You may have seen media stories that mention the Federal Reserve’s *Beige Book*, a periodic report on economic conditions around the country. But most people probably have never laid eyes on the book itself, or know what’s really in it. *Forefront* talks to Bob Sadowski, a senior economic analyst who has primary responsibility for producing the Cleveland Fed’s contribution to the *Beige Book*.

**Forefront:** Let’s start with the question that is no doubt uppermost in everybody’s mind: Why is it called the “Beige” Book? Why not some other color?

**Sadowski:** When the report was first published in 1970, it was called the *Red Book* because that was the color of its cover. In 1983, the report’s format was changed to what we see today, and its name became the *Beige Book*. A few years ago, the Federal Reserve converted the publication to an all-electronic format, but the name stuck. By the way, its formal title is *Summary of Commentary on Current Economic Conditions*.

**Forefront:** The *Beige Book* is published eight times a year. How do you ensure that the Cleveland Fed’s contribution is an accurate representation of business and industry in the region?

**Sadowski:** We cover six industry sectors—manufacturing, real estate, retail sales, banking, energy, and freight transportation. Having a representative sample from each sector is critical if we’re to give the Board of Governors substantive information. To accomplish this, we use three primary sources: *Beige Book* contacts, boards of directors, and business advisory councils in the Fourth District. Every one of them is a business owner or senior manager, and their firms range in size from micro to Fortune 500.

**Forefront:** You say you “cover” these sectors, but how do you collect the information?

**Sadowski:** During any *Beige Book* cycle, we will have spoken with at least 150 knowledgeable people about their views on demand, expectations, investment, prices, labor, and any other topic of concern to them. Six of the Bank’s research analysts call these contacts every cycle (six-week period) to get their views on business conditions and the economy at large. The Fourth District has a board of directors in each of its offices: Cleveland, Cincinnati, and Pittsburgh. Every board meeting includes an economic discussion in which directors respond to our questions about the economy or participate in a go-round in which they present their views on business conditions. People are often surprised to learn that the Cleveland board convenes 28 times a year.

We also have business advisory councils in Cincinnati, Cleveland, Columbus, Dayton, Erie, Lexington, Pittsburgh, and Wheeling, which meet either twice or three times a year. For each meeting, we in the Research Department of the Cleveland Fed prepare economic questions that members respond to in a roundtable discussion. Members of business advisory councils are specifically selected to include representatives...
from outside the six industry sectors on which we report. On top of all this, Bank executives frequently meet with business leaders across the District in informal one-on-one discussions in which participants express their views on business conditions.

**Forefront: The Federal Reserve is known for paying a lot of attention to data, but the Beige Book contains no numbers. Of what value is the information contained in it?**

**Sadowski:** Both data and anecdotal information have their strengths and shortcomings. Data represents a snapshot of a specific variable over a short period of time; it’s subject to revision, sometimes to a substantial degree. As a result, we seek to round out our regional economic analysis with anecdotal information. These anecdotes may point to the beginning of a trend that is not yet apparent in the data. They may also fill in gaps, that is, explain the why of the numbers. Here’s a quote that should put things in perspective: “Anecdotal information brings the Committee [Federal Open Market Committee, or FOMC] qualitative judgments and insights that the aggregative statistics will always lack.”—George Mitchell, Fed Governor, 1961–75.

**Forefront: So do anecdotes gleaned from the Beige Book surveys end up getting discussed around the FOMC table?**

**Sadowski:** The simple answer to your question is yes, but let me elaborate. Economists at the Cleveland Fed, and across the Federal Reserve System, pore over data, conduct research, and create models for economic forecasting. However, the economy inevitably changes and evolves in ways that cannot be captured precisely with any mathematical model. Very often, the official data that is available is just not current enough for a forward-looking enterprise like monetary policy. This is where judgment comes into play, shaped in part by the anecdotal information we receive.

As I mentioned earlier, data tells you what is going on in the economy, while anecdotes help you understand the **why** behind the **what**. This interplay of data, models, and judgment about current events is vital to how the economists and president of the Cleveland Fed structure their economic forecasts. Multiply this process many times over, among all the FOMC participants, and the result is that each person brings his or her own forecast to the meeting. One last thing—the agenda for every FOMC meeting includes a go-round, in which each FOMC participant gives his or her outlook for the national economy. As part of their commentary, the 12 Federal Reserve Bank presidents also present information on economic developments in their respective regions.

**Forefront: I’m looking at the March Beige Book, in which we report that business activity rose at a “modest” pace in the Fourth District. Later, we note that coal production has declined “moderately.” Any tips on how to differentiate between “modest” and “moderate”?**

**Sadowski:** Throughout the Beige Book, you’ll see these descriptors, plus many others, that are used to weigh the increase or decrease in an economic variable or the economy as a whole. All districts use them to some extent. Since the weight is subjective, we don’t formally assign a range of values to any descriptor. Remember that we talk with contacts from many different industries within the same sector.

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A 5 percent rise in new orders in one industry may be interpreted differently than the same percentage increase in another industry. Your readers may be interested in knowing that after completing the Beige Book draft, each district fills out a checklist, which is used to help evaluate the change in sectors and some variables over time. As part of this checklist, the following weights are used: no change, slight (mild), modest (slow), moderate (average), strong (robust), and very strong (rapid).

**Forefront: Have you used any other descriptors on occasions when the customary ones don’t quite fit the bill?**

**Sadowski:** No, not really. I think those six are more than enough! Careful readers of the Beige Book (yes, it does have some readers apart from the FOMC) might have noticed that the word “robust” is starting to be used a little more frequently as we work our way through the recovery. Hopefully, we’ll be able to use the words “very strong” in the near future.

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**Recommended reading**

Incredible as it seems, the Beige Book is free! Find it eight times a year at www.federalreserve.gov/monetarypolicy/beigebook