 1948—when the first recession after World War II started—to December 2007, when the last recession started. Faster economic growth and an end to ill-advised austerity are necessary to generate more labor market momentum and more well-paying jobs for American families.

6. **Some communities continue to struggle disproportionately from unemployment.** The unemployment rate was 5.1 percent in August 2015. The African American unemployment rate increased to 9.5 percent, the Hispanic unemployment rate decreased to 6.6 percent, and the white unemployment rate fell to 4.4 percent. Meanwhile, youth unemployment increased to 16.9 percent. The unemployment rate for people without a high school diploma decreased to 7.7 percent, compared with 5.5 percent for those with a high school degree, 4.4 percent for those with some college education, and 2.5 percent for those with a college degree.¹³ Amid the weak labor market, population groups with higher unemployment rates have struggled disproportionately more than white workers, older workers, and workers with more education.

FIGURE 1
August 2015 unemployment rate by race

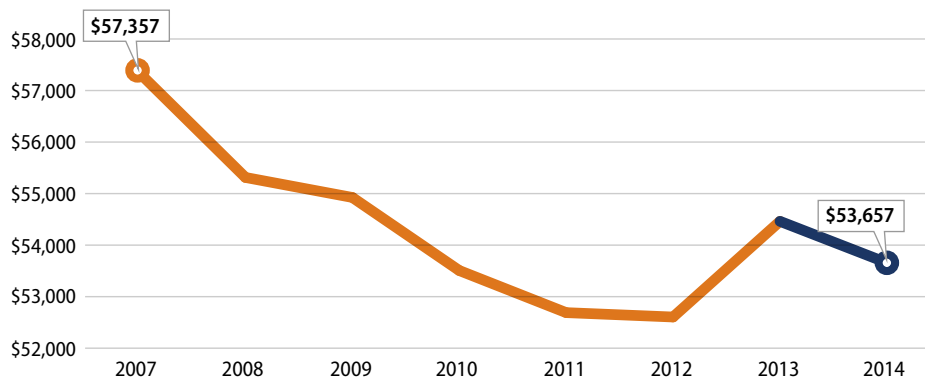


Source: Bureau of Labor Statistics, *Current Population Survey* (U.S. Department of Labor, 2015).

7. **The rich continue to pull away from most Americans.** Incomes of households at the 95th percentile—those with incomes of \$206,568 in 2014, the most recent year for which data are available—were more than nine times the incomes of households in the 20th percentile, whose incomes were \$21,432. Analysis by the U.S. Bureau of the Census shows that income inequality remains at or near a record level: In 2014, the top 5 percent of earners captured 21.8 percent of total income, whereas the bottom 40 percent of earners captured 12.3 percent of total income.¹⁴

FIGURE 2
Median household income, 2007 to 2014

in 2014 dollars

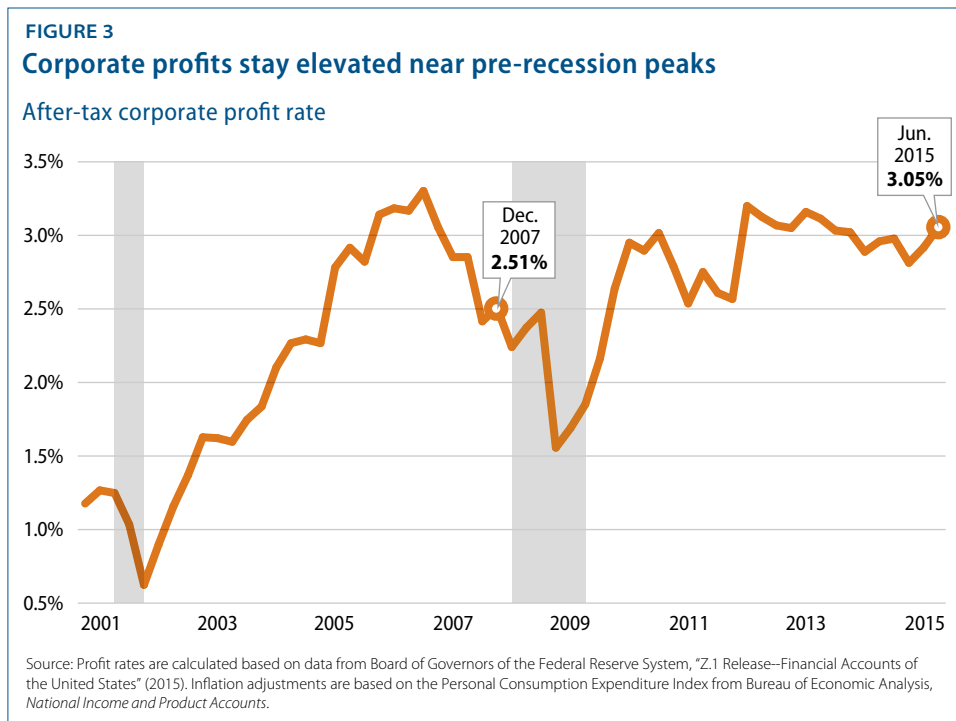


Note: The U.S. Census Bureau recently introduced new methods for surveying income in 2013. These changes affect long-term data comparisons between pre-2013 data and post-2013 data. See Appendix D in Bureau of the Census, *Income and Poverty in the United States: 2014* (2015).

Source: Bureau of the Census, *Income, Poverty, and Health Insurance Coverage in the United States: 2014* (2015).

8. **Corporate profits stay elevated near pre-crisis peaks.** Inflation-adjusted corporate profits were 105.8 percent larger in June 2015 than in June 2009. The after-tax corporate profit rate—profits to total assets—stood at 3.05 percent in June 2015.¹⁵ Corporate profits recovered quickly toward the end of the Great Recession and have stayed high since then. These gains have translated into disproportionate income gains from financial investments for wealthy households, contributing to the massive

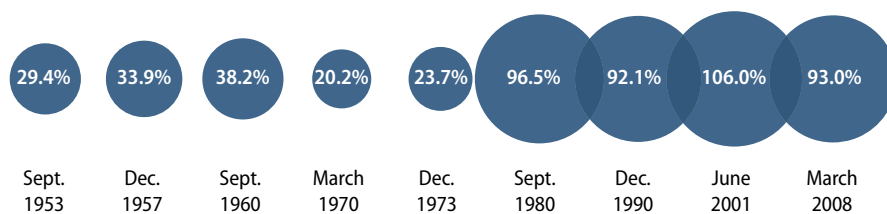
income inequality that has characterized the economy for the past few decades. Tax reform is a crucial policy priority to address income inequality that arises from the rich receiving outsized benefits from their wealth, especially in the form of capital income from their financial investments.



9. **Corporations spend much of their money to keep shareholders happy.** From December 2007—when the Great Recession started—to June 2015, nonfinancial corporations spent, on average, 93 percent of their after-tax profits on dividend payouts and share repurchases.¹⁶ In short, almost all of nonfinancial corporate after-tax profits have gone to keeping shareholders happy during the current business cycle. Nonfinancial corporations also held, on average, 5.3 percent of all of their assets in cash—a very high rate by historical standards. Nonfinancial corporations spent, on average, 168.3 percent of their after-tax profits on capital expenditures or investments—by selling other assets and by borrowing. This was the lowest ratio since the business cycle that ended in 1957. U.S. corporations have prioritized keeping shareholders happy and building up cash over investments in structures and equipment, highlighting the need for regulatory reform that incentivizes corporations to invest in research and development, manufacturing plants and equipment, and workforce development.

FIGURE 4

Dividend and share repurchases as a share of after tax profit



Source: Average of dividend and share repurchases as a share of after tax profit are calculated based on data from Board of Governors of the Federal Reserve System, "Z.1 Release—Financial Accounts of the United States" (2015). Inflation adjustments are based on the Personal Consumption Expenditure Index from Bureau of Economic Analysis, *National Income and Product Accounts*.

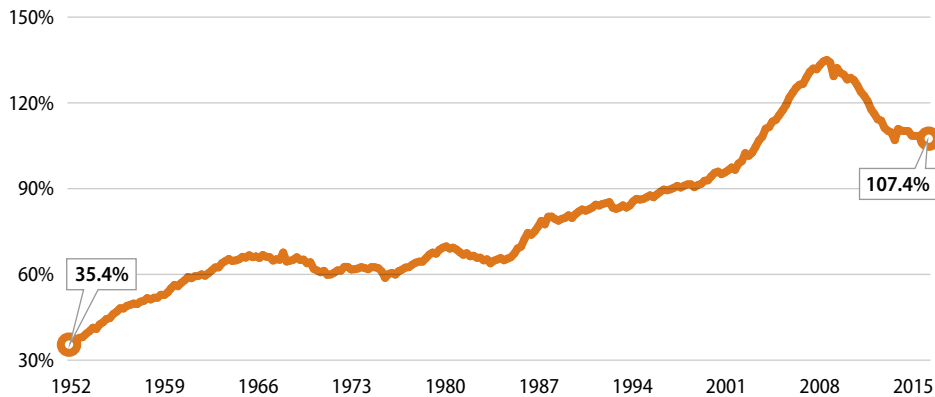
10. Poverty is still widespread. The official poverty rate was 14.8 percent in 2014. This change, however, was statistically insignificant from 2013. Some population groups suffer from much higher poverty rates than others. The African American poverty rate, for instance, was 25.2 percent, and the Hispanic poverty rate was 24.7 percent, while the non-Hispanic white poverty rate was 10 percent. The poverty rate for children under age 18 was 21.5 percent. More than one-third of African American children—37.1 percent—lived in poverty in 2014, compared with 31.9 percent of Hispanic children and 12.3 percent of white children.¹⁷

11. Household debt is still high. Household debt equaled 107.4 percent of after-tax income in March 2015, down from a peak of 129.7 percent in December 2007.¹⁸ But nonrevolving consumer credit—typically installment credit such as student and car loans—has outpaced after-tax income growth. It has grown from 14.6 percent of after-tax income in June 2009 to 18.7 percent in June 2015. This is the highest share of such debt to after-tax income on record, dating back to 1968.¹⁹ A return to debt growth outpacing income growth—which was the case for total debt prior to the start of the Great Recession—from already-high debt levels could eventually slow economic growth again, as people would have to focus on repaying loans and financial instability would take its toll. This would be especially true if interest rates also rise from historically low levels due to a change in the Federal Reserve's policies. Consumers would have to pay more for their debt, and they would have less money available for consumption and saving, slowing economic growth and job creation.

FIGURE 5

Household debt to after-tax income, 1952 to 2015

Household debt as a percentage of after-tax income



Source: Household debt to after-tax income are calculated based on data from Board of Governors of the Federal Reserve System, "Z.1 Release—Financial Accounts of the United States" (2015). Inflation adjustments are based on the Personal Consumption Expenditure Index from Bureau of Economic Analysis, *National Income and Product Accounts*.

Christian E. Weller is a Senior Fellow at the Center for American Progress and a professor in the Department of Public Policy and Public Affairs at the McCormack Graduate School of Policy and Global Studies at the University of Massachusetts, Boston. Jackie Odum is a Research Associate for the Poverty to Prosperity Program at the Center.

Endnotes

- 1 Lawrence H. Summers and Ed Balls, "Report of the Commission on Inclusive Prosperity" (Washington: Center for American Progress, 2015), available at <https://www.american-progress.org/issues/economy/report/2015/01/15/104266/report-of-the-commission-on-inclusive-prosperity/>.
- 2 Bureau of Economic Analysis, "National Income and Product Accounts: Gross Domestic Product: First Quarter 2015 (Advance Estimate)," Press release, April 29, 2015, available at http://www.bea.gov/newsreleases/national/gdp/2015/gdp1q15_adv.htm.
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- 4 Calculations are based on productivity growth (output per hour) for nonfarm businesses from Bureau of Labor Statistics, *Current Employment Statistics* (U.S. Department of Labor, 2015).
- 5 Ibid.
- 6 The historical average refers to the average annualized monthly residential sales from January 1963, when the census data started, to December 2007, when the Great Recession started. Calculations are based on Bureau of the Census, *New Residential Sales Historical Data* (U.S. Department of Commerce, 2015).
- 7 Ibid.
- 8 National Association of Realtors, "Existing-Home Sales Maintain Solid Growth in July," Press release, August 20, 2015, available at <http://www.realtor.org/news-releases/2015/08/existing-home-sales-maintain-solid-growth-in-july>.
- 9 Bureau of the Census, *Housing Vacancies and Homeownership* (U.S. Department of Commerce, 2015).
- 10 Congressional Budget Office, "An Update to the Budget and Economic Outlook: 2015 to 2025" (2015), available at <https://www.cbo.gov/publication/50724>.
- 11 Ibid.
- 12 Employment growth data are calculated based on Bureau of Labor Statistics, *Current Employment Statistics*.
- 13 Unemployment numbers are taken from Bureau of Labor Statistics, *Current Population Survey* (U.S. Department of Labor, 2015).
- 14 U.S. Bureau of the Census, *The Supplemental Poverty Measure: 2014* (U.S. Department of Commerce, 2015), available at <http://www.census.gov/content/dam/Census/library/publications/2015/demo/p60-254.pdf>.
- 15 Profit rates are calculated based on data from Board of Governors of the Federal Reserve System, "Z.1 Release—Financial Accounts of the United States" (2015). Inflation adjustments are based on the Personal Consumption Expenditure Index from Bureau of Economic Analysis, *National Income and Product Accounts* (U.S. Department of Commerce, 2015).
- 16 Calculations are based on Board of Governors of the Federal Reserve System, "Z.1 Release—Financial Accounts of the United States."
- 17 Calculations are based on Bureau of the Census, *Income and Poverty in the United States: 2014* (U.S. Department of Commerce, 2015), available at <http://www.census.gov/content/dam/Census/library/publications/2015/demo/p60-252.pdf>.
- 18 Calculations are based on Board of Governors of the Federal Reserve System, "Z.1 Release—Financial Accounts of the United States."
- 19 Board of Governors of the Federal Reserve System, "Z.1 Release—Financial Accounts of the United States."