

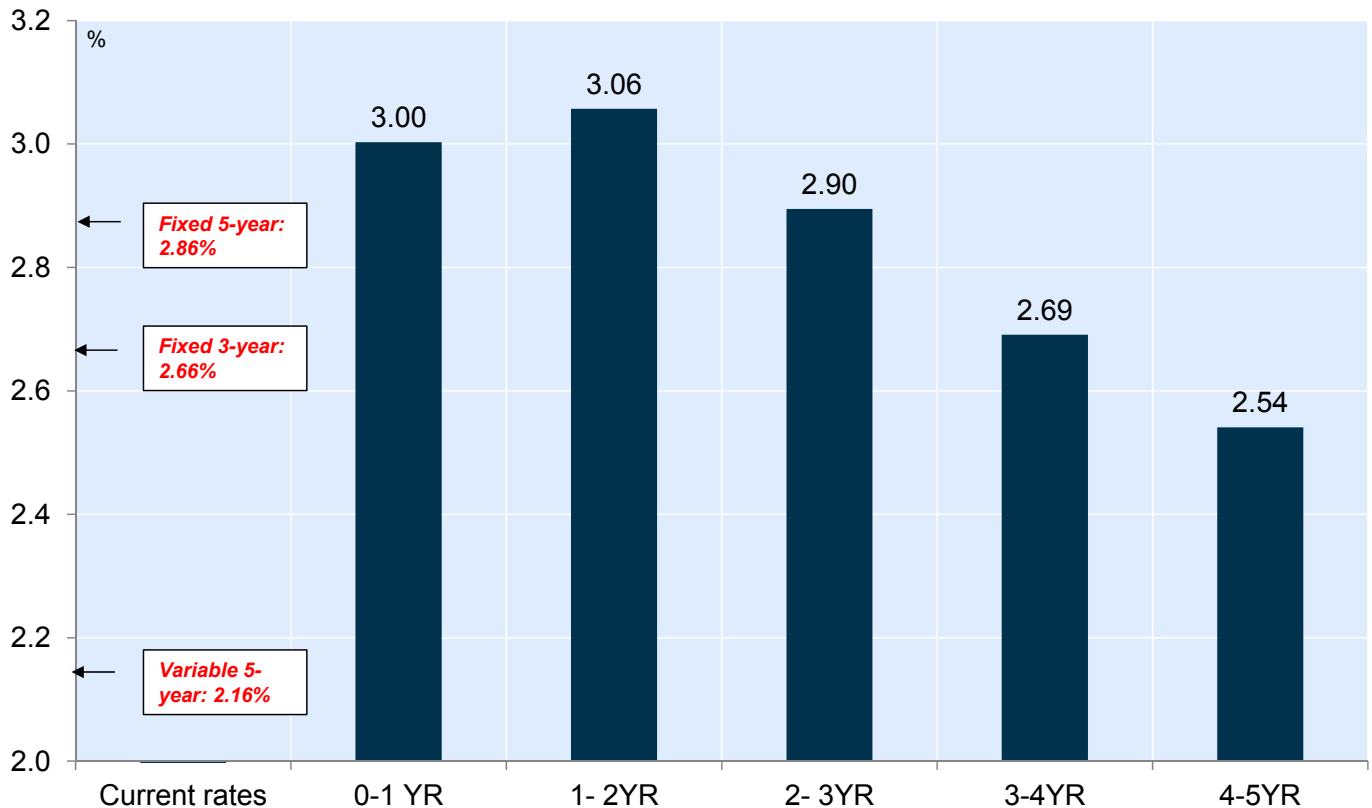
Canada Watch

The Bank of Canada just announced its first interest rate hike in seven years with Mr. Poloz guiding for more increases in the coming quarters. What does this mean for the highly leveraged Canadian households? Is a significant payment shock just around the corner for homeowners? Of course, variable rate mortgage holders will be immediately impacted by the 25 bp rise in the prime lending rate announced by the major commercial banks. However, based on our calculation, this is far from being an economy killer as such an increase represents less than 0.1% of disposable income given the mortgage amount outstanding at variable rates. That being said, in anticipation of the central bank move, other mortgage rates have also been increased. As today's *Hot Chart* shows, despite the rise, current rates remain below the average effective rate on loans coming due over the next two years (we use the readily available NHA mortgage back securities pool as a proxy of the market). In other words, at current level, households that are due to refinance their mortgage would still benefit from lower interest payment. It will take a lot more than a 25 bp increase in the overnight rate to break the Canadian economy.

Matthieu Arseneau

Canada: Is a payment shock just around the corner?

Mortgage rate by remaining term (total NHA MBS) and **current rates for refinancing***



*Available banks

NBF Economics and Strategy (Data from Computershare and lenderspotlight.ca)

Economics and Strategy

Montreal Office

514-879-2529

Stéfane Marion

Chief Economist and Strategist
stefane.marion@nbc.ca

Paul-André Pinsonnault

Senior Fixed Income Economist
paulandre.pinsonnault@nbc.ca

Krishen Rangasamy

Senior Economist
krishen.rangasamy@nbc.ca

Marc Pinsonneault

Senior Economist
marc.pinsonneault@nbc.ca

Matthieu Arseneau

Senior Economist
matthieu.arseneau@nbc.ca

Angelo Katsoras

Geopolitical Analyst
angelo.katsoras@nbc.ca

Kyle Dahms

Economist
kyle.dahms@nbc.ca

Toronto Office

416-869-8598

Warren Lovely

MD, Public Sector Research and Strategy
warren.lovely@nbc.ca

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