Fed lowers interest rates as it struggles to assess state of US economy without key government data

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Markets were expecting the Fed to cut rates a quarter point.
AP Photo/Seth Wenig

When it comes to setting monetary policy for the world's largest economy, what data drives decision-making?

In ordinary times, Federal Reserve Chair Jerome Powell and voting members of the Federal Open Market Committee, which usually meets eight times a year, have a wealth of information at their disposal, including key statistics such as monthly employment and extensive inflation data.

But with the federal shutdown that began Oct. 1, 2025, grinding on, government offices that publish such information are shuttered and data has been curtailed. As a result, Powell and his Fed colleagues might have considered the price of gas or changes in the cost of coffee to arrive at their decision to cut interest rates a quarter point at their latest monetary policy meeting, which ended Oct. 29, 2025.

The Federal Reserve's mandate is to implement monetary policy that stabilizes prices and promotes full employment, but there is a delicate balance to strike. Not only do Powell and the Fed have to weigh domestic inflation, jobs and spending, but they must also respond to changes in President Donald Trump's global tariff policy.

As an economist and finance professor at the University of Notre Dame, I know the Fed has a tough job of guiding the economy under even the most ideal circumstances. Now, imagine creating policy partially blindfolded, without access to key economic data.

But, fortunately, the Fed's not flying blind – it still has a wide range of private, internal and public data to help it read the pulse of the U.S. economy.

Key data is MIA

The Fed is data-dependent, as Powell likes to remind markets. But the cancellation of reports on employment, job openings and turnover, retail sales and gross domestic product, along with a delay in the September consumer price information, will force the central bank to lean harder on private data to nail down the appropriate path for monetary policy.

Torsten Slok, chief economist for the Apollo asset management firm, recently released his set of "alternative data," capturing information from a wide range of sources. This includes ISM PMI reports, which measure economic activity in the manufacturing and services sectors, and Bloomberg's robust data on consumer spending habits.

"Generally, the private data, the alternative data that we look at is better used as a supplement for the underlying governmental data, which is the gold standard," Powell said in mid-October. "It won't be as effective as the main course as it would have been as a supplement."

But at this crucial juncture, the Fed has also abruptly lost one important source of private data. Payroll processor ADP had previously shared private sector payroll information with the central bank, which considered it alongside government employment figures. Now, ADP has suspended the relationship, and Powell has reportedly asked the company to quickly reverse its decision.

With some key data unavailable, the Fed may pay more attention to the price of a cup of coffee to help determine how to set interest rates.

AP Photo/Julio Cortez

Internal research

Fortunately for the Fed, it has its own sources for reliable information.

Even when government agencies are working and producing economic reports, the Federal Reserve utilizes internal research and its nationwide network of contacts to supplement data from the U.S. Census Bureau, the Bureau of Labor Statistics and the Bureau of Economic Analysis.

Since the Fed is self-funded, the government shutdown didn't stop it from publishing its Beige Book, which comes out eight times a year and provides insight into how various aspects of the economy are performing.

Its Oct. 15 report found that consumer spending had inched down, with lower- and middle-income households facing "rising prices and elevated economic uncertainty." Manufacturing was also hit by challenges linked to higher tariffs.

Leading indicators

And though no data is being released on the unemployment rate, historical data shows that consumer sentiment can act as a leading indicator for joblessness in the U.S.

According to the most recent consumer confidence reports, Americans are significantly more worried about their jobs over the next six months, as compared to this time last year, and expect fewer employment opportunities during that period. This suggests the Fed will likely see an uptick in the unemployment rate, once the data resumes publishing.

And if you did notice an increase in the price of your morning coffee, you're not mistaken – both private and market-based data suggest inflation is a pressing concern, with expectations that price increases will remain at about the 2% target set by the Fed.

It's clear that there is no risk-free path for policy, and a wrong move by the Fed could stoke inflation or even send the U.S. economy spiraling into a recession.

Uncertain path ahead

At the Fed's September monetary policy meeting, members voted to cut benchmark interest rates by 25 basis points, while one member advocated for a 50-point cut.

It was the first interest rate cut since December – one that Trump had been loudly demanding to help spur the U.S. economy and lower the cost of government debt. Following the Oct. 29 interest rate cut, markets expect the FOMC to reduce rates by another quarter of a percentage point in December. That would lower rates to a range of 3.5%-3.75%, from 3.75%-4% currently, which would give the labor market a much-needed boost.

But there's lots of uncertainty about where rates are headed from here. On Oct. 29, Powell said there is no guarantee the Fed will cut rates in December – and the future beyond that is even less certain. He suggested the lack of government data due to the shutdown may be an argument in favor of holding rates steady.

At quarterly meetings, members of the Federal Open Market Committee give projections of where they think the Fed's benchmark interest rate will go over the next three years and beyond to provide forward guidance to financial markets and other observers.

The median projection from the September meeting suggests the benchmark rate will end 2026 a little lower than where it began, at 3.4%, and decline to 3.1% by the end of 2027. With inflation accelerating, Fed officials will continue to weigh the weakening labor market against the threat of inflation from tariffs, immigration reform and their own lower interest rates – not to mention the ongoing impact of the government shutdown.

Unfortunately, I believe these risks will be difficult to mitigate with just Fed intervention, even with perfect foresight into the economy, and will need help from government immigration, tax and spending policy to put the economy on the right path.

This article was updated on Oct. 29 with paraphrased quote from Jerome Powell.

Jason Reed does not work for, consult, own shares in or receive funding from any company or organization that would benefit from this article, and has disclosed no relevant affiliations beyond their academic appointment.