THE CEPR AND NBER APPROACHES

In determining the chronology of the euro area business cycle, the CEPR Committee adopted a definition of a recession similar to that used by the National Bureau of Economic Research (NBER), which has for many years dated the US business cycle. The Committee had to adapt the NBER definition, however, to reflect specific features of the euro area.

The CEPR Committee's task is significantly different from that of the NBER. The euro area groups together a set of different countries. Although subject to a common monetary policy since 1999, they even now have heterogeneous institutions and policies. Moreover, European statistics are of uneven quality, long time series are not available, and data definitions differ across countries and sources. These differences explain why some of the CEPR criteria for dating business cycles differ from those used by the NBER:

- Unlike NBER, the CEPR committee dates episodes in terms of quarters rather than months. Quarterly series are currently the most reliable European data for our purposes and those around which a reasonable consensus can be achieved.
- The CEPR Committee analyses euro area aggregate statistics, but it also monitors country statistics to make sure that expansions or recessions are widespread over the countries of the area. There is no fixed rule by which country information is weighted.
- The CEPR Committee views real GDP (euro area aggregate, as well as national) as the main measure of macroeconomic activity, but it also looks at additional macroeconomic variables, for several reasons. First, euro area GDP series constructed for the pre-EMU era reflect not only movements in economic activity but also changes in exchange rates, which are problematic. Second, GDP statistics are sometimes subject to large subsequent revisions, and this makes them an imperfect indicator of current business cycle conditions. Third, measured GDP does not always move in parallel with its individual major components (which may indeed be moving in different directions) or other macroeconomic aggregates such as employment. Fourth, these variables are known to display more cyclicality than GDP and are useful in strengthening opinions when the GDP data do not seem very decisive. They are also available (with the exception of investment) earlier and at a higher frequency than GDP.
- For recent euro area data (since the end of the 1990s) we use, where possible, official Eurostat statistics and focus primarily but not exclusively on (1) quarterly GDP (Eurostat source); (2) quarterly employment (OECD); (3) monthly industrial production (Eurostat); (4) quarterly business investment (Eurostat); (5) consumption and its main components (Eurostat and ECB). For country data, we use Eurostat and OECD sources and monitor Germany, France and Italy systematically.
- Historical euro area data since the 1970s are provided by the OECD and the ECB. We mainly use the ECB source. For national data, we have used the OECD and the IMF. We do not use a fixed rule to weight different data series, although we give primary emphasis to GDP.
- The committee informally assesses the depth, duration and severity of a recession. Hence although recessions are usually characterized by at least two consecutive quarters of declining GDP, this is not a fixed rule.