

Economic Conditions in New England and the Nation

Joint Economic Briefing
New Hampshire House and Senate
Finance and Ways and Means Committees
January 15, 2015

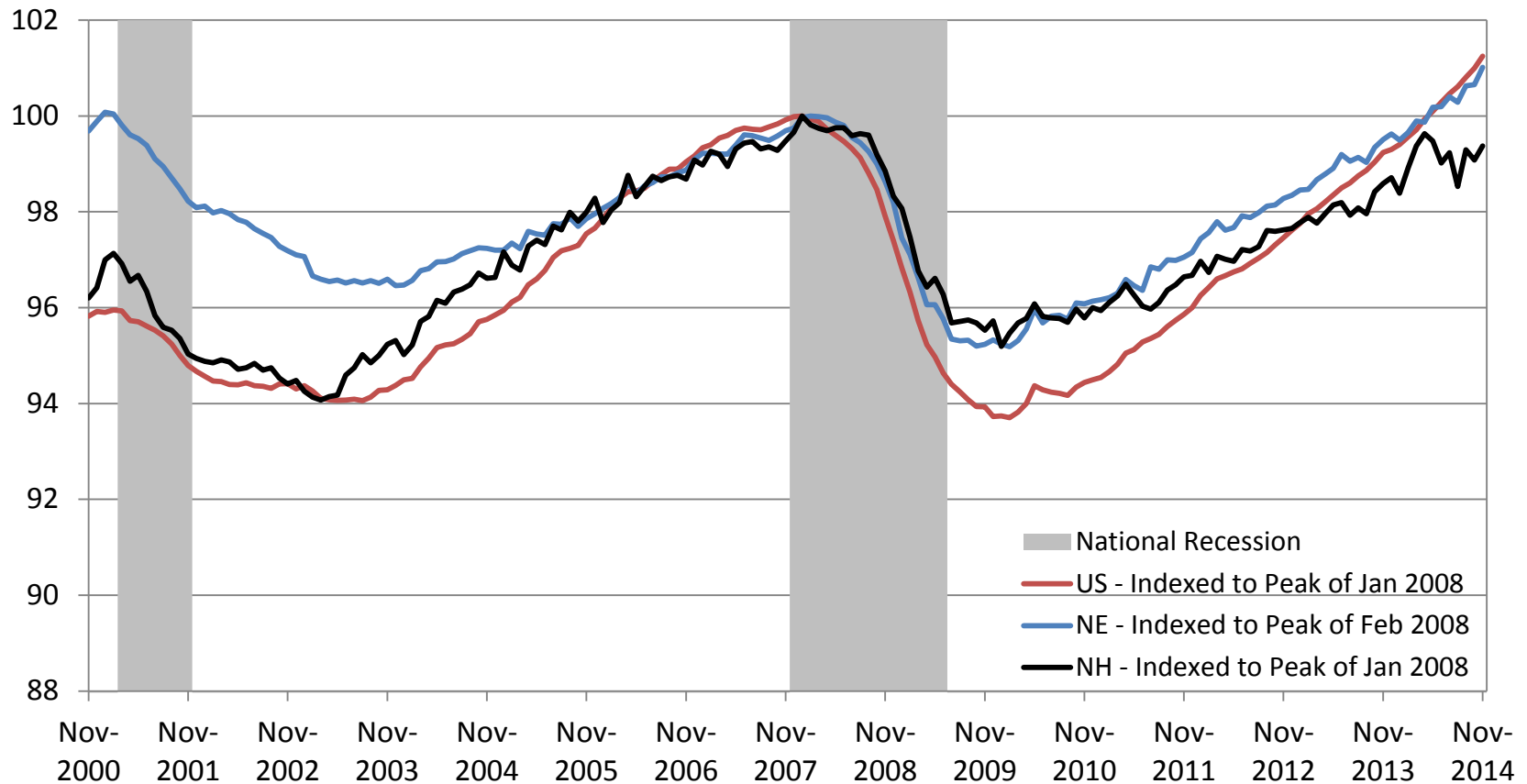
Yolanda Kodrzycki
Vice President and Director, NEPPC
Federal Reserve Bank of Boston

The Federal Reserve Bank of Boston promotes sound growth and financial stability in New England and the nation. The Bank contributes to local communities, the region, and the nation through its high-quality research, regulatory oversight, and financial services, and through its commitment to leadership and innovation.

The New England Public Policy Center promotes better public policy in New England by conducting and disseminating objective, high-quality research and analysis of strategically identified regional economic and policy issues. When appropriate the Policy Center works with regional and Bank partners to advance identified policy options.

New England and U.S. employment exceed their pre-recession peaks, while NH job counts still fall short.

Nonfarm Payroll Employment - Indexed to Pre-Recession Peaks

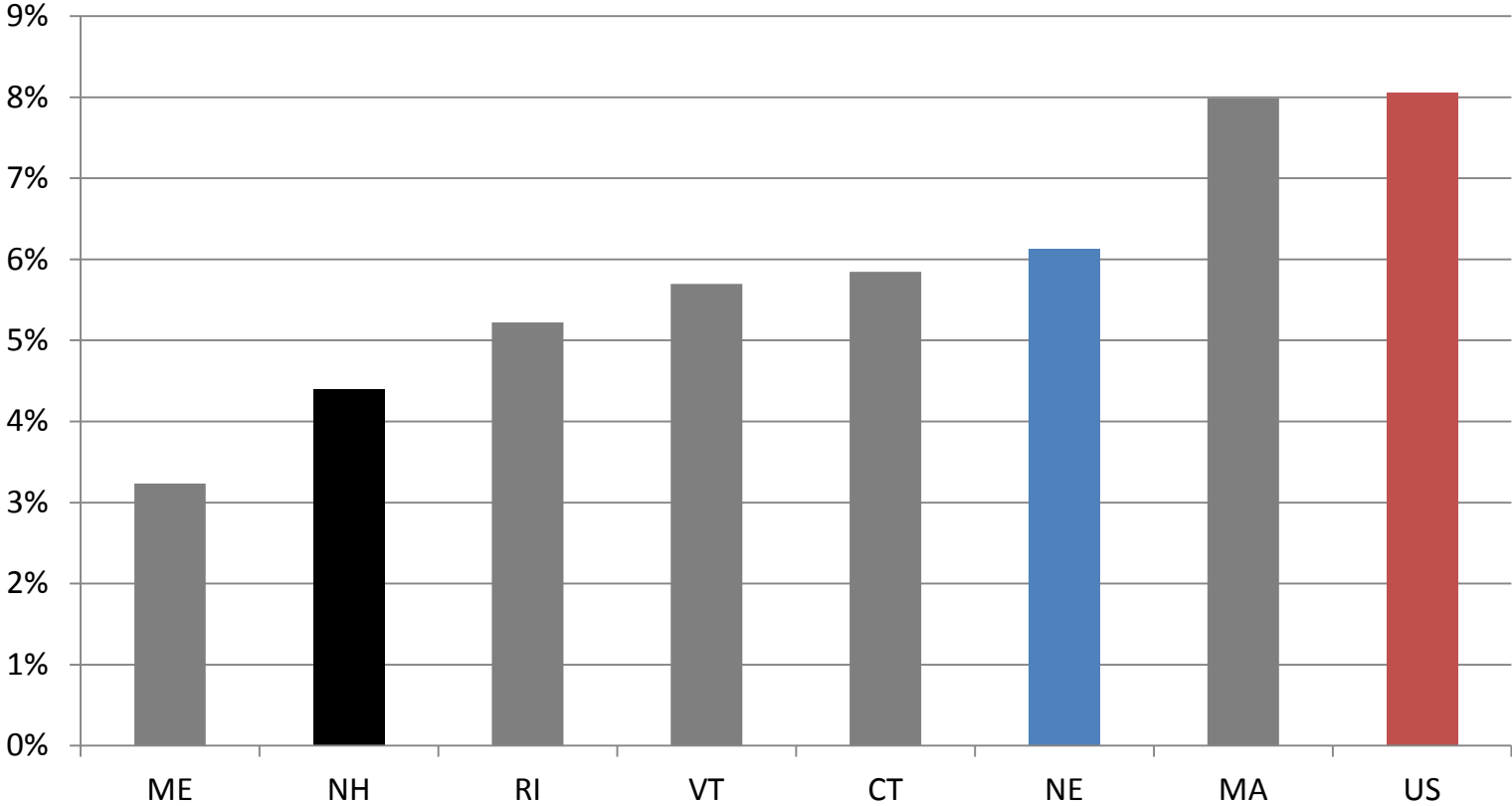


	US	NE	NH
Employment Change from Peak to Nov-2014	+1.7mil	+72.3k	-4.1k

Source: Bureau of Labor Statistics and NBER/Haver Analytics

Employment growth over the economic recovery has been slower in most New England states than nationwide.

Percent Change in Nonfarm Employment from US, NE, or State Trough to November 2014

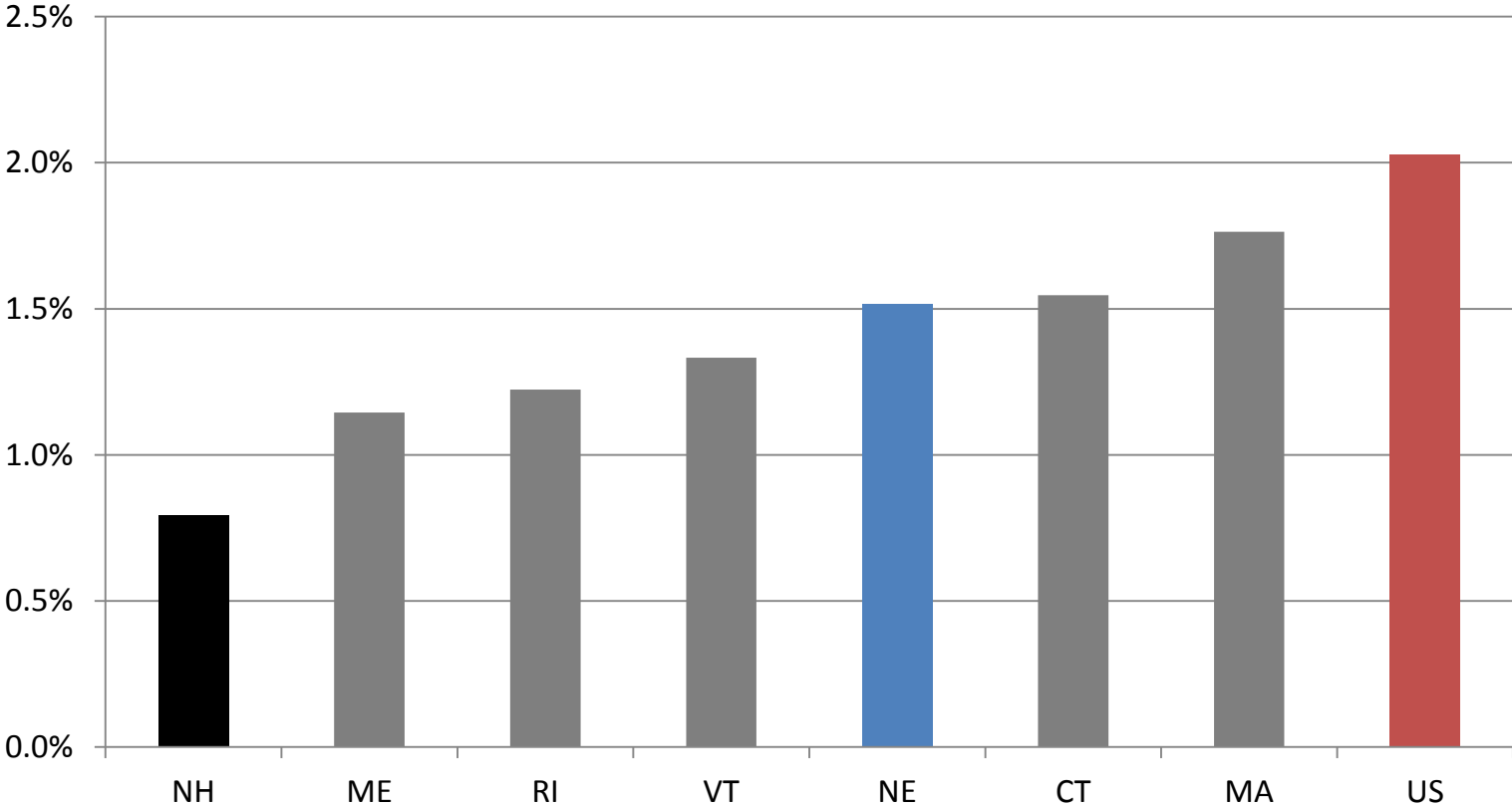


	US	NE	NH
Employment Change from Trough to Nov-2014	+10.4mil	+414.2k	+27.3k

Source: Calculations Based on Bureau of Labor Statistics Data/Haver Analytics

None of the New England states kept pace with U.S. job growth in 2014.

Change in Nonfarm Employment from November 2013 to November 2014

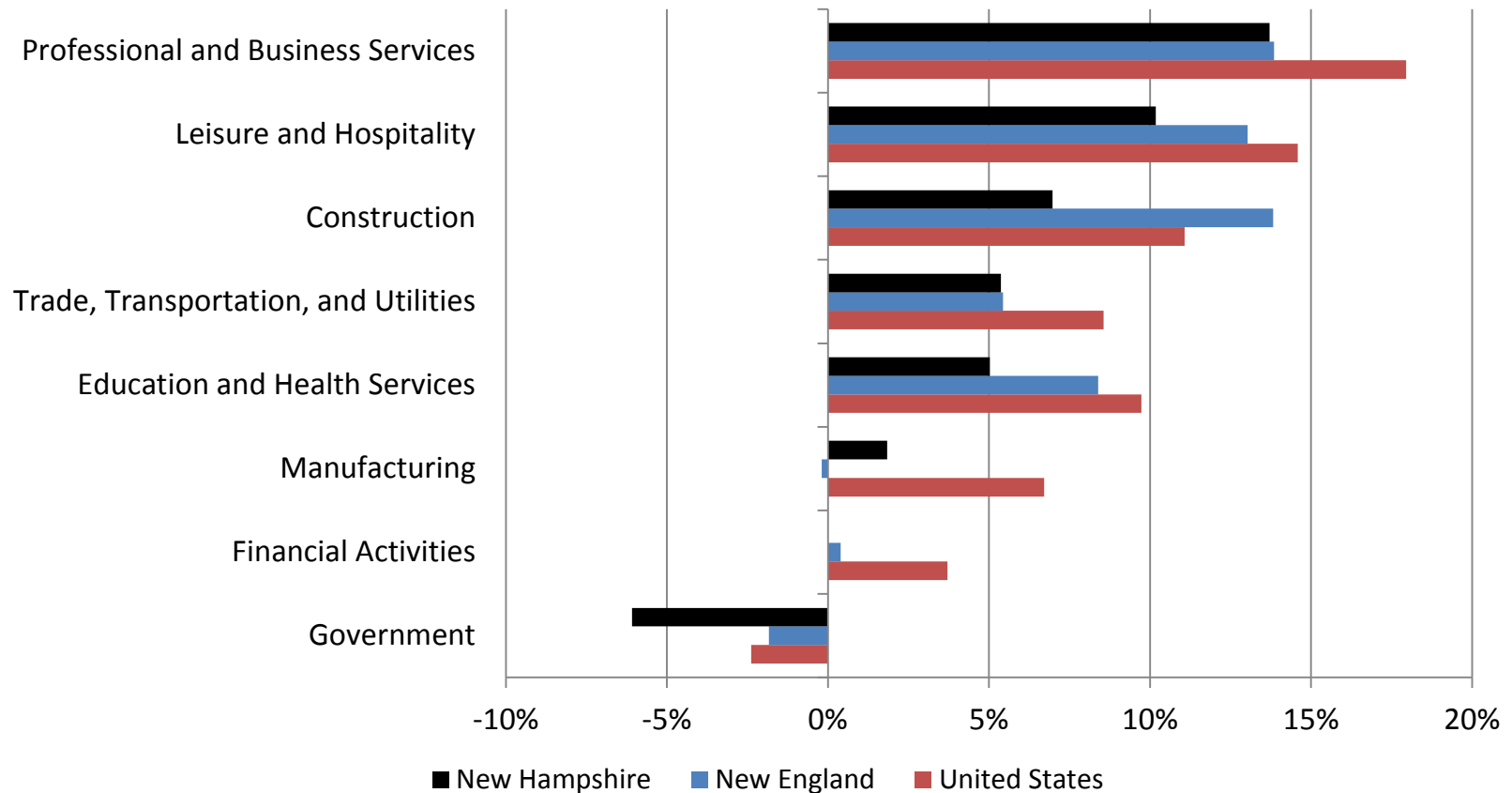


	US	NE	NH
Employment Change from Nov-2013 to Nov-2014	+2.7mil	+107.2k	5.1k

Source: Calculations Based on Bureau of Labor Statistics Data/Haver Analytics

New England's job recovery has been slower than the U.S. job recovery in all industries except construction.

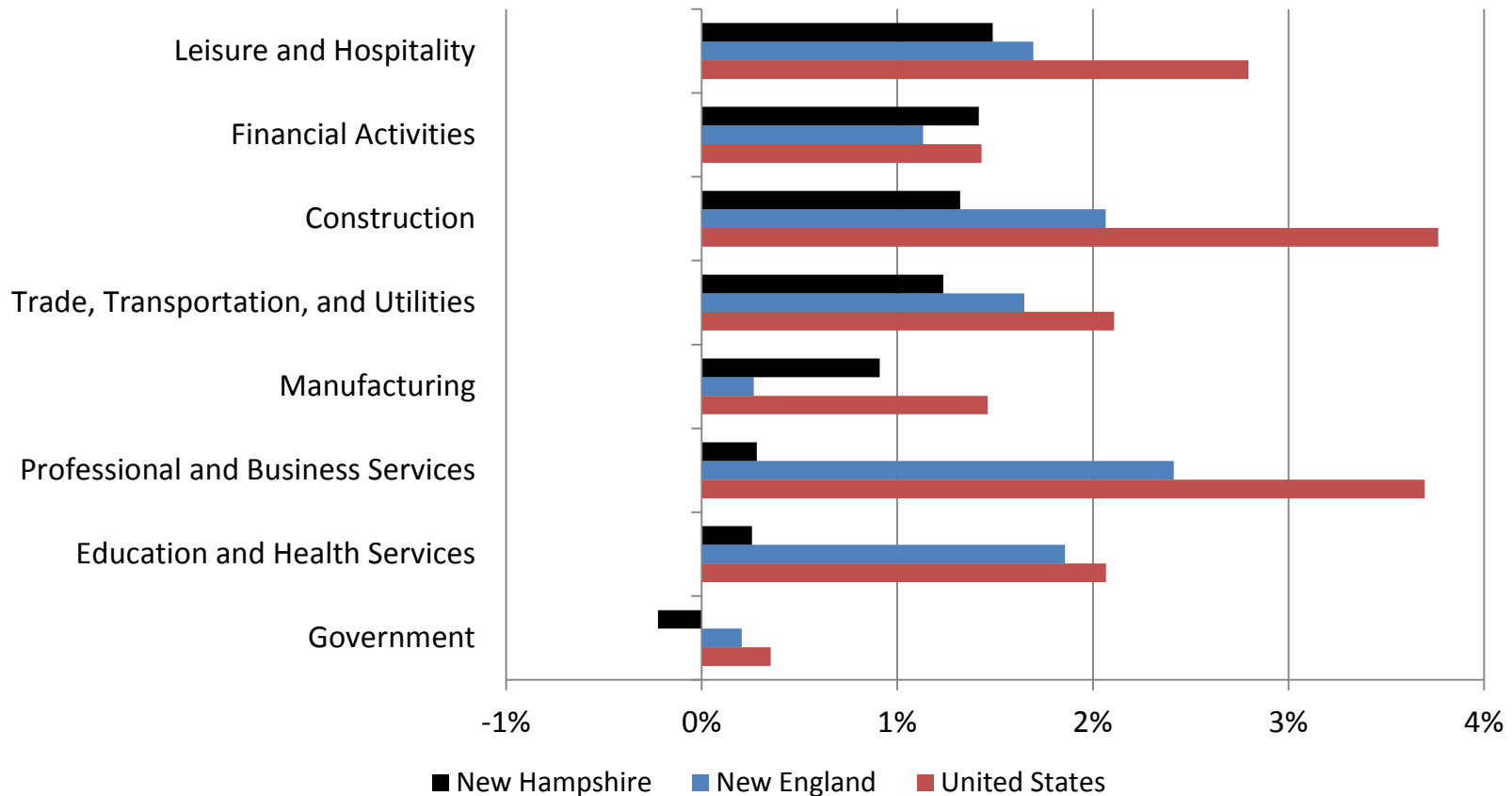
Percent Employment Change from NH, NE or US trough to November 2014



Source: Calculations Based on Bureau of Labor Statistics Data/Haver Analytics

During the past year New England job growth lagged U.S. job growth in all major industries.

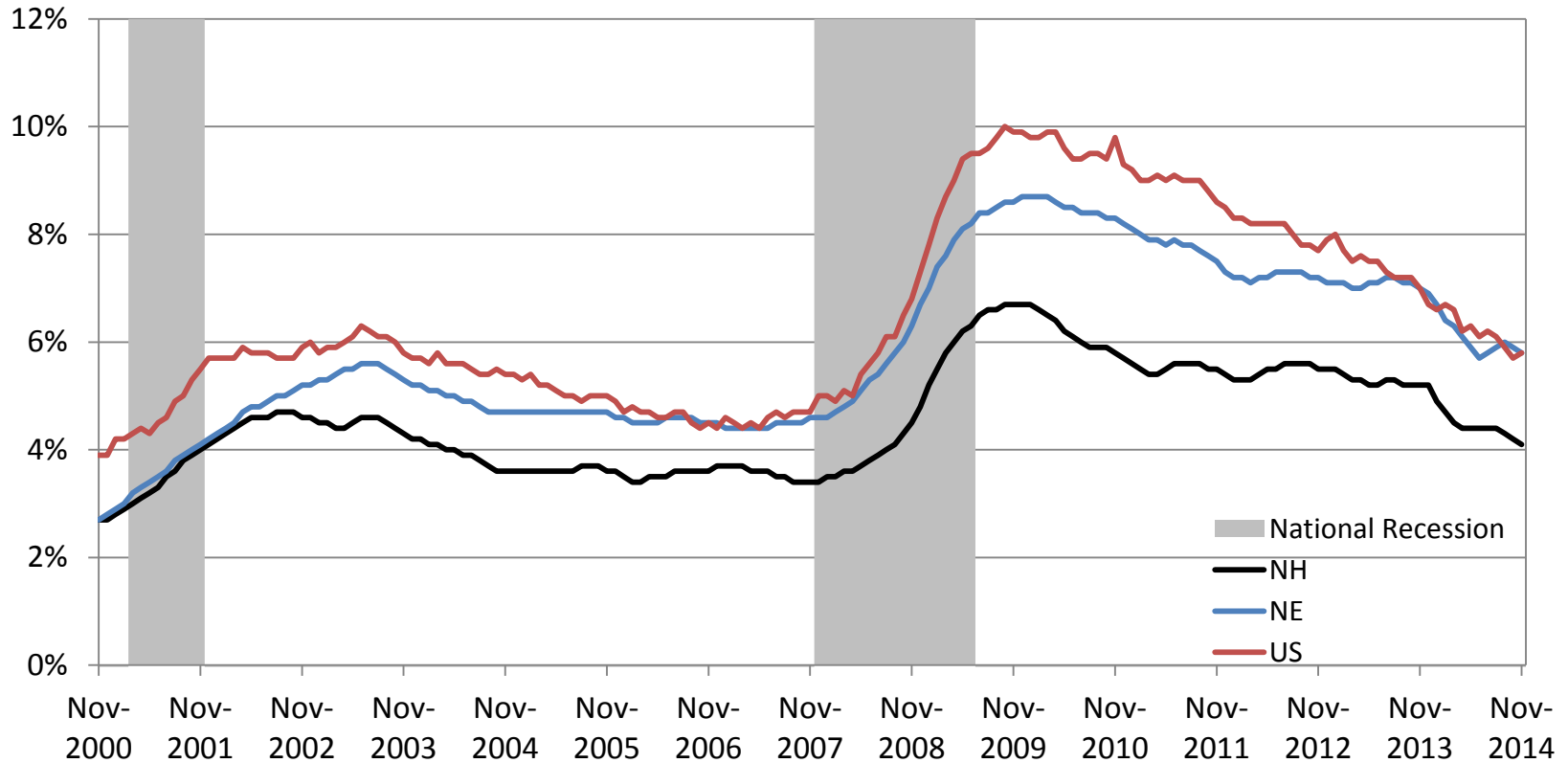
Percent Employment Change from November 2013 to November 2014



Source: Calculations Based on Bureau of Labor Statistics Data/Haver Analytics

Unemployment continues to decline, with the regional and national rates at 5.8 percent in November.

Unemployment from 2000 to Present

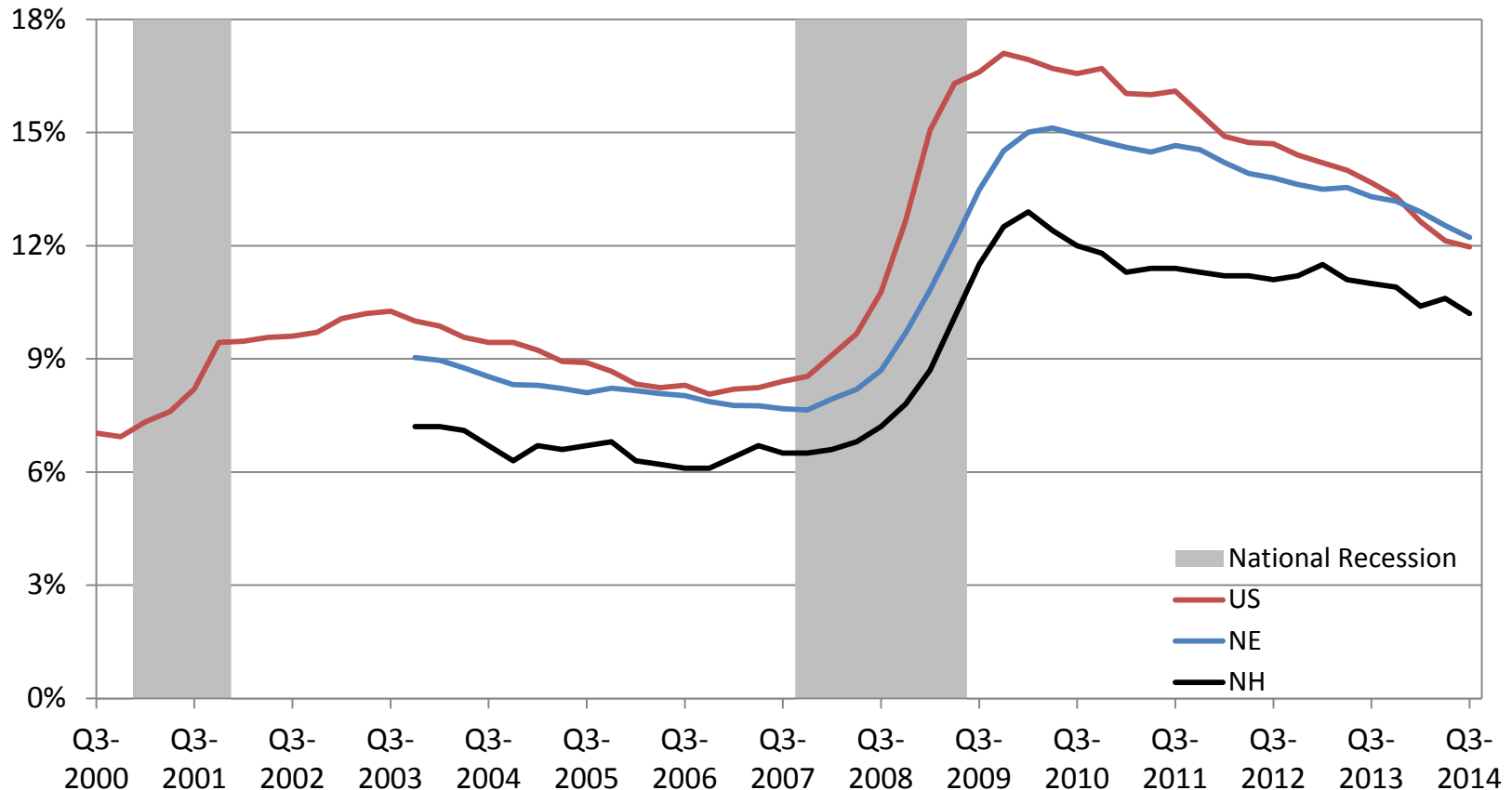


	US	NE	NH
Current Unemployment Rate (SA)	5.8% (Nov) 5.6% (Dec)	5.8% (Nov)	4.1% (Nov)

Source: Bureau of Labor Statistics and NBER/Haver Analytics

A broader measure of labor underutilization shows NE and U.S. unemployment in the 11-12 percent range.

U-6 Unemployment from 2000 to Present

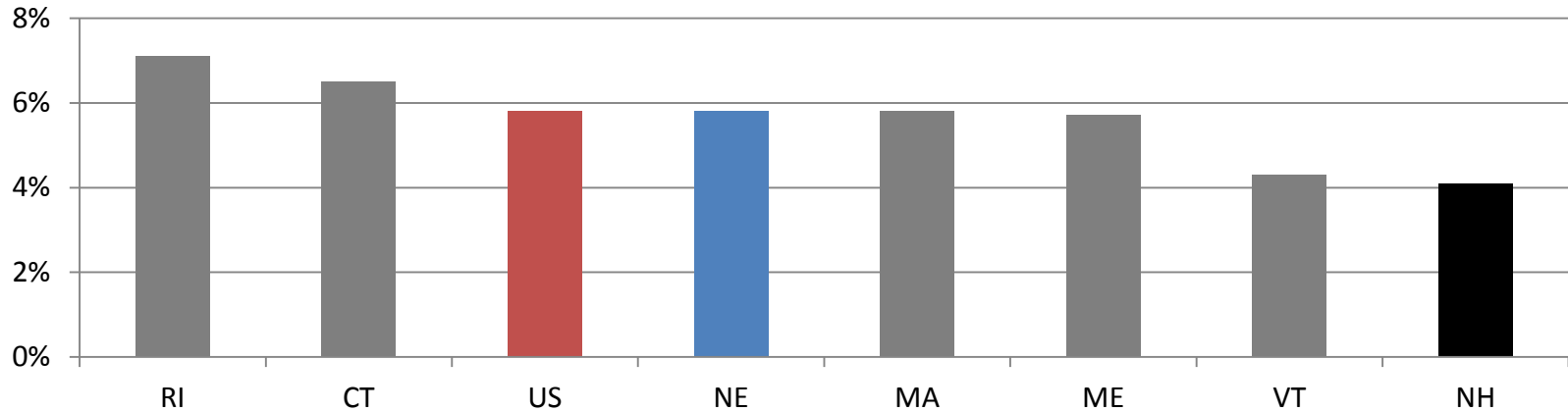


	US	NE	NH
Current U-6 Unemployment Rate	11.4% (Nov) 11.2% (Dec)	12.2% (4-qtr avg ending in Q3)	10.2% (4-qtr avg ending in Q3)

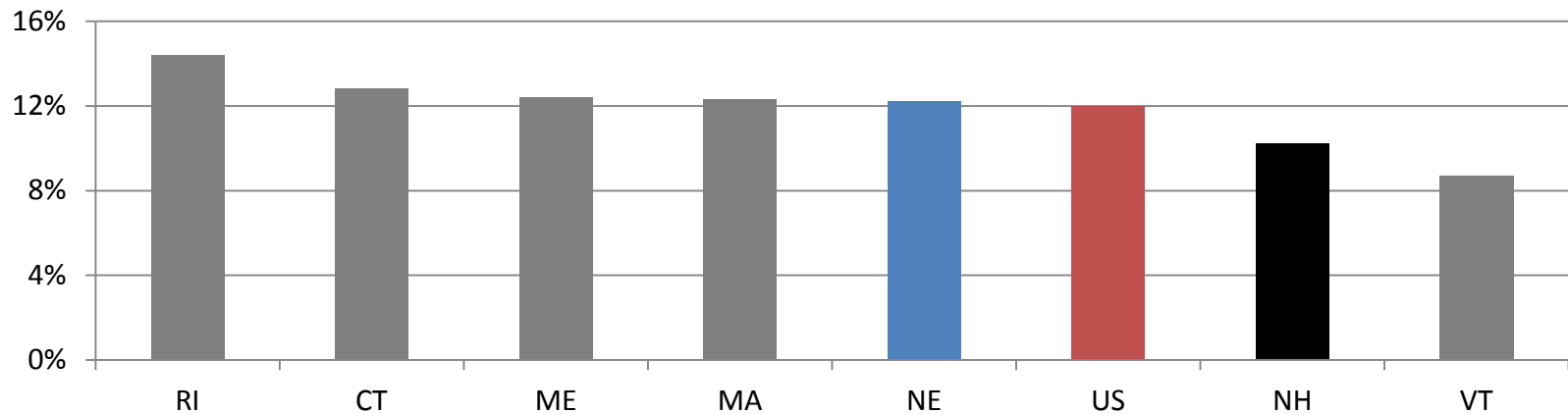
Source: Bureau of Labor Statistics and NBER/Haver Analytics

VT and NH continue to have the lowest state unemployment rates in the region.

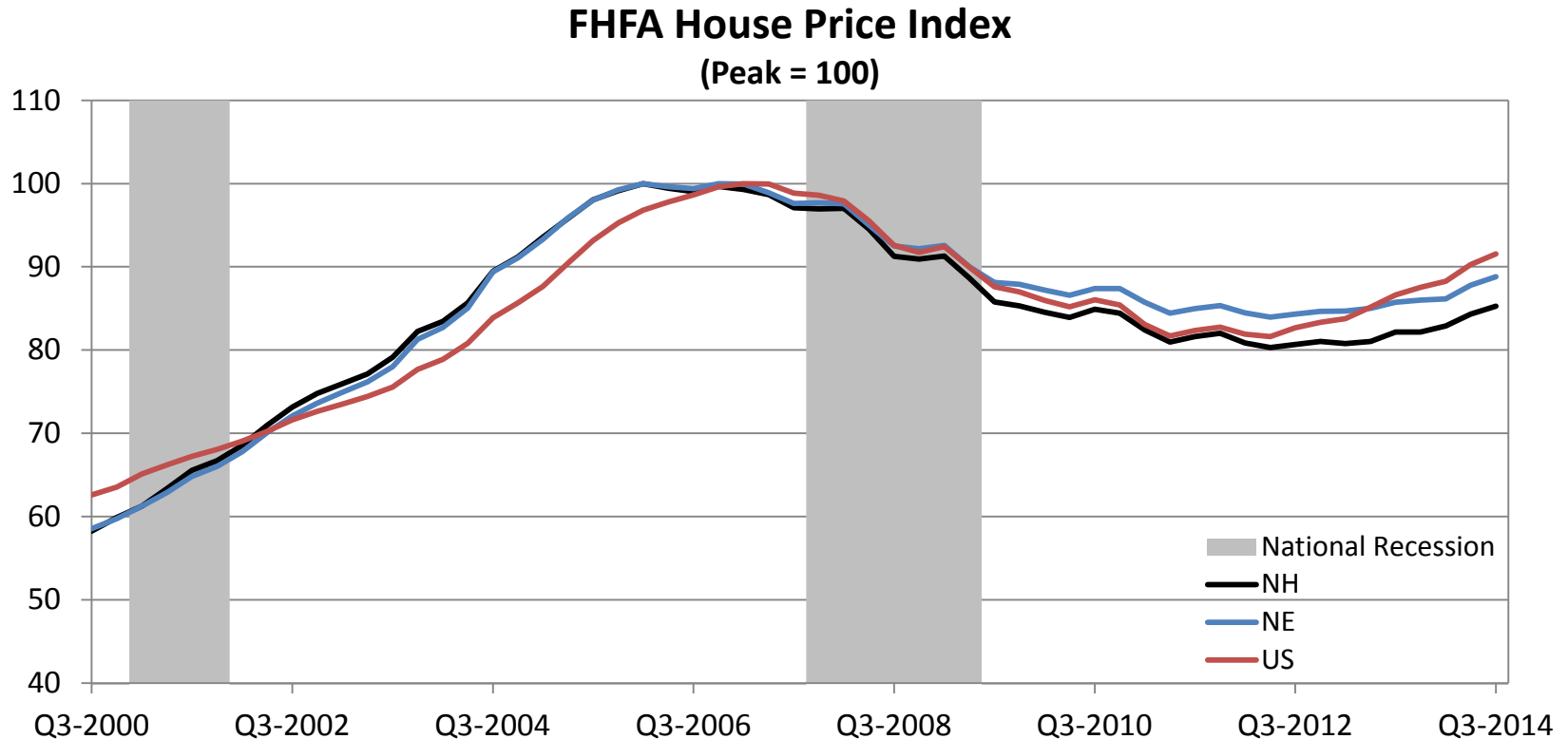
November 2014 Unemployment Rate



Q3 2014 U-6 Unemployment Rate (4-quarter avg ending in Q3)



New England and U.S. house prices are increasing but remain about 8 to 11 percent below peak.

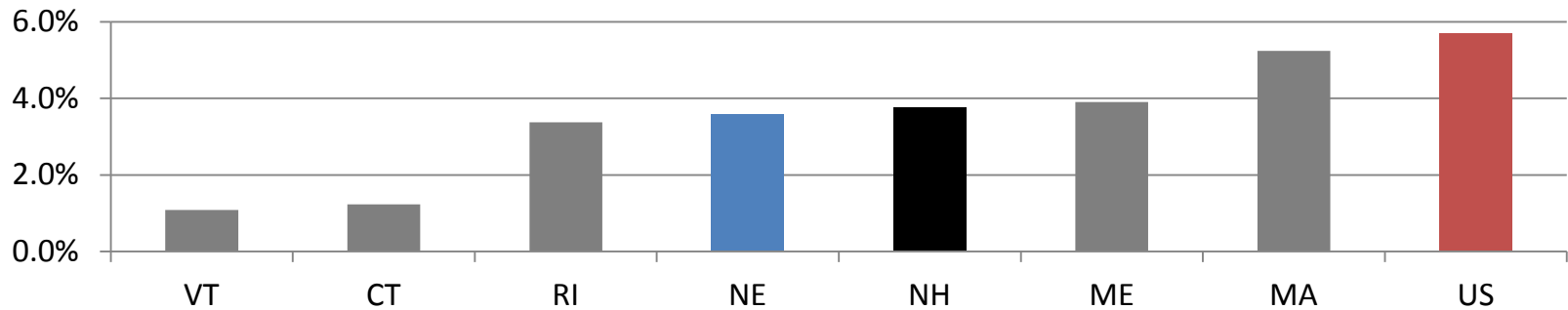


	US	NE	NH
Peak FHFA Index	100	100	100
Current FHFA Index	92 (-8%)	89 (-11%)	85 (-15%)
Peak Median Home Price (Zillow)	\$196.2k		\$253.4k
Current Median Home Price (Zillow)	\$175.6k (-11%)		\$215.5k (-15%)

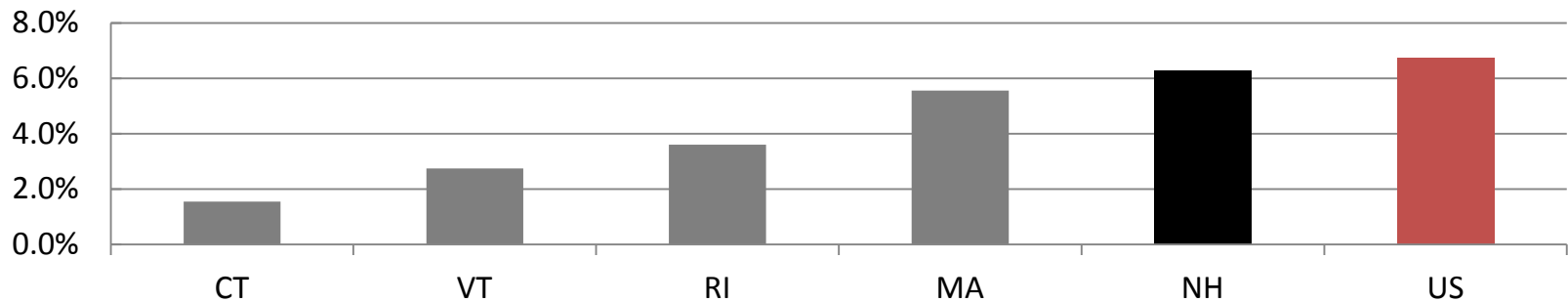
Source: Federal Housing Finance Authority, Zillow Home Value Index, and NBER/Haver Analytics

Housing prices increased in all NE states over the past year, but less than the U.S. average.

**Percent Change in FHFA House Price Index
from Q3 2013 to Q3 2014**

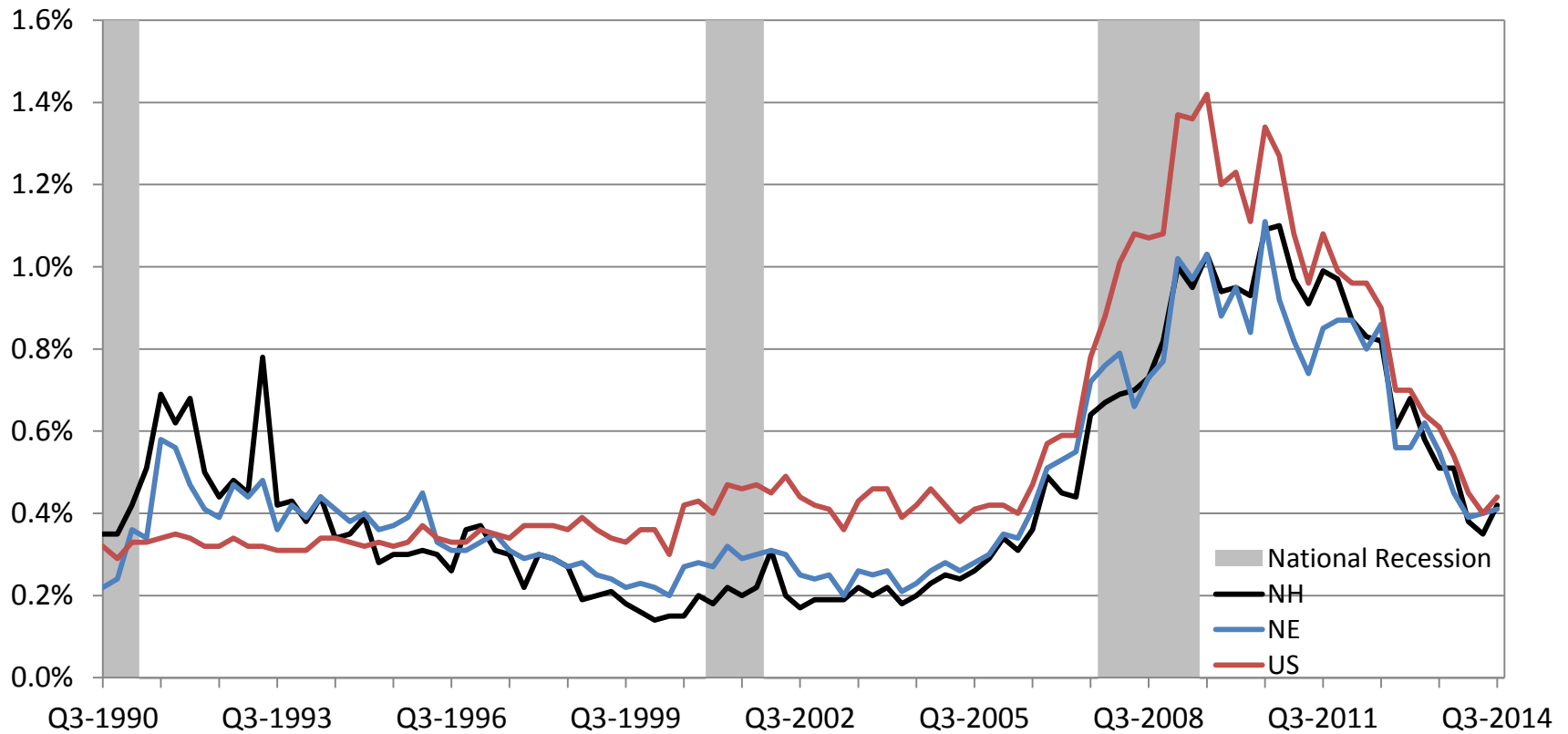


**Percent Change in Zillow Median Home Price
from Q3 2013 to Q3 2014**



Foreclosure rates have fallen to pre-recession levels.

Foreclosure Starts - Percentage of All Home Loans

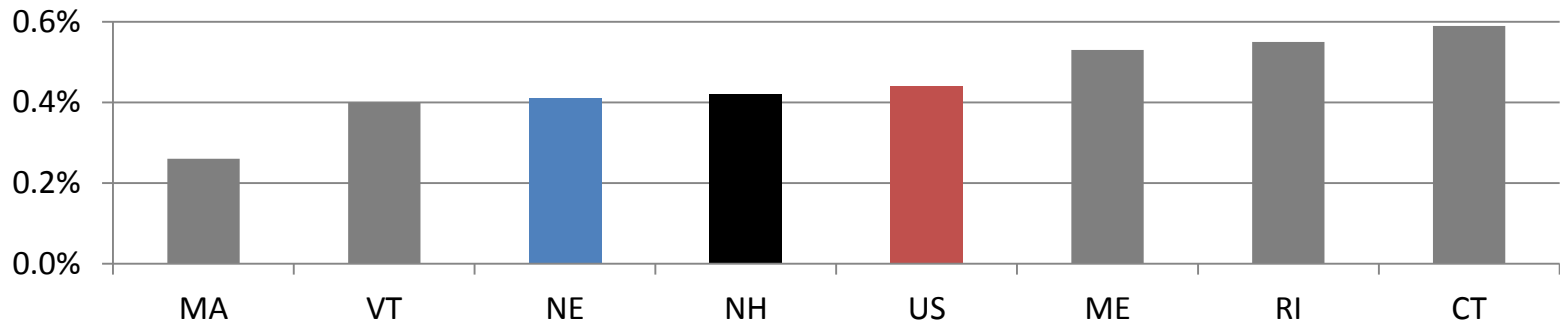


	US	NE	NH
Current Foreclosure Starts – Percentage of All Home Loans	0.4%	0.4%	0.4%

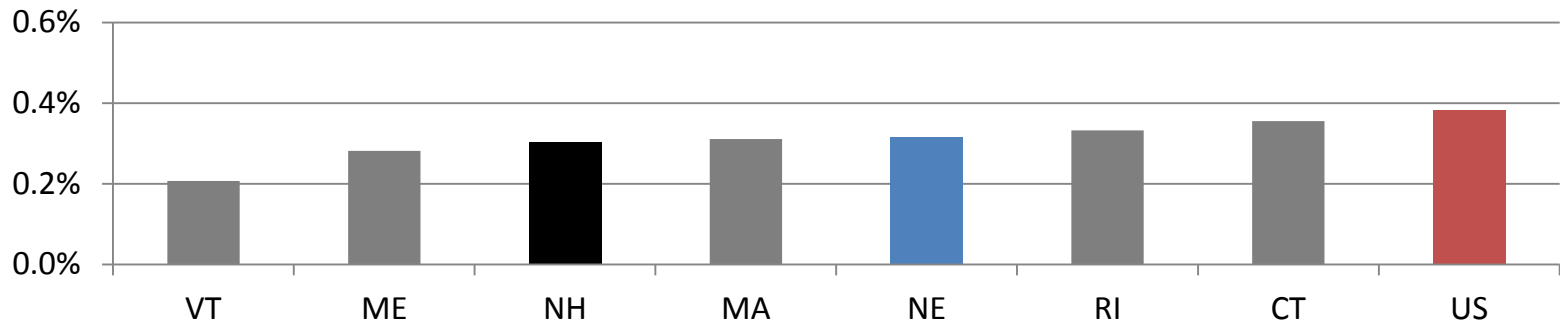
Source: Mortgage Bankers Association and NBER/Haver Analytics

Within New England, only MA has foreclosure rates below their historical average.

Q3 2014 Foreclosure Starts - Percentage of All Home Loans

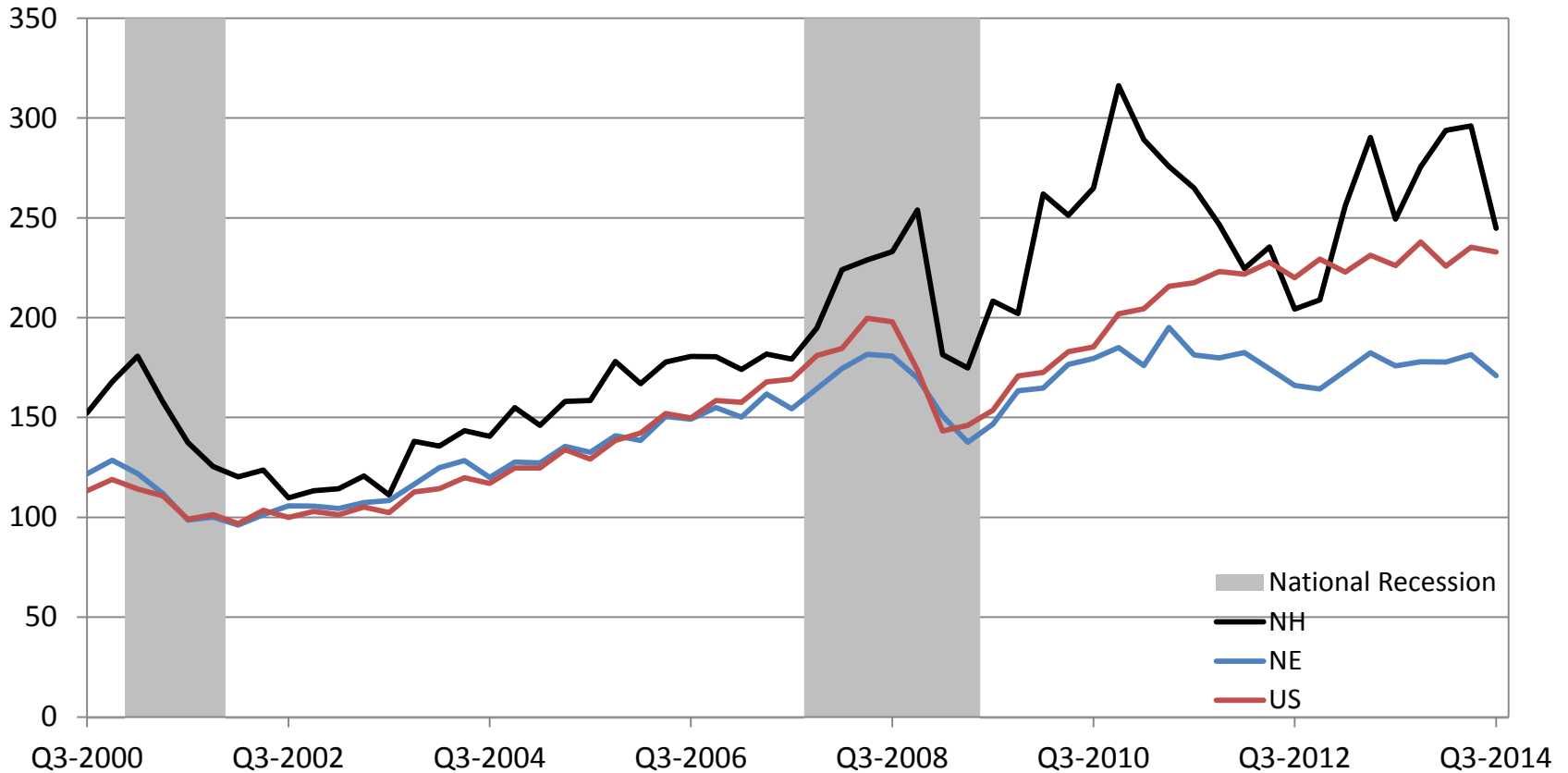


1988-2007 Average Quarterly Foreclosure Starts - Percentage of All Home Loans



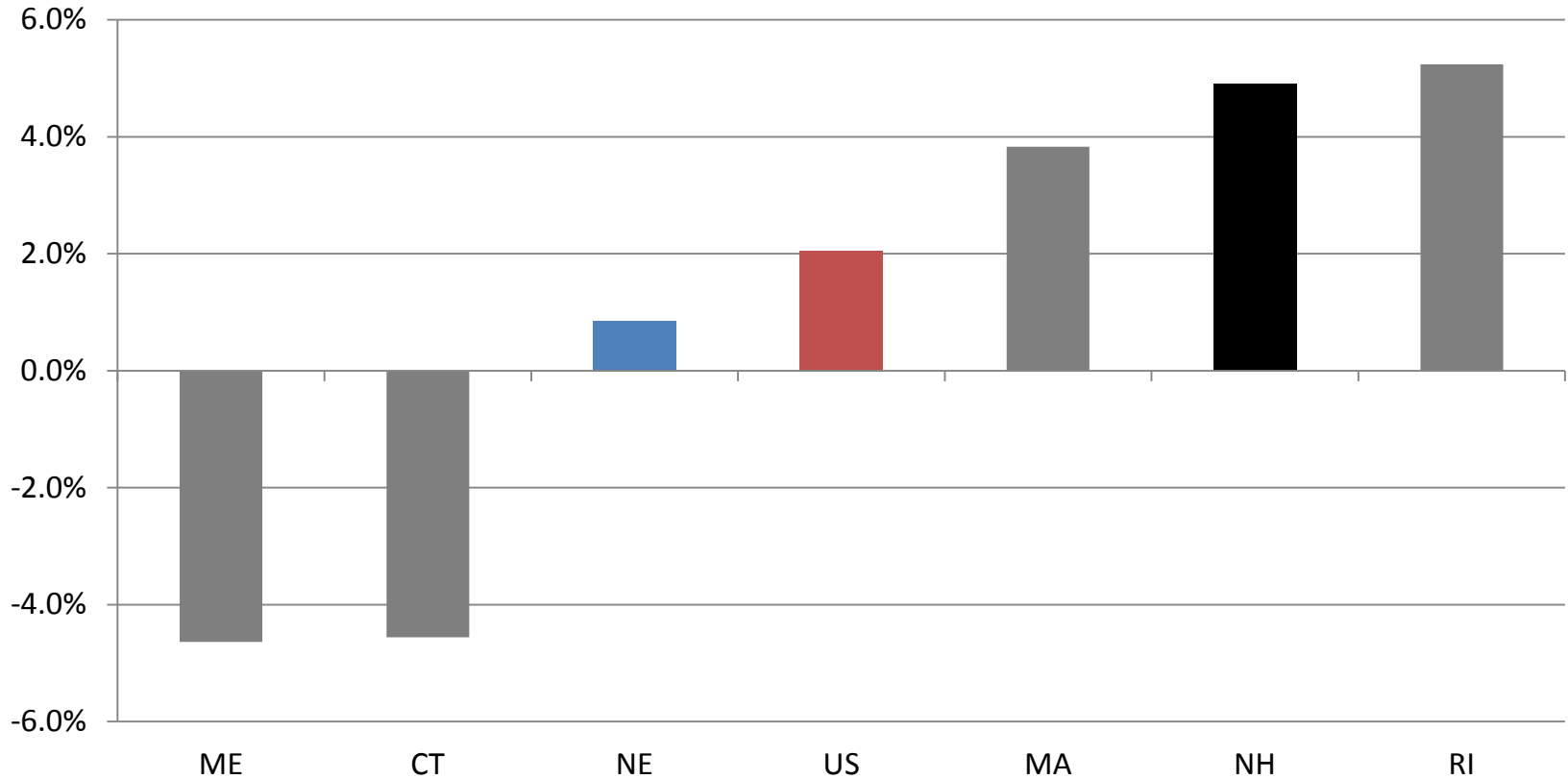
U.S. exports have continued to grow, but NE exports have remained stagnant since 2011.

Total Merchandise Exports – Dollar Value Indexed to 1997



However, RI, NH, and MA exports grew at over twice the U.S. average rate in 2014.

**Total Merchandise Exports, Dollar Value
Q1-Q3 2014 vs. Q1-Q3 2013**



Federal Reserve officials see economic activity expanding at a “moderate pace”

- “Household spending is rising moderately and business fixed investment is advancing, while recovery in the housing sector remains slow”
- “Underutilization of labor resources continues to diminish”
- “Inflation has continued to run below the Committee’s longer-run objective” of 2 percent.
- “Survey-based measures of inflation expectations have remained stable”

Fed holding monetary policy steady for now.

- Federal funds rate target remains 0 to 1/4%.
- Holdings of longer-term securities remaining stable.
 - FOMC voted to end asset purchase program, known as “QE3,” in October 2014
- FOMC’s current assessment: can be patient in beginning to normalize monetary policy.
 - Timing of “liftoff” is data-dependent
 - Adjustments likely to be gradual
 - “Normal” federal funds rate is 3.5 to 4%, according to most FOMC members

Risks appear balanced.

- Decline in oil prices viewed as a plus for U.S. consumers.
- Slower foreign economic growth may dampen U.S. exports.
- Uncertainties include foreign monetary policy and financial market reactions.

Federal Reserve officials expect GDP growth to accelerate in 2015 but inflation to stay below 2 percent target.

	Actual	Forecast				
	CY 2013 Q4	CY 2014 Q4	CY 2015 Q4	CY 2016 Q4	CY 2017 Q4	Longer Run
Real GDP growth (%)	3.1	2.3 to 2.4	2.6 to 3.0	2.5 to 3.0	2.3 to 2.5	2.0 to 2.3
Unemployment rate (%)	7.0	5.8	5.2 to 5.3	5.0 to 5.2	4.9 to 5.3	5.2 to 5.5
PCE inflation (%)	1.0	1.2 to 1.3	1.0 to 1.6	1.7 to 2.0	1.8 to 2.0	2.0

Source: Federal Open Market Committee, Summary of Economic Projections for the Meeting of December 16-17, 2014. Bureau of Labor Statistics and Bureau of Economic Analysis/Haver Analytics. Table shows central tendencies among the Federal Reserve Board governors and Federal Reserve Bank presidents.

Note: Projections are fourth-quarter-to-fourth-quarter growth rates except for the unemployment rate, which is the fourth quarter level. PCE = personal consumption expenditures.

Summary

- The national and New England economies have made a lot of progress toward recovery from the Great Recession.
- Signs point to the Federal Reserve starting to normalize monetary policy sometime in the next year.
- Continued low inflation below Fed's 2 percent target suggests that normalization of monetary policy will be very gradual.