

MARKET UPDATE: June 8th, 2023:

Hello Again!

I hope all is well with you and your family and that you are enjoying all of the sunshine we've had of late! The weather has been great here....though the air quality certainly isn't very good right now. Hard to say this with summer fast approaching...but we need some rain for those poor people in the Northern parts of Ontario (full Fire-Bans currently in effect)... or those whose towns are already on fire!

The Bank of Canada (BoC) met yesterday to discuss monetary policy. And unfortunately, The BoC surprised us a bit this week. Their "rate pause" is over only a few months after it started as they felt they had to raise rates again in order to get Inflation back under control. Prime is up a further 0.25% and is now at 6.95% (or 7.10% if you are with TD). This is the highest we've seen the BoC's Overnight Rate since April of 2001. (At that time Southern Ontario houses cost about ¼ or 1/3 what they cost now btw).

The economy has over-achieved so far this year. The job market is still hot. The housing market was heating back up. And inflation is still too hot as well (albeit way better than it was in June of last year....but still way too high for the BoC's liking). The recession we've all been waiting for hasn't materialized and our economy has proved to be beyond resilient and continues to chug along!

The BoC figures Canada will still get inflation down to 3% at some point this summer, but it was starting to look apparent that getting it down to the 2% target needed a bit (or maybe a lot) more help. So we get another increase. The Bank of Australia also increased rates within the last week, after pausing as well, so we are not alone. And while economic activity is slowing in the USA, their inflation is higher than ours is, so it seems likely that they have some more increases coming. And in the UK, their economy has basically stalled but unfortunately for them, their inflation has not dropped as fast as we've seen inflation dropping in North America. They might be in some real trouble there and might need to continue aggressively hiking rates for a long while. That could prove disastrous for their economy.

Only 20% of economists polled predicted an increase this month by the BoC. The majority were thinking the BoC would hold off until the next meeting in July to hike rates. The Jobs data is coming in tomorrow and another inflation report comes out in a couple weeks, so I guess they were thinking the BoC would wait to see how those went before hiking rates. But with essentially every report of 2023 coming out showing that things are still too hot, it became evident over the last week that rates were going up sooner rather than later. Fixed mortgage rates have risen a bunch of times in just the last week in anticipation of this! Prior to this BoC meeting, the swaps market had already fully priced in a quarter percent increase by the July meeting. So this hike just came a little earlier than many expected.

The real question now becomes whether this is a one-time thing, or if we will see yet another increase in July or the September meetings. From what I'm reading, unless the jobs report and inflation reports are way lower than expected (seems unlikely based on the last 6 months!), then there is a very good chance

that we see another hike in July or September at the latest.

To quote a couple of prominent Canadian Economists who know more than me!!.... (and FYI...25 basis points = a quarter percent):

CIBC economist Avery Shenfeld noted that "the Bank's actions today signalled that it won't be quite as patient as we expected in its wait to see economic slack emerge." While Shenfeld expects a follow-up 25 basis point hike "as a final fine tuning," he said that September was more likely timing than July "due to the need to gather enough additional insights on the lagged impacts of all the rate hikes thus far."

Royce Mendes, Desjardins' head of macro strategy, said in a note released shortly after the Bank issued its decision that it's unlikely the central bank will "see enough progress towards restoring price stability before their next scheduled rate decision for this to be the final hike of the cycle." He wrote that Desjardins' is leaning towards another 25 basis point hike in July.

So that is certainly not what we were hoping for. There will most likely be a ton of chatter over the next month about whether rates are going up again in July. So expect that to be taking over the business news cycle.

TODAY'S MORTGAGE RATES:

Fixed mortgage Rates were trending downwards until a few weeks ago. But when it started to look more apparent that the BoC was going to be forced to raise rates this summer, we've now seen fixed rates jump a handful of times over the last few weeks.

For Purchases with less than 20% down payment the 5 year fixed rate was down to around 4.54% on May 19th. That is now up to 4.99%. The 5 year variable term is still at Prime less 0.90% so no change in the spread. But with Prime up 0.25% today, that means it jumps from 5.8% to 6.05%.

The 3 year fixed rate had made it down to around 4.79%, but has seen a very large increase since May 19th and now sits at 5.59%.

For Purchases with 20% down payment the 5 year fixed rate had crept down to around the 4.94% range back on May 19th. But it has now risen back up to 5.34%. The 3 year fixed term dropped as low as 5.04% but is now back up to 5.59% today.

The 5 year variable term has not had a change in spread....still Prime less 0.35%. With Prime increasing today, that means it is now up to 6.6%.

Just a month ago the hope was that rates would continue to creep downwards as we moved forward! Now we are hoping we only have one more increase coming our way as we head towards rates not seen since the 90s!

IN GTA REAL ESTATE NEWS:

June 2, 2023 – The Greater Toronto Area (GTA) housing market continued to improve from a sales perspective in May 2023. Unfortunately, the supply of homes for sale did not keep up with the demand for ownership housing. Sales as a share of new listings were up dramatically compared to a year ago. This is a clear signal that competition between buyers increased substantially compared to last year, resulting in the average selling price reaching almost \$1.2 million last month.

“Despite the fact that we have seen positive policy direction over the last couple of years, governments have been failing on the housing supply front for some time. Recent polling from Ipsos found that City of Toronto residents gave Council a failing grade on housing affordability and pointed to lack of supply as the major issue. This issue is not unique to Toronto. It persists throughout the Greater Golden Horseshoe. If we don't quickly see housing supply catch up to population growth, the economic development of our region will be hampered as people and businesses look elsewhere to live and invest,” said Toronto Regional Real Estate Board (TRREB) President Paul Baron.

GTA REALTORS® reported 9,012 sales through TRREB's MLS® System in May 2023 – a 24.7 per cent increase compared to May 2022. Conversely, new listings were down by 18.7 per cent over the same period. On a month-over-month seasonally adjusted basis, sales were up by 5.2 per cent compared to April 2023.

“The demand for ownership housing has picked up markedly in recent months. Many homebuyers have recalibrated their housing needs in the face of higher borrowing costs and are moving back into the market. In addition, strong rent growth and record population growth on the back of immigration has also supported increased home sales. The supply of listings hasn't kept up with sales, so we have seen upward pressure on selling prices during the spring,” said TRREB Chief Market Analyst Jason Mercer.

The MLS® Home Price Index (HPI) composite benchmark was down by 6.9 per cent year-over-year in May 2023, but up by 3.2 per cent on a seasonally adjusted monthly basis compared to April 2023. The average selling price, at \$1,196,101, represented a small 1.2 per cent decline relative to May 2022. On a seasonally adjusted monthly basis, the average selling price was up by 3.5 per cent compared to April 2023.

“The high cost of housing, brought about by short supply and high borrowing costs, is part of the broader increases in the cost of living. Municipalities, including the City of Toronto, need to be mindful of this when considering their revenue generation options. TRREB believes households will have little patience for higher taxes, including unreasonable property tax hikes and increases to prohibitive upfront land transfer taxes,” said TRREB CEO John DiMichele.

SOOOO...things were really turning around and heating up (though a lot of the price increases were caused bya lack of supply! Surprised?? I only say that every month!

It should be interesting to see what the rate increases do to the housing market. It was definitely picking up some steam and demand had risen drastically in the last couple/few months. But now that we have some more uncertainty, I wonder if people will move back to the sidelines again?!?!? Rent costs are heating up as well, so it is starting to feel like the only option for many will be to leave the province in search of cheaper housing!! You will be hard pressed to still find that here in most parts of Ontario!!

That is it for this month. The next Bank of Canada meeting is on July 12th, so I will be in touch after that.

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

Take care,

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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.