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US: WHEN THE SHUTDOWN STOPS

Berenberg Macro View

Guess who is back: The US government shutdown, now in its 43rd day, looks set to end this week. It will enter history as the longest shutdown ever, surpassing the 34-day closure in late 2018 during President Donald Trump's first term. Longer shutdowns, higher tariffs and harsher immigration policies – Trump 2.0 continues to weigh more heavily on economic growth than in his first term. If the House of Representatives, where Republicans hold a slim majority, approves the temporary funding measure passed by the Senate on Monday, most federal agencies will be able to resume spending until 30 January 2026. Some agencies, including the Department of Agriculture, the Department of Veterans Affairs and the Food and Drug Administration, can do so until 30 September 2026. Once the House passes the measure, President Trump must sign it, but his support for ending the shutdown makes that step almost certain. As the shutdown ends, government data releases will resume, GDP should normalise after a modest hiccup (with the Q4 drag mostly reversing in Q1) and money markets should also face less stress.

Data blackout over: Perhaps the worst part of the shutdown for markets was the blackout in government data. The Bureau of Labor Statistics (BLS) did not release the September and October nonfarm payrolls. Federal workers could not collect any government data last month, leaving critical releases, such as inflation and the unemployment rate, blank for that period. As federal workers return to work, we will gradually receive these data. The BLS will likely publish the September nonfarm payrolls, originally scheduled for 3 October, in the middle of next week. Possibly the following week, we should see September retail sales, Q3 GDP data (the Atlanta Fed's model forecasts 4% qoq annualized growth in real GDP), and the September personal consumption expenditures (PCE) report. The BLS may delay the November readings for inflation and employment by about a week from their original release date. However, both reports will likely be available before the Fed's 18 December meeting.

What it means for growth: Weak consumer and business confidence caused by shutdown-related uncertainty, delays in Supplemental Nutrition Assistance Program (SNAP) benefits and that federal workers (1.8% of total employment) who have not received pay since 1 October all likely weighed on economic growth over the past 43 days. As the government resumes operations and delayed expenditures roll out (federal workers will receive backpay for the missed periods once the government reopens), the US economy should recover a portion of the lost ground through "catch-up" spending. Q4 GDP growth looks weak, but we expect some further partial rebound in Q1 2026. The Congressional Budget Office (CBO) estimates that a six-week shutdown reduced qoq annualised real GDP growth by 150bp in Q4. We forecast real GDP to rise by 0.9% (on a qoq annualised basis) in Q4, down from the conservative 2.8% estimate we have for Q3.

Incoming relief for money markets: Since 1 October, the government could only spend far less than usual due to the shutdown, causing unspent funds in its chequing account at the Fed, known as the Treasury General Account (TGA), to balloon (see Chart 1). This balance counts as a liability on the Fed's balance sheet, similar to bank reserves. But the Fed's assets no longer expand as they once did (see Chart 1 again). Instead, they have declined 27% from a peak of $8.97 trillion in April 2022 to $6.57 trillion in the first week of November. Lower assets combined with higher TGA balances reduce bank reserves. As reserves drained (see Chart 2) and reached $2.85 trillion last week (near the lowest since September 2020), supply-demand mismatches pushed funding rates briefly above the Fed's policy rate. The Secured Overnight Financing Rate (SOFR), the cost of overnight cash borrowing using Treasuries as collateral, spiked nearly 20bp on 31 October, marking the largest one-day jump since March 2020. The temporary stress eased partly due to the Fed's liquidity backstop measures, such as the Standing Repo Facility (SRF), and partly because month-end liquidity pressures subsided. The end of the shutdown this week, combined with the end of the Fed's quantitative tightening on 1 December (when it stops rolling off maturing securities and also begins swapping maturing mortgage-backed securities for new Treasury bills) should prevent similar pressure in money markets in the months ahead. The release of TGA balances may briefly support risk assets. However, if near-term funding costs spike again, hedge funds – recently the dominant buyers of US Treasury securities through basis trades (see: US: In debt we trust) – may exit these positions, pushing Treasury yields higher.

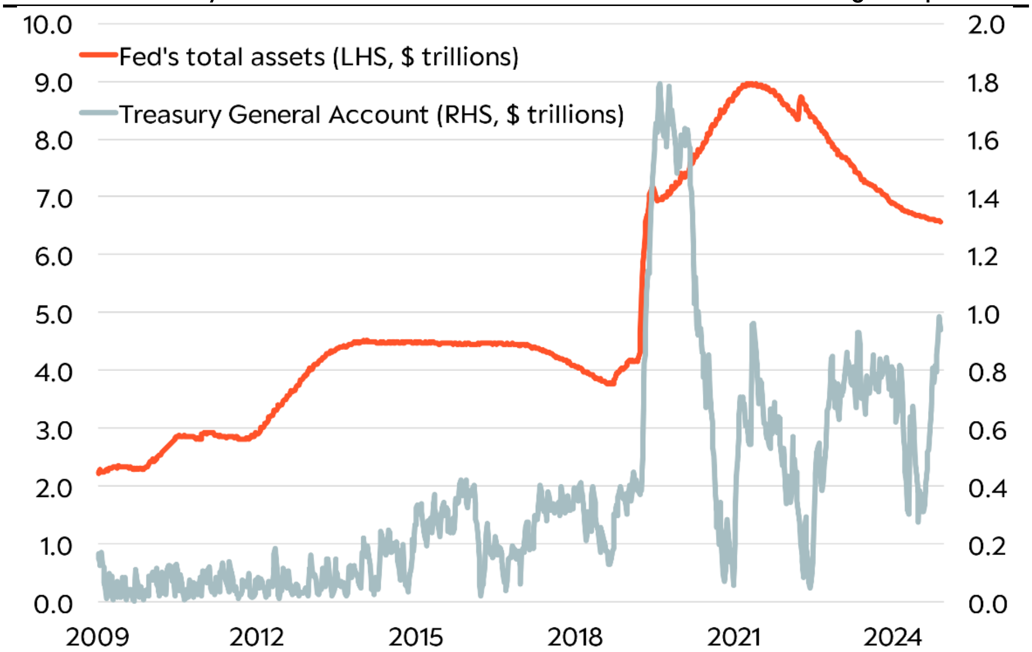
Not great how it ended, but at least it is over: The Senate Republicans' victory in blocking Democrats from extending the Affordable Care Act (Obamacare) subsidies affects around 22 million people – nearly 7% of the population. Without the subsidies, the average recipient's insurance premium could more than double. This decision adds to the pressure on low- and middle-income households, who are already facing rising prices, slower wage growth and less government support. As a result, inequality will worsen while high-income earners and capital owners continue to benefit from rising asset prices in a high nominal growth environment. That said, the end of the government shutdown brings some immediate relief. Air travel should gradually return to normal after recent staff shortages caused significant delays and cancellations, though it may take several days to stabilize. 42 million Supplemental Nutrition Assistance Program (SNAP) recipients will resume receiving benefits. SNAP reaches 12% of households. It accounts for roughly 10% of aggregate monthly grocery spending, and nearly 75% of recipients live below the poverty line. The temporary lapse in SNAP benefits and higher health-care insurance premia will likely hurt the Trump administration and House and Senate Republicans ahead of the midterm elections in November 2026. After all, in counties where such benefits accounted for more than 1% of total personal income, more than 80% voted for Trump in 2024 elections.

Some thoughts on tariff dividends: Over the weekend, Trump announced that he wants to use tariff revenue to hand out a dividend of "at least $2,000 per person," excluding high-income individuals. This is reminiscent of the $5,000 per person dividend promised by the Department of Government Efficiency (DOGE) that never materialised. Now time for some quick math. If "high-income" excludes the top 20% of the population and payments are made only to those over 16, about 220 million Americans would be eligible. At $2,000 each, the one-time tariff dividend would total $440 billion. That exceeds the near $350 billion annualized revenue from Trump's tariffs even assuming the Supreme Court does not overturn tariffs enacted under the International Emergency Economic Powers Act (IEEPA), which account for nearly three-quarters of this year's tariff intake – and also assuming if it overturns, Trump does not "double down" and use other options (see Trump tariffs: against the rules, still in play). A tariff dividend would not only eliminate revenue from tariffs but also create additional spending, further worsening the fiscal deficit beyond the effect of simply repealing the tariffs. Combined with the impact of the mislabelled "One Big Beautiful Bill Act," the US could face deficits of roughly 7-8% of GDP next year. The fiscal outlook already looks concerning (see US fiscal outlook: unsustain-a-bill), with debt projected to reach 120% of GDP by 2035; tariff dividends could push that figure close to 130%. Moreover, households would likely spend the dividend quickly – recall how fast they depleted the "excess savings" from pandemic stimulus payments. This could further fuel inflation given the economy already runs above trend.

Not too bad, but it will get worse: The recent data flow mirrors late February and early March, which sparked growth scares in the US. Consumer confidence remains depressed, with the November University of Michigan reading at 50.3 – the second-lowest since 1952 after June's 50.0. The National Federation of Independent Businesses (NFIB) small business optimism index fell for a second consecutive month and remains well below its December peak before Trump took office. Weekly ADP data showed an 11k decline in payrolls for the last week of October (on a four-week moving average basis) and Challenger reported that October layoffs were the highest for that month since 2003. These are negative signals for growth. However, the wealth effect and the artificial intelligence-related investment boom remain so strong and financial conditions so accommodative that the US economy continues to grow above trend (see: US: making room for the AI boom), despite weak job creation (see: US: jobless expansion).

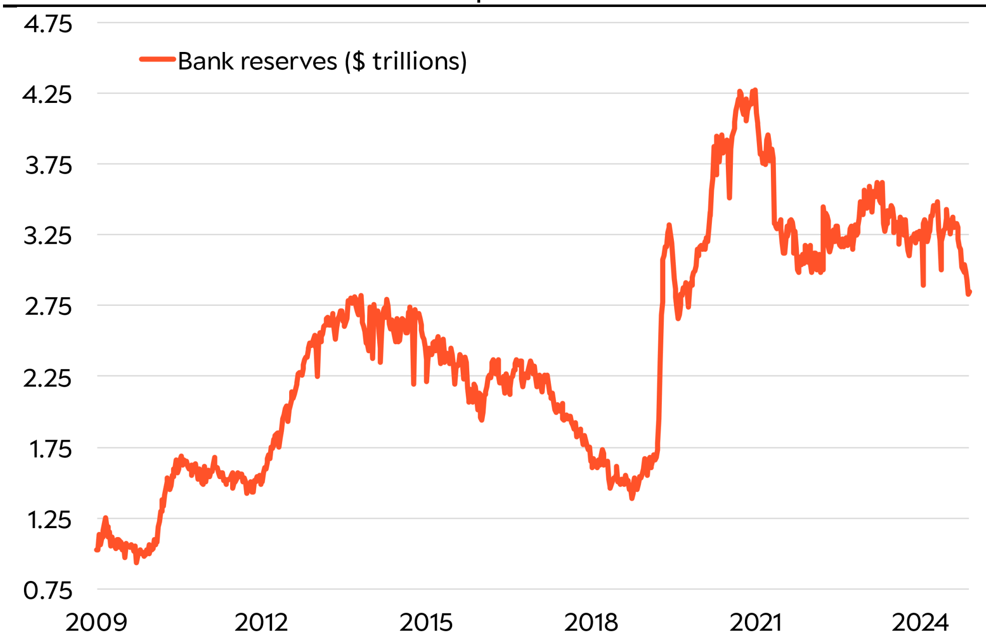
The real concern for US economic growth going forward lies in recent immigration restrictions (see: US: capped potential). An absurd $100k application fee for H1B work visas (a US work visa for skilled foreign professionals), ongoing deportations, restrictions on border inflows and a hostile environment for foreign workers will heavily weigh on potential growth. Early signs are already appearing in the data. Despite tariffs, the government shutdown and rising input costs, the top challenge for businesses is now labour quality (see Chart 3). The restrictive immigration policy under Trump 2.0 is a key reason why we expect US real GDP growth to slow. We project 1.9% this year (down from 2.8% last year), falling to 1.8% in 2026 and further to 1.5% in 2027.

Chart 1: Treasury General Account ballooned while Fed's assets no longer expand



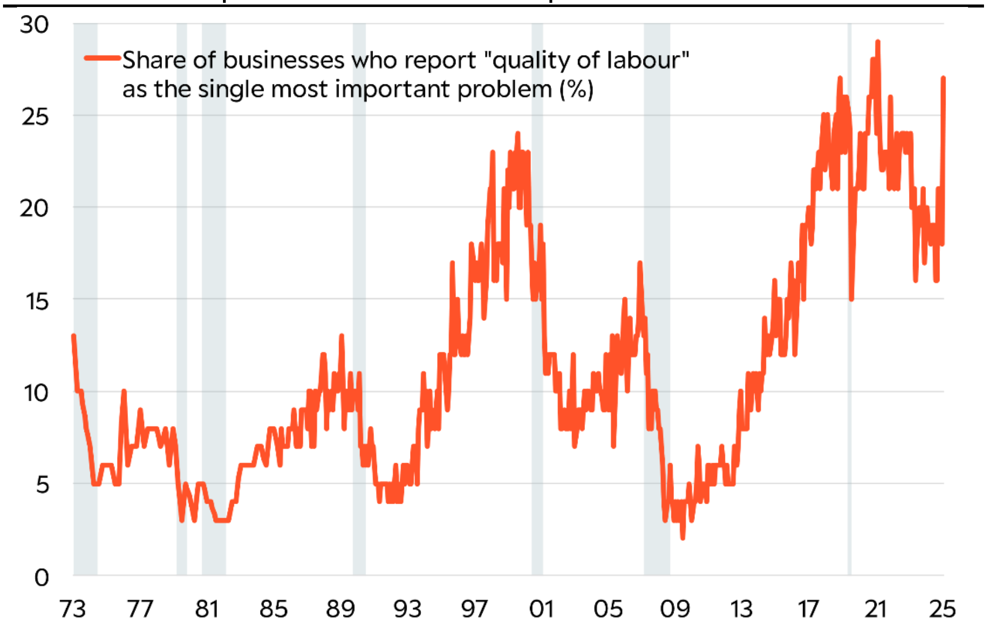
Source: Federal Reserve, Haver Analytics.

Chart 2: Bank reserves lowest since September 2020



Fed's liabilities: other deposits held by depository institutions. Source: Federal Reserve, Haver Analytics.

Chart 3: Lack of qualified workers is the real problem



Shading indicates recession. Source: NFIB, Haver Analytics.

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