



# Recession and Recovery: A New England Perspective

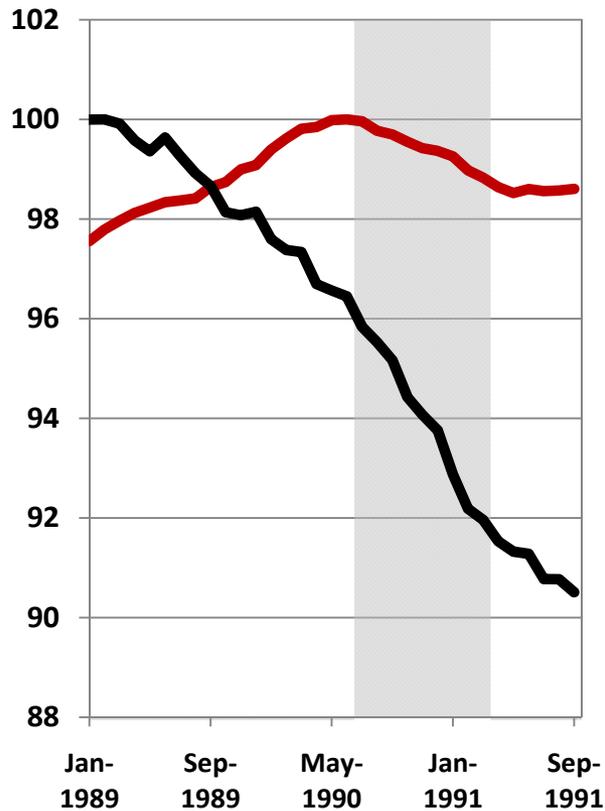
Presented at  
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Federal Reserve Bank of Boston

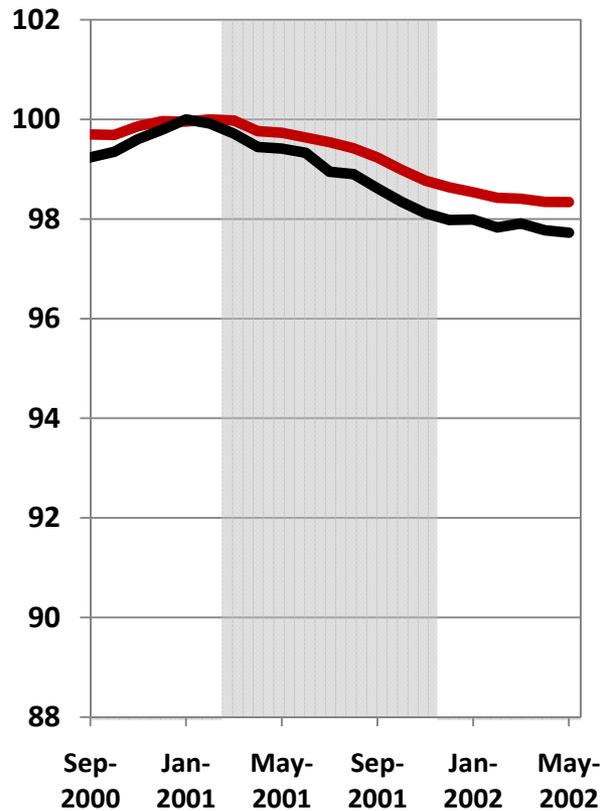
# The 2007-09 recession hit New England hard, but not harder than other regions.

## Nonfarm Payroll Employment - Indexed to Pre-Recession Peaks

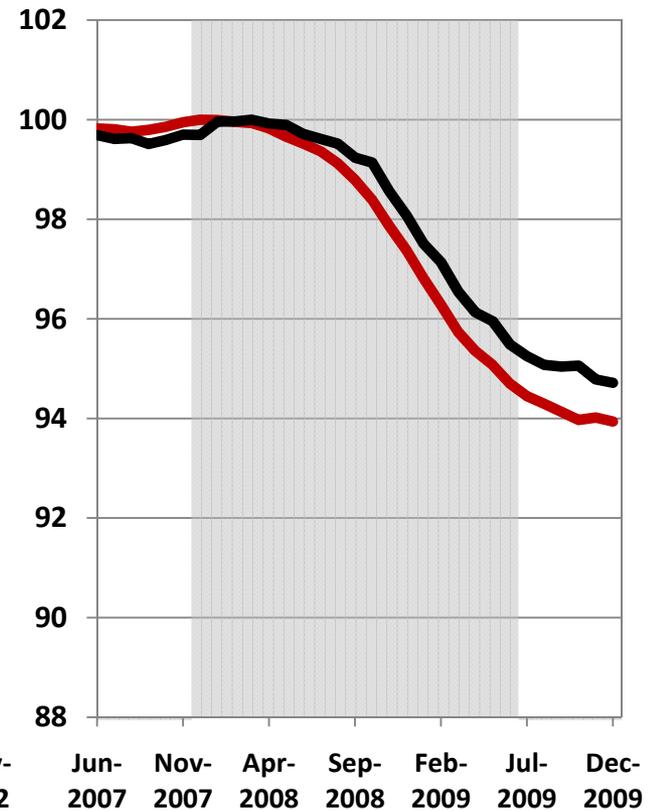
### 1990-91 Recession



### 2001 Recession



### 2007-09 Recession

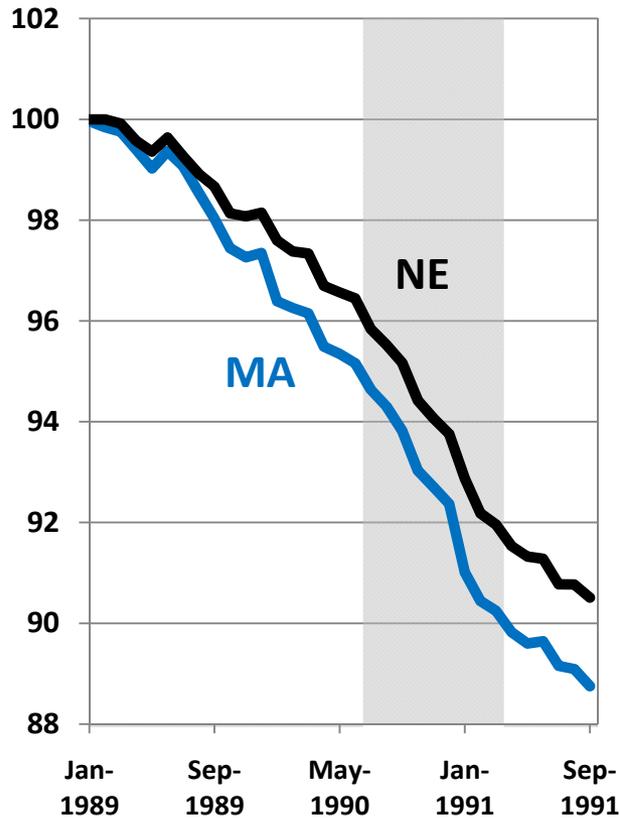


■ National Recession    — New England    — United States

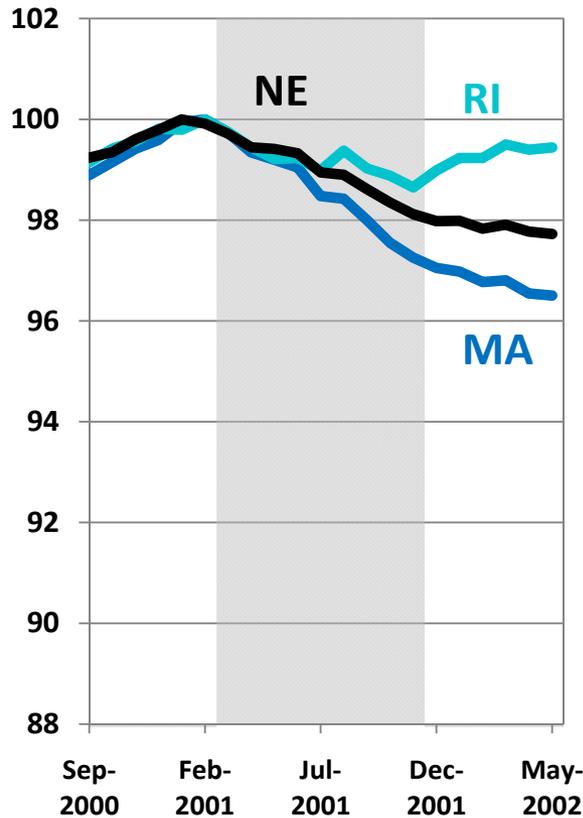
# The relative performances of states have varied across recessions.

## Nonfarm Payroll Employment - Indexed to Pre-Recession Peaks

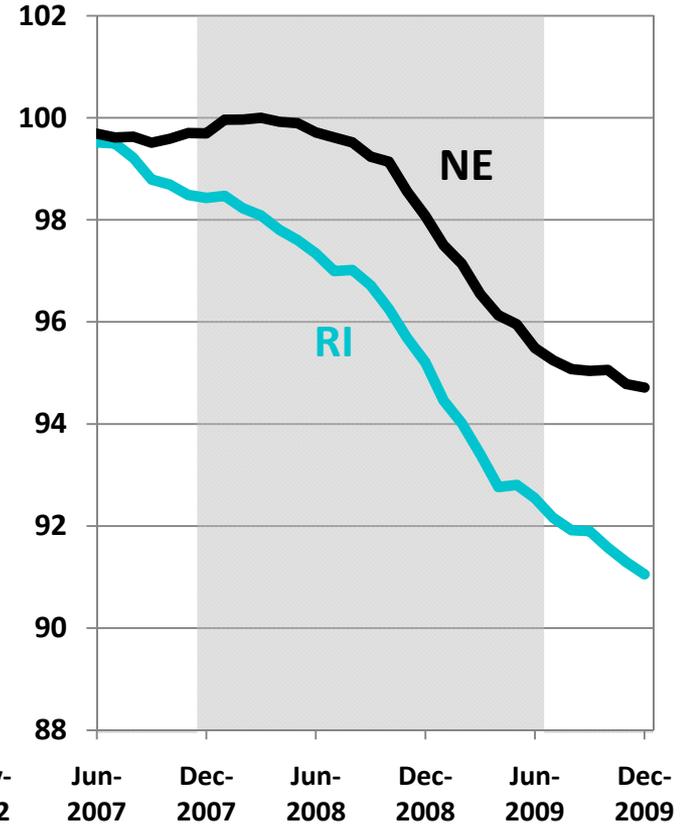
### 1990-91 Recession



### 2001 Recession



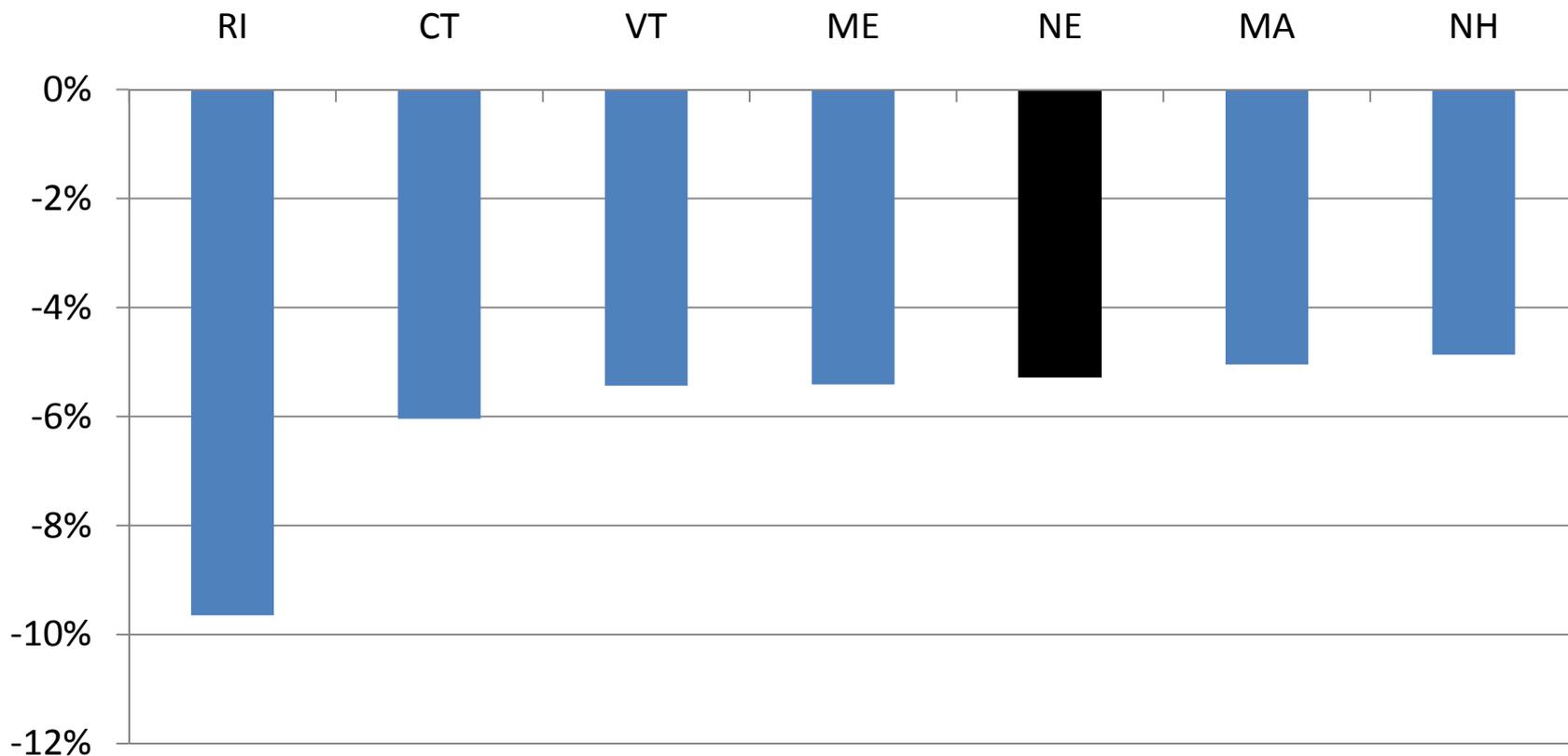
### 2007-09 Recession



■ National Recession

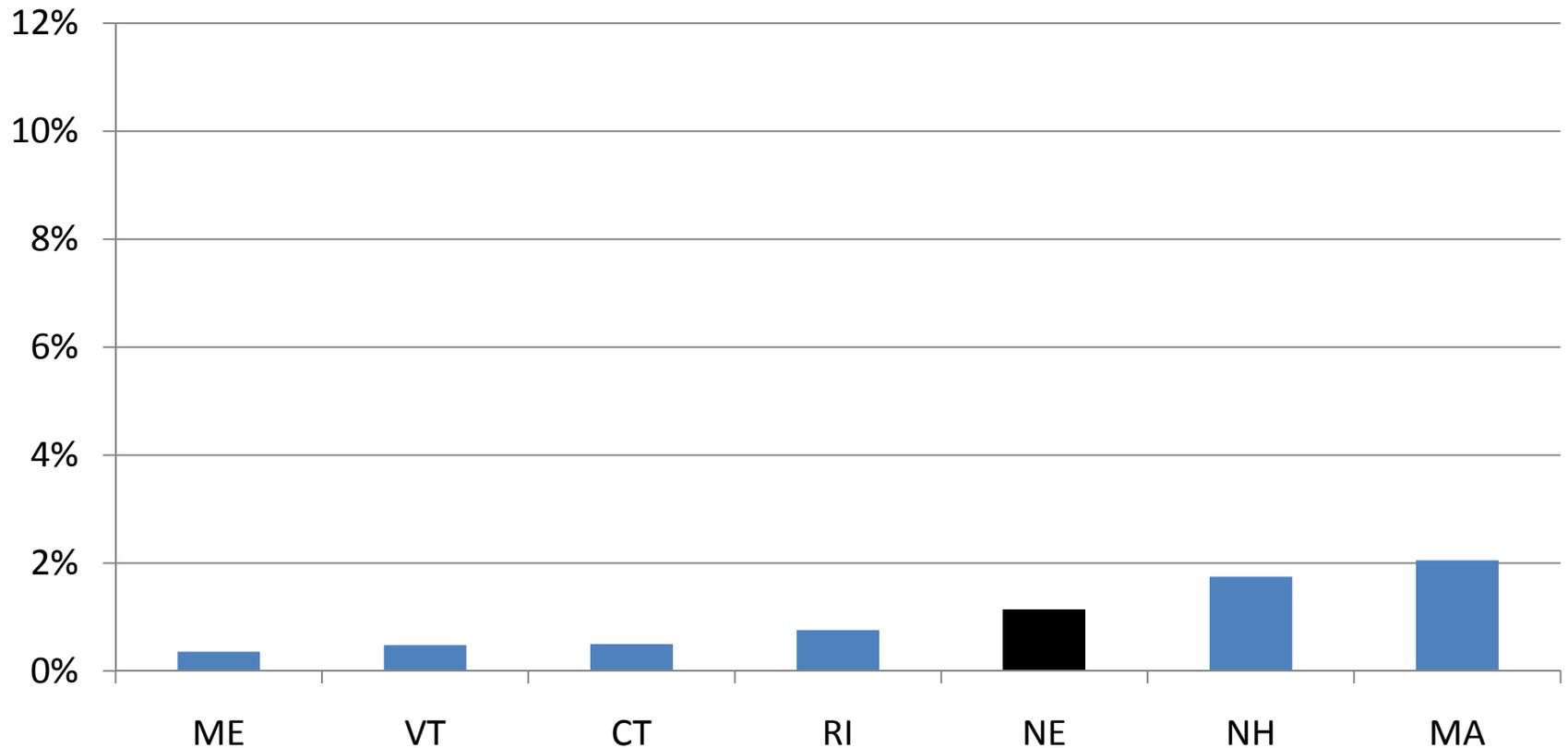
# Among the New England states, MA and NH had the smallest job losses in the 2007-09 recession ...

Change in Nonfarm Employment from Peak to Trough



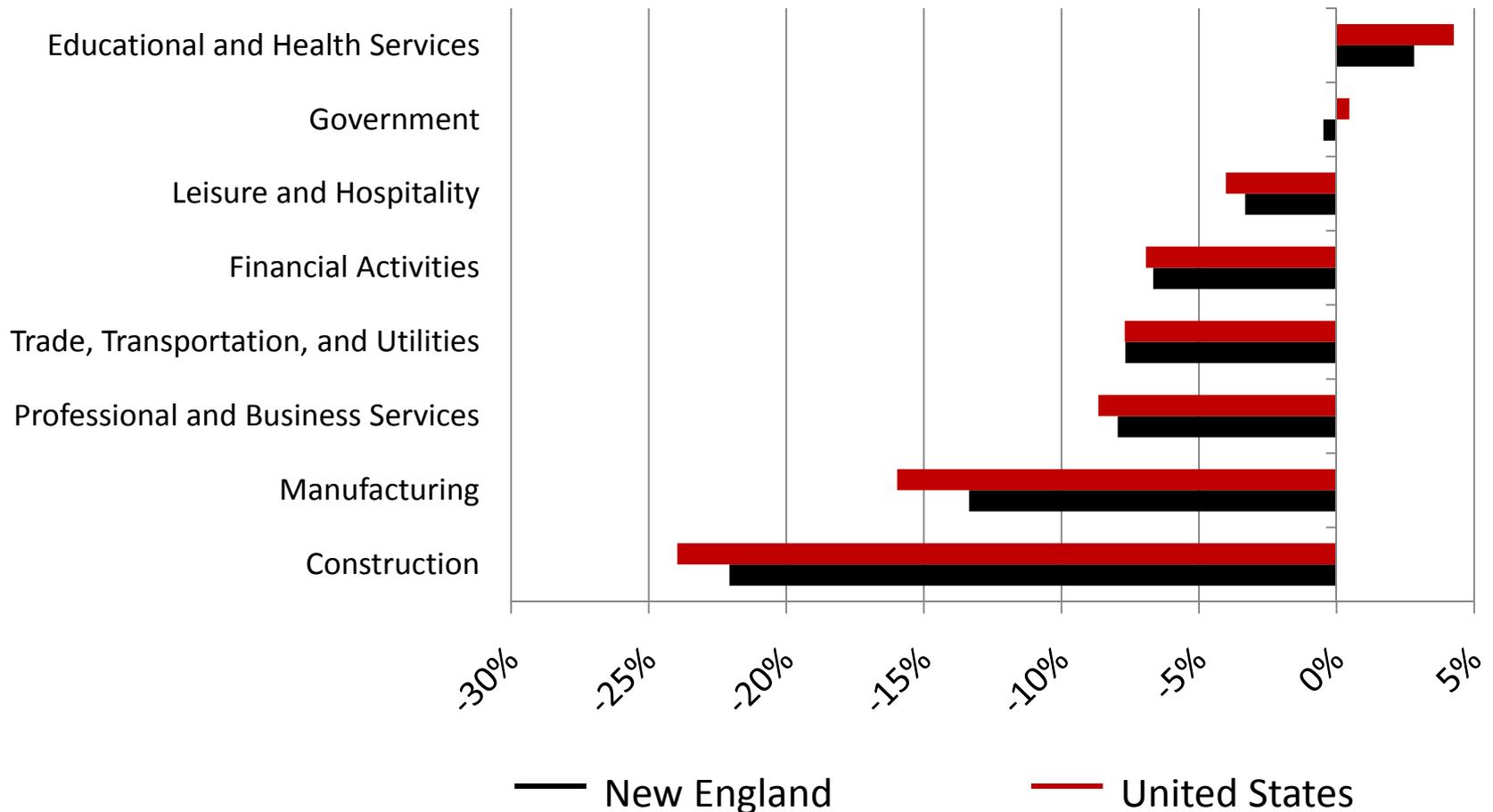
# ... and the strongest job gains in the expansion to date

**Change in Nonfarm Employment from Trough to August 2010**



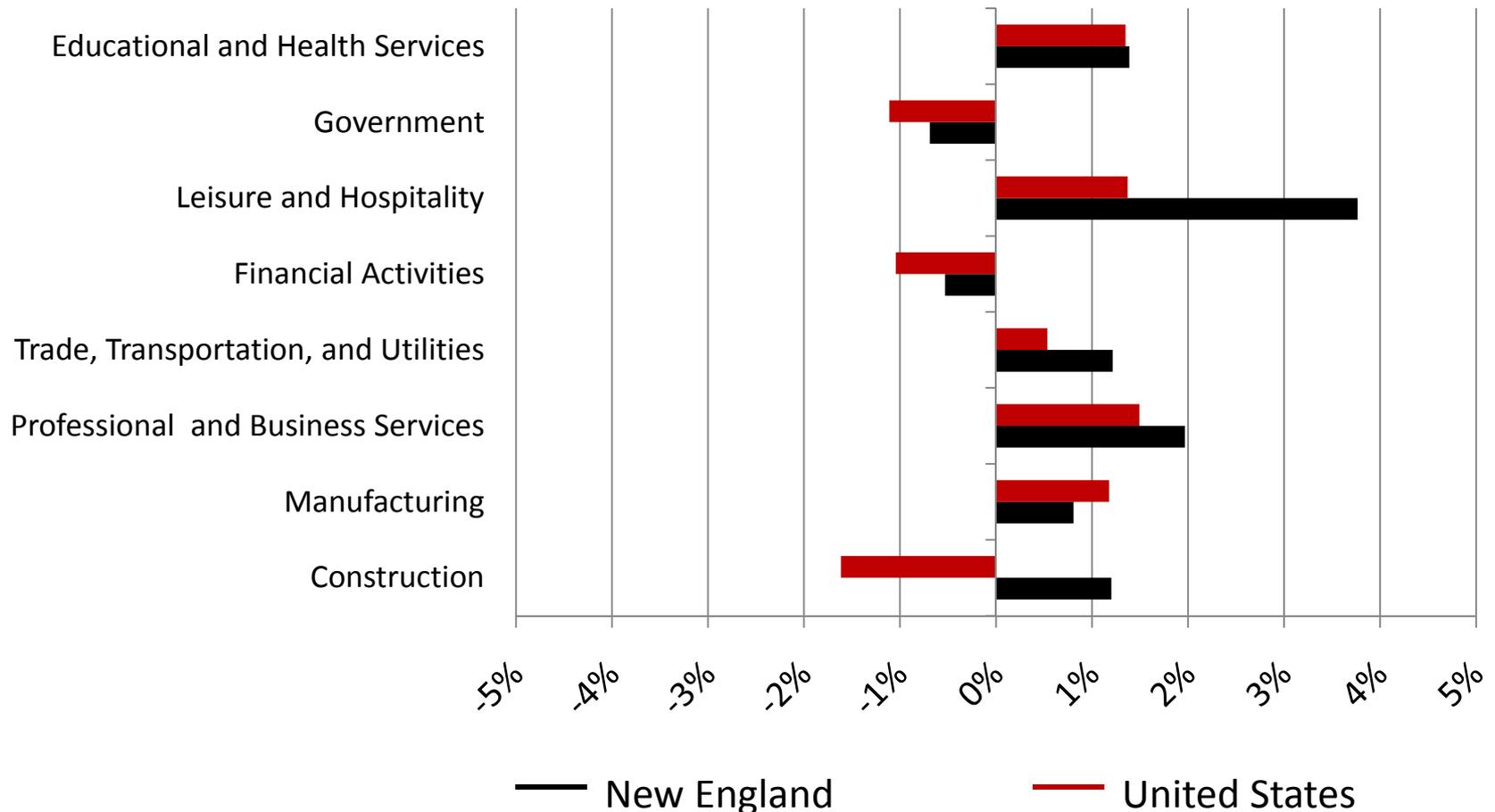
# By sector, construction and manufacturing had the steepest job losses in 2007-09.

Percentage Change from Peak to Trough



# Government and financial services are still shedding jobs.

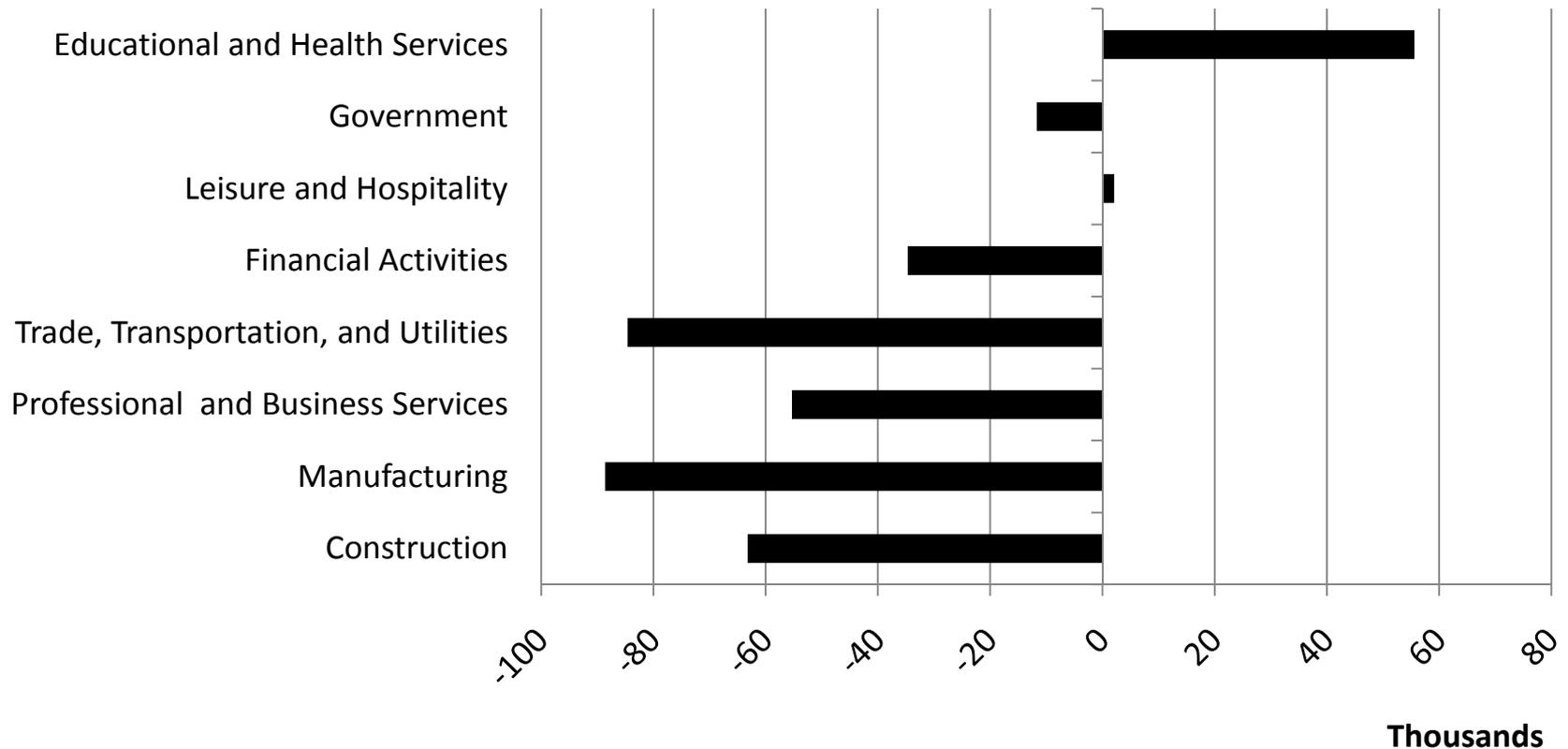
Percentage Change From Trough to Present



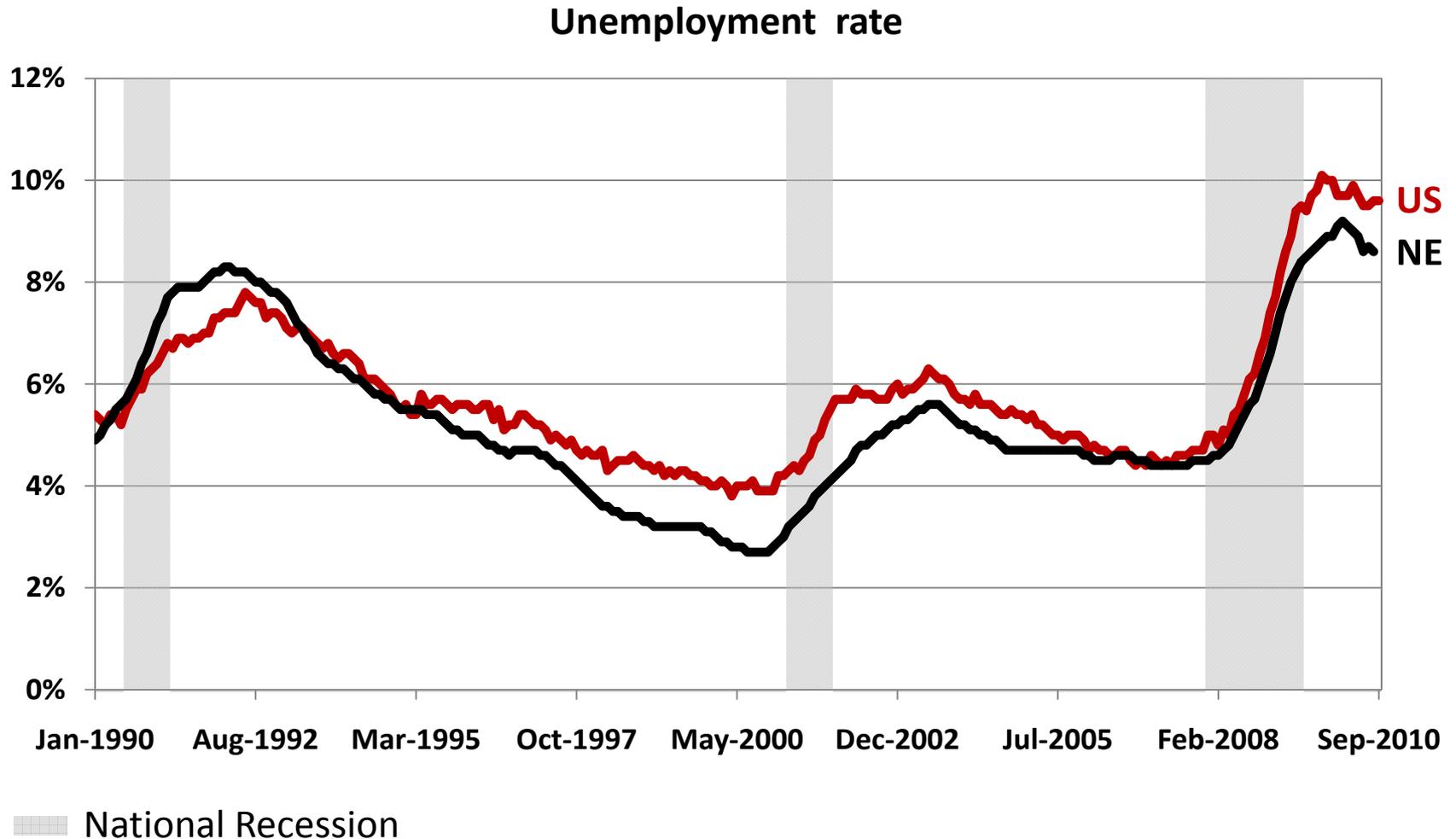
Source: Calculations Based on Bureau of Labor Statistics Data

# Four New England sectors have shed 50,000 or more jobs since 2007.

**Change in NE Employment from Peak to August 2010**

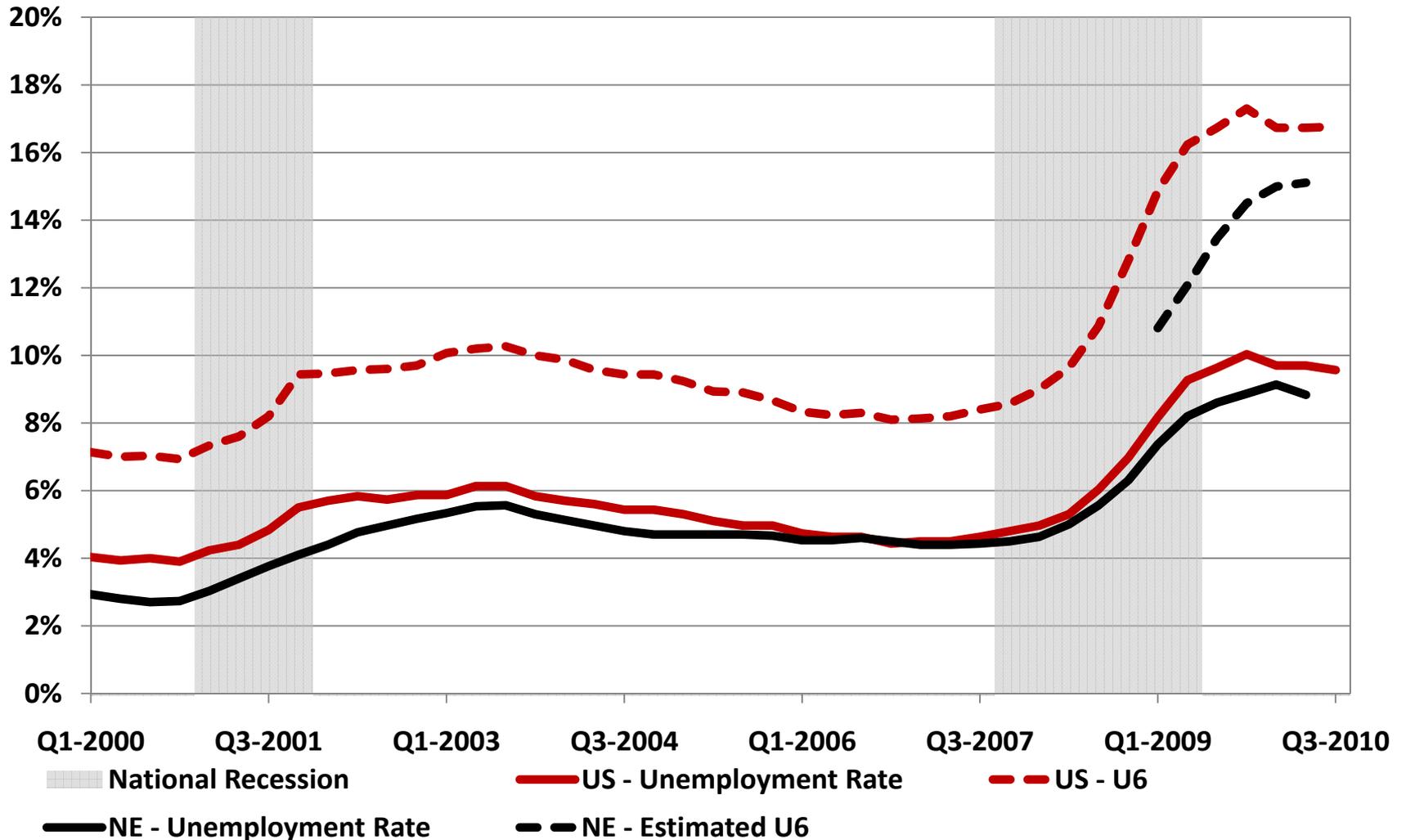


# Unemployment has soared and remains high.



# Many workers are working reduced hours.

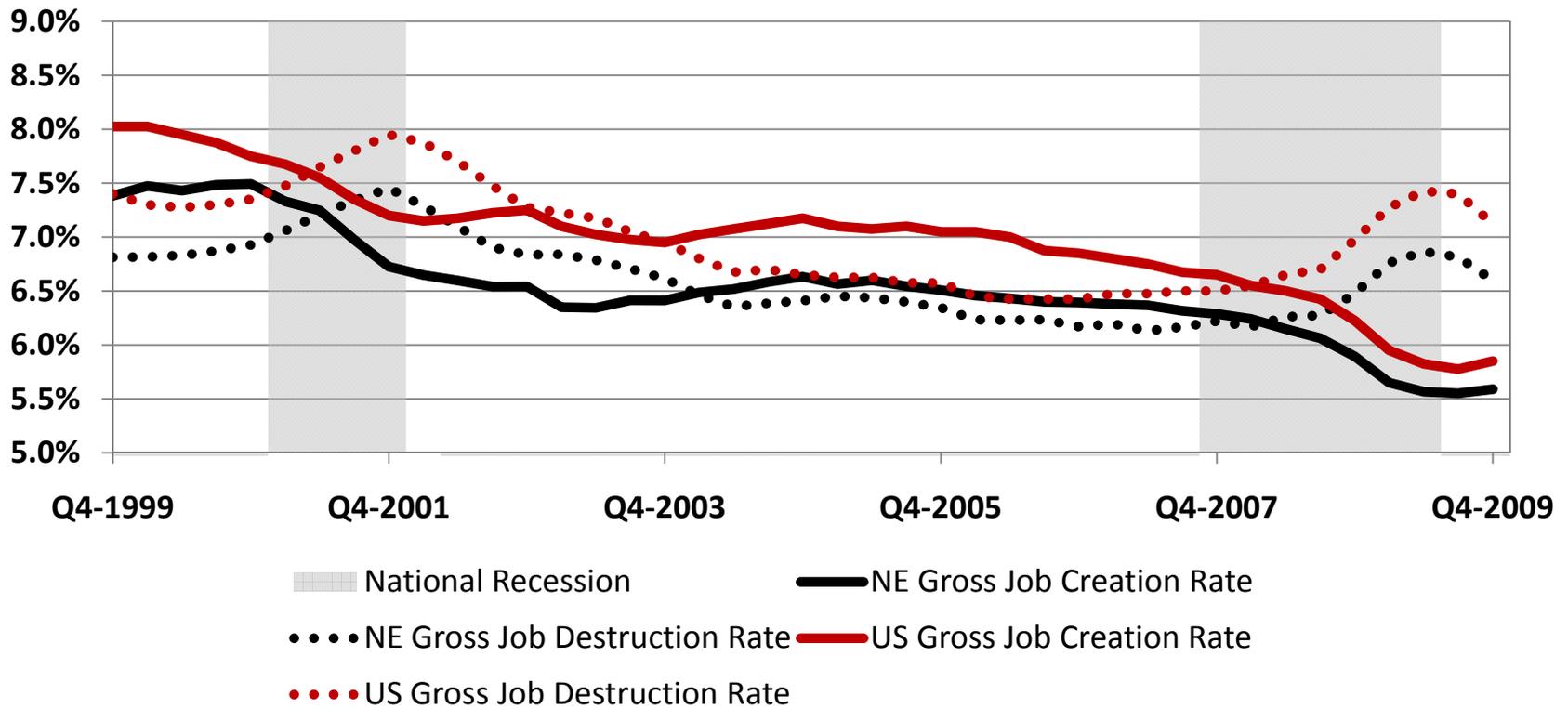
## U-6 Unemployment vs. Official Unemployment



Source: Calculations Based on Bureau of Labor Statistics Data

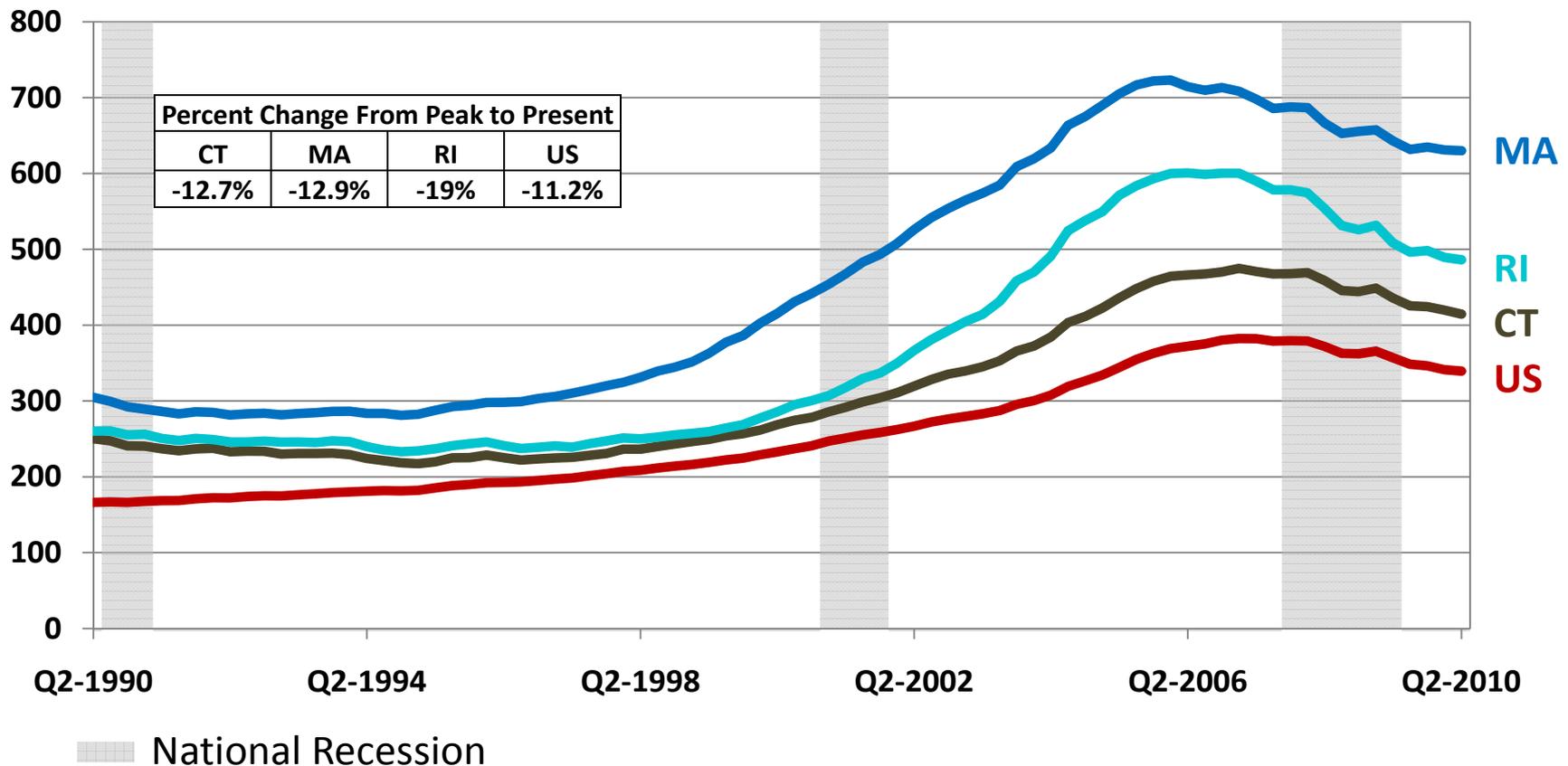
# Job creation is picking up slightly from very low levels.

## Job Creation and Destruction Rates – Four Quarter Moving Averages



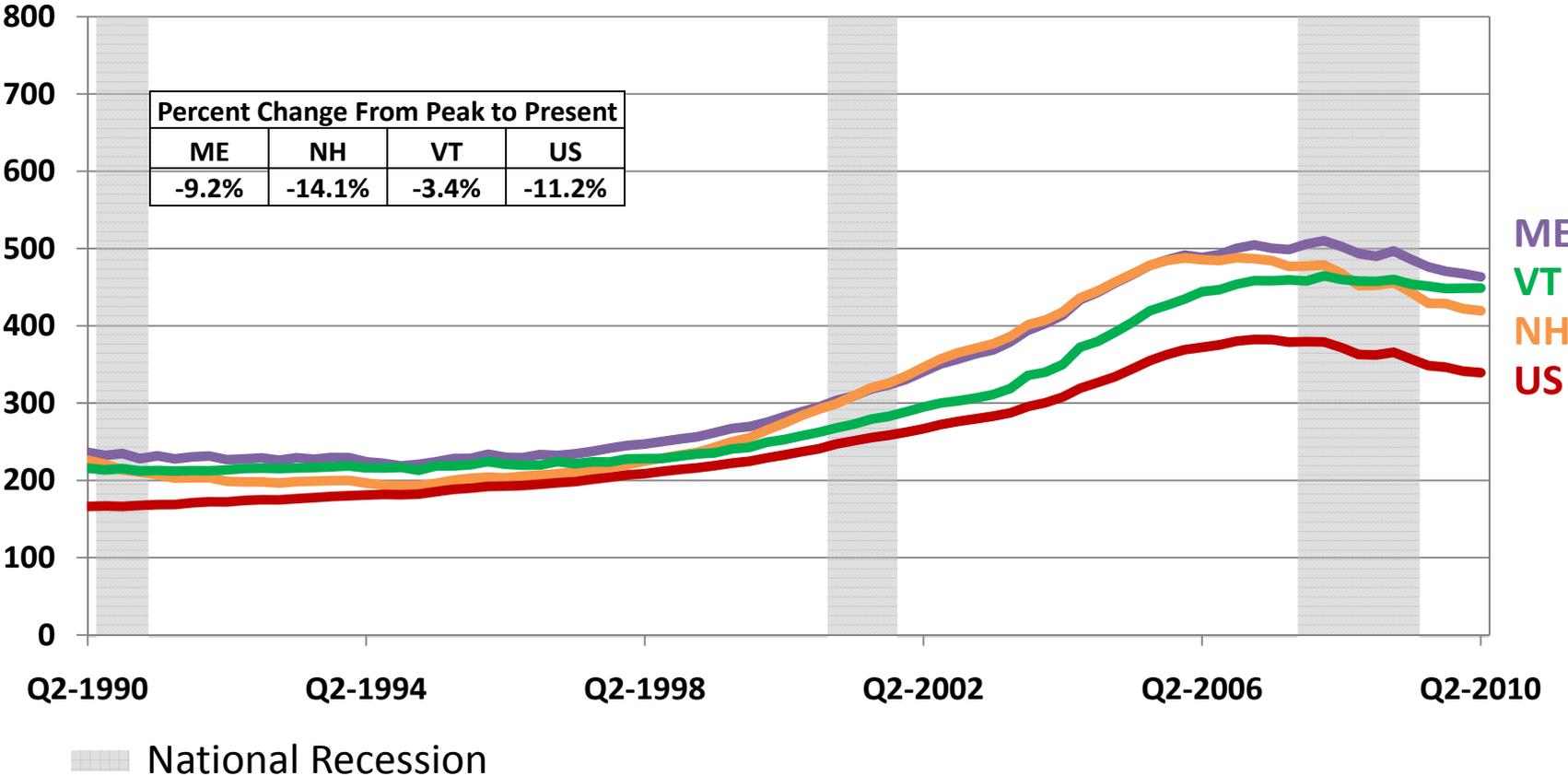
# House prices have fallen 19 percent in RI, more than in neighboring states.

**Southern New England FHFA House Price Index**  
(1980 = 100)



# House prices in Vermont have been remarkably stable throughout the downturn.

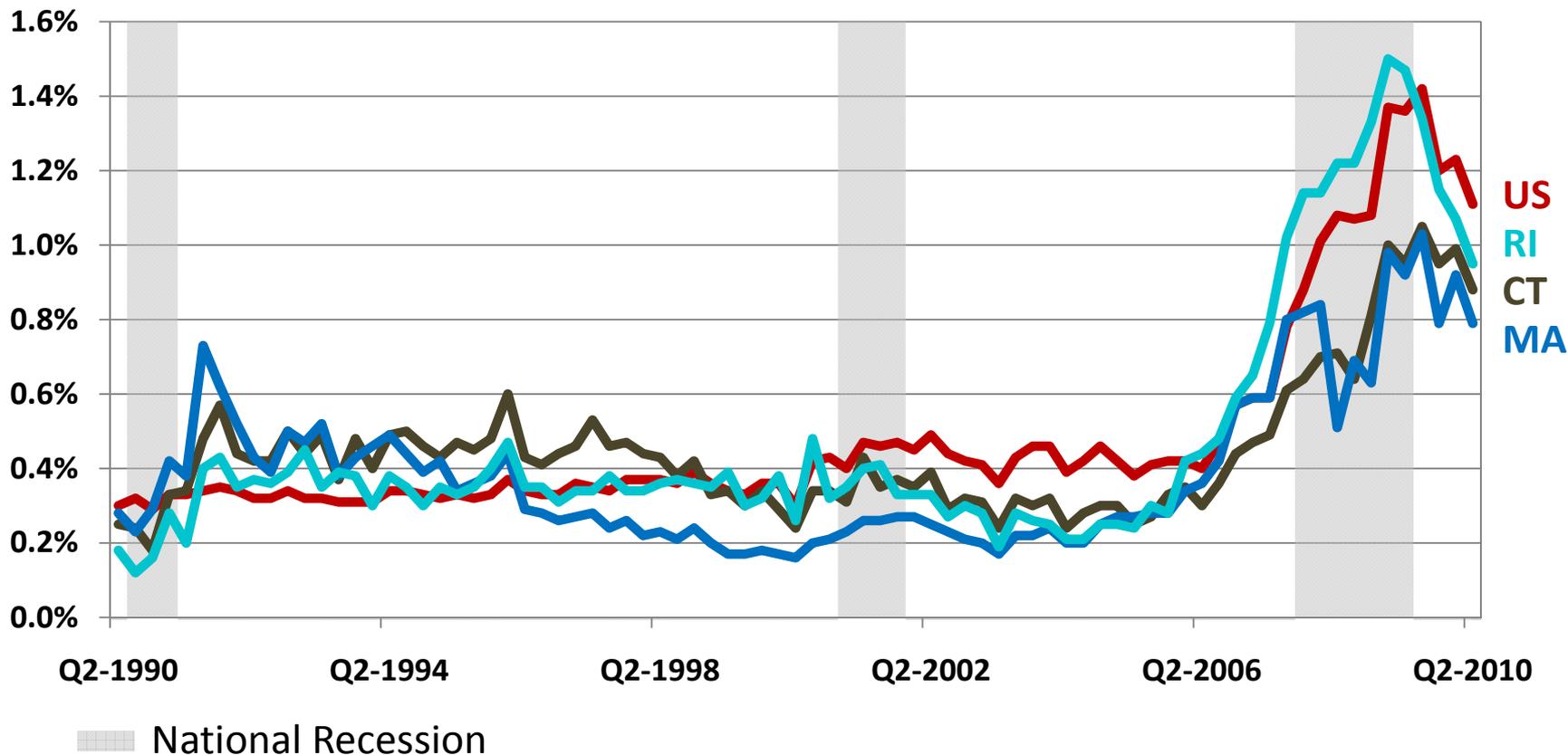
## Northern New England FHFA House Price Index (1980 = 100)



Source: Federal Housing Finance Authority/Haver Analytics

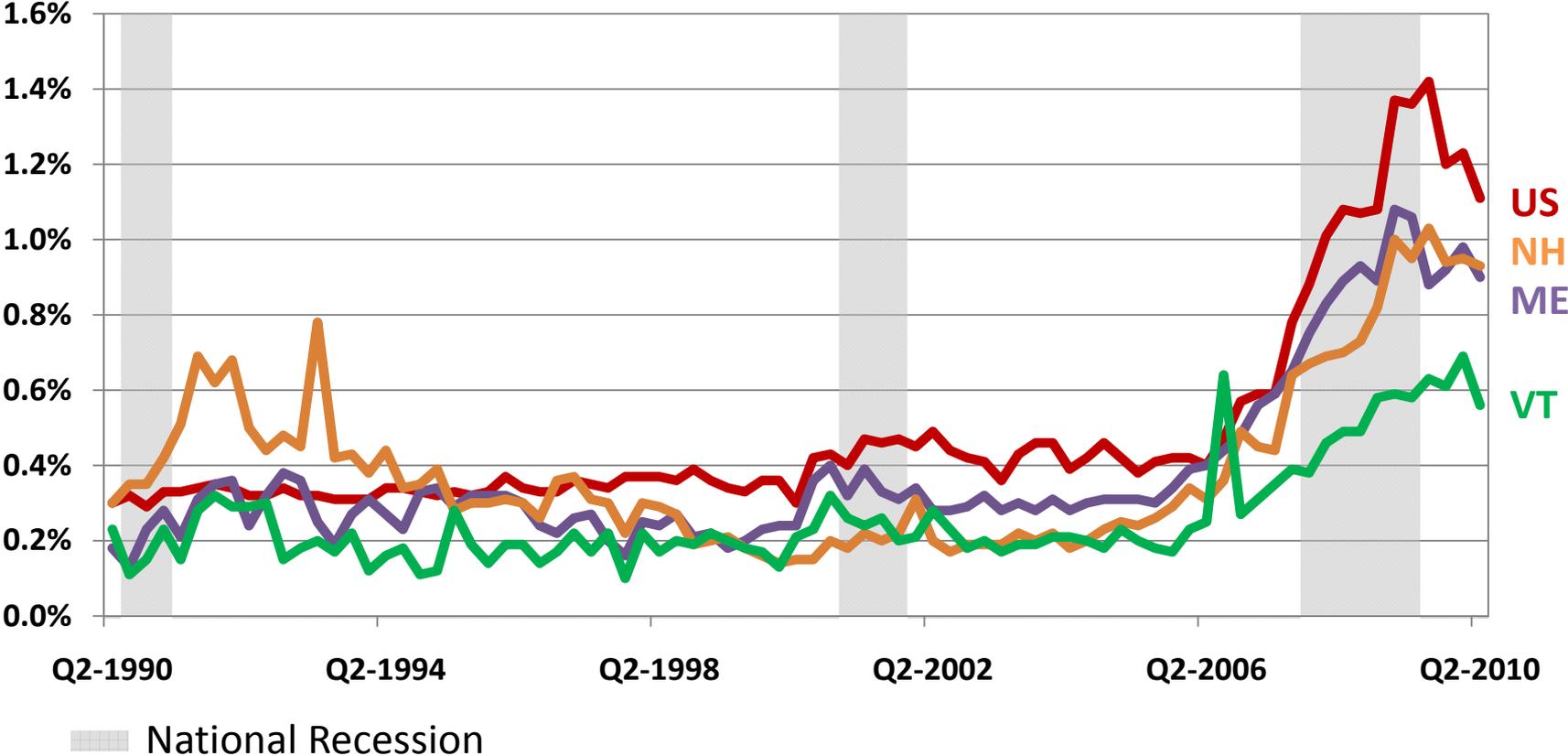
# Foreclosure starts in RI have fallen, and are now in line with neighboring states.

## Southern New England Foreclosure Starts - Percentage of All Home Loans



# Foreclosures in northern New England have remained below the national rate.

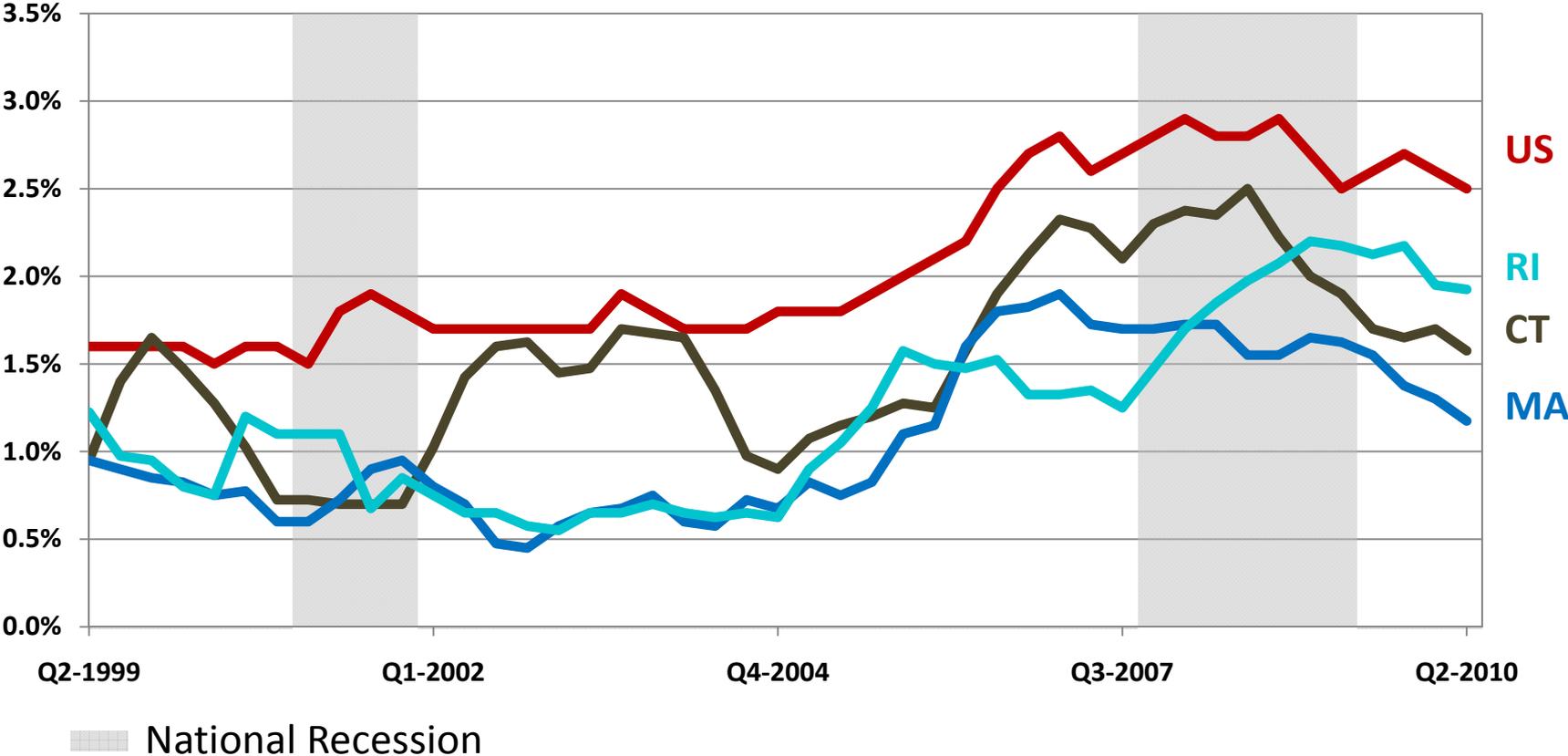
## Northern New England Foreclosure Starts - Percentage of All Home Loans



Source: Mortgage Bankers Association/Haver Analytics

# Homeowner vacancy rates in New England have remained well below the national average.

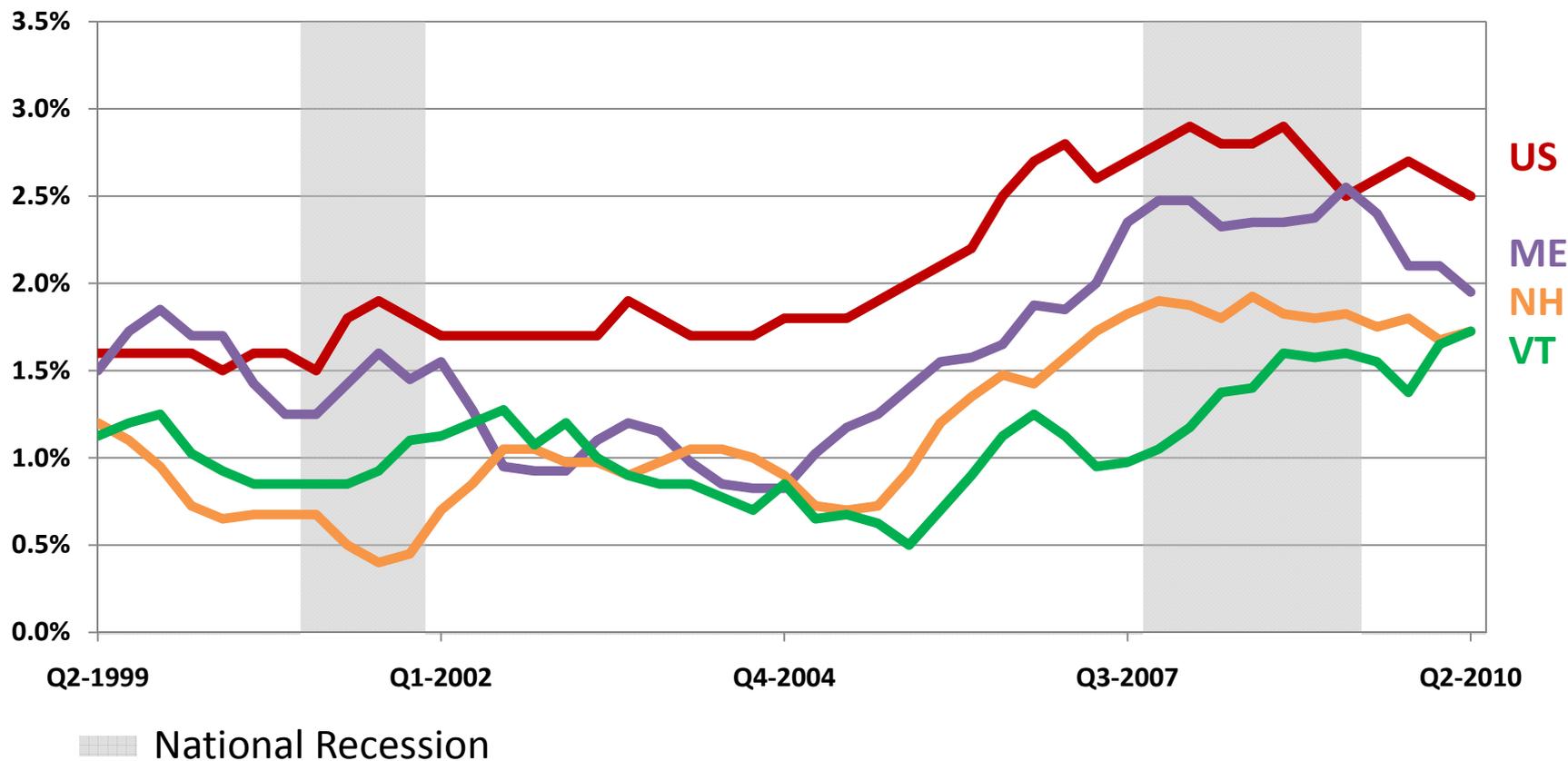
## Southern New England Homeowner Vacancy Rate Four Quarter Moving Average



Source: Bureau of the Census/Haver Analytics

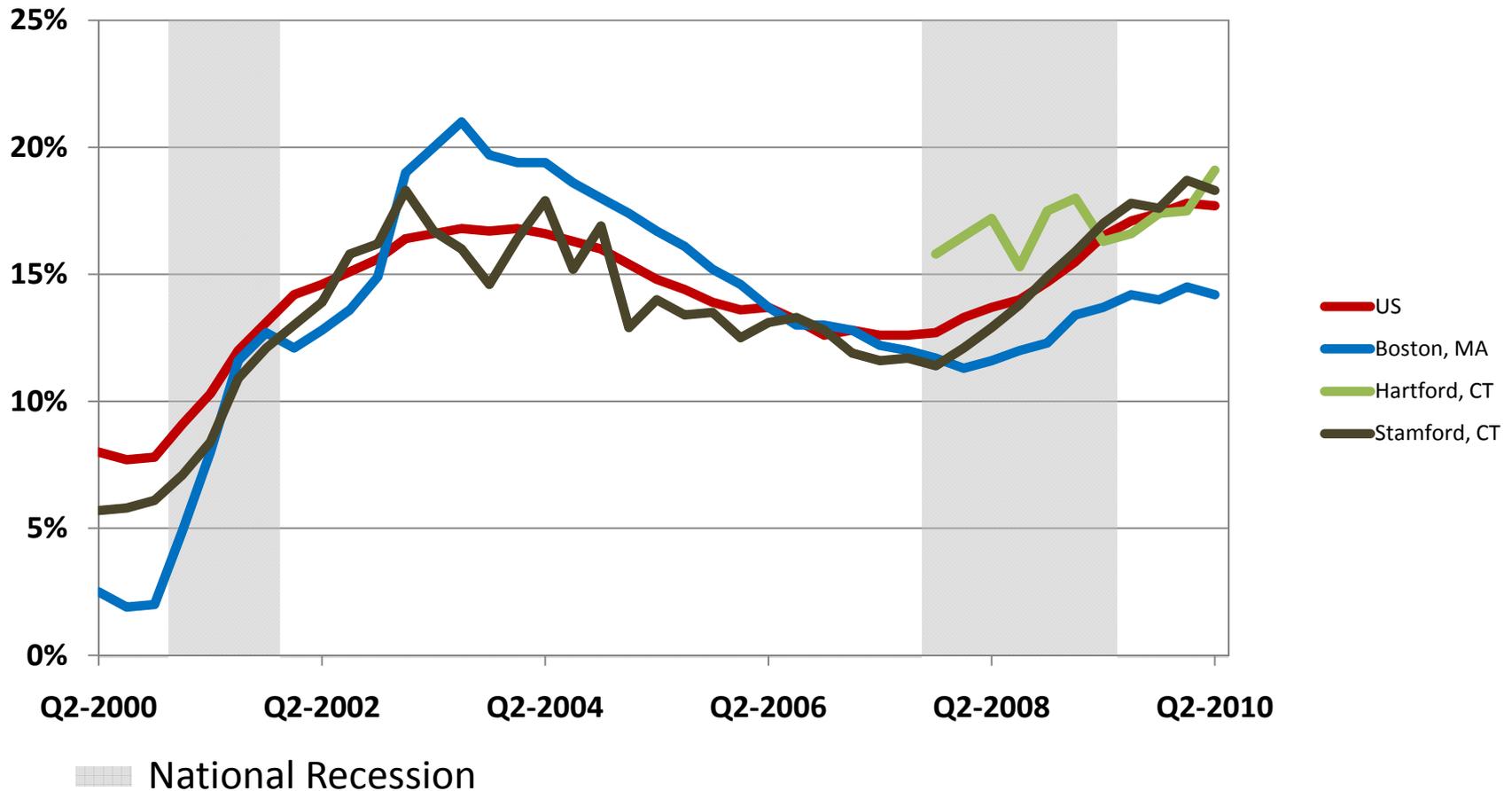
Homeowner vacancy rates have been higher in Maine than in other northern New England states.

Northern New England Homeowner Vacancy Rate  
Four Quarter Moving Average



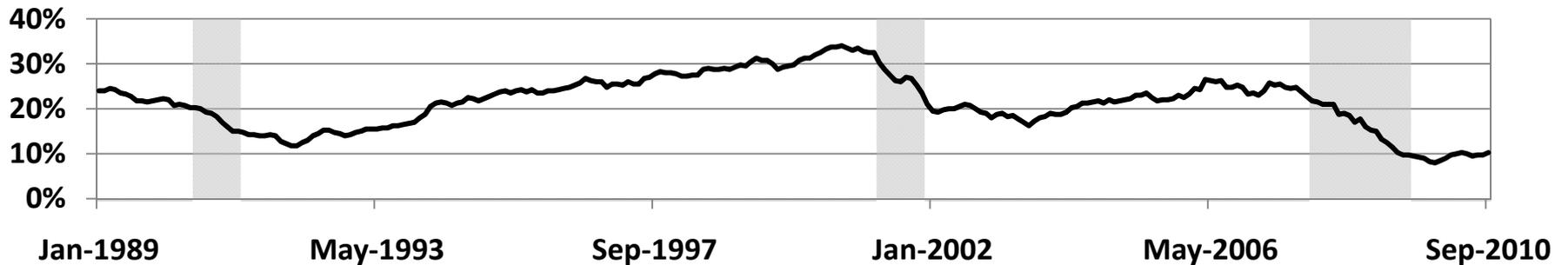
# Office vacancies in MA have remained below early-2000s levels.

## Metropolitan Office Vacancy Rate

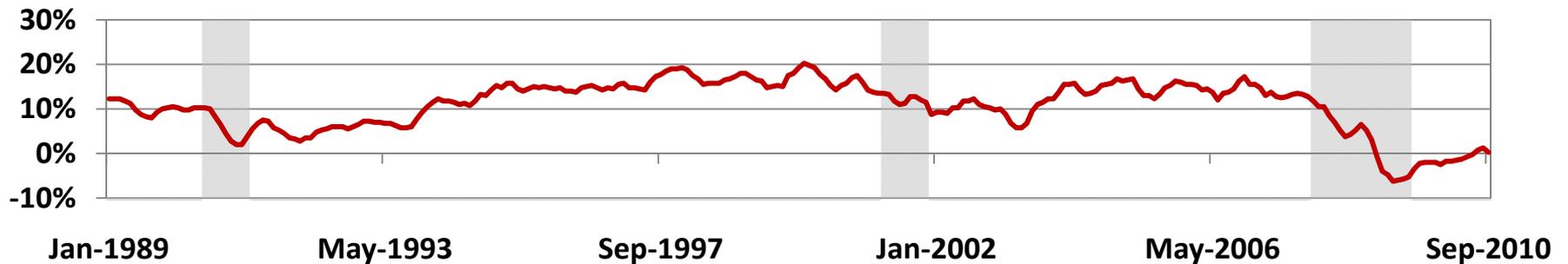


# Small businesses are reporting few job openings and little interest in expanding headcount.

## Percent of Small Businesses with One or More Jobs Open (Four Quarter Moving Average)



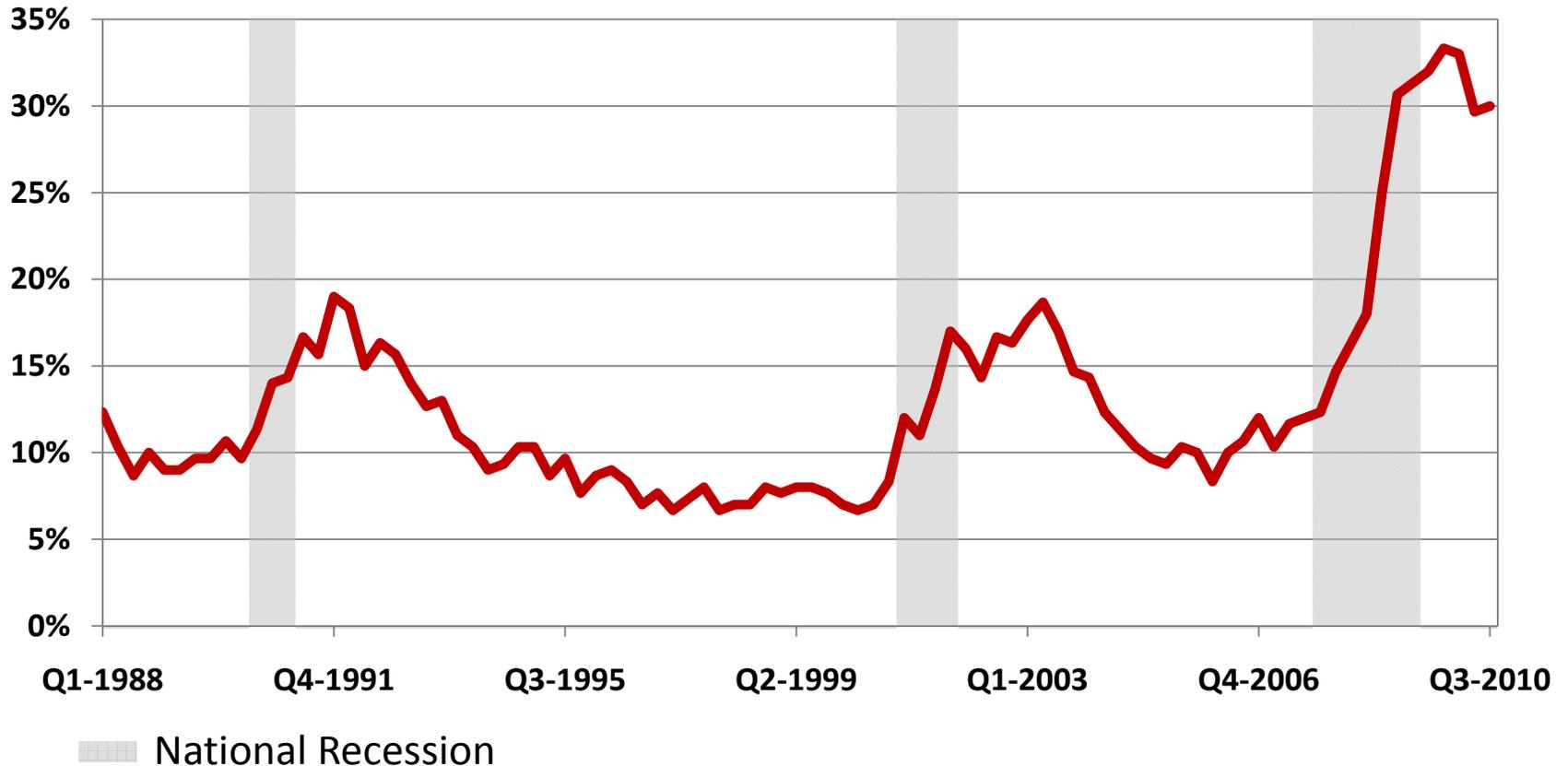
## Net Percent of Small Businesses Planning to Increase Employment (Four Quarter Moving Average)



■ National Recession

# Lack of sales is the most plausible reason why small businesses are not hiring.

## Percent of Small Businesses Reporting Poor Sales as Number One Problem



# Poor sales have replaced taxes as the biggest concern to small businesses.

Top Average Responses During Past Three Recessions

	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	5 <sup>th</sup>
<b>1990-91 Recession</b>	Taxes	Government Requirements	Poor Sales	Other	Competition from Large Corporations
	23.1%	16.9%	13.2%	11.8%	9.0%
<b>2001 Recession</b>	Taxes	Quality of Labor	Poor Sales	Government Requirements	Insurance Cost or Availability
	22.5%	16.7%	13.4%	11.3%	11.0%
<b>2007-09 Recession</b>	Poor Sales	Taxes	Insurance Cost/Availability	Inflation	Government Requirements
	21.2%	19.0%	11.1%	10.0%	9.6%

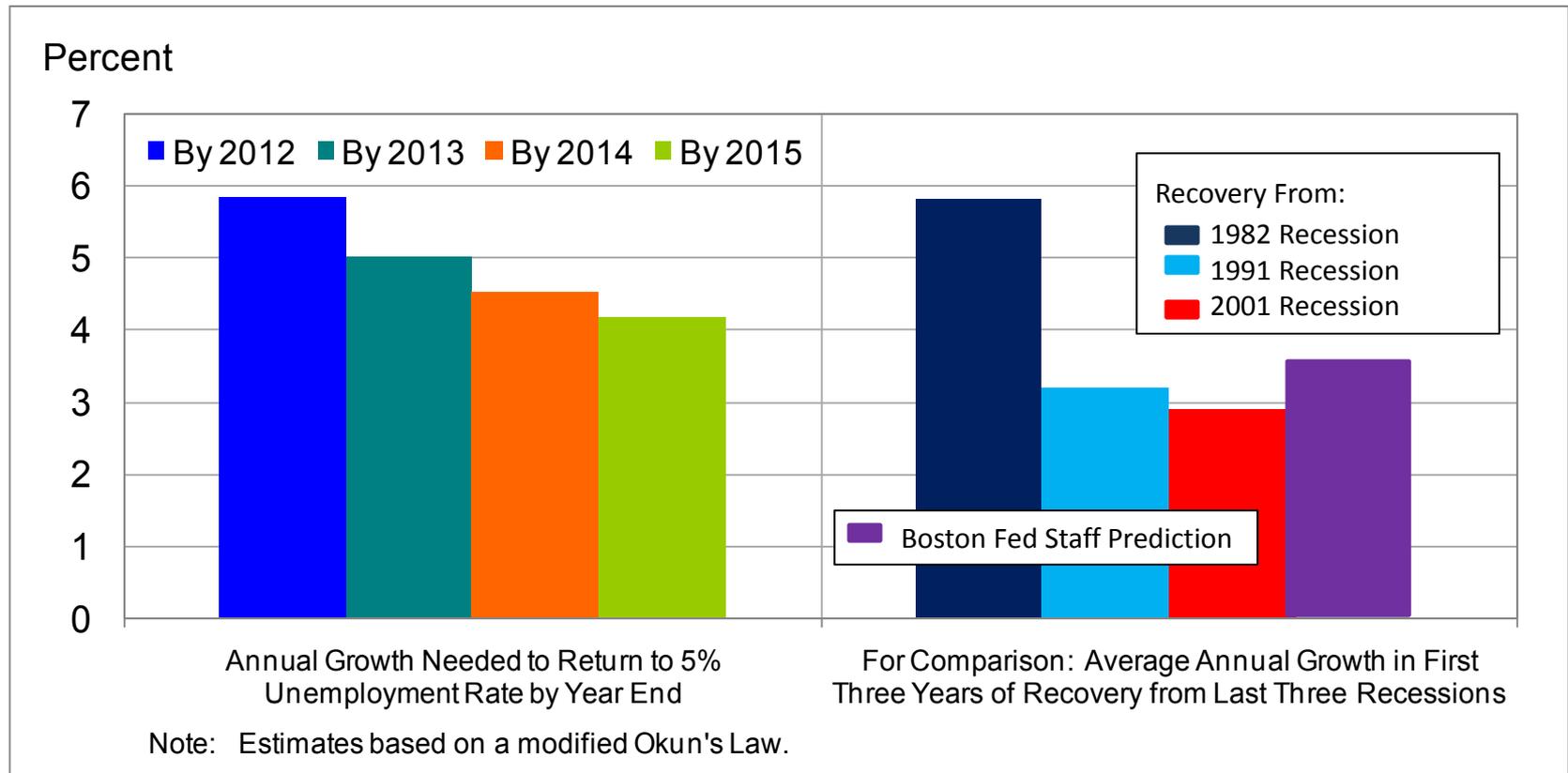
# New England businesses cite uncertainties, inability to plan.

- Federal , state, and local government fiscal strains: how will they be resolved?
- Forthcoming tax incentives for employment or investment?
- Health care reform: impact on costs?
- Access to credit: still some mention, but less than a few months ago.

Source: Boston Fed New England Advisory Council meeting, September 2010

# The road to economic recovery is likely to be long.

Estimates of Annual Real GDP Growth Needed to Return to a 5% Unemployment Rate



Source: Simulations cited by Federal Reserve Bank of Boston President Eric S. Rosengren, *Considering the Routes to a Policy Destination*, Speech to The Money Marketeers of New York University, May 5, 2010.

# Economic recovery won't feel like fiscal recovery for the states.



- ARRA money goes away.
- Rainy day funds have been drawn down.
- Employment and wages are lagging GDP recovery.
- Enrollments in Medicaid / SCHIP rise when economy is weak.
- Pension and other retirement-related contributions continue to rise.
- Local governments seek more state aid as property tax revenues weaken.



# Summary

- New England economy hit hard, but not quite as hard as U.S. economy.
- Slow recovery taking hold.
- Many opinions on what can and should be done to accelerate the improvement.
- Fiscal problems of state and local government will exert a drag on the recovery unless federal aid comes to the rescue.