MARKET UPDATE: May 30th, 2019:

Hello Again! I hope you are doing well this week and enjoying the spring time!

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, whose Prime sits at 4.10%.

The economic data that has come in over the last 6 weeks is in line with the BOC's projections. The economy has improved in Quarter #2, with a pickup of Consumer Spending and Exports. And the economy continues to add jobs at a record pace. It seems the BOC might have been correct in their assumption that the headwinds we were facing in Q4 2018 and Q1 2019 were temporary.

Though it should be said, the recent escalation in Trade Wars is heightening uncertainty about economic prospects going forward, and trade restrictions introduced by China on Canada will put a damper on exports going forward. But the removal of the tariffs on steel and aluminium should help improve things.

So it appears things are evolving as the BOC expected. But with the uncertainty of the Trade Conflicts and the worry about the increasing debt load that the Canadian Consumers have, it seems very likely the BOC will be forced to the sidelines for the foreseeable future. The uncertainty of who our next Federal Government will be, also leads me to believe that the BOC will stay on the sidelines until at least after the election in the fall.

As of my last update in April, there were many economists predicting a rate cut as the next move by the BOC. While anything is possible, that seems quite unlikely now. Many/most economists believe the BOC will not raise rates until 2020 at the earliest. Considering Capital Economics predicted that the BOC will drop rates twice this year only two weeks ago, that should have indicated to us all that rates are not going down. (Capital Economics will have their prediction be correct eventually...it just may not be in my lifetime!! They are the darlings of the media though, as they make for good headlines! They have been correct less than even the worst Weatherman!).

While a decrease would help, the fact it now appears rates will not be increasing anytime soon, should help those of us in mortgage land, those that need a mortgage in the coming months and those with variable mortgages! Borrowing costs are still very cheap.

Fixed rates continue to creep downwards. We are now seeing 5 year "Insured" fixed rates (Purchases with less than 20% Down Payment) around 2.99%, whereas the 5 year fixed rate for purchases with 20% down payment are around 3.04%-3.14% now. Variable rates haven't budged in the last 6 weeks. We are still around 2.9%-3% for "Insured" purchases and 3.3% for Purchases with 20% Down Payment. That is definitely making a fixed mortgage look more attractive than the variable option. With no discount in variable versus fixed, it most likely doesn't make sense to take a risk by going with variable.

In the media, there has been a lot of talk of late about the B20 rules and many are calling for a change in the “Stress Test” rules, (Consumers must qualify for mortgages at 2% higher than the rate they are actually getting). Is this high a test needed now that rates appear to be going nowhere? Well if you ask 99% of the country, the answer is a resounding NO! But if you ask OSFI (Office of the Superintendent of Financial Institutions)...they are the Independent Department that came up with the rules.... Or if you ask CMHC, they believe the rules need to stay as they are. With these 2 departments digging in their heels, it seems unlikely that we will see a change in the rules, despite the fact everyone else is calling for change. I believe this will be a big election topic over the next 5 months. Though while it may make for great headlines and dialogue, I personally don’t see any change coming, no matter who comes to power this fall.

OSFI and CMHC say the Stress-Test Rules have helped us avoid a housing market collapse and therefore it is still needed. An inflexible “one-size-fits-all” rule is definitely the way to go. It is good that people can’t qualify for mortgages and are forced to take on higher rates from higher risk lenders (*Sarcastic font*). I’ve said this many times before....I simply don’t understand how a department that doesn’t loan out money, is the expert on how to do so, and is telling those who are truly experts, how they should do so.
Would I tell a Surgeon how to perform a heart transplant?
Would I tell a mechanic how to fix my car?
Exactly!!
Something is wrong with this system we have!

These new rules have definitely slowed the housing market and significantly decreased the number of mortgage transactions that have occurred in 2019. But this might be good news for those people that do still qualify for mortgages, as we are seeing lenders cut rates in an attempt to win clients. With everyone fighting over the same 3 clients, it means those clients are getting very good rates!

IN GTA REAL ESTATE:

Toronto Real Estate Board President Garry Bhaura announced that Greater Toronto Area REALTORS® reported a substantial year-over-year increase in home sales in April 2019. The number of residential transactions jumped by 16.8 per cent to 9,042 compared to 7,744 in April 2018. On a preliminary seasonally adjusted basis, sales were up 11.3 per cent compared to March 2019.

New listings were also up year-over-year by eight per cent. However, the annual growth rate for new listings was much lower than that reported for sales. This suggests that market conditions continued to tighten which points toward an acceleration in price growth.

“The strong year-over-year growth in sales is obviously a good news story and likely represents some catchup from a slow start to the year. TREB’s sales outlook for 2019 anticipates an increase relative to 2018. It should be noted, however, that growth in new listings is not keeping pace with sales. This points to the ongoing housing supply issue in the GTA. In this regard TREB welcomes the provincial government’s Housing Supply Action Plan announced last week to reduce red tape and improve the mix

of housing types. TREB provided input on the Plan through submissions and participation on working groups," said Mr. Bhaura.

The year-over-year rate of price growth generally edged up in April relative to the first three months of the year. The MLS® HPI Composite benchmark was up by 3.2 per cent – the highest rate of growth in more than a year. The average selling price was up by 1.9 per cent to $820,148, representing the strongest annual rate of growth so far in 2019. On a preliminary seasonally adjusted basis, the average selling price was also up by 1.1 per cent compared to March 2019.

Price growth continued to be driven by the condominium apartment segment and higher-density low-rise segments. The average price for detached houses dipped year-over-year, specifically in regions surrounding the City of Toronto. The detached market segment, with the highest price point on average, has arguably been hardest hit by measures such as the OSFI stress test.

"While sales were up year-over-year in April, it is important to note that they remain well-below April levels for much of the past decade. Many potential home buyers arguably remain on the sidelines as they reassess their options in light of the OSFI-mandated two percentage point stress test on mortgages. Longer term borrowing costs have trended lower this year and the outlook for short-term rates, for which the Bank of Canada holds the lever, is flat to down this year. Unfortunately, against this backdrop, we have seen no movement toward flexibility in the OSFI stress test," said Jason Mercer, TREB's Chief Market Analyst.

So there it is again....another group calling for some changes in the OSFI Stress Test. We should see next week how the May home sales were, but I'm guessing it will be similar to what we saw in April. There aren't enough listings at this point, and that is going to put pressure on prices as we approach the summer.

I have seen more listings come to market in the suburbs over the past month, and I've even seen a few homes selling, which is a positive development. But is that a sign that things are improving, or simply selling because demand still strongly outweighs supply? I guess we will soon see the answer to that question.

That's it for this month! The next BOC meeting is on July 10th, 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 warmer weather!

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PLEASE NOTE: This update is for information purposes only. Please do not rely on it to make a major decision! Everyone's situation is different and a "one size fits all" approach doesn't work. For information on how this impacts your personal situation, please contact me directly.