Remarks by Cathy Minehan
at New England Council
Washington, D.C.
September 28, 1994

Good morning. I want to thank Peter Meade and Carolyn O'Connor for inviting me to be here with you today. I plan to spend much of my time discussing the New England economy and putting those charts you have into context. This is a pretty good time to be able to talk about the economy; in some way almost every state in New England enjoying the recovery, although some more than others.

Today I'd like to cover three main things:

- Who am I and what do I see as important for the Boston Fed
- What's the general state of the national and local economy as a backdrop for
- Where do I think I and Boston Fed can add value in the regional community

II. I'm a thoroughly experienced policy and management specialist who through dint of hard work and a lot of luck happen to have the best job in the world

- Diverse responsibilities
    - think of as a three-legged stool; each leg important - doesn't work unless understand and appreciate the role of each one
- Significant management challenge - employees, landlord

- Chance to make a difference
  - within region
  - within Federal Reserve System
  - within national/international
- In fact I believe there is no reason to have the Federal Reserve Bank of Boston unless we as an organization and as individuals add value
- Strategic Plan
  - policy
  - operations
  - community involvement
- Fed as a resource to regional community--economic information, publications and as corporate citizen

III. Now for a couple of minutes I'm going to be a resource for all of you on economic data, because I think it will make you understand some areas of local involvement I have in mind a little better

- I'll very briefly touch on the national economy -- for contextual purposes, and then get into what's happening in New England.
- National economy - doing okay - about 3½ years into an economic recovery - fairly old by historical standards, but also fairly weak.

- Right now we're on the horns of a dilemma of how to balance things to achieve what you could call economic perfection - nearly full employment, no major inflation evident, economic growth slowing to potential, capacity utilization high, consumer sentiment high, etc. Sure there are questions. Is, for example, growth slowing enough to avoid overshooting full capacity and increasing inflation? And there are longer run problems --the value of the dollar, the status of the U.S. as the largest debtor nation, national budget deficits--but all in all the national scene is looking pretty good.
- **In New England (charts)** the economic situation is much the same - a solid recovery with some signs of moderation.

Charts 1 and 2

New England was *much* harder hit in the recession than most of the rest of the country, but the region has been growing at almost the national pace since we began recovering about two years ago. In the twelve months ending in July, the number of payroll jobs grew 1.9 percent in New England and 2.7 percent in the nation. (Employment growth is our basic measure of economic performance at the state and regional level.)

Chart 3

Among the New England states, Massachusetts and New Hampshire have posted the fastest job growth over the last year, growing slightly faster than the nation. They were among the hardest-hit New England states in the recession, however, so they still haven't recovered as much of their recession job losses as Vermont and Maine which grew more slowly in the last year but declined much less in the downturn. Connecticut has been the slowest to begin recovering, largely because defense cutbacks continue and the insurance industry there continues to shed jobs.

Chart 4

Unemployment in New England, similarly, has been running close to the national rate: In July and August, the unemployment rate in New England was 6.2 percent as compared with the national rate of 6.1 percent; for the year before that, New England's unemployment rate was slightly below the national rate.

Chart 5

[August data on unemployment for the five smaller New England states will be released on Tuesday 9/27 - we'll fax the new figures, but note that charts show July data.]

Among the New England states, joblessness is currently lowest - and more than a full percentage point below the national average - in Vermont, New

Hampshire, and Maine (5 percent and below). Unemployment is highest - and almost a percentage point above the national rate - in Maine and Rhode Island. In Massachusetts, unemployment has been running slightly below the nation in recent months (5.9 percent in July and August).

Chart 6

The employment gains we're seeing - nationally as well as in the region - are concentrated in services industries. Services is a hodgepodge category that runs the gamut from health services, legal services, and education to auto repair; from software to personal and household services; from high value-added consulting to washing windows. Services industries in New England account for about one-third of all jobs, but almost three-quarters of the net job additions in the last 12 months. (More detailed data available for Massachusetts indicate that the fastest-growing services industries are business services (including software), health services, engineering and management services, and private social services.)

Aside from services, all the major industry groups other than manufacturing and finance-insurance-real estate have added jobs in New England in the last year. Construction is growing the fastest (after services), but the wholesale and retail trade industry, being bigger, accounts for more of the new jobs (second only to services). Even manufacturing, after almost a decade of decline, has actually added jobs in the region in the last three months, and finance-insurance-real estate is flat or growing aside from insurance.

Chart 7

Other measures of economic activity in the region also show growth, although generally at a slower pace than the nation.

- [top left] Consumer confidence in New England was up in August, and
- [top right] help-wanted advertising (usually a good indicator of business hiring plans) rose in the region in July.
- [middle left] June retail sales in New England were well above a year earlier. The most recent data on personal income in the region refer to the first quarter and show sizable gains from a year earlier;
- [middle right] more recent data on average hourly earnings of manufacturing production workers also indicate gains from a year ago.
- [lower left] With consumer prices in Boston rising more slowly than in the nation, real income gains are even greater in relative terms.
- [lower right] Housing market activity in the region continues to expand, despite this year's rise in interest rates. The commercial real estate market is also recovering. Vacancy rates in the Boston office market have fallen from almost 18 percent to 12 percent in less than three years.

Thus, the current situation seems remarkably upbeat for a region that just over two years ago was at the low point of a downturn that was arguably the worst (here) since the Great Depression. Looking forward, there are some definite clouds on the horizon (indeed overhead), but the basic outlook is for a slightly slower version of the current pace - not a return to the boom times of the 1980s and not a return to the bust of the early 1990s.

The clouds I'm referring to are sectoral problems - ongoing cutbacks in defense spending and a potential slowing of growth in health services as a result of health care reform. Both the defense industry and health services account for a higher share of jobs here than is typical nationally. As a result, our economy is more vulnerable than many other regions to policy changes in these two areas.

Chart 8

Even taking account of these two negatives, the New England Economic Project, a local forecasting group, expects the New England states to grow at about the national pace in the next few years. Services will continue to be the main area of projected job growth, and NEEP sees manufacturing employment continuing to decline, partly because of defense cutbacks and restructuring and downsizing at computer firms.

Despite this generally positive outlook, many people are not fully participating in the recovery. A six percent unemployment rate means that 8 million people are unemployed in the United States, and 430 thousand are unemployed in New England. Nationally, an additional half million people are discouraged workers - people who are not counted as unemployed because they've given up looking for work; they don't believe the jobs are there for them. A further 4 million people are working at part-time jobs who would prefer full-time work. So even when the economy's in pretty good shape, a fairly large pool of people would like to be working, or working more, but aren't.

To further compound the problem, being out of work is not an affliction borne proportionally by all groups. Unemployment rates are three times higher for teenagers than for adults, and twice as high for minority workers as for whites.

Thus firms are hiring, but not everyone has benefited. Some individuals lack the experience, education, skills, or training being sought. Indeed, these problems have worsened in recent years because the importance of education in determining an individual's success in the labor market has increased. It used to be that high school graduates with work 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 (which can be either very high wage or 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.

<u>Local Initiatives</u>

- School to Work

  Boston - $1.2 million - 5 objectives - 5 schools, expand Protech, work with Nat'l Academy schools, revise curriculum, coordinate all programs involving

  S-T-W Statewide

  - Piedad Robertson/Spring
  - Use Boston model

- Empowerment Zone
  - Boston
  - 3 others - Hartford, Providence, Bridgeport
  - 17 Empowerment Communities
- Lot of planning - shame to see it wasted if don't win grant - money largely for social services - economic development part coming from local Bank contributions and small business growth within the zone
- I'd like to see us leverage the plan regardless of what happens into a roadmap for collaboration between business and the city on economic development in Boston.

Selected Charts
to Accompany Remarks by

Cathy E. Minehan

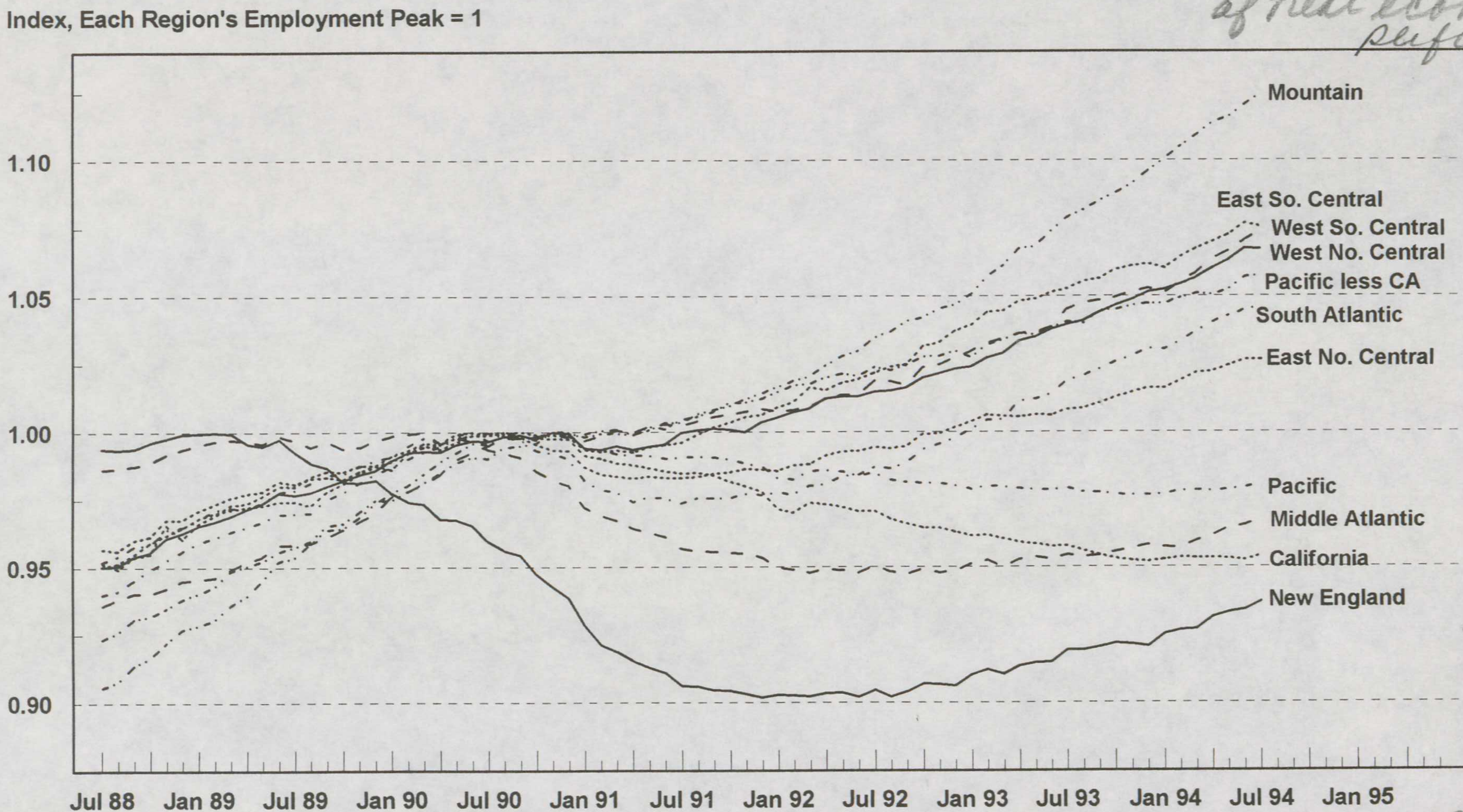
September 28, 1994

- Thanks Peter Meade & Caralyn O'Connor
- Like to cover state of New England economy
- First couple of words about FRBB – Share 3 primary goals FRS
  - stabilize value money
  - supervise & regulate bks
  - provide for smooth pmts system

Madera → could do this a lot of ways other than 12 RB's

- This system works → RB's add value to local comm, natl policy making by representing District –
- FRBB takes this seriously – we try to speak out on issues of policy in the region & nation, to develop new payments products that speed collection & costs, and act as a source of analytical support and economic data

Chart 1
Nonfarm Payroll Employment by Census Region



Source: U.S. Bureau of Labor Statistics.

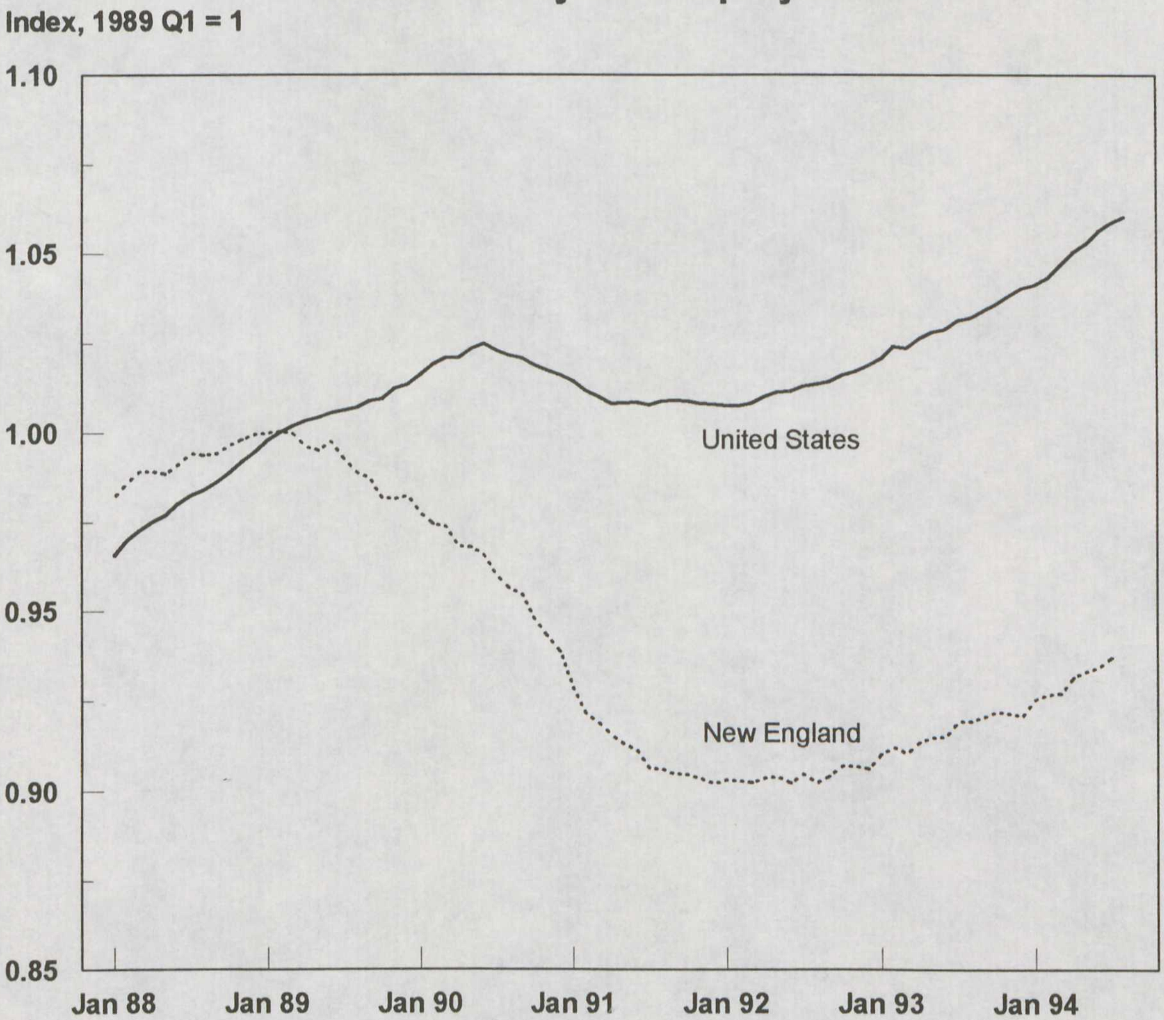
National Economy - okay
3½ yrs into recovery - and but weak

Dilemma of balancing things in the face of near economic perfection
- nearly full employment
- no inflation
- eco growth slowing
- cap util ↑
- consumer sentiment ↑

questions
Is growth slowing enough to avoid overshooting & increasing inflation

longer term problems → but all in all national scene good -
N Eng okay - much harder hit - growing ~2%

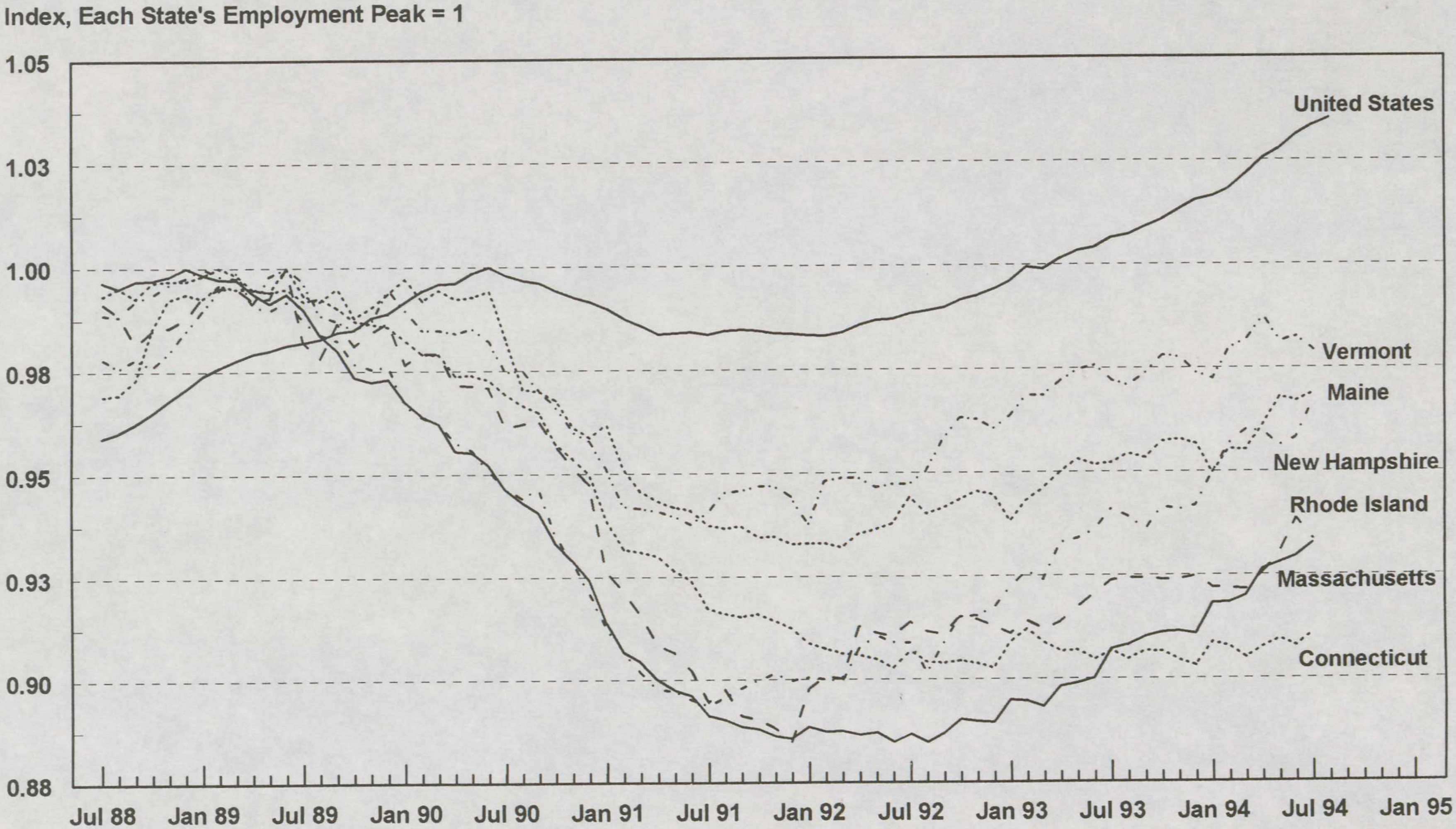
Chart 2
Nonfarm Payroll Employment



Source: U.S. Bureau of Labor Statistics.

Among NE states → Mass highest growth - 2.8%
Maine & NH & RI ~ 2%
Conn & Vt. less 1%

Chart 3
Nonfarm Payroll Employment in New England and the United States

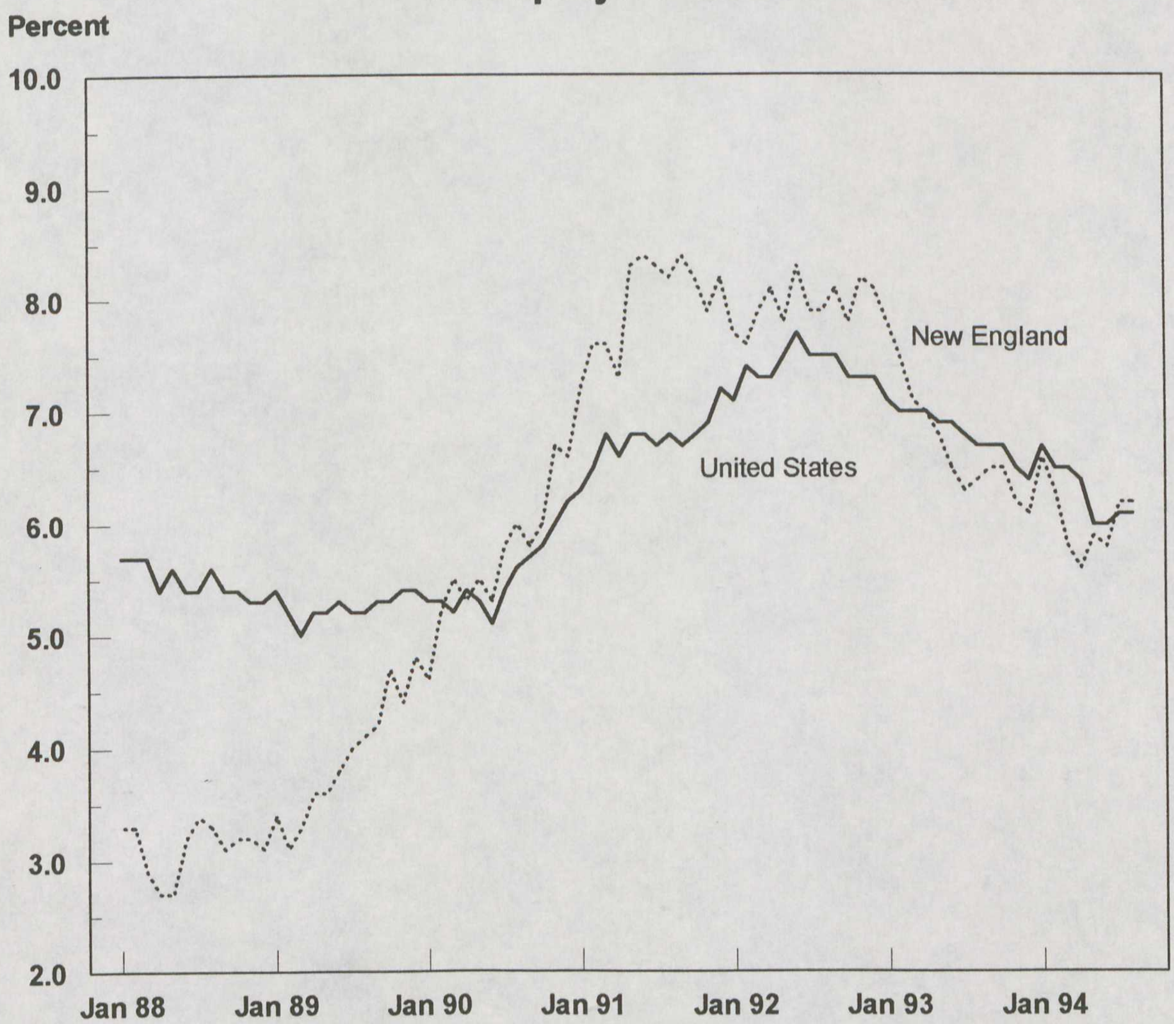


Source: U.S. Bureau of Labor Statistics.

• unemployment @ natl rate now
6.2 vs. 6.1 (July & August)
(US)

Mass 5.9 NH 4.7
Conn 5.5 RI 7.4 -
Maine 6.9 - Vt. 4.6

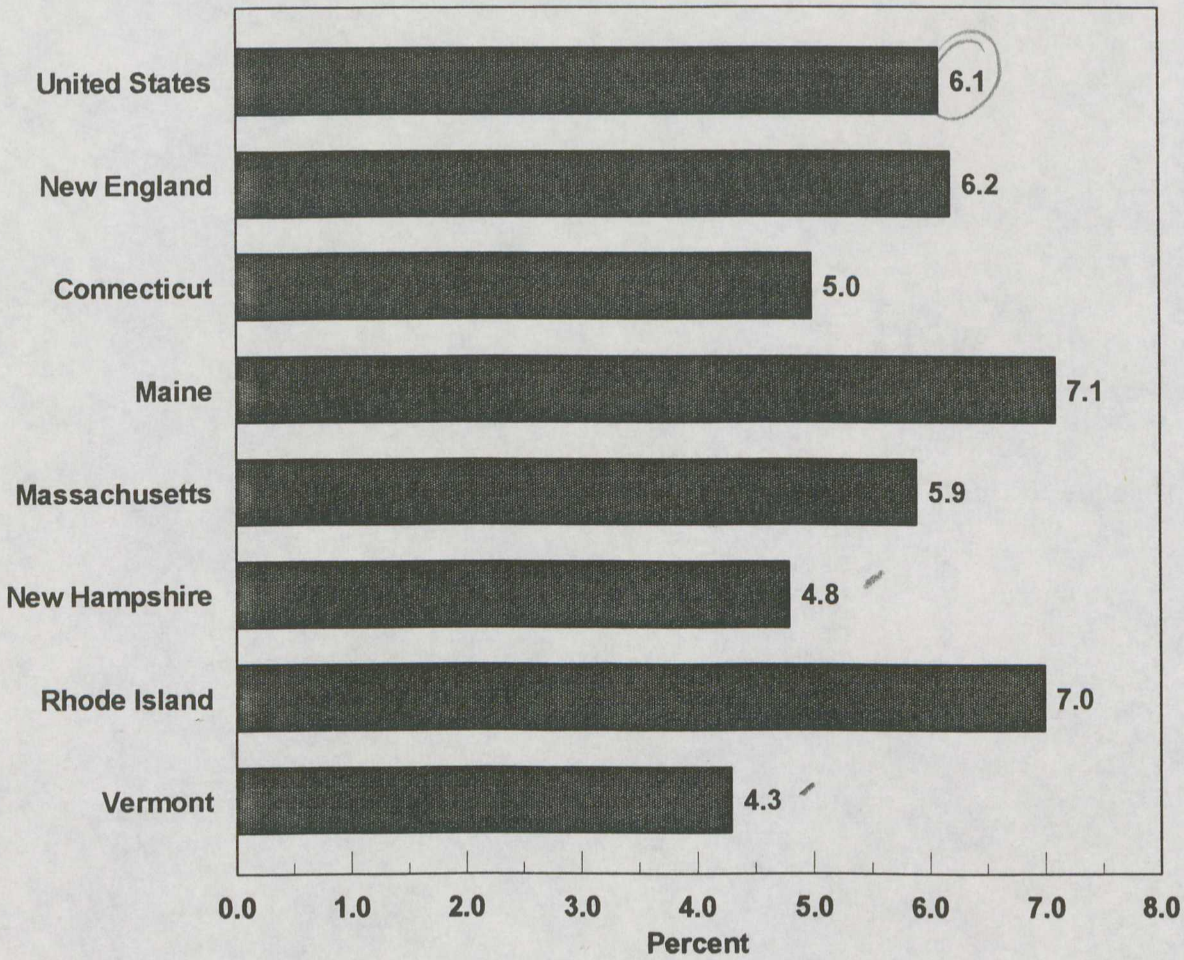
Chart 4
Unemployment Rate



Note: Data beginning January 1994 reflect the redesigned CPS survey and are not strictly comparable to data for 1993 and earlier years.

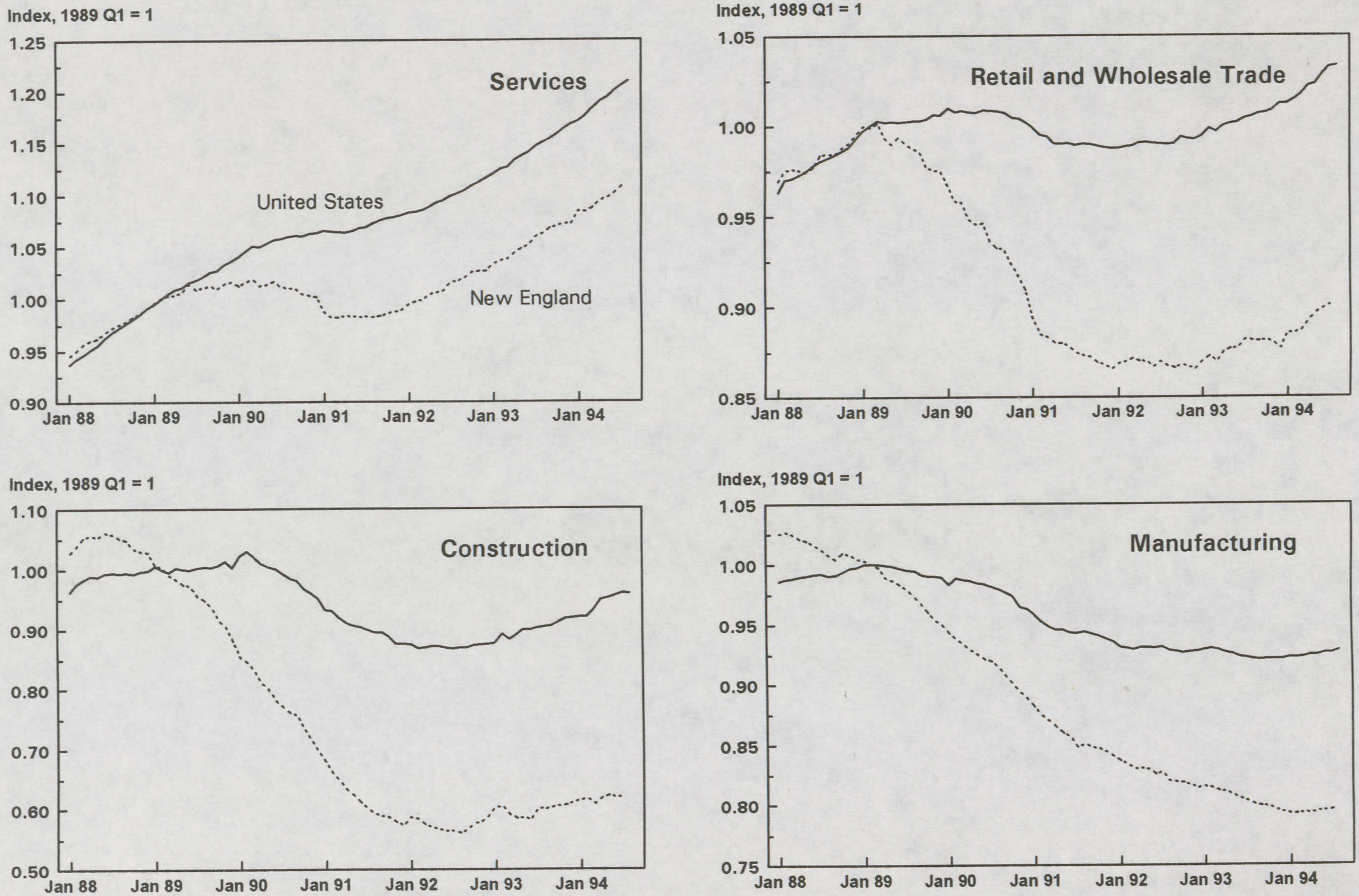
Source: U.S. Bureau of Labor Statistics.

Chart 5
Unemployment Rates in July 1994
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics.

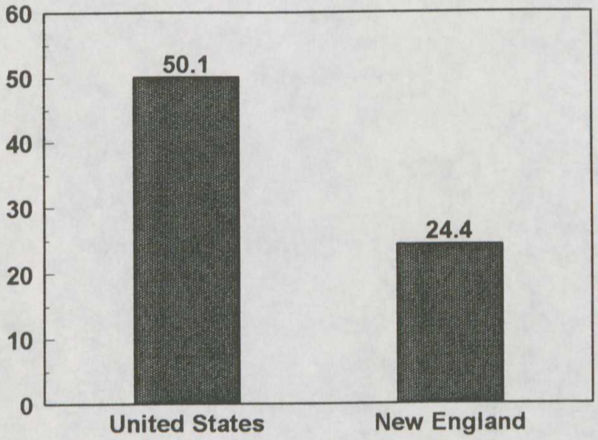
Chart 6
Sources of Employment Growth by Sector



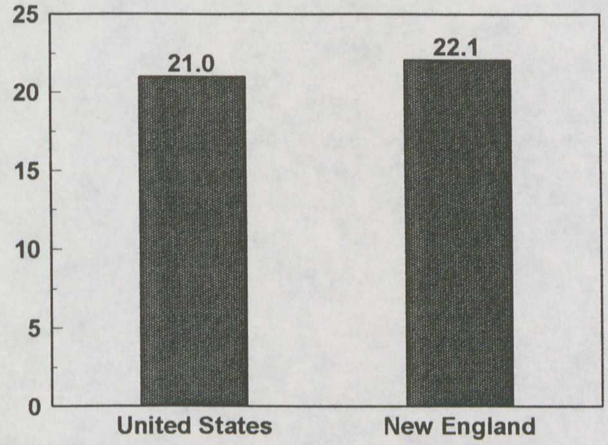
Source: U.S. Bureau of Labor Statistics.

Chart 7
Current Economic Indicators
Percent Change from Year Earlier

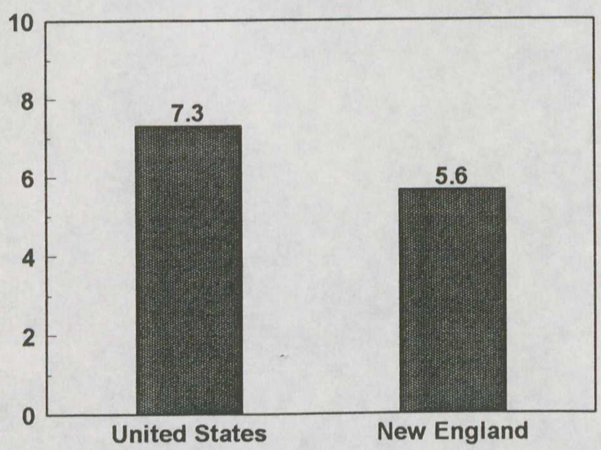
Consumer Confidence Index
August 1993 to August 1994



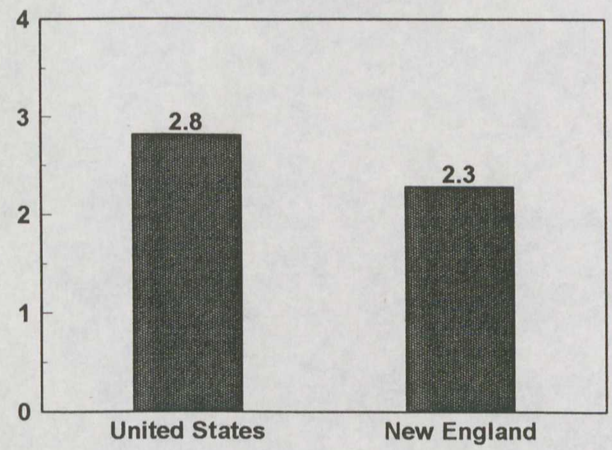
Help Wanted Advertising Index
July 1993 to July 1994



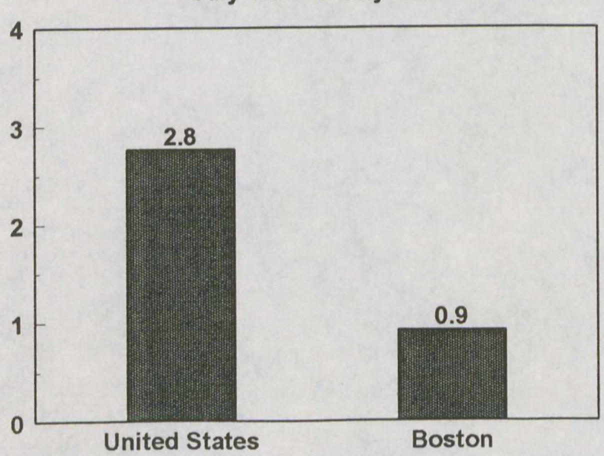
Retail Sales
June 1993 to June 1994



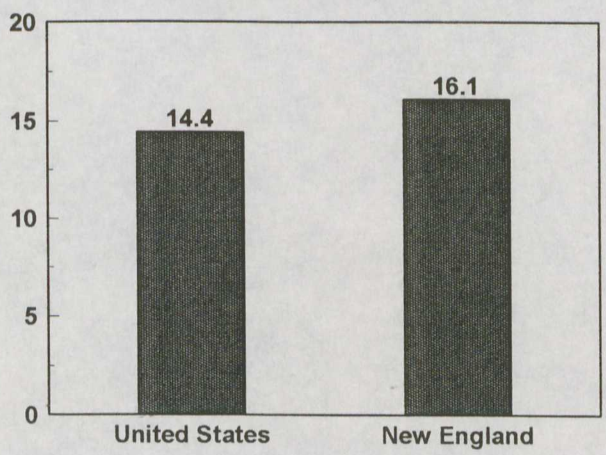
Average Hourly Earnings
July 1993 to July 1994



Consumer Price Index
July 1993 to July 1994

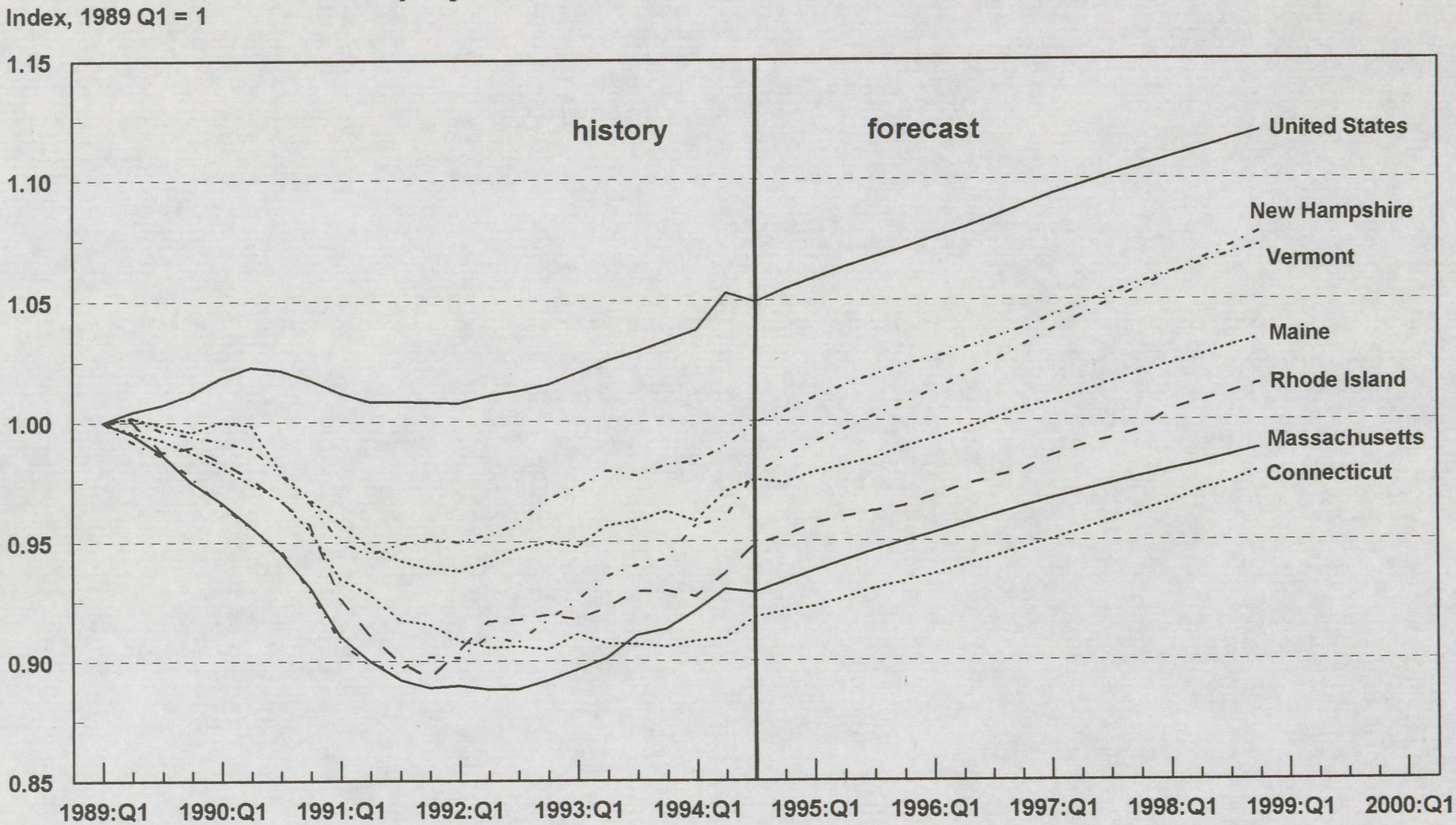


Housing Permits Authorized
July 1993 to July 1994



Source: New England Economic Indicators, Federal Reserve Bank of Boston.

Chart 8
New England Economic Project Forecast
Employment in New England and the United States



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