



## Euro Area Business Cycle Dating Committee: Too Early to Tell Whether Euro Area Recession is Over

The Euro Area Business Cycle Dating Committee of the Centre for Economic Policy Research (CEPR) met in Paris on 9 October 2013. The Committee's task is to establish the chronology of recessions and expansions of the 11 original euro-area member countries plus Greece for 1970-1998, and of the euro area as a whole from 1999 onwards. The Committee issued its first findings on 22 September 2003. On 15 November 2012, it declared that the third quarter of 2011 marked the peak of euro area economic activity and the end of the expansion that started after the second quarter of 2009. No subsequent data revisions lead the Committee to alter this determination.

The decision of the Committee to convene on 9 October 2013 was prompted by positive news stemming from a variety of sources (the European Commission, statistical agencies, forecasting institutions, international organizations, Now-Casting.com) about economic activity in the euro area. The objective of this meeting was to determine whether there was enough evidence that the decline in economic activity that started after third quarter of 2011 had ended. The Committee decided that, **while it is possible that the recession ended, neither the length nor the strength of the recovery is sufficient, as of 9 October 2013, to declare that the euro area has come out of recession.** New data releases and likely data revisions will enable the committee to establish clearly whether this recession has ended and whether the euro area economy has actually shown significant improvement.

The decision of the Committee does not simply result from the absence of evidence, as of 9 October 2013, of two quarters of positive growth in euro area GDP, since its identification of peaks and troughs does not follow a mechanical two-quarter rule for GDP (see FAQ). A fortiori, one quarter of positive growth of GDP in the second quarter of 2013 does not suffice to call a turning point. For that we require evidence of sustained growth, corroborated by a range of indicators. Nor does the decision reflect a negative forecast by the Committee of future growth prospects for the euro area, since the Committee does not forecast (see FAQ). Rather, it stems from considering a wide array of data that do not yet rule out **the possibility that the euro area might have been experiencing only a pause in the recession that started after the third quarter of 2011.**

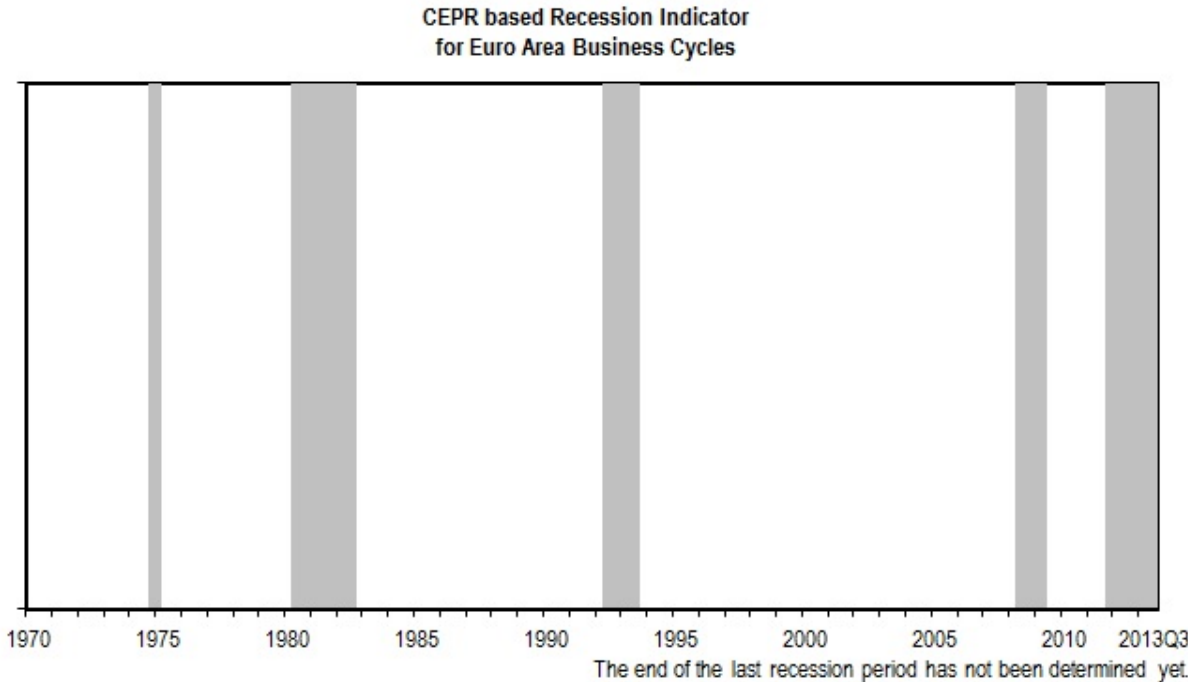
### Other decisions by the Committee

The Euro Area Business Cycle Dating Committee has decided it will henceforth release public findings each time it meets to examine recent data developments.<sup>1</sup> This contrasts with its past practice of releasing findings only when the date of a new turning point was declared.

The rationale underlying this change is that the decision not to set a date, although the Committee met to examine available data, does convey useful information to the public.

The published findings of the Committee are based solely on data available to it on the day of its meeting.

### Chronology of euro-area business cycles



### CEPR recessions (grey bands)<sup>2</sup>

<sup>1</sup> Research meetings, i.e. meetings of the Committee that are not prompted by data developments, will not give rise to a public release.

<sup>2</sup> CEPR recession shading for quarters follows the trough method used by FRED to compute NBER recession indicators for the United States. It shows a recession from the period following the peak through the trough (i.e. the peak is not included in the recession shading, but the trough is). See <http://research.stlouisfed.org/fred2/series/USREC/downloaddata?cid=32262>.

## Committee members

Philippe Weil, (Chair, 2012- ), 2003- , OFCE, Sciences Po, ULB and CEPR  
Domenico Giannone, 2012- , ULB and CEPR  
Refet Gürkaynak, 2012- , Bilkent University and CEPR  
Monika Merz, 2012- , University of Vienna and CEPR  
Richard Portes, 2003- , LBS and CEPR (*ex officio*)  
Lucrezia Reichlin (Chair, 2003-2005), 2003- , LBS and CEPR (*ex officio*)  
Albrecht Ritschl, 2012- , LSE and CEPR  
Barbara Rossi, 2012- , ICREA-UPF, BGSE, CREI and CEPR  
Karl Whelan, 2012- , UCD and CEPR

Michael Artis, 2003-2009  
Fabio Canova, 2003-2012  
Jordi Gali, 2003-2012  
Francesco Giavazzi, 2003-2012  
Harald Uhlig (Chair, 2005-2012), 2003-2012  
Volker Wieland, 2008-2012

Rapporteur: Paul Hubert, 2012- , OFCE, Sciences Po

For more information, see the FAQs below and also see  
<http://www.cepr.org/content/euro-area-business-cycle-dating-committee/>

### FAQs<sup>3</sup>

Q: The financial press often states the definition of a recession as two consecutive quarters of decline in real GDP. How does that relate to your recession dating procedure?

A: Most of the recessions identified by the Committee's procedures consist of two or more quarters of declining real GDP, but declining real GDP is not the only indicator used. As an example, the Committee has identified the period from the first quarter in 1980 to the third quarter in 1982 as a recession, despite the fact that real GDP was growing in some quarters during that episode and that real GDP was higher at the end of the recession than at the beginning. As another example, the Committee did not declare a recession for 2001 or 2003, even though the data at the time appeared to show a decline in economic activity (though not for two quarters). Subsequent data revisions have erased these declines.

---

<sup>3</sup> The following "FAQs" have been adapted from the NBER document.

Q: Why doesn't the Committee accept the two-quarter definition?

A: The Committee's procedure for identifying turning points differs from the two-quarter rule in a number of ways. First, we do not identify economic activity solely with real GDP, but use a range of indicators, notably employment. Second, we consider the depth of the decline in economic activity. Recall that our definition includes the phrase, "a significant decline in activity."

Q: Isn't a recession a period of diminished economic activity?

A: It's more accurate to say that a recession — in the way we use the word — is a period of diminishing activity rather than diminished activity. We identify a quarter P when the economy reached a peak of activity and a later quarter T>P when the economy reached a trough. The quarters P+1 to T (with P+1 and T included) constitute a recession, a period when economic activity is contracting. The following period is an expansion.

Q: How long does the Committee expect the recession to last?

A: The Committee does not forecast.

Q: Does the Committee follow the NBER Business Cycle Dating Committee in its deliberations?

A: While the CEPR Euro Area Business Cycle Dating Committee has been conceived to operate in a manner similar to the NBER Business Cycle Dating Committee, its deliberations and timing of announcements are independent.

Q: How is the Committee's membership determined?

A: The President of CEPR appoints new members after consultation with the Chair of the Business Cycle Dating Committee and the Research Director of CEPR. The President and the Research Director are *ex officio* members of the Committee.

Q: Does the Committee date recessions for individual countries in the euro area?

A: No, the sole objective of the Committee is to date recessions for the euro area as a whole.

Q: Why does the Committee not date recessions for individual countries? Is it possible that the EU area is in a recession while some of the individual countries are not?

A: 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. Note that since October 2012 the Committee has dropped 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 explained in details in a methodological note [[available here](#)]. It is thus possible that the euro area is in a recession while some of the individual countries are not, and that the business cycle dates differ for the Euro-area and for individual countries. For instance, 2011Q3 is a peak in the Euro-area as a whole, but not for Germany. A detailed analysis of heterogeneity in individual countries' business cycles is included in the Committee's releases since its creation.

For more frequently asked questions and their answers, see <http://www.cepr.org/content/business-cycle-dating-committee-faqs>

**Data:**

Eurostat: <http://epp.eurostat.ec.europa.eu>