

NEW ENGLAND ECONOMIC OUTLOOK

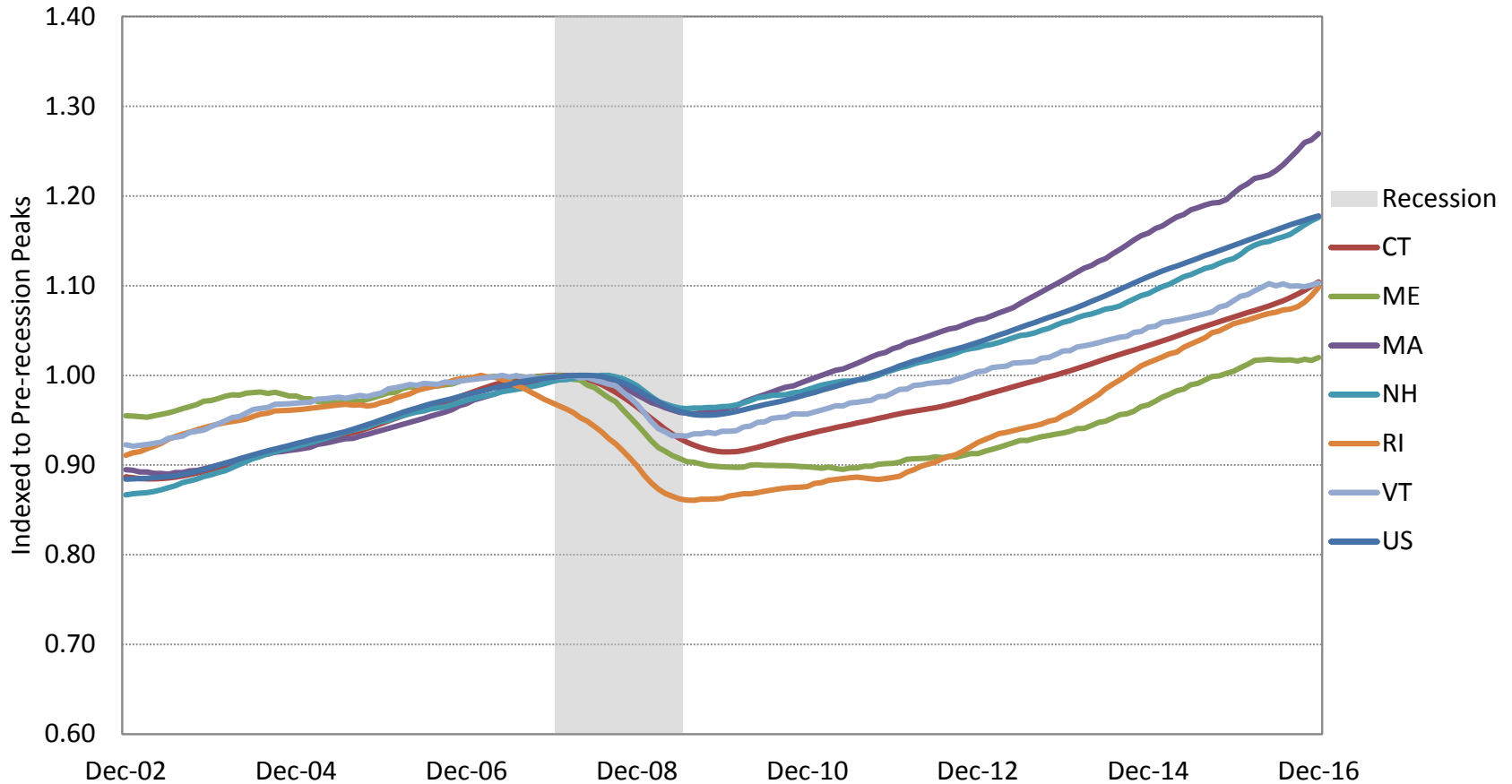
Mary A. Burke
Senior Economist
Federal Reserve Bank of Boston

NCSL Atlantic States Fiscal
Leaders Meeting
Feb. 24, 2017

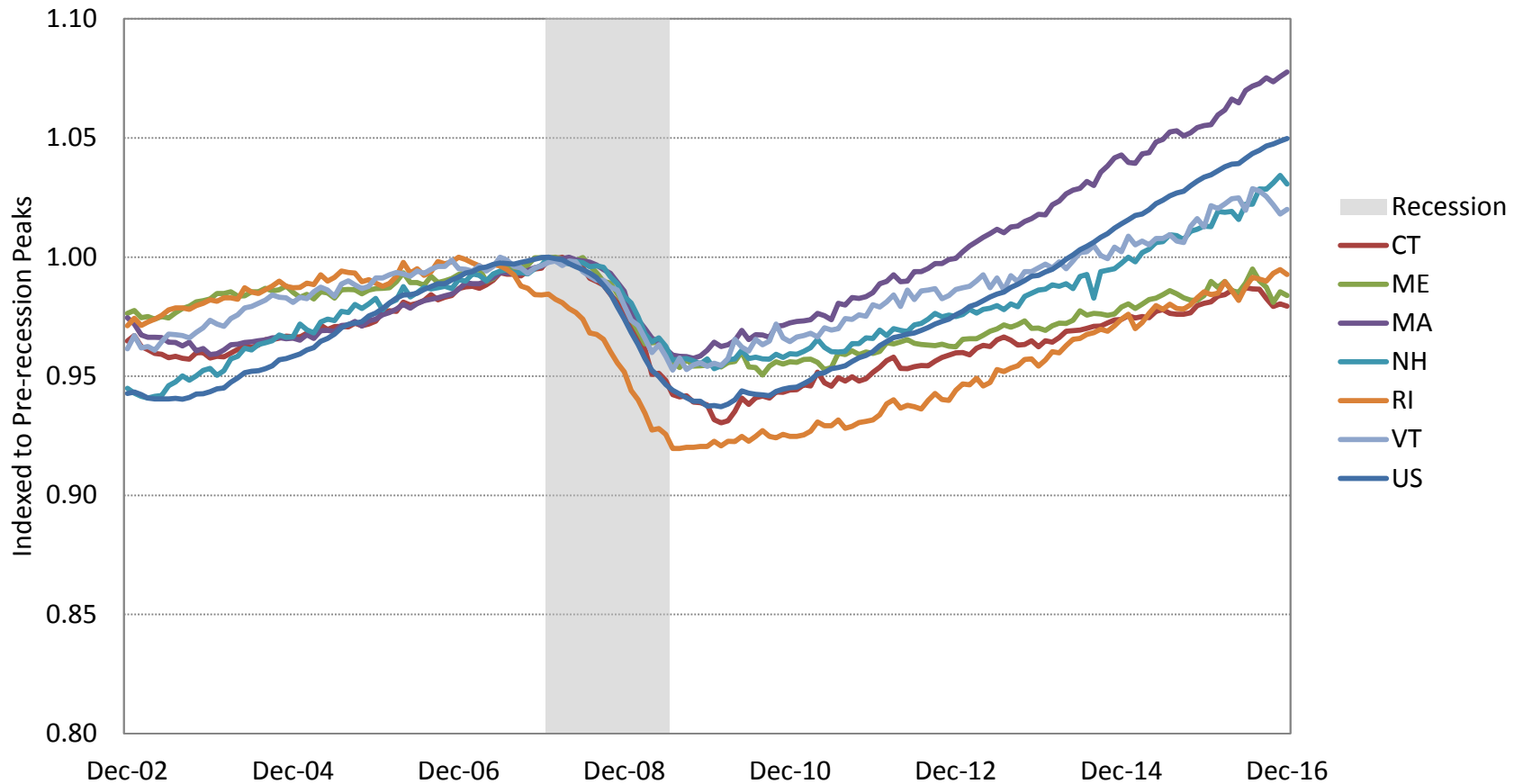
Preview

- Current economic situation in region
 - Extent of recovery from Great Recession
 - Focus on employment
- Longer-term structural issues in economy
 - Declining labor force participation
 - Rise of the “gig economy”
 - Changes in types of jobs available
- Outlook for U.S. economy

Economic Activity Levels Above Pre-Recession Peaks in All New England States



Payroll Employment Still Not Fully Recovered in CT, ME, RI



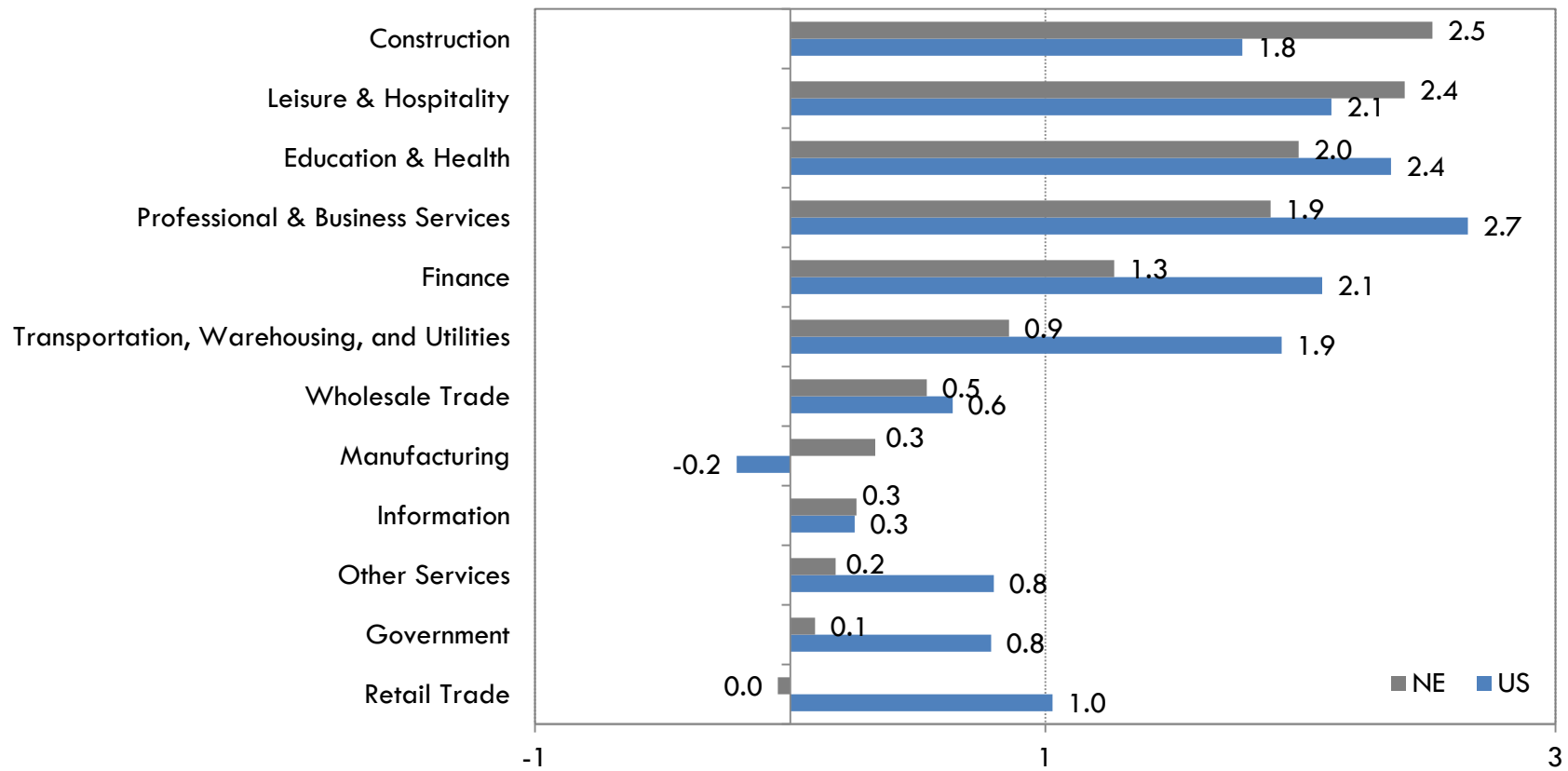
Employment Growth Rates Mixed Relative to Long-Term Trends

	Annual Long-term Trend	Last 12 months		Since Peak	
	Percent	Percent	Number	Percent	Number
United States	1.4	1.6	2,242,000	5.0	6,895,000
New England	0.9	1.2	90,400	3.5	250,100
Connecticut	0.5	-0.1	-2,000	-2.1	-35,300
Maine	1.1	0.0	0	-1.6	-10,000
Massachusetts	0.9	2.1	75,000	7.8	258,900
New Hampshire	1.5	1.7	11,500	3.1	20,000
Rhode Island	0.7	0.7	3,600	-0.7	-3,600
Vermont	1.3	0.7	2,300	2.0	6,200

- ❑ Long-Term Trend: Average employment growth rate 1984-2016
- ❑ Last 12 Months: Growth rate December 2015 - December 2016
- ❑ Since Peak: Net change to date from pre-recession peak employment level

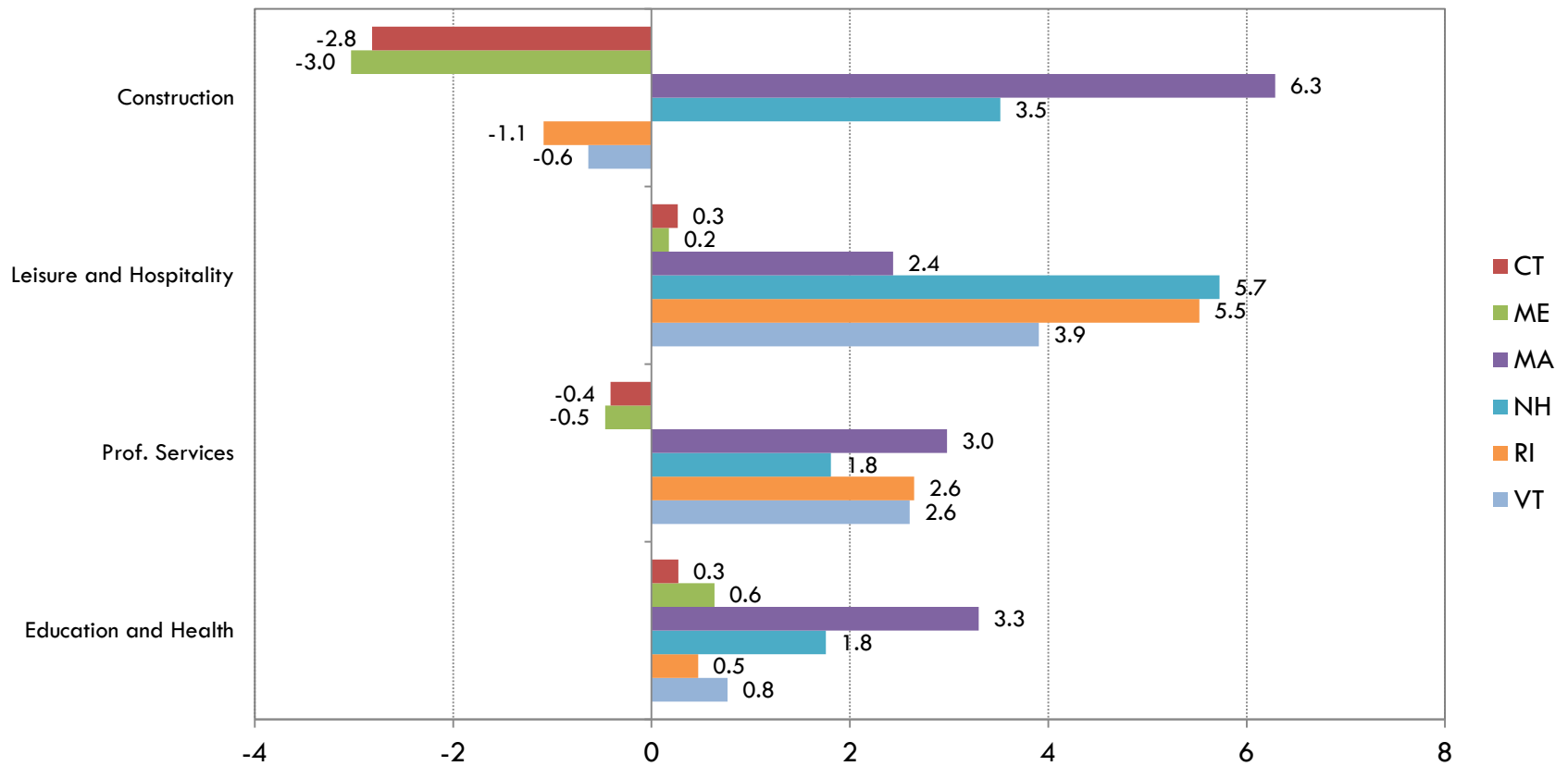
Construction Employment Growth Robust in Region; Retail Trade Employment Lags

Percent Change, December 2015 - December 2016



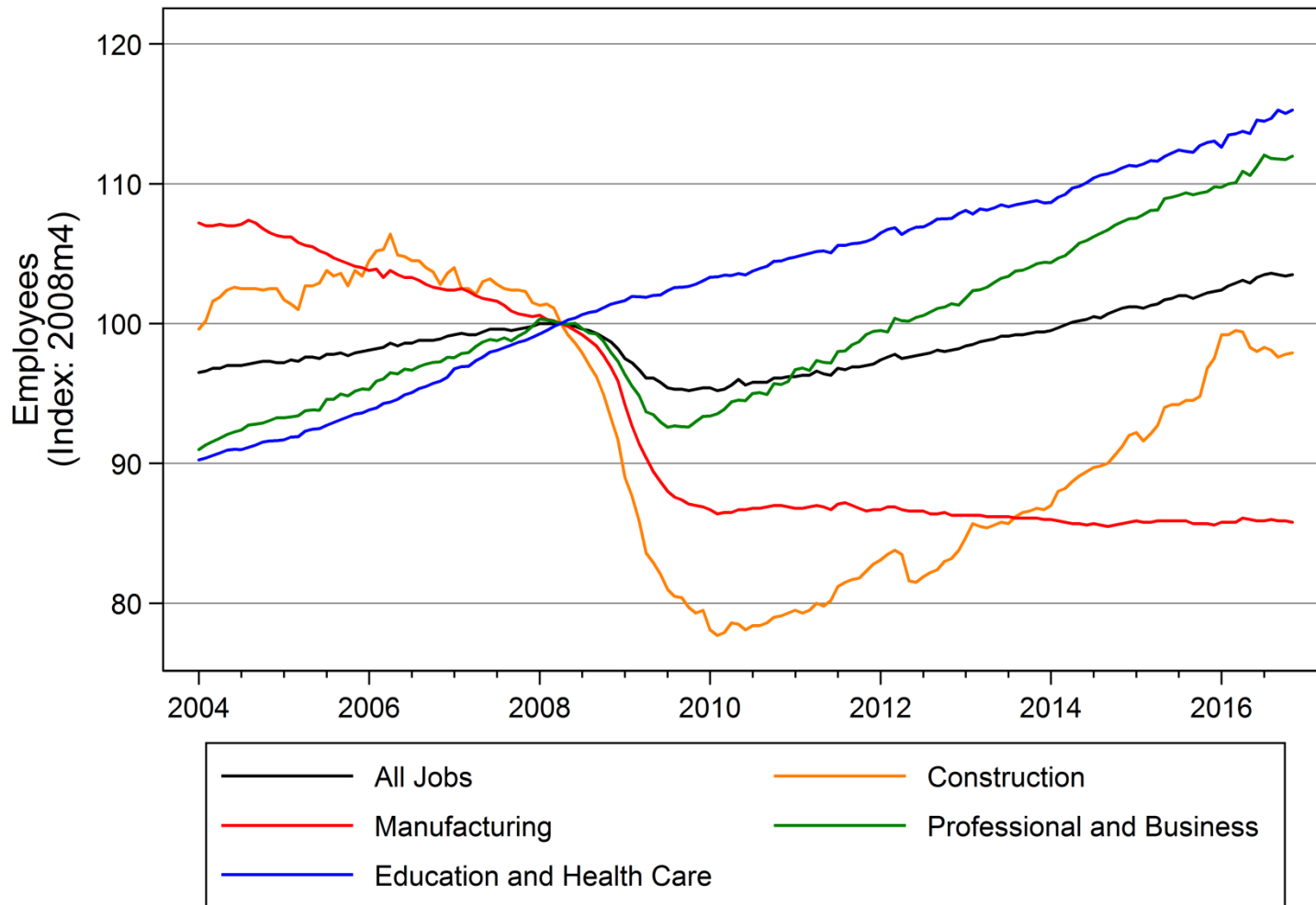
Construction Employment Growth is Variable; CT and ME Weak in Several Sectors

Percent Change, December 2015 - December 2016



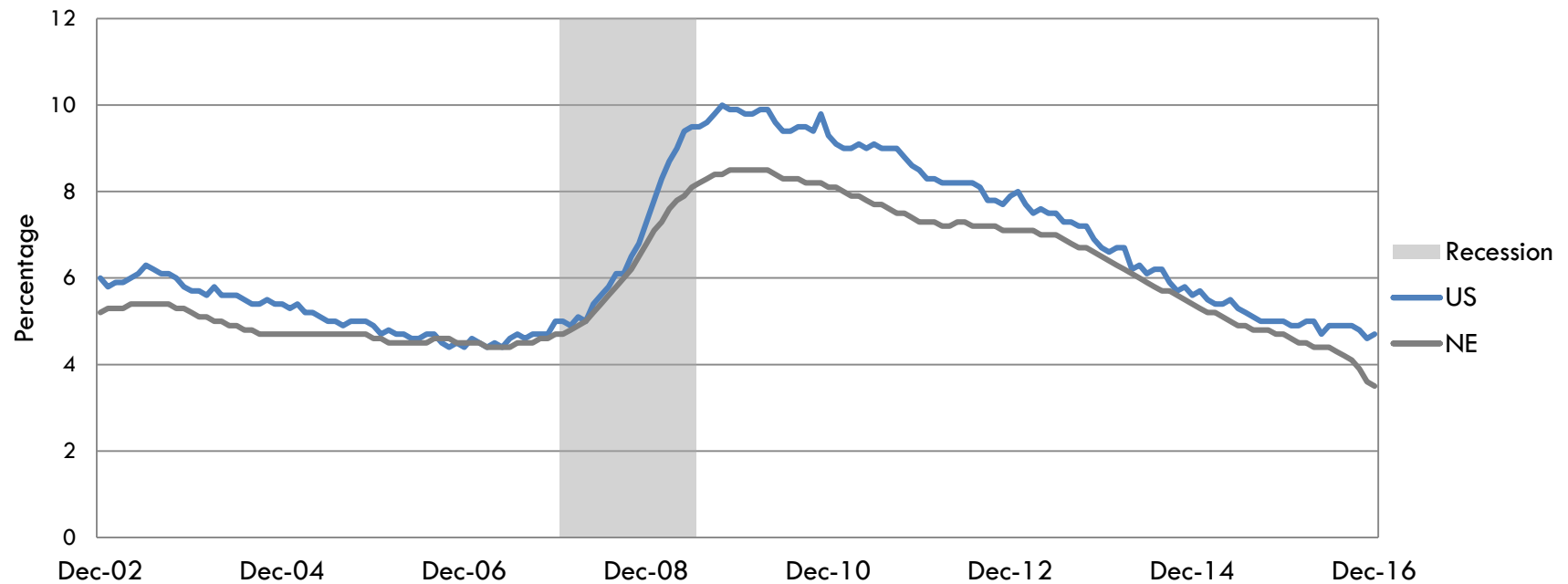
Source: Bureau of Labor Statistics, Haver Analytics

New England: Manufacturing in Long-Term Decline; Education/Health Care Jobs Rose Steadily Since 2004



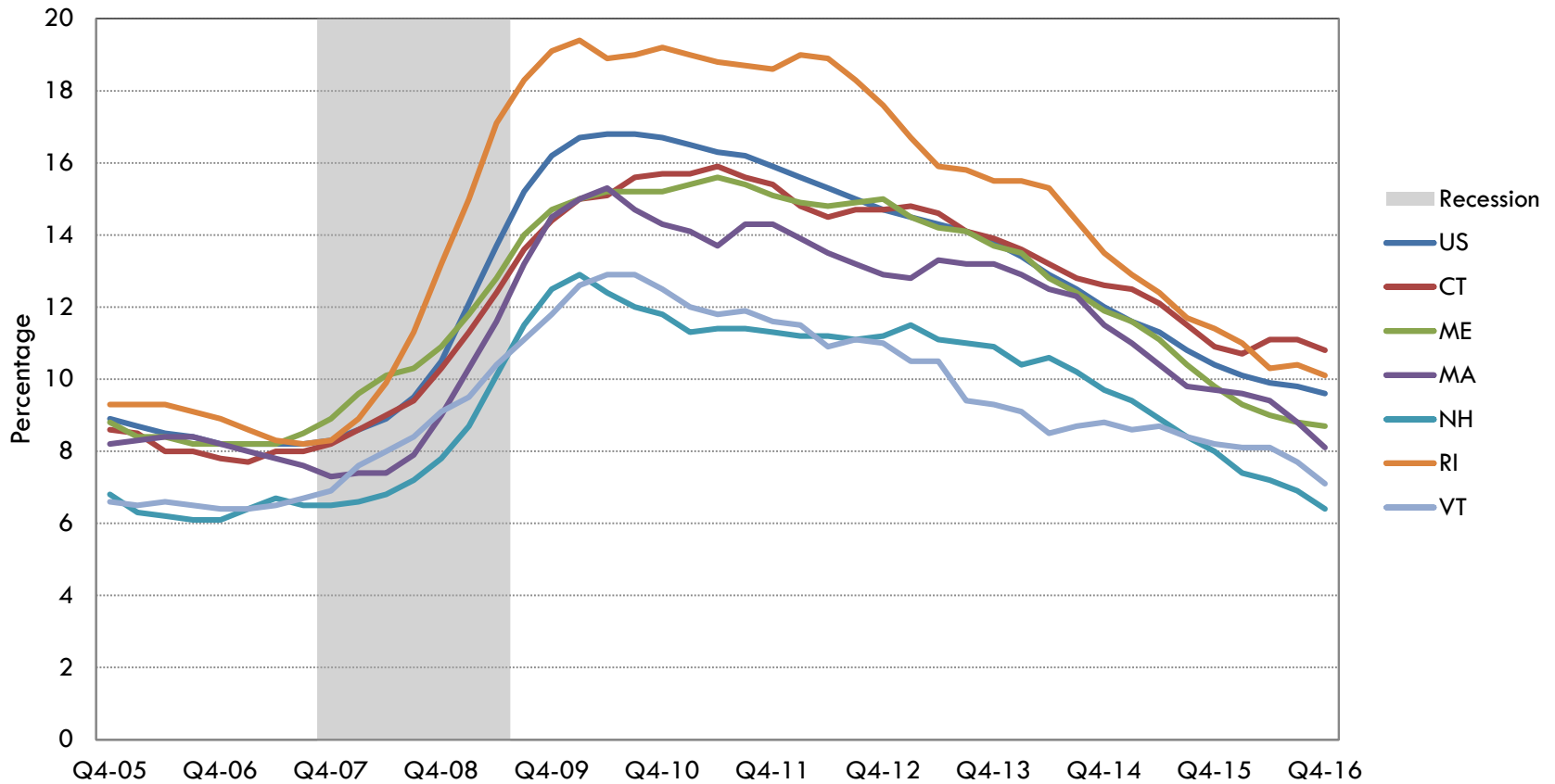
Source: Bureau of Labor Statistics/Haver Analytics

Unemployment Rates Down in All NE States Since December 2015

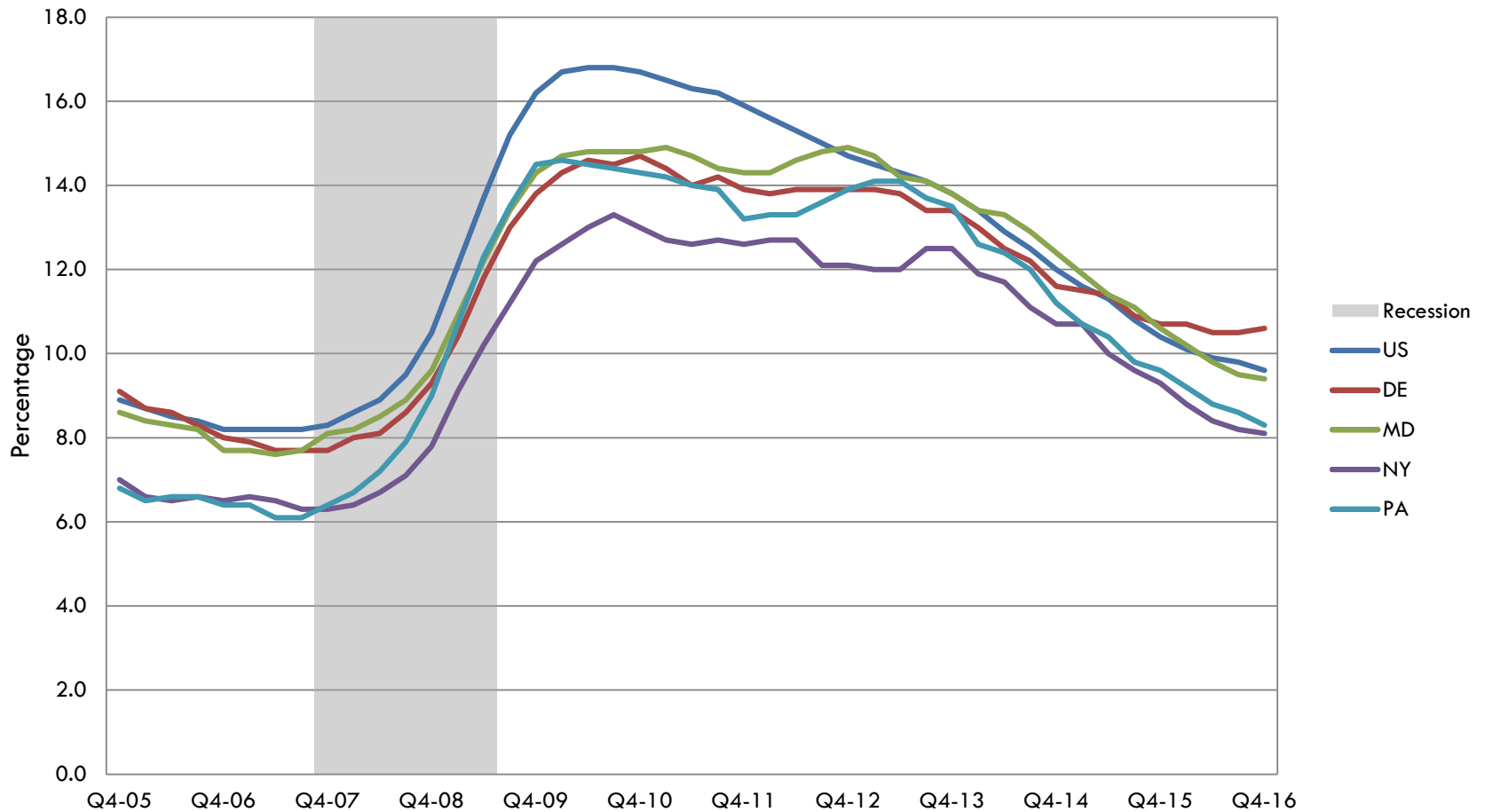


	Dec-15	Dec-16
United States	5.0	4.7
New England	4.7	3.5
Connecticut	5.4	4.4
Maine	4.0	3.8
Massachusetts	4.9	2.8
New Hampshire	3.1	2.6
Rhode Island	5.4	5.0
Vermont	3.5	3.1

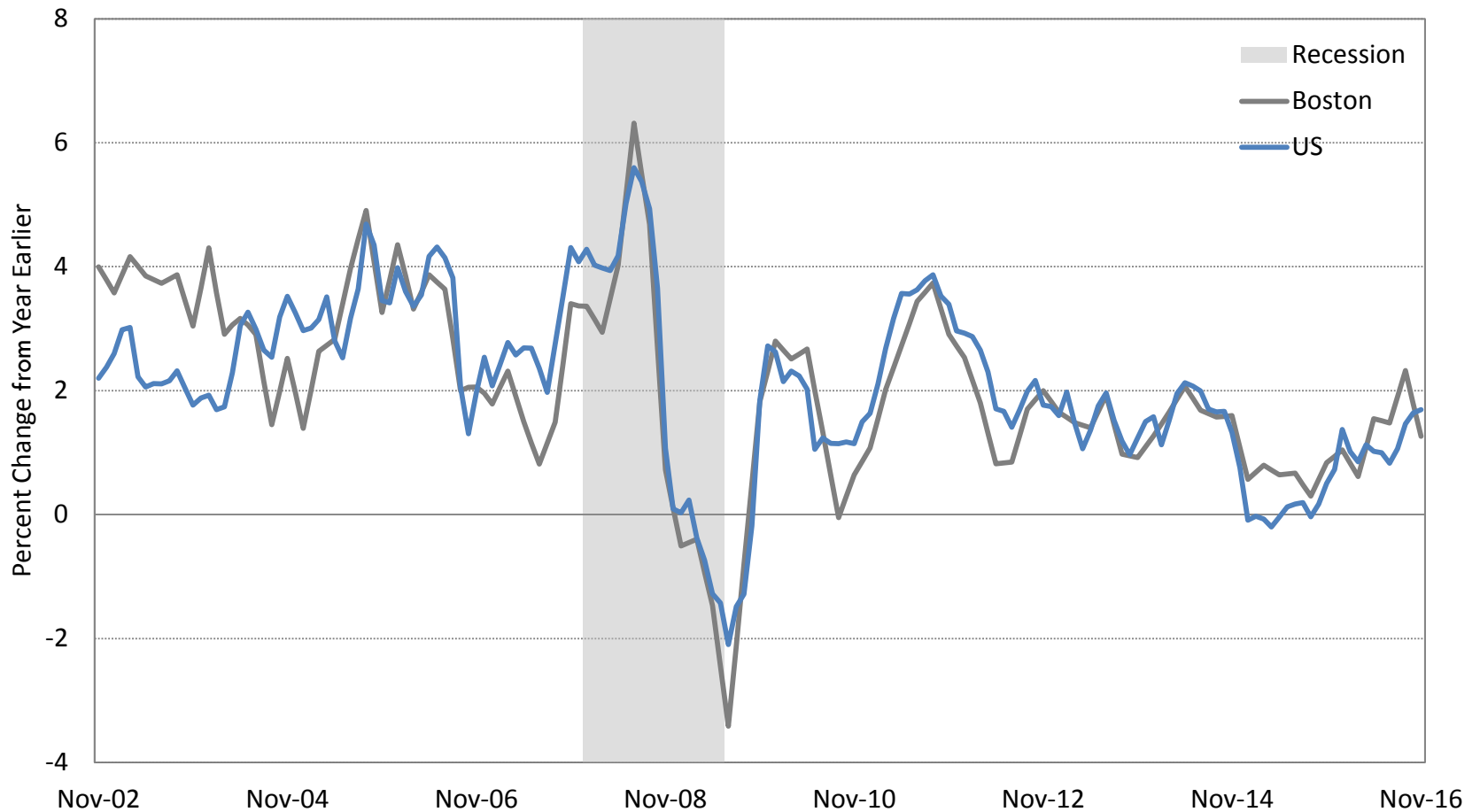
U6 Unemployment Down Since 2014, But Still Above Pre-Recession Lows



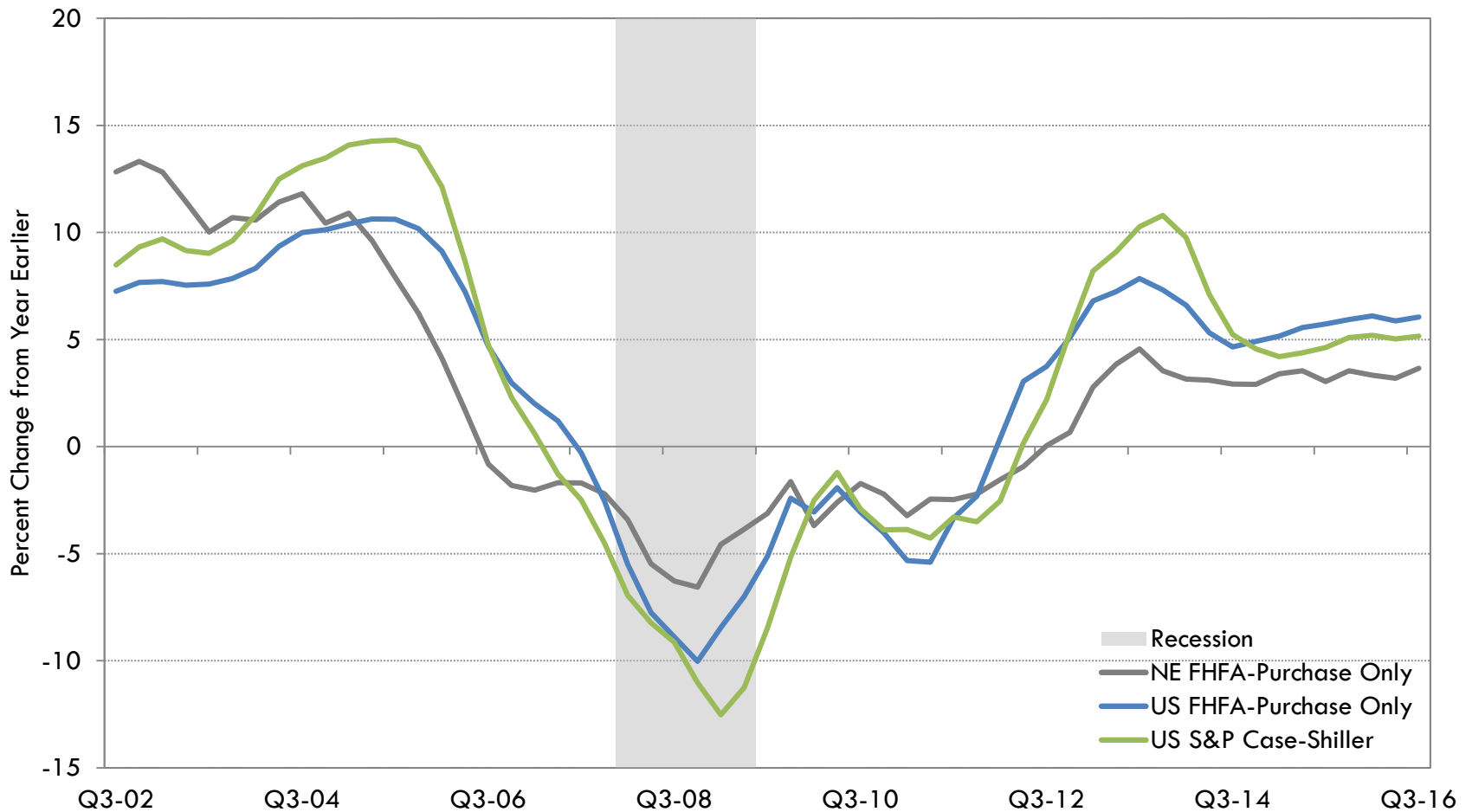
U6 Unemployment Also Above Pre-Recession Lows in Mid-Atlantic States



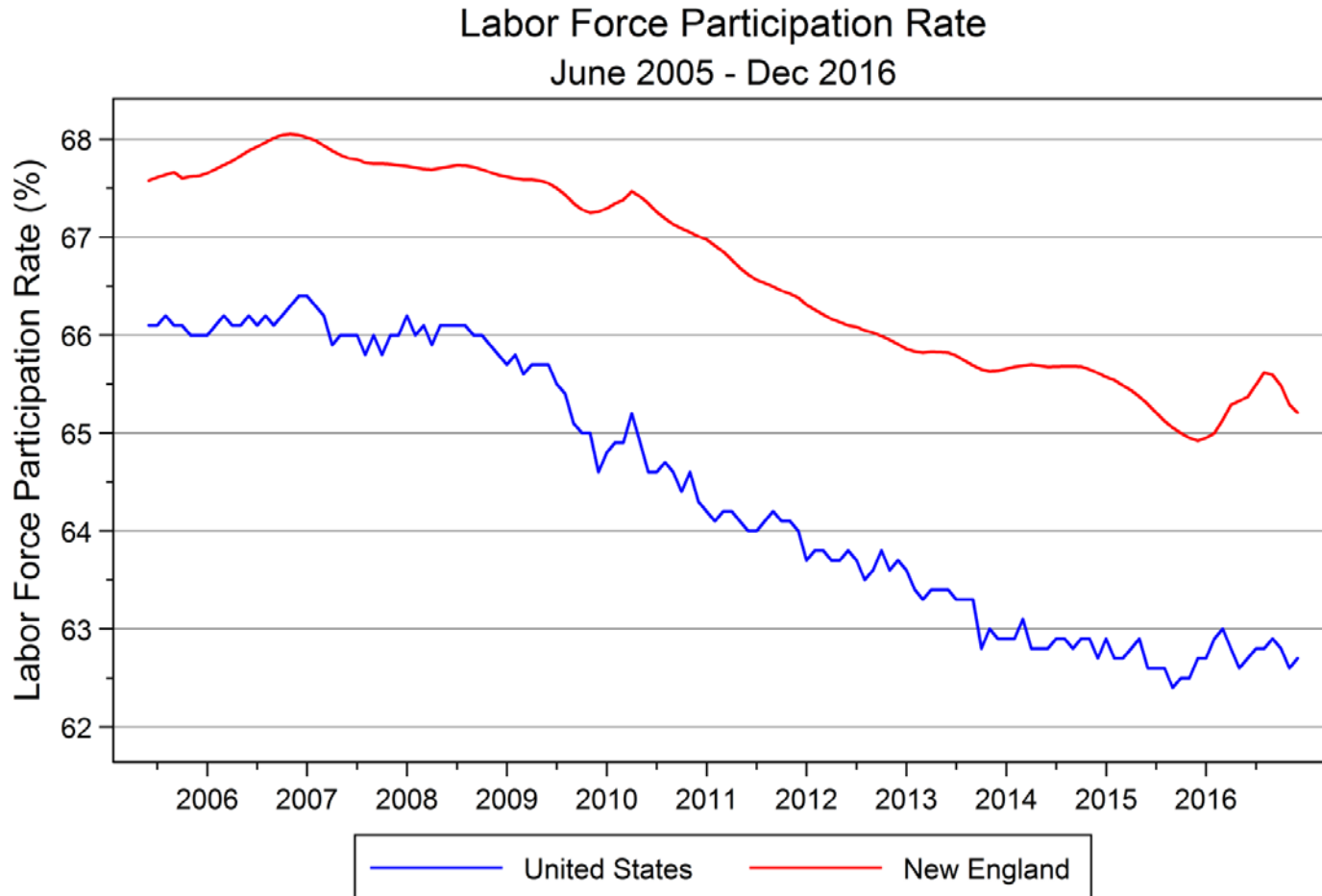
CPI Inflation Close to 2 Percent in Boston and U.S., Rebounding from Lows of 2015



House Price Increases Steady in New England and U.S. Since Late 2014



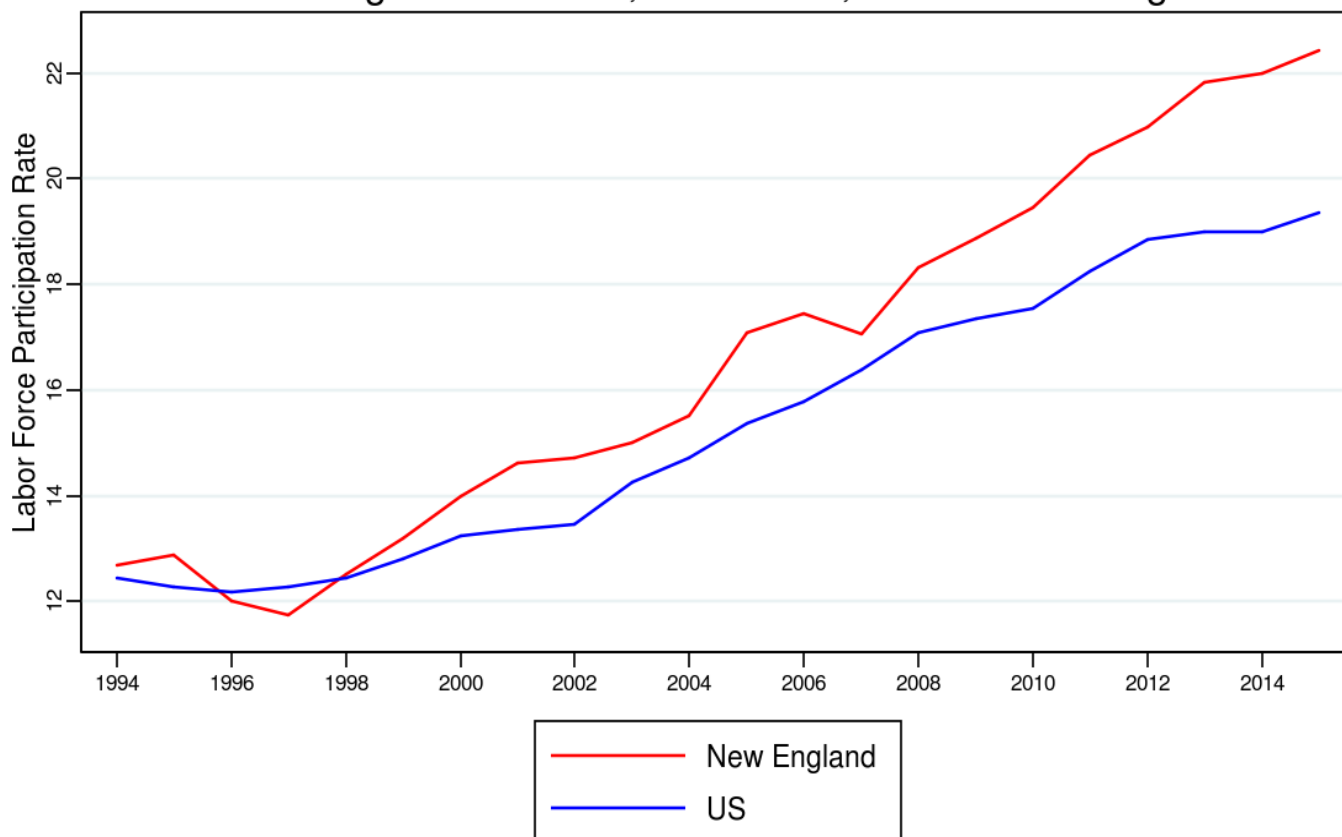
Labor Force Participation Rates Down Since 2007; Smaller Net Decline in Region than U.S.



Source: Bureau of Labor Statistics; Seasonally-Adjusted Data

Labor Force Participation Up Among Seniors, Trend is Stronger in New England than U.S.

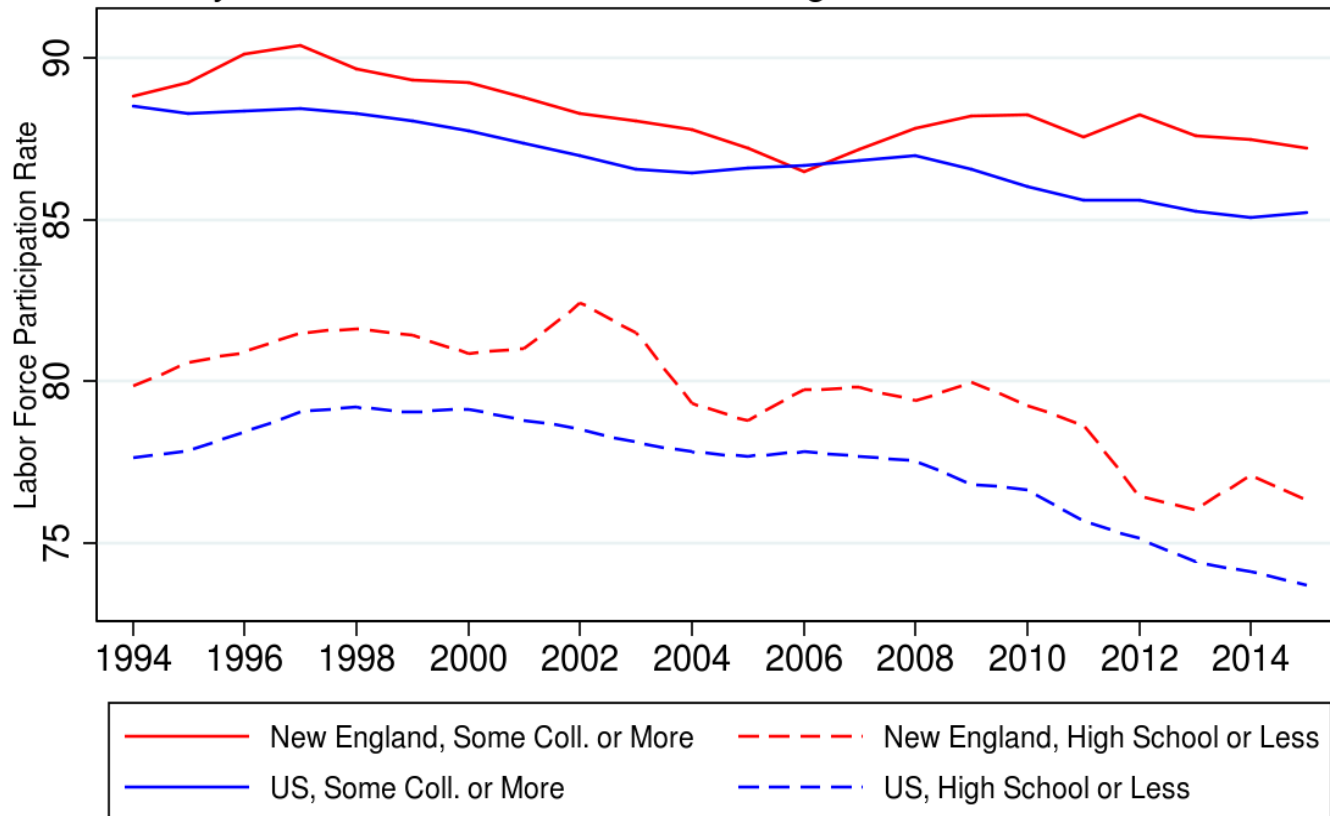
Labor Force Participation Rate, Ages 65 and Over
New England and U.S., 1994-2015, 12-Month Averages



Source: Author's calculations based on Bureau of Labor Statistics' Current Population Survey Integrated Public Use Microdata Series (IPUMS-CPS).

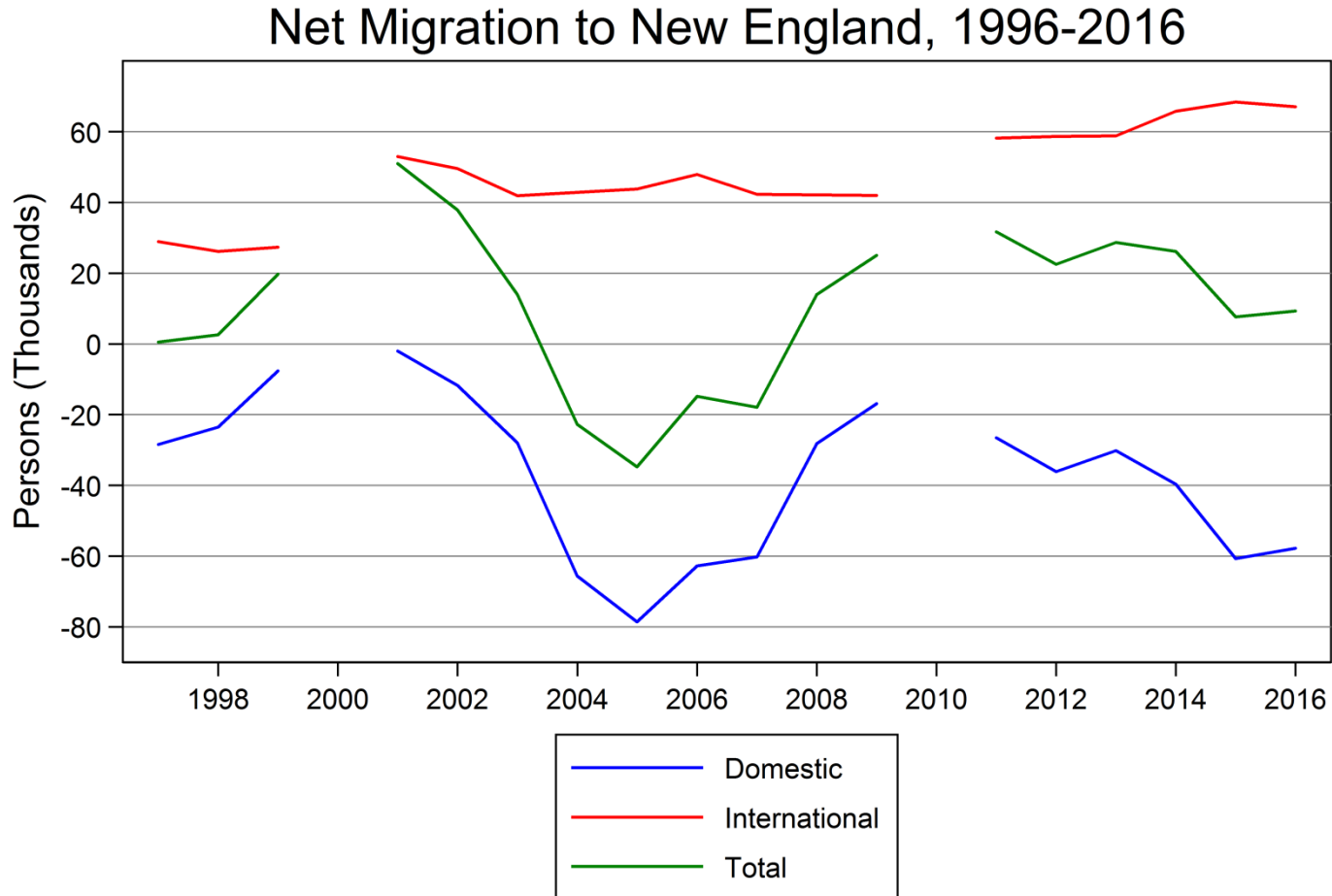
Prime-Age Participation Declining; Trend is Stronger Among those With No College Education

Labor Force Participation Rate, Ages 25 to 54
By Educational Attainment, New England and US, 1994-2015



Source: Author's calculations based on Bureau of Labor Statistics' Current Population Survey Integrated Public Use Microdata Series (IPUMS-CPS).

Without International Migration, Region Would be Losing Population



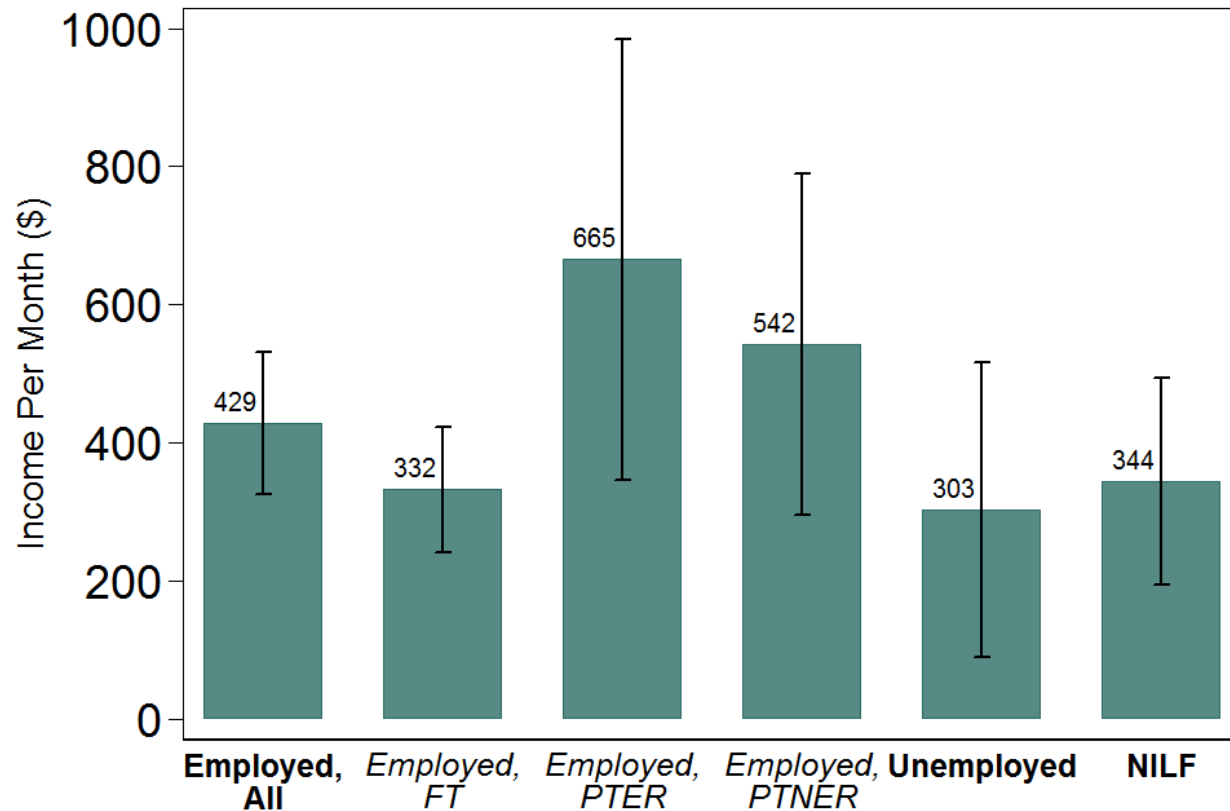
Source: Census Bureau/Haver Analytics

Participation in Informal or “Gig” Work Significant in U.S. and New England

- Based on nationally representative survey, 2015
 - In U.S., *37 percent* of non-retired adults engaged in paid informal work in 2015
 - Rate is *20 percent* not including renting/selling work (eBay, craigslist, AirBnB, etc.) or paid surveys
 - Participation rates most likely *higher in New England*

Source: Survey of Informal Work Participation within the Survey of Consumer Expectations (SCE-SIWP), © 2013 Federal Reserve Bank of New York (FRBNY). Participation rates do not include individuals responding to surveys for pay.

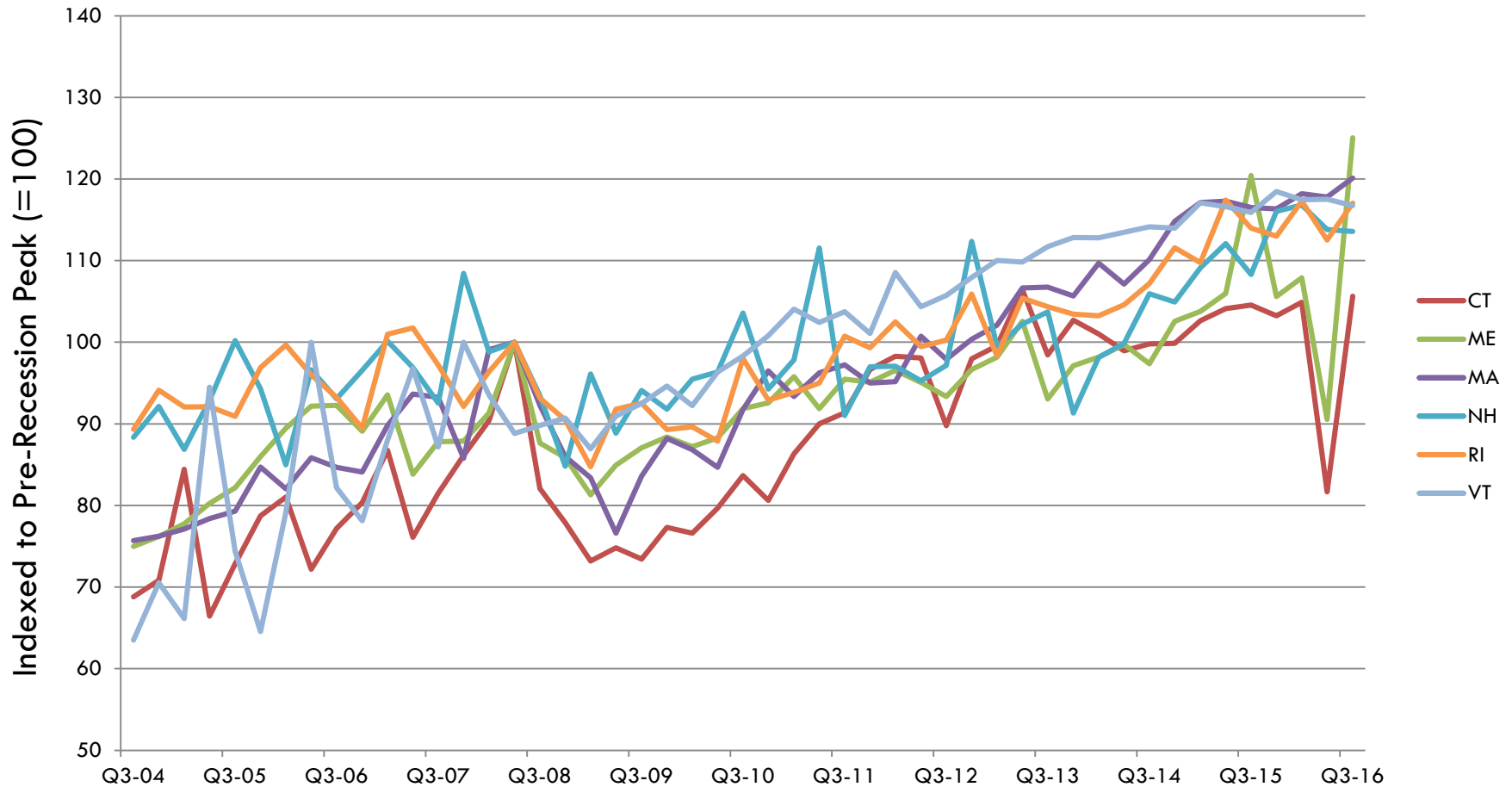
Americans Earning Significant Extra Income from Informal Side Jobs



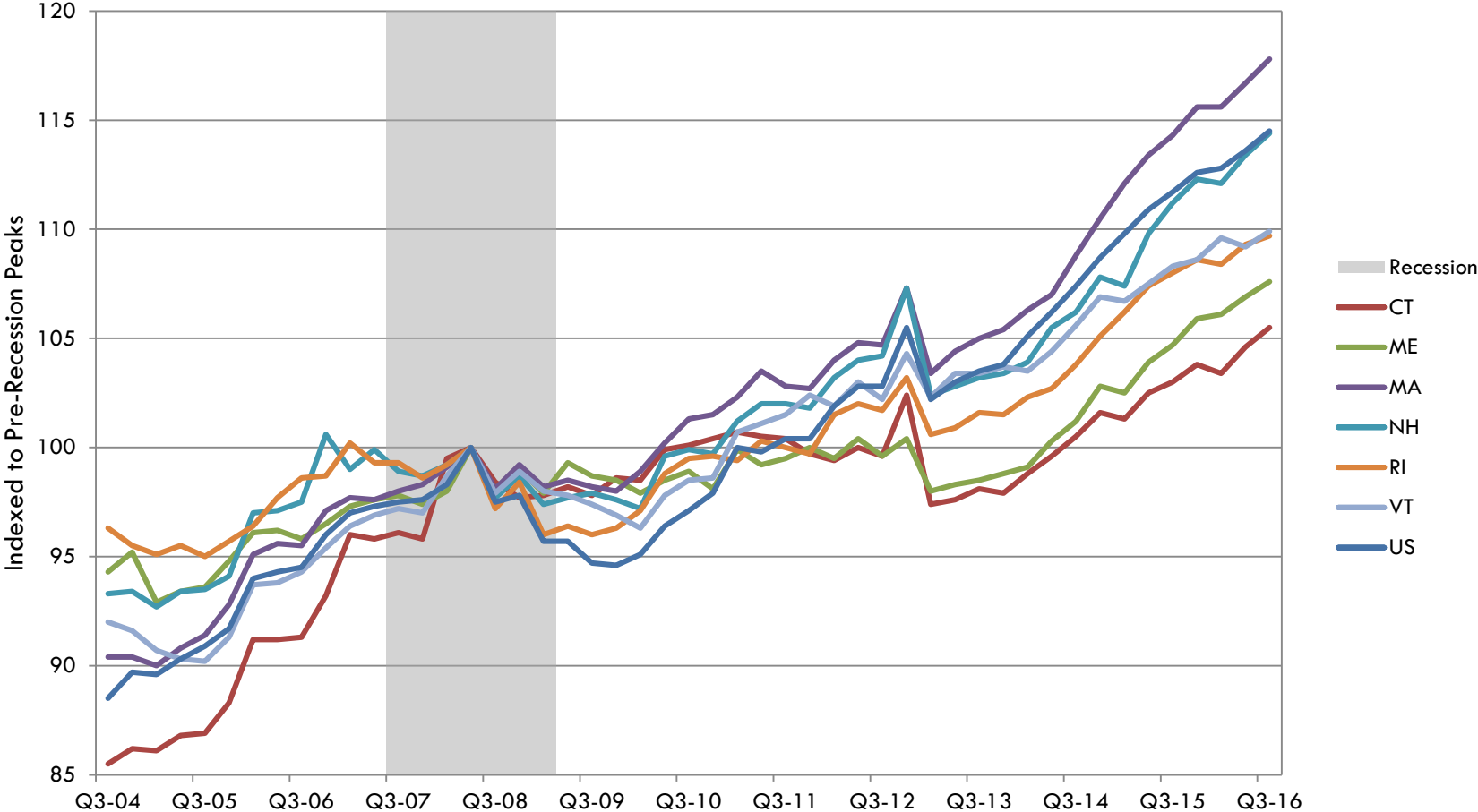
Survey of Informal Work Participation within the Survey Consumer Expectations (SCE-SIWP),
© 2013 Federal Reserve Bank of New York (FRBNY).

Key: FT=full-time; PTER=part-time for economic reasons;
PTNER=part-time for non-economic reasons; NILF=not in labor force

State Tax Collections Above Pre-Recession Peak in All NE States; Volatile in CT, ME

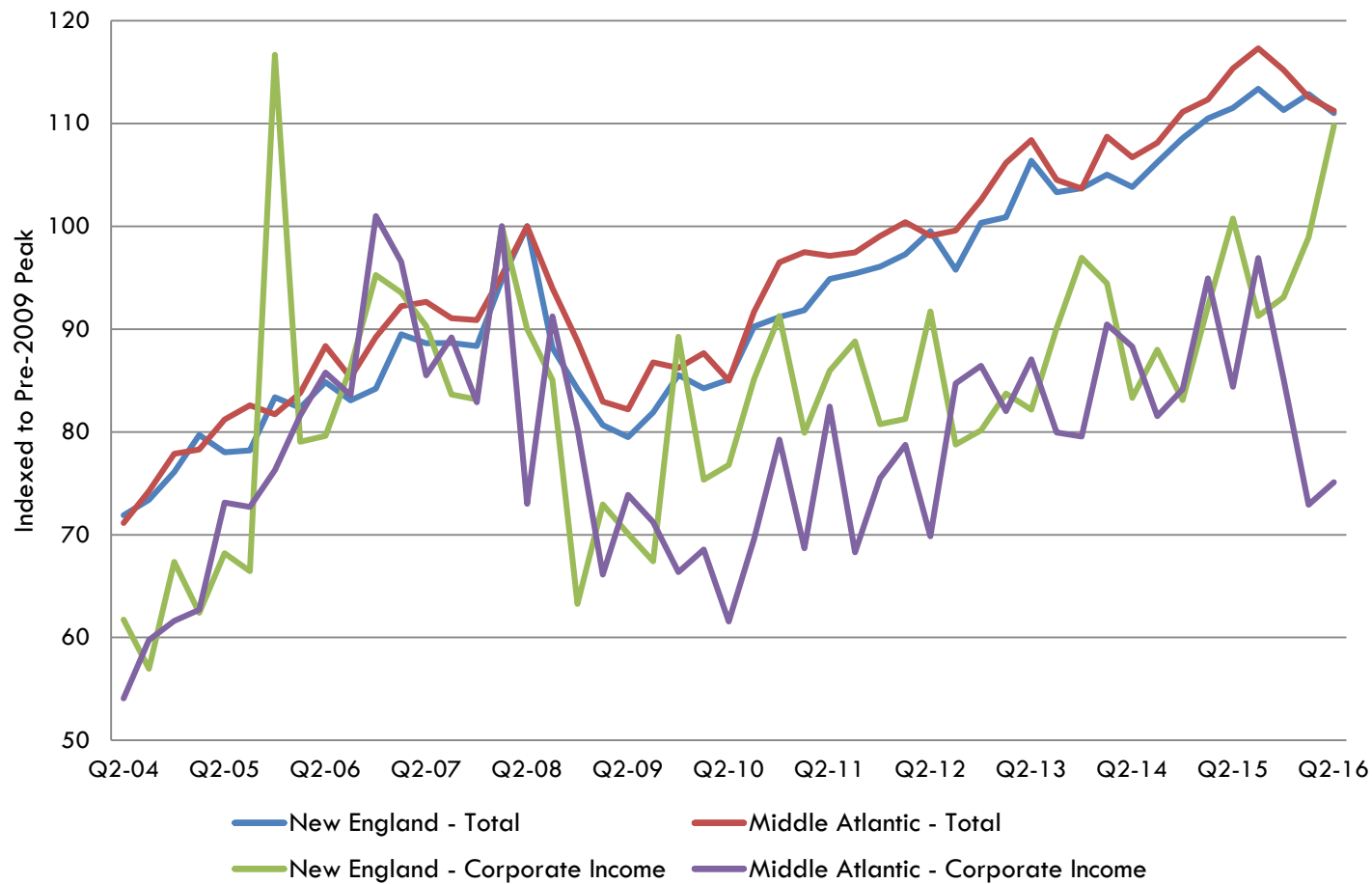


Real Personal Incomes Above Pre-2009 Peaks; Lagging in CT



Source: Bureau of Economic Analysis/Haver Analytics

Corporate Income Tax Collections Below Pre-2009 Peaks in Mid-Atlantic States

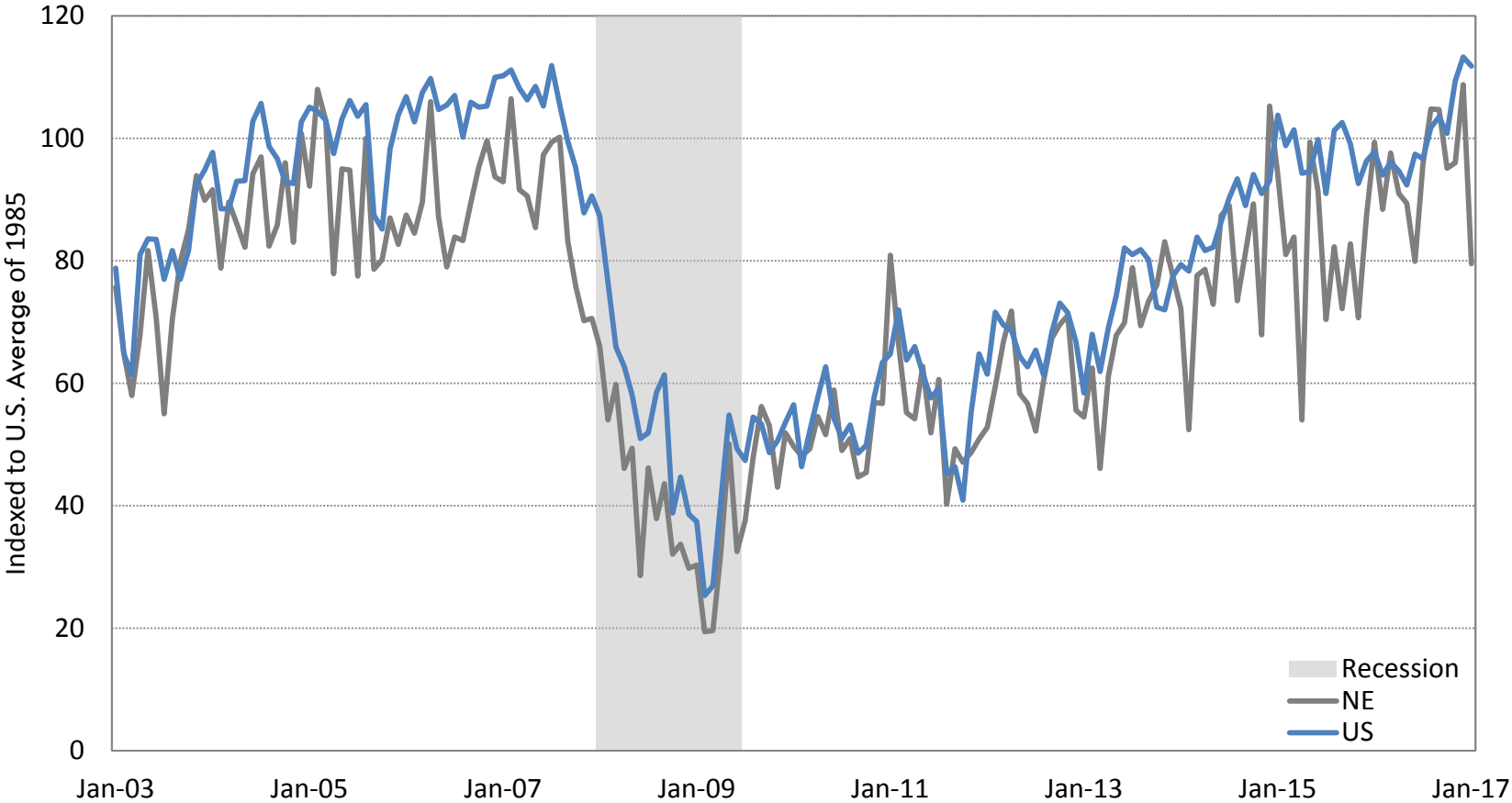


State Tax Revenue Growth Forecasts: Weakest Outlook is for CT

State	Forecast month	Personal Income Tax (\$ in millions)			Sales Tax (\$ in millions)		
		FY 2016 forecast	FY 2017 forecast	% chg., 2016-17	FY 2016 forecast	FY 2017 forecast	% chg., 2016-17
Connecticut	Jan-16	9,570	9,829	2.7	4230	4,092	-3.3
Delaware	Dec-15	1,307	1,361	4.1	NA	NA	NA
Maine	May-15	1,549	1,640	5.9	1,127	1,181	4.7
Maryland	Dec-15	8,779	9,273	5.6	4,516	4,662	3.2
New York	Dec-15	47,094	49,960	6.1	13,317	13,877	4.2
Pennsylvania	Feb-16	12,772	13,213	3.5	9,830	10,178	3.5
Rhode Island	Nov-15	1,215	1,265	4.2	981	1,015	3.5
Vermont	Jan-16	761	794	4.3	378	392	3.6
New Hampshire	NA	NA	NA	NA	NA	NA	NA
Massachusetts*	Jan-16	14,940	15,543	4.0	6,090	6,436	5.7

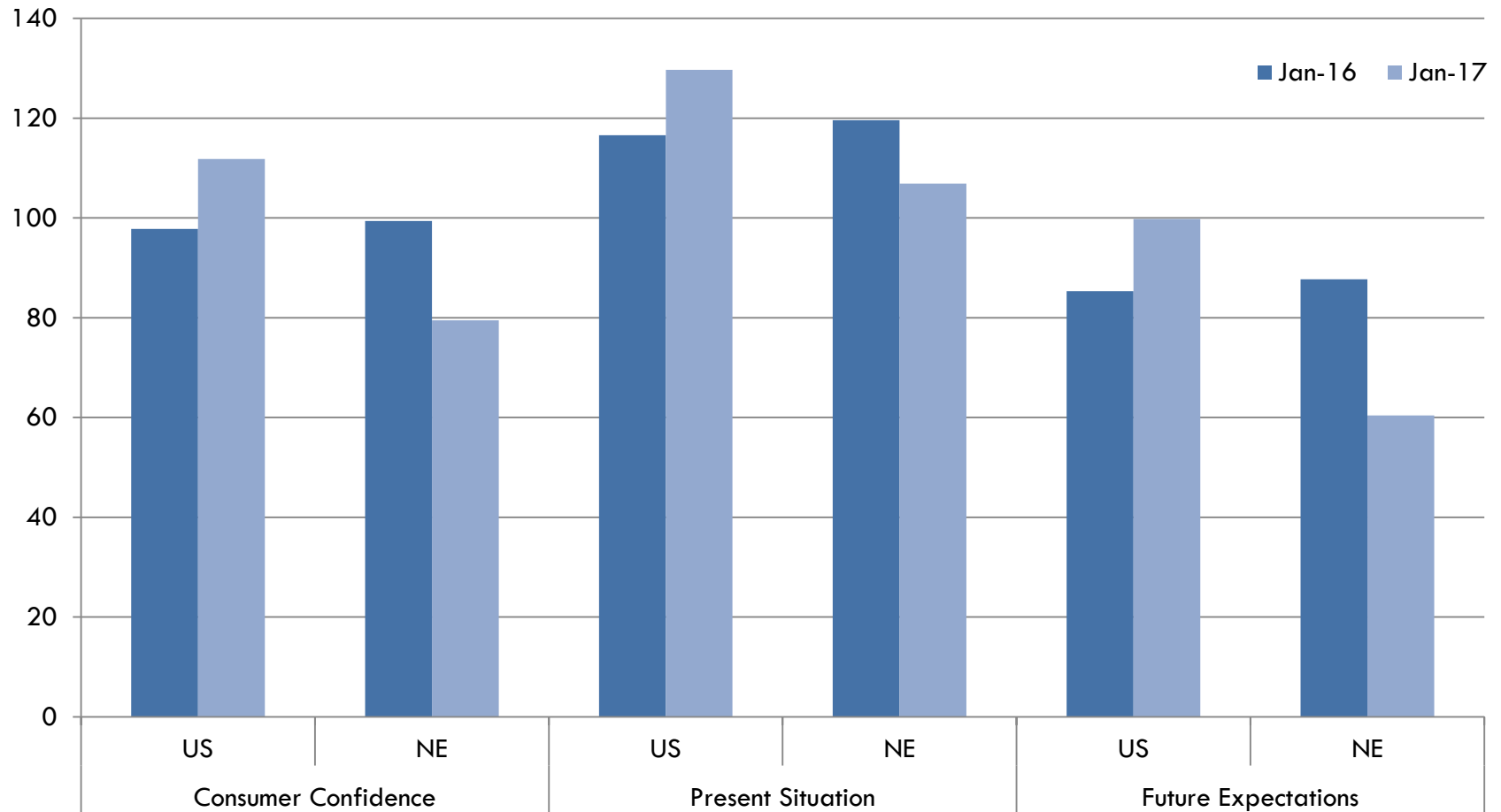
Source: The Rockefeller Institute, “States Forecast Slow Tax Revenue Growth in 2017 and Over the Longer Term,” Lucy Dadayan and Donald J. Boyd. *Massachusetts revenue growth figures sourced from Mass. Taxpayers’ Foundation and include capital gains tax growth.

Consumer Confidence Close to Pre-Recession Levels in New England and U.S.



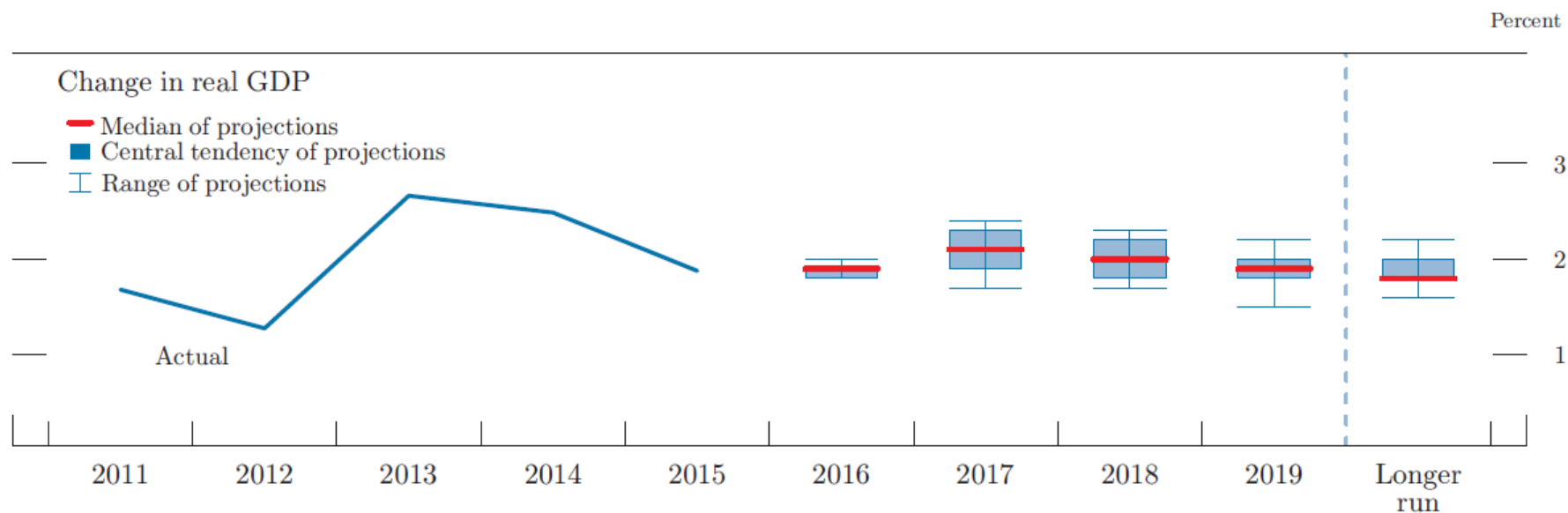
Source: The Conference Board, NBER, Haver Analytics

Confidence Fell in Region Since Jan. 2016, Especially for Future



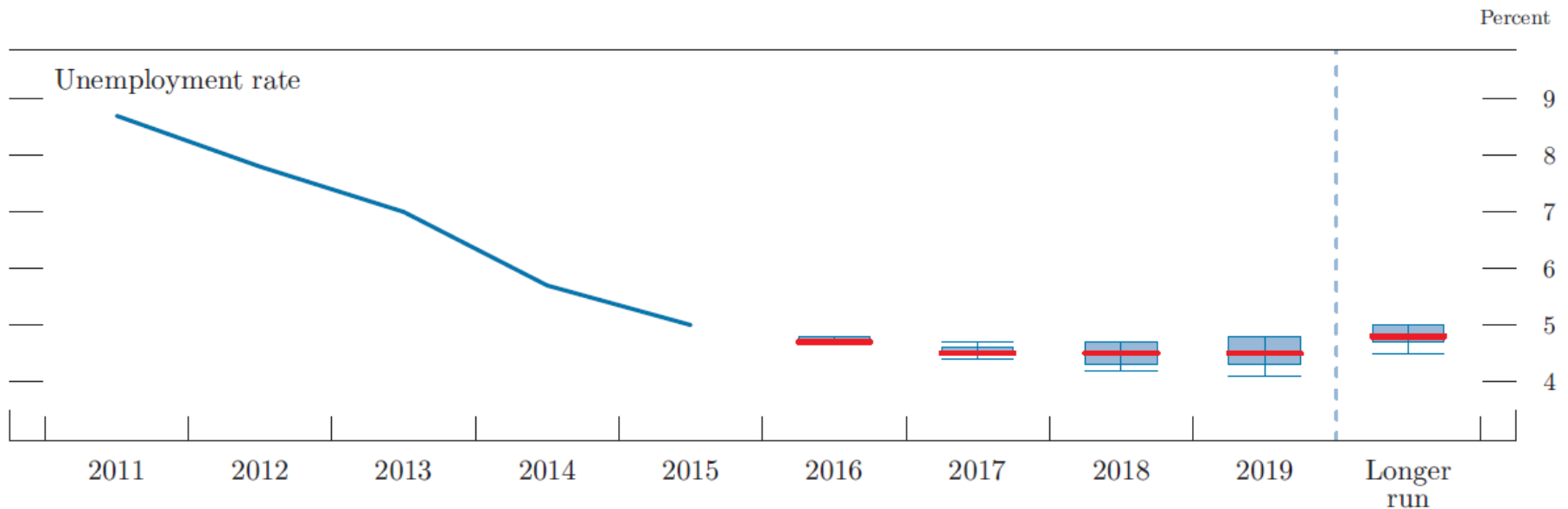
FOMC: GDP Growth May Increase in 2017-18, but Long-Run Growth Rate Below 2 Percent

Figure 1. Medians, central tendencies, and ranges of economic projections, 2016–19 and over the longer run



Source: Minutes of the Federal Open Market Committee December 13-14, 2016.
<https://www.federalreserve.gov/monetarypolicy/files/fomcminutes20161214.pdf>

FOMC: Unemployment Rate Drifts Down Further Through 2018; Settles at ~4.8 Percent in Long Run



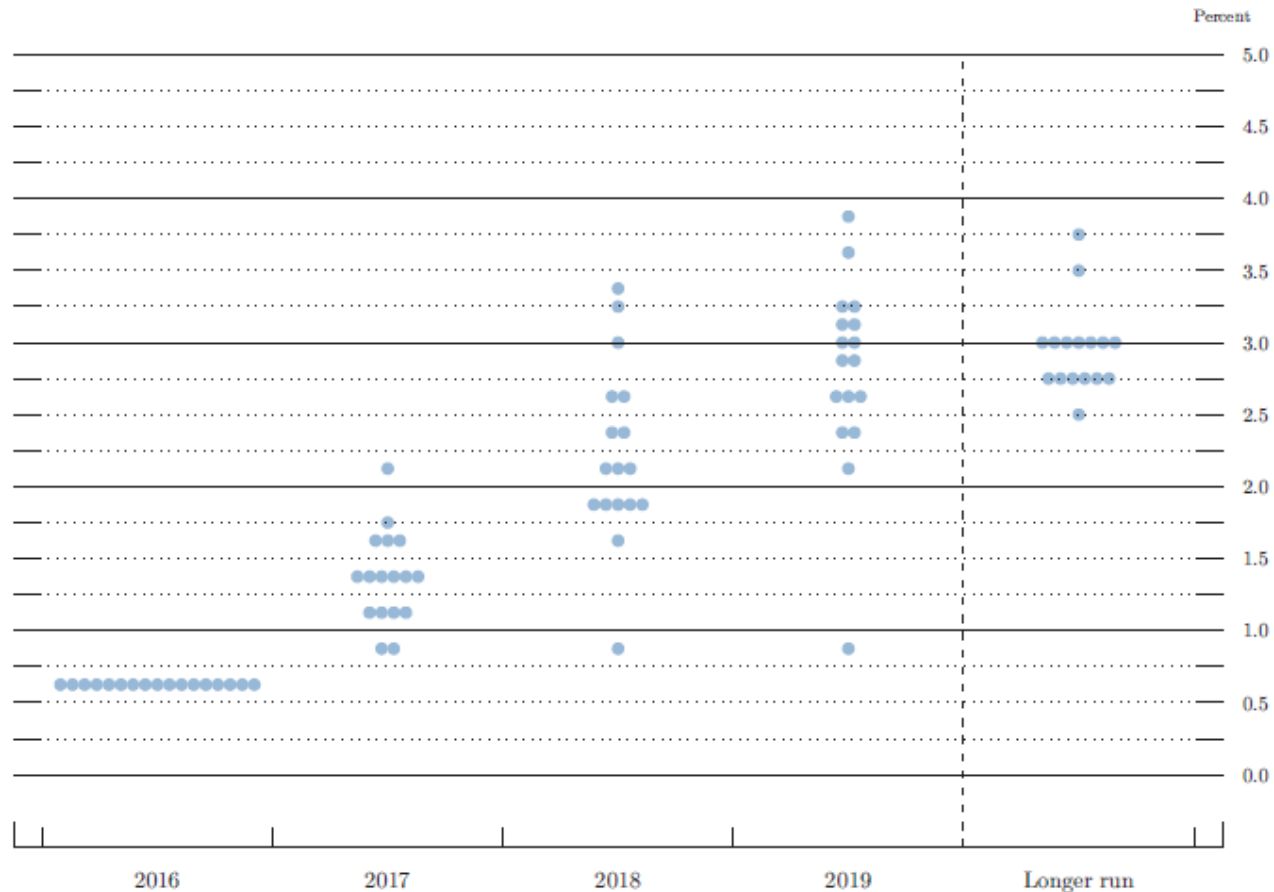
Source: Minutes of the Federal Open Market Committee December 13-14, 2016.
<http://www.federalreserve.gov/monetarypolicy/files/fomcminutes20161214.pdf>

FOMC: Inflation Higher in 2017, then Roughly Flat at ~2 Percent Through 2018 and Beyond



Source: Minutes of the Federal Open Market Committee December 13-14, 2016.
<http://www.federalreserve.gov/monetarypolicy/files/fomcminutes20161214.pdf>

Federal Funds Rate to Rise ~75 Basis Points Per Year Through 2019; Lands at 3 Percent in Long Run

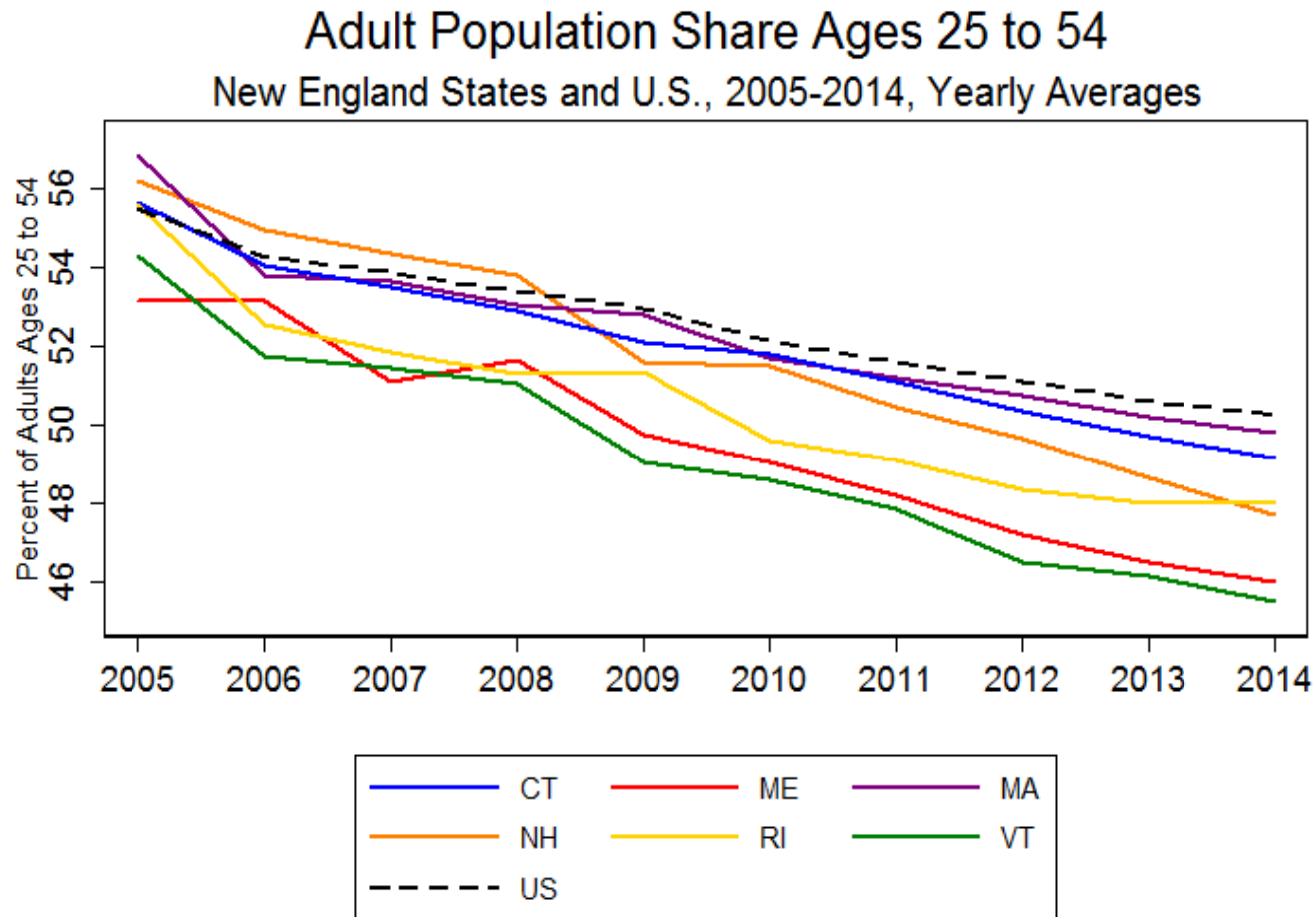


Source: Minutes of the Federal Open Market Committee December 13-14, 2016.
<http://www.federalreserve.gov/monetarypolicy/files/fomcminutes20161214.pdf>

Risks to the Outlook

- Upside risks
 - Domestic labor markets tightening: faster wage growth expected
 - Renewed fiscal stimulus, tax cuts, deregulation?
- Downside risks
 - Political uncertainty
 - Higher trade tariffs, tighter immigration policies (?)
- FOMC saw risks as “balanced” in latest statement
 - But: number perceiving above-average uncertainty increased
 - Perception of upside risks to inflation increased
- Risks for the region
 - Aging workforce, other drags on labor force participation
 - Reliance on international immigration
 - Health care law changes—will states face greater cost burden?

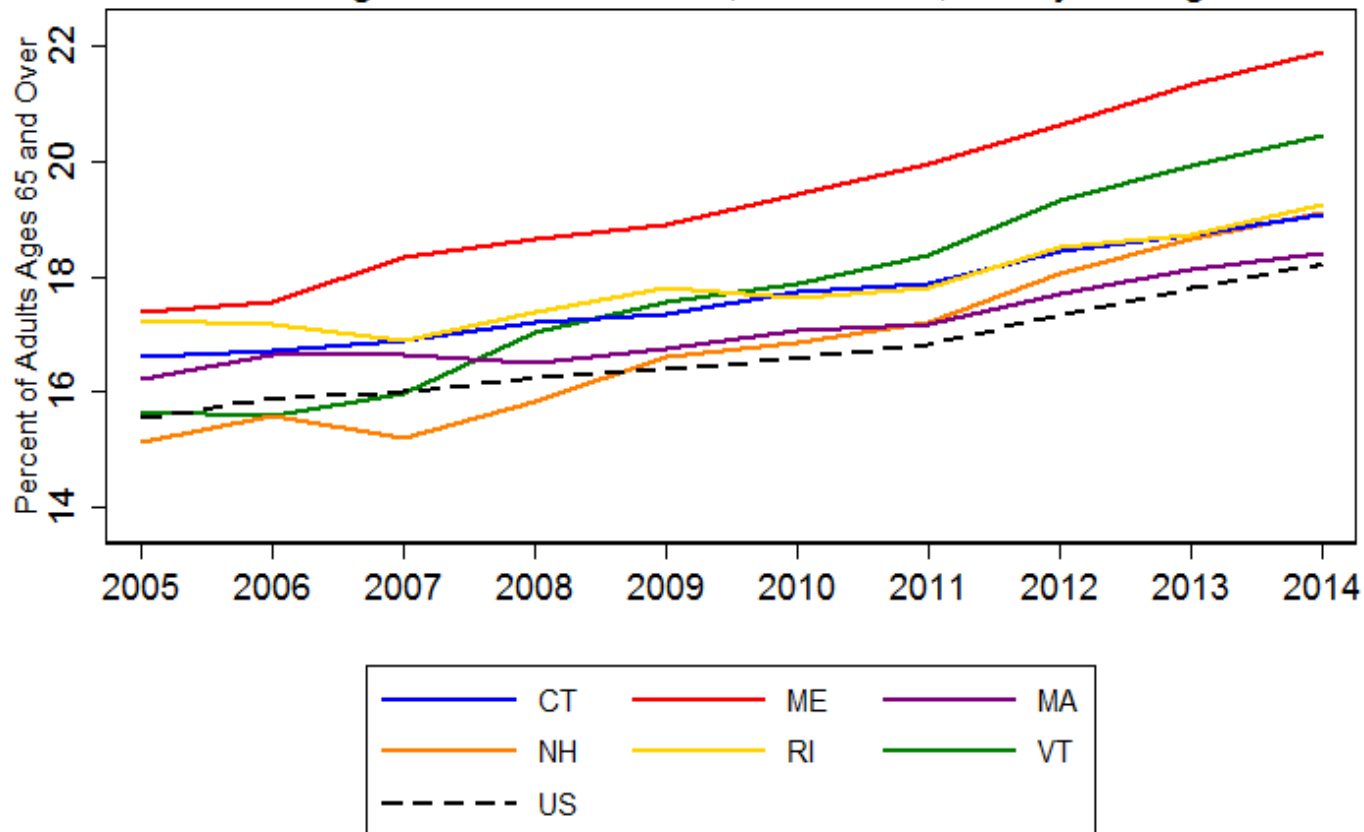
New England States Lost More Prime Age Workers than U.S. Since 2005



Source: Census Bureau, American Community Survey. Adult population refers to individuals ages 16 and older.

...And Gained More Older Citizens

Adult Population Share Ages 65 and Over
New England States and U.S., 2005-2014, Yearly Averages



Source: Census Bureau, American Community Survey. Adult population refers to individuals ages 16 and older.