

Nationwide HOUSE PRICE INDEX



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August 2011

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House prices fall by 0.6% in August

- House prices declined by 0.6% in August
- Price of a typical home in August is 0.4% lower than one year ago

Headlines	Aug-11	Jul-11
Monthly Index*	328.9	331.0
Monthly Change*	-0.6%	0.3%
Annual Change	-0.4%	-0.4%
Average Price (not seasonally adjusted)	£165,914	£168,731

* Seasonally adjusted figure (Note that monthly % changes are revised when seasonal adjustment factors are re-estimated)

Commenting on the figures, Robert Gardner, Nationwide's Chief Economist, said:

"UK house prices declined by 0.6% in August, although this doesn't change the picture of relative stability that has characterised the market over the past twelve months. Indeed, prices were broadly unchanged compared with August 2010 – just 0.4% lower.

"Sluggish demand for homes, combined with only a gradual rise in the supply of available properties, has helped to keep property prices stable since last summer. We expect this trend to be maintained over the remainder of 2011, although downside risks have increased as UK and global growth prospects have weakened.

Economic outlook has become more challenging

"The UK economy grew by just 0.2% in the second quarter of the year – well below its long-term trend rate of around 0.7%. Indeed, despite being more than eighteen months into the recovery, UK activity is still around 4% below where it was at the end of 2007.

"The Office for National Statistics suggests that at least some of the weakness in Q2 was the result of a number of one-off factors – including the Japanese earthquake (which disrupted manufacturing supply chains) and an extra bank holiday with the Royal Wedding. However, more recent data provide little evidence of a rebound, with surveys of business

activity in the manufacturing and service sectors still implying only modest growth in the months ahead.

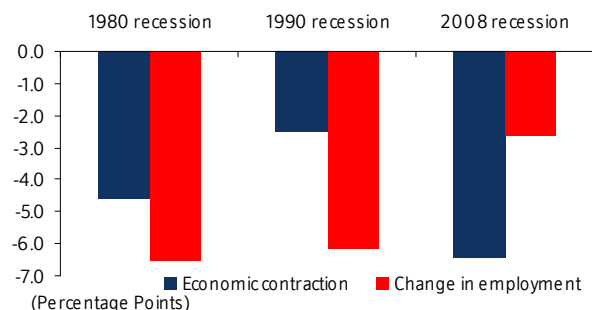
"Moreover, signs that the US recovery may be running out of steam and ongoing problems in the Eurozone are a particular concern for UK growth prospects at present.

"Exports are expected to be the main engine of UK growth over the next two years, since consumer spending is under severe pressure from a combination of high unemployment, sluggish wage growth and elevated inflation, while public spending is being held back by austerity measures. Clearly, this will be hard to achieve without robust growth in our core export markets in Europe and North America, which together account for well over half of our international trade.

Labour market developments key for housing

"The major risk for the housing market is that weak economic growth could lead to a further deterioration in the labour market.

"UK firms laid off far fewer workers in the wake of the 2008 recession than in previous downturns, even though it was one of the deepest and longest recessions on record (see chart below). This was partly due to greater flexibility in the UK labour market, which held back wage growth, and allowed for reduced hours and a shift toward part-time and temporary workers, cushioning employment from the impact of weaker demand.



"Nevertheless, UK firms' productivity (the amount of output per worker) has stagnated – a pattern which, if sustained, threatens to undermine firms' profitability. The risk is that this time around, faced with a further deterioration in

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demand for their products, firms may react by laying off more workers.

“For some time now the residential property market has been moving sideways, as weak demand for homes coexisted with a situation where relatively few homes were coming on to the market. A further fall in employment would be likely to upset the relatively delicate demand-supply balance and put downward pressure on prices.

Stability still expected, but risks have increased

“We continue to expect the UK economic recovery to gradually get back on track in the quarters ahead, which should guard against a significant deterioration in employment.

“Policymakers have recognised the growing threat to UK growth and, as a result, interest rates are now expected to remain on hold until well into 2012, which will provide ongoing support for domestic spending. This is a significant shift from just a few months ago, when financial markets pointed to rates rising before the end of the summer.

“Against this backdrop we continue to expect house prices to move sideways, or drift modestly lower over the remainder of 2011, although we recognise that the downside risks have increased.”

Monthly UK House Price Statistics

	Monthly % Change Seasonally Adjusted	3 month on 3 month % change	Annual % Change	Average Price
Aug-09	1.8	3.3	-2.7	160,224
Sep-09	0.9	4.1	0.0	161,816
Oct-09	0.8	4.0	2.0	162,038
Nov-09	0.7	3.4	2.7	162,764
Dec-09	0.4	2.6	5.9	162,103
Jan-10	1.4	2.3	8.6	163,481
Feb-10	-0.8	1.8	9.2	161,320
Mar-10	0.2	1.4	9.0	164,519
Apr-10	1.2	0.8	10.5	167,802
May-10	0.2	1.0	9.8	169,162
Jun-10	0.0	1.2	8.7	170,111
Jul-10	-0.5	0.9	6.6	169,347
Aug-10	-0.7	0.0	3.9	166,507
Sep-10	0.1	-0.9	3.1	166,757
Oct-10	-0.8	-1.2	1.4	164,279
Nov-10	-0.4	-1.2	0.2	163,133
Dec-10	0.3	-1.1	0.1	162,249
Jan-11	-0.1	-0.7	-1.4	161,211
Feb-11	0.6	-0.1	-0.1	161,183
Mar-11	0.3	0.4	0.1	164,751
Apr-11	-0.2	0.7	-1.3	165,609
May-11	0.3	0.6	-1.2	167,208
Jun-11	0.0	0.3	-1.1	168,205
Jul-11	0.3	0.3	-0.4	168,731
Aug-11	-0.6	0.1	-0.4	165,914

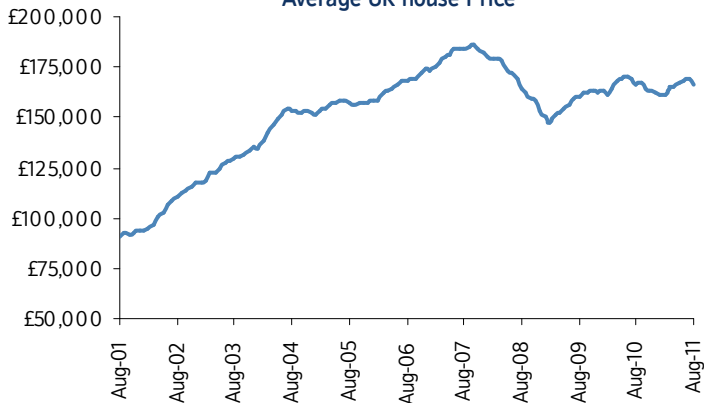
Note: Historical figures including index levels can be viewed using the following link:

www.nationwide.co.uk/hpi/downloads/Monthly.xls

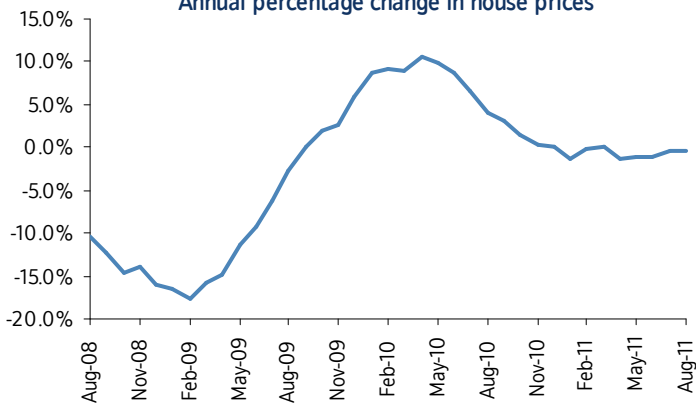
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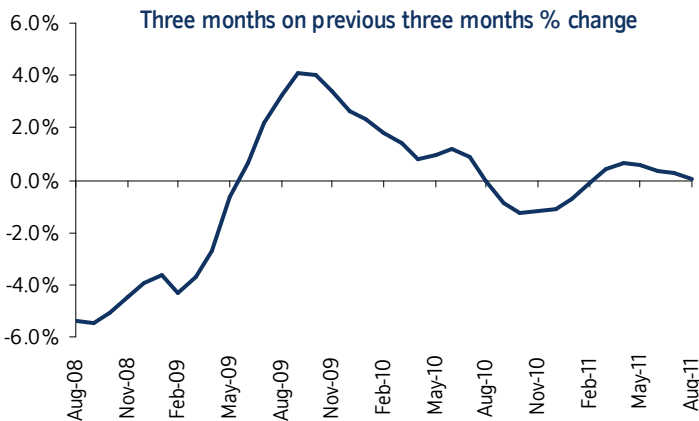
Average UK house Price



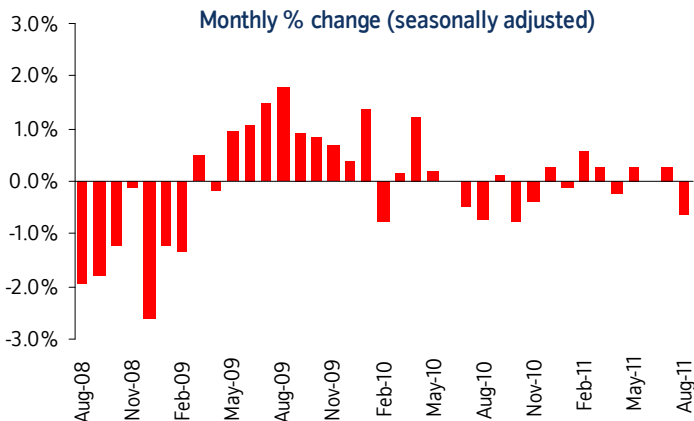
Annual percentage change in house prices



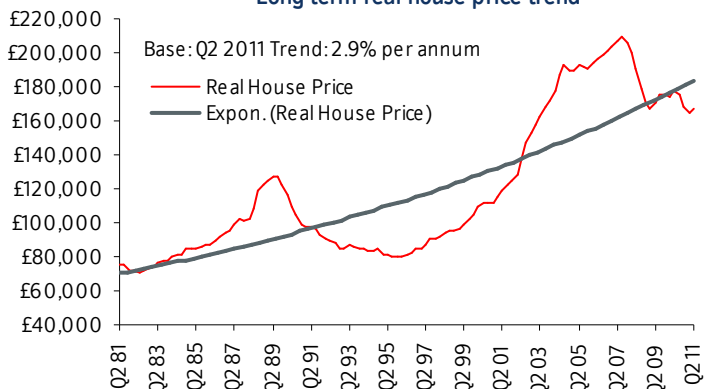
Three months on previous three months % change



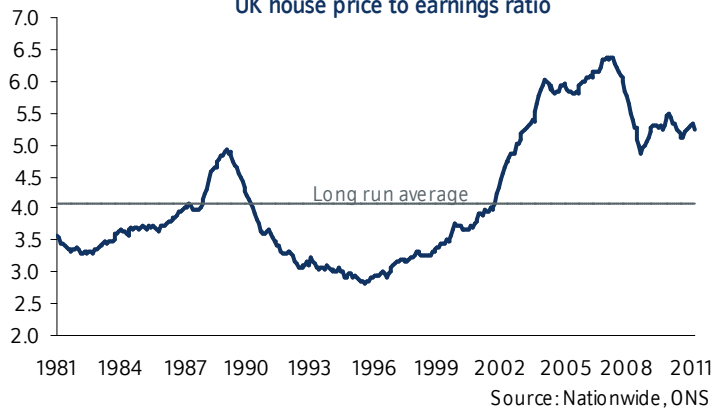
Monthly % change (seasonally adjusted)



Long term real house price trend



UK house price to earnings ratio



Source: Nationwide, ONS

Notes

Indices and average prices are produced using Nationwide's updated mix adjusted House Price Methodology which was introduced with effect from the first quarter of 1995. The data are drawn from Nationwide's house purchase mortgage lending at the post survey approvals stage. Price indices are seasonally adjusted using the US Bureau of the Census X12 method. Currently the calculations are based on a monthly data series starting from January 1991. Figures are recalculated each month which may result in revisions to historical data.

The Nationwide Monthly House Price Index is prepared from information which we believe is collated with care, but no representation is made as to its accuracy or completeness. We reserve the right to vary our methodology and to edit or discontinue the whole or any part of the Index at any time, for regulatory or other reasons. Persons seeking to place reliance on the Index for their own or third party commercial purposes do so entirely at their own risk. All changes are nominal and do not allow for inflation.

More information on the house price index methodology along with time series data and archives of housing research can be found at www.nationwide.co.uk/hpi

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