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The shutdown deprived the Fed of September's employment report; above, job seekers at a Florida employment fair last month, JOE RAEDLE/ GETTY IMAGES

Data Blackout Leaves the Fed Flying Blind

BY NICK TIMIRAOS

An extended government shutdown is raising the prospect that Federal Reserve officials will make their next interest-rate decision without key economic data that could reconcile a debate over how far and fast to cut rates.

The irony: The bid for a larger rate cut by President Trump and his allies is likely to go nowhere without clear evidence of a rapid deterioration in labor markets that those reports could provide.

The absence of new government data essentially locks in another quarter-point cut at the Fed's next meeting in two weeks following a similar reduction last month. Concerns about a more abrupt job-market swoon overrode jitters about sticky inflation last month, and Fed Chair Jerome Powell indicated this week that that balance of concerns hasn't changed during the recent data blackout.

The lapse in federal funding that began Oct. 1 has suspended the September employment report and will delay inflation releases originally slated for publication this week.

The Labor Department is calling back some furloughed workers to prepare the consumer- price index, originally scheduled for release Wednesday but now due to be released Oct. 24, several days before the next Fed meeting. Central-bank officials use monthly statistical releases to calibrate their economic forecasts that guide their rate decisions.

"From our standpoint, we'll start to miss that data," Powell said at an economics conference on Tuesday. "If this goes on for a while, they won't be collecting it, and it could become more challenging."

New inflation data will help Fed officials, but it doesn't provide the whole picture. For missing indicators of consumer spending and the job market, they are relying on second-tier private-sector sources and anecdotal information from businesses. The data blackout comes at an unusually inconvenient moment because officials are navigating an economy reshaped by Trump administration policy experiments.

Note

Tariffs have raised costs for manufacturers and small businesses, which could push consumer prices up as companies pass along those costs. Trade uncertainty is also leading firms to pull back on hiring to protect their profits. Meanwhile, tighter immigration restrictions might be contributing to slower job gains by crimping labor-force growth.

Officials were already divided over the outlook for the labor market and inflation before losing access to the statistical releases considered the gold standard of economic data. Some officials are nervous about a sudden deterioration in labor demand and more sanguine about inflation.

optimistic or positive about a bad or difficult situation

Note

Others think cooling payroll growth is less concerning because it coincides with slower population gains, and they are more concerned that inflation could prove stickier if the labor market stabilizes.

It is much harder to resolve those disagreements without readings on inflation or the job market, let alone build support for the larger rate cuts sought by Trump and his allies.

"An absence of data makes it really hard to push that committee for a majority to support a more aggressive action," said Matthew Luzzetti, chief U.S. economist at Deutsche Bank. "That leaves you in a place where another [quarter-point cut] is the easiest path forward for October."

On the other hand, a decision to hold rates steady would have likely required at least a combination of strong jobs figures for September with up--ward revisions to prior months.

Three shutdowns in the past 30 years have postponed data releases. In early 1996, the release of the December 1995 employment report was delayed by two weeks because of a 21day shutdown. The consumerprice index, which captures changes in consumers' costs of living, was almost three weeks late. It was released the day after the Fed's January 1996 policy meeting, when officials cut interest rates.

In October 2013, the inflation and employment reports for the prior month were also tardy by nearly two weeks because of a 16-day government shutdown. "The shutdown delayed some releases, but we are far from flying blind," said then-San Francisco Fed President John Williams on the first day of the policy meeting at the end of that month.

Williams, who is now New York Fed president, cited alternative data sources to backfill one government data report on inflation that was late.

A partial government shutdown that began at the end of 2018 delayed the release of Commerce Department data. It didn't affect the Labor Department, which produces the CPI and the payroll report and whose funding had already been approved by Congress and the White House.

Note

In recent years, Fed officials and other Wall Street forecasters have supplemented government reports with privately produced data. For example, the Fed's staff economists calculate a measure of private employment using data from payroll- processing company ADP.

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Employment websites such as Indeed publish their own measures of job vacancies. Credit-card companies and other financial institutions compile weekly measures of consumer spending.

But those figures are often used in combination with government data that have a longer history, particularly for employment, and are seen as among the most rigorously produced indicators of U.S. economic activity.

Private-sector data isn't as broad or representative of the economy as government data, "but if you get enough pieces of information, you can kind of pretty much get a picture of what's happening," Fed governor Chris Waller said last week. Waller said that data suggest the labor market remains weak.

If the government shutdown delays data releases beyond the Fed's next meeting, the resumption of those statistical releases could help reconcile any divisions or set up a more substantial debate around how to set rates in December.

"We could have potentially a string of data which can provide greater information around what's really happened with the labor market over the past few months," Luzzetti said.

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