



LESSONS FROM THE BREXIT SAGA

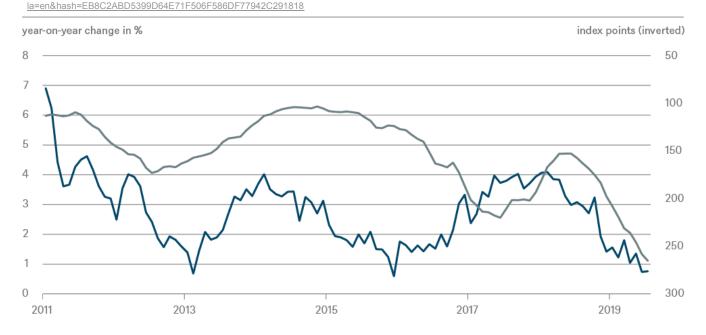
Global economic-policy uncertainty is becoming a growing and persistent drag on industrial production and other hard economic data. Why?

Global economic policy uncertainty has rarely been as high as over the past few months. Or at least, that's what a Global Economic Policy Uncertainty (GEPU) Index, compiled by several U.S. academics implies. Their data goes back to 1997. It is based on newspaper articles in 20 different countries and is updated monthly. Specifically, it reflects the relative frequency of a range of risk terms. The global index reflects a gross-domestic-product-weighted average of national trends.

Of course, there are plenty of methodological quibbles that could be raised, not least in terms of individual country weightings. Taken at face value, though, the GEPU index yields some interesting insights, as our "Chart of the Week" shows. Two things are quite striking. First, the link between changes in uncertainty and global industrial production was rather weak in the earlier years of this decade. Second, it has become increasingly tight. The same is true, only more so, when you look at world trade data.

In a recent speech, Michael Saunders from the Bank of England suggested some interesting reasons for why this might be so.2 Brexit-related policy uncertainties appear to have become increasingly damaging to not just sentiment but actual investment behavior in recent months; especially since March 29, the initial Brexit day. One reason might be that initially, businesses responded to Brexit risks by postponing, rather than cancelling investment decision. That becomes harder, however, with every Brexit extension (the latest one is until January 31), and not just psychologically. Political uncertainties are nothing new. But the longer they persist, the more sensible it might seem to imagine the fog might never lift for planning purposes. That suggests one potentially underappreciated risk surrounding U.S. trade conflicts - the other key driver of the GEPU index increase in recent years. The longer these continue, the worse the impact might be, even if we see a temporary truce. Increasingly, businesses might be tempted to assume that the political threats to global supply chains could prove more or less permanent.

https://www.policyuncertainty.com/global_monthly.html https://www.bankofengland.co.uk/-/media/boe/files/speech/2019/shifting-balance-of-risks-speech-by-michael-saunders.pdf?



Global industrial production Global Economic Policy Uncertainty Index (right axis)
Sources: Haver Analytics Inc., DWS Investment GmbH as of 10/30/19

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GLOSSARY

The Bank of England (BoE) is the central bank of the United Kingdom

Brexit is a combination of the words "Britain" and "Exit" and describes the exit of the United Kingdom of the European Union.

The Global Economic Policy Uncertainty (GEPU) Index measures uncertainty in the 20 most important economies by weighting the relative number of articles containing a range of risk terms.

The gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

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