Regional Economic Conditions

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"Bullets" on New England economy

To accompany chart packet (numbers refer to page numbers in handout packet)

Overall Regional Economy – Employment Growth

Page **1**. The New England economy continues to grow, adding jobs somewhat more slowly than the nation. From July 1998 to July 1999, U.S. job count rose 2.3 percent and Massachusetts 1.3 percent

- U.S. and Massachusetts are slightly outperforming their long-term employment trends (as would be expected in an expansionary period, since long-term trend includes recessions and expansions).
- Regional economy slowed more than national since mid-1998 (both growth rate lines sloping down, but Massachusetts steeper).
- Massachusetts is at the low end among the New England states in terms of employment growth; growing at the same pace as Connecticut and Rhode Island, but slower than the northern New England states.

-- By Industry

Page **2**. In most industries, like total, Massachusetts is growing more slowly than nation.

- Only in construction is employment expanding faster locally than nationally. (Will come back to construction and real estate topic in later charts.)

Page **3**. Table shows detailed industries adding and cutting the most jobs in Massachusetts over the last 12 months.

- At the top of the list are services industries, some construction, and some retail (eating and drinking places). Business services has added almost 10,000 jobs in the past year and over 100,000 since the recession trough (12/91).
- At the bottom, in the list of contracting industries, those losing the most jobs over the 12 months ending in June are largely manufacturing industries, with some parts of state government (state hospitals and state colleges and universities) also reducing head counts. A fairly recent addition to the contracting list is health services other than hospitals (can see the industry gained an average of 7,300 jobs per year for the first 6½ years of the recovery; lost 1,200 in past 12 months).
- While there are a few manufacturing industries in the "all other expanding industries," three-quarters of the Commonwealth's manufacturing industries are cutting jobs.

Page **4**. Part of the problem for manufacturing is related to exports.

- The dollar value of merchandise exports from Massachusetts fell off sharply in early 1998.
- We've seen some recovery since; exports from Massachusetts rose in the second quarter of 1999, coming in ahead of year-earlier levels.

Unemployment

Page **5**. The other key measure of the region's vitality also shows a healthy regional economy: Unemployment rates in the region are well below the national average, which is itself quite low.

- Jobless rate in July in Massachusetts 3.2 percent, (Boston metro 2.7 percent), while U.S. unemployment rate was 4.3 percent.
- All the metropolitan areas in Massachusetts, except for New Bedford, have unemployment rates below the national average.
- Part of the discrepancy is demographics (labor pool mix of age, gender, race) which give New England and Massachusetts lower unemployment rates for any degree of labor market tightness. In addition, the size of the Massachusetts labor force (people working or looking for work) has not expanded since 1997.
- By any measure, local labor market is very tight.

Prices and Wages

Page **6**. Tight labor markets may be showing up in increased inflation in wages and consumer prices.

- Average hourly earnings of manufacturing production workers are rising at about a 3½ percent pace in New England and about 4 percent nationally. While such increases are quite moderate by longer historical standards, they represent a noticeable pickup compared with the last half-year, especially for the nation.
- Consumer price increases have also picked up somewhat this year. Prices are rising somewhat faster in Boston than nationally, but both remain below a 3 percent annual pace.

Real Estate

Real estate markets are strong in New England, both residential and commercial, yet we're not seeing the explosion of either prices/rents or speculative construction that characterized the 1980s boom.

Page **7**. Home prices are rising steadily. The typical existing home in Massachusetts is experiencing price increases about 9 percent annually; the Boston metro area between 9 and 10 percent.

- While these regional increases sound high compared with national home price increases of just over a 5 percent annually, they are fairly moderate by comparison with what we saw in the 1980s. Prices rose at more than a 20 percent annual pace for two years (three in Massachusetts), and increased more than 10 percent annually for five years from 1983 to 1988.

Page **8**. Office markets:

- Vacancy rates in Boston's downtown office market have been among the lowest in the nation over the last several years. The suburban office market has also been very tight.
- Data for Q1 1999 (not shown in the chart) sugggest a doubling of vacancies downtown and almost as much of an increase in the suburbs, but questions have been raised about the reliability of these figures. Indeed, the source, CB Richard Ellis, has released second quarter estimates for most markets, but not Boston. Another source, Spaulding & Slye, indicates a <u>very</u> modest uptick in the downtown Boston office vacancy rate in 1999.

Page **9**. With such healthy residential and office real estate markets and the strong growth in construction employment noted earlier, are we headed for a bust in construction similar to what we experienced at the end of the 1980s boom, when construction employment declined by almost half? It doesn't seem so:

- Compared with historical patterns, construction as a share of total employment in the region is not out of line (chart).
- Because Massachusetts' trend population growth is considerably below that of the nation, the share of construction in total employment usually is lower here. This relationship holds true now, unlike in the 1980s boom.
- Furthermore, the Massachusetts construction industry's share of total employment is modest relative to its own past; the ratio currently is about the same as in 1984, and far below the peaks in the early 1970s and late 1980s. (For the nation, by contrast, construction's current share of total employment is close to past cyclical peaks.)
- So it seems plausible that recent construction in the region still represents some "catch-up" to make up for the lack of activity earlier in the decade, rather than ominous overbuilding.

Who's Benefiting? Who's Left Behind?
(No state or regional data on a timely basis; have to draw inferences from national patterns.)

Page **10**. Blacks as well as whites have seen sizable declines in unemployment rates in this expansion.

- While the gaps have clearly shrunk in absolute (percentage point) terms, black unemployment rates remain about twice as high as white rates, for men, women, and teenagers.

Page **11**. After declining in real terms since the mid to late 1980s, earnings rose in 1997 and 1998, for both blacks and whites.

- Only among teenagers, however, do blacks seem to be closing a portion of the gap with whites.

Page **12**. Even those with less than a high school education saw gains in real earnings in 1998.

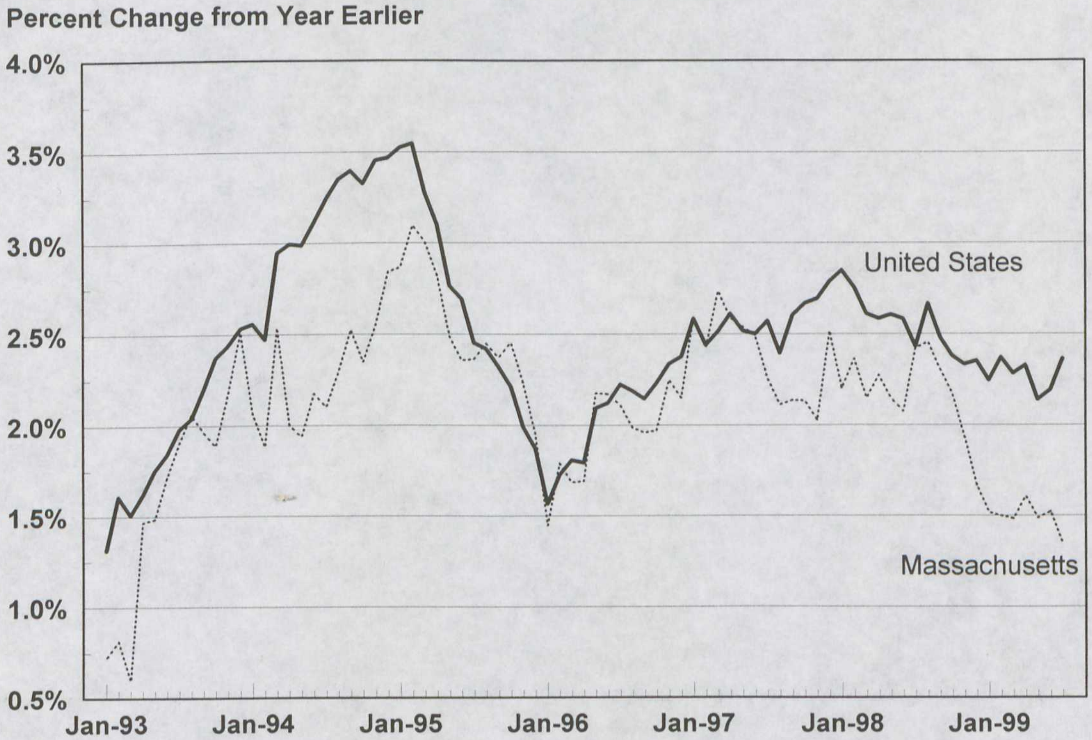
- And high school graduates, who lost ground in real terms throughout the 1980s and 1990s, are currently seeing their real earnings grow.
- College graduates, however continue to see the steepest gains in real earnings.

Recent data also indicate that the bottom of the wage distribution saw real gains in earnings in 1998 for the first time in many years. The top saw even faster increases, however, so the distribution is not narrowing.

Bottom line:

- The current long and strong expansion in the U.S. economy has produced improvements in labor market outcomes for virtually all groups. Unemployment rates are down and real earnings are up, for blacks and whites, men and women, more and less educated workers.
- But the gaps between relatively advantaged and disadvantaged groups do not appear to be shrinking noticeably.
- The ongoing problem is that relative disadvantage remains disproportionately concentrated among blacks, youth, and the less educated.

Employment Growth

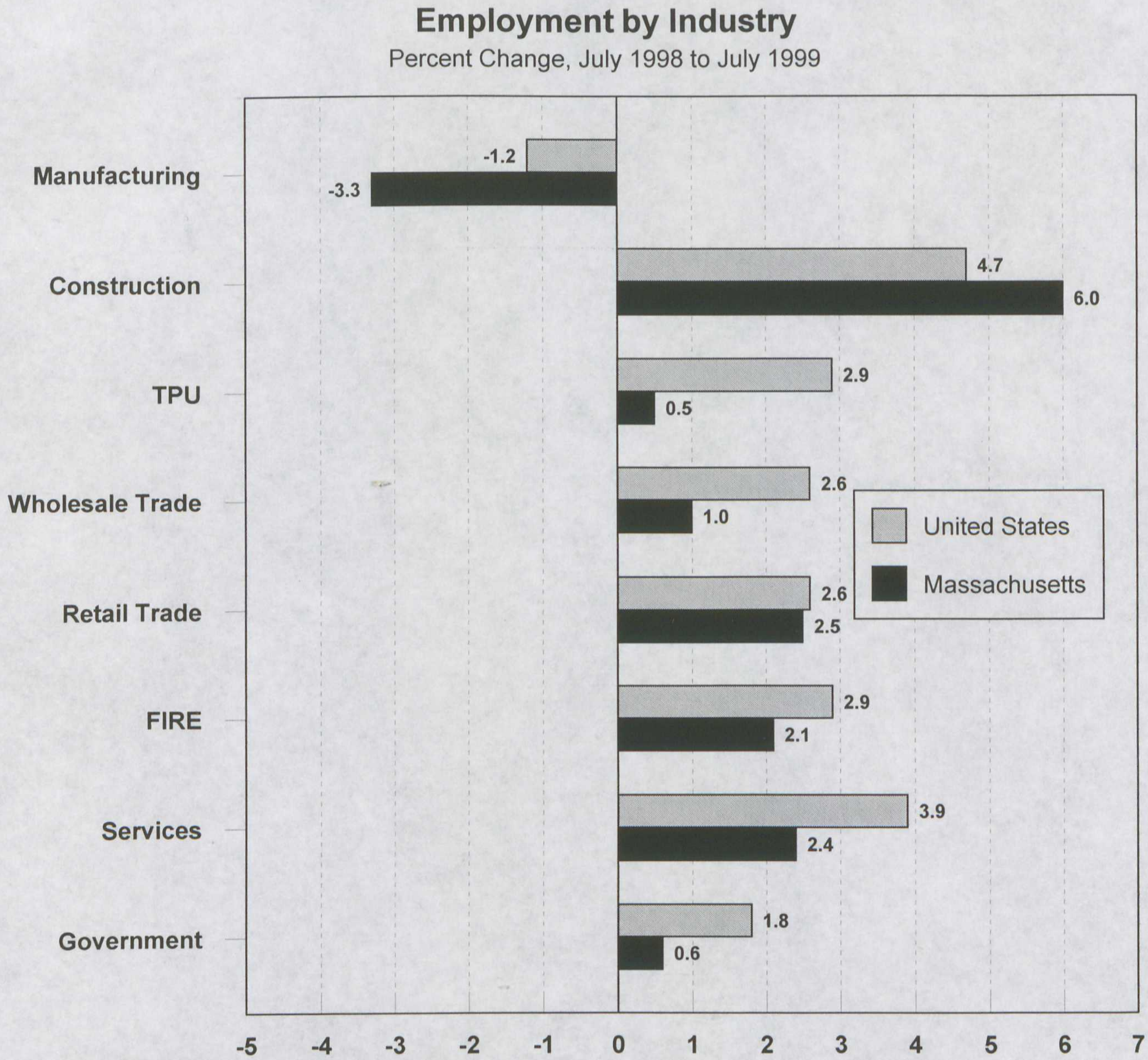


Employment Growth Rates
(percent)

	Long-term trend	Last 12 Months
United States	2.0	2.4
New England	1.4	1.5
Connecticut	1.1	1.3
Maine	1.9	2.4
Massachusetts	1.2	1.3
New Hampshire	2.9	2.4
Rhode Island	1.0	1.3
Vermont	2.4	1.9

Note: Long-term trend is average annual employment growth rate from 1970 to 1998; last 12 months ends in July 1999.

Source: U.S. Bureau of Labor Statistics



Source: U.S. Bureau of Labor Statistics

Employment Changes in Massachusetts in the Last 12 Months

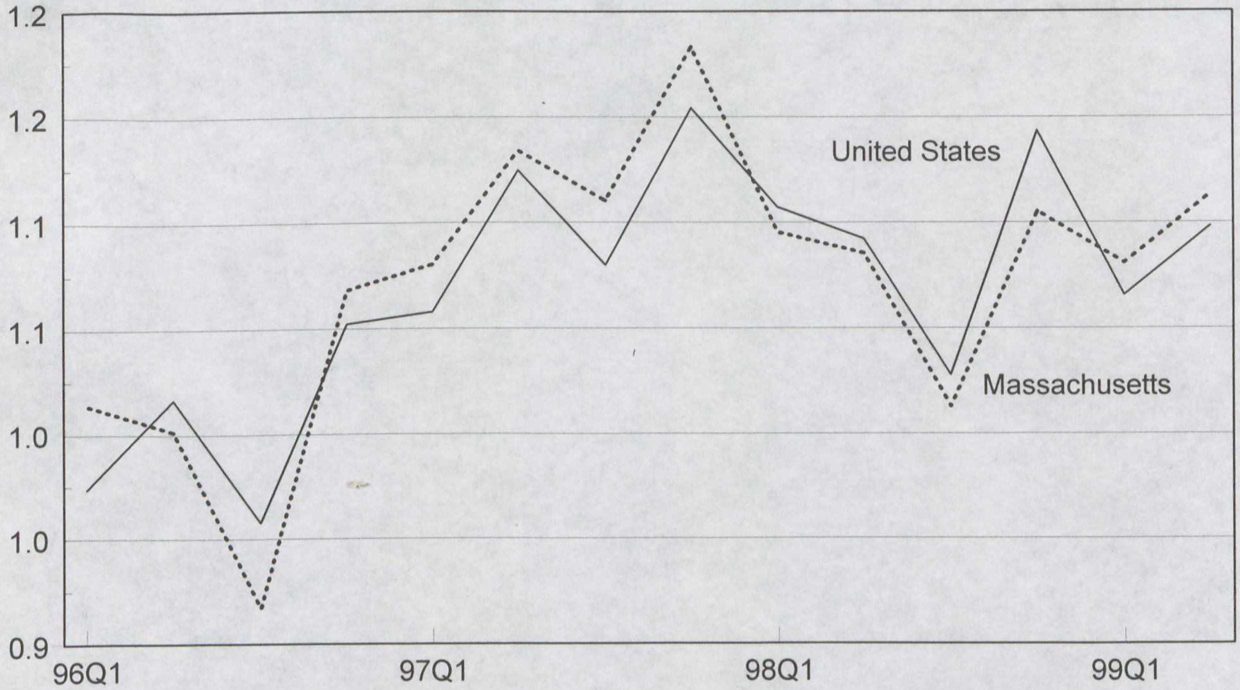
(Thousands, Seasonally Adjusted)

	Net Jobs Added (Lost) Annually		Memo:
	June 1998 to June 1999	December 1991 to June 1998	June 1999 Employment Level
Net Employment Change	48.9	59.5	3221.0
Expanding Industries			
Business Services	9.6	14.6	244.7
Other Private Services	6.1	5.9	237.0
Local Education	5.9	4.3	160.5
Special Trade Contracting	5.9	3.4	75.8
Eating & Drinking Places	5.7	4.8	197.1
Engineering & Management Services	5.2	4.2	127.2
Miscellaneous Retail Establishments	5.0	2.3	93.4
Nonbank Credit Institutions and Securities Firms	4.0	3.9	64.3
Transportation	3.1	2.8	88.4
Social Services	2.8	2.7	85.6
General Building Contractors	2.6	1.1	26.7
Private Education	2.3	1.9	136.5
Other State Government (excluding hospitals and education)	2.1	1.3	70.0
Hospitals	1.9	0.0	134.0
Retailing Automobiles and Related Services	1.6	0.9	45.8
Retailing Apparel and Accessory Stores	1.6	0.3	40.8
Wholesaling Durable Goods	1.4	2.1	106.5
Other Local Government (excluding hospitals and education)	1.3	0.0	99.6
Commercial Banks	1.1	-0.1	35.5
All Other Expanding Industries (14)*	4.0	2.0	246.8
Total in Expanding Industries	73.0	58.3	2316.1
Contracting Industries			
Manufacturing Computer & Office Equipment	-2.5	-1.6	25.2
State Hospitals	-2.1	-0.3	9.3
Manufacturing Apparel and Other Textile Products	-1.7	-0.7	11.7
State Education	-1.6	-0.3	22.4
Manufacturing Other Instruments & Related	-1.4	-1.3	29.0
Manufacturing Electronic Components and Accessories	-1.4	-0.2	26.5
Manufacturing Other Industrial Machinery and Equipment	-1.4	0.6	20.1
Health Services Other Than Hospitals	-1.2	7.3	195.6
Manufacturing Textile Mill Products	-1.1	-0.1	13.0
Manufacturing Measuring & Controlling Devices	-1.0	-0.1	22.5
All Other Contracting Industries (22)*	-8.5	-2.1	529.6
Total in Contracting Industries	-24.1	1.2	904.9

* Includes industries with a net change of 1,000 jobs or less.

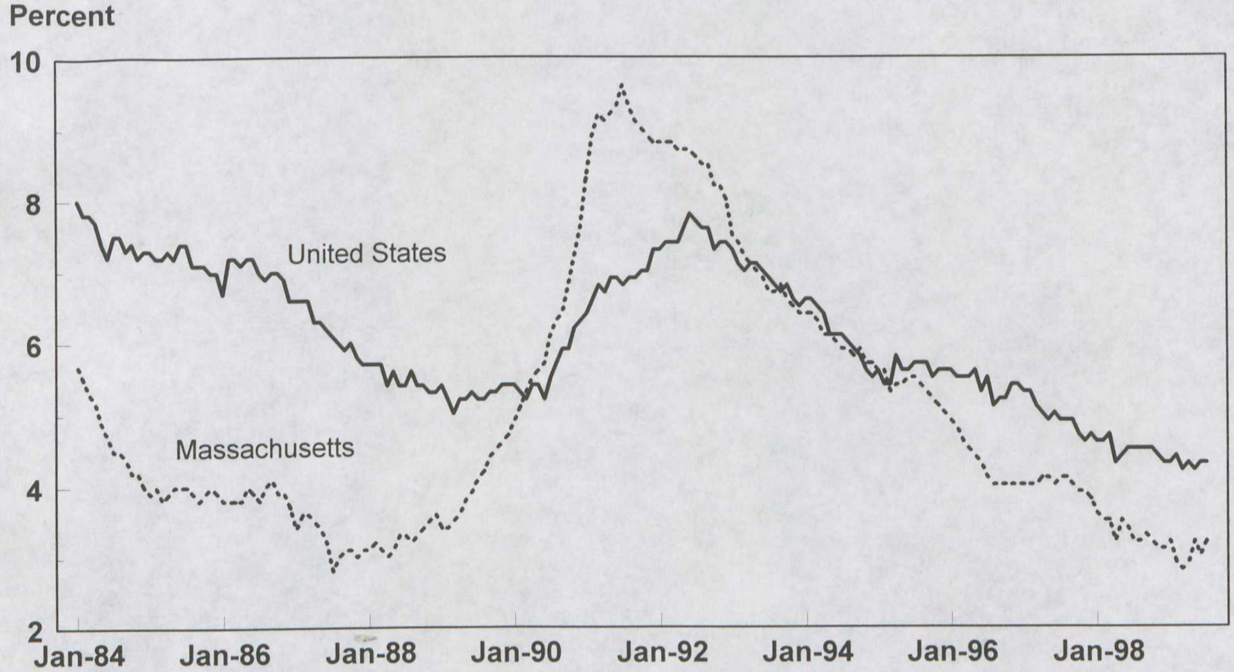
Source: New England Economic Project.

Merchandise Exports
(Index 1996 = 1)



Source: Massachusetts Institute for Social and Economic Research (MISER)

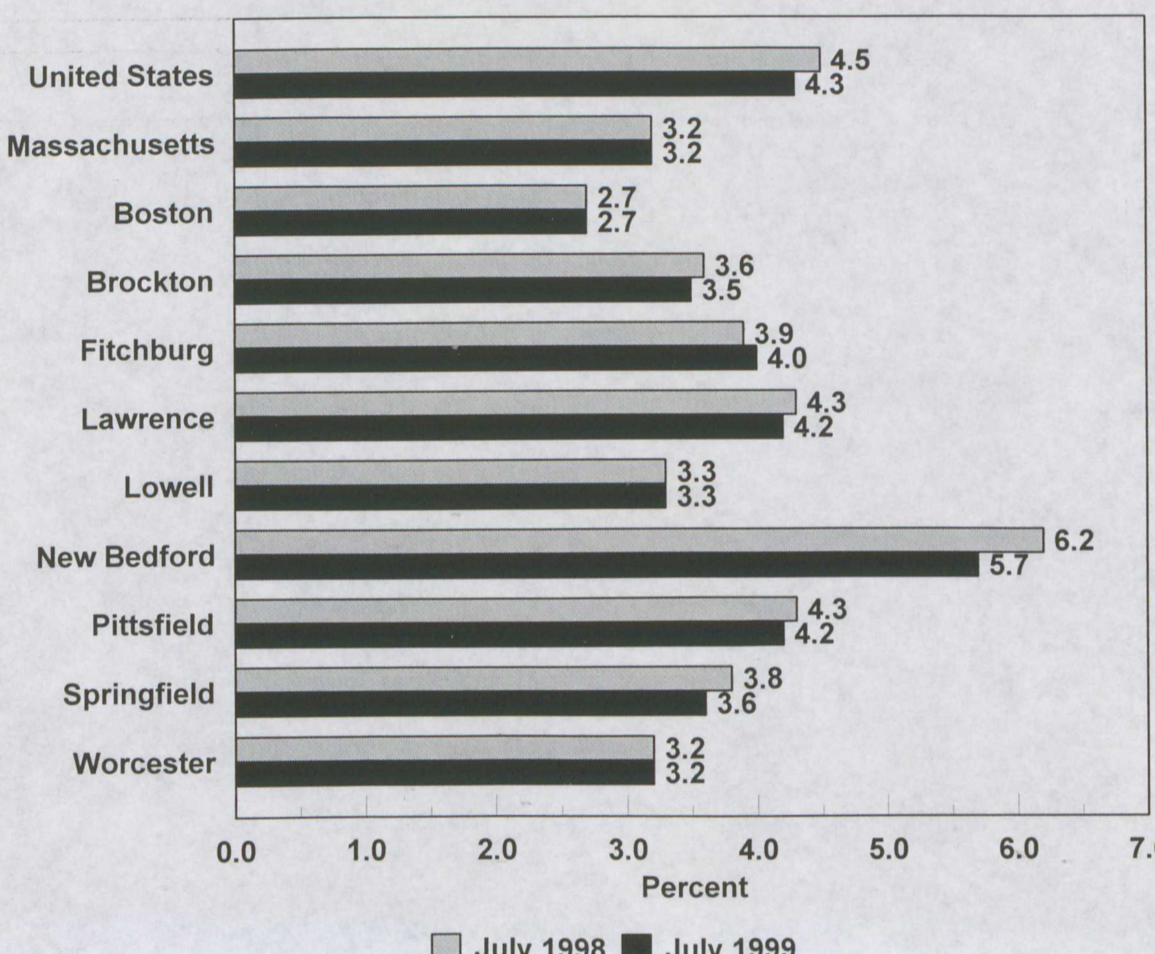
Unemployment Rates



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

Unemployment Rates in the United States and Massachusetts Metro Areas

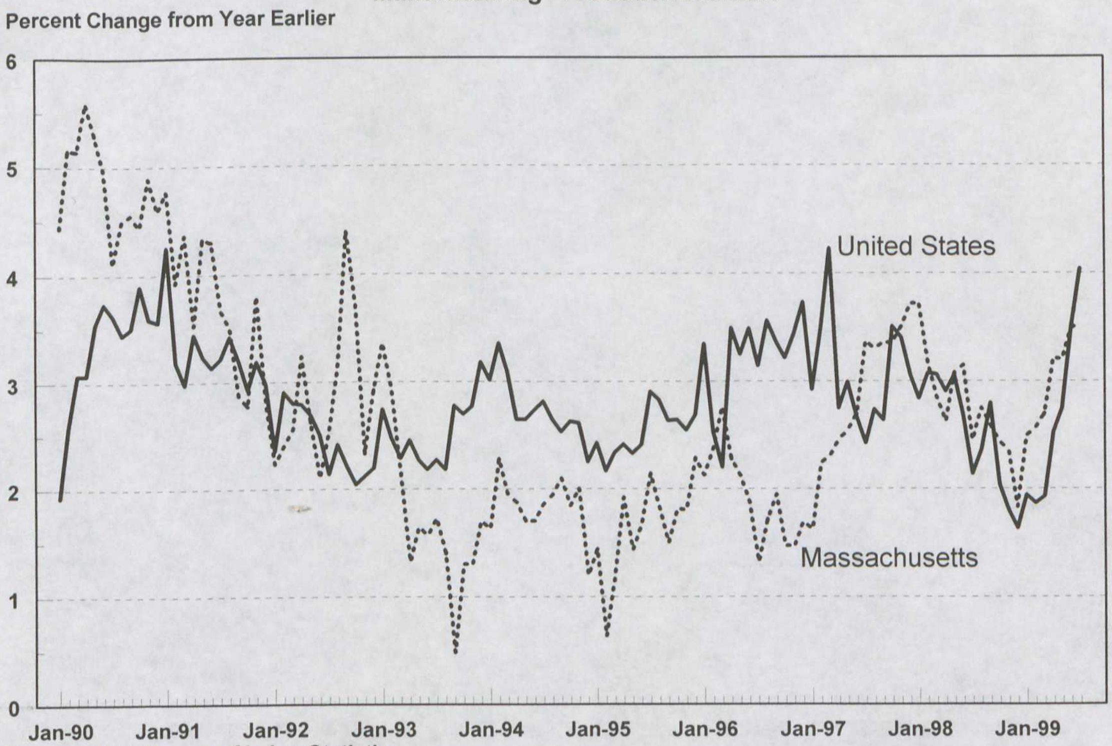
Seasonally Adjusted



Source: Bureau of Labor Statistics

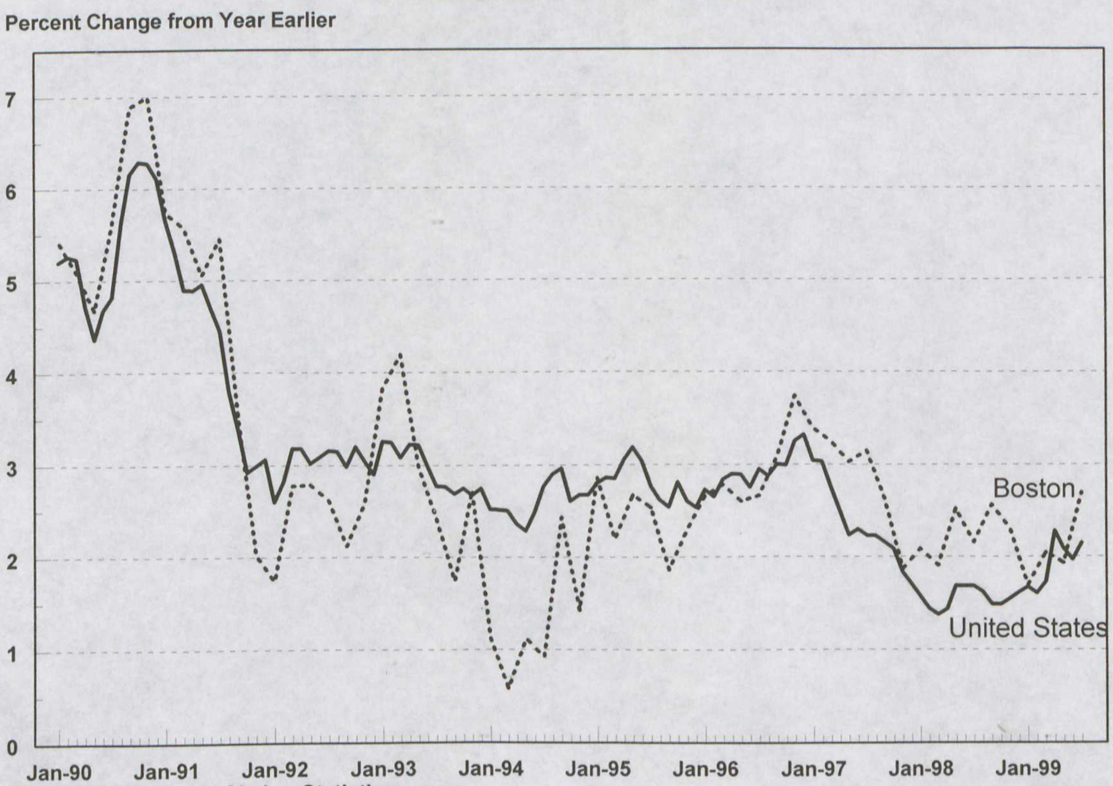
Average Hourly Earnings

Manufacturing Production Workers



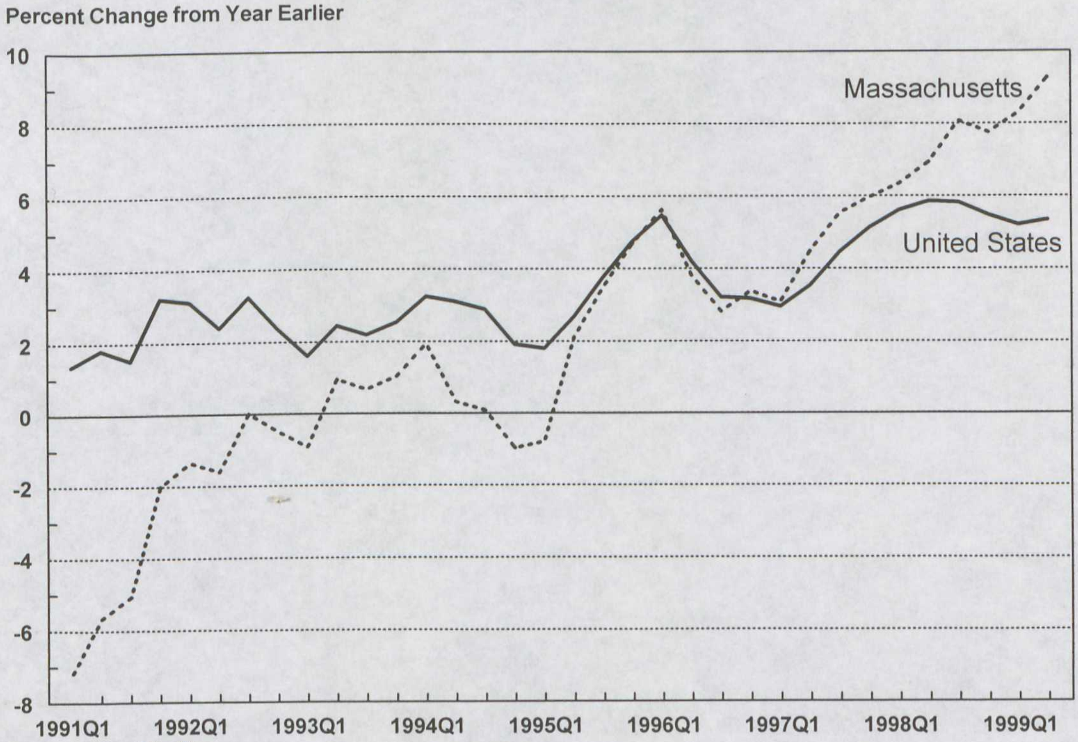
Source: U.S. Bureau of Labor Statistics.

Consumer Price Index

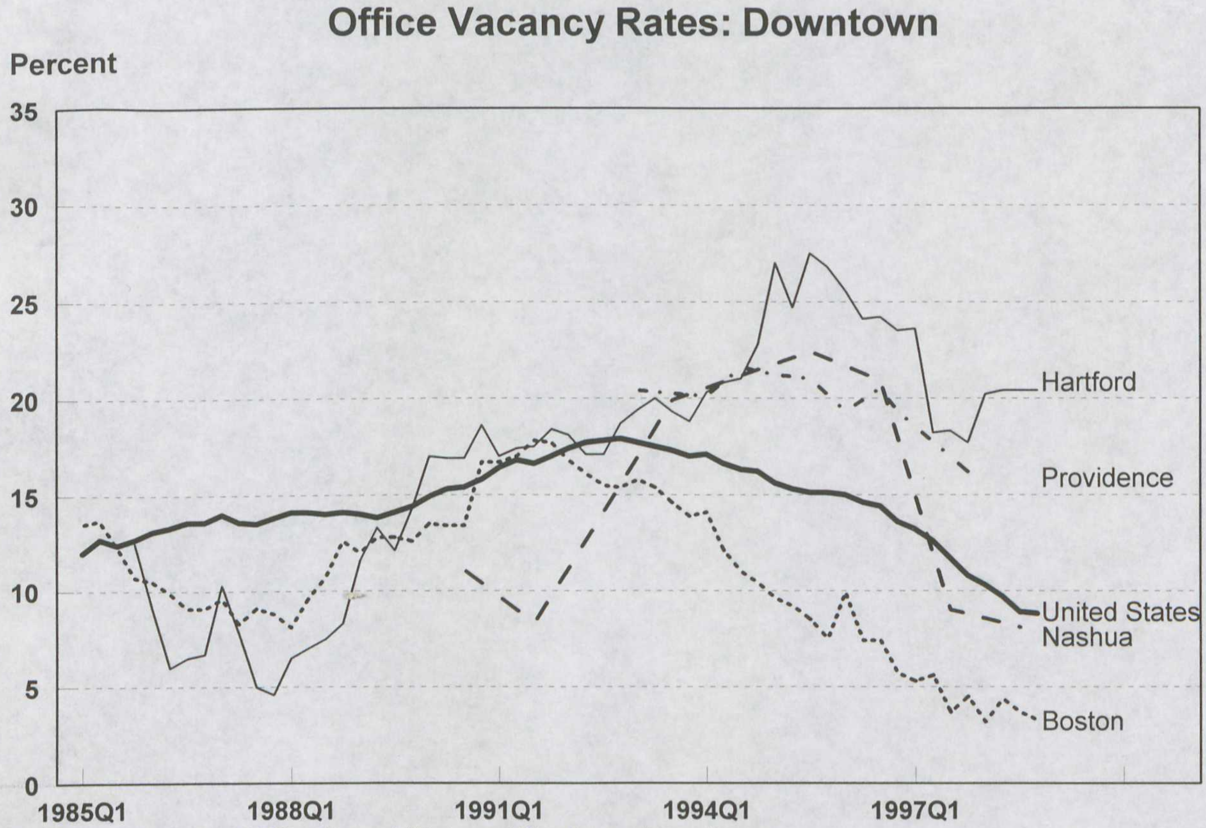


Source: U.S. Bureau of Labor Statistics

Repeat-Sales Home Price Index

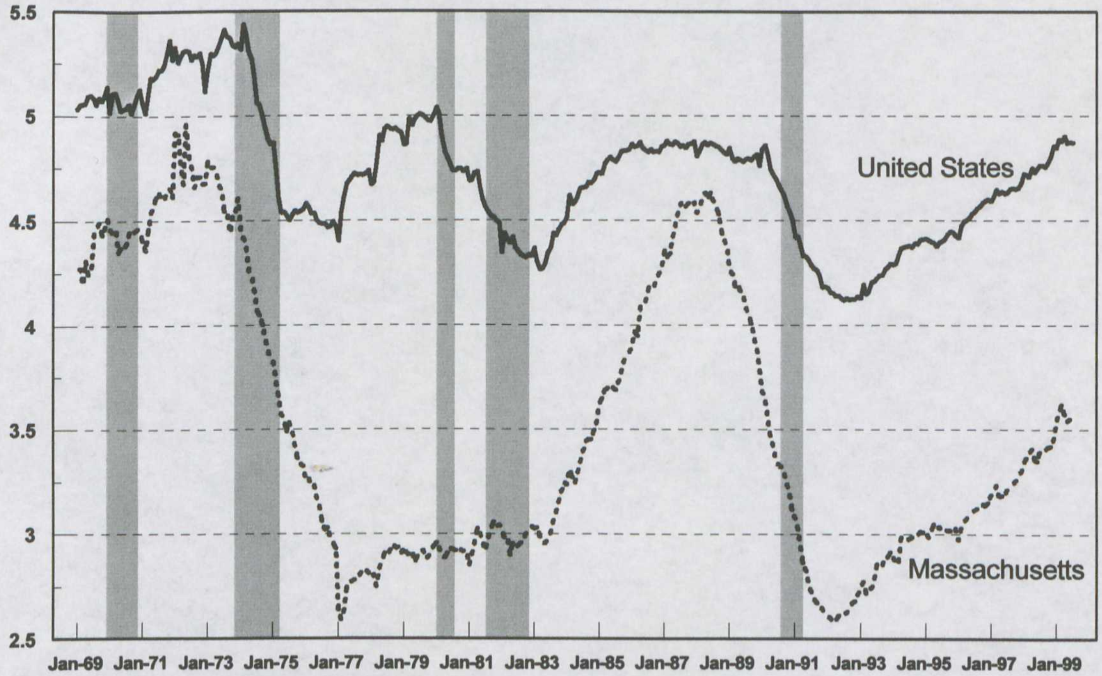


Source: Freddie Mac.



Source: CB Richard Ellis, Ryan Elliot, and Monks and Co., Inc.

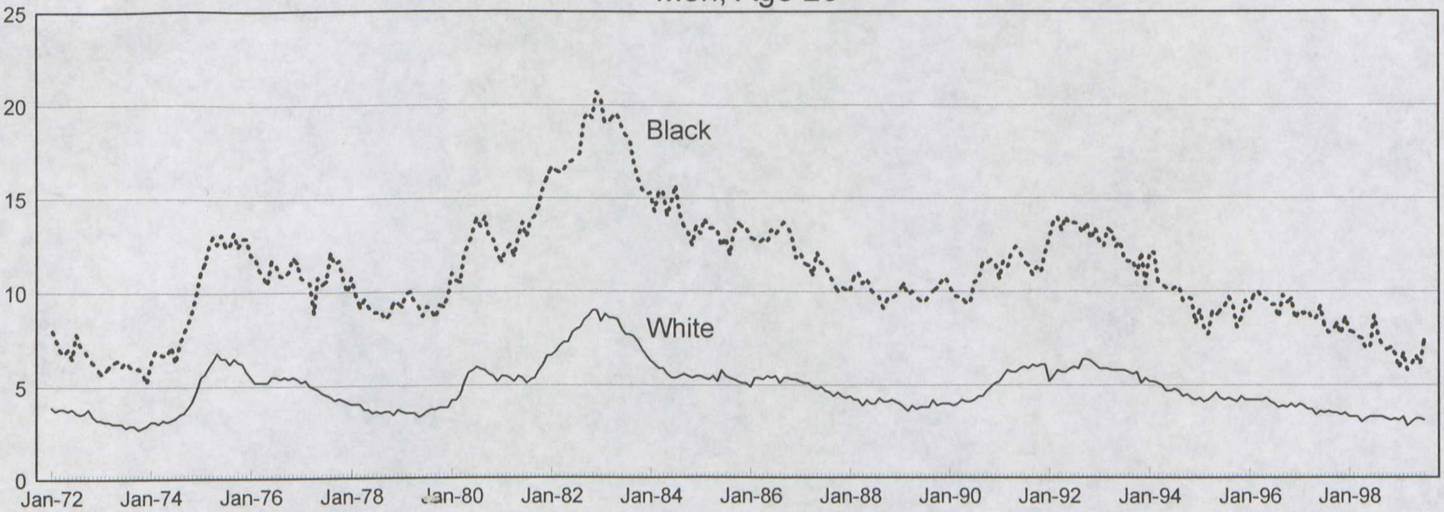
Construction as a Percent of Total Nonfarm Employment



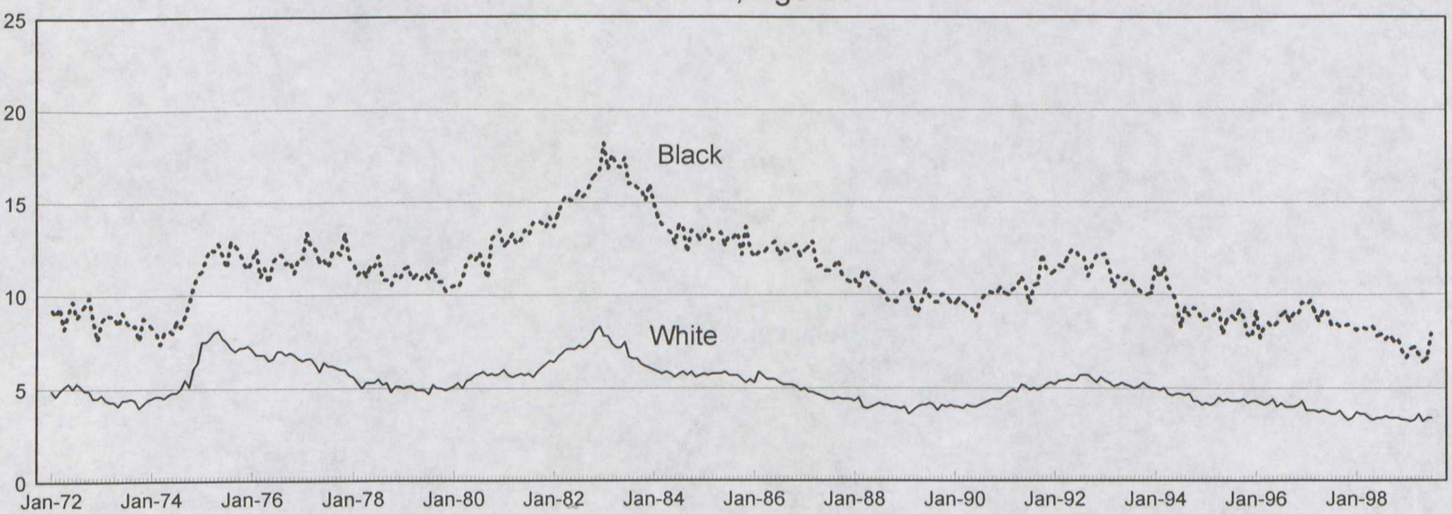
Note: Shaded areas indicate NBER-dated recessions.
Source: U.S. Bureau of Labor Statistics

U.S. Unemployment Rates

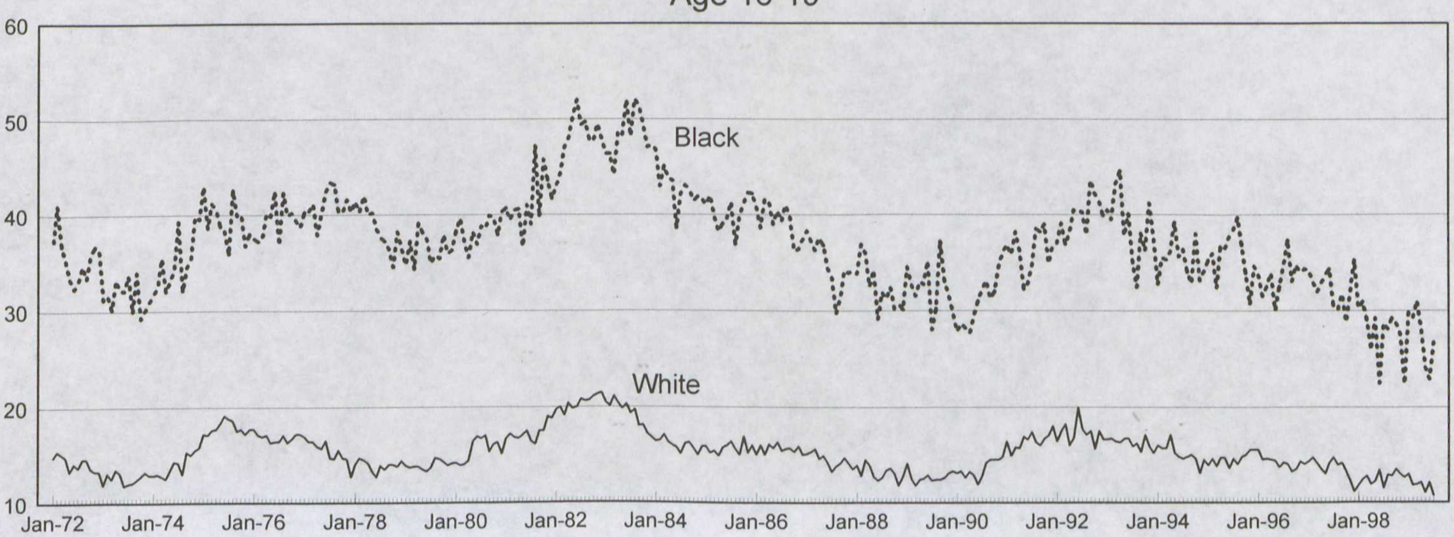
Men, Age 20+



Women, Age 20+

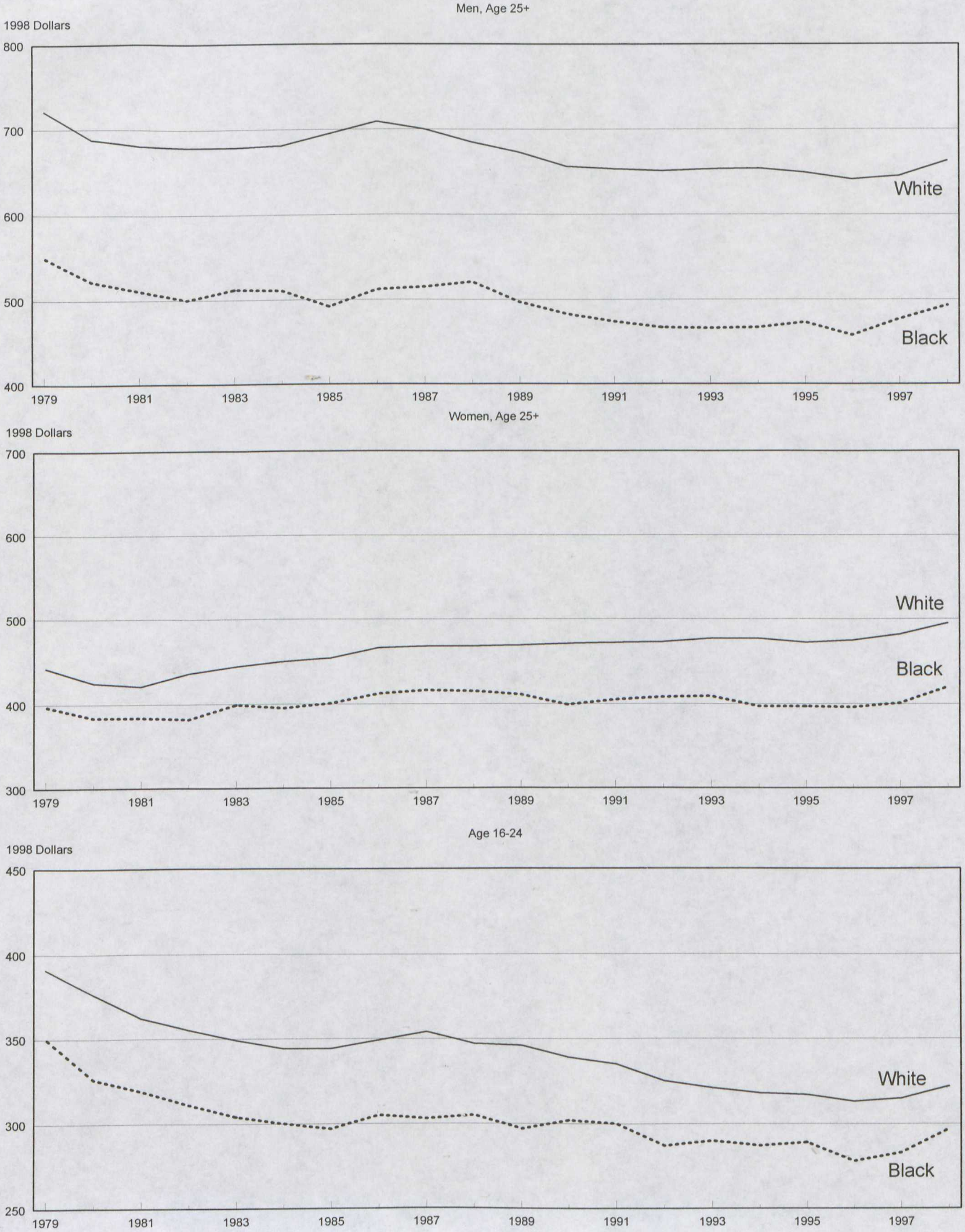


Age 16-19



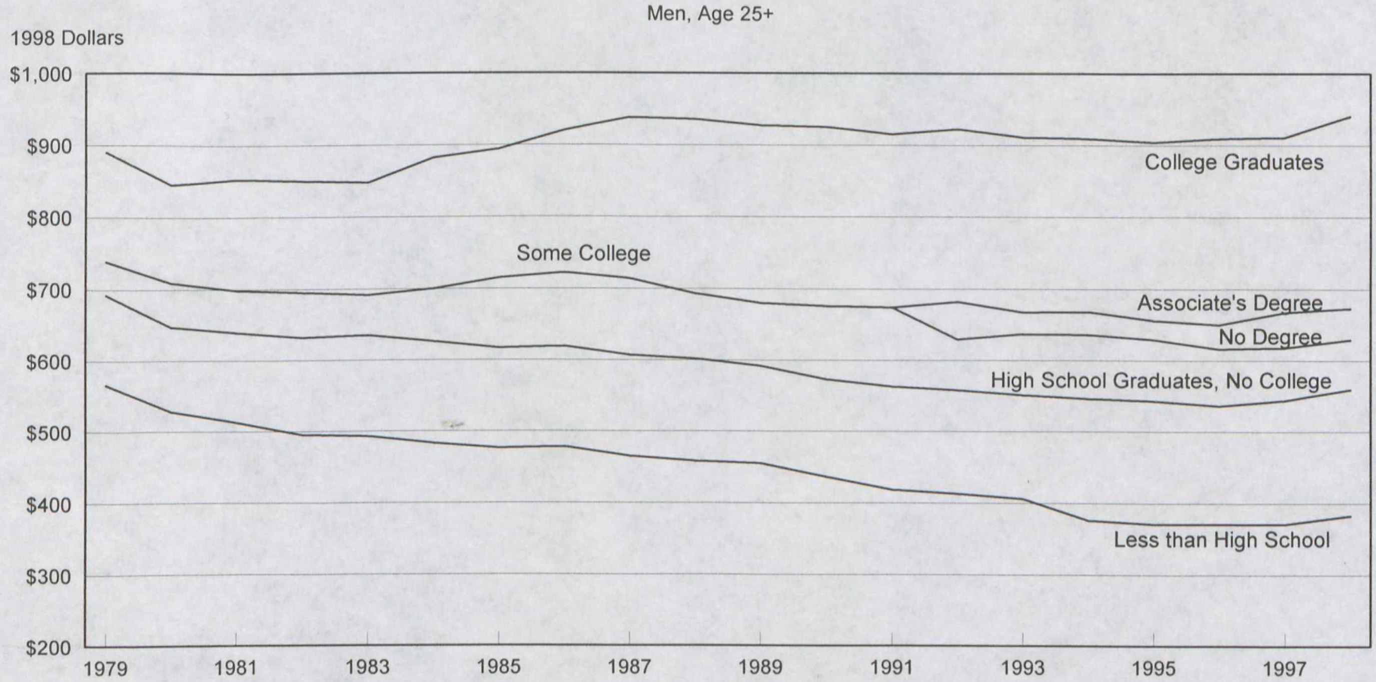
Source: U.S. Bureau of Labor Statistics, Current Population Survey (CPS)

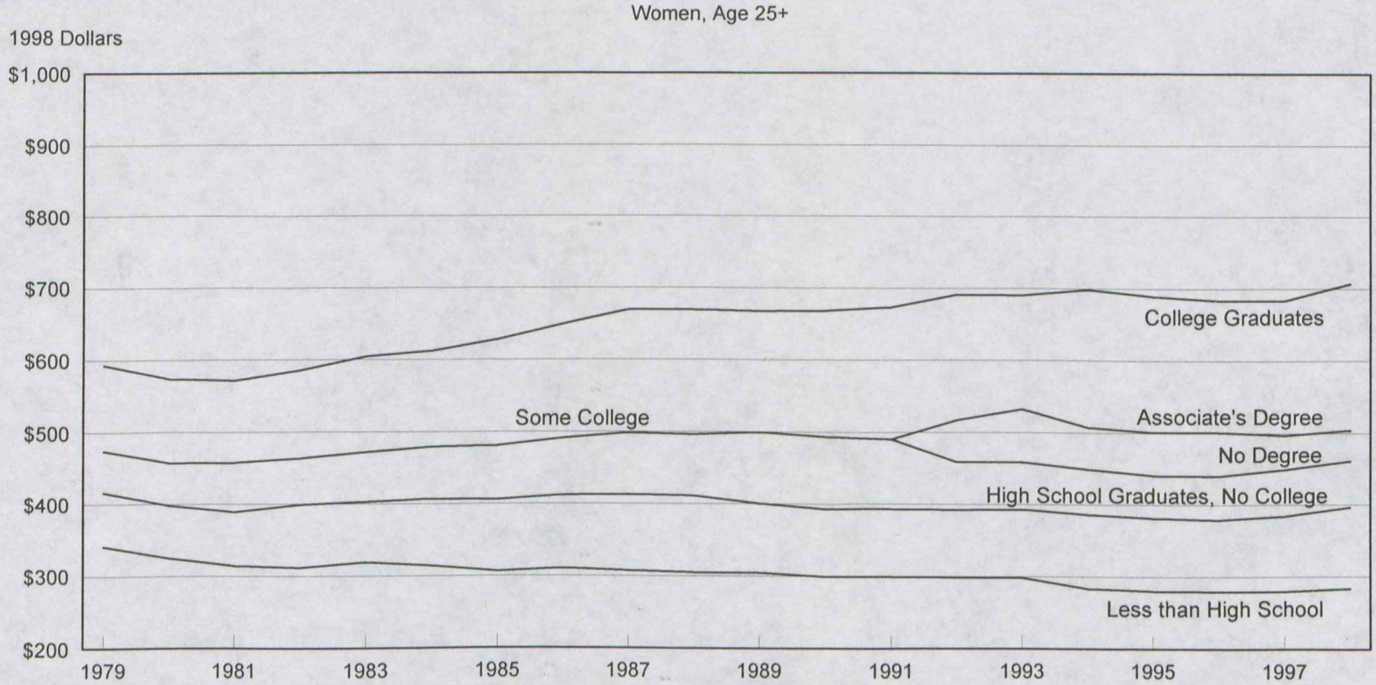
Median Usual Weekly Earnings
U.S. Full-Time Workers



Source: U.S. Bureau of Labor Statistics, Unpublished tabulations from the Current Population Survey

Median Usual Weekly Earnings
U.S. Full-Time Workers





Source: U.S. Bureau of Labor Statistics, Current Population Survey