Macroeconomic Perspectives: Is a Recession Imminent?

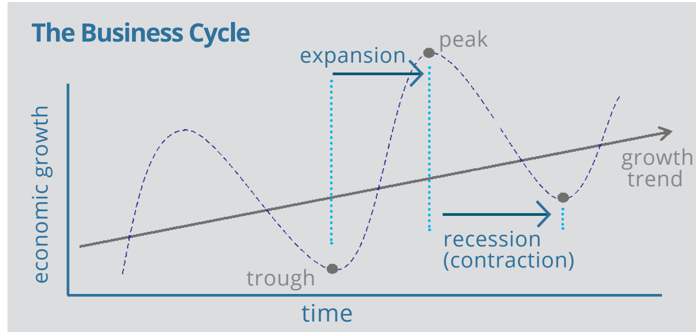
With slowing global growth, persistently high inflation rates and as the central banks have taken a more aggressive position to combat inflation by raising interest rates faster than anticipated, the media has been preoccupied with evoking fear that a recession is imminent. While this is a legitimate worry, we suggest that maintaining perspective may be worthwhile.

Economies, like financial markets, are cyclical in nature and are naturally prone to expanding and contracting over time. A recession can occur when economic activity declines — commonly defined as two successive quarters of declining gross domestic product (GDP), the measure used to gauge economic health.

It's not normal for any economy to be in a perpetual expansion, and contractions do occur from time to time. Yet, recessions can be quite different in their length and intensity. While the Great Depression of the 1930s is the longest contraction historically, consider that our most recent recession was the shortest on record. This precipitated during the depths of the pandemic due to the economic shutdowns in February 2020, but lasted only until April of that year — just three months in length.

Some are comparing our current inflationary situation to the 1970s, suggesting that we are headed for a similar period of economic slowdown that followed. Yet, let's not forget that today's central bankers are taking more rapid action to try and curb inflation. In the early 1970s, the U.S. Federal Reserve was easing monetary policy. It wasn't until Paul Volcker headed the Fed in 1979 that he raised the Fed funds rate to a whopping 20 percent to try and end high inflation, but this wasn't until after almost a full decade of persistently high inflation. This shock led to more severe economic consequences.

Today, there are a variety of reasons to keep perspective. Labour markets and household balance sheets are at healthy levels to support consumer resilience, and consumer spending has been robust in the services industry. While some corporate earnings have missed expectations recently, it was anticipated that there would be a period of adjustment as we returned to normal from the pandemic. In some cases, record stimulus skewed consumer demand; in others, the economic shutdowns created ongoing supply chain issues. High inflation has also driven up many companies' costs, but this inflation is not expected to be permanent. Recessions are also usually characterized by excesses of inventory, capacity or credit, which aren't largely apparent at the moment.



This is not to suggest we don't face many challenges. The pandemic has caused a variety of problems, including significant stimulus debt, higher inflation, supply chain disruptions, slower growth and more. We are now confronted with new issues created by the conflict overseas. Continued patience is needed as we resolve these issues and move forward.

However, some balance may be warranted to address the current discussion of recession. Investors should also remember that portfolios positioned for the longer term have been structured with the expectation that economic and financial markets will experience both ups and downs. Most importantly, when a recession eventually does arrive, remember that it will be temporary.

Recessions in Canada Over the Past 50 Years

Monthly Peak	Monthly Trough	Severity	# Months
December 1974	March 1975	2: Mild	6
January 1980	June 1980	1: Mildest	9
June 1981	October 1982	4: Severe	16
March 1990	April 1992	4: Severe	25
October 2008	May 2009	4: Severe	7
February 2020	April 2020	5: Very Severe	3

CD Howe Institute, "Business Cycles"