MARKET UPDATE: March 7th, 2019:

Hello Again! I hope you are doing well this week and managing to stay warm!

The Bank of Canada (BOC) met yesterday and as was widely expected, 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%.

The economy has slowed much more than the BOC previously thought it would. GDP numbers were revised for 2018 and by the end of the year, Canada's economy was essentially flat, with next to no growth occurring.
All of the optimism that the BOC had previously, thinking that the slowdown was temporary, is now gone! Pretty much EVERYTHING is worse than they expected.

In their write-up to the media, the BOC softened their stance on future rate hikes. It STILL appears hiking rates is the direction the BOC wants to go next, but they are unsure of where things are heading, after recent data suggests the economy is not on strong footing. So it appears they are moving to the sidelines for the foreseeable future until they can get a grasp on things and until the market and economy starts to turn things around.

SO WHERE ARE RATES HEADING???

This is the magic question I get asked hourly! I wish I had a crystal ball to give you a definitive answer! No one knows for sure. But it sure seems likely that the BOC can't raise rates for a while. There is simply too much uncertainty at this point.

The BOC has been stating for years that they want to raise rates to a more "neutral level". We have already seen five 0.25% increases over the last couple of years, but they still want to increase rates more. Inflation is now currently well below their 2% target, so there is no need for them to raise rates as there is no risk that the economy will become over-heated.

While employment numbers are still strong....This is probably the only thing keeping the BOC from lowering rates at this point....Here is a full list of all of the headwinds that we are facing:

a) The economy is not growing anymore. It was up only 0.1% in the 4th quarter of 2018. (BOC expected 1.3% growth).

b) Oil Prices are not improving as quickly as the BOC had expected. While this might help some consumers as they aren't spending as much at the gas pumps, this really hurts oil producing provinces.

c) Trade Wars/Trade Tensions are still going on (thanks Mr. Trump!). This is sapping business and consumer confidence throughout the world, and we are seeing businesses reluctant to spend.

d) The housing market is softer than the BOC expected... (The never-ending list of new mortgage rules over the last few years might have something to do with this!!).

e) The fact we are in an election year, also adds to the uncertainty. Every party will have a different way of attempting to deal with the housing market or trying to stimulate the economy.

f) Consumer spending is basically non-existent. Consumers have really reigned in their spending since interest rates have started to creep up. Consumer Spending on big ticket items like houses and cars was what was keeping our economy growing for the last decade or so.

g) Business expenditure is low and Exports are softer than the BOC expected. The Trade wars are really hurting this.

h) And it appears the US growth cycle is coming to an end. Things are eventually going to slow south of the border, which will further hurt our economy.

The market (aka trading in investments known as overnight index swaps), believes there is a 0% chance rates will increase this year. The market has also started to price in the chances of a rate cut next month at the next BOC Meeting (currently at about an 8% chance). We haven't seen a rate cut in Canada since 2015.
Currency traders also now believe rate drops are on the table (and the Canadian dollar is quickly sinking since the BOC met yesterday).

There are some economists that believe that the BOC will have to lower rates before the end of the year. There is always one firm that says the end of the world is coming!
Though now we have more than just that one firm, that believe the BOC is going to lower rates this year. So this stance is definitely gaining momentum. If the economy continues to deteriorate, the BOC might be forced to lower rates this year.

Just a few short weeks ago, All of the Big Bank economists seemed to believe nothing is going to happen for a while, but that we would see another increase towards the end of the year...Most likely at some point after the election in the fall. Now they are all starting to change their tune, saying things like "barring robust growth mid-year, further rate hikes are all but off the table for 2019".

But we are still seeing some economists who believe we will see increases in the 2nd half of 2019. They expect things to improve once the temporary slowdown in Energy Prices has passed.

SO WHAT DOES THIS MEAN TO YOU?!?!?:

Again, I don't have a crystal ball. But it sure seems rates can't go up anytime soon, barring a huge improvement in a number of the factors listed above.

We've actually seen fixed rates come down quite a bit over the last month. This is partly to do with bond yields dropping, making it cheaper for lenders to get cash to loan out to you, but I also believe the big banks are hurting for mortgage business. They aren't doing nearly as many transactions as they were in previous years. So they are lowering rates to try to buy up the few clients who are getting mortgages.

Back at the beginning of January, we were seeing "Insured Mortgages" (purchases with less than 20%) at about 3.69% for a 5 year fixed term. This is now down to about 3.44%. Variable terms are still at around Prime less 1% (2.95% as of today).
"Uninsured Mortgages" (purchases with 20% down payment or more) were up as high as 3.94%. They have now slumped back down to around 3.54% for a 5 year fixed term, while variable terms remain at around Prime less 0.55% (3.40% as of today). Refinance Rates and Investment Property Rates tend to be a little higher than these rates at most lenders/banks. Though different lenders do have some "special" offers at this time where you could get rates even lower than this.

I tend to believe we will see this trend continue. Unless the spring housing market really takes off, we could see further rate drops as everyone fights over the same 3 customers!

This would be good news for anyone with a variable mortgage or in need of a mortgage in the coming months. It could also help out property values as well, as mortgages are cheaper than they were just a couple of months ago.

IN GTA REAL ESTATE NEWS:

Toronto Real Estate Board President Gurcharan (Garry) Bhaura announced that Greater Toronto Area REALTORS® reported 5,025 homes sold through TREB's MLS® System in February 2019. This sales total was down by 2.4 per cent on a year-over-year basis. Sales were also down compared to January 2019 following preliminary seasonal adjustment.

"The OSFI mandated mortgage stress test has left some buyers on the sidelines who have struggled to qualify for the type of home they want to buy. The stress test should be reviewed and consideration should be given to bringing back 30 year amortizations for federally insured mortgages. There is a federal budget and election on the horizon. It will be interesting to see what policy measures are announced to help with home ownership affordability," said Mr. Bhaura.

Despite sales being down year-over-year, new listings actually declined by a greater annual rate. This suggests that market conditions became tighter compared to last year. Tighter market conditions continued to support year-over-year average price growth.

Both the MLS® Home Price Index Composite Benchmark and the average selling price were up modestly on a year-over-year basis in February 2019. The MLS® HPI Composite Benchmark was up by 2.4 per cent year-over-year. The average selling price for all home types combined was up by 1.6 per cent over the same period. Price growth was driven by the condominium apartment segment and higher density low-rise home types. On a preliminary seasonally adjusted basis the average selling price was down compared to January 2019.

"Home sales reported through TREB's MLS® System have a substantial impact on the Canadian economy. A study conducted by Altus for TREB found that, on average, each home sale reported through TREB resulted in $68,000 in spin-off expenditures accruing to the economy. With sales substantially lower than the 2016 record peak over the last two years, we have experienced a hit to the economy in the billions of dollars, in the GTA alone. This hit has also translated into lower government revenues and, if sustained, could impact the employment picture as well," said Jason Mercer, TREB's Director of Market Analysis and Service Channels.

More of the same, it seems. Though I am hopeful that if the weather warms up (hopefully before June!), these new lower mortgage rates will get people out of hibernation and out looking at homes. Though for that to come to fruition, we are going to need to see the number of listings increase in the short-term.

That's it for this month! The next BOC meeting is on April 24th, 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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