

Regional Information and Analysis Inform Monetary Policy

The Federal Reserve Bank of Richmond gathers economic information from all corners of the Fifth District, which includes Maryland, Virginia, North Carolina, South Carolina, Washington, D.C., and most of West Virginia. The Bank is based in Richmond with branch offices in Charlotte and Baltimore.

The Richmond Fed collects statistical and anecdotal information through surveys and telephone interviews as well as face-to-face discussions with people in board meetings, industry roundtables, regional forums, formal presentations, and community events. Anecdotal information sometimes confirms trends that the Bank's economists already have identified in economic data. Other times, anecdotal information indicates trends that have not been captured statistically. Either way, successful monetary policy depends on analyzing hard data and interpreting soft signals.

The best way to collect anecdotal information is to go to the source—people throughout the District's economy—from industry representatives and small-business owners to bankers, community leaders, and workers. Eight times a year, in preparation for meetings of the Federal Open Market Committee (FOMC), Richmond Fed President Jeffrey Lacker and his policy advisors review this qualitative information along with the quantitative data. The qualitative information then flows, directly and indirectly, into policy discussions at the FOMC, where committee members determine the best course of action regarding the availability and cost of money and credit—monetary policy—to promote long-term economic growth and price stability. Lacker was a voting member of the FOMC in 2012, and he continues to participate fully in the committee's deliberations.

How's Business?

Wherever he goes, Lacker frequently asks this question. In October 2008, for example, he was attending the Richmond Folk Festival when he saw an acquaintance who owns a furniture store.

"How's business?" Lacker asked.

"Awful!" the store owner replied.

It was the week after Lehman Brothers failed. Customers had vanished, even though store traffic had been strong the previous weekend.

"We had seen a little data," Lacker recalls, "but that was the first serious inkling I had of the astounding shock to consumer outlook that was caused by the financial turmoil."

This type of conversation helps clarify cause and effect. "Otherwise, you see the data and you're not sure why consumers are cutting back," Lacker says.

More recently, in April and May of 2012, the economy slowed, but economists were not sure why. A member of the Bank's Charlotte Board reported that, although he had ideas for new projects, he could not make the math work. The director was particularly worried about future tax rates and wage rates. At the time, the notion that widespread uncertainty was restricting economic growth was controversial. Since then, that idea has become generally accepted. The board member helped shape Lacker's reasoning about how monetary policy might—or might not—stimulate growth.

"You just don't get the sense that reducing the rate he (the board member) would have to pay on a bank

PHOTO: JIM STRADER



From the left: President Jeffrey Lacker, First Vice President Sally Green, and Assistant Vice President Steve Malone learn about bucket truck assembly from Brian Price, facilities manager at Altec Industries' plant in Daleville, Va.

loan would make a lot of difference,” Lacker says. “That tells me there’s a good chance that the cure is beyond monetary policy.”

The Bank’s oversight boards and advisory councils are excellent sources of economic intelligence. Nine directors oversee the management of the Richmond Fed, six elected by member banks and three appointed by the Federal Reserve Board of Governors. The Bank’s branch offices each have boards with seven members, four appointed by the Richmond Board and three appointed by the Board of Governors. The composition of the boards reflects the District’s economic diversity. Members come from banking, housing, finance, manufacturing, and health care, among other sectors. Geographic diversity is important, as well, because members bring economic news from their regions.

The Richmond Fed also listens carefully to its three advisory councils. The Community Investment Council brings to light emerging issues affecting low- and moderate-income people in urban and rural areas. The Community Depository Institutions Advisory Council (CDIAC) provides information about lending and other concerns. The CDIAC is mandated by the Board of Governors to gather information about depository institutions with less than \$10 billion in assets. Representatives from each Reserve Bank’s CDIAC form a council at the Board of Governors, which means the group has the ear of Federal Reserve Chairman Ben Bernanke. A third board, the Payments Advisory Council, helps the Bank understand and respond to the needs of its banking constituency.

The boards and councils often identify major economic trends. For instance, Lacker notes that he first heard about subprime lending problems years ago through the Community Investment Council. The boards and councils also helped confirm a geographic mismatch in the workforce.

“We hear about this puzzle: that people who have a hard time finding jobs don’t seem to be willing to move,” Lacker says. “It’s striking. It gives you a vivid sense of what’s behind the huge disparity in unemployment rates across our District.”

In addition to input from board members, the Bank’s regional economists regularly canvass business people in all parts of the District, sometimes by telephone or email. Individual responses are confidential, but the Bank synthesizes this anecdotal information for publication eight times a year—before each FOMC meeting—in the Federal Reserve’s *Beige Book*.

Been There. Heard That.

Large quantities of economic information flow into the Richmond Fed, but to really take the Fifth District’s economic pulse, the Bank’s leaders and economists must travel extensively.

Twice a year, for example, Lacker and First Vice President Sally Green lead groups to regions within the District to gain first-hand knowledge of local economies. In 2012, these delegations visited the Roanoke, Va., metropolitan area, and the Triad Region of North Carolina, which includes Greensboro, Winston-Salem, and High Point.



“We pick a particular region and learn as much as we can about it before we go,” says Steve Malone, assistant vice president for external affairs. The delegations gain even deeper insights, however, by meeting with different people in the region, including business executives, education officials, community leaders, students, workers, and government representatives.

The delegations also visit factories, schools, and other organizations to see what drives each local economy. The three-day trip to the Triad Region, for example, included a tour of furniture showrooms and a roundtable discussion about the furniture industry. Panelists discussed how the recession had affected their companies and how business had begun to improve. The delegation also met with students in several Guilford County Technical Center programs and at the Joint School of Nanoscience and Nanoengineering, a collaborative venture between North Carolina A&T State University and the University of North Carolina at Greensboro. During a similar trip to Roanoke, Va., the group convened a small-business roundtable and toured Altec Industries, a company that provides products and services to utilities and telecommunication companies.

In addition to these regional events, the Richmond Fed held bankers’ forums in Maryland, West Virginia, and Virginia, plus one for credit unions in Maryland. Malone and his team also visited 73 banks and credit unions and 10 trade associations. His group summarized what they learned from these visits in reports that are part of the pre-FOMC information that goes to Lacker and his policy advisors. These reports include information on loan demand. Currently, demand is tepid, but if loan demand quickly gathered steam, given the high level of reserves in the banking system, lending could expand quickly. “That would be a red flag,” Lacker says. “It would indicate we need to pay attention and think about whether we need to contract the reserve supply to make sure we don’t get inflation pressures. So far, we haven’t seen that, but we keep our eyes on it.”

The Bank also reaches out to communities by working with public and private partners on issues affecting low- and moderate-income people. The Bank’s Community Development Division supports and organizes workshops and forums with community partners to address important community and economic development issues. The meetings also expose Bank officials to diverse points of view on local economic conditions throughout the Fifth District.

The Bank’s community development specialists also work with colleagues across the Federal Reserve System on significant economic development issues. In 2012, for example, the Richmond Fed led a systemwide initiative, with the Atlanta and Kansas City Feds, to study the problem of persistent unemployment. The Richmond Fed held several roundtables on the topic throughout the Fifth District, bringing together workforce representatives and employers from different industries. These roundtables were replicated by other Reserve Banks in their districts, and the effort culminated this year in a national conference at the Kansas City Fed and a policy briefing at the Federal Reserve Board of Governors. The initiative revealed anecdotal evidence of a broken labor-supply chain. In other words, what people were studying in school and their desire to go to college versus pursuing more technical training did not match up well with existing jobs in some areas. Roundtable participants also discussed other barriers to employment, such as transportation, drug testing, and felony convictions.

The Regional View

The Regional Economics Division of the Bank’s Research Department compiles a wide variety of data. The division’s surveys of manufacturing activity, service sector activity, and agricultural credit conditions cover these topics for the entire Fifth District. The regional group also produces state-specific reports of overall business activity in Maryland and the Carolinas.



PHOTO: TAMZIN B. SMITH

Vice President Ann Macheras regularly shares her division's regional information and analysis at pre-FOMC meetings and other gatherings of the Bank's monetary policy advisors.

These surveys provide real-time information about economic conditions and business expectations for the next six months. Results are included in the regional memo that informs Lacker and his policy advisors as they discuss Fifth District conditions prior to FOMC meetings. Survey results also are available to the public at richmondfed.org/research/regional_economy/.

In addition to conducting surveys, regional economists frequently visit communities throughout the District. They absorb information at industry roundtables, the Bank's regional forums, workshops on special topics, and economists' presentations.

In 2012, the Regional Economics Division hosted regular industry roundtables in Richmond, Charlotte, Baltimore, Charleston W.Va., and Charleston, S.C., a total of 15 events. Three of these roundtables focused exclusively on retailing, but the others included representatives from sectors such as manufacturing, trade, real estate, tourism, information technology, and health care. These gatherings gave the Richmond Fed a closer look at medium-run trends by providing a confidential forum where participants can freely discuss the state of their industries. At an industry roundtable in Baltimore, several members noted that their federal contracts had shrunk. "This was at least a full year before people were really focusing on it," says Ann Macheras, vice president of the Regional Economics Division. Roundtable participants also discussed input price

spikes and clogged supply lines after the tsunami in Japan. One textile company was unable to get a unique blue dye that is made only in Japan. "We bring back early signs of how these events affect our industries. And since we meet with our contacts regularly, we can monitor these developments over time and ask follow-up questions," Macheras says.

In 2012, the Regional Economics Division invited all the Bank's industry roundtable participants and all the Bank's advisory council members to a one-day conference on the District's economy. At other events, the division focuses attention on special topics. In 2012, for example, the division highlighted energy by bringing representatives and suppliers of coal and natural gas companies together with executives of electric utilities and university professors who study energy-related issues.

The regional economists also make presentations to a wide array of groups throughout the District. At first glance, these events may appear to be more about disseminating information than gathering information, but the economists gain insight from audience participation and the informal discussions that follow. In 2012, the regional economists participated in roughly 196 events including presentations, workshops, conferences, and summits. "Almost anytime we are out of the Bank, we are soaking up information," Macheras says. The regional economists aggregate this anecdotal information into a "sentiment matrix" that accompanies the report they produce for pre-FOMC discussions.

Informally gathered comments don't provide definitive evidence of trends, but observations from a diverse array of sources add important perspective to monetary policy deliberations. "We find out stuff that's not going to show in the data," Lacker says. "The data don't tell you what people are expecting. Do they think things are going to be great? Or do they think things are going to continue to be flat?" ■