



Bank of Canada's "Hidden" Message on Interest Rates: This Is Your Last Warning

Description

Last week, the Bank of Canada made its first interest rate announcement of the year. Much to the surprise of economists and experts alike, the Bank of Canada chose *not* to raise interest rates, in spite of the raging inflation that makes prices at even the most average grocery store feel like a **Whole Foods** store.

But don't misunderstand the Bank of Canada's message. Though they said they're not raising the rates *now*, they made it clear that interest rate hikes *are* coming, and they might arrive sooner than we expect.

Bank of Canada: "This is your last warning"

Though nothing came after last January's announcement—the rate still stands at 0.25%—there was a massive shift in momentum. In fact, the announcement amounted to nothing less than a last warning to homebuyers. Its effect: "don't get too comfortable; interest rates will rise *soon*."

"I think the message is pretty clear," Tim Macklem, Governor of the Bank of Canada said, "we're on a rising path. How far and how fast, those are decisions we will take at each meeting."

Though Tim Macklem didn't give any dates, it sounded as if the Bank of Canada was going to act fast. One reason for quick action: high inflation continues to give the Bank of Canada a major headache. If they're going to lower inflation to their projected goal of 2.3% by 2023, they're going to have to pull some levers. And the more they delay raising interest rates, the less likely that goal becomes.

My guess is that February will be your last chance to lock into today's interest rates. Then, when the Bank of Canada meets again in March, we'll see an interest rate hike. To be fair, the Bank of Canada did say they would raise rates in the second quarter of 2022 (April to June). But, given the situation now, I think they'll elect to raise the rate sooner rather than later.

For 2022, the scheduled dates for interest rate announcements are:

- March 2
- April 13
- June 1
- July 13
- September 7
- October 26
- December 7

Is now your last chance to get a cheap mortgage?

Well, sort of.

I'd say you have until at most March to lock into a mortgage with historically low interest. But the question I'd ask is—*should* you buy a house right now?

Most of Canada's top banks have warned that now might not be the most ideal time to enter the housing market. It's not hard to imagine why. The average price for a home in Canada is around \$720,860, which requires a higher down payment (\$47,036) than many Canadians can afford. And that's just the average. If you live in hot housing markets, like Vancouver or Toronto, you can expect home prices to have seven digits.

Affordability is one concern, but so is overvaluation. Fitch and Moody, two of the three big credit agencies, have labelled Canada's hottest markets as vastly overinflated. Simply put, the physical structure isn't worth the price you pay. That begs the question — just how much more overvalued can we get?

If you can help it, I would wait to buy a home. Even though you'll lock into a mortgage with a low rate, home prices will still make your monthly mortgage payments high enough to mist your eyes. If you're determined to buy one, however, now might be the time to get a mortgage pre-approval: you'll lock into low rates before the Bank of Canada hikes them up, at least for a few months.

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