The Importance of High-Quality Data in Monetary Policymaking

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Data as a Public Good

I have been asked to speak on the importance of high-quality data from the viewpoint of Federal Reserve policymakers. But I want to be clear that high-quality economic data are important for everyone: households, businesses, researchers, and all government policymakers. The U.S. is known for consistently producing the highest quality data and measurement of the economy in an objective, robust, and consistent manner. As providers of a public good, the U.S. statistical agencies should continue to be well supported by the government. The private sector will not take into account the positive externalities provided by high-quality economic data when making its funding decisions regarding data production. So rather than cutting back resources to the statistical agencies, the U.S. should be expanding its investment so that government statistics in the U.S. remain of the highest caliber.

Data-Dependent Monetary Policymaking

The Fed relies on sound data to make sound policy decisions. Indeed, the Fed has used the term "data dependent" to describe its policy strategy for quite a while. This term was useful when it was first used by the Federal Open Market Committee to describe its policymaking approach after the Great Recession when it was transitioning policy from a period of explicit forward guidance to more normal times.[1] But I

[1] Then Fed Chair Ben Bernanke used "data dependent" in the press briefing after the December 2013 FOMC meeting. See Federal Open Market Committee, "Transcript of Chairman Bernanke's Press Conference," December

think the term is less useful today. There is confusion about what the Fed actually means by "data dependent." This was illustrated when the government shutdown interfered with the timeliness and accuracy of important government data releases. Many observers wondered how a data-dependent Federal Reserve would conduct policy without the official data. It appears that "data dependent" is being interpreted as "datapoint dependent," which is counterproductive. The term is giving the impression that the Fed has become very short-term focused, when in fact, policymakers need to take a longer-term focus given the lags with which monetary policy affects the economy.

So instead of "data dependent" I propose a new term, "data informed." Monetary policymakers rely on data to inform their views about the current state of the economy, their outlook, and the risks to the outlook. This is the avenue through which high quality, robust, and objective data are an important component for sound monetary policy decisions.

Uses of Data in Monetary Policymaking

Measurement is an important part of policymaking. Government statistics collected and released by the Bureau of Labor Statistics (BLS), the Bureau of Economic Analysis (BEA), and the Census Bureau are particularly important for monetary policymaking aimed at achieving and maintaining price stability and maximum employment.

High-quality and timely data are used by policymakers to track the current condition of the economy. They are also used to develop economic models used in forecasting the evolution of the economy and in calibrating general economic models used in policy evaluation. It is important that monetary policy be set in a systematic, rigorous way, with economic and financial market developments informing policymakers about the economic outlook, risks around the outlook, and progress on their policy goals. This means the

18, 2013 (https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20131218.pdf).

judgment policymakers bring to bear in their policy decisions has to be consistent with the data. The data discipline the judgment of policymakers. The data provide the factual basis about what is happening in the economy.

In addition, macroeconomic models are built on a number of assumptions that attempt to capture the various relationships between the economic actors in the model, including households, businesses, and fiscal and monetary policymakers. Data must be used to inform those assumptions.

Data Revisions and Gaps

In using economic data, policymakers need to understand that the data will be revised and to incorporate that fact into their policymaking process. This has become perhaps even more important recently because for many of the important data series, revisions have risen in magnitude as the number of respondents to the surveys the government conducts to collect the data have fallen. Relative to before the pandemic, the signal-to-noise ratio has fallen in the initial releases of data but then rises as more responses are collected over time.

That the data are subject to revisions, which may be larger now, and they tend to be backward looking are reasons for policymakers to look at a broad set of data, as well as anecdotal information about how the economy is performing and is expected to perform in the future and not pin their policy decisions on one data series. Looking at multiple sources of information gives policymakers the best chance to understand changes in the economic landscape which may be happening rapidly at certain times.

Gaps in the data not only make it difficult to determine the current state of the economy, but also the future state. Models are built using data. When there is a gap in a data series, it will affect the models. If too much of the data is missing, the models will be less reliable; forecasting will be less accurate; and

policy simulations will be less informative. This is a complication for Fed policymaking which needs to be forward looking.

Other Sources of Data

Timely and accurate official government statistics are essential to policymaking. But the Fed also has access to a large number of other statistical sources. Some come from private sector entities; others are collected by the Federal Reserve itself. The Board of Governors collects banking and other financial market data, including the flow of funds data, surveys of senior loan officers and financial officers; and surveys on consumer finances and household economics; as well as data on industrial production.

The Federal Reserve Banks have done an excellent job for many, many years of collecting anecdotal information from business, community, and labor market contacts in their districts and providing it to other policymakers and to the general public in the Beige Book.[2] This is one of the benefits of the decentralized structure of the Federal Reserve System. Many of the Reserve Banks are now quantifying that anecdotal information to make economic developments easier to track over time. In addition, the Reserve Banks collect survey data on wages, consumer and firm inflation expectations, and manufacturing activity.

Technology and Innovations

The Reserve Banks have been incorporating technology to make data collection more efficient. As technology advances, it is important for institutions, including the government statistical agencies, to continuously innovate to improve their data collecting techniques to make it easier for firms and regional contacts to respond, which will enhance the quality and timeliness of the data. New data collection

[2] The most recent Beige Book was published on November 26, 2025. See *The Beige Book: Summary of Commentary on Current Economic Conditions by Federal Reserve District* (https://www.federalreserve.gov/monetarypolicy/publications/beige-book-default.htm)

techniques that rely less on telephone surveys hold the promise to increase response rates to government data collection surveys.

New technology also makes it easier to conduct higher frequency data collections and flash surveys on newer sectors of the economy or those undergoing significant changes, as supply chains did during the pandemic and continue to do today because of higher tariffs. During the pandemic, the Census Bureau was able to do high frequency "pulse surveys" which helped track business and household developments. In 2023, the BLS introduced a new tenant rent index, a research data series based on a methodology developed by BLS and Cleveland Fed economists.[3] The BLS has also been improving the model it uses to estimate employment at new firms using firms that have ceased operations, the so-called birth-death model, which has been a source of relatively large forecast errors since the pandemic. And the BEA has introduced a number of experimental research series, including those that track firm R&D.[4]

Innovation will continue to be the key to collecting high-quality and timely data to measure a continuing evolving economy. Work is underway at the statistical agencies to capture hard to measure aspects of the economy, such as digitalization and intangible assets. While private sector data sources are a good complement to official government statistics, they are not a substitute because of the robustness and consistency of government data and the expertise and objectivity that staff at the government statistical agencies apply to their work.

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[3] See Bureau of Labor Statistics, Price and Index Number Research, Price Research Data: Research New Tenant Rent Index (https://www.bls.gov/pir/new-tenant-rent.htm) and Adams, Brian, Lara Loewenstein, Hugh Montag, and Randal Verbrugge, "Disentangling Rent Index Differences: Data, Methods, and Scope, *American Economic Review: Insights* 6(2), June 2024, pp 230=245 (https://doi.org/10.1257/aeri.20220685).

[4] See Bureau of Economic Analysis, Innovation at the BEA (https://www.bea.gov/about/innovation-bea#) and Research and Development Satellite Account (https://www.bea.gov/data/special-topics/research-and-development-satellite-account).