*** STRICTLY EMBARGOED UNTIL 7.00AM THURSDAY 31ST JULY 2008

House price falls continue in July

- **The price of a typical house fell by 1.7% in July**
- **The price of a typical house is now £15,000 lower than this time last year**
- **Housing purchase activity reaches a new low**
- **Weakening economic conditions raise the likelihood of earlier interest rate cuts**

Headlines	**July 2008**	June 2008
Monthly index * Q1 '93 = 100	**336.3**	342.0
Monthly change*	**-1.7%**	-0.8%
Annual change	**-8.1%**	-6.3%
Average price	**£169,316**	£172,415

*** seasonally adjusted**

Commenting on the figures Fionnuala Earley, Nationwide's Chief Economist, said:

“The price of a typical house fell by 1.7% in July, bringing the annual fall to 8.1%. This brings the average price to £169,316, almost £15,000 less than this time last year and its lowest level since August 2006. House prices have now been falling for nine consecutive months, but on average are still almost £11,000 higher than three years ago.

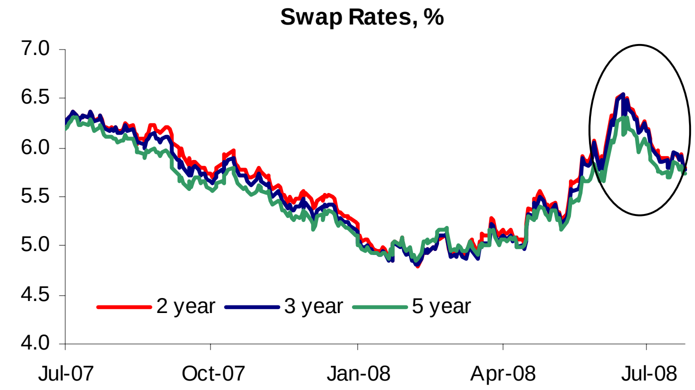
Economic conditions weaken…

“The latest batch of economic data has been fairly poor. GDP estimates for the second quarter show a slowing in each of the main economic sectors. Retail sales collapsed in June, reversing May’s surprisingly strong outturn, and confirming the view that consumers are tightening their belts in the current climate. Inflation remains well above target and is expected to continue to rise this year and the labour market is also showing signs of deteriorating. The claimant count measure of unemployment increased for the fifth consecutive month in June to 840,000. Although it is 2.7% lower than this time last year, the Bank of England Agents’ Report shows a fall in employers’ employment intentions, which would suggest that the situation is unlikely to improve in the coming months. The risk of an economic recession in the UK is now clearly rising.

“Continued mild wage growth and the sharp fall in retail sales in June will give the MPC some comfort, as will the slide in oil prices in the last week. But, the impact of the sharp rises in food prices and further news of rises in gas and electricity prices have the double edged effect of pushing up inflation while at the same time slowing the economy as disposable incomes are squeezed. In our view the latter effect will begin to dominate, eventually giving the MPC enough comfort to begin cutting rates.

… but swap rates have fallen

“While the economic conditions are not looking good, there is some encouraging news for the housing market. With poor economic news, the sentiment around interest rates has become much less hawkish. Only a month ago the market was expecting the MPC to increase the Bank Rate twice this year: they now expect no change. The encouraging news is that this has filtered through to the swaps market. Swap rates have fallen which has allowed new fixed mortgage rates to come down.



Source: EcoWin

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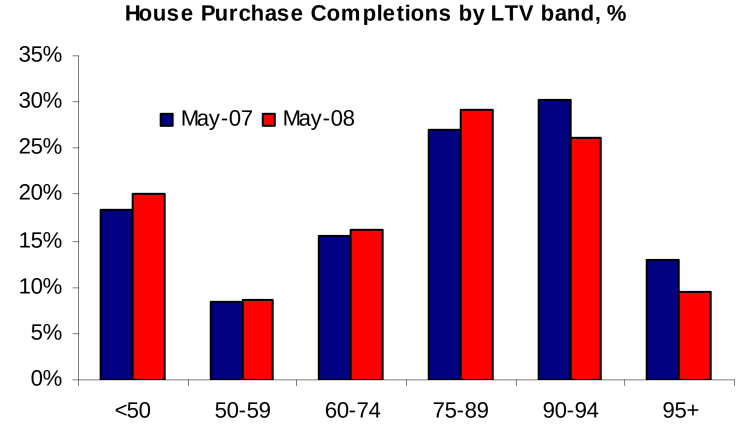
Housing market activity at new lows

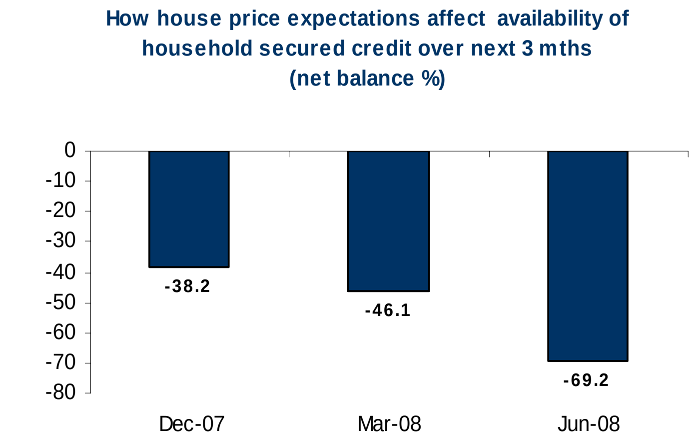
"Household goods suffered in the collapse of retail sales in June. This is hardly surprising given the sharp slowing in housing market activity this year. House purchase transactions fell to 36,000 in June, only a third of the level of this time last year. Difficulties with credit availability are likely to have had some effect, particularly at the higher end of the loan-to-value range (LTV). Indeed the proportion of loans completed at higher LTVs has come down disproportionately in the last year. This will reflect the fact that some lending is not taking place, but the distribution of the remaining loans may suggest some further displacement to the LTV bands below 90%, encouraged by better pricing at these levels.



Source: CML

Credit availability is holding activity back ...

"The Bank of England Credit Condition Survey still signals tight credit conditions ahead. 22% more lenders expect that there will be less credit available to households over the next three months and this could limit a recovery in transactions. The cost and availability of funds is part of the issue, which James Crosby hopes to address, but general macroeconomic conditions and risk management are becoming more important.



Source: Bank of England Credit Conditions Survey.

"The Bank's survey revealed that credit scores are expected to tighten, and that lenders' views about house prices are an increasingly significant factor affecting the availability of credit over the next three months.

"But other factors aside from the supply of credit are also important for activity levels. There are around 41% fewer first time buyers now than at the same time last year. This may be due to their own desire to delay purchase because they expect prices to continue to fall, or frustration in obtaining finance, but the impact on the market is likely to be the same. That is that chains become longer and have a greater propensity to break down.

... but indicators suggest low levels of forced sales

"Estate agents are reporting up to 40% of transactions falling through and the average number of sales per surveyor is at its lowest ever level. This could be partly due to the availability of finance but the Bank of England Agent's report suggests that this may also be due to the reluctance of sellers to accept lower offers. While this does little for liquidity in the housing market, it does indicate that sellers are largely not in a position where they are forced to sell.

"As the cost of mortgages begins to come down, activity could be bolstered and restore some liquidity to the housing market. However this is not likely to happen overnight. Overall the weakening economy and poor housing market sentiment do not suggest that the market will recover quickly. But, if oil prices continue to fall and the MPC is satisfied that its inflation credentials are intact, the possibility of earlier rapid cuts in interest rates increases, which would be good news for borrowers."

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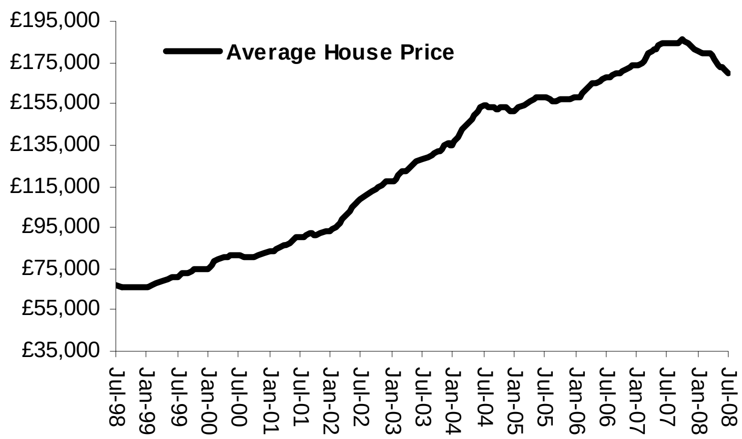
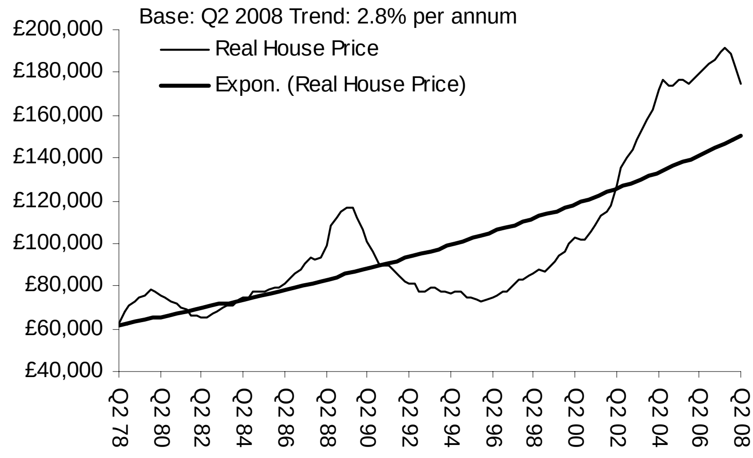
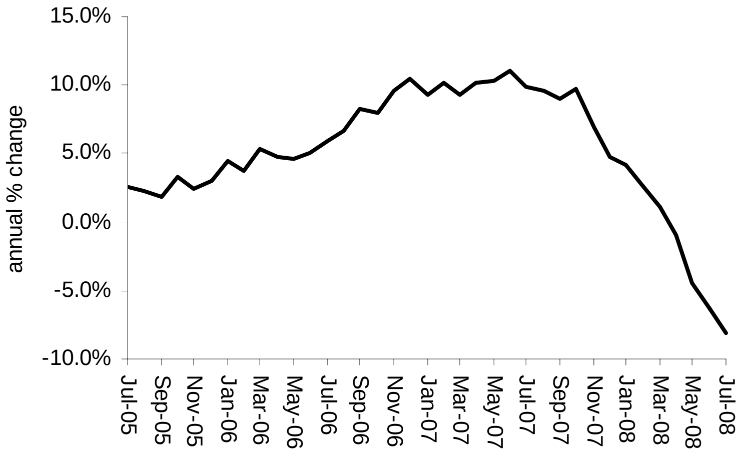
Average UK House Price



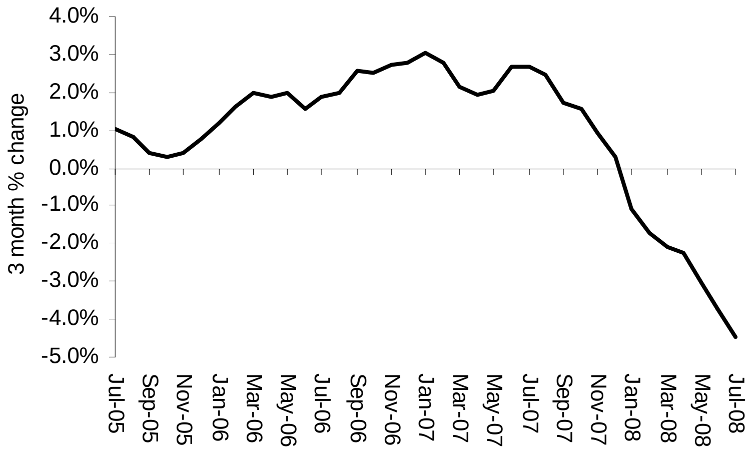
Long Term Real House Price Trend



Annual % Change in House Prices



3 Months on Previous 3 Months % Change



Historical Data

Month	Monthly Index Q1 93 = 100 seasonally adjusted	Monthly Change %	Latest 3 months on previous 3 months % change	Monthly Index Q1 93 = 100 not seasonally adjusted	Annual Change %	Average Price £
2007 Jul	365.3	0.1	2.7	367.6	9.9	184,270
Aug	367.2	0.5	2.5	366.9	9.6	183,898
Sep	368.6	0.4	1.7	368.5	9.0	184,723
Oct	371.5	0.8	1.5	371.1	9.7	186,044
Nov	367.5	-1.1	0.9	367.3	6.9	184,099
Dec	365.0	-0.7	0.3	363.2	4.8	182,080
Jan	363.0	-0.5	-1.1	360.0	4.2	180,473
Feb	360.6	-0.7	-1.7	357.8	2.7	179,358
Mar	357.1	-1.0	-2.1	357.3	1.1	179,110
Apr	353.4	-1.0	-2.2	356.2	-1.0	178,555
May	344.8	-2.4	-3.1	346.3	-4.4	173,583
Jun	342.0	-0.8	-3.7	343.9	-6.3	172,415
2008 Jul	336.3	-1.7	-4.5	337.8	-8.1	169,316

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. 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.

The Nationwide Monthly House Price Index is prepared from information which we believe is collated with care, but no representation is made as to its accuracy or completeness. We reserve the right to vary our methodology and to edit or discontinue the whole or any part of the Index at any time, for regulatory or other reasons. Persons seeking to place reliance on the Index for their own or third party commercial purposes do so entirely at their own risk. All changes are nominal and do not allow for inflation.

More information on the house price index methodology along with time series data and archives of housing research can be found at www.nationwide.co.uk/hpi

Photographs of our economists are available at: www.nationwide.co.uk/mediacentre/economist.asp