**TRADE BALANCES (TB) of US and Euro Area (EA) improved after Global Financial Crisis**

**Widely viewed as reflecting weak domestic aggregate demand & deleveraging**

**This paper challenges conventional view**

**Paper highlights key role of post-crisis commodity price collapse for EA and US trade balance reversals**

**Aggregate demand shocks in Rest of World (RoW) too mattered for EA & US TB.**

**Findings consistent with pre-crisis RoW saving glut (Bernanke) effect on US and EA TB**

**Broader lesson: Emerging Markets and commodity shocks are major drivers of Advanced Countries’ TBs & terms of trade**

**Model captures other key changes in world economy since 2000:**
- Growth acceleration in Emerging Economies
- Boom-bust cycle in Euro Area (EA) & US
- Enormous fluctuations in commodity price

**Methodological contribution:** Bayesian estimation of three-region (EA, US, RoW) DSGE model with trade in manufactured goods and commodities. Commodity price reflects global demand and supply conditions. Sample: 1999-2017. 66 structural shocks; 60 observables for estimation

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**Historical shock decompositions (based on estimated model):**

(a) Euro Area trade balance/GDP

(b) US trade balance/GDP

Continuous line: historical series (demeaned), Black areas show contributions of different shocks. Areas above (below) dashed horizontal line show positive (negative) contributions.