UK HOUSE PRICES

House prices fall at record pace

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House prices have suffered their biggest annual fall since the property slump of the early 1990s, a leading index revealed on Thursday, in news that sent shares in some of Britain's largest home lenders and builders tumbling.

Year on year, house prices are now 4.4 per cent below their levels of May 2007, according to the Nationwide house price index. On an annual basis, that is the biggest fall since December 1992, when the UK was in the throes of a severe housing downturn.

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In May alone the index recorded a 2.5 per cent drop, its biggest one-month fall, wiping £5,000 off the average British home. The three month moving average, which smoothes out unreliable single month volatility, also slid sharply. In the three months to the end of May house prices fell by 2.9 per cent compared with the three months to the end of April.

Fionnuala Early, Nationwide's chief economist, said the streak of falling prices has lasted seven months, the longest consecutive period of declines since 1992.

Separately on Thursday, the CBI employers group released a survey showing retail prices were rising at their fastest rate since February 1990, which underscored the quandary facing the Bank of England as it considers future interest rate policy. Yet retail sales were reported to be below average levels for May and are set to remain so in June.

The Bank of England has said it does not believe falling house prices lead to a drop in consumption. However, the fact that inflation remained so stubbornly high – and was likely to rise further according to the Bank's own forecasts – made it hard for its Monetary Policy Committee to consider rate cuts even if consumption slowed sharply.

Ms Early said: "As higher prices of essential items squeeze consumer spending power and housing market weakness weighs down on confidence, the balance of risks to inflation in the medium term could shift enough to lead the MPC to cut rates sooner than the markets currently expect."

But traders did not share such expectations: sterling futures markets last night were pricing in two quarter-point rises in interest rates over the next year. The moves suggest markets have been so unsettled by inflation data they are now over-shooting.

Danny Gabay, economist at Fathom Consulting, said inflation alone was reason to believe that consumption was likely to slow this year, dragging the UK economy down with it. "Now real disposable income is being crushed by higher food and utility bills," he said.

Gary Styles, economics director at Hometrack, cautioned against viewing the latest data from Nationwide as a precursor to the wave of negative equity in the early 1990's. "A lot of those people who are now in negative equity that we are talking about are those who had little or no equity in the first place," he said.

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