US: Prices and home foreclosures surge in May

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16 June 2008

A record number of US homeowners faced foreclosure on their properties in May, according to statistics published Friday. That same day, the Bureau of Labor Statistics released data showing a sharp increase in consumer prices for the month of May.

The latest foreclosure data released by the real estate research firm RealtyTrac showed a 4 percent increase in foreclosure filings in May over the previous month, representing a 65 percent increase over April 2007. One in every 519 properties in the US received a foreclosure filing in May.

Nevada, California, Florida, Ohio and Arizona posted the highest foreclosure rates and totals. Nevada had the highest overall rate, with one in 146 households receiving a foreclosure filing in the month of May. Foreclosure notices had almost doubled in the state since 2007. California reported the highest total number of foreclosures, followed by Florida.

While foreclosure activity has increased throughout the country, some areas are especially hard-hit. The city with the highest foreclosure rate—Merced, California—had one in 66 properties receive a foreclosure notice in May. The foreclosures are draining city budgets, and municipalities are being forced to cut back on essential services. The report noted that the city of Vallejo, California, which has the nation’s sixth-highest foreclosure rate, would be filing for bankruptcy as a result.

RealtyTrac CEO James J. Saccacio noted, “Although only about 2 percent of households nationwide are in foreclosure, these properties contribute to already bloated inventories of homes for sale, and put downward pressure on home values.”

The S&P/Case-Shiller index, which measures home prices in 10 major metropolitan areas, has fallen 14 percent year to year, and an overall 16 percent from its peak in 2006. Analysts remain divided as to the extent that housing prices will continue to fall, but some are predicting that less than half of the price adjustment has already taken place.

As homeowners’ wealth plummets together with their home values, the cost of living has continued to increase. Consumer prices increased 0.6 percent in May, or at an annualized rate of 7.2 percent, significantly higher than the 4.2 percent rise seen during the past 12 months. The price increases were sparked by a sharp rise in energy and transportation costs. Energy costs—driven by spiraling oil prices—surged by 4.4 percent in May alone. Transportation costs spiked by 2 percent in May, as airlines and trucking firms passed high oil prices on to their customers.

Despite high “headline” consumer prices, the most recent figures were portrayed as reassuring by economists, who noted that “core” inflation remained under control. Core consumer prices—which are calculated by stripping out food and energy costs—rose only 0.2 percent in May, and in general have stayed at a relatively low 2.3 percent year-to-year rise.

It is important to understand the relationship between the population’s real income and the various measures of prices. Inflation—or more specifically the differential between its core and headline measures—is one of the major indices of the class struggle. From an individual standpoint, “core” (as opposed to headline) inflation is essentially meaningless because, after all, everyone eats and most people drive. But, on a social level, core inflation is more sensitive to wage demands. When rising prices lead workers to successfully struggle for higher wages, producers tend to pass on the extra costs in the price of finished products, thus pushing up core inflation.

But this has not happened because employers have thus far successfully kept their foot on wage demands. According to the Bureau of Labor Statistics, compensation for civilian workers rose by only 0.7 percent throughout the first quarter of the year, only slightly higher than the change in consumer prices in the month of May alone.

Compensation in private industry increased by only 3.2 percent in the year ending in the first quarter. Considering the fact that prices rose by 4.2 percent over the same period, we can conclude that the average worker is *one percent poorer* today than he was a year ago. This reduction in living standards has occurred while the US has not yet technically entered a recession. Median real wages have been falling for the past eight years, and have only accelerated their descent as a result of recent commodity price increases.

The foreclosure and inflation statistics come on top of an unexpectedly large increase in unemployment, which jumped from 5 percent to 5.5 percent in May, according to the Bureau of Labor Statistics. Payrolls have fallen every month since the beginning of the year. The concurrent falling consumer incomes, rising unemployment, and sharply rising prices work together to exacerbate the foreclosure crisis. People are simply unable to pay their mortgagees, and are being caught up in foreclosures on their homes in record numbers.

There are currently two main sources of worldwide inflation. The most obvious and pervasive of these is the spike in commodity prices, fueled by the unplanned and erratic expansion of the world economy and exacerbated by speculation. Fuel and oil price increases have wreaked havoc on the lives of working people, whose wages worldwide have generally failed to keep up with the price increases.

But perhaps equally important is the general upward trend in Asian prices. The *Financial Times* carried an article Thursday noting the trend and bemoaning the inability of Chinese industry to drive down prices further. In the previous period, China served as a major damp on worldwide inflation, producing masses of ever-cheaper goods with its seemingly inexhaustible supply of impoverished labor.

The Chinese ruling elite, however, has run into a contradiction inherent in its goals: while it wishes to remain a world leader of cheap manufacturing, at the same time it seeks to develop a stable internal market, which requires increases in standards of living. Moreover, it finds itself objectively unable to further reduce wages past a certain minimal level required to sustain its workers.

For these reasons, Chinese inflation has reached an annual rate of over 8 percent, and the fear among economists is that inflationary pressures from China will be transmitted into the US and world economies, leading to increased wage demands.

As Bank of England Governor Mervyn King noted in a recent speech, the world economy is entering a period of sustained inflation and unemployment. It is the international working class that will bear the burden of the crisis of capitalism. Central banks worldwide—from the US Federal Reserve to the European and Chinese central banks—have indicated that they intend to raise interest rates in pursuit of anti-inflationary policies. They will attempt to suppress wage demands by lowering output and increasing unemployment—the 1 percent decline in median US real income over the past year is only the beginning.