



# **Global spillovers on the euro area**

by

## **Filippo di Mauro**

**Asian Development Bank Institute, Tokyo**  
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# I. Analytical results

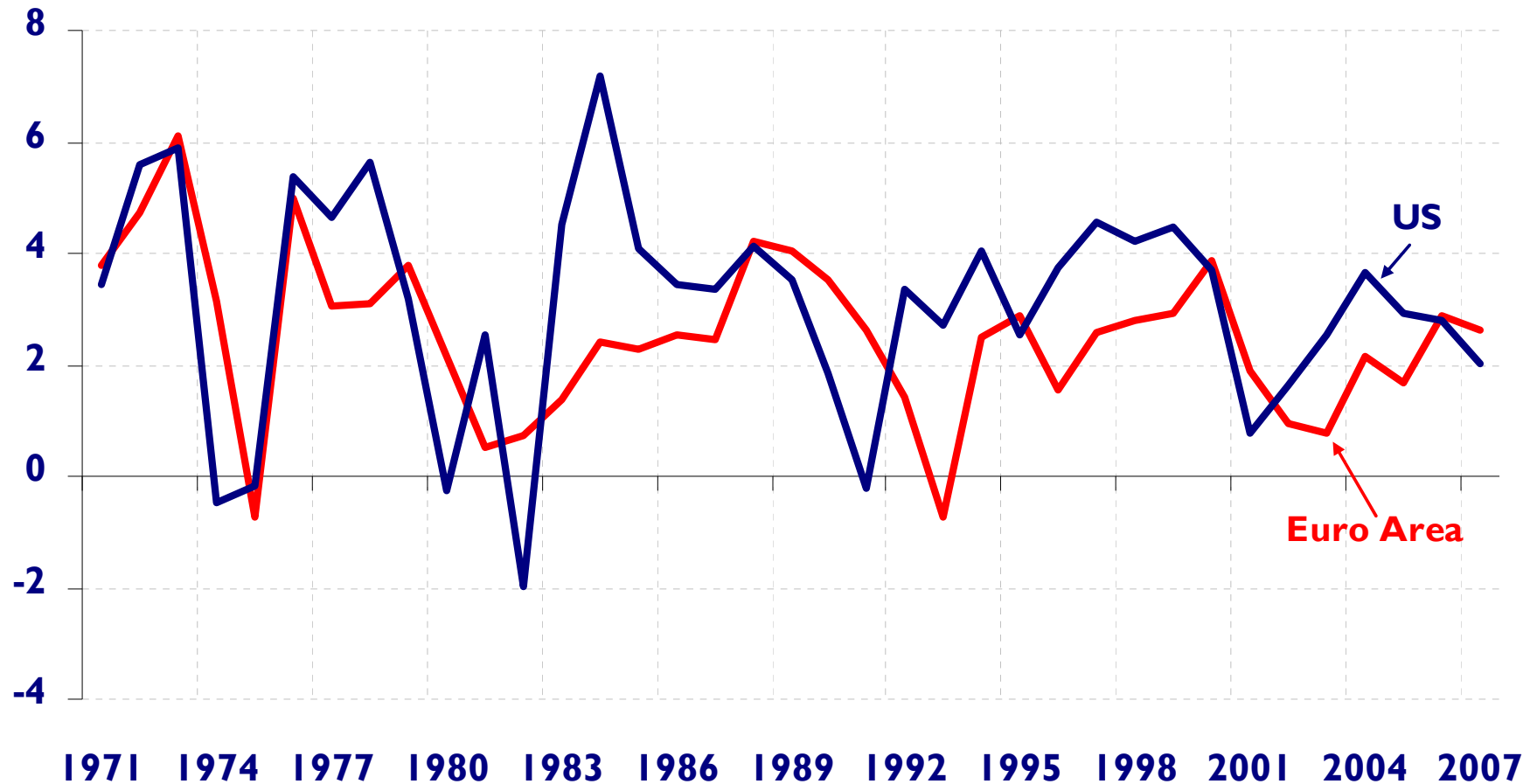
# International spillovers

- **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)



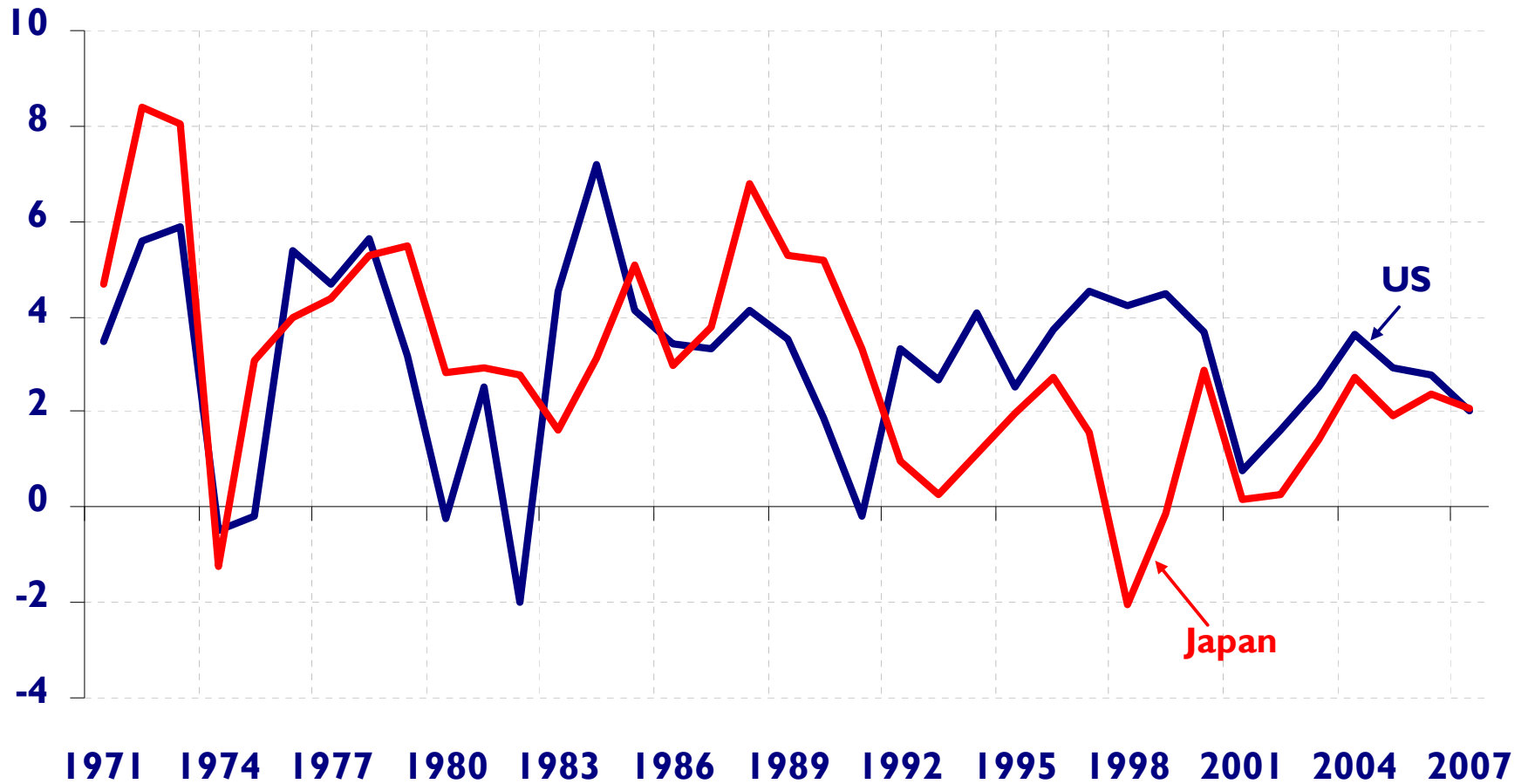
Note: Latest observation refers to 2007.

Source: IMF.

# The US-JP relationship

## Real GDP growth in US and Japan

(In %; annual data)



Note: Latest observation refers to 2007.

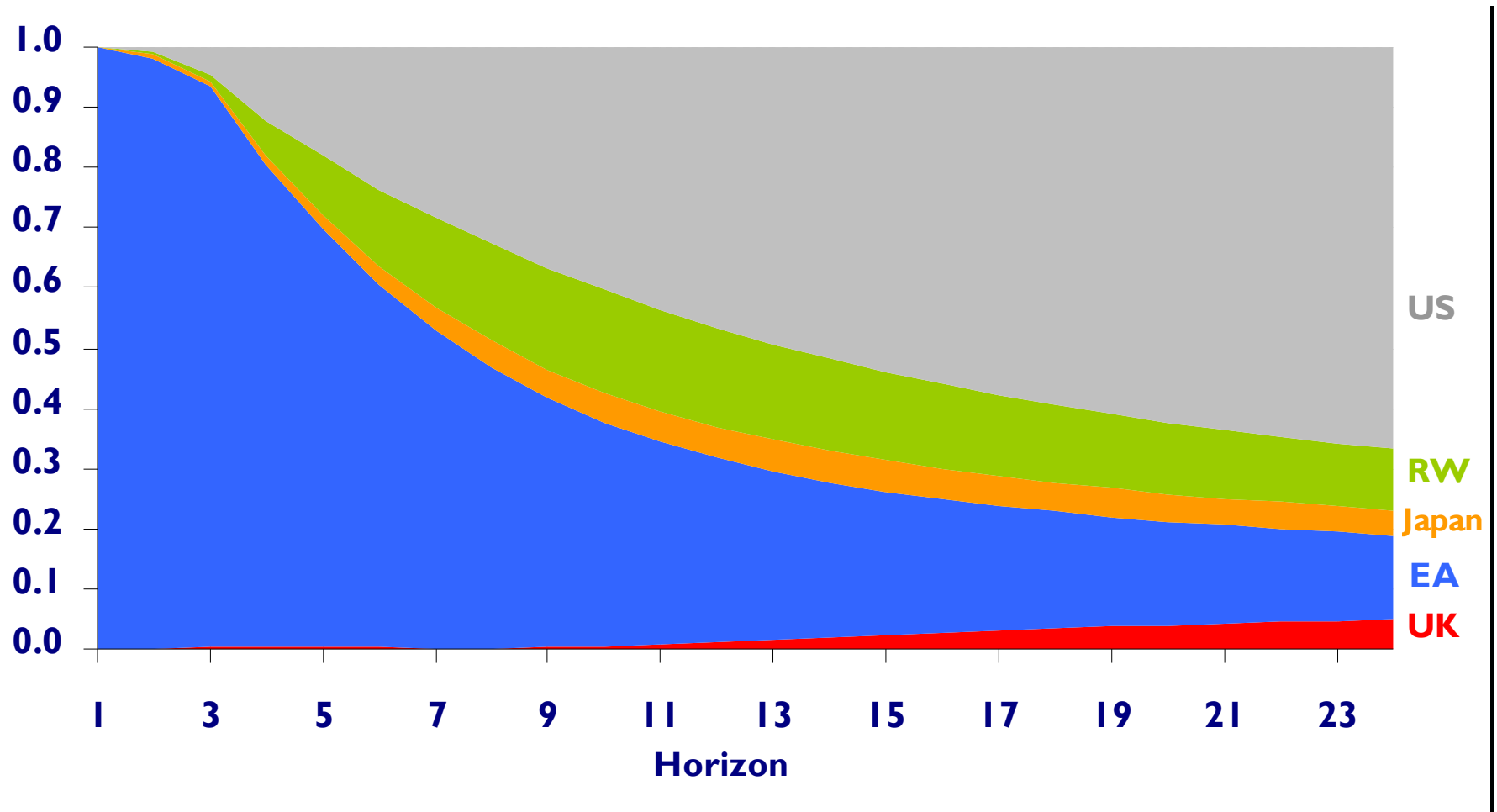
Source: IMF.

# 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?

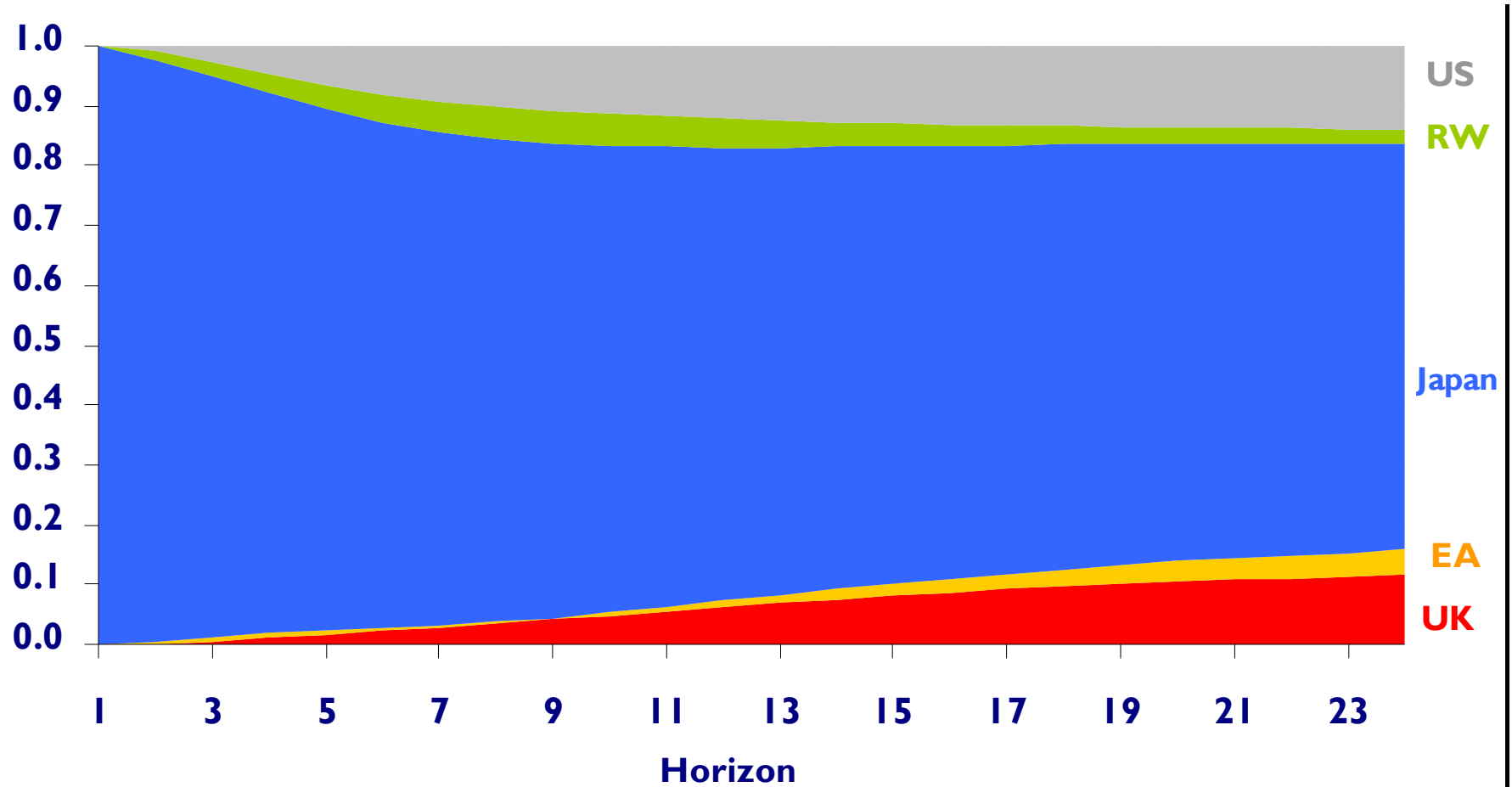
## HD for euro area



Source: ECB staff.

# Do other foreign countries drive Japan?

## HD for Japan



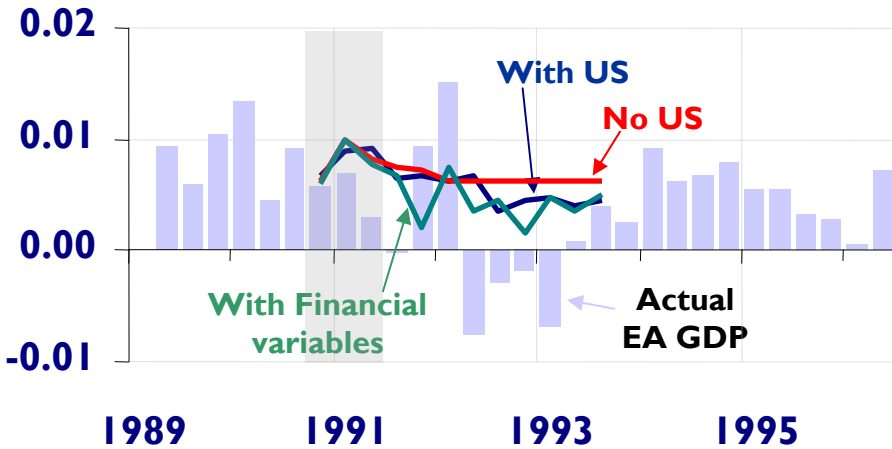
Source: ECB staff.

# A forecasting exercise

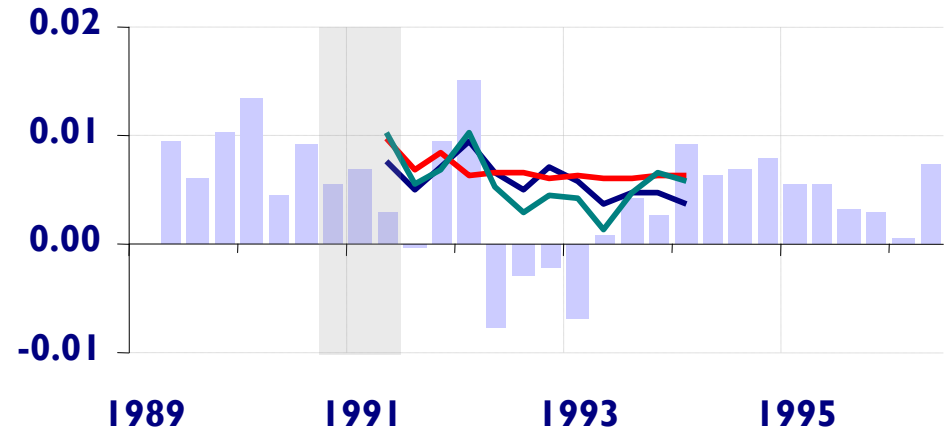
- **How do the VARs perform around recession episodes?**
  - **What do we learn about the recovery path?**
- **We conduct forecasts under three scenarios:**
  1. **Baseline VAR as presented before**
  2. **A VAR excluding the US**
  3. **A VAR including financial market volatility**

# 1990 Recession

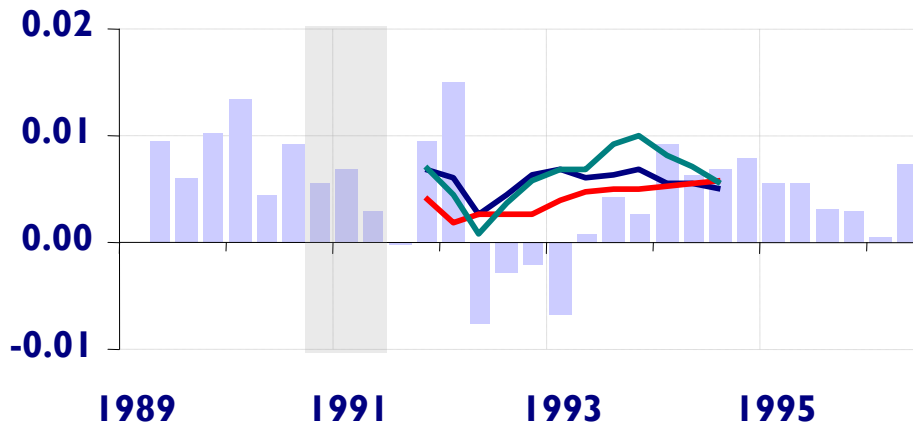
## 2 quarters prior to US recession



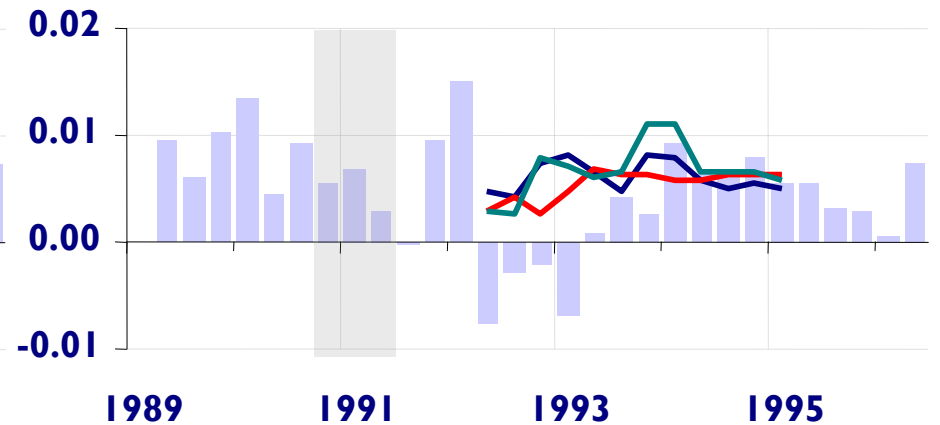
## At US recession



## 2 quarters after US recession

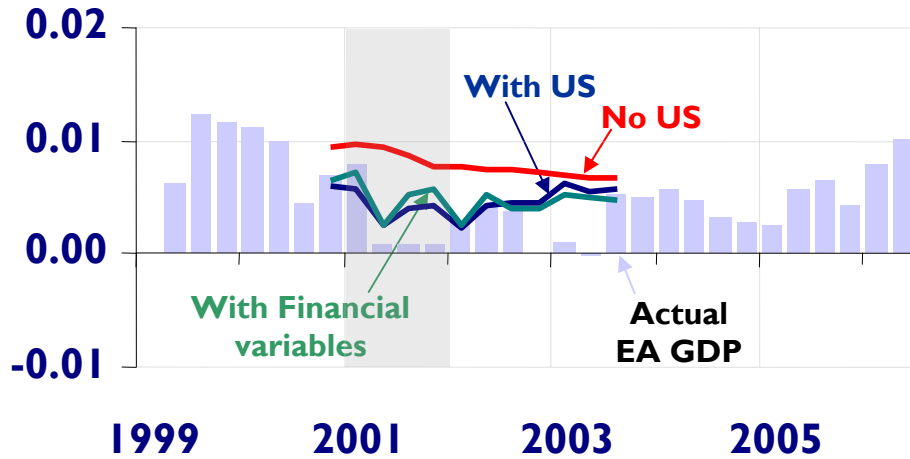


## 4 quarters after US recession

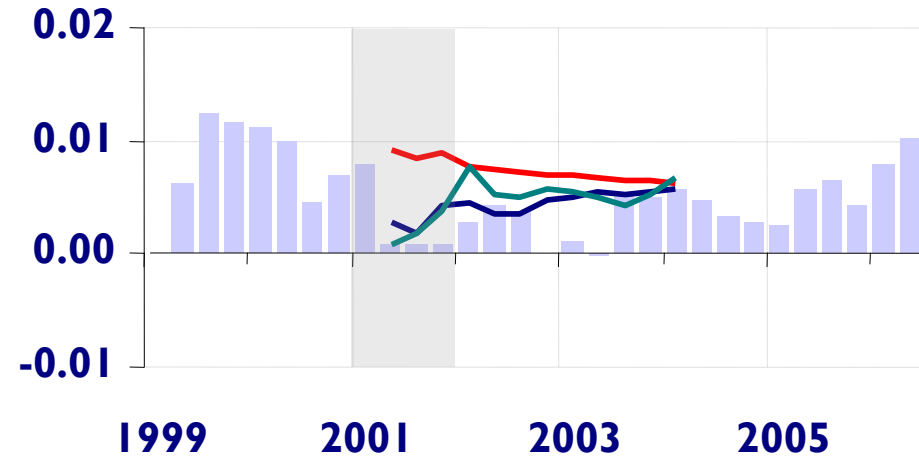


# 2001 Recession

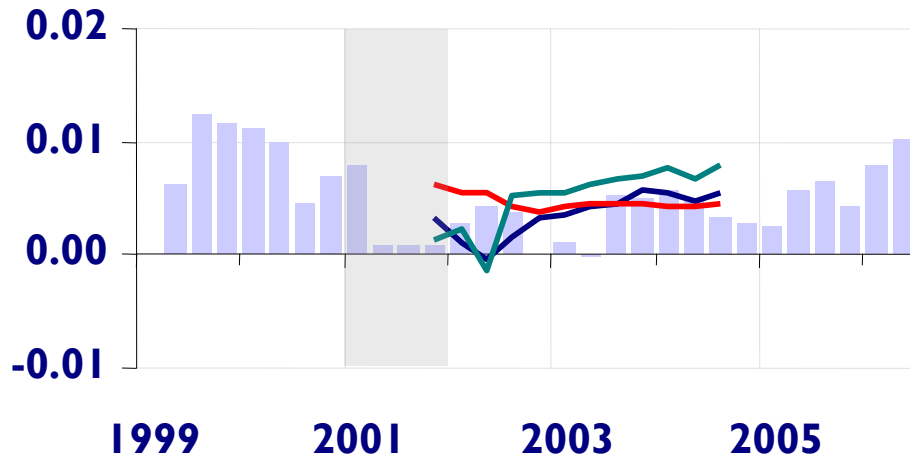
## 2 quarters prior to US recession



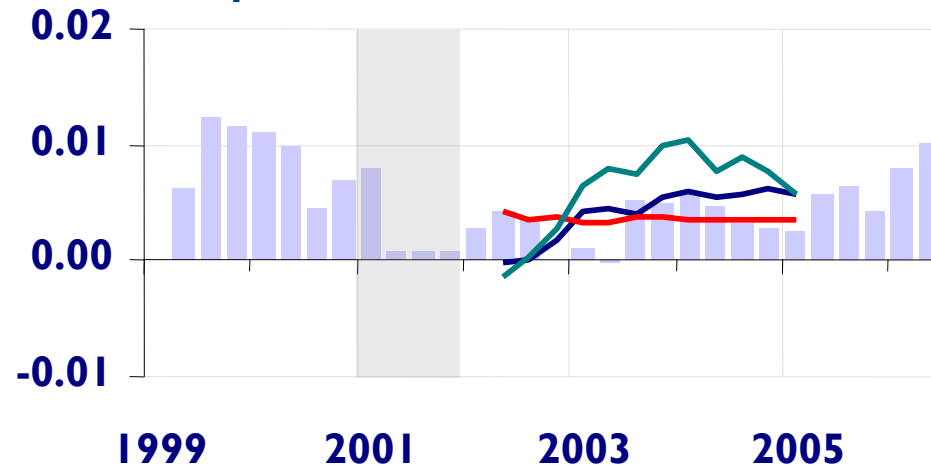
## At US recession



## 2 quarters after US recession

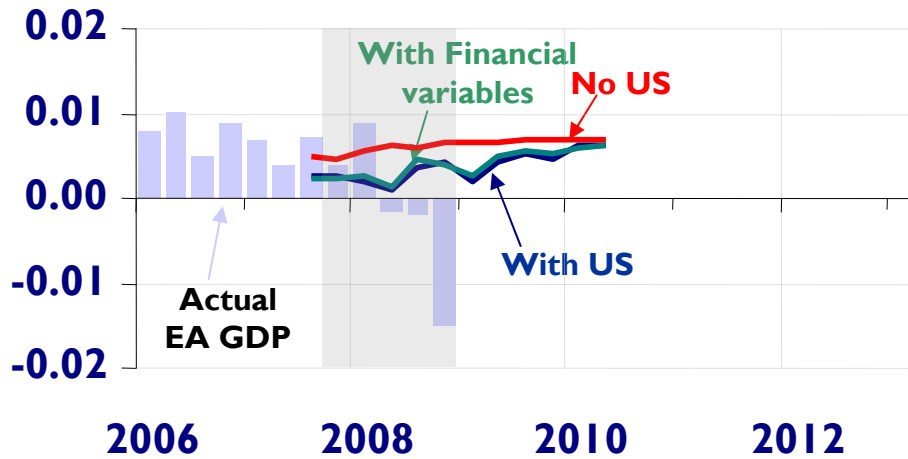


## 4 quarters after US recession

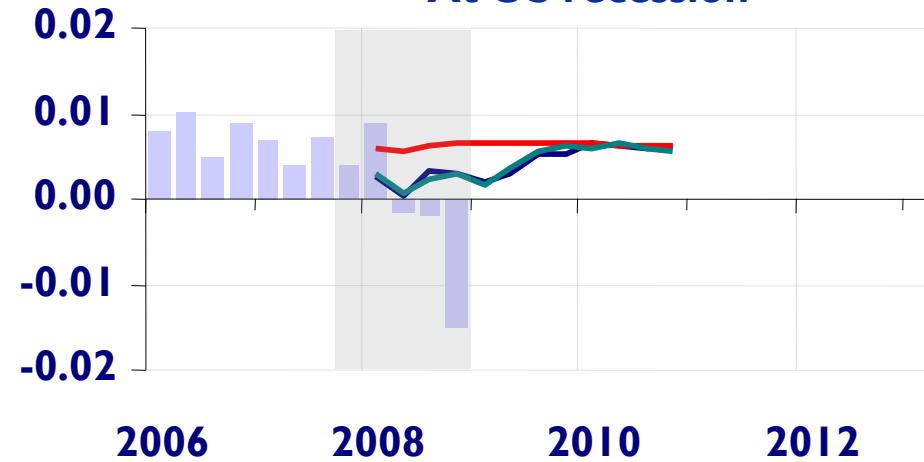


# Current episode

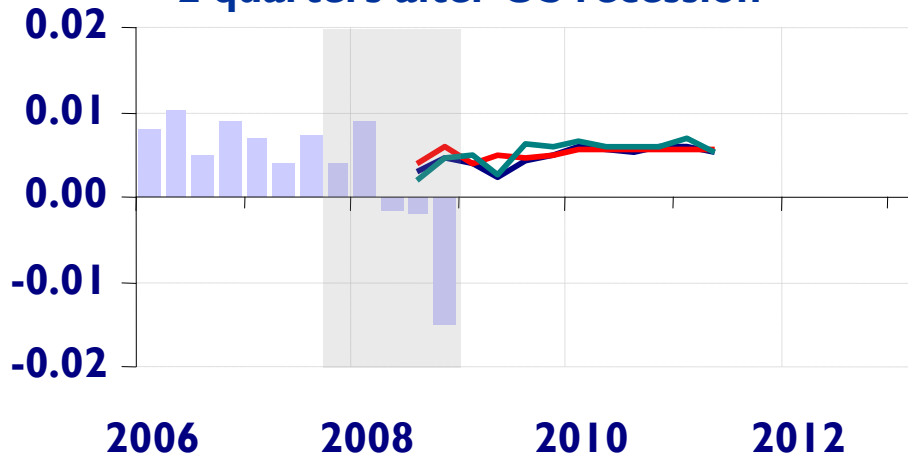
## 2 quarters prior to US recession



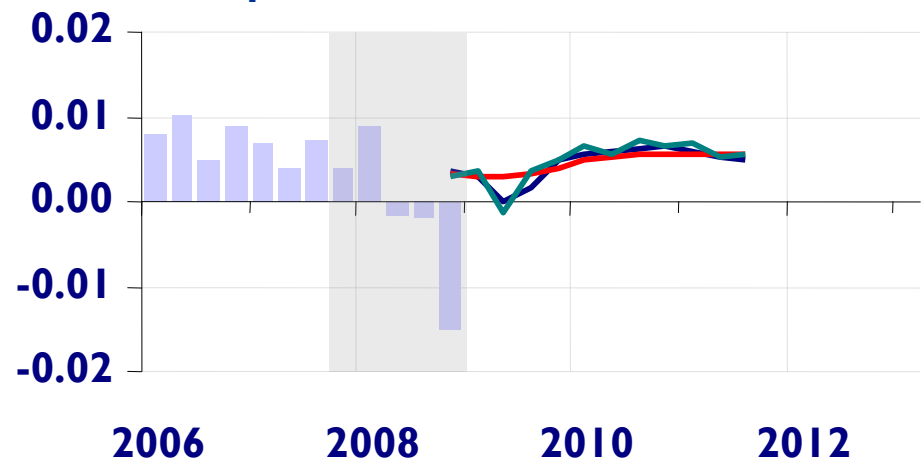
## At US recession



## 2 quarters after US recession



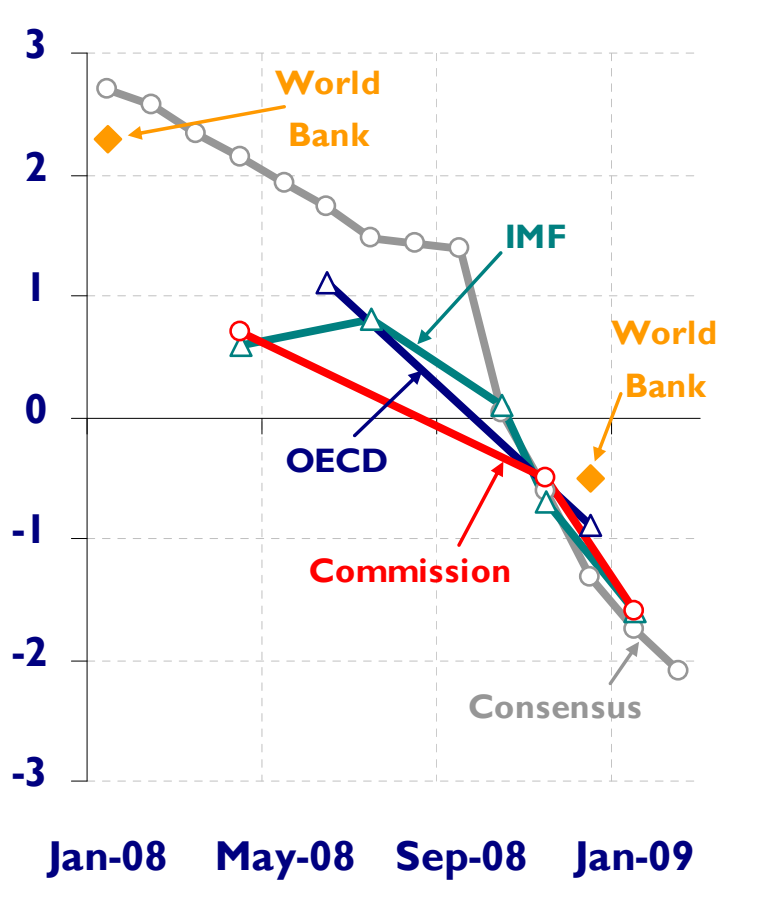
## 4 quarters after US recession



## **II. Conjunctural outlook**

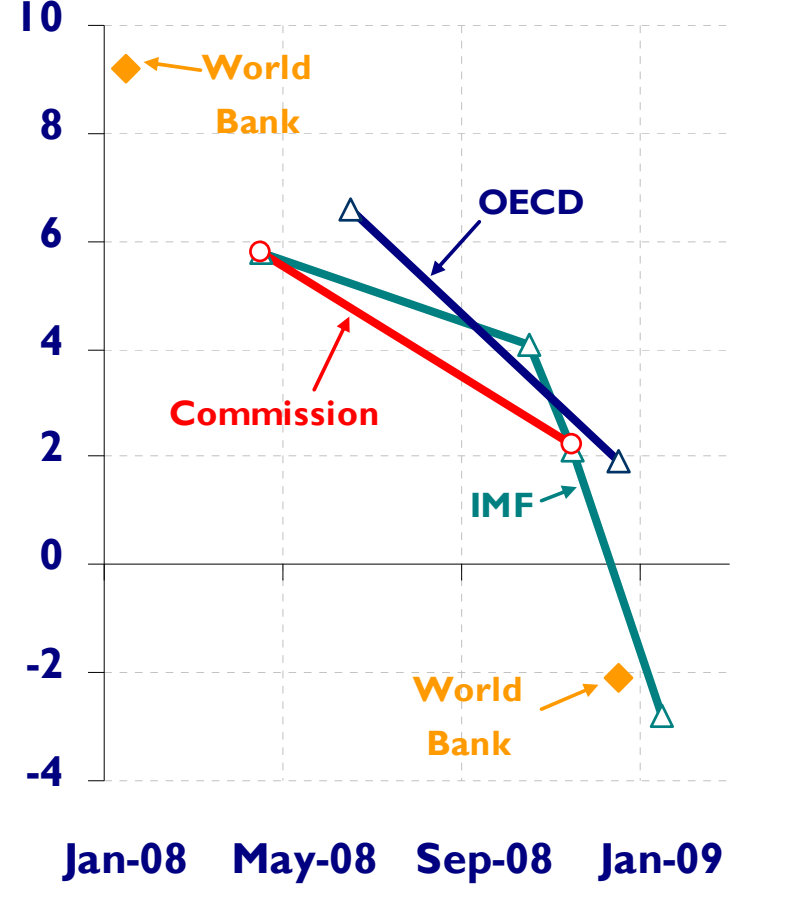
# The global outlook has been revised sharply over the past few months...

**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 %)**

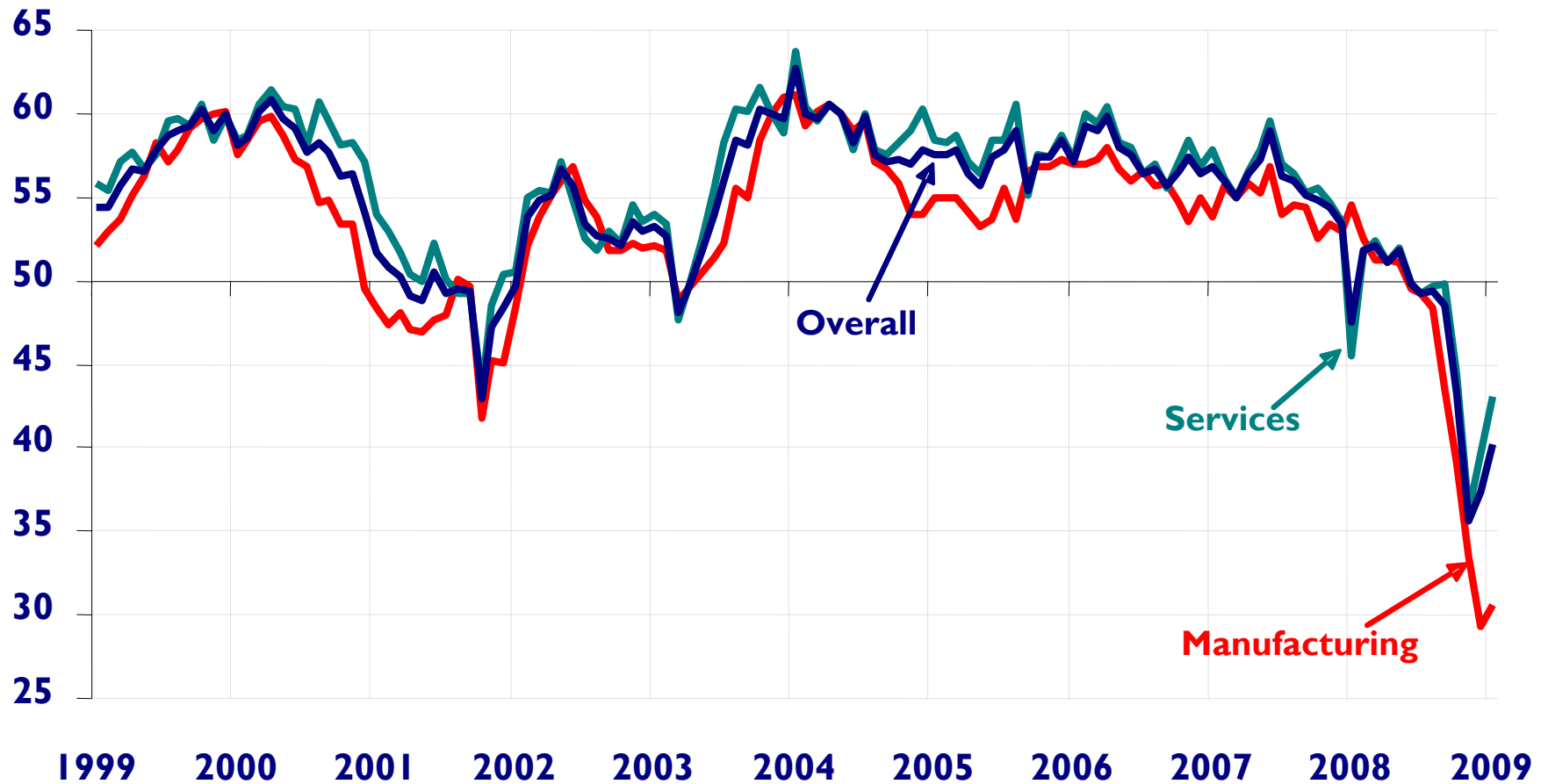


Note: Latest observation refers to February 2009.

# Global survey indicators are very weak...

## Global PMI Output

(monthly data; diffusion index)



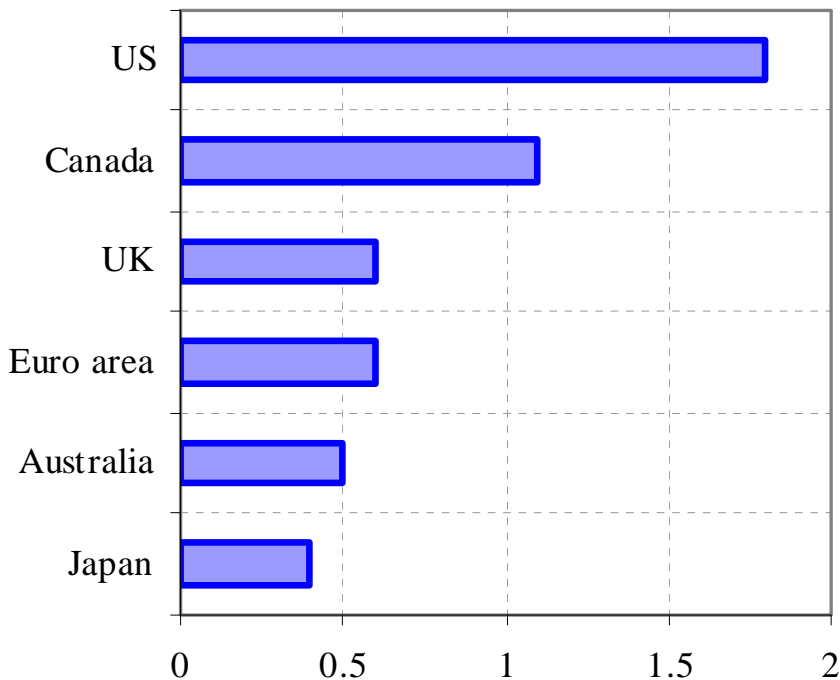
Source: Markit.

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)

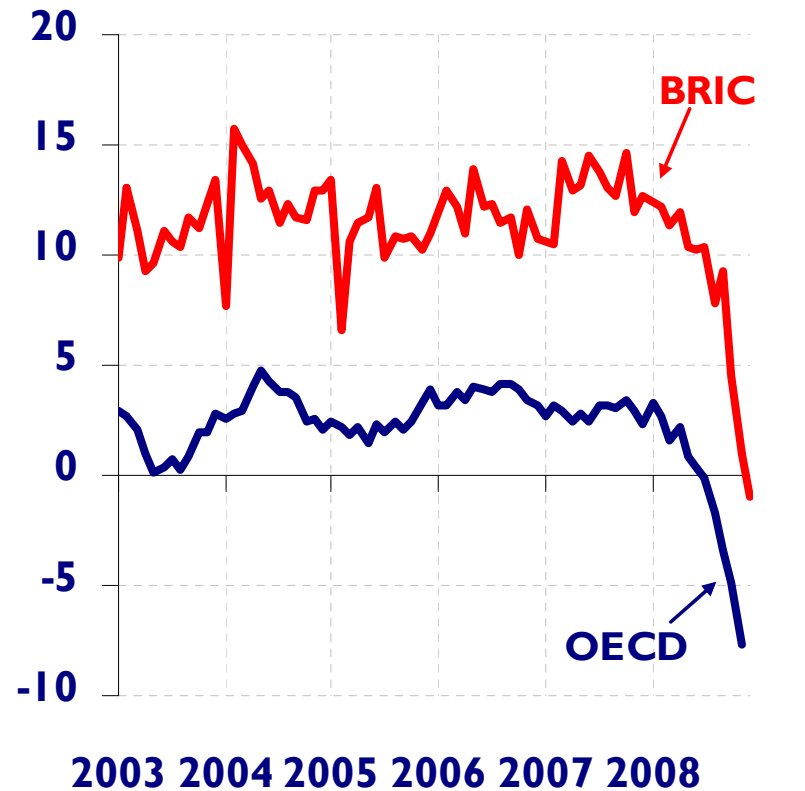


Source: National statistical agencies.

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)



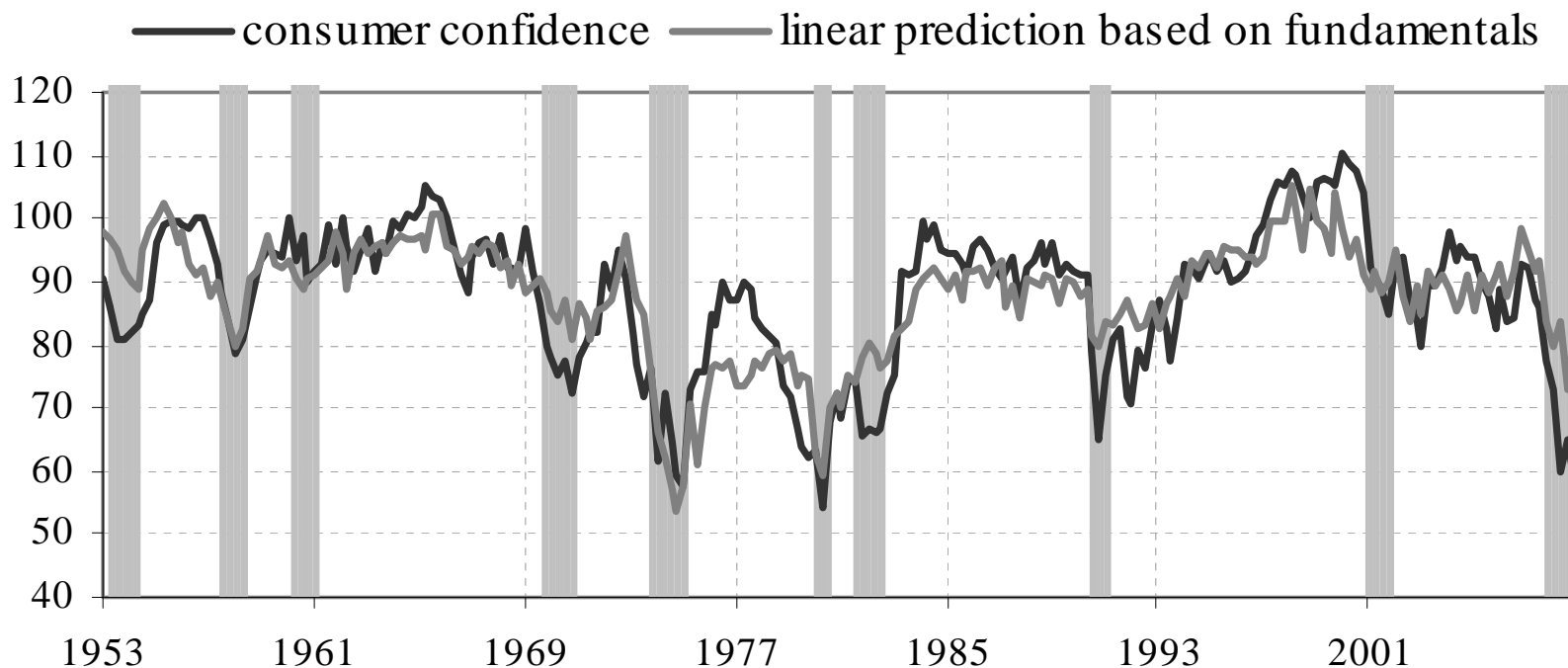
Source: Bloomberg, OECD, ECB Staff.

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)



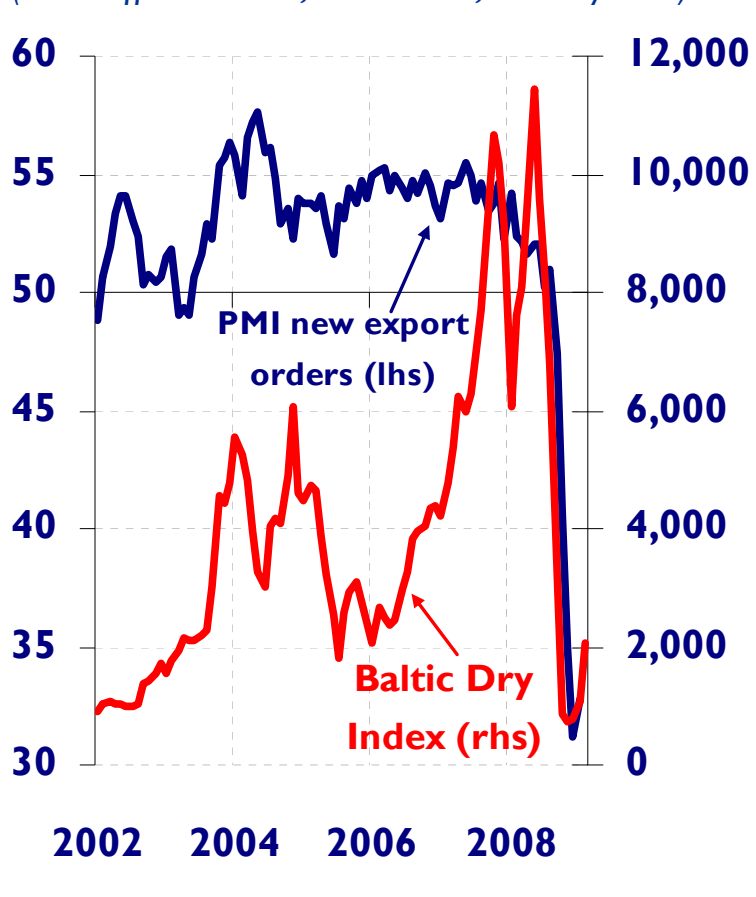
Source: Conference Board, NBER and ECB staff.

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!**