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Government Shutdown Poses Increasing Risk to Wider Economy

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WASHINGTON — At this time of year, John Sprinkle and his wife would normally be planning their summer vacation. Not now. Sprinkle, a furloughed federal employee, is about to miss his second paycheck since the partial government shutdown began just before Christmas.

With no end in sight to the longest shutdown in American history, Sprinkle and his family are postponing all manner of spending.

"We were thinking of getting a new computer, but that's not going to happen," he said. "We're not really eating out like we normally would be. We are not going out to events like we would be."

Multiply those decisions by 800,000 federal employees across the country and hundreds of thousands of government contractors who aren't being paid either, and the shutdown looms as an accelerating threat to the wider economy.

The shutdown's biggest effect on the economy is likely to be the cutback in federal spending. But consumer spending, which is critical to growth, is another important factor.

When government employees spend less, stores and restaurants that serve them suffer. So do landlords and lenders that do business with federal workers. Though spending and growth will rebound once the government reopens, most of the restaurant meals missed and hotel stays canceled will never be made up.

"Creditors and suppliers hit by the shutdown will become less patient if it drags on," Ian Shepherdson, chief economist at Pantheon

Macroeconomics, said in a research note. "People and businesses are being hurt by the shutdown, and the pain will intensify."

If the shutdown drags on through March, annual economic growth could fall to zero in the first three months of the year. Even if the government reopens by the end of the month, the annual pace of growth could be a meager 1.6 percent — only half the pace of last quarter, said Sal Guatieri, senior economist at BMO Capital Markets.

Kevin Hassett, a top White House economist, acknowledged in an interview on CNN that growth could be flat in the first quarter, though Hassett suggested that a "humongous" rebound would follow. Yet some independent economists doubt that the rebound would be enough to offset the initial damage. The economy is already bedeviled by slowing global growth, ongoing trade tensions and higher interest rates, which contributed to a plunge in home sales last month.

Bernard Baumohl, chief economist at the Economic Outlook Group, suggested that once the government reopened, many households would focus on repaying credit card debt and restoring lost savings — trends that would slow the rebound.

For now, there are hints that the shutdown is slowing retail sales. A measure of weekly chain store sales fell 1.3 percent last week, its second straight drop. Cold weather likely contributed to the fall, said Michael Niemira, chief economist at the consulting firm Retail Economist, but the shutdown may also have contributed.

It's hard to know just how much the shutdown is depressing consumer spending because the Commerce Department, which compiles and reports such data, was itself closed by the shutdown.

Anecdotal evidence, though, suggests that the trend is spreading. Even federal workers with solid finances are holding back. Sprinkle, who lives in Alexandria, Virginia, knows he will eventually be paid, and his wife is still earning a paycheck. Their two children are out of the house, in college, and he knows he could borrow against his home equity if he had to.

Still, "the effect is more psychological," he said.

The shutdown began on the day of his 20th anniversary working for the National Park Service, where he is now a historian. His Mac computer is roughly eight years old and will no longer update with the latest operating software. But he is postponing a replacement.

The impact of the shutdown is evident beyond Washington. Officials in New Orleans announced Wednesday that they are waiving late fees for federal workers who have fallen behind on their property taxes.

Also Wednesday, in Philadelphia, a hunger relief organization set up a market for furloughed federal workers under an Interstate 95 overpass. Stefanie Arck-Baynes, a spokeswoman for the group, Philabundance, said they had expected 150 to 300 people. But by 11 a.m., they had already served 300, and the lines were growing.

The organization extended the hour-long event to meet demand. Tables were set up with lines of fresh produce, bread, milk and canned goods.

It was the first time the group had offered an "emergency food response" in Philadelphia in its 35-year history, Arck-Baynes said.

James Grant was there stocking up on fresh fruits and vegetables. At 64, he is diabetic and must take care with his diet. Grant has worked for 40 years as a maintenance engineer at Independence National Historical Park, which includes Independence Hall, the First Bank of the United States and the Liberty Bell.

The shutdown, of course, also affects millions of relatives of federal workers. Grant has an adult son who is in a nursing home after becoming disabled years ago in a car accident. He said he has had to stop sending him money.

In Washington, D.C., on Tuesday night, Hannah Perry was one of dozens who lined up at World Central Kitchen, which offered free food and coffee to federal workers. The kitchen is a charity headed by celebrity chef Jose Andres that began in 2010 to feed survivors of a massive earthquake in Haiti.

Perry, 23, who works as a program assistant at the National Science Foundation, is struggling to pay her rent, student loans and health care bills.

She has applied for unemployment benefits and shifted to a different student loan repayment plan under which she will pay \$98 a month, a third less than her previous payment. But that plan required her to accept a higher interest rate that will raise the total cost of the loan, a small example of the potential lingering effects of the shutdown.

What will she do if the shutdown continues for weeks on end?

"If it extends for a really long time, I have no idea," she said.

Associated Press writers Kristen De Groot in Philadelphia, Anne D'Innocenzio in New York and Martin Crutsinger in Washington contributed to this report.

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