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‘Stubborn’ fixed mortgage rates might not fall despite Bank of Canada cut

Craig Lord || December 12, 2024

The Bank of Canada’s latest oversized interest rate cut isn’t expected to deliver immediate relief to the Canadian fixed-mortgage market, experts warn.

The central bank delivered a second consecutive half-point drop to its policy rate on Wednesday. After five straight cuts in 2024, the Bank of Canada’s key rate now stands at 3.25 per cent.

Despite the substantial reduction in borrowing costs tied to the central bank’s benchmark rate, BMO senior economist Robert Kavcic warned in a note to clients Thursday that fixed mortgage rates in Canada may have already hit their floor.

While Canadians with variable-rate debt like some mortgages and home-equity lines of credit will have seen an immediate reduction in their rates of interest in line with the Bank of Canada’s 50-basis-point cut, Kavcic warned those shopping for fixed-rate mortgages likely won’t see the same easing.

That’s because fixed-rate mortgages don’t respond directly to the Bank of Canada’s policy rate. Changes in the benchmark rate affect this side of the market indirectly by influencing bond yields, which lenders use as a proxy to price their fixed mortgage offerings.

But amid signals from the Bank of Canada that it’s set to slow the pace of easing in 2025, Kavcic noted that the five-year Government of Canada bond yield — a key driver for popular five-year, fixed-rate mortgages — actually ticked higher on Wednesday.

While economists are widely expecting additional interest rate cuts next year, markets have also already priced in another 50-basis-points of easing by June, Kavcic said.

Unless there’s a sharp change in expectations for the Bank of Canada, he argued there might not be much more “downside” for five-year yields.

By extension, “the low for mortgage rates in a well-behaved economy might already be upon us,” Kavcic said.

Victor Tran, Ratesdotca mortgage and real estate expert, tells Global News that bond yields and fixed-mortgage rates have both been “pretty stubborn” over the past three or four months.

Fixed-mortgage rates have adjusted a bit higher or lower in recent weeks but have largely hovered in the low-to-mid-four-per cent range, Tran says.

Heading into 2025, he expects homebuyers and those with mortgages up for renewal could potentially see rates fall into the high-three-per cent range, but he also warns that lenders are “treading cautiously” right now.

The Bank of Canada on Wednesday highlighted trade uncertainty with the United States — president-elect Donald Trump has floated imposing blanket tariffs on Canada when he takes office — as a major question mark making it difficult to make economic forecasts.

Experts told Global News this week that if the tariffs are ultimately imposed as threatened, the resultant hit to Canada’s economy would force the central bank to cut its policy rate sharply to soften the blow.

Tran says lenders don’t want to make major shifts in their fixed-rate mortgage offerings only to have to backtrack should the U.S. tariffs come to pass and the central bank’s rate path shifts drastically lower.

But with the trend still broadly downward for the Bank of Canada’s policy rate, both Kavcic and Tran noted that the spread between fixed and variable mortgage rates is narrowing in the market.

Variable mortgages, which had been priced higher than their fixed counterparts while the Bank of Canada rapidly raised its policy rate in recent years, have come in closer to some fixed-rate mortgages in recent months.

That’s changed the value proposition for some eyeing the housing market or with a mortgage up for renewal in early 2025, Tran says.

“It’s a little bit more difficult, because now they’re fairly on par,” he says.

“A lot of customers are having difficulty deciding whether just to lock in and have some stability on fixed rates, or go for the variable and hopefully be ahead in the next few months or so.”