

The outlook for the housing market and the economy darkened dramatically last week, amid an escalation in the global credit crisis. Increasingly anxious banks want their money back and are forcing investors to liquidate assets to meet obligations. Interest rates at which banks lend to each other are rising again. Some commentators are warning of a financial meltdown.

Still, the economists at NCB are whistling past the graveyard. GDP will expand a solid 3.5 per cent this year, they say. They dismiss chances of a housing crash, claiming that the underlying demand for housing remains strong—driven by changes in demographics.

It's a nice try at a happy ending, but I don't buy it. For starters, Ireland's population growth is driven largely by migration flows. With the economy turning down, fewer foreigners will come here and many that are already here will probably return home. Anecdotes suggest that Irish construction workers have already begun to emigrate. The dynamics of our population depend on economic conditions, and therefore can turn on a dime.

Moreover, demographics are not a reliable guide to short-term movements in housing markets. NCB should know that. Their website boasts of an "award winning" report, published in 2006, that outlines Ireland's demographic prospects. The report projects--on the basis of demographic factors--increases in house prices of 6 per cent in 2007. In the event, house price fell 10-15 per cent last year. That's a big miss.

Like many other economists working for financial institutions, the crew at NCB seem to have utterly misunderstood what was going on in the housing market. This raises two questions: Why should we trust their analysis now? And have they given back the award yet?