Economists: 100% Chance of a Super Rate Hike in 9 Days

Description

Economists don't see the Bank of Canada backtracking on its plan to implement a super rate hike on July 13, 2022. As early as the second installment of the rate-hike campaign in April, Governor Tiff Macklem intimated rapid increases to borrowing costs could follow to tame surging inflation.

After three hikes this year, the central bank's policy rate has risen to 1.5%. Nine days from now, the benchmark could be 2.25% because a 75–basis-point increase looms large. Homebuyers and homeowners are starting to feel the chill from multiple rate hikes. It should also cool housing demand and drive away prospective homebuyers from the real estate market.

Negative impact

The Canadian Real Estate Association (CREA) reports that home sales in May 2022, fell almost 22% from the same month in 2021. Shaun Cathcart, CREA's senior economist, said, "Ultimately this has been expected and forecast for some time, a slowdown to more normal levels of sales activity and a flattening out of prices.

Cathcart added, "What is surprising is how fast we got here." CREA said the continuous rate-hike negatively impacts Canadians with existing mortgages or lining up to obtain one. The association expects a 14.7% decline in home sales in 2022 versus 2021. While it predicts sales to edge back by 2.8% in 2023, CREA said there would be little price relief.

Tougher mortgage stress tests

The Office of the Superintendent of Financial Institutions (OSFI) toughened the mortgage stress test for uninsured mortgages borrowers last month. However, the main financial services regulator is prepared to make changes to the qualifying rules. Ben Gully, deputy superintendent of supervision, confirmed OSFI's readiness to revisiting the stress test level before year-end if conditions change.

Crumbling expectations

Robert Kavcic, a senior economist at BMO Capital Markets, said investors and multiple-property buyers widely expected home prices to keep rising. Unfortunately, their expectations began crumbling since the initial rate hike. For Canadians seeking exposure to the real estate sector, real estate investment trusts (REITs) are profitable investment options.

Instead of owning an investment property, you'd be a pseudo-landlord when purchasing real estate stocks. The dividends from REITs can take the place of rental income. More importantly, you eliminate the headaches related to direct ownership such as maintenance cost, taxes, insurance, and vacancies, among others.

Among the most stable REIT today is **Slate Grocery** (TSX:SGR.U). At only $14.55 per share, investors are up 4.51% and partakes of the hefty 7.65% dividend. A $78,500 position will generate $500.44 in monthly passive income.

This $882.37 million REIT owns and operates grocery-anchored real estate in the United States. Its CEO Blair Welch said the unique defensive nature of grocery real estate can endure all market conditions. In Q1 2022, net operating income increased 38.2% year over year.

Hard swing

Amy Peng, an associate economics professor at Toronto Metropolitan University, is sure that as long as inflation is climbing in the United States, Canada's inflation will rise, too. The U.S. Federal Reserve raised its interest rate by 0.75% recently. Thus, economists expect the BoC to take a hard swing against inflation also with the same percentage hike this month.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:SGR.U (Slate Retail REIT)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. cliew
2. kduncombe

Category

1. Dividend Stocks
2. Investing

Date
2025/07/22
Date Created
2022/07/04
Author
cliew