<u>MARKET UPDATE: April 11th, 2024:</u>

Hello Again!
I hope all is well with you and your family and that you are getting excited for the summer and warmer weather which is fast approaching!
The Bank of Canada (BoC) met yesterday to discuss monetary policy for the third time in 2024 and for the sixth straight meeting the BoC decided to do nothing. That decision was never truly in doubt….all economists polled last week expected no change to the Overnight Rate at this meeting. So Prime still sits at 7.20% (or 7.35% if you are with TD).

Despite the outcome of the meeting not being in doubt, Analysts were holding their breath to see whether the BoC would tip their hand about when they will begin dropping rates. Unfortunately they kept their cards close to the vest, so to speak, so it forces everyone to read between the lines as to what will happen next. They did say they don't want to leave rates this high for longer than they need to. But they still worry about cutting too soon or too fast and jeopardizing the progress they have made.

Governor Macklem did try to be more transparent and said this about the situation:
I realize that what most Canadians want to know is when we will lower our policy interest rate. What do we need to see to be convinced it's time to cut? The short answer is we are seeing what we need to see, but we need to see it for longer to be confident that progress toward price stability will be sustained. The further decline we've seen in core inflation is very recent. We need to be assured this is not just a temporary dip.

In the months ahead, we will be closely watching the evolution of core inflation. We remain focused on the balance between demand and supply in the economy, inflation expectations, wage growth and corporate pricing behaviour as indicators of where inflation is headed.

To conclude, we've come a long way in the fight against inflation, and recent progress is encouraging. We want to see this progress sustained.

SOOOO…what the heck does that all mean?!?!? Well, if you ask 3 different economists, you'll most likely get 3 different answers now! So it is as clear as mud unfortunately!! Unfortunately there is nothing definitive in those statements. The next couple of inflation readings will be key.

Just a couple of weeks ago, it appeared VERY likely that we would see the first Rate Cut in June. We had a WAY better than expected Inflation reading for February and a weaker jobs report as well. But last week, GDP surprised to the upside, showing the economy is faring way better than expected, so opinions have started to change as to when the rate cuts would materialize. In a Reuters poll last Friday, 27 of 38 analysts polled thought June was the first rate cut, 7 predicted it would be in July and 4 believed it wouldn't happen until September. And the Bond Market had priced in a 75% chance of a rate cut happening in June.

However, the Bond Market and many other analysts are pushing back their projections over the last 24 hours….thinking we now might have to wait until July for the first drop (but many acknowledging that June isn't off the table yet). And there are a few economists (including Scotiabank) who believe we won't see a rate drop until the September meeting…or possibly even later than that! In the short term, this is putting pressure on fixed mortgage rates to creep up a bit…at least in the short term…., as the market had already priced in the expectation of rate drops coming this summer.

For those hoping for rate cuts sooner rather than later, higher than expected Inflation readings south of the border yesterday were a big blow, as it most likely means we are months away from the US beginning to lower rates….potentially they might now have to wait until 2024 to start lowering rates. It appears the US does not have inflation under control yet. If the US is not lowering rates but Canada is, it will drop the Canadian Dollar vs the US Greenback and that will increase inflation (as most of the goods we buy are not from Canada!) So that fact alone might delay or lessen the drops by the BoC this year.

It certainly feels of late that the closer we get to the inevitable "rate drops", the more analysts are starting to believe we will be waiting longer for those drops to commence! That doesn't mean that there won't be a rate cut in June. But it is certainly seeming less likely today than it did just 6 short days ago! BUT…we do have 2 more inflation readings before the next BoC meeting in early June. So there is still a chance we could see a rate drop at the next meeting if the inflation data comes in showing that inflation is not getting worse.

The BoC believes that higher gas prices will keep inflation around 3% for the next few months and then it will ease below 2.5% in the latter part of 2024….before finally reaching the 2% target in 2025. They also revised upwards growth estimates both Globally and in Canada. The economy has not dropped off as they had previously expected.

One rate the BoC DID change today was their projection as to what the "neutral rate" should be…..that is the point where rates should be where it is no longer helping or killing the economy. Previously that Neutral Rate was 2%-3% for the Overnight Rate (which is currently at 5%).
They raised that range from 2.25% to 3.25%.
So assuming they don't raise their projection as to the "neutral" rate yet again, it means they would have to lower rates by 1.75%-2.75% in this next rate dropping cycle to get the economy where they want.

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

As mentioned above, bond yields/spreads have been creeping higher since the last BoC Meeting and this is putting pressure on lenders to have to increase their fixed rates in the short term. We haven't seen any changes in rates yet, but if bond spreads continue to increase, lenders will be forced to hike fixed offerings soon.

For Purchases with less than 20% down payment the 5 year fixed rate is around 4.89%.
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 is still sitting as low as 5.04%....though most lenders are in and around 5.24%-5.44% range today.

For Purchases with 20% down payment the 5 year fixed rate is currently as low as 5.49%. The 3 year fixed term is now also down to around 5.49%.
The 5 year variable term has not had a change in spread....still Prime less 0.35% which is still at 6.85%.

IN GTA REAL ESTATE NEWS:

TORONTO, ONTARIO, April 3, 2024 – March 2024 home sales reported through TRREB's MLS® System were lower than the March 2023 result, due in part to the statutory holiday Good Friday falling in March this year versus April last year. Despite a better-supplied market compared to last year, there was enough competition between buyers to see a moderate increase in the average March home price compared to last year's level.

Greater Toronto Area (GTA) REALTORS® reported 6,560 sales through TRREB's MLS® System in March 2024 – down by 4.5 per cent compared to March 2023. New listings were up by 15 per cent over the same period. On a seasonally adjusted monthly basis, sales were down by 1.1 per cent. New listings were down by three per cent compared to February.

The first quarter ended with sales up by 11.2 per cent year-over-year. New listings were up by a greater annual rate of 18.3 per cent.

"We have seen a gradual improvement in market conditions over the past quarter. More buyers have adjusted to the higher interest rate environment. At the same time, homeowners may be anticipating an improvement in market conditions in the spring, which helps explain the marked increase in new listings so far this year. Assuming we benefit from lower borrowing costs in the near future, sales will increase further, new listings will be absorbed, and tighter market conditions will push selling prices higher," said TRREB President Jennifer Pearce.

The MLS® Home Price Index (HPI) Composite benchmark was up by 0.3 per cent year-over-year. The average selling price was up by 1.3 per cent to $1,121,615. On a seasonally-adjusted month-over-month basis, the MLS® HPI Composite was up by 0.2 per cent and the average selling price was up by 0.7 per cent compared to February.

"The average selling price edged up in comparison to last year as we moved through the first quarter of 2024. Price growth is expected to accelerate during the spring and even more so in the second half of the year, as sales growth catches up with listings growth and sellers' market conditions start to emerge in many neighbourhoods. Lower borrowing costs in the months ahead will help fuel increased demand for ownership housing," said TRREB Chief Market Analyst Jason Mercer.

"As demand for ownership and rental housing increases, supply will continue to be top of mind. Governments at all levels must maintain their focus on pursuing innovative solutions to increase the amount and mix of housing supply to improve affordability. This includes removing roadblocks to non-traditional arrangements, such as co-ownership models to benefit home buyers, including first-time buyers and seniors. Encouraging gentle density, including multiplexes, is critical to helping high demand areas such as the Greater Golden Horseshoe to meet housing supply targets," said TRREB CEO John DiMichele.

I expect more of the same in the housing market as we move forward. As the weather warms and we get closer to lower rates, it appears the number of sales will increase. There is simply too much pent-up demand and prospective buyers waiting to pounce when rates come down.
I'm already hearing and seeing evidence in many markets where homes are going for well above the list price.

In January, the vast majority of sales were under the list price. By February, those sales that were purchased for over the list price had jumped to 25%. In March, that number jumped again....this time to 43%. The condo market is a little slower than single family homes at the moment. But things are definitely starting to heat up in a number of markets (61% of neighborhoods were in overbidding territory if you take condos out of the equation....Condo's were overbid in only 14% of markets in March...the vast majority of those were 2 bdrm and not 1 bdrm or studio sized units).

Next week (April 16th to be exact) is the announcement of the new 2024 Federal Budget. There is talk that JT will have some new rule changes regarding mortgages.
We don't know for sure what those will be but being that the Federal Liberals have already announced that they are spending billions to try to ease the pain for renters and younger people, my guess is that there might be some loosening of some mortgage rules to help make it easier for people to qualify for mortgages. One such rule change could be lengthening the maximum amortization to 30 years from the current 25 years for mortgages with less than 20% down payment. That would help them qualify for more and afford more. That is the hope anyway!! It isn't easy to qualify for mortgages at these high home prices and high rates! Keep your ears open on Tuesday for that news.

That's it for this update. The next Bank of Canada meeting is on June 5th, so I will be in touch after that.

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