

Greenspan: Housing market worst may be over

Former Fed chief sees applications for mortgages bottoming out

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WASHINGTON - The U.S. housing market appears to be emerging from its recent travails and the "worst may well be over," former Federal Reserve Chairman Alan Greenspan was quoted as saying on Friday.

"I suspect that we are coming to the end of this downtrend, as applications for new mortgages, the most important series, have flattened out," Greenspan said at an event in Calgary, Canada, sponsored by BMO Financial Group, according to a transcript BMO made available.

"There is a good chance of coming out of this in good shape, but average housing prices are likely to be down this year relative to 2005. I don't know, but I think the worst of this may well be over," he added.

Applications for U.S. home mortgages jumped in the latest week bolstered by increases in refinancing and new home purchases as long-term rates decreased, according to data from the Mortgage Bond Association.

Greenspan, the former Fed chief's comments suggest a more sanguine view of the U.S. housing market than that offered by current Fed chairman Ben Bernanke, who said last week that the housing market was currently undergoing a "substantial correction."

Some bond market participants in London said on Monday that Greenspan's remarks helped drive bond prices down further and yields higher, and obscured concerns surrounding the news that North Korea said it safely and successfully conducted an underground nuclear test over the weekend.

U.S. bond markets were closed on Monday in observance of the Columbus Day holiday.

Greenspan said the fall of communism, not sharp interest rate cuts by the Fed, was behind the housing boom in the early part of the decade. Cheap labor flooding into the West after the fall of the Berlin Wall had a disinflationary effect, causing bond yields to fall and house values to rise, he said.

On another topic, the former Fed chair said that China is unlikely to quickly adopt a flexible exchange rate regime as it transitions to a market economy from a centrally planned one.

Many economists and policy-makers believe China keeps the value of its yuan currency low to make Chinese exports cheaper on world markets, fueling export-led growth but contributing to China's large trade surplus with the United States.

"The greatest fear of the central government of China is insurrection and so they refuse to revalue their currency in the hopes of continued surging job growth," Greenspan said.

He said the "threat" of U.S. trade protectionism had dissipated since U.S. Sens. Charles Schumer and Lindsey Graham had decided not to push for a vote on their bill to place high tariffs on Chinese imports into the United States.

"Schumer never thought he would get the congressional support he did," Greenspan said of the New York Democrat. "He was only trying to pressure China to revalue (the yuan), not to actually slap a 27.5 percent tariff on Chinese goods.

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