WEEKLY COMMENTARY

Recession, or Not Recession? Is That the Right Question?

By Randall Bartlett, Deputy Chief Economist

At Desjardins Economic Studies, our members and clients often ask: Will the chaos of President Trump's on-again, off-again tariff threats push Canada's economy into a recession? It's a reasonable question, but we're not sure it's the right one.

First, recessions are binary outcomes. An economic downturn either is or is not a recession. To be considered a recession, real GDP needs to contract for at least two consecutive quarters. But the economic weakness also needs to be felt broadly throughout the economy. That's why, for instance, the CD Howe Institute's Business Cycle Council didn't label the negative real GDP growth prints at the beginning of 2015 as a recession. They argued that the economic shock from a sharp drop in oil prices was concentrated in too small a number of industries to be a recession, as important as those industries are to the Canadian economy. The same is true of the three consecutive quarterly declines in Quebec's real GDP in late 2023, when a series of one-off shocks combined with strikes to briefly pull economic activity lower.

Second, the reasons for the economic downturn are likely to be the same, regardless of whether or not the Canadian economy experiences an official recession in 2025. The real question is one of magnitude. Tariffs are being increasingly applied to US imports from Canada, albeit through a haphazard and unpredictable process. This constant uncertainty has raised significant concerns among US companies and will likely persuade them to increasingly seek out domestic suppliers to meet their needs. That will weigh on Canadian exports. To avoid whatever tariffs may ultimately come to pass, some businesses operating in both countries may also shift some of their planned Canadian capital expenditures to the US, exacerbating the drag on business investment resulting from reduced external demand. With exports and business investment likely to be on a lower growth track going forward, hiring can also be expected to slow, weighing on Canadian consumers. Retaliatory tariffs will then make these circumstances even more difficult by increasing the price of goods imported from the US and pushing up inflation. And that's on top of the preexisting domestic headwinds to consumption growth coming from slower population gains and an uptick in mortgage renewals at higher interest rates. Taken together, Canada is likely to experience broad-based economic malaise for the foreseeable future, whether or not the Canadian economy gets officially labelled as having a recession.

Could Canada experience two consecutive quarters of negative real GDP growth in 2025? Quite easily. Will that qualify as a recession? Quite possibly. But regardless, Canada's economy is likely to enter a period of protracted economic weakness as US economic policy holds back trade, investment, job creation and growth here at home.

So, what can be done to offset this drag originating from south of the border? Canadian policymakers need to have a relentless focus on reducing the barriers to Canada's economic success. Cutting the cost of private investment and streamlining regulations would be a good start, as would leveraging Canada's comparative advantages as a resource-rich Western democracy. It also means bringing down internal trade barriers. We've seen a lot of talk about this so far but not much action, save for some joint press releases. That needs to change. Companies are going to need to look further afield to new markets for their products as well. But that's easier said than done, and companies can't be expected to turn to new customers and suppliers on a dime. Government support will need to be made available to bridge that gap. This includes through increased lending by

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Crown corporations like the Export Development Canada and the Business Development Bank of Canada. Recently announced federal measures, such as the $5B Trade Impact Program, are a step in the right direction. Ramping up public infrastructure investment will also be paramount to facilitating resurgent domestic and international trade. However, it would be a mistake to think the impending economic malaise is going to require the same support that was rolled out during the pandemic. That economic downturn was sharp and short. This one is likely to be shallow but sustained, causing a structural dent in economic activity. The policy response should fit the nature of the shock.

What to Watch For

UNITED STATES

MONDAY March 17 - 8:30

February	m/m
Consensus	0.7%
Desjardins	0.5%
January	**-0.9%**

Retail sales (February) – Total retail sales were down 0.9% in January, their sharpest month-over-month decline since March 2023. We expect to see a better performance in February. One of the main causes of the January rout was the drop in motor vehicle sales, but we already know that new vehicle sales picked up in February. In addition, activity probably also accelerated in some of the sectors that underperformed at the start of the year due mainly to colder weather. That said, lacklustre credit card transaction data has tempered hopes for a very strong rebound. All in all, we expect a 0.5% increase in total sales and a 0.2% gain in sales excluding motor vehicles and gasoline.

TUESDAY March 18 - 8:30

February	ann. rate
Consensus	1,375,000
Desjardins	1,375,000
January	**1,366,000**

Housing starts (February) – In January, housing starts took their biggest step back since the same month in 2024. But just like last year, there's a chance we could see a strong rebound in February. On the one hand, last month's milder weather may have helped, though it's possible that heavy precipitation caused further slowdowns in some regions. On the other hand, employment growth in residential construction wasn't very strong, and hours worked actually declined in February. We anticipate an improvement in housing starts, albeit a modest one.

TUESDAY March 18 - 9:15

February	m/m
Consensus	0.2%
Desjardins	0.2%
January	**0.5%**

Industrial production (February) – Industrial production managed to post gains in January, as energy production rose sharply and automobile manufacturing fell. These two factors probably played opposite roles in February. A sizeable jump in hours worked in the automotive industry likely gave the manufacturing sector a boost. Despite concerns surrounding US trade policy, the relatively good performance by the ISM Manufacturing index also provided some support. We're forecasting a 0.6% gain in manufacturing. However, the mining sector probably stagnated, and energy production likely took a serious hit as milder weather led to decreased energy demands. All told, we expect that industrial production edged up 0.2%.

WEDNESDAY March 19 - 14:00

March	
Consensus	4.50%
Desjardins	4.50%
January 29	**4.50%**

Federal Reserve meeting (March) – Federal Reserve (Fed) officials have been sitting tight since January. They opted to leave rates unchanged at the first meeting of the year and will almost certainly do the same when they meet on March 19. Central bank officials have made this intention quite clear in recent speeches and communications. While they've acknowledged the changing economic climate and market volatility, they don't feel the need to rush into action. A week ago, Jerome Powell stated, "We do not need to be in a hurry and are well positioned to wait for greater clarity." That being said, it will be interesting to see what the Fed's statement will say about the current situation and whether the Trump administration's tariff policy will factor into the Fed's growth and inflation forecasts. Mr. Powell is sure to say more about the US central bank's views during his press conference.

THURSDAY March 20 - 10:00

February	m/m
Consensus	-0.3%
Desjardins	-0.2%
January	**-0.3%**

Leading indicator (February) – The leading indicator likely retreated another 0.2% in February. We expect that the main detractors were weaker consumer confidence, a decline in the Manufacturing ISM index's new orders component and an increase in unemployment claims. The leading indicator recorded increases in November and December, but that trend seems to have been short-lived.

THURSDAY March 20 - 10:00

February	ann. rate
Consensus	3,940,000
Desjardins	3,910,000
January	**4,080,000**

Existing home sales (February) – In January, existing home sales fell 4.9%, in what was the first monthly decline since September 2024 and the steepest nosedive since November 2022, when the market was hurt by surging mortgage rates. We believe that sales slowed again in February. That's the signal sent by the 4.6% decline in pending sales, the pullback in preliminary regional data on sales and the slide in mortgage applications for home purchases. Annualized sales will probably fall below 4 million units.

CANADA

MONDAY March 17 - 8:15	
February	**m/m**
Consensus	248,800
Desjardins	240,000
January	**239,700**

Housing starts (February) – February housing starts likely held steady at about 240k (saar). While fundamentals would indicate that residential construction should remain soft throughout 2025, our recent report on the drivers of housing starts resilience in the face of adverse homebuilding conditions suggests strength is likely to persist. In the longer term, however, an ongoing trade war with the US would likely impact home building, both directly through costs and supply chain disruptions, and indirectly through weaker demand from would-be homebuyers buffeted by the economic downturn.

MONDAY March 17 - 9:00	
February	**m/m**
Consensus	n/a
Desjardins	-8.0%
January	**-3.3%**

Existing home sales (February) – We expect seasonally adjusted home sales declined by 8.0% m/m in February. The uncertainty created by the looming trade war likely weighed on many households' homebuying decisions. Early figures from local real estate boards showed a mixed bag of year-over-year changes in non-seasonally adjusted sales, with notable declines in Calgary (-35%) and Toronto (-28%), partly offset by increases in Montreal (7%) and some of the mid-sized centres such as Quebec City (9%), Winnipeg (11%) and Victoria (12%). The Toronto Regional Real Estate Board announced that seasonally adjusted sales declined 28.5% month-over-month in February, a sharp U-turn from the 10% monthly gain in January, and making February the month with the lowest number of (seasonally adjusted) sales since May 2020.

FRIDAY March 21 - 8:30	
February	**m/m**
Consensus	0.6%
Desjardins	0.7%
January	**0.1%**

Consumer Price Index (February) – Headline consumer price growth likely accelerated to 2.3% on an annual basis, as we expect a monthly not-seasonally adjusted increase of 0.7% in February. Energy prices were probably largely flat over the month. Most of this anticipated spike is likely to come from a rebound in prices following the GST/HST holiday, which ended on February 15. Assuming that Statistics Canada will treat this partial month the same manner that it treated December, the exemption will be prorated for 14 out of the 28 days in February. The Bank of Canada's preferred indicators likely edged higher on an annual basis in February, in part due to base effects, but those metrics will not be affected by the expiring tax holiday. While the Bank of Canada has pointed to shelter inflation for the elevated year-over-year readings in its preferred core measures, non-shelter prices have also been accelerating more recently.

FRIDAY March 21 - 8:30	
January	**m/m**
Consensus	-0.4%
Desjardins	-0.3%
December	**2.5%**

Retail sales (January) – Retail sales probably edged down 0.3% m/m in January, one tick better than Statistics Canada's flash estimate of a 0.4% decline. Despite some uncertainty around auto sales figures (a questionable surge in EV sales at some dealerships may be investigated later), we expect a reduction in overall receipts at motor vehicle and parts vendors, compared to December's high. This is likely to be driven by lower volumes since auto prices were up (seasonally adjusted). Nominal sales at gas stations and fuel vendors likely increased, driven by higher prices, on a seasonally adjusted basis. We expect core sales—which exclude autos and gasoline—to have advanced (though probably at a more moderate pace than in December). Contributing factors include the continued GST/HST holiday in January and higher CPI goods prices. For February's flash estimate, we expect sales to be roughly flat, with higher gasoline sales and a very modest advance in core offsetting lower auto purchases.

OVERSEAS

WEDNESDAY March 19	
March	
Consensus	0.50%
Desjardins	0.50%
January 23	**0.50%**

Japan: Bank of Japan meeting (March) – The Bank of Japan (BoJ) is likely to keep interest rates on hold next week, but the tightening bias remains intact. The outcome of the Shunto wage negotiations point towards a 5% average wage hike. The CPI rate used to calculate real wages, which includes fresh food items but not rent, rose to 4.7% in January, the highest reading in two years. The governor will likely be asked about the recent rise in bond yields, though we expect him to play down their importance, noting that the JGB market continues to function normally and the rise in yields is driven by market forces. We expect two more 25bps rate hikes from the BoJ, in June and December.

Economic Indicators

Week of March 17 to 21, 2025

UNITED STATES

Date	Time	Indicator	Period	Consensus		Previous reading
MONDAY 17	8:30	Empire State Manufacturing Index	March	-2.0	3.5	5.7
	8:30	Retail sales				
		Total (m/m)	Feb.	0.7%	0.5%	-0.9%
		Excluding automobiles (m/m)	Feb.	0.4%	0.2%	-0.4%
	10:00	NAHB Housing Market Index	March	42	n/a	42
	10:00	Business inventories (m/m)	Jan.	0.3%	0.3%	-0.2%
TUESDAY 18	8:30	Housing starts (ann. rate)	Feb.	1,375,000	1,375,000	1,366,000
	8:30	Building permits (ann. rate)	Feb.	1,450,000	1,450,000	1,473,000
	8:30	Import prices (m/m)	Feb.	-0.1%	-0.1%	0.3%
	8:30	Export prices (m/m)	Feb.	-0.1%	-0.3%	1.3%
	9:15	Industrial production (m/m)	Feb.	0.2%	0.2%	0.5%
	9:15	Production capacity utilization rate	Feb.	77.8%	77.8%	77.8%
WEDNESDAY 19	14:00	Federal Reserve meeting	March	4.50%	4.50%	4.50%
	14:30	Speech by Federal Reserve Chair J. Powell				
	16:00	Net foreign securities purchases (US$B)	Jan.	n/a	n/a	72.0
THURSDAY 20	8:30	Initial unemployment claims	March 10–14	225,000	224,000	220,000
	8:30	Current account (US$B)	Q4	-334,0	-330.0	310.9
	8:30	Philadelphia Fed index	March	8.0	3.5	18.1
	10:00	Leading indicator (m/m)	Feb.	-0.3%	-0.2%	-0.3%
	10:00	Existing home sales (ann. rate)	Feb.	3,940,000	3,910,000	4,080,000
FRIDAY 21	9:05	Speech by Federal Reserve Bank of New York President J. Williams				

CANADA

Date	Time	Indicator	Period	Consensus		Previous reading
MONDAY 17	8:15	Housing starts (ann. rate)	Feb.	248,800	240,000	239,700
	8:30	International securities transactions ($B)	Jan.	n/a	n/a	14.37
	9:00	Existing home sales (m/m)	Feb.	n/a	-8.0%	-3.3%
TUESDAY 18	8:30	Consumer price index				
		Total (m/m)	Feb.	0.6%	0.7%	0.1%
		Total (y/y)	Feb.	2.2%	2.3%	1.9%
WEDNESDAY 19	---	2025 Saskatchewan Budget				
THURSDAY 20	8:30	Industrial product price index (m/m)	Feb.	n/a	0.6%	1.6%
	8:30	Raw materials price index (m/m)	Feb.	n/a	1.4%	3.7%
FRIDAY 21	8:30	Retail sales				
		Total (m/m)	Jan.	-0.4%	-0.3%	2.5%
		Excluding automobiles (m/m)	Jan.	n/a	1.0%	2.7%

NOTE: Each week, Desjardins Economic Studies takes part in the Bloomberg survey for Canada and the United States. Approximately 15 economists are consulted for the Canadian survey and a hundred or so for the United States. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. Times shown are Eastern Daylight Time (GMT -4 hours). Desjardins Economic Studies forecast.

Economic Indicators

Week of March 17 to 21, 2025

Country	Time	Indicator	Period	Consensus m/m (q/q)	Consensus y/y	Previous reading m/m (q/q)	Previous reading y/y
OVERSEAS							
SUNDAY 16							
China	22:00	Industrial production	Feb.		5.3%		6.2%
China	22:00	Retail sales	Feb.		3.8%		3.7%
MONDAY 17							
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TUESDAY 18							
Japan	0:30	Tertiary Industry Activity Index	Jan.	-0.1%		0.1%	
Italy	5:00	Trade balance (€M)	Jan.	n/a		5,980	
Eurozone	6:00	Trade balance (€B)	Jan.	14.0		14.6	
Germany	6:00	ZEW Current Conditions Survey	March	-80.5		-88.5	
Germany	6:00	ZEW Expectations Survey	March	50.3		26.0	
Japan	19:50	Trade balance (¥B)	Feb.	509.3		-856.6	
WEDNESDAY 19							
Japan	---	Bank of Japan meeting	March	0.50%		0.50%	
Japan	0:30	Industrial production – final	Jan.	n/a	n/a	-1.1%	2.6%
Eurozone	6:00	Consumer price index – final	Feb.	0.5%	2.4%	0.5%	2.5%
Brazil	17:30	Central Bank of Brazil meeting	March	14.25%		13.25%	
THURSDAY 20							
United Kingdom	3:00	ILO unemployment rate	Jan.	4.4%		4.4%	
Germany	3:00	Producer price index	Feb.	0.2%	1.0%	-0.1%	0.5%
Sweden	4:30	Bank of Sweden meeting	March	2.25%		2.25%	
Switzerland	4:30	Swiss National Bank meeting	March	0.25%		0.50%	
Eurozone	6:00	Construction	Jan.	n/a	n/a	0.0%	-0.1%
United Kingdom	8:00	Bank of England meeting	March	4.50%		4.50%	
Japan	19:30	Consumer price index	Feb.		3.5%		4.0%
United Kingdom	20:01	Consumer confidence	March	-21		-20	
FRIDAY 21							
France	---	Retail sales	Feb.	n/a		-0.7%	
France	3:45	Business confidence	March	96		96	
France	3:45	Production outlook	March	-13		-15	
France	3:45	Wages – preliminary	Q4	n/a		0.4%	
Eurozone	5:00	Current account (€B)	Jan.	n/a		38.4	
Italy	5:30	Current account (€M)	Jan.	n/a		4,228	
Russia	6:30	Bank of Russia meeting	March	21.00%		21.00%	
Eurozone	11:00	Consumer confidence – preliminary	March	-13.0		-13.6	

Note: Unlike release times for US and Canadian economic data, release times for overseas economic data are approximate. Publication dates are provided for information only. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Times shown are Eastern Daylight Time (GMT -4 hours).