An economic model that successfully predicted every major financial downturn over the past three decades has warned that another recession is on the way.

Canadian economist Campbell Harvey developed the U.S. Treasury yield curve model for his 1986 Ph.D., and since then, it has inverted thrice: in 1989, in 2000, and in 2006. All of these immediately preceded the three major recessions of 1990-1991, 2001, and 2008.

As of this month, the U.S. Treasury yield curve has been on an inverted state for an entire fiscal quarter. What this
essentially means is that short-term bonds are now paying higher rates than long-term bonds.

Harvey explained that these are reliable indicators since the renowned safety of U.S. Treasury bonds stems from the fact that “the government can always print more money.”

“The idea of the yield curve is that when you lock up your money for different periods of time, you expect a different [interest] rate. The rate is almost always cheaper than if you commit for longer periods of time,” Harvey said in an interview with Global News.

“It’s almost always the case that the longer-term rates are higher than the shorter-term rates, but on certain rare occasions, it goes the other way. And that’s what we have today.”

In mid-June RBC Global Asset Management chief economist Eric Lascelles warned that any North American recession will have a much more significant impact on Canada than on the United States, if current economic and financial system trends are taken into account.

In particular, extant household debt levels will make any downturn much worse. As of Q4 2018, Canada’s debt-to-income ratio was at 176%, significantly higher than the 133% level seen in the U.S.

“There’s just no latent capacity to spend or to buffer a shock in Canada, and the U.S. is very well positioned,” Lascelles said at the time. “You could lose your job and you would be okay in the U.S., or rates could go up and you’d be fine, or the economy could turn down and spending could continue. In Canada, you can’t really say that.”

“If there were to be a recession, whether it’s in 2019 or 2029, or sometime in between, you can imagine Canadians getting hit a little harder than Americans,” Lascelles added. “They just have less room for error, less room to cushion any kind of hit with spending, before they would actually fall into outright dis savings.”