MARKET UPDATE: September 7th, 2023:

Hello Again!
I hope all is well with you and your family and that you had a wonderful summer.
So sad to see it go by so quickly! Though it seems Mother Nature didn't get that memo as we are now getting the hottest temperatures of the year!
I also hope the transition to getting the kids back to school has gone smoothly!

The Bank of Canada (BoC) met yesterday to discuss monetary policy. Up until last week, it seemed things were about 50/50 as to whether the BoC would increase rates or do nothing.
But a very poor GDP report that came out on Friday tipped things in favor of the BoC doing nothing.
And that is exactly what they did…..NOTHING! Prime still sits at 7.20% (or 7.35% if you are with TD).

All of these rate increases have started to become a political issue now! We've seen in the last couple of weeks, calls from the Premiers of BC, Ontario and Newfoundland, and also calls from Jagmeet Singh to stop the rate hikes. Most Realtors and Brokers have been screaming to stop for months! But that isn't how it works! The BoC is independent and isn't supposed to be influenced by politics. The BOC is still worried that if they don't stamp out inflation now, they will be forced to raise rates even more down the road. And while all of these increases over the last 18 months are hurting many people, having to raise even higher for longer is going to hurt more. I do believe they are trying to do what is best for the country. Though their view of what is "best" might be a little different than most of us who aren't earning $500k+ a year!!

Unemployment is increasing. And the 2nd quarter of GDP was expected to show growth in the 1.3%-1.5% range (depending who you ask). Instead GDP actually declined in Q2 by 0.2%. So it finally is appearing that these rate increases are starting to slow the economy.
Despite this, the Bank also noted that it remains concerned about the "persistence of underlying inflationary pressures," and is prepared to "increase the policy interest rate further if needed."

NOW…did the BoC state this because they intend to increase rates at their meeting in October or December??? Or are they simply saying this because they don't want the housing market to take off again like we saw in April after they paused hiking rates for the first time this year??? This wouldn't be the first time the BoC has used this tactic. And there are many economists thinking the latter might be the case.

Here is what the economists at the big 6 banks think:

-BMO expects no more increases in 2023. And they expect the BoC will have lowered the overnight rate by 0.75% by the end of 2024 from 5% to 4.25%.

-CIBC expects one more increase in 2023, raising the overnight rate from 5% to 5.25%. And they expect the BoC will have lowered rates down to 3.5% by the end of 2024.

-National Bank expects no more increases in 2023. And they expect rates to be down 1% by the end of 2024 to 4% from the current 5%.

-RBC expects no more increases in 2023. And they expect rates to be down 1% by the end of 2024 to 4% from the current 5%.

-Scotiabank expects no more increases in 2023. And they expect rates to be down 1.25% by the end of 2024 to 3.75% from the current 5%.

-TD Bank expects no more increases in 2023. And they expect rates to be down 1.5% by the end of 2024 to 3.5% from the current 5%.

IT SHOULD BE NOTED THAT WHILE SCOTIABANK DOESN'T EXPECT ANY MORE INCREASES IN 2023, IT DOESN'T AGREE WITH THAT DECISION AND WOULD PREFER FOR RATES TO BE INCREASED AT LEAST ONE MORE TIME IN 2023.

AND IT SHOULD BE NOTED THAT CIBC IS NOW STARTING TO BACK OFF ON THE PREDICTION OF ANOTHER INCREASE COMING THIS YEAR. THEY HAVEN'T COME OUT AND SAID 'NO MORE INCREASES' BUT THEY ARE STATING IT NOW SEEMS VERY SLIM THAT THERE WILL BE ANOTHER INCREASE COMING. MUCH HAS CHANGED IN THE LAST 48 HOURS!!!

SOOOO…what does that mean? Well not much to be honest! Many of these economists expected an increase was coming when they were asked a few weeks ago. So things can change on a dime! BUT….if there are no more increases by the BoC, we've seen fixed rates jump up about 1.5% over the summer, but only saw Prime go up 0.50%. So that could lead to longer term fixed rates (3+ years) creeping back down in the short-term. As mentioned above, I believe that is the key reason why the BoC stated they are prepared to hike still, as they want to slow down or delay the fixed rates dropping as they are fearful that if that happens too quickly the housing market will heat up quickly and create more inflation, which might force them to increase rates again down the road.

The BoC is slated to make two more rate decisions before the end of 2023, with the next one due October 25th. Between now and then we will have two more jobs reports, an inflation report, retail numbers report along with GDP data for July and a GDP estimate for August. So they will have a bunch of information to help them make the correct decision. I am praying that this info will confirm that staying on the sidelines is the correct course of action. (It isn't easy to qualify and afford anything if you have a 3 year fixed rate of 6.59%!!)

BUT…don't sweat too much if the next Inflation reading isn't a great one…..The BoC even stated that in their write-up. Gas prices have increased, and the numbers they are comparing to (numbers from this time last year) were quite low. So it seems very likely that the next reading will come in higher than the previous reading….But that is expected. The hope is that it will settle back down in the months to come. And if that materializes, there should be no need to hike rates again.

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

Unfortunately, mortgage rates have continued to trend upwards since the May long weekend. The hope is that with there being no increase this month that fixed rates will start to creep back downwards as they appear to have increased too much over the last couple of months.

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 5.44%. The 5 year variable term is still at Prime less 0.90% so no change in the spread or today's variable rate of 6.3%.
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 6.09%....and most lenders are actually up around 6.59% 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 6.19%. The 3 year fixed term dropped as low as 5.04% but is now back up to 6.59% at most lenders today.
The 5 year variable term has not had a change in spread….still Prime less 0.35% which is still at 6.85%.

These are the highest rates we've seen fixed rates in about 22 years. My hope is that by the next Market Update in late October that I'll be talking about fixed rates creeping back down.

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

TORONTO, ONTARIO, September 6, 2023 – Higher borrowing costs, continued uncertainty about the economy and Bank of Canada decision making, and the constrained supply of listings resulted in fewer home sales in August 2023 compared to August 2022. The average selling price remained virtually unchanged over the same period. On a seasonally adjusted monthly basis, sales and average price edged lower.

"Looking forward, we know there will be solid demand for housing – both ownership and rental – in the Greater Toronto Area (GTA) and broader Greater Golden Horseshoe. Record immigration levels alone will assure this. In the short term, we will likely continue to see some volatility in terms of sales and home prices, as buyers and sellers wait for more certainty on the direction of borrowing costs and the overall economy," said Toronto Regional Real Estate Board (TRREB) President Paul Baron.

Greater Toronto Area REALTORS® reported 5,294 sales in August 2023 – down by 5.2 per cent compared to August 2022. New listings were up by 16.2 per cent year-over-over, providing some relief on the supply front, but year-to-date listings are still down substantially compared to the same period last year.

Seasonally adjusted sales were down slightly by one per cent month-over-month compared to July 2023, while new listings were up slightly by 1.3 per cent compared to July.

"More balanced market conditions this summer compared to the tighter spring market resulted in selling prices hovering at last year's levels and dipping slightly compared to July. As interest rates continued to increase in May, after a pause in the winter and early spring, many buyers have had to adjust their offers in order to qualify for higher monthly payments. Not all sellers have chosen to take lower than expected selling prices, resulting in fewer sales," said TRREB Chief Market Analyst Jason Mercer.

The MLS® Home Price Index Composite benchmark for August 2023 was up by 2.5 per cent year-over-year. The average selling price was also up, but by less than one per cent to $1,082,496 over the same timeframe. On a month-over-month seasonally adjusted basis, the MLS® HPI Composite benchmark was virtually unchanged and the average price edged lower by 1.6 per cent.

"While higher interest rates have certainly impacted affordability, the prospect of higher taxes will also hit households' balance sheets, especially younger buyers with limited savings. With the City of Toronto moving to raise the municipal land transfer tax (MLTT) rate on properties over $3 million as a revenue tool, it must also consider helping first-time home buyers struggling to enter the market by adjusting their tax rebate threshold to reflect today's higher home prices," said TRREB CEO John DiMichele.

"All three levels of government need to be focused on the key issue impacting affordability in the GTA: lack of supply. Right now, there continues to be a policy mismatch between population growth through immigration and temporary migration and bringing online enough housing to accommodate this population growth. If we can't house newcomers, they will look elsewhere, and Canada and the GTA will lose its competitive edge on the global stage," continued DiMichele.

SOOOOO….still more talk of needing more supply. I'm not sure opening up the Greenbelt makes sense unless we have a process in place that ensures it is done fairly and doesn't just put $8billion into your friends' pockets!

The true problem as I see it, is that we simply need to get more shovels in the ground (which requires more construction workers…which we currently have a huge shortage of. AND on top of that it is hard for builders to release new developments at this time, as the demand is currently quite low with house prices and mortgage rates so high!) We might need rates to drop a bunch before demand for new construction increases. So we better start procuring some more workers so that when the new developments are ready to be built, we have the tradespeople to do it!

On top of that we need to remove the red tape and the towns/cities blocking new developments happening. I think we all agree that more housing is needed. But no one wants it in their backyard as it will make the roads and everything too busy around them.
This type of attitude needs to change….quickly. I believe it is one of the reasons why we are where we are.

This problem will take all of us to buy into in order to fix. This can't be fixed by Doug or Justin alone. Sure they maybe deserve some of the blame, but that doesn't help us move forward. If all 3 levels of government (and the people who complain about the new developments coming into their backyard) don't start working together, our shortfall of housing and affordability will only get worse from here on out. So time to work together and work on SOLUTIONS. All we are getting from gov't now is blaming the other guy/gal. That isn't going to fix our problem!

That's it for this month. The next Bank of Canada meeting is on October 25th, so I will be in touch after that.

Be well! Have fun! And have a great start to the school year!

AND PLEASE…DON'T GO BUYING HALLOWEEN CANDY YET. THERE ISN'T A PERSON IN THE COUNTRY WHO CAN RESIST EATING IT FOR THE NEXT 2 MONTHS. IT WILL ONLY LEAD TO GUILT, SHAME AND HEADING BACK TO THE STORE TO BUY MORE AT A LATER DATE!!
:D

Take care,
Luke

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