

Bank of Canada makes deep cut

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OTTAWA — The Bank of Canada has dramatically cut its key interest rate by a hefty three-quarters of a percentage point, blaming a “broader and deeper” global slowdown for driving Canada into recession.

The central bank's overnight lending rate now stands at 1.50 per cent, a generational low and the likes of which have not been seen since the 1950s.

The first moves by Canada's major banks in response to the central bank move came from Toronto-Dominion Bank and then Canadian Imperial Bank of Commerce, which cut their prime lending rates by only half a percentage point, to 3.5 per cent, rather than following with a full three-quarters of a point reduction.

Canada's central bank joins a host of other central banks in making larger-than-usual rate cuts as their economies quickly fall victim to a stunning slowdown in global demand, led by a deeply troubled U.S. economy.

“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,” the bank said in its first clear-cut declaration of a country in recession.

Economists had expected a somewhat smaller half-percentage-point cut, although markets were factoring in the larger cut delivered by the bank Tuesday.

The last time the Bank of Canada cut its key rate so deeply was in the panic following the terrorist attacks of September 2001.

This time, the global recession and lower commodity prices are choking off the amount of money flowing into the country and undermining confidence, prompting consumers and businesses to have second thoughts about spending, the bank said.

The bank warned that global conditions are getting worse.

“The outlook for the world economy has deteriorated significantly and the global recession will be broader and deeper than previously anticipated.”

Financial markets around the world are still “severely strained,” the bank noted, and even though governments are doing what they can to thaw the freeze in credit, “it will take some time before conditions in financial markets normalize.”

Global growth should eventually benefit from rate cuts and fiscal stimulus around the world, the bank noted.

The bank did not say when it anticipates an end to the Canadian recession. But it said that the depreciation of the dollar and slowly improving credit conditions should help.

Most economists figure the Canadian economy will contract for at least two consecutive quarters, and many peg the recession dragging on longer than that – a sentiment bolstered by the loss of 71,000 jobs in November.

Still, the Bank of Canada did not make any promises for future rate cuts. Rather, the bank pointed out that it has now cut rates by 1 1/2 percentage points in the past two months, and indicated it will keep an eye on developments to decide whether more cuts are needed.

“The bank will continue to monitor carefully economic and financial developments in judging to what extent further monetary stimulus will be required to achieve the 2 per cent inflation target over the medium term,” the statement said.

Rising inflation is no longer an obstacle to more rate cuts, economists say, and the bank also signaled that its own outlook is for a lower rate of inflation than forecast just six weeks ago.

The central bank's key rate is normally a benchmark for other rates of lending to households and businesses. However, those lending rates have not come down as steeply as the central bank's rate over the past year and a half, because of the global credit crisis.