MARKET UPDATE: March 3rd, 2022:

Hello Again! I hope you and your family are all doing well.
What a crazy world we live in…scary times!
We are coming through the pandemic relatively well it seems over the past month. But since my last update, we've seen Convoy issues and now the Ukraine War has been going on for over a week. (Hard to not fall in love with the Ukranian people and their bravery over this last week!!)

The Bank of Canada (BoC) met yesterday. And for the first time since 2018, decided to raise the Overnight Rate by 0.25%. This was widely expected…despite the war breaking out in Europe. This will mean that the Bank's Prime Rate (and therefore all variable debts) are up 0.25% as well.
This is the first of a number of increases coming our way over the next 2 years. That we know!
The number of increases and speed of increases are still yet to be determined though.

So Prime is now up to 2.70% at every lender/bank not named TD (who's Prime Rate is now up to 2.85%).

Our economy appears to have hit full stride in the last quarter of 2021. There was a bit of a dip in January due to Omicron lockdowns, but it appears that the economy handled it better than the BoC had previously expected. And as has been the theme for the last while, inflation continues to rise…currently at 5.1% which is well above the BoC's target of 2%. So we are definitely heading into our rate rising cycle so that the BoC can hopefully slow down inflation. The question on everyone's mind is …how high and how fast rates will be increased!

ECONOMIST PREDICTIONS:

-If you buy into what the market is believing or the Scotiabank economists, then we will still see 1.5% more of increases in 2022 and 0.50% more in 2023. So that would have the Prime Rate up to 4.70% by the end of 2023. (That would be 0.75% higher than it was at the start of the pandemic).
Scotia foresees Canada's inflation rate remaining above 3% year over year until late 2023 (whereas the BoC believes it will be around the 3% range by the end of 2022). Scotia believes strong consumer demand and rising wages are unlikely to allow inflation to fall quickly enough to prevent further rate hikes from the Bank of Canada. This is pretty much in line with what the USA is expected to do to their interest rates over the same time period.

-And then you have economists like CIBC who believe we will see four straight 0.25% increases (so 3 more after yesterday's increase) and then the BoC will move to the sidelines for the rest of the year to see what materializes and take stock of the direction for growth and inflation. And they will then use Quantitative Tightening as their tool for the rest of 2022. *(Quantitative Tightening is the opposite of the Quantitative Easing program that has been in place since the pandemic started…where the BoC was buying up billions in bonds each week which helped stabilize rates and the economy. At some point they will start to unload these bonds and let their balance sheet decline. This won't have as great an impact* *as rate increases will, but it will still have some impact on inflation as it lowers the supply of money in the economy).*

And then CIBC predicts the BoC will start increasing rates again in 2023. (Though as of this week, they haven't stated by how much they expect rates to climb in 2023. PREVIOUSLY…a month ago…they had predicted we would see an additional 0.50%-0.75% of increases in 2023).

CIBC doesn't believe we need to increase rates as fast as the market believes or as fast as the USA is expected to increase their rates because our economy is more susceptible to rate increases than the USA (because they all have 30 year mortgage terms and we have 5 year ones). And we have a LOT more debt too, so rate increases impact us much more than they would impact consumers south of the border.

-And we also have one other prediction from David Rosenberg…a long time Chief Economist and Strategist for Rosenberg Research and Associates. (He is quoted in the news quite frequently…he tends to go against what the market thinks will happen). He believes only 2 or 3 increases will be needed because of the same points I've mentioned in the paragraph above. Also, by raising rates more than 2 or 3 times this year, the BoC risks inverting the yield curve. WHAT THE HECK DOES THAT MEAN?? It is complicated. But let us just say that since World War 2, when the yield curve inverts…we get a recession 100% of the time. That's about as accurate a predictor as we have! So in essence, Rosenberg is saying that too many increases means a recession for sure will follow.

On top of that, most of the causes of Inflation are Supply side issues and not Demand side issues. Increasing interest rates isn't as effective when dealing with supply side issues. So in order to truly crush inflation, they'll need to hike rates a lot. That is going to kill the economy and he doesn't believe the BoC will do that.

Now there is no way of knowing for sure what is going to happen here. Only hindsight will tell us for sure. BUT, I tend to think the latter 2 options have a better chance of being correct than the Market or Scotia. That isn't to say that Scotiabank and the market necessarily have it wrong. (Time will tell! But there is a reason why many investors and gamblers say to "fade the public"!!)

Based on what Rosenberg is saying, if Scotiabank is correct, it certainly means we are heading into a recession and now the BoC is forced to aggressively lower rates again. That seems counterproductive after spending the last 2 years and spending so much money trying to keep the economy afloat. Why spend so much money only to turn around and kill the economy and force yourself to spend even more money?!?!

But again…who knows?!?! I'm kind of regretting sleeping through those 8am Economics classes now!

For sure though, Inflation is going to get worse before it gets better. The War in the Ukraine will certainly not help the price of oil and the cost of gas at the pumps as well as the cost of many other

commodities. We also have the fact that many crops had poor growing seasons this past year so for many food types we were going to have shortages anyway! Higher transportation costs haven't helped the cost of food and other goods either.
Costs will continue to spike in the short-term as the issues causing inflation should only get worse in the short-term. (Thank you Putin).
I only hope the supply-chain issues and bottlenecks at the ports can get sorted out sooner rather than later. The longer they persist, the greater likelihood that rates will have to be increased more.

<u>MORTGAGE RATES:</u>

Unfortunately Mortgage Rates continue to creep up, as they have done for the last year or so.
For Purchases with less than 20% down payment the 5 year fixed rate is up to around 2.99%-3.19% depending on the lender. That is up about a quarter percent since my last update. The 5 year variable term is at 1.55% or Prime less 1.15%. That is up a quarter percent (but only because of the BoC's increase yesterday).
For Purchases with 20% down payment the 5 year fixed rate is up to 3.14% or higher. That is up about a quarter percent in the last month. The 5 year variable term is now at 1.75% or Prime less 0.95%. That is 0.30% higher than a month ago.

I would expect mortgage rates will continue to move upwards as we move forward.

<u>IN GTA REAL ESTATE NEWS:</u>

March 3, 2022 – February home sales were down compared to the all-time record in 2021, but represented the second-best result for the month of February in history. New listings dropped, but by a marginally lesser annual rate than sales, pointing to a modest move to a slightly more balanced market. Competition between buyers, however, remained tight enough to support double-digit price growth year-over-year.

Greater Toronto Area (GTA) REALTORS® reported 9,097 sales through the Toronto Regional Real Estate Board's (TRREB) MLS® System in February 2022, representing a 16.8 per cent decrease in the number of sales compared to February 2021.

The supply of listings for low-rise home types (detached, semi-detached and townhouses) was also down year-over-year, but not by as much as sales. In the condominium apartment segment, particularly in Toronto, new listings were up in comparison to February 2021.

"Demand for ownership housing remains strong throughout the GTA, and while we are marginally off the record pace seen last year, any buyer looking in this market is not likely to feel it with competition remaining the norm. Many households sped up their home purchase and entered into a transaction in 2021, which is one reason the number of sales were forecasted to be lower this year and a trending towards higher borrowing cost will have a moderating effect on home sales. Substantial immigration

levels and a continued lack of supply, however, will have a countering effect to increasing mortgage costs," said TRREB President Kevin Crigger.

The MLS® Home Price Index Composite Benchmark was up by 35.9 per cent year-over-year in February. The average selling price for all home types combined was up by 27.7 per cent to $1,334,544. The pace of price growth varied by home type and region, but there was relative parity between low-rise and condominium apartment growth rates.

"We have seen a slight balancing in the market so far this year, with sales dipping more than new listings. However, because inventory remains exceptionally low, it will take some time for the pace of price growth to slow. Look for a more moderate pace of price growth in the second half of 2022 as higher borrowing costs result in some households putting their home purchase on hold temporarily as they resituate themselves in the market," said TRREB Chief Market Analyst Jason Mercer.

"We are close to provincial and municipal elections in Ontario. We know that housing affordability will be top of mind. Parties and individuals vying for political office must concentrate on bold and creative policies that will support increased and diverse housing supply to account for the current deficit and future population growth as immigration accelerates. History has shown that tax based policies pointed at foreign buying and speculative activity, which seem to be the political preference, have had very little impact on the market simply because this type of activity accounts for a small share of overall market activity," said TRREB CEO John DiMichele.

SOOOOO…this is the first time in a while that there were more listings than sales in a month.

In speaking to some Realtors over the last week, they are seeing things start to change over the last week or so in a number of neighbourhoods. Whether that is because of the war, too many mortgage rules restricting what buyers can qualify for, buyer fatigue at having to bid hundreds of thousands of dollars over the list price, or increasing rates…. Or maybe a combination of everything, it is hard to know for sure.
BUT, some neighbourhoods are definitely slowing down a bit. The number of listings have increased and the number of showings have decreased. NOW THIS ISN'T THE CASE FOR EVERY PLACE. But it isn't just isolated to one neighbourhood either! Could the market finally be turning and moving back towards a more balanced market??!! Or will Spring arrive and Demand will skyrocket again?!?!

Time will tell I guess! Though immigration in Canada and the GTA is expected to be at record numbers in 2022. So that will definitely put pressure on prices at some point in the future if supply isn't increased.
And with the Ontario election coming up in a few months, I expect the housing supply (or lack thereof) to be a very popular topic in debates and policy for the major parties.

If I had to guess, it seems likely the housing market will stay relatively hot over the next few months. But by the end of 2022, barring some major changes, most economists believe we will be heading closer to a more balanced market, as opposed to the seller's market we've been in for many years now.

That is it for this month. The next BOC Meeting is on April 13th, so I will be in touch after that.
Be well! Stay safe! And have a great month!

Take care,

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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.