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A quick word on the government shutdown

The partial U.S. government shutdown that began on December 22, 2018 has now entered record-setting territory, with no clear resolution in sight as Congressional leaders and administration officials seem equally absent from the negotiation table. At the heart of the stalemate lies the president's demand for border wall funding from a newly elected House Democratic majority.

So far, the economic costs of the government shutdown, aside from the personal impact to Federal workers and their families, have been fairly contained. U.S. GDP has not been slowed to any significant extent, but we would point out that consumer spending is two-thirds of the economy, so any reduction in this key economic driver could decrease the growth rate. Also, this past Friday, the University of Michigan said its consumer-sentiment index was 90.7 for this month, sharply down from 98.3 in December.¹ This drop was unexpected by Wall Street analysts and reflects some of the fears creeping into the minds of Americans.

The consensus estimate of the impact of the shutdown on the economy is a loss of 0.1% of GDP each week; however, once a compromise is reached, any lingering negative impact will likely be reversed. But we are presently in uncharted waters and the unfolding political options being tossed around by beltway pundits seem to lead only to more questions. A happy ending in the near term would appear less likely while a "to be continued" sign may unfortunately be with us for a while longer. Consequently, while the financial markets have ignored the shutdown so far, we are increasingly concerned that they will focus on the growing economic impact, as well as the uncertainty created by the longest shutdown in U.S. history.

¹ Source: The Wall Street Journal, "U.S. Consumer Sentiment Falls Sharply", Harrison, David; 1/18/19.

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