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ECONOMIC TALKING POINTS

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The Government Shutdown: Another Act of Human Folly With Real Consequences

Recessions are caused by one of three events: Painfully high interest rates, an oil price shock, or major acts of human folly.

Over the years we have learned to better manage monetary policy to prevent an inadvertent recession. The US is also much less prone to suffer an economic downturn because of an oil price shock since this country is now the world's leading producer of crude and thus less vulnerable to the actions of a foreign cartel.

How ironic then that the last standing cause of economic harm --- the propensity for simple human blunder --- is the one we seem unable to overcome. Case in point: The past two US recessions (2001 and 2008 - 2009) have been triggered by acts of human folly of such magnitude they forced an entire national economy to stumble.

The investor stampede to buy any stock whose business model was linked to the Internet in the late 1990s --- regardless whether the underlying companies were profitable or even generated meaningful revenues--- turned into a bubble that ultimately went bust in early 2000. That dot.com collapse helped precipitate an 8-month recession in 2001.

A few years later, the silly orthodoxy that residential real estate values would forever defy gravity paved the way for mortgage lenders to jettison any vestige of common sense and dole out loans to anyone with a heartbeat. Compounding matters was the sheer lunacy of credit rating agencies to assign triple A status on many mortgage-backed securities that were inherently junk. The cost of that folly was an excruciating 18-month recession that likes of which hasn't been seen since the Great Depression.

And now here we are again.

This time the source of human folly stems from actions in Washington and it is threatening to derail this economic expansion. The partial government shut down, now the longest in history, has already impaired growth in a quarter that is typically the weakest of the year because of inclement weather. Some 800,000 government employees are not being paid during this time. Not only are these consumers cutting back on discretionary spending, but the longer the shutdown continues the more likely they will significantly delay, if not cancel, plans to purchase big-ticket items, like cars or new homes. Remember, both those industries were already suffering from weak sales even before the shutdown began.

Moreover, there are tens of thousands of private government contractors who also won't see a paycheck. Certainly the travel and hospitality industry will also see a drop in revenues while government employees and contractors remain immobilized during this period.

Clearly the longer the shutdown continues the bigger the economic loss to the nation. If this self-inflicted wound ends by the end of this month, then we estimate the loss to growth to be about 0.5% in the first quarter. Thus real GDP will increase by 2.0%, rather than 2.5%.

Should the shutdown folly last through the end of February, the incremental damage would be even greater, with growth in the first period slipping to 1.2%. And were it to last the entire quarter, the economy may actually contract.

Yet another lesson learned about forecasting: You can't model for stupidity.

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United States

	I 2018	II 2018	III 2018	IV 2018	I 2019	II 2019	III 2019	IV 2019	I 2020	II 2020	III 2020	IV 2020
Real Gross Domestic Product (GDP):												
%	2.2	4.2	3.4	2.6	2.1	2.6	2.2	2.1	1.8	1.8	1.3	1.5
Personal Consumption Expenditures:												
PCE %	0.5	3.8	3.5	2.8	1.6	2.3	2.0	2.2	1.2	2.0	1.1	1.6
Inflation, end of period, year-over-year:												
CPI %	2.4	2.9	2.3	1.9	2.2	2.5	2.5	2.7	2.5	2.4	2.4	2.1
Unemployment Rate (end of period):												
%	4.1	4.0	3.7	3.9	3.7	3.6	3.7	3.9	3.9	4.1	4.2	4.4
Non-farm Payrolls, monthly avg. thousand:												
	218	211	190	254	130	110	115	100	94	110	86	78
Treasury 10-yr Note Yield % (end of period):												
	2.74	2.85	3.06	2.76	3.10	3.40	3.65	4.00	4.00	3.85	3.80	3.70
Federal funds rate % (end of period):												
	1.63	1.88	2.13	2.38	2.63	2.63	2.63	2.63	2.38	2.38	2.13	2.13

GDP Growth - Global Economy

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
US	2.6	1.6	2.2	1.8	2.5	2.9	1.6	2.2	3.1	2.4	1.5
Eurozone	1.7	1.4	-0.9	-0.3	1.2	1.6	1.7	2.5	1.9	1.8	1.7
United Kingdom	1.7	0.7	0.3	1.8	2.9	2.2	1.9	1.8	1.3	1.2	1.4
Japan	4.6	-0.4	1.6	1.5	-0.1	1.1	1.0	1.6	1.1	0.9	0.7
Canada	3.1	3.1	1.7	2.2	2.5	0.9	1.4	3.0	2.2	2.3	2.1
India	8.4	8.6	6.7	4.9	7.4	7.9	7.1	6.6	7.2	7.0	7.2
China	10.5	9.5	7.8	7.7	7.3	6.9	6.7	6.9	6.5	6.1	6.0
Brazil	7.5	2.7	0.9	2.3	0.1	-3.5	-3.5	1.4	1.9	2.2	2.4
Mexico	5.2	4.0	3.9	1.4	2.3	2.7	2.9	2.1	2.0	1.9	1.6
Australia	2.8	2.6	3.6	2.4	2.6	2.5	2.4	2.4	3.0	2.8	2.9
Russia	4.0	4.3	3.4	1.3	0.6	-2.8	-0.2	2.0	2.2	2.0	1.9
World	4.2	3.0	2.6	2.9	3.0	2.8	2.6	3.3	3.1	2.8	2.7