MARKET UPDATE: January 26th, 2023:

Hello Again and Happy New Year!! I hope 2023 is off to a great start. We finally had winter show up yesterday after seemingly being stuck in November for 3 months!

The Bank of Canada (BoC) met yesterday to discuss monetary policy. This was their first meeting of 2023 and like the last 7 meetings of 2022, they decided to hike rates again. This time it was only a quarter percent hike and despite uncertainty back in December as to whether the hikes were done, this hike became widely expected in the weeks leading up to yesterday's meeting. A very good job's report was the main culprit!

It was unknown in December whether the BoC would pause this month, but with Inflation still hanging around and not dropping quickly (down to 6.3% from a peak of 8.1%....but still WELL above the 2% target), and with 'way higher than expected' job creation in December, it became pretty apparent that we had another increase coming our way. Fortunately, our dollar has been stable vs the US Greenback….there were fears it would sink with the US continuing to hike rates while we consider a pause here in Canada. If that were to happen that would only make inflation worse, which would mean more increases by the BoC. So instead of pausing, the BoC decided we get a quarter percent hike this time around.

However, the Bank also offered this important piece of news: "**If economic developments evolve broadly in line with (its) outlook, Governing Council expects to hold the policy rate at its current level while it assesses the impact of the cumulative interest rate increases**."

So the hope is that we have seen the last of the rate increases! That isn't a guarantee that the hikes are over….the BoC has left the door open to hike again if needed, but it certainly seems likely that we would need some surprising news to get the BoC to hike again. They want to sit back and see how everything reacts to 4.25% of increases over the last 10 months!

Generally speaking it takes around 6-9 quarters (aka 1.5-2.25 years) for rate hikes to fully work their way through the economy. The first hike was back in March of 2022, so we haven't even made it a full year since the start of the increases. So the BoC truly doesn't know the full impact of their increases and might not for another year or so. So any future increases feels like "piling on" the misery for those who aren't making $500k a year (aka the vast majority of us!!)…and I'm guessing most of us are feeling the pinch in our wallets!

So Prime is now up to 6.7% (unless you are with TD…their Prime is 6.85%)....this is the highest reading since I became a mortgage agent in 2004. We hit 6.25% in the summer of 2007, but we would have to go back to the 90s to find a time when the Prime were higher than this.

Most economists are still predicting that the BoC will not be in position to lower rates until 2024 at the earliest.

The BoC expects inflation to be back to 3% by the summer and still expects GDP growth in Canada to be 1% in 2023. Those projections are viewed as "optimistic" by pretty much every other economist in the country (to the point that some believe that the BoC might be being overly optimistic on purpose to keep the market guessing and keep us from getting too complacent in thinking the rate hikes are definitely done!). Consensus is that the economy will stall out in the middle of this year and that we will be lucky to see any growth in 2023. And that inflation will not be back down to 3% until closer to the end of this year.

TODAY'S MORTGAGE RATES:

As mentioned in my last update in December, longer term fixed mortgages rates had been creeping downwards since the middle/end of November. That trend has continued and the hope is that it will continue to do so throughout 2023. (It should as long as there are no more increases by the BoC). The good news this month is that 3 and 4 year terms are dropping as well and not just the 5 year fixed terms.

For Purchases with less than 20% down payment the 5 year fixed rate has dropped from around 4.99% to 4.74% 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 0.25% yesterday, that means 5.55% becomes 5.80% as of today on a 5 year variable term.
We are also seeing 3 year fixed terms down to around 4.89% now for purchases with less than 20% down payment. The 3 year rate was around 5.5% back in early December so we've seen quite a hefty drop in just six weeks. 3 year terms are not quite as low as the 5 year rates, but are a lot more popular now than the 5 year option. (No one wants to lock in at high rates for a full 5 years! Especially with rates expected to continue to creep downwards as we move forward!)

For Purchases with 20% down payment the 5 year fixed rate has decreased a bit as well. 6 weeks ago we were looking around 5.39% but it is now down in the 5.14% range. The 3 year fixed term is around 5.29%. The 5 year variable term has not changed and is still at around Prime less 0.40%. But with Prime being at 6.70% now, that means a 5 year variable rate is around 6.30%.

IN GTA REAL ESTATE NEWS:

TORONTO, ONTARIO, January 5, 2023 – The Greater Toronto Area (GTA) housing market experienced a marked adjustment in 2022 compared to record levels in 2021. Existing affordability issues brought about by a lack of housing supply were exacerbated by sustained interest rate hikes by the Bank of Canada.

"Following a very strong start to the year, home sales trended lower in the spring and summer of 2022, as aggressive Bank of Canada interest rate hikes further hampered housing affordability. With no relief from the Office of Superintendent of Financial Institutions (OSFI) mortgage stress test or other mortgage lending guidelines including amortization periods, home selling prices adjusted downward to mitigate

the impact of higher mortgage rates. However, home prices started levelling off in the late summer, suggesting the aggressive early market adjustment may be coming to an end," said new Toronto Regional Real Estate Board (TRREB) President Paul Baron.
There were 75,140 sales reported through TRREB's MLS® System in 2022 – down 38.2 per cent compared to the 2021 record of 121,639. The number of new listings amounted to 152,873 – down 8.2 per cent compared to 166,600 new listings in 2021. Seasonally adjusted monthly data for sales and price data show a marked flattening of the sales and price trends since the late summer.

"While home sales and prices dominated the headlines in 2022, the supply of new listings continued to be an issue as well. The number of homes listed for sale in 2022 was down in comparison to 2021. This helps explain why selling prices have found some support in recent months. Lack of supply has also impacted the rental market. As renting has become more popular in this higher interest rate environment, tighter rental market conditions have translated into double-digit average rent increases," said TRREB Chief Market Analyst Jason Mercer.

The average selling price for 2022 was $1,189,850 – up 8.6 per cent compared to $1,095,333 in 2021. This growth was based on a strong start to the year, in terms of year-over-year price growth. The pace of growth moderated from the spring of 2022 onwards.

"As we look forward into 2023, there will be two opposite forces impacting the housing market. On the one hand, we will continue to feel the impact of higher borrowing costs. On the other hand, record levels of immigration will support demand for ownership and rental housing, while we struggle to come to terms with a housing and infrastructure deficit in the Greater Golden Horseshoe. These themes will be discussed in TRREB's upcoming Market Outlook and Year in Review report to be released in early February," said TRREB CEO John DiMichele.

December 2022 Results
- *There were 3,117 sales reported through TRREB's MLS® System in December 2022 – down 48.2 per cent compared to December 2021.*
- *New listings totalled 4,074 – down 21.3 per cent compared to 5,177 in December 2021. 2*
- *The MLS® Home Price Index Composite benchmark was down 8.9 per cent on a year-over-year basis in December 2022.*
- *The December average selling price, at $1,051,216, was down by 9.2 per cent compared to the December 2021 average of $1,157,837.*

It certainly appears to me we will have more of the same in the coming months.
There is hope that things will turn around this spring. But I fear high rates are going to limit affordability and what people can qualify for. I'm not sure many consumers can qualify for enough to get what they want!
All the while, demand is getting pent up and sitting on the sidelines waiting to pounce. Immigration has ramped up as well so that will only add to the pent-up demand. So when the market does begin to turn, I believe it will turn quickly and we'll be back to crazy bidding wars again.

So that is it for this month! The next BoC Meeting is on March 8th, so I will be in touch after that.
We will only have 1 inflation report and 1 job creation report between now and then, so I don't expect there to be any increases at that meeting. ANYTHING COULD HAPPEN, but that isn't a lot of intel to force the BoC to change their opinion!
But we'll have 2 more inflation reports and 2 more job creation reports between the March BoC meeting and the April meeting. So that would be a lot of information for the BoC to digest and see if they can continue to stay on the sidelines or if another increase is necessary. Here's hoping inflation subsides and the job creation isn't still through the roof so we can finally and officially at the end of these rate hikes!

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

Take care,

Lucas Preston
Mortgage Agent
Cell: 647-299-5136
lucaspreston@invis.ca
License #: M08003866
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.