Investment Insights: Government Shutdowns

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How Do Government Shutdowns Affect the Economy and Markets?

The start of the fourth quarter has been marked, inauspiciously, by a shutdown of the U.S. federal government. The last shutdown occurred in 2018, during President Trump's first term in office, when disagreements over border-wall funding resulted in federal offices and agencies being closed for 35 days (the longest shutdown on record).

Economic effects of a government shutdown normally depend on length and timing: a one- or two-day lapse that falls over a weekend typically causes little measurable economic disruption, while multi-week shutdowns can produce visible consequences: furloughed federal workers, delayed government services, disrupted contract spending, and reduced GDP growth for the quarter in which they occur.

Since 1980, there have been more than 10 shutdowns, but only six lasted three days or more (see table below). These shutdowns have produced mixed market outcomes:

- During the 1995–1996 budget fight the U.S. market was effectively flat to slightly positive across the combined shutdowns.
- During a 16-day shutdown in 2013, the S&P 500 Index rose modestly.
- During the 35-day 2018–2019 shutdown, the S&P 500 advanced significantly, as markets were driven higher by corporate earnings and other factors despite the political conflict.

Year	Length (days)	President	Estimated Cost to Government	Estimated Employees Furloughed	Agencies Affected	Primary political reason	S&P 500 Index % change
1990	3	Bush	$3 million	2,800	Some	Deficit-reduction and budget dispute.	-2%
1995 (Nov)	5	Clinton	$400 million	800,000	Some	GOP/Clinton standoff over spending cuts & entitlement reforms.	1%
1995-96	21	Clinton	$1.4 billion	284,000	Some	Larger GOP/Clinton budget standoff (balanced budget/entitlements).	0%
2013	16	Obama	$2.1 billion	800,000	All	GOP efforts to defund/alter Affordable Care Act (Obamacare).	3%
2018 (Jan)	3	Trump	$11.0 billion	692,900	All	Short lapse over immigration/appropriations.	1%
2018-19	35	Trump	$5.0 billion	300,000	Some	Funding for border wall (immigration/border security).	10%
2025	TBD	Trump	TBD	800,000	All	Healthcare subsidies	TBD

Source: Bloomberg Finance LP, Wikipedia

As shown above, financial markets tend to show resilience during shutdowns. Investors tend to tolerate political uncertainty and look past brief disruptions. Equities usually react more strongly to macroeconomic data, earnings, and monetary policy than to short-term funding gaps of the federal government. We should hope for the same this time around.

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