

# EXPLORING ECONOMIC SECTORS

## FEDERAL RESERVE BANK of KANSAS CITY

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### LESSON DESCRIPTION:

This lesson will introduce students to the Federal Reserve's Beige Book and how this report assesses economic conditions in the U.S. through looking at changes in different economic sectors. These sectors include consumer spending, nonfinancial services, manufacturing, real estate and construction, agriculture, energy and natural resources, banking, prices and employment and wages. Each sector's description is followed by a discussion question so that students can apply the information to their everyday lives.

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### GRADE LEVEL: 9-12

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**CONCEPTS:** economic sectors, consumer spending, retail and tourism, non-financial services, manufacturing, real estate and construction, banking and financial services, agriculture, employment and wages, prices, Federal Reserve Beige Book report

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### OBJECTIVES:

Students will be able to:

1. Explain the purpose of the Federal Reserve's Beige Book report
  2. Identify key sectors of the economy
  3. Interpret how changes within economic sectors impact their daily lives
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### TIME REQUIRED: 60-90 minutes

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### MATERIALS:

1. A copy of the latest Beige Book report available at <https://www.federalreserve.gov/monetarypolicy/beige-book> (optional)
  2. Visual 1: A Look at the Beige Book
  3. Activity 1: Economic Sector Information Cards 1 - 8
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### INTRODUCTION:

- Ask students to brainstorm ways they could find out about current conditions in our economy, such as rates of consumer spending, production of goods and services, and levels of employment and wages. (*Answers might include: listening to TV news; researching on the internet; reading the newspaper or magazines; listening to radio reports; talking to others who have information about the economy.*)

### PROCEDURE:

- Tell students that one way to get a snapshot of our current economic picture is by reading a report published by the Federal Reserve System called the Beige Book. (View these reports at <https://www.federalreserve.gov/monetarypolicy/beige-book>).
- Use Visual 1: "A Look at the Beige Book" to share background information on the book, including when it is published and how the economic facts are compiled.
- Explain to students that the Beige Book covers specific economics sectors, or subdivisions of the economy, including the following: consumer spending, retail and tourism; nonfinancial services; manufacturing; real estate and construction; banking and financial services; agriculture and natural resources; and employment, wages and prices. Tell them that we will explore each sector and discuss its importance in judging the economic health of our country.
- Hand out Activity 1: "Sector Information Cards 1 - 8" to volunteers to read aloud according to numbered order. Discuss the question at the end of each card to apply the sector information to the students' lives. *Teacher's Note: This activity can also be conducted in small groups with a report out at the end of the small group discussions.*

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### CLOSURE:

- Ask students the following questions:
    - What is the Federal Reserve's Beige Book report and what does it include? (*The Beige Book gives a summary of economic conditions throughout the United States and is published by the Federal Reserve Bank. Its contents are compiled from reports given by each of the 12 Federal Reserve Banks on economic conditions within their District. The Federal Reserve Districts get information for these reports through regional interviews and discussion with the Board of Directors' groups, which include business people, financial services representatives, agricultural experts, and others, as well as economists.*)
    - What economic sectors help to gauge economic conditions in the U.S.? (*Consumer spending, retail and tourism, non-financial services, manufacturing, real estate and construction, banking and financial services, agriculture, employment and prices*)
    - How do changes within economic sectors affect our daily lives? (*Answers will vary*)
    - How do we impact economic conditions? (*Answers will vary*)
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### ASSESSMENT:

- Ask students to write a short essay about how changes within the economy have affected them or their family personally.
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### EXTENSION ACTIVITIES

#### **Sector Specialists:**

Divide students into groups of three or four and assign an economic sector to each group. Students should research the activity in their sector for the last six months (or four Beige Book reports) by using [www.federalreserve.gov/fomc/BeigeBook](http://www.federalreserve.gov/fomc/BeigeBook). They should create a visual (such as a chart, infographic or power point) showing the following information:

- Sector description
- Changes in sector activity (increases, decreases or stable reports)
- States where changes are most apparent
- Reasons given for the changes
- Prediction for future changes based on report summaries

Share completed visuals with the class.

#### **Suggest a Sector:**

What new sectors could be added to the Beige Book report? Ask students to brainstorm ideas by thinking of subcategories to current sectors or creating a brand new sector. Give an example of a "Green Sector:" this sector would look at the increase or decrease in jobs that renew or sustain the environment; recycling efforts; inventions of energy-saving devices, etc. After making a list of suggested sectors, tell students to work with a partner or individually to answer the following questions about a new sector they've chosen:

- What is the title of your sector?
- How would you describe your sector?
- Why is this sector important to our economy?
- What type of activity is measured in your sector?
- What hands-on symbol would you use for your sector?

Tell students they will "sell their sector" to the class by presenting this information. The class can vote for the best sector presentation.

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### SECTOR 1: CONSUMER SPENDING, RETAIL AND TOURISM

Consumer spending includes all the goods and services that people have purchased during the time period measured. Sales of big ticket items such as cars, electronics and luxury goods are noted in this sector, as well as an increase or decrease in general retail inventories. This area can be affected by higher food and energy prices, which may keep consumers from spending on nonessential items. Supply distributions, leading to lower product inventories, can also influence spending patterns. For example, when a tsunami hit Japan and affected car manufacturing, Japan exported fewer cars to the U.S. Since the supply of new vehicles was down, the price of available cars increased, leading to fewer cars purchased by consumers. Unfavorable weather, such as flooding, tornados and hurricanes, can also effect spending as consumers are often unable to buy additional goods and services due to buying weather-related supplies and making repairs.

#### *Tourism*

Tourism includes all areas related to travel, such as accommodations, recreation, entertainment, transportation and travel service industries. Consumer travel is often seasonal, with summer being the peak travel time. Increases and decreases in tourism are noted by looking at hotel bookings, attendance at amusement parks, zoos and museums, and use of air, rail and water transportation. Tourism can be slowed by adverse weather conditions and fewer spending dollars available.

#### *Discussion Question:*

Cell phones and accessories are a big ticket item for teens and adults. How does the competition between cell phone companies for your business affect the price of the phone contracts and related goods? (*Answer: Competition between companies generally keeps the price down, as lower prices attract more customers.*)

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### SECTOR 2: NONFINANCIAL SERVICES

Nonfinancial services include employment agencies, information technology firms, telecommunications industries, and business and professional services. Demand for a variety of these business services, such as accounting, marketing, healthcare and legal services can lead to an increase of activity in this sector. For example, more demand for healthcare services can lead to expansion of doctors' offices and clinics. Trading and shipping of goods is also a part of this subdivision. International problems, due to political unrest or natural disasters, can slow the exporting of goods to the affected countries.

#### *Discussion Question:*

You need to visit a neighborhood health center after being injured during a soccer game. Explain how a shortage of nurses in your area could affect the service you receive at the center. (*Answer: The health center may have fewer nurses available, making your wait at the health center longer as each nurse needs to help more patients.*)

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### SECTOR 3: MANUFACTURING

Manufacturing is defined as transforming raw materials into new products through mechanical, physical or chemical processes. Manufacturing can include many separate industries, such as automobiles, aircraft, computers, clothing, construction materials and household goods. Production of goods in these businesses depends on the availability of the raw materials needed and the demand for the finished product. A decline in this sector may mean there is a supply disruption or a delay in the start of projects that will need the manufactured materials. For example, a decrease in available car parts can lead to a slowdown in manufacturing American-made cars. An increase in manufacturing occurs when factory orders increase due to higher demand for the finished product.

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### *Discussion Question:*

You are in the market for a used car. If there are fewer cars being manufactured and sold, discuss how that may affect the availability and price of used cars. (*Answer: Since new cars are less available, many consumers may choose to purchase used cars, decreasing the number of these cars available and increasing their price.*)

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### **SECTOR 4: REAL ESTATE AND CONSTRUCTION**

Real estate sales for both residential and commercial properties are measured in this sector. When selling prices for these properties increase, sales generally decline. The housing market is sometimes seasonal and can be affected by the supply and demand for housing in a particular area. The rental or leasing of properties can also have a detrimental effect on real estate sales.

### *Construction*

Construction refers to all businesses that contribute to the development of land, buildings and structures, such as bridges and dams. Included in this category are firms that build new projects and those that provide maintenance and repairs to these structures, such as siding and roofing companies. These businesses depend on consumer demand and can easily decline if there is a surplus of buildings for sale in an area, making additional building unnecessary.

### *Discussion Question:*

Your house needs a new roof after a recent storm damaged it. If many homes in your neighborhood received similar roof damage, discuss how this will affect the price and amount of time it will take for roof repairs. (*Answer: It may take longer for repairs as roofing businesses will have an upswing in business due to the storm and many homeowners will have to wait. The price of repairs may also increase due to the higher demand for services.*)

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### **SECTOR 5: BANKING AND FINANCIAL SERVICES**

The banking and finance sector measures increases and decreases in loan demand for consumer and commercial loans. This subdivision also covers residential mortgage demand for buying and refinancing homes. It gives a picture of the lending environment, or the willingness of banks to lend within the area. If lending standards tighten, fewer banks are willing to give loans to consumers or businesses. If there is an improvement in the lending environment, more banks agree to process loans for a variety of purposes. This sector also looks at credit standards, such as credit access, credit quality and delinquency rates. An easing of these standards allows more credit to become available, either in a specific category such as car loans, or in general to consumers, businesses and industries. A rise in delinquency rates means an increase in borrowers who are not making their payments on time. This rise can result in a change to the lending environment making banks more unwilling to lend.

### *Discussion Question:*

You would like to apply for your first credit card, with your parents as co-signers on this new account. Discuss how a bank's tighter lending standards may affect your credit card application. (*Answer: The bank or credit card company may be unwilling to give you credit, as you have not yet proven your credit worthiness. An increase in delinquency rates on card payments may also keep the bank or credit card company from approving your application.*)

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### SECTOR 6: AGRICULTURE, ENERGY AND NATURAL RESOURCES

The agriculture sector looks at raising and selling crops (such as corn, wheat, cotton and rice) as well as livestock (such as cattle, poultry and hogs). This subdivision can report increases in activity due to good crop quality and higher yields. Demand for specific crops can lead to stronger prices. In addition, international demand for grains or meat can boost overall export activity as well as farmland values. Decreases in activity are often due to weather-related difficulties. Excess precipitation and cool temperatures can delay planting or harvesting of crops. Extreme weather conditions, such as flooding, drought and wildfires can lead to wide crop losses. Crop and livestock diseases can cause a decline in this sector's activity. Rising prices for crop fertilizer and livestock feed can put a damper on price gains in this sector.

#### *Energy and Natural Resources*

Natural resources, such as oil, natural gas, coal and iron, are also a part of this sector. Activity in the energy industry can include increased oil exploration, drilling and extraction. Global demand for oil is a big driver of expansion for this sector. Seasonal demand for natural gas to be used for heating purposes can also increase activity. Coal and iron ore mining are monitored for increases or decreases in production. Decreases in this area can be caused by shortages of equipment or labor. Any reported oil spills generally lead to a decline in drilling and extraction activity.

#### *Discussion Question:*

You are buying corn on the cob for a family picnic. Discuss how flooding in the Midwest could affect the price of corn at the grocery store. (*Answer: The price of corn may increase due to a portion of the corn crop being lost through flooding.*)

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### SECTOR 7: EMPLOYMENT

The employment sector looks at current labor market conditions and job growth or loss. A general pickup in hiring can lead to increased activity in this sector. A demand for workers in a particular area, such as education or technology, can also increase activity. Positive reports from staffing agencies can include adding more temporary-to-permanent placements and increased recruiting action. Decreases in this subdivision can occur when labor market conditions tighten, leading to layoffs and limited or delayed hiring. This often happens during a recession, or general decline in the economy's GDP (Gross Domestic Product) for two consecutive quarters.

#### *Wages*

This area of the sector measures upward pressures on wages (or pressure to increase pay). If there are many people unemployed, people looking for work just hope to become employed and are generally not pressing for higher wages. Wages are often increased in occupations that call for highly-specialized skills, in order to draw workers possessing these skills. If there are specific shortages of workers in certain occupations, wage pressure will also grow in order to fill these positions. Sometimes businesses offer merit pay increases to employees based on their productivity and achievements. Wage pressure decreases when the supply of workers hoping to be hired exceeds the number of jobs available, such as during a recession.

#### *Discussion Question:*

You would like to find a part-time summer job to earn spending money. Discuss how a high unemployment rate (such as 10% of all workers without jobs) would hurt your chances to find temporary employment. (*Answer: Since there are not enough full-time jobs for workers, they may take part-time or temporary jobs instead. Teens looking for part-time work would then have fewer opportunities for employment.*)

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### SECTOR 8: PRICES

#### *Prices*

The prices section evaluates changes in prices of goods and services and why these changes may occur. One change might be that input prices (the price of labor and materials to produce a good or service) of an item have increased, causing production of the item to decrease. This can lead to a higher retail (selling) price for consumers. For example, the price of a video game may increase if the factory that produces the game raises wages for employees. Sometimes these price increases are not passed onto the consumer due to competition with other factories for the same customers. Another increase in price may be due to fuel surcharges (fees) to transport goods to market. Demand for a good, along with a low inventory level for that good, may also lead to a price increase. Frequent price fluctuations have been noted in food products, energy sources, and metals, such as copper, aluminum, zinc and gold.

#### *Discussion Question:*

You are looking to buy a used car and have a limited budget. Discuss how an anticipated increase in the price of gas might influence which vehicle you decide to purchase. (*Answer: An increase in gas prices might cause you to choose a car that uses less gas or needs the minimum grade of gas to operate.*)

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## VISUAL 1: A LOOK AT THE BEIGE BOOK

### BEIGE BOOK FACTS

- The Beige Book gives a summary of economic conditions throughout the United States and is published by the Federal Reserve Bank.
- It is published eight times a year to give current analysis of the economy.
- The Beige Book is published two weeks before the Federal Open Market Committee (FOMC) of the Federal Reserve meets to help determine the direction of interest rates and the money supply.
- Its contents are compiled from reports given by each of the 12 Federal Reserve Banks on economic conditions within their District.
- The Federal Reserve Districts get information for these reports through regional interviews and discussion with the Board of Directors' groups, which include businessmen, financial services representatives, agricultural experts, and others, as well as economists.
- The Beige Book has been shown to be a good source for determining the economy's current position and where it is headed in the near future, in terms of GDP (Gross Domestic Product) growth.

### FUN FACTS

- The Beige Book's full name is the Summary of Commentary on Current Economic Conditions by Federal Reserve District.
- It received its nickname from the color used for the cover when it is printed.
- The Beige Book has been available to the public since 1983.
- It was previously called the Red Book from 1970-1983 and was not shared publicly.

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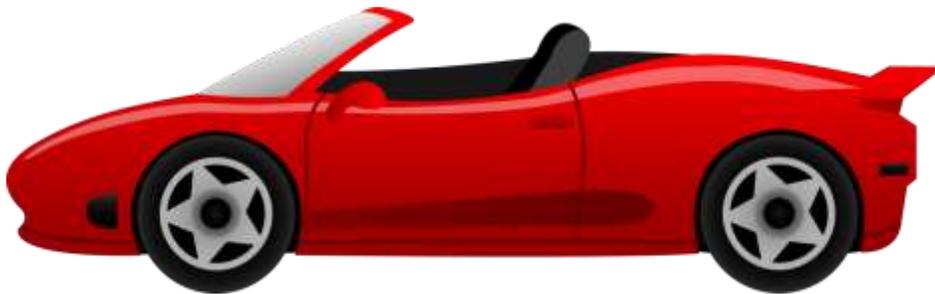
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## SECTOR 6: AGRICULTURE AND NATURAL RESOURCES

### **Agriculture, Energy and Natural Resources**

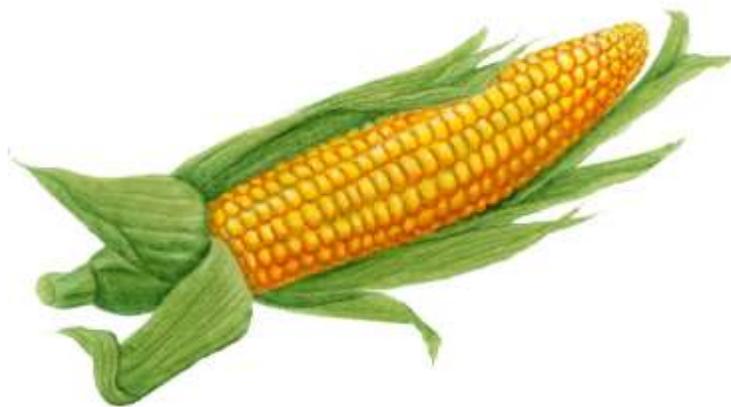
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## SECTOR 7: EMPLOYMENT AND WAGES

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## SECTOR 8: PRICES

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### Discussion Question

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