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Economics

## U.S. Shutdown Pain Yet to Infect Outlooks for Economic Growth

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- Forecasts are at odds with some more-dire recent predictions
- Less than half say closure boosts probability of a recession

For all the hand-wringing and headlines over the fallout of the U.S. government shutdown, most forecasters still don't expect it to cause too much pain to the economy so long as it doesn't endure

Analysts project the government will reopen by mid-February, though if the closure lasts through March, the disruption will cause economic growth to dip below 2 percent this quarter, according to the median forecast in a Jan. 15-17 Bloomberg survey. At the same time, just under half say the government impasse increases the probability of a recession this year.

The relatively sanguine assessment is at odds with some more-dire recent predictions, including by Deutsche Bank AG, and the White House itself doubled the estimated negative fallout. Even so, the shutdown adds risk at a time when the economy is already projected to slow, forecasters see the highest recession risk in six years, manufacturing is faltering and consumers and investors are getting more skittish.

“If the shutdown keeps going on throughout the first quarter, it'll be costly for growth,” said Ryan Sweet, head of monetary policy research at Moody's Analytics Inc. While it probably won't end the expansion given the momentum at the start of the year, “it could leave a more lasting impression, weighing on business confidence, consumer sentiment and investor confidence.”

A separate Bloomberg survey earlier this month showed economists raised the probability of a recession in the next 12 months to 25 percent, the highest in more than six years, amid the shutdown and trade war. A Federal Reserve Bank of New York gauge put the chance at 21 percent a year from now, the highest since 2008.

In the first quarter, the shutdown will shave 0.25 percentage point from economic growth, according to the median of 30 responses in the survey. A slight majority of forecasters also said the full-year pace of expansion will be affected. Among those who do expect an impact, 2019 growth will be cut 0.13 percentage point, according to the median estimate.

With the closure since Dec. 22 now the longest in U.S. history, there's no sign from President Donald Trump or Congress that an agreement is near. A majority of those polled this week said the closure will end Feb. 1-14, while just above a third estimated it would end this month. One saw a conclusion Feb. 15-28 and another saw the closure extending into March.

“Uncertainty is adding to the gloom,” along with concerns about the fading boost from tax cuts and government spending stimulus, geopolitical risks and higher borrowing costs, said **Bernard Baumohl, chief global economist at the Economic Outlook Group LLC.** “With every week, the shutdown has an incrementally larger impact.”

“That's begun to cast a dark picture among many business leaders, certainly among CFOs, that the economy is in trouble and could end up in a recession,” **Baumohl** said. He doesn't forecast a recession this year, and estimates a one-in-three chance of a slump next year.

The shutdown also may affect the jobless rate, as hundreds of thousands of furloughed government workers could be classified as unemployed. The survey median is for a January unemployment rate of 4 percent, rather than holding steady or edging down from December's 3.9 percent amid the strong labor market.

The White House on Tuesday doubled its estimate of the cost of the government shutdown on the economy -- saying it hadn't been counting the effects on more than 1 million government contractors. Council of Economic Advisers Chairman Kevin Hassett told reporters the administration's new estimate of the shutdown's cost to economic

output is a reduction of 0.13 percent every week, not 0.1 percent every two weeks as previously estimated.

The shutdown and China trade war could be enough to tip the U.S. economy into a contraction this year, Deutsche Bank Chief International Economist Torsten Slok said in a Bloomberg Television interview this week. “If the government shutdown continues, it could cause a recession,” he said. “Uncertainty is intensifying, and the more anecdotes that come out, the more worried you get.”

Ronald Paul, chief executive officer of Eagle Bancorp Inc. in suburban Washington, said on a conference call this week that if the shutdown goes beyond January, “it would begin to impact not only federal employees, but also smaller government contractors, and have a ripple effect on local retail businesses.”

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