

Nationwide HOUSE PRICE INDEX



www.nationwide.co.uk/hpi

May 2012

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UK house prices edge up by 0.3% in May

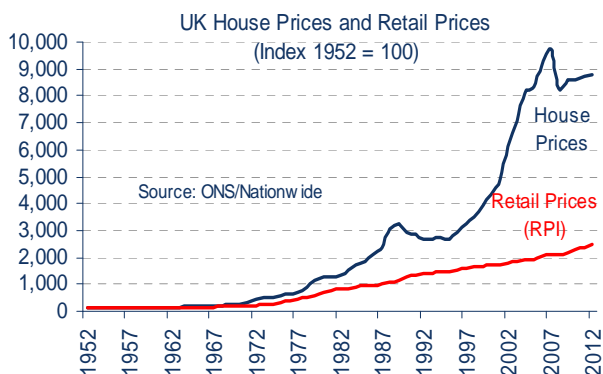
- Nationwide House Price Index shares an anniversary with the Queen as it marks its 60th year
- The price of a typical UK house rose by 0.3% in May
- Prices 0.7% lower than one year ago
- Price of a typical home is now £166,022

Headlines	May-12	Apr-12
Monthly Index*	327.8	326.9
Monthly Change*	0.3%	-0.3%
Annual Change	-0.7%	-0.9%
Average Price (not seasonally adjusted)	£166,022	£164,134

* 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:

"The Nationwide House Price Index has reached an important milestone; it was first produced in 1952, and has therefore run for the Queen's entire reign. According to our data the average UK house price has increased from £1,891 to £166,022 during the Queen's reign, that's almost an 88 fold increase over the 60 year period, while the cost of goods and services have recorded a more modest 25 fold increase (see chart below).



"Dramatic increases might be expected over such a long timeframe, but over the last eighteen months, house prices have been fairly stable, despite the challenging economic backdrop.

"May's data provides some comfort that this pattern is being maintained. Prices were up by a modest 0.3% over the month, and were just 0.7% lower than May last year, even though the UK economy dipped back into recession in Q1, and showed few signs of a significant pickup in economic activity at the start of Q2.

"Demand for homes remains subdued on the back of weak labour market conditions, but the lack of homes coming onto the market is providing support for prices. This is in part a reflection of the low rate of building in recent years which has failed to keep pace with household formation."

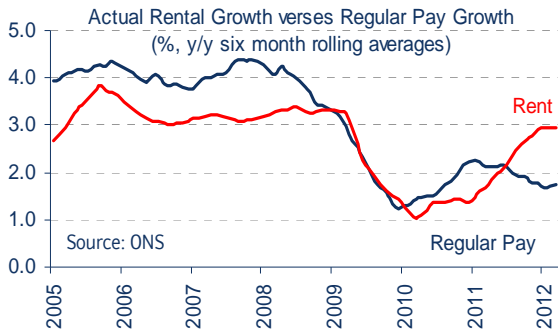
Housing affordability points to underlying supply issues, especially in the South

The constrained supply of homes is apparent in a number of metrics. House prices remain high relative to incomes, at more than five times average earnings, well above the long run average of four times earnings.

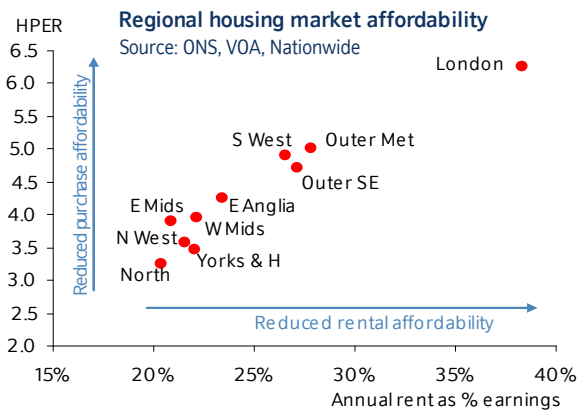
Affordability appears less stretched when comparing the cost of a mortgage to incomes. Repayments on a typical mortgage are equal to around 31% of take home pay, the lowest level for a decade, but this is because interest rates are near three hundred year lows.

Upward pressure on rents also suggests that demand for housing is outstripping the available supply. As the chart over the page illustrates, rental growth tends to track pay growth fairly closely over time. However, rental growth is now outpacing wage growth by a significant margin.

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The pattern of housing affordability varies across the country. However, the pattern of rental affordability shows a close correlation with house purchase affordability.



The chart above compares the house price to earnings ratio (HPER) with average rents as a percentage of earnings. The pattern is clear - areas where house prices are high relative to earnings are also areas where rents are high relative to earnings.

London stands out as the least affordable region, with rent taking up nearly 40% of earnings, and average house prices are more than six times earnings. More generally, households in the south of England spend a greater proportion of their income on housing than those in the north of England.

This is important as it provides further evidence that housing more generally is in short supply, reinforcing the view that any efforts to reinvigorate the housing market should focus on the demand and the supply side of the market.

Monthly UK House Price Statistics

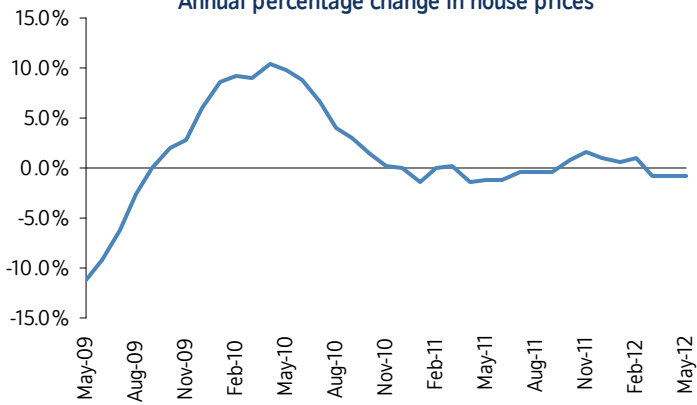
	Monthly % Change Seasonally Adjusted	3 month on 3 month % change	Annual % Change	Average Price
May-10	0.1	1.2	9.8	169,162
Jun-10	0.0	1.3	8.7	170,111
Jul-10	-0.6	1.0	6.6	169,347
Aug-10	-0.6	-0.1	3.9	166,507
Sep-10	0.0	-0.9	3.1	166,757
Oct-10	-0.8	-1.3	1.4	164,279
Nov-10	-0.5	-1.3	0.2	163,133
Dec-10	0.4	-1.2	0.1	162,249
Jan-11	0.0	-0.8	-1.4	161,211
Feb-11	0.1	-0.2	-0.1	161,183
Mar-11	0.9	0.5	0.1	164,751
Apr-11	-0.3	0.7	-1.3	165,609
May-11	0.2	0.8	-1.2	167,208
Jun-11	0.0	0.4	-1.1	168,205
Jul-11	0.2	0.3	-0.4	168,731
Aug-11	-0.5	0.0	-0.4	165,914
Sep-11	0.0	-0.1	-0.3	166,256
Oct-11	0.4	-0.2	0.8	165,650
Nov-11	0.3	0.1	1.6	165,798
Dec-11	-0.3	0.3	1.0	163,822
Jan-12	-0.3	0.3	0.6	162,228
Feb-12	0.4	0.0	0.9	162,712
Mar-12	-1.0	-0.4	-0.9	163,327
Apr-12	-0.3	-0.6	-0.9	164,134
May-12	0.3	-0.9	-0.7	166,022

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

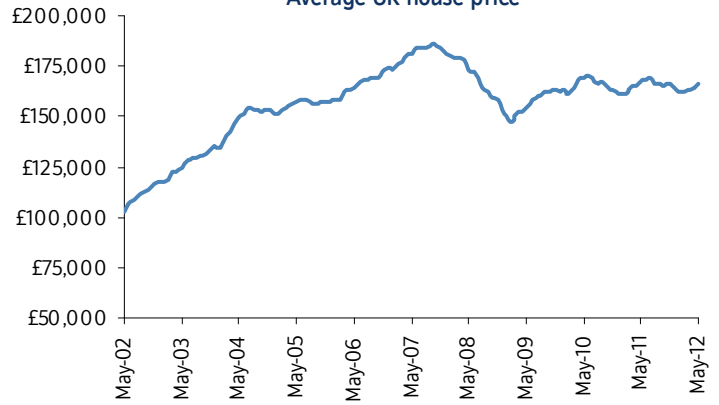
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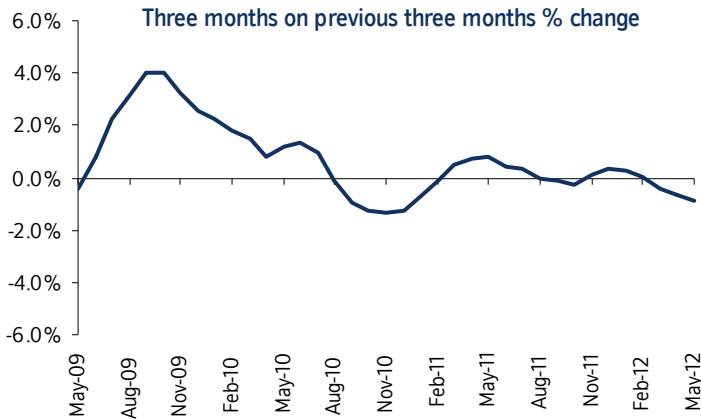
Annual percentage change in house prices



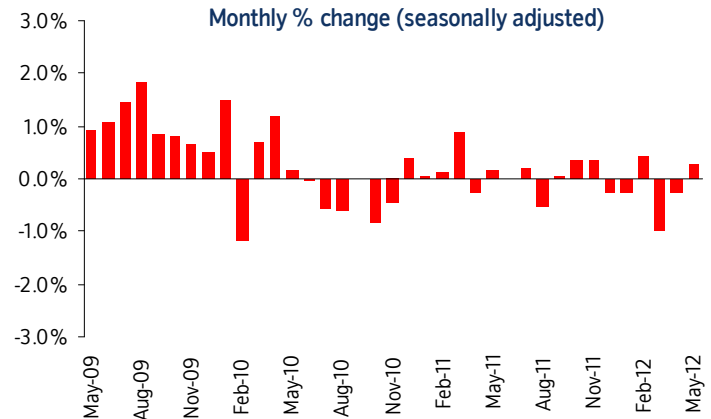
Average UK house price



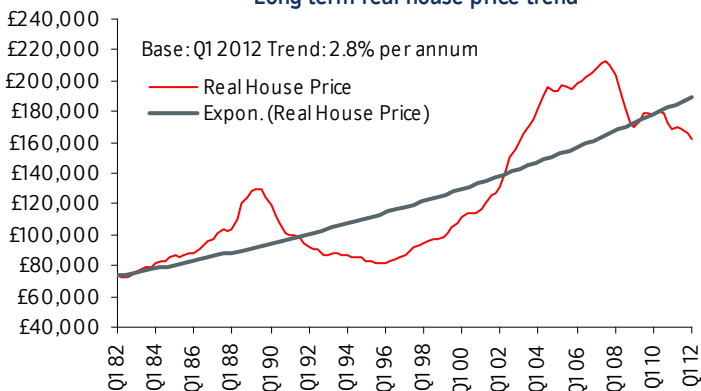
Three months on previous three months % change



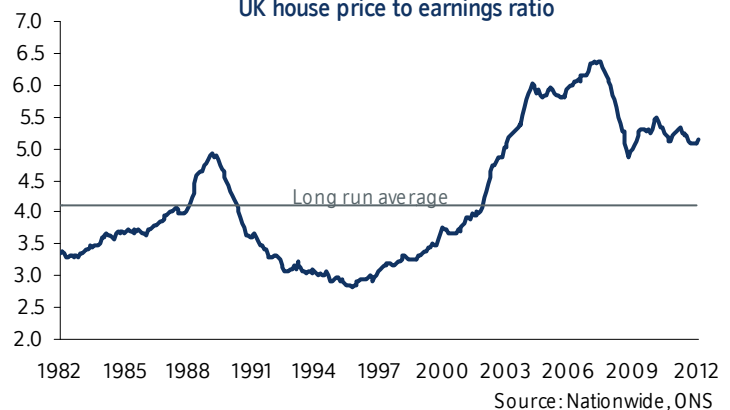
Monthly % change (seasonally adjusted)



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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