Figures reveal US slump is sustained, deepening for the working population

David Walsh
21 May 2010

Two sets of US economic data released Thursday poured more cold water on recent claims of an "economic recovery" at least as far as the conditions of broad sections of the American population are concerned.

At the same time, the Federal Deposit Insurance Corporation (FDIC) reported that the net income of US banks rose to $18 billion for the first quarter of 2010, the highest total in two years. The gains were concentrated among the largest banks, indicating that certain portions of the economy are performing quite well.

The Conference Board, based in New York, issued its influential Leading Economic Index (LEI) for April on Thursday morning, which showed a slight decrease, of 0.1 percent, the first monthly decline since March 2009. The biggest negative contributors were a sharp decline in building permits, supplier deliveries (vendor performance), consumer confidence, and manufacturers' new orders for consumer goods. The March 2010 LEI increase has also been revised downward, from 1.4 to 1.3 percent.

The Commerce Department reported earlier in the week that building permits fell 11.5 percent in April, to the lowest level in six months. This foreshadows a new slowdown in residential construction.

The decline in the Conference Board LEI had not been anticipated on Wall Street, helping to drive down share prices Thursday morning. Notes RTTNews, "The decrease came as a surprise to economists, who had expected the index to increase by 0.2 percent." Overall, comments *Bloomberg Businessweek*, "A slump in building permits, little letup in firings and retreating stock prices highlight risks to the strength of the recovery as concern over the European debt crisis mounts."

A day earlier, the Mortgage Bankers Association (MBA) reported that a record share of US houses were in foreclosure, 4.63 percent, in the first quarter of 2010 "as job losses caused homebuyers to fall behind on monthly payments" (*Bloomberg Businessweek*). The MBA reported the combined share of foreclosures and mortgage delinquencies was 14 percent, or about one in every seven US mortgages, a staggering total.

"Job losses have strained budgets, making it difficult for households to pay monthly bills," Jay Brinkmann, the MBA's chief economist, told *Bloomberg Businessweek*. "The unemployment rate is the major factor driving the numbers," Brinkmann said. "We're seeing the states with the biggest unemployment problem, like Ohio, Illinois and Michigan, showing the biggest increases."

In other words, there is no recovery for the working population in the US.

This reality was underscored by another unexpected statistic announced Thursday morning, the jump in weekly jobless claims in the US by 25,000 last week, to 471,000, "defying predictions" of economists they would decline by 4,000. The previous week's jobless claim total was also revised upward a slight amount.

The *Wall Street Journal* commented, "In a troubling sign for the U.S. labor market, the number of workers filing new claims for unemployment benefits unexpectedly surged last week to wipe out most of the recent declines."

Joseph Lazzaro at *Daily Finance* wrote, "At this stage of a U.S. economic expansion, initial jobless claims would normally be below 400,000. But this recession, which was deepened by the financial crisis, has defied numerous, historical economic norms and patterns, and the expected trend in jobless claims has been one."

It was considered good news that continuing jobless claims (those drawn by workers for more than one week) declined by 40,000, to 4.6 million. It is necessary to bear in mind, however, that hundreds of thousands of the jobless are simply exhausting their benefits each month.

Moreover, Lazzaro points out, “This week, states reported 5,101,000 persons claiming Emergency Unemployment Compensation [established and extended several times by Congress] benefits for the week ending May 1, the latest week for which data is available, a decrease of 94,788 from the prior week. A year ago, there were 2,290,000 million EUC claimants.

“In other words, while continuing claims have declined by about 1.8 million over the past 12 months, emergency claims have increased by about 2.8 million.”

The large US banks meanwhile “enjoyed a disproportionate share” of the industry’s earnings gains in 2010’s first quarter, commented a Reuters dispatch. Thestreet.com reports that among those institutions “showing vast improvements” were FIA Card Services, a subsidiary of Bank of America, with first-quarter earnings of $507 million compared to a net loss of $1.5 billion in the first three months of last year. The main subsidiary of Wells Fargo posted a profit of $2 billion, up from $1.2 billion in the same period in 2009.

“The largest U.S. bank by total assets as of March 31, was JPMorgan Chase Bank, NA, which is held by JPMorgan Chase, and it reported first-quarter net income of $2.7 billion, a slight rise from $2.5 billion during the first quarter of 2009.” Citibank, NA, took in net income of $2.2 billion in the first quarter of 2010, as opposed to $1.5 billion in the same three months last year.

However, despite having trillions made available to them, the banks continue to balk at loaning out their money. Without an accounting change that skewed the figures, “loan balances would have declined for the seventh quarter in a row.”

The number of problem banks increased, reported the FDIC, from 775, up from 702 the previous quarter, and 305 a year ago. Seventy-two US banks and thrifts have failed so far in 2010, and 237 since the beginning of 2008; the FDIC expects the total this year to exceed 2009’s 140.

Bank failures and consolidations resulting from the ongoing crisis have driven down the number of US banks to below 8,000, Reuters notes, for the first time in the FDIC’s 76-year history.