

The credit rating agency Standard and Poor's raised eyebrows this week by warning that house prices here are overvalued by 20 per cent and on the verge of a "protracted correction". Rating agencies haven't exactly cloaked themselves in glory recently. They are under fire in particular for failing to give investors adequate warning of the risks associated with bonds backed by US subprime mortgages.

But their dour outlook for our housing market cannot be easily dismissed. Various studies by the Central Bank of Ireland, the ESRI, the OECD and the IMF have produced similar estimates of overvaluation.

Economists at AIB are having none of it. In their latest *Economic Outlook*, they pencilled in unchanged house prices for next year and (wait for it) a 3 per cent rise in 2009. AIB are hoping that demographic factors and a robust labour market will save the day.

While other observers may think they see the Grim Reaper coming for the housing boom, AIB's prognosis is for a speedy recovery.

Trouble is that this time last year, many analysts were equally confident that the worst was over for the one-year-old US housing slump. Pointing to large flows of immigrants from Latin America and strong employment growth, analysts thought that a soft landing was on the cards. It hasn't turned out that way.

This week brought news that US home sales plunged 8 per cent in September to a ten-year low, house prices were down 4 per cent, and the glut of unsold homes on the market hit one million. The outlook remains bleak, with economists now expecting the weakness to continue into 2009.

The rating agencies might have dropped the ball on US subprime mortgages, but their call on our housing market may well be on the money.