ASK AN ECONOMIST

Rubén Hernández-Murillo is an economist in the Research division at the Federal Reserve Bank of St. Louis. In addition to his general research responsibilities, he coordinates the production of the St. Louis section of the Beige Book. He is also a member of the team that compiles the Burgundy Books, a sort of Beige Book for each of the four zones in the Eighth District. In his spare time, he writes poetry; he also collects hats. For more on Hernández-Murillo’s research, see http://research.stlouisfed.org/econ/hernandez/.

What is the Beige Book, and how is it useful?

The Beige Book, officially called the Summary of Commentary on Current Economic Conditions, is an anecdotal description of economic activity in each of the 12 Federal Reserve districts. To produce the Beige Book, each Federal Reserve Bank gathers information about its district through a network of business contacts across many industries, such as manufacturing, services, real estate, banking and agriculture. The contacts are promised anonymity in return for accurate, honest and current information. Staff members at one of the 12 Federal Reserve banks compile the district reports into the national summary of economic conditions. The Beige Book is released two weeks prior to every scheduled meeting of the Federal Open Market Committee. (See www.federalreserve.gov/FOMC/BeigeBook/2008/.)

Although the Federal Reserve relies, for the most part, on formal data and sophisticated statistical methods for conducting monetary policy, anecdotal information—such as that collected for the Beige Book—is also used to confirm or to help understand trends that arise from the formal data. Formal statistics, such as the series on Gross Domestic Product (GDP) and the Consumer Price Index, do not provide a perfect picture of the economy, and informal or anecdotal information yields insight into the formal statistics to help fill the gaps. For example, except for financial indicators, most formal data are released with a lag and, therefore, do not necessarily present an up-to-date picture of the economy. The anecdotal information collected from the people who are actually making day-to-day business decisions provides timely information about some of the trends in the data that may be occurring.

In my own research, I have used econometric techniques to analyze the predictive power of the Beige Book. My co-authors and I found that the Beige Book’s national summary and the district reports improve predictions of GDP and aggregate and regional employment.

At the Federal Reserve Bank of St. Louis, the Center for Regional Economics—8th District (CRE8) has taken this analysis to a new level. In March, the St. Louis Fed started publishing a quarterly summary of economic conditions for each of the District’s four zones, which are centered around St. Louis, Memphis, Louisville and Little Rock. These reports, dubbed Burgundy Books, provide the same type of anecdotal information as the Beige Book, but the analysis is broken down to give a snapshot of local economic conditions. The Burgundy Books are available on the St. Louis Fed web site at http://research.stlouisfed.org/regecon/district.html.

LETTERS TO THE EDITOR

This is in response to July’s article titled “Ethanol: Economic Gain or Drain?” To read other letters, go to www.stlouisfed.org/publications/re.

Dear Editor:

The basic premise of the article is that increased ethanol production has sequestered corn supplies away from food and feed production; thus, it is bad. Interestingly enough, corn PRODUCTION increased right along with increased ethanol production; so on a net basis, there was no impact on the availability of corn for food or feed. One only has to look at the Federal Reserve Bank’s failure to strengthen the dollar, the global dietary change that is demanding more protein (thus increasing demand for grain and other commodities) and the exponential increase in oil prices to see that a near perfect storm has developed to create the atmosphere of near panic. Release crude from the Strategic Petroleum Reserve and bump up the Fed discount rate by 1 percent, and you most likely would see $50 a barrel come out of the crude oil price, almost overnight.

Terry Ruse, a consultant in Raleigh, N.C.

A NEW REPORT FROM THE ST. LOUIS FED

Now available online or in print is Earnings inequality within the United States, 2000 to 2006. The report was written by Christopher Wheeler, until recently a St. Louis Fed economist. To read online, go to www.stlouisfed.org/community/assets/pdf/income_inequality_report.pdf. To receive a paper copy in the mail, call the Fed’s Cynthia Davis at 314-444-8761. You can also e-mail her at communitydevelopment@stls.frb.org.

FED FLASH POLL RESULTS

Whenever a new issue of The Regional Economist is published, a new poll is posted on the Bank’s home page, www.stlouisfed.org. The poll question is always pegged to an article in that quarter’s issue. Here are the results of the poll that went with the July issue. The question stemmed from the article “Ethanol: Economic Gain or Drain?”

What is the Federal Government’s Role in Ethanol Production and Use?

- Phase out all subsidies and other tax breaks. Let the markets take charge. 48%
- Do whatever it takes—taxpayer subsidies, mandates, government ownership of plants, etc. 15%
- Encourage innovation by subsidizing alternatives to corn-based ethanol. 1%
- Force the oil companies to subsidize additional R&D spending on ethanol. 1%
- Lift tariffs on imports of ethanol to lower price for consumers. 2%

1,128 responses as of 8/1/2008

WHAT SHOULD BE THE FEDERAL GOVERNMENT’S ROLE IN ETHANOL PRODUCTION AND USE?

1. Keep my mouth shut.
2. Shout from the mountaintop that income inequality has benefits and shows that our economy is working.
3. Cut tax breaks, subsidies and the like for those on both sides of the gap to allow the natural state of income inequality to surface.
4. Invest more in education and job training to lift the income of poor people at the expense of those with higher incomes.
5. Pass even more legislation to bring us closer to equal distribution of income.

To vote, got to www.stlouisfed.org. Anyone can vote, but please do so only once. (This is not a scientific poll.)

THIS ISSUE’S POLL QUESTION:

What would you do about the growing income gap in the United States?

Submit your question in a letter to the editor. (See Page 2.)

One question will be answered by the appropriate economist in each issue.