



## UNITED STATES

### End of the budget impasse... for now

Congress at last passed a bill ending the budget impasse of recent weeks, and the President has signed it. Once again, the agreement was reached at the last minute, just before the date the U.S. Treasury identified as the time when it would have exhausted the extraordinary measures used to avoid defaulting on payment—today.

The shutdown is now over. The government will be able to finance itself until January 15, 2014. That is not very far away, but is better than the November and December dates that had been circulating over the last few days. Government workers are returning to work today and will be paid for their lost days, mitigating the economic impact of the temporary halt by government activity.

The debt ceiling is suspended until February 7. However, Treasury reserves the right to use special measures to extend the period before defaulting on payment. The risks of such an event have therefore been pushed back several months, past February 7.

Although it had been the cornerstone of the House Republicans' position, no major changes were made to President Obama's health care reform. The agreement only asks the government to conduct stricter revenue checks on citizens requesting a subsidy to get private insurance.

A process to resolve budget disputes has been instituted which involves both chambers of Congress; it must render its findings by December 15. However, the agreement does not stipulate any consequences for standoffs in these negotiations.

All is not lost for House Republicans, however. The level of spending that will remain in place until January 15 continues to respect the automatic cuts (sequester) and the spending caps resulting from the 2011 agreement on the debt ceiling. Federal expenditures are therefore much closer to the latest Republican budget proposals than those of the president or Democrat senators.

**Implications:** The agreement reached yesterday does not change the federal government's budget situation, but the impasse has probably entailed substantial economic costs. We can assume that quarterly annualized real GDP growth for the fourth quarter took a hit of around 0.3 to 0.5 percentage points. Our latest scenarios, which call for real GDP growth of 2.2% this fall, factor in this bite. It now remains to be seen if the effects on household, business and investor sentiment are greater and more lasting than feared. Movement by the next post-shutdown confidence indicators will be especially interesting to analyze.

The U.S. political and budget problems are clearly not solved. However, starting now, financial markets will be able to focus on the economic and financial situation once again. We will also have to tackle an avalanche of economic indicators over the coming weeks, as the publication schedule was fairly disrupted. It will be important to differentiate the direct effects of the budget impasse from the underlying health of the economy. We will certainly have to wait for several weeks before getting a clear picture of the economic situation in the United States.

The budget impasse proves that the Federal Reserve (Fed) had reason to opt for prudence in September and not announce any reduction to their bond purchases. The shutdown's effects, still unknown, and the new deadlines at the start of next year may prompt the Fed to wait until March before starting to taper their purchases. In the short term, upside pressure on bond yields should therefore be weak.

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