NEW ENGLAND ECONOMIC OUTLOOK, FALL 2013

New England Economic Outlook: Overview

As is true with the U.S. economy, the New England states continue to grow at a slow rate and this is expected to continue. The potential for the regional economy to gain momentum has been set back in 2013 by federal spending cuts associated with the sequestration and by the federal government shutdown. The pace of recovery has also been negatively affected by declines in business and consumer confidence associated with federal government failures to address economic challenges and the federal debt.

The forecast for the New England regional economy is for continuation of growth rates below what would typically be associated with strong or even moderate growth -- employment growth of 2% and overall economic (regional gross product) growth of 3%. The expectation is that total employment growth will average 1.3% per year and overall growth 2.8% per year through the NEEP forecast period, or out to 2017. With the expected slow growth, the region is not expected to return to its pre-recession employment level until 2014 and the unemployment rate in the region, while remaining lower than the U.S. average, is not expected to be below 6% until 2016.

All the states in the region are projected to have employment growth below the national average over the forecast period. Demographic factors including lower labor force growth than the U.S. average continue to contribute to slower employment growth than the national average across the region. Massachusetts, Vermont and New Hampshire are expected to continue to have the strongest economies in the region over the forecast period.

Massachusetts has already recovered the jobs lost in the recession and Vermont will soon follow. Rhode Island is expected to have the highest unemployment rate in the region throughout the forecast period as the state is continuing its slow recovery from the most significant percentage employment decline in the region during the recession. The Ocean State is not expected to recover the jobs lost during the recession until the end of the forecast period. The other states are forecast to recover their jobs lost, with New Hampshire and Connecticut following after Vermont and Rhode Island, and Maine lagging.

The housing market continues to be a positive factor in the regional economy, with raising home prices and rising sales bolstering the construction industry and related industries. Median housing prices across the region are expected to continue to increase, with annual increases reaching 9 to 10% in 2013 and then leveling off as interest rates rise to growth of 2 to 3%.

Gross Regional Product

The gross regional product (GRP) growth is expected to rise slowly and peak within the forecast period in 2015. GRP is forecast to increase from annualized growth of 2.3% in 2013, to 3.1% in 2014, to 3.4% in 2015, before declining below 3% again in 2016 and 2017. The region's overall growth is expected to be at or just below the U.S. average over the forecast period.

Employment

Annualized growth in employment in the region is forecast to slowly rise to peak of 1.8% in the second quarter of 2015 and then dampen. The region's employment growth is expected to be 0.5 to 1% below national employment growth throughout the forecast period.

On a percent change basis from 2013-2017, the strongest sector of the regional economy is expected to be the construction industry increasing by 3.4%, followed by professional and business services (2.6%), leisure and hospitality (2.3%), high tech (2.0%), and health and education services (1.7%). A majority of the net job growth in the region is expected to be in three sectors – professional and business services, health and education and leisure and hospitality. Manufacturing, trade and finance are expected to have lower level growth. Government employment is expected to continue to be adversely affected by fiscal pressures at the federal, state and local levels.

Unemployment

With the slow employment growth, the unemployment rate in the region is expected to decline only gradually -- from 6.7% in the third quarter of 2013, to 6.4% in late 2014 and then to below 6% but not until the first quarter of 2016. The region’s unemployment rate in mid-2017 is expected to be 5.4%. This is a significant decline from its peak at 8.7% in 2010 first quarter, but still above the pre-recession rate of 5.0% in the second quarter of 2008. The region’s unemployment rate is expected to remain below the national average throughout the forecast period mainly due to the relatively high level of educational attainment of the workforce in the region and slow labor force growth.

Across the Region

Within the region New Hampshire is expected to have the highest average annual growth in employment on a percent change basis over the forecast period. Average annual employment growth in New Hampshire is expected to be 1.8%, followed by Massachusetts (1.6%) and Rhode Island and Vermont (both at 1.4%). All of the New England states are expected to continue to have below the U.S. average (1.9% annually) employment growth, with Maine having the lowest forecasted annualized growth rate over the forecast period at 0.7%, less than one-half the forecasted U.S. growth rate.

Vermont and New Hampshire are expected to continue to have the lowest unemployment rates in the region. By mid-2017, Vermont’s unemployment rate is expected to be down to 3.7% and New Hampshire’s to 3.3%. Rhode Island (6.1%), Connecticut (6.5%), and Maine (6.0%) are expected to continue to have the highest unemployment rates in the region. Massachusetts is expected to have 5.2% unemployment by mid-2017.

Housing

Housing prices have changed from a headwind to a tailwind for the economy, with prices rising nationally and in the region. Over the forecast period the increases in median price in the region are expected to be the highest in Vermont (39.1%) and Connecticut (32.4%). Rhode Island (17.9%) is expected to have the lowest growth in housing prices in the region. Even with significant turnaround in 2013 and rising prices in the region anticipated over the full forecast horizon, housing prices in all the New England states except for Vermont are expected to remain below their peak levels at the end of the forecast period.

Conference Theme: Boston’s Role in the Regional Economic Network?

The greater Boston economy has fared relatively well coming out of the recession, recovering jobs at a faster rate than the national average and faster than all of the New England states. The greater

Boston area has benefited from strong technology, health and construction sectors, concentrated in the central city of Boston and the neighboring city of Cambridge (home to MIT and Harvard).

What is Boston's role in the larger regional economy? How far and significantly does Boston's economic impact reach? What is the regional geography of the Boston economy? Does Boston's relatively strong economy positively impact the other New England states? Or do skilled workers leaving their neighboring home states and commuting to Boston every work day take away from the economies outside of Boston? These are some of the questions that will be discussed by the state forecast managers, the luncheon keynote speaker and panel participants. Only a brief introduction to the discussion is provided here.

There are different definitions of the Boston metropolitan area. We adopt the definition used by Moody Analytics, the Boston metro *division*, which includes Norfolk, Plymouth, and Suffolk counties. This is a restrictive definition limited to the county of Boston's location (Suffolk) and the counties most closely connected to the central city of Boston.

A significant component of Massachusetts relatively strong recovery from the recession can be attributed to the growth in the state within the Boston metro division. About a third of Massachusetts' total job recovery can be attributed to the job gains in the narrowly defined Boston metro division. Therefore it is not surprising that the Massachusetts economy follows closely the Boston metro employment growth. As of the third quarter of 2013, the Boston area, as is Massachusetts, is at an employment level just 1 to 2% above its level in 2007. This compares to below 2007 levels for the U.S. and all the other New England states.

What are the industries that contribute to Boston's economy and what are the implications of Boston's employment composition for the regional economy? The Boston metropolitan division has very high concentration in two super-sectors -- education and health services and finance. These two sectors alone account for one-third of total employment in the Boston metro division. Boston's percent of workers employed in the education and health services industry and the finance industry are 50% and 80% respectively above the national average for each industry. The high concentrations relative to national average indicate that these industries in Boston are export industries and contribute to growth.

Well below the U.S. average in employment concentration in Boston are manufacturing (60% below U.S. average) and the trade and government sectors (each 20% below the U.S. average). Professional and business services, leisure and hospitality, and trade have close to the U.S. average industry concentration in Boston.

How do the New England States Compare to Boston: Industry Composition

We present on a super-sector industry composition basis the similarities and dissimilarities between Boston and the New England states. First we do this on a percentage of total employment basis and the region's high employent concentration in education and health services is evident. The so-called "Ed & Meds" sector is the largest employer in Boston and in 5 of the 6 New England states and second in New Hampshire (after trade).

Unsurprisingly, Massachusetts mirrors most closely the employment composition of Boston metro. Specifically, Boston and Massachusetts surpass the U.S. average employment in finance, education and health services, information, and professional and business services. And conversely, Boston and Massachusetts fall short of the U.S. average of employment in trade, manufacturing, and government services.

Overall using this summary method outside of Masachusetts, Rhode Island and Connecticut are most similar to the industrial compostion of Boston. Specifically in Connecticut, the finance industry drives the compositional similarities with Boston. This is, however, most likely attributed to southern Connecticut's connection to New York City's Wall Street , not to Boston's mutual fund finance concentration. And Rhode Island is most similar to Boston in education and health services , which can be attributed to the Ed & Med concerntration around Brown University in the Providence Metro area.

Of all New England states, New Hampshire, using this simple method, comes out most dissimilar to the industrial make-up of Boston. Specifically, New Hampshire has below U.S. average employment in professional and busines services and information services (where Boston is above U.S. average in each), and further New Hampshire has above U.S. average employment in trade and manufacturing, where Boston falls well below the U.S. average.

While having dissimilar industry composition to Boston metro, NH has significant numbers of residents commuting and working in the central city area. New Hampshire's main connection to Boston may be as a commuter suburb. There are also significant commuters from Providence to Suffolk County.

Many of the commuters from NH and RI are probably high skilled and working in the sectors of the Boston economy with high concentrations in Boston but not in RI and NH such as professional and business services and information. If these commuters worked in their states of residence they might be contributing more to Rhode Island recovery and stronger growth in NH instead of contributing to Boston economy.

Conclusion: Questions about Boston's Current and Future Role in the New England Regional Economy

An important question is if Boston and the region can grow the Ed & Medical industries to be a larger export cluster and growth generator, or is this key super-sector in New England vulnerable to decline with negative impact on the regional economy? In Ed with many high ranked universities globally offering MOOCs and online classes and degrees, can MIT and Harvard and other top ranked colleges in the region increase their national and globe market share of Ed industry and grow, or will Boston and the region be net losers as lesser ranked higher education institutions in the region lose students to universities based outside the region with online offerings. In Med, as the national health care industry is under increased pressure to bend the cost curve and provide lower cost service, the Meds in Boston and the region will have both new opportunities and challenges.

The discussion here highlights the complexity of the New England states relationship with Boston and some of the challenges in prominent industries in Boston and the region. It also leads to many questions regarding whether or not the New England regional economy can align better and complement the Boston area economy, making for stronger Boston and New England economies. What strategies might the New England states take to benefit more from the Boston economy? Can the Ed & Med sectors be better leveraged to enhance competitiveness across the region in related sectors, for example, by enhancing manufacturing industry connections with engineering and information technology programs and faculty expertise in New England universities and colleges? The forecast managers, keynote luncheon speaker and conference theme panel participants will provide insights to these and other issues and questions regarding Boston's role in the regional economy.

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