<u>MARKET UPDATE: October 28th, 2021:</u>

Hello Again!
I hope you are all doing well, enjoying the fall and staying healthy!
And for the parents out there, hopefully the first eight weeks of the school year have gone smoothly for you and the kids!

The Bank of Canada (BOC) met yesterday for their 7th rate decision of 2021 and as was widely expected, they 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. The BOC has previously stated they do not expect to be raising rates until the latter half of 2022.

BUT…they moved up their projection at this meeting. They now are predicting that they will be increasing rates "in the middle quarters of 2022". So that is basically moving up their prediction by a few months and would most likely mean variable rates start to increase by the summer of next year instead of the fall or winter.

The BOC also ended its QE Program (Quantitative Easing) of bond buying. They have been buying up bonds to keep rates down since the pandemic started. It is another sign that low rates will be disappearing sooner rather than later.

The BOC still believes inflation to be temporary, but they did acknowledge that it is proving to be stronger and more persistent than previously thought. It is up to 4.4%...the highest level in 18 years!
The BOC now says high inflation will drag well into next year and won't ease back down to the 2% Inflation Target until around the end of 2022.

The BOC's number one job is to ensure inflation doesn't take hold, so they are really walking a tight-rope here as it has been above their target rate for 6 straight months now. The BOC definitely does not want to slow down growth as we exit the pandemic. But they might be forced to if Inflation proves to not be temporary.

Despite what O'Toole said during election time last month, the high levels of inflation we are currently experiencing aren't really being caused by all of the spending the Liberals are doing.
The big factors are that we have some major supply chain issues….For example, big ticket items like cars are a lot more expensive because automakers can't get their hands on enough semi-conductors.
And we also have energy prices at their highest level in years, which is also helping drive prices up.
I don't see those issues getting fixed anytime soon, so inflation should remain for the foreseeable future, which will make it difficult for the BOC to keep rates at their current levels.

Many countries are experiencing the same issue. President Biden's approval rating down south is waning because the right-wing media has grabbed onto this issue to remind people that their paycheque doesn't go as far as it used to! Unfortunately, there isn't a quick fix. It appears it will be at least a year before inflation is back under control and it might take rate increases to do that.

Speaking of that….In maybe the biggest news of this month, Scotiabank's Head of Capital Markets Economist Derek Holt predicted last week that the BOC will be starting to increase rates in July and will increase rates 4 times in 2022 and another 4 times in 2023! So that is a 2% increase from where we sit today. That would mean Prime is up to 4.45% by the end of 2023. That is 0.50% higher than where we were sitting when the pandemic broke out!

Will this materialize? Hard to know…it is just one economist's prediction and only time will tell. Most economists currently believe we will only see one or two increases in 2022.
The problem as I see it, is that by having a respected economist make this bold prediction, it becomes a self-fulfilling prophecy and the market reacts as if it will happen and brings about the need, even if there wasn't a need!
The "Swaps" market is already pricing in more increases since Holt made this prediction last week. Just a month ago, the market was predicting one increase in 2022. Now we are up to 3 or 4 increases in 2022.
BOTTOM LINE….Traders and many economists are believing that inflation is not temporary and that the BOC's hand will be forced and they will have to increase rates faster than they want to.
BUT…just because they believe that does NOT necessarily mean it will come to fruition.
As I've said many times before….Economists are like Weathermen and Baseball hitters. If they are successful 30% of the time, they are doing better than most!!

Fixed mortgage rates have been jumping up in anticipation of these extra/earlier BOC Rate increases as well. We are now see 5 year fixed rates for Purchases with less than 20% down at around 2.34% (That is up about 0.30%-0.35% since my last update)…..and 5 year variable rates are still around 1.30%.
For Purchases with 20% Down Payment, 5 year fixed rates are around 2.49%-2.59%...depending on the amortization. That is up about 0.30% in the last month. 5 year variable rates remain in the 1.35%-1.45%...again depending on the amortization.

Based on what I'm seeing, this is only the start of fixed rate increases. We should see more coming in the next week or so, as bond spreads continue to go the wrong way.
So if you are in need of a mortgage in the next few months to a year, you might be wise to at least look into your options now as opposed to waiting.

Robust economic growth has resumed here in Canada after a pause in the second quarter. The BOC now predicts Canada's economy will grow by 5% this year, by 4.25% in 2022 and 3.75% in 2023. They also stated that housing activity has moderated, but they do expect it to remain elevated…especially after immigration ramps back up.

IN GTA REAL ESTATE NEWS:

TORONTO, ONTARIO, October 5, 2021 – September marked the transition from the slower summer market to the busier fall market in the Greater Toronto Area (GTA). Every year, we generally see an uptick in sales, average selling price and listings after Labour Day, and September 2021 was no different. Sales increased relative to August and were also at the third-highest mark on record for the month of September. The average selling price was up both month-over-month and year-over-year.

GTA REALTORS® reported 9,046 sales through TRREB's MLS® System in September 2021 – up in line with the regular seasonal trend from August. Compared to last year, market conditions tightened noticeably, with sales representing a substantially higher share of listings, and a significantly lower number of new listings across the board. Resurgence in the condo market was a factor in the higher share of listings sold. The total number of sales was down 18 per cent from 2020's record September result, in large part due to the lower number of new listings, which were down 34 per cent from the same time last year.

"Demand has remained incredibly robust throughout September with many qualified buyers who would buy a home tomorrow provided they could find a suitable property. With new listings in September down by one third compared to last year, purchasing a home for many is easier said than done. The lack of housing supply and choice has reached a critical juncture. Band-aid policies to artificially suppress demand have not been effective. This is not an issue that can be solved by one level of government alone. There needs to be collaboration federally, provincially, and locally on a solution," said Kevin Crigger, TRREB President.

The MLS® Home Price Index Composite Benchmark was up by 19.1 per cent year-over-year in September 2021. The average selling price for all home types combined was up by 18.3 per cent year-over-year to $1,136,280.

"Price growth in September continued to be driven by the low-rise market segments, including detached and semi-detached houses and townhouses. However, competition between buyers for condo apartments has picked up markedly over the past year, which has led to an acceleration in price growth over the past few months as first-time buyers re-entered the ownership market. Look for this trend to continue," said Jason Mercer, TRREB Chief Market Analyst.

"Housing was a key issue in last month's federal election. Ontario provincial and municipal elections are on the horizon in 2022. Much of the heavy lifting required to bring more housing online, from a policy perspective, happens at the provincial and local levels. These levels of government need to be on the same page. This should be an important topic for debate during the upcoming elections," said John DiMichele, TRREB CEO.

SO again…not much change here. Not enough supply is forcing prices up. With mortgage rates starting to increase, that might only increase Demand in the short-term as prospective buyers try to get in while rates are low.

We still need a lot more supply.

That is it for this month. The next BOC Meeting is on December 8th, so I will be in touch after that.
Be well! Stay safe! And have a great month!
HAPPY HALLOWEEN!
Take care,

Lucas Preston
Mortgage Agent
Phone: 1-866-680-2020
Cell: 647-299-5136
Fax: 1-866-748-2627
lucaspreston@invis.ca
License #: M08003866
Your mortgage....Consider it done!

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.