

# Housing price drop might spur new recession, Greenspan says

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Bloomberg News

Former Federal Reserve Chairman Alan Greenspan said the slowing economic recovery in the United States feels like a "quasi-recession" and the economy might contract again if home prices decline.

"We're in a pause in a recovery, a modest recovery, but a pause in the modest recovery feels like a quasi-recession," Greenspan said in an interview on NBC's "Meet the Press."

Asked if another economic contraction, a so-called "double dip," was possible, Greenspan said, "It is possible if home prices go down. Home prices, as best we can judge, have really flattened out in the last year."

Slowing economic growth, along with a decline in housing activity following the expiration of a government tax credit, has raised fears that the economy could return to a recession before completing its recovery from the worst downturn since the 1930s.

The former U.S. central bank chairman said most economists expect "a small dip" in home prices. The National Association of Realtors reported that the pace of home sales fell in June for a second month. Homes are selling at an annual rate of 5.37 million, and the group's chief economist, Lawrence Yun, said transactions



*"Our problem basically is that we have a very distorted economy. Any recovery has mostly been limited to large banks, large businesses and 'high-income individuals who have just had \$800 billion added to their 401(k)s, and are spending it and are carrying what consumption there is."*

- Former Federal Reserve Chairman **Alan Greenspan**, on NBC's "Meet the Press"

will be "very low" in coming months.

"If home prices stay stable, then I think we will skirt the worst of the housing problem," Greenspan said. "But right under this current price level, mainly 5, 7 or 8 percent below, is a very large block of mortgages, which are underwater, so to speak, or could be underwater. And that would induce a major increase in foreclosures, foreclosures would feed on the weakness in prices, and it would create a problem."

Home prices in 20 cities rose by 4.6 percent in May, according to a report from S&P/Case-Shiller last

week. Because of the index's lag in reporting, the extent to which home prices may slacken in June and July is not yet determined.

Greenspan's successor, Ben Bernanke, told Congress last month that the economic outlook is "unusually uncertain." Bernanke and his colleagues on the Federal Open Market Committee will meet Aug. 10 in Washington. Last week, the Commerce Department reported that the recovery slowed in the second half of 2010. The economy grew at a 2.4 percent pace, following growth of 3.7 percent in the first quarter.