19 January 2018

Flash Comment US

Real risk of a government shutdown, but we expect Congress to pass funding for a few more days

- **Tonight at midnight US time, there is a real risk of a government shutdown unless the US Congress passes a funding bill**, as the Republicans and Democrats have yet to reach an agreement on immigration (so-called DACA). While the House passed a short-term funding bill yesterday, which expires in mid-February, it seems to be difficult for the bill to pass the Senate, where it needs at least 60 votes (otherwise it will be filibustered). **At the moment, it seems more likely that Congress will pass a very short-term funding bill lasting a few days, giving the politicians more time to reach an immigration deal.** An increasing number of members of Congress seem frustrated about just kicking the can down the road.

- The main reason why we still believe Congress will pass a very short-term funding bill is that neither side is particularly interested in a government shutdown, as **a shutdown is very unpopular among voters and we have a mid-term election coming up in November**. However, the likelihood of a shutdown has increased, as the Democrats seem increasingly keen on trying to leverage on their power to get some concessions, just like the Republicans did under Obama.

- If there is a government shutdown, many discretionary programmes (like education, national parks etc.) would be shut down although essentials programmes like the military would not be. **For markets, it means that data releases from official government statistical agencies are postponed.**

- **We do not think a shutdown will derail the expansion.** In Q4 13 (more precisely 1-17 October), when we had the last shutdown, GDP growth was lowered by about 0.3 percentage points, as federal workers were sent home, according to a BEA analysis. The longer the shutdown lasts, the greater the consequences, as federal workers are not paid during a shutdown (the same applies to a couple of hundred thousand private sector workers employed at government contractors), which could hurt spending and confidence. The last shutdown also resulted in fewer private sector jobs being created. For more, see the overview paper from *Joint Economic Committee: The Economic Costs of a Government Shutdown*, November 2015.

- **Remember that a government shutdown is not related to the debt limit issue.** The suspension of the debt limit expired on 8 December and the debt limit was reinstated at USD20,456bn. The reason why the US Treasury can still issue government bonds is that it is using so-called 'extraordinary measures', which basically means swapping non-marketable debt (held by the government itself) to marketable debt (held by the public) so that total debt is unchanged. **The extraordinary measures will be exhausted in the spring and if the debt limit is not either lifted, re-suspended or removed altogether, the US will default on its debt**. Neither the Democrats nor the Republicans want a US default (which would result in a major financial crisis with much greater real economic costs than during a government shutdown), we expect a solution to be found eventually, not least now the Republicans have passed a government deficit-financed tax reform.

Recent US research

- *Flash Comment US: Fed is set to hike in March and three times this year*, 16 January
- *Research US: The subtle push for price level targeting continues*, 3 January

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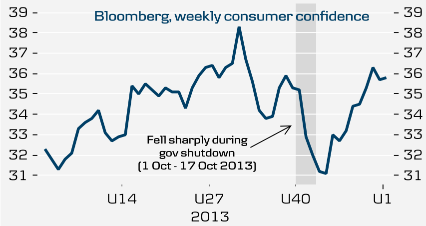
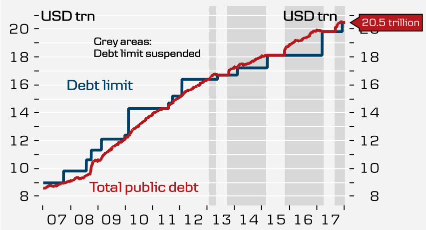


Source: Bloomberg, Macrobond Financial

Government shutdown not related to the debt limit issue



Source: US Treasury, Macrobond Financial

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