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To: Michele Jalbert, Senior Vice President and General Council, The New England Council
From: Heather Brome, Senior Policy Analyst
Date: June 29, 2009
Re: Financial Services Industry in New England

You requested information about the size and scope of the financial services industry in New England. This memo uses the most recent publicly available data to assess the scale and share of the financial services industry in the New England economy. Some caveats are necessary in interpreting the data. First and foremost, the most recently available data on economic output are from calendar year 2008 and for some levels of industry detail the most currently available data are from 2007. The financial services industry in the region has likely contracted in terms of economic output, compensation, and employment since then. While this memo uses the most currently available data, it may not reflect the current state of the financial services industry.

At the national level, the financial services industry averaged a loss of 10,000 jobs per month in 2007 and 13,000 per month in 2008. Losses accelerated to 33,000 in each of the last four months of 2008. (See: Kelter, Laura. "Substantial job losses in 2008: Weakness broadens and deepens across industries." *Monthly Labor Review*, March 2009.) National-level data for early 2009 indicates that job losses in the financial services continued in the first five months of this year.

Defining the industry

For this memo, I used the North American Industry Classification System (NAICS) codes associated with the Financial services and insurance sector.

These include:

- Monetary authorities
- Credit intermediation and related activities
- Securities, commodity contracts, and other financial investments and related activities
- Insurance carriers and related activities
- Funds, trusts and other financial vehicles

Financial activities include both Financial services listed above as well as Real estate and rental and leasing.

Gross state product

Gross State Product (GSP) is calculated by the Bureau of Economic Analysis (BEA). Industry-level GSP is a measure of the contribution of each private industry and government to the state's GSP. It is defined as an industry's gross output minus its intermediate inputs. Data are available from 1997 forward as industry definitions changed in that year from SIC codes to NAICS industry detail. Earlier industry-level data are not comparable. The most recent GSP data were collected in 2008.

New England's financial services industry contributed \$84.0 billion to the region's GSP in 2008, or 11.0 percent of the region's economic output (See Tables 1 and 2). This, however, is smaller than the industry's scale and share of GSP in 2007. In 2007 dollars, financial services contributed \$84.5 billion in 2007. This was 11.4 percent of the region's economic output. This means that the financial services industry in New England contracted between 2007 and 2008 and contracted more than other industries.

Financial services is still the second largest sector by share of GSP in the region. Real estate and rental and leasing contributed 13.7 percent of the region's GSP in 2008. Other leading sectors are Manufacturing, Government, Professional and technical services, and Health care and social assistance (See Table 3).

Employee Compensation

Employee compensation is a measure of labor's contribution to GSP. Employee compensation includes wages and salaries, employer contributions for employee pension and insurance funds, and employer contributions for government social insurance. The most current data available for total employee compensation in the financial services industry in New England are from 2007. Financial services paid employees in the region approximately \$53.7 billion in 2007. This was 11.9 percent of total compensation paid in all industries in the region (See Table 4).

Employment

Employment can be measured in one of two ways: as a count of jobs or as a count of workers. In the former one worker can hold more than one part-time job. In the latter each worker is counted only once. The BEA provides a count of the number of full- and part-time jobs in the region by industry. BEA produces only annual average employment by industry and statistics are released nine months after the end of the calendar year. The most current, available employment estimates are for 2007. In that year, there were 521,672 full- and part-time jobs in the Finance and insurance sector or about 5.7 percent of all jobs in the region. Within the Finance and insurance sector, the largest number of jobs was in Insurance carriers and related activities with 198,029 jobs. The next largest was Securities, commodities contracts, and investments with 162,964 jobs. And, the third largest sub-sector was Credit intermediation and related activities with 141,680 jobs.

The Bureau of Labor Statistics (BLS) also provides data on the number of place-based jobs by industry. Its estimates are produced on a more-timely basis than the BEA employment estimates;

however at the regional level there is less industry specific detail. The most recent employment estimates are for the Financial activities super-sector, which includes both Financial services and Real estate and rental and leasing. The BEA and BLS employment estimates also differ in methodology and are therefore not directly comparable.

The BLS employment estimates provide a first indicator of the changes in employment in the financial services industry since 2007. As of May 2009, 463,400 individuals were employed in the Financial activities super-sector in New England. This is down from a peak of 492,300 in November 2006. The share of individuals employed in Financial activities was 6.8 percent, down from a peak of 7.1 percent in April 2003 (See Chart 1).

Table 1: Gross State Product by Industry in New England (millions of dollars)

	2001	2002	2003	2004	2005	2006	2007	2008
All industry total	580920	591733	612006	647473	671797	707672	741597	763683
Private industries	526149	533824	552270	584984	605828	638579	668830	687621
Finance and insurance	68135	68270	70436	76701	76767	79644	84455	83967
Federal Reserve banks, credit intermediation and related services	22178	24515	25844	27165	25653	25520	23798	n/a
Securities, commodity contracts, investments	17928	16499	16251	17352	20413	22722	25047	n/a
Insurance carriers and related activities	25743	24753	25970	28085	26613	28762	33187	n/a
Funds, trusts, and other financial vehicles	2285	2503	2371	4099	4088	2640	2424	n/a

Source: Bureau of Economic Analysis.

Regional data represent the sum of the New England states' GSP estimates.

Table 2: Financial Services GSP as a Share of Total GSP

	2001	2002	2003	2004	2005	2006	2007	2008
Finance and insurance	11.7%	11.5%	11.5%	11.8%	11.4%	11.3%	11.4%	11.0%
Federal Reserve banks, credit intermediation and related services	3.8%	4.1%	4.2%	4.2%	3.8%	3.6%	3.2%	n/a
Securities, commodity contracts, investments	3.1%	2.8%	2.7%	2.7%	3.0%	3.2%	3.4%	n/a
Insurance carriers and related activities	4.4%	4.2%	4.2%	4.3%	4.0%	4.1%	4.5%	n/a
Funds, trusts, and other financial vehicles	0.4%	0.4%	0.4%	0.6%	0.6%	0.4%	0.3%	n/a

Source: NEPPC calculations from US Department of Commerce/Bureau of Economic Analysis/Regional Product Division data.

Table 3: Share of GSP by Industry in New England 2001-2008
(percent)

	2001	2002	2003	2004	2005	2006	2007	2008
All industry total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Private industries	90.6	90.2	90.2	90.3	90.2	90.2	90.2	90.0
Real estate and rental and leasing	13.7	13.9	14.0	14.0	13.7	13.6	13.6	13.7
Finance and insurance	11.7	11.5	11.5	11.8	11.4	11.3	11.4	11.0
Manufacturing	12.4	12.0	11.4	10.9	10.6	11.2	11.2	10.9
Government	9.4	9.8	9.8	9.7	9.8	9.8	9.8	10.0
Professional and technical services	8.6	8.3	8.1	8.3	8.6	8.8	8.9	9.5
Health care and social assistance	7.8	8.2	8.5	8.5	8.7	8.7	8.8	9.1
Retail trade	6.3	6.4	6.5	6.3	6.3	6.1	5.9	5.7
Wholesale trade	5.8	5.6	5.7	5.7	5.6	5.7	5.5	5.5
Information	4.3	4.2	4.2	4.2	4.4	4.1	4.0	4.2
Construction	4.3	4.3	4.1	4.2	4.4	4.3	3.8	3.5
Administrative and waste services	2.6	2.6	2.6	2.6	2.7	2.7	2.8	2.8
Accommodation and food services	2.4	2.5	2.5	2.5	2.5	2.5	2.5	2.6
Management of companies and enterprises	2.2	2.0	2.2	2.1	2.2	2.2	2.4	2.3
Educational services	1.8	2.0	2.0	2.0	2.0	2.0	2.1	2.1
Other services, except government	2.1	2.2	2.2	2.2	2.2	2.1	2.1	2.1
Utilities	1.7	1.6	1.7	1.9	1.8	1.9	1.8	1.9
Transportation and warehousing, excluding Postal Service	1.8	1.7	1.7	1.7	1.8	1.7	1.7	1.7
Arts, entertainment, and recreation	0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Agriculture, forestry, fishing, and hunting	0.4	0.3	0.3	0.4	0.4	0.3	0.4	0.4
Mining	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1

Table 4: Employee Compensation in the Financial Services Industry (millions of dollars)

	2001	2002	2003	2004	2005	2006	2007
All industry total	358079	361694	371460	391724	408729	427714	450405
Private industries	308834	309617	317524	334875	348770	364963	384719
Finance and insurance	38759	39730	41329	46002	47887	50076	53694
Federal Reserve banks, credit intermediation and related services	(D)	(D)	10671	11159	(D)	10835	11356
Securities, commodity contracts, investments	(D)	14887	14704	15932	(D)	20276	22112
Insurance carriers and related activities	13205	13753	14715	16335	16779	17148	18272
Funds, trusts, and other financial vehicles	1446	(D)	1239	2576	2381	1816	1954

Source: US Department of Commerce/Bureau of Economic Analysis/Regional Product Division data

Note: (D) not shown in order to avoid the disclosure of confidential information.

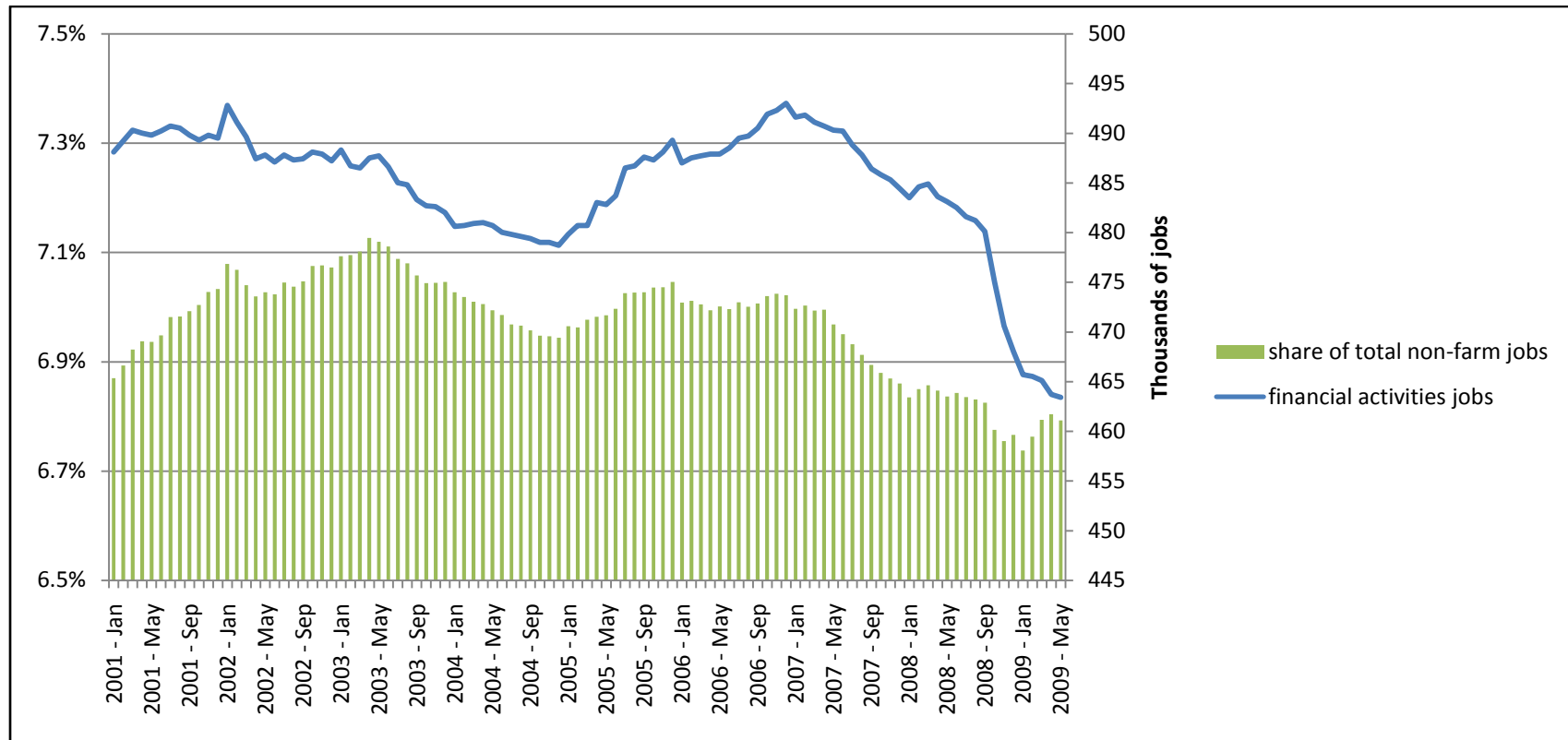
Table 5: Full and Part-time Jobs by Industry in New England

	2001	2002	2003	2004	2005	2006	2007
Total employment	8835470	8775999	8755319	8898449	9021728	9078549	9155067
Wage and salary employment	7365132	7270739	7198650	7215524	7247671	7307914	7364475
Proprietors employment	1470338	1505260	1556669	1682925	1774057	1770635	1790592
Finance and insurance	507929	509363	507556	504500	515289	522191	521672
Monetary authorities - central bank	(D)	(D)	1322	1185	(D)	1062	1019
Credit intermediation and related activities	136166	139653	144104	141809	143678	145021	141680
Securities, commodity contracts, investments	(D)	151289	146468	149680	(D)	158041	162964
Insurance carriers and related activities	198433	200572	199384	195099	197970	199612	198029
Funds, trusts, and other financial vehicles	18094	(D)	16278	16727	17963	18455	17980

Source: Bureau of Economic Analysis

Note: (D) not shown in order to avoid the disclosure of confidential information.

Chart 1: Share and Total Employment in Financial Activities in New England



Source: Bureau of Labor Statistics/Haver