

# **The Economy: Where Have We Been, Where Are We At? Where Are We Going?**

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# **The National Economy: Where We've Been**

## Percent Change From Preceding Period in Real Gross Domestic Product

Seasonally adjusted at annual rates

	2007 I	2007 II	2007 III
<b>Gross domestic product</b>	<b>0.6</b>	<b>3.8</b>	<b>4.9</b>
<b>Personal consumption expenditures</b>	<b>3.7</b>	<b>1.4</b>	<b>2.8</b>
Durable goods	8.8	1.7	4.5
<b>Gross private domestic investment</b>	<b>-8.2</b>	<b>4.6</b>	<b>5.0</b>
Nonresidential	2.1	11.0	9.3
Structures	<b>6.4</b>	<b>26.2</b>	<b>16.4</b>
Equipment and software	0.3	4.7	6.2
Residential	<b>-16.3</b>	<b>-11.8</b>	<b>-20.5</b>
<b>Net exports of goods and services</b>	<b>---</b>	<b>---</b>	<b>---</b>
Exports	<b>1.1</b>	<b>7.5</b>	<b>19.1</b>
Imports	3.9	-2.7	4.4
<b>Government consumption expenditures and gross investment</b>	<b>-0.5</b>	<b>4.1</b>	<b>3.8</b>
Federal	-6.3	6.0	7.1
National defense	<b>-10.8</b>	<b>8.5</b>	<b>10.1</b>
Nondefense	3.8	0.9	1.1
State and local	3.0	3.0	1.9

Source: U.S. Bureau of Economic Analysis, NIPA Accounts

## The National Economy: Where We're At

- **Weak labor market numbers**
  - Private employment fell by 13,000 in December
  - Total employment up by only 18,000
  - Unemployment rate up by .3 percentage point to 5.0%
  - Unemployment rate up by .6 of a point since March

Historically rises of such magnitude in 6 month period associated with recessions' following shortly thereafter.

## **Businesses pulling back on investment**

- **Orders for core non-defense capital goods fell below shipments in November**
- **Institute of Supply Management Index down sharply in December, especially for new orders component**

## **Residential sector continues to deteriorate**

- **New home sales down 9.0 percent in November, after flat for a couple of months**
- **Permits and starts also down**
- **Prices continue to weaken, across all regions**
- **Foreclosures continue to rise**
- **Suggests further weakness in coming few quarters**

## Exhibit 5

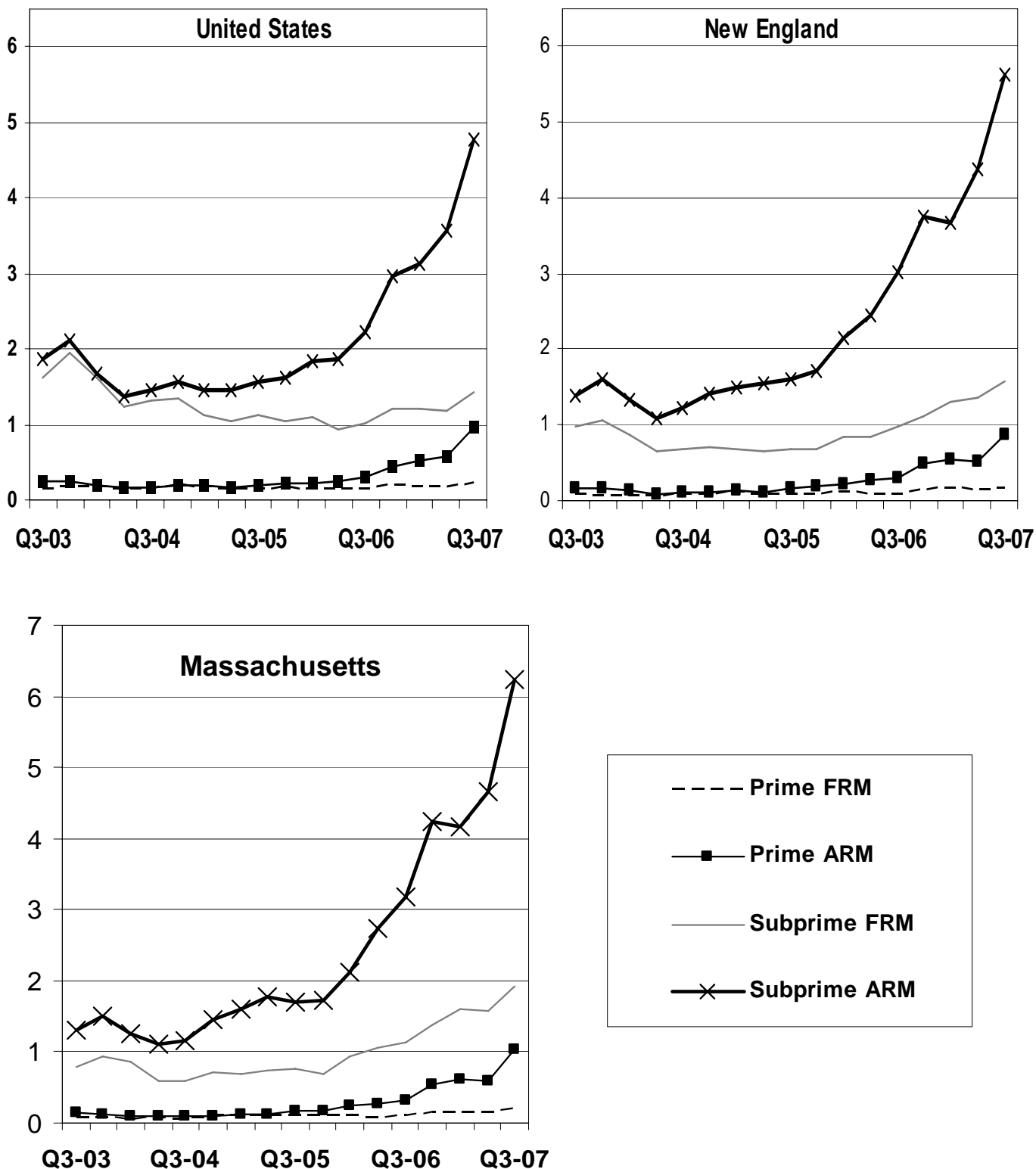
# S&P/Case-Shiller Home Price Index: Ten Metro Areas and Composite

	Percent Change from Year Earlier				
	Oct-03	Oct-04	Oct-05	Oct-06	Oct-07
Composite 10	12.6	19.6	16.1	2.6	-6.7
Boston	6.9	10.4	4.7	-3.5	-3.6
Chicago	8.2	8.9	9.2	5.1	-3.2
Denver	1.1	4.0	4.2	0.7	-1.8
Las Vegas	14.0	51.4	10.0	2.6	-10.7
Los Angeles	19.6	28.1	20.6	5.2	-8.8
Miami	15.1	21.7	32.3	8.5	-12.4
New York	12.1	14.6	14.2	3.2	-4.1
San Diego	17.7	30.0	7.5	-2.3	-11.1
San Francisco	6.3	19.1	19.3	-0.1	-6.2
Washington	13.5	23.4	22.2	-0.7	-7.0

Source: S&P/Case-Shiller / Haver Analytics

## Foreclosures Started by Type of Loan

Foreclosures initiated in quarter, as a percent of loans in pool.



## **The consumer travels on, but on fumes**

- **Consumption strong in November (perhaps because of early start to holiday shopping season?)**
- **But inflation-adjusted personal disposable income fell in both October and November**
- **As a result, savings rate was -0.5 percent in November**
- **How much can we continue to borrow from abroad to finance our spending habits?**

## **Inflation has spiked**

- **November CPI up 0.8 percent due in part to 5.7% increase in energy costs**
- **Core CPI up 0.3 percent**
- **PPI up sharply as well, but also appears tied largely to energy prices**
- **Hard to find large pass-through of energy prices to core CPI during the past several years**
- **Inflation expectations appear well-anchored in current data**

## The national economy: where are we going?

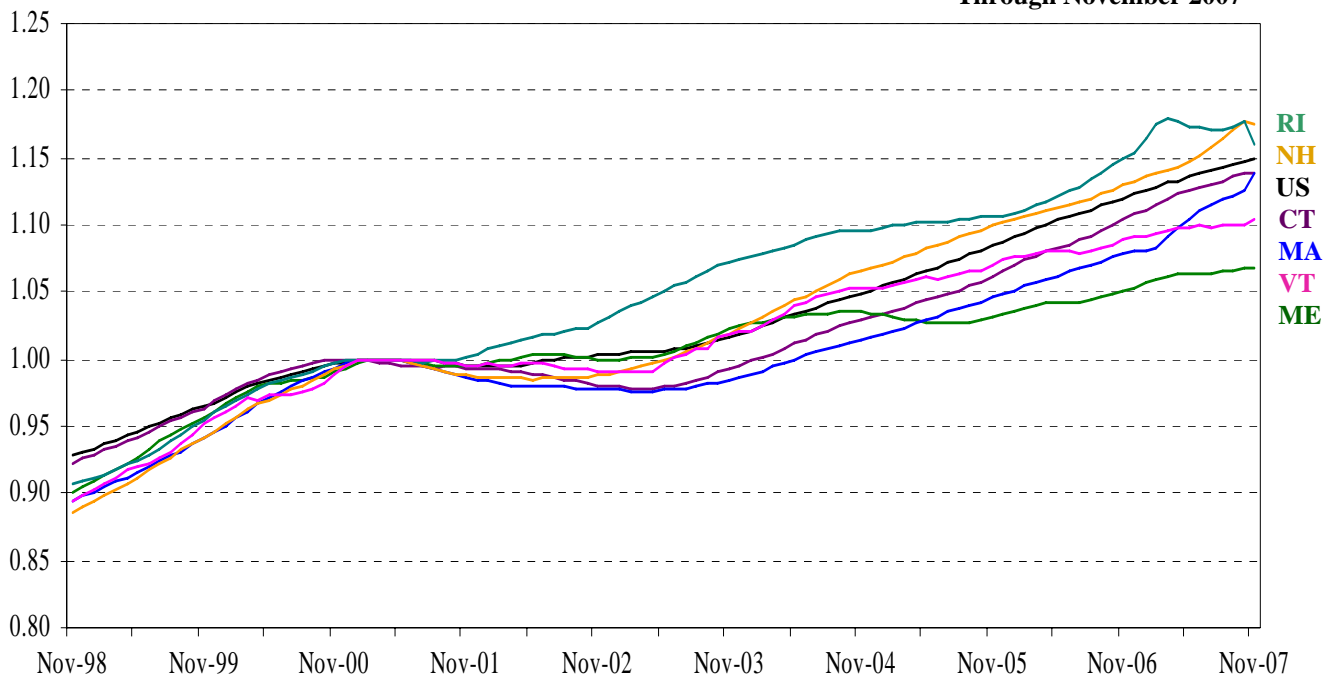
- **First half of 2008 likely to be weak**
- **Some prominent economists (Larry Summers, Martin Feldstein, for example) are putting the odds of a recession some time this year at greater than 50-50**
- **Business investment, hiring, likely to weaken further, as firms grow increasingly reluctant to commit until firmer signs that problems in housing and financial sectors have diminished**
- **Residential investment not likely to turn positive until last half of 2008 (says Mark Zandi of Moody's Economy.com, before latest spat of bad economic news)**
- **Rest of world might catch a cold from U.S. residential and financial flu**
  - **Financial institutions in other countries also exposed**
  - **weak dollar**
- **Nonresidential and public construction likely to remain strong (more on that to come).**
- **Much too early to panic on inflation—long-run expectations seem subdued.**

## **The economies of Massachusetts and the rest of New England: where we have been and where have we been going**

- **Our trend employment has been much slower than that of the nation's for some time because of our constrained growth in population**
- **Over past year, our employment has been increasing about as fast as the nation's**
- **Our average household incomes are high (exceptions, Maine and Vermont)**
- **Our average income growth is comparable to the nation's**

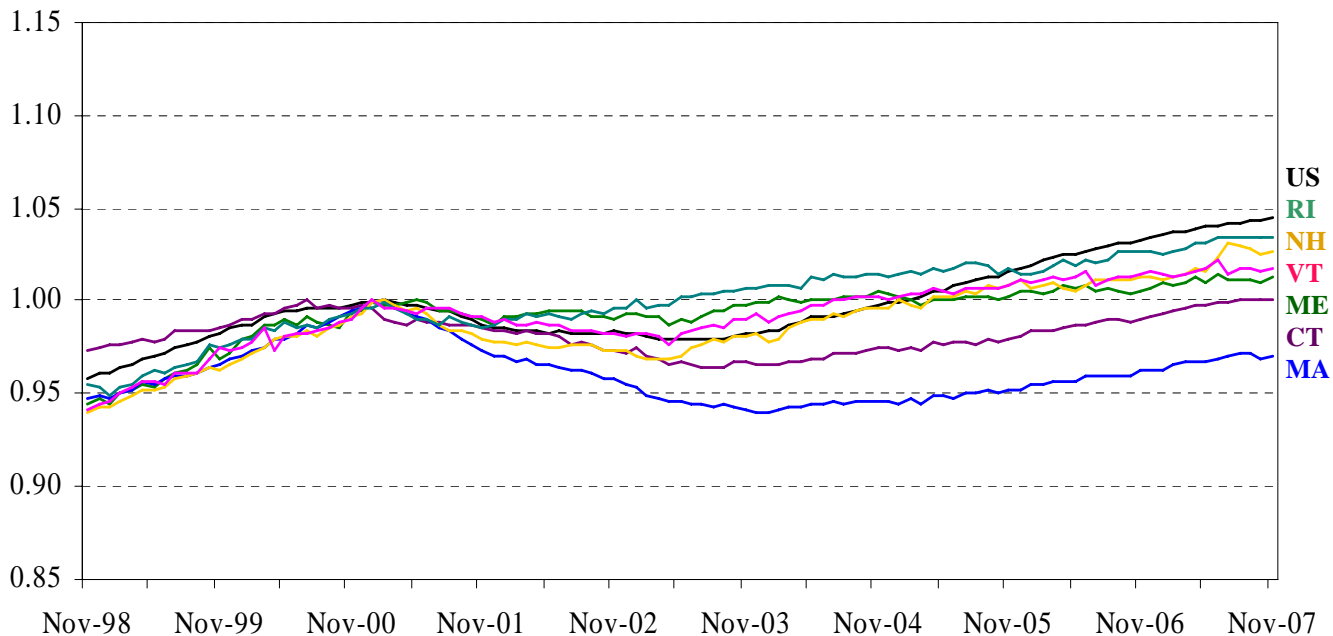
## State Economic Activity Indexes

Through November 2007



## Total Employment

Through November 2007

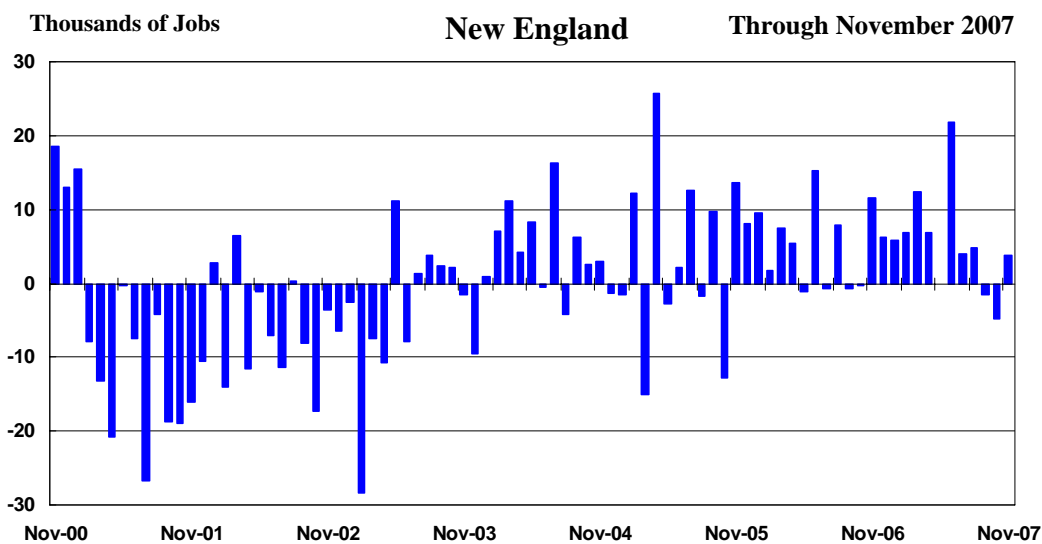
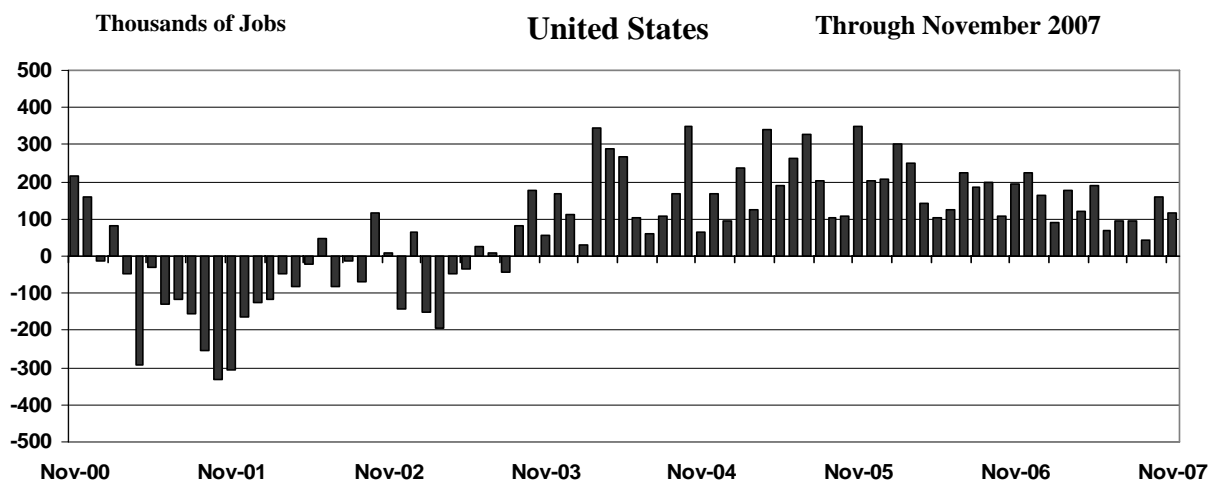


**Index: Each state's pre-recession peak is equal to 1.**

Note: The economic activity indexes include four indicators: non-farm employment, the unemployment rate, average weekly hours worked in manufacturing, and wage and salary disbursements. The trend for each state's index is set to match the trend for its gross domestic product (available annually).

**Sources: Federal Reserve Bank of Philadelphia and the Bureau of Labor Statistics**

## Monthly Employment Change



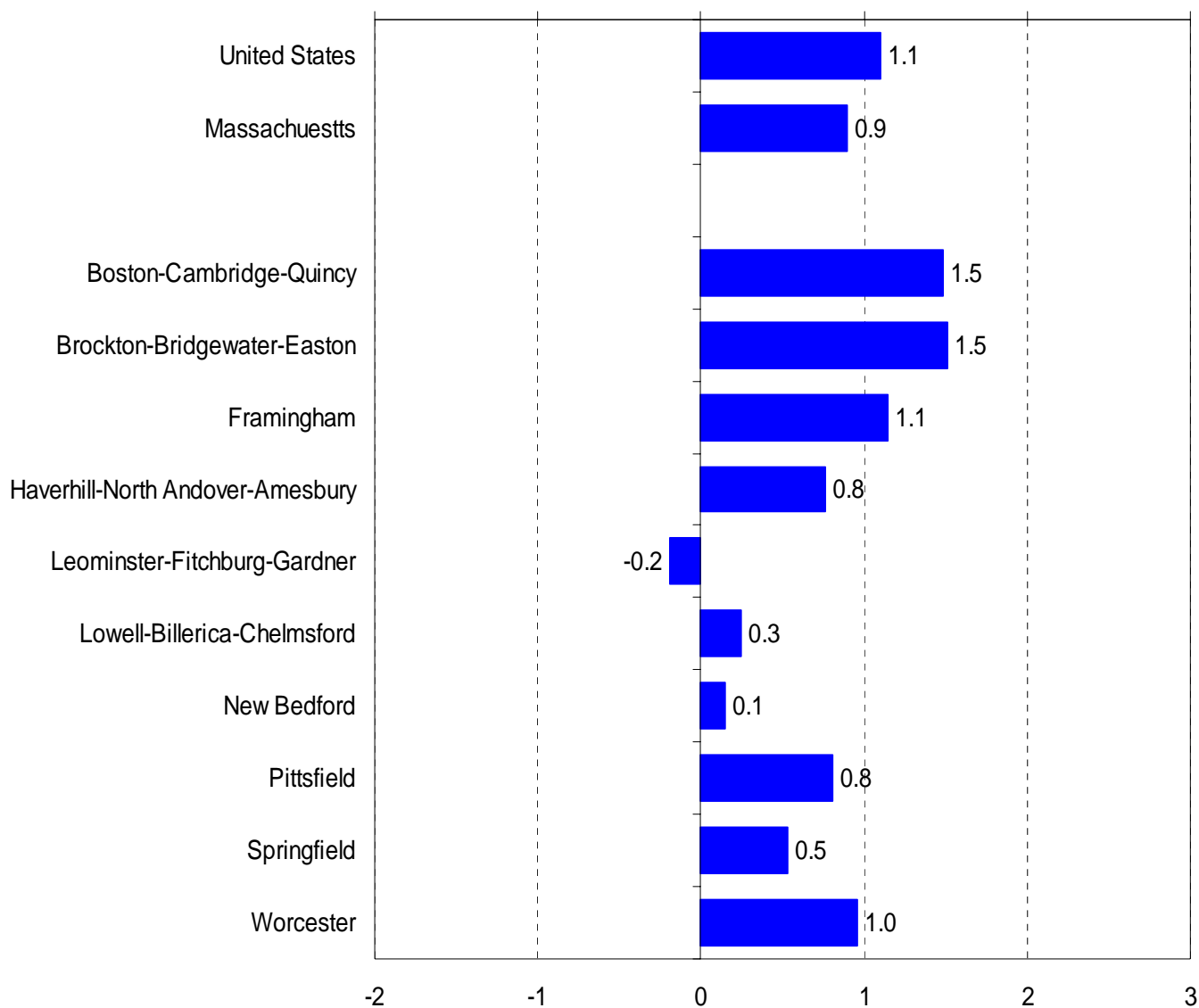
### Employment Growth Rates

	Annual Long-term Trend	Last 12 months		Since Peak	
	Percent	Percent	Number	Percent	Number
United States	1.8	1.1	153,600	4.5	5,926,000
New England	1.2	0.9	65,700	-0.6	-39,100
Connecticut	0.9	1.1	19,300	0.1	2,200
Maine	1.7	0.7	4,400	1.3	7,700
Massachusetts	1.0	0.9	29,300	-2.9	-98,700
New Hampshire	2.5	1.3	8,300	2.6	16,600
Rhode Island	1.0	0.7	3,400	3.5	17,100
Vermont	2.1	0.3	1,000	1.7	5,300

Note: Long-term trend is average annual employment growth rate from 1970 to 2006. Last 12 months ended November 2007.

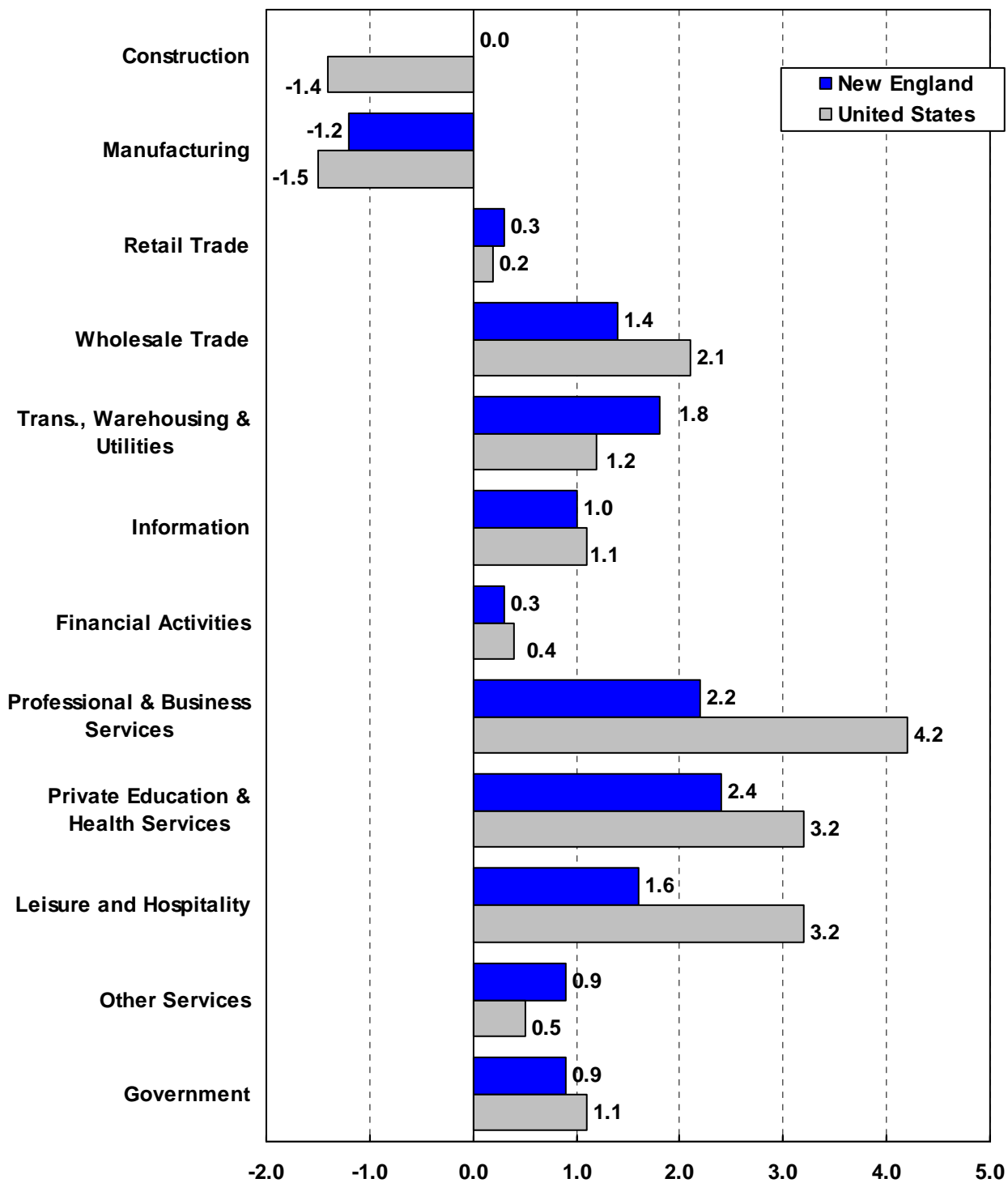
### Employment Change in Massachusetts Metropolitan Areas

Percent change, November 2006 - November 2007



## Employment Growth by Industry

Percent Change, October 2006 – October 2007

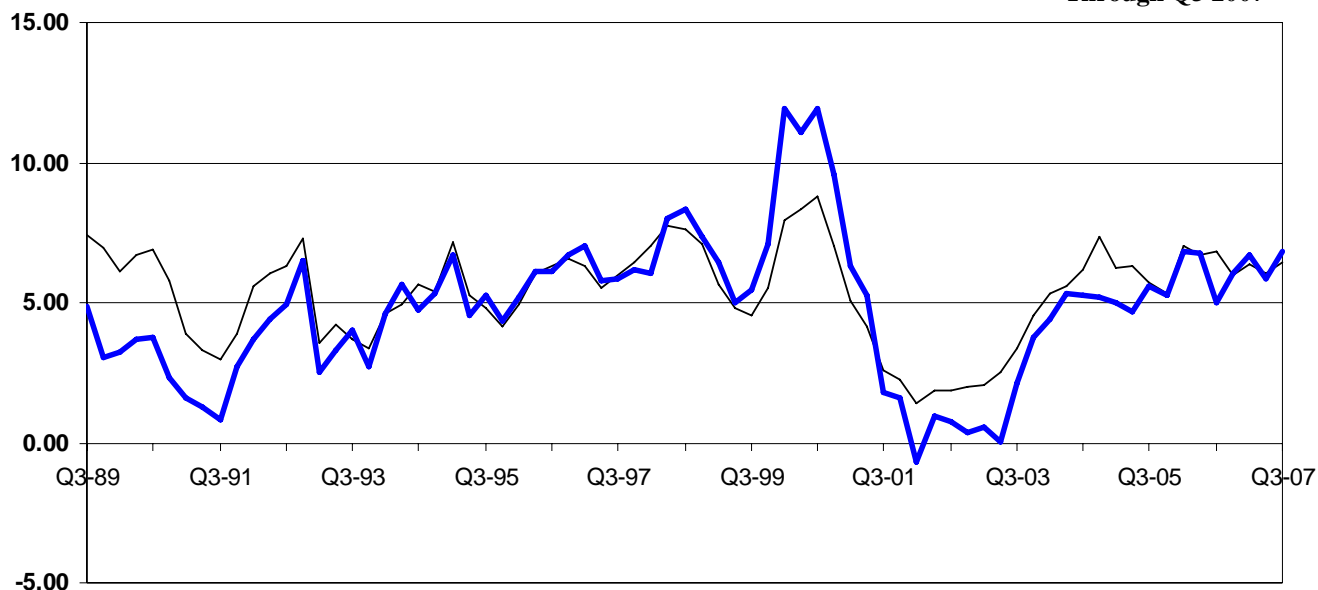


# Personal Income

Percent Change from a Year Earlier

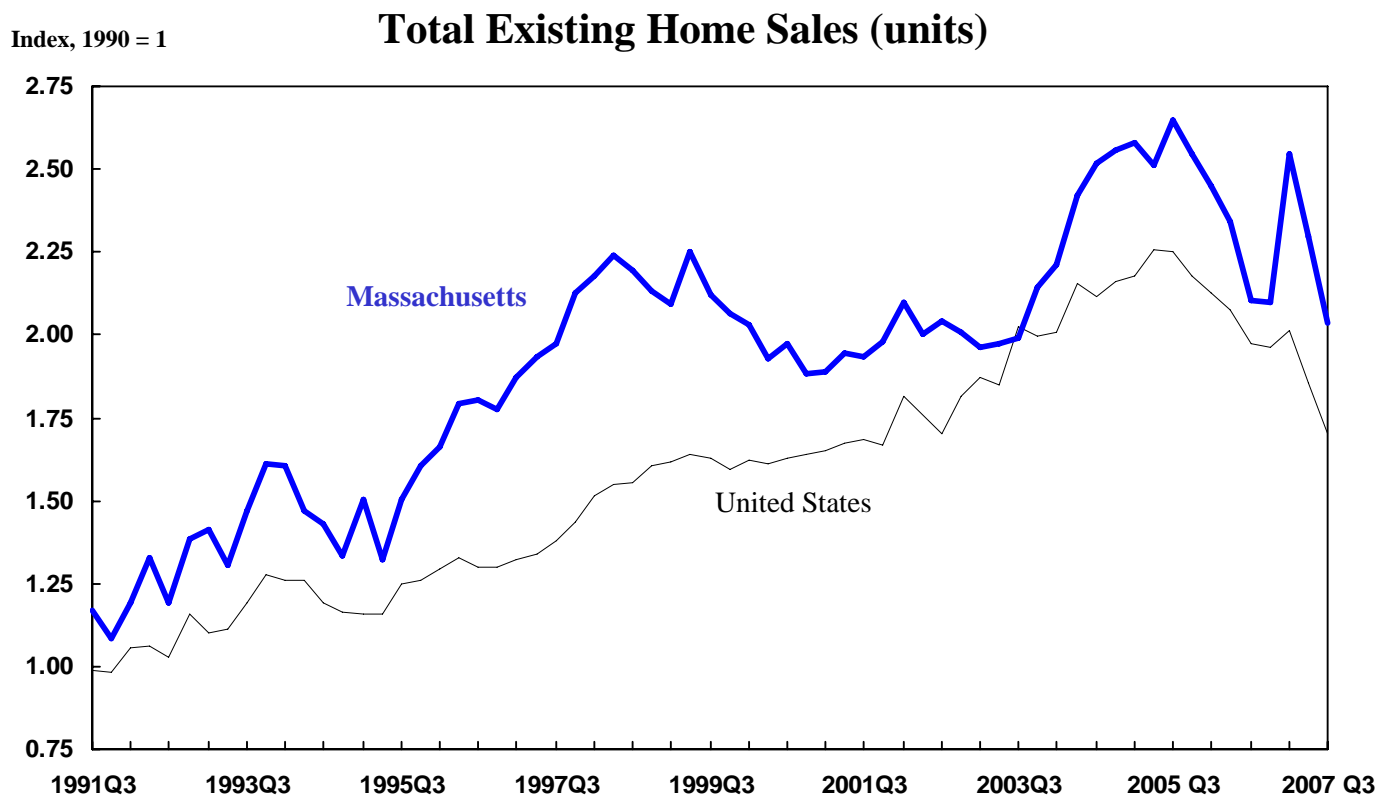
## In Massachusetts and the U.S.

Through Q3 2007



Note: US income in black.

Source: U.S. Bureau of Economic Analysis



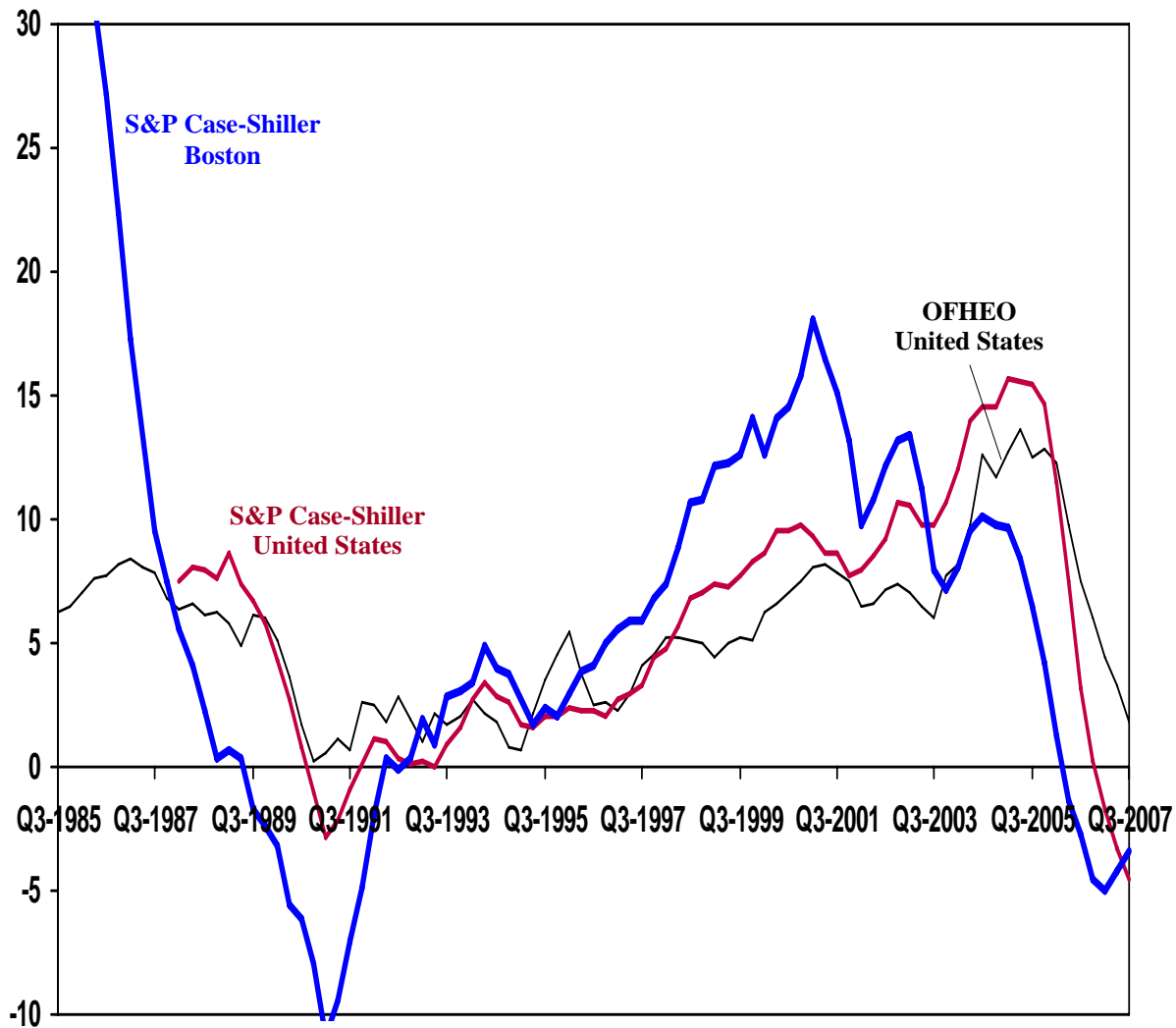
Source: National Association of Realtors.

## Repeat-Sales Home Price Index

Q1 1980 = 100

Percent Change from Year Earlier

Through Q3 2007

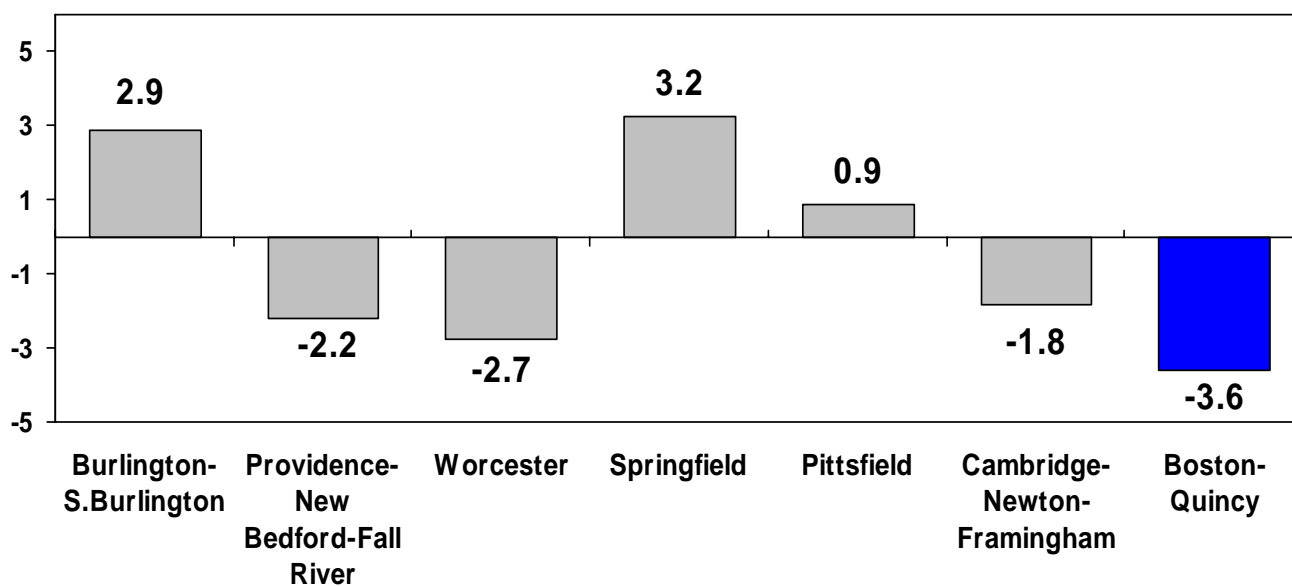


Source: OFHEO, S&P/Case-Shiller

## Metro Area Home Price Changes

**OFHEO**

Percent Change, Q3 2006 – Q3 2007



## Near term outlook

- **New England Economic Partnership (NEEP) forecast for job growth in NE**
  - **0.7% growth rate in 2008 is slow, but on par with national forecast**
  
- **NEEP forecast for Massachusetts**
  - **0.6% employment growth 2008**
  - **Gross state product growth 2.2% 2008 (only 0.5% for 2007)**
  - **House prices down 3.0% 2008 (after 1.5% decline 2007) based on OFHEO index**
  - **Unemployment up 0.1% 2008**

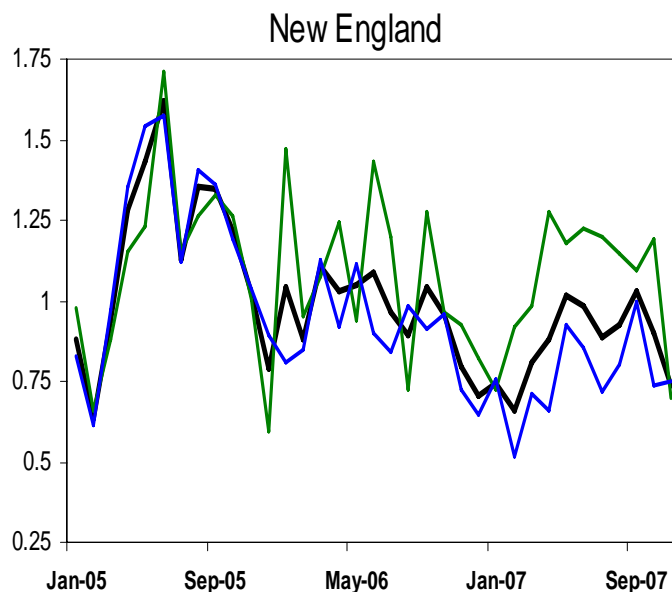
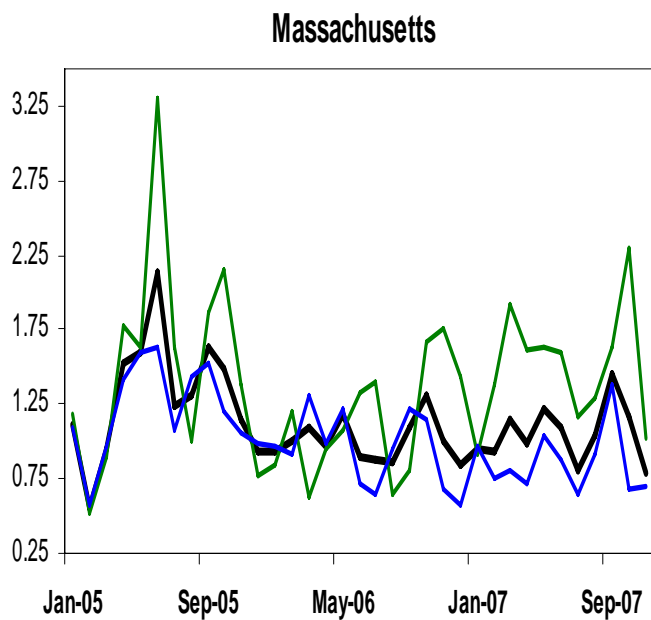
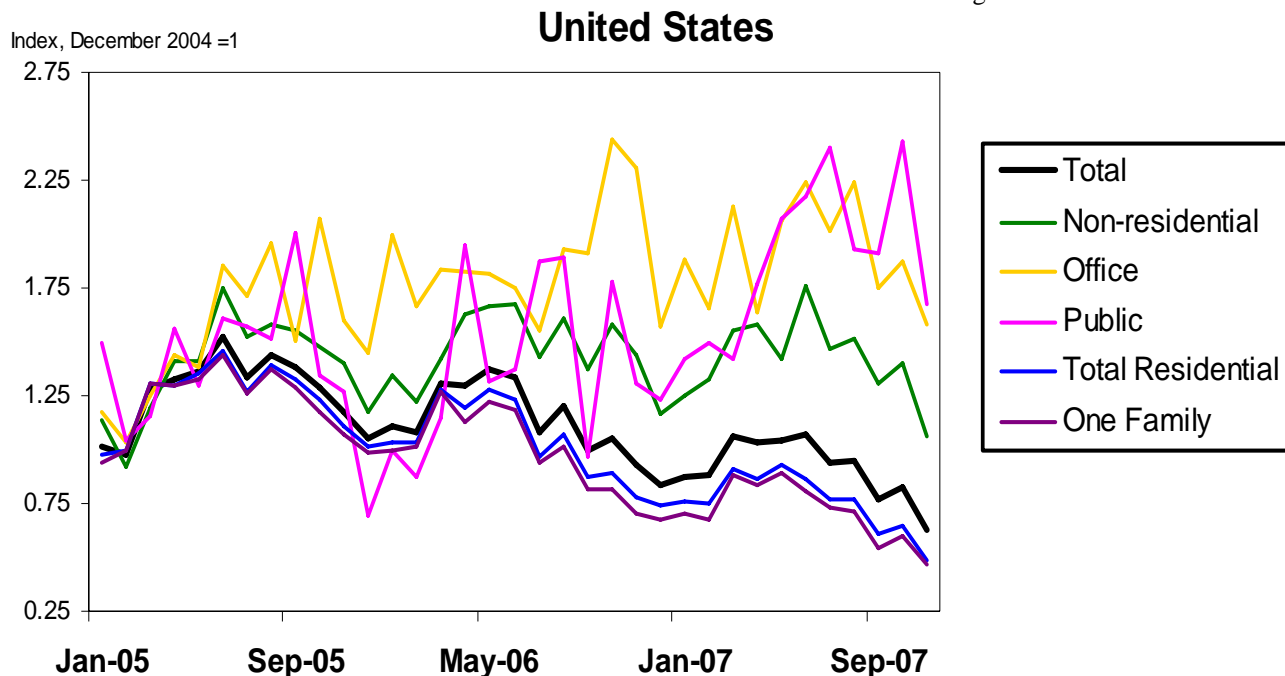
# **Focus on Construction**

**Residential:  
Bad**

**Non-residential:  
Good**

## Construction Contracts Index (square feet)

Through November 2007



Source: McGraw-Hill Construction Dodge

# Highlights of Two 2008 forecasts for construction in New England (as cited in *New England Construction* January 14, 2008)\*

## Jim Haughey, Chief Economist for Reid Construction Data (RCD)

- Value of nonresidential building “startups” **up** 5 percent over 2007
- Value of transportation construction **up** 12 percent
- Value of water and sewer construction **down** 32 percent

## FMI Corporation

- Value of nonresidential construction put in place **up** 5.9 percent over 2007
- Value of nonresidential building construction **up** 6 percent
- Education building up 6 percent
- Office building **up** 7 percent
- Commercial building **up** 4 percent
- Non-building construction **up** 5 percent
- **But** **Total non-residential contracts** forecasted to **drop** 3.2 percent

\*Paul Fournier, “Gains Seen for Construction in New England”

<http://www.acppubs.com/article/CA6516670.html>

## FINAL THOUGHTS

“ We confront economic challenges, from the downturn of the housing sector to high energy prices to painful adjustments in some of the financial markets.”

...this is a resilient economy, because we rely on the free enterprise system. Our economy is flexible, it motivates people to take risk. We are the most prosperous nation in the world. There's a sense where we can be optimistic. We have seen anxiety -- dealt with anxiety before; this isn't the first time.

“ People said, ‘Are you optimistic?’ I said, ‘Absolutely, absolutely optimistic.’ Do I recognize the reality of the situation? You bet I do.”

Excerpts from President Bush’s speech before the Union League Club of Chicago, January 7, 2008.

<http://www.whitehouse.gov/news/releases/2008/01/20080107-7.html>