

**Reprinted from MoneyNews.com**

## **Shiller: Housing Slump May Cause a Recession**

Wednesday, Sept. 19, 2007 2:04 p.m. EDT

WASHINGTON -- An economist who has long predicted this decade's housing market bubble would deflate, said the residential real estate downturn could spiral into "the most severe since the Great Depression" and could lead to a recession.

Yale University economist Robert Shiller's written comments to lawmakers came a day after the Federal Reserve responded to credit market turmoil by slashing the target federal funds rate by a half point to 4.75 percent.

Shiller, in testimony prepared for a hearing of the Joint Economic Committee said the loss of a boom mentality among the public may bring on a drop in consumer confidence that poses a "significant risk" of a recession within the next year.

Meanwhile, Peter Orszag, director of the Congressional Budget Office, gave a more tempered forecast, saying that financial market turmoil and weakened consumer confidence pose economic threats but are not likely to send the economy into a recession.

A hypothetical 20 percent drop in home prices over two years would reduce U.S. economic growth by one half of a percentage point annually to 1 ½ percentage points annually after three years, the Congressional Budget Office calculates.

"The risk of recession is elevated but the most likely scenario at this point seems to be continued economic growth," Orszag said.

The hearing came as the government said Wednesday it would slightly raise the investment portfolio cap for government-sponsored mortgage companies Fannie Mae and Freddie Mac as a way to pump cash into the stretched mortgage market.

Since mortgages made to people with weak credit are concentrated among low-priced homes, Shiller said "low income people will be especially hard hit by the correction." He advocated the creation of a new federal commission, modeled after the Consumer Product Safety Commission, to detect abusive lending practices that critics say were common in the market for loans made to people with weak credit.

Recent readings of the housing market suggest a rebound isn't coming anytime soon.

The Commerce Department reported Wednesday that construction of new homes fell by 2.6 percent in August to the slowest pace in 12 years as troubles. On Tuesday, the National Association of Home Builders reported that its index of builder confidence fell in September to equal the lowest level on record.

Also, foreclosure filings in August more than doubled nationwide from the year-ago period and jumped 36 percent from July, research firm RealtyTrac Inc. said Tuesday.

© 2007 Associated Press. All Rights Reserved. This material may not be published, broadcast, rewritten or redistributed.

**Editor's note:**

- [Buffett Says This Book Made Him Billions](#)
- [Sir John Templeton Was Right. Get His Latest Insight on Housing and Markets.](#)
- [The Mother of All Financial Disasters. Act Now.](#)