

# Making sense of the house price signals

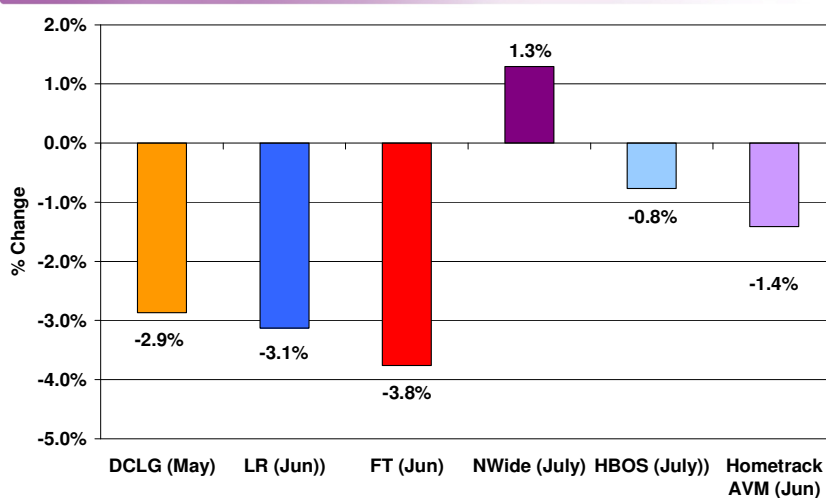
## August 2009

In recent months there have been more encouraging signals on house prices. As is normal at this stage of the cycle the reported data is both volatile and variable making a proper assessment fraught with difficulties. We know that actual house purchase and mortgage volumes remain subdued and more importantly constitute a very different mix of transactions compared to 12 or 18 months ago.

In the same way the gloom was being overdone last year some the stories of strong recovery don't really hold up to closer examination. Many of the signs of recovery owe more to seasonality, changing mix of activity and low transaction volumes than a widespread recovery.

The chart below shows the movement in the main house price indices so far this year and it is very clear the majority of the indices have reported falls of 2-3% in the first 6 or 7 months. The Nationwide index being the exception showing a rise of 1.3% over the first 7 months of the year.

House price movement so far this year



Source: Various.



Our own AVM has shown a fall of 1.4% between January and June but has indicated greater stability in prices in recent months.

If you look at the total falls so far in this downturn and focus on the current position relative to the peak month in 2007 or 2008 depending on each index, the HBOS index is currently reporting the biggest total fall of 20% with the FT and DCLG indices showing total falls nearer to 15%.

### House price falls from peak ....so far .....

Index	Peak Month	Latest Reading	Number of months from peak	Fall from peak
Nationwide	Oct 2007	July 2009	21	16.0%
HBOS	Aug 2007	July 2009	23	20.0%
Land Registry	Nov 2007	June 2009	19	17.0%
FT	Feb 2008	June 2009	16	14.7%
DCLG	Jan 2008	May 2009	16	14.2%
Hometrack AVM	Nov 2007	June 2009	19	15.2%

Source: Halifax / Nationwide / LR/ Acadametrics-FT / DCLG / Hometrack



The various indices collect housing data at different stages of the house buying process, some at mortgage approval stage others at completion or final sale stage. However, even if you allow for these differences it is still difficult to produce a consistent view of the market. More importantly when forecasts are published you should put as much attention on the index used as the actual forecasts. For example, if looking at forecasts of the DCLG index, a fall of 5% over the remainder of this year would only bring the total fall to 19.2% by the end of the year still less than HBOS.

The reported improvement in house prices is definitely affecting house price expectation and forecasts. Using the Reuters survey of housing forecasts produced each quarter there has been a large shift in median expectations. The consensus forecast for house prices in 2009 has changed from -14% to -8% in three months and no doubt will move every closer to 0% when the next survey is produced in September.

## House price forecasts and expectations for 2009 and 2010

### MEDIAN EXPECTATION

	March 2009 Poll	June 2009 Poll
House Price Inflation (2009)	-14%	-8%
House Price Inflation (2010)	- 4%	0%
How far will market fall peak to trough	33%	25%
How much further will market fall	15%	8%

Source : Hometrack / Reuters Poll of 38 Economists in March and June 2009



The firming in the HBOS and Nationwide house price numbers has increased expectations and the median forecast for the total peak to trough fall has moved from 33% to 25% and is likely to move towards 20% in the September survey

The power of reported indices to shift expectations and forecasts should not be underestimated and is probably too important for government policymakers to leave to chance. Producing an accepted official house price index should be a priority of any government to help limit the vagaries of volatile and perhaps misleading signals from some of the current indices.

The volatility of the indices at the regional and property type level are aptly shown by the chart below. I have used HBOS and Nationwide in this example but this could easily be demonstrated for most of the indices.

## Wide regional house price differences in 2009 Q2...

Region	HBOS	Nationwide
North	-10.7	-13.4
Yorkshire and Humberside	-13.0	-9.9
<b>North West</b>	<b>-17.6</b>	<b>-12.3</b>
East Midlands	-13.4	-11.4
West Midlands	-15.5	-11.5
<b>East Anglia</b>	<b>-22.8</b>	<b>-10.9</b>
South West	-13.4	-13.2
South East	-13.7	-11.1
<b>Greater London</b>	<b>-17.6</b>	<b>-10.2</b>
Wales	-19.5	-6.2
Scotland	-14.3	-10.1
<b>Northern Ireland</b>	<b>-15.8</b>	<b>-26.0</b>
UK	-15.0	-11.7



...large differences at regional and property type level

Source: Halifax / Nationwide



Looking at East Anglia and Wales for example the differences in the reported annual movement in house prices are huge. In East Anglia alone if you use the HBOS index house prices are down 22.8% but only 10.9% on the Nationwide measure. If you were to look at the differences for flats or detached houses by region the differences are likely to be even bigger.

As I have indicated reading the data is difficult at present but on balance it looks likely we are going to see greater stability in house prices in the coming months. The key question is whether what we are seeing is just a pause in the downturn or the start of a stronger upswing. Looking at the structural economic issues we face and the need for tighter fiscal and monetary policy in 2010 it seems most likely we are going to see a very protracted and slow escape from this recession. Stable house prices for several years would actually be very desirable if this can provide a stronger and healthier housing and mortgage market for the medium term. Hying up any housing or economic recovery will increase the chances of a double dip in the market and the likelihood of a more protracted recession.

Words 750 + 4 charts

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