

The Beige Book: Timely Information on the Regional Economy

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THE FEDERAL RESERVE SYSTEM IS A DECENTRALIZED CENTRAL BANKING SYSTEM COMPRISED OF TWELVE REGIONAL BANKS AND THE BOARD OF GOVERNORS, WHICH IS IN WASHINGTON, D.C. THIS DECENTRALIZED STRUCTURE WAS CREATED TO ENSURE THAT ALL REGIONS OF THE DIVERSE NATIONAL ECONOMY ARE REPRESENTED IN MONETARY POLICY DELIBERATIONS. IN

making monetary policy, the Federal Open Market Committee (FOMC) relies on information about the U.S. economy as a whole and on reports from the regional bank presidents and their staffs about regional economic conditions. During each FOMC meeting, the regional bank presidents discuss economic conditions in their districts, and this information is considered when reaching consensus on monetary policy actions.

Present and former members of the FOMC have found the regional reports useful in formulating monetary policy. Alice Rivlin, former vice chair of the Board of Governors, stated in 1997, "Indeed, the most interesting part of an FOMC meeting is usually the regional round-up from the Bank presidents. This regional network and set of real world interactions has given me more sense of being in touch with the whole economy than I have had in previous economic policy jobs where I was largely dependent on aggregate statistics." Current Vice Chair Roger Ferguson concurred, stating in 1998, "The real-time

reports the presidents of the Federal Reserve Banks bring from their districts are especially valuable in the decision-making process at times like these because they afford a contemporaneous sense of what is going on in the economy."

However, reporting on regional economic conditions is complicated by the fact that data on the subnational economy tend to be reported with a substantial lag. Monthly state employment and unemployment statistics are reported by the U.S. Bureau of Labor Statistics with at least a one-month lag; quarterly state personal income statistics are reported by the Bureau of Economic Analysis (BEA) at least four months after the end of each quarter; and annual gross state product (GSP) statistics are reported by the BEA with at least a two-year lag. In addition, state-level data tend to be subject to large revisions after preliminary numbers are released; final employment and unemployment estimates, for example, are not released until a year later, and even those "final" estimates are subject

to revision up to several years later as better data become available.

As Alan Blinder, a former vice chair of the Board of Governors, noted in 1997, monetary policymakers should obey the “discipline of the data,” but the long lags associated with regional economic data mean that the FOMC must turn to other sources for contemporaneous information. The FOMC therefore relies in part on the Beige Book, a survey of regional economic conditions publicly released about two weeks before each FOMC meeting. Each of the twelve regional banks writes a summary of economic conditions in its district, and one bank (on a rotating basis) writes an overview and summary of

This study's results indicate that the Sixth District Beige Book provides timely information on regional economic activity ahead of the data releases—at least one month ahead of employment and two years ahead of GSP.

national economic conditions based on the twelve regional reports. Federal Reserve spokesman Joseph Coyne stated that Alan Greenspan, the chairman of the Board of Governors and the FOMC, likes the Beige Book's anecdotal information because it provides firsthand insights into the economy in advance of the FOMC meetings (McTague 1991).

Recent research indicates that these Beige Book reports provide a useful indicator of national and regional economic activity. In a study by the Federal Reserve Bank of Dallas, Balke and Petersen (1998) gave numerical scores to the district and national Beige Book summaries and evaluated the predictive capability of the Beige Book index for current and next quarter gross domestic product (GDP). They concluded that their indexes of the national Beige Book summary and the average of the twelve district summaries are significantly associated with current and next-quarter growth of real gross domestic product and contain information not available in other contemporaneous measures, such as the Blue Chip consensus forecast.¹ In addition, Balke and Petersen found that the summaries for some of the individual districts, including Atlanta, are significantly associated with real GDP growth. Balke and Yucel (2000) evaluated the association between the Eleventh Federal Reserve District (Dallas) Beige Book and Texas GSP and employment growth and concluded that the district's Beige Book summary and sectoral reports track the Texas state economy very well.²

This article evaluates the relationship between the Sixth District (Atlanta) Beige Book and regional and state per capita employment, real personal income, and real GSP growth. The analysis also compares the Sixth District Beige Book to next-quarter estimates of economic activity and examines whether the Sixth District Beige Book contains information about regional economic activity in addition to that contained in the national Beige Book summary. If the Sixth District Beige Book is correlated with regional economic activity, it can provide monetary policymakers with timely information on regional economic growth and assist in the formulation of monetary policy.

Compiling the Beige Book

Each Federal Reserve Bank uses its own information-gathering methods to compile its Beige Book report. The sectors reported on differ somewhat across regional banks to emphasize the sectors that are economically important in each district and recent major economic developments. Most districts use a variety of methods, including calling local businesses, conducting regular surveys, reading local newspapers, and having members of their board of directors report on current and expected future economic conditions. At the Atlanta Fed, analysts and economists in the research department's regional group compile the Beige Book. All of the above methods are used to gather information on the economy in the six states that comprise the Sixth District (Alabama, Florida, Georgia, and portions of Louisiana, Mississippi, and Tennessee).

The Atlanta Fed's Beige Book report focuses on economic conditions in the period since the last FOMC meeting, essentially the last one to two months. Although the report includes some details about future expectations, the Beige Book primarily discusses contemporaneous conditions. Separate sections of the Sixth District Beige Book review recent trends in agriculture; consumer spending, which includes the retail sector; construction, which includes activity in single-family, multifamily, and nonresidential markets; financial services; manufacturing; tourism; and employment and wages. In recent years the Beige Book has also reported on price pressures. A summary precedes the industry-specific sections. (See the box on page 22 for examples of Beige Book summaries.)

The anecdotal nature of the Beige Book can be viewed as an asset or as a liability. Blinder (1997) noted that anecdotal reports, or “ask your uncle” information, can allow economists’ “priors to run rampant” or that monetary policymakers may seek out and listen only to anecdotes that support beliefs they

already hold. However, Rivlin (1997) commented that anecdotes can fill gaps in data series, provided they are properly evaluated: “Another thought that has struck me at the Fed is the enormous usefulness of reporting on examples of real world happenings— anecdotes if you will—and the absence of useful data that bridge the gap between the anecdote or real world case and an aggregate statistical series.” The index of the Beige Book reports developed by Balke and Petersen and used below in this article offers such a bridge between anecdotes and hard data.

Evaluating the Beige Book

In order to evaluate the relationship between the Beige Book and economic activity, the summary of economic conditions needs to be transformed into a numerical score. Balke and Petersen (1998) developed numerical indexes for each Federal Reserve district’s summary and for the national summary in each Beige Book from July 1983 through January 1997. Each author read and scored the Beige Books separately, assigning a value between -2 and 2 to each district and to the national summary. A report indicating moderate to normal economic growth was typically scored 0.5 while strong growth was given a score between 1 and 1.5 . Negative scores indicate a contraction in activity, and zeroes indicate that the pace of economic activity was flat. (See the box on page 22 for examples of how summaries from the Sixth District Beige Book were scored.) In order to avoid reporting bias, Balke and Petersen read the summaries in random order and without knowing the dates (which were removed by analysts at the Dallas Fed).

Transforming qualitative measures such as the Beige Book into quantitative data poses challenges for researchers. Readers other than Balke and Petersen might assign different scores to the Beige Book summaries. In addition, changes over time in the staff compiling the Beige Book may have led to changes in wording; “modest growth” may be associated with different paces of economic growth to different writers of the Beige Book. In short, converting Beige Book summaries to numerical indexes is a sub-

jective process. Despite these concerns, assigning numerical scores to the Beige Book provides a means of evaluating how well the Beige Book captures economic conditions in advance of actual data.

The Beige Book is not a typical time series because it comes out at uneven intervals eight times a year. In order to compare the Beige Book to standard measures of economic activity, each Beige Book must be matched to data for the period covered in that Beige Book. For example, the Beige Book issued in January discusses December’s economic activity. The analysis here is done on a quarterly basis, so each Beige Book is matched to a particular quarter; a Beige Book issued in January discussing December’s economic activity is matched to the fourth quarter of the preceding year. Some quarters have more than one Beige Book, so the average of all of the scores assigned by Balke and Petersen in a given quarter is the Beige Book measure used here.

This analysis compares the Beige Book index to quarterly economic activity as measured by growth in per capita employment, real personal income, and real GSP. This study uses per capita values to control for the sizable changes in population in the Sixth District states between 1983 and 1997. The monthly employment data are converted to a quarterly basis by taking the simple average during the quarter. The Chow and Lin (1971) procedure is used to distribute annual GSP across quarters. State-level measures of employment, income, and GSP for the six states are summed to form district-level measures of economic activity.³ Personal income and GSP are corrected for inflation using the personal consumption expenditures (PCE) deflator with 1996 as the base year. The economic variables are converted into per capita values using annual total state population numbers from the Census Bureau.

Table 1 describes the variables used in the econometric analysis discussed below and reports the means and standard deviations. The average Beige Book score in the Sixth District during the 1983–96 period was 0.64 , indicating that moderate growth prevailed during most of this period. The average score for the national Beige Book also indicates moderate

1. In contrast, a Minneapolis Fed study by Fettig, Rolnick, and Runkle (1999) found that the Beige Book summaries (including those in the Red Book, the not–publicly released predecessor to the Beige Book) do not have predictive value beyond that of private sector forecasts. Balke and Yucel (2000) attribute the conflicting results to differences in the timing of the other forecasts used in the Balke and Petersen study and in the Fettig, Rolnick, and Runkle study. The latter study used forecasts made later in the quarter than the Beige Books whereas Balke and Petersen focused on forecasts released prior to or at the same time as the Beige Books. See Balke and Yucel (2000, 10 n. 1) for a more detailed discussion.
2. Unlike Balke and Yucel (2000), this study does not examine the relationship between economic growth and the measures of the Beige Book for various sectors (for example, construction and manufacturing) because Balke and Petersen (1998) compiled sectoral scores only for the Dallas Fed’s Beige Book reports.
3. Although the Sixth District does not contain the entire states of Louisiana, Mississippi, and Tennessee, state-level measures are used for these states.

TABLE 1
Descriptive Statistics

Variable	Description	Mean	Standard Deviation
District Beige Book Index	Index from 2 to -2 of description of pace of economic growth in the Sixth District Beige Book	0.641	0.333
National Beige Book Index	Index from 2 to -2 of description of pace of economic growth in the national summary of the Beige Book	0.664	0.383
Employment	Growth rate of employment per capita	1.486	1.716
Income	Growth rate of real income per capita	2.336	3.236
GSP	Growth rate of real gross state product per capita	5.314	4.630

Note: All variables are quarterly observations for 1983:2–1996:4 for a total of fifty-five observations. Employment, income, and GSP are for the six states in the Sixth District (Alabama, Florida, Georgia, Louisiana, Mississippi, and Tennessee). Quarterly growth rates are annualized.

growth. This period was generally marked by an economic expansion, interrupted by a relatively shallow eight-month recession that began in July 1990. The average growth rates of per capita employment, real income, and real GSP are also positive during this period. The analysis focuses on economic growth rates instead of levels because the Beige Book scores are based on the pace of growth as reported in the Beige Book, not on the level of activity.

The Sixth District Beige Book is well correlated with the measures of economic activity in the district's six states. The simple correlation between the numerical scores assigned to the Beige Book and the growth rate of employment per capita is 0.76; the growth rate of real personal income per capita, 0.48; and the growth rate of real GSP per capita, 0.39. These correlations suggest that the Beige Book is a good measure of the rate of economic growth in the district.

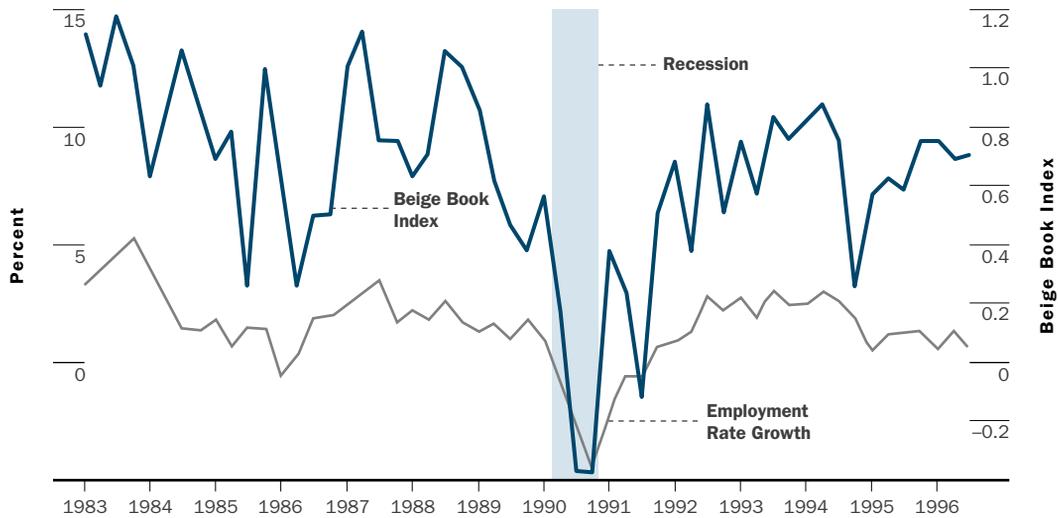
Several methods are used next to evaluate the usefulness of the Beige Book as an indicator of economic activity. First, the Sixth District Beige Book index is compared to growth rates of employment, real income, and real GSP per capita. The association between the Beige Book and these series is then estimated econometrically using ordinary least squares (OLS) regressions. Each of the three measures of economic growth is regressed on the Beige Book index, one lag of the dependent variable, and a constant. The lag of the dependent variable is included to correct for autocorrelation, which is present in the data. Some specifications instead include four lags of the dependent variable on the right-hand side of the various regressions to evaluate whether the Beige Book has added value over other data.

The analysis also examines whether the Beige Book has predictive power for next-quarter economic growth. In addition, the article discusses whether the Sixth District Beige Book contains information about economic activity not available in the national summary and whether the Sixth District Beige Book is associated with economic activity at the state level for the six states in the district. Finally, the article discusses how well the wording used in the Sixth District Beige Book summary matched the changes in the economy during the period surrounding the 1990–91 recession since this period marks the most notable change in economic activity during the time frame of this study.

Gauging Regional Economic Activity

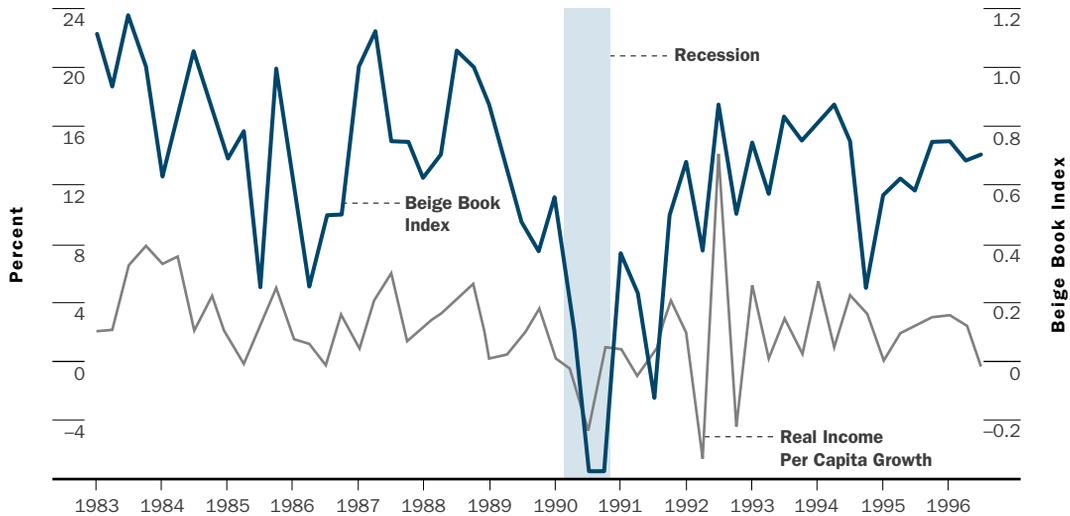
Charts 1–3 compare the Sixth District Beige Book index to measures of district economic activity during the 1983–96 period. Chart 1 plots the Beige Book index and per capita employment growth. Employment growth fluctuates around 2 percent (on an annualized basis) and was negative during the 1990–91 recession, which is indicated by the shaded area. The Beige Book index fluctuates much more than employment but captures the 1990–91 downturn in employment growth. Chart 2 plots the Beige Book index and growth in per capita real income. Per capita real income also fluctuates quite a bit and tends to rise and then fall in consecutive quarters. The 1990–91 recession is apparent in the chart. A similar pattern is evident in Chart 3, which shows the Beige Book index and per capita real GSP growth. The strong rates of real GSP per capita growth during the 1986–87 and 1992–94

CHART 1
The Sixth District Beige Book and Employment Rate Growth



Source: Balke and Peterson (1998) and Bureau of Labor Statistics

CHART 2
The Sixth District Beige Book and Income Growth



Source: Balke and Peterson (1998) and Bureau of Economic Analysis

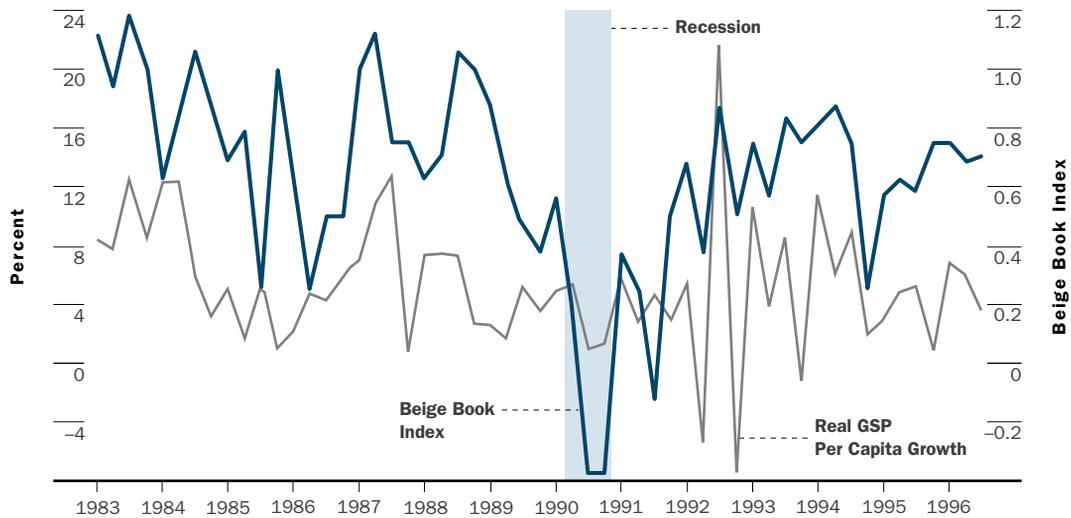
periods are mirrored by the relatively high Beige Book scores during those periods.

Table 2 shows the results from regressions of the three measures of current economic activity on the Beige Book index. The odd-numbered columns include only the Beige Book variable, one lag of the dependent variable, and a constant; the even-numbered columns add three more lags of the dependent variable to the specification. The results indicate that the Beige Book tracks Sixth District

economic activity quite well. All of the coefficients of the Beige Book variable are statistically significantly different from zero at the 1 percent level. However, the goodness of fit of the regressions as measured by the R^2 is low, indicating that the Beige Book explains at most about one-third of the movement in these series.

When four lags of the dependent variables are included in the model, the coefficient on the Beige Book index decreases slightly in magnitude and

CHART 3
The Sixth District Beige Book and Gross State Product Growth



Source: Balke and Peterson (1998) and Bureau of Economic Analysis

TABLE 2
Relationship between the Beige Book Index and Economic Growth

	Employment		Income		GSP	
	1	2	3	4	5	6
Beige Book	0.023* (0.004)	0.022* (0.004)	0.060* (0.011)	0.058* (0.012)	0.065* (0.016)	0.054* (0.018)
Number of Lags of Dependent Variable Included	1	4	1	4	1	4
Lag of Dependent Variable	0.515* (0.086)		-0.402* (0.116)		-0.395* (0.119)	
F-Test of Joint Significance of Lagged Dependent Variables (<i>p</i> Value)		12.12 (0.000)		3.22 (0.020)		3.48 (0.014)
Adjusted <i>R</i> ²	0.739	0.765	0.350	0.328	0.273	0.271
Sample Size	55	55	55	55	55	55

Note: The asterisk (*) indicates $p < 0.01$. The dependent variables are annualized quarterly growth rates of per capita measures. Income and GSP are deflated using the PCE deflator. Regressions are estimated using OLS and include a constant.

remains significantly different from zero. This result indicates that the Beige Book contains information beyond that given by the measure in question during the four most recent quarters. Note that all four most recent quarters of income and GSP data would not be available at the time the Beige Book is released, further indicating that the Beige Book does not simply reflect other economic series. The coefficients of the four lags of the dependent variable are jointly significantly different from zero as well.

Table 3 examines whether the Beige Book is correlated with economic activity during the next quar-

ter in order to determine whether the Beige Book has predictive power, at least in the short run. The results indicate that the Beige Book has explanatory power for quarter-ahead per capita real income and GSP growth at the 1 percent level. However, the Beige Book has little predictive power for next-quarter per capita employment growth.

Comparing the District and National Beige Books

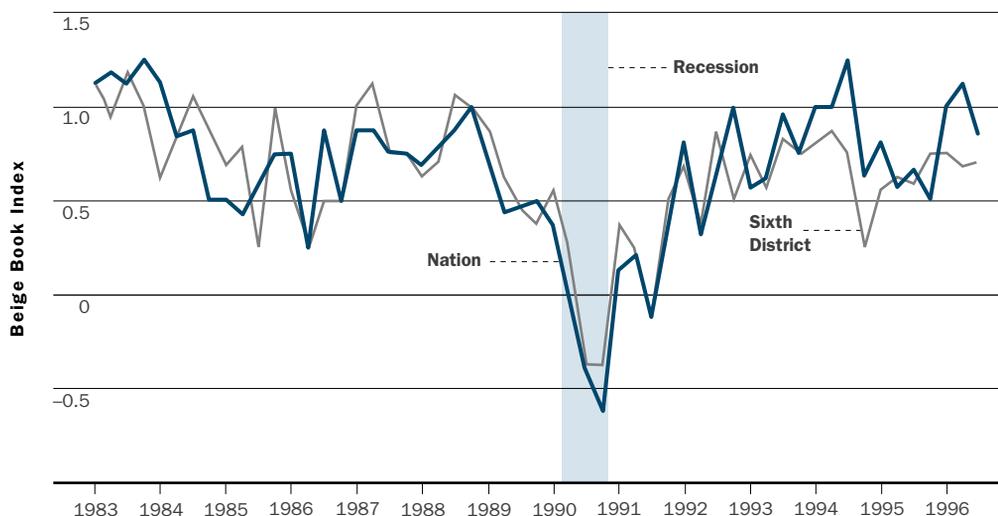
One potential concern about the district Beige Book is that it may not contain much additional information above and beyond the

TABLE 3
Relationship between the Beige Book Index and Future Economic Growth

	Employment	Income	GSP
Beige Book	0.007 (0.006)	0.036~ (0.014)	0.040~ (0.019)
Contemporaneous Value of Dependent Variable	0.701* (0.121)	-0.387~ (0.146)	-0.410* (0.137)
Adjusted R^2	0.658	0.116	0.128
Sample Size	55	55	55

Note: The asterisk (*) indicates $p < 0.01$; the tilde (~) indicates $p < 0.05$. The dependent variables are annualized quarterly growth rates of per capita measures. Income and GSP are deflated using the PCE deflator. Regressions are estimated using OLS and include a constant.

CHART 4
Sixth District and National Beige Book Indexes



Source: Balke and Peterson (1998)

national summary, which is compiled based on the twelve district write-ups. This concern is magnified by the similarity between the industrial composition of the states in the Sixth District and the U.S. economy as a whole. For example, during the 1983–96 period, wholesale and retail trade accounted for 23.5 percent of employment in the United States and 24.6 percent in the Sixth District states; services for 25.4 percent and 24.3 percent, respectively; manufacturing for 17.7 percent and 16.5 percent, respectively; and government for 16.8 percent and 17.4 percent, respectively. In addition, the states in the Sixth District account for a large component of the national economy; they were responsible for 14.2 percent of employment, 13.3 percent of personal income, and 13 percent of total GSP in the United States in 1996.

Chart 4 indicates the substantial comovement between the national and Sixth District Beige Book indexes created by Balke and Petersen. The two measures move virtually in lockstep. The correlation between the Sixth District and the National Beige Book scores is 0.82. The national Beige Book index is weaker than the Sixth District Beige Book index during the 1990–91 recession, reflecting the shallow nature of the recession in the Southeast relative to most of the rest of the United States.

Table 4 reports the association between the national Beige Book index and the pace of economic activity in the Sixth District. The odd-numbered columns report the results from regressing each of the three measures of economic growth on the national Beige Book index, one lag of the dependent variable, and a constant. The even-numbered

TABLE 4
Relationship between District and National Beige Book Indexes and Economic Growth

	Employment		Income		GSP	
	1	2	3	4	5	6
National Beige Book	0.024* (0.004)	0.016* (0.006)	0.057* (0.011)	0.034 (0.017)	0.059* (0.015)	0.033 (0.025)
District Beige Book		0.012~ (0.006)		0.031 (0.018)		0.036 (0.028)
F-Test of Joint Significance of Beige Book Variables (<i>p</i> Value)		19.70 (0.000)		16.58 (0.000)		8.82 (0.001)
Lag of Dependent Variable	0.423* (0.091)	0.406* (0.089)	-0.541* (0.126)	-0.507* (0.125)	-0.470* (0.124)	-0.447* (0.125)
Adjusted <i>R</i> ²	0.758	0.771	0.360	0.384	0.273	0.282
Sample Size	55	55	55	55	55	55

Note: The asterisk (*) indicates $p < 0.01$; the tilde (~) indicates $p < 0.05$. The dependent variables are annualized quarterly growth rates of per capita measures. Income and GSP are deflated using the PCE deflator. Regressions are estimated using OLS and include a constant.

columns show the results from adding the Sixth District Beige Book scores to the models.

The national Beige Book is well correlated with per capita employment, real income, and real GSP growth in the Sixth District. The estimated coefficients on the national Beige Book index are significantly different from zero at the 1 percent level in the odd-numbered columns in Table 4. When the Sixth District Beige Book index is also included in the models, it is not significantly associated with any of the measures of economic activity. In addition, the coefficient on the national Beige Book index falls in magnitude and is no longer statistically significant in the real income and GSP growth models; the substantial correlation between the two indexes drives down the coefficients. The national and Sixth District Beige Book coefficients are jointly significantly different from zero, indicating that these two variables together help explain district economic activity or may contain essentially the same information.

Gauging State Economic Activity

Table 5 considers whether the Sixth District Beige Book is associated with per capita employment, real income, and real GSP growth in each of the six states in the district. Each state-level measure of economic growth is regressed on the Sixth District Beige Book index, one lag of the dependent variable, and a constant. The table contains the coefficient estimates on the Beige Book index variable and the adjusted *R*² in each regression.

The Sixth District Beige Book is well correlated with per capita employment and real income growth

in Alabama, Florida, and Georgia—the three states entirely contained in the district; the Sixth District Beige Book is also correlated with real GSP growth in Florida and Georgia. Florida and Georgia are the largest states in the district in economic terms, and the Beige Book write-ups tend to give more weight to economic activity in those two states. The Beige Book index is correlated with employment growth in Mississippi and real personal income growth in Tennessee. The index is not associated with economic activity in Louisiana, which is not surprising since the Louisiana economy is considerably more dependent on mining activity than the rest of the region is.

The 1990–91 Recession

Balke and Petersen (1998) suggest that the Beige Book might be useful for identifying turning points, or times when the economy switches between expansion and recession. Econometric models have traditionally had a difficult time forecasting turning points, particularly when predicting outside of the time period of the data used to create such models (out-of-sample forecasts), and turning points are usually identified with a considerable lag (Del Negro 2001). As Chart 4 indicates, the scores assigned to both the national summary and the Sixth District Beige Book summary indicate a decline in economic activity that coincides with the 1990–91 recession.

Examining the Sixth District Beige Book summaries during the period of the recession is also instructive. The September 1990 Beige Book, which reported on August and early September

TABLE 5
Relationship between the Beige Book Index and State Economic Growth

	Employment	Income	GSP
Alabama	0.025* (0.005) [0.496]	0.030* (0.011) [0.125]	0.021 (0.015) [0.040]
Florida	0.029* (0.006) [0.707]	0.088* (0.018) [0.377]	0.082* (0.020) [0.356]
Georgia	0.028* (0.007) [0.628]	0.054* (0.013) [0.219]	0.073* (0.021) [0.193]
Louisiana	0.009 (0.009) [0.433]	0.011 (0.013) [0.003]	0.041 (0.029) [0.254]
Mississippi	0.023* (0.008) [0.283]	0.015 (0.014) [0.000]	0.011 (0.018) [0.000]
Tennessee	0.019* (0.006) [0.520]	0.024 (0.013) [0.049]	0.027 (0.020) [0.000]

Note: The asterisk (*) indicates $p < 0.01$. Each set of three results in a given row and column is from a separate regression. The standard error is in parentheses, and the adjusted R^2 is in brackets. Regressions are estimated using OLS and include a constant and one lag of the dependent variable. The sample size in each regression is fifty-five observations. The employment, income, and GSP data are for the state indicated.

(the early months of the recession), stated, “Business contacts throughout the Southeast indicate some further deceleration from the slow pace of growth reported in recent months.” The Beige Book reports continued to indicate flat or negative growth until the March 1991 report, which described the pace of growth as “mixed” and included the following: “Several retailers and residential realtors have seen either a bottoming out or a slight pickup in recent weeks.” The following Beige Book report noted that positive signs from the previous month had been reinforced. This upswing in the reports coincides with the end of the recession and was noted well in advance of data releases that indicated an economic recovery was under way.

Conclusion

This article examines the correlation between the Sixth District Beige Book and per capita employment, real income, and real gross state product growth for the six states in the district. The Sixth District Beige Book is correlated with these measures of economic activ-

ity at the district level. In addition, the numerical index of the reports predicts per capita real income and GSP growth in the Sixth District and is correlated with the pace of economic activity in Alabama, Florida, and Georgia. The Beige Book also identified the 1990–91 recession and recovery well in advance of data releases. These findings support the conclusions of Balke and Petersen (1998) and Balke and Yucel (2000) that the Beige Book captures economic activity at the national and subnational level.

The results indicate that the Sixth District Beige Book provides timely information on regional economic activity ahead of the data releases—at least one month ahead of employment and two years ahead of GSP. Although the reports might be considered “asking your uncle” about the economy, they provide a timely and reliable source of information about the national and regional economies when actual data are not yet available. With this knowledge policymakers have an early indication of the direction of the economy that helps them make informed decisions about monetary policy.

Examples of Sixth District Beige Book Summaries

Both readers scored the **November 1991** Sixth District Beige Book as 0, which corresponds to no change in levels.

In early November, reports on the District economy indicated that activity was again sluggish and showed the same uneven pattern that has persisted since last spring. Retailers saw relatively good sales in the past month, but they reported that they are concerned about the shorter-than-usual shopping season. Auto sales were generally unchanged from previous months' and year-ago levels. Manufacturing activity has been slow in construction-related industries, but has shown positive signs in food processing and packaging. Banking contacts report only slight increases in loan demand over the past month and add that credit standards remain unchanged. Residential real estate activity is strong only for homes in the lower price ranges.

The **November 1994** Beige Book received a score of 1 (moderate growth) from both readers.

According to business contacts, the Southeast economy grew at a healthy pace through the end of November, although recent year-over-year gains have been smaller than they were earlier in the year. The holiday shopping season got off to a good start over the Thanksgiving weekend, with most retailers reporting that sales had met or exceeded their optimistic expectations. Tourism and business travel remain above year-ago levels in most of the District, and recent reports indicate that many Florida tourist markets have begun to see a rebound. Factory activity in the District was reported to be mixed, with strength in some industries offsetting weakness in others. Single-family home sales and construction slowed on a year-over-year basis in November, but multifamily and commercial construction continued to show improvement. Reports of increasing wage pressures have become more frequent in the last month, and firms in a growing number of industries say that they are having difficulty finding qualified workers. Although many contacts continue to report rising raw materials prices, most producers continue to indicate that they have not raised prices of their own products.

The lowest score for the Sixth District was **November 1990**, the midst of the 1990–91 recession, when one reader scored the district as -1 and the other as -0.5 .

Most business contacts report that activity weakened in October and November from earlier this year, with real sales revenues even with or lower than at this time last year. Manufacturers producing for domestic consumption indicate declining orders relative to this time last year, and are cutting production and shrinking employment as a consequence. On a more positive note, orders for defense-related goods and exports are said to be increasing, thus supporting production and limiting the overall employment drop. Businesses report only limited cost pass-through of oil-related price increases and an easing of previous labor shortages for selected occupations. Retailers generally report poor sales; they are increasingly pessimistic concerning the outlook for the holiday season. Our business contacts almost universally note an erosion of consumer confidence. Reports from bankers mirror those of our manufacturing and retail contacts, indicating weaker consumer spending and more cautious borrowing behavior in October and early November than in previous months. In the construction sector, contacts report that the level of overall activity declined in October as compared to earlier this year or to last October.

The highest score for the Sixth District was **August 1987**, when both readers scored the District as 1.5.

The Sixth District's economy shows signs of moderate strengthening in a number of sectors. Unemployment in the Southeast continues its downward trend assisted by sizable job gains in services and a slow rebound in manufacturing. Retail sales are rising moderately, and tourism is also providing a positive impact. Construction presents a mixed picture with pockets of brisk activity interspersed among slowing areas. Prospects in agriculture appeared generally favorable at mid-July although hot, dry weather again threatened crop yields.

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