

## House price growth sluggish in May

- House prices grew by 0.2% in May, the second month of neutral growth in a row
- Annual house price growth remains below 5%
- Accelerating house price growth should not be taken for granted
- Higher money market interest rates already affecting mortgage costs

Headlines	May 2006	April 2006
Monthly index * Q1 '93 = 100	325.4	324.8
Monthly change*	0.2%	0.1%
Annual change	4.7%	4.8%
Average price	£164,632	£163,573

\* seasonally adjusted

### Commenting on the figures Fionnuala Earley, Nationwide's Group Economist, said:

"House price growth was sluggish for the second month in a row with prices rising just 0.2% in the month, marginally up on the 0.1% increase in April but down significantly on March's strong 1.1% gain. The annual rate of house price growth slowed slightly in May to 4.7%. The price of a typical house in the UK is now £164,632, almost £7,500 more than at this time last year. This is equivalent to a price increase of just over £20 per day over the last twelve months.

### Much talk of continued house price inflation...

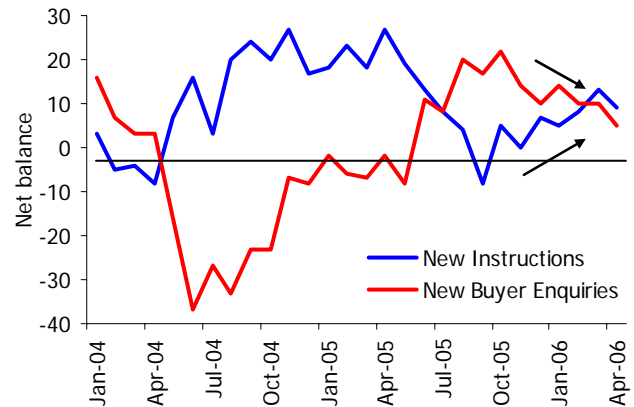
"Housing market data since the start of the year has largely pointed to an acceleration in house price inflation. Trends in most house price measures have risen and the level of house purchase activity has been remarkably strong. The number of mortgages approved for house purchase has been well above trend for the last 8 months and has only recently fallen back from a high of 120,000 in December and January. Activity this strong was last seen when house price inflation was in double digits two years ago. In addition estate agents' sales to stock ratios are high suggesting the potential for further house price growth, while house builders continue to report more interest than last year. The revival in the London market, after several years of below average growth, has also added to sentiment that the market is picking up.

### ... however there are also signs that the market is cooling.

"Despite all this, it is important to keep in mind that not all drivers are supportive of rising house price inflation. Apart from well-known concerns about stretched affordability among first-time buyers, and the rising transactions costs that movers face, there are now further reasons to expect some cooling in the rate of house price inflation over coming months. Even arch-hawk Mervyn King cautions that continued strong house price growth should not be taken for granted given the level of house prices relative to incomes.

"The numbers of house purchase approvals remain well above their long term average, but they have begun to moderate since the start of the year. We expect them to cool further during the summer to around their long term trend.

"While the current sale to stock ratio is high, the level of new buyer enquiries reported by estate agents has declined since the end of last year. At the same time the trend in the level of new sales instructions has picked up. Together these point to some loosening in the market over the coming months as supply rises relative to demand. In addition, house builders are continuing to report the increased use of incentives to promote sales.

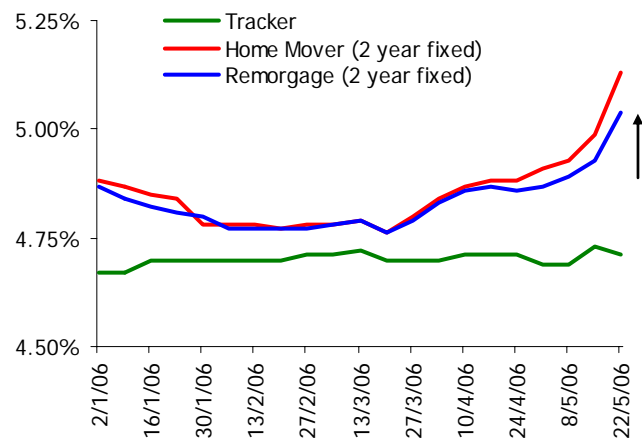


Source: RICS

## Rises in money market interest rate expectations may dampen house price inflation

"But, more importantly, actual and expected movements in interest rates will have an impact. Financial markets are expecting two increases in the base rate by next summer. This has pushed up wholesale money market rates, which in turn has affected fixed mortgage rates. Since April the change in rates corresponds to the impact of an *actual* 25 basis point rate hike in the base rate.

Tracker mortgage rates tied to the base rate, by definition, remain unchanged, but additional talk of rate hikes is still likely to affect borrower sentiment, particularly when there are increasing reports of job losses and consumer confidence is fairly subdued.



Source: Moneyfacts and Nationwide

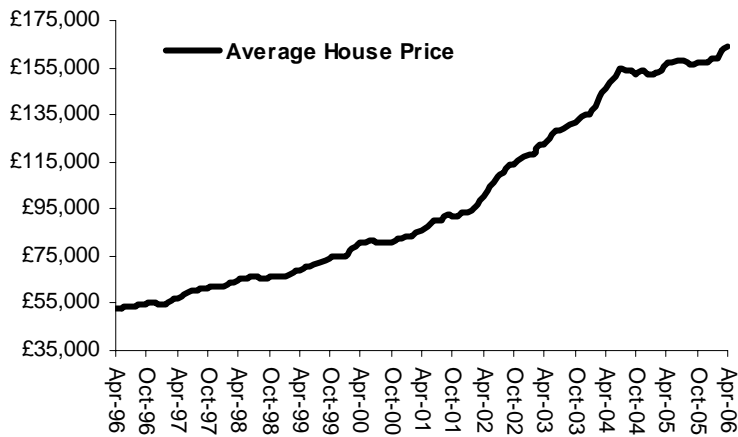
"The impact of demand will depend crucially on whether the Bank of England actually raises interest rates. In our view, the decision is still very close. On balance, we fall into the 'no change' camp along with the majority of independent forecasters. Furthermore, since the *May Inflation Report*, Sterling has strengthened, oil prices have fallen back slightly, equity prices have fallen more sharply and long-term interest rates (incl. mortgage interest rates) have risen. These developments all reduce the need for a near-term UK rate hike. However, for now, the effects of hawkish interest rate expectations in the financial markets on fixed mortgage interest rates and press reports pointing towards the possibility of higher rates, should contribute to a cooling of house price growth."

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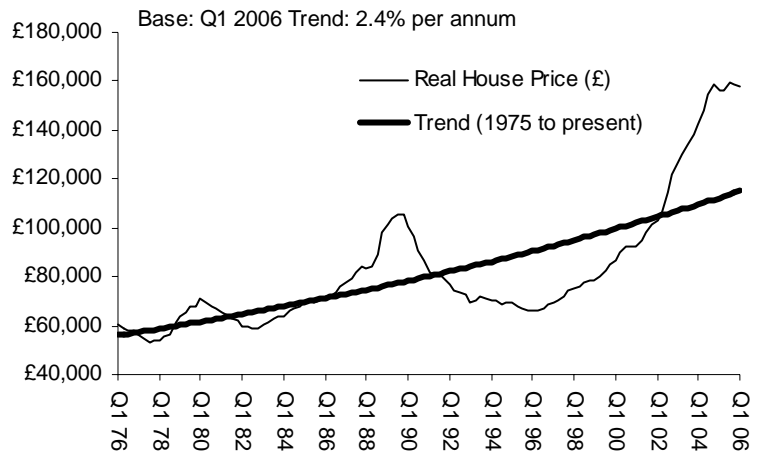
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\*\*\* STRICTLY EMBARGOED UNTIL 7.00AM WEDNESDAY 31<sup>ST</sup> MAY \*\*\*

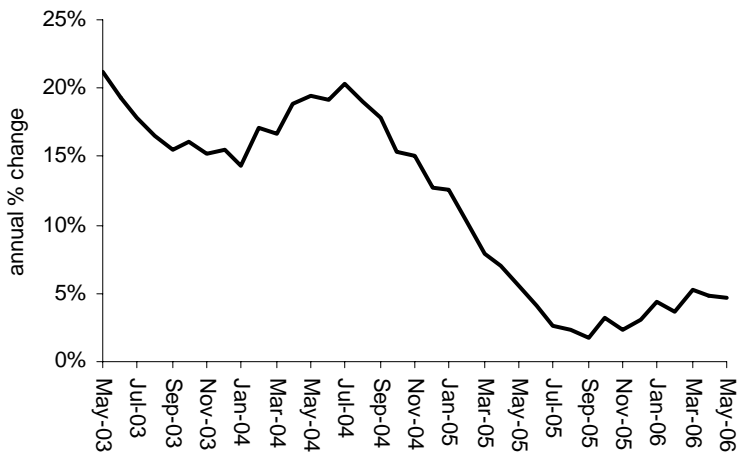
### Average UK House Price



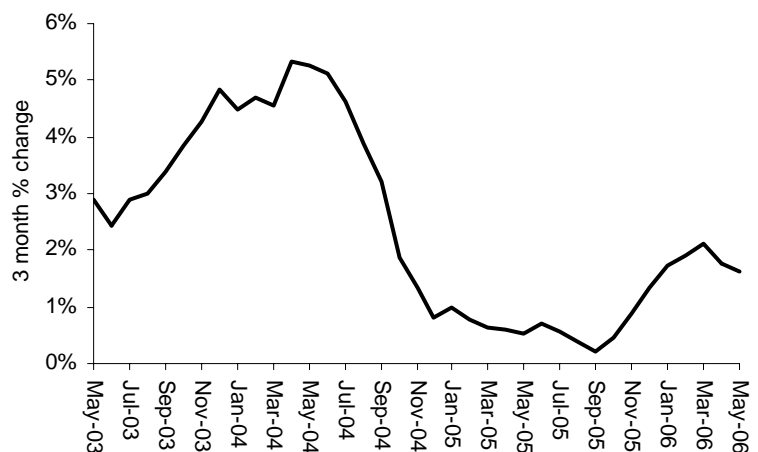
### Long Term Real House Price Trend



### Annual % Change in House Prices



### 3 months on previous 3 months % change



### Historical Data (2)

Month	Monthly Index Q1 93 = 100 seasonally adjusted	Monthly Change %	Latest 3 months on previous 3 months % change	Monthly Index Q1 93 = 100 not seasonally adjusted	Annual Change %	Average Price £
2005 May	311.1	0.3	0.5	313.7	5.5	157,272
Jun	310.6	-0.2	0.7	314.8	4.1	157,791
Jul	311.1	0.2	0.6	315.9	2.6	158,348
Aug	311.3	0.1	0.4	313.8	2.3	157,310
Sep	311.5	0.1	0.2	312.2	1.8	156,517
Oct	314.4	0.9	0.5	313.4	3.3	157,107
Nov	315.3	0.3	0.9	313.5	2.4	157,139
Dec	316.9	0.5	1.4	313.7	3.0	157,250
Jan	321.3	1.4	1.7	316.1	4.4	158,478
Feb	320.9	-0.1	1.9	316.3	3.7	158,573
Mar	324.4	1.1	2.1	323.3	5.3	162,083
Apr	324.8	0.1	1.7	326.3	4.8	163,573
2006 May	325.4	0.2	1.6	328.4	4.7	164,632

## 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. Price indices are seasonally adjusted using the US Bureau of the Census X12 method. Currently the calculations are based on a monthly data 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.