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€ABCN
Euro Area Business Cycle Network

Euro Area Business Cycle Dating Committee: The Sluggish Recovery of the Euro Area is Slowing Down

25 November 2019

The CEPR-EABCN Euro Area Business Cycle Dating Committee deliberated electronically on 25 November 2019 to assess the state of euro area economic activity and to prepare, as it now does bi-annually, a statement summarizing its findings. The Committee concluded that the euro area recovery, which started after the last trough in 2013Q1, is ongoing but has markedly slowed down since 2017Q4. It is by now, 26 quarters into a weak expansion, the slowest of all euro area recoveries to date. Furthermore, the pace of the current post-recession recovery of the euro area, which had been commensurate with that of the US (considering it began later, after the double dip that the US avoided), is now lagging behind the speed of the US recovery.

Decelerating euro area economic activity

The weak economic expansion that started after the 2013Q1 trough (see the October 2015 and August 2017 findings) has slowed down markedly since 2017Q4 (Figures 1a and 1b).

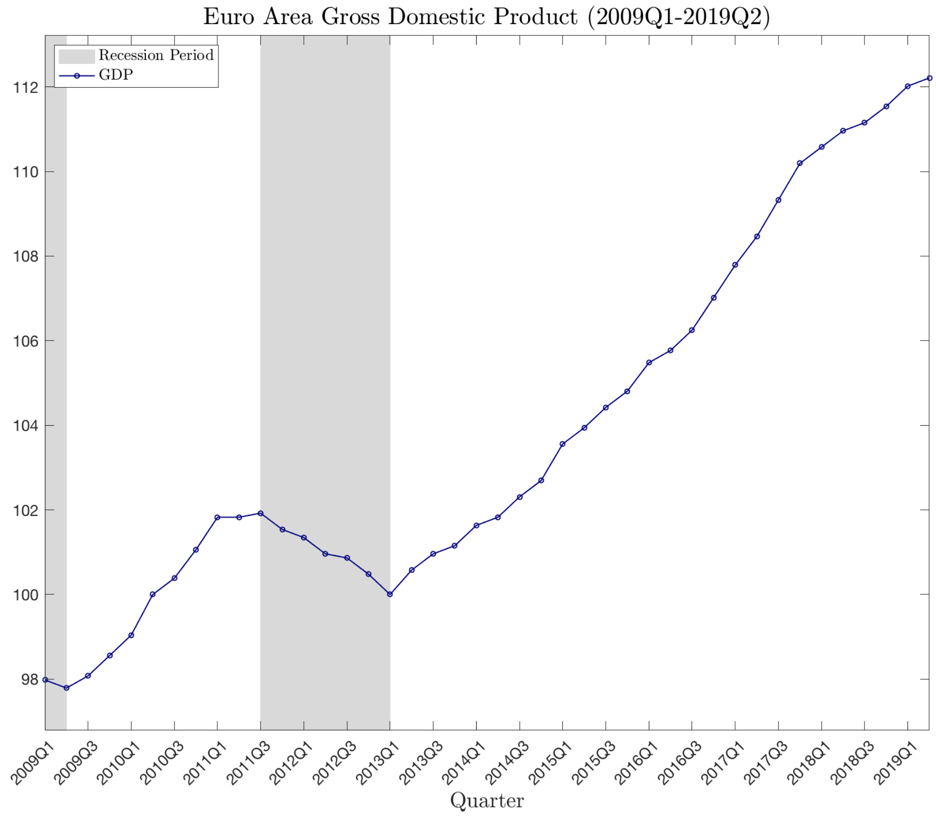

Figure 1a (recessions in grey)

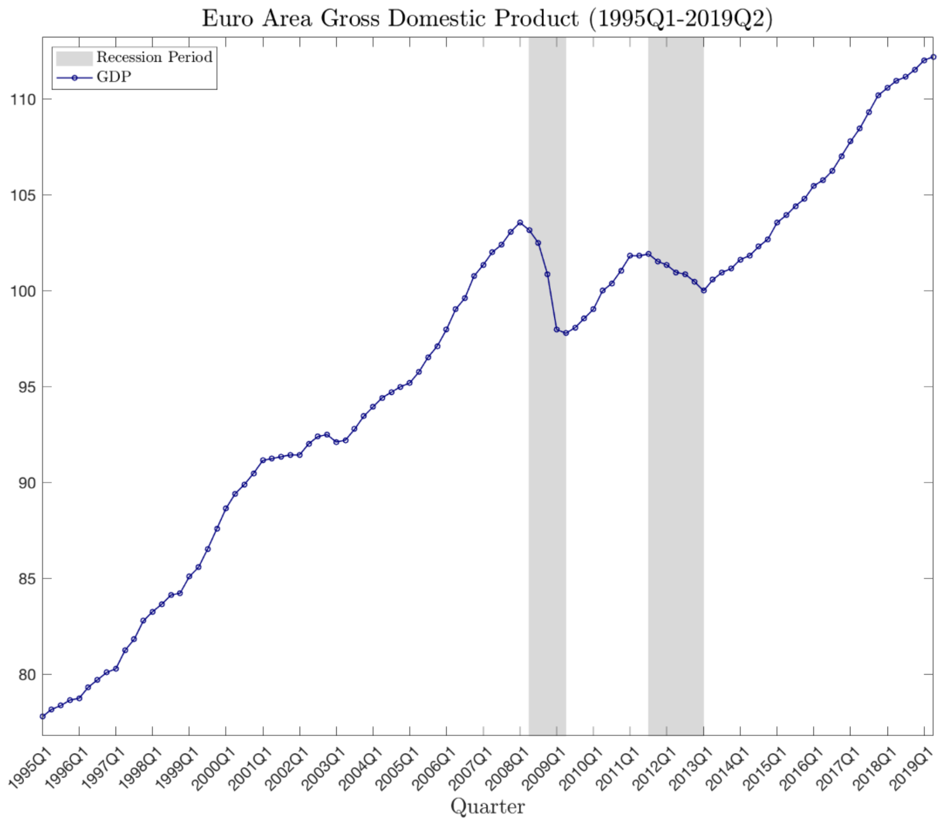

Figure 1b (recessions in grey)

This deceleration of euro area economic activity is noteworthy for two reasons:

- The recovery of the euro area since 2013Q1 was already weaker than all previous expansions of the area but the growth shortfall has further widened since 2017Q4. While the original weakness of the current expansion could be attributed to the aftermath of the financial crisis (as it takes typically longer to recover from financial recessions), the current deceleration, at this stage of the cycle, is unprecedented (Figure 2).
- Controlling for the fact that the current euro area recovery is younger than that of the United States (the US had avoided the double-dip recession of 2011-13), the euro area expansion was more or less in step with (albeit usually a bit behind) that of the United States until 2017Q4. However, the deceleration of euro area economic activity since 2017Q4 means that currently euro area economic activity is both weaker than that of the United States, and markedly weaker controlling for the age of the recovery (Figure 3).

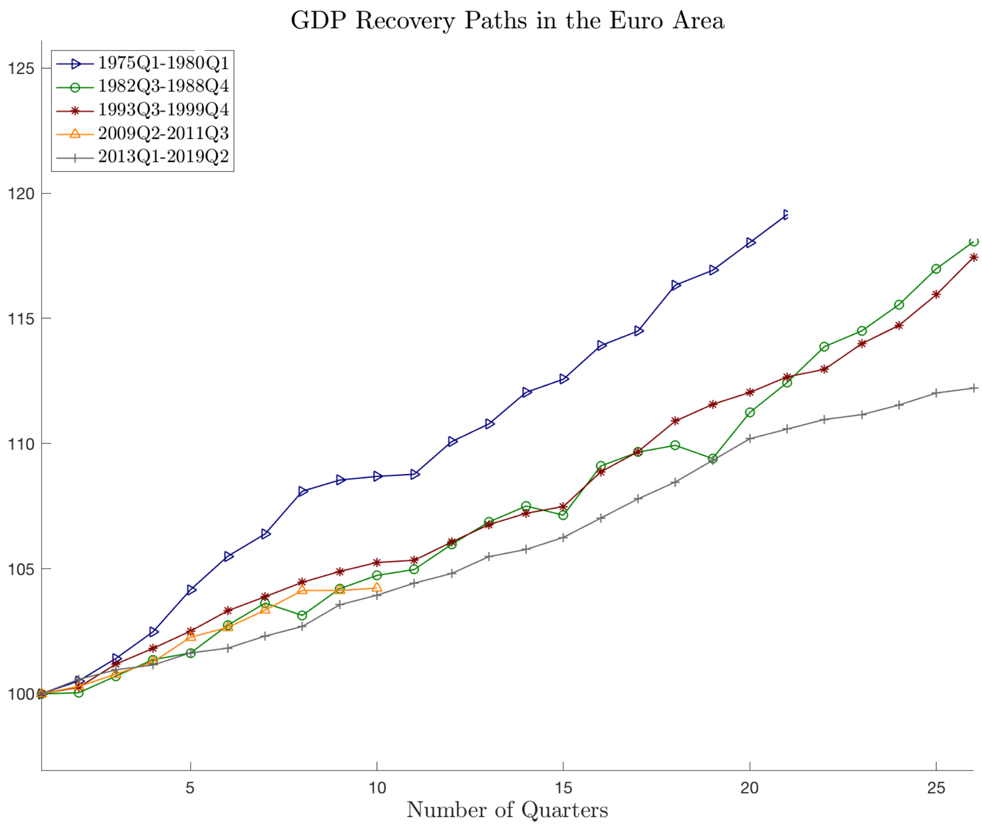

Figure 2 (trough = 100)

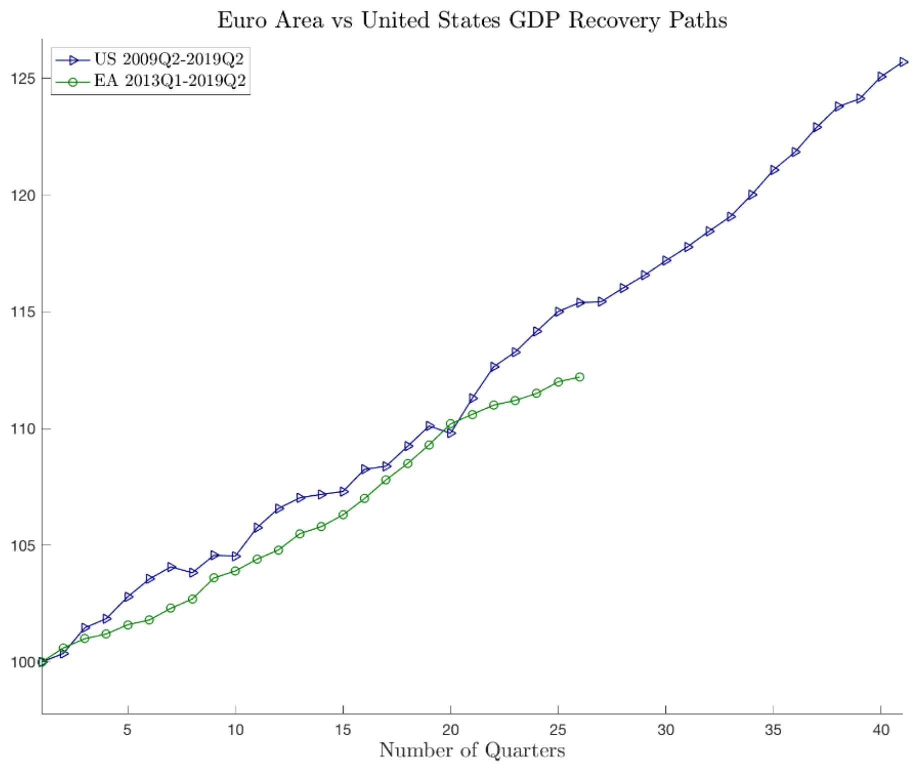

Figure 3 (trough = 100)

While GDP has decelerated, the recovery of employment has by and large continued unabated, leading to a stagnation of real labor productivity since 2017Q4 (see Figure 4).

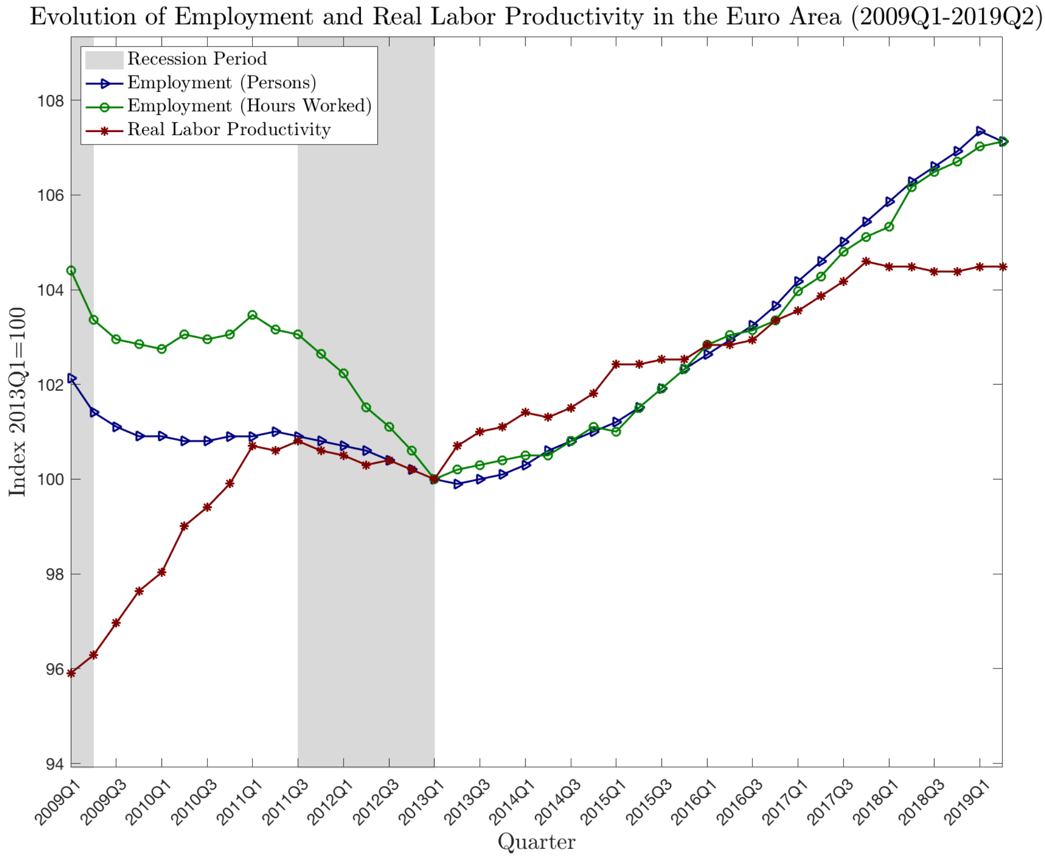

Figure 4 (trough = 100)

Heterogeneity

While the Committee dates turning points in economic activity in the euro area as a whole, it is useful to examine the extent to which the evolution in aggregate economic activity is shared by individual countries.

As Figure 5 shows, the origin of the deceleration of euro area GDP since 2017Q4 can be traced, among the five largest euro area economies, mainly to Germany and Italy, and to a smaller extent to France, while the Netherlands and Spain seem to have been counteracting the sluggishness.

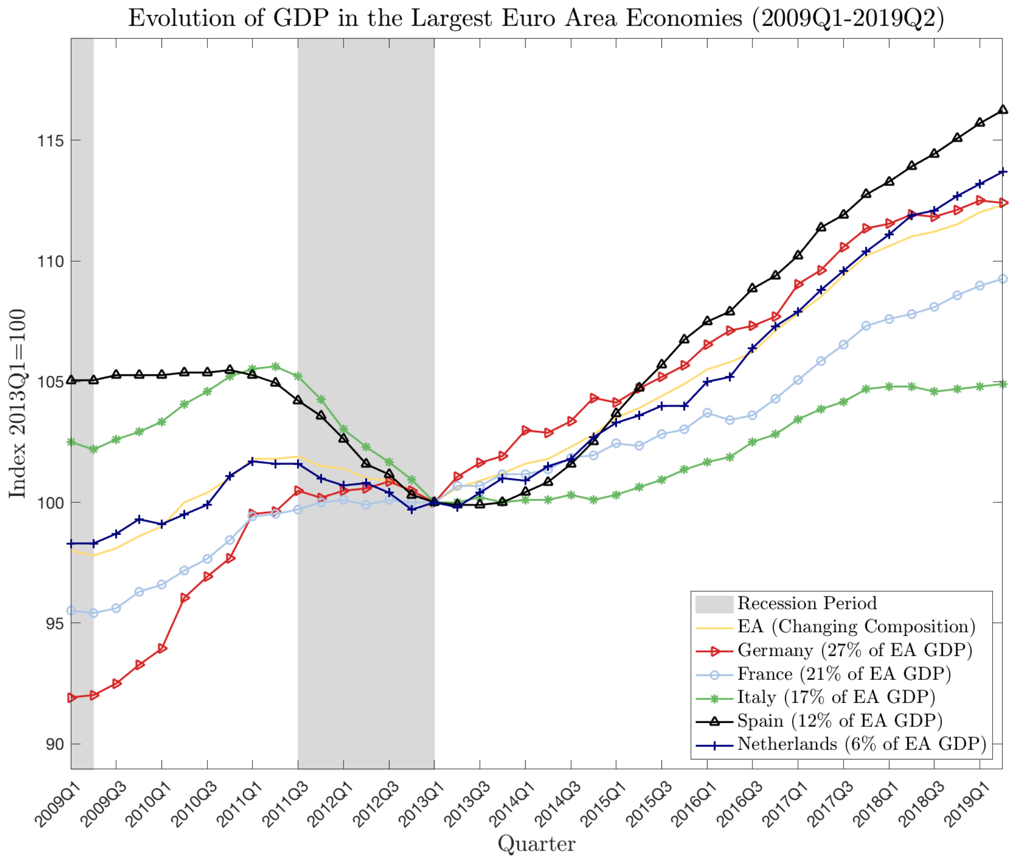

Figure 5 (recessions in grey, trough = 100)

This deceleration does not manifest itself markedly in employment data (see Figure 6), with the speed of employment recovery unabated since the last trough – at par with the euro area as a whole in France, Germany and Italy, and above par in the Netherlands and Spain.

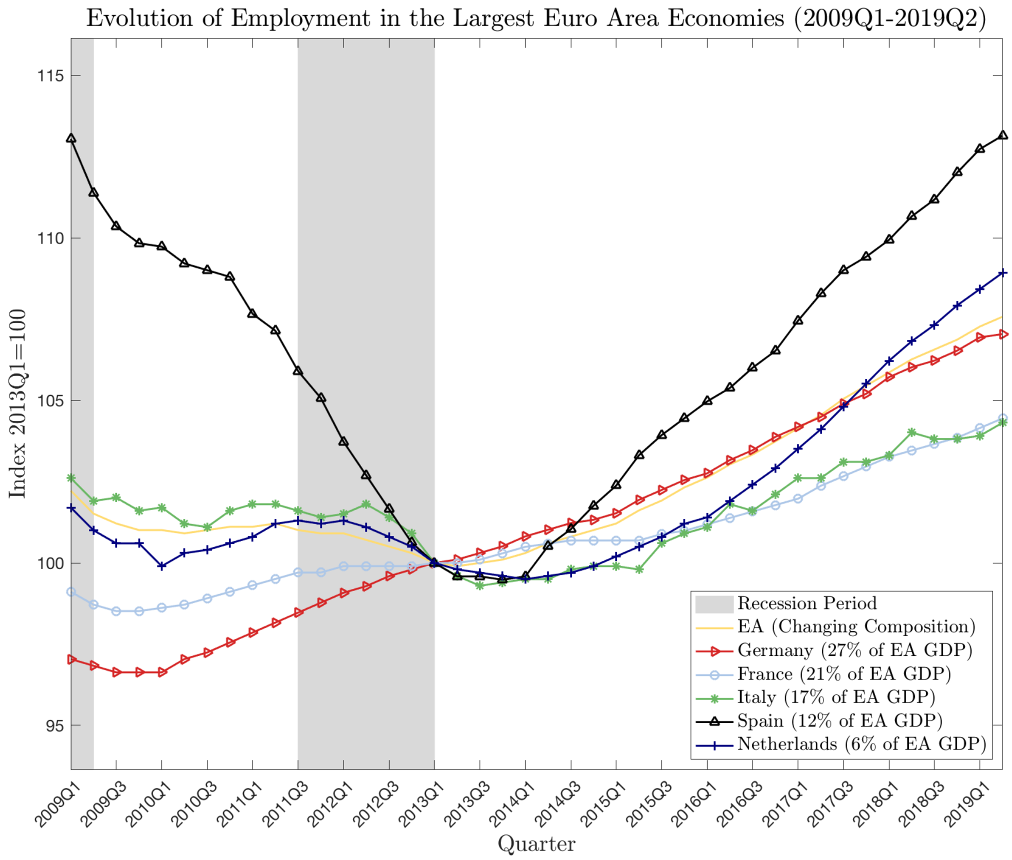

Figure 6 (recessions in grey, trough = 100)

Another way to represent the various fortunes of the largest countries of the euro area is to color-code the magnitude of the rise or fall of their main economic indicators in heat maps provided in Table 1.

	2014Q1	2014Q2	2014Q3	2014Q4	2015Q1	2015Q2	2015Q3	2015Q4	2016Q1	2016Q2	2016Q3	2016Q4	2017Q1	2017Q2	2017Q3	2017Q4	2018Q1	2018Q2	2018Q3	2018Q4	2019Q1	2019Q2
GDP	0.5	0.2	0.5	0.4	0.7	0.4	0.5	0.4	0.6	0.3	0.4	0.8	0.7	0.7	0.8	0.8	0.3	0.4	0.2	0.3	0.4	0.2
Private Consumption	0	0.3	0.5	0.5	0.4	0.6	0.4	0.3	0.7	0.3	0.4	0.6	0.4	0.3	0.6	0.3	0.5	0.1	0.2	0.4	0.4	0.2
Private Investment	0.3	-0.7	0.8	0.4	0.2	7.4	-4.4	2.8	0.6	1.2	0.7	1.6	-1.6	7.9	-4.7	0.9	0.2	1.7	0.5	1.5	0.2	0.5
Employment (persons)	0.2	0.3	0.2	0.2	0.2	0.3	0.4	0.4	0.3	0.3	0.3	0.4	0.5	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.4	0.2
Employment (hours)	0.1	0	0.3	0.3	-0.1	0.5	0.4	0.4	0.5	0.2	0.1	0.2	0.6	0.3	0.5	0.3	0.2	0.8	0.3	0.2	0.3	0.1
Exports	1	1.1	1.9	1.4	3.3	0.5	0.4	0.8	0.4	1.2	0.7	1.4	1.8	1.3	1.4	2.3	-0.6	1	0.4	0.9	1.1	0.2
Imports	1.1	1.5	1.5	1.1	3.1	3.4	-1.5	2.1	0.7	1.3	0.6	1.9	0.7	4.1	-2.2	1.8	-0.3	1.3	1	1.1	0.4	2.8

Euro area growth

	2014Q1	2014Q2	2014Q3	2014Q4	2015Q1	2015Q2	2015Q3	2015Q4	2016Q1	2016Q2	2016Q3	2016Q4	2017Q1	2017Q2	2017Q3	2017Q4	2018Q1	2018Q2	2018Q3	2018Q4	2019Q1	2019Q2
EA	0.1	0	0.3	0.3	-0.1	0.5	0.4	0.4	0.5	0.2	0.1	0.2	0.6	0.3	0.5	0.3	0.2	0.8	0.3	0.2	0.3	0.1
Germany	0.6	-0.2	0	0.3	0.3	0.3	-0.2	0.1	0.4	0.1	0.5	0	0.5	0.5	0.5	0.2	0	0.9	0	0.5	0	0
France	0	0	0	-0.1	0	0.1	0.1	0.2	0.1	0.1	0.1	0	0.1	0.2	0.2	0.4	0.3	0.2	0.2	0.3	0.5	0.4
Italy	-0.1	0.2	0.2	0.3	-0.3	0.1	0.8	0.3	0.7	0.4	-0.3	0.6	0.3	0.2	0.4	0.2	0	0.8	0.1	-0.2	0.4	-0.1
Spain	-0.1	0.8	0.3	1.2	0.2	1.3	0.7	0.9	0.7	0.2	0.6	0.2	0.7	0.5	0.7	0.3	0.7	1.3	0.4	0.2	0.6	0.1
Netherlands	0.4	-1.3	1.8	0	-0.1	0.2	0.8	0.8	0.5	0.8	-0.7	1.6	0.2	1.2	0.3	0.2	0.6	0.7	1	0.1	0.9	0.5

GDP growth - five largest euro area countries

	2014Q1	2014Q2	2014Q3	2014Q4	2015Q1	2015Q2	2015Q3	2015Q4	2016Q1	2016Q2	2016Q3	2016Q4	2017Q1	2017Q2	2017Q3	2017Q4	2018Q1	2018Q2	2018Q3	2018Q4	2019Q1	2019Q2
EA	0.2	0.3	0.2	0.2	0.2	0.3	0.4	0.4	0.3	0.3	0.3	0.4	0.5	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.4	0.2
Germany	0.3	0.2	0.1	0.1	0.2	0.4	0.3	0.3	0.2	0.3	0.3	0.4	0.3	0.3	0.4	0.3	0.4	0.3	0.3	0.3	0.3	0.1
France	0.2	0.1	0	0	0	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.2	0.1	0.2	0.3	0.3
Italy	0.1	0	0.3	0.1	0	-0.1	0.8	0.3	0.3	0.6	-0.1	0.5	0.5	0	0.5	0	0.2	0.6	-0.1	0	0.1	0.3
Spain	0	0.9	0.5	0.8	0.6	0.9	0.6	0.5	0.4	0.4	0.6	0.5	0.8	0.8	0.6	0.4	0.4	0.7	0.5	0.8	0.6	0.3
Netherlands	-0.2	0.1	0.1	0.2	0.3	0.3	0.4	0.4	0.2	0.6	0.5	0.5	0.6	0.6	0.7	0.7	0.7	0.5	0.5	0.5	0.5	0.4

Employment growth (persons) - five largest euro area countries

	2014Q1	2014Q2	2014Q3	2014Q4	2015Q1	2015Q2	2015Q3	2015Q4	2016Q1	2016Q2	2016Q3	2016Q4	2017Q1	2017Q2	2017Q3	2017Q4	2018Q1	2018Q2	2018Q3	2018Q4	2019Q1	2019Q2
EA	0.5	0.2	0.5	0.4	0.7	0.4	0.5	0.4	0.6	0.3	0.4	0.8	0.7	0.7	0.8	0.8	0.3	0.4	0.2	0.3	0.4	0.2
Germany	1	0	0.5	0.9	-0.2	0.6	0.5	0.4	0.8	0.6	0.2	0.4	1.2	0.6	0.9	0.7	0.1	0.4	-0.1	0.2	0.4	-0.1
France	0.1	0.2	0.5	0.1	0.5	0	0.4	0.2	0.6	-0.3	0.2	0.6	0.8	0.7	0.7	0.7	0.2	0.2	0.3	0.4	0.3	0.3
Italy	0.1	0	0.1	-0.2	0.2	0.4	0.2	0.5	0.3	0.2	0.6	0.3	0.6	0.4	0.4	0.5	0.1	-0.1	-0.1	0	0.1	0.1
Spain	0.4	0.5	0.7	0.9	1.1	1.1	0.9	1	0.7	0.4	0.9	0.5	0.8	1	0.5	0.7	0.5	0.5	0.5	0.6	0.5	0.4
Netherlands	-0.1	0.6	0.3	0.9	0.6	0.3	0.3	0	0.9	0.2	1.1	0.9	0.5	0.9	0.7	0.8	0.6	0.7	0.2	0.5	0.4	0.4

Employment growth (hours) - five largest euro area countries

Table 1: Heat map of the euro area (QoQ percentage changes)

Conclusion

The current euro area recovery was lacklustre since the last trough at 2013Q1. That is not unusual as recoveries following financial crises often take longer to gain steam. The US recovery was similarly weak by historical standards. But, while the US recovery has sped up as quarters passed, the euro area recovery has faltered. Thus, the Committee notes that an already weak recovery has turned even weaker since 2017Q4.