MARKET UPDATE: July 13th, 2023:

Hello Again!
I hope all is well with you and your family and that you are enjoying the start of the summer!

The Bank of Canada (BoC) met yesterday to discuss monetary policy. And as was widely expected over the last number of weeks, The BoC hiked rates another quarter percent. Prime is up a further 0.25% and is now at 7.20% (or 7.35% if you are with TD). This is the highest we've seen the BoC's Overnight Rate in 22 years. This is now the 10th increase in the last 16 months and the total of the increases now totals 4.75%!

The big news that came out of this meeting was that the BoC stated they didn't expect Inflation to get back to their 2% target until the middle of 2025. Their previous prediction back in April was saying it would happen 6 months earlier than that.

SOOOO…Does that mean we have to wait until 2025 now before we see rate reductions?? Too early to tell on that, but certainly this is not the news most of us were hoping to hear. It would seem likely that the BoC can't start lowering rates (even if it wants to!!) until they are sure that inflation is heading back to the 2% target. And if they aren't sure that is going to happen until mid-2025, then we might be waiting a lot longer than we previously thought to see lower rates come to fruition. Though I don't necessarily believe that means we will be waiting until 2025 for the BoC to start dropping rates again. Yesterday, BMO pushed back its projection of the first BoC Rate cut to the 2nd quarter of 2024. (Previously they were predicting the first cut to happen in Q1 of 2024).

Inflation is down to 3.4% now, but core inflation appears stuck in the 3.5%-4% range. Until this starts to come down, there is a chance the BoC's increases are not done yet.
The next Inflation Report comes out July 18th so hopefully that will bring some good news.

The BoC also revised upwards its growth estimates and now believes we won't have a recession.
That opinion is not shared by many however. In fact, one Scotiabank economist said that prediction "deserves a place on the fiction shelves at your favorite bookstore or the virtual equivalent"!! Though he acknowledged it might just be the BoC trying to avoid speculation about future rate drops….which could lower mortgages rates which of course would further spur the housing market and make inflation worse.

The vast majority of economists were saying over the last couple of weeks that yesterday's 0.25% hike was going to be the last of the hikes. But sentiment is changing after yesterday's meeting and somewhat 'hawkish' stance by the BoC. The Bond/Swaps Market is still pricing in a 75% chance of another 0.25% increase at the next BoC meeting in September. Though most major economists haven't gone so far as to say they believe there is another increase coming in September, CIBC has JUST updated it's projection…Benjamin Tal (Deputy Chief Economist at CIBC) just said: "This is opening the door for another move in September. Our official call is that the BoC is going to move again, unfortunately, in

September by 25 basis points (0.25%), and that maybe will be the end of it". Though that projection does come with a silver lining, as any additional increases should push forward the timeline for rate cuts down the line as it increases the risk that the BoC is "overshooting" which will damage the economy.

I believe the next meeting in September will be a big one as we'll see if the BoC hits the pause button again or continues to increase rates. They are clearly fearful that inflation will get stuck above their 2% target, so we certainly can't rule out more increases.
The BoC gave no indication at their meeting yesterday as to what their plans were for the future. So the market will be guessing for the next 2 months as to whether the increases are over or not.

<u>TODAY'S MORTGAGE RATES:</u>

Unfortunately, mortgage rates have continued to trend upwards since the May long weekend. The hope is that if there are no more increases by the BoC and that fixed rates will creep back down towards the end of the summer or fall. But in these crazy times, that is certainly not a guarantee!

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 5.29%. 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 6.05% to 6.30%.
The 3 year fixed rate had made it down to around 4.79% in mid-May, but has seen a very large increase since May 19th and now sits at 5.84%....and most lenders are actually up around 6.14% or higher!

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 5.79%. The 3 year fixed term dropped as low as 5.04% but is now back up to 6.14% or higher 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 6.85%.

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

TORONTO, ONTARIO, July 6, 2023 – Home sales and the average selling price in the Greater Toronto Area (GTA) in June 2023 remained above last year's levels. Seasonally adjusted sales dipped on a month-over-month basis. The seasonally adjusted average selling price and the MLS® Home Price Index (HPI) Composite benchmark were up compared to the previous month.

"The demand for ownership housing is stronger than last year, despite higher borrowing costs. With this said, home sales were hampered last month by uncertainty surrounding the Bank of Canada's outlook on inflation and interest rates. Furthermore, a persistent lack of inventory likely sidelined some willing buyers because they couldn't find a home meeting their needs. Simply put, you can't buy what is not available," said Toronto Regional Real Estate Board (TRREB) President Paul Baron.

GTA REALTORS® reported 7,481 sales through TRREB's MLS® System in June 2023 – up 16.5 per cent compared to June 2022. The number of listings was down by three per cent over the same period.

The year-over-year increase in sales coupled with the decrease in new listings mean market conditions were tighter this past June relative to the same period last year. The average selling price was up by 3.2 per cent to $1,182,120. The MLS® HPI Composite benchmark was still down by 1.9 per cent on a year-over-year basis – the lowest annual rate of decline in 2023. On a month-over-month basis the seasonally adjusted average price and MLS® HPI Composite benchmark were up.

"A resilient economy, tight labour market and record population growth kept home sales well above last year's lows. Looking forward, the Bank of Canada's interest rate decision this month and its guidance on inflation and borrowing costs for the remainder of 2023 will help us understand how much sales and price will recover beyond current levels," said TRREB Chief Market Analyst Jason Mercer.

"GTA municipalities continue to lag in bringing new housing online at a pace sufficient to make up for the current deficit and keep up with record population growth. Leaders at all levels of government, including the new mayor-elect of Toronto, have committed to rectifying the housing supply crisis. We need to see these commitments coming to fruition immediately, or we will continue to fall further behind each month," stressed TRREB CEO John DiMichele.

"In addition to the impact of the listing shortage, housing affordability is also hampered on an ongoing basis by taxation and fees associated with home sales and construction as well as the general level of taxation impacting households today. Going forward, we need to look at all of the factors influencing the household balance sheet and people's ability to house themselves," continued DiMichele.

SOOOOO….like a broken record…I'll say it again! We still need more supply!
I mention that every month!
No one knows for sure, but I think the housing market will slow a bit in many markets until we have certainty that rates have stopped going up. Considering we won't get another BoC meeting until September, it might be a quiet 2 months for the housing market. But if there is no hike in September we will hopefully see the market improve again. It didn't take long for the market to take off after the BoC paused its rate hikes in the spring.

That is it for this month. The next Bank of Canada meeting is on September 6^{th}, so I will be in touch after that.

Be well! Have fun! And have a great summer!

Take care,
Luke

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