

Speculators bet home prices will fall further

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WASHINGTON -- U.S. home prices have fallen further since mid-2006 than during the 1990-91 recession and professional traders bet they'll plunge up to 10 percent more the next year.

If the speculators making big-money bets on where housing prices are headed are right, the question is not whether a recession is ahead but when it will start. Sizable drops in home prices in a year would likely curtail consumer spending sharply.


Yale University economist Robert Shiller, who has long warned of inflated home prices, says a big hit to U.S. housing assets, worth \$23 trillion, would shock the broader economy.

"It will upset balance sheets, it will upset lots of our economic institutions," said Shiller, who argues that prices were driven higher by greed, not people looking to buy a place to live. Adjusting for inflation, housing prices have soared 86 percent in the past decade although some cities, such as New York, Los Angeles and Washington, saw far larger jumps than most regions of the country.

Yet homeowners across the nation tapping into credit lines pegged to the value of their houses have been a potent economic force in recent years. For the vast majority of U.S. households, the home is the most substantial financial asset. If its value plummets, so does the owners' sense of prosperity, which can restrict spending on everything from vacations to cars and eating out or buying new clothes.

Home prices fell less than 3 percent during the economic downturn of the early 1990s and rose through the 2001 recession, but have already dropped 3.2 percent over the past year, according to a closely watched housing market index created by Shiller.

"This time, we're in a bigger boom, and we face the possibility of a bigger decline," Shiller told lawmakers last week. "It's not just an issue of a recession coming up, it's an issue of a drag on the economy, which might extend over many years."

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