Economic News
Desjardins Economic Studies
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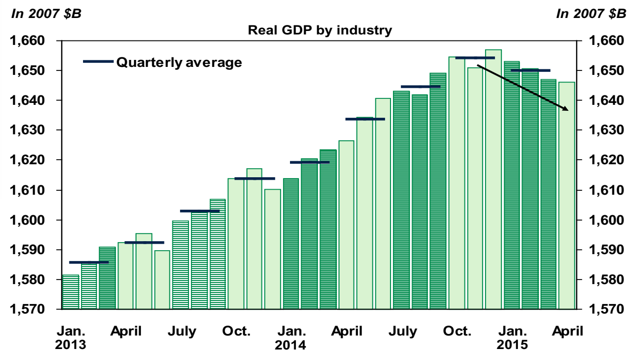
CANADA

Is the Canadian economy in a recession?

HIGHLIGHTS

- Real GDP by industry fell 0.1% in April. This is the fourth straight contraction in the Canadian economy, and the fifth retreat over the last six months.
- Real GDP by industry has fallen a cumulative 0.5% since October.
- Goods-producing sectors posted a 0.8% slide in April. Mining, oil and natural gas extraction dropped 2.6% during the month.
- Service-producing sectors advanced 0.3%. However, some experienced difficulties, including real estate services (-0.6%), retailing (-0.2%) and administrative services (-0.1%).

Real GDP by industry continues to slide



Sources: Statistics Canada and Desjardins, Economic Studies

COMMENTS

Is the Canadian economy in a recession? Even though real GDP by industry has been down for several months, it is worth noting that for the theoretical definition of a recession to apply, there must be two consecutive quarters of falling real GDP. According to Statistics Canada, real GDP was down 0.6% (quarterly annualized) in the first quarter of 2015, meeting half of the definition.

With April's results in real GDP by industry, it is clear there is a fairly high probability of a second quarterly contraction. Carryover, assuming zero growth in real GDP by industry in May and June, is -0.9%. In fact, real GDP by industry would need to grow more than 0.2% on average in those two months to hope for a positive result for the second quarter. While not impossible, it is more likely that growth in real GDP by industry will remain fairly modest in the coming months, considering the difficulties in the energy sector and their negative impact on several other activity sectors. It is therefore likely that the Canadian economy will technically be in a recession.

Implications: Clearly, the 1.8% rebound anticipated by the Bank of Canada (BoC) for the second quarter will not materialize. In fact, the possibility of a recession will force monetary authorities to review their game plan. If we also consider the international disruptions related to Greece, all the ingredients seem to be there to prompt the BoC to order a new preventative reduction in key interest rates. Remember that such a movement had been ordered by the monetary authorities last January. As such, it is likely that the target for the overnight rate will be lowered to 0.50% in July's decision.

Waiting longer before lowering key rates, as some investors expect, does not seem to us like the way to go, as the Canadian economy is actually in the middle of difficulties. In addition, weak total inflation and stable core inflation are currently providing some flexibility for monetary policy management.

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