



National Economic Trends



Color Me Beige

When making monetary policy decisions, members of the Federal Open Market Committee (FOMC) want to know as much as possible about current and future economic conditions. Unfortunately, most economic data are reported with a lag of one month or more. Nevertheless, some nonfinancial economic data are available every week, such as initial unemployment claims, auto and steel production, and electricity consumption. Private forecasters use such data to update their estimates of current-quarter gross domestic product (GDP) through their knowledge of how the industrial production number is constructed from weekly data on electricity, autos, and steel. The Fed supplements real-time analysis of the data construction process in two distinct ways. First, it runs a large macroeconomic model that uses past trends to project likely economic outcomes from alternative policy choices. Second, the regional Federal Reserve Banks conduct surveys to gather qualitative information about economic conditions in each district. Prior to every FOMC meeting, this anecdotal survey information is compiled into what is known as the Beige Book.

The information provided by the Beige Book adds value in two ways. First, business cycle fluctuations are now thought to be more heterogeneous across regions and sectors than they used to be. Hence, one hears references to a “rolling recession” that bottoms out in different regions at different times. State and regional data, however, are much less complete than national data. In this void, the Beige Book can help identify the current regional focal point of such a rolling downturn. Second, for some one-time events, macroeconomic models are not reliable guides because history has not recorded a pattern for how the economy is likely to respond. Examples of such events include the surge in computer and software investment that preceded Y2K and the terrorist attacks on September 11, 2001. The best way to infer the likely consequences of such events is to talk with business leaders

to discern their plans. The Beige Book provides a concise compendium of such a survey.

Because it is based purely on anecdotal information, there are many reasons to question the usefulness of the Beige Book in assessing economic conditions. For example, it may partly reflect the biases of the economists who compile it, or policymakers may use only the anecdotes that are consistent with the views they already have.

Recently, economists within the Federal Reserve System have tried to assess the Beige Book as an indicator of present and future economic activity. A study from the Minneapolis Fed found that the Beige Book has been an accurate predictor of real growth in the current quarter.¹ They also found, however, that the Beige Book did not improve upon private sector forecasts of real growth. Their conclusion is that the Beige Book’s value is not as a forecaster of economic activity, but in providing insight and context not found in formal forecasting models. Other research from the Dallas Fed offers stronger empirical support for the Beige Book as a predictive tool.² This study finds that the Beige Book has significant predictive content for current and future quarterly growth. Further, it argues that “the Beige Book has information about current quarterly real GDP growth that is not present in other indicators.”

Given the importance of timely economic information for monetary policy, the Beige Book might be able to fill a void in the data. Despite being purely anecdotal, it appears to have been useful for assessing current economic conditions and possibly for predicting conditions in the near future.

—Howard J. Wall

¹Fettig, David; Rolnick, Arthur and Runkle, David E. “The Federal Reserve’s Beige Book: A Better Mirror than Crystal Ball.” Federal Reserve Bank of Minneapolis, *The Region*, March 1999, pp. 10-13, 28-32.

²Balke, Nathan and Petersen, D’Ann. “How Well Does the Beige Book Reflect Economic Activity? Evaluating Qualitative Information Qualitatively.” Federal Reserve Bank of Dallas Research Paper No. 9802 (forthcoming in *Journal of Money, Credit, and Banking*).

