



Trade Tensions, Activity, and Financial Stability

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World Bank, CEPR, and Brookings Institution

November 2019



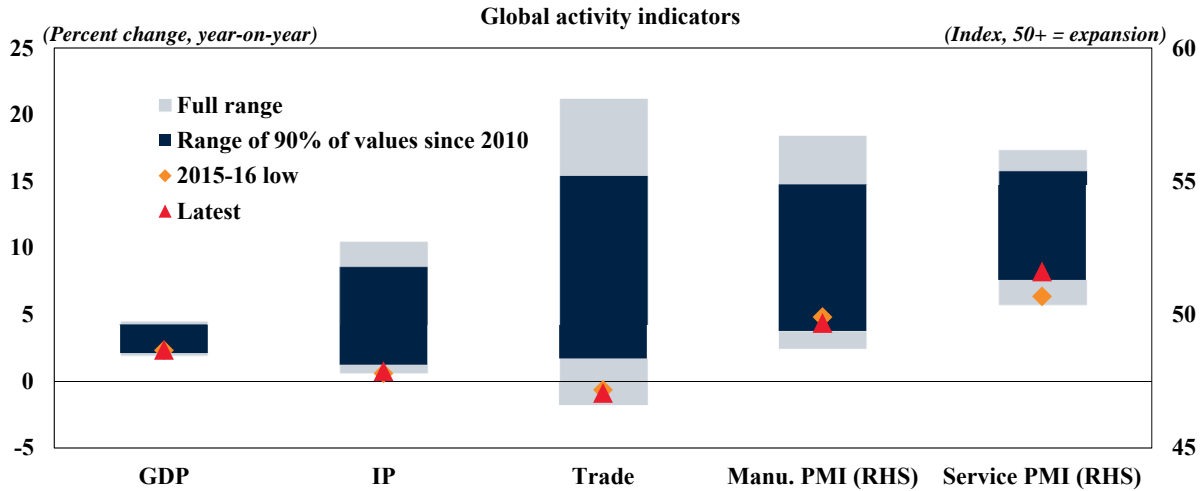
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Two Questions

- 1 **How is the health of the global economy?** *Weakening. Sharper-than-expected slowdown in 2019-20.*
- 2 **What is the impact of trade tensions on growth and financial stability?** *Adverse impact on growth and financial stability.*

Global Activity

Post-Crisis Lows in Multiple Indicators

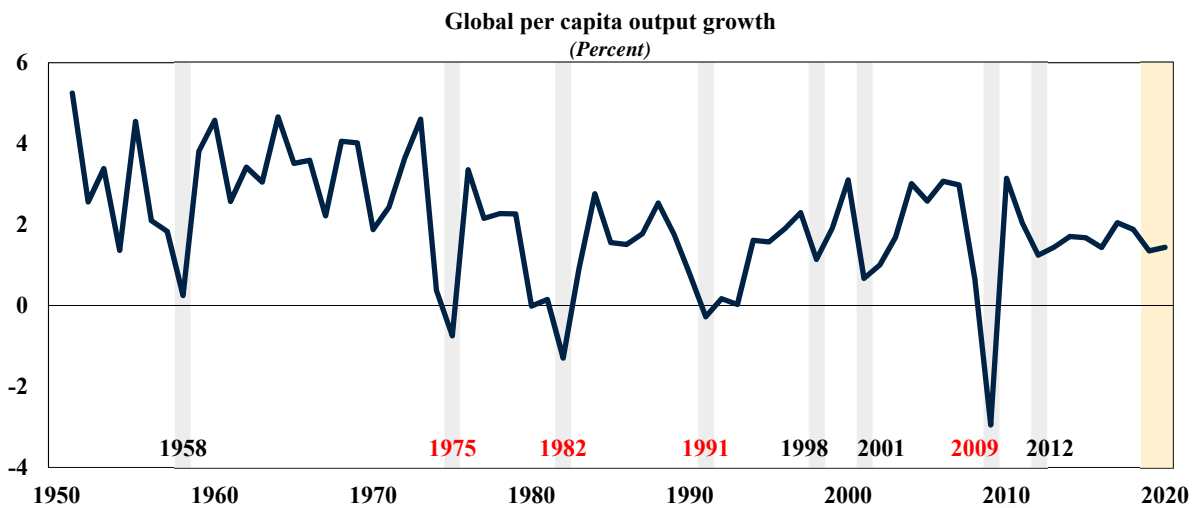


3 Sources: Haver Analytics, World Bank.
 Note: IP represents industrial production. PMI represents global manufacturing Purchasing Managers' Index (PMI). 2015-16 low represents the lowest point during 2015-2016. Last observations for IP and Trade are July 2019. Last observation for GDP is 2019Q2. Last observation for PMI is September 2019. Full range means the full distribution with highest bound and lowest bound. Light blue bars represent the upper 5% percentile and lower 5% percentile. Dark blue bars represent the 90% range of values.

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Evolution of Global Growth: 1950-2020

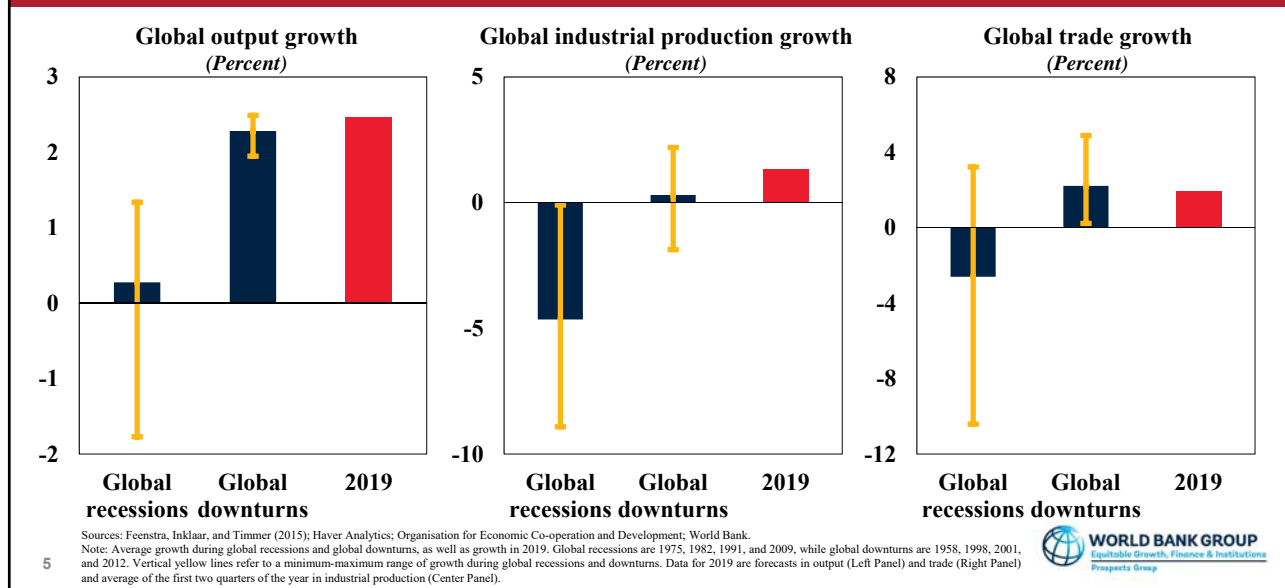
Four Global Recessions; Four Global Downturns



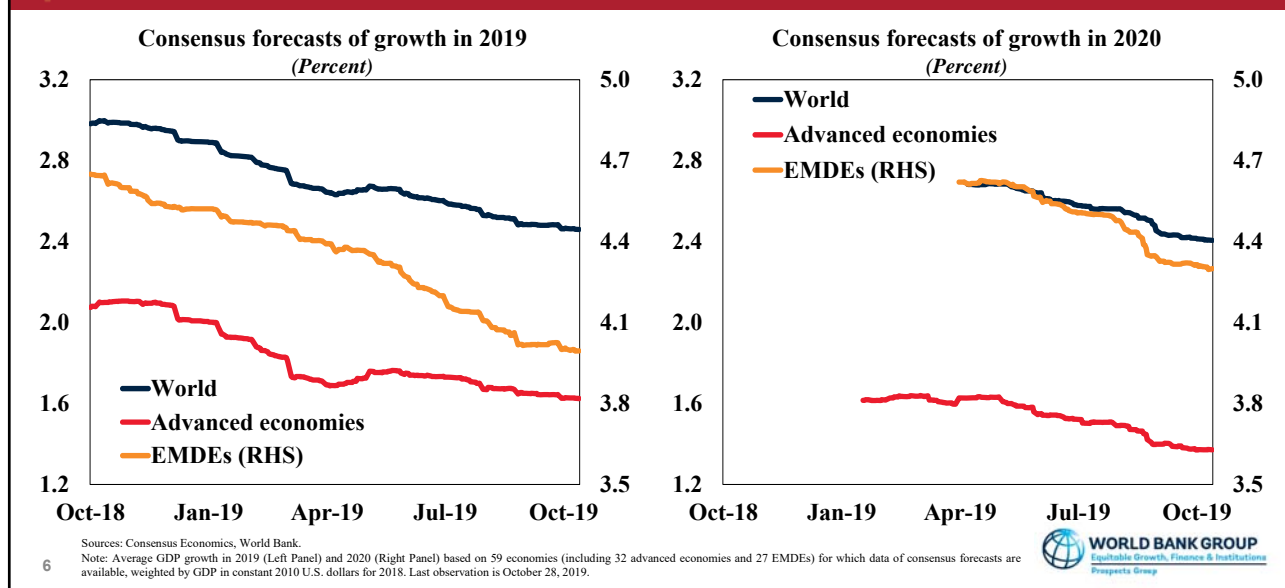
4 Sources: Feenstra, Inklaar, and Timmer (2015); World Bank.
 Note: Shaded areas (in gray) indicate global recessions and downturns, and forecasts are shaded in yellow.

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Global Activity in 2019 *Similar to Earlier Downturns*



Consensus Growth Forecasts: 2019 and 2020 *Repeated Downgrades*



Two Questions

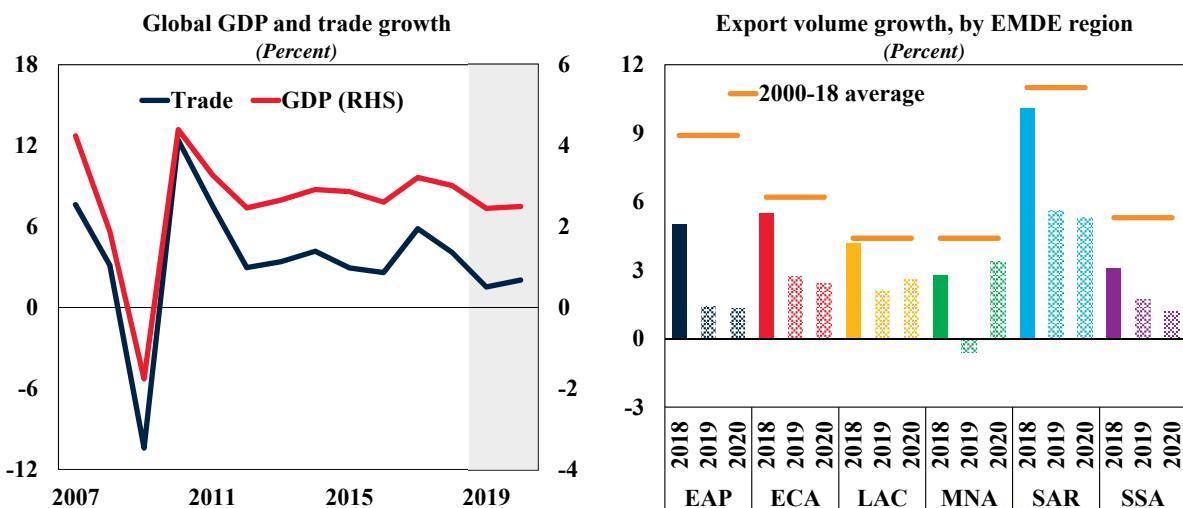
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7



Global Trade

Slowing, Weakest since the 2009 Global Recession



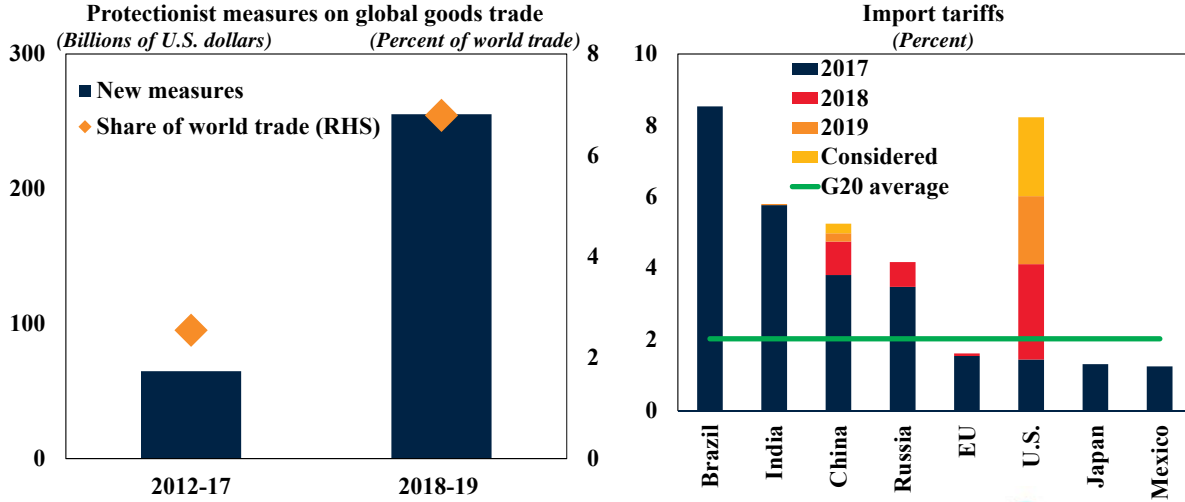
Source: World Bank.

Left Panel. Trade is the average of export and import volumes. Aggregate growth rates calculated using GDP and trade in constant 2010 U.S. dollar price as weights. Shaded area refers to forecasts. Right Panel. Aggregate growth rates calculated using exports of goods and services in constant 2010 U.S. dollar price as weights. Shaded bars show forecasts. EAP, ECA, LAC, MNA, SAR, and SSA refer to, respectively, East Asia and the Pacific, Europe and Central Asia, Latin America and the Caribbean, Middle East and North Africa, South Asia, and Sub-Saharan Africa.

8



Incidence of Trade Protectionism *Rising to Multi-Year Highs*



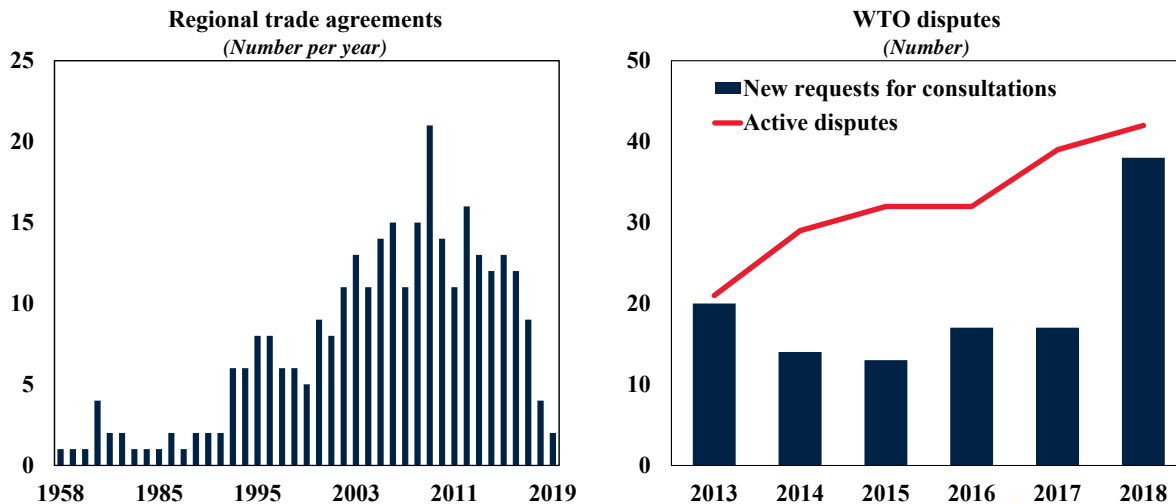
Source: World Bank.
 Left Panel. Annual averages. Covers tariff and non-tariff barriers to trade. Calculations on the share of world trade affected assume that the new measures stay in force for the period under consideration. Right Panel. The information is as of October 16, 2019. Blue bars represent the trade-weighted averages for 2017 tariffs. Tariffs put in effect in 2018 and 2019 (and those still effective) are shown in red and orange, respectively. "Considered" reflects additional tariffs that are announced but not into effect.



9

Slowing Liberalization

Diminishing Integration; Rising Number of Disputes



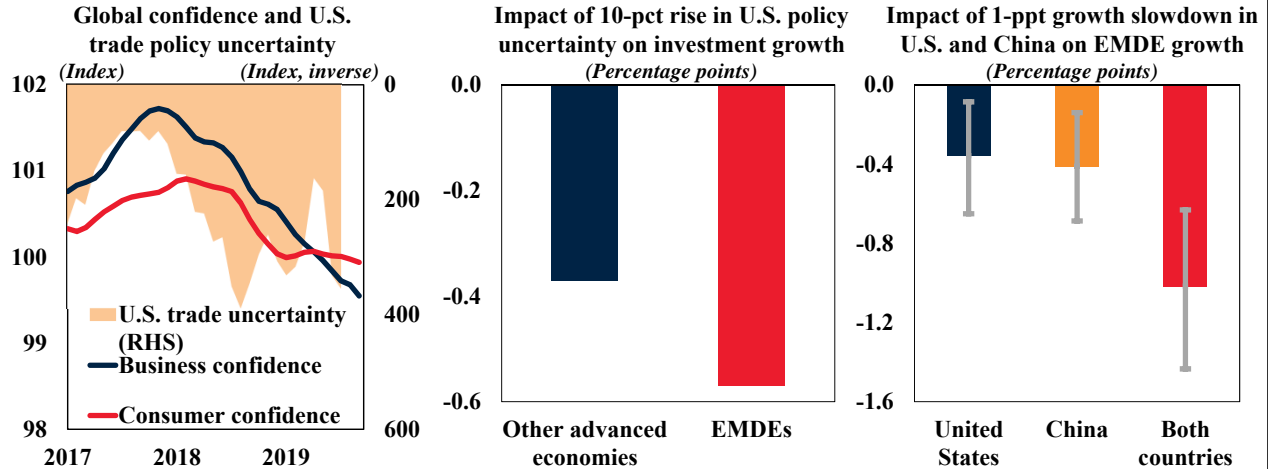
Sources: World Bank; World Trade Organization.
 Left Panel. Figure shows the number of regional trade agreements entered into force each year. Data for 2019 are based on the information up to August. Right Panel. Monthly average.



10

Trade Policy Uncertainty and Activity

Weaker Confidence; Substantial Negative Spillovers to Activity



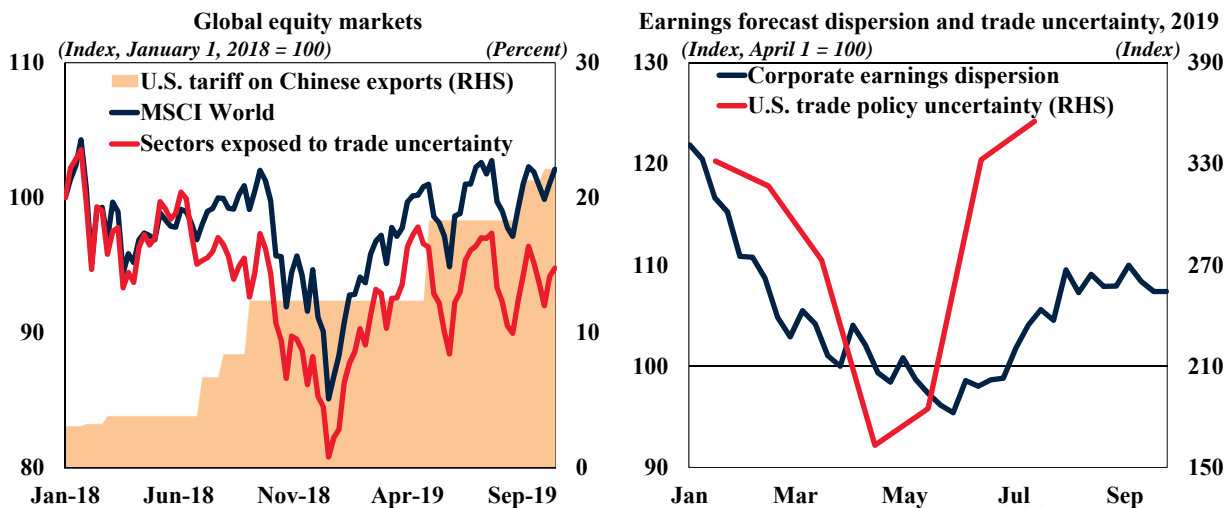
Sources: Baker, Bloom and Davis (2016); Bloomberg; International Monetary Fund; Organisation for Economic Co-operation and Development (OECD).
 Left Panel. Business and Consumer confidence are for countries in the OECD. Trade policy uncertainty is a 3-month moving average. Last observation is September 2019 for business and consumer confidence and July 2019 for trade policy uncertainty. Center Panel. Figure shows median impact. Cumulative impulse response after 1 year on investment growth in 23 advanced economies and 18 EMDEs to a 10-percent increase in the U.S. economic policy uncertainty (EPU). Vector autoregression estimated for 1998Q1-2016Q2. Right Panel. Figure shows impacts of alternative scenarios for EMDE (excl. China) GDP per capita growth. Gray bars represent 16-84 percent confidence intervals. Scenarios assume growth shocks based on cumulative impulse response of global growth after one year to a 1-percentage-point decline, estimated with vector autoregression, based on 22 advanced economies and 19 EMDEs for 1998Q1-2016Q2.



11

Trade Policy Uncertainty and Financial Markets - 1

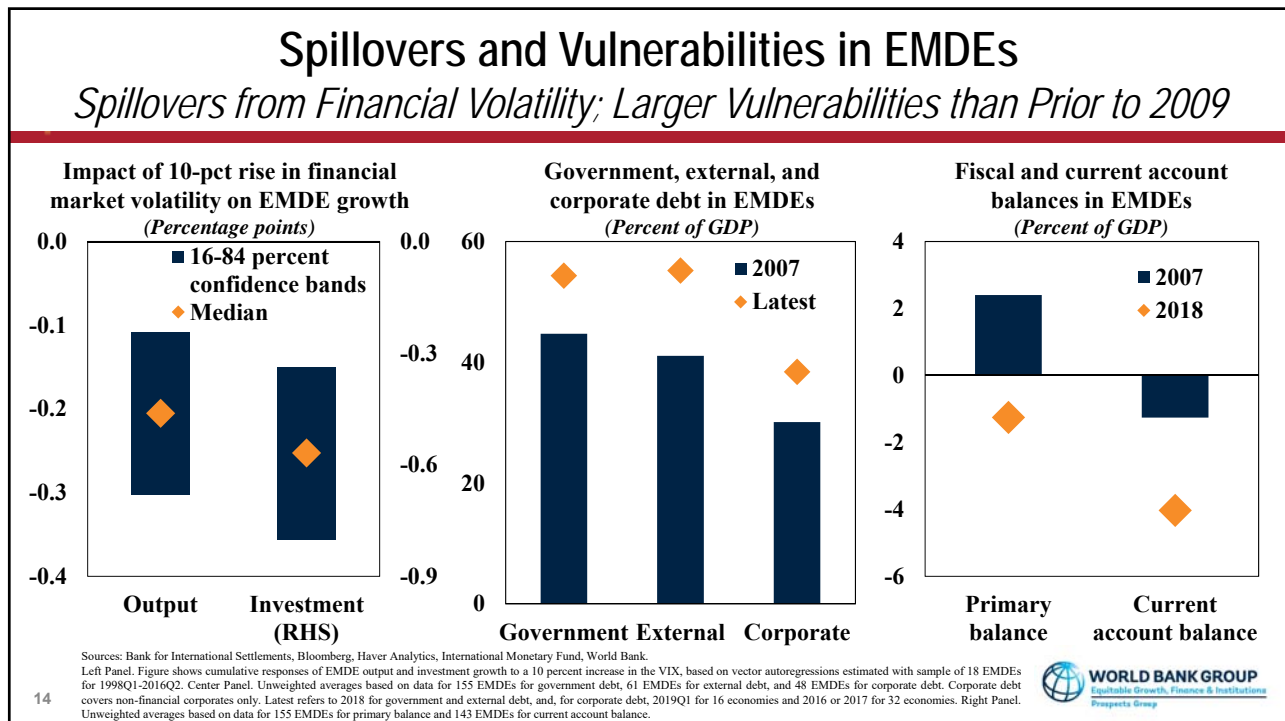
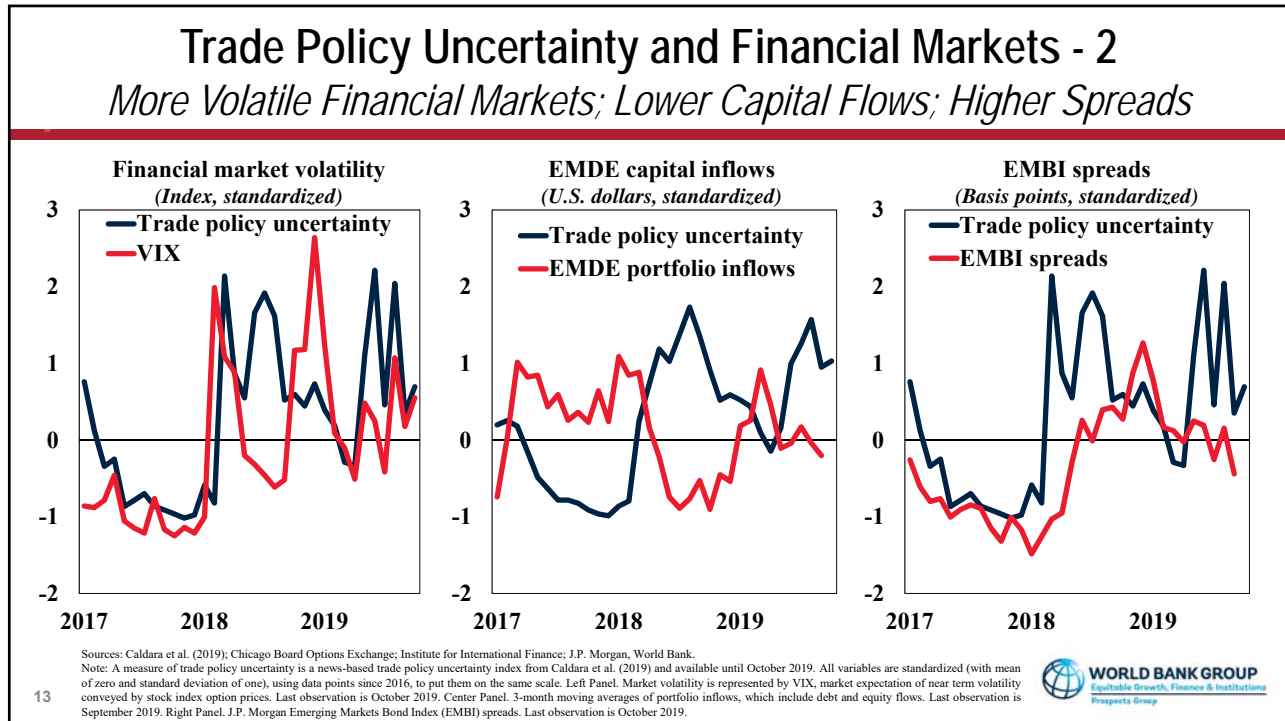
Weaker Equity Prices; Greater Earnings Uncertainty



Sources: Baker, Bloom and Davis (2016); Bloomberg; International Trade Centre; U.S. Trade Representative.
 Left Panel. Constructed with data from Trade Map and Market Access Map, and U.S. Trade Representative. Sectors exposed to trade uncertainty include information technology, industrials, materials, and communication services. Right Panel. Average 12-months forward earnings forecast dispersion of U.S. S&P 500, German DAX, and U.K. FTSE 250. Trade policy uncertainty is a 3-month moving average. Last observation is September 30 for earnings dispersion and July for trade policy uncertainty.



12



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15

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16

Questions & Comments

Thanks!

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