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## Rates headed to all-time low

**More interest-slashing likely from Bank of Canada**

**Eric Beauchesne, Canwest News Service**

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OTTAWA -- The Canadian economy is going down hard and so are interest rates, to their lowest levels in half a century, and for one key rate for consumers and businesses, the lowest level ever.

The Bank of Canada, finally conceding that the Canadian economy is "entering a recession," slashed its trend-setting rate by a surprisingly steep three-quarters of a point to 1.5 per cent, leaving the cost of overnight loans to the banking system at their lowest level in 50 years.

The cut, which was a quarter point more than expected, was also the steepest since the three-quarter-point cut that followed 9/11.

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And it triggered a smaller, but still significant, half-point cut in the commercial banks' prime rates to what is an all-time low of 3.5 per cent for the blue-chip borrowing rate to which floating rate consumer and business loans, including mortgages, are directly tied.

But new poll results suggest consumers themselves may be reluctant to borrow more money regardless on how low rates go.

"Canadians are generally pessimistic about the economy and the outlook for the next six months," pollster Nik Nanos said, citing November survey results showing that the percentage who expect the economy to get worse has increased to 57 per cent from 37 per cent three months earlier.

The proportion who say they are worse off financially this year than last has increased to 32 per cent this quarter from 28 per cent in the previous quarter and is double the 16 per cent from a year ago.

The rate cuts, meanwhile, failed to boost markets, with Bay Street's benchmark S&P/TSX falling 169.5 points, although that was less than the more than 242-point retreat by Wall Street's bluechip Dow Jones Industrial Average. Here, the impact of the rate cuts on the mood of investors was offset by another retreat in prices for most commodities, including oil, which fell \$1.64 US to \$42.07 US a barrel, and the grim Bank of Canada's warning.

"The outlook for the world economy has deteriorated significantly and the global recession will be broader and deeper than previously anticipated," the central bank said. "Global financial markets remain severely strained.

"While Canada's economy evolved largely as expected during the summer and early autumn, it is now entering a recession as a result of the weakness in global economic activity," it added, noting that the plunge in prices for commodities that Canada exports, weakness in real income growth and lack of confidence are prompting more cautious behaviour by households and businesses.

But the central bank hasn't finished cutting rates, analyst predicted.

"Unless there is an amazing turnaround in sentiment and the economy in the weeks ahead, look for another potential [half-point] of easing by the bank early in 2009, ultimately taking the overnight rate down to one per cent," projected BMO Capital Markets economist Douglas Porter.

The size of the latest rate cut, plus the weakness in oil prices, knocked the dollar down two-thirds of a cent to 79.08 cents US. However, the central bank suggested it was prepared to live with the deeply devalued currency.

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