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Economic Research

Economic Briefing

US shutdown update 3 – The pain is not yet big enough

Republicans and Democrats have so far shown little willingness to compromise in order to end the shutdown of US government agencies. However, economic and political pressure is likely to increase significantly in the coming weeks. This could then lead to a change of heart.

US government – doors remain closed for the time being ...

On Monday, the bill for short-term bridging financing failed in the Senate for the 11th time. This means that the doors of the US government agencies, which have been closed since October 1, will remain shut. The current shutdown, officially known as appropriations funding gap, is already one of the longest in the last half-century (Chart 1). According to betting markets, it could drag on well into November.

Data releases by statistical offices remain on hold. At least the Bureau of Labor Statistics will publish consumer price figures for September on Friday (originally scheduled for October 15). The data is used to calculate cost-of-living adjustments for Social Security payments, and the publication of the consumer price index enables compliance with legal deadlines for this calculation.

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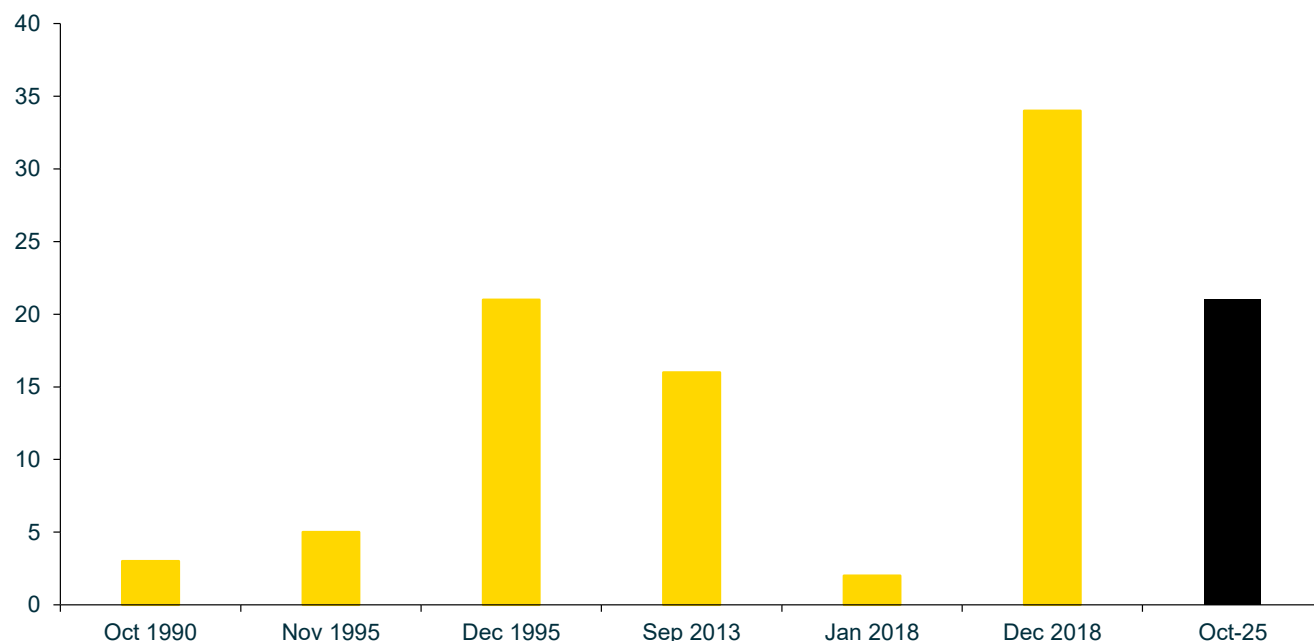
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Chart 1 - Current shutdown on course to record length?

Appropriations funding gaps (shutdown), length in days. Current shutdown started on October 1.



Source: CRS, House of Representatives, Commerzbank Research

... and the pressure is mounting

In a television interview, White House economic advisor Kevin Hassett expressed his conviction that the shutdown would end “sometime this week.” However, there has been little movement in Congress so far that could indicate an early end to the shutdown. Political pressure is likely to continue to mount as important dates loom in the coming weeks:

- **October 24:** Next payday for government employees
- **October 31:** Next payday for military personnel. On the last payday, October 15, the government reallocated unused funds from the Defense Department’s research budget in order to pay salaries on time, a legally controversial move. This is unlikely to be possible again. The Republican Senate majority leader wants to put a bill to a vote that would at least guarantee military paychecks (and wages for “essential” government employees). The Democratic minority leader in the House of Representatives has already announced his opposition to this.
- **November 1:** Start of the enrollment period for health insurance subsidized by the Affordable Care Act (ACA, also known as ObamaCare). Here, eligible Americans can purchase health insurance for the next year on one of the ObamaCare “marketplaces.” Currently, about 24 million Americans are insured there, and about 22 million of them receive subsidies. If these subsidies are not extended, premiums are likely to increase by an average of 75% to 100%. The extension of subsidies for the ACA, which expire at the end of the year, is the Democrats’ key demand for their approval of the budget bills.

... but the opponents have dug in their heels

Neither Democrats nor Republicans are currently showing any willingness to compromise. This is partly because, according to polls, Americans blame both sides for the crisis, meaning that no clear assignment of blame is being made, which would then probably lead to political consequences more



quickly. In addition, President Trump has not yet intervened to resolve the stalemate, which would probably be a prerequisite for an agreement.

According to various estimates, each week of shutdown reduces (annualized) economic growth by about 0.1 to 0.2 percentage points. The growth losses would thus add up to a good 0.3 percentage points so far. Since growth of over 3% had been expected in the third quarter – the Atlanta Fed's GDP Tracker, which is now also noticeably lacking data to feed into the model, currently shows economic growth of 3.9% – this would be bearable. This is all the more true given that there are usually catch-up effects in the quarter following the end of the shutdown. Until now, missed wage payments have always been made up for.

Economic pain will increase

The political situation and the still low level of macroeconomic pain have so far prevented a political compromise. However, a prolonged stalemate would certainly not be good for consumer and business sentiment. Economic problems will increase if wage payments are missed again. The pressure is likely to increase noticeably in November at the latest:

- According to the White House, the Women, Infants, and Children program (WIC), which currently supports around 7 million people, will run out of money in the coming weeks. New participants will then no longer be accepted, and current beneficiaries could lose their support.
- SNAP (“food stamps,” a program to help people in need buy food) will run out of funds at the end of October. This will affect over 40 million Americans, including 16 million children.

Then the time may have come for a political compromise.



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