



## Halifax House Price Index

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**National Index**

**APRIL 2008**

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**All Houses, All Buyers Index (1983=100)**

**Index (seasonally adjusted)** 611.8

**Monthly Change** -1.3%

**Annual Change** -0.9%

**Standardised Average House Price (seasonally adjusted)** £189,027

- House prices fell by 1.3% in April. Prices were 0.9% lower on an annual basis.
- We expect a mid single digit percentage decline in UK house prices this year. There will be regional variations, however. Some areas of the country, such as Scotland, are likely to record modest price rises whilst other parts (e.g. Wales and West Midlands) are expected to see falls above the national average.
- Price falls should be viewed in the context of the substantial price rises over recent years. UK prices nearly doubled (190%) over the ten years to August 2007. The average UK price rose by more than £130,000 between August 1997 and August 2007.
- The decline in prices is driven by a squeeze on spending power and the rapid rise in house prices in the last few years. These factors have curbed housing demand. The rise in interest rates between August 2006 and July 2007 has increased average mortgage costs. A decline in 'real' earnings over the past year has also constrained housing demand.
- A growing - albeit slowing - economy, high employment levels, low interest rates and a shortage of new homes underpin housing valuations. The economy grew at an annual rate of 2.5% in 2008 Q1; in line with the long-term average. Employment increased by 152,000 in the three months to February compared with the preceding quarter and stands at a record high 29.5 million.
- More Bank of England interest rate cuts are expected over the coming months as signs of the expected economic slowdown accumulate. This evidence will help to allay the MPC's concerns regarding inflation over the medium term, providing scope to reduce rates.
- This month we look at housing transaction levels as part of our occasional series on key market developments. Transaction levels in recent years – averaging 1.16 million a year during 2005-2007 – have been much lower than during previous cycles (1.7 million in 1988).

**Commenting, Martin Ellis, chief economist, said:**

"House prices fell by 1.3% in April. We expect a mid single digit percentage decline in UK house prices this year. There will be regional variations, however. Some areas of the country are likely to record modest price rises whilst other parts are expected to see falls above the national average.

Price falls should be viewed in the context of the substantial price rises over recent years. UK prices nearly doubled 190% over the ten years to August 2007. A growing economy, high employment levels, low interest rates and a shortage of new homes underpin housing valuations."

**Pressures on householders' income curb housing demand**

The decline in prices is driven by a squeeze on spending power and the rapid rise in house prices in the last few years. These factors have curbed housing demand. The rise in interest rates between August 2006 and July 2007 has increased average mortgage costs.

There has been a modest decline in 'real' earnings over the past year. Average earnings rose by 3.7% in the year to February, below the 4.1% increase in the headline rate of retail price inflation over the same period. Sharp increases in both fuel (4%) and food prices (6%) over the past year have helped to reduce the discretionary income available to households to fund house purchase.

**Housing market activity is significantly lower than a year ago**

Completed property sales in March were down 20% on an annual basis. The number of new buyers interested in home purchase fell for the sixteenth successive month in March, highlighting the decline in housing demand. (Source: RICS)

The number of mortgages approved to finance house purchase – a good leading indicator of house sales – in Q1 2008 was 41% lower than a year earlier.

**High employment and low interest rates support house prices**

A growing economy, high employment levels, low interest rates and a shortage of new homes underpin housing valuations. The economy expanded at an annual rate of 2.5% in 2008 Q1; in line with the UK's long-term average. The quarterly rate of growth, however, did slow from 0.6% in 2007 Q4 to 0.4% in 2008 Q1.

Employment increased by 152,000 in the three months to February compared with the preceding quarter and was 456,000 higher than a year earlier. The total number of people in employment stands at a record high 29.5 million.

The UK economy is forecast to slow during the course of 2008, recording below trend growth for the first time since 2005. We expect there to be a modest rise in unemployment later in the year due to this easing in growth. The scale of the increase in unemployment is unlikely to cause widespread difficulties for households.

**MPC to lower rates further during the next few months**

More Bank of England interest rate cuts are expected over the coming months as concrete evidence of an economic slowdown accumulates. This evidence will help to allay the MPC's concerns regarding inflation over the medium term, providing scope to lower rates. The MPC is nonetheless expected to maintain a "gradualist" monetary policy stance, lowering rates at a steady pace.

## **HOUSING TRANSACTIONS**

### **The number of housing transactions in recent years has been significantly lower than at the height of the late 1980s housing boom**

There were 1.17 million house sales in England & Wales in 2007 and an average of 1.16 million in the last three years (2005-2007). This is nearly a third lower than in 1988 when there were an estimated 1.7 million transactions.

Transactions have also been significantly lower as a proportion of the housing stock in recent years; averaging 7% during 2005-2007 compared to 12% between 1986 and 1988.

### **The number of first time buyers (FTBs) has also fallen sharply in recent years**

An estimated 300,000 FTBs entered the market in 2007, the lowest since 1980. This compares with an estimated 900,000 at the peak in 1988. FTBs have also declined sharply as a proportion of all borrowers taking out a new mortgage to finance house purchase, accounting for 30% in 2007 compared to 51-52% in 1989 and 1990. (FTBs accounted for 14% of **all** new mortgages (i.e. including remortgages) in 2007 against 45% in 1993 (the earliest available data on this basis).)

### **Buyers have been putting down bigger deposits than in previous cycles**

The average deposit put down by FTBs in 2007 (£34,381) represented 20% of the purchaser price compared with 12% in 1989.

## UK House Prices: Historical Data All Houses, All Buyers (Seasonally Adjusted)

	Index 1983=100 1	Standardised Average Price £ 2	Monthly Change %	Annual Change %*	Price/ Earnings Ratio * 3
Period					
2003 Q4	455.3	140,687	-	15.4	
2004 Q4	523.5	161,742	-	15.1	
2005 Q4	550.3	170,043	-	5.1	
2006 Q4	606.0	187,250	-	9.9	
2007 Q4	636.9	196,792	-	5.2	
Apr	635.2	196,262	1.1	10.9	5.79
May	636.7	196,720	0.2	10.6	5.77
June	639.0	197,450	0.4	10.7	5.77
July	643.9	198,936	0.8	11.2	5.79
Aug	646.0	199,600	0.3	11.4	5.79
Sept	641.8	198,305	-0.6	10.7	5.72
Oct	637.6	197,000	-0.7	8.9	5.68
Nov	629.5	194,500	-1.3	6.3	5.59
Dec	638.1	197,163	1.4	5.2	5.65
Jan 2008	638.4	197,243	0.0	4.5	5.62
Feb	635.9	196,465	-0.4	4.2	5.55
Mar	620.1	191,590	-2.5	1.1	-
Apr	611.8	189,027	-1.3	-0.9	-

### **EDITORS' NOTES**

\* From December 2002 onwards the 'annual change' numbers are the quarterly year-on-year figures. These figures provide a better picture of underlying trends compared to a monthly year-on-year number as it smoothes out any short-term fluctuations.

### **ABOUT THE TABLE**

#### **1. INDEX**

The standardised index is seasonally adjusted using the U.S. Bureau of the Census XII moving-average method based on a rolling 84-month series. Each month, the seasonally adjusted figure for the same month a year ago and last's month figure are subject to revision.

#### **2. STANDARDISED AVERAGE PRICE**

The standardised average price is calculated using the Halifax's mix adjusted methodology.

#### **3. PRICE/EARNINGS RATIO**

Ratio of the Halifax standardised average price of All Houses to national average earnings for full-time male employees.

\*Price Earnings ratios revised to reflect new data in the Annual Survey of Hours and Earnings (ASHE)

### **ABOUT THE HALIFAX HOUSE PRICE INDEX**

The Halifax House Price Index is the UK's longest running monthly house price series with data covering the whole country going back to January 1983. The Index is typically based on around 15,000 house purchases per month, and covers the whole calendar month. From this data, a "standardised" house price is calculated and property price movements on a like-for-like basis (including seasonal adjustments) are analysed over time. Properties over £1 million are included and the index is seasonally adjusted with the seasonal factors updated monthly.

The Halifax House Price Index is prepared from information that we believe is collated with care, but we do not make any statement as to its accuracy or completeness. We reserve the right to vary our methodology and to edit or discontinue/withdraw this, or any other report. Any use of this report for an individual's own or third party commercial purposes is done entirely at the risk of the person making such use and solely the responsibility of the person or persons making such reliance. © Bank of Scotland plc all rights reserved 2008<sup>®</sup>.

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