MARKET UPDATE: April 22nd, 2021:

Hello Again!
I hope you are all doing well and staying healthy, safe and sane in these crazy times!
My 3rd update of 2021 and we are in lockdown again for the 2nd time in the last few months. Oh joy! Here's hoping the vaccine numbers can increase quickly so this will be our last lockdown! *fingers crossed* (That definitely seems to be helping a lot south of the border).

The Bank of Canada (BOC) met yesterday and decided not to change rates again this month. They already lowered their Overnight Rate by 1.5% back in March of 2020. Rates are not expected to rise anytime soon.
BUT, the BOC had a much more positive stance on where things stand versus any of their previous meetings over the last year.
There is obviously uncertainty in some countries (including Canada) with the variants and high covid numbers. But overall, things have improved drastically….much better than they expected just a few months ago. We came through the last lockdown way better than expected, and it is expected our economy will improve much faster than previously stated.

The BOC has already started to slow down its QE program (Quantitative Easing). They were buying at least $4 billion in Canadian bonds per week to help keep rates low. This has been happening since the pandemic started 13 months ago. They have decided to begin to taper this off and will now only be buying $3 billion a week. So this is the start of unwinding that program and a definite sign that they are not just saying the economy is improving but that they believe it actually is.

On top of that, probably the biggest news from yesterday's meeting was the BOC stating their expectation that they now expect to be able to raise rates at "some time" in the 2nd half of 2022. Previously they had stated it wouldn't be until at least 2023!
So it is kind of looking like we might be 6 months or so ahead of where we thought we were just a month ago!

That is good for the economy and the many people who are still unemployed or under-employed…but not so good for mortgage rates! But, even with saying that, it isn't like rates are going to jump 2% overnight. So we still will have relatively low rates for quite a long time.

Fixed mortgage rates have been continuing to creep up over the last month or two.
We are now seeing 5 year fixed rates at around 2.04% for purchases with LESS than 20% down payment.
Variable rates are around 1.30% currently for purchases with less than 20% down payment.
Purchases with 20% down payment or more are seeing 5 year fixed rates at around 2.19%-2.29% (depending on the amortization you choose). And the 5 year variable rate for these types of deals is now at 1.35%-1.45%...again depending on the amortization you choose. Despite rates climbing, we are still below the best rates available EVER, prior to this pandemic.

Most likely, with the news that the BOC will be increasing rates sooner than previously expected, we will see fixed mortgage rates continue to creep up slowly as we move forward.
The Canadian dollar could appreciate as well. (Higher oil prices have helped this as well thanks to the Global recovery…which is finally some good news for "oil" provinces like New Brunswick, Newfoundland and of course Alberta!)
Our dollar was up about a cent yesterday versus the US Greenback after the BOC meeting and it hit 80 cents for the first time in a long time!
The problem with that, is a high Canadian dollar will hurt our economy and slow down our recovery. So if the Canadian dollar continues to appreciate, that could create more issues for the BOC…and it might even require them to delay raising rates! It is quite the tight-rope act they are forced to perform!

The BOC has told us that our GDP declined by 2.5% in 2020 (much less than we were expecting…considering that the world was fully shut down for almost 3 months).
And they've revised their estimates up for the next 3 years as well….a gain of 6.5% in 2021 in Canada, a gain of 3.75% in 2022 and a gain of 3.25% in 2023. (For Perspective, Canada has had GDP growth of over 3% only one time in the last decade…3.17% in 2017).
So the BOC really expects the economy to be taking off over the next few years…and it should be booming in the 2nd half of 2021.

In our other big news this month…..The Canadian Housing Market continues to be on fire!
We are seeing many neighbourhoods across Canada (not just in the Toronto or Vancouver areas) that have increased by 30%+ in the last year.
Maybe with the news of rates going up sooner rather than later, this will help cool the market? (OR maybe the announcement that rates are going up sooner is just a ploy to help calm the market?!?!? I guess time will tell! It wouldn't be the first time the BOC went with this tactic in the last decade!).

OSFI (they are a government department that oversees the stability of the banks and lenders) decided to raise the "Mortgage Stress Test" to 5.25% from 4.79%. This is the rate that is used to actually "qualify you" for a mortgage.
This new rule will kick in June 1st. It was done to try to calm the housing market a bit, and is probably the quickest and easiest approach in trying to do so. So that is why I believe it was done.
BUT, like any other move over the last decade…which continues to focus on the "Demand" side of the housing market, this won't work for long and is certainly not going to fix the problem in the long-term.

The issue is and has always been Supply! (I think I've mentioned that every update for the last decade???!!!) But yet…we continue to tinker with demand.
What is the definition of Insanity again?!?!?

The reality is that most people/economists thought that the current 4.79% Stress Test was too high of a qualifying rate. There is essentially zero chance of rates being at that point in 5 years. So raising the rate that we have to qualify mortgages at even higher just seems like a move to make it look like the gov't is doing something to address the issue. They will say it is to protect people from rising rates down

the road. But with no chance of rates hitting that mark in 5 years, that can't be the reason for the move. As stated, this was done as it is quick and easy. But it isn't going to work. And it anything, will hurt "the middle class or those trying to get into the middle class"…the primary focus of the Federal Liberals.
But something had to be done to help slow down the market. So many are applauding the move.
Though to me, it doesn't make a ton of sense and is quite short-sighted.

Speaking of doing something for the sake of doing something…the government is also instituting a new "foreign buyer tax" which will tax properties owned by non-residents that are vacant. This will kick in January 1st, 2022.
That too shouldn't have much of an impact on the runaway housing market. The rule change is too narrow in scope to have a major impact unfortunately.

THE ONLY way to fix this is that we need all 3 levels of government to get together ASAP and work together to change the rules and the red tape, to help improve supply and make it easier to build homes quickly and for cheaper.
You simply can't bring in 300,000 people a year (which in the coming years once we get through this pandemic, will be more like 400,000 people a year), and only build them 30,000 homes a year to live in. That is one of the major reasons why we are seeing the housing market take off. Even the BOC acknowledged in their meeting yesterday that supply is the issue. But Supply changes take a long time to kick in. So there is no quick fix unfortunately. So they keep trying these 'quick fixes' but of course… the problems persist.
To quote a fine band I know:
You can heal the symptoms but not affect the cause.
It's quite a bit like trying to heal a gunshot wound with gauze.

As I see it, the problem with increasing the "Stress Test" rule is that many First-Time Buyers were already having trouble qualifying for what they need to get into the market. Now they will qualify for 4%-5% less come June 1st. Sure 4% or 5% isn't much of a difference. But when you were already $100k short of what was needed to get into the market, this definitely doesn't help you cause!
The Bank of Mom and Dad is going to be even more needed in the coming months and years it seems!

And I'm pretty sure that first-time buyers (or the end-users…those going to live in the home) are NOT the biggest issue and the reason why home prices are climbing at a record pace.
Most people believe Investors or speculators are the issue, as they scoop up houses in record numbers.
The end-user is just along for the ride as they need somewhere to lay their head at night!

So maybe we will see more changes/rules coming in the next couple of months?? There has been talk that there will be rules aimed at Investors and Speculators coming from the government. I was actually quite surprised there was nothing in this week's budget to address that.

My guess is that the housing market should remain hot for the next month as many people attempt to buy before the Qualifying Rate changes to 5.25% instead of 4.79%. (AND FYI…to beat the rules, you don't need to "close your deal" by June 1st. You simply need to have a full approval in place prior to the new rules kicking in. FYI).

IN GTA HOUSING NEWS:

April 6, 2021 - For the third straight month of 2021, record home sales continued in March across the Greater Toronto Area (GTA) with buyers taking advantage of favourable borrowing costs and continued improvement in many sectors of the economy.

GTA REALTORS® reported 15,652 sales in March 2021 – close to double that of March 2020. While sales were strong, it is important to remember that for the second half of March 2021, we are comparing against the initial impact of COVID-19 in the second half of March 2020 when sales activity dropped off dramatically. With this in mind, it is important to consider annual sales growth for the pre-COVID period (March 1 to 14, 2020) and the COVID period (March 15 to 31, 2020):

- *There were 6,504 sales reported during the first 14 days of March 2021 – up 41 per cent compared to the pre-COVID period in March 2020.*
- *There were 9,148 sales reported between March 15 and March 31, 2021, an increase of 174 per cent compared to the COVID period of March 2020. This is a stark reminder of the initial impact COVID-19 had on the housing market and overall economy a year ago.*

"Confidence in economic recovery coupled with low borrowing costs supported a record pace of home sales last month. While the robust market activity is indicative of widespread consumer optimism, it is also shedding light on the sustained lack of inventory in the GTA housing market, with implications for affordability," said TRREB President Lisa Patel.

For March 2021 as a whole, new listings were up 57 per cent year-over-year to 22,709. While representing a strong year-over-year increase, the annual growth rate for new listings was well-below that of sales.

"With sales growth outstripping listings growth by a large margin, including in the condo market segment, competition between buyers in some market segments and the potential for double-digit price growth could continue without a meaningful increase in the supply of homes available for sale. This will become more apparent as population growth resumes over the next year," stressed TRREB Chief Market Analyst Jason Mercer.

The MLS® Home Price Index Composite Benchmark for March 2021 was up by 16.5 per cent compared to March 2020. The average selling price at $1,097,565 was up by 21.6 per cent over the same period. Following the recent trend, low-rise home sales in regions surrounding the City of Toronto drove price growth.

"The current state of the market has reinvigorated discussions about potential demand-side policy interventions. Policies focussed on demand, such as a capital gains tax on primary residences, can have a

short-term impact, but can also be fraught with unintended consequences like further stifling the supply of listings. The federal minister responsible for the housing portfolio has said his government will not entertain such a policy option, which is the right decision. We have been saying for too long now that policymakers must focus on the long-term goal of increasing housing supply in order to accommodate current and future demand," said TRREB CEO John DiMichele.

SOOOOO…basically saying what I said above. We need more supply! And it will only get worse as our population grows again after the pandemic.

It was good to see that listings increased drastically over the last month. Unfortunately demand being so high swallowed those up quickly and it changed very little. The bidding wars continue. And prices continue to climb.
Barring some major changes, this trend should continue for a while.

People have been using the "B" word a lot of late. But normally for a bubble to burst, we need a catalyst to make it happen. (Think of something like a pin popping the balloon). I can't see what that catalyst would be at this point. So it seems unlikely from where I sit that the bubble can burst without something huge being changed in how things work at this point.

That is it for this month. The next BOC Meeting is on June 9th, so I will be in touch after that.
Be well! Stay safe!
Have a great month!
AND GOOD LUCK to those parents who get to go back to their old unpaid teaching job!

Take care,

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