Across the Globe, Hints of More Perils in Housing

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AS a weakening housing market appears to be dragging the American economy into recession, the International Monetary Fund warned this week that home prices in other industrial countries were even more overvalued.

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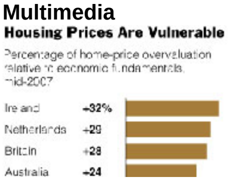

Graphic

In its World Economic Outlook report, the fund also concluded that central banks should pay close attention to home prices and consider raising interest rates when prices are rising rapidly. That conclusion is directly contrary to the established policy of most central banks, including the Federal Reserve, which ignores home prices when they are expanding.

In the current credit crisis, which began with problems in the subprime mortgage market, the Fed has moved aggressively to lower interest rates.

"A central bank that wants to stabilize the economy is better served by responding to house prices, both when they go up and when they go down," said Roberto Cardarelli, a senior economist with the I.M.F. He said that was particularly important in countries with relatively open mortgage markets, like the United States, which make it easy for homeowners to get access to cash when prices are rising.

The fund looked at trends in housing prices and mortgage debt in 17 countries, and tried to assess how much of the price changes could be attributed to economic fundamentals, including trends in personal income, demographics and interest rates. It concluded that house prices in the United States in mid-2007 were 11 percent higher than the fundamentals would justify.

But that overvaluation was much lower than in Ireland, where the I.M.F. estimates that house prices were 32 percent higher than fundamentals would support. The Netherlands, Britain, Australia, France and Norway all showed overvaluations of at least 20 percent.

On the other end of the spectrum, the I.M.F. concluded that homes were undervalued in Canada and Austria.

Mr. Cardarelli pointed out that adjusted for overall inflation, home prices rose at a slower rate in the United States in this decade than they did in many other countries, with the mid-2007 figure up 42 percent from the first quarter of 2000. Comparable figures included gains of 95 percent in Spain, 90 percent in Britain and 85 percent in France.

Mortgage debt has shot up over recent decades in many countries, but there remain sharp variations as some markets make it much harder to borrow or restricted the loan-to-value ratio of mortgage loans.

In the United States, total mortgage debt more than doubled, as a percentage of gross domestic product, going from 34 percent in 1983 to 45 percent in 1990 and then to 76 percent in 2006.

In some countries, however, the increases were much greater. Mortgage indebtedness in the Netherlands hit 98 percent of G.D.P., and in Denmark it rose to 101 percent.

In Italy, however, mortgage debt has risen but is still less than 20 percent of G.D.P., and in France the figure is just 32 percent.

Perhaps not coincidentally, when the I.M.F. put together an index of mortgage markets, the most liberal in terms of lending standards was the United States, followed by Denmark and the Netherlands.

At the bottom of that list were France and Italy.

Floyd Norris comments in his blog at norris.blogs.nytimes.com.