MARKET UPDATE: April 14th, 2022:

Hello Again! I hope you and your family are all doing well this month! Lots of covid and flu bugs going around the last few weeks so I hope you and your loved ones have managed to stay healthy.

The Bank of Canada (BoC) met yesterday and after raising rates by 0.25% at their previous meeting, they decided to raise the Overnight Rate by 0.50% at this meeting. This will mean that the Bank's Prime Rate (and therefore all variable debts) are going up 0.50% as well. So Prime is now up to 3.2% at every lender in the country ….except TD Bank…who will have their Prime Rate at 3.35%.

6 weeks ago it was expected that rates were only going to go up 0.25% at this meeting….though a few economists were calling for bigger hikes than that, many didn't expect that to materialize. But with the war in the Ukraine dragging on, supply-chain issues still dragging on as well, AND with inflation really starting to take hold all over the country and not just because of the war and supply chain disruptions, it became apparent over the last few weeks that the hike this week was going to be 0.50%.

This is the first time since 2000 that the BoC has raised rates by more than 0.25% at a time.
It appears the BoC really wants to show us that they are serious about inflation and they are going to ensure we don't see inflation climb like it did in the 1970s. They certainly don't want to be raising rates to 20%!!
Back in 2000…when they last hiked rates 0.50% at a meeting, "neutral" rates were said to be in the 5% range. Back in January of this year, the BoC said they believed Neutral Rates would be in the 1.75%-2.75% range. BUT…yesterday they raised this projection by 0.25%. So now the BoC believes the Neutral Rate will be in the 2%-3% Range. The hope is that with rates essentially half of what they were in 2000, a half percent increase today should have a MUCH larger impact at cooling the economy today than it did back in 2000. So hopefully that means less rate increases will be needed than in previous 'Raising Rate' cycles.

FYI…Neutral Rates are the point where they don't fuel inflation, but also allows the economy to perform at full productivity. So that is the sweet spot the BoC is aiming for.
Currently the BoC's Overnight Rate is at 1%. So with some simply math, that means we have at least 1% more increases coming and possibly 2% more. This assumes that yesterday's projection by the BoC was correct of course. BUT, to complicate things a bit, BoC Governor Macklem did point out that IF NEEDED, they could go higher. So it isn't like 2% more increases is definitively the top.

BOTTOM LINE….Expect more increases in the short-term. It seems likely we have at least 1% more of increases coming our way in the next year….and very possibly 2%.

The BoC also indicated that they will stop buying new bonds back when they expire later this month. So instead of being in the QE Program (Quantitative Easing), we are now entering the QT Program (Quantitative Tightening). This will slowly but surely shrink the amount of money in the supply.

Even with these moves, the BoC still doesn't expect Inflation to be back in line with their 2% target until 2024. So we are going to be dealing with inflation for another couple of years at least. So unfortunately those grocery bills or fill-ups at the gas tank aren't going to get cheaper anytime soon!

The truth is that NO ONE knows the answer as to what is going to happen with rates….not even the Bank of Canada!
How high and how fast will they go? Even my crystal ball has gone fuzzy!!
I don't think any economist believed a year ago we would be where we are today….this quickly after the pandemic (or in reality…while the pandemic is still underway!!)
So it is hard to believe that anyone could accurately predict where rates are going to be a year from now! What does seem apparent is that the BoC will raise rates again at the next meeting on June 1st. What is unknown is whether it will be 0.25% or 0.50%. Right now, the market has priced in a 0.25% increase at the next meeting. But that could definitely change over the next 5 or 6 weeks.

Here are the recent predictions from the big banks' economists as to how much higher rates are going to go in 2022 and 2023: (NOTE: THESE COULD ALL BE REVISED UPWARDS AFTER THE BANK OF CANADA REVISED ITS OWN ESTIMATES UPWARDS YESTERDAY…as these predictions are from a week ago)…..

-BMO: 1% more increase in 2022, followed by 0.50% more in 2023.
-CIBC: 0.75% more increase in 2022, followed by 0.50% more in 2023.
-National Bank: 0.50% more increase in 2022, followed by 0.25% more in 2023
-RBC: 1% more increase in 2022….no increase in 2023
-Scotia: 1.5% more increase in 2022, followed by 0.50% more in 2023.
-TD: 1.50% more increase in 2022, followed by 0.25% more in 2023. (this was revised upwards this week…previously TD only thought we'd have 0.75% more increases in 2022).

-THE MARKET believes we will see 1.50% more increase in 2022.

So that is what the Big-Whigs say (and what investors think too). Will they be correct? Ask me in a year!!

As I've spoken about in previous updates, there is a high likelihood that raising rates too quickly will bring about a recession. Having said that, the BoC clearly doesn't see that in the cards over the next few years as they've called for Canada's economy to grow by 4.25% in 2022, 3.25% in 2023 and 2.25% in 2024. I guess we shall see how those projections shake out in the coming years.

MORTGAGE RATES:

Mortgage Rates continue to creep up, as they have done for the last year or so. But this month, fixed rates are up quite a bit more than previous months. For Purchases with less than 20% down payment the 5 year fixed rate is up to around 3.79%-3.99% depending on the lender. That is up about 0.85% since my last update. The 5 year variable term is at 2.25% or Prime less 0.95%. That is up a 0.40% (The BoC's increase yesterday accounts for a quarter percent of that increase).

For Purchases with 20% down payment the 5 year fixed rate is up to 3.99% or higher. That is up about 0.85% higher than last month. The 5 year variable term is now at 2.60% or Prime less 0.60%. That is 0.60% higher than a month ago. I would expect mortgage rates will continue to move upwards as we move forward.

For those keeping count, fixed mortgage rates are the highest they've been since 2008….before the US Financial Collapse. Anyone who has been a homeowner for less than 15 years has not ever seen fixed rates like this!
It will be interesting to see if the housing market can stay strong with rates this high. Keep in mind that the "qualifying rate" or "stress test rate" is your contract rate + 2%. So if you are getting a 5 year fixed rate at 3.99%, it means you have to qualify at 5.99%! With these high house prices, that means you need pretty high income to get the mortgage you want. That I believe is going to be the biggest factor in slowing down the housing market. And definitely isn't going to make it any easier for First-Time-Buyers to get their foot in the door.

<u>THE FEDERAL BUDGET:</u>

In other news this month, Finance Minister Freeland released this year's budget. I think most economists were surprised that it was a little more fiscally responsible than previous budgets by Team Justin.
In this year's budget, there were a few items to help geared towards the housing market.
Those include:
1. A two-year ban on foreign home buyers.
Foreign buyer is defined as a non-Canadian Citizens or not having Permanent Residence Status.

(LUKE'S OPINION: This kind of makes it seem like they are blaming foreigners for the runaway housing market. That is incorrect by all accounts. My best guess is this will do next to nothing to slow down rising prices or slow demand).

2. The budget promises to introduce tax-free savings accounts that would give first-time home buyers the chance to save up to $40,000.
Contributions would be tax-deductible and withdrawals to buy a first home would not be taxed.

(LUKE'S OPINION: Kind of like a TFSA and RRSP in one. The problem as I see it is that most people can't save fast enough to keep up with rising housing prices. And if the average home costs more than $1million, having $40k doesn't help the first time buyer as they need 20% down payment. This might have been more effective had the gov't increased the "insurer" maximum from $1 million to say $1.25 million. That way you could buy for $1.1 million and not have to put down $220k.
ALSO…when many of the population can barely afford their current situation, where is the $40k going to come from??!!

This feels like a "seems good on paper…not so great in reality" program).

3. The launch of a new housing accelerator fund — worth $4 billion over five years to help municipalities speed up housing development.

The goal is to create 100,000 new housing units in the next five years.

(LUKE'S OPINION: I like this one. Anything directed towards improving supply had my vote. And in order for municipalities to get money for things like transportation or transit, they are going to have to play along with the FEDs. And the reality is, the lack of supply is an issue that all 3 levels of government need to work together on. This rule might actually start that process down the correct path.
100,000 new homes isn't enough to fix the problem. But it is at least a start).

4. The budget also extends the rapid housing initiative, pledging $1.5 billion over two years to create at least 6,000 new housing units to help tackle homelessness.

(LUKE'S OPINION….Not sure what this is going to look like, but more money towards this subject is definitely needed. 6000 is a drop in the bucket, but again…a start towards the right direction which is long overdue).

5. There is still talk that the Liberals might remove the "blind bidding" on offers for homes.
They seem to be the only ones who believe that causes higher house prices, yet EVERY study done has indicated they are incorrect in their assumption.

<u>IN GTA REAL ESTATE NEWS:</u>
April 5, 2022 – There were almost 11,000 Greater Toronto Area (GTA) home sales reported in March 2022, capping off the third-best March and second-best first quarter on record. Tight market conditions continued to support a double-digit annual pace of price growth, with an average selling price of $1.3 million. The average selling price dipped slightly month-over-month, bucking the regular seasonal trend.

"Now is the time for governments to govern and focus on measures that are proven to increase housing supply. The GTA population will experience rapid growth in the coming years as our region's economic strength and diversity continues to attract people from around the world. In order to sustain this growth, we need adequate housing supply and choice. This needs to be the focus of policymakers rather than short-term and ineffective measures to artificially suppress demand. Evidence-based decision-making should inform government policies, and we encourage representatives at all levels of government to think big and act decisively to improve needed housing supply in a significant way," said TRREB President Kevin Crigger.
Highlights are as follows:
• GTA REALTORS® reported 10,955 sales through TRREB's MLS® System in March 2022, representing a 30 per cent decline compared to the record result of 15,628 in March 2021. While sales were down year-over-year for all major market segments, condominium apartment transactions dipped by a much lesser annual rate.

• New listings were also down on a year-over-year basis, but by a much lesser annual rate than sales. This suggests that while market conditions remained very tight, home buyers did not experience the same level of competition from other buyers compared to a year earlier.
• The MLS® Home Price Index Composite benchmark was up by 34.8 per cent year-over-year in March 2022. This annual rate of increase was down slightly from February. The average selling price was up by 18.5 per cent year-over-year. The annual growth rates for the MLS HPI® and average selling price differed, in part, because the mix of homes sold in March 2022 shifted in favour of condominium apartments which generally sell for a lower average price compared to other home types.

"Competition between home buyers in the GTA remains very strong in most neighbourhoods and market segments. However, we did experience more balance in the first quarter of 2022 compared to last year. If this trend continues, it is possible that the pace of price growth could moderate as we move through the year," said TRREB Chief Market Analyst Jason Mercer.

"Housing policy decisions and promises made in conjunction with the upcoming provincial and municipal elections will influence not only the GTA housing market but also the region's overall economic competitiveness. Of particular importance will be the reduction of roadblocks and red tape associated with the development of more housing rather than trying to suppress demand which has been ineffective. Population growth is expected to be at or near record levels in the coming years.

SOOOO….things are starting to moderate A BIT in some neighbourhoods. Though I'm told a good home in a good neighbourhood is still going to sell for over asking. So we are certainly not in a balanced market yet. But it definitely appears we are moving towards that.

That is it for this month. The next BOC Meeting is on June 1st, so I will be in touch after that.
Be well! Stay Healthy! Have a great month!
And Happy Easter!

Take care,

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