

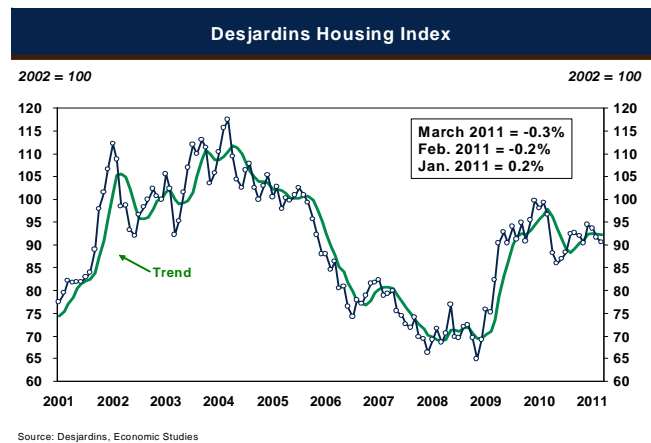
# Desjardins Housing Index

April 26, 2011

## The DHI retreats again in March (-0.3%)

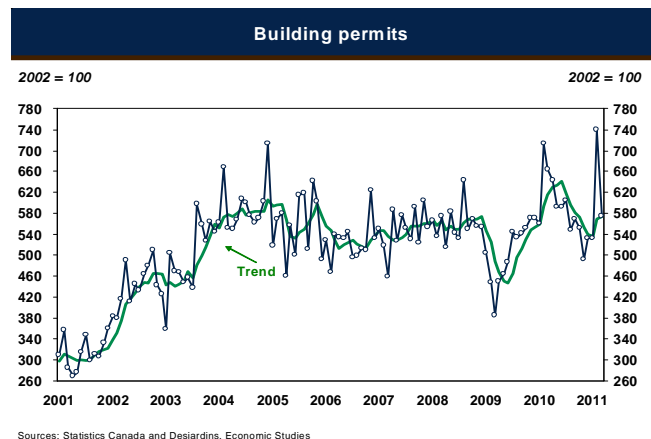
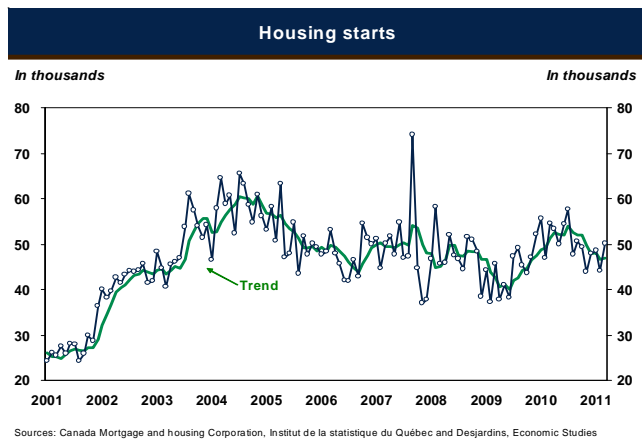
A second consecutive monthly dip by the Desjardins Housing Index (DHI) points to a gradual slowdown by the market. Although housing starts turned around in March, the slide by building permits suggests that the upswing in new construction will be temporary. In any event, the results are negative for the first quarter, as housing starts and existing home sales fell by about 10% from the same period in 2010. The fact that the housing sector has started to cool is in line with our forecast scenario. Housing starts will fall by nearly 10% this year to hit 46,000 units in the province of Québec. For the resale market, the drop in the number of transactions will continue to rein in price growth without, however, prompting a widespread pullback.

The sudden surge by mortgage rates in early April should help to further slow activity in the housing sector this spring. The new federal government measures that are now in force should steepen the downward movement. The rule on the reduction to the maximum amortization period, taking it from 35 to 30 years (for new loans with down payments ranging from 5% to 20%) will be an additional constraint for some first-time homebuyers. April's housing sector statistics, which will be available in May, will give us a better idea of the new measure's impact.



### NEW CONSTRUCTION

Housing starts slowed somewhat in the first quarter from the same period in 2011. In Québec, the 12.2% decline in urban centres with populations of at least 10,000 is partially due to the drop in pace in Greater Montréal. On the island, the volume of construction has picked up 32% from the first three months of 2010. The situation was not as good in outlying areas,



**François Dupuis**  
Vice-President and Chief Economist

**Hélène Bégin**  
Senior Economist

**Yves St-Maurice**  
Senior Director and Deputy Chief Economist

**Chantal Routhier**  
Economist

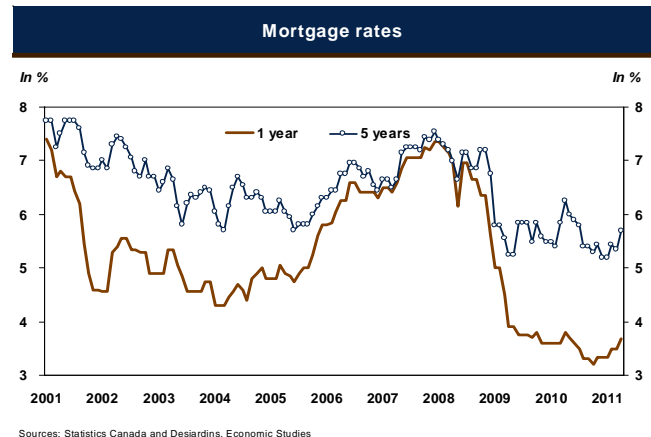
418 835-2450 or 1 866 835-8444, ext. 2450  
E-mail: [desjardins.economics@desjardins.com](mailto:desjardins.economics@desjardins.com)

particularly the South Shore (-41%) and Vaudreuil-Soulanges sector (-51%). Housing starts also fell on the North Shore (-4%) in the first quarter. In the province's other CMAs, activity fell substantially in Trois-Rivières and very slightly in Québec. Saguenay and Gatineau did well in the early part of the year.

Overall, provincial data show that new construction has slowed from the first three months of 2010, a movement which should continue this year. The cooling resale market, upcoming mortgage rate increases and more stringent rules on loans with small down payments will all have a hand in slowing housing starts.

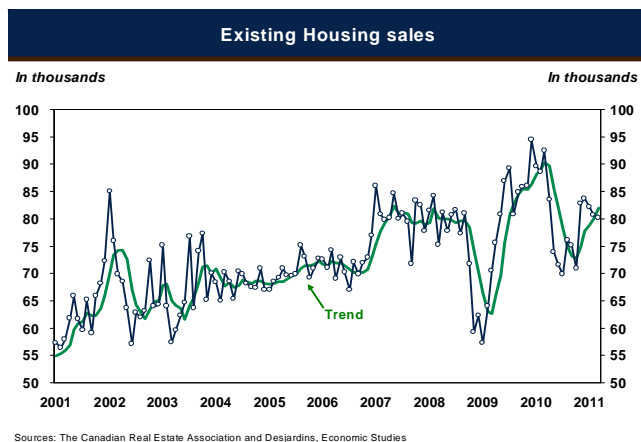
### RESALES

There are growing signs of a lull in the resale market. The number of properties sold through a real estate broker fell 10.9% in the first quarter from the same time last year. Note that early 2010 was really exceptional; a return to more normal levels is reassuring in some ways, particularly with respect to price growth. In fact, after advancing 8.0% in 2010, prices for the first quarter are up 5.5% over the same period last year. Prices are also up compared with the final quarter of 2010 in all CMAs, except Québec. The average price has pulled back slightly, dropping from \$241,650 in the fourth quarter of 2010 to \$239,395 in the first quarter of 2011. This does not mean that the upward cycle for prices is a thing of the past. Occasionally, quarterly data seesaw without auguring a change in trend. The Québec CMA market, as with the market for the province as a whole, remains a sellers' market—sellers are in a position to demand a fair price in negotiations. Although the number of transactions is down, prices continue to advance. The fact that the frenzy is over is good news, showing that the housing market has begun to make a soft landing. Price increases should continue to ease off throughout 2011.



### MORTGAGE RATES

Fixed mortgage interest rates went up in early April. The rate posted for a one-year term went from 3.49% to 3.69%, while the five-year rate climbed 35 basis points to 5.69%. Mortgage interest rates are thus gradually moving off the historic lows that prevailed a few months ago. Variable mortgage interest rates, which fluctuate based on the Bank of Canada's key rates, should be raised shortly. The positive economic statistics released recently for Canada and March's acceleration by inflation (12-month change of 3.3%) should prompt monetary authorities to raise key rates by 25 basis points in the next few months or even weeks. In all, we are expecting four moves of this magnitude by year's end. Credit conditions will thus be less favourable, making the housing sector moderate further.



**Hélène Bégin**  
Senior Economist