CRS INSIGHT

Economic Effects of the FY2019 Government Shutdown

January 7, 2019 (IN11011)

|

Related Author

- Marc Labonte

|

Marc Labonte, Specialist in Macroeconomic Policy (mlabonte@crs.loc.gov, 7-0640)

On December 22, 2018, funding lapsed for certain federal agencies, initiating a shutdown of those agencies. This Insight discusses how the shutdown could affect the overall economy. Official economic data will not be available for some time, and the data needed to answer some questions about the shutdown will never be available. Instead, the Insight reviews private forecasts, relevant data concepts, and evidence of the economic effects of the 16-day FY2014 shutdown (which occurred in October 2013).

For more information on government shutdowns, see CRS Report RL34680, *Shutdown of the Federal Government: Causes, Processes, and Effects*, coordinated by Clinton T. Brass.

Effect on Economic Activity

The economic effects of the shutdown depend on its scope and duration. Assuming funding remains at the levels previously agreed to in the Bipartisan Budget Act (P.L. 115-123) when the shutdown ends, the shutdown mainly shifts the timing of federal spending but does not alter the total amount of spending—after the shutdown ends, an equivalent amount of spending that was postponed during the shutdown should eventually take place. The economic effects of this shutdown for the fourth quarter of 2018 are limited by the fact that it covered only the last 11% of the quarter. In this case, because the shutdown has spanned the fourth quarter of 2018 and the first quarter of 2019, some federal spending will be shifted between quarters. The share of federal spending shifted from the fourth quarter may be tempered by the fact that the shutdown occurred during the holidays.

A number of agencies within the federal government already have received appropriations for FY2019 in P.L. 115-244 and P.L. 115-245, leaving only a portion of the federal government unfunded during the current shutdown. The limited scope of the shutdown also limits the overall economic impact. Using data from the Congressional Budget Office, the Congressional Research Service estimates that the remaining appropriations bills that have not yet been enacted cover around 30% of total discretionary outlays on a prorated basis, not including supplemental appropriations. This is a smaller share of government spending than was affected during the FY2014 shutdown, when the shutdown affected all agencies receiving appropriations.

Government spending is a component of gross domestic product (GDP) that is measured partly in terms of hours worked by federal employees. As a result of a one-off decline in hours worked by furloughed workers, there will be a one-time reduction in GDP growth during the quarters encompassing the shutdown compared to if a shutdown had not occurred. The longer workers remain furloughed, the larger this decline will be. (Excepted workers at agencies affected by the shutdown continue to work; other workers at those agencies are furloughed.)

On December 22, 2018, Goldman Sachs projected the shutdown would reduce economic growth by 0.07 percentage points for each week it lasted and would temporarily push growth up by a similar amount after the shutdown ends. On December 31, 2018, Macroeconomic Advisers projected the shutdown would reduce fourth-quarter growth by 0.12 percentage points and also would reduce first-quarter growth if the shutdown persisted, before boosting growth in the second quarter.

If these projections are accurate, such reductions in economic growth likely will be too small to be noticeable in overall growth, given the considerable volatility in growth that naturally occurs from quarter to quarter. The last prolonged shutdown in FY2014 did not prevent the economy from posting a strong quarter of growth, when GDP increased by 3.2%. The federal government spending component of GDP fell by 6.7% that quarter, for reasons that include, but are not limited to, the shutdown. For more information, see CRS Report R43292, *The FY2014 Government Shutdown: Economic Effects*, by Marc Labonte. Economic growth also was healthy during the two FY1996 shutdowns, which occurred first in November 1995 and again the following month, extending into January 1996. GDP increased by 2.7% in the fourth quarter of 1995 and by 3.0% in the first quarter of 1996, although this growth was not as strong as in the preceding or subsequent quarter.

The shutdown potentially could indirectly affect the largest component of GDP, private consumption—notably, the consumption of unpaid federal workers. Whether private consumption is delayed or reduced in response to the shutdown will depend largely on whether federal workers in affected agencies are retroactively paid for work missed or performed during the shutdown, as was the case in previous shutdowns. In addition, affected private federal contractors were not paid retroactively in previous shutdowns; if treated similarly in this shutdown, their consumption could be affected. These indirect effects on GDP cannot be isolated in the data. Generally, federal benefit payments such as Social Security continue to be paid out during the shutdown, so recipients' consumption would not be affected. The shutdown also might indirectly affect the economy by reducing consumer or investor confidence, although the importance of this effect likely would depend on the shutdown's duration.

Effect on Employment

The shutdown's effect on official employment data will depend on whether the shutdown continues through the Bureau of Labor Statistics' (BLS's) January survey period, the week that includes January 12. Employment data for the month of January are based on the employment status of a survey of individuals during that week. (Likewise, because the shutdown began after the week of December 12, December employment data will not be affected by the shutdown.) BLS classifies furloughed federal workers as "unemployed on temporary layoff," regardless of whether they expect to be paid. During the FY2014 shutdown, which occurred during the survey period, there was a large one-month spike in the number of around 200,000 federal workers reported as unemployed, with another approximately 200,000 whose status was with a job and not at work. As noted above, a larger share of the federal workforce was affected by the FY2014 shutdown compared to the FY2019 shutdown. For more information, see CRS Report R43292, *The FY2014 Government Shutdown: Economic Effects*, by Marc Labonte.