Economic view

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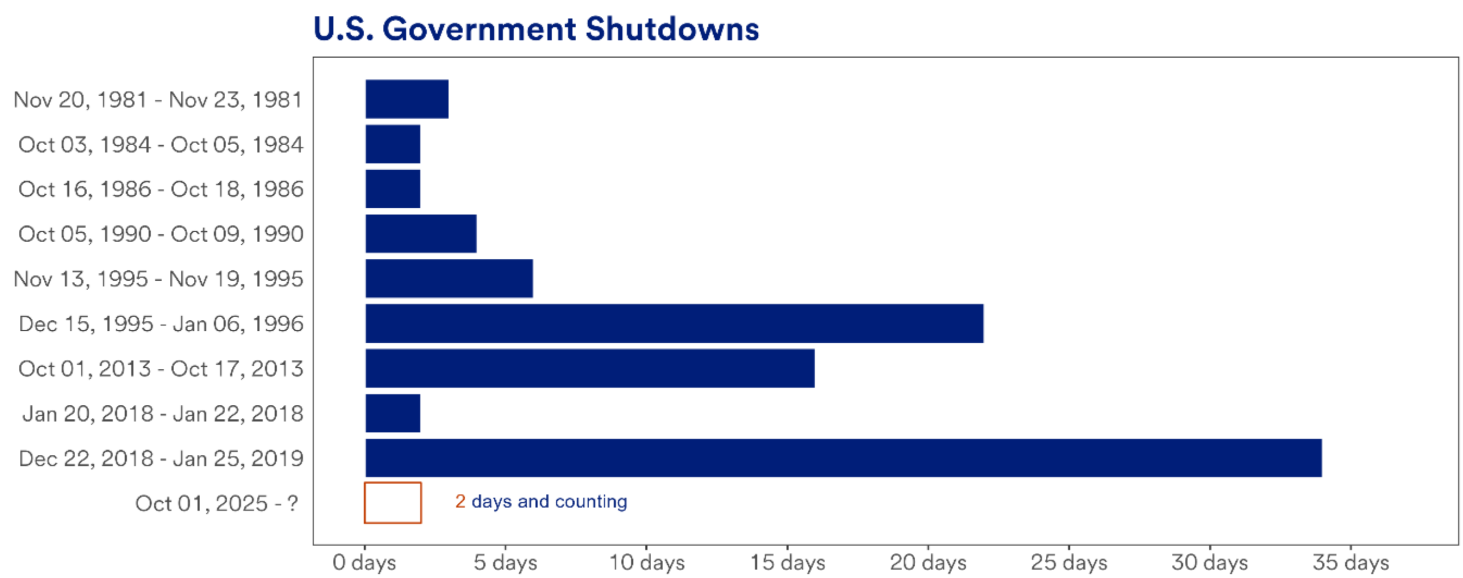
From the desk of Chief Economist Beth Ann Bovino

When gridlock turns to rigor mortis

Given heightening division among policy makers, it was almost virtually expected that the U.S. federal government would close its doors. It did so at midnight on September 30, with the government now closed for three days.

But this is not just a 2025 story. Since 1981, the U.S. government has had 10 shutdowns. S&P Global Ratings, my alma mater, stripped the U.S Government of its AAA credit rating for the first time ever in 2011. The reason? Political gridlock and concerns over America's ballooning debt amidst intense debates over whether the government debt ceiling would be raised. Fitch Ratings cut the U.S. government's rating in August 2023 for similar factors.



Government shutdowns involving furloughs and lasting at least one day
Source: U.S. Bank Economic Research Group, Wikipedia

Fortunately, the U.S. government debt ceiling will not exacerbate matters this time. It was raised with the One Big Beautiful Bill Act (OBBBA), removing that threat for a couple of years. But while the government shutdown impact is nowhere near that of the debt ceiling (at S&P Global, we described not raising the debt ceiling as worse than the 2006 Lehman crisis), it still hurts. And the longer it lasts, the more the pain.

With no agreement reached, the federal government halts about $26 billion of overall federal spending known as ‘discretionary.’ For a $20 trillion economy, this direct impact should be modest. Lost productivity from furloughed workers during the shutdown is the direct shutdown cost and is permanent. Assuming these furloughed workers ultimately receive backpay, federal spending increases. But with no production, it adds to inflation.

With almost half of the already slim, post-DOGE federal workforce furloughed, we estimate a full shutdown to shave about 0.1 percentage points (ppts) in direct costs for every week the shutdown lasts.

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Beth Ann Bovino, chief economist, U.S. Bank

Indirect costs include cancelled or postponed contract work or cancelled vacations to national parks or monuments that have been closed because of the shutdown. The knockdown effect of lost work (and wages) for furloughed federal employees and contract workers means no need for work-related childcare, and more cautious spending during the shutdown as savings is depleted. Some indirect costs may be recovered once the government reopens, either in this quarter or the following. But cancelled contracts and trips would likely push overall shutdown costs closer to 0.2 ppts for each week the government is closed.

This time may be different (and worse). Historically, much of this lost output is recouped once the government reopens, provided the shutdown is brief and federal workers receive back pay. (Contractors who rely on federal business may be forced to reduce staff, and unlike federal employees, many contract workers will not receive back pay).

But, this time, the White House Office of Management and Budget (OMB) has instructed agencies to consider issuing Reduction in Force (RIF) notices for employees in programs whose funding lapses on October 1, particularly if those programs are deemed “inconsistent with the president’s priorities.” If implemented, this could severely impact federal worker livelihoods and those regions, such as the D.C. metro area, with a large concentration of federal workers. These regions were already dented by DOGE layoffs. This results in a larger number of unemployed federal workers after the shutdown ends. Moreover, rather than allowing for attrition to trim the payrolls, the layoffs would be immediate.

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Disclosures