

October 29, 2013

Affordability drops nearly across Canada in the third quarter

HIGHLIGHTS

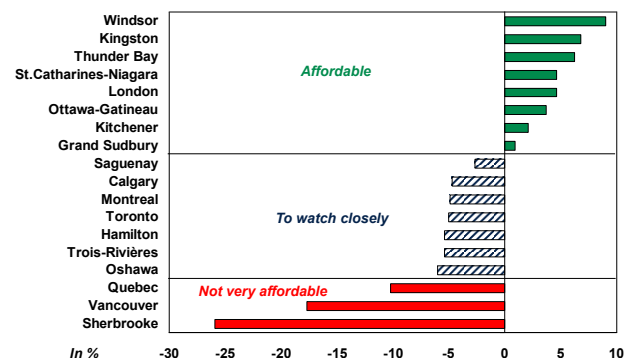
- The Canadian housing market is now less affordable than it has been on average for the last 25 years. This decline stems from average home prices outpacing household income in the third quarter as well as a small hike in mortgage rates.
- The Desjardins Affordability Index (DAI) also dipped below the historical average in Ontario in the third quarter of 2013. Despite a decline in nearly all CMAs, most markets are still affordable. Toronto is an exception, where the average home price is \$527,821, well above that observed in other agglomerations in the province.
- The financial capacity to buy a property in Quebec was fairly stable in the third quarter of 2013, at slightly below the average level that has been prevailing since the end of the 1980s.
- No markets in Quebec are considered historically affordable. Sherbrooke and Quebec City rank alongside Vancouver as some of the least affordable agglomerations in the country. Even though housing prices are much lower than on the west coast, incomes in these two CMAs are considerably lower, making home purchases more difficult.
- The DAI is only slightly under the historical average in Calgary, despite relatively high home prices (\$438,793 in the third quarter). The sharp rise in average household income, which now surpasses \$110,000, makes home purchases easier.

Desjardins Affordability Index

2013 Q3	Level	Change
CANADA	120.4	↓
QUEBEC	138.7	-
ONTARIO	118.9	↓
Metropolitan Areas		
Saguenay	193.0	↓
Quebec	151.4	↓
Sherbrooke	124.0	↓
Trois-Rivières	172.5	↓
Montreal	124.2	↓
Ottawa-Gatineau	153.7	↓
Kingston	144.6	↓
Oshawa	126.7	↓
Toronto	106.1	↓
Hamilton	122.4	↓
Kitchener	141.0	↑
Windsor	181.6	↓
London	144.9	↓
St.Catharines-Niagara	139.9	↓
Thunder Bay	183.3	↓
Greater Sudbury	161.4	↑
CALGARY	153.4	↓
VANCOUVER	66.6	↓

Source: Desjardins, Economic Studies

Gap between the DAI and its historical average



Source: Desjardins, Economic Studies

The Desjardins Affordability Index is calculated by determining the ratio between the average household disposable income and the income needed to obtain a mortgage on an average-priced home (qualifying income). Qualifying income is calculated based on the cost of owning a home (mortgage payments, property taxes and utility costs). An information document on the DAI is available on our Web site: http://www.desjardins.com/en/a_propos/etudes_economiques/conjoncture_quebec/indice_abordabilite/docinfoa.pdf

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NOTE TO READERS: The letters K, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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Rising prices are losing steam in Quebec

Despite affordability declining in the third quarter, it is only slightly below the average for the last 25 years. A much steeper drop would be needed to rein in the Canadian housing market. Home sales, which plummeted after the new federal government rules came into effect in summer 2012, have started to trend upward in the last few months. Rising mortgage rates during the summer hurried buyers; many took action out of fear that mortgage rates would climb even higher. The posted rate for a five-year term edged up from 5.14% to 5.34%, but was still near historic lows. Even if the coming months bring more increases, they won't be enough to trigger a significant dip in affordability. However, housing market activity in Canada should stabilize soon. Rising prices, which are at historic highs in the country's main agglomerations, should eventually start cooling buyer enthusiasm.

While housing prices continue their ascent in Canada, they seem to be stabilizing in Quebec. In the third quarter, the affordability index remained essentially unchanged in the province. Home price increases paused in Montreal and

Quebec City due to a surplus in condos. Rising prices are losing steam in the Quebec City market while prices in Montreal are starting to edge down. Prices continue to rise, however, for single-family homes, whose market is balanced, overall. This type of home should therefore be even more difficult to purchase in the coming quarters.

Housing prices continued to climb in Gatineau, Sherbrooke, Saguenay and Trois-Rivières. Affordability thus deteriorated, particularly in Sherbrooke, where prices jumped in the third quarter. Average household income, which barely exceeds \$50,000 per year, is the lowest of the six main agglomerations in Quebec. Historically speaking, the Sherbrooke market was the least affordable in the country in the third quarter.

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