



## **CMC UPDATE: The Impact of the Government Shutdown on the US Economy**

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The partial U.S. government closure remains at an impasse over President Trump's demand for more funding for a border wall, leaving 800,000 federal workers furloughed or working without pay.

A short government shutdown would likely have little impact on the overall U.S. economy, despite the hardships for individual employees, because the shutdown initially fell on two weekend days and two federal holidays and affected about a quarter of government offices. Moreover, much of the suspended federal spending would likely be shifted into the new year, if recent precedent holds.

But a protracted budget fight, coming at a time when investors and businesses are already jittery over multiple factors, including U.S.-China trade tensions, rising U.S. interest rates, the decline in stock prices and slowing global economic growth, could worsen an already murky outlook.

We expect the U.S. economy's growth to slow in 2019, though to a still solid pace, partly due to the waning stimulus from the tax cut and spending increase. The risks to the outlook, however, rise if the shutdown continues into 2019 and becomes harder to resolve, with the Democrats taking control of the House of Representatives and Republicans retaining control of the Senate.

A protracted shutdown would compound the effects of fading fiscal stimulus and act as a drag on an economy already experiencing decelerating growth. Another concern is that an extended budget showdown and hardened gridlock could make it difficult for the White House and Congress to agree to raise the federal borrowing limit, or debt ceiling, next year. Without such an agreement, the government would be unable to pay all its bills, potentially shaking markets and hurting the economy.

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