Economic Outlook

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Overview of the US Economy

• Over the near-term, the expansion appears to be on a solid footing

• Risks on the downside:
  – Will businesses and consumers stay the course?
  – Is there a housing bubble?

• Inflation risks:
  – The effect of oil and other input price increases are likely to moderate.

• New England continues to grow along with the nation

• In the longer run, national savings needs to increase.
Much of the recent “Soft Patch” was revised away

Looking forward, businesses and consumers will be the key to the continued expansion
Firms’ demand for capital equipment rebounded in April after two months of weak numbers, but the expansion of profits and the buildup of cash should support investment in the future.
Increasing housing wealth has helped propel the consumer

Housing and Consumption Growth

Source: Office of Federal Housing Enterprise Oversight.

Driven, in part, by rising housing prices

Source: Office of Federal Housing Enterprise Oversight.
Rising real estate prices have decreased affordability, but low interest rates and strong employment growth have left overall affordability high.

Which explains the continued strength in the housing market

Source: Census Bureau.
Improving employment and wage and salary growth should drive consumption.

Bureau of Economic Analysis.
Inflation risks have risen along with oil prices

Yet oil price increases have not had a lasting effect on survey expectations of inflation.
As most forecasters anticipate moderation in inflation
And most measures of labor costs have yet to accelerate.
New England Economy

Business Cycle Update

• New England’s economic growth caught up with the nation’s in 2004.

• Job counts remain below peak in the two largest New England states, Massachusetts and Connecticut.

• Indicators for early 2005 signal continued expansion.

• … and their homes appreciate more moderately than those in certain other regions of the country.
After a slow pickup, the New England economy grew at the same rate as the nation in 2004.
The regional job count remains below its pre-recession peak.

The New England economy is continuing to grow; job gains strengthened in April.

Most forward-looking regional economic indicators continue to look positive.

Index of New England UI Claims and Online Job Recruitment.

New England homeowners continue to see their properties increase in value, but several other regions are now experiencing greater rates of home price appreciation.

Note: Shaded area indicates range of values among the nine U.S. Census divisions.
Source: Freddie Mac.
Longer-run Concerns

National savings has deteriorated...

Which requires that we import savings from abroad

And our indebtedness relative to the rest of the world limits how long this can continue.
Investment/Savings Imbalances

• **How to re-balance?**
  – Depreciating currency, which could result in rising interest rates and financial market instability
  – Increased government or private savings

• **Problems with those solutions:**
  – We may not like it in the short run
    • Increased govt. savings means less stimulus
    • Weakens recovery in short run
    • Does not yield 1-for-1 decline in trade deficit
  – The rest of the world might not like it
    • Depreciating currency makes *their* goods more expensive
    • If we save more (spend less), the “engine of world growth” slows down—so do they

• **Economic logic says deficits can’t grow indefinitely.**