



UK House prices	JULY 2008 (seasonally adjusted)
Annual change	-8.8%
Monthly change	-1.7%
Average Price	£177,351

Commenting, Suren Thiru, economist, said:

"House prices fell by 1.7% in July. Pressure on householders' income, together with a very significant reduction in mortgage finance due to the global financial markets crisis, is constraining potential house buyers' ability to enter the market. This is resulting in both lower prices and activity levels.

A solid labour market, low interest rates and a shortage of new houses continue to support the market. The labour market is the key driver of the housing market and the number of people in employment is at a record high."

Key facts

- **House prices fell by 1.7% in July.** This was smaller than the falls in both the previous two months – May (-2.5%) and June (-1.9%).
- **The UK average price is more than one-third higher (34%) than five years ago.** The average price in July 2008, at £177,351, was £44,980 higher than in July 2003 when the average price was £132,371.
- **House prices in July were 8.8% lower on an annual basis.** UK average prices have returned to the level they were at in June 2006.
- **The housing market is underpinned by a solid employment market and low interest rates.** Our research shows that the labour market is the key driver of the housing market. The number of people in employment increased by 61,000 over the three months to May compared with the previous quarter and by 413,000 over the past year to a record 29.59 million.
- **The average mortgage rate paid by all borrowers - i.e. the average rate on outstanding mortgage loans - fell by 21 basis points during the first half of 2008 from 5.97% in December 2007 to 5.76% in June 2008.** This fall occurred despite a rise in the average mortgage rate paid by **new** borrowers in recent months. (Source: Bank of England)

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.

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The UK average price is more than one-third higher than five years ago

The average price in July 2008 was £44,980 (34%) higher than in July 2003 and £104,888 (145%) higher than a decade ago in July 1998.

Annual house price inflation at -8.8% in July

The annual rate of house price inflation – measured by the average price over the three latest months compared with the same period a year earlier – was -8.8% in July. UK average prices, at £177,351, have returned to where they stood in June 2006.

Falling real earnings and rapid fuel and food price inflation are squeezing discretionary incomes

There has been a fall in 'real' earnings over the past year with average earnings increasing by 3.8% in the year to May compared to a 4.3% increase in the headline rate of retail price inflation. Rising food and fuel prices - which have increased by 11% and 14% respectively over the past year - have also contributed to a reduction in the discretionary income available to households. (Source: ONS)

Housing demand has fallen significantly

The high level of average house prices in relation to earnings has made it difficult for potential house purchasers, particularly first-time buyers, to enter the market. The decline in credit availability resulting from the crisis in the financial markets is further constraining buyers. These factors, combined with the pinch on spending power, have significantly curbed housing demand, causing house prices to fall.

Housing market activity continues to decline

The number of mortgages approved to finance house purchase in Quarter 2 2008 was 60% lower than in Quarter 2 2007. (Source: Bank of England)

Whilst both the number of new buyers interested in home purchase and agreed sales continued to fall, the pace of decline slowed for the second consecutive month in June. (Source: RICS)

Strong labour market and low mortgage rates support the housing market

The labour market is the key driver of the housing market. The number of people in employment increased by 61,000 over the three months to May compared with the previous quarter and by 413,000 over the past year to a record 29.59 million.

The average mortgage rate paid by all borrowers - i.e. the average rate on outstanding mortgage loans - fell by 21 basis points during the first half of 2008 from 5.97% in December 2007 to 5.76% in June 2008. This decline happened despite a rise in the average mortgage rate paid by **new** borrowers – from 5.77% in April to 5.91% in June – as many existing borrowers benefited from the effects of the reductions in the Bank of England's key rate. (Source: Bank of England)

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.

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Bank rate to stay unchanged for the next few months

The clear slowdown in the UK economy should curb inflationary pressures over the medium term, eventually providing the Bank of England with sufficient scope to lower interest rates. The MPC, however, is unlikely to reduce rates whilst the current rate of consumer price inflation continues to accelerate, moving further away from the government's 2% target. On balance, we expect the Bank rate to remain unchanged at 5% for the remainder of 2008.

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

Period	Index 1983=100 1	Standardised Average Price £ 2	Monthly Change %	Annual Change %*	Price/ Earnings Ratio 3
July 2007	644.3	199,084	0.7	11.2	5.84
Aug	646.0	199,600	0.3	11.4	5.83
Sep	641.8	198,305	-0.6	10.7	5.76
Oct	637.6	197,000	-0.7	8.9	5.73
Nov	629.5	194,500	-1.3	6.3	5.63
Dec	638.1	197,163	1.4	5.2	5.69
Jan 2008	638.4	197,243	0.0	4.5	5.66
Feb	635.9	196,465	-0.4	4.2	5.60
Mar	620.1	191,590	-2.5	1.1	5.46
Apr	610.7	188,704	-1.5	-0.9	5.41
May	595.5	183,984	-2.5	-3.8	5.25
Jun	583.9	180,417	-1.9	-6.1	-
July	574.0	177,351	-1.7	-8.8	-

EDITORS' NOTES

* 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.

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 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)

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