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Greenspan Sees U.S. as Likely In Recession, or Soon to Be

By GREG IP

January 15, 2008

The U.S. is probably in or about to enter a recession, former Federal Reserve Chairman Alan Greenspan said.

The odds are "not overwhelming but they are marginally in that direction" of recession, Mr. Greenspan said in an interview with The Wall Street Journal.

"The symptoms are clearly there. Recessions don't happen smoothly. They are usually signaled by a discontinuity in the market place, and the data of recent weeks could very well be characterized in that manner," he said.

Specifically, he cited a drop in the Institute for Supply Management's purchasing managers index to 47.7 in December after several months just above 50, the dividing line between expanding and contracting manufacturing activity. While "by no means conclusive, ... [that] is the type of thing, if we were going into recession, we'd observe."

Another sign, he said, was the jump in the unemployment rate to 5% in December from 4.7% in November.

Mr. Greenspan first publicly raised the possibility of recession in February of last year, and put the odds at about 33%. He said in mid-December the odds had risen to about 50%.

Yesterday, he said the odds were still close to 50% but "more likely higher than lower."

Mr. Greenspan saw a glimmer of hope in the housing market, saying new-home sales

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may have bottomed because the number of purchases financed by subprime and Alt-A mortgages -- a category between subprime and prime -- has fallen to zero. But bloated inventories mean housing construction and prices are still bound to fall, he said.

Write to Greg Ip at greg.ip@wsj.com

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