

SUPPLEMENTARY COMMENTARY · MARCH/Q1 GDP

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# Two negative quarters of real GDP growth is just a rule of thumb

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**THE TAKE**

“The media often defines a recession as ‘two consecutive quarters of negative real GDP growth.’ Since 1961, this rule has fired eight times, but Canada has only had five official recessions in that span of time.”

— JAY ZHAO-MURRAY · CHIEF ECONOMIST · SIBLEY CREEK

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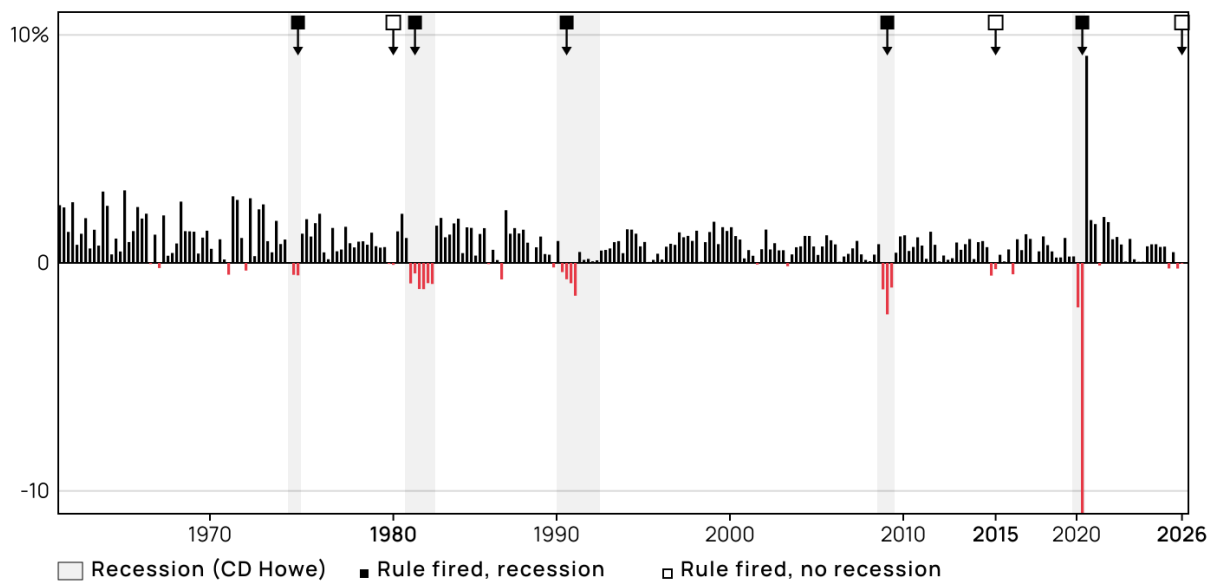
## What’s a recession?

Two consecutive quarters of negative real GDP growth is often cited by the media as the definition of a “technical recession.” Economists, however, do not rely on this definition. It is a rule of thumb, not a strict rule.

The rule of thumb itself appears to date back to a [New York Times op-ed](#) from 1974, written by Julius Shiskin, the ninth commissioner of the US Bureau of Labor Statistics. In the op-ed, Shiskin wrote that the bureau defined a recession as an “extended, substantial, and widespread decline in aggregate economic activity—or duration, depth, and diffusion.” Shiskin laid out quantitative rules of thumb for each of the three. His rule on duration—two negative quarters—was the only one that stuck in the public consciousness.

### Two-quarters of negative growth is a rough rule of thumb.

REAL GDP GROWTH, Q/Q



Source: Statistics Canada, CD Howe Institute, Sibley Creek calculations.

Half a century after Shiskin’s op-ed, most economists would still give you the same general definition of a recession. The details are where they disagree. The specific indicators you choose to watch and the numerical thresholds you set inevitably introduce a level of subjectivity into the analysis and thus room for disagreement. The two-quarter rule has endured because it’s simple and objective. But it’s incomplete, and a bit trigger-happy.

In practice, the official definition of a recession is “whatever the committee says it is.” For Canada, the committee in question is the CD Howe Institute’s Business Cycle Council. In the US, it’s the

National Bureau of Economic Research's Business Cycle Dating Committee. Deferring to an authority helps to resolve disagreement, but these committees move slowly. According to CD Howe, the Covid-19 recession ended in April 2020; the committee announced this more than a year later, in August 2021.

### Comparing the CD Howe's dates to the two-quarter rule

The official data series for Canada's real GDP growth, produced by StatCan, starts in the second quarter of 1961. From then until now, the two-negative-quarters rule has triggered in eight distinct episodes: in 1975, 1980, 1981, 1990, 2009, 2015, 2020, and 2026.

Over that period, the Business Cycle Council only agreed with five. Specifically, they do not count the 1980 and 2015 episodes, and it's still too early to know if they'll say a recession occurred in 2026, but unless things get obviously worse from here, my guess is "probably not."

<b>2Q RULE TRIGGERED</b>	<b>CD HOWE RECESSION DATES (PEAK TO TROUGH)</b>	<b>OFFICIAL RECESSION?</b>
1975 Q1	Oct 1974 to Mar 1975	Yes
1980 Q3	—	No — near miss
1981 Q4	Jun 1981 to Oct 1982	Yes
1990 Q3	Mar 1990 to May 1992	Yes
2009 Q1	Oct 2008 to May 2009	Yes
2015 Q2	—	No — shallow, oil-concentrated
2020 Q2	Feb 2020 to Apr 2020	Yes
2026 Q1	—	Too early to call

Source: Statistics Canada, CD Howe Institute, Sibley Creek calculations.

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