

# Trade-Financial Linkages and Regional Risk-Sharing

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## Abstract

Regional markets are linked through both trade in goods and financial flows. Yet research estimating the effect of shocks on local markets primarily focuses on within market outcomes and does not account for trade-financial linkages. We bridge this gap by constructing and relating the regional current account and trade balance for states in the United States and estimate their co-movement in response to shocks. We find that in response to negative shocks, states hit hardest decrease the trade balance and current account while receiving greater financial transfers from other states. Private transfers account for a majority of the financial transfers from other states, reducing the effect of negative shock by approximately a fourth. Public transfers, on the other hand, are small and often insignificant.

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