

Euro Area Business Cycle Dating Committee: Determination of the 2008 Q1 Peak in Economic Activity

The Euro Area Business Cycle Dating Committee of the Centre for Economic Policy Research (CEPR) met by conference call on 18 March 2009 and on 24 March 2009. The Committee's mission 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.

This document concerns the euro area in 2008, consisting of 15 member countries. The Committee determined that a peak in economic activity occurred in the euro area in the first quarter of 2008.

Identifying the month of the peak is subject to considerably more uncertainty. The Committee nevertheless recognizes the need of users of our chronology from here on forward for us to specify monthly dates as well. Our best judgment specifying the month of the peak is January 2008.

The peak marks the end of the expansion that began in the third quarter of 1993 and the beginning of a recession. The expansion lasted 57 quarters or more than 14 years. The Committee notes that there was not a recession in 2001 or in 2003, but slow growth from the second to the fourth quarter in 2001 and a prolonged pause in the growth of economic activity in the first two quarters of 2003. This was determined in its deliberations in 2003, and the Committee has not changed its view on these episodes.

This document provides an account of the underlying reasoning. A complementary Excel Document, available from the CEPR website [<http://www.cepr.org/press/Dating-Committee-Data-31-March-2009.xls>] provides the detailed data as well as a number of additional graphs. The Committee works analogously to the Business Cycle Dating Committee of the NBER in the United States of America. Therefore, parts of this document are similar in wording to the recent NBER announcement, in order to emphasize the similarity in approach.

A recession is 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.

Because a recession is a broad contraction of the economy, not confined to one sector, the Committee emphasizes economy-wide measures of economic activity. The Committee believes that domestic production and employment are the primary conceptual measures of economic activity, also taking into account industrial production as a monthly measure of private production, sales as a measure of retail activity, investment, consumption as well as data on unemployment.

All data are taken from the ECB website or from the Eurostat website. In most cases, we have plotted the data in terms of their percentage change compared to the 2008 Q1 level, for quarterly data, or the level in January 2008, for monthly data. For unemployment, the level has been plotted.

The Quarter of the Peak

According to the definition of a recession provided above, the key variables are euro area GDP, euro area employment and GDP in the member countries.

Euro area GDP peaked in the first quarter of 2008, while employment peaked in the second quarter. However, the improvement of employment in the second quarter compared to the first quarter was mild, while the drop in GDP was considerably sharper.

Eurostat has released the official employment data for the fourth quarter of 2008 as of March 16th, 2009. Given the definition of a recession stated above, the Committee felt it prudent to wait for this data release to ascertain that employment has indeed declined and to declare a recession, rather than possibly ascribing the one-quarter decline in the third quarter of 2008 to a short-term fluctuation.

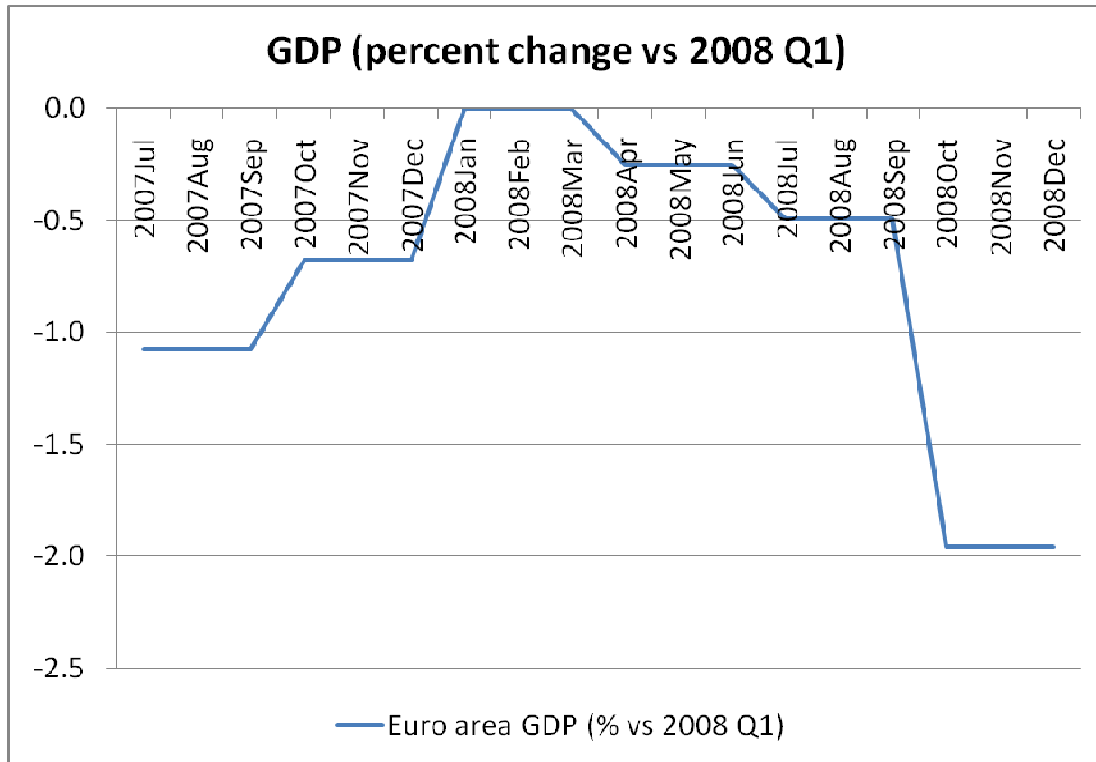


Figure 1: euro area GDP



Figure 2: euro area employment

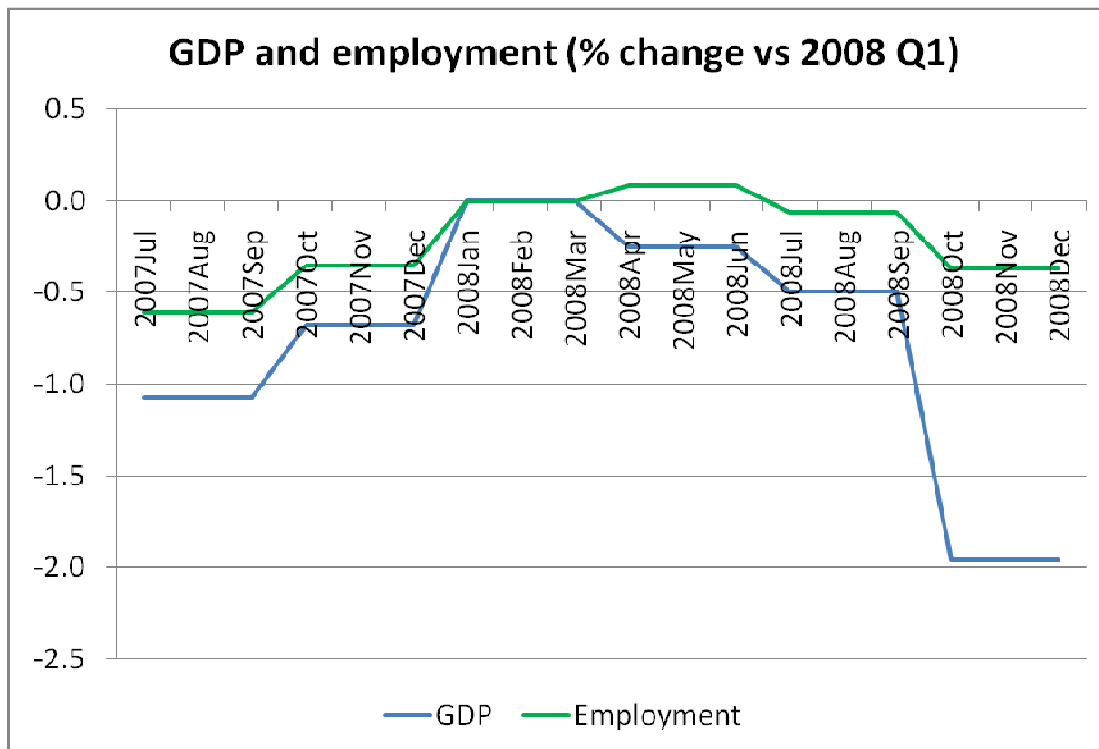


Figure 3: euro area GDP and employment

The movement in euro area GDP is tracked in the large member countries Germany, France, Italy and Spain, with Spain peaking in the second rather than the first quarter of 2008. For the smaller countries, there is considerably more heterogeneity. The Netherlands peaked in 2008 Q1; Finland, Luxembourg, Malta and Portugal peaked in 2008 Q2, Austria, Belgium and Slovenia appear to have peaked in 2008 Q3, while Cyprus, Greece and Ireland reached their highest GDP value at the end of the available sample and therefore cannot be said to have peaked based on GDP data alone.

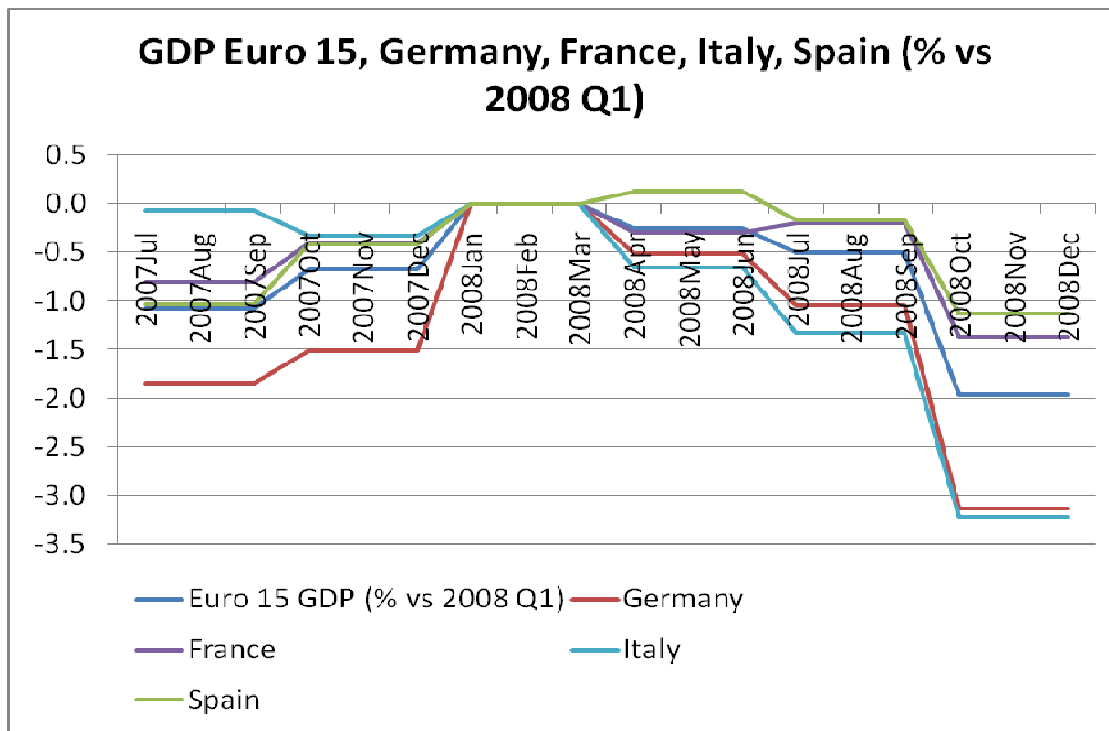


Figure 4: GDP – euro area, Germany, France, Italy, Spain

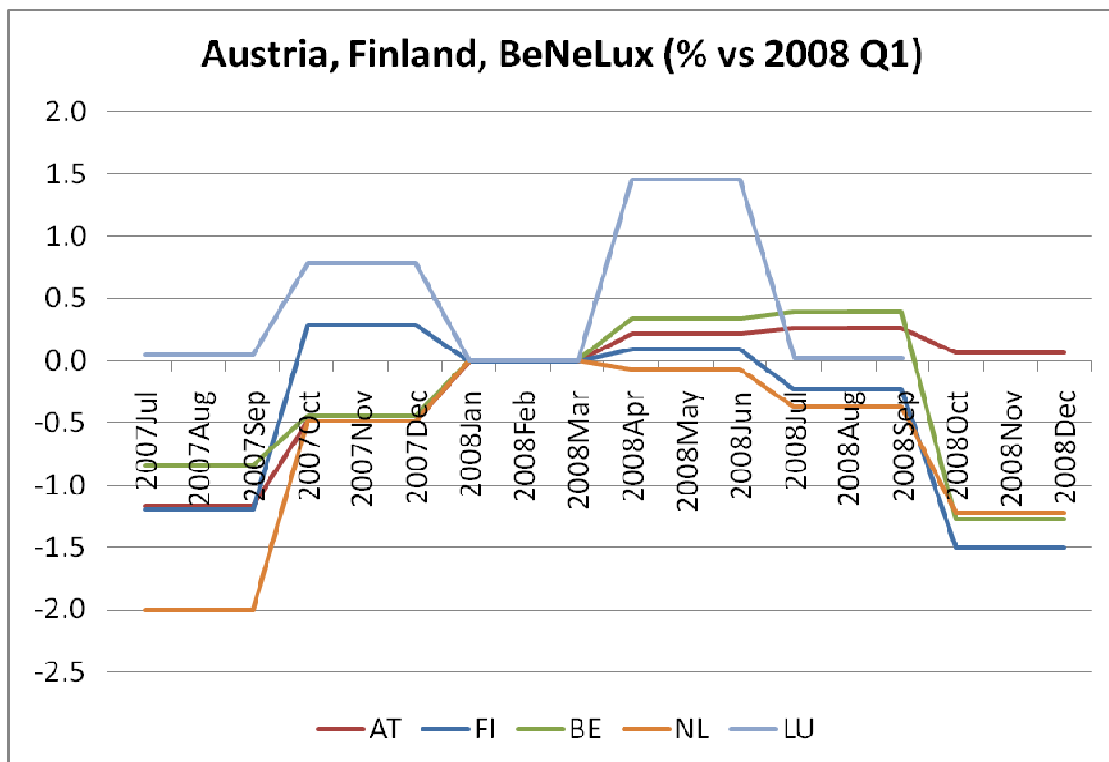


Figure 5: GDP – Austria, Finland, BeNeLux

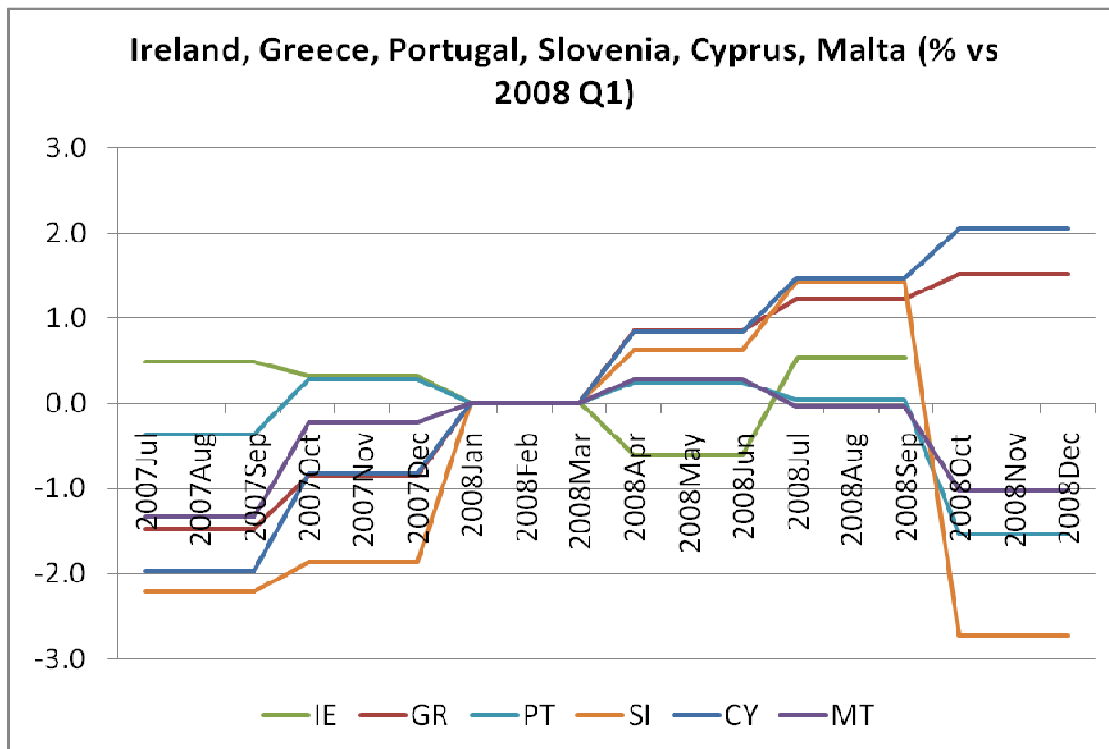


Figure 6: GDP – Ireland, Greece, Portugal, Slovenia, Cyprus, Malta

Nonetheless, the Committee sees a peak occurring in the majority of the member countries close to the first quarter of 2008.

The Committee has also examined investment and consumption for the euro zone: both peaked in the first quarter of 2008, providing further support for the chosen date of the peak.

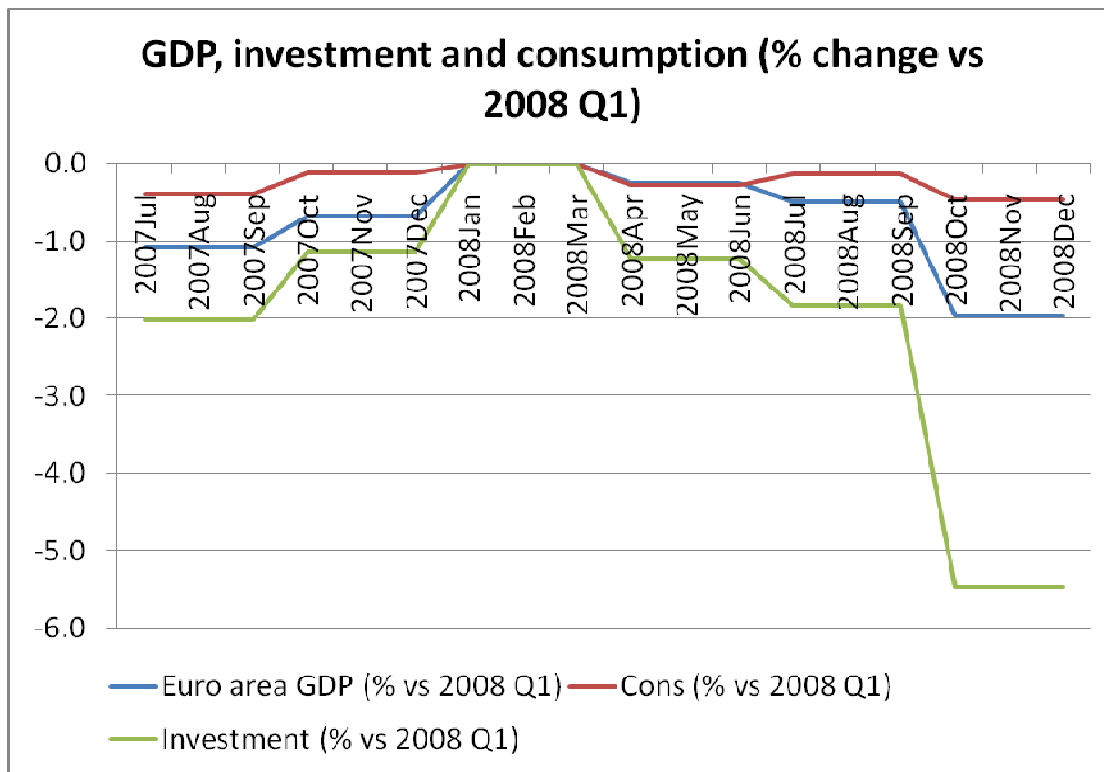


Figure 7: euro area GDP, investment and consumption

A similar picture is painted by monthly data. Industrial production, as a monthly indicator of economic activity, peaked in December 2007, with the levels in January 2008 and February 2008 only marginally lower. Sales peaked in March 2007 overall, but show an intermediate peak in January 2008. Unemployment was practically flat from December 2007 to March 2008. Again, these data point to the first quarter of 2008 as the peak.

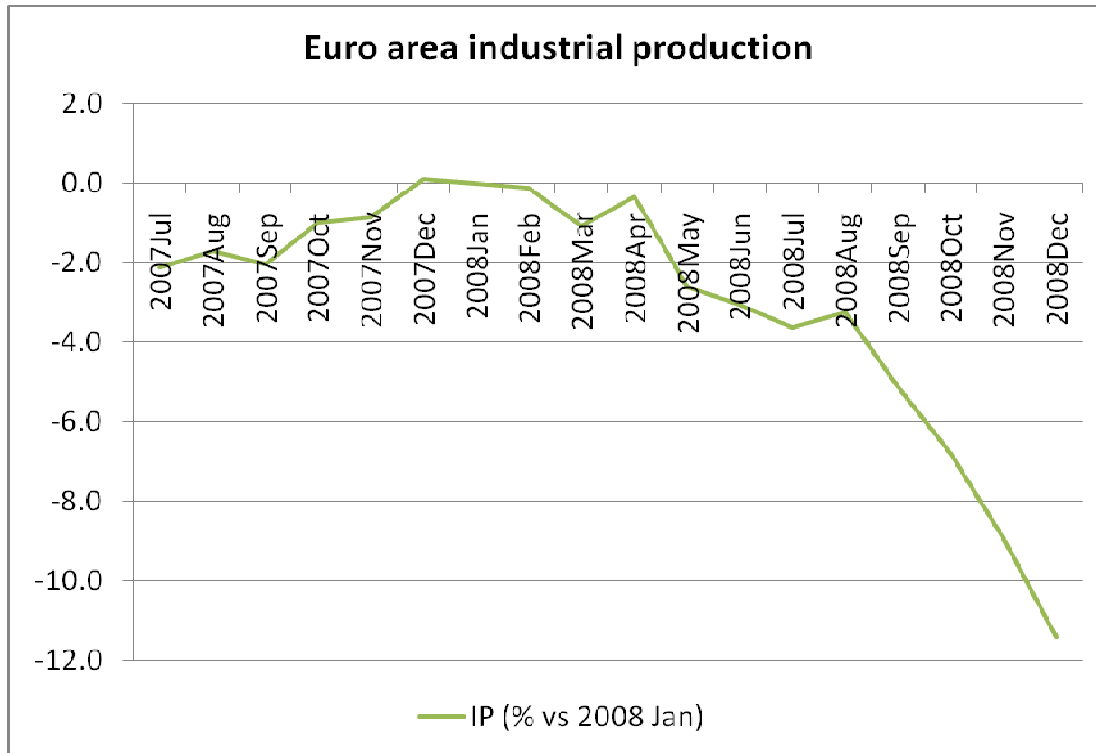


Figure 8: euro area industrial production

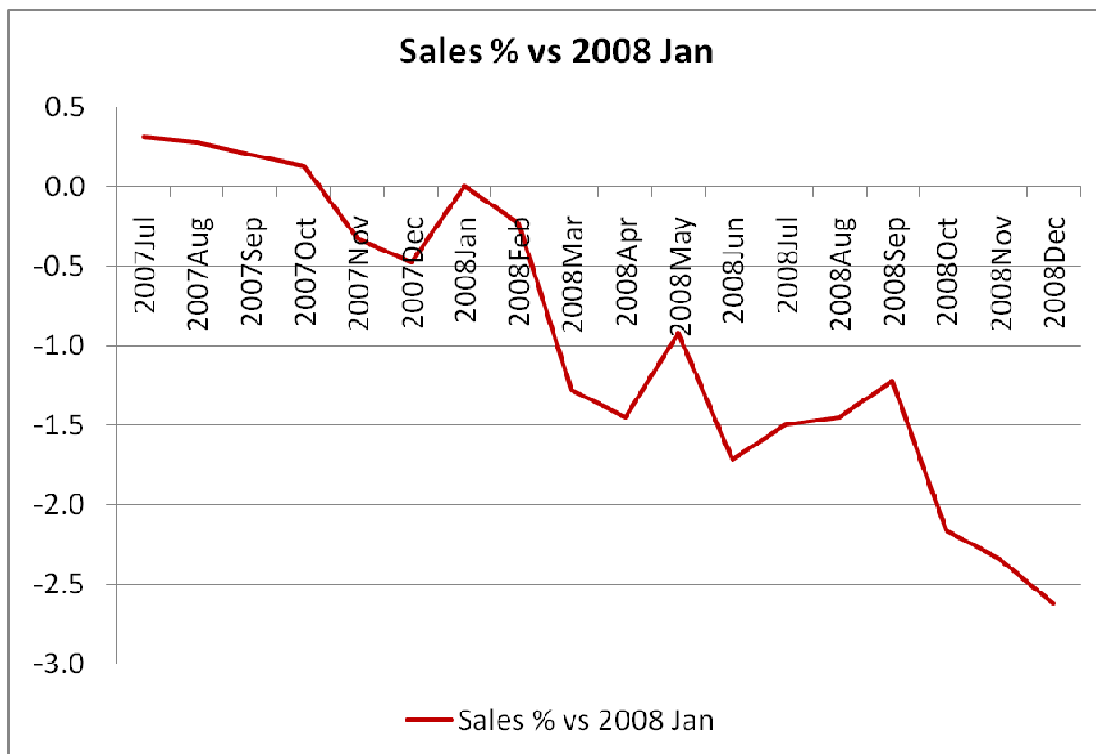


Figure 9: euro area sales



Figure 10: euro area unemployment rate

The Month of the Peak

Identifying the month of the peak is subject to considerably more uncertainty. Unlike in the US, monthly data for personal income and employment are not available for the euro area. The Committee nevertheless recognizes the need of users of this chronology from here on forward for us to specify monthly dates as well. The monthly series examined above appear to point at either December 2007 or January 2008 as the peak. Both dates are consistent with the choice of 2008 Q1 as the quarterly peak, since the Committee follows the long-standing procedure established by the NBER for the peak quarter to either contain the monthly peak, or to be the subsequent quarter if the monthly peak occurs in the last month of a quarter.

Since there appears to be little movement in IP or unemployment across these two months, but an intermediate peak of sales in January 2008, the Committee has decided to determine January 2008 as the peak of the last expansion.

The Committee notes that the monthly series show considerable seasonal fluctuations before seasonal adjustments. The Committee notes that future data

revisions can lead to changes in these plots and their apparent peaks. The Committee has taken these issues into account in its deliberations.

No recession in 2001, 2002 or 2003

The Committee notes that GDP did not show a quarter-to-quarter decline in 2001, 2002 or 2003, although growth was near zero during some of this episode. Including the examination of other indicators, the Committee previously concluded that there was slow growth from the second to the fourth quarter in 2001 and a prolonged pause in the growth of economic activity in the first two quarters of 2003, but not a recession. The Committee has not changed its view on this episode.

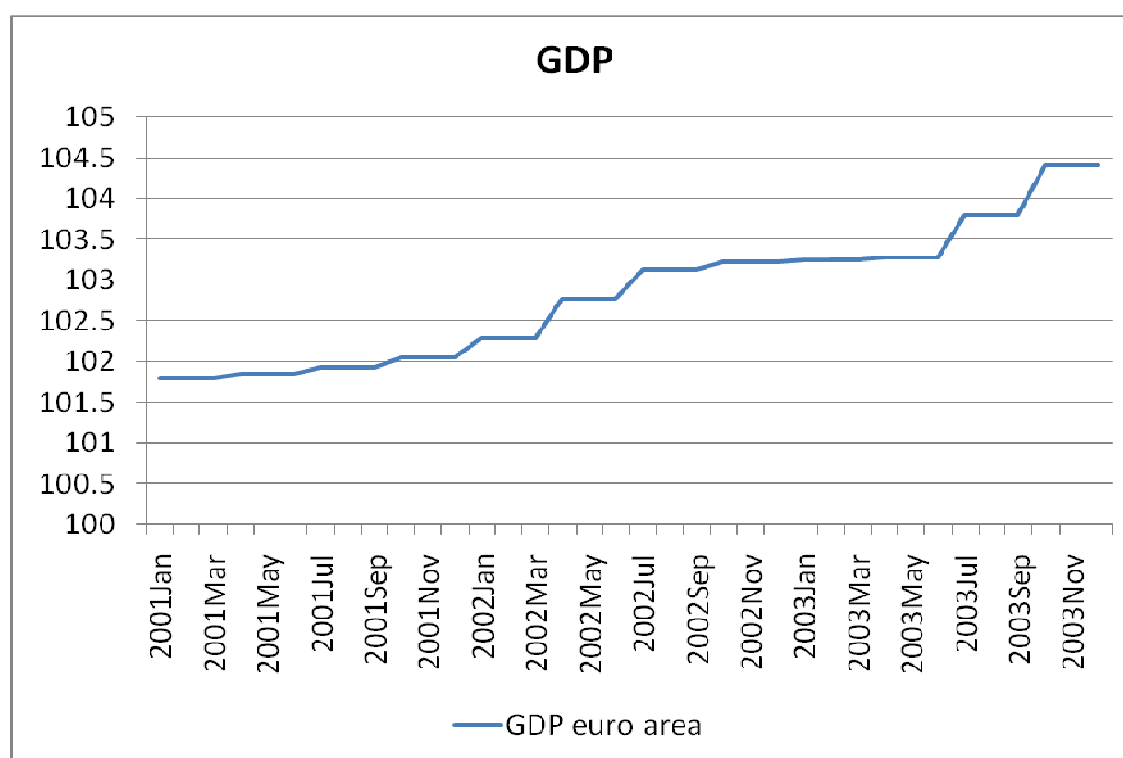


Figure 11: euro area GDP 2001 to 2003

Further Comments

Although the indicators described above are the most important measures considered by the CEPR euro area business cycle dating Committee in developing its business cycle chronology, there is no fixed rule about which other measures may contribute information to the process in any particular episode.

Committee members:

Michael Artis (University of Swansea and CEPR)

Fabio Canova (Universitat Pompeu Fabra and CEPR)

Jordi Galí (CREI, Universitat Pompeu Fabra and CEPR)

Francesco Giavazzi (Università L Bocconi and CEPR)

Richard Portes (CEPR and London Business School)

Lucrezia Reichlin (London Business School and CEPR)

Harald Uhlig (University of Chicago and CEPR) - Committee Chair

Philippe Weil (ECARES, Sciences Po and CEPR)

Volker Wieland (Johann Wolfgang Goethe-Universität Frankfurt and CEPR)

For more information, see the FAQs below and also see <http://www.cepr.org/data/dating/>.

FAQs

The following “FAQs” have been adapted from the NBER document.

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 our procedures do 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.

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. Second, we place considerable emphasis on monthly indicators in arriving at a monthly chronology. Third, 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—the way we use the word—is a period of diminishing activity rather than diminished activity. We identify a month when the economy reached a peak of activity and a later month when the economy reached a trough. The time in between is a recession, a period when economic activity is contracting. The following period is an expansion.

Q: How is the Committee's membership determined?

A: The President of the CEPR appoints the members after consultation with the current members of the Business Cycle Dating Committee.

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

A: The Committee does not forecast.

For more frequently asked questions and their answers, see <http://www.cepr.org/data/dating/faq.asp>

Data:

ECB: <http://sdw.ecb.europa.eu/>

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