

Record fall in US home prices

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27 December 2007

US home prices fell by more than 6 percent in October from their October 2006 levels, according to a closely followed home price index, recording the biggest annual decline since the index began in 1987. It was the tenth consecutive month that the Standard & Poor's/Case-Shiller index showed a year-to-year fall in existing home prices.

The report, released Wednesday, underscored the deep and protracted character of the US housing slump and presaged further social and financial convulsions. The implosion in US home prices will exacerbate the upward spiral of home foreclosures, already expected to top 1 million over the next year. That will, in turn, further depress house prices and lead to even greater losses by major US and European banks that are heavily invested in securities linked to US subprime mortgages.

It is estimated that global banks and other financial institutions have thus far written off \$105 billion in mortgage-backed investments that have collapsed as a result of the bursting of the US housing bubble. The ultimate toll could be far higher, threatening the solvency of major Wall Street firms as well as major banks in Europe.

The combination of financial crisis, credit tightening and spreading economic distress in the general population points in the direction of a severe recession, not only in the US, but internationally.

The S&P/Case-Shiller year-over-year index of ten metropolitan areas fell 6.7 percent from a year earlier. The index for 20 metropolitan areas declined 6.1 percent. On a month-over-month basis, both indexes lost 1.4 percent in October as compared with September.

Eleven of the twenty metropolitan areas registered their largest monthly decline on record in October, led by San Diego, where home prices fell 2.6 percent.

On an annual basis, single-family home prices in

Miami recorded the sharpest decline, down 12.4 percent, followed by Tampa with an 11.8 percent fall and Detroit, where home prices plunged by 11.2 percent. The areas hardest hit are those, such as Florida and California, where home prices soared the highest during the boom, and the Midwest, where the loss of manufacturing jobs has devastated local economies.

"No matter how you look at these data, it is obvious that the current state of the single-family housing market remains grim," said Robert J. Shiller, chief economist at MacroMarkets. According to Shiller, the fall in home prices is greater than at any time since 1941.

Patrick Newport, an economist at Global Insight, a Boston-area research firm, said, "The one disconcerting thing about the number is that the rate that prices are falling is accelerating."

The housing slump and related banking crisis are taking an increasing toll on overall economic activity. A report issued Wednesday by the Federal Reserve Bank of Richmond, Virginia showed that manufacturing in its region contracted this month for the second time in three months. Earlier reports this month showed factory activity declining in New York and the Philadelphia region.

And the pressure on debt-burdened families from falling home prices is spilling over to other forms of consumer credit. An analysis by the Associated Press released this week shows that credit card delinquencies jumped by 26 percent in October and defaults rose by 18 percent.

The collapse of the housing and credit bubbles is wreaking havoc with some of the biggest US and European banks. Merrill Lynch, the world's largest brokerage firm, announced Monday it would receive a cash infusion of up to \$5 billion from Singapore's Temasek Holdings and another \$1.2 billion from US money manager Davis Selected Advisers.

Merrill has already announced \$8.4 billion in third-quarter write-downs in subprime mortgage-backed investments and is expected to shortly announce another \$10 billion in write-downs for the current quarter. These massive losses have depleted the bank's asset cushion to a dangerous level, forcing it to sell a chunk of itself for desperately needed cash.

To raise the cash, Merrill sold its stock to Singapore and the US money manager at a 12 percent discount. It became the fourth major US or European bank to sell a large stake in its business to obtain a cash bailout from Asian or Middle Eastern government-backed funds.

Citigroup, the largest US bank, sold a 4.9 percent stake to Abu Dhabi's investment arm; Swiss banking giant UBS sold stakes to the Singapore government and an unnamed Middle Eastern investor; and Morgan Stanley sold \$5 billion in stock to an investment arm of the Chinese government, giving the Chinese state-run company a 9.9 percent stake in its business.



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