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Shutdown's Economic Damage Starts to Pile Up, Threatening an End to Growth

By Jim Tankersley

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WASHINGTON — The partial government shutdown is inflicting far greater damage on the United States economy than previously estimated, the White House acknowledged on Tuesday, as President Trump's economists doubled projections of how much economic growth is being lost each week the standoff with Democrats continues.

The revised estimates from the Council of Economic Advisers show that the shutdown, now in its fourth week, is beginning to have real economic consequences. The analysis, and other projections from outside the White House, suggests that the shutdown has already weighed significantly on growth and could ultimately push the United States economy into a contraction.

While Vice President Mike Pence previously played down the shutdown's effects amid a "roaring" economy, White House officials are now cautioning Mr. Trump about the toll it could take on a sustained economic expansion. Mr. Trump, who has hitched his political success to the economy, also faces other economic headwinds, including slowing global growth, a trade war with China and the waning effects of a \$1.5 trillion tax cut.

To blunt the shutdown's effects, the administration on Tuesday called tens of thousands of employees back to work, without pay, to process tax returns, ensure flight safety and inspect food and drugs. But some people involved in the shutdown discussions in the White House have privately said they anticipate that Mr. Trump will grow anxious about the economic impact in the coming days, accelerating an end to the stalemate. Others close to the president believe Mr. Trump has leverage and are encouraging him to stand by his demands.

For now, the White House shows no signs of being ready to relent, and Kevin Hassett, the chairman of the Council of Economic Advisers, continued to blame Democrats for the economic damage.

“Congress needs to look at the harms that we’re talking about,” Mr. Hassett said, “and address them.”

Mr. Hassett said on Tuesday that the administration now calculates that the shutdown reduces quarterly economic growth by 0.13 percentage points for every week that it lasts — the cumulative effect of lost work from contractors and furloughed federal employees who are not getting paid and who are investing and spending less as a result. That means that the economy has already lost nearly half a percentage point of growth from the four-week shutdown. (Last year, economic growth for the first quarter totaled 2.2 percent.)

Mr. Hassett, attempting to illustrate the pain caused by the shutdown, said on Tuesday that one of his furloughed staff members had begun driving for Uber to make ends meet.

Mr. Trump has demanded that Democrats, who control the House of Representatives, include \$5.7 billion for a border wall in any measure to fund the government. Democrats have refused and, along with some Republicans, have tried to persuade the president to reopen the government and negotiate border security afterward. The House has passed several bills to fund parts of the government, including the Internal Revenue Service, that are not related to border security. Senate Republicans have declined to schedule votes on those bills.

On Tuesday, in an effort to try to splinter the Democrats’ opposition, the White House invited several House Democrats from districts Mr. Trump won to discuss a path forward. None showed up.

The impasse has left 800,000 federal employees furloughed or working without pay, along with throwing thousands of government contractors at least temporarily off the job.

Mr. Hassett said it was possible that the damage could grow. He also said much of the damage should be repaired once the shutdown ends and workers get back pay. But he acknowledged that the shutdown could permanently reduce growth expectations if businesses and markets begin to expect that Congress and the president will repeat the experience again and again.

Some economists have begun to warn that such a situation is likely and that economic confidence could be undermined as businesses, consumers and investors lose faith in the ability of political leaders to find agreement on issues like raising the federal debt limit and approving trade deals.

That lack of confidence could snowball into a self-inflicted economic contraction on the heels of what appears to have been the nation’s strongest year of growth since the 2008 financial crisis. Financial markets are already highly volatile amid

concerns about the trade fight with China, slowing global growth and signs of weakness in American housing and manufacturing sectors.

“The economy could easily stall in the first quarter, and then the question is what happens in the second” if the shutdown persists, said Ian Shepherdson, the chief economist at Pantheon Macroeconomics. “The longer it goes on, the longer it takes to recover.”

If the shutdown continues through the end of March, Mr. Shepherdson said in a research note, he would expect the economy to shrink in the first quarter. While federal workers are likely to receive back pay once the furlough ends, most government contractors will not, and the longer spending is depressed, the higher the risk that the businesses they run or patronize will fail, Mr. Shepherdson said.

The shutdown “is threatening to derail this economic expansion,” **Bernard Baumohl, the chief global economist for the Economic Outlook Group**, said in a research note on Tuesday. Its effect on federal workers’ spending plans is particularly worrisome for the automotive and housing markets, which were already showing signs of trouble before the shutdown, he said.

On Tuesday, a Federal Reserve Bank of New York survey showed weakening manufacturing activity in the United States, the latest in a line of similar warnings. Economists at JPMorgan Chase called the data an early indication of additional slowing in the sector, adding that the shutdown was probably hurting business sentiment.

Michael L. Corbat, the chief executive of Citigroup, told analysts on Monday that “right now, we see the biggest risk in the global economy as one of talking ourselves into a recession.”

With no end in sight, federal workers appear ready to seek alternate employment before things get worse.

The online jobs site Indeed analyzed job search behavior from mid-December through mid-January for workers at some affected federal agencies, including the I.R.S. and Transportation Security Administration. It found clicks on job listings rose at least 17 percent for each of those worker groups over that period, a sign that employees affected by the shutdown “are searching for jobs more right now than they usually do at this time of year,” said Martha Gimbel, Indeed’s director of economic research.

“With the shutdown occurring in a tight labor market, many workers have other options, and they seem to be trying to take advantage of them,” Ms. Gimbel said. “If the shutdown leads to a loss of talent for the federal government, it could be harder for it to compete for new hires in a labor market this tight.”

That might already be happening inside the White House. Mr. Hassett said on Tuesday that a prospective new hire had told the council that he might turn down the job he had been offered out of graduate school because the government is unable to bring him onto the payroll.

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