First Trust
Monday Morning OUTLOOK
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Shutdown: A Good Thing?

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It looks like House and Senate won't come to a budget agreement by midnight and, as a result, the federal government is going to partially shut down starting Tuesday morning.

Run for the hills? Armageddon: right? Nope!

As we said a few weeks ago, a shutdown is not as scary as it seems. Money still flows into the Treasury Department and money still flows out, for Social Security or to make interest payments on the debt, for example.

The military, border control, food inspections, air traffic, prisons, weather service, and post office, all keep going. And, as long as the Treasury Department has room to continue its "extraordinary measures" or if the debt limit goes up in the meantime, Treasury still pays the debt as it comes due, without missing a beat.

The downside is that if you need a passport or want to get into a national park, you are out of luck. Non-essential services stop and non-essential federal workers get furloughed.

Some pundits and analysts say a shutdown will hurt the economy, but it's hard to say that based on history. The Washington Post recently listed every shutdown from 1976 to 1996. There were 17 shutdowns totaling 110 days. Out of those 110 days, only 6 days were during recessions. That's very few given that we were in recession about 14% of the time during that twenty–year period.

Of course, maybe that's because politicians are more likely to forge a budget agreement during economic downturns. But the last and longest shutdown doesn't appear to have hurt the economy either.

That was the three-week shutdown from mid-December 1995 to early January 1996 under President Clinton. Real GDP grew 2.3% in the year before the shutdown, a 2.9% annual rate in Q4-1995 and then at a 2.6% pace in Q1-1996, despite the shutdown and the East Coast Blizzard, a multiple day massive snowstorm in January that was followed by large floods.

The real result of the 1995-96 shutdown was that politicians could no longer hide the fact that government was overspending. And when politicians can't hide, when the public finally finds out the "Emperor Has No Clothes," there is a political reaction. In the late 1990s, that reaction slowed government spending relative to GDP dramatically and the US eventually moved into surplus.

In today's world, a surplus is much harder to attain. However, a significant reduction in spending levels and a smaller government would actually help the economy. The late 1990s were an economic boom time in spite of what Keynesians would argue should have been desperate.

In other words, if you look back at history, and didn't know beforehand when the government was shut, you would be hard pressed to ever figure it out. Keep this in mind as pundits and journalists work overtime the next few days trying to scare investors with the ramifications of keeping the government shut. In more ways than one, it may be a good thing.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
9-30 / 8:45 am	Chicago PMI	54.0	**56.1**	55.7	53.0
10-1 / 9:00 am	ISM Index – Sep	55.1	**55.7**		55.7
9:00 am	Construction Spending – Aug	+0.4%	**+0.4%**		+0.6%
afternoon	Total Car/Truck Sales – Sep	15.8 Mil	**15.4 Mil**		16.0 Mil
afternoon	Domestic Car/Truck Sales – Sep	12.3 Mil	**12.0 Mil**		12.4 Mil
10-3 / 7:30 am	Initial Claims – Sep 28	313K	**312K**		305K
9:00 am	ISM Non Mfg Index – Sep	57.0	**57.8**		58.6
9:00 am	Factory Orders – Sep	+0.2%	**+0.2%**		-2.4%
10-4 / 7:30 am	Non-Farm Payrolls – Sep	180K	**203K**		169K
7:30 am	Private Payrolls – Sep	180K	**208K**		152K
7:30 am	Manufacturing Payrolls – Sep	7K	**8K**		14K
7:30 am	Unemployment Rate – Sep	7.3%	**7.3%**		7.3%
7:30 am	Average Hourly Earnings – Sep	+0.2%	**+0.2%**		+0.2%
7:30 am	Average Weekly Hours – Sep	34.5	**34.5**		34.5