Post-shutdown: SoCal economy could take months to recover from the damage

Wendy Lee | October 17th, 2013, 9:00am

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Even though the deal is done and Congress has ended the 16-day federal shutdown, the Southern California economy could take weeks or months to shake off the ill effects, according to local economists and business leaders.

After 16 days, the government shutdown has finally ended, but economists say it will take a while before Southern California’s economy recovers. Closed National Parks put a damper on tourism and thousands of federal workers in Southern California on furlough hurt sales at restaurants and stores. KPCC surveys the impact the shutdown had on some sectors and takes a look at what happens next.

SoCal Businesses

Businesses that rely on government contracts such as firms related to the defense industry, suffered during the shutdown. Unlike government employees who will receive back pay for their furloughed weeks, many people who work for government contractors will not get paid for the weeks they didn’t work, said Ruben Gonzalez, vice president for public policy and political research for the Los Angeles Area Chamber of Commerce.
“Unless they were able to be shuffled off to other work assignments, a lot of employees for contractors just had to eat that loss,” Gonzalez said.

During the shutdown, some larger businesses were able to put employees on other projects that are non-government funded or turn to private funding to fill the gap, but other companies had to furlough employees or initiate work stoppages, he said.

Gonzalez said after the shutdown ends, businesses will call up their contacts in the federal government and see how they can get work restarted.

“The revenue that came in for the hours of work and value that would be created during those two, three weeks, you can’t get that back,” Gonzalez.

The financial hit to businesses also has other implications for the Southern California economy, said Anil Puri, dean of the Mihaylo College of Business and Economics at California State University Fullerton. He said business people were concerned about the uncertainty surrounding the shutdown.

“When business sentiment drops, employment plans change, inventory plans change and businesses halt whatever they are doing to wait and see what happens,” Puri said.

He said it could take several weeks to a few months for the businesses to get their work back to pre-shutdown levels.

**Military veterans**

The U.S. Department of Veterans Affairs processes claims that veterans file for disability or health conditions like diabetes. The federal VA was closed during the shutdown and will reopen to a backlog of claims.

J.P. Tremblay, deputy secretary for the California Department of Veterans Affairs told KPCC that if the shutdown were to last for more than a month, it would create a backlog of 9,000 to 10,000 claims. He said on Wednesday up-to-date estimates weren’t available yet.

**Tourism**

During the shutdown, National Parks from Yosemite to Joshua Tree National Park were closed, hurting tourism businesses that rely on park visitors. The shutdown occurred during the beginning of Joshua Tree National Park’s busy season, where on a given day 7,000 would visit the park, according to an earlier KPCC report. The park reopened on Thursday.
Nada Bus, a Commerce-based company that rents out charter buses to foreign-based tour operators, lost at least 20 to 25 percent of its sales. About 10 to 12 tours were cancelled during the government shutdown, with trips planned for places like the Grand Canyon and Zion National Park, said Joe Martinez, Nada Bus' sales manager. On average, tour agents can pay $1,000 a day to $1,200 to $1,400 a day to rent a charter bus, he said.

Martinez said his company has offered more discounted rates for his buses and his bus drivers worked fewer hours during the shutdown. Now that the National Parks are reopened, he's optimistic the tours will come back.

"We'll see more tours come toward November and hopefully in December than we were normally expecting. That's what we're hoping will happen," Martinez said.

**Home sales**

The shutdown may have also put a damper on the Southern California's housing market. The Federal Housing Administration was working with a skeleton crew during the shutdown and it's possible that FHA-insured mortgage loans may have been delayed, said Stuart Gabriel, director of the Ziman Center for Real Estate at UCLA.

Gabriel also said some consumers may have put off buying or selling their home due to the shutdown.

"Uncertainty throws lots of wrenches into investing plans and the like," Gabriel said. "Certainly the government closure these last number of weeks have been very problematic for them in that regard."

**Consumerism**

Thousands of federal workers in Southern California were furloughed. When federal employees stopped going to their offices, that meant lunch spots like California Pita in Downtown L.A. lost sales. On busy days, lines could stretch out the door, but not during the shutdown.

“We don’t get as big a lunch rush,” said Shawn Davood, the pita restaurant’s store manager.

Davood said sales have dropped 5 to 10 percent and he’s had to cut the hours of his employees by 3-4 hours each week.

Puri with California State Fullerton said it could take a month or two to see if consumer sentiment will be back to normal. The recovery time could impact the holiday shopping season, a crucial time for retailers.
The National Retail Federation said it expects shoppers will spend about $738 on gifts this year, down two percent from last year. About 29 percent of consumers surveyed said the "political gridlock around U.S. fiscal concerns" would impact their spending.

“Though the foundation for solid holiday season growth exists, Americans are questioning the stability of our economy, our government and their own finances,” said Matthew Shay, the federation’s CEO. “We expect consumers to set a modest budget for gifts and other holiday related purchases as they wait and see what will become of the U.S. economy in the coming months.”