

Understanding the Transmission Mechanisms: A Framework for Analysis

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Peter Sheehan
Director, Centre for Strategic Economic Studies
Victoria University

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Transmission channels and the diversity of impacts of the crisis

- While we speak of a 'global crisis' it is transmitted across countries in many different ways
- Distinguish eight different transmission channels
- The differential impact of these channels across countries, together with antecedent conditions, helps explain the diversity of outcomes
- These differences may well be relevant for the policy response.

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Transmission channels (I)

- Financial market conditions
- Real activity in the impact industries
 - Housing
 - Motor vehicles
 - Some other durable and capital goods
- Expectations
 - Rise in the savings ratio
 - Early inventory reduction
 - Labour productivity adjustment

Transmission channels (II)

- Export shocks – impact industries
- Export shocks – other industries
- Wealth and profitability effects
- Resources and the terms of trade
- Reduction in capital flows, FDI and foreign aid

Table 1. Impact Effects of the Financial Crisis: A Framework

Effects	USA, UK	Germany, Japan, Korea, etc.	China	Other SE Asia	India	Australia
1. Major credit and financial market effects	Very high	High	Low	Medium?	High	Low
2. Real activity in impact markets ²	Very high	High	Low	Medium?	?	Medium
3. Expectations	Very high	High	Medium	High	High	High
4. Export shocks – impact markets ²	Low	Very high	Low	High	Low	Low
5. Export shocks – other goods and services	Low	Medium	Very high	High	High	Medium
6. Wealth and profit effects	Very high	High	Medium	High	Medium	High
7. Resources and terms of trade effects	Low	Low	Low	Low	Low	Low initially High later?
8. Reduction in FDI and other capital flows	Low	Low	Medium	Low	High	Low

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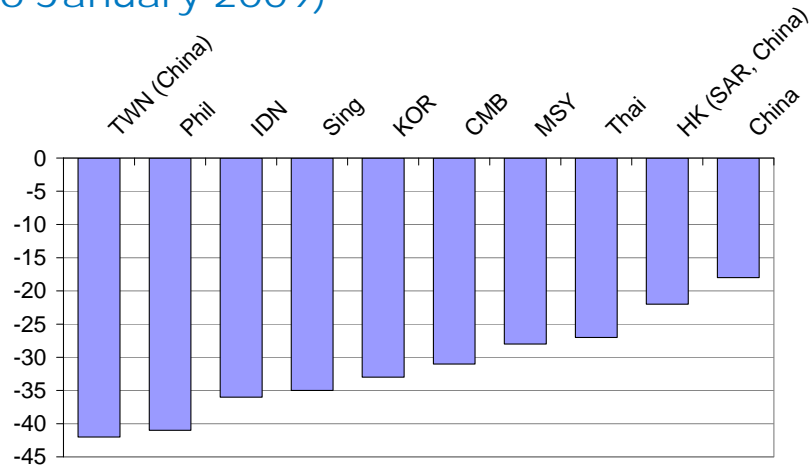
Table 1. Contributions to changes in real GDP, as a per cent of real GDP in the previous period

	USA	Japan	Germany	France	Italy	UK	Canada
Final domestic demand	-3.9	-2.6	-1.2	-1.4	-4.1	-3.0	-2.9
Net exports	0.3	-3.8	-3.7	-0.8	-0.5	0.5	-0.2
GDP	-4.0	-6.6	-5.3	-3.3	-4.3	-3.7	-3.0

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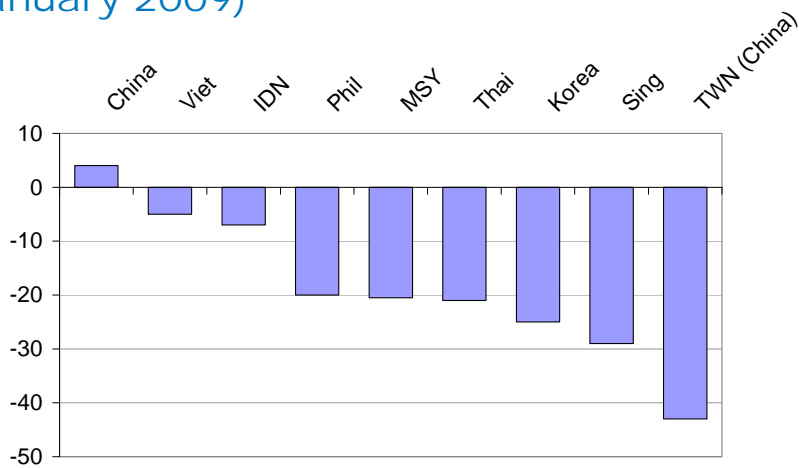
Chart 1. Reduction in exports, selected countries (percentage change in the year to January 2009)



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Chart 2. Industrial production has fallen sharply (percentage change in the year to January 2009)



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Table 2. Quarterly real GDP growth, per cent change from a year earlier

	China	Hong Kong (SAR, China)	Indonesia	Korea	Malaysia	Philippines	Singapore	Taiwan (China)	Thailand
Q4-2007	11.2	6.9	5.8	5.7	7.3	6.4	5.5	6.4	5.7
Q1-2008	10.6	7.3	6.2	5.5	7.4	4.7	6.7	6.2	6.0
Q2-2008	10.1	4.3	6.4	4.3	6.7	4.4	2.5	4.6	5.3
Q3-2008	9.0	1.7	6.4	3.1	4.7	5.0	0.0	-1.0	3.9
Q4-2008	6.8	-2.5	5.2	-3.4	0.1	4.5	-4.2	-8.4	-4.3

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CONTACT DETAILS

PETER SHEEHAN
CENTRE FOR STRATEGIC ECONOMIC STUDIES

PHONE +61 3 9919 1340
FAX +61 3 9919 1350
EMAIL peter.sheehan@vu.edu.au

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