

New England Economic Conditions

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Payroll employment:

- Payroll employment growth slowed in New England in December, as payrolls increased by a scant 2,400 jobs over the month and were up roughly 2.9 percent from a year earlier. In contrast, the region had posted a 3.2 percent employment growth pace in November. The pace of job growth slowed similarly at the national level in December (Exhibit 2). Values are seasonally adjusted.
- As seen in Exhibit 1, payroll employment was roughly flat in most New England states in December, although Maine lost over 2,000 jobs for the month and Massachusetts gained over 6,000 jobs.

Separate from the region's relatively weak job gains of December, the monthly employment change for November 2022 was revised downwards. As a result, New England's total payroll employment level as of December was down 57,700 jobs relative to its February 2020 benchmark. (For comparison, as of November the estimated shortfall was 56,000 jobs). In terms of sectoral composition, employment growth (both regionally and nationally) was strongest in leisure and hospitality, but nonetheless New England lagged the US in terms of its latest (year-over-year) employment growth rate for such jobs. The region's construction sector experienced above-average employment growth relative to the US on a year-over-year basis as of December, as did the region's professional and business services sector and its government sector. As suggested below, construction activity in the region may be getting a boost from infrastructure and other nonresidential projects.

Unemployment and Labor Force participation

- New England's unemployment rate in December 2022 fell to 3.5 percent, down from 3.6 percent as of the preceding month, in lock step with the US unemployment rate for the same two months (Exhibit 4).
- Labor force participation remained a weak spot for the region. In December 2022 New England's labor force participation rate fell 0.1 percentage point from the previous month and 0.5 percentage point from one year earlier, while the US rate increased both over-the-month (by 0.1 ppt) and over-the-year (by 0.3 ppt). See Exhibit 6.

New England's unemployment figures for November and some earlier months of 2022 were revised upwards in the latest data, with the result that New England's unemployment rate was either equal to the US rate or lower by at most 0.1 ppt in any given month of 2022, as seen in Exhibit 4. Although the unemployment rate declined over the year in New England on average (Exhibit 5), rates were up over the year in both New Hampshire and Vermont. Furthermore, of the four states that posted year-over-year declines in unemployment, three have notched at least small increases in unemployment since mid-2022, the largest being a 0.5 percentage point increase in Maine's rate since May.

Considering labor force participation by state (Exhibit 6), results were mixed. Rates increased over-the-year in both New Hampshire and Vermont, helping to justify the unemployment rate

increases in those same two states for the same time period. The remaining four states posted net declines in labor force participation in the past 12 months, with Maine and Connecticut recording especially large drops (-1.5 and -1.0 pts, respectively). Another discouraging sign is that New Hampshire, despite recording a net gain in its participation rate over the year, has witnessed a 0.3 ppt decline in participation since July, when its rate stood at 66.3 percent (not shown).

Employment Cost Indexes

- Based on the Employment Cost Indexes for private industry workers, the growth pace of labor costs in New England slowed in the fourth quarter of 2022 compared with the average growth pace over-the-year to Q4, and results were qualitatively similar for the US on average and in each of the nine census divisions (Exhibit 7).

Considering either wages and salaries or total compensation, employment costs continued to rise at a faster pace in New England than on average in the US, and in Q42022 New England had the highest (annualized) growth rate in total compensation among the nine census divisions. The region also had the highest over-the-year percentage growth rates in employment costs considering either total compensation or just wages and salaries. Historical ECI numbers from the past 10 years (not shown) do not indicate that New England simply has permanently higher compensation growth rates than other census divisions, and therefore the above-average pay growth in the region of late most likely reflects relative labor scarcity, consistent with the region's low unemployment rates and (on average) declining labor force participation rates.

Inflation

- The year-over-year rate of inflation in New England (based on the all-items CPI) was roughly stable in the January 2023 data from the previous month, and at 5.5 percent was well below the US rate of 6.4 percent. Nonetheless, the region continued to experience outsized increases in fuel and utilities prices, both over-the-month and over-the-year to January (Exhibit 8).

The core inflation rate in the region came to just 3.7 percent over-the-year to January, versus 5.6 percent core inflation nationwide, although for January alone the core rates were much closer, at 0.5 percent for New England and 0.6 percent for the US. New England's lower core inflation rate (considering the y-o-y figure) compared with the US was attributable to slower growth the prices of shelter, medical services, recreation, and education. The gap between core and all-items inflation has been greater in New England than in the United States on average throughout the past year (not shown), owing to the fact that the fuel and utilities component has contributed disproportionately to overall inflation in the region since the start of the Ukraine war.

House Prices and Construction Activity

- The pace of house-price growth has fallen sharply since May in New England as well as nationwide (Exhibit 9). At 5.4 percent over-the-year to December 2022, New England's latest reading was somewhat below average for the US, whereas in late 2020 and early 2021 the region was seeing above-average house price growth.
- Single-family permits continued to display a downward trend in both the region and the US, whereas the direction of multifamily permits activity was less clear (Exhibit 10).

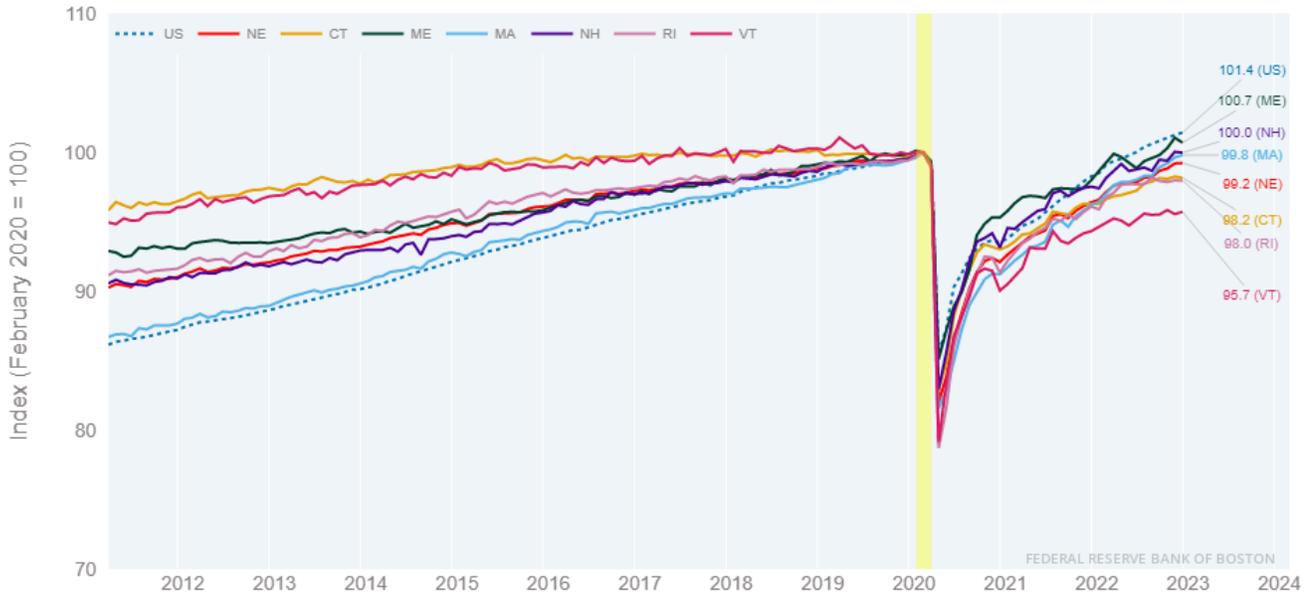
- Nonresidential construction activity and nonbuilding construction appear to be holding up better than residential construction activity in the face of rising interest rates (Exhibit 11). New England might be experiencing an extra boost to nonresidential and nonbuilding construction, based on its receiving above-average per-capita funding from the Infrastructure Investment and Jobs Act of 2021.

Considering indexes of the value of construction contracts by type (Exhibit 11), in both the region and the US nonresidential construction continued to show strength in recent data, while residential contracts have experienced relatively slow growth (in New England) or have started to decline outright (in the US). (Values are 12-month moving averages to smooth out seasonal fluctuations, and each series is indexed to its January 2015 moving average). Nonbuilding construction, which includes bridge and road work and water infrastructure projects, has in New England (but not the US) outperformed residential construction in terms of its net increase since January 2015 and its growth since late 2021. According to a recent NEPPC policy brief,¹ the New England states are receiving disproportionate shares of funding under the Bipartisan Infrastructure Act of November 2021, and the more recent nonbuilding contracts data might be reflecting those dollars at work, although the contributions cannot be known with certainty. The above-average growth in construction employment in the region in the past year is also consistent with the possibility that infrastructure projects are helping to offset weaker demand for residential construction. However, according to a recent *Wall Street Journal* article, the absence of major construction layoffs to date in the US—despite declining home sales and higher borrowing rates—reflects the fact that construction projects (of all types) that were started when interest rates were low have been subject to delays related to the scarcity of labor and materials.² If so, a downturn in construction employment may yet be pending as existing residential projects wind down. And although public infrastructure spending in the region could offer a recession-proof boost to employment and economic activity moving forward, such stimulus might also add to inflationary pressures in the face of labor scarcity.

¹ Sullivan, Riley, “Recent Trends in Infrastructure Investment and Capacity.” New England Public Policy Center Regional Brief 22-1. <https://www.bostonfed.org/publications/new-england-public-policy-center-regional-briefs/2022/recent-trends-in-infrastructure-investment-and-capacity-in-new-england.aspx>

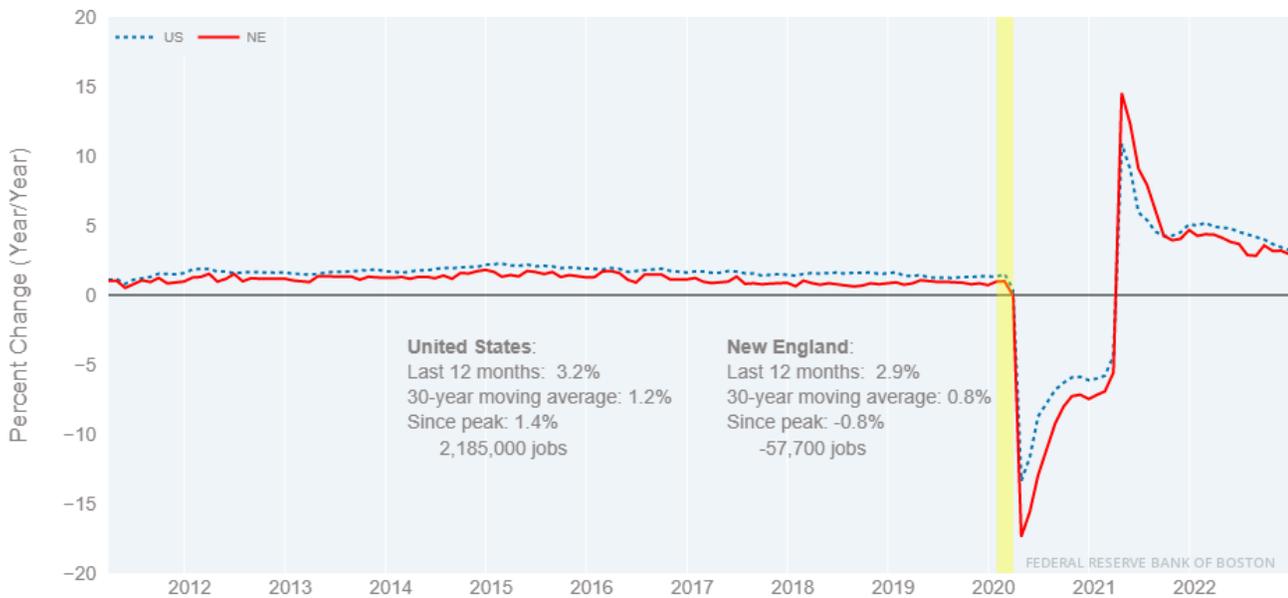
² Nick Timiraos, “Why the Recession is Always Six Months Away,” *Wall Street Journal*, March 7, 2023. <https://www.wsj.com/articles/godot-recession-federal-reserve-powell-d50ba71f>

Exhibit 1: Non-Agricultural Employment - to Dec 2022



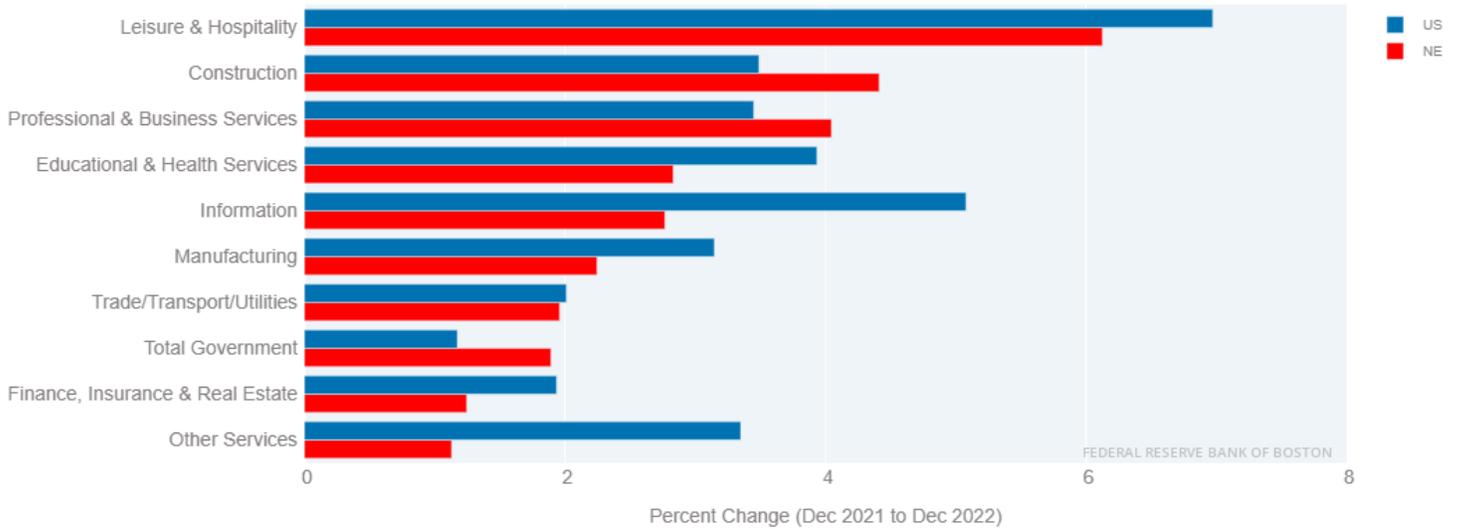
Source: U.S. Bureau of Labor Statistics/Haver Analytics.
 Note: Data are seasonally adjusted. Tick marks correspond to January of the given year. Yellow bars indicate recessions.

Exhibit 2: Employment Growth - to Dec 2022



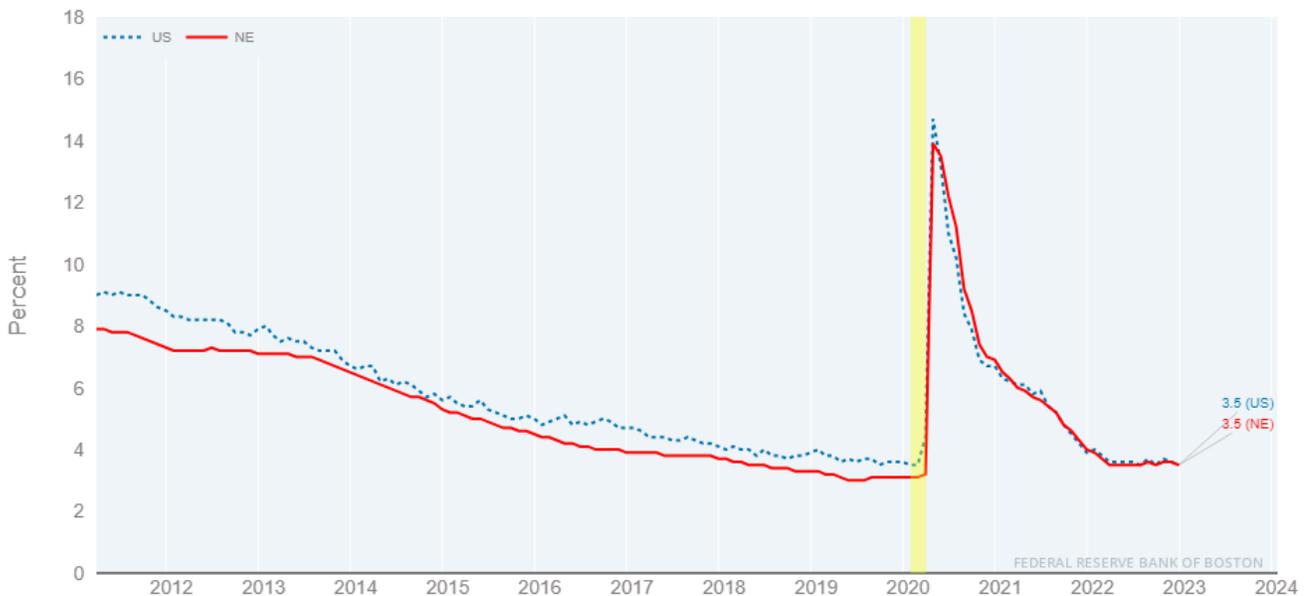
Source: U.S. Bureau of Labor Statistics/Haver Analytics.
 Note: Data are seasonally adjusted. Peak values are determined from the years 2019-2020; they may differ for each region. Tick marks correspond to January of the given year. Yellow bars indicate recessions.'

Exhibit 3: New England and U.S. Employment Growth by Supersector (SA) - to Dec 2022



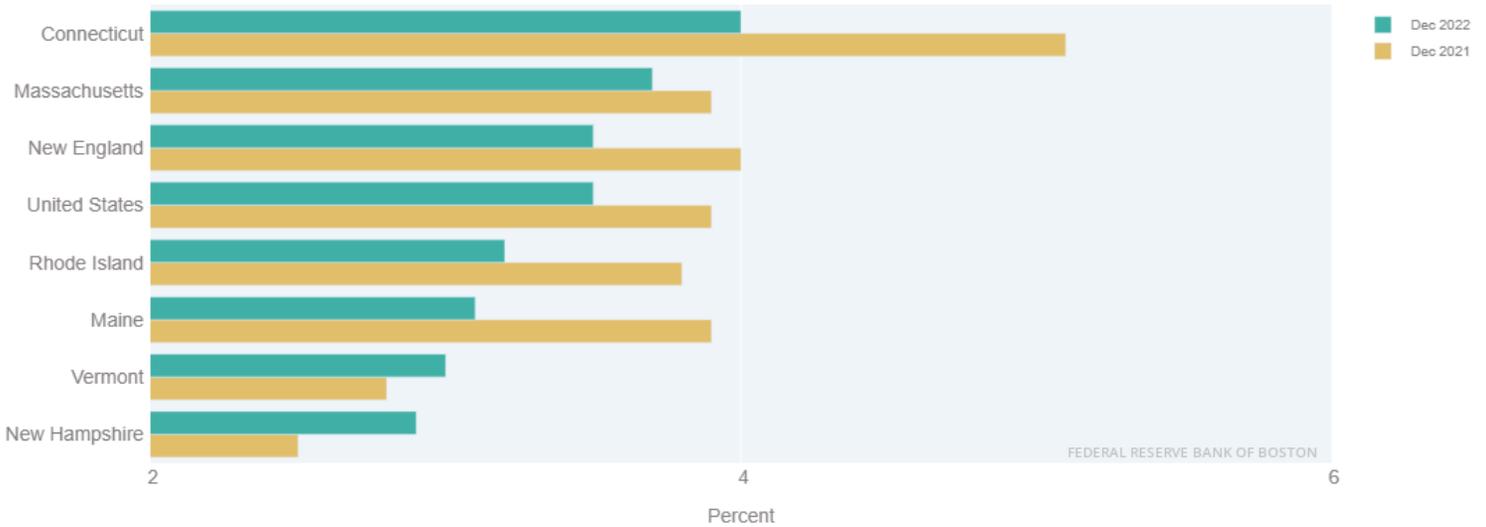
Source: U.S. Bureau of Labor Statistics/Haver Analytics.
 Note: New England figure for "Information" excludes RI, for which data are unavailable.

Exhibit 4: Unemployment Rates - to Dec 2022



Source: U.S. Bureau of Labor Statistics/Haver Analytics.
 Note: Data are seasonally adjusted. Tick marks correspond to January of the given year. Yellow bars indicate recessions.

Exhibit 5: Unemployment Rates in New England States - to Dec 2022



Source: U.S. Bureau of Labor Statistics/Haver Analytics.
 Note: Data are seasonally adjusted.

Exhibit 6: Alternative Measures of Labor-Market Slack in New England States - to Dec 2022

	Labor Force Participation			Unemployment			Employment/Population		
	Current	Last Report	One Year Ago	Current	Last Report	One Year Ago	Current	Last Report	One Year Ago
	Dec 2022	Nov 2022	Dec 2021	Dec 2022	Nov 2022	Dec 2021	Dec 2022	Nov 2022	Dec 2021
United States	62.3%	62.2%	62.0%	3.5%	3.6%	3.9%	60.1%	59.9%	59.5%
New England	64.0%	64.1%	64.5%	3.5%	3.6%	4.0%	61.8%	61.8%	61.9%
Connecticut	64.8%	64.8%	65.8%	4.0%	4.0%	5.1%	62.2%	62.2%	62.5%
Maine	58.0%	58.0%	59.5%	3.1%	3.1%	3.9%	56.2%	56.2%	57.2%
Massachusetts	64.7%	64.8%	65.0%	3.7%	3.7%	3.9%	62.3%	62.3%	62.4%
New Hampshire	66.0%	66.1%	65.5%	2.9%	2.9%	2.5%	64.1%	64.2%	63.9%
Rhode Island	62.9%	62.9%	63.2%	3.2%	3.3%	3.8%	60.8%	60.9%	60.8%
Vermont	63.4%	63.3%	62.6%	3.0%	3.1%	2.8%	61.4%	61.3%	60.8%

Source: U.S. Bureau of Labor Statistics/Haver Analytics.
 Note: New England labor-force participation rates are calculated using state level data.

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Exhibit 7: Employment Cost Indexes (PIW) - to Q4 2022

	Annualized Percent Change to Q4 2022			
	Wages and Salaries		Total Compensation	
	1-Quarter Change	4-Quarter Change	1-Quarter Change	4-Quarter Change
United States	3.9%	5.1%	3.4%	5.1%
United States (SA)	4.2%	5.1%	4.0%	5.1%
New England	4.7%	5.9%	4.6%	5.7%
Middle Atlantic	4.2%	4.5%	3.7%	4.7%
South Atlantic	3.9%	5.6%	3.4%	5.6%
East South Central	4.3%	5.0%	3.5%	4.6%
West South Central	1.9%	4.0%	1.6%	4.0%
East North Central	3.5%	5.1%	3.5%	5.3%
West North Central	0.3%	4.5%	0.8%	4.4%
Mountain	4.9%	5.4%	4.2%	5.2%
Pacific	4.8%	5.8%	4.3%	5.4%

Source: U.S. Bureau of Labor Statistics/Haver Analytics.

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Note: Data are not seasonally adjusted, except the United States series denoted by "SA". PIW == Private Industry Workers

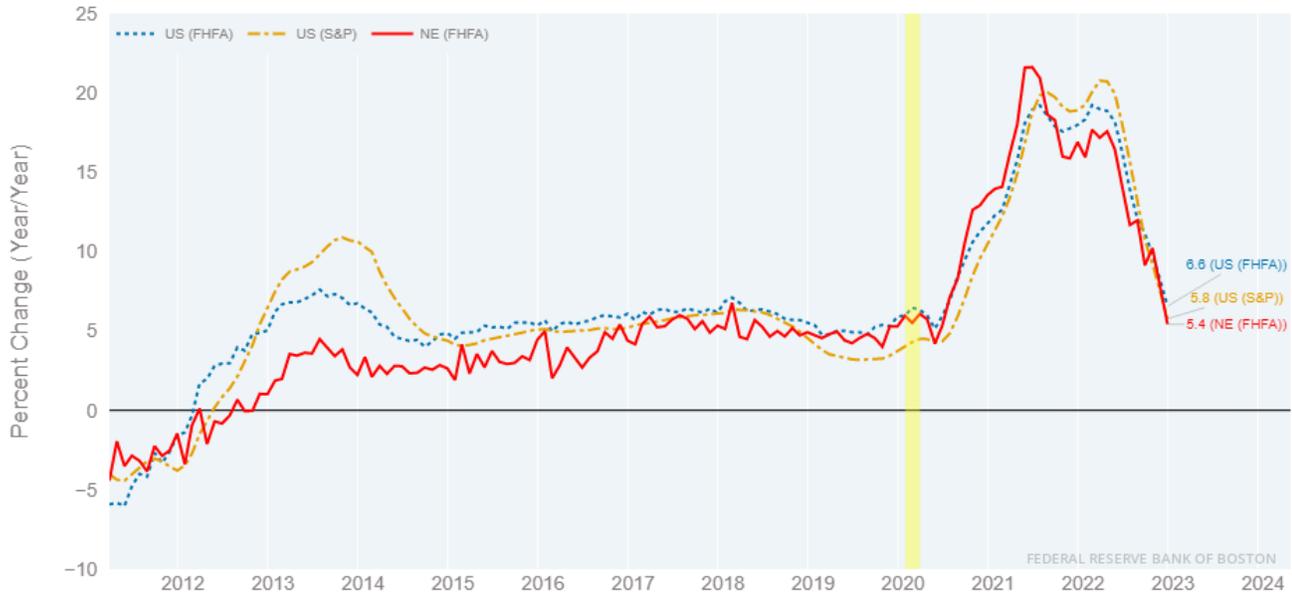
Exhibit 8: Percent Change in Consumer Prices - to Jan 2023

	United States		New England	
	Last Month	Last Year	Last Month	Last Year
	Dec 2022	Jan 2022	Dec 2022	Jan 2022
All Items	0.8%	6.4%	0.9%	5.5%
Food	0.7%	10.1%	1.2%	10.1%
Shelter	0.7%	7.9%	0.8%	5.2%
Fuel & Utilities	2.7%	13.2%	6.2%	27.7%
Transportation	0.7%	3.8%	-0.7%	1.2%
Medical	0.1%	3.1%	0.5%	2.9%
Recreation	0.7%	4.8%	-0.3%	1.1%
Education	0.3%	1.0%	-0.4%	0.7%
All, Less Food/Energy	0.6%	5.6%	0.5%	3.7%

Source: U.S. Bureau of Labor Statistics/Haver Analytics.

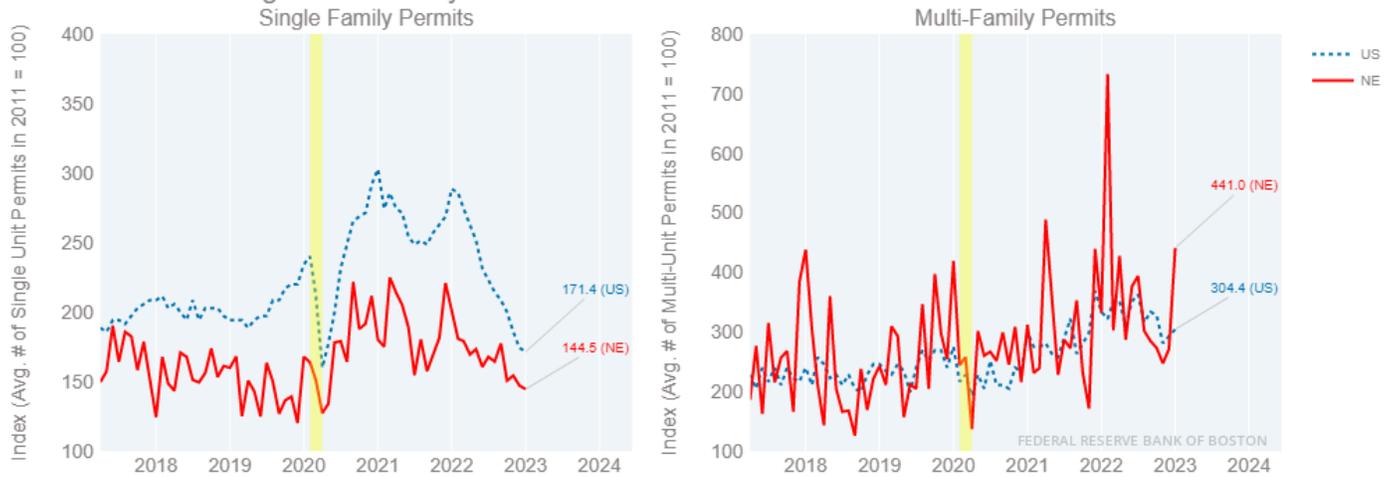
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Exhibit 9: Purchase-Only House Price Indexes - to Dec 2022



Source: Federal Housing Finance Agency and S&P CoreLogic Case-Shiller, Fiserv, and MacroMarkets LLC/Haver Analytics.
Note: Data are seasonally adjusted. Tick marks correspond to January of the given year. Yellow bars indicate recessions.

Exhibit 10: Housing Permit Activity - to Jan 2023



Source: U.S. Census Bureau/Federal Reserve Bank of Boston.
Note: Data are seasonally adjusted. Tick marks correspond to January of the given year. Yellow bars indicate recessions.

