US home foreclosures mount as recession deepens

Tom Eley
17 January 2009

Hopes that the US economy would "round the corner" in the early months of 2009 have been dashed by a steady stream of abysmal economic data. The collapse of the US housing market accelerated throughout 2008, according to a recent report. Meanwhile, layoff announcements, negative earnings reports and evidence of deflation continue to pile up.

Foreclosures shot up by 81 percent in 2008 and have increased by 225 percent since 2006, according to RealtyTrac, a real estate organization specializing in home foreclosures and bank repossessions. In all, 3.1 million households submitted foreclosure filings in 2008, or one in every 54 households. Of these, 861,664 were foreclosed upon during the year.

"Clearly the foreclosure prevention programs implemented to date have not had any real success in slowing down this foreclosure tsunami," said James Saccacio, CEO of RealtyTrac, in a press release.

Indeed, month-to-month foreclosure filings increased markedly, rising 17 percent in December from November, and 41 percent over December 2007. This in spite of a moratorium on foreclosures put in effect November 26 by the federally backed mortgage lending firms Freddie Mac and Fannie Mae, who together provide the great majority of mortgages to US homeowners.

Rick Sharga, a spokesman for RealtyTrac, was not sanguine at the prospects for a revival in the housing market in 2009. "I don't see how we can avoid 3 million foreclosures again in 2009," he said.

The "Sun Belt" states of California, Arizona, Nevada and Florida had the highest foreclosure rates in 2008, followed by Colorado and the "Rust Belt" states of Michigan, Ohio, and Illinois. In Las Vegas, more than 1 in 11 households received a foreclosure filing; in Phoenix, 1 in 17.

As bad as the statistics relating to the housing market are, they underestimate the full extent of the crisis, according to RealtyTrac. Banks are holding back from listing as much as 70 percent of their repossessed homes, in a likely bid to delay absorbing further losses on their balance sheets. "Either banks are overwhelmed and can't get the houses [listed] quickly, or they're deliberately slowing down so they don't have to take markdowns to actual home values on their books," Sharga said.

Banks have also delayed the speed with which they foreclose upon owners, in some cases due to new state laws that mandate longer periods of notification. Saccacio noted that in California, where such a law was passed, home foreclosures rebounded in December back to their level before the legislation was implemented. "The recent California law, much like its predecessors in Massachusetts and Maryland, appears to have done little more than delay the inevitable foreclosure proceedings for thousands of homeowners," he said.

Such stalling tactics would only soften the economic disaster generated by the collapse of the housing market should home values suddenly reverse their downward spiral. However, all indications point in the opposite direction. Home prices have tumbled 21 percent from their peak, and it is anticipated that they will continue to fall through 2009 and the first part of 2010, according to David Wyss, chief economist at Standard & Poor's.

The rapid increase in foreclosures will only accelerate the overall decline in home prices, which, as more financially strapped homeowners go "underwater"—owing more on their homes than their market value—will cause more foreclosures.

The number of foreclosures exceeded by 200,000 the number of new homes built in 2008, when only 640,000 new houses were constructed— the lowest number if decades. Economists anticipate a further 20-30 percent decline in new housing starts for 2009.

Falling home prices have delivered a blow to the living standards and material wealth of much of the US working class. Beginning in the 1990s, many workers took to borrowing against the value of their homes to offset declining real wages. Spurred on by the cheap credit policies of the Federal Reserve Board, the US banking industry encouraged this tendency. The banks in turn packaged, sold and resold the home loan debt, enriching the financial aristocracy in the process.

The collapse of the debt regime continues to fall about the ears of the finance industry, as two of the three biggest US banks, Bank of America Corp (BOA) and Citigroup, announced dismal earnings reports and queued up for more government money to counteract plummeting asset and share value.

Citigroup posted an $8.29 billion loss, its fifth consecutive quarterly decline, and indicated that it would split its operations in two, spinning off its brokerage firm Smith Barney.

BOA received a Treasury Department "emergency cash injection" of $20 billion on Friday morning after it posted a $1.79 billion loss—excluding the troubled brokerage firm Merrill Lynch, which BOA acquired on September 15. Merrill Lynch's losses were undisclosed, but the emergency cash infusion was largely in response to its losses.

JPMorgan Chase, now the largest US bank by market share, reported a 76 percent decline in fourth quarter income and forecast a dismal year for 2009.

The big banks are suffering from a rising tide of loan defaults, both in the home loan-derivative market and in their credit card operations. These processes are in turn being accelerated by mounting layoffs.

The Labor Department announced that first-time applications for unemployment benefits increased by 54,000 to a seasonally adjusted 524,000 for the week ending January 10. This figure is expected to rise sharply in the coming months. "The experience of previous deep recession suggests claims are nowhere their peak," said Ian Shepherdson, an economist with High Frequency Economics, "[W]e doubt the peak will be reached before the fall of this year."

Mass layoffs have accelerated. On Friday, Circuit City, the bankrupt US electronics retailer, announced that it had been unable to work out terms for its survival with lenders. Circuit City must now liquidate, selling off the merchandise and buildings at its 567 locations. This will wipe out 30,000 jobs.

Also on Friday, GE Capital, the financial unit of General Electric, announced it would lay off as many as 11,000 workers in the coming months. Hertz Global Holdings, the second largest US car rental company, said it will eliminate 4,000 jobs, or 12 percent of its workforce.

Health insurance provider WellPoint, which manages Blue Cross and Blue Shield in California and a number of other states, announced that it would cut its workforce by 1,500. Advanced Micro Devices, a computer chip maker, will cut 1,100 jobs and slash pay for employees. Pharmaceuticals giant Pfizer announced 2,400 layoffs in its sales department. After posting record losses, Milwaukee-based bank Marshall & Ilsley Corp. announced 830 layoffs.

On Thursday, Delta airlines announced a workforce reduction of 2,000, after cutting 4,000 jobs earlier in the year.

Toyota Motor Corp announced on Thursday that it would add further production cuts in its North American factories in a bid to reduce inventory, by expanding the number of "nonproduction" days. On Friday, Nissan Motor Co. said that it would run its US factories on a four-day basis indefinitely, and Chrysler LLC said it would extend shutdowns at five of its factories by at least one week. The Chrysler plants affected are in Sterling Heights, Trenton and Dundee Michigan; Belvidere, Illinois; and Toluca, Mexico. All Chrysler production has been suspended since mid-December. The plants were due to reopen January 19.

Industrial production in the US fell sharply in December, far exceeding analysts' expectations. Overall production contracted by 2 percent, paced by the auto industry, which witnessed its lowest production in more than 25 years. The Federal Reserve also revised downward industrial production levels for November to 1.3 percent, more than double the previously announced level. Capacity utilization, which measures the proportion of the US industrial plants actually in operation, fell to 73.6 percent, a low point not reached since 1983.

Producer prices—the prices paid to factories, mines and farmers for their commodities—fell by 1.9 percent in December, according to Labor Department information released Thursday.

The emergence of depression-like conditions was also reflected in consumer prices, which increased in 2008 by just 0.1 percent, the slowest rate since 1954, according to Labor Department data. The trend accelerated as the year closed, with December prices falling by 0.7 percent, paced by an 8.3 percent fall in the cost of fuel. For urban workers, consumer prices fell by 0.9 percent in December, while wages fell by 0.3 percent, meaning real wages actually increased by 0.6 percent in December—for those who were able to keep their jobs.

Corporate profits continue to fall. On Friday, Intel, the computer hardware manufacturer and the world's largest producer of superconductors, posted a 90 percent drop in fourth-quarter earnings for 2008 from 2007. Johnson Controls announced a $600 million quarterly loss.