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## Are We In A Recession

In early August, just before the holiday, the S&P 500/TSX composite took a sudden dip. To the south, American markets were hit even harder.<sup>1</sup> Other countries around the world saw their markets stumble, too. Though the dip was not especially large, and we saw good recovery the following week, it was enough to make many ask whether we were tumbling into a recession.

Then again, some have been wondering if we're already there.

Economists have lots of fancy ways of deciding when the economy is doing well and when it's in need of some TLC. Of course, whether their equations and models match what consumers feel on the ground is a different matter. For months, we've heard people telling us it doesn't seem like their money is going as far as it used to, or that the jobs market feels like a professional dead end.

A recession is often defined as two straight quarters of declining economic growth, but our economy is estimated to have grown by around 2.2% in Q2 alone.<sup>2</sup> Based on most economic data, we are not in a recession. That said, there are several reasons why it may not feel that way.

First, interest rates continue to be elevated from the efforts to stabilize prices after the pandemic. Despite the Bank of Canada trimming those rates three times this year — with more cuts likely coming — it will take a while for interest rates to reach more comfortable levels.<sup>3</sup>

A brief explanation: Economic growth is good news, but when the economy gets too hot, it can lead to faster-than-normal inflation that can be difficult to contain. To avoid this runaway train scenario, the BoC raises interest rates. This, in turn, prompts people and businesses to cut back on borrowing, spending, and other economic activity, slowing inflation down to a more sustainable pace. When prices have cooled, interest rates can be cut again. Unfortunately, it does typically take several years for things to even out, and during that time, an economic slowdown can produce symptoms of a recession. That's not ideal, but they do tend to be milder and more temporary than if the economy had been allowed to plunge into a proper recession.<sup>4</sup>

Second, though we've had steady economic growth, our country's population has also been growing enough to make those gains seem less prosperous than they might otherwise feel.<sup>5</sup> The housing shortage felt by many Canadians, and the high prices many have had to pay as a result of the law of supply and demand, mean basic living costs are just higher than they ought to be—and, of course, those higher interest rates don't help.<sup>6</sup> Furthermore, those higher interest rates are contributing to a gradual rise in unemployment. As of June, the jobless rate in Canada was at 6.4%, having risen 1.3% since April of 2023.<sup>7</sup> In August, it reached a seven year high. That's not abnormally high, from a historical perspective, but any kind of sustained trend in unemployment will always be painful.

Combine all this and it may feel like we are living through unprecedented times. Economic uncertainty, however, is very much preceded. As concerning as things might seem, this is not entirely new ground for our economy.

As with many things, the greatest remedy here is patience, and time. Time for the rate cuts to take effect. Time for measures addressing the housing shortage to be felt. Patience to let the economy settle into more sustainable patterns of growth. Like the old story of the tortoise and the hare, slow and steady wins this race—even if we all wish things could move a little faster.

And if we do teeter into a recession, well, that's a part of the economic cycle, too. Signs are still good that we will avoid a recession on this go-around,<sup>8</sup> but there are ways to safeguard our personal finances and investments for that occasion, too. If you would like to look at how we can position your investments to be more secure whatever the market brings, or if you just want to talk more about the current economic climate, please don't hesitate to reach out!

Sincerely yours,

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- <sup>2</sup> “Canada’s GDP likely to surpass central bank’s second quarter forecast,” *Reuters*, 31 July 2024, [www.reuters.com/markets/canadas-economy-track-22-growth-rate-q2-after-topping-may-forecast-2024-07-31/](https://www.reuters.com/markets/canadas-economy-track-22-growth-rate-q2-after-topping-may-forecast-2024-07-31/)
- <sup>3</sup> “Posthaste: Downturn expected to get worse before Bank of Canada rate cuts kick in,” *Financial Post*, 13 August 2024, <https://financialpost.com/news/bank-of-canada-interest-rate-cuts-will-take-time-to-boost-economy>
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- <sup>5</sup> “Are we in a ‘hidden’ recession?” *CBC News*, 31 July 2024, [www.cbc.ca/radio/frontburner/are-we-in-a-hidden-recession-transcript-1.7281036](https://www.cbc.ca/radio/frontburner/are-we-in-a-hidden-recession-transcript-1.7281036)
- <sup>6</sup> “Solving the Housing Crisis: Canada’s Housing Plan,” *Government of Canada*, <https://housing-infrastructure.canada.ca/housing-logement/housing-plan-report-rapport-plan-logement-eng.html>
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- <sup>8</sup> “Hurdles remain amid signs of recovery,” *Deloitte*, 25 June 2024, [www2.deloitte.com/content/dam/Deloitte/ca/Documents/ca-economic-outlook\\_Fy25\\_Q1\\_EN\\_V6\\_AODA.pdf?icid=banner-cta-En](https://www2.deloitte.com/content/dam/Deloitte/ca/Documents/ca-economic-outlook_Fy25_Q1_EN_V6_AODA.pdf?icid=banner-cta-En)