NEW ENGLAND ECONOMIC OUTLOOK

Massachusetts Bankers Association
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Disclaimer: The views expressed here are those of the speaker and do not necessarily represent the views of the Federal Reserve Bank of Boston or the Federal Reserve System.
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

Source: Federal Reserve Bank of Philadelphia, NBER, Haver Analytics
Recovery of Real GDP Per Capita Not Complete in All States

Source: Bureau of Economic Analysis / Haver Analytics
Payroll Jobs Still Below Peak in CT; Job Growth Weak in VT Since 2015

Source: Bureau of Labor Statistics, NBER, Haver Analytics
Construction Sector First in Job Growth; Warehousing Up, Retail Down

Source: Bureau of Labor Statistics, Haver Analytics
Unemployment Flat in Region; Up in MA, Down Sharply in RI

Source: Bureau of Labor Statistics, NBER, Haver Analytics
Broader Unemployment Measure (U6) Still Elevated in CT

Source: Bureau of Labor Statistics, NBER, Haver Analytics
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
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%

Source: Bureau of Labor Statistics, NBER, Haver Analytics
Fuel & Utilities Prices Extend Sharp Increases in Boston (not Gasoline)

Source: Bureau of Labor Statistics, Haver Analytics
Personal Income Growth Up from 2016Q4, But Still Moderate

Source: Bureau of Economic Analysis, NBER, Haver Analytics
New England Hourly Wages Above U.S. Average; Increased More Since 2005

Average Hourly Wage, Private Industry Workers

Source: Bureau of Labor Statistics/Haver Analytics
House Price Growth Accelerating in New England Since Mid-2016

Source: FHFA, NBER, S&P/Case-Shiller, Haver Analytics
MA (and Boston) Seeing Strongest House Price Gains in Region

Percent Change, Q2 2016 - Q2 2017

- United States: 6.6%
- Boston: 6.4%
- New England: 6.4%
- Connecticut: 2.2%
- Maine: 6.5%
- Massachusetts: 6.7%
- New Hampshire: 5.8%
- Rhode Island: 6.6%
- Vermont: 3.6%

Source: FHFA, S&P/Case-Shiller, Haver Analytics
Most NE States Facing Fiscal Strain, Weak Revenue Growth

<table>
<thead>
<tr>
<th>State</th>
<th>2017YTD-2016YTD Taxes (%)</th>
<th>FY17 Shortfall</th>
<th>As % of Gen. Fund</th>
<th>FY18 Shortfall</th>
<th>As % of Gen. Fund</th>
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</thead>
<tbody>
<tr>
<td>CT</td>
<td>-0.3%</td>
<td>($467M)</td>
<td>3%</td>
<td>($2.3B)</td>
<td>13%</td>
</tr>
<tr>
<td>ME</td>
<td>2.1%</td>
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<tr>
<td>MA</td>
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<td>($431M)</td>
<td>1%</td>
<td>($749M)</td>
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<tr>
<td>NH</td>
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<tr>
<td>RI</td>
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<td>--</td>
<td>--</td>
<td>($134M)</td>
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</tr>
<tr>
<td>VT</td>
<td>2.1%</td>
<td>--</td>
<td>--</td>
<td>($76M)</td>
<td>5%</td>
</tr>
</tbody>
</table>

Sources: Census Bureau/Haver Analytics; Center on Budget and Policy Priorities
Pension Funding Level Below 70 Percent in Most States (Except ME)

Source: Pew Center on States / Haver Analytics
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

Source: The Conference Board, NBER, Haver Analytics
Present and Future Confidence Both Increased

Source: The Conference Board, Haver Analytics
FOMC Projections: GDP Growth Slows to 2% by 2019; at 1.8% in Long-Run

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

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

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

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