ECONOMICS
Mortgage Rate Forecast

March 2024

HIGHLIGHTS

- Canadian mortgage rates down sharply to start 2024.
- The Canadian economy – no recession yet, but growth is very slow.
- Waiting for the Bank of Canada to cut.

Mortgage Rates

In early October 2023, Canadian five-year bond yields peaked at a 17-year high of 4.42 per cent. Over the next four weeks, bond yields plummeted more than 100 basis points. The catalyst for the dramatic swing in the cost of borrowing seems to have occurred following better-than-expected inflation data in both the US and Canada, starting in the early fall and continuing to the end of 2023. As a result, the expectations of financial markets for the timing and magnitude of monetary easing by the Bank of Canada shifted substantially toward more aggressive rate cuts on the horizon.

While markets seemed to have gotten ahead of themselves, with yields backing up slightly in February, the current trend for five-year bond yields implies a five-year fixed mortgage rate of about 5.2 per cent. That is very close to the current average offered rate among major lenders and not far from where we expected rates to be by the end of 2024, though obviously arriving well ahead of our forecast.

Discounts offered on variable rates have increased slightly from prime minus 30 basis points to prime minus 60 basis points, prompting a slight decline in average variable rates. However, a more substantial downward move in variable rates will have to wait for the Bank of Canada to act. Once the Bank begins cutting, we expect variable rates will fall about 100 basis points by the end of the year.

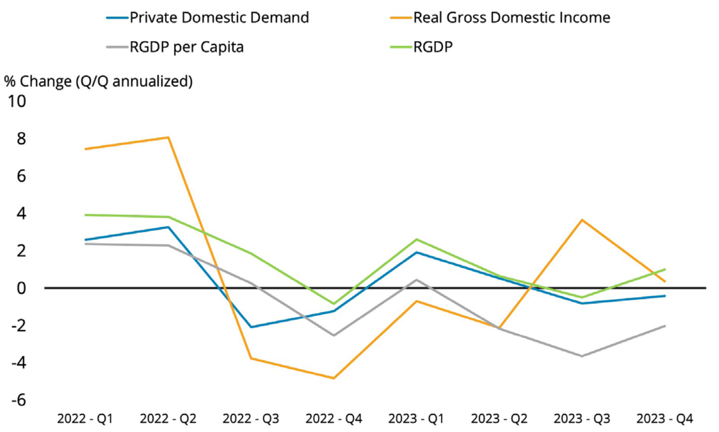
Mortgage Rate Forecast								
	2024				2025			
Term	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Variable Rate	6.6	6.45	6.20	5.70	5.20	4.70	4.45	4.20
5-Year Qualifying Rate(fixed)	7.24	7.24	7.15	7.05	6.95	6.85	6.75	6.75
5-Year Average Discounted Rate	5.24	5.24	5.15	5.05	4.95	4.85	4.75	4.75

Source: Bank of Canada; BCREA Economics; Rob McLister, Mortgage Rate Analyst

Note: Average five-year discounted rate is the average rate available in the market, offered at a discount from the posted five-year qualifying rate.

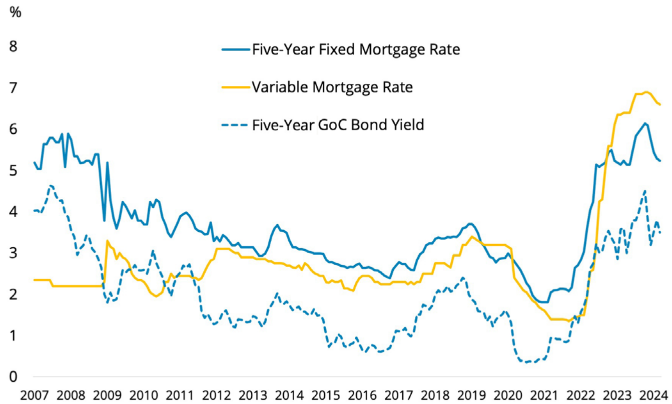
Not a Recession, But Not Great

Measures of Output/Growth



Source: Statistics Canada

Canadian Fixed Rates Down Sharply to Start 2024



Source: Rob McLister; Bank of Canada

Economic Outlook

The Canadian economy managed to eke out meagre growth in the fourth quarter to narrowly avoid a technical recession, often defined as two consecutive quarters of negative real GDP growth. That said, the Canadian economy appears rather sickly by a wide range of measures. While Canada's falling real GDP per capita, or how much Canada is producing relative to its population, has been extensively covered, other alternative measures of growth are also underperforming. In particular, the growth of Private Domestic Demand, which measures the strength of spending by Canadian firms and households, has been negative for two quarters, and growth of real gross domestic income, essentially the sum of Canadian wages and profits, only recently returned to positive territory.

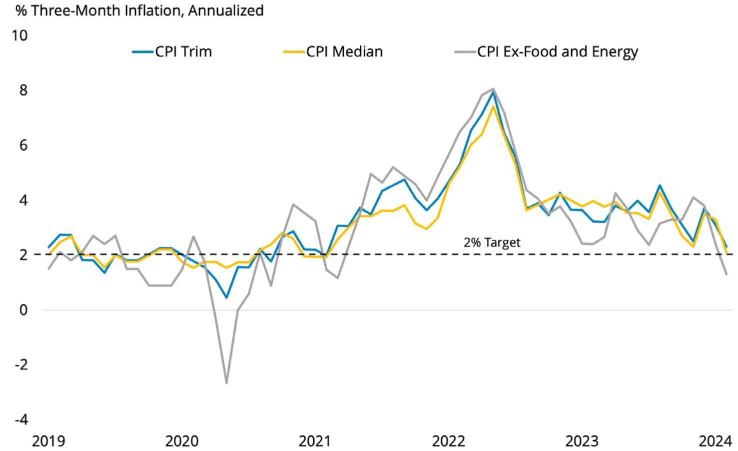
Juxtaposed against a sluggish economy, however, is the surprising robustness of the Canadian labour market. While employment growth is not quite keeping up with Canada's rapidly expanding population, the economy is adding jobs month after month, including more than 40,000 jobs in February. The national unemployment rate has maintained near 5.8 per cent, up from a record low of 4.8 per cent in 2022 but essentially on par with the pre-pandemic rate of unemployment. Moreover, wage growth has topped 5 per cent for the last three months, outpacing inflation by a wide margin.

Bank of Canada Outlook

Although financial markets clearly got ahead of themselves toward the end of 2023, pricing-in an unlikely six rate cuts by the Bank of Canada, it remains overwhelmingly likely that the Bank of Canada will begin lowering its policy rate this year. There is also little mystery as to how much the Bank will eventually cut, with a consensus forming around the Bank stopping at 2.5 per cent, or 250 basis points lower than today. The only open question is when the Bank will implement its first rate cut. Probabilities from financial markets are strongly tilted toward the Bank cutting by 25 basis points at its June meeting, with about a more than 90 per cent probability of 100 basis points of cuts by the end of December.

However, as the Bank itself made very clear with its March decision, further progress will need to be made, bringing core inflation down below 3 per cent for policymakers to be convinced they are not acting too early only to have to reverse course later on. Given that core inflation dropped dramatically in February, and given the sluggish pace of the Canadian economy it would seem that an April rate cut is not out of the question and if not April, then almost certainly June.

Falling Core Inflation Points to Rate Cuts



Source: Statistics Canada

Send questions and comments about the *Mortgage Rate Forecast* to:
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