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THE MORTGAGE MINUTE
Influencing Factors in Today's Market

Predicting when interest rates will rise has become a Canadian pastime of late. The advent of a Spring election was enough to put those talks on hold for a while, given that the Bank of Canada was certain not to tinker with interest rates in the middle of an election. But this only allowed us to accurately predict the Bank's April decision. With key rate announcements slated for May, July, September and October, there are still plenty of opportunities for the Bank to make its move. The question open for debate is when and how much.

It is clear that Mark Carney and the Bank of Canada are looking for an opportunity to start to raise rates back to what they would perceive to be 'normal' levels after years of 'emergency low' rates. The first trigger the BOC would look to is inflation. The general rule of thumb is that the main role of our central bank is to keep inflation at or below 2%. Based solely on the Canadian domestic market, Canada has enjoyed an excellent economic recovery since the 'great recession' and based on those numbers, we would look for the Bank to start raising rates in July. However, there are three main factors that will influence their decision and play a major role in future rate hikes.

1. Global Uncertainty
Everything from global disasters such as earthquakes to political chaos in Libya will result in a general slowdown in the global economic recovery process. Combine this with ongoing crisis management in Europe and there does not appear to be a quick solution to global uncertainty. No matter how strong Canada is domestically, we are not immune to global circumstances and, as such, will feel the economic fallout of these issues. The result: Ongoing global issues will create a drag on the Canadian economic recovery as a whole.

2. The US Recovery
Canada has come a long ways from the days where 'if the US sneezes, Canada catches a cold' – but not so far as to be unaffected by economic circumstances south of the border. A key point to watch in the upcoming months will be signals that the US have identified the 'bottom' of their market and are showing signs of recovery. A key indicator would be for the Feds to start talking about raising their rates. There is a limitation as to how much Canada's central bank can start to raise their rates without the US moving on theirs. Carney will not want to have too much of a spread, so until we start hearing more positive news out of the States, there will be less pressure for Carney to move here.

3. The Canadian Dollar
The real monkey wrench in this for the Bank of Canada will be a Canadian dollar at or above par. If the Canadian dollar starts to creep above par, it will act as a hindrance on the overall economy. The irony is that by raising rates, the BOC will inadvertently cause upwards pressure on the dollar, which in turn may result in the opposite of what they are trying to create. Combine this with the fact that the US may well hope to pay off a trillion dollars worth of debt with a devalued greenback and I believe the Canadian dollar will create an artificial lid in terms of how high the central bank can raise rates.

We know the Bank of Canada will eventually feel the need to raise rates and many believe that process will begin in July. But July is the start of the summer time, which is a time of year when the market has a natural slowdown. My belief is that the summer months will bring about a natural slowing of the market and there will be no need to push it along with a July rate hike. If the BOC does decide to move on rates in July, it will have a double-whammy effect of further slowing a summer market. I'm not sure this is what they really want, so I'm putting my money on an October rate move instead – but hey – it's the government, so anything is possible.

That's The Mortgage Minute for this month.

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