

New England Economic Conditions

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Federal Reserve Bank of Boston

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1. Payroll Employment

- Overall payroll employment in New England has fully recovered from the COVID-19 pandemic.
- The leisure and hospitality sector in the region has experienced job losses since spring and remains well below its pre-pandemic level.

The New England region continued to see growth in nonfarm payroll employment in the 12-month period leading up to July 2023, but its recovery remained behind the nation as a whole (Exhibit 1). Both the United States and the region returned to their pre-pandemic employment levels; the employment figures for the country and New England were 2.6 percent and 0.3 percent higher, respectively, in July 2023 compared with February 2020.

New Hampshire, Massachusetts, and Maine passed their pre-pandemic values. Connecticut almost reached its pre-pandemic employment level, while Rhode Island and Vermont were still down more than 2 percent.

Among job supersectors, professional and business; construction; education and health services; trade, transportation, and utilities; and information surpassed their February 2020 employment levels in New England (Exhibit 2). The leisure and hospitality sector saw substantial job growth following its lowest point during the pandemic, but employment has been declining since March 2023. As a result, it remained 6.6 percent below its pre-pandemic level. Recent anecdotal evidence suggests that despite a large number of job openings, this sector has had a particularly difficult time recruiting and retaining employees this year both in the region and across the country.¹ The turnover rate is high, as many workers have left

¹ See Kenneth R Gosselin, “CT’s Hotels Face a Worker Shortage, with More than 4,000 Job Openings in the State,” *Hartford Courant*, June 19, 2023; Alicia Hoisington, “Staffing Shortages Persist Despite Hiring Efforts, Record Wages,” *Hotel Management*, June 12, 2023; Stephanie Ferguson, “Understanding America’s Labor Shortage: The Most Impacted Industries,” US Chamber of Commerce, August 10, 2023.

the leisure and hospitality industry for better pay, more flexible hours, and greater job stability.²

2. Unemployment and Labor Force Participation

- New England had a lower unemployment rate in July than the nation, with New Hampshire and Vermont holding the two lowest rates across all states.
- Labor force participation in New England remains well below the pre-pandemic level.

The unemployment rate in New England continues to decline and is now lower than the national rate by 0.8 percentage point (Exhibit 3). Among the states in the region, New Hampshire and Vermont had the lowest unemployment rates in July 2023 at 1.7 percent and 1.8 percent, respectively. Those were the lowest and second-lowest rates in the country (Exhibit 4). With a July unemployment rate of 3.6 percent, Connecticut was the only state in the region with a rate as high as the national average.

While the July unemployment rate for the United States was exactly the same as its February 2020 level, all of the New England states saw their unemployment rates drop below pre-pandemic values. The decline from February 2020 ranged from 0.3 percentage point for Massachusetts and Connecticut to 0.9 percentage point for New Hampshire and Rhode Island.

Despite a significant improvement since its lowest point during the pandemic, labor force participation remained lower than its February 2020 level both for the United States and New England (Exhibit 5). The country as a whole was closer to its pre-pandemic level compared with the region, with a gap of 0.7 percentage point versus a gap of 2.1 percentage points for New England. A 2021 Boston Fed working paper suggests that population aging has played an important role in the slow recovery of the labor force participation rate following the onset of the pandemic.³ The aging-population factor may have an even stronger impact on New England, given that the region's population has the highest percentage of people 65 and over among all census divisions.

3. Inflation

² See Abha Bhattarai and Maggie Penman, "Restaurants Can't Find Workers Because They've Found Better Jobs," *Washington Post*, February 3, 2023.

³ Cooper, Daniel H., Christopher L. Foote, María J. Luengo-Prado, and Giovanni P. Olivei. 2021. "Population Aging and the US Labor Force Participation Rate." Federal Reserve Bank of Boston Current Policy Perspectives.

- Inflation has steadily declined in Boston since last fall.
- Boston recently experienced both a large year-over-year increase in rents and a large decrease in prices for gasoline and utility gas service.

Boston has seen a steady decrease in overall inflation since September 2022 (Exhibit 6). The year-over-year price change for Boston was 2.8 percent for July 2023, lower than the national rate of 3.2 percent. It was largely driven by a 7.2 percent rise in shelter prices (Exhibit 7). On the other hand, Boston experienced a 4.1 percent decrease in transportation prices due to a 22.8 percent drop in gasoline prices and a 4.6 percent drop in prices for used cars and trucks. Boston-area prices for fuels and utilities also declined, falling 2.8 percent compared with a year ago. Within the fuels and utilities component, utility (piped) gas service prices declined 25.7 percent from July 2022.

4. Real Estate Markets

- The New England states experienced higher annual house-price appreciation compared with the United States as a whole.
- Boston's office vacancy rate increased.

House prices increased in both the United States and New England year-over-year through the second quarter of 2023. They have consistently experienced positive annual appreciation since 2012, although the rate of appreciation has been declining for both the nation and the region since the start of 2022. Each of the six New England states saw higher house-price appreciation compared with the country as whole (Exhibit 8). Maine, Connecticut, and New Hampshire held the top three spots nationwide in house-price-growth rate from 2022:Q2 to 2023:Q2.

The office market continued to face challenges in the Boston area and across the country amid sluggish demand. The office vacancy rates in both downtown and suburban Boston climbed in the 12 months from 2022:Q2 to 2023:Q2 (Exhibit 9). Office rents in downtown Boston increased 1.9 percent compared with a year prior (Exhibit 10). That growth rate is unlikely to keep up with overall inflation in the area.

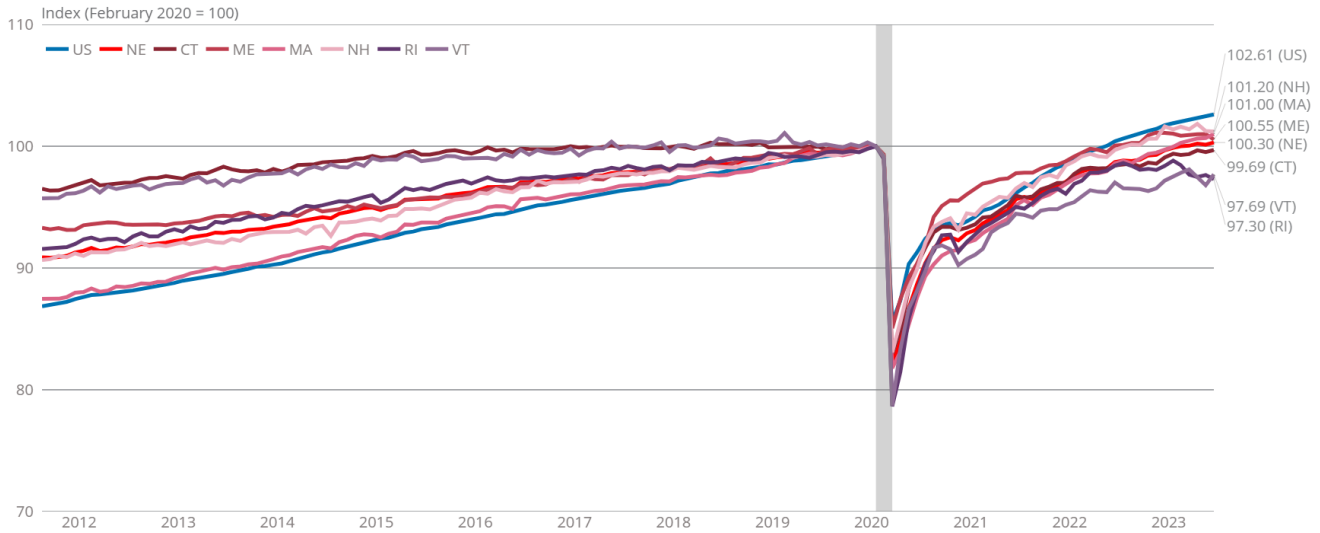
5. Consumer Confidence

- Consumer confidence has deteriorated in New England.

Consumer confidence in New England declined year-over-year through August 2023, while the United States as whole saw a slight increase during the same period (Exhibit 11). New England consumers were less satisfied with the present situation than they

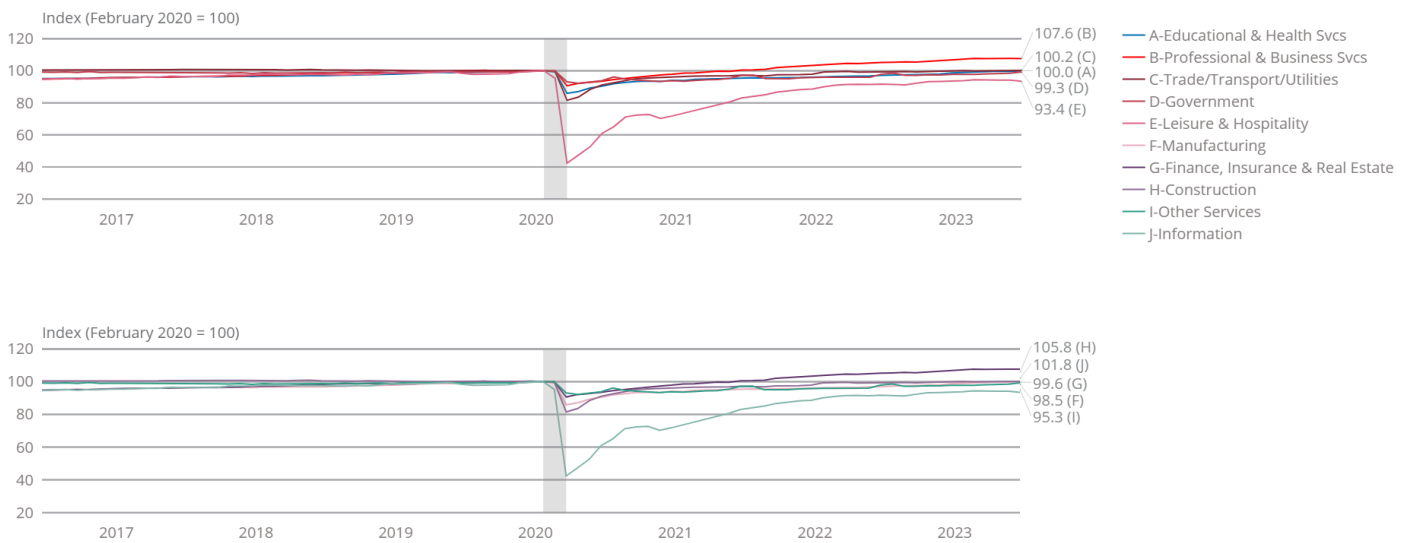
were a year earlier, and they were less optimistic about the short-term economic outlook.

EXHIBIT 1:
Non-Agricultural Employment
 to July 2023



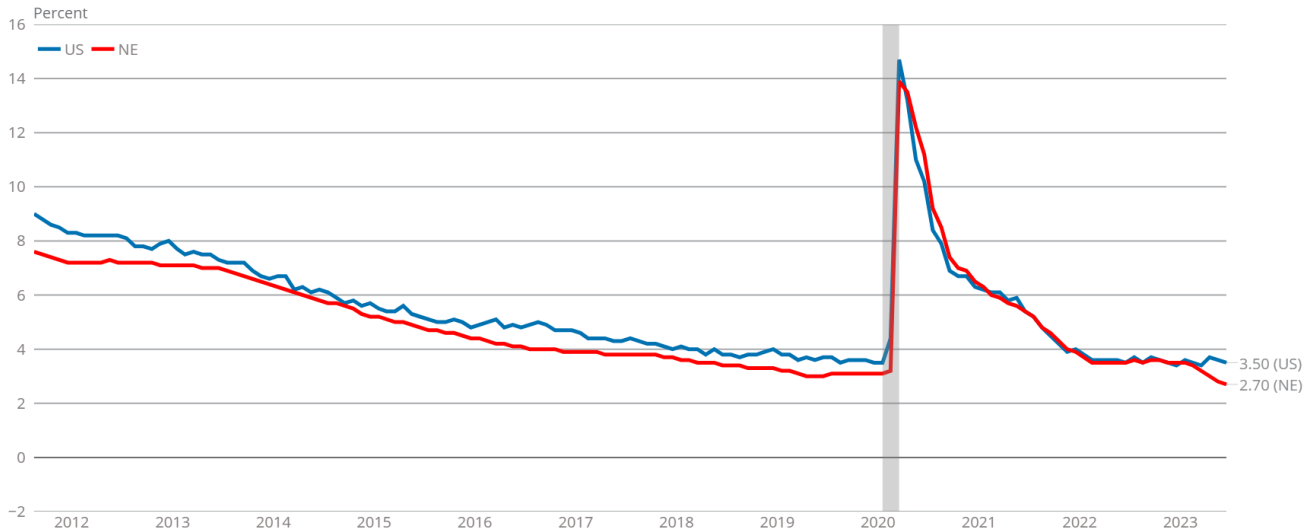
Source: U.S. Bureau of Labor Statistics/Haver Analytics.
 Note: Data are seasonally adjusted. First data point after year label represents January of the given year. Grey bars indicate recessions.

EXHIBIT 2:
New England Payroll Employment by Industry
 to July 2023



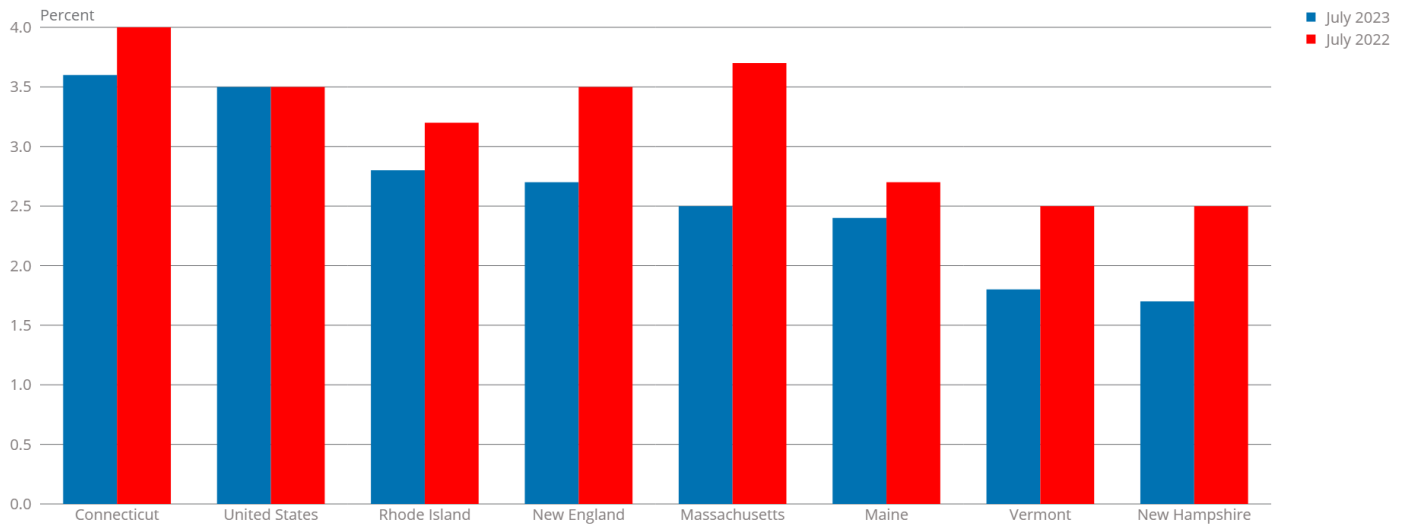
Source: U.S. Bureau of Labor Statistics/Haver Analytics.
 Note: New England figure for "Information" excludes RI, for which data are unavailable. First data point after year label represents January of the given year. Grey bars indicate recessions.

EXHIBIT 3:
Unemployment Rates
 to July 2023



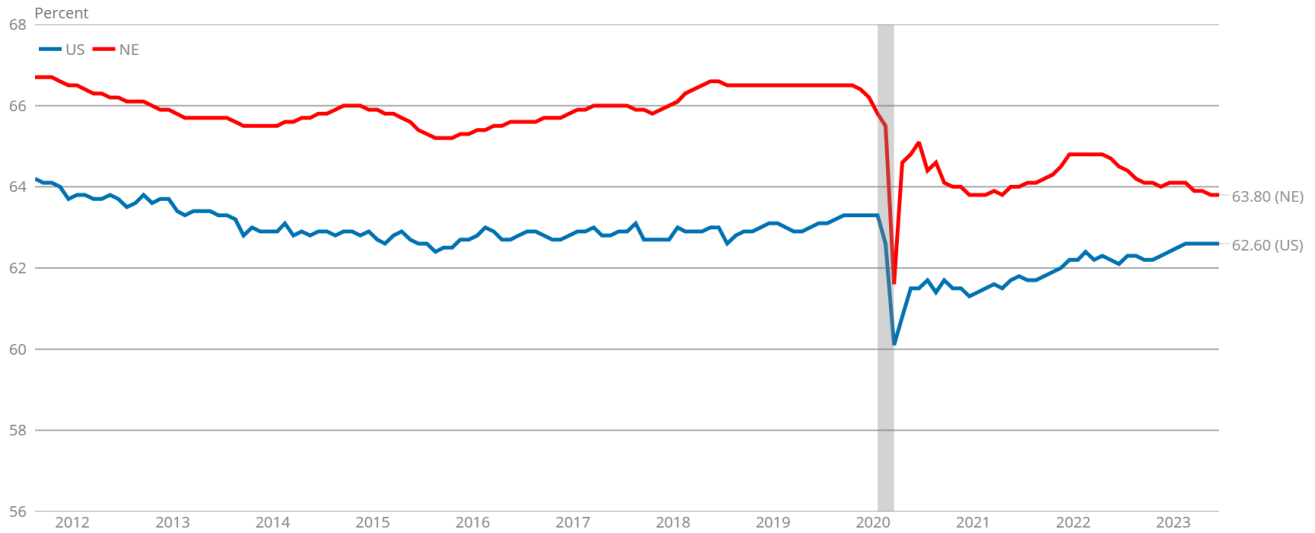
Source: U.S. Bureau of Labor Statistics/Haver Analytics.
 Note: Data are seasonally adjusted. First data point after year label represents January of the given year. Grey bars indicate recessions.

EXHIBIT 4:
Unemployment Rates in New England States
 to July 2023



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

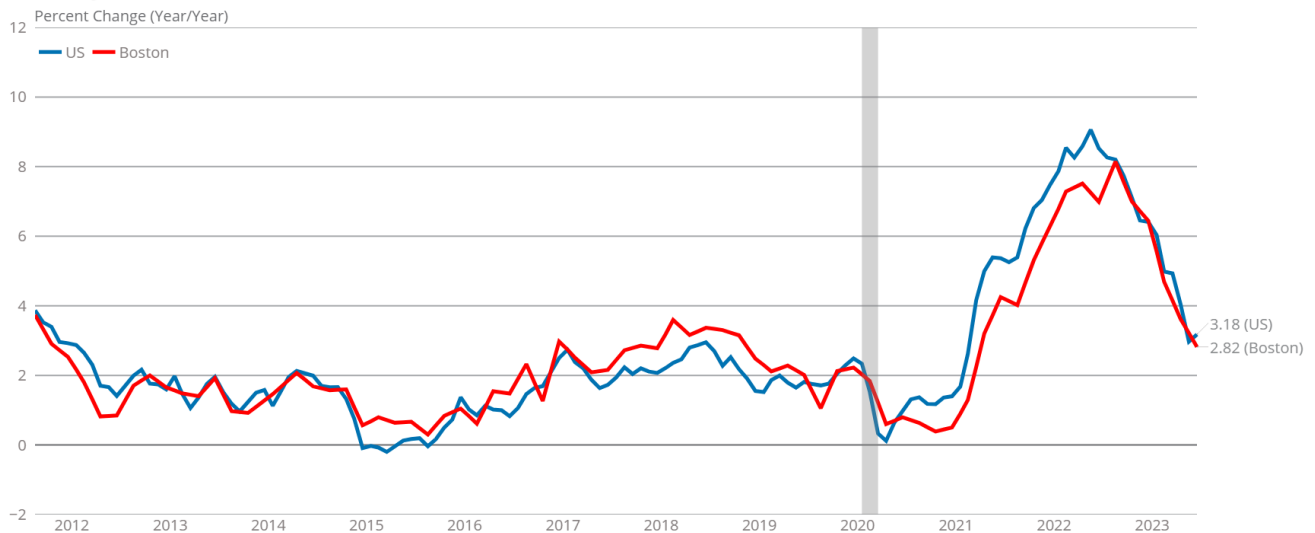
EXHIBIT 5:
Labor Force Participation
to July 2023



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

Note: Data are seasonally adjusted. First data point after year label represents January of the given year. Grey bars indicate recessions.

EXHIBIT 6:
Consumer Price Index
to July 2023



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

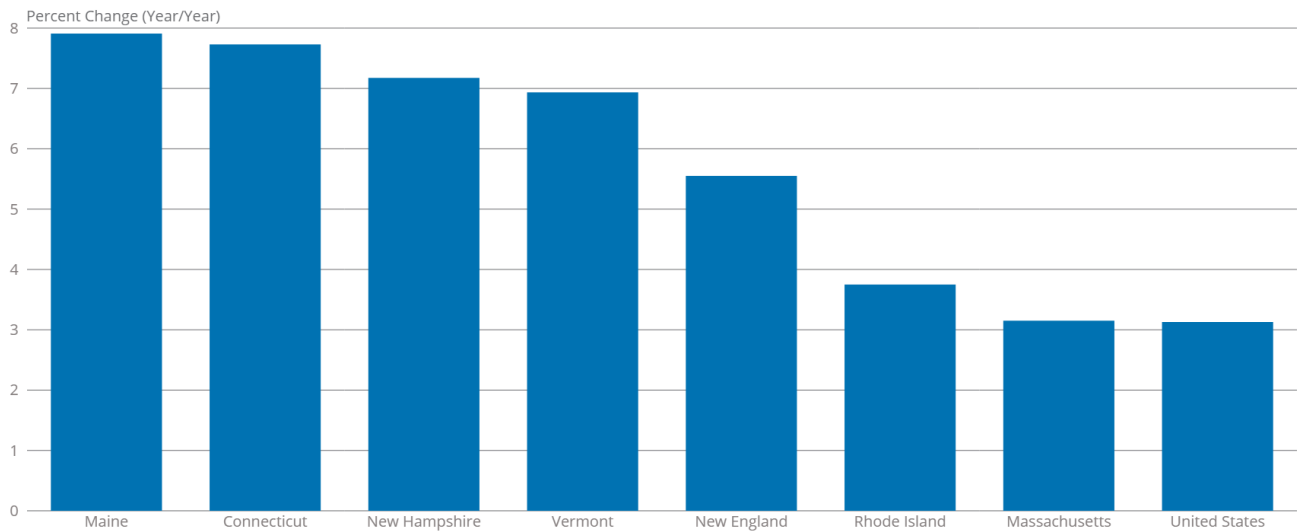
Note: First data point after year label represents January of the given year. Grey bars indicate recessions.

EXHIBIT 7:
Percent Change in Consumer Prices
 to July 2023

	United States		Boston	
	2-Months Ago May 2023	Last Year July 2022	2-Months Ago May 2023	Last Year July 2022
All Items	0.2%	3.2%	-0.1%	2.8%
Food	0.3%	4.9%	1.3%	5.8%
Shelter	0.4%	7.7%	0.3%	7.2%
Fuel & Utilities	0.2%	-0.6%	-7.3%	-2.8%
Transportation	0.2%	-3.0%	0.4%	-4.1%
Medical	-0.1%	-0.5%	-0.8%	-1.7%
Recreation	0.1%	4.1%	-0.7%	-2.2%
Education	0.0%	1.2%	0.6%	-0.5%
All, Less Food/Energy	0.2%	4.7%	0.1%	4.0%

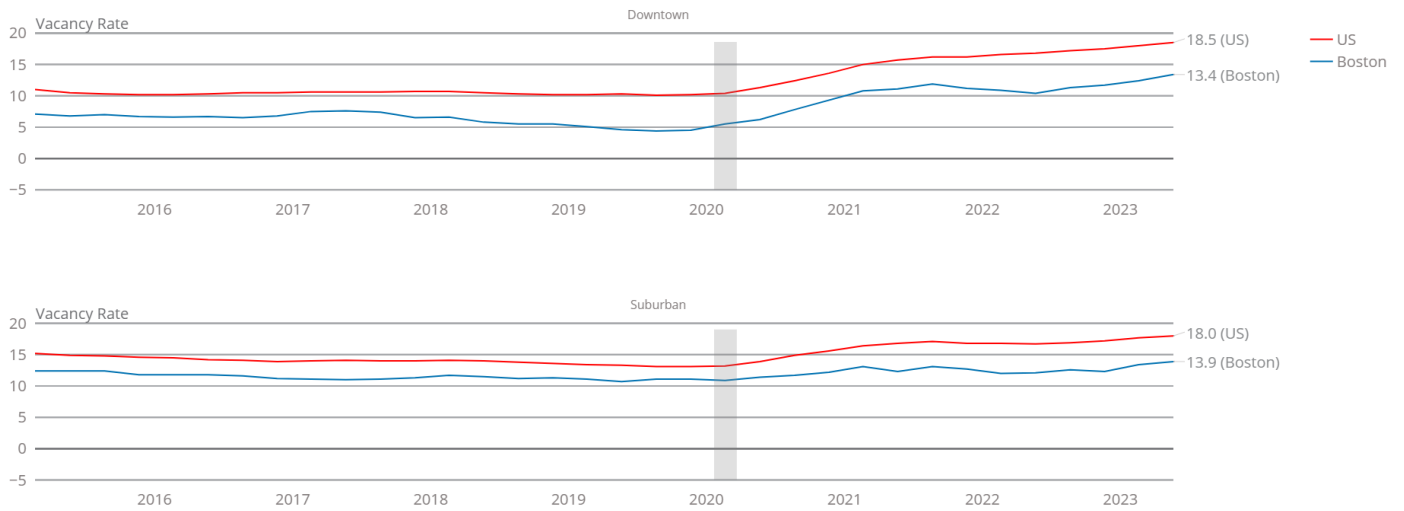
Source: U.S. Bureau of Labor Statistics/Haver Analytics.
 Note: Boston data are released every other month except for "Shelter" which is released monthly.

EXHIBIT 8:
House Prices (FHFA Purchase-only)
 to Q2-2023



Source: Federal Housing Finance Agency/Haver Analytics

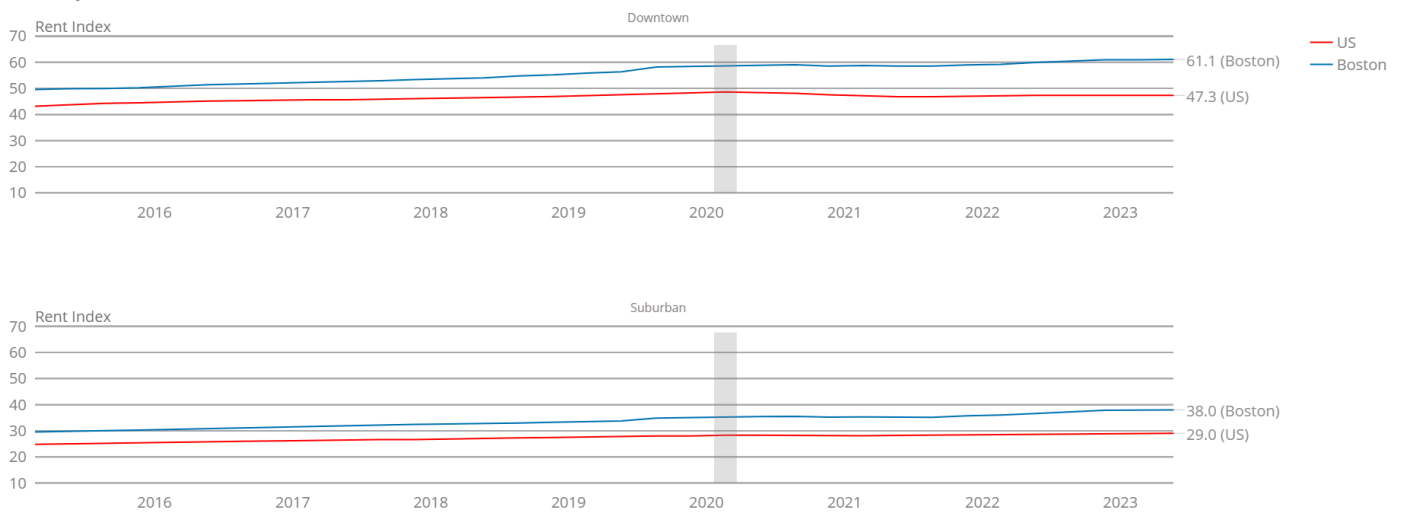
EXHIBIT 9:
Office Vacancies
to Q2-2023



Source: CB Richard Ellis.

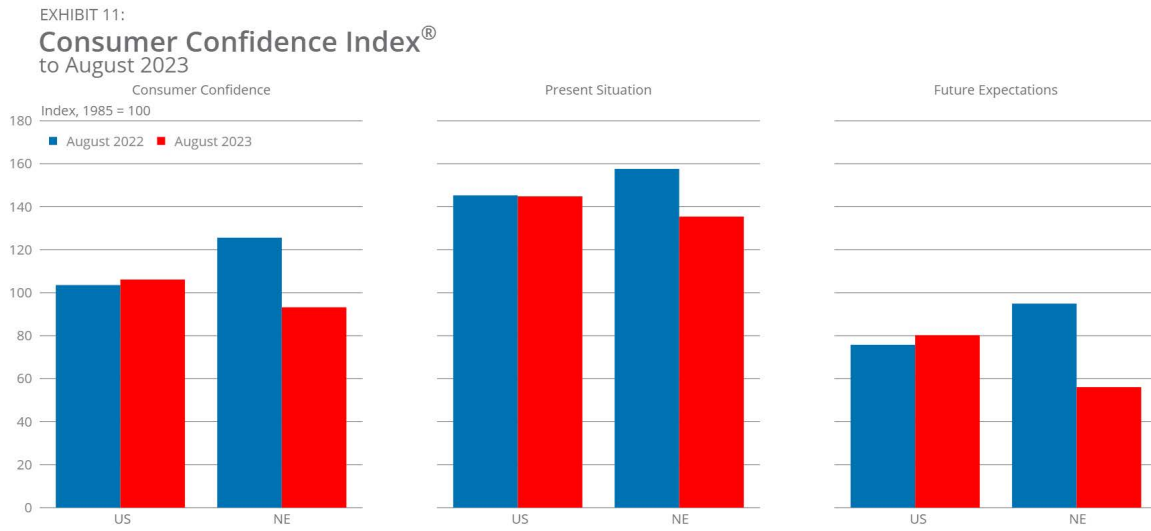
Note: Office vacancy rate is a percentage representing vacant office space for lease divided by the total square footage of office space. First data point after year label represents first quarter of the given year. Grey bars indicate recessions.

EXHIBIT 10:
Office Rents
to Q2-2023



Source: CB Richard Ellis.

Note: Data are compiled by a survey of owners, weighted by the number of square feet available for lease in the submarket with the respective rent type. Data are presented in current dollars and are therefore not adjusted for inflation. First data point after year label represents first quarter of the given year. Grey bars indicate recessions.



Source: The Conference Board Index, Haver Analytics.
Note: Data are seasonally adjusted.