MARKET UPDATE: July 25th, 2024:

Hello Again!
I hope all is well with you and your family and that the start of the summer has been wonderful!

The Bank of Canada (BoC) met yesterday to discuss monetary policy for the fifth time in 2024 and decided to lower rates at the second straight meeting. After the last meeting in early June, most economists were calling for the BoC to hold off on another drop until their September meeting. But with the unemployment rate increasing and inflation continuing to slow both here and south of the border, by late last week the bond/swaps market had priced in more than a 90% chance of there being a drop by the BoC this week. So by the time the BoC meeting rolled around yesterday it seemed likely we would get another drop this week. So Prime now sits at 6.70% (or 6.85% if you are with TD).

The tone from the BoC this week was surprisingly "dovish", which has most economists now believing that we'll see another two 0.25% drops before the end of 2024. (I believe TD is currently the only one that thinks we will only have one more quarter percent drop coming in 2024). Currently the risk to the economy seems to be greater than the risk of higher inflation.

The unknown is when those/that drop(s) will happen…it seems they will take it one meeting at a time….(FYI: The BoC has 3 meetings left in 2024…..September, October and December). And most economists still believe we will have 1% or more of drops in 2025 as well. Assuming we get 1.5% more of drops between now and the end of 2025, that would mean Prime is down to 5.2% by the end of 2025…..down from the high of 7.2% we've been sitting at since the summer of 2023.

For those predictions to materialize, we will need to see inflation continuing to slow in Canada and the USA. And hopefully these higher rates don't torpedo the job market as well, but it is possible that will happen. The last jobs report in Canada showed we lost 1400 jobs in a month that analysts were prediction 25,000 being created! Those numbers look even worse when you factor in 80,000 people moving to Canada in that month. Despite way more people looking for work, jobs are seeming harder to find for many. I know of many parents with teenagers who are saying their kids are having an impossible time find jobs for the summer. I fear this situation will get worse before it gets better. It is for this reason that many economists are already predicting another rate drop at the September meeting.

TODAY'S MORTGAGE RATES:

Rates have been very stable for the last 3 months. That is despite bond yields/spreads improving to the point that lenders could lower their fixed rates. It certainly seems lenders don't have an appetite for selling 1, 2 or 3 year fixed terms at this time. (I guess because they'd rather have people paying high rates for 4 or 5 years! AND because if they do offer 2 year rates, they know that come renewal in 2 years, they will not be able to loan out that money at a rate anywhere close to what they can loan out money today).

As mentioned last month, when the BoC raises rates, we tend to see lenders and banks move quickly to hike fixed rates as well. Unfortunately it doesn't always happen as quickly when rates come down. It tends to take one lender to make a move to drop rates, and then the masses follow. So while I still do expect fixed rates to come down at some point soon, at this moment there has been no big changes to 1-3 year fixed rates. We are seeing better options for the 4 and 5 year fixed rates ...which have dropped quite a bit since the last BoC meeting in early June.

For Purchases with less than 20% down payment the 5 year fixed rate is now around 4.69%.
The 5 year variable term has improved to Prime less 1.05%. So after the 0.25% drop yesterday, we are looking at 5 year variable rates around 5.65%.
The 3 year fixed rate is sitting as low as 5.04%, but is around 5.19%-5.24% at most lenders.

For Purchases with 20% down payment the 5 year fixed rate is currently as low as 5.04% and the 3 year fixed term is now also down to around 5.29-5.39% (The 5.39% is for a 30 yr amortization....5.29% is for 25 yrs or less).
The 5 year variable term has improved...both the rate itself and the spread is lower. We can now get Prime less 0.60%, which would mean your rate today is 6.10%.

If Prime continues to drop, all while shorter term fixed rates do not move, it definitely makes the variable terms a lot more attractive.
I still think (in a perfect world), you'd want to avoid something like a 5 year fixed term at this time. You would save money in the short term, but you won't be happy in 2 or 3 years time when you are paying high 4's or low 5s and seeing mortgage rates substantially lower than that.

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

TORONTO, ONTARIO, July 4, 2024 – June 2024 home sales in the Greater Toronto Area (GTA) were lower compared to the same month last year, according to the Toronto Regional Real Estate Board (TRREB). Despite the Bank of Canada rate cut at the beginning of last month, many buyers kept their home purchase decisions on hold. The market remained well supplied, resulting in a slight dip in the average selling price compared to June 2023.

"The Bank of Canada's rate cut last month provided some initial relief for homeowners and home buyers. However, the June sales result suggests that most home buyers will require multiple rate cuts before they move off the sidelines. This follows Ipsos polling for TRREB, which suggested that cumulative rate cuts of 100 basis points or more are required to boost home sales by any significant amount," said TRREB President Jennifer Pearce.

GTA REALTORS® reported 6,213 home sales through TRREB's MLS® System in June 2024 – a 16.4 per cent decline compared to 7,429 sales reported in June 2023. New listings entered into the MLS® System amounted to 17,964 – up by 12.3 per cent year-over-year.

The MLS® Home Price Index Composite benchmark was down by 4.6 per cent on a year-over-year basis in June 2024. The average selling price of $1,162,167 was down by 1.6 per cent over the June 2023 result of $1,181,002. On a seasonally adjusted monthly basis, both the MLS® HPI Composite and the average selling price were up compared to May 2024.

"The GTA housing market is currently well-supplied. Recent home buyers have benefitted from substantial choice and therefore negotiating power on price. Moving forward, as sales pick up alongside lower borrowing costs, elevated inventory levels will help mitigate against a quick runup in selling prices," said TRREB Chief Market Analyst Jason Mercer.

"Despite a temporary dip in home sales due to high interest rates, we know that strong population growth is driving long-term demand for ownership and rental housing. Ontario has set the goal of 1.5 million more homes on the ground by 2031. This is only possible if all levels of government ensure actionable solutions with sustained effort, including continuing to remove red tape, avoiding financial barriers to home construction, and minimizing housing taxes and development charges," said TRREB CEO John DiMichele.

SOOOO…the rate cuts clearly help on a psychological level, but it appears more cuts are needed to get people off the fence and buying again. That makes a lot of sense as at these current rates, taking on a large mortgage is very expensive….and hard to qualify for too! Here's hoping things can start to pick up again in the fall. I know inventory is increasing so buyers do have more power than we've seen in a long time….especially in the GTA condo market.

That's it for this update. The next Bank of Canada meeting is on September 4th, so I will be in touch after that.
Wishing you and your family a wonderful summer!
Take care,
Luke

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Your mortgage….Consider it done!