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Government Shutdown Would Have Wide Ripples

By [MOTOKO RICH](#)

It's not just an estimated 800,000 federal employees who would feel the financial pinch of a government shutdown.

Among the people anxiously waiting to hear if Congress can reach a budget deal are front desk clerks at the Ahwahnee Hotel in Yosemite National Park, manufacturing executives whose companies supply goods to federal agencies, bank loan officers who make mortgages guaranteed by the [Federal Housing Administration](#) and Wall Street analysts who depend on a steady flow of government data.

The federal government is, after all, a very big business, and temporarily pulling the plug would disrupt many other businesses.

[President Obama](#) has warned that the looming shutdown could stall the already fragile economic recovery by choking off much-needed paychecks to workers and introducing another level of uncertainty in an already uncertain world.

Economists are divided as to how much the shutdown would rattle the economy. Of course, some of it depends on how long any stoppage lasts. If Congress agrees to a budget quickly, it might be just a few national park visitors who are disappointed over the weekend. But if the hiatus stretches to a week —

or to nearly three weeks as it did in 1995 — then the ripples could quickly fan out.

When the government shut down for 20 days in late 1995, the nation's economic growth was slowed by as much as a full percentage point in that quarter, according to James F. O'Sullivan, chief economist at [MF Global](#). The effect was temporary, he said, with the economy adding about that much in the following quarter.

Mr. O'Sullivan said that over the three months that included the shutdown, federal spending fell 14.2 percent from the previous quarter, before rebounding 8.6 percent in the following quarter.

David Greenlaw, United States economist at [Morgan Stanley](#), said other factors might have held back growth in late 1995, including a 10-week strike at [Boeing](#). This time around, the economic expansion faces a number of challenges, including turmoil in the Middle East, concerns about supplies coming from Japan after its earthquake, tsunami and nuclear crisis, and millions of unemployed Americans looking for work.

The federal government is such a large customer that many companies, like Booz Allen or [Verizon](#), could be forced to cut back on workers' hours, though these two companies and many others declined to comment on their plans on Thursday.

At the national parks, many of the hotels and restaurants are operated by private concerns that will most likely suspend some workers if the parks are closed. Without their weekly paychecks, those employees could tighten their belts, causing further fallout for grocery stores or other retailers who may see sales slow.

In Yosemite, for example, Delaware North Companies Parks and Resorts operates four hotels with 972 rooms and 13 restaurants. A company spokeswoman, Lisa Cesaro, said that if the shutdown continued beyond the weekend, all lodging and food operations would close, and workers would be forced to take vacation time or unpaid leave, right as peak season was starting.

Government contractors are worried not only about payments, but also about what to do with

inventories they would normally ship to agencies that may be closed. Imagine a parts supplier for the federal government with a scheduled delivery coming up, said Rae Ann S. Johnson, a lawyer and council director for the Manufacturers Alliance/Mapi, a trade group. “If the government is shut down, there is no one to deliver it to. If they have to store it longer than anticipated, then there are extra costs.”

The shutdown could also make it harder for lower-income families to get mortgage loans because the Federal Housing Administration would suspend its guarantee program. The F.H.A. guaranteed about 21 percent of new mortgage loans in 2010, federal data shows.

[Shaun Donovan](#), the housing secretary, said on Thursday that he feared some lenders would stop making new F.H.A. loans, or prevent closings by reneging on loan approvals. “This is the worst time that we could introduce that uncertainty into this fragile housing market,” Mr. Donovan told a Senate subcommittee.

Lenders do not need to obtain guarantees at the time a loan is made. [Wells Fargo](#) and [Bank of America](#), by far the biggest F.H.A. lenders, said that they would continue to make the loans and simply wait to obtain guarantees — at least as long as the shutdown remained fairly brief. But [JPMorgan Chase](#) said that it would not make new F.H.A. loans during a shutdown, although it emphasized that loans already approved would not be affected.

Economists as well as Wall Street analysts and investors fret that the spigot of data churned out by the government could stop if the shutdown extends into next week. Reports scheduled for next week include retail sales and inflation data.

A spokesman for the [Bureau of Labor Statistics](#), which calculates the unemployment rate, said that during a shutdown, the agency would not collect data, issue reports or respond to public inquiries, adding that the Web site might not be operational and would not be updated.

“It could play a little havoc with the data and the markets,” said Kathleen Bostjancic, director for

macroeconomic analysis at [the Conference Board](#). For now, she said, “I think the markets are taking it in stride because they believe it’s going to be short term and we’ve been through this before. On the other hand, the markets don’t like uncertainty, that’s for sure.”

The Standard & Poor’s 500-stock index closed down just 2.03 points — or 0.15 percent — at 1,333.51 on Thursday. But analysts said that the markets could be rattled if the shutdown dragged on, not so much because of the immediate effects, but because Congress’s inability to reach an agreement would send a negative signal to investors looking for signs of confidence.

“There is almost no one in the private sector who can look at the shutdown and call it responsible in any form or fashion,” said Allen Sinai, a founder of Decision Economics. If a company failed to come up with a budget, he said, “every executive would be fired by the board. The public and the world is pretty much at the end of its patience.”

He said that the stock market would be at risk, and the dollar could slide further as foreign investors sought havens elsewhere. Others suggested that since the financial markets largely shrugged off recent turmoil in the Middle East and Japan, a government shutdown was unlikely to prompt a sell-off.

“I think it will probably do some knee-jerk damage to the stock market,” said Nigel Gault, chief United States economist at IHS Global Insight, “but I think the most likely scenario is, if there is a shutdown, it won’t last very long. And the stock market should have bigger things to worry about.”

A far bigger concern, Mr. Gault said, was if a divided Congress would be able to agree on what to do about the debt ceiling, which will most likely be breached this summer if it is not raised.

“The question is, does it damage confidence in the government’s ability to make decisions?” he said.

“Or does it make people worry that maybe, if we get a shutdown now, maybe even if they can settle this one, down the road there could be a much, much worse problem on extending the debt limit.”

Binyamin Appelbaum contributed reporting.



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