*** STRICTLY EMBARGOED UNTIL 7.00AM FRIDAY 29th JANUARY 2010 ***

House prices make a strong start to 2010

- **House prices rose by 1.2% in January and are up 8.6% year-on-year**
- **Recent economic data has been a mixed bag for the housing market**
- **Inflation uncertainties highlight interest rate risk**

Headlines	**January 2010**	December 2009
Monthly index * Q1 '93 = 100	**330.5**	326.4
Monthly change*	**1.2%**	0.5%
Annual change	**8.6%**	5.9%
Average price	**£163,481**	£162,103

*** seasonally adjusted**

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

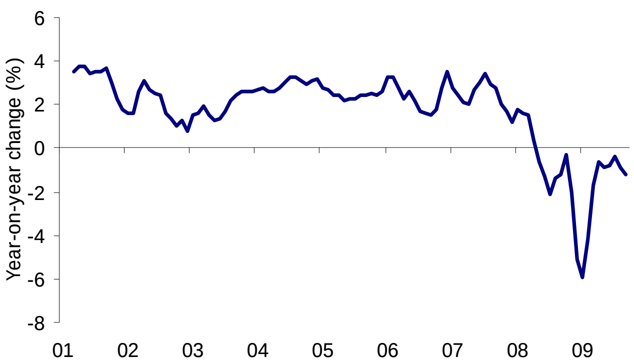
"House prices strengthened their upward momentum at the start of 2010, increasing by a seasonally adjusted 1.2% month-on-month in January. The 3 month on 3 month rate of change – usually a smoother indicator of the near term trend – dipped slightly from 2.3% in December to 2.1% in January, but this primarily reflects the smaller price increases recorded in November and December. At £163,481, the average price of a typical UK property cost 8.6% more than a year earlier in January, up from 5.9% in December. Unless there is a fall in property values in February, annual house price inflation is likely to move into double-digit territory next month for the first time since May 2007.

A mixed bag of macroeconomic data for the housing market

"Over the course of the last month, there were several important pieces of economic news with relevance for the housing market. The news that the UK economy finally emerged from recession in the fourth quarter of 2009 was in many ways a mixed bag. Although it is clearly encouraging that economic activity is no longer falling, it remains a long way below the pre-recession level and is not yet growing convincingly. Although there may still be some upward revisions to the initial estimates of economic growth, this won't change the fact that the rebound in the housing market – and particularly house prices – has gone some way beyond the recovery in the overall economy. This is a reversal of the picture in 2007-2008, when the housing market deteriorated much more quickly and at an earlier point in time than the wider economy.

"Despite the economy's unconvincing exit from recession, the labour market figures have continued to see welcome improvement. Unemployment fell in November for the first time since February 2008 and December saw a second consecutive decline in the number of jobless benefit claimants. These improvements in the headline jobless figures, however, hide some of the other adjustments that have been taking place in the labour market, most notably with regard to average pay (chart 1). Over the course of 2009, UK average earnings growth has fallen to the lowest levels on record, as many employers have opted to spread their cost reduction measures over a wider segment of the workforce by freezing or reducing pay.

Chart 1: Average real earnings growth



Source: ONS, Nationwide.
Based on average weekly earnings growth and CPI inflation

"The aggressive cuts in pay inflation have both upside and downside implications for house prices. With pay inflation near zero or even negative, every additional increase in house prices worsens housing

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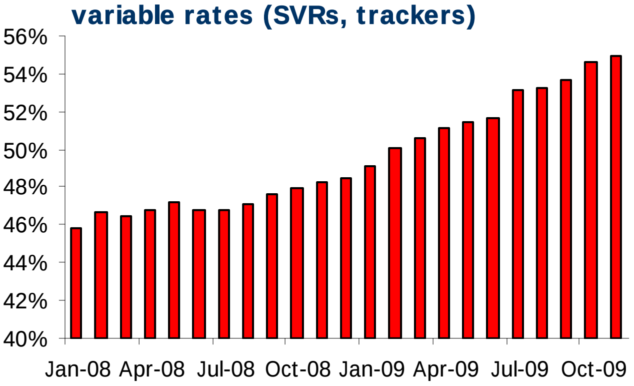
affordability, particularly since interest rates are very unlikely to fall any further. All else being equal, this limits the upside potential for the current recovery in house prices. On the other hand, pay restraint has allowed more people to stay in work and continue to service their mortgages at the current low rates of interest. As a result, relatively few households have been under financial pressure to sell their homes into what remains a relatively weak demand environment.

Sticky inflation figures cloud the interest rate outlook

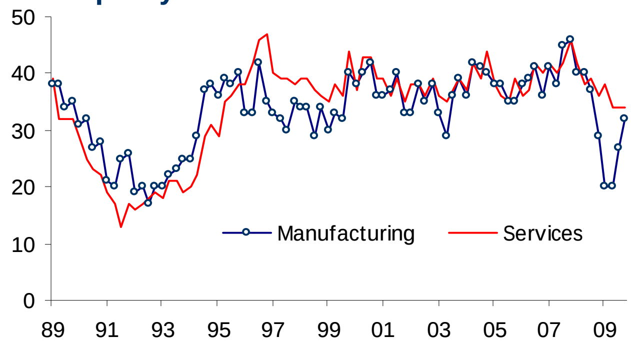
"With negative real earnings growth, the future path of interest rates becomes even more critical for the housing market, particularly with a growing proportion of the mortgage stock now on variable rate deals (chart 2). The consensus view is that interest rates will remain unchanged until the final quarter of 2010 and possibly longer, as spare capacity created by the recession bears down on inflation over time. The inflation trends in 2009, however, are starting to call into question the validity of this view. Inflation has consistently been higher than analyst estimates, and hasn't come close to the deflationary territory that was so widely feared at the start of 2009. Excluding the impact of the VAT cut and other tax changes, it did not even fall below the MPC's 2% target at any stage.

Chart 2: % of mortgage balances on variable rates (SVRs, trackers)



Source: CACI, Bank of England

Chart 3: % of firms operating at full capacity



Source: British Chambers of Commerce Quarterly Survey

"Much of the upside surprise in inflation can be attributed to the weakness of the pound and the rebound in fuel prices from their early 2009 lows. However, the fact that inflation has been persistently higher than expected means either that the inflationary impact of the weak exchange rate has been underestimated, or that the degree of spare capacity in the economy has been overstated. On the latter point, some survey evidence suggests that spare capacity is less than in the previous recession (chart 3), which may mean that downward pressure on inflation may not actually be as strong as predicted. If this is the case, then higher interest rates may be required sooner than is widely assumed."

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HOUSE PRICES

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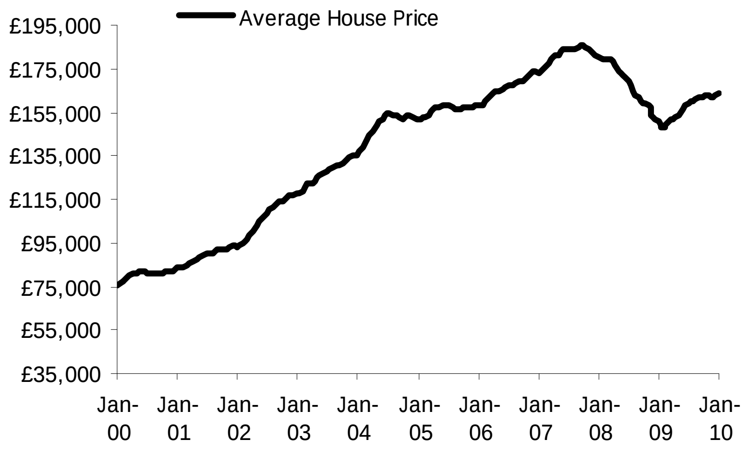
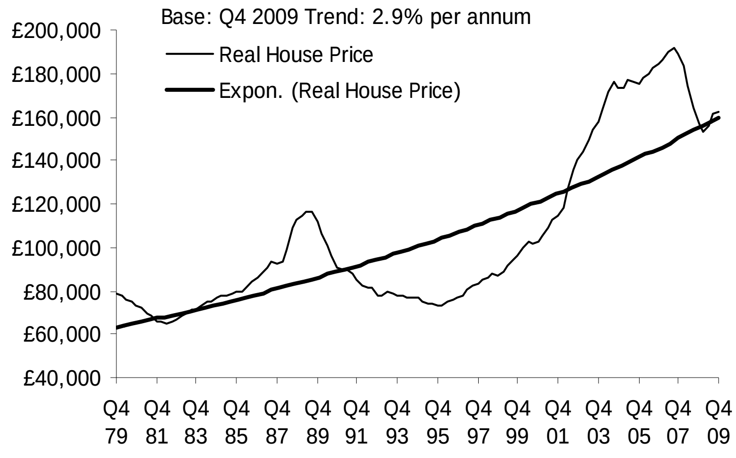
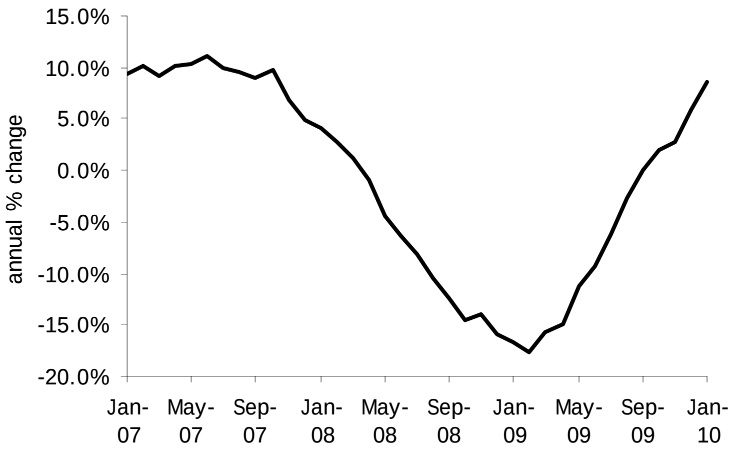
Average UK House Price



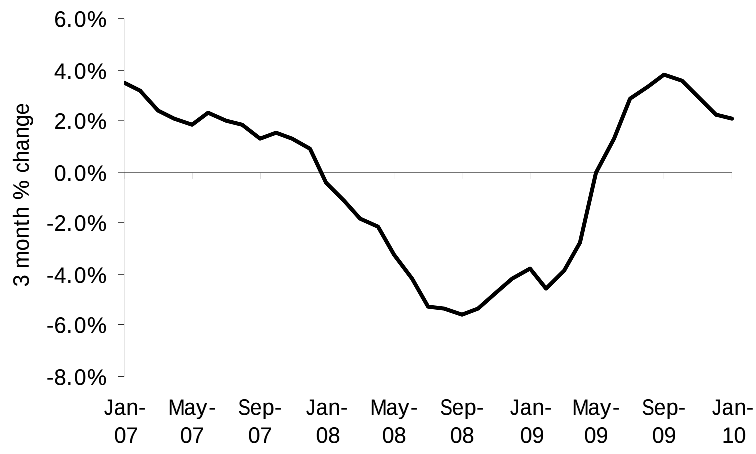
Long Term Real House Price Trend



Annual % Change in House Prices



3 Months on Previous 3 Months % Change



Historical Data

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 £
2009 Jan	304.1	-1.3	-3.8	300.2	-16.6	150,501
Feb	298.6	-1.8	-4.6	294.7	-17.6	147,746
Mar	302.3	1.3	-3.8	301.1	-15.7	150,946
Apr	302.0	-0.1	-2.8	302.9	-15.0	151,861
May	305.9	1.3	-0.1	307.2	-11.3	154,016
Jun	309.2	1.1	1.3	312.1	-9.3	156,442
Jul	313.5	1.4	2.8	316.9	-6.2	158,871
Aug	317.9	1.4	3.3	319.6	-2.7	160,224
Sep	321.0	1.0	3.8	322.8	0.0	161,816
Oct	322.9	0.6	3.6	323.2	2.0	162,038
Nov	324.7	0.6	3.0	324.7	2.7	162,764
Dec	326.4	0.5	2.3	323.4	5.9	162,103
2010 Jan	330.5	1.2	2.1	326.1	8.6	163,481

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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