MARKET UPDATE: April 25th, 2019:

Hello Again! I hope you are doing well this week and enjoying the sunshine that is finally starting to appear after months in hibernation!

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%.

While the BOC still believes the economic slowdown is temporary, they finally removed their bias towards "future rate increases" in their message to the public. So that tends to make one think that rates can't go up anytime soon.
HOWEVER, in a Press Meeting after the decision, BOC Governor Poloz still reiterated his belief that a rate hike was more likely than a rate cut, as the next move by the BOC.
But the swaps trading market is still pricing in a 30% chance that the BOC will lower rates at their September meeting, and a 90% chance of a reduction in the next 12 months. So it appears the market seems to disagree with Governor Poloz!

Most economists also appear to disagree with the BOC and believe there is no chance rates can go up for a while...maybe well into 2020 or even 2021. But one big bank economist (Scotiabank) agrees with Poloz and believes that many of the headwinds we are facing are temporary, and they are calling for a rate increase before the end of the year.

Inflation also seems to be under control and will be for the next while, so there should be no pressure on the BOC to raise rates anytime soon.

So I guess time will tell on where rates are heading. Still...it seems likely lower rates are coming or here to stay for the foreseeable future.

Fixed rates have plummeted over the last 6 weeks. We are now seeing 5 year fixed rates in the 3.09%-3.19% range for purchases (depending on the size of your down payment). This is quite a bit below the peaks of close to 4% that were reached in early January! So fixed mortgages are definitely a lot cheaper now than they were 3 months ago. Lower rates and the fact weather is improving will hopefully start to improve the GTA housing market. I've definitely seen a lot more listings come on the market over the past few weeks.

There has been quite a bit of talk of late about changing the B20 rules set forward by OSFI a year ago. The Stress test of having to qualify at rates 2% above the rate you actually get, have taken quite a bite out of the housing market. And with rates not expected to go up anytime soon, it seems like a 2% buffer is definitely not needed at this time. And that isn't just Luke and his fellow brokers speaking....even Benjamin Tal (CIBC Deputy Chief Economist) agrees that these rules should be looked at and changed. While the rules might have had their intended purpose, he argues the rules need to be more flexible and a lower buffer than 2% is probably the best action. He states that as much as 60% (or $15 billion) of the $25 Billion drop in mortgage originations last year, can be attributed to this rule.

Having said all of that, It seems unlikely from where I sit that anything is going to change. OSFI has stressed that the rules in place are working and are still needed. The fact they are forcing many borrowers to higher rate/risk lenders, or to the sidelines completely, seems to not bother OSFI at this time.

In other news, we have some new rules from the Federal Liberals annual Budget, to help address affordability concerns in the housing market. In truth, it seems none of these new rules are going to help affordability!
They are going to allow you to borrow up to $35k from your RRSP's instead of a maximum of $25k to go towards a home purchase (under the First Time Buyers Plan).
And CMHC is going to give you an extra 5% of the purchase price towards your first home if you buy a "resale" home, and 10% if you buy a new builder home. Though the details on this haven't been announced yet, it seems they will be for families that make less than $120k a year, and they won't allow you to borrow more than 4 times your family income. How this money is to be paid back, is still unknown.
What happens if you sell and make money? Does CMHC make money on their loan to you?
What happens if you sell and lose money? Does CMHC still expect their money back, or do they share in the loss with you?
And what happens if you refinance down the road, before you sell? Do they get their money back then? Do they get their money back + interest or some % growth?
Many questions still to be answered on this, which doesn't exactly help the housing market, as First Time Buyers will sit and wait and see if these new rules are going to help them get into a home, as opposed to buying now.

From where I sit, adding to a buyer's future obligations doesn't exactly improve affordability.
To quote the RBC CEO: "This is a solution, looking for a problem".

Again...our government has failed to really address the true issues at hand here. That is not a knock against the Red Team. The Blue team didn't figure it out back when they were running the country.
It is just not their area of expertise, so they simply don't get it. But I'm sure they believe that they are experts, because they once had a mortgage, or at least have heard of the word mortgage.
I liken it to me giving basketball advice to LeBron James, because I once played basketball in high school!

Housing is simply not affordable at this time. And that is the case for renters and buyers. The average cost of rent in the 416 is still increasing due to low vacancy. And with high home prices in many cities around the GTA, it makes the mortgage costs so expensive for all...especially first time buyers who aren't able to bring over any equity current owners have to reduce the size of the mortgage needed.

And one final thing to address this month....
There has been much talk about how good employment numbers are. It seems over the last few years, the country has been creating numerous full-time jobs and unemployment rates are at record low levels.
What these numbers don't tell you is that the number of hours people are being paid for is less than previous years. So while jobs are being created, people aren't being paid as much! There are many that are working 30-35 hours a week instead of 37.5-44 hours a week. So while people are working, many are worse off than they were years ago, as they aren't taking home as much money.

I believe this theme will be talked about more in the media in the coming months. Consumer spending is what grew our economy over the last decade. If people don't have any money to spend, it is going to be very difficult for the economy to achieve significant growth, and therefore for the BOC to raise rates aggressively back to a more "neutral" level, as they want to do.

So even good news with the state of the economy, can now be turned into 'not so good news', if you really start to look inside the numbers.

It is just another reason why the BOC might be forced to hold off on raising rates for quite a while.

IN GTA REAL ESTATE NEWS:

TORONTO, ONTARIO, April 3, 2019 – Toronto Real Estate Board President Garry Bhaura announced that Greater Toronto Area REALTORS® reported 7,187 residential sales through TREB's MLS® System in March 2019. This result was in-line with 7,188 sales reported in March 2018. For the first quarter of 2019, sales were down by one per cent compared to Q1 2018.

While March and Q1 sales remained relatively flat compared to last year, new listings have declined more so than sales. March new listings were down by 5.1 per cent year-over-year and Q1 new listings were down by 1.5 per cent. "The OSFI stress test continues to impact home buyers' ability to qualify for a mortgage. TREB is still arguing that the stress test provisions and mortgage lending guidelines generally, including allowable amortization periods for insured mortgages, should be reviewed. The supply of listings in the GTA also remains a problem. Bringing a greater diversity of ownership and rental housing online, including 'missing middle' home types, should be a priority of all levels of government.

The MLS® Home Price Index Composite Benchmark was up by 2.6 per cent year-over-year in March, while the average price for March sales was up by a lesser annual rate of 0.5 per cent to $788,335. The average selling price for Q1 2019 was up by 1.1 per cent year-over-year. "Market conditions have remained tight enough to support a moderate pace of price growth. Despite sales being markedly lower than the record levels of 2016 and early 2017, the supply of listings has also receded. This means that in many neighbourhoods throughout the GTA, we continue to see competition between buyers for available listings, which provides a level of support for home prices," said Jason Mercer, TREB's Chief Market Analyst.

It appears that listings have begun to increase this month in the burbs where I live. But it is really in the downtown core that listings have to drastically improve. That is where we are still seeing a "Seller's market" and price wars still occurring. Until listings improve drastically, we are still going to price wars in much of the 416. In the 905 area, I'm hoping warmer weather will help get people out buying.

That's it for this month! The next BOC meeting is on May 29th, so I will be in touch after that. Any questions and/or concerns please do not hesitate to contact me.

Take care! And enjoy the spring!

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