The U.S. economy is clearly at a turning point. The continued troubles in the housing market have caught the attention of economists, policymakers, and the media alike, and all are looking for the direction that the economy will turn. For the time being, economic and job growth are slow, and major risks to economic prosperity persist. The government is trying to manage large budget and trade deficits, and families are mired in near-record amounts of debt and contributing to record numbers of new foreclosures and a slowing economy.

1) Wage growth is low. Factoring in inflation, hourly wages were 3.1% higher and weekly wages were 2.2% higher in August 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 43.2% in 2006, the last year for which data are available, and the share of people with employer-provided health insurance dropped from 64.2% to 59.7%.

3) Family debt is on the rise. In the second quarter of 2007, household debt amounted to 131.3% of disposable income, which is only slightly below the record high of 131.4% recorded in the fourth quarter of 2006. In the second 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 0.7% in the second quarter of 2007, reflecting the fifth increase in a row to the highest level on record since 1979.

5) Housing market slows. New home sales in August were 21.2% below the level of August 2006 and existing home sales were 12.8% lower. New home sales in August were the lowest since June 2000. The median sales price of existing homes was 0.2% higher in August 2007 than a year earlier and the median sales price of new homes was 7.4% lower than a year earlier. The average monthly supply of homes for the six months ending in July was 7.9 months, the highest since May 1991.

6) Home equity declines. Home equity dropped by 0.6 percentage points relative to disposable income in the second quarter of 2007. This is the fourth quarter of decline in a row, the largest year-over-year decline in home equity relative to disposable income since March 1993.

7) Weak job growth continues. Monthly job growth since March 2001 has averaged an annualized 0.7%. From September 2006 to September 2007, the average monthly job growth was 135,800 jobs, compared to 199,300 in the preceding 12 months, and 205,300 in the 12 months before that.

8) Poverty stays high. The poverty rate fell slightly to 12.3% in 2006, down from 12.6% in 2005, but still substantially higher than the last low point in 2000, when it was 11.3%.

9) Improvements in government’s finances are temporary. In August 2007, the Congressional Budget Office estimated that the deficit for 2007 amounted to $158 billion, $14 billion less than projected in January. Yet the cumulative budget deficit from 2008 to 2012 increased sharply from $194 billion to $696 billion in CBO’s projections.

10) Tax cuts do not pay for themselves. The Joint Committee on Taxation estimated that the tax enacted since 2001 would cost $300 billion in 2007 alone, such that the federal government would show a surplus had it not been for President Bush’s tax cuts.

11) This endangers our economic independence. Foreign investors bought 80% of new Treasury debt and the share of U.S. foreign-held debt grew to 46% from 32% from March 2001 to June 2007. The quarterly interest payments from the federal government to foreigners rose to $39 billion in the second 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.

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