

Mortgage & Economic Outline – July 2024



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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*

**2020 Mortgage Brokerage of the Year – Canadian Mortgage Awards (CMA) Winner*

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

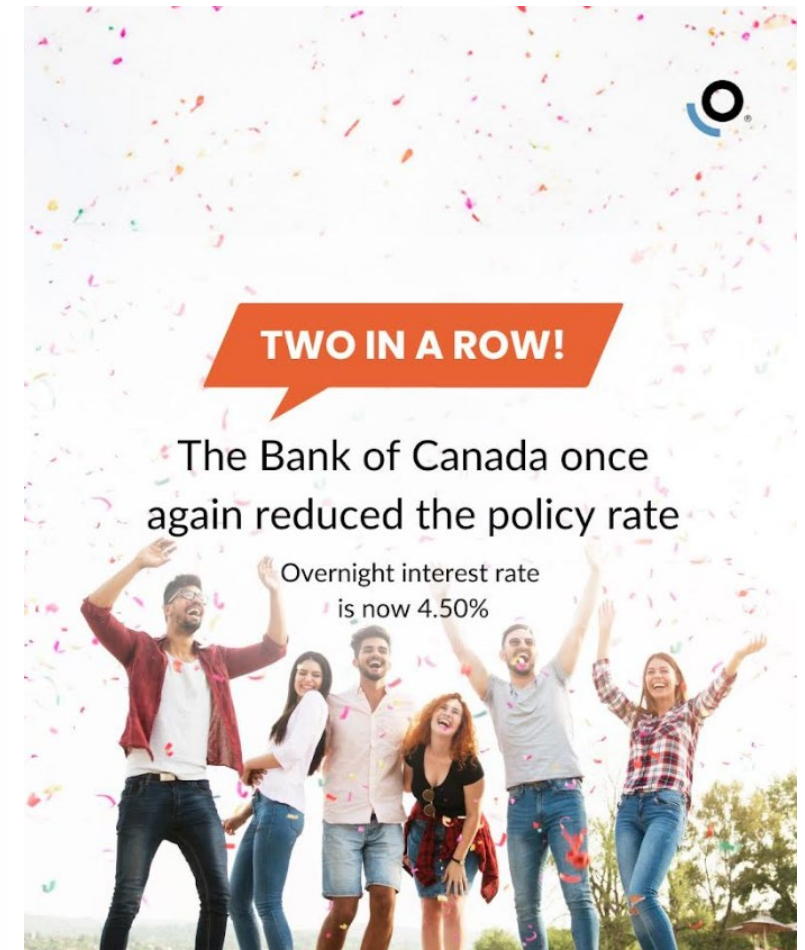
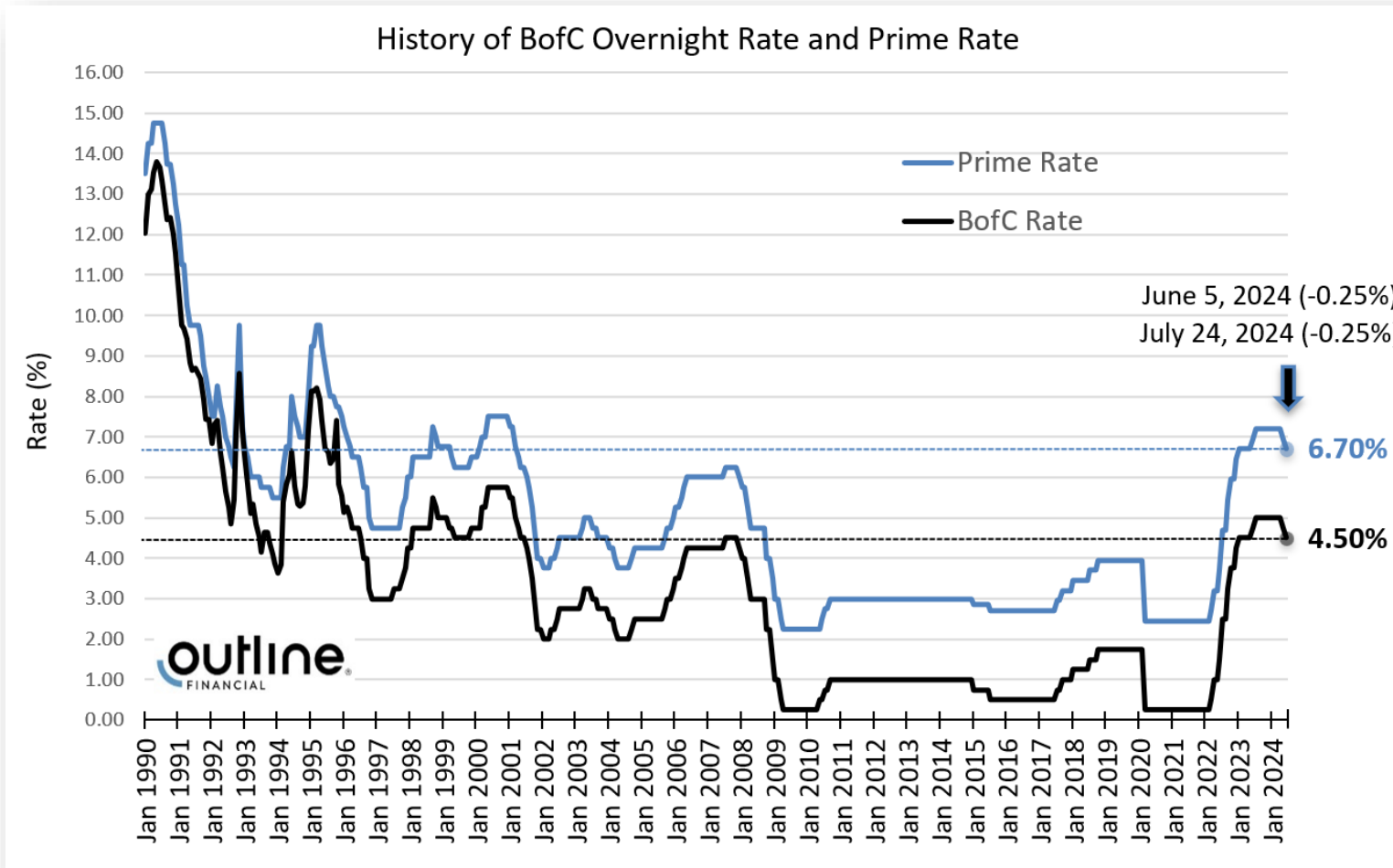
**Top 75 Brokerages in Canada – 2018, 2019, 2020, 2021, 2022*

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- **Mortgage Arrears - Rising, but Canada Still Relatively Low**

50 bps in 50 days!

- On July 24th, the Bank of Canada announced another 0.25% (25 basis points “bps”) drop in the policy/overnight rate. We’ve now had a combined drop of 0.50% (50 bps) in 50 days.
- This brings the overnight rate to 4.50% and the prime rate to 6.70%.



How Could The Recent Rate Drops Impact You? What's Next?



Download The Info Guide 



What could the combined 0.50% of rate drops in 50 days mean for you?

If you have a variable rate mortgage with adjustable payments:

- You should see a decrease in your payment of about \$30 per \$100K of mortgage depending on your amortization.

If you have a variable rate mortgage with static / non-adjustable payments:

- The interest portion of your payment should decrease and more of the payment will go towards the principal (unless you have already hit your trigger point).

If you have a home equity line of credit:

- Your minimum payment should decrease by about \$40 per \$100K of HELOC balance.

If you have a fixed-rate mortgage:

- There is no immediate change, although it could positively impact your renewal options.

If you are currently shopping for a home or have a pre-approval:

- Your buying power may have increased. A -0.50% in rate may equal a +5.0% in purchasing power.
- Do you have a fixed rate pre-approval? As fixed rates typically move in tandem with bond yields (which move in anticipation of a Bank of Canada rate change), the most recent drop by the Bank of Canada was already priced in. That being said, if rate drop expectations continue, fixed rates should start to fall as rate cuts become more imminent.

Are there more rate cuts on the way?

- The short answer? Yes, very likely. Most banks/economist are projecting another -1.0% to -1.5% by the end of 2025.
- “Neutral rate” (neither expansionary or contractionary to economy) is 2.25% to 3.25% which would mean at least another -1.25%+ to go.

Fixed or Variable?

- During May 2024, just 8% of all new mortgage originations were variable. Fixed rate terms shorter than 5 years accounted for 80% of originations, and fixed rate terms of 5 years or more accounted for 12% of originations.*
*(*Data Source: Bank of Canada - Funds advanced for new lending by chartered banks across Canada)*
- As the overnight rate (and prime rate) continues to drop, expect the percentage of variable rate mortgage originations to increase as the 10-year average is closer to 25%.
- Looking to compare options? At Outline, we have developed a series of analysis tools to help quantify the pros, cons, costs, and benefits when comparing fixed vs. variable or mortgage term options.

How Will This Impact Fixed Rates?

- Fixed rates are heavily influenced by government bond yields (more on this later in this report). Given that bond yields move “in anticipation of” a potential Bank of Canada rate change, the most recent 0.25% rate reduction was already priced in most fixed-rate approvals. That being said, if we see a continued expectation of further rate reductions, expect bond yields to gradually decrease as the rate cuts become more imminent (this will be particularly true for shorter-term products).

Links to the press release, Monetary Policy Report, and opening statement:

- Bank of Canada, July 24th press release [[click here](#)]
- Opening statement [[click here](#)] - Tiff Macklem, Governor of the Bank of Canada
- Bank of Canada Monetary Policy Report [[click here](#)]

Why did the Bank of Canada decide to reduce rates again?

- *"With broad price pressures continuing to ease and inflation expected to move closer to 2%, Governing Council decided to reduce the policy interest rate by a further 25 basis points." - BofC press release*

The BofC acknowledges further rate reduction may be on the way, but will take it one meeting at a time:

- *"If inflation continues to ease broadly in line with our forecast, it is reasonable to expect further cuts in our policy interest rate...we will be taking our monetary policy decisions one at a time."- Tiff Macklem opening statement*

When are the next Bank of Canada rate announcements?

- **September 4** - (Interest rate announcement)
- **October 23** - (Interest rate announcement and Monetary Policy Report)
- **December 11** - (Interest rate announcement)

Interesting Housing Related Section in The Bank of Canada's Monetary Policy Report (Pages 14/15)

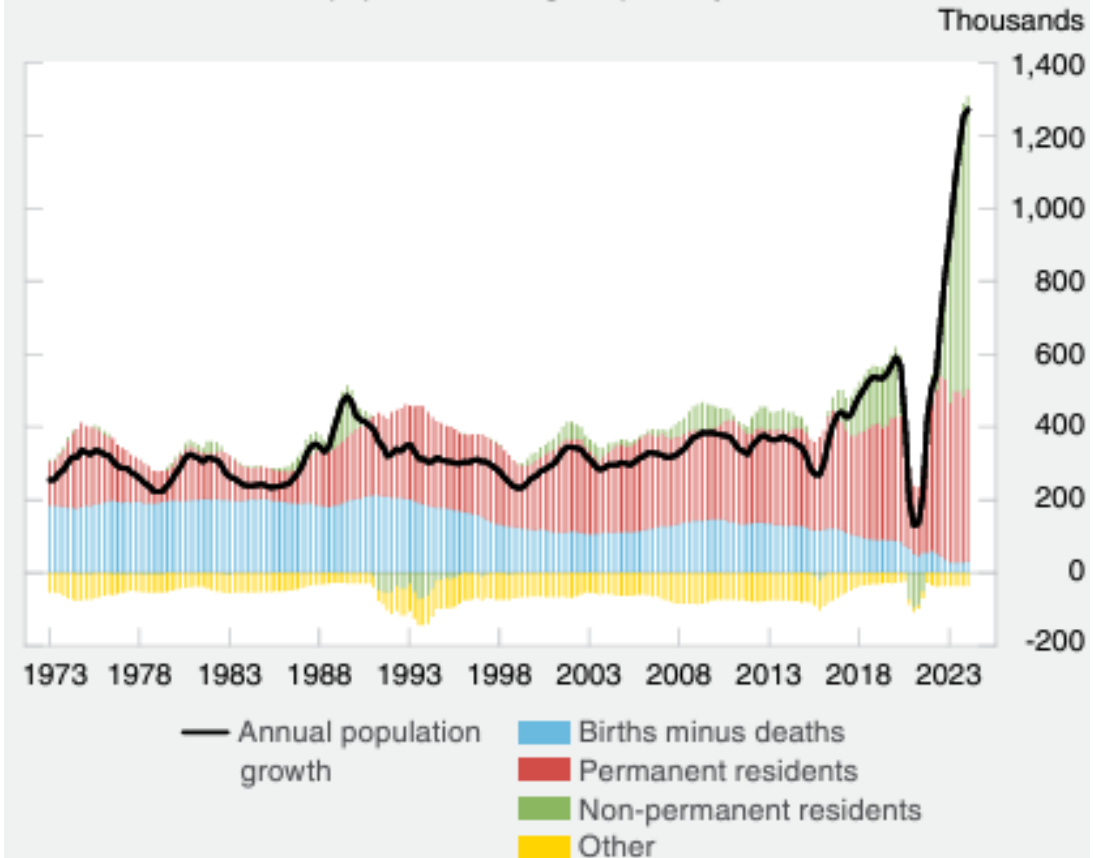


- “Canada’s total population has grown by 2.3 million (or 6%) over the past two years, with almost all this due to the arrival of newcomers (Chart 3-A). The increased number of newcomers affects the economy through three main channels: labour markets, consumption and housing.”*

*Source: Chart and quotes are from the Bank of Canada Monetary Policy Report released on July 24, 2024.

Chart 3-A: Newcomers are boosting Canada’s population growth

Contribution to annual population changes, quarterly data



Note: *Non-permanent residents* includes temporary foreign workers, international students and asylum seekers. *Other* includes minor flows such as emigrants and returning emigrants.

Sources: Statistics Canada and Bank of Canada calculations

Last observation: 2024Q1

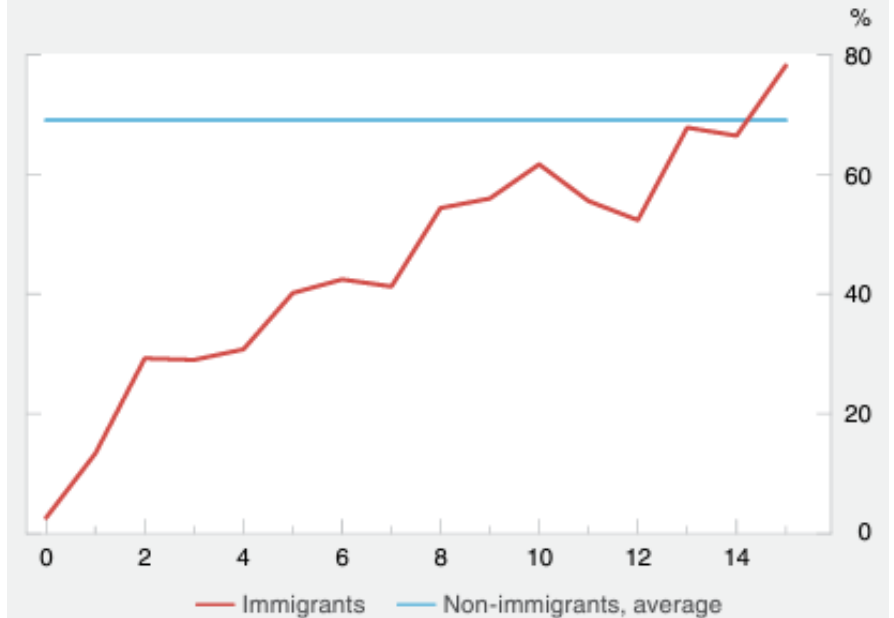
Housing

- “The increase in housing demand from newcomers is being felt across all types of housing, but the largest initial impact tends to be in rental markets. This is because most newcomers start out as renters”*
- As illustrated in the accompanying chart, after approximately 9 years, on average more than 50% of newcomers have purchased a home. This percentage continues to grow and eventually surpasses the non-immigrant average which is in the mid 60% homeownership range.
- “Growth in housing supply has not kept up with the strong increase in demand, with construction activity remaining close to pre-pandemic levels.”*

*Source: Chart and quotes are from the Bank of Canada Monetary Policy Report released on July 24, 2024.

Chart 3-C: Home ownership rates among immigrants by years since arrival

Quarterly data



Note: This chart shows the percentage of respondents to the Canadian Survey of Consumer Expectations reporting they own a home by the number of years since their arrival in Canada. Results include data from the third quarter of 2021 to the second quarter of 2024. Non-permanent residents are excluded.

Source: Bank of Canada

Last observation: 2024Q2

What Do The Big 6 Banks Project for the Bank of Canada Overnight Rate?

2024/2025 Overnight Rate Forecasts – Where To Next?

Recent Major Bank
Forecast Range of
Overnight Rate*

Current Overnight Rate is
4.50%

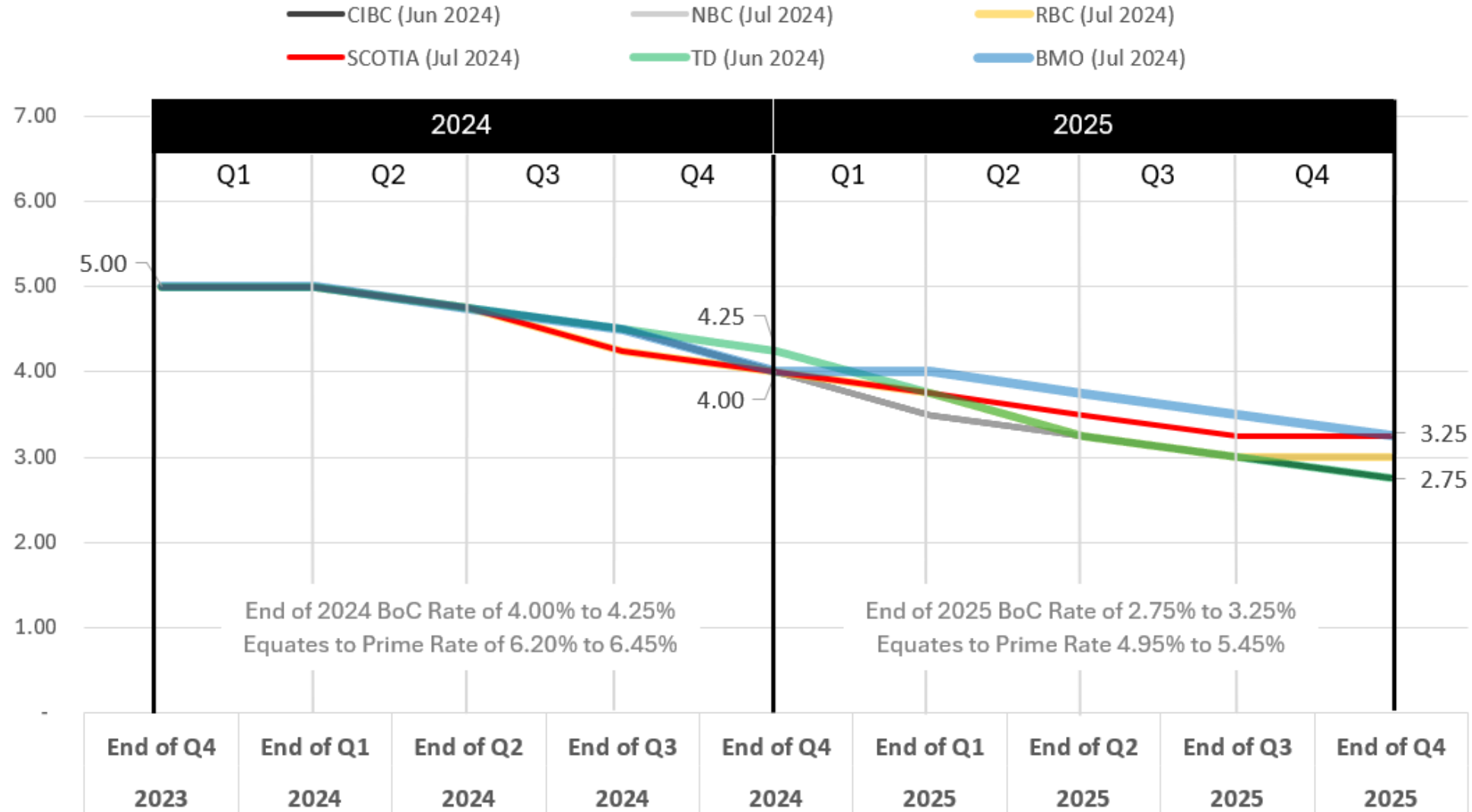
By End of 2024

Overnight Rate Forecast is
4.00% to 4.25%

By End of 2025

Overnight Rate Forecast is
2.75% to 3.25%

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



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

What Do The Financial Markets Project For The Bank of Canada Overnight Rate?

What Does the “Market” Project For the Bank of Canada Target Rate

Market projections are based on forward contracts on Canada Overnight Repo Rate Average (CORRA) as of July 17, 2024

Current

- Bank of Canada Target Rate = 4.50%

Sept 4, 2024 - Rate Announcement

- 53% chance Target Rate will be = 4.25%
- 47% chance Target Rate will be = 4.50%

Oct 23, 2024 - Rate Announcement

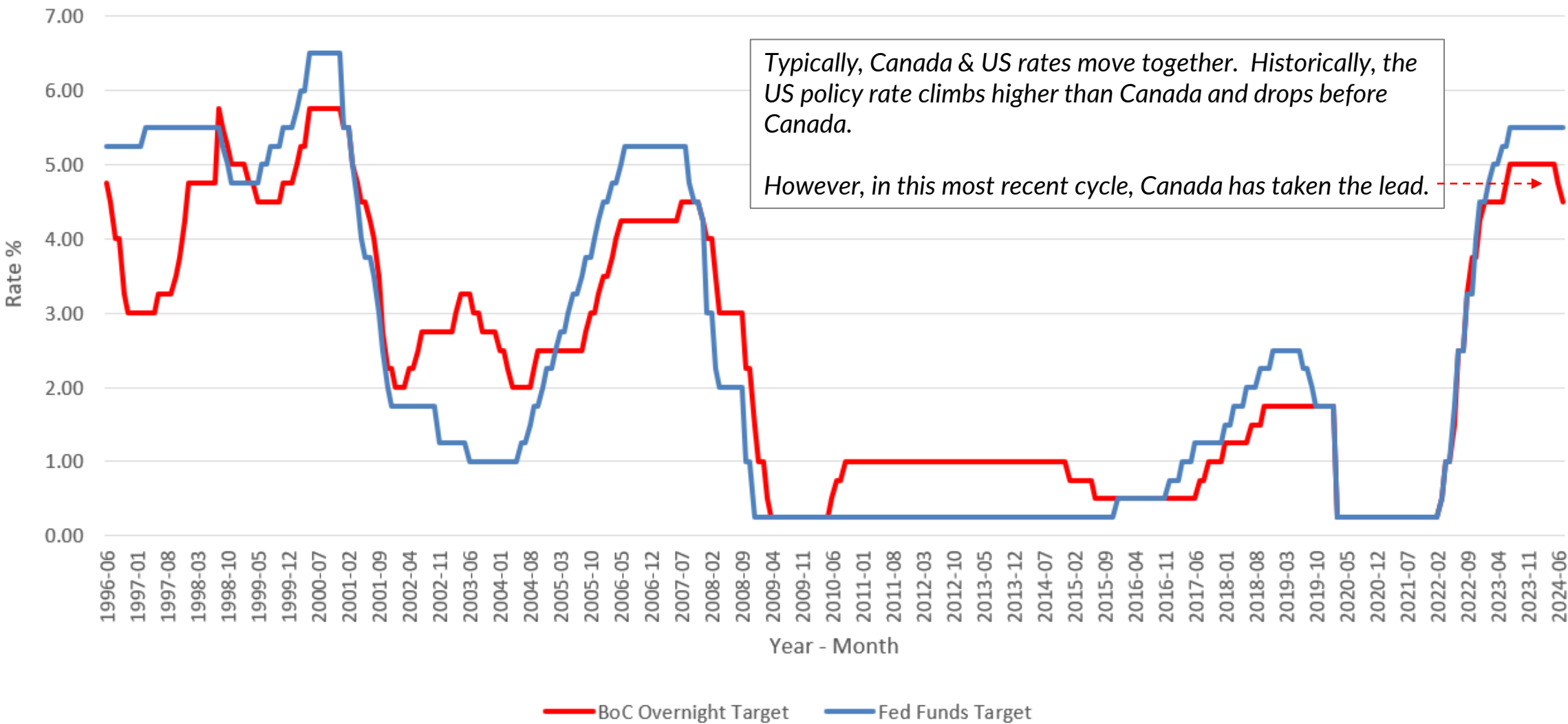
- 78% chance Target Rate will be = 4.25%
- 22% chance Target Rate will be = 4.00%

Dec 11, 2024 - Rate Announcement

- 74% chance Target Rate will be = 4.00%
- 26% chance Target Rate will be = 4.25%

**Given a historically strong correlation between
the US & Canada rate movements,
what is projected for the US?**

Bank of Canada vs. Fed (US) Policy Rates



What Does the “Market” Project For the U.S. Fed Rate

Market projections are based on CME Group 30-Day Fed Fund futures prices, which tend to signal the markets’ expectation regarding the possibility of changes to US interest rates based on Fed monetary policy. As of July 25, 2024 (2:45pm).

Current

- Fed Rate = 5.50%

Jul 31, 2024 - Rate Announcement

- 93% chance Fed Rate will be = 5.50%
- 7% chance Fed Rate will be = 5.25%

Sep 18, 2024 - Rate Announcement

- 90% chance Fed Rate will be = 5.25%
- 10% chance Target Rate will be = 5.00%

Nov 7, 2024 - Rate Announcement

- 58% chance Fed Rate will be = 5.00%
- 36% chance Fed Rate will be = 5.25%
- 6% change Fed Rate will be = 4.75%

Dec 18, 2024 - Rate Announcement

- 54% chance Fed Rate will be = 4.75%
- 38% chance Fed Rate will be = 5.00%
- 6% chance Fed Rate will be = 4.5%
- 2% chance Fed Rate will be = 5.25%

Canada Bond Yields & Fixed Rate Mortgage Movement & Strategies

*Reminder: Bond Yields May Provide a “Glimpse Into the Future”

- Fixed Rates are influenced by bond yields and usually move “in anticipation” of any future change in overnight rate.
- Timing on anticipated Bank of Canada decisions will impact fixed mortgage rates of different durations, i.e., 2yr fixed, 3yr fixed, 5yr fixed, etc.

Comments on Recent Bond Yield Movement

Bond yields (and fixed rates) dropped in late 2023 once the “market” believed the Bank of Canada was done with increases. Yields are currently fluctuating given the uncertainty of when and by how much the Bank of Canada will drop its overnight rate. However, they have dropped back to the lowest levels since May 2023.

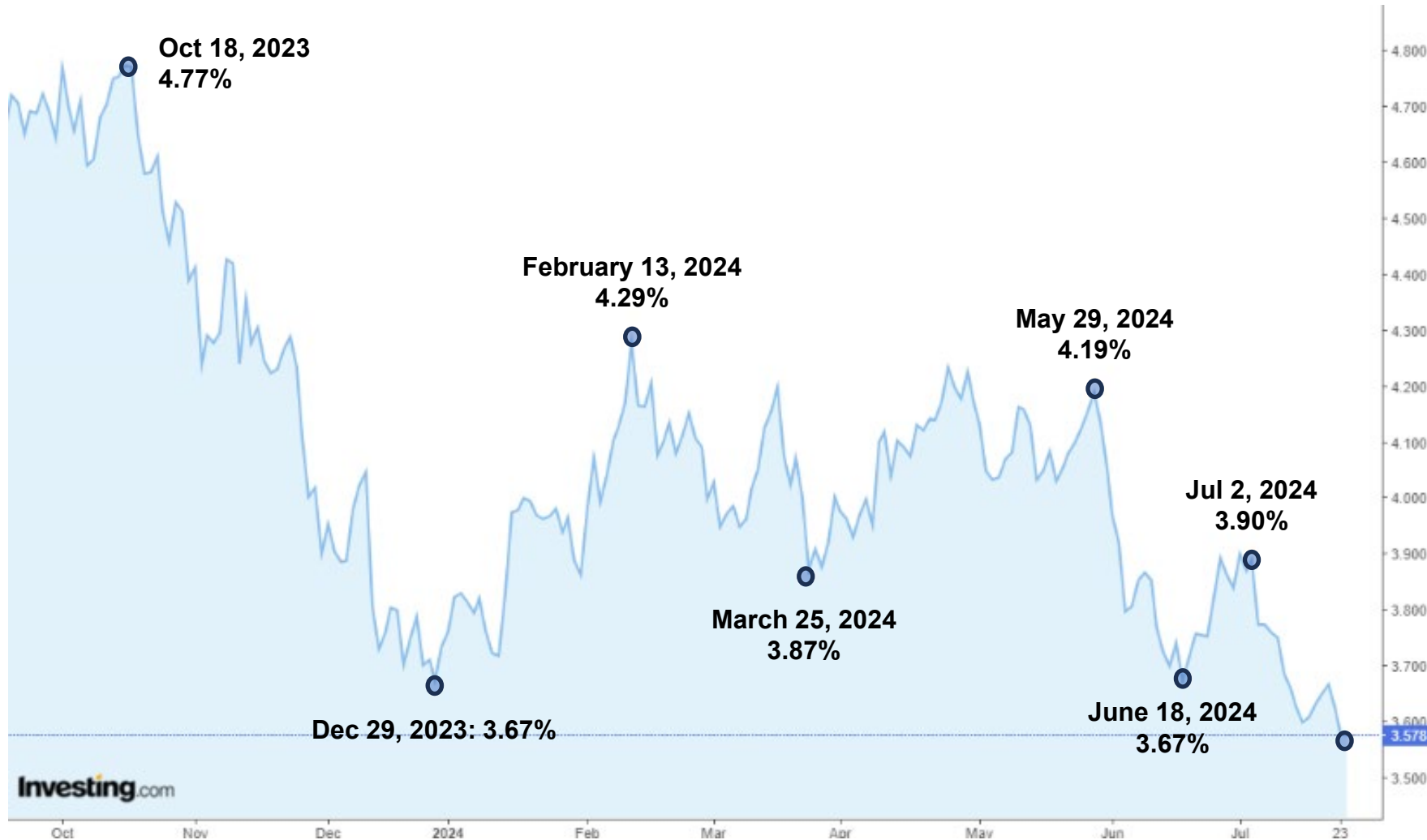
Bond yield fluctuation is highly driven by economic activity and economic announcements.

3 Year Bond Yield - Recent Bond Yield Changes & Impact on Qualification

Canada 3-Year Bond Yield

Data as at: July 25, 2024 (3pm)

🇨🇦 Toronto Currency in CAD - Disclaimer



Comments:

- 3-Year bond yields reached a peak in October 2023.
- Since October, they have fluctuated in a range of 3.5% to 4.3% in response to changing expectations on when and by how much the Bank of Canada will reduce rates.
- Yields are currently at the lowest level since May 2023.
- Looking for a longer time horizon chart? Please reach out to a member of the Outline team.

Recent Economic Reports / Releases
and Upcoming Dates to Watch

Key Past & Future Economic Dates:

Key Dates to Analyze and/or Watch

July 5th – Jobs Report – Canada (Reported)

July 11th – US – CPI / Inflation (Reported)

July 16th – Canada – CPI / Inflation (Reported)

July 24th – Canada BoC Rate Announcement (Reported)

July 31st – US – Fed Rate Announcement (Upcoming)

Aug 9th – Jobs Report – Canada (Upcoming)

Aug 20th – Canada – CPI / Inflation (Upcoming)

Why are these dates important? Refer to blog post below:

<https://www.outline.ca/2024-economic-calendar-important-dates/>

2024 Economic Calendar: Important Dates

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

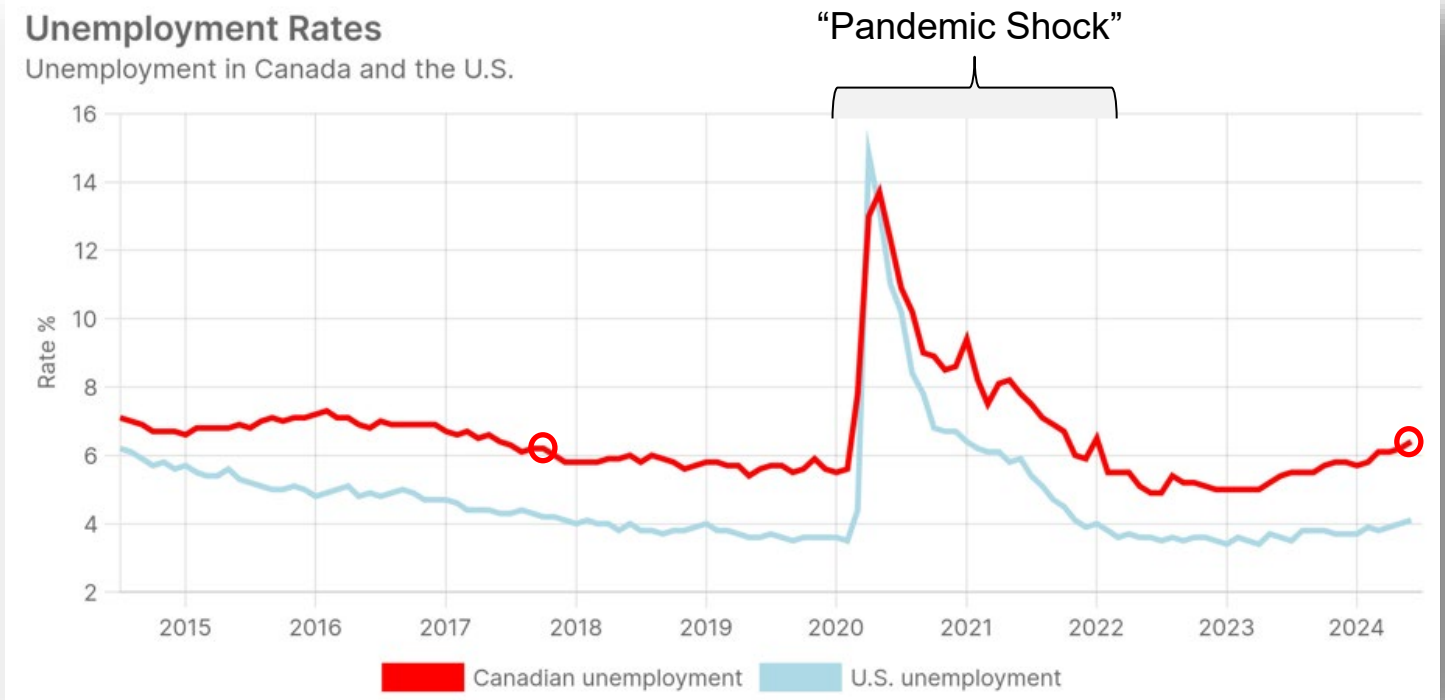
April	May	June
5 th - 🇨🇦 Jobs Report	1 st - 🇺🇸 Fed Rate	5 th - 🇨🇦 Bank of Canada Rate
10 th - 🇨🇦 Bank of Canada Rate	10 th - 🇨🇦 Jobs Report	7 th - 🇨🇦 Jobs Report
10 th - 🇺🇸 CPI/Inflation	15 th - 🇺🇸 CPI/Inflation	12 th - 🇺🇸 Fed Rate
16 th - 🇨🇦 CPI/Inflation	21 st - 🇨🇦 CPI/Inflation	12 th - 🇺🇸 CPI/Inflation
30 th - 🇨🇦 GDP (monthly report)	31 st - 🇨🇦 GDP (monthly report)	25 th - 🇨🇦 CPI / Inflation
	31 st - 🇨🇦 GDP (quarterly report)	28 th - 🇨🇦 GDP (monthly report)

July	August	September
5 th - 🇨🇦 Jobs Report	9 th - 🇨🇦 Jobs Report	4 th - 🇨🇦 Bank of Canada Rate
11 th - 🇺🇸 CPI / Inflation	14 th - 🇺🇸 CPI / Inflation	6 th - 🇨🇦 Jobs Report
16 th - 🇨🇦 CPI/Inflation	20 th - 🇨🇦 CPI/Inflation	11 th - 🇺🇸 CPI/Inflation
24 th - 🇨🇦 Bank of Canada Rate	30 th - 🇨🇦 GDP (monthly report)	17 th - 🇨🇦 CPI / Inflation
31 st - 🇨🇦 GDP (monthly report)	30 th - 🇨🇦 GDP (quarterly report)	18 th - 🇺🇸 Fed Rate
31 st - 🇺🇸 Fed Rate		27 th - 🇨🇦 GDP (monthly report)

October	November	December
10 th - 🇺🇸 CPI / Inflation	7 th - 🇺🇸 Fed Rate	6 th - 🇨🇦 Jobs Report
11 th - 🇨🇦 Jobs Report	8 th - 🇨🇦 Jobs Report	11 th - 🇨🇦 Bank of Canada Rate
15 th - 🇨🇦 CPI/Inflation	13 th - 🇺🇸 CPI/Inflation	11 th - 🇺🇸 CPI/Inflation
23 rd - 🇨🇦 Bank of Canada Rate	19 th - 🇨🇦 CPI/Inflation	17 th - 🇨🇦 CPI/Inflation
31 st - 🇨🇦 GDP (monthly report)	20 th - 🇨🇦 GDP (monthly report)	18 th - 🇺🇸 Fed Rate
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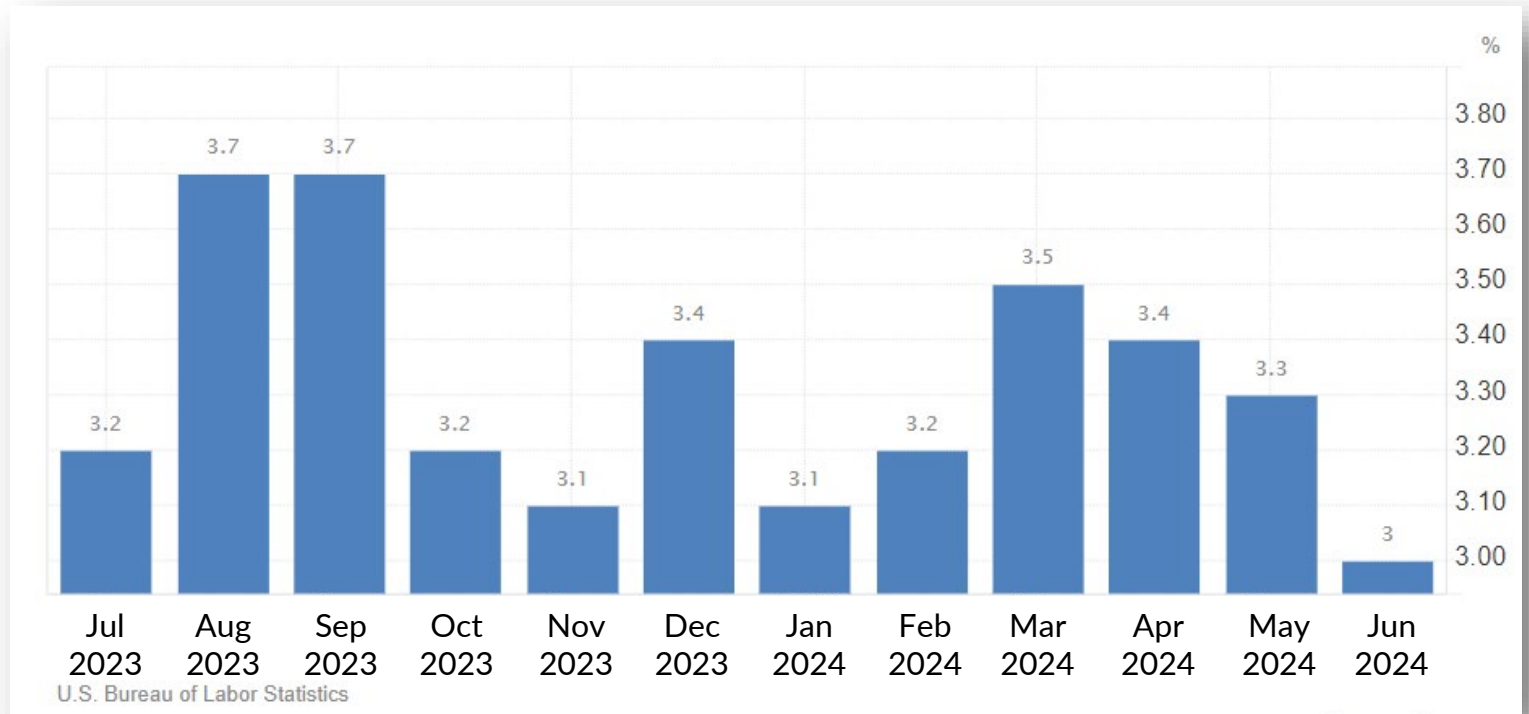
July 5th – Canadian Labour Markets Continuing To Cool

- Unemployment rate up to 6.4%, the highest reading since October 2017 (outside of the pandemic shock).
- Rate of monthly layoffs has continued to creep higher and was up 20% from a year ago in June.
- Average hourly earning remained firm, rising 5.4% from a year ago.
- The BoC will be watching the potential inflationary impact of wage growth closely, but slowing hiring demand and rising supply of unemployed workers means that wage growth is most likely to move lower



July 11th – Downside Surprise in US June Inflation Report

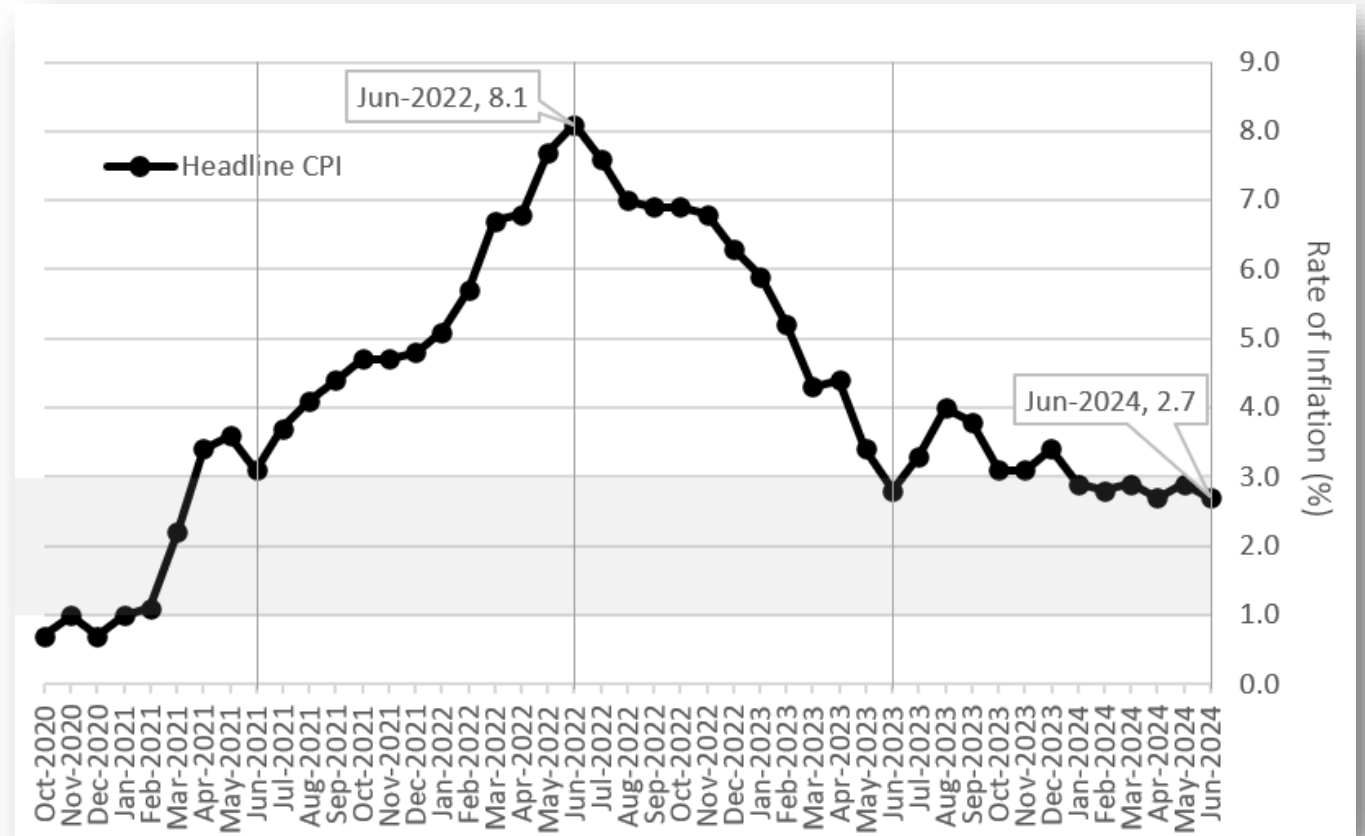
- Headline CPI growth in the U.S. was 3.0% for June (below forecast of 3.1% and down from 3.3% in May).
- A second U.S. CPI downside surprise in a row has added to market odds for a first rate cut from the Federal Reserve this September.



July 16th - Canada's headline inflation rate was +2.7% for June 2024

- Lower than market forecast
- Lower than previous month (May was +2.9%)
- CPI Trim & Median were both under 3% (2.9% and 2.6%)
- Mortgage costs continue to be the largest contributor

Main contributors to the 12-month change (Source: StatsCan)	June 2023 to June 2024
Main upward contributors	
Mortgage interest cost	22.3
Rent	8.8
Homeowners' home and mortgage insurance	5.6
Passenger vehicle insurance premiums	8.1
Main downward contributors	
Telephone services	-9.3
Digital computing equipment and devices	-9.3
Traveller accommodation	-8.7



Updated Mortgage Arrears Data

Data Source: Canadian Bankers Association

Reference Period: Up to April 30, 2024

Release Date: July 5, 2024

Canada arrears was 0.18% as of month ended April 30, 2024

CANADIAN BANKERS ASSOCIATION

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Number of Residential Mortgages in Arrears

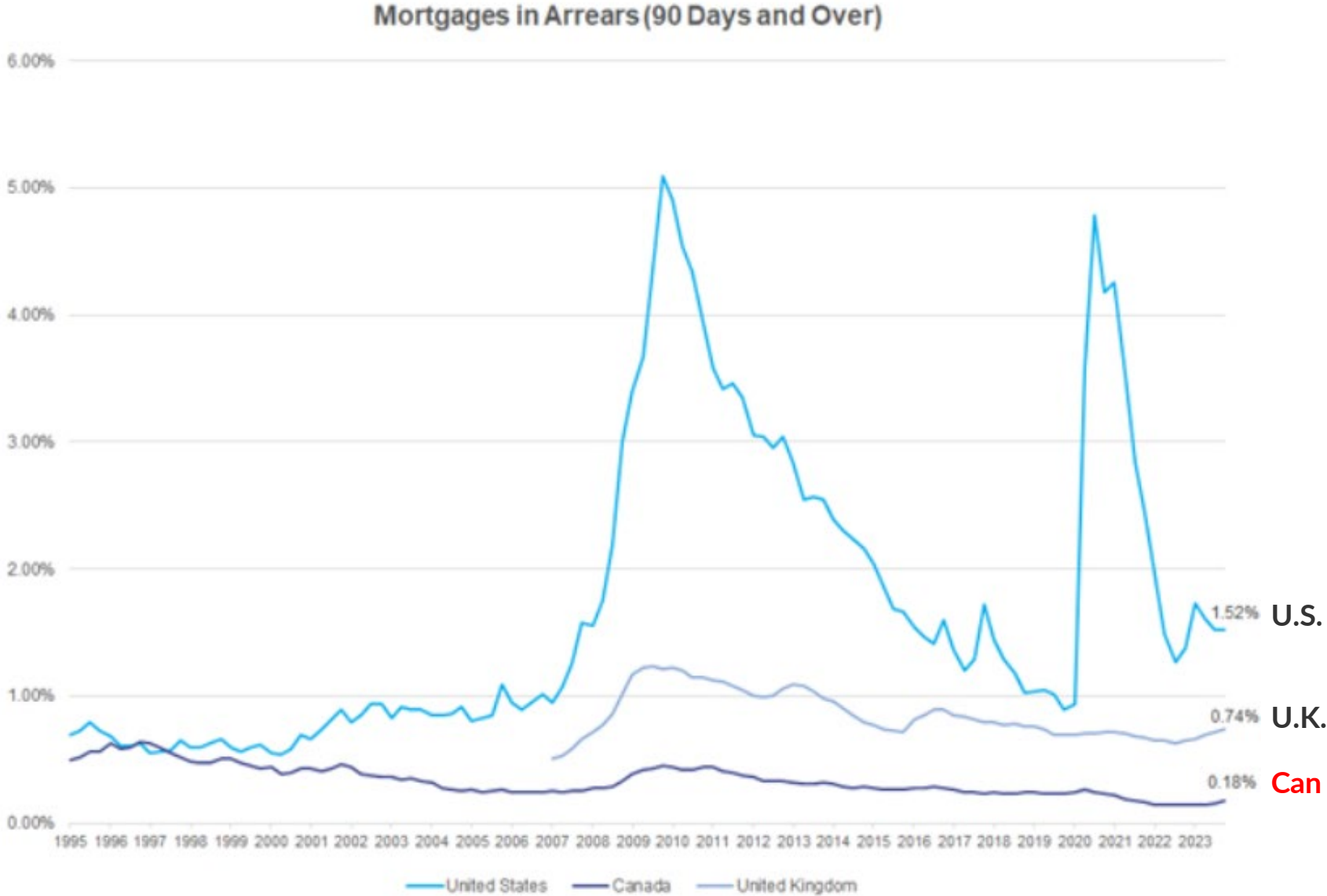
Month Ended April 30, 2024			
LOCATION	Total Number of Mortgages	Number of Mortgages in Arrears*	% of Arrears to Total Number of Mortgages
ATLANTIC	344,196	888	0.26%
QUEBEC	944,561	1,528	0.16%
ONTARIO	2,190,340	2,856	0.13%
MANITOBA	119,291	351	0.29%
SASKATCHEWAN	126,412	710	0.56%
ALBERTA	588,662	1,825	0.31%
BRITISH COLUMBIA	704,078	1,094	0.16%
TERRITORIES	10,333		
CANADA	5,027,873	9,252	0.18%

Includes data from BMO, CIBC, National Bank of Canada, RBC Royal Bank, Scotiabank, TD Canada Trust, Canadian Western Bank, Manulife Bank (as of April 2004), Laurentian Bank (as of October 2010), Equitable Bank (as of November 2020)

* Mortgage arrears is three or more months

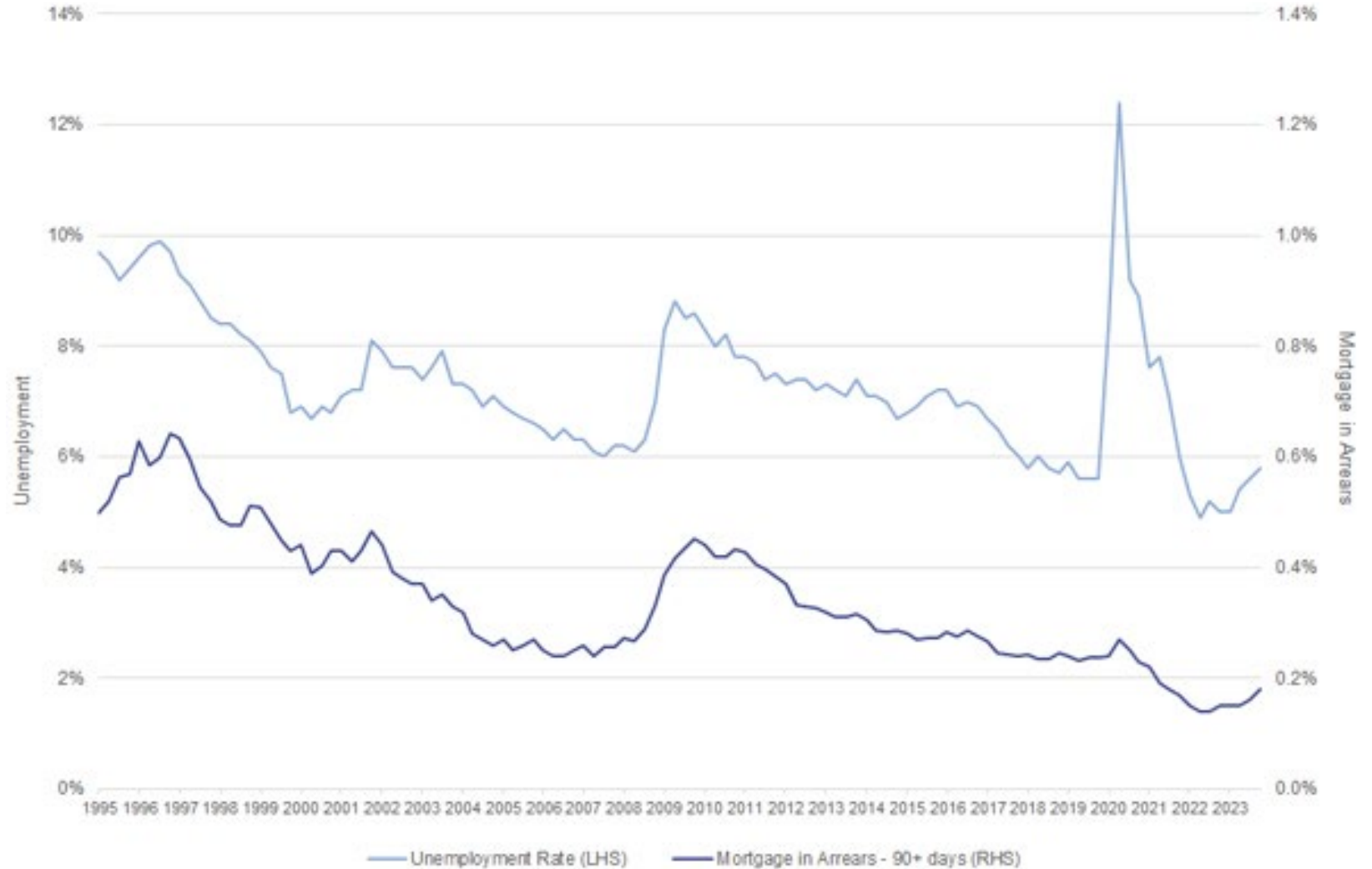
** Data for Yukon included in British Columbia. Data for NWT and NU included in Alberta.

- Canada’s percentage of mortgages in arrears is significantly lower than in the US and UK.
- Despite current economic environment, mortgages in arrears in Canada (0.18%) are at the lowest level in decades.



- Canada borrowers have consistently maintained low arrears even throughout the challenging periods such as the Global Financial Crisis and the COVID-19 pandemic.
- Payment arrears are driven primarily by employment conditions and major changes in life circumstance that can cause an unexpected loss to a significant portion of household income.

Mortgages in Arrears (90 Days and Over) vs Unemployment



Ontario arrears was 0.13% as of month ended April 30, 2024
 The lowest arrears rate when comparing locations below:

CANADIAN BANKERS ASSOCIATION

DB50 PUBLIC

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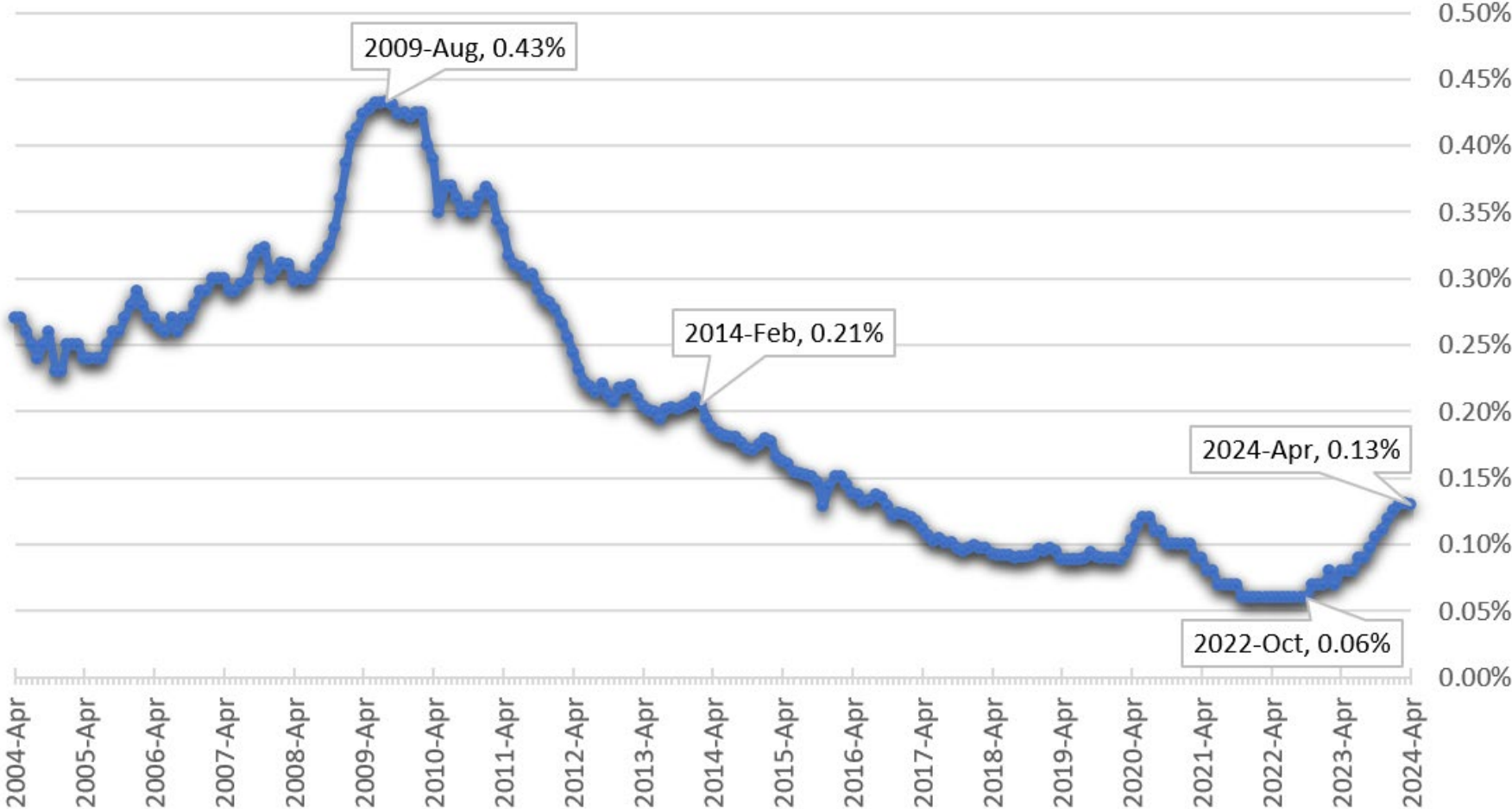
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** Data for Yukon included in British Columbia. Data for NWT and NU included in Alberta.

% of Mortgages In Arrears - Ontario (Payments overdue for three or more months)

- While the arrears rate remains extremely low in Ontario, it has risen from a low of 0.06% in October 2022 to the current 0.13% in April 2024.





Thank you!



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