Economic Snapshot for July 2012

Christian E. Weller on the State of the Economy

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The U.S. economy is dealing with a number of problems including large household debt; lingering wealth losses; fiscal challenges for state, local, and federal governments; and overseas economic crises. Job and economic growth are sluggish as a result.

Policymakers have tools that can accelerate both job creation and economic expansion—they just need to use them. They acted decisively in the past with extended unemployment insurance benefits, payroll tax cuts, and infrastructure investments when they had a sense of urgency about helping America’s struggling middle class and strengthening the recovery. There’s no reason they shouldn’t have that urgency now.

Policymakers’ top concern should be sustained and faster job creation. They can also boost household incomes through extended unemployment insurance benefits, higher minimum wages, and more opportunities for employees to join a union. In addition, policymakers need to focus on helping households build wealth faster through measures that strengthen the housing market, help households save more money, and allow families to lower their debt burden.

1. Economic growth remains positive but modest. Gross domestic product, or GDP, grew at an annual rate of 1.9 percent in the first quarter of 2012. Government spending actually fell by 4 percent and business investment grew at a modest pace of 3.1 percent in the first quarter of 2012, while consumption grew by 2.5 percent and exports expanded at a strong 4.2 percent growth rate. Government spending cuts reflect the continued fiscal crisis among federal, state, and local governments and declining business investment. The slow pace of business investment may reflect businesses’ uncertainty about the economic and fiscal outlook.

2. Competitiveness falls back. Worker productivity—the amount of goods and services produced in an hour of work in the nonfarm business economy—is a key measure of the economy’s global competitiveness. It decreased by 0.9 percent in the first quarter of 2012. Productivity now stands 6.8 percent larger than in December...
2007, at the start of the Great Recession, but well below the average increase of 9.3 percent for similar periods in the past.³

3. **The slow labor market recovery continues.** There were 2.6 million more jobs in June 2012 than in June 2009, when the economic recovery officially started. The private sector added 3.2 million jobs during this period. The difference between the net gain and private-sector gain is explained by the loss of 618,000 state and local government jobs, as budget cuts reduced the number of teachers, bus drivers, firefighters, and police officers, among others.⁴ Job creation is a top policy priority since private-sector job growth is still too weak to overcome other job losses quickly and to lower the unemployment rate rapidly.

4. **Unemployment stays high.** The unemployment rate stood at 8.2 percent in June 2012. Long-term unemployment has also ballooned in recent years alongside high unemployment rates. In June 2012, 41.9 percent of the unemployed were out of work and looking for a job for more than six months. The average length of unemployment stayed high with 39.9 weeks in June 2012.⁵ Those out of a job for a long time struggle because job growth has proceeded at a slow pace. Millions of unemployed workers hence vie for the newly created jobs.

5. **Labor market pressures fall especially on communities of color, young workers, and those with less education.** The African American unemployment rate in June 2012 stayed well above average at 14.4 percent, the Hispanic unemployment rate was 11 percent, and the white unemployment rate was 7.4 percent. Youth unemployment stood at a high 23.7 percent. And the unemployment rate for people without a high school diploma stayed high at 12.6 percent, compared to 8.4 percent for those with a high school diploma, 7.5 percent for those with some college education, and 4.1 percent for those with a college degree.⁶ Vulnerable groups have struggled disproportionately more amid the weak labor market than white workers, older workers, and workers with more education.

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 2009.⁷

7. **Income inequality is on the rise.** Households at the 95th percentile, with incomes of
$180,810 in 2010, had incomes more than nine times—9.04 times, to be exact—the
incomes of households at the 20th percentile, which had incomes of $20,000. This is
the largest gap between the top 5 percent and the bottom 20 percent of households
since the U.S. Census Bureau kept record in 1967.⁸

8. **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.⁹
The prolonged economic slump, following an exceptionally weak labor market
before the crisis, has taken a massive toll on the most vulnerable.

9. **Employer-sponsored benefits disappear.** The
share of people with employer-sponsored
health insurance dropped from 59.8 percent
in 2007 to 55.3 percent in 2010.¹⁰ The share of
private-sector workers who participated in a
retirement plan at work fell to 39.5 percent in
2010, down from 42 percent in 2007.¹¹ Families
have less economic security than in the past due
to fewer employment-based benefits, requiring
more private savings to make up the difference.

10. **Family wealth losses linger.** Total family wealth
is down $10.9 trillion (in 2012 dollars) from
its last peak in June 2007 to March 2012. And
homeowners on average own a near-record low
of only 40.7 percent of their homes, with the
rest owed to banks.¹² Homeowners feel pressure
to save more and consume less to rebuild their
equity, slowing consumer spending and holding back economic growth.

11. **Household debt is still high.** Household debt equaled 109.2 percent of after-tax
income in March 2012, down from a peak of 129.1 percent in September 2007.¹³
The unprecedented fall in debt over the past four years resulted from tight lend-
ing standards, falling interest rates, massive foreclosures, and increased household saving. Further deleveraging will likely slow, then, unless incomes rise faster than they have in the past. High debt could hence continue to slow economic growth as households focus on saving rather than on spending more.

12. **The housing market grows from historic lows.** New home sales amounted to an annual rate of 369,000 in May 2012, the largest sales figure since April 2010 but well below the historical average of 698,000 before the Great Recession. The median house price in May 2012 was 5.6 percent higher than a year earlier. Existing home sales were up by 9.6 percent in May 2012 from a year earlier, and the median price for existing homes was up by 7.9 percent during this period. The housing market has a lot of room to grow and to contribute to economic growth since the tepid recovery in the spring of 2012 started from historically low home sales.

13. **Homeowners’ distress remains high.** One in eight mortgages are still delinquent or in foreclosure even though mortgage troubles have gradually eased since March 2010. The share of mortgages that were delinquent was 7.4 percent in the first quarter of 2012 and the share of mortgages that were in foreclosure was 4.4 percent at the same time. Many families delayed and defaulted on mortgage payments amid high unemployment and massive wealth losses. Banks are thus nervous about extending new mortgages, prolonging the economic slump.

14. **Near pre-crisis peak corporate profits not reflected in investment data.** Inflation-adjusted corporate profits were 97.7 percent larger in March 2012 than in June 2009, when the economic recovery started. The after-tax corporate profit rate—profits to total assets—stood at 3.1 percent in March 2012, its highest level since September 2006. Corporations used their resources for purposes other than investments in plant and equipment. The share of investment out of GDP stayed low with 10.4 percent in the first quarter of 2012.
Endnotes

1. All GDP data are from the Bureau of Economic Analysis, "National Income and Product Accounts" (U.S. Department of Commerce, 2012).


7. Data for family incomes are from the U.S. Census Bureau, Income, Poverty, and Health Insurance Coverage in the United States: 2010 (U.S. Department of Commerce, 2011). This report is occasionally referred to as the poverty report.

8. Other measures of income dispersion also show a growing gap between families in the top 5 percent, top 10 percent, and top 20 percent, relative to families in the bottom 20 percent and bottom 50 percent. See U.S. Census Bureau, Income, Poverty, and Health Insurance Coverage in the United States: 2010.


10. Data for health insurance are from the U.S. Census Bureau, Income, Poverty, and Health Insurance Coverage in the United States: 2010.


13. Debt calculations are based on Board of Governors, Federal Reserve System, “Release Z.1 Flow of Funds Accounts of the United States” (Washington: Federal Reserve System, 2012). Debt levels are the ratio of the nominal debt levels divided by the nominal disposable personal income. Debt refers to total credit instruments.


18. Profit rates are calculated based on data from the Board of Governors, “Release Z.1 Flow of Funds Accounts of the United States” And, inflation-adjustments are based on the Personal Consumption Expenditure index from the Bureau of Economic Analysis, National Income and Product Accounts.