**MEDIA: Radio**

**STATION: Bloomberg Radio**

**MARKET: National**

**DATE: 2023-09-06**

**TIME: 02:09 PM ET**

**PROGRAM: Sound On**

**SUBJECT: Libby Cantrill - US Public Policy**

**PAGE COUNT: 4**

**JOE MATHIEU, BLOOMBERG RADIO:**

You know Libby Cantrill, the Managing Director and Head of Public Policy at PIMCO, who has been watching this, and Libby, you're out with a client note here that's specific to these ingredients, writing that they are more potent than what we have seen in recent memory. What is it that makes this shutdown a little bit scarier than usual?

**LIBBY CANTRILL, PIMCO:**

Good afternoon. So I think there are a few things. One is just the fact that there's a very skinny House majority. Republicans only have a five seat majority. That means that they practically really can't lose many votes in order to get that 218 number that they need in order to pass the bill. And then, I think, just as Gregory just mentioned, there is buyer's remorse for this debt deal that, as we should note, about two-thirds of the Republican conference of the House actually voted for, so they did support raising the debt ceiling. And of course, in that deal, there were top line spending limits for next year, for the next fiscal year and for fiscal year 2025, but some of those folks do have buyer’s remorse. They feel like, especially with the Fitch downgrade of the U.S. debt credit quality, that the time is now in order to push for these austerity measures. Folks don't want to have the CR, this short-term stopgap that we've seen before. And as a result, again, even though these spending levels were already agreed to in the June debt ceiling deal, a lot of folks are walking back and threatening a shutdown. And I think what we're telling clients is this is more than just an empty threat. We do think there is a faction of folks in the House Republican Caucus who are ready and willing to shut down the government at least for a period of time.

**MATHIEU:**

Well, that means something when Libby Cantrill says it. You go further though and throw on a little history at us here, Libby. Since 1976, there have been 20 funding gaps as we call them, but there have been only four times in which the government has formally shut down in recent memory as well. In 2013, we remember 18, 19. This time around, you see a full shutdown being more likely. Can you describe to our viewers and listeners the difference?

**CANTRILL:**

Yeah, and I think this is a distinction with a difference and it says there's an important one and one I don't think actually the markets are really paying attention to. Previously in 2018, 2019, we saw a 35-day shutdown of the government, but Joe, importantly, that was only a partial shutdown. It was only part of the government and that has implications both for economic growth, meaning that the economic impact of a partial shutdown is really less significant than a full shutdown, but then also for economic data. And this is really important, especially when you're thinking about the will they or won't they in terms of the Fed moving, particularly in November. If the full government shuts down, that means practically that we do not have unemployment data. We don't have CPI data. We don't have GDP data and it is very hard to imagine a Fed raising rates in that environment. So that is the implication of a full government shutdown versus a partial one, which we saw, again, recently in the 2018- 2019 timeframe. This one looks like if the government were to shut down, it would be the full enchilada, so to speak. It would be the entire government. And as a result, it would have reverberations for economic growth in the short term, but then also importantly, in terms of access for that economic data. I think that's actually quite crucial from a market perspective.

**MATHIEU:**

You write that social security and Medicare would not be disrupted, at least checks to recipients would not be disrupted. But the SNAP program, for instance, food stamps, Libby, would be. This is important to talk about because we do hear some members in Congress say, hey, go ahead, shut it down. It won’t make a difference anyway. But it would for millions of people.

**CANTRILL:**

It would, and again, practically for folks who are on those food security programs, for people who are going through the airports, TSA, most of those employees will be deemed as an essential employee, meaning that they will still work, but they won't receive a paycheck. And we all know how cheerful people are having to go to work and not receive a paycheck. And so we could actually see disruptions, and national parks will be shut down. So again, and this is not not to be hyperbolic here, but we do think that the chances of a broader full government shutdown are really much higher than they have been in recent memory. And again, this is coming and coinciding with a period of time from an economic perspective where there are already a lot of fiscal headwinds that are likely going to take hold, whether it's the student loan repayments, whether it's tax collection for those California taxpayers who haven't had to pay because of the national disaster zones, or what have you, that their tax bill comes due in October. There's some childcare benefits that are rolling off at the end of September.

So we see this as — we're calling it a window of weakness from a fiscal perspective this fall. And that again could just be exacerbated should we see this full government shutdown. So we don't want to get hyperbolic, but this could be an important macro factor going into the fall.

**MATHIEU:**

This strikes me as far from hyperbolic. We've got to talk about reality here if this happens, especially if everybody in Washington thinks it's going to happen. This is the first real conversation that I've heard that details actually what the impact would be. And when we consider the impact potentially on the financial markets here, what Wall Street might think about it, Libby, you just pointed out something really interesting here that some folks might not consider. No economic data released. How does the market live in that world? If this did become a prolonged shutdown, what's the impact there?

**CANTRILL:**

Yeah, I think we would say outside of the gross impact, some of these estimates are 20 basis points of shaving off growth a week. Now, a lot of the employees who would not be paid during a shutdown do get back pay. But Joe, this is also an important nuance that we're talking about with our clients, is that federal contractors don't necessarily receive that back pay. And they're about four million federal contractors. So again, if this goes on for a prolonged period of time, from a growth perspective, the growth impact can be a little bit more severe than I think a lot of economists have said. And then again, just the fact that there won't be access to payrolls, to JOLTS, to CPI, to GDP growth. All of that stuff will come out eventually. But the folks who are actually doing that data collection who are calculating those figures, oftentimes are not deemed as essential workers. And so they are not doing that in real time. And as a result, there will be a delay there. So again, I think from a market's perspective, the fall already looks like it could potentially be more uncertain because of some of these headwinds that are going to be facing consumers. And again, we just think that the government shutdown, especially if it's a prolonged government shutdown, the last thing I'll say on that, if the government does shut down in October, so September 30th, the deadline, if Congress doesn't come to a resolution before then, I guess my worry is, what is the catalyst for there to actually be a bargain? I'm not sure politically if there is one that's really short term or really in the immediate future. And as a result, you could be looking at a bit more of an extended government shutdown. And we haven't had that full government shutdown longer than 16 days ever, so we actually don't really know what the economic impact of that would be.

**MATHIEU:**

My God. And we're not looking to make history in this case, Libby. We're all being cheerful. Well, so what are you hearing, though, from investors? Does the investment community expect to shut down or is Wall Street giving this a ho-hum right now And there's going to be a big freak out when it happens?

**CANTRILL:**

I think this is honestly more of a ho-hum. I've really been surprised at talking to some folks, people that are clients, but even other market participants. For some folks this is on their radar screen, but they just really don't think it's a big issue. And for others, they're not even paying attention because they do think there's been so much noise out of Washington. I wrote this in the note that there is this expectation that even though Congress often doesn't turn their homework in until the last possible moment, they usually do get their homework done. Our concern is politically right now the stars really don't seem to be aligned in order for there to be a compromise before the September 30th date.

**MATHIEU:**

Boy, some real talk, straight talk with Libby Cantrill. Thank you for your take. This is important. If this happens, people need to know what's coming. And it's great as always to share your expertise with our viewers and listeners.