

# **Current Economic Conditions**

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Presented to

Boston Patent Law Association

March 28, 2003

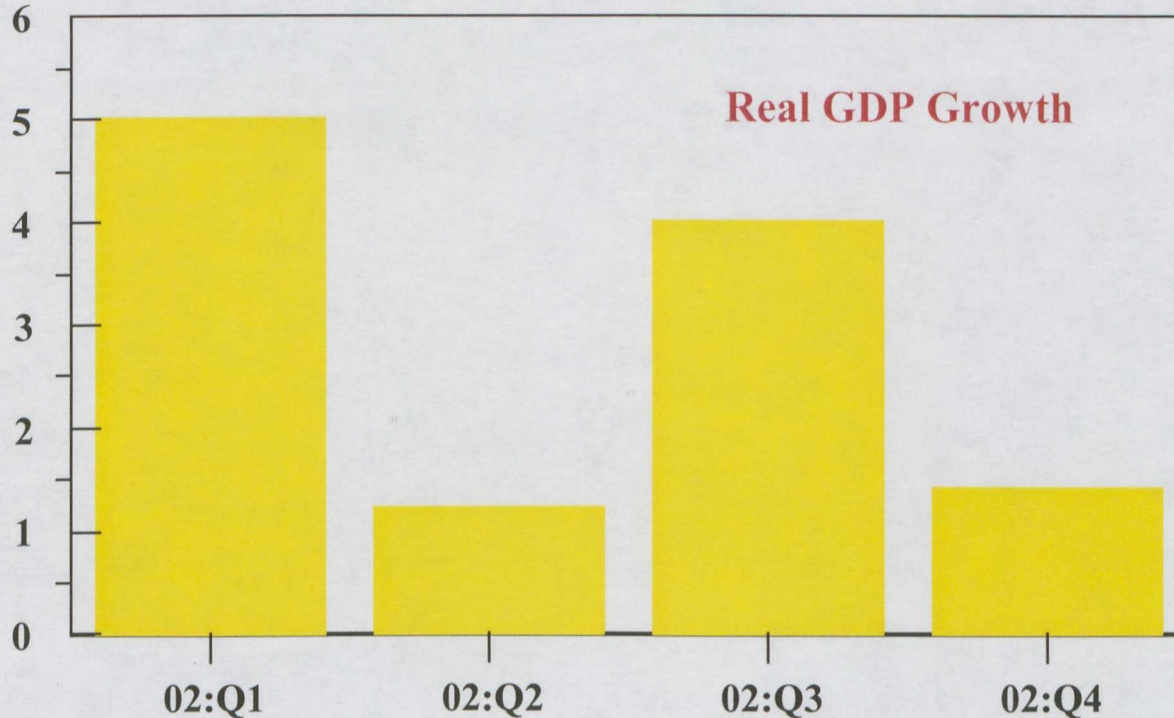
# Four Key Questions

- Where are we now?
- Where are we headed?
- What are the risks?
- What about New England?

# Where Are We Now?

The economy started strong last year but slowed in the fourth quarter

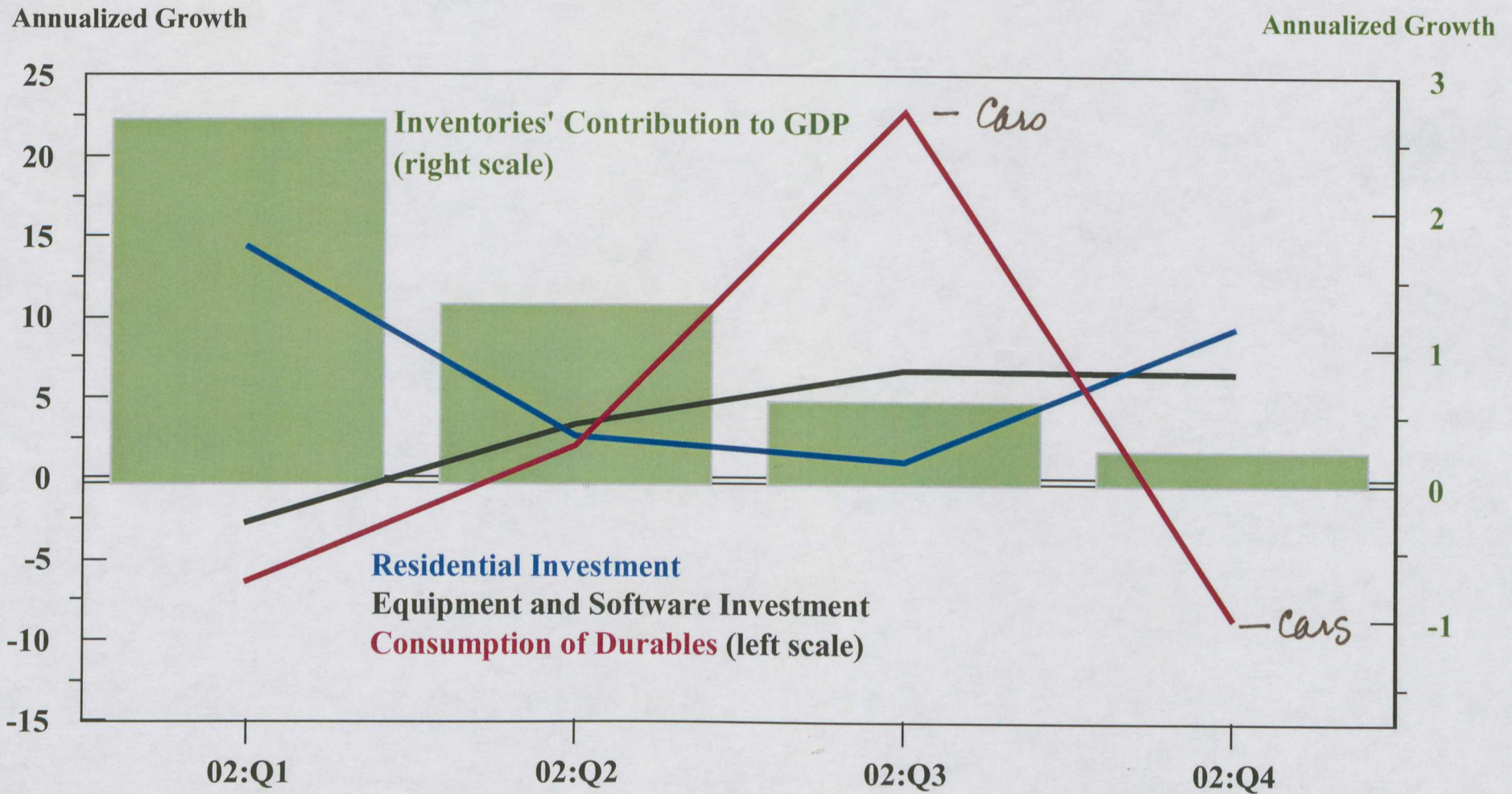
Annualized Growth



*Q4/Q4 growth  
2.9%*

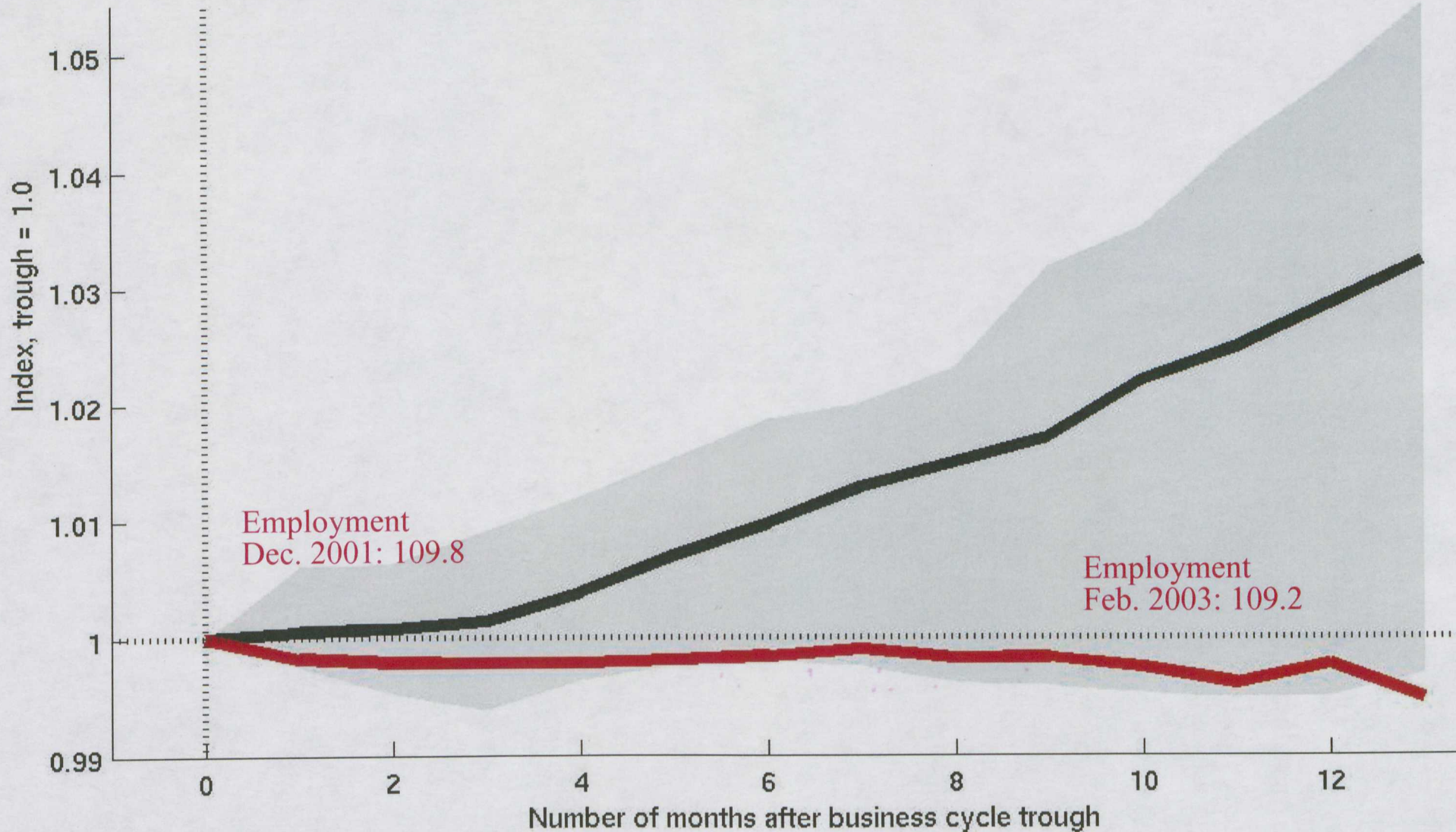
*not bad  
typical 4.5-5.5%  
5%*

# But much of the early growth was inventory investment



Source: Bureau of Economic Analysis.

# Growth was not strong enough to boost employment



Heavy black line represents average of recoveries  
Heavy red line represents current experience  
Shaded area shows range of outcomes across all business cycles

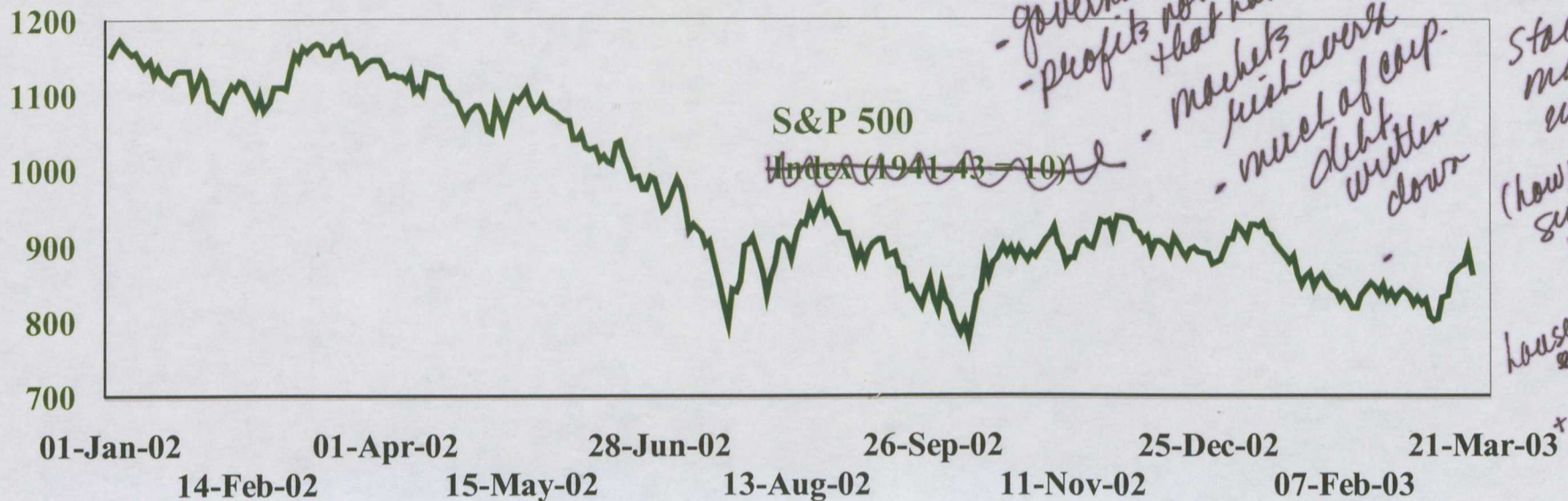
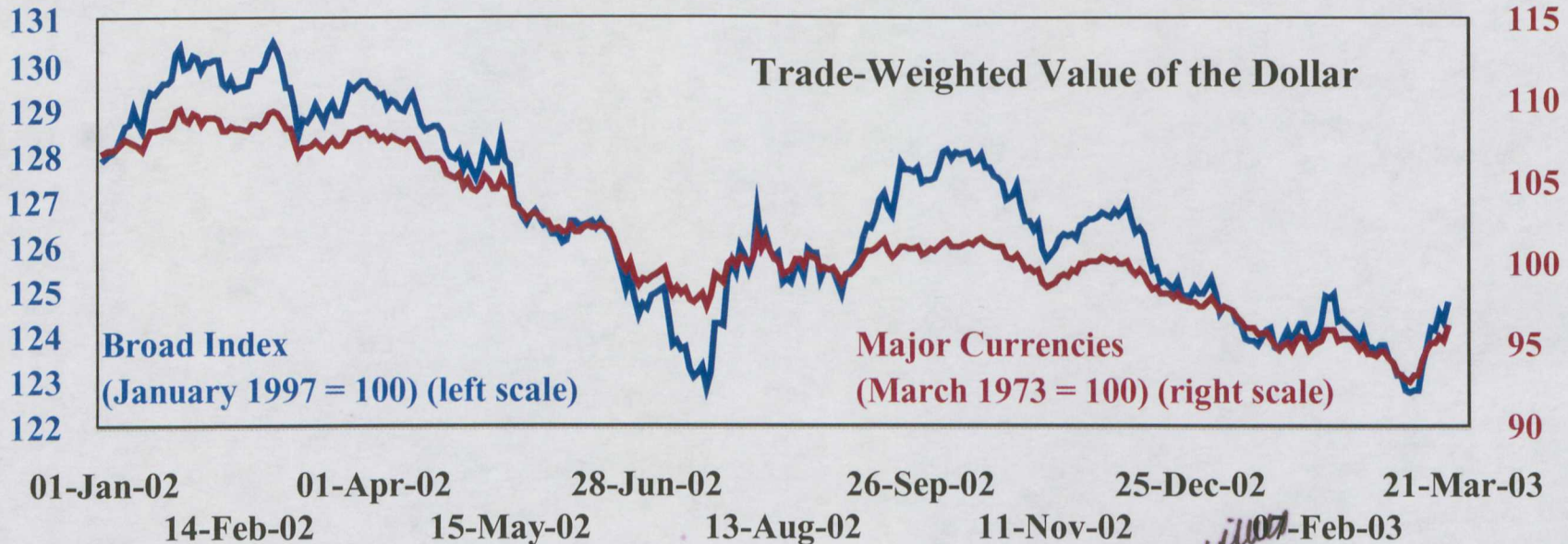
*-600,000 jobs*

Source: Employment at Private Non-farm Establishments (SA, Millions): Bureau of Labor Statistics.

# And markets have been volatile

*uncertainty of war*

*good news  
bad news*

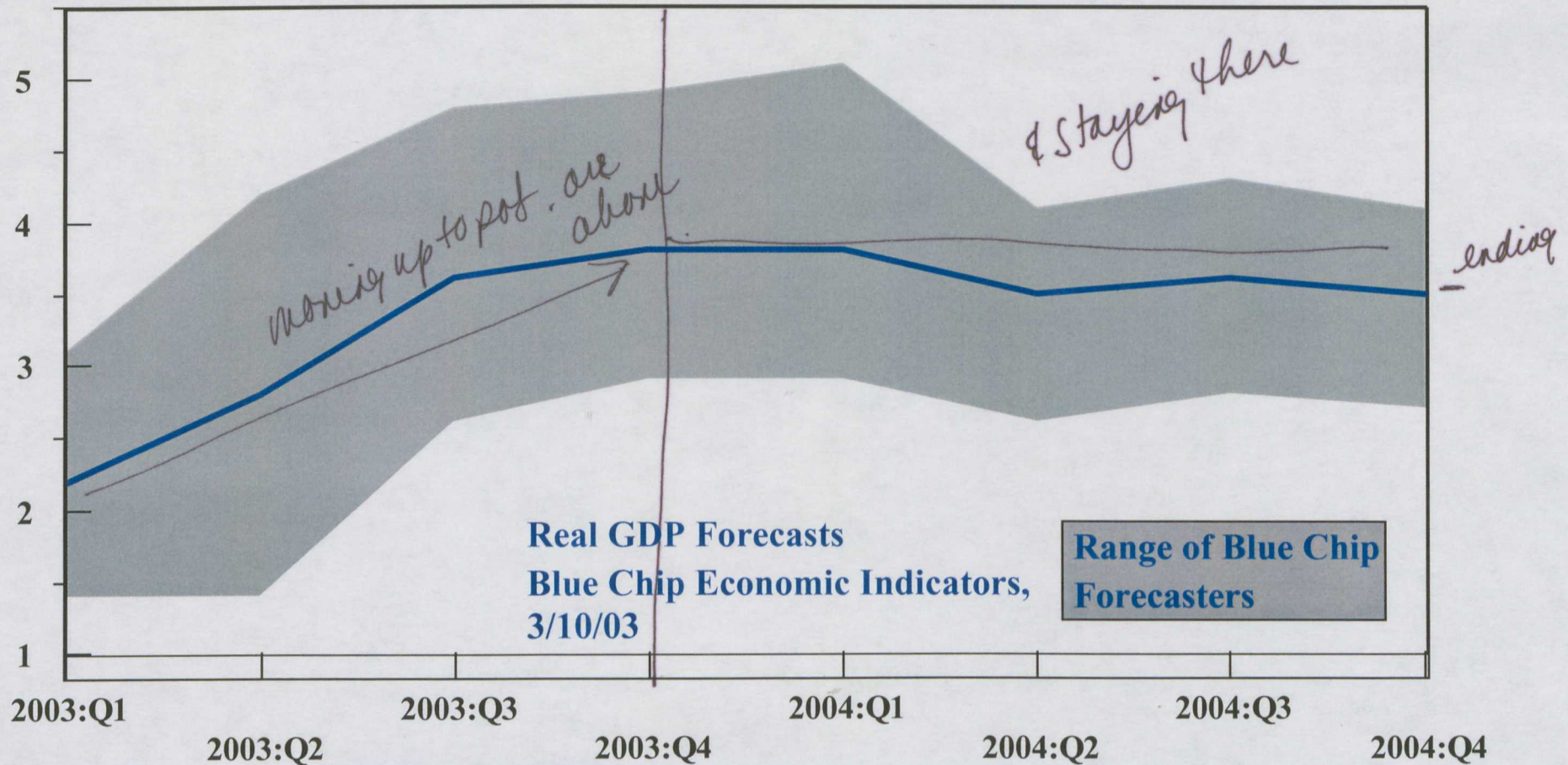


Sources: Federal Reserve Board (Dollar). Wall Street Journal (S&P).

# Where Are We Headed?

The most common forecast of where we are headed expects the economy to expand as the year progresses

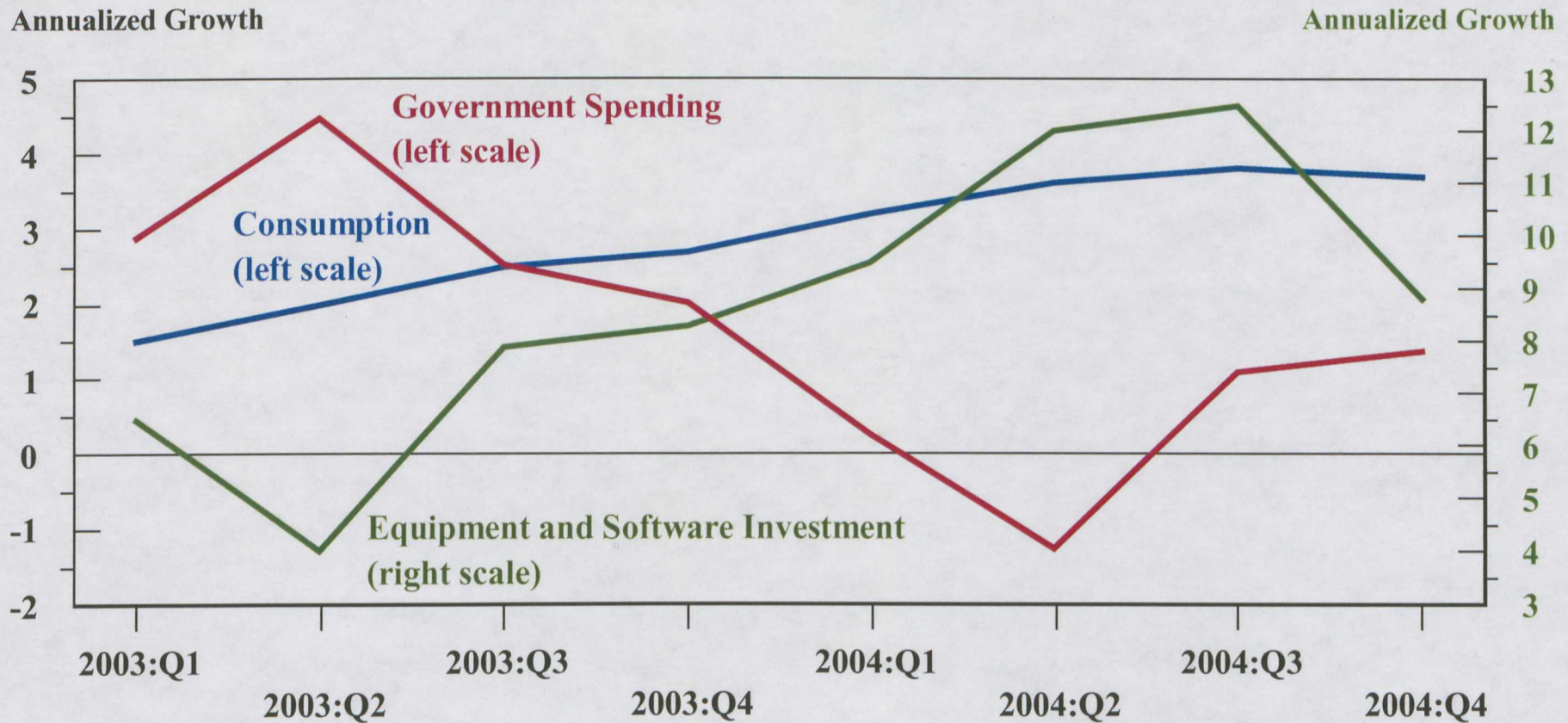
Annualized Growth



Sources: Boston Federal Reserve Bank, 3/11/03.

Blue Chip Economic Indicators, 3/10/03. Range between top ten average and bottom ten average forecasts.

...with investment and consumption rebounding while government spending remains fairly robust

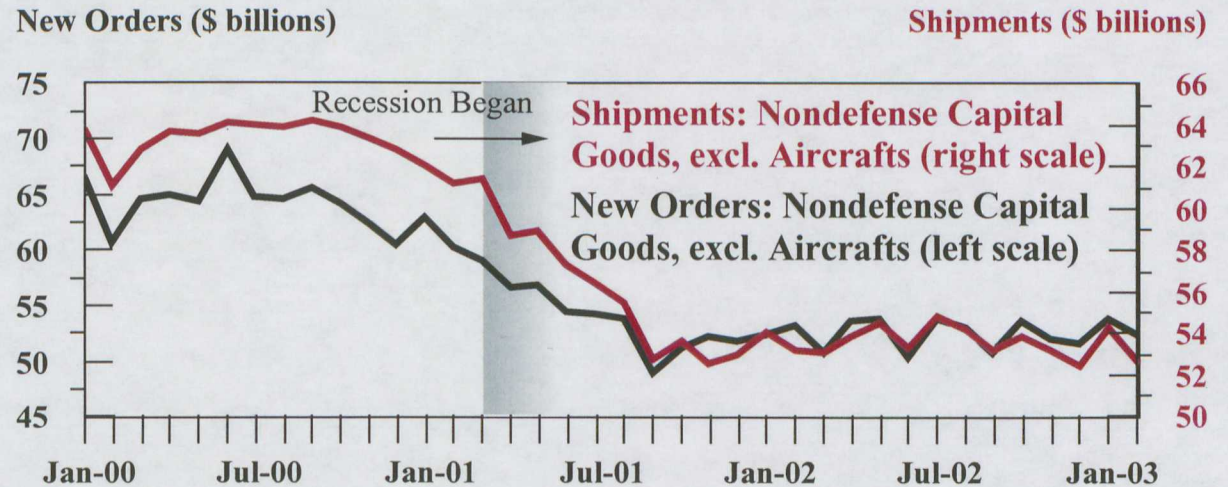


Is this likely?

Sources: Boston Federal Reserve Bank, 3/11/03. (Consumption, Investment)  
 Global Exchange (formerly DRI-WEFA) 3/10/03. (Government Spending).

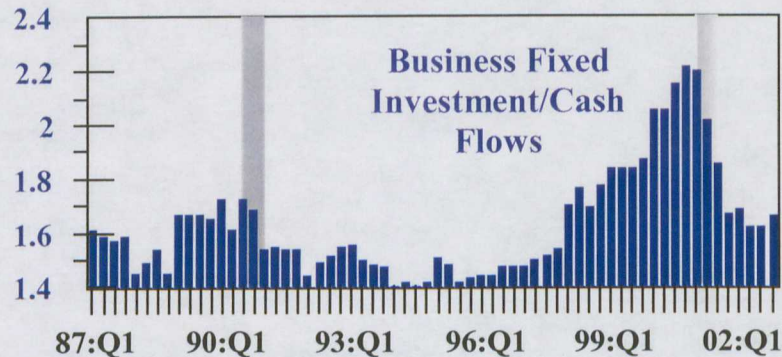
# We have seen some growth in investment recently...

Orders data suggest that growth is likely to continue in the near term



... but spending remains high relative to cash flows

Ratio of Levels



... forcing companies to rely on external sources of funds

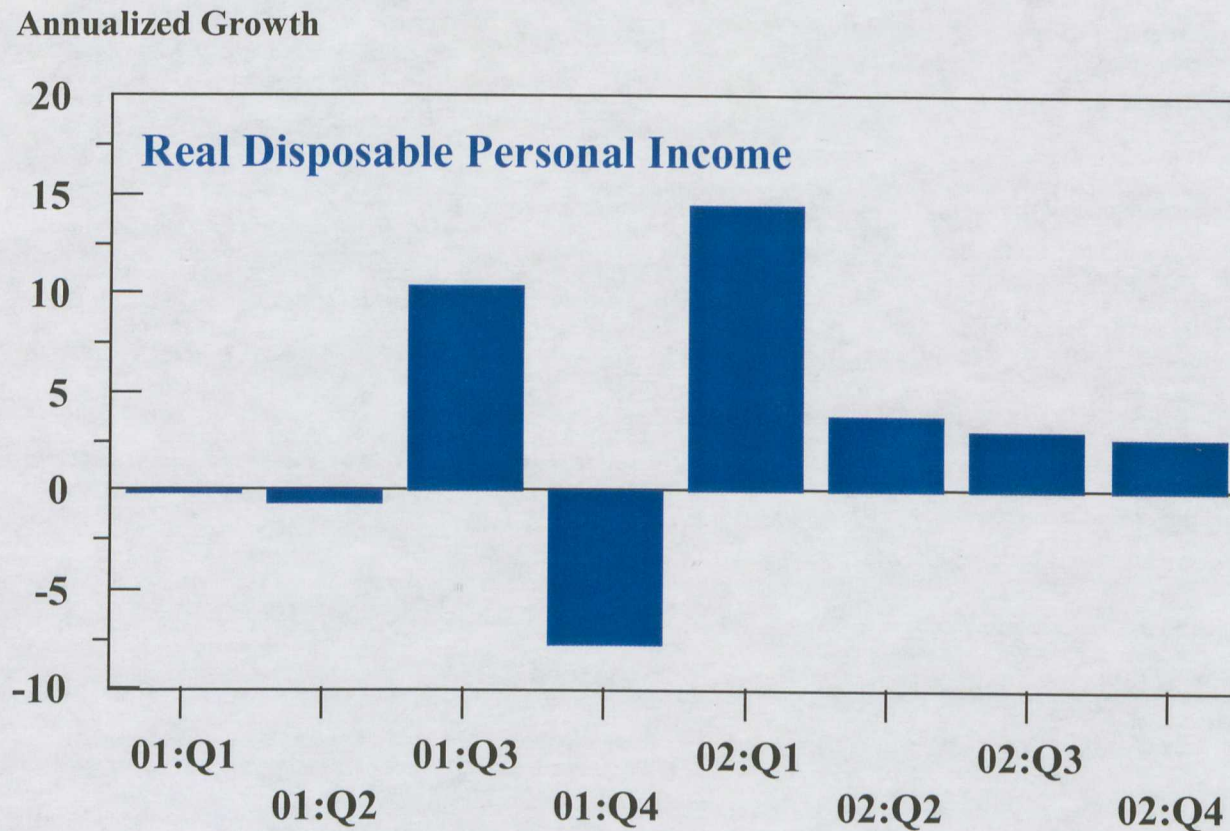
Spread from the Treasury 10-Year Bond



Sources: Bureau of Economic Analysis (Investment). FAME Database (Low Grade Bonds)

Federal Reserve Board (Moody's Aaa and Baa and Cash Flows), Census Bureau (New Orders and Shipments)

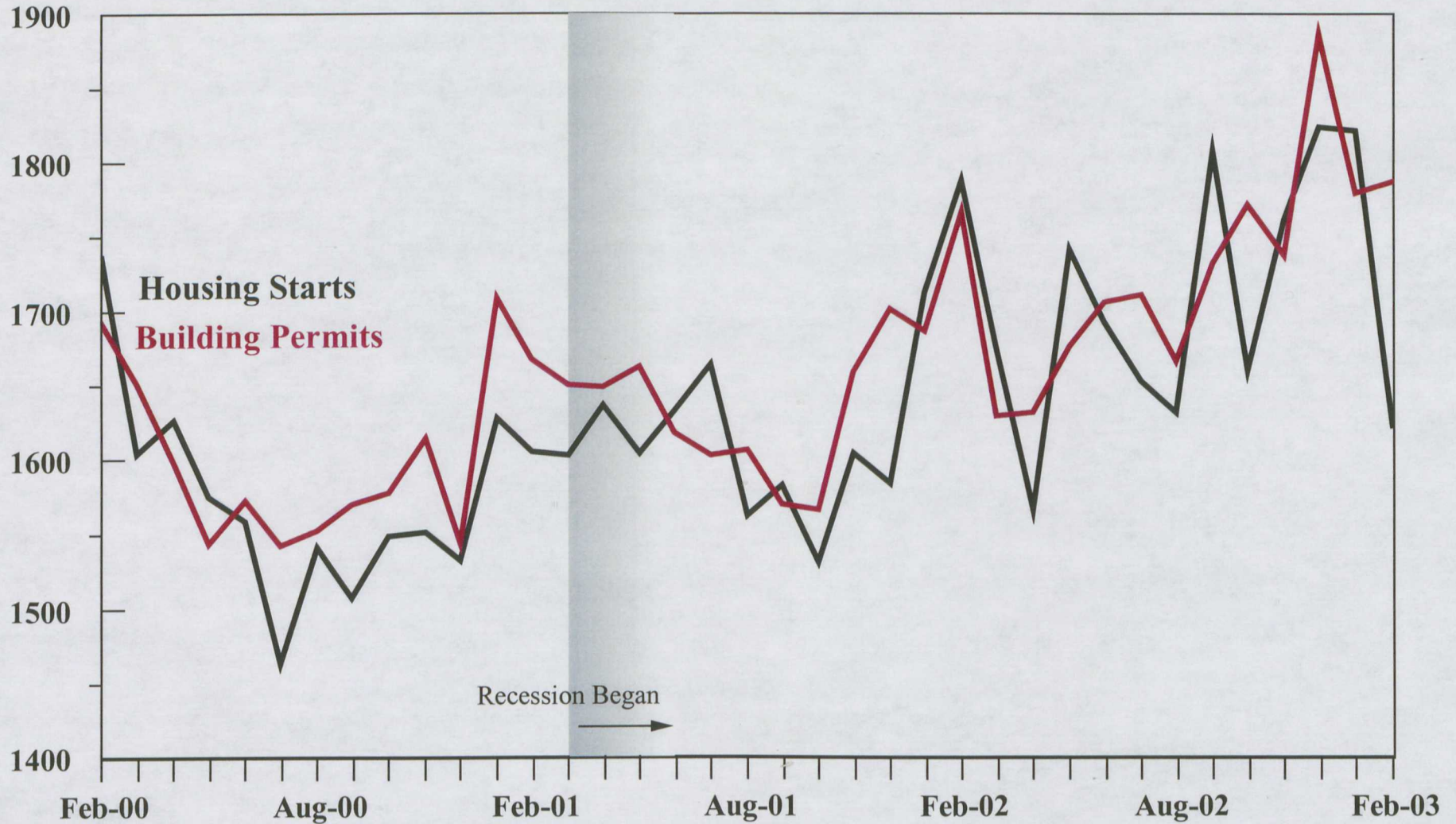
# Consumer income continues to grow even as tax effects wane



Source: Bureau of Economic Analysis.

# And low mortgage rates have kept residential investment strong

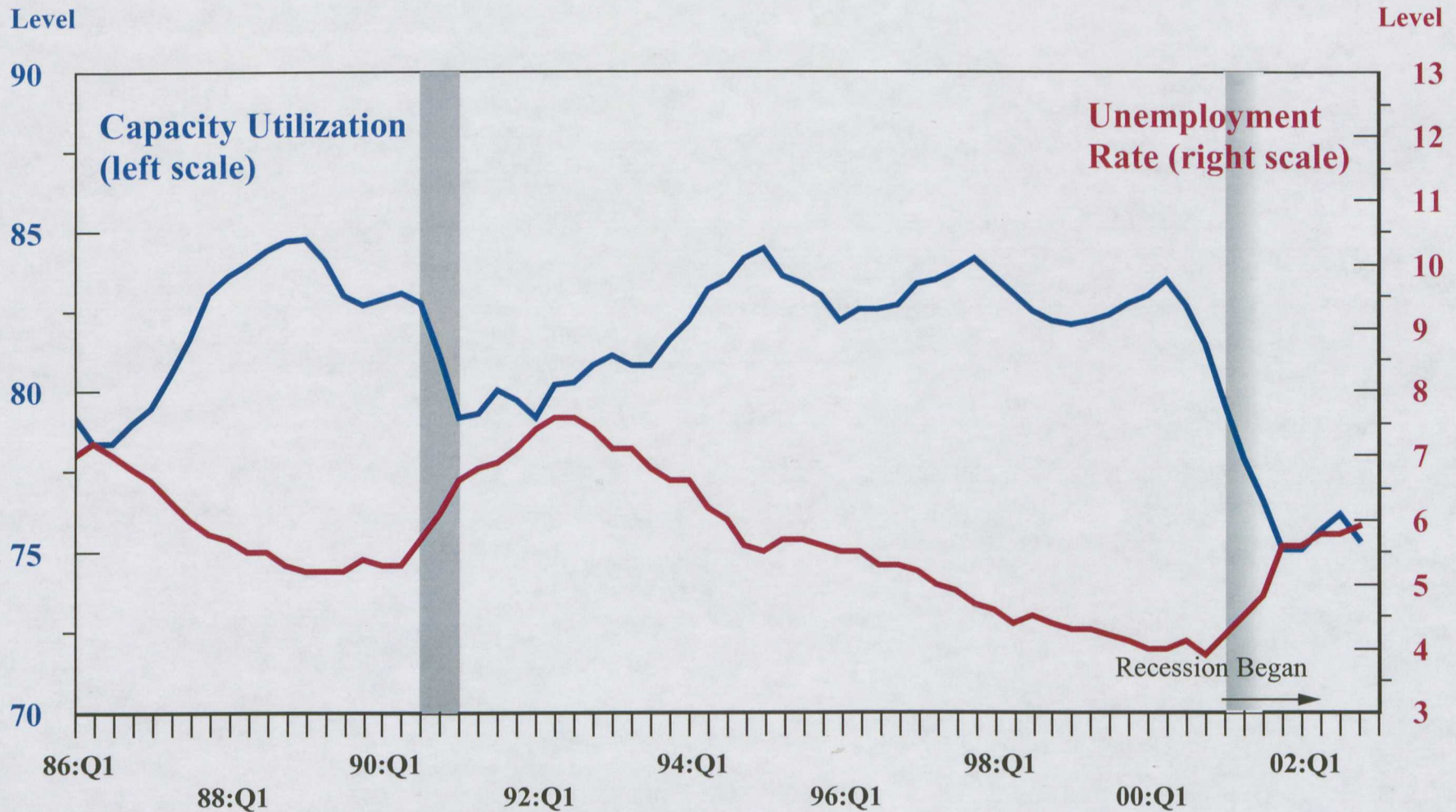
Thousands of Units, Annualized



Source: U.S. Census Bureau.

# But Risks Remain

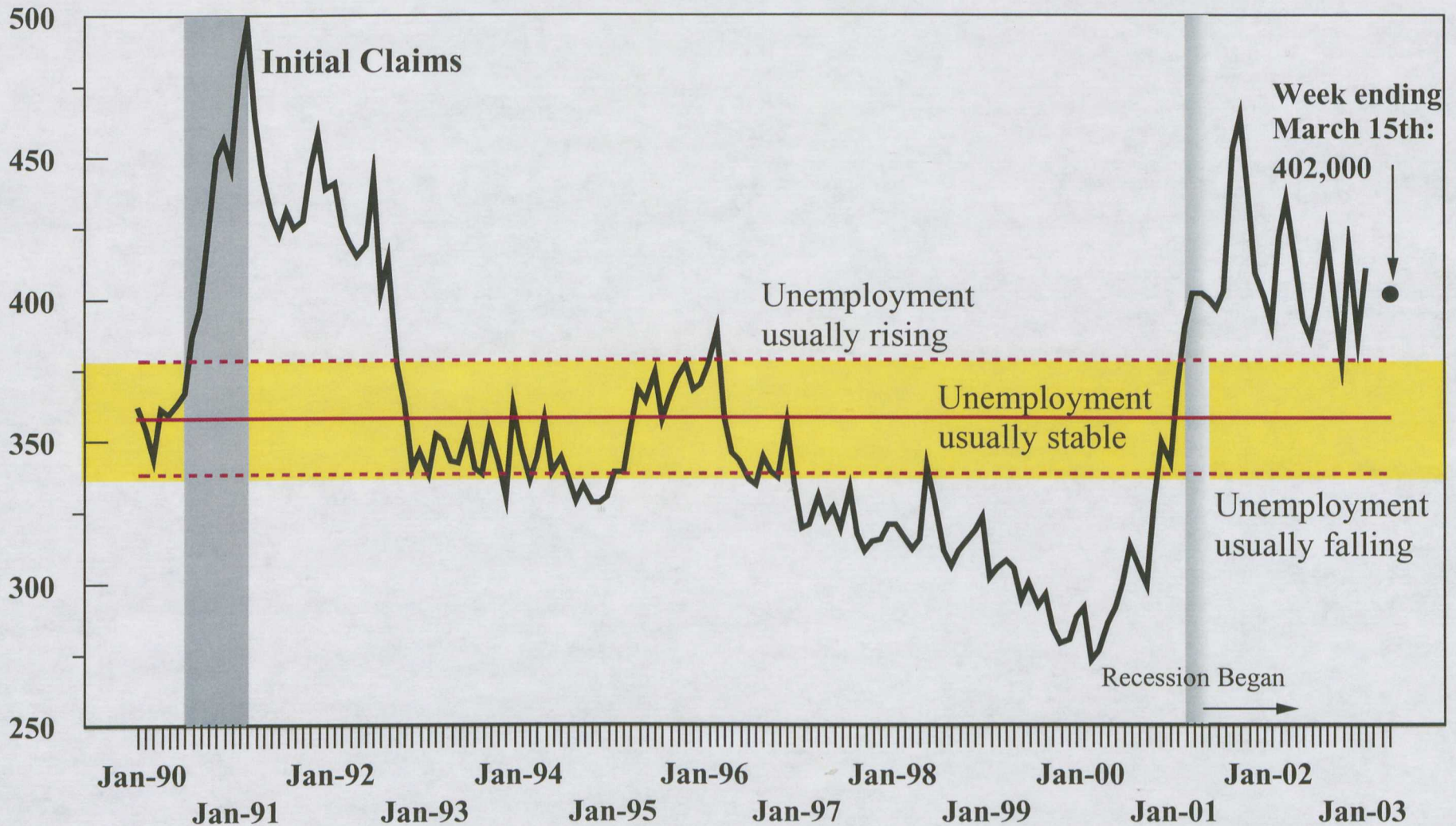
With large amounts of unused capacity, the need to invest may be marginal



Sources: Federal Reserve Board (Capacity Utilization). Bureau of Labor Statistics (Unemployment Rate).

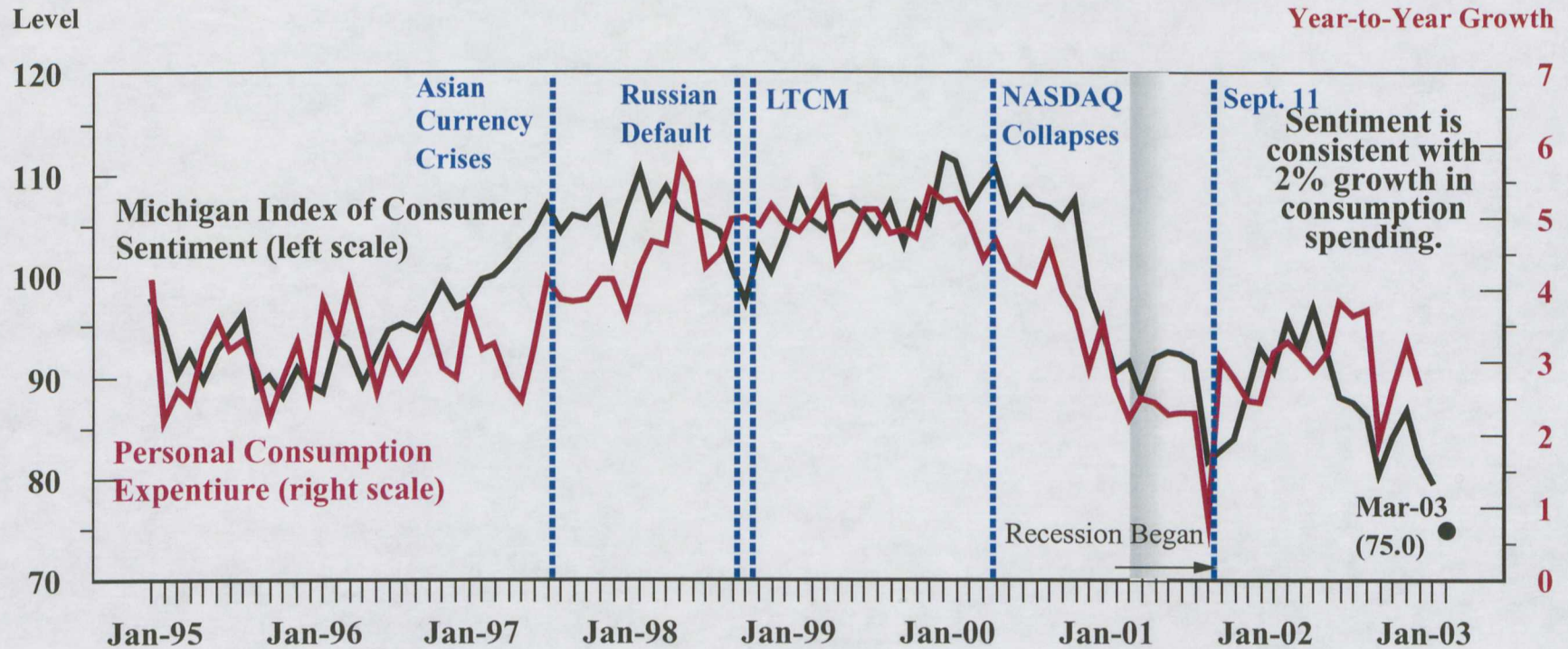
# Indicators suggest hiring may not rebound soon

Thousands of Units, Annualized

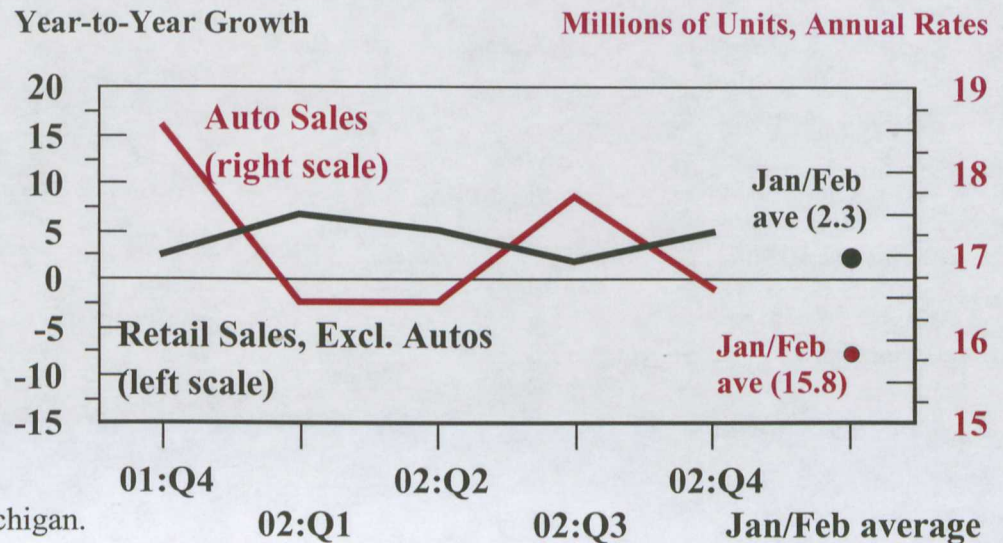


Source: Department of Labor.

# Consumer confidence has declined

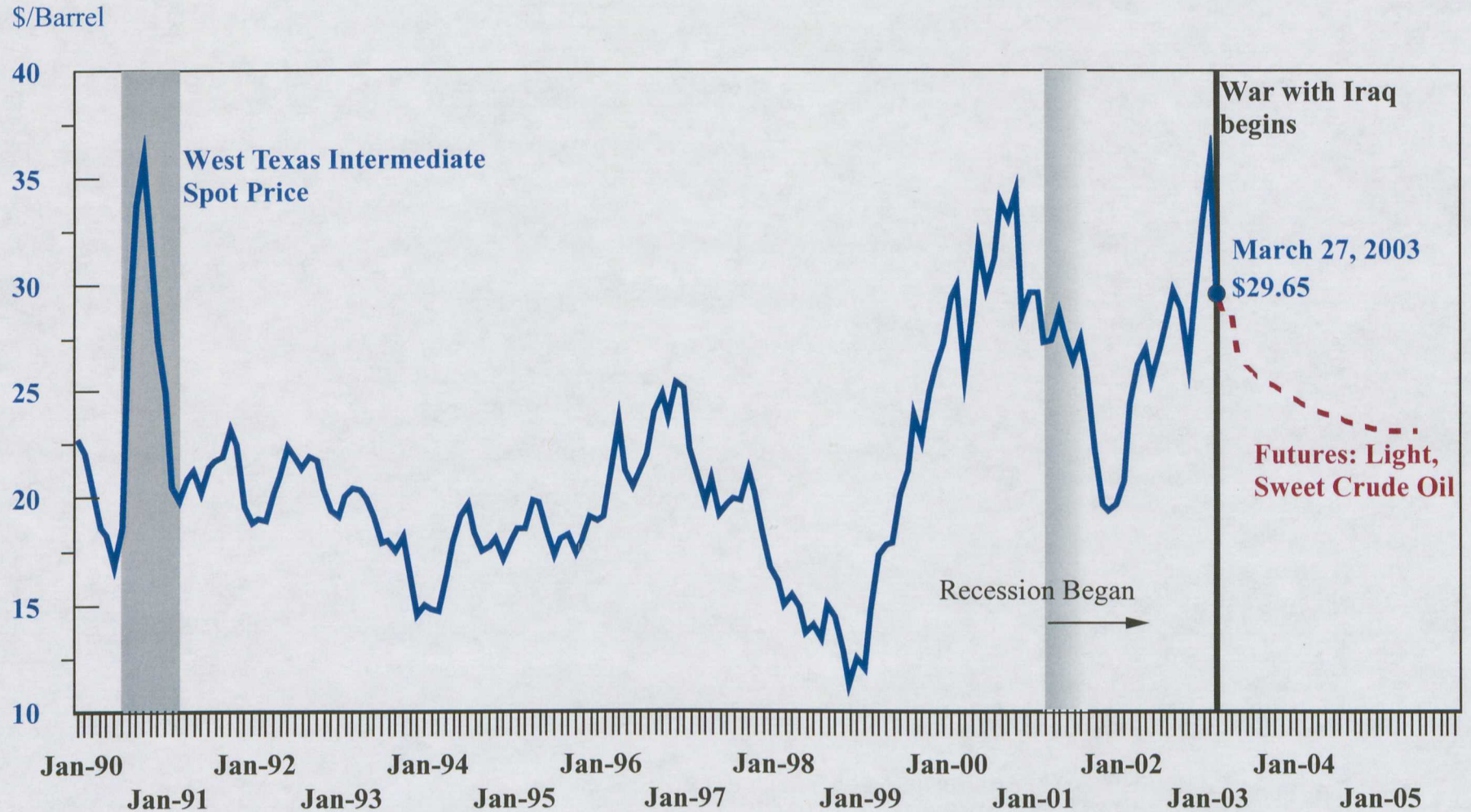


...and consumption has slowed.



Sources: Bureau of Economic Analysis, University of Michigan.

# Oil prices add to uncertainty

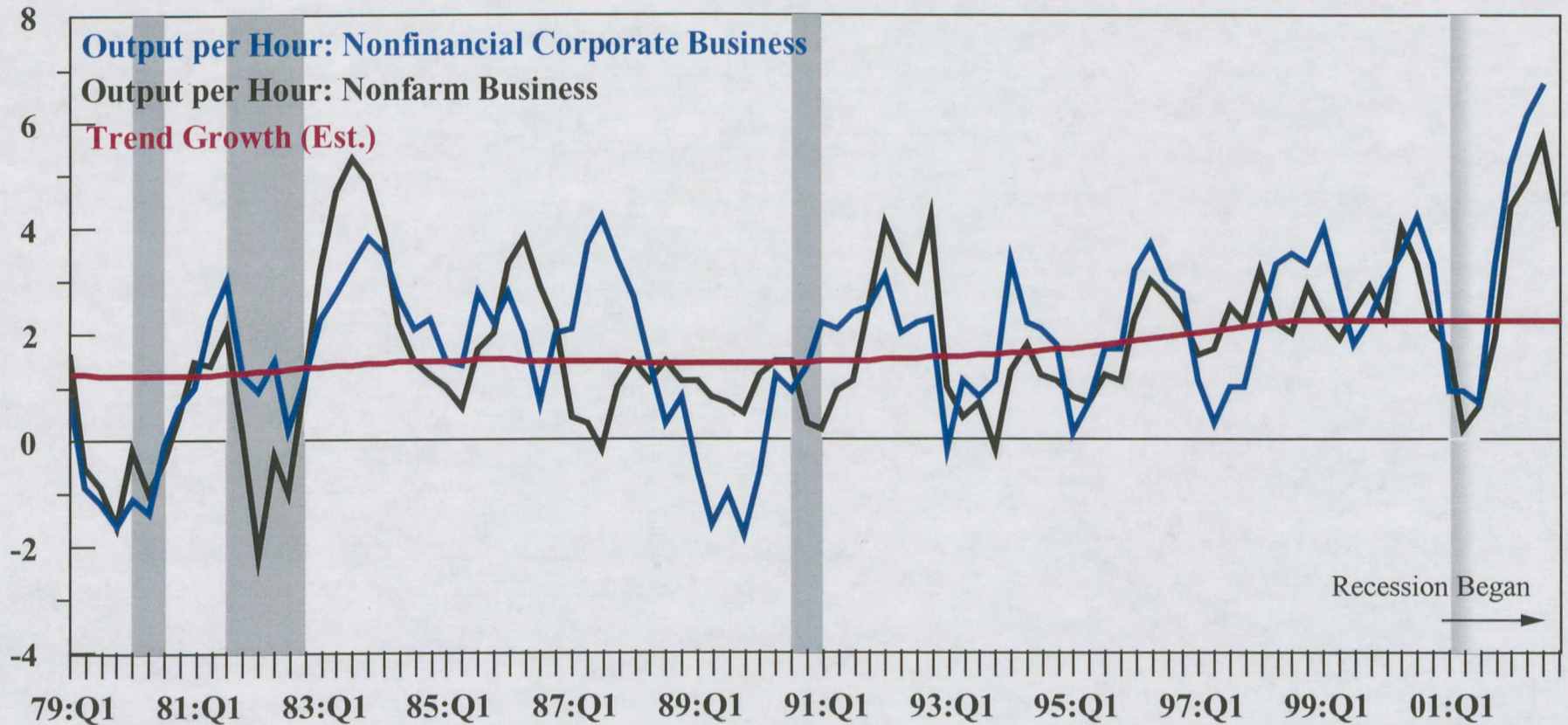


Sources: Wall Street Journal (Spot Oil Price). New York Mercantile Exchange (Futures Price: Most Recent Settle).



However, longer-run prospects are good:

Year-to-Year Growth



... even though productivity appears to be holding back employment in the short run.

# Summary and Outlook

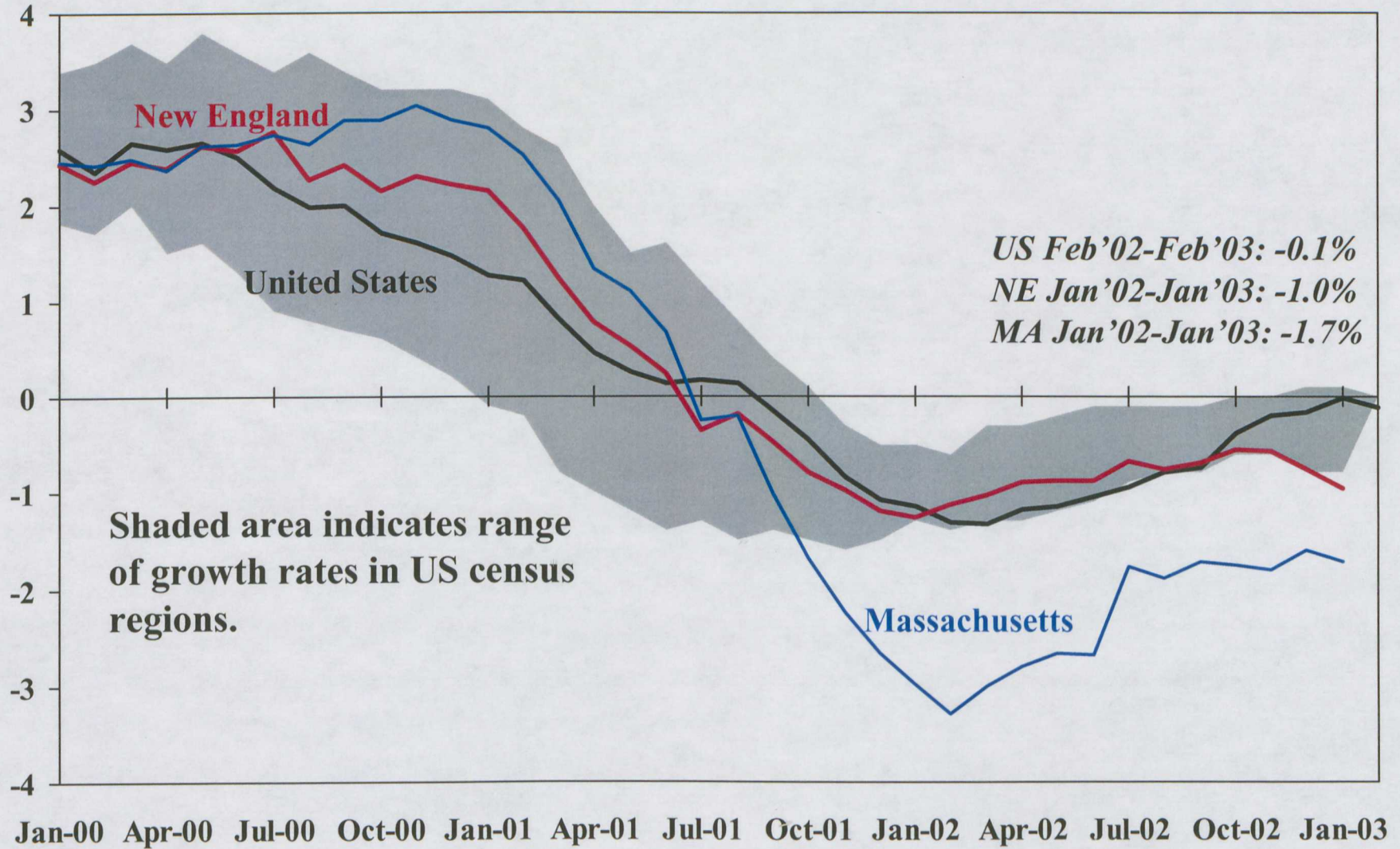
- Consumption and investment must propel the expansion.
- And the best guess is that they will.
- But, for the time being, important imponderables remain.
  - On the upside, will easing uncertainties spur confidence, spending and hiring?
  - On the downside, even after the war will excess capacity continue to constrain?

## **How is New England faring?**

- Mostly tracking the nation until recently.
- No turnaround yet.

# Employment Growth

Percent change from year earlier

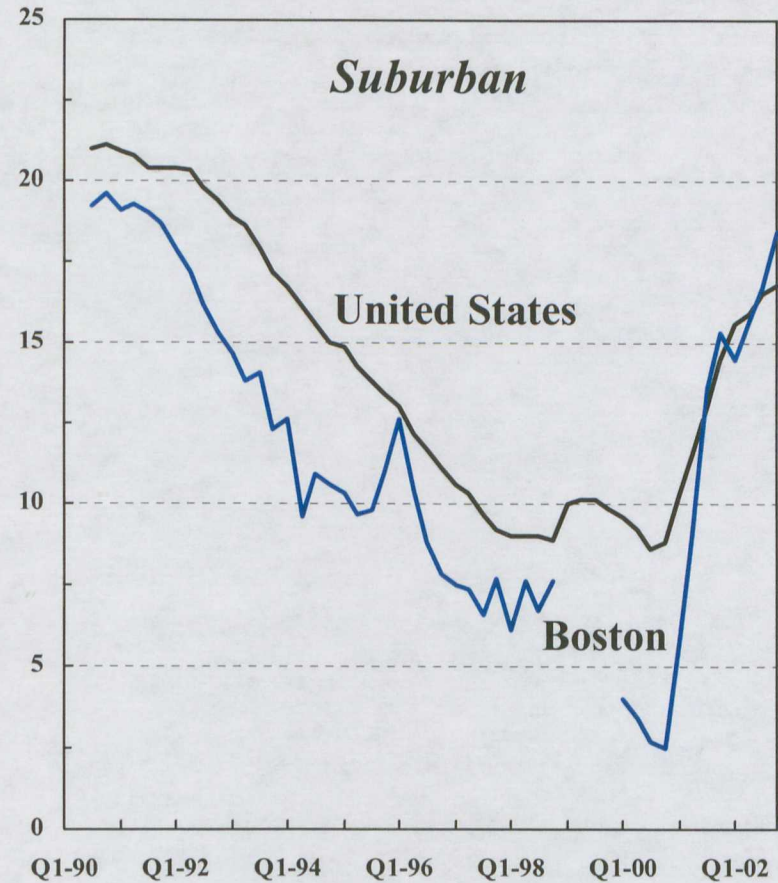
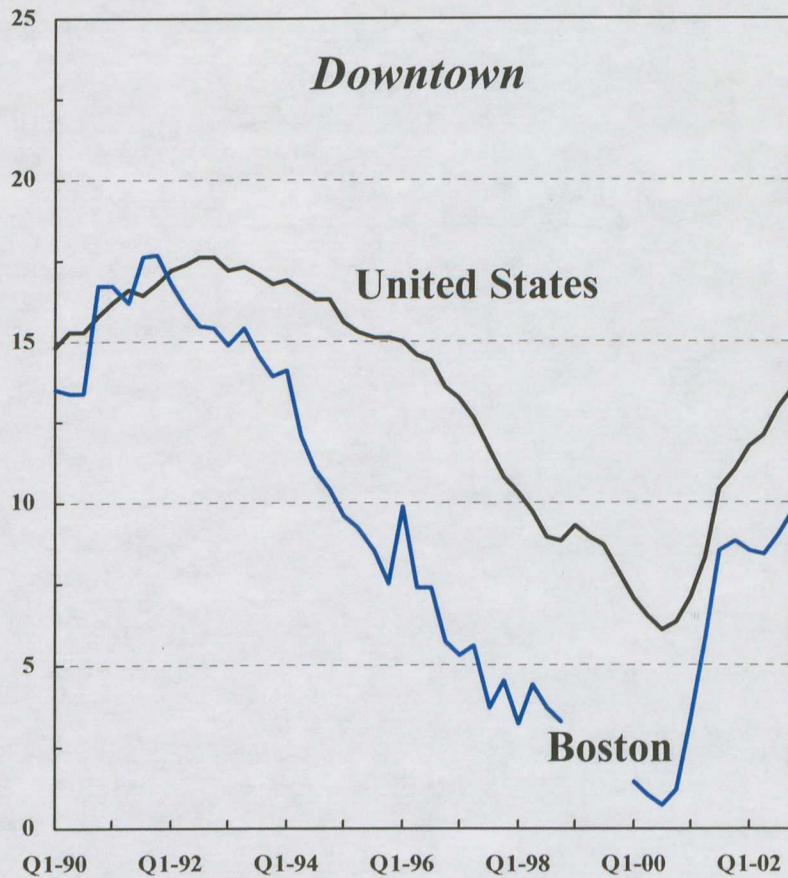


## Why steeper losses in New England?

- National weakness in key regional industries:
  - money management (stock market weakness)
  - software and other technology services
  - communications
  - computers and other capital goods
- Steep regional job losses in manufacturing and professional and business services.
- Steadier sectors, such as private education and health services, not strong enough to offset.

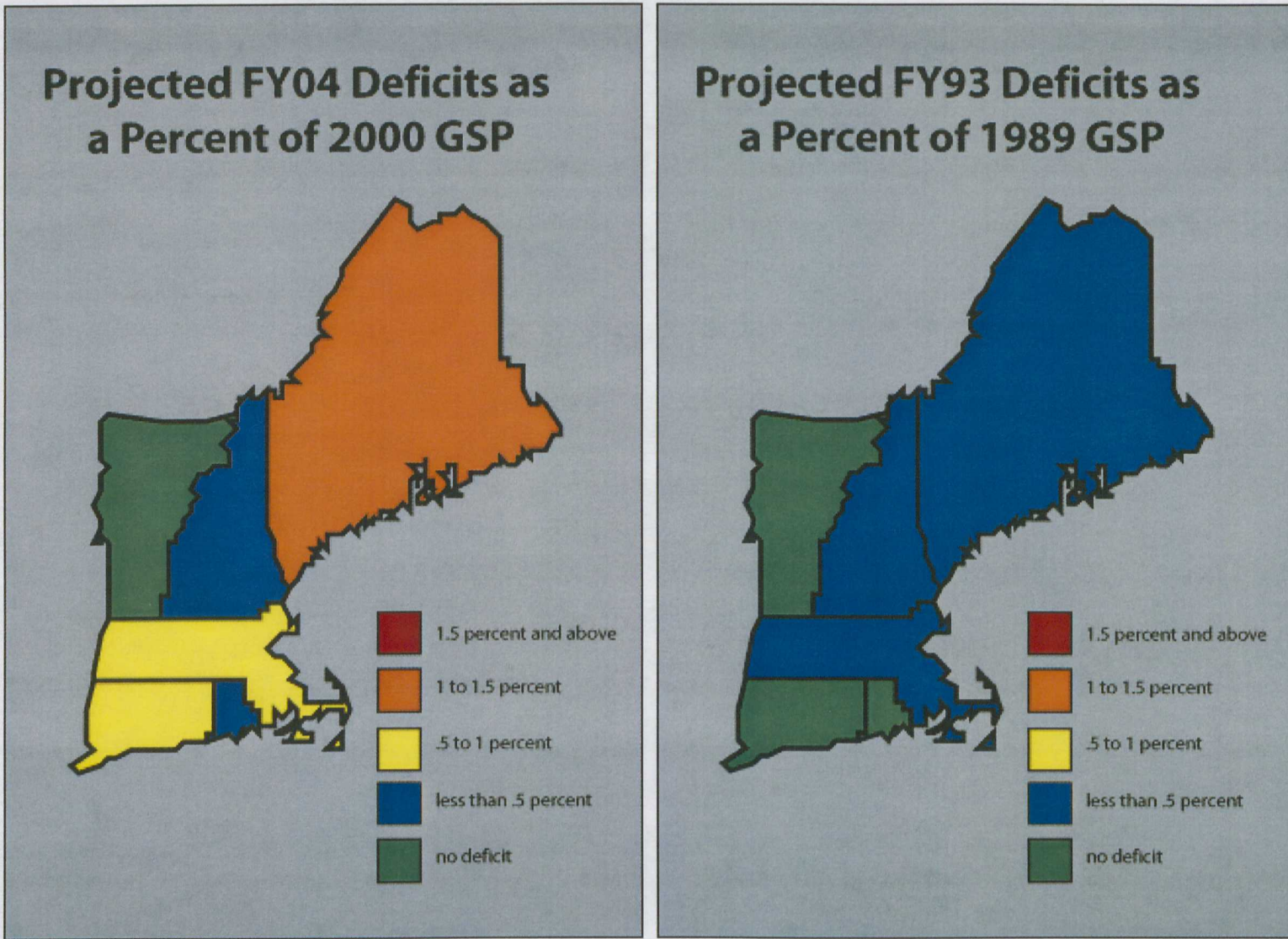
# Office Vacancy Rates

The weak jobs picture has moved vacancy rates up sharply in greater Boston



Office rents have also fallen as vacancies have risen

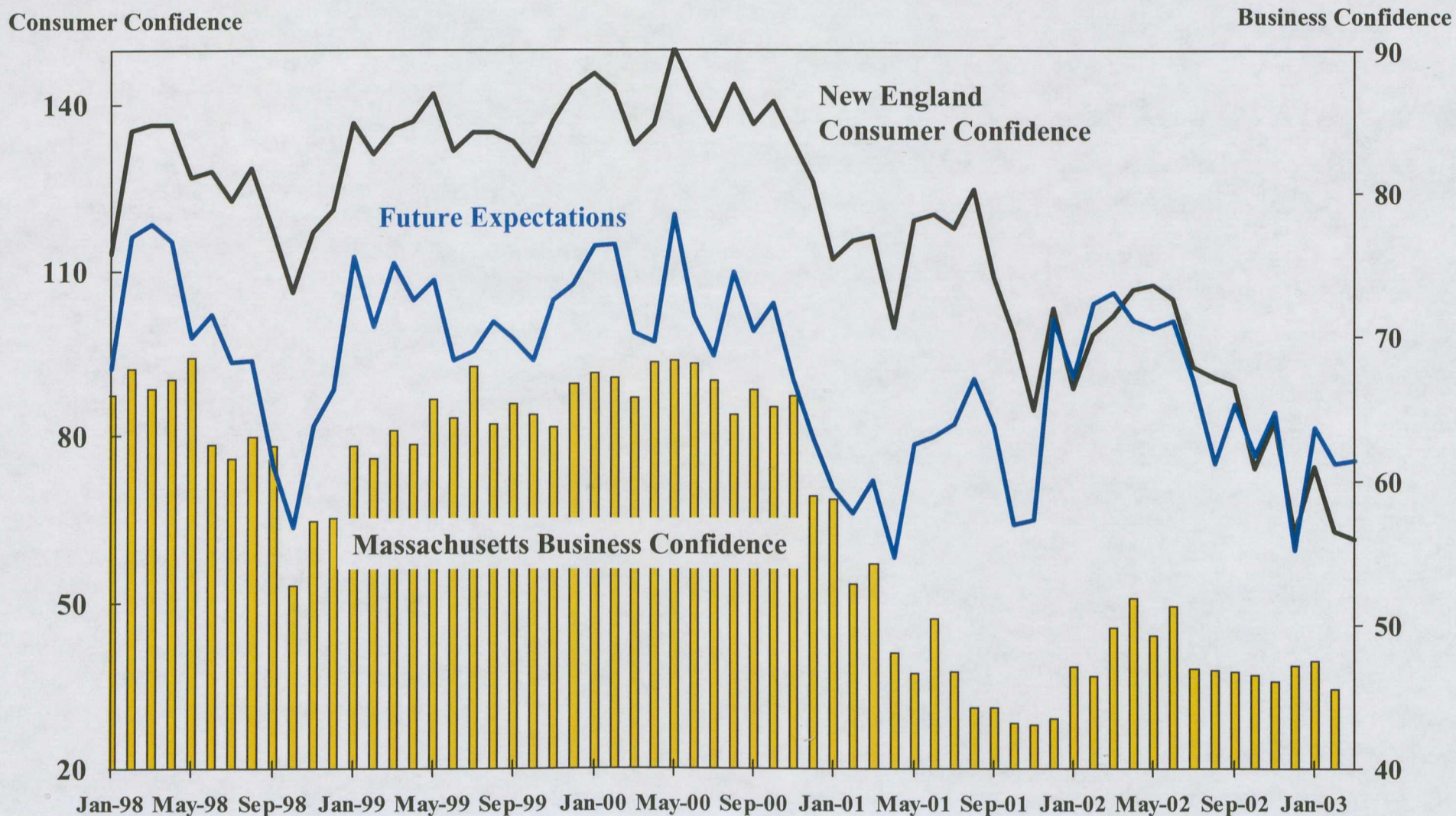
New England state governments face sizable FY 2004 deficits...



...considerably worse this time than in the early 1990s

# Confidence Indicators

State fiscal worries, along with job concerns and geopolitical uncertainties, have weakened confidence



Source: Conference Board, Associated Industries of Massachusetts

Key factor in regional outlook is national economy,  
but New England will lag

- Region will recover later than nation, with recovery contingent on national pickup in business spending.