

# Nationwide HOUSE PRICE INDEX



www.nationwide.co.uk/hpi

October 2014

## Annual house price growth continues to soften

- UK house prices rose by 0.5% in October
- Annual house price growth slowed to 9.0%

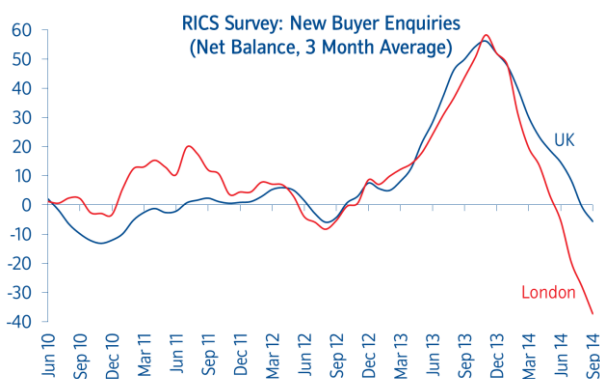
Headlines	Oct-14	Sep-14
Monthly Index*	377.4	375.4
Monthly Change*	0.5%	-0.1%
Annual Change	9.0%	9.4%
Average Price (not seasonally adjusted)	£189,333	£188,374

\* 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 pace of house price growth continued to moderate in October, declining to 9% from 9.4% in September, the second consecutive month where annual growth has fallen. This is despite house prices increasing by 0.5% month on month in October.

"A variety of indicators suggest that the market has lost momentum. The number of mortgages approved for house purchase in September was almost 20% below the level prevailing at the start of the year. Some forward looking indicators, such as new buyer enquiries, suggest that activity may soften further in the near term, especially in London (see chart below).



Source: Royal Institute of Chartered Surveyors

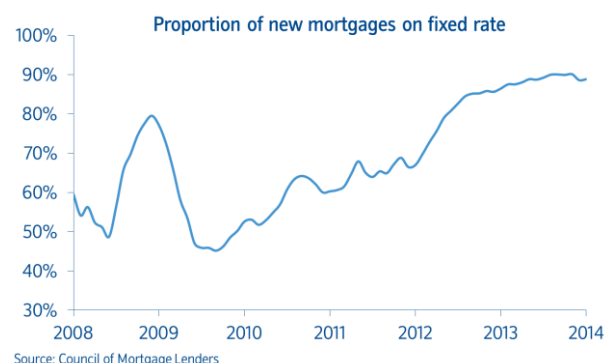
"However, broader economic indicators remain positive. The labour market has continued to improve, with the unemployment rate falling to 6% in the three months to August and mortgage rates have fallen back towards all-time lows (see chart overleaf). Indicators of consumer confidence have also remained close to recent highs.

"If the economy and the labour market remain in good shape, activity is likely to pick up in the quarters ahead providing mortgage rates do not rise sharply.

### Fixed rate mortgages increasingly popular

"An increasing number of borrowers have been opting for fixed rate mortgage deals in recent times. Data from the Council of Mortgage Lenders suggests that around 90% of new mortgages were contracted on fixed rates in recent months, up from 67% two years ago.

"Fixed rate deals are most popular amongst first time buyers for whom certainty over monthly payments is likely to be particularly important (95% of new mortgage lending to first time buyers is currently on fixed rates).



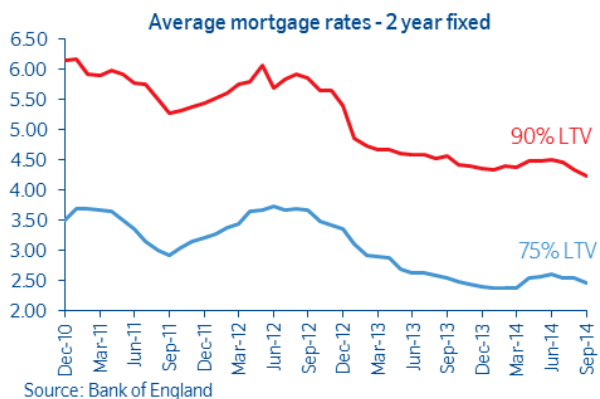
Source: Council of Mortgage Lenders

"Borrowers taking out fixed rate mortgages have benefited from historically low interest rates. For example, the average two year fix (for those with a 25% deposit) is currently 2.46%. While this is a little higher than earlier this year, it is still more than one percentage point below the level prevailing in 2012 (see chart below). Moreover, for borrowers with a 10% deposit, the rates available for two year fixes are the lowest on record.

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“This has helped, in part, to offset the negative impact of rising house prices on affordability. Indeed, even though house prices are at an all-time high, the cost of servicing a typical mortgage is still close to the long term average as a share of take home pay.



“Despite the high proportion of new mortgage lending on fixed rates, the majority of the stock of outstanding mortgages - around 60% - is on variable interest rates. This is a marked shift from the pre-crisis period where the proportion of mortgages on variable rates was 38%. Moreover, the majority of recent fixes are for relatively short time periods - 62% are for two years and around 30% for five years.

“Nevertheless, the housing market should be able to cope with higher interest rates, provided the increase is gradual 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.”

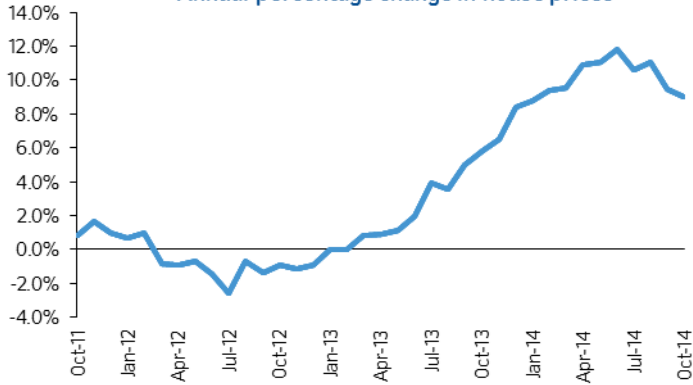
## Monthly UK House Price Statistics

	Monthly % Change Seasonally Adjusted	3 Month on 3 Month % Change	Annual % Change	Average Price
Feb-13	0.2	0.3	0.0	162,638
Mar-13	0.3	0.6	0.8	164,630
Apr-13	-0.1	0.7	0.9	165,586
May-13	0.5	0.7	1.1	167,912
Jun-13	0.3	0.7	1.9	168,941
Jul-13	1.3	1.2	3.9	170,825
Aug-13	0.5	1.7	3.5	170,514
Sep-13	1.2	2.4	5.0	172,127
Oct-13	1.0	2.7	5.8	173,678
Nov-13	0.7	2.9	6.5	174,566
Dec-13	1.5	3.0	8.4	175,826
Jan-14	0.9	3.1	8.8	176,491
Feb-14	0.7	3.1	9.4	177,846
Mar-14	0.5	2.8	9.5	180,264
Apr-14	1.2	2.6	10.9	183,577
May-14	0.7	2.4	11.1	186,512
Jun-14	1.0	2.7	11.8	188,903
Jul-14	0.2	2.5	10.6	188,949
Aug-14	0.8	2.3	11.0	189,306
Sep-14	-0.1	1.6	9.4	188,374
Oct-14	0.5	1.4	9.0	189,333

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

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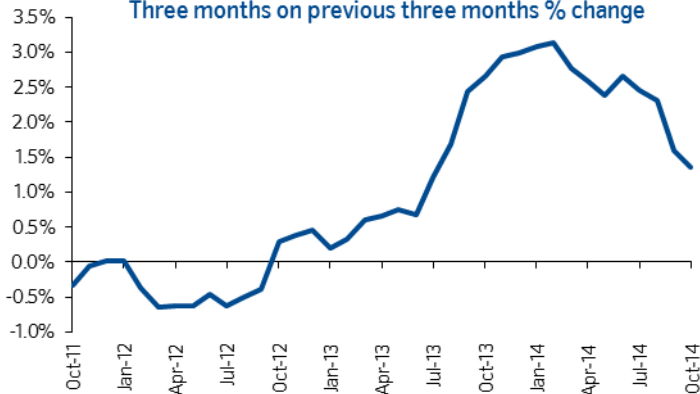
Annual percentage change in house prices



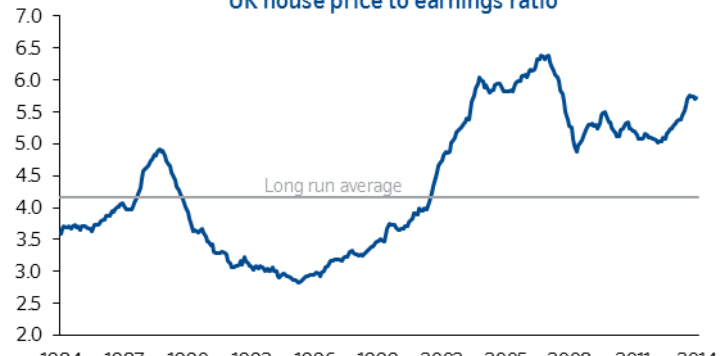
Average UK house price



Three months on previous three months % change



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 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/>

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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