

Finally over: what was the economic cost of the government shutdown and what comes next

Edward C. Baig, USA TODAY January 28, 2019

It's over for now. But economists say there could be a lasting impact on businesses and workers from the longest ever U.S. government shutdown, and it will only get worse if we find ourselves in the same boat on Feb. 15.

That's the looming deadline President Trump and Congress face to hammer out a border security deal.

"At the top of the list of concerns is what happens in mid-February?" asserts Mark Zandi, chief economist of Moody's Analytics, one of several economic experts who weighed in on the impact and what might come next.

Zandi believes another shutdown would "metastasize throughout the economy" and shatter the consumer confidence that he says mostly held up during the 35-day shutdown.

Of course, the confidence of most of the 800,000 government employees who didn't get paid was already shattered, as was that of people indirectly hurt by their financial hardships.

The "losers are those who service federal workers," among them contractors, small businesses and restaurants, says Grant Thornton chief economist Diane Swonk.

Some losses in economic output will be recouped but others won't be.

If you're buying a coat, say, but hold off because you're not getting a paycheck, you can put off the purchase until you receive back

wages. But if you don't buy a meal on a given day that sale is lost permanently.

"You're not going to go to the restaurant twice if you didn't go once," says Gregory Daco, the chief economist at Oxford Economics.

For his part, High Frequency Economics chief economist Jim O'Sullivan doesn't minimize the hardships faced by individual workers either but he doesn't think the impact on the economy from a macro level will be very large.

Estimates vary quite a bit on what the hurt has been so far. Economic growth estimates for the first quarter range from a fairly modest hit of 0.2 percentage points, to about half a percentage point. That translates into an annualized GDP growth rate right around 2 percent.

While economists generally agree a second shutdown would cause major damage -- and there is no telling what President Trump will do -- O'Sullivan doesn't expect Shutdown 2.0.

Nor does **Bernard Baumohl, chief global economist at The Economic Outlook Group**. Any threat by the president to shut down the government again is a "hollow one," he says, because it would amount to "political suicide." Instead, **Baumohl** thinks it is far more likely Trump would invoke an executive action and declare a national emergency.

But he is concerned that the "prospect of a thoroughly dysfunctional government right up to 2020 will hurt consumer and business confidence, and depress economic growth."

For the shutdown that just ended, a key question Zandi poses is how fast federal agencies can get their footing back?"

The Small Business Administration probably has \$3 billion worth of loans that haven't been processed, he says. And how long that is going to take "for the small businesses involved really matters, whether it is next week, next month or next quarter?"

One matter to watch is whether workers impacted by the recent shutdown look to bolt the federal system?

Already Glassdoor.com found that since January 11 when government employees missed their first paycheck, the number of workers from affected federal agencies seeking new positions via the job search site increased by 10 percent.

What's more, the number of applications on Glassdoor for jobs at such agencies dropped by a "staggering" 46 percent, a trend that continued to worsen the longer the shutdown lasted.

"Many of these workers took these jobs because they thought (the government) was a stable employer," Zandi says. "All this calls into question how stable are those jobs?"

Given the state of the labor market, some of these workers may have other options. "I suspect there's going to be a bit of brain drain from government and that could have much longer term consequences," Zandi says.

Zandi also makes note of the regional impact of the shutdown, which not only hit the areas in and near Washington, D.C., but also places like Alaska and Wyoming. "Really Trump country gets nailed harder than anywhere else in the country. It's not uniform from coast to coast," he says.

Daco at Oxford Economics says when Air Traffic Controllers didn't show up for work at La Guardia and other airports on Friday leading to significant delays, "it really showed how essential some workers are to the well functioning of the entire economic system."

To Daco the shutdown "came at the worst possible time," as the U.S. economy transitions from an accelerating environment to a slowing environment, due mostly to policy challenges but also because of less rosy global factors. "In that environment, it was an inopportune time for the government to essentially shoot itself in the foot."

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