

**UPDATE 1-House price fall a global risk as rates rise-IMF.**

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WASHINGTON, Sept 22 (Reuters) - Lofty house prices in many rich countries are in danger of a correction as central banks raise interest rates to check inflation, a fall that could ripple through the global economy, the IMF said on Wednesday.

Home values, adjusted for inflation, have surged by more than 50 percent since 1997 in Ireland, Britain, Spain, Australia, the Netherlands, and Sweden, the Washington-based International Monetary Fund wrote in a report to be included in its semi-annual World Economic Outlook.

While there is no actual global market, the fortunes of housing markets in different countries have become increasingly linked, the fund said.

"Just as the current upswing in house prices has largely been a global phenomenon, any downturn is also likely to be highly synchronized across countries, with corresponding implications for the world economy," said the report by **Marco Terrones**, a senior IMF economist.

"Even an orderly correction would clearly weaken growth in the countries in which it occurred ... an abrupt price correction could have significantly more serious adverse effects," the report said.

The risk stems in part from the divergence between the house price surge in much of the industrialized world, unusual in its scale and duration, and economic fundamentals.

The fund said even the long stretch of bargain-basement interest rates failed to fully explain the run-up.

The U.S. market - where the divorce from fundamentals is less marked than in some other countries including Britain - is more likely to see slower gains rather than a price fall.

However, the fund did not rule out sharper corrections in some regions of the United States and said the situation was more perilous in Britain, and it could not rule out an outright drop in prices there.

The fund cautioned this analysis was based on price rises driven by fundamentals, and not designed to spot bubbles.

"In cases where house prices have exceeded fundamentals - which may include Australia, Ireland, Spain and the United Kingdom ... there is a danger that higher interest rates could trigger a much larger downward adjustment in house prices," the global lender said.

The fund said the impact of rising interest rates through the middle of next year could be "significant but manageable."

"However, in those countries where house prices are richly priced, and where households' debt has reached unhealthy levels, there is the risk that an increase in interest rates could trigger a sharp house price drop with more severe consequences for economic activity," the report said.

The fund suggested that the best course of action in those countries would to soon, but gently, tighten monetary policy.

"The strength of the housing market has played an important role in supporting activity during and after the downturn. By the same token, the outlook for the housing market will play a key role in shaping the extent and nature of the recovery," the IMF said.

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