

# AT THE RICHMOND FED

BY CHARLES GERENA

## Surveying Fifth District Businesses

**S**urveys can be a fun way to poll an audience about a range of current topics. But over a longer time horizon, they can become powerful tools of economic analysis.

The Federal Reserve Bank of Richmond has conducted its regional surveys of business activity every month since 1993, making them the second longest-running regional surveys in the Federal Reserve System. (The Philadelphia Fed's manufacturing business outlook survey dates back to 1968.)

"The surveys' consistency over the past few decades gives us the ability to track changes in business conditions and compare that against historical trends," says Jason Kosakow, the Richmond Fed's survey director since 2020. "It allows us to see business activities throughout 'steady' economic periods and the various shocks our economy has experienced."

The key to this longevity has been recruiting and retaining a diverse and representative sample of businesses in the Fifth District, which includes Maryland, North Carolina, South Carolina, Virginia, most of West Virginia, and Washington, D.C. This has required continuous improvement in both collecting survey data and demonstrating the value of that data to potential respondents.

The core of the regional surveys are questions about the monthly changes observed by respondents in a variety of economic variables, ranging from order backlogs for manufacturers to revenues for retailers and other non-manufacturing firms. Survey respondents also report how they expect these variables will change in the next six months. Richmond Fed researchers create diffusion indexes by subtracting the share of respondents who said that a variable decreased from the share who said that a variable increased. So, a positive index shows net growth in that variable, while a negative index indicates a net decline.

The methodology used by the Richmond Fed to create these diffusion indexes is consistent with how other Reserve Banks calculate them for their regional surveys. It also aligns with what the Institute for Supply Management does for its indexes and the University of Michigan does for its consumer sentiment index. As a result, the Richmond Fed's survey data is widely comparable to other regional and national datasets.

In addition to creating diffusion indexes, the Richmond Fed has calculated annualized data on price levels since 2011. Survey respondents have reported on realized and expected percentage changes each month for both prices charged to customers and prices paid for inputs.

But what is the value added by having yet another set of numbers in a world filled with public and private data sources? According to previous analyses by the Richmond

Fed, its regional survey data generally move in the same direction as other aggregate measures of the economy, such as employment and the personal consumption expenditures price index. Yet they are available in a timelier manner and at a greater frequency.

Special questions also provide a window into how business leaders feel about current events, from the COVID-19 pandemic to changes in trade policy to the growing use of machine learning and other forms of artificial intelligence. This topical information helps the Richmond Fed's economists understand regional and national economic trends

in real time, which in turn gives Richmond Fed President Tom Barkin the latest intelligence to take with him to Federal Open Market Committee meetings.

"The public also receives value from the surveys," says Kosakow. "The news media picks up our survey results and

that gets incorporated into how people think about business conditions. Also, business leaders can get a sense of how the broader regional economy is faring and make decisions based on that information."

While a few survey questions have been added, removed, or clarified over the years, the Richmond Fed is careful about making changes to maintain consistency and allow for meaningful comparisons across time periods. For example, the service sector questionnaire was revised in 2005 so that respondents at retailers and wholesalers received a separate set of questions that were more closely aligned with their businesses.

"We are always trying to improve the survey response experience," adds Kosakow. "We retired several questions that were not used and had lengthened the time to complete the survey. In 2023, we changed the formatting of the survey to make it easier to respond and shortened the length to complete the survey."

Most recently, the Richmond Fed redesigned the regional survey website to consolidate information and present results separately for Virginia for the first time. (Maryland has been broken out since 2007, and North Carolina and South Carolina since 2008.) Most importantly, two new data products are now available. Responses to special questions, which are now included in every survey, are published monthly rather than on an ad hoc basis. And a new report on business leaders' inflation expectations and the factors influencing their price setting has been added.

Kosakow says additional analysis of the survey data may follow in the future. "We have a lot of information, and we are trying to better analyze it." **EF**

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