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Bank of Canada hold means 'suffocating' mortgage payments to stick around

Inflation may be cooling, but burden of high interest rates still weighing on homeowners

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The potential for higher-for-longer rates is particularly acute for those facing mortgage renewals in the near future. PHOTO BY COLE BURSTON/BLOOMBERG

Inflation may be cooling, but the burden of high interest rates is still weighing on homeowners.

That's one of the warnings economists and personal finance experts are giving after the Bank of Canada decided to hold its benchmark interest rate steady at five per cent on Oct. 25.

Mortgage rates in Canada are closely tied to the central bank's policy rate, and a benchmark rate of five per cent means the cost of borrowing remains elevated relative to recent norms.

The potential for higher-for-longer rates is particularly acute for those facing mortgage renewals in the near future — a cohort that includes more than 3.4 million Canadians, according to a recent poll conducted by Royal LePage Real Estate Services Ltd.

Christopher Alexander, the president of real estate firm Remax LLC, said he believes some renewing homeowners will face challenging decisions concerning their primary residences.

"I think people that are renewing, unless they've made substantial down payments towards their principal or they've saved money that they can apply to their principal, they might be forced to make a tough decision on selling their home," Alexander said.

On the plus side, however, he noted that years of low interest rates have given homeowners a chance to pay down a significant portion of the principal on their mortgages, something that has helped avert the "disaster scenario" of mass defaults and a price collapse.

Clay Jarvis, an author at the personal finance website NerdWallet, said that while the Bank of Canada decision would give variable-rate mortgage borrowers certainty on their payments for the next few weeks, the prospect of lower rates was not imminent.

"That means another several months of homeowners trying to budget around suffocating mortgage payments," he said.

The central bank's decision to maintain its key interest rate comes against the backdrop of a cooling trend in inflation, which had been a primary concern in recent months. Canada's inflation rate eased to 3.8 per cent in September, marking a decline from the four per cent recorded in August.

"In Canada, there is growing evidence that past interest rate increases are dampening economic activity and relieving price pressures. Consumption has been subdued, with softer demand for housing, durable goods and many services," the central bank's governing council said in its Oct. 25 statement.

In a recent note to clients, Toronto-Dominion Bank economist Rishi Sondhi underscored the significance of the shift in market balance.

"Lower sales have coincided with a sizeable increase in new listings," Sondhi said. "Indeed, the Canadian sales-to-new-listings ratio has plunged from nearly 70 per cent (indicating very tight conditions) in April to 51 per cent (the softer-side of what's considered balanced) in September. The latter marked the lowest point for the ratio since July of last year."

Alex Leduc, chief executive of the digital mortgage brokerage Perch, said that while it generally requires 12 to 18 months for the full impact of a rate hike to be felt on the economy, the central bank appeared to be close to done hiking rates.

"The hard work is over regarding the slowing of the economy," Leduc said in an email. "With record wage inflation over the last five years, many people will be able to absorb the higher mortgage cost and those that can't have the ability to extend their amortization to make things work."