“Green Shoots Withering”

US economic crisis deepens

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A batch of economic figures released this week undermined claims by the White House and Federal Reserve that economic recovery is just around the corner. Retail sales fell for the second month in a row in April, foreclosure activity hit a new record, states announced huge budget shortfalls and home prices continued to decline.

Retail sales of consumer goods to fell by 0.4 percent month-to-month in April, according to figures released Wednesday by the Commerce Department. This was worse than the expected 0.1 increase, and comes together with a downward revision to the previous month’s decline from 1.2 to 1.3 percent.

Consumer spending had increased by 2.2 percent in the first quarter of the year, following a 4.3 percent drop in the last quarter of 2008. The upturn of this figure in January and February, together with rising stock values and an uptick in consumer sentiment, formed the justification for the “green shoots” theory—advanced by the White House and Federal Reserve—that recovery would set in within the next few months.

US Gross Domestic Product contracted at an annualized rate of 6.1 percent in the first quarter of this year, compared to a 6.3 percent fall in the last quarter of 2008. Consumer spending makes up 70 percent of GDP. Excluding the 2.2 percent increase in consumer spending, the fourth-quarter data would likely have been worse than that of the previous quarter.

Unemployment also continues to soar. Most economists surveyed last month by the *Wall Street Journal* said that they think unemployment will not begin to fall for at least another year.

Noting the second consecutive monthly decline in retail sales, Joshua Shapiro of MFR wrote, “We do not view the 2.2% annual rate of increase in consumer spending recorded in the first quarter GDP accounts as the beginning of a recovery in consumption, but rather as a temporary bounce after two quarters of absolutely abysmal results.”

“Although the worst is now over, there is still no evidence of an actual recovery,” noted Paul Dales of Capital Economics. “Greens shoots withering...” added Ian Shepherdson of High Frequency Economics.

The Commerce Department also said business inventories fell less than expected, indicating a slowing adjustment to worse-than-expected sales. Since March of 2008, inventories have fallen by 4.8 percent, while sales have shot down by 15.6 percent.

The housing market, meanwhile, continues to deteriorate. Housing prices fell by 6.2 percent in the first quarter of this year from three months before, according to non-seasonally adjusted figures released Tuesday by the National Association of Realtors. The average home now sells for $169,000, down from $227,600 in 2005.

The latest figures from the Case-Schiller index—released April 28 with a lag of two months—present a similar picture. They show consistent month-to-month declines of around 2 percent from September to February, the latest month available. Both indexes show no slowdown in the collapse of housing prices.

The National Association of Realtors said that housing values had fallen by 14 percent within the last year, and were down by 26 percent from their peak in 2007. Half of the purchases were from first-time homebuyers, many of whom sought to offset economic difficulties buy purchasing a foreclosed home at discount rates.

Forclosure rates, meanwhile, set a new record for the second month running in April, according to Realtytrac.com. Foreclosure activity—which includes default notices, auction notices and repossessions—increased by 1 percent in April, and by 32 percent over the last year. Foreclosure activity was reported on a third of a million mortgages last month. If last month's rate continues, there will be 4 million properties facing foreclosure this year alone.

Realtytrac said that foreclosure rates are set to rise even further in the coming months, since a number of temporary freezes on foreclosure activity ended last month.

All of this has created a social crisis affecting all parts of American society and putting tremendous strains on what remains of the social safety net. State governments, which provide the bulk of these services, have seen their budgets devastated by the crisis. The 47 states that have already turned in their first-quarter finances saw their revenues fall by $20 billion, or 12.6 percent, according to a study published Wednesday by the Nelson A. Rockefeller Institute.

Robert Ward, deputy director the organization, said that state revenues are set to fall still further as the downturn progresses. "We don't normally use the word plummet but that is the operative word right now," he told the *Wall Street Journal*.

The report came a day after a *New York Times* reported that the US government had only spent 6 percent, or $47.2 billion, of its promised $787 billion economic stimulus package. In contrast to this figure, the US government has thus far spent more than four trillion dollars in "financial stability operations" (i.e., bank bailouts), according to the congressional panel that oversees the Troubled Asset Relief Program (TARP).

Despite the relatively miniscule sums thus far expended, Vice President Joe Biden said that the government is "ahead of schedule in most programs" relating to the stimulus plan, according to the *New York Times*. The government said that the stimulus bill had already 'created or saved'150,000 jobs, a claim that is belied by the fact that the economy is shedding more than half a million jobs a month.

But despite the administration's promises of aid, states are accelerating layoffs. The *Washington Post* reported Tuesday that the state of Washington is planning 1,000 layoffs in public colleges and thousands more in public schools. Massachusetts announced another 250 layoffs, in addition to the thousand laid off last year, while Arizona has already laid off eight hundred workers this year. The state is cutting back social services and has stopped investigating some cases of child abuse, according to the *Post*.

The Obama Administration has been quick to proclaim imminent recovery, not from naive optimism but from cynical motives. Its aim was to hide the recovery of bank profits, the speedy repaying of government loans to Wall Street under the auspices of an expected recovery of the whole economy.

But, as Joshua Shapiro of MFR, an economics consultancy, pointed out in response to the latest figure, "The inescapable fact is that...wage and salary income growth has evaporated, credit is very tight, home prices continue to decline, financial asset values have been decimated, and household balance sheets are generally a wreck." All of this points to a further contraction of the US economy and rising unemployment.

While millions of people face unemployment, states cut back essential services, and millions of families are uprooted, the banks and Wall Street firms have returned to profitability [See, "The Obama recovery"] It is to mask this basic reality that Obama was so quick to talk about economic 'glimmers' and 'green shoots.'