



## ISSUE BRIEF

September 30, 2009

# Falling Earnings in 2008 Foretells Economic Crisis for Working Families in 2009

An Analysis of the Census Bureau's 2008 American Community Survey for the Puget Sound Region

In 2008, the Puget Sound Region<sup>1</sup> was on the brink of a precipitous economic decline. Recently released Census data on poverty and income show that as unemployment began to rise, worker earnings fell by nearly 2% over the previous year. But this was just the proverbial tip of the iceberg.

Average household income and poverty rates held steady between 2007 and 2008, as the regional economy had yet to turn down dramatically. However, the 2008 data reveal that earnings, poverty and income inequality made some groups of workers and families more vulnerable to the economic crisis. National projections for these indicators, as well as the increasing stories of families struggling to make ends meet, paint a bleak picture for 2009 and several years to come.

## Key Findings

- Median earnings for all workers dropped by nearly 2% from 2007 to 2008 – from \$37,860 to \$36,985.
- In 2008, nearly two in five households had a household income less than what a family of four needs to make ends meet in the region, also called a “self-sufficiency” income.
- Inequality between groups in 2008 foreshadows where the most damage from the economic crisis is currently happening.
  - Households at the bottom fifth of the income scale made only \$16, 175, on average—13 times less than those at the top.
  - High poverty rates plagued vulnerable groups: African American or Black families (23%), Hispanic or Latino families (19%) and single-mother families (28%).
  - The unemployment rate for African Americans or Blacks (10.8%) was double the overall rate (4.7%).
- Soaring unemployment in 2009, coupled with a loss of 88,000 jobs in the region, will dramatically affect vulnerable groups. National projections show a drop of 10% in average income and increases of 7% to 9% in poverty rates for some groups.

<sup>1</sup> For this brief, we use the Seattle-Tacoma-Bellevue metropolitan statistical area (MSA). The Census defines this region as three counties—King, Pierce, and Snohomish.

## Recession Beginning to Have Effects in 2008

Nationally, the recession began in the fourth quarter of 2007. Although many predicted that the Puget Sound region would weather the storm better than other areas of the U.S., the downturn caught up the end of 2008 and has dramatically worsened. The 2008 American Community Survey (ACS)—the most recent data on our region currently available from the Census Bureau—does not reveal the current effects of the recession. But a nearly 2% drop in median earnings from 2007 to 2008 gives a peek at the story in 2009—soaring unemployment and massive job losses wreaking havoc on thousands of working families across the region.

### Annual Earnings Fall for Region's Workers

In 2008, median earnings for all workers—the point at which half of workers fall below and half are above—dropped to \$36,985 from \$37,680 (after adjusting for inflation). This decrease of 1.8% likely represents effects of the recession in late 2008. (Despite a drop in earnings, however, household income had not yet changed significantly.)

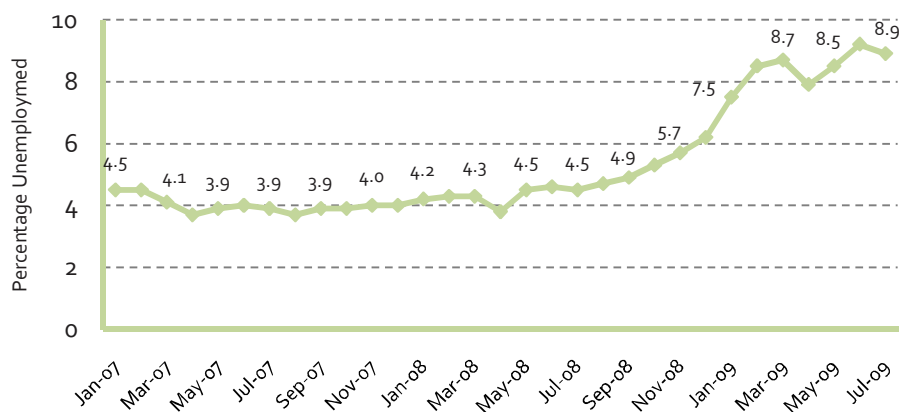
	2007	2008	Change
Median worker earnings	\$37,680	\$36,985	-1.8%*
Median household income	\$66,580	\$66,465	-0.2%

\*Represents statistically significant change from 2007 to 2008

### Unemployment Spikes in 2009

By summer 2009, unemployment in the Puget Sound region soared over 9%, the highest rate since the 1980s. In 2008, unemployment began to rise substantially only in the 4<sup>th</sup> quarter, explaining why the 2008 ACS data do not reflect the severity of the recession.

Regional Unemployment, Jan 2007 to July 2009

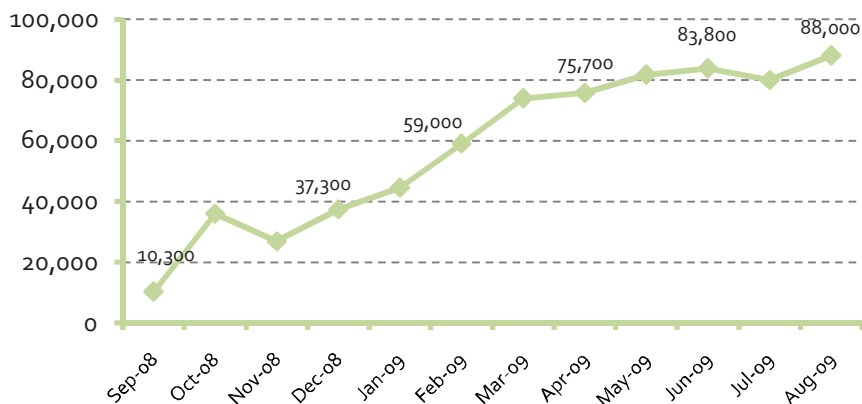


Source: U.S. Bureau of Labor Statistics for Seattle-Tacoma-Bellevue MSA (includes Snohomish County)

### Jobs Loss Approaches 90,000

Since the job peak of August 2008, the region has shed an alarming 88,000 jobs. Between job loss and unemployment, working families across the region and across industries are feeling the brunt of the recession, despite recent statements by economists that the recession is “technically” over.

Cumulative Job Loss in Region, Sept 2008 to Aug 2009

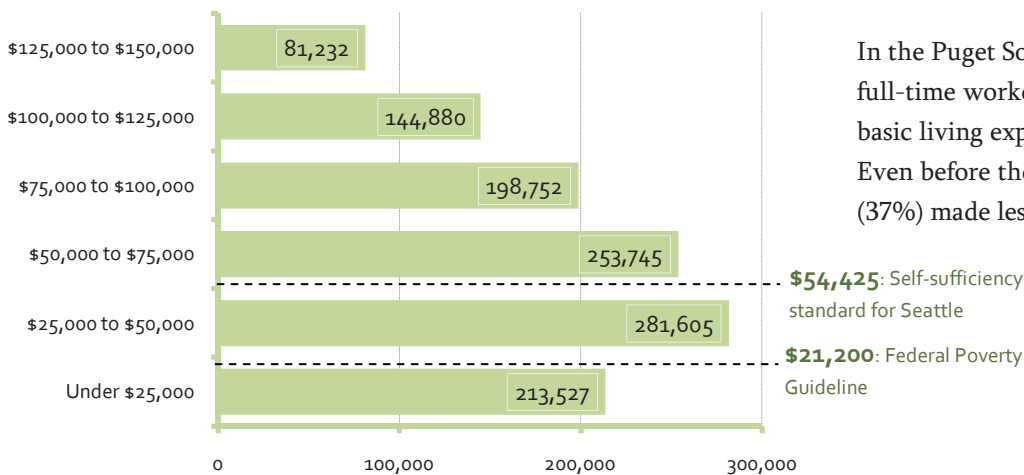


Source: Washington Department of Labor and Industries with authors' aggregation of Seattle and Tacoma MSA data (includes King, Pierce and Snohomish Counties).

## Economic Hardship and Income Inequality Reveals Vulnerability to Recession

Before the recession, a substantial proportion of households in the region were already struggling to make ends meet. In 2008, over 37% of households in the Puget Sound region had incomes below the self-sufficiency standard. The region was also characterized by dramatic inequality, leaving households at the bottom with fewer resources and higher vulnerability to the effects of the recession.

Household Income Distribution (Below \$150,000)<sup>2</sup>

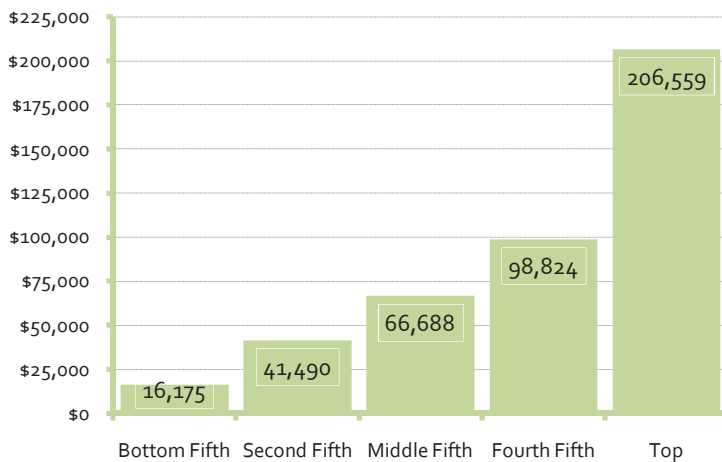


### Nearly Two in Five Households Make Less than an Annual "Self-Sufficiency" Budget

In the Puget Sound Region, a family of four with two full-time workers needs \$54,425 to afford housing and basic living expenses without government assistance.<sup>3</sup> Even before the recession, over 595,000 households (37%) made less than this standard.

Close to 200,000 households made do with a more severely constrained annual budget—the poverty threshold for a family of four in 2008, or \$21,200 a year.

Average Household Income by Quintile (Fifths)



### Households in Bottom Fifth of Income Least Able to Weather the Storm

On average, households in the top fifth of the income scale made 13 dollars for every one dollar made by the bottom fifth—\$206,559 compared to only \$16,175. Those doing slightly better, in the second fifth, made only one dollar for every five made by the top echelon. Even in a period of economic growth, income inequality resulted in households at the bottom considerably worse off than those at the top. These households are most likely to be sustained by low-wage, blue collar and service sector jobs. They are also least likely to have accumulated assets to weather a long-term economic crisis.

<sup>2</sup> Income bands above \$150,000 are not comparable in \$25,000 increments. The total number of households making \$150,000 or more is 167,947 or 13%.

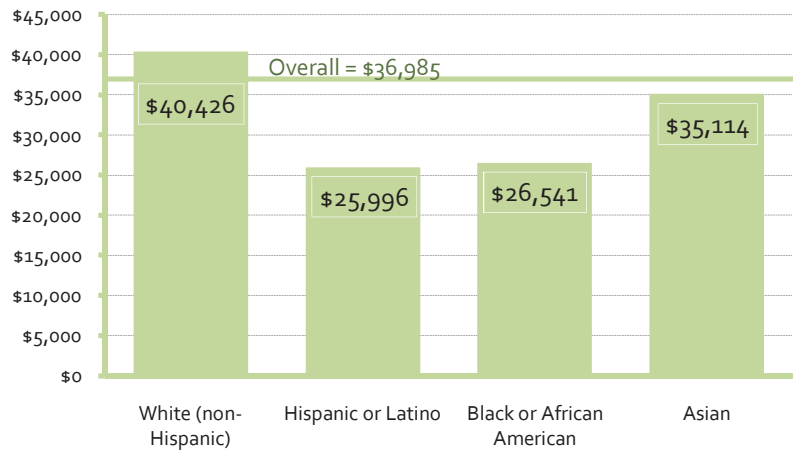
<sup>3</sup> Self-sufficiency standard from Pearce, Diana M., *The Self-Sufficiency Standard for Washington State*, prepared for the Workforce Development Council of Seattle-King County, June 2009.

## Black and Latino Workers' Earnings Lag

In 2008, the gap between Black and Latino earnings and White earnings was nearly \$15,000 a year. Their earnings also fell \$10,000 below the median for all workers.

As the recession worsens, any fall in earnings—whether from reduced work hours or reduced wages—will likely have a disproportionate effect on Black and Latino working families.

### Median Earnings by Race and Origin

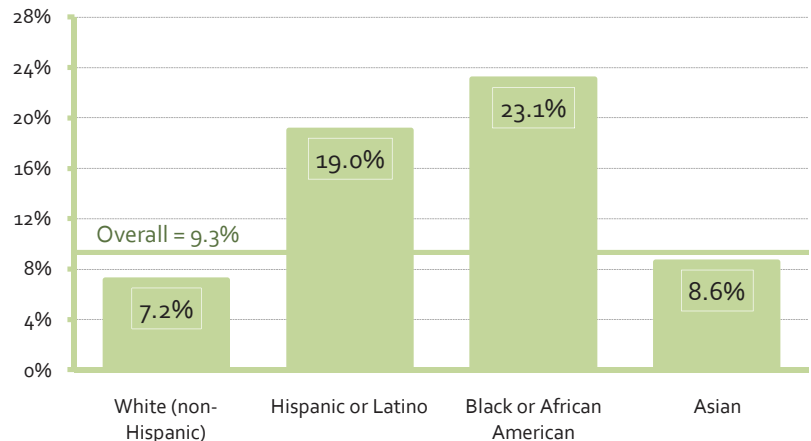


## Poverty Rate for Some Groups Alarming, Even Before the Recession

The federal poverty threshold is widely acknowledged to be far lower than the actual cost of living, especially in high-cost areas such as the Puget Sound.

Nonetheless, nearly a quarter (23.1%) of the region's African Americans or Blacks was living in poverty in 2008, compared to only 7.2% for Whites (non-Hispanic). Nearly a fifth (19%) of Latinos also lived below the poverty line. High poverty rates for other vulnerable groups include children (11.3%) and single mother families (28.2%). For all these groups, rising unemployment and falling earnings will serve to deepen poverty and economic hardship.

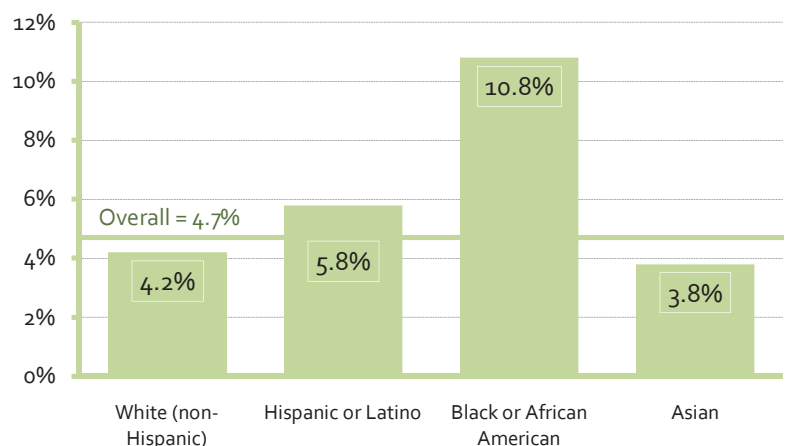
### Poverty Rate by Race and Origin



## Unemployment for Blacks More than Double Regional Rate

Soaring unemployment did not start with all groups even at the starting line. In 2008, Black unemployment (10.8%) was more than double the regional rate (4.7%) and nearly triple the rate of Asian unemployment (3.8%). Latino unemployment (5.8%) was also higher than the regional rate, before the region began shedding jobs at a furious pace. If unemployment for these groups rose at the same pace as the overall workforce, Black unemployment could be as high as 20% and Hispanic unemployment as high as 10%.

### Unemployment Rate by Race and Origin



## State and National Projections Predict Dramatic Increase in Hardship

National economic experts agree that despite the recession being declared “technically” over, unemployment and hardship for working families will continue to increase.

Economists at the Economic Policy Institute (EPI) in Washington DC predict that the national unemployment rate will reach 10.2% by 2010.<sup>4</sup> Historically, increases in unemployment have had measurable effects on average income and poverty rates. Using these historic trends, EPI can predict economic hardship as unemployment rises.

Under this unemployment scenario, average income for the typical household (in the middle fifth of the income scale) will likely fall by 9% from 2007 to 2010 (see table below). The overall poverty rate will increase from 12.5% to 15.1%, approaching levels not seen since the early nineties. Particularly vulnerable groups will fare even worse. Child poverty is predicted to jump from 18% to 26.6% in the same time period. The Black poverty rate will sharply increase from 24.5% to 31.8%. Poverty for single mothers will soar to 46.4% by 2010, up from 37% in 2007.

**Income and Poverty Projections for the US**

	2007	2008	2010 projections
Unemployment rate	4.6%	5.8%	10.2%
Average income in middle 20%	\$51,888	\$50,132	\$47,075
Overall poverty rate	12.5%	13.2%	15.1%
Child poverty rate	18.0%	19.0%	26.6%
Black poverty rate	24.5%	24.7%	31.8%
Poverty rate for single mother families	37.0%	37.2%	46.4%

In Washington, the State’s Economic and Revenue Forecast Council predicts unemployment will also double from 4.5% to 9.8% over the same period of 2007 to 2010. With unemployment mirroring national trends, the projections above could prove relevant to the Puget Sound Region. Poverty rates for vulnerable groups, particularly Black families and single mother families, could reach over 30%.

<sup>4</sup> Data and projections from Shierholz, Heidi, *New 2008 poverty, income data reveal only tip of the recession iceberg*, September 10, 2009.

## About Puget Sound Sage

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Puget Sound Sage brings together labor, faith, and community to make the region's economy work for working people. We improve the lives of working families by raising job standards, upholding workers' rights, and growing communities where all families thrive.

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## About the Data

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This issue brief is based on American Community Survey (ACS) data released on September 22, 2009. The ACS is an annual survey of the U.S. Census Bureau that is conducted year-round for areas of population of 65,000 or above. Household incomes and earnings are reported for the past 12 months, and earnings are reported for the civilian employed population 16 years and over. Earnings represent individual wages, salaries or net income for self-employed persons. Household income represents earnings from all workers plus all other forms of income, including Social Security, public assistance, or dividends from investments, if any. Because the surveys are based on a sample, the U.S. Census reports margins of error and apparent changes in statistics may not represent actual changes in the population. Any differences between data in this report that are not statistically significant have been noted.

This brief was authored by Grace Sheedy and Howard Greenwich, Research Director.