MORTGAGE PROFESSIONALS CANADA

Housing and Mortgage Market Review: *August 2023*

Interest rate hikes are taking some steam out of the housing market

The Bank of Canada's back-to-back interest rate hikes over the past two months took some steam out of housing markets across the country in July. And we may not yet have seen the peak in rates based on the surprisingly strong inflation report in July.

Highlights:

- **Inflation** surprised to the upside in July, and there will likely be more volatility to come—including for interest rates
- **Mortgage originations** appear to have bottomed, but challenging affordability conditions mean it will likely be a while before things turn around
- **Housing market** balance shifted more towards buyers as home sales slowed and new listings rose in July

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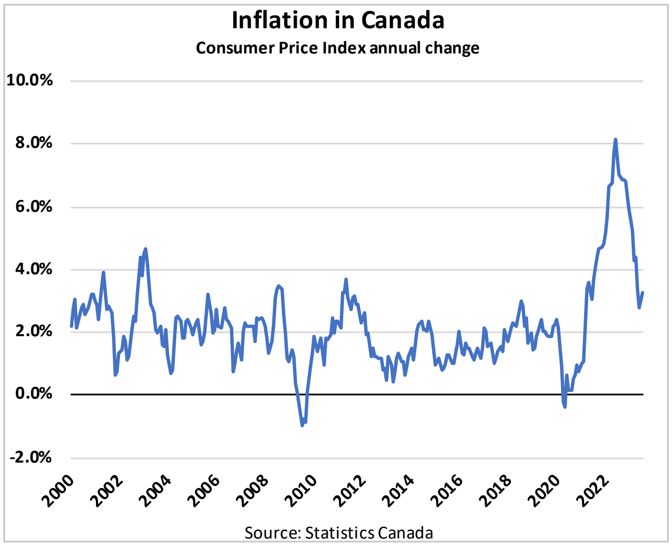
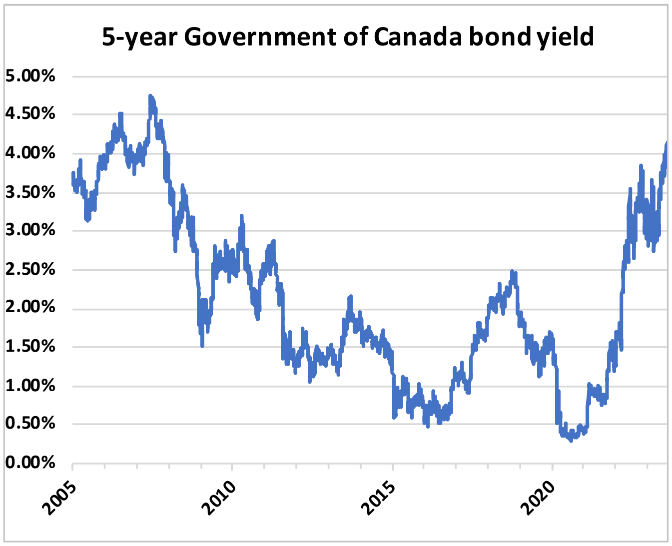
Inflation surprise adds to rate pressures

Canada's inflation rate surprised to the upside in July. Economist were expecting an uptick to 3% annually from June's reading of 2.8%, but the actual number came in at 3.3%, including a very spicy 0.6% monthly increase in July alone.

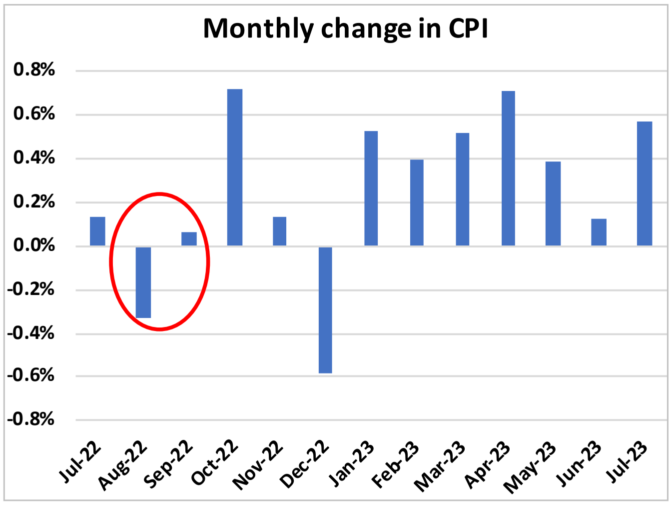
That surprise was enough to send bond yields spiking higher, with the bellwether 5-year yield jumping to fresh 16-year highs of 4.15%.





We may have more inflation volatility to come. Base effects from low monthly CPI increases in August and September 2022 will drop out of the annual data set over the next two months, and that means we'll likely see the reported annual inflation rate tick higher. In fact, if the CPI rises a mere 0.2% each month for the remainder of the year, we'll end 2023 with an inflation rate north of 4%. And if the CPI averages a 0.3% monthly gain (in line with the average over the past six months), we'll end up with an inflation rate pushing 5%.

Mortgage professionals should brace for more rate volatility, but should also inform clients and prospects that part of the acceleration in CPI is a function of base effects that will wane with time and the Bank of Canada has already baked this into their inflation projections.



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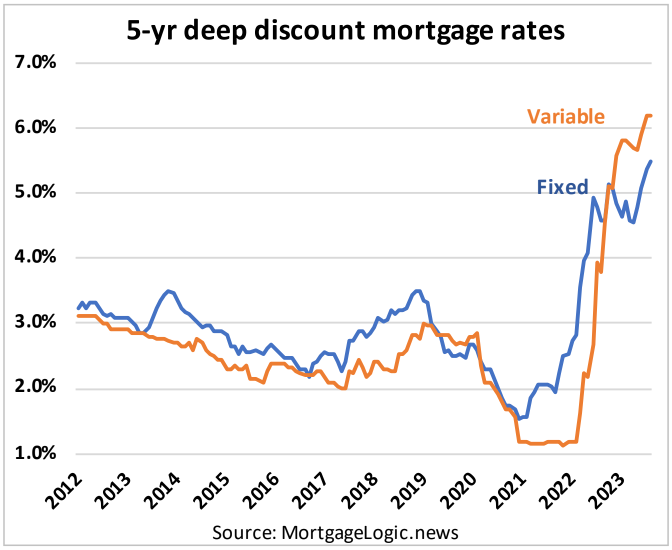
Mortgage market update

Deep-discounted mortgage rates remain at 15-year highs for both 5-year fixed and variable terms.

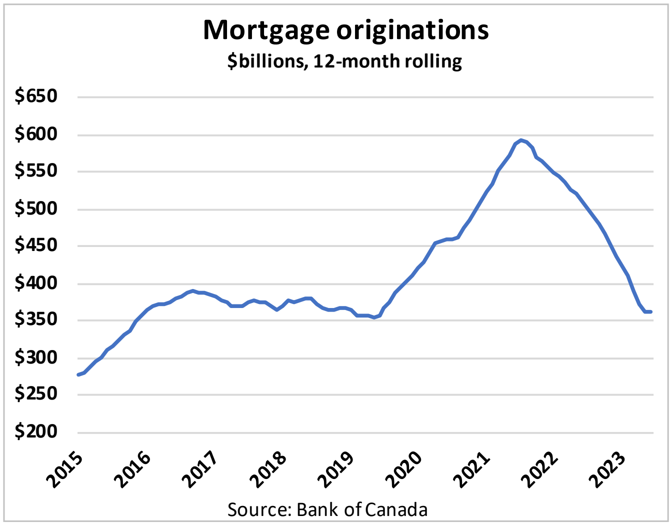
High rates and challenging affordability continue to weigh on demand. Originations remain roughly 40% below peak but did stabilize in June where they were effectively unchanged from year-ago levels.

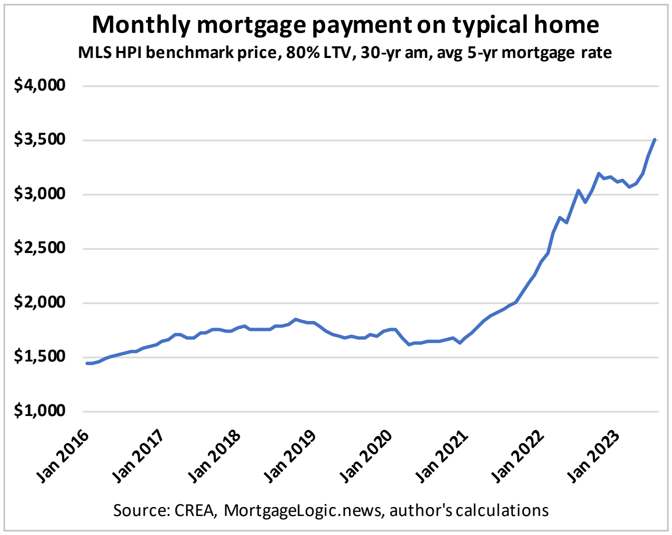
There's been a notable skew towards 3- and 4-year fixed rate products in recent month, with that bucket now accounting for over half of all new originations.

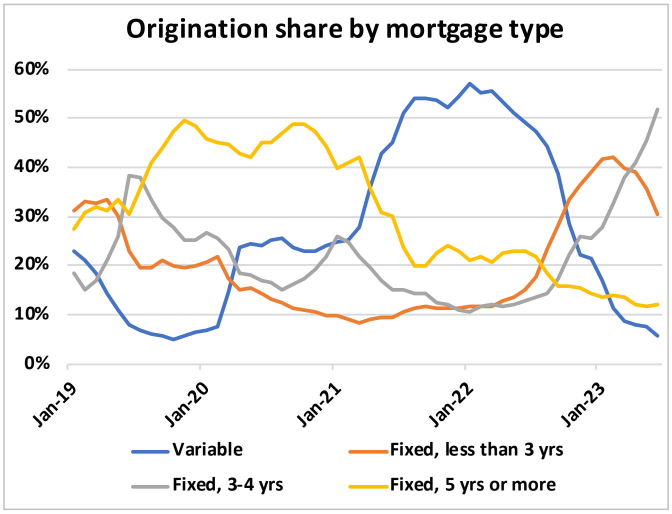


Challenging affordability weighs on housing demand

With rising mortgage rates, the monthly payment needed to buy into the market today has risen by roughly 15%, or $400, since March.







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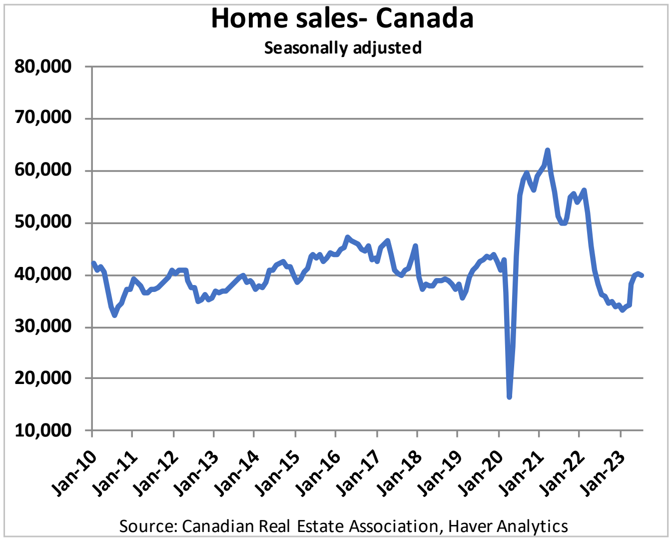
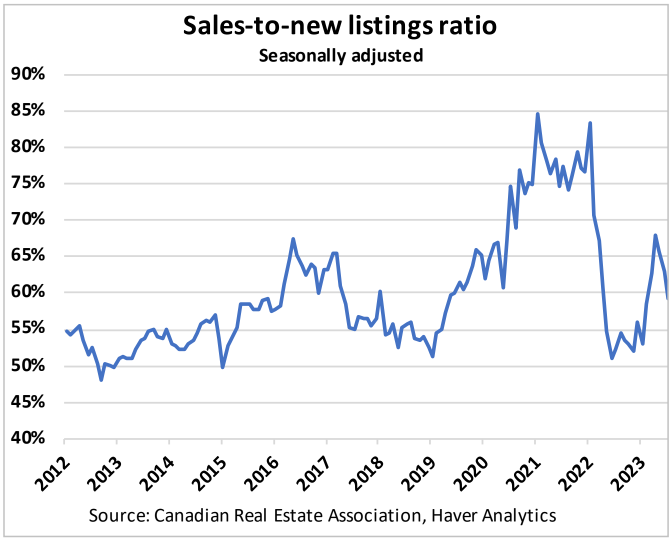
Not surprisingly, we're seeing sales come under pressure, which were down 0.7% month-over-month in July. But that headline figure hides some important geographical differences: Ontario and B.C. saw sales fall 5.5% and 2.6%, respectively, while more affordable Alberta saw sales jump 4%.

New listings jumped 5.6% month-over-month, which helped push the sales-to-new listings ratio, a simple measure of supply and demand, down to 59% from 63% previously.

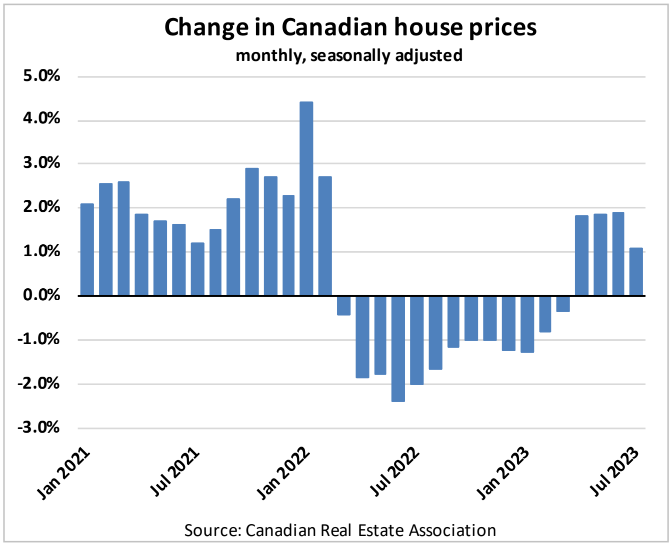
Prices rose 1.1% month-over-month nationally, a notable deceleration from the 2% monthly gains we've seen over the past three months.





House prices nationally remain nearly 12% below peak levels, but with notable regional variations:

National:	-11.5%
Calgary:	At peak!
Greater Vancouver:	-4.1%
Montreal:	-5.4%
Winnipeg:	-5.9%
Halifax:	-6.2%
Edmonton:	-7.6%
Ottawa:	-10.3%
Greater Toronto:	-12.8%
Hamilton:	-17.9%
Kitchener:	-19.3%
London:	-21.3%



**Any forecasts contained in this report are accurate as of the date indicated.*