



Uncertainty rises as US government shuts down

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The US federal government has shut down following congress' failure to agree on a spending bill. The standoff comes despite the House narrowly passing a resolution to extend funding for a further seven weeks, with Democrats in the Senate voting against the legislation until healthcare spending concerns are resolved.

The shutdown will see essential services, including military personnel, air traffic controllers and TSA officers, working on an unpaid basis. In contrast non-essential federal services will cease activity altogether, with somewhere in the region of 750k workers in these agencies being furloughed (although President Trump has threatened to permanently fire some of these employees).

The shutdown marks the first since the end of 2018, when the federal government remained shuttered for a period of 35 days. The economic impact of that shutdown was negligible on an aggregate basis, although spending dropped during the shutdown it rebounded sharply as workers received pay retroactively once the shutdown ended.

Past episodes of government shutdowns have also tended to have a limited lasting impact on financial markets, with short-term impacts being offset once a resolution was reached.

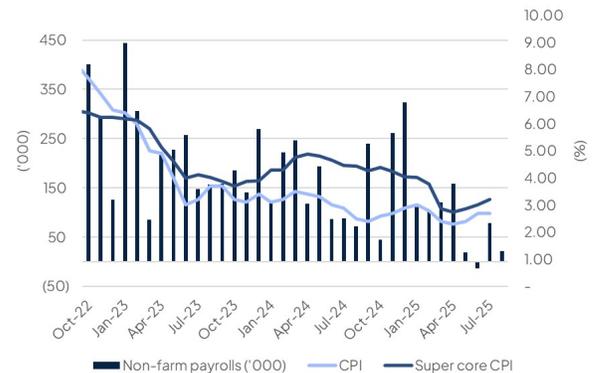
Is this time different?

The bigger issue during the latest shutdown centers on the impact on statistical agencies, most notably the Bureau of Labor Statistics (BLS). During the 2018-2019 shutdown the BLS was funded and remained operational as usual.

This is in stark contrast to the current situation where the BLS will not continue collecting or publishing data, meaning that important statistics used by policy makers will be delayed. There may also be additional concerns about the quality of data when it is published, given difficulties in retroactively collecting data.

This poses a difficult situation for the Fed, with potential delays to payrolls, GDP, and inflation data, depending on how much longer the shutdown lasts. The September payroll data, originally due to be

published on Friday, puts the Fed in a particularly tricky situation given the FOMC's focus has shifted from concern around the potential inflationary impact of tariffs to worries around a weakening labour market. Weaker recent NFP prints appear to have played an important role in the Fed's 25bps rate cut in mid-September.



Source: Bloomberg, Emirates NBD Research.

The August JOLTS data, released yesterday, pointed towards a continued softening in the labour market, with the hiring rate falling to 3.2% (the lowest since June 2024) and voluntary quits dropping to the year's lowest level, signaling weakening worker confidence.

The FOMC is due to meet at the end of October again, with the possibility that the committee's data-dependent approach will be bereft of important statistics to decide on further rate cuts. At present financial markets are still pricing in a 95% probability of a 25bps cut in October, and a 75% chance of a second 25bps cut in December.

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