Why so many borrowers are ignoring rate hike risk

Robert McLister: Markets are pricing a 70% chance of the first Bank of Canada rate hike landing by December

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Canada's economy bounced back this spring. New StatCan data released Friday suggest second-quarter growth near 3.4 per cent annualized, well above the Bank of Canada's forecast.

Still, temporary boosts (oil market quirks, the Census, the World Cup) and renewed U.S. tariff threats have economists expecting no Bank of Canada rate changes through 2026.

Markets disagree, pricing a 70 per cent chance the first central bank rate hike lands by December.

Either way, none of this is doing anything to stop borrowers from playing variable-rate roulette.

Anecdotal numbers from Canada's biggest mortgage originator, Dominion Lending Centres Inc., show 54 per cent of prime mortgage borrowers opting for a floating rate in July.

The attraction is not exactly mysterious:

- The lowest variable rates (3.40 per cent or less if insured or 3.70 or less if uninsured) are now more than a half percentage point below the lowest fixed rates.
- Economists predict no Bank of Canada hikes for several months (for what that's worth).
- Average core inflation is just 1.85 per cent, below the two per cent target, despite inflationary oil prices, tariffs and AI investment.
- Variables let you lock in at will.
- Breaking one costs just three months' interest — cheap as far as penalties go.

All of this may well be a precursor to Bank of Canada hikes by year-end or in 2027, so risk-averse borrowers should at least weigh a fixed rate or hybrid mortgage (half fixed and half variable), especially if they can find one near or below four per cent.

Fixed deals may get scarcer, however, with the five-year bond yield now creeping toward a two-year high.

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