

Nationwide HOUSE PRICE INDEX



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March 2011

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House prices increase by 0.5% in March

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- On the three month on three month measure, prices rose by 0.6%
- Prices 0.1% higher than one year ago

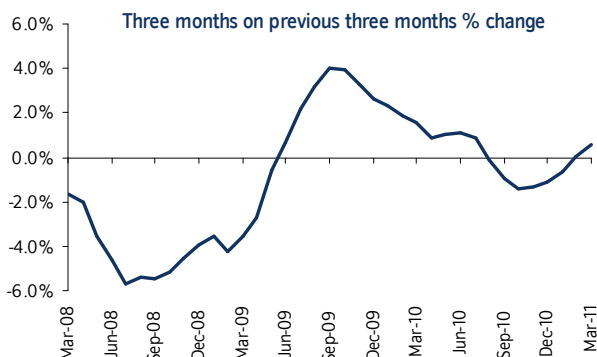
Headlines	Mar 11	Feb 11
Monthly Index*	330.9	329.3
Monthly Change*	0.5%	0.7%
Annual Change	0.1%	-0.1%
Average Price	£164,751	£161,183

* Seasonally adjusted figure (Note that monthly % changes are revised when seasonal adjustment factors are re-estimated)

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

"House prices increased by 0.5% in March, leaving them 0.1% higher than March 2010. Prices have now increased, albeit modestly, in three of the past four months.

"The three month on three month measure of house prices, a better measure of the underlying trend, showed a modest rise of 0.6% in March. The outlook remains uncertain, but all things considered, this is unlikely to mark the beginning of a strong upturn in prices.



"The economy entered a soft patch at the back end of 2010, and there have been few signs of a strong bounce-back. The

jobs market remains challenging and Nationwide's Consumer Confidence Index suggests that sentiment has fallen to an all time low in recent months.

"While demand is likely to remain fairly soft, a rapid increase in the supply of properties also appears unlikely. Low interest rates and a stabilisation in labour market conditions have prevented a rise in forced selling, and the subdued market outlook is deterring many sellers from entering the market.

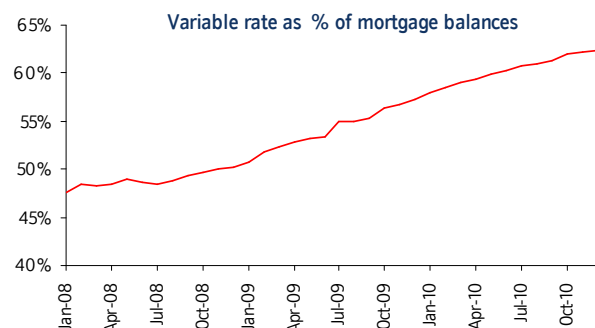
"With the economic recovery expected to remain sluggish, the most likely outcome is that the property market will follow suit, with low transaction levels and prices moving sideways or modestly lower through 2011."

Interest rate increases – how much of a hit?

The Bank of England is likely to start the process of returning interest rates to more normal levels at some point in 2011. However, rate increases may exert more of a drag on the household sector than would have been the case before the recession.

Households more sensitive to rate increases

Mortgages account for around 85% of household debt and since 2008 the proportion of mortgages on variable interest rates has risen sharply, from 48% to 62%.



Source: CACI

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This trend has largely been driven by a rise in the number of people on lenders' standard variable rates (SVR), where borrowers automatically rolled onto SVR as their fixed rate deals expired. Around a quarter of mortgage balances are currently on SVR.

Many people have chosen to remain on these rates due to the low base rate environment, where SVR rates are often lower than those on offer for new fixed rate deals.

How much of a squeeze on borrowers?

For those with a capital repayment mortgage, a typical mortgage payment is currently around £455¹, equivalent to 23% of individual take home pay². A one percentage point rise in interest rates would see this rise to £494 - 25% of current take home pay.

In the five years before the crisis, the Bank Rate averaged 4.5%. A rise to this level would see typical payments rise to £621 if rate increases were fully passed on to borrowers.

If the Bank of England were to increase interest rates to 4.5% by the end of 2013 and wages keep rising at the current pace of 2.3% a year, this would take typical payments on repayment mortgages to 29% of take home pay.

Can the economy and housing market cope?

Ultimately, the key factor determining the impact of higher interest rates on households is the economic backdrop against which it takes place. If the rise in interest rates is gradual and occurs when the economy is recovering strongly and the labour market is strengthening, then the impact on households and the housing market should be fairly modest.

However, still high levels of debt and the increased share of variable rate mortgages suggests increased grounds for caution, since the household sector is likely to be more sensitive to interest rate increases. This is an important consideration - after all, households account for over 60% of spending in the economy, and the recovery remains fragile.

More households may choose to switch to fixed rate mortgages in the quarters ahead, reducing the sensitivity to rate rises. But the incentive is blunted by the fact that the rates on fixed rate deals are often higher than the variable rate people are currently on. This is because the cost of fixed rate mortgages is linked to longer-term interest rates, which are higher than the Bank Rate. Moreover, the differential may widen further in the months ahead - long-term interest rates may move up more sharply than the Bank Rate as investors anticipate further interest rate increases ahead.

¹ This is based on an average mortgage balance on capital repayment mortgages of £78,000 with a term of 18 years and an interest rate of 2.71% rising to 3.71%. This is estimated using data from the CACI Mortgage Market Database.

² This is a Nationwide estimate based on the ONS 2010 Annual Survey of Hours and Earnings.

Monthly UK House Price Statistics

	Monthly % Change Seasonally Adjusted	3 month on 3 month % change	Annual % Change	Average Price
Mar-09	0.7	-3.6	-15.7	150,946
Apr-09	-0.4	-2.7	-15.0	151,861
May-09	1.1	-0.6	-11.3	154,016
Jun-09	1.1	0.6	-9.3	156,442
Jul-09	1.5	2.2	-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	1.4	2.4	8.6	163,481
Feb-10	-0.7	1.9	9.2	161,320
Mar-10	0.3	1.6	9.0	164,519
Apr-10	0.9	0.9	10.5	167,802
May-10	0.4	1.0	9.8	169,162
Jun-10	0.0	1.1	8.7	170,111
Jul-10	-0.5	0.9	6.6	169,347
Aug-10	-0.8	-0.1	3.9	166,507
Sep-10	0.0	-1.0	3.1	166,757
Oct-10	-0.7	-1.4	1.4	164,279
Nov-10	-0.3	-1.3	0.2	163,133
Dec-10	0.3	-1.1	0.1	162,249
Jan-11	-0.1	-0.6	-1.4	161,211
Feb-11	0.7	0.0	-0.1	161,183
Mar-11	0.5	0.6	0.1	164,751

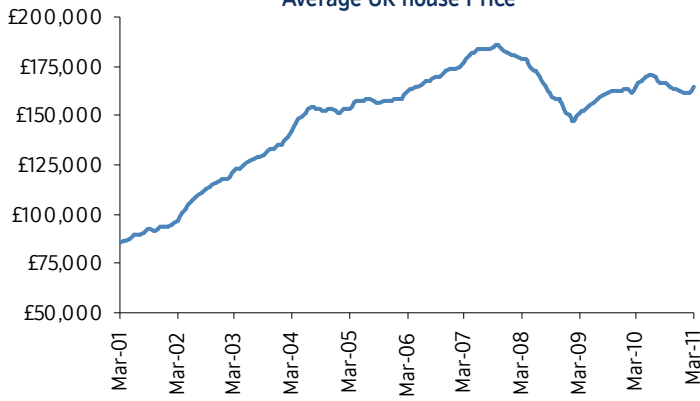
Note: Historical figures including index levels can be viewed using the following link:

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

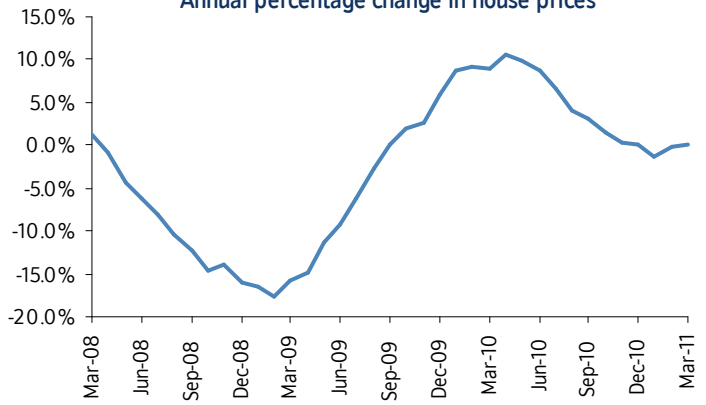
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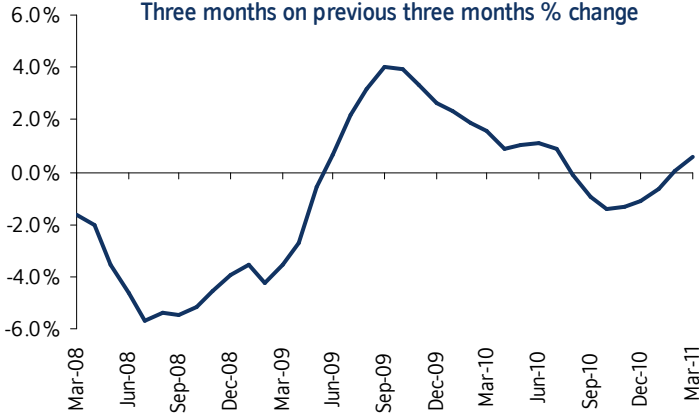
Average UK house Price



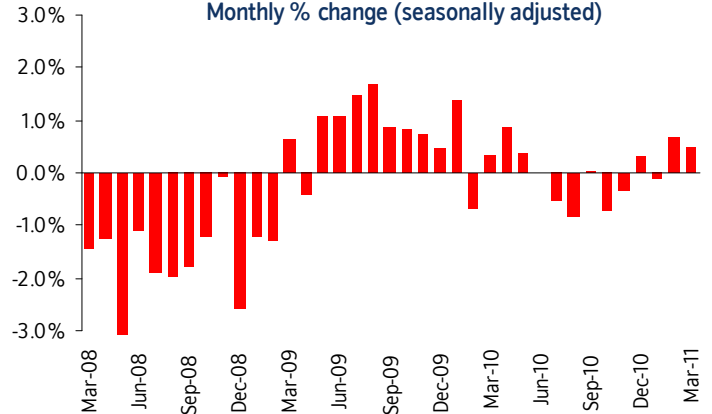
Annual percentage change in house prices



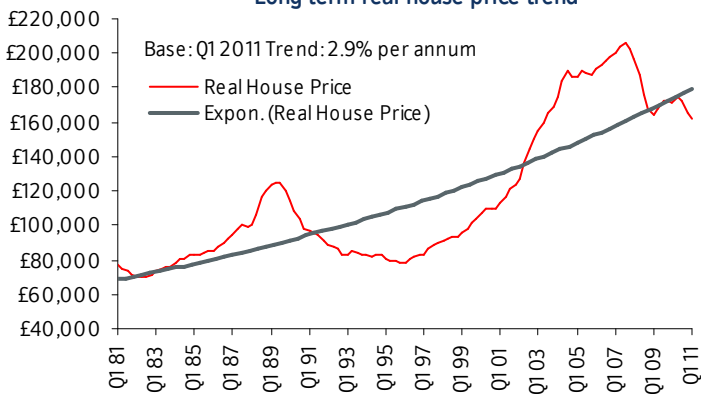
Three months on previous three months % change



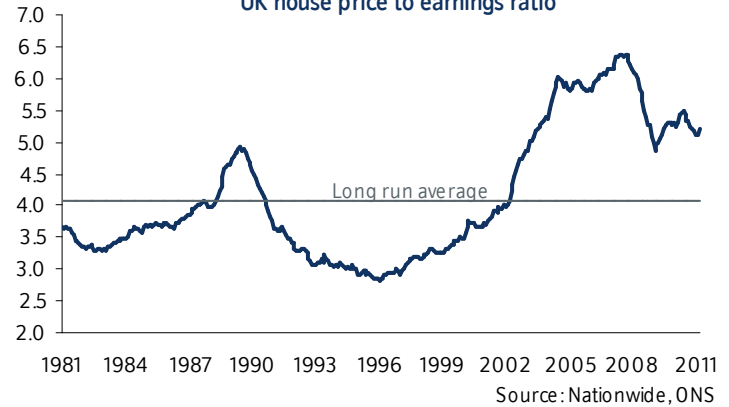
Monthly % change (seasonally adjusted)



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

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