

ECONOMIC NEWS

The Economic Policy Uncertainty Index Continues to Rise

The [Economic Policy Uncertainty Index](#) is an indicator monitored by several major institutions, including the International Monetary Fund (IMF). Built by a group of economists to cover several countries, this index monitors newspaper coverage to count the number of references made to economic policies and uncertainty in the digital articles of major newspapers. An increase in the index indicates a higher frequency than the historical average of references to economic policy uncertainty.

The year 2019 marked a record high for the global index, which has been on an uptrend since 2018. Rising protectionism, trade disputes and a sharp slowdown in the global economy are creating a lot of uncertainty, and driving the index up. The gloomier mood on the economy is also being felt in the bond market, as sovereign yields have weakened sharply. Canadian and U.S. government bonds, among others, are considered safe in turbulent times. Greater demand for them when uncertainty is high puts downward pressure on yields that move in the opposite direction of prices.

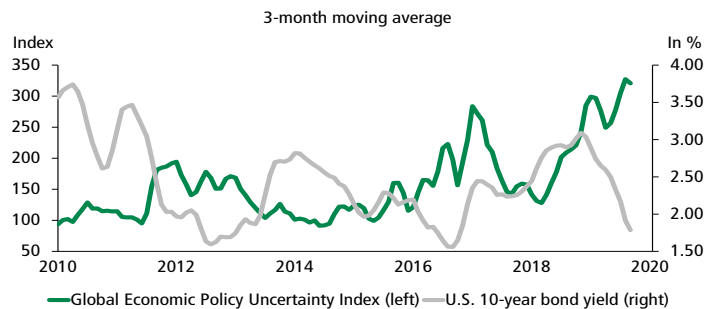
Research by the authors of the index also concluded that an increase in the index tends to be negative for the financial markets by increasing credit spreads, causing more volatility and declines on equity markets. An initial analysis seems to point to similar results in Canada.

IMPLICATIONS

In addition to the effects on financial markets, higher uncertainty can have negative macroeconomic effects, especially if it remains elevated over a long period of time. Uncertainty in economic policies could also discourage investment, postpone major purchases, slow industrial production and generally penalize economic growth. This variable is not the only explanation for the recent global economic and financial difficulties, but it is a contributor and it deserves to be monitored to provide more clarity on the direction the economy is headed. Without any resolution to international tensions, this index could remain high and put pressure on the global economy.

GRAPH

Bond yields tend to decline during periods of high uncertainty



Sources: Datastream and Desjardins, Economic Studies

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