

August 24, 2021

## **Business Cycle Council Communique: C.D. Howe Business Cycle Council Declares an End to the COVID-19 Recession**

The C.D. Howe Institute Business Cycle Council decided on August 9 to declare an end to the recession that began in March 2020. The Council judges that the recovery from the recession is now prolonged and sustained enough to declare that the trough of the recession occurred in April 2020, making this the shortest and deepest recession since the Great Depression that began in 1929.

The Council, the main arbiter of business cycle dates in Canada, had opted to wait for updated data on GDP and employment at its last meeting June 8.

It typically meets annually, but also when economic conditions indicate the possibility of entry to, or exit from, a recession. The Council, co-chaired by Steve Ambler and Jeremy Kronick, is comprised of Canada's preeminent economists active in the field. Members of the Council participate in their personal capacities, and the views collectively expressed do not represent those of any institution or client.

In March and April 2020, there were unprecedented falls in economic activity. April GDP was 17.7 percent below its level in February 2020. The Council [declared](#) on May 1, 2020, that Canada entered a recession in the first quarter of 2020, with February 2020 marking the peak of the previous business cycle expansion.

Since May 2020, Canada has experienced broad economic growth, both in terms of real GDP and employment. The growth in GDP was uninterrupted until a two-month decline in April and May 2021. However, the June 2021 flash estimate indicates a resumption of growth with a 0.7 percent rebound, which would put second-quarter GDP growth at 0.6 percent (or 2.5 percent at an annualized rate). Growth has also been broad-based, with the C.D. Howe Institute's diffusion index above 65 in each quarter since, and including, Q3 2020. This indicates a broad preponderance of sectors of the economy expanding versus in decline.

Employment growth has not been quite as steady due to several rounds of lockdowns in different provinces. After increasing steadily from May 2020 through November 2020, employment decreased



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in December 2020 and January 2021, and then fell again in April and May of this year. This bracketed robust increases between the two drawdowns and in the most recent two months of June and July.

Entering and exiting a recession implies a change in the direction of economic activity, not its level. But the depth of this recession, and the fact that its proximate cause – COVID-19 – had not subsided, meant Council members wanted to see a more sustained recovery at its [December](#) meeting before calling an end to the recession. Though not quite back to February 2020 levels, both real GDP and total employment are stronger today than they were in December. The economy is growing, and this growth is broadly based, with the diffusion index 66.7 for Q1 2021, our most recent data point.

As a result of this sustained recovery, with the exception of one member, Council voted to judge any future pronounced, pervasive, and persistent economic downturn to be a new recession rather than a continuation of the recession that began in March 2020. The peak of the previous business cycle occurred in February 2020 and the trough of the recession occurred in April 2020.

The dissenting member felt that if a downturn were to occur in the near term due to the Delta variant, he would still consider that to be the same recession. His vote was to delay the call.

The Council noted, lastly, that the downturn in March and April 2020 was the biggest decrease in output since the Great Depression. Despite this, the duration of the downturn was the shortest of any recession in the C.D. Howe's chronology of recessions, which begins with the onset of the Great Depression in 1929.

## Members of the C.D. Howe Institute Business Cycle Council

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**Steve Ambler**, Co-Chair, Professor, Université du Québec à Montréal; David Dodge Chair in Monetary Policy Council, C.D. Howe Institute.

**Jeremy Kronick**, Co-Chair, Associate Director, Research, C.D. Howe Institute.

**Ted Carmichael**, Founding Partner, Ted Carmichael Global Macro.

**Philip Cross**, Former Chief Economic Analyst, Statistics Canada.

**Stephen Gordon**, Professor of Economics, Université Laval.

**Eric Lascelles**, Chief Economist, RBC Global Asset Management.

**Stefane Marion**, Vice President & Chief Economist, National Bank of Canada.

**Angelo Melino**, Professor of Economics, University of Toronto.