Euro Area Business Cycle Network

CEPR

Euro Area Business Cycle Dating Committee:
The euro area is resisting a recession

27 March 2023

The CEPR-EABCN Euro Area Business Cycle Dating Committee deliberated on 13 March 2023 to assess the state of euro area economic activity, relying on data through the fourth quarter of 2022. Following a mild expansion starting at the end of 2021, real GDP growth in the fourth quarter of 2022 halted, but did not turn significantly negative, as a large drop in private consumption and investment was offset by a similarly large reduction in imports. The output growth pause contrasts with a continued robust expansion in employment, especially in the service sector. Indeed, the euro area unemployment is currently at its lowest level since before the formation of the single currency area.

From lacklustre growth to essentially zero growth

The euro area has shown resilience with a relatively contained slowdown in the last few quarters, despite the continued hit of the energy price shock, monetary policy tightening, and heightened uncertainty. It ended 2022 with negligible negative (essentially zero) quarter-to-quarter output growth (Figure 1).

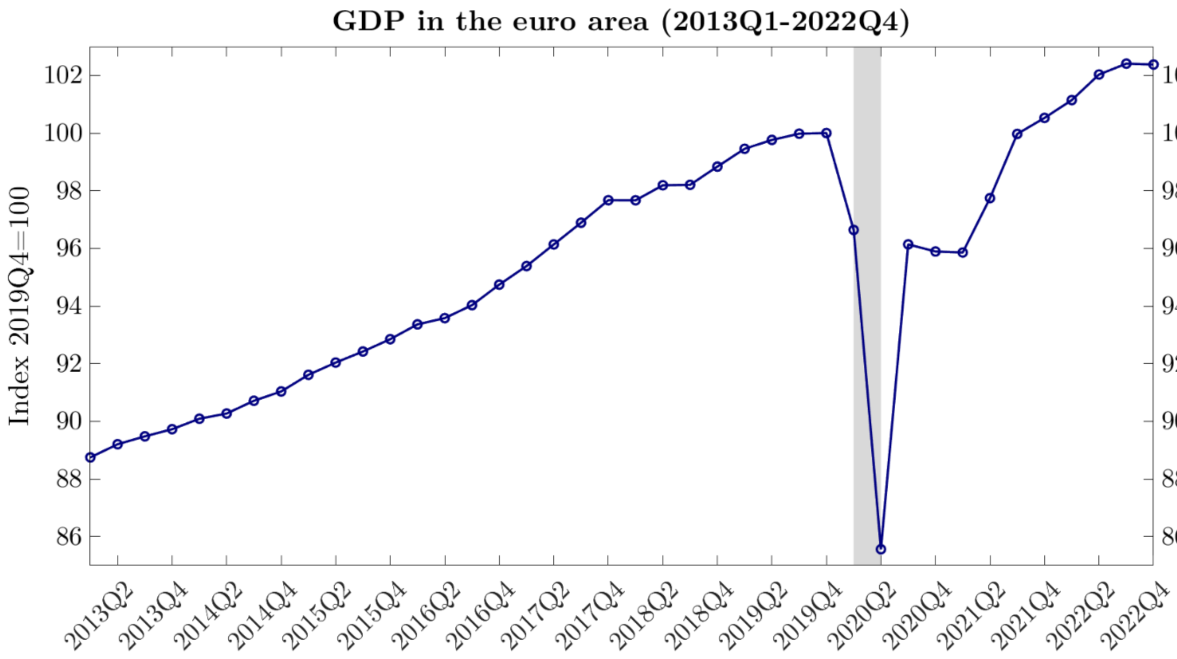

Figure 1. GDP at market prices. Chain-linked volume index, base 2019Q4=100. The data are seasonally and calendar adjusted. Grey bands are recessions (peak excluded) as dated by the Committee. *Source:* [Eurostat]

No recession thanks to plunging imports

Examining the contribution of the expenditure components of GDP shows that, in the fourth quarter of 2022, there was a marked fall in private consumption and an even more significant fall in capital formation (Figure 2). These declines were largely offset by small positive contributions from government consumption and inventories, and a large positive contribution in net exports. The rise in net exports, in turn, reflected a plunge in imports that, mechanically, saved euro area output from falling more substantially (Figure 3).

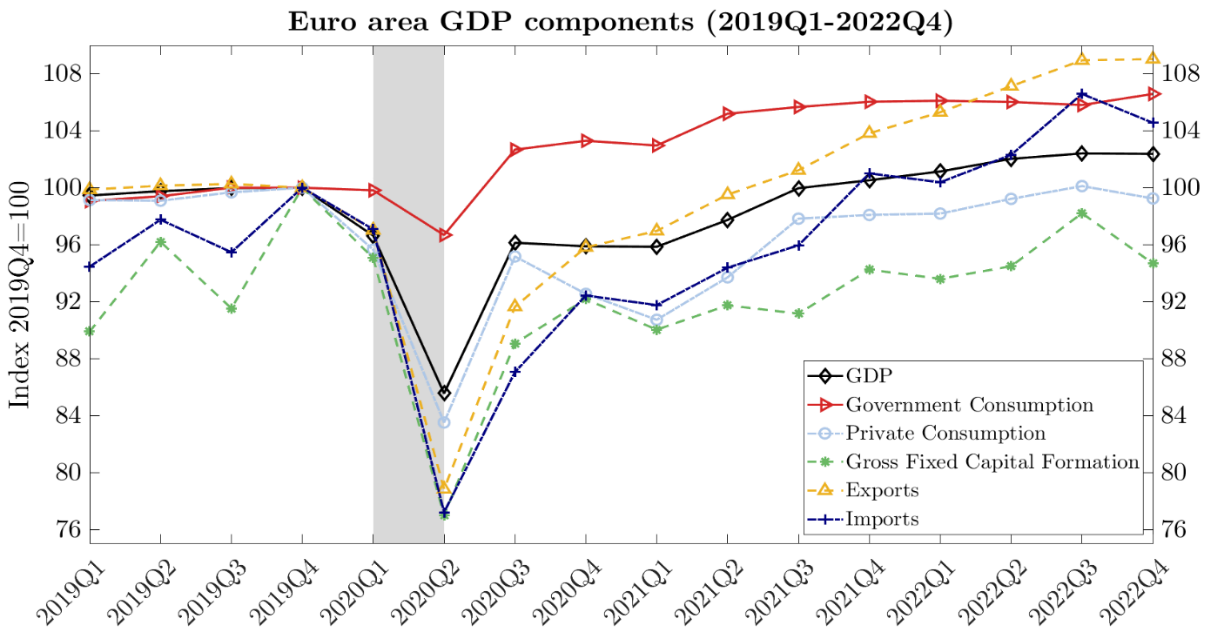

Figure 2. Chain-linked volume indices, base 2019Q4=100. The data are seasonally and calendar adjusted. Grey bands are recessions (peak excluded) as dated by the Committee. *Source:* [Eurostat]

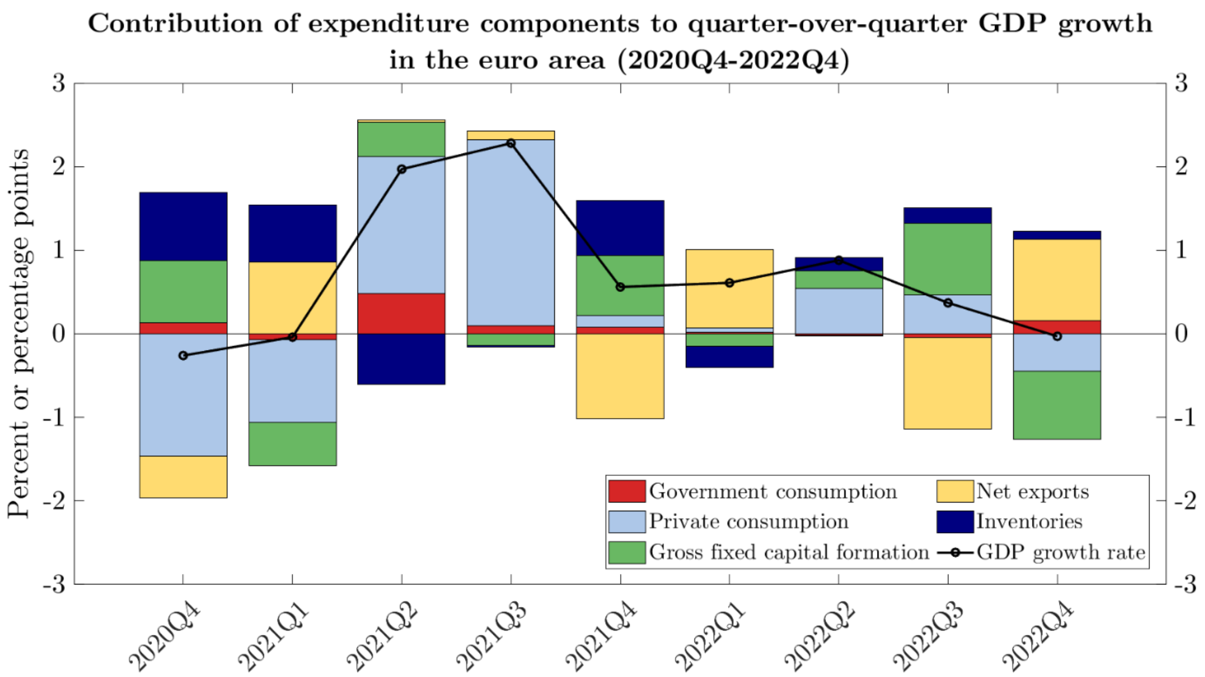

Figure 3. GDP growth is in percent; contributions are in percentage points. Solid black line is year-over-year GDP growth rate. Inventories are changes in inventories and acquisition less disposals of valuables. The data are seasonally and calendar adjusted. *Source:* [Eurostat]

Arts and Trade: the easy victims of the growth slowdown

Sectoral data reveal that the arts, entertainment and recreation sector and the trade, transport, accommodation and food services sector fell noticeably in fourth quarter. Hence, the growth of the two sectors—the most heavily hit by the pandemic and strong contributors to the subsequent recovery—went into reverse in the last quarter of 2022. The construction sector has continued following the declining path it has been on since Q1 2022. In contrast, the information and communication sector has expanded steadily after the Covid recession. (Figures 4 and 5)

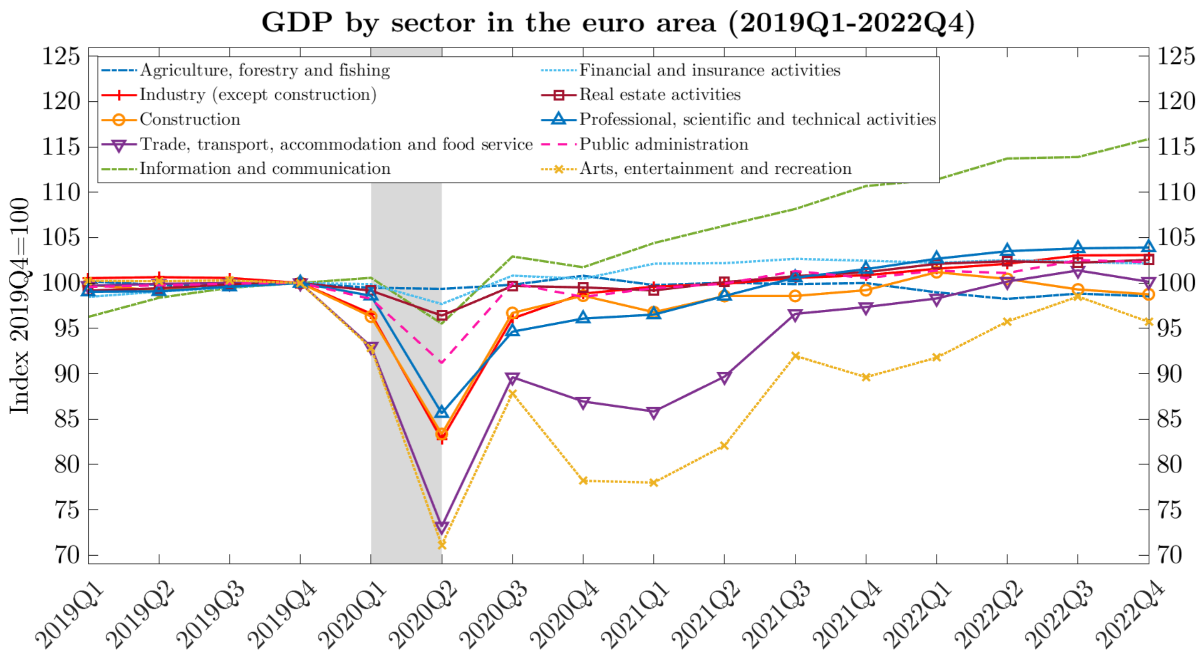

Figure 4. [NACE Rev. 2] sectors. Quantity indices, base 2019Q4=100. The data are seasonally and calendar adjusted. Grey bands are recessions (peak excluded) as dated by the Committee. *Source:* [Eurostat]

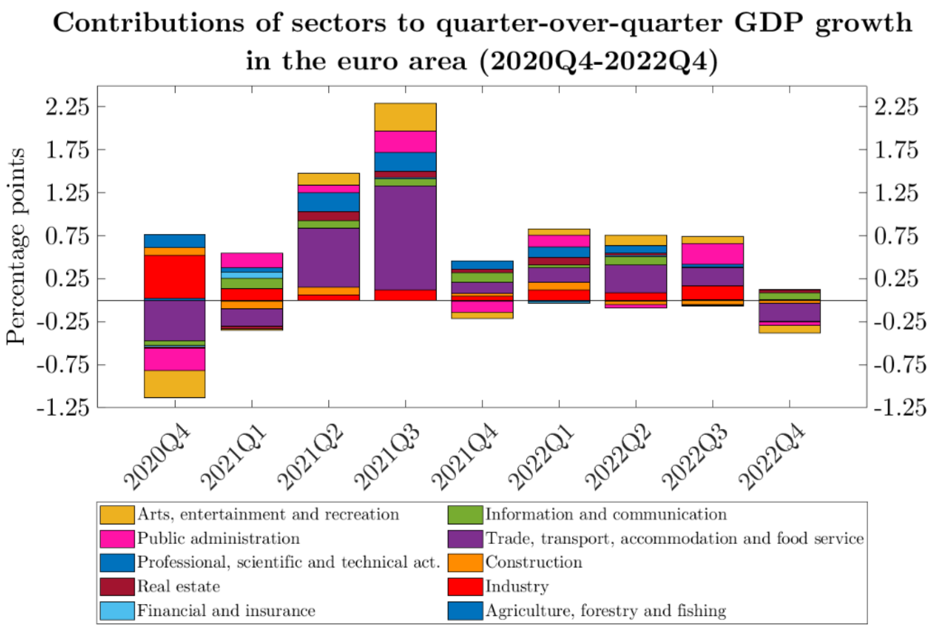

Figure 5. Contributions are in percentage points. [NACE Rev. 2] sectors. The data are seasonally and calendar adjusted. *Source:* [Eurostat]

The labour market

The resilience of the euro area economy is especially evident in labour market data. The most surprising figures in the euro area economy relate to labour market developments, where the pause in GDP growth is not reflected in employment growth. While employment overall has rebounded beyond its pre-pandemic peak, hours are hovering near their pre-pandemic peak. (Figure 6). Employment continues to recover steadily in all sectors apart from the agriculture, forestry and fishing sector (Figure 7); it has surpassed its pre-pandemic level in many sectors, especially those related to IT and communication, also evident in the dynamics of hours. (Figure 8). We also note that the unemployment rate is at its lowest level since well before the creation of the euro area (Figure 9).

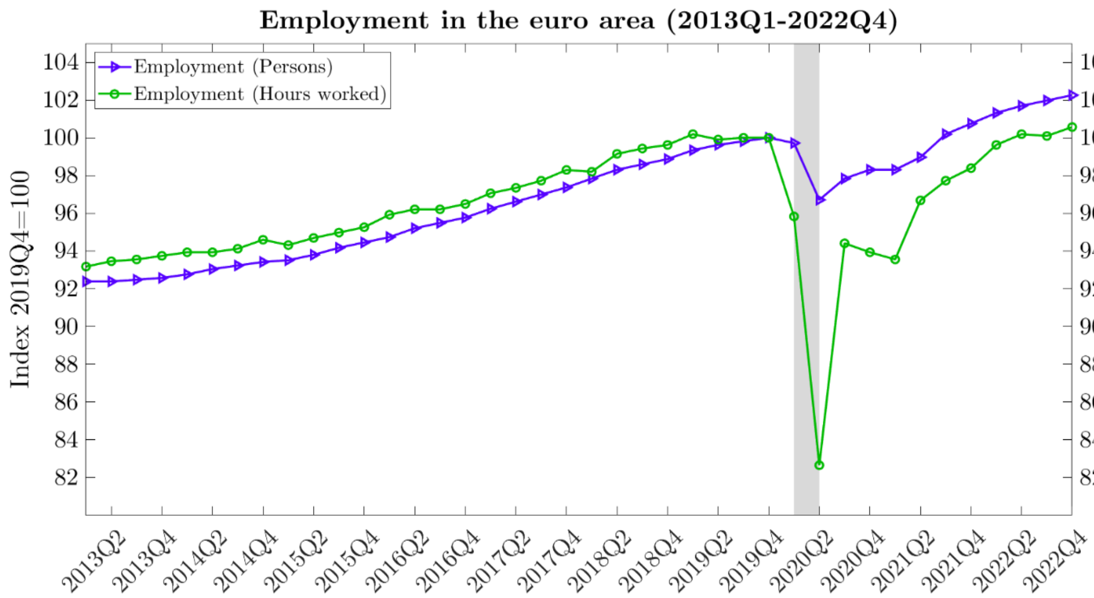

Figure 6. Employment covering all persons engaged in some productive activity within the production boundary of the national accounts. Quantity indices, base 2019Q4=100. The data are seasonally and calendar adjusted. Grey bands are recessions (peak excluded) as dated by the Committee. *Source:* [Eurostat]

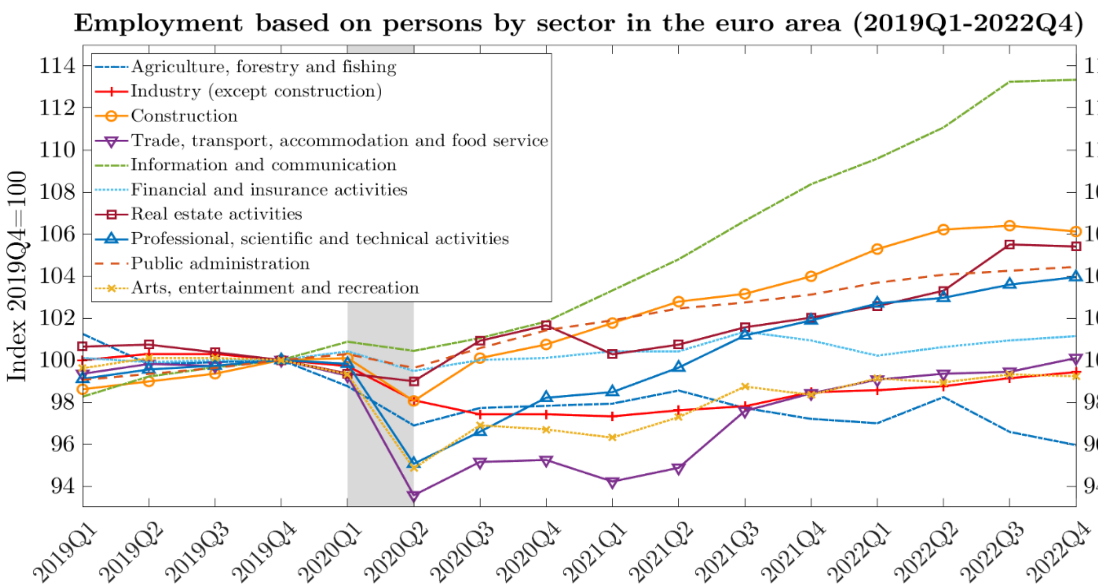

Figure 7. NACE Rev. 2 sectors. Quantity indices, base 2019Q4=100. The data are seasonally and calendar adjusted. Grey bands are recessions (peak excluded) as dated by the Committee. *Source:* [Eurostat]

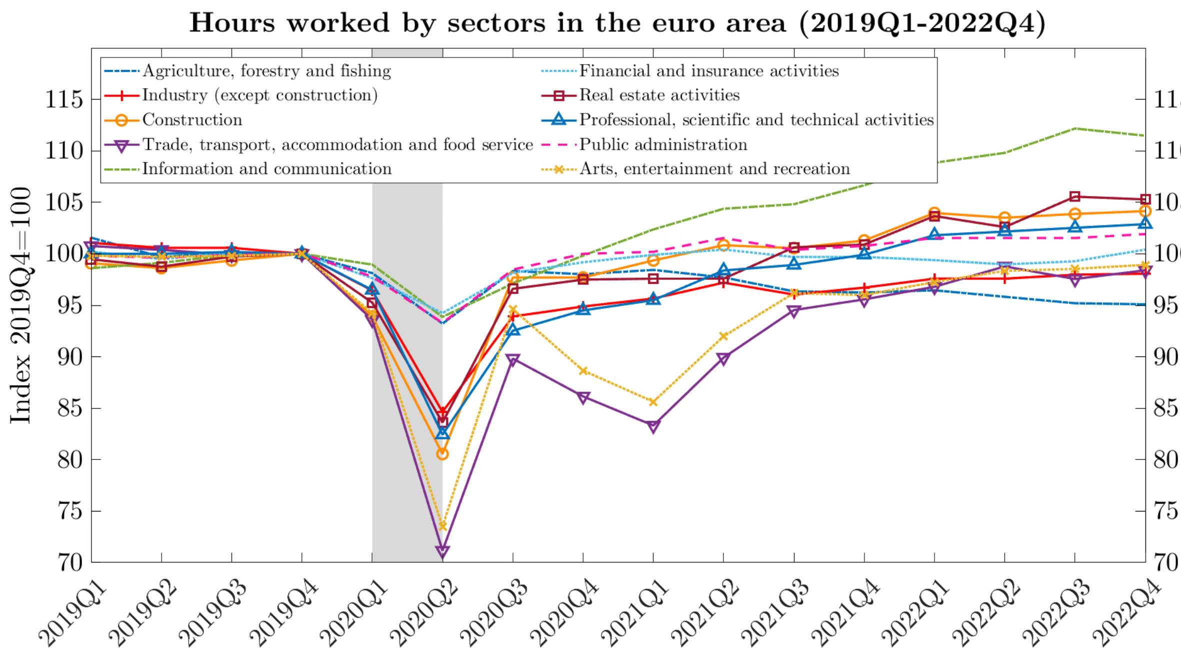

Figure 8. NACE Rev. 2 sectors. Quantity indices, base 2019Q4=100. The data are seasonally and calendar adjusted. Grey bands are recessions (peak excluded) as dated by the Committee. *Source:* [Eurostat]

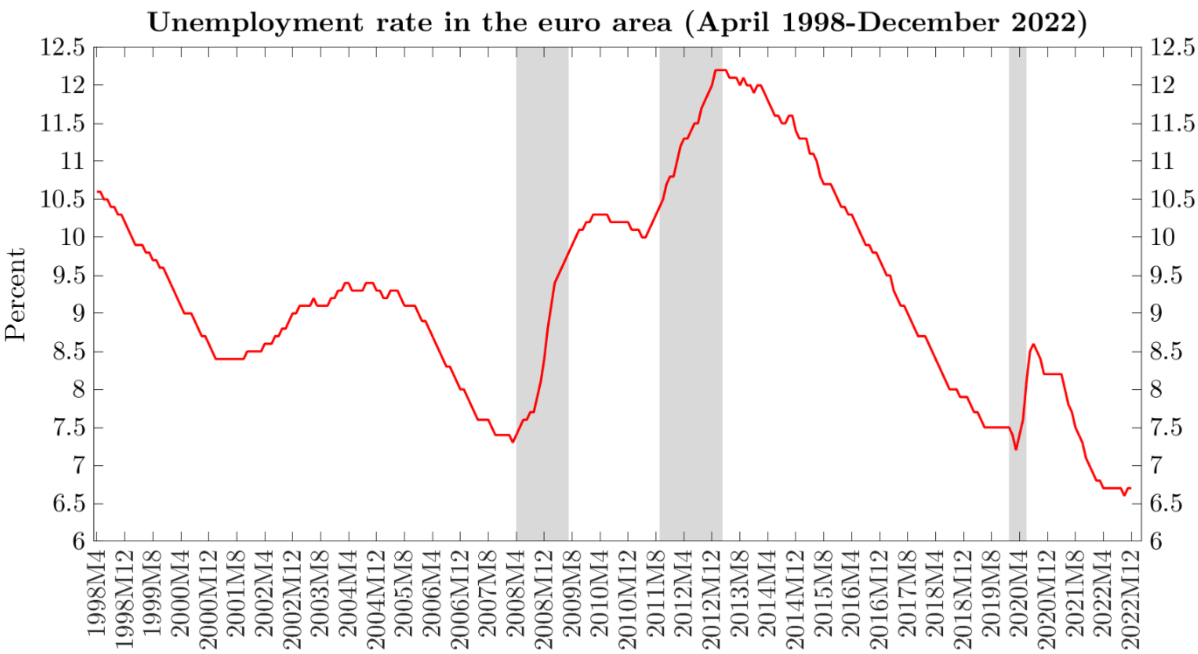

Figure 9. Unemployed individuals are between 15 and 74, and their total number is expressed as a percentage of the total labour force. The data is seasonally adjusted but not calendar adjusted. *Source:* [Eurostat]

With output rising modestly since its pre-pandemic peak and hours roughly at its pre-pandemic peak, the level of labour productivity has risen modestly but its growth rate since the conclusion of the last recession has been negligible. An initial productivity spike at the beginning of the pandemic has been followed by weak growth since then (Figure 10).

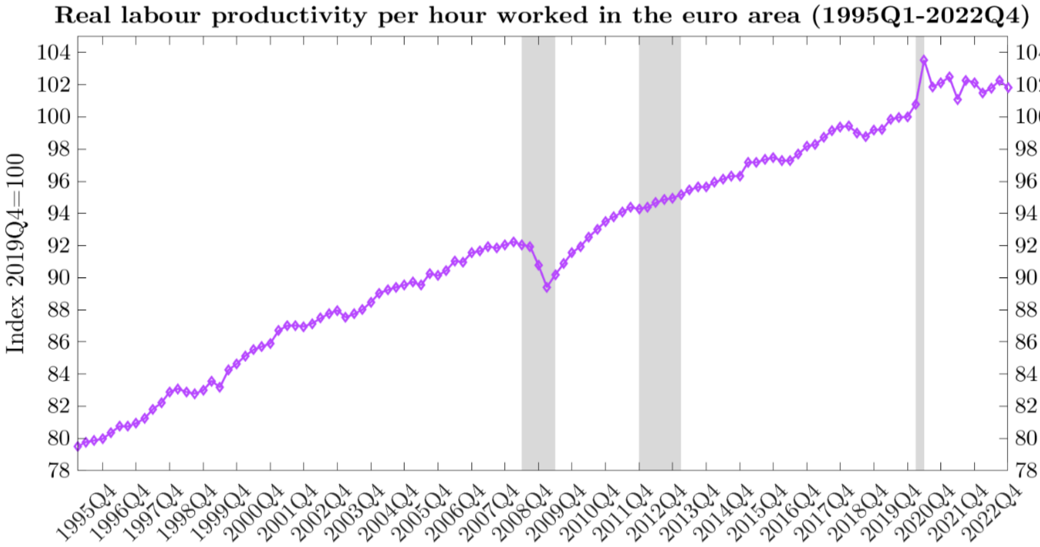

Figure 10. Index, base 2019Q4=100. The data are seasonally and calendar adjusted. Grey bands are recessions (peak excluded) as dated by the Committee. *Source:* [Eurostat]

Dynamics within the euro area

Inspecting the dynamics of the largest euro area economies in Figure 11 reveals that France, Germany and Italy largely follow the average euro area pattern of recovery and slowdown. In the last quarter of 2022, GDP growth was negative in Germany and Italy and close to zero in France, whereas the Netherlands and Spain continued growing. However, while all five economies have by now mostly or entirely recovered from the Covid recession, only the Netherlands has recorded a meaningful cumulative change in GDP growth compared to the pre-pandemic peak.

Figure 12 shows the evolution of employment in those countries. All economies have surpassed their pre-Covid employment numbers as of 2022Q4, with employment in France and the Netherlands growing faster relative to the other major European economies.

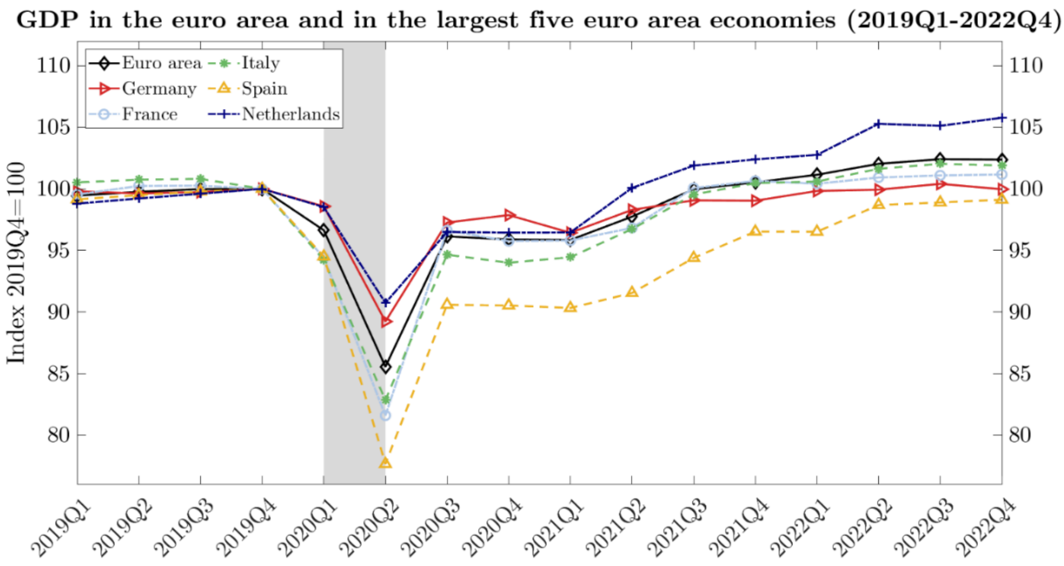

Figure 11. Chain-linked volume indices, base 2019Q4=100. Germany constitutes 27%, France 21%, Italy 17%, Spain 12%, and the Netherlands 6% of the 2011 euro area nominal GDP. The data are seasonally and calendar adjusted. Grey bands are recessions (peak excluded) as dated by the Committee. *Source:* [Eurostat]

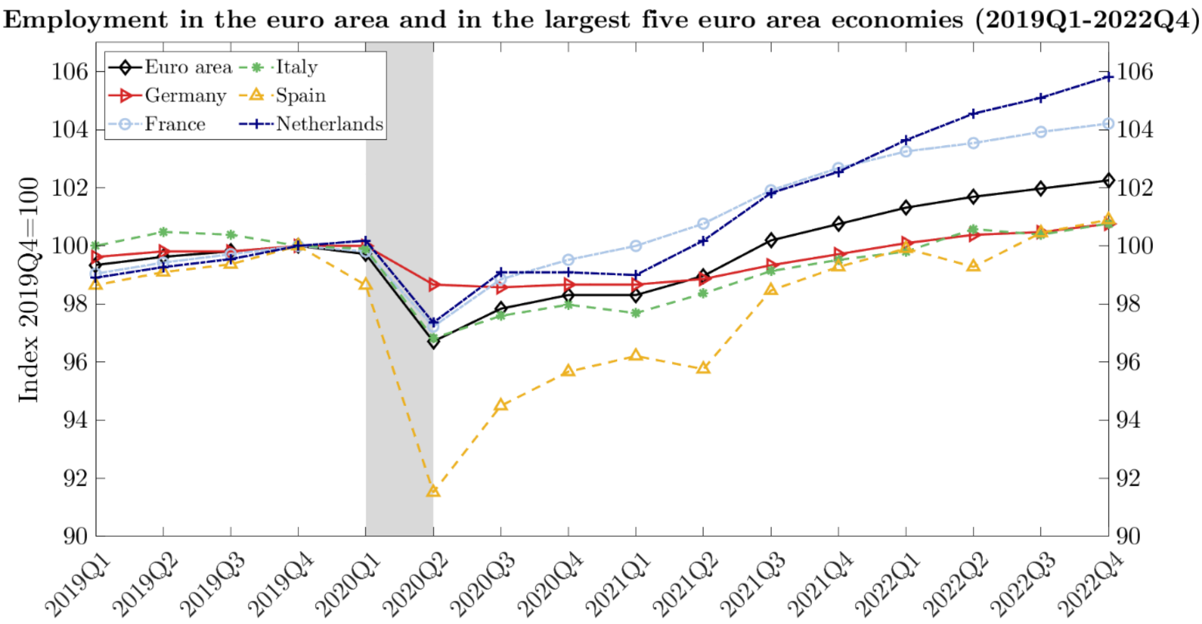

Figure 12. Quantity indices, base 2019Q4=100. In 2011 euro area nominal GDP, Germany constitutes 27%, France 21%, Italy 17%, Spain 12%, and the Netherlands 6%. The data are seasonally and calendar adjusted except for France, where the data are seasonally adjusted but not calendar adjusted. Grey bands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

Conclusion

The euro area economy is currently beset with various challenges and the already low growth rate of output has fallen further. Despite these challenges, European unemployment has reached historically low levels and economic activity has remained surprisingly resilient. Although Covid has obviously changed the structure of the European labor market, it is too early to judge how this will impact long-run unemployment in the euro area. The committee will continue monitoring and commenting on developments.