Don't Count on Low Mortgage Rates Forever: a Rate Hike Could Come Sooner Than You Think

Description

Get ready, Canada. Historically low interest rates could be ending sooner than you think.

Since around the third quarter of this year, we've known that the Bank of Canada wants to hike mortgage rates. In fact, in October, mortgage lenders *did* raise rates on fixed mortgages. Though the rate hikes hardly deterred homebuyers' exuberant quest to buy homes, as seen in the latest supply shortages, one thing is clear — they were only a harbinger. The *real* rate hikes are coming sometime in 2022.

We've heard numerous dates on when these rate hikes will come. Some think it will be late in 2022, others in the second quarter. But lately, the Bank of Canada has signalled rate hikes could come even sooner than these predictions have postulated. Why? Let's take a look.

The primary reason: inflation

An important fact to know: inflation and interest rates have an inverse relationship. That means, when interest rates are low, as they are now, inflation rates are typically high. That's because borrowing money is less expensive to consumers, which incentivizes them to spend. The more they spend, the stronger the economy becomes. And that, in turn, makes prices go up even more.

The inverse is true, too. As the economy gets stronger, borrowing rates can — and should — go up. That, in theory, will make inflation go down.

The keyword there – *in theory.* Right now, economists aren't afraid of inflation per se. They're afraid of runaway inflation, which is a type of inflation that's so high it becomes almost impossible to maintain. In an economy with runaway inflation, high interest rates alone won't bring down inflation. It would take more strategy to bring runaway inflation under control, which is certainly not what Canada wants right now.

With inflation rates hitting its second month of 4.7%, I'd say the Bank of Canada is most certainly going to pull its “interest rate” lever in the first or second quarter of next year, between March and April. This is a generous estimate: if inflation continues to plague consumer confidence, we could see that mortgage rate hike creep sooner in the year, though I doubt it would happen anytime before March.

When interest rates go up, the cost of mortgages will go up with them. Though I doubt a mortgage hike alone will cool off rampant demand for housing (Canadians *really* want homes right now), it will at least deter some homebuyers from entering a hot market.

What could defer mortgage rate hikes?

Some wonder if the Omicron variant will slow the economy and defer the Bank of Canada’s projected interest rate hikes. My take: I’m skeptical. Even though the Omicron variant is more contagious, scientists have already come out and said it’s not any more lethal. On top of that, virologists have reminded us that variants typically become less lethal the more they mutate, as the virus wants to become more infectious and less deadly. So, no, I don’t think the Omicron variant alone will halt our economic progress.

Should you take out a mortgage now?

As always, examine your motives first. If you’re buying a house because you don’t want to miss out on a “deal,” or you’re feeling pressured to hurry up and buy, take a step back and ask yourself if you’re truly ready.

If you’re absolutely certain you need to buy a home now, by all means – go for it. Mortgage rates will most likely go up in 2022, meaning you have a small window of time to lock into a historically low mortgage rate. Otherwise, it might be wiser to wait until 2022 to see how the real estate market fares under new mortgage rates.

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