MARKET UPDATE: December 8th, 2022:

Hello Again! I hope you and your family are all doing well this month and that you are managing to stay healthy! We have less than 2.5 weeks until Christmas! And then hopefully my kids will sleep in past 5:30am again!! They just refuse to sleep when there is an elf waiting for them somewhere in the home!

The Bank of Canada (BoC) met yesterday to hike rates again. It was unknown whether they were going to raise rates 0.25% or 0.50%....economists were basically split 50/50 as to which hike was coming. They chose the more aggressive approach and hiked rates half a percent…which was probably a prudent move after surprising us all in October by hiking rates only 0.50% instead of the expected 0.75%.

Some economists argued that anything more than a 0.25% increase risks running our economy off the rails and that the BoC should take some time to sit back and see what materializes. But the BoC wants to be sure that inflation doesn't stick around any longer than possible. And if they have to err on one side, they'd rather be over-aggressive than not too passive to let inflation stick around. They do not want to be dealing with inflation issues any longer! We are already expected to see food cost an additional $1065 in 2023 for a regular family! So the BoC can't take the chance of it sticking around any longer.

So we have now seen rates increased by FOUR FULL PERCENT since March. Prime is now up to 6.45% (unless you are a TD Client, and then Prime is at 6.60%). This is the last expected BoC meeting of 2022. So barring some crazy event happening, we shouldn't see any more changes to the Prime rate until potentially the end of January. We end the year with the highest rates seen in 15 years. Only 12 short months ago we were seeing fixed mortgage rates around 2% and Prime was sitting at 2.45%.

Canada's economy and the world economy fared better in Q3 than the BoC expected. On top of that, Inflation is still too high (of course…I think we all know that by now!). And the BoC worries that wages will continue to spiral out of control so they are trying to stamp that out with one more over-sized rate increase. Our Unemployment Rate is basically at "all-time" lows, so the BoC certainly isn't too worried about jobs at this point.

A small recession in 2023 should help bring inflation back down as it will further slow spending and slow down job creation as well. The problem as I see it, is that when a recession does eventually hit us in 2023, the BoC won't be able to drop rates immediately as they normally would when a recession hits. That will make the recession more severe than usual, and that could force them to lower rates more aggressively in the future when we are finally at a place where they can lower rates again. That is the good news. The bad news is that more jobs will be lost if the recession is more severe than usual. For those of you hoping for rate drops in 2023….don't hold your breath. It now appears we will be into 2024 before that becomes possible.

There was some good news at this BoC meeting. The BoC dropped its "hawkish" tone on future increases. And for the first time all year, instead of stating that "future increases are coming", they said

“*Looking ahead, Governing Council will be considering whether the policy interest rate needs to rise further to bring supply and demand back into balance and return inflation to target”.*

So maybe we’ve finally hit the end of the rate hikes?? Still too early to tell for sure.
To quote Benjamin Tal from CIBC Deputy Chief Economist:
"“This is a significant difference in language, basically telling you that the Bank is willing to stop at this point if the data behaves,” Tal said. “That’s a significant change, and that’s one thing.”
“The other, however, is that it’s very likely that they will keep this kind of language until the spring – so maybe that will keep us guessing. They’re not closing the door for additional hiking, and this language gives them enough flexibility.”
So maybe the hikes are over? Or maybe they aren’t! Clear as mud right??!!
The only thing I am sure of is that economists and analysts will debate this like crazy for the next 6 weeks until our next BoC meeting in late January! But I certainly hope this is the end of the increases. If we do see more increases in early 2023, that will force fixed mortgage rates up higher as well. They had already priced in this increase. But anymore increases have not been factored into fixed mortgage rates yet, so another increase would mean fixed rates will go up in tandem with any further BoC hikes.

TODAY’S MORTGAGE RATES:

Speaking of mortgage rates, because this hike yesterday was widely expected, and because the BoC didn’t come out and say they WILL be raising rates in 2023, it is likely we won’t see fixed mortgage rates change this month.
In fact, as we approach the end of this “rate hike cycle”, we’ve actually seen spreads improve and 5 year fixed rates come back down a bit.

For Purchases with less than 20% down payment the 5 year fixed rate has dropped from around 5.39% to 4.99% over the last 6 weeks. 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 5.05% becomes 5.55% as of today on a 5 year variable term.

For Purchases with 20% down payment the 5 year fixed rate has decreased a bit as well. 6 weeks ago we were looking around 5.54%-5.79% but it is now down in the 5.39% range. The 5 year variable term has not changed and is still at around Prime less 0.40%. But with Prime being at 6.45% now, that means a 5 year variable rate is around 6.05%.

BUT unfortunately it is only the 5 year fixed term that have come down a bit over the last few weeks. 1-4 year fixed rates haven’t moved at all in the last 6 weeks. At the beginning of 2022, 70% of all fixed rate mortgages taken by consumers were 4 or 5 year fixed terms and only 11% of terms taken were less than 4 years. That has completely flipped (as most consumers who are getting good advice from brokers/bankers certainly don’t want to be stuck with 5% rates for 5 years if they expect rates to come back down in a couple of years!!) By September of this year, only 16% of mortgages taken were five

year fixed terms. So there are some tough decisions to be made for those needing a mortgage. You get to pay around half a percent more to have a 2 or 3 year fixed term versus a 5 year fixed term.
If rates do plummet in 2024, taking the shorter term will probably have been the right move to make. But if rates don't come back down in 2024, you won't be happy paying 5.5% when you could have taken a 5 year term around 5%!

IN GTA REAL ESTATE NEWS:

December 6, 2022 – Homeownership market activity in November continued to be influenced by the impact of higher borrowing costs on affordability. Sales were down markedly compared to the same period last year, following the trend that unfolded since the commencement of interest rate hikes in the spring. New listings were also down substantially from last year, and at a very low level historically. The fact that the supply of homes for sale has remained low, has supported average selling prices at the $1.08 to $1.09 million mark since August.

Greater Toronto Area (GTA) REALTORS® reported 4,544 sales through TRREB's MLS® System in November 2022 – down 49 per cent compared to November 2021, but remaining at a similar level to October especially after considering the recurring seasonal downward trend in the fall. New listings, at 8,880, were down on both a year-over-year basis and month-over-month basis.

"Increased borrowing costs represent a short-term shock to the housing market. Over the medium- to long-term, the demand for ownership housing will pick up strongly. This is because a huge share of record immigration will be pointed at the GTA and the Greater Golden Horseshoe (GGH) in the coming years, and all of these people will require a place to live, with the majority looking to buy. The long-term problem for policymakers will not be inflation and borrowing costs, but rather ensuring we have enough housing to accommodate population growth," said TRREB President Kevin Crigger.

"We have seen a lot of progress this year on the housing supply and related governance files such as the More Homes Built Faster Act. This is obviously good news. However, we need these new policies to turn into results over the next year. Otherwise, the current market lull will soon be behind us, population growth will be accelerating, and we will have done nothing to account for our growing housing need. The result would be enhanced unaffordability and reduced economic competitiveness," said TRREB CEO John DiMichele.

The MLS® Home Price Index Composite Benchmark was down by 5.5 per cent year-over-year in November 2022. The average selling price for all home types combined was down by 7.2 per cent yearover-year. Annual price declines continued to be greater for more expensive market segments, including detached and semi-detached houses.

"Selling prices declined from the early year peak as market conditions became more balanced and homebuyers have sought to mitigate the impact of higher borrowing costs. With that being said, the

marked downward price trend experienced in the spring has come to an end. Selling prices have flatlined alongside average monthly mortgage payments since the summer," said TRREB Chief Market Analyst Jason Mercer.

SOOOO…as you can see, we basically have a housing market that has gone to sleep. Very low levels of sales and listings are occurring and everyone seems to be waiting for lower rates or lower prices to hop back into the market. I'm not so sure we will see prices drop much further though. It appears they've stabilized over the last few months.

This is the first EVER housing correction where supply is not increasing! So that has kept prices from falling substantially (and why I say it is more like the market has gone to sleep than crashing).

Hopefully there is some more progress made at increasing housing supply in the next couple of years. Failing that, we are in deep trouble when demand eventually spikes again. Affordability is only going to get worse if there isn't a huge increase in supply.

So that is it for this year! And what a year it has been! The first BoC Meeting of 2023 is on January 25th, so I will be in touch after that. And hopefully we can start off the year with me giving you good news for a change instead of talk of more rate increases!

Be well! Stay Healthy! Have a great month! And I wish you and your family a happy and healthy Holiday Season. And may 2023 be a prosperous year for us all!

Take care,

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