

December 2017

The C.D. Howe Institute's Business Cycle Council met on Wednesday December 13 to review its assessments of Canadian business cycle dates.

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 developing a deeper understanding of how the economy evolves and to provide guidance to policymakers.

The Council defines a recession as a pronounced, persistent, and pervasive decline in aggregate economic activity. In deciding on the occurrence and timing of a recession, the Council looks at three dimensions: by how much economic activity has declined, how long the decline lasted, and how broadly this decline was felt across economic sectors. The Council also adopts a classification system that allows grouping recessions according to their severity from Category 1, the mildest, to Category 5, the most severe.

Two significant data events occurred following our last meeting in December 2016. First, Statistics Canada expanded the expenditure-based GDP time series – previously ending in 1981 - back to the first quarter of 1961. This longer time series affects recession dating pre-1981 as the Council's analysis incorporates, wherever possible, both expenditure-based and industry-based GDP.

Second, the release of the 2017 third quarter GDP numbers contained revisions to both expenditure-based and industry-based GDP for recent years. On the former, revisions were for the period Q1 2014 to Q3 2017. On the latter, revisions began in January 2013 and went to September 2017. This Communique highlights three relevant determinations to our recession dating based on these two data events.

Prior to this most recent meeting, the Business Cycle Council had characterized the 1974-75 recession as having lasted for only one quarter: Q1 1975. However, in light of additional evidence, the Council has now decided to add Q4 1974 as an additional recessionary quarter. The additional historical data on expenditure-based GDP changed the quarterly GDP growth in Q4 1974 from +0.2 to -0.2 percent, and the two-quarter total growth from +0.3 to -0.2 percent. Additionally, the industry-based GDP data indicated the downturn was widespread in that quarter, with a diffusion index below 50, at 46.5. Monthly data support October 1974 as the new peak in economic activity preceding the recession. The trough remains March 1975.



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The Council's view of the 1980 recession was also affected by the new data. Before the expansion of the expenditure-based GDP time series, GDP growth was 0.0 percent in Q1 1980 and -0.2 percent in Q2 1980, with a two-quarter total of -0.3 percent. However, the additional data led to GDP growth of +0.3 percent in Q1 1980, -0.1 percent in Q2 1980, and thus most importantly, a positive two quarter total of +0.2 percent. This lesser duration, combined with positive national employment data, makes this period, previously assessed as a mild Category 1 recession, now a near miss. The Council, therefore, has removed the Q1 and Q2 1980 recession from its chronology.

Lastly, the revisions to both expenditure-based and industry-based GDP did not change the Council's view on the 2015 downturn. Members of the Council pointed out that further GDP revisions are possible for 2015, with the release of 2015 tax data in 2018 having the potential to cause the largest update to the 2015 numbers. While GDP contracted in both Q1 and Q2 2015 – the revisions caused a small change in the fall in Q1 GDP growth from -0.2 to -0.3 percent, with the fall in Q2 growth remaining -0.1 percent - the downturn was restricted to only a few industries, and this is unlikely to change with future revisions. As a result, Council members determined that, absent major changes to industry-specific GDP data, the first two quarters of 2015 can still not be characterized as a recession.