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

• Employment situation
• Housing situation
• Fiscal situation and economic outlook
Employment Situation
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.

Annual Employment Growth

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

Unemployment Rates

<table>
<thead>
<tr>
<th>State</th>
<th>Oct-11</th>
<th>Oct-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>7.9</td>
<td>8.9</td>
</tr>
<tr>
<td>New England</td>
<td>7.5</td>
<td>7.4</td>
</tr>
<tr>
<td>Connecticut</td>
<td>8.5</td>
<td>9.0</td>
</tr>
<tr>
<td>Maine</td>
<td>7.3</td>
<td>7.4</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>7.1</td>
<td>6.6</td>
</tr>
<tr>
<td>New Hampshire</td>
<td>5.4</td>
<td>5.7</td>
</tr>
<tr>
<td>Rhode Island</td>
<td>10.4</td>
<td>11.2</td>
</tr>
<tr>
<td>Vermont</td>
<td>5.4</td>
<td>5.5</td>
</tr>
</tbody>
</table>

Source: Bureau of Labor Statistics, Haver Analytics
Housing Situation
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.

Source: FHFA, Haver Analytics
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.

Source: FHFA, Haver Analytics
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**

The index equals 100 when the median family income is sufficient to purchase a median priced house.

Source: National Association of Realtors, Haver Analytics
But the affordability of rental housing is still a concern in many areas

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
Fiscal Situation and Economic Outlook
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

<table>
<thead>
<tr>
<th>State</th>
<th>Forecasted Decline in Employment from Baseline in 2014</th>
<th>Forecasted Decline in Federal Defense and Non-Defense Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% Change</td>
<td>Rank</td>
</tr>
<tr>
<td>CT</td>
<td>2.5</td>
<td>3</td>
</tr>
<tr>
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<td>18</td>
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<tr>
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<td>2.2</td>
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<tr>
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<tr>
<td>VT</td>
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<td>5</td>
</tr>
<tr>
<td>US</td>
<td>2.0</td>
<td></td>
</tr>
</tbody>
</table>

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

In aggregate, cuts to these areas in 2013 would equal around 8 percent of 2012 funding levels.

Source: Center of Budget and Policy Priorities, National Skills Coalition
Forecasts anticipate worst of fiscal cliff will be avoided, but that slow growth will continue

- 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

Source: Moody’s Analytics, New England Economic Partnership.