

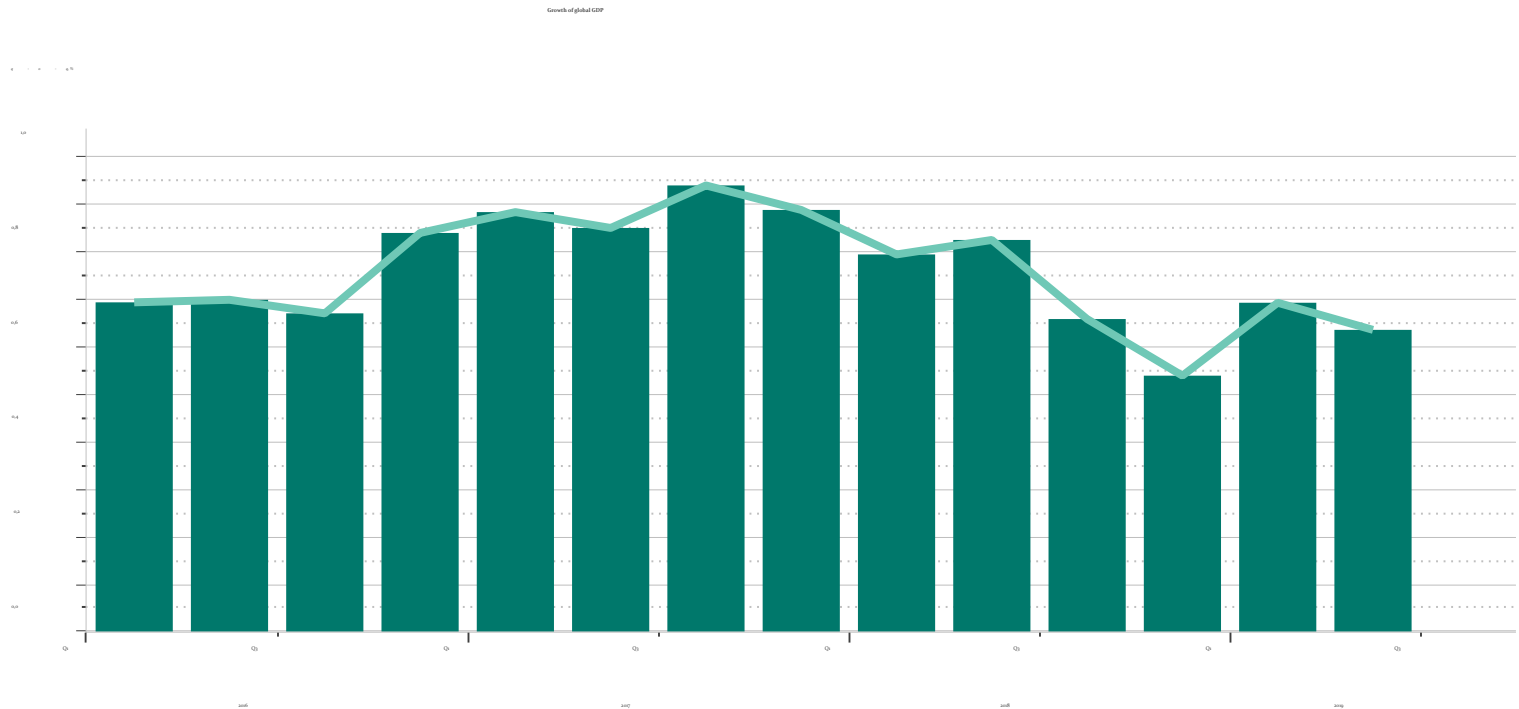
AIECE Meeting 2019

The External Environment

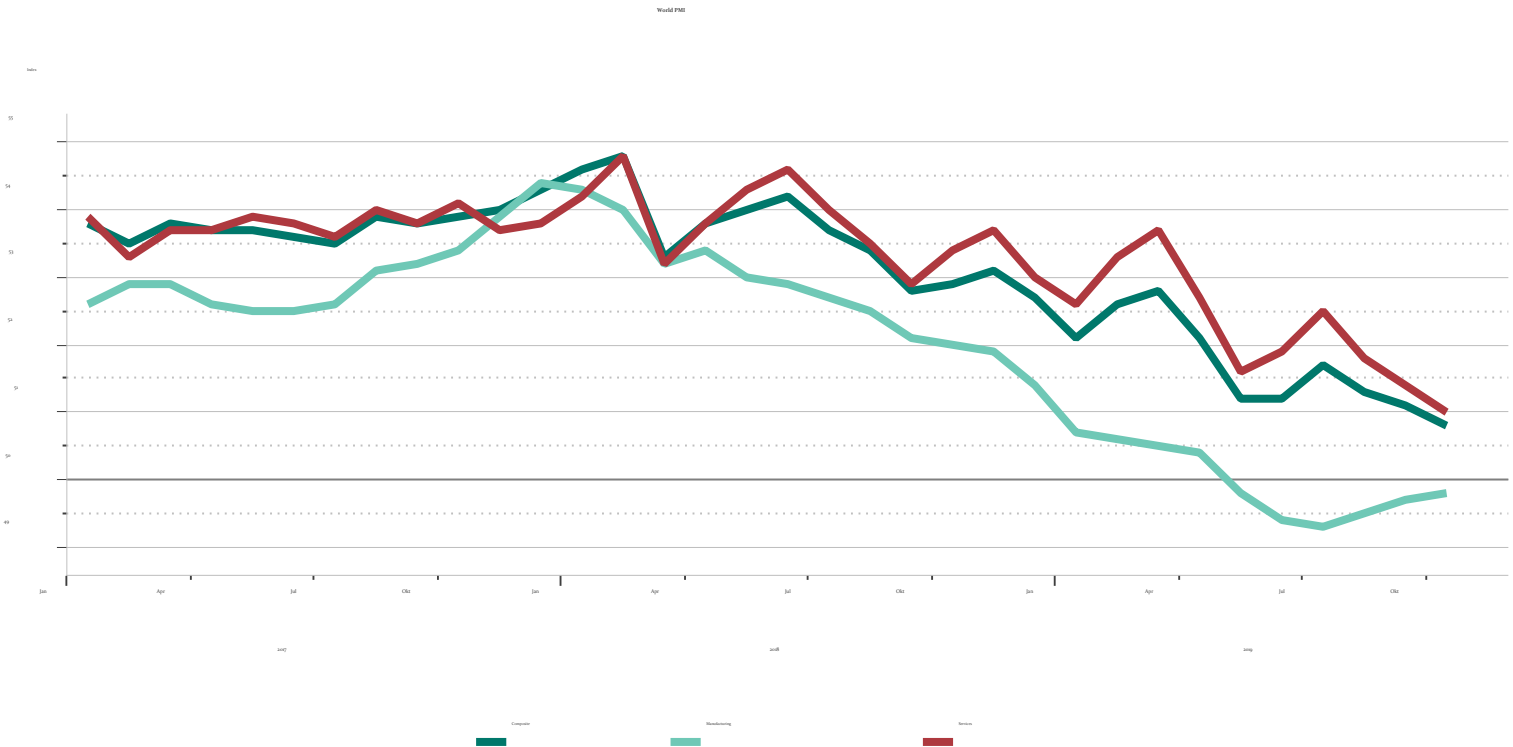
Geraldine Dany-Knedlik
Berlin, 14th of November 2019

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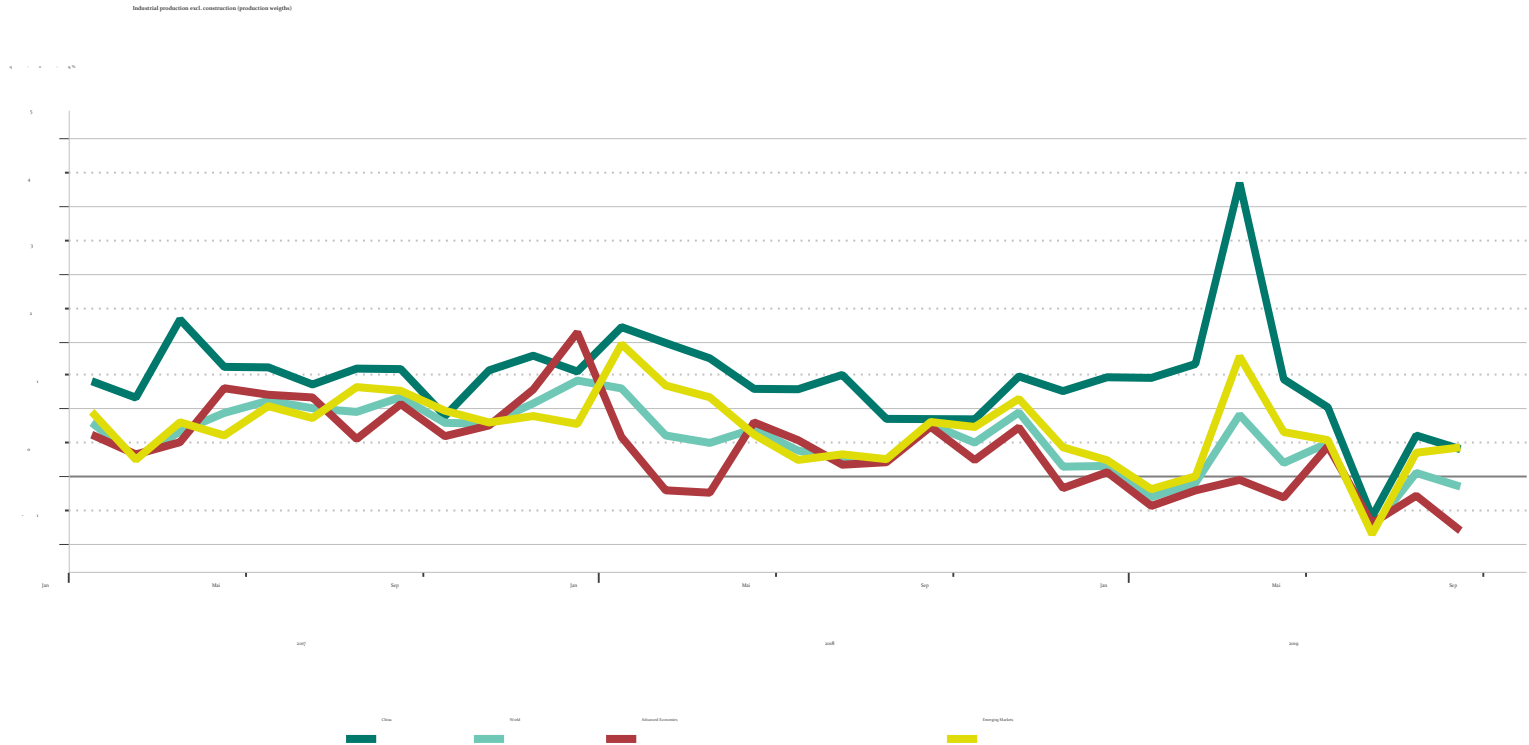


Source: own calculations



Source: Markit

Overall production only gradually declined



Source: CPB

Global trade, manufacturing and investment

- Global growth in trade declining since end 2018
- Substantial decrease of manufacturing activity
- Investment subdued in most advanced economies

Consumption

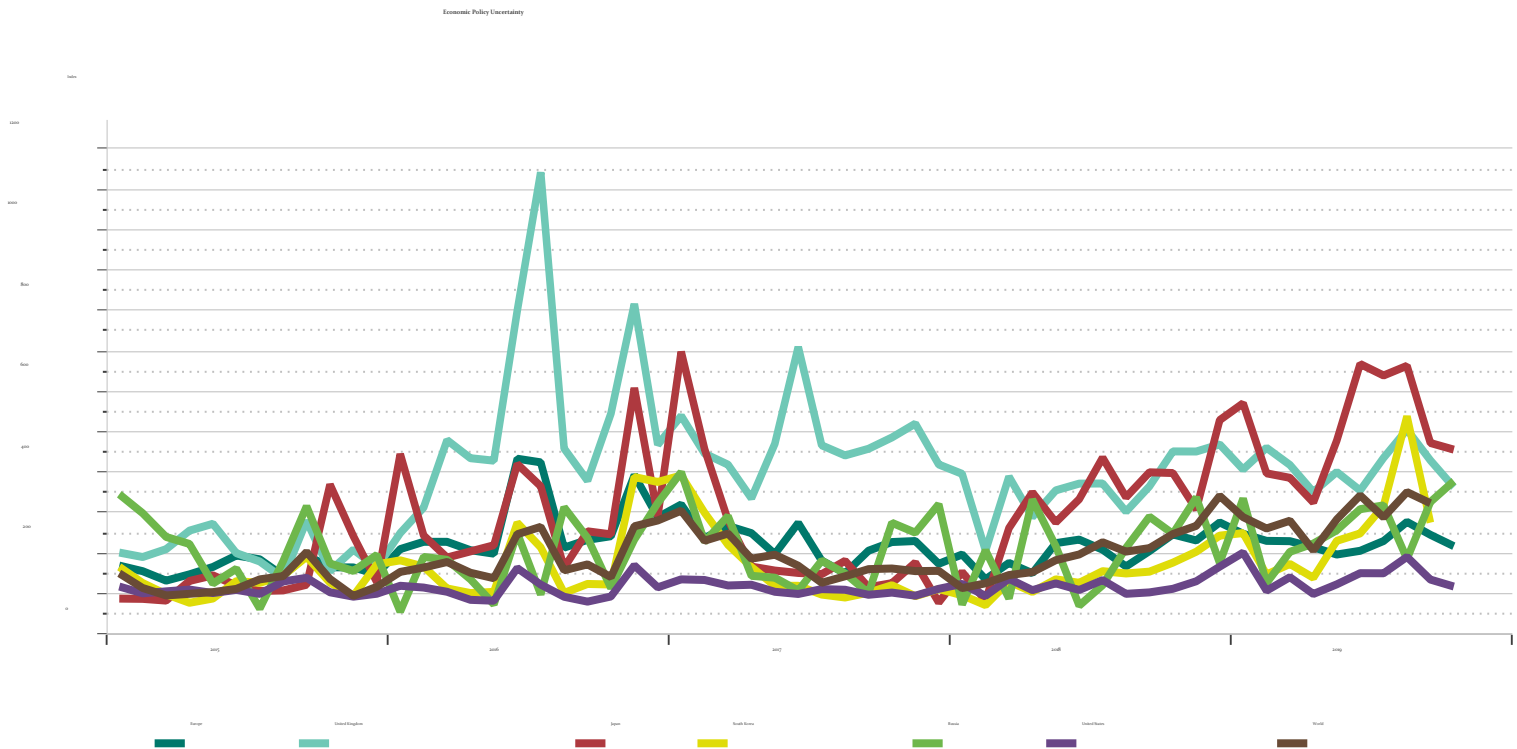
- So far supports output growth
- Private households benefit from wage growth and good labor market conditions
- aggregate employment has increased
- companies are keen to keep skilled workers, because the labor markets have mostly been cleared in many advanced economies

Services

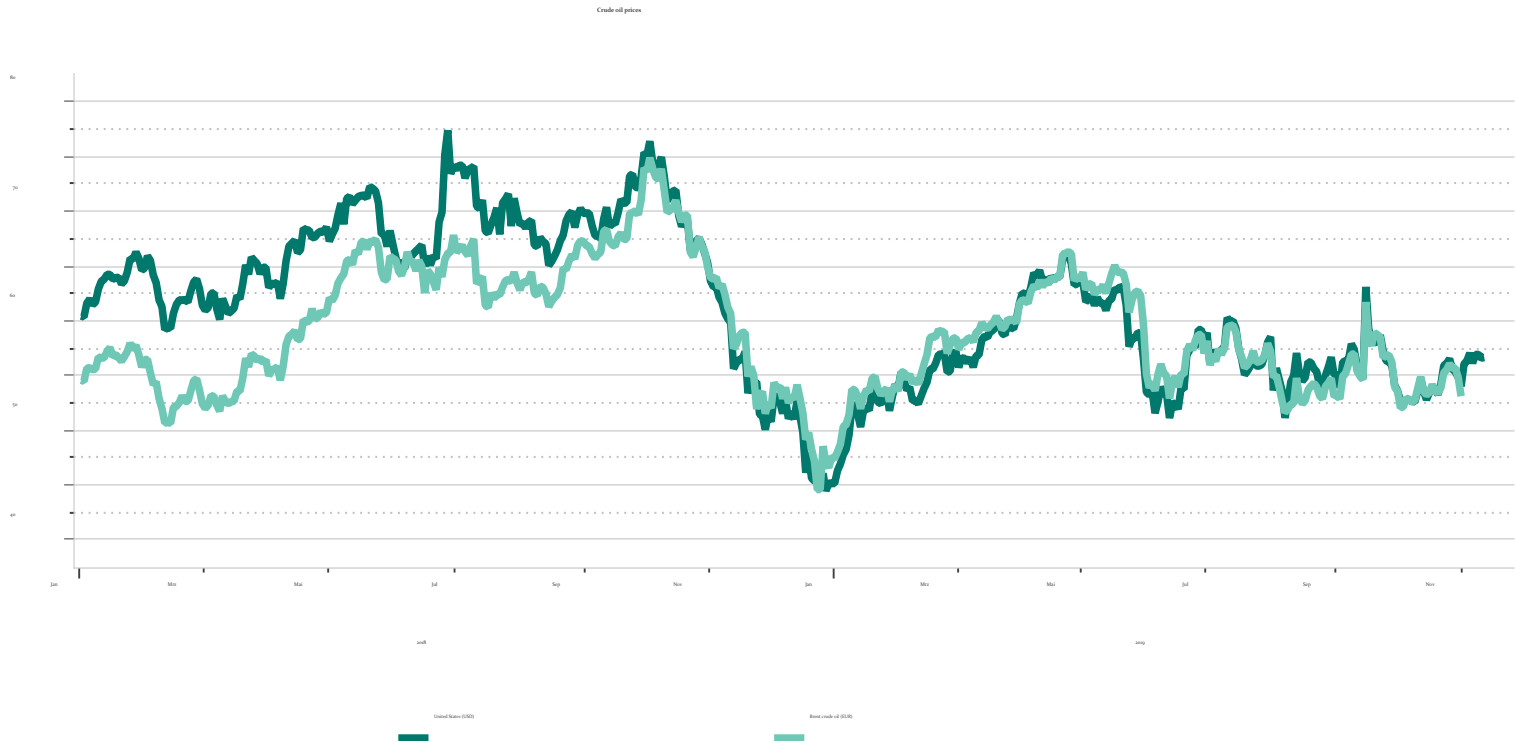
- Leading indicators weaken recently but not at the same pace as for manufacturing
- If the manufacturing 's weakness persists for a long time, it is likely to weigh on industry-related services, labor markets and, ultimately, consumption

Potential causes

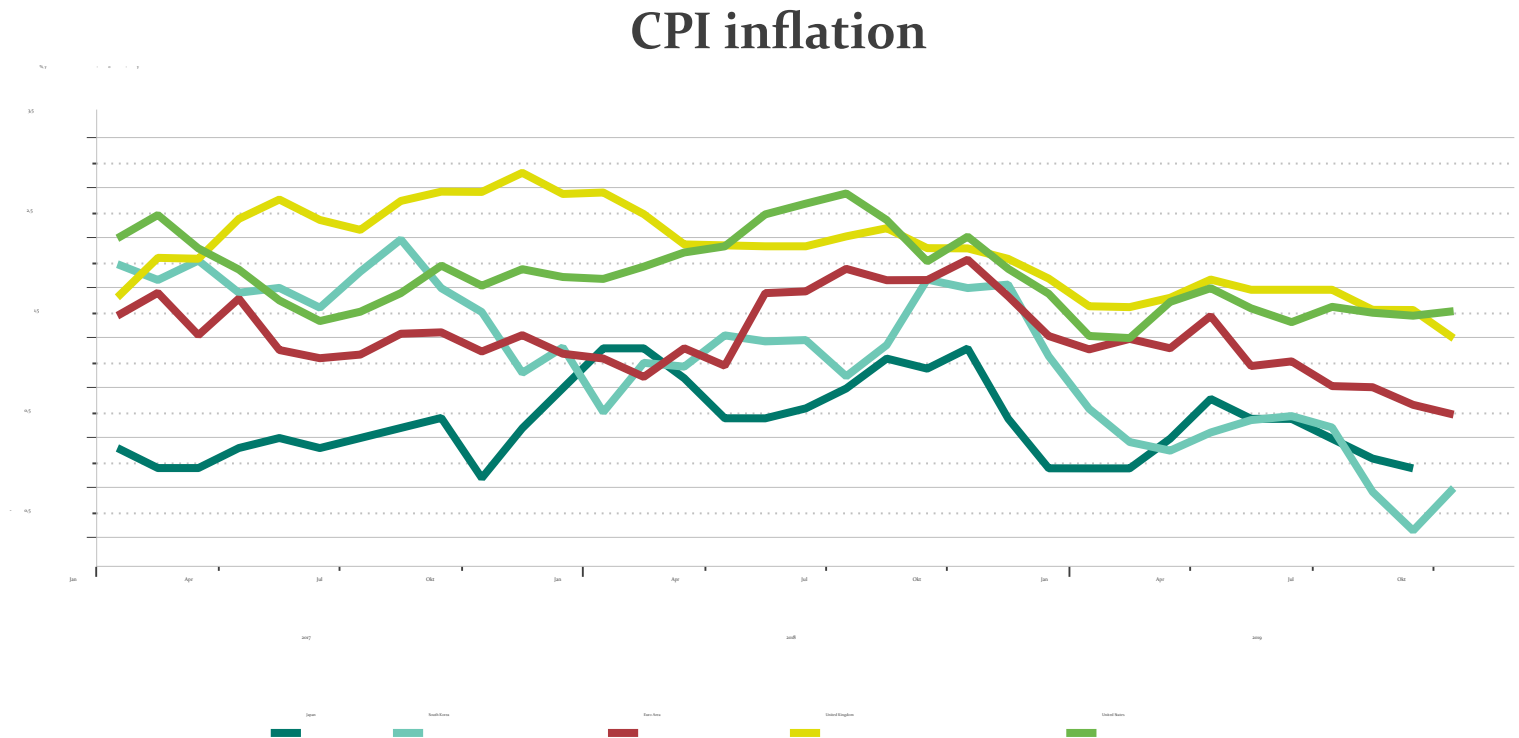
- Trade conflicts
 - China vs. US
 - Japan vs. Korea
- Automotive industry
 - Regulatory issues (WLTP)
 - Shift in preferences
- Brexit
- Uncertainty about economic policy environment



Source: Macrobond



Source: Macrobond

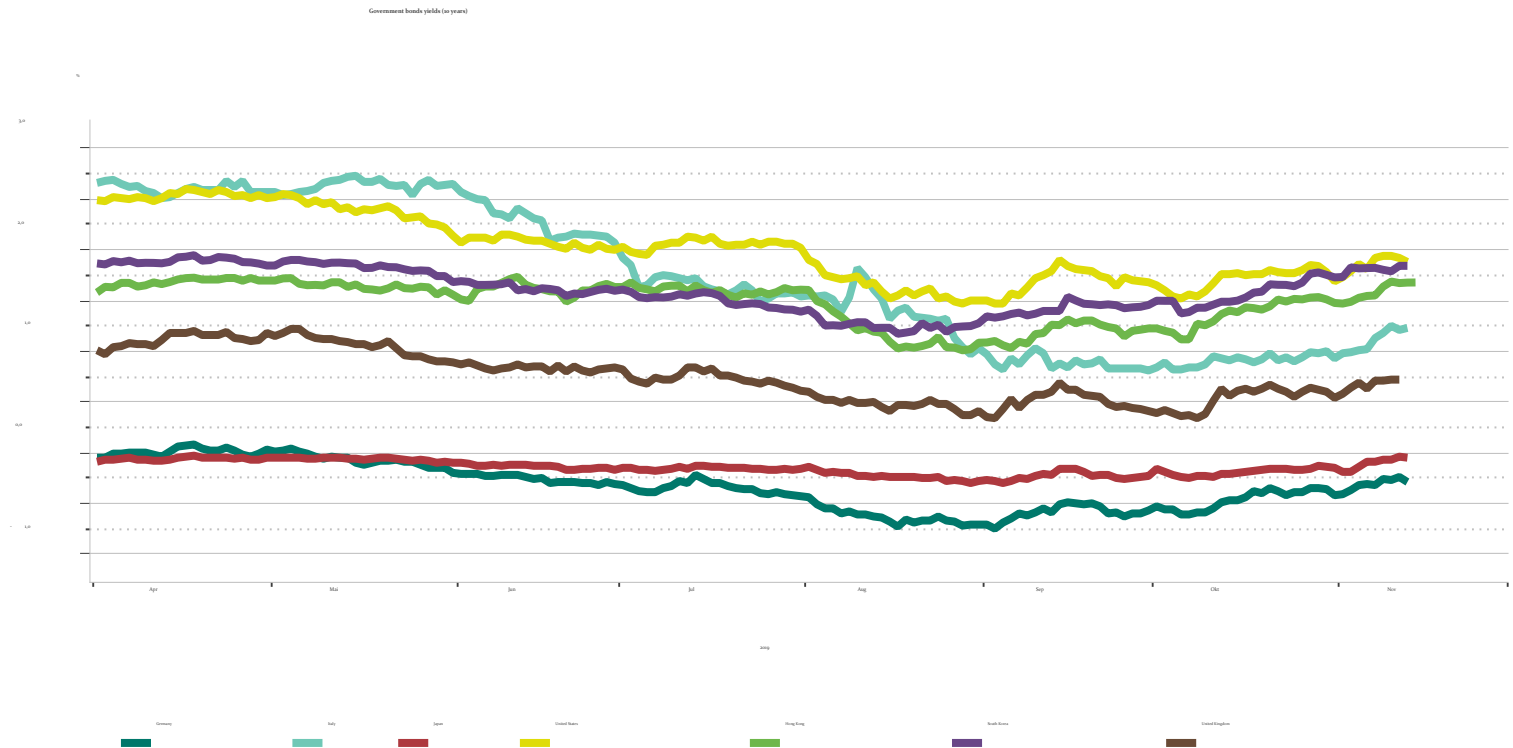


Source: national statistical offices

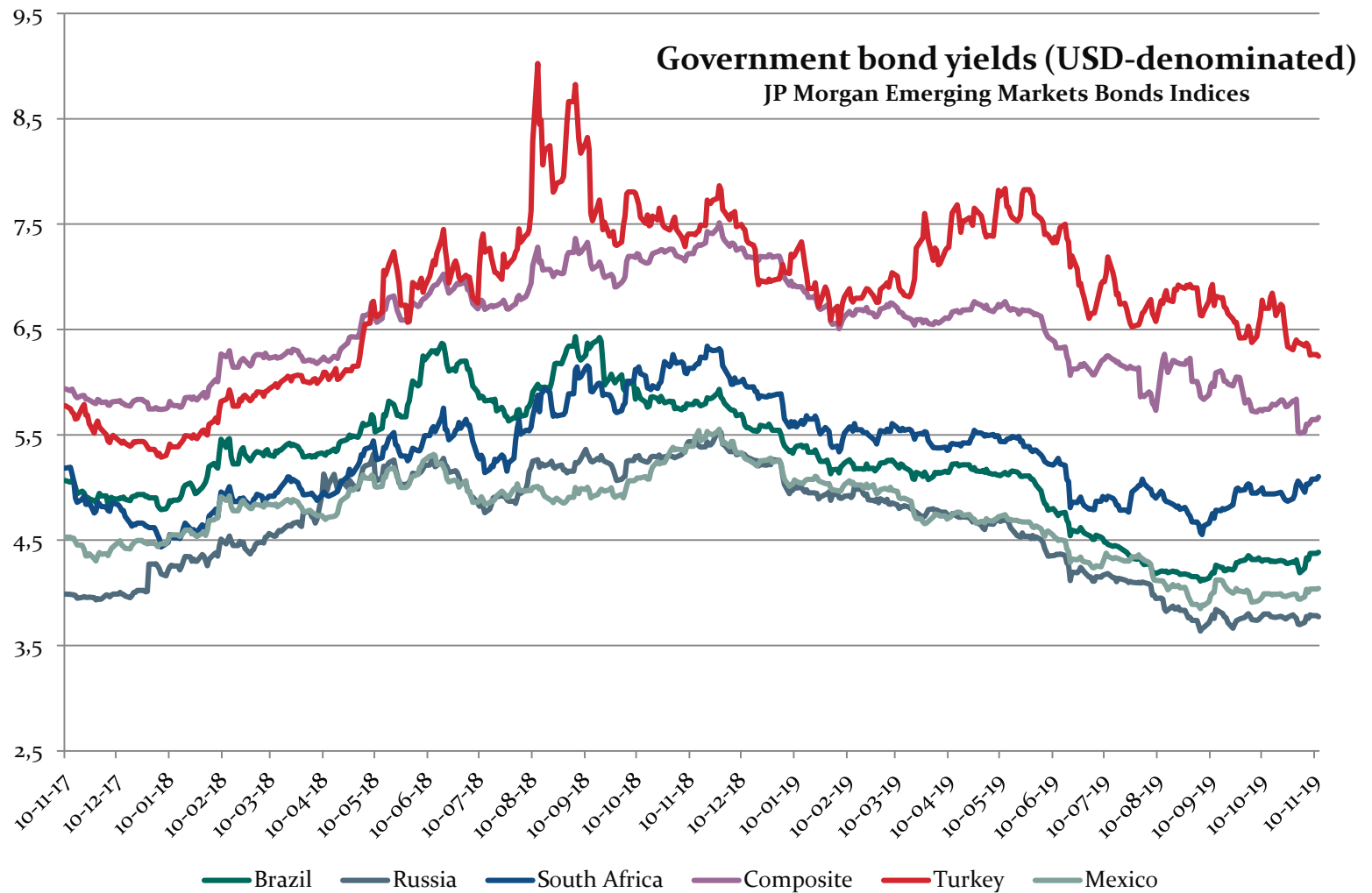
Many central banks reacted to the economic slowdown by resuming or expanding expansive measures

- US July and Sep 2019 rate cuts by 0.25 pp
- ECB (re-) unconventional monetary policy measures
South Korea, Brazil, ...
- Central banks of Japan and UK still in wait-and-see modus
- Short-run interest rates declined
- Mostly targeted long-run rates decreased for the moment but are gradually rising recently

Government bond yields gradually increasing in advanced economies



Source: Macrobond



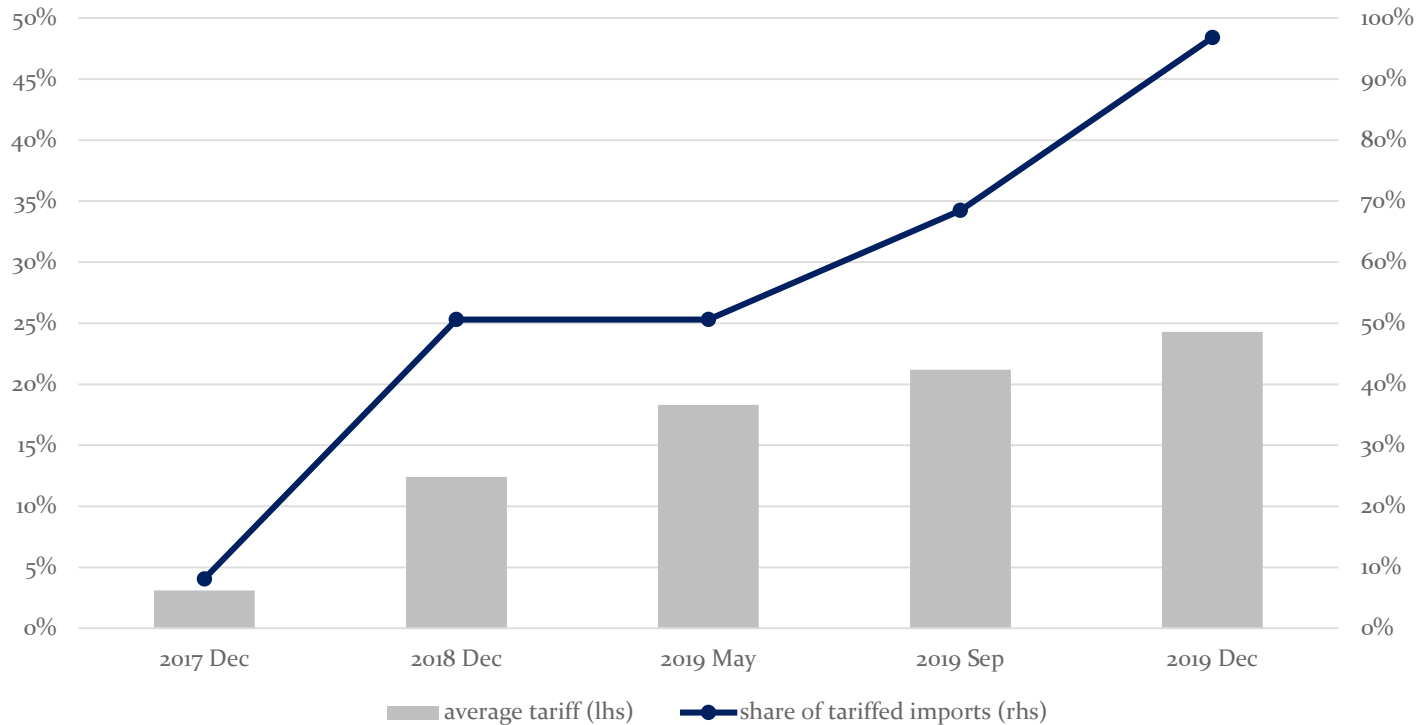
- US: Fiscal policy remains expansionary but impulses from the tax reform (beginning of 2018) will fade out
- UK: Fiscal policy will be slightly expansionary in the current year, after a prolonged period of consolidation
- Japan: Just announced fiscal stimulus package including reconstruction investment
- China: Fiscal stimulus package to combat slowdown in trade

Downside risks

- Trade policy
 - Further escalation of trade conflict between China and the US
- Altered economic policy uncertainty
- Sharper than expected slowdown of the Chinese economy
- Spillovers from the weak manufacturing activities
 - Labor market
 - Services
- Hard Brexit

- Strategic policy topic for the US: trade
 - Reducing current account deficit
 - Shifting production plants ,back home‘
 - Eliminate ,involuntary‘ technology transfer
- Policies mainly concentrated on tariffs
- Further escalation in the first half 2019 after negotiations have failed this Spring

US tariffs on Chinese imports



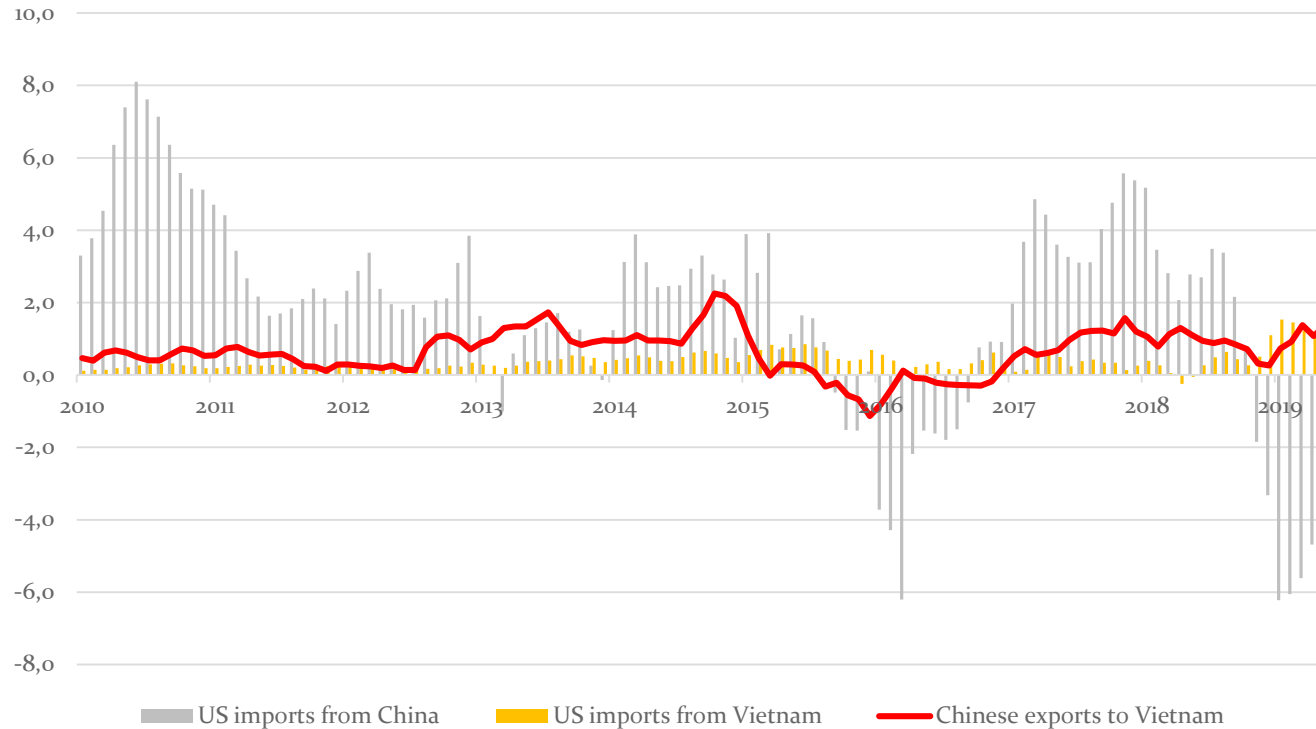
US tariffs on Chinese imports: 3% in 2017 up to 21%

China tariffs on US imports: 8% in 2018 up to 22%

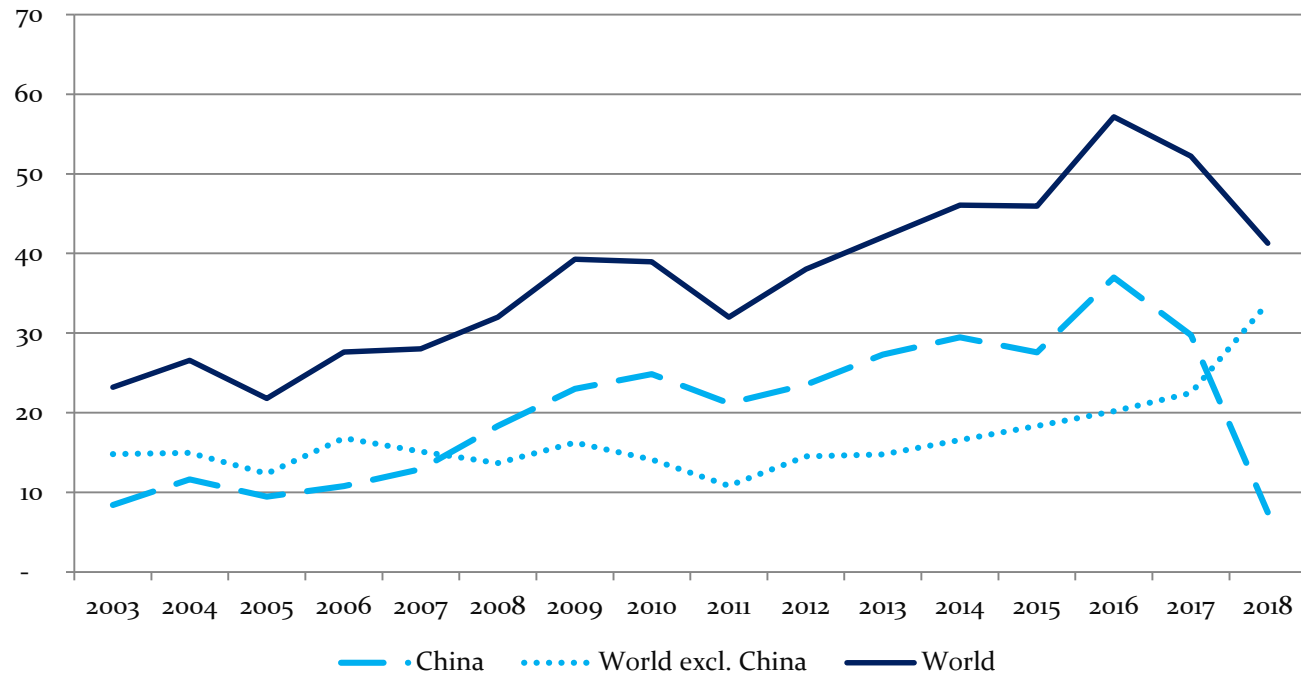
(Possible) effects of the trade conflict

- Decline of trade between China and the US
 - Depending on the exposure
 - Chinese imports to the US declined by up to 15% (y-o-y)
 - US exports to China declined by 30% since mid-2018
- Possible negative spillovers to third-party economies (Mao and Görg, 2019; IMF, 2019)
- Incentives for circumvention via third-party countries

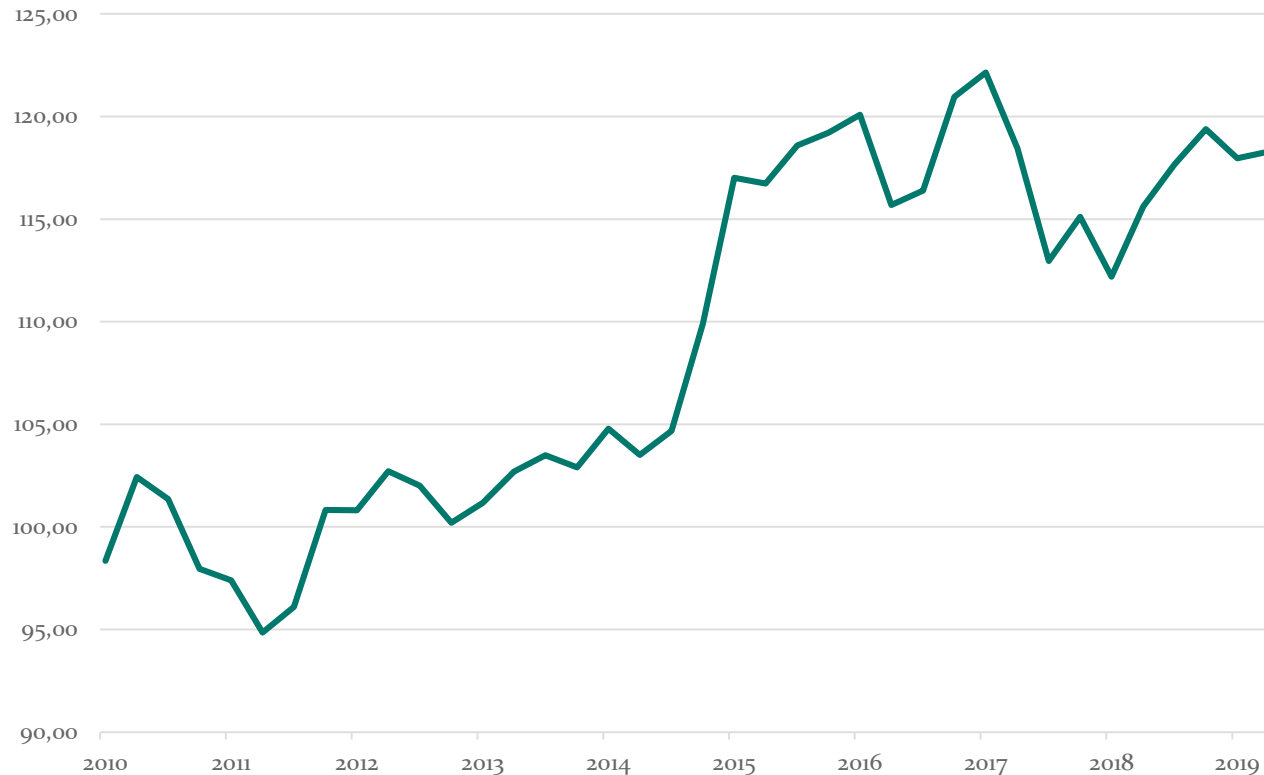
Detour via Vietnam?



US soy exports

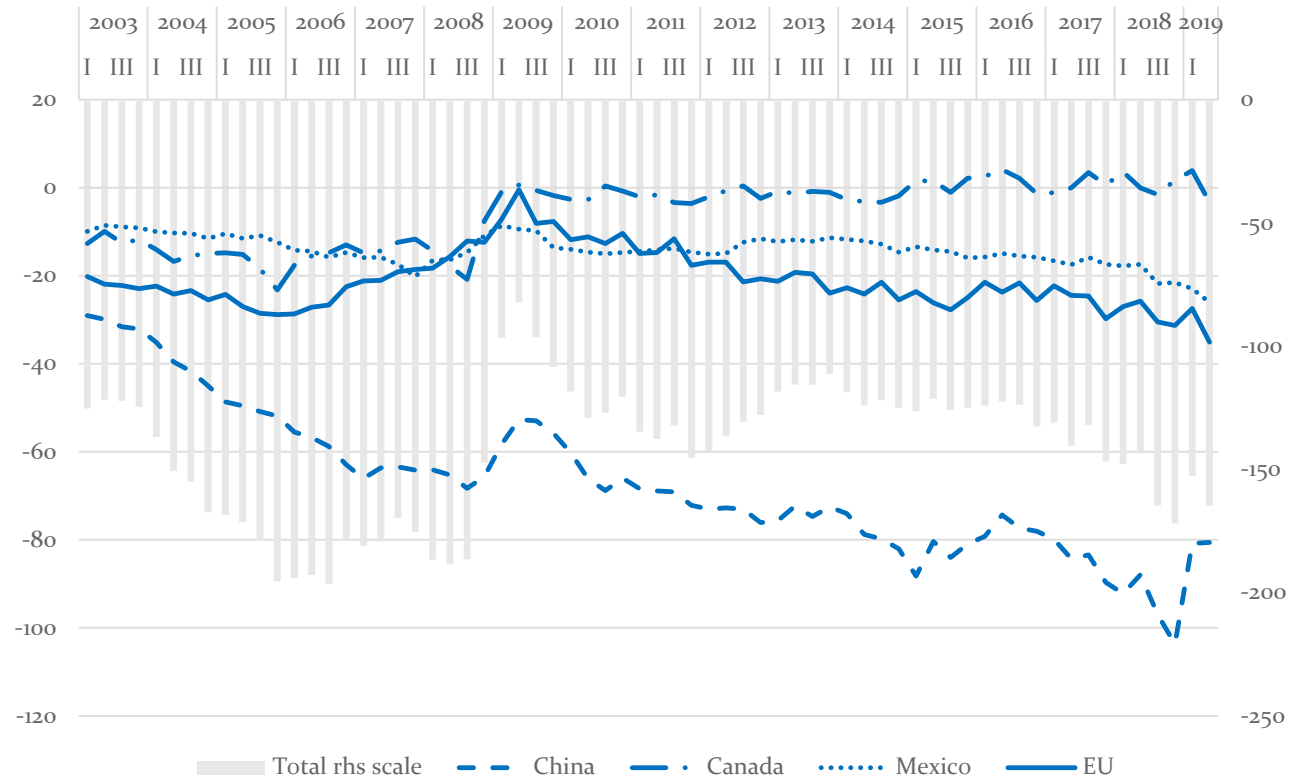


Has the US gained competitiveness so far?



REER (relative price: export prices)

What about the current account deficit?



- Announced round of tariff increase planned for mid-Dec deferred as negotiations are resumed
- Closing the ‚Phase one‘ deal is still uncertainty

Overall, a sustainable US-China settlement in the trade dispute in the near future seems unlikely.

References

International Monetary Fund (IMF) (2019). World Economic Outlook Update: growth slowdown, precarious recovery. Washington, DC: IMF, April.

Mao, H. and H. Görg (2019). 'The impact of the US-China Trade war on Global Value Chains'. KCG working paper No 17.

Vielen Dank für Ihre Aufmerksamkeit.



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Redaktion
