

Global spillovers on the euro area

by
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The opinions expressed here are personal and not necessarily shared by the ECB or the Eurosystem.

I. Analytical results

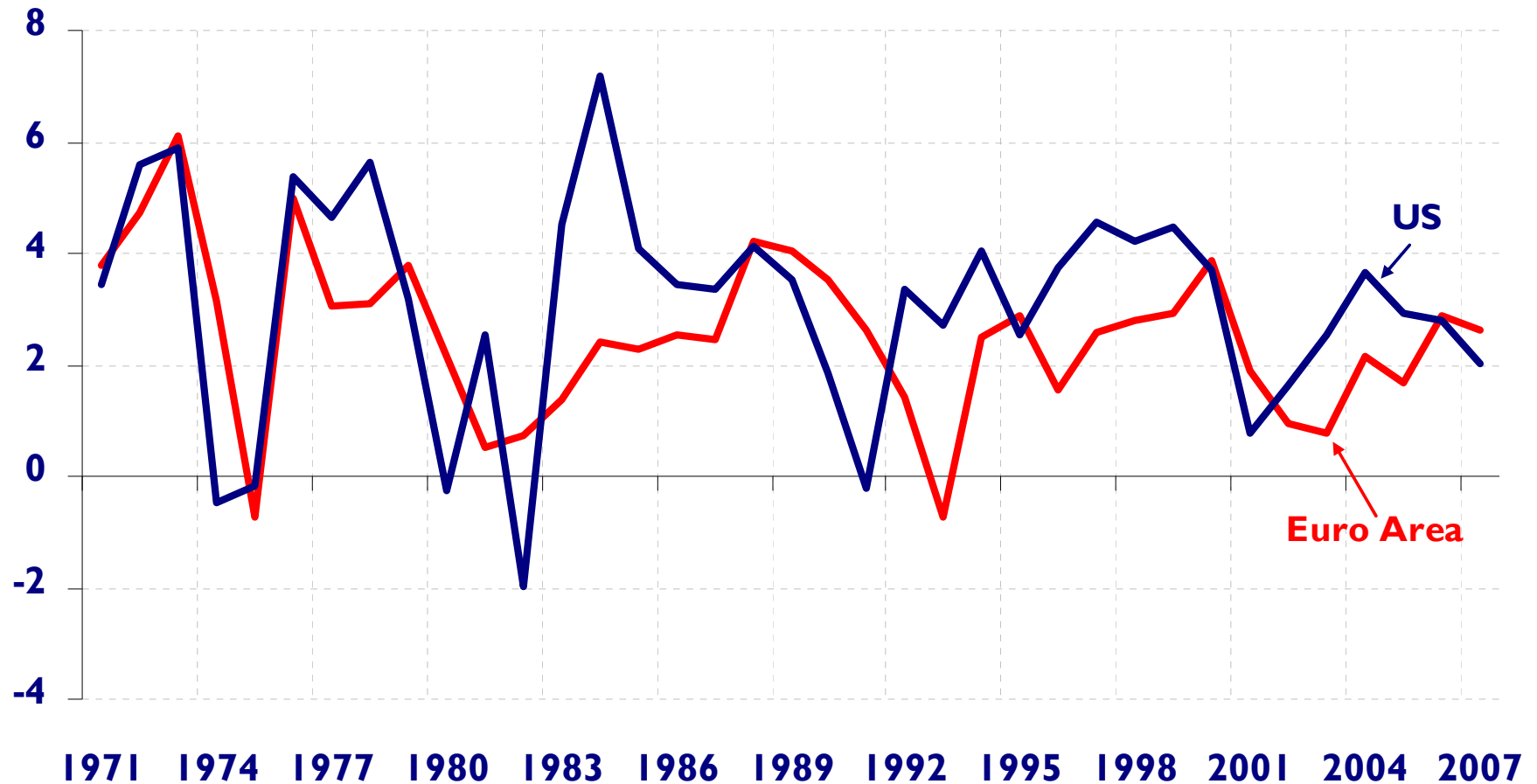
International spillovers

- **How do real developments in major economies spill over to other economies?**
 - **What can we expect from an US recovery?**
- **VAR analysis across past recession episodes**
 - **How did forecasts evolved?**
 - **What was the projected recovery path?**
- **What role for financial variables?**

The US-EA relationship

Real GDP growth in US and euro area

(In %; annual data)



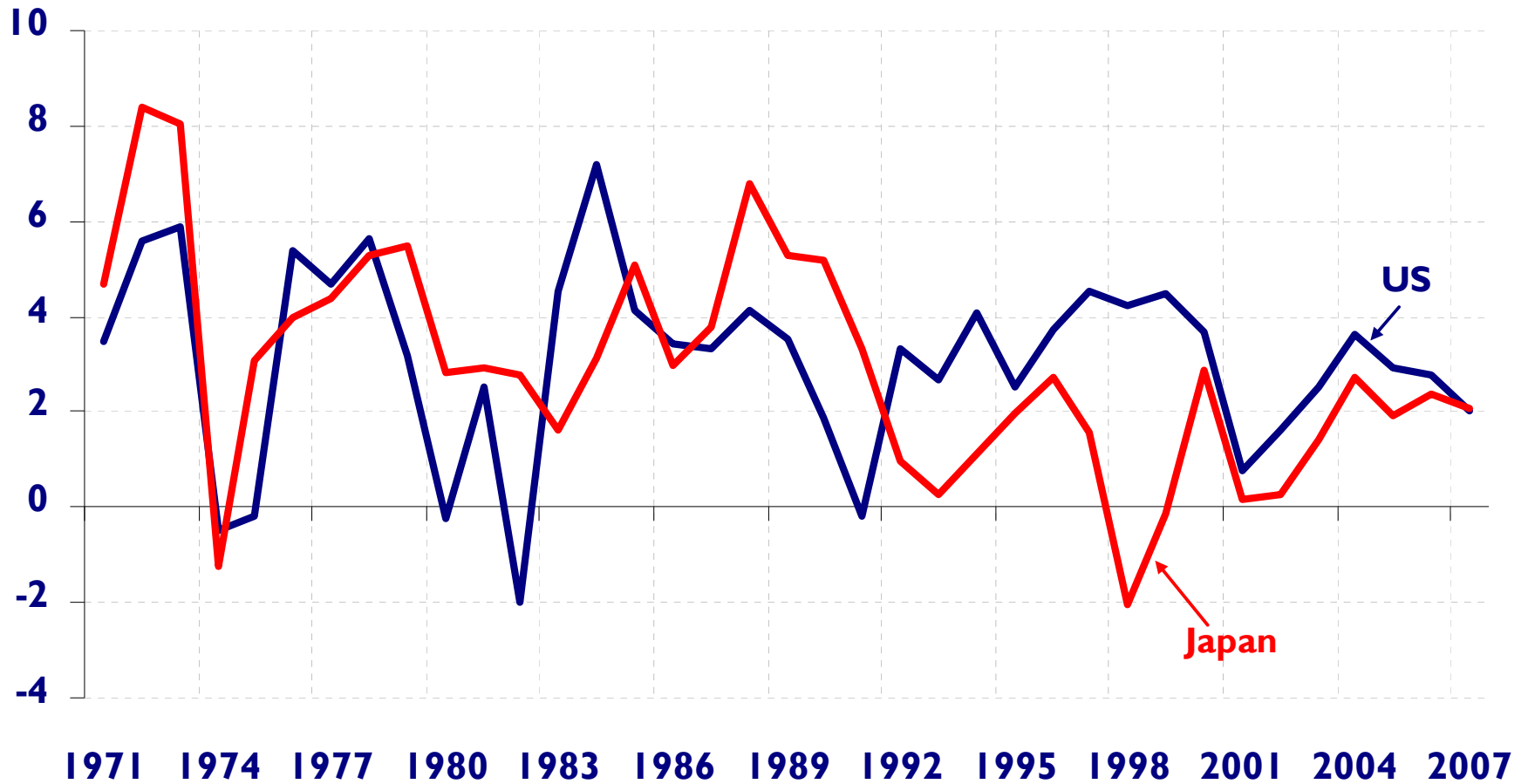
Note: Latest observation refers to 2007.

Source: IMF.

The US-JP relationship

Real GDP growth in US and Japan

(In %; annual data)



Note: Latest observation refers to 2007.

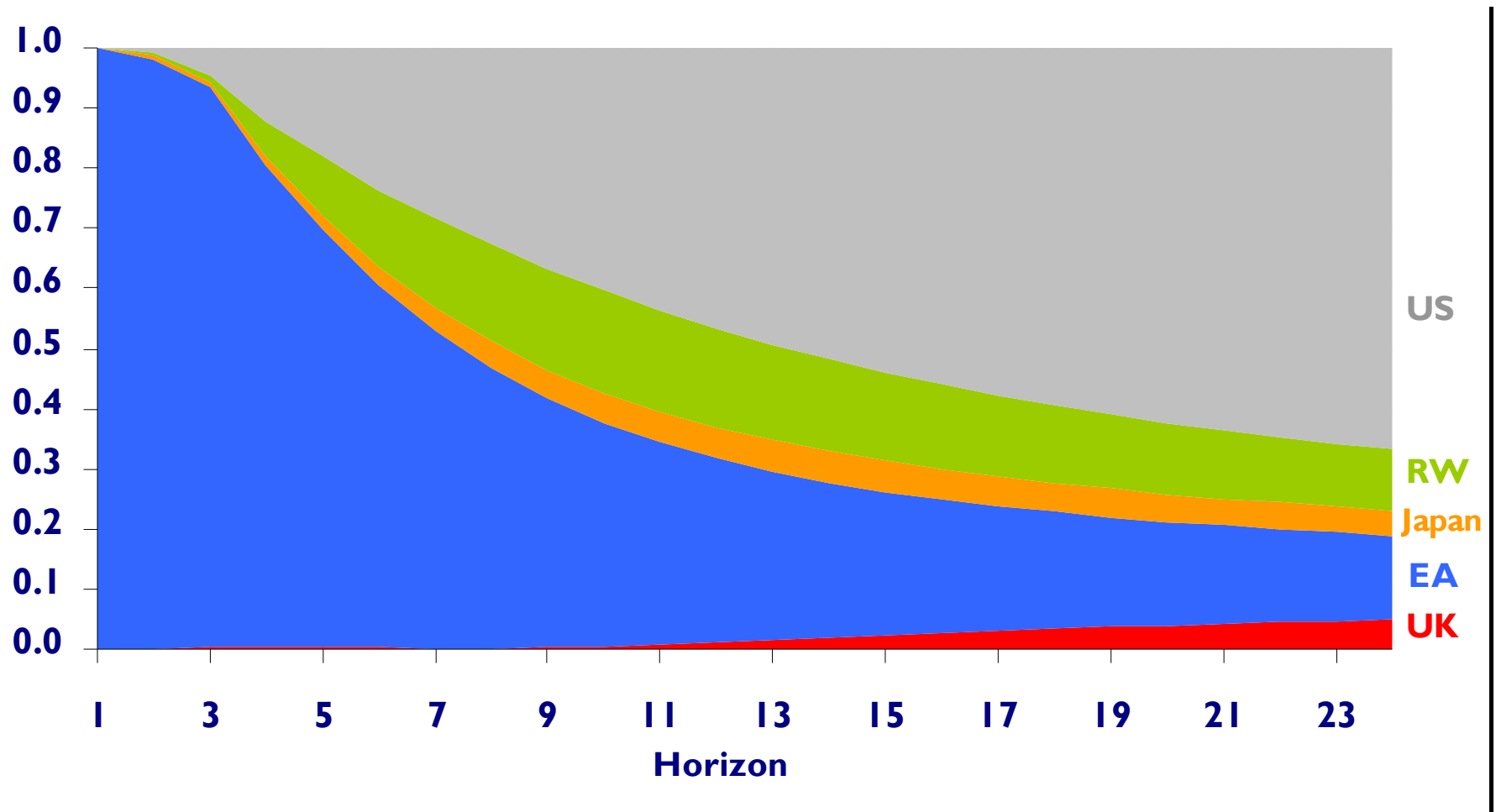
Source: IMF.

The basic VAR model

- **Cointegrated VAR in levels for GDPs featuring:**
 - **US**
 - **Euro area**
 - **UK**
 - **Japan**
 - **ROW (to control for common shocks)**

Do other foreign countries drive EA?

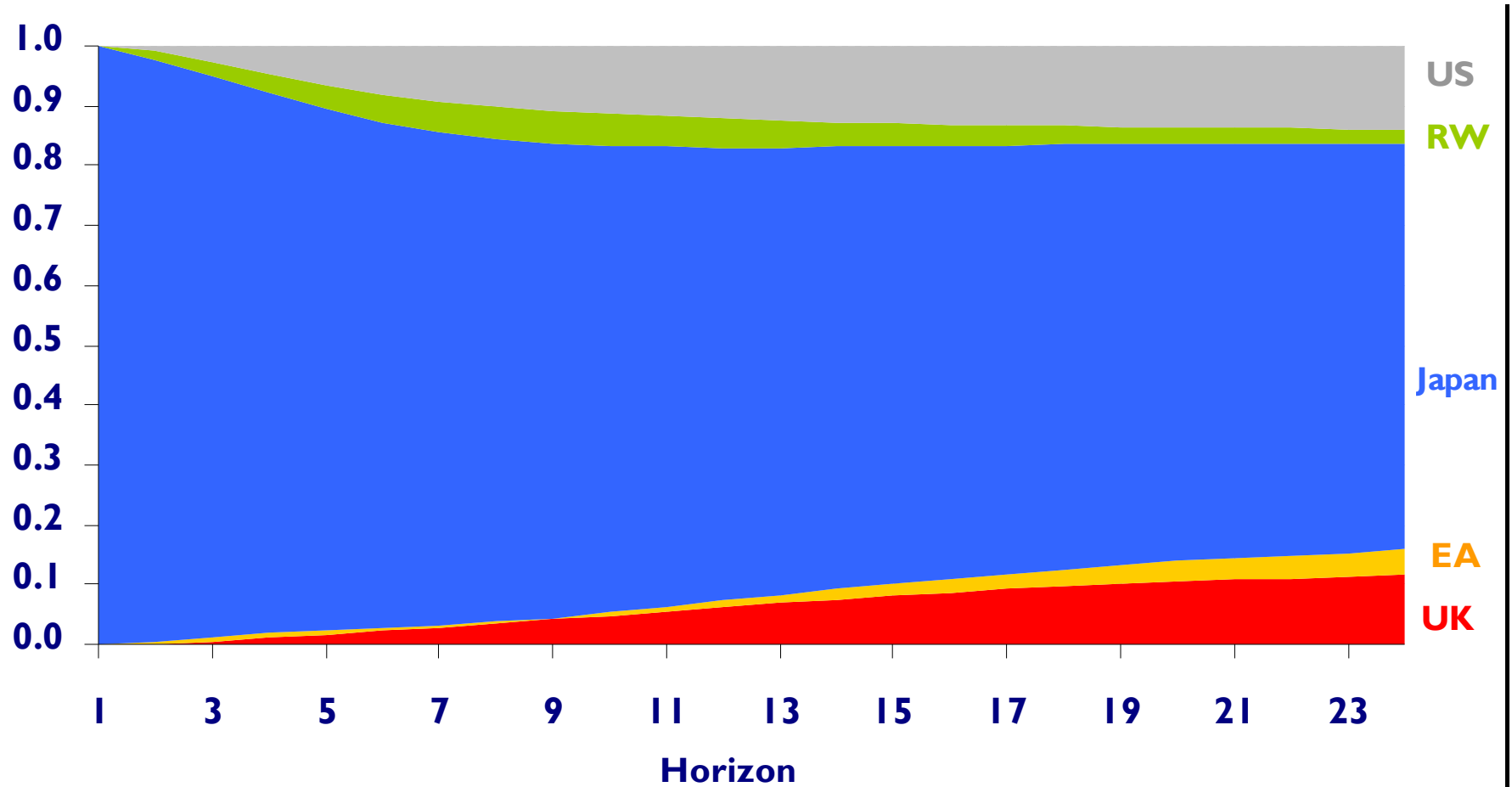
HD for euro area



Source: ECB staff.

Do other foreign countries drive Japan?

HD for Japan



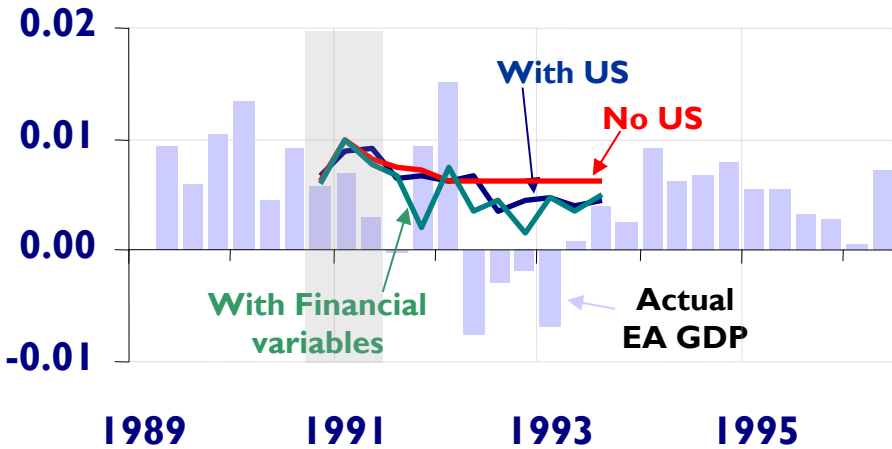
Source: ECB staff.

A forecasting exercise

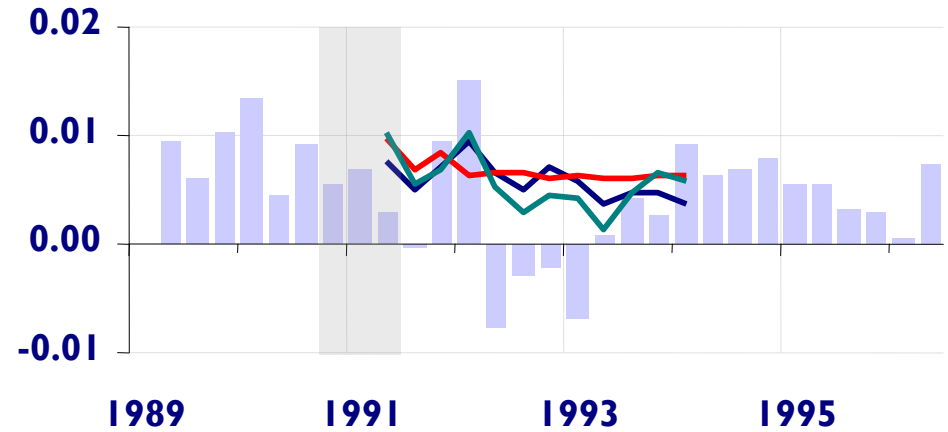
- **How do the VARs perform around recession episodes?**
 - **What do we learn about the recovery path?**
- **We conduct forecasts under three scenarios:**
 1. **Baseline VAR as presented before**
 2. **A VAR excluding the US**
 3. **A VAR including financial market volatility**

1990 Recession

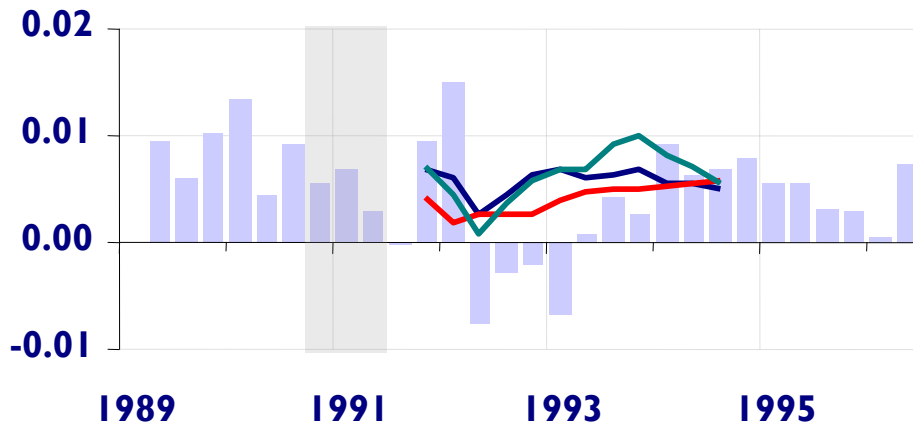
2 quarters prior to US recession



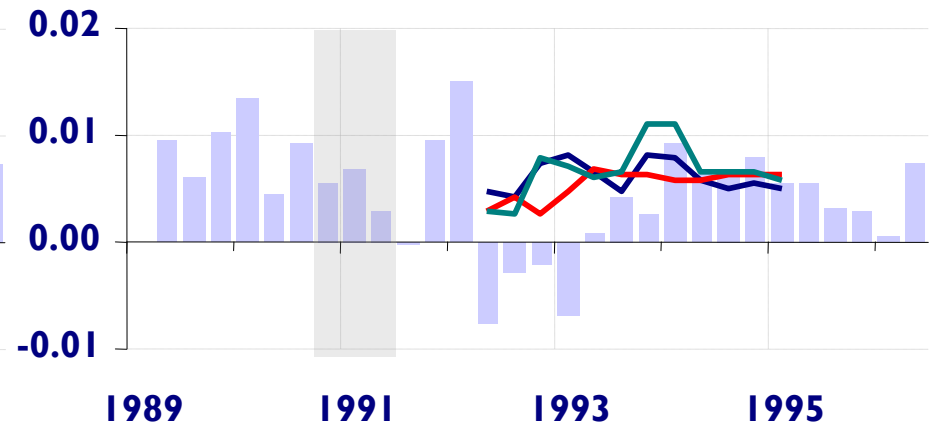
At US recession



2 quarters after US recession

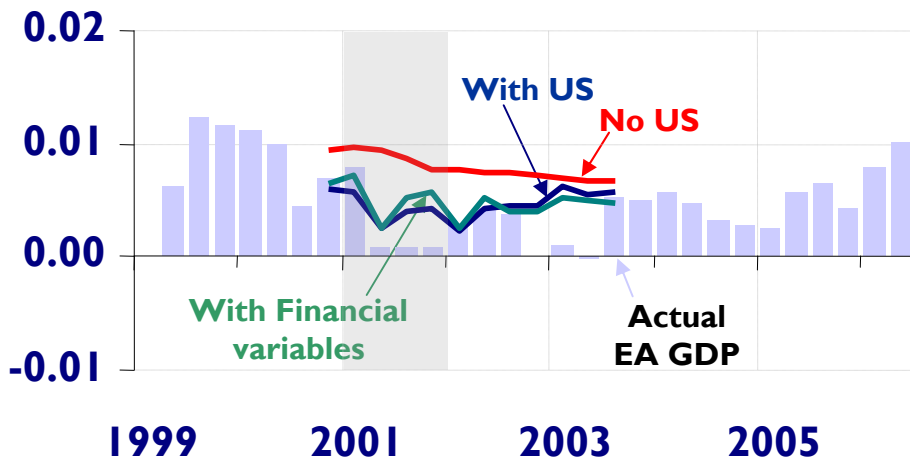


4 quarters after US recession

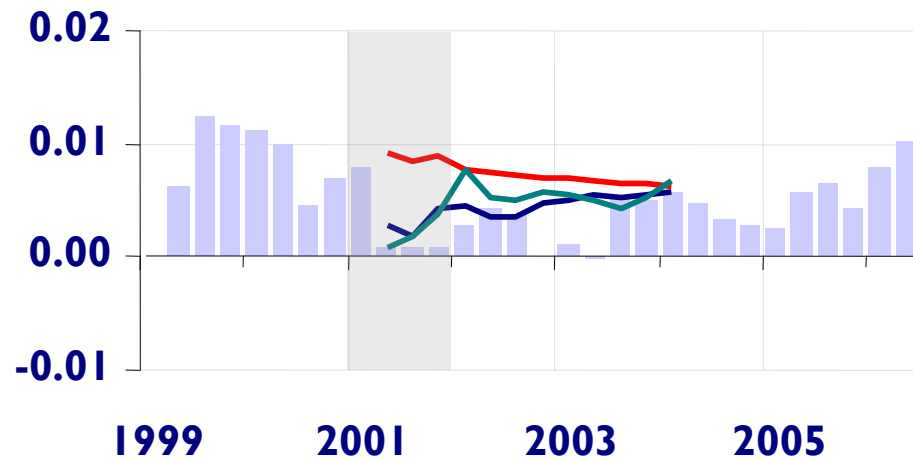


2001 Recession

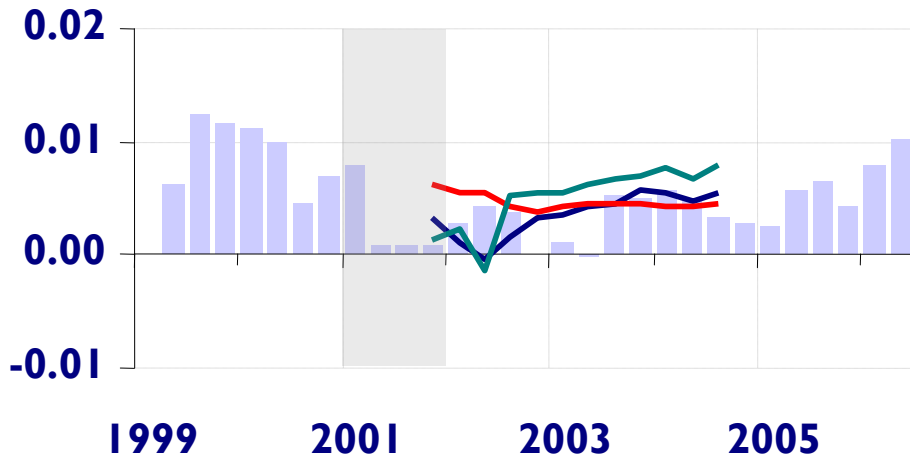
2 quarters prior to US recession



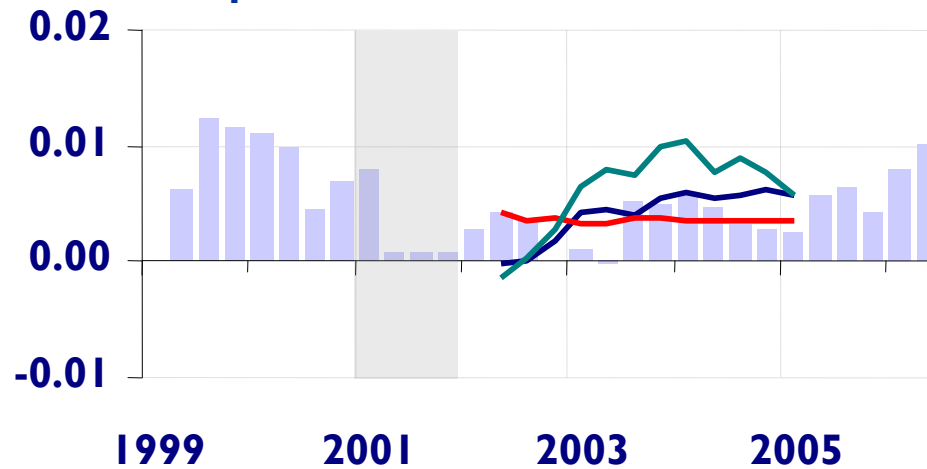
At US recession



2 quarters after US recession

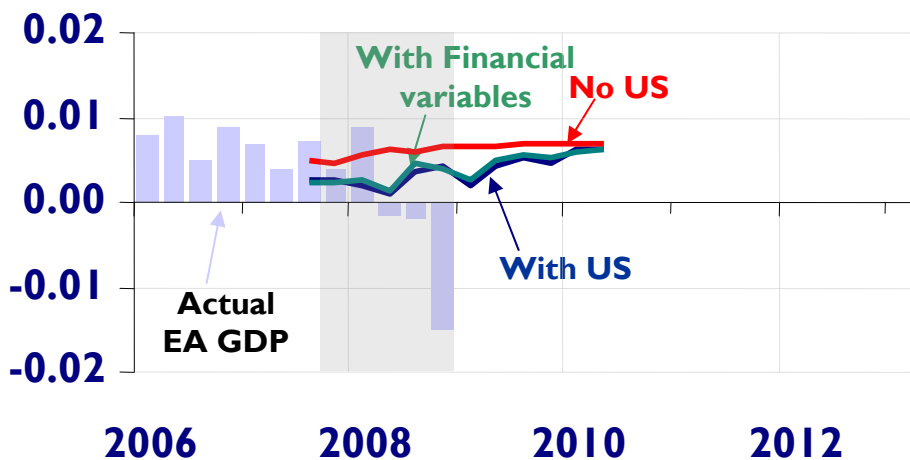


4 quarters after US recession

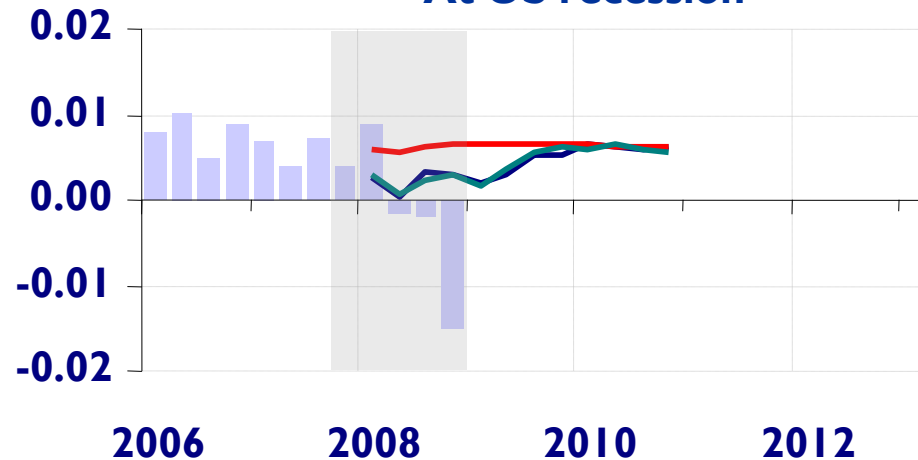


Current episode

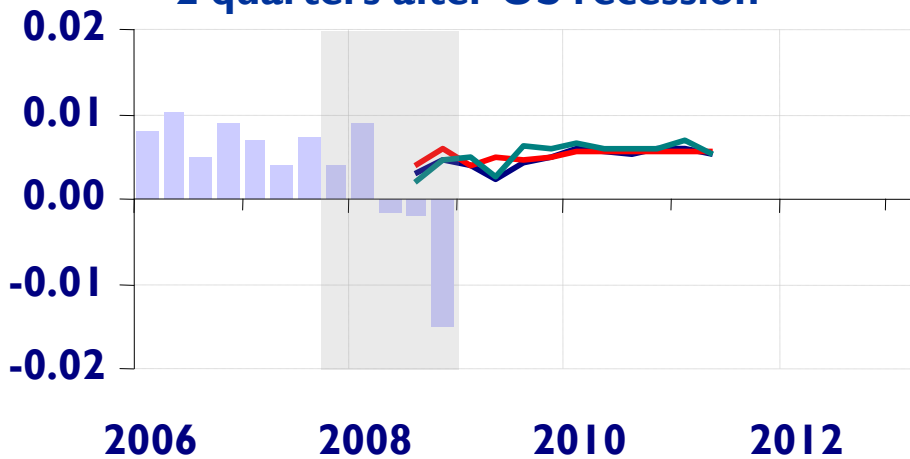
2 quarters prior to US recession



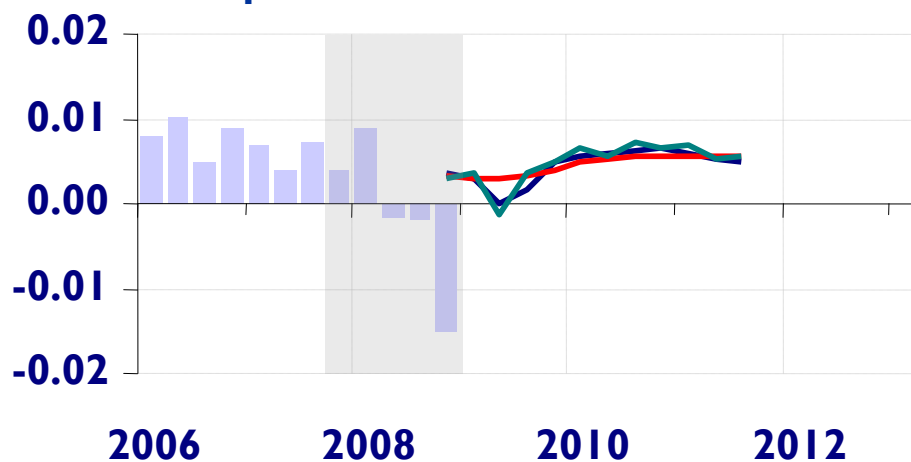
At US recession



2 quarters after US recession



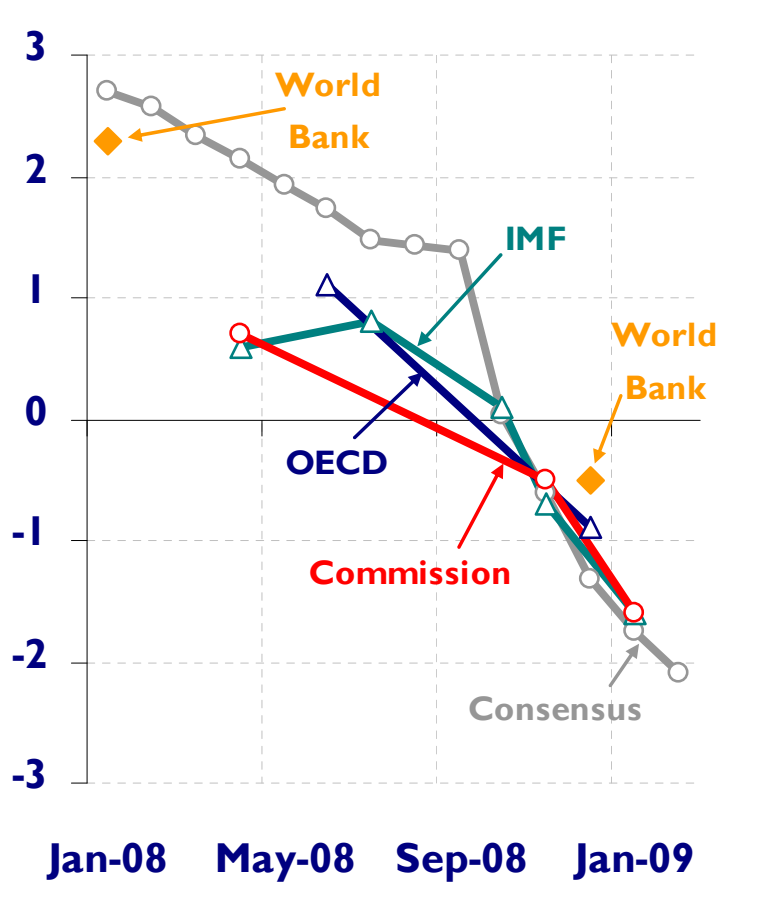
4 quarters after US recession



II. Conjunctural outlook

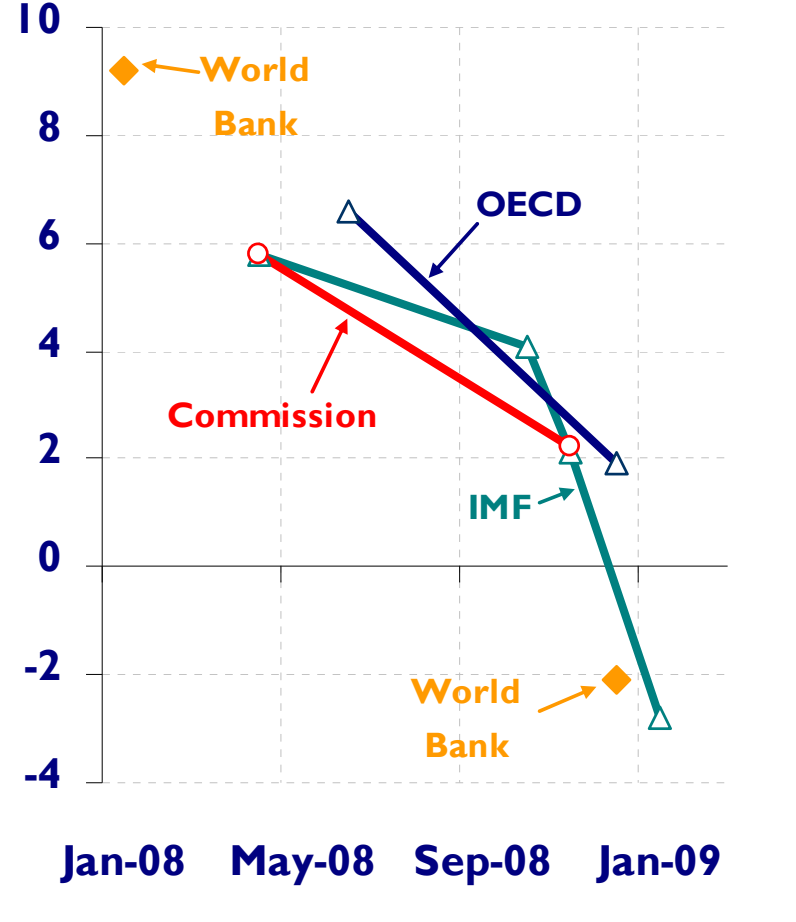
The global outlook has been revised sharply over the past few months...

US GDP growth in 2009: Projections over time (In %)



Note: Latest observation refers to February 2009.

Projections over time: World trade growth in 2009 (In %)

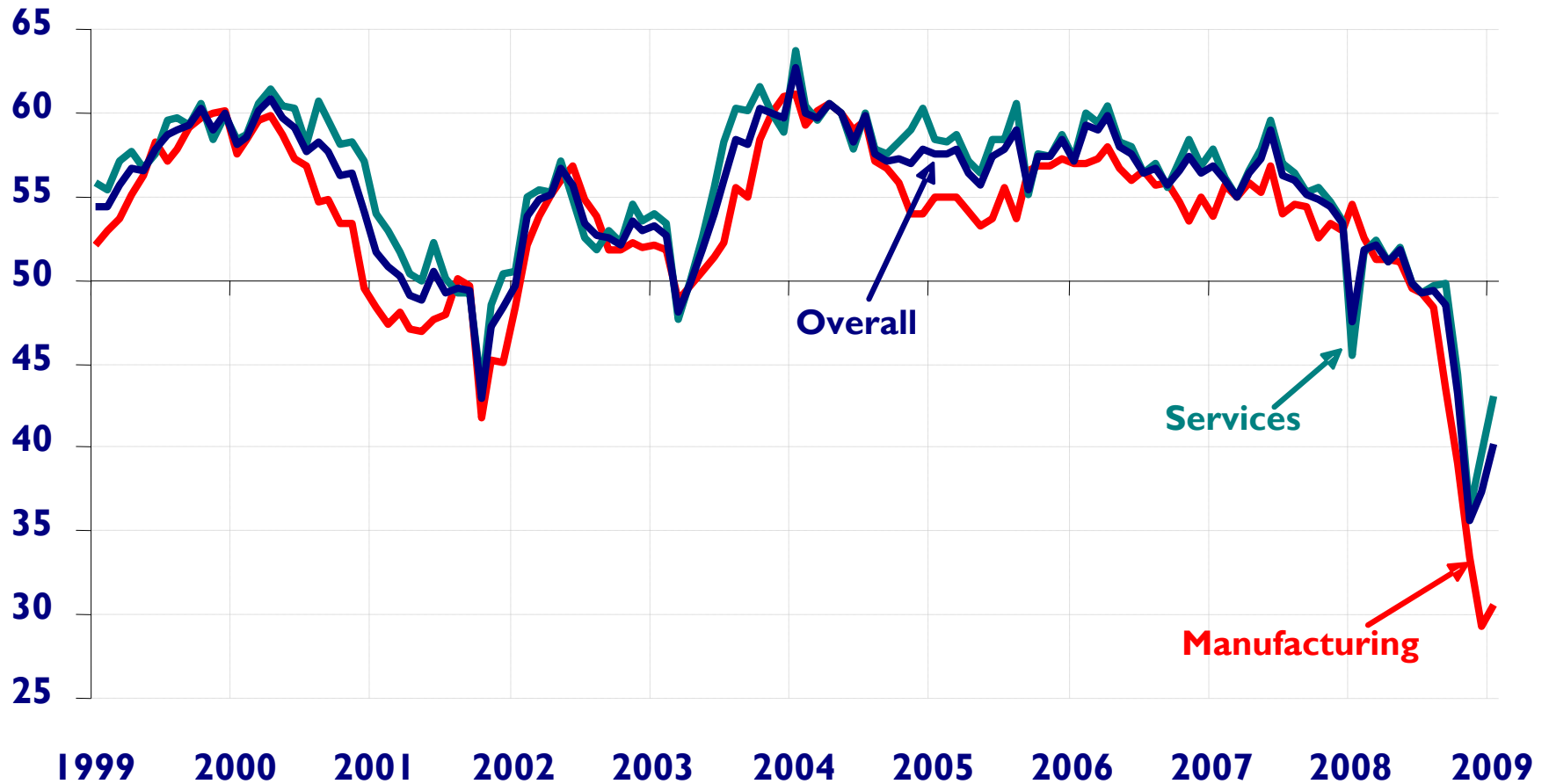


Note: Latest observation refers to February 2009.

Global survey indicators are very weak...

Global PMI Output

(monthly data; diffusion index)



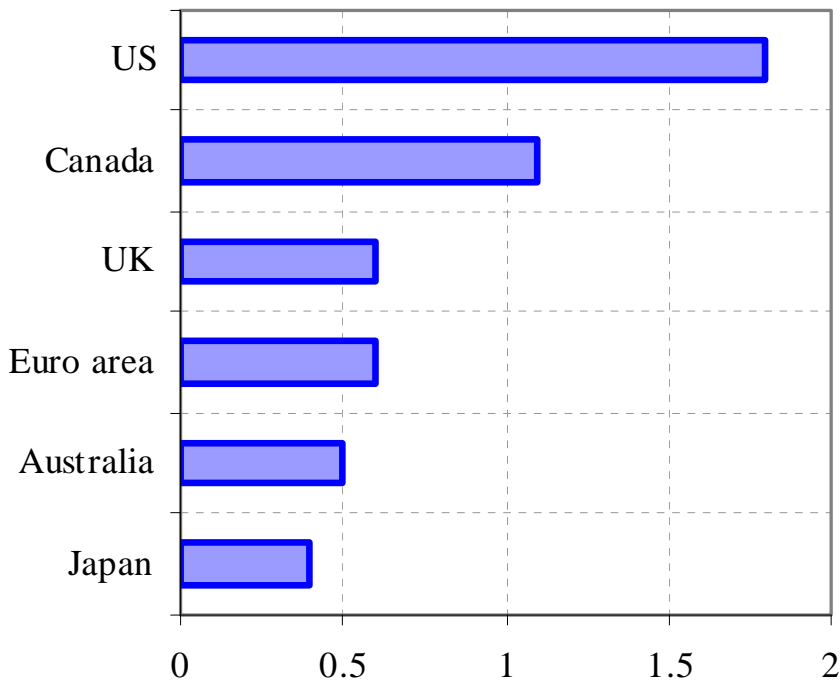
Source: Markit.

Note: Latest observation refers to January 2009.

...largely reflecting substantial deterioration in global economic fundamentals since mid-2008

Unemployment rates in developed economies

(percentage point change since July 2008, monthly data)

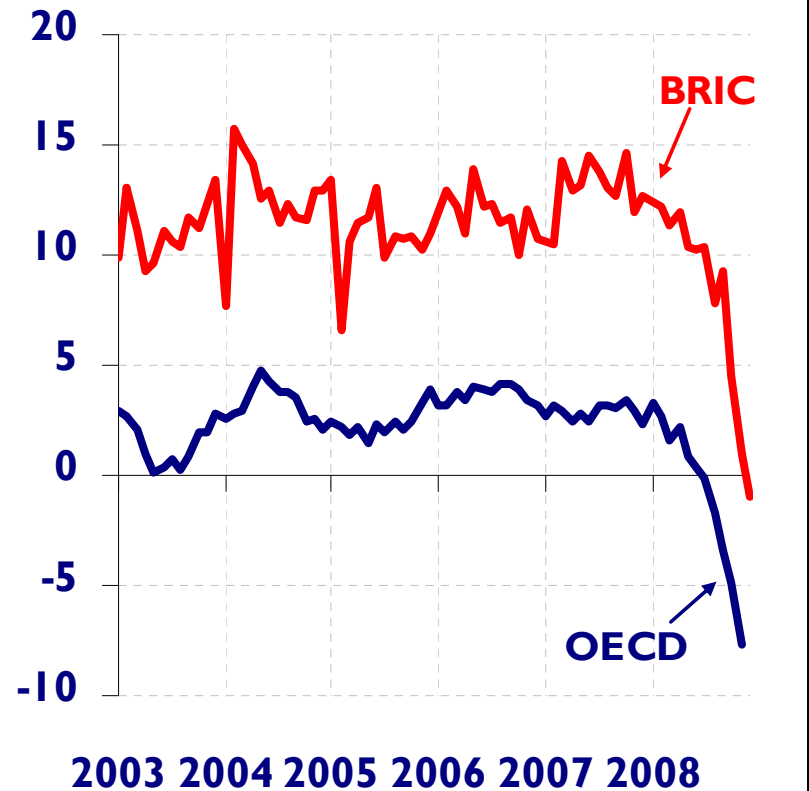


Source: National statistical agencies.

Note: Latest observation refers to January 2009 for the US, Canada and Australia, to December for the euro area and Japan and to November for the UK..

Industrial production

(yoy % change; monthly data)



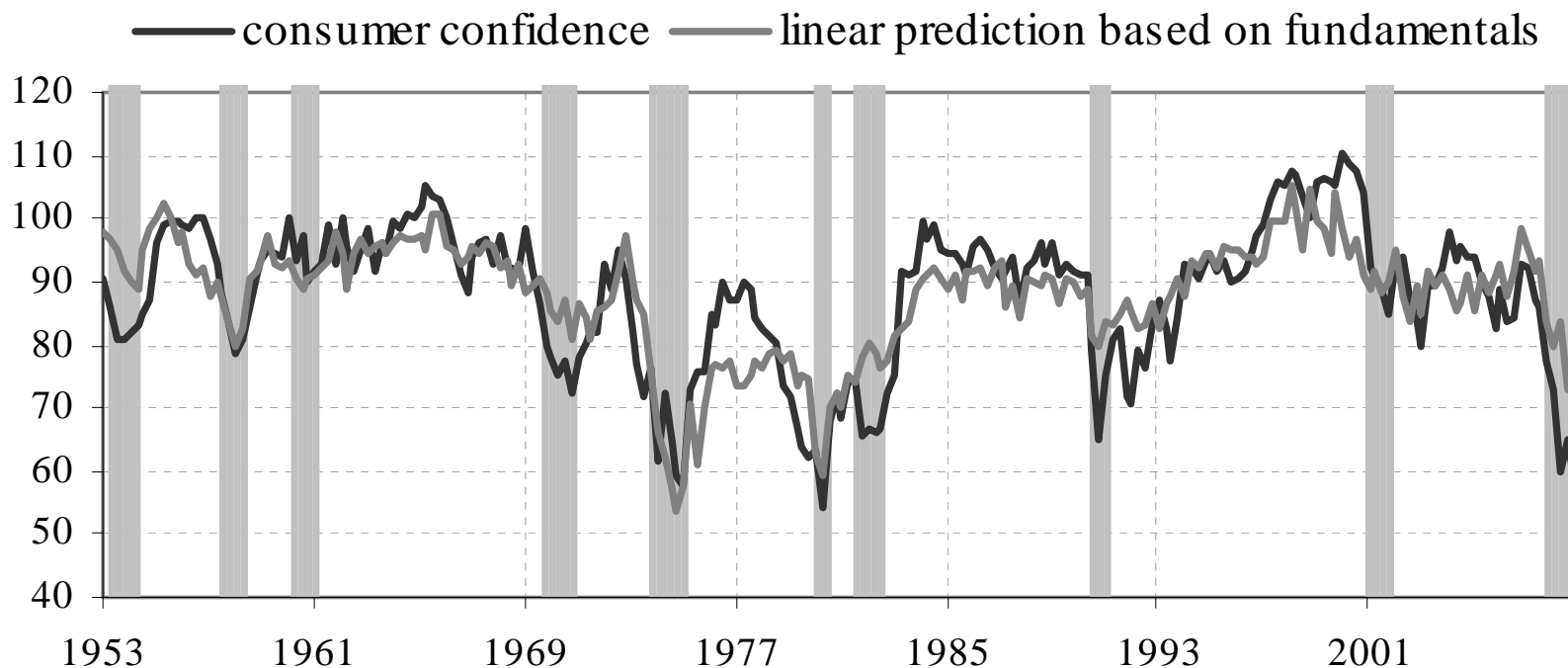
Source: Bloomberg, OECD, ECB Staff.

Note: BRIC = Brazil, China, India, Russia. Last observation refers to December 2008 (BRIC) and November 2008 (OECD).

But in the United States, fundamentals cannot account for all of the fall in confidence

US consumer confidence and its linear prediction based on fundamentals

(index, quarterly data)



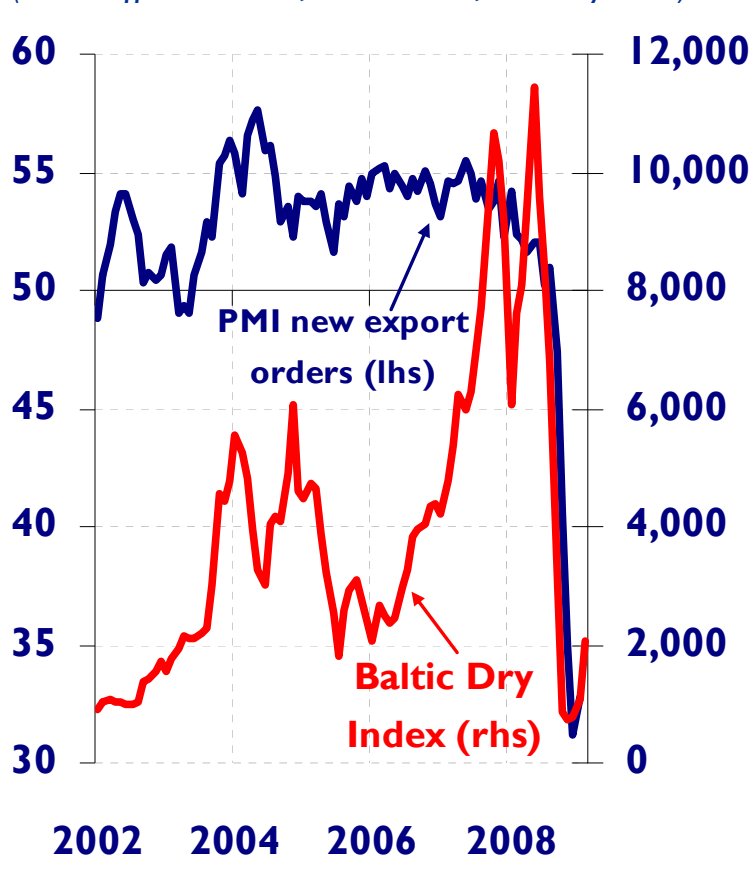
Source: Conference Board, NBER and ECB staff.

Notes: Grey-shaded areas denote the NBER recessions. Fundamentals in the equation include disposable income, net wealth, unemployment, short-term interest rate and inflation.

Pronounced weakness in global trade

Global PMI New Export Orders and Baltic Dry Index

(LHS: diffusion index; RHS: Index; monthly data)



Source: Bloomberg, Markit.

Note: Latest observation refers to February 2009 (Baltic Dry) and January 2009 (PMI).

The role of trade financing:

- Fundamentals appear to largely drive the trade downturn
- Contraction in trade credit aggravated the fall
- IMF survey: trade credit spreads (over the LIBOR) have risen and the volume provided by banks has fallen (especially in emerging Asia)
- Financial crises are often associated with a drying up of trade finance (bank risk aversion)

Thank you!