Home prices, consumer confidence plunge in US

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In continued signs of economic recession in the US, figures released on Tuesday show home prices and consumer confidence falling sharply.

The Conference Board, a business-backed research group in New York, reported that its index of consumer confidence fell to a five-year low in March, to 64.5 from a revised 76.4 in February. The reading was far below Wall Street expectations of 73.0.

The index is a relative measure, with confidence in 1985 set at 100. The overall index is at its lowest level since the early 1990s, except for a brief period in 2003.

The Conference Board noted that there was a particularly sharp drop in the index measuring expected future confidence, to 47.9 from 58.0. "The Expectations Index, in fact, is now at a 35-year low (Dec. 1973, 45.2), levels not seen since the Oil Embargo and Watergate," a press release noted.

The collapse of consumer confidence is a reflection of the increasing economic strain felt by millions of Americans, who have been hit by high commodity prices, declining wages, and increasing unemployment. In February, employment fell by 63,000 jobs, the second consecutive monthly decline and the worst figure since 2003.

A major factor in the decline in consumer confidence is the continued atrophy of the housing market. High home prices had allowed many workers to sustain spending under conditions of economic stagnation. As housing prices drop, many homeowners are finding that they now have more debt than their homes are worth, leading to a surge of foreclosures.

US home prices recorded a huge drop in January, according to the Standard & Poor's/Case-Schiller Index. A 20-city composite index saw an annual decline of 10.7 percent, the sharpest fall since the index was begun in 1983.

Price declines were most severe in cities where the housing bubble has been most pronounced, including Las Vegas, Nevada (-19.3 percent); Miami, Florida (-19.3 percent); Phoenix, Arizona (-18.2 percent); San Diego, California (-16.7 percent); and Los Angeles, California (-16.5 percent).

In Detroit, Michigan, home prices fell by over 15 percent, reflecting the ongoing economic decline of the center of the American auto industry. The average price for a house in the city of Detroit (excluding suburbs) fell 54 percent from a year ago, according to the Detroit Board of Realtors.

The sharpest drops have occurred in cities where the foreclosure rate is the highest. According to an article in the *Wall Street Journal* on Tuesday, foreclosure-related sales have accounted for more than 40 percent of all sales in many cities, including Las Vegas and San Diego.

Among the cities included in the index, only Charlotte, North Carolina, saw an increase in home prices, by 1.8 percent.

David Blitzer, chairman of the Index Committee at Standard & Poor's, commented, "Unfortunately, it does not look like early 2008 is marking any turnaround in the housing market, after the declining year recorded throughout 2007... The monthly data show that every one of the MSAs [Metropolitan Statistical Areas] has now declined every month since September 2007, marking five consecutive months. On top of that," he noted, "the declines have increased through time, in general, as 13 of the 20 MSAs reported their single largest monthly decline in January."

This means that the housing market still has a long way to go before prices start to stabilize. Figures released on Monday show that the median price of existing homes being sold in February fell by 8.2

percent.

The US housing market has been a significant factor in the financial crisis on Wall Street, where several large banks have speculated heavily in mortgage-related securities.

On Monday, New York City's independent budget office estimated that 20,000 people will lose their jobs on Wall Street over the next two years. This figure, which does not take into account the recent crisis at Bear Stearns, likely significantly underestimates the number of job losses. According to Bloomberg News, some 34,000 jobs in the financial sector have been lost in the last nine months alone, including 6,200 jobs at Citigroup, 4,990 at Lehman Brothers, and 2,940 at Morgan Stanley. Bear Stearns may shed as many as 8,000 jobs as part of its restructuring after being purchased by JPMorgan Chase.

One week ago, in order to stave off a financial meltdown, the Federal Reserve supported the move by JP Morgan Chase to purchase Bear Stearns. At the same time, the Fed announced an unprecedented move to shore up other investment banks by opening its lending discount window. Previously, only commercial banks were allowed to borrow at special discount rates offered by the Fed.

Investment banks have been quick to seize on the Fed's offer, indicating that they are in deep financial trouble and eager for cash. Close to $30 billion has been borrowed so far.

In another sign of a continued crisis among investment banks, JPMorgan Chase and UBS AG announced on Tuesday that they are cutting their earnings forecast for Merrill Lynch. Next to Bear Stearns, Merrill Lynch is considered to be the most exposed of the major investment banks to the housing market collapse. JPMorgan Chase analysts predicted that Merrill would have to write down an additional $2.1 billion of subprime debt.