Centre for Economic Policy Research

EMBARGO: 10.00 GMT, THURSDAY 15 NOVEMBER 2012

CEPR:
Euro area in recession since third quarter of 2011

The *CEPR Business Cycle Dating Committee* has determined that economic activity in the euro area peaked in the third quarter of 2011 and that the euro area has been in recession since then.

The Committee also found:

1. The third quarter of 2011 marked the end of an expansion that began in the second quarter of 2009 and lasted 10 quarters (the shortest expansion since 1970, when the Committee's data series begin). Although output increased 4.0 per cent from trough to peak, this was not enough to bring euro-area GDP back to its pre-financial crisis level: at the end of the expansion in 2011Q3, GDP was about 2% below its previous 2008Q1 peak.

2. The euro-area recession is very visible in labour markets. Employment (and investment) started to decline slightly before 2011Q3. This is quite unusual, since employment is generally a lagging variable of output and was a lagging variable in the previous recession (2008Q1-2009Q2). The labour market may not have fully recovered from the previous recession, and this may have caused employment to turn down so quickly.

3. Dating business cycles is a difficult exercise: it involves more than merely identifying two-quarter declines or increases in GDP. The challenge is to date peaks and troughs of economic activity without unnecessary delay, while minimizing the chance that data revisions will oblige the Committee to reconsider its decisions at some future date. The Committee uses two strategies to cope with data revisions. First, it examines a wide array of economic data in addition to GDP, such as the individual components of output and labor market data. This makes the dating exercise less vulnerable to revisions of one or two data series. Second, the Committee uses the statistical properties of past data revisions to compute the probability that future revisions might lead the Committee to change its current findings. Thus, the Committee has estimated that there is a 75% probability that, based on the data that will be available three years from now, it will still determine that 2011Q3 was a peak of euro-area GDP. In addition, the probability that, after revision, GDP in 2012Q2 will eventually be found to exceed GDP in 2011Q3 is only about 5%. The Committee is therefore confident that 2011Q3 marks the beginning of a recession in the euro area.

4. The Committee establishes a chronology of recessions and expansions for the euro area as a whole but it notes that heterogeneity across countries is substantial: the euro area as a whole is in recession since 2011Q3 but not all its member countries are. Taking 2011Q3 as the reference point, France is muddling through, Spain and Portugal display very low levels of both employment and GDP, while the opposite is true for Germany, Austria and Estonia. Countries such as Finland display low levels of GDP but not employment.

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We are grateful to London Business School for hosting the Press Briefing on 15 November.