

ECONOMIC NEWS

United States: Towards a New Shutdown?

The U.S. Congress and the White House are deadlocked again. Since no federal budget has been passed for the current fiscal year, the U.S. government is drawing funds from temporary sources. At the end of 2016, the Obama administration and Congress had agreed on temporary measures to fund federal activities up to April 28 of this year. If the two houses of Congress and the Trump administration cannot reach an agreement by the end of Friday, the federal government will have to shut down some of its activities as of midnight Saturday. This deadlock is not directly linked to the debt ceiling, which reached its limit last March; temporary measures are making it possible to function at the current federal debt level at least until the end of the summer.

The most recent shutdown of the U.S. federal government, the first in 17 years, took place between October 1st and October 16th, 2013. The 2014 budget year, which came into effect on October 1st, started without a funding resolution while the Republican majority in Congress was trying to block President Barack Obama's health care reform. At the time, 40% of federal civil servants were laid off temporarily and 6.6 million working hours were directly lost. But since the survey period ran until after the shutdown ended, the principal job statistics did not show any major variations. According to the national accounts, the federal government's real non-military spending plummeted an annualized 8.0% in the fourth quarter of 2013, despite the shutdown only lasting two and a half weeks. However, these same expenses rebounded 8.2% in the first quarter of 2014. Consumer confidence indexes also deteriorated temporarily during the 2013 shutdown. In terms of financial markets, the S&P 500 fell a little over 4% between mid-September and mid-October. The U.S. dollar also depreciated around 4%. But the circumstances were different back then, as the Federal Reserve was still in quantitative easing mode. The fact that the debt ceiling was an integral part of the debate in 2013 also represented a different and more critical issue for the markets.

Will there really be a shutdown in 2017? It all depends on the negotiating positions taken by the Republicans, Democrats and the Trump administration. It may seem surprising that such a

situation could occur when the Republican party controls both houses of Congress as well as the White House. If Republicans vote as a block (which is far from a certainty), it would still take at least eight democratic senators to side with them to pass a budget resolution in the Senate. For now, Republicans are asking for an increase in military and domestic security spending. The Democrats want to make sure programs related to *Obamacare* continue to receive funding. President Donald Trump seems to have set aside his requirement to immediately fund the construction of the wall on the U.S. and Mexican border.

IMPLICATIONS

The economic and financial consequences of a shutdown depend on the length of the impasse. Even if it's long, the negative impact on growth should still be quickly absorbed once a solution is found. For the time being, we can still believe that a last-minute agreement will be reached. However, it risks being temporary, and the debate could very well be postponed to the fall, when the question of the debt ceiling will also become more pressing. On top of this, there are the future negotiations on tax cuts (partially revealed today) promised by the Trump administration, border wall funding, *Obamacare* repeal and replace and an infrastructure program.

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