

Business Cycle Dating Committee of the Centre for Economic Policy Research

Embargo: 11.00 GMT, 12.00 BST, 13.00 CET, Monday 22nd Sept 2003

Committee Members:

Michael Artis (European University Institute, Florence)
Fabio Canova (University of Pompeu Fabra, Barcelona)
Jordi Galí (University of Pompeu Fabra, Barcelona)
Francesco Giavazzi (Bocconi University Milan)
Richard Portes (President, CEPR)
Lucrezia Reichlin (ECARES, Free University of Brussels) – Committee Chair
Harald Uhlig (Humboldt University, Berlin)
Philippe Weil (ECARES, Free University of Brussels)

The Centre for Economic Policy Research has formed a committee to set the dates of the **euro area business cycle**. Its mission is to establish the chronology of recessions and expansions of the 11 original euro area member countries for 1970-1998 and of the current euro area as a whole since 1999. The euro area currently includes: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, and Spain.

The Committee defines a recession as 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 begins just after the economy reaches a peak of activity and ends when the economy reaches its trough. Between trough and peak, the economy is formally in an expansion; between peak and trough it is in a recession.

- The 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 Committee does not use a fixed rule to weight different data series, although it gives primary emphasis to GDP.

The euro area business cycle since 1970

The Committee has identified the following cyclical episodes since 1970, with peaks (P) and troughs (T) dated as follows:

PEAK	TROUGH
1974q3	1975q1
1980q1	1982q3
1992q1	1993q3

Table 1. Chronology of euro area business cycles

Thus the Committee has identified **three recessions: 1974q3 to 1975q1, 1980q1 to 1982q3, and 1992q1 to 1993q3.**

Figure 1 shows the level of real GDP (seasonally adjusted) from 1970 to 1998 according to two alternative GDP series constructed by the OECD and the ECB. Shaded bands indicate recessions.

- Two of the three recessions we have declared – in the 1970s and 1990s – are pronounced and also synchronized across countries and variables. In both periods employment, investment and industrial production declined with GDP.
- The third recession, in the 1980s, exhibits different and specific characteristics. The recession in terms of aggregate output is milder but longer. GDP does not decline sharply but rather stagnates for almost three years.
- As to recent years, the Committee judges that, based on currently available data, it would be premature to declare a peak (and hence a subsequent recession).

The euro area since 2001

The role of the Committee is to establish the chronology of recessions and expansions, not to forecast. The recent period is a case in which caution is clearly required.

Euro area GDP has slowed down since the first quarter of 2001. A weak resurgence of positive growth at the beginning of 2002 seems to have come to a new halt. Employment has grown somewhat, while industrial production, after having fallen sharply in 2001, shows weak signs of recovery. Investment has been declining for more than two years, but government consumption rose 2.2% in 2001 and 2.7% in 2002.

Qualitatively, the recent behavior of GDP resembles that of the 1980s recession. Employment, however, is not declining. Based on currently available data, our current judgment is therefore that the euro area has been experiencing a **prolonged pause in the growth of economic activity**, rather than a full-fledged recession.

Contact Information:

For interview requests and further information about CEPR please contact CEPR Press Officer Robbie Lonie, Tel: +44 (0) 20 7878 2919, Mobile: +44 (0) 7740519225 or email rlonie@cepr.org.

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