

**Remarks by Cathy Minehan
at BayBanks Regional (Western Mass.)
Board Meeting
October 3, 1994**

Good morning. I want to thank Giles Mosher for inviting me to be here with you this morning. I plan to spend much of my time this morning discussing the Massachusetts economy and putting those charts you have into context. However, there are some other related issues I would like to discuss, on which I am eager to hear your perspectives. I think that meetings such as these are infinitely more interesting -- at least for me -- when I am able to find out what is on people's minds, instead of only listening to myself talk. So I hope we can have a lively exchange a little bit later.

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
 - 3 legged stool
 - 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 Massachusetts**
- **National economy - doing okay - about 4 years or better 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 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.

- Locally (charts) - Much the same - a solid recovery with some signs of moderation.

Charts 1, 2, 3

Here in Massachusetts, the economic situation is quite similar to the nation's - a solid recovery with some signs of moderation emerging. While *much* harder hit in the recession than most of the rest of the country, Massachusetts been growing at slightly better than the national pace since we began recovering about two years ago. In the last twelve months, the number of payroll jobs has grown 2.8 percent in Massachusetts and 2.7 percent in the nation. (Employment growth is our basic measure of economic performance at the state level.)

Chart 4

Unemployment in Massachusetts, similarly, has been running close to the national rate: In July and August, the unemployment rate in Massachusetts was 5.9 percent as compared with the national rate of 6.1 percent .

Charts 5 & 6

Closer to home, the limited data on the Boston-area economy paint a slightly brighter picture: employment in the area grew a little faster than the national pace in the last year (3.0 percent from July 1993 to July 1994), and unemployment is running even lower than in the state, at 5.2 percent in July. These data refer to the Boston "Labor Market Area", a metropolitan-area concept that includes a good deal of eastern Massachusetts. In the city of Boston itself, the unemployment rate was 6.1 percent in July *not seasonally adjusted*, which was down from a year earlier and slightly above the unadjusted Massachusetts and U.S. rates in July.

Chart 7

The employment gains we're seeing - nationally as well as in the region, the state, and the city of Boston - 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 Massachusetts account for one-third of all jobs, but almost two-thirds of the net job additions in the last 12 months. The fastest-growing services industries in Massachusetts 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 government have added jobs in Massachusetts in the last year. Construction is growing the fastest, 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 last four months.

Other measures of economic activity in the region also show growth. Help-wanted advertising, usually a good indicator of business hiring plans, is rising in Boston, June retail sales in Massachusetts were well above a year earlier, as was total personal income and wage and salary income in Massachusetts in the first quarter. With consumer prices in Boston rising more slowly than in the nation, real income gains are even greater in relative terms.

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 and a state 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

Economic indicators from a year earlier....

Chart 9

Even taking account of these two negatives, the New England Economic Project, a local forecasting group, expects Massachusetts 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 190 thousand are unemployed in Massachusetts. Nationally, an additional half million people are discouraged workers - people who are not counted as unemployed because they've given up looking for work because they do not believe the jobs are there. 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.

The national unemployment rate for those age 16 to 19 was more than three times the adult (20+) rate - 17.5 percent in August. While the teenage rate is coming down as the overall rate declines, the recession's impact has lasted much longer for teenagers than for most workers, partly because the 1990-91 recession hit retail trade - the major employer of teenagers - harder than is typical of most recessions, and partly because the more general downsizing of firms and conservative hiring practices of the early 1990s reduced employment opportunities for young, inexperienced workers.

In addition, unemployment rates for minority workers are considerably higher than for whites. The unemployment rate was more than twice as high in August for blacks as for whites - 11.5 percent as compared with 5.3 percent [chart], and the black teenage unemployment rate was 36.8 percent.

For both teenagers and blacks, unemployment rates were much lower in Massachusetts than in the United States during the 1980s boom, but then the state's much deeper and longer recession pushed their rates above the corresponding national averages in 1991 and 1992 . In 1993, unemployment rates for teenagers and for blacks were similarly high in Massachusetts and the nation.

Thus firms are hiring, but not everyone has benefited. Some individuals lack the experience, education, skills, or training being sought, or they live far from expanding job sites. 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.

Local Initiatives

- **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.**

Ask them questions --

- 1) How are they finding the labor market
- 2) Are they finding the skills they need in the labor force?
- 3) See a discontinuity between data and your experience re: the strength of the recovery?

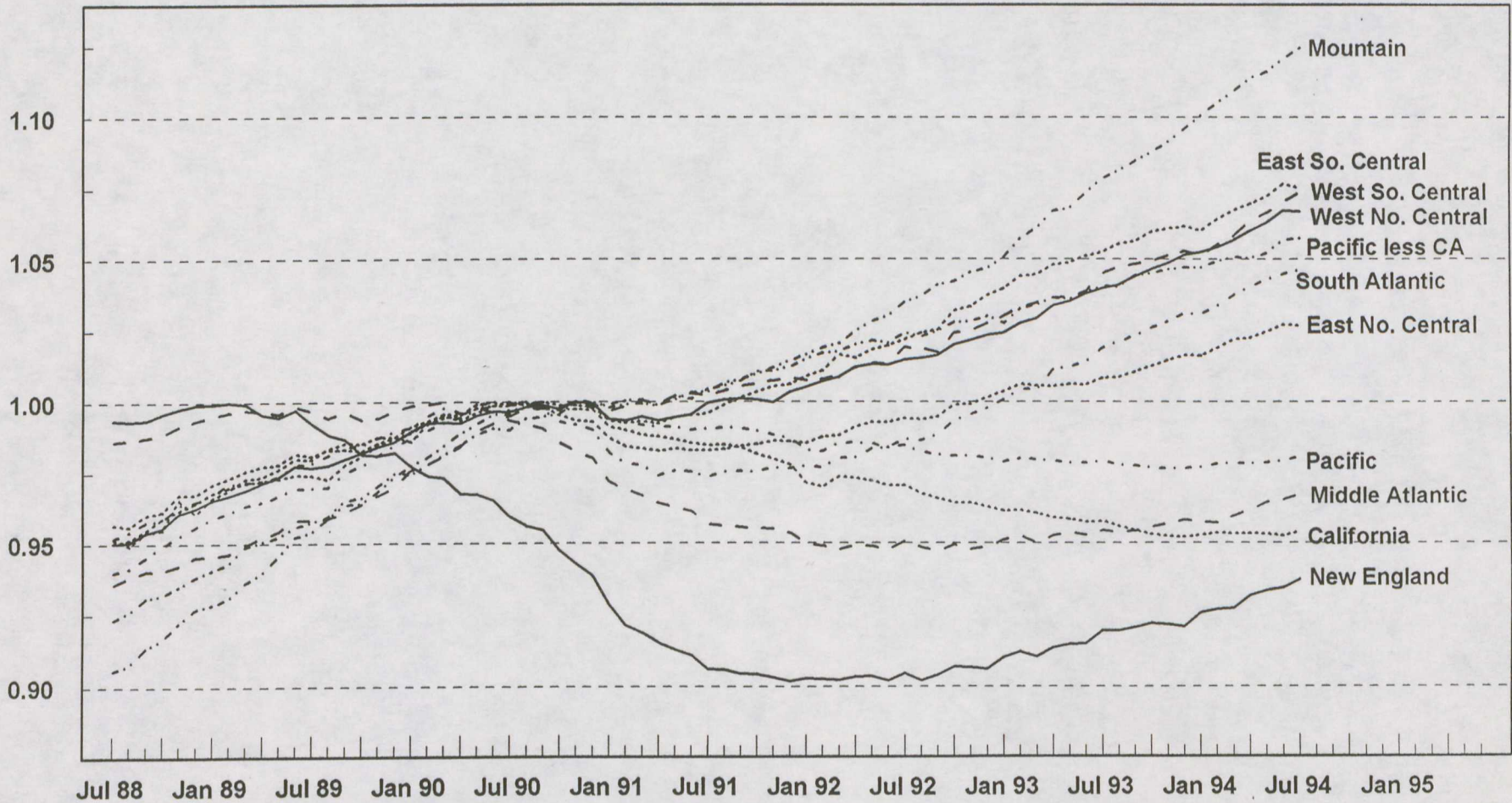
**Selected Charts
to Accompany Remarks by
Cathy E. Minehan**

October 3, 1994

Chart 1

Nonfarm Payroll Employment by Census Region

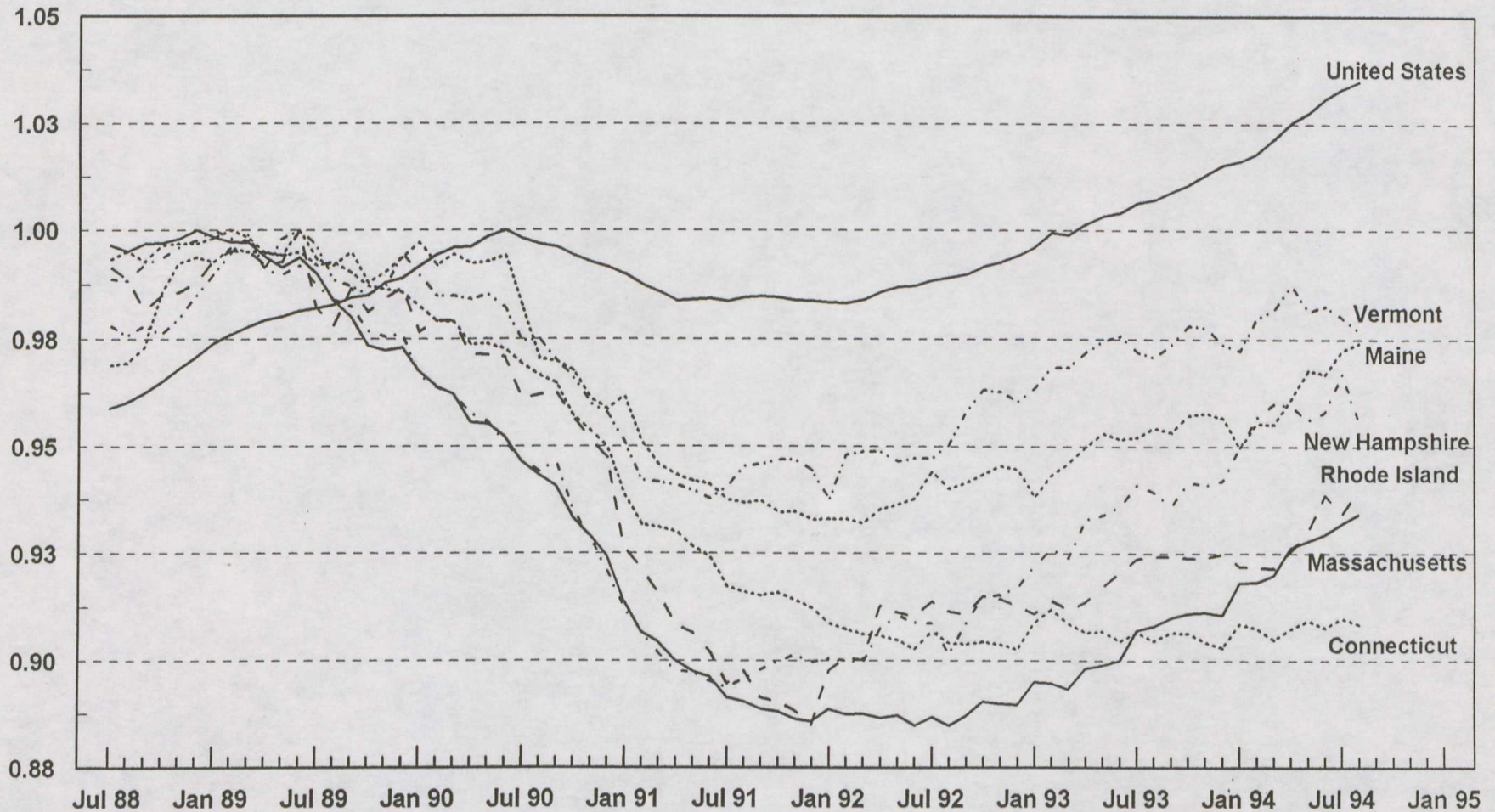
Index, Each Region's Employment Peak = 1



Source: U.S. Bureau of Labor Statistics.

Chart 2 Nonfarm Payroll Employment in New England and the United States

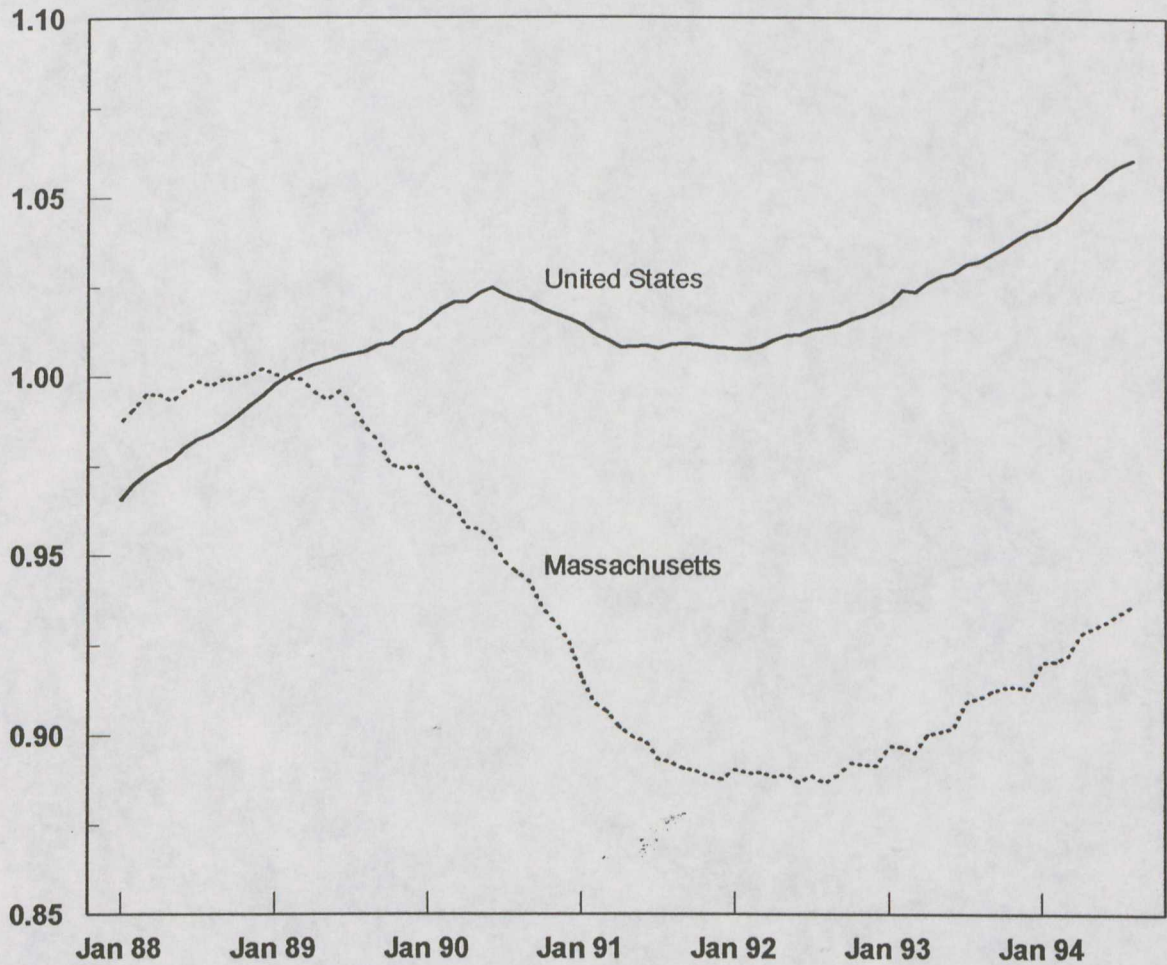
Index, Each State's Employment Peak = 1



Source: U.S. Bureau of Labor Statistics.

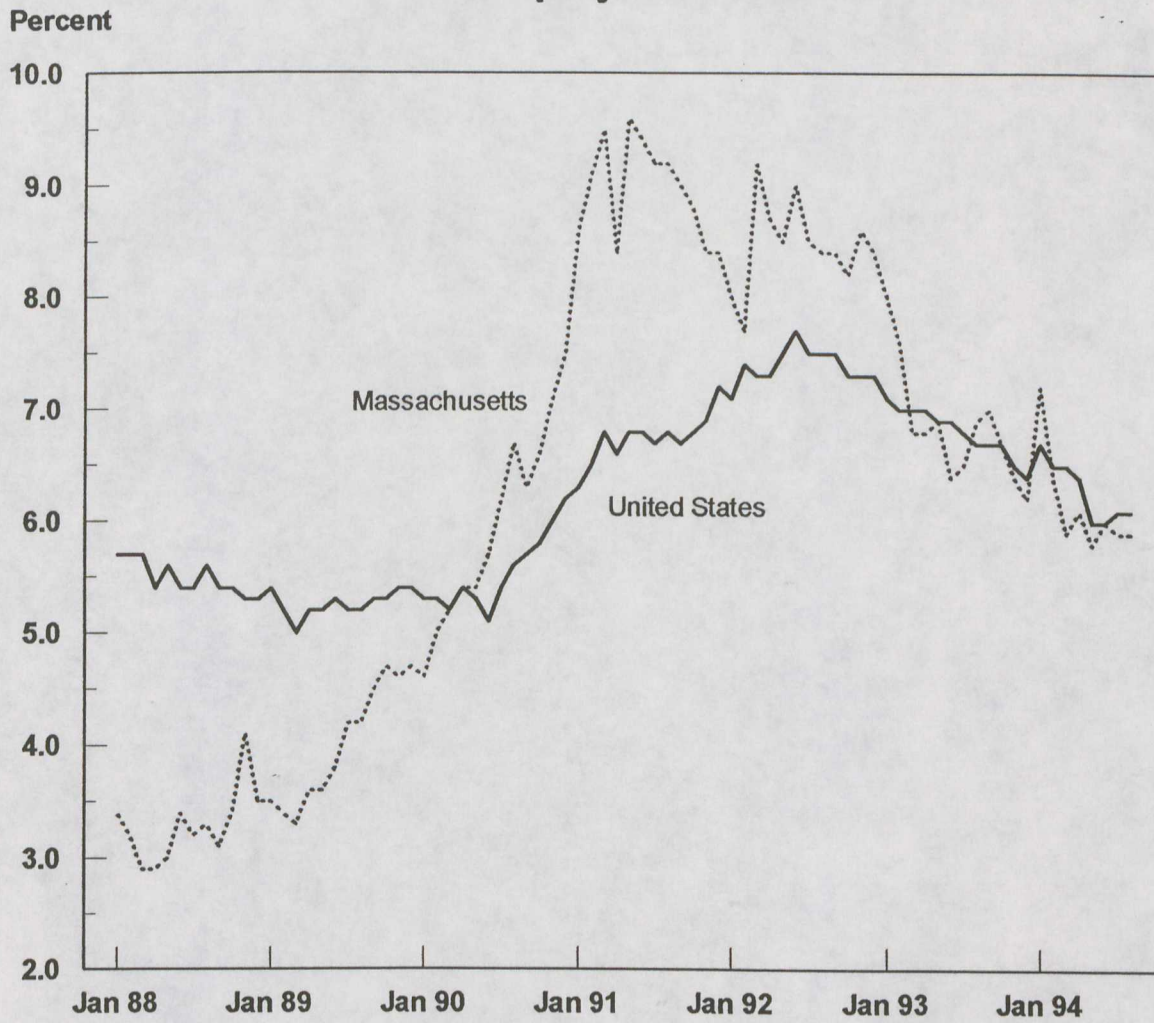
Chart 3 Nonfarm Payroll Employment

Index, 1989 Q1 = 1



Source: U.S. Bureau of Labor Statistics.

Chart 4 Unemployment Rate

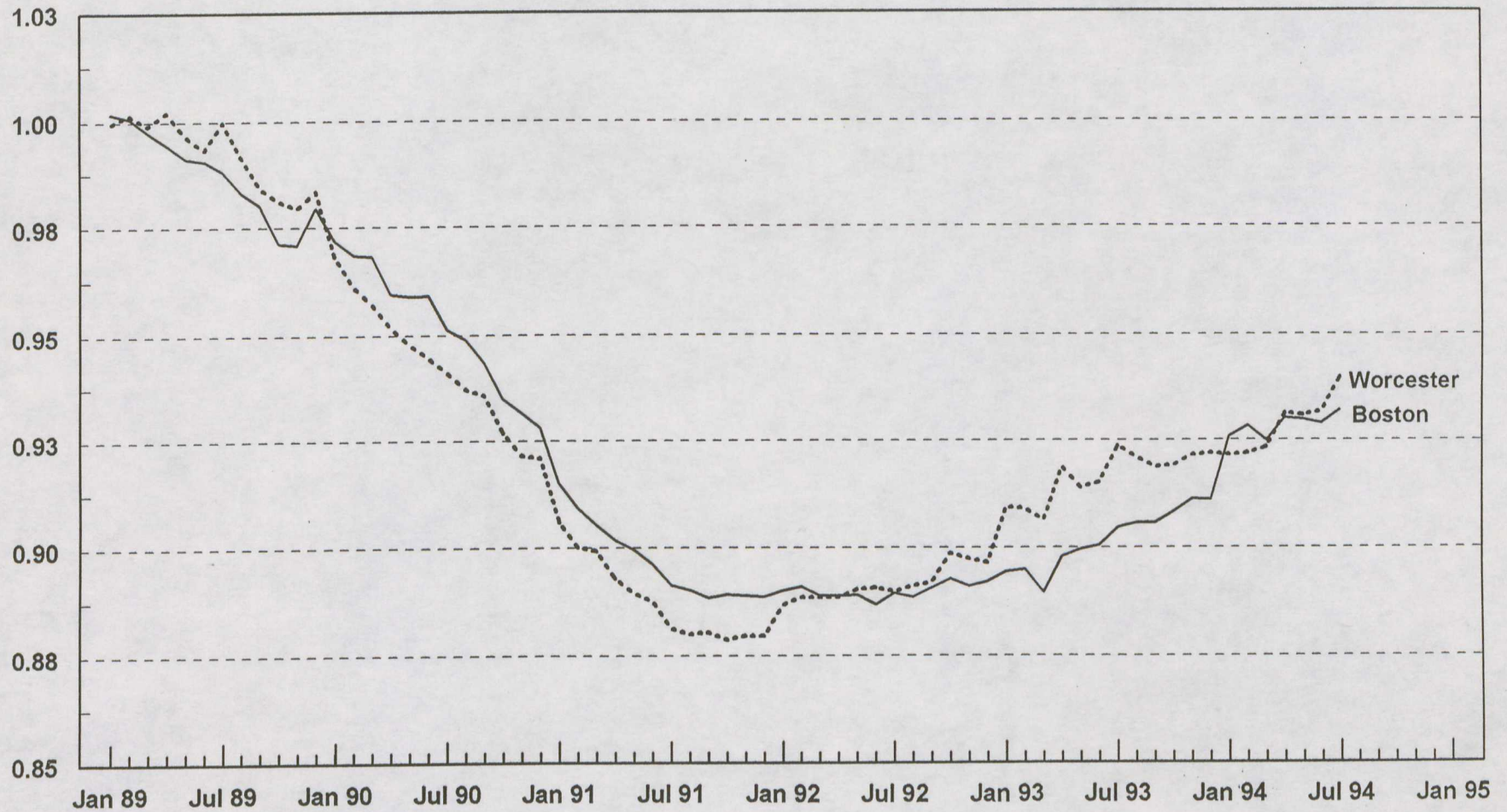


Note: Data beginning January 1994 reflect the redesigned CPS survey and are not strictly comparable to data for 1993 and earlier years.

Source: U.S. Bureau of Labor Statistics.

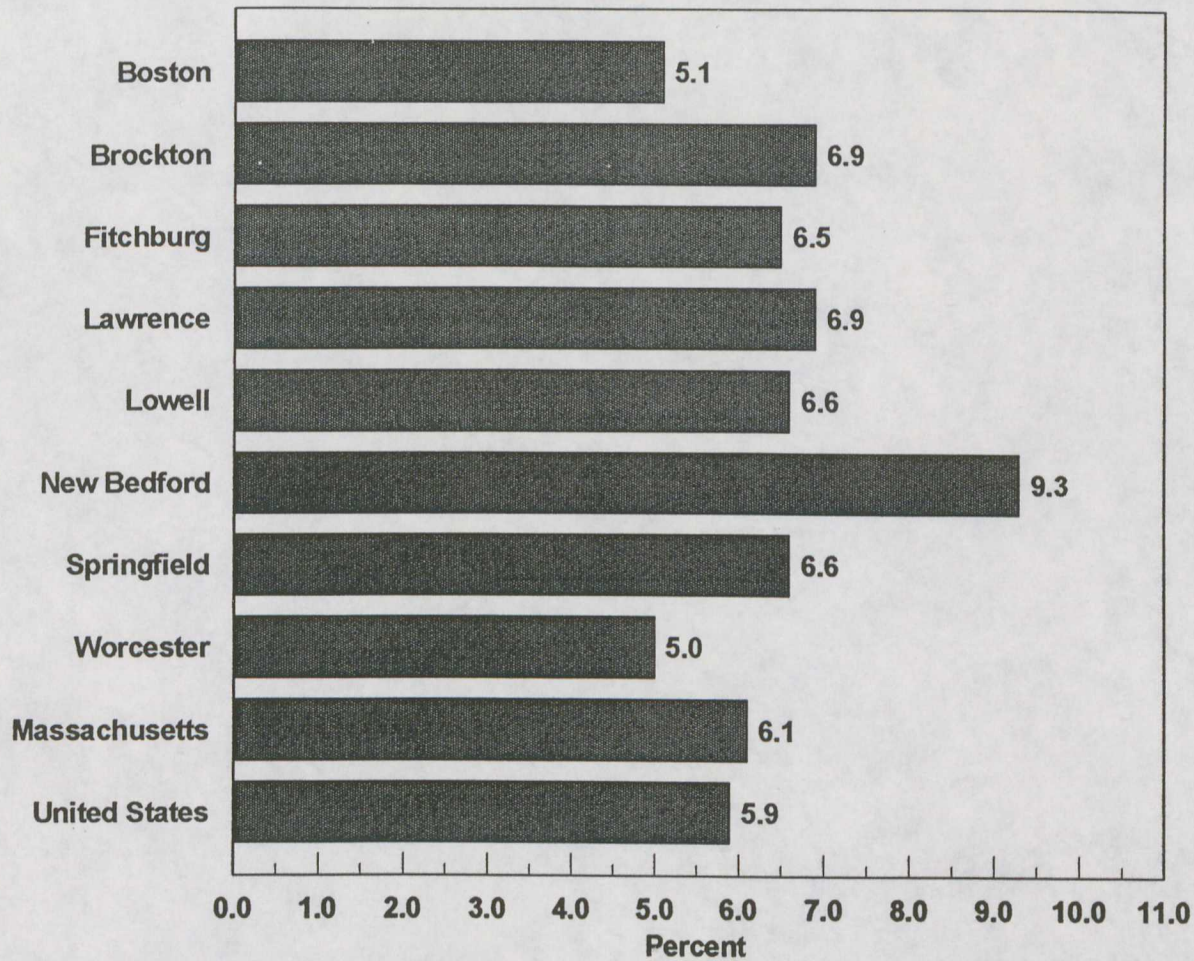
Chart 5
Nonfarm Payroll Employment in Massachusetts' Labor Market Areas

Index, 1989 Q1 = 1



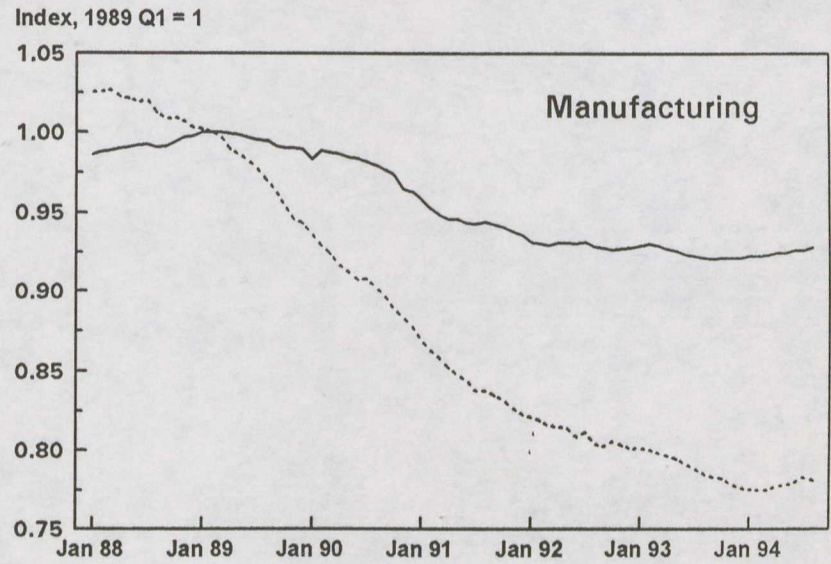
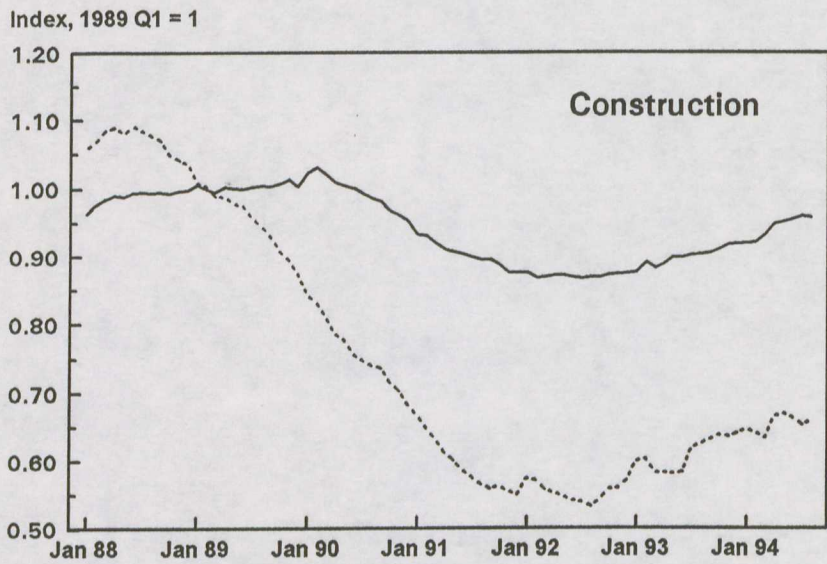
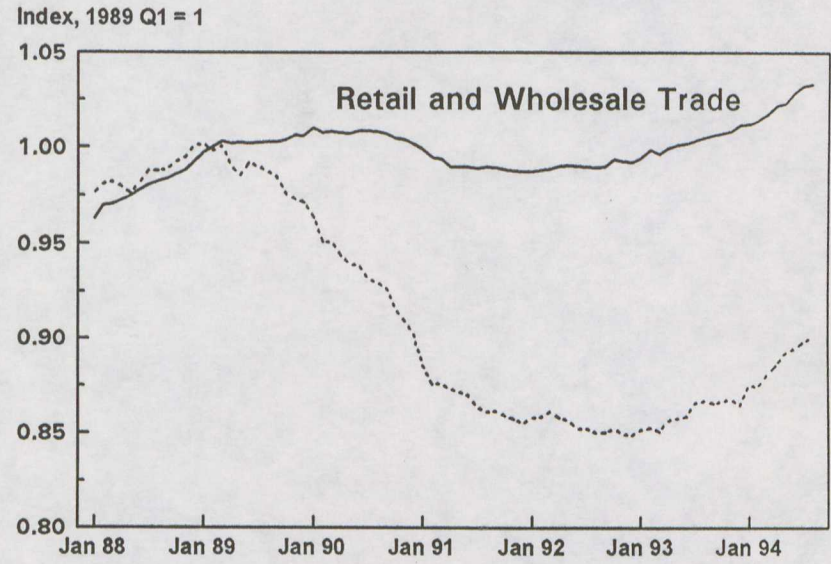
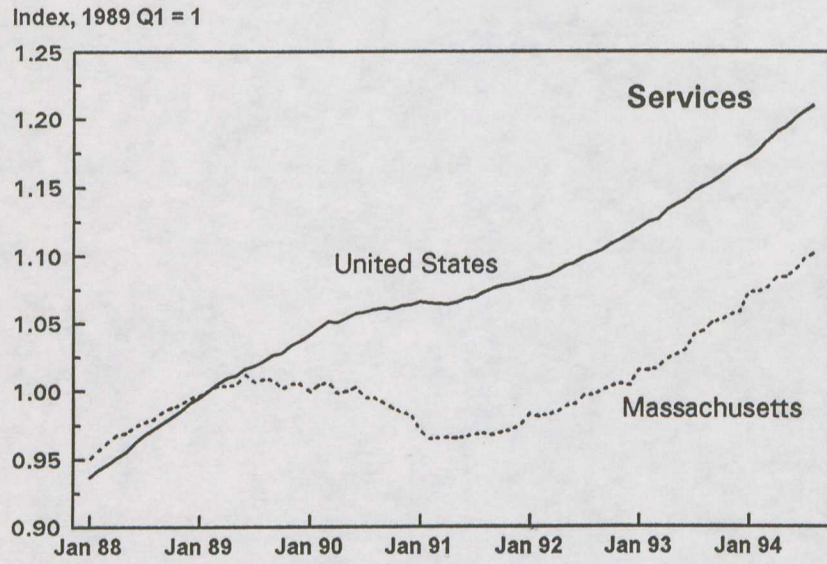
Source: U.S. Bureau of Labor Statistics.

Chart 6
Unemployment Rates in August 1994
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics and New England Economic Indicators, Federal Reserve Bank of Boston.

Chart 7 Sources of Employment Growth by Sector



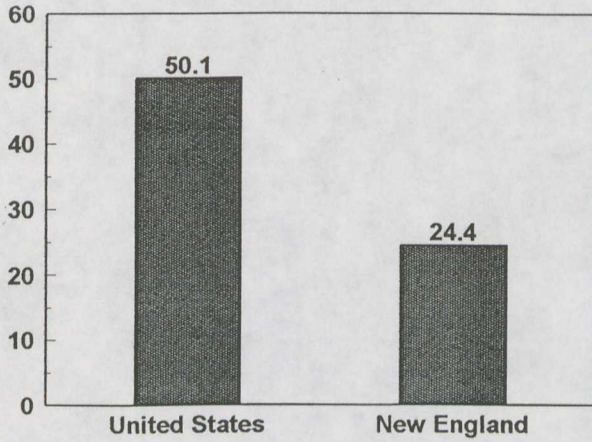
Source: U.S. Bureau of Labor Statistics.

Chart 8

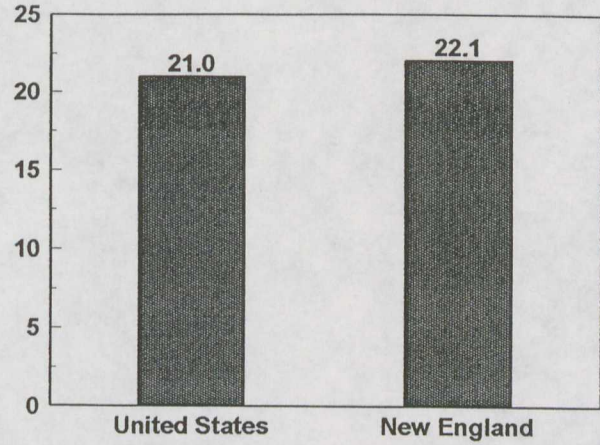
Current Economic Indicators

Percent Change from Year Earlier

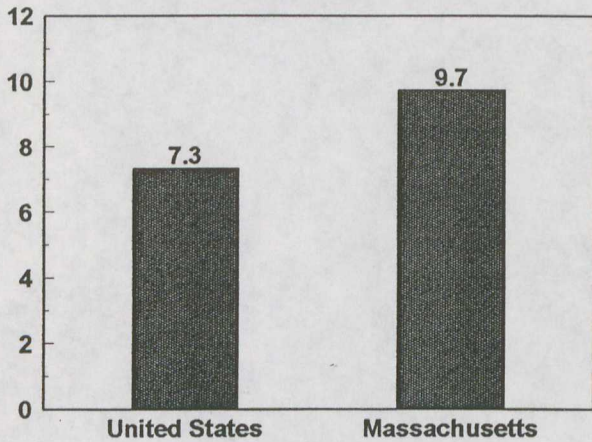
Consumer Confidence Index
August 1993 to August 1994



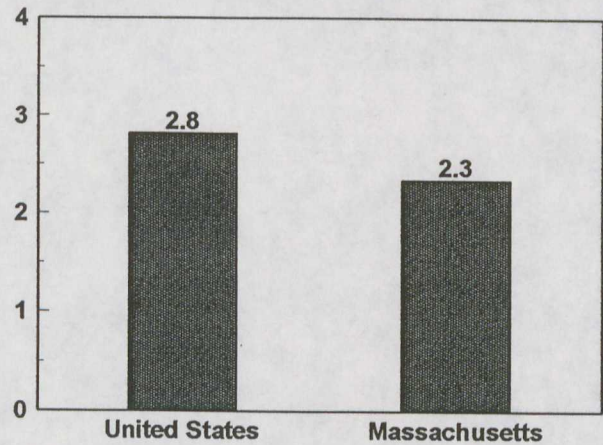
Help Wanted Advertising Index
July 1993 to July 1994



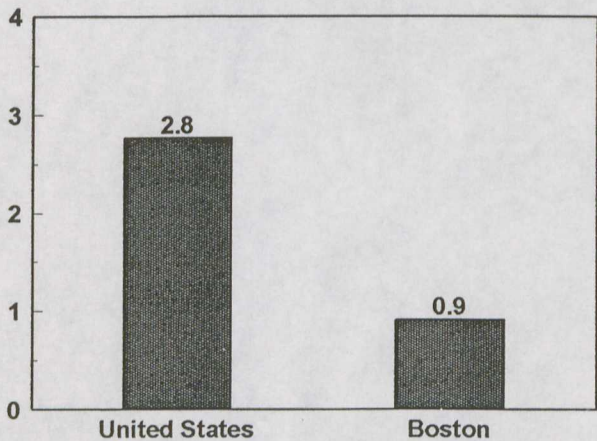
Retail Sales
June 1993 to June 1994



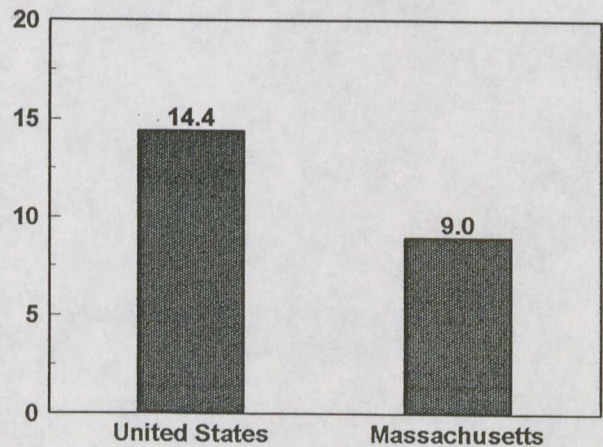
Average Hourly Earnings
July 1993 to July 1994



Consumer Price Index
July 1993 to July 1994



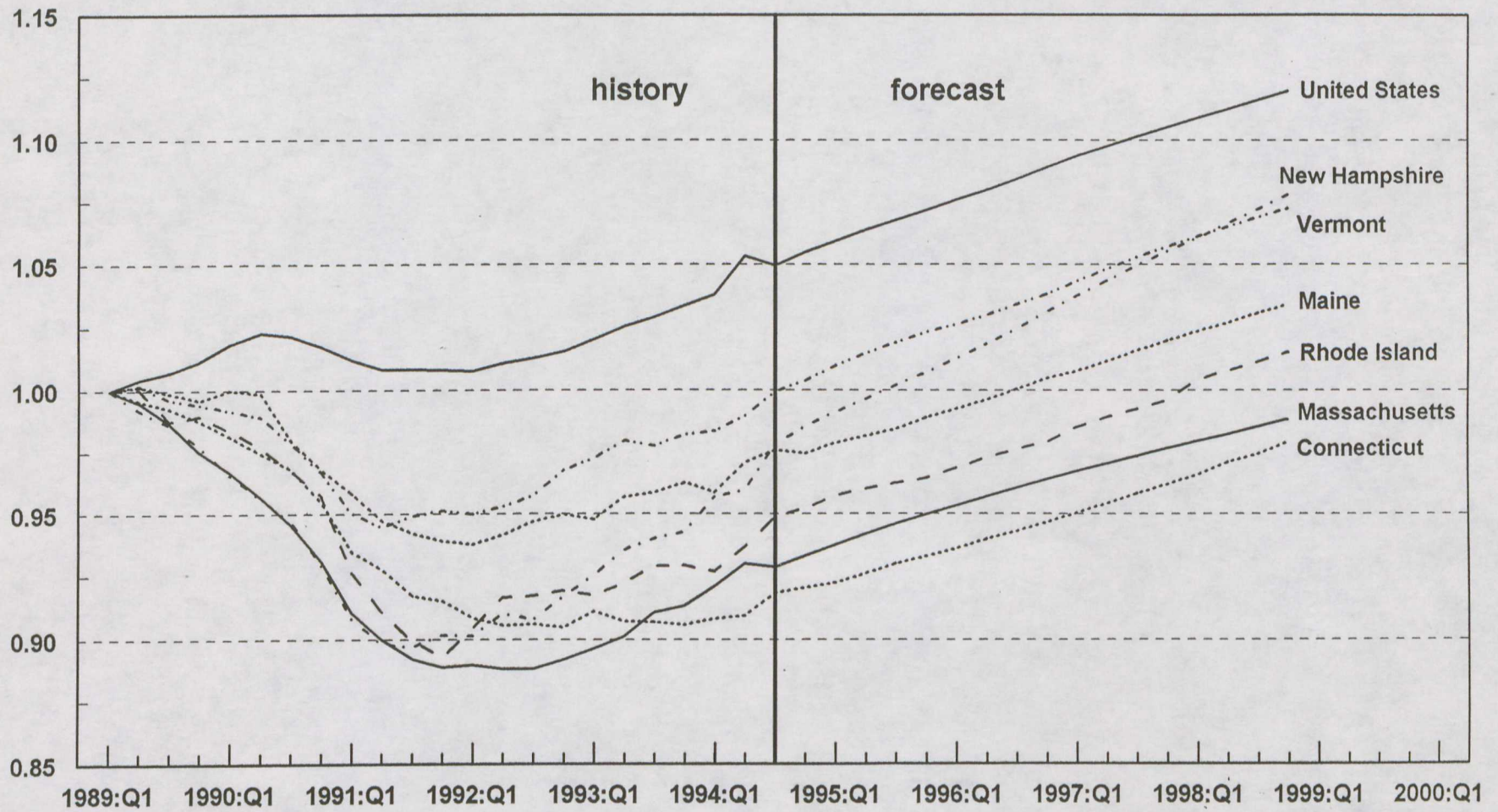
Housing Permits Authorized
July 1993 to July 1994



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

Chart 9
New England Economic Project Forecast
Employment in New England and the United States

Index, 1989 Q1 = 1



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