MARKET UPDATE: October 27th, 2022:

Hello Again! I hope you and your family are all doing well this month and that you are managing to stay healthy! I'm not sure about you, but we are having an impossible time keeping the kids healthy and in school this last month. And it now appears that cough and cold medicine is the new toilet paper! Somewhere in Southern Ontario some family has a stash of a million bottles in their bathroom it appears! There certainly isn't much of it sitting on store shelves!!

The Bank of Canada (BoC) met yesterday to hike rates again. We had already seen 3% of increases since March and another 0.75% hike was widely expected. We had the September inflation report come out last week and it showed that inflation is not dropping as fast as expected….and in some sectors, is not dropping at all!! So the vast majority of economists/analysts were predicting that a 0.75% increase was a certainty.

Because inflation isn't going down, it now seemed likely the BoC was going to need to hike rates to the moon to stop it. But they surprised us all and "only" hiked rates 0.50% at yesterday's meeting. So that brings the Overnight Rate to 3.75%. 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 the highest it has been in over 15 years and is up to 5.95% at every lender in the country...except TD Bank…who will have their Prime Rate at 6.10%.

So why did they only raise rates 0.50% instead of 0.75%???!!! GOOD QUESTION! Some analysts believe this move to be a mistake and that they are going to fall behind inflation and that will require even more increases in 2023 (I certainly hope these analysts are wrong!!...time will tell!). These economists/analysts tend to believe we will have a quarter percent or half percent increase coming in December and a couple more quarter percent increases in early 2023.

Other economists see it as the BoC realizing that only going up half a percent instead of three quarters of a percent was the lesser of two evils….they are in real danger of "over-shooting" and hiking rates too high…and thereby creating a terrible recession in 2023 and potentially 2024 as well if they do hike rates too high. AND…let us remember, much of the inflation we are dealing with is "supply side" stuff like a war in Ukraine and China supply chain issues. That stuff isn't impacted by us increasing rates! So even if we hiked rates to 100%, we'd still have high inflation! That isn't to say that inflation isn't all supply side stuff. But it appears to me that consumers and businesses have taken note and are not spending like they were prior to this rate-hiking cycle.
So I believe this move just gives the BoC more time to assess the impact of higher rates on our economy and it still allows them to hike rates by 0.50% in December instead of the expected 0.25% hike that most analysts believe is coming. And then we'd be in the exact same spot as we would have been if we hiked rates 0.75% today.

So maybe the BoC has finally realized people are not spending like they were a year ago??!! They have certainly softened their "hawkish" wording in their updates. They still say rates will be going up, but now they are saying the extent they go up will depend on data as it comes in. And they are also referencing a potential recession in their comments which wasn't the case previously. They also revised downwards all of their growth estimates in Canada and the world for 2022, 2023 and 2024.

Certainly, unsecured debt levels are still rising, so if one is looking there are signs of cracks in our foundation.
Whatever the case may be, rate hikes are still not done. But the hope is that maybe we are finally nearing the end of the increases.

Depending what analysts you believe (and NONE have been correct for a while I might point out…the rate ceiling keeps getting raised here on us monthly!)….We will have either a 0.25% increase in December or a 0.50% increase in December. And then I HOPE they stop, but if inflation continues to stay heightened, then it is possible we will see some more smaller increases in early 2023.

So as of today, depending who you ask, we will see anywhere from 0.25% to 1% of increases still coming our way. BUT, keep in mind that as we've seen over the last few months, these estimates could easily be revised upwards. However, if rates do increase more than currently expected, the recession coming in 2023 will be much worse and prolonged. And that should force rates down faster and farther in 2024 and beyond.

HAVING SAID ALL OF THAT, if the USA continues hiking rates at a faster rate than us, that will put pressure on the Canadian Dollar to go down…which would create more inflationary pressure, as many of the goods we will buy are coming from outside of Canada. So even if the BoC wants to stop hiking rates, they may not have the luxury of doing so. Time will tell!

Is that as clear as mud for you?!?!?
You're welcome!!
😊

TODAY'S MORTGAGE RATES:

Because inflation has proved to be "sticky", we were all expecting more hikes going forward and a 0.75% increase yesterday. That has led to mortgage rates continuing their path upwards. With there only being a 0.50% increase yesterday, we might have bought some time before we see these go up again.

But if inflation keeps sticking around, it might signal rates have to go up more than we want/hope.
So there is still a good chance mortgage rates will continue to creep upwards as we move forward in the short-term.
For Purchases with less than 20% down payment the 5 year fixed rate has increased a WHOPPING 0.80% in the last 6 weeks and is now up to around 5.39%. The 5 year variable term is still at Prime less 0.90% so no change in the spread. But with Prime going up 0.50% yesterday, that means 4.55% becomes 5.05% as of today on a 5 year variable term.

For Purchases with 20% down payment the 5 year fixed rate has also jumped a bunch…about 0.65% to be exact and is now sitting in the 5.79% range. The 5 year variable term has not changed and is still at around Prime less 0.30%-0.40%. But with Prime being at 5.95% now, that means a 5 year variable rate is around 5.55% to 5.65%.

On top of that, yields have inverted so we are no longer seeing shorter terms like 1 or 2 year fixed terms being cheaper than the 5 year terms. They are up to over 6% at some lenders. So there really aren't any decent options if you need a mortgage in the coming weeks and months**. If you are coming up for renewal after having a 5 year fixed term, you should expect your mortgage payments to jump about 18%-30% with your next term…depending on how low your rate was on the previous term. FYI**

IN GTA REAL ESTATE NEWS:

TORONTO, ONTARIO, October 5, 2022 – The Greater Toronto Area (GTA) housing market continued its adjustment to higher borrowing costs in September 2022. Sales for the month reached 5,038, but were down by 44.1 per cent compared to September 2021.

New listings were also down on a year-over-year basis by 16.7 per cent to 11,237. This was the lowest number of new listings reported for the month of September since 2002. This is especially troublesome given that the stock of homes in the GTA increased markedly over the last 20 years.

Recent polling by Ipsos Public Affairs for TRREB1 suggests that the public agrees the lack of housing supply is a key issue in the GTA. The poll found that 71 per cent of combined Toronto and '905' regions residents believe that municipalities should focus their efforts on increasing the supply of homes for sale and rent rather than trying to reduce demand for housing.

"We must ensure that the temporary dip in housing demand is not allowed to mask the critical shortage of homes available for sale in the GTA. Candidates running in the upcoming Ontario municipal elections must ensure home buyers and renters have adequate housing options in the years to come. Municipal council decisions have a direct impact on housing affordability, in terms of the protracted development approval processes, high development fees and other related policies that preclude timely housing development," said TRREB President Kevin Crigger.

"Elected councils must also reconsider existing policies that preclude homeowners from listing their homes for sale, including significant added upfront costs like the land transfer tax. Potential new policies like mandatory home energy audits could also create unnecessary interference and delays in the home selling process and dissuade some homeowners from listing their homes for sale," said TRREB CEO John DiMichele.

"Energy audits should be voluntary, a feeling which is supported 73 per cent of Torontonians and 78 per cent of '905' residents recently polled by Ipsos Public Affairs for TRREB. If councils continue to support

policies that restrict new home development and existing home listings, such as exclusionary zoning, housing affordability will be severely hampered over the long term, which will also hamper our region's future growth," added DiMichele.

The MLS® Home Price Index (HPI) Composite benchmark was up on a year-over-year basis by 4.3 per cent. Over the same period of time, the average price dipped by 4.3 per cent to $1,086,762. The average price was up compared to August 2022.

"Hovering just below $1.1 million, the average selling price may have found some support during the last couple months of summer. With new listings down quite substantially year-over-year and well-below historic norms, some home buyers are quite possibly experiencing tighter market conditions in some GTA neighbourhoods. October generally represents the peak of the fall market, so it will be important to see where price trends head over the next month," said TRREB Chief Market Analyst Jason Mercer.

That is it for this month. The last BoC Meeting of 2022 is on December 7th, so I will be in touch after that.
Be well! Stay Healthy! Have a great month! And I hope you have a Happy Halloween next week! Here's hoping your kids don't realize you are stealing their candy on them after they go to bed!!! :D

Take care,

Lucas Preston
Mortgage Agent
Phone: 1-866-680-2020
Cell: 647-299-5136
lucaspreston@invis.ca
License #: M08003866
Your mortgage....Consider it done!