Goldman Sachs Exchanges

The Shutdown's Economic Impact

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Allison Nathan: How long could the US government shutdown last? And what will that ultimately mean for the US economy? I'm Allison Nathan, and this is Goldman Sachs Exchanges.

Today, I'm joined by Alec Phillips, our chief political economist here in Goldman Sachs Research. Alec, welcome back to the program.

Alec Phillips: Thanks for having me.

Allison Nathan: And you're doing this on very short notice, so we appreciate that.

Alec Phillips: Yep.

Allison Nathan: I feel like you've been here a lot honestly this year.

Alec Phillips: It's been a busy year.

Allison Nathan: There's been a lot going on.

Alec Phillips: Yeah.

Allison Nathan: But today we're going to talk about what's very topical: The government shutdown.

Alec Phillips: What's not going on.

Allison Nathan: Yeah, exactly. Exactly, the government. Look, I want to start with a little perspective. Obviously, shutdowns are still somewhat unusual, but they aren't unprecedented by any means. So what makes this shutdown different from others?

Alec Phillips: The most important difference is that the sort of the party situations are reversed. So in the previous shutdowns that we think of as being long, disruptive shutdowns, we had one in 1995, one that straddled '95-96, 2013, 2018-19. In those cases, you had Republicans looking for something and using the shutdown as leverage and Democrats more often than not in the White House, 2018-19, President Trump was in the White House. But at that point, it was actually funny enough Republicans who were looking for something and they hadn't gotten it through the appropriations process.

This time, I think if you look at the question of who is supporting a clean extension of spending authority, it's Republicans supporting it, Democrats not supporting it. What they want, extension of health insurance subsidies is the main thing. And so that's very different.

What is the same is that you have a lot of furloughed workers, a lot of various services interrupted. I'd say compared to those prior shutdowns, overall, it looks like this is actually going to be in some ways broader for longer than we've -- I think I'm right in saying -- probably than we've ever seen in the past.

You know, in the past, you had some that affected all of the different agencies. So, you know, the military and the Pentagon plus all of the domestic-facing agencies. And then you had others that only affected a slice of the government but lasted for a long time. The ones that were broad typically didn't last more than a few days.

This time, it seems like a decent chance that this is going to go on for a while. We'll see but maybe it's a couple of weeks, maybe it's longer, and we can come back to that. But also, affecting all agencies. So when we add this up at the end, at least based on the way things feel right now, it could actually be one of the biggest shutdowns we've had.

Allison Nathan: I want to talk a lot more about that, but, again, as you've just explained, this is really all about politics. Who is benefiting, though, from this scenario?

Alec Phillips: So typically, I think you would say the party that starts the shutdown, the party that instigates the shutdown, would be the one blamed. And in the past, that's the way it's worked out. So if you look at these prior shutdowns in '95, 2013, and then the more recent ones, I think ultimately Republicans were blamed more than Democrats for those shutdowns.

Now, part of that, particularly the earlier ones, is because you had a Democratic president, the bully pulpit, just the messaging is a lot easier there. This time around, it's a little less clear that that's happening. And if you can find polling that says just about anything, but if you sort of look through the various polls, what you see is that more often than not voters are blaming Republicans for the shutdown more than Democrats.

As an example, CBS had a poll, 39 blame Republicans, 30 Democrats. Washington *Post*, 47% blame Republicans, 30 Democrats. Harvard Harris, it was closer split, but even there a little bit more on the Republican side. I think the question is: Will that change? Because what we're also seeing I think is that people are sort of retreating to their sides. So Republicans are blaming Democrats. Democrats are blaming Republicans. Independents are in the middle right now blaming Republicans a little bit more, but that could all shift depending on the messaging.

The other thing I would point out is that, overall, there are a lot of voters who basically blame everybody and who just don't like any of this happening. So I think the question coming out of this in terms of who will actually come out ahead, I guess first I would say I'm not sure that anybody really comes out ahead in terms of the midterm election next year. It's funny, one poll asked a Allison Nathan: Does this affect your vote next year? It was exactly split among Independents, the partisan voters the way you would expect, and then Independents, one quarter more likely to vote for Republicans, one quarter more likely to vote for Democrats, and then a full half basically saying "doesn't change anything."

Overall, I think the question now is: Do Democrats get something out of this? Do they get attention on an issue that they want attention on? That helps them. And I think it'll be interesting to watch in particular where President Trump's approval rating is and where maybe the Republican approval rating is more generally on the health care issue because this was not something that people were really talking about, and now people are talking about it more. So if Democrats ultimately manage to get much more of a focus on that issue where Trump has typically not wanted to engage, that could ultimately be a win for them even though the polling seems ambiguous.

Allison Nathan: Interesting. So let's get down to it. How long do you think this shutdown could last? You said you think it could be quite a while.

Alec Phillips: You can look at a couple of dates on the calendar, and then you can also just say how long will it take before people just can't stand doing this anymore? The dates on the calendar, I think the most important one will be the 15th of October. So that is when the military -- so active duty military in uniform who are still working -- that is when they are due to get paid, and they will not get paid anything if the government is not reopened.

So in the past, Congress has always avoided that scenario, and there are different ways that they've avoided it but they've avoided that scenario. That could be a catalyst for reopening. Now, the negative scenario there, for those of us who just want to see the government reopened, is if Congress passes something narrow and saying just pay the military but otherwise doesn't resolve the issue. Or if President Trump figures out a way to pay the military, probably against what most of us would interpret as the rules governing all of this. Then at that point, I have a hard time identifying the next thing on the calendar that could force the issue.

One other thing that's potentially out there would be the next federal pay date, and it gets a little bit more complicated. But later in the month, you'll have federal employees, including those who are working, miss a full pay cycle. They actually had a partial pay cycle that just ended, so they're going to get paid some in their next one. And that could become an issue, not just because we worry about what's going to happen to those employees who aren't getting paid, but also because some of them might just decide they don't want to go to work for a while. And that's what happened back in some previous shutdowns that affected the TSA. So you start to see airport lines get longer and all those sorts of things. And that ultimately could lead to an end of the shutdown. But if it takes that long, that could be a few weeks. That could be later in October.

So I think the odds are better that the shutdown ends around that military pay date. But if it doesn't, I have a hard time identifying what then does lead to the end of the shutdown.

Allison Nathan: Right, so that's roughly a week from now.

Alec Phillips: That's roughly a week from now, yeah.

Allison Nathan: But also a lot of uncertainty, as you just said. If you think about the economic impact of the shutdown, duration aside, how do you quantify that?

Alec Phillips: I would think of it along three lines. The first is just the federal employees who aren't working. And so that's very mechanical. For every week that they don't work, it's about 11 basis points, so about a tenth of a percentage point, off of quarterly annualized GDP in Q4. And so what that would ultimately mean is that, if we go for three weeks, you've got a third of a point off of GDP in Q4. In Q1, assuming the shutdown has ended before then -- let's hope -- you would actually get the same-sized boost because those people are back at work. But that, you know, I think everybody will just look past that.

I think the bigger question will be whether there are other things that start to impact the private sector. So government purchases that might just not be made, particularly from, like, federal contractors and things like that. And then some things like, as an example, the IPO pipeline. The SEC has to actually give its approval on things. And if the SEC is not open -- right now it's not open -- then that starts to get backlogged. If people can't get permits then you start to see construction projects delayed in some cases. And you can go through the list of those things. Those aren't things that we would really worry about for a 2-week shutdown, but if it's a month or six weeks or something like that then that starts to show up more importantly.

Allison Nathan: Okay, so pretty narrow impact but obviously ways that it can expand if it lasts longer than we currently expect. The other big focus in the markets right now is of course we have a data issue.

Alec Phillips: Right.

Allison Nathan: The September jobs report last week didn't get reported. So how does that impact filter through if we look at another week or two or three of disruption?

Alec Phillips: The short answer is all of the data releases that were meant to be coming out over the next few weeks of the government shutdown, you basically will take whatever the release date was, add the length of the shutdown, and probably add another couple days and that's how long we're going to be waiting.

It starts to get tricky if we get into the middle of October because the government would have been doing surveys of businesses and households for the report that is due to be released in early November. And so if they can't do that survey then that gets pushed back further as well. And so this could have sort of a ripple effect where it potentially affects data releases for a couple of months.

In terms of the releases themselves, apart from the GDP report and the very quantifiable direct impact, the only other place where you would expect to see much of an impact would probably be in the employment report around the unemployment rate because, at least if they're categorized correctly, federal employees who have been furloughed should show up as temporarily unemployed. Typically, they're not categorized correctly, and given the number of federal employees who've been furloughed right now, it's around 600,000, you'd expect to see unemployment rate tick up by a tenth or something like that based on this. Again, I think people will look through that because they know what it is. And as long as they know that the shutdown's over then that's the end of it.

So you'll see some things like that. And of course the question will be we can say ahead of time what we think the impact will be on different reports, but sometimes when you then are actually looking at the report you don't know what the impact really was because they're not usually going to tell you, particularly if it's coming from the private sector.

Allison Nathan: But there are a lot of private sector reports that are going to continue and provide some information at least.

Alec Phillips: They will provide some information, but I think it's going to be a lot different. Now, on employment, we do have ADP. And so that, while it's typically not what we would want to look at relative to the official data, it's nevertheless reasonably broad and gives you a general sense if something has changed substantially. On inflation, we're probably flying a little bit more blind because there just she's a private sector equivalent to that.

Allison Nathan: It's interesting because the market has been so data hungry this year when you think about employment and inflation, yet it seems relatively unphased by all of this. What do you make of that?

Alec Phillips: I think part of that is because there is an assumption that, if things get bad -- for lack of a better term, whatever that ends up meaning, whether it's in the economy, in markets, etc. -- that policymakers will react and then ultimately there will be some sort of solution to this. And I also think it's probably in part because we're already in a cutting cycle, and I think the expectation is that, without any additional data, the Fed is still likely to cut again. And I think that's kind of what the market right now is hoping for. And it might be a little bit different if we were not in a cutting cycle and there had been hopes of cuts but we were waiting on the data to find out.

So I think given that at least for now, I think it's fully understandable why markets have been relatively sanguine around all of this. Of course, there's no guarantee that this will end soon, and so I do worry a little bit that we could get to a point where, if it really seems like there is no end in sight, that people start reevaluating this a little bit. But my guess is it's going to take more than a week or two of shutdown to get there.

Allison Nathan: And we've bought a little bit of time because the market is not perceiving this to be at a turning point, as you just said.

Alec Phillips: Right.

Allison Nathan: And of course, the Fed is also flying a little bit blind here. So if the shutdown does last for a while, how do they deal with that?

Alec Phillips: So I think the short answer is I don't really know how they're going to deal with it. I think if the shutdown lasts for a few weeks, my guess is that they continue along the path that the market and that we have been expecting and you get another cut at the next meeting. I think that's the path of least resistance at this point.

The challenge would come if we're missing a few employment reports, a few inflation numbers, I think then it becomes a lot less clear how exactly they pursue policymaking when in theory they are data dependent but there are no data to look at. At this point, there's no obvious answer to that, but I would also imagine that the risks in that scenario would probably still lean to the downside. So I don't think it would really change our Fed view very much because I'll point out that, if we get to the point where we're going for a few months without data, you probably have a negative quarter in Q4 because the shutdown will have weighed not just on federal activity but maybe also on some private activity.

If it's to the point where we're missing several jobs reports, there are probably also some bigger issues that they're going to be worried about.

Allison Nathan: Right, which would reinforce our call that there's going to be another couple of Fed cuts this year.

Alec Phillips: Exactly. Two more this year and two next year.

Allison Nathan: Let's zoom out for a moment and just think about the longer term implications from what seems to be like an increasing frequency of these shutdowns. Are there longer term implications?

Alec Phillips: I think the fact that this shutdown, when we go back and measure it has -- and we'll see how long it lasts -- but the way it looks right now, seems like a decent chance that it will have more of an effect than most, if not all, of the shutdowns we've had before. I don't think that that's a coincidence. I think the kind of where we are right now politically matches up pretty well with the fact that shutdowns have become somewhat more frequent and, at least in the case of this one, also looks it'll probably be a little bit more severe.

And I think the other interesting thing is that we have now gotten to the point where Democrats are the ones not supporting a clean extension, which as I mentioned before is a reversal of what we've seen in all of those shutdowns over the last few decades. And so I do think that it's a microcosm of what's going on more generally politically.

Now, with that said, maybe one kind of optimistic note here is that ultimately the crux of this shutdown is around an issue that is actually probably not that hard to resolve:

The ACA health insurance premium subsidies. About $25 billion a year, $30 billion a year. They actually tend to benefit Republican constituents more than Democratic constituents. Most voters seem to be generally in favor of extending them, and Republicans seem to be generally inclined to work out some kind of a deal here.

So for as much as right now the sort of optics around the shutdown really don't seem very good and you can certainly imagine it going for a while longer, it's also pretty easy to see how they get out of this in the end. And so I don't worry that much about this dragging on for weeks and weeks, even though it is a little hard to identify right now exactly what ends it.

Allison Nathan: And sometimes it just ends very abruptly, unexpectedly.

Alec Phillips: I can certainly think of not only shutdowns that we went into that ended quickly but also shutdowns that we almost had where it seemed 95% chance that we were going to have a shutdown and then, sure enough, the next day they work something out. And you can usually expect that eventually Congress will want to get on with other things. I don't think they want to have to continue voting on the same bill over and over again. But the question is: How quickly will they get sick of doing that? It might be another few days. It might be another week. It might be another two weeks. But somewhere in there, I think they resolve it.

Allison Nathan: If this podcast sees the light of day then, you know, it's going to be going on for a little while longer. Thanks so much, Alec. Always so insightful.

Alec Phillips: Thanks for having me.

Allison Nathan: This episode of Goldman Sachs Exchanges was recorded on Tuesday, October 7th, 2025. I'm Allison Nathan. Thanks for listening.

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