

## NEW ENGLAND ECONOMIC OUTLOOK, SPRING 2013

### **New England Economic Outlook: Signs of Recovery and Improving Conditions in Housing Market and Beyond**

The New England states continue to recover from the great recession. There is significant variance in the pace of recovery across the region. Massachusetts and Vermont are experiencing the strongest recovery, while Rhode Island and Maine are lagging. Overall the New England economy continues to be negatively affected by conditions outside the region's borders. This includes weaknesses and vulnerabilities in the European economy and the fiscal drag from sequestration of federal funding.

The New England Economic Partnership Spring 2013 forecast is based on the Moody's Analytics United States March baseline forecast. NEEP forecast managers and the NEEP Forecast Quality Review Committee believed that the most recent data and events suggested that the Moody's Analytics baseline forecast was reflective of the prospects for the national economy.

The forecast for the New England region is for the economy to continue to grow slowly with employment growth averaging 1.4% per year and overall (regional gross product) growth averaging 3.3% per year through 2016. With the expected slow growth, the region is not expected to return to its pre-recession employment level until 2015 and the unemployment rate in the region, while remaining less than the U.S. average, is not expected to be below 6% until 2015.

The housing market in the nation and New England is continuing to emerge as a positive driver in the economy, with raising home prices and sales bolstering the construction industry and related industries. Median housing prices across the region are expected to continue to increase. The average increases, however, are expected to be relatively modest, with annual increases only reaching 4 to 5% in 2013. Among the New England states only Vermont is expected to have housing prices return to "pre-bust" levels in the forecast period.

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 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 continue to have the highest unemployment rate in the region throughout the forecast period as the state continues its slow recovery from the most significant percentage employment decline in the region during the last recession. The Ocean State is not expected to recover the jobs lost during the recession in the forecast period. The other states are forecast to recover their jobs lost, with New Hampshire and Connecticut following after Vermont and Massachusetts and Maine lagging.

### ***Gross Regional Product***

The region's overall economic growth is expected to remain low, especially for a recovery from a recession. The gross regional product annualized growth is expected to remain below 3% until the end of 2013. After peaking at 4.5% at the end of 2014, overall growth is expected to decline. 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 expected to remain below 1% until the second quarter of 2014, and then increase gradually to 2.1% in the second quarter of 2015. 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 from employment troughs to the end of 2016 basis, the strongest sector of the regional economy is expected to be construction increasing by 26%, followed by professional and business services (20%), leisure and hospitality (18%), health and education services (13%), and high tech (13%). 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 growth. Government employment is expected to continue to be adversely affected by fiscal pressures at the federal, state and local levels with below 1% annualized growth until mid 2014.

## ***Unemployment***

With the extended period of low employment growth, the unemployment rate in the region is expected to decline only gradually -- from 6.9% in the second quarter of 2013, to 6.6% in late 2013 and then to below 6% in the first quarter of 2015. The region's unemployment rate at the end of 2016 is expected to be 5.3%. 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.

## ***Across the Region***

Massachusetts is expected to continue on its trajectory with the fastest growth in employment coming out of the recession in the region. Total employment growth in Massachusetts from its recession trough to the end of forecast period is expected to be 11.1%, followed by Vermont and New Hampshire (both at 10.0%). All of the New England states are expected to continue to have below the U.S. average employment growth, with Maine having the lowest forecasted growth rate from trough to the end of the forecast period at 4.9%, less than one-half the U.S. growth rate (12.5%).

Vermont and New Hampshire are expected to continue to have the lowest unemployment rates in the region and Rhode Island the highest over the forecast period. By the end of 2016, Vermont's unemployment rate is expected to be down to 3.5% and New Hampshire's to 3.1%, Rhode Island (6.1%), Connecticut (5.8%), and Maine (6.0%) are expected to continue with the highest unemployment rates in the region. Massachusetts is expected to have 5.4% unemployment at the end of 2016.

## ***Housing***

Housing prices have changed from providing a headwind to a tailwind for the economy, with prices rising nationally and in the region. The increases in median price in the region are expected to be

the highest (out to late 2016) in Maine (32.2%) and Connecticut (29.2%). Rhode Island (15.6%) is expected to have the lowest growth in housing prices in the region.

### ***Conference Theme: Manufacturing is Changing--Is New England Ready?***

For three decades manufacturing employment has been in decline in the nation and the region. The region's decline has been 50% more pronounced than the nation, with New England losing 60% of manufacturing employment compared to 40% in the nation. This has been a contributing factor to New England's 50% lower growth in total employment over the last three decades compared to the nation, and it highlights how if manufacturing were to "turnaround" and be a net job contributor in the region, it could have significant positive influence on the region's economic outlook. This is especially true given the high multiplier effects of manufacturing compared to most other sectors of the economy. Manufacturing is a high export sector and pays relatively high wages.

Over the last 3 decades (1980 to 2010) manufacturing as a percentage of total employment in New England declined from 22.5% to 7.4%. And the region has gone from all 6 states having above the U.S. employment concentration in manufacturing, to just 3 states -- Vermont, New Hampshire and Connecticut. These three states still have employment concentration more than 12% higher than the national average. And have continued high dependence for their economic performance on their manufacturing base. At the other end of the spectrum is Massachusetts with 14% below the average U.S. concentration. Manufacturing's significance in the New England economy is now on average (in terms of percent of total employment) below the U.S. average, 8.9% compared to 7.4%.

Within the region, Rhode Island has experienced the most pronounced manufacturing employment decline, losing about 7 out of 10 of its manufacturing jobs over the 3 decades. Vermont has experienced the least percentage decline, less than 30%.

The most pronounced period of decline in manufacturing in the region relative to the nation was during the mini-computer bust in the late 1980s and early 1990s. The most pronounced period of decline in manufacturing in the region overall was 2000-2010. The last decade was a period in the region without any significant "break" in employment decline between the sharp drop in manufacturing employment after the "Y2K" buildup and then with the great recession.

Recently (2010-2012) there are signs that the decline in manufacturing has stopped, with some growth in the U.S. overall. Manufacturing employment appears to have also ended its decline in New England with employment flat.

### **Manufacturing and the New England Economy: Looking Forward**

NEEP forecast managers estimate that the region's manufacturing employment will increase by 1.3% from 2012 to 2016. The region's manufacturers are expected to add about 7,000 jobs. While very modest this reflects a turnaround from a loss over the previous six years of over 115,000 manufacturing jobs in the region. Over the forecast period, manufacturing is forecast to be a source of job increases instead of significant decline. And this is positive news. Vermont is expected to have the highest growth rate in manufacturing employment, increasing manufacturing employment by 4 percent 2012 to 2016 and adding 1,200 jobs.

To grow manufacturing (and exceed the NEEP forecasts) will require linking manufacturing more strongly to research and development strengths in the region, and ensuring an appropriately skilled

work force for advanced manufacturing across the region. This would include training high-skilled technicians for positions in computer and numerically controlled production. Policies to support and grow manufacturing in the region will be addressed by the conference keynote speaker and the focus of the afternoon panel discussion.

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