US jobless claims, housing data point to worsening economy

By Barry Grey
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Reports issued Thursday on initial claims for unemployment benefits and sales of previously owned homes confirm that the US economy is slowing dramatically.

The Labor Department reported that initial jobless claims for the week ended July 17 rose by 37,000 to 464,000. The number was far higher than the consensus forecast of economists. It underscored the bleak prospects for any significant reduction in the unemployment rate, now officially at 9.5 percent.

The four-week moving average of initial claims also rose, hitting 454,750, up 1,250 from the previous week. In a healthy economy with substantial hiring, initial jobless claims usually fall below 400,000.

Also on Thursday, the National Association of Realtors reported that existing home sales fell 5.1 percent in June to an annual rate of 5.37 million units. It was the second consecutive monthly drop. Home sales in the US are down 26 percent from their peak in September 2005.

The sales figure followed other housing data released earlier in the week showing that the housing market recovery is collapsing. Housing starts fell in June to the lowest level since October, and homebuilder sentiment fell this month to its lowest level since April 2009.

In May, pending home sales plunged 15.9 percent from the year-earlier period to the lowest level since the National Association of Realtors began collecting statistics in 2001.

In a front-page article Wednesday headlined "Housing Market Stumbles," the *Wall Street Journal* noted, "Demand for home purchase mortgages sits near a 14-year low, according to the Mortgage Bankers Association, down 44 percent over the past two months."

Underlying the renewed housing slump is the jobs crisis, the worst since the 1930s. Home sales and construction are falling despite the fact that mortgage rates are the lowest in decades and home prices have fallen sharply. But demand is low because so many people are either out of work or afraid of being laid-off, or are working fewer hours for less pay.

In addition, a quarter of homeowners are "under water," i.e., they owe more on their mortgage than the sale price of their home. Consequently, they cannot sell their present home to move into another.

The flood of foreclosed homes is further undermining the housing market. *Bloomberg* wrote on Thursday, "Foreclosures and short-sales are boosting the so-called shadow inventory, and competing with owners trying to sell properties. Home seizures jumped 38 percent in the second quarter from a year earlier, RealtyTrac said last week, putting lenders on pace to claim more than 1 million properties this year."

Also on Thursday, the Conference Board reported that its index of leading economic indicators fell 0.2 percent in June. It was the second decline in three months.

"The indicators point to slower growth through the fall," said Ken Goldstein, an economist at the Conference Board.

The release of the economic data coincided with two days of congressional testimony by Federal Reserve Chairman Ben Bernanke, in which the central bank chief acknowledged a slowdown in what was already a torpid economic growth rate.

Presenting the Fed's semiannual monetary policy report to Congress, Bernanke appeared Wednesday before the Senate Banking Committee and Thursday before the House Financial Services Committee. He said the US economic outlook was "somewhat weaker" than previously indicated, and focused on persistent high unemployment and the slowdown in the housing market.

On jobs, Bernanke acknowledged that the Fed expected the unemployment rate to decline even more slowly than it had previously forecast, leaving the official jobless rate at 7.0 percent to 7.5 percent at the close of 2012. The Fed forecasts the jobless rate to be between 9.2 percent and 9.5 percent in the final quarter of 2010.

He acknowledged that the pace of private payroll growth in the first half of 2010—100,000 a month, on average—is "insufficient to reduce the unemployment rate materially."

The US central bank recently cut its estimate for US growth in 2010 from 3.2-3.7 percent to 3.0-3.5 percent. It expects the economy to pick up only slightly to 3.5 percent to 4.5 percent in 2011 and 2012.

This is a projection for, at best, years of extremely high unemployment, with all of the attendant social consequences. But what shook the stock market on Wednesday was Bernanke's remark that the economic outlook was "unusually uncertain." This sent the Dow tumbling, leading to a 109-point drop at the close of trading.

In his Senate testimony Wednesday, Bernanke said the Fed was prepared to take new steps in the event of the economy slipping back toward negative growth. However, he made clear that it had no plans in the near term to intervene further.

On Thursday, before the House committee, Bernanke placed more emphasis on the willingness of the Fed to take unorthodox measures to prevent deflation or a "double-dip" recession. He made clear that these measures would aim to increase the flow of cheap credit to major banks and corporations, bolstering their profits.

Bernanke implicitly indicated that the Fed would not support any measures to directly create jobs, such as a public works program, or any major government spending to provide relief for the millions of workers facing long-term unemployment, the loss of their homes, utility shutoffs, and a slide into destitution.

While he cautioned against immediately ending all forms of economic stimulus, he reiterated his repeated demand that the government formulate a medium-term plan to slash social spending in order to reduce the budget deficit.

Bernanke's testimony Thursday, combined with more second-quarter corporate reports showing bumper profits, sparked a rally on Wall Street, with the Dow closing up by 201 points.

President Obama has repeatedly declared that the economy is "headed in the right direction." His administration has dropped even its minimal proposals to aid financially desperate state and local governments and subsidize job creation.

It is pursuing the ruling class policy of using mass unemployment to drive down the wages and living standards of the working class, and preparing sweeping austerity measures to make working people pay for the budget and debt crisis of US capitalism.

While workers are suffering the impact of this policy, big business is benefiting handsomely. Corporations registered record profit gains in the first quarter of 2010, and they are expected to rise another 19.3 percent this quarter, as compared to a year ago. The profit surge is largely the result of downsizing, wage cutting and speedup.

In a recent column in the *New York Times*, Roger Altman, an investment banker and deputy treasury secretary in the first Clinton administration, defended Obama against criticisms from some business leaders by citing his pro-corporate record. He pointed out that profits are up 41 percent since Obama was elected and the Dow has risen by more than 28 percent over the same period.

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