

US Daily: The Q4 Pothole: Student Loans, Shutdown, and Strikes (Walker/Phillips)

- Three developments are set to temporarily slow growth in Q4. First, we expect the resumption of student loan payments to subtract 0.5pp from quarterly annualized GDP growth. However, the risks lean toward a smaller effect, as some borrowers might not resume payments right away and some are likely to qualify for the Biden Administration's income-based repayment plan.
- Second, the federal government looks more likely than not to temporarily shut down. A government-wide shutdown would reduce quarterly annualized growth by around 0.2pp for each week it lasted after accounting for modest private sector effects. Our baseline is that a shutdown could last for 2-3 weeks, although a shutdown is not a foregone conclusion and the timing is uncertain.
- Third, we estimate that reduced auto production from a potential UAW strike would reduce quarterly annualized growth by 0.05-0.10pp for each week it lasted, if all three companies currently undergoing contract negotiations are impacted. In both the case of a government shutdown and the case of a UAW strike, growth would rise by the same amount it declined in the quarter following their end.
- Taken together, we expect quarterly annualized GDP growth to slow from +3.1% in Q3 to +1.3% in Q4 (vs. consensus of +2.9% and +0.6%). We expect the slowdown to be shallow and short-lived, with GDP growth rebounding to +1.9% in Q1 (vs. consensus of +0.1%) as these temporary drags abate and income growth reaccelerates on the back of continued solid job growth and rising real wages.

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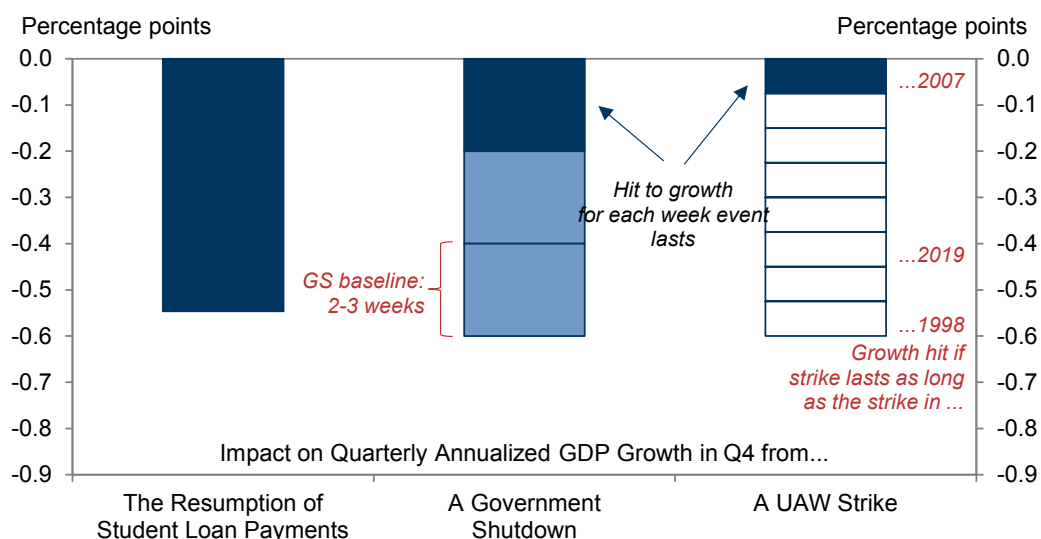
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The Q4 Pothole: Student Loans, Shutdown, and Strikes

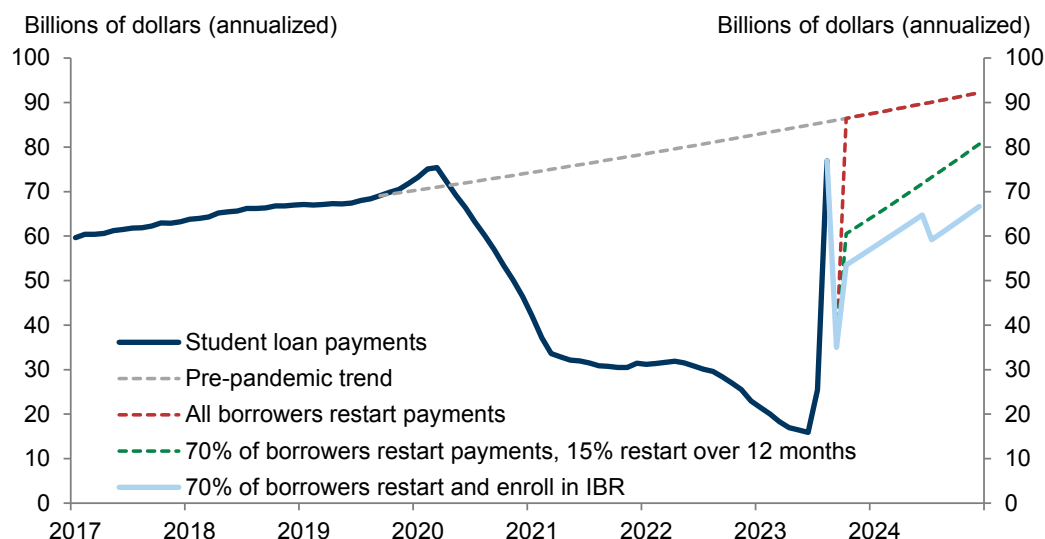
GDP growth is set to slow meaningfully between Q3 and Q4. This reflects both the fact that Q3 growth (and especially Q3 GDP tracking) likely overstates the economy's true momentum and that three developments are likely to temporarily weigh on growth in Q4 (Exhibit 1). In this *Daily*, we assess the hit to growth from each of those drags.

Exhibit 1: Three Developments Are Set to Weigh Meaningfully on Q4 Growth



Source: Goldman Sachs Global Investment Research

First, we expect the resumption of student loan payments—which officially starts in October—to subtract 0.5pp from quarterly annualized GDP growth in Q4. The resumption of payments in full would be equal to roughly \$70bn, or around 0.3% of disposable personal income. Assuming that two-thirds of this hit comes out of spending and the impact builds over a few months, the impact on quarterly annualized consumption growth is -0.8pp. However, the risks lean toward a smaller effect, as some borrowers might not resume payments right away and some are likely to qualify for lower payments through the Biden Administration's recently announced income-based repayment plan (Exhibit 2).

Exhibit 2: Not All Borrowers Are Likely to Resume Payments at Prior Levels

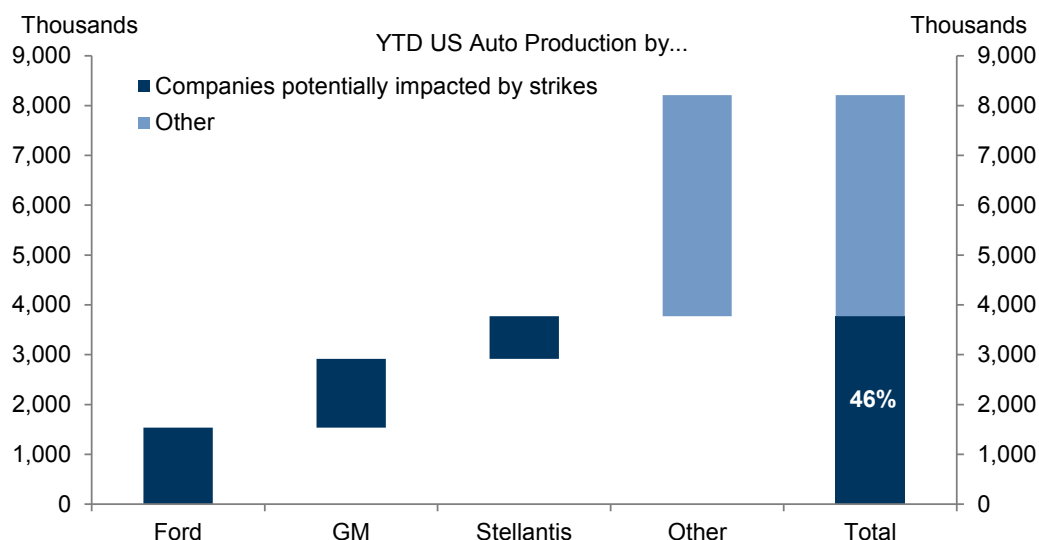
Source: Treasury, Goldman Sachs Global Investment Research

Second, the federal government looks more likely than not to temporarily shut down later this year. We estimate that a government-wide shutdown would reduce quarterly annualized growth by around 0.20pp for each week it lasted, reflecting a 0.15pp direct effect from reduced federal consumption and a 0.05pp indirect effect from spillovers to private sector activity. Our baseline is that a shutdown could last for 2-3 weeks and would most likely come in Q4, although the timing is uncertain and a shutdown is not a foregone conclusion. Leaders of both chambers support a temporary extension after the end of the fiscal year on Sep. 30, and potential emergency funding requests raise the odds that Congress passes at least one extension before any shutdown.

Third, we estimate that lower auto production from a potential UAW strike would reduce quarterly annualized growth by 0.05-0.10pp for each week it lasted if it impacts all three companies currently undergoing contract negotiations. The current union contracts are set to expire at 11:59pm ET this Thursday, September 14. As a result, the potential hit to growth from strikes could begin in Q3. Those three companies—Ford, GM, and Stellantis—produce almost half of domestically-assembled cars (Exhibit 3). Auto production would likely fall sharply—we assume to roughly zero—at any company impacted by a strike.¹ In both the case of a government shutdown and the case of a UAW strike, growth would rise by the same amount it declined in the quarter following their end.

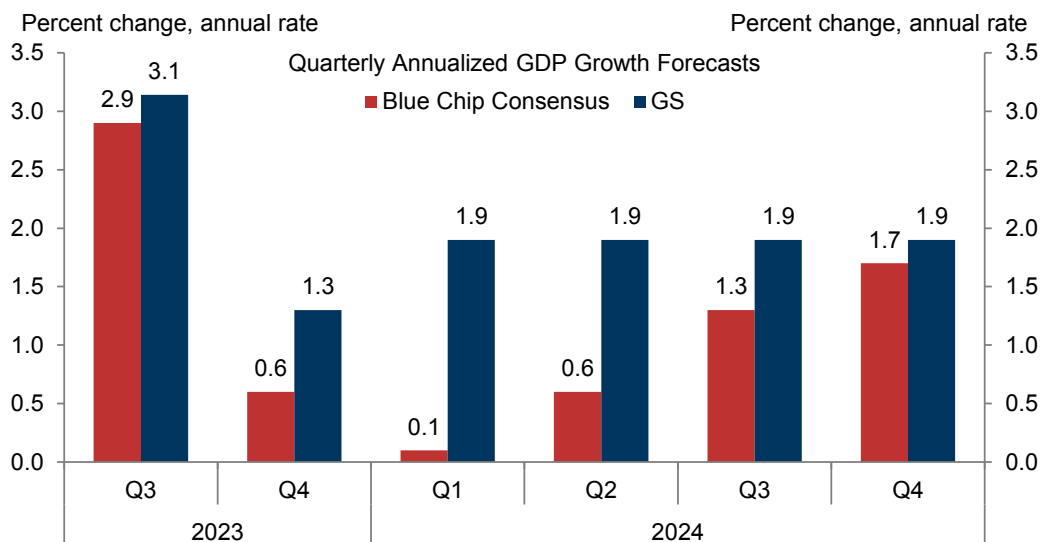
As is also the case with a government shutdown, the cumulative impact on GDP growth from a UAW strike is uncertain because a strike is not a foregone conclusion and its duration is uncertain. At one end of the duration spectrum, the 2007 UAW strike at GM lasted just 3 days, while at the other end, the 1998 UAW strike at GM lasted 54 days.

¹ If all three companies are impacted by strikes, we estimate this would lower the level of GDP by 0.2-0.3% for the duration of a strike. We divide 0.2-0.3% of GDP by 13 weeks and then multiply by 4 to find the effect on the qoq annualized growth rate.

Exhibit 3: Almost Half of Domestic Auto Production Comes From Companies That Could Be Impacted by a UAW Strike


Source: Wards Intelligence, Goldman Sachs Global Investment Research

Taken together, we expect quarterly annualized GDP growth to slow from +3.1% in Q3 to +1.3% in Q4 (vs. consensus of +2.9% and +0.6%). We expect the slowdown to be shallow and short-lived, with GDP growth rebounding to +1.9% in Q1 (vs. consensus of +0.1%) as these temporary drags abate and income growth reaccelerates in 2024 on the back of continued solid job growth and rising real wages.

Exhibit 4: We Continue to Expect Much Stronger Growth Over the Next Year Than Consensus


Source: Blue Chip, Goldman Sachs Global Investment Research

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Disclosure Appendix

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