Intelligence MEMOS

From: Steve Ambler, Jeremy Kronick, and Farah Omran

To: Canadians Concerned about Government Debt

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Re: **When Can We Say the Recession is Over?**

The art of calling the start and finish of economic recessions might seem a trivial pastime, but it is critical to understanding how policy decisions can affect the economy.

This is normally a judicious exercise, with business cycle analysts waiting for a sufficient accumulation of data before they feel comfortable issuing even a nuanced declaration on whether the economy has reached key points in a cycle.

The sheer depth and size of the economic losses stemming from the COVID-19 lockdowns, however, did not leave room for doubt. The C.D. Howe Institute's Business Cycle Council was able to **declare** by May 1 that Canada had entered a recession in the first quarter of 2020, and the business cycle peaked in February.

As Canada exits lockdowns, and the economy starts to turn a corner, can we say we have exited the recession? This is a much more difficult question in the current context, but worth investigating, notwithstanding much uncertainty over potential second waves and possible public health and business responses.

Canadian output fell off a cliff with the onset of COVID-19, with GDP falling more than 18 percent between the end of February and the end of April.

As Canada flattened the curve and lockdowns were eased, employment and output turned sharply in May and June. Output grew by 4.5 percent in May from the low April point, and by 5 percent in June. These are historically strong rates of growth, but they still left GDP about 10 percent lower than its February peak. If growth remains positive, the trough of the recession (and its official end) will have occurred in April.

How long must growth remain positive before we can officially declare the end of the recession?

The potential for a second wave of the pandemic and a new round of lockdowns, as we are seeing in a number of countries, makes this hard to foresee. Growth could be thrown into reverse again, and create a double-dip recession. A downturn that occurs before GDP returns to its pre-recession peak is **commonly** seen as part of the same recession.

How long is it likely to take Canadian GDP to return to February levels? Even without a second wave, the Bank of Canada and the research departments of the major banks say not until around the end of 2021. This 20-month period (May 2020 to December 2021) would be the longest recovery from a recession in Canadian economic history other than the recovery from the Great Depression.

The reasons for the slow pace of the recovery have to do with the high degree of uncertainty concerning the future course of the pandemic. As it might flare again, businesses are going to be hesitant to invest, households will continue to delay purchasing big-ticket items, and already battered sectors – restaurant, travel, tourism and live entertainment – will face more challenges.

If the recovery is so weak that growth turns negative late in 2021, before GDP gets back to its February 2020 peak, business cycle analysts will have to make a call about whether to label it a new recession or part of the old one.

The good news is that the recovery is underway and, if sustained, this recession will be the shortest on record – two months from peak to trough. Policymakers should begin thinking of ways of sustaining the recovery rather than focusing only on measures meant to bridge people and businesses through the crisis – while keeping at the back of their minds the real possibility of economic backtracking.

People have faced many hardships as a result of the **deepest** recession since the Second World War in terms of the fall in GDP from peak to trough. Understanding where we sit in the business cycle is important for policymakers as they navigate an uncertain recovery. The news lately has been encouraging. Let's do our best to ensure it stays that way.

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