Shutdown in the United States: Whether or Not It Happens, Tensions Will Be Running High in 2019

At the time of writing, a partial shutdown of the U.S. federal government was still very much a possibility. Congress (still under Republican control) and President Donald Trump were deadlocked, with the former seeking to adopt a stop-gap spending measure and the latter insisting on funding for a wall between the United States and Mexico.

Unlike in October 2013, the entire federal government should not shut down. Congress had already adopted, and the President signed, appropriations for most of the main government functions until the end of September 2019. The departments of Defense, Health, Education and Veterans Affairs, to name a few, are already settled. The rest of government, roughly 25% of the federal budget, is operating on provisional credits ending on December 21st. There is therefore a risk of a partial shutdown as of Saturday morning. The Senate adopted a temporary measure pushing back the deadline to February 8. For its part, the House of Representatives approved a different version that includes US$5.7B for the border wall. President Donald Trump says he will not sign anything without funding for the wall.

A partial shutdown would affect about 800,000 employees, but many will still have to work if their position is deemed essential. The direct effect on the U.S. economy should therefore be minimal, especially if the deadlock is perceived as temporary. In October 2013, the shutdown lasted 16 days and the effect on GDP in the fourth quarter proved modest; neither real GDP nor domestic demand slowed from the previous quarter. Confidence indexes had declined in October 2013, but then resumed their initial trend.

Whether it is resolved temporarily or not until February, it is clear that the debate between Congress and the White House on federal appropriations, including funding for the wall, may worsen in 2019. The major constraint now is getting 60 Senate votes, with Republicans holding 51 seats. As of January, the House of Representatives will be composed mainly of Democrats. It should therefore be even more difficult for President Donald Trump to deal with such a divided Congress.

The stakes are high, however, beyond the current funding of the federal government. The deadline for renewing the legal debt ceiling is drawing near. On March 2nd, the ceiling will be in force again, at the level of debt as of right now. This means that the government will be unable to raise its debt load. However, it will be able to use temporary measures to likely function until the end of the summer.

If the federal government grinds to a halt, it could also rattle household and business confidence. Despite recent market movements, the confidence indexes are holding at good levels and continue to suggest that economic growth will remain strong. However, the accumulation of bad financial and political news might shake households and businesses.

**IMPLICATIONS**

A short partial federal government shutdown, whether in the next few days or later in 2019, would not be a disaster for the U.S. economy. However, the increasing number of conflicts between the Trump administration and Congress could dampen confidence and possibly economic conditions.

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