MARKET UPDATE: January 10th, 2019:

Hello Again! HAPPY NEW YEAR! I hope you are doing well this week and I hope you had a great Holiday Season and that Santa was good to you!

The Bank of Canada (BOC) met yesterday and they decided NOT to change the overnight rate. So that means the Bank Prime Rate still sits at 3.95% at every bank and lender, EXCEPT TD, who's Prime sits at 4.10%. There were a handful of economists in December that thought rates would increase this month, but it became apparent over the last few weeks that the BOC was not going to change rates at this meeting.

The large drop in oil prices is the main factor that worries the BOC, though they expect this to only be a temporary thing. High inventories (especially in the Western part of Canada and the USA) is the main reason for this price drop, but there are also worries about a slowing world economy, and therefore questions about future demand for oil. This will help keep inflation in check and therefore SHOULD slow down any future increases by the BOC.

In addition to the oil slump, Consumer consumption and housing investment was lower than the BOC expected back in October. Higher interest rates and the stricter mortgage guidelines have had a greater impact on the market than the BOC expected. (How could they not see this coming to fruition?!?) Wage growth also hasn't increased as much as the BOC expected, despite the fact that unemployment levels are very low. Normally this would mean that there would be wage increases, but that hasn't materialized. And on top of that, there are worries about the USA/China Trade War and how that could impact the world economy. Because of these factors, the BOC has lowered their outlook for growth in 2019 and beyond.

HOWEVER, despite all the gloomy news, the BOC believes most/all of these factors are all temporary. (Really?? I wish I had their optimism!!!). And they still reiterated their belief that interest rates will need to rise over time into a "neutral range" to keep inflation in check...that could be anywhere between 0.50%-1.25% higher than they are now. The BOC really seems determined to increase interest rates in the future, even though many economists believe there is no need at this time.

So while some economists and the market are predicting we won't see more rate increases for many months, it appears that more increases are coming....though the timing of them remains in question. I guess it will come down to how oil prices respond in the coming weeks and months. If they do start to bounce back (as the BOC expects), we will see increases sooner, rather than later. If they don't bounce back, the BOC will be stuck on the sidelines for the foreseeable future.

Some economists currently believe that the BOC will hold off on raising rates for the next year. But there are some that believe there could be an increase in April and another increase later on in 2019. So as I tend to say every month....I guess time will tell!

Fixed rates have increased over the last 6 weeks, despite the BOC not increasing rates. I'm not sure if this is "extra profit taking" by the banks and lenders or not, but the spreads would seem to indicate rates could be quite a bit lower than where they are at now. Maybe that means rates could come down in the next couple of months....in time for the big Spring Buying Season?? That would be nice! But for sure, in order for that to materialize, the BOC can't be increasing rates in the near future. AND the banks and lenders have to be willing to take less profit on a deal...and they don't always like to do that! Especially with the number of transactions WAY down from the past number of years, they seem to be wanting to make more money from each deal, as opposed to just making a little bit from each deal.

Currently, for a Purchase with less than 20% down payment, we are seeing rates around 3.59%-3.69% for a 5 year fixed term. For purchases with 20% down payment, the 5 year fixed term is up to around 3.89%-3.99%. Variable rates are still attractive for those looking to purchase with less than 20% down payment...they are at around Prime less 1% (or 2.95% as of today). BUT for purchases with 20% or more, the rates have gotten a lot worse over the past 6 weeks. A month ago we were looking around Prime less 1% but now you are looking at around Prime less 0.50% (3.45% as of today). So that's a big change in the last month.

In other news, we are in an election year! (Yay endless uplifting commercials from all 3 parties!!) And with many consumers complaining about the new mortgage rules, you might see a party (or all parties) campaign on some tweaking of the mortgage rules....especially for younger people and first-time buyers, who seem to be shut out of the market. If that were to come to fruition, that would definitely help improve the state of the housing market. Some ideas that have been floated around:

> *-A return of 30 year amortizations for first time buyers, even if they have less than 20% Down Payment. (currently, you need 20% down payment to be able to have a 30 year amortization).*
>
> *-An upper limit on the rate used to "stress-test" consumers wanting a mortgage (this would mean we aren't using such a high "fake/unrealistic" rate to qualify you, so mortgage seekers would qualify for more).*
>
> *-Removal of the "stress-test" requirement of qualifying at a rate 2% higher than what you actually are getting, IF you are simply seeking to transfer your mortgage from one lender to another. That would definitely help the consumer be able to seek out better options. I've seen current lenders offer terrible rates if they believe you won't qualify elsewhere...and the consumer has no choice but to take it.*

<u>IN GTA REAL ESTATE NEWS:</u>

January 4, 2019 -- Toronto Real Estate Board President Garry Bhaura announced that Greater Toronto Area REALTORS® reported a total of 77,426 residential transactions through TREB's MLS® System in 2018. This result represented a 16.1 per cent decline compared to 92,263 sales reported in 2017. Total new listings entered into TREB's MLS® System were down by 12.7 per cent over the same period to 155,823.
The overall average selling price for 2018 transactions, at $787,300, was down by 4.3 per cent year-over-year for all home types combined across the TREB market area.

Home prices were up very slightly in the City of Toronto and down in the surrounding GTA regions. This dichotomy reflects the fact that the condominium apartment segment, which accounted for a large proportion of sales in the City of Toronto, performed better from a pricing perspective than the detached market segment. The average price for condominium apartment sales across the TREB market area was up by 7.8 per cent year-over-year.

"Higher borrowing costs coupled with the new mortgage stress test certainly prompted some households to temporarily move to the sidelines to reassess their housing options. With this said, it is important to note that market conditions were improved in the second half of the year, both from a sales and pricing standpoint," said Garry Bhaura.

"After spiking in 2017, new listings receded markedly in 2018. In many neighbourhoods, despite fewer sales from a historic perspective, some buyers still struggled to find a home meeting their needs. The result was a resumption of a moderate year-over-year pace of home price growth in the second half of the year. Price growth was strongest for less expensive home types, as many home buyers sought more affordable home ownership options," said Jason Mercer, TREB's Director of Market Analysis and Service Channels.

So as you can see, GENERALLY SPEAKING...the Toronto Core is doing ok, the Burbs...not so good. The condo market still seems pretty hot, but the detached market not so hot...except in certain neighbourhoods. The number of listings is low, which should put some pressure on prices to go up.

The mortgage rules and higher rates are pushing people to buy cheaper homes (like condos), so they continue to outpace bigger more expensive homes. With rates going up and no end in sight to the (too many) mortgage rules, this trend will most likely continue for the foreseeable future.

That's it for this month! The next BOC meeting is on March 6th, so I will be in touch after that. Any questions and/or concerns please do not hesitate to contact me.

Take care and good luck staying warm!

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