

Operating With Limited Data

The Fed has been operating with limited data as a result of the government shutdown. While the government reopened over a month ago, delayed data releases are still slowly rolling out.

The good news is that we haven't been navigating blind. We have other ways to keep a pulse on the economy. Private sector data help. For the most part, they aren't as definitive nor as calibrated, but they can highlight big shifts in economic conditions. In addition, the Fed benefits from collecting real-time information directly from the communities we serve.

Each year my outreach team connects with thousands of business and community leaders; this year, we are on track to meet with about 4,000. We get thousands more responses through our regional surveys of business activity, as well as The CFO Survey.

The Richmond Fed set up these extensive outreach efforts because we recognized that even government data has its drawbacks. It's backward-looking. It's revised multiple times. It's aggregated, so it often doesn't capture underlying nuance.

Outreach helps us understand the economy better, as well as anticipate turning points we might otherwise miss. In 2020, businesses in Bristol, Tenn.-Va., told us of packed shopping malls across the Tennessee border where shutdown rules had lifted; pent-up demand was coming. In 2022, furniture manufacturers told us sales were slowing; the goods boom was cooling. In 2023, firms told us they'd keep testing price increases; pricing psychology had shifted from "no chance" before COVID-19 to "no crime in trying."

Turning to today, here is what the available official data are telling us, what the private data are suggesting, and what my team is hearing.



Demand remains healthy. The last official data, from September, showed a year-over-year increase in real consumer spending of 2.8 percent. Retail sales grew 0.2 percent from August. Driven by artificial intelligence (AI), business investment was robust. Since then, private data haven't signaled much change. Credit and debit card spending remains solid, in the context of low unemployment and buoyant markets. Third quarter earnings and earnings outlooks came in well, suggesting continued support for investment. The elevated uncertainty that businesses perceived earlier in the year seems to be abating.

But in our outreach, the feel is very different by sector. If you build data centers, provide energy, sell to higher-income customers, trade on Wall Street, build pharmaceutical plants, or live in the Carolinas, your economy is hot. But if you're a farmer, a realtor, a manufacturer hurt by tariffs, or are dependent on lower-income consumers, you are struggling. In the D.C. metro part of our district, the government shutdown exacerbated an already challenging situation for

federal workers, local businesses, and institutions dependent on government funding.

Turning to the labor market, while the unemployment rate has ticked up this year, it was still historically low at 4.4 percent through September. Employment growth, on the other hand, is soft. We've been describing a low-hire, low-fire environment with three-month average job growth at 62,000 and layoffs (as signaled by initial jobless claims) stable and low. Private sector metrics haven't suggested much change. Job postings have largely drifted down. Jobs growth as reported by ADP grew in October but contracted in November.

Our outreach points to a somewhat weaker labor market than these numbers suggest. If you ask businesses how they see the labor market today, they say, "balanced." But as they describe that "balance" in more detail, it doesn't seem so. With the exception of skilled trades, labor feels quite available with plenty of quality applicants per opening. Recent layoff announcements by sizable firms like Amazon, Verizon, and Target give additional cause for caution.

I will note it is a challenge to calibrate how much impact slower job growth will have on the unemployment rate because we have been witnessing a rapid drop in the growth of labor supply. My generation is aging out of the workforce, and net immigration is declining. The Bureau of Labor Statistics projects that the labor force will grow 0.3 percent annually over the next decade, well below the annual rate of 0.8 percent over the decade ending in 2024. There may be fewer jobs to fill, but there are also fewer people vying for each job.

Inflation is still above target. The last PCE print shows 12-month headline and core inflation at 2.8 percent through September. We unfortunately

have fewer quality alternative data sources for inflation, as it is easier to monitor the price of coffee than to assess the mix of price changes across the entire consumer basket.

Our outreach leads me to believe inflation remains somewhat elevated but isn't likely to accelerate. Our survey respondents expect higher growth in prices than they did before the pandemic. Where meaningful, they tell us tariff and other input cost pressures need to get passed on. At the same time, we hear customers are exhausted by ever-increasing prices. This isn't 2022 when stimulus, COVID-era savings, and rapid wage growth fueled revenge spending. Today — in the context of weak sentiment — we hear consumers are trading down, pushing back on higher prices by moving to private label, repairing rather than

replacing, and shopping at value-priced retailers. We also hear they are trading off, maybe paying for a new phone by forgoing a vacation.

Increased productivity may also be giving businesses the ability to offset input cost increases. Businesses caught short workers after the pandemic invested in labor-saving technology, process redesign, and more sophisticated staffing models. They may be reaping the rewards now. The recent drop in turnover may be making newer employees more productive. Firms that choose not to hire are naturally increasing their productivity as output grows with lower headcount. Some sectors tell us they are benefiting from the elimination of unnecessary regulation. Notice I made it this far without mentioning the two omnipresent letters: A and I. But they

matter too, with more to come.

So, on net, with what we know, I see pressure on both sides of the Fed's mandate, with inflation above target and job growth down. But I also see mitigants on both sides, with consumer pushback and productivity improvements limiting inflation and labor supply slowing at roughly the same pace as labor demand, reducing the hit to unemployment.



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A longer version of this essay was delivered as an address at Shenandoah University on Nov. 18, 2025.

Interested in learning more about the surveys that help the Richmond Fed understand the economy?

Scan here to access our full suite of regional surveys and analysis, including the monthly business surveys and the CFO Survey.

