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Intelligence MEMOS

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From: Steve Ambler and Jeremy M. Kronick

To: Recession Watchers

Re: DON'T BE TOO QUICK TO CALL A RECESSION

On May 29, Statistics Canada released preliminary estimates of Canada's gross domestic product (GDP) for the first quarter of 2026. Real GDP **declined** 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. Quite a few press headlines proclaimed that Canada is now in a "technical recession."

However, we would strongly urge caution before jumping to such a conclusion.

The term "technical recession" is frequently used by news outlets to refer to two quarters of declining GDP. The adjective "technical" seems designed to convey an imprimatur of official endorsement.

The etymology of the term goes back to a New York Times **oped** in 1974 from Julius Shiskin, the ninth Commissioner of the Bureau of Labor Statistics. The piece refers to the US National Bureau of Economic Research (NBER)'s qualitative definition of a recession. It mentions the two-quarter criterion, but also gives several other more stringent criteria:

"A rough translation of the bureau's qualitative, definition of a recession into a quantitative one, that almost anyone can use, might run like this: In terms of duration – declines in real GNP for two consecutive quarters; a decline in industrial production over a six-month period. In terms of depth – a 1.5-percent decline in real GNP; a 15-percent decline in nonagricultural employment; a two-point rise in unemployment to a level of at least 6 percent. In terms of diffusion – a decline in nonagricultural employment in more than 75 per cent of industries, as measured over six-month spans, for six months or longer."

The C.D. Howe Institute's Business Cycle Council (BCC) and the NBER use a similarly deeper set of criteria than two quarters of falling GDP before declaring a recession. Declines must satisfy the "three Ps": they must be pronounced, persistent and pervasive (affecting a broad range of sectors of the economy).

The Canadian economy does not meet these more stringent criteria.

The decline in GDP in the first quarter is very small, much smaller than the 1.5 percent suggested by Shiskin. Problematically, when a change in GDP is small in an absolute sense, it is not hard for the sign to flip from negative to positive, or vice-versa, because estimates published by Statistics Canada are preliminary and are always subject to **revision**.

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 and could conceivably even reverse the contraction in the fourth quarter of 2025 with an exceptionally large upward revision (of course they could go the other way too).

The two-quarter drop in GDP (0.28 percent) was also of very low amplitude compared with any recession previously declared by the BCC. The cumulative drop in GDP in the 1974-75 recession was 1.1 percent. In the four subsequent Canadian recessions, the cumulative declines were 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 Covid-rampant 2020 (the shortest recession in Canadian history and the deepest since the Great Depression).

As an example of the BCC's process at work, there was a two-quarter decline in GDP in 2015. The cumulative decline over the two quarters was a little more than 0.8 percent. That decline was caused primarily by a sharp fall in world oil prices, which hurt resource industries even as it reduced costs for energy-intensive sectors. Therefore, the decline was not widespread across sectors. Because of revisions to the GDP estimates by Statistics Canada, the BCC did not reach a final decision, which was that the decline did not qualify as a recession, until December 2018.

Returning to the current situation, to satisfy the persistence criterion, there should be signs of weak growth in contiguous quarters. GDP in the third quarter of 2025 increased by 0.47 percent. Statistics Canada also published an advance estimate of monthly GDP growth by industry in April: 0.4 percent. The criterion of accompanying weakness in contiguous quarters is therefore not satisfied.

The C.D. Howe Institute calculates a diffusion index, which broadly indicates the number of sectors in the economy with expanding output relative to the number of sectors whose output is contracting. The three-month moving average of the index was well above 50 in March, meaning more expanding sectors than contracting sectors. This means that Canada's economic downturn is not pervasive.

For these reasons, the BCC's **communiqué** last week concluded it is too early to call a recession.

This does not mean that Canada's economic situation is sunshine and roses. In fact, it is not.

Employment growth has been very weak or negative since the beginning of the year. Business investment has struggled since Donald Trump took office, and is below where it was in Q4 2024, the quarter before his administration began. Investment in residential structures fell by 2 percent in the first quarter. The upcoming review of the Canada-United States-Mexico Agreement is a cause for concern.

But the word "recession" needs to be used with care. It means something different than saying the economy is weak or sluggish. We may, indeed, get to the point where we are in a recession when all is said and done given the existing headwinds, but we aren't there yet. And, we'd urge caution in the meantime.

Since May 29, some have jumped on "technical recession" to further the narrative of economic weakness. It would be possible to do so based on solid economic data, but relying on hasty claims about an economic recession can only weaken the argument.

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