

# The Domestic Economic Outlook

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Presented to

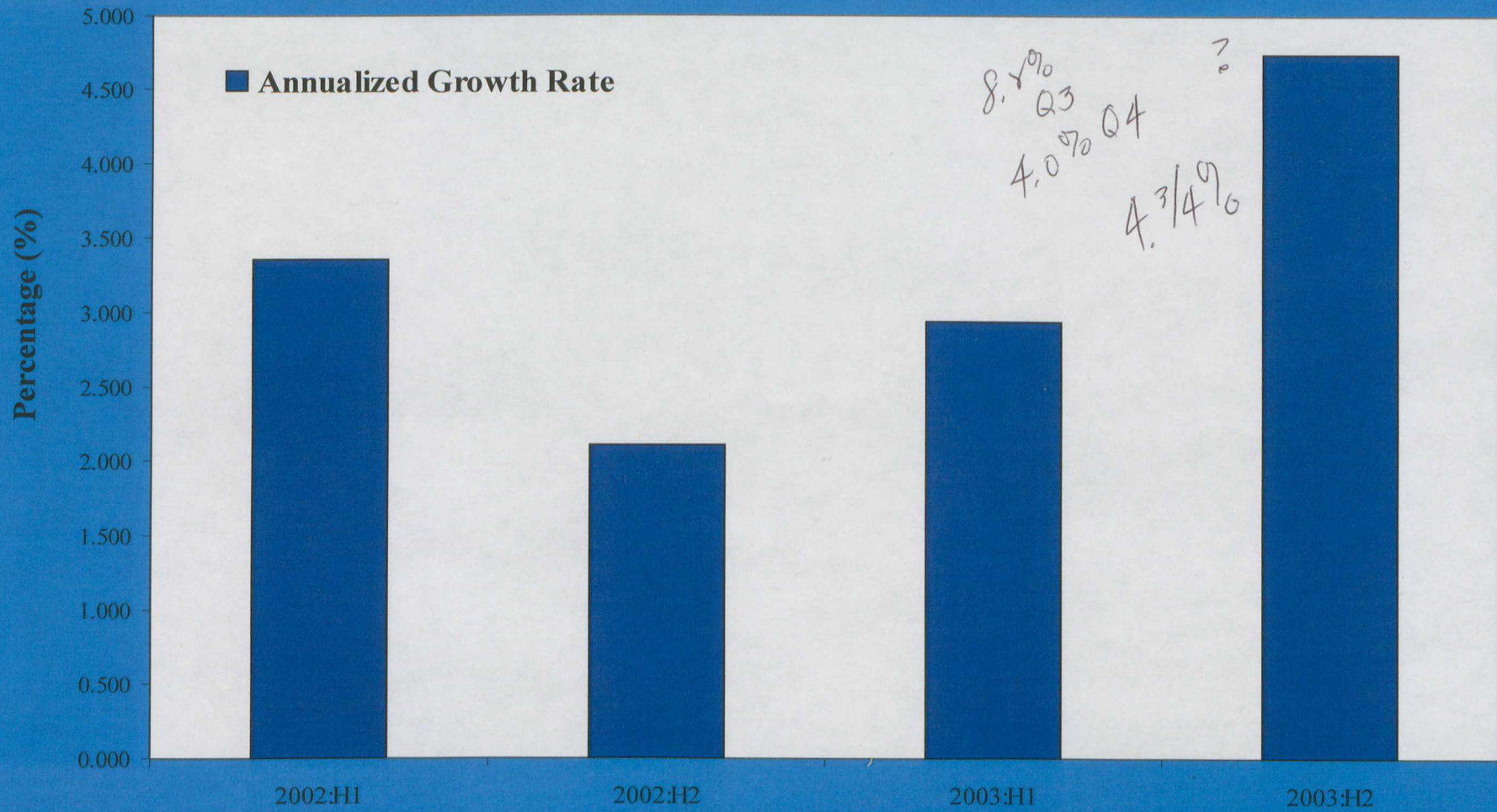
**Jobs for Massachusetts**

February 10, 2004

# Overview

- **We Have a Recovery**
  - The recovery began in earnest last year
  - But we still have concerns about job growth
- **GDP growth in 2003:H2 was quite strong**
  - Led by strong consumption, especially autos and durable goods
  - Business and residential investment strong
    - The keystone to the recovery
- **Strength should continue into 2004**
  - Profit growth and tax policy should support business spending and hiring
  - Hiring should continue to support consumption
- **Jobs Still a Concern**
  - Higher productivity has hurt in short run
  - But we expect 2004 to show more vigorous job growth

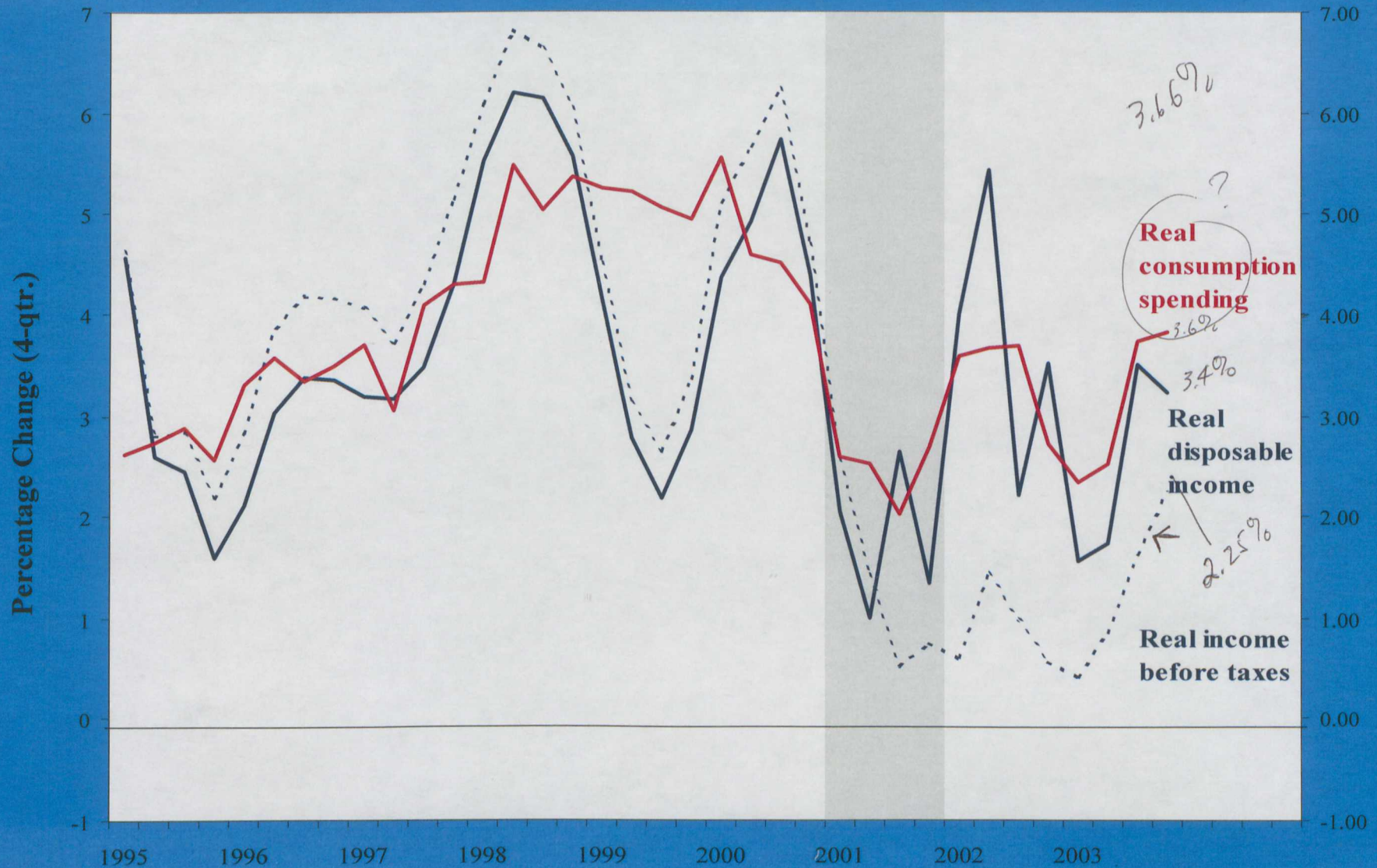
# Consumer Spending Remained Strong Through 2003:H2



Source: Personal Consumption Expenditures (SAAR, Chained 2000\$): Bureau of Economic Analysis.

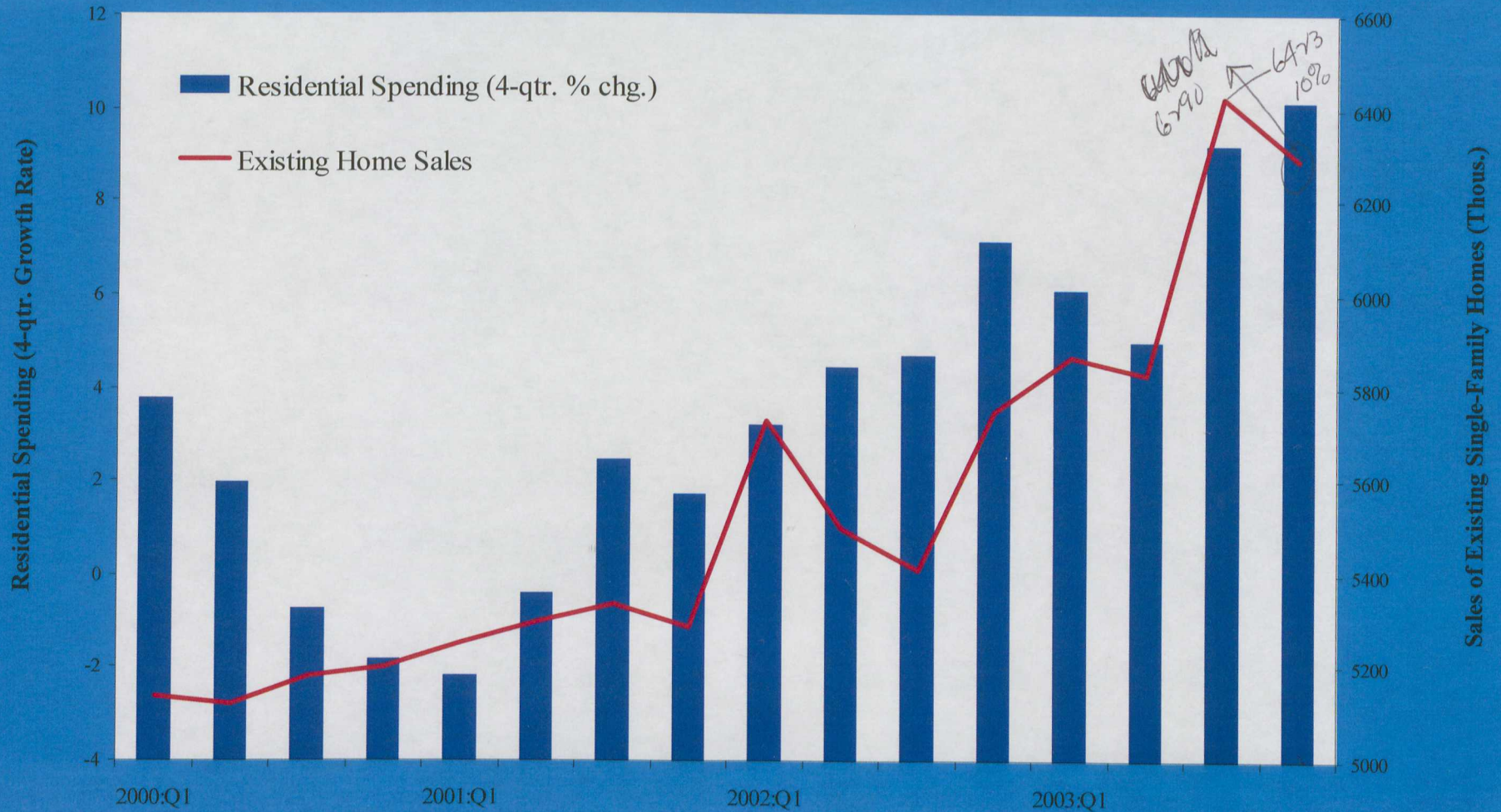
# Due, In Part, To Federal Tax Cuts

## Consumption has tracked after-tax income



Source: Real Disposable Personal Income and Personal Consumption Expenditures (SAAR, Chained 2000\$): Bureau of Economic Analysis; Real Personal Income (SAAR, Chained 2000\$): Conference Board.

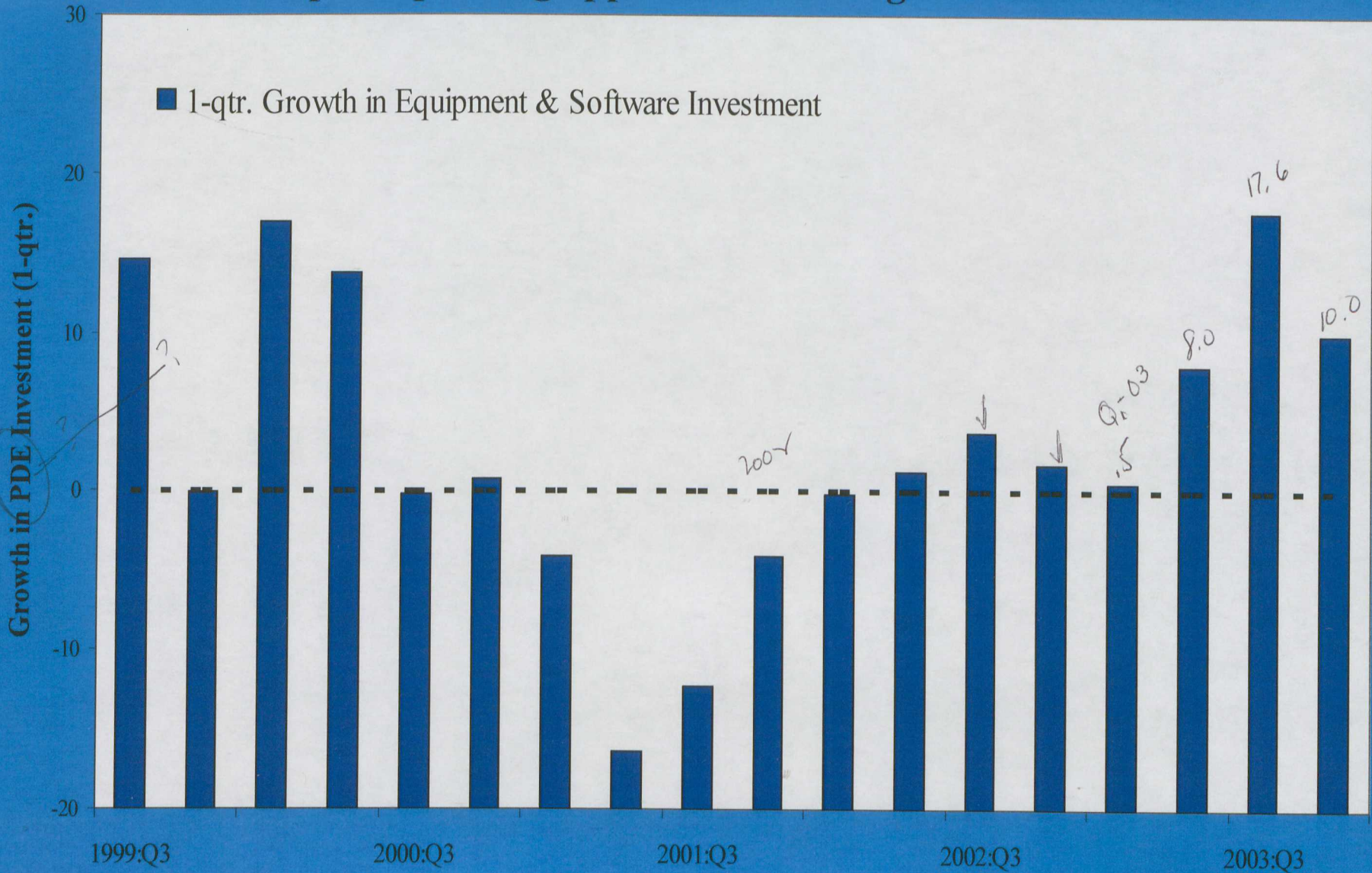
# Consumers Continued to Invest in Housing



Sources: Fixed Private Residential Investment (SAAR): Bureau of Economic Analysis. Existing 1-Family Home Sales (SAAR, Thousands):

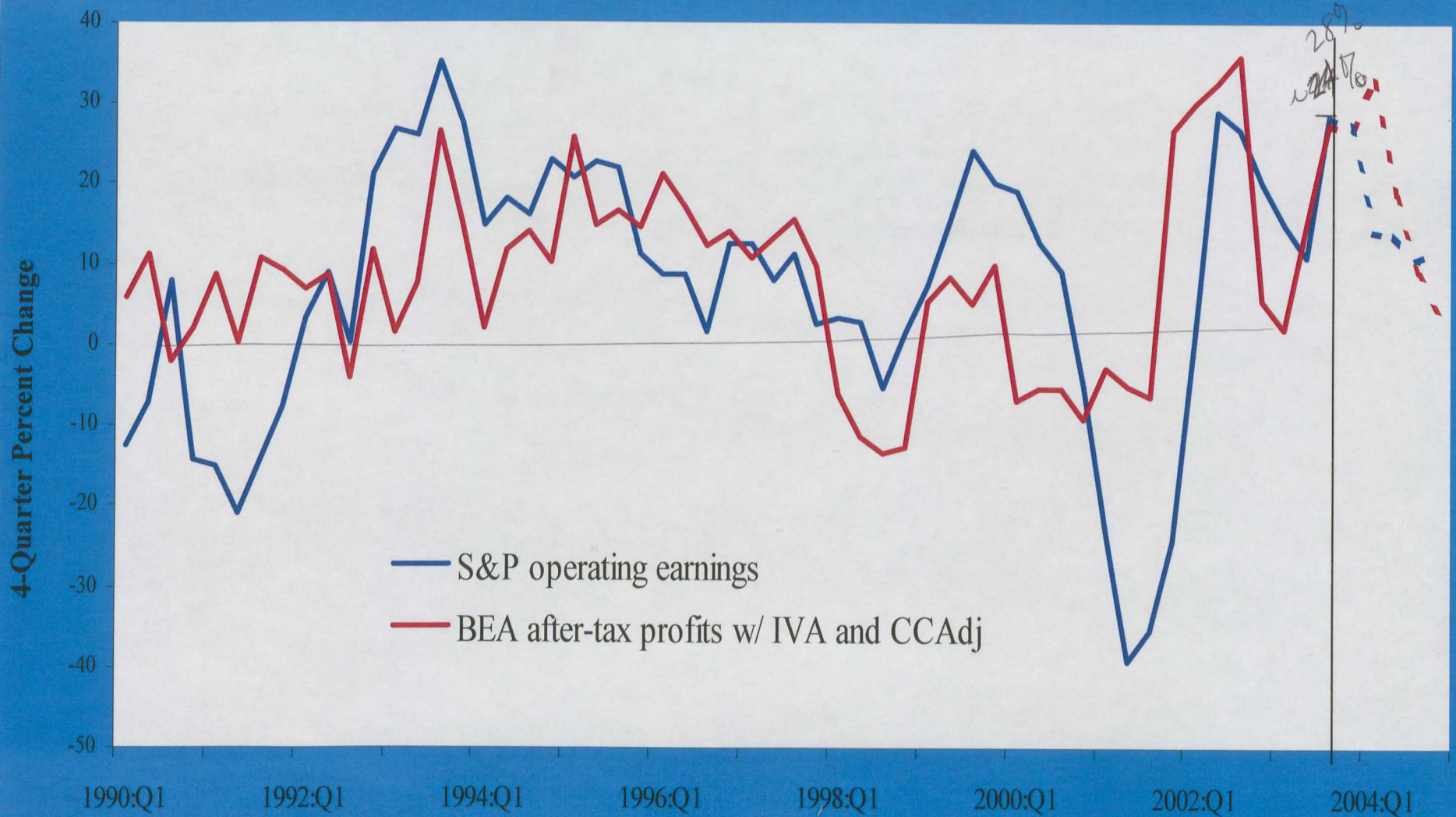
# And Businesses Joined Consumers at the End of 2003:

Capital spending appears to have begun in earnest



Source: Gross Private Domestic Investment in Nonresidential Equipment and Software (SAAR); Bureau of Economic Analysis.

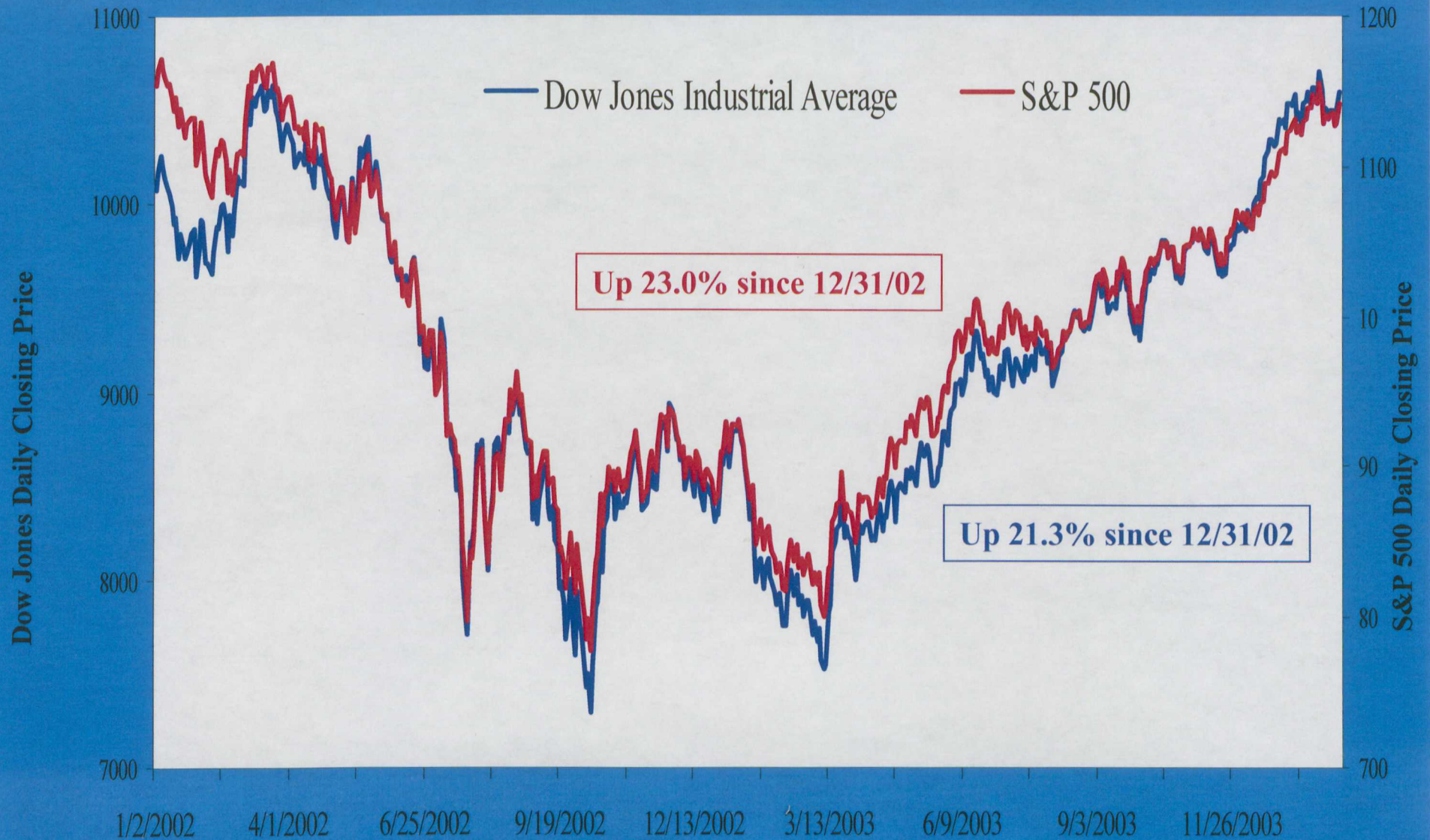
# The Significant Earnings Growth Last Year



Sources: Bureau of Economic Analysis, Standard and Poor's, Haver Analytics. Global Insight, Thomson Financial/First Call (February 6, 2004).

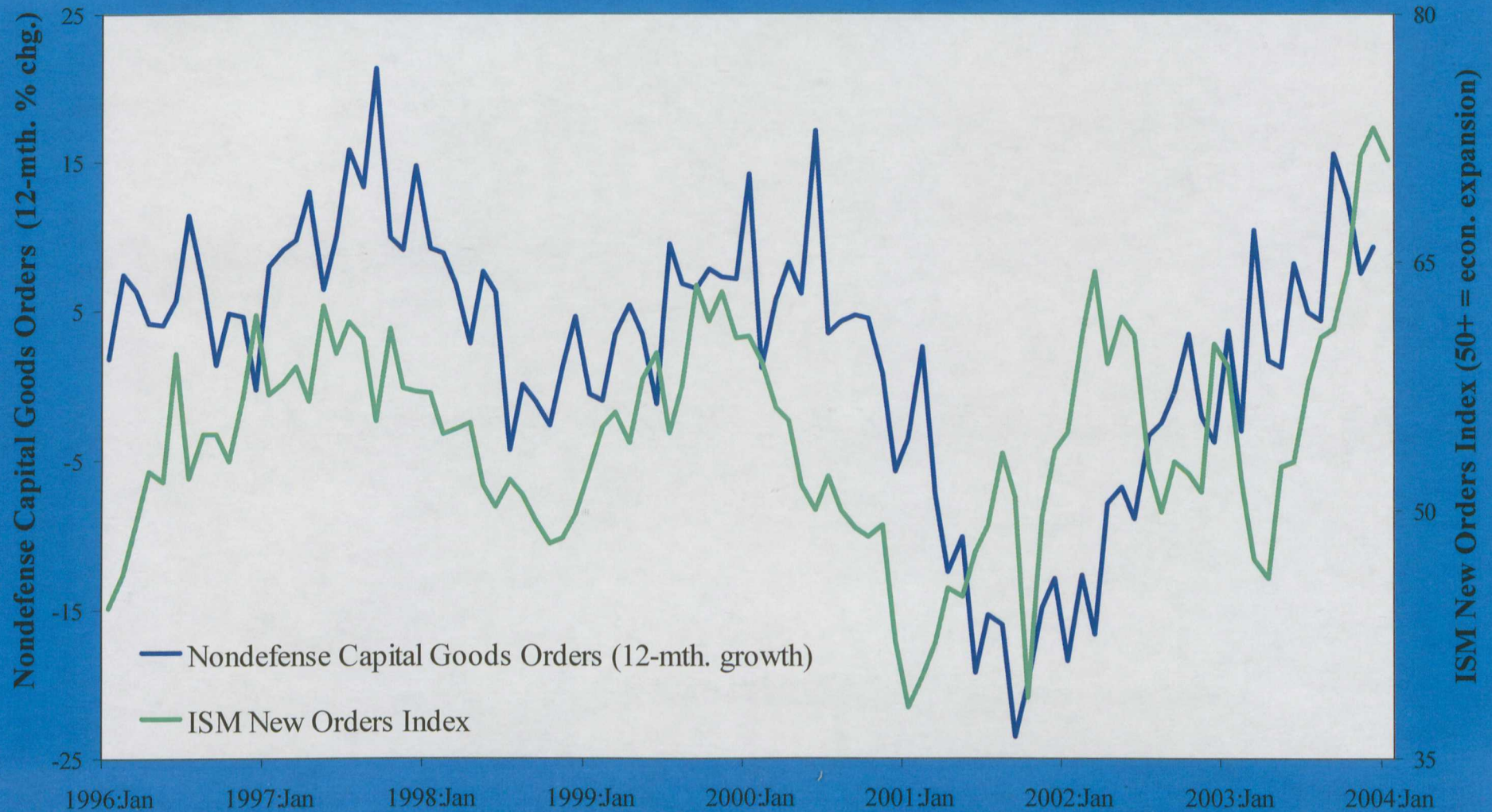
# Has Given Equity Markets A Lift

This should help both consumption and investment



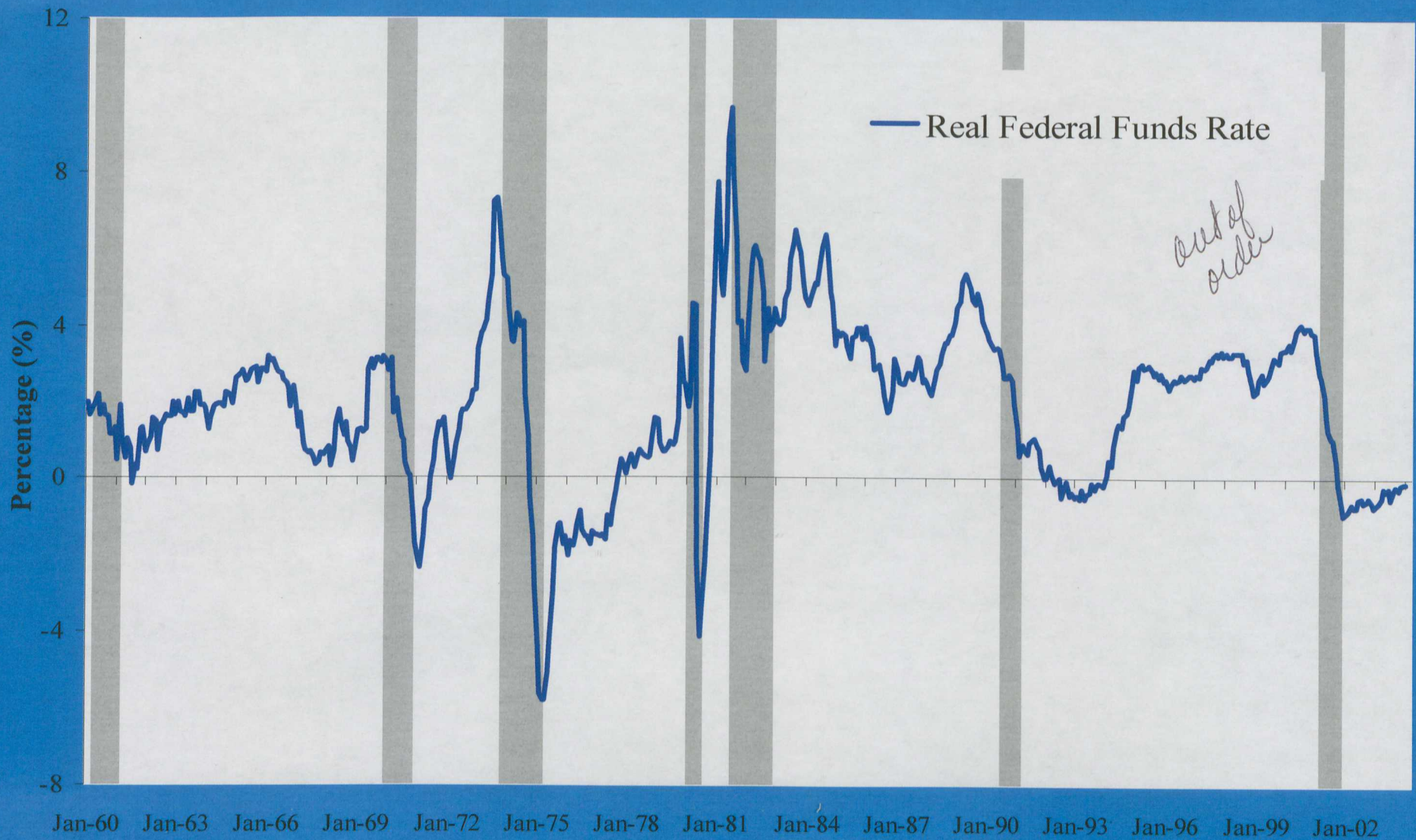
Source: S&P 500 Composite Index (Daily Closing Price) and Dow Jones Industrial Average (Daily Closing Price): Bloomberg (updated through February 6, 2004).

# Recent Indicators Suggest That Investment Momentum Will Continue in 2004



Sources: Manufacturers' New Orders for Nondefense Capital Goods excluding Aircraft (SA); Bureau of the Census. ISM Manufacturing New Orders Index (SA, 50+ = Economic expansion); Institute for Supply Management.

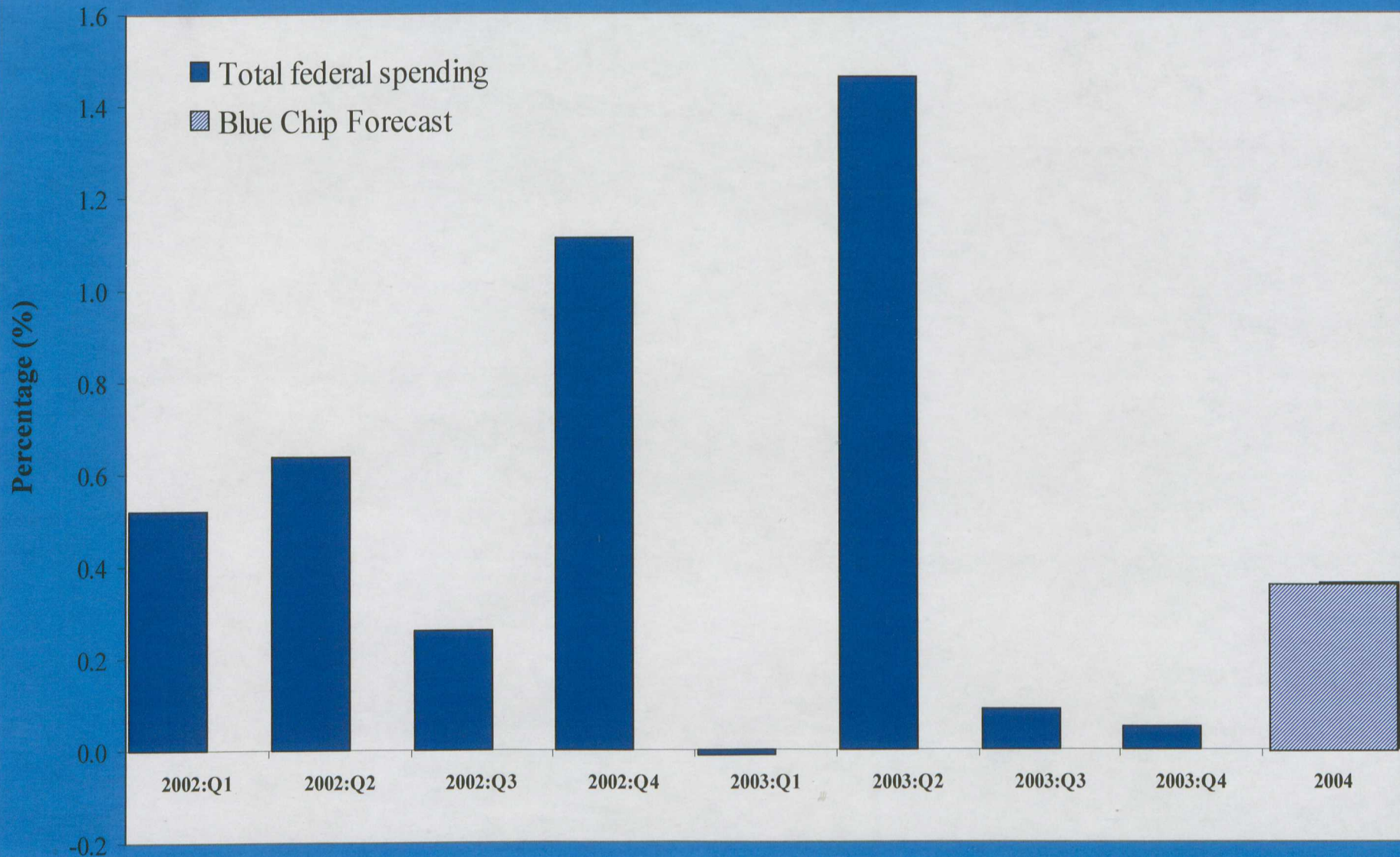
# Stimulative Monetary Policy Has Also Helped



Sources: Effective Federal Funds Rate (% p.a.): Federal Reserve Board. CPI-U, All Items Less Food & Energy (SA, 1982-84=100): Bureau of Labor Statistics.

# Defense-Related Spending Should Help

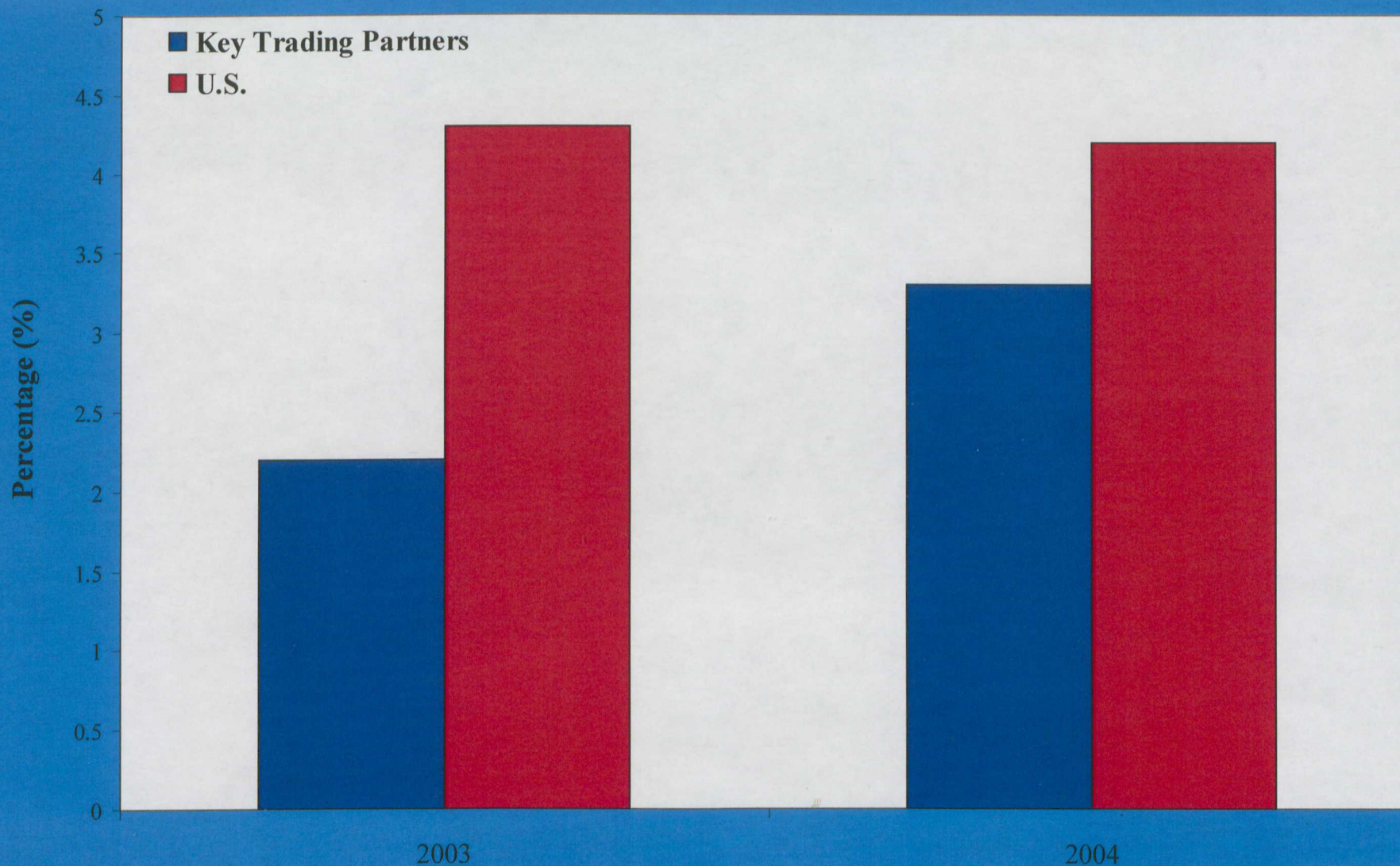
## Contribution of federal spending to real GDP growth



Source: Federal Consumption/Investment Contribution to Real GDP Change (SAAR): Bureau of Economic Analysis. Blue Chip Econometric Detail (December 10th, 2003).

# But We Don't Expect Much Help From Abroad ...

## Real GDP Growth, U.S. versus Foreign



Source: February 10th Blue Chip Economic Indicators.

# ... Except From the Recent Declines in the Value of the Dollar...

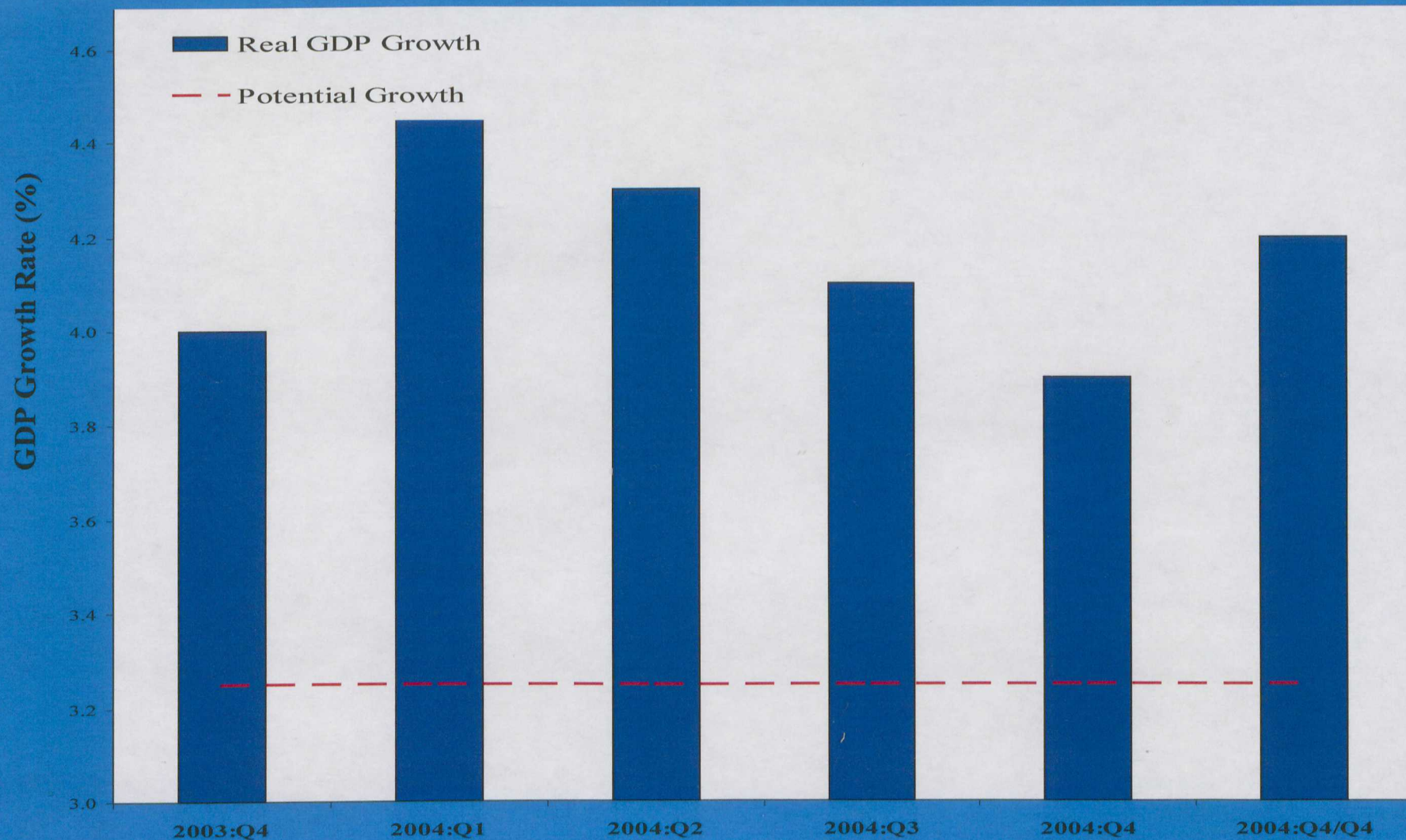
Real Trade-weighted Broad exchange rate index



Source: Price-adjusted Broad Dollar Index (Mar. 1973 = 100): Federal Reserve Board.

# Consensus Forecasts Expect a Self-Sustaining, Recovery in 2004

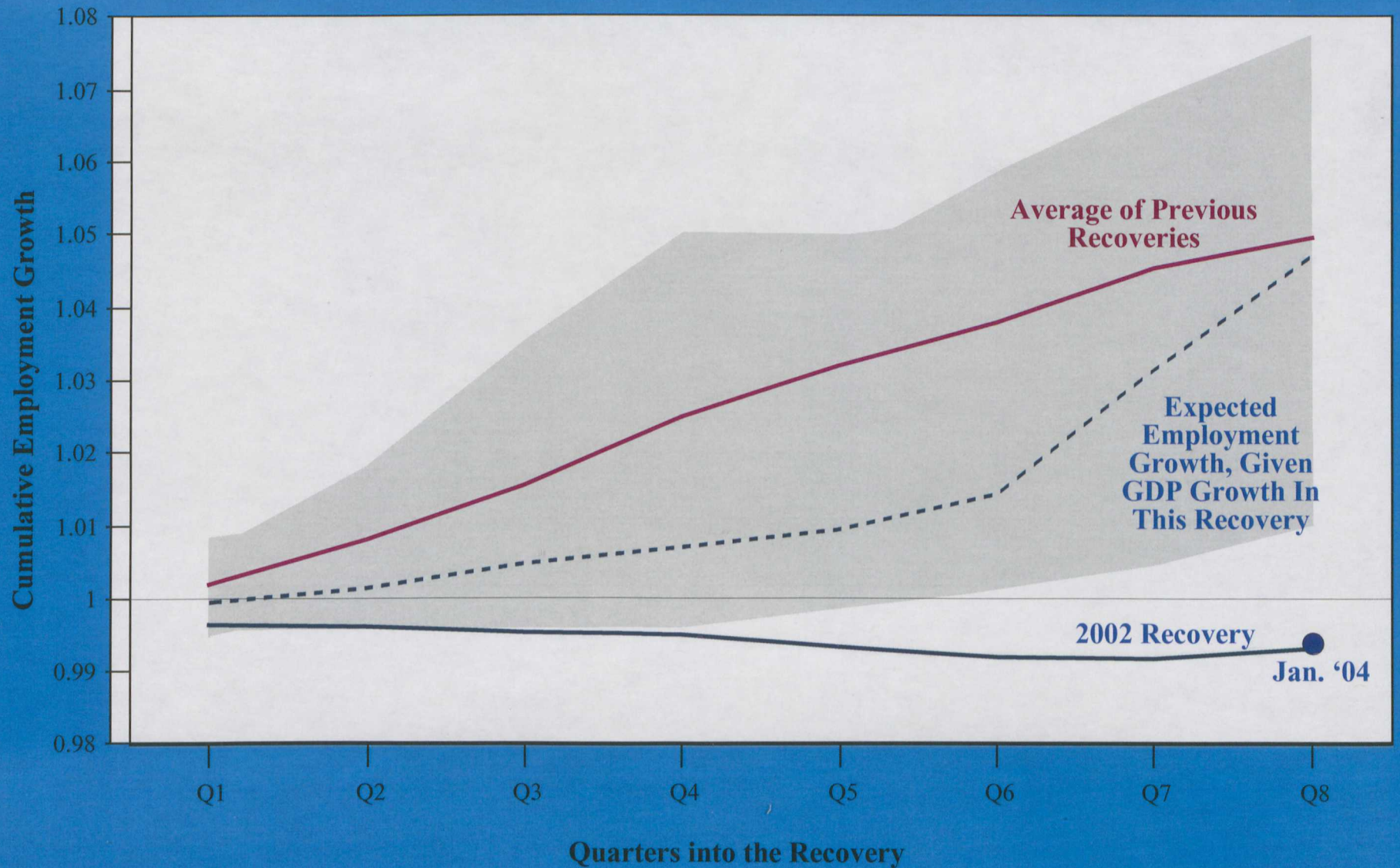
## Blue Chip Economic Indicators Consensus Forecast



Source: Forecasts from February 10th Blue Chip Economic Indicators.

# But Employment Growth Remains An Issue

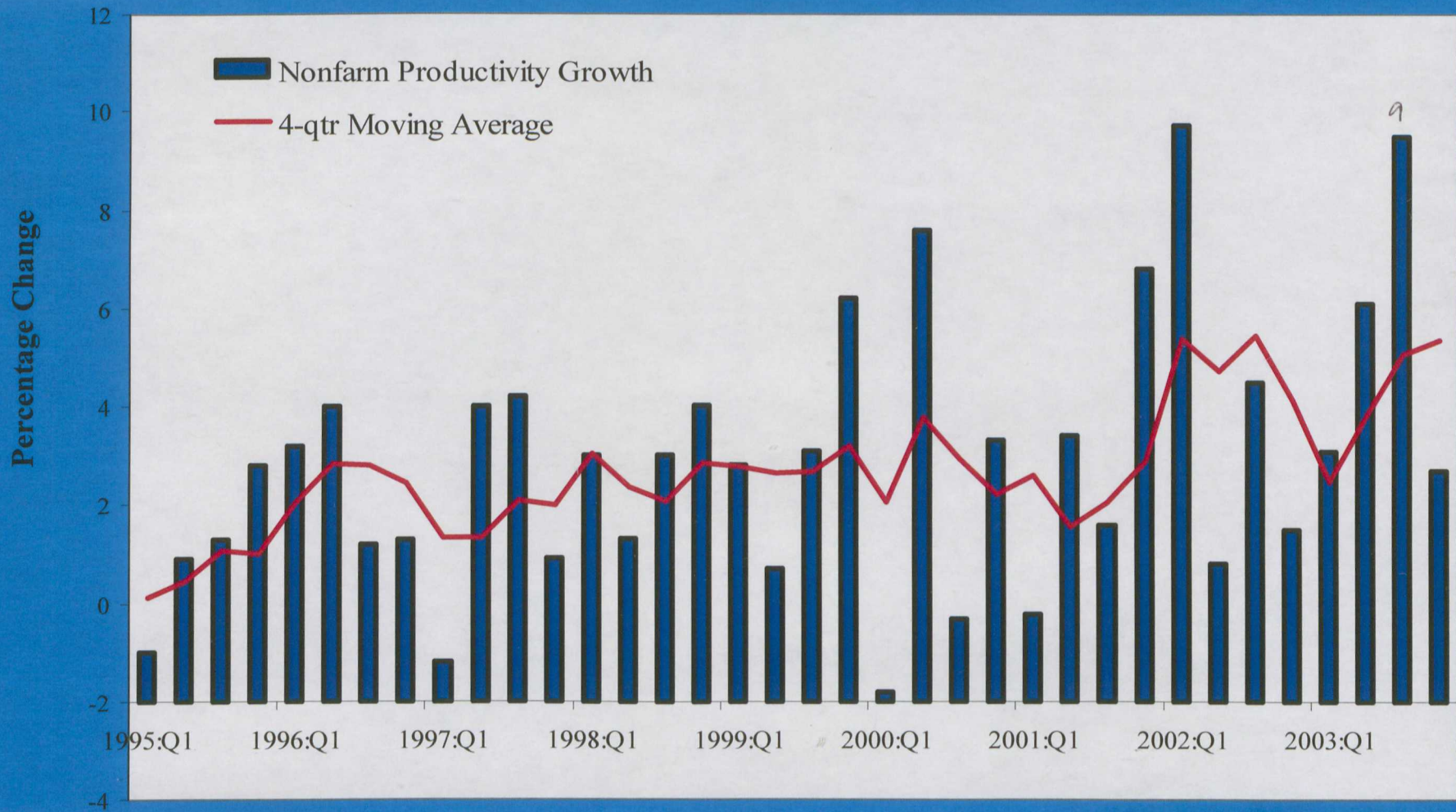
Employment has grown much more slowly than the economy



Source: Bureau of Labor Statistics (Employment), Bureau of Economic Analysis (Real GDP Growth, used in calculating Expected Employment)

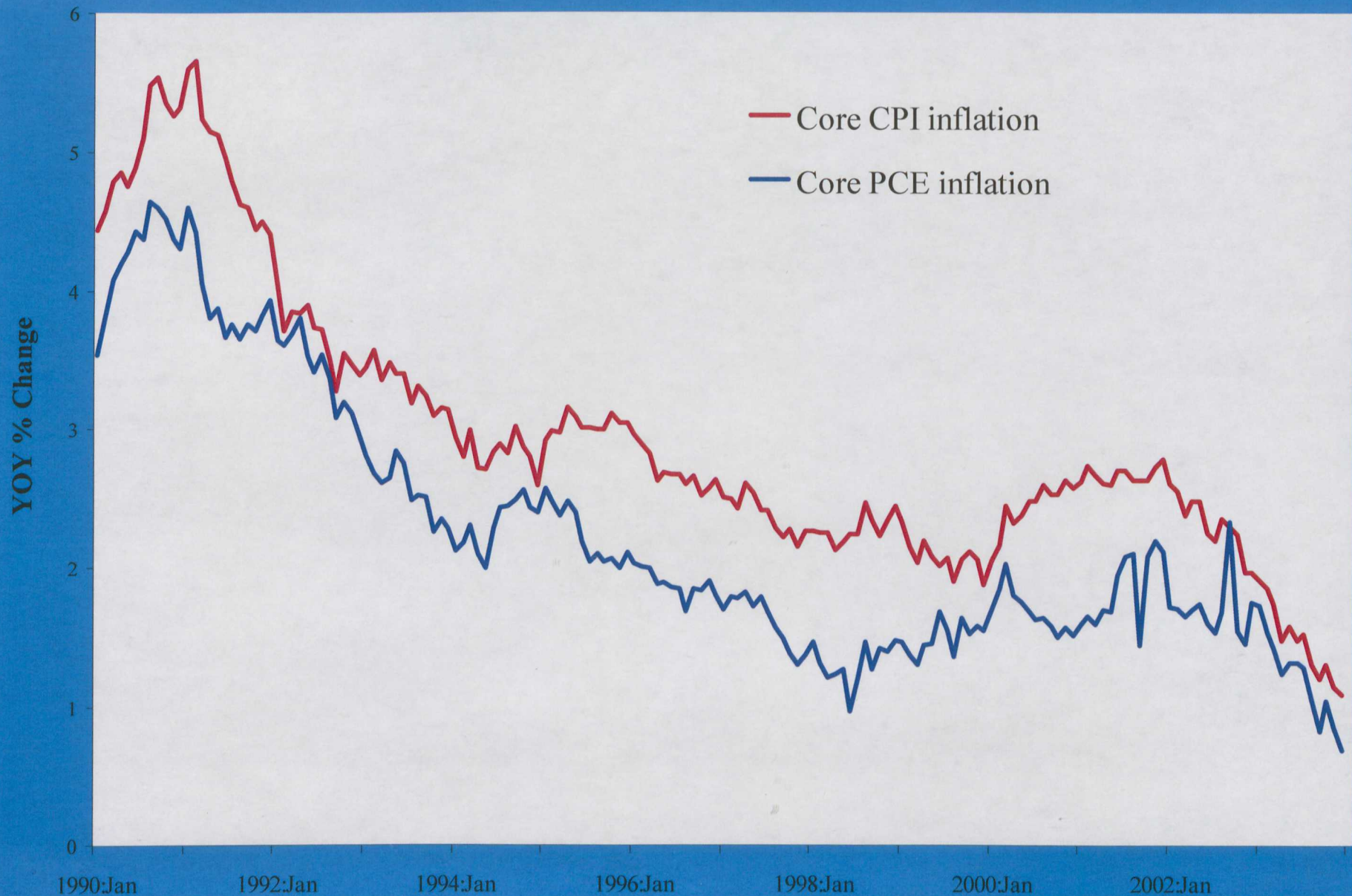
# The Reason Is Surprisingly Strong Productivity Growth

## Helps Investment; A Substitute for Job Growth?



Source: Nonfarm Business Sector, Output per Hour of All Persons (SAAR, % Change): Bureau of Labor Statistics.

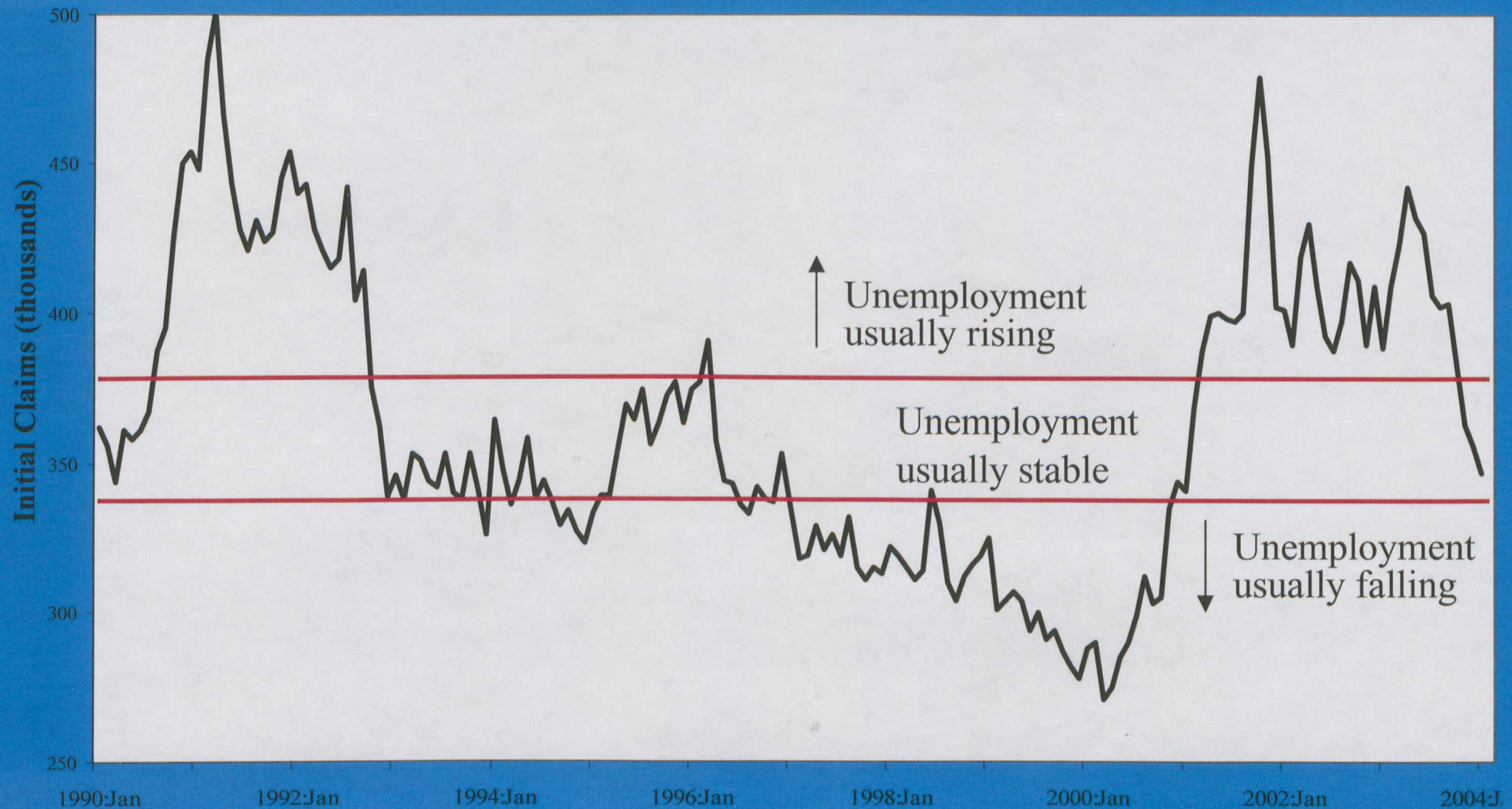
# Which Has Helped Produced A Downward Trend In Inflation



Sources: CPI-U, All Items Less Food and Energy (SA, 1982-84=100): Bureau of Labor Statistics. PCE Less Food and Energy, Chain Price Index (SA, 2000=100): Bureau of Economic Analysis.

# Fortunately, Forward-Looking Indicators Suggest Labor Markets Are In More Stable Territory

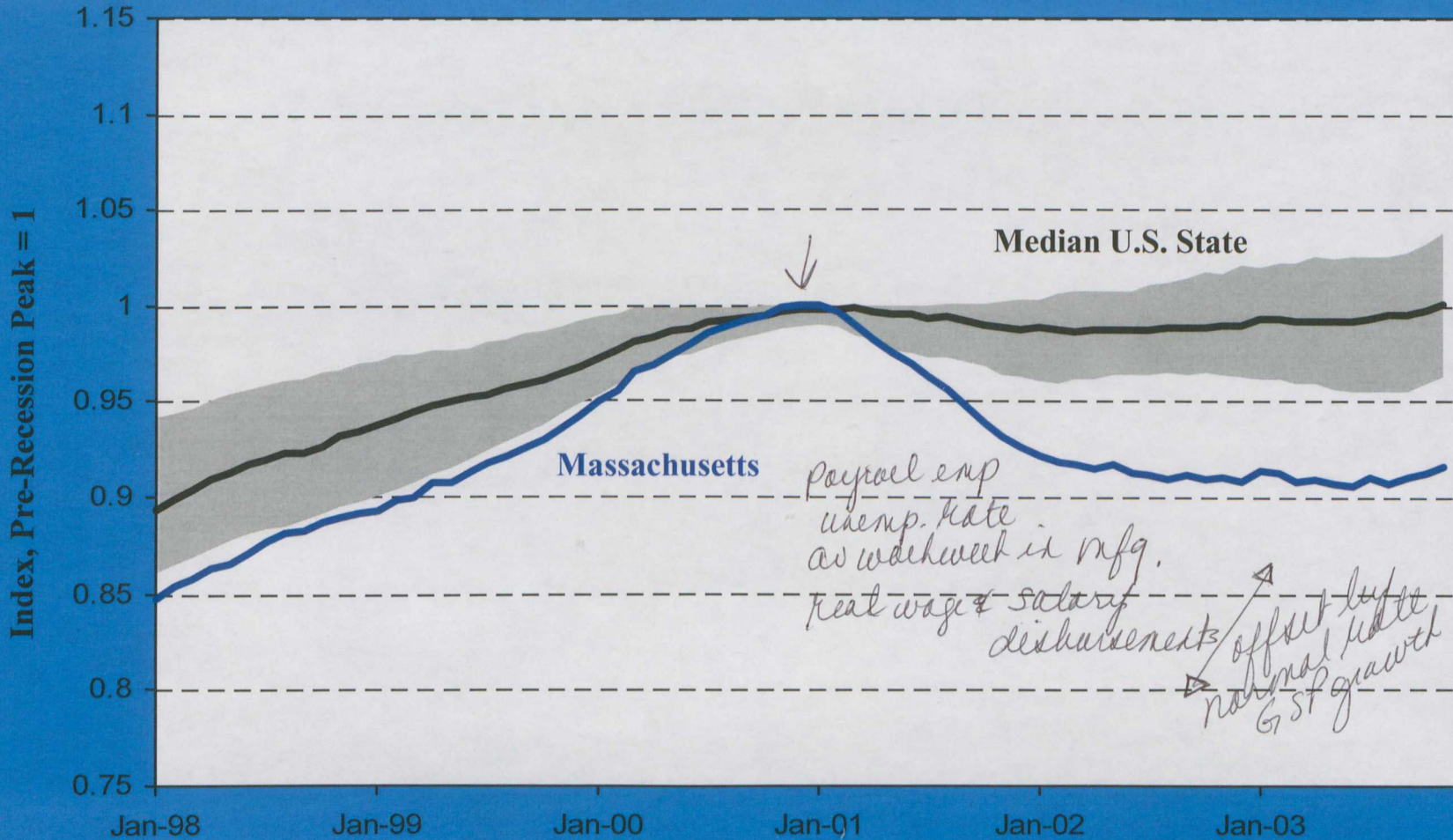
## Initial Claims for Unemployment Insurance



Source: Initial Claims for Unemployment Insurance, State Programs, Weekly Average (SA, Thousands): Department of Labor (through January, 2004).

# Locally, Massachusetts Has Been Hit Hard In The Latest Business Cycle

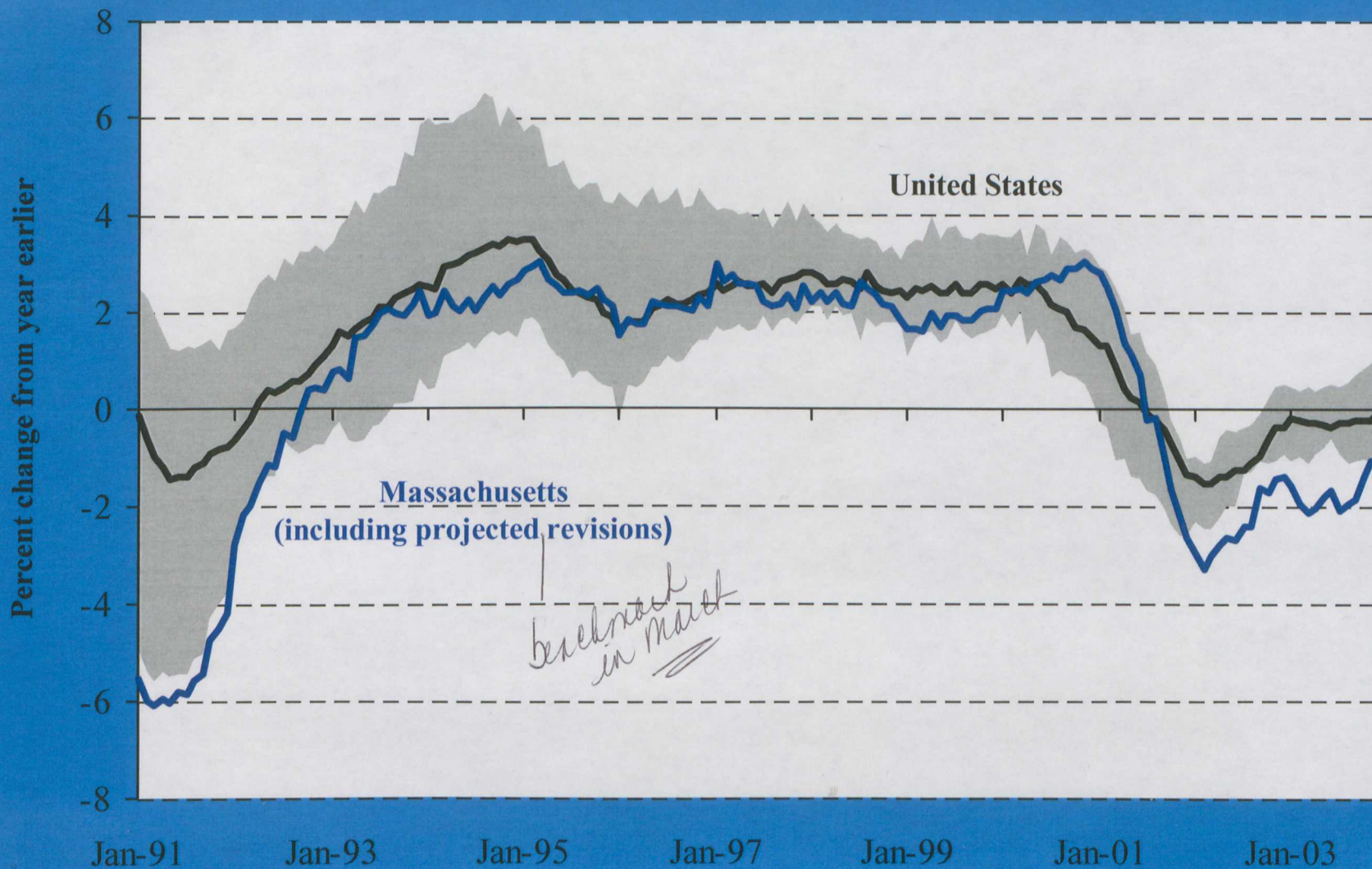
Coincident economic indexes



Note: Shaded area represents the 10 to 90 percentile boundaries for U.S. states.  
Source: Federal Reserve Bank of Philadelphia

# Employment in Massachusetts Remains Below Its Year-Ago Level

## Nonfarm payroll employment

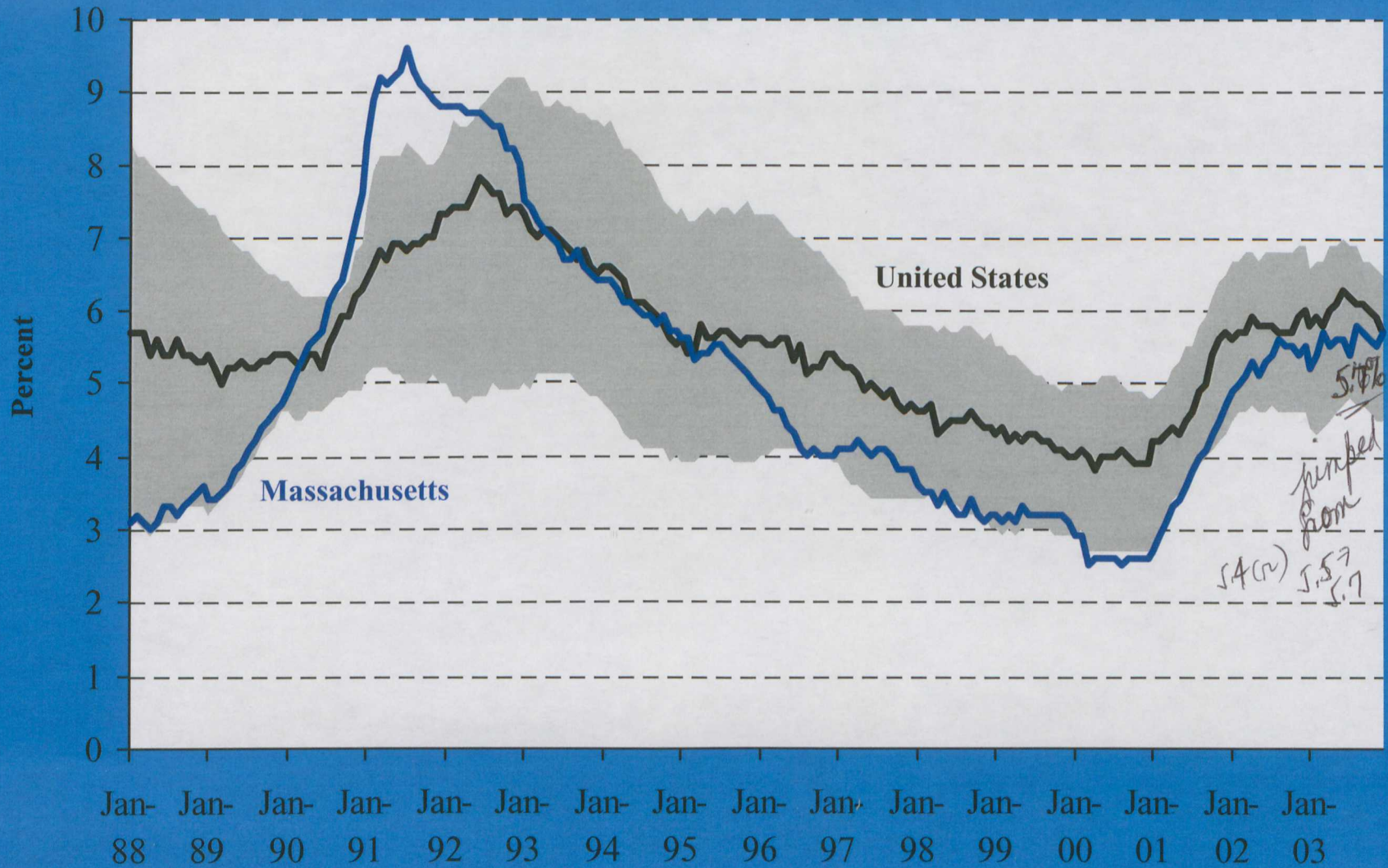


Note: Shaded area represents the range of values among the nine U.S. Census Divisions in each month.

Source: U.S. Bureau of Labor Statistics

# The Massachusetts Unemployment Rate Has Risen To Match The National Average

## Unemployment rate



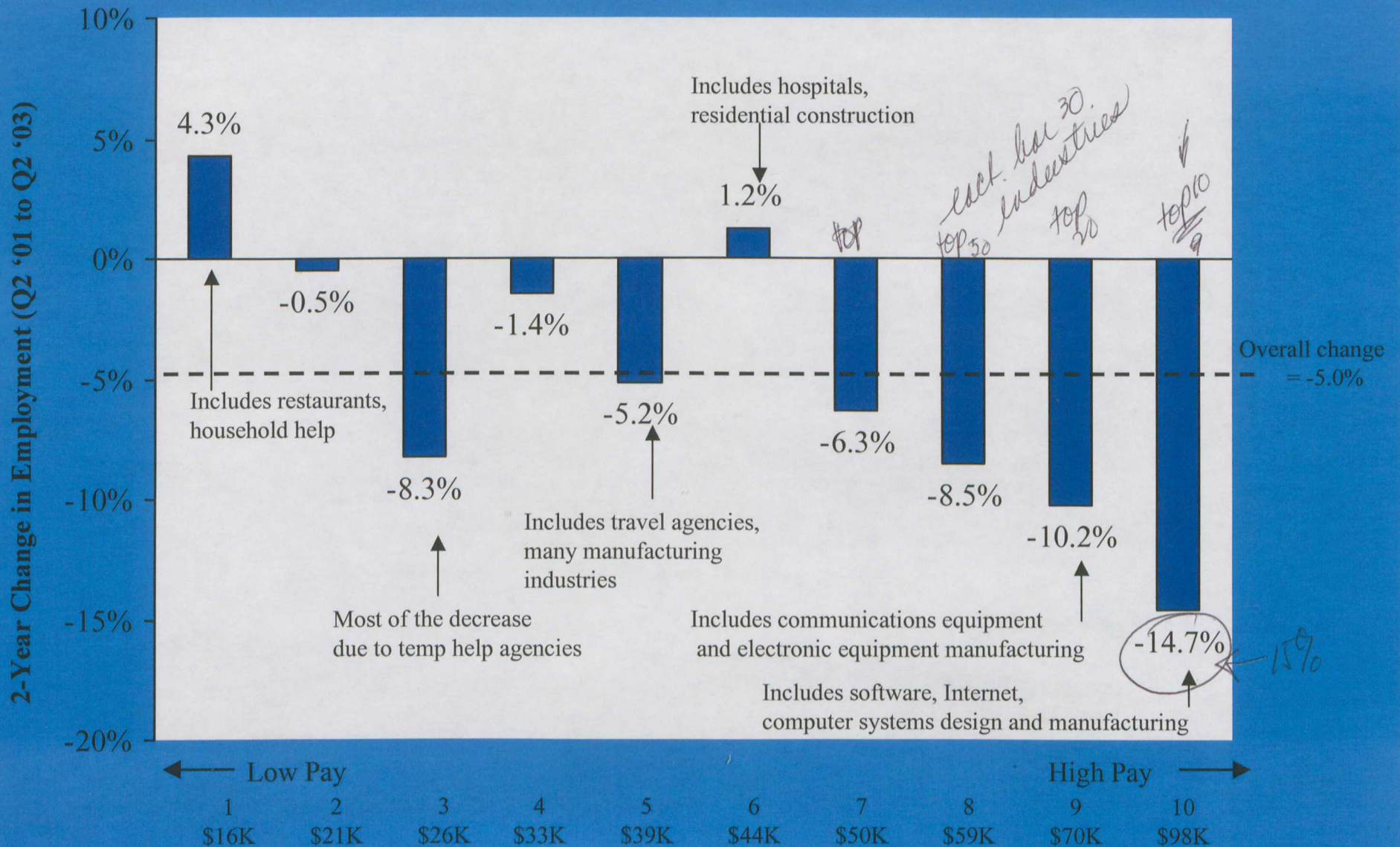
Note: Shaded area represents the range of values among the nine U.S. Census Divisions in each month.  
 Source: U.S. Bureau of Labor Statistics

# Nationally, Many High-Paying Tech Services And Manufacturing Industries Suffered Double-Digit Job Losses

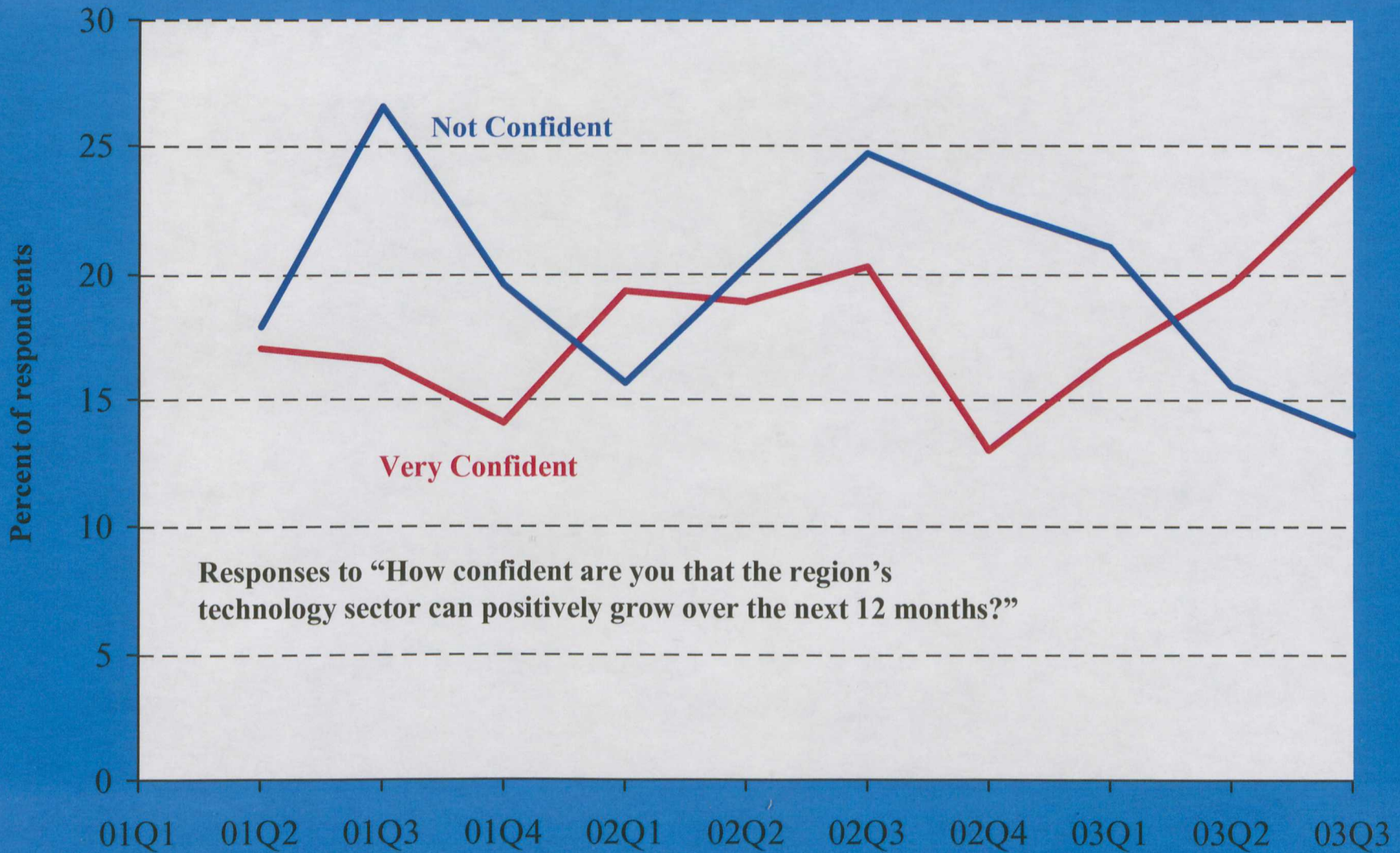
Highest paying industries, ranked by number of jobs lost, 2001-2003 <i>3 years 11/03</i>	# of jobs at employment peak	job change (#)	job change (%)
Semiconductor and electronic component manufacturing <i>share of total quarter by mass</i>	712,800	-238,200	-33% <i>3</i>
Computer systems design and related services <i>take out</i>	1,344,700	-206,600	-15%
Wired telecommunications carriers <i>11</i>	747,500	-140,800	-19%
Computer and peripheral equipment manufacturing <i>↑</i>	304,500	-87,200	-29% <i>160%</i>
Total, top 10% of industries by pay	10,087,200	-1,048,500	-10% <i>50%</i>
Total nonfarm	132,560,000	-2,436,000	-2%

Note: Colored text indicates industries with higher concentration in Massachusetts than nationwide.  
Source: U.S. Bureau of Labor Statistics

# The Steepest Job Losses In Massachusetts Have Been In High-Wage Industries



# The Recovery In Capital Spending Is Helping



# Summary

## Self-sustaining private recovery in train

- Capital spending is recovering
  - Relatively good news for tech sector
- Consumer spending and housing continue to support the economy
- Employment growth, for both the nation and the region, is still meager, but there are signs that it has turned around