



Facing the Federal Government Shutdown: Everything Puerto Ricans Need to Know

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Why The Government Shutdown Happen?

At 12:01 a.m. on September 30, the United States entered its 22nd government shutdown since 1976, after the Senate failed to pass a continuing resolution (CR) or the required appropriations bills. The measure, backed by Republicans, received 55 votes in favor and 45 against, falling short of the 60 needed.

The main sticking point was healthcare funding:

- Democrats demanded an **extension of Affordable Care Act (ACA)** tax credits set to expire in 2025.
- They also pushed to reverse recent **Medicaid cuts**, particularly federal matching funds.
- They sought to avoid further reductions in health agencies such as the NIH and CDC.
- The Congressional Budget Office (CBO) estimates that about **750,000 federal employees—roughly 30% of the government workforce**—will be furloughed without pay.

Essential services remain operational: Social Security, Medicare, Medicaid, defense operations, air traffic control, TSA, border patrol, and law enforcement.

Lessons from History (1976–2025)

Shutdowns are disruptive, but their economic impact is usually temporary:

- Since 1976, there have been **21 shutdowns of one day or more**.
- Average duration: **5 days**.
- Longest: **35 days (Dec. 2018–Jan. 2019)**.

Start Date	End Date	Duration	GDP Impact	S&P 500 During (%)	S&P 500 3M After
30-Sep-76	11-Oct-76	10	-0.20%	-2.00%	4.50%
30-Sep-77	13-Oct-77	12	-0.10%	0.50%	2.10%
31-Oct-77	9-Nov-77	8	-0.10%	-1.10%	3.20%
30-Nov-77	9 dic 1977	8	-0.10%	-0.60%	2.00%
30-Sep-78	18-Oct-78	18	-0.30%	-3.20%	5.00%
31-Oct-79	9-Nov-79	9	-0.20%	-2.00%	4.20%
20-Nov-81	23-Nov-81	2	-0.10%	-0.30%	2.30%
30-Sep-82	2-Oct-82	1	0%	0.20%	1.80%
17 dic 1982	21 dic 1982	4	-0.10%	-0.60%	2.00%
10-Nov-83	14-Nov-83	3	0%	0.10%	1.50%
30-Sep-84	3-Oct-84	3	-0.10%	-0.20%	1.90%
3-Oct-84	5-Oct-84	2	0%	0.30%	1.40%
16-Oct-86	18-Oct-86	3	-0.10%	-0.20%	3.20%
18 dic 1987	20 dic 1987	2	0%	0.10%	2.50%
5-Oct-90	9-Oct-90	4	-0.10%	-0.50%	2.10%
13-Nov-95	19-Nov-95	5	-0.20%	-3.70%	4.80%
15 dic 1995	6 ene 1996	21	-0.50%	0.40%	5.20%
1-Oct-13	16-Oct-13	16	-0.30%	-2.90%	7.50%
22 dic 2018	25 ene 2019	35	-0.50%	-2.70%	6.40%
30-Sep-25	Present	1			

- Economic losses: the 2018–2019 shutdown **cost \$11 billion**, of which \$3 billion was permanent (CBO).

Impact on GDP:

- Each week of shutdown reduces quarterly growth **by 0.1% to 0.2%**.
- In a \$30 trillion economy, this equals **\$6–8 billion per week**.
- Most of the effect is delayed, not destroyed, since employees usually receive back pay.

Markets:

- During shutdowns since 1980, the S&P 500 averaged **–0.4% return**.
- Three months later, average was **+2.5%**.
- Six months later, markets were higher in **80% of cases**.

What Makes the 2025 Shutdown Different?

Two structural factors make this one more delicate:

1. Possible permanent layoffs

- The OMB instructed agencies to prepare not only for furloughs but also for permanent staff cuts.
- If this happens, household consumption, consumer confidence, and labor supply would be hit, creating a longer-lasting effect than in past shutdowns.

2. Loss of economic transparency

- The Bureau of Labor Statistics (BLS) will halt publications, including:
- Nonfarm payrolls report (Oct. 4)
- CPI inflation report (Oct. 15)
- JOLTS and other employment reports

- This comes at a critical moment before the FOMC meeting on Oct. 30. The Fed will have to rely on private data like ADP and ISM surveys, which provide less visibility.

Market Implications

The shutdown comes amid a strong stock rally with Year to Date Returns as follows:

- Dow Jones: **+9.16%** YTD 2025.
- S&P 500: **+14.40%** YTD 2025.
- Nasdaq Composite: **+17.84%** YTD 2025.
- Birling Puerto Rico Stock Index: **+14.18%** YTD 2025.
- Birling U.S. Bank Index: **+29.30%** YTD 2025.

Immediate Risks:

- October is historically the most volatile month: since 1950, the S&P 500's standard deviation is 5.2%, the year's highest.
- VIX rose from 12.8 in September to 16.29 on 10/1/25.
- 10-year Treasury yield is at 4.12%, signaling a flight to safety.

Earnings Season:

- Starts mid-October.
- S&P 500 EPS expected to grow +7% year-on-year.
- Lack of official data could complicate corporate guidance.

Investor Positioning:

- S&P 500 has gone 178 days without a 5% correction, one of the longest streaks in 20 years.
- In 15 of 20 past shutdowns, stocks were higher six months later.
- Key indicators to watch: Treasuries (safe haven), consumer confidence, Fed signals in absence of official data.

Birling Capital's Final Word: The Federal Shutdown and Puerto Rico's Reconstruction

Puerto Rico is currently undergoing one of the largest reconstruction efforts in its history, with over **\$119 billion in federal funds allocated for infrastructure**, housing, health, energy, and resiliency. These funds are critical not only to restore what was lost after hurricanes, earthquakes, and the pandemic, but also to lay the foundation for a modern and competitive economy.

The October 2025 shutdown creates immediate delays in three critical areas:

1. Delays in disbursement of funds

- Agencies like FEMA, HUD, and the Department of Energy rely on continuous congressional appropriations.
- While approved funds don't disappear, administrative paralysis means payments, project approvals, and contract bids are postponed.
- This affects key projects, from roads to LUMA and PREPA's grid modernization.

2. Suspension of federal staff and licenses

- Around 750,000 federal employees furloughed, including those in project reviews, environmental permits, and fund audits.
- Without them, Puerto Rico's reconstruction projects face bureaucratic bottlenecks, extending execution timelines.

3. Greater uncertainty for investors

- Puerto Rico's reconstruction depends on both federal funds and private capital.
- A shutdown, combined with lack of economic data, discourages investment in tourism, renewable energy, and real estate.
- This could create a **negative multiplier effect**: if the federal government stops, the private sector turns cautious, further slowing recovery.

Consequences for Puerto Rico:

- Weekly shutdowns means:
 - Delays in infrastructure projects already bid.
 - Higher costs for materials and labor due to payment uncertainty.
 - Slower economic flow from projects, impacting jobs in construction, manufacturing, and services.
 - **A 4-week shutdown** could **delay FEMA and CDBG-DR projects by 3 to 6 months**, affecting schools, community hospitals, and grid resilience.

Puerto Rico needs certainty and continuity to transform reconstruction funds into sustainable growth. A shutdown doesn't erase funds, but it delays execution, adds costs, and erodes investor confidence.

Broader Context

- Shutdown occurs amid:
 - A late stock rally.
 - A Fed near a turning point.
 - A labor market starting to cool.

This **means headline volatility**: sharp market moves driven not by fundamentals (like earnings or productivity) but by high-impact news that stirs immediate investor reactions.

Unless the shutdown lasts beyond four weeks with permanent layoffs, it's more likely a short-term correction than a structural bear market.

Birling Capital's Guidance: Discipline, diversification, and using volatility to rebalance portfolios. History shows shutdowns delay activity but rarely destroy it. For strategic investors, this may open opportunities heading into 2026.



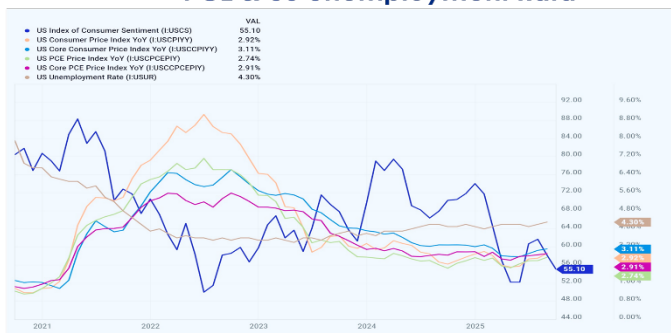
GDPNow

Third Quarter 2025

Date	GDPNow 3Q25	Change
7/31/2025	2.30%	Initial Forecast
8/1/2025	2.10%	-8.70%
8/5/2025	2.50%	19.05%
8/7/2025	2.50%	19.05%
8/15/2025	2.50%	0.00%
8/19/2025	2.30%	-8.00%
8/26/2025	2.20%	-4.35%
8/29/2025	3.50%	59.09%
9/2/2025	3.00%	-14.29%
9/4/2025	3.00%	0.00%
9/10/2025	3.10%	3.33%
9/16/2025	3.40%	9.68%
9/17/2025	3.30%	-2.94%
9/26/2025	3.90%	18.18%
10/1/2025	3.80%	-2.56%



US Index of Consumer Sentiment, US CPI, US Core CPI, US PCE, US Core PCE & US Unemployment Rate

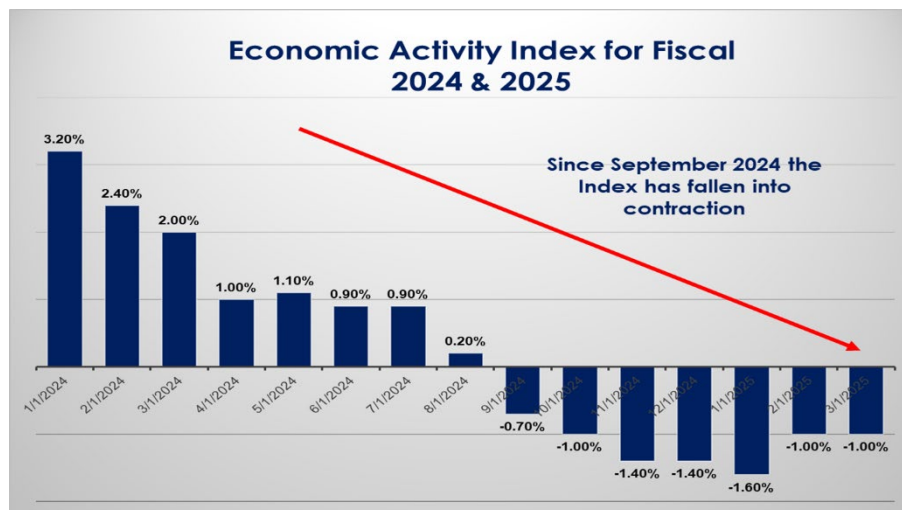


U.S. Economic Data Pre-Closing

- **GDPNow Update:** the GDPNow for the third quarter fell to 3.80%, down from 3.90%, a -2.56% decrease.
- **Consumer Sentiment, Inflation (CPI & PCE), and Unemployment (2021–2025):**
- **Consumer Sentiment:** Volatile since 2021, sharply falling during 2022's inflation peak. Fragile throughout 2023–2024, modest recovery in 2025 but still below pre-pandemic levels.
- **Inflation:**
 - Headline CPI peaked near 9% in 2022, driven by energy, food, and supply chain disruptions.
 - CPI and PCE (Fed's preferred measure) declined gradually to 2.3–2.9% in 2025.
 - Core CPI and Core PCE remained more stable, showing volatility was concentrated in energy/food.
- **Labor Market:**
 - Unemployment fell to ~3.5% lows, but rose back to 4.3% in 2025.
 - Suggests a controlled slowdown: Fed cooled inflation without crashing jobs.
- **Strategic Implications:**
 - Falling inflation raises odds of rate cuts in 2026, supporting growth and capital markets.
 - Higher unemployment + weak consumer optimism are warning signs: growth may slow more than expected if political uncertainty (like shutdowns) persists.
 - For investors: Lower inflation + lower rates favor risk assets, but economy remains unstable.

Puerto Rico Economic Data Pre-Shutdown

- **Puerto Rico Economic Activity Index (EAI), 2024–2025**
- **Stage 1: Moderate Growth (Jan–Aug 2024)**
 - Jan 2024: +3.2% (solid but slower than 2023).
 - Gradual weakening through midyear.
- **Stage 2: Contraction (Sep 2024 onward)**
 - Sep 2024: -0.7% (official entry into contraction).
 - Oct: -1.0%
 - Nov: -1.4%



- Dec: -1.4%
- Jan 2025: -1.6% (cycle low)
- Feb-Mar 2025: -1.0% (continuing weakness).
- Confirms a sustained downturn, not a one-off dip.

Puerto Rico Real GNP Growth (2006–2025)

- Shows three phases:
 1. **Prolonged recession** (2006–2017).
 2. **Brief recoveries** (e.g., post-Maria federal funds).
 3. **Recent growth (2021–2023)** fueled by external stimulus, fading in 2024–2025.

Puerto Rico Unemployment Rate (2022–Jul 2025)

- Monthly evolution shows relative stability but fluctuations linked to:
 - Post-pandemic recovery.
 - Availability of federal funds.
 - Transition toward slower growth in 2024–2025.

A Shutdown with Puerto Rican Consequences

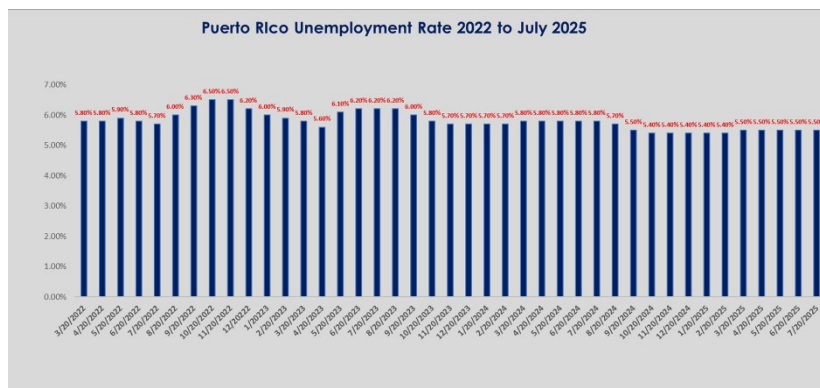
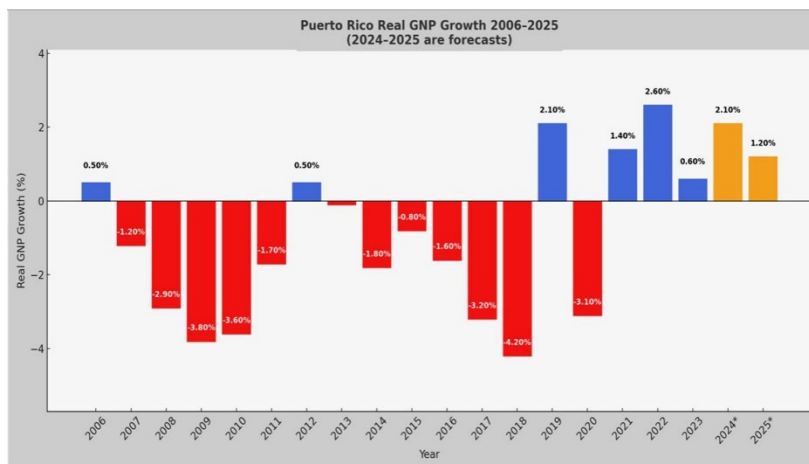
The federal government's 22nd shutdown since 1976 is more than a Washington ritual; for Puerto Rico, it is a direct brake on recovery. With over \$119 billion in federal funds slated for housing, energy, health, and infrastructure, every day of delay erodes momentum.

Shutdowns rarely destroy economic activity, but they displace it, raising costs and deepening uncertainty. For an island already transitioning from reconstruction toward sustainable growth, bottlenecks in FEMA approvals, environmental permits, and project audits mean months lost in execution.

Investors and policymakers must understand: volatility triggered by headlines is not the same as structural decline. Puerto Rico's opportunity lies in maintaining discipline, diversifying capital flows, and turning reconstruction into competitiveness. The shutdown may be temporary, but the island's race against time is not.



Puerto Rico Economic Growth Rates 2006–2025



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