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An Overview of New England's Economic Performance in 2006

GROWING ... but
Slowing



New England's economic performance was mixed during 2006. On one hand, all six states added jobs, and the region's unemployment rate remained steady. The region as a whole picked up jobs in nearly all major industries. Export values and income and wages also increased. On the other hand, much of New England's economic growth was slower than that seen in the nation as a whole. Although the unemployment rate did not go up for the region, the nation saw joblessness decrease. Moreover, real estate markets, though weak nationwide, were even weaker in the region.

Employment

In 2006, New England added 62,000 jobs, for a growth rate of 0.9 percent. While this marked the region's best growth since 1999 to 2000, New England continued to lag the nation in creating jobs since 2000. Nevertheless, some 7 million jobs were recorded on the region's payrolls at the end of 2006, the most since August 2001.

Job creation occurred in nearly all industries. The fastest growing sector was also the region's largest—education and health services—where more than 30,000 jobs were added between December 2005 and December 2006 (growth of 2.6 percent). The professional and business services sector was also a major contributor, adding more than 19,000 jobs (2.2 percent). The manufacturing sector continued its gradual descent, shedding roughly 15,000 jobs. Despite job creation in most sectors, growth in the region's industries lagged the growth seen in each of those industries across the nation as a whole.¹ The exception was retail trade, where job counts remained unchanged locally but *declined* slightly nationwide.

Unemployment

Despite the new jobs created in 2006, New England's unemployment rate remained steady at 4.6 percent between December 2005 and December 2006. (See "More Jobs but Higher Unemployment?") In the later months of 2006, the national unemployment rate dipped below that of New England for the first time since 1995. Moreover, New England's reign with the lowest or near-lowest rate of unemployment among the nine census divisions ended in 2006, as the eight other divisions saw joblessness decline. A brighter spot for New England was a 2.5 percent decline in average weekly unem-

ployment insurance claims over 2005.

Income and Wages

Despite representing a \$32.6 billion raise over the course of 2006, the 5.4 percent growth in personal income for New Englanders was among the slowest rates of growth for the eight U.S. regions defined by the Bureau of Economic Analysis. (Only the Great Lakes region showed slower growth, and the Plains region was on par with New England.) The nation as a whole saw personal income rise 5.8 percent. New England's 5.6 percent increase in wage and salary disbursements—the largest component of personal income—was fair compared with the increases in other regions. Despite relatively weak gains in income, New England continued to lead all regions in per capita income, which climbed to \$43,852 in 2006, or more than \$7,500 over the national level. Three New England states continued to record above average per capita incomes among the 50 states: Connecticut led all states, and Massachusetts and New Hampshire were among the top 10.

Consumer Prices

After two years of relatively lower price inflation, New England consumers saw prices rise slightly more than in the nation overall. For the 12 months ending in November 2006, regional prices were up 2.1 percent, compared with a national increase of 2.0 percent. After whopping double-digit increases in the past, prices of fuels and utilities climbed by a tamer 4.7 percent in the region and actually fell 2.1 percent nationally. Prices associated with transportation also

More Jobs but Higher Unemployment?

An increase in the number of jobs is often assumed to signify a reduction in unemployment. That is not always true.

Payroll employment figures are derived from surveys that count the number of jobs on establishment payrolls. As a result, payroll employment is the number of jobs, not the number of people with jobs. The unemployment rate is the percentage of the individuals in the labor force who are unemployed and is based on surveys of households, not establishments.

In 2006, labor markets manifested this difference. Maine and New England as a whole added jobs over the course of the year but saw no reduction in their unemployment rates. But as Massachusetts, New Hampshire, and Vermont each saw increases in payroll employment, their unemployment rates rose. One or more explanations are possible:

- Individuals with more than one job are counted once in the labor force but more than once in payroll employment.
- Self-employed individuals are counted in the labor force but not in payroll employment.
- Interstate commuters are counted in the workplace state's payroll employment but in the residence state's labor force. In fact, Maine's Department of Labor surmised that the disparity in Maine was explained by growth in telecommuting or workers commuting to out-of-state employment.

fell, but more in the region (2.3 percent) than in the nation (1.0 percent).

Residential Real Estate

New England's residential real estate markets were weak in 2006. After showing double-digit escalation in six of the past seven years, home prices, measured by the conventional mortgage home price index, were up just 2.2 percent between the fourth quarters of 2005 and 2006. This performance was outpaced by the national increase of 6.3 percent, and was the worst among all regions. It was also New England's own worst performance since 1996.

Median home prices generally fell across New England metropolitan areas during 2006. Nevertheless, home prices in 10 of its 11 metro areas for which data are reported exceeded the national median in the fourth quarter of 2006. The average value of construction contracts (residential, nonresidential, and nonbuilding) was down more than 8 percent for the region between 2005 and 2006, with most states showing

heavy declines of up to 22.5 percent, while the nation as a whole posted a slight upward bump of 1.4 percent.

Demand for new housing in 2006 weakened in both the region and the nation. The average number of housing permits issued in New England tumbled by 15.4 percent to its lowest level since 2002, placing the region slightly below the 14.8 decline seen nationally. Only one New England state, Vermont, escaped double-digit nosedives with a slight 1.5 percent dip.

Merchandise Exports

Between 2005 and 2006, the value of exports rose for all New England states except Vermont. Exports from the region as a whole jumped 11.8 percent and exceeded \$47 billion. Once again, the nation outperformed the region, with exports surging nearly 15 percent. New England exports growth was booming for such destinations as China (an increase of

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nearly 33 percent) and Germany and Japan (increases of roughly 25 percent). Major exporting industries also generally fared well, led by transportation equipment (up by nearly one-third). Exports of machinery, fabricated metals, paper, and plastics and rubber products were up at double-digit rates. The only major industry in the region to witness a decline in exports was miscellaneous manufacturing products, which slipped by nearly 4 percent.

Overall Economic Activity

The economies of all six New England states showed improvements over the course of 2006, according to the economic activity in index. Two states, Connecticut and Rhode Island, performed as well as or better than the nation as a whole, with increases of 3.6 percent and 3.4 percent, respectively. Three New England states placed in the bottom

2007 Midyear Regional Check-Up

Payroll Employment

	Jobs in Thousands			Percent Change	
	June 2005	June 2006	June 2007	June 2005 to June 2006	June 2006 to June 2007
United States	133,610	136,030	138,038	1.8	1.5
New England	6,914.5	6,982.1	7,057.6	1.0	1.1

Unemployment

	Percent Unemployed		
	June 2005	June 2006	June 2007
United States	5.0	4.6	4.5
New England	4.7	4.5	4.6

*Seasonally adjusted.

quartile in terms of improvement. (See “2007 Midyear Regional Check-up.”)

In June 2006, New England saw employment grow to more than 7 million jobs, the most for the region since mid-2001. However, the nation continued to add jobs at a faster rate. At 4.6 percent, the region’s unemployment rate was higher than it was in June 2006 and was slightly higher than the national rate, which stood at 4.5 percent in June 2007.

Tom DeCoff is the editor of the Federal Reserve Bank of Boston’s *New England Economic Indicators*, <http://www.bos.frb.org/economic/ineei>. The web site features an expanded version of this article in its June/July 2007 issue and provides access to an online resource for customized queries of several economic data series and for generating tables and charts.

Endnote

¹ In the case of manufacturing, the national decline was less severe than the region’s.

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