



# The shutdown is coming at the worst time for the economy

By Lydia DePillis

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**Washington (CNN Business)** None of the 21 government shutdowns since 1976 made a real dent in the economy — purchases were simply delayed until the government re-opened and federal workers regained their lost wages.

This time is already different.

Businesses are warning investors that the nearly month-long shutdown has taken a chunk out of revenues that they might never recoup like the \$25 million that Delta Airlines lost because of fewer bookings than anticipated in February.

Even the White House acknowledged this week that the effects are worse than anticipated.

"We've been watching the actual effects, and noticing that the impact that we see on government contractors is bigger than the sort of staff rule of thumb anticipated," White House Council of Economic Advisers chairman Kevin Hassett said Tuesday. "And we subsequently, right now, think that it's about a tenth of a percent a week, not a tenth of a percent every two weeks."

This shutdown comes at a time when consumers and businesses were already starting to worry about a downturn on the horizon, and government dysfunction makes everyone more risk averse.

"I don't think it's an impact of people who are missing paychecks," says Lawrence Yun, chief economist at the National Association of Realtors. "It's more about people becoming more uncertain about the direction of the economy, this perception that there's chaos in Washington."

In response to a survey the association conducted last week, 25% of realtors said the government shutdown had dissuaded their clients from buying homes, either because of delays in getting financing through non-functioning government agencies or because of general concern about the economic environment.

That's a higher number than it's been during previous federal funding gaps. Historically, Yun says, 2% of buyers ultimately have dropped out of the market — but this time he expects the losses to be higher, at a time when purchases have already been depressed by rising interest rates and low inventory.

In order to keep delayed paychecks from turning into lost sales, some businesses are offering low-cost financing programs to federal employees, counting on their income being backfilled within a few weeks.

Some auto dealers in the hard-hit Washington DC area, for example, are letting their government customers pay later for service work.

"We've been through this before, and everybody knows that eventually these workers will be compensated," says John O'Donnell, president of the Washington Area New Auto Dealers Association. "What we're dealing with is a delayed cash flow issue."

In previous shutdowns, most of the lost economic activity is usually regained in the following quarter. But at a certain point, a pause in federal government activity that started over the already-sleepy holidays turns into economic activity that America will never get back. Take the thousands of federal vendors facing a dry spell if their contracts aren't renewed, and the businesses who depend on federal workers being on the job.

By and large, they aren't benefiting from the loan forbearance programs banks are now offering to anyone with a federal ID, making it more likely that a cash crunch turns into a major crisis.

"It's going to be harder for them to extract concessions from their lenders," says Ian Shepherdson, chief economist at Pantheon Macroeconomics. "If you go bust, you can't be resurrected. The longer it goes on, the bigger that potential becomes."

The other negative signs in the economy only exacerbate that effect, he added. "The timing is pretty terrible," Shepherdson said.

The White House estimates that delayed payments to federal contractors will create a \$93 million per day hit to economic growth. That led the Council of Economic Advisers to double its calculations of the shutdown's impact and revise up its projection of the shutdown's impact from 0.1% every two weeks to 0.1% every week.

Hassett noted in his call with reporters Tuesday that there might be further revisions, because the shutdown has suspended key government services that businesses need to form — like issuing new employer identification numbers.

"If this thing drags on, then things like EIN numbers could lead to bigger spillover effects that we might observe in the data," Hassett said.

The absence of government programs to support economic growth will also reverberate the longer the shutdown lasts.

Economic activity in rural areas, where Trump has tried to focus his energy, could be hit by the suspension of a \$24 billion housing loan guarantee program administered through the shuttered Department of Agriculture.

"In some communities, the biggest obstacle to economic development is a lack of housing for workers," says Bob Rapoza, executive secretary for the National Rural Housing Coalition. "So for rural communities which are behind the 8-ball anyway, this just makes things worse."

Economists say the larger concern isn't the immediate challenge of decreased government activity — it's what the political crisis says about Washington's ability to handle other upcoming deadlines, from approving a new trade agreement with Mexico and Canada to raising the debt ceiling in March.

"When you've got a divided government and weaker growth, there's no reason for businesses to ramp up spending," says **Bernard Baumohl**, **chief economist with the Economic Outlook Group**, a private forecasting firm. "If this how the White House and the Democratic leadership is going to relate to one another, that has dire consequences for the economy in the months ahead."

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