Economic Snapshot for July 2011
Christian E. Weller on the State of the Economy

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Jobs and the debt ceiling—the amount that the federal government can borrow without approval from Congress—dominate economic policy discussions as well as the national conversation. Job growth is too slow to lower the unemployment rate, and the Republican majority in the House of Representatives is threatening not to raise the debt ceiling unless the increase is tied to massive spending cuts.

Drastic spending cuts could slow the economy and job growth even further. Leaving the debt ceiling in place, though, would also result in sharp spending cuts in addition to massive financial market disruptions and higher interest rates for some time to come. Businesses are understandably worried about Congress’s inability to come to an agreement on the debt ceiling that protects economic growth, and they are putting off hiring in this time of heightened economic uncertainty.

The disruptions caused by the debt ceiling debate add to concerns over future economic growth. Families still struggle with massive amounts of debt and high foreclosure rates, large swings in oil prices this spring and summer further disrupt business and families’ spending plans, and widening trade deficits could put the brakes on future economic growth.

Policymakers need to protect the struggling recovery, and they need to balance that with laying the groundwork for strong future growth. This means maintaining consumption and investment growth in the short run and addressing trade and budget deficits in the medium term.

The current negotiations over the debt ceiling thus need to find a growth-enhancing balance between spending and revenue changes. Policymakers should not further burden families, who have already suffered tremendously from the fallout of the Great Recession.
1. **The U.S. economy continues a moderate recovery.** Gross domestic product, or GDP, grew at an annual rate of 1.9 percent in the first quarter of 2011, which is the seventh quarter of positive growth in a row. Consumption grew at an annual rate of 2.2 percent, and year-over-year business investment growth was 9.1 percent in the first quarter of 2011. Both consumption and investment slowed from their growth rates at the end of 2010 as the economy struggled with higher oil prices.

2. **The trade deficit stays high.** The U.S. trade deficit stood at 3.7 percent of GDP in the first quarter of 2011, up from 3.3 percent of GDP in the fourth quarter of 2010. U.S. export growth stayed strong at 7.6 percent in the first quarter of 2011, down from 8.6 percent at the end of 2010. But U.S. import growth accelerated to 5.1 percent in the first quarter of 2011, up from -12.6 percent in the fourth quarter of 2010.

3. **The labor market recovery slows in the private sector.** The U.S. economy continuously added private-sector jobs from February 2010 to June 2011 for a total of 2.2 million jobs. But job growth slowed substantially in May and June 2011. The economy added an average of only 65,000 per month, which is down from an average of more than 203,000 jobs per month between January and April 2011. See Figure 1

4. **Unemployment slowly climbs higher.** The unemployment rate climbed back up to 9.2 percent in June 2011. The labor market is expanding too slowly to address the massive jobs hole. There were still 7 million fewer jobs in June 2011 than at the start of the recession in December 2007. The population also has grown since then, which puts the labor market deeper into the hole than the raw number suggests.

5. **Length of long-term unemployment reaches record highs.** Forty-four percent of the unemployed have been out of work and looking for a job for more than six months. The average length of unemployment soared to a record 39.9 weeks in June 2011.
6. **Unemployment stays high among the most vulnerable.** The African American unemployment rate in June 2011 stayed at a high 16.2 percent, the Hispanic unemployment rate was 11.6 percent, and the unemployment rate for whites rose to 8.1 percent. Youth unemployment stood at a high 24.5 percent. And the unemployment rate for people without a high school diploma stayed high at 14.3 percent, compared to 10.0 percent for those with a high school diploma and 4.4 percent for those with a college degree.5

7. **Family incomes drop sharply.** 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.6

8. **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.7

9. **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

10. **Family wealth losses linger.** Total family wealth was down $12.4 trillion (in 2011 dollars) from June 2007—its last peak—to March 2011 despite strong gains in the stock market since early 2009. Home equity stays low, such that homeowners on average still own only 38.1 percent of their homes, with the rest owed to banks.9 This is the lowest share on record, going back to 1952. [SEE FIGURE 2](#)

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**FIGURE 2**

**Home equity as share of house values**

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<thead>
<tr>
<th>Percent of house value</th>
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<td>90%</td>
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11. Debt levels are still high despite a three-and-a-half-year decrease. 
Total household debt equaled 114.1 percent of after-tax income in March 2011. This is down from a record high of 130.2 percent in September 2007 but still higher than at any point before September 2004.10

12. Families face severe mortgage troubles. 
One in eight mortgages is delinquent or in foreclosure. The share of mortgages that were delinquent was 8.3 percent in the first quarter of 2011, and the share of mortgages that were in foreclosure was 4.5 percent.11

13. Credit card defaults gradually fall from record highs. 
Credit card defaults amounted to a high 7.2 percent of all credit card debt by the first quarter of 2011—still 70.3 percent above the rate in the fourth quarter of 2007 just before the Great Recession started.12 See Figure 3

Endnotes

1 All GDP data are from: Bureau of Economic Analysis, National Income and Product Accounts, (Department of Commerce, 2011). Investment growth is expressed as year-over-year change, rather than the most recent quarterly change by itself, as quarterly investment data can be more volatile than consumption data.
2 Trade deficit as share of GDP are calculated as share of net exports out of nominal GDP, based on: Bureau of Economic Analysis, National Income and Product Accounts.
6 Data for family incomes are from: Bureau of the Census, Income, Poverty, and Health Insurance Coverage in the United States: 2009 (Department of Commerce, 2010). This report is occasionally referred to as the poverty report.
7 Data for health insurance are from: Bureau of the Census, Income, Poverty, and Health Insurance Coverage in the United States: 2009 (Department of Commerce, 2010).
8 Data for poverty rates are from: Bureau of the Census, Income, Poverty, and Health Insurance Coverage in the United States: 2009 (Department of Commerce, 2010).
10 Debt calculations are based on: “Federal Reserve Statistical Release Z.1,” Debt levels are the ratio of the nominal debt levels divided by the nominal disposable personal income. Debt refers to total credit instruments.
12 Data are taken from: “Charge-Off and Delinquency Rates on Loans and Leases at Commercial Banks,” available at http://www.federalreserve.gov/releases/chargeoff/. The charge-off rates reported here are the seasonally adjusted rates for all banks.