

The blame game has started. Some observers are pointing the finger at the so-called merchants of doom and gloom, who they accuse of having talked down the housing market. But that is a bit like blaming bad weather on meteorologists who correctly warned of a coming storm. For sure there is feedback from economic commentary to the market, though probably far less than critics believe.

Economic commentators who talked up the market during the go-go years are also in the dock. The case against them seems stronger.

For most of 2006, new housing starts exceeded 90,000 units at an annual rate. With houses significantly overvalued and interest rates rising, builders were seriously overdoing it. This irrational exuberance undoubtedly owed in part to the guff that builders were hearing from a number of economic commentators. Projections for a soft landing and claims that sky-high housing valuations were justified by the “fundamentals” gave the green light to developers.

These commentators utterly misunderstood what was going on. Too often their assessment was based on anecdotes and gut feelings, not on rigorous economic analysis.

What’s worse is that these same commentators will shamelessly bombard us over coming months with nonsensical prescriptions for policies to try to reignite the market. As before, there will be no analytical effort and no objective research.

Tom Grealy from Galway recently reminded me of the adage that an economist is an expert who will know tomorrow why the things he predicted yesterday didn’t happen today. How many economic commentators does that cap fit?

Weather forecasters sometimes get it wrong. But if they fail to give us timely warnings of a coming hurricane, what use are they?