The Economic Recovery in Maine and the Nation

Maine Bankers Association Directors Forum

May 11, 2011

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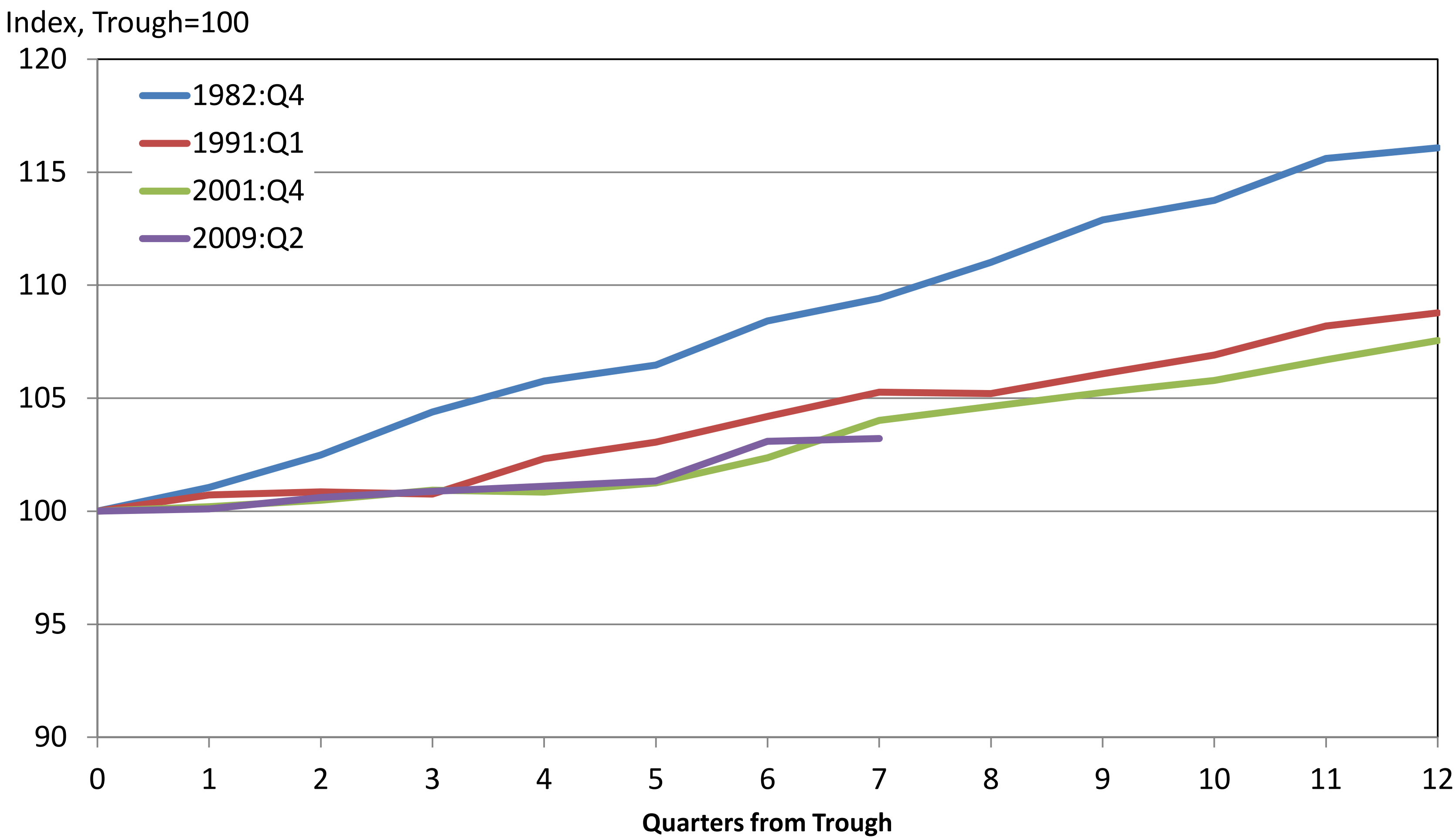
U.S. economic growth is tracking the early 2000s recovery, which was weaker than previous recoveries.

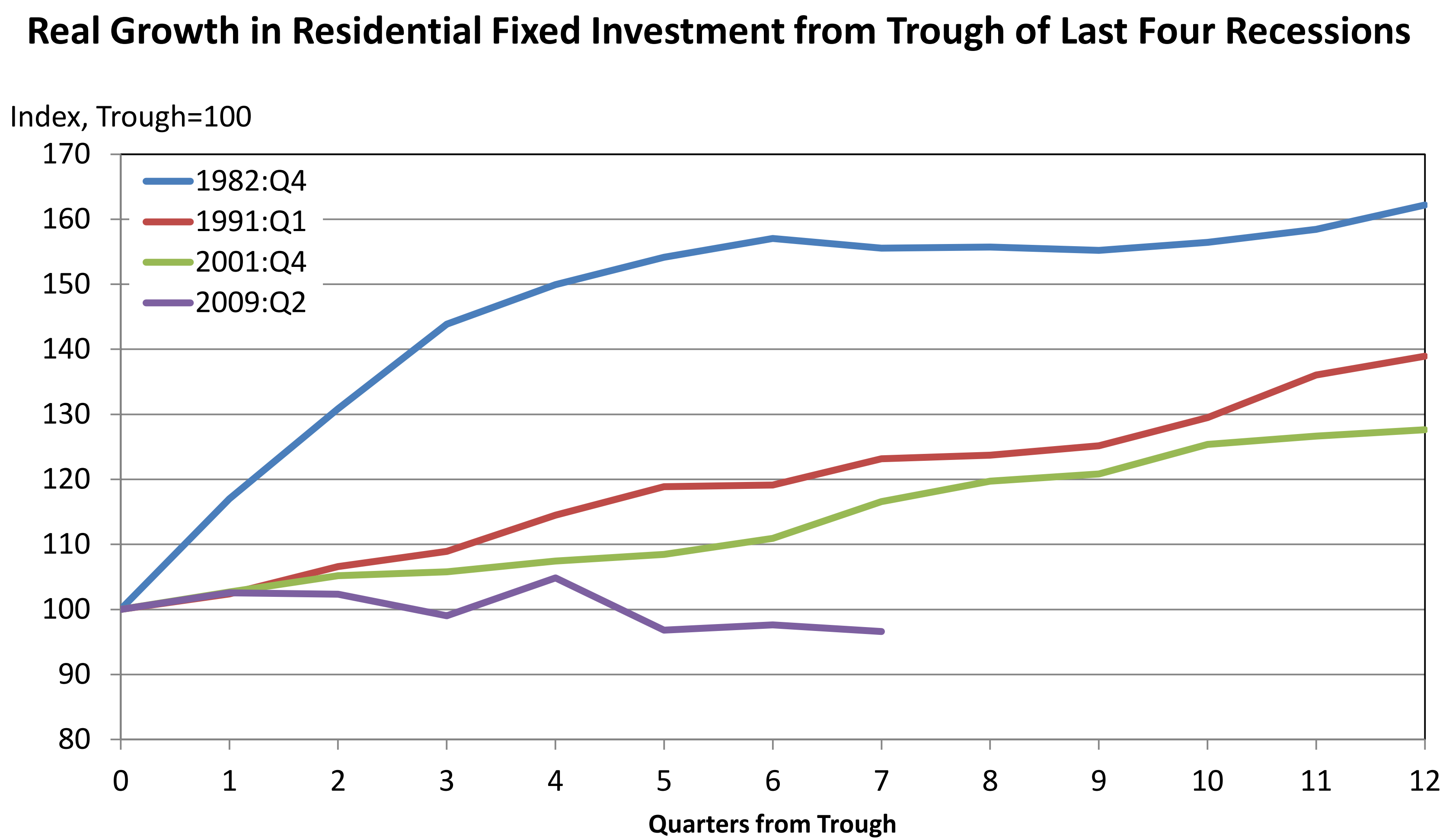
Real Growth in Final Sales* from Trough of Last Four Recessions
***Final sales = GDP less inventory replenishment**



Source: BEA and NBER/Haver Analytics

FRBB President Eric S. Rosengren, Remarks at the New England Mortgage Expo, 1/14/2011; Updated.

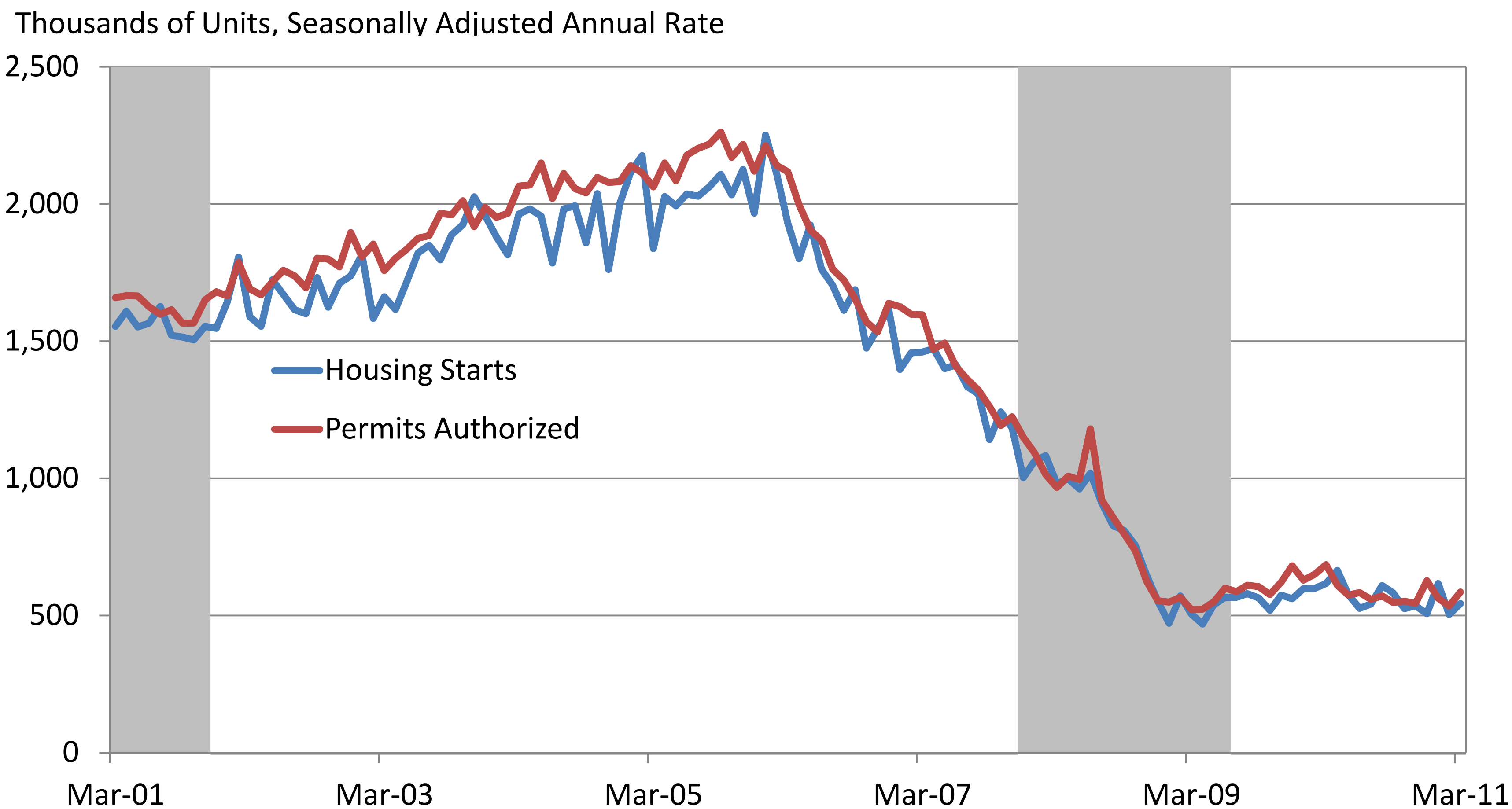
Housing is not playing its usual role in the recovery.



Source: BEA and NBER/Haver Analytics

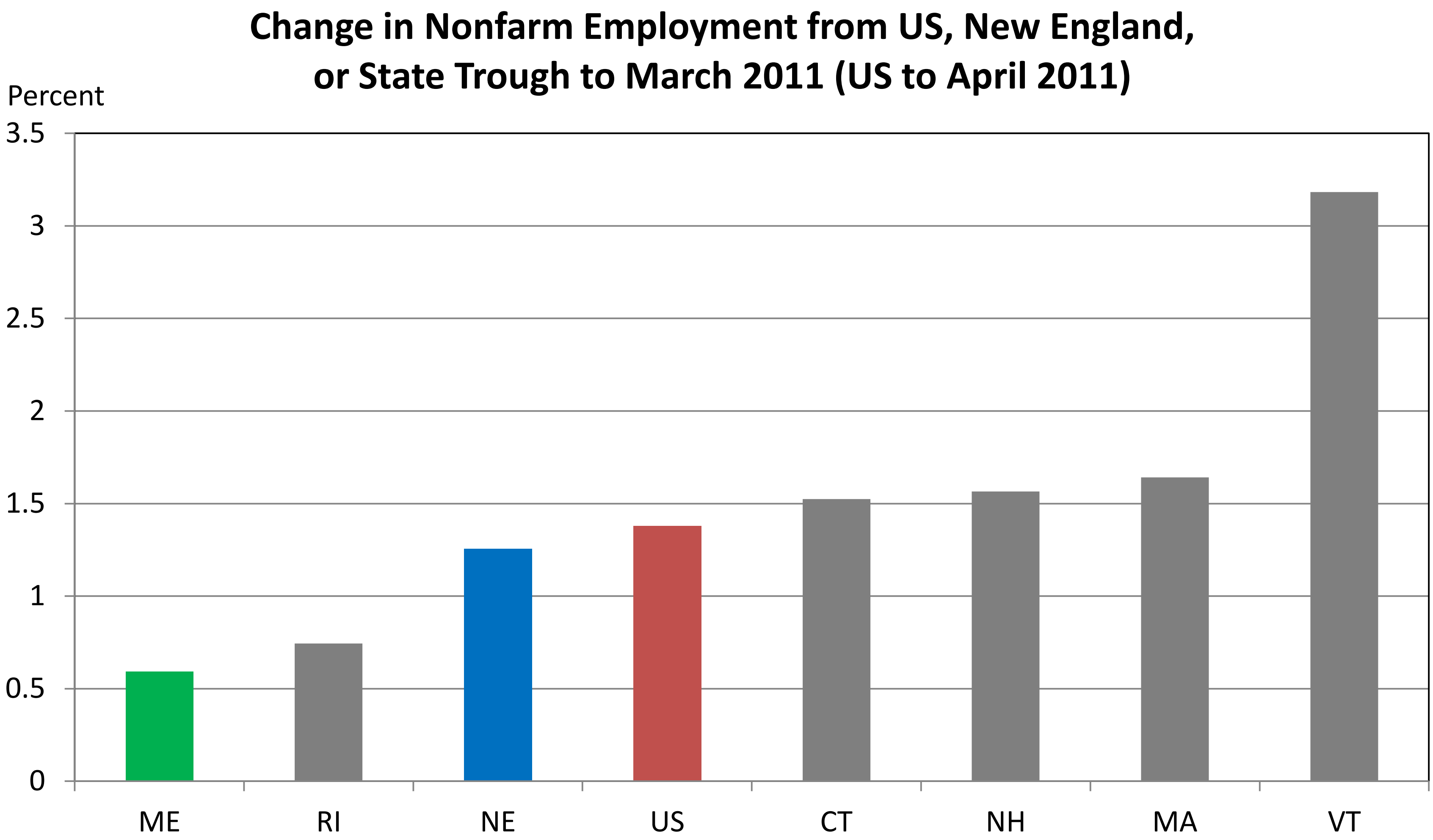
FRBB President Eric S. Rosengren, Remarks at the New England Mortgage Expo, 1/14/2011; Updated

Housing starts and permits remain about one-quarter of their pre-recession peak levels.



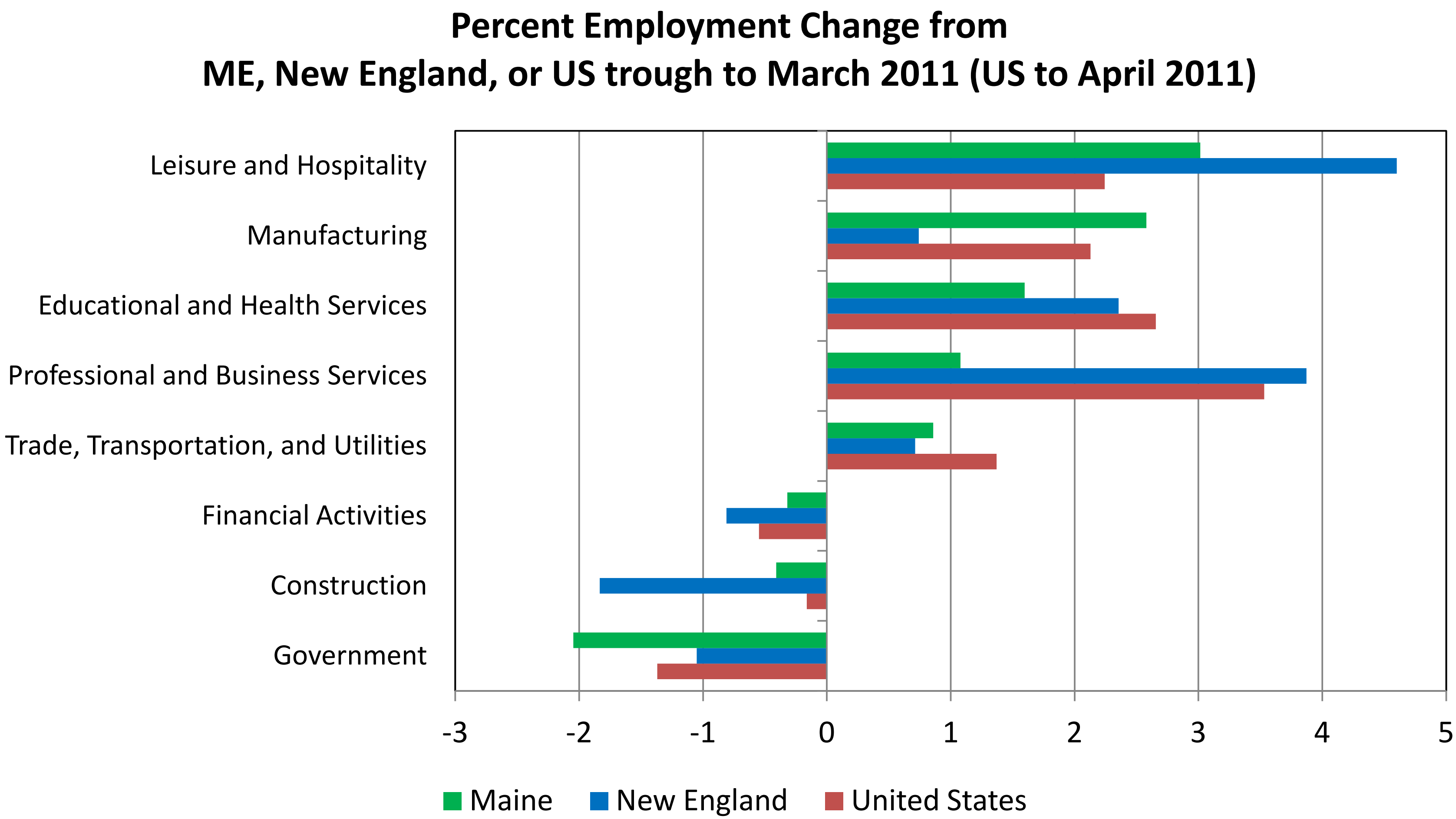
Source: Bureau of the Census and NBER/Haver Analytics
FRBB President Eric S. Rosengren, Remarks at the New England Mortgage Expo, 1/14/2011; Updated

ME and RI have had weaker job gains than the U.S. and the New England region.



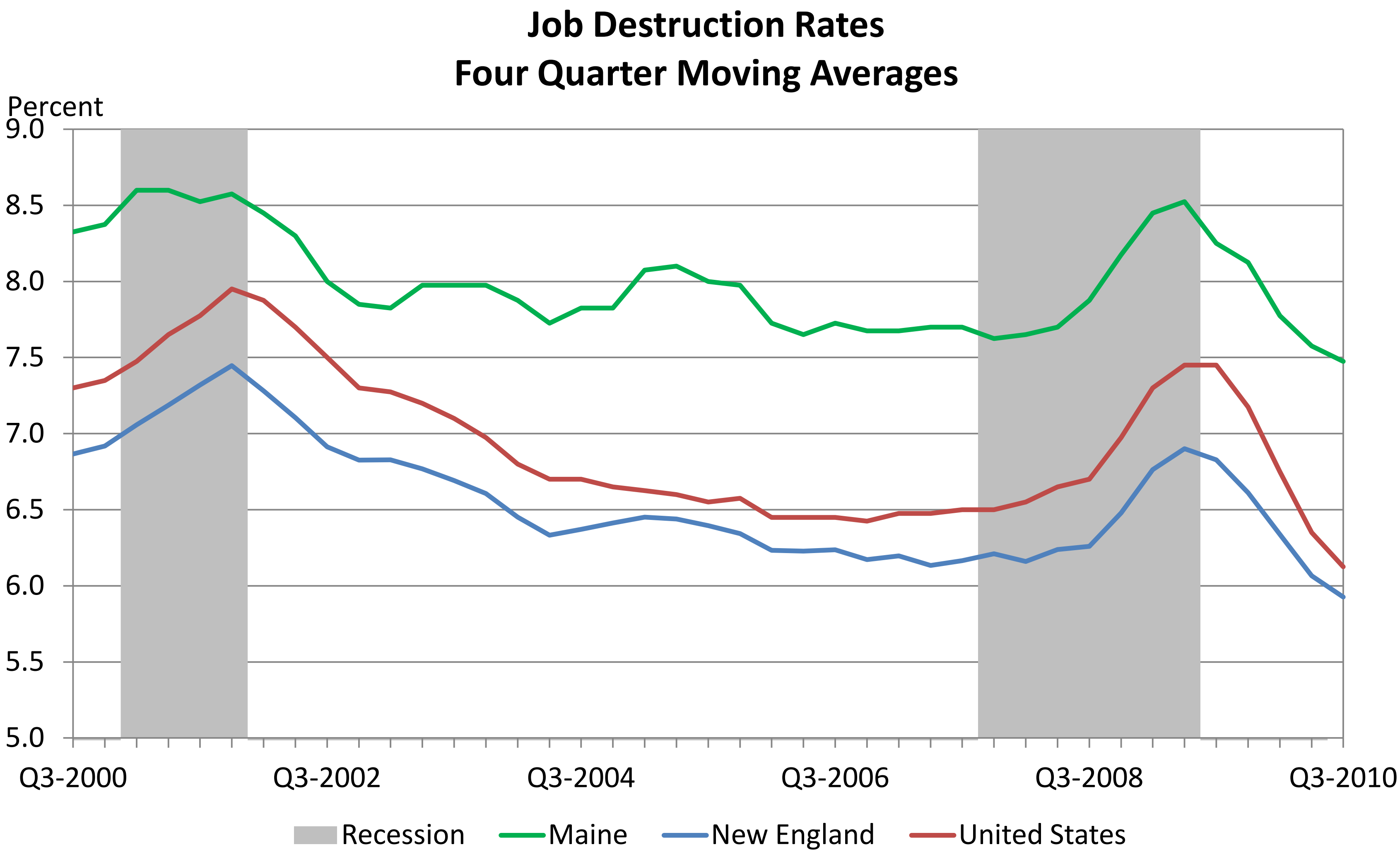
Source: Calculations Based on Bureau of Labor Statistics Data/Haver Analytics

Some services industries are not recovering as quickly in Maine as they are elsewhere.



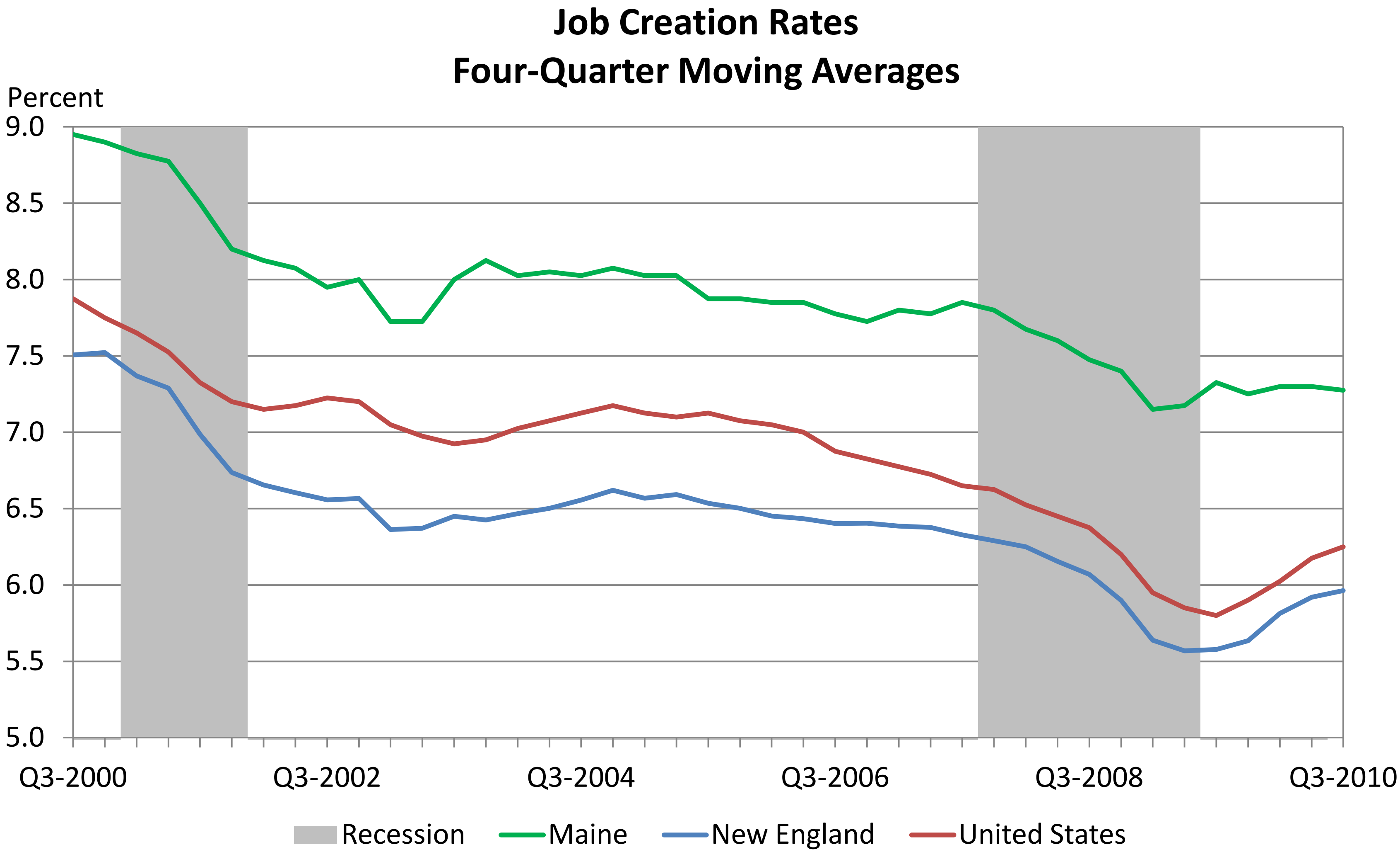
Source: Calculations Based on Bureau of Labor Statistics Data/Haver Analytics

Job destruction rates have fallen below pre-recession levels.



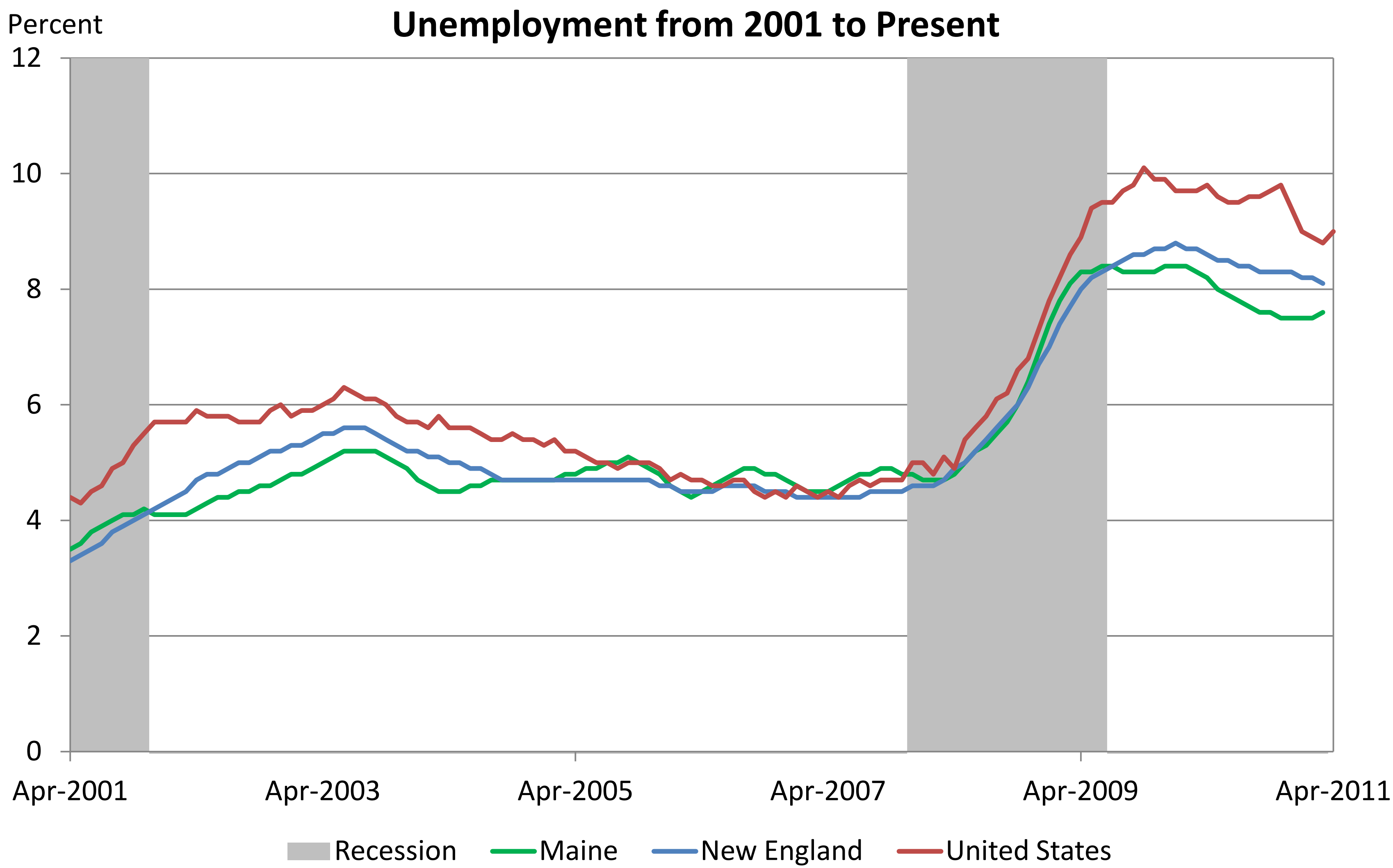
Source: Calculations Based on Bureau of Labor Statistics Data/Haver Analytics

But job creation remains sluggish, making it difficult for laid-off workers to find new jobs.



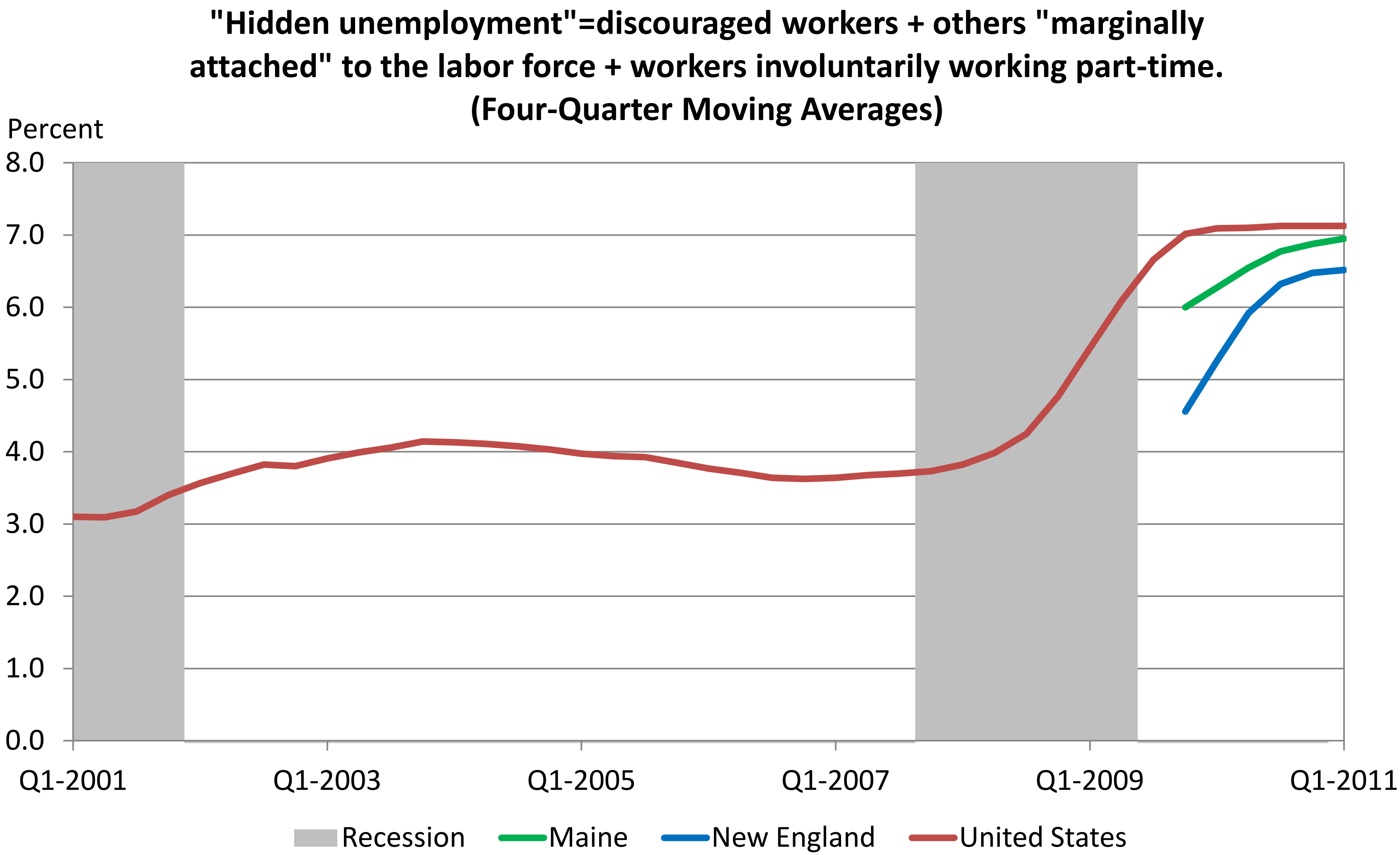
Source: Calculations Based on Bureau of Labor Statistics Data/Haver Analytics

The official unemployment rate in Maine is below the New England and U.S. averages.



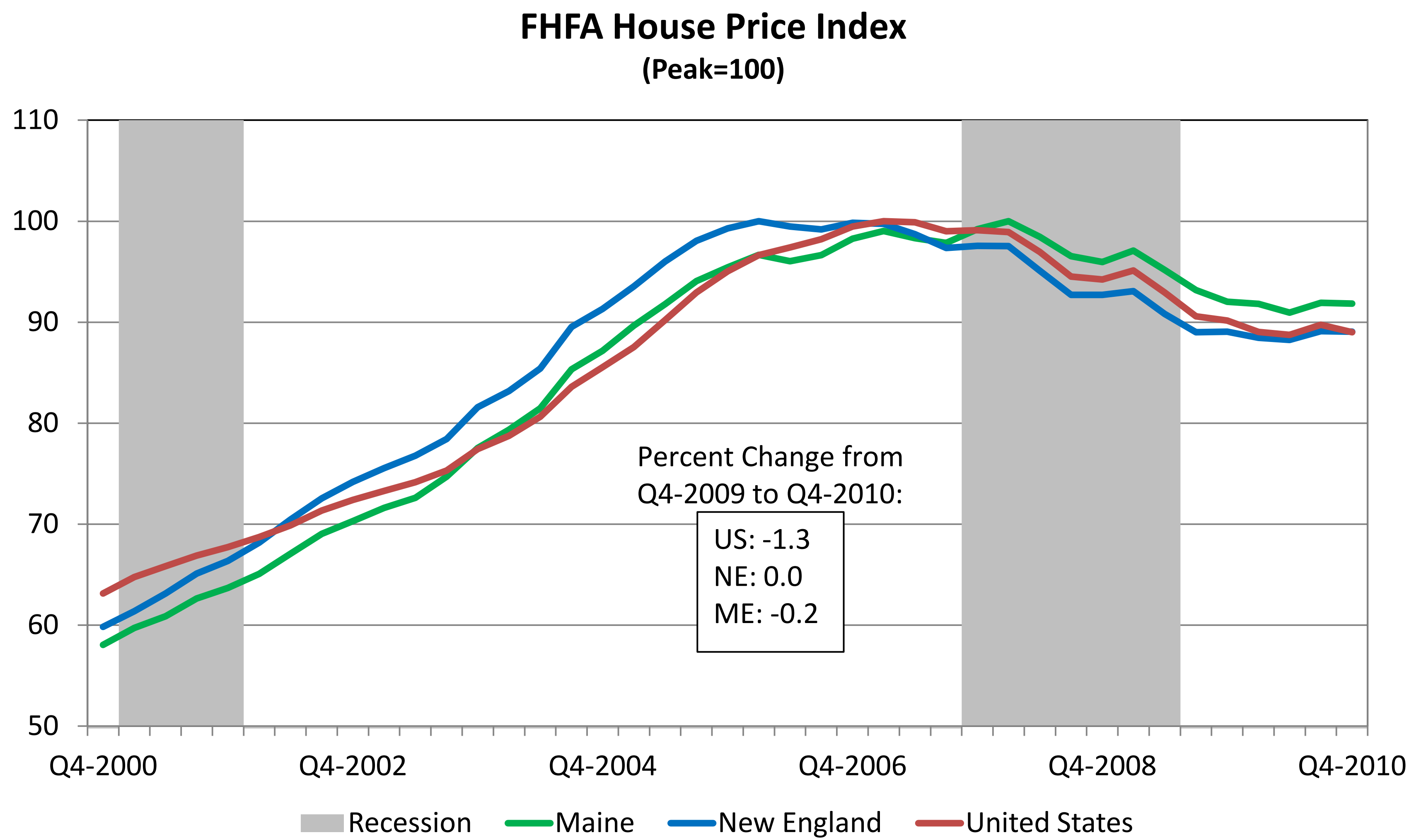
Source: Bureau of Labor Statistics/Haver Analytics

But Maine has a serious and growing problem in "hidden" unemployment.



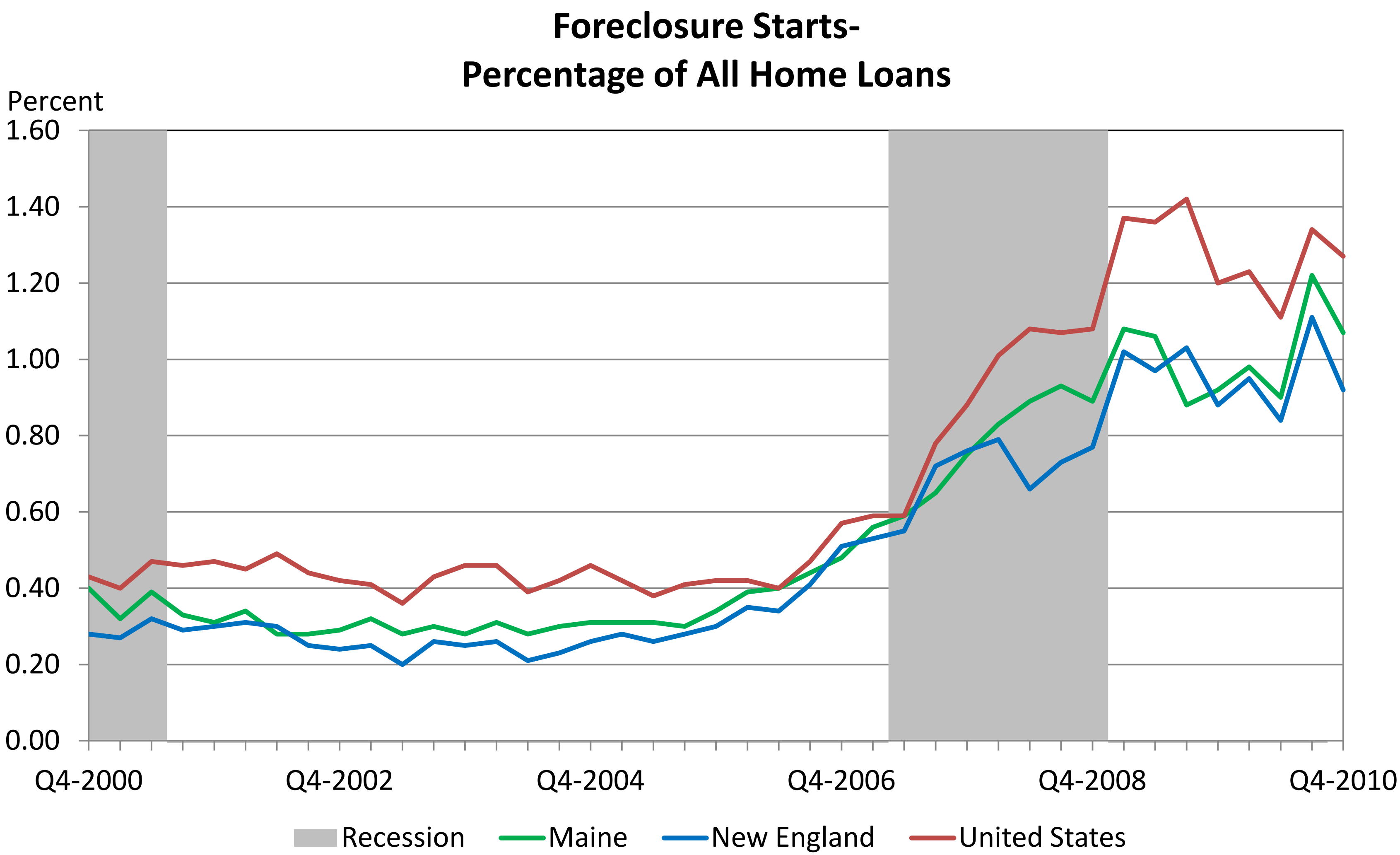
Source: Calculations Based on Bureau of Labor Statistics Data/Haver Analytics

House prices shown some signs of stabilization according to one widely-cited source.



Source: Federal Housing Finance Authority/Haver Analytics

Foreclosures remain elevated in Maine but are below the national average.



Source: Mortgage Bankers Association/Haver Analytics

Federal Reserve officials expect solid U.S. GDP growth, elevated unemployment, and low inflation in 2011-2013.

	Actual	April 2011 Forecast			
	CY 2011 Q1	**CY 2011 Q4**	**CY 2012 Q4**	**CY 2013 Q4**	**Longer Run**
Real GDP growth (%)	**1.8**	3.1 to 3.3	3.5 to 4.2	3.5 to 4.3	2.5 to 2.8
Unemployment rate (%)	**8.9**	8.4 to 8.7	7.6 to 7.9	6.8 to 7.2	5.2 to 5.6
PCE inflation (%)	**1.6**	2.1 to 2.8	1.2 to 2.0	1.4 to 2.0	1.7 to 2.0

Source: Federal Open Market Committee, Summary of Economic Projections for the Meeting of April 26-27, 2011. Bureau of Labor Statistics and Bureau of Economic Analysis/Haver Analytics. Table shows central tendencies among the Federal Reserve Board governors and Federal Reserve Bank presidents.

Note: Table entries are fourth-quarter–to- fourth-quarter growth rates except for the unemployment rate, which is the fourth quarter level.
PCE = personal consumption expenditures.

Fed officials continue to weigh risks from rising commodity prices.

- Fed has dual mandate: foster maximum employment and price stability.

- Near term effects of food and energy shocks:
  - GDP growth slows as higher food and energy prices force consumers to reduce spending on other goods and services
  - Core inflation unchanged but overall Inflation increases

- Longer-term effects of food and energy shocks:
  - GDP growth adjusts back to trend as consumers and producers adjust to changes in relative prices
  - Effects on overall inflation depend on inflationary expectations
    - So far, longer-term inflation expectations have remained stable, implying that total inflation will converge down to core inflation

Source: Federal Reserve press release of 4/27/2011 and FRBB President Eric S. Rosengren, Remarks to the Massachusetts Chapter of NAIOP, the Commercial Real Estate Development Association, 5/4/2011.

Summary

- 2010 jobs recovery weaker in ME than nationally.
- Growing confidence that the recovery is "for real."
- Substantial challenges remain:
  - How to boost job creation and reduce unemployment and underemployment?
  - How to ensure that longer term inflation expectations remain stable?

Sources of further information

- Visit www.bos.frb.org for updates on the New England and U.S. economies
  - *New England Economic Indicators* (statistical information updated continually)
  - *New England Economic Snapshot* (two pages of charts and commentary updated every six week)
  - Beige Book (anecdotal information updated every six weeks)
  - "News and Events" tab (speeches by Boston Fed president)
  - New England Public Policy Center "Assistance Provided" (economic update speeches by Boston Fed economists)

- Visit www.neepecon.org for New England state forecasts prepared by the New England Economic Partnership (May and November); proprietary forecasts are available to NEEP members.