

# Mortgage & Economic Outline – January 2024



Outline Financial

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Mortgage Brokerage FSRA #13151

*\*2022 Global Best in Mortgage 2022 Report*

*\*2021 CMP Top Canadian Mortgage Workplace*

*\*2021 Mortgage Brokerage of the Year – Canadian Mortgage Awards (CMA) Winner*

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*\*2019, 2021 Outstanding Customer Service Award – CMA Finalist*

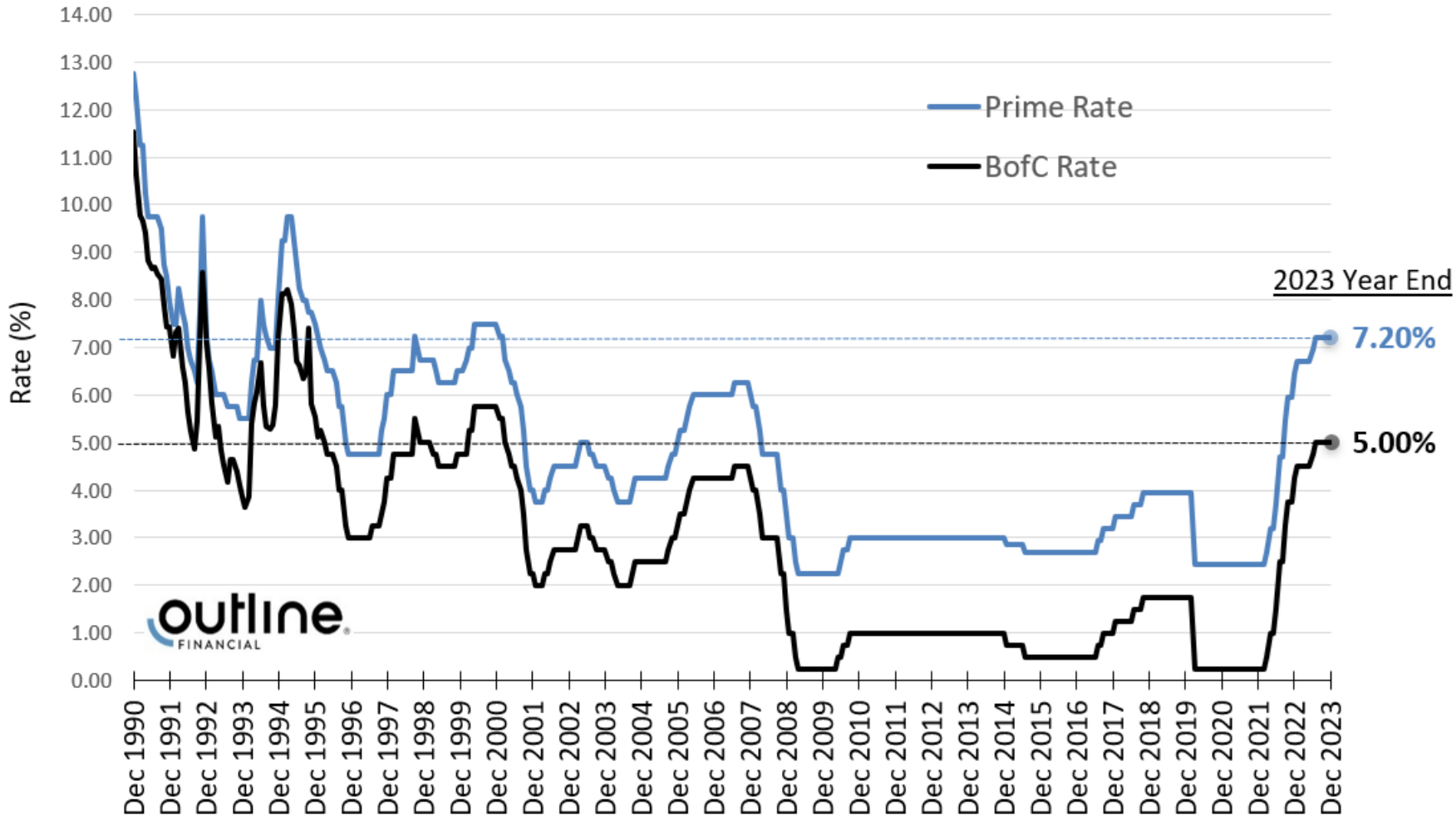
*\*Top 75 Brokerages in Canada – 2018, 2019, 2020, 2021, 2022*

## Discussion Topics

- **Bank of Canada Rate & Prime Rate Forecast**
- **Bond Yields & Fixed Rate Movement and Strategies**
- **Key Economic Dates for 2024**
- **Renewal Crisis Ahead – Or more spoke than fire?**
- **A Deep Dive on Condo Supply – Opportunities ahead?**
- **Other Timely Mortgage Topics to Consider**
- **Q&A**

# Bank of Canada Rate & Prime Rate *Updates & Forecast*

### History of BofC Overnight Rate and Prime Rate



The Bank of Canada Rate and Prime Rate ended the year at:

- Overnight Rate = 5.00%
- Prime Rate = 7.20%

Highest point point in over 20 years. Interesting correlation with TRREB homes sales volume that we'll show on the next slide.

The Bank of Canada's most recent announcement was on January 24, 2024 (discussed on next slide)

The next Bank of Canada meeting will be March 6, 2024.

# Bank of Canada Update (Jan 24<sup>th</sup>, 2024 Announcement)

The Bank of Canada kept their overnight rate unchanged (remains at 5.0%). Key quotes from their press release were as follows:

- “In Canada, the economy has stalled since the middle of 2023 and [GDP] growth will likely remain close to zero through the first quarter of 2024.”
- “...supply has caught up with demand and the economy now looks to be operating in modest excess supply.”
- “Labour market conditions have eased, with job vacancies returning to near pre-pandemic levels and new jobs being created at a slower rate than population growth.”
- “CPI inflation ended the year at 3.4%. Shelter costs remain the biggest contributor to above-target inflation. The Bank expects inflation to remain close to 3% during the first half of this year before gradually easing, returning to the 2% target in 2025.”



The Bank of Canada  
maintains policy rate

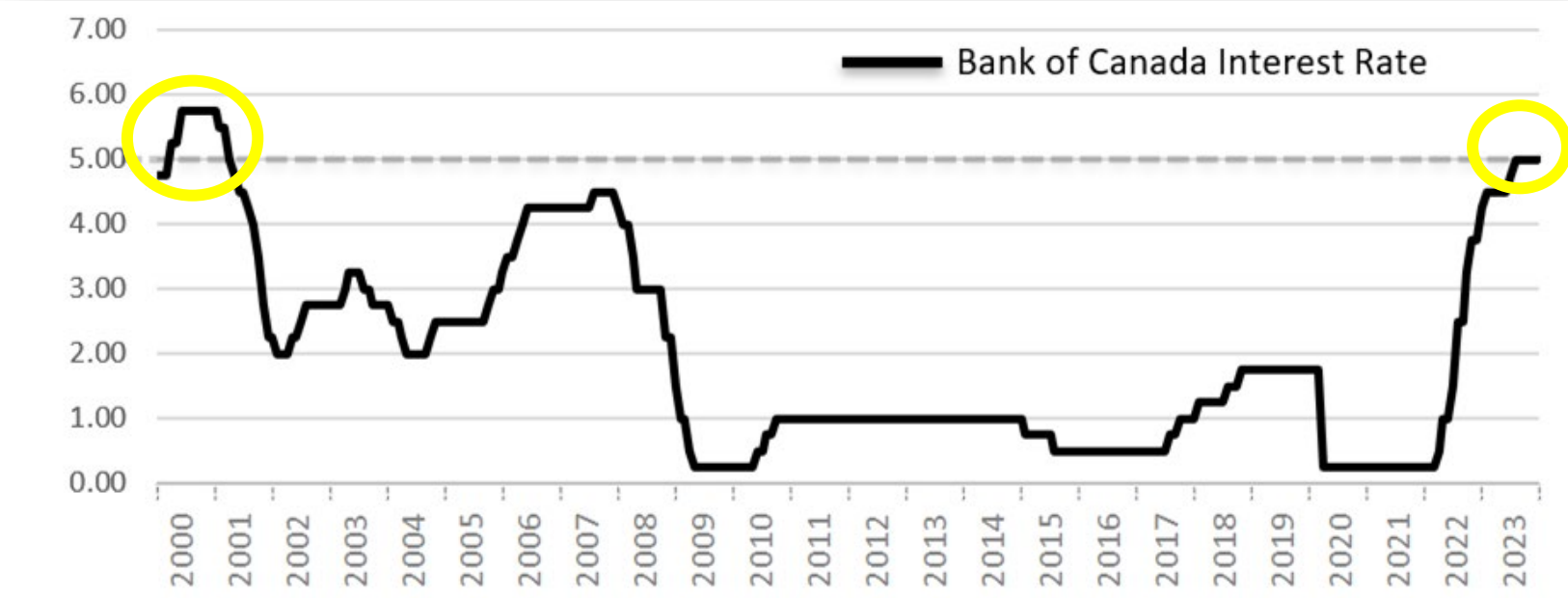
## January 24, 2024 – Closing paragraph wording

“The Council is still concerned about risks to the outlook for inflation, particularly the persistence in underlying inflation.”

## December 6, 2023 – Closing paragraph wording

“Governing Council is still concerned about risks to the outlook for inflation **and remains prepared to raise the policy rate further** if needed.”

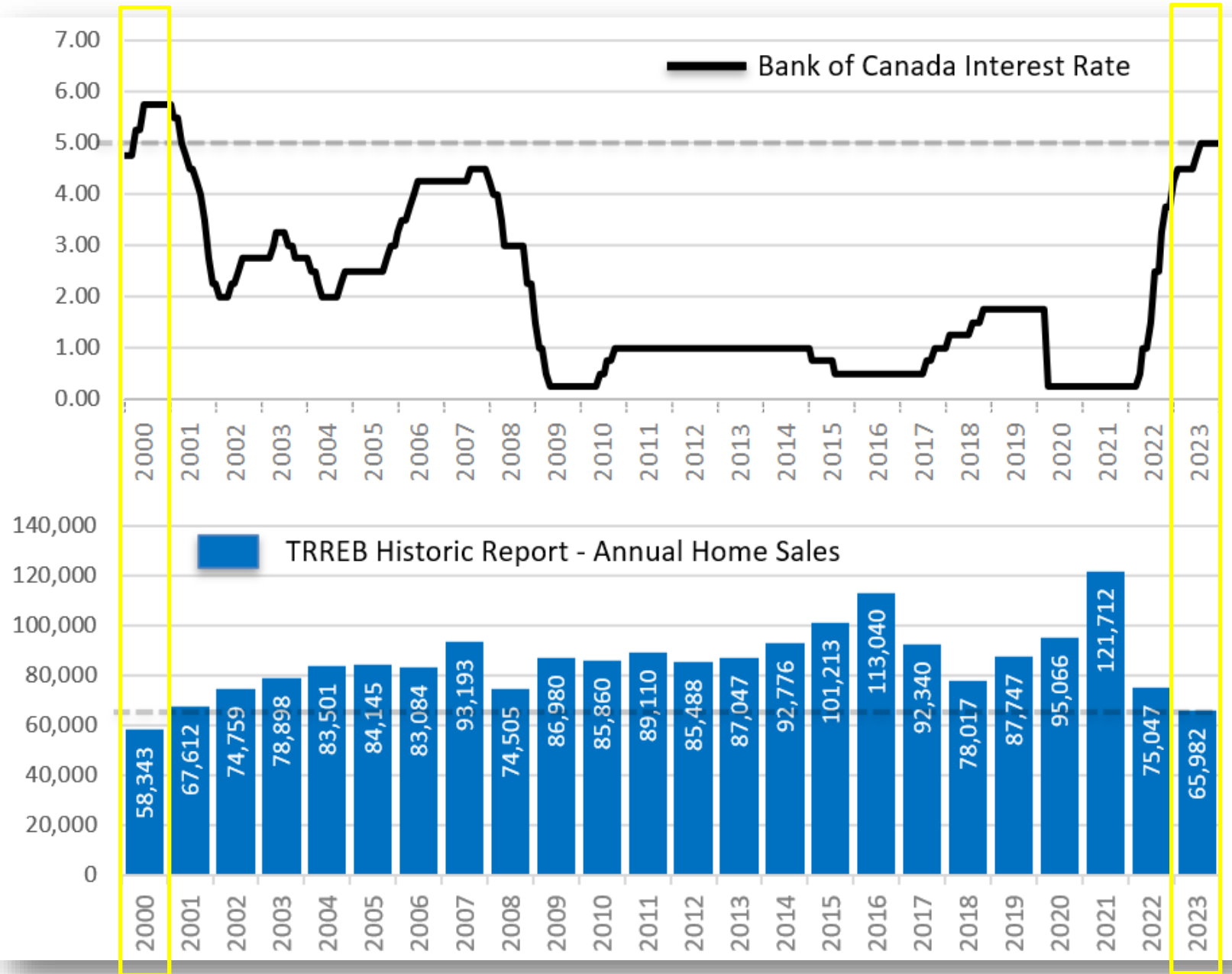
# Bank of Canada Overnight Rate & TRREB Home Sales



5.00%

2023 Bank of Canada rate was the highest since 2000/2001.

# Bank of Canada Overnight Rate & TRREB Home Sales



2023 Bank of Canada rate was the highest since 2000/2001.

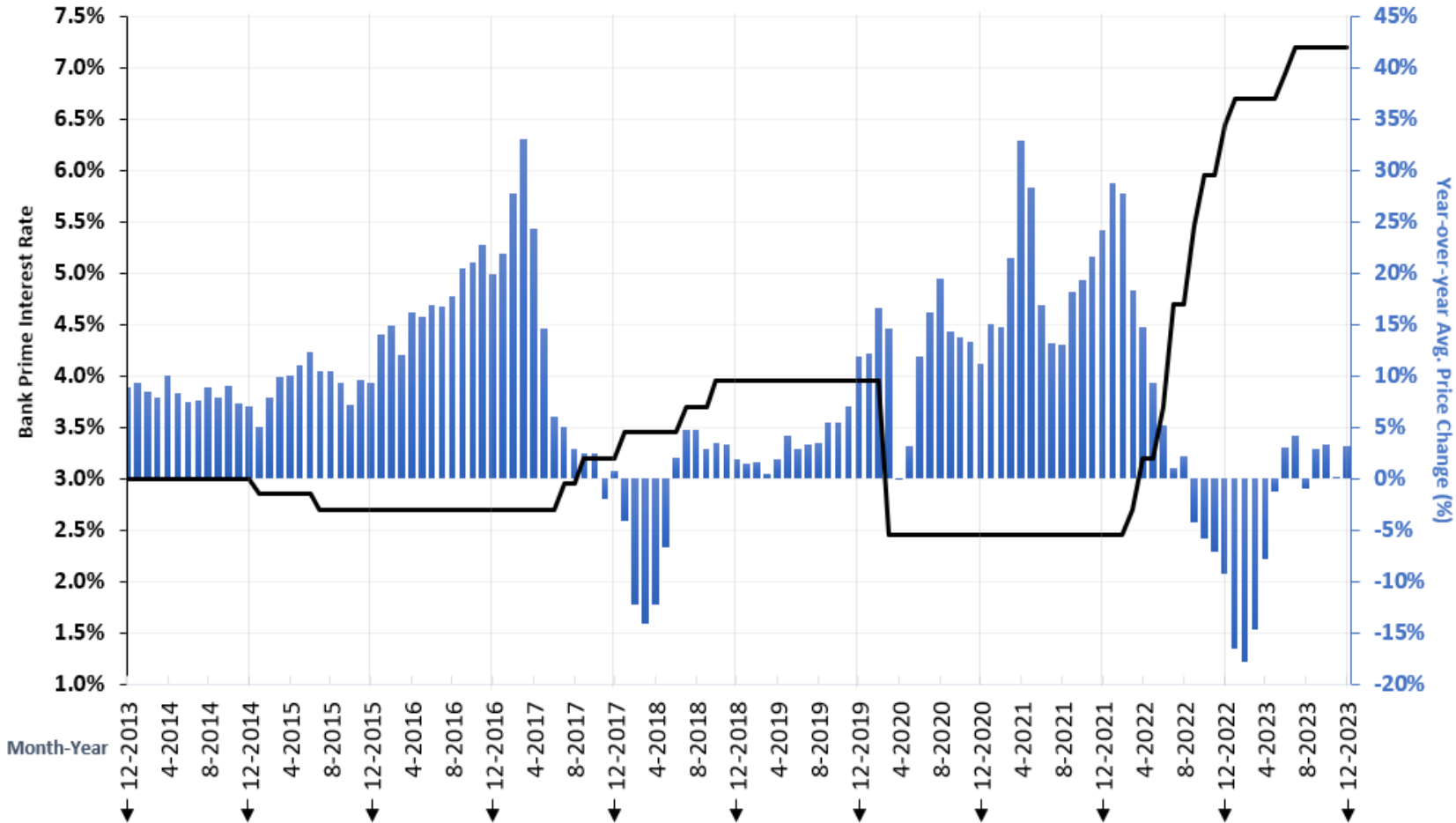
2023 TRREB home sales were 65,982 the lowest since 2000.

- 2023 Sales = 65,982
- 2000 Sales = 58,343



# Interest Rate vs. Average Price Correlation

**Bank Prime Rate & Avg. Price Change (%) for All TRREB Zones and ALL PROPERTY TYPES**



**Does a change in interest rate(s) impact housing price(s)?**

- Based on the accompanying chart, interest rates and average price tend to move in opposite directions.
- Interest rates up, prices down
- Interest rates down, prices up

Mth-Year ->	12-2013	12-2014	12-2015	12-2016	12-2017	12-2018	12-2019	12-2020	12-2021	12-2022	12-2023
Mth Avg Price	\$519,436	\$555,994	\$607,945	\$729,188	\$734,842	\$749,081	\$838,403	\$932,341	\$1,157,517	\$1,050,569	\$1,084,692
year over year % change	8.9%	7.0%	9.3%	19.9%	0.8%	1.9%	11.9%	11.2%	24.2%	-9.2%	3.2%
Prime Int. Rate	3.00%	3.00%	2.70%	2.70%	3.20%	3.95%	3.95%	2.45%	2.45%	6.45%	7.20%

\*Data source: Average Price --> TRREB Market Stats Tool - Historical Stats Tables as at January 23, 2024



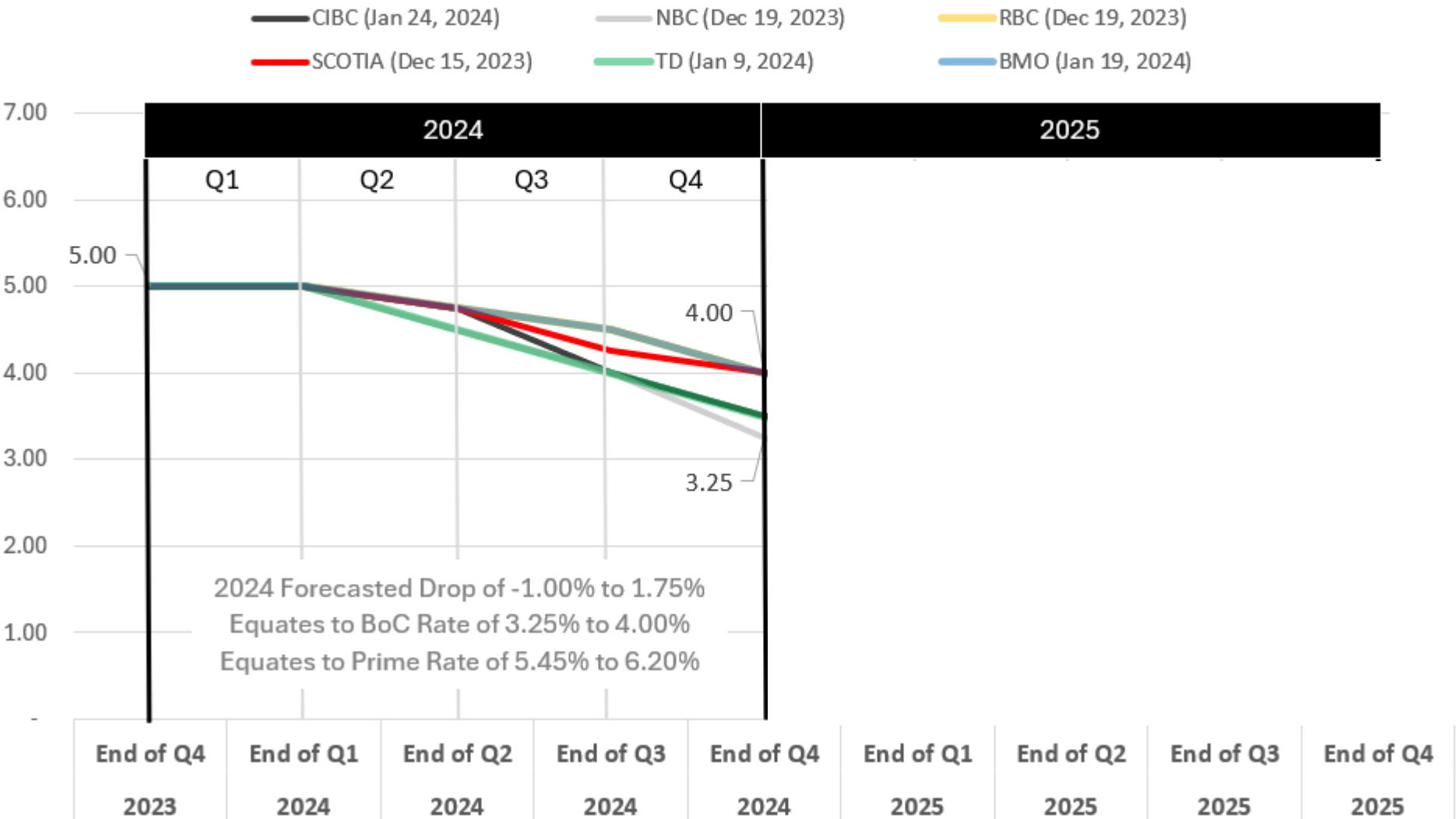
# Where is the Bank of Canada Overnight Rate Headed?

## Major Banks' Forecasts for 2024 and 2025

# 2024/2025 Overnight Rate Forecasts – Where To Next?

Recent Major Bank Forecast Range of Overnight Rate\*

**Bank of Canada Overnight Rate Forecast**  
(Big 6 Bank Forecasts - Bank Name and "As at Date")



\*For illustrative purposes only and subject to change at any time.

# 2024/2025 Overnight Rate Forecasts – Where To Next?

## Recent Major Bank Forecast Range of Overnight Rate\*

### By End of 2025

Forecasted BoC Rate Drops of between -1.75% and -2.75%

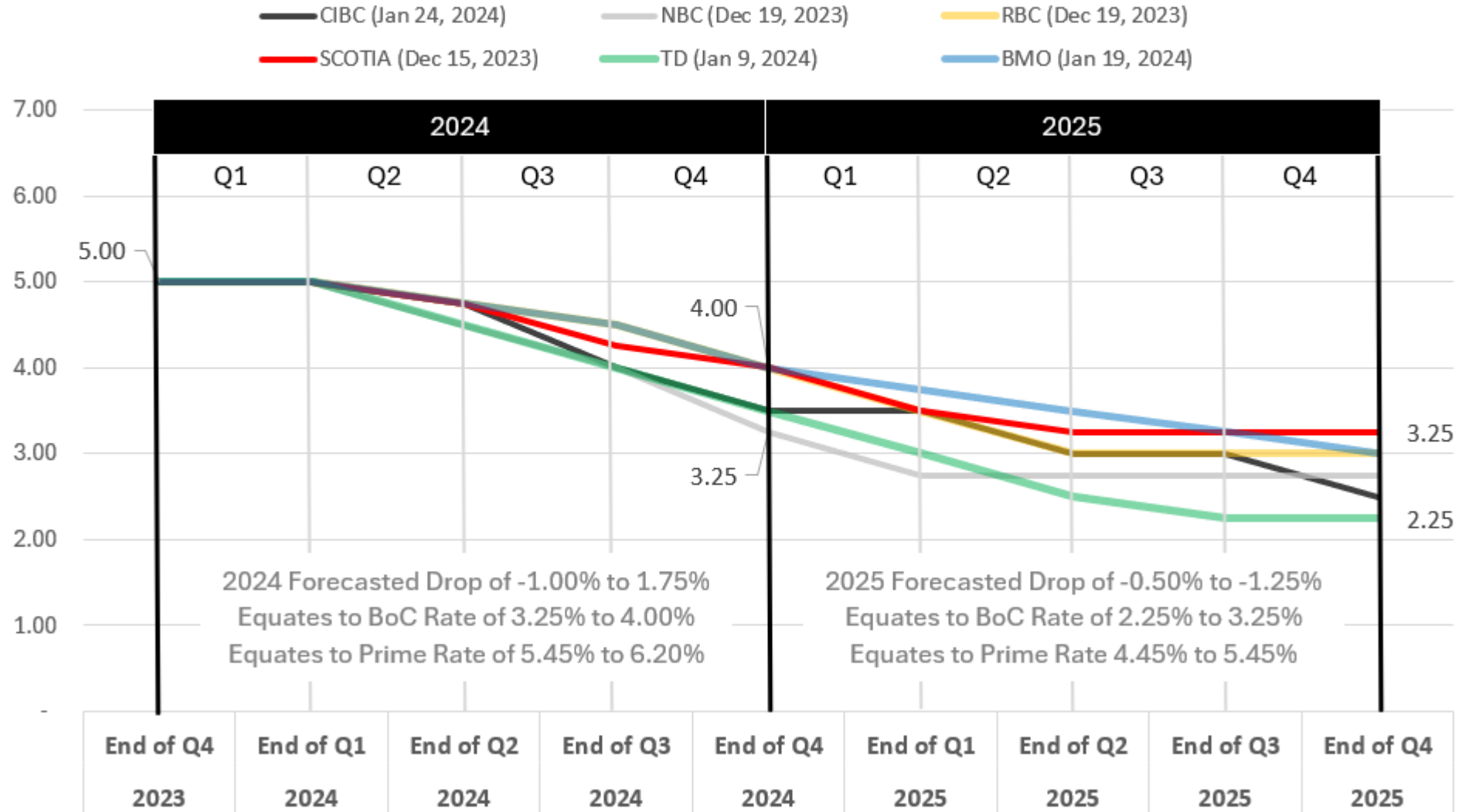
Equates to a BoC Rate of between 2.25% to 3.25%

(If Prime Rate dropped in line with BoC Rate, it would be 4.45% to 5.45%)

Note: at the time of writing, the “market” is pricing in about a -1% drop by the end of 2024.

\*This slide is for illustrative purposes only and subject to change at any time.

## Bank of Canada Overnight Rate Forecast (Big 6 Bank Forecasts - Bank Name and "As at Date")



# Bond Yields & Fixed Rate Mortgage Movement & Strategies

## Canada 3-Year Bond Yield

🇨🇦 Toronto Currency in CAD · Disclaimer

**4.005** +0.034 (+0.86%) ▲

🕒 Closed · 17:54:45

General Chart Technical Forum

Overview Historical Data



Bond yields have dropped recently, what could it mean for you?

- Example chart showing recent fluctuation in 3-year bond yields.
- Over 100bps (1%) drop in bond yields from October 2023 until the inflation results on January 15<sup>th</sup>. Has jumped 25bps (0.25%) since then.
- What is the impact on pre-approvals or approvals?

## Sample Impact of Rate Changes on Qualification Amount

### Criteria:

- Household income 150k
- 20% Down Payment
- Minimal debt
- Freehold purchase

### Impact on Qualification

- Approx. +11% increase in purchase price

	Oct-23	Jan-24
<u>Assumptions</u>		
Sample 3yr Fixed "Bank" Rate	6.61%	5.49%
Sample Household Income	\$150,000	\$ 150,000
Available Down Payment	20%	20%
Amortization (years)	30	30
<u>Qualification</u>		
Qualifying Purchase Price*	\$710,000	\$787,500
Less: Down Payment	\$142,000	\$157,500
<b>Qualifying Mortgage</b>	<b>\$568,000</b>	<b>\$630,000</b>
<b>Sample Monthly Payment</b>	<b>\$3,598</b>	<b>\$3,549</b>

Note: above assumes standard 39% GDS / 44% TDS. Some lenders we work with may allow for up to 44% / 44% which would bring qualifying purchase price up to \$805K in Oct 2023 and \$885K in Jan 2024 assuming a 20% down payment.

## What About the Impact on Mortgage Payment

### Criteria:

- Assume \$750,000 mortgage
- Same rates as previous slide
- Freehold purchase

### Rate Change Impact on Monthly Payment

- Approx. -11% decrease in monthly payment.

	Oct-23	Jan-24
<u>Assumptions</u>		
Sample 3yr Fixed "Bank" Rate	6.61%	5.49%
Amortization (years)	30	30
Mortgage Amount	\$750,000	\$750,000
Sample Monthly Payment	\$4,751	\$4,225



# Key Upcoming Economic Dates/Calendar & *Most Recent Reports*

# Key Upcoming Dates to Know:

## Jan 16<sup>th</sup> – CPI Data Released

- *CPI / Inflation Data – December 2023 Data*

## Wednesday, Jan 24<sup>th</sup> – Report Released

- *Bank of Canada Meeting / Rate Announcement*

## Wednesday, Jan 31<sup>st</sup>

- *GDP (monthly report) - November 2023 Data*

## Wednesday, Jan 31<sup>st</sup>

- *US - Fed Meeting / Rate Announcement*

## Friday, Feb 9<sup>th</sup>

- *Jobs Report - January 2023 Data*

## 2024 Economic Calendar: Important Dates

January	February	March
5 <sup>th</sup> - 🇨🇦 Jobs Report	9 <sup>th</sup> - 🇨🇦 Jobs Report	6 <sup>th</sup> - 🇨🇦 Bank of Canada Rate
11 <sup>th</sup> - 🇺🇸 CPI/Inflation	13 <sup>th</sup> - 🇺🇸 CPI/Inflation	8 <sup>th</sup> - 🇨🇦 Jobs Report
16 <sup>th</sup> - 🇨🇦 CPI/Inflation	20 <sup>th</sup> - 🇨🇦 CPI/Inflation	12 <sup>th</sup> - 🇺🇸 CPI/Inflation
24 <sup>th</sup> - 🇨🇦 Bank of Canada Rate	29 <sup>th</sup> - 🇨🇦 GDP (monthly report)	19 <sup>th</sup> - 🇨🇦 CPI/Inflation
31 <sup>st</sup> - 🇨🇦 GDP (monthly report)	29 <sup>th</sup> - 🇨🇦 GDP (quarterly report)	20 <sup>th</sup> - 🇺🇸 Fed Rate
31 <sup>st</sup> - 🇺🇸 Fed Rate		28 <sup>th</sup> - 🇨🇦 GDP (monthly report)

April	May	June
5 <sup>th</sup> - 🇨🇦 Jobs Report	1 <sup>st</sup> - 🇺🇸 Fed Rate	5 <sup>th</sup> - 🇨🇦 Bank of Canada Rate
10 <sup>th</sup> - 🇨🇦 Bank of Canada Rate	10 <sup>th</sup> - 🇨🇦 Jobs Report	7 <sup>th</sup> - 🇨🇦 Jobs Report
10 <sup>th</sup> - 🇺🇸 CPI/Inflation	15 <sup>th</sup> - 🇺🇸 CPI/Inflation	12 <sup>th</sup> - 🇺🇸 Fed Rate
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30 <sup>th</sup> - 🇨🇦 GDP (monthly report)	31 <sup>st</sup> - 🇨🇦 GDP (monthly report)	25 <sup>th</sup> - 🇨🇦 CPI / Inflation
	31 <sup>st</sup> - 🇨🇦 GDP (quarterly report)	28 <sup>th</sup> - 🇨🇦 GDP (monthly report)

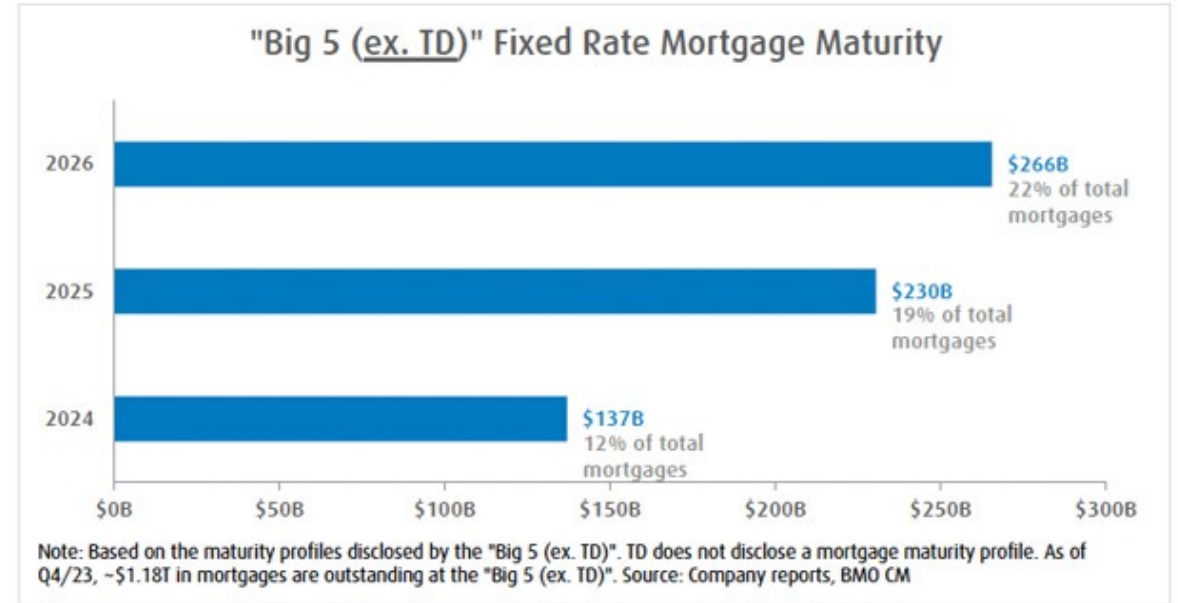
July	August	September
5 <sup>th</sup> - 🇨🇦 Jobs Report	9 <sup>th</sup> - 🇨🇦 Jobs Report	4 <sup>th</sup> - 🇨🇦 Bank of Canada Rate
11 <sup>th</sup> - 🇺🇸 CPI / Inflation	14 <sup>th</sup> - 🇺🇸 CPI / Inflation	6 <sup>th</sup> - 🇨🇦 Jobs Report
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24 <sup>th</sup> - 🇨🇦 Bank of Canada Rate	30 <sup>th</sup> - 🇨🇦 GDP (monthly report)	17 <sup>th</sup> - 🇨🇦 CPI / Inflation
31 <sup>st</sup> - 🇨🇦 GDP (monthly report)	30 <sup>th</sup> - 🇨🇦 GDP (quarterly report)	18 <sup>th</sup> - 🇺🇸 Fed Rate
31 <sup>st</sup> - 🇺🇸 Fed Rate		27 <sup>th</sup> - 🇨🇦 GDP (monthly report)

October	November	December
10 <sup>th</sup> - 🇺🇸 CPI / Inflation	7 <sup>th</sup> - 🇺🇸 Fed Rate	6 <sup>th</sup> - 🇨🇦 Jobs Report
11 <sup>th</sup> - 🇨🇦 Jobs Report	8 <sup>th</sup> - 🇨🇦 Jobs Report	11 <sup>th</sup> - 🇨🇦 Bank of Canada Rate
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# Mortgage Renewal Cliff?

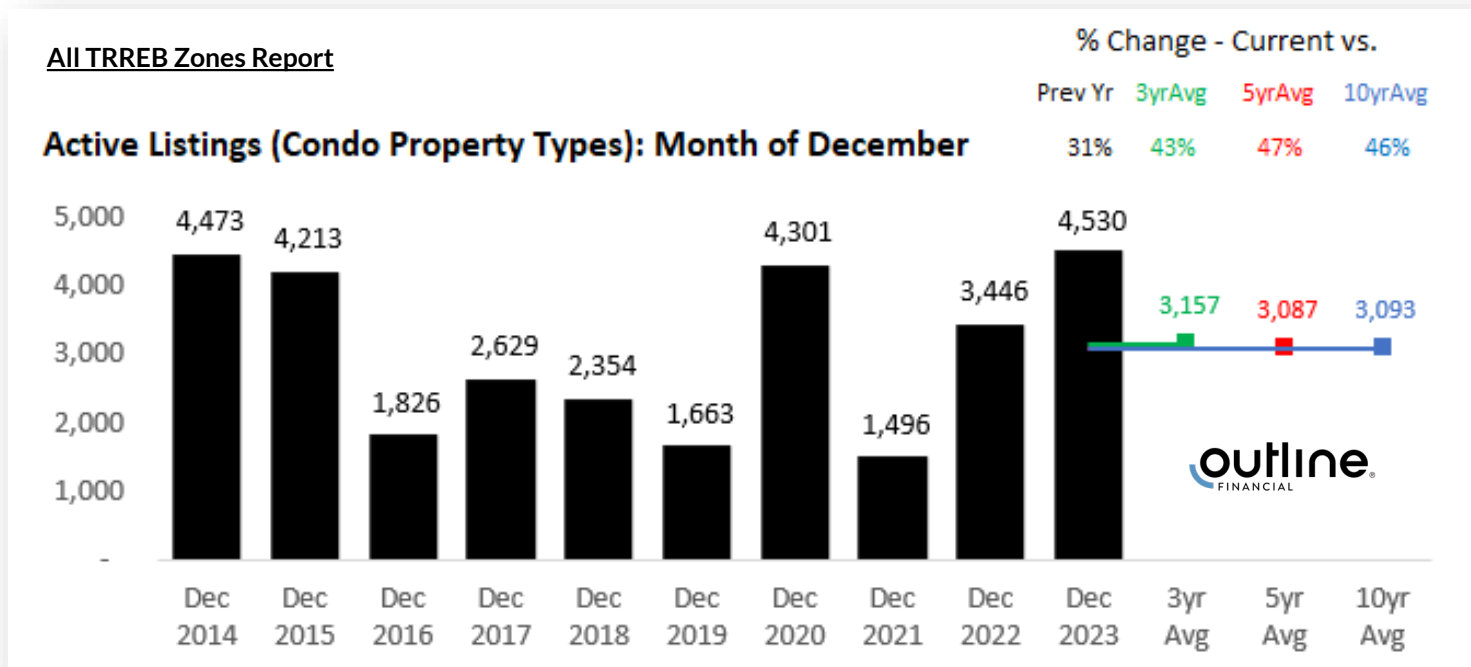
# Renewal Crisis Ahead – Or More Smoke Than Fire?

- Given the potential for declining rates over the next 2 years, mortgages that are renewing sooner than later are likely the most exposed. Good news...it is estimated only about 12% of mortgage renew in 2024.
- A recent publication suggests that 5-year mortgages that funded in 2019 (renewing in 2024) had rates that ranged from 3.49% in January 2019 to 2.74% by December 2019.
- The good news? These borrower were stress-tested against a floor rate of between 5.19% to 5.24%...very similar to what current 5-year fixed rates are.
- Could be challenging for cash flow, but renewal options could include:
  - If client made any pre-payments, could request to extend amortization
  - If client bought with 30 year amortization, but has to renew at 25, could look to refinance
  - If client is not getting competitive offer with lender, could look at options.



# Condo Market Opportunity?

# All TRREB: Condo Active Listings – 10-year December Comparison



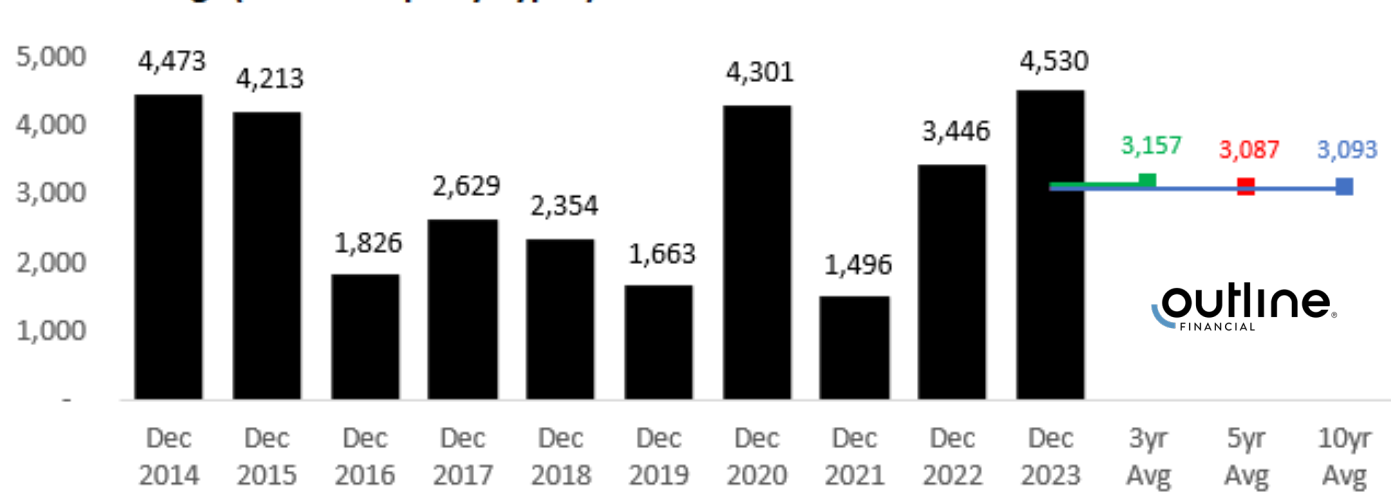
Data Source: TRREB's New Market Stats Tool → Historical Stats Tables as of Jan 23, 2024

- Condo active listing count at the highest point for a December over the past 10 years.
- 31% higher than Dec 2022, 43% above 3yr avg, 47% above 5yr average, 46% above 10yr average.

# All TRREB: Condo Active Listings – 10-year December Comparison

## All TRREB Zones Report

### Active Listings (Condo Property Types): Month of December



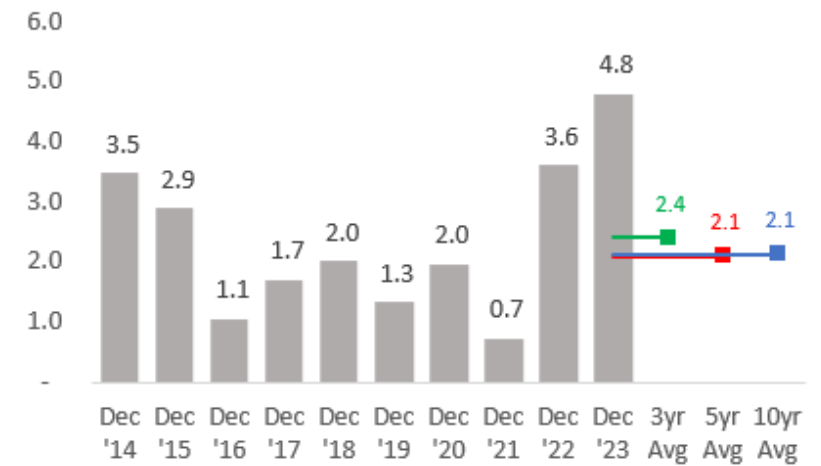
Data Source: TRREB's New Market Stats Tool → Historical Stats Tables as of Jan 23, 2024

- Condo active listing count at the highest point for a December over the past 10 years.
- 31% higher than Dec 2022, 43% above 3yr avg, 47% above 5yr average, 46% above 10yr average.
- Months of inventory for December (4.8) is the highest over the past 10 years, and rolling 12 month MOI (3.1) is near historical highs.

# MOI: Month of December

## MOI (Condo Property Types): Month of December

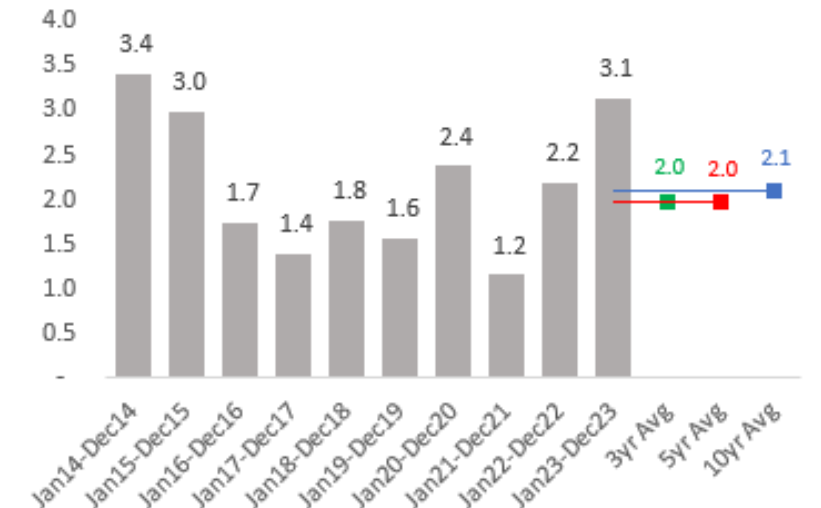
MOI = Months of Inventory (Active Listings divided by Sales)



# MOI: Rolling 12 Months - Jan 1<sup>st</sup> to Dec 31<sup>st</sup>

## Months of Inventory - 12Mth Trend (Condos)

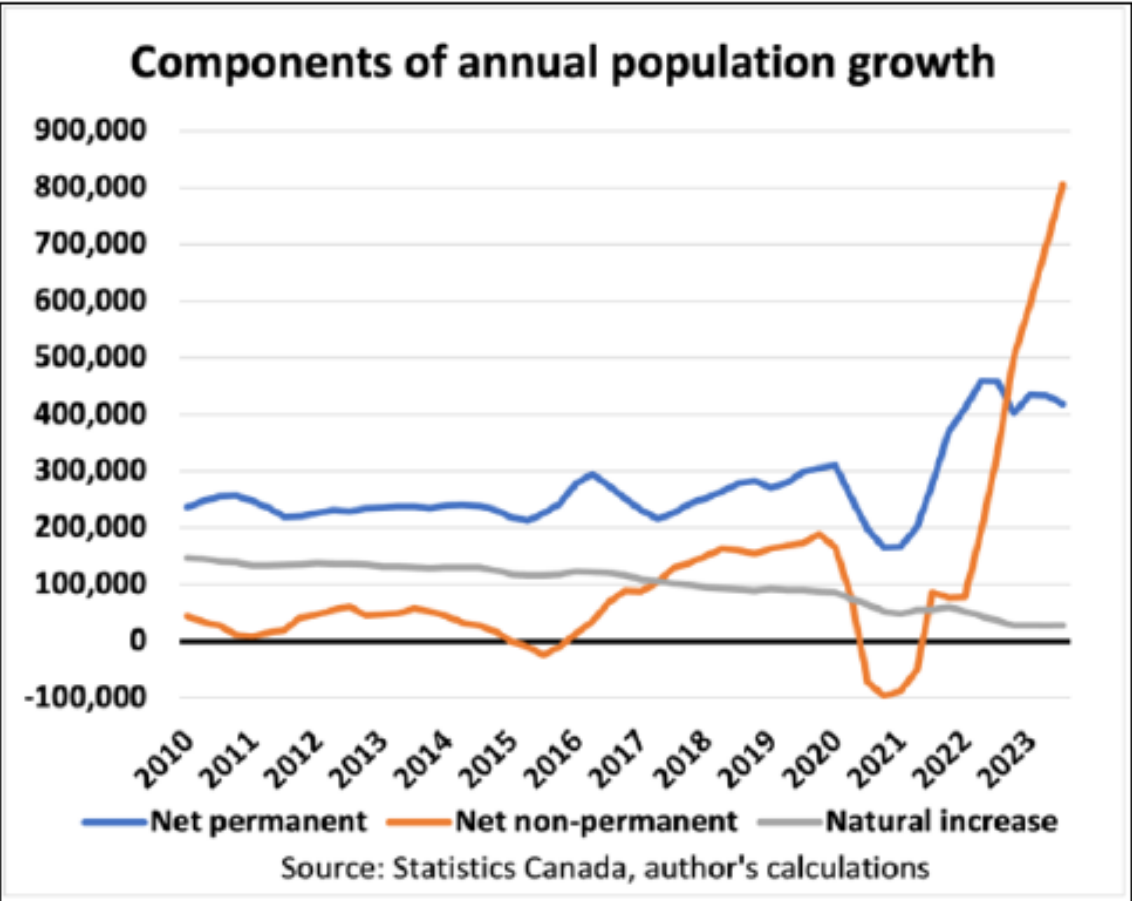
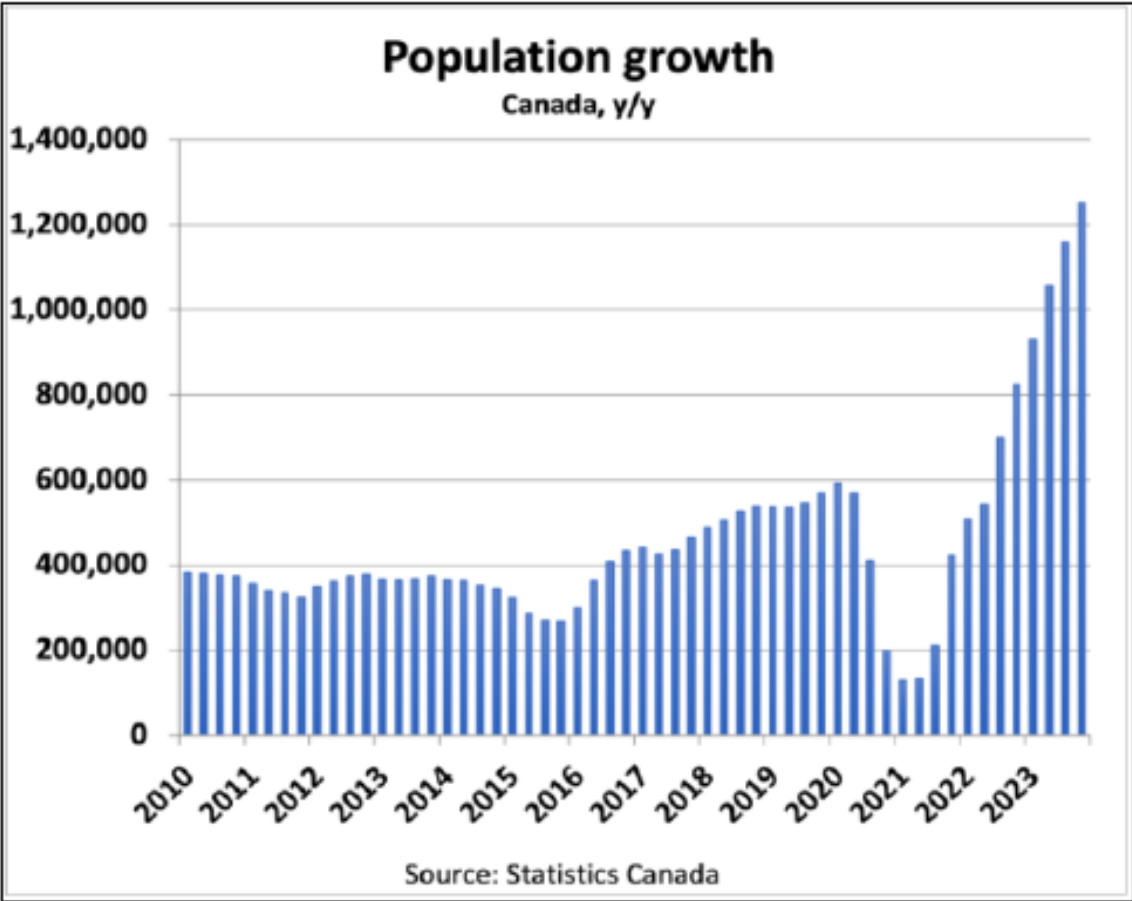
MOI = Average Monthly Active Listings divided by Average Monthly Sales





# Canada: Population Growth

Population Growth: Includes permanent residents, non-permanent residents, and natural increase.



# Potential Analysis of Total Rental Property Return Categories

## Cash Flow

- Rental income minus expenses

## Equity

- Principal portion of the mortgage payment

## Property Appreciation

- Value increase year over year (additional equity)

## Tax Advantage

- Possible tax deductions and hold co. structure



## ***Other Timely Mortgage Topics***

(Refer to the accompanying video of this presentation for more information)

- 'Tis the season the season for **mortgage statements** (a powerful planning tool!)
- Renewal strategies to think about (Conventional vs Insured)
- Mortgages & tax time -- never too early to start preparing.





Thank you! Mortgage & Economic Outline – January 2024



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