Chart of the year: beyond peak uncertainty

Global uncertainty depressed output in 2019 – but the worst may be over

Global economic policy uncertainty measures the frequency of references to economic policy uncertainty in newspapers in 20 major countries relative to the mean for each country; GDP-weighted; mean=100 YoY change of industrial production in % inverted, left-hand side; Three-month moving averages; last value is for November 2019. Source: PolicyUncertainty.com; NBER

- **May you live in interesting times:** The famous Chinese curse came to haunt the world economy in 2019. On top of a generic slowdown in China and a difficult transition in the global car industry to cleaner forms of mobility, escalating trade tensions and the worsening Brexit chaos turned 2019 into an unexpectedly rough year. While the barrage of tweets from the White House and the twists and turns of Brexit had some entertaining moments, the world paid a heavy price for it. Growth in global trade and manufacturing output screeched to a halt in mid-2019.

- **A matter of confidence:** Companies invest when they are reasonably confident about the future. A predictable set of economic policies is one key element needed for such confidence. Of course, it is not the only one. For example, the industrial downturns of 2012 and 2015 largely reflected the euro crisis and a Chinese economic correction respectively. However, experience shows that unpredictable and misguided policies can do serious damage.

- **Up and down:** Our chart tells much of the story. It shows a measure of economic policy uncertainty. In the wake of two big populist upsets, the UK’s vote to leave the EU and the election of Donald Trump, uncertainty spiked in late 2016. In 2017, however, nothing untoward happened. The UK took its time to file for divorce from the EU and Trump delivered a big tax cut instead of upending global trade (or leaving NATO). As uncertainty fell sharply again, much of the world enjoyed a stellar 2017. An over-sized Chinese stimulus added to the mini boom.

- **Peak uncertainty:** The going got rougher from March 2018 onwards. As Trump imposed more and more punitive tariffs on China and other countries, and threatened to place a 25% duty on car imports from Europe and elsewhere, uncertainty surged again. In 2019, the Brexit gyrations exacerbated the mess. By August 2019, economic policy uncertainty reached a new peak. Global trade and manufacturing output suffered accordingly.

- **Signs of a turnaround:** Since September, nothing has gone seriously wrong again in the realm of global economic policy. The US and China have come close to signing an ambitious trade deal that goes well beyond any reasonable definition of a mere “phase one” arrangement. UK prime minister Boris Johnson’s big majority in parliament gives him the chance to sort Brexit in a way that contains the damage somewhat. Since September, economic uncertainty has started to recede. On cue, some surveys of economic confidence such as the German Ifo have started to edge up.

- **Better times ahead?** In election year 2020, Trump may not want to harm the US economy too much. Amid slowing trend growth, China has its own reasons to settle for a trade truce while stepping up its own stimulus. Brexit will remain messy, but it will not be as disruptive as it had threatened to be in 2019. Chances are that global trade and manufacturing can recover gradually next year. Amid first signs that 2020 could be less rough for the global economy than 2019, we wish all our readers all the best for the Christmas season and a Happy New Year 2020.

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