MARKET UPDATE: July 14th, 2022:

Hello Again! I hope you and your family are all doing well this month and that you are enjoying the sunshine! I hope that the start of the summer is going great!

This update is a longer one than usual. Crazy and unusual times we are in. So that means more to talk about!

The Bank of Canada (BoC) met yesterday to hike rates again. After two straight meetings of raising the Overnight Rate by 0.50%, they decided to hike rates by a full 1% at this meeting. That is the largest increase since 1998.
This will mean that the Bank's and Lender's Prime Rate (and therefore all variable debts) are going up 1% as well. So Prime is now up to 4.7% at every lender in the country...except TD Bank…who will have their Prime Rate at 4.85%. The BoC has now increased rates by 2.25% between March and today….and more increases are coming (They said so themselves…so that isn't speculation!!). With many economists complaining of late that the BoC had "fallen behind the curve" of inflation, this is probably a welcome move by most economists.

We are now smack-dab in the middle of the "neutral range" of rates that the BoC had previously suggested we needed to get to. Yet…rates are still expected to climb further as inflation is not going anywhere! They had indicated previously that they might need to go above the neutral range in the short-term to help bring inflation back down, so I guess that should have been expected.

After the last BoC meeting in June, it was widely expected a half percent increase was coming our way this month. But then the US Fed increased rates by 0.75% at their meeting a couple of weeks later. So then over the last 4 weeks, it became apparent that our rate was going up 0.75%. Pretty much every economist in the country was predicting a 0.75% increase. Sure there was a bit of talk that there could be a full 1% increase, but it seemed that economists didn't believe that was coming as the BoC had previously stressed they wanted to be 'transparent and predictable' and they hadn't given any indication that a full one percent increase was coming. But unusual times call for unusual measures it appears!

With inflation continuing to get worse (which was expected…it is still expected to remain around 8% for the next few months….and gas prices shot up in June, so the June inflation numbers will be even higher than the 7.7% seen in May), the BoC decided to "front-load" the path to higher rates. They believe that by doing so, they will be less likely to need to raise rates too much higher to combat inflation going forward. And they believe this approach will produce a "softer landing" for the economy and hopefully spare us from a recession. Being I don't have a Masters or PHD in Economics, I'll have to simply hope they are correct! Though history has told us the opposite tends to happen when you hike rates by massive amounts. But I do see the logic in trying to raise rates quickly to try and stamp out inflation so they don't have to raise interest rates to the moon to do so. That would definitely cause a worse recession. So maybe there is a method to their madness!!

We knew many increases were coming anyway, as it was widely expected we would get an increase of 0.75% this month and most likely another 0.50% increase at the next meeting in September. So this really doesn't change a lot…other than borrowing costs are getting more expensive faster than we expected. It doesn't necessarily mean they will peak at a higher point than previously thought prior to this increase. Time will tell on that I guess!

It will be interesting to see how much the BoC hikes rates at their next meeting in September. The market (and basically everyone!) was hoping there would be something in the wording of the message from the BoC to indicate what will happen in the future and how much higher rates will climb. Unfortunately there wasn't much of that to read into. So we are still in the dark and won't have any clarity until at least the next BoC meeting in September.

<u>SO NOW WHAT?!?!?</u>

There are still more increases coming. Depending on which analyst/economist you ask, it will be 0.25% to 1% more of increases coming. Could there be more than that? SURE! Hard to know or trust anyone at this point. But as of today that is what the economists are still predicting. A 1% further increase would be putting us half a percent HIGHER than the desired 'Neutral Range' of rates. So if that did happen, it would mean that the BoC would be looking to lower rates when they could in the months to follow.

Speaking of that….On top of the increases coming, it now seems inevitable these rate increases are going to bring about a recession. There were some economists talking about this a month ago (while some were talking about it 6+ months ago).
Some other economists said "NO CHANCE OF A RECESSION" as recently as a month ago.
Well now it certainly appears it isn't about IF anymore, but WHEN the recession hits.

CMHC believes the recession could begin as early as late 2022 if rates are hiked 1% more.
Most economists seem to believe it will begin around the middle 2 quarters of 2023, while a few believe that we are looking at later in 2023 before the recession hits.
For now, most don't appear to believe it will be a long and drawn-out recession. Though the chances of it being worse and longer increase with every further rate increase they bring to us! And again, the BoC believes they can spare the economy with these front-loaded rate hikes and give it a softer landing if they aren't forced to hike rates too much higher.

But not all economists agree there will be a soft landing for the economy. Some American economists (e.g. Bank of America for one, etc…) now believe the only way we are going to fix the inflation issue in the USA and Canada is to have a deep and long recession! That's not good to hear!! ….Though it would mean rates would have to fall a bunch I'd think, if I'm looking for a silver lining in that statement! But that logic makes sense also. With unemployment at record lows, and no way to control Chinese Supply

Chains or Wars in the Ukraine, we really need to get people to stop spending to start bringing inflation down. And it might take a long recession (and many jobs lost) for this to materialize.

AGAIN…no way of knowing for sure….These are just educated guesses for people wiser and more educated than me! But history has told us that after a period of hiking rates quickly, it seems to be followed by a recession and then a period of quick rate drops.

Over the last 30 years, we've had 6 periods of rate increases by the BoC. All of them were followed by Rate Drops….on average about 5.7 months after the hikes stopped.
AGAIN… we do NOT know for sure….but based on history of the last 30 years, that means that if rates stop going up in October or December of this year, it COULD mean that rates will start to come back down again in April to June of 2023.
The average increase of those 6 periods of increases was 1.95%, whereas the average decline afterwards was 2.85%. We are already at 2.25% of increases with potentially 1% more coming.
History of the last 30 years tells us that rates don't tend to come back down just a little bit. In the majority of cases, they come right back to where they were and even below where they were when rate hikes started! So that would be good news for those in a variable rate mortgage. Though we can't assume history is to repeat itself exactly as it has before (if it does, I guess we'll all be growing mullets again soon!!!).

AGAIN…every situation is different, so it doesn't have to play out like it has the previous six times.
A lot will depend on how quickly inflation can subside. It will be hard for the BoC to lower rates if inflation is still 4 times what it ideally wants and is still increasing! (Food costs increased 9.7% in May!!! OUCH!!)

The BoC is definitely more worried about inflation than they are the economy at this point…as they should be. The Unemployment Rate is at the lowest of all time and wages are up over 5%. They have to stop this runaway train at all costs…even if that means ruining the economy down the road.

But maybe some good news about inflation….The BoC did say that they expect inflation to start to come down later this year, and to be back at 3% by the end of 2023 and at the 2% target rate by the end of 2024.

Unfortunately, until inflation has subsided and rates are coming back down, most will be feeling more poor! Groceries and Gas and Goods will continue to cost more. All while our debts are going to cost more.
I'm hoping it is a smooth landing for most people. And I'm hoping that the recession isn't too bad. I've seen predictions already that the unemployment rate will have to jump 1.5% if we get that recession. Anything prolonged would mean even more job losses, which obviously isn't good!

<u>SO DO YOU WANT TO LOCK IN YOUR MORTGAGE??</u>

If you are in a variable rate mortgage, there will be temptation to 'lock-in' to a fixed term.
But the decision is not "black and white" and certainly not an easy one to make. Unfortunately, without the benefit of hindsight or a crystal ball, it isn't easy to know what to do.

The problem is this…..Fixed Rates have already gone up in anticipation of these BoC Increases.
Fixed Rates are already about 3%-3.25% HIGHER than they were in October of 2021.

So for example, if Prime is now at 4.7% and you have Prime less 1% on your mortgage (which you could have gotten 6 months ago but can't get anymore)….Your mortgage rate is now at 3.7% today.
ASSUMING economists are correct and rates will only go up NO MORE THAN 1% MORE, your 3.7% rate would be jumping to 4.7% in the coming months.
Well the fixed rate you'd be locking into TODAY is over 5% today….(5%-5.5%...depending on the lender and type of mortgage you have).

So by locking in, you are locking in at (IN THEORY) a rate that is higher than your variable term will get to.
AND if a recession is coming, and rates are then going to be forced downward, how happy would you be to be locked in at 5% or 5.25% for say 5 years, only to see variable rates coming back down in a year or so?!?!?

The problem with this thinking is that we don't know for sure that 1% more of increases is the maximum rates can increase. If we knew rates were going to 7% or 10%, you'd love to lock in at 5% today right!?!?

So that is why it isn't an easy decision to make.
Do you trust the economists in Canada to have it right?? (They are correct about as often as most Weathermen by the way!!!) If so, I don't think it makes sense to lock in.

Or do you think rates are going to go up more than 1% in the coming months?? Then that might make you more likely to want to lock in.

Unfortunately both options aren't great today….it means getting a rate that is much higher than we've seen in the last 15 years. The variable option will only feel much better when rates are starting to come back down again. And while we believe that is what will happen, there is no way to know for sure if it is to happen, when it will happen, and how far the drops would be.

So if anyone has a crystal ball I could borrow, I would really appreciate it! It would certainly help me give better advice!!

<u>CURRENT MORTGAGE RATES:</u>

A month ago I had mentioned it appeared as if mortgage rates were appearing to level off.
Well that changed quickly after the US Fed raised rates 0.75% two weeks after my update and it became apparent that we'd be having an increase of more than half a percent at the next BoC meeting.
So 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 4.99%-5.19% depending on the lender. That is up about half a percent since my last update 6 weeks ago. The 5 year variable term is still at Prime less 0.90% so no change in the spread. But with Prime going up 1% today, that means 2.8% becomes 3.8% as of today.

For Purchases with 20% down payment the 5 year fixed rate is up to 5.24% or higher. That is about 0.55% higher than last month. The 5 year variable term is now at 4.3% or Prime less 0.40%. That is 1.20% higher than a month ago because of the one percent BoC increase and spreads shrinking by 0.20%....(we could get Prime less 0.60% six weeks ago).

I HOPE this is the end of the fixed rate increases. But we could very well see a slight uptick after the BoC surprised the market with a full 1% increase today instead of the expected 0.75% increase.

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

TORONTO, ONTARIO, July 6, 2022 – Higher borrowing costs continued to impact home sales in June 2022. Sales totalled 6,474 – down by 41 per cent compared to last year's strong result. The number of transactions was also down compared to May 2022, but this is often the case due to the seasonal nature of the market.

The average selling price, at $1,146,254, remained 5.3 per cent above the June 2021 level, but continued to trend lower on a monthly basis. The MLS® Home Price Index Composite benchmark was up by 17.9 per cent year-over-year, but also experienced a month-over-month dip compared to May. Annual price growth was driven more so by less expensive market segments, including townhouses and condominium apartments.

"Home sales have been impacted by both the affordability challenge presented by mortgage rate hikes and the psychological effect wherein home buyers who can afford higher borrowing costs have put their decision on hold to see where home prices end up. Expect current market conditions to remain in place during the slower summer months. Once home prices stabilize, some buyers will re-enter the market despite higher borrowing costs," said TRREB President Kevin Crigger.

While the number of transactions was down year-over-year, the number of new listings was little changed over the same period. This has provided for more balance in the market, resulting in a more moderate annual pace of price growth.

"Listings will be an important indicator to watch over the next few months. With the unemployment rate low, the majority of households aren't in a position where they need to sell their home. If would-be sellers decide to take a wait-and-see attitude over the next few months, it's possible that active listings could trend lower as well. This could cause market conditions to tighten somewhat, providing some support for home prices," said TRREB Chief Market Analyst Jason Mercer.

"Our region continues to grow because we attract people and businesses from all around the world. All of these people will require a place to live, whether they choose to buy or rent. Despite the shorter-term impact of higher borrowing costs, housing demand will remain strong over the long-term, as long as we can produce homes within which people can live. Policymakers at all levels need to make this their key goal," said TRREB CEO John DiMichele.

SOOOOO….we continue to see higher borrowing costs reduce the number of transactions. It seems many have moved to the sidelines to see what materializes. And that is putting downwards pressure on house prices. But we are still well above pre-Covid prices in most neighborhoods.
The summer months tend to be slower than the spring anyway. So it appears we will probably have to wait until the fall to see if this is the new norm or if there will be increased demand and more transactions at that time. It certainly isn't easy to qualify for (or afford!!) the mortgage you want anymore. And that is one of the main reasons why we are seeing that the majority of transactions now are at the lower end of the price-points….condos and townhomes, as that is all people can qualify for now!

That is it for this month. The next BOC Meeting is on September 7th, so I will be in touch after that.

Be well! Stay Healthy! And have a great summer!

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.