US home sales plummet, personal bankruptcies soar

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6 January 2010

An important measure of future home sales fell far more sharply in November than economists had expected. The National Association of Realtors (NAR) index on pending home sales—contracts agreed upon but not finalized—dropped by 16 percent in November, more than three times what economists interviewed by the Dow Jones Newswires had anticipated.

The pending home sales index registered declines in every region: 26 percent in the Northeast and Midwest, 15 percent in the South, and 3 percent in the West.

"It will be at least early spring before we see notable gains in sales activity as home buyers respond to the recently extended and expanded tax credit," said Lawrence Yun, chief economist for the NAR.

The sharp drop-off was caused, in part, by a surge of pending home sales in October, as buyers sought to take advantage of a federal tax credit set to expire on November 30. After Congress reinstated the credit until April 30, the pressure to buy before the deadline was removed and the pool of home buyers shrank.

Yun expressed guarded optimism over the fact that the NAR pending sales index remained 15.1 percent above the abysmal reading from last November. "The fact that pending home sales are comfortably above year-ago levels shows the market has gained sufficient momentum on its own," he said.

Currency markets seemed not to share the sentiment. The dollar had a turbulent day in wake of the NAR report, first tumbling against the yen and the euro as investors speculated the home sales figures would lessen the likelihood of an interest rate increase by the Federal Reserve Board, but then recuperating its losses as the "safe haven" currency of choice.

The NAR report follows the release last week of a Case-Schiller report showing home prices were flat in October, in spite of the surge in purchases based on the home buyer tax credit and exceptionally low mortgage interest rates. This was not enough, a Tuesday *New York Times* editorial points out, "to overcome the drag created by a glut of 3.2 million new and existing unsold single-family homes—about a seven-month supply."

"The situation, we fear, will only get worse in months to come," the *Times* writes, citing increasing mortgage rates, the eventual ending of the home buyer tax, and an anticipated "flood" of foreclosed homes.

Foreclosures continue to increase. In 2008, more than 1.7 million mortgages fell to foreclosure or similar actions. In 2009, the number swelled to 2 million, and in 2010, the figure is expected to increase to 2.4 million, according to Moody's Economy.com.

The looming glut of new foreclosed homes will drive down home values by as much as 10 percent next year, bringing to 40 percent the four-year drop-off, the *New York Times* reports. This will swell the ranks of "under water" homeowners—those who owe more on their mortgage than their home's market worth. Moody's estimates that one third of all US homeowners, 16 million in all, find themselves in this predicament. The abandonment of homes in negative equity is now a leading cause of foreclosures.

Last spring, President Obama claimed that his $75 billion Making Home Affordable Act would help to permanently renegotiate the mortgage payment terms for millions of homeowners by providing incentives to lenders to lessen monthly payments. The administration ruled out lowering principal, the outstanding and typically overvalued balances homeowners owe banks on mortgages.

An almost statistically insignificant share of homeowners, about 30,000, have seen their mortgages permanently modified as a result of the program. Many of the roughly 750,000 homeowners approved for temporary modifications may be in worse shape than before. Banks admit reporting homeowners accepting modifications to credit ratings agencies as delinquent. Most of the modifications last only three to five months.

Obama's "housing rescue" was in fact another facet of the multitrillion-dollar Wall Street bailout, only serving to shield the banks from writing down the value of their grossly overvalued mortgage loans while providing rich new revenue streams to carry out "trial" loan modifications.

In the interim, the banking industry has, with the support of the Obama administration and both parties in Congress, successfully thwarted legislation that would have allowed bankruptcy judges to write down the outstanding balances on overvalued homes.

Also on Tuesday, the National Bankruptcy Research Center released data showing that 1.41 million personal bankruptcy petitions were filed in 2009, a figure representing more than 1 percent of all US households and an increase of 32 percent from the previous year. The year has seen the most bankruptcies since 2005, when Congress passed legislation at the behest of the banking and credit card industries aimed at preventing filings by putting in place punitive restrictions.

Significantly, a large majority of filings occurred in the Chapter 7 category, which forces filers to liquidate assets in order to gain debt relief. Chapter 7 filings increased by 42 percent in 2009. The 2005 law aimed to steer those entering bankruptcy toward Chapter 13, which requires those seeking relief to submit to a debt repayment plan.

There were 113,274 filings in December, up one third from December 2008. It was the 12th straight month in which filings exceeded 100,000.

Bankruptcy filings increased in all 50 states in 2009. The states with the highest filing rates were Nevada, Tennessee, Georgia, Alabama and Indiana. Those with the sharpest increases over 2008 filing rates were Arizona, Nevada, California, Wyoming and Utah, all of which saw increases of between about 60 percent and 80 percent, according to Professor Ronald Mann of Columbia Law School, who analyzed the data. At the county level, the highest bankruptcy rates occurred in three suburban counties in the South around Memphis, Tennessee, and Atlanta, Georgia.

Bankruptcies are affecting wider layers of the population, the data indicate. Courts have seen an increase in joint-bankruptcy filings, suggesting that more families are seeking protection from their creditors.

"I can't see over the top of the files on my desk," Cathleen Moran, a California bankruptcy attorney, told the *Wall Street Journal*. "Ms. Moran's clients in 2008 typically were people who earned between $40,000 and $80,000. That changed last year when a rash of people who earned $100,000 to $300,000 began filing as well," the newspaper explains.

Local figures from the US Bankruptcy Court for Eastern Wisconsin reported by the *Green Bay Gazette* verify the national data. Filings increased there by 31.5 percent between September 2008 and September 2009, with a sizable majority of Chapter 7 petitions.

Bobbie Lison, budget counselor at the local Catholic Charities, pinned the increase on job losses. "A lot of people, when they first lost their jobs or their hours were cut, used credit cards to supplement their spending," he told the *Gazette*. "But a lot of credit card companies have cut limits or raised interest rates. If you're at the point where you have no more credit or your rates or minimum payments went up, you might be out of options."

Lison also cited medical bills. "People have tremendous medical bills," he said. "And they might not have insurance because either they lost their job or they work part-time. They might not be able to afford COBRA prices, and even something minor can get very expensive."

The economic crisis is also driving large numbers of small businesses into bankruptcy. The credit analysis company Equifax recently reported that small business bankruptcies increased by 44 percent nationally for the year ending on September 30 over the previous year. In California, the percentage increase was nearly twice as large, 81 percent.

Economists sought solace in recent figures from the manufacturing sector. US factory orders increased by 1.1 percent last month to a seasonally adjusted $365 billion, the Commerce Department reported Tuesday. The increase was greater than expected, and is partially attributable to increasing oil prices. The figures came on the heels of a survey released Monday by the Institute for Supply Management suggesting that manufacturing activity increased for the fifth straight month and similarly positive industrial production data from other countries.

Yet US manufacturing output in November remained more than 13 percent lower than its level in December 2007.

The dubious nature of the rebound in manufacturing was illustrated by new sales figures released Tuesday by the auto industry. Among the Big Three US auto companies, only Ford saw an increase in December 2009 from December 2008, when the collapse in auto sales was already under way. Ford's sales for the year as a whole fell by 15 percent.

General Motors suffered a 6 percent decline in December sales, capping a dismal year that saw total sales drop by almost one third. Chrysler, which like GM was forced into bankruptcy by the Obama administration and is now controlled by Italian automaker Fiat, also saw a December sales drop of 4 percent. In 2009, its sales volume fell by 36 percent from 2008, plummeting below the 1 million vehicle mark for the first time since 1962. For the industry as a whole, 2009 is likely to produce the worst year since 1970.

As bad as these numbers are, they would have been far worse were it not for the Obama administration's "cash-for-clunkers" tax credit for auto purchases. The program primarily served to rid automakers of bloated inventory.

New York Times economics columnist Paul Krugman on Monday warned that the overall increase in manufacturing output may well follow a similarly illusory trajectory.

"To work off their excess inventories, [companies] slash production; once the excess has been disposed of, they raise production again, which shows up as a burst of growth in GDP," Krugman wrote. "Unfortunately, growth caused by an inventory bounce is a one-shot affair unless underlying sources of demand, such as consumer spending and long-term investment, pick up."

But consumer spending, which counts for some two thirds of US economic output, will not improve absent a major expansion in jobs and improving wages, or a sudden rebound in home values. No serious observer expects any of these events to take place in the short term, if ever.

Another survey released Tuesday by the Conference Board found that the lowest proportion of American workers ever, 45 percent, report being happy with their jobs. Among the leading causes of worker dissatisfaction, according to the report, are wages failing to keep pace with inflation and increasing health insurance costs absorbing take-home pay.