

TIPS Fallback Plan for First-ever Missed CPI Report

December 10, 2025

Contributors: Kevin Shultz, CFA



On November 21, the Bureau of Labor Statistics (BLS) confirmed what many had suspected: there would be no CPI report for October. This was not surprising given that the government was shut down for the month of October and, therefore, no data was collected. Nonetheless, this is unprecedented dating back to the inception of the Consumer Price Index for All Urban Consumers (CPI-U) in 1921. In prior shutdowns, the BLS had either been funded by appropriations (2018-2019) or the period did not cover an entire month (2013).

This matters to the ~\$1.5 trillion Treasury Inflation Protected Securities (TIPS) market because the non-seasonally adjusted CPI-U is the official source to adjust the principal value of bonds (and, by extension, coupon payments) in order to compensate bondholders for realized inflation.

Though it has never happened, the Treasury Department thankfully foresaw data lapses as a possibility and established possible alternatives in Part 356 of the Uniform Offering Circular. Specifically, Section 4 Index Contingencies offers solutions for four scenarios. Perhaps the most interesting of these scenarios is the second, which technically allows the Treasury Secretary to use discretion in choosing an “appropriate alternative index” if CPI-U is discontinued or altered either fundamentally or by legislation or an Executive Order in a manner that is “materially adverse

to the interests of an investor in the security."

However, for the current situation, the fourth contingency seems to clearly apply. It stipulates that if CPI is not reported by the final day of the following month, the Treasury will "announce an index number based on the last available 12-month change in the CPI." Specifically, they would calculate October's adjustment by using the 12th root of September 2025's year-over-year pace and grow September's non-seasonally adjusted pace by that rate. Using this calculation implies a month-over-month increase of 0.25% for October. Conveniently, October's adjustment will not matter for any maturing security. Had November CPI-U been unavailable, the fallback method would have impacted the final value of two bonds that mature in January.

Ideally, this will be the only time we have to consider the Treasury Department's contingency plans for missing CPI data with respect to TIPS prices. At least they acknowledged the possibility of this and other situations when they launched TIPS in 1997.

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