**MARKET UPDATE: December 12th, 2024:**

Hello Again! I hope all is well with you and your family and that everyone is getting excited for the fast approaching Holiday Season! (Hopefully Santa's gifts aren't sitting in limbo in a Canada Post depot!!)

The Bank of Canada (BoC) met yesterday to discuss monetary policy. It was their 8th and final meeting of 2024 and they decided to lower rates for the 5th straight meeting. Like they did at their previous meeting, we've seen another 0.50% drop to the Overnight Rate. So Prime now sits at 5.45% (except for at TD, who has TD Prime at 5.6%). We have now seen drops at 5 straight meetings and rates are now down 1.75% from their peaks in May and before.

This half percent drop seemed likely over the last week after we had the Unemployment Rate increase by 0.3% to 6.8% last month when only 0.1% was expected. This is the highest level since 2021 when we were in the heart of the pandemic. Canada did create about 51,000 jobs last month, but that is still less than the number of workers looking for jobs (as immigration is still bringing in lots of people who need jobs!). AND I believe about 90% of those jobs created were government jobs....The Greek model of employment, where the majority of the country is a gov't employee led to them going bankrupt. So I'm not sure it is a great thing that the majority of jobs being created at the moment are in the public sector!

GDP for the 3rd quarter also came in well below expectations (1% growth instead of 1.5% growth expected by the BoC)....and they've said that most likely growth will be lower again than expected in the 4th quarter and throughout 2025. (4 weeks and counting of the Canada Post strike certainly doesn't help this either!!). Recently announced lower immigration targets in 2025 will lower future GDP growth as there will be less people here spending.

So these few things seemed to open the door to a half percent drop instead of only a quarter percent drop. Though it should be noted that a couple economists...TD's and Scotiabank's...are not in alignment with the move. (TD predicted a 0.25% drop yesterday....Scotia pivoted on Monday and said they expect a 0.50% drop yesterday but didn't believe it to be the right decision). I believe TD and Scotia economists think the economy and job market is on stronger footing than other economists. Those numbers have been better the last few months....though again, I would argue that we can't expect the public sector to increase full-time jobs by 45,000 a month, every month going forward (especially not if Pierre wins the Federal election in 2025, as he's currently favored to do). Scotia was also worried that if the BoC didn't signal a switch to smaller increases, that the housing market would take off....well good news Mr. Holt....the BoC did signal this was likely the last of the oversized drops. BMO's economists also stated there was a case to lowering only 0.25% instead of 0.50% but stopped short of saying that a half percent drop was a mistake.

I guess time will tell if the BoC has made a mistake here or not. I don't see a huge issue in dropping faster to the point that most people believe rates have to go to. Most drops take up to 15 months to fully filter through the economy.  So it will be the spring of 2026 before today's drop is fully felt by the market.  So why are we dragging our feet and prolonging the agony for those who are suffering today??  Are we honestly thinking the housing market is going to go up 100% in the next month?? Interest rates are still a lot higher than we've seen in the last 15 years.  And housing certainly isn't very cheap in southern Ontario.  So that seems highly unlikely from where I sit.  Economists are predicting a better 2025 for the housing market.  But no one is predicting a record breaking year.

To complicate matters a bit for the BoC….we have some uncertainty now after last month's US Election.  To quote the BoC:
*…the possibility the incoming US administration will impose new tariffs on Canadian exports to the United States has increased uncertainty and clouded the economic outlook.*

So what happens next is anyone's guess.  BoC Governor Macklem said he didn't want to create policy on what "MIGHT" happen or make policy on temporary factors (like no GST for 2 months or $200 & $250 cheques mailed to us by Ford and Trudeau).  So if Trump does bring about tariffs on Jan.20th when he is sworn in, I'm guessing you'll see a swift response by the BoC.  I have to believe (AND HOPE!) that a 25% blanket tariff from Trump is a bluff.  There has to be someone in Trump's inner-circle who realizes that will make inflation higher than at any point in Biden's 4 years and hurt Americans as well.  And then when Canada retaliates, it will get very messy and expensive for everyone.  So I'm hoping that doesn't materialize.  But if there are tariffs, that will raise inflation in the short-term and could slow down or even halt rate drops in the short-term.  On top of that, the Cdn dollar will drop like a rock too…which will hurt inflation again as most of the goods we consume aren't made in Canada!

I believe in the long-run, Trump's agenda probably means rates have to stay lower for longer than we currently expect.  We saw that in 2019 prior to covid where world economies should have been humming, but rates were coming down thanks to Trump's "America First" policies and his tariffs.

The next month or two should be interesting to see what happens.  Governor Macklem essentially stated that the over-sized drops are done and that future decisions would be made at each meeting based on the data available at that time.  That doesn't mean the rate drops are done.  Most likely they are not.  But if you like to bet, don't be betting on any 0.50% drops in 2025!

**CURRENT PROJECTIONS:**

Scotiabank's economists had previously said rates would go down only 0.75% more….but that was their projection from say June 2024 until October.  They have NOT revised this projection….as least not that I've seen.  So if they are correct, we only have one 0.25% drop left coming in 2025.

Investor's Group predicts a 0.25% drop at each of the next 3 meetings.  So by the end of April that would have prime down to 4.7%.  BMO predicts the same, though they believe it might take until the summer of 2025 to hit that mark.

CIBC believes by next summer we will have FOUR 0.25% drops…so Prime would be down to 4.45%.

RBC believes that we'll be 1.25% lower by the end of the summer of 2025….with Prime bottoming out at 4.2%.
Desjardins believes the same as RBC, though they say it could take until early 2026 to bottom out.
The Bond Market has currently priced in about a 60% chance of a 0.25% drop at the Jan.29th BoC Meeting.

Most likely these projections from economists are NOT factoring in tariffs from Trump. That again could slow down the pace of future drops….
And maybe even cause the BoC to increase rates in the short-term??!!?? Too early to tell on that…that will be messy….a need to raise rates to combat inflation, while the economy sinks further into a recession!! Rate increases seem unlikely….but we've learned to never say never so I won't discount that completely….
BUT if those tariffs do materialize, rates probably need to eventually fall further than any of the projections above as the tariffs will do a lot of damage to our economy. There will be a lot of eyes on Trump come Jan.20th and 21st once he is sworn in as President.

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

While we have seen our Prime Rate drop 1.75% since early June, fixed rates have not been following suit.
There are a number of reasons for that. And the hope is that eventually we will see fixed rates start to trickle down again. But as of now, we've seen very little movement in fixed rates over the last few months.

**For Purchases with LESS than 20% down payment….**
-The 5 year fixed rate is now around 4.44% at most lenders. Though one lender is as low as 4.29%… (No change since early October).
-The best 5 year variable term has been reduced from Prime less 1.05% to Prime less 0.95% over the last couple of months. This tends to happen when rates drop and profit margins gets squeezed…I had made reference to this in my last two updates in September and October….
So after the 0.50% drop yesterday by the BoC, we are looking at 5 year variable rates around 4.50% (Prime less 0.95%).
-The 3 year fixed rate is sitting as low as 4.74% at most lenders (no change from October), but there is one lender with a special offer at 4.19% (down 0.15% since October). This offer has a couple of 'catches' to obtain this rate however.

**For Purchases with 20% down payment ….**
-The 5 year fixed rate is currently as low as 4.59% (though most lenders are in the 4.74%-4.84% range). The is essentially the same as it was back in October.

-Like last month, the 5 year variable term is still at Prime less 0.60%, which would mean your rate today is 4.85%.
-The 3 year fixed term is now down to around 4.84% at most lenders. But again....one lender has a special offer around 4.49% with a couple of hoops to jump through to obtain. No real change to these rates in the last 2 months.

As mentioned in early September and October, 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 getting very narrow.

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

*TORONTO, ONTARIO, December 4, 2024 – Greater Toronto Area (GTA) home sales increased strongly on a year-over-year basis in November 2024. Many buyers benefitted from more affordable market conditions brought about by lower borrowing costs. New listings were also up compared to November 2023, but by a much lesser annual rate. This meant that market conditions tightened, resulting in overall average price growth compared to last year.*

*"As we approach the end of 2024, I am pleased to report an improvement in housing market conditions. Many home buyers patiently waited on the sidelines for reduced inflation and lower borrowing costs. With selling prices remaining well off their historic peak and monthly mortgage payments trending lower, the stage is set for an accelerating market recovery in 2025," said Toronto Regional Real Estate Board (TRREB) President Jennifer Pearce.*

*GTA REALTORS® reported 5,875 home sales through TRREB's MLS® System in November 2024 – up by 40.1 per cent compared to 4,194 sales reported in November 2023. New listings entered into the MLS® System amounted to 11,592 – up by 6.6 per cent year-over-year. On a seasonally adjusted basis, November sales were up month-over-month compared to October.*

*The MLS® Home Price Index Composite benchmark was down by 1.2 per cent year-over year in November 2024 – a much lesser annual rate of decline compared to previous months. The average selling price was up by 2.6 per cent compared to November 2023 to $1,106,050. Year-over-year average price growth was greater than that for the HPI Composite benchmark because of a greater weighting of detached home sales compared to last year. On a seasonally adjusted basis, the average selling price edged slightly lower compared to October.*

*"Market conditions have tightened, particularly for single-family homes. The detached market segment experienced average annual price growth above the rate of inflation, particularly in the City of Toronto. In contrast, the condominium apartment segment continued to experience lower average selling prices compared to a year ago. Condo buyers are benefitting from a lot of choice*

*and therefore negotiating power. This will attract renter households into homeownership as borrowing costs trend lower in the months ahead," said TRREB Chief Market Analyst Jason Mercer.*

*While the rental market will remain relatively well-supplied as more renters transition to homeownership, expect rental demand to pick up as population growth remains high. The rental market could strengthen for both tenants and landlords by reducing the backlog of cases at the Landlord and Tenant Board (LTB).*
*"Reforming the LTB to make it faster and fairer will go a long way to getting more individuals and families into homes they can afford," said TRREB CEO John DiMichele.*

*A recent Ipsos public poll for TRREB found that 93 per cent of GTA respondents support the government taking immediate action to reduce the backlog of 53,000 LTB cases as identified in the most recent Tribunals Ontario Annual Report; 94 per cent agree that a well-functioning LTB is critical to Ontario's housing market, and a further 89 per cent endorse investments in staffing, technology, and streamlined processes at the LTB to ensure timely resolutions for landlords and tenants.*

SOOOOOO….Seriously, what is wrong with the 7% of people who don't want the gov't to take action to clear up the backlog?!?!? Were they listening to the question? Or maybe they are the ones squatting illegally to try and live rent free for years or the evil landlords looking to renovict?!??! If the response by the tribunal is quicker it weeds out the bad-seeds…the bad tenants taking advantage of landlords and the bad landlords taking advantage of tenants! So IMHO definitely something has to be done to clear that 53,000 case backlog! Most bad-seeds wouldn't attempt the shady tactics if they knew they'd be standing in front of a tribunal in 6 weeks. But if they can get away with it for 2 or 3 years that makes it more worthwhile to try and cheat the system. As population increases, this backlog will only get worse if something isn't done now and that will drive up the cost of rent in Southern Ontario.

It is certainly nice to see the housing market begin to wake up from its slumber. The condo market is still slow as there are way more options for perspective buyers…so there are deals to be had I believe. But the single-family homes seem to be selling in a timely manner if priced right and not requiring much work to be done. 2025 could be a busy year for realtors…especially if rates come down as far as many believe and hope! Though again, the housing market can't go to the moon. Homes and mortgages are very difficult to afford at this time with high home prices and higher rates than we've been accustomed to for the last 15 years.

That's it for this update. The next BoC meeting is on January 29th, so I will be in touch after that.
Have a great rest of 2024!
Wishing you and your family a happy and healthy Holiday Season and a Wonderful and prosperous start to 2025!
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.