

December 17, 2019

The C.D. Howe Institute's Business Cycle Council met on December 11, 2019 to review its assessments of Canadian business cycle dates.

The C.D. Howe Institute Business Cycle Council, co-chaired by Steve Ambler and Jeremy Kronick, 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. It looks at both GDP and employment as its main measures of economic activity. To measure the breadth of an economic contraction it uses a diffusion index developed at the Institute.

Statistics Canada performed its annual revision of the Canadian System of Macroeconomic Accounts in November, 2019. Two issues in particular led to revisions going back to 1961. First, the 2018 legalization of cannabis in Canada, and second, improvements in international travel surveys, as well as new data on education-related travel.

The Council reviewed the revisions and determined no changes to its recession dates were warranted.

Two other issues were discussed at this year's meeting. First, the Council reviewed the Business Cycle Council methodology to examine whether it should remove any reference to recession categories, which group recessions according to their severity from Category 1, the mildest, to Category 5, the most severe. The alternative to a complete removal of the categories was refining the definitions to better reflect our use of pervasiveness in recession determination.

In a close vote, the Council decided by majority to refine the category definitions.

Those voting for a complete removal argued that the categories lead to confusion, and create hard and fast rules, whereas the Council is meant to use judgement; critical when metrics often contradict each other.



December 21, 2018

Those voting in favour of this approach argued that once pervasiveness was added to the definitions, there ought to be no confusion, with the new definition continuing to allow for Council judgement. Council members wishing to refine pointed out that the categories are not intended to determine whether Canada is in recession; they provide qualitative discussions on severity once the determination has been made.

One other issue addressed by the Council was whether the third quarter 1992 should be included as a recessionary quarter at the end of the early 1990s recession. One member brought to the group's attention that the fall in total employment extended into Q3 1992. In an almost unanimous vote, however, the Council determined that due to robust economic growth in this quarter, Q3 1992 should not be included as a recessionary quarter. However, the Council did decide to change the month of the trough for the early 1990s recession from April to May 1992, given the fall in industry GDP at 1992 constant prices.