

NEW ENGLAND ECONOMIC OUTLOOK

14th Annual Regional & Community Bankers Conference
Federal Reserve Bank of Boston
November 10, 2015

Mary A. Burke
Senior Economist
Federal Reserve Bank of Boston

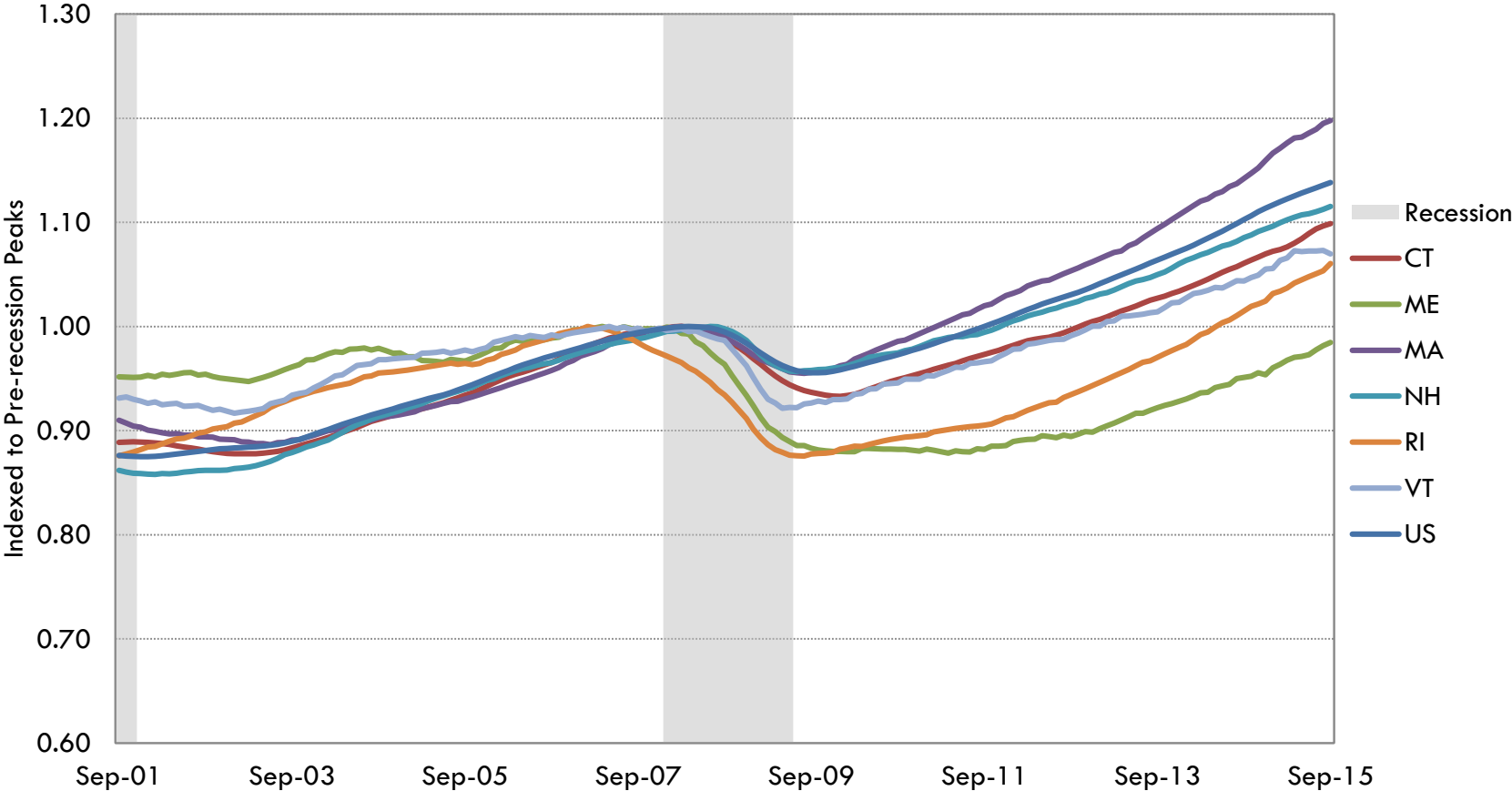


Disclaimer: The views expressed here are those of the speaker and do not necessarily represent the views of the Federal Reserve Bank of Boston or the Federal Reserve System.

Disclaimer

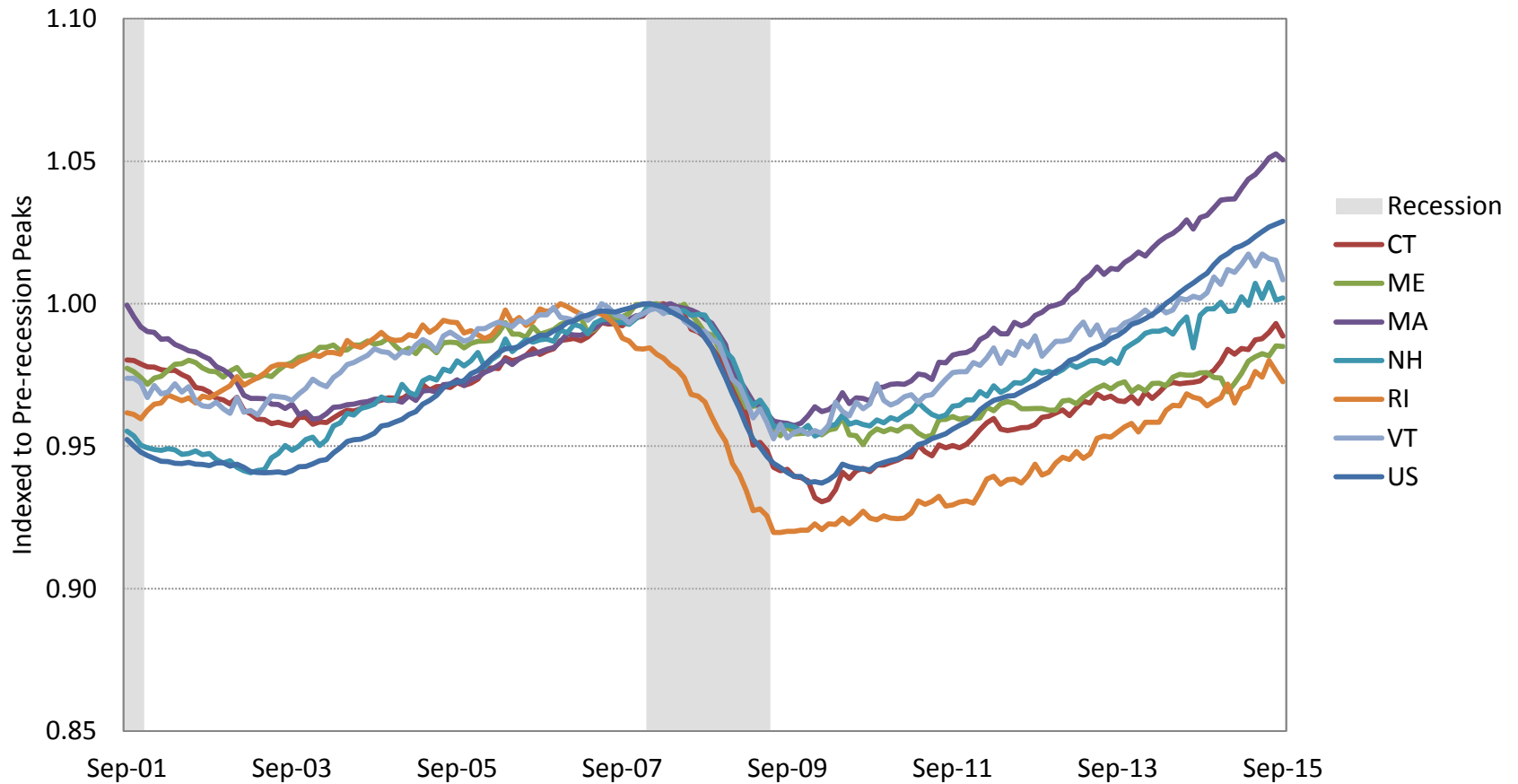
- Views presented here are my own
- NOT the official views of the Federal Reserve Board or the Federal Reserve Bank of Boston

Economic Activity Above Pre-Recession Levels in All States Except ME



Source: Federal Reserve Bank of Philadelphia, NBER, Haver Analytics

Payroll Employment Below Pre-Recession Peak in 3 New England States



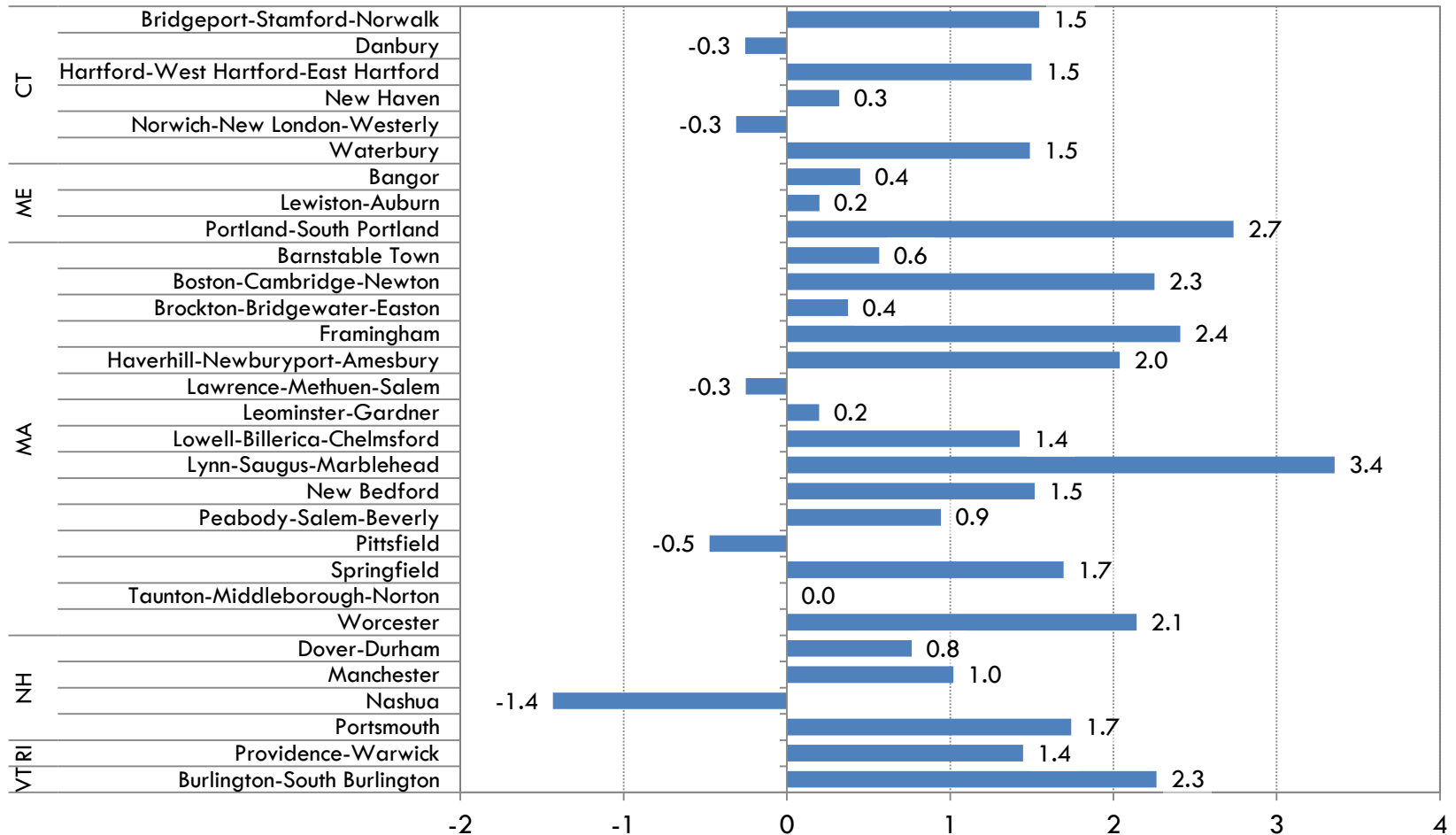
Employment Growth Rate above trend for region, variable across states

	Annual Long-term Trend	Last 12 months		Since Peak	
	Percent	Percent	Number	Percent	Number
United States	1.4	2.0	2,752,000	2.9	4,006,000
New England	0.8	1.5	108,900	2.0	143,300
Connecticut	0.5	1.6	27,000	-1.1	-19,500
Maine	1.2	1.0	5,800	-1.5	-9,300
Massachusetts	0.8	2.0	67,200	5.0	167,800
New Hampshire	1.5	0.6	3,900	0.2	1,300
Rhode Island	0.6	0.6	3,000	-2.7	-13,600
Vermont	1.3	0.6	2,000	0.8	2,600

Note: Long-term trend growth rates represent average year-over-year growth 1984-2014

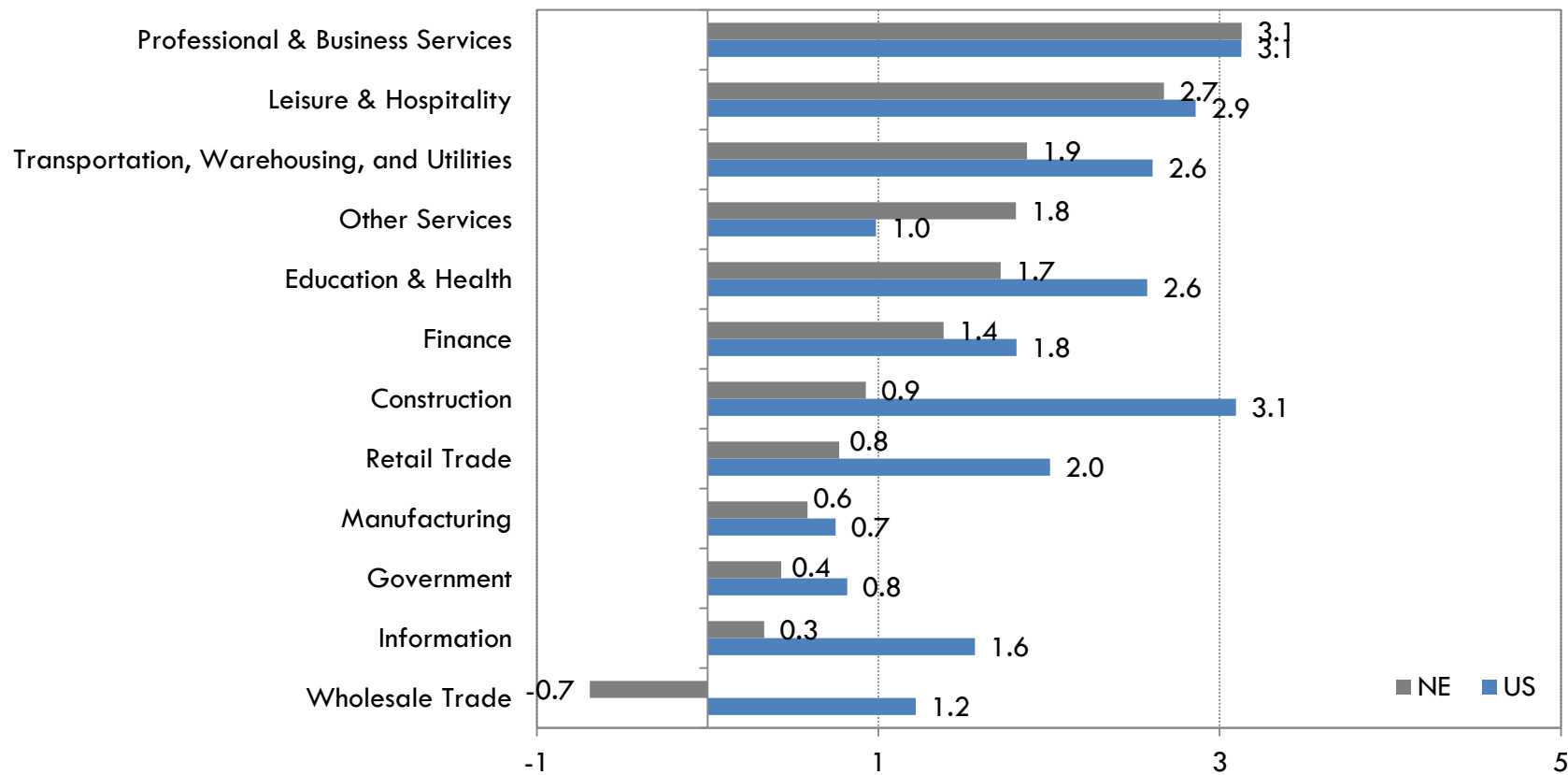
Employment Growth Robust in Some Metro Areas, Weak in Others

Percent Change, September 2014 - September 2015



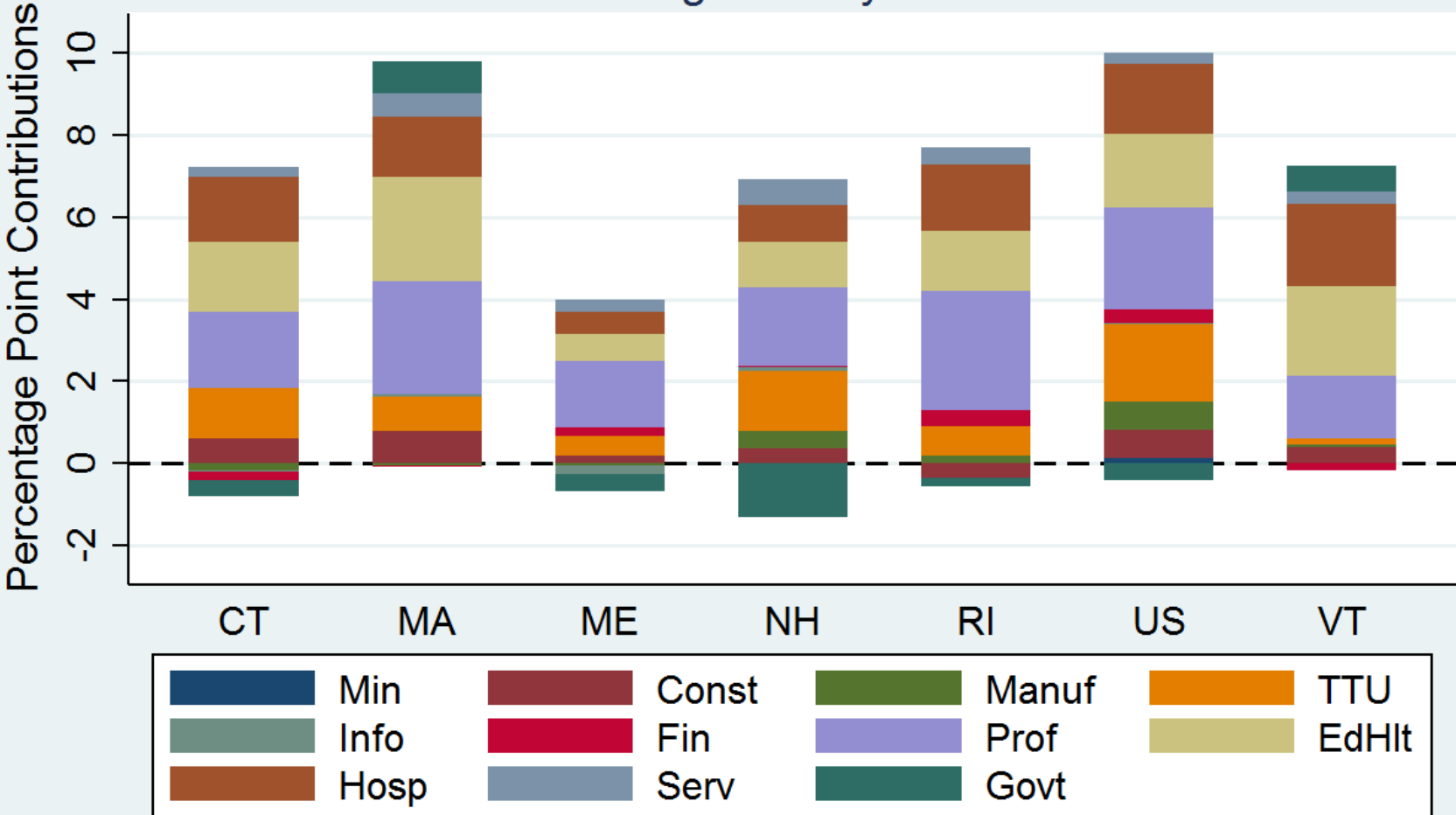
Prof. and Business Svcs. Sector is Strongest in Region and U.S.

Percent Change, September 2014 - September 2015



Prof. & Business Services Accounts for Largest Share of Emp. Growth in Recovery

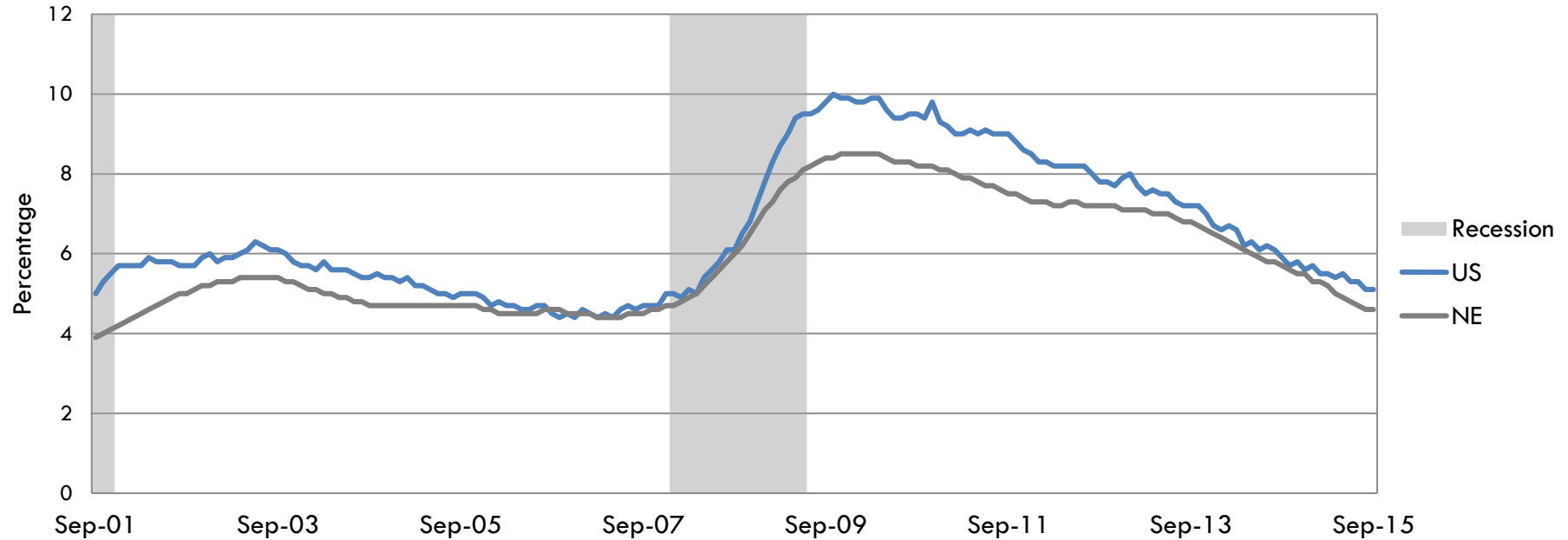
Contributions to Percentage Change in Total Employment: Trough to July 2015



Source: Author's calculations, based on data from the U.S. Bureau of Labor Statistics, collected with Haver.

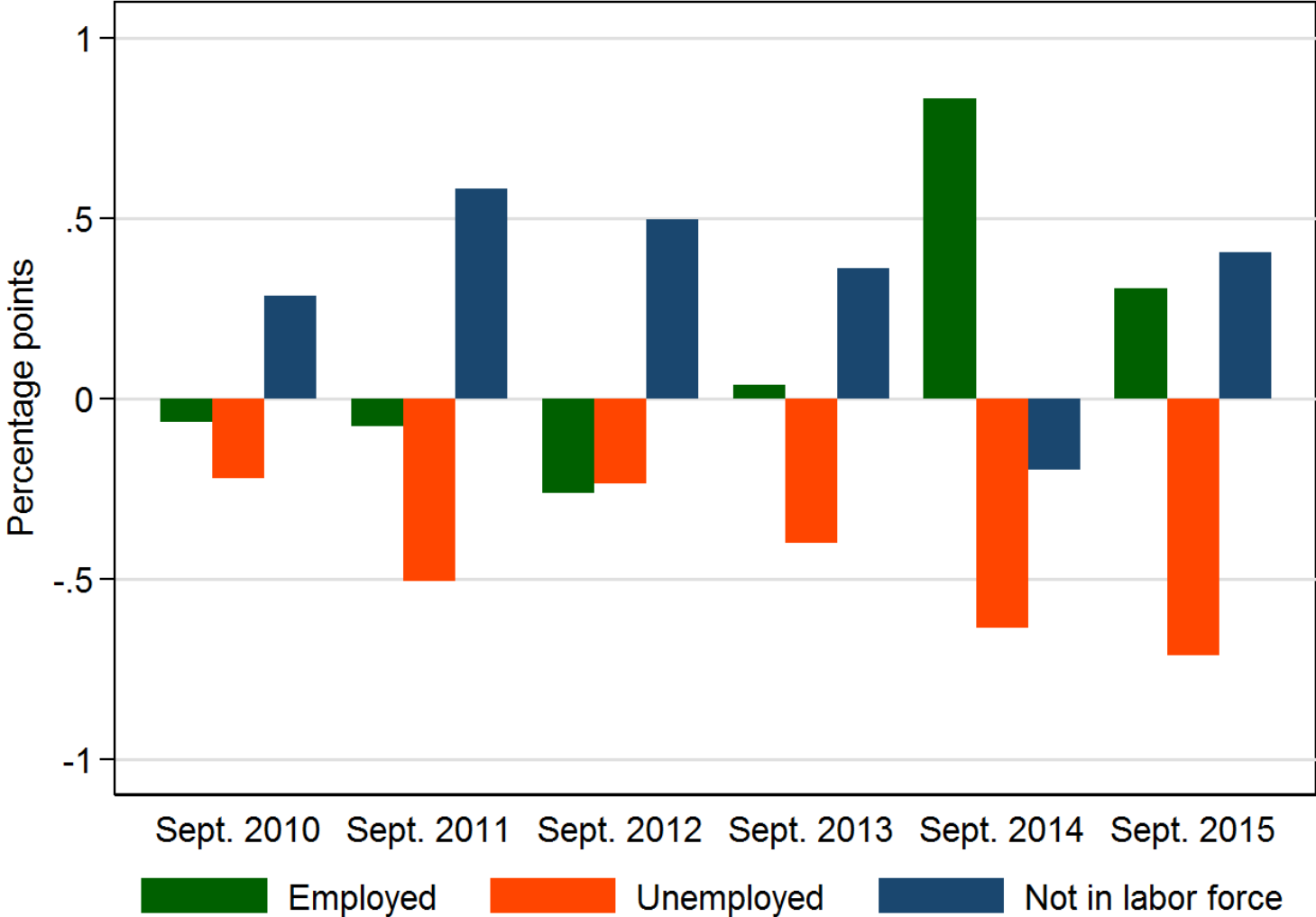
Notes: The sum of the signed contributions across sectors adds up to the net change in total employment for the location over the given period.

Unemployment Rates Close to Pre-Recession Levels



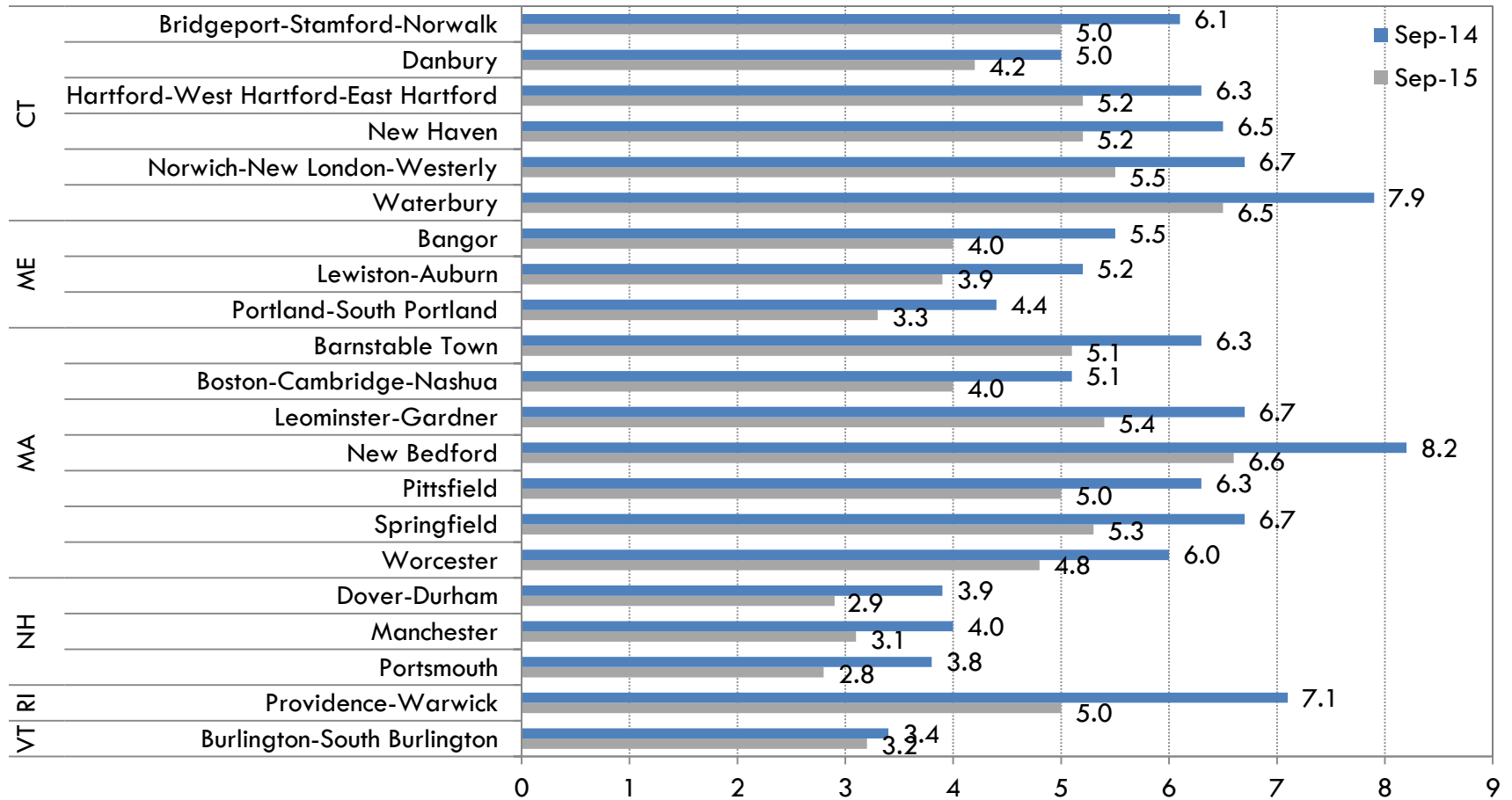
	Sep-14	Sep-15
United States	5.9	5.1
New England	5.7	4.6
Connecticut	6.3	5.2
Maine	5.6	4.4
Massachusetts	5.6	4.6
New Hampshire	4.1	3.4
Rhode Island	7.2	5.4
Vermont	4.2	3.7

More than half of recent decline in unemployment owes to decline in labor force participation

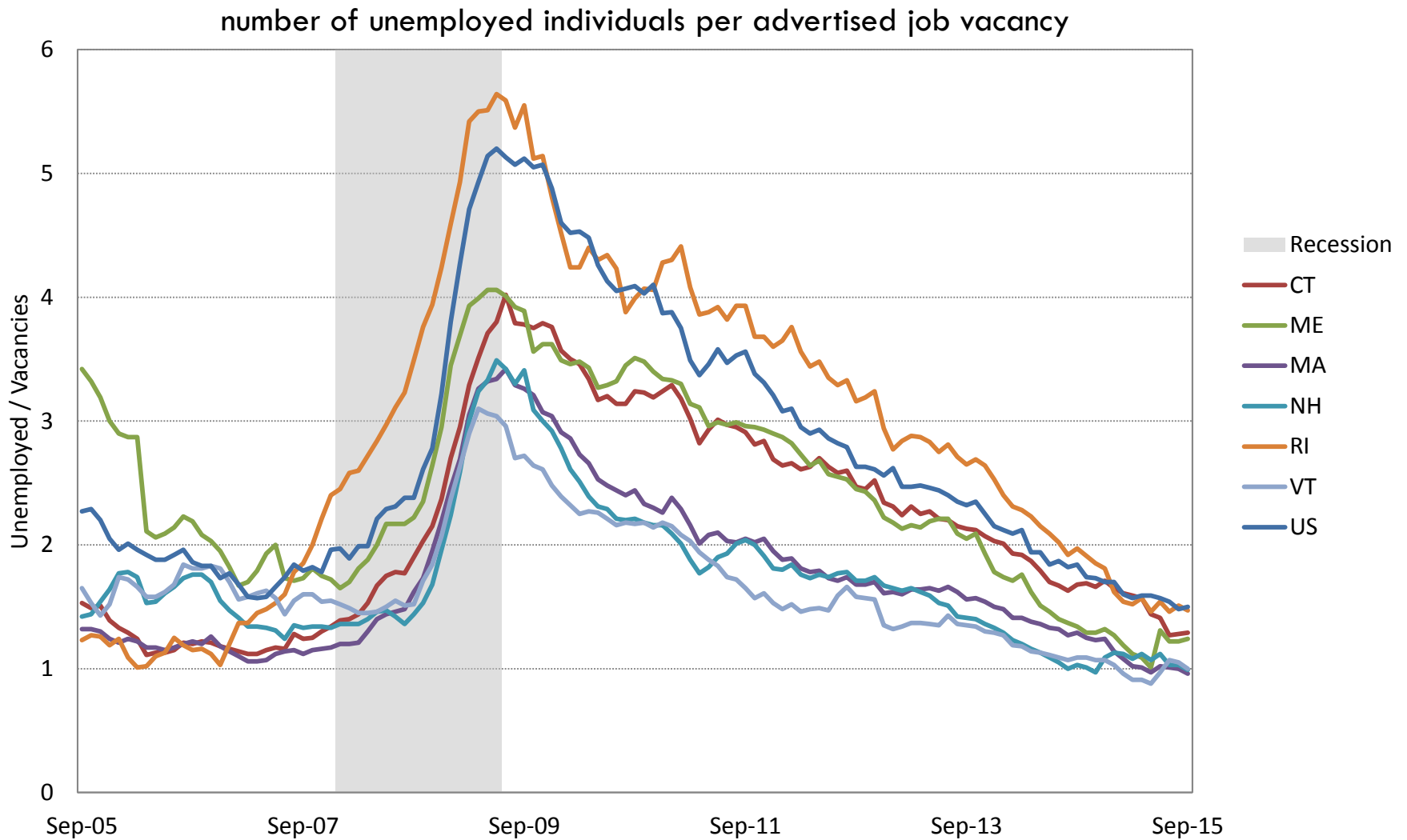


Source: Bureau of Labor Statistics, Haver Analytics

Unemployment Rates Down in All Major Metro Areas



In Most States, Labor Markets as Tight as in Mid-2000s

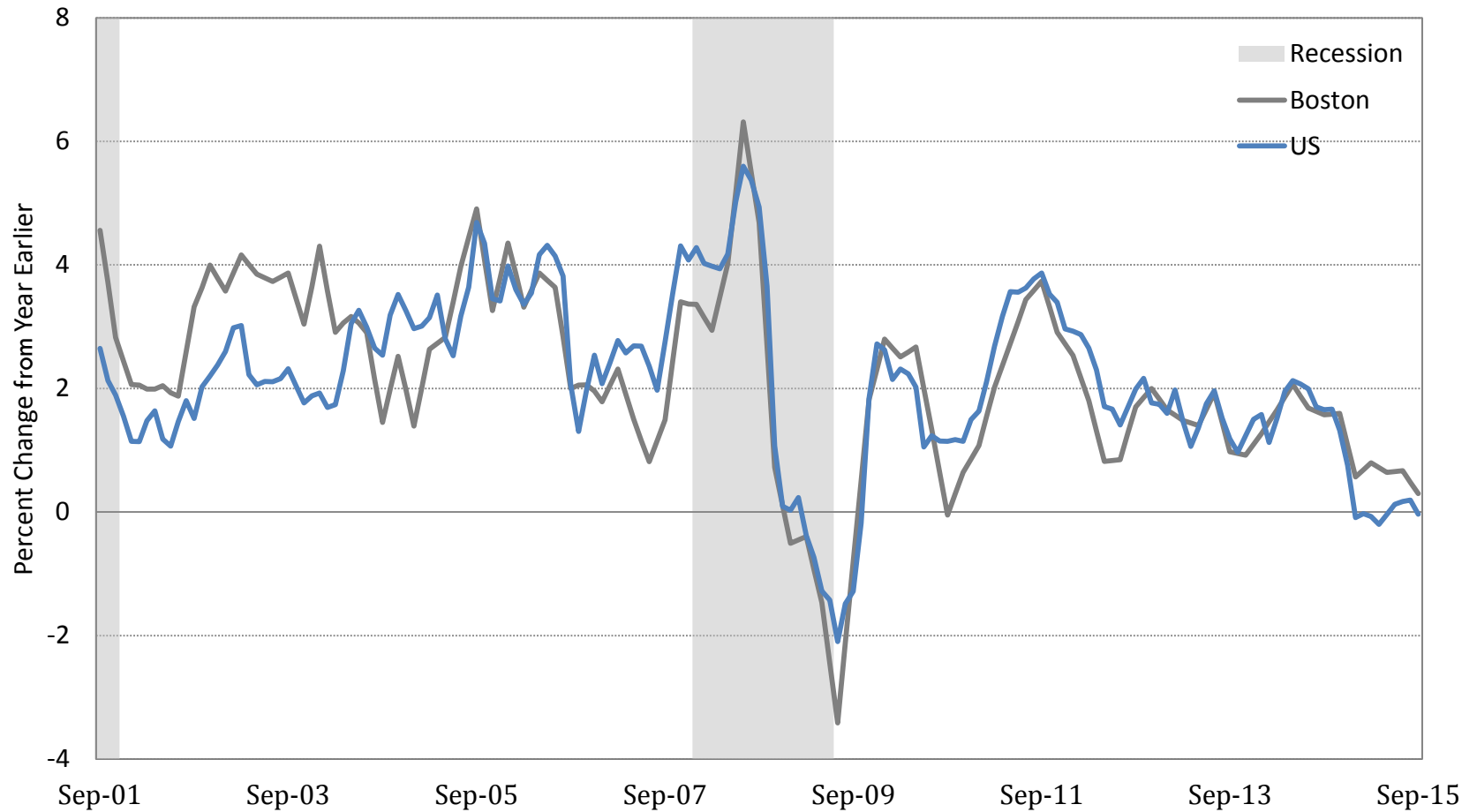


Initial Claims for Unemployment Insurance Below Pre-Recession Levels



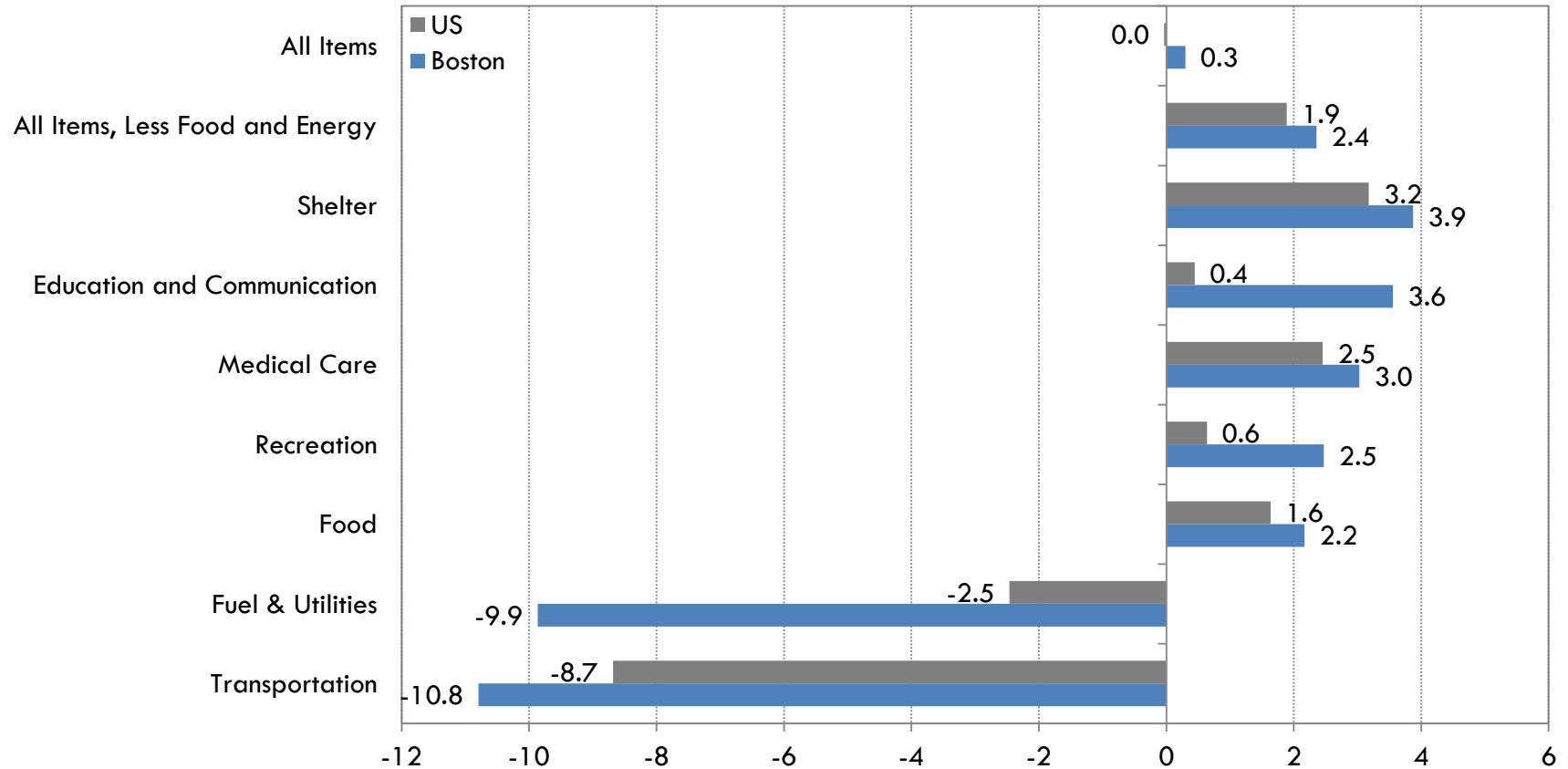
Source: Department of Labor, NBER, Haver Analytics, Federal Reserve Bank of Boston

CPI Inflation Down Sharply in 2015

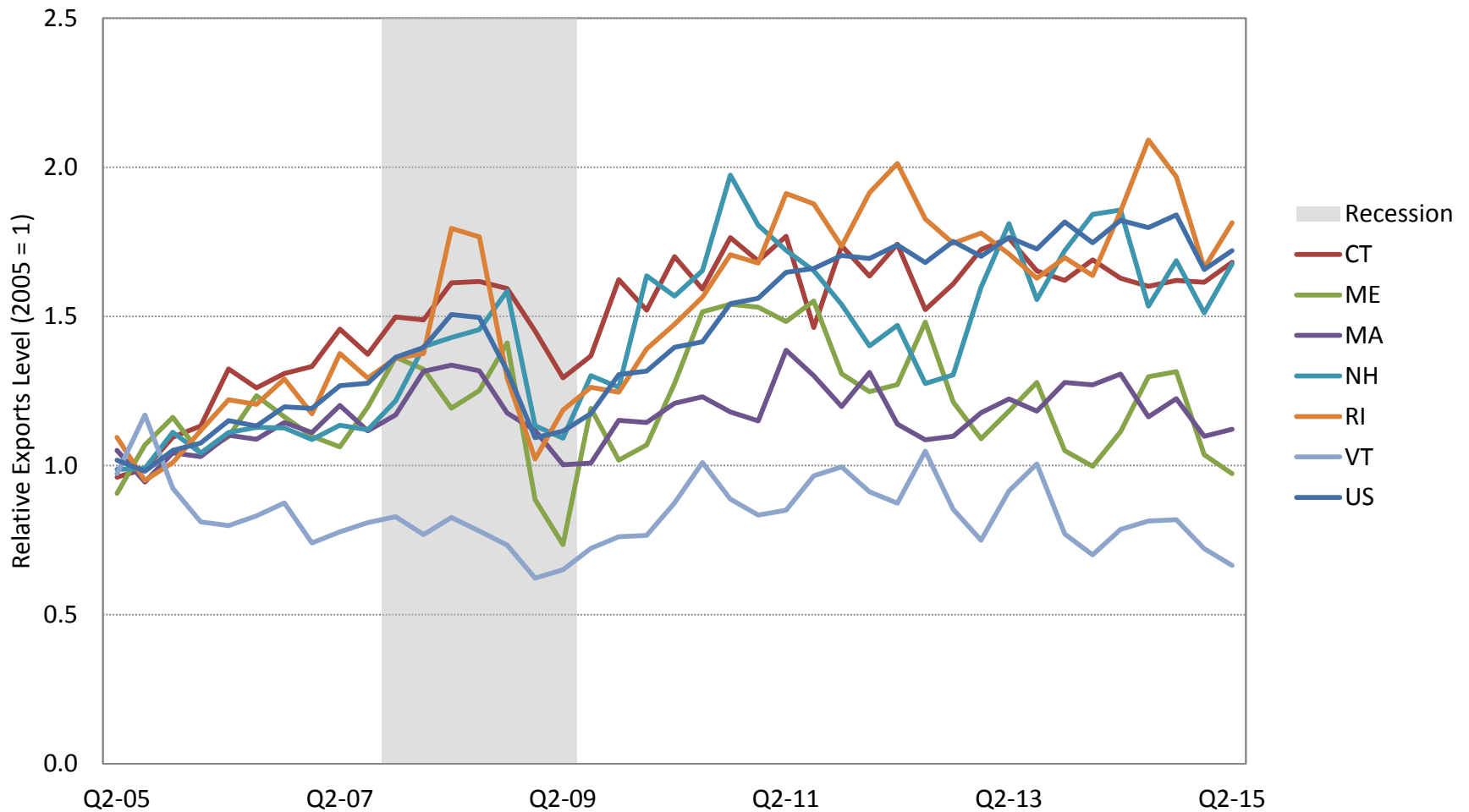


Oil Price Declines Keeping Headline Inflation Below Core Inflation

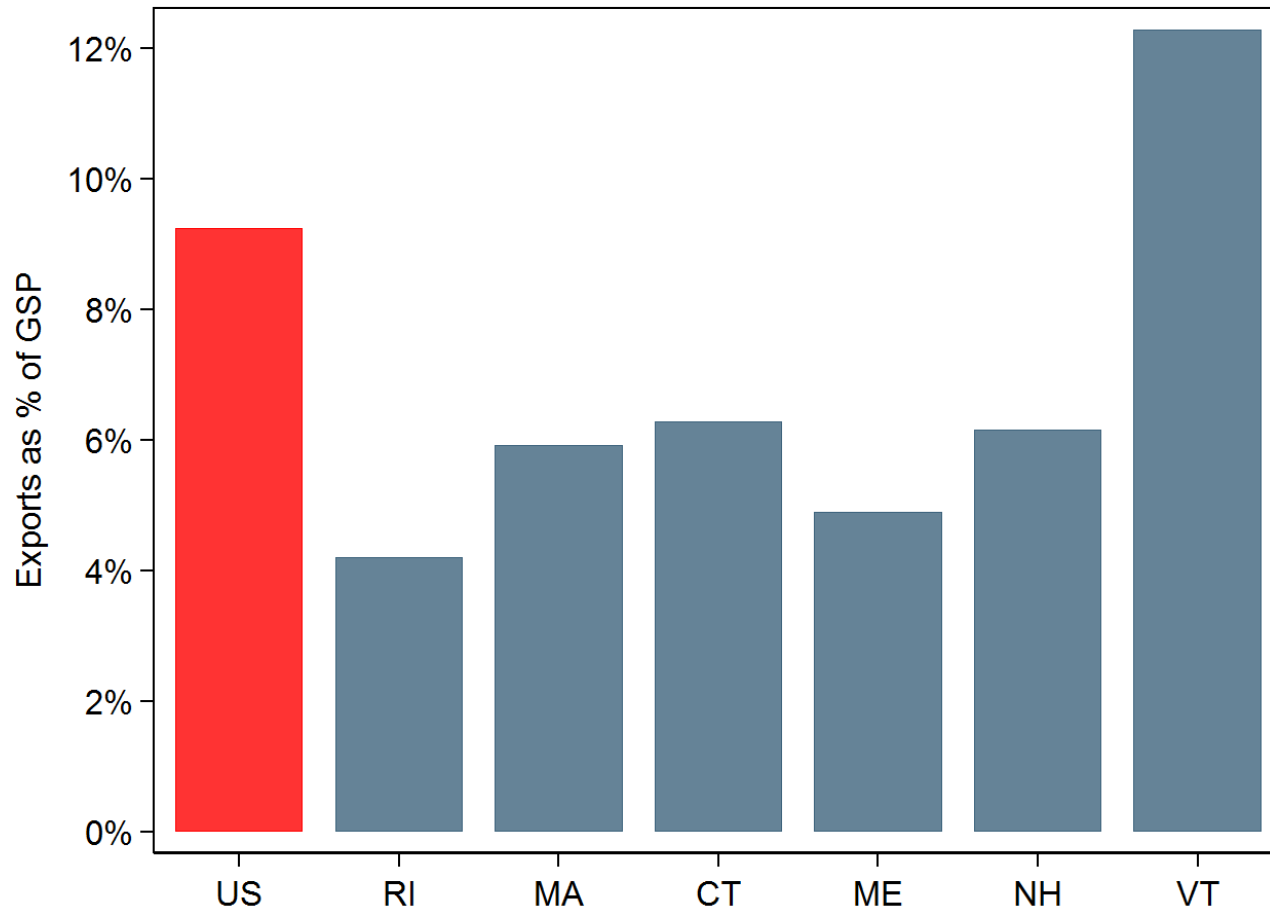
Percent Change, September 2014 - September 2015



Export Growth Lags U.S. in MA, ME, VT

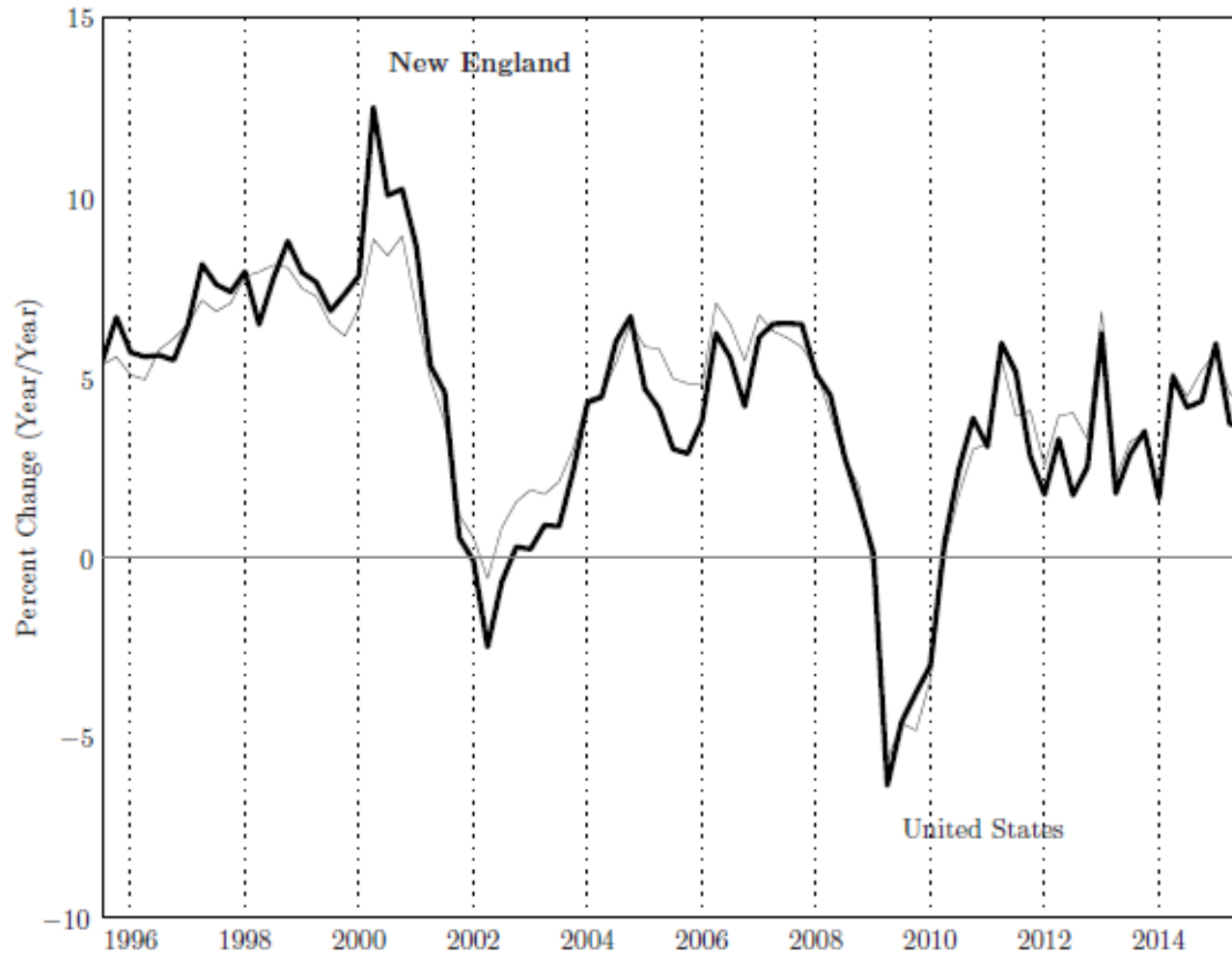


In most NE states, exports are low as share of gross product (2014 data)



Source: Bureau of Economic Analysis, WISER, Haver Analytics

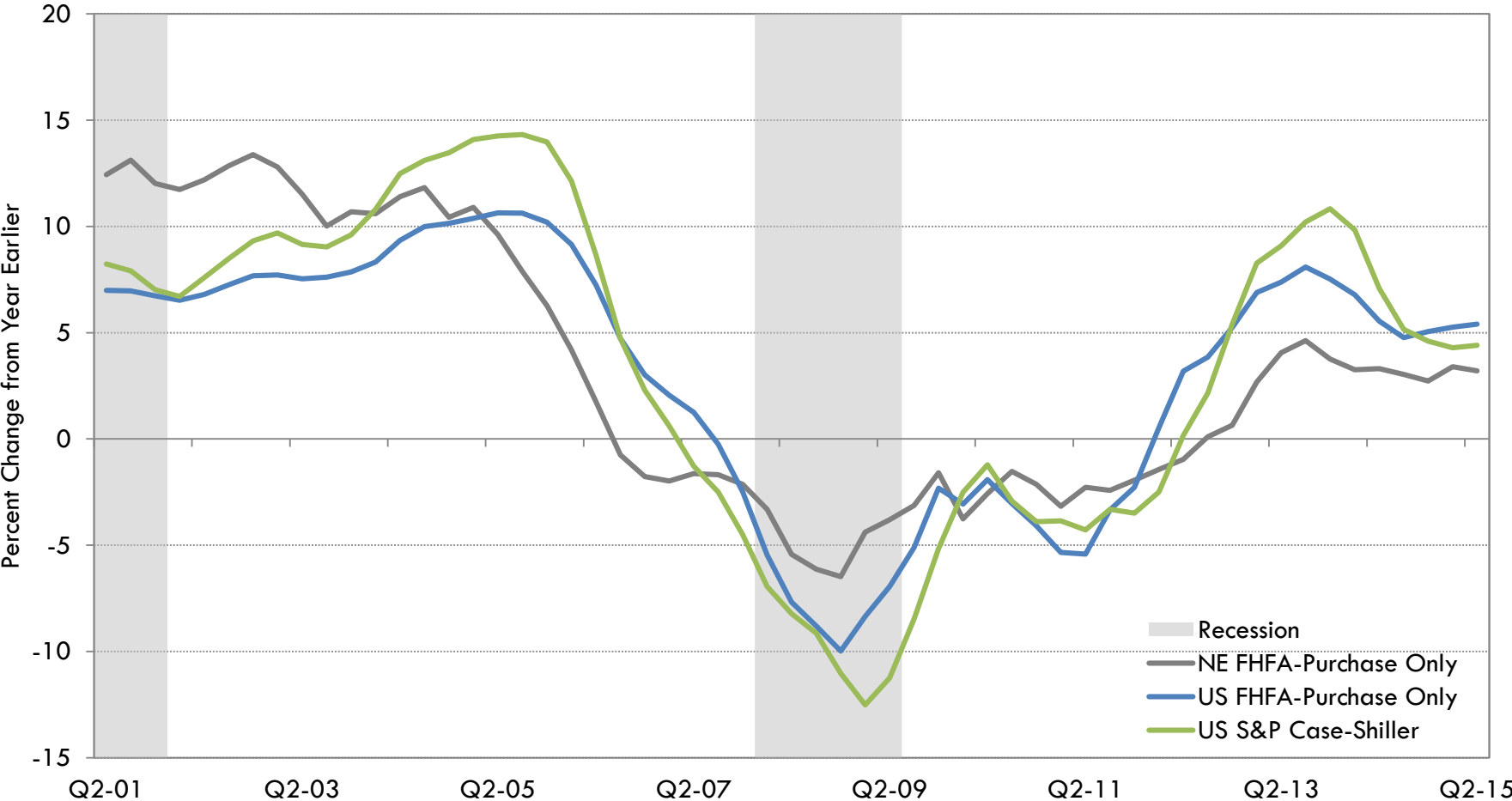
Wage and salary growth moderately higher in 2015 than 2014; roughly flat since 2011



Source: U.S. Bureau of Economic Analysis/Federal Reserve Bank of Boston.

Note: Data are seasonally adjusted. Tick marks correspond to January of the given year.

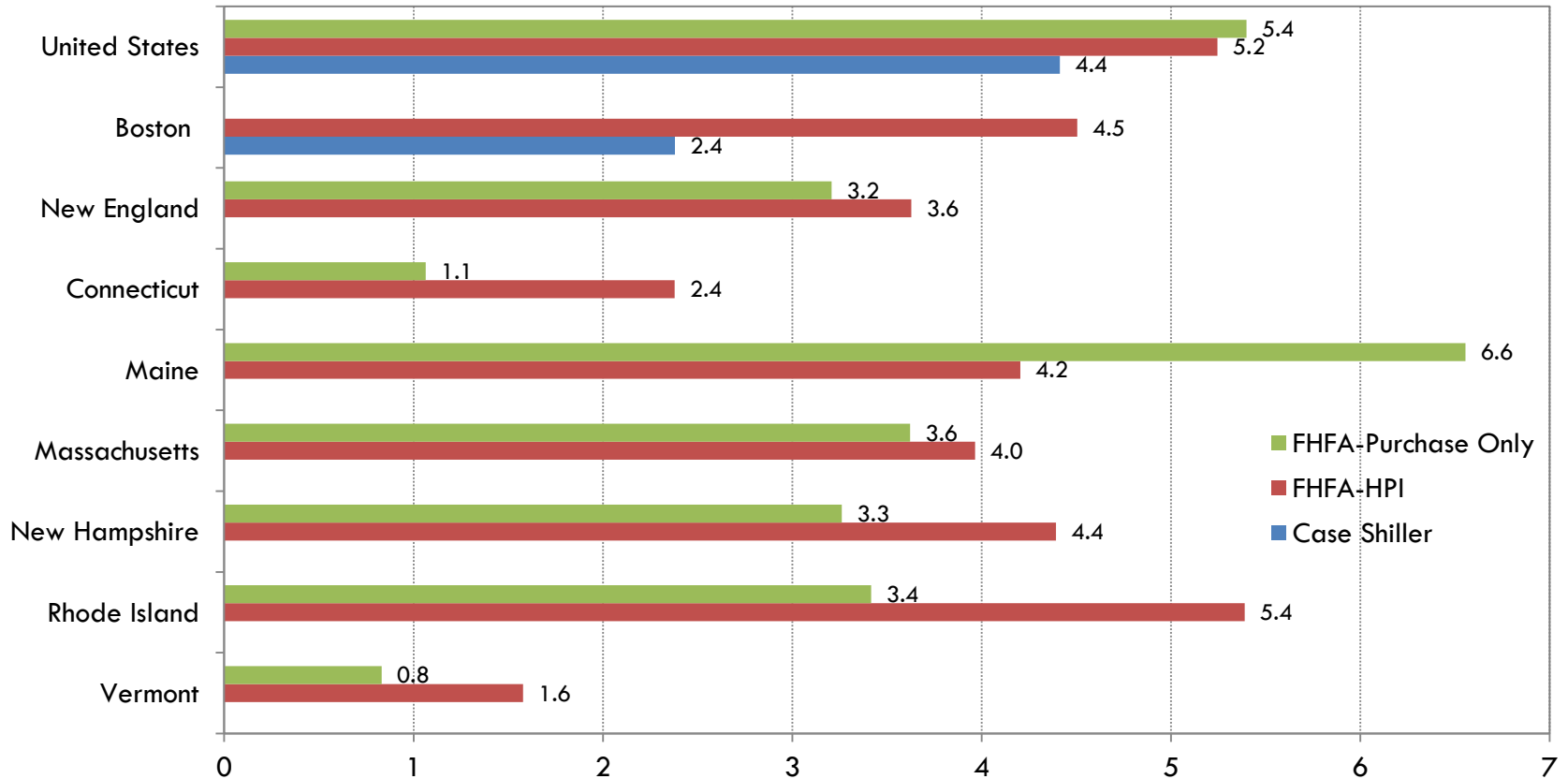
House Price Increases Down Since Late 2013



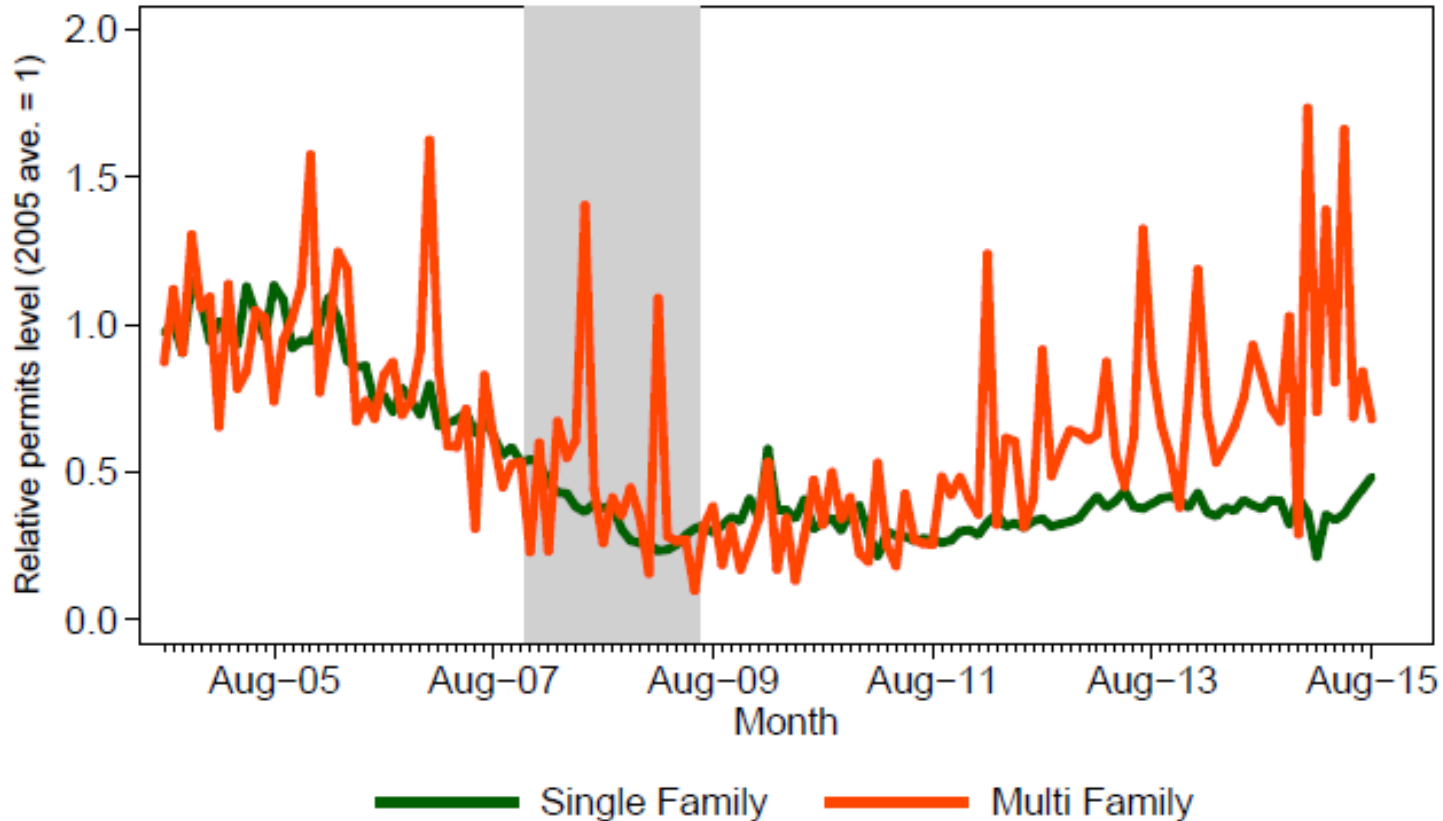
Source: FHFA, NBER, S&P/Case-Shiller, Haver Analytics

Maine Leads Region in House Price Increases

Percent Change, Q2 2014 - Q2 2015



Single-family permits up recently but still depressed; multifamily close to pre-recession levels

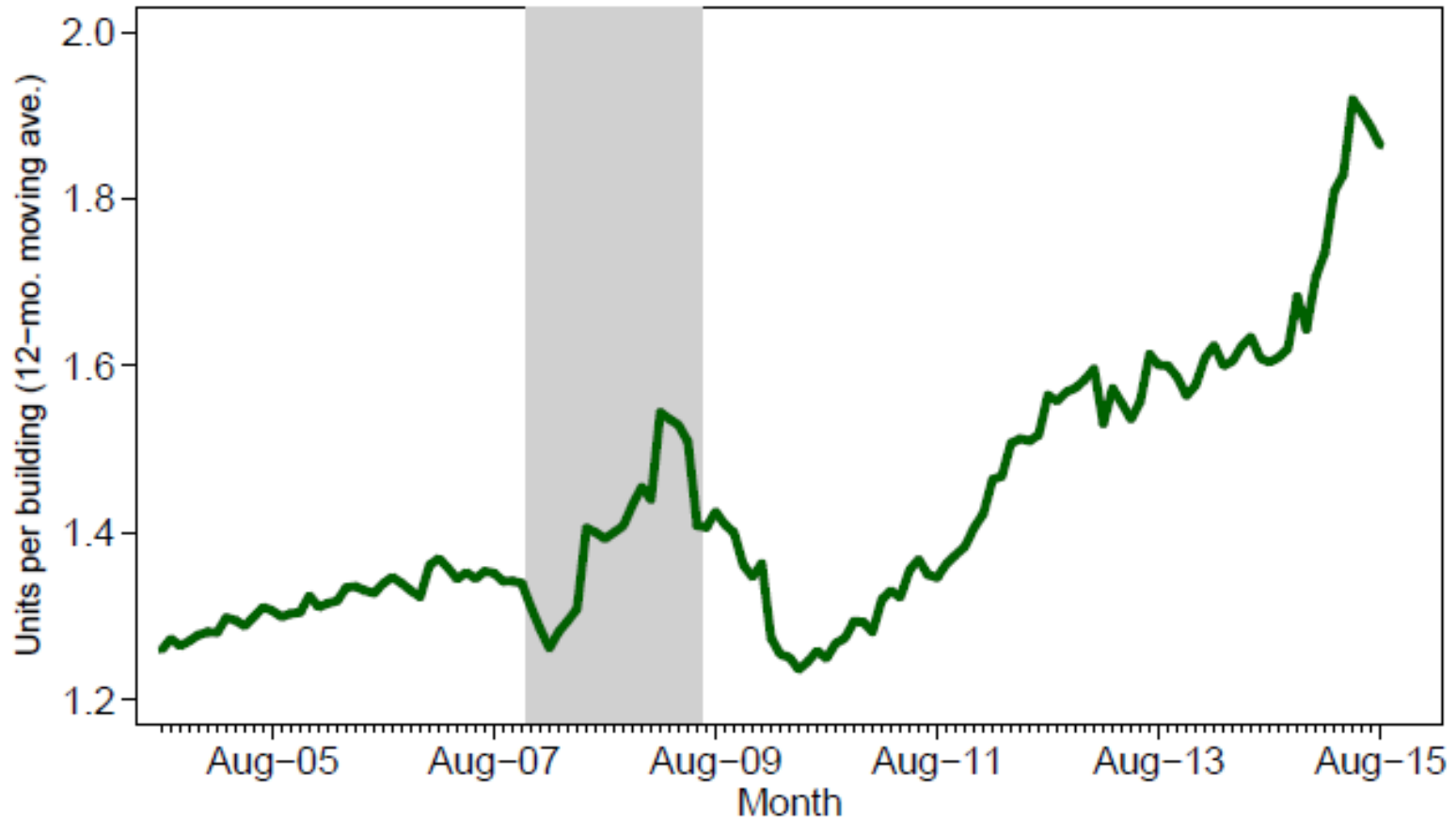


Source: United States Census Bureau

Note: Each series is indexed to its respective monthly average for 2005. Data are seasonally adjusted by the Boston Fed.

Housing density trending up since 2004

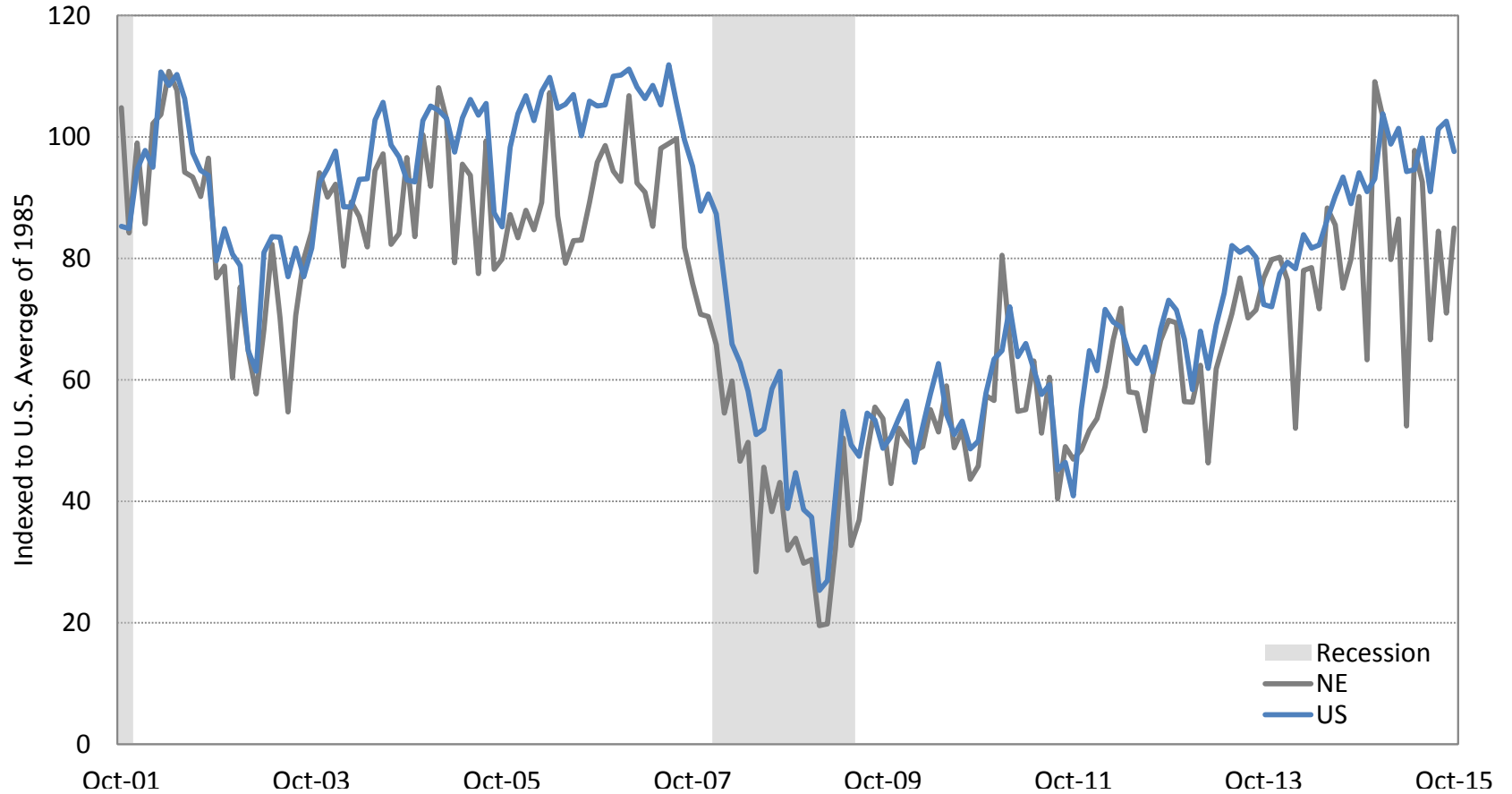
units permitted over # buildings permitted



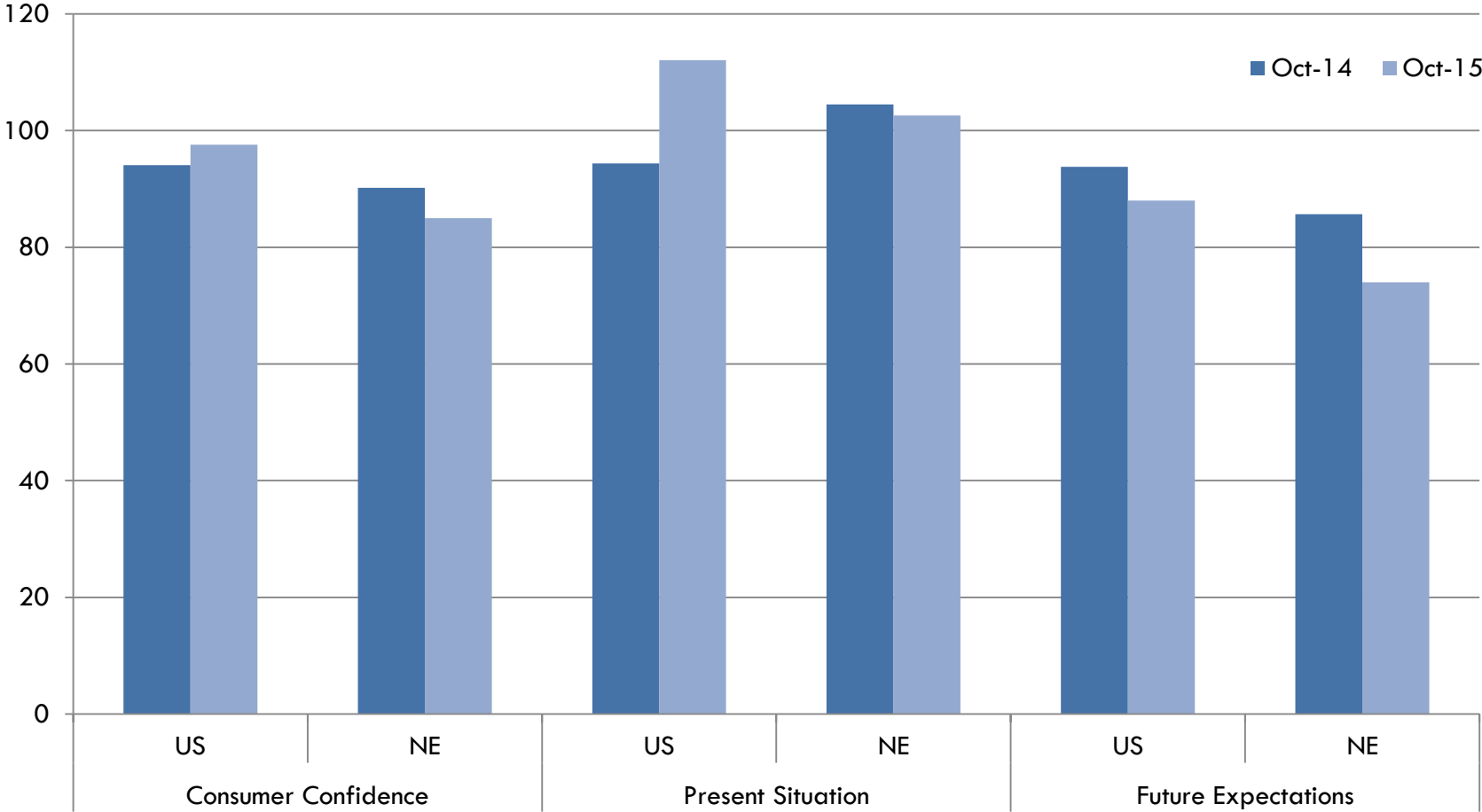
Source: United States Census Bureau, Haver

Note: House prices are indexed to 2006 Q2. Data are seasonally adjusted by Haver.

NE Consumer Confidence Flat Since Late 2013



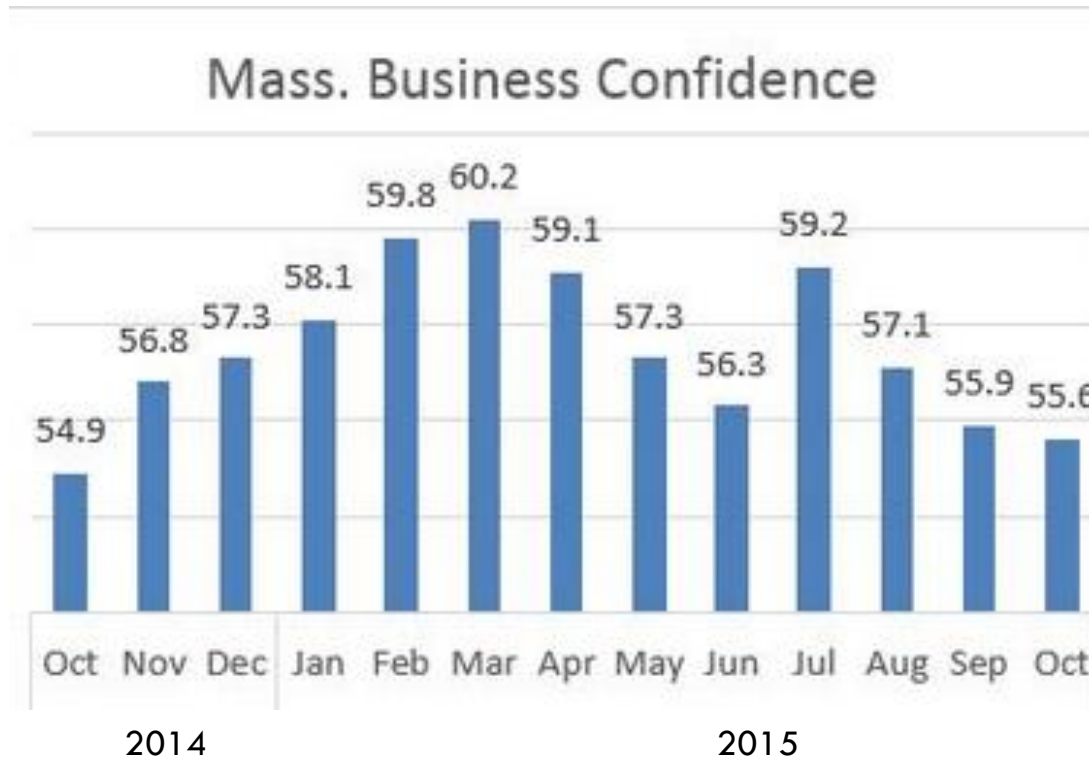
Confidence in Present Flat; Confidence in Future Down



Source: The Conference Board, Haver Analytics

Massachusetts Business Confidence Down Since July

(about the same as one year ago)



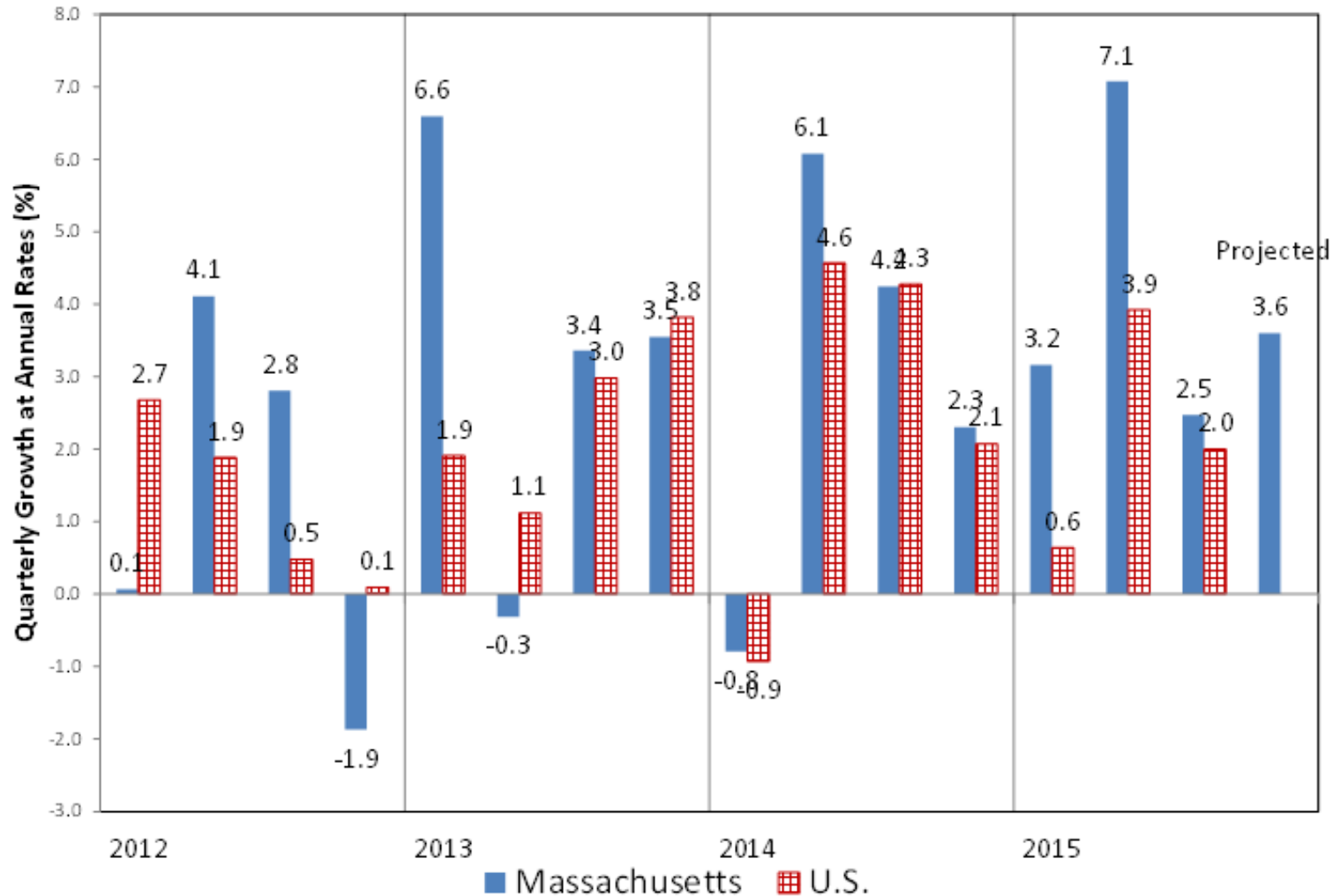
>50: optimistic
=50: neutral
<50: pessimistic

Source: Associated Industries of Massachusetts;
<http://blog.aimnet.org/aim-issueconnect/topic/aim-business-confidence-index>

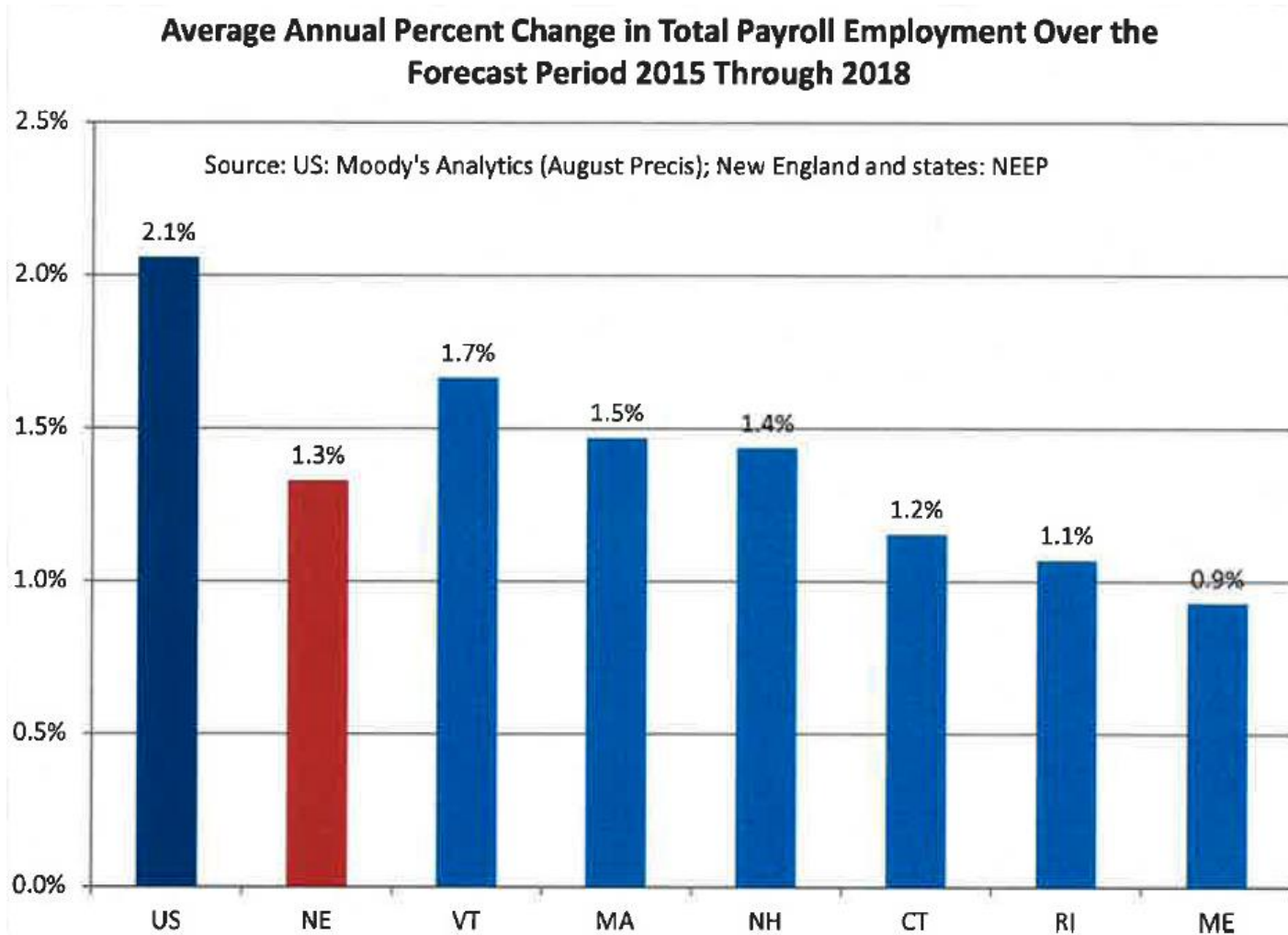
Massachusetts Economy Outpacing U.S. for Economic Growth

Growth in Real Product, Massachusetts vs. U.S.

Source: U.S., Bureau of Economic Analysis; Massachusetts: MassBenchmarks



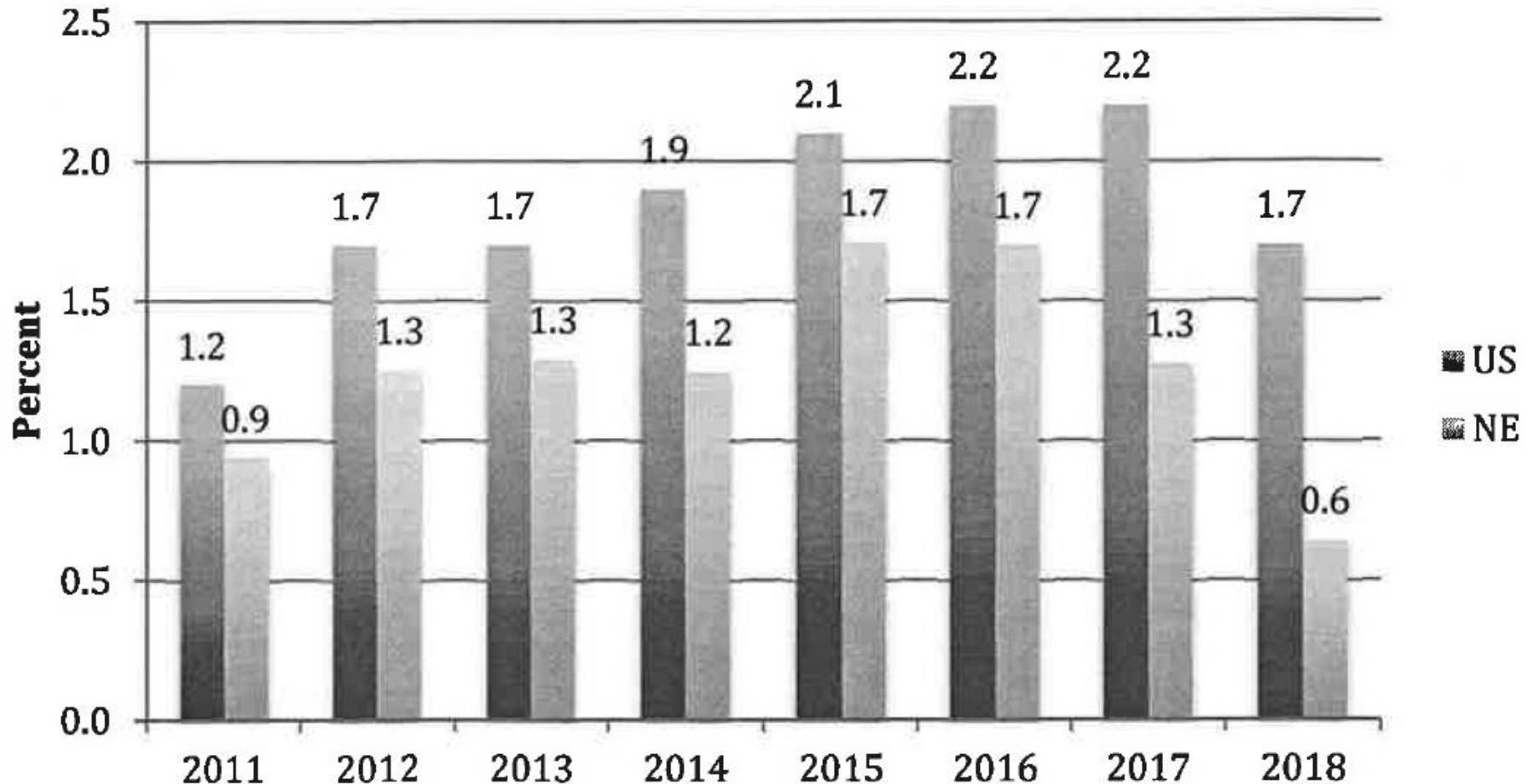
NEEP forecast: VT will lead in employment growth, ME will lag



Source: New England Economic Partnership; Fall 2015 Economic Outlook Conference Bulletin

Region's employment growth to peak in 2015-2016; falls farther behind U.S. by 2018

Annualized percent changes in total employment



Source: New England Economic Partnership; Fall 2015 Economic Outlook Conference Bulletin

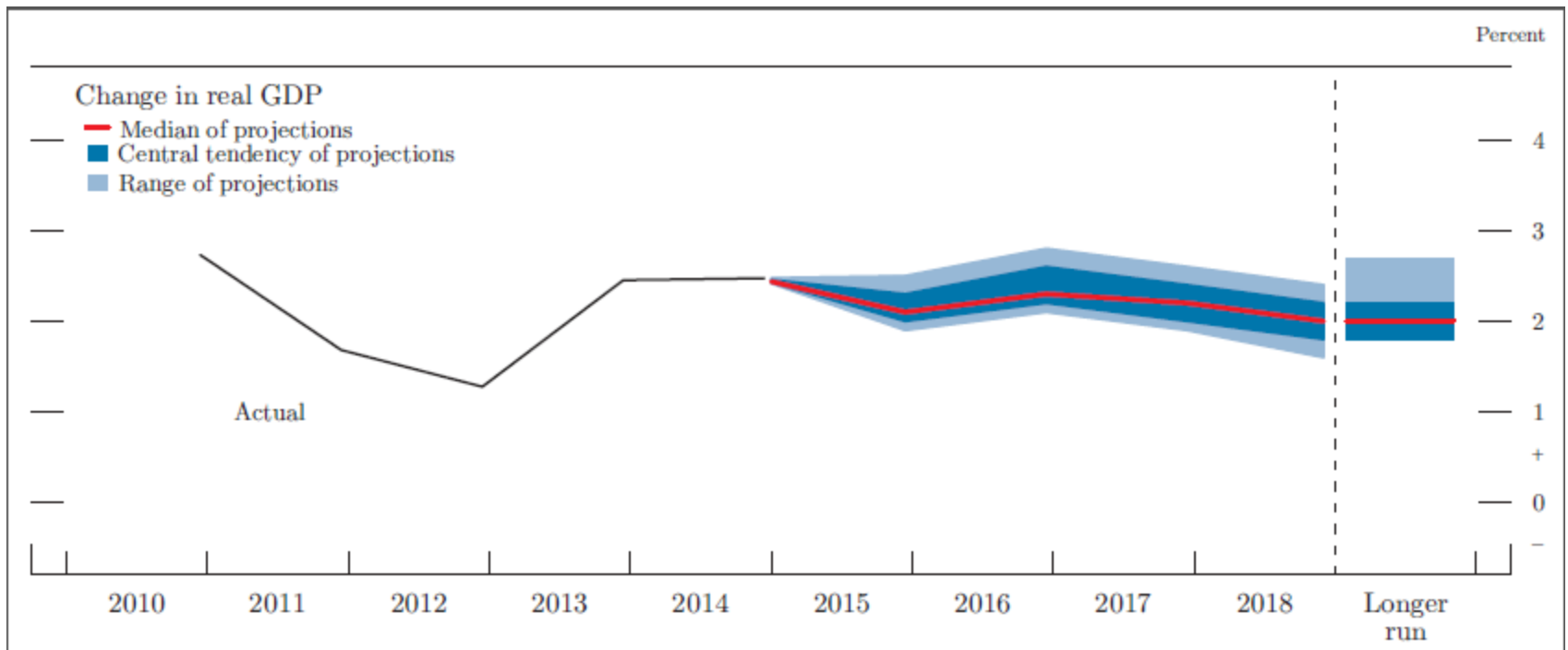
When will the Fed raise the short-term rate?

Monetary Policy Press Release, Oct. 28, 2015

- “...it will be appropriate to raise the target range for the federal funds rate when [the committee] has seen **some further improvement in the labor market** and is reasonably confident that **inflation will move back to its 2 percent objective** over the medium term.”
- “...even **after employment and inflation are near mandate-consistent levels**, economic conditions may, for some time, warrant **keeping the target federal funds rate below** levels the Committee views as normal in the longer run.”

FOMC: 2016 GDP Growth Median Forecast 2.3%

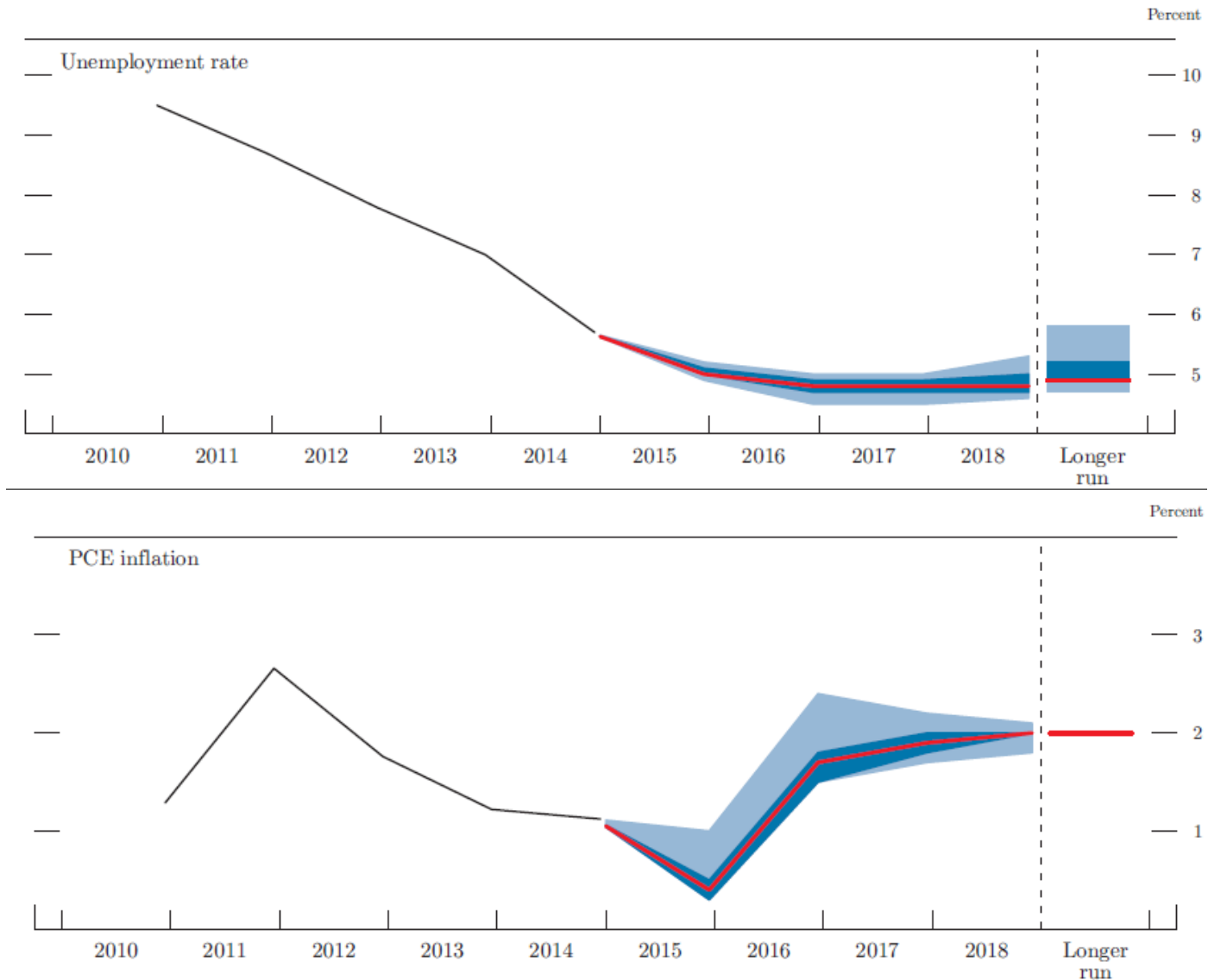
(forecast lowered since June)



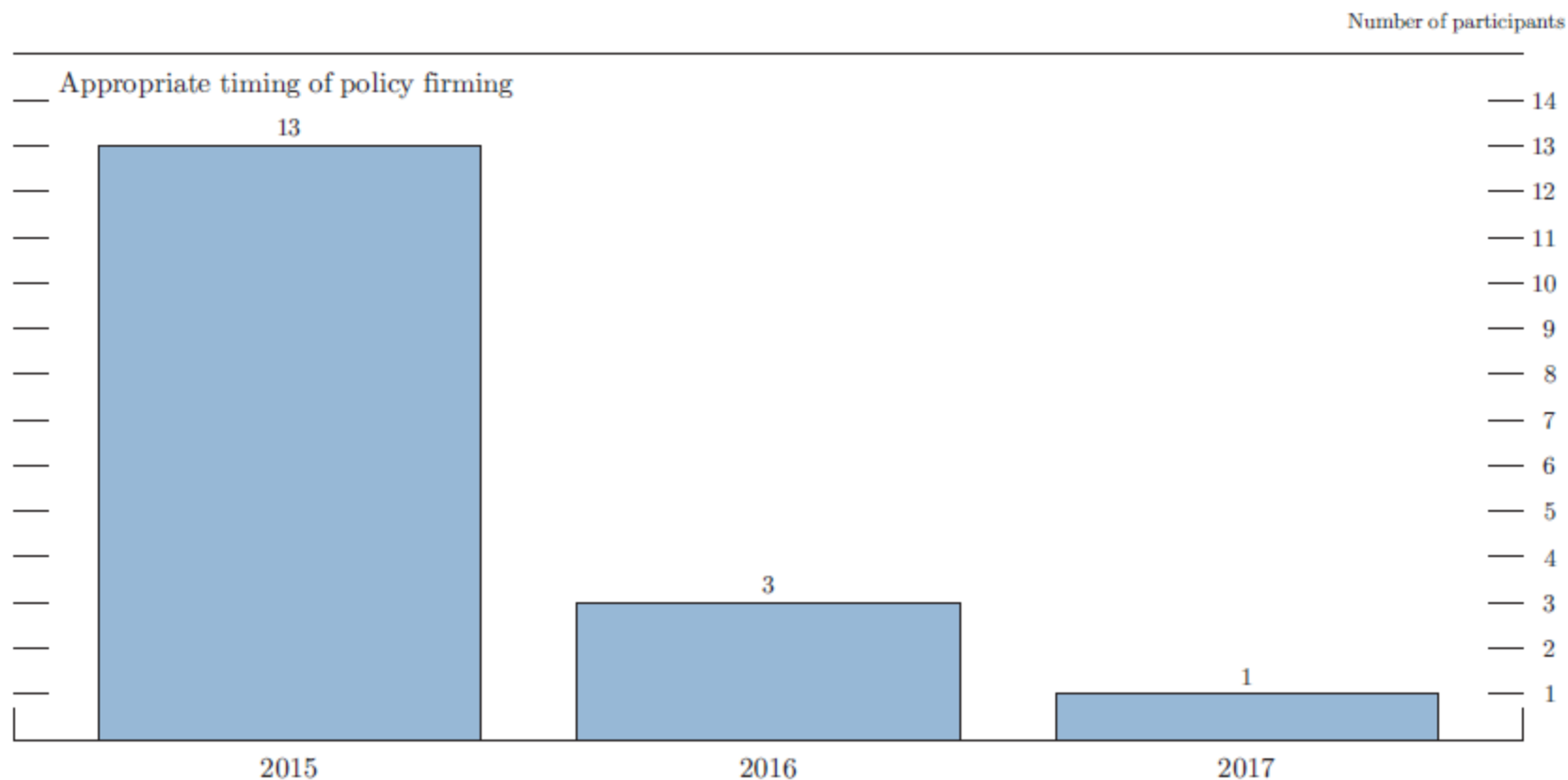
Source: FOMC Minutes, September 2015;

<http://www.federalreserve.gov/monetarypolicy/files/fomcminutes20150917.pdf>

FOMC: Unemployment to Fall Further in 2016; Inflation Rebounds to ~2% by 2017



As of September, All But Three FOMC Members Saw Rate Increase by End of 2015

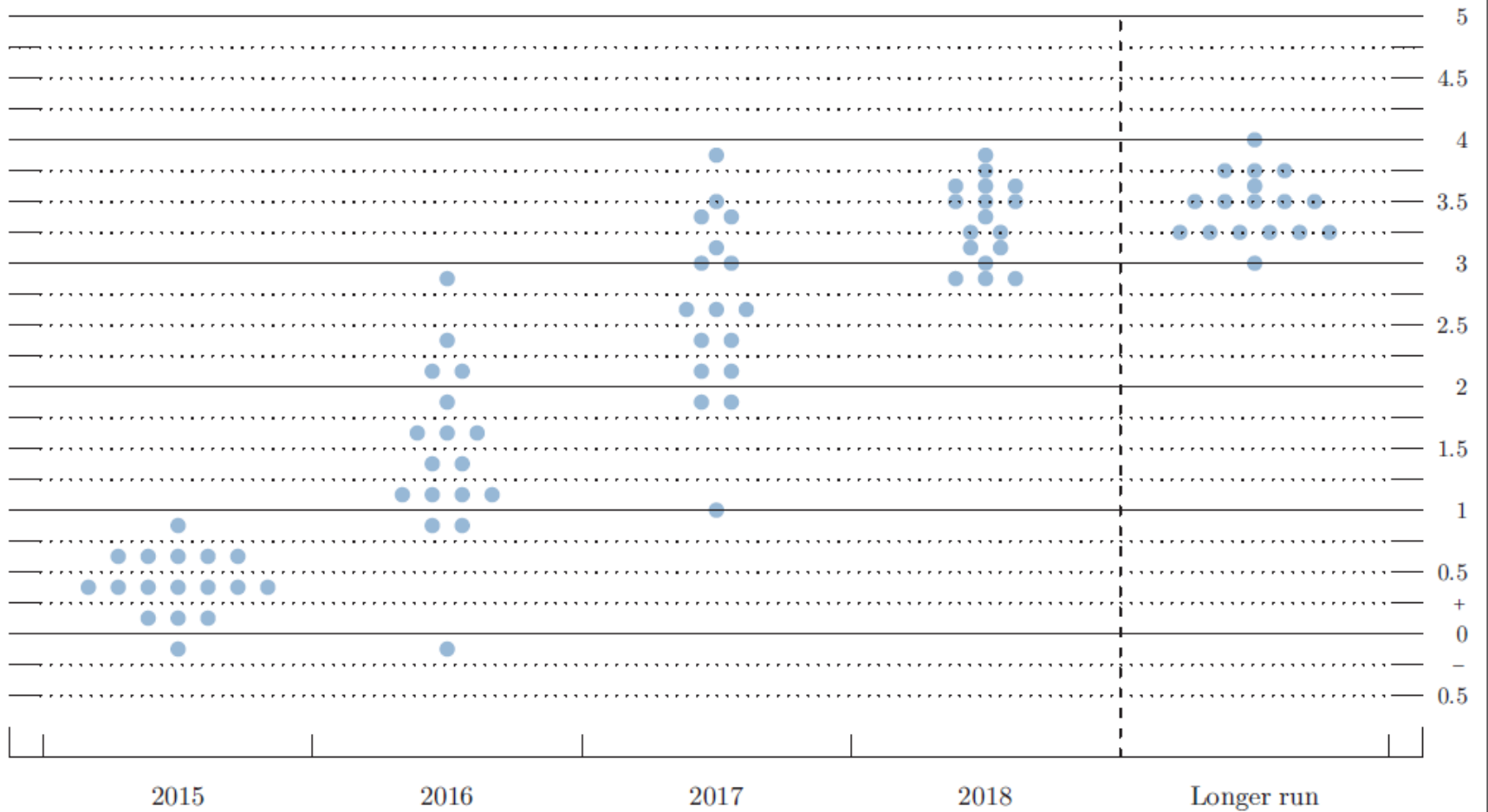


Source: FOMC Minutes, September 17, 2015;

<http://www.federalreserve.gov/monetarypolicy/files/fomcminutes20150917.pdf>

FOMC Projections Call for Gradual Fed Funds Rate Increases Through 2018

Appropriate pace of policy firming: Midpoint of target range or target level for the federal funds rate



Source: FOMC Minutes, September 17, 2015;

<http://www.federalreserve.gov/monetarypolicy/files/fomcminutes20150917.pdf>

Opposing Views on Monetary Policy

“A reasonable assessment of current conditions suggest that raising rates in the near future would be a serious error...”

Lawrence Summers, *Financial Times*, Aug. 23

“The Fed should...hold firm until there is clear evidence of inflationary conditions.”

Steven Rattner, *The New York Times*, Oct. 28, 2015

“[The Fed should] ...raise rates or the financial system will fracture.”

Avinash Persaud, *Financial Times*, Aug. 24

“At a time when ... the unemployment rate reflects almost full employment, there's not much of a case for the Fed's key interest rate to remain at historic lows.”

Heather Long, *CNN Money*, September 11, 2015

Risks to the Outlook

- Upside risks
 - Domestic labor markets tightening
 - Lower oil prices boost consumer spending
- Downside risks
 - Slower growth in China, emerging markets
 - Stronger dollar hurts exports
 - Domestic and global political uncertainty
 - For the region: aging workforce
- FOMC September risk assessment
 - Risks to growth and unemployment mostly balanced
 - More than half see downside risks to inflation