

Euro Area Business Cycle Dating Committee

Erratic evolution of the euro area economy since the outset of the covid recession

29 March 2021

The [CEPR-EABCN Euro Area Business Cycle Dating Committee](#) deliberated electronically on 18 March 2021 to assess the state of euro area economic activity. The Committee concluded that available data do not allow it to conclude whether the euro area recession that started after the 2019Q4 peak has ended. The sharp rebound in economic activity that occurred during 2020Q3 could have marked the end of the euro area recession, but it may just have been a reprieve.

Current data show a precipitous drop in activity in 2020Q2, a sharp rebound in 2020Q3, but then a mild decline in 2020Q4. The Committee's view is that this pattern reflects the ebb and flow of the Covid-19 pandemic and associated lockdowns, rather than intrinsic expansionary dynamics. The former might, of course, be masking the latter. But making a conclusive cyclical determination requires evidence of a sustained expansion.

The Covid-19 recession

The onset of the Covid-19 pandemic pushed the euro area into recession after its 2019Q4 peak. The fall in economic activity in 2020Q2 was unprecedented in depth, speed, and scope. A reprieve in the pandemic led to a very sharp rebound in euro area economic activity in 2020Q3. However, the worsening of health conditions and the return of lockdowns in 2020Q4 interrupted that rebound and even led to a mild decline in activity.

Both *length* and *strength* are required, as per the Dating Committee *modus operandi*, to characterize a recovery. *Neither criterion is satisfied at present*: the improvement in economic conditions occurred briefly in 2020Q3 only, and the initial strength did not hold up from the summer to the fall of 2020. This leads to a suspicion, which only further data will confirm or refute, that the erratic evolution of euro area economic activity in the second half of 2020 is dictated by the waves of restrictions on economic activity imposed to fight the pandemic rather than by intrinsic expansionary dynamics. Of course, these intrinsic dynamics could be obscured by the restrictions. Only further data, and the evolution of the pandemic, will enable the Committee to make a determination as to the cyclical state of the euro area.

Conclusion

The Committee reaffirms the conclusion of its September 2020 statement:

"The Committee will continue to monitor developments in euro area economic activity to further assess the characteristics of this downturn and to determine the trough that marks the beginning of the expansion, which may already be underway. Just like dating the peak required certainty that cyclical dynamics have changed, dating the trough will require clarity on the nature of the expansion which, among other factors, will depend on the course of the pandemic and the changes in economic activity that it drives."

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 for the eleven original euro area member countries plus Greece from 1970-1998, and for 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, Universidad Carlos III de Madrid.

Appendix: figures

The gray areas in the figures represent the recession periods as dated by the Committee. The classification as recession (expansion) of all quarters since the last official peak (trough) is provisional.

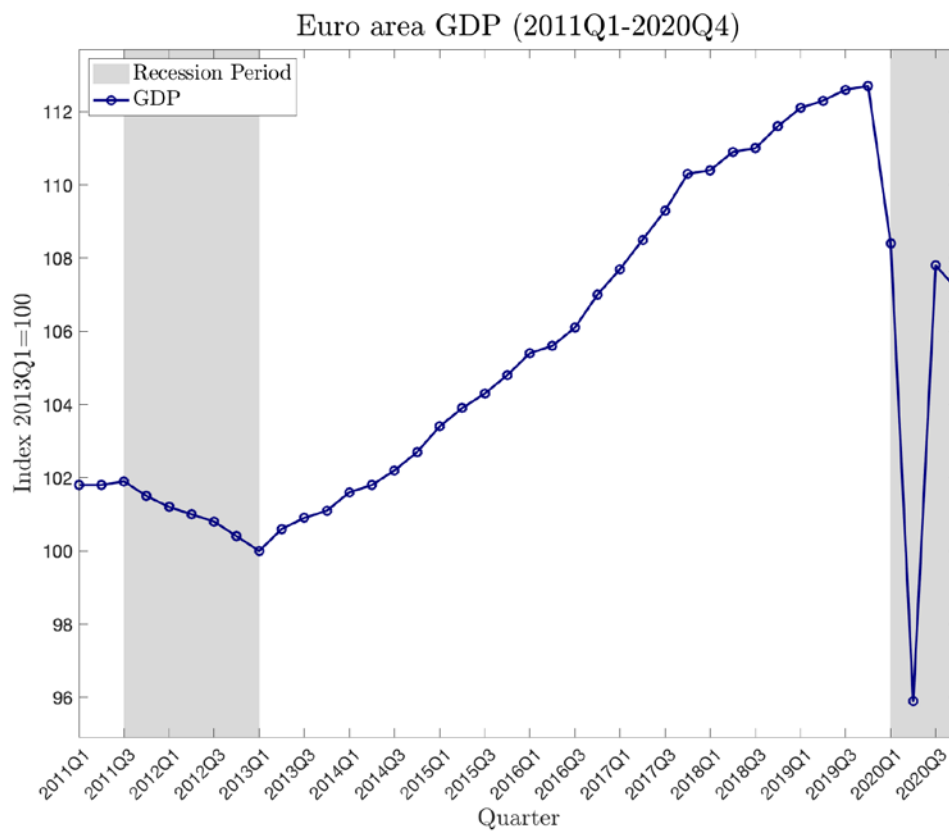


Figure 1. Evolution of euro-area GDP 2011Q1-2020Q4. All variables are expressed as quantity index with base year and quarter 2013Q1 = 100.

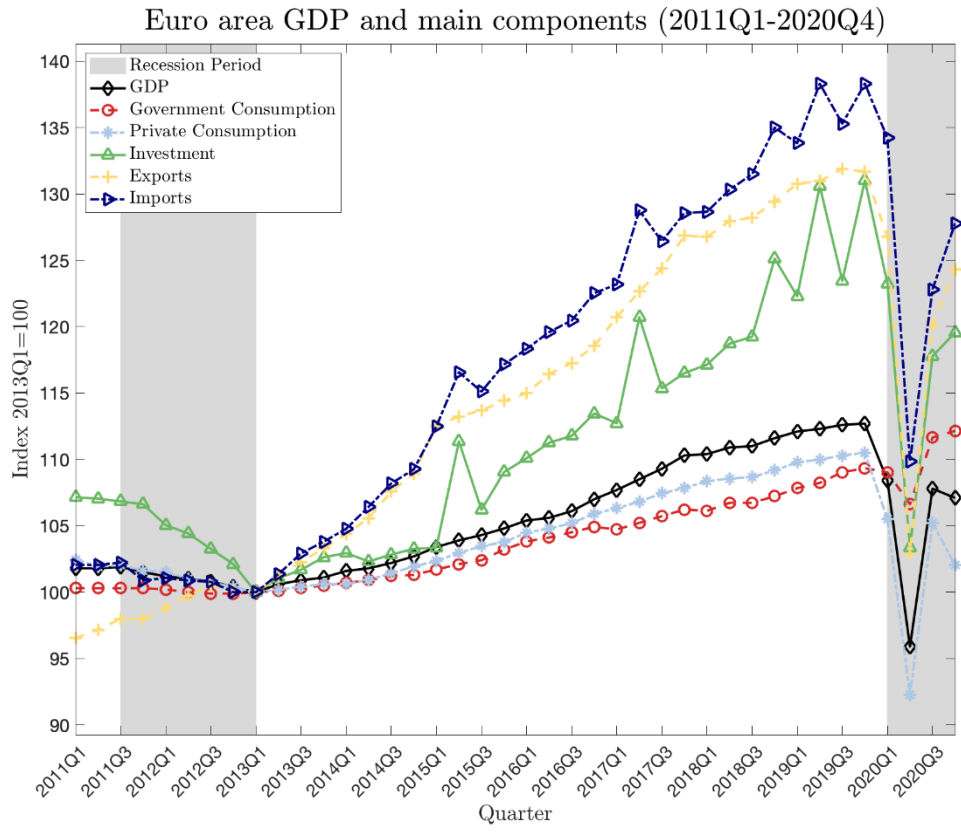


Figure 2. Evolution of euro-area GDP and main components for the period 2009Q1-2020Q4. All variables are expressed as quantity index with base year and quarter 2013Q1 = 100. Investment refers to gross capital formation. *Source:* Eurostat

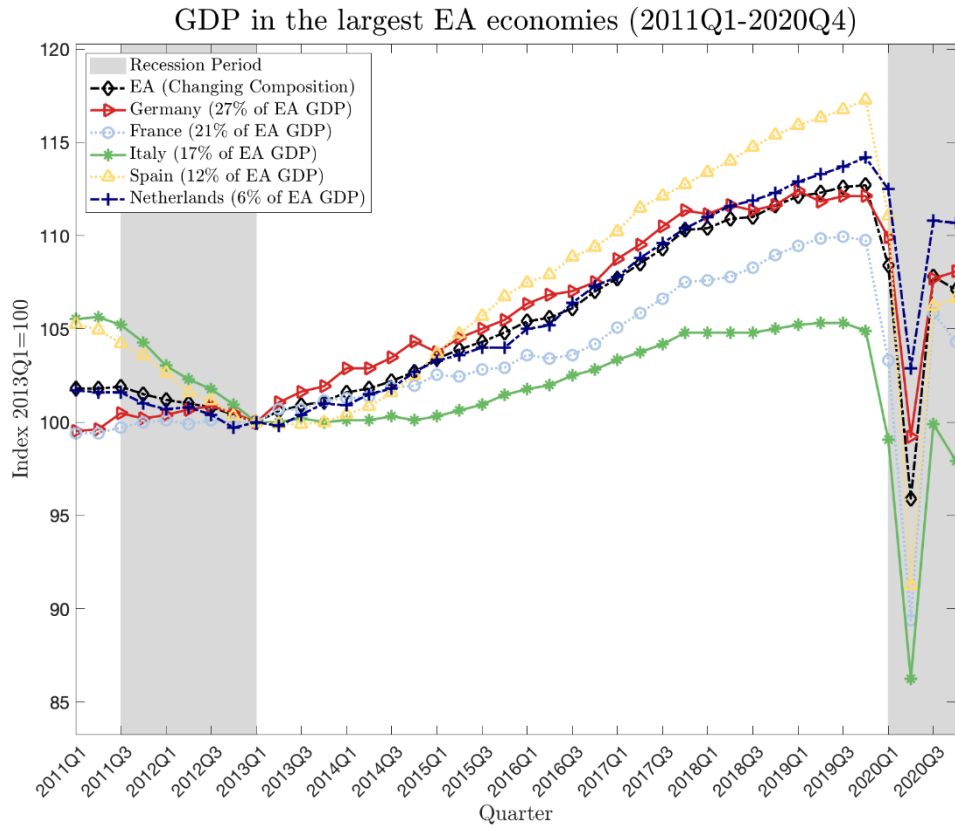
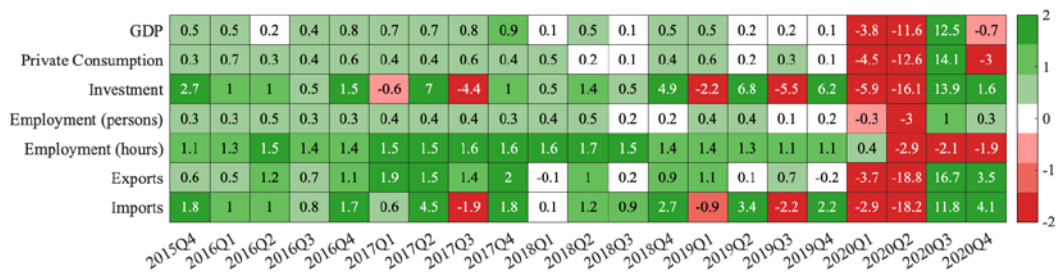
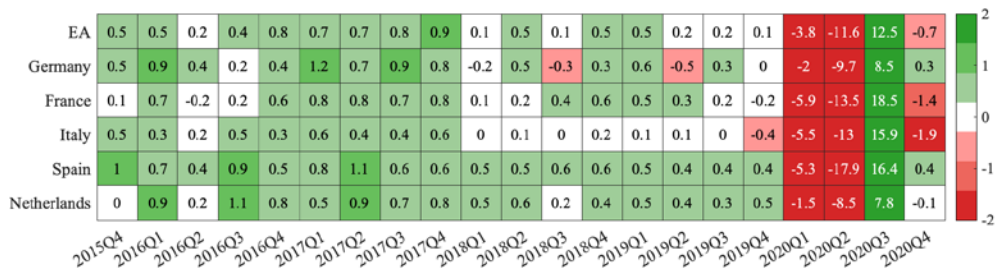


Figure 3. Evolution of GDP in the euro area and in the largest five EA economies (Germany, France, Italy, Spain, Netherlands). GDP expressed as quantity index with base year and quarter 2013Q1 = 100. The weights for each country are based on 2011 GDP. *Source:* Eurostat

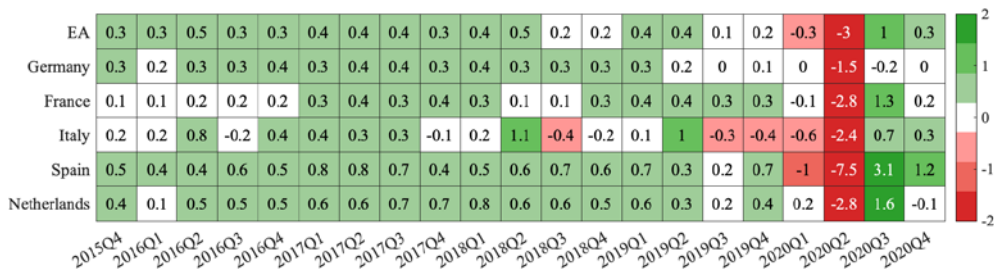
EA GDP, main components and employment (based on persons and hours)



Gross Domestic Product



Employment (based on persons)



Employment (based on hours)

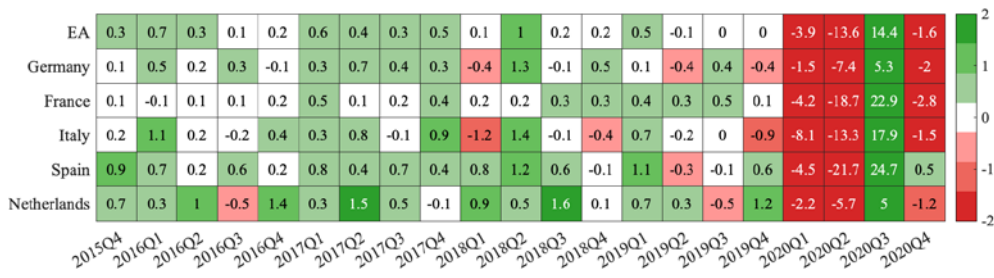


Figure 4: Heat map for the euro area and the largest EA countries for the period 2015Q4-2020Q4. All variables are expressed in percentage change over previous period. Source: Eurostat

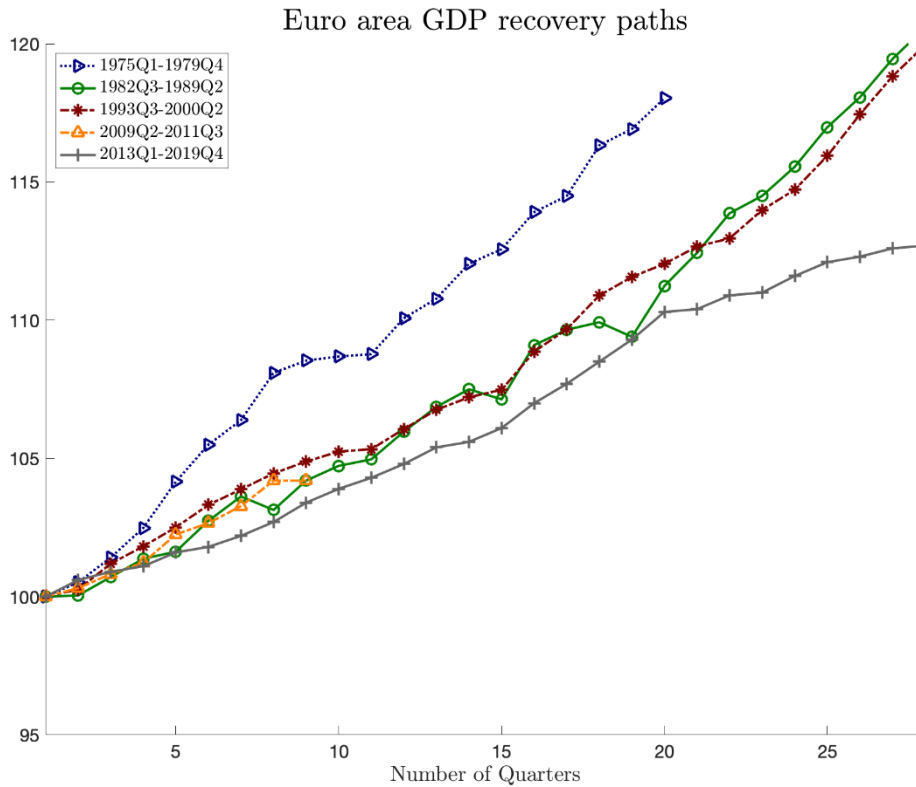


Figure 5. Euro-area Gross Domestic Product recovery paths. The figure shows the evolution of GDP in the euro area after a recession period dated by the Committee. All lines represent the evolution of GDP expressed as quantity index with base year and quarter equal to the last recession quarter concerning that recession period. On the x-axis the number of quarters after the troughs are shown. For the last two recovery paths (2009Q2-2011Q3 and 2013Q1-2019Q4), we use GDP data for the euro area changing composition. The other recovery paths have been computed using GDP data for euro area 19 fixed composition. *Source:* Eurostat and AWM database

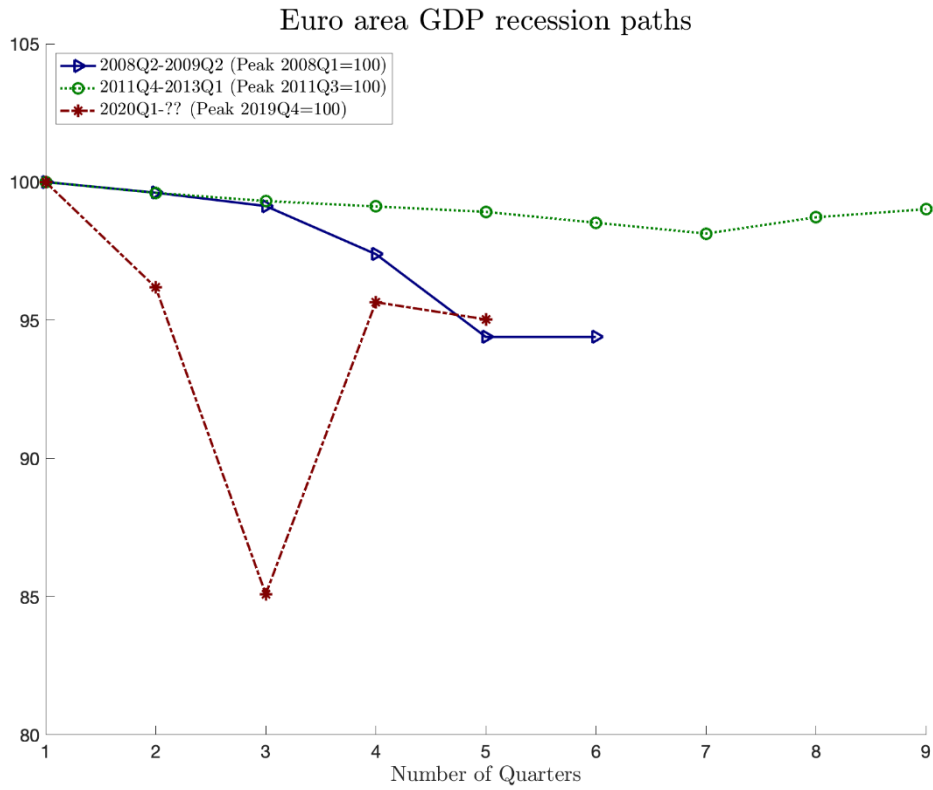


Figure 6. Euro area GDP recession paths. The figure shows the evolution of GDP in the euro area during a recession period dated by the Committee. All lines represent the evolution of GDP expressed as quantity index with base year and quarter equal to the peak preceding the concerning recession period. On the x-axis the number of quarters after the peak are shown. *Source:* Eurostat

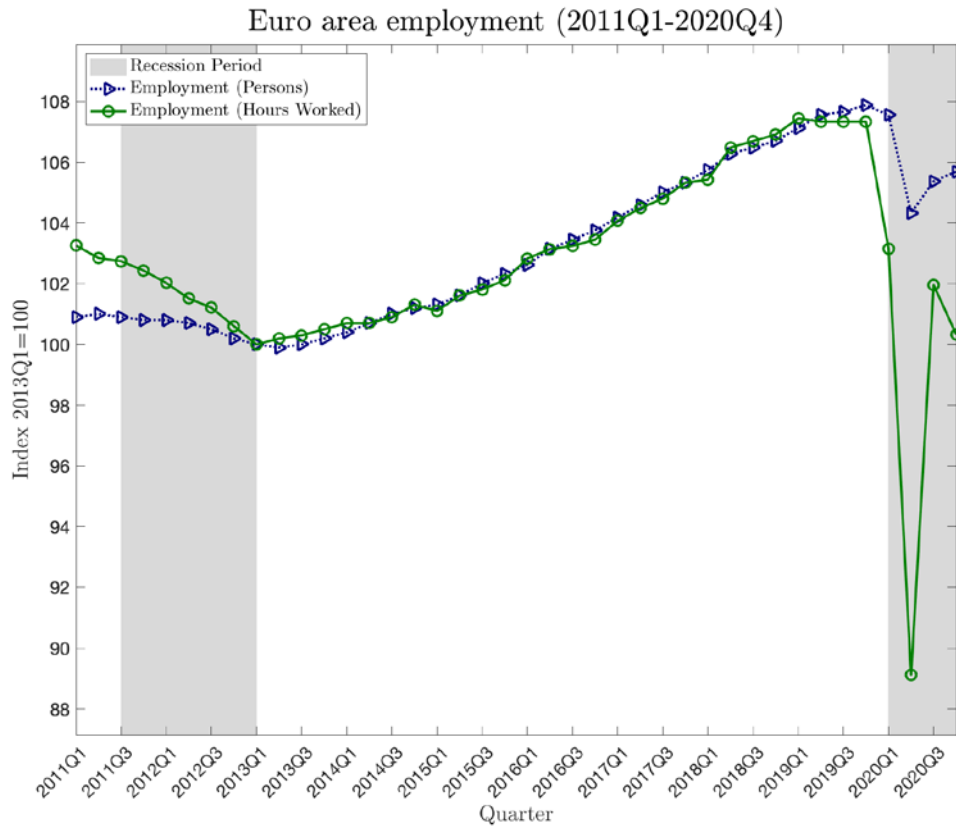


Figure 7. Evolution of employment in the period 2011Q1-2020Q4 in the euro area (changing composition). All variables are expressed as quantity index with base year and quarter 2013Q1 = 100. Source: Eurostat

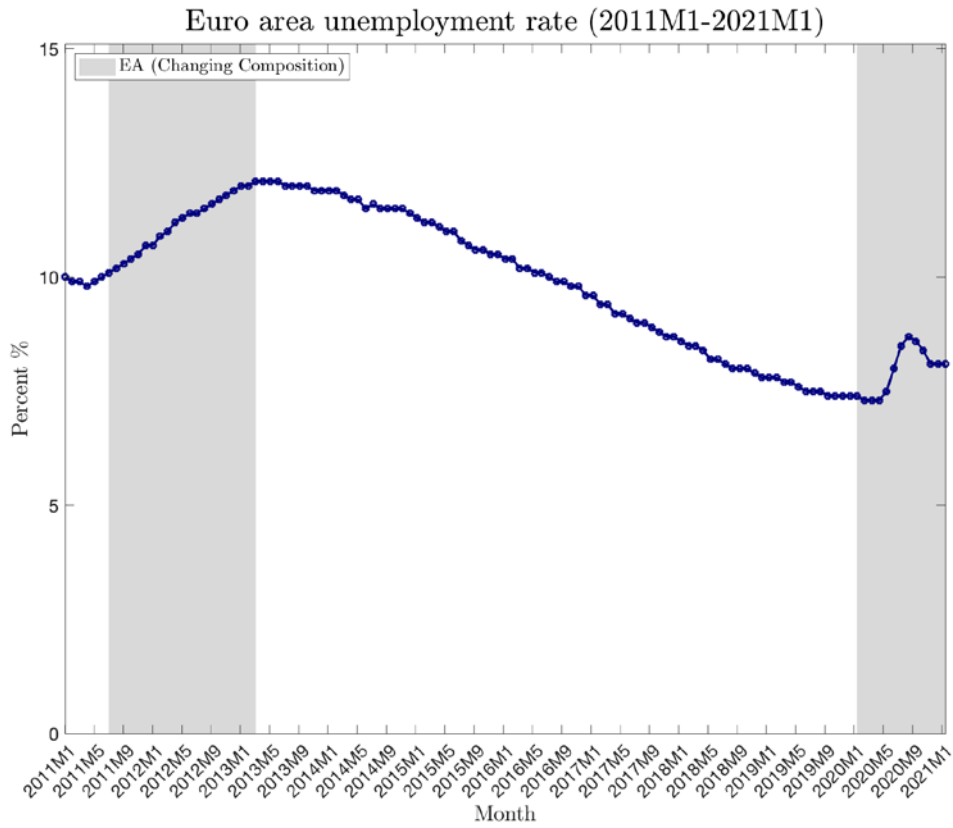


Figure 8. Euro area Unemployment rate. Harmonized unemployment rate for the EA: Total unemployed individuals aged between 16 and 74 as percentage of the total labor force. Source: Eurostat