MARKET UPDATE: September 8th, 2022:

Hello Again! I hope you and your family are all doing well this month and that you enjoyed the last of the summer. We certainly were blessed with good weather! I hope those of you who are parents are having an easy week getting the kids back to school! I hope the kids stay healthy!!

The Bank of Canada (BoC) met yesterday to hike rates again. We have already had 2.25% of increases since March and as was widely expected, the BoC followed that up with another 0.75% increase yesterday, to bring the Overnight Rate to 3.25%. This will mean that the Bank's and Lender's Prime Rate (and therefore all variable debts) are going up 0.75% as well. So Prime is now up to 5.45% at every lender in the country...except TD Bank…who will have their Prime Rate at 5.60%. The BoC has now increased rates by 3% between March and today in what has become one of the most aggressive monetary policy tightening phases in Canada's history.

If you have a 30 year amortization and are in a variable rate mortgage, your payments are going up about $44 a month for every $100k you owe. So in total, your monthly payments have increased about $164 since March for every $100k you owe.

The real story that will capture the headlines from this meeting was that the BoC threw cold water on the "pause" talk and indicated that more increases are still to come in order to get inflation under control. Many economists thought this could be the last increase.

Prior to the meeting many economists believed this 0.75% hike was the end of the increases and the BoC would move to the sidelines for the foreseeable future. Due to the fact that we as a Canadian Society are heavily in debt, interest rate increases will have much more of an impact on us versus other nations. The rest of the economists believed we could get one more increase at the October meeting, and that increase would only be 0.25% more.

SO WHAT IS COMING NEXT?!?:

Now it appears no one has a clue what will happen, other than the fact that more increases are coming. The only other thing that economists seem to believe in unison is that growth will slow and be lower than the BoC projection for quarter 3.

Overall inflation has gone down a bit of late due to gas prices falling. But unfortunately core inflation continues to increase. So we are now above the "neutral range" where rates will not slow the economy, or stimulate it and we have fully entered the "restrictive" territory. So the BoC is fully aware they are slowing the economy now. This is needed to bring inflation back in line. But with every increase, they reduce the chances of the "soft landing" of our economy they say they desire.

CIBC who was one of the banks predicting this month's 0.75% increase to be the last, quickly pivoted after the BoC meeting and said they expect a quarter percent hike in October AND December. They said it fully appears the BoC is willing to sacrifice more growth than expected to get inflation under control in the short-term. But it now appears that is what the BoC wants to see…more months of below potential growth to truly show that inflation is trending in the right direction before they stop the rate hikes.

BMO is now calling for a 0.50% hike in October and then "we'll see" after that. TD predicts we have another 0.75% of increases coming over the next two BoC meetings.
Money Markets have currently priced in a 0.25% increase in October and another at the following meeting in December, which if correct would mean another 0.50% of increases coming our way. (Though that might increase now in the coming days after the wording by the BoC at the meeting).

Growth in Q2 has already slowed more than the BoC had previously expected. So the economy is already starting to show signs of trouble. It still seems that the Big Bank CEO's and the BoC are not too concerned about a recession. They all seem to believe it will be short and mild (if at all).

The "non big-bank" economists are singing a different tune though and there is definitely more talk about a recession coming in early 2023 from this group. Time will tell I guess who is correct and who is truly in touch with what is happening. We did have one Desjardins Economist call out the BoC yesterday and tell them to stop sugar coating things to the public about the high likelihood of an upcoming recession!

I certainly hope you all have tons of money in the bank to deal with the higher cost of everything! The BoC and Big Bank CEO's keep talking about there being nothing to worry about, as everyone seems to have all this money saved up from being stuck at home during the pandemic. That is certainly not what I am seeing from most people I talk to. And according to Equifax (the credit bureau company) the amount of unsecured debt the average consumer is carrying has increased as well! The average consumer now has over $21k of unsecured debt…up 2.4% in the last year. And overall non-mortgage debt rose 5.2% in the last year. So while a Bank CEO or BoC Governor might have lots of savings, it seems likely the average person is quickly running out of savings and taking on debt now.

The BoC and Bank CEO's might have been right about the savings factor months ago, but I believe the excess savings most had is gone or soon to be gone. Life has been quite expensive for many over the past 6 months! It seems to me that many businesses are intent to make up for 2.5 years of lost time! Every outing is very expensive now!!

As I've said many times in the last 6 months, who the heck knows what is going to happen?!?!
Just a week ago, for once, the Economists were basically united in thinking we had 0.75% to 1% more of increases coming, so I had hope that was what was going to materialize. Now that appears to have been too conservative an estimate by ALL of them!

I just hope there are more of you out there than I believe with extra money in the bank to handle the additional costs of EVERYTHING. Those costs appear they will continue to get higher in the short-term. It seems most economists do not believe inflation will be under control until at least the end of 2023 and possibly well into 2024 despite all of these rate hikes…and now more to come!!

<u>CURRENT MORTGAGE RATES:</u>

Prior to yesterday's meeting, mortgage rates had actually improved over the last month. We appeared to be closing in on the end of the BoC Rate Hikes and also closing in on a recession when rates would be forced back down. So those factors had started to bring rates back down.

For Purchases with less than 20% down payment the 5 year fixed rate was down about half a percent to around 4.59%. The 5 year variable term is still at Prime less 0.90% so no change in the spread. But with Prime going up 0.75% yesterday, that means 3.8% becomes 4.55% as of today.

For Purchases with 20% down payment the 5 year fixed rate is in the 5.14%-5.24% range. That is actually down about 0.10%-0.20% since mid-July. The 5 year variable term has not changed and is still at around Prime less 0.30%-0.40%. But with Prime being at 5.45% now, that means a 5 year variable rate is around 5.05% to 5.15%.

With the surprising wording that more BoC increases are coming, I fear that fixed rates will creep back up in the near future and that the spreads off of Prime will get worse.

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

TORONTO, ONTARIO, September 2, 2022 – There were 5,627 home sales reported through the Toronto Regional Real Estate Board's (TRREB) MLS® System in August 2022, representing a year-over-year dip of 34.2 per cent – a lesser annual rate of decline compared to the previous four months. The August sales result also represented a month-over-month increase compared to July.

Sales represented a higher share of new listings compared to the previous three months. If this trend continues, it could indicate some support for selling prices in the months ahead. On a year-over-year basis, the MLS® Home Price Index (HPI) was up by 8.9 per cent and the average selling price for all home types combined was up by 0.9 per cent to $1,079,500. The average selling price was also up slightly month-over-month, while the HPI Composite was lower compared to July. Monthly growth in the average price versus a dip in the HPI Composite suggests a greater share of more expensive home types sold in August.

"While higher borrowing costs have impacted home purchase decisions, existing homeowners nearing mortgage renewal are also facing higher costs. There is room for the federal government to provide for greater housing affordability for existing homeowners by removing the stress test when existing mortgages are switched to a new lender, allowing for greater competition in the mortgage market. Further, allowing for longer amortization periods on mortgage renewals would assist current homeowners in an inflationary environment where everyday costs have risen dramatically," said TRREB President Kevin Crigger.

"The Office of the Superintendent of Financial Institutions (OSFI) should weigh in on whether the current stress test remains applicable. Is it reasonable to test home buyers at two percentage points above the current elevated rates, or should a more flexible test be applied that follows the interest rate cycle? In addition, OSFI should consider

removing the stress test for existing mortgage holders who want to shop for the best possible rate at renewal rather than forcing them to stay with their existing lender to avoid the stress test. This is especially the case when no additional funds are being requested," said TRREB CEO John DiMichele.

"There are other issues beyond borrowing costs impacting housing affordability in the Greater Golden Horseshoe. The ability to bring on more supply is the longer-term challenge. However, we are moving in the right direction on this front. The strong mayor proposal from the province coupled with the recent commitment from Toronto Mayor John Tory to expand ownership and rental housing options are examples of this. TRREB looks forward to hearing additional initiatives from candidates vying for office in the upcoming municipal elections," said TRREB Chief Market Analyst Jason Mercer.

SOOOOO….The August housing market numbers at least showed some small signs of life after months of major declines. And that was definitely not expected, as historically August is a very slow month with many on vacation or preparing to get the kids back to school in September.

But I have to question whether that slight bit of momentum can continue. Demand is being pent up and immigration is ramping up, so there are people on the sidelines who do eventually want to buy. But with mortgage rates in the 5's for the most part, that now means we are qualifying for mortgages at rates in the 7's. With a 30 year amortization, we would qualify for around 5 times your income just 6 months ago.
Now we only qualify for around 4 times your income. That is going to make it very difficult for anyone buying in Southern Ontario (or cottage country) for anyone to qualify for the mortgage they will need as house prices are still so high.

That is it for this month. The next BoC Meeting is on October 26th, so I will be in touch after that.

Be well! Stay Healthy! Have a great month! And save wisely if you can!!

Take care,

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Your mortgage....Consider it done!

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