

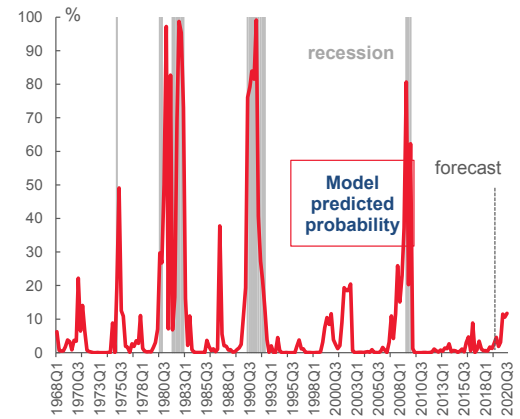
Probability of a Recession in Canada in 2019–20 is Small but Rising

- The slope of the yield curve, defined as the difference in yields on 10-year government bonds and 3-month treasury bills, is usually considered a good predictor of the risk of recession in the US.
- The recent inversion of the yield curve in Canada and the US has generated a lot of concern in the markets. In particular, the probability of a recession in the US, based on the model from the NY Federal Reserve using the slope of the yield curve in the US has increased to 25% in 2020Q1.
- Our work finds that looking at the yield curve in isolation provides an incomplete picture of recession risk (see [here](#)). To properly estimate risk of recession in Canada using the yield curve, we must include consumer confidence in Canada and the NY Fed’s probability of a US recession.
- The yield curve in Canada inverted in March, with the 3-month T-bill ending the month at 1.67%, while the 10-year government bond rate was at 1.62%.
- While the yield curve is flashing warning signs, the fact that consumer confidence grew each month from January to March suggests that conditions are still benign. While a recession is not very likely in the next few quarters, this probability is gradually rising: the model-implied probability of a recession in Canada increases to 11% in 2020.
- If Canadian consumer confidence starts to deteriorate in the coming months, the probability of a recession will rise further.

CONTACTS

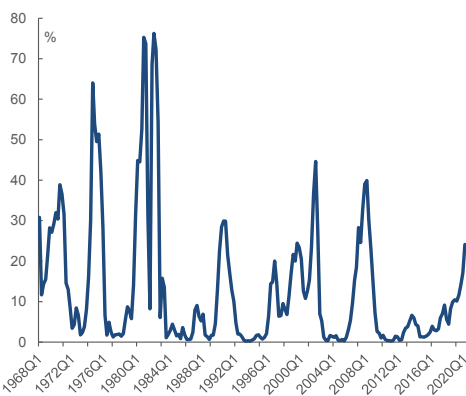
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Chart 1: Probability of Recession in Canada



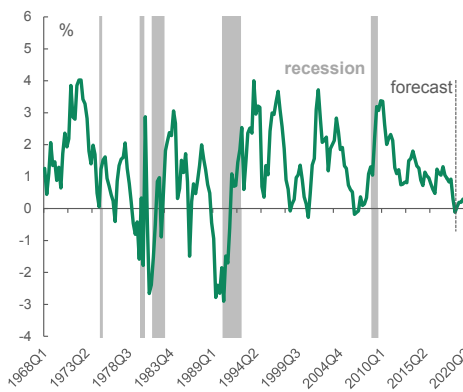
Sources: Scotiabank Economics, Haver Analytics.

Chart 2: NY Fed’s Estimate of the US Recession Probability



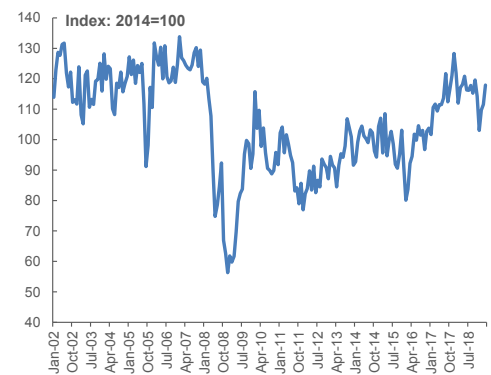
Sources: Scotiabank Economics, Haver Analytics.

Chart 3: Canadian Yield Curve, 10yr-3mth



Sources: Scotiabank Economics, Haver Analytics.

Chart 4: Consumer Confidence, Canada



Sources: Scotiabank Economics, Conference Board of Canada.

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