

*** STRICTLY EMBARGOED UNTIL 7.00AM THURSDAY 30TH JULY 2009 ***

House prices up for third month in a row

- House prices rose by 1.3% in July
- Three month rate of change at highest level since February 2007
- Steep fall in housing construction raises risks of longer term supply shortfalls

Headlines	July 2009	June 2009
Monthly index * Q1 '93 = 100	312.4	308.4
Monthly change*	1.3%	1.0%
Annual change	-6.2%	-9.3%
Average price	£158,871	£156,442

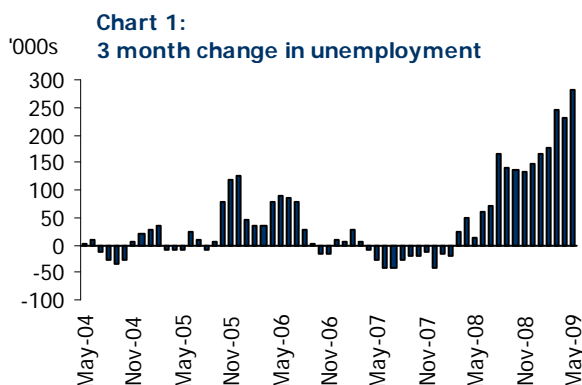
* seasonally adjusted

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

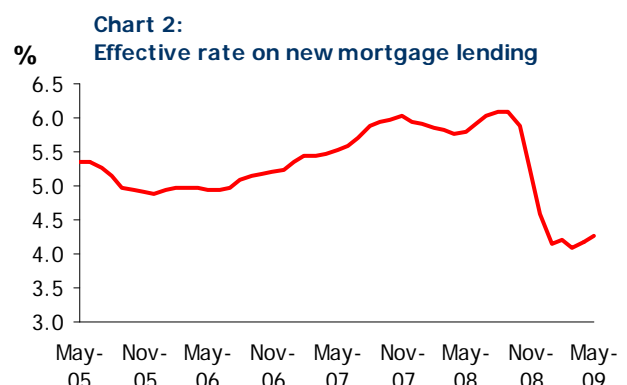
"The price of a typical house rose for the third consecutive month in July, increasing by 1.3% on a seasonally adjusted basis. The 3 month on 3 month rate of change – generally a smoother indicator of the near term trend – rose from 1.0% in June to 2.6% in July, the highest level since February 2007. House prices are still 6.2% lower than 12 months ago, but this represents another sharp improvement from the 9.3% year-on-year decline in June. Even if prices were to remain unchanged for the rest of 2009, the year-on-year rate would continue to improve since prices were falling very sharply in the second half of last year. For the first seven months of 2009 as a whole, prices have risen by a cumulative 1.3%, suggesting there is now a reasonable chance that prices could end the year slightly higher than where they started. Only a few months ago, such an outcome would have appeared unthinkable.

House prices resilient despite recessionary economic background

"House prices have been remarkably resilient so far this year, despite a recessionary economic background with sharply rising unemployment (chart 1). Although this outcome has come as a surprise, it is not inconsistent with other economic indicators and asset prices, which have also bounced back somewhat after very severe declines around the turn of the year. During turbulent economic times, it is not unusual for economic indicators and asset prices to overshoot in one direction and then experience a correction in the other. In the specific case of the housing market, the very sharp decline in transactions over the course of 2008 produced a fairly large pool of prospective purchasers who were ready and able to buy in principle, but did not want to do so in the very uncertain conditions prevailing when the banking crisis was at its peak last autumn. When it became clear that government interventions around the globe had stabilised the banking system and prevented a worst-case economic outcome, some of this pent-up demand re-entered the market, with the added assistance of very low interest rates (chart 2). Although the resulting rise in transactions has not been that dramatic, it has been enough to produce an upward bounce in prices because it coincided with very low levels of supply on the market.



Source: ONS



Source: Bank of England, EcoWin

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"The improvement in housing market conditions, however, does not mean that the positive price trends of recent months can be extrapolated into the future in a straight line. If prices continue to increase at the rate of the last three months, they would soon rise to levels that would be noticeably out of line with earnings, rents and other fundamental determinants of housing valuations. One should also not underestimate the impact over time of high unemployment, which has implications both for buyer confidence and the financial pressure on existing owners to sell. It is unlikely, therefore, that price increases can be sustained for long at the very strong rate observed over the last few months.

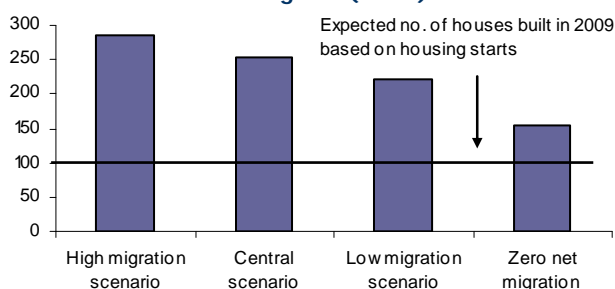
Depth of building recession likely to have long-run implications for the housing supply

"One of the factors helping prices to stabilise in 2009 is the shortage of properties available for sale. In the short run, the supply of homes on the market is mainly determined by factors such as potential sellers' confidence in market conditions, labour market turnover or financial pressures to sell among existing homeowners. Over the long run, however, the supply-demand balance depends critically on the rate of housing construction in relation to the rate of household formation.

"The future level of household formation is a matter of tremendous uncertainty, as it depends on factors that are difficult to estimate such as birth rates, life expectancy, net migration and lifestyle preferences. Of these, net migration is one of the most important and uncertain factors. After the expansion of the European Union in 2004, net migration increased substantially, as workers in the new member states were attracted to the UK by strong labour demand and a high level of Sterling. Given the downturn in the UK economy and the fall in the Sterling exchange rate, net migration seems likely to slow somewhat from recent levels, although it will probably remain positive given the openness of the UK economy and labour market relative to other countries.

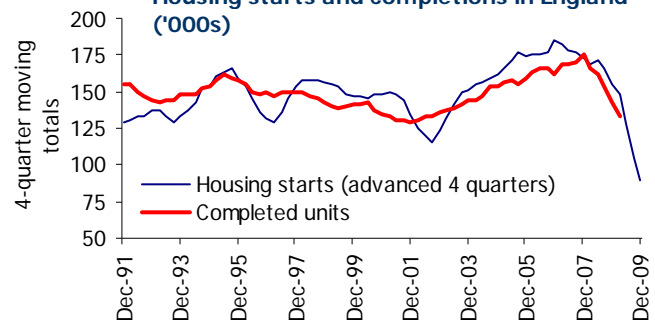
"The central assumption from the Department of Communities and Local Government is that long term net migration will be 171,500 per year, resulting in an annual increase in the number of households in England of 252,000 once other factors are taken into account. Even if one were to assume zero net migration, however, the number of households is still projected to expand by an average of 153,000 units per year through to 2031. Whatever the true number is, it is almost certain that current levels of housing construction have fallen far below future levels of household formation (chart 3). Based on recent levels of housing starts, it looks likely that only around 100,000 homes will be built during 2009, which would represent by far the lowest level on record (chart 4). As it is likely to take time for the economy and housing construction to recover to pre-crisis levels, the potential exists for a considerable housing shortfall to develop over the next few years. This would be on top of the shortfall that already started to develop in 2004, when even boom-time levels of construction failed to keep pace with household growth.

Chart 3:
Average annual increase in number of households in England ('000s)



Source: DCLG 2006-based household projections. Nationwide

Chart 4:
Housing starts and completions in England ('000s)



Source: DCLG

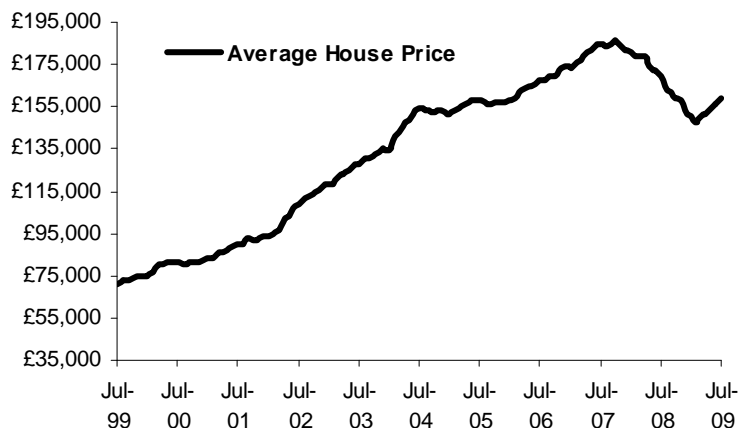
"The low level of current and past housing construction may help house prices build a floor following the sharp declines of the last few years, as the UK does not have the large overhang of excess construction that has plagued the housing market in countries such as Ireland, Spain and the United States. Over time, however, these shortages are detrimental to housing affordability and can contribute to future instability in prices."

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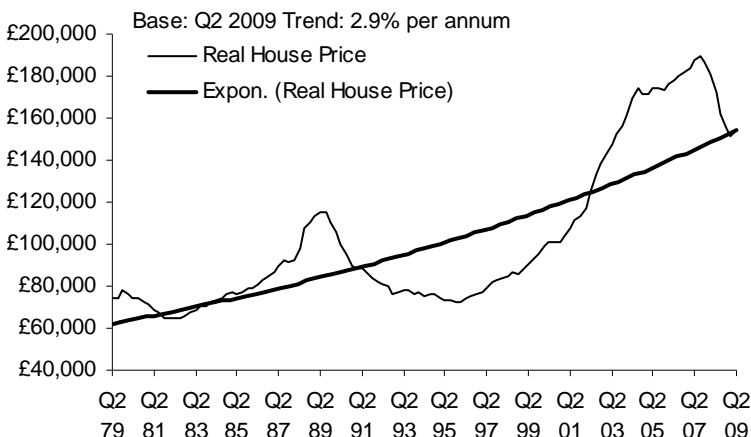
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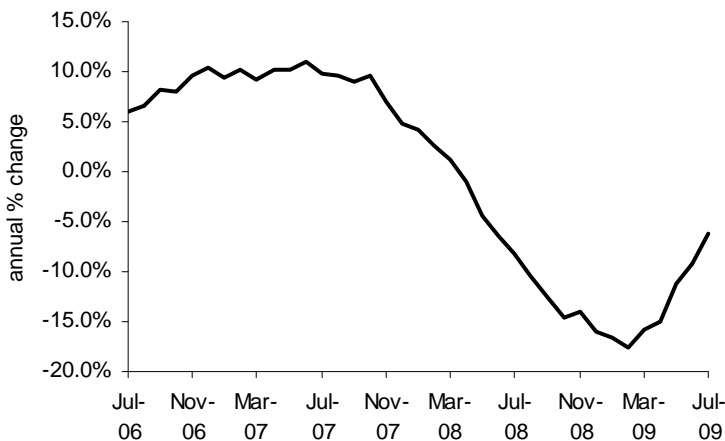
Average UK House Price



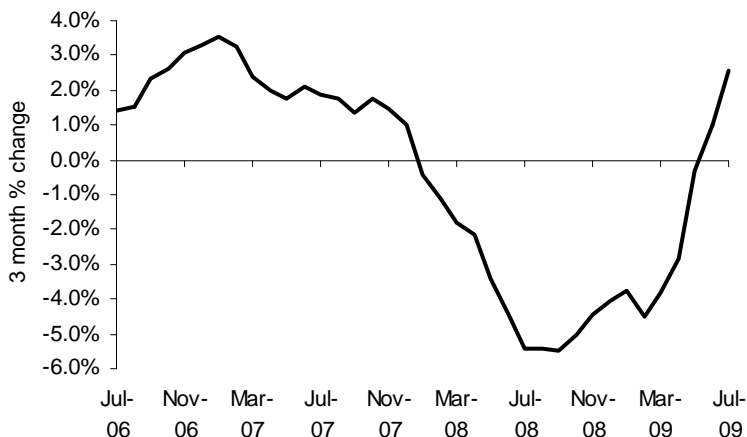
Long Term Real House Price Trend



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 £
2008 Jul	333.1	-2.0	-5.4	337.8	-8.1	169,316
Aug	326.9	-1.9	-5.4	328.5	-10.5	164,654
Sep	321.7	-1.6	-5.5	322.8	-12.4	161,797
Oct	317.4	-1.3	-5.0	316.9	-14.6	158,872
Nov	316.4	-0.3	-4.5	316.1	-13.9	158,442
Dec	308.3	-2.6	-4.0	305.3	-15.9	153,048
Jan	304.7	-1.2	-3.8	300.2	-16.6	150,501
Feb	299.1	-1.8	-4.5	294.7	-17.6	147,746
Mar	302.3	1.1	-3.8	301.1	-15.7	150,946
Apr	301.5	-0.3	-2.9	302.9	-15.0	151,861
May	305.5	1.3	-0.3	307.2	-11.3	154,016
Jun	308.4	1.0	1.0	312.1	-9.3	156,442
2009 Jul	312.4	1.3	2.6	316.9	-6.2	158,871

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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. 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 economists are available at: www.nationwide.co.uk/mediacentre/economist.asp