

MARKET UPDATE: DECEMBER 5th, 2019:

Hello Again!

I hope you are doing well and that everyone is getting excited for the Holiday Season and watching Will Ferrell in Elf 82 times!

The Bank of Canada (BOC) met yesterday and as was widely expected, they decided NOT to change the overnight rate. This is the 9th straight meeting without a change in rates, which means no changes at all in 2019. 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%.

Fixed rates have crept down a bit since my last update on Halloween. For Purchases with less than 20% Down Payment we are looking at rates in the 2.64%-2.69% range for a 5 year fixed term. And for Purchases with 20% Down Payment we are at around 2.89% for a 5 year fixed term. Variable rates still remain higher than fixed rates at this point.

While the BOC staying on the sidelines was not a surprise, what did surprise analysts was their “Rosie” outlook on things in 2020. Most had been hoping there would be some indication that rates might have to drop in 2020, either because the world economies were deteriorating or, like many countries, they wanted to get ahead of the sluggish growth and be proactive in lowering rates. 40 countries have already lowered rates this year. The USA has lowered rates 3 times in 2019. But Canada seems to be holding pat and the BOC is determined to not lower rates until they are absolutely forced to. It appears they are still leaning in the direction of a cut (as opposed to a hike), but they certainly appear in no rush to make a move as of today.

Some analysts believe that by not being proactive in lowering rates, like many other countries are doing, they will be forced to be more aggressive when they are eventually forced to lower rates.

RBC for example believes the BOC will be forced to lower rates by the spring and might have to do so multiple times. But that opinion is not in the majority. Even Capital Economics, who tend to be the “doom and gloom” economists and always predicting rates will be dropping, now believe that the BOC will sit on the sidelines for all of 2020. Many other economists agree with them.

The Swaps Market still has priced in a 70% chance that the BOC will lower rates by July. But that might change after yesterday’s BOC announcement. It seems unless the Trade Wars deteriorate, or if Inflation drops off substantially, (currently core inflation is at the 2% target the BOC wants), then it appears unlikely we will see a rate drop anytime soon. I believe the BOC is worried again about the Housing Market and people getting in over their heads. Prices are starting to climb again in the major cities, and they appear reluctant to lower rates to help throw gas on this fire.

Could that change overnight?? Most definitely! But as of today, it sure seems likely that rates should remain stable over the coming months. It no longer appears certain that rates are going to have to come down in early 2020. Just a month ago, that appeared quite likely.

IN GTA REAL ESTATE NEWS:

TORONTO, December 4, 2019 - Toronto Real Estate Board President Michael Collins announced that Greater Toronto Area REALTORS® reported 7,090 sales through TREB's MLS® System in November 2019 – a 14.2 per cent increase compared to November 2018. On a GTA-wide basis, sales were up year-over-year for all major market segments. Annual sales growth in ground-oriented home types, including detached houses, led the way.

New listings entered into TREB's MLS® System in November and the active listings count at the end of the month went in the opposite direction compared to last year, with new listings down 17.9 per cent year-over-year and active listings down 27.2 per cent.

“An increasing number of home buyers impacted by demand-side policies over the past three years, including the 2017 Ontario Fair Housing Plan and the OSFI mortgage stress test, have moved back into the market for ownership housing. Based on affordability and stricter mortgage qualification standards, many buyers may have likely adjusted their preferences, changing the type and/or location of home they ultimately chose to purchase,” said Mr. Collins.

“The Greater Toronto Area needs flexible housing market policies that will help sustain balanced market conditions over the long term. All levels of government in Canada plus reputable international bodies have acknowledged that we have a housing supply problem. In 2020, policy makers need to translate their acknowledgment of supply issues into concrete solutions to bring a greater array of ownership and rental housing online. As always, TREB will be there to help policy makers in this regard,” said TREB CEO, John DiMichele.

As market conditions continued to tighten in November 2019, with increased sales up against an increasingly constrained supply of listings, the annual rate of price growth continued to accelerate. The MLS® Home Price Index Composite Benchmark increased by 6.8 per cent year-over-year. The average selling price increased by 7.1 per cent year over-year to \$843,637. Both the MLS® HPI and the average selling price for the TREB market area as a whole experienced the strongest annual rates of price growth for the year in November.

“Strong population growth in the GTA coupled with declining negotiated mortgage rates resulted in sales accounting for a greater share of listings in November and throughout the second half of 2019. Increased competition between buyers has resulted in an acceleration in price growth. Expect the rate of price growth to increase further if we see no relief on the listings supply front,” said Jason Mercer, TREB's Chief Market Analyst.

So things are similar to the past number of months, but supply continues to get worse. Normally the number of new listings doesn't increase until the spring, so I can't see this situation improving over the next few months. This will continue to drive prices higher. And we are seeing that it is definitely a “Seller's Market” in many communities across the GTA. And that is the case even in cities far away from

Toronto like London, where many in the GTA are heading west to try to find some bang for their buck. Bidding wars appear to be the norm again in many cities. The Condo Market is still very hot. Prospective buyers that have sat on the sidelines over the last couple of years might have found that their hope of a home, instead of a condo, is now further out of reach. So they have decided to buy a condo just to get "in the game". The average Condo Price in Toronto is now only about \$100k less than the average Townhome.

So that is it for this month. The next BOC Meeting is on January 22nd, so I will be in touch after that.

I hope you have a happy, healthy and prosperous Holiday Season and New Year!

And I hope Santa is good to you all!

Take care,

HAPPY HOLIDAYS!

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