MARKET UPDATE: December 7th, 2023:

Hello Again!
I hope all is well with you and your family and that you are enjoying the fall season and managing to keep the family healthy! And hopefully you are excited for the fast approaching Holiday Season!

The Bank of Canada (BoC) met yesterday to discuss monetary policy for the final time in 2023. Unlike previous meetings, the outcome of this one never seemed in doubt. For the third straight meeting, the BoC decided to do nothing. So Prime still sits at 7.20% (or 7.35% if you are with TD).

The economy continues to slow….(The only thing keeping us from a recession is aggressive immigration. And unemployment continues to increase)…And inflation continues to slow…(October's reading was down to 3.1% from 3.8% the previous month). So the hope is that the BoC has done enough to bring inflation back to its 2% target.

The BoC still kept their usual message of "*Governing Council is still concerned about risks to the outlook for inflation and remains prepared to raise the policy rate further if needed"….*But there aren't many people who believe they will need to follow through on that threat. It seems more likely that they are saying this to keep rates from bottoming out and potentially fueling the housing market again.
But the market is definitely not buying that talk and bond spreads have plummeted the last month or so. 5 year Government of Canada bonds have improved by about 1% since the last BoC meeting in late October. And 2 year bonds have improved by 0.83% in that same time period. So this is causing fixed mortgage rates to come down quickly over the last month. More on that in a bit!

The talk has now changed from "will the BoC lower rates next?" to "WHEN will they lower rates next?!?".
The bond market has fully priced in the first drop by April of 2024. And there are a few analysts (e.g. TD, Capital Economics, etc..) who believe that the first drop will be at the March or April meeting. CIBC believes the first reduction will be at the June or July 2024 meeting. Whereas most analysts (e.g. RBC, BMO, etc…) believe that the first drop will be in the 2nd half of 2024. They can't truly lower rates until it is apparent that inflation will get back to their 2% target and we aren't there yet. It is possible there is still some "bumps in road" so to speak. But there now appears very little "upside risk" and only "downside risk"….meaning that there is mainly risks that would force them to lower rates sooner as opposed to later.

The economy and housing market seem on very shaky ground at the moment. And big employers (like the big 5 banks) are laying off thousands (approximately 63,000 laid off in the last few months from those banks). That tends to be a leading indicator for the rest of the economy.
So it would not surprise me to see mass layoffs from other big and medium sized companies in the first two months of 2024. And things like that will only speed up the timeline for rate reductions by the BoC.

It also seems that many economists now believe that rates will be 1.5% lower by the end of 2024. At this time last month, the majority thought rates would only be 1% lower by the end of 2024. So it appears lower rates are coming faster than previously expected.

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

As mentioned earlier, spreads have improved mightily in the last month, which is slowly but surely bringing down fixed mortgages rates.
For Purchases with less than 20% down payment the 5 year fixed rate was at around 5.74% in late October. I'm now seeing offerings as low as 4.99%! 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 was sitting around 6.29% in late October, which some lenders being up around 7%. I'm now seeing 3 year fixed terms as low as 5.80%.

For Purchases with 20% down payment the 5 year fixed rate was up around 6.34% in late October. Today it is down to as low as 6.04%. The 3 year fixed term was around 6.69%-6.86% in late October...depending on the lender. That is now down to around 6.30%.
The 5 year variable term has not had a change in spread….still Prime less 0.35% which is still at 6.85%.

As mentioned in my last Update, the hope is that this trend will continue and we will see rates continue to fall as we move forward and get closer to reductions from the BoC.

I still believe that variable or shorter fixed terms like 2 or 3 years fixed is the way to go today. With rates expected to be quite a bit lower in a year or two, it makes no sense to lock in for say 5 years just to save less than 1% versus taking a shorter term. I expect you'll pay more interest in the next year or so in variable and shorter terms, but will then easily recoup that extra interest by having a much lower rate in the years that follow.

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

TORONTO, ONTARIO, December 5, 2023 – High borrowing costs and uncertain economic conditions continued to weigh on Greater Toronto Area (GTA) home sales in November 2023. Sales were down on a year-over-year basis, while listings were up from last year's trough in supply. With more choice in the market, selling prices remained basically flat year-over-year.

"Inflation and elevated borrowing costs have taken their toll on affordability. This has been no more apparent than in the interest rate-sensitive housing market. However, it does appear relief is on the horizon. Bond yields, which underpin fixed rate mortgages have been trending lower and an increasing number of forecasters are anticipating Bank of Canada rate cuts in the first half of 2024. Lower rates will

help alleviate affordability issues for existing homeowners and those looking to enter the market," said Toronto Regional Real Estate Board (TRREB) President Paul Baron.

GTA REALTORS® reported 4,236 sales through TRREB's MLS® System in November 2023 – a six per cent decline compared to November 2022. Over the same period, the number of new listings was up by 16.5 per cent. On a seasonally adjusted monthly basis, sales edged up compared to October 2023, while new listings were down by 5.5 per cent.

The MLS® Home Price Index Composite benchmark and the average selling price, at $1,082,179, in November 2023 were basically flat in comparison to November 2022. On a seasonally adjusted monthly basis, the MLS® HPI Composite benchmark was down by 1.7 per cent. The average selling price was down 2.2 per cent month-over-month.

"Home prices have adjusted from their peak in response to higher borrowing costs. This has provided some relief for buyers, from an affordability perspective. As mortgage rates trend lower next year and the population continues to grow at a record pace, expect demand to increase relative to supply. This will eventually lead to renewed growth in home prices," said TRREB Chief Market Analyst Jason Mercer.

"Houses and condos are meant to be homes, first and foremost. We know the demand for homes, both rental and ownership, will grow for years to come. We have seen some productive policy decisions recently that should help with housing affordability, including allowing existing insured mortgage holders to switch lenders without the stress test. Additionally, in the interest of household and economic stability, we continue to call on the Office of the Superintendent of Financial Institutions (OSFI) to apply the same approach to uninsured mortgages. It also goes without saying that further policy work is required to bring more supply online," said TRREB CEO John DiMichele.

So there is some hope for the housing market as we move forward into 2024. Lower rates should bring a bit better affordability. But the fear is that demand has been pent up for so long, and immigration has brought so many people into Southern Ontario in the last two years, that affordability will be eroded away by bidding wars again in the spring and summer. It appears to me that we are going to be back to where we were prior to rates going up in early 2022….a major supply issue in the housing market and that should force prices upwards again and move us back to a "seller's market" at some point in 2024. The Federal Government did announce some plans to help with getting shovels into the ground and getting homes built faster. But we have a long way to go to make up for the massive shortfall of homes we will be needing soon.

That's it for this year. The next Bank of Canada meeting is on January 24th, so I will be in touch after that.

I wish you and your family a Happy, Healthy and fun Holiday Season! I hope Santa is good to you!!
And I hope you all have a prosperous 2024 as well!

Be well! Stay Safe! And Happy Holidays!
Luke

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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.