Latest US housing, jobless figures far worse than economists anticipated

By Patrick O'Connor
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The extraordinary speed at which the US economy is contracting continues to confound economists' forecasts. According to new housing market data released by the Commerce Department yesterday, new home and apartment construction in December plunged 15.5 percent on an annualized basis. Economists surveyed by Dow Jones Newswires had forecast a 4 percent fall.

Regionally, construction of new homes last month declined at the greatest rate in the South (down 22.2 percent) and the Midwest (down 24.5 percent). The December decline marked a record low, confirming 2008 as the worst year for US builders since such records were kept in 1959. Housing starts last year totaled just over 900,000, down from 1.35 million in 2007. Last year's construction surpassed the previous low recorded in 1991 of 1.01 million starts.

Applications for building permits, an indicator of future home construction, also plummeted last month by 10.7 percent, far worse than economists' expectation of a 0.8 percent decline.

Home prices are still going down. The Federal Housing Finance Agency yesterday released its index tracking homes bought with mortgages from Fannie Mae or Freddie Mac. The value of these homes dropped by 1.8 percent between October and November 2008, higher than the 1.1 percent fall recorded a month earlier.

The latest data has dashed hopes that the devastated US housing market would recover ground this year. "The market is bloated with excess supply and demand is weak," Moody's economist Ryan Sweet told *Bloomberg*. "The pace of housing starts will remain depressed until 2011."

"Conditions in the market for new homes have not been this bad since the 1930s, and they continue to worsen," Patrick Newport, of economic forecaster IHS Global Insight, added.

The meltdown of the housing market has deepened the crisis of the financial sector—with sub-prime mortgage "toxic assets" threatening the entire banking system with insolvency—as well as the economy's productive base, with the collapse in home values triggering a deflationary spiral of lower consumer spending and business output and investment.

The Labor Department yesterday reported that initial jobless benefit claims rose to a seasonally adjusted 589,000 in the week ending January 17, the largest recorded since 1982. Economists had forecast just 540,000 new claims. The number of those continuing to seek benefits rose by 97,000—50,000 higher than analysts had anticipated—to 4.6 million.

Michigan's Department of Labor and Economic Growth reported Wednesday that the state's official unemployment rate for December stood at 10.6 percent. This was up from 9.6 percent in November, and marked the highest jobless rate since December 1984. Most of the state's December job losses were in the business and professional services sector, with 15,000 layoffs, and the manufacturing sector, with 12,000 jobs cut. A large proportion of the layoffs in each category were made by auto and auto-related companies. Economists expect things to worsen throughout 2009, with Mackinac Center's David Littmann telling *MLive.com* that Michigan's unemployment would likely reach 12 percent as soon as July.

Layoffs continue to mount across the US and world economy. Chemical manufacturer Huntsman Corp. is cutting its workforce by 9 percent, shedding 1,175 salaried employees and 490 contractors. Many of the lost jobs will be in Britain, where Huntsman is closing one of its titanium dioxide plants.

Computer chip manufacturer Intel is to close five plants, two in the US and three in Asia, and will lay off between 5,000 and 6,000 workers. The announcement follows Intel's report last week of a 90 percent fall in profits for the final quarter of 2008.

Microsoft announced it will eliminate 5,000 of its 94,000 employees in the next 18 months. This is the first major layoff announcement in the software giant's history. Another 5,000 contractors may also be dismissed. Falling software sales have seen Microsoft's net income drop to $4.17 billion in the second quarter, compared to $4.7 billion a year earlier. The company's shares yesterday fell by nearly 12 percent on Wall Street yesterday.

A number of other companies also announced lower revenue and profit streams, driving down the major stock indexes amid volatile trading. The Dow Jones Industrial Average closed 1.3 percent lower, the Nasdaq lost 2.8 percent, and the Standard & Poor's 500 index was down 1.5 percent. The S&P's financial sector fell by 6.7 percent, due to ongoing concerns over the viability of the major banks. Bank of America lost 14.5 percent of its value while Citigroup declined by 15.3 percent.

Major corporate losses and layoffs are now hitting economies throughout the world. Swedish telecommunications equipment maker Ericsson announced this week it was cutting 5,000 jobs in anticipation of a deeper global recession. About 1,000 of the affected workers will be in Sweden. The company is yet to announce where the rest of the layoffs will take effect.

In Japan, Sony said it expected to post a record annual operating loss of nearly $3 billion. The electronics company last month revealed plans to cut 8,000 positions and close up to six manufacturing plants; it is now to cut an additional 1,000 contract workers and close two more plants in Japan. "The massive economic upheaval being experienced across the world is sparing no one in the consumer electronics world," Sony CEO Howard Stringer declared. He added that "consumer credit has been stifled" and "some of our biggest retailers have been liquidated."

The collapse of consumer spending in the US and other major economies is badly affecting many export-dependent economies in Asia. Japan's exports plunged by 35 percent in December on an annualized basis, the largest fall on record. Particularly sharp declines were recorded for exports of cars to the US and Europe and chemicals and electronic components to China. Japan's trade surplus last year was 80 percent lower than in 2007, and was the smallest recorded since 1982.

In South Korea, fourth quarter 2008 gross domestic product (GDP) contracted by 5.6 percent, the most severe downturn since the 1997-98 Asian economic crisis. The recession is being driven by lower exports—for the fourth quarter, Korea's goods exports declined by 11.9 percent from the previous three-month period. This was the largest fall since 1979. Fitch Ratings has said it expects the South Korean economy to contract by 2.4 percent this year.

Chinese GDP growth stalled in the last three months of 2008. According to official data released by the National Bureau of Statistics yesterday, the economy grew by 6.8 percent on an annualized basis, down from 9 percent in the third quarter and 10.6 percent in the second. Fourth quarter growth was the weakest recorded since Beijing first released quarterly figures in 1992.

China's 6.8 percent GDP growth, while higher than most other economies in the region, falls short of the 8 percent level understood to be the minimum required to absorb the continual influx of workers moving to the cities from the countryside. "The situation is really very serious," Chang Xiuze, of the Macro-Economics Institute of the National Development and Reform Commission in Beijing, told the *Washington Post*. He predicted an increase in labor disputes. "If economic growth is too low, the government cannot solve unemployment. If the growth rate is less than 7 percent, the country cannot operate normally."