**MARKET UPDATE:  October 26th, 2023:**

Hello Again!
I hope all is well with you and your family and that you are enjoying the fall season!
Halloween is almost here (To buy the kid's outfit now??  Or do you wait until the 30th??  You know they are changing their mind 18 times this weekend!!!)
😊
And hopefully you are happy and healthy and the first 7 or 8 weeks of school have gone by smoothly!

The Bank of Canada (BoC) met yesterday to discuss monetary policy.  Just like the previous month, up until last week, it seemed things were about 50/50 as to whether the BoC would increase rates or do nothing.
This time it was a better than expected inflation report that came out that tipped things in favor of the BoC doing nothing.  With oil and gas prices way up (thank you OPEC and Russia for cutting production! I'm sure Russia called in a favor there to help with the war), and with base effects from September 2022 WAY lower than oil and gas in September of 2023, it was widely expected that inflation would be much higher in the report.  But it actually came down a bit, which surprised everyone!  That gave the BoC enough confidence to continue to sit on the sidelines.
SOOOO….Prime still sits at 7.20% (or 7.35% if you are with TD).

The BoC indicated (again) that they are still prepared to raise rates if needed.  And anything can happen…hard to say "never" after the last few years we've been through!  But it appears they are just learning from mistakes earlier this year, when they paused in the spring, mortgage rates dropped 0.50%-0.75% and the housing market took off.  That might have forced them to increase rates in the summer.

So they don't want the market to get ahead of itself and for mortgage rates to plummet YET (which would help the housing market take off again….and possibly create more inflationary pressures).  So they are going to continue to say the same thing to keep people guessing.  But it is now starting to seem likely that we could be at the end of the rate hikes.

Core inflation is still too high, and that is worrisome for the Bank.  But that is a lagging indicator … it takes 15 months or so to truly feel the full effects of rate hikes and drops.  So the economy is more than a year away from feeling the full effects of all of the rate hikes.  But there are now finally some signs that the economy is slowing down.  GDP estimates were lowered going forward and it appears that the economy will be stuck in neutral until the end of 2024 at least.

It now appears that inflation will be higher than previously expected for the next while….According to the BoC, it is now expected to average about 3.5% until the middle of next year.  And it won't get back down to the 2% target rate until 2025.  So inflation will stay higher for longer.  But it now feels like inflation is finally heading in the right direction and staying in that direction!!  As long as that trend continues, the BoC will not have to raise rates any further.

SOOOO…what does that mean about rates going forward??

Again…many different views on this, so hard to know for sure who to trust!

Capital Economics is the most aggressive in their thinking (they tend to be the most aggressive to either the up-side or the down-side! They never agree with the masses!)….They believe we are already in a recession and that only Canada's aggressive immigration policies have kept us from being in a full-blown recession. They believe the first Rate DROP by the BoC will be in April of 2024 and they believe Prime will be down 2% from today's level by the end of 2024.

CIBC believes the first drop will be in and around June or July of next year. But they believe it will take until the end of 2025 for Prime to be 2% lower.

Laurentian Bank believes the first drop is in July or September next year. (they did not indicate how fast/far rates will drop).

AND…the vast majority of economists seems to think we are waiting until at least Q3 of 2024…and most likely towards the end of 2024 until we see any drops.

As of this moment it appears that very few economists expect another hike coming. I've read no one that indicates that will happen. That doesn't mean it won't….but it will take a huge change in news to make it happen. I don't think the situation in Gaza will change anything, but uncertainty and unstable factors like that are rarely a good thing for economies.

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

Unfortunately, mortgage rates have continued to trend upwards. The market is buying into the "higher for longer narrative" I believe. The reality is that fixed mortgage rates have gone up way higher than they should. So if the market finally buys into the fact that rate hikes are done, we should see fixed rates creep back downwards. I had expected that to happen already, but unfortunately rates continue to creep the wrong way. So just like last month, 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 few months. But I have noticed some weird things happening of late. Fixed Rates jumped up at most lenders this week…but bond spreads went the other way. So why did they hike? Profit Taking maybe??

For Purchases with less than 20% down payment the 5 year fixed rate was down to around 4.54% on May 19$^{th}$. That is now up to 5.74%....which is about 0.30% higher than it was last month. 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 19$^{th}$ and now sits at 6.29%....and most lenders are actually up closer to 7%. That is an increase of 0.20% or more in the last month.

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 6.34%. That is about 0.15% higher than last month. The 3 year fixed term dropped as low as 5.04% but is now back up to 6.69%-6.86%...depending on the lender. That is up 0.10% to 0.27% in the last month
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 early December that I'll be talking about fixed rates creeping back down. If Bond spreads continue to drop as they have been doing so over the last couple of weeks, it will be very hard for lenders to keep rates at their current level. Someone will lower rates and then everyone will have to follow.

***IN GTA REAL ESTATE NEWS:***

*TORONTO, ONTARIO, October 4, 2023 – The impact of high borrowing costs, high inflation, uncertainty surrounding future Bank of Canada decisions and slower economic growth continued to weigh on Greater Toronto Area (GTA) home sales in September. However, despite the market being better-supplied with listings, the average selling price was up year-over-year.*

*"The short and medium-term outlooks for the GTA housing market are very different. In the short term, the consensus view is that borrowing costs will remain elevated until mid-2024, after which they will start to trend lower. This suggests that we should start to see a marked uptick in demand for ownership housing in the second half of next year, as lower rates and record population growth spur an increase in buyers," said TRREB President Paul Baron.*

*REALTORS® reported 4,642 home sales through TRREB's MLS® System in September 2023 – down 7.1 per cent compared to September 2022. The year-over-year dip in sales was more pronounced for ground-oriented homes, particularly semi-detached houses and townhouses. On a month-over-month seasonally-adjusted basis, sales were also down slightly.*

*New listings were up strongly on a year-over-year basis from the extremely low level in September 2022. The number of listings also trended upward on a month-over-month seasonally adjusted basis.*

*The MLS® Home Price Index (HPI) Composite benchmark was up by 2.4 per cent year-over-year. The average selling price was up by three per cent over the same time period. On a month-over-month seasonally-adjusted basis, both the average selling price and the MLS® HPI Composite benchmark edged lower by less than one per cent.*

*"GTA home selling prices remain above the trough experienced early in the first quarter of 2023. However, we did experience more balanced market in the summer and early fall, with listings increasing noticeably relative to sales. This suggests that some buyers may benefit from more negotiating power, at*

*least in the short term. This could help offset the impact of high borrowing costs," said TRREB Chief Market Analyst Jason Mercer.*

*"TRREB's annual consumer polling has shown that half of intending home buyers in Toronto will be first-time buyers in any given year. The average price of a condo apartment in Toronto is over $700,000. Yet, the first-time buyer exemption threshold for the City's upfront land transfer tax has remained at $400,000 for a decade-and-a-half. With this in mind, TRREB applauds Toronto City Council for asking City staff to provide a report on a more appropriate exemption level moving forward," said TRREB CEO John DiMichele. He further stressed that "many housing and taxation policies are currently set in opposition and we need all levels of government to align policies and work together to solve this housing crisis."*

SOOO…I agree with what Jason Mercer said above….with there being less demand at the moment, it appears there is an opportunity to get a bit of a deal on a home at this moment. I am seeing First-Time Buyers buying into this belief as well. YES…their mortgage rate might be too high. But they fear that if they wait until rates are lower to start putting in offers on homes, they will be in a bidding war like we saw a couple of years ago. If that happens, you might have a lower rate, but you'll be paying way more for the home, so are you really saving any money?!?!?
Only the benefit of hindsight will tell us for sure. But I believe the longer rates stay high, the more demand gets pent up and eventually will be unleashed on the market and things will go crazy again.
It is not an easy decision now…to buy now or wait!?!?!? I wish I had the answer!

That's it for this month. The last Bank of Canada meeting of 2023 is on December 6th, so I will be in touch after that.

Be well! Have a great Halloween! And enjoy the next month!

Take care,
Luke

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Your mortgage....Consider it done!