



2 Reasons Canadian Mortgage Payments Could Skyrocket

Description

Bank economists are convinced that the Bank of Canada (BoC) will announce a three-quarters of a percentage point hike on July 13, 2022. Josh Nye, a senior economist with **RBC** Economics, believes that Canadian policymakers will follow the moves of their U.S. counterparts.

Avery Shenfeld and Andrew Grantham, economists at **CIBC**, shares the same sentiment and said the odds of a 75-basis-point increase in Canada next month are higher. Central banks are curbing rising inflation through aggressive rate-hike campaigns.

Macklem said, "Our primary focus is getting inflation back to target. You know, monetary policy is not housing policy ... The increases in housing prices we've seen have been unsustainably elevated and we are expecting to see some moderation in housing activity and frankly, that would be healthy."

However, mortgage holders will take a big hit if indeed the fourth increase this year is more forceful. Two reasons will set them all back and cause financial strain.

Significant rate increase

The economists at RBC and CIBC economists predict the interest rate in Canada will rise to 2.75% in 2022. It means the hikes in July and August will be 0.75% and 0.5%, respectively. However, Governor Macklem and his co-members at the BoC might lay off increases should growth and inflation decelerate. If not, the key interest rate could hit 3%.

While new homeowners will feel a significant price correction due to the rate hikes, the repercussions on Canadians will be equally significant. The BoC predicts that monthly payments of mortgage holders in 2020-2021 could jump 45% upon renewal in 2025-2026.

Assuming the hike in July is only 50 basis points, analysts estimate that mortgage payments for all types of mortgages obtained in 2020-2021 would increase by 30%. For Canadians with fixed-rate mortgages, the monthly payments will increase by up to 25% on renewal.

Large mortgages relative to income

Statistics Canada reports that the household credit market debt as a proportion of disposable income dropped to 182.5% from a record 185% in Q4 2021. Still, the BoC worries more about higher mortgage debts than increasing interest rates. The central bank said buyers stretched themselves during the housing boom.

During the housing boom, Canadians obtained mortgage loans when the rates were at historic lows. However, BoC's annual financial system review said many of the households took out mortgages that were large relative to their income. Even with steep price declines, prospective homebuyers might not have enough equity.

Sector performance

On the stock market, the [real estate sector](#) is the third-worst performer after healthcare and technology with its 22.35% year-to-date loss. However, **Slate Grocery** ([TSX:SGR.U](#)) stands out from the rest. At \$14.54 per share, investors enjoy a 3.77% year-to-date gain on top of the 7.51% dividend yield.

The \$894.56 billion real estate investment trust owns and operates of U.S. grocery-anchored real estate in the United States. Because of the resilient and defensive nature of its property portfolio, Slate Grocery can deliver durable cash flows. The share price could also appreciate over the long term.

Similar action

On June 15, 2022, the U.S. Federal Reserve raised its key interest rate by 0.75%. Bank economists say the BoC will most likely take a similar action.

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