

Spanish Business Cycle Dating Committee  
Date: July 1, 2020

## **Determination of the 2019.q4 peak in the Spanish business cycle**

The Spanish Economic Association's Business Cycle Dating Committee (the Committee) maintains a chronology of business cycle turning points at quarterly frequency. The Committee has determined that a peak of economic activity in Spain's economy took place in the fourth quarter of 2019 (2019.q4). The peak marks the end of the expansion that started in 2013.q3 and that lasted 26 quarters.

A recession is a significant decline in economic activity spread across the economy, normally visible in production, employment, and several other economic indicators. In determining turning points, the Committee considers a wide range of indicators, including a breakdown of GDP by sector of activity, labor market indicators, and other economic data related to consumers' and businesses' sentiments.

The Committee dates turning points, peaks and troughs, of economic activity but not recessions and expansions directly. Duration of recessions is usually defined as the period elapsed between a business cycle peak and the subsequent trough. Likewise, duration of expansions corresponds to the period elapsed between a trough and the subsequent peak.

## **Dating the quarter of the peak**

The Spanish economy cratered in 2020. q1. The Spanish Statistical Office (Instituto Nacional de Estadística, or INE) estimates that GDP fell by 5.2% (quarterly rate), the single largest decline on record, after having achieved a positive growth rate of 0.4% in 2019.q4. As a reference, the largest quarterly fall in the previous double recession was 2.6% in 2009.q1.

The fall in economic activity amounted to 2.7% in the industrial sector, 5.6% in the services sector and 8.1% in construction (all reported as quarterly rates). With respect to 2019.q4, the reduction in employment in 2020.Q1 reached 1.9% of Full Time Equivalent employment (FTE) and 1.4% of the occupied population according to the Spanish Labour Force survey (EPA). This is the first quarter of negative growth in both employment indicators since 2013.q3. In addition, the decline in total hours reached 5.0% in 2020.q1. While dramatic, the severity of these indicators is somewhat cushioned by the furlough (ERTE) program introduced by the government to prevent large scale employment destruction in the face of transitory adverse shock. Further details on these indicators and policies are available on a separate note available on our website.

## **Dating the month of the peak**

At present, the chronology of business cycle turning points focuses on quarterly data exclusively. However, starting with this announcement, the Committee will also start dating the month in which the peak took place. Sometimes, as during the current pandemic crisis, the month where the peak takes place will not be within the same quarter where the peak is dated. An example of such a situation is when the peak happens in the last month of a quarter: the quarter as a whole may not yet have reached a turning point by then. The Committee plans to retroactively date the turning point months of the current quarterly chronology in the near future.

With these considerations in mind, the Committee has decided to date a monthly peak in February 2020. In determining the date of the monthly peak, the committee considers a wide range of indicators of employment, output and business confidence. In annual growth rates, the fall in the industrial production index reached 13.7% in March 2020. The corresponding reductions that same month in the index of activity in service sector and in Social Security affiliation reached 18.7% and 3.31%, respectively, which are the first month of negative annual growth since 2013 in both indicators. In addition, the Spanish Purchasing Managers' Index dramatically fell from 51.8 in February to 26.7 in March.

### **Final comments**

The Committee usually waits several months to determine dates of turning points due to data revisions and to ensure that turning points do not refer to a transitory good/bad quarter, but rather to an ongoing shift in the economy. In determining the 2019.q4 turning point, the Committee took into account the following extraordinary criteria: (i) the decline in GDP in the 2020.q1 is far beyond any other declines previously recorded, and therefore very unlikely to be overturned by subsequent data revisions; (ii) there is a clearly identifiable cause of the generalized downturn in economic activity, namely the COVID-19 epidemic and the severity of the health response measures needed to prevent its spread; (iii) widespread declines in economic activity in the same order of magnitude have been experienced by countries that implemented health responses similar to Spain's.

*Committee members participating in the decision were: Juan Rubio-Ramírez, Emory University (chair); Máximo Camacho, Universidad de Murcia; Juan J. Dolado, Universidad Carlos III de Madrid; Jesús Gonzalo, Universidad Carlos III de Madrid; Òscar Jordà, Federal Reserve Bank of San Francisco & University of California, Davis; and Eva Ortega, Banco de España.*