



June 5, 2026

## BUSINESS CYCLE COUNCIL

### **Too Early to Call a Recession: Business Cycle Council Urges Caution on Latest GDP Data**

On May 29, Statistics Canada released preliminary data on Canada's gross domestic product (GDP) for the first quarter of 2026. Real GDP declined<sup>1</sup> slightly (0.04 percent), following a 0.25 percent drop in the last quarter of 2025. This has prompted debate over whether the Canadian economy has entered a recession.

In Canada, the C.D. Howe Institute's Business Cycle Council (BCC) is widely recognized as the country's recession-dating authority, performing a role similar to that of the National Bureau of Economic Research in the United States. The BCC does not accept the definition of a "technical recession" (two consecutive quarters of falling GDP) as the true measure of a recession. Under the BCC's methodology, outlined in its December 2017 framework document,<sup>2</sup> a recession is a pronounced, persistent, and pervasive decline in real economic activity.

The Council does not follow hard-and-fast rules on these dimensions, instead relying on several guidelines in making our recession determinations. First, a decline in aggregate economic activity lasting at least one quarter is a necessary minimum for a recession. If a shock or slowdown does not lead to at least one quarter of outright decline, it has not produced the sequence of cutbacks typically associated with a business cycle downturn. Furthermore, "a quarterly drop in the economy, particularly if it is of low amplitude, would need to be validated by accompanying weakness in contiguous quarters, but not necessarily by outright decline. This specification implies a net contraction, or at least stagnation, in the economy over a two-quarter period."

GDP estimates are also subject to revision.<sup>3</sup> The mean absolute revision to GDP growth for the 2022-2024 period was 0.14 percentage points. The largest revision was 0.20 percentage points in 2024. Future revisions could easily overturn the slight downturn in the first quarter.

The two-quarter drop in GDP (0.28 percent) was of very low amplitude compared with any recession previously declared by the Business Cycle Council. The cumulative drop in GDP in the 1974-75 recession was 1.1 percent. In the four subsequent Canadian recessions, the cumulative declines were

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1 Statistics Canada. 2026. "Gross Domestic Product, Expenditure-Based, Canada, Quarterly." Table 36-10-0104-01. <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=3610010401>.

2 C.D. Howe Institute Business Cycle Council. 2017. "Business Cycle Council Methodology." Council Report. Toronto: C.D. Howe Institute. December 20. <https://cdhowe.org/publication/business-cycle-council-methodology/>.

3 Statistics Canada. 2025. "The 2022 to 2024 Revisions of the Income and Expenditure Accounts." Latest Developments in the Canadian Economic Accounts (13-605-X). <https://www150.statcan.gc.ca/n1/pub/13-605-x/2025001/article/00004-eng.htm>.

much larger: 5.3 percent in 1981-82; 3.4 percent in 1990-92; 4.4 percent in 2008-09; and 12.7 percent in 2020 (the shortest recession in Canadian history and the deepest since the Great Depression).

Cumulative GDP growth over the last four quarters was -0.05 percent. With GDP in the third quarter of 2025 growing by 0.47 percent, the criterion of accompanying weakness in contiguous quarters is not satisfied.

Nor is the criterion of a pervasive decline in economic activity met, as GDP increased in more than half of the sectors in each of the first three months of 2026.

Other economic indicators also do not support a recession call at this time. Although real GDP fell in the fourth quarter of 2025, the average unemployment rate<sup>4</sup> improved from 7 percent in the third quarter to 6.8 percent in the fourth quarter when GDP increased. It improved further to 6.6 percent in the first quarter of 2026.

Employment growth shows a similar picture. Total employment<sup>5</sup> grew in the fourth quarter of 2025 and declined in the first quarter of this year, for a net change of just -0.15 percent between October 2025 and March 2026.

For all these reasons, the Council judges that it is too early to conclude that the Canadian economy is in recession.

The upcoming review of the Canada-United States-Mexico Agreement (CUSMA) continues to be a cause for concern for economic growth in the next few quarters. The Council is monitoring developments closely and stands ready to meet to discuss a recession call if GDP and employment continue to show signs of strain across a broad range of sectors.

Statistics Canada will release its next quarterly GDP-by-expenditure report, covering the second quarter of 2026, on August 28.

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4 Trading Economics. 2026. "Canada Unemployment Rate." May. <https://tradingeconomics.com/canada/unemployment-rate>.

5 Statistics Canada. 2026. "Labour Force Characteristics, Monthly, Seasonally Adjusted and Trend-Cycle." Table 14-10-0287-01. <https://www150.statcan.gc.ca/t1/tb11/en/tv.action?pid=1410028701>.