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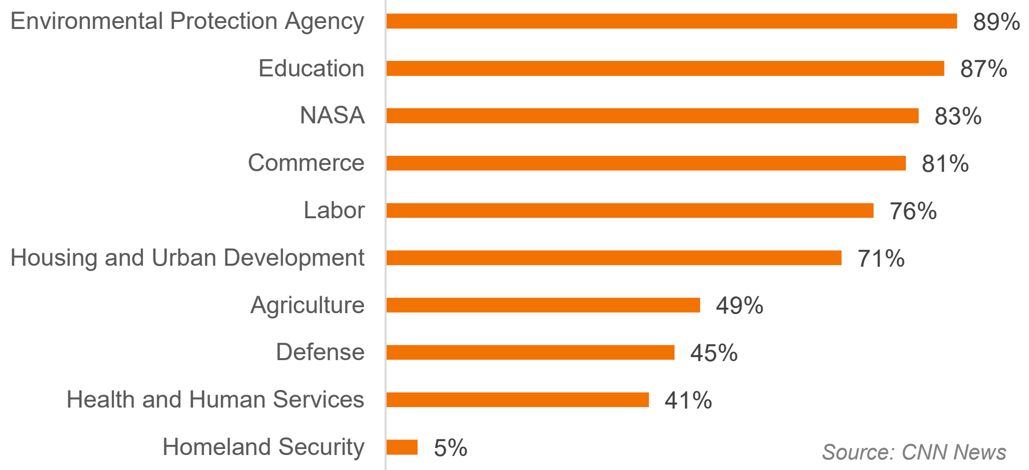
5 OCTOBER 2025

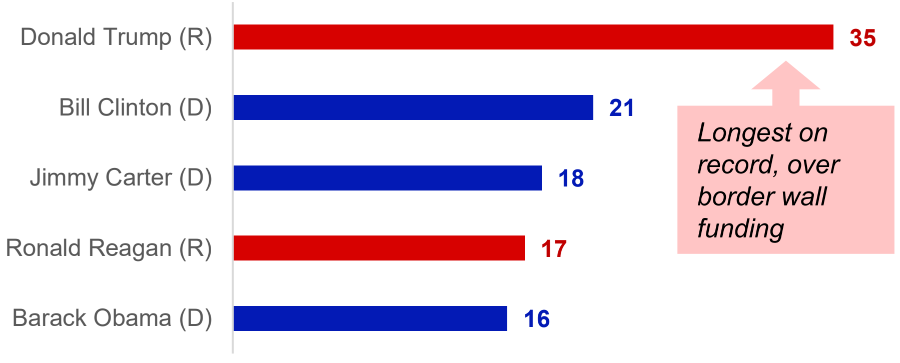
US Government Shutdown: Agency Fallout, Historical Parallels

Government Shutdown: Which Agencies Are Most Exposed?
(Furloughed staff as % of agency workforce)



Source: CNN News

History's Longest Government Shutdowns
(No of days)



Note: There were no government shutdowns during George W. Bush's two terms or during Joe Biden's one term.

Source: Congressional Research Service, Brookings, CBO

The US government **entered a partial shutdown** on 1 October 2025 after Congress **failed to agree on spending bills** for the new fiscal year. **Essential services** such as defence, Medicare and Social Security remain funded, but "non-essential" functions — including the Bureau of Labor Statistics (BLS) and Bureau of Economic Analysis (BEA) — have been suspended, **disrupting the release of critical economic data**. **Attempts to reopen have so far failed**, with both Republican and Democratic proposals rejected in the Senate, underscoring entrenched divisions.

The impasse reflects sharp disagreement over **discretionary spending**. **Democrats insist on continued funding of healthcare subsidies** for lower- and middle-income households, warning that millions could face higher premiums if support lapses. **Republicans, aligned with Trump, are pressing for cuts**, arguing subsidies are fiscally unsustainable and should be rolled back to make room for tax reductions and other priorities. The standoff highlights a broader clash over the **role of government**, the balance between **social spending and fiscal restraint**, and the **credibility of US deficit management**.

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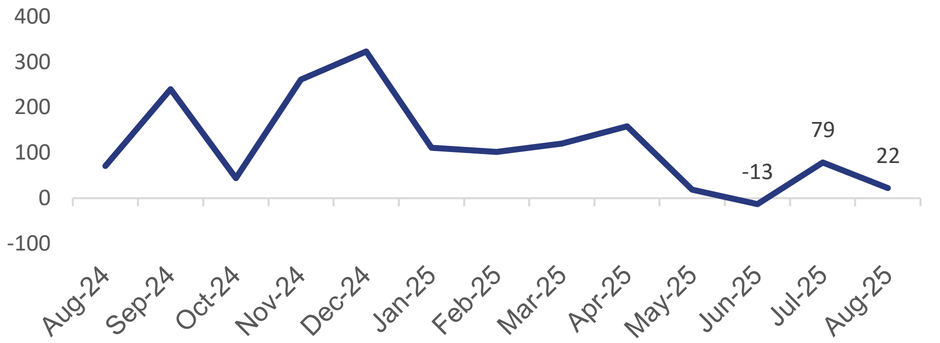
Fed Faces Data Vacuum as Markets Price October Cut

Shutdowns are not unprecedented, but history shows their economic and political costs depend heavily on duration. The **2018–2019 episode lasted 35 days**, the longest on record, and according to the Congressional Budget Office (CBO), it reduced real GDP in 2019Q1 by about 0.2% (annualized). Earlier shutdowns were shorter: the 1995–1996 standoff lasted 21 days, while the 2013 closure ran for 16 days, disrupting sentiment and delaying federal payments but leaving little lasting macroeconomic damage once operations resumed. Many past shutdowns have been relatively brief — often resolved within a week — but **longer standoffs disrupt federal pay, contractor activity, and household confidence**, with measurable effects on output. While CBO avoids giving a "per week" rule of thumb, estimates suggest each extra week of shutdown could shave ~0.1ppt from annualized GDP growth[1], though the eventual impact hinges on the speed of recovery.

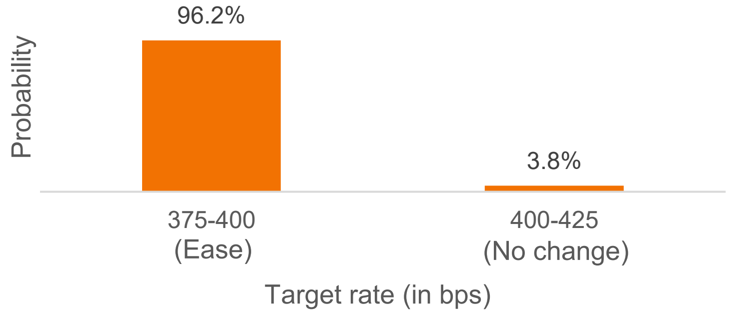
The government shutdown **injects fresh ambiguity into the Fed's rate path**. Markets are overwhelmingly pricing in a **25 basis-point cut in October**. But the shutdown is creating a **data vacuum**—key reports on employment, output and inflation are delayed—forcing policymakers to lean more heavily on soft or alternative indicators. Voices within the Fed reflect this tension: Vice Chair Jefferson warns of a weakening jobs market, while other governors remain wary of prematurely easing with inflation still above target. After the Fed's recent pre-emptive cut, **we expect any further easing to be gradual, with the next move likely towards year-end rather than an aggressive sequence of cuts.**

Job Gains Lose Momentum
(Non-Farm Payroll, sa MoM, Thousand person)



Source: US Bureau of Labor Statistics, CEIC, BMMB Economics

Fed Cut Seen as Base Case for October Meeting



Source: CME Market Watch, BMMB Economics

1 / [The US Government Shutdown Adds Uncertainty To The Economic Outlook]

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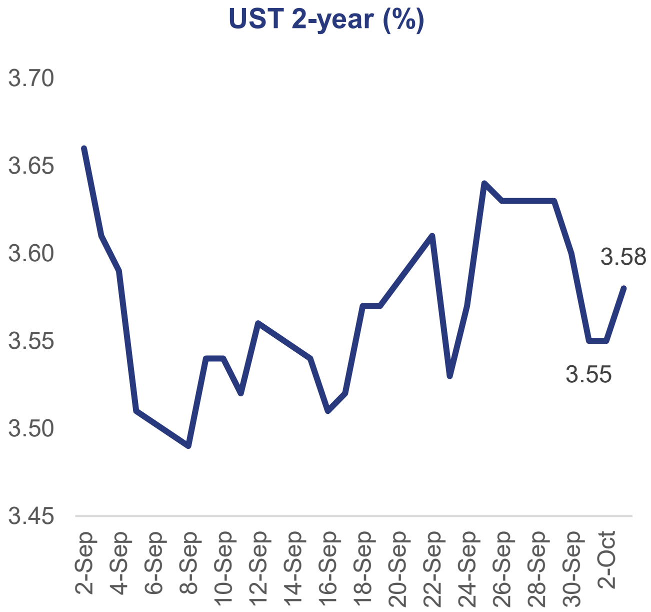
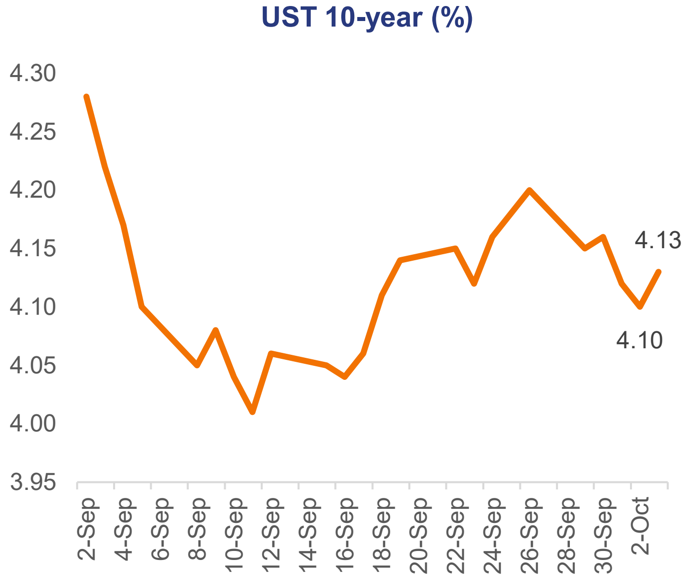
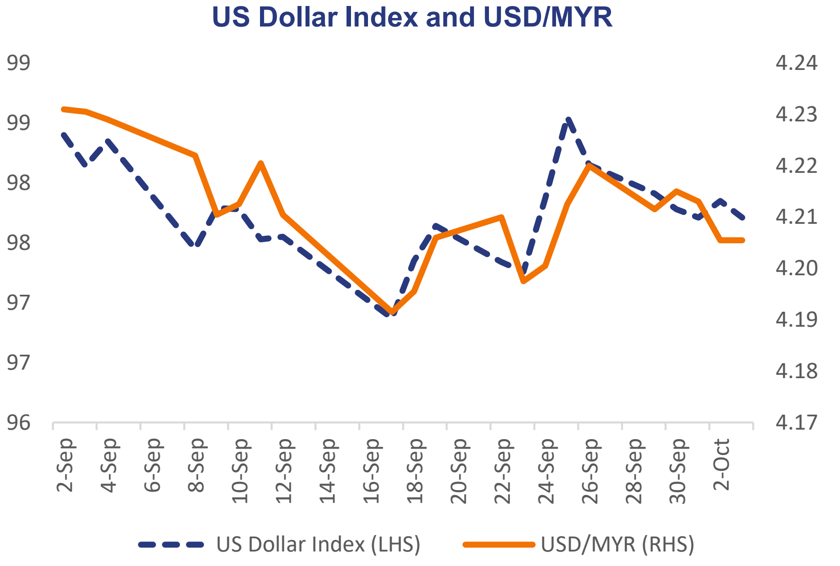
Markets Take Shutdown in Stride: Yields Ease, Dollar Slips







Source: CEIC, BMMB Economics

Market reaction to the US government shutdown has been measured rather than disorderly. The US dollar slipped to a one-week low as political gridlock compounded uncertainty, while Treasury yields eased, led by the 2-year, as investors positioned for a more dovish Fed path. Gold surged further, underscoring safe-haven demand amid fiscal concerns. **For Malaysia, the spillover has been rather muted.** The ringgit has extended gains in line with broader dollar weakness, while local government bond yields remain stable. The immediate impact has been more sentiment-driven than fundamental, consistent with past shutdown episodes. **Our house view remains unchanged.** We continue to project the ringgit at **4.10–4.15 by year-end,** with domestic resilience cushioning against external volatility.