

June 13, 2009

## Missing the Boat

"I do think that interest rates will rise, I don't think it will happen in the very near future but three, four, five months from now they will be higher. Definitely a year from now they will be higher. And in two years, they could be notably higher."

That's what noted CIBC economist, Benjamin Tal, told the [Globe & Mail](#) yesterday. The Globe's piece questioned whether people have missed the boat on historically-low fixed mortgage rates.

If one had to guess, there's a good chance that boat has indeed sailed. Perhaps we won't see 3.50% on a 5-year fixed again for a decade or more. Albeit, no one really knows.

What we *do* know is that greed can be expensive. Greed makes people wait for rate drops when the trend is clearly up. Greed makes people want something better when today's rates are absolutely fantastic on a historical basis.

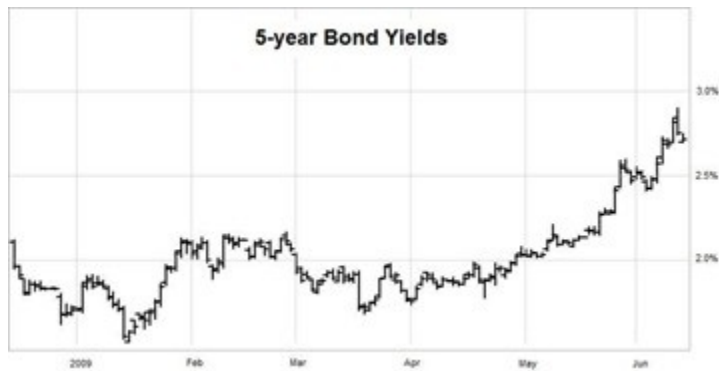
A 5-year fixed mortgage can be had nationally for around 4.35% right now. That's 1.85% below the average 5-year fixed rate over the last 18 years. (The average is 6.20%, based on 1.5% off posted rates.)



Today's 4.35% is therefore not a bad boat to catch, especially given the rate risk out there. If the economy rebounds and/or federal budget deficits persist and/or inflation runs up to 3%, five-year fixed rates could easily rise towards their long-term median. It could take a few years, but it's nonetheless a real possibility. (Click on the above chart to expand it. It shows how rates can easily rise 2% in a typical cycle.)

Given that risk, and given the bargain rates available today, nervous Nellies should keep a tight leash on things.

If you want (or need) to lock in, keep watching 5-year bond yields. If they close above 2.90-3.00%, fixed mortgage rates may rise again.



If bond yields do not break above this level, and there are no new credit market shocks, long-term fixed mortgage rates will probably stay where they are or drift lower.

That's what it all comes down to in the short-term. Mind you, there's also the long-term to think about. In the long-term, the bond market is full of headfakes and predicting interest rates long-term is like forecasting the temperature of Christmas 2010. There's also a host of other factors to consider, like your current mortgage terms and financial situation. This is where good professional advice pays off.

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**Sidebar:** The first chart above plots rates back to 1991. 1991 was a key turning point in monetary policy because the [Bank of Canada](#) adopted explicit targets for inflation reduction. Since then, rates have been on a long-term downtrend. Some people like to include the 1980's in rate comparisons but doing that is rather dubious. Most economist would argue that the catalysts for 80's-style 20%+ interest rates no longer exist. Therefore, we've decided not to inflate our average interest rates with 80's data and skew the comparison.