MARKET UPDATE: June 2nd, 2022:

Hello Again! I hope you and your family are all doing well this month and that everyone is enjoying the warmer weather and looking forward to the summer! It is almost here!! (and apparently it is going to be hot…but also humid! Ginger Luke reminds you to remember your sunscreen!!! 😊).

The Bank of Canada (BoC) met yesterday and for the second straight meeting they decided to raise the Overnight Rate by 0.50%. This will mean that the Bank's and Lender's Prime Rate (and therefore all variable debts) are going up 0.50% as well. So Prime is now up to 3.7% at every lender in the country ….except TD Bank…who will have their Prime Rate at 3.85%. This move was widely expected….As is another half percent increase at the next BoC meeting in July. (Though there is an outside chance the the BoC will increase rates 0.75% at the July meeting. At this point, nothing is outside the realm of possibility!!)….But after the July meeting is where it gets a lot more foggy.
Already this year we have now seen the BoC raise rates by 1.25% from the 'rock bottom' lows needed during the pandemic.

Inflation is way too high (6.8% now, and the BoC wants it around 2%) and inflation is expected to continue to increase in the short-term. How it reacts to these over-sized BoC increases will determine the path of future increases in the fall.

CURRENT BANK OF CANADA RATE PREDICTIONS FROM THE BIG SIX BANKS:

Here are the latest predictions I've seen…taken from a Canadianmortgagetrends.com article released only 2 days ago:

BMO: 0.75% more increases by the end of 2022 (so only a quarter percent more after the "expected" 0.50% increase in July). And 0.50% increase in 2023.

CIBC: 0.75% more increases by the end of 2022 (so only a quarter percent more after the "expected" .50% increase in July). And 0.25% increase in 2023.

NATIONAL BANK: 1.00% more increases by the end of 2022 (so a half percent more after the "expected" 0.50% increase in July). And NO increase in 2023.

RBC: 1.00% more increases by the end of 2022 (so a half percent more after the "expected" 0.50% increase in July). And NO increase in 2023.

SCOTIABANK: 1.50% more increases by the end of 2022 (so 1% percent more after the "expected" 0.50% increase in July). And NO increase in 2023.

TD: 1.00% more increases by the end of 2022 (so a half percent more after the "expected" 0.50% increase in July). And NO increase in 2023.

Who will actually be correct is anyone's guess!! These predictions might change by the time I finish writing up this update!!
But even the most aggressive of these predictions would have Prime going no higher than 5.2% by the end of 2022 (and staying there for 2023). Prime has not been at this level since early 2008.
Whereas the majority of the predictions from the Big 6 have Prime being at 4.70% by the end of this year and 2023.
BUT…the Market has priced in increases similar to what Scotiabank is saying….Investors expect a 0.50% increase in July and September…and another 0.50% increase after that before the end of 2022.
They are reading into the wording from the BoC yesterday, when the Bank said they were "willing to act more forcefully" in order to bring inflation risks back under control.
Whether the majority of the Big Six Banks will change their opinions in the coming days after hearing what the BoC stated remains to be seen. As I say every month….TIME WILL TELL!

Canada's GDP Growth was 3.1% in the first quarter of 2022. This is in line with the BoC's projections. HOWEVER, it is well below analysts predictions, as they were expecting growth 5.4% in the first quarter. So growth wasn't nearly as good as many analysts expected.
But, despite this, there are wide-spread labour shortages in most sectors and this is pushing wages upwards. That is good for employees, but also helps contribute to inflation.

The housing market is finally moderating and in some markets in Ontario, homes are worth less than they were a couple of months ago. But with Consumer Spending remaining robust and exports expected to strengthen, growth in the second quarter in Canada is expected to be solid.

CURRENT MORTGAGE RATES:

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 4.24%-4.49% depending on the lender. That is up about half a percent since my last update. The 5 year variable term is now at 2.75% or Prime less 0.95%. That is up 0.50% because of yesterday's BoC increase. BUT fortunately, the Prime less 0.95% spread has not changed in the last month.

For Purchases with 20% down payment the 5 year fixed rate is up to 4.69% or higher. That is up about 0.70% higher than last month. The 5 year variable term is now at 3.10% or Prime less 0.60%. That is 0.50% higher than a month ago because of the half percent BoC increase. And like purchases with less than 20% down, there has been no change to the spread off of prime in the last month for purchases with 20% down payment.

FORTUNATELY….it appears fixed rates might be leveling off. Spreads have been relatively stable the last couple of weeks.

Could we have reached the peak of fixed rates now?? Impossible to know for sure, but it certainly is possible.
Fixed Rates are now up about 2.25%-2.50% since October of 2021. So unless the BoC raises rates higher than everyone expects, there really isn't much need for many more increases to fixed rates going forward.

IN GTA REAL ESTATE NEWS:

It will be a few days until the May real estate numbers are released, so the only numbers I can share are April's numbers. FYI

TORONTO, ONTARIO, MAY 4, 2022 – The Greater Toronto Area (GTA) housing market continued its adjustment to higher borrowing costs, with the number of transactions down on a monthly and annual basis. As has been the case with previous rate tightening cycles, some home buyers have moved to the sidelines to determine how they will reposition themselves in the marketplace given the higher rate environment and related impact on affordability.

"Based on the trends observed in the April housing market, it certainly appears that the Bank of Canada is achieving its goal of slowing consumer spending as it fights high inflation. Negotiated mortgage rates rose sharply over the past four weeks, prompting some buyers to delay their purchase. Moving forward, it will be interesting to see the balance the Bank of Canada strikes between combatting inflation versus stunting economic growth and related government revenues as we continue to recover from and pay for pandemic-related programs," said TRREB President Kevin Crigger.

GTA REALTORS® reported 8,008 homes sold through TRREB's MLS® System in April 2022 – a 41.2 per cent decrease compared to April 2021 and a 27 per cent decrease compared to March 2022. On a year-over-year basis, the decline in sales was greater in the '905' area code regions surrounding Toronto, particularly for detached houses.

The MLS® Home Price Index Composite Benchmark was up by 30.6 per cent year-over-year in April 2022. The benchmark level in April was down in comparison to the March level. The average selling price, at $1,254,436, was up by 15 per cent compared to April 2021, but down compared to the average selling price of $1,300,082 in March 2022.

"Despite slower sales, market conditions remained tight enough to support higher selling prices compared to last year. However, in line with TRREB's forecast, there is evidence of buyers responding to increased choice in the marketplace, with the average and benchmark prices dipping month-over-month. It is anticipated that there will be enough competition between buyers to support continued price growth relative to 2021, but the annual pace of growth will moderate in the coming months," said TRREB Chief Market Analyst Jason Mercer.

“Policymakers should not assume that because home sales are off their record peak, we can ignore the lack of inventory in the market. Buyers who have moved to the sidelines will not remain there forever, and the population of our region will continue to grow on the back of immigration. In the absence of new supply, we will build a significant amount of pent-up demand that will need to be satisfied in the not-too-distant future. The ability to increase and diversify our housing supply needs to be a key area of debate in our upcoming provincial and municipal elections,” said TRREB CEO John DiMichele.

SOOOO…more of the same as it definitely appears the market is cooling. But let’s not forget that we are comparing this year’s sales numbers to last year’s record numbers. Sales are still hotter than the long-term average.
And again…like a broken record…we still need more supply! Much of the “Demand” side might be sitting on the sidelines today, but they won’t be there forever. And immigration is going to ramp up as well, so if we don’t continue to focus on increasing supply, demand and house prices will take off again.

That is it for this month. The next BOC Meeting is on July 13th, so I will be in touch after that.

Be well! Stay Healthy! And have a great month! **REMEMBER TO VOTE TODAY IF YOU HAVEN’T DONE SO ALREADY!**

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
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