MARKET UPDATE: September 5th, 2024:

Hello Again! I hope all is well with you and your family and that you had a wonderful summer! So sad it is done so soon! But I hope the transition back to school for the kiddos has gone smoothly for you…as smoothly as possible that is!!!

The Bank of Canada (BoC) met yesterday to discuss monetary policy. It was their sixth meeting of 2024 and they decided to lower rates for the 3rd straight meeting. Prime now sits at 6.45% (except for at TD, who has Prime at 6.6%).

As we move forward, the likelihood of more drops continues to increase. After the first drop in early June, it was unknown how quickly the BoC would continue to drop rates and most believed we would only see a drop at one of the July and September meetings and maybe two quarter percent drops for the rest of 2024.

Fast forward to September and we've now had three straight cuts by the BoC. And now many analysts/economists believe we are going to not only see drops at the last 2 meetings of 2024 in October and December, but also the first 3 meetings of 2025 as well!! AND…some economists are even talking that there is a chance we could see drops of greater than 0.25% coming our way! SOOO…assuming that we see 0.25% drops at the next 5 meetings (a big assumption as so much could change and this stuff isn't easy to predict), that would mean that by mid April of 2025, Prime would be down to at least 5.2%….(or 2% lower than where prime was back in May of this year).

In a Reuters poll from last week, 20 of 28 analysts polled expected 0.25% drops at all 3 remaining meetings in 2024. 7 of 8 predicted quarter percent drops at 2 of the 3 remaining meetings….(I wonder if those predictions have changed now that the BoC dropped rates yesterday)…..and 1 of the 28 predicted 1% of drops by the end of 2024..which would mean at least one drop of at least 0.50% at one of the meetings. The previous month's poll by Reuters in late July had 90% of those polled predicting only 2 more 0.25% drops in the last 3 meetings of the year. So the analysts are certainly changing their minds quickly and now believe rate drops are coming faster than they previously thought. On top of that, many polled still believe we will see an additional 1% in drops throughout 2025. That would bring prime all the way down to 4.95% by the end of 2025 if those predictions are correct! (AGAIN….take this with a grain of salt….predictions are changing by the day here. For now they are trending in the right direction but there is lots that could change this as we move forward).

The unemployment rate continues to increase and inflation continues to slow (not only regular inflation, but also "core" inflation) both here in Canada and south of the border. So despite 2nd quarter GDP coming in higher than expected last week in Canada, it became a foregone conclusion that we'd see another drop by the BoC this week.

It is expected that the U.S. Fed will also start dropping rates at their next meeting in 2 weeks time. A quarter percent drop is the expectation for this meeting. HOWEVER...there are many speculating that future drops after the September meeting will be 0.50% instead of only 0.25%. The Bond Market believes that despite only having 3 more meetings in 2024, that the US Fed will lower rates by 1% between now and the end of 2024. Most analysts believe we will see 0.75% in drops over those next 3 meetings, but the number expecting more drops by the US is increasing daily.

Whether the US drops rates 0.75% or 1% over the next few months shouldn't matter too much to Canada. What matters is that they are finally dropping rates south of the border. That will only make it easier for Canada to continue to lower rates. So that has led to speculation of more drops or even bigger drops than 0.25% coming our way soon! I guess time will tell!

One final anecdote about rate drops....BoC Governor Macklem was VERY dovish yesterday and mentioned there is a worry that inflation might fall below the 2% threshold and that they didn't want that. That comment has opened the door to the talk of more drops/greater drops in the coming months.

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

Not much has changed since my last update, so I'll reiterate the same message as last time.....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 and therefore aren't lowering these terms. (I guess that is because they'd rather have people paying high rates for 4 or 5 years! AND because if they do offer 2 year fixed 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 in both my June and July updates, 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 most of the fixed rates.

Since June 1st, 5 year Canadian Bond Yields are down about 0.80%. They are down about 0.40% alone since the last BoC meeting in late July. But we've seen 5 year fixed rates come down only 0.40% since June 1st....and 5 year fixed rates are only about 0.10% lower since the last BoC Meeting, despite the cost of funds for lenders improving by 0.40% over the last month. FRUSTRATING!!

For Purchases with LESS than 20% down payment....
-The 5 year fixed rate is now around 4.59%.

-The 5 year variable term has not changed and is still at Prime less 1.05%. So after the 0.25% drop yesterday, we are looking at 5 year variable rates around 5.40%.
THOUGH IT SHOULD BE NOTED....some lenders have started reducing their discounts from Prime as rates drop. So I don't anticipate we'll be able to get Prime less 1.05% for much longer.

-The 3 year fixed rate is sitting as low as 4.74%....we've finally seen this rate drop about 0.40% since the last update (though there were no drops to 3 year fixed rates in the 2 months prior to this month...so there is room here for an additional 0.40% in drops as well!)

For Purchases with 20% down payment ....
-The 5 year fixed rate is currently as low as 4.94% which is down about 0.10% in the last month.

-The 3 year fixed term is now also down to around 5.04%, which is about 0.25% lower than last month....but again...no real changes to this rate for the first two months of the summer.

-Like last month, the 5 year variable term is still at Prime less 0.60%, which would mean your rate today is 5.85%.

There is plenty of room for more drops in the coming months to all fixed terms. Whether that materializes remains to be seen though. It is definitely making variable terms more popular of late than their fixed counterparts. The gap between the two options is narrowing. And with there potentially being 1.25% more of drops between today and April 16th, variable seems a lot less risky than it did just a couple of months ago.

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

TORONTO, ONTARIO, September 5, 2024 – Greater Toronto Area (GTA) home sales were down on a year-over-year basis in August 2024. New listings were up slightly over the same period. While the region's housing market remained well-supplied in August, average home prices only edged slightly lower compared to August 2023.

"The Bank of Canada's rate cut announced on September 4 will lead to a further improvement in affordability, especially for those using variable rate mortgages. First-time buyers are especially sensitive to changes in borrowing costs. As mortgage rates continue to trend lower this year and next, we should experience an uptick in first-time buying activity, including in the condo market," said Toronto Regional Real Estate Board (TRREB) President Jennifer Pearce.

GTA REALTORS® reported 4,975 home sales through TRREB's MLS® System in August 2024 – down by 5.3 per cent compared to 5,251 sales reported in August 2023. New listings entered into the MLS® System amounted to 12,547 – up by 1.5 per cent year-over-year. On a seasonally adjusted basis, August sales edged up on a monthly basis compared to July, whereas new listings were down slightly compared to the previous month.

The MLS® Home Price Index Composite benchmark was down by 4.6 per cent year-over-year in August 2024. The average selling price was down by a lesser 0.8 per cent compared to August 2023 to $1,074,425. The different annual rates of change between the MLS® HPI Composite and the average selling price were largely due to an increase in the share of detached home sales compared to last year, impacting the average price. On a seasonally adjusted basis, the average selling price edged lower compared to July.

"As borrowing costs trend lower over the next year-and-a-half, home buyers will initially benefit from both lower monthly mortgage payments and lower home prices. Even as demand picks up, especially in 2025, it will take time for the inventory of listings to be absorbed. Ample choice in the market will help keep price growth moderate, at least in the initial phases of recovery," said TRREB Chief Market Analyst Jason Mercer.

"Today's elevated listing inventory will ultimately recede. We need to maintain a sustained focus on boosting home construction, especially as it relates to producing the right mix of home types to meet consumers' needs. This new housing also has to be affordable. Municipalities can help by reducing development charges, which are ultimately passed on to home buyers. If people can't find affordable housing in the GTA or surrounding Greater Golden Horseshoe, they will move elsewhere, and not necessarily to other parts of Ontario or Canada. Housing is a key driver of our region's economic development," said TRREB CEO John DiMichele.

The summer tends to be a slower time in the housing market. Many of us are racing to get north for the 2 or 3 good weather months and are not concerned about buying a new home. So the hope was always that things would start to pick up this fall. Hopefully more rate drops and talk of many more to come will wake the housing market from its slumber.

A good point made by DiMichele in the last paragraph above….while inventory levels are great at the moment, should the market pick up, we will burn through that inventory quickly and that will only put us back into a massive shortage. So we need to maintain the focus on building more homes….and maybe some thought should be put to building affordable homes. The average new-construction detached home in southern Ontario is simply too expensive for many/most, as the average price well exceeds $1million in a lot of the markets. Building these types of homes is not going to help the shortage. We need better solutions than that moving forward.

That's it for this update. The next Bank of Canada meeting is on October 23rd, so I will be in touch after that.
Wishing you and your family a lovely end of the summer and a great start to fall!
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.