



Real Estate Monthly

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Bank of Canada shifts tone on rate announcement, signaling likely July hike

Canada's central bank has cleared the way for a July interest rate hike, warning that it will need to act soon to keep inflation from pushing past its 2-percent target.

The Bank of Canada kept its key interest rate target unchanged at 1.25 percent last week, citing the impact of trade uncertainty, a slowdown in housing activity and mounting "stress" in emerging markets.

Bank of Canada Governor Stephen Poloz generally does not broadcast future rate moves with explicit forward guidance. But on Wednesday, it's was what Mr. Poloz and members of the bank's governing council didn't say that shifted expectations. The statement accompanying the rate decision dropped two key phrases that have been a staple of the bank's communication for months. Gone is the reference to being "cautious" about future policy changes. Also absent is the qualifier that higher rates will be needed "over time."

Instead, the bank is offering new, more assertive language about where rates are headed now that the economy is running near full capacity.

"Developments since April further reinforce the governing council's view that higher interest rates will be warranted to keep inflation near target," the statement said. "Governing council will take a gradual approach to policy adjustments, guided by incoming data."

The odds of a July rate hike is now just shy of 80 percent, up from slightly more than 50 percent on Tuesday, according to Bloomberg's interest rate probability tracker.

"While we may need a grammarian to distinguish between 'cautious' and 'gradual,' the message was nevertheless clear: Get ready for another rate hike."

Toronto-Dominion Bank economist Brian DePratto said in a research note.

National Bank of Canada similarly concluded that the statement "kicked wide open the door for a July rate hike."

Mr. Poloz has insisted in the past that his use of words such as "cautious" is not code-language for what the bank plans to do next. But Bank of Nova Scotia economist Derek Holt said the

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latest statement suggests the central bank has more confidence in its forecast of a strengthening economy, and that it is "not making a mistake by tightening monetary policy."

The bank identified several signs of emerging economic strength, including stronger-than-expected U.S. growth, higher oil prices, more "robust" exports and "solid" labour income growth.

The bank also seemed to play down concerns about the impact that higher rates could have on an already slowing housing market. It said it expects that a recovery in housing activity and consumption would power growth through the rest of the year.

MAY 2018 MARKET STATS

In recent months and years, there has been intervention in housing markets by all levels of government, through regulatory changes and taxation. Municipal politicians are once again asking for municipal land transfer tax (MLTT) powers. Specifically, York Region councillors announced they were demanding that Queen's Park give them power to levy an MLTT.

REALTORS® are calling on all candidates running the election to announce they oppose this unfair tax grab. Election Day is fast approaching and REALTORS® are working to keep the dream of home ownership alive in our province. DRAR REALTORS® are contacting their local candidates running in the Ontario Election to tell them to say 'NO' to a second land transfer tax.

Durham Region Association of REALTORS® (DRAR) President Dennis Roberts reported 859 residential transactions in May 2018, down 7.6 per cent from the previous month. On a year-over-year basis, sales transactions are down 33 per cent. In Durham Region, the average selling price reached \$597,485 in May 2018. In comparison, the average selling price was \$609,813 the previous month.

"Durham Region continues to experience a balanced market and we lead the GTA with the most affordable housing." Stated Roberts. "Durham has the most affordable single-family detached homes, single-family attached homes, townhouses and apartments according to the MLS® Home Price Index. Our Spring market was delayed due to weather, and we expect sales to pick up in June and July."

There were 2,247 new listings in May 2018, compared to 1,908 in the previous month, buyers are benefitting from more choices in the Durham marketplace.

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