

# 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

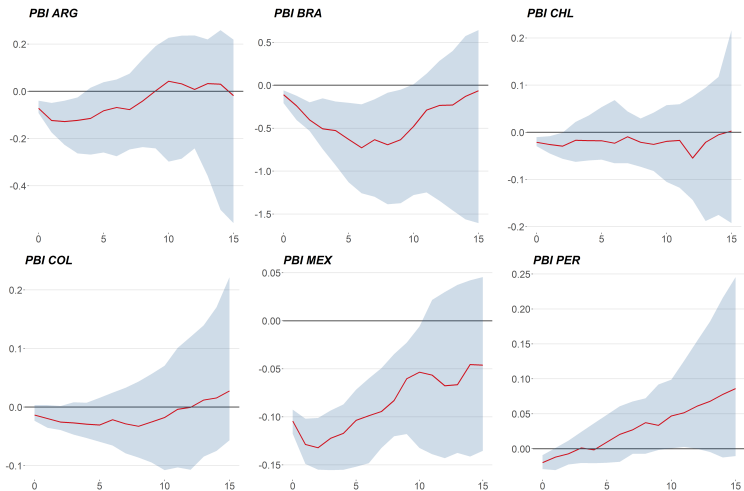
## 2. Country VARX models take commodity prices as exogenous except

- 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