US: Consumer confidence hits lowest level in 28 years

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1 July 2008

US consumer confidence reached its lowest level in almost three decades amid soaring gas prices, falling real incomes, and rising unemployment. The Reuters/University of Michigan consumer confidence index, released last Wednesday, dropped by three points to 56.4 last month; down from an average of 85.5 last year. This was the lowest recorded level since 1980, during the height of the deepest downturn since the Great Depression.

The confidence figures are indicative of the growing difficulties facing masses of working people in making ends meet. Homeowners have lost a huge portion of their home equity—the largest pool of wealth most people have—in the past year, as home values plunged by about 13 percent. Moreover, the rising costs of fuel and food have pushed down real median incomes by one percent over the last year, and the looming recession brings with it the prospect of unemployment for millions. Over 324,000 jobs have been wiped out in the past six months alone.

The University of Michigan survey also indicated that consumer expectations of future inflation grew to their highest level in 20 years. Nine out of ten respondents said they thought the US economy was already in recession, and two thirds said they expected the downturn to last several years.

Another poll, conducted by Yahoo and the Associated Press, found that 9 out of 10 Americans think they will find themselves "squeezed financially" by gas prices over the next six months. The poll concluded that two thirds of the population considers the issue of gas prices to be "extremely important," more than any other issue. Almost half of the respondents said they expected the rising gas prices to cause "serious hardships."

People are cutting back consumption to compensate. Two thirds of those earning under $25,000 per year have reduced their home heating or cooling, and seven out of ten people say that they now drive less. Respondents said that they were taking fewer vacations, buying fewer clothes, and going out to restaurants less frequently as a result of the growing share of their incomes being claimed by rising gas prices.

World financial markets responded dramatically to these and other developments last week, with stocks plummeting and oil prices hitting a new record. Expectations of further bank losses, uncertainty about central bank policy, and growing inflation all fed into the turbulence.

Oil briefly reached $142.99 Friday, causing an early sell-off on Asian markets, which spread to Europe and the US. All major equities indexes took large hits last week; worst affected were the US Dow Jones Industrial Average, which was down 3.90 percent from Monday, and the European FTSE 20 index, which was down by 4.25 percent.

The Dow Jones is now down 20 percent from its high point in October and is verging on entering an official bear market. The poor US stock performance was mirrored throughout the world: the MSCI world stock index has fallen nearly 12 percent in six months, its sharpest decline in over 25 years. The FTSE Eurofirst, which measures European stocks, was down 21 percent this year, its worst half-year performance since its inception.

Stock indexes had begun to rebound from their March lows, but a sharp decline began in mid-May, which has only intensified through June. A number of commentators had noted that the relative calm seen through April was the economic equivalent to the "eye" of a hurricane.

The fall in US equities and rise in commodities prices precipitated a flight from the US dollar, which fell on

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Friday against the Euro, Yen, and Swiss Franc. With worsening economic performance in the US, the dollar appears poised to continue its descent, straining Federal Reserve Board Chairman Ben Bernanke's implied commitment to a stronger currency. There was a temporary respite in the long-term dollar slide—paralleling the stock market revival—following the Bear Stearns bailout, but investors are once again becoming wary of holding US assets.

The current bout of turbulence has been accompanied by record spikes in commodity prices. Oil prices shot up by $5 a barrel Thursday when Libya threatened to cut off production in response to diplomatic saber-rattling from the US. Chakib Khelil, the president of OPEC, warned that oil prices could reach $170 per barrel this summer.

The Benchmark Reuters-Jefferies CRB commodities index has increased by 30 percent in six months, the fastest rate since 1973. As stocks suffer consistent losses and bonds lose value due to inflation fears, commodities have reached record highs as investors have fled these assets.

As the values of bank assets have fallen due to the debt default spike, banks have sought to stabilize their balance sheets by issuing stock. But many—particularly smaller ones—are finding it almost impossible to find buyers. Over the past two months, bank recapitalization has proven disastrous for organizations that bought the stock as its values plummeted. Faced with the threat of bank failures, the Federal Reserve is now considering allowing private equity firms to recapitalize banks. Private equity, which is essentially unregulated, has been historically excluded from owning bank shares by various statutes. The home foreclosure rate shot up by seven percent in May over April, according to realtytrac.com. On top of that, a report released Wednesday by Clayton Fixed Income Services indicates that defaults are spreading out of the sub-prime sector and creeping up into higher-rated mortgages, including those known as "Alt-A." Delinquencies in this sector are shooting up rapidly, with some types seeing their rate increase by up to 25 percent. "The problem isn't rate resets of adjustable-rate mortgages," wrote Housingwire.com, a mortgage commentary site. "Rather, rapidly falling home prices and a weakening economy are the chief culprits here."

All aspects of US economic activity are rapidly deteriorating, reacting against one another and perpetuating the downward spiral. High oil prices cut into real consumer income, falling home prices lead to decreases in wealth—lowering demand and increasing debt defaults. Firms have fewer orders and are laying off workers. Banks are seeing their balance sheets deteriorate and struggle to raise capital. Interest rates on loans are shooting up to cover the risk of default, constricting consumer and industrial spending. Financial stocks are tanking and any one of the major Wall Street firms—and a great many small banks—are liable to collapse almost at any time.

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