

US Rates Watch

CPI quirks in potential government shutdown

Shutdown could see delay of data

As discussed in [Morning Market Tidbits](#), one major side effect of a government shutdown would be the delay of published data. Should the Department of Labor (DoL) close, the September CPI report would likely be delayed. In December 2018-January 2019, the longest closure historically, CPI printed on time because the shutdown was only partial and did not include the DoL. The last full shutdown was from October 1-17, 2013 where CPI was delayed but published before the end of the month.

Delay could mean a higher calculated September index

A delay in the release of CPI for the entire month of October would result in UST publishing CPI based on historic data. While this has no impact for the Fed or interpretation of the inflation data, it is important for inflation markets. According to Treasury's Auction Regulations Uniform Offering Circular (UOC):

If the CPI for a particular month is not reported by the last day of the following month, we will announce an index number based on the last available twelve-month change in the CPI. We will base our calculations of our payment obligations that rely on that month's CPI on the index number we announce.

If the September CPI print is delayed until after October 31, Treasury will calculate an index number using the calculation shown in Exhibit 1. This would imply a September CPI of 307.948 vs a current market pricing of 307.310.

Exhibit 1: UST UOC guidance on CPI calculation in event of delay in reporting data

Sep CPI for market could be meaningfully higher in the event of a DoL shutdown

$$CPI_M = CPI_{M-1} \times \left[\frac{CPI_{M-1}}{CPI_{M-13}} \right]^{1/12}$$

Source: US Treasury

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Potential market implications of Sep CPI print delay

Because there are no TIPS cash flows paid out by Treasury in December, the September CPI fixing has few implications for the cash market. This would become a more substantial issue for the cash TIPS market if it persists through November for the October reading and impacts January payments.

However, the CPI fixings market can be affected by probability assigned to a DoL shutdown for the month of October. Since the August CPI release, the September fixing has increased from around 307.200 to 307.310. While some of this may reflect the increase in oil prices and perhaps an actual change in thinking around CPI, it may also point to a build in shutdown risks. Market pricing currently reflects around 15% probability of this scenario occurring. Should shutdown risk pickup, the September fixing would have further room to increase towards the UOC default calculation.

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UST = US Treasury

TIPS = Treasury Inflation Protected Securities

CPI = Consumer Price Index

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