The Wright Move

Let's Chat!

What's New - Bank of Canada Hikes Interest Rate: Here's What This Means For You

The bank believes the economy is improving

The Bank of Canada announced it's hiking its key lending rate to 0.75 per cent, from 0.5 per cent. It's the first time in nearly seven years that the central bank has raised borrowing costs for Canadians.

Why did the bank hike rates?

The Bank of Canada is worried about inflation making a comeback in the economy, and hiking interest rates is a proven tool for fighting inflation, which eats away at people's savings and reduces their spending power.

Right now Canada has very little inflation, but the economy has been growing at some of its fastest rates since before the financial crisis, and job growth has been stellar (351,000 jobs added in the past year). This sort of thing is usually followed by inflation, hence the bank's move.

What happens now?

The banks will pass on the higher interest rate to borrowers. If you have a variable-rate mortgage or a home equity line of credit (HELOC), meaning a loan against the value of your home, your interest costs will rise as soon as your lender raises their rates. You will be paying more in interest costs and less towards the principal.

If you have a fixed-rate mortgage, your interest rate won't rise until it's time to renew. At renewal, you may find the mortgage rates offered to you are higher than last time around, and you are facing larger monthly payments.

Will this cause a housing correction?
All eyes will be on the housing market to see how it handles the increased cost of borrowing, but the experts say this 0.25-percentage-point hike isn't big enough to tank the market.

But this likely isn't the last rate hike, and the analyst consensus is for two more hikes before the end of 2018. If that were to happen, some borrowers could start to feel the pinch. So maybe a clever investor would lock in a fixed rate now and buy!

Kind regards,
The Wright Move Team