



Euro Area Business Cycle Dating Committee:

Methodological note

October 2012

At its 10 September 2012 meeting, the Committee decided to alter its definition of cyclical turning points slightly. **From now on, the Committee will date turning points using only euro-area aggregate data** for the euro area. Individual country data will be used only to describe the degree of heterogeneity in the cyclical behavior of individual members of the euro area.

Previous definition

A recession was defined previously to be a significant decline in the level of economic activity, spread across the economy of the euro area, usually visible in two or more consecutive quarters of negative growth in GDP, employment and other measures of aggregate economic activity for the euro area as a whole; and reflecting similar developments *in most countries*. A recession was deemed to end when growth resumes in GDP and other key measures of economic activity for the euro area as a whole; and when this reflects similar developments *in most countries* (emphasis added).

New definition

From now on, the committee will drop its requirement that peaks or troughs mark turning points in economic activity *in most countries* of the euro area. The rationale for this definitional change is that the Committee wants to make sure that its characterization of euro-area economic activity (which is its sole objective) is not affected by rising heterogeneity in the euro area. Adopting a dating criterion that refers solely to aggregate euro-area economic activity achieves this objective most transparently.

In order to satisfy itself that this definitional change would not have affected the turning points that were dated previously, and in order to make sure that dates for troughs and peaks form a consistent statistical series in spite of this definitional change, the Committee has commissioned a special study by Binnur Balkan (Bilkent University) aimed at examining which dates it would have chosen in the past had it obeyed the new criterion that abstracts from any homogeneity requirement (<http://www.cepr.org/data/dating/Dating-Heterogeneity-Nov-2012.pdf>). Based on *current* vintage data (which are revised

relative to the data that were available to the Committee when it met in the past), the Committee might have chosen slightly different dates in some episodes. These differences seem to result, however, from data revisions subsequent to the meetings of the Committee rather than from dropping the homogeneity requirement. In other words, euro-area heterogeneity was never of a magnitude sufficient to affect our characterization of euro-area economic activity in the past. The definitional change adopted on 10 September 2012 ensures that this will continue to be so.

The Committee requires, as it did before, that a recession be a broad contraction of the economy, not confined to one sector. It treats domestic production and employment as the primary conceptual measures of economic activity, while also taking into account industrial production as a monthly measure of private production, sales as a measure of retail activity, investment, and consumption, as well as data on unemployment.