

HOUSING MARKET DATA RESPONSE



29th January 2010

Nationwide house prices (January)

Affordability deteriorates again

- The upward momentum in house prices evident at the end of last year was extended into January. Indeed, the Nationwide house price index rose at its fastest rate for four months. But with each rise denting affordability and making it harder for buyers to raise the necessary deposit, to our minds it only increases the chances of a house price reversal later this year.
- The Nationwide house price index rose by a seasonally-adjusted 1.2% in January. That is a sharp contrast to the 1.3% *fall* recorded in January 2009. As a result, the annual rate of house price inflation jumped to 8.6%, up from 5.9% in December and its highest rate for 27 months.
- January's rise was also the strongest for four months but it is too soon to conclude that the softening in the pace of house price increases, evident in the final three or four months of last year, has gone in to reverse. The three month on three month growth rate, which abstracts from the month-by-month volatility of the data, continued to ease, slowing from 2.3% in December to 2.1% in January. (See Chart.)
- The fact that house prices continued to rise in January is not surprising given the momentum with which they ended 2009. And even our forecast of a 10% drop in average house prices in 2010 envisages that they will rise in the early stages of the year.
- More generally, however, the fact that house price inflation is now more than eight times higher than the rate of private sector pay growth, currently estimated to be at around 1%, highlights what a flimsy foundation the current recovery is built on.
- Moreover, while we would not be surprised to see the provisional estimate of fourth quarter GDP revised higher in the future, the bigger picture is that the recovery will be too weak to prevent substantial further jobs losses this year. Meanwhile household incomes and confidence will be further dented by the post election fiscal tightening. None of which bodes well for the house price outlook.

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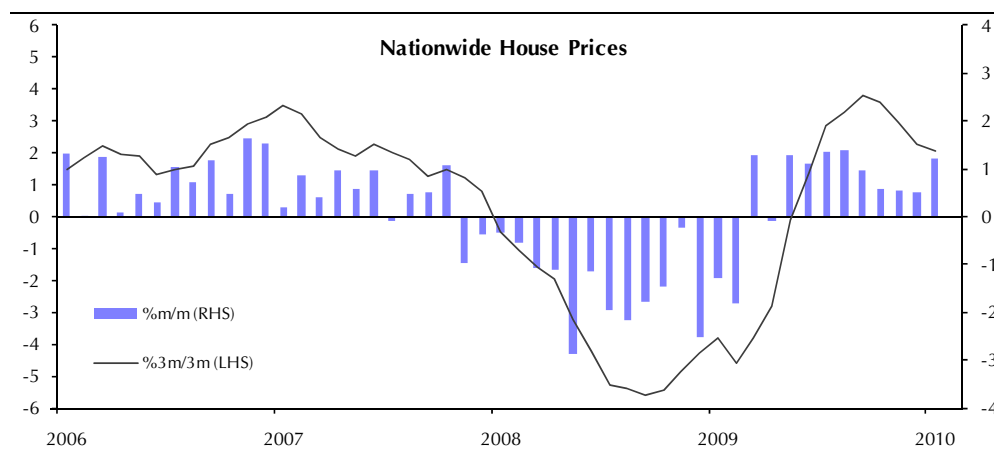
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NATIONWIDE HOUSE PRICES – KEY FIGURES

	2009												2010
Seasonally adjusted	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
House prices (index)	304.1	298.6	302.7	302.1	306.2	309.3	313.5	317.9	321.0	322.9	324.7	326.4	330.5
% change y/y	-16.6	-17.6	-15.7	-15.0	-11.3	-9.3	-6.2	-2.7	0.0	2.0	2.7	5.9	8.6
% change m/m	-1.3	-1.8	1.3	-0.1	1.3	1.1	1.4	1.4	1.0	0.6	0.6	0.5	1.2
% change 3m/3m	-3.8	-4.6	-3.8	-2.8	-0.1	1.3	2.8	3.3	3.8	3.6	3.0	2.3	2.1

Source – Nationwide