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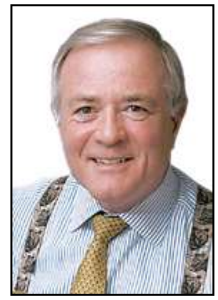
William Rutherford

The U.S. government shutdown: 'Play it again, Sam?'

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The U.S. has just completed the longest government shutdown in its history. The shutdown came to an end when President Trump backed down from his demand that the government fund his oft promised wall on the southern border of the U.S.

Trump's "big, beautiful wall" was to be paid for by Mexico. When that didn't happen, he demanded that the U.S. government pay for the wall. The price tag is estimated at $5.7 billion. When the House of Representatives refused the funding, the president allowed "non-essential" government services not to be funded – an act that he said he was "proud to own."

After the economy teetered on the brink, the shutdown ended. Government services resumed. Employees, who had not been paid for a month, are in the process of catching up on the work not done during the stoppage. Among the many consequences, the Federal Reserve had to make interest rate decisions at its January meeting without full details of the economy. The Fed wisely decided not to change rates.

Now negotiations are going on within the government as to whether or not the government will pay for the wall. Three weeks were allocated to make that decision. President Trump, who advertised himself as a champion dealmaker, has so far found a deal elusive. He now says that he does not believe current negotiations will yield a solution that he can accept. Since he is apparently playing no role in the negotiations, it is likely that he will not approve any proposal. The question then arises: What will happen next? The president's State of the Union speech provided no answers.

The fallout from this recent shutdown was bad for the president; his already low approval ratings slipped further. So will he now play that tune again? Will he shut down the government again?

If Trump shuts down the government again, that is probably the end of his presidency. But he wants the wall built. Perhaps the Democrats in Congress will give him some of the money, but not all. Likely the president will find that unacceptable. He could declare a state of emergency and allocate the funds needed to build a wall. A state of emergency is a seldom used approach, since it is generally thought to involve an imminent emergency. None exists here. If today is an emergency, then an emergency becomes whatever a sitting president declares it to be. Then the question would be: Do we have a constitutional government or a dictatorship?

Surely a U.S. president has broad powers, but are they unlimited? No doubt litigation would ensue. It has always been assumed that there were limits, but that has never been tested.

So what does all of this mean for the economy? I have repeatedly written that the market hates uncertainty. The "emergency" path would represent uncertainty writ large.

An example of what happens with market uncertainty was December 2018. The market suffered its worst month since the Great Depression, plunging nearly 20 percent. The president called it a "glitch." Subsequently, the trade controversy seemed to ameliorate somewhat, and when the Federal Reserve clarified its intentions for the economy, the market recovered, resulting in the best January since 1987. Jobs grew for the 100th month in a row.

Now it is expected that the Fed will not raise rates more than twice this year, and maybe only once. Economic growth is slowing, but not stopping. Profits are expected to rise moderately, but not robustly. Consumer confidence is lagging, and the consumer generates 70 percent of U.S. GDP. The economic outlook for purchase managers is down. We are still in tariff wars. The British are likely to have a hard Brexit. For the first time in years, the Russians and Chinese are united against the U.S and gaining allies worldwide. One can look throughout the world and see that the U.S has become isolated, particularly as the current administration jettisons hard-won treaties and alliances. And yet, the U.S. economy has not gone negative; it's continuing to grow, but slowly. But do we need another constitutional crisis? Do we need to play it again, Sam? I think not.

Data released recently confirms the economy is slowing, but not entering recession territory. So far this reporting period, over 50 percent of companies have exceeded expectations. January equity market activity was strong. It is not the time to throw out the baby with the bathwater. Investors need to maintain a steady hand.

William Rutherford is the founder and portfolio manager of Portland-based Rutherford Investment Management. Contact him at 888-755-6546 or wrutherford@rutherfordinvestment.com. *Information herein is from sources believed to be reliable, but accuracy and completeness cannot be guaranteed. Investment involves risk and may result in losses.*