

# The New England Economy: On the Verge of the Cliff

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The views expressed in this presentation are not necessarily those of either the Federal Reserve Bank of Boston or the Federal Reserve System.



# Areas of focus

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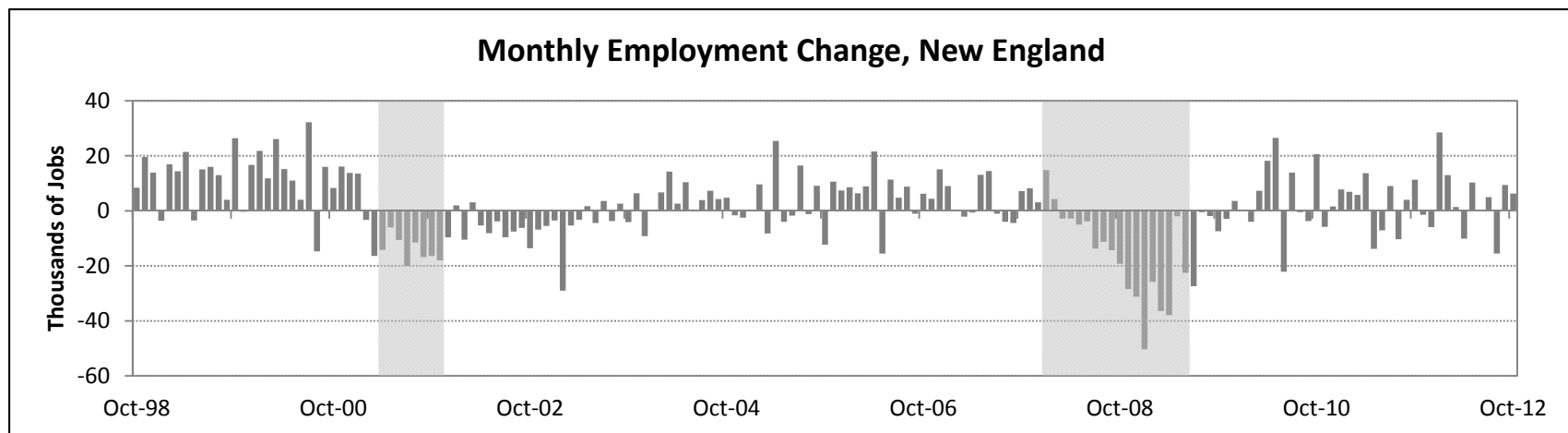
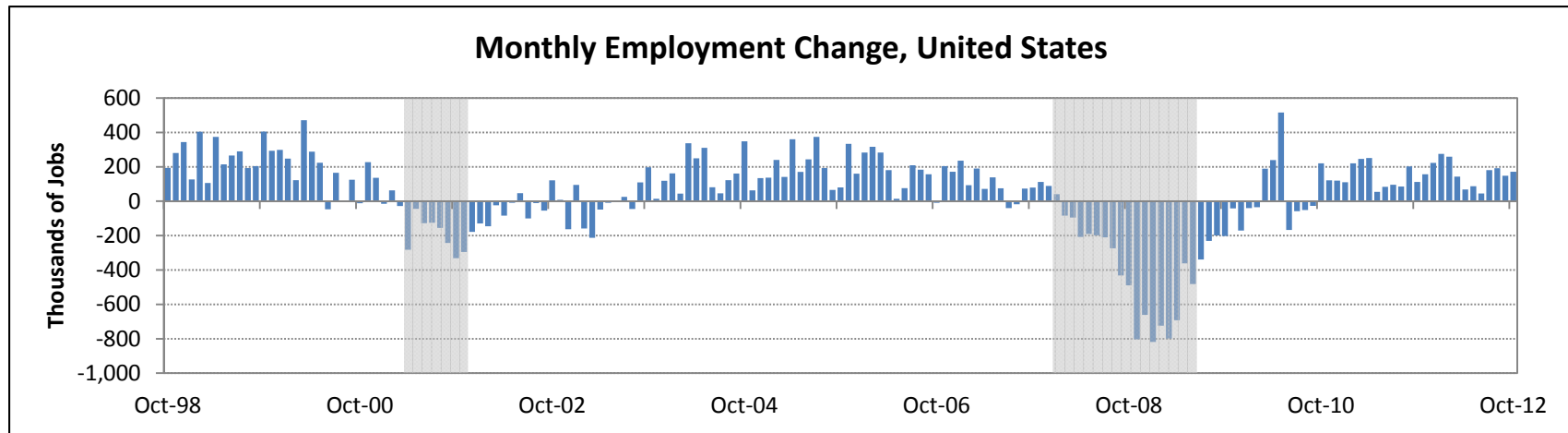
- Employment situation
- Housing situation
- Fiscal situation and economic outlook

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# Employment Situation

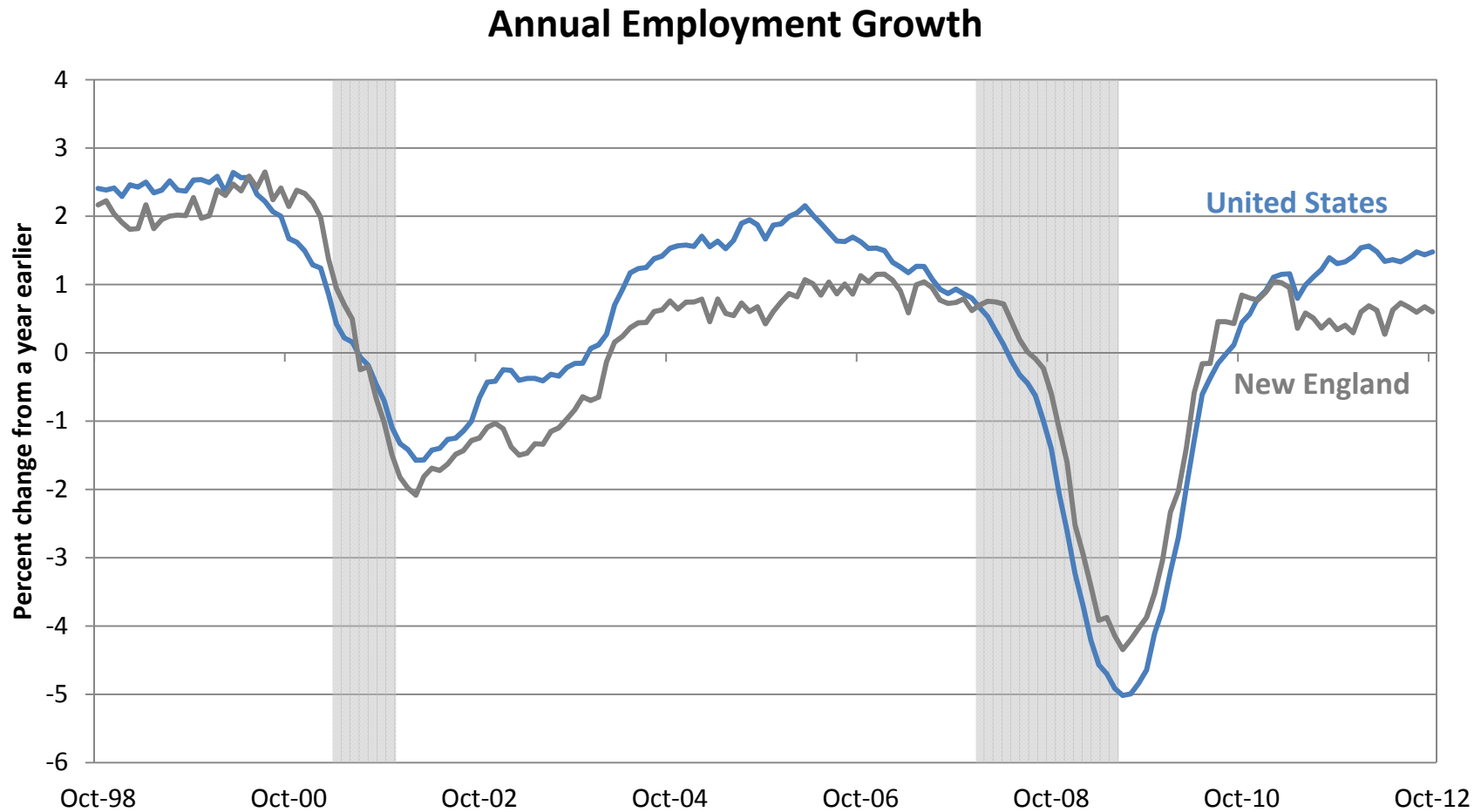
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# The region's recovery from the Great Recession has been slow and marked by halting growth



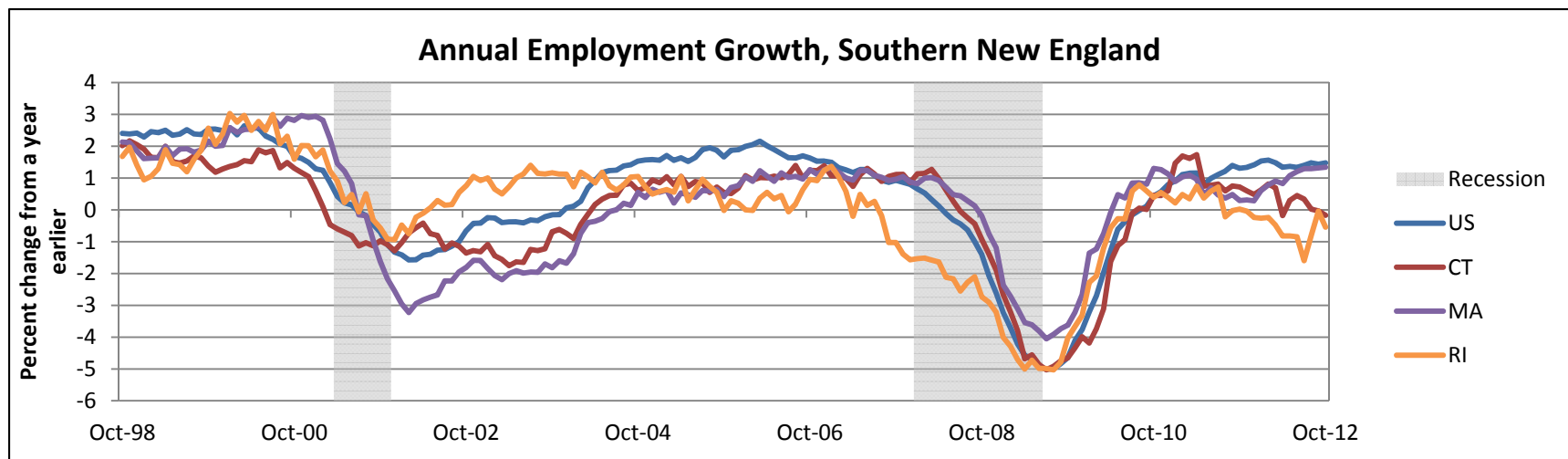
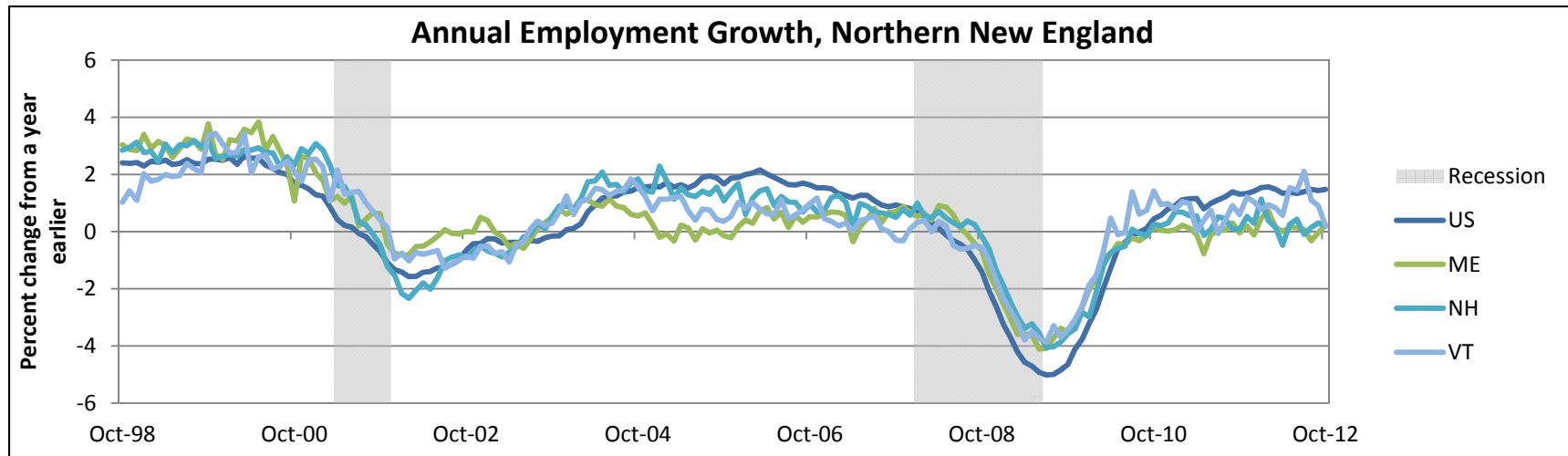
Source: Bureau of Labor Statistics, NBER, Haver Analytics

# While New England outperformed the nation during the downturn, the advantage has faded



Source: Bureau of Labor Statistics, NBER, Haver Analytics

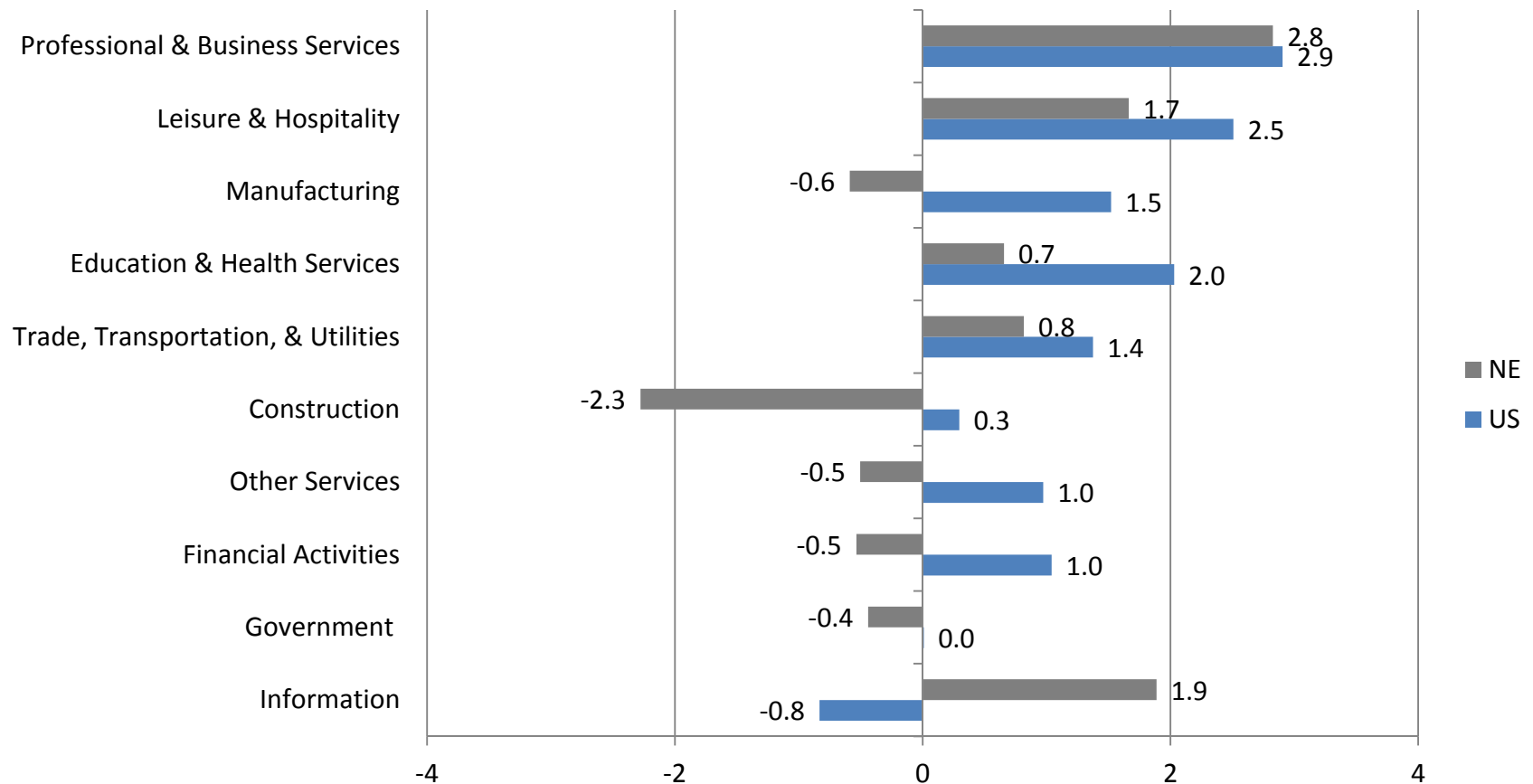
# According to current data, Massachusetts has shown the strongest job growth in region in recent months



Source: Bureau of Labor Statistics, NBER, Haver Analytics

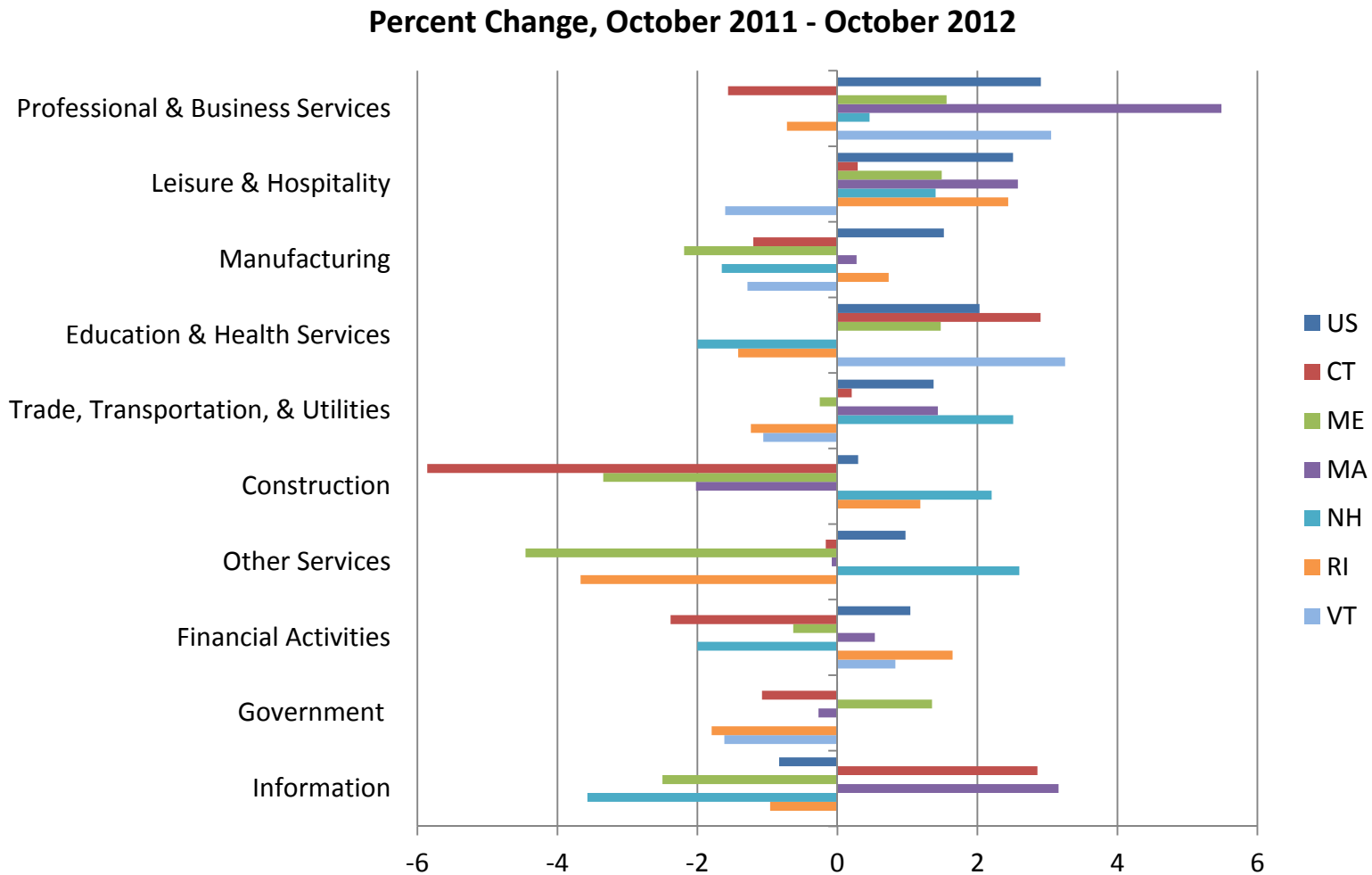
# Employment growth by industry was mixed, though the region, on average, mostly trails the nation

Percent Change, October 2011 - October 2012



Source: Bureau of Labor Statistics, Haver Analytics

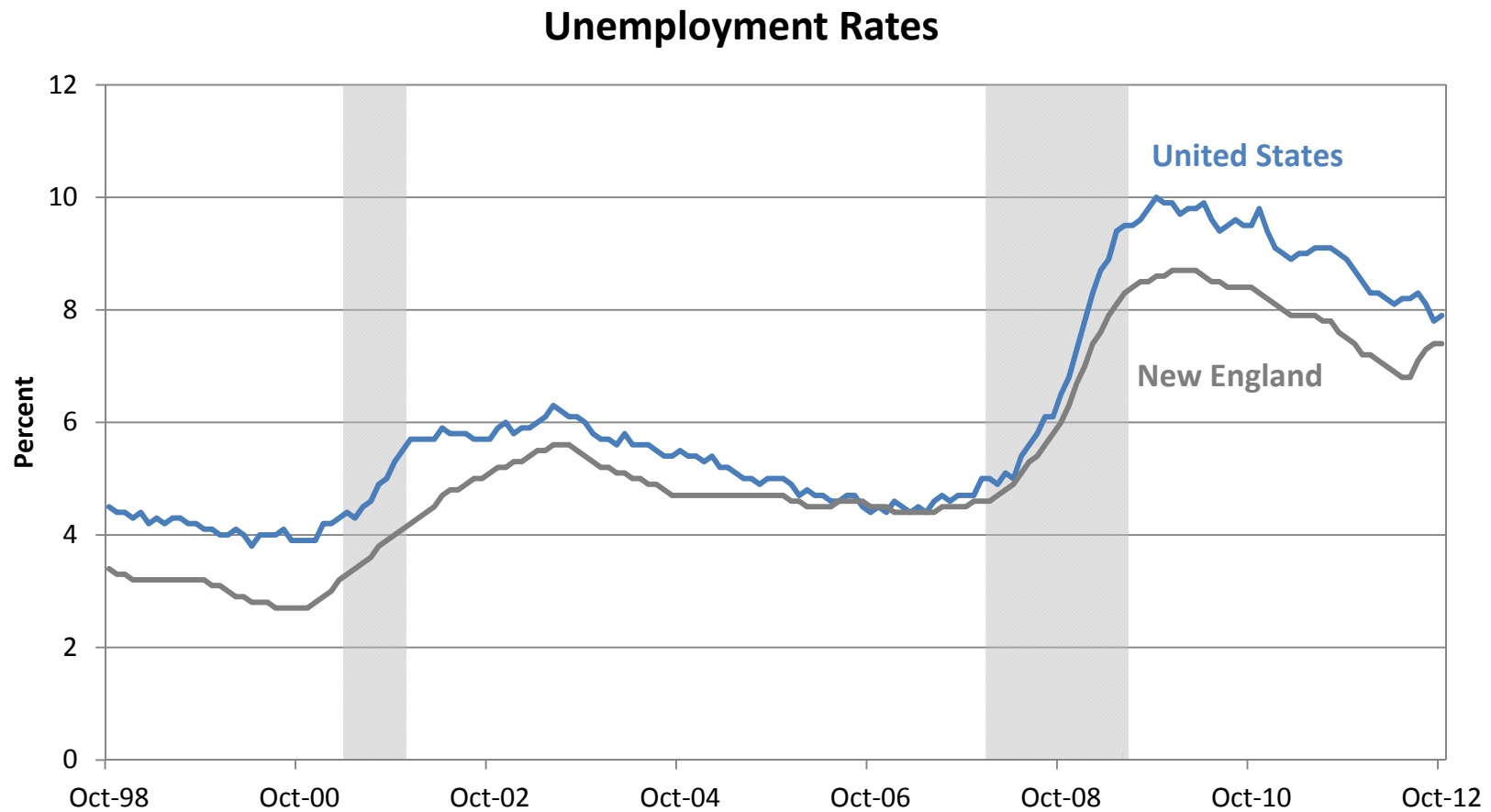
# But there is considerable variation in growth by industry among individual New England states



Source: Bureau of Labor Statistics, Haver Analytics



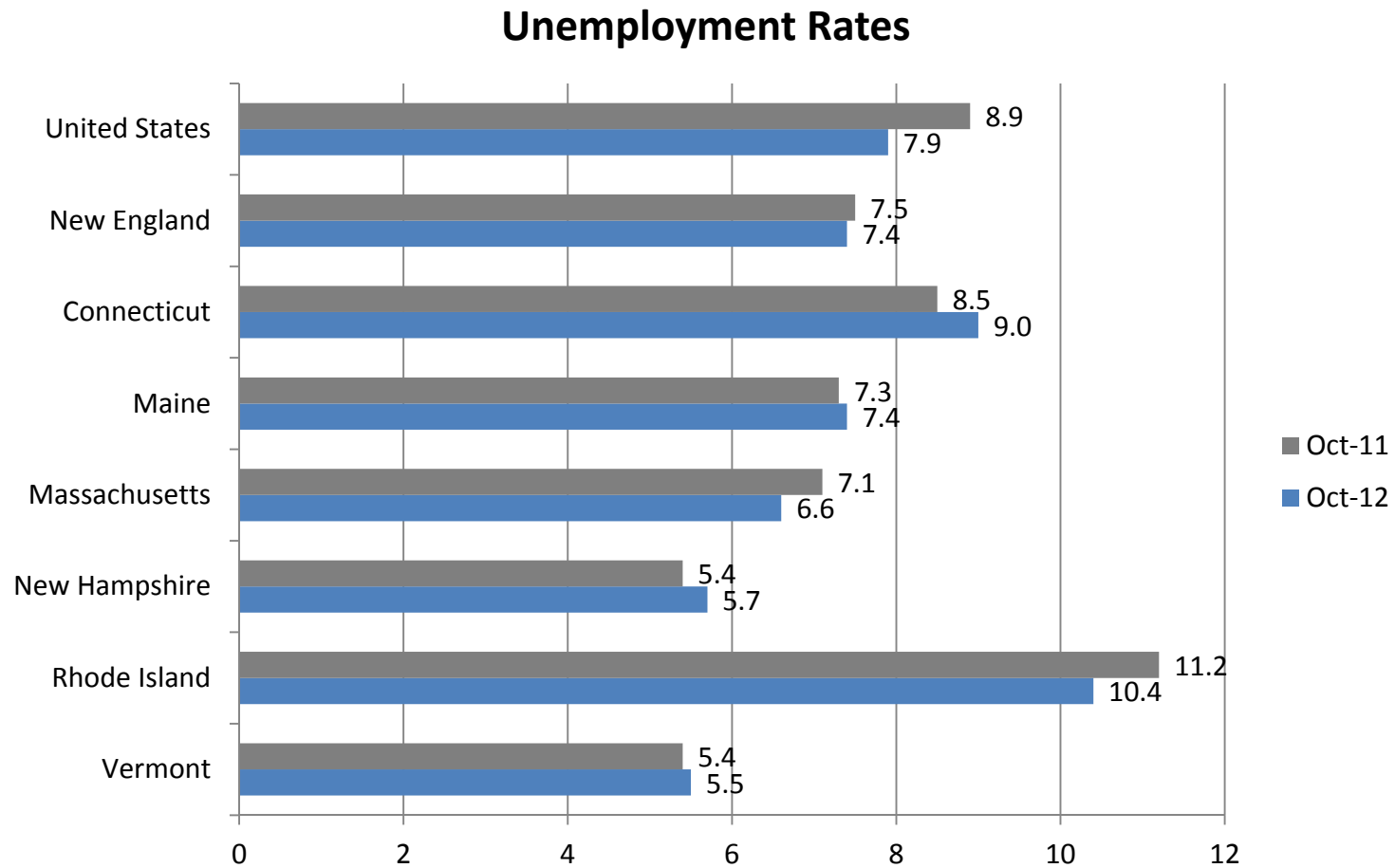
# The regional unemployment rate remains below the national rate, but has ticked up in recent months



Source: Bureau of Labor Statistics, NBER, Haver Analytics

# And unemployment rates in four New England States are higher than one year ago

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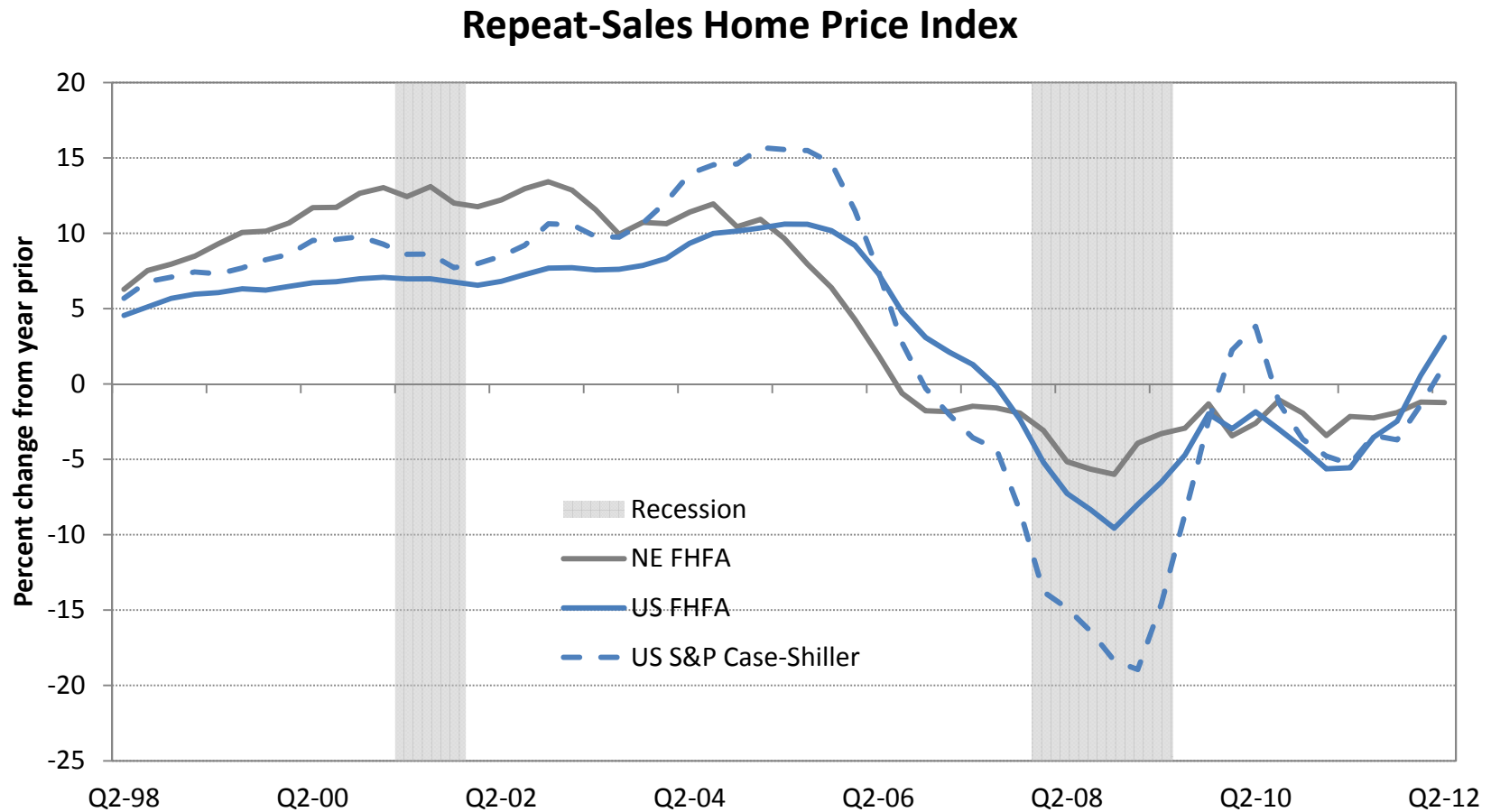
Source: Bureau of Labor Statistics, Haver Analytics

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# Housing Situation

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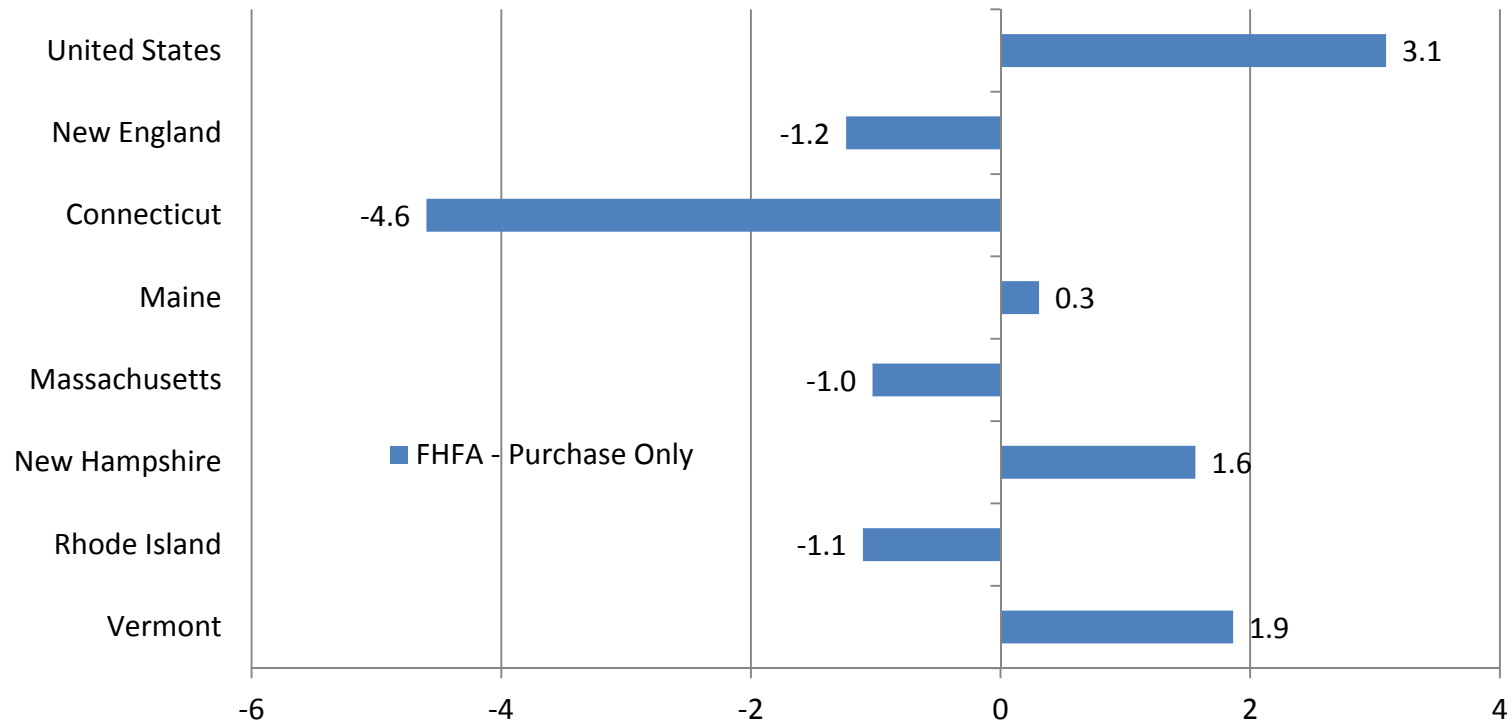
# House prices for the region continued to decline through Q2 2012, but started to climb nationally



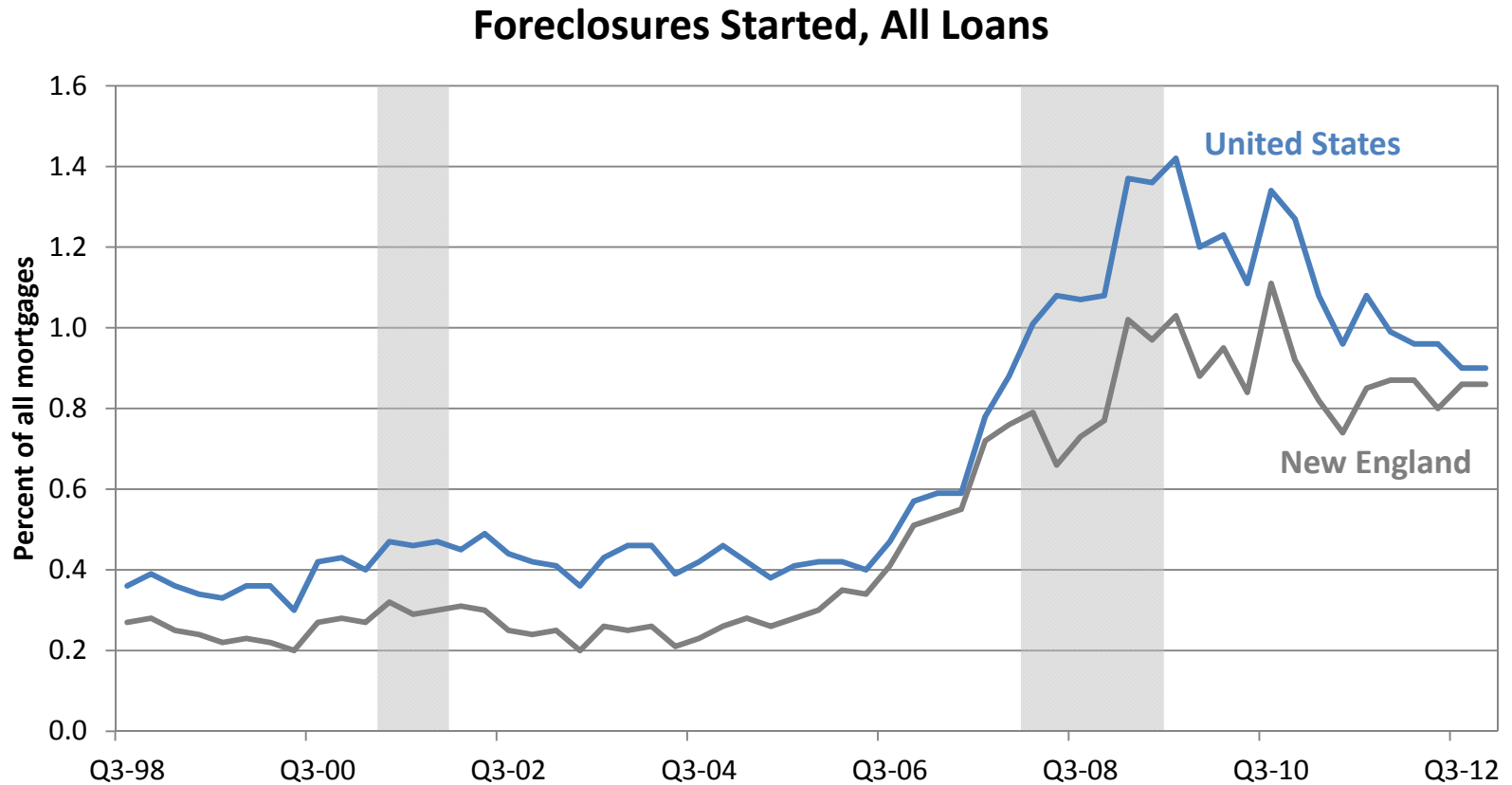
Source: FHFA, S&P/Case-Shiller, NBER, Haver Analytics

# Within the region, year-over-year house price growth varied, with northern states stronger

Percent Change, October 2011 - October 2012

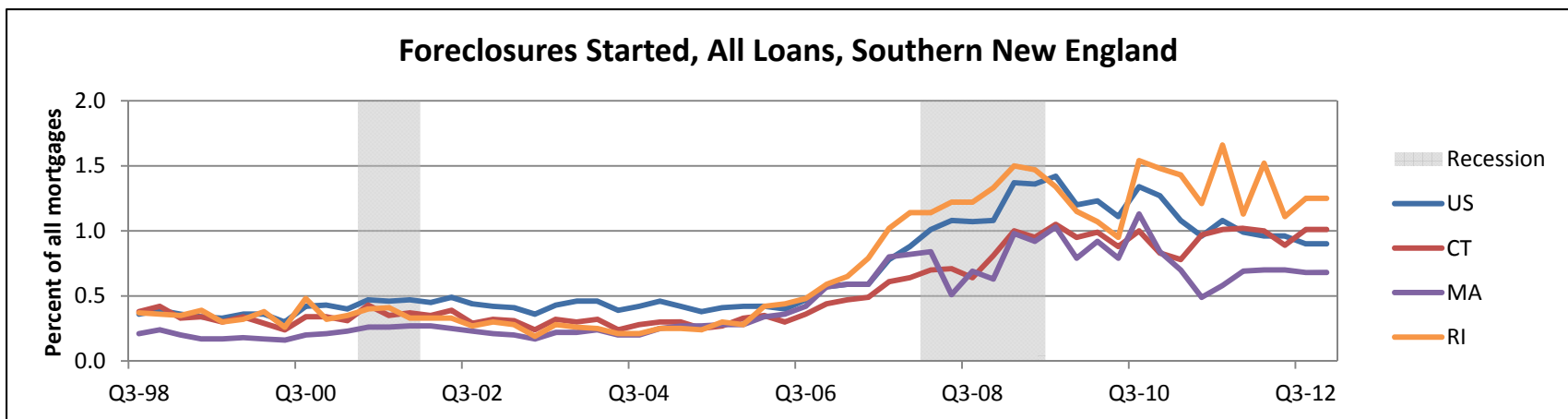
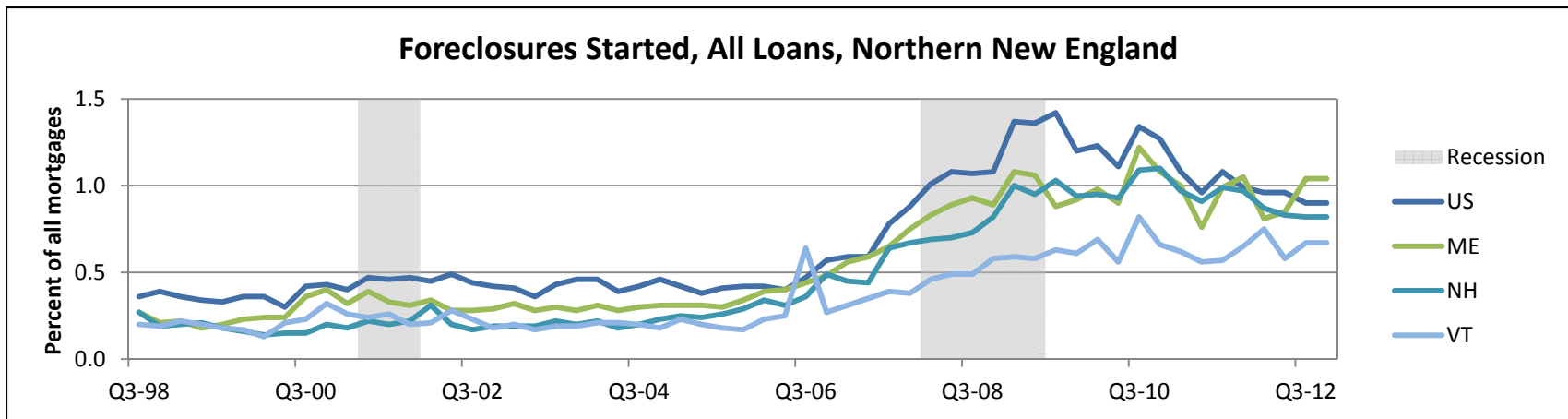


# Foreclosures have fallen from their peak, but remain higher than historical levels



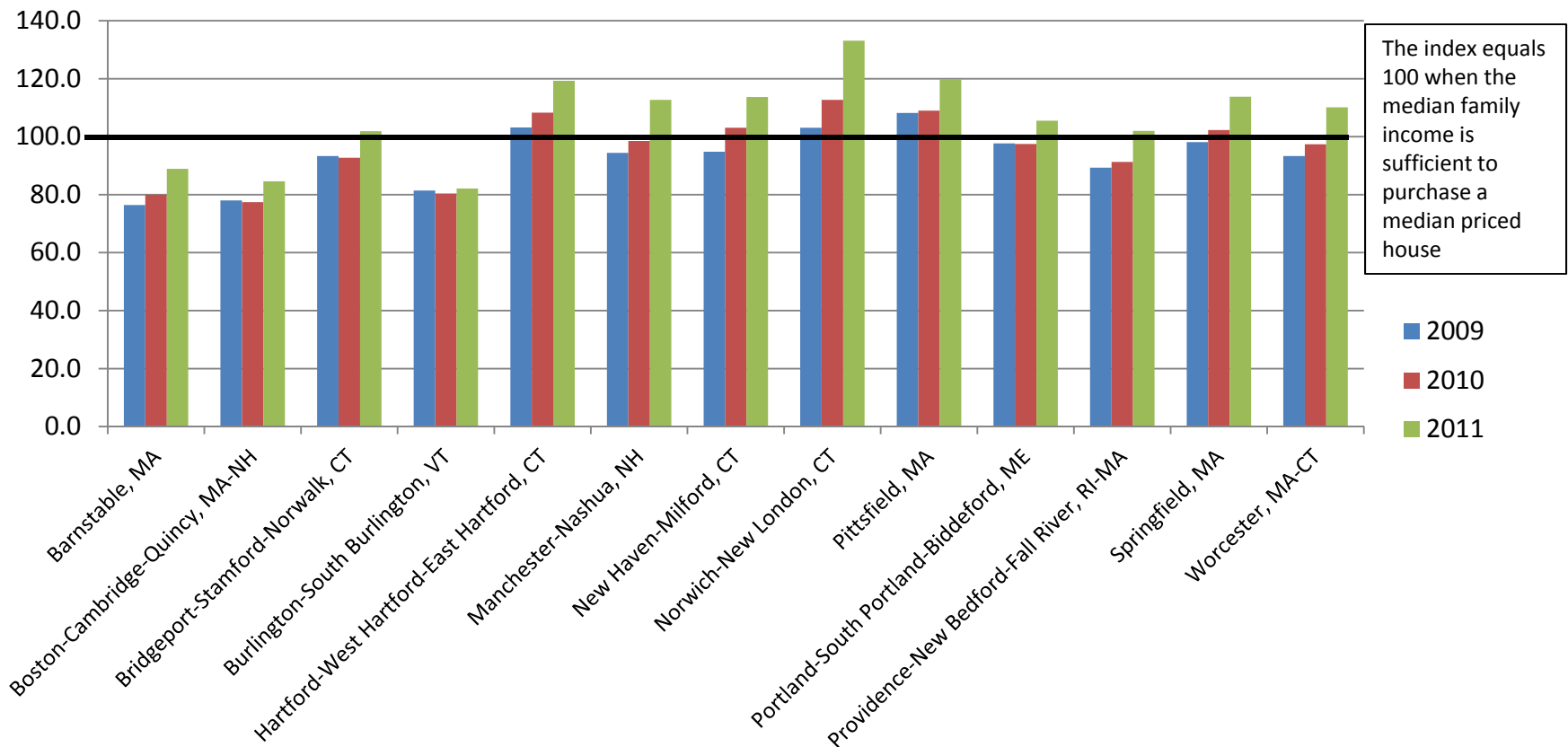
Source: Mortgage Bankers Association, NBER, Haver Analytics

# Foreclosure rates continue to vary across the region with Vermont and Rhode Island at the extremes



# Recent trends in prices and rates have made buying a home more affordable in much of the region

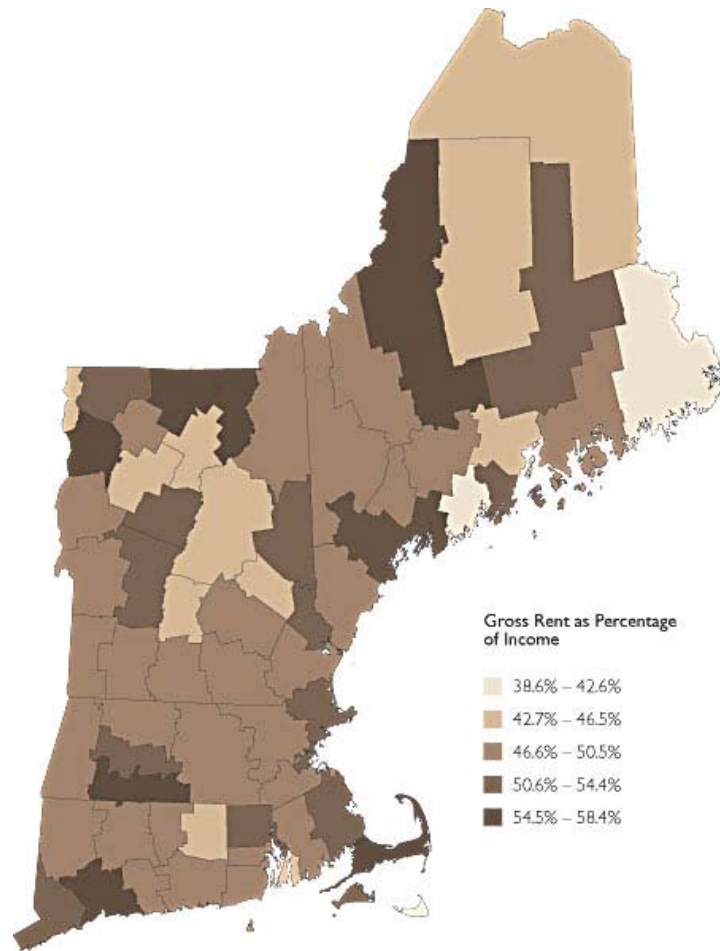
NAR Housing Affordability Index by MSA:  
Fixed Rate Mortgages





# But the affordability of rental housing is still a concern in many areas

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Map shows that gross rent as a percent of income exceeds 30 percent (a common affordability threshold) in 38.6 to 58.4 percent of rental households in New England

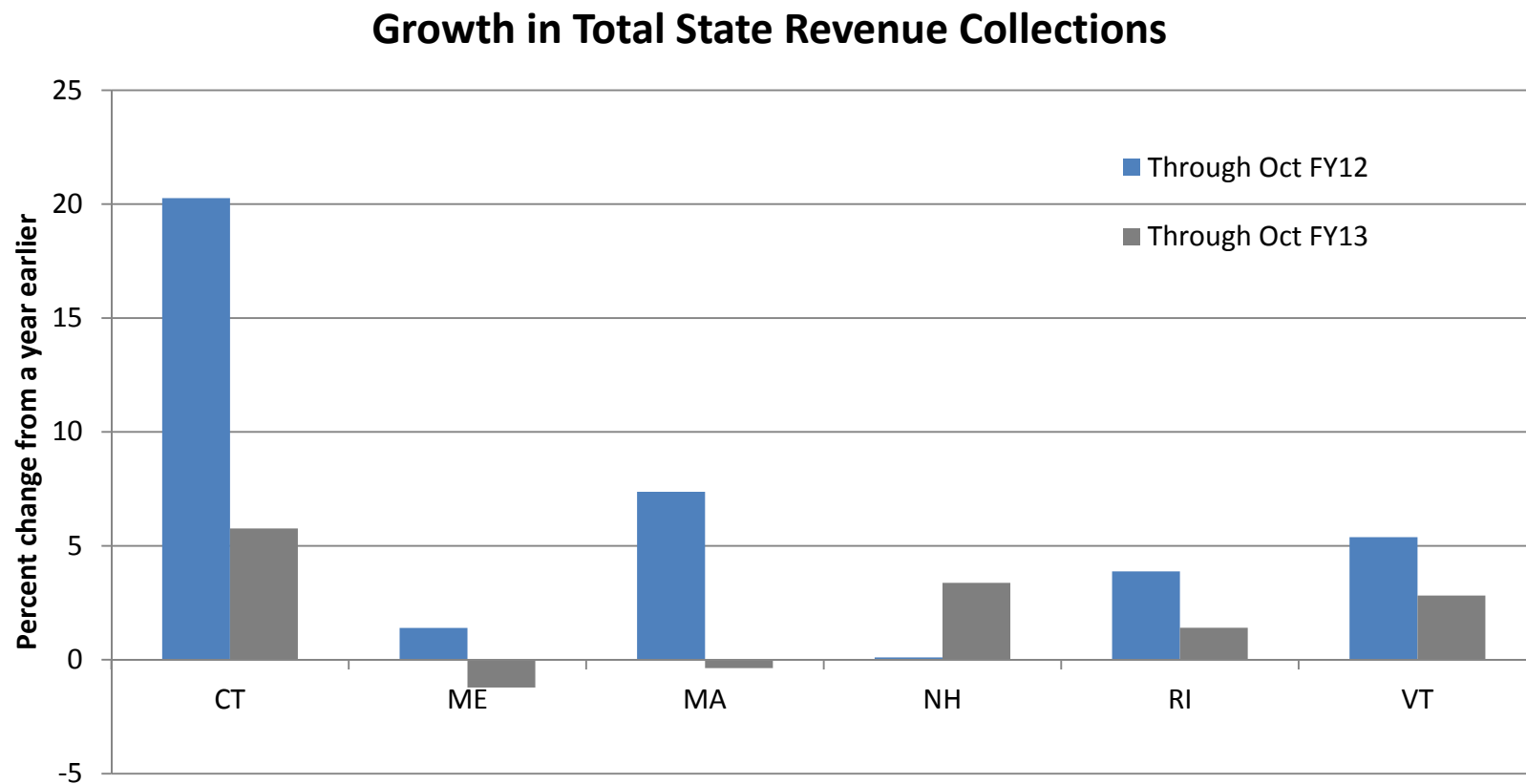
Source: U.S. Census Bureau, American Community Survey, as published in *Communities & Banking*, Winter 2013

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# **Fiscal Situation and Economic Outlook**

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# Revenue growth has softened in most New England states, with mid-year budget cuts likely in some



Source: New England Public Policy Center at the Federal Reserve Bank of Boston, based on monthly revenue statements from respective state revenue offices

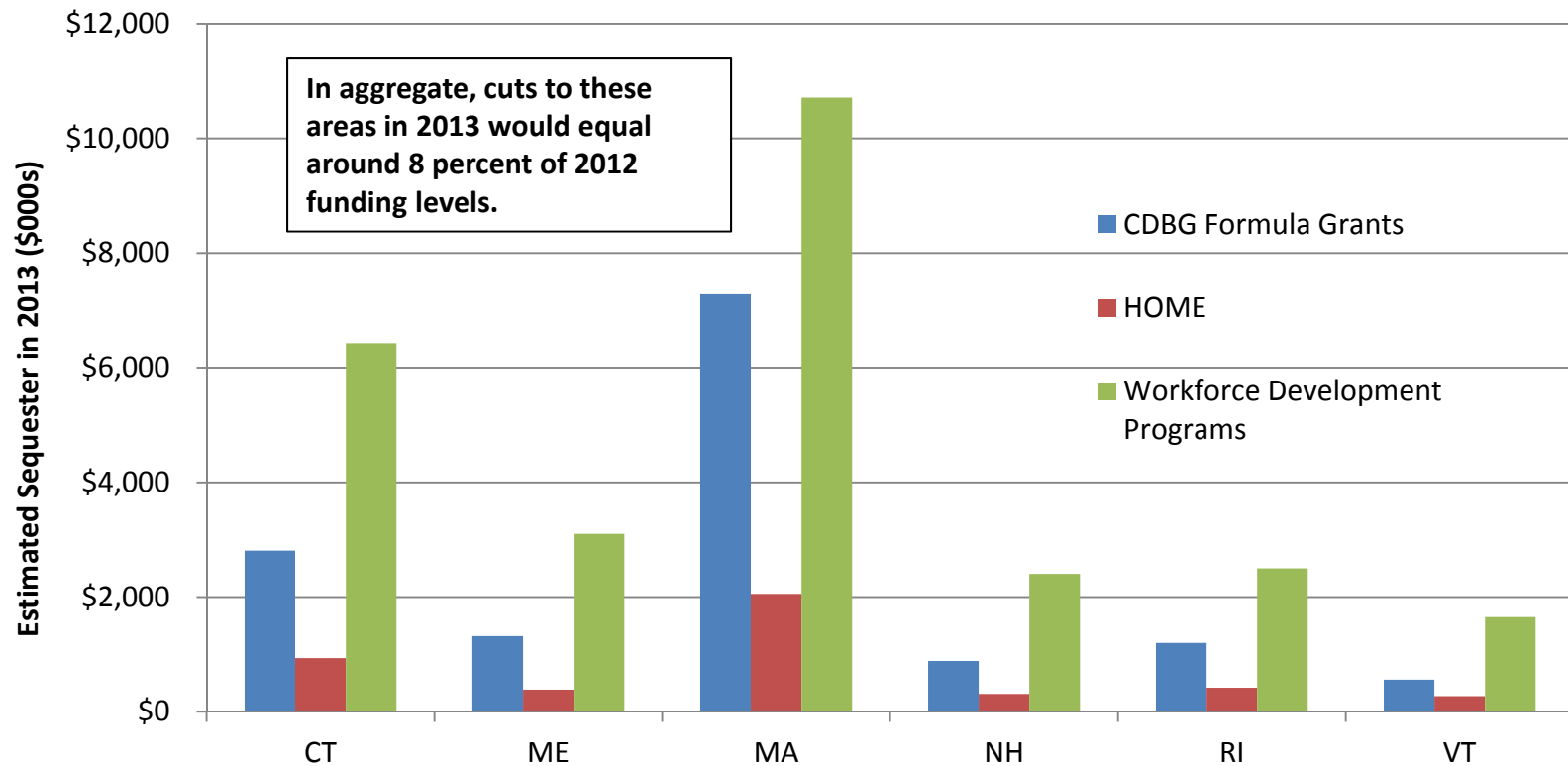
## Forecasters expect above-average job declines in New England if we go over the fiscal cliff

	Forecasted Decline in Employment from Baseline in 2014			Forecasted Decline in Federal Defense and Non-Defense Expenditure	
	% Change	Rank		% of GDP	Rank
CT	<b>2.5</b>	<b>3</b>		0.40	13
ME	2.1	18		0.40	12
MA	<b>2.2</b>	<b>7</b>		0.31	31
NH	2.0	20		0.29	42
RI	<b>2.3</b>	<b>6</b>		0.31	30
VT	<b>2.3</b>	<b>5</b>		0.40	14
US	2.0			0.31	

Source: Moody's Analytics, New England Economic Partnership

# While sequestration cuts would be small relative to state GDPs, individual programs would feel pain

## Estimated Impact of Sequestration on Selected Programs, 2013



Source: Center of Budget and Policy Priorities, National Skills Coalition

## **Forecasters anticipate worst of fiscal cliff will be avoided, but that slow growth will continue**

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- All New England states expected to have below U.S. average growth (1.2%) in employment in 2013 with NH the highest (1.1%) and CT the lowest (0.3%)
- Expectation that region, as a whole, will not return to pre-recession employment level till late 2014
- Regional unemployment rate expected to remain below U.S. average, but above 6% until 2015
- Expectation that house prices will rise throughout region in the next few years