Uncertainty is the word that has perhaps come up even more often than Brexit in recent times. We talk about it a lot and even about how it is increasing. But how do we measure it and how do we know if things are more or less uncertain now than in the past?

You might think it impossible to measure uncertainty. After all, is it not a very subjective thing? Indeed, two people can feel very different levels of uncertainty about exactly the same thing. One group of professors – Baker, Bloom and Davis – though has had a go with their World Uncertainty Index (WUI).
This uses quarterly Economist Intelligence Unit country reports (created by country-specific teams of analysts) to gauge how uncertain the language is in these expert documents. The more times the word ‘uncertainty’ – or derivatives of the word – appears, the higher the reading on the index.

In the past, the WUI has spiked at times including the 9/11 attacks, the SARS outbreak, Gulf War II, and of course the Global Finance Crisis and Euro Debt Crisis. More recently the EU Referendum result and US Presidential election outcome of 2016 have caused the index to surge. Indeed, the index and a variety of related indices (World Trade Uncertainty Index and Global Economic Policy Index) hit their highest levels to date in the third quarter of 2019. How times have changed.
Over the period 1996–2016, the World Trade Uncertainty Index was low and stable. Globalisation and a commitment to open free markets was a given. The Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP) were two major examples of this international cooperation.
Today, however, there are fears that globalisation has run its course and is going into reverse. Trade protectionism has reared its head once again. Clearly the global world order is in a state of flux as it moves towards a more multipolar world. Increasingly the sphere of influence is moving Eastwards away from the established Western centric world. The rapid rise of China in particular, whose economy is set to match the US’s within a decade, is reshaping this world and fuelling uncertainty.

The Trump administration has embraced protectionism with the US withdrawal from TPP one of the US President’s first decisions made in office. This has been followed by trade spats with Canada, Mexico and more recently the EU. Though the escalation of trade tensions with China has been the most significant development. An arms race of tariffs has emerged. But this isn’t just confined to China and the US. The EU has responded to the US and recently hiked tariffs on Chinese steel.

Brexit represents another example of where the established world order is unravelling and has been creating considerable uncertainty in the UK and Ireland, particularly in Northern Ireland.

All of this increased uncertainty has consequences. The economic impact is becoming increasingly apparent, with 2019 set to be the worst year for world trade since 2009. Some of the PMIs (considered a reliable benchmark around the world in relation to measuring business activity) are now flashing up warning signs. For instance, the manufacturing PMs for the Eurozone, Germany, the UK and Northern Ireland are all now consistent with recessionary conditions. In the UK, the Bank of England’s Deputy Governor, Dave Ramsden, has recently cited Brexit uncertainty as having significantly damaged the UK’s potential growth rate. This is largely due to an absence of productivity growth with the ongoing slump in business investment a key factor.
In Northern Ireland, we enjoyed a sustained period of recovery post the last recession which has resulted in a wave of multi-year highs in economic indicators, covering everything from record highs in the labour market to the positive figures we’ve seen in the housing market, notably sustained growth in house-building and mortgage activity. But now, like the global economy, we too are in a new period when multi-year lows are emerging with increasing frequency.

The uncertainty that we have been talking about in the past couple of years, is very much manifesting itself in the Northern Ireland PMI. On a quarterly basis, business activity and new orders have hit their lowest levels in seven years. Similarly, exports are falling at their fastest pace since Q3 2011. And perhaps most significantly, manufacturing output is falling at its fastest rate since Q1 2009, which was the trough of the global recession.

Looking ahead, Northern Ireland is the only UK region where firms expect output to be lower in 12-months’ time. This reflects the lack of confidence in the local private sector at present resulting from a range of factors. Brexit uncertainty is being cited as the reason for this. However, in reality, there are a range of factors, including the global downturn resulting from trade wars and other issues, as well as the fact that we haven’t had a devolved government for more than 1,000 days.

Whilst a week is a long time in politics, a year is a very long time in economics, and much can change quickly on both fronts. However, certainty regarding Brexit won’t be a quick-fix to the economy’s challenges. Whilst the World Uncertainty Index may have peaked, the fall out from all of the uncertainty is still to wash through the system. Indeed, with the global, Eurozone, UK and Northern Ireland economies continuing to experience many problems, the word uncertainty will continue to feature prominently for some time to come.
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