US bank losses intensify recession fears

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Two more major banks reported heavy mortgage and consumer-loan losses Monday for the fourth quarter of 2007, reinforcing fears that that US financial crisis will likely trigger a recession, not only in America, but worldwide.

M&T Bank, based in Buffalo, New York, reported a 70 percent decline in earnings for the fourth quarter, largely due to losses on Collateralized Debt Obligations, the financial instrument widely used to transform home mortgages into tradeable securities.

Sovereign Bancorp of Philadelphia said it would take a $1.6 billion write-off for the fourth quarter, much of it related to mortgage lending. However, $600 million of the loss was due to defaults on consumer loans, an indication that the financial crisis is spreading. Sovereign said it had stopped issuing auto loans in seven of the 15 states in which it does business—Nevada, Utah, Arizona, Florida, Georgia and North and South Carolina.

Also on Monday, CNBC reported that the biggest US bank, Citigroup, will announce a colossal write-off of as much as $24 billion and the elimination of as many as 24,000 jobs. The bank is to report its fourth-quarter earnings Tuesday, and is also expected to announce a cut in its dividend.

Citigroup has been scouring the Middle East and Asia for investors in a position to take multi-billion-dollar stakes. Among those said to be involved is Prince Alwaleed bin Talal of Saudi Arabia. The bank is seeking to raise as much as $15 billion in new capital. On Monday, the state-owned China Development bank decided not to go ahead with a proposed investment of $2 billion in the company, forcing Citigroup to seek other benefactors.

The *Financial Times* reported Monday that Merrill Lynch, the largest US stockbroker, is seeking to raise an additional $4 billion in new capital, with the Kuwait Investment Authority as the leading candidate. Merrill Lynch is expected to write off as much as $14 billion in losses and lay off up to 1,000 workers.

The spectacle of giant US financial institutions going hat in hand to the oil sheiks and the government investment agencies of China, Taiwan and Singapore is one indicator of the deteriorating world position of American capitalism.

Another is the continued fall in the dollar, both against the currencies of rival capitalist powers, and against gold and other precious metals. Gold topped the $900 an ounce mark Monday in London trading, at one point hitting $914, an all time record. Platinum set a new record of $1,587 an ounce, while silver hit $16.58 an ounce, the highest figure in 27 years.

The dollar dropped to a record low of 1.0912 Swiss francs, while also hitting seven-week lows against the euro and the yen. At $1.4890 to the euro, the dollar is near to breaking the 1.50 barrier. That is widely regarded as a psychological milestone which could produce a much wider sell-off of dollars as countries currently accumulating dollars—especially the oil states and Asian exporters—seek to shift their surpluses to euros, yen or a basket of currencies more likely to retain their value.

The latest dollar plunge was said to be in response to comments last week by Federal Reserve Board chairman Ben Bernanke, in which he pledged “substantive additional action” to prop up the US economy, a statement widely viewed as a pledge to continue cutting US interest rates by at least a half percentage point this month.

Further cuts in US interest rates, carried out at the behest of Wall Street to stave off a collapse of confidence in the financial system, ultimately make the crisis even worse, since reducing the rate of return impels foreign investors to dump their dollar-denominated assets and shift their holdings into other, more lucrative, investments.

Exerting continuous pressure on the value of the dollar is the gargantuan US trade deficit, which hit its highest monthly total in 14 months last November, according to figures released by the US Commerce Department January 11. The trade deficit shot up 9.3 percent to $63.1 billion, much more than expected, driven by a 16.3 percent rise in the cost of imported oil. Oil imports hit $34.4 billion, accounting for more than half the net deficit.

Retail sales figures from December, to be announced publicly on Tuesday, are expected to show the combined impact on consumer spending of higher gasoline and home heating costs and plunging home values. An actual decline in retail sales in December, compared to the same month the year before, would be the first such negative reading since June.

Sales reports from individual retailers already suggest the dimensions of the downturn in consumer spending, with Macy's reporting a 7.9 percent decline in same-store sales in December 2007, compared to December 2006. Kohl's reported an 11 percent drop and Nordstrom a 4 percent drop. The broad decline is an indication that upscale as well as middle-income consumers are cutting back.

Other figures detailed the expanding dimensions of the home mortgage crisis, which is becoming a more generalized crisis of consumer credit:

* A Mortgage Bankers Association survey found that a record 18.81 percent of the nearly 3 million sub-prime adjustable-rate loans issued by its members were already past due.

* Freddie Mac, the big mortgage finance company, found that homeowners refinancing their mortgages were able to extract $20 billion less in the third quarter than the second. The $60 billion in home equity extracted was the lowest since the first quarter of 2005, and indicates that far less such cash will be available for consumer spending.

* The American Bankers Association found that delinquency rates for home equity lines of credit had climbed to their highest level in 10 years at the end of September.

* The Federal Reserve Board reported last week that total outstanding credit card debt rose at an 11.3 percent annual rate in November 2007. For the year, credit card debt is up 7.4 percent to $937.5 billion, compared to increases of from 2 to 4 percent between 2003 and 2005.

The growing indebtedness of consumers, combined with the falloff of spending, demonstrates that millions of households, working class and middle class, are going further into debt just to finance their day-to-day expenses. Any new expenses can lead to major financial difficulties.

In the face of these figures, the sudden flurry of proposals by the political representatives of big business—the Bush administration, Congress, and the Democratic and Republican candidates—resemble nothing so much as the reorganization of the deck chairs on the Titanic.

White House officials told the press last week that Bush would propose a stimulus package for the US economy in his State of the Union speech scheduled for January 28, although no details had been worked out yet. Treasury Secretary Henry Paulson said January 11 that the US economy had slowed "rather materially" and that "time is of the essence" in initiating any stimulus package.

House Speaker Nancy Pelosi and Senate Majority Leader Harry Reid, the two leading congressional Democrats, sent a joint letter to Bush Friday saying, "We want to work with you." The letter received a favorable White House response, and Pelosi met with Fed chief Bernanke Monday to discuss what concrete actions could be taken.

Some combination of tax cuts for business, tax rebates for the working poor and a limited extension of unemployment benefits or home heating assistance is the likely outcome of such discussions, with a total amount estimated at $50 to $100 billion. Even these proposals are problematic, however, since congressional Republicans could block such measures, particularly those targeted to lower-income families.

The presidential candidates have chimed in, with the Republican candidates proposing more tax cuts for business and the wealthy—which would do nothing to alleviate the spreading economic distress among working people—and the Democrats offering stimulus packages that would amount to little more than band-aids.

Hillary Clinton's plan, released Friday, calls for $70 billion in stimulus, including relief for homeowners facing foreclosure and an extension of unemployment benefits. Barack Obama slightly outbid her, offering a $75 billion plan, but with more targeted to business interests in the form of tax incentives.

None of these plans amount to more than a drop in the bucket compared to the vast dimensions of the social and economic crisis in the United States. By one estimate, the $30-a-barrel increase in oil prices over the past five months has by itself cost US consumers $150 billion—double the amount of "stimulus" proposed by the Clinton and Obama plans. It goes without saying that no big business politician is proposing that the oil companies disgorge any of their massive profits. On the contrary, the energy bill adopted by the Democratic Congress last month retains $12 billion in federal subsidies to the oil giants.

More fundamentally, a minor boost to consumer spending will do nothing to offset the spreading financial contagion or restabilize debt markets. The bursting of the housing bubble is only the initial stage of a financial crisis of unprecedented dimensions, one that will call into question the viability of the capitalist system worldwide.