THE HILL

Shutdown could keep Fed pumping in 2014

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The Federal Reserve is expected to keep pumping stimulus into the economy for the next few months due to the recent government shutdown.

The central bank had been expected to end the bond-buying efforts soon, but is now likely to stand pat until the full economic impact of the 16-day shutdown is known.

That's likely to fuel a new round of criticism from Republican lawmakers, who say the Fed's decision to pump trillions of dollars into the economy was wrongheaded and could have major repercussions down the road.

Fed Chairman Ben Bernanke had said the central bank would like to begin winding down its stimulus soon, provided the economy kept improving.

But the losses from the shutdown, and the delays it created for the release of the government's economic data, has most Fed watchers and officials expecting "quantitative easing" to continue into 2014.

"I think we need a couple of good labor reports and evidence of increasing growth, GDP growth. It's probably going to take a few months to sort that out," Chicago Fed President Charles Evans said Monday on CNBC.

The Fed is set to meet at the end of October, after surprising markets in September by announcing it would continue to buy $85 billion of bonds a month to support the economy. Back then, Bernanke cited the emerging fiscal fight in Washington as a key reason for keeping up the stimulus.

While the economic damage of the shutdown is not yet clear, analysts expect the final tally will be in the billions of dollars.

White House Council of Economic Advisers Chairman Jason Furman on Tuesday said the shutdown cost the economy 120,000 jobs while cutting a quarter of a point from economic growth.

But that’s only an early estimate. The Fed will need to see reams of economic data before officials will feel confident that the time has come to end the stimulus.

While the shutdown bruised the economy, it did an even larger number on the government employees charged with gathering data about it. The Bureau of Labor Statistics went dark during the shutdown, delaying the closely followed jobs report along with a host of other economic indicators.

The September report, originally set for an Oct. 4 release, came out on Tuesday, and found the economy added just 148,000 jobs in September, below economist expectations.

While the government’s data miners are back to producing regular reports, the challenge now is how to read them, as the shutdown is likely to ripple through the data for months.

The Fed has long said that its policy moves will be heavily dependent on what it sees in economic data, but economists believe it could be 2014 before it has settled enough to be a reliable indicator.

Mark Zandi, chief economist for Moody's Analytics, estimates that the monthly jobs reports may not return to normal — without any shutdown effects — until early next year.

The central bank relies heavily on the jobs report, especially the unemployment rate, to gauge the health of the economy and set the direction of policy.

The Fed is “flying blind” due to the delays in government data, Zandi said.

Diane Swonk, chief economist at Mesirow Financial, predicted the tapering of the Fed’s bond buys would likely start in January, and at the very latest in March.

She said latest jobs numbers show that the Fed was right to hold off on tapering, especially "with the risk of fiascos from the fiscal side."

Another factor that could keep the Fed in a holding pattern is the looming exit of Bernanke.

Fed Vice Chairwoman Janet Yellen needs to be confirmed by the Senate before taking Bernanke’s place. Even if the economic picture clears in the coming months, many analysts anticipate the Fed will hold steady until Yellen ascends to the position of chairwoman.

“They’re just going to be on standby until Janet Yellen takes over,” said Axel Merk, president of Merk Investments. “[Bernanke] can’t in his last month or the last couple of months again start something new.”

But Mark Calabria, director of financial regulation studies for the Cato Institute, argued Bernanke might push to start the slowdown on his watch, so he could take any course-adjustment heat and make good on an implied promise to begin the pullback this fall.

"Time is ticking on for Bernanke and the promises he made to the regional presidents," he said.