



# **SURVEYING THE ECONOMIC LANDSCAPE**

## Economists use a variety of tools to gauge economic performance, including surveys on retail sales, consumer sentiment, and the unemployment rate. The Federal Reserve also conducts its own surveys to contribute to the overall economic picture and help inform monetary policy.

Much of what we know about our nation's economy comes from one survey or another. Consider the U.S. Bureau of Labor Statistics' employment situation report, which combines data from two surveys and provides us with the unemployment rate and a measure of household income, among other features. The retail sales report, generated from a survey of approximately 13,000 retailers conducted by the U.S. Census Bureau for the Department of Commerce, provides a measure of the health of the all-important consumer sector, the main driver of the U.S. economy. Another important survey is the Institute for Supply Chain Management's (ISM) Manufacturing Survey, which gauges the health of the manufacturing sector by polling approximately 400 purchasing managers across the country.

Indeed, these surveys create a foundation for understanding the current state and trajectory of the U.S. economy, but they don't paint a complete picture. To address lingering questions about the state of the economy, over the years, Federal Reserve Banks and the Fed Board of Governors have created their own surveys. What motivates the Fed's efforts to improve on an already large body of available data? It's the simple fact that the overall quality of economic data (as measured by depth, timeliness, and other factors) can help determine the effectiveness of monetary policy.

Given the widely felt impact of its policies, one would expect no less from a monetary policymaking body like the Fed. While some data may be merely informative to those outside the Fed, they can be crucial for policy makers trying to understand the effectiveness of current monetary policy and when considering future policy. For example, information on inflation expectations is one topic that provides unique insight but has not been fully represented in existing data sources.

### Taking a closer look at inflation

Inflation expectations have long been an area of interest for policymakers, economists, and academics, as they provide an indication of the future path of inflation as well as a measure of the effectiveness of Fed communications (judging how well anchored they are around the inflation rate target). Are expectations for future price increases well anchored? Have they changed over time? How will these expectations affect firms' behavior? These are a few important questions a survey can address.

Although a long-standing measure of consumer inflation expectations exists in the University of Michigan Survey of Consumer Sentiment, expectations of companies—the price setters, after all—went unmeasured until the creation of the Atlanta Fed's business inflation expectations (BIE) survey. This monthly survey measures the short- and long-term inflation expectations of firms as well as the current business conditions in which these expectations are formed. Firms' inflation expectations are particularly important because they factor into companies' pricing and wage decisions, which ultimately influence the overall price level. Thus, if accurately measured, they could prove to be a leading indicator of inflation.

### Quick takes on what's happening in the marketplace

In addition to these unique data needs, Fed policymakers in some cases may also require timelier reporting. The Fed's tools for achieving its dual mandate of price stability and maximum employment work on a lag. In other words, the effects of monetary policy take time to filter through the economy. Therefore, it's important for Fed policymakers to spot economic trends early so they can address problems in a timely manner. In some instances, Fed surveys are created to provide an early indication of changes in economic activity or inflationary pressures in an effort to stave



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off undesirable fluctuations in price and employment levels. The Federal Reserve's Beige Book is a good example of a data source specifically designed to provide current information when policymakers need it most.

Each of the 12 Federal Reserve Banks collects anecdotal information from members of the business and academic community in its district approximately three weeks before each Federal Open Market Committee (FOMC) meeting. On a rotating

# A Look at Reserve Bank Surveys

## INFLATION EXPECTATIONS

**Atlanta Fed Business Inflation Expectations (BIE) Survey**, originated October 2011: The BIE surveys a panel of approximately 350 business leaders about their current business conditions, unit cost changes, and year-ahead inflation expectations. It also asks quarterly questions to explore long-term inflation expectation, factors influencing price changes, and year-ahead sales growth expectations, among other topics.

## MANUFACTURING

See the next page for details about Fed manufacturing surveys.

## RETAIL

**Dallas Fed Texas Retail Outlook Survey**, originated January 2007: A survey of Texas retail sector firms that gauges current business conditions such as revenue, employment, and prices, as well as the firms' six-month outlook.

## SERVICES

**Dallas Fed Texas Service Sector Outlook Survey**, originated January 2007: A survey of Texas service sector firms that gauges current business conditions such as revenue, employment, and prices, as well as the firms' six-month-ahead outlook.

## FINANCIAL ACTIVITY

**Federal Reserve Board Senior Loan Officer Opinion Survey**, originated 1964: A survey that provides qualitative information about changes in supply and demand for loans to households and businesses at commercial banks. The survey, conducted roughly quarterly, often includes questions on one or two other topics of current interest.

**Federal Reserve Board Senior Credit Officer Opinion Survey**, originated June 2010: A quarterly survey that collects qualitative information about the availability and terms of credit in securities financing and over-the-counter derivatives markets. The survey panel currently consists of 20 dealers.

## SMALL BUSINESS

**Atlanta Fed Small Business Survey**, originated 2010: A semiannual poll of small business contacts in the Southeast that gathers their perspectives on general business and financing conditions.

**New York Fed Small Business Credit Survey**, originated 2010: A survey that collects information from small businesses in New York, New Jersey, and Connecticut about their performance, financing decisions, and credit experiences.

## OVERALL ECONOMIC ACTIVITY

**Chicago Fed National Activity Index (CFNAI)**, originated January 2001: The CFNAI is a weighted average of 85 existing monthly indicators of national economic activity drawn from four broad categories of data: production and income; employment, unemployment, and hours; personal consumption and housing; and sales, orders, and inventories. Each of these data series measures some aspect of overall macroeconomic activity. The derived index provides a single summary measure of a factor common to these national economic data, acting as a gauge of current and future economic activity and inflation in the United States. ■

basis, this information is compiled by one of the Reserve Banks into what is referred to as the Beige Book. The timeliness of this publication is ideal given that the collection period immediately precedes each FOMC meeting, and the data are collected earlier than most of the statistical data in a given period.

## Getting beyond the numbers

To monitor and evaluate the functioning of aspects of the financial system that are not accounted for on a bank's balance sheet, the Fed must collect qualitative data, which adds greater detail. Fed surveys generally employ qualitative questions to obtain expectations about future business activity or firms' interpretations of their current environment. These "tendency" measures can add depth and nuance to what is gleaned from other data sources and enhance understanding of what may be fueling economic trends.

For instance, the Senior Loan Officer Opinion Survey conducted by Board of Governors researchers employs such qualitative survey methods. This survey asks approximately 60 of the largest domestic banks and 24 U.S. branches and agencies of foreign banks questions regarding the standards and terms of their banks' lending and the state of business and household demand for loans.

Respondents not only provide their assessments of change in demand for loans and the standards and terms of bank lending but they also reveal the thinking that may be behind such changes. Data are collected multiple times per year in coordination with the FOMC meeting schedule, acting as a timely, more detailed update to the conditions of credit markets.

The sidebar at left, an overview of the major Fed surveys, provides some perspective on the reasoning behind the Fed's data collection

efforts. Surveys cover a broad range of topics; manufacturing is the most scrutinized sector and is considered separately on the next page.

## ECONSOUTH NOW PODCAST

**Mike Bryan, vice president and senior economist in the Atlanta Fed's research department, discusses the role of survey data in policymaking. On [frbatlanta.org](http://frbatlanta.org), select "Podcasts."**





### Making a mountain out of manufacturing

Reserve Banks conduct manufacturing surveys to stay abreast of regional developments. Here's a roundup of those efforts.

- **Philadelphia Fed Business Outlook Survey**, originated May 1968: The oldest Fed manufacturing survey, it asks local manufacturers to indicate the direction of change in overall business activity and various measures of activity at their plants.
- **New York Fed Empire State Manufacturing Survey**, originated April 2002: It surveys New York State manufacturing executives about their current business conditions and six-month-ahead expectations regarding those conditions.
- **Richmond Fed Survey of Manufacturing Activity**, originated September 2008: Approximately 220 business contacts whose firm type, size, and location match the overall manufacturing profile in the district are polled on their current activity, including shipments, new orders, order backlogs, and inventories. Respondents also provide insight into their employment conditions, prices, and their expectations of business activity.
- **Kansas City Fed Survey of Tenth District Manufacturers**, originated 1995: This survey monitors manufacturing plants selected according to geographic distribution, industry mix, and size. Survey results reveal changes in several indicators of manufacturing activity, such as production and shipments, and also identify changes in prices of raw materials and finished products.
- **Dallas Fed Texas Manufacturing Outlook Survey**, originated June 2004: This survey of Texas manufacturing sector firms gauges current business conditions such as revenue, employment, and prices, as well as the firms' six-month outlook.

Why are so many manufacturing surveys conducted? Mike Trebing, the director of the Philadelphia Fed's Business Outlook Survey, notes that "manufacturing remains quite sensitive to shifts in overall economic activity." For the Business Outlook Survey, in particular, "the survey's indexes are useful in quantitatively estimating how the manufacturing sector is doing along a variety of dimensions," he said.

According to a 2004 paper written by William R. Keeton and Michael Verba, researchers at the Kansas City Fed, the major value of the Survey of Tenth District Manufacturers is "providing

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information about current and future manufacturing conditions in the district, especially on variables such as production, orders, and capital spending for which no independent data exist at the regional level."

Data from these regional manufacturing surveys vary in their ability to predict overall U.S. manufacturing activity. However, the surveys satisfy the need for regional manufacturing data that otherwise would not be available in the desired frequency.

### Getting it right: The survey design process

The survey creation process isn't as straightforward as thinking of a topic, writing some questions, and polling a few hundred people. To create a survey in a manner that renders the findings reliable, researchers must consider numerous factors.

Researchers must balance what they hope to learn with the willingness of the target survey population to provide that information. Researchers must allow time for people to respond. Is a 10-minute survey too long for a busy chief financial officer?

Researchers must also ensure the questions are tested to avoid words or phrases that could be interpreted differently from what was intended, depending on the audience. Assuming these and many other details are handled properly, researchers must face what is probably the most challenging task of all: getting people to respond.

### Collaboration with other central banks to improve methods

The Federal Reserve isn't alone in facing these data needs and survey design challenges. This process is undertaken by researchers at central banks the world over who share the desire to learn more about topics relevant to effective monetary policy.

In fact, an annual gathering of central bank survey practitioners was first hosted four years ago by the Norges Bank in Oslo, Norway. In subsequent years, the Riksbank, Sweden's central bank, and the Bank of Canada played host to the conference. After growing in popularity, the annual conference will be hosted by the Atlanta Fed later this year. Representatives from more than 30 of the world's central banks will convene to discuss survey methods and, ultimately, the application of survey data to the monetary policymaking process. Survey topics include small business access to credit, inflation expectations, and general business sentiment and forecasting.

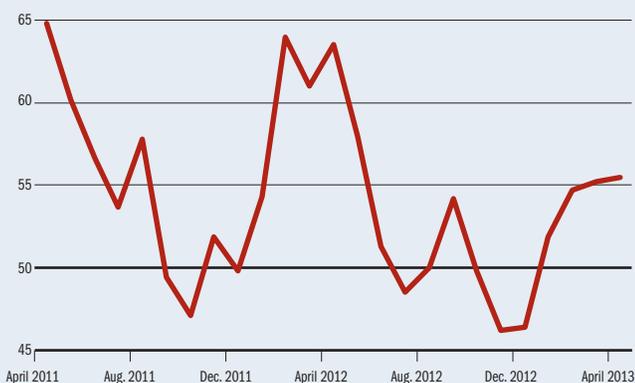
Researchers at the Federal Reserve and other central banks need to know more about the economic perspectives of individuals and businesses to create policies that will ultimately promote economic prosperity. As Mike Bryan, Atlanta Fed vice president and senior economist, says, "By exploring new methods and improving upon existing ones, we hope to advance to the point where fewer lingering questions remain about the state of the economy. And by broadening the pool of ideas and sharing our experiences with colleagues around the world, we hope to get there sooner." ■

*By Nicholas Parker, senior economic research analyst in the research department at the Atlanta Fed*

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The survey that the Atlanta Fed's research department uses to track manufacturing activity in the region is the Southeast PMI, which is produced by the Econometric Center at Kennesaw State University. It provides an analysis of the most current market conditions for the manufacturing sector in Alabama, Georgia, Florida, Louisiana, Mississippi, and Tennessee. It is based on a survey of representatives from companies in those states regarding trends and activity around new orders, production, employment, supplier delivery time, and finished goods. A reading on this index above 50 represents an expansion in the manufacturing sector, and a reading below 50 indicates a contraction.

### Southeast Purchasing Managers Index



Note: Data are through April 2013. A reading above 50 indicates expansion. A reading below 50 indicates contraction.  
Source: Kennesaw State University Econometric Center

The Southeast PMI experienced less than a point increase in April over March. Although this increase is minimal, the overall index, at 55.5, reflected the highest level since May 2012. This reading is 5.5 points above the expansion-contraction boundary of 50. Increases in indices of new orders, production, and employment drove this growth, and all of these components were substantially above their respective measures in the national PMI. Stronger expansion in the Southeast, versus the recent slowing in the national ISM survey, is likely a reflection of the region's large auto and energy manufacturing presence. Production experienced the most significant jump of the survey components, with an increase of 5.7 points from March to April to 61.2, while employment jumped 4.1 points during the same period, to 57.8. While new orders reflected a much smaller increase—0.4 point—this minimal gain brings the submeasure to 57.8 points, well above the expansion boundary.

Purchasing managers who participate in the southeastern PMI are asked about their outlook on production expectations over the next three to six months. This question reflects potential factory activity in the near term from those closest to the industry. Of survey participants, 43 percent expect production to be higher in the next three to six months versus 33 percent for the prior survey period. Although this is not the highest level of optimism reported this year by survey participants, those following the industry welcome these positive sentiments while they watch to see if the regional manufacturing activity will continue to outperform national levels. ■