

Nationwide HOUSE PRICE INDEX



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October 2015

Slight pickup in house price growth in October

- House prices increased by 0.6% in October
- Annual house price growth ticked up to 3.9%

Headlines	Oct-15	Sep-15
Monthly Index*	391.9	389.8
Monthly Change*	0.6%	0.5%
Annual Change	3.9%	3.8%
Average Price (not seasonally adjusted)	£196,807	£195,585

* 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:

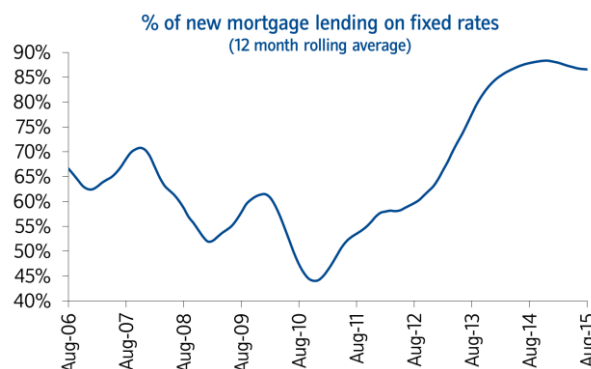
"UK house prices increased by 0.6% in October, with the annual pace of price growth edging up to 3.9% from 3.8% in September.

"Over the past five months annual price growth has remained in a fairly narrow range between 3% and 4%, broadly consistent with earnings growth over the longer term. While this bodes well for a sustainable increase in housing market activity, much will depend on whether building activity can keep pace with increasing demand.

Fixed rate mortgages remain most popular

"Fixed rate mortgages have remained the most popular product type by a considerable margin in recent years. Data from the Council of Mortgage Lenders suggests that almost 95% of new mortgages were contracted on fixed rates over the past twelve months. This is probably a reflection of ongoing uncertainty about the precise timing of UK interest rate increases as well as a desire to lock in low interest rates.

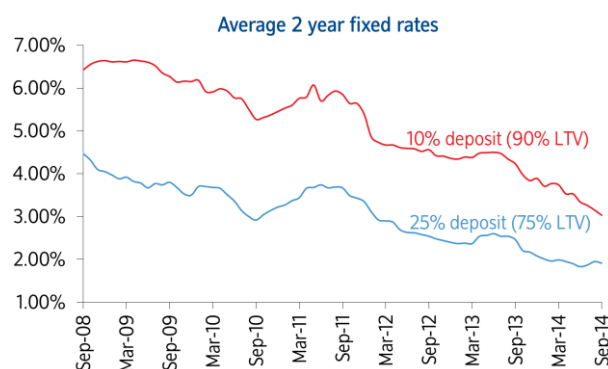
"The proportion of new mortgage lending contracted on fixed rates has been steadily increasing since the low point in 2010, when less than half of lending was on fixed rates. In recent months the proportion of lending accounted for by fixed rate deals has surpassed the levels prevailing before the financial crisis (see chart above).



Source: CML Regulated Mortgage Survey

"Fixed rate deals are most popular amongst first time buyers for whom certainty over monthly payments is likely to be particularly important. Indeed, over the past twelve months 95% of new mortgage lending to first time buyers was on fixed rates.

"Borrowers taking out fixed rate mortgages have benefited from historically low interest rates. For example, in September the average two year fix (for those with a 25% deposit) was 1.91%. While this is a little higher than the rates prevailing in the summer, it is almost two percentage points below the level prevailing in 2012 (see chart below). Moreover, for borrowers with a 10% deposit, the rates available for two year fixes are currently the lowest on record.



Source: Bank of England

"Historically low interest rates have helped to offset the negative impact of rising house prices on affordability. Indeed, even though house prices are at an all-time high, the

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cost of servicing a typical mortgage is still close to the long term average as a share of take home pay.

Will the market cope with higher interest rates?

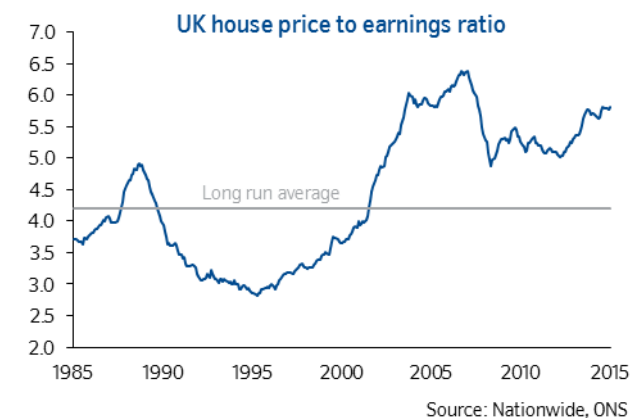
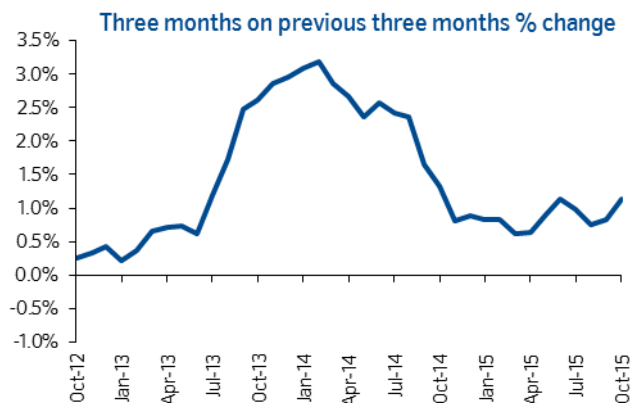
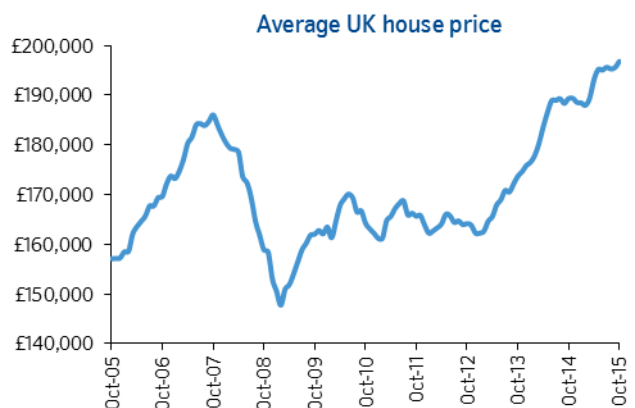
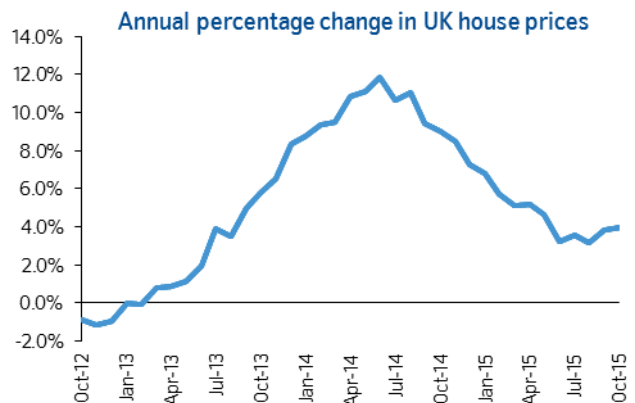
“As a result of the popularity of fixed rate mortgages in recent years the proportion of outstanding mortgages on variable interest rates has declined steadily, from almost 70% in mid-2012 to almost half in mid-2015. This should help to insulate many households from the impact of higher interest rates, though the proportion on variable rates is still higher than the 38% prevailing in 2007. It is also important to note that the majority of recent fixes are for relatively short time periods – 65% were for two years and 30% for five years.

“Nevertheless, the housing market should be able to cope with higher interest rates in the year ahead, provided the increase is modest and the economy and the labour market remain in good shape. Guidance from the Bank of England suggests that the increase in interest rates is likely to be gradual, and that they are expected to settle at a level somewhat below the average prevailing before the financial crisis, which should help ensure borrowing costs remain manageable.”

Monthly UK House Price Statistics

	Monthly % Change Seasonally Adjusted	3 Month on 3 Month % Change	Annual % Change	Average Price
Oct-13	1.0	2.6	5.8	173,678
Nov-13	0.8	2.9	6.5	174,566
Dec-13	1.5	2.9	8.4	175,826
Jan-14	0.8	3.1	8.8	176,491
Feb-14	0.9	3.2	9.4	177,846
Mar-14	0.5	2.9	9.5	180,264
Apr-14	1.0	2.7	10.9	183,577
May-14	0.7	2.4	11.1	186,512
Jun-14	1.2	2.6	11.8	188,903
Jul-14	0.2	2.4	10.6	188,949
Aug-14	0.8	2.4	11.0	189,306
Sep-14	-0.2	1.6	9.4	188,374
Oct-14	0.5	1.3	9.0	189,333
Nov-14	0.3	0.8	8.5	189,388
Dec-14	0.3	0.9	7.2	188,559
Jan-15	0.4	0.8	6.8	188,446
Feb-15	-0.1	0.8	5.7	187,964
Mar-15	0.1	0.6	5.1	189,454
Apr-15	1.0	0.6	5.2	193,048
May-15	0.3	0.9	4.6	195,166
Jun-15	-0.2	1.1	3.3	195,055
Jul-15	0.4	1.0	3.5	195,621
Aug-15	0.4	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

Charts



Source: Nationwide, ONS

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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/>

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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