New England Council Presentation
June 30, 1994
Remarks by Cathy E. Minehan

- o I want to do two things here today

  - Comment on the "good news" -- the evidence of robust recovery here in New England after what was arguably the worst recession since the 30's

  - Point out a couple of prospective challenges inherent in this "good news"

- o First the recovery--as measured by employment data, it's definitely underway and has been since mid-1992.

Chart 1 o At present, the annual growth rate of nonfarm jobs in New England as a whole is about on target with the nation--a notable turnaround from the 1989-91 period.

- o All six New England states showed more jobs in April 1994 than a year ago--with the largest gains in Massachusetts and New Hampshire and Connecticut just beginning to flatten out if not turn up.

Chart 2 o Job growth has been the largest in the service sector - not dissimilar to the nation as a whole--while wholesale and retail trade and construction are also up - manufacturing remains the sole area of downturn, and here our losses have been steeper - and more prolonged - than the nation's, and as we shall see, not likely to turn around.

Chart 3 o Most other economic indicators also show a gradual recovery in New England--these data relate to consumer confidence surveys and indices of help-wanted advertising. Both of these measures, while they are improving, are higher for the U.S. than for the region.

o And that's an important fact to keep in mind--while the recovery is strong, we have a long way to go - New England employment remains 6.9 percent below its pre-recession peak, while the nation recovered fully and has actually added another 2.5 percent over its previous peak.

Chart 4 o Well, that's where we've been - where are we going? This data is drawn from the New England Economic Project forecasts. This group of economists from around the region see the area tracking U.S. growth patterns fairly closely over the next 5 years; by the last quarter of 1998, employment in New England finally surpasses its previous peak--almost a decade after that peak.

o Services continue to be the main area of projected job growth--by 1998 NEEP projects one-third of all New Englanders will be employed in services--these run the gamut from software development, to pest control, from health services to miscellaneous repair jobs. In fact, even in the face of health care reform which will slow down the expansion rate of the regionally important health care industry, NEEP projects 90,000 jobs will be created in health services over the next five years.

Chart 5 o On the other hand, manufacturing is projected to decline from employing nearly 30 percent of New Englanders to about 15 percent. Manufacturing here includes high tech and large plant defense work as well as smaller firms, and of course we see reflected in this forecast the continuing impact of defense cutbacks and restructuring and downsizing in the region's computer industries.

- This represents a real change for New England which traditionally has had a larger manufacturing base than the nation as a whole--manufacturing has been an engine of growth out of many previous recessions; that isn't the case now and is not likely to be in the future.
- This leads me to challenges. I see two of them
  - First, are we prepared for the switch to a more predominantly service-based economy?
  - Second, how can we ensure everyone in the region shares in the rising tide of economic fortune?

Chart 6

- On the first challenge - New England seems highly suited to remaining, and even expanding its long-time role as an incubator of new, cutting-edge industries. We have a highly-educated workforce, with over one quarter of the adult population having a college or higher degree, as compared with one-fifth nationally and lower fractions in much of the South. We also have physical and cultural amenities that attract high-value-added start-up firms.
- What will be a challenge is keeping those businesses after they get going--to do this, we need to continue to pay attention to costs, as New England remains an expensive place to do business despite progress in some areas. We also need to improve on the way business and governmental entities work together.

Chart 7

- Finally, we also need to focus on the three-quarters of our population that do not have a college degree or higher. We know that education increasingly separates high wage workers from low wage. It used to be that high school graduates with experience could earn as much as a college graduate. That is no longer true nationally, and it is not true in New England. With the steep decline in the number of high-paying manufacturing jobs here, combined with services job growth that can be both very high wage, and very low wage, we run the risk of widening the gulf between the highly educated and highly paid minority and the working but poor majority.

- NEEP foresees a healthy increase in income and a rising standard of living for the average New Englander over the next 5 years--but this is only an average. I think it is up to us to ensure that the average isn't out of reach of most people.
- To do this, we need to keep education as a key priority, and develop more widely available, relevant and employer-linked training programs. One such highly successful effort has been the Project Protech program, started under the leadership of Jerry Grossman and the Private Industry Council here in Boston. That program has focused on the medical industry, but is gradually expanding to financial services. We at the Fed intend to take an active role here and I would commend it to you as the effort broadens into all your industries.

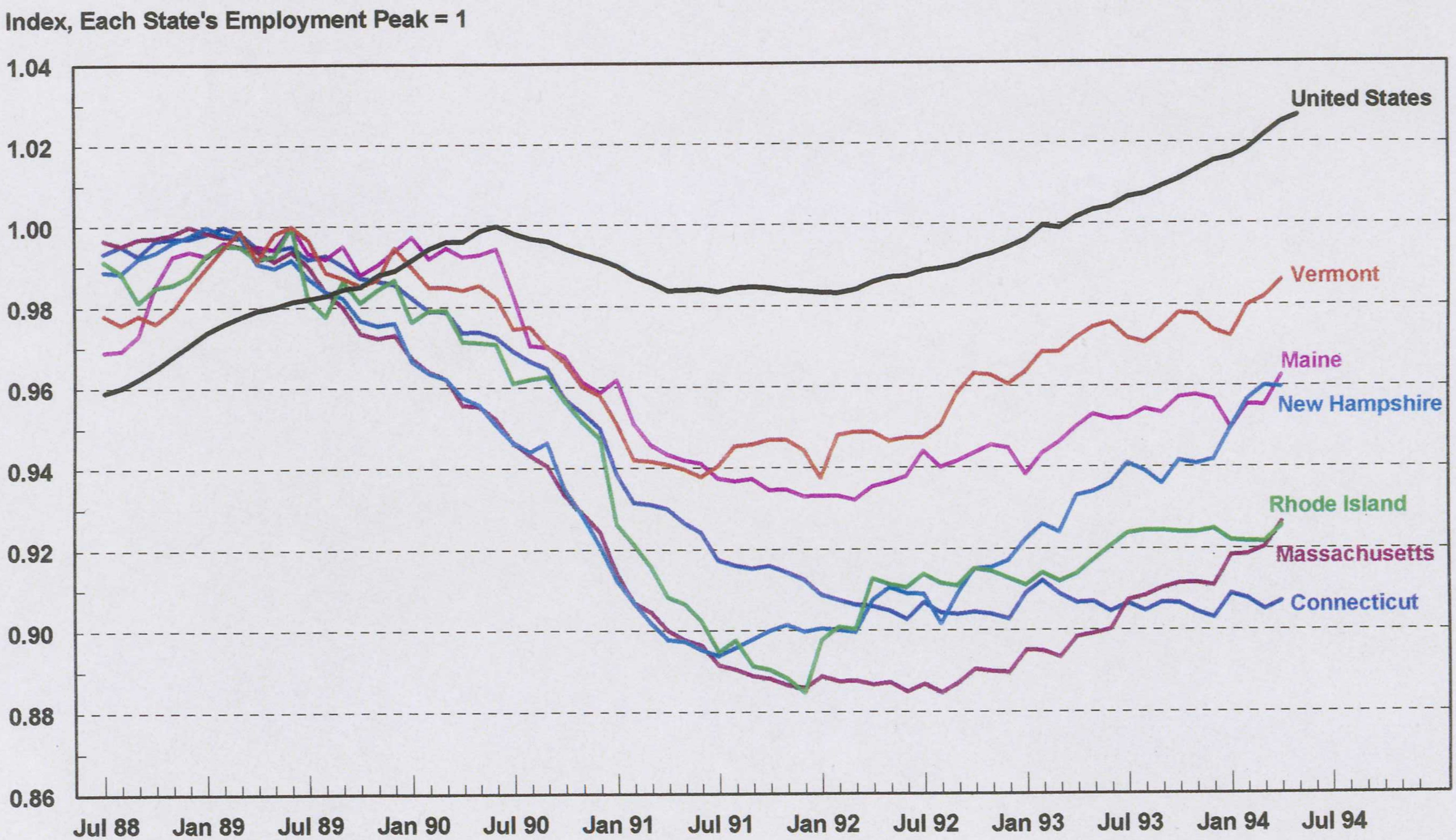
Selected Charts
to Accompany Remarks by

Cathy E. Minehan

prepared for
Board of Directors
New England Council

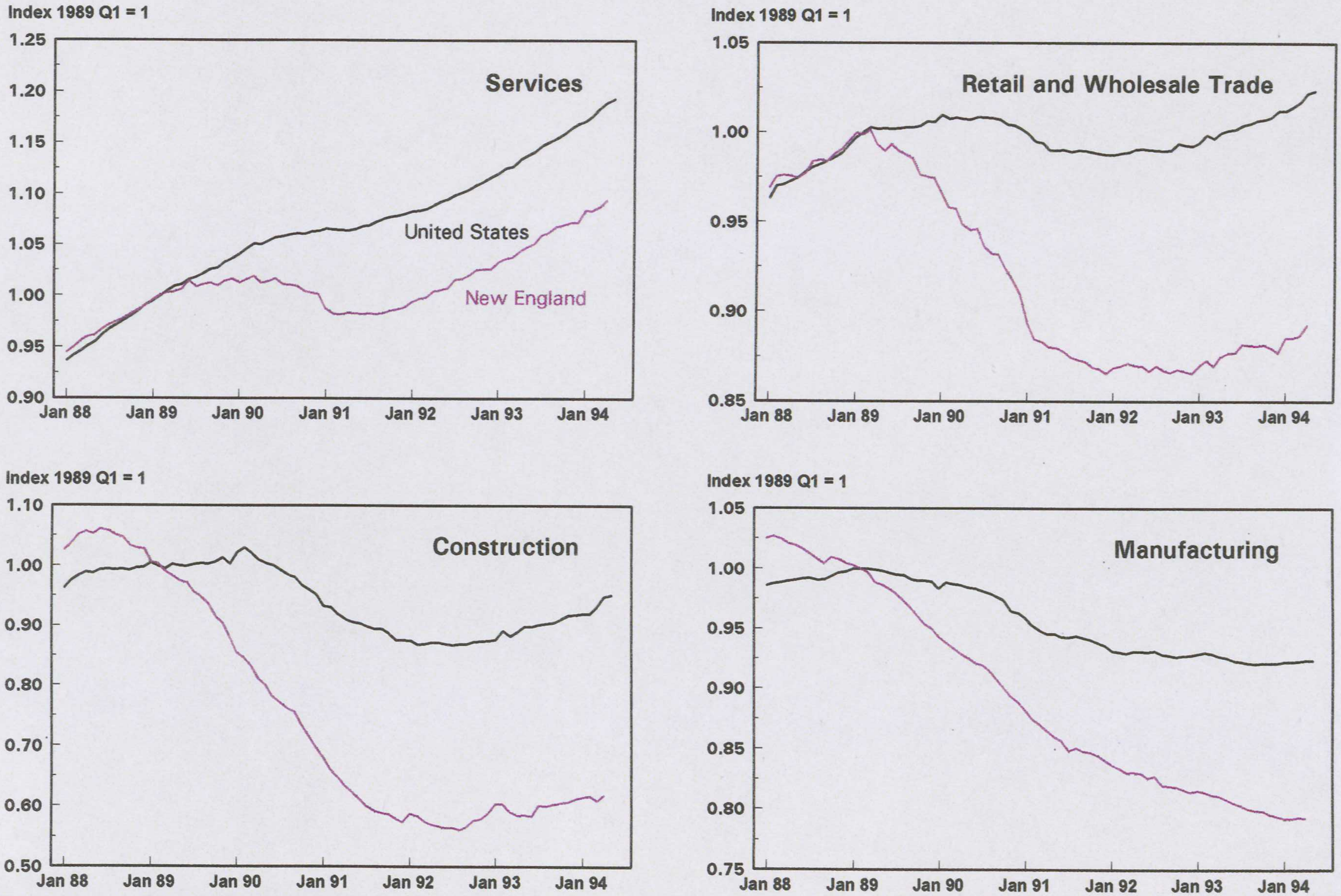
June 30, 1994

Chart 1
Nonfarm Payroll Employment in New England and the United States



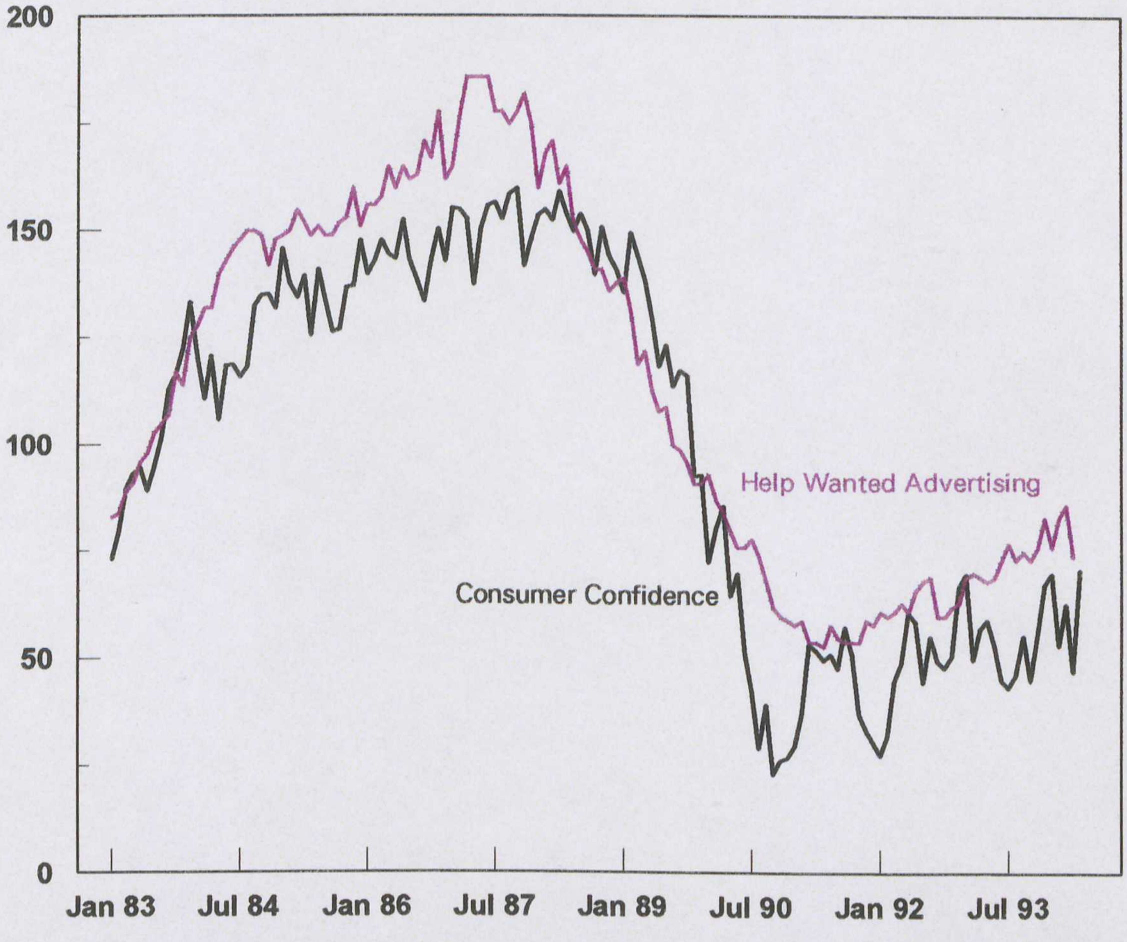
Source: U.S. Bureau of Labor Statistics.

Chart 2
Sources of Employment Growth by Sector



Source: U.S. Bureau of Labor Statistics.

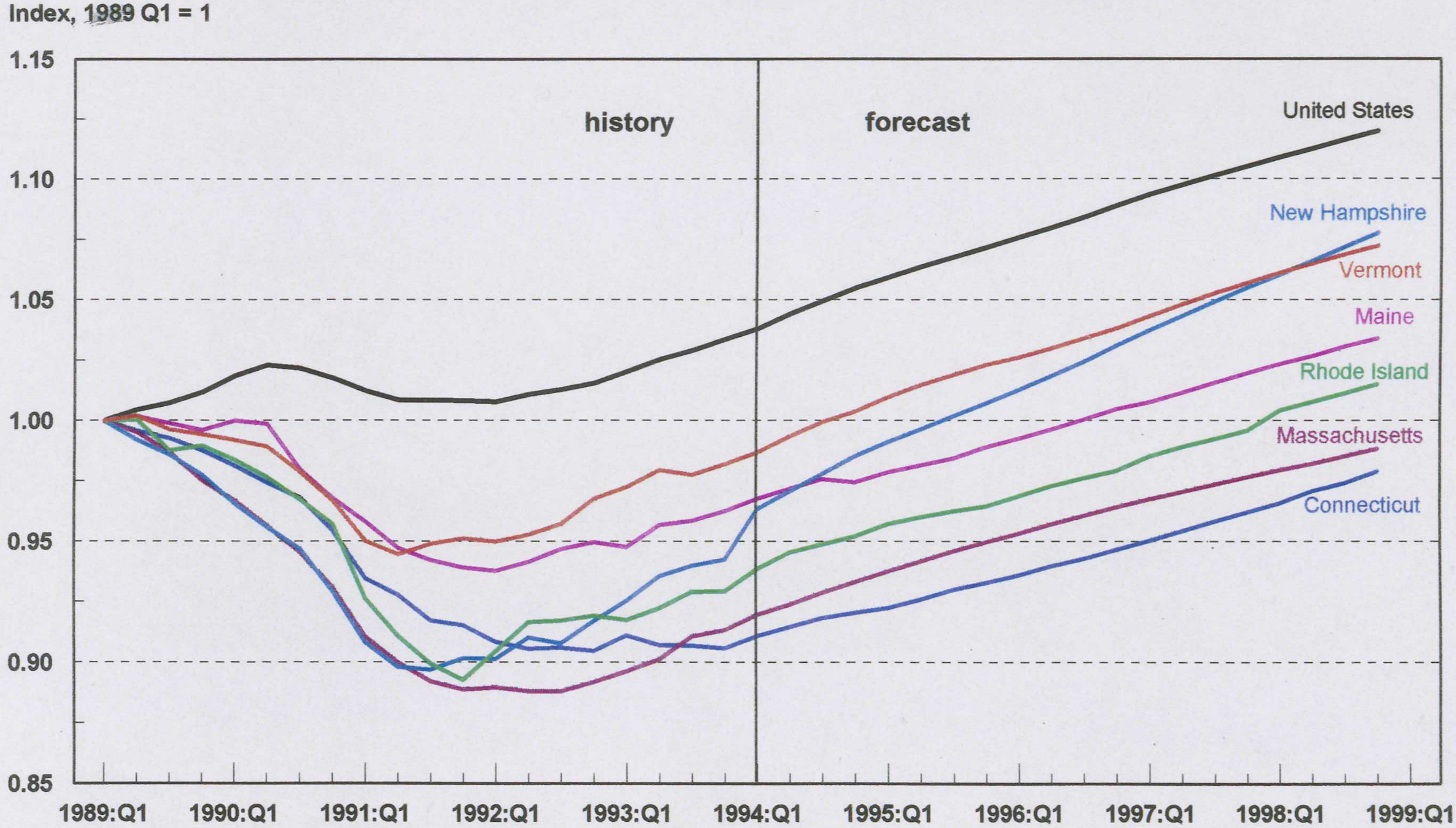
Chart 3
Consumer Confidence and Help Wanted Advertising in New England



Note: Consumer confidence is indexed to 1985 = 100. Help wanted advertising is indexed to 1967 = 100.

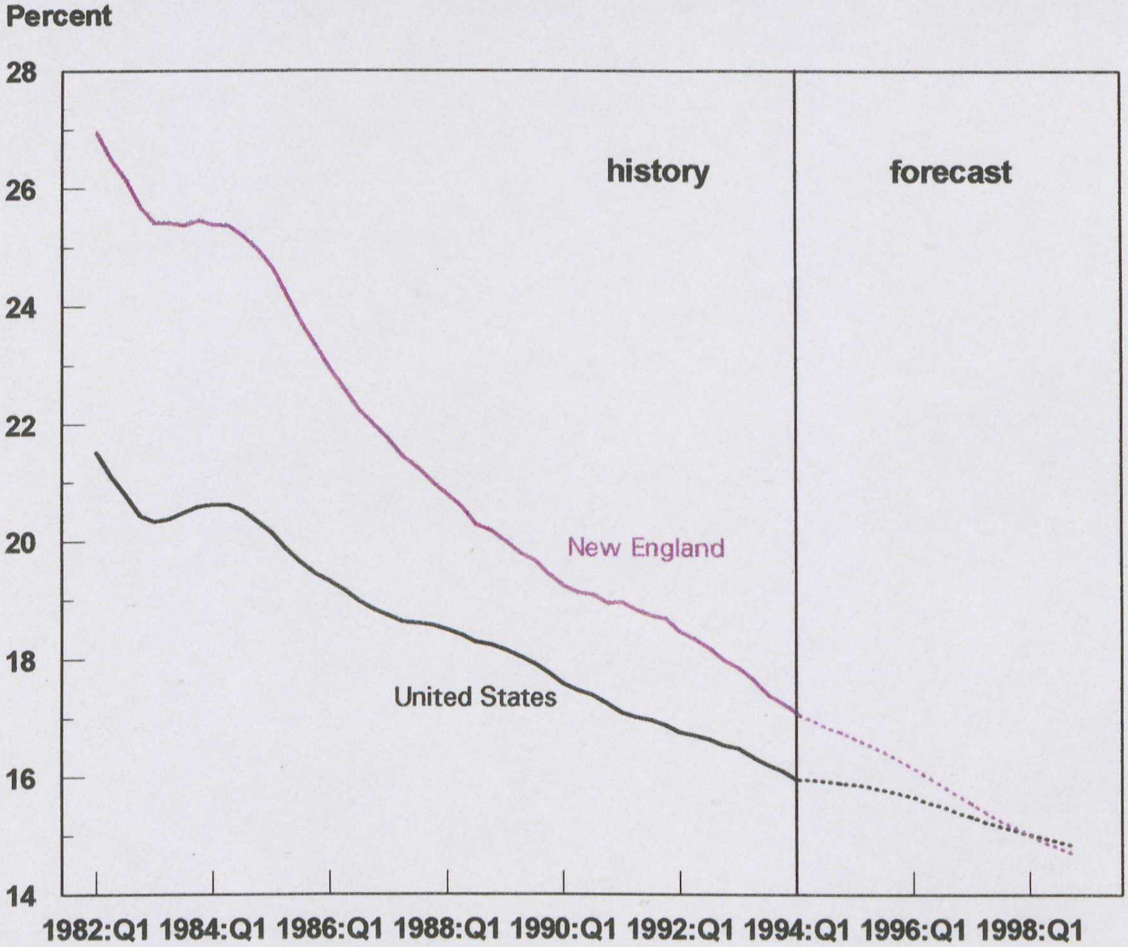
Source: The Conference Board.

Chart 4
New England Economic Project Forecast
Employment in the United States and the Six New England States



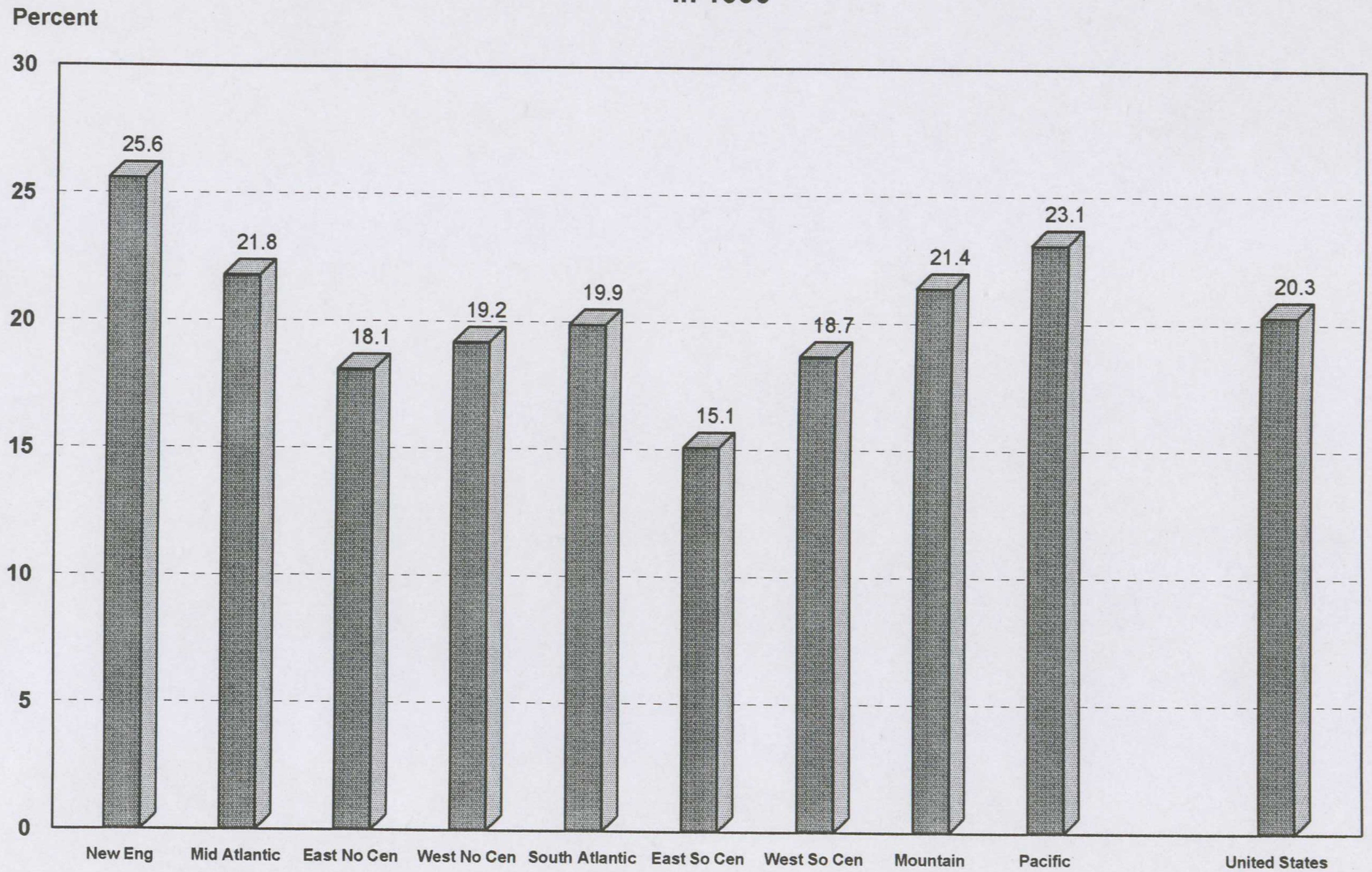
Source: New England Economic Project and U.S. Bureau of Labor Statistics.

Chart 5
Manufacturing Employment as a Share of Total Employment



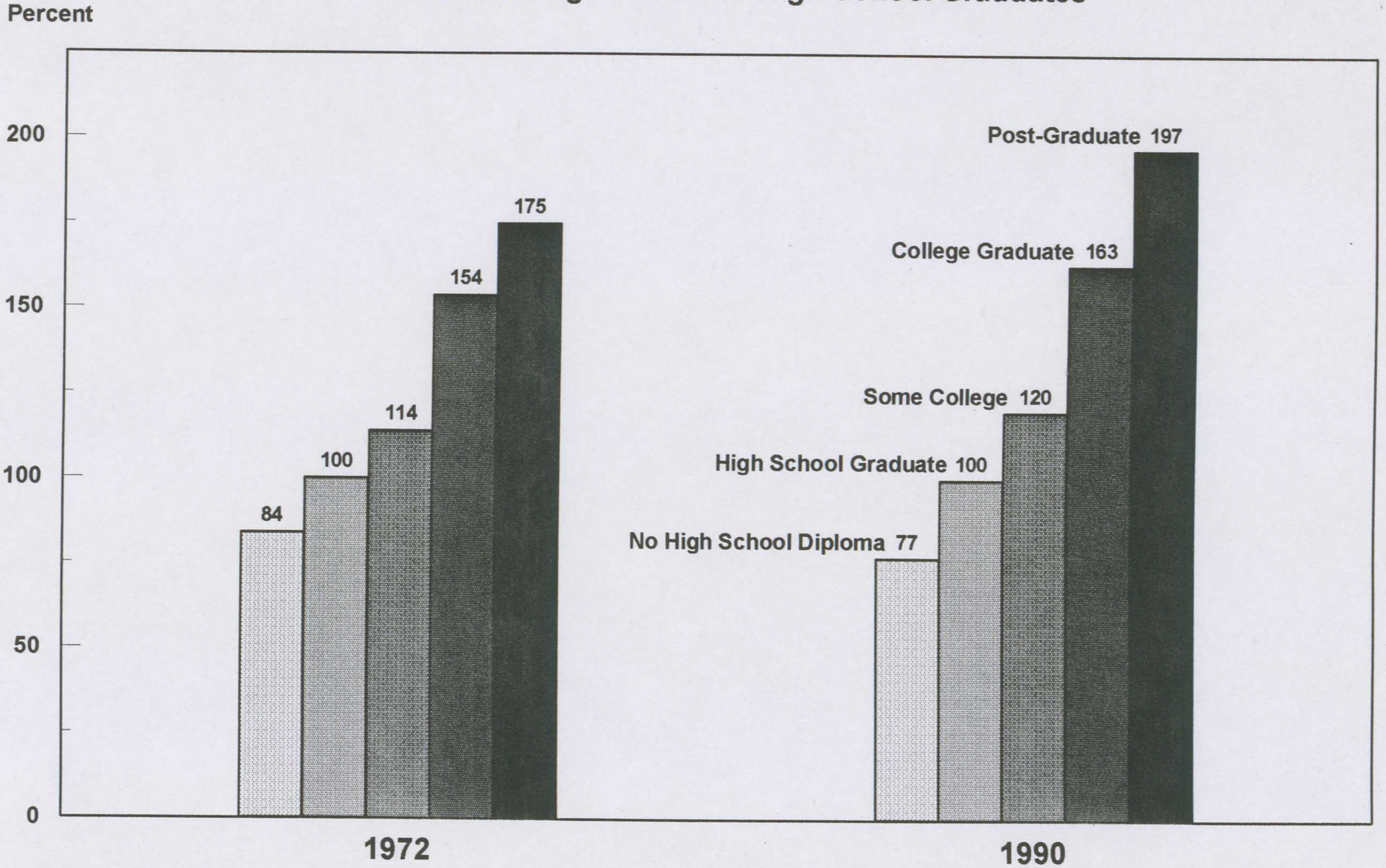
Source: U.S. Bureau of Labor Statistics and New England Economic Project.

Chart 6
Persons Twenty-five and Older with Bachelor's Degree or Higher in 1990



Source: U.S. Bureau of the Census.

Chart 7
The Returns to Education
Annual Earnings relative to High School Graduates



Source: Mark E. Schweitzer, "Accounting for Earnings Inequality in a Diverse Work Force," Federal Reserve Bank of Cleveland Working Paper 9314, December 1993.