GLM
MORTGAGE GROUP

presents

Controlling the Economy

Looking at the Bank of Canada and how it affects our economy

Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.

GLM
MORTGAGE GROUP

A little about Geoff Lee…

√ Co founder and Director of the Imani Orphan Care Foundation
- www.imaniorphancare.com

√ **Over 23 years** of real estate experience and investment

√ Member of…
- Better Business Bureau
- Chamber of Commerce
- Mortgage Brokers Association of British Columbia
- Canadian Association of Accredited Mortgage Professionals

Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.

GLM
MORTGAGE GROUP

√ ***Mortgage educator/key note speaker*** *for…*

- Wealthy Investment Network
- Business Network International

√ *Regularly* ***sourced for mortgage insights*** *by the …*

- Vancouver Sun
- Mortgage Broker News

√ *Ranked amongst the* ***top 3% mortgage brokers in Canada*** *by CMP magazine*

√ ***Finalist*** *in 2014 CMP Canadian Mortgage Awards for* **Best Customer Service from an independent office**

Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.

Have you been asking questions about the Canadian economy and its interest rates?

Questions like….

- What is going on with the mortgage industry?
- Why are interest rates going down?
- Why are housing prices staying high?
- Who controls the prime rate that we base interest rates on?
- Why is the Canadian dollar loosing value?
- I thought the US and its poor economy would keep the dollar up!!

- **WHAT IS GOING ON?!!!**

Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.

To answer these questions….

… we need to look at the Bank of Canada, our national centralized banking system

Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.

Now… what is the Bank of Canada - ???

The Bank of Canada is a centralized banking institution that was created to monitor Canada's financial system by:

1. Preserving the value of Canadian money through trying to control the rate of inflation
2. Monitoring Canada's financial institutions (accountability)
3. Production and distribution of Canada's bank notes (dollar bills)
4. Watchdog of the Government's use of funds

Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.
Alll information for this presentation was taken from the Bank of Canada website www.bankofcanada.ca

Specifically, let's look at inflation…

In 1995, the Canadian government adopted a policy called the **Transmission of Monetary Policy**.

This policy attempts to monitor Canada's rate of inflation and economy by changing the policy interest rate (overnight lending rate).

Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.

THE GOAL

The GOAL of changes in interest rates is to keep inflation

low, stable, and predictable

Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.

Simple Definition of inflation…

Inflation is the rate at which the level of prices of goods and services increases.

Deflation is the opposite of inflation.

Central banks attempt to stop severe inflation, along with severe deflation, in an attempt to keep the excessive growth of prices to a minimum

Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.

THE GOAL – consumer price index

Therefore, the bank created a system of measuring inflation where the goal was to keep inflation at “2%” in a scale of 0 to 4%. This percentage rate reflects the total **consumer price index**.

Consumer price index - It is obtained by comparing, over time, the **cost** of a fixed basket of goods and services purchased by **consumers**. **…a gauge of cost of goods and services over a period of time.**

Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.

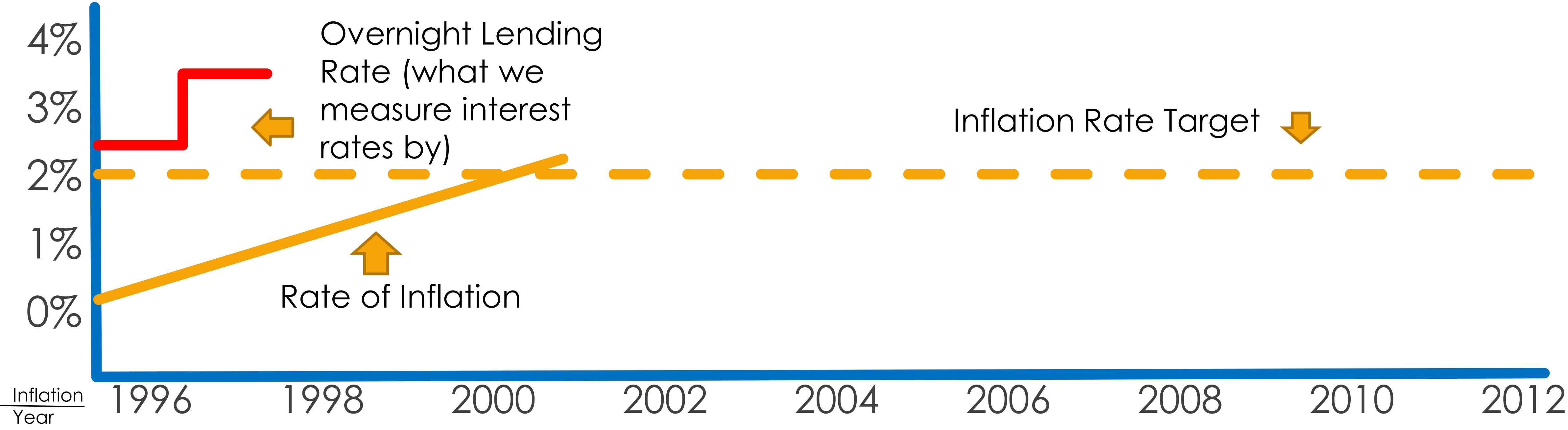
THE GOAL

Loads of research is involved in this analyzation process.

Many wise economists use extensive research to forecast economic projections to determine the best interest rate in order to keep inflation within the 2% target.

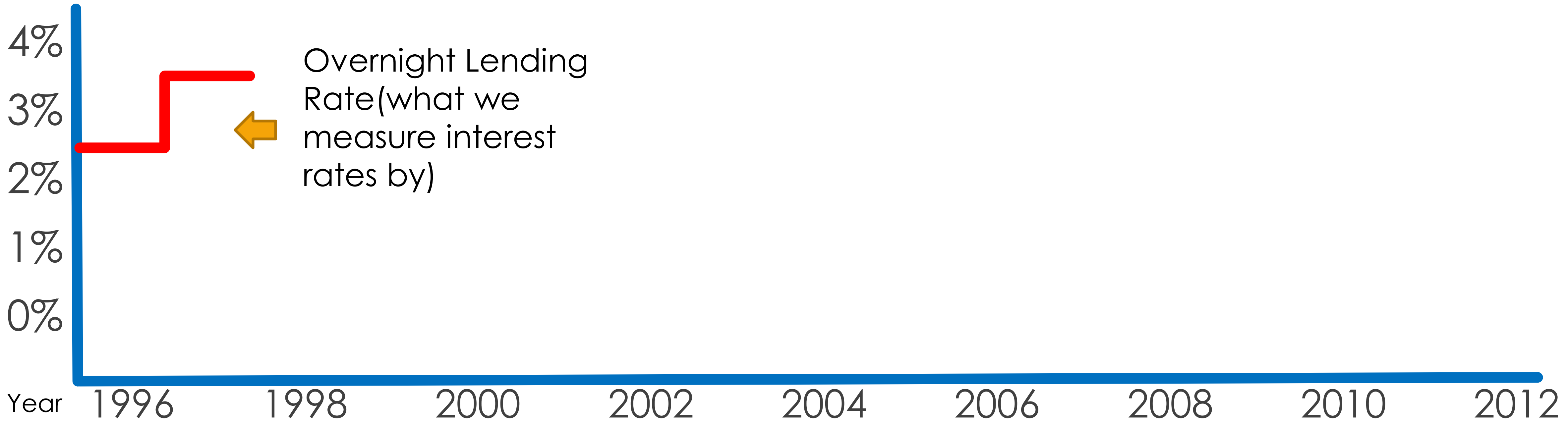
Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.

Table showing rate of inflation vs policy interest rate (Optimized rate of inflation is 2%)



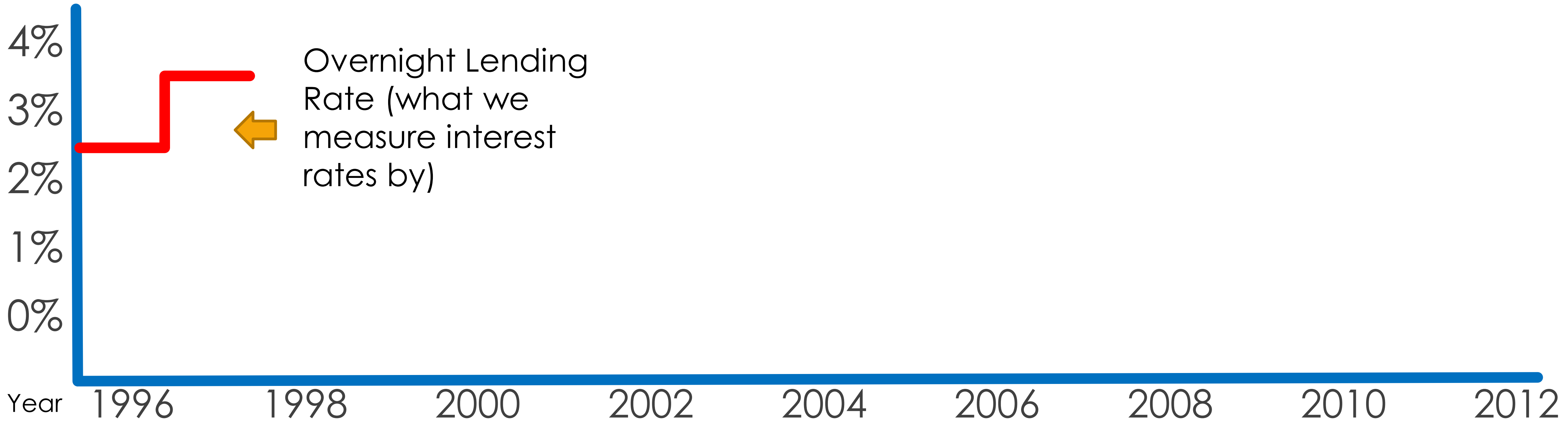
Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.

The overnight lending rate is the main tool used to keep inflation on target.



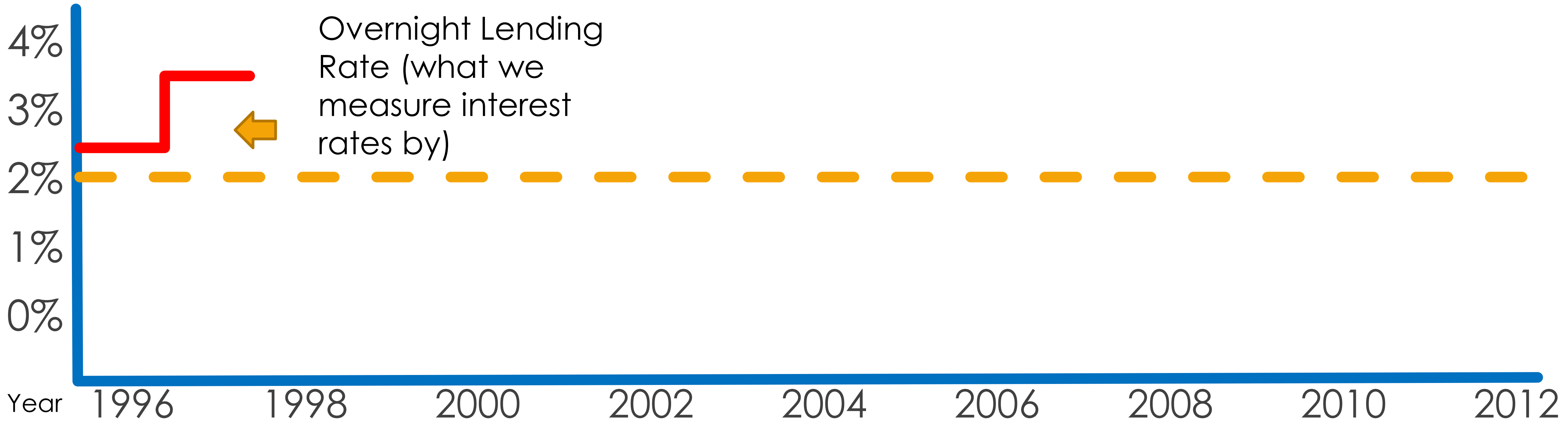
Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.

8 times per year the bank considers changing the overnight interest rate based on changes in the consumer price index. It can go higher, lower, or stay the same.



Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.

It takes about 1.5 to 2 years for the changes in the overnight lending rate to work its way through the economy to keep inflation close to the 2% target.



Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.

Objective – battling inflation

In deciding what the overnight lending rate should be today, we need to look ahead to what our inflation target(balance between supply and demand) will be in the future.

Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.

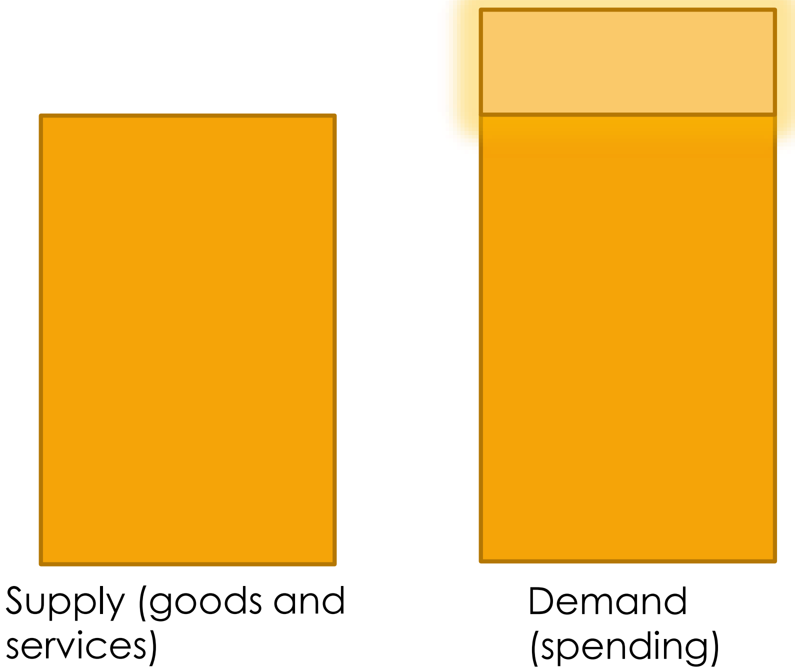
Objective – battling inflation

With the target inflation rate of 2%, the Bank of Canada tries to keep overall <u>demand</u> (spending) in balance with overall <u>supply</u> (goods and services).

Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.

Objective – battling inflation

If demand (spending) in the economy exceeds overall supply the bank will **raise** the overnight lending rate by whatever is judged appropriate, whether ¼ %, ½ %, etc.



Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.

Objective – battling inflation

For example, if there are 2 people that want to buy a car, but only 1 car is available, this shows that there is an increase in demand (spending) and not enough supply (goods and services).

Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.

Objective – battling inflation

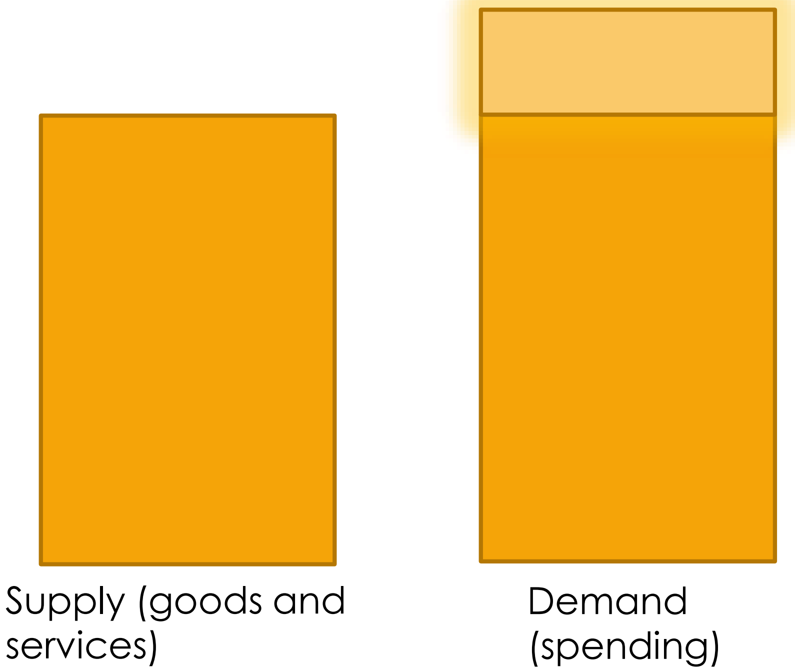
The increase in demand (spending) means that inflation will exceed the 2% inflation target. If this persists, than interest rates will rise even further (up to 8 times per year - Bank of Canada meetings).

Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.

Objective – battling inflation

This increase in the overnight lending rate triggers increases on interest rates on loans such as

- Residential loans
- Car loans
- Business loans



Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.

Objective – battling inflation

It becomes more expensive to borrow which discourages spending and investment, thereby encouraging reduction in prices and therefore reduction in inflation.

Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.

Objective– battling inflation

At the same time, higher interest rates encourage saving.

Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.

Objective– battling inflation

The overall demand for good and services will be reduced helping to keep in line with overall supply and bring inflation back toward the 2% target.

Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.

Objective – battling inflation

Now you know what the Transmission of Monetary Policy is! ☺

Supply (goods and services)

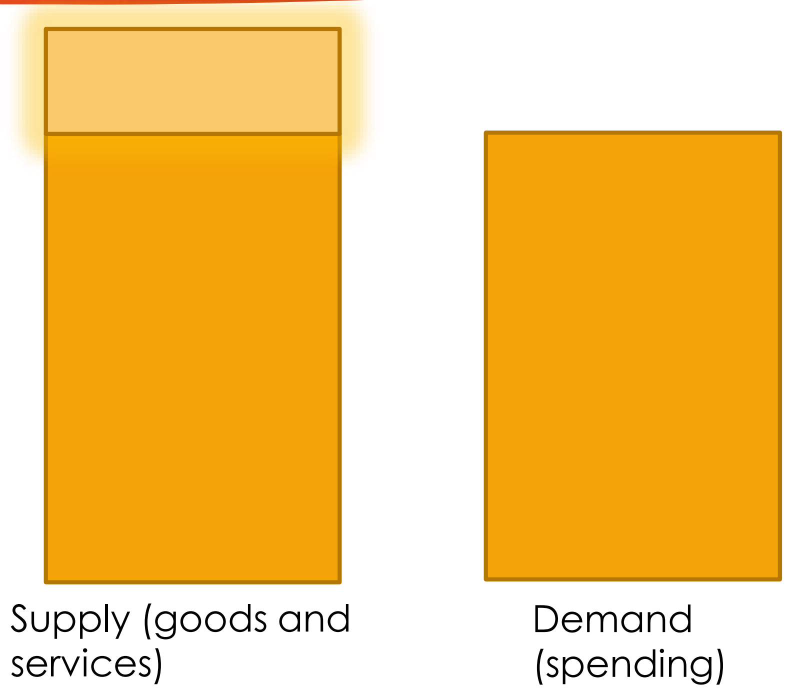
Demand (spending)

Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.

Objective – battling inflation, where we are at today!

Lower interest rates boost the demand (spending) in the Canadian economy.

When inflation falls and supply (goods) rises the Bank of Canada will lower the overnight lending rate.



Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.

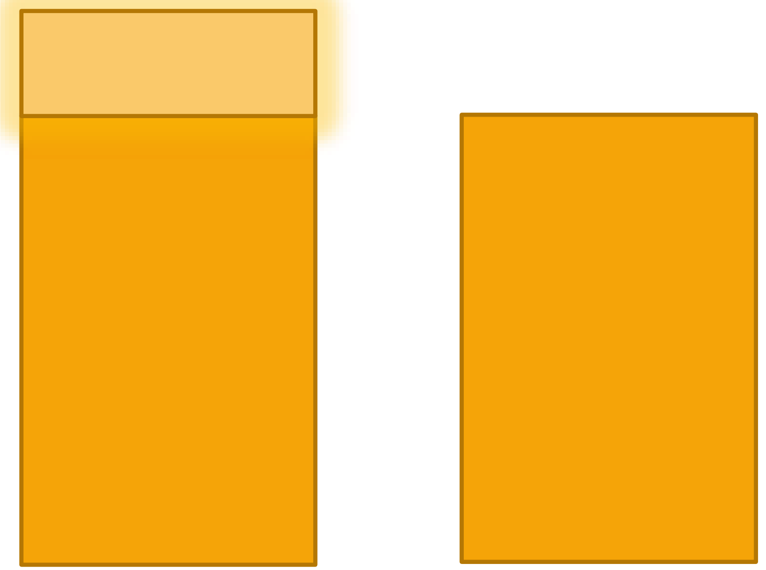
Objective – battling inflation

For example, if there is 1 person that wants to buy a car, and 2 cars are available, this shows that there is an increase in supply and not enough demand.

Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.

Objective – battling inflation

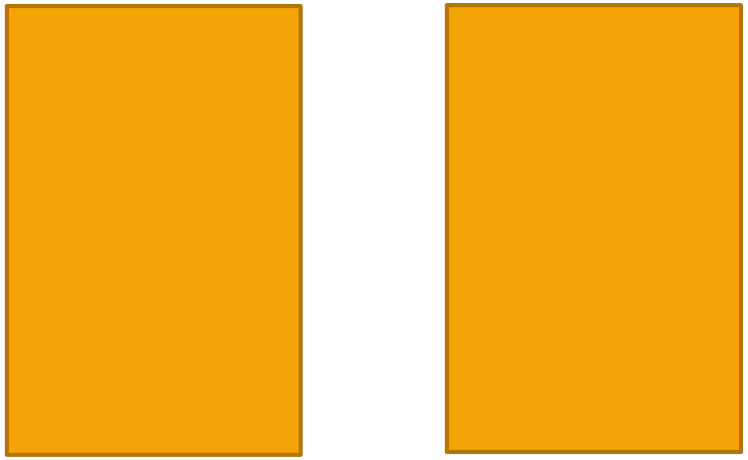
When inflation is likely to persist **below** the 2% target, the Bank will typically lower its overnight lending rate which is what we saw in recent months.



Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.

Objective – battling inflation

Over time, this pushes down lending rates which, in turn, will boost overall demand (spending) in the economy and push inflation back up to its target of 2%.



Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.

Objective – battling inflation

As mentioned before, it takes time, usually 1.5 – 2 years for these changes to have full affect on inflation.

Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.

Objective #2 – battling inflation

According to the Monetary Policy report of January 2015, the Bank of Canada projects that interest rates will remain low until the end of 2016.

Supply (goods and services)

Demand (spending)

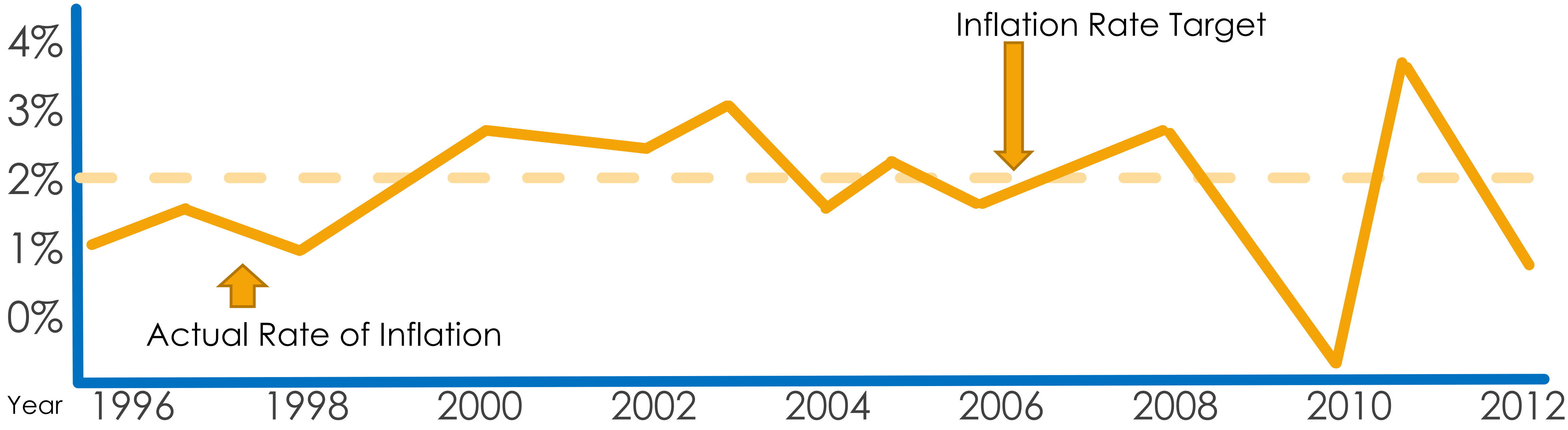
Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.

Objective #2 – battling inflation

But remember! There is no crystal ball!

Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.

Table showing the actual rate of inflation vs 2% target rate to 2012



Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.

Table showing the actual rate of inflation vs policy interest rate to 2012

Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.

Variable Rate Chart: rates as of Feb 18, 2015

Updated: February 19, 2015

Term	Bank Rates	Our Rates
6 Months	3.14%	**3.10%**
1 Year	2.99%	**2.69%**
2 Years	2.94%	**2.39%**
3 Years	3.44%	**2.54%**
4 Years	3.94%	**2.64%**
5 Years	4.79%	**2.74%**
7 Years	6.04%	**3.79%**
10 Years	6.50%	**4.39%**

Current Variable Mortgage Rate: **2.20%**

Current Prime Rate: **2.85%**

Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.

2015 Monetary Policy Report

As mentioned previously, the goal of the Bank of Canada is to try and manipulate Canada's economy to a low, stable and predictable inflation of 2%. This encourages Canadians to save and invest with confidence.

Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.

So what is currently happening in the Canadian economy?

Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.

So what is currently happening in the Canadian economy?

Oil prices are down based on demand and world events

Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.

How does this affect our local economies?

Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.

How does this affect our local economies?

In areas such as northern Alberta, northern BC, northern SK, there are decreases in energy driven industries which have resulted in unemployment and restrains in income growth and wealth.

Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.

How does this affect our local economies?

Interestingly, the Bank of Canada, in its 2015 Monetary Policy report, projects that housing activity, based on other economies, will remain high, supported by low interest rates.

Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.

How does this affect our local economies?

The Bank of Canada also projects that inflation rates will drop below 1% in 2015, which means that variable rates could continue to drop while fixed rates will remain more steady but at a possible slight decline pending on the world economy.

Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.

How does this affect our local economies?

With the Canadian economy significantly driven by oil and gas (30%) the Bank of Canada projects a significant decline in investment in the oil and gas sector in 2015. They compare this current episode with the magnitude of the 1986 crash… What does this mean?

Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.

How does this affect our local economies?

This is fact…

- Currently we have near record high housing prices that are being financed
- We have the highest debt levels ever in comparison to income

In conclusion, if this prediction holds true we will see another crash similar to 1986.

Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.

GLM
MORTGAGE GROUP

Get in touch with us….

www.glmmortgage.com
Twitter: @geoffleeca
Linked In: http://ca.linkedin.com/in/geoffleemortgage/
Email: Geoff@glmmortgage.com
Phone: 1.778.552.3489

Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.

GLM
MORTGAGE GROUP

Thanks so much for attending the GLM Mortgage Group workshop – Controlling the Economy.

If you have any questions please call me at 778.552.3489 or email me at geoff@glmmortgage.com.

"We get you the fastest "YES" at the SHARPEST RATE… GUARANTEED!!!"

- Geoff Lee

Copyright 2015 GLM Mortgage Group. All Rights Reserved. No part of this special presentation may be reproduced in any form including any digital or electronic or mechanical means without written permission from the author.