

December 21, 2016

Evidence Mounts that 2015 Downturn Was No Recession

Statement from the C.D. Howe Institute's Business Cycle Council

The C.D. Howe Institute's Business Cycle Council met on Tuesday 13 December to review its assessments of Canadian business cycle dates following the most recent revisions to Gross Domestic Product (GDP) data. The Council determined that it is not possible to call the first two quarters of 2015 a recession. While GDP contracted in both Q1 and Q2 2015, the downturn was restricted to only a few industries, and national employment expanded over this period.

The C.D. Howe Institute Business Cycle Council, chaired by Steve Ambler, is an arbiter of business cycle dates in Canada. The Council meets on an annual basis, or as warranted when economic conditions indicate the possibility of entry to, or exit from, a recession. The Council also acts as a conduit for research aimed at deepening understanding of how the economy evolves and to provide relevant information to decision makers.

In deciding on the occurrence and timing of a recession, the Council looks at three dimensions: duration, amplitude, and scope: how widespread a downturn is. The most recent revised data suggest that GDP contracted in both Q1 and Q2 2015, by 0.2 percent and 0.1 percent, before rebounding in Q3. A member highlighted, though, that Gross Domestic Income (GDI) continued to fall. However, employment increased by 0.2 percent in both quarters, implying, if any, a Category 1 recession, the weakest category. One Council member pointed out that this was the same scenario faced in 1980 when the Council called a Category 1 recession.¹ However, most Council members were not ready to make a similar call for 2015 as the C.D. Howe Institute's diffusion index registered above 50 in both Q1 and Q2, implying that the mild contraction in GDP was not widespread, in contrast to 1980.

Members of the Council pointed out that further GDP revisions are possible. Re-benchmarked numbers are not published until three years after the quarter in question. However, Council members judged that revisions at the industry level were unlikely to move the diffusion index decisively. Therefore, Council members determined that it was appropriate to conclude that subject to major changes to industry-specific GDP data, the first two quarters of 2015 cannot be characterized as a recession.

¹ A Category 1 recession has a mild drop in GDP and no decline in employment. At the other extreme, Category 5 recessions involve rapid contractions over an extended period of time. See the Cross and Bergevin (2012) C.D. Howe Commentary *Turning Points: Business Cycles in Canada since 1926* for more detail.

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Table 1: 2014Q1-2016Q2 Business Cycle Indicators

	Real GDP		Employment	Diffusion Index
	Quarterly	2-Quarter Total		
	<i>Percent Change, quarter over quarter</i>			
2014 :Q1	0.1	1.0	0.1	58.7
:Q2	1.1	1.2	0.0	61.4
:Q3	0.4	1.5	0.2	54.5
:Q4	0.7	1.1	0.4	59.7
2015 :Q1	-0.2	0.4	0.2	55.8
:Q2	-0.1	-0.4	0.2	55.4
:Q3	0.5	0.4	0.2	52.5
:Q4	0.1	0.6	0.2	61.4
2016 :Q1	0.6	0.7	0.1	61.6
:Q2	-0.4	0.3	0.2	56.4

Note: GDP growth rates are the average of the rates for expenditure-based GDP and for value-added by industry. Two-quarter totals refer to the six months preceding the end of the quarter indicated.

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

Members of the Council participate in their personal capacities, and the views collectively expressed do not represent those of any individual, institution or client.

Chair: Steven Ambler, Professor, Université du Québec à Montréal.

Paul Beaudry, Professor, Economics, University of British Columbia.

Edward A. Carmichael, Founding Partner, Ted Carmichael Global Macro.

Philip Cross, Former Chief Economic Analyst, Statistics Canada.

Stephen Gordon, Professor, Laval University.

Jeremy Kronick, Senior Policy Analyst, C.D. Howe Institute.

Eric Lascelles, Chief Economist, RBC Global Asset Management.

Stéfane Marion, Vice President & Chief Economist, National Bank Financial.

Angelo Melino, Professor of Economics, University of Toronto.

Angela Redish, Provost and Vice President Academic (pro tem), University of British Columbia.*

Daniel Schwanen, Vice President of Research, C.D. Howe Institute.

* Not in attendance, December, 13, 2016.



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