Federal Reserve Bank of Boston®

New England Public Policy Center at the Federal Reserve Bank of Boston

Economic Outlook for Greater Boston and New England

Needham Newton Chamber of Commerce
November 28, 2018

Mary A. Burke
Senior Economist
New England Public Policy Center
Federal Reserve Bank of Boston

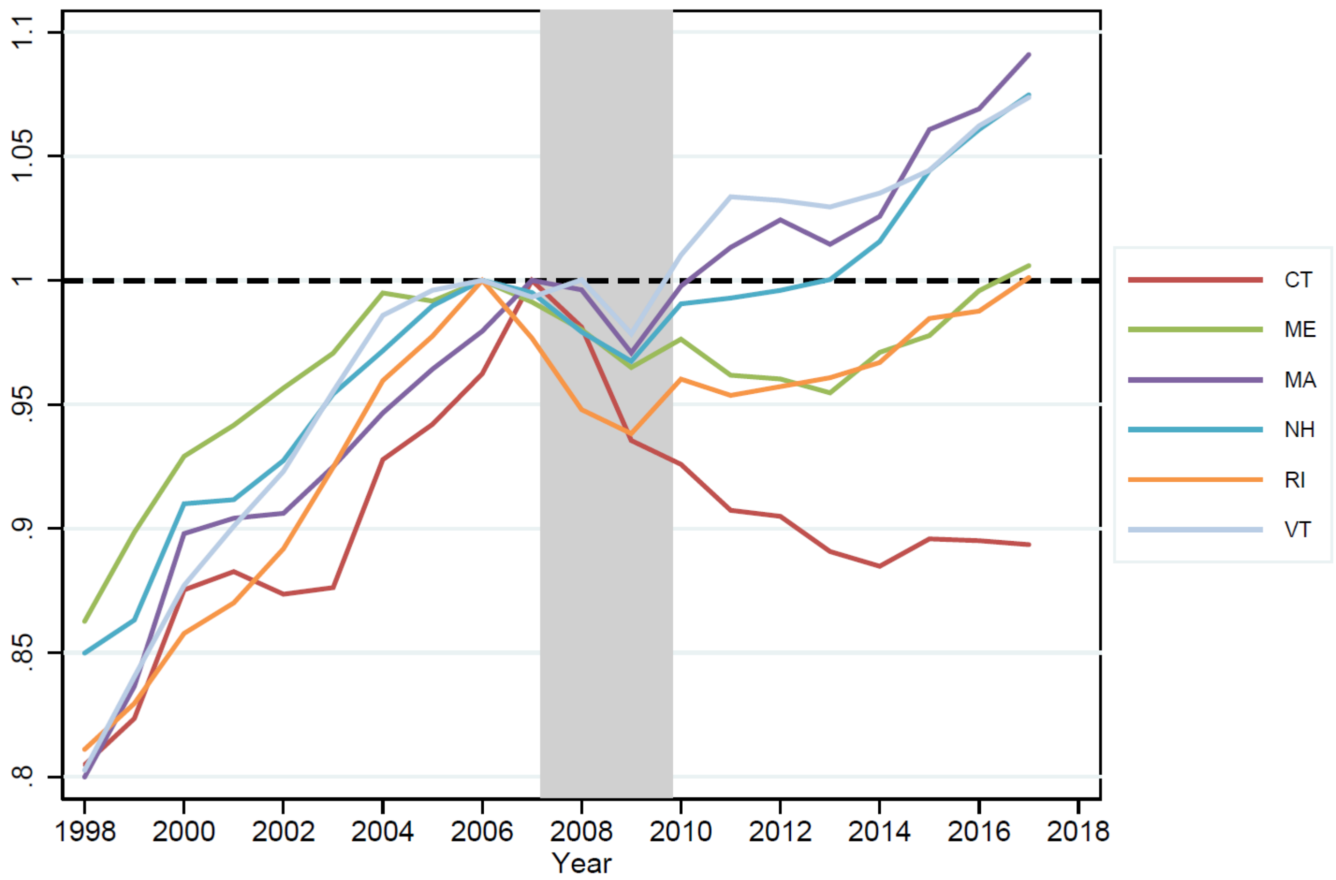
About the Boston Federal Reserve Bank

- Federal Reserve System
  - Board of Governors (Washington., DC)
  - Regional Fed banks (12, including Boston)
  - Conducts monetary policy, bank supervision
- NEPPC
  - Produces research that informs public policy in New England
  - Recent issues: opioid epidemic, affordable housing

Preview

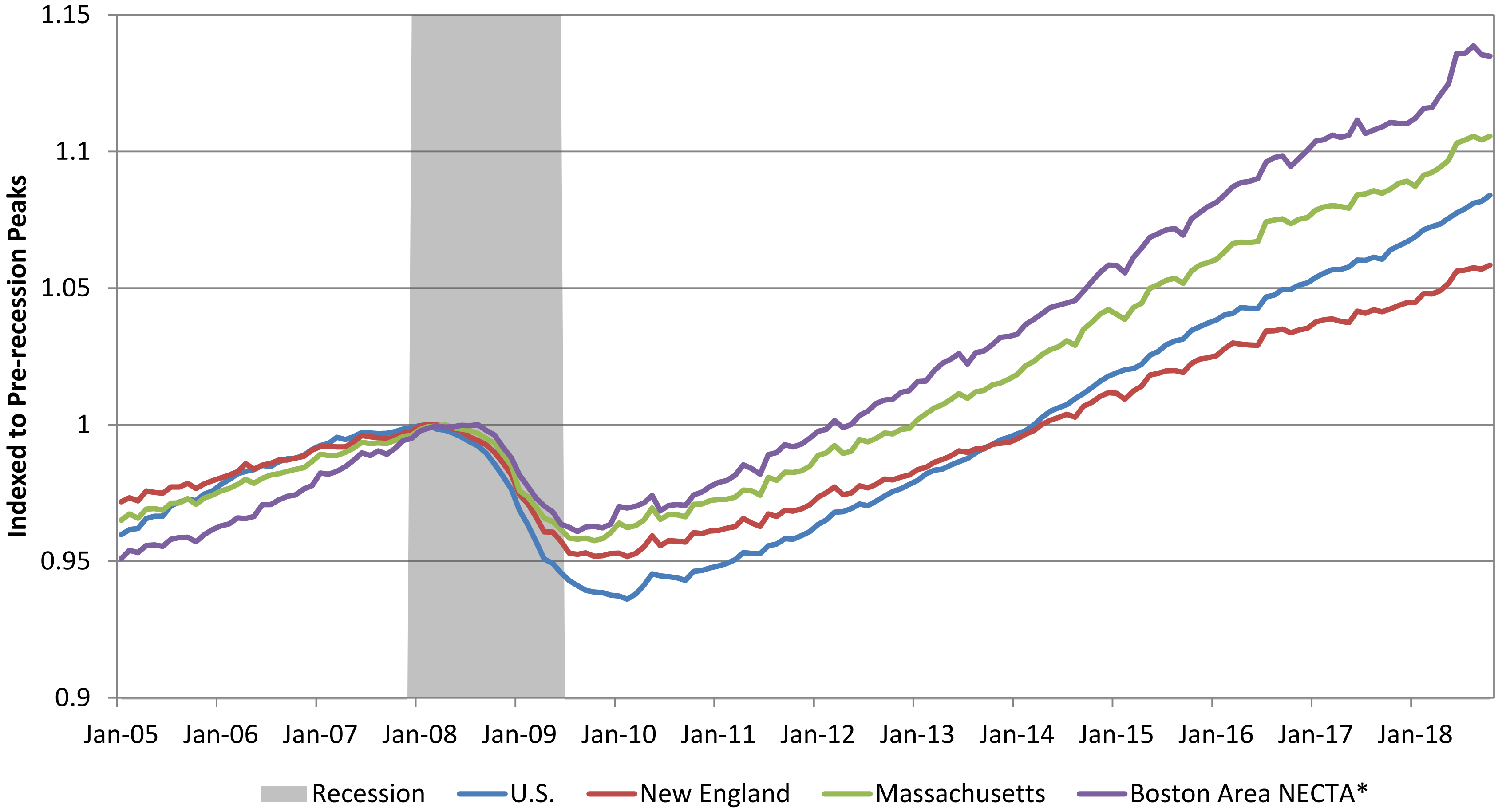
- Current economic situation
  - Boston, Massachusetts, New England, U.S.
- Near-term growth forecasts
- Longer-term risks to sustained growth

Real GDP Per Capita: MA Up 8%; CT Down 10%



Source: Bureau of Economic Analysis / Haver Analytics

Payroll Employment in Boston Area Up 14 Percent Since 2008



**Boston-Cambridge-Newton New England City and Town Area*

Seasonally Adjusted

Source: Bureau of Labor Statistics Establishment Survey and Haver Analytics

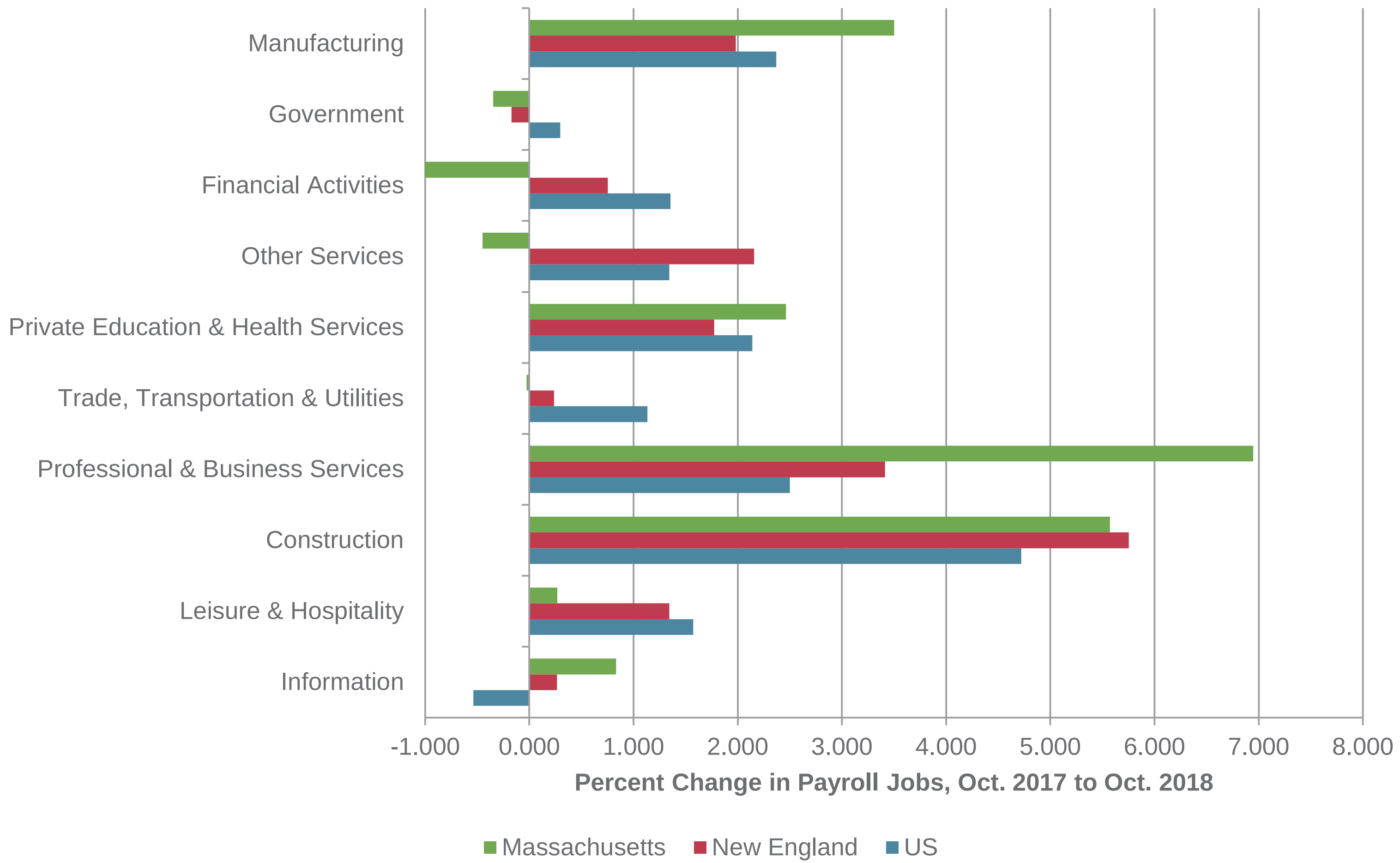
Recent Employment Growth Above Trend in Most New England States

(Oct. 2017 to Oct. 2018)

	Annual Long-Term Trend (1984-2017)	Last 12 Months (to Oct. 2018)		Since Pre-Recession Peak (to Oct. 2018)	
	Percent	Percent	Number	Percent	Number
United States	1.4	1.7	2,516,000	8.2	11,331,000
New England	0.9	1.5	113,400	5.8	414,900
Connecticut	0.5	1.3	22,300	-0.7	-11,400
Maine	1.1	1.3	7,900	1.3	8,200
Massachusetts	0.9	1.8	64,400	10.6	351,800
New Hampshire	1.5	2.3	15,300	6.6	42,900
Rhode Island	0.7	1.3	6,300	1.5	7,400
Vermont	1.3	-0.9	-2,800	0.8	2,600

Source: Bureau of Labor Statistics/ Haver Analytics

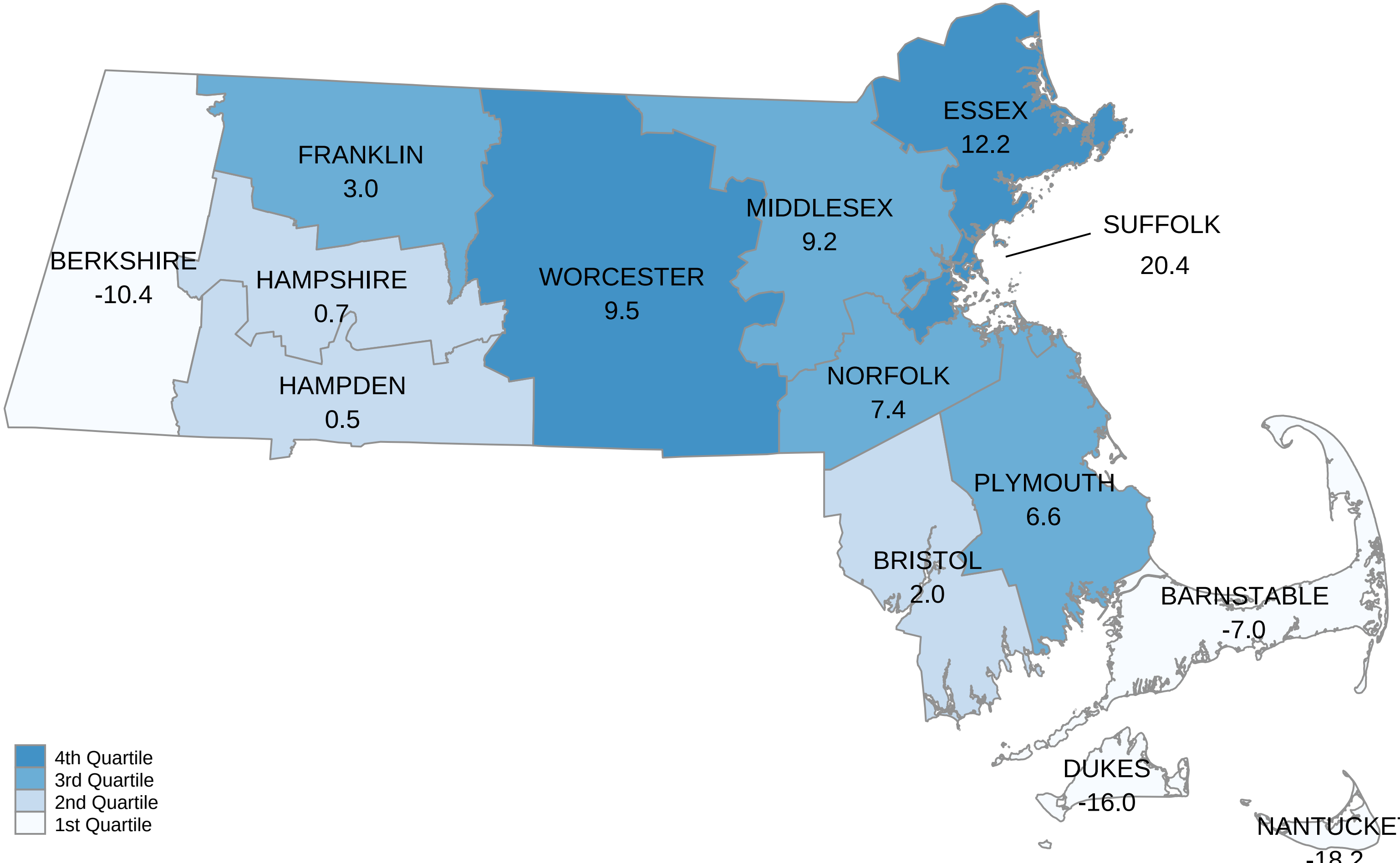
Employment Growth Led by Professional & Business Services, Construction (in MA and New England)



Seasonally Adjusted

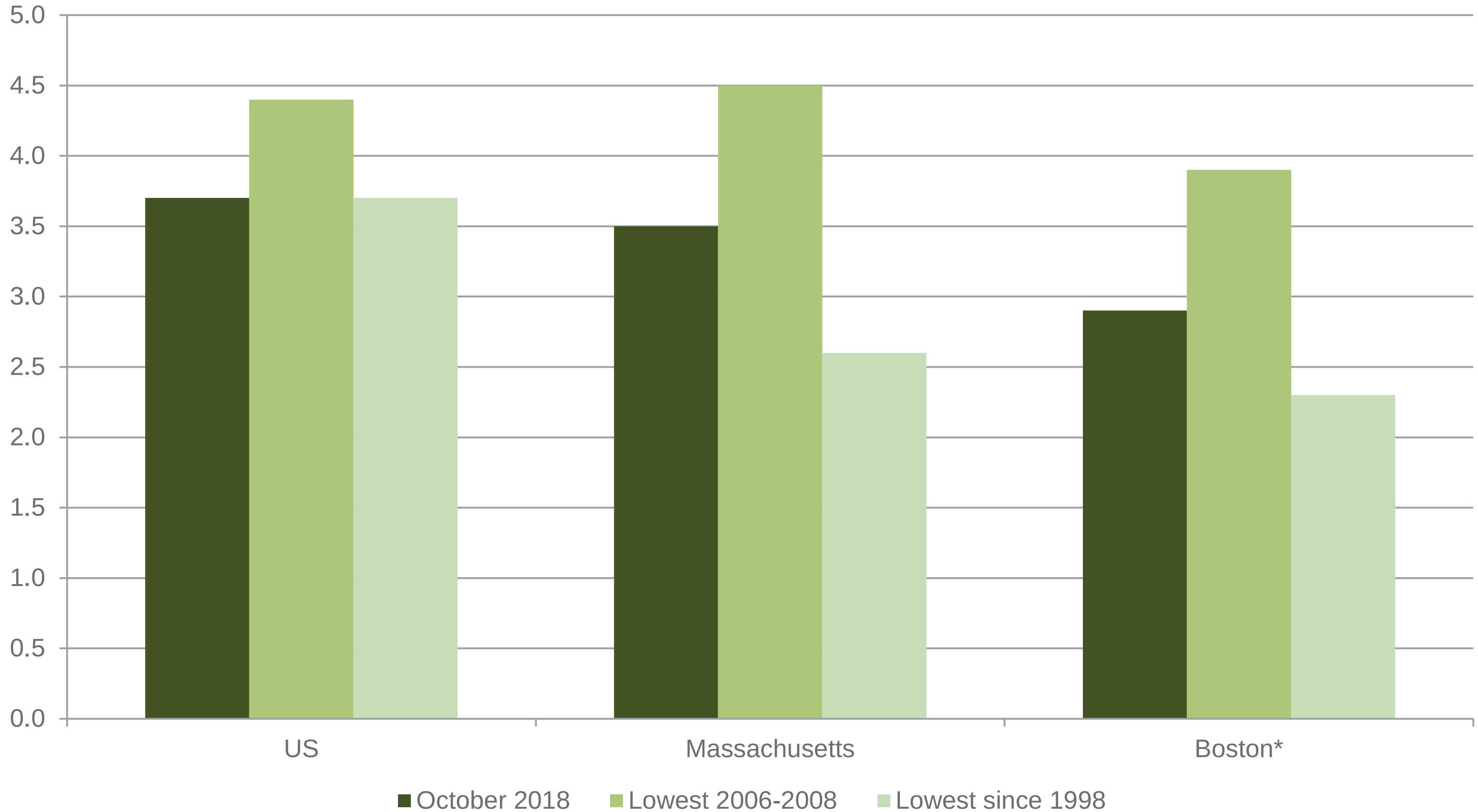
Source: Bureau of Labor Statistics Establishment Survey and Haver Analytics

Between 2007 and 2017, Net Change in Employment Differed Starkly Across Massachusetts' Counties



Note: Values indicate net percent change in number of individuals employed between 2007 and 2017.
Source: Bureau of Labor Statistics/ Haver Analytics

Unemployment Below Pre-Recession Trough, but Not at All-Time Low, in Boston and Mass.



**Boston-Cambridge-Newton, MA New England City and Town Division; latest unemployment rate from Sept. 2018*
Seasonally Adjusted
Source: Bureau of Labor Statistics Household Employment Survey and Haver Analytics

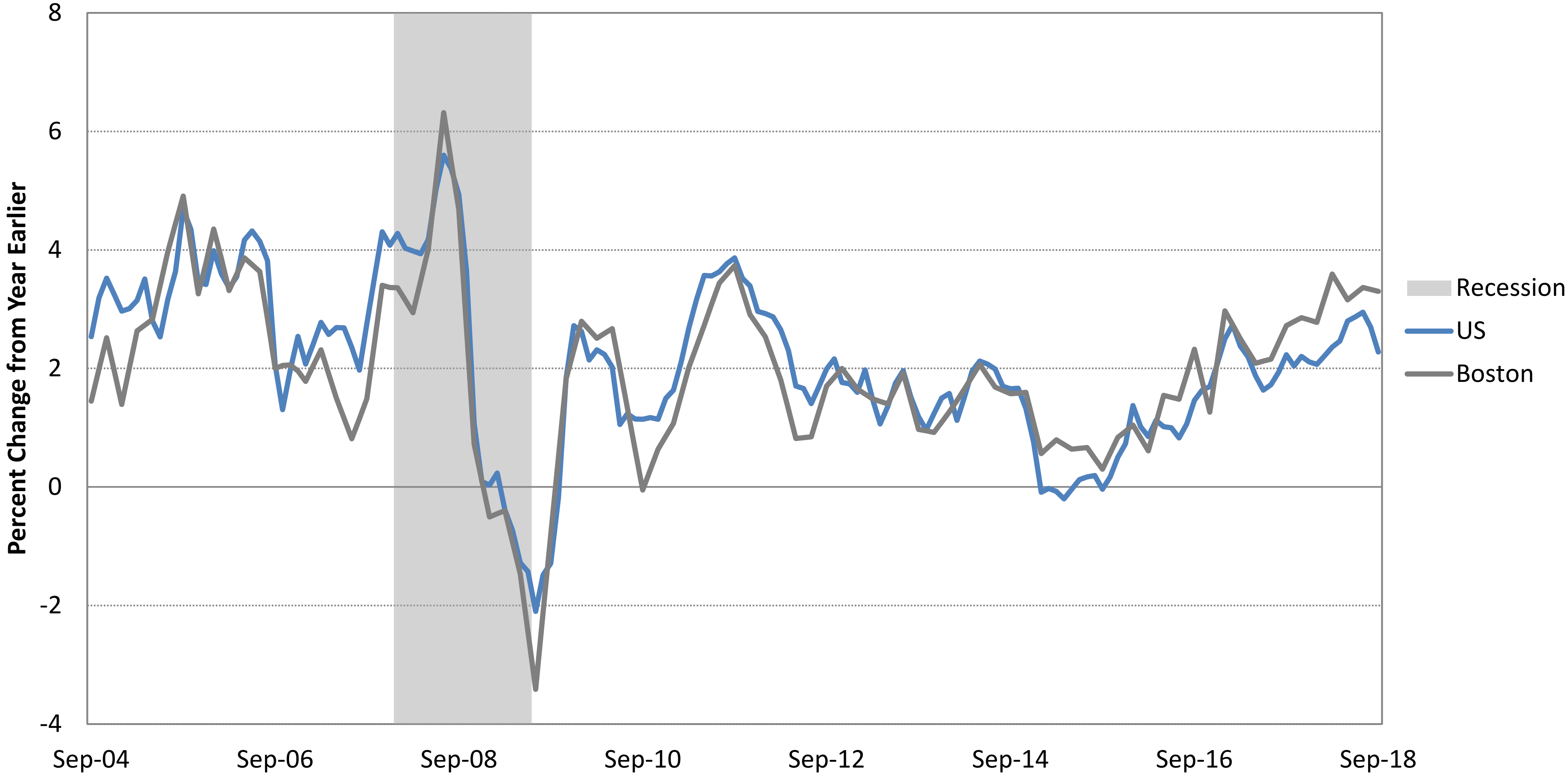
Wage Growth Pace in NH and MA Above National Average

Exhibit 5.2: Income and Wage/Salary Changes - to Q2 2018

	Personal Income			Wage and Salary Disbursements		
	Jun-2018	1-Qtr. Chg.	1-Yr. Chg.	Jun-2018	1-Qtr. Chg.	1-Yr. Chg.
United States	17,481,958	*1.0%*	*4.6%*	8,799,710	*1.1%*	*4.9%*
New England	986,478	*0.7%*	*4.2%*	494,364	*0.5%*	*4.2%*
Connecticut	265,637	*1.0%*	*3.5%*	117,067	*0.9%*	*2.1%*
Maine	64,421	*1.0%*	*4.6%*	29,828	*1.2%*	*4.7%*
Massachusetts	481,897	*0.5%*	*4.5%*	265,866	*0.3%*	*5.1%*
New Hampshire	83,270	*0.7%*	*4.8%*	38,652	*0.4%*	*5.7%*
Rhode Island	57,780	*0.5%*	*4.0%*	27,647	*0.3%*	*2.6%*
Vermont	33,473	*0.9%*	*3.1%*	15,303	*1.1%*	*3.6%*

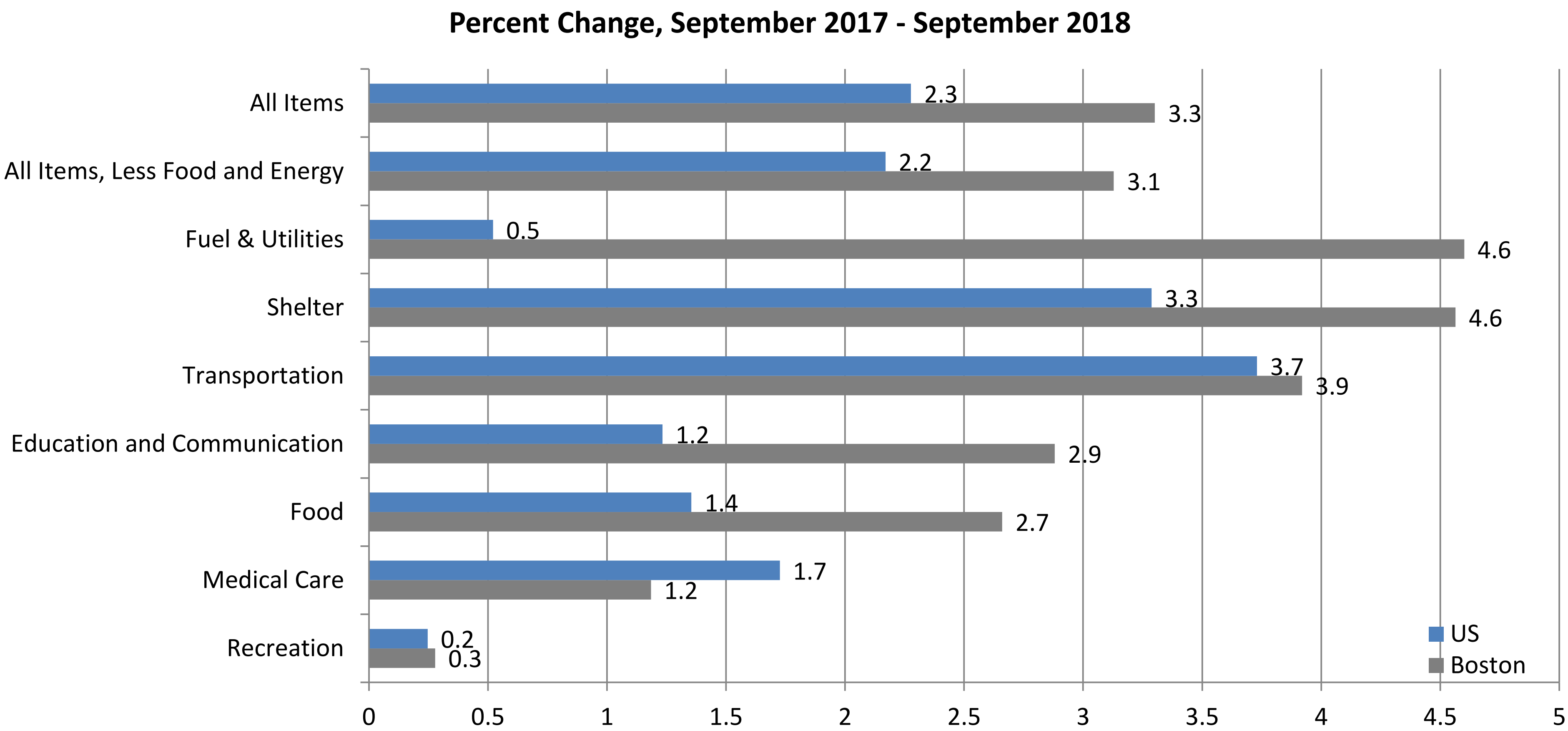
Source: U.S. Bureau of Economic Analysis/Federal Reserve Bank of Boston.
Note: Data represent millions of dollars and are seasonally adjusted.

Headline CPI Inflation Up Since 2015; Boston Rate Above U.S.



Source: Bureau of Labor Statistics, NBER, Haver Analytics

Boston Prices Rising Faster than U.S. for Utilities, Shelter, Education, Food



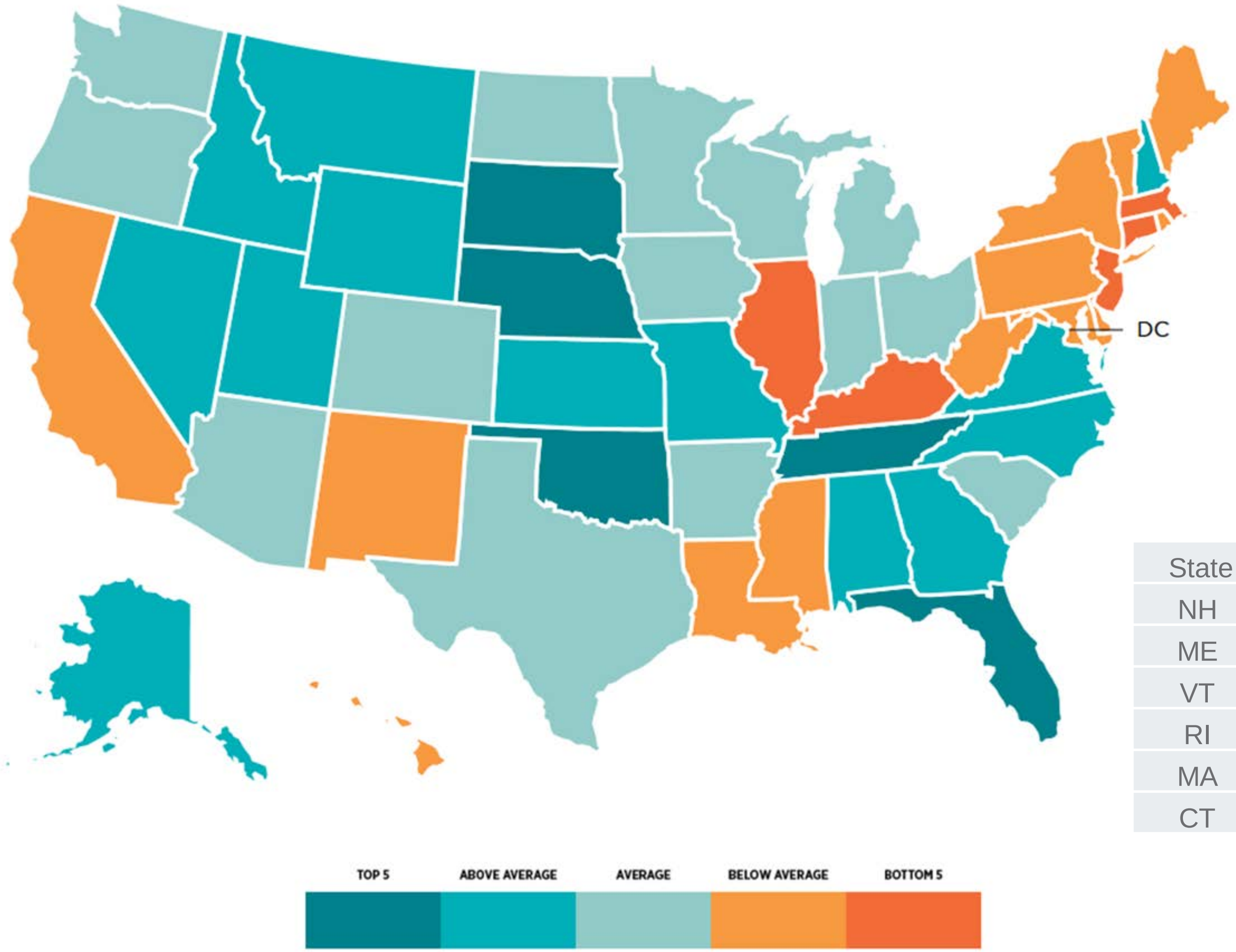
Source: Bureau of Labor Statistics, Haver Analytics

Boston Ranks 7th Worst in North America for Traffic Congestion, 19th in World (2017)

RANK	CITY	COUNTRY	PEAK HOURS SPENT IN CONGESTION	INRIX CONGESTION INDEX	AVERAGE CONGESTION RATE
1	Los Angeles; CA	USA	102	18.3	12%
2	New York City; NY	USA	91	17.4	13%
3	San Francisco; CA	USA	79	13.7	12%
4	Atlanta; GA	USA	70	12.3	10%
5	Miami; FL	USA	64	11.8	9%
6	Washington; DC	USA	63	10.8	11%
7	Boston; MA	USA	60	10.6	14%
8	Chicago; IL	USA	57	10.3	10%
9	Seattle; WA	USA	55	9.6	12%
10	Dallas; TX	USA	54	9.3	6%
11	Houston; TX	USA	50	8.4	7%
12	Montreal	Canada	50	9.2	13%
13	Portland; OR	USA	50	8.1	11%
14	San Diego; CA	USA	48	7.7	10%
15	Toronto	Canada	47	8.9	12%
16	Austin; TX	USA	43	7.4	11%
17	Stamford; CT	USA	41	7.2	13%
18	Tacoma; WA	USA	41	7	11%
19	Minneapolis; MN	USA	41	6.5	7%
20	Philadelphia; PA	USA	37	6.8	8%
21	Honolulu; HI	USA	37	6.7	11%
22	Denver; CO	USA	36	6.5	8%
23	Detroit; MI	USA	35	6	6%
24	Orlando; FL	USA	34	6.4	7%
25	Phoenix; AZ	USA	34	5.8	6%

Source: INRIX Research

CT and MA Near Bottom of Fiscal Health Rankings (Mercatus Center, 2018)



State Rankings	
NH	12
ME	34
VT	39
RI	40
MA	47
CT	49

Source: Mercatus Center, George Mason University. State Fiscal Rankings 2018.

Opioid Epidemic Carries Rising Fiscal Burden

- Boston Fed report:
  - Fiscal burden estimated at ~**$620M in MA** (2012-2015 data)
    - Riley Sullivan, "The Fiscal Impact of the Opioid Epidemic in the New England States." New England Public Policy Center Policy Report 18-1.

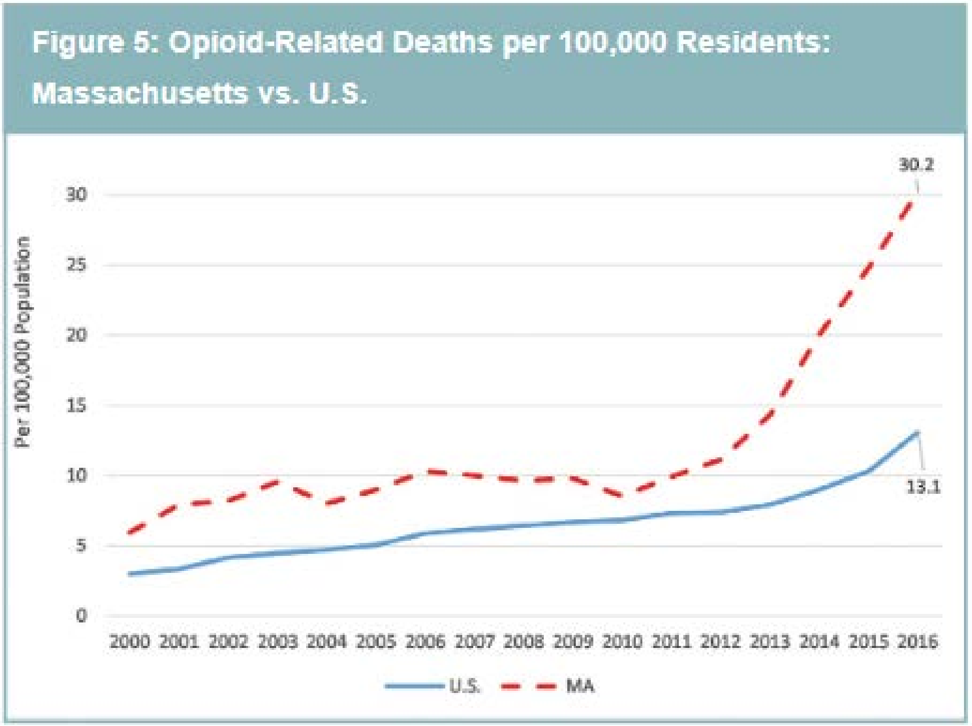
- Mass. Taxpayers Foundation
  - Fiscal burden estimated at ~**$1.9B** (2017)
    - "The Massachusetts Opioid Epidemic: *An Issue of Substance*." Massachusetts Taxpayers Foundation. November 2018

Opioid Epidemic Taking a Toll on Labor Force and Productivity

Opioids have kept an estimated

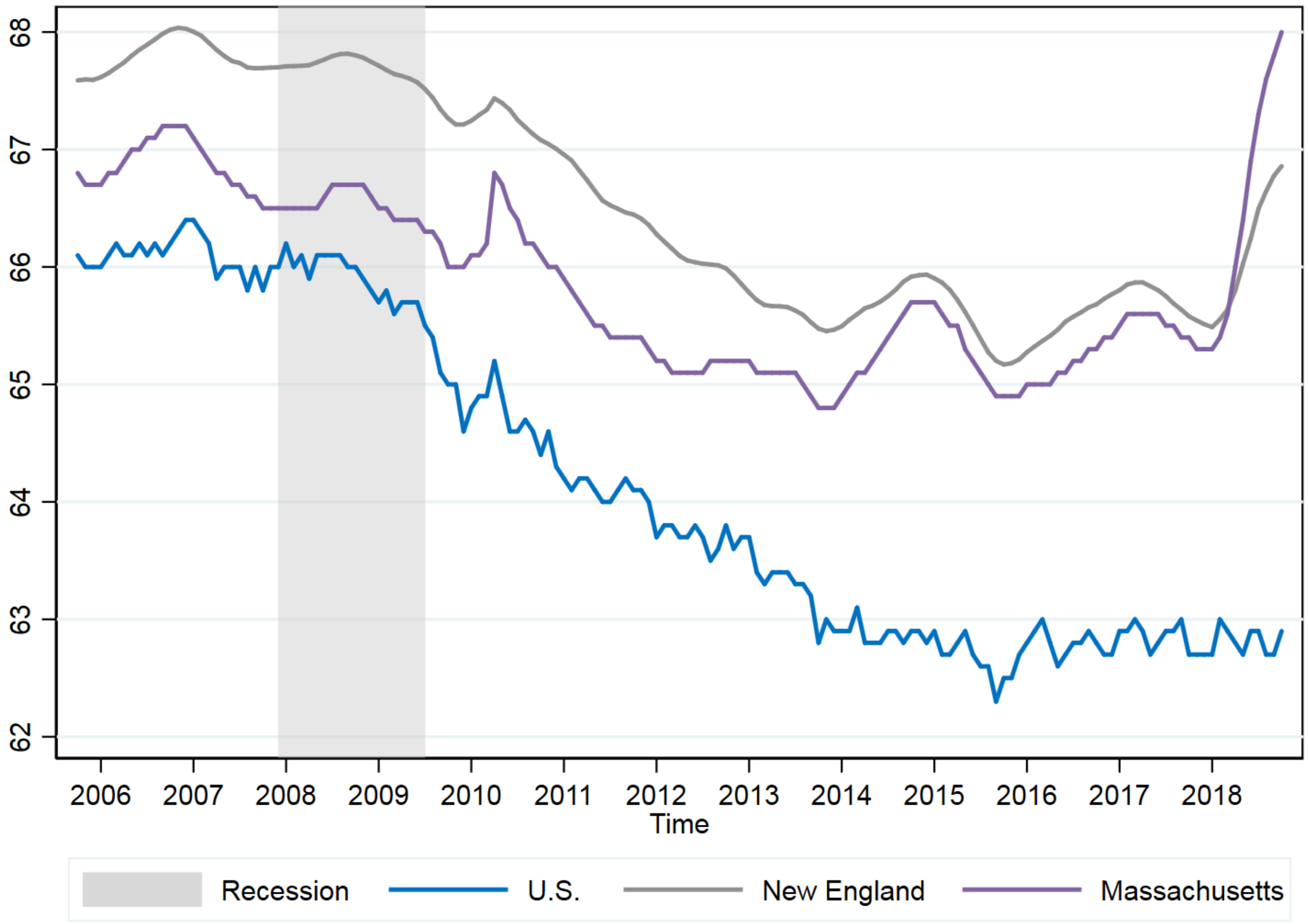
32,700 people

from participating in the labor force in Massachusetts over the past seven years.



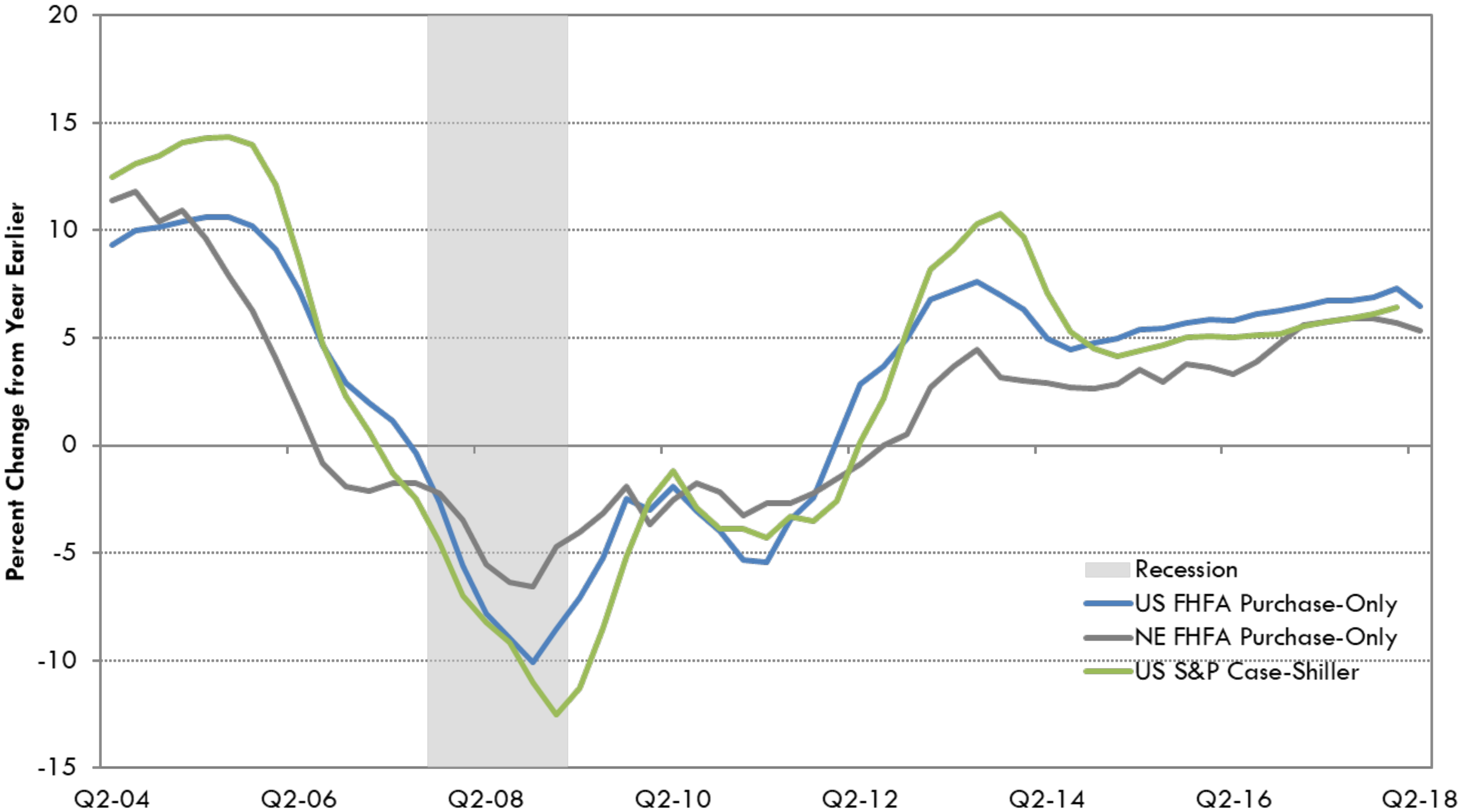
Source: "The Massachusetts Opioid Epidemic: *An Issue of Substance*." Massachusetts Taxpayers Foundation. November 2018

Labor Force Participation in Mass. Defies National Trends Since 2014



Source: Bureau of Labor Statistics and Haver Analytics

Regional House Price Growth Eased Slightly in Second Quarter (New England)



Source: S&P; Federal Housing Finance Authority; Haver Analytics

Boston Promoting "Compact Living" to Boost Affordability & Sustainability

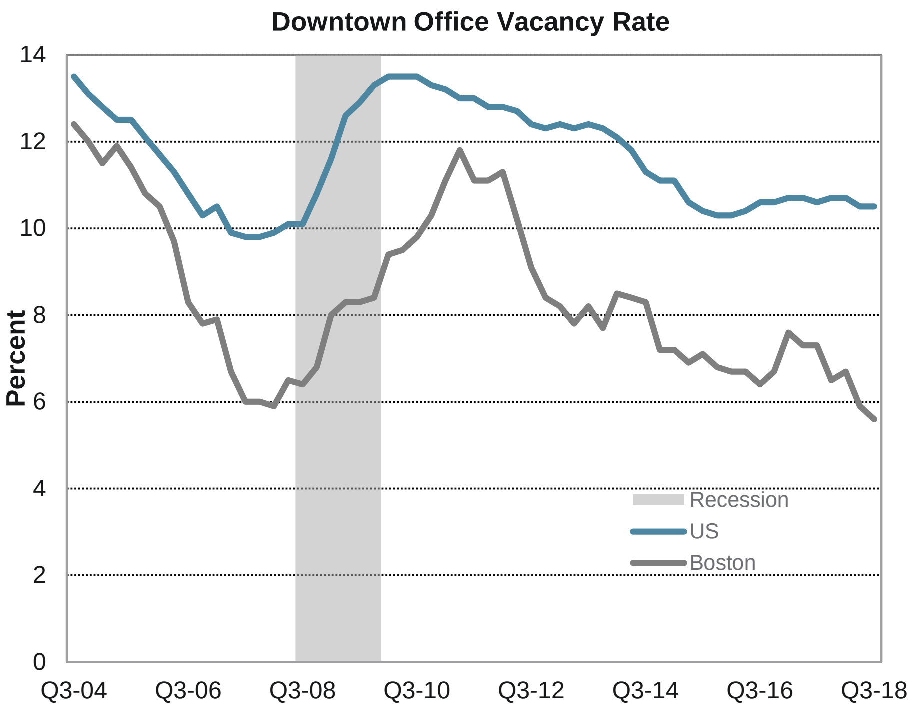
BOSTON
COMPACT LIVING
PILOT

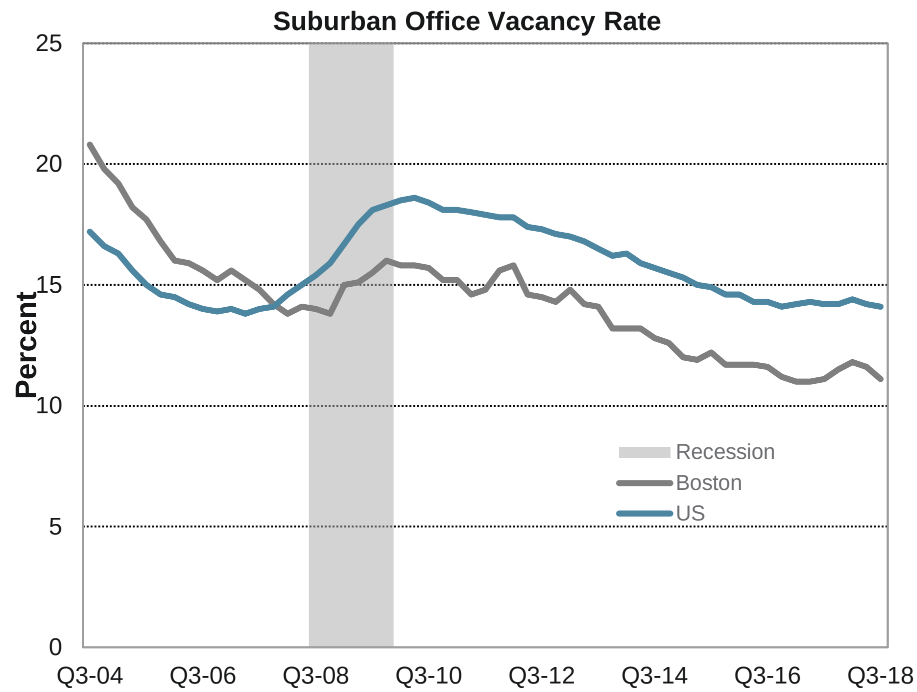
unit type	maximum size*
studio	450 ft²
one-bedroom	625 ft²
two-bedroom	850 ft²
three-bedroom	950 ft²

*Compact Living Policy applies to any unit **less than** these sizes!

https://www.boston.gov/departments/new-urban-mechanics/housing-innovation-lab/compact-living

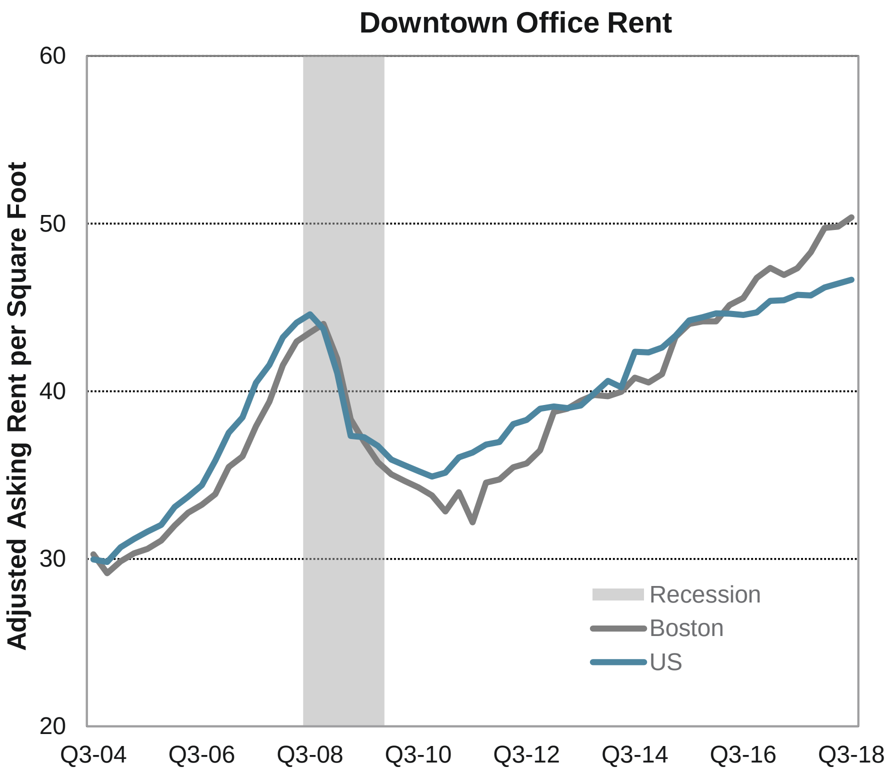
Office Space in Short Supply in Greater Boston

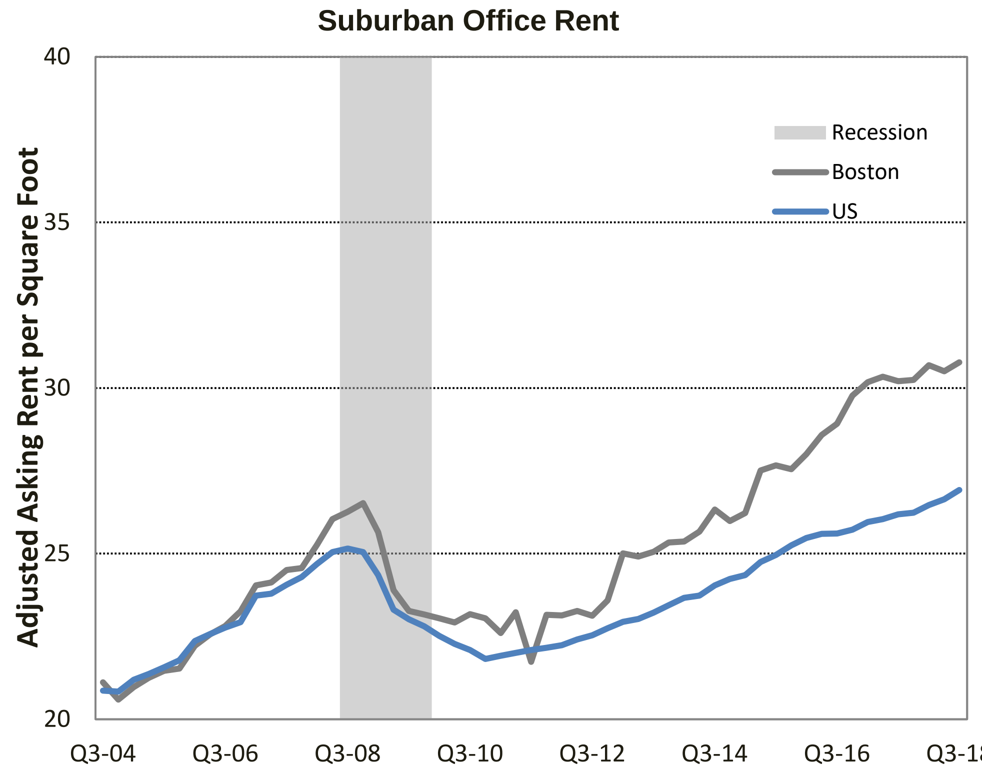




Source: CB Richard Ellis Econometric Advisors

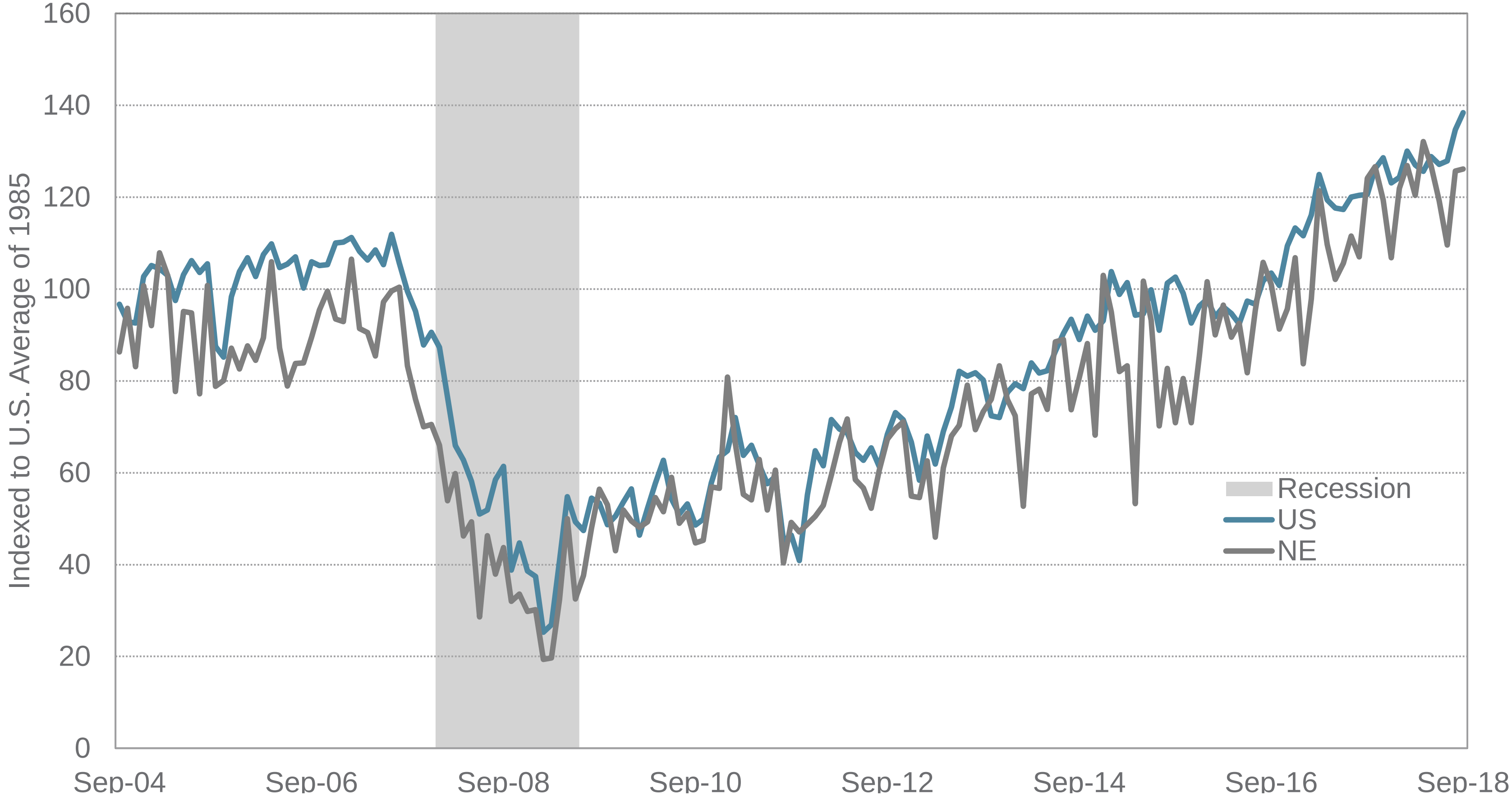
Boston Office Rents Above U.S. Average





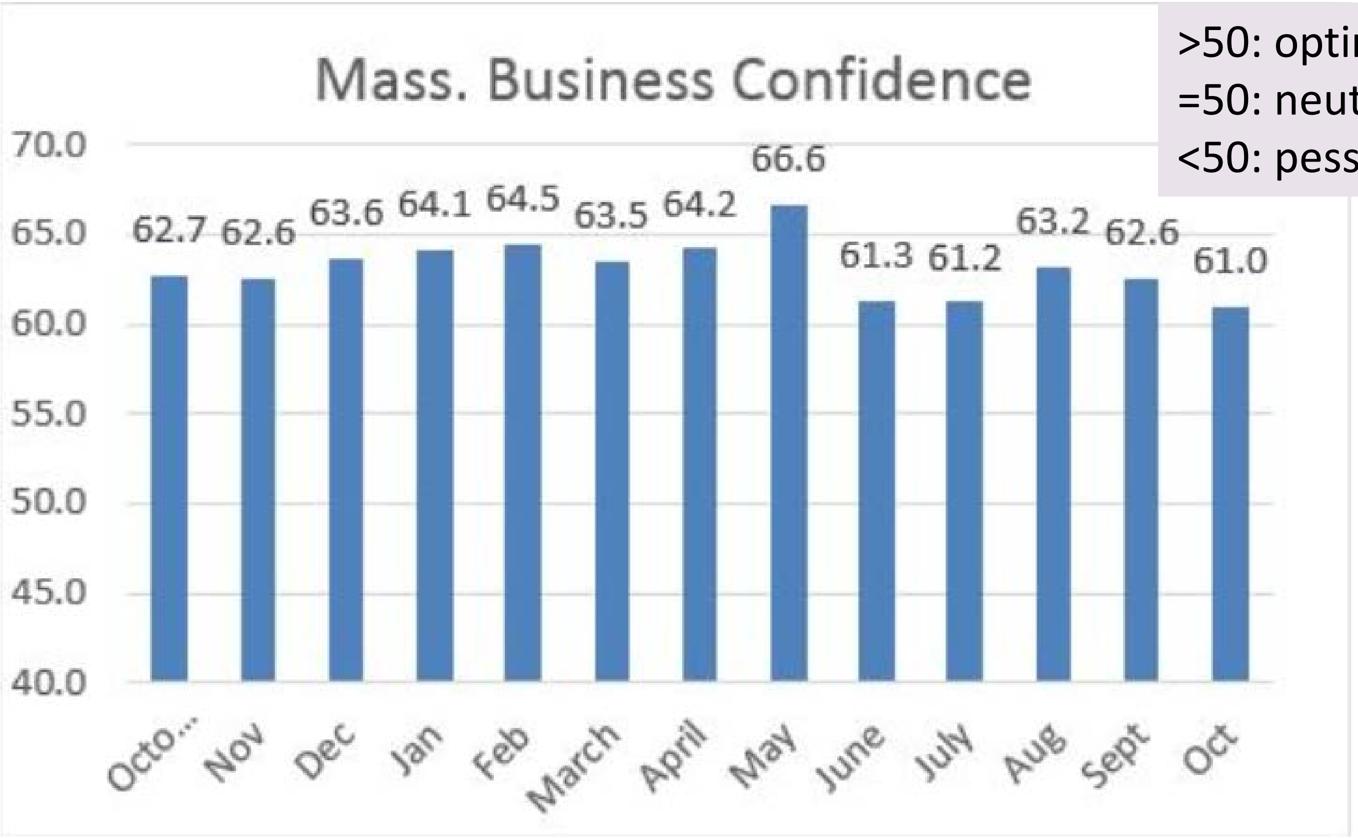
Source: CB Richard Ellis Econometric Advisors

Consumer Confidence Exceeds Pre-Recession Levels



Source: The Conference Board, NBER, Haver Analytics

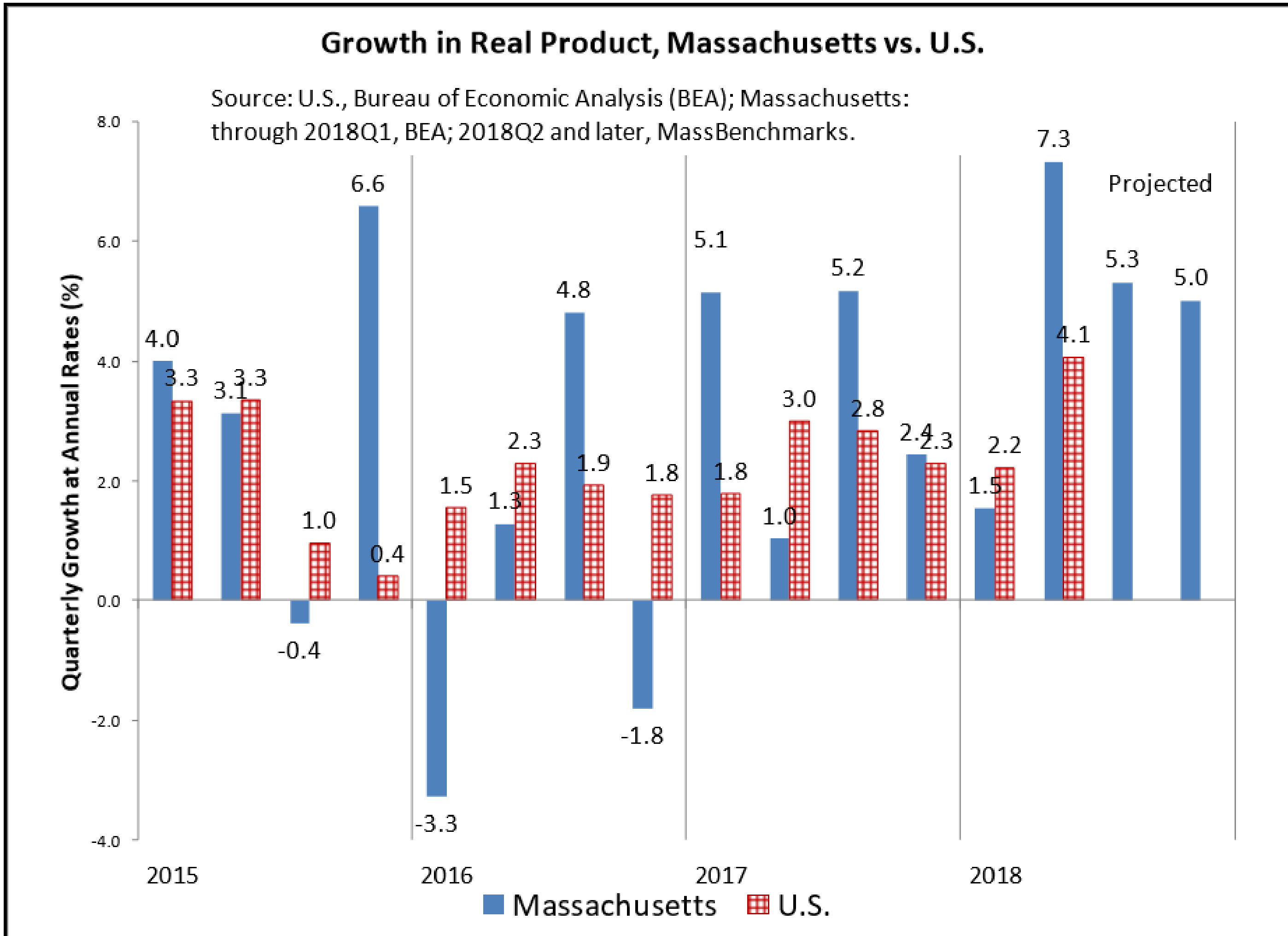
State Business Leaders Moderately Optimistic for Ongoing Growth



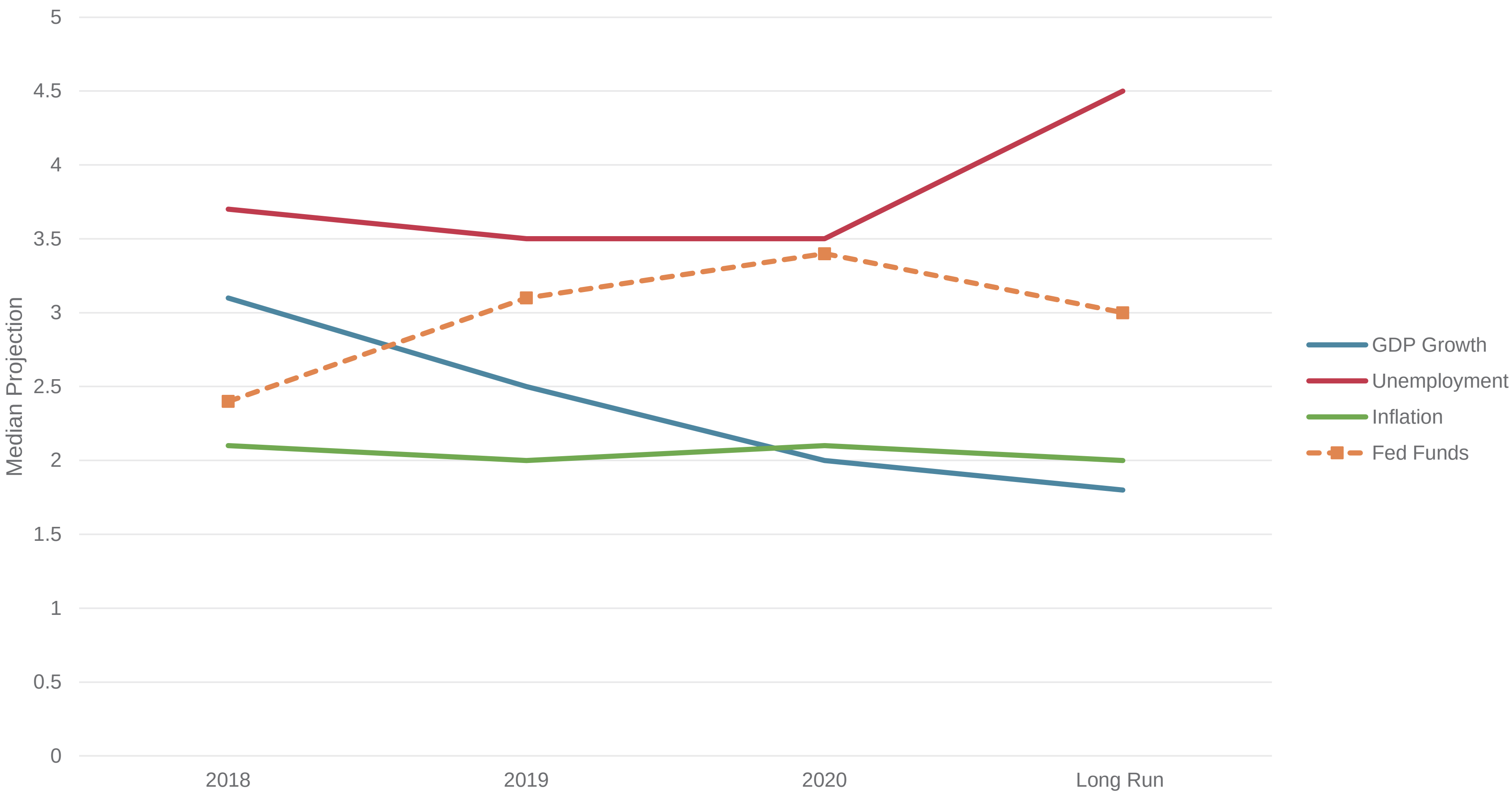
>50: optimistic
=50: neutral
<50: pessimistic

Source: Associated Industries of Massachusetts

Mass. Economic Growth Forecast Very Strong



Federal Reserve Officials Expect to Guide the Economy to “Soft Landing” through 2021



Source: FOMC Minutes, September 2018

Risks to the Outlook

- Risks to growth in MA and the region
  - Restraints on labor force growth
    - Tighter immigration policy
    - Aging population
    - High cost of living
    - Opioid epidemic
  - Aging infrastructure
  - Fiscal stress
- Macro risks
  - Upside: tax cuts, consumer confidence
  - Downside: tariffs, rising interest rates, stock market volatility