Recession and Recovery: A New England Perspective

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

Nonfarm Payroll Employment - Indexed to Pre-Recession Peaks

Source: Bureau of Labor Statistics/ Haver Analytics
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

Source: Bureau of Labor Statistics / Haver Analytics
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

RI  CT  VT  ME  NE  MA  NH

Source: Calculations Based on Bureau of Labor Statistics Data
... and the strongest job gains in the expansion to date

Change in Nonfarm Employment from Trough to August 2010

Source: Calculations Based on Bureau of Labor Statistics Data
By sector, construction and manufacturing had the steepest job losses in 2007-09.

Percentage Change from Peak to Trough

- Educational and Health Services
- Government
- Leisure and Hospitality
- Financial Activities
- Trade, Transportation, and Utilities
- Professional and Business Services
- Manufacturing
- Construction

New England United States

Source: Calculations Based on Bureau of Labor Statistics Data
Government and financial services are still shedding jobs.

Percentage Change From Trough to Present

- Educational and Health Services
- Government
- Leisure and Hospitality
- Financial Activities
- Trade, Transportation, and Utilities
- Professional and Business Services
- Manufacturing
- Construction

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

- Educational and Health Services
- Government
- Leisure and Hospitality
- Financial Activities
- Trade, Transportation, and Utilities
- Professional and Business Services
- Manufacturing
- Construction

Source: Calculations Based on Bureau of Labor Statistics Data
Unemployment has soared and remains high.

Source: Bureau of Labor Statistics / Haver Analytics
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.

Source: Calculations Based on Bureau of Labor Statistics Data
House prices have fallen 19 percent in RI, more than in neighboring states.

Source: Federal Housing Finance Authority/Haver Analytics
House prices in Vermont have been remarkably stable throughout the downturn.

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

Percent Change From Peak to Present

<table>
<thead>
<tr>
<th>ME</th>
<th>NH</th>
<th>VT</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>-9.2%</td>
<td>-14.1%</td>
<td>-3.4%</td>
<td>-11.2%</td>
</tr>
</tbody>
</table>

Source: Federal Housing Finance Authority/Haver Analytics
Foreclosure starts in RI have fallen, and are now in line with neighboring states.

Source: Mortgage Bankers Association/Haver Analytics
Foreclosures in northern New England have remained below the national rate.

Source: Mortgage Bankers Association/Haver Analytics
Homeowner vacancy rates in New England have remained well below the national average.

Source: Bureau of the Census/Haver Analytics
Homeowner vacancy rates have been higher in Maine than in other northern New England states.

Source: Bureau of the Census/Haver Analytics
Office vacancies in MA have remained below early-2000s levels.

Source: CB Richard Ellis/Haver Analytics
Small businesses are reporting few job openings and little interest in expanding headcount.

Source: National Federation of Independent Business
Lack of sales is the most plausible reason why small businesses are not hiring.

Source: National Federation of Independent Business/Haver Analytics
Poor sales have replaced taxes as the biggest concern to small businesses.

### Top Average Responses During Past Three Recessions

<table>
<thead>
<tr>
<th>Year</th>
<th>1st Response</th>
<th>2nd Response</th>
<th>3rd Response</th>
<th>4th Response</th>
<th>5th Response</th>
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</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>Taxes</td>
<td>Government</td>
<td>Poor Sales</td>
<td>Other</td>
<td>Competition from Large Corporations</td>
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<tr>
<td></td>
<td>23.1%</td>
<td>Requirements</td>
<td>13.2%</td>
<td>11.8%</td>
<td>9.0%</td>
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<tr>
<td>2001</td>
<td>Taxes</td>
<td>Quality of Labor</td>
<td>Poor Sales</td>
<td>Government</td>
<td>Insurance Cost or Availability</td>
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<tr>
<td></td>
<td>22.5%</td>
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<td>13.4%</td>
<td>Requirements</td>
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<td>11.3%</td>
<td>11.0%</td>
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<tr>
<td>2007-09</td>
<td>Poor Sales</td>
<td>Taxes</td>
<td>Insurance Cost</td>
<td>Inflation</td>
<td>Government Requirements</td>
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<td></td>
<td>21.2%</td>
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<td>Cost/Availability</td>
<td>11.1%</td>
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<td></td>
<td>10.0%</td>
<td>9.6%</td>
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Source: National Federation of Independent Business/Haver Analytics
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

<table>
<thead>
<tr>
<th>Percent</th>
<th>By 2012</th>
<th>By 2013</th>
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Recovery From:
- 1982 Recession
- 1991 Recession
- 2001 Recession

For Comparison: Average Annual Growth in First Three Years of Recovery from Last Three Recessions

Note: Estimates based on a modified Okun’s Law.

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.