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Bank of Canada's latest rate hike changes 'landscape' for Calgary homebuyers

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The Bank of Canada has raised interest rates by another 75 basis points, with further hikes likely.

The latest jump brings the interest rate to 3.25 per cent, up a full three percentage points since the beginning of the year, the fastest rate of increase since the mid-1990s and the highest in Canada since 2008.

Alberta's annual inflation rate dropped from 8.4 per cent to 7.4 per cent in July, which is still the highest the province has seen in a generation.

In the rate announcement, the Bank of Canada says global inflation remains high while the Canadian economy continues to operate in "excess demand."

The central bank says rates will need to rise further to bring inflation to its two per cent target.

The higher interest rate has been successful in lowering real estate prices in Toronto and Vancouver, but hasn't had significant effect in Calgary.

It is the latest attempt by the central bank to slow runaway inflation.

Charles St.-Arnaud, chief economist for Alberta Central, says that while inflation has begun to cool, it is mainly due to the drop in gasoline prices.

"The Bank of Canada will really look more broadly at what's happening in terms of the impact on consumers," he said. "We're not seeing yet convincing signs that . . . inflation, including food and energy, is finally peaking."

St-Arnaud expects the rate to increase by as much as another 50 basis points by the end of this year.

The market has also been buoyed by a continued migration of people from Toronto to Calgary in search of more affordable housing.

Dares said most people who bought a home in the past five years should be OK due to stress tests put in place by the federal government to ensure buyers can withstand an increase to the prime lending rate.

But the higher interest rate could hit those looking at renegotiating their mortgage rate. She said a one-per-cent increase in the prime rate equals roughly a 10-per-cent increase in mortgage payments. Over the course of 2022, that increase is about 30 per cent.

Car sales also continue to struggle, but this is more an issue of supply than impact from interest rates. Jim Gillespie, executive manager for the Calgary Motor Dealers Association, said just about every car that arrives on a lot is already sold or will be soon.

There have been supply-chain issues all along the production line, but the biggest challenge is with computer chips. He expects such challenges to persist for at least another year without any more interruptions from COVID.

The supply chain issues continue to drive up the cost of cars, and rising interest rates are beginning to affect first-time buyers, even those purchasing a used car.

"Some of those folks maybe can't afford the new monthly payment as they continue to climb," said Gillespie. "It's hard to nail it down to just interest rate hikes because the supply chain is such a disaster right now."

Sarah Stachiw, a public relations and communications specialist at Bromwich and Smith, reported an increase in the number of people coming through their doors looking for help from insolvency trustees in Calgary.

She said this has been building over the past three years, but between rising inflation and interest rates in 2022, the cost of living is up about $400 per month.

The problem is complicated by those with high debt levels, noting the average Canadian has $1.86 worth of debt for every dollar of disposable income. Insolvencies across Canada were 19.1 per cent higher in July 2022 than the year before.

"Our clients are scared," she said. "They don't know what the future has to hold and they know that they're in a bad situation when they come to us. So we're there to try and support them through this and to let them know that there are choices."

She said there is no shame in seeking help, and the sooner people reach out for a free consultation from an accredited insolvency trustee the easier it is to deal with the issues.

— *With files from The Canadian Press*

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