

# Nationwide HOUSE PRICE INDEX



[www.nationwide.co.uk/hpi](http://www.nationwide.co.uk/hpi)

January 2011

Embargoed until 0700 Tue 1 February 2011

## House prices edged down in January

- House prices fell marginally by 0.1% in January
- Prices 1.1% lower than a year earlier

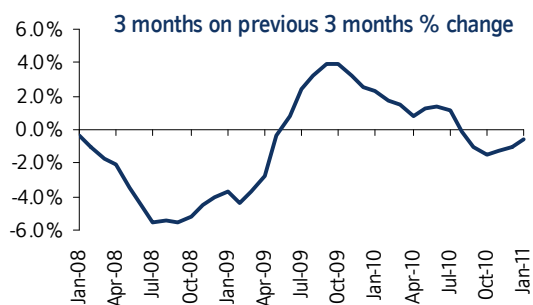
Headlines	Jan 11	Dec 10
Monthly Index*	327.7	328.1
Monthly Change*	-0.1%	0.4%
Annual Change	-1.1%	0.4%
Average Price	£161,602	£162,763

\* Seasonally adjusted

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

"The property market entered 2011 with a whimper rather than a bang, with house prices edging down slightly in January. Prices fell by 0.1% month-on-month, leaving prices 1.1% lower than January 2010.

"January's data does little to alter the picture of a sluggish market that has been evident since the summer. Indeed, the three month on three month measure of house prices, which is a better measure of the underlying trend, showed a fall of 0.5%, consistent with the gradual moderation in prices that has been in place since the summer of 2010.



"The outlook is still highly uncertain, but the most likely outcome is that the pattern of low transaction levels and prices moving sideways or modestly lower will continue through 2011.

"Demand for homes looks to have stabilised, albeit well below the levels prevailing before the crisis. Interest rates remain at historic lows, and labour market conditions have stabilised – both factors that will provide support to the market. However, the continued uncertain outlook for the economy will probably continue to keep many buyers on the sidelines.

"At the same time, there are few signs of a glut of unsold homes building up on the market that would lead to a sharper price correction. Indeed, there are tentative signs that the volume of homes coming onto the market may be slowing."

### What does higher CPI mean for house prices?

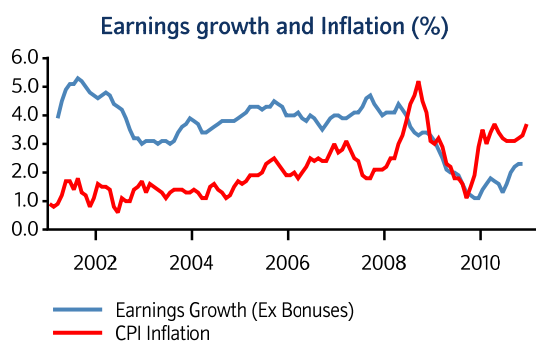
"Consumer Price Inflation (CPI) was stronger than expected again in December, maintaining what has become a familiar pattern over the last two years. Indeed, CPI was stronger than expected in 16 of the past 25 months, and looks set to remain well above its 2% target throughout 2011 as a result of changes in indirect taxes and strong growth in food and commodity prices in global markets.

"This has led some to question what this is likely to mean, if anything, for the housing market.

"High inflation readings reinforce the notion that the housing market is likely to remain sluggish in 2011. The main reason is that high consumer price inflation is squeezing household budgets, as wages aren't rising fast enough to keep up. For example, in the twelve months to November, prices increased by 3.2% on the CPI measure, but average wages (including bonuses) rose by just 2% over the same period.

Media enquiries to: Robert Gardner, Chief Economist  
[robert.gardner@nationwide.co.uk](mailto:robert.gardner@nationwide.co.uk)  
Paul Beadle, 01793 655189, [paul.beadle@nationwide.co.uk](mailto:paul.beadle@nationwide.co.uk) or  
Evelyn Turpin, 01793 656215, [evelyn.turpin@nationwide.co.uk](mailto:evelyn.turpin@nationwide.co.uk)





Source: Reuters EcoWin

“Indeed, the rise in inflation has been particularly challenging for households, as recent increases have been focused on essentials like food, transport and utilities – elements where it’s much harder for households to cut back or substitute for other, cheaper alternatives.

“As a result, the most likely direct impact of continued strong inflation readings is to keep demand for housing subdued, thereby acting as a dampener on activity – both in terms of the number of property sales, as well as on prices.”

### Interest rate response is also important

“Persistent stronger than expected inflation figures also increase the risk of a weaker housing market performance.

“Higher than expected inflation could prompt the Bank of England to raise interest rates more aggressively than currently expected, or at a time when demand in the wider economy is still fragile. In addition, investors may start to demand a higher return for holding UK bonds, pushing up long-term interest rates. Either of these developments could prompt a sharper slowdown in the housing market by putting upward pressure on mortgage costs. However, the risks still seem small at this stage.

“Investors remain confident that inflation will eventually come back down towards its target level – as evidenced by the historically low level of long term interest rates. Similarly, the Monetary Policy Committee (MPC) is not likely to raise rates sharply, as it believes that high inflation is largely the result of a succession of transitory factors, such as higher global commodity prices, and that underlying price pressures in the UK remain well contained.

“As a result, interest rates are only likely to rise gradually, most likely in the second half of the year. This in turn should have only a relatively modest impact on the housing market, especially since it is likely to take place against the backdrop of a strengthening economic recovery”.

## Monthly UK House Price Statistics

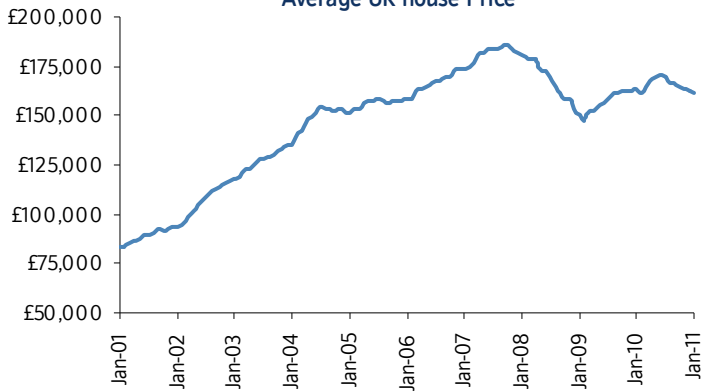
	Monthly % Change Seasonally Adjusted	3 month on 3 month % change	Annual % Change	Average Price
Jan-09	-1.2	-3.6	-16.6	150,501
Feb-09	-1.6	-4.4	-17.6	147,746
Mar-09	1.1	-3.7	-15.7	150,946
Apr-09	-0.4	-2.7	-15.0	151,861
May-09	1.1	-0.3	-11.3	154,016
Jun-09	1.0	0.8	-9.3	156,442
Jul-09	1.5	2.4	-6.2	158,871
Aug-09	1.7	3.2	-2.7	160,224
Sep-09	0.8	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	2.5	5.9	162,103
Jan-10	1.4	2.3	8.6	163,481
Feb-10	-1.1	1.7	9.2	161,320
Mar-10	0.8	1.4	9.0	164,519
Apr-10	1.0	0.8	10.5	167,802
May-10	0.4	1.3	9.8	169,162
Jun-10	0.0	1.4	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	-1.5	1.4	164,381
Nov-10	-0.3	-1.3	0.4	163,398
Dec-10	0.4	-1.0	0.4	162,763
Jan-11	-0.1	-0.5	-1.1	161,602

Note: Historical figures including index levels can be viewed using the following link:  
[www.nationwide.co.uk/hpi/downloads/Monthly.xls](http://www.nationwide.co.uk/hpi/downloads/Monthly.xls)

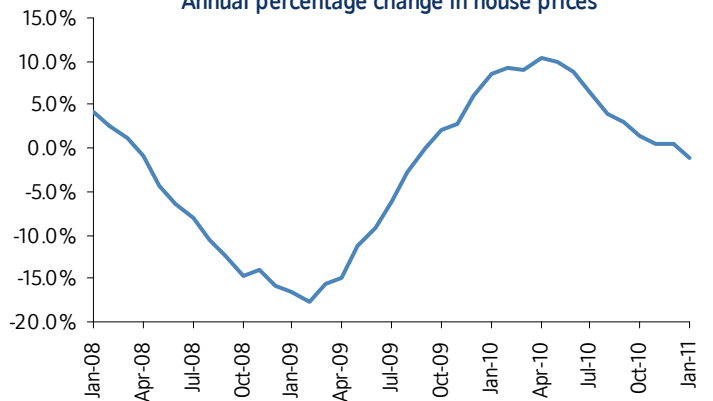
Media enquiries to: Robert Gardner, Chief Economist  
[robert.gardner@nationwide.co.uk](mailto:robert.gardner@nationwide.co.uk)  
 Paul Beadle, 01793 655189, [paul.beadle@nationwide.co.uk](mailto:paul.beadle@nationwide.co.uk) or  
 Evelyn Turpin, 01793 656215, [evelyn.turpin@nationwide.co.uk](mailto:evelyn.turpin@nationwide.co.uk)



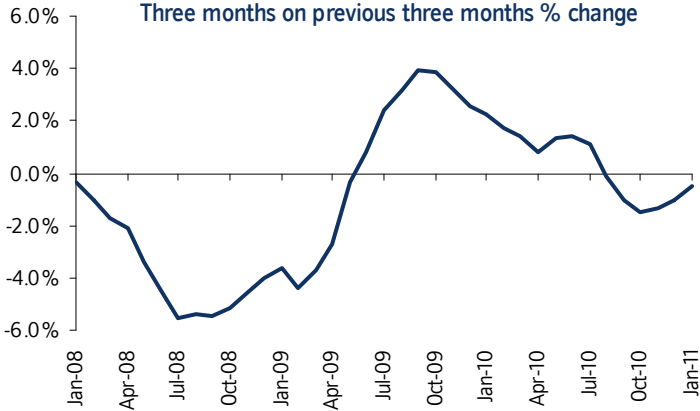
**Average UK house Price**



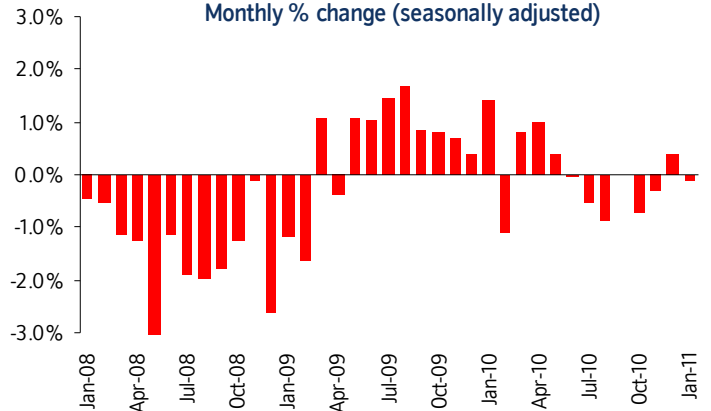
**Annual percentage change in house prices**



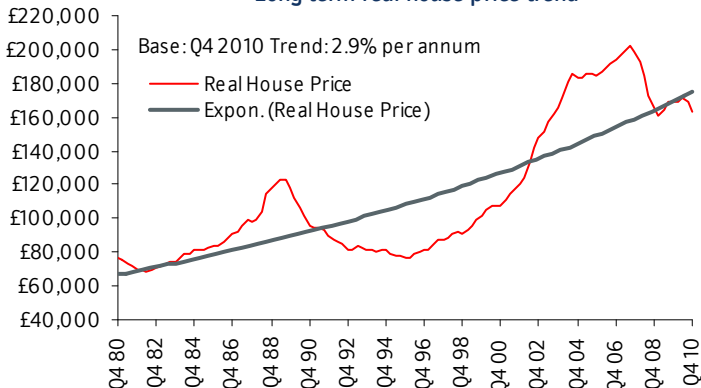
**Three months on previous three months % change**



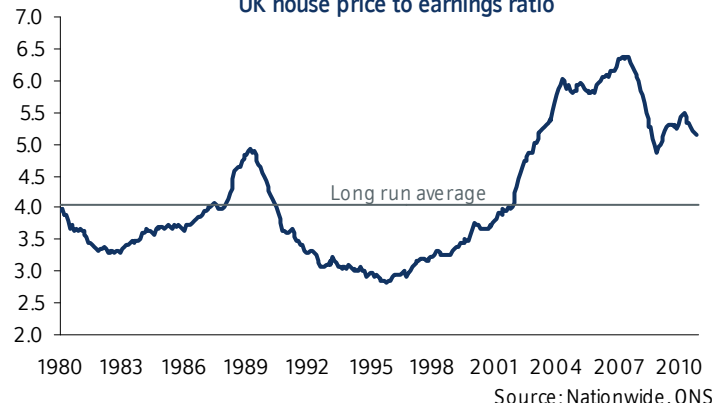
**Monthly % change (seasonally adjusted)**



**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](http://www.nationwide.co.uk/hpi)

Photographs of our economist are available at: [www.nationwide.co.uk/mediacentre/economist.asp](http://www.nationwide.co.uk/mediacentre/economist.asp)

Media enquiries to: Robert Gardner, Chief Economist  
[robert.gardner@nationwide.co.uk](mailto:robert.gardner@nationwide.co.uk)  
 Paul Beadle, 01793 655189, [paul.beadle@nationwide.co.uk](mailto:paul.beadle@nationwide.co.uk) or  
 Evelyn Turpin, 01793 656215, [evelyn.turpin@nationwide.co.uk](mailto:evelyn.turpin@nationwide.co.uk)

