<u>MARKET UPDATE: January 25th, 2024:</u>

Hello Again! And Happy New Year!
I hope all is well with you and your family, that the Holiday Season was good to you and that the first three and a half weeks of 2024 has been wonderful! We've certainly had some crazy weather this winter!! Less than 30 hours of sunshine so far this winter, but more rain than snow!! Normally we are in hibernation mode by this time as we are dealing with minus double-digit temps!

The Bank of Canada (BoC) met yesterday to discuss monetary policy for the first time in 2024. For the fourth straight meeting the BoC decided to do nothing....and that decision was never truly in doubt. So Prime still sits at 7.20% (or 7.35% if you are with TD).

What economists and the market were hoping to hear from the BoC this meeting was some indication as to when they will start to lower rates. Unfortunately the BoC is playing their cards close to the vest....so to speak. They have learned from last year when they said they were going on a pause and then fixed mortgage rates and bond spreads plummeted. The market is still pricing in a good chance that the first drop is going to be in April, though the summer now seems more likely as core inflation is proving “sticky”.

But it seems likely that inflation is still trending in the right direction and the BoC expects it to finally return to their 2% target by 2025. So that means inflation will remain elevated for the rest of 2024, but they do believe it will slowly but surely be shrinking as we move forward. Once they are 100% sure that inflation will definitively be heading to their 2% target, only then can they start lowering rates.

The most noteworthy part of the BoC's announcement was the conspicuous lack of reference to possible future rate hikes! So they are definitely striking a less hawkish tone this time around. They did say that it is ‘NOT a zero chance of rate increases going forward’....so hikes are not completely off of the table....but it certainly appears that something crazy would have to happen to bring about more increases. And the fact the BoC changed their tune for the first time in 6 months and removed that part about ‘future rate hikes’ shows that the next move will almost certainly be a drop.

So when will the BoC start to drop rates??!! Out of 34 prominent economists polled this week, 22 of them (including most of the big 5 banks) thought rates would start dropping in June or July.
But there were 12 that still believe the first drop will happen in April (including TD Bank's economists). Time will tell! And with the BoC not wanting the bond market to get ahead of itself, I'm not sure we will get much of a warning.

And how fast will rates come down?? Well I'm glad you asked! Here are what the big 6 Canadian Banks are currently predicting....(And FYI...the current Overnight Rate today is 5%):

LENDER:	Target Rate: End of 2024	Target Rate: End of 2025
BMO	4.00%	N/A
CIBC	3.50%	2.50%
NATIONAL BANK	3.25%	2.75%
RBC	4.00%	3.00%
SCOTIABANK	4.00%	3.25%
TD BANK	3.50%	2.25%

SOOOOOOO….what does this all mean?? Well…it isn't like we can simply assume that this is correct. We've all been fooled a lot in the last 2 years! BUT, it does mean that everyone of these banks believe that the Overnight Rate (and therefore the Banks' Prime Rate) will be at least 1% lower by the end of 2024. And half of the big 6 believe it will be 1.5% or even 1.75% lower in a year.

And on top of that, only Scotia believes we won't be 2% lower or more by the end of 2025. (BMO doesn't have an opinion on that as of now).

SOOOO…that should be good news for everyone who has debt! Lower rates are finally on the horizon! And if you have to make a decision now on a mortgage, locking into a fixed term for a long time is not advisable. Shorter fixed terms or variable would seem to be the prudent choice at this time so that you can take advantage of these lower rates sooner.

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

As was the case back in December, bond spreads continue to slowly but surely improve as we move closer to the BoC being able to lower rates. So that means that fixed mortgage rates have also continued to creep lower since my last update in early December.

We had a bit of a scare last week as December's Inflation Report came out higher than the market expected…showing that our core inflation was not really dropping.
That led to bond spreads increasing a bit which meant a risk of fixed rates increasing in the short term (as the market was starting to sense that maybe March or April were too early for the BoC to start dropping rates).
Fortunately the bond spreads have leveled off this week and even improved over the last couple of days. So there is hope we are back on the 'improving spreads and improving fixed rates' train again!!

For Purchases with less than 20% down payment the 5 year fixed rate was at around 5.74% in late October. Today we are still seeing offerings around 5.14%.
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....with some lenders being up as high as around 7%. I'm now seeing 3 year fixed terms as low as 5.24%....though most lenders are in and around 5.44% today.

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 5.59%. The 3 year fixed term was around 6.69%-6.86% in late October...depending on the lender. That is now down to around 5.86%.
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 couple of Updates, 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.

And as mentioned last month and also above, 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 at a slightly higher rate. 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.

IN GTA REAL ESTATE NEWS:

TORONTO, ONTARIO, January 4, 2024 – While the overall demand for housing remained buoyed by record immigration in 2023, more of this demand was pointed at the rental market. The number of Greater Toronto Area (GTA) home sales in 2023 came in at less than 70,000 due to affordability issues brought about by high mortgage rates.

"High borrowing costs coupled with unrealistic federal mortgage qualification standards resulted in an unaffordable home ownership market for many households in 2023. With that said, relief seems to be on the horizon. Borrowing costs are expected to trend lower in 2024. Lower mortgage rates coupled with a relatively resilient economy should see a rebound in home sales this year," said new Toronto Regional Real Estate Board (TRREB) President Jennifer Pearce.

There were 65,982 home sales reported through TRREB's MLS® System in 2023 – a 12.1 per cent dip compared to 2022. Despite an uptick during the spring and summer, the number of new listings also declined in 2023. The trend for listings has been largely flat-to-down over the past decade, which is problematic in the face of a steadily growing population. On a seasonally adjusted monthly basis, sales increased compared to November, while new listings declined for the third straight month.

The average selling price for all home types in 2023 was $1,126,604, representing a 5.4 per cent decline compared to 2022. On a seasonally adjusted monthly basis, the average selling price edged higher, while the MLS® Home Price Index Composite edged lower.

"Buyers who were active in the market benefitted from more choice throughout 2023. This allowed many of these buyers to negotiate lower selling prices, alleviating some of the impact of higher borrowing costs. Assuming borrowing costs trend lower this year, look for tighter market conditions to prompt renewed price growth in the months ahead," said TRREB Chief Market Analyst Jason Mercer.

"Record immigration into the GTA in the coming years will require a corresponding increase in the number of homes available to rent or purchase. People need to have comfort in knowing that they can plan their lives and future with the certainty that they will have the stability of an affordable place to live," said TRREB CEO John DiMichele.

SOOOO….we saw an uptick in activity in December, which is good news (though the unusually warm weather might have helped with that). There is hope that the housing activity will increase as we move forward and mortgage rates continue to improve. But I am seeing a lot of people sitting on the sidelines…waiting for lower rates before they pounce. As has been the issue for the last number of years, we simply need more listings. With record immigration numbers coming to Southern Ontario, we simply need a lot more supply. Owning or renting a place is becoming increasingly unaffordable and while lower rates might help, the higher population will only increase demand to rent a place or purchase a place and that should continue to push prices upwards.

That's it for this update. The next Bank of Canada meeting is on March 6th, so I will be in touch after that.

I hope you and your family have an awesome month!
Take care,
Luke

Lucas Preston
Mortgage Agent, Level 2
Cell: 647-299-5136
lucaspreston@invis.ca
License #: M08003866
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.