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No Recession for the BC Economy

Stories abound in the media questioning whether the Canadian economy is currently in a recession. However, most economists quibble with the mechanical definition of recession used by the media: two-quarters of declining GDP. While Canada does not have an official recession dating committee, the CD Howe Institute's Business Cycle Council provides an unofficial but useful service in both defining and dating Canadian recessions. In its definition, a recession is a pronounced, pervasive and persistent decline in aggregate economic activity – the current weakness in the Canadian economy does not fit that definition.

While GDP contracted in the first quarter, the decline was exceedingly modest at just 0.6 per cent, which is, in practical terms, virtually indistinguishable from zero. Moreover, GDP growth is subject to often large revisions, meaning that the first quarter contraction could be revised away with the next release of Canada's National Accounts data.

Given the highly energy-sector specific shock of dramatically lower oil prices, it is largely energy intensive regions of Canada that have experienced a downturn. There is a stark contrast in the performance of non-energy producing versus energy intensive parts of the country, made clear by surveying the evolution of a broad array of economic variables since the collapse of energy prices in late 2014.

Evolution of Key Economic Variables Since November 2014 Oil Shock

		BC	ENERGY-INTENSIVE REGIONS	CANADA
Employment	% change	1.0	0.3	0.5
Unemployment Rate	p.p. change	0.1	1.3	0.1
EI Claims	% change	1.0	24.7	2.0
Retail Sales	% change	2.5	-3.8	-0.9
Housing Resales	% change	16.3	-16.0	4.4
Housing Starts	% change	20.5	3.3	5.9
Wholesale Sales	% change	2.0	-1.9	2.9

Source: Statistics Canada, Bank of Canada

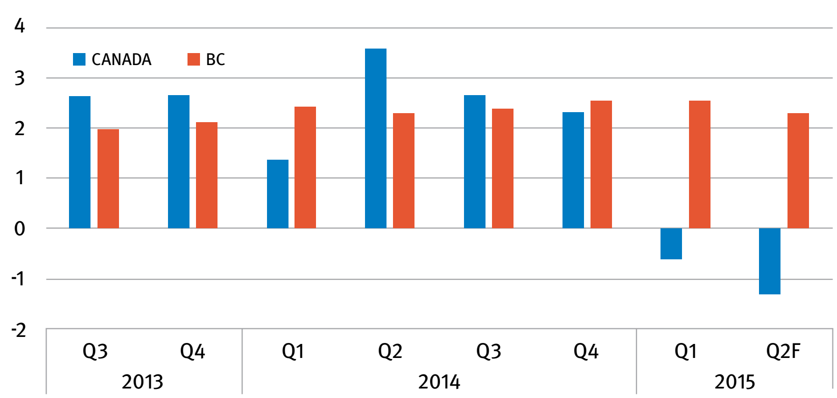
Energy-intensive provinces like Alberta, Saskatchewan and Newfoundland have experienced a sharp deterioration in their labour markets as well as declining home sales and consumer spending.

While the BC economy hasn't gone unscathed by the slowdown occurring in other parts of Canada, it has outperformed the broader Canadian economy in several respects. In fact, growth in the BC economy tracked at a relatively robust 2.5 per cent in the first half of the year, while the broader Canadian economy contracted.

Although the Canadian economy is on pace to contract at more than a 1 per cent annual rate in the second quarter, there is reason to believe that growth will resume shortly: the US economy is expected to accelerate in the second half of the year, which, combined with a depreciated loonie, will help to boost growth in the third quarter. Additionally, the monetary policy actions taken by the Bank of Canada in January and July should further support the economy over the next 12 months.

Despite parts of Canada falling into recession, the depth and persistence of that recession are expected to be mild compared to past recessions, such as the early 1990s or the post-2008 financial crisis period. Meanwhile, in British Columbia, the outlook for the economy and the housing market is the brightest it has been in years.

Real GDP Growth - BC vs Canada



Source: BCREA Economics, Statistics Canada Note: BC quarterly real GDP growth is a BCREA estimate