

CANADA

The technical recession is taking shape

HIGHLIGHTS

- Real GDP by industry fell 0.2% in May, yet another result that falls short of expectations.
- Goods-producing sectors posted a decrease of 0.6%. In addition, manufacturing slipped 1.7% and oil and natural gas extraction decreased 1.0%.
- Service-producing sectors were down 0.1% during the month. Wholesale trade sagged 1.0%, wiping out a good portion of the previous month's 1.6% increase.

COMMENTS

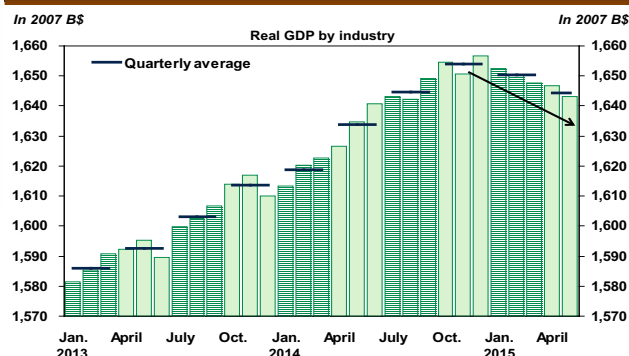
The pullback in real GDP by industry in May marks the fifth consecutive decrease and the sixth decrease in seven months. As such, real GDP has posted a cumulative 0.7% drop since last October.

That said, the committee created by the C.D. Howe Institute to analyze Canadian economic cycles announced on Tuesday that it was still too early to declare the Canadian economy in recession, particularly due to advances in the labour market.

However, if we only go by the theoretical definition of a recession (two consecutive quarters of falling real GDP), it is clear that the Canadian economy likely entered a technical recession in the first half of 2015. According to Statistics Canada, real GDP fell for the first time last winter, slipping -0.6%. Official results for the second quarter will only be released on September 1, but data on real GDP by industry released in recent months indicate a very high probability that the entire second quarter will also be negative.

With May's results for real GDP by industry, the carryover for the overall second quarter is currently -1.3% (quarterly annualized). To bring this back into positive territory, real GDP by industry would need to increase 1.0% or more in June. Since the data started being collected, a gain of this magnitude has only been observed twice (in July 1997 and September 2003). It would be very surprising if the Canadian economy were able to achieve this feat in June, considering

Another monthly decrease in real GDP by industry



Sources: Statistics Canada and Desjardins, Economic Studies

the problems still plaguing production, particularly in the energy sector.

The technical recession that likely affected the Canadian economy in the first half of 2015 is nonetheless different from classic recessions seen in the country. For one, with the return to positive territory expected in the third quarter, the magnitude of the pullback in production will no doubt be much smaller than any recorded during normal recessions. For another, the decline in production is far from being the same across the country. It is particularly present in certain activity sectors (energy) and in certain regions (oil-producing provinces).

Implications: The technical recession that affected the Canadian economy in the first half of 2015 is probably a thing of the past. All hopes now rest on the rebound expected to start in the third quarter. However, if this does not transpire, the Bank of Canada could be obligated to ease its monetary policy once again.

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