MARKET UPDATE: July 11th, 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%.

What every analyst was hoping for at this meeting, was the tone of the message from the BOC, to try and get an indication of when and how rates will be moving in the future. And there was some change in the wording used by the BOC at this month's announcement. Previously, they kept saying future changes were "data dependent". This month, that wording was removed and replaced with "trade war dependence", which is now what seems to be dominating its rate policy thinking. They stated they will still "monitor incoming data", but it seems the data is now going to take a backseat to the trade wars, as to how the BOC will proceed next.

The BOC said that the economy is improving as they expected, after the temporary slowdown in late 2018 and early 2019. But they are worried about an escalation in trade conflicts...especially the US/China Trade war. That is the biggest downside risk to our economy and every economy at this point. So despite some good economic data, the BOC has decided to keep rates unchanged, over fears that the trade wars will dampen our economy. They also revised lower their growth estimates for 2019, which is a strong indication they are worried about these trade conflicts. (I realize I must sound like a Ford here...except I'm replacing Subways Subways Subways, with Trade Wars Trade Wars Trade Wars!!).

So what does the BOC do?? The answer is not easy! Trade conflicts and tariffs will hurt the economy, weaken demand for our commodities and also drive up inflation, as the cost of goods for us consumers will increase thanks to the tariffs. If the BOC raises rates to combat inflation, they are essentially handing an anchor to an already sinking economy. If they lower rates to help the sinking economy, they are throwing gas on the inflation problem!

So with all this said, most Economists believe the BOC will be forced to the sidelines for the foreseeable future...and will have to hope and pray the conflicts eventually resolve themselves!

In previous months, many economists believed there could be a rate cut in the coming months. That is despite BOC Governor Poloz stating that he believed the next move will be an increase and not a cut in rates. As of today a cut seems less likely than it did a month ago, at least in the short-term. Though a rate cut is not completely out of the realm of possibility. Many economists have moved away from the "rate-cut" stance over the last month, but we still have a few in this camp. For example, Capital Economics still believes the next move will be a cut this year. CIBC predicts there will be a cut, but not until 2020. CIBC expects the Canadian Dollar to strengthen as the USA appears it will be lowering rates this year, and they expect the world economy to continue to suffer from the trade conflicts, and these two factors will force the BOC's hand and force them to drop rates in 2020.

As mentioned above, the US Fed may be lowering rates shortly. And some now believe it will be as soon as this month's meeting, thanks to comments about worries in the trade conflicts made by the US Fed Chair at his bi-annual congress meeting this week. On top of that, many other countries are prepared to lower rates as well, with the trade conflicts being the top reason.

So that leads me to believe that we are going to see no changes for a while. With our economy doing ok, but not many others doing well, and with challenges outweighing strength and optimism, it would seem to me that it would be very tough for the BOC to raise rates anytime soon, unless those trade conflicts were resolved quickly. So the BOC will sit back and see what materializes before making a move.

Meanwhile fixed mortgage rates continue to drop. We are now seeing 5 year fixed rates around the 2.79% range for purchases with less than 20% Down Payment, and 2.99% for purchases with 20% Down Payment. The fixed rate offerings are actually lower than the variable offerings today, which is highly unusual.

IN GTA REAL ESTATE NEWS:

The new President of the Toronto Real Estate Board, Michael Collins, announced that Greater Toronto Area REALTORS® reported 8,860 sales through TREB's MLS® System in June 2019, representing a 10.4 per cent increase compared to June 2018. Over the same time period, total new listings remained at a similar level for the month of June and active listings at month-end were down by 5.7 per cent.

Sales and new listings statistics for the first half of 2019 compared to the same period in 2018 painted a similar story to that of June. Sales were up by 8.5 per cent, while new listings were up by less than one per cent. This shows that sales accounted for a greater share of listings compared to last year, which means that competition between buyers increased, resulting in renewed price growth in many segments of the market.

"As I start my term as President of the Toronto Real Estate Board, I am proud to say that the Greater Toronto Area continues to grow, in terms of employment, population and overall diversity. As people are attracted to our region from all around the world, they obviously need a place to live. Over the next year, as demand for ownership and rental housing continues to grow, my hope is that we will see more movement from policy makers on two fronts: alleviating the constrained supply of housing and providing more flexibility around demand-side policies, including the OSFI two percentage point mortgage stress test and allowable amortization periods on insured mortgages," said Mr. Collins.

The overall average selling price in June 2019 was $832,703 – up by three per cent compared to the average of $808,066 in June 2018. Price growth was driven by the higher density market segments, including semi-detached houses, townhouses and condominium apartments. The MLS® Home Price Index Composite Benchmark was up by a similar annual rate of 3.6 per cent. For the first half of 2019, the average selling price was $810,661, representing an increase of 2.4 per cent compared to the first half of 2018.

"Buyers started moving off the sidelines in the spring, as evidenced by strong year-over-year price growth throughout the second quarter. However, because we saw virtually no change in the number of new listings, market conditions tightened and price growth picked up, especially for more higher density home types, which, on average, are less-expensive than traditional detached houses and therefore provide more affordable housing options under the new OSFI stress test regime," said Jason Mercer, TREB's Chief Market Analyst.

So as you can see, all is pretty much the same as the previous month. Not enough listings, means pressure on prices to grow, especially in the 416 area. This trend should continue in the coming months as mortgage rates remain low and demand for housing out-paces supply.

That's it for this month! The next BOC meeting is on September 4th, 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 sunny weather and the rest of the summer!

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