Economic Snapshot for September 2010

Christian E. Weller on the State of the Economy

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Private businesses are doing well, measured by their profits. American families, though, continue to struggle with high unemployment and massive amounts of debt. Companies are expanding their investing and hiring, but not nearly fast enough to make a real difference in people’s lives.

Policy needs to intervene to create more jobs quickly so that businesses see more customers and American families can ultimately shake the economic burdens left over from this severe crisis. Public policy can accomplish this by focusing on protecting much-needed public sector jobs, promoting demand for U.S. exports, and pushing banks to do more to help those struggling with massive amounts of outstanding debt.

1. The U.S. economy is recovering. Gross domestic product, or GDP, grew at an annual rate of 1.6 percent in the second quarter of 2010, the fourth quarter with expanding economic activity in a row. The American Recovery and Reinvestment Act provided additional income to consumers and businesses, which led to more business investments. Changes in business investment in inventory stock piles, commercial construction, and equipment such as computers and software was large enough to explain all of the second quarter growth and compensate slightly for the adverse growth effect of the U.S. trade deficit. See Figure 1.
2. **The trade deficit rises again.** The U.S. trade deficit stood at 3.7 percent of GDP in the second quarter of 2010, up from its latest trough of 2.4 percent of GDP in the second quarter of 2009. U.S. exports are still rising, but U.S. imports, especially for industrial supplies and capital goods, are growing even faster.

3. **The labor market recovery takes hold.** The U.S. economy added a total of 763,000 private sector jobs in the first eight months of 2010. But state and local governments had 182,000 fewer jobs in August 2010 than in August 2009. This causes a problem since the economy still has 7.6 million fewer jobs than at the start of the recession in December 2007.

4. **Unemployment stays high among the most vulnerable.** The unemployment rate was 9.6 percent in August 2010. The African-American unemployment rate that month stood at 16.3 percent, the Hispanic unemployment rate at 12.0 percent, and the unemployment rate for whites at 8.7 percent. Youth unemployment stood at a high 26.3 percent. And the unemployment rate for people without a high school diploma stayed high at 14.0 percent, compared to 10.3 percent for those with a high school degree and 4.6 percent for those with a college degree.

5. **Employer-provided health insurance benefits continue to disappear.** The share of people with employer-provided health insurance dropped from 64.2 percent in 2000 to 55.8 percent in 2009. This is the lowest share since 1987 when the Census started to track these data.

6. **Family incomes drop sharply in the recession.** Median inflation-adjusted household income fell 3.6 percent in 2008 and by another 0.7 percent in 2009. It stood at $49,777 in 2009, its lowest level in inflation-adjusted dollars since 1997. White family income stood at $54,461, compared to African-American family income, which was $32,584, or 59.8 percent of white income. Hispanic family income was $38,039 in 2009, or 69.8 percent of white income.

7. **Poverty continues to rise.** The poverty rate stood at 14.3 percent in 2009—its highest rate since 1994. The African-American poverty rate was 25.8 percent, the Hispanic rate was 25.3 percent, and the white rate was 9.4 percent in 2009. The poverty rate for children under the age of 18 stood at 20.7 percent. More than one-third of African-American children (35.7 percent) lived in poverty in 2009, compared to 11.9 percent of white children and 33.1 percent of Hispanic children.
8. **Corporate profits soar.** Profits in the non-financial corporate sector rose in inflation-adjusted terms by 124.3 percent before taxes and 127.5 percent after taxes from December 2008 to June 2010. Corporate nonfinancial inflation-adjusted profits in December 2009 were thus at their highest point since December 2007, when the recession started.

9. **Family wealth losses linger.** Total family wealth was $15.8 trillion below its peak in June 2007 even though it increased by $5.3 trillion in 2010 dollars from March 2009—the lowest point during the recession—to June 2010, largely as a result of higher stock prices. Home equity is also recovering, but homeowners on average still own only 40.7 percent of their homes, with the rest owed to mortgage banks.

10. **Debt levels are still high.** Total household debt equaled 118.4 percent of after-tax income in the second quarter of 2010. This is down from a record high of 130.2 percent in the first quarter of 2008, but still higher than at any point before the second quarter of 2005. **SEE FIGURE 2**

11. **Mortgage troubles stay high.** One in seven mortgages is delinquent or in foreclosure. The share of mortgages that were delinquent was 9.9 percent in the second quarter of 2010, and the share of mortgages that were in foreclosure was 4.6 percent. **SEE FIGURE 3**

12. **Families feel the pressure.** Credit card defaults rose to 10.7 percent of all credit card debt by the second quarter of 2010—an increase of 155.4 percent from the fourth quarter of 2007.