

# Nationwide HOUSE PRICE INDEX



[www.nationwide.co.uk/hpi](http://www.nationwide.co.uk/hpi)

January 2017

## Steady start to the year for UK house price growth

- Annual house price growth broadly stable at 4.3%
- 0.2% month-on-month rise in January

Headlines	Jan-17	Dec-16
Monthly Index*	414.0	413.4
Monthly Change*	0.2%	0.8%
Annual Change	4.3%	4.5%
Average Price (not seasonally adjusted)	£205,240	£205,898

\* 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 annual rate of house price growth remained broadly stable at the start of 2017 at 4.3%, only modestly below the growth rate in December of 4.5%. House prices increased by 0.2% over the month, after taking account of seasonal factors.

"The outlook for the housing market remains clouded, reflecting the uncertainty surrounding economic prospects more broadly.

"On the one hand, there are grounds for optimism. The economy has remained far stronger than expected in the wake of the Brexit vote. Recent data indicates that the economy didn't slow in the second half of 2016 and the unemployment rate remained stable at an 11-year low in the three months to November.

"However, there are tentative signs that conditions may be about to soften. Employment growth has moderated, and while wage growth has edged up in recent months, in real terms (i.e. after adjusting for inflation), earnings growth has already slowed, as shown in the chart (above, right).

"With inflation set to rise further in the months ahead as a result of the weaker pound, real wages are likely to come under further pressure. Employment growth is also likely to continue to moderate, should the economy slow as most forecasters expect.

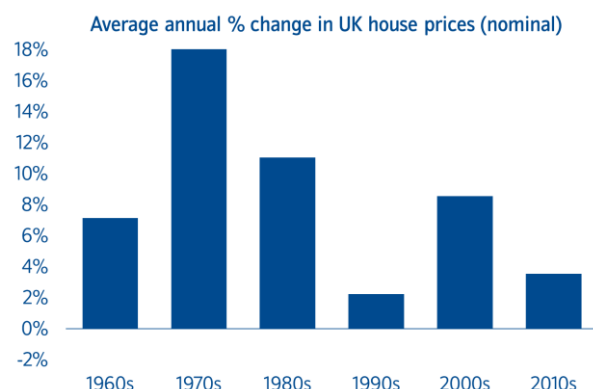


"On balance, we agree with the consensus view that the economy is likely to slow through 2017 as the squeeze on household budgets intensifies and heightened uncertainty weighs on business investment and hiring.

"Nevertheless, we continue to believe that a small rise in house prices of around 2% is more likely than a decline over the course of 2017, since low borrowing costs and the dearth of homes on the market will continue to support prices.

### UK house price growth over the decades

"Our data reveals marked differences in house price growth over the decades, with the 1970s and 1980s standing out as seeing particularly large increases, as shown below.



"However, the strong gains recorded in the 1970s and 1980s occurred against a backdrop of rapid increases in the price of goods and services more generally. For example, while house

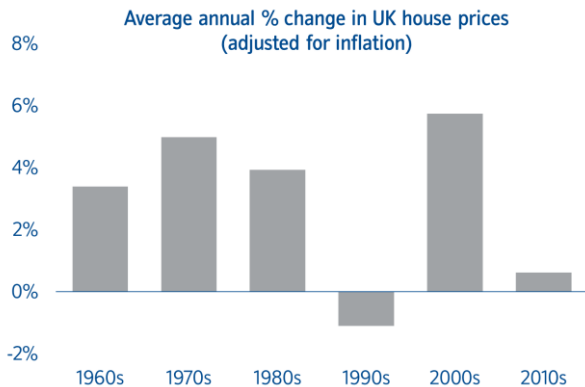
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prices rose by c18% per year in the 1970s, retail price inflation (RPI) averaged c13% per year over the same period.

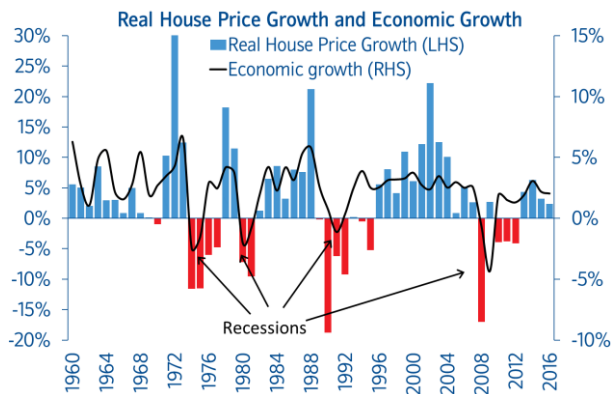
“A better way to compare the relative performance of house prices over time is by tracking ‘real’ house prices. This measures how much faster house prices have increased compared to goods and services more generally.

“As the chart below illustrates, there is much less variation in real house prices over the decades. Moreover, the 2000s is the decade that saw the strongest gains rather than the 1970s.



### Real house price trends reflect broader economic developments

“By looking at annual data, shown in the chart below, we can more clearly see the link that exists between real house price growth and the broader economy’s performance, with significant declines occurring when the economy dips into recession.



“The volatility in economic conditions prevailing for much of the 1970s, 1980s and the early 1990s is mirrored in real house price growth.

“Interestingly, despite the unstable economic backdrop, the 1970s and 1980s still saw strong gains in real house prices. This was partly due to an increase in long term demand for housing resulting from the deregulation of the mortgage market. This was reinforced by ‘Right to Buy’ in the 1980s, which allowed more people in the rented sector to buy their own home.

“The chart also illustrates that the recession in the early 1990s exerted a particularly large drag on real house prices, given that this was a relatively short and shallow recession.

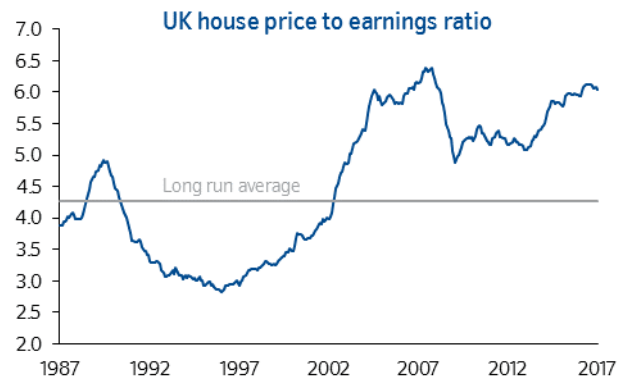
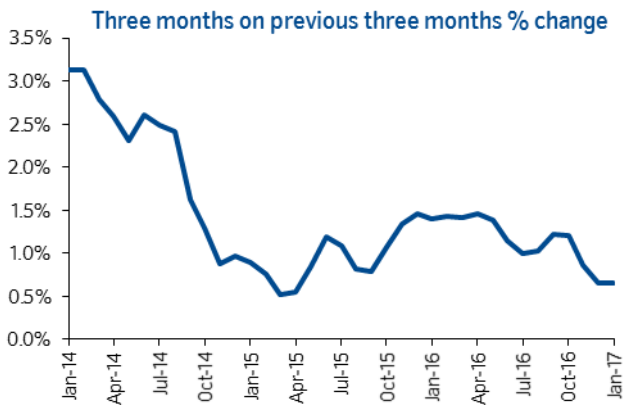
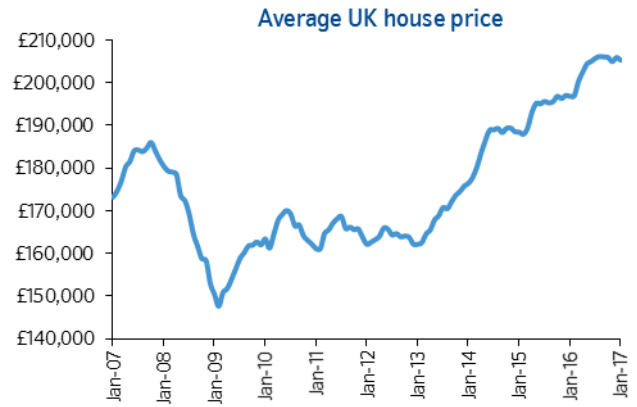
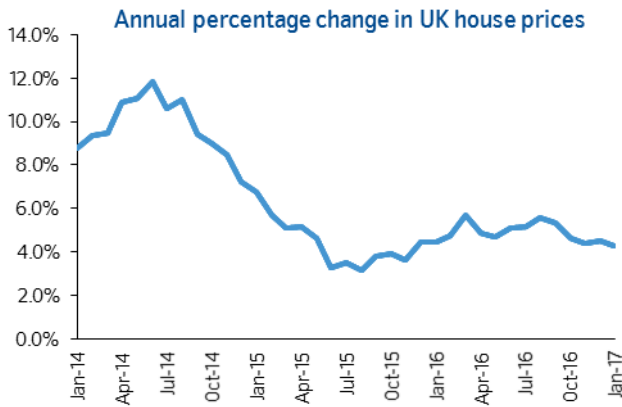
“However, this was followed by a prolonged period of robust gains between 1996 and 2008. These increases were spurred by a combination of strong and stable economic growth, a structural decline in interest rates and the further liberalisation of the financial system (though the latter also contributed to the subsequent recession in 2008 and decline in real house prices which followed).

“The relatively modest rise in real house prices since 2010 is in part a reflection of the sluggish pace of the economic recovery compared with previous upturns (and especially real income growth).

“In the decades ahead, real house price trends will continue to depend crucially on developments in the wider economy, though there is an even greater degree of uncertainty around this than usual.”

### Monthly UK House Price Statistics

	Monthly % Change Seasonally Adjusted	3 Month on 3 Month % Change	Annual % Change	Average Price
Jan-15	0.4	0.9	6.8	188,446
Feb-15	0.0	0.8	5.7	187,964
Mar-15	-0.1	0.5	5.1	189,454
Apr-15	1.1	0.6	5.2	193,048
May-15	0.3	0.9	4.6	195,166
Jun-15	-0.1	1.2	3.3	195,055
Jul-15	0.4	1.1	3.5	195,621
Aug-15	0.2	0.8	3.2	195,279
Sep-15	0.5	0.8	3.8	195,585
Oct-15	0.6	1.1	3.9	196,807
Nov-15	0.2	1.3	3.7	196,305
Dec-15	0.7	1.5	4.5	196,999
Jan-16	0.4	1.4	4.4	196,829
Feb-16	0.4	1.4	4.8	196,930
Mar-16	0.7	1.4	5.7	200,251
Apr-16	0.3	1.5	4.9	202,436
May-16	0.3	1.4	4.7	204,368
Jun-16	0.3	1.1	5.1	204,968
Jul-16	0.5	1.0	5.2	205,715
Aug-16	0.6	1.0	5.6	206,145
Sep-16	0.3	1.2	5.3	206,015
Oct-16	0.0	1.2	4.6	205,904
Nov-16	0.0	0.9	4.4	204,947
Dec-16	0.8	0.7	4.5	205,898
Jan-17	0.2	0.7	4.3	205,240



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 is 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.

More information on the house price index methodology along with time series data and archives of housing research can be found at <http://www.nationwide.co.uk/about/house-price-index/headlines>

Historical figures including index levels can be viewed using the following link: <http://www.nationwide.co.uk/about/house-price-index/download-data>

Photographs of our economist are available at: <http://www.nationwide.co.uk/about/media-centre-and-specialist-areas/media-centre/photo-library>

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