Brexit and Canadian Mortgage Rates: What's next?

Categories : Real estate investment

United Kingdom's vote to leave the European Union (dubbed 'Brexit') has shocked the world. Frankly, the panic that it has caused has been spreading like wildfire. From David Cameron's sudden resignation, Nigel Farage's condemnation of the EU to the real possibility of EU break-ups, Europe's economy is facing uncertain times. The UK currency, the pound, is losing value. Many are seriously alarmed that the global economy might go through another crisis. Nonetheless, how definite is the threat? And, most importantly, how will Canadian industries, like the mortgage industry, react?

Breakup of the European Union?

The Brexit vote took many by surprise, leaving investors to speculate the very real threats of EU break-ups. The public has been long alarmed by this possibility since the economical crisis in 2008, although EU's leaders have continuously calmed and suppressed the matter through debt pardoning. However, with United Kingdom being the first to publicly declare that it will leave the union, many other countries with weaker economies such as Greece and Spain could soon follow. The EU leaders have soon gathered and pledged to protect the union, but many question (and rightfully so) their commitments now.
With Brexit and the possibility of EU break-ups, capital flights from Europe to Canada might occur. Capital inflow would also reach Canadian mortgage market and could increase mortgage demand and price. A good indicator of a safety-to-flight behavior is to check the rate of safer assets such as the Government of Canada's (GoC) long-term bonds. So far, the GoC 5 years bonds have shown no indication of drastic capital inflow...alas, we just need to keep the EU on the watch to see what's next.

Falling Interest Rates

After Brexit, United Kingdom is looking to hold onto a rock-bottom interest rate at 0.5%. It looks like the United States will choose to delay their interest rate hike, and sticks to a lower interest rate instead. This means, Canada is most likely to follow through with lower interest rate as well. For the mortgage industry, this could indicate a huge impending danger. A lower interest rate encourages spending, which equals to more investment towards the mortgage industry.
The Canadian housing market has been suspected to hold a bubbling economy ? a steady increase in price, waiting for a sharp and sudden fall. In fact, high housing prices have translated into high Canadian household debts. Household debt has increased by 22% in the third quarter of 2015, and unsurprisingly, high-debt households are located in areas with highest home prices. Higher investment caused by low interest rate will not only lead to higher home prices, it could also exacerbate the burst of the bubbling mortgage industry.

Market Volatility

Naturally, following any huge economical decision, the global market will be volatile due to speculation. As previously mentioned, this could mean capital inflow to a relatively stable Canadian financial market. However, global market's downturn and instability could also affect Canadian market's negatively. In this case, Canada will experience short-selling and lower investment rates. This would lead to lower mortgage rates and effectively, cools down the mortgage bubble economy.

The 2008 global crisis was so traumatizing as the world was unprepared. Contrastingly, the global audience, especially Canada, was prepared for Brexit, and so, Canadian investors refuse to go through with a knee-jerk reaction. Thus, Canadian mortgage market has been affected only slightly, if any, by the European market volatility. We are confident in Canadian's investors informed decision, and so, we expect this trend to continue.

So, what's next?

Overall, as Brexit has only occurred last week, it is very hard to make a long-term prediction. Many events are still unfolding and we can only hope for the best. Nonetheless, Canadian mortgage rates have been largely stable and unaffected by the sudden economic shocks and market volatility. If you are looking for more information to rent out a new condominium, feel free to call us at 1-800-610-4510 to see if you are eligible for a rebate of up to $30,000.