

Nationwide HOUSE PRICE INDEX



www.nationwide.co.uk/hpi

December 2010

Strictly embargoed until 0700 Friday 31 Dec

House prices edge higher at end of 2010

- House prices rose by a modest 0.4% in December
- House prices essentially unchanged for the full year 2010

Headlines	Dec 10	Nov 10
Monthly Index*	328.5	327.2
Monthly Change*	0.4%	-0.3%
Annual Change	0.4%	0.4%
Average Price	£162,763	£163,398

* Seasonally adjusted

Commenting on the figures Martin Gahbauer, Nationwide's Chief Economist, said:

"The seasonally adjusted price index for a typical UK property rose by 0.4% month-on-month in December, after having posted declines in the previous two months.¹ The three month on three month rate of change – which smoothes out the monthly volatility of house prices and is a better indicator of the recent trend – rose from -1.3% in November to -1.0% in December and is still consistent with modestly declining house prices. For 2010 as a whole, house prices posted an unremarkable gain of 0.4%, as most of the price increases from the first half of the year were reversed during the second half. The essentially flat outcome for the full year is in line with expectations.

"When house prices are trending down only modestly rather than decisively – as has been the case in recent months – it is not unusual to see a mixed pattern of monthly declines and occasional increases. Despite

¹ The seasonally unadjusted price change was -0.4% month-on-month. This is weaker than the seasonally adjusted change because December is a seasonally weak month for house prices.

December's increase, house prices have fallen in four out of the last six months and it would be premature to suggest that the recent downward trend has been broken on the basis of one month's figures. However, the December figures do underscore the fact the current downtrend is only very modest, particularly when seen in comparison to the second half of 2008. During this period, the three month rate of change dropped to as low as -5.5%.

Review and outlook

"The housing market in 2010 was a tale of two halves. The first half of the year was still characterised by the upward momentum in prices seen through most of 2009. The supply of property available for sale was still very scarce, as many potential sellers had stayed clear of the market during the recession. London and the South East saw particularly large price gains during this period, as the scarcity of property was most acute in these regions. London will also have benefited from the strong recovery in the financial sector, which is an important driver of buyer confidence and housing demand in the capital.

"The second half of the year then saw a marked change in the supply-demand balance in favour of buyers. The post-election abolition of Home Information Packs (HIPs) may have been the initial trigger for the increase in property for sale, as many indecisive or speculative sellers who may have been deterred by this extra cost decided to market their properties. Even without this one-off effect, however, the stock of property for sale was never likely to stay at the extreme lows of 2009.

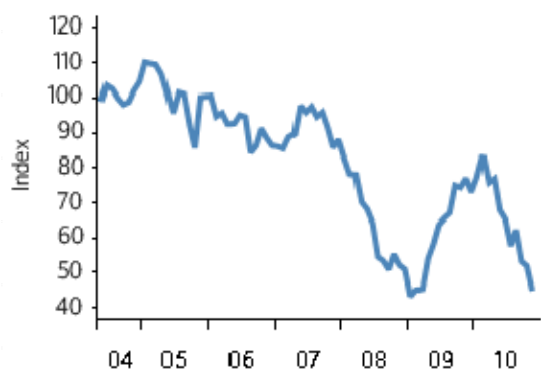
"Alongside the increasing number of sellers, buyer demand trended lower over the second half of the year, constrained by tight credit conditions and low levels of consumer confidence in the economic outlook (chart 1). The result has been some modest downward pressure

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on house prices, as the excess of supply over demand has given buyers greater bargaining power.

Chart 1: Nationwide Consumer Confidence Index



Source: Nationwide

“There is little to indicate that buyer demand is set to pick up materially from current levels. At the moment, there are probably still too few buyers chasing too many properties. As a result, the slow drift down in house prices is likely to persist in 2011, at least for the first half of the year. Whether it continues into the second half will depend on the flow of new property onto the market. If this dries up – as it did in late 2008 and early 2009 in response to weak demand conditions – prices may begin to stabilise again. Another uncertainty factor is the level of interest rates. At the moment, the Bank of England base rate looks likely to remain at 0.5% for most of 2011, which will provide financial support to mortgage holders and limit the downside potential for house prices. However, there is a risk that the elevated levels of inflation will force the MPC to raise rates earlier than currently anticipated, which would impact negatively on the house price outlook.

“On balance, a relatively stable picture, with the possibility of a small price decline, appears the most likely outcome for 2011 at this stage. However, the experience from 2009 – when house prices were widely expected to see a large fall and then ended up rising by 6% – illustrates the uncertainty of the outlook and shows that anything is possible.”

Monthly UK House Price Statistics

	Monthly % Change Seasonally Adjusted	3 month on 3 month % change	Annual % Change	Average Price
Dec-08	-2.6	-4.0	-15.9	153,048
Jan-09	-1.4	-3.7	-16.6	150,501
Feb-09	-1.5	-4.5	-17.6	147,746
Mar-09	1.1	-3.8	-15.7	150,946
Apr-09	-0.4	-2.7	-15.0	151,861
May-09	1.1	-0.3	-11.3	154,016
Jun-09	1.0	0.9	-9.3	156,442
Jul-09	1.5	2.4	-6.2	158,871
Aug-09	1.7	3.2	-2.7	160,224
Sep-09	0.9	4.0	0.0	161,816
Oct-09	0.8	3.9	2.0	162,038
Nov-09	0.7	3.3	2.7	162,764
Dec-09	0.4	2.6	5.9	162,103
Jan-10	1.1	2.2	8.6	163,481
Feb-10	-1.0	1.6	9.2	161,320
Mar-10	0.9	1.3	9.0	164,519
Apr-10	1.0	0.8	10.5	167,802
May-10	0.4	1.4	9.8	169,162
Jun-10	0.0	1.5	8.7	170,111
Jul-10	-0.5	1.1	6.6	169,347
Aug-10	-0.9	-0.1	3.9	166,507
Sep-10	0.0	-1.0	3.1	166,757
Oct-10	-0.7	-1.4	1.4	164,381
Nov-10	-0.3	-1.3	0.4	163,398
Dec-10	0.4	-1.0	0.4	162,763

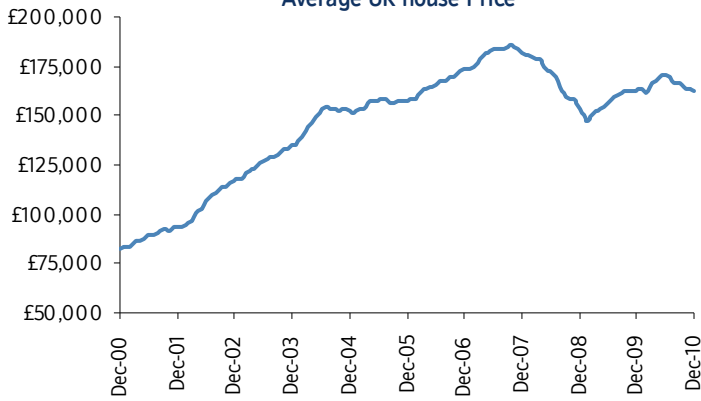
Note: Historical figures including index levels can be viewed using the following link:

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

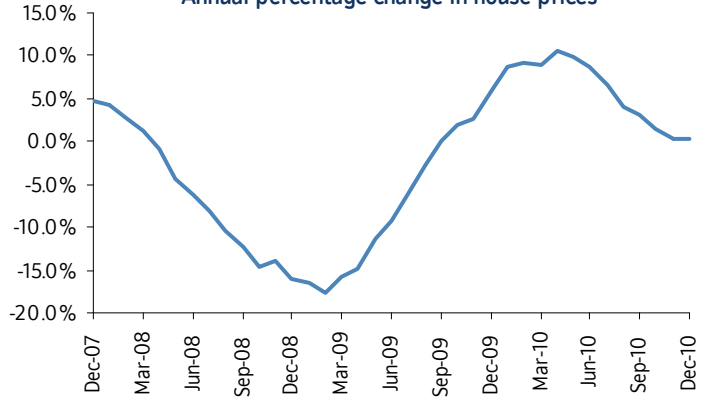
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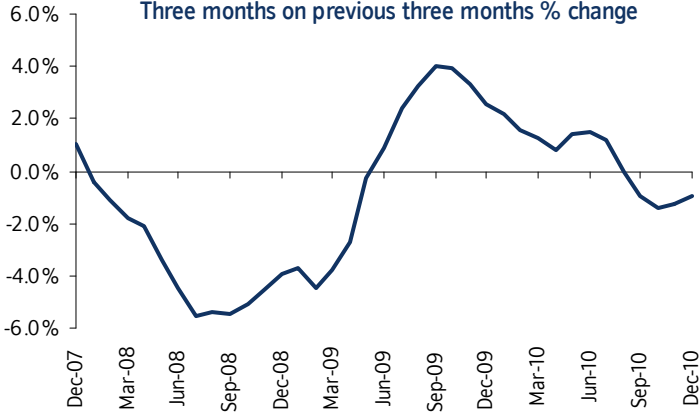
Average UK house Price



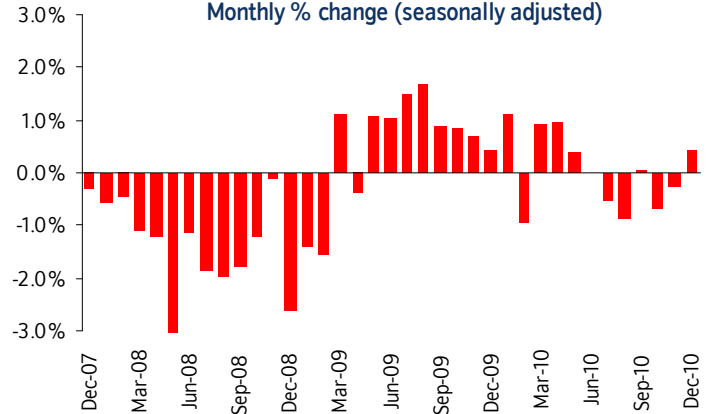
Annual percentage change in house prices



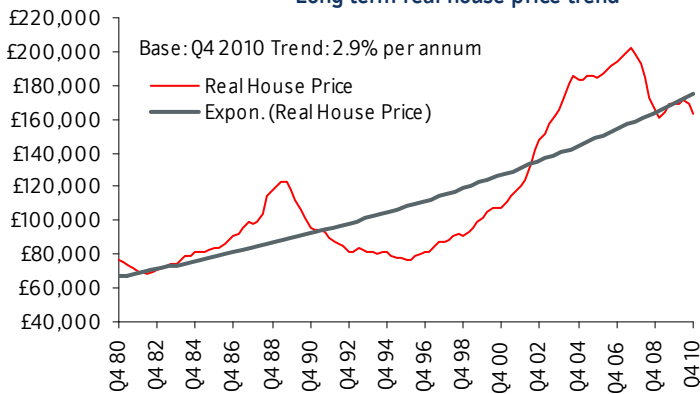
Three months on previous three months % change



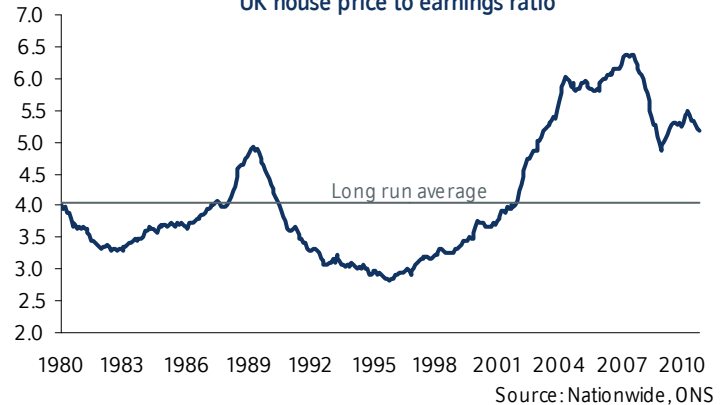
Monthly % change (seasonally adjusted)



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

Photographs of our economist are available at: www.nationwide.co.uk/mediacentre/economist.asp

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