

# NEW ENGLAND ECONOMIC OUTLOOK

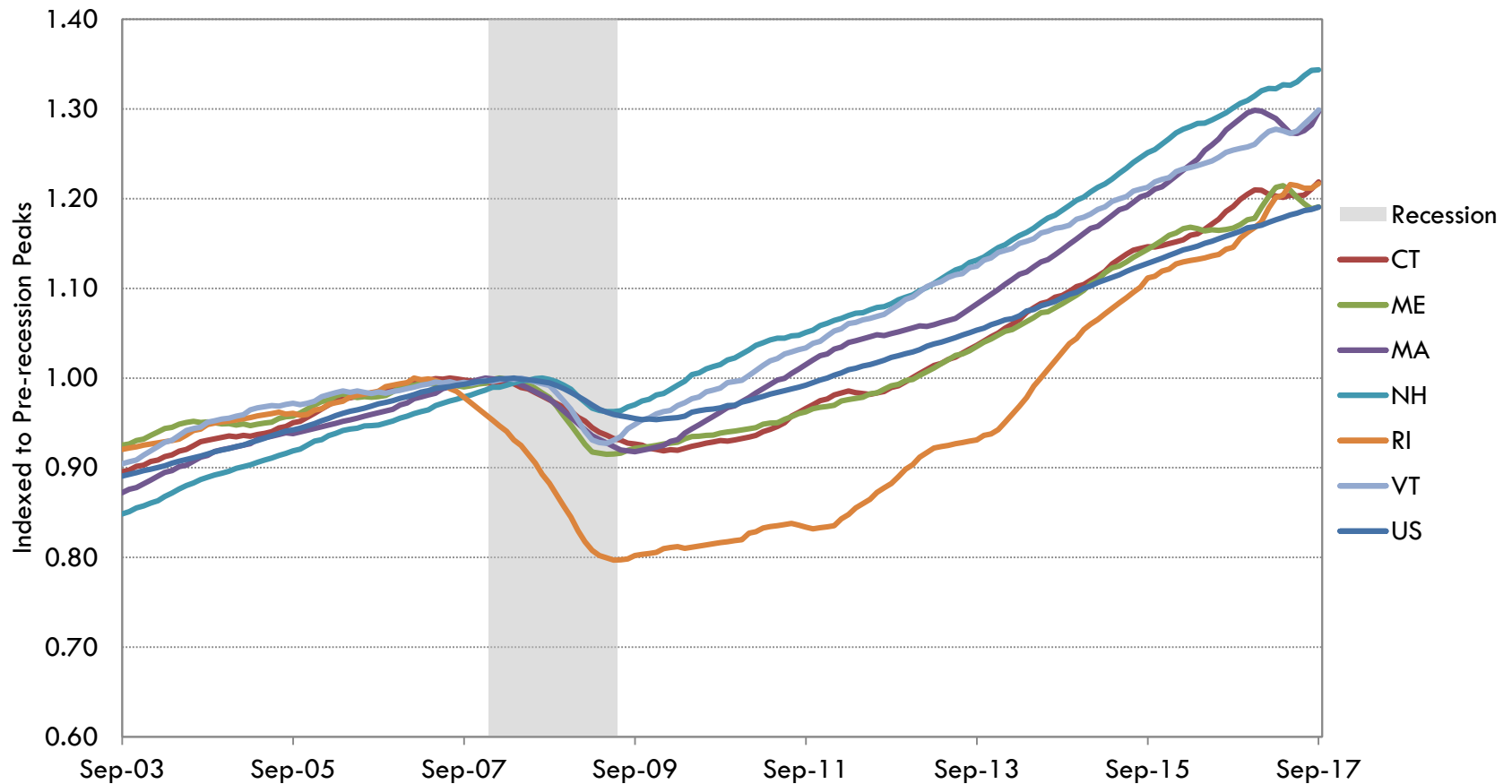
Massachusetts Bankers Association  
84<sup>th</sup> Annual New England Wealth Management and  
Trust Conference  
Boston, MA  
November 17, 2017

Mary A. Burke  
Senior Economist  
Federal Reserve Bank of Boston

# About the Federal Reserve Bank of Boston

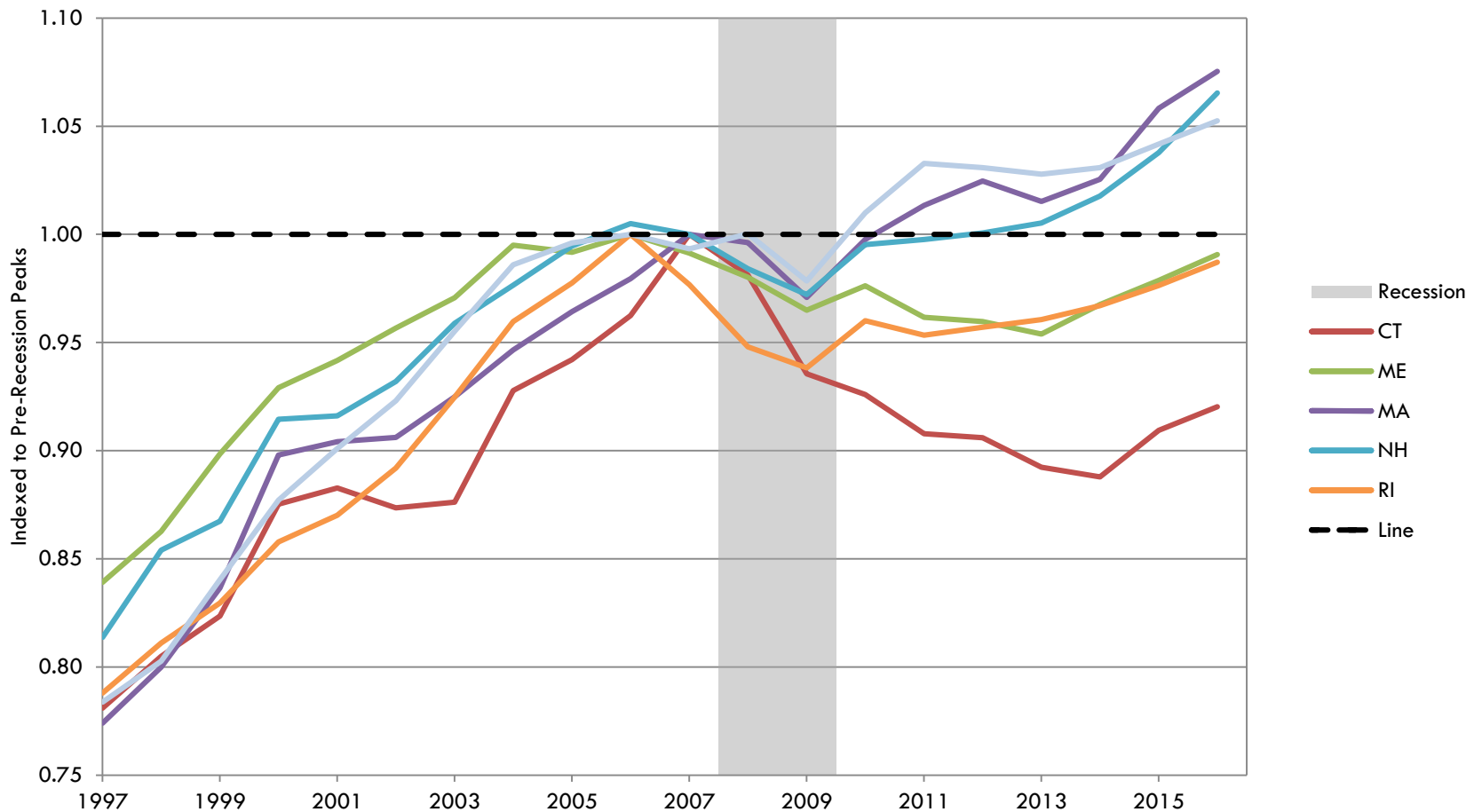
- **Part of Federal Reserve System**
  - Board of Governors (Washington., DC)
  - 12 regional banks (including Boston)
  - Conducts monetary policy, supervises and regulates banks
- **Boston Fed's role**
  - Advise on monetary policy decisions
  - Assist with banking supervision and regulation
  - Monitor regional economy and inform public policy in region
    - New England Public Policy Center, within Boston Fed

# Economic Activity Indexes: Robust Net Growth From Pre-Recession Peak

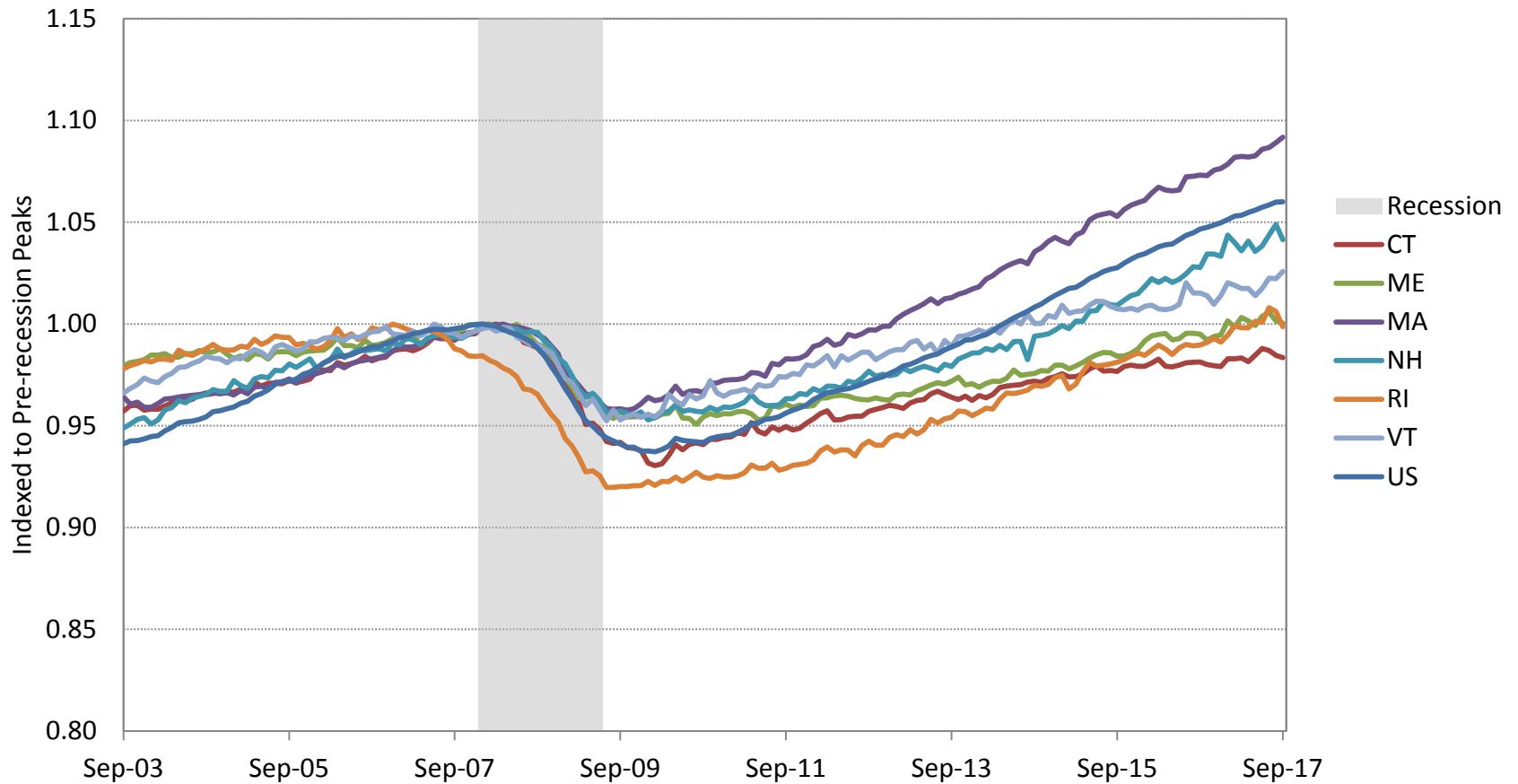


# Recovery of Real GDP Per Capita Not Complete in All States

Real GDP Per Capita, Relative to Pre-Recession Peak

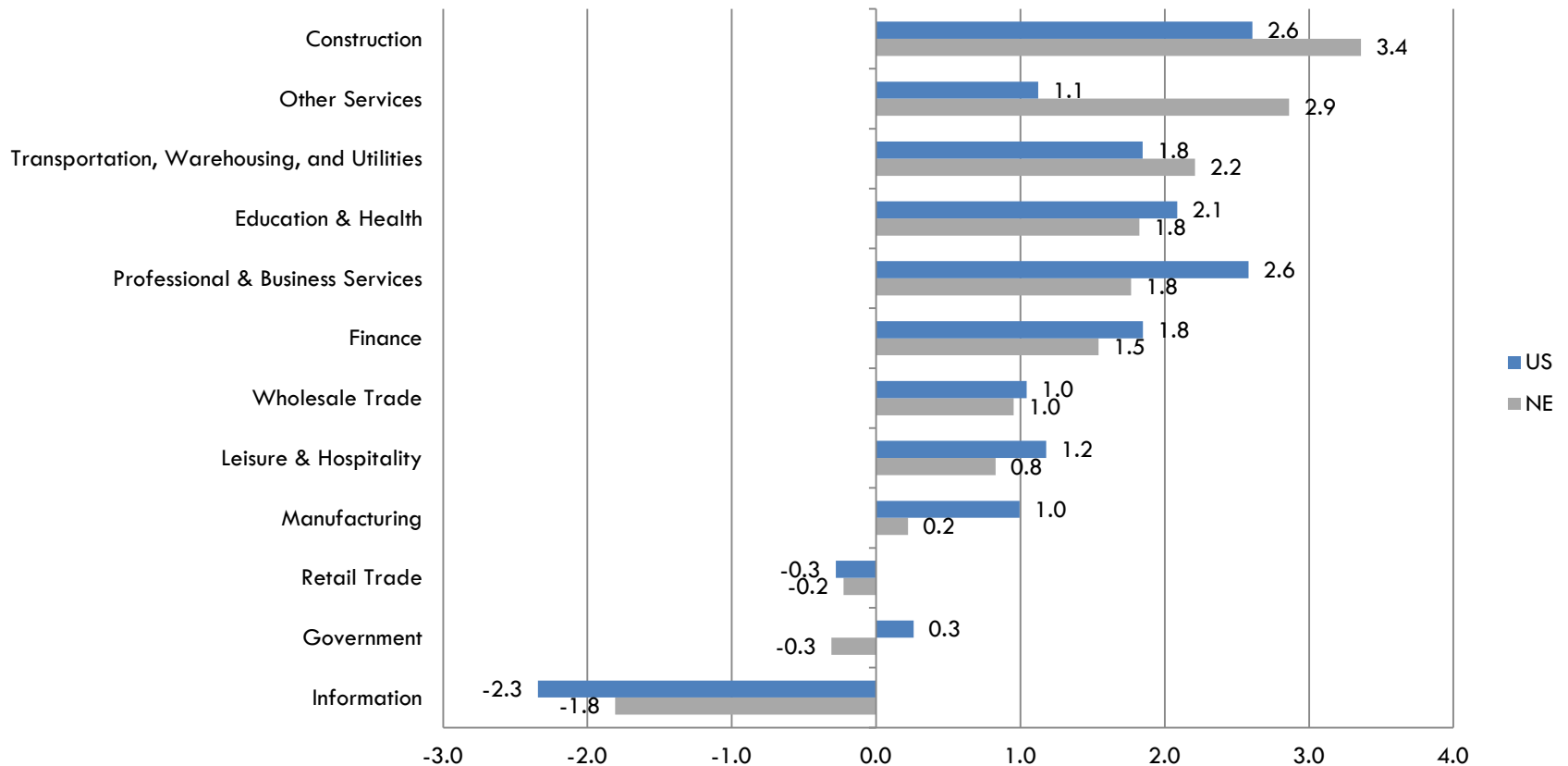


# Payroll Jobs Still Below Peak in CT; Job Growth Weak in VT Since 2015

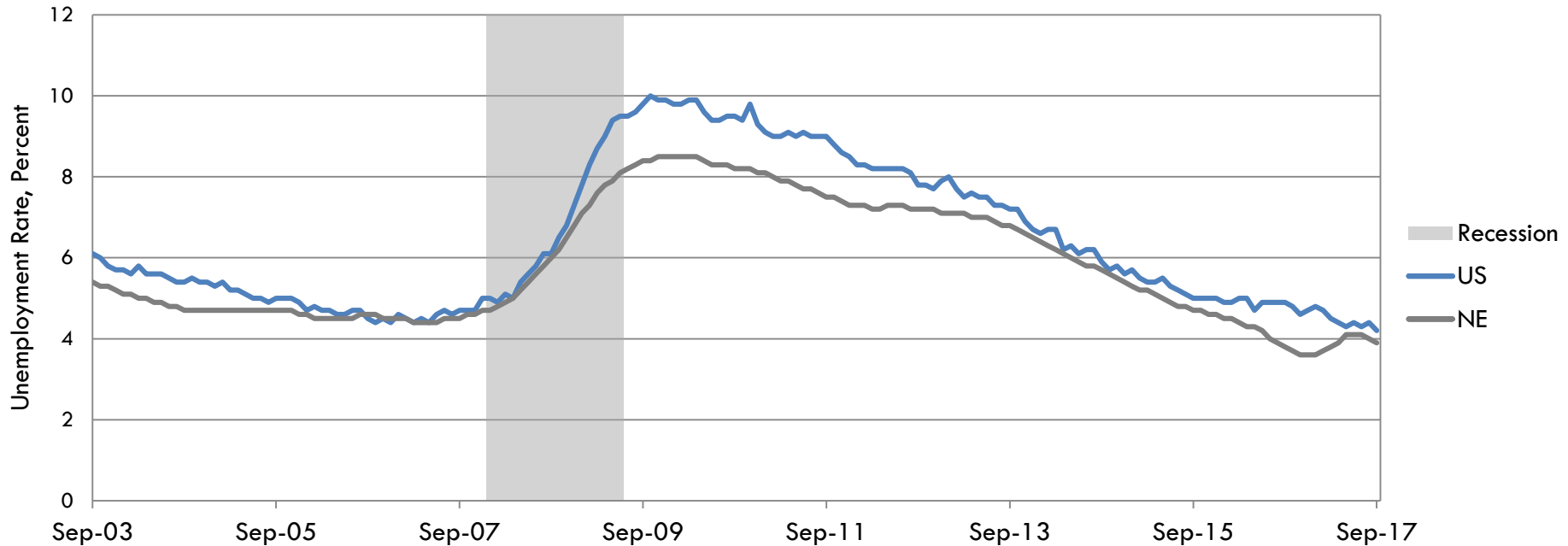


# Construction Sector First in Job Growth; Warehousing Up, Retail Down

## Percent Change, September 2016 - September 2017

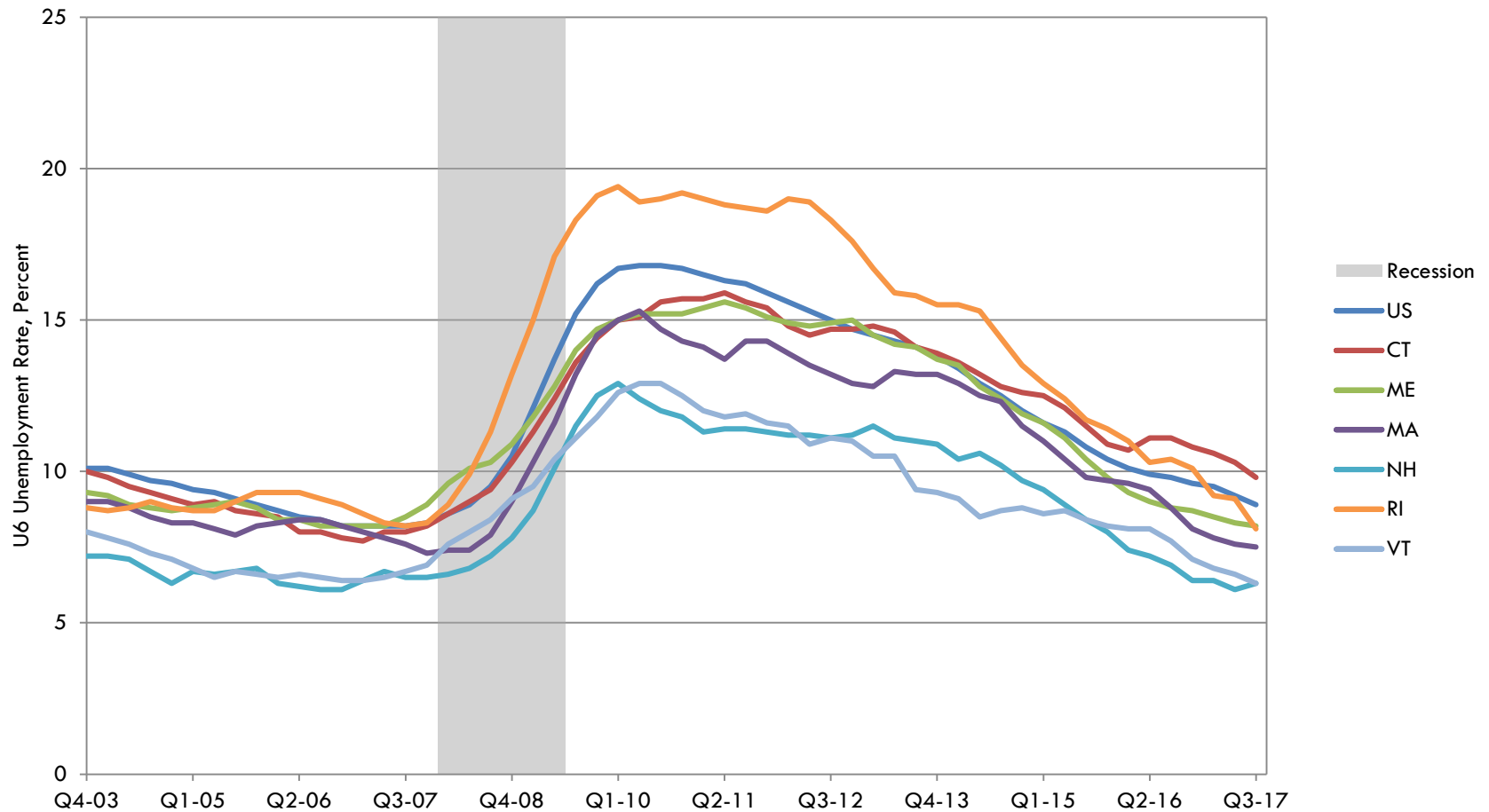


# Unemployment Flat in Region; Up in MA, Down Sharply in RI

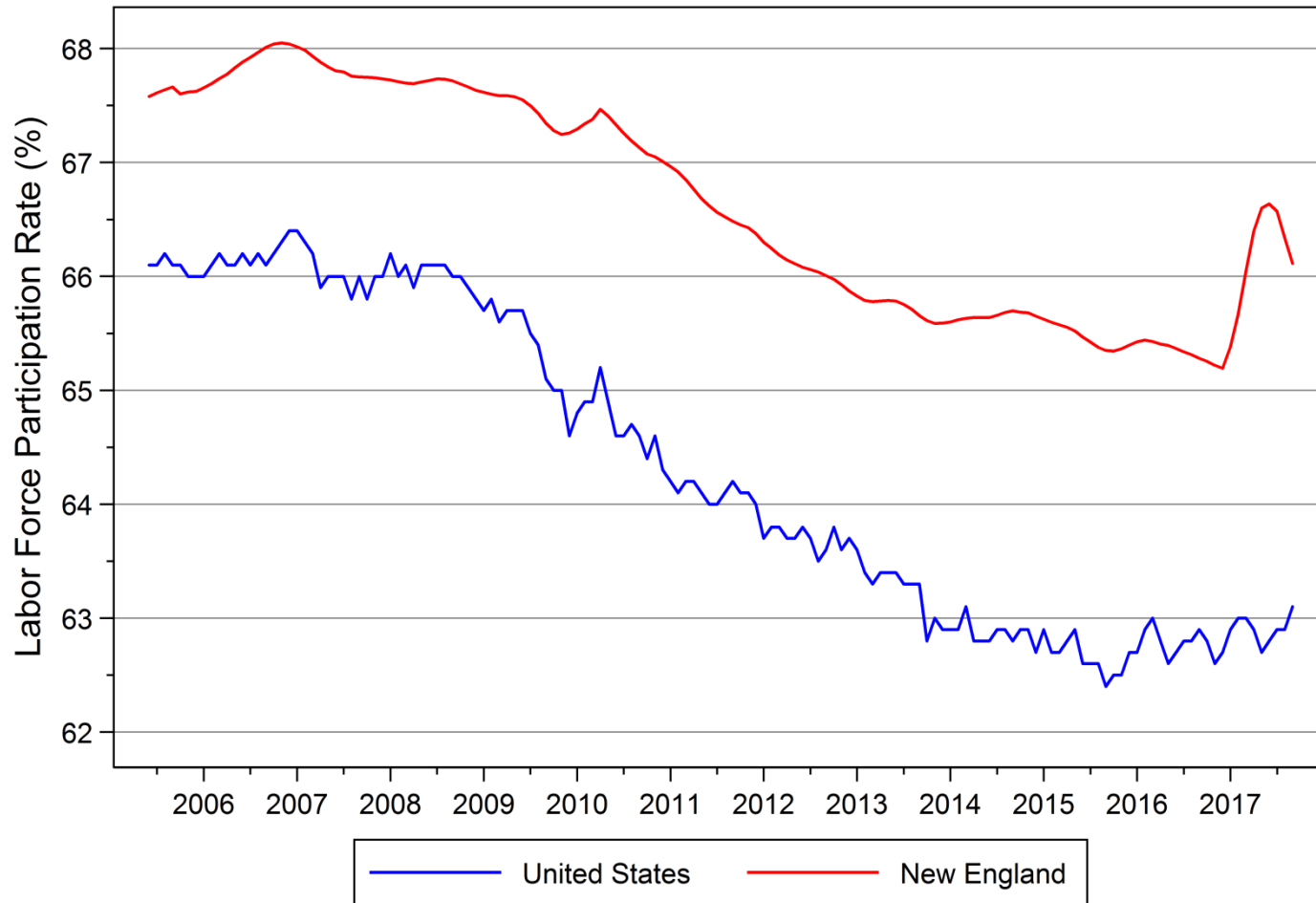


	Sep-16	Sep-17
United States	4.9	4.2
New England	3.8	3.9
Connecticut	4.8	4.6
Maine	4.0	3.7
Massachusetts	3.3	3.9
New Hampshire	2.8	2.7
Rhode Island	5.3	4.2
Vermont	3.2	2.9

# Broader Unemployment Measure (U6) Still Elevated in CT

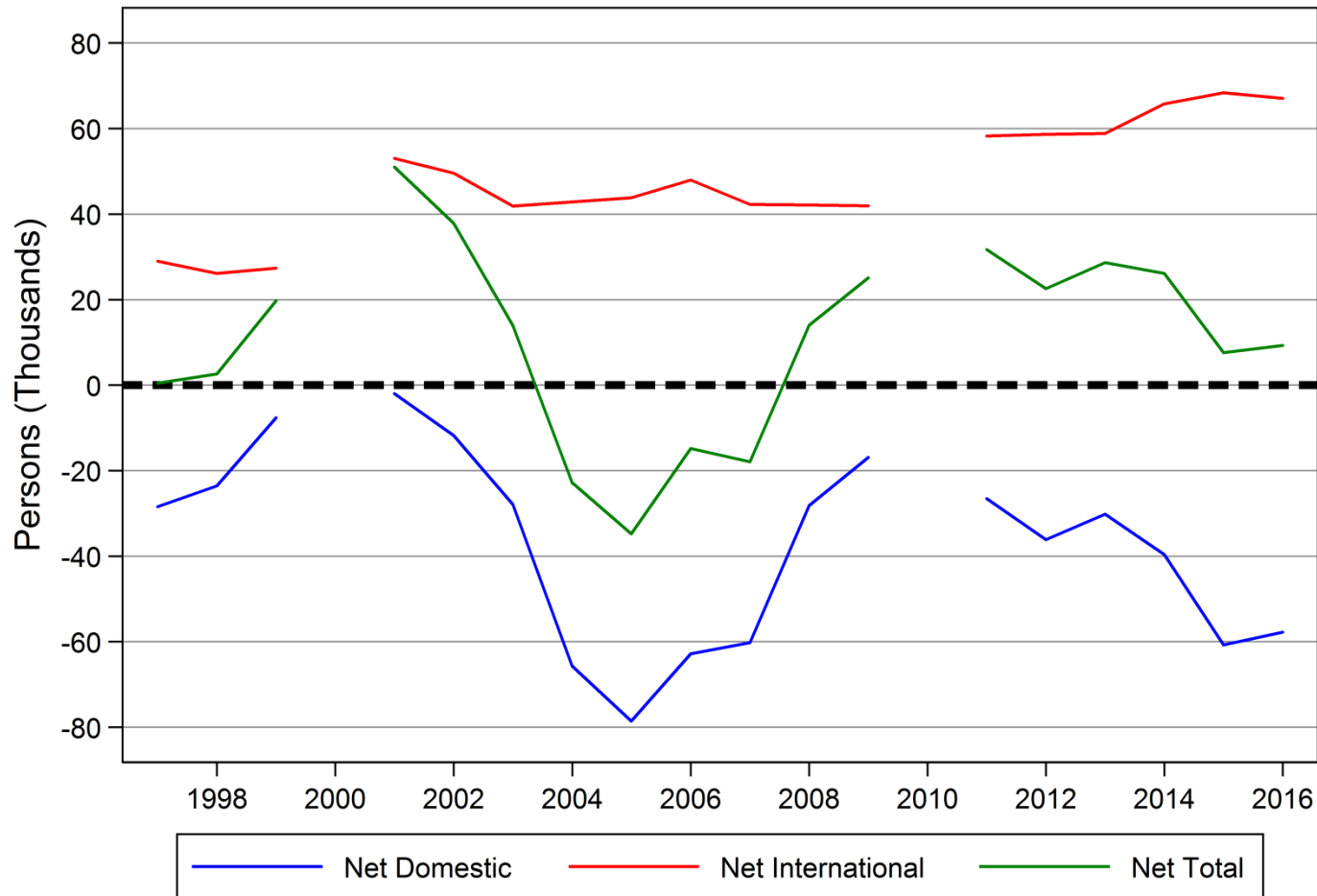


# Region's Labor Force Participation Rate Up Since Dec. 2016, Despite Recent Decline



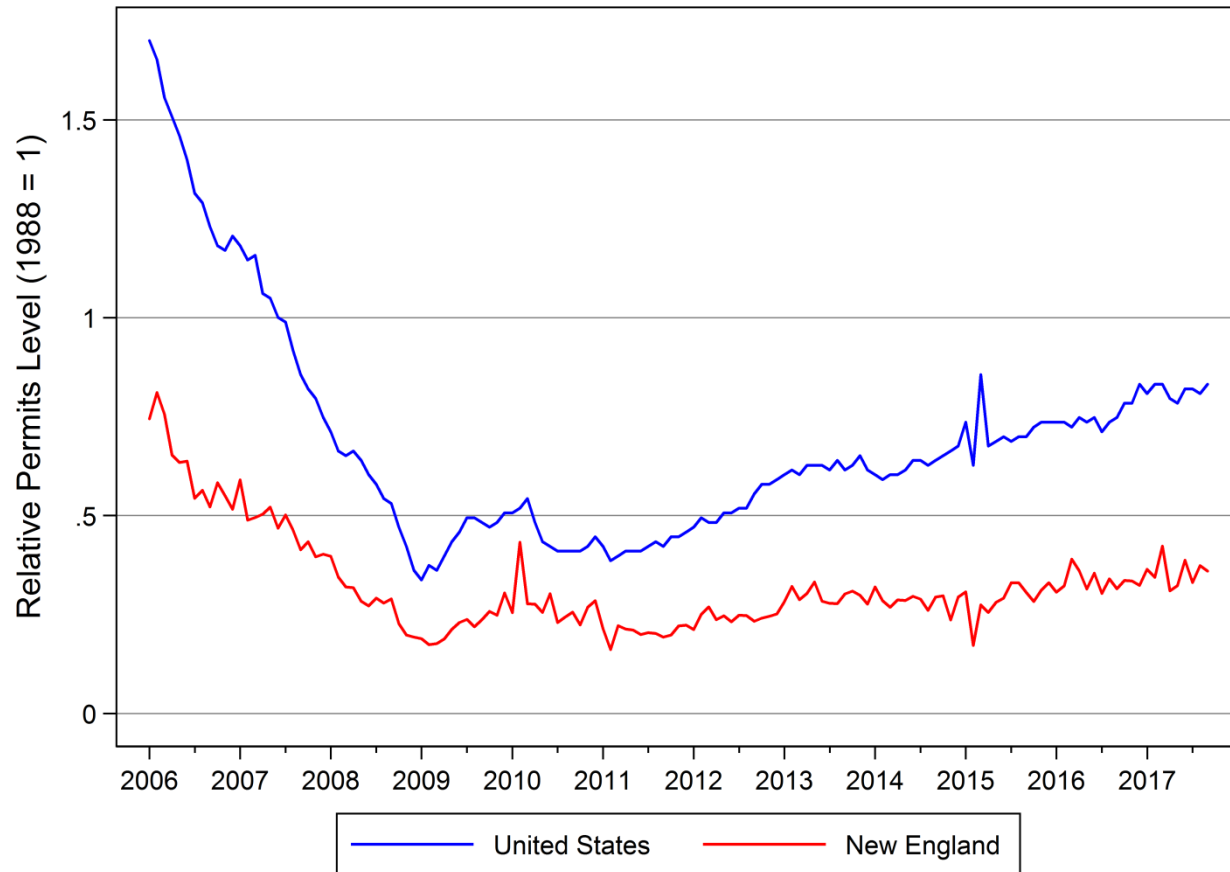
Source: Bureau of Labor Statistics; Seasonally-Adjusted Data

# Without International Migration, New England Population Would be Declining



Source: Census Bureau/Haver Analytics

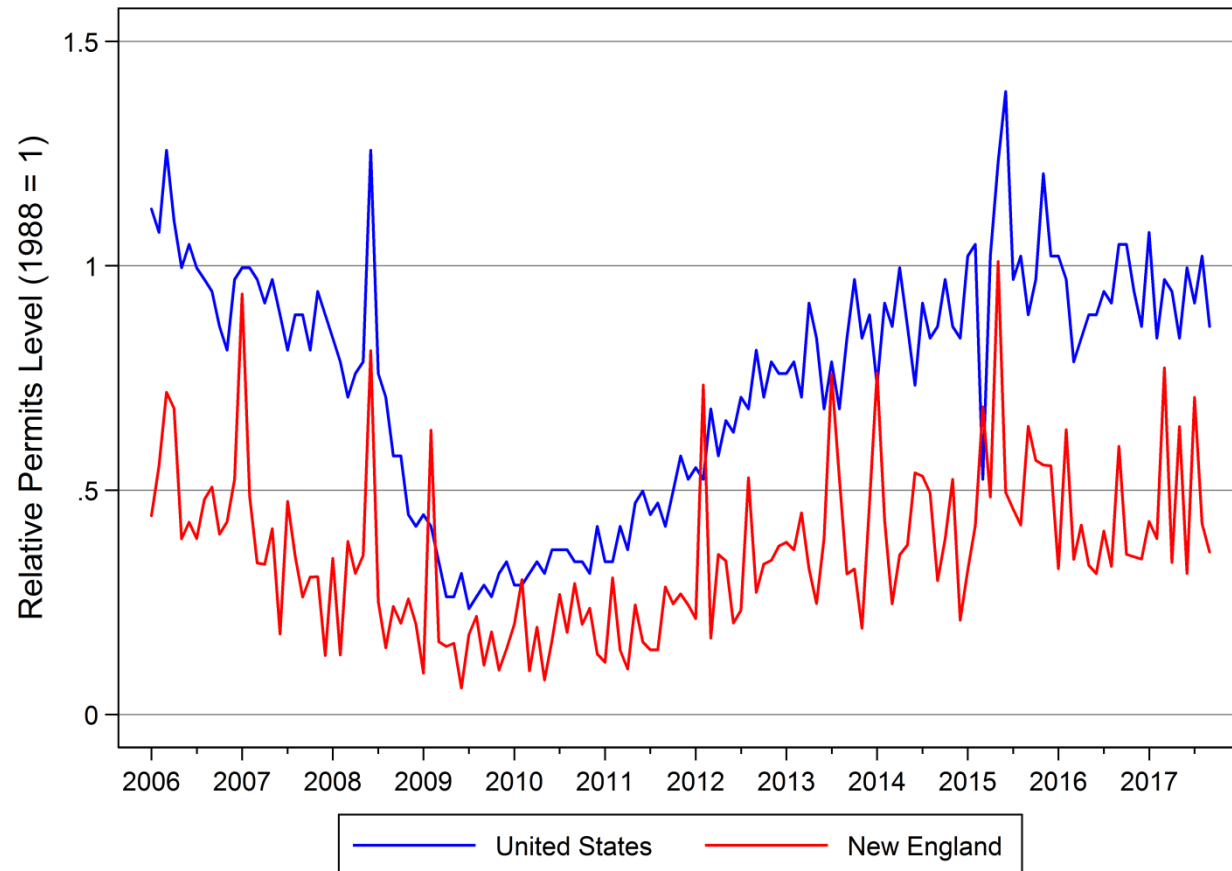
# Single-Family Permits Still Well Below Pre-Recession Highs



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

Note: Data are seasonally adjusted.

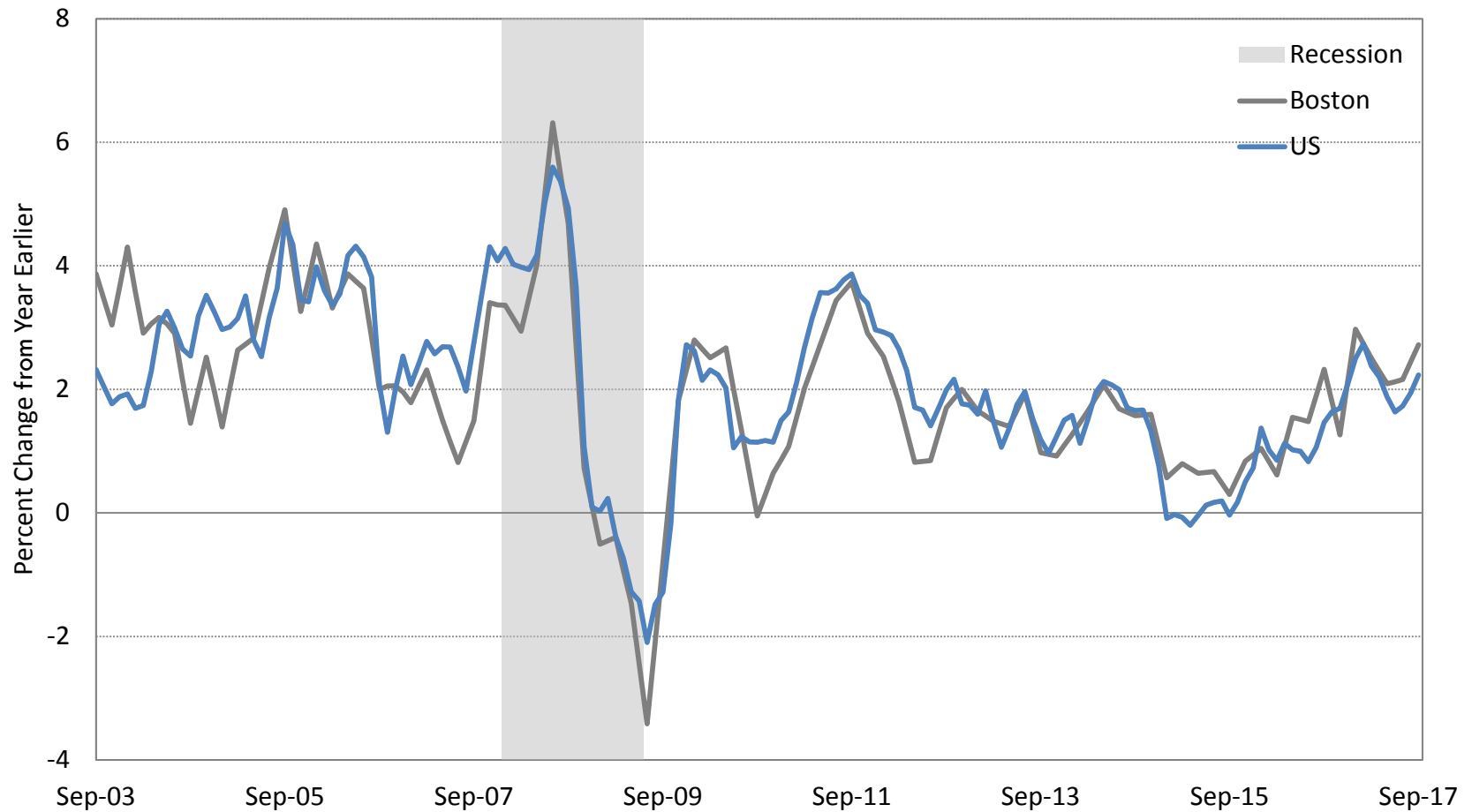
# Multifamily Permits Activity At or Above Pre-Recession Levels Since Late 2015



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

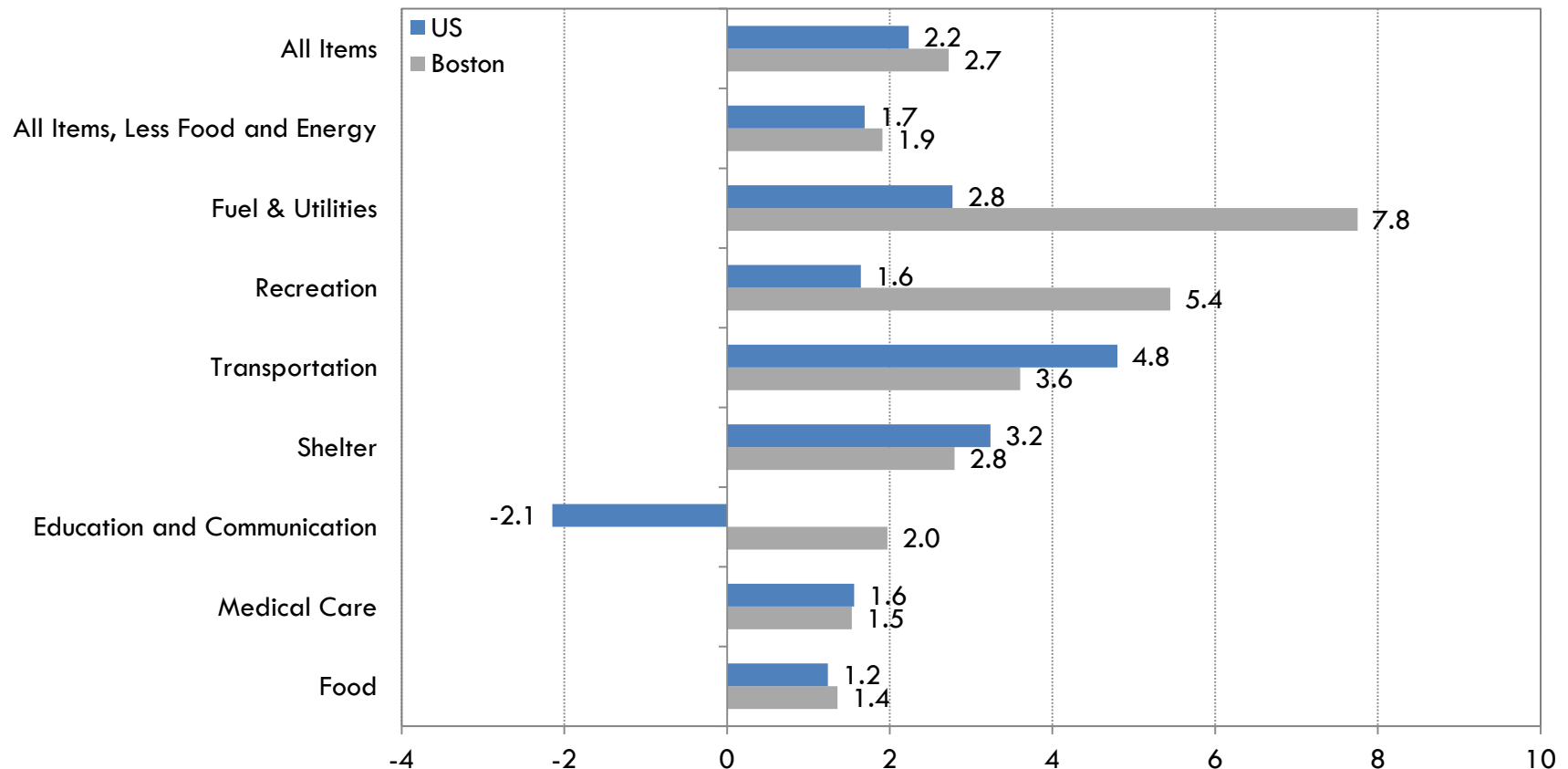
Note: Data are seasonally adjusted.

# Headline CPI Inflation Up Since 2015; Boston Rate 2.7%

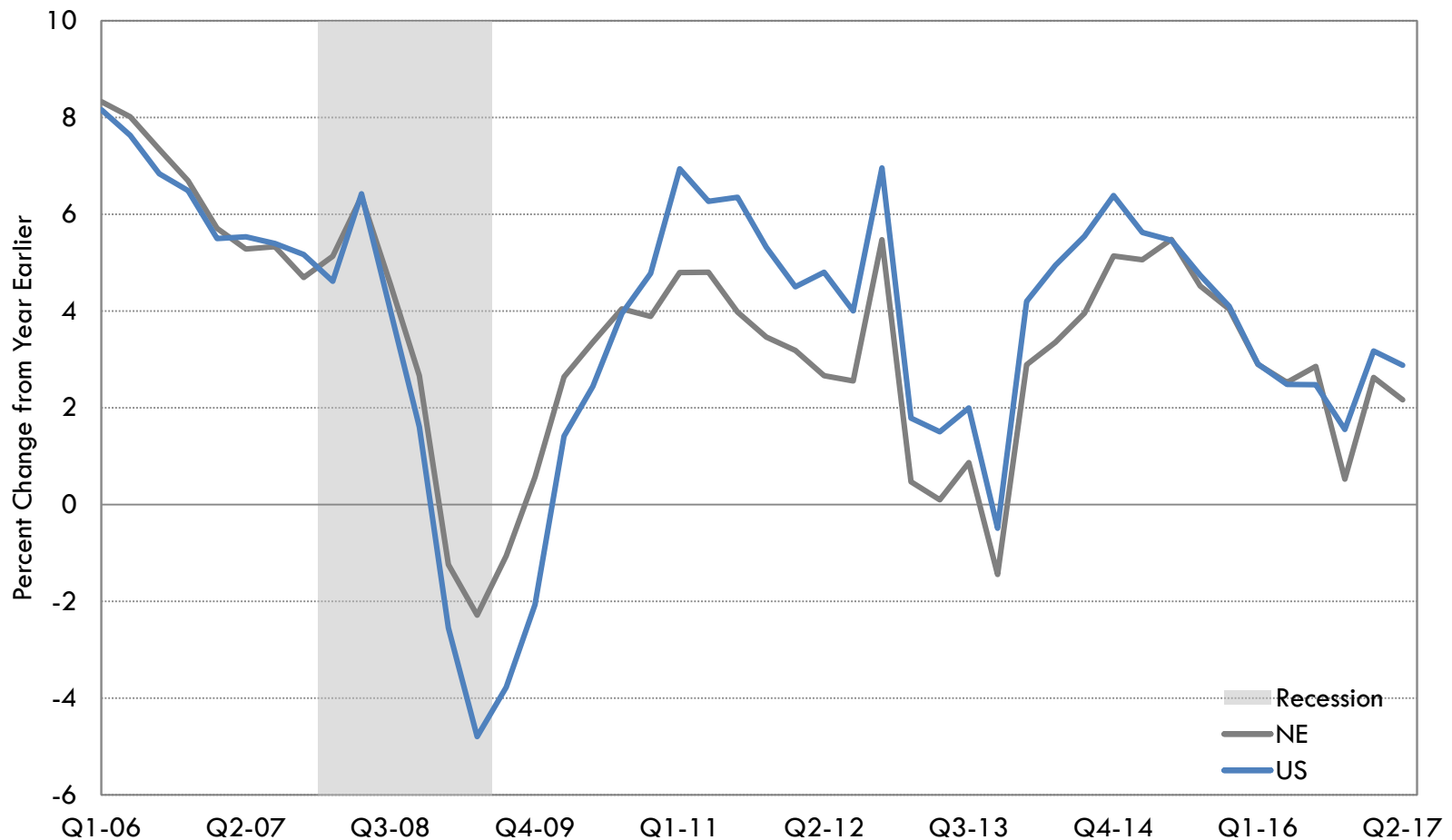


# Fuel & Utilities Prices Extend Sharp Increases in Boston (not Gasoline)

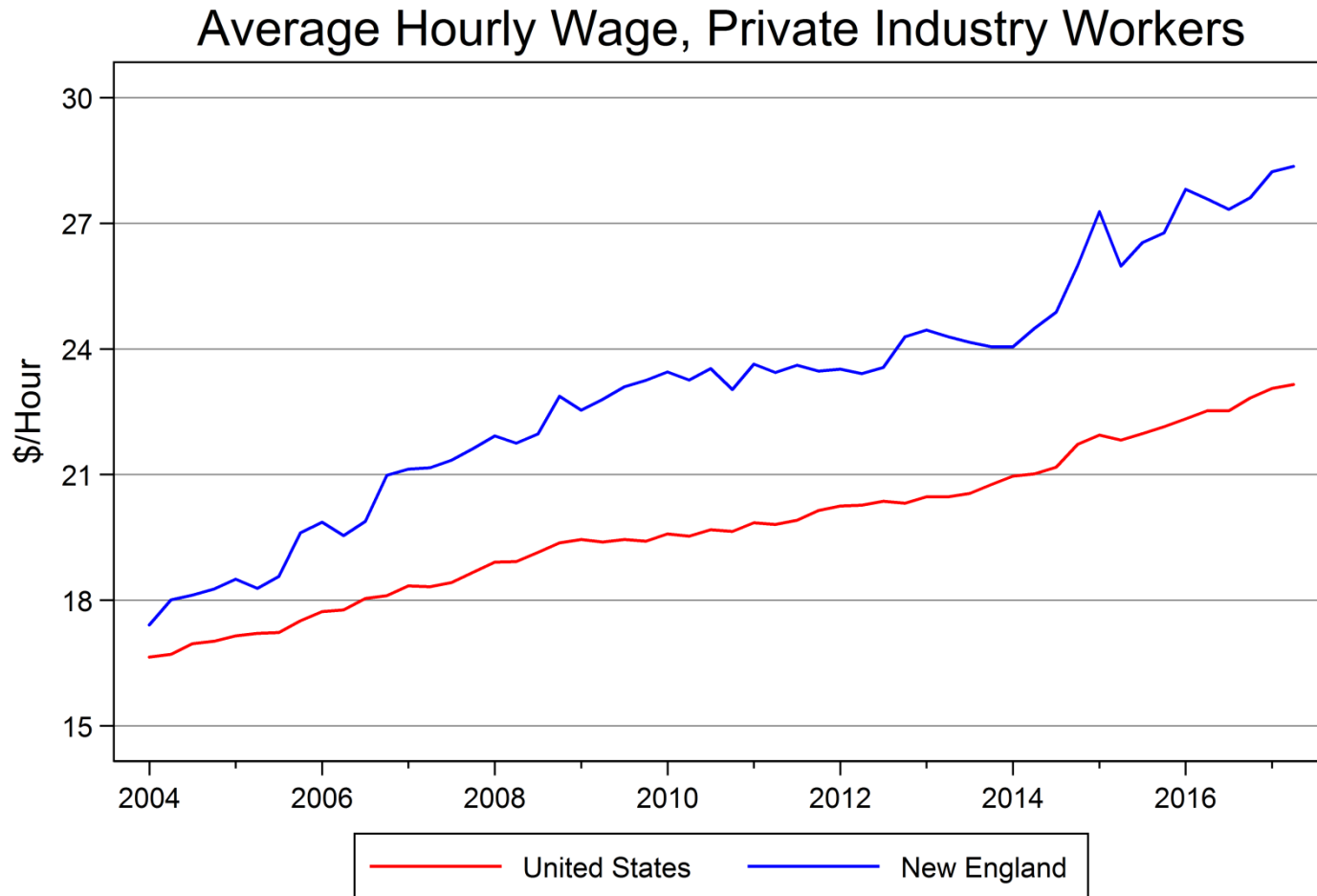
Percent Change, September 2016 - September 2017



# Personal Income Growth Up from 2016Q4, But Still Moderate

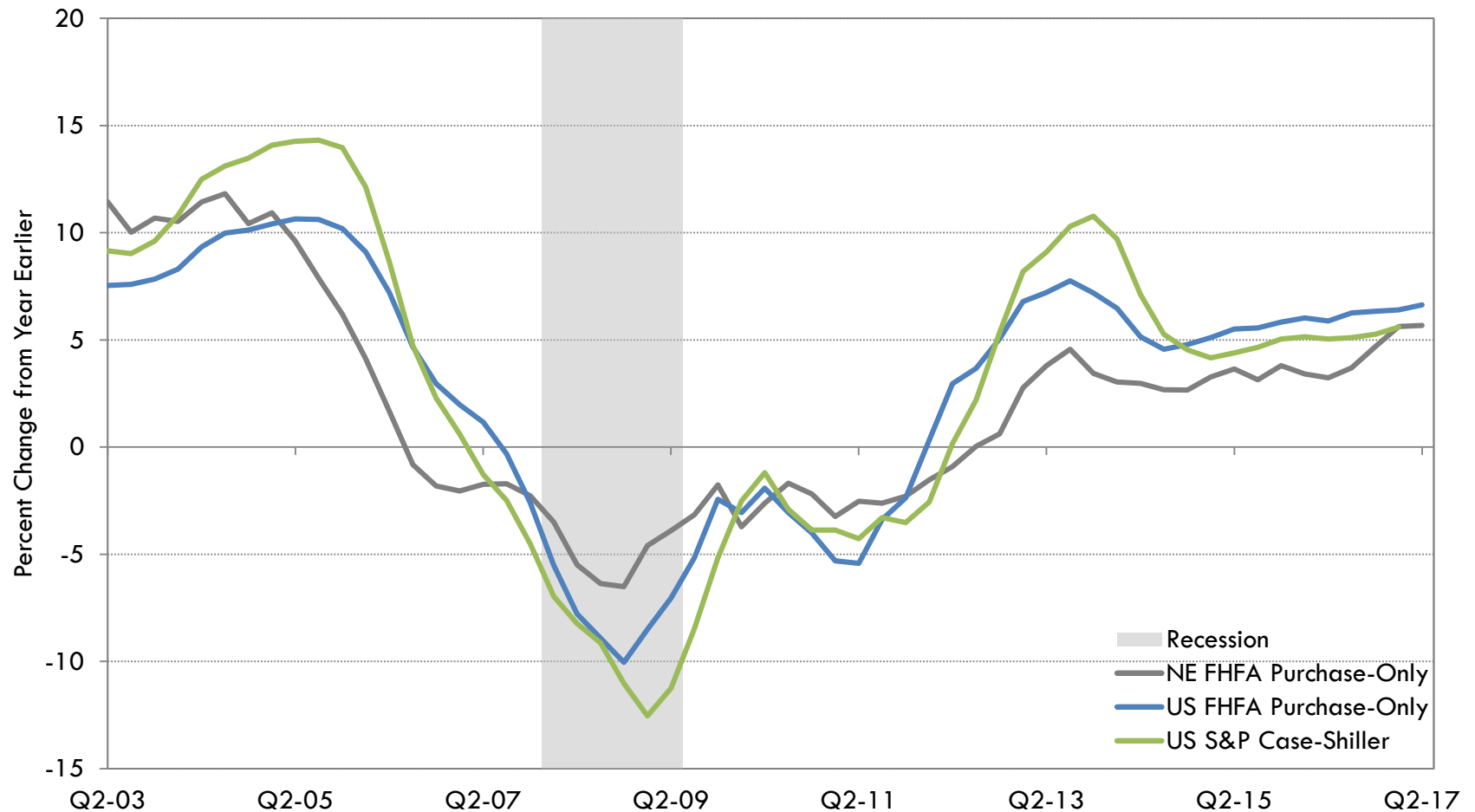


# New England Hourly Wages Above U.S. Average; Increased More Since 2005



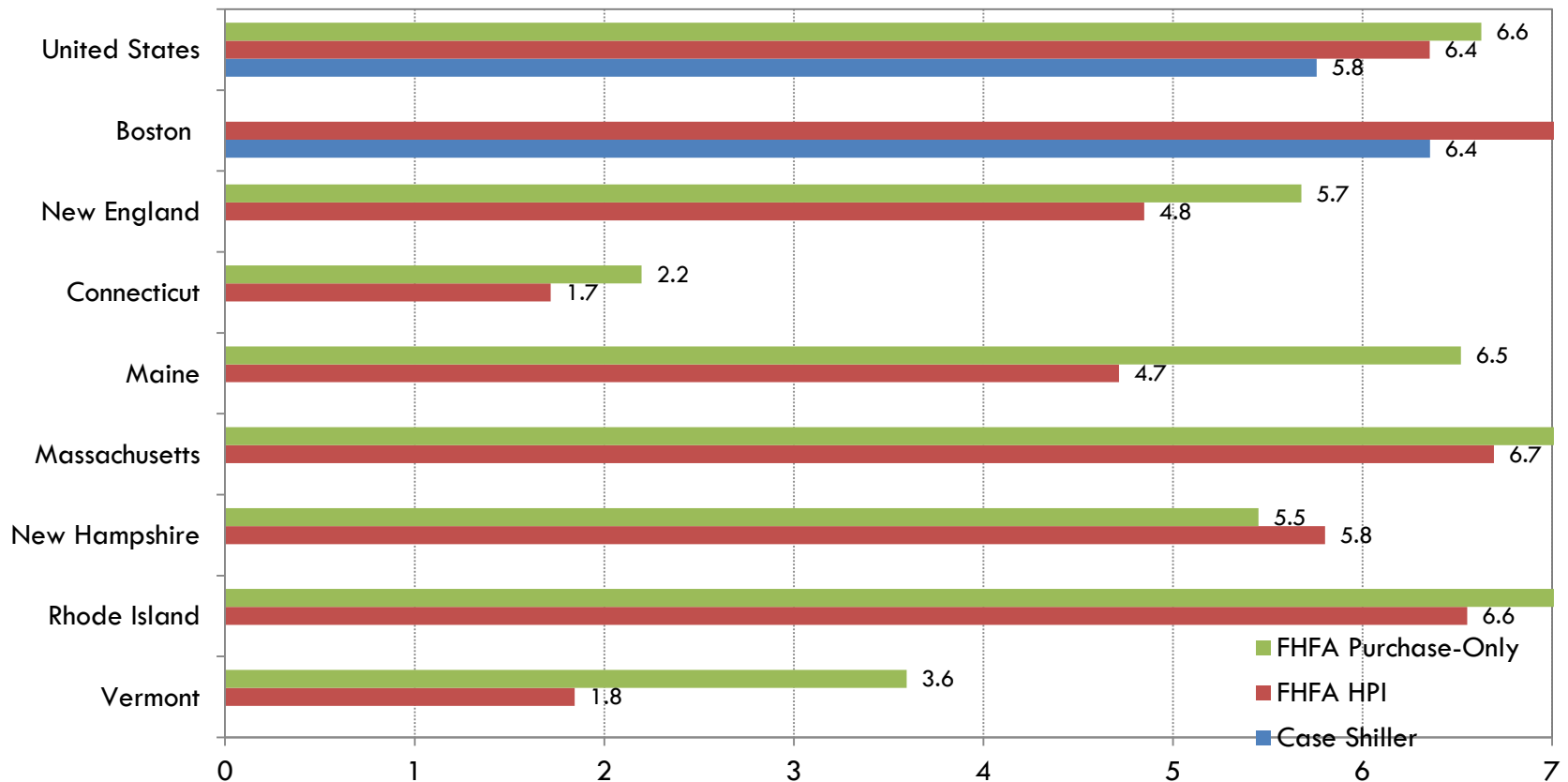
Source: Bureau of Labor Statistics/Haver Analytics

# House Price Growth Accelerating in New England Since Mid-2016



# MA (and Boston) Seeing Strongest House Price Gains in Region

**Percent Change, Q2 2016 - Q2 2017**

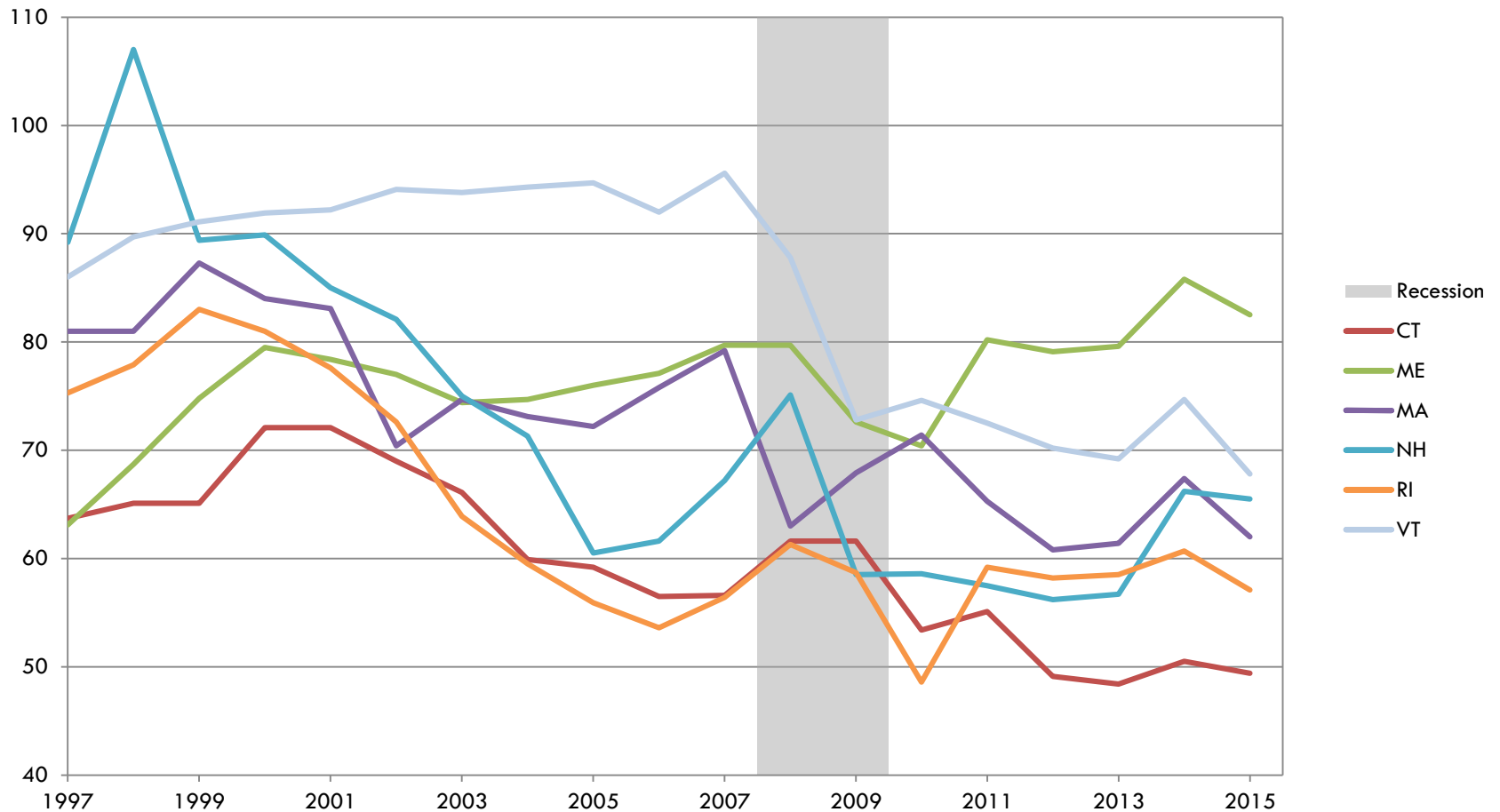


# Most NE States Facing Fiscal Strain, Weak Revenue Growth

	2017YTD- 2016YTD Taxes (%)	FY17 Shortfall	As % of Gen. Fund	FY18 Shortfall	As % of Gen. Fund
CT	-0.3%	(\$467M)	3%	(\$2.3B)	13%
ME	2.1%	--	--	--	--
MA	-0.5%	(\$431M)	1%	(\$749M)	2%
NH	-11.1%	--	--	--	--
RI	-1.8%	--	--	(\$134M)	4%
VT	2.1%	--	--	(\$76M)	5%

Sources: Census Bureau/Haver Analytics; Center on Budget and Policy Priorities

# Pension Funding Level Below 70 Percent in Most States (Except ME)



# Proposed Federal Policy Changes Could Have Large Impact on States

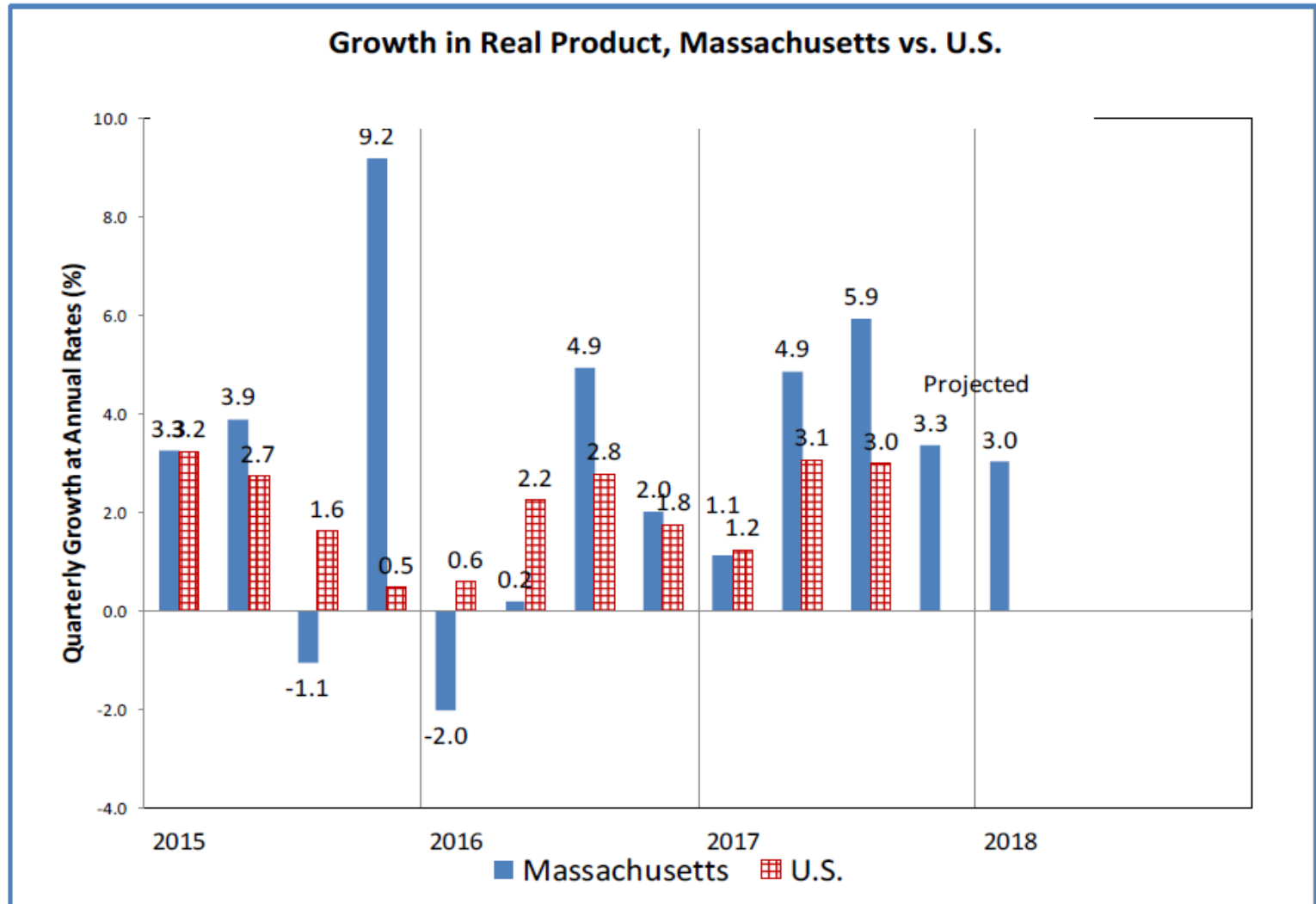
- Anticipated tax reductions already having effects
  - Delayed capital gains hurting tax revenues
- Elimination of State and Local Tax Deduction
- Changes (mostly cuts) in Medicaid funding to states (Graham-Cassidy bill)
- Uncertainty makes fiscal planning more difficult

# Gov. Charlie Baker signs bipartisan letter opposing Graham-Cassidy Obamacare repeal bill

Updated Sep 19; Posted Sep 19

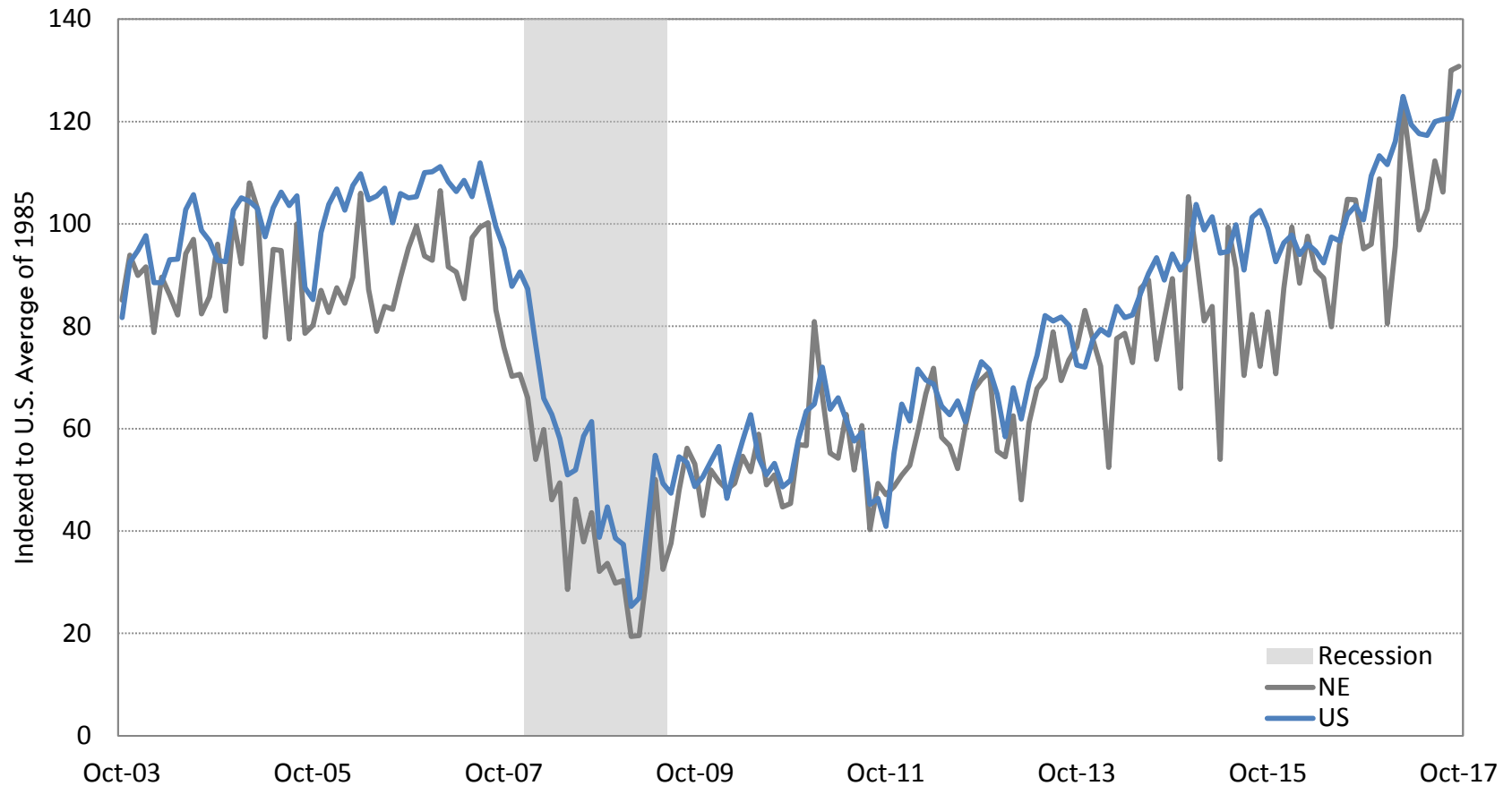


# GDP Growth Surged in Q2 and Q3 in MA; Forecast Calls for Solid Growth

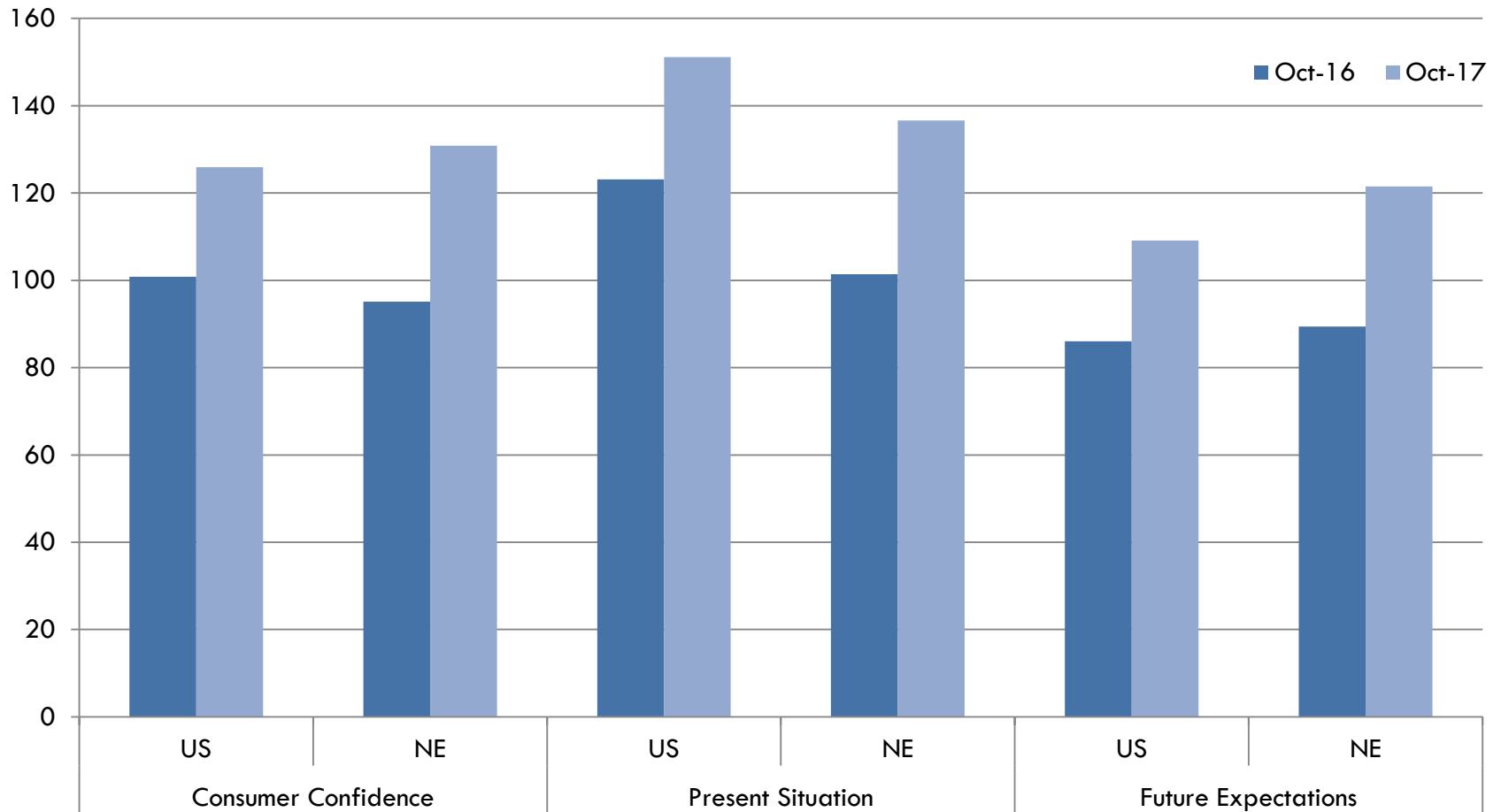


Source: U.S., Bureau of Economic Analysis (BEA); MassBenchmarks (Massachusetts 2017Q1 and later only).

# Consumer Confidence Exceeds Pre-Recession Levels

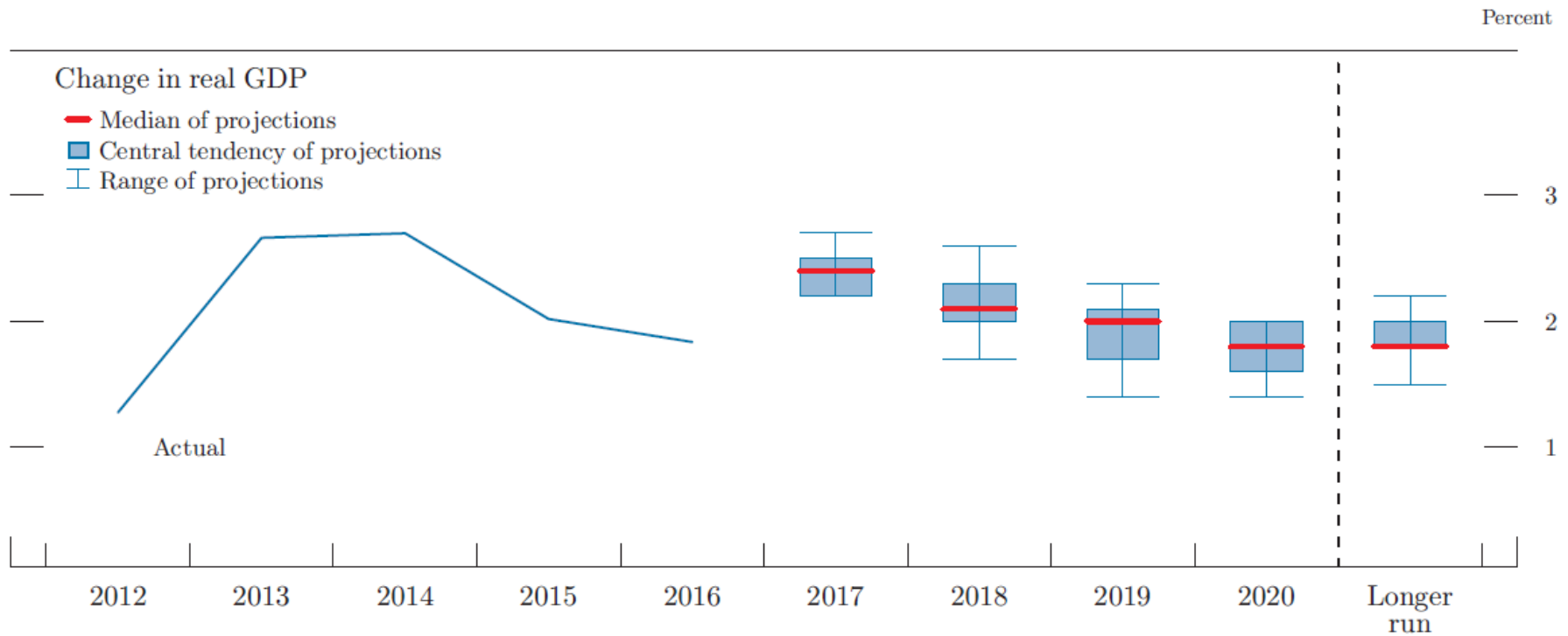


# Present and Future Confidence Both Increased



# FOMC Projections: GDP Growth Slows to 2% by 2019; at 1.8% in Long-Run

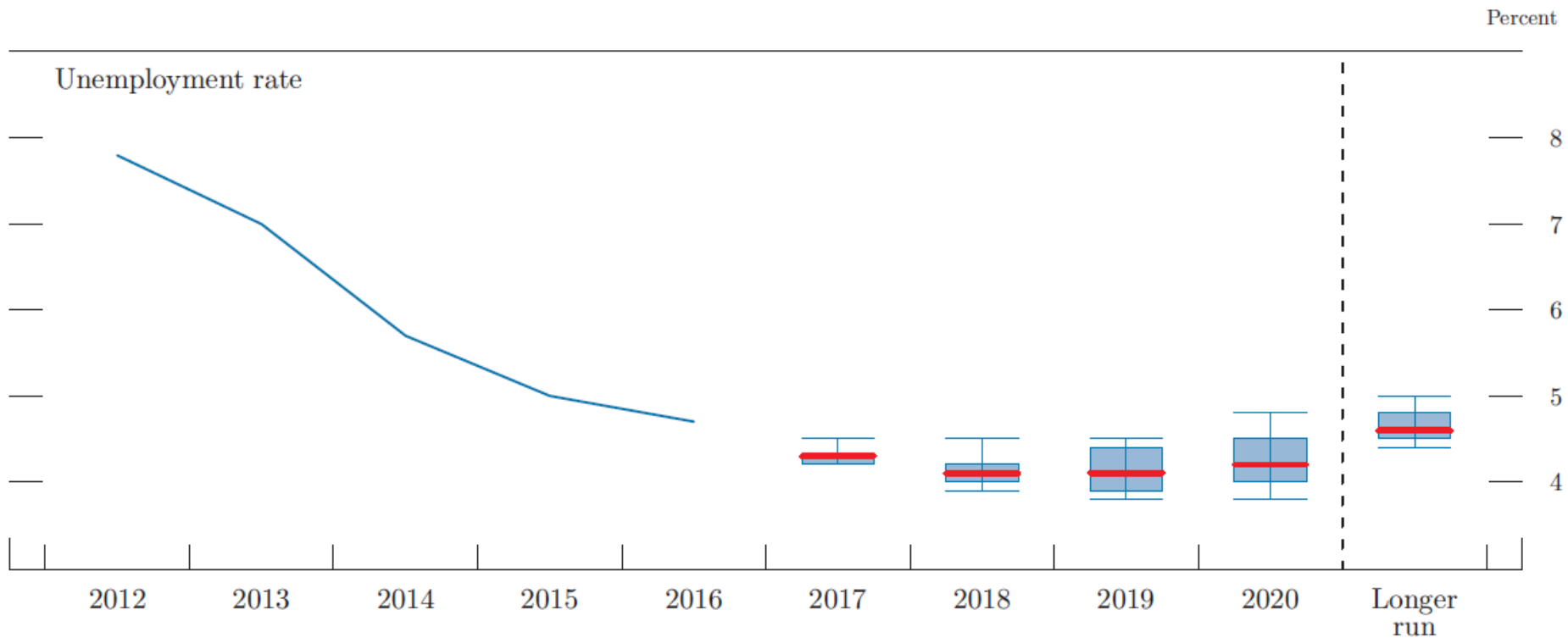
Figure 1. Medians, central tendencies, and ranges of economic projections, 2017–20 and over the longer run



Source: Minutes of the Federal Open Market Committee September 20, 2017.

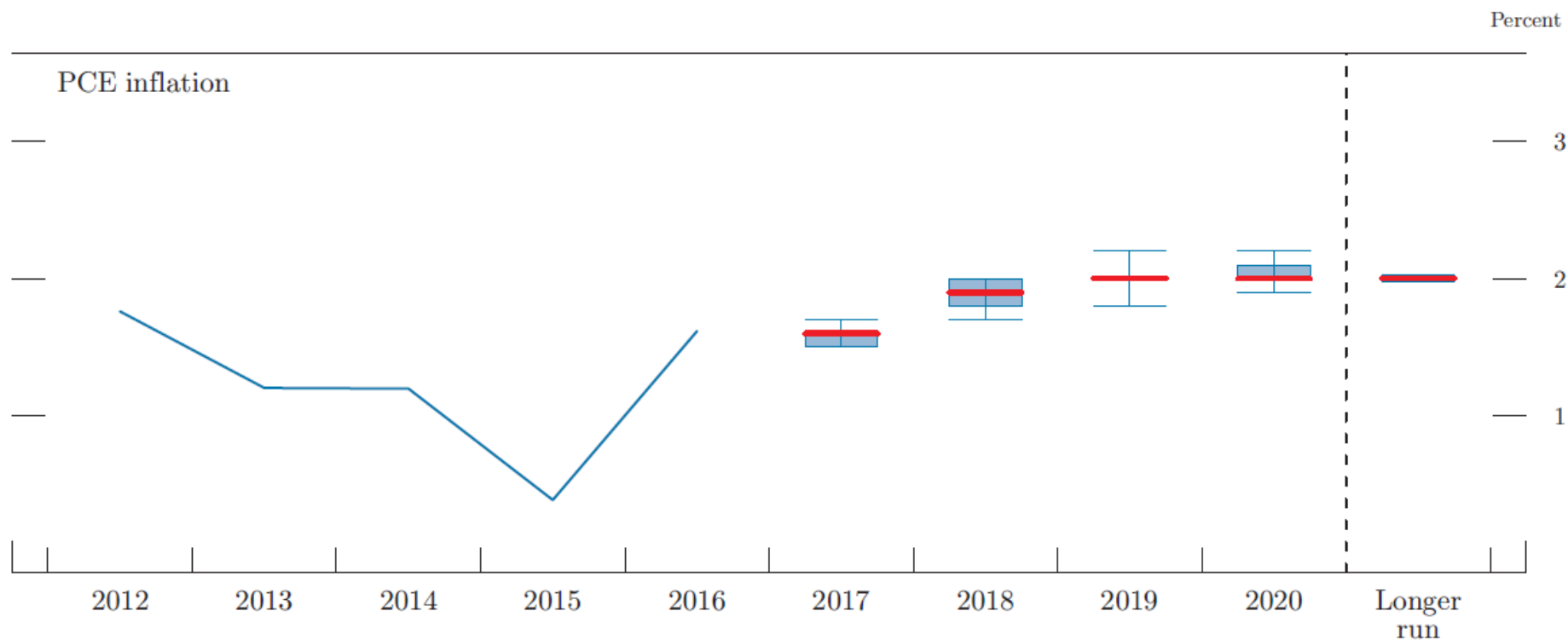
<https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20170920.pdf>.

# FOMC: Unemployment Rate Falls Further in 2018-2019, Rebounds to 4.6% in Long-Run



Source: Minutes of the Federal Open Market Committee September 20, 2017.  
<https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20170920.pdf>.

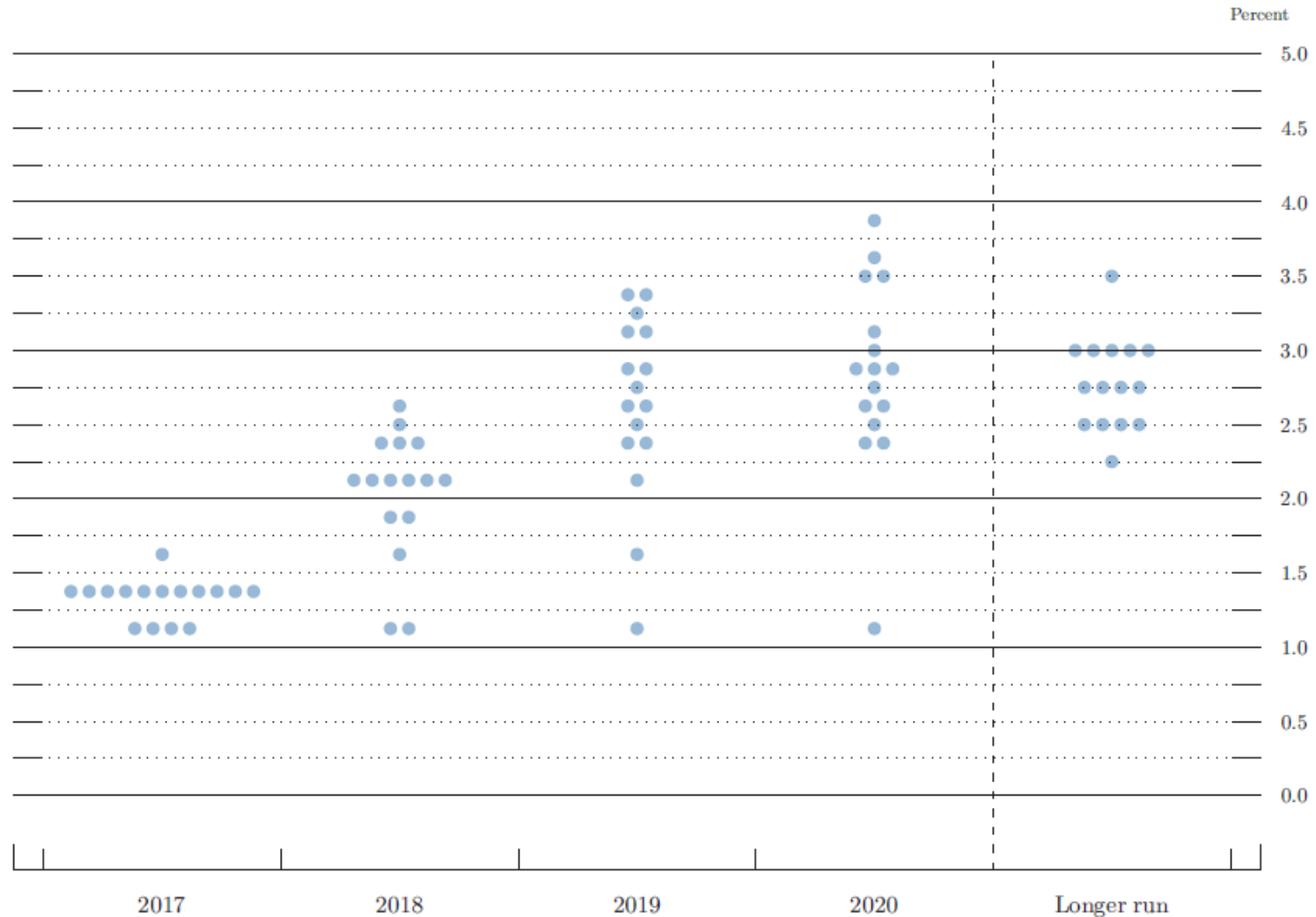
# FOMC: Inflation Picks Up in 2018; Reaches 2% by 2019



Source: Minutes of the Federal Open Market Committee September 20, 2017.

<https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20170920.pdf>.

FOMC: Federal Funds Rate Below 4 Percent Through 2020; Long-Run Rate 2.8 Percent (Median)



Source: Minutes of the Federal Open Market Committee September 20, 2017.

<https://www.federalreserve.gov/monetarpolicy/files/fomcprojt20170920.pdf>.

# Two Views on Monetary Policy



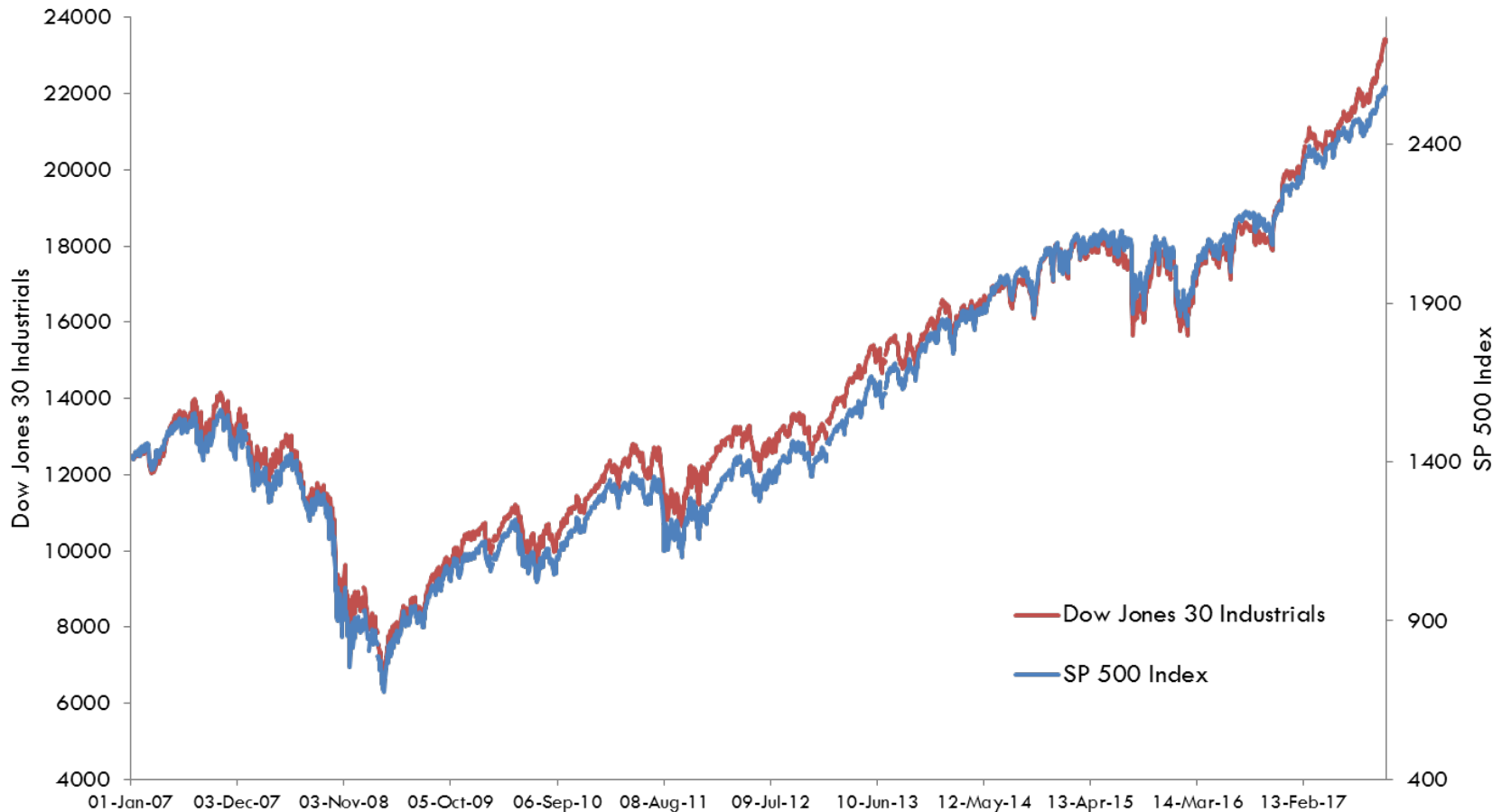
# Raise Fed Funds Rate Soon or Wait?

- Charles Evans (President, Chicago Fed):
  - “We need to see clear signs of building wage and price pressures before taking the next step in removing accommodation.”
  
- Eric Rosengren (President, Boston Fed):
  - Advises “regular and gradual removal of monetary accommodation.”
  - Rationale: inflation reacts to policy with a lag; could get too high if rates stay low.

# Risks to the Outlook

- Upside risks to growth
  - Strong labor market, bullish sentiment
  - Federal tax reform and/or deregulation
- Downside risks to growth
  - Can Fed achieve “soft landing”?
  - Debt-financed tax cuts can be contractionary
  - Stock market correction
- Risks for the region
  - Proposed federal policy changes
  - Aging population, reliance on immigration

# Major Stock Indexes Above Pre-Recession Highs by 50% or More



Sources: Dow Jones, The Wall Street Journal/Haver Analytics