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IMF Says Housing-Price Booms Threaten Economic Stability

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WASHINGTON -(Dow Jones)- Economic policymakers in countries now experiencing housing-price booms should be worried given the frequency and painful consequences of housing-market busts in the past, the International Monetary Fund said Thursday.

"Housing-price busts were associated with more severe macroeconomic developments than equity-price busts," the IMF said in a chapter of its World Economic Outlook, part of which was released Thursday. "Coupled with the fact that housing-price booms were more likely than equity-price booms to be followed by busts, the implication is that housing-price booms present significant risks."

IMF Economists Thomas Helbling, **Marco Terrones** and Emily Conover examined stock-market and housing-market price busts in the industrial countries since World War II. They found that on average, equity-price busts occurred every 13 years, and resulted in output losses of about 4% of GDP. Although housing-price busts happened less frequently, they lasted nearly twice as long and caused double the economic losses.

The IMF noted a key difference between the stock-market bust that began in 2000 and previous episodes is that home prices have continued to rise, in many countries by enough to earn the label of housing-price boom.

"This is a particular concern since housing booms have been followed by busts about 40% of the time, and have been associated with larger output losses," the IMF said.

David Robinson, the IMF's deputy research director, told reporters he isn't ready to declare the current state of the U.S. housing market a bubble, because there are economic reasons for the run-up in prices, like higher immigration and greater access to home ownership for low-income people.

"Nonetheless, it is something that should be watched closely," Robinson said.

U.S. home prices have climbed about 15% in the two years ending in the fourth quarter of 2002, according to the Office of Federal Housing Oversight. In the U.K., home prices showed gains of 44% in the two years prior to March, based on data from the Nationwide Building Society.

IMF economists said U.S. home prices have risen 27% in real terms since the low point of the last bust. In the U.K., real home prices are up 70% since the last trough. Both increases are well above the definition of a boom in this study.

Economists say the rising home values, combined with low mortgage rates, have enabled consumers to lower debt-service costs and have given them the confidence to keep spending, even as the value of their investments shrink. Some worry that a sharp drop in home values would drag the U.S. back into recession.

Instead, consumer spending has been stronger in the U.S., the U.K., and to a lesser extent France, than is typical following a stock-market bust. Spending has been weaker in Germany and Italy, the IMF said.

Federal Reserve Board Chairman Alan Greenspan has downplayed the threat to the U.S., arguing that even when housing bubbles emerge, they tend to be local, not national in scope.

"It is, of course, possible for home prices to fall as they did in a couple of quarters in 1990," Greenspan said in a recent speech. "But any analogy to stock-market pricing behavior and bubbles is a rather large stretch," he said.

The IMF said bursting of housing-market bubbles tended to be more traumatic than stock busts. That is because housing busts tend to more greatly depress consumer spending, dampen bank lending, and spill over to other asset classes.

"All major banking crises in the industrial countries during the postwar period coincided with housing-price busts," the IMF authors said, citing previous economic research.

One ray of hope for policymakers stems from the observation that growth in private investment generally bottoms out about eight quarters after a stock bubble bursts. U.S. investment may be stabilizing, although it appears to be falling still in Japan and in the euro area, the IMF said. High levels of corporate debt may be a particular drag on the recovery in Europe, where investment is financed more through bank borrowing than equity issuance, the IMF said.

-By Elizabeth Price, Dow Jones Newswires; 202-862-9295; Elizabeth.Price@dowjones.com

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