

What Old News Tells Us
That Data Does Not:
The uses of news reports in
monetary policy research



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October 23, 2008



Standard disclaimer

Views expressed are mine alone, and are not necessarily those of the Federal Reserve Bank of St. Louis, the Board of Governors, or the Federal Reserve System

A tiny bit about Fed

- Federal Reserve System
 - BOG—is part of the government
 - Twelve Regional Banks, not part of the government
- A very important role for the Banks is to have a seat at the Federal Open Market Committee
- FOMC sets the federal funds rate, the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight
- FOMC has permanent voting members, and rotating voting members

Economic Research

- ❑ Every Fed has a group of economists who offer advice to the President of the Bank, particularly in preparation for the FOMC meeting
- ❑ Economists also work on their own research
- ❑ The library supports the economists in their work

Agenda

- Economists use old news to find, re-create, or clarify
 - data that has been lost from other sources (data, and revised data)
 - a timeline of events
 - information that did not exist in official form—news sources give the best information available
 - Policymakers' commentary and statements and reactions to them

- The library also uses current news to inform employees of current events

News helped us find lost data

- ❑ We had economists searching for data as it was released at a particular moment in time
- ❑ Data are typically released with a press release
- ❑ After some period of time, most economic data are revised and released in a more permanent document
 - These revisions reflect new information that has come in since the original release
- ❑ Economists are interested in the old data
 - to build models (using preliminary data, so the model reflects the kind of initial data available to policymakers);
 - to know what policymakers knew at a particular point in time;
- ❑ Librarians (and sometimes the agency) discarded the old data, as it had been replaced by newer, better data
- ❑ Old news was, in some instances, the only way to capture the data, as well as its release date

When the data are released, news often captures the latest data, plus the revision

THE WALL STREET JOURNAL.

WSJ.com

SEPTEMBER 6, 2008

Jobless Rate Tops 6%, Fueling Fight On Economy

By KELLY EVANS, BOB DAVIS and TOM LAURICELLA

A jump in the unemployment rate to 6.1% in August, the highest in nearly five years, underscored the economy's fragility and deepened political debate over whether a second stimulus package is needed.

The jobless-rate jump, from 5.7% in July, was larger than anticipated, reflecting how energy prices and problems in the housing and financial sectors have radiated outward to slow overall economic activity.

Nonfarm employers shed some 84,000 jobs, after revised net declines of 60,000 in July and 100,000 in June, according to a Labor Department survey. That brought net job losses so far in 2008 to more than 600,000.

"It's clear at this point that businesses are battening down the hatches and worried about the persistence of this slowdown," said Bank of America senior economist Peter Kretzmer. "They may be preparing themselves that this won't be something that ends quickly."

News also helps with creating timelines

- ❑ Old news helps create a timeline of events
- ❑ Past events become compressed or just hazy
- ❑ Researchers have used news reports to examine the timing or sequence of events
- ❑ Librarians have been asked to create timelines of events, particularly timelines involving important economic events (e.g., LTCM or Asian Financial Crisis)

Vintage news

- Economists examine old news to learn
 - What was the knowledge base at the time? What exactly did policymakers know?
 - And, then, when new information was introduced, how was that different from what they knew or expected?
 - Economic events, the expectations before the event, and the response after the event are interesting to economists

What did policymakers do in the past?

- When did policymakers act?
- How was that action received?
 - In a discussion of the events surrounding a change in the way the Fed conducted monetary policy in October 1979, researchers examined news reports for reactions to Fed pronouncements and actions (Lindsey, Orphanides, Rasche 2007)

Response to Fed actions

- Researchers have examined how well markets understood (or misunderstood) the actions the Fed was taking (Poole, Rasche, Thornton 2002)
 - Particularly true for the era when the Fed was trying to be opaque

Old news provides economic information

- Researchers have also used news reports to capture economic impact, as a measure of effect.
 - E.g., The pandemic of 1918 did not have regional data or data at the frequency that would best reflect the economic impact. News reports aided in discerning the timing and impact of the pandemic to various regions. (Garrett 2008)
- News captures the “what did we know and when did we know it” in detail

Capturing policymakers' commentary

- Ed Nelson, an economist at the St. Louis Fed, captures commentary and policy in a systematic manner using old newspapers
 - Because of the structure of the U.K.'s central bank, he used newspapers to capture policymaker's opinions and intent during the Great Inflation of the 1970's
 - Nelson also has used newspapers to document journalists and columnists opinions and explanations regarding economic policy during the 1970's
 - Nelson has also documented the news reports on economic conditions, reflecting the response to the economy or policy decisions
 - Nelson has also used newspapers to document Milton Friedman's observations and commentary, and so constructed an outline of Friedman's monetary policy viewpoints after 1960

Documenting a climate of opinion

- From Nelson's paper "the Great Inflation of the Seventies: What Really Happened?"
 - "this paper draws on archival evidence in the form of newspaper articles—22 newspapers for the U.S.; 12 newspapers for the U.K. Examining contemporaneous coverage of the Great Inflation in newspaper sources brings out the statements of the "politicians, economists and journalists" ... and so gives a better picture of the climate of opinion behind policy actions."

Current News

- ❑ The library has (for probably 40 years) distributed a compilation of the day's most important economic and banking stories
- ❑ Not for monetary policy research
- ❑ Designed for staff, the news clips keep staff informed and are one of the library's best-known services

News-like tools, also used

- FOMC Minutes
- Press releases
- Speeches of policymakers
- Blue Chip Economic Indicators and Financial Forecasts (for expectations)
- Commentary in official publications (e.g., Federal Reserve Bulletin, Economic Report of the President)

Solutions/Aids

□ St. Louis Fed solutions

■ ALFRED

- Capturing vintage data for

■ FRASER

- Capturing data using weekly and monthly economic publications
- Digitizing speeches and other Fed commentary
- And, digitizing papers and archival materials
- All with dates attached

News Reports and Economic Research

- An important tool for economic research
- The element of time is important
 - May need more sophisticated time stamping in the future (as it is available)
- Most of the uses (other than capturing data, which we now do), will remain important for economists