

Nationwide HOUSE PRICE INDEX



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September 2012

Embargoed until 0700 2 October 2012

UK house prices slip back a little in September

- The price of a typical UK house fell by 0.4% in September
- Prices 1.4% lower than one year ago
- Price of a typical home is £163,964

Headlines	Sep-12	Aug-12
Monthly Index*	325.4	326.8
Monthly Change*	-0.4%	1.1%
Annual Change	-1.4%	-0.7%
Average Price (not seasonally adjusted)	£163,964	£164,729

* 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:

"UK house prices declined by 0.4% in September, after recording a 1.1% rise in August. Monthly price changes have been impacted by a number of one-off factors this year, such as the ending of the stamp duty holiday that cannot be controlled by the usual process of seasonal adjustment.

"For this reason the annual rate of house price change is a better guide to the state of the market at present. On that basis, the housing market remains fairly stable, with prices 1.4% lower than September 2011.

"Looking forward, policy measures such as the Bank of England's Funding for Lending Scheme should provide support for activity in the housing market by ensuring the availability of credit and lowering its cost.

"However, labour market developments will remain of paramount importance in deciding the trajectory of house prices. There are grounds for caution on this front, as the unusual combination of rising employment and declining economic activity that was evident in the first half of 2012 is unlikely to be sustained.

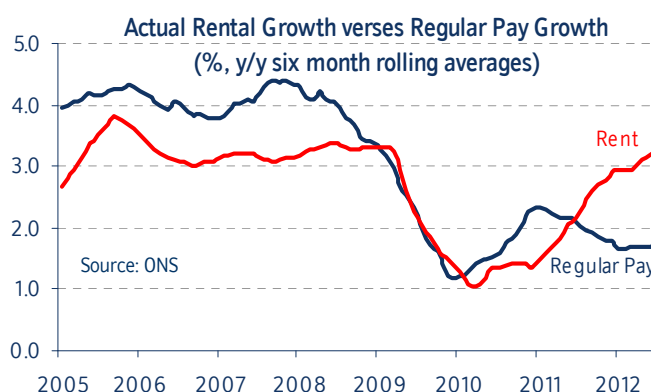
"But there are encouraging signs that the UK will soon return to modest growth. The Olympics are likely to have delivered a

boost that will almost certainly bring the recession to an end in Q3. Business surveys point to a gradual expansion in business activity ahead. Moreover, signs that European policymakers are prepared to take more aggressive measures to deal with the crisis in the single currency area is also good news for UK prospects. After all, the UK remains heavily reliant on international trade to drive its recovery at present, and the Eurozone is our largest trade partner.

"Overall, we expect the UK economy to see a gradual recovery over the next twelve months, with house prices remaining relatively flat or declining only modestly over the same period.

Housing supply - is it responding?

"A number of metrics suggest that UK housing supply remains low relative to demand. House prices are still fairly high relative to peoples' incomes, at least by historic standards. There are also signs of supply constraints in the rental market. After tracking average earnings for a long period, rental growth is now outpacing wage growth by a widening margin (as shown in the chart below).



"There has been only a tentative pickup in house building activity after the sharp falls seen in the wake of the financial crisis. For example, in the four quarters to Q2 2012 around 118,000 houses were built in England. This is 10% higher than the low point seen in the four quarters to Q4 2010, but almost 25% below the average rate of building in the five years before the financial crisis. Moreover, Government

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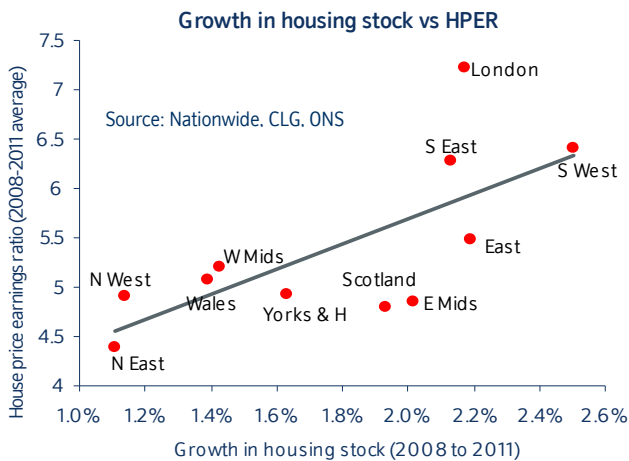


estimates suggest that even before the crisis building activity was running well below that required to keep up with the natural growth in the population.

“Hopefully, construction activity will strengthen further in the period ahead. The major house builders appear to have the capacity to expand supply, with most reporting land banks that could support more than five years of construction at current rates of building activity. Similarly, schemes such as NewBuy, are helping to provide those with smaller deposits access to mortgage finance. This in turn should help to provide house builders with confidence that there will be demand from buyers if the homes are built.

Regional building trends suggest that activity is not completely insensitive to price signals

“The analysis above supports the view that housing supply is slow to respond to price signals. However, there is some evidence that more building is at least taking place in regions where affordability is more stretched.



“The chart above shows that there is a relationship between the rate of increase in the housing stock in recent years and the level of house prices relative to local earnings. For example, regions that were more affordable, such as the North and North West, have seen the smallest increases in housing stock over the period, with a rise of 1.1% over the 2008 to 2011 period, well below the average increase of 1.8% recorded in Great Britain as a whole.

“By contrast, areas such as the South East and South West, where house prices were relatively expensive, at more than six times average incomes, have seen the housing stock rise by 2.1% and 2.5% respectively over the same period.

“London remains something of an outlier - even though the housing stock has increased by 2.2% over the 2008 to 2011 period, above the national average, this is well below the increase we would have expected, given the experience of other regions, which would have pointed to a rise of around 3.2% in the housing stock over the period.”

Monthly UK House Price Statistics

	Monthly % Change Seasonally Adjusted	3 month on 3 month % change	Annual % Change	Average Price
Sep-10	0.1	-0.8	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	0.3	-1.3	0.1	162,249
Jan-11	0.0	-0.8	-1.4	161,211
Feb-11	0.1	-0.3	-0.1	161,183
Mar-11	0.9	0.4	0.1	164,751
Apr-11	-0.3	0.7	-1.3	165,609
May-11	0.1	0.7	-1.2	167,208
Jun-11	0.2	0.4	-1.1	168,205
Jul-11	0.4	0.5	-0.4	168,731
Aug-11	-0.8	0.2	-0.4	165,914
Sep-11	0.2	0.1	-0.3	166,256
Oct-11	0.3	-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	0.2	0.6	162,228
Feb-12	0.4	-0.1	0.9	162,712
Mar-12	-1.0	-0.5	-0.9	163,327
Apr-12	-0.3	-0.7	-0.9	164,134
May-12	0.2	-1.0	-0.7	166,022
Jun-12	-0.6	-0.9	-1.5	165,738
Jul-12	-0.7	-0.9	-2.6	164,389
Aug-12	1.1	-0.6	-0.7	164,729
Sep-12	-0.4	-0.4	-1.4	163,964

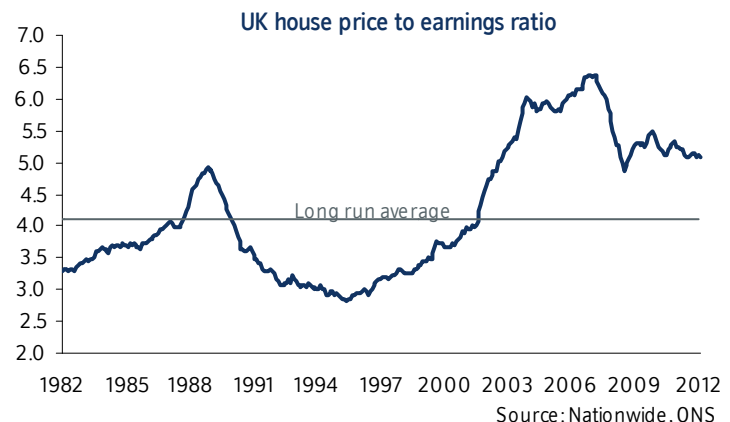
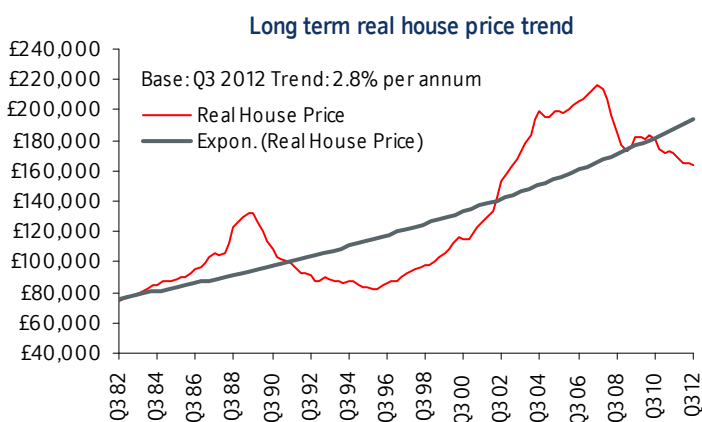
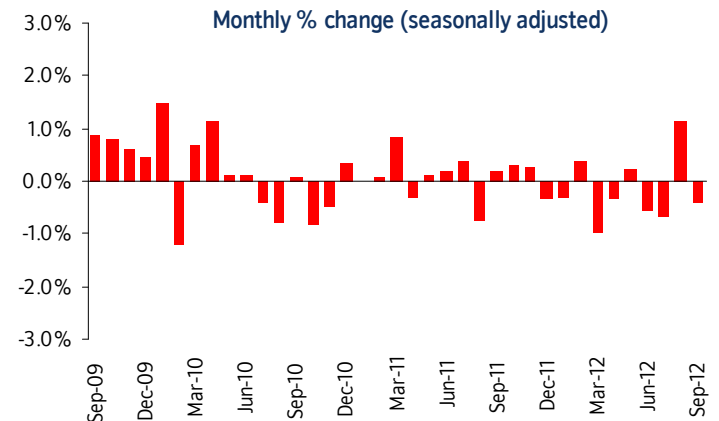
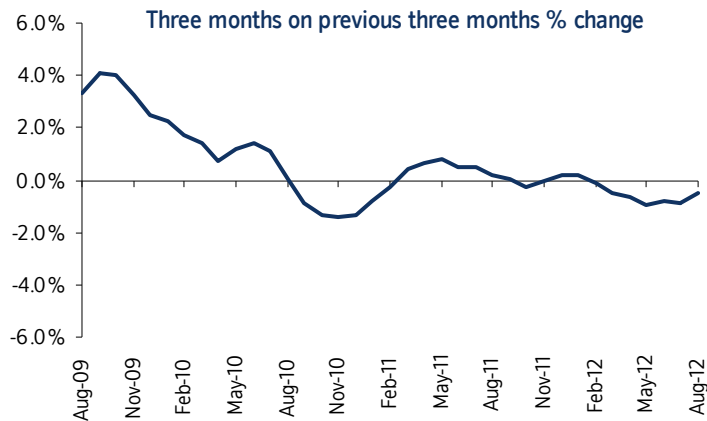
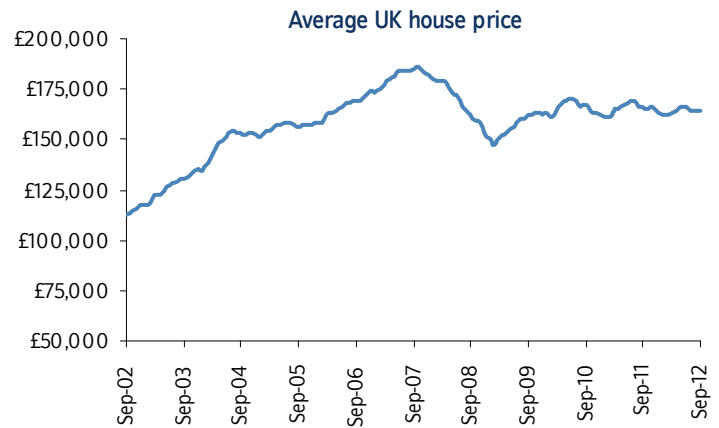
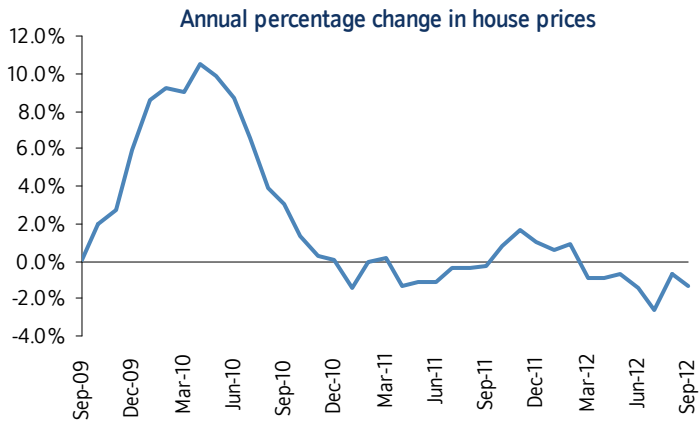
Note: Historical figures including index levels can be viewed using the following link:

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

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On your side



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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