



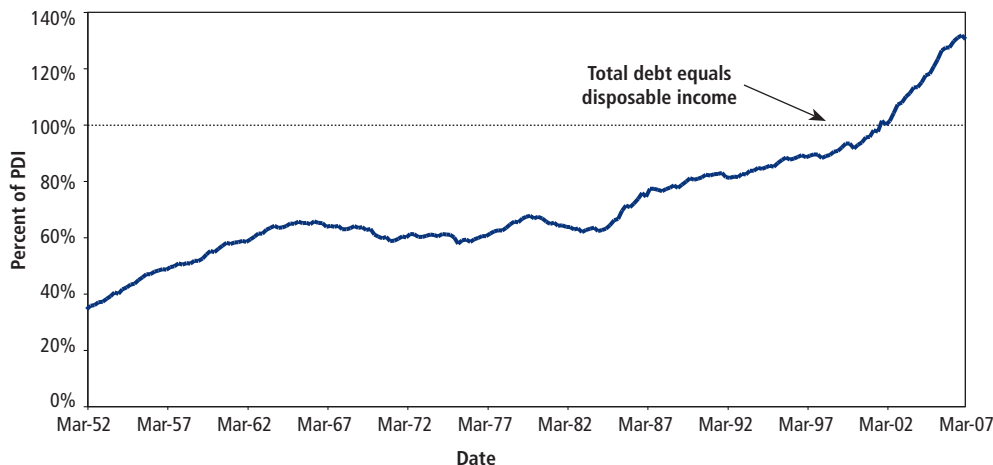
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This month's indicators, particularly in the labor market, point toward a weak and weakening economy. The end of the housing boom has spilled into the wider economy, which is in large part causing the slowdown in economic activity since it has not yet been replaced by another driver of stronger economic activity. The economy also faces large risks such as massive household debt, a comparatively high trade deficit, and continued budget deficits.

- 1) **Wage growth is low.** Factoring in inflation, hourly wages were 2.3% higher and weekly wages were 1.8% higher in June 2007 than in March 2001.
- 2) **Benefits are disappearing.** The share of private sector workers with a pension dropped from 50.3% in 2000 to 45.0% in 2005, the last year for which data are available, and the share of people with employer-provided health insurance dropped from 63.6% to 59.5%.
- 3) **Family debt is on the rise.** In the first quarter of 2007, household debt fell relative to disposable income for the first time in five years, but still stayed at a comparatively high 130.7%, the third-highest on record. In the first quarter of 2007, families spent 14.3% of their disposable income to service their debt, up from 13.0% in the first quarter of 2001.
- 4) **Families feel the pressure.** The share of new mortgages entering foreclosure was 0.6% in the first quarter of 2007, reflecting the fourth increase in a row to the highest level on record since 1979.
- 5) **Housing market slows.** Existing home sales in June this year were 11.4% below the level of June 2006 and new home sales were 22.3% lower. The median sales price of existing homes was 0.3% higher in June 2007 than a year earlier and the median sales price of new homes was 2.2% lower than a year earlier. The average monthly supply of homes for the six months ending in May was 7.7 months, the highest since June 1991.
- 6) **Home equity declines:** Home equity dropped by 1.8 percentage points relative to disposable income in the first quarter of 2007, the largest such decline since the second quarter of 1992.
- 7) **Already weak job growth slows.** Monthly job growth since March 2001 has averaged an annualized 0.7%. Over the past 12 months, the average monthly job growth was 148,600 jobs, compared to 199,300 in the preceding 12 months, and 205,300 in the 12 months before that.
- 8) **Poverty climbs.** The poverty rate increased to 12.6% in 2005, the last year for which data are available, from 11.3% in 2000.
- 9) **The government's finances deteriorated.** In 2001, the Congressional Budget Office anticipated that the government balance between 2002 and 2011 would be in the black to the tune of \$5.6 trillion. Today, the CBO projects deficits between 2002 and 2011 of \$2.9 trillion. This constitutes a deterioration for the period 2002 to 2011 of \$8.5 trillion.
- 10) **These deficits won't shrink:** Between 2007 and 2016, the CBO predicts cumulative deficits of \$1.8 trillion. If alternative minimum tax reform and permanent tax cuts for the wealthy are included, the total deficit for the next decade would come to \$3.5 trillion—even if the costs for the war in Iraq and Afghanistan drop below current projections in a few years.
- 11) **This endangers our economic independence.** Foreign investors bought 82% of new Treasury debt and the share of U.S. foreign-held debt grew to 46% from 32% from March 2001 to March 2007. The quarterly interest payments from the federal government to foreigners rose to \$38 billion in the first quarter 2007 from \$21 billion in the first quarter of 2001.
- 12) **Trade deficit remains high despite strong export growth.** In the second quarter of 2007, the trade deficit fell slightly to 5.2% of gross domestic product from 5.3% in the first quarter of 2007. Yet, the last trade deficit is still larger than any trade deficit since the Great Depression recorded before the second quarter of 2004.

In the fall of 2006, America's middle class continues to struggle and the economy remains on an unsustainable path.

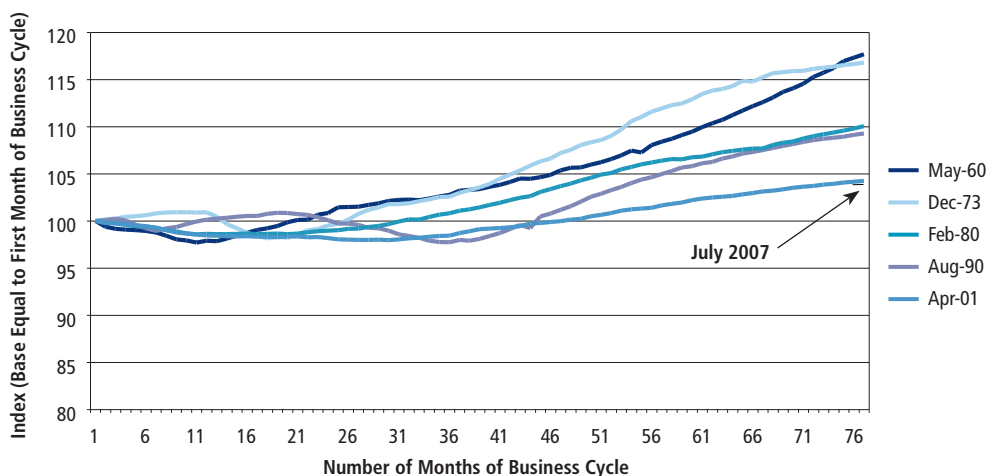
HOUSEHOLD DEBT RELATIVE TO PERSONAL DISPOSABLE INCOME (PDI), 1952 TO 2007



Calculations based on Board of Governors, Federal Reserve, 2006, Flow of Funds of the United States, Washington, D.C.: BOG.

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EMPLOYMENT GROWTH IN BUSINESS CYCLES THAT LASTED AT LEAST 76 MONTHS, INDEXED TO FIRST MONTH OF BUSINESS CYCLE

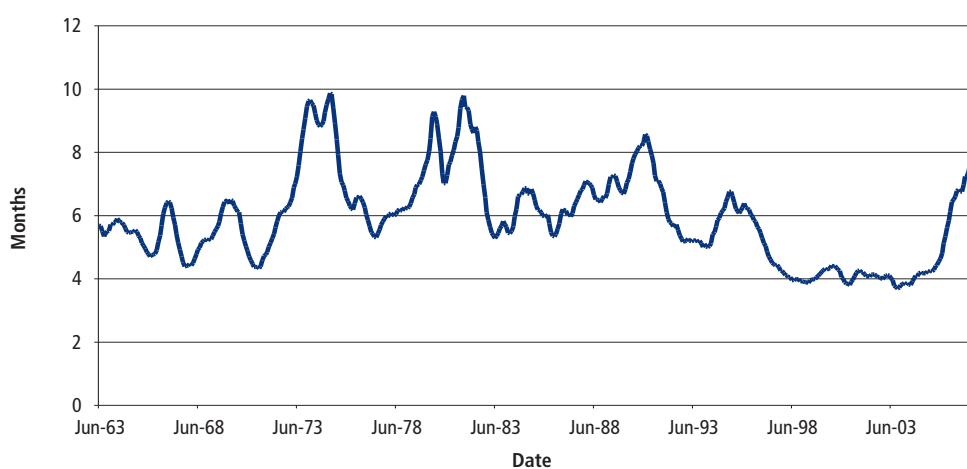


Calculations based on Bureau of Labor Statistics, 2007, Current Employment Survey, Washington, D.C.: BLS.

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SUPPLY OF NEW HOMES FOR SALE (IN MONTHS OF SALES), 6-MONTH AVERAGE



Note: Data are seasonally adjusted. Source: U.S. Census Bureau, New Residential Sales, Washington, D.C.: Census.

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