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Move Fast, Break Things… and Then?

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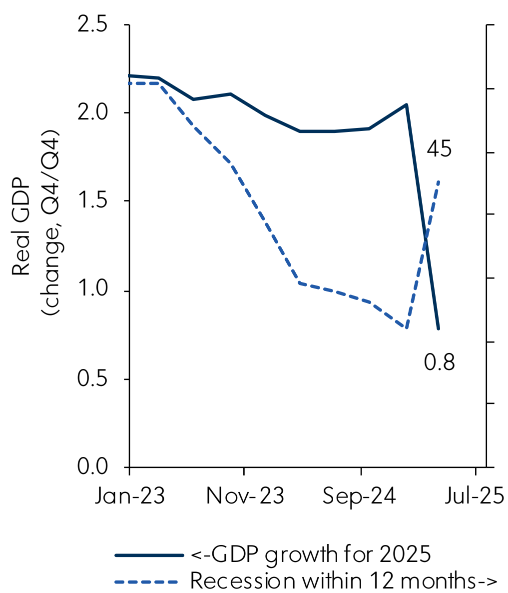
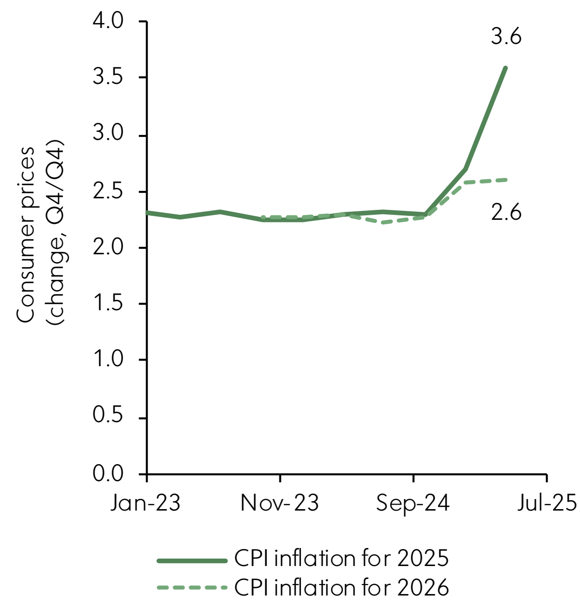
The Meme of the Moment

Lately it seems the pace of policy change is increasing rapidly, adhering to the "Move fast and break things" motto that spurred Facebook (now Meta) to tech giant status. That rate of change provides the temptation to apply a similar pace to economic forecasting. After all, if the table of public policy is reset quickly, shouldn't the economy move as fast? We are living a case study now, as the Trump Administration looks to overhaul international trade in favor of higher tariffs and other restrictions not seen in the US in a century.

A darkening of economic forecasts appears evident in polling results. In the economic forecasting survey by *The Wall Street Journal* (a panel of about five dozen economic shops polled quarterly), the average expectation for real gross domestic product (GDP) growth in 2025 fell from 2.0% to 0.8% from January to April (plotted as the solid line in the chart at the left below). Fears of recession within twelve months climbed to 45%, and expectations of consumer price inflation (CPI) for 2025 cast off its anchor at the Federal Reserve's (Fed's) goal to rise to 3.6%.

Average Response to *The Wall Street Journal* Economic Forecasting Survey
Percent





Source: The Wall Street Journal Economic Forecasting Survey, Retrieved 6/20/205. Firm analysis. Charts are for illustrative purposes only. Past performance is no guarantee of future results.

We think that the main drivers between the two surveys were statements and actions by President Trump hewing to his campaign promise that tariffs would be ratcheted higher capped by the imposition of duties against all US trading partners on "Liberation Day," April 2. There were other developments, of course, including distortions to first-quarter real GDP associated with a surge of imports in anticipation of tariffs and repeated criticism of the Fed by the White House recommending policy accommodation. Still, this is one of the better experiments economics allows of the influence of a drastic policy shift on expectations of the economy.

A Reservation

Is forecasting by analogy the right route? National economies are complicated engines with gears moving at different speeds. Business orders are placed in advance to work through sometimes long and complicated supply chains. Prices of some goods and services reset infrequently by many firms in an uncoordinated manner, bound by formal and informal contracts, habit, and concerns about competitive position. Financial prices are at the other end of the dial, adjusting with and often in anticipation of, events. The turning of these different gears at different speeds may move some indicators more at first than others.

A Case Study of Politics-Driven Trade Policy

We offer a case study based in recent memory, shedding light on the aggregate economic response when politics dramatically reset a settled trade regime. On June 16, 2016, the citizens of the UK narrowly voted in favor in a referendum to leave the European Union (EU). The Brexit decision put into play tariffs, quotas and standards on trade in goods and services, as well as many rules and restrictions on domestic commerce copied from the EU template.

The comparison of the UK to the US seems apt beyond the sudden change in the direction of policy. They are both large and not especially open economies (compared to most of their peers) with enormous national balance sheets that have many entries re-priced immediately in deep and liquid capital markets. Measured among economies of the world in US dollars (USD) in 2024 compared to the US with pole position, the UK ranked sixth in terms of GDP and the sum of goods trade to GDP was about 30%, closer to the 18% of the US than the 67% of Germany.[1] As for its balance sheet, the UK was the fourth largest global creditor in USD terms in 2020.[2]

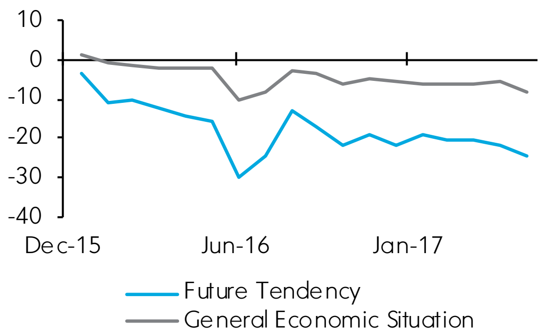
The Brexit result was the decision to change trade policy (as opposed to the actual change in trade policy). Still, the reaction of the private sector was sudden and sharp. As in the top row of charts on the next page, consumer confidence about the general economic situation and future tendency (the expected direction of economic indicators over a set time) sank. Meanwhile, businesspeople expected a sharp rise in selling prices in July, which was the next sampling opportunity after the June decision. The subsequent mood about the economy improved somewhat but was still gloomier than before the referendum. Price expectations kept marching higher.

In the event, as in the middle row of charts on the next page, retail sales rose smartly, and the unemployment rate declined in the second half of 2016. While the initial fears about economic activity were misplaced, inflation rose as expected. We take this as evidence that the momentum of spending and production are not easily deflected by policy promises.

Key Economic Indicators Around the Brexit Vote on June 23, 2016

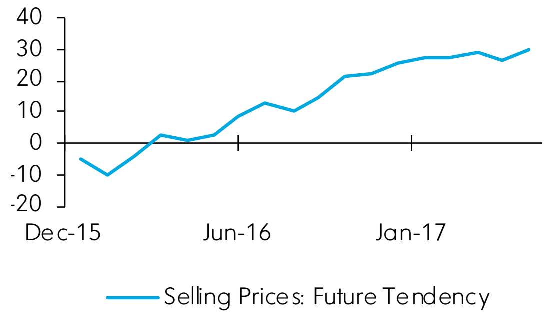
Consumer Opinion Surveys About the Economy

Diffusion index, neutral = 0



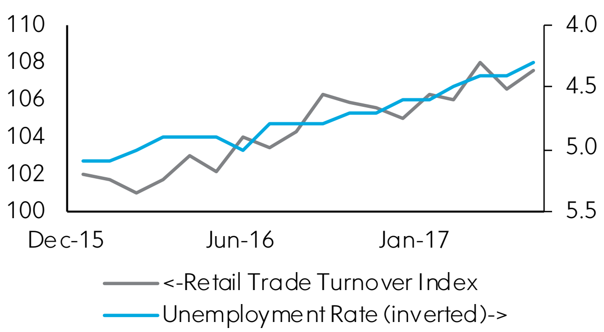
Business Opinion Survey About the Economy

Diffusion index, neutral = 0



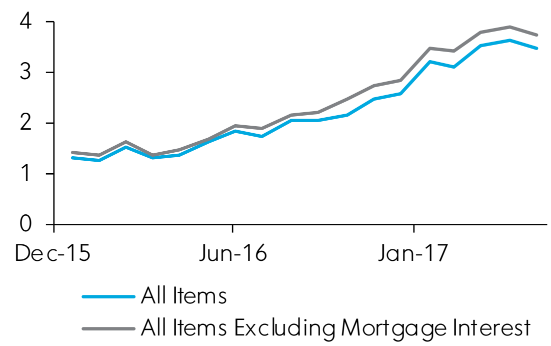
Retail Trade Turnover and the Unemployment Rate

Index, 2015=100, and rate (inverted), percent



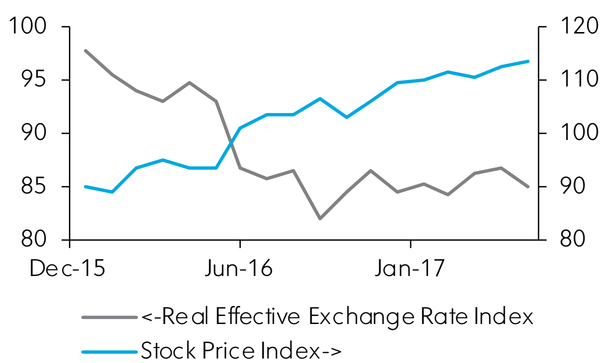
Consumer Prices

Twelve-month change, percent



Real Effective Exchange Rate and Equity Prices

Indexes



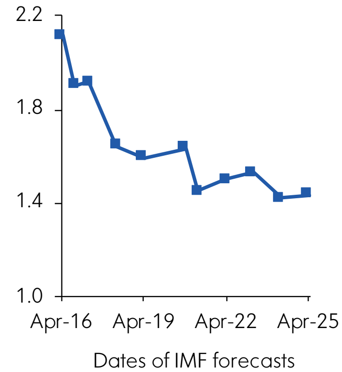
Source: Organization for Economic Co-operation and Development, Main Economic Indicators, retrieved from FRED, June 13, 2025. Upper left: Diffusion indexes reflecting sentiment on consumer confidence in the general economy and future economic conditions. Upper right: Diffusion index capturing manufacturers' expectations for future selling prices. Middle left: Index measuring total retail sales revenue (2015 = 100) and percentage representing the harmonized unemployment rate. Middle right: Twelve-month changes in overall consumer prices and excluding mortgage interest costs, percent. Lower: Indexes measuring the UK's real effective exchange rate based on relative prices and UK-listed equity share prices. Charts are for illustrative purposes only. Past performance is no guarantee of future results.

Moreover, the fast-moving parts of the economy moved... well, fast. As in the lower left chart, the value of the British pound sterling depreciated on foreign exchange markets, and equity share prices rallied. Support from asset markets pricing in the longer-run consequences of the shift in trade policy, and a temporarily lower monetary policy interest rate in real (or inflation-adjusted) terms, offset the glum mood of the private sector. The boost to activity, not yet weighed down by significant changes in policy, along with the change in relative prices added to consumer price inflation. Some things moved fast and some slow.

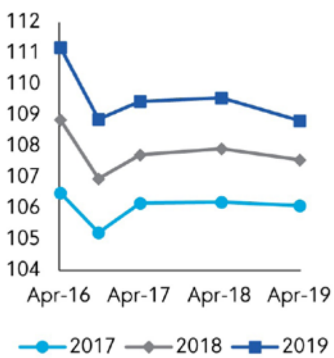
Vintages of IMF Forecasts Pre- and Post-Brexit
Percent and percentage points

Forecast for:	Real GDP UK pounds, 2012 prices Immediately-post-Brexit	 Actual relative to pre-Brexit forecast	Consumer Prices Annual change, percent Immediately-post-Brexit	 Actual relative to pre-Brexit forecast
	Percent		Percent points	
2017	-1.2	-0.2	0.6	0.8
2018	-1.7	-1.0	0.6	0.5
2019	-2.1	-1.7	0.0	-0.2

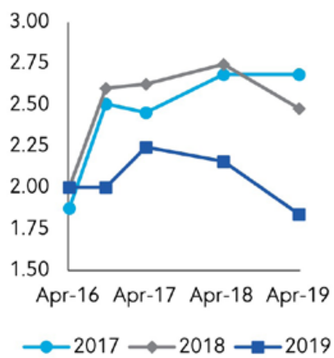
Trend Real GDP Growth
Percent



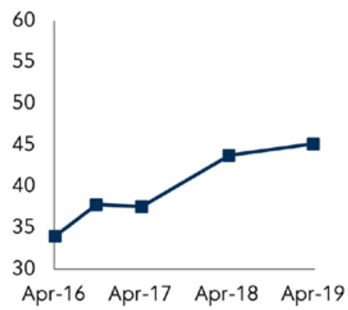
Real GDP
UK pounds, 2012 prices



Consumer Prices
Annual change, percent



Years to Double Real GDP
At trend growth, years



Source: International Monetary Fund, World Economic Outlook (WEO) Database, Observations are at publication dates of WEO: Pre-Brexit referendum (4/12/16), post-Brexit referendum (10/4/16), and actual (10/13/20)[3]. Trend real GDP growth is vintages of five-year-ahead real GDP growth. Firm analysis, June 13, 2025. Charts are for illustrative purposes only. Past performance is no guarantee of future results.

As Applied to Forecasting

We can be more specific about the effects on economic forecasts by turning to an official body. Twice a year, staff of the International Monetary Fund (IMF) update their annual economic forecasts for about 190 national entities in the World Economic Outlook. The cadence of IMF forecasts is convenient because they are made for the institution's spring and fall meetings in April and October. Thus, we have pre- and post-Brexit snapshots of a competent and conventional forecasting shop assessing the UK economy.

The table and charts titled "Vintages of IMF Forecasts Pre- and Post Brexit" present IMF forecasts for 2017, 2018 and 2019 for half-year vintages to assess both the reaction of the forecasters to the political event and the data outcomes.[3] The individual plots use vintages from April 2016, pre-Brexit, to April 2019.

As shown in the table, the results of the referendum led IMF staff to trim the outlook for UK real GDP in 2017 by 1.2% (also seen in the downtick in the lower line at the bottom left). Worse outcomes were expected to follow, pulling the level of real GDP 2.1% below the pre-Brexit forecast in 2019. Inflation was notched higher 0.6 percentage points in 2017 and 2018 but left unchanged thereafter (presumably on the view that the Bank of England (BOE) would regain its goal after the trade disruptions settled). After the fact:

- UK real GDP did not disappoint as much as initially feared, and subsequent forecasts were revised up. On net, real GDP for 2017 was 0.2% lower than the pre-Brexit forecast.

- The IMF was correct that there would be a toll on the economy from the Brexit decision. Real GDP was knocked back 1.0% and 1.7% in 2018 and 2019, respectively. This was less than initially suspected, but much of that owed to the compounding of the better-than-expected immediate reaction.

- Inflation did rise about as much as forecast in the two years following Brexit before the BOE reasserted its control over consumer prices.

We take this as evidence that forecasters tend to be impatient in their assessment of the output dislocations from an abrupt change in the direction of trade policy. Spending and production retained their momentum, supported by financial market impetus. Prices adjusted more quickly, pushed along by those financial market adjustments.

The IMF was impatient, but not wrong, about the longer-term effects of barriers to trade. Brexit complicated cross-border commerce and made it less efficient, raising costs and hindering access to EU markets. Uncertainty about the new rules of the road as negotiations stretched out discouraged investment and made the UK a less desirable destination for capital. The cumulative cost is seen in the decline in the IMF's assessment of the UK's longer-run growth prospects in the "Trend Real GDP Growth" chart.[4] Trend real GDP growth fell from 2.1% pre-Brexit to 1.4% in the latest outlook. True, some of this likely owes to generally disappointing productivity growth and adverse demographics shared by most advanced economies, but half of the decline fell in the immediate shadow of Brexit.

A more evocative presentation of the same data is in the bottom right panel. In early 2016, residents of the UK could expect real GDP to double in 35 years if growth were maintained at trend. By 2025, the expectation is that it will take 50 years to double the level of output. The most serious cost of Brexit may be the loss of opportunity.

A Concluding Concern

We think this time is not different. The US Administration has changed the direction of trade policy, but the new regime appears to be unsettled given the White House's changing stances, challenges from the courts and pending numerous potential bilateral negotiations. Forecasters appear to be doubtful of the result, but they may have brought forward too much of that future drag in the current outlook. Some spending and production take time to adjust, and foreign producers may absorb more tariff duties initially than their longer-run intent. Meanwhile, financial markets have provided impetus to spending via equity price gains and USD depreciation on most foreign exchange markets. This slows the drag on activity but speeds the lift to prices.

We worry the Fed may have this backwards, placing more concern on spending and less on inflation in the near term. In our view, that would be a failure to learn from experience—not just Brexit, but its own record after the Pandemic. As in the UK post-Brexit, US spending proved resilient and prices responsive in 2021 and 2022, more so than forecasters anticipated. But there exists the perception that two missteps in a row may look like a habit, not a mischance.

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Chief Economist & Macro Strategist

Vincent is the firm's Chief Economist and Macro Strategist. In this role, he is responsible for developing views on the global economy and making relative value recommendations across global bond markets, currencies and sectors.

Previously, Vincent served as the Chief US Economist and a managing director at Morgan Stanley. For the prior four years, he was a resident scholar at the American Enterprise Institute (AEI). Vincent also spent 24 years at the Federal Reserve, holding several roles including Director of the Division of Monetary Affairs and Secretary and Economist of the Federal Open Market Committee (FOMC). His responsibilities at the Federal Reserve included directing research and analysis of monetary policy strategies and the conduct of policy through open market operations, discount window lending and reserve requirements. Prior to these roles, he was the principal liaison with the domestic desk at the Federal Reserve Bank of New York and was responsible for preparing a document outlining policy alternatives for each FOMC meeting. He was Deputy Director in the Division of International Finance and Associate Economist of the FOMC and spent five years at the Federal Reserve Bank of New York in both the domestic and international research departments.

His academic publications primarily concern the conduct of policy and issues related to the monetary transmission mechanism as well as an analysis of alternative auction techniques and Treasury debt management. After an undergraduate training at Fordham University, he received graduate degrees in economics at Columbia University.

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Endnotes

[1] GDP rank is calculated from the World Economic Outlook of the International Monetary Fund of April 2025 (from data available through April 14, 2025), which tracks data through 1980, and the trade data come from the World Bank Data, "Exports of goods and services (% of GDP)" and "Imports of goods and services (% of GDP).

[2] Milesi-Ferretti, Gian Maria, 2024, "The External Wealth of Nations Database," The Brookings Institution.

[3] We start with the 2017 forecast because it is entirely a projection, as opposed to 2016 which would be influenced by data for the UK economy that staff had in hand. The table takes observations from October 2020 as the final realizations to avoid historical re-benchmarking that might introduce technical changes in the underlying concepts.

[4] The chart plots five-year-ahead forecasts for real GDP growth in successions of WEOs, which is far enough distant in time to be all trend and no cycle.

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