<u>MARKET UPDATE: April 13th, 2023:</u>

Hello Again!
I hope all is well with you and your family and that you had a great long weekend! Happy Easter (Belated!)
And hopefully you are getting to enjoy this fine weather we've been having this week!!

The Bank of Canada (BoC) met yesterday to discuss monetary policy. This was their 3rd meeting of 2023 and like their previous meeting in March, they decided to NOT hike rates. This move to stay put was widely expected. So Prime stays at 6.7% (or 6.85% if you are with TD Bank).

We've had a bit of a crazy month….some major banking issues in the USA and Europe is showing how fragile their systems are. We had a couple of banks essentially go "belly up" and the government had to step in to stop a full financial collapse and run on the banks by consumers. This could have easily been a repeat of when the US Financial System collapsed in the fall of 2008!!

This has led banks in the US and Europe to pull back a bit and not lend as much (or at all). And when banks stop lending, recessions soon follow.
So that has led people to believe that the USA will be in a recession soon and will therefore have to stop raising rates. BUT…despite all this, the US FED is still raising rates! Some economists are calling that a mistake and overkill, but it seems certain the US Fed wants to make sure this inflation problem is behind them. (Though they do risk really hurting their economy if they are wrong and should have stopped increasing rates).

Despite all of these issues in the USA and Europe, the Canadian economy keeps chugging along! GDP results were way higher than expected. And job growth continues to surprise to the upside (way over estimates again in March). The economy isn't as bad as it was supposed to be at this point! In fact it is doing surprisingly well! It seems that analysts believe we should start to hit a rut soon, but if that doesn't materialize, it will make it difficult for inflation to come down and the BoC to stay on the sidelines.

So that leads us to the million dollar question…..What will happen next to rates??!!

Prior to yesterday's meeting, the bond market was pricing in nearly a 100% chance that the BoC would LOWER rates by 0.25% by the end of the year!
BoC Governor Tiff Macklem threw cold water on this idea by saying **"…based on the information we have today, the implied expectation in the market that we're going to be cutting our policy rate later in the year, that doesn't look today like the most likely scenario to us,".**

That's not what I want to hear! The truth is that there has been quite a bit of speculation of late that getting inflation down to 3% should not be difficult. But with the job market still so hot here in Canada and inflation proving to be "sticky" in the service sector, there are many that doubt the BoC will be able to get inflation back to their 2% target. So that might force them to raise rates further to make that happen. At this point it appears they definitely have a bias towards hiking rates rather than lowering rates…despite what the market thinks!

HOWEVER…it is possible that Macklem is saying this so that the market doesn't get too far ahead of themselves. By simply saying "CAREFUL PEOPLE…WE COULD RAISE RATES ON YOU SOON" it could slow down spending by consumers if they believe that statement to be true. And if people stop spending big money, it will help slow down inflation.
If people believe that rate hikes are done and we will have lower rates soon, they will act differently and spend more (e.g. buy new homes and cars and other big-ticket items). That would make it harder to bring inflation down to the 2% target here in Canada.

So we really don't truly know if the BoC is getting cute and using Jedi mind tricks or if they truly believe that they will have to raise rates. (Former BoC Governor Carney was the BEST at using this tactic to get the market to do what he wanted, so he didn't have to act).
The fact mortgage rates have come down over the last few weeks clearly shows that the market believes rate hikes are over. But that doesn't mean they are right! I'm not sure if the BoC even knows where things stand, so I certainly shouldn't be speculating.
There haven't been too many predictions in the last 15 months that have been correct…by anyone!! So we certainly shouldn't be surprised to see anything happen at this point!
I guess time will tell what is the truth. If inflation falls faster than expected, there is a chance the BoC could still lower rates later in 2023. (Though it appears most economists believe that even if that did happen, the BoC will stay patient and wait until 2024 to start lowering rates).

The next inflation report comes out on April 20th and it is widely expected to be much lower than the previous month's report. Should that be the case, it should indicate that the BoC will stay on the sidelines for the foreseeable future.

IN OTHER NEWS…we had a provincial and federal budget come out over the next few weeks.
There was not much in those to help the housing market.
Yes…lots of talk of building new homes. But there wasn't a lot of substance in the budgets as to how that is actually going to happen. So I'm not going to comment anymore on this until I have something of value to pass along.

TODAY'S MORTGAGE RATES:

Mortgage Rates are looking more attractive this month than they were a month ago. If you recall, fixed mortgage rates were creeping back up in early March. But that trend has reversed and over the last couple of weeks rates have been coming back down.

For Purchases with less than 20% down payment the 5 year fixed rate was at around 4.94% a month ago and is now down to 4.54%. The 5 year variable term is still at Prime less 0.90% so no change in the spread or variable rate of 5.8%.
Back in March, the 3 year fixed term was back up to around 5.29% for purchases with less than 20% down payment. The 3 year rate had since dropped down to around 4.79% within the last few days! So we've seen a pretty drastic turn-around in the last month for these types of mortgages.

For Purchases with 20% down payment the 5 year fixed rate has crept down as well and is now in the 4.94% range. The 3 year fixed term is also down about 0.20% and is currently around 5.09%. The 5 year variable term has gotten a little worse. We are now seeing nothing better than Prime less 0.35% which is 6.35% today.

The hope is that rates will continue to creep downwards as we move forward.

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

TORONTO, ONTARIO, April 5, 2023 – Greater Toronto Area (GTA) housing market conditions tightened in March 2023. Sales accounted for an increased share of listings in comparison to March 2022, suggesting that competition between buyers is on the rise. The average sale price was above the average list price for the first time since May 2022.

"As we moved through the first quarter, Toronto Regional Real Estate Board (TRREB) Members were increasingly reporting that competition between buyers was heating up in many GTA neighbourhoods. The most recent statistics bear this out," said TRREB President Paul Baron. "Recent consumer polling also suggests that demand for ownership housing will continue to recover this year. Look for first-time buyers to lead this recovery, as high average rents move more closely in line with the cost of ownership."

GTA REALTORS® reported 6,896 sales through TRREB's MLS® System in March 2023 – down 36.5 per cent compared to March 2022. On a month-over-month basis, actual and seasonally adjusted sales were up. New listings were also down on a year-over-year basis, but by a much greater annual rate. This points to tighter market conditions compared to last year.

"Lower inflation and greater uncertainty in financial markets has resulted in medium-term bond yields to trend lower. This has and will continue to result in lower fixed rate borrowing costs this year. Lower borrowing costs will help from an affordability perspective, especially as tighter market conditions exert upward pressure on selling prices in the second half of 2023," said TRREB Chief Market Analyst Jason Mercer.

The MLS® Home Price Index composite benchmark was down by 16.2 per cent on a year-over-year basis, but up month-over-month on both an actual and seasonally adjusted basis. Similarly, the average selling *price was down by 14.6 per cent year-over-year to $1,108,606. The average selling price was up month-over-month on an actual and seasonally adjusted basis.*

"As population growth continues at a record pace on the back of immigration, first-time buying intentions will remain strong. Because the number of homes for sale is expected to remain low, it will also be important to have substantial rental supply available. Unfortunately, this is not something we have at the present time. We need to see a policy focus on bringing more purpose-built rental units on line over the next number of years," said TRREB CEO John DiMichele.

SOOOO….the housing market is starting to come back. I've seen evidence (and also heard from realtors) that there are some cases that look more like 2021….E.g. 18 offers on the offer date and sellers receiving $600k over asking, etc….
There are certainly signs that things are about to go crazy again like we saw during the pandemic.
We definitely need more listings. If the home is "turn-key" or "move-in ready"….it is selling fast and for more than expected in most areas of the 416 and 905.
This could be an interesting spring and summer and affordability issues could come to the forefront again if we don't get more listings.

That is it for this month. The next Bank of Canada meeting is on June 7th, so I will be in touch after that.

Be well! Stay Healthy! And have a great month! I hope the weather we get is a lot like the weather we are having this week! Cottages and Pools will be opening soon! If you don't have either of those, you should seek out someone who does!!!
:D

Take care,

Lucas Preston
Mortgage Agent, Level 2
Cell: 647-299-5136
lucaspreston@invis.ca
License #: M08003866
Your mortgage....Consider it done!