



## Euro Area Business Cycle Dating Committee: Back to slower growth rates in the Euro Area

27 December 2022

The [CEPR-EABCN Euro Area Business Cycle Dating Committee](#) deliberated on 27 December 2022 to assess the state of euro area economic activity, relying on quarterly data through the third quarter of the year. Across euro area countries, some of the dispersion caused by the Covid shock has dissipated but differences in the recovery are still notable. As a whole, a fast recovery out of the Covid recession has reverted to roughly the slow pace of pre-pandemic euro area GDP growth. The present euro area recovery has been changing rhythm, impacted by the evolution of the pandemic and the energy crisis that has followed the Russian invasion of the Ukraine. Many contours of euro area cyclical activity can be traced to these exogenous shocks rather than to endogenous dynamics.

### Slowing euro area economic activity

The strong economic recovery that started after the 2020Q2 trough briefly paused for two quarters (2020Q4 and 2021Q1) during which the euro area experienced mild negative growth—this period was part of the expansion phase and did not constitute a recession. In particular, these two quarters did not represent a change in underlying expansion dynamics and, for that reason, the committee did not date a turning point (see our 24 March 2022 findings). They illustrate the inadequacy of an “automatic” definition of a recession as two quarters of negative GDP growth. After 2021Q1, the euro area saw two quarters of high, positive growth followed by lower positive growth in the subsequent four quarters, roughly consistent with the lacklustre pre-Covid growth path (Figures 1.1 and 1.2).

### Analysing the recovery

Analysis of the contribution of the components of GDP reveals, in Figures 2.1 and 2.2, that much of the euro area recovery since the 2020Q2 trough can be attributed to the combination of accelerating net exports in the quarters immediately after the Covid shock and, more recently, to private consumption growth. The contributions of government

consumption and private investment have been relatively stable and small in the past year.

Turning to sectoral data in Figures 3.1 and 3.2, some sectors were disproportionately affected by the pandemic. Most obviously, these include arts, entertainment and recreation; and trade, transport, accommodation, and food services. Information and communication, as well as financial and insurance activities suffered least and, by and large, continued to grow faster after the trough. The sectoral dispersion caused by the Covid shock has to some extent diminished. Although growing after 2021Q1 the arts, entertainment and recreation sector has recovered more sluggishly and has not reached its pre-pandemic level. Much of the GDP recovery in recent quarters can be attributed to the growth of the trade, transport, accommodation, and food services sector.

### **The labour market**

The changes in the rhythm of recovery of GDP growth are not reflected in employment data (Figure 3.3). The speed of employment recovery has been steadier due to the labour market policies implemented in many euro area countries. Moreover, as Figure 3.4 shows, employment gains since the trough are broad based across every sector.

Labour market adjustment during the Covid crisis was mainly attained through movements in hours worked as shown in Figure 3.3., with the sectors hit hardest by the pandemic adjusting significantly through this intensive margin (Figure 3.5).

### **Catching up**

While the Committee analyses economic activity in the euro area as a whole, it finds it useful to compare the paths of recovery across individual countries.

Figure 4.1 presents the evolution of real GDP in the five largest euro area economies. Country differences have decreased and there is catching up. The Netherlands is leading the recovery and Spain is lagging. Figure 4.2 shows the evolution of employment in those countries. The acceleration of euro area employment since 2020Q2 can be traced, among the five largest euro area economies, mainly to France and the Netherlands, while the Spanish labour market has only very recently attained its pre-pandemic employment level.

### **Two different recoveries: Euro Area and U.S.**

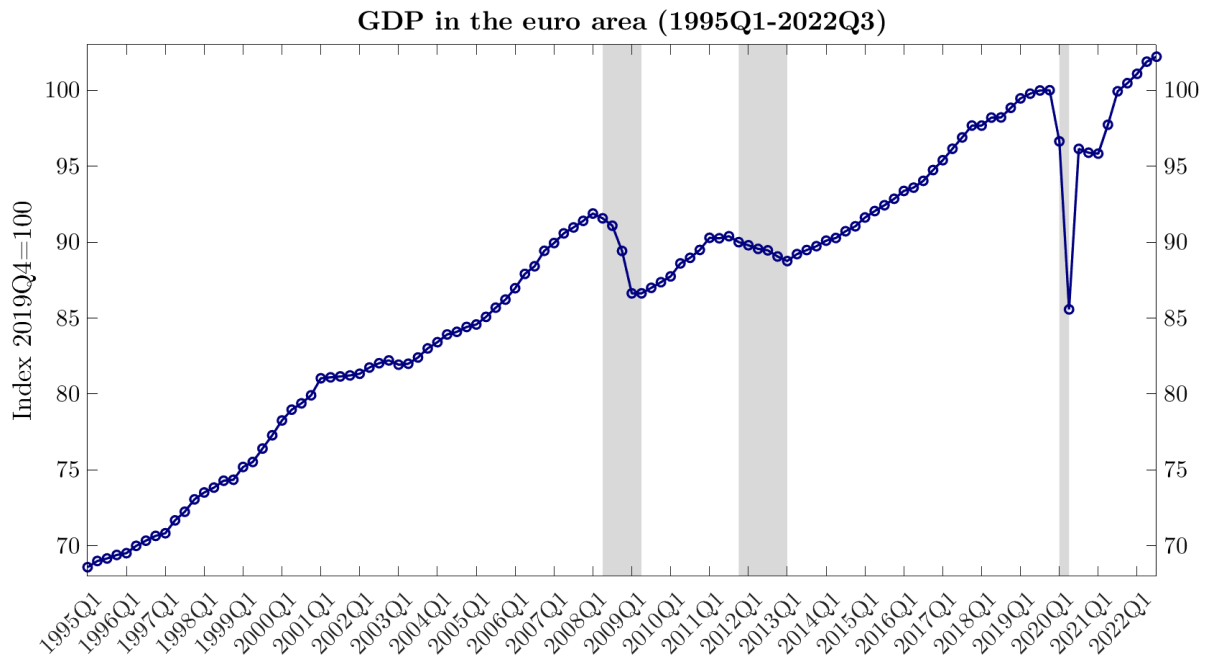
While the Covid shock was global, both the reaction to this shock and the subsequent recoveries differed across regions.. Comparing the recovery in the U.S. and the euro area economies in Figures 5.1 and 5.2, the euro area had a stronger contraction in GDP resulting from the Covid shock and subsequently grew faster than the U.S. But when aggregate growth rates since the pre-pandemic peaks are compared, the U.S. continues

to have an edge. The employment dynamics were exacerbated by the different policy measures adopted across the Atlantic. As Figures 5.3 and 5.4 indicate, employment growth in the U.S. has been faster since the trough because of how large the initial drop was. Owing to its employment protection schemes, the euro area had a smaller drop in the number of employed persons to begin with and, as a result, the employment recovery has been much smoother.

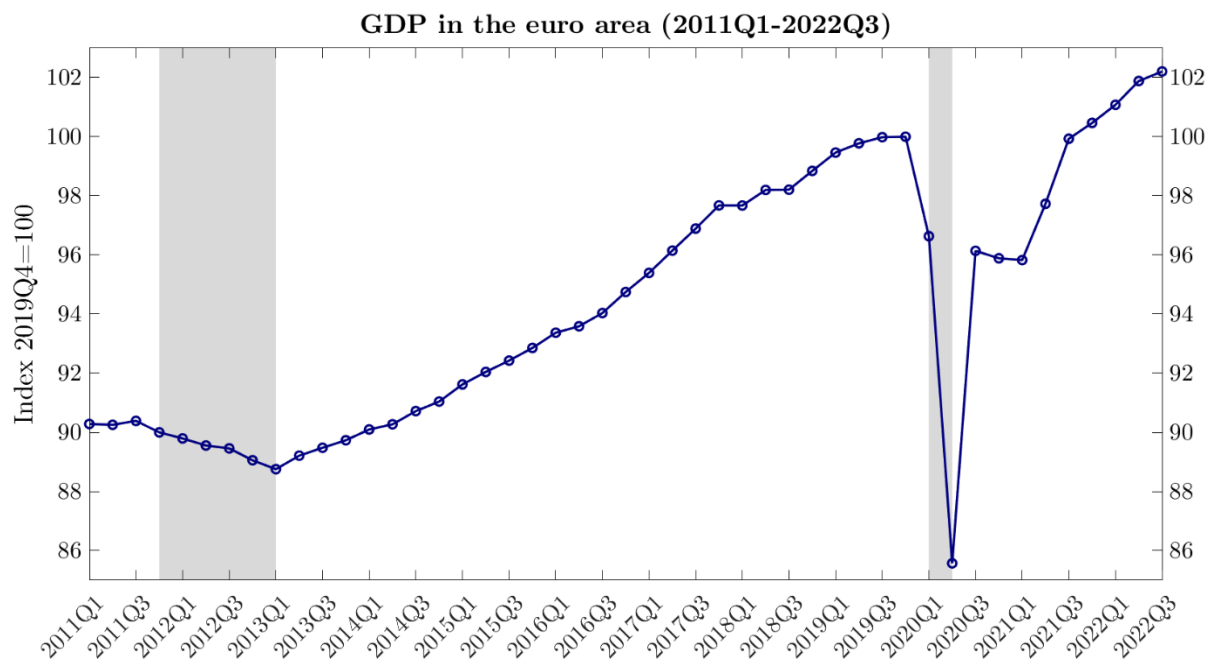
## **Conclusion**

The Committee notes that the fast euro area recovery out of the Covid recession has turned into a slow growth path, consistent with the slow growth rate of euro area GDP before the pandemic. The current euro area recovery has been changing rhythm based on the evolution of the pandemic and the energy crisis that has followed the Russian invasion of the Ukraine. Many contours of euro area cyclical activity can be traced to these exogenous shocks rather than to endogenous dynamics.

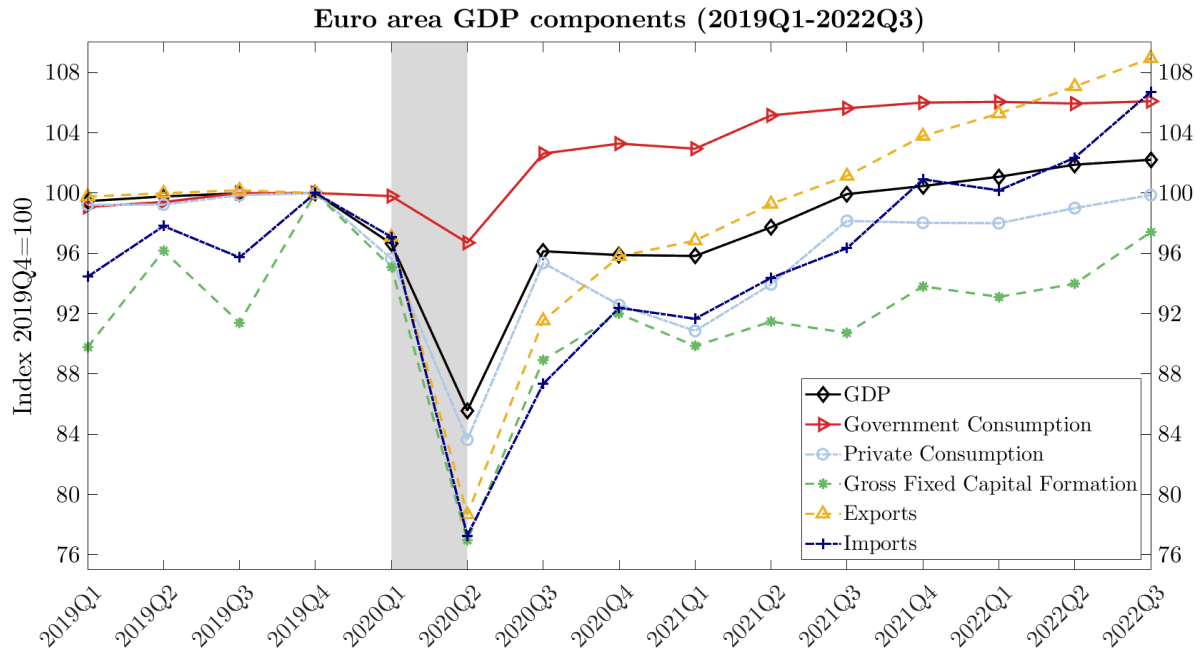
## Figures



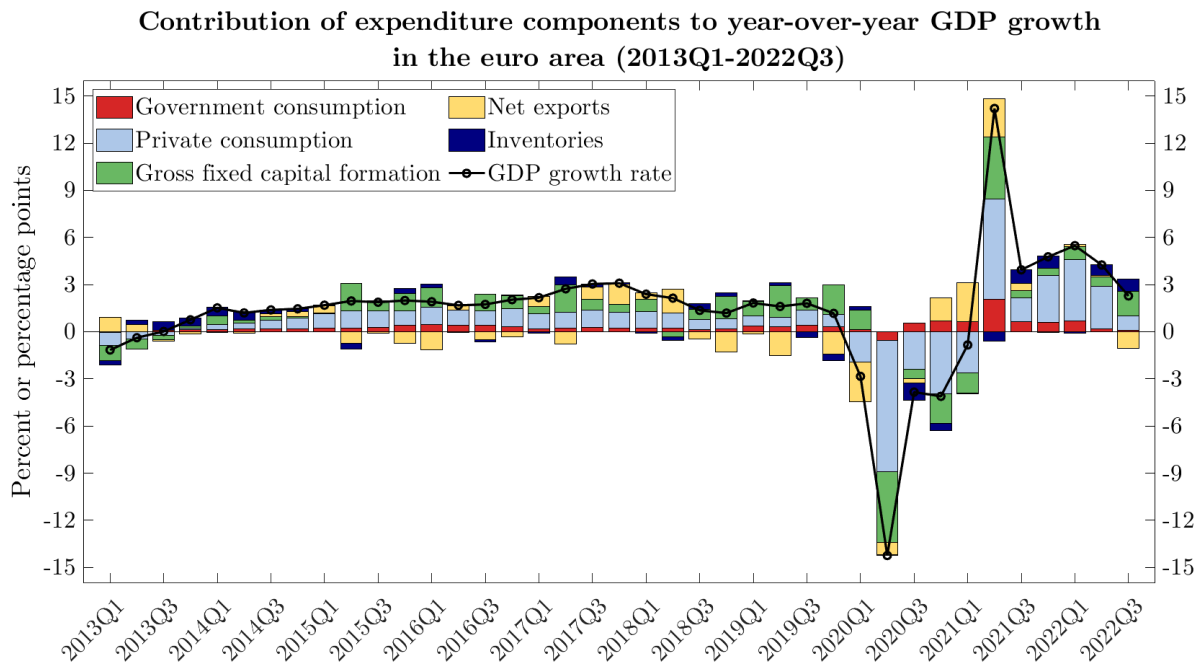
**Figure 1.1** GDP at market prices. Chain-linked volume index, base 2019Q4=100. The data are seasonally and calendar adjusted. Grey bands are recessions (peak excluded) as dated by the Committee. *Source:* [\[Eurostat\]](#)



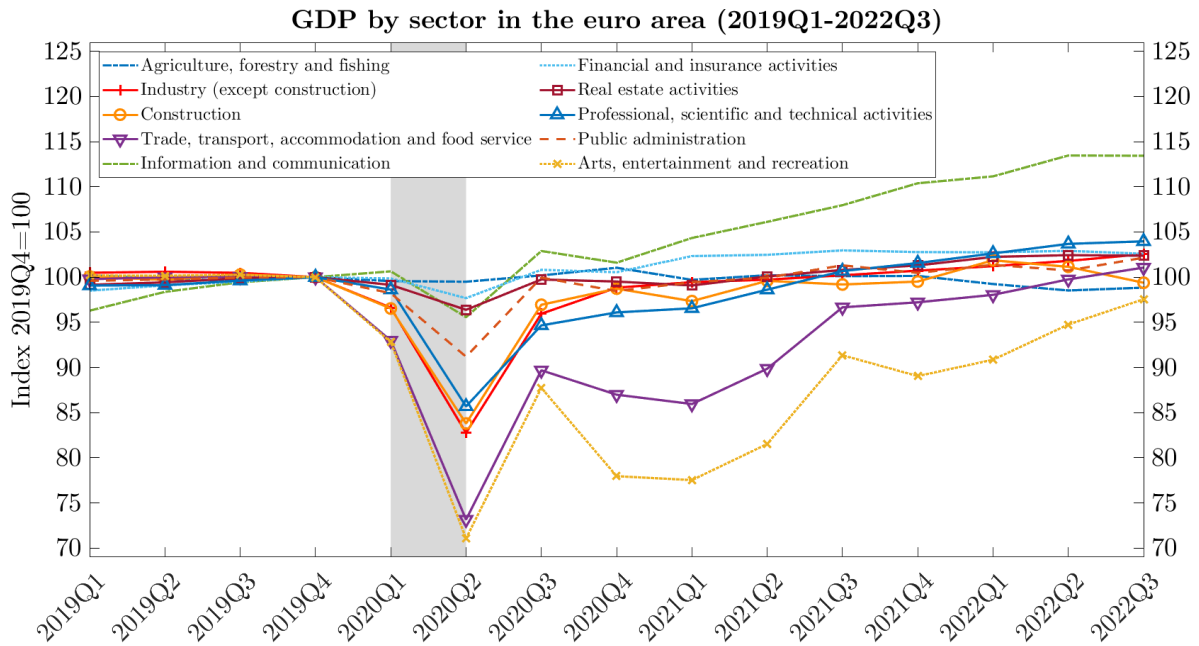
**Figure 1.2** GDP at market prices. Chain-linked volume index, base 2019Q4=100. The data are seasonally and calendar adjusted. Grey bands are recessions (peak excluded) as dated by the Committee. *Source:* [\[Eurostat\]](#)



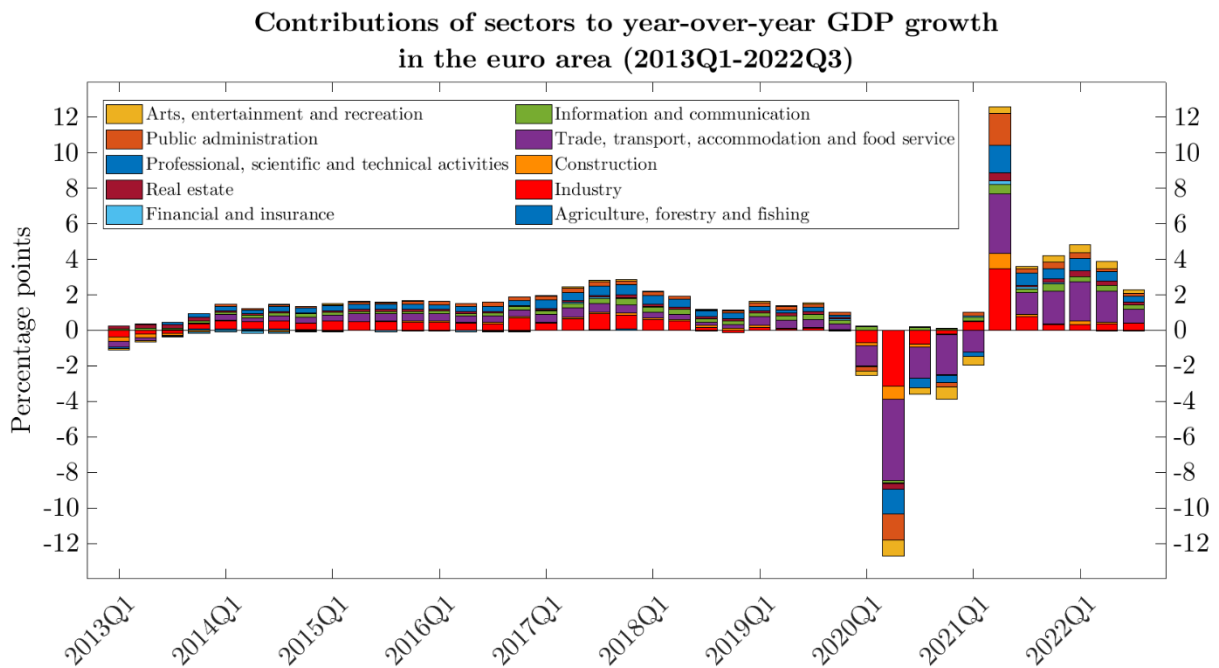
**Figure 2.1** Chain-linked volume indices, base 2019Q4=100. The data are seasonally and calendar adjusted. Grey bands are recessions (peak excluded) as dated by the Committee. *Source:* [Eurostat]



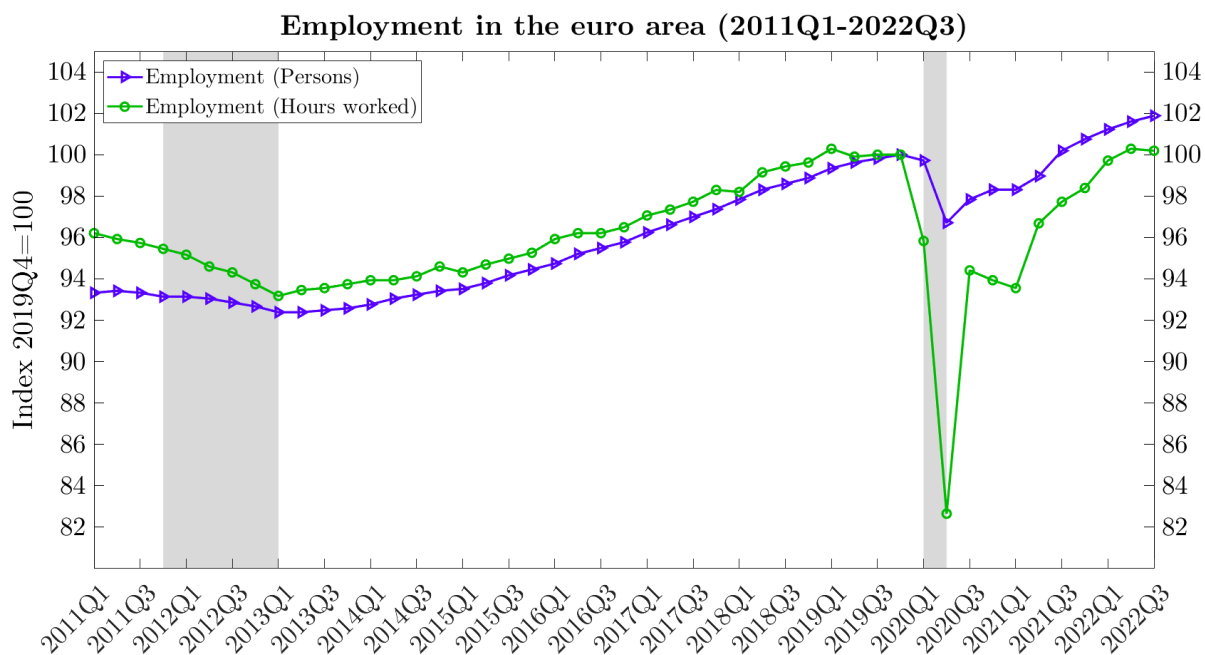
**Figure 2.2** GDP growth is in percent; contributions are in percentage points. Solid black line is year-over-year GDP growth rate. Inventories are changes in inventories and acquisition less disposals of valuables. The data are seasonally and calendar adjusted. *Source:* [Eurostat]



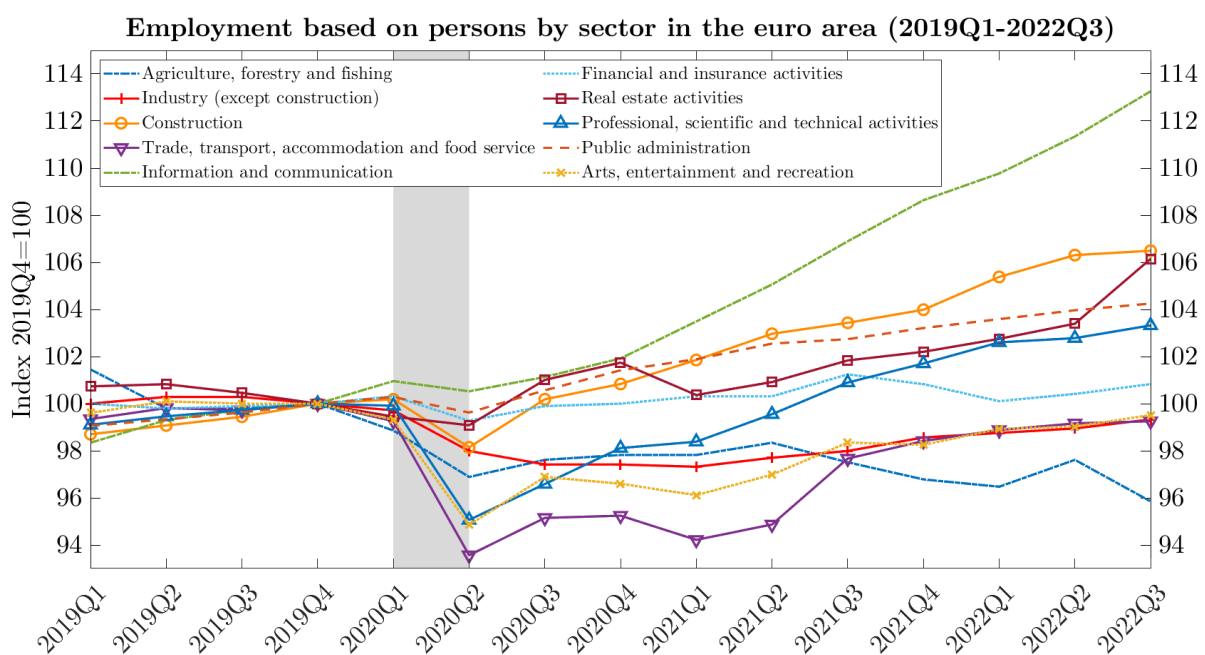
**Figure 3.1** NACE Rev. 2 sectors. Quantity indices, base 2019Q4=100. The data are seasonally and calendar adjusted. Grey bands are recessions (peak excluded) as dated by the Committee. *Source:* [Eurostat]



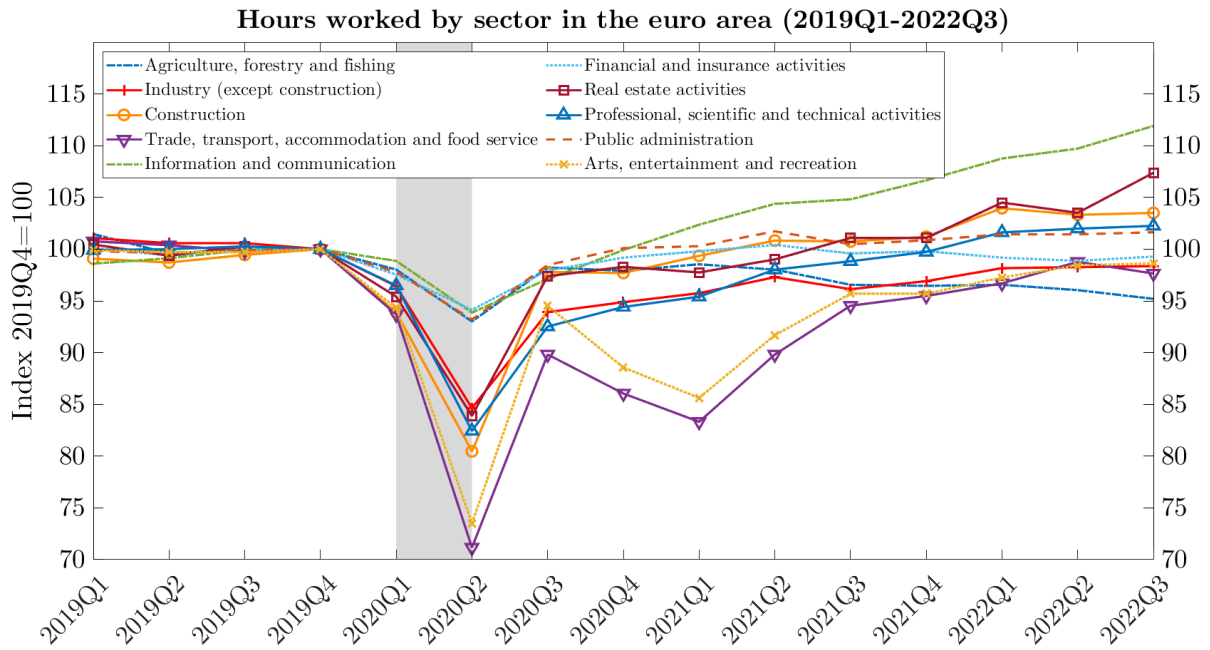
**Figure 3.2** Contributions are in percentage points. NACE Rev. 2 sectors. The data are seasonally and calendar adjusted. *Source:* [Eurostat]



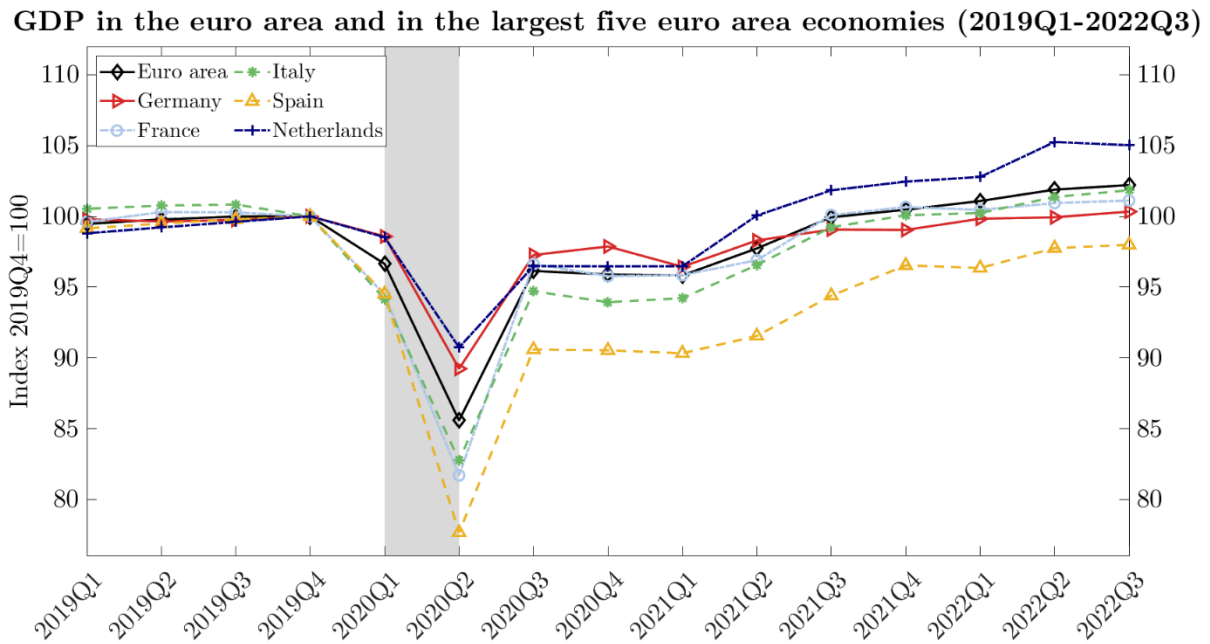
**Figure 3.3** Employment covering all persons engaged in some productive activity within the production boundary of the national accounts. Quantity indices, base 2019Q4=100. The data are seasonally and calendar adjusted. Grey bands are recessions (peak excluded) as dated by the Committee. *Source:* [Eurostat]



**Figure 3.4** NACE Rev. 2 sectors. Quantity indices, base 2019Q4=100. The data are seasonally and calendar adjusted. Grey bands are recessions (peak excluded) as dated by the Committee. *Source:* [Eurostat]



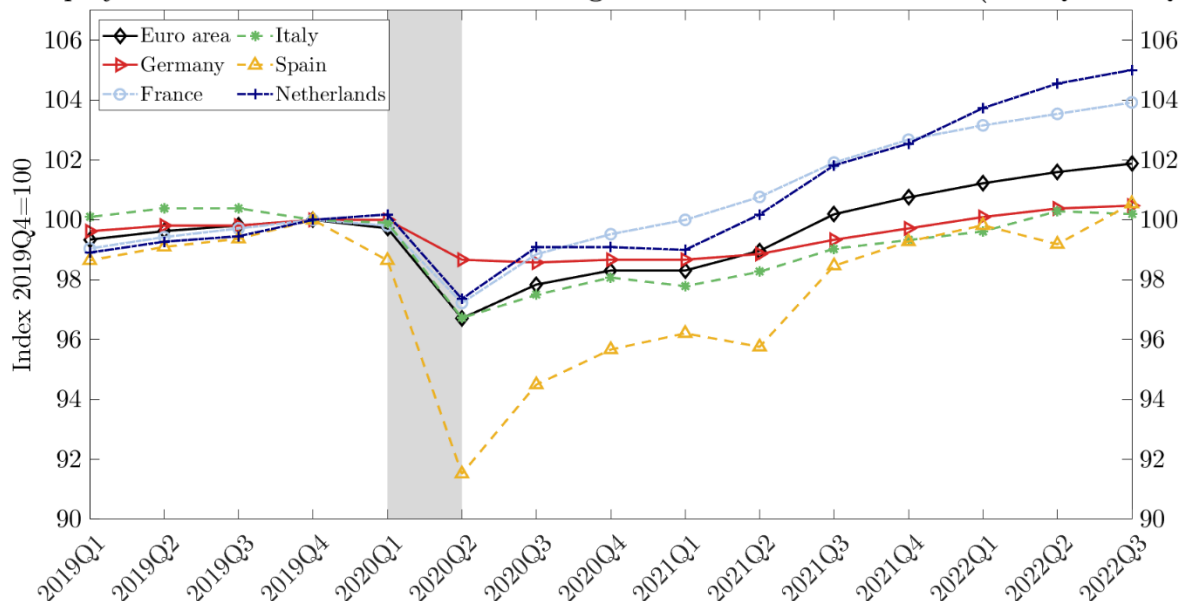
**Figure 3.5** NACE Rev. 2 sectors. Quantity indices, base 2019Q4=100. The data are seasonally and calendar adjusted. Grey bands are recessions (peak excluded) as dated by the Committee. *Source:* [Eurostat]



**Figure 4.1** Chain-linked volume indices, base 2019Q4=100. Germany constitutes 27%, France 21%, Italy 17%, Spain 12%, and the Netherlands 6% of the 2011 euro area nominal GDP. The data are seasonally and calendar adjusted. Grey bands are recessions (peak excluded) as dated by the Committee. *Source:* [Eurostat]

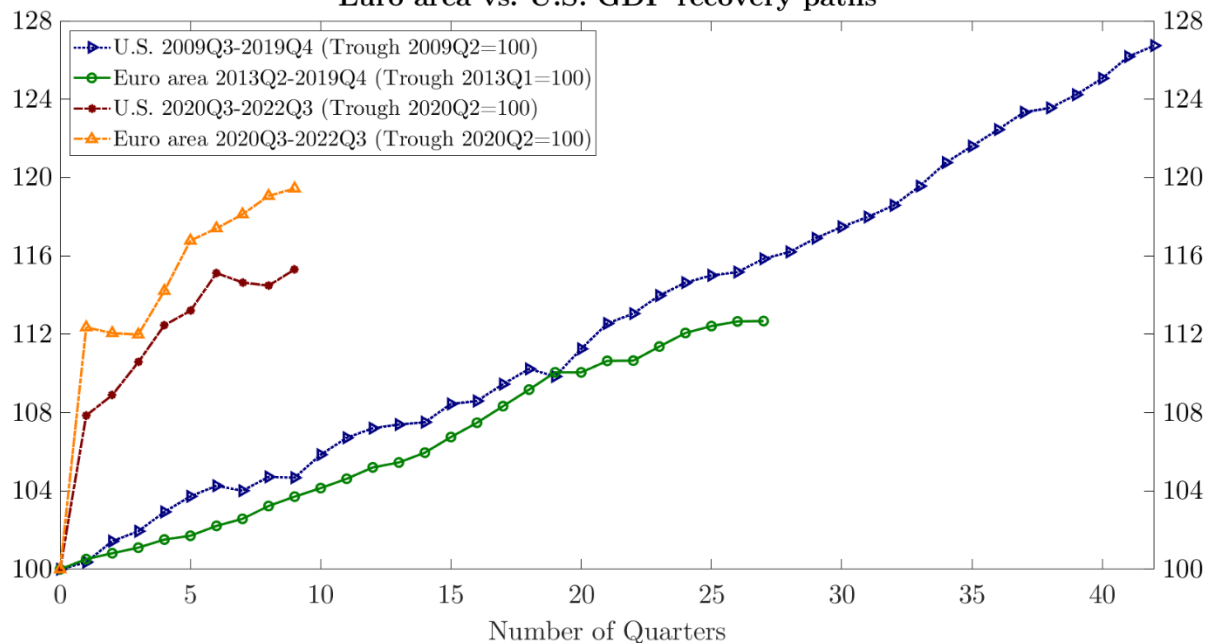


**Employment in the euro area and in the largest five euro area economies (2019Q1-2022Q3)**

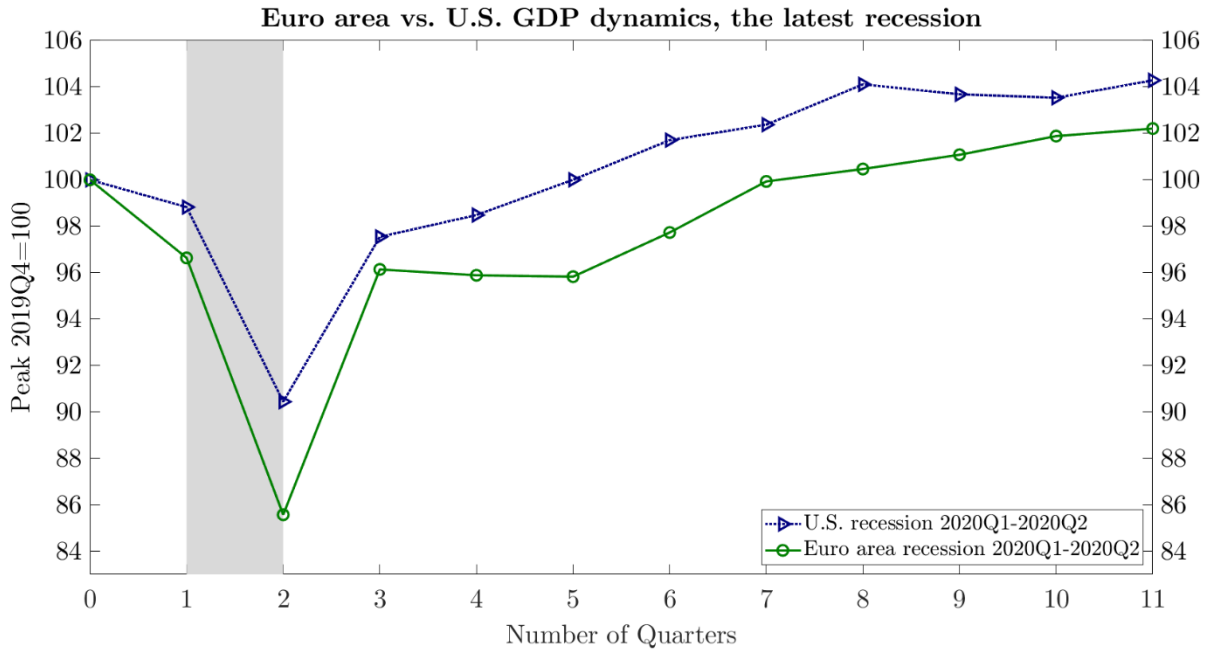


**Figure 4.2** Quantity indices, base 2019Q4=100. In 2011 euro area nominal GDP, Germany constitutes 27%, France 21%, Italy 17%, Spain 12%, and the Netherlands 6%. The data are seasonally and calendar adjusted except for France, where the data are seasonally adjusted but not calendar adjusted. Grey bands are recessions (peak excluded) as dated by the Committee. *Source:* [Eurostat]

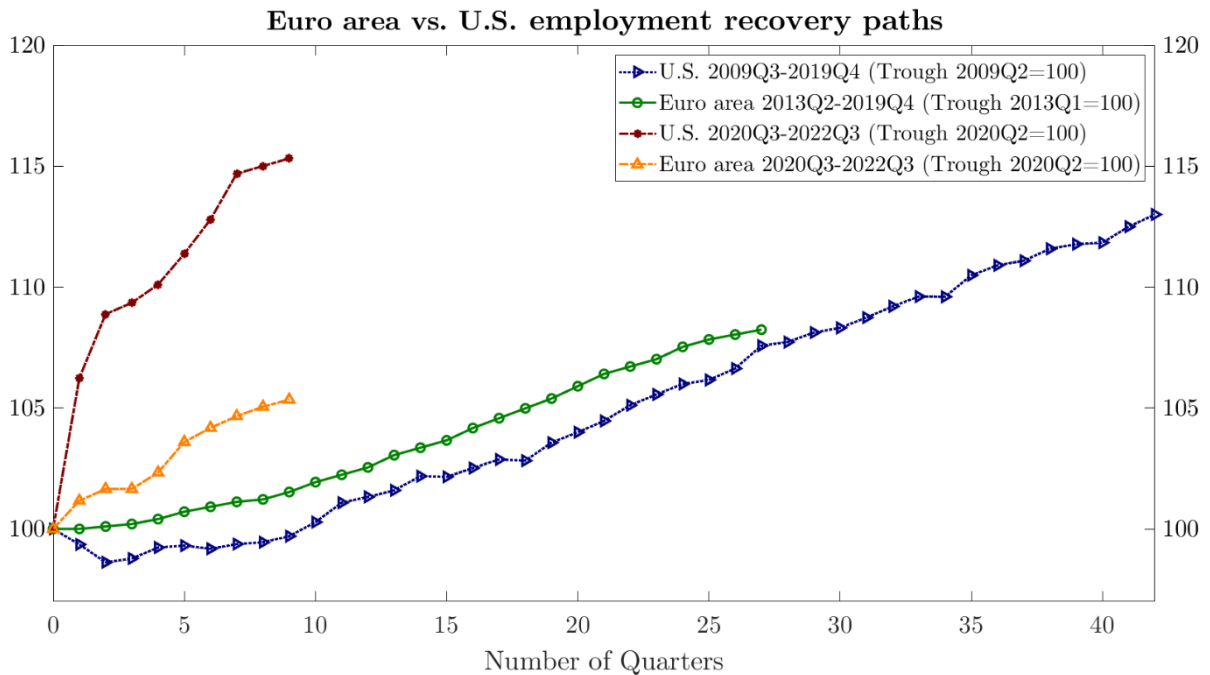
**Euro area vs. U.S. GDP recovery paths**



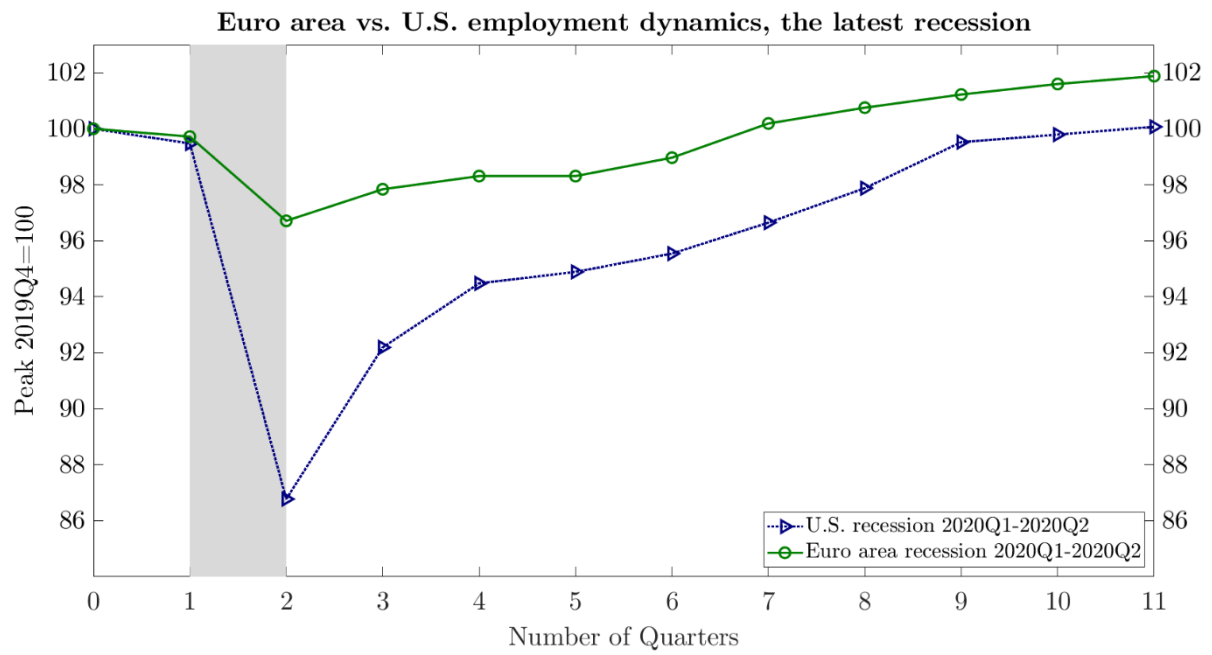
**Figure 5.1** Chain-linked volume indices, base year and quarter equal to 100 at the date of the trough. The data are seasonally and calendar adjusted. *Source:* [Eurostat] [FRED]



**Figure 5.2** Quantity indices, base year and quarter equal to the last peak quarter before the recession. The data are seasonally and calendar adjusted. Grey bands are recessions (peak excluded) as dated by the Committee. The latest recession overlaps with the U.S. recession as dated by the NBER Committee. *Source:* [Eurostat] [FRED]



**Figure 5.3** Quantity indices, base year and quarter equal to 100 at the at the date of the trough. The data are seasonally and calendar adjusted. *Source:* [Eurostat] [FRED]



**Figure 5.4** Quantity indices, base 2019Q4=100. The data are seasonally and calendar adjusted. Grey bands are recessions (peak excluded) as dated by the Committee. The latest recession overlaps with the U.S. recession as dated by the NBER Committee. *Source:* [Eurostat] [FRED]