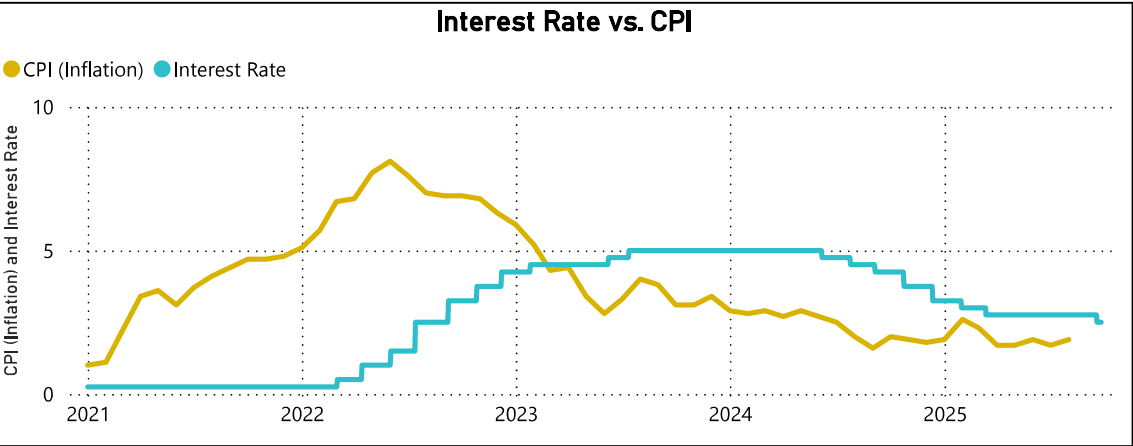


Assessing the Impact of Canada's Interest Rate Cuts (2021–2025)

Canada's Inflation and Interest Response (2021-2025)

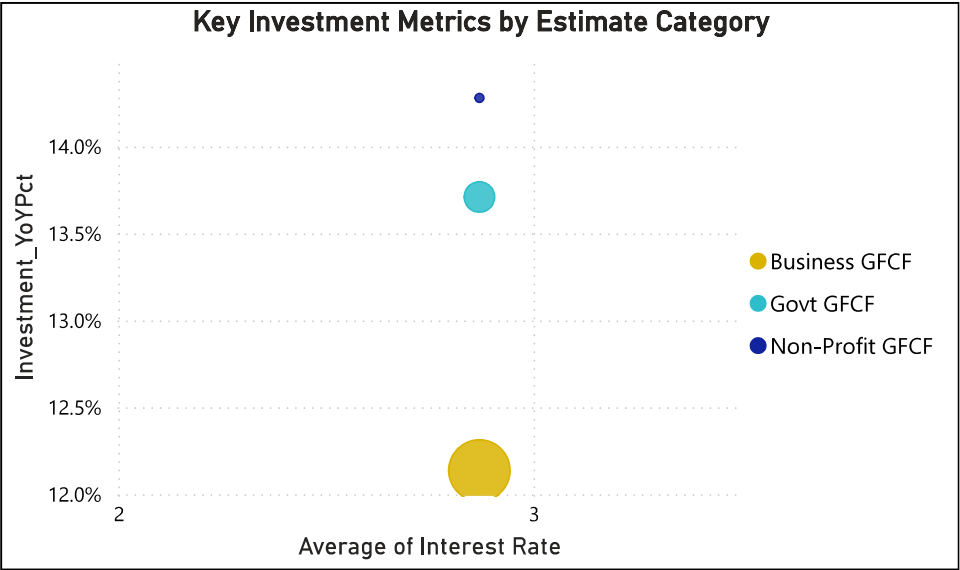
Inflation in Canada began rising steadily in early 2021, driven by global supply chain disruptions and surging energy prices. It reached a peak of **8.1% in June 2022**, marking the highest level in decade. In response, the **Bank of Canada launched a series of interest rate hikes**, beginning in the **first quarter of 2022**. These increases continued until **July 2023**, when the policy rate reached **5.0%**, its highest point during the cycle. By early 2023, CPI was still elevated around 5%, but continued to fall through 2024. The Bank helped to stabilize inflation expectations. This contributed to a gradual decline in inflation, which fell below **3.0% in late 2024 and reached 1.7% by April 2025**. The easing of inflationary pressure allowed the Bank of Canada to cut interest rate to **2.50% by September 2025**.



Sources:
Inflation rate - Bank of Canada, <https://www.bankofcanada.ca/rates/indicators/capacity-and-inflation-pressures/inflation/>
Consumer Price Index (CPI) - <https://www.bankofcanada.ca/rates/indicators/capacity-and-inflation-pressures/inflation/>

Year

All

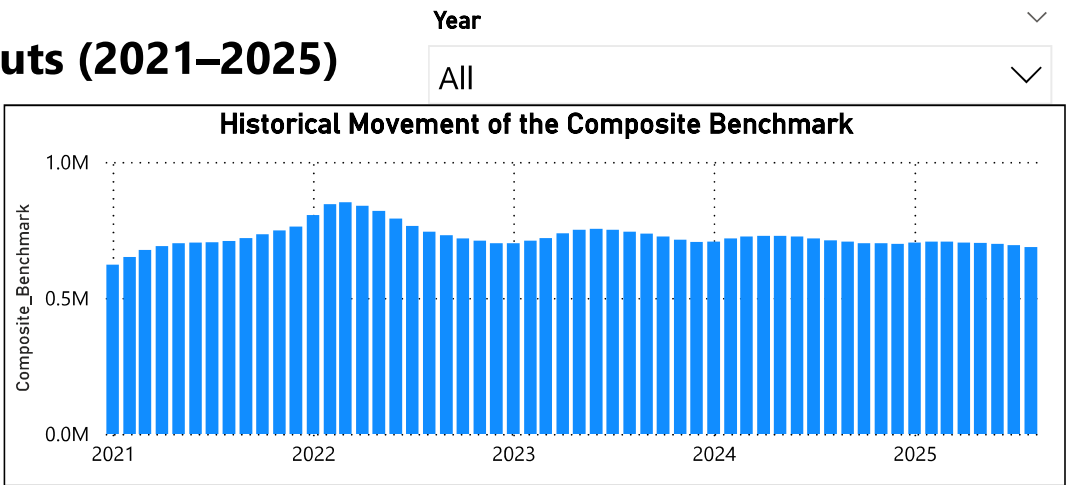
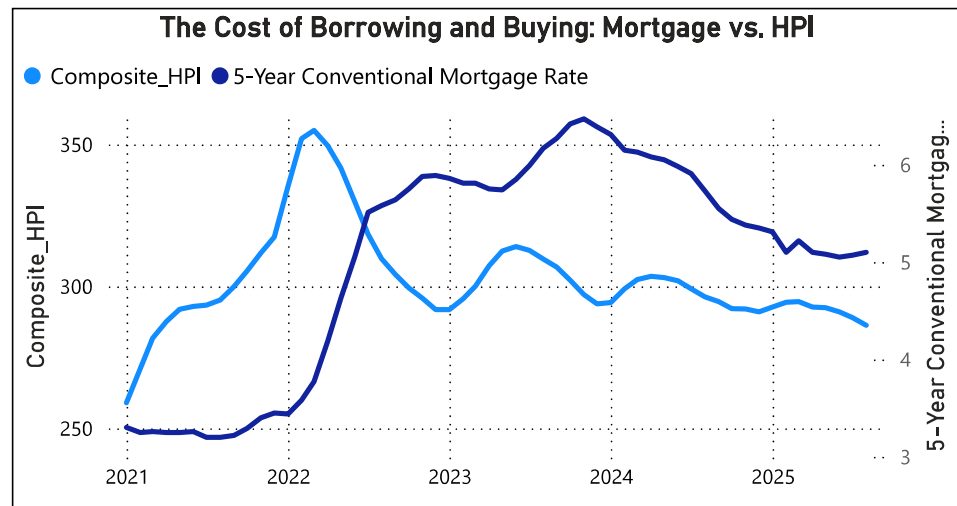
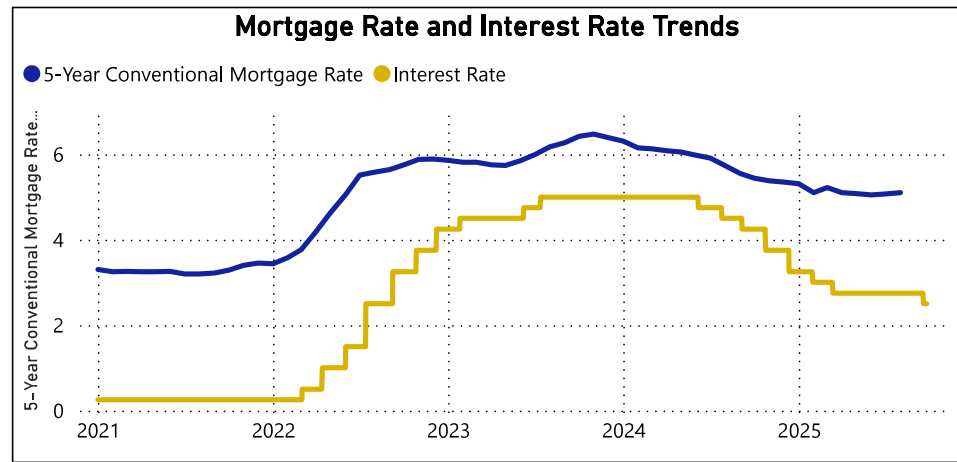


Canada GFCF Trends by Sector

- **Business:** Largest share, but weak performance. Down 1.38% in 2024; early 2025 shows a sharp drop (–50%), based on partial data.
- **Government:** Second largest, with steady growth. Up 7.34% in 2024; preliminary 2025 data shows –49.1%.
- **Non-Profit:** Smallest share, fastest growth. Rose 8.76% in 2024; early 2025 suggests –48.5%.

Note: 2025 data reflects only Q1 and Q2 and may not represent full-year trends.

Assessing the Impact of Canada's Interest Rate Cuts (2021–2025)



Canada's Housing Market Response to Interest Rate Shifts (2021-2025)

In response to rising interest rate, mortgage rate increased accordingly, peaking at **6.47% in mid-July 2024**, which coincided with the Bank of Canada highest policy rate of **5.00%** earlier this year. As a central Bank starting cutting rates in the second half of 2024, mortgage rates also started to decline, reaching **3.79% by September 2025**.

The **Composite Home Price Index (HPI)** surged in the first quarter of 2022, surpassing its historical record of **355 points**. At the same time, the mortgage rate was relatively low at **3.77%**, supported by the Bank of Canada's policy rate of just **0.50%**. This low rate environment, combined with **inflation reaching 6.7% in March 2022**, fueled strong housing demand and led to rapid price growth across all property types.

By **March 2022**, the **Composite Benchmark Price** exceeded **\$851,600**, making a peak in Canada's housing market. Following the rise in mortgage rate throughout 2022 and 2023, home prices began to soften slightly, reflecting reduced affordability and cooling demand. By late **August 2025**, the **Composite Benchmark** had yet to recover to its peak levels seen in 2021.

Sources:

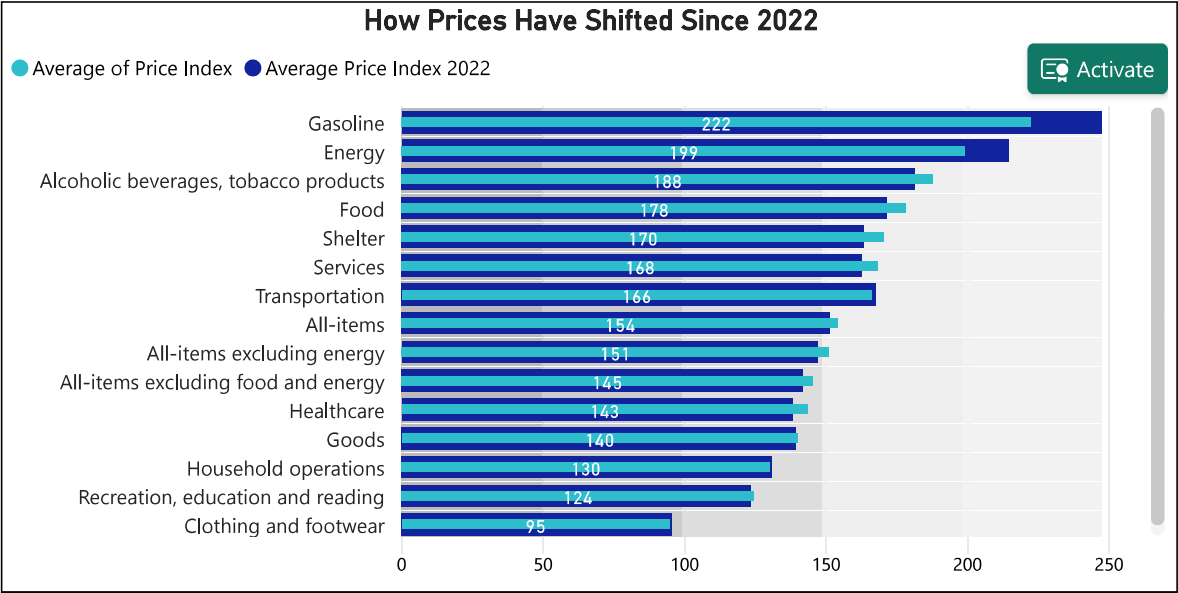
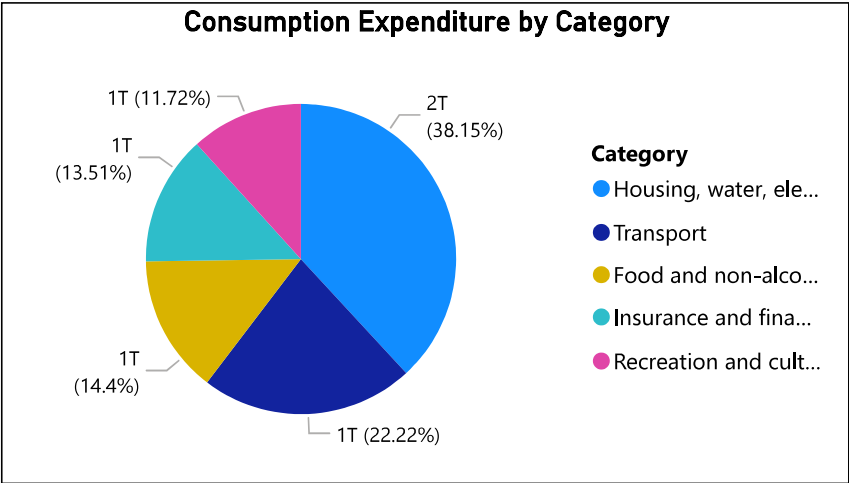
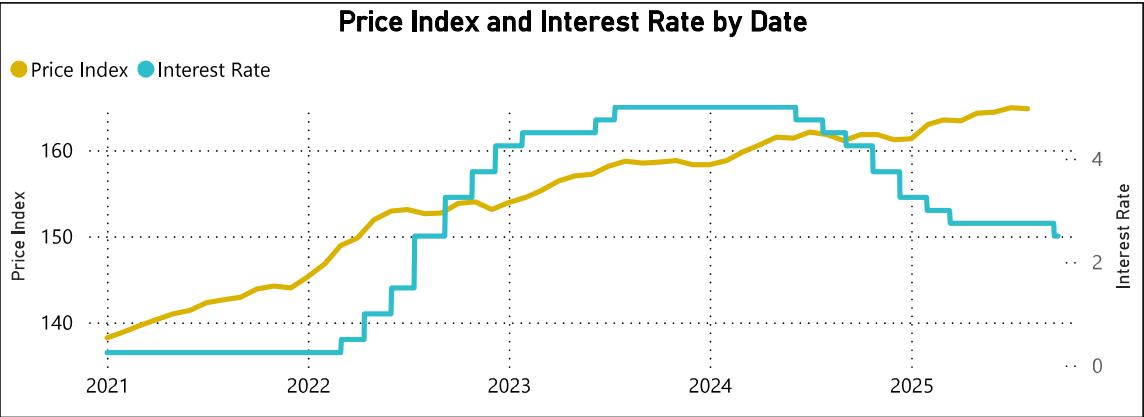
Mortgage rate - Statistics Canada – Household Consumption Expenditure

Home price Index - THE CANADIAN REAL ESTATE ASSOCIATION,

Assessing the Impact of Canada's Interest Rate Cuts (2021–2025)

Year

All



Overall, although interest rate began to decline in the third quarter of 2025, the Consumers Price Index (CPI), continued to rise despite lower inflation levels. This suggests a delayed affect of monetary easing, as prices may still be influenced by earlier demand surge, cost pressure, and ongoing market uncertainty. Compared to 2021, all categories of goods were significantly more expensive in 2022. In 2023, nearly every category saw further price increases, with the exception of gasoline and energy. This upward trend has persisted through August 2025. Housing remains the largest category of consumers expenditures, followed by transportation and food. Rising prices in these essentials areas continue to place financial strain on households, especially those who were struggling to afford basic necessities.

Data Source - Statistics Canada