

**The latest findings of the CEPR-EABCN Euro Area Business Cycle Dating Committee (EABCDC)**

**Euro Area Business Cycle Dating Committee:**

**No recession, no growth either**

**10 November 2023**

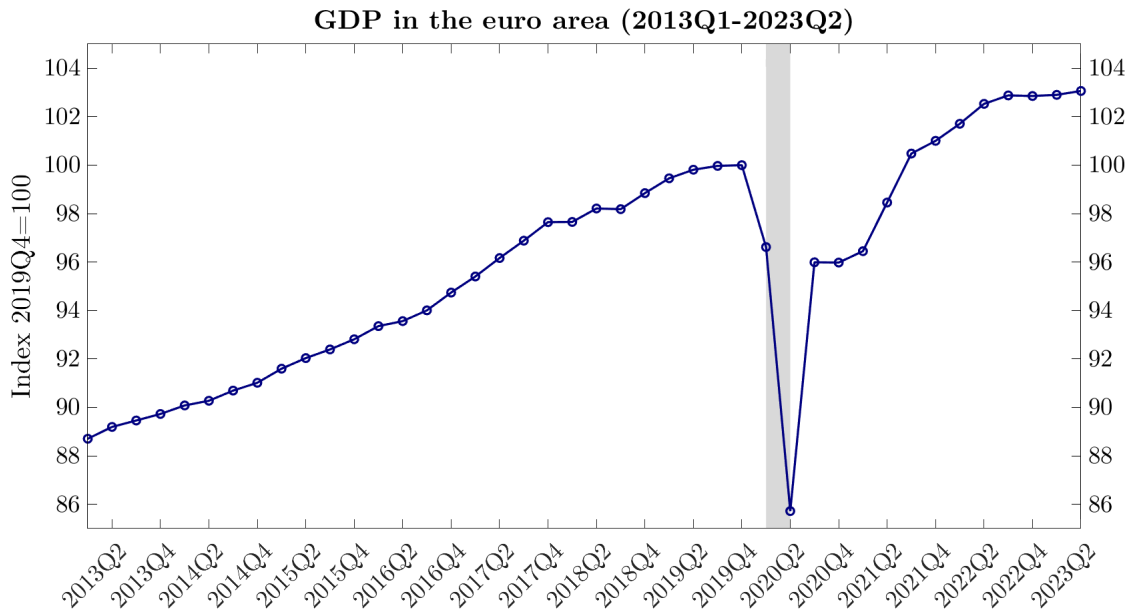
The CEPR-EABCN Euro Area Business Cycle Dating Committee deliberated on 28 October 2023 to assess the state of euro area economic activity, relying on data through the second quarter of 2023—although preliminary data for the third quarter are consistent with the Committee’s findings. GDP in the second quarter of 2023 was a shade above that of the previous quarter which, in turn, was a whisper above the quarter before that.

Thus, despite a number of adverse shocks, the euro area has not experienced a decline in aggregate economic activity through the middle of 2023, let alone the type of significant decline that would qualify as a recession. Still, the overall pattern in recent quarters has been stagnant, with little movement across sectors or components of domestic final expenditure.

Although euro area output has been flat, employment has continued to grow, although at a slightly slower pace. The unemployment rate has edged down further and stands, yet again, at historically low levels since before the formation of the single currency area. Continued employment growth with stagnating output implies that productivity has continued to fall in recent quarters.

**Overall growth is close to zero**

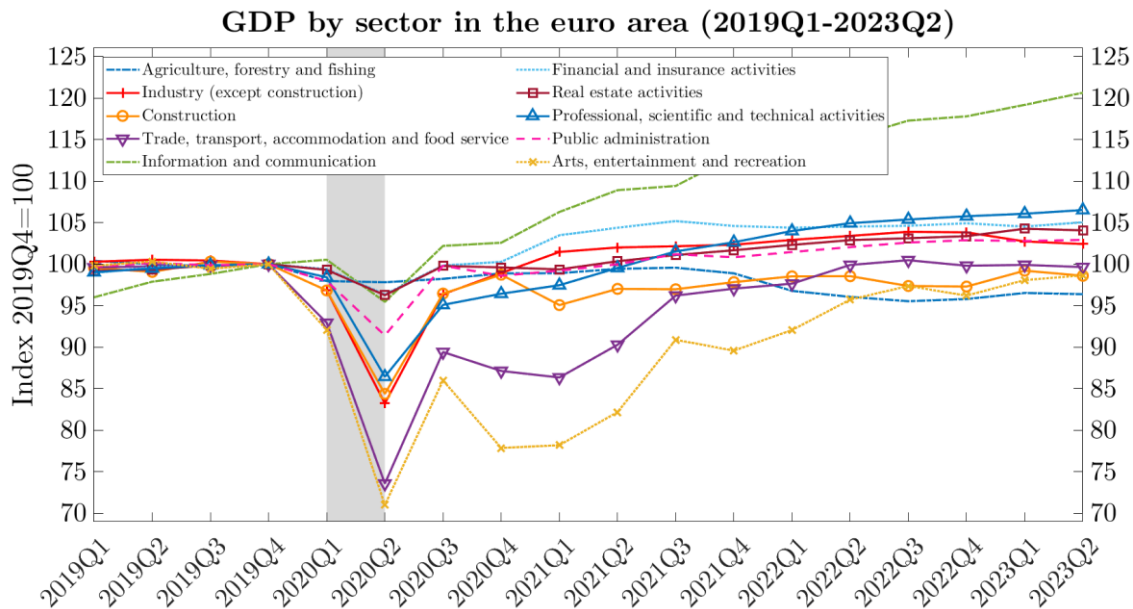
After a choppy recovery from the COVID-19 pandemic, economic activity in recent quarters has largely levelled off (Figure 1), with little noticeable action from any expenditure component.



**Figure 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]

### Most sectors are relatively flat

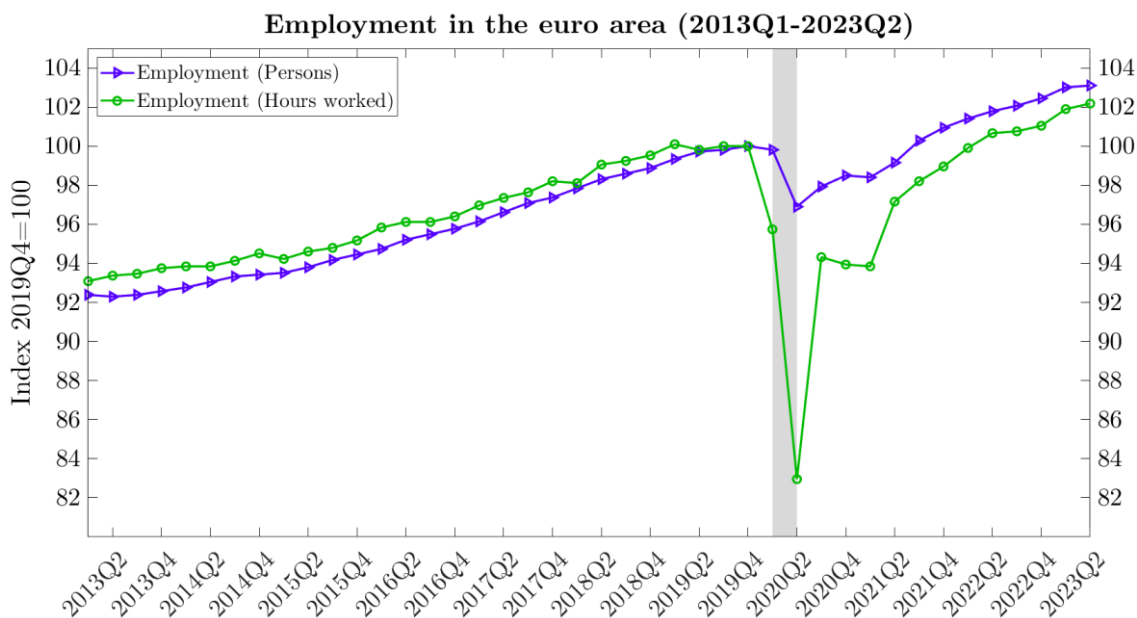
During the pandemic and then the initial recovery from the pandemic, industry performance varied widely, with some sectors declining rapidly and then rebounding more quickly. But over the past year, growth in most sectors has been relatively flat. Information and communications sector is an exception in that it has continued its strong pattern of growth since the pandemic (Figure 2).



**Figure 2.** 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]

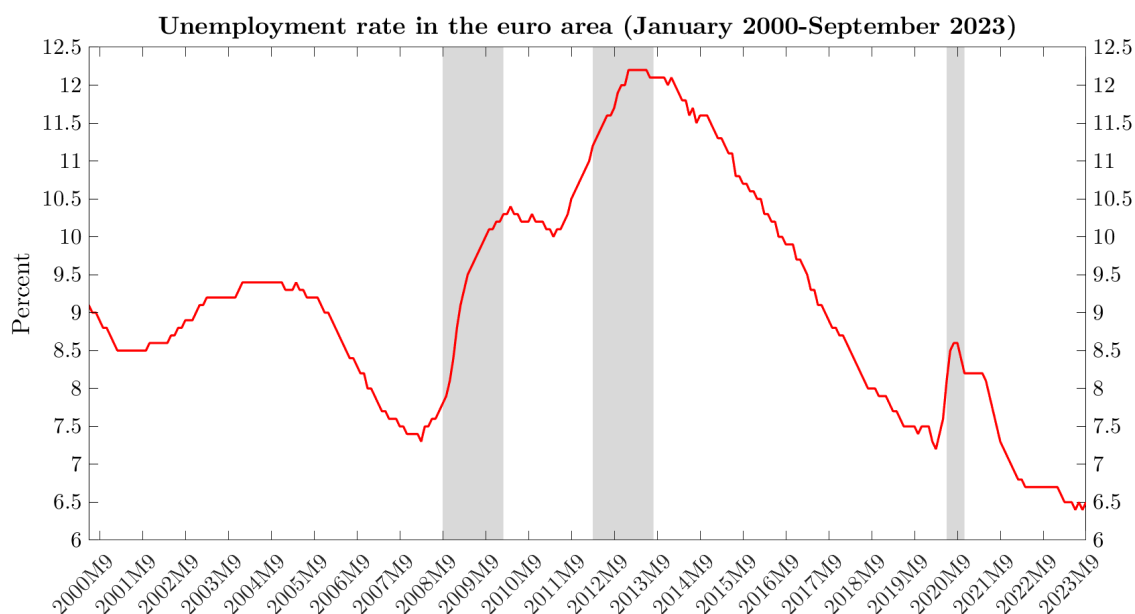
## Labour market continuing to expand

Despite limited output growth over the past year, employment (measured either by number of persons or by hours worked) has continued to increase. The pace of this increase eased a bit in the second quarter, but growth continued (Figure 3).



**Figure 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]

The unemployment rate edged down slightly further in the second quarter, and in June it reached a new low since before the creation of the euro area. We note the unemployment rate remained fairly stable in the third quarter, though it was a tick above its low by September (Figure 4).



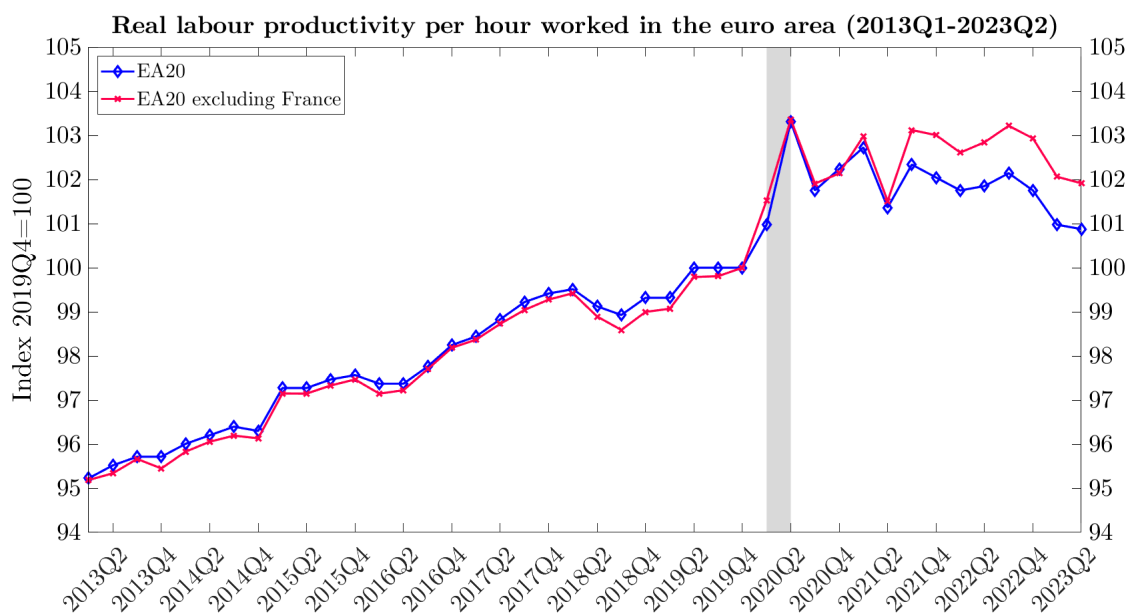
**Figure 4.** Unemployed individuals are between 15 and 74, and their total number is expressed as a percentage of the total labour force. The data are seasonally adjusted but not calendar adjusted. *Source:* [Eurostat]

With continued growth in labour markets but stagnant output, labour productivity edged down further in the second quarter of 2023. Labour productivity spiked upwards during the pandemic but has since retreated noticeably. Growth of productivity since 2019Q4 has averaged only a 0.2 percent annual pace, below its 0.7 percent pace from 2007-2019 (Figure 5).



**Figure 5.** Index, base 2019Q4=100. The data are seasonally and calendar adjusted. Grey bands are recessions (peak excluded) as dated by the Committee. *Source:* [Eurostat]

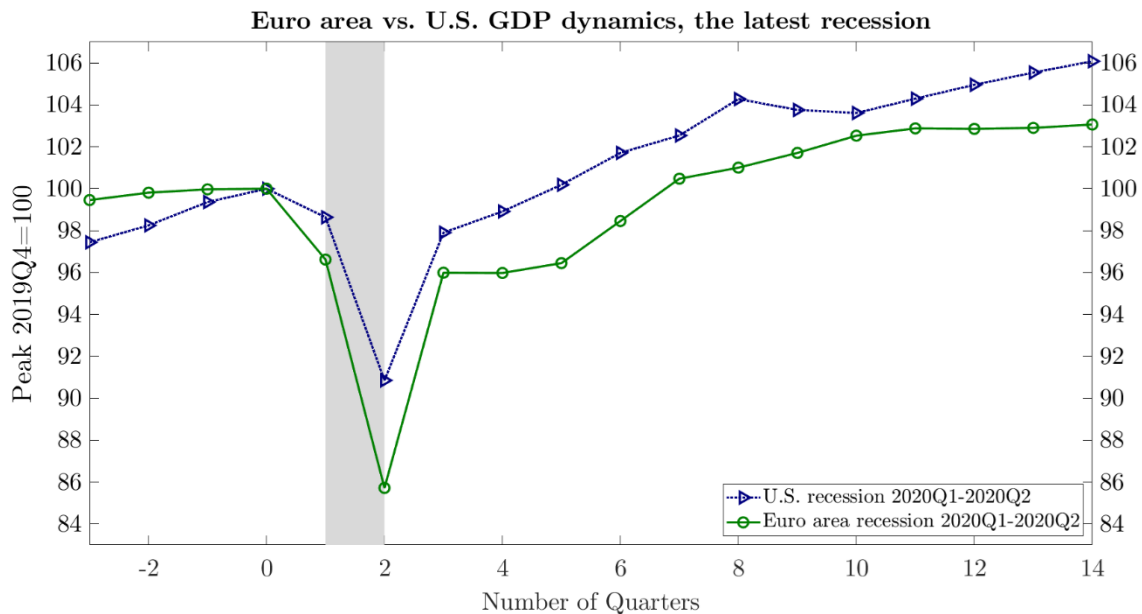
With regards to productivity, France has been notably lagging, with output per hour well below pre-pandemic levels. Excluding France, euro area productivity is about 2 percent above its pre-pandemic level (Figure 6).



**Figure 6.** Index, base 2019Q4=100. The data are seasonally and calendar adjusted. Grey bands are recessions (peak excluded) as dated by the Committee. *Source:* [Eurostat] and authors' calculations.

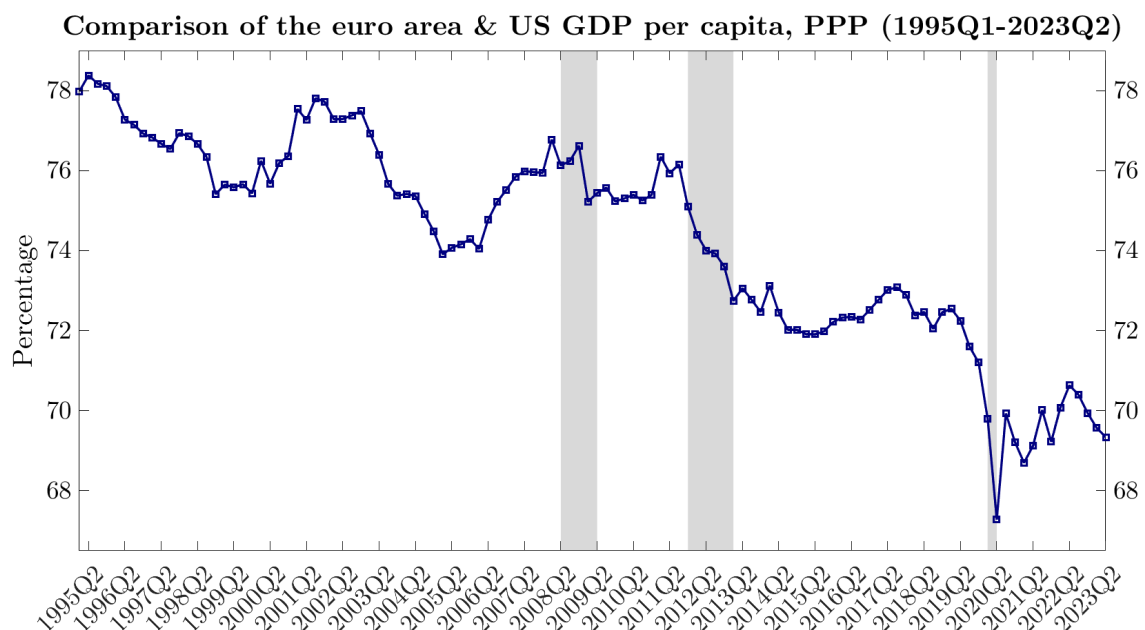
## Euro Area and U.S., diverging recoveries

The lacklustre euro area output growth of the recent past is even more striking in comparison with the strong U.S. growth performance. Despite a deeper Covid recession, the euro area recovery has petered out faster than that of the U.S., leading to an increasing difference in output levels (Figure 7).



**Figure 7.** 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]

This continues a long trend of euro area income growth falling below the U.S. growth rate, leading to an ever-widening per capita income gap (Figure 8). Preliminary data on the third quarter of 2023 suggests that this income difference widened further.



**Figure 8.** The data are seasonally adjusted. Grey bands are recessions (peak excluded) as dated by the Committee. *Source:* [OECD]

## Conclusion

The euro area economy has faced a number of extraordinary challenges, including the pandemic, the impact of Russia's invasion of Ukraine on activity and inflation, and rapidly tightening financial conditions. Despite these challenges, European unemployment has reached historically low levels and economic activity has remained surprisingly resilient. While it is good news that a euro area recession continues to be avoided, the expansion we are living in leaves a lot to be desired and a comparison with the robust U.S. growth underscores a widening gap between the two economies. The continued weak growth in euro area labour productivity remains a concern. Whether the improvement in the labour market will translate into increased output remains to be seen. The Committee will continue monitoring and commenting on developments.

### About the Euro 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

Refet S. Gürkaynak (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  
Silvana Tenreyro, London School of Economics and CEPR  
Antonella Trigari, Bocconi University and CEPR

The Committee's research assistant and rapporteurs are Mahmut İpek and Senem Turan, Bilkent University.