Shrinking net worth

July 2, 2012. Every three years the Federal Reserve Board conducts a Survey of Consumer Finances. The most recent survey, covering the 2007 to 2010 period, was released in June. Although the report largely confirmed expectations, some of the numbers were startling.

• Median net worth of American families fell by 38.8% during the three years. The setback pushed median wealth levels back to those of the early 1990s. (All figures are adjusted for inflation.)

• Median home equity (value less associated mortgage debt) fell from $110,000 to $75,000.

• Median income fell by 7.7%. The decline was most pronounced among more highly educated families, families headed by persons aged less than 55, and families living in the south and west regions. On the other hand, median income moved higher for retirees as a group, and for other nonworking families.

• The number of families who are able to save fell to 52% in 2010, from 56.4% in 2007.

The lost net worth is largely attributable to the fall in home values, especially for the middle class. Stocks also lost much value, but have recovered some; housing still has not. Indeed, experts are still debating whether the housing market has bottomed.

With net worth so much lower, consumers have far less flexibility in their spending decisions. The loss of spending power may help explain the economy's current sluggishness.

Jobs

After an encouraging first quarter, the May jobs report came as something of a shock to most observers. The consensus expectation had been for roughly 150,000 new jobs to be created, continuing modest growth. Instead, companies added only 69,000 positions. More ominously, the figures for March and April were revised downward by 49,000 jobs, so earlier cautious optimism was unwarranted after all. Most observers conceded that the economy is slowing, and will likely miss the optimistic targets forecast as the year began.

Additional data points:

• The unemployment rate would be far worse, but for the fact that so many people have stopped looking. If the labor force participation rate were the same today as when President Obama took office, the unemployment rate would be 10.9%.

• Unemployment has been above 8% for 40 consecutive months, the longest such period since the Great Depression.

• The broader unemployment measure, which includes underemployed people who are looking for full-time work, rose to 14.8%.

Politicians in both parties profess to be concerned about the unemployment situation, but can't agree on a remedy. Major action is not expected before the election.

Eurozone woes

At the end of June, Europe's leaders agreed to a new budget-discipline pact, as well as a permanent $623 billion rescue fund for the continent. Concessions were included, so that Spain and Italy won't have to implement austerity measures as harsh as those in Ireland, Portugal and

Greece. The goal, to get the European economy back into growth mode, remains elusive. Still, the pact had the desired calming effect on the financial markets as the second quarter closed.

Housing

Housing price declines appear to have slowed, to the point that some observers believe that the market may have bottomed. The S&P/Case-Shiller Home Price Index was in the red, year-over-year, for 13 of the top 20 cities in March. Just ten were in that category in April, a modest improvement. Even though prices were still down in ten markets, 19 of 20 showed improvement month to month.

The housing market is a local market. Phoenix home prices rose 8.6% in a year, but at the other end of the performance measure, Atlanta was down 17.0%

The inventory of new and used homes for sale is relatively low, which has helped stabilize prices. In fact, applications for building permits for homes and apartments reached a level in May not seen in the past three years. This confidence needs to be tempered, however, by the supply of homes in foreclosure, which could tamp prices down further.

(July 2012)