

Nationwide HOUSE PRICE INDEX



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May 2017

Further slowing in annual house price growth in May

- House prices show third consecutive monthly decline for the first time since 2009
- Annual house price growth dips to 2.1%, providing further evidence that housing market is losing momentum

Headlines	May-17	Apr-17
Monthly Index*	412.4	413.3
Monthly Change*	-0.2%	-0.4%
Annual Change	2.1%	2.6%
Average Price (not seasonally adjusted)	£208,711	£207,699

* 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:

"House prices recorded their third consecutive monthly fall in May – the first time this has occurred since 2009. The annual rate of growth slowed to 2.1%, the weakest in almost four years.

"It is still early days, but this provides further evidence that the housing market is losing momentum. Moreover, this may be indicative of a wider slowdown in the household sector, though data continues to send mixed signals in this regard.

"While real incomes are again coming under pressure as inflation has overtaken wage growth, the number of people in work has continued to rise at a healthy pace. Indeed, the unemployment rate fell to a 42-year low in the three months to March.

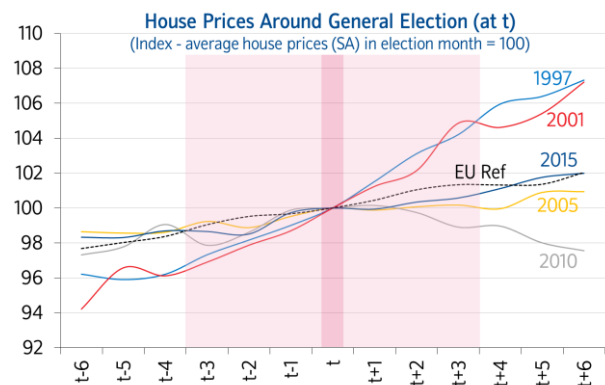
"If history is any guide, the slowdown is unlikely to be linked to election-related uncertainty. Housing market trends have not traditionally been impacted around the time of general elections. Rightly or wrongly, for most home buyers, elections are not foremost in their minds while buying or selling their home.

Will the election impact the housing market?

"With the UK general election due in a week's time, we have analysed house price movements in the months around previous elections, and also last year's EU referendum.

"As the chart below illustrates, past general elections do not appear to have generated volatility in house prices or resulted in a significant change in house price trends. In the chart below we have indexed average house prices so they equal 100 in the election month in each of the years shown. We can then compare house price movements in the months leading up to each election (t-6 to t-1) and following each vote (t+1 to t+6).

"On the whole, prevailing trends have been maintained just before, during and after UK general elections. Broader economic trends appear to dominate any immediate election-related impacts.



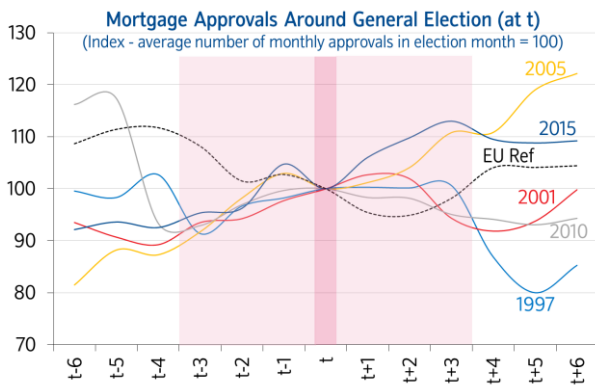
"We also examined how activity, in particular house purchase mortgage approvals, responded to past UK general elections (see chart on the next page). Here the picture is less clear, but again there does not seem to be any clear impact in the three months either side of a general election.

"While activity slowed in the period immediately following the EU referendum, this was a continuation of a trend that was driven by the introduction of additional stamp duty on second homes earlier in the year.

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Where next?

“It is too early to conclude whether the slowdown in house price growth is merely a blip, a reflection of the impact of the squeeze on household budgets, or is due to mounting affordability pressures in key areas of the country.

“Given the ongoing uncertainties around the UK’s future trading arrangements and the upcoming election, the economic outlook is unusually uncertain, and housing market trends will depend crucially on developments in the wider economy.

“Nevertheless, in our view, household spending is likely to slow in the quarters ahead, along with the wider economy, as rising inflation increases the squeeze on household budgets. This, together with mounting housing affordability pressures, is likely to exert a drag on activity and house price growth in the quarters ahead.

“However, the subdued level of building activity and the shortage of properties on the market are likely to provide support for prices. As a result, we continue to believe that a small increase in house prices of around 2% is likely over the course of 2017 as a whole.”

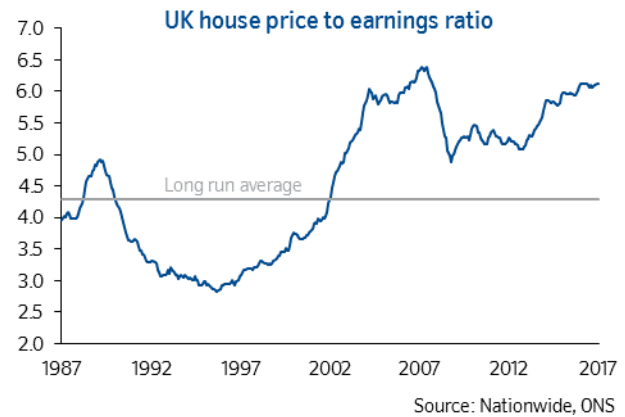
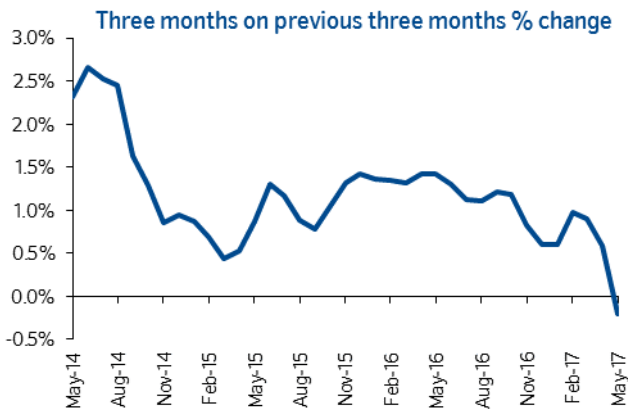
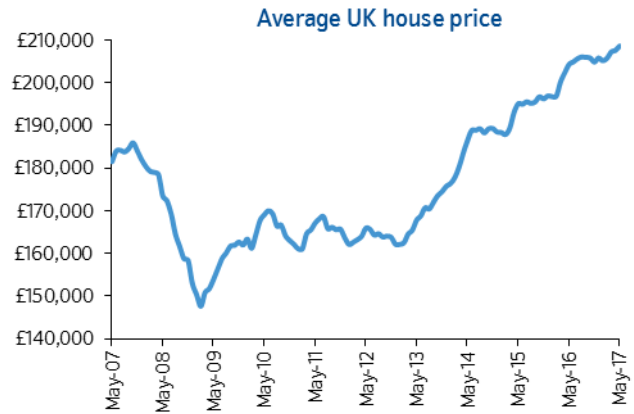
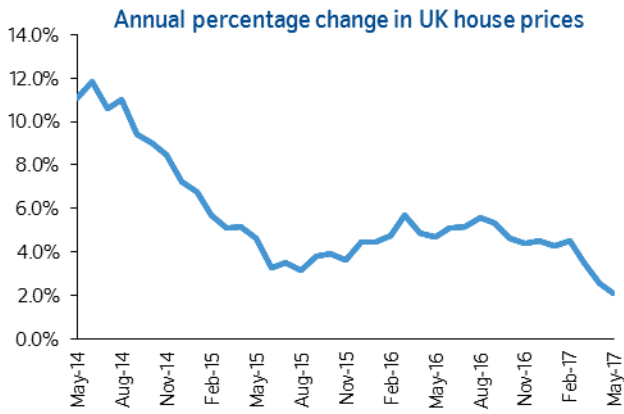
Monthly UK House Price Statistics

	Monthly % Change Seasonally Adjusted	3 Month on 3 Month % Change	Annual % Change	Average Price
May-15	0.3	0.9	4.6	195,166
Jun-15	-0.1	1.3	3.3	195,055
Jul-15	0.4	1.2	3.5	195,621
Aug-15	0.2	0.9	3.2	195,279
Sep-15	0.5	0.8	3.8	195,585
Oct-15	0.6	1.0	3.9	196,807
Nov-15	0.2	1.3	3.7	196,305
Dec-15	0.6	1.4	4.5	196,999
Jan-16	0.4	1.4	4.4	196,829
Feb-16	0.3	1.4	4.8	196,930
Mar-16	0.7	1.3	5.7	200,251
Apr-16	0.5	1.4	4.9	202,436
May-16	0.2	1.4	4.7	204,368
Jun-16	0.3	1.3	5.1	204,968
Jul-16	0.4	1.1	5.2	205,715
Aug-16	0.6	1.1	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	0.8	4.4	204,947
Dec-16	0.7	0.6	4.5	205,898
Jan-17	0.1	0.6	4.3	205,240
Feb-17	0.6	1.0	4.5	205,846
Mar-17	-0.3	0.9	3.5	207,308
Apr-17	-0.4	0.6	2.6	207,699
May-17	-0.2	-0.2	2.1	208,711

Note on seasonal adjustment

House price movements have a seasonal component. This means that, at certain times of the year, house prices are lifted or dampened in a regular pattern unconnected to the underlying trend. Seasonal adjustment is a method that helps us to remove the element of the price change that is due to seasonal effects so that we can better identify the underlying trend. For house prices, seasonal impacts tend to be most evident in spring and summer when there are more buyers in the market and hence sellers do not need to discount prices so heavily to achieve a sale.

For the monthly house price index, where changes can be as little as 0.1%, seasonal factors can be important. Nationwide therefore produces a seasonally adjusted series for UK house prices which seeks to remove seasonal effects so that the underlying trend in prices is more readily apparent. We can see this clearly in this month’s data. On an unadjusted basis house prices increased between April and May. However, we would expect prices to rise at this part of the year for purely seasonal reasons, therefore the rise in the unadjusted series tells us little about the underlying trend in prices. However, after adjusting for the seasonal effect, prices fell slightly over the month.



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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