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MARKET COMMENT

***e*Research Corporation** is pleased to provide an article by **Financial Sense**.

The article is entitled, **The Cost Of The Government Shutdown**

TODAY'S ARTICLE:
Ryan Sweet, Director of Real-Time Economics for Moody's Analytics spoke with Financial Sense's Jim Puplava on the impact of the government shutdown on U.S. GDP and how it's not only affecting thousands of American families but is beginning to trickle into areas of the economy like housing and small business. Sweet tells us when he predicts the shutdown will end and what happens if it continues into the coming months.

The article is presented on the next page, and it also can be accessed at the following link:
Today's Article

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The Cost Of The Government Shutdown

January 22, 2019

GDP And The Shutdown

Sweet explained a full government shutdown shaves a tenth of a percentage point off GDP each week. The current shutdown in the USA, however, is a partial shutdown, so about 40 percent of federal workers are affected. Based on Sweet's calculations, each week the shutdown in Washington continues, we take about 0.04 of a percentage point off of GDP. Sweet said, "another way to think about it is $2.0-$2.5 billion dollars per week is the cost of this government shutdown."

Although, Sweet enumerated, that losing GDP is not the only cost of the shutdown—there are other spill-over effects that are harder to quantify. The SBA, the Small Business Association, is not making loans and, by Sweet's calculations, "that is 200 million dollars per week and that is significant, particularly for small businesses, they are really the backbone of our economy." According to Sweet, this lack of loans will lead to less hiring and weaker investment from small businesses.

The shutdown is impacting housing. The IRS cannot approve tax information for mortgages causing delay, although only a short-term delay. Sweet noted it is important to keep in mind a lot of the delayed home purchases "will be made up in subsequent months and subsequent quarters, so we will get that back."

If the shutdown continues into March, food stamps will come into question. Sweet noted that "every month about 4.8 billion dollars is paid out in food stamps." It is going to households that truly need the money and it is money that is spent and goes back into the economy very quickly. Sweet continued, "I would assume the Trump administration would find a way to extend that but, if they don't, then that is an additional cost to the economy and would be visible on a reduction in consumer spending in March."

Is There An End In Sight?

Sweet expects the shutdown to continue through January, hopefully ending near the end of the month or in early February. If that holds true, we would be looking at "around two tenths of a percentage point off of first quarter GDP." If the shutdown extended past the first quarter, we would see more than half a percentage point off of GDP.

Although Sweet does not see it lasting that long, "I think it would be difficult to extend this past the first quarter politically…and I think the Trump administration recognizes this, they know that the economic costs are increasing every week that this shutdown lingers on… so I do think hopefully it will end soon—the sooner the better."

Sweet is most concerned with what this political brinkmanship will signify when the government has to raise the debt ceiling in March. “Anytime you get brinkmanship around a debt ceiling fight, the economic and the impact on the financial markets is much more significant than your normal government shutdown.” Sweet said the closer we get to this debt ceiling deadline, the more angst we can expect to see in financial markets and the greater the economic cost will be.

To listen to Sweet's full interview click here.

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