

**Euro Area Business Cycle Dating Committee:
Euro area entered recession in 2020Q1 after the peak of its slowest-ever recovery**

29 September 2020

The [CEPR-EABCN Euro Area Business Cycle Dating Committee](#) deliberated electronically on 15 September 2020 to assess the state of euro area economic activity in the aftermath of the Covid-19 pandemic. The Committee concluded that the latest euro area expansion reached its peak in 2019Q4. The pace of that now-ended 31-quarter expansion, which had begun in 2013Q2, was the slowest of all euro area recoveries to date.

The euro area entered recession during 2020Q1, most likely in March, with economic activity and employment decreasing in 2020Q1 and 2020Q2 across euro area countries at unprecedented speeds and to unprecedented depths.

The magnitude of the shock suffered by the euro area and the marked changes that accompany this downturn, notably in terms of labor market disruptions and novel fiscal and monetary policy dynamics, guarantee that the current recession is not a brief interruption in a 'double-peak' expansion but a cyclical episode of its own, as will be the following expansion.

The fourth quarter of 2019 is designated as a peak in euro area economic activity

The Covid-19 pandemic has pushed the euro area into a decline in economic activity unprecedented by its depth, speed, and scope. This decline has not been uniform across euro area countries or across sectors. The differences reflect factors including the non-synchronized geographical diffusion of the virus, different and non-synchronized national policy responses, and the differential effect across sectors (with a particularly sharp impact on services). But the decline is sufficiently broad-based and sharp that it has led to a sharp contraction of the euro area as a whole. It has manifested itself in both 2020Q1 and 2020Q2 data, notably GDP (and its components) as well as employment.¹

Based on the length, depth, and scope of this contraction, the Committee has determined that the euro area expansion that started after the last trough in 2013Q1 reached its peak, and thus its end, in 2019Q4. The expansion, which lasted seven years and three quarters, was the slowest of all euro area recoveries in terms of GDP.²

Following this 2019Q4 peak in economic activity, the euro area entered recession in 2020Q1. The current recession has the steepest decline in activity on record.³

Sectoral differences in employment and other variables

The decline in employment, hours, and GDP was particularly pronounced in three broad, “higher touch” industries: Trade, transport, accommodation, and food services; professional, science, technology, and administration; and art, entertainment, and other services. At the end of 2019, these three broad industries accounted for 46 percent of total euro area employment. But, from 2019Q4 through 2020Q2, they accounted for 79 percent of the overall decline in employment.⁴

A recession, not an interruption in a “double-peak” expansion

The Committee raised in its [last findings in April 2020](#) the possibility that the Covid-19 contraction might be so brief, in spite of its depth, not to qualify as a recession but constitute instead a short interruption in an ongoing “double-peak” expansion. It had consequently deferred its characterization of this episode until further data were available.

The length, depth, and scope of the contraction that started in 2020Q1, together with the marked structural changes that accompany the downturn, notably in terms of unprecedented labor market disruptions^{5,6} and of novel fiscal and monetary policy dynamics, now guarantee

¹ See Figures 1 to 3 in the Appendix.

² See Figures 4 to 7.

³ See Figures 8 to 11.

⁴ See Figure 12.

⁵ See Figures 13 and 14.

⁶ The stark difference in the dynamics of US vs EA unemployment rates starting March 2020 in Figure 15 is likely due to different national policies and practices adopted in response to the pandemic. Most of the increase in the US unemployment rate is accounted for by workers on temporary layoff. Conversely, many EA countries have adopted policies that have kept workers formally employed, despite not working or working at reduced hours.

that it does not constitute a short though abysmal break in a double-peak expansion but rather a recession of its own, to be followed by a new expansion.

The month of the peak

The Euro Area Business Cycle Dating Committee does not usually date the month during which the peak occurred. Yet, given the current circumstances, the committee would like to stress that the likely month of the peak, February 2020, lags the quarter of the peak identified as 2019Q4.

Economic activity substantially declined in 2020Q1 relative to 2019Q4 but the timing of the pandemic in Europe and available Eurostat data on industrial production⁷ and other indicators suggest that the sharp decline occurred at the end of the quarter, in March 2020. Nevertheless, we date the quarterly peak in 2019Q4 since economic activity was higher in 2019Q4 than in 2020Q1.

Conclusion

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.

⁷ See Figures 13 to 15.

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

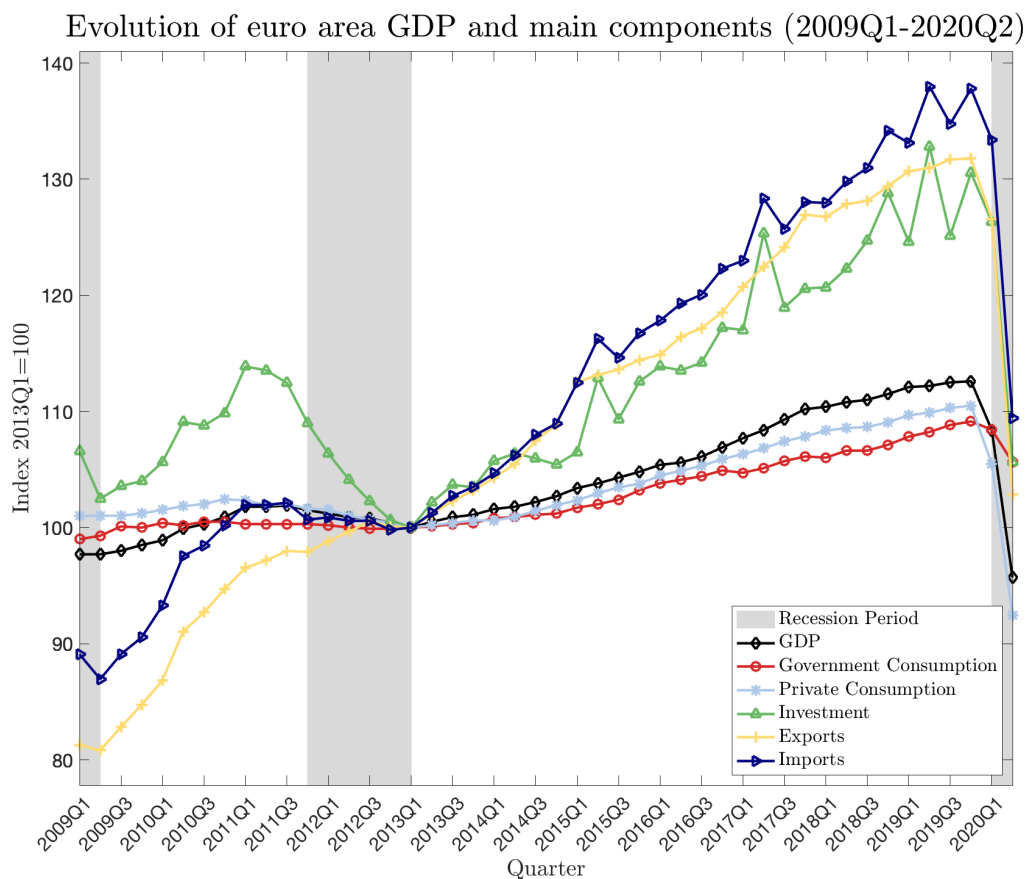


Figure 1. Evolution of euro area GDP and main components for the period 2009Q1-2020Q2. All variables are expressed as quantity index with base year and quarter 2013Q1 = 100. Investment refers to gross fixed capital formation. The gray areas represent the recession periods as dated by the Committee. *Source:* Eurostat

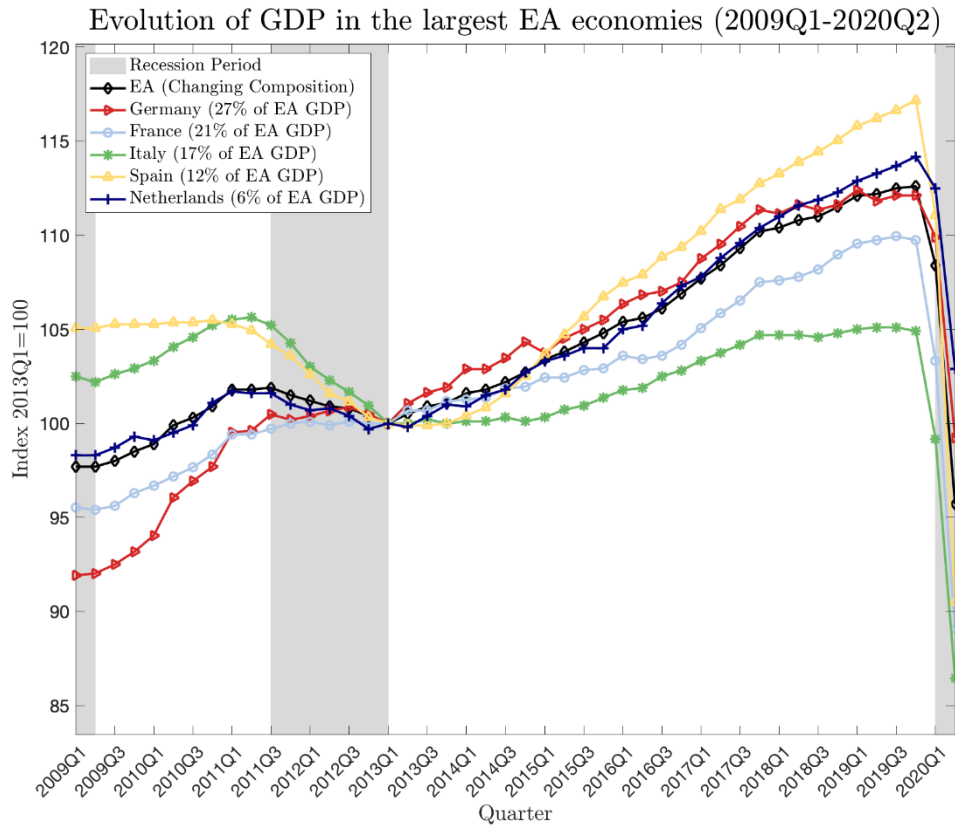
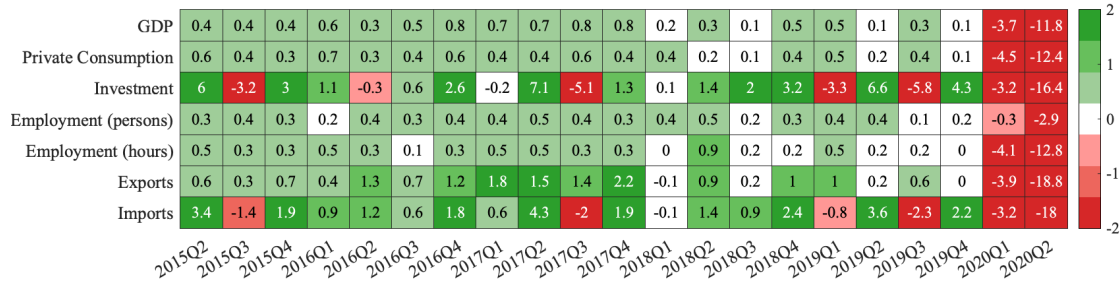
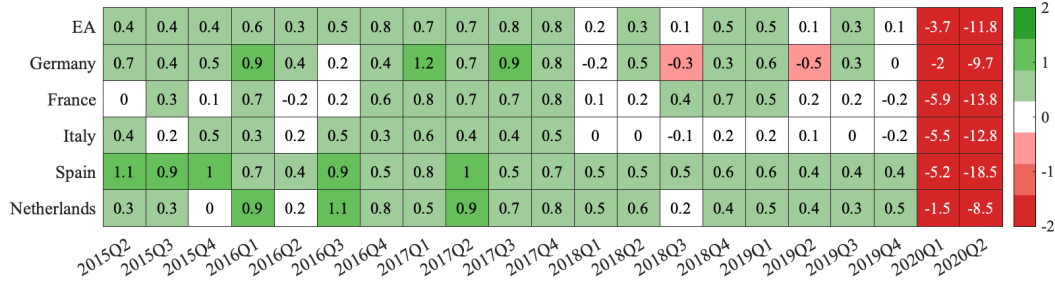


Figure 2. Evolution of GDP in the euro area and in the largest five EA economies (Germany, France, Italy, Spain, Netherlands). GDP expressed as quantity index with base year and quarter 2013Q1 = 100. The weights for each country are based on 2011 GDP. *Source:* Eurostat

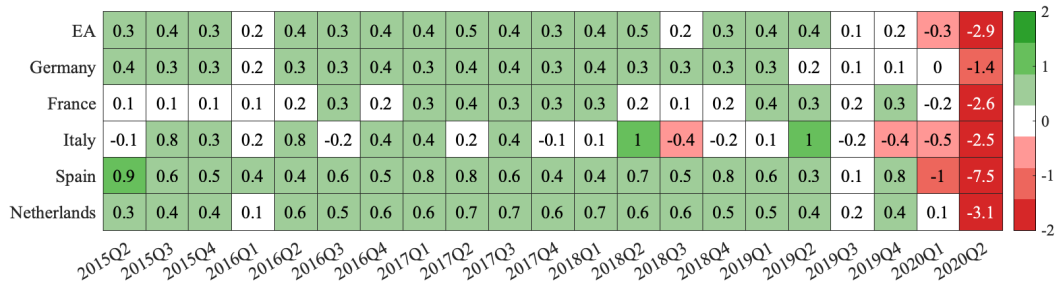
EA GDP, main components and employment (based on persons and hours)



Gross Domestic Product



Employment (based on persons)



Hours Worked

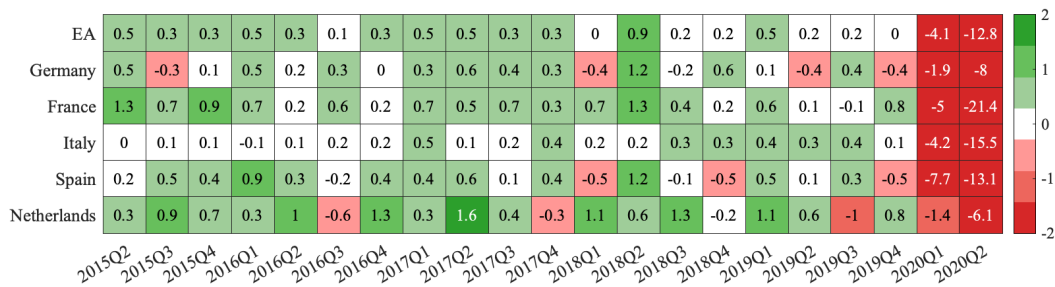


Figure 3: Heat map for the euro area and the largest EA countries for the period 2015Q2-2020Q2. All variables are expressed in percentage change over previous period. Investment refers to gross fixed capital formation. Source: Eurostat

Euro area GDP recovery paths

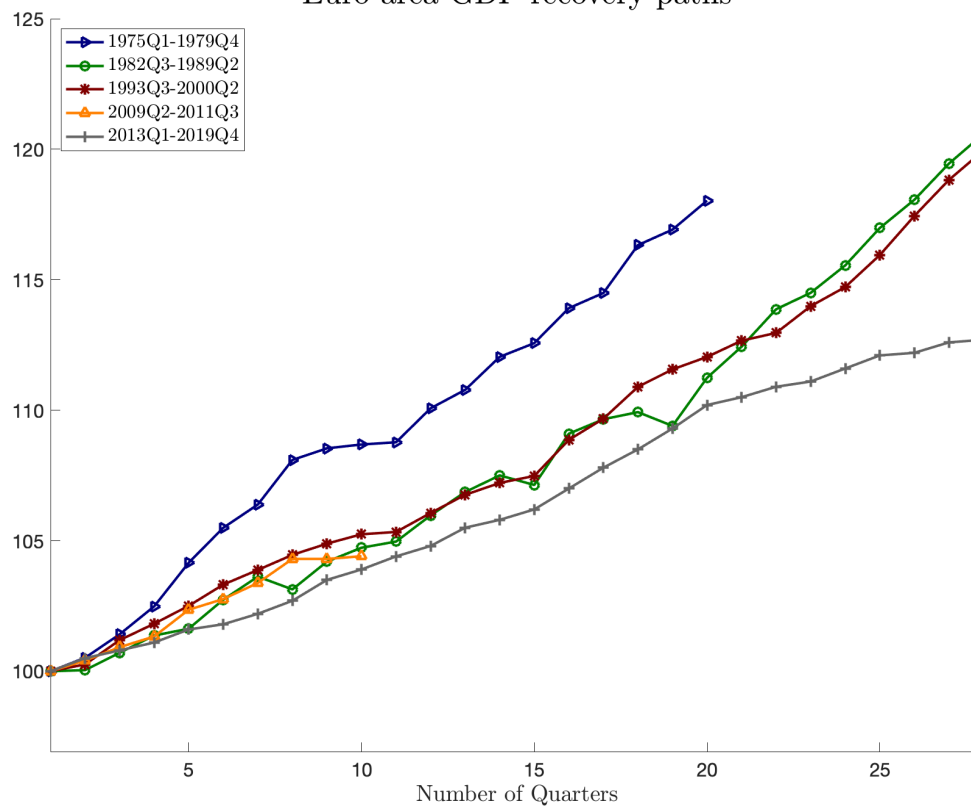


Figure 4. Euro area Gross Domestic Product recovery paths. The figure shows the evolution of GDP in the euro area after a recession period dated by the Committee. All lines represent the evolution of GDP expressed as quantity index with base year and quarter equal to the last recession quarter concerning 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

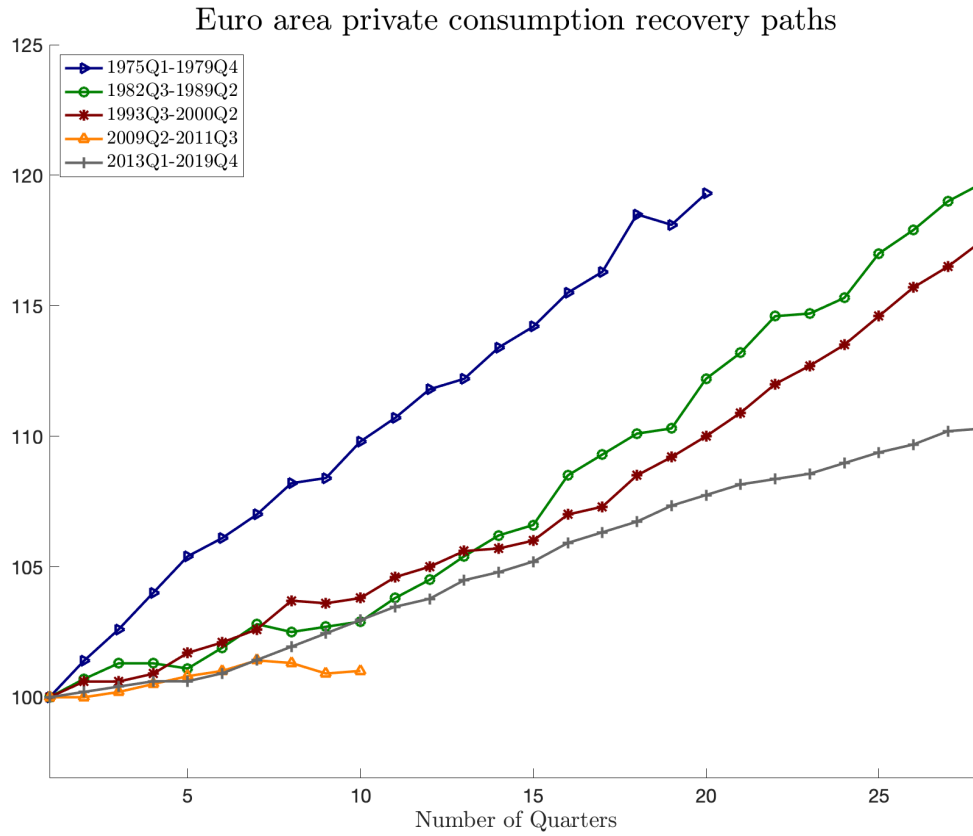


Figure 5. Euro area private consumption recovery paths. The figure shows the evolution of private consumption in the euro area after a recession period dated by the Committee. All lines represent the evolution of private consumption expressed as quantity index with base year and quarter equal to the 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 private consumption data for the euro area changing composition. The other recovery paths have been computed using private consumption data for Euro area 19 fixed composition. *Source:* Eurostat and AWM database

Euro area investment recovery paths

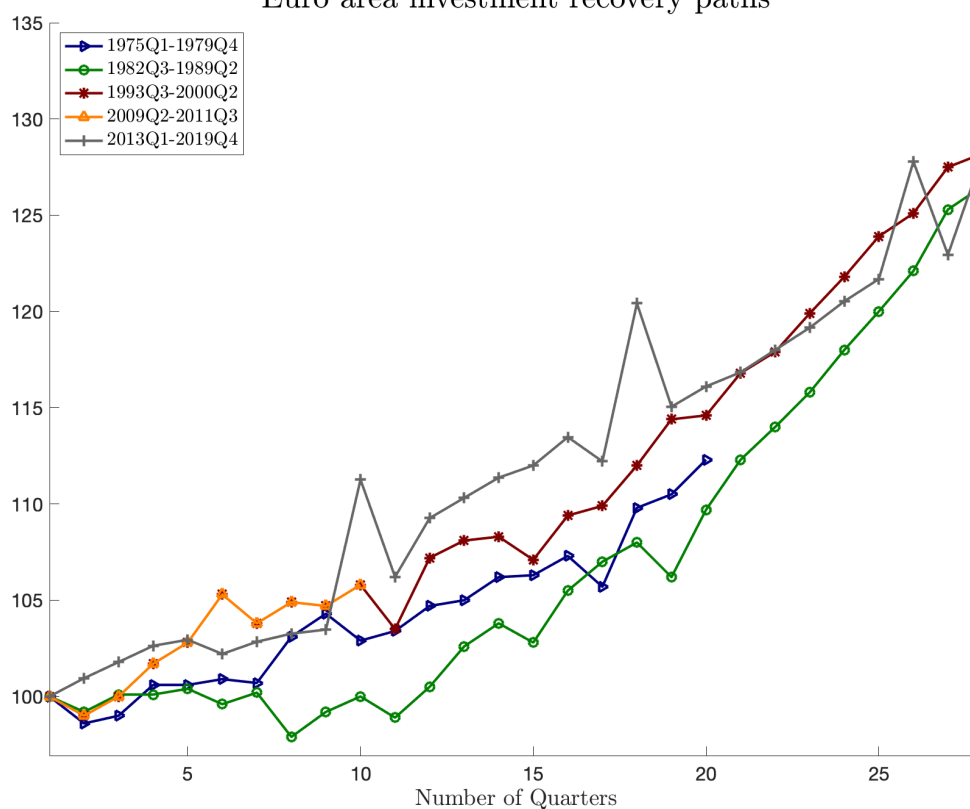


Figure 6. Euro area investment recovery paths. The figure shows the evolution of investment (gross fixed capital formation) in the euro area after a recession period dated by the Committee. All lines represent the evolution of investment expressed as quantity index with base year and quarter equal to 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 investment data for the euro area changing composition. The other recovery paths have been computed using investment data for Euro area 19 fixed composition. *Source:* Eurostat and AWM database

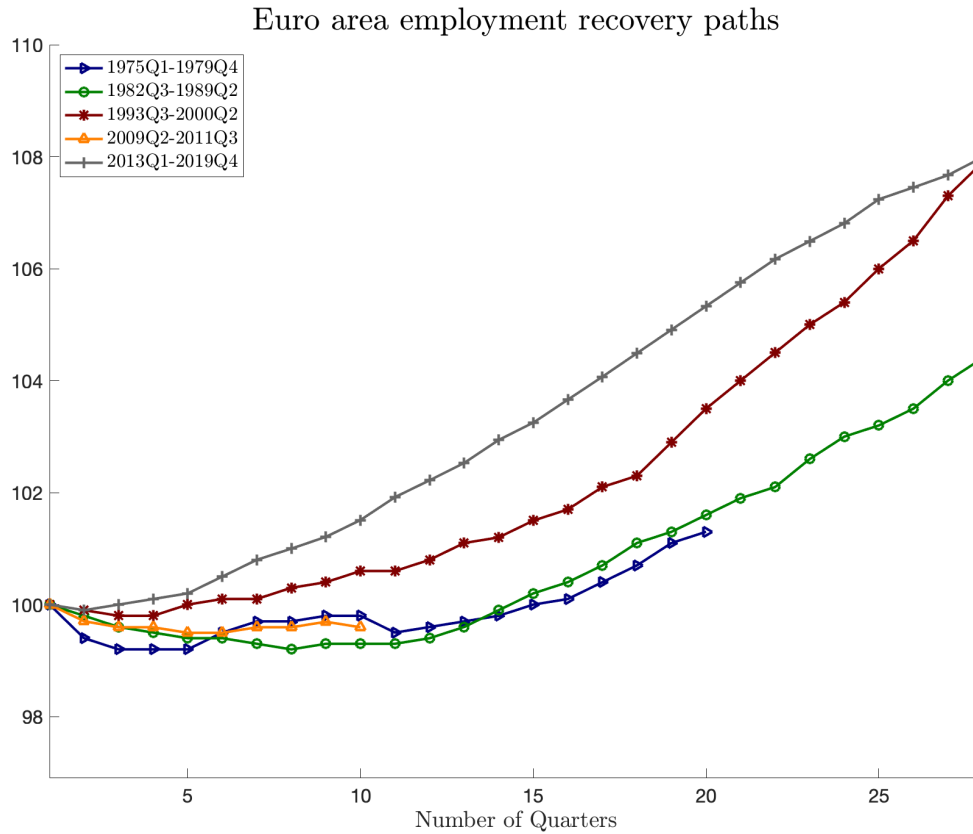


Figure 7. Euro area employment recovery paths. The figure shows the evolution of employment (in persons) in the euro area after a recession period dated by the Committee. All lines represent the evolution of employment expressed as quantity index with base year and quarter equal to the last recession quarter concerning that recession period. 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 employment data for the Euro area changing composition. The other recovery paths have been computed using employment data for euro area 19 fixed composition. *Source:* Eurostat and AWM database

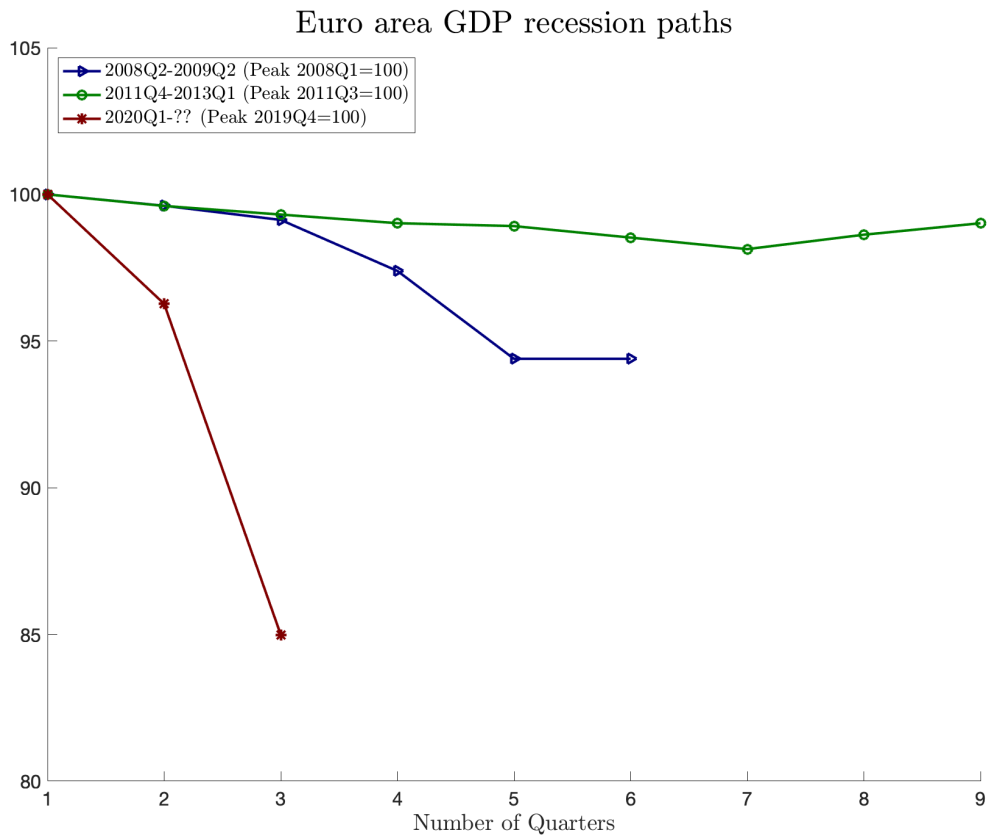


Figure 8. Euro area GDP recession paths. The figure shows the evolution of GDP in the euro area during a recession period dated by the Committee. All lines represent the evolution of GDP expressed as quantity index with base year and quarter equal to the peak preceding the concerning recession period. On the x-axis the number of quarters after the peak are shown. *Source:* Eurostat

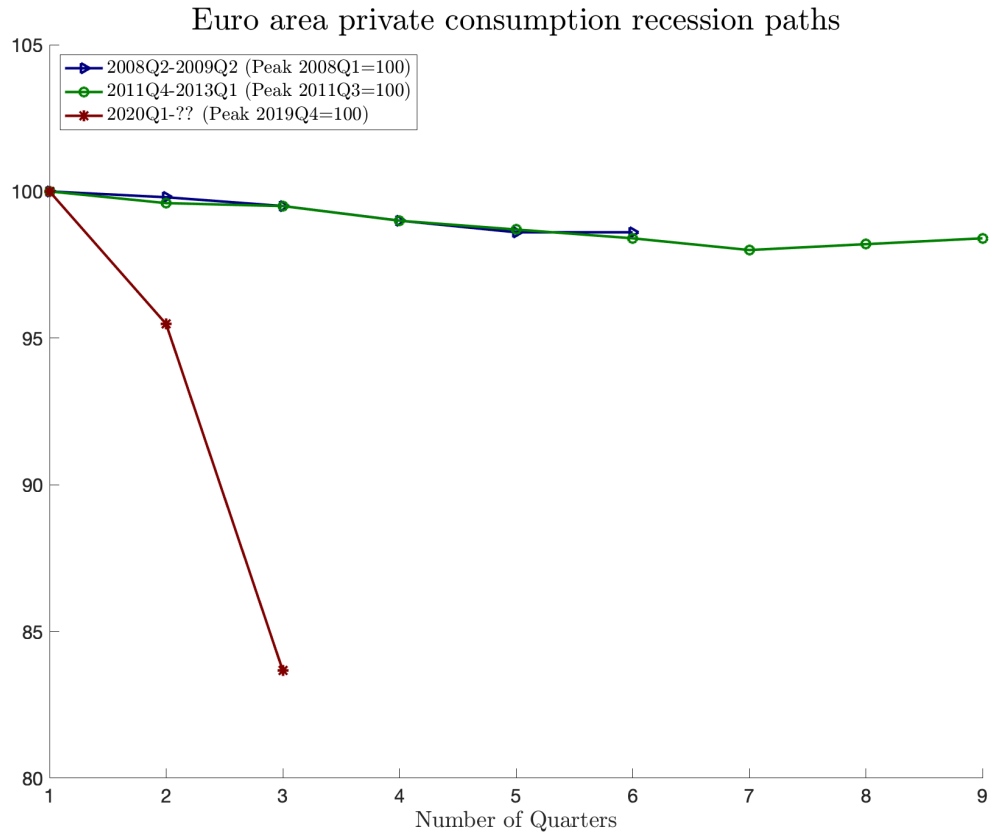


Figure 9. Euro area private consumption recession paths. The figure shows the evolution of private consumption in the euro area during a recession period dated by the Committee. All lines represent the evolution of private consumption expressed as quantity index with base year and quarter equal to the peak preceding the concerning recession period. On the x-axis the number of quarters after the peak are shown. *Source:* Eurostat

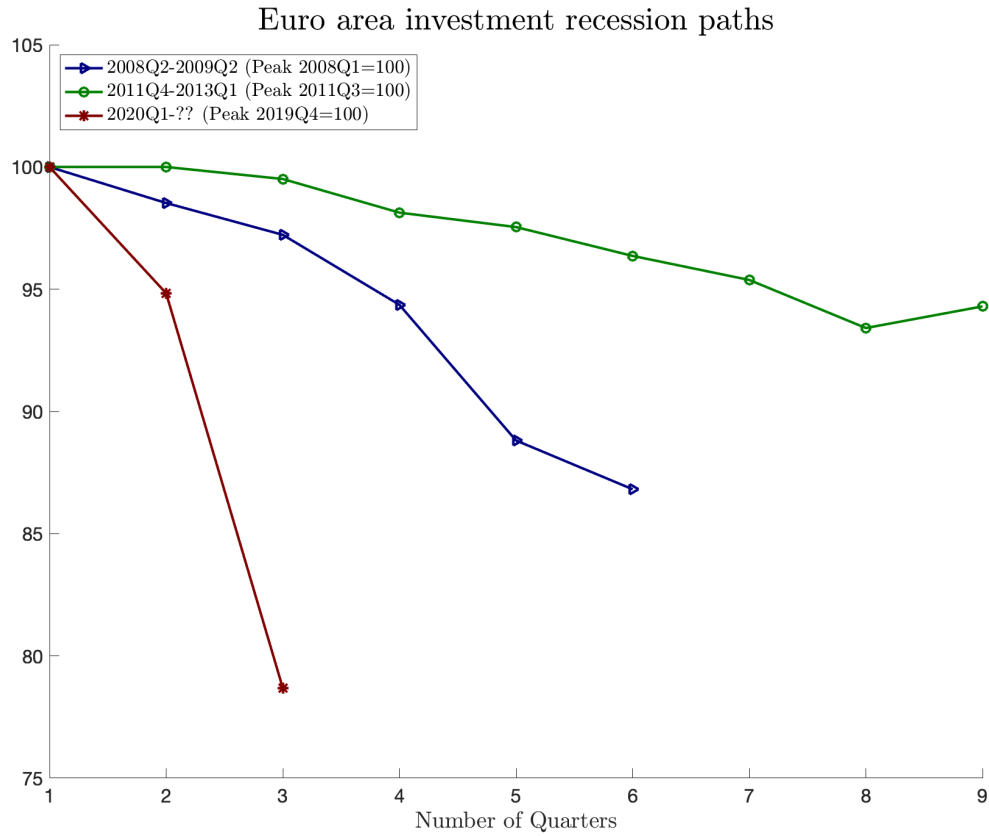


Figure 10. Euro area investment recession paths. The figure shows the evolution of investment (gross fixed capital formation) in the euro area during a recession period dated by the Committee. All lines represent the evolution of investment expressed as quantity index with base year and quarter equal to the peak preceding the concerning recession period. On the x-axis the number of quarters after the peak are shown. *Source:* Eurostat

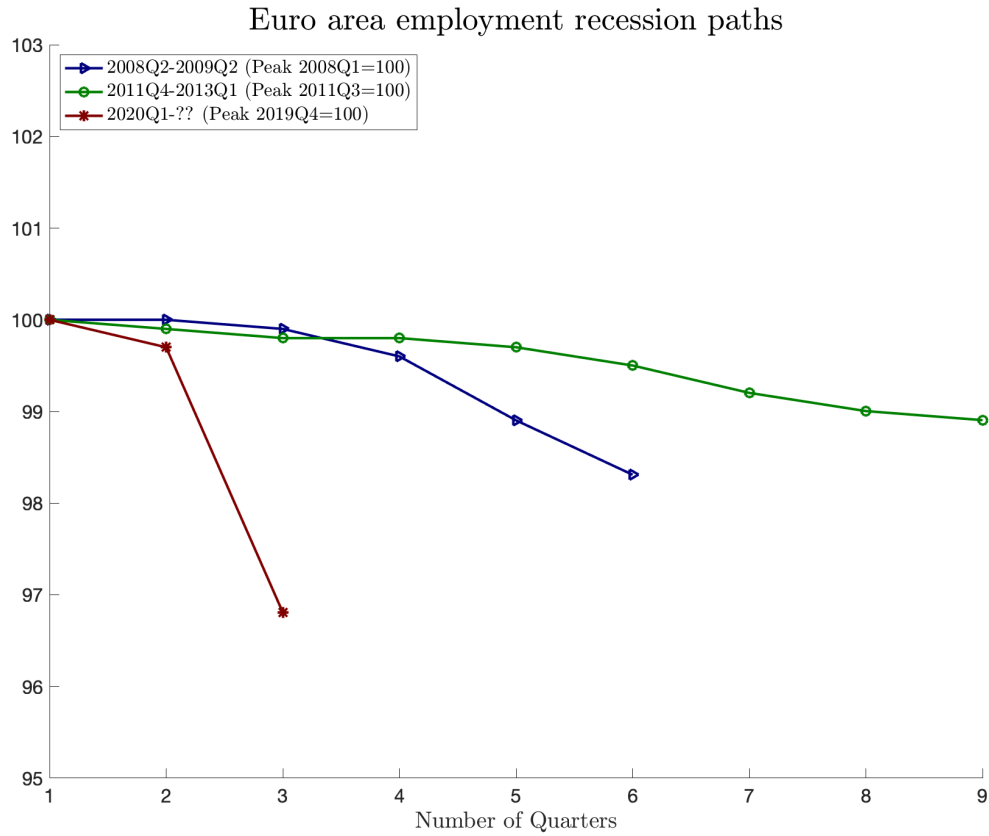


Figure 11. Euro area employment recession paths. The figure shows the evolution of employment (in persons) in the euro area during a recession period dated by the Committee. All lines represent the evolution of employment expressed as quantity index with base year and quarter equal to the peak preceding the concerning recession period. On the x-axis the number of quarters after the peak are shown. *Source:* Eurostat

Evolution of hours worked by sector of activity in the euro area (2009Q1-2020Q2)

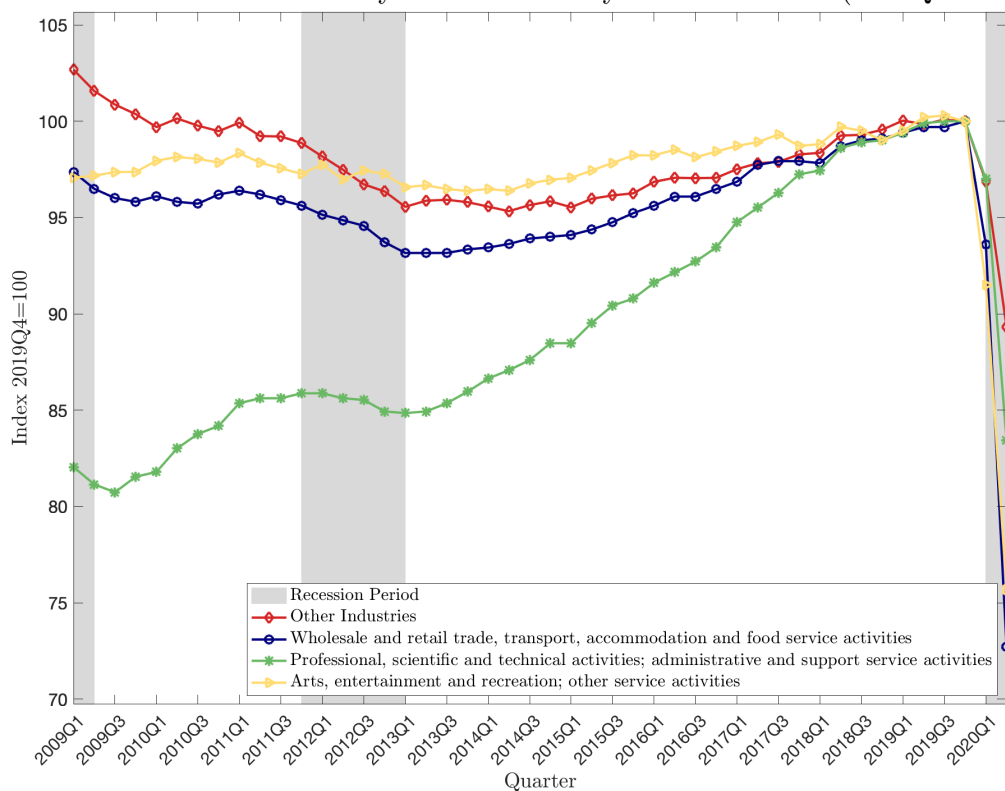


Figure 12. Evolution of employment (based on hours worked) by sector of activity in the euro area (changing composition). Employment expressed as quantity index with base year and quarter 2019Q4=100. *Source:* Eurostat

Evolution of employment by sector of activity in the euro area (2009Q1-2020Q2)

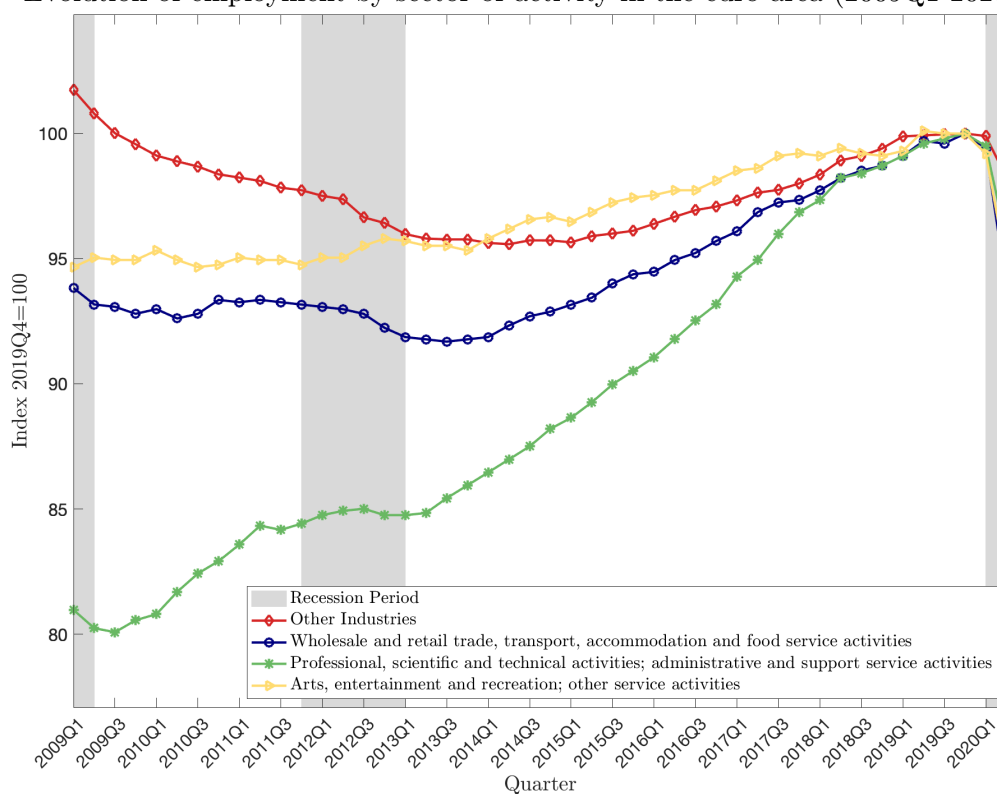


Figure 13. Evolution of employment (based on persons) by sector of activity in the euro area (changing composition). Employment expressed as quantity index with base year and quarter 2019Q4=100. *Source:* Eurostat

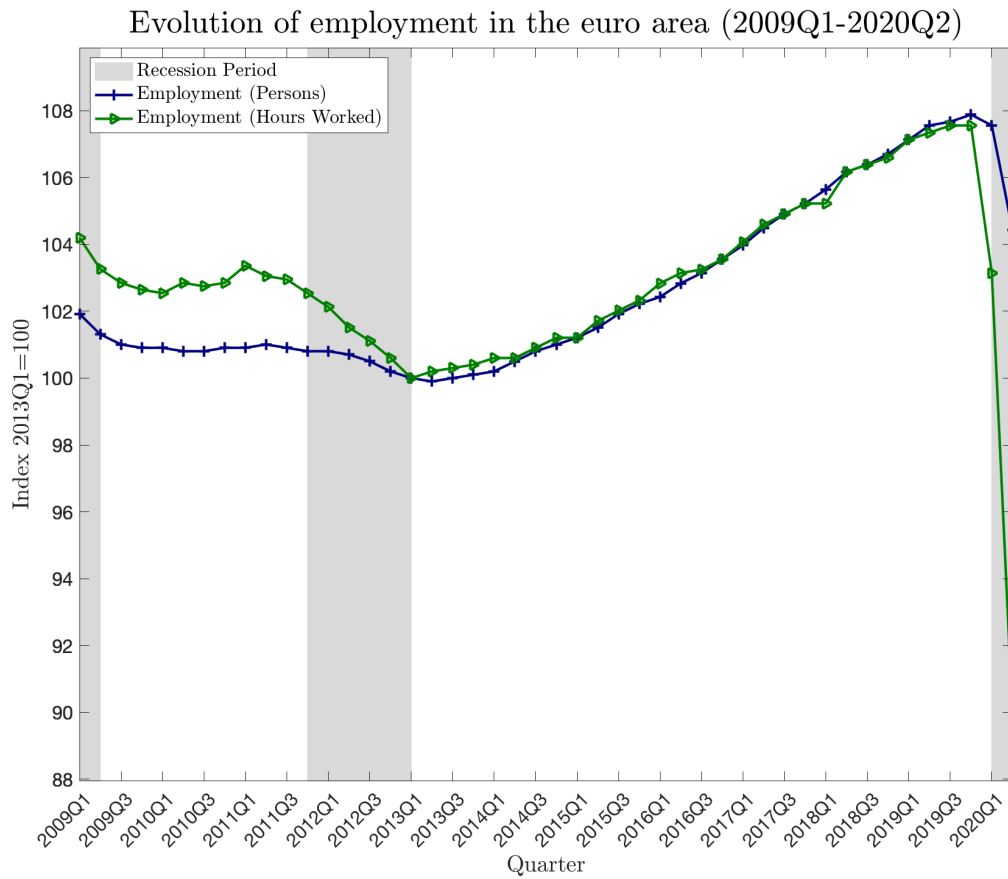


Figure 14. Evolution of employment and hours worked in the period 2009Q1-2020Q2 in the euro area (changing composition). All variables are expressed as quantity index with base year and quarter 2013Q1 = 100. *Source:* Eurostat

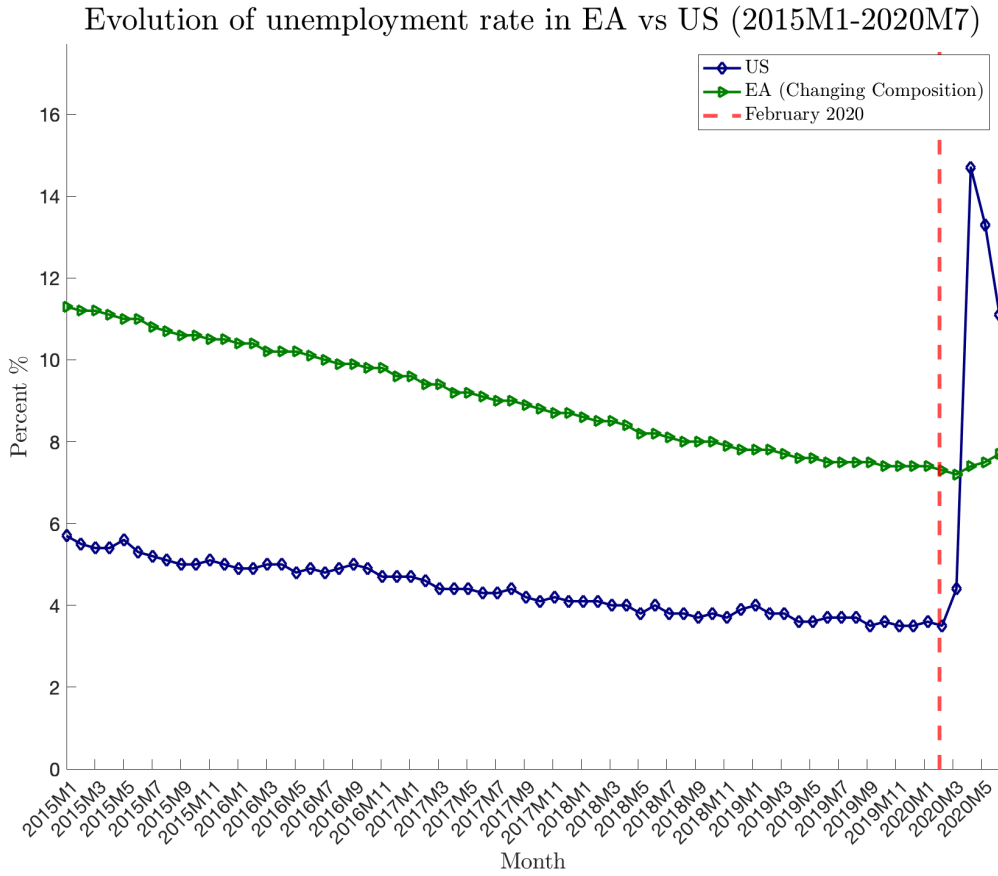


Figure 15. Evolution of Unemployment Rate in the EA vs US. Unemployment rate for the EA: Total unemployed individuals aged between 16 and 74 as percentage of the total labor force. Unemployment rate for the US: total unemployed individuals aged more than 16 years old as percentage of the total labor force. *Source:* Eurostat and Bureau of Labor Statistics

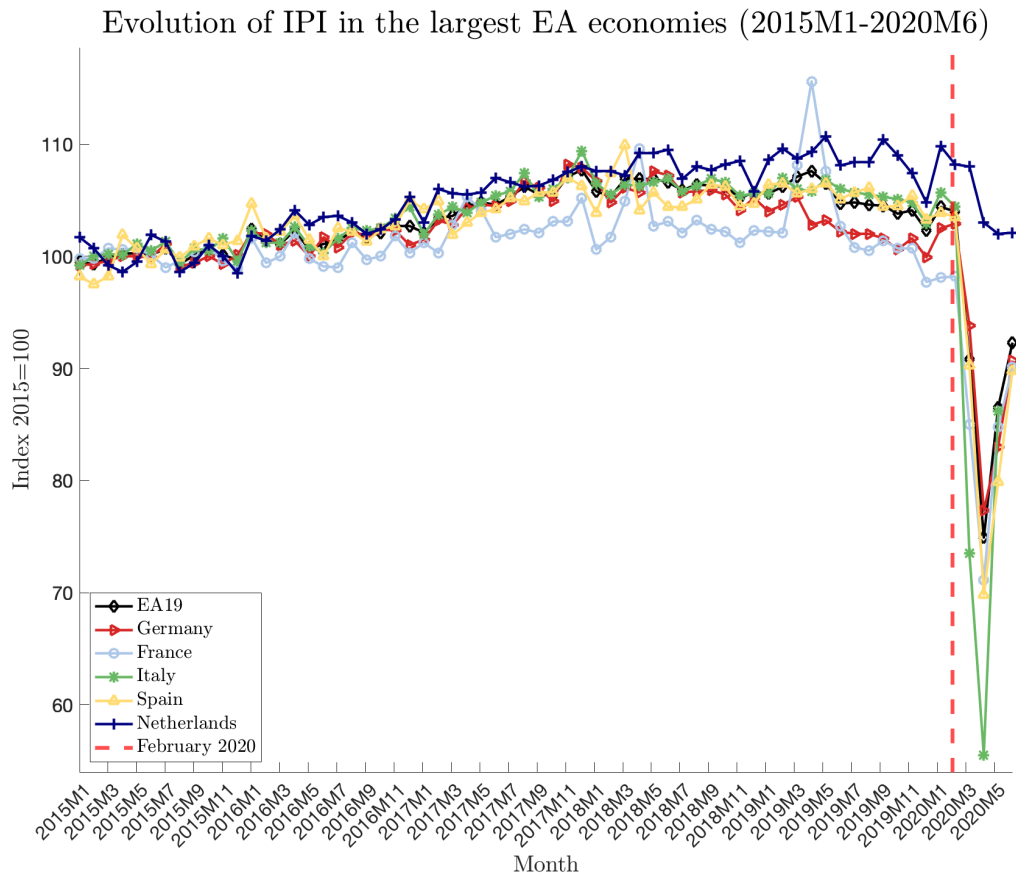


Figure 16. Evolution of Industrial Production Index in the euro area 19 and in the largest five EA economies (Germany, France, Italy, Spain, Netherlands). Industrial Production Index expressed as quantity index with base year 2015. Industrial Production Index includes production in mining and quarrying, manufacturing, electricity, gas, steam and air conditioning supply and construction. *Source:* Eurostat