US housing figures and other data: A picture of rapidly growing social misery

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Millions of people in the US, and not merely those with the lowest incomes, are being hammered by a combination of job losses, rising prices for basic items such as food and gasoline, and the drop in the value of their homes.

Home prices continued to fall last month, according to the S&P/Case-Shiller home-price indexes, a widely followed measurement. In 20 US metropolitan areas home prices declined in April by the most on record, 15.3 percent from a year earlier, following a 14.3 percent decline in March. The drop in prices has erased gains made since 2004.

The figures for selected major metropolitan areas are staggering. Las Vegas and Miami saw annual price declines of 26.8 percent and 26.7 percent, respectively.

Home price declines in Los Angeles are accelerating, falling at an annual rate of 23.1 percent in April, as compared with 21.7 percent in March. “The housing collapse is most severe in the west and Florida,” notes the *Los Angeles Times*, “with cities in those regions showing price declines much worse than the rest of the country.” Home prices fell by 25 percent in Phoenix, 22.4 percent in San Diego and 22.1 percent in San Francisco.

The price of homes in metropolitan Detroit fell by 18 percent compared with April 2007, and 1.9 percent since March (a 23 percent annual rate).

MarketWatch.com pointed out, “Home prices surged in 2003 through 2006, climbing by a cumulative 52%, according to Case-Shiller. Since then, however, the housing and credit bubbles have burst and homeowners have given up half of their gains from earlier in the decade.

“Falling prices have eroded Americans’ wealth, cutting into their ability to borrow against the equity in their homes or refinance or sell for a profit. Millions of Americans now owe more on their homes than they’re worth.”

Michelle Mayer, an economist for Lehman Brothers, told *MarketWatch* that she expected home prices to fall by another 15 to 20 percent, “translating to a peak-to-trough drop of 30% to 35%.”

Meanwhile, now that the warmer weather is upon us, combined with the growing economic distress, private utility companies are cutting off electricity and natural gas at rates 15 percent higher than last year. There are restrictions on the ability of the utilities to halt service to homes during the winter months.

USA Today reported Tuesday that “utilities are disconnecting many more customers who fall behind on their bills, and even moderate-income households are getting zapped...Totals for some utilities have more than doubled.”

Utility disconnects are up 56 percent for Detroit Edison; more than one in five of its customers were behind in their electric bills in May.

An article in the *New York Times* June 23 took note of the wretched state of Flint, Michigan, once an auto-producing center and now experiencing virtually “Third World” conditions.

In Flint’s schools, reports the *Times*, half or more of the students change in the course of a school year. “The moves are usually linked to low, unstable incomes, inadequate housing and chaotic lives, and the recent rash of foreclosures on landlords is adding to the problem, forcing renters from their homes....

“Flint has yawning concrete fields where auto factories once stood. Between the mass loss of factory jobs and middle-class flight, many streets are left with rental houses in various states of disrepair, punctuated by boarded-up houses.... [T]he churning of students in the early grades imperils their ability to complete high school, let alone college.”

All in all, it’s no wonder then, as the *Wall Street Journal* reported Tuesday, that “consumer confidence dropped like a stone in June, and expectations hit an all-time low, according to the latest survey from the Conference Board.” Lynn Franco of the Conference Board told the paper, “Perhaps the silver lining to this otherwise dismal report is that consumer confidence may be nearing a bottom.”

June’s confidence figure, based on a survey of 5,000 households, was the fifth lowest reading ever. Only 11.5 percent of those surveyed said business conditions were good.

The State of the Nation’s Housing, released June 23 by the Joint Center for Housing Studies of Harvard University, reveals a number of extraordinary facts. Whether the authors of the report are aware of it or not, the language they use is revealing: “misery,” “plummeted,” “crisis,” “disastrous,” “slump,” “abysmal,” “decline,” “drop,” “deterioration,” “grim,” “troubles,” “depressed” and so on.

They speak of the housing slump “shaping up to be the worst in 50 years.”

Behind the somewhat dry, academic language lies a reality of increasing economic desperation for wide layers of the population.

The study notes that the number of loans in foreclosure nearly doubled to one million by the end of 2007, while the number entering foreclosure topped 400,000 in the final quarter alone.

"The most rapid and dramatic increase was among riskier subprime loans. Indeed, foreclosure rates on adjustable subprime mortgages were over five times higher than those on adjustable prime loans. ...

"Hundreds of thousands of foreclosed homes have flooded already bloated markets, with more to come....In these communities, nearby homeowners will suffer drastic declines in home equity and local jurisdictions will face a drop in property tax collections."

The report notes that the most at-risk areas are those with ailing economies, high shares of subprime and "so-called affordable loans" and large oversupplies of housing. "Unfortunately," it goes on, "the majority of large metropolitan areas now fall into at least one of those three categories." The worst-hit locations are Midwestern metropolitan areas with "weak economies," such as Detroit and Cleveland.

One of the most telling social realities, and one with considerable implications, is detailed in the section somewhat blandly entitled, "Heightened Housing Challenges." The Joint Center study notes that in 2006 nearly 40 million households in the US were at least "moderately cost burdened"—paying more than 30 percent of income on housing—and nearly 18 million "were severely cost burdened (paying more 50 percent)". The number of severely burdened households "surged by almost four million" from 2001 to 2006, or some 20 to 25 percent.

"The weight of high housing costs falls especially heavily on households in the bottom income quartile. Fully 47 percent of low-income households were severely cost burdened in 2006, compared with 11 percent of lower middle-income households and just 4 percent of upper middle-income households. On average, households with children in the bottom quartile of spenders with severe housing cost burdens have just *$257 a month left over for food, $29 for clothing, and $9 for healthcare*. With food and energy costs climbing, these households will have less to spend on bare necessities." (Emphasis added)

And this was before the sharp rise in prices over the past 12 months.

"These are often families with one or more members working. Four in ten low-income households with at least one full-time worker, and nearly six in ten households with one part-time worker, are saddled with severe housing cost burdens."

While low-income and minority households have been hard hit, "Affordability problems are edging up the income scale," the study observes. "A rising number of middle-income homeowners also face cost pressures....For homeowners earning more than the median income, the likelihood of being housing cost burdened nearly doubled between 2001 and 2006."

The conditions for millions of children are a national disgrace. More than one in six children in the US lives in households paying more than half their incomes for housing. The poorest quarter of American households "spent 32 percent less on food, 56 percent less on clothes, and 79 percent less on healthcare than families with low housing outlays."

The study continues: "As if this were not enough, households with children are more likely to face crowded or inadequate living conditions. Nearly one in five low-income families...reported living in structurally inadequate housing in 2005."

With many former homeowners now turning to the rental market, "the pressure on the limited supply of affordable rentals is mounting. Worse, losses of low-cost rentals affordable to households earning less than $16,000 in constant 2005 dollars shrank by 17 percent....Meanwhile, only a quarter of eligible renter households receive housing subsidies, and the federal government does even less to relieve the cost burdens of low-income homeowners."

Some 3 million affordable (not necessarily decent or even inhabitable) rental units are available to the approximately 9 million lowest-income households that need them.

The study notes that with housing permits falling 24 percent nationwide in 2007, and a decline of 35 percent since the peak in 2005, by the end of last year, "the nation had 232,000 fewer construction jobs than a year earlier." Florida lost 74,000 construction jobs, Arizona lost 25,000 and California lost 58,000.

The short-term outlook for homeownership is "grim." Some $314 billion of subprime debt is scheduled to reset this year, i.e., mortgages that will jump in cost. "The wave of foreclosures will take months to process and the number of homes entering foreclosure could continue to rise even if the volume of loans with resets drops from last year's levels. Job losses and falling home prices are now adding to foreclosure risks."

As for the impact of this process on the economy as a whole, "When house values increase and homeowners borrow against their equity, they typically spend more. When prices fall, the opposite is true. As a result, the sharp drop in prices has turned these housing wealth effects from an engine of growth to a drag on the economy. Real home equity fell 6.5 percent to $9.6 trillion in 2007."

Despite the "alarming" housing situation, particularly the "affordability" crisis, "housing assistance represents a small and shrinking share of the federal budget." Housing assistance programs fell from 10 percent to 8 percent "of the nation's dwindling domestic discretionary outlays" from 1997 to 2007.

Referring obliquely to the indifference or hostility of the major parties and media establishment to the plight of a broad swath of the population, the study concludes, "Thus far, there has been little national outcry about the fact that growing numbers of low- and middle-income families are spending half or more of their incomes on housing, and that so many children are living in unhealthy, unsafe conditions—or, worse yet, forced to make their way on the streets."

And there will be none from those quarters.