

Nationwide HOUSE PRICE INDEX



www.nationwide.co.uk/hpi

June 2010

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House prices rise 3% in first half of the year

- The price of a typical UK property inched up by 0.1% in June
- Annual rate of house price inflation drops from 9.8% to 8.7%
- Budget has mixed implications for the housing market

Headlines	June 10	May 10
Monthly Index*	336.0	335.7
Monthly Change*	0.1%	0.5%
Annual Change	8.7%	9.8%
Average Price	£170,111	£169,162

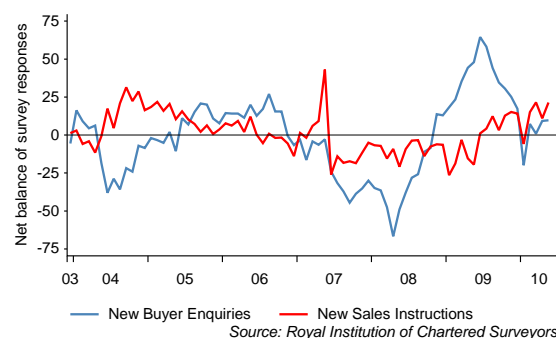
* Seasonally adjusted

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

"The month of June presented a picture of broad stability for the housing market. The price of a typical UK property rose by a seasonally adjusted 0.1% month-on-month (m/m), following a 0.5% increase in May. The smoother 3 month on 3 month rate of change rose marginally from 1.7% to 1.8%. By contrast, the annual rate of house price inflation dropped for the second consecutive month from 9.8% to 8.7%, reflective of the fact that house prices were increasing at a faster pace this time last year. Barring a significant pick-up in house prices over the next few months, the annual rate of inflation should continue to drift lower, in light of the very strong price increases recorded during the summer of 2009. Over the first half of 2010, UK house prices have risen by a cumulative 3.0%.

"Recent indicators point to an increase in the supply of property coming to the market for sale, perhaps in response to the abolition of HIPs in the opening days of the new coalition government. With the level of demand remaining broadly stable, this would in part help to explain the recent slowdown observed in the rate of house price inflation.

Chart 1: New buyer enquiries and sales instructions



The Budget squeezes household incomes but implies lower interest rates

"The emergency Budget announced on 22 June marked the beginning of a period of fiscal austerity. The most directly relevant policy change for the housing market was the decision to raise the capital gains tax (CGT) rate for higher earners from 18% to 28%. An increase in CGT for second home owners had already been flagged well in advance of the Budget. However, there were fears that the rate could be brought into line with higher rates of income tax, which could have seen it rise to 40% or even 50%. The actual increase has therefore turned out to be relatively modest.

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“More important in terms of the short-term impact on the housing market was the decision to implement the change with immediate effect. Had there been a delay in implementation, it is quite likely that many second home owners would have chosen to sell early in advance of the tax increase. This could have shifted the supply-demand balance quite markedly in favour of buyers and put downward pressure on house prices. As a result of the immediate implementation, however, there are unlikely to be any significant supply distortions in the near term resulting from the tax change.

“Looking beyond the short-term, the spending cuts and tax increases in the Budget will clearly put a squeeze on household disposable incomes, which are undoubtedly an important driver of house prices. Given the already elevated level of the house price to earnings ratio, this limits the scope for property values to maintain the very strong upward momentum that we have seen over the last year. However, the acceleration of the fiscal consolidation means that interest rates are likely to be lower than they otherwise would have been, which should provide some offsetting support to households and mortgage affordability. To the extent that an improvement in the public finances raises confidence in interest rate stability, it could even attract more buyers into the housing market over time.

“Provided the economy does not suffer a relapse into recession, the net impact of the Budget on the housing market and house prices should be relatively neutral. This is consistent with the relative stability seen in the housing market during the last major fiscal consolidation in the mid-1990s.”

Monthly UK House Price Statistics

	Monthly % Change Seasonally Adjusted	3 month on 3 month % change	Annual % Change	Average Price
Jun-08	-1.1	-4.3	-6.3	172,415
Jul-08	-1.9	-5.4	-8.1	169,316
Aug-08	-2.2	-5.4	-10.5	164,654
Sep-08	-1.8	-5.6	-12.4	161,797
Oct-08	-1.4	-5.4	-14.6	158,872
Nov-08	-0.2	-4.8	-13.9	158,442
Dec-08	-2.5	-4.2	-15.9	153,048
Jan-09	-1.3	-3.8	-16.6	150,501
Feb-09	-1.5	-4.4	-17.6	147,746
Mar-09	1.2	-3.6	-15.7	150,946
Apr-09	-0.3	-2.5	-15.0	151,861
May-09	1.2	-0.1	-11.3	154,016
Jun-09	1.1	1.1	-9.3	156,442
Jul-09	1.4	2.6	-6.2	158,871
Aug-09	1.4	3.2	-2.7	160,224
Sep-09	0.9	3.8	0.0	161,816
Oct-09	0.6	3.5	2.0	162,038
Nov-09	0.6	2.9	2.7	162,764
Dec-09	0.6	2.2	5.9	162,103
Jan-10	1.3	2.1	8.6	163,481
Feb-10	-0.9	1.7	9.2	161,320
Mar-10	1.0	1.6	9.0	164,519
Apr-10	1.1	1.1	10.5	167,802
May-10	0.5	1.7	9.8	169,162
Jun-10	0.1	1.8	8.7	170,111

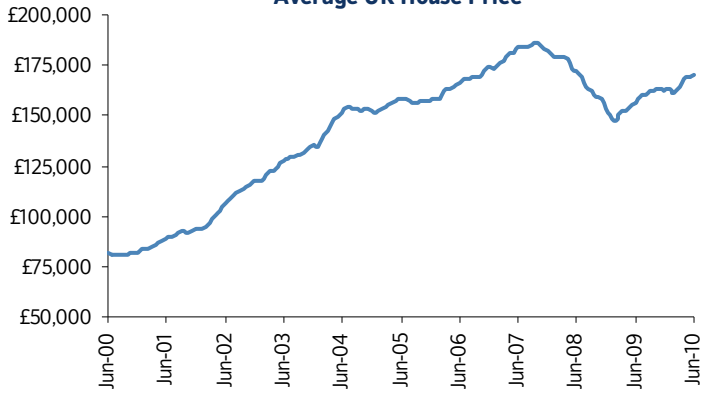
Note: Historical figures including index levels can be viewed using the following link:

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

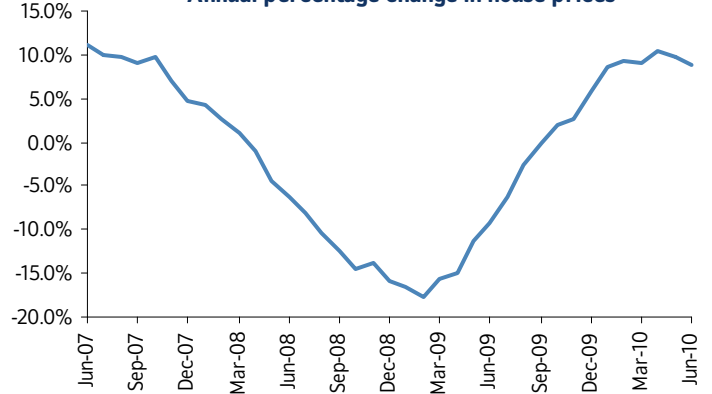
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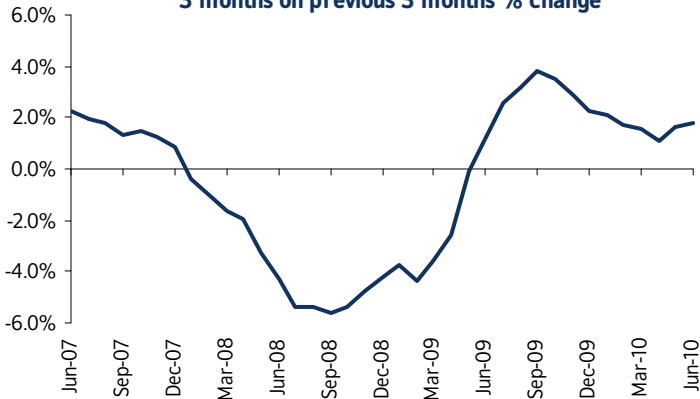
Average UK House Price



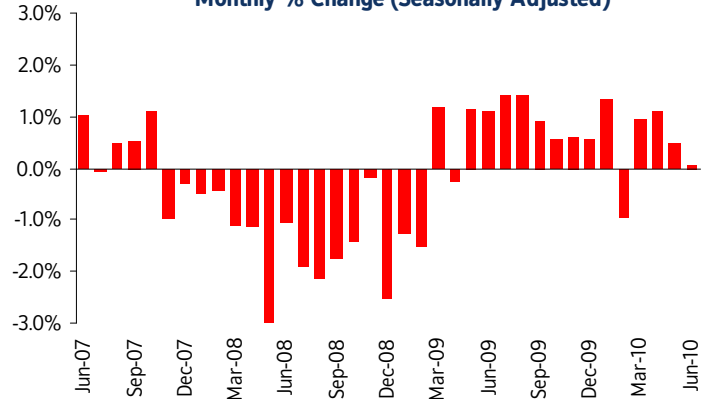
Annual percentage change in house prices



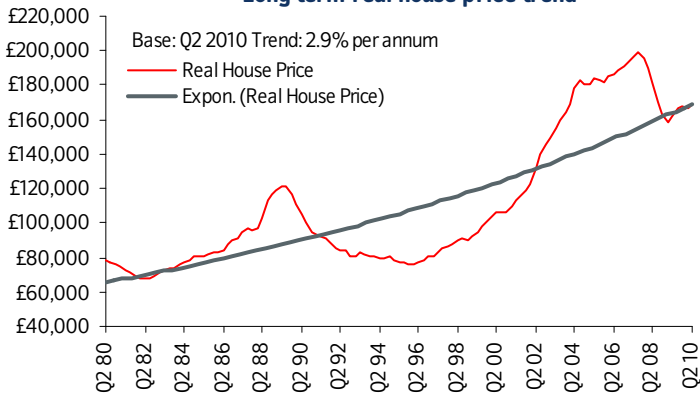
3 months on previous 3 months % change



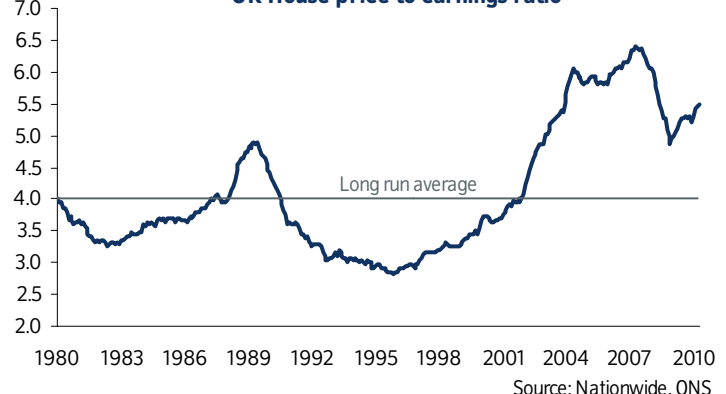
Monthly % Change (Seasonally Adjusted)



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

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