Large economic imbalances ignored by policymakers for years are now coming to a head and weakening the economic fortunes of America’s middle class. Even before this current crisis, families were amassing massive amounts of debt to pay for necessary consumption amid weak income growth and sharply higher prices. So now that the labor market is sliding down, families are hit with a triple whammy: they need to pay back their debt while incomes are falling and costs are accelerating. With the deck stacked against them, more and more families are having to declare bankruptcy and default on their loans. But easing the burden on families will remain difficult as long as massive trade deficits, low innovation, and long-term budget deficits due to tax cuts for the rich perpetuate economic imbalances.

1) Job losses mount. The already weak labor market has taken a turn for the worse. Employment declined by 20,000 jobs in April 2008—the fourth month of decline in a row—for a total loss of 260,000 jobs in 2008. Average monthly job growth over the past 12 months was only 38,500 jobs, compared to 130,200 jobs in the previous 12 months, and 221,500 jobs in the 12 months before that.

2) Wages remain flat. Factoring in inflation, hourly wages were only 2.2% higher and weekly wages were only 1.4% higher in March 2008 than in March 2001.

3) Fewer people have pensions and health insurance. The share of private sector workers with a pension dropped from 50.3% in 2000 to 43.2% in 2006, and the share of people with employer-provided health insurance dropped from 64.2% to 59.7%.

4) Family debt hits record highs. Household debt averaged a record 133.7% of disposable income in the fourth quarter of 2007. At the same time, families spent 14.3% of their disposable income to service their debt, up from 13.0% in the first quarter of 2001.

5) The housing crisis deepens. New home sales in March 2008 were 36.6% lower than a year earlier, and existing home sales were 23.8% lower. The median sales price of existing homes was 8.2% lower in March 2008 than a year earlier, and the median sales price of new homes dropped 13.3%. The average monthly supply of homes for the six months ending in October was 9.7 months, the highest since November 1981.

6) Homeowners’ losses increase. The total values of all homes fell by 1.8%, in the fourth quarter of 2007 after accounting for inflation, the largest drop since the third quarter of 1975. Home equity as share of home values also fell to a record low of 47.9%.

7) Oil and gas prices rise. The price per barrel of light, sweet crude oil in early May 2008, which will be delivered in the next month, was 93.9% above the same price a year earlier. Gasoline prices increased by 18.3% during the same time. This leaves a lot of room for further increases at the pump, even after gasoline prices surpassed the record high prices of the 1980s, and even after accounting for inflation.

8) People are paying more for basics. Transportation cost 8.3% more in March 2008 than a year earlier, college tuition was up by 6.1%, fuel and utilities by 6.5%, medical care by 4.6%, and food by 4.7%. Since March 2001, food prices have risen by 20.8%, fuels and utilities by 39.0%, medical care by 34.3%, transportation by 27.0%, and college tuition by 64.1%.

9) Families feel the pressure. The share of mortgages entering foreclosure was a record high 0.8% in the fourth quarter of 2007, and the share of all mortgages in foreclosure came to a record high of 2.0%. The bankruptcy rate rose by 85.2% from 1.5 cases per 1,000 people in the first quarter of 2006—the first quarter after the new bankruptcy law went into effect—to 2.8 cases per 1,000 people in the third quarter of 2007. Credit card defaults rose to 4.2% of all credit card debt by the fourth quarter of 2007, an increase of 32.6% from the first quarter of 2006.

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. This does not include the cost of an economic stimulus or additional appropriations for the wars in Afghanistan and Iraq.

11) The trade deficit remains high despite strong export growth. In the first quarter of 2008, the trade deficit grew slightly to 5.2% of Gross Domestic Product from 5.0% in the fourth quarter of 2007, fuelled by higher petroleum imports.

12) The dollar reaches new low. By early May 2008, a dollar bought 42.9% fewer euros, 35.7% fewer Canadian dollars, 37.7% fewer British pounds, and 17.3% fewer Japanese yen than in March 2001. After inflation, the dollar has lost 21.7% of its value against its trading partner currencies between March 2001 and April 2008.
America’s middle class continues to struggle and the economy remains on an unsustainable path.

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