

Flying Blind

As we recently argued, investors don't need to worry about the federal government shutdown showdown causing a recession. Before the current shutdown, the federal government had been shut for eighty days in the prior thirty years, with none of those days during a recession. In other words, the US economy has been less likely to be in recession when the government is shut than when it's open.

Equity investors appear to understand that, with the S&P 500 down only 0.4% as of the Friday close compared to immediately prior to the shutdown. Stocks are still overvalued as far as our Capitalized Profits Model is concerned.

In the meantime, we got some relatively good news on the federal budget late last week, with the deficit clocking in at \$1.775 trillion for Fiscal Year 2025 (which ended September 30), \$41 billion smaller than the deficit the prior year and \$34 billion smaller than what the Congressional Budget Office projected the deficit would be only two weeks ago.

And yet the overall budget picture remains unsustainable, which ultimately is what this shutdown is hopefully all about: will we reign in federal spending enough to get our fiscal house in order?

In the meantime, unfortunately, the steady stream of government reports on the economy has dried up because of the shutdown. As professional economists, we're not a fan of this particular feature of shutdowns. It's not like spending on data crunchers to generate weekly or monthly economic reports is an important political issue. Nevertheless, we understand that if the rest of the government is shut, the data specialists are going to be furloughed, as well.

But this week there will be a major exception, with the Bureau of Labor Statistics having called back enough staff to generate the monthly report on the Consumer Price Index, albeit later than usual. The CPI report was considered "special" in that the Social Security Administration, which is providing essential services, is required by law to calculate and announce the annual Cost-of-Living Adjustment (COLA) for beneficiaries.

We think consumer price inflation probably ran a little on the hot side in September, although that should diminish in

October due to the recent drop in oil prices. In addition, we will get a report on Existing Home Sales this week, because that is generated by the National Association of Realtors, which is a private group, not run by the government. We're estimating a mild pick up in sales.

Going back a few weeks to when the shutdown started, we do have some economic reports for September, just not as many as usual, and they showed some cracks in the economy. The worst news was the ADP Employment report, which showed a decline of 32,000 in private-sector payrolls for the month. Remember, this comes on the heels of news from a month ago that annual revisions to the official payroll report will show job growth of only about 70,000 per month in year ending March 2025 versus a prior estimate of about 145,000.

Meanwhile, the two ISM reports were tepid, with the manufacturing index at 49.1, lingering below the key 50 level, signaling contraction, and the ISM Services index falling to exactly that key 50 level, the second lowest level this year. Adding to the tepid figures were regional reports from Federal Reserve Banks, showing growth in manufacturing in New York and shrinking manufacturing in Philadelphia.

The best report for the month was on auto sales, as automakers reported that sales remained steady in September at a 16.6 million annual rate, up 3.4% from a year ago. However, these sales may have been boosted by the expiration of federal tax credits electric vehicles purchased before September 30.

We also have all the usual economic reports for July and August, and so we still feel comfortable with our estimate that Real GDP grew at about a 3.5% annual rate in the third quarter. But we highly doubt that continues into the fourth quarter, where our very early guess is that Real GDP grows at a much slower 1.5% rate, instead.

As far as the shutdown goes, it looks like it's not on the verge of ending just yet. The longest shutdown in Trump's first term lasted five weeks. And with the stakes even higher and his Administration's ambition on spending cuts even more dramatic, this one looks ready to last well into November.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
10-23 / 9:00 am	Existing Home Sales – Sep	4.060 Mil	4.070 Mil		4.000 Mil
10-24 / 7:30 am	CPI – Sep	+0.4%	+0.4%		+0.4%
7:30 am	"Core" CPI – Sep	+0.3%	+0.3%		+0.3%