

Shutdown Pinches Economic Growth

The effects aren't yet widespread, but a lasting impasse would begin curtailing the rate of expansion

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A Vermont mead brewery has delayed a major expansion because the owners can't get a business loan. A craft-burger joint in Utah has sent employees home because sales are down. And a Maryland Lyft driver has seen his weekly income fall by nearly half.

The partial federal government shutdown that [became the longest on record Sunday](#) is curtailing infrastructure projects, food-processing inspections and economic data used by Wall Street. But on a more micro level, it is showing signs of disrupting commerce as hundreds of thousands of federal workers missed out on their first payday of the closure late last week.

While the economic gashes aren't enough to derail the recovery, now in its 10th year, they appear to be at least temporarily diminishing the vigor of an expansion that was already projected to slow in 2019. Output is now expected to grow at a 2.2% pace in the first quarter, less than an estimated 3.1% growth recorded in 2018, economists [surveyed by The Wall Street Journal](#) projected earlier this month. Those first-quarter estimates—down slightly from prior ones before the shutdown—will likely slip further as the shutdown continues. It enters its 24th day Monday.

Over the weekend, lawmakers appeared to get no closer to solving the impasse. A Republican senator [said he asked President Trump](#) to reopen the government at least temporarily, only to be told the president first wants to allow for more talks on border-wall funding, the sticking point in the shutdown. Mr. Trump also seemed to float the idea of folding into any border-wall deal protections for hundreds of thousands of undocumented immigrants brought to the U.S. as children, but that subject [has proved fraught for at least a year](#).

At Groennfell Meadery in Colchester, Vt., owners Kelly and Ricky Klein were set to have a \$1.3 million loan approved by the U.S. Small Business Administration when their

loan officer emailed them several weeks ago saying the deal was on hold because of the shutdown.

Without the loan, they can't pick up three 2,000-gallon, stainless-steel fermenter tanks in Boston and make their planned move to a bigger facility that will allow them to double their production. Instead, they have been dipping into stockpiles of mead—an alcoholic beverage made from fermented honey—to fulfill orders from customers around the Northeast.

“We’re in a holding pattern,” Ricky Klein said. He has been trying to find other tasks for his new hires so he doesn’t have to cut back their hours.

Economists estimate the furlough of 380,000 federal workers—meaning they take unpaid leave—costs \$1 billion to \$2 billion a week in lost economic output. That is a rounding error in an economy that produces about \$20 trillion in goods and services a year, but it accumulates over time. An additional 420,000 federal workers, deemed “essential,” are working without pay.

The lost output will, to this point, shave between a tenth and a quarter of a percentage point off the economy’s annual growth rate in the first quarter, private-sector economists said. [J.P. Morgan](#) projects gross domestic product to grow at a 2% pace this quarter, while Moody’s projects about 2.6% growth. Macroeconomic Advisers expects 1.6% growth.

Kevin Hassett, head of the White House Council of Economic Advisers, said earlier this month that he expected to subtract about a tenth a percentage point of growth for every two weeks of the shutdown, which is now in its fourth week.

Output grew at a 3.4% rate in the third quarter. The government’s release of its figure for the fourth quarter could be delayed because of the shutdown.

“Momentum was strong coming into January,” said J.P. Morgan economist Michael Feroli. “A week or two or even three [of a shutdown] might not be enough to do significant damage.”

He and other economists believe some of the lost output will be made up in the second quarter, assuming the shutdown ends, because workers face a backlog of tasks.

But the longer the shutdown lasts, the risk of greater damage rises, Mr. Feroli said.

There are two big ways the shutdown is disrupting the private sector. First, many businesses rely on government agencies to conduct business, including for regulatory approvals and loan programs. Second, the withholding of federal workers' pay may be causing them to cut spending.

One city feeling the brunt is Ogden, Utah, where the Internal Revenue Service employs 5,000 workers, many of them furloughed. That is cutting into their pay, and, in turn, their spending. At Warrens Craft Burger, a gourmet restaurant near an IRS office in Ogden, the typically big lunch crowds have ebbed, forcing the business to cancel some workers' shifts.

"Even the dinner crowds are slowing down," said Emily Betz, the restaurant's lead manager. "People aren't eating out because they aren't working."

Jenny Brown is one of them. An IRS employee of 33 years and frequent Warrens patron, she has cut back on dining out since being furloughed. She instead cooks at home.

"I made meatless chili the other day because I have no meat in the fridge," she said. "I just used beans, tomatoes and chili powder. That should last me a few days."

The shutdown has halted many activities of the Treasury Department's Alcohol and Tobacco Tax and Trade Bureau, which approves new labels and formulations. Some brewers can't sell certain products [because they can't get the approvals](#).

Meantime, state highway groups said the [partial shutdown could delay the start](#) of new highway, bridge and other projects; the [Food and Drug Administration has curtailed inspections](#) of domestic food-processing facilities; and [Wall Street has struggled to track an economy](#) with less data on retail sales, trade and factory orders.

In prior shutdowns, Congress approved retroactive pay for furloughed workers and Congress has approved back pay this time. But some self-employed workers don't expect to make up all lost business.

In Washington, D.C., Matt Gillette is earning about \$50 to \$80 a day driving for ride-sharing app Lyft, about half what he was earning before the shutdown. The 33-year-old Maryland resident said fewer tourists are visiting sites like the Smithsonian museums, which are closed, while furloughed federal workers are tightening their spending.