



# Economic Snapshot for September 2011

## Christian E. Weller on the State of the Economy

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Discussions of jobs rank high in the policy domain. The goal of creating jobs more quickly so that the unemployment rate will finally fall is obvious. The jobs policy agenda must focus on short-term support for struggling families such as extended unemployment benefits and lower payroll taxes as well as necessary public investments that can put people quickly back to work.

Many of these policy steps will also pay longer-term dividends by improving the foundation for faster economic growth in the future. Other steps, though, may be necessary to improve the growth outlook for the U.S. economy over time and to raise the competitiveness of American-made products and services in the global economy. Policymakers have an opportunity to put down key markers on tax and spending priorities with the work of the super committee charged with finding ways to rein in the long-term budget deficits. This work will directly impact the economic security of American families, who are struggling in the weak labor market right now, and that will affect the outlook for growth and future living standards for years to come. Both the short-run and long-run economic outlook could substantially improve with enough political will, as Michael Ettlinger and Michael Linden already showed.

- 1. Economic growth remains low.** Gross domestic product, or GDP, grew at an annual rate of 1 percent in the second quarter of 2011. The economy has expanded now by 5 percent in inflation-adjusted terms, the slowest growth during the first eight quarters of an economic recovery since World War II. Business investment expanded at a reasonable 9.9 percent in the second quarter of 2011,<sup>1</sup> while export growth slowed to 3.1 percent. Consumption was almost flat, expanding at only 0.4 percent, and government spending fell by 0.9

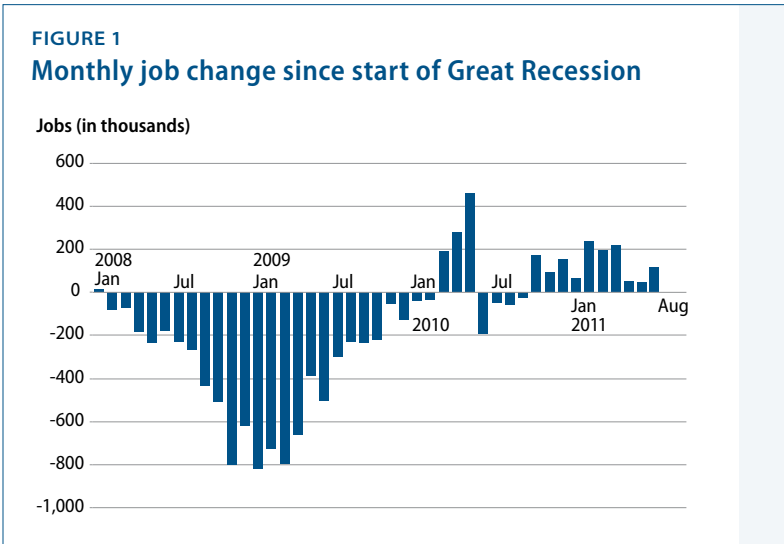
percent. Economic growth is slowed in particular because of weak consumer demand as many people are still out of a job and many families need to save more to pay back massive amounts of debt or compensate for low house prices and tumbling stock portfolios.

**2. The trade deficit stays high as imports outpace exports.** The U.S. trade deficit stood at 4 percent of GDP in the second quarter of 2011, up from its last trough of 2.4 percent of GDP in the second quarter of 2009 and the largest deficit since the end of 2008.<sup>2</sup> The solid U.S. export performance of the past few years has not been enough to overcome even larger import increases, putting more pressure on other parts of the economy—consumption and business investment chief among them—to move the economy forward to faster growth.

**3. The labor market recovery slows.** The private sector continuously added jobs from February 2010 to August 2011 for a total of 2.4 million jobs. Private-sector job growth, though, is offset by a loss of 462,000 public sector jobs at the state and local level between February 2010 and August 2011,<sup>3</sup> reflecting the budget troubles of state and local governments. Job growth in fact slowed substantially in the spring of 2011, falling to zero new jobs in August 2011.

**4. Unemployment stays high amid weak job growth.** The unemployment rate stood at 9.1 percent in August 2011. Long-term unemployment ballooned as the unemployment rate stayed high. In August 2011 42.9 percent of the unemployed had been out of and looking for a job for more than six months. The average length of unemployment stayed close to a record high with 40.3 weeks in August 2011.<sup>4</sup>

**5. Labor market pressures fall especially on communities of color, young workers, and those with little education.** The African American unemployment rate in August 2011 stayed at well above average with a high 16.7 percent and the Hispanic unemployment rate stayed high with 11.3 percent, while the white unemployment rate was 8 percent. Youth unemployment stood at a high 25.4 percent. And the unemployment rate for people without a high school diploma



stayed high with 14.3 percent, compared to 9.6 percent for those with a high school diploma, and 4.3 percent for those with a college degree.<sup>5</sup> Vulnerable groups have struggled disproportionately more amid the weak labor market of the past few years than white workers, older workers, and workers with more education. But even those groups that fare better than their counterparts in the weak labor market suffer tremendously from high and long-term unemployment.

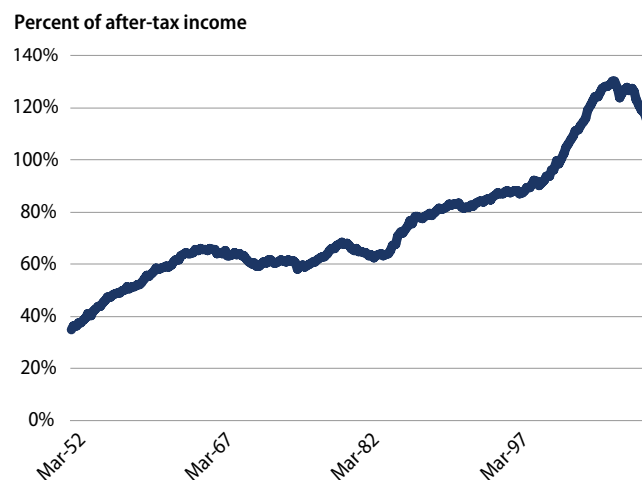
- 6. Household incomes continue to drop amid prolonged labor market weaknesses.** Median inflation-adjusted household income—half of all households have more and the other half has less—stood at \$49,445 in 2010, its lowest level in inflation-adjusted dollars since 1996. It fell again by 2.3 percent in 2010, an accelerated decline after median income dropped by 0.7 percent in 2009. American families saw few gains during the recovery before the crisis hit in 2008 and experienced no income gains during the current economic recovery after 2009.<sup>6</sup>
- 7. Poverty continues to rise across a wide spectrum.** The poverty rate rose to 15.1 percent in 2010—its highest rate since 1993. The African American poverty rate was 27.4 percent, the Hispanic rate was 26.6 percent, and the white rate was 9.9 percent in 2010. The poverty rate for children under the age of 18 stood at 22 percent. More than one-third of African American children (39.1 percent) lived in poverty in 2010, compared to 35 percent of Hispanic children and 12.4 percent of white children.<sup>7</sup> The prolonged economic slump following an exceptionally weak labor market before the crisis has taken a massive toll on the most vulnerable.
- 8. Employer-provided health insurance benefits continue to disappear.** The share of people with employer-provided health insurance dropped from 65.1 percent in 2000 to 55.3 percent in 2010. This is the lowest share since 1987 when the Census started to track these data.<sup>8</sup> Families' income woes are thus further exacerbated by less access to affordable health insurance since families will have to save more than in the past to prepare for eventual economic emergencies.
- 9. Family wealth losses linger.** Total family wealth is down \$12.8 trillion (in 2011 dollars) from June 2007—its last peak—to June 2011. Home equity stays low, such that homeowners on average still own only 38.6 percent of their homes, with the rest owed to banks.<sup>9</sup> This is the lowest share on record, going back to 1952. Households, already struggling with low incomes in a weak labor market, consequently feel growing pressures to save more and consume less. The personal savings rate increased from 2.3 percent of after-tax income in June 2007

to 5.2 percent in June 2011.<sup>10</sup> The dual burden of low income and decimated household wealth puts the breaks on consumer spending, holding back economic and job growth.

#### 10. Households are burdened by large debt levels.

Total household debt equaled 114.3 percent of after-tax income in June 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.<sup>11</sup> The unprecedented decrease in household indebtedness during the crisis resulted from a combination of factors—tight lending standards, falling interest rates, and massive foreclosures—that are slowly abating, suggesting that further decreases in household indebtedness, or deleveraging, will also slow, unless incomes rise faster than they have in the past. High household debt will hence continue to slow economic growth in the future as households focus on saving more, rather than on spending more.

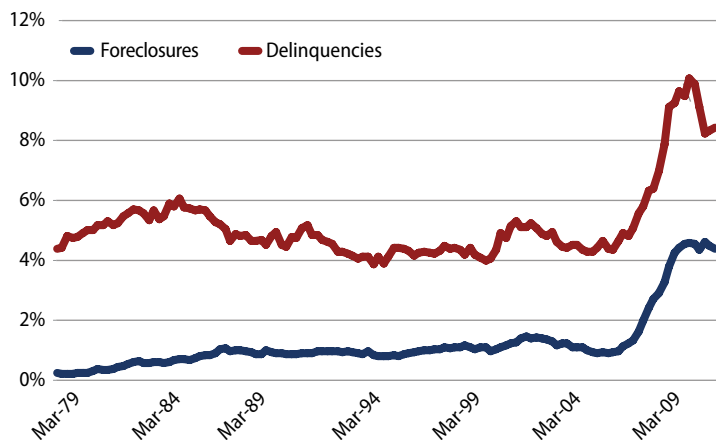
**FIGURE 2**  
Household debt to after-tax income, 1952 to 2011



#### 11. Financial distress is widespread among families.

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 at the same time.<sup>12</sup> A weak job market coupled with massive wealth losses has pushed comparatively large shares of families into a desperate situation, reflected in delayed mortgage payments and very high foreclosure rates for several years now. This household economic distress reverberates across the economy as banks are nervous about extending new credit, thus prolonging the economic slump.

**FIGURE 3**  
Share of mortgages that are delinquent or in foreclosure



Source: Mortgage Bankers Association, 2011, National Delinquency Survey, Washington, DC: MBAA.

**12. Profitable corporations prioritize cash holdings and other activities over hiring.** After-tax profits of nonfinancial corporations increased by 85.2 percent from December 2008, the most recent low points in profitability, to June 2011.<sup>13</sup> Cash holdings rose to 13.6 percent of financial assets in June 2011, its highest share since March 1984. Nonfinancial corporations built up more cash holdings since December 2007, even as they spent more than all of their after-tax profits—104.8 percent—on average on buying back their own shares and paying out dividends. The weak labor market is thus not a reflection of employers not having the money to hire more workers but rather employers focusing on improving their profitability. Corporations then prioritize building up their cash reserves and propping up their share prices over hiring new employees.

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## 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*.
- 3 Employment growth data are calculated based on: Bureau of Labor Statistics, *Current Employment Statistics* (Department of Labor, 2011). The Current Employment Statistics are also known as the payroll survey.
- 4 Unemployment numbers are taken from: Bureau of Labor Statistics, *Current Population Survey* (Department of Labor, 2011). The Current Population Survey is also known as the household survey.
- 5 Unemployment rates by demographic characteristics are taken from: Bureau of Labor Statistics, *Current Population Survey*.
- 6 Data for family incomes are from: Bureau of the Census, *Income, Poverty, and Health Insurance Coverage in the United States: 2010* (Department of Commerce, 2011). This report is occasionally referred to as the poverty report.
- 7 Data for poverty rates are from: Bureau of the Census, *Income, Poverty, and Health Insurance Coverage in the United States: 2010*.
- 8 Data for health insurance are from: Bureau of the Census, *Income, Poverty, and Health Insurance Coverage in the United States: 2010*.
- 9 Wealth calculations are based on: "Federal Reserve Statistical Release Z.1 - Flow of Funds Accounts of the United States," available at <http://www.federalreserve.gov/releases/z1/>. Real wealth is the nominal wealth deflated by the price index for the Personal Consumption Expenditure index. The Personal Consumption Expenditure index is from: Bureau of Economic Analysis, *National Income and Product Accounts*.
- 10 All GDP data are from: Bureau of Economic Analysis, *National Income and Product Accounts*. 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.
- 11 Debt calculations are based on: "Federal Reserve Statistical Release Z.1 - Flow of Funds Accounts of the United States." 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: Mortgage Bankers Association, "National Delinquency Survey" (2011).
- 13 Calculations are based on: "Federal Reserve Statistical Release Z.1 - Flow of Funds Accounts of the United States."