Center for American Progress

ECONOMIC SNAPSHOT

September 9, 2008

Christian E. Weller, Associate Professor, Department of Public Policy and Public Affairs, University of Massachusetts Boston, and Senior Fellow, Center for American Progress.

The labor market recession is deepening and continues to threaten economic growth. Eight months of job losses were paired this month with an increase in the unemployment rate to its highest level in five years. This year's job losses follow a very weak labor market that has left families woefully and inadequately prepared for the current crisis. Employment growth has been the weakest since the Great Depression, wages have been flat, and benefits have been declining since this business cycle started in March 2001.

At the same time, prices have risen for many items. This combination of higher prices and less income has driven families deeper into debt. As the labor market slump heightens, more and more families are succumbing to the pressures, declaring bankruptcy, and defaulting on their loans. Yet easing the burden on families will not be easy, since massive trade deficits are draining our national resources and budget deficits due to tax cuts for the rich are posing obstacles to real solutions for America's families.

1. **Job losses mount.** The United States lost a total of 605,000 jobs in the first eight months of 2008, including 84,000 in August 2008. For the past 12 months, the United States lost on average 23,600 jobs each month after gaining an average of 116,100 in the 12 months before that and 184,000 in the 12 months before then.

2. **Unemployment rates reflect broad labor market recession.** In August 2008, the unemployment rate was 6.1%—the highest level since September 2003. The African-American unemployment rate stood at 10.6%, the Hispanic unemployment rate at 8.0%, and the unemployment rate for whites at 5.4% in August 2008.

3. **Wages are flat.** Factoring in inflation, hourly wages were only 0.2% higher, and weekly wages were actually 0.8% lower in July 2008 than in March 2001. Hourly and weekly wages in July 2008 were at their lowest levels since October 2005.

4. **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% in 2000 to 59.3% in 2007.

5. **Family debt remains high.** Household debt averaged 132.4% of disposable income in the first quarter of 2008, down from a record high of 133.5% in the previous quarter, but higher than at any point prior to the second quarter of 2007.

6. **The housing crisis deepens.** New home sales in July 2008 were 35.3% lower than a year earlier, and existing home sales were 13.2% lower. The median price for existing homes had fallen by 7.1% and prices for new homes by 6.3% from July 2007 to July 2008.

7. **Homeowners lose wealth.** The values of all homes fell by 2.5%, or $417 billion, in the first quarter of 2007 after accounting for inflation—the largest drop since the second quarter of 1974. Home equity as share of home values also fell to a record low of 46.2% in the first quarter of 2008.

8. **People are paying more for basics.** All prices rose by 24.5% from March 2001 to July 2008, food prices rose by 25.5%, fuels and utilities by 52.9%, medical care by 35.1%, transportation by 35.8%, and college tuition by 67.9%.

9. **Mortgage troubles mount.** One in 11 mortgages is delinquent or in foreclosure. In the second quarter of 2008, the share of mortgages that were delinquent was 6.4%, and the share of mortgages that were in foreclosure was 2.7%. The share of new mortgages going into foreclosure continues to reach new record highs with 1.1% in the second quarter.

10. **Debt burden is taking its toll.** Credit card defaults rose to 5.5% of all credit card debt by the second quarter of 2008, an increase of 14.7% from the first quarter of 2001. This occurred despite the new bankruptcy law passed in 2005 to make it harder for people to get a fresh start free of debt, especially credit card debt.

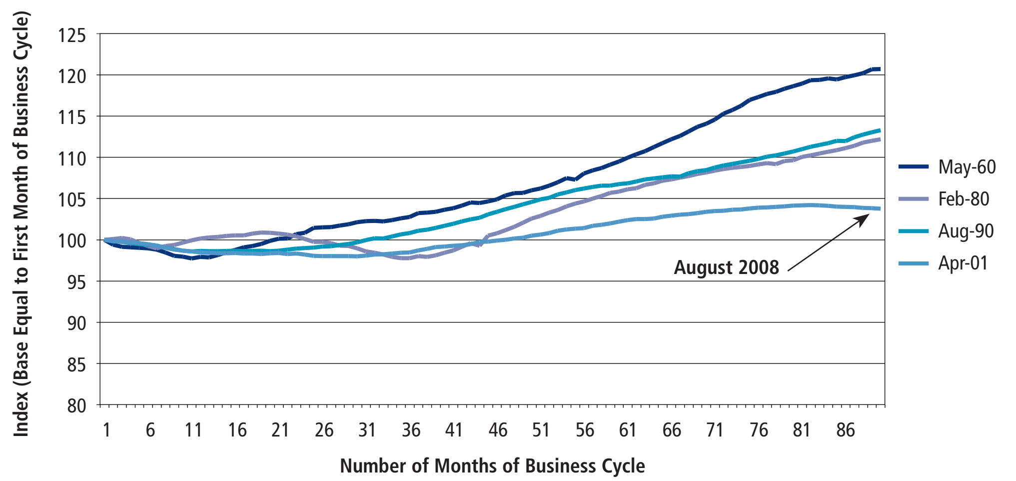
11. **The budget deficit increases sharply.** In the first 11 months of the fiscal year 2008, which runs through September 30, the deficit amounted to $486 billion, up from $212 billion a year earlier.

12. **The U.S. government is increasingly indebted to foreigners.** Since March 2001, foreigners have bought 82.6% of all new treasury debt. By March 2008, foreigners owned an unprecedented 48.7% of all publicly held treasury debt. In the first quarter of 2008, the U.S. government spent $42.8 billion in interest payments to foreigners, more than double the $20.9 billion it spent in the first quarter of 2001.

13. **The trade deficit remains high.** In the second quarter of 2008, the trade deficit was at 5.0% of gross domestic product for the third quarter in a row.

America's middle class continues to struggle and the economy remains on an unsustainable path.

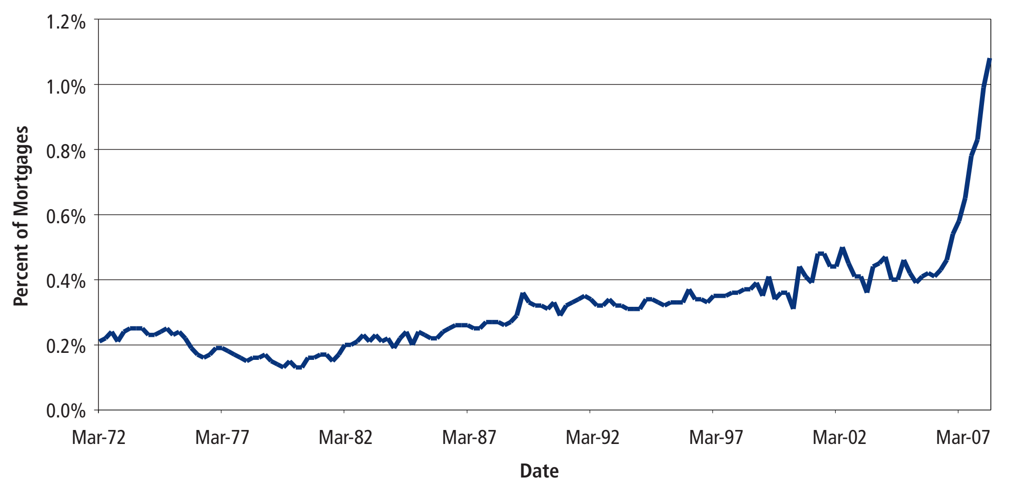
EMPLOYMENT GROWTH IN BUSINESS CYCLES THAT LASTED AT LEAST 89 MONTHS, INDEXED TO FIRST MONTH OF BUSINESS CYCLE



Calculations based on Bureau of Labor Statistics, 2008, Current Employment Survey, Washington, D.C.: BLS.

Job losses mount. The United States lost a total of 605,000 jobs in the first eight months of 2008, including 84,000 in August 2008. For the past 12 months, the United States lost on average 23,600 jobs each month after gaining an average of 116,100 in the 12 months before that and 184,000 in the 12 months before then.

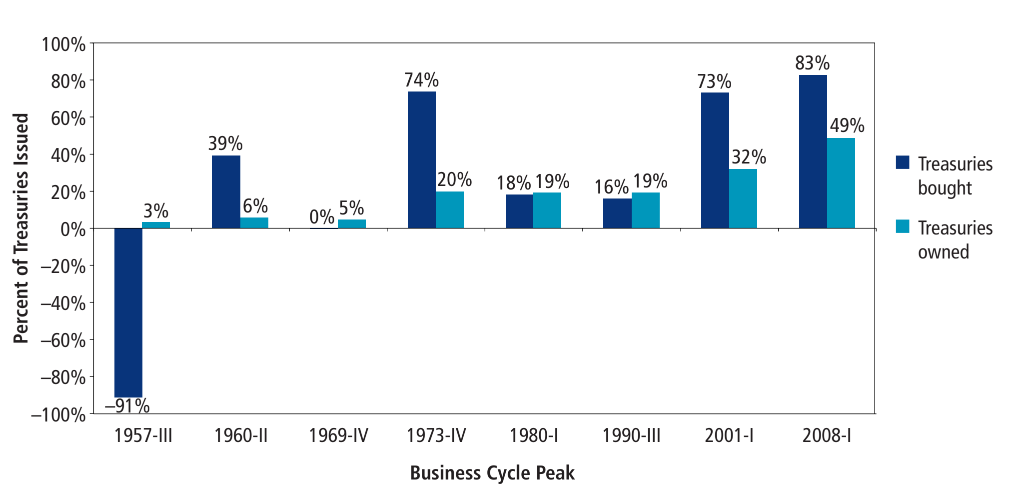
SHARE OF MORTGAGES, WHERE FORECLOSURE HAS BEEN STARTED, 1972 TO 2008



Source: Mortgage Bankers Association, 2008, National Delinquency Survey, Washington, D.C.: MBAA.

Mortgage troubles mount. One in 11 mortgages is delinquent or in foreclosure. In the second quarter of 2008, the share of mortgages that were delinquent was 6.4%, and the share of mortgages that were in foreclosure was 2.7%. The share of new mortgages going into foreclosure continues to reach new record highs with 1.1% in the second quarter.

SHARE OF TREASURY ISSUES PURCHASED AND OWNED BY FOREIGNERS, BUSINESS CYCLE AVERAGES



Calculations based on Board of Governors, Federal Reserve, 2008, Flow of Funds Accounts of the United States, Washington, D.C.: BOG.

The U.S. government is increasingly indebted to foreigners. Since March 2001, foreigners have bought 82.6% of all new treasury debt. By March 2008, foreigners owned an unprecedented 48.7% of all publicly held treasury debt. In the first quarter of 2008, the U.S. government spent $42.8 billion in interest payments to foreigners, more than double the $20.9 billion it spent in the first quarter of 2001.