Economic weaknesses are becoming increasingly apparent heading into 2008. The crisis in the housing and mortgage markets has spilled over into other sectors and is causing much slower economic growth and a weaker labor market. And these problems are increasingly overshadowed by continuously large budget and trade deficits. The United States needs an economic recovery package to counter broad-based economic weaknesses. The economic stimulus passed last week is a good start, but it should be followed by a large-scale reform of U.S. economic policy.

1) Wage growth is low. Factoring in inflation, hourly wages were 2.5% higher and weekly wages were 1.6% higher in December 2007 than in March 2001. Over the past 12 months, real hourly earnings have fallen by 0.7% and weekly wages by 0.9%.

2) Job growth weakens substantially. Monthly job growth since March 2001 has averaged an annualized 0.6%. Over the past 12 months, the average monthly job growth was 82,800 jobs, compared to 166,100 in the previous 12 months, and 219,900 in the 12 months before that.

3) 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%.

4) Family debt is on the rise. In the third quarter of 2007, household debt averaged a record 133.0% of disposable income. 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.

5) Families feel the pressure. The share of mortgages entering foreclosure was 0.8% in the third quarter of 2007, reflecting the sixth increase in a row to the highest level on record since 1979. The share of all mortgages in foreclosure also reached a record with 1.7%.

6) Housing market slows. New home sales in December 2007 were 40.7% lower than a year earlier and existing home sales were 22.0% lower. The median sales price of existing homes was 6.0% lower in December 2007 than a year earlier and the median sales price of new homes had dropped 10.4%. The average monthly supply of homes for the six months ending in October was 9.1 months, the highest since February 1982.

7) Home equity declines. Home equity dropped by 2.5 percentage points relative to disposable income in the third quarter of 2007, the seventh decline in a row, ending also the largest year-over-year drop since June 1992.

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) Business investment is low and productivity growth slows. Business investment averaged 10.4% of GDP between March 2001 and December 2007, the lowest share since the 1960s. Net investment, after accounting for depreciation of capital goods, averaged 1.9% of GDP at the same time, the lowest share of any business cycle. And labor productivity growth fell below 2% in 2005, 2006, and 2007 for the first time since 1997.

10) The deficit increases again. In January 2008, the Congressional Budget Office estimated that the deficit for 2008 will amount to $219 billion, $56 billion more than in 2007, not including the cost of an economic stimulus or additional appropriations for the wars in Afghanistan and Iraq.

11) Deficit financing provided by foreigners. Foreign investors bought 77.2% of new Treasury debt and the share of U.S. foreign-held debt grew to 46% in September 2007 from 31% in March 2001. 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 fourth quarter of 2007, the trade deficit grew again slightly to 5.2% of GDP from 5.0% in the third quarter of 2007.
America’s middle class continues to struggle and the economy remains on an unsustainable path.

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