



## Canada to Cut Rates to Historic Lows, Economists Say (Update1)

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By Doug Alexander and Theophilos Argitis

Jan. 7 (Bloomberg) -- Bank of Canada Governor **Mark Carney** will cut interest rates to historic lows this year to combat the country's first recession in 17 years, according to economists from the biggest Canadian lenders.

Carney will lower his key rate to as low as 0.5 percent, CIBC World Markets Senior Economist **Avery Shenfeld** and Bank of Nova Scotia Chief Economist **Warren Jestin** said today after a panel discussion at the Economic Club of Toronto. Toronto-Dominion Bank economists also revised their outlook, calling for overnight rates of a half percent by March.

The central bank slashed borrowing costs to a half-century low of 1.5 percent last month, **higher** than the U.S. rate of between zero and 0.25 percent. The U.S. Federal Reserve has made deeper cuts as it seeks to combat the longest recession in a quarter-century.

"The Bank of Canada has been aggressively cutting interest rates and has more to do," Shenfeld said at a press conference that also included Jestin, **Craig Wright** of the Royal Bank of Canada, Bank of Montreal's **Sherry Cooper** and Toronto-Dominion's **Don Drummond**.

While Wright expects a half percentage point cut at the Bank of Canada's next decision on Jan. 20, Royal Bank's chief economist predicted interest rates will "bottom" there at 1 percent.

### Economy Slowing

The world's eighth-biggest economy is slowing amid tight credit conditions for businesses, slumping shipments of cars and lumber to the U.S., and lower prices for exported commodities such as oil. Gross domestic product will shrink 0.4 percent this year and generate the country's first budget deficit in more than a decade, Finance Minister **Jim Flaherty** said last month.

Still, interest rates don't need to go down to the Fed's level, Shenfeld said, because the Canadian economy will benefit from fiscal stimulus packages and a weaker currency.

Carney on Dec. 9 lowered his key **interest rate** by a quarter of a point, saying he would likely take more action amid slowing growth and inflation.

"We lagged the U.S. a little" on rate cuts, Scotiabank's Jestin said. "We're going to be playing catch-up."

The record low for Canada's key rate was 1.12 percent in 1958, at a time when it was based on treasury yields rather than actions by policy makers.

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