New England and U.S. Economic Update

Presented to the New England Fiscal Leaders Meeting
February 22, 2013

Bo Zhao
Senior Economist
New England Public Policy Center
Federal Reserve Bank of Boston

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.
Overview

- New England and U.S. economies continue to recover at a moderate pace.

- New England’s job recovery is relatively slow and lags behind the nation.

- The uncertainty about federal fiscal policy and falling European economies pose a risk to economic recovery.

- The New England economy is expected to expand moderately in next several years.
NE continues to recover jobs, but lags behind the nation.

Source: Bureau of Labor Statistics, NBER, Haver Analytics
Job recovery is uneven across the region.

Source: Bureau of Labor Statistics, NBER, Haver Analytics
Employment Growth by Industry

Percent Change, December 2011 - December 2012

Professional & Business Services: 2.9%
Information: 2.5%
Leisure & Hospitality: 3.0%
Education & Health: 2.2%
Other Services: 3.2%
Transportation, Warehousing, and Utilities: 1.6%
Retail Trade: 1.4%
Finance: 1.4%
Wholesale Trade: 2.0%
Government: 1.2%
Manufacturing: 1.9%
Construction: -1.1%

Source: Bureau of Labor Statistics, NBER, Haver Analytics
Unemployment has increased recently in NE, but remains below the national rate.
Unemployment rates vary greatly across the region.

### Unemployment Rate
**December 2011 vs. December 2012**

<table>
<thead>
<tr>
<th>State</th>
<th>Dec-11</th>
<th>Dec-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>RI</td>
<td>10.2</td>
<td>11.0</td>
</tr>
<tr>
<td>CT</td>
<td>8.1</td>
<td>8.6</td>
</tr>
<tr>
<td>US</td>
<td>7.8</td>
<td>8.5</td>
</tr>
<tr>
<td>NE</td>
<td>7.3</td>
<td>7.3</td>
</tr>
<tr>
<td>ME</td>
<td>7.0</td>
<td>7.3</td>
</tr>
<tr>
<td>MA</td>
<td>6.9</td>
<td>6.7</td>
</tr>
<tr>
<td>NH</td>
<td>5.2</td>
<td>5.7</td>
</tr>
<tr>
<td>VT</td>
<td>5.2</td>
<td>5.1</td>
</tr>
</tbody>
</table>

Source: Bureau of Labor Statistics, NBER, Haver Analytics
U-6 Rates reveal greater labor underutilization.

Note: U-6 includes total unemployed, plus all marginally attached workers, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all marginally attached workers.

Source: NBER, Haver Analytics
Personal income continues to grow modestly.

Source: Bureau of Economic Analysis, Haver Analytics
Inflation is moderate.

Source: Bureau of Labor Statistics, NBER, Haver Analytics
Components of the Consumer Price Index

**Percent Change, January 2012 - January 2013**

- **All Items**: 1.6, 1.7
- **All Items, Less Food and Energy**: 1.9, 2.0
- **Medical Care**: 2.7, 3.1
- **Transportation**: 0.7, 2.6
- **Education and Communication**: 1.6, 2.1
- **Shelter**: 1.9, 2.2
- **Food**: 1.1, 1.6
- **Recreation**: 0.6, 0.2
- **Fuel & Utilities**: -1.2, 0.9

Source: Bureau of Labor Statistics, NBER, Haver Analytics
NE’s housing market continues to recover.

Source: FHFA, NBER, Haver Analytics
Housing recovery is uneven across the region.

**FHFA Purchase-only House Price Index Percent Change Q3 2011 - Q3 2012**

- **US**: 4.1%
- **VT**: 2.8%
- **MA**: 0.9%
- **CT**: 0.2%
- **NE**: 0.0%
- **NH**: -1.3%
- **RI**: -1.5%
- **ME**: -2.5%

Source: FHFA, Haver Analytics
Consumer confidence declined in recent months.

Note: The index is based on consumers’ perceptions of current business and employment conditions, as well as their expectations for six months hence regarding business conditions, employment, and income. Values are indexed to U.S. Average of 1985.
Source: The Conference Board, Haver Analytics
Components of consumer confidence index

Source: The Conference Board, Haver Analytics
Most NE states’ revenue collections are higher than a year ago.

Source: New England Public Policy Center at the Federal Reserve Bank of Boston, based on monthly revenue statements from respective state revenue offices
The uncertainty about federal fiscal policy poses a risk to economic recovery.

Federal Spending on Procurement, Salaries, and Wages as a Percent of State GDP (2010)

Any cutbacks in federal grants would have direct effects on state budgets.

NE has relatively high exposure to falling European economies.

Source: WISER and Census Bureau/Haver Analytics
Federal Reserve officials expect somewhat elevated unemployment but low inflation through 2014-15.

<table>
<thead>
<tr>
<th></th>
<th>Actual</th>
<th>Forecast</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CY 2011 Q4</td>
<td>CY 2012 Q4</td>
<td>CY 2013 Q4</td>
</tr>
<tr>
<td>Real GDP growth (%)</td>
<td>2.0</td>
<td>1.5</td>
<td>2.3 to 3.0</td>
</tr>
<tr>
<td>Unemployment rate (%)</td>
<td>8.7</td>
<td>7.8</td>
<td>7.4 to 7.7</td>
</tr>
<tr>
<td>PCE inflation (%)</td>
<td>2.5</td>
<td>1.5</td>
<td>1.3 to 2.0</td>
</tr>
</tbody>
</table>

Note: Projections are fourth-quarter-to-fourth-quarter growth rates except for the unemployment rate, which is the fourth quarter level.

PCE = personal consumption expenditures.

The NE economy is expected to expand through 2016.
Unemployment rates are expected to gradually decline, but stay above the pre-recession levels.

Sources: New England Economic Partnership Fall 2012 Economic Outlook Conference
Summary

- Employment is recovering slowly and unevenly in New England.

- The housing market continues to improve.

- Inflation remains moderate.

- Risks to economic recovery include uncertainty about federal fiscal policy and Eurozone economic problems.

- Forward-looking indicators suggest positive, moderate economic growth through 2016.