

Statement of

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before the

Subcommittee on Monetary Policy

of the

House Banking Committee

Washington, D.C.

March 19, 1986

I will comment briefly on our view of the national scene and on the outlook for the New England economy.

We expect 1986 to be a strong year for the American economy. There are four reasons for our optimism. First, the inventory adjustment, which was a drag on our 1985 performance, should be behind us. Second, the dramatic decline in long-term interest rates and the accompanying rise in stock prices will strengthen both the housing industry and business plant and equipment spending. Consumer spending will be supported through the wealth effect of higher stock and bond prices and by the drop in the price of imported oil, which is equivalent to an increase of \$20 billion in disposable income. Finally, the decline in the dollar will gradually stimulate our manufacturing industries. A few New England companies have already reported higher export orders from European buyers.

When the employment and unemployment statistics show conflicting signals, as they did in January and February, I place the greatest weight on the payroll employment series. Statistically, it is much easier to measure employment than unemployment. Of the two employment series, the payroll survey is more reliable than the household survey.

The January payroll survey showed an unusually large rise in employment--421,000. Some of this undoubtedly reflected seasonal adjustment errors due to unusually mild weather. The February increase was much smaller--226,000--which reflected more normal weather conditions plus flooding in some parts of the country. The January and February figures probably ought to be averaged to get a reliable picture. The average gain in payroll employment in these two months was 324,000--30 percent higher than the average monthly gain in 1985. This is not a signal of weakness.

The outlook for the New England economy continues to be strong despite a slow-down in our high tech industries. In 1985, unemployment in Massachusetts and New Hampshire averaged only 3.9 percent. All of the other New England states had employment rates below 5 percent except Maine, which averaged 5.4 percent. The resilience of our economy is shown in the employment figures for Massachusetts. Employment in high tech industry has declined by almost 4 percent over the past year, with the greatest weakness in the computer industry, but this was more than offset by strength in non-manufacturing employment, particularly construction and financial services.

There are three reasons why the outlook for the New England economy in 1986-87 is very strong. The decline in interest rates and the rise in stock prices will stimulate plant and equipment investment, which in turn, will revive our computer and other high tech industries. Second, the decline in the dollar will have a disproportionate impact on New England, since we export more of our manufacturing production than most other parts of the country. Finally, the decline in the price of oil will be more stimulative for New England than the rest of the country, since we are more dependent on oil and we will be spared the adverse consequences of the decline. Because these sources of future strength will impact an area with already low unemployment rates, I expect there to be a serious labor shortage in New England a year from now.