

Spillovers from USA and China demand shocks

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Motivation

1. USA recovers but
2. Trade tensions are on the rise (mainly with China)
 - USA output and price effects
 - Demand or supply shocks?
 - USA policy responses
3. How are these shocks transmitted to other countries?
 - Emerging economies in Latam or Asia
 - Developed economies

Model

1. Global VAR model that features

- Commodity prices endogenous to USA or China developments
- 27 countries (including Euro Zone) for the period 1995Q1-2016Q3
- Variables: GDP, prices, interest rates, real exchange rate, real oil price, real agricultural commodity prices, real copper prices, real gold prices, real silver prices

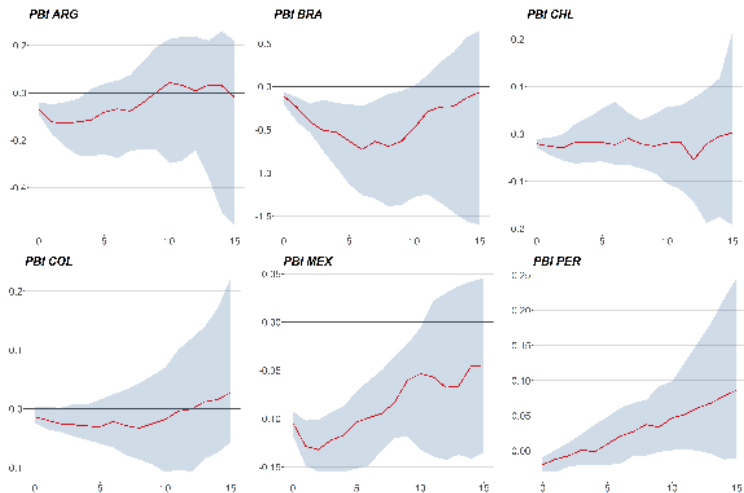
2. Country VARX models take commodity prices as exogenous except

- USA model with subset of commodity prices determined endogenously
- China model with subset of commodity prices determined endogenously

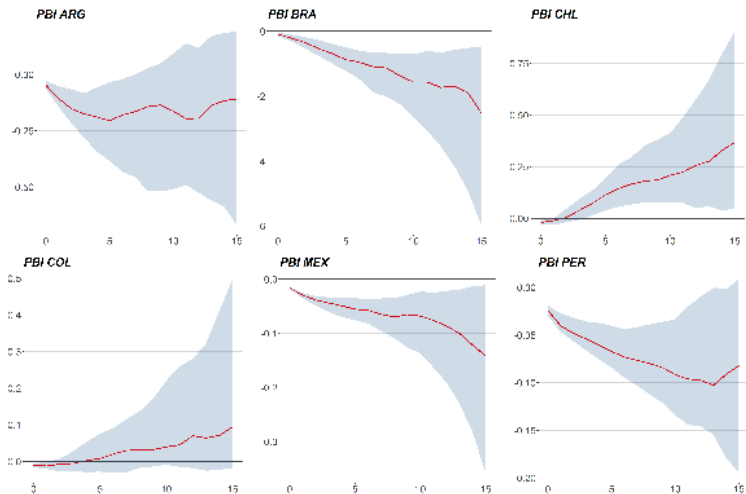
Results

1. USA demand shock (-0.4% of GDP): ↓ GDP, ↓ price, ↓ oil price, ↑ gold price, ↑ silver price
 - Widespread GDP fall in the world (heterogenous intensity and recovery time). Exceptions are CHN, AUS, KOR, IND, TUR
 - In China, agricultural commodity prices fall, cooper price rises.
 - Strong trade effects: USA partners most hit, China partners recover fast
 - Commodity effects: commodity exporters dampen or strengthen effects of shocks
 - Financial effects: Stronger in developed economies
2. China demand shock (-0.21% of GDP): ↓ GDP, ↓ price, ↓ commodity prices
 - Negative impact in countries GDP (Except AUS, IND, TUR)
 - USA GDP falls, Oil price falls
 - Strong trade effect: China partners most hit
 - Financial effects: US dollar gets stronger worldwide
 - Seems that China shock is worse than USA shock

Impact of negative USA demand shock in Latam



Impact of negative China demand shock in Latam



Conclusions and path ahead

- ▶ Isolated negative demand shocks in either CHN or USA have negative world effects
- ▶ Trade shocks are not studied here but would mimic **supply shocks** occurring in both countries at the same time
- ▶ Identification of supply-like shocks may be achieved with signal restrictions