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White Paper

The Economic Impacts of Government Shutdowns

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Executive Summary

We assess the economic impact of government shutdowns on consumer spending, utilizing the 2013 and 2018–19 federal government shutdowns as case studies and leveraging Fiserv data to gain valuable insights. Our analysis reveals the following key findings:

- Personal consumer expenditures (PCE) decreased by $4.4 billion and $10.0 billion during the 2013 and 2018–19 shutdowns, respectively
- The economy in the D.C. area suffered a significantly disproportionate contraction, with a substantial loss of 5 percentage points (pp) in PCE and a smaller 0.5 pp decrease during the two shutdowns, respectively. The milder impact during the 2018–19 shutdown may be attributed to the fact that, unlike in previous shutdowns, the local government in Washington, D.C. remained operational throughout the shutdown
- PCE at government and military locations decreased by $84.5 million and $102.8 million, respectively
- PCE on SNAP benefits – captured by sales paid through EBT in merchant data – remained relatively unaffected, except for an unprecedented increase after January 12, 2019, due to the early distribution of February benefits
- PCE on small businesses were less affected during the 2013 shutdown compared to large enterprises but much more affected during the 2018–19 shutdown
- PCE in certain industries, including restaurants, sporting goods and hobby stores, and gas stations, experienced a substantial loss at the national level, making them among the most severely affected industries during the shutdowns
- PCE in the hotel industry were relatively unaffected by the shutdowns

Background

The recent political impasse in the nation's capital has heightened the possibility of a government shutdown. This deadlock, marked by deep partisan divisions and lawmakers' inability to reach a consensus on funding the federal government for the upcoming fiscal year, carries the potential to profoundly impact not just the livelihoods of government employees and contractors, but also the broader national economy. In this paper, our primary objective is to evaluate the economic consequences of government shutdowns on consumer spending, utilizing the 2013 and 2018–19 federal government shutdowns as case studies, and Fiserv data to gain valuable insights.

At the onset of each fiscal year, Congress must pass 12 appropriations bills to establish discretionary spending levels for federal agencies, which constitute approximately one-quarter of the federal government's total discretionary spending. In the case of the 2013 shutdown, none of the 12 appropriations bills were passed, resulting in a full shutdown that affected all federal activities funded through discretionary appropriations. In contrast, the 2018–19 shutdown impacted only those departments and agencies covered by the seven appropriations bills that Congress did not enact[1], thus constituting a partial shutdown. The Antideficiency Act prohibits federal departments or agencies from conducting nonessential operations in the absence of appropriations legislation. Both shutdowns stemmed from the escalating political polarization and divisions of recent decades, with the 2013 shutdown primarily revolving around the Affordable Care Act and the 2018–19 shutdown centered on disputes related to border security and funding for a border wall.

Both shutdowns were protracted, resulting in substantial disruptions of government services. The 2018–19 shutdown persisted for 35 days and holds the record as the longest in U.S. history, while the 2013 shutdown lasted only 16 days. Both shutdowns had adverse effects on the economy through various channels:

1. Throughout the shutdowns, the Office of Management and Budget (OMB) identified and furloughed the majority of nonexempt government employees. This encompassed approximately 800,000 out of the 2.1 million civilian nonpostal federal employees, who either faced furloughs or went without pay. Despite veteran and military benefits being funded a year in advance, the furloughed civilians had a significant impact on the military and their families, affecting services provided to families on bases, including commissaries and family and survivor counseling.

2. Agencies lacking appropriations also faced limitations on their ability to procure goods and services. Consequently, government contractors, unable to offer their services to federal agencies during the shutdown, might have incurred a permanent loss of revenue before they could resume providing their services.

3. While programs such as Social Security and Medicare generally continued unaffected during a government shutdown, the temporary furlough of "nonessential" government staff disrupted various other programs and services. This included the operation of national parks and museums, air traffic control and airport security overseen by the Federal Aviation Administration and Transportation Security Administration, scientific research funded by the National Institutes of Health, small business loan programs, services provided to veterans and seniors, and health and safety inspections carried out by the Food and Drug Administration, among other critical programs.

[1] This includes include Agriculture, Commerce-Justice-Science, Financial Services, Homeland Security, Interior-Environment, State-Foreign operations, and Transportation-Housing and Urban Development.

Government shutdowns come with significant costs. For instance, during the 2013 shutdown, the OMB estimated that the lost productivity of government workers amounted to a $2 billion loss (CRS, 2018). According to a report from the Senate Permanent Subcommittee on Investigations, the three most recent government shutdowns collectively cost taxpayers nearly $4 billion, which included expenses related to back pay for furloughed federal workers, additional administrative work, lost revenue and late fees on interest payments (Senate, 2019). Moreover, a substantial portion of the economic burden falls on the broader economy due to the reduction of consumer spending, exacerbated by a multiplier effect – an initial reduction in spending has a more significant and far-reaching impact on the overall economy as money circulates through various individuals and sectors. The Bureau of Economic Analysis (BEA) estimated that the 2013 shutdown reduced GDP in the fourth quarter of 2013 by 0.3 percentage points (pp) (CRS, 2014). The Congressional Budget Office (CBO) projected that the 2018–19 government shutdown led to a real GDP reduction of $11 billion over the fourth quarter of 2018 and the first quarter of 2019, with the assumption that some of this reduction would be recouped later in the year (CBO, 2019).

The most significant hurdle in accurately measuring the economic impacts of government shutdowns is the absence of detailed microdata that can precisely identify the consumer and business activities impacted by such shutdowns. These critical datasets are, unfortunately, not publicly available. Government entities, including the CBO and the BEA, depend on macroeconomic models to gauge how shifts in government spending influence overall demand and economic output in the short term. Consequently, existing studies fall short in providing an accurate assessment of the comprehensive economic impact, including its distribution across regions and industries.

Data and Methodology

Fiserv transaction data has significant potential to enhance our understanding of how government shutdowns impact businesses across the nation by using historical data that encompasses both the 2013 and 2018–19 government shutdowns. Fiserv is the largest global provider of financial services technology, processing trillions of cards and cash payment transactions for over 2 million merchants nationwide. This sales data can be used to estimate PCE within the national income and product account, which comprises nearly 70% of GDP. What makes this data particularly noteworthy is its granularity, which enables us to evaluate the effects of consumer spending and business sales across various regions and sectors of the national economy.

In order to evaluate the economic impacts of a government shutdown, it is essential to create a counterfactual series – a projection devised by economists that represents economic activities in a scenario without a government shutdown. For simplicity, we project PCE during and following each government shutdown by using the daily sales data from the corresponding month in the previous year. We take into account the year-over-year growth of the preceding month, adjust for seasonal patterns observed in the prior year, and consider the market share of sales captured by these merchants. For instance, considering the 2013 shutdown, which commenced on October 1, 2013 and concluded on October 17, 2013, the projected PCE for October 2013 is calculated by multiplying the daily sales figures from October 2012 by the year-over-year growth of sales in September 2013, while accounting for seasonal variations from September to October and the market share in 2012. Additionally, to mitigate fluctuations observed across different days of the week in the sales data, we employ seven-day moving averages for a smoother representation. The difference between the observed actual sales and the projected figures serves as a means to quantify the economic impacts of government shutdowns on spending and sales, assuming no other potentially influencing factors.

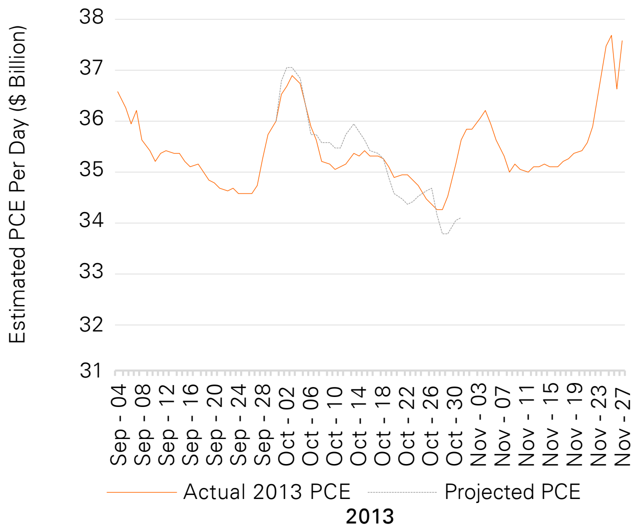
Findings

Overall impact. Comparing the actual and projected sales, we find that PCE would have been higher by $4.4 billion or 0.7 pp from October 1 to October 17, 2013 (Figure 1A). Most of the economic impacts occurred between October 7 and October 17. Some, not all, of the reduction was made up in the week following the shutdown. For the 2018–19 shutdown, the estimated loss in PCE is $10.0 billion loss in PCE or 0.6 pp (Figure 1B). These aggregate estimates are largely in line with the BEA and CBO estimates for the two shutdowns, respectively.

Figure 1: Overall Impact of Government Shutdowns

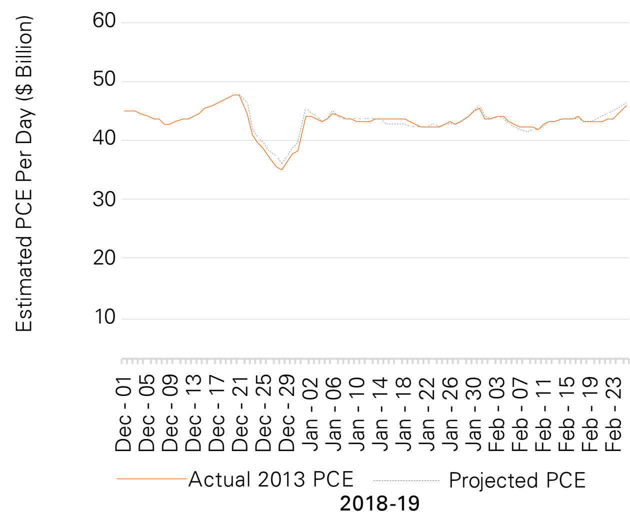
A. The 2013 Shutdown

Total (U.S.)



B. The 2018–19 Shutdown

Total (U.S.)

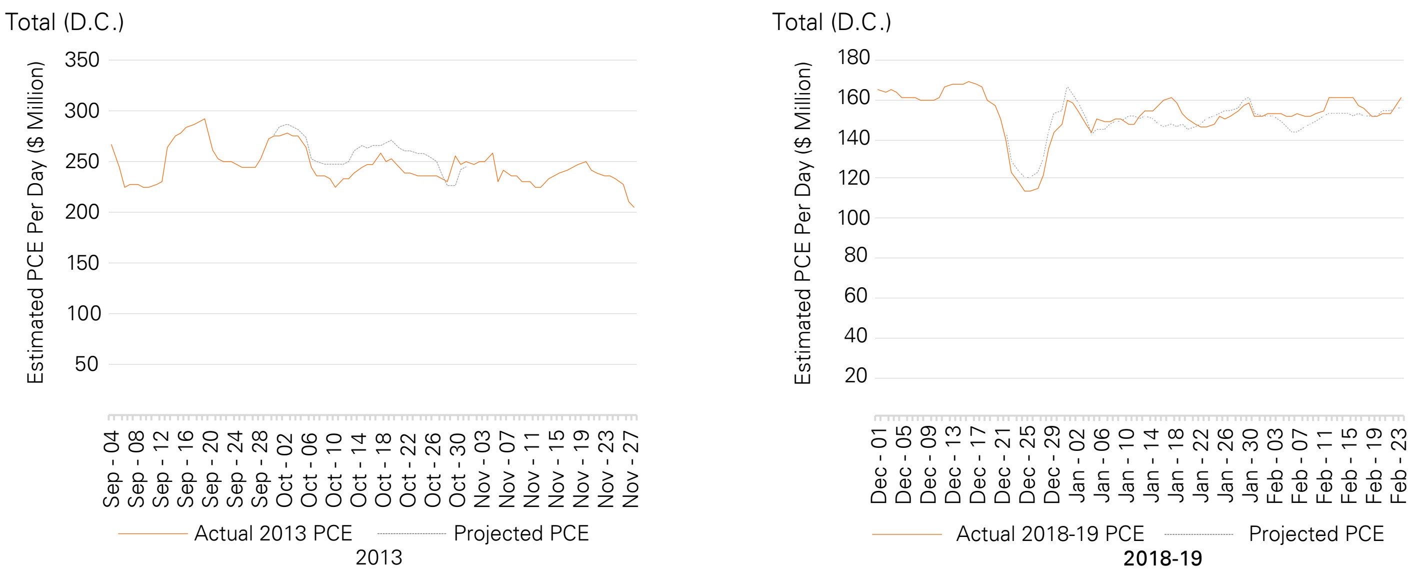


D.C. Metro. We can also evaluate the impact of shutdowns resulting from the furlough of 800,000 federal workers by examining local economic activities in the Washington, D.C. metro area, where a significant portion of federal employees reside. Additionally, the local budget of Washington, D.C. is determined by the municipal government but requires approval from Congress. The analysis reveals that during the 2013 shutdown period, the economy in the D.C. metro area experienced a decrease of $316.7 million in PCE, equivalent to a 5-pp reduction (as shown in Figure 2A). This accounted for a significant 7.1% of the national loss. Contrary to the prevailing belief that federal workers would promptly receive back pay following the shutdown's conclusion, the data indicates that the sales losses persisted until October 26 before any signs of recovery emerged. During the 2018–19 shutdown, the estimated loss in PCE in the D.C. area was smaller at $29 million or 0.5 pp (Figure 2B). The milder impact on the D.C. economy during the 2018–19 shutdown can be primarily attributed to the fact that, unlike previous shutdowns, the local government in Washington, D.C. continued to function throughout the shutdown, owing to a provision enacted in the prior year's appropriations legislation, the Consolidated Appropriations Act of 2017.

Figure 2: Impact of Government Shutdowns on Spending in the D.C. Metro Area

A. The 2013 Shutdown

B. The 2018–19 Shutdown

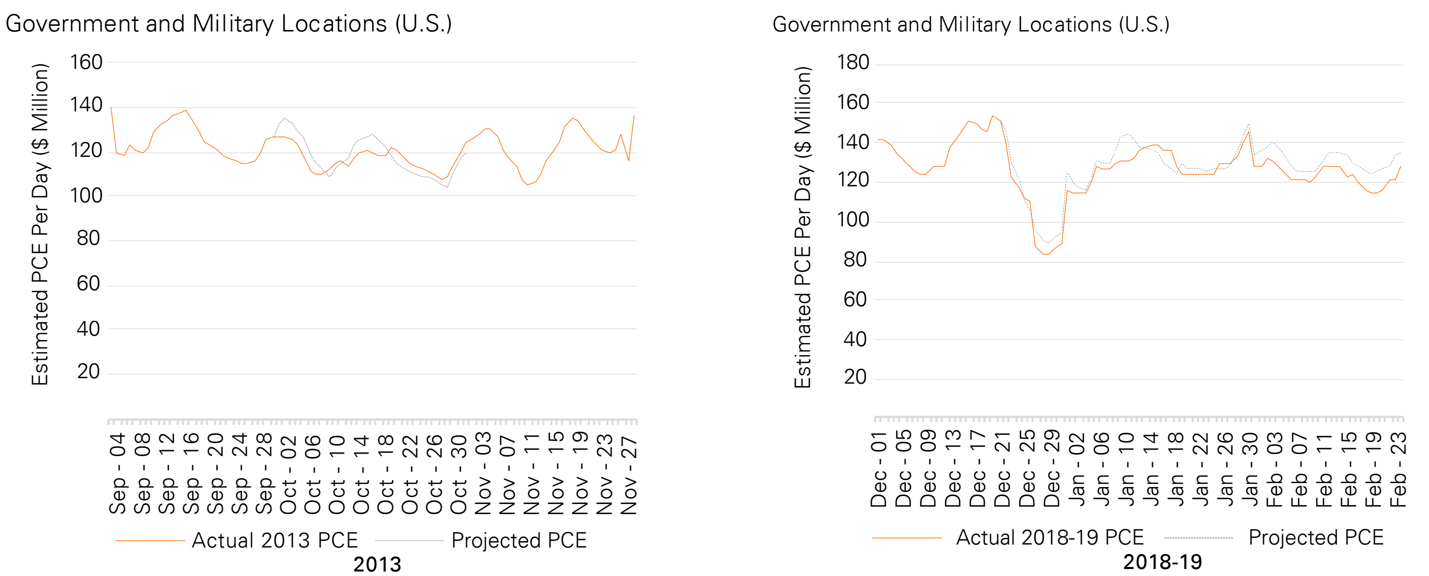


Sales at Government and Military Locations. Using publicly available data, we are able to identify groups of merchants that operate on or near government and military locations and compare their sales activity alongside those of the private sector. Our analysis indicates that during the 2013 shutdown, PCE at these locations experienced a notable decline of $84.5 million, equivalent to a 3.6 pp reduction (as depicted in Figure 3A), and the decline persisted through the end of October. In the 2018–19 shutdown, the estimated loss in PCE at government and military locations was larger in absolute dollars, amounting to $102.8 million, but corresponded to a 2 pp reduction (Figure 3B). Significantly, data from both periods does not reveal any signs of recovery in the weeks following the shutdown, implying that a substantial portion of these losses is likely permanent.

Figure 3: Impact of Government Shutdowns on Sales at Government and Military Locations

A. The 2013 Shutdown

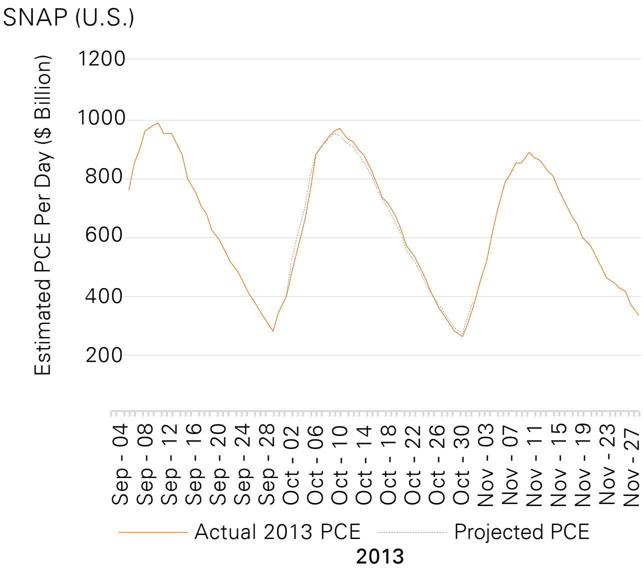
B. The 2018–19 Shutdown



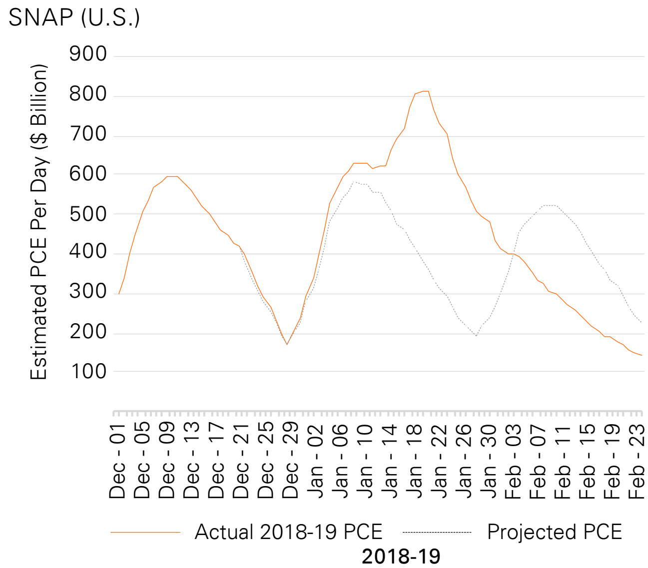
SNAP Program. The Fiserv data enables us to track the utilization of SNAP benefits through one of the payment methods, electronic benefit transfer (EBT), as reported in the merchant data. While funding for SNAP benefits for 7 million mothers and children is mandatory, a government shutdown could potentially impact the USDA's ability to distribute food stamps. However, due to continuing resolutions authorizing the USDA to provide benefits for 30 days following a shutdown's commencement, the use of SNAP benefits should not be affected during the 2013 shutdown, which only lasted for the first half of October. This aligns with what the data reflects (as shown in Figure 4A), where there are minimal differences between the actual and projected PCE related to SNAP benefits, primarily shifting the timing of transactions. In the 2018-2019 shutdown, the USDA disbursed February SNAP benefits earlier, on January 20, just before the 30-day window concluded. Our analysis demonstrates that while there wasn't a substantial disparity between actual and projected PCE from December 22 to January 9, the actual PCE on SNAP benefits experienced an unexpected increase, likely attributable to the early distribution of February benefits (as depicted in Figure 4B).

Figure 4: Impact of Government Shutdowns on Sales Paid through EBT (as reported on merchant data)

A. The 2013 Shutdown



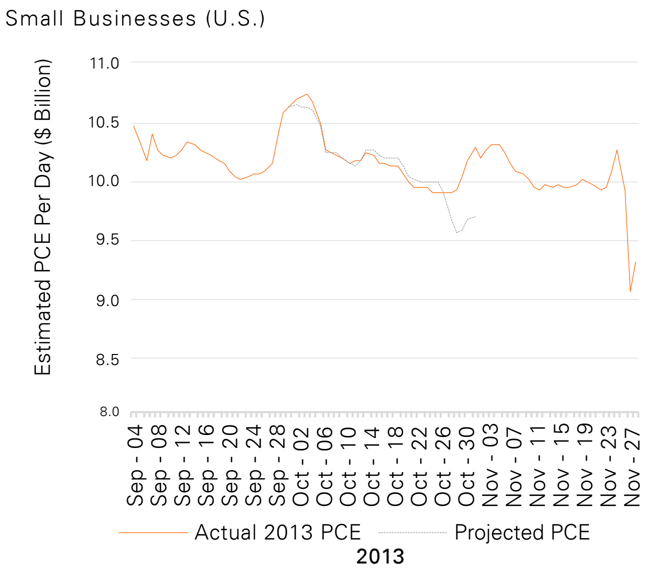
B. The 2018–19 Shutdown



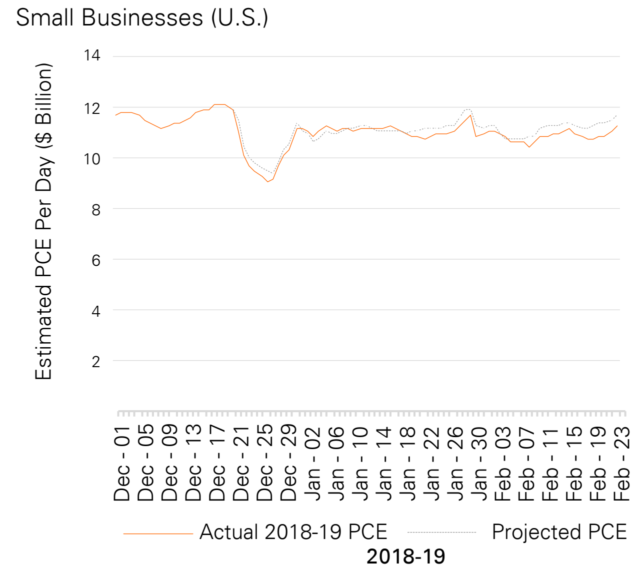
Small Businesses. We also examine the impacts of the shutdowns on sales within different business-size categories. During the 2013 shutdown, PCE on small businesses maintained relative stability, with a slight decline observed from October 12 to October 25. Cumulatively, in October 2013, PCE on small businesses decreased by $375 million. Notably, the majority of the PCE decrease during the 2013 shutdown was borne by larger enterprises, amounting to $4.1 billion or a 1.1% reduction. Some of the lost PCE were recovered in the weeks following the shutdown. Shifting to the 2018–19 shutdowns, PCE losses for small businesses totaled $4 billion, equating to a 1.1% decline. This accounted for about 40% of the total PCE reduction during the period.

Figure 5: Impact of Government Shutdowns on Sales by Business Size

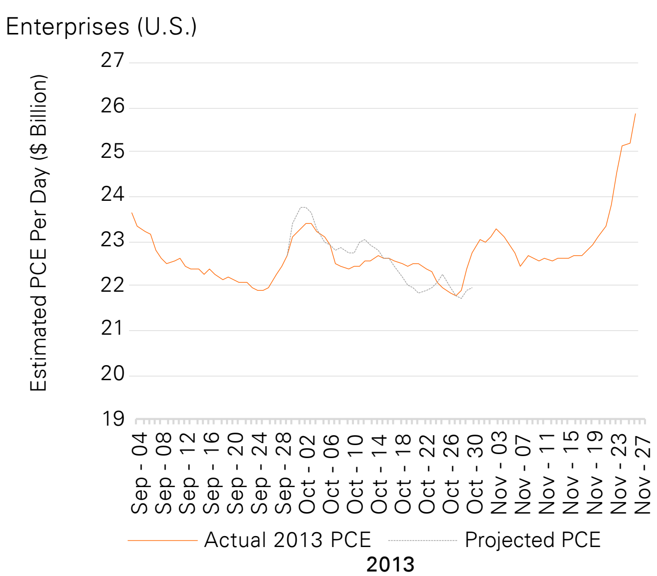
A. The 2013 Shutdown (Small Businesses)



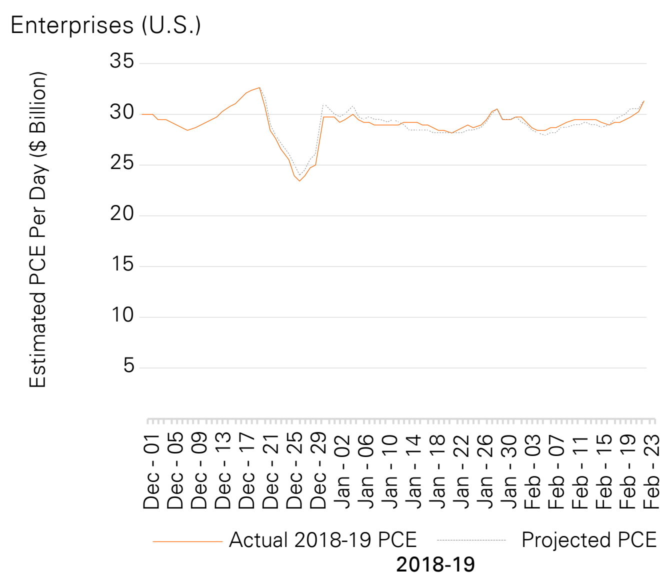
B. The 2018–19 Shutdown (Small Businesses)



C. The 2013 Shutdown (Enterprises)

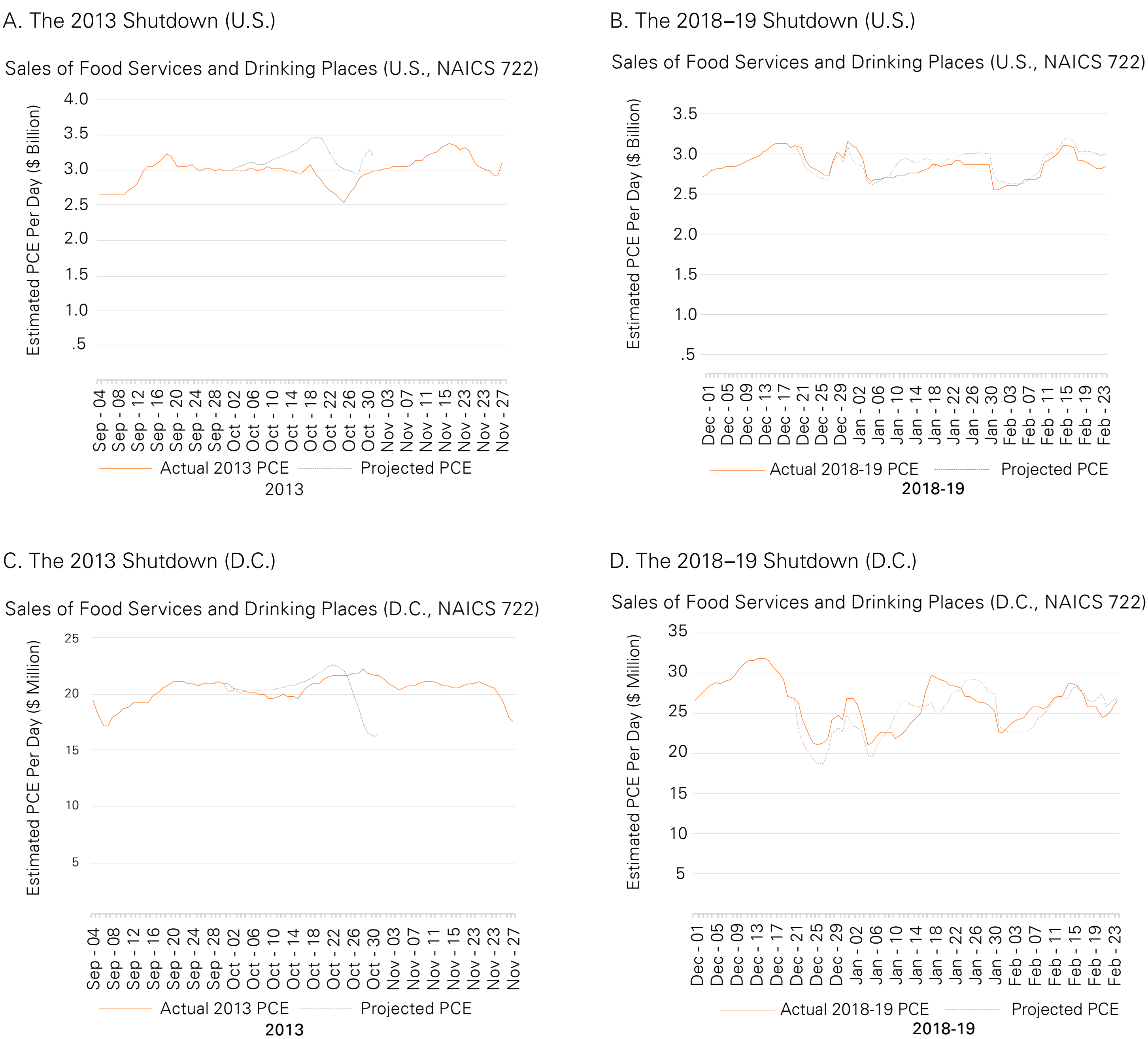


D. The 2018–19 Shutdown (Enterprises)



Restaurant Sales. PCE in the restaurant industry decreased by $2.6 billion during the 2013 shutdown, equating to a 5.3 pp reduction. This accounted for a significant 58% of the net national loss. In the 2018–19 shutdown, restaurant businesses encountered significant losses, with PCE declining by $840 million or 0.7 pp. In both shutdowns, the losses persisted for at least two weeks after the shutdown concluded, before any signs of recovery emerged, solidifying their status as the most severely affected industry. In comparison to national figures, restaurants in the D.C. area experienced significantly smaller losses during both shutdowns.

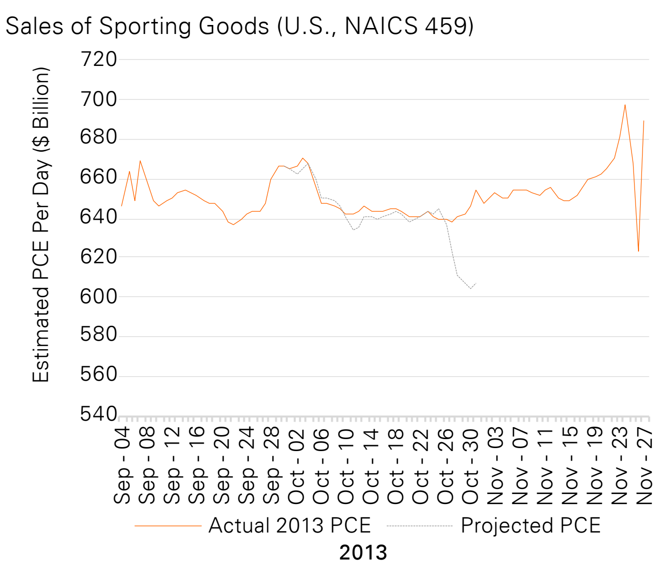
Figure 6: Impact of Government Shutdowns on Sales in the Restaurant Industry



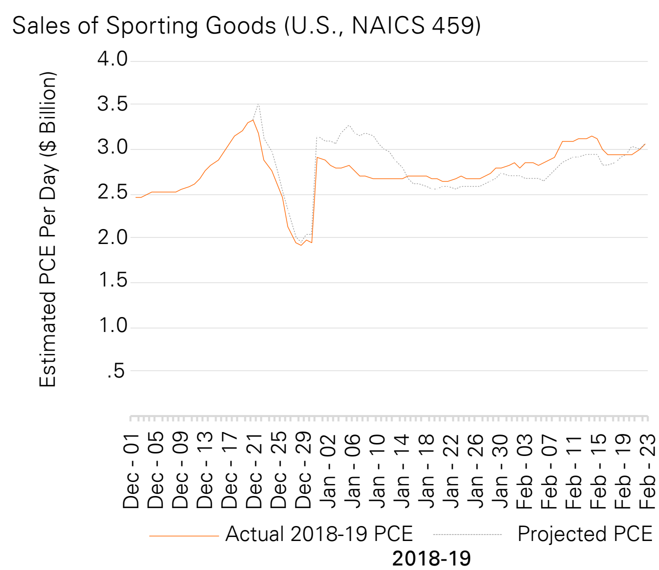
Sporting Goods and Hobby Sales. PCE in the sporting goods and hobby retailers in the D.C. area decreased by $16.7 million during the 2013 shutdown, resulting in a substantial 30 pp reduction. In contrast, sporting goods sales at the national level were relatively unaffected. During the 2018–19 shutdown, sporting goods retailers in the D.C. area were not significantly affected, while at the national level, they incurred a substantial loss of $4.8 billion in PCE, equivalent to a 4.5 pp reduction, making it one of the most severely affected industries during the 2018–19 shutdown.

Figure 7: Impact of Government Shutdowns on Sales in Sporting Goods and Hobby Retail Industry

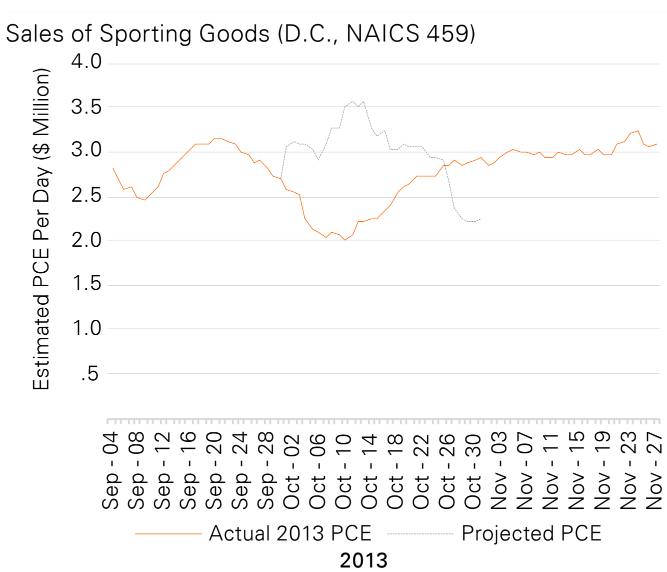
A. The 2013 Shutdown (U.S.)



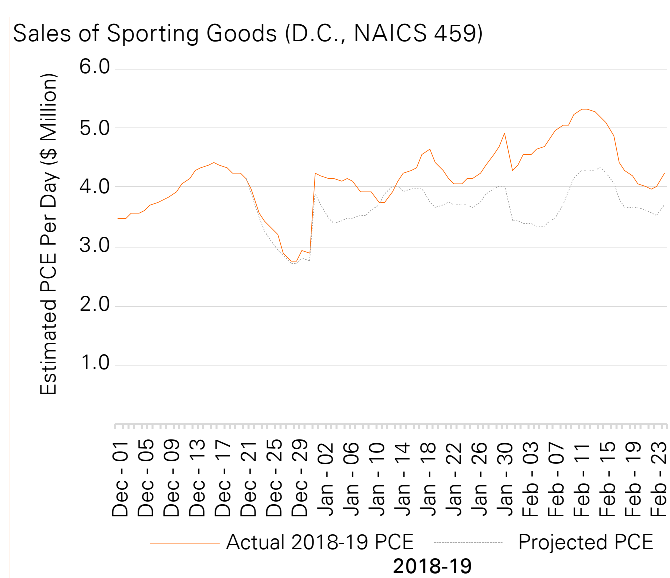
B. The 2018–19 Shutdown (U.S.)



C. The 2013 Shutdown (D.C.)

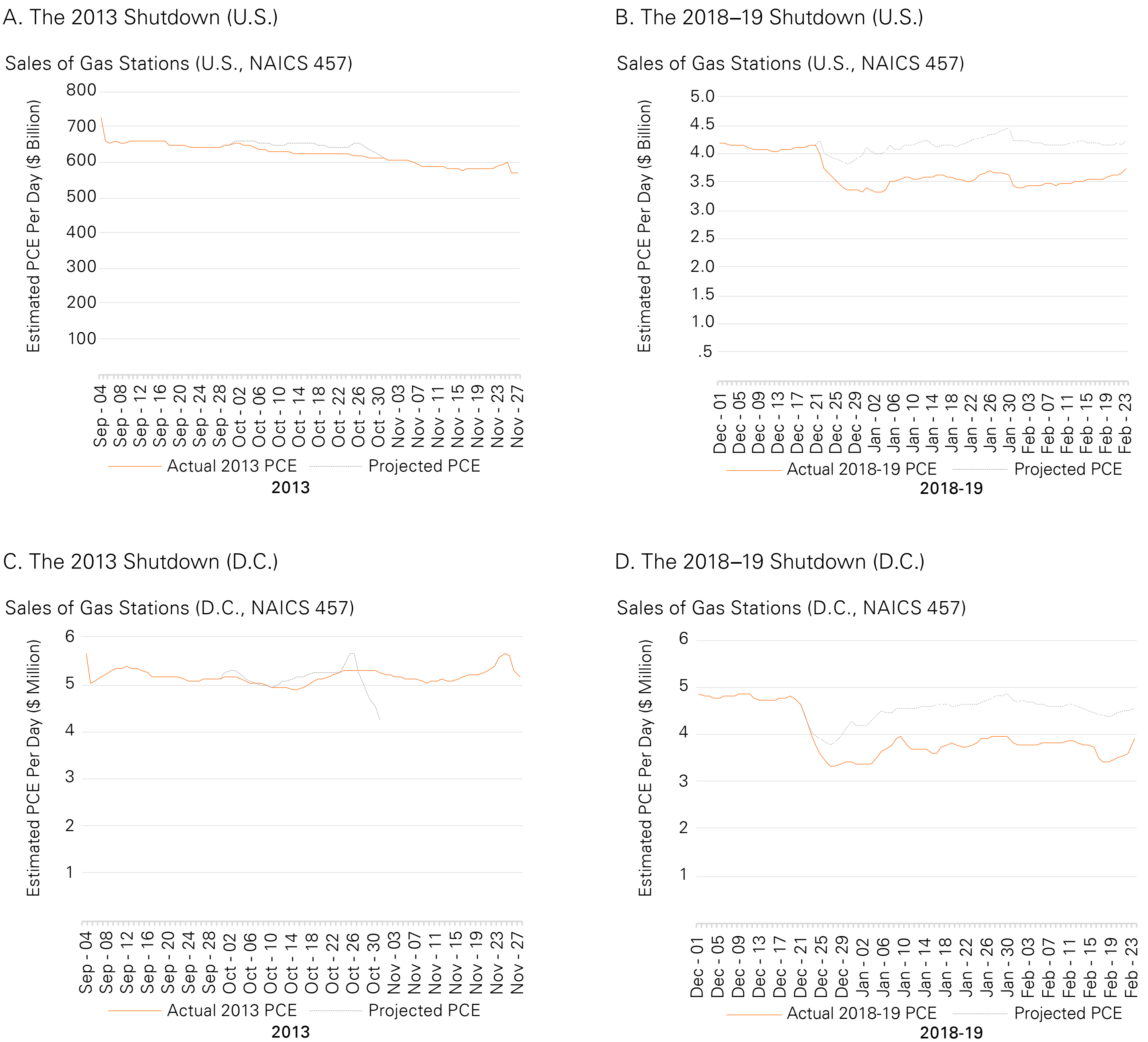


D. The 2018–19 Shutdown (D.C.)



Gas Station Sales. Nationally, PCE at gas stations suffered a loss of $356 million during the 2013 shutdown, resulting in a 3.1 pp reduction. However, in the 2018–19 shutdown, gas stations experienced even more substantial losses, with a 16 pp decrease. Furthermore, in both shutdowns, the PCE losses at gas stations persisted for at least an additional month after the shutdowns concluded. In the D.C. metro area, sales at gas stations saw a PCE loss of $1.8 million during the 2013 shutdown. During the 2018–19 shutdown, gas stations in the area also experienced much larger losses, totaling a $30 million reduction in PCE.

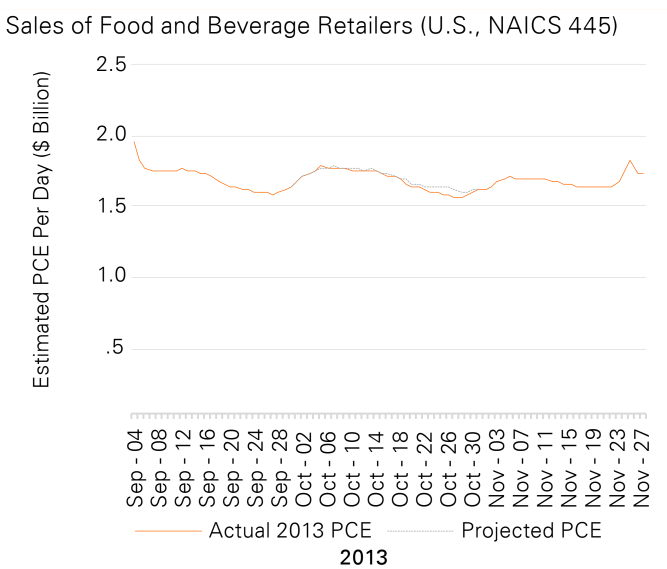
Figure 8: Impact of Government Shutdowns on Sales at Gas Stations



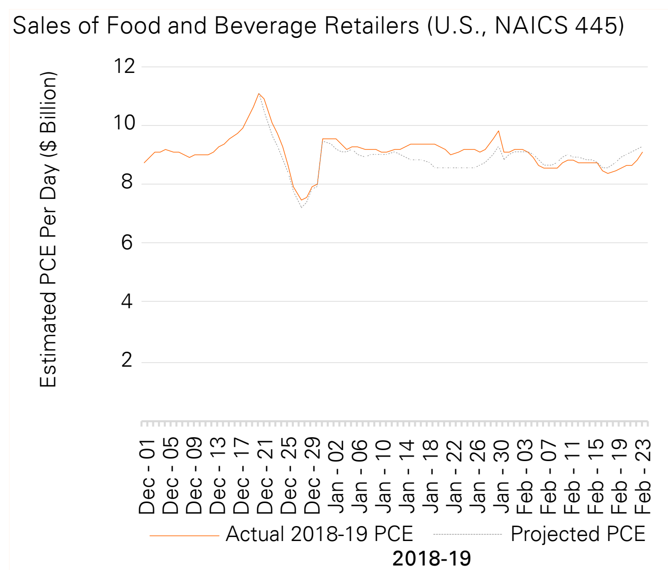
Grocery Sales. At the national level, PCE on groceries remained relatively stable during both shutdowns. However, grocery stores in the D.C. area experienced substantial losses, with a decline of $3.5 million in PCE during the 2013 shutdown, equivalent to a 1.9 pp reduction. In the 2018–19 shutdown, grocery stores in the D.C. area encountered even more significant losses, with a reduction of $98.6 million in PCE, 16.2 pp. Furthermore, in both shutdowns, the losses in grocery sales persisted for at least two weeks after the shutdown concluded.

Figure 9: Impact of Government Shutdowns on Sales at Grocery Stores

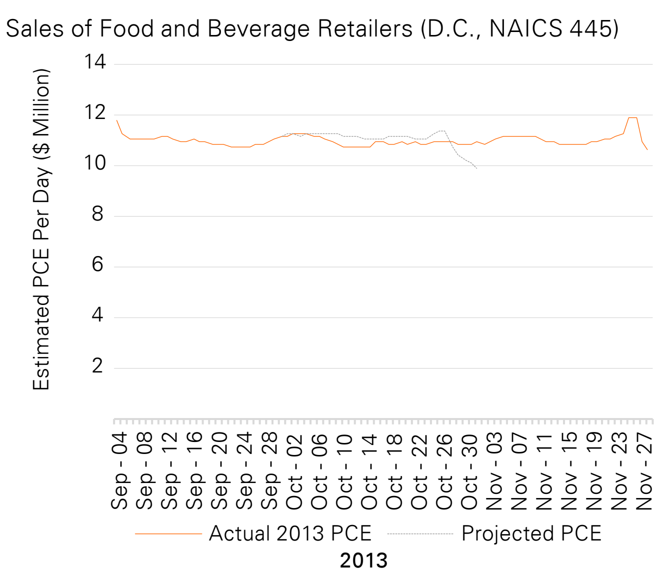
A. The 2013 Shutdown (U.S.)



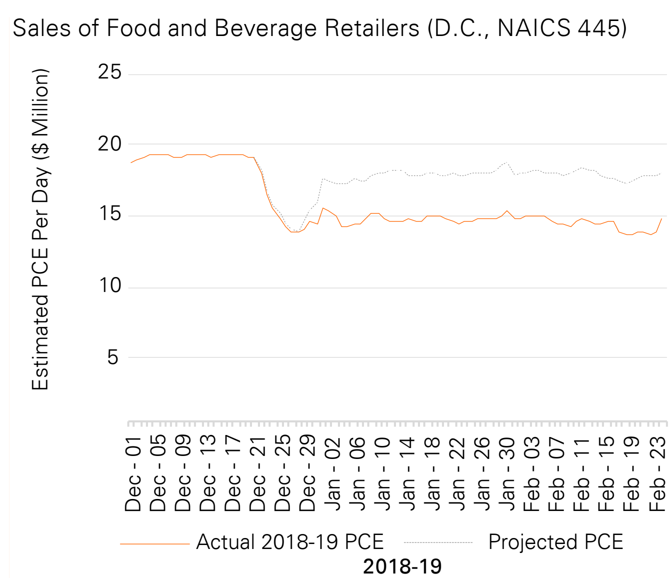
B. The 2018–19 Shutdown (U.S.)



C. The 2013 Shutdown (D.C.)



D. The 2018–19 Shutdown (D.C.)



Hotel Industry. At both the national level and in the D.C. area, sales at hotels remained relatively stable during both shutdowns.

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