Market View
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Riding the Canadian mortgage wave

By Taylor Schleich

Remember Canada's economy 5 years ago? Pandemic anxiety was acute, the jobless rate was >10%, inflation was non-existent and an average home cost just $565K. Of course, these conditions didn't last long as the economy rebounded quickly and inflation spiked. Housing activity also surged, leading to record mortgage origination and pushing house prices (way) up. The effects of this are still echoing today…

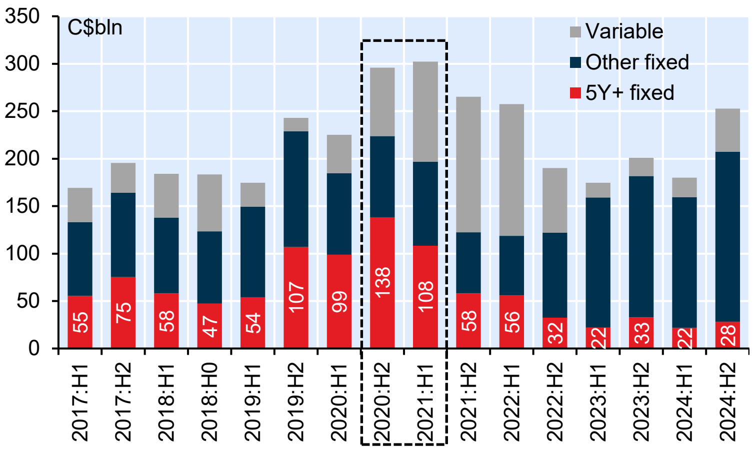
Back then, the most popular mortgage product were those with a 5-year term and a (very low) fixed rate. These are now coming due, creating a ripple effect in the mortgage market. The leading edge of this is already evident but expect accelerating origination over the next year (even if resale activity remains subdued). We're not concerned from a payment shock perspective as *most* mortgages are already strapped with post-COVID rates but there are key implications for the swap market.

After 225 bps of BoC cuts, variable rates have become more attractive and nearly 40% of origination this year has gone that route. Can this trend continue? Moderating rate cut expectations say 'no' but rising bond yields say 'yes'. Ultimately, we see a larger-than-normal share of mortgages opting for variable but not to the degree seen in early 2022.

While demand for variable could remain elevated, the sheer volume of refinancing will lead to more fixed-rate origination, meaning more swap *paying*. Unlike during COVID though, volumes and market share should be less concentrated in the 5-year sector. That's because Canadians have increasingly opted for shorter term fixed rate mortgages (e.g., 3-years), presumably hoping for a return to pre-COVID rates. If recent trends persist, we'll see record origination volumes in this bucket which is where the support for swap spreads may be most pronounced.

Chart 1: Incoming ripple effect of COVID era mortgages…

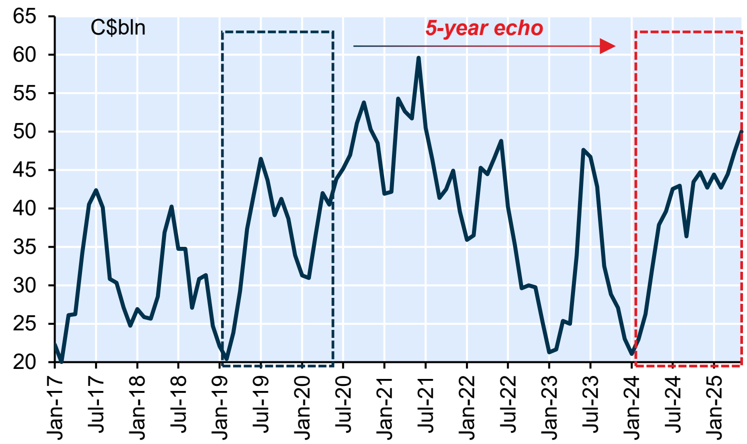
Mortgage origination by type/term and half-year bucket



Source: NBC, BoC

Chart 2: …with the leading edge now evident

Aggregate monthly Canadian mortgage origination

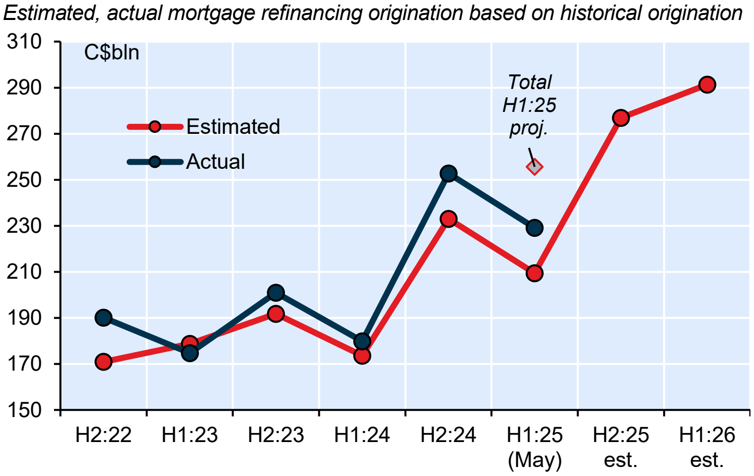


Source: NBC, BoC

Mortgage origination hit a record high in the second half of 2020 (only to be immediately outdone by the first half of 2021). Back then, the 5-year term was the most popular product and those are now coming up for renewal. Even though resale housing activity has been weak in 2025, mortgage origination has been picking up reflecting the pick-up 5 years earlier. That will soon accelerate…

Chart 3: Origination to climb further over the coming year

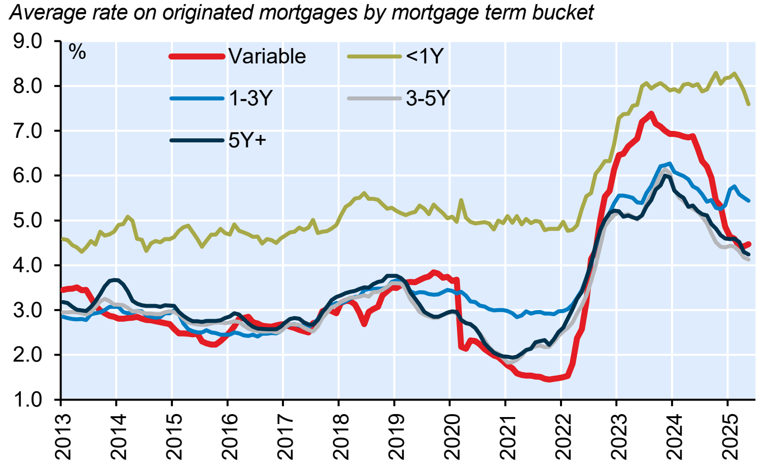
Estimated, actual mortgage refinancing origination based on historical origination



Source: NBC, Note: H1:25 is 5 months thru May. Estimates based entirely on past origination.

Chart 4: BoC cuts made the fixed-variable choice tougher…

Average rate on originated mortgages by mortgage term bucket

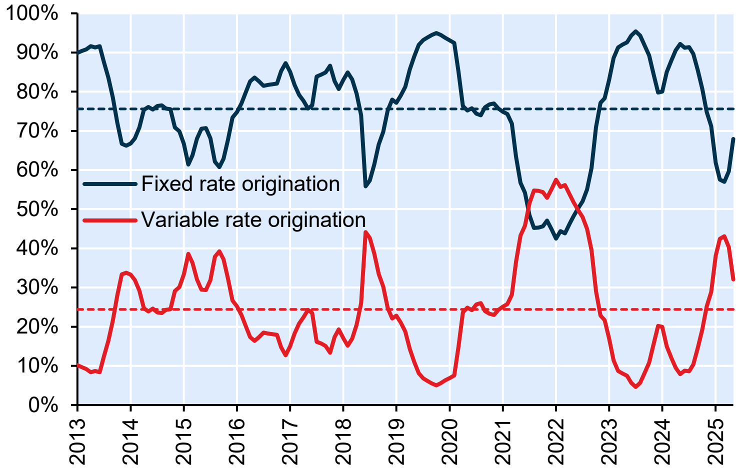


Source: NBC, BoC | Note: Every non-variable bucket is fixed rate only

While an admittedly imperfect method, we can use *historical* origination to ballpark *future* origination. In the last few years, when new housing activity was relatively subdued, this method worked reasonably well to estimate mortgage activity. Looking ahead, this 'model' implies origination is set to pick up considerably as mortgages from the COVID housing boom roll over. Note that the pick is coming even if the primary/secondary markets stay sluggish. Those refinancing will have to a difficult decision between fixed and variable after 225 of BoC easing has equalized relative pricing…

Chart 5: Canadians increasingly opting for variable in 2025…

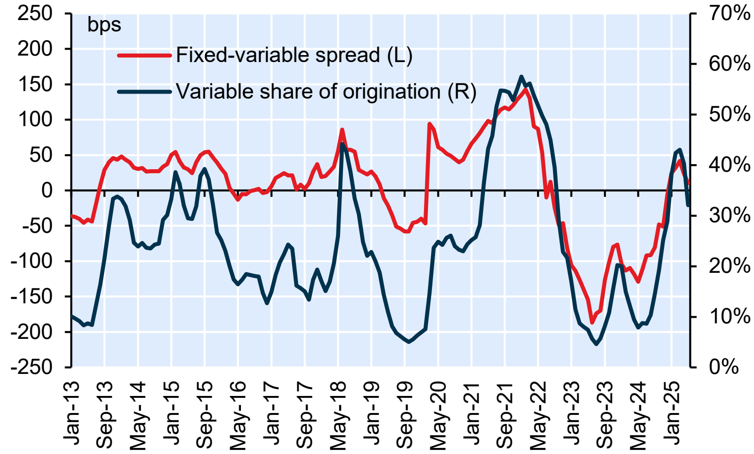
Share of mortgage origination with fixed and variable rates



Source: NBC, BoC | Note: Dotted line reflects historical average

Chart 6: …consistent with past behaviour

Spread between fixed and variable mortgage rate vs. variable share of origination

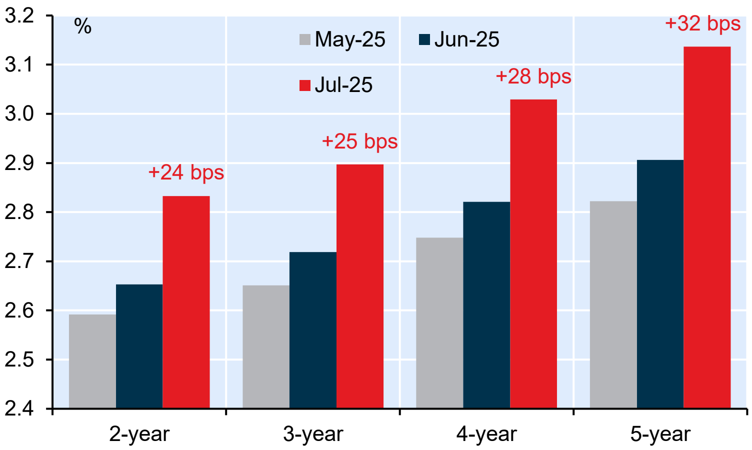


Source: NBC, BoC | Note: Fixed rate used is a weighted average of each bucket.

A year ago, 90%+ were opting for fixed given restrictive BoC policy. That's changed in 2025 as >1/3rd of origination has been of the variable variety, more than that historical average. There's a well-established correlation between relative fixed and variable rates and the type of mortgage Canadians opt for. When variable is relatively high (low), Canadians go fixed (variable).

Chart 7: Recent yield rise should make fixed less appealing

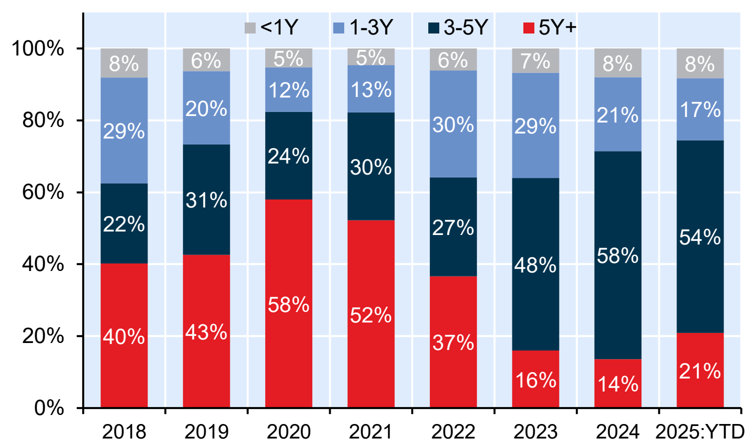
GoC bond yields by month, term



Source: NBC, Bloomberg | Note: May, Jun yields are monthly averages; July is as of 15-Jul.

Chart 8: Within fixed bucket, preferences shift to sub-5-year

Share of fixed rate origination by term bucket

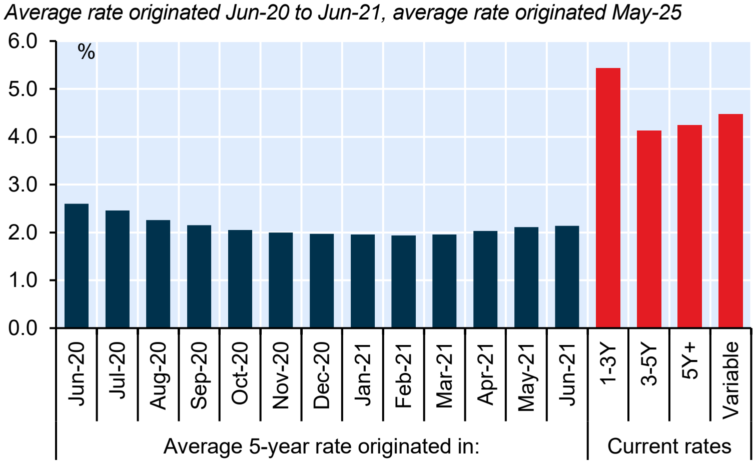


Source: NBC, BoC | Note: Variable origination not included

Moderating BoC rate cut expectations weaken the case for variable but fixed rates will likely rise given the recent bond market repricing. So, the variable origination share may not go back >50%, but they're likely to stay above average. Within the fixed bucket, Canadians no longer favour 5-year mortgages like they did in 2020-21. Instead, shorter-term (3-5Y) mortgages have been preferred.

Chart 9: There's a rate shock to come for *some* households…

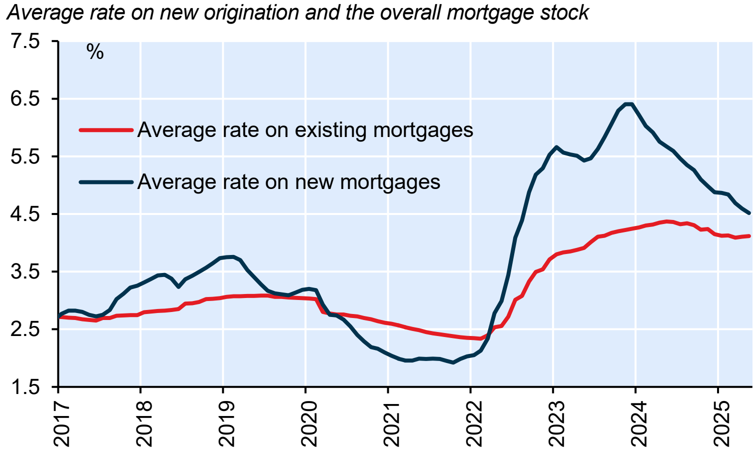
Average rate originated Jun-20 to Jun-21, average rate originated May-25



Source: NBC, BoC | Note: "Current rates" are average rate originated in May (latest data).

Chart 10: …but *most* have already taken on post-COVID rates

Average rate on new origination and the overall mortgage stock



Source: NBC, BoC

Households who took on fixed rate mortgages in 2020-21 will be in for a payment shock upon renewal as prevailing rates are ~200 basis points higher than during the pandemic. However, *most* mortgage holders have already had their payments reset so we don't see this presenting a massive macroeconomic risk.

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