Box 1

HOW DOES THE CURRENT RECOVERY IN SELECTED ADVANCED ECONOMIES COMPARE WITH AN AVERAGE RECOVERY?

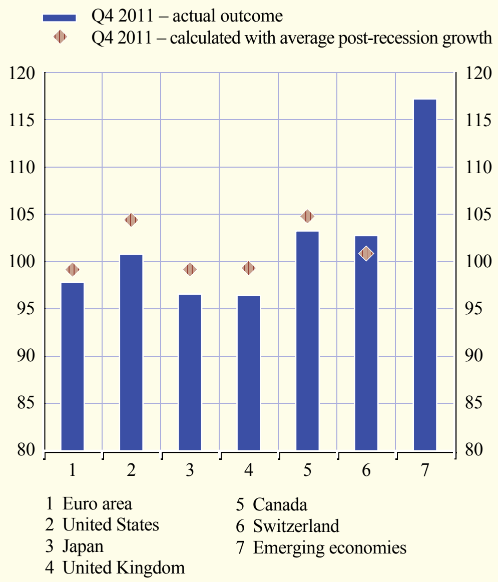
The current recovery, which follows the most severe recession since the Second World War, has been protracted and sluggish. In fact, some major advanced economies are only expected to reach their pre-crisis peak level of GDP five years after the recovery commenced there. This contrasts sharply with emerging economies where the level of GDP is substantially higher than the peak level recorded prior to the crisis. In order to shed additional light on the reasons behind the weakness of the current recovery in advanced economies, this box compares the current recovery in selected advanced economies with the average of all recoveries that have taken place in the respective countries over the last thirty years. In particular, by examining the contributions of the different components of GDP, the box seeks to identify the source of the "gap" in the level of GDP in comparison with a typical recovery. For several economies, it is the lacklustre contribution of private consumption that largely explains the deviation of the current level of GDP from the level that would be expected to occur in a typical recovery.[1]

How weak is the current recovery and how does it compare with an average recovery?

In the fourth quarter of 2011, the level of GDP in the euro area, the United States, the United Kingdom, Canada and Japan was 1.4%, 3.5%, 3.0%, 1.5% and 2.6% lower respectively than that which would have prevailed if an average recovery had materialised (as indicated by the

Chart A GDP level: impact of the crisis

(index: pre-crisis peak = 100)



Sources: Eurostat, national sources and ECB staff calculations.
Note: The recovery is assumed to start in Q2 2009 for Japan and Switzerland and Q3 2009 for the United States, the euro area, Canada and the United Kingdom.

1 For a more detailed description of the euro area recovery, see the box entitled "The current euro area recovery across expenditure components from a historical perspective", *Monthly Bulletin*, ECB, February 2011.

difference between the bars and the dots in Chart A).[2] In Switzerland, the level of GDP surpassed the level that would have materialised in a typical recovery.

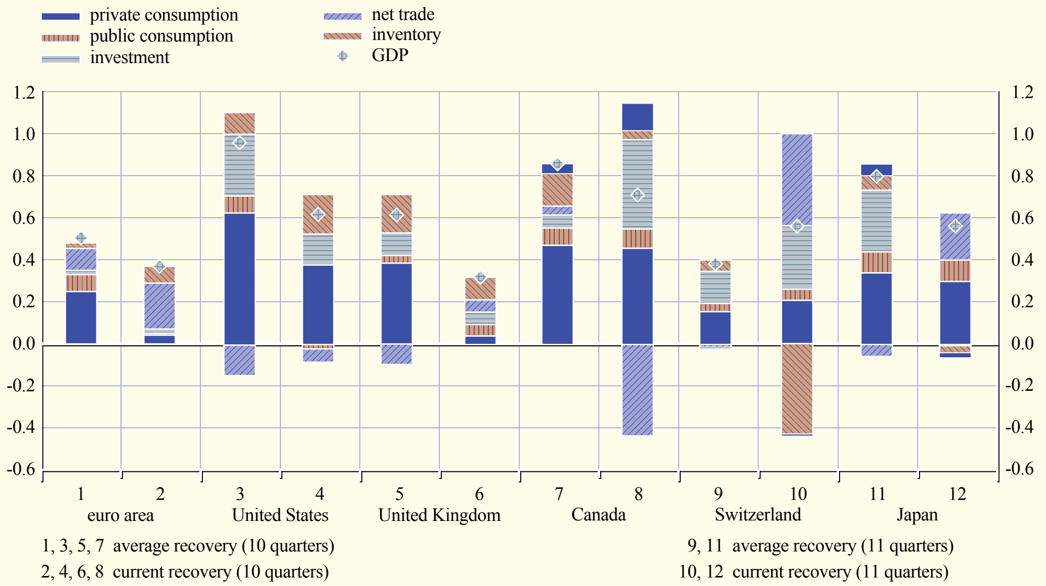
Which components of GDP are driving the weak current recovery?

With respect to the contribution of the different components of GDP to GDP growth, one feature to emerge is that the contributions of private consumption in the euro area, the United States and the United Kingdom to the current recoveries there (see Chart B, columns 2, 4 and 6) are considerably weaker than in an average recovery (see Chart B, columns 1, 3 and 5). This highlights the impact of households repairing balance sheets, weak labour markets, fiscal consolidation and elevated energy prices. In Japan, investment is not contributing as much to growth as in an average recovery, although the contribution from net trade is stronger (see Chart B, columns 11 and 12). In both Canada and Switzerland, where households have suffered less from the legacy of the financial crisis, the current contributions of private consumption are in line with those recorded in a typical recovery (see Chart B, columns 7, 8, 9 and 10). In Canada, it is notable that net trade is proving to be a drag on growth in the current recovery, which stands clearly in contrast to what occurred in previous recoveries. This partly reflects weaker demand from its major trading partners.

2 In order to calculate the path of the "typical" recovery, all recoveries that have occurred in the euro area, the United States, the United Kingdom, Canada, Japan and Switzerland over the last 30 years were identified. For each economy, the average quarterly growth rate in the ten quarters following the start of the recovery was calculated. Subsequently, the average of these average quarterly growth rates during each of the different recoveries was used to calculate the "typical" quarterly growth rate in a recovery. These average growth rates were then applied to the level of GDP at the time when the current recovery commenced so as to project the profile for the average recovery. These time periods were chosen in order to enable a comparison with the current recovery, which started ten quarters ago (for some countries, 11 quarters ago).

Chart B Recoveries in selected major advanced economies

(average quarterly growth rates and percentage point contributions; seasonally adjusted)



Sources: Eurostat, national sources and ECB staff calculations.
Notes: The number of quarters used to calculate the average is given in brackets. Statistical discrepancies are included with inventories.

Conclusion

One of the notable characteristics of the current recovery in some major advanced economies has been its sluggish pace, particularly in view of the magnitude of the downturn and also when compared with an average recovery over the last 30 years. In nearly all the economies under review, national income at the end of 2011 was lower than that which would have been expected in an average recovery. In the case of those economies that have the heaviest burden in terms of constraining legacies from the financial crisis, it is found that the gap in the level of GDP in comparison with that recorded in a typical recovery can largely be explained by the lack of support from private consumption.