

# The New England Economy: Jobs, Housing, and Affordability

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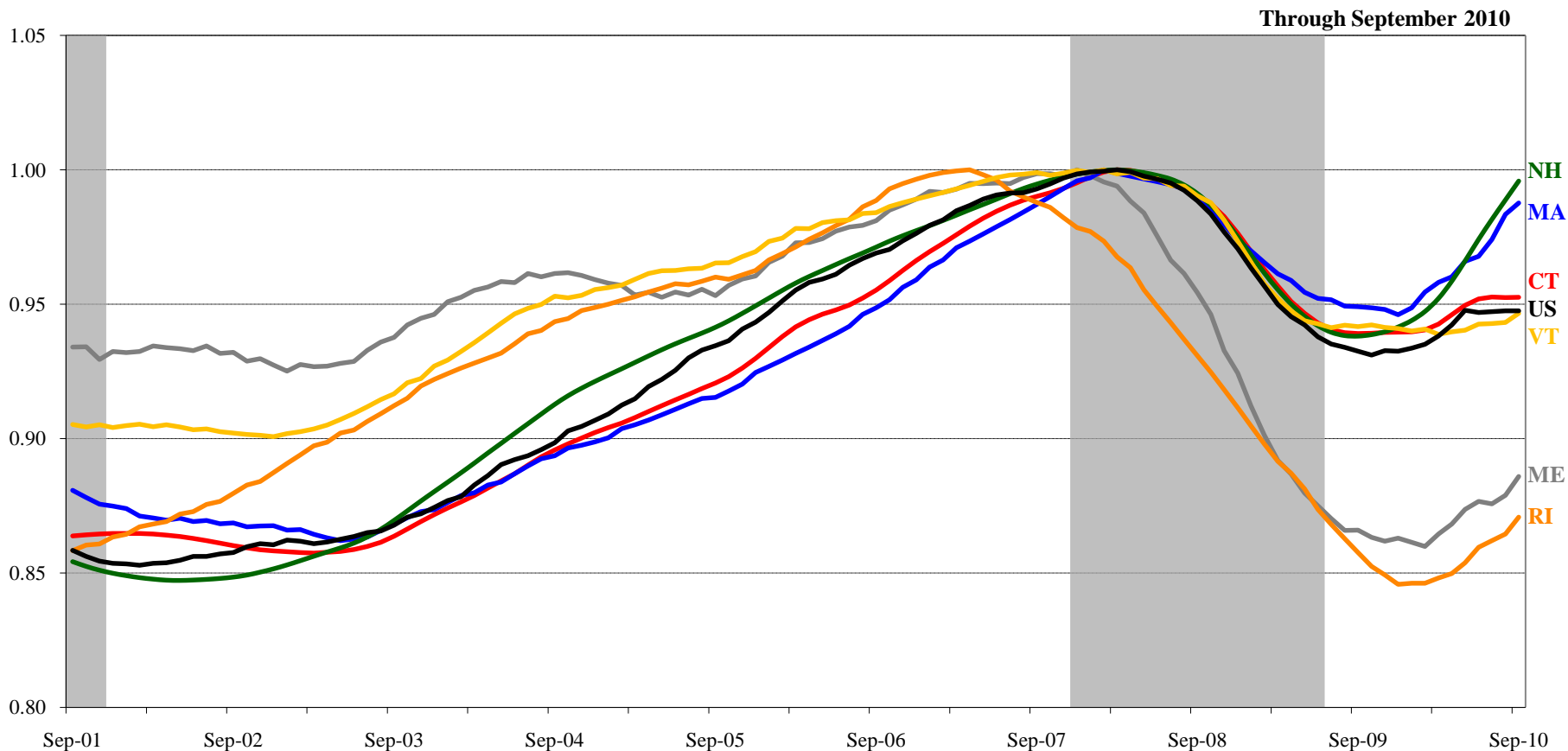
\*The views expressed in this presentation are mine and not necessarily those of the Federal Reserve Bank of Boston or Federal Reserve System

# Overview

- Job Market
- Prices, Income, and Confidence
- Housing Market
- Housing Affordability

# New England's economic performance has varied by state...

## State Economic Activity Indexes



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

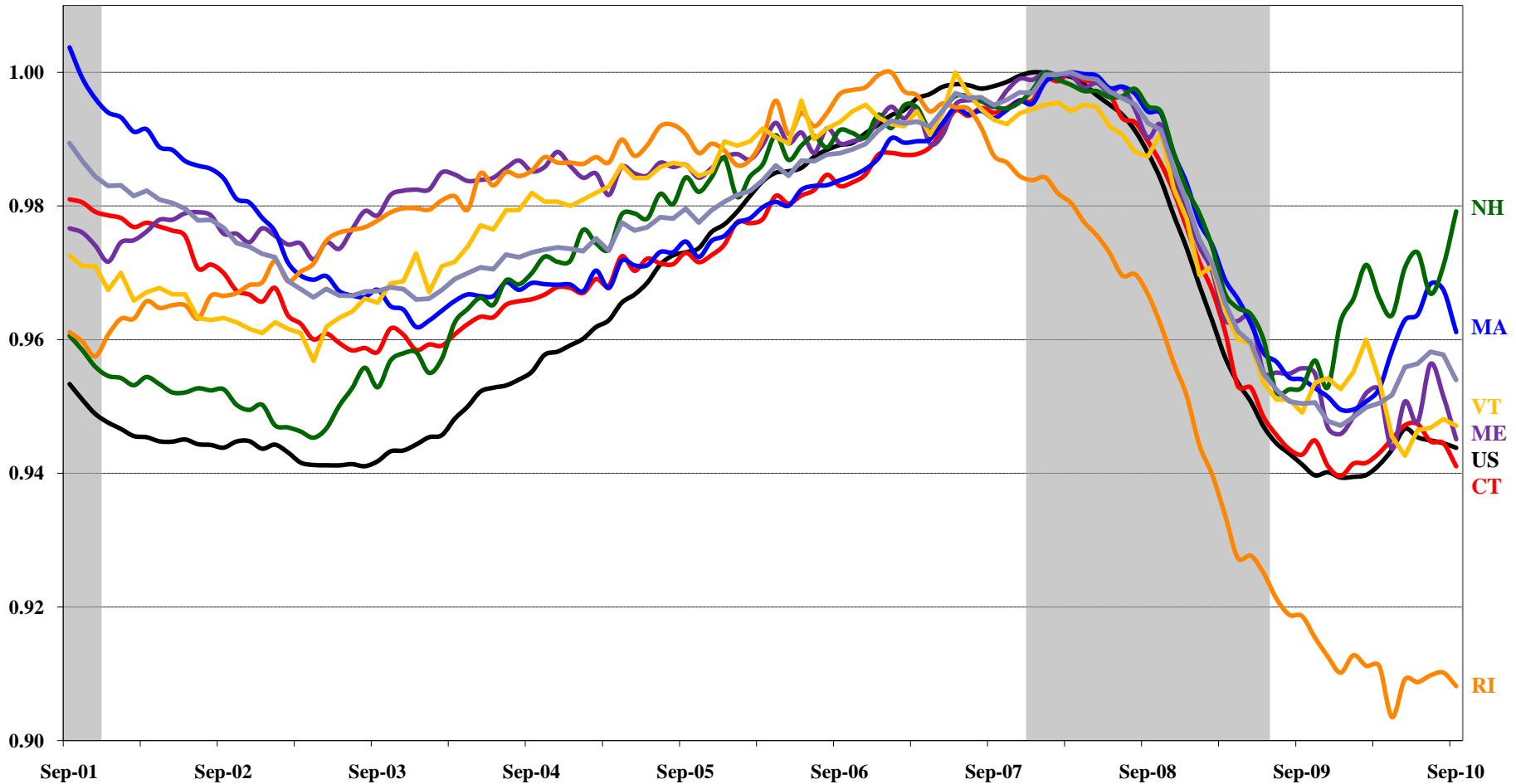
Note: The economic activity indexes include four indicators: non-farm employment, the unemployment rate, average weekly hours worked in manufacturing, and wage and salary disbursements. The trend for each state's index is set to match the trend for its gross domestic product (available annually). Shaded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

Sources: Federal Reserve Bank of Philadelphia

# Most states in the region fared better than the Nation in employment...

## Total Employment

Through September 2010



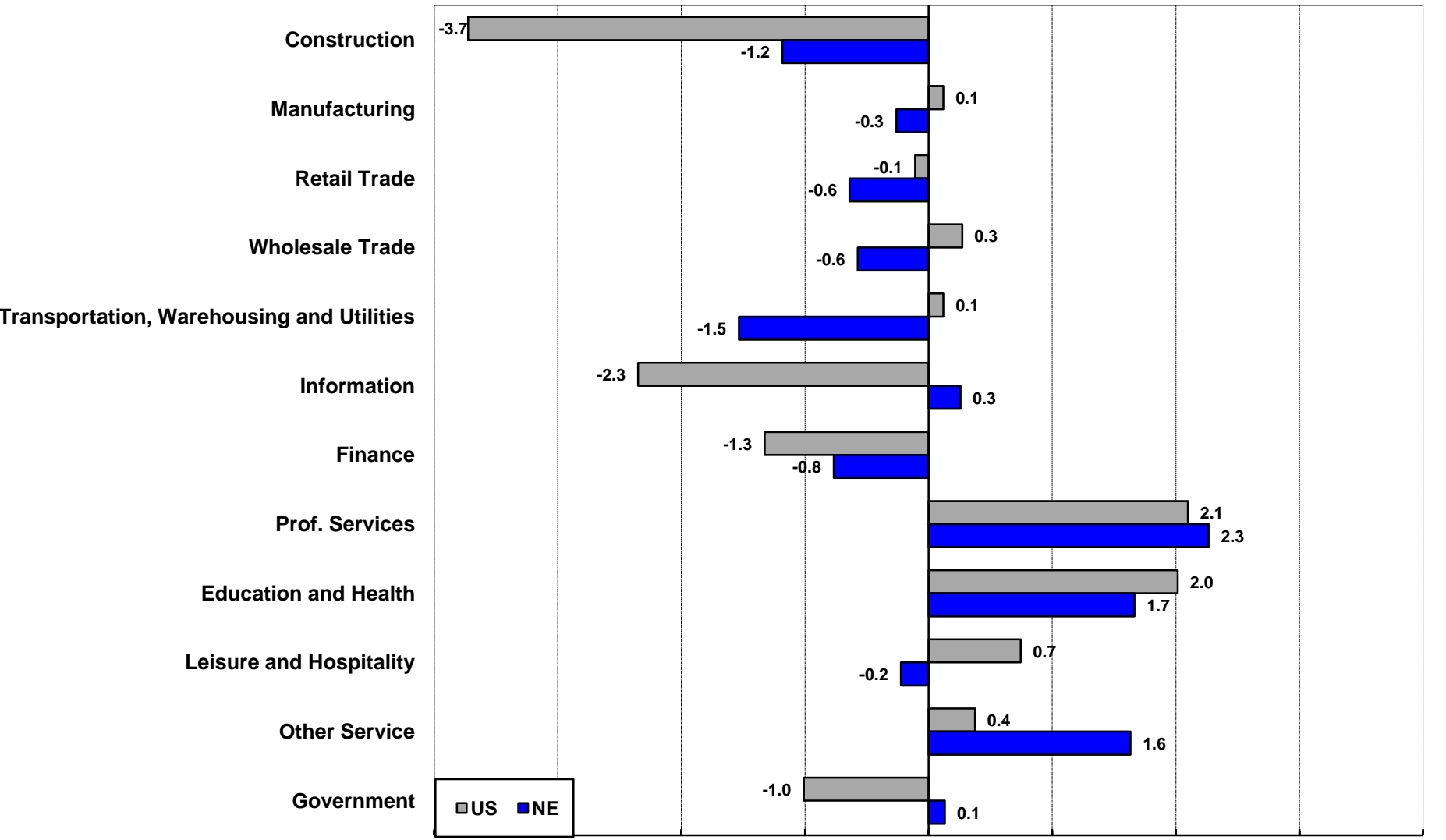
Index: Each state's pre-recession peak is equal to 1.

Sources: Bureau of Labor Statistics



# Employment Growth by Supersector

Percent Change, September 2009 – September 2010

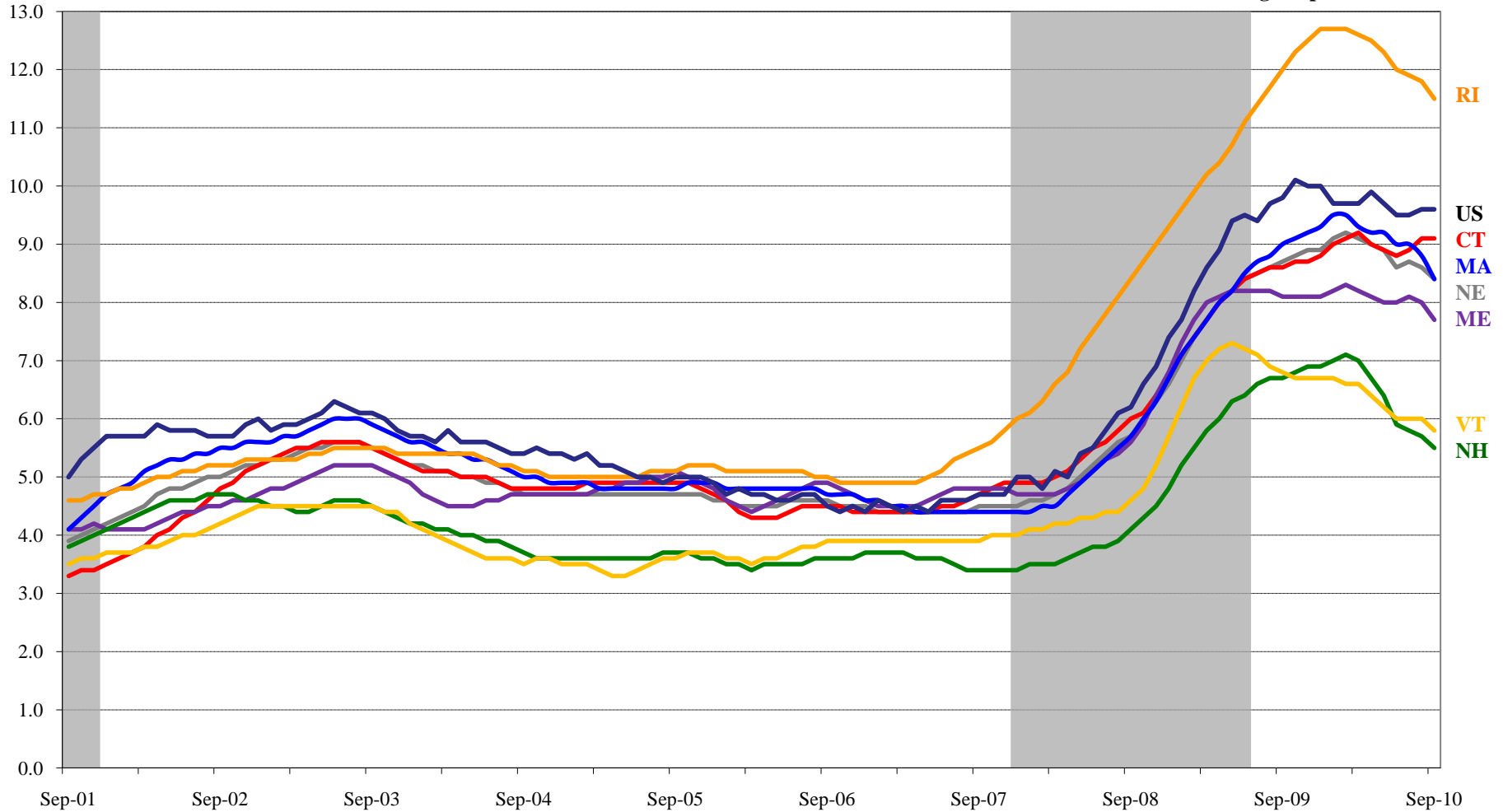


Source: U.S. Bureau of Labor Statistics

# Unemployment has remained below the national rate...

## Unemployment Rate

Through September 2010

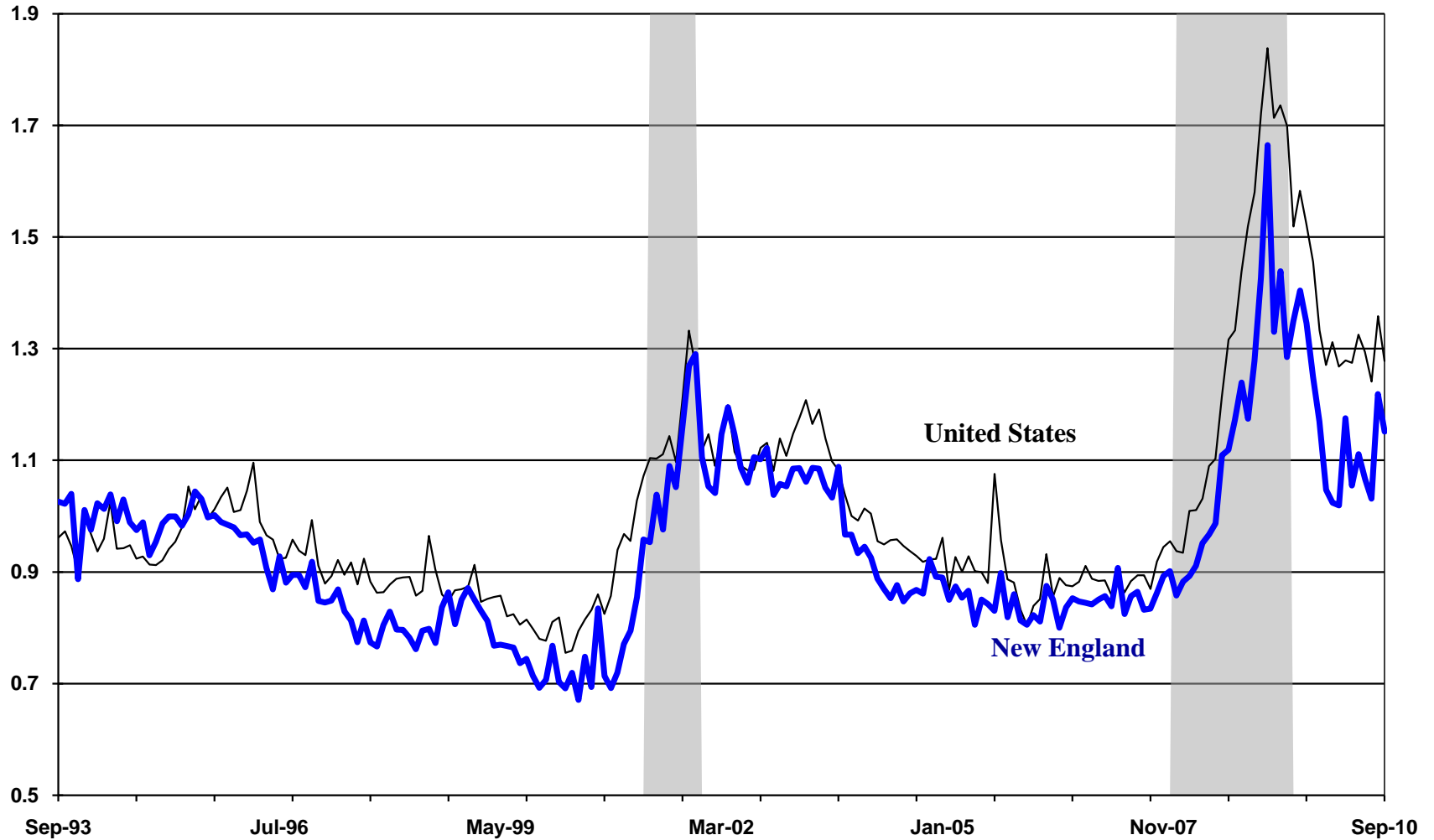


Sources: Bureau of Labor Statistics

# Initial Claims for Unemployment Insurance

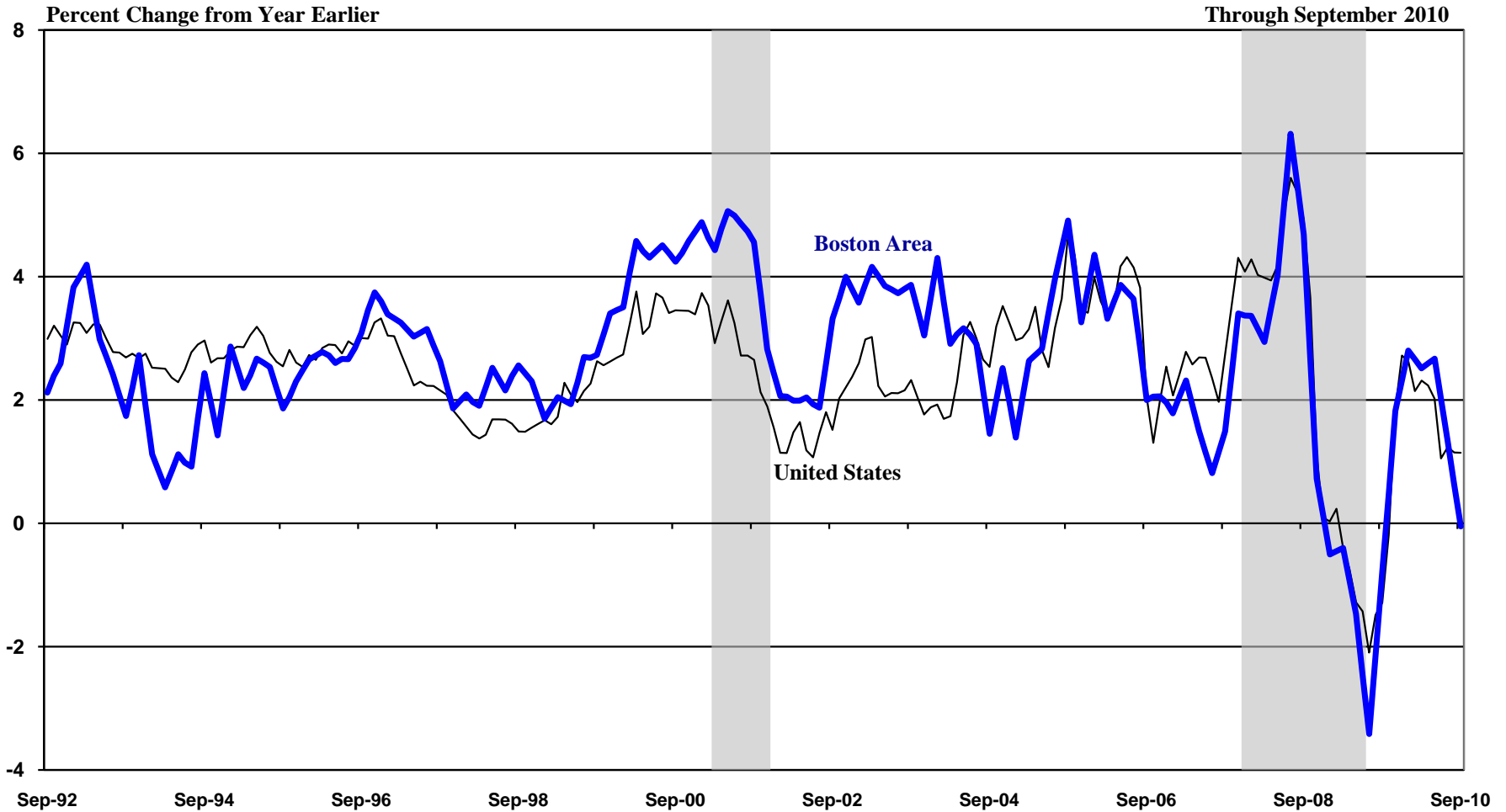
Index 1995 = 1

Through September 2010



Source: U.S. Department of Labor and Federal Reserve Bank of Boston. Shaded bars are recessions.

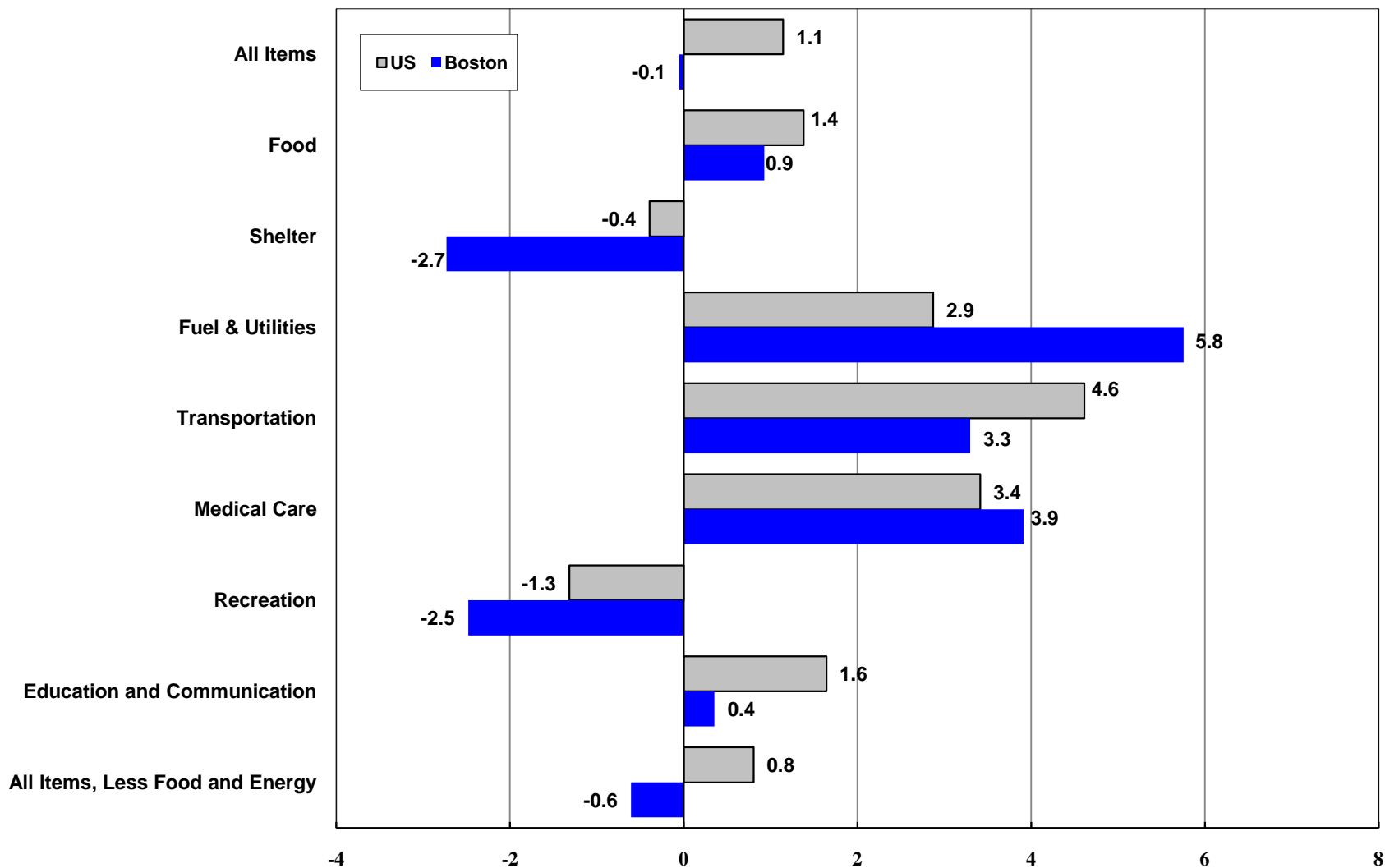
# Consumer Price Index



Note: CPI is for all urban consumers.  
Source: U.S. Bureau of Labor Statistics.

# Components of Consumer Price Increases

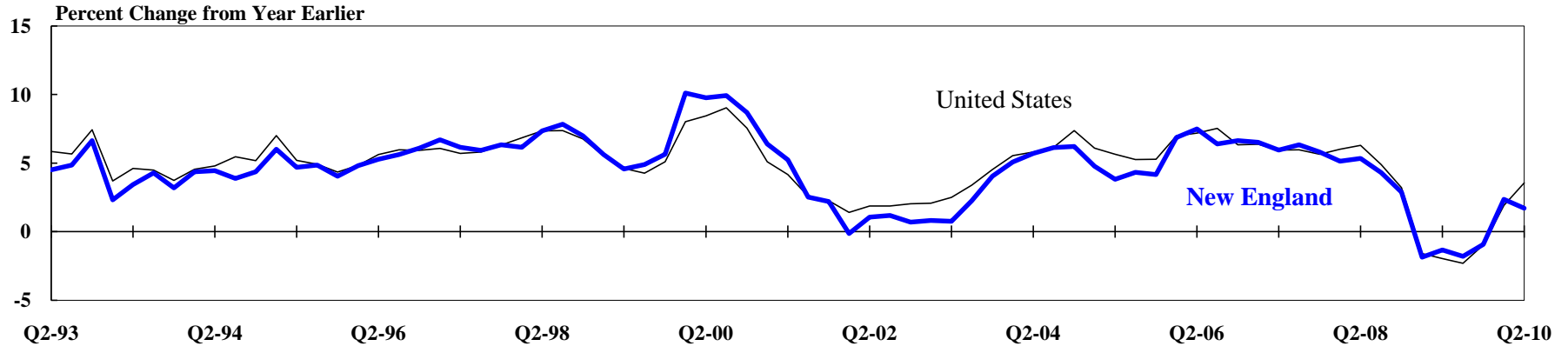
Percent Change, September 2009 – September 2010



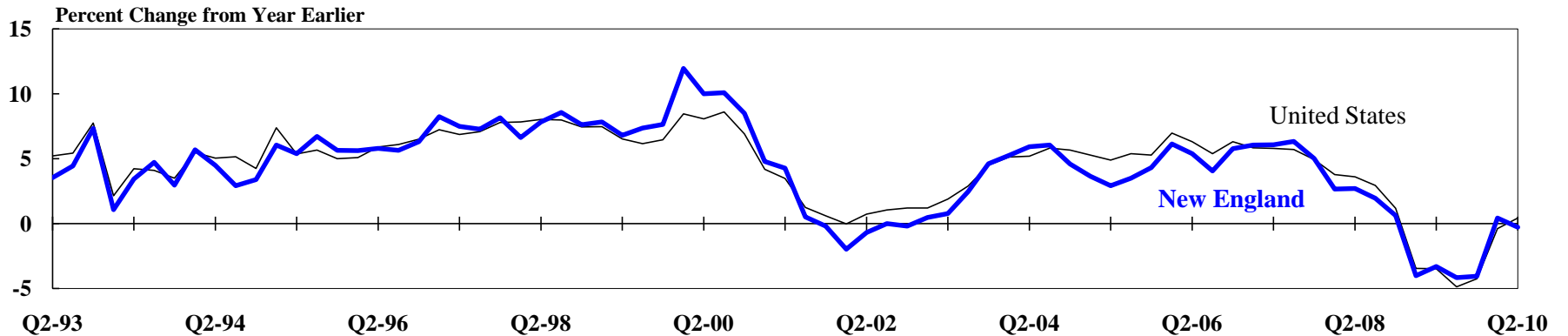
Source: U.S. Bureau of Labor Statistics.

# Income is growing slower in the region...

## Personal Income



## Total Wage and Salary Disbursements

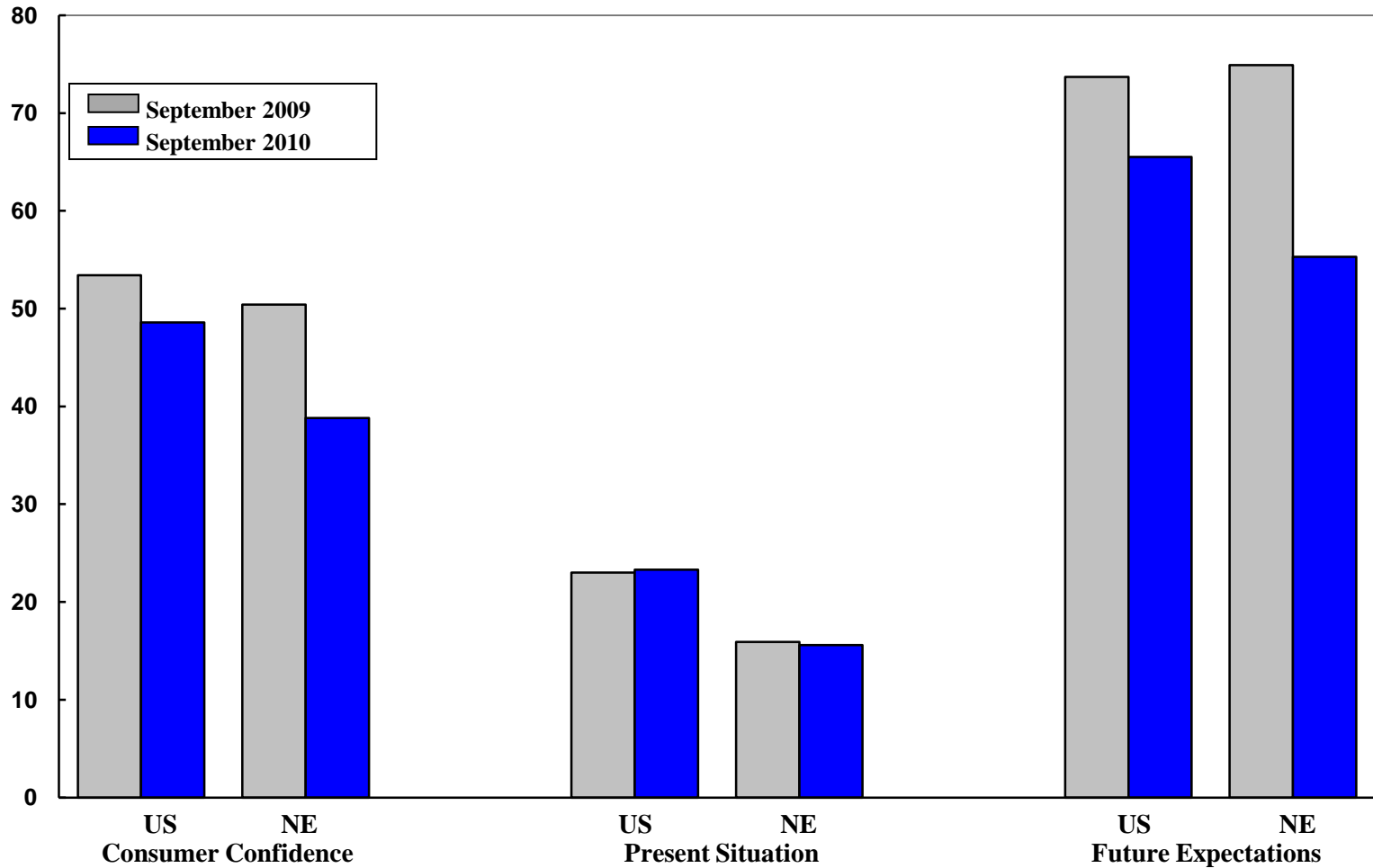


Source: U.S. Bureau of Economic Analysis.

# Consumer confidence continues to deteriorate...

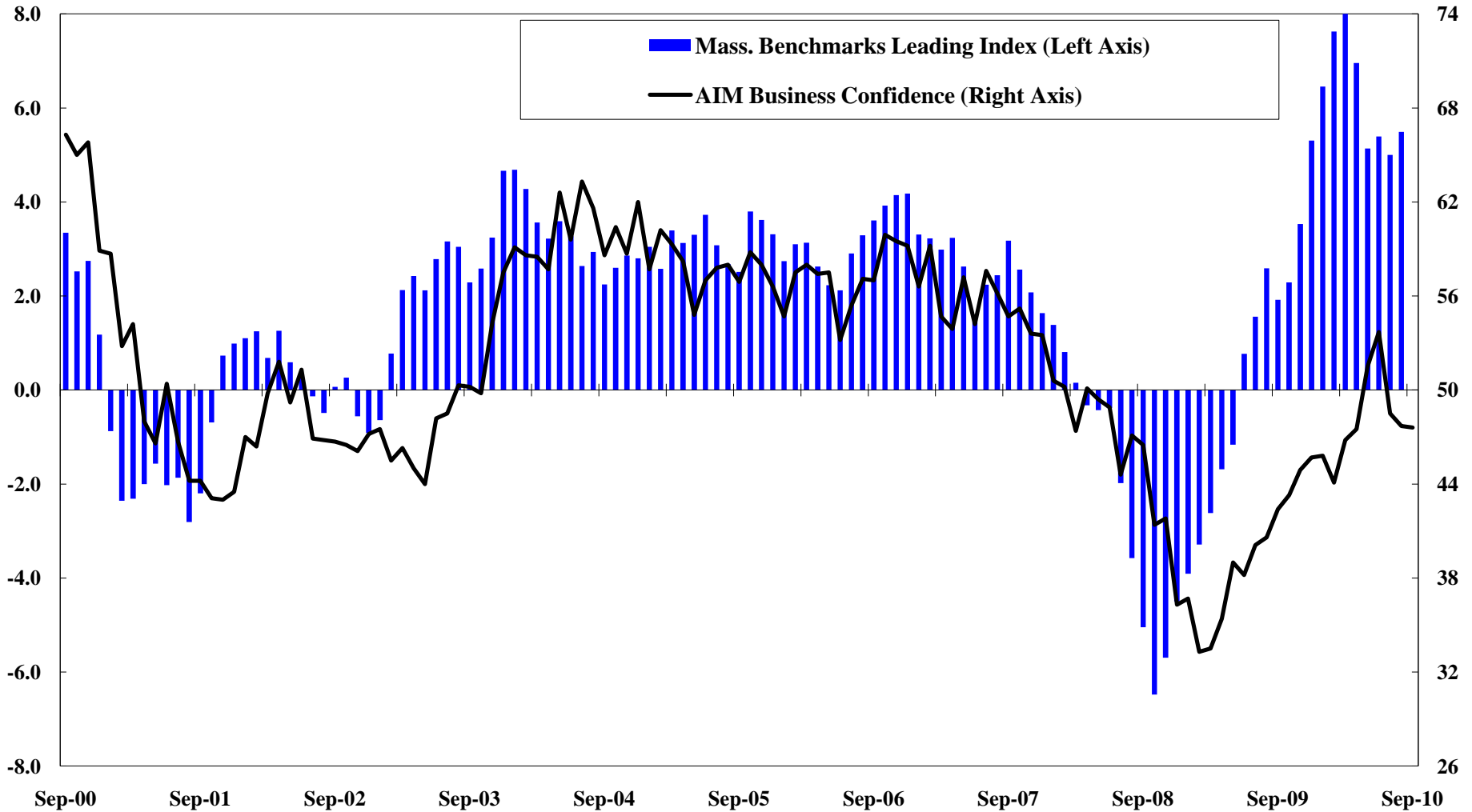
## Consumer Confidence

1985 U.S. Average = 100



Source: The Conference Board

# Massachusetts Business Indicators



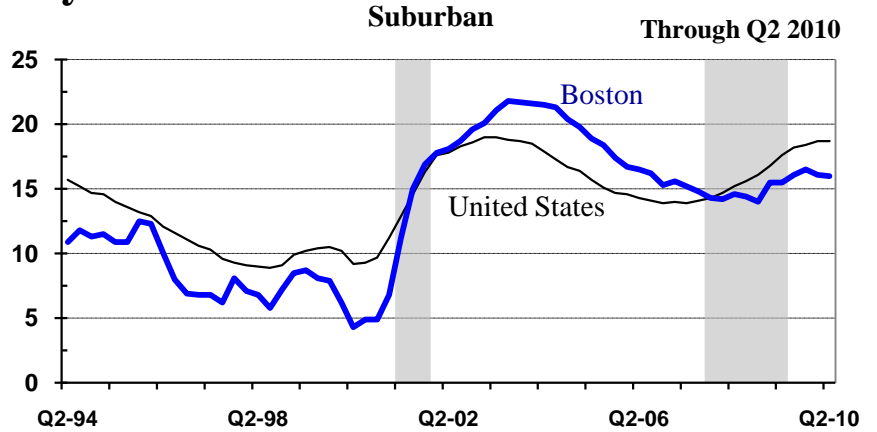
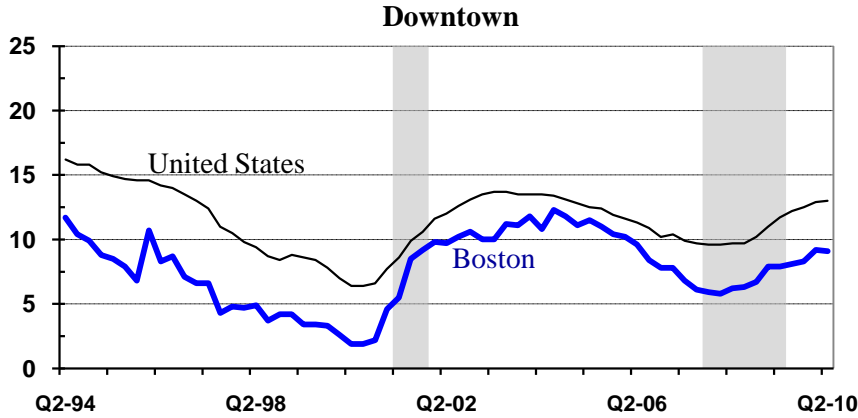
Source: Associated Industries of Massachusetts and the University of Massachusetts.

Note: The Massachusetts Benchmarks Index was formerly known as the UMass Leading Index



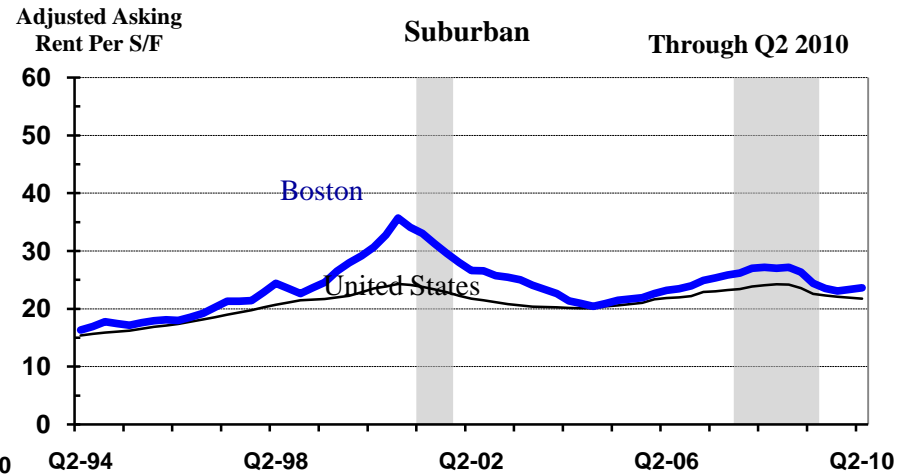
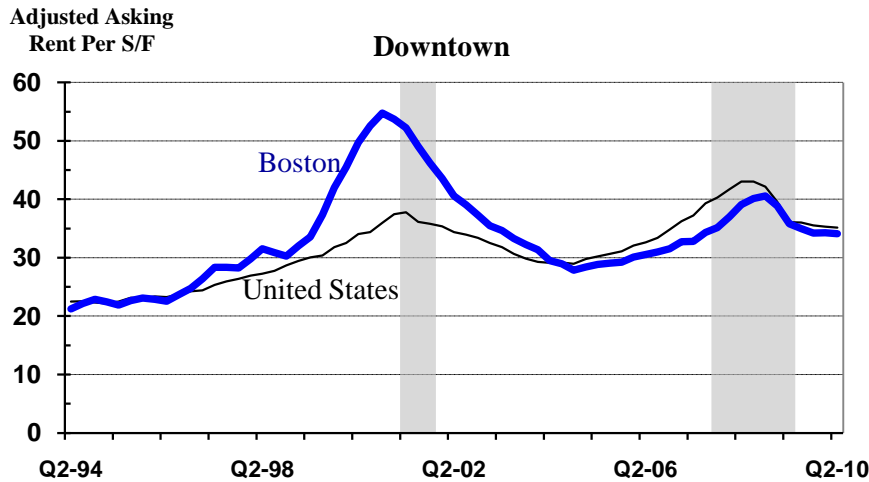
# The real-estate market has been mixed...

## Office Vacancy Rates



Source: CB Richard Ellis Econometric Advisors.

## Office Rents



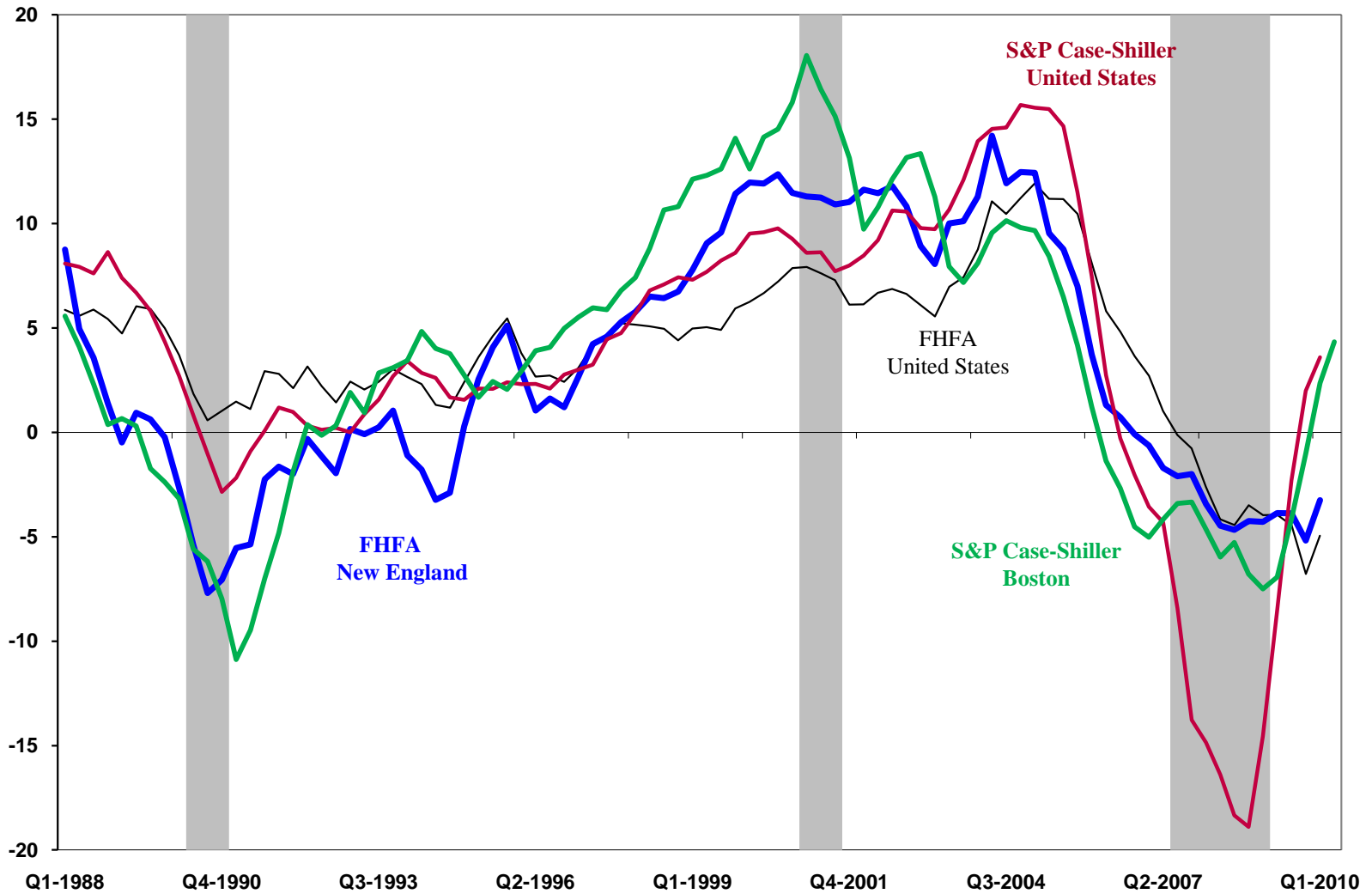
Source: CB Richard Ellis Econometric Advisors.

# Repeat-Sales Home Price Index

Q1 1980 = 100

Percent Change from Year Earlier

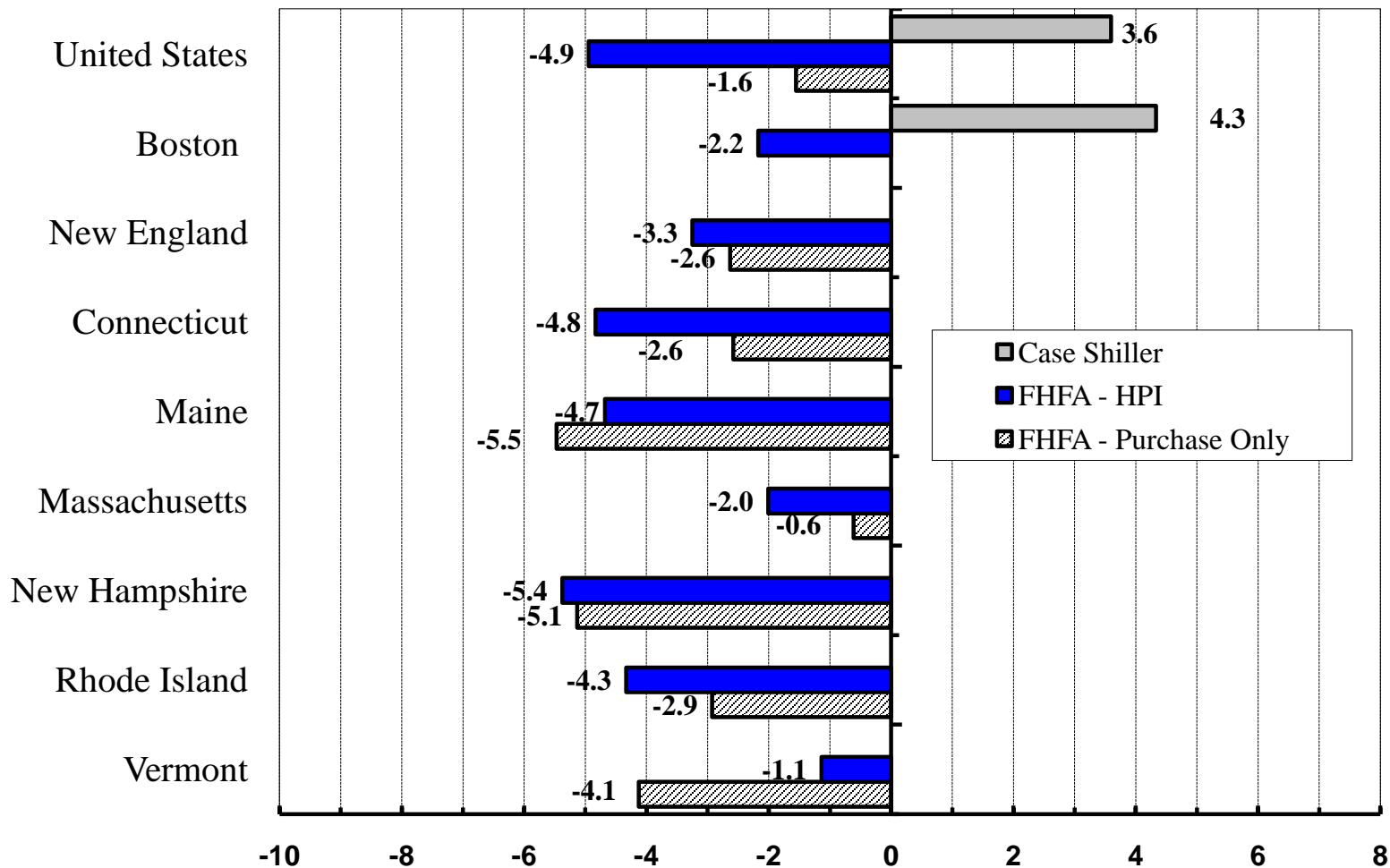
Through Q2 2010



Source: FHFA, S&P/Case-Shiller

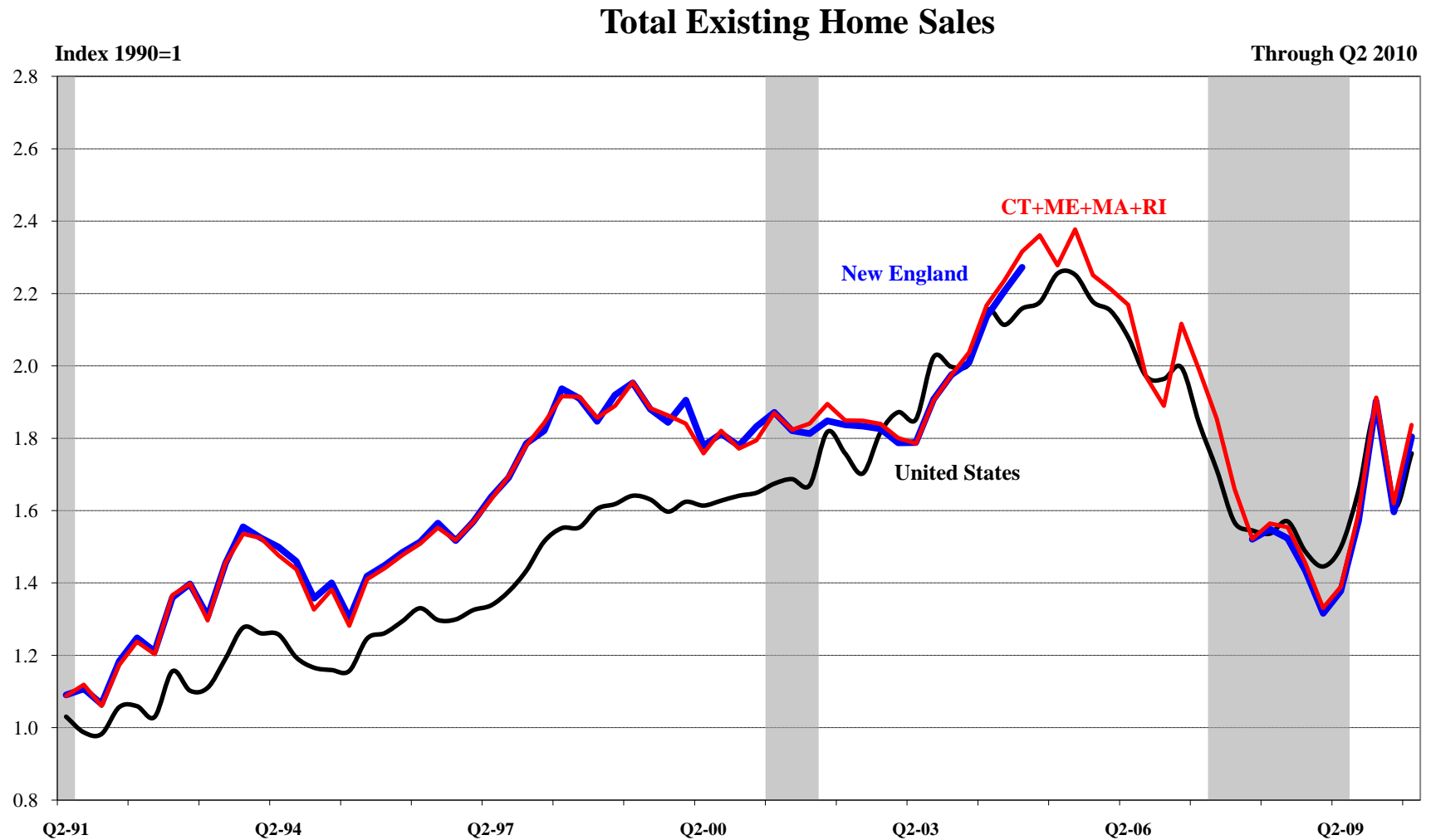
# House Price Changes

Percent Change, Q2 2009 – Q2 2010



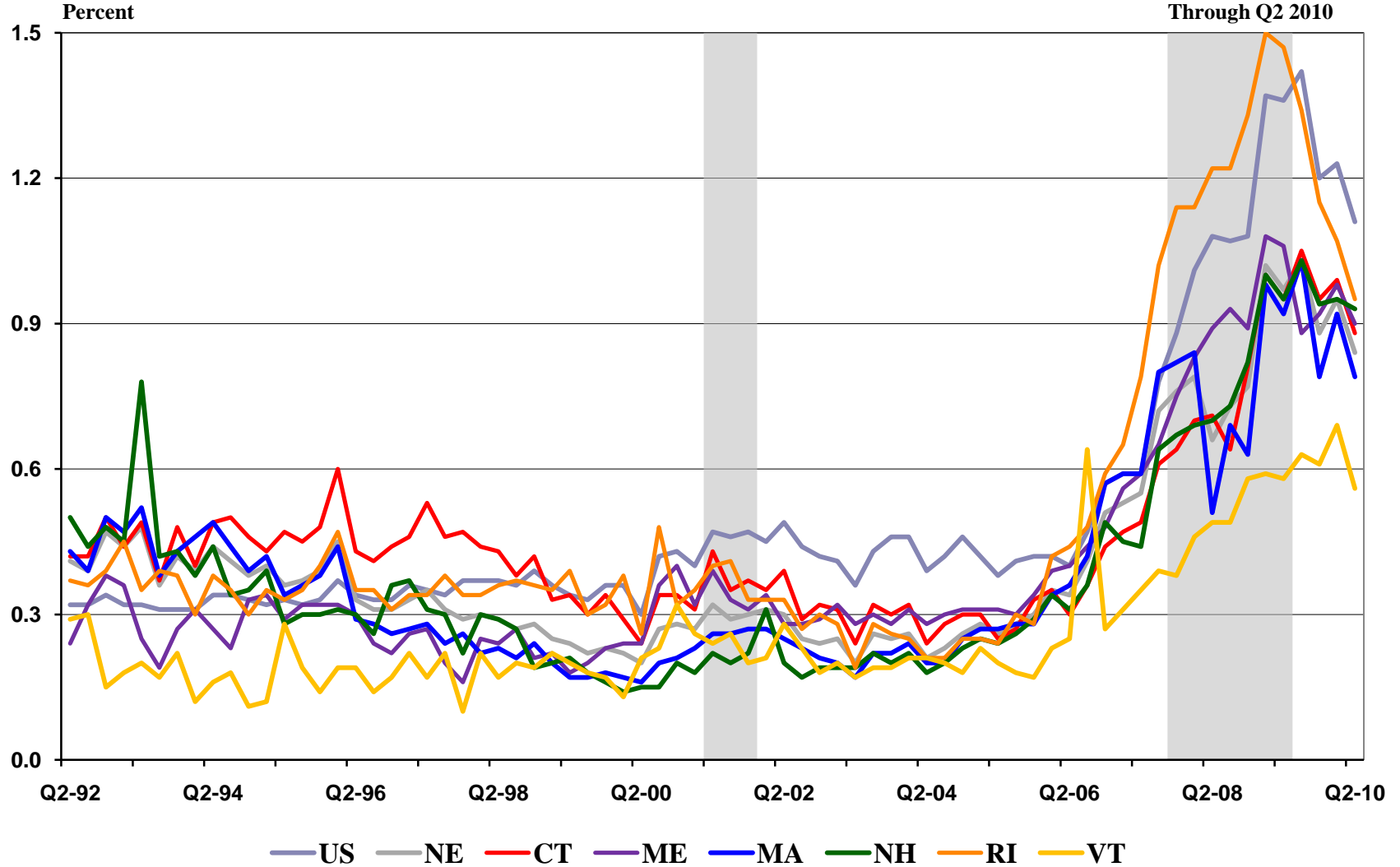
Source: FHFA, S&P/Case-Shiller

# Existing home sales have declined but were buoyed by the tax credit...



Sources: Bureau of Labor Statistics

# Foreclosures Started as a Percent of All Loans



Source: Mortgage Bankers Association

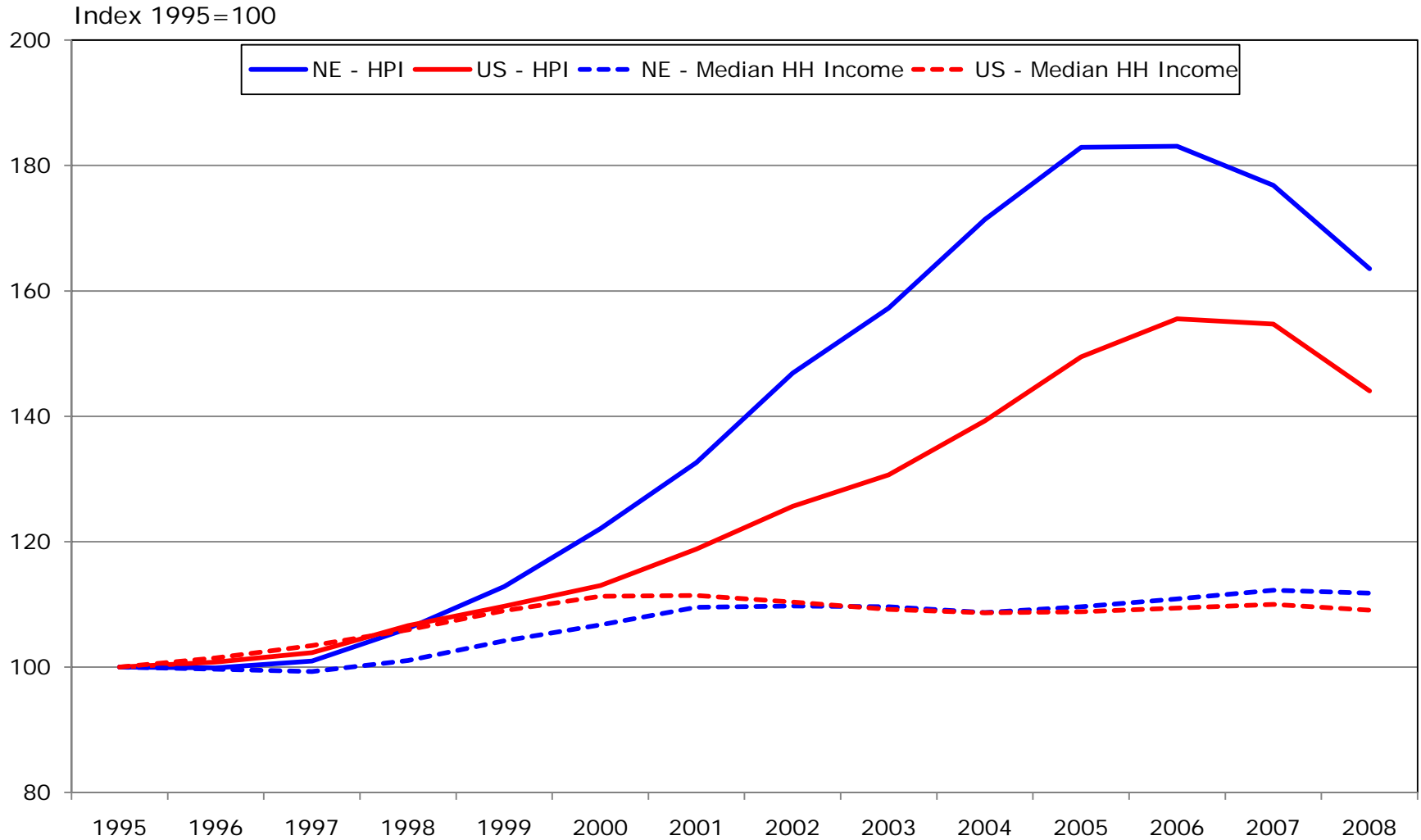
# Perceived Positive of the Housing Crisis

- Falling housing prices have resulted in record affordability:

*“Houses in the United States are now more affordable than at any time in the last 40 years, when compared with personal income.” ~ New York Times, March 6, 2009.*

- However, most households in New England and the United States entered the recession facing cost burdens from housing and few are able to take advantage of declining house prices.

## Real Housing Prices versus Real Household Incomes, 1995-2008: New England and the United States



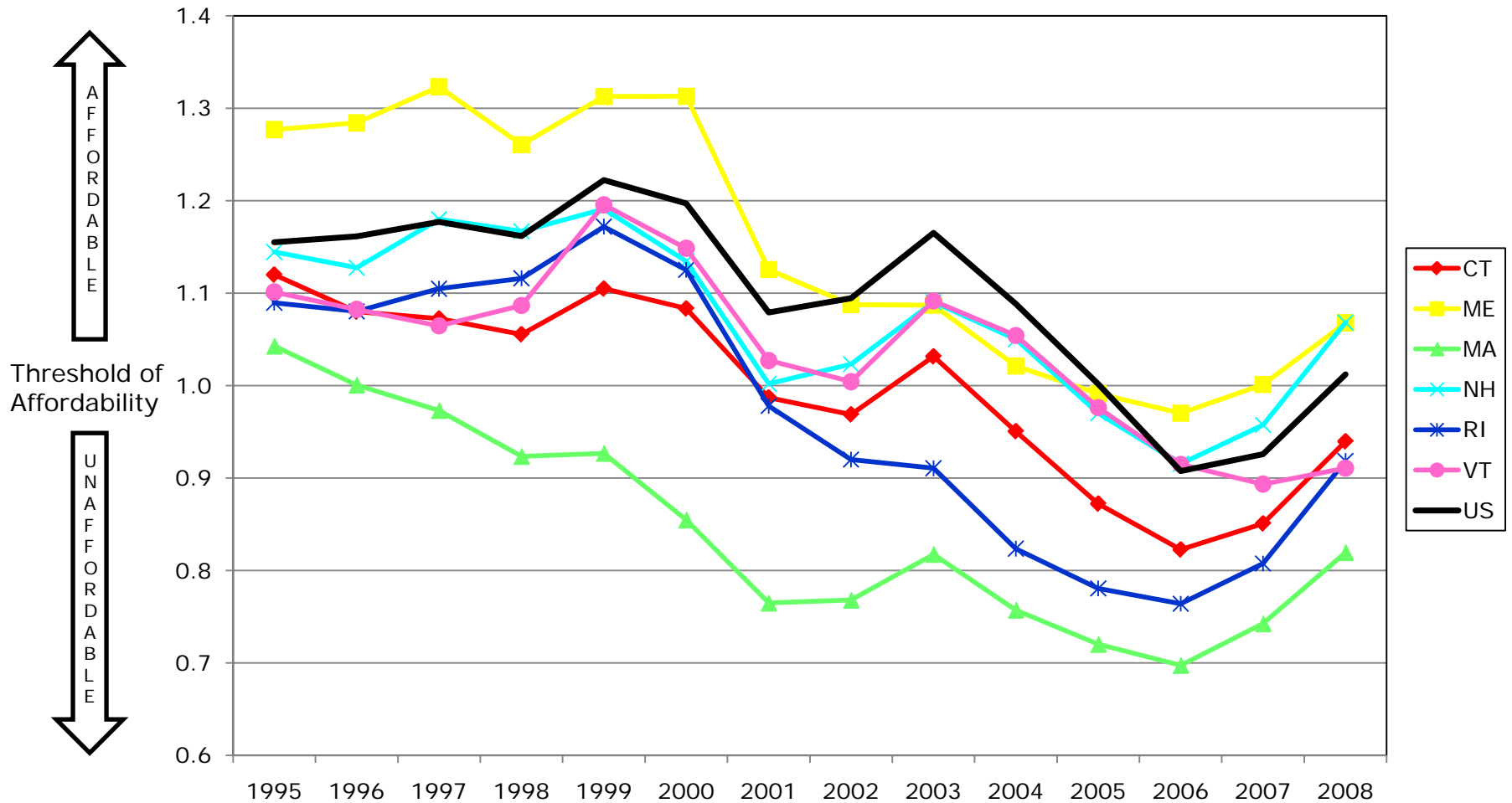
Source: Federal Housing Finance Agency and U.S. Census Bureau, Current Population Survey.

Note: HPI= Housing Price Index. HH = Household.

# In-depth Measure of Affordability: Income Adequacy Ratio

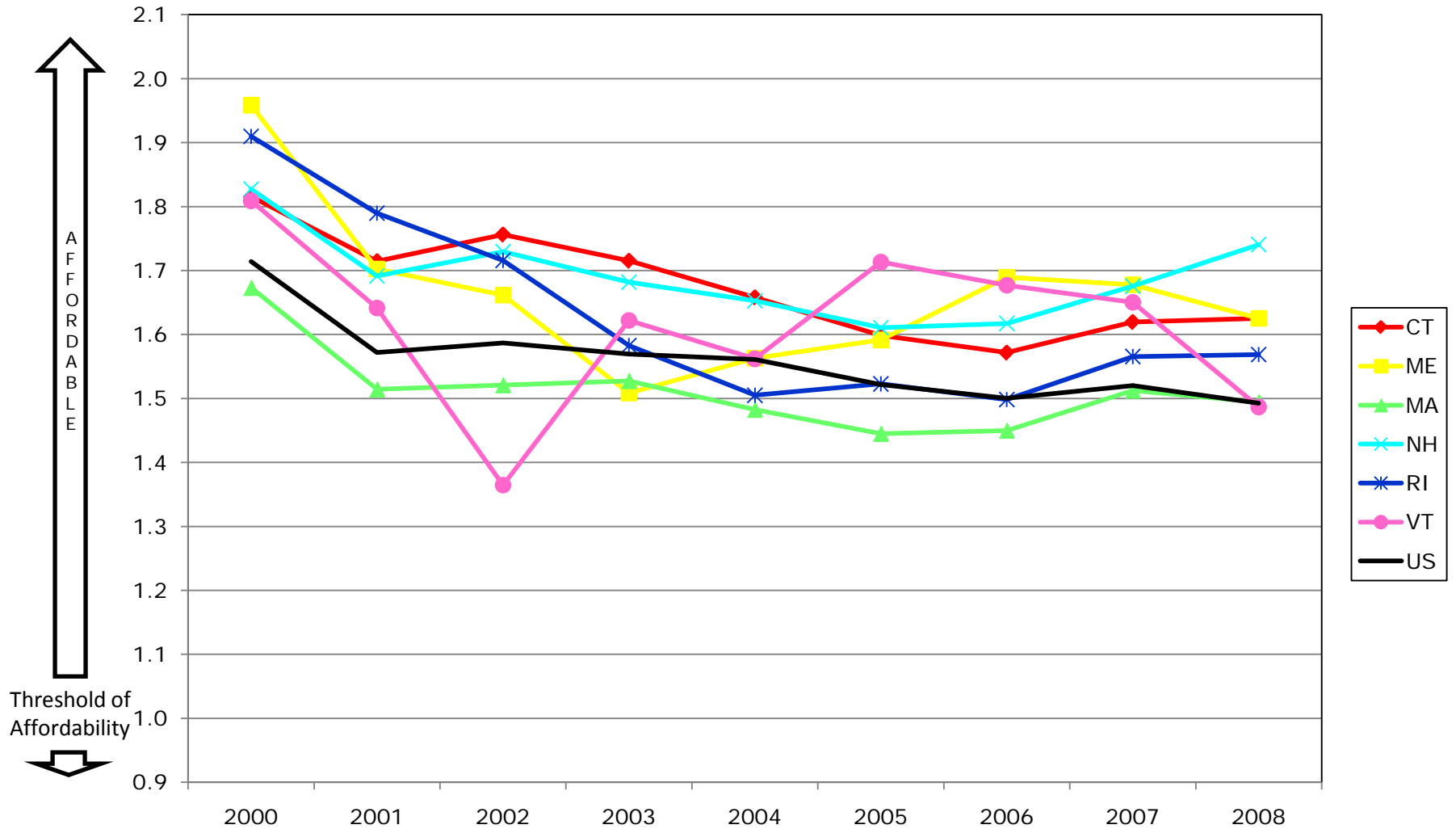
- Compares household income to income needed to afford housing. If measure is great than or equal to 1.0 the area is affordable.
- Look beyond housing price or monthly rent:
  - For buyers: Interest rates, real estate taxes, insurance premiums, and personal mortgage insurance (for first-time homebuyers)
  - For renters: contract rent plus utilities
- Captures the state of housing affordability for those looking to buy or rent.

**Ratio of Real Annual Median Households Income to  
Real Annual Income Needed to Purchase the Median-Priced House:  
All Households**



Source: Clifford, Robert, (2010) "The Housing Bust and Housing Affordability in New England: An Update of Housing Affordability Measures," Federal Reserve Bank of Boston, NEPPC Discussion Paper 10-1.

## Ratio of Real Annual Median Household Income to Real Annual Income Needed to Afford the Gross Rent: All Households



Source: Clifford, Robert, (2010) "The Housing Bust and Housing Affordability in New England: An Update of Housing Affordability Measures," Federal Reserve Bank of Boston, NEPPC Discussion Paper 10-1.

## Ratio of Annual Household Income to Income Needed to Afford Median-Priced Housing, 2008:

### All Households

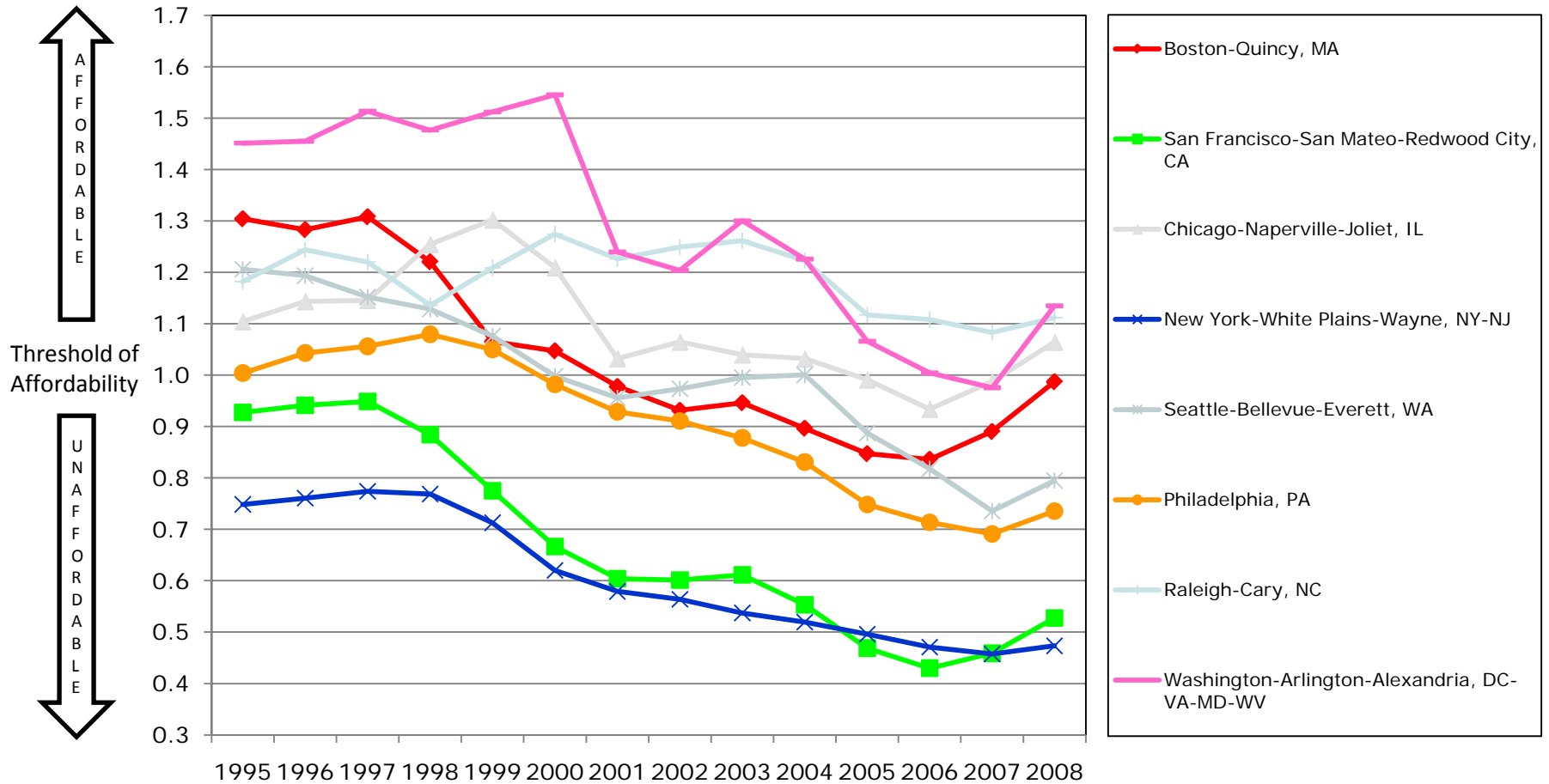
	"All Households" (aged 25+ and not in school)		"Potential First-Time Buyers" (age 25-39, not in school, currently rent)		"Young Professional" (aged 25-39, not in school, with a BA or higher)	
	[1] Median gross rent	[2] Median house price	[3] Median gross rent	[4] Median house price	[5] Median gross rent	[6] Median house price
Connecticut	1.63	0.94	1.10	0.64	2.41	1.39
Maine	1.63	1.07	1.19	0.79	2.41	1.59
Massachusetts	1.49	0.82	1.14	0.62	2.52	1.38
New Hampshire	1.74	1.07	1.27	0.79	2.37	1.45
Rhode Island	1.57	0.92	1.06	0.62	2.21	1.29
Vermont	1.49	0.91	1.16	0.72	2.10	1.28
United States	1.49	1.01	1.11	0.75	2.33	1.58

Notes:

Ratio = [Annual median household income] / [Annual income needed] for each housing type.

Source: Clifford, Robert, (2010) "The Housing Bust and Housing Affordability in New England: An Update of Housing Affordability Measures," Federal Reserve Bank of Boston, NEPPC Discussion Paper 10-1.

**Boston versus Competitor MSAs**  
**Ratio of Real Annual Median Households Income to Real Annual Income Needed to Purchase the Median-Priced House:**  
**All Households**

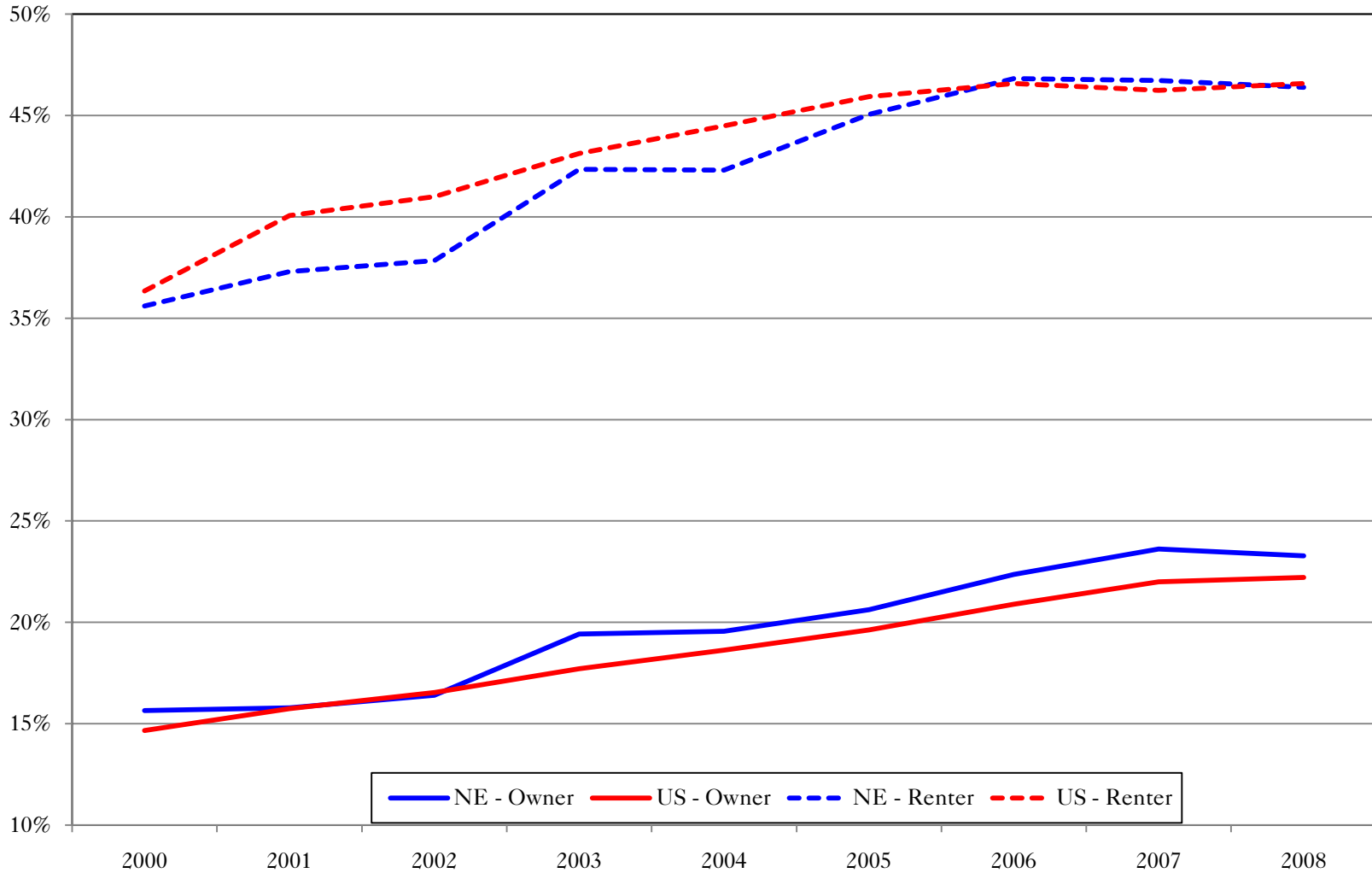


Source: Clifford, Robert, (2010) "The Housing Bust and Housing Affordability in New England: An Update of Housing Affordability Measures," Federal Reserve Bank of Boston, NEPPC Discussion Paper 10-1.

# In-depth Measure of Affordability: Housing Burden

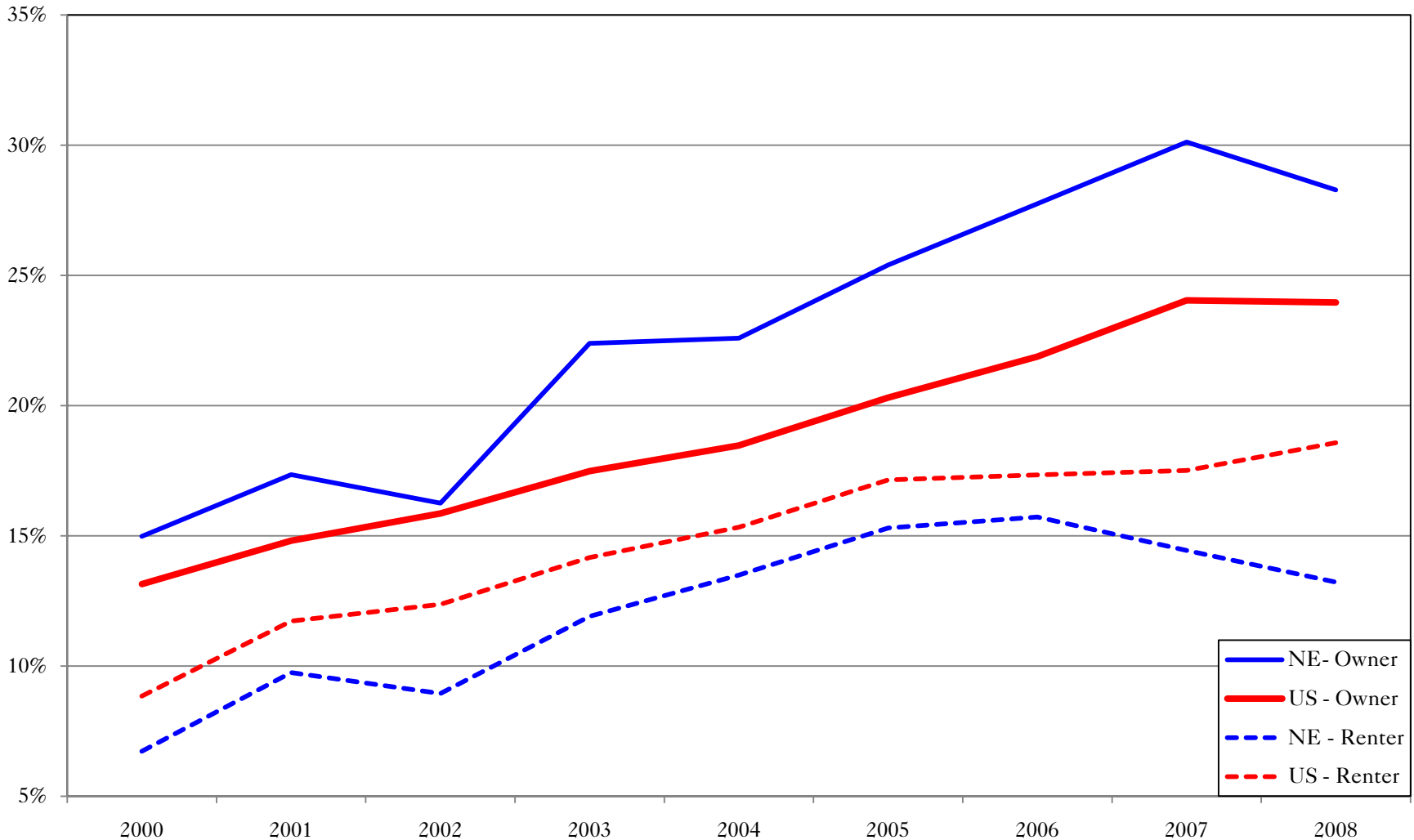
- Calculates the actual percentage of income that household spend on housing costs
- Tracks similar data to income adequacy ratio but is based on survey data. Captures the experience of those currently owning and renting.
- Households are categorized as experiencing a housing burden if housing costs exceed 30 percent of household income. Severely burdened if costs exceed 50 percent.

## Percentage of Households Experiencing Moderate or Severe Housing Burden: Homeowners versus Renters



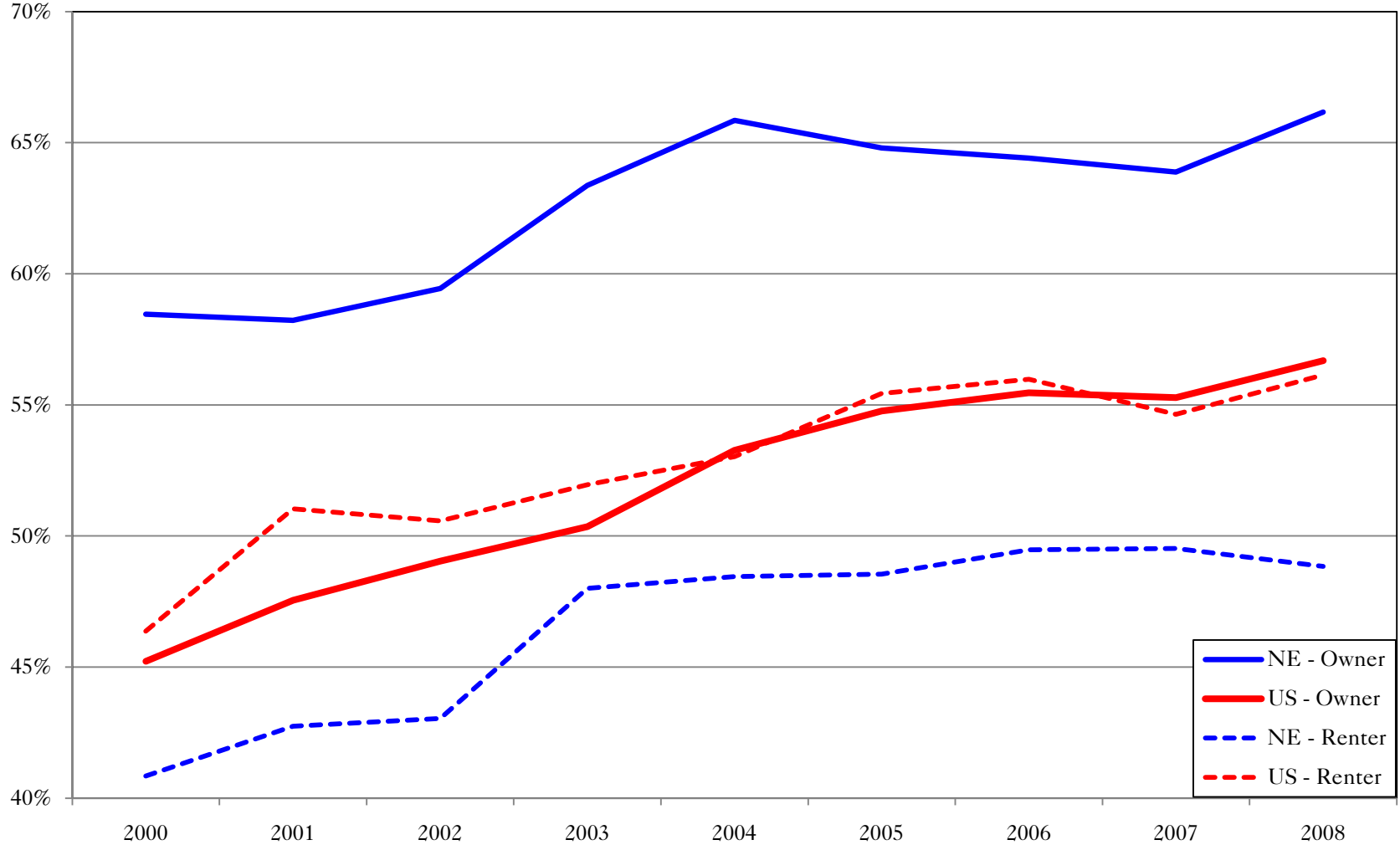
Source: Clifford, Robert, (2010) "The Housing Bust and Housing Affordability in New England: An Update of Housing Affordability Measures," Federal Reserve Bank of Boston, NEPPC Discussion Paper 10-1.

## Percentage of "Middle-Income" Households Experiencing Moderate or Severe Housing Burden: Homeowners versus Renters



Source: Clifford, Robert, (2010) "The Housing Bust and Housing Affordability in New England: An Update of Housing Affordability Measures," Federal Reserve Bank of Boston, NEPPC Discussion Paper 10-1.

## Percentage of "Very-Low-Income" Households Experiencing Severe Housing Burdens: Homeowners versus Renters



Source: Clifford, Robert, (2010) "The Housing Bust and Housing Affordability in New England: An Update of Housing Affordability Measures," Federal Reserve Bank of Boston, NEPPC Discussion Paper 10-1.

## Percentage of Households with Moderate or Severe Housing Burdens, by Income Quintile, 2008

### Owners versus Renters

	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]
	Homeowners Paying More than 30% of Income for Housing					Renters Paying More than 30% of Income for Housing				
	Household Income Quintile					Household Income Quintile				
	1st	2nd	3rd	4th	5th	1st	2nd	3rd	4th	5th
Connecticut	86.8% ***	57.9% ***	25.1%	11.1%	2.6% ***	80.0% ***	45.1% **	10.6% ***	3.9% *	0.0% ***
Maine	82.1%	45.6%	19.8% *	7.6% ***	2.6% **	75.4% ***	57.9% *	16.0% ***	3.0%	2.2%
Massachusetts	89.7% ***	59.0% ***	31.4% ***	11.1% *	2.5% ***	74.5% ***	52.5% *	12.7% ***	2.6% ***	0.9%
New Hampshire	82.3%	52.2% **	27.0%	10.5%	2.7% ***	79.2% *	38.3% ***	9.3% ***	2.1% ***	0.0% ***
Rhode Island	94.5% ***	64.7% ***	34.9% ***	10.0%	1.8% ***	71.2% ***	55.1%	10.9% ***	3.2% *	0.0% ***
Vermont	83.4%	49.4%	20.5%	7.1% **	3.6%	81.8%	51.7%	13.4% *	0.0% ***	0.0% ***
New England	86.2% ***	54.2% ***	28.3% ***	11.3% **	2.6% ***	76.6% ***	49.4%	13.2% ***	2.8% ***	0.8% *
United States	80.0%	45.2%	24.0%	12.2%	4.8%	83.7%	49.6%	18.6%	6.4%	1.5%

\*Indicates significance at the 10% level, \*\* at the 5% level, and \*\*\* at the 1% level from the US.

Source: Clifford, Robert, (2010) "The Housing Bust and Housing Affordability in New England: An Update of Housing Affordability Measures," Federal Reserve Bank of Boston, NEPPC Discussion Paper 10-1.

# Take Aways

- The housing downturn has resulted in increased affordability for those able to buy.
- However, very few households are in a position to buy as they are facing high cost burdens from housing. Particularly low- and moderate-income households.
- Even with housing returning to near affordable levels, as the economy and housing market begin to recover affordability will continue to be an issue in the region.