

**Euro Area Business Cycle Dating Committee:
An unusual recovery turning into a usual expansion
24 March 2022**

The [CEPR-EABCN Euro Area Business Cycle Dating Committee](#) deliberated on the 14th of March 2022 to assess the state of euro area economic activity. Real GDP returned to its pre-pandemic level in the final quarter of 2021, despite supply constraints, stringent pandemic restrictions due to the third COVID wave and higher energy prices. Investment and private consumption were important components of recovery, as was government consumption. In the final quarter of 2021, consumption growth eased while investment growth remained strong. The recovery has been heterogeneous, with the countries and the economic sectors worst hit by the shock recovering at a faster pace. The euro area has grown faster in the recovery so far than the United States, a reflection of the euro area's deeper contraction during the recession itself. Employment protection measures adopted in various European countries limited the decline in employment, which returned faster to pre-pandemic levels in the euro area than in the US.

A regular expansion after an unusual contraction and recovery

The wobbly economic expansion that started after the 2020Q2 trough has now established itself as a regular expansion. Since the 2020Q2 trough, output has been on average expanding rather rapidly, but with great variance, mainly due to recurring pandemic waves and restrictions in most euro area countries. The recovery accelerated after the first quarter of 2021. Following rapid growth in the second and third quarters, growth slowed in the fourth quarter of the year. Despite this slower pace, GDP reached its pre-pandemic peak in the fourth quarter.¹ The recovery of GDP components follows a similar pattern.² Turning to the contribution of GDP components to the quarter-on-quarter GDP growth rate, private consumption (the largest component of GDP level) has seemed to dictate the rhythm of the expansion. In the first two quarters after the trough, the role of public spending was also non-negligible while private investment counteracted in two quarters the fall in consumption growth—especially in the last quarter of 2021 in which investment growth was relatively strong.³

Dynamics of the labour market

Euro area employment (and unemployment) has recovered to its pre-COVID level—despite the effects of the Omicron variant—although hours worked are still lagging.⁴ The weak recovery of employment in some service sectors most affected by the pandemic, such as the wholesale and retail trade, transportation, accommodation and food services, and arts, entertainment and recreation services, appears to be responsible for the sluggishness in the hours response, while employment in persons is much less affected due to employment protection schemes instituted in many countries.⁵

Heterogeneity

Output and employment recoveries reveal cross-country differences: in general, countries worst affected by the pandemic have grown faster along the recovery path, as can be expected given a lower initial base value. An exception is Spanish GDP, which suffered the deepest fall and has still not recovered. Last, the slowdown in growth in the last quarter of 2021 relative to the two previous quarters manifested in Germany as negative GDP growth.⁶

A tale of two recoveries: EA and US

In both the euro area and the United States, the recovery of output and employment from the trough was more rapid than in previous recoveries.⁷ However, the euro area and the US present different recovery patterns. Compared to 2019Q4 peaks,

¹ See Figures 1.1 to 1.2.

² See Figure 2.1.

³ See Figure 2.2.

⁴ See Figures 3.1 and 3.2.

⁵ See Figures 3.3 and 3.4.

⁶ See Figures 4.1 and 4.2 and Heat map.

⁷ See Figures 5.1. and 5.2.

output has recovered faster in the US than in the euro area whereas the reverse is true for employment.⁸

Given the efforts made to keep employment relationships intact in the euro area, employment has hardly contracted. By contrast, under the US “temporary layoff” scheme, US employment has ridden a roller coaster. As a result, employment dynamics in Europe reflect a quick recovery from a shallow decline; US employment, which was hit harder, is still well below its pre-recession level. The opposite occurred with GDP growth. The euro-area output recovery was faster due to the larger pandemic-induced decline. Despite this rapid rebound, euro area GDP is only a shade above its pre-pandemic peak from two years earlier, whereas US GDP is well above its pre-pandemic peak.

Conclusion

After an initial *sui generis* recovery from the *sui generis* COVID recession, euro area economic activity has reached its pre-pandemic peak after nine quarters. The effects of the Russian military incursion into Ukraine and the ensuing war, as well as the economic activity implications of a lower level of COVID precautions in many countries, are not yet visible in the data. The Committee will continue to monitor developments in the euro area economic activity and report how these developments affect the state of the business cycle.

⁸ See Figures 5.3 and 5.4.

About the EABCN-CEPR Area Business Cycle Dating Committee

The [CEPR-EABCN Euro Area Business Cycle Dating Committee](#) establishes the chronology of recessions and expansions of the eleven original euro area member countries plus Greece for 1970-1998, and of the entire euro area from 1999 onwards.

It also comments, in the spring and in the fall, on the current state of aggregate economic activity in the euro area and launches research initiatives designed to better monitor and understand aggregate economic developments in the euro area.

Dating activities and bi-annual statements on the state of euro area economic activity are conducted in total independence of EABCN. Research initiatives launched and pursued by the Committee are subject to the approval and evaluation of the EABCN Scientific Committee.

The Committee is currently composed of the following members, with overlapping terms:

- Philippe Weil (chair), ULB and CEPR
- Refet Gurkaynak (vice-chair), Bilkent University and CEPR
- John Fernald, INSEAD, Federal Reserve Bank of San Francisco and CEPR
- Evi Pappa, Universidad Carlos III de Madrid and CEPR
- Antonella Trigari, Bocconi University and CEPR

The Committee's research assistant and rapporteur is Isabel Mico Millan, 2019-, Universidad Carlos III de Madrid.

Appendix: Figures

Evolution of GDP in levels

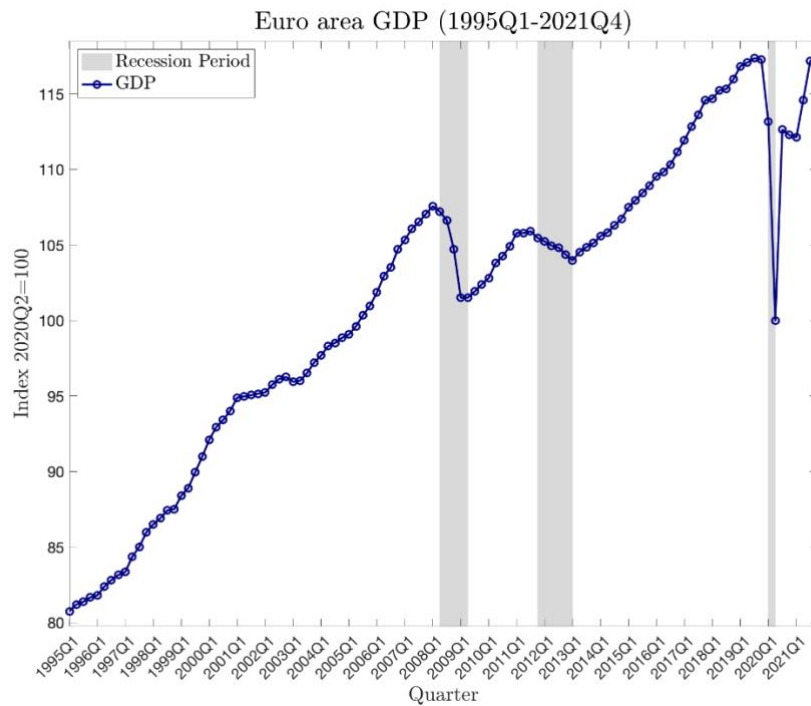


Figure 1.1 Evolution of the EA GDP from 1995Q1 to 2021Q4. The blue line is the GDP represented as quantity index with base year and quarter 2020Q2 = 100. The gray areas represent the recession periods as dated by the Committee (Peak Excluded). *Data source:* Eurostat

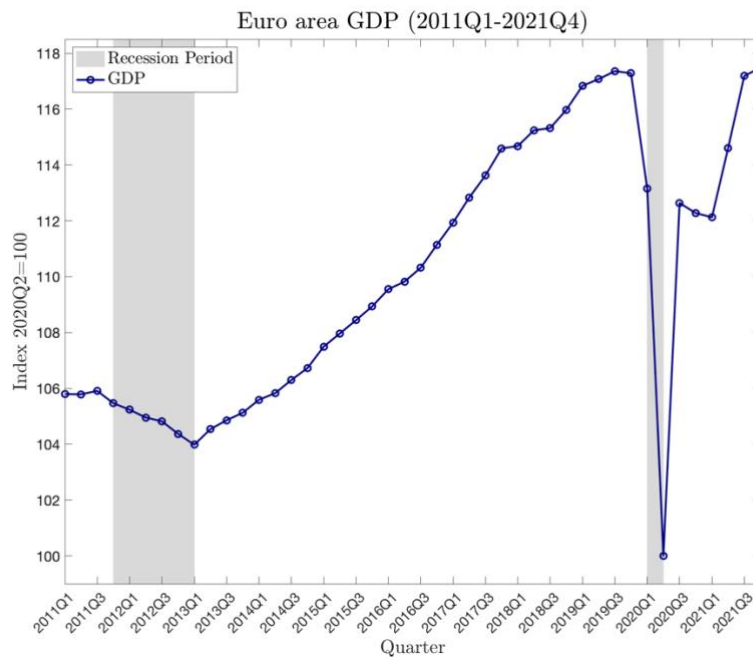


Figure 1.2 Evolution of the EA GDP from 2011Q1 to 2021Q4. The blue line is the GDP represented as quantity index with base year and quarter 2020Q2 = 100. The gray areas represent the recession periods as dated by the Committee. *Data source:* Eurostat

Evolution of EA GDP components

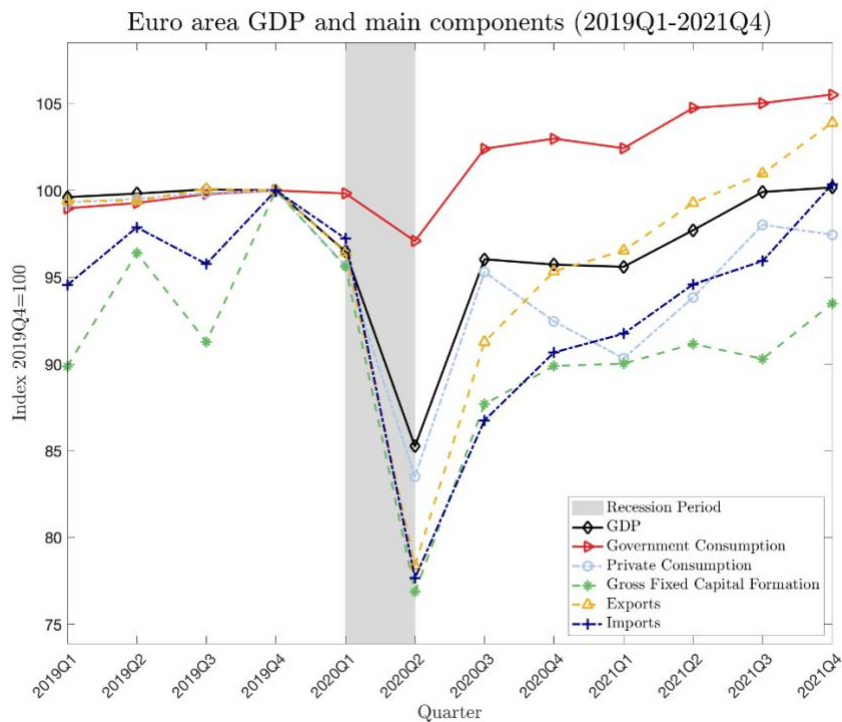


Figure 2.1 Evolution of the EA GDP and main components for the period 2011Q1-2021Q4. All variables are expressed as quantity index with base year and quarter 2013Q1 = 100. The gray Areas represent the recession periods as dated by the Committee. *Data source:* Eurostat

Contribution of each GDP component to euro area GDP growth rate (2012Q4-2021Q4)

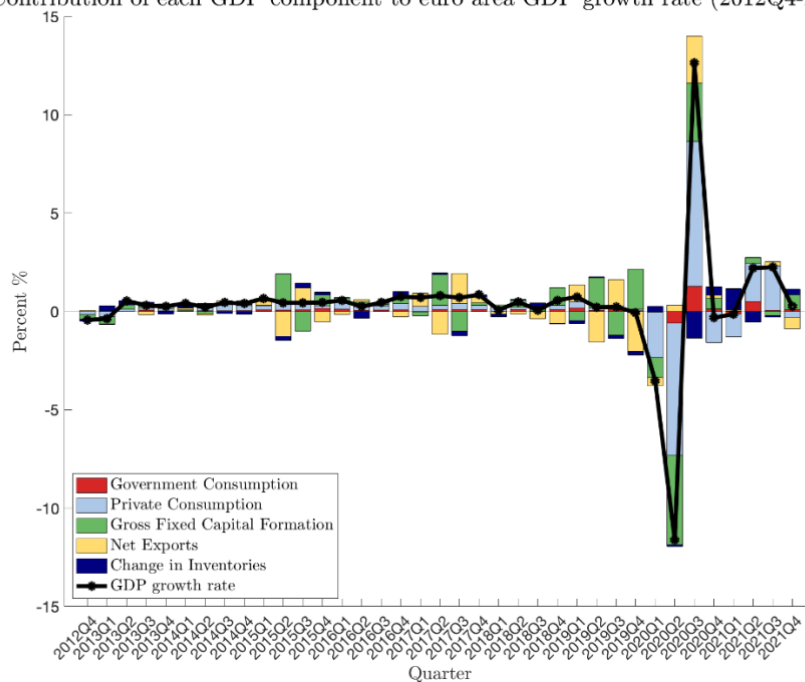


Figure 2.2 Contribution of each GDP component to the quarter-on-quarter GDP growth rate in the Euro Area for the period 2012Q4-2021Q4. The black solid line is the quarter-on-quarter GDP growth rate. Investment refers

gross fixed capital formation. The residual accounts for the changes in inventories and acquisition less disposals of valuables. *Data source: Eurostat*

Employment and Unemployment

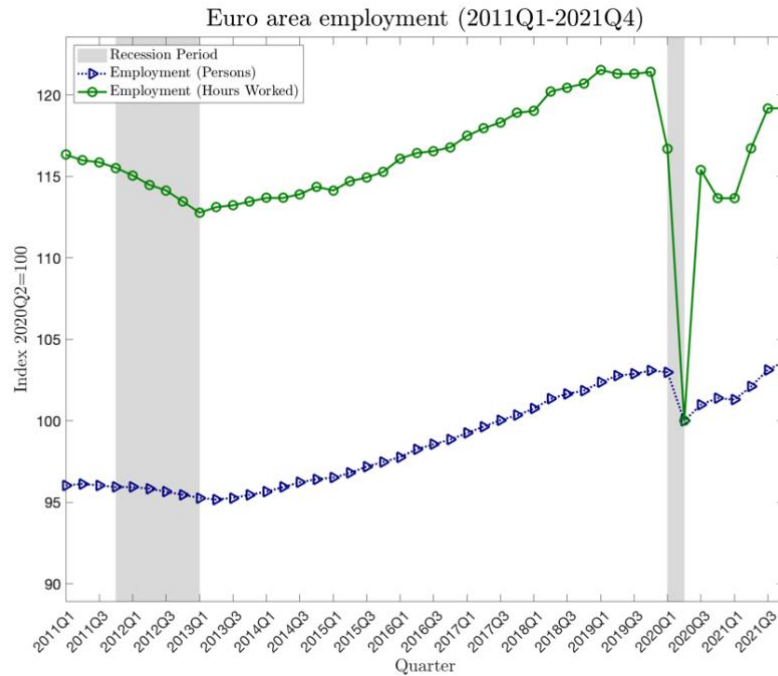


Figure 3.1 Evolution of Employment in the period 2011Q1-2021Q4. All variables are expressed as quantity index with base year and quarter 2020Q2 = 100. *Data source: Eurostat*

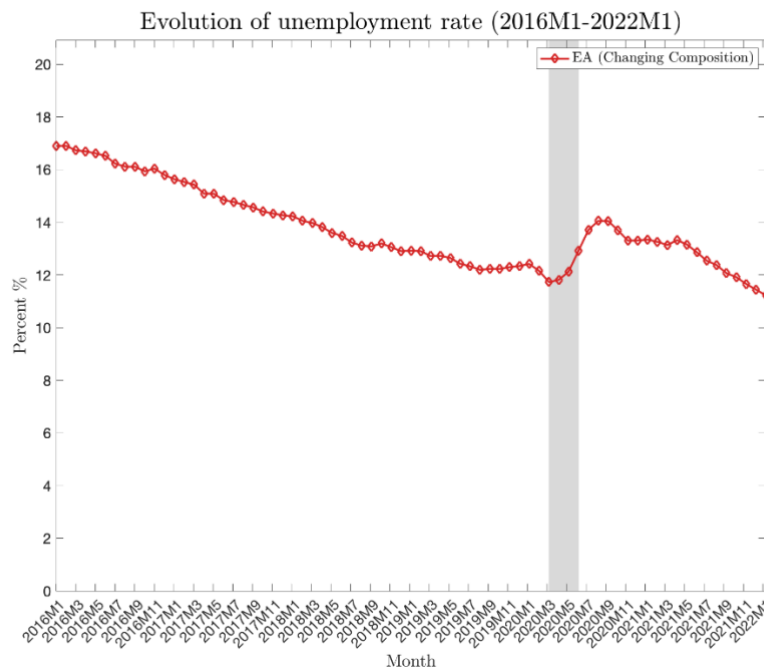


Figure 3.2 Evolution of Unemployment Rate in the EA. Unemployment rate for the EA: Total unemployed individuals aged between 16 and 74 as percentage of the total labor force. *Data source: Eurostat*

Evolution of employment by sector of activity in the euro area (2019Q1-2021Q4)

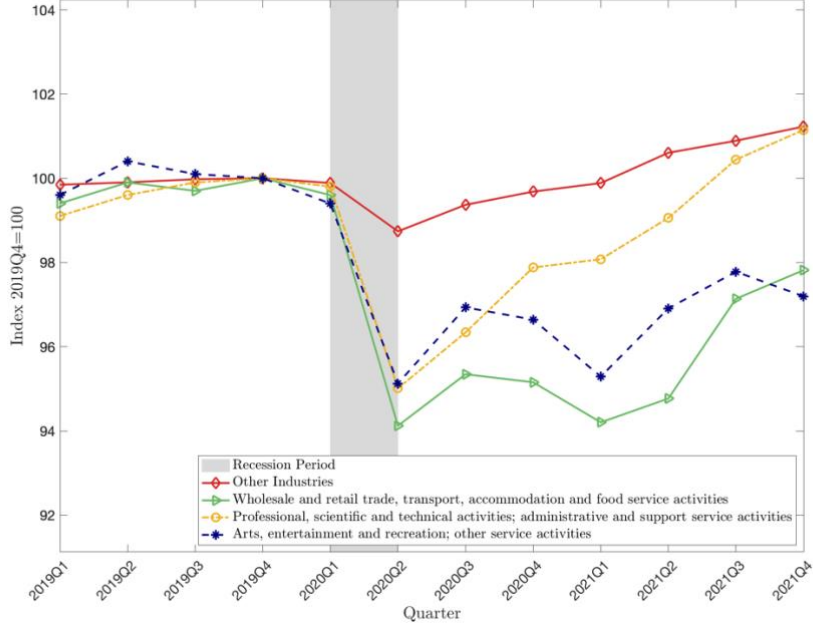


Figure 3.3 Evolution of employment (based on persons) by sector of activity in the euro area (changing composition). Employment expressed as quantity index with base year and quarter 2020Q2=100. Data source: Eurostat

Evolution of hours worked by sector of activity in the euro area (2019Q1-2021Q4)

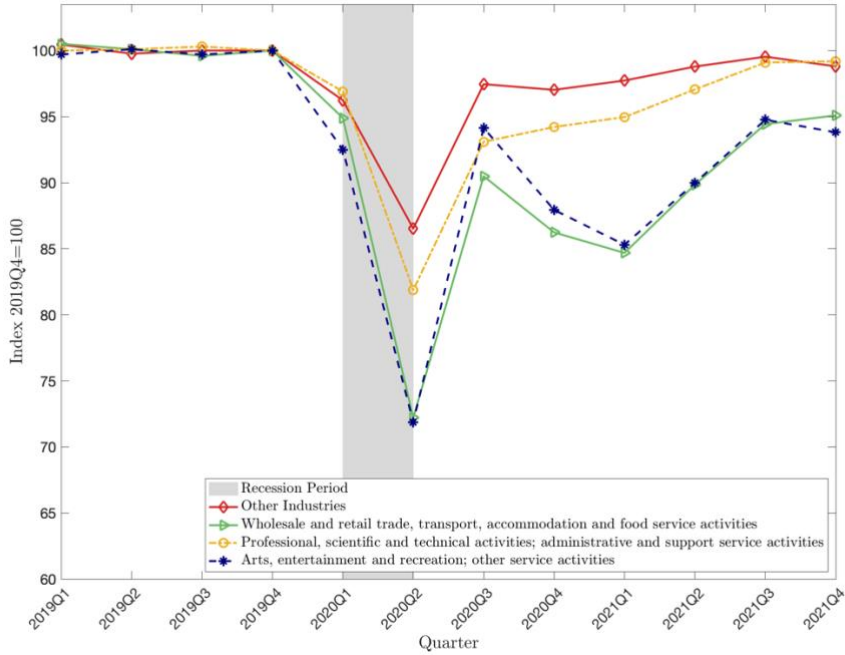


Figure 3.4 Evolution of employment (based on hours worked) by sector of activity in the euro area (changing composition). Employment expressed as quantity index with base year and quarter 2020Q2=100. *Data source:* Eurostat

Evolution of GDP and Employment in the largest EA economies. 2019Q4=100

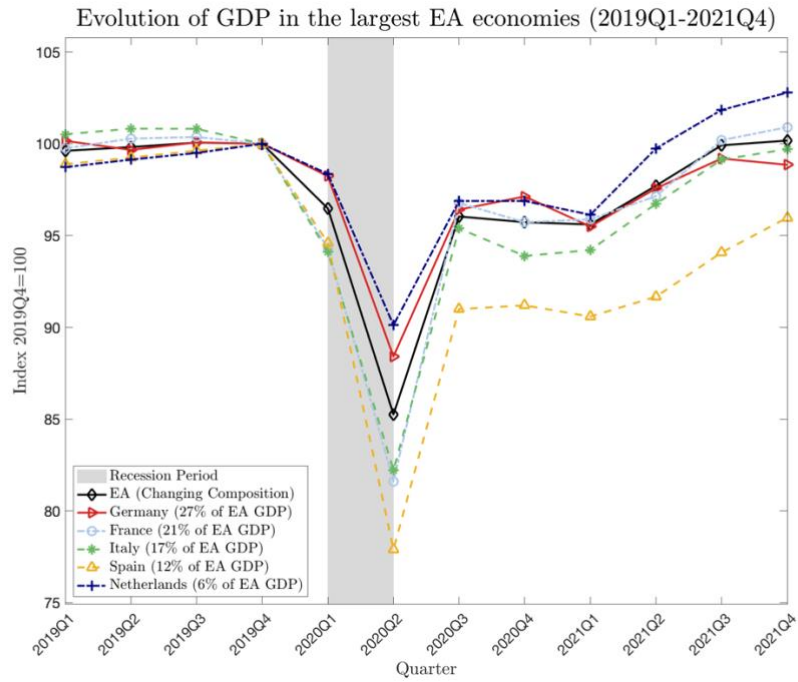


Figure 4.1 Evolution of GDP in the Euro Area and in the largest five EA economies (Germany, France, Italy, Spain, Netherlands). GDP expressed as quantity index with base year and quarter 2019Q4 = 100. The weights for each country are based on 2011 GDP. *Data source:* Eurostat

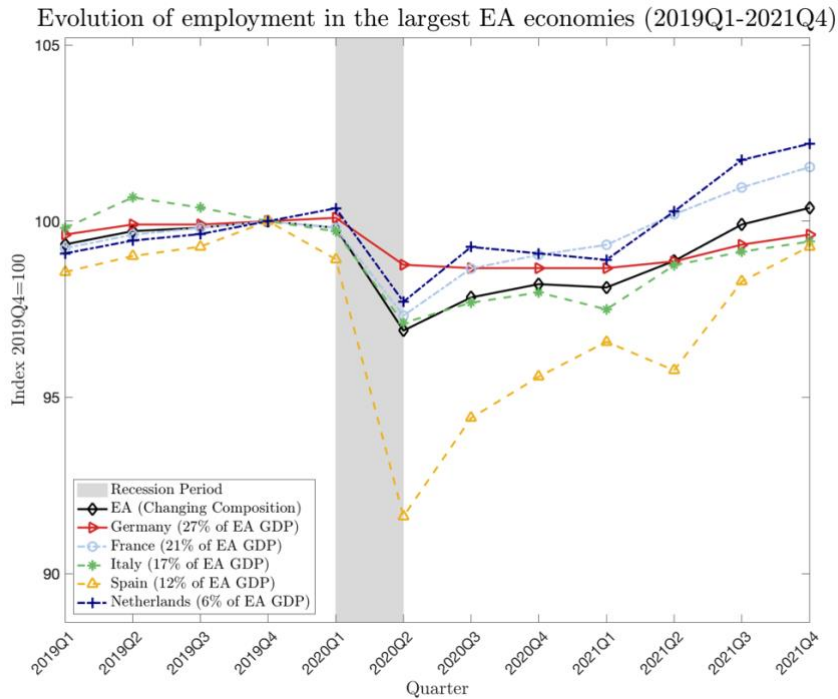


Figure 4.2 Evolution of Employment (based on persons) in the Euro Area and in the largest five EA economies (Germany, France, Italy, Spain, Netherlands). Employment expressed as quantity index with base year and quarter 2019Q4 = 100. The weights for each country are based on 2011 GDP. Data source: Eurostat

Heat Map for the Euro Area and the largest EA countries for the period 2018Q1-2021Q4

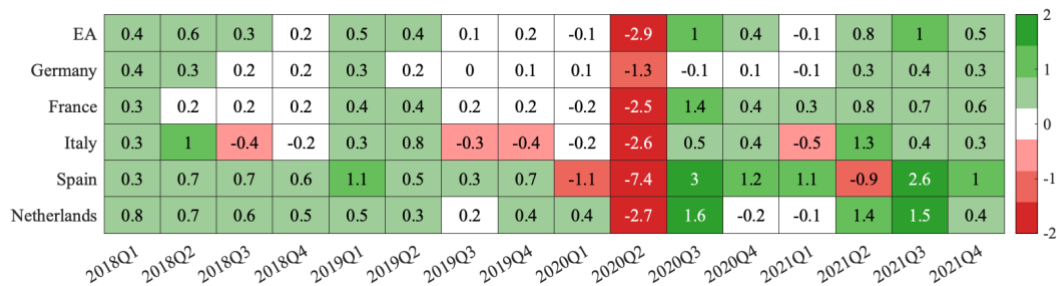
EA GDP, main components and employment (based on persons and hours)

GDP	0.1	0.5	0.1	0.6	0.7	0.2	0.2	-0.1	-3.5	-11.6	12.6	-0.3	-0.1	2.2	2.3	0.3	2
Private Consumption	0.5	0.2	0.1	0.4	0.6	0.2	0.3	0.1	-4.3	-12.7	14.1	-3	-2.3	3.9	4.5	-0.6	1
Investment	0.5	1.8	0.4	4.3	-2.1	7.3	-5.3	9.6	-4.4	-19.6	14.1	2.5	0.1	1.3	-0.9	3.5	1
Employment (persons)	0.4	0.6	0.3	0.2	0.5	0.4	0.1	0.2	-0.1	-2.9	1	0.4	-0.1	0.8	1	0.5	0
Employment (hours)	0.1	1	0.2	0.2	0.7	-0.2	0	0.1	-3.9	-14.3	15.4	-1.5	0	2.7	2.1	0	-1
Exports	-0.1	0.9	0.2	0.9	1.3	0	0.7	-0.1	-3.6	-18.7	16.4	4.5	1.3	2.8	1.7	2.9	-1
Imports	0.2	1.3	1.1	2.4	-0.5	3.5	-2.2	4.4	-2.8	-20.1	11.7	4.5	1.2	3.1	1.4	4.6	-2
	2018Q1	2018Q2	2018Q3	2018Q4	2019Q1	2019Q2	2019Q3	2019Q4	2020Q1	2020Q2	2020Q3	2020Q4	2021Q1	2021Q2	2021Q3	2021Q4	

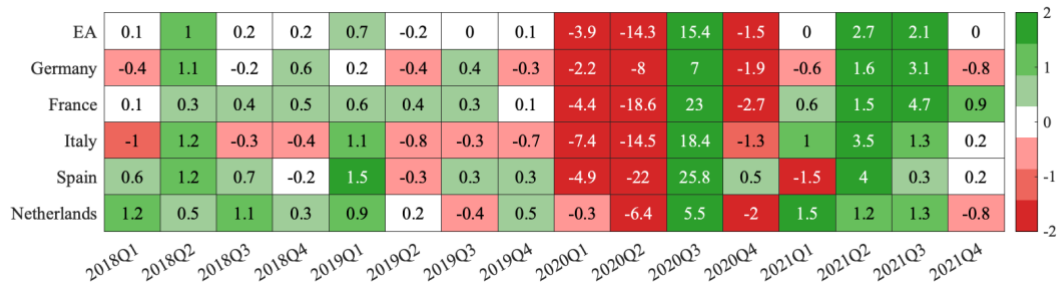
Gross Domestic Product – largest EA countries

EA	0.1	0.5	0.1	0.6	0.7	0.2	0.2	-0.1	-3.5	-11.6	12.6	-0.3	-0.1	2.2	2.3	0.3	2
Germany	-0.4	0.6	-0.4	0.4	1.1	-0.5	0.4	-0.1	-1.8	-10	9	0.7	-1.7	2.2	1.7	-0.3	1
France	0	0.3	0.4	0.7	0.6	0.5	0.1	-0.4	-5.7	-13.5	18.6	-1.1	0.2	1.3	3.1	0.7	0
Italy	0	0	0.1	0.3	0.2	0.3	0	-0.8	-5.9	-12.6	16	-1.6	0.3	2.7	2.5	0.6	0
Spain	0.4	0.6	0.5	0.7	0.6	0.4	0.4	0.4	-5.4	-17.7	16.8	0.2	-0.7	1.2	2.6	2	-1
Netherlands	0.4	0.6	0.3	0.5	0.6	0.4	0.4	0.5	-1.6	-8.4	7.5	0	-0.8	3.8	2.1	0.9	-2
	2018Q1	2018Q2	2018Q3	2018Q4	2019Q1	2019Q2	2019Q3	2019Q4	2020Q1	2020Q2	2020Q3	2020Q4	2021Q1	2021Q2	2021Q3	2021Q4	

Employment (based on persons) – largest EA countries



Employment (based on hours) – largest EA countries



Heterogeneity in Recovery: US vs EA

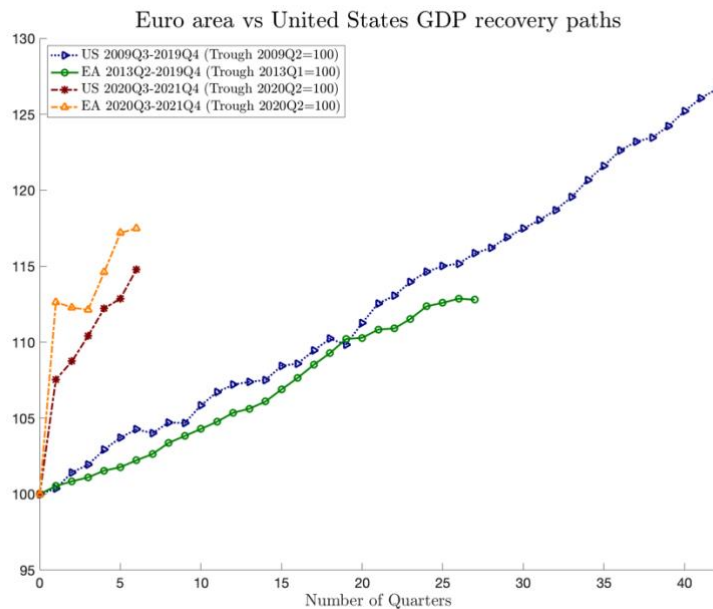


Figure 5.1 EA vs US GDP Recovery Paths. All lines represent the evolution of real GDP expressed as quantity index with base year and quarter equal to the last recession quarter concerning that recession period. *Data source:* Eurostat

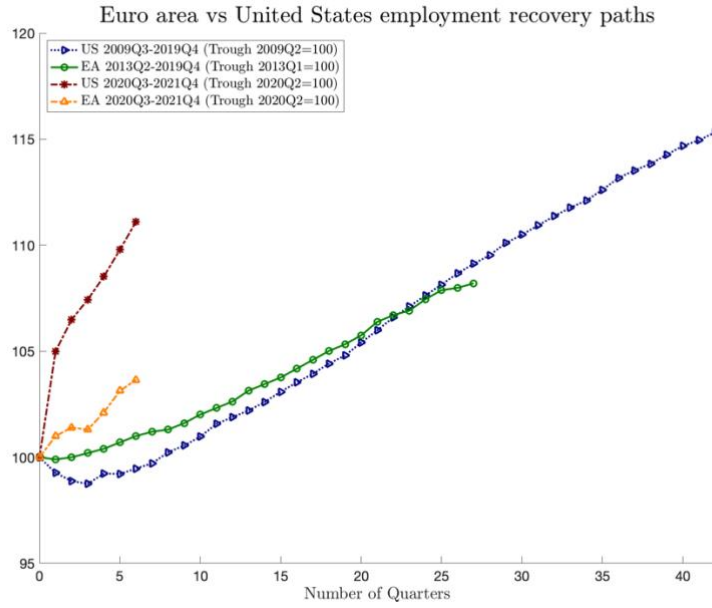


Figure 5.2 EA vs US Employment Recovery Paths. All lines represent the evolution of employment expressed as quantity index with base year and quarter equal to the last recession quarter concerning that recession period. Data source: Eurostat

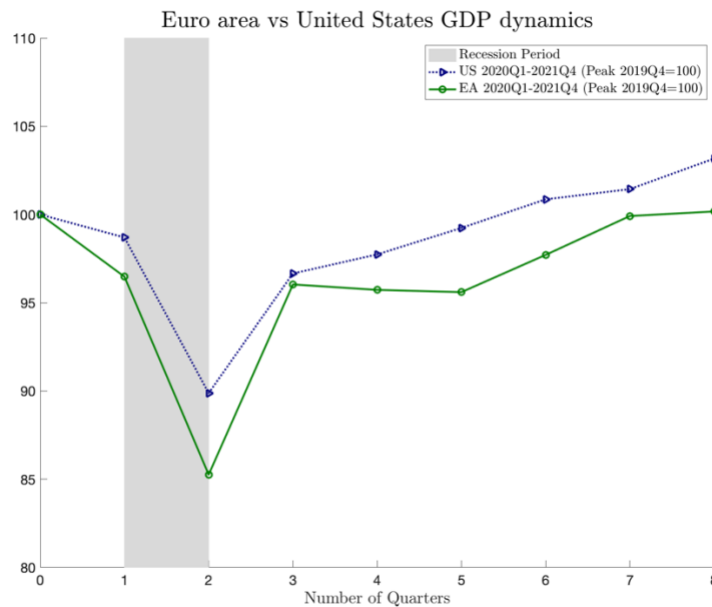


Figure 5.3 EA vs US GDP Recovery Paths. All lines represent the evolution of real GDP expressed as quantity index with base year and quarter equal to the last peak. Data source: Eurostat

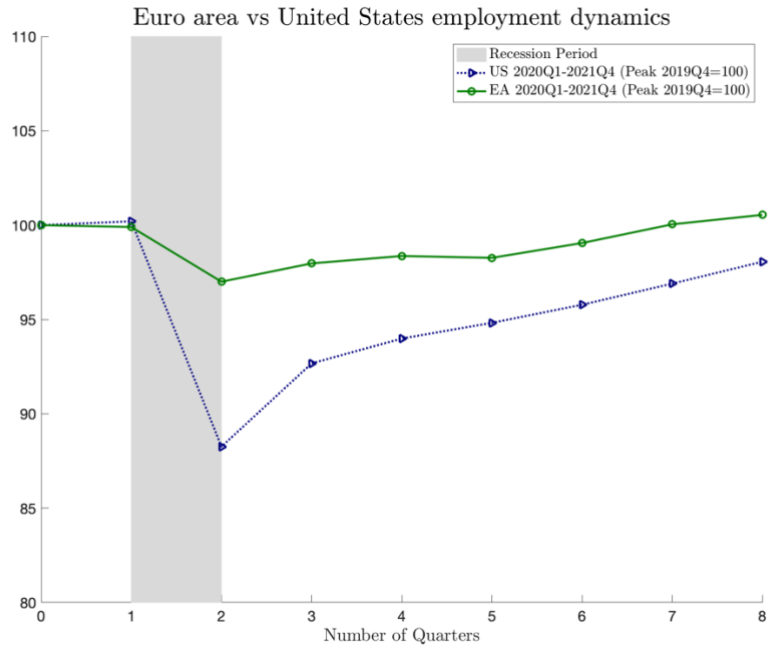


Figure 5.4 EA vs US Employment Recovery Paths. All lines represent the evolution of employment expressed as quantity index with base year and quarter equal to the last peak. Data source: Eurostat