



VIEWPOINT

Economic Commentary:

Interpreting the Economy Without
Government Data

October 2025

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The indefinite government shutdown and suspension of federal data releases have made the economic landscape more difficult to navigate for both the Federal Reserve and business leaders. With many key indicators – such as employment, inflation and trade – temporarily unavailable, policymakers are relying on private surveys and alternative data sources to guide decisions. This disruption comes at a critical juncture, as the Federal Open Market Committee (FOMC) continues to balance persistent inflation pressures against a softening labor market in its data-dependent approach to monetary policy.

Persistent Price Pressures Despite Tariff Headwinds

Inflation remains the central focus of the Fed's policy deliberations. August's headline Consumer Price Index (CPI) rose 0.4%, the largest monthly increase since January and slightly above expectations, lifting the annual rate to 2.9% from 2.7%. Core CPI increased 0.3% for the month, holding steady at 3.1% year-over-year. Tariff effects were visible in core goods prices, which climbed 0.3% – the strongest monthly gain since January. Goods prices rose 1.4% over the past year, while services inflation remains far higher at 3.8%, underscoring that most price pressures continue to come from the service sector.

The Fed's preferred inflation gauge, the Core Personal Consumption Expenditures (PCE) Index, increased 0.2% in August, as expected, keeping its year-over-year rate at 2.9%. While inflation has fallen sharply from its 2022 highs, it remains above the Fed's 2.0% target. Policymakers expect some easing in 2026 as the impact of tariffs fades, but near-term progress toward price stability has slowed.

Resilient Consumption Fueled by Savings & Credit

Real disposable personal income, the key support for household spending, rose just 0.1% in August. Since April, however, real income has declined at a -1.2% annualized rate, as inflation continues to outpace wage gains and erode purchasing power. Despite this squeeze, consumer spending remains resilient. Real personal consumption expenditures rose 0.3% in August and have grown at a 2.6% annualized pace since April.

That strength, however, is being financed by savings rather than income. The personal saving rate fell to 4.6%, the lowest level of 2025. Consumers appear willing to dip into savings and rely more on credit to sustain spending, but this dynamic may be difficult to maintain if labor market conditions weaken further or borrowing costs remain elevated.

Headline Growth Masks Profit Declines & Tariff Impacts

The third and final estimate of second-quarter GDP showed growth was revised up to 3.8% from 3.3% in the prior estimate. The upward revision reflected lower imports (which are subtracted from GDP) and stronger consumer spending, particularly on services, as well as increased business investment – likely tied to artificial intelligence–related technology upgrades.

Despite the strong headline number, the details suggest caution. The quarter's growth was influenced by first quarter's strong import activity that had been pulled forward in anticipation of tariffs, distorting the underlying trend. Looking at the first half of 2025 in total, real GDP grew at a 1.6% annualized rate, consumer spending at 1.5%, and corporate profits declined by \$40.9 billion (-2.1% annualized).

Revised second quarter corporate profit figures showed a sharper drop than initially estimated, down to \$6.8 billion from \$65.5 billion previously, as tariffs compressed margins and raised input costs. While recession odds have eased somewhat, overall growth remains modest and the economy vulnerable to external shocks given the combination of slowing profits, tariff effects and cooling demand.



Manufacturing & Services Show Signs of Strain

Manufacturing remained in contraction territory in September. The ISM Manufacturing Index rose slightly to 49.1 from 48.7 in August but stayed below the neutral 50 level for a seventh consecutive month. The Production subindex improved to 51.0, yet New Orders (48.9), Backlog of Orders (46.2) and New Export Orders (43.0) all point to ongoing weakness. The Employment subindex dropped to 45.3, indicating that firms are prioritizing headcount management over hiring. Only five of 18 industries reported expansion.

The service sector also lost momentum. The ISM Services Index fell to 50.0 from 52.0, signaling a stall in activity. The Business Activity subindex dropped more than five points to 49.9, indicating contraction for the first time since 2020. Measures for Backlog of Orders, New Export Orders and Employment also slipped into contraction, suggesting that service-sector strength – the main pillar of U.S. growth – is easing.

Private Data Signals Softening Labor Market

With the official September Employment Report delayed by the government shutdown, private-sector data have taken on greater importance. While less comprehensive, these reports provide a consistent picture of softening conditions.

The ADP employment report showed a decline of 32,000 private-sector jobs in September, the third monthly drop this year. The National Federation of Independent Business (NFIB) reported a continued decline in the number of unfilled positions among small firms, signaling that job openings are trending lower.

The Challenger, Gray & Christmas report added to the cautious tone, showing that planned layoffs in the third quarter were the highest for any third quarter since 2020. Year-to-date job cuts rank as the fifth-highest total in the report's 36-year history, while announced hiring plans are the weakest since 2009. These indicators suggest that firms are increasingly cautious amid slowing demand and cost pressures.

Fed Rate Cuts Amid Uncertainty & Data Gaps

The FOMC met on September 16–17 and, as expected, lowered the target range for the federal funds rate by 25 basis points to 4.00%–4.25%. The decision reflected mounting evidence of labor market weakness and the need to prevent a sharper slowdown.

At the meeting, the Committee also updated its economic projections through 2027. Growth expectations for 2025 were raised from 1.4% to 1.6%, and for 2026 from 1.6% to 1.8%. Inflation projections were increased to 2.6% for 2026, up from 2.4%, reflecting continued price persistence. Policymakers now anticipate two additional rate cuts by year-end and only one in 2026. However, the split among members is notable – 10 members expect two or more cuts this year, while nine members expect one or fewer, underscoring the lack of consensus within the Fed.

Market expectations largely align with the near-term outlook for two additional cuts in 2025 but diverge further out, with investors pricing in two to three cuts in 2026, compared with the Fed's projection of one.

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John Beuerlein

Chief Economist, Pohlads Companies

The next FOMC meeting is scheduled for October 28–29, but the ongoing government shutdown may leave policymakers without key data on both employment and inflation. The September CPI reading, scheduled for October 15, is likely to be delayed unless the shutdown ends soon. Without access to the Fed's two most important data points – price stability and employment – decision-making will become increasingly challenging, heightening the risk of policy missteps.

The economy remains at a crossroads. Inflation progress has stalled, labor market indicators are weakening, and consumers are sustaining spending by drawing on savings and credit. The loss of government data adds a layer of uncertainty precisely when the Fed needs clarity most.

The near-term path of monetary policy will depend on how quickly the government reopens and whether private indicators confirm that inflation is easing and employment continues to weaken. Until then, businesses should expect cautious policymaking, and limited visibility into the true state of the economy.



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