New England Economic Conditions and Outlook

Regional and Community Bankers’ Conference
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Federal Reserve Bank of Boston

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Overview

• The Great Recession, recovery to date
  – Labor markets
    • Employment
    • Unemployment/slack
  – Housing markets

• Outlook
  – Indicators
  – key factors, risks
Great Recession deeper for U.S. than previous post-war cycles...

United States (dotted)  
New England (solid)

Business cycles since 1970:
- Nov-73
- Jul-81
- Jul-90
- Mar-01
- Dec-07

Index = 1 at cycle’s pre-trough maximum employment level

Employment relative to pre-recession maximum

Months before (-) or after NBER business cycle peak

... Lost jobs not yet recovered in New England or nation.

Source: U.S. Bureau of Labor Statistics/Haver Analytics
Recession job losses greatest in Rhode Island and Connecticut. …other New England states less steep than US.

Rhode Island has recovered less than 30 percent of lost jobs. ...Maine recovery also weaker to date

Source: U.S. Bureau of Labor Statistics/Haver Analytics
Most industries have not yet recovered recession job losses...

### United States

- **Construction**
- **Manufacturing**
- **Trade, Transportation & Utilities**
- **Information**
- **Financial Activities**
- **Professional & Business Services**
- **Private Education & Health Services**
- **Leisure and Hospitality**
- **Other Services**
- **Government**

**Recession losses** 
- **Construction**: -2500
- **Manufacturing**: -1500
- **Trade, Transportation & Utilities**: -500
- **Information**: 500
- **Financial Activities**: 1500
- **Professional & Business Services**: 2500
- **Private Education & Health Services**: -100
- **Leisure and Hospitality**: -50
- **Other Services**: 0
- **Government**: -100

**Recovery gains** 
- **Construction**: +260K
- **Manufacturing**: +6.4m
- **Trade, Transportation & Utilities**: +6.8m
- **Information**: +350K
- **Financial Activities**: +6.7m
- **Professional & Business Services**: +260K
- **Private Education & Health Services**: +6.8m
- **Leisure and Hospitality**: +6.8m
- **Other Services**: +350K
- **Government**: +350K

### New England

**Recession losses** 
- **Construction**: -8.7m
- **Manufacturing**: -3.5m
- **Trade, Transportation & Utilities**: -0.3m
- **Information**: 0.1m
- **Financial Activities**: 0.2m
- **Professional & Business Services**: 0.3m
- **Private Education & Health Services**: 0.4m
- **Leisure and Hospitality**: 0.5m
- **Other Services**: 0.6m
- **Government**: 0.7m

**Recovery gains** 
- **Construction**: +260K
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- **Financial Activities**: +6.7m
- **Professional & Business Services**: +260K
- **Private Education & Health Services**: +6.8m
- **Leisure and Hospitality**: +6.8m
- **Other Services**: +350K
- **Government**: +350K

Source: U.S. Bureau of Labor Statistics/Haver Analytics
Recession slashed private employment first, then state and local governments, then federal. Government sector as a whole continues as drag on economy.
New England’s employment growth continues slower than the nation’s... Performance varies considerably across the six New England states.

Year-over-year employment growth

Most recent 12 months
August 2012-August 2013

<table>
<thead>
<tr>
<th>Region</th>
<th>Percent change (year/year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>1.6%</td>
</tr>
<tr>
<td>NE</td>
<td>1.1%</td>
</tr>
<tr>
<td>CT</td>
<td>0.9%</td>
</tr>
<tr>
<td>ME</td>
<td>0.7%</td>
</tr>
<tr>
<td>MA</td>
<td>1.4%</td>
</tr>
<tr>
<td>NH</td>
<td>0.8%</td>
</tr>
<tr>
<td>RI</td>
<td>0.4%</td>
</tr>
<tr>
<td>VT</td>
<td>1.5%</td>
</tr>
</tbody>
</table>

Source: U.S. Bureau of Labor Statistics/Haver Analytics
Jobless rates are coming down, but less steadily in New England than nationwide.
But unemployment rate decline may overstate improvement → People who drop out of labor force not counted as unemployed even if they want a job

Labor force participation rates

Employment-population ratios

U.S. level, but New England’s ratio of employment to population is still declining...

Source: U.S. Bureau of Labor Statistics/Haver Analytics
New England states’ labor force and unemployment patterns differ considerably during the recession and recovery...

Vertical axes measure percentage point change since Dec 2007 cycle peak

Source: U.S. Bureau of Labor Statistics/Haver Analytics
Exports recovered initially in New England but fell off starting two years ago. ... Region improving recently (2013) but only back to Q2:2008 peak, while U.S. up 17%

Source: World Institute for Strategic Economic Research/Federal Reserve Bank of Boston
New housing construction is recovering slowly; New England lags nation. U.S. and New England permit figures now up to levels reached at BOTTOM of 1990 recession.

Source: U.S. Census Bureau/Federal Reserve Bank of Boston (top), McGraw-Hill Construction Dodge/Federal Reserve Bank of Boston (bottom)
Home prices are picking up in New England and even more nationwide

**FHFA purchase-only indexes**

<table>
<thead>
<tr>
<th>Region</th>
<th>Percent Change, Q2:2012-Q2:2013</th>
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<tbody>
<tr>
<td>US</td>
<td>7.2%</td>
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<tr>
<td>NE</td>
<td>3.8%</td>
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<tr>
<td>CT</td>
<td>2.0%</td>
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<tr>
<td>ME</td>
<td>3.2%</td>
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<tr>
<td>MA</td>
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<tr>
<td>VT</td>
<td>2.0%</td>
</tr>
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</table>

Source: Federal Housing Finance Agency/Haver Analytics
Boston prices, like those in New England as a whole, are lagging nation’s. But trends vary by price tier...

Source: S & P/Case-Shiller, Fiserv, and MacroMarkets LLC/Haver Analytics
Foreclosures are coming down, faster nationally than in New England

Source: Mortgage Bankers Association/Haver Analytics
Foreclosure inventory and 90-plus days past due are also decreasing

Delinquent mortgages (%)

- Solid lines: serious delinquency
- Dotted lines: foreclosure inventory

Serious delinquency Q2:2013 (%):
- Foreclosure inventory and 90-plus days past due

Source: Mortgage Bankers Association/Haver Analytics
Broadly measured, economic activity is rising across the region.
Philadelphia Fed’s leading economic index is mostly positive.

State Leading Economic Activity Indexes (3-month moving average)

Most recent average (June-Aug 2013)

-0.50  0.50  1.50  2.50

<table>
<thead>
<tr>
<th>State</th>
<th>Index Value</th>
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<tbody>
<tr>
<td>US</td>
<td>1.4</td>
</tr>
<tr>
<td>CT</td>
<td>1.3</td>
</tr>
<tr>
<td>ME</td>
<td>2.1</td>
</tr>
<tr>
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<td>1.3</td>
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Source: Federal Reserve Bank of Philadelphia/Haver Analytics
Outlook

• U.S. economy’s health is the key factor for New England
  – Fiscal drag/disruption
    • Sequester cuts
    • Shutdown/default
    • State and local governments
  – Trading partners’ weakness/recovery
  – Housing is a plus
  – Overall, U.S. recovery is expected to continue!

• New England forecast: modest, steady growth
FOMC economic projections, 2013–16 and over the longer run

Change in real GDP
- Central tendency of projections
- Range of projections

Unemployment rate

New England Economic Partnership forecasts job growth continuing in New England

Employment growth: history and forecast

Home prices forecast to continue to rise: Expected pick-up this year and next slightly steeper nationwide than in region.
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