

# A Cautious Look at Massachusetts' Economy during a Period of Uncertainty and Political Flux

## Taking Aim at Budgetary Issues

### ...and Each Other



Boston Alliance for Economic  
Inclusion December 3, 2014

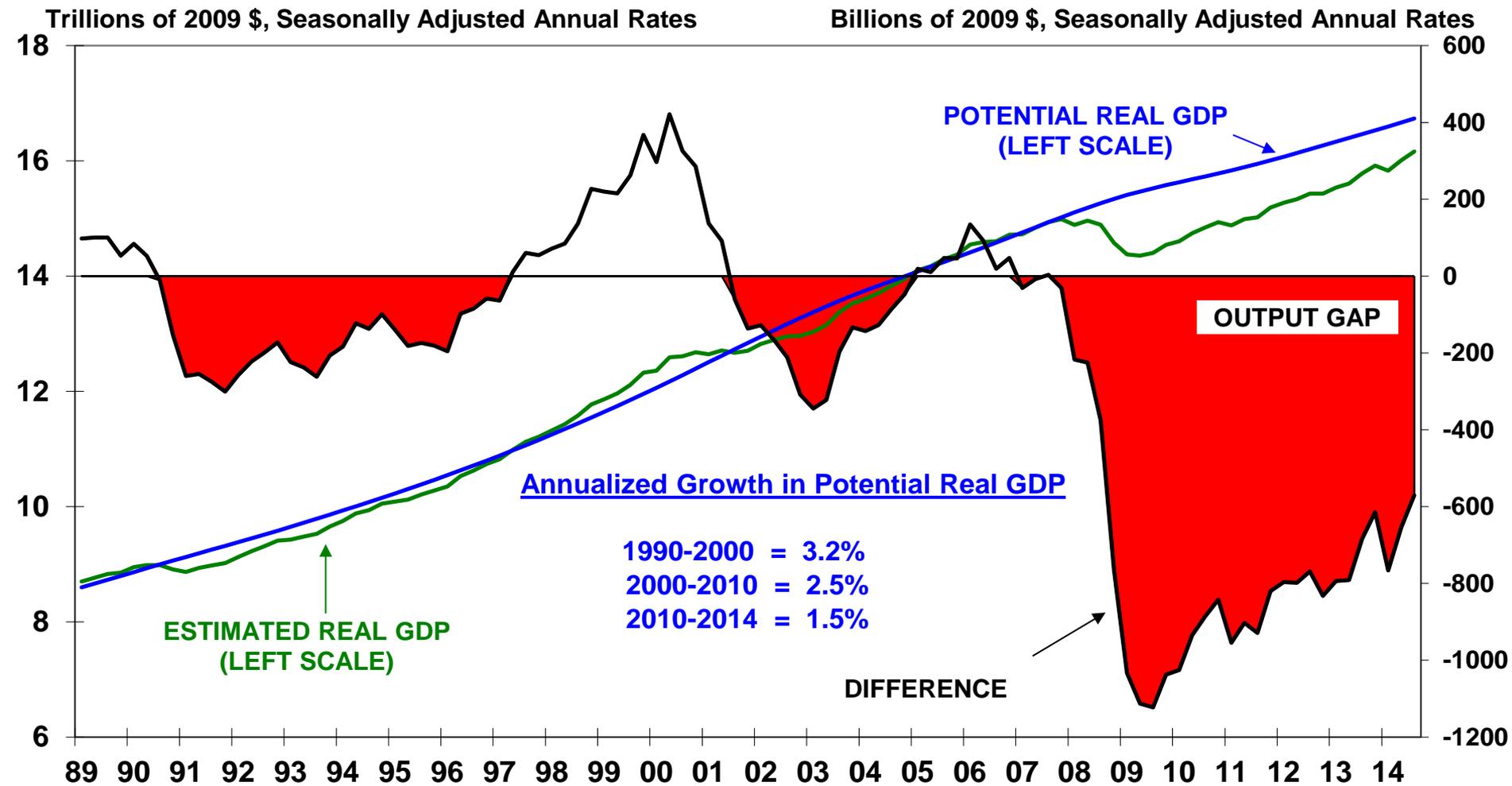


**The Great Recession Ended One Era and began another.** It was Transformational. It not only Changed how the Economic and Political Systems Behaved, it Changed those Systems. The Economic Systems may have become Safer through Additional Regulation and Supervision, but Economies have become less Dynamic. Concurrently, Political Systems have become less Capable, and Societies more Fragmented, as the Outlook for Slower Growth Collides with Generational Pressures to Provide Incomes for the Old and Employment for the Young. Confidence is a Casualty.

**Stress has become a Common Denominator in this Point of View.** The Great Recession was more than a Delimiter; it Initiated a Period of Intense Pressures, making Systems Susceptible to Institutional Crises. Institutions have been Weakened, as well as People's Faith in those Institutions.



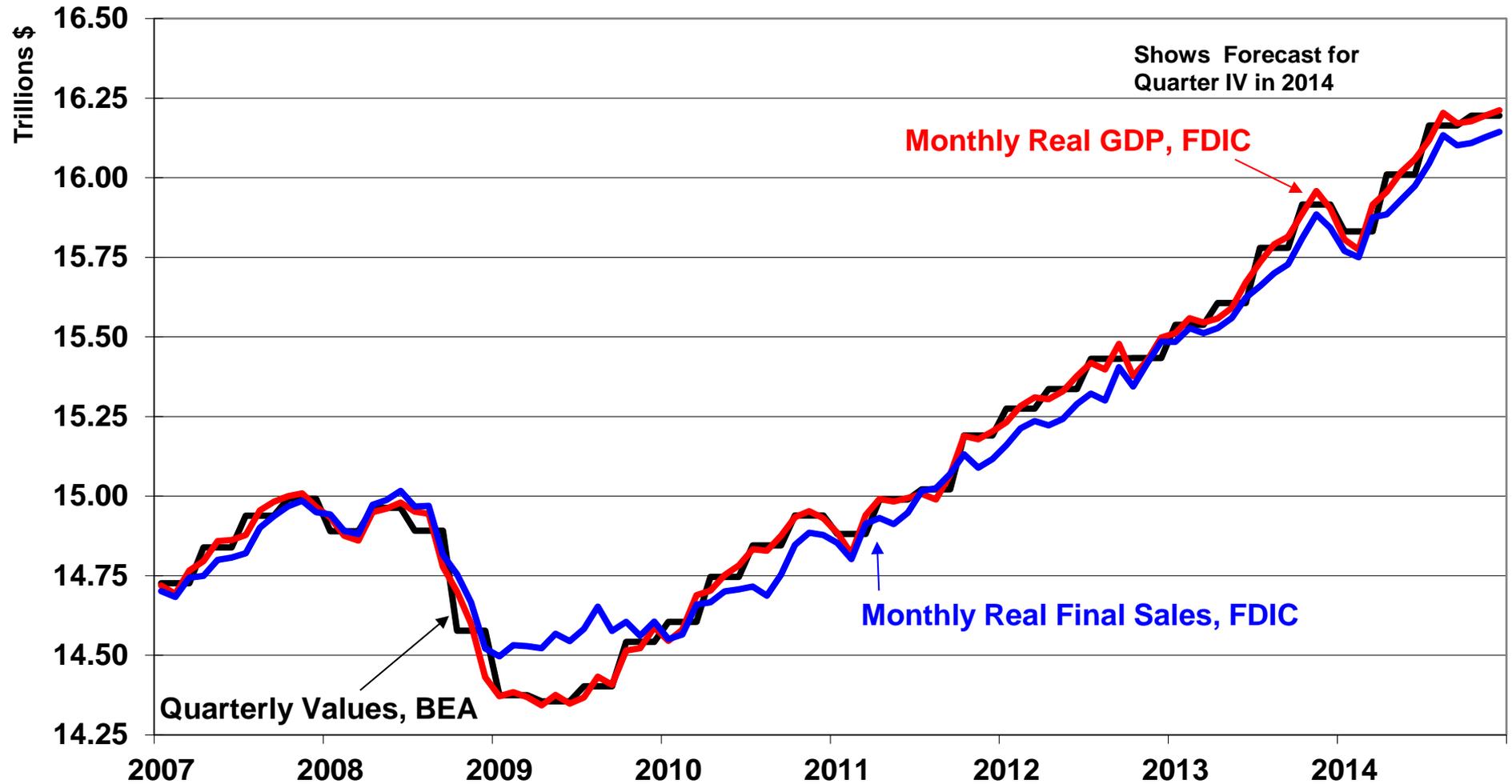
# The Crash of 2008 and the Great Recession that followed Separated that Era from this one as their Ongoing Legacy



Sources: Bureau of Economic Analysis, Congressional Budget Office, Haver Analytics



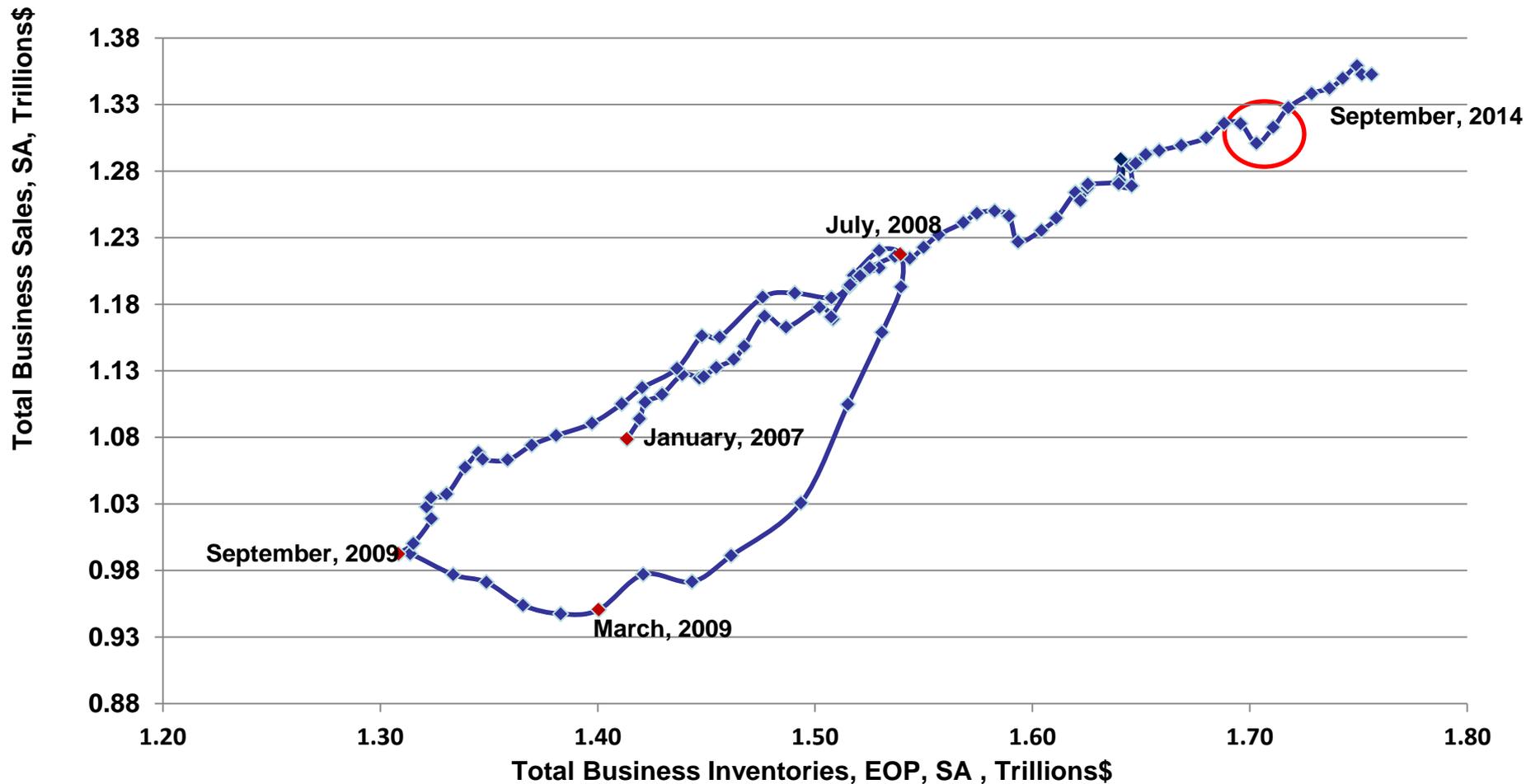
# Slow Economic Growth may be the “New Normal”— Q1 Weakness Led to Gains in Q2 and Q3, but not in QIV



Sources: BEA, FDIC, Haver Analytics



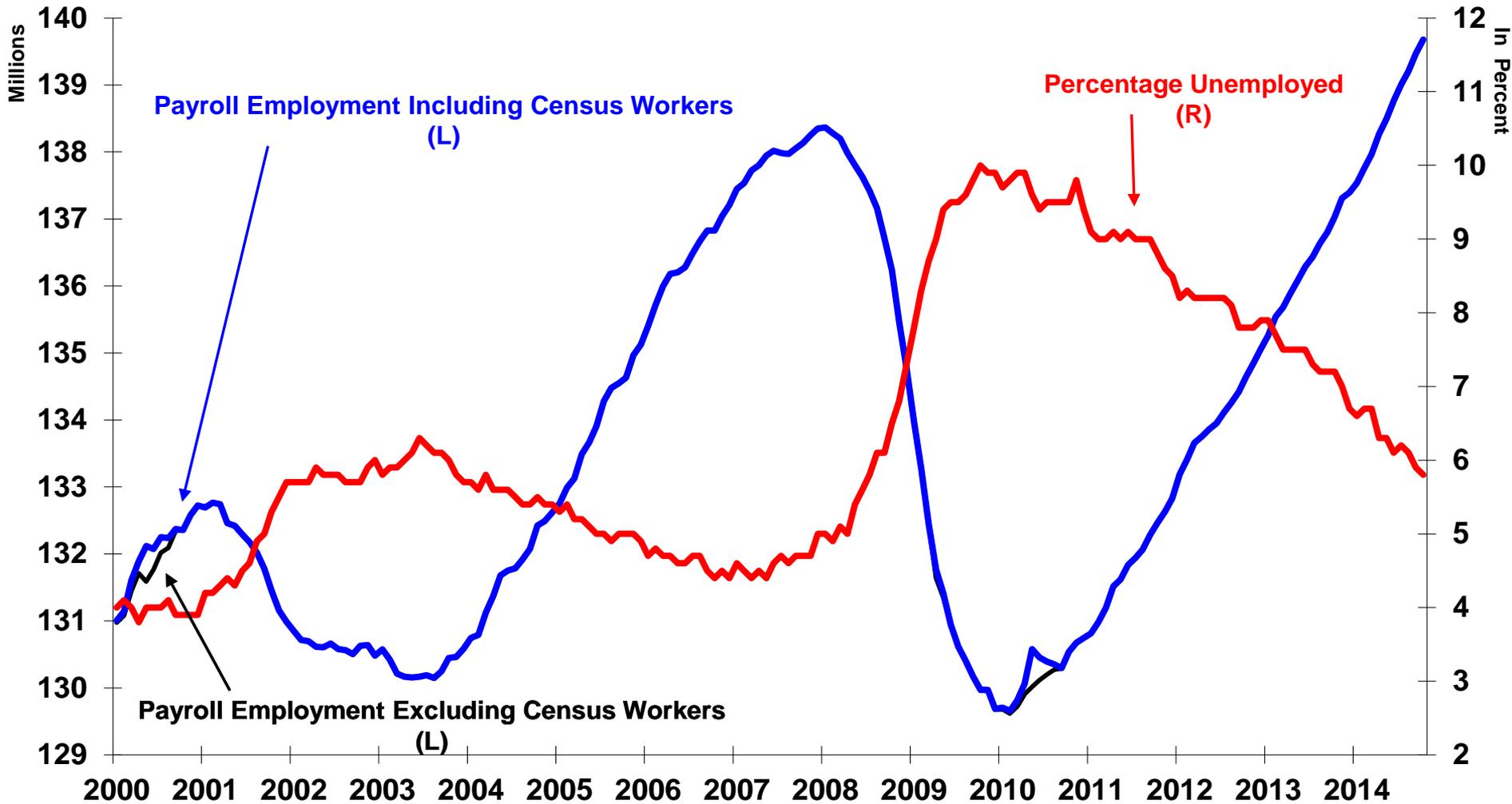
# Businesses Had a Particularly Weak January, but a Strong Spring Compensated for the Shortfall



Sources: Census Bureau, Haver Analytics



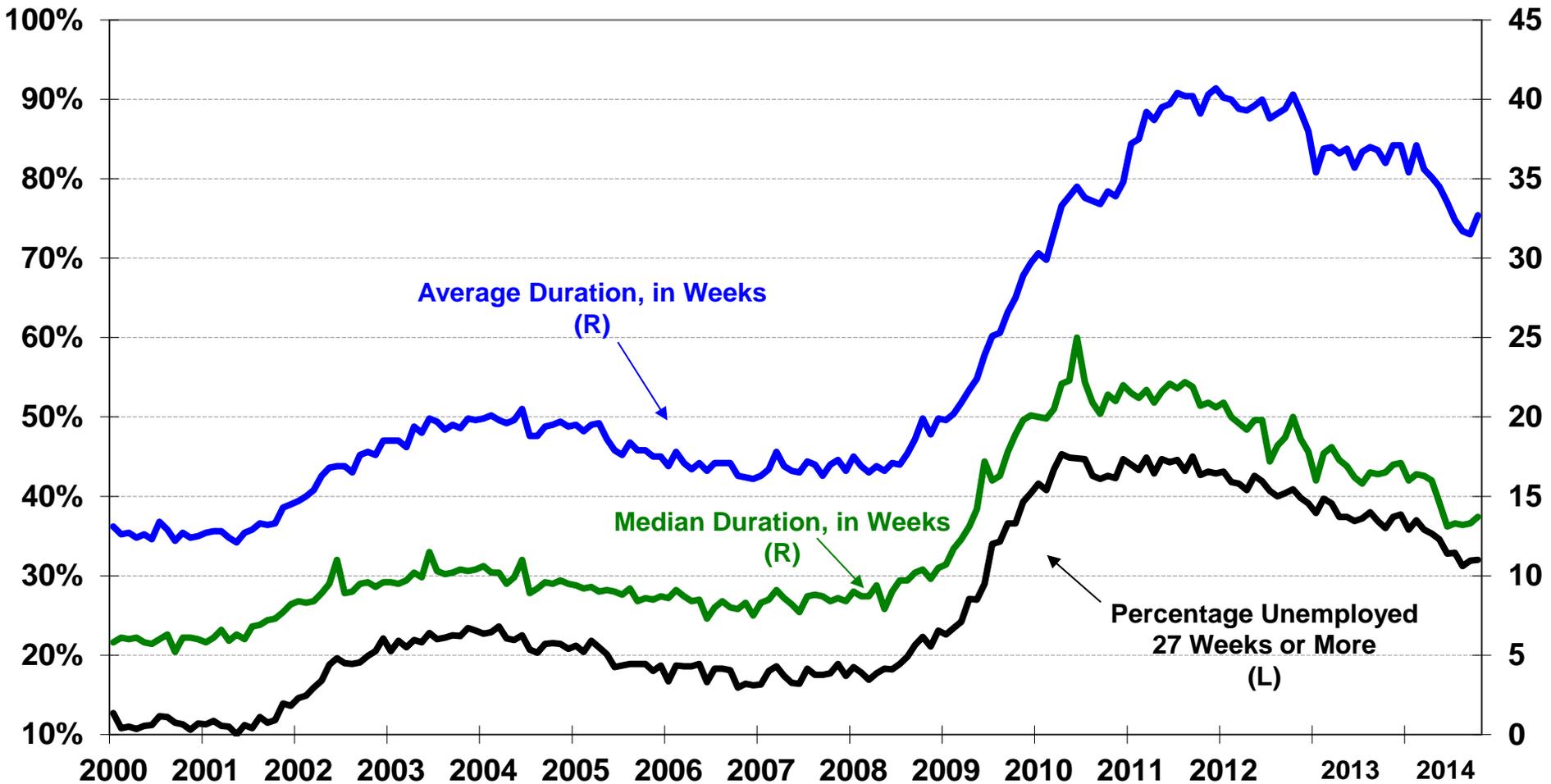
# Although Recent News about Employment has been Improving, People are still Worried about Jobs



Source: Bureau of Labor Statistics, Haver Analytics



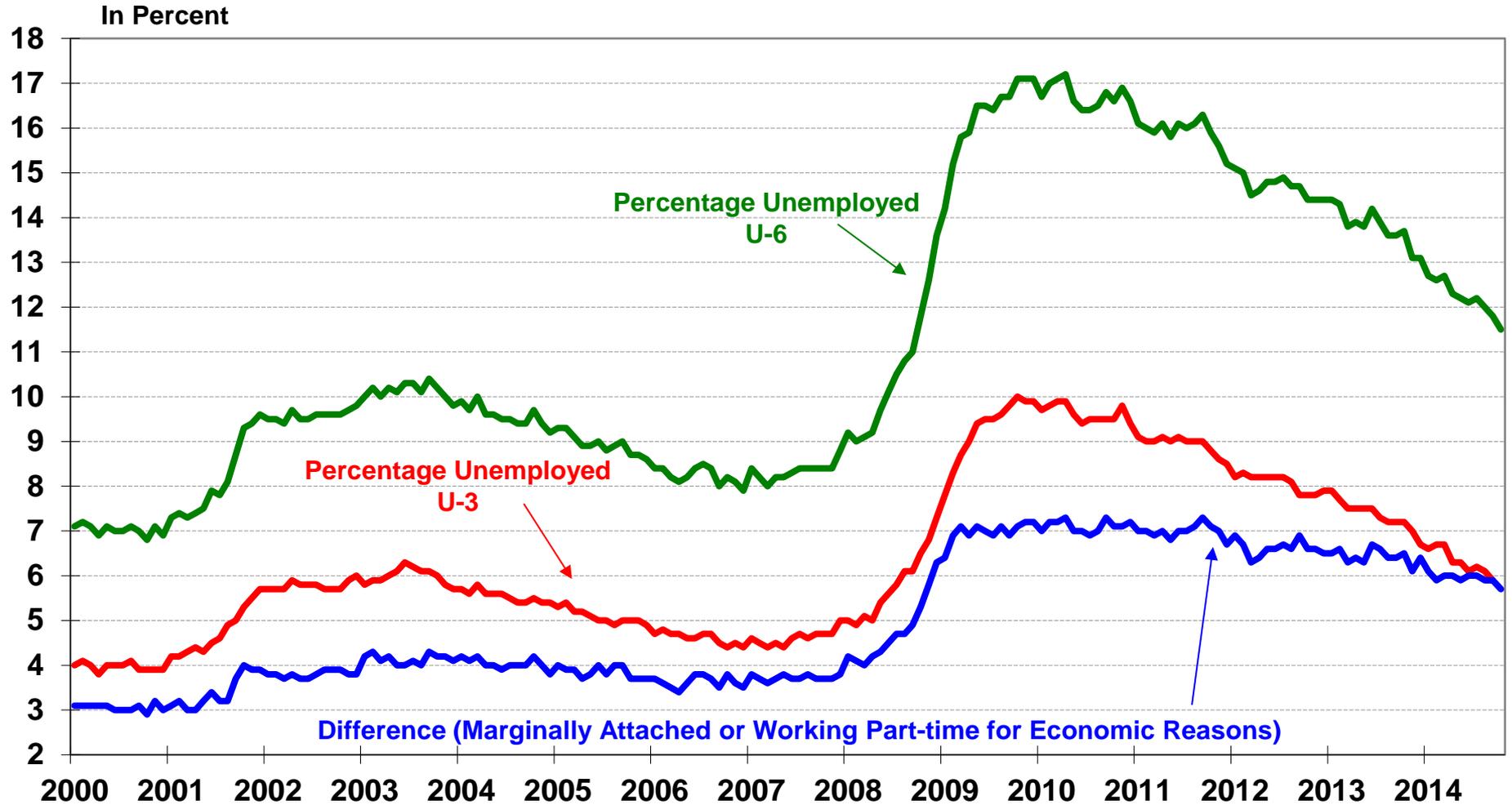
# Many Unemployed have been so for a Long Time; Duration had been Declining, but may be Plateauing



Source: Bureau of Labor Statistics, Haver



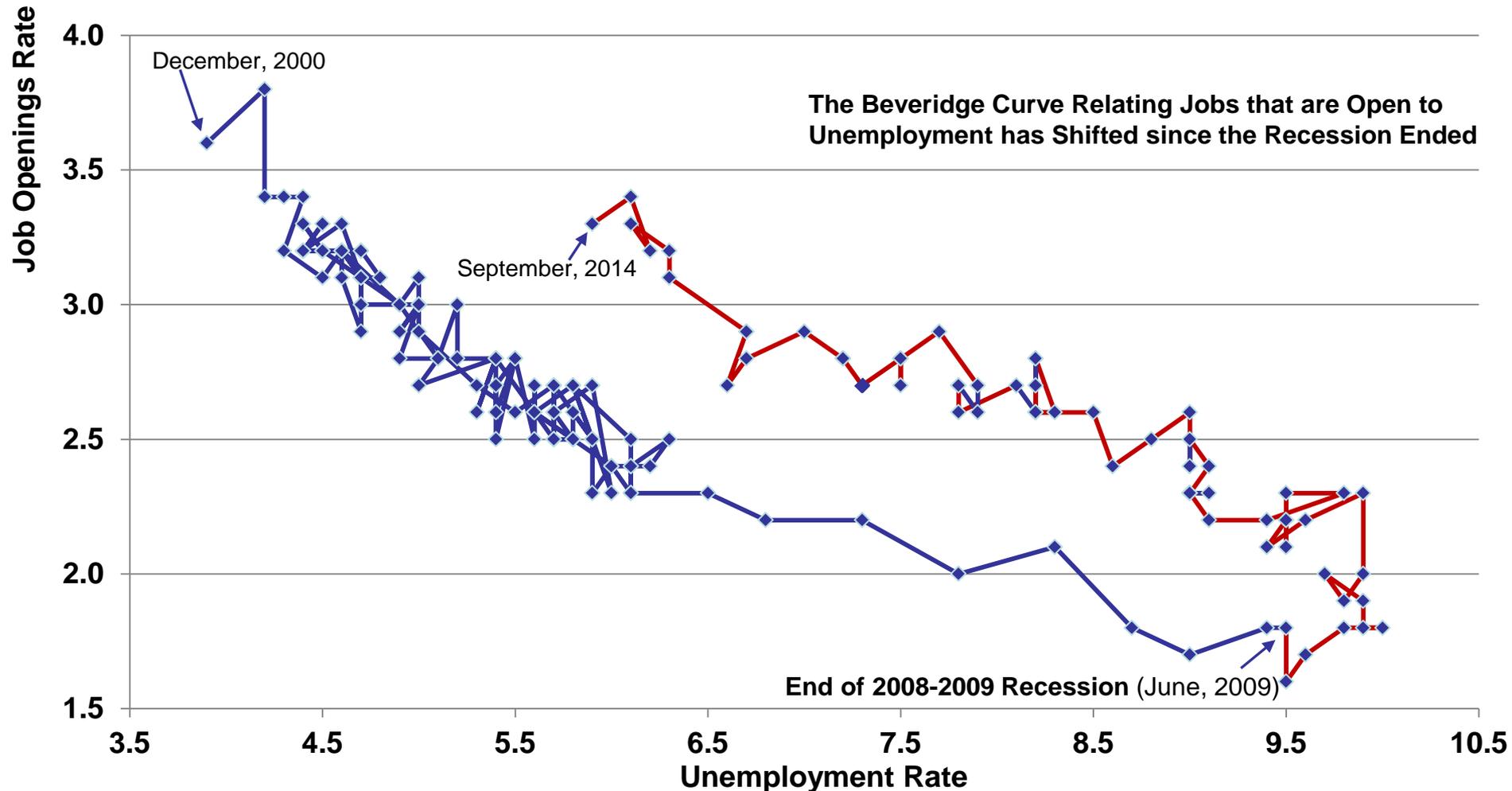
# Those Discouraged or Under-employed are Making Less Progress than Others in the Civilian Labor Force



Source: Bureau of Labor Statistics, Haver Analytics



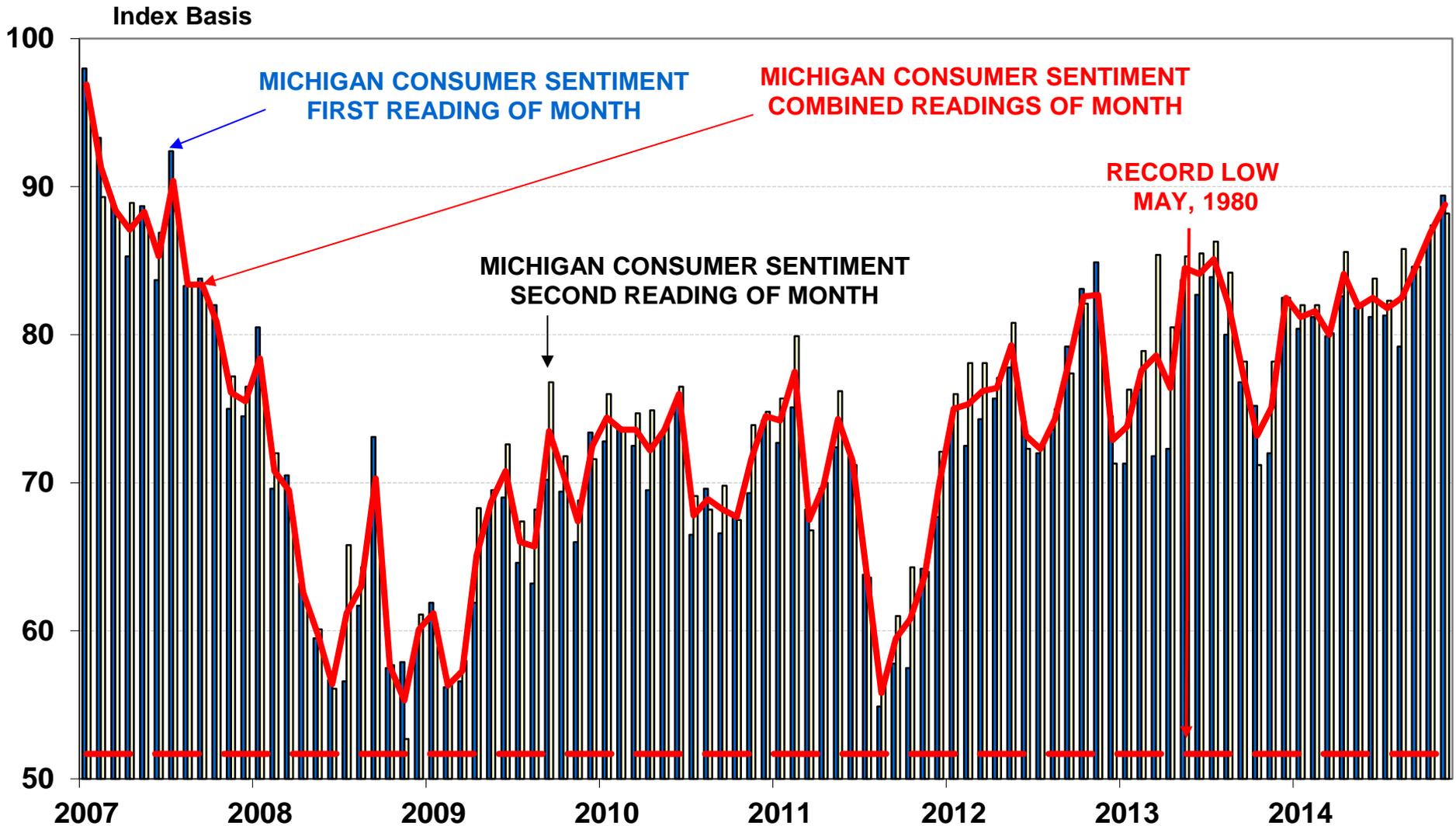
# A Shift in the Job Openings/Unemployment Relationship is Evident following the Recession



Source: Bureau of Labor Statistics, Haver Analytics



# Consumer Confidence is Up and Slowly Rising



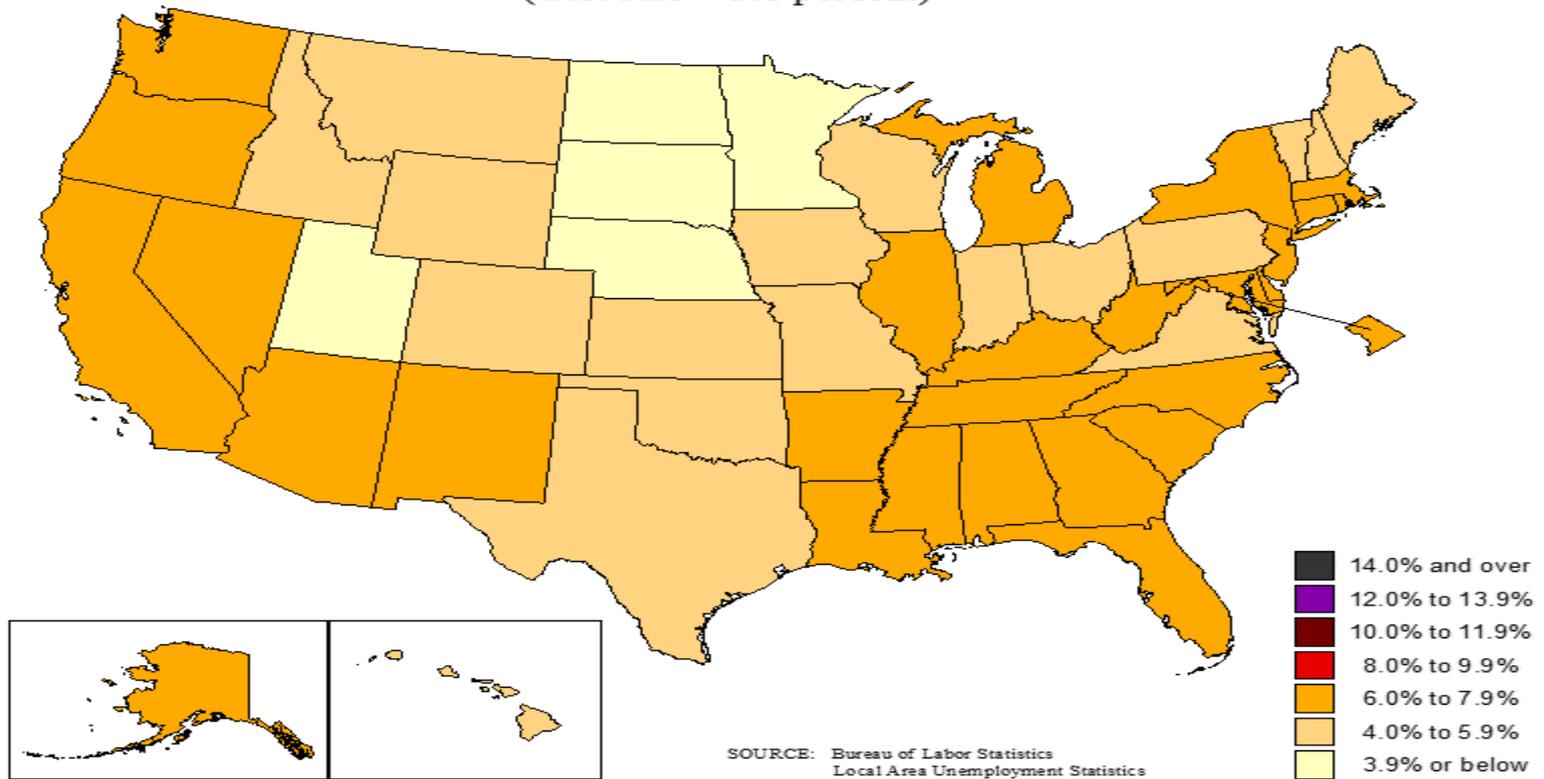
Source: University of Michigan Survey of Consumers, Haver Analytics



# Unemployment is Returning to more Normal Levels; also in Rhode Island, which is Highest in the Region

## Unemployment rates by state, seasonally adjusted, October 2014

(U.S. rate = 5.8 percent)



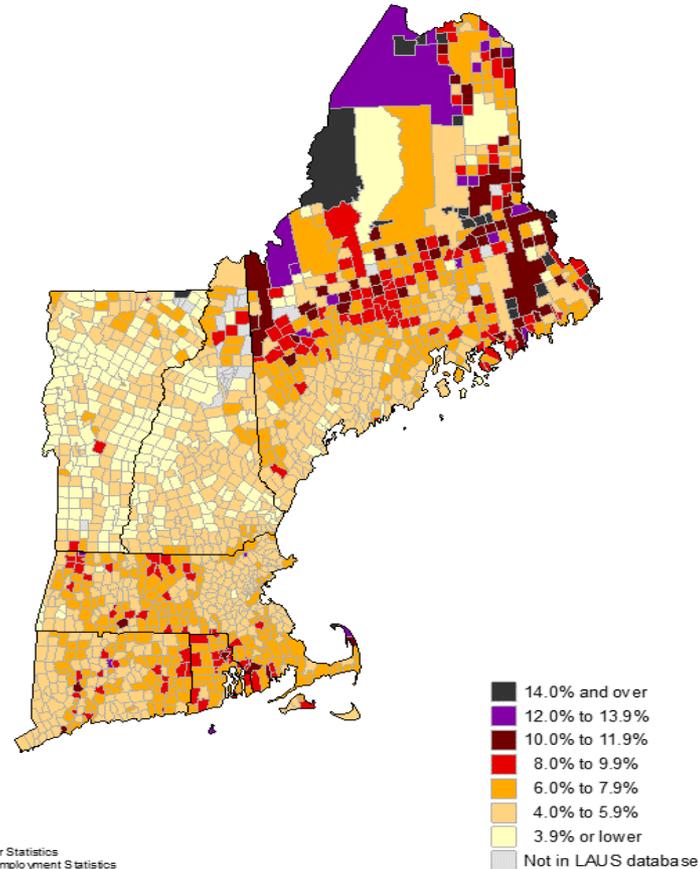
Source: Bureau of Labor Statistics



# This is a View of New England using Detailed BLS Data

## Unemployment rates in New England by Minor Civil Division, October 2013 - September 2014 averages

(U.S. rate = 6.5 percent)

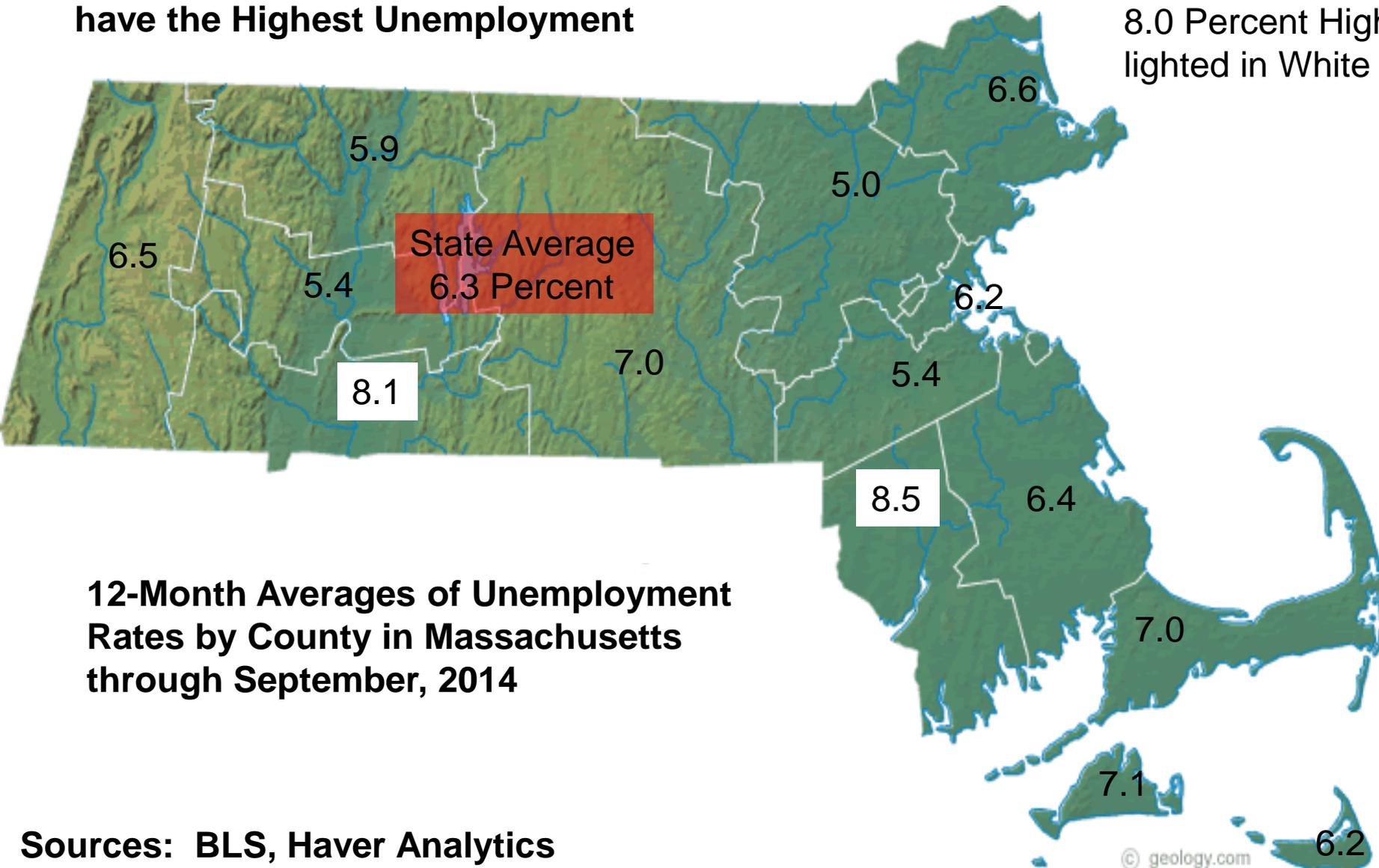


Source: Bureau of Labor Statistics



## In Massachusetts, two Southern Counties have the Highest Unemployment

Counties with Unemployment Rates at or above 8.0 Percent Highlighted in White



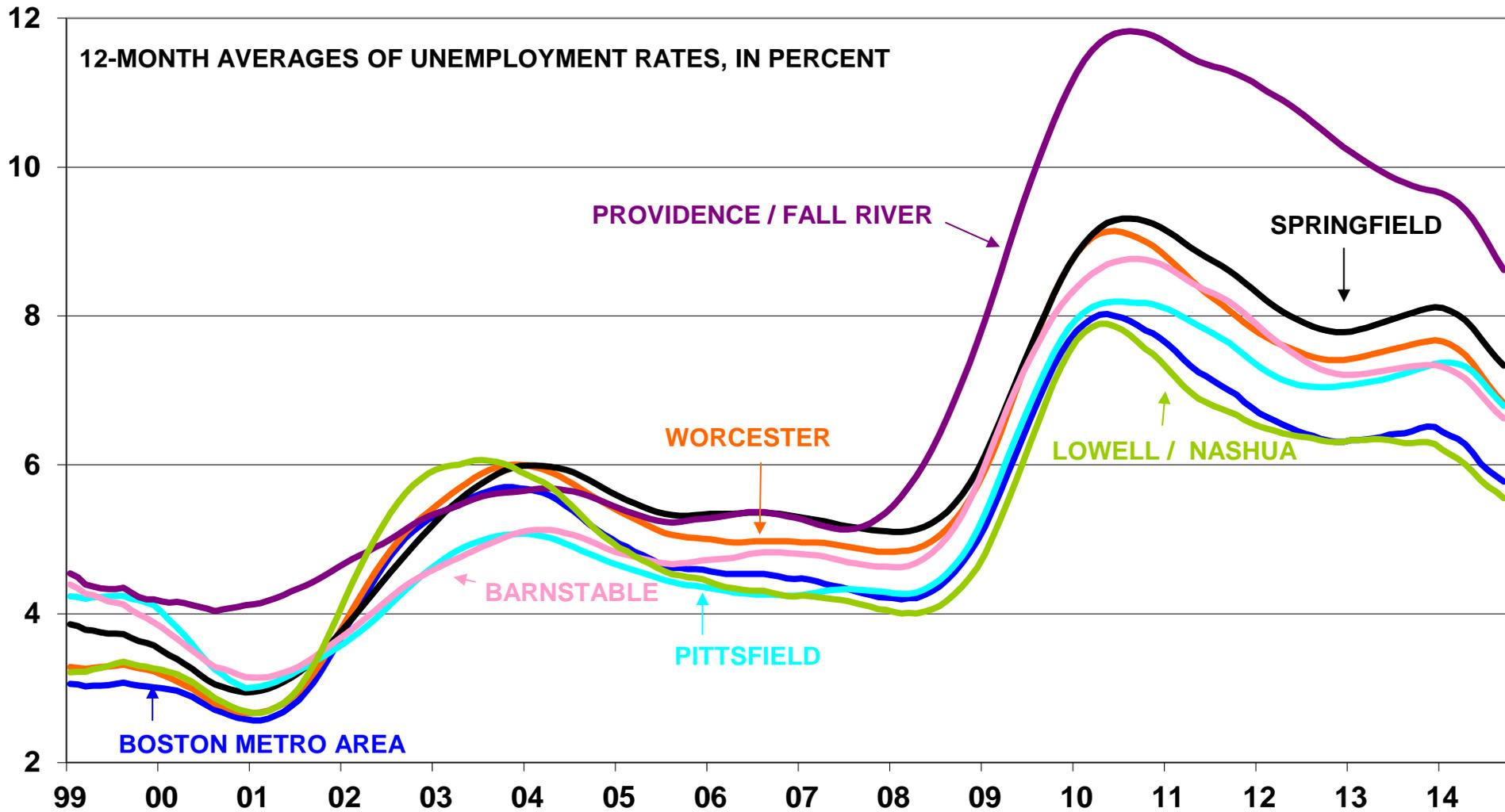
12-Month Averages of Unemployment Rates by County in Massachusetts through September, 2014

Sources: BLS, Haver Analytics

© geology.com



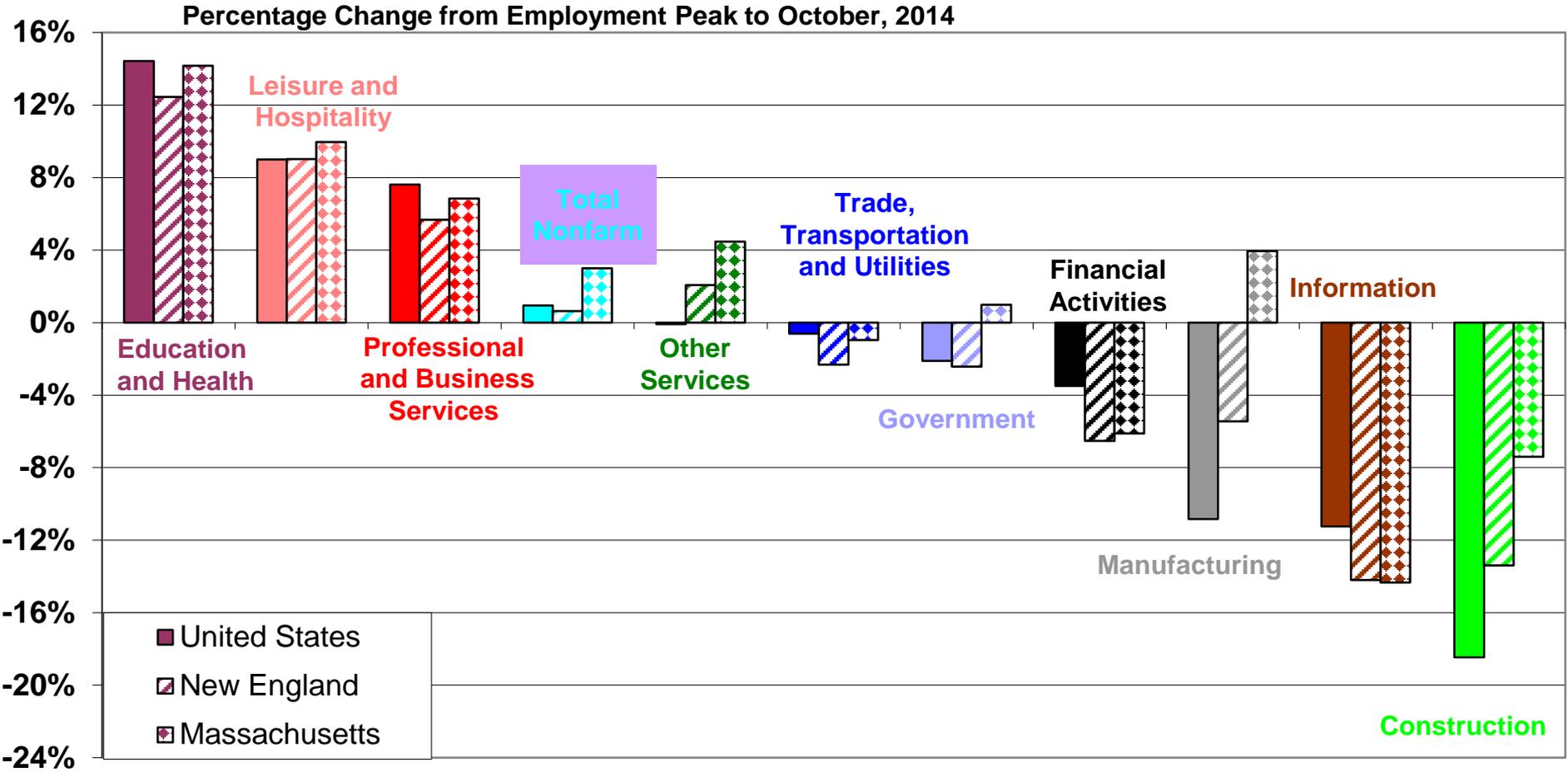
# This Shows Unemployment by Metropolitan Area



Sources: Bureau of Labor Statistics, Haver Analytics



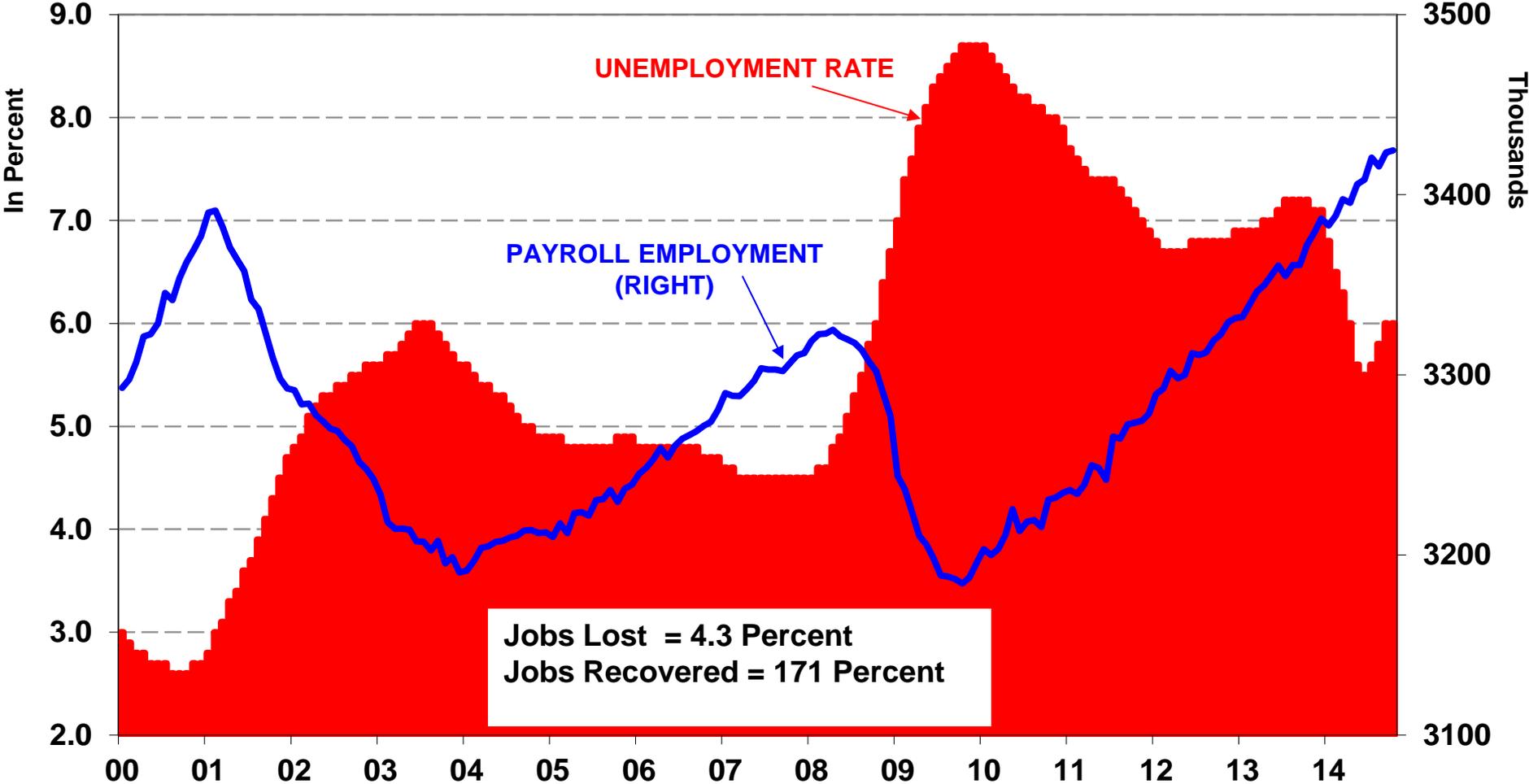
# Massachusetts, New England and the Nation in Total have Recovered all of Jobs Lost in the Recession



Source: Bureau of Labor Statistics, Haver Analytics



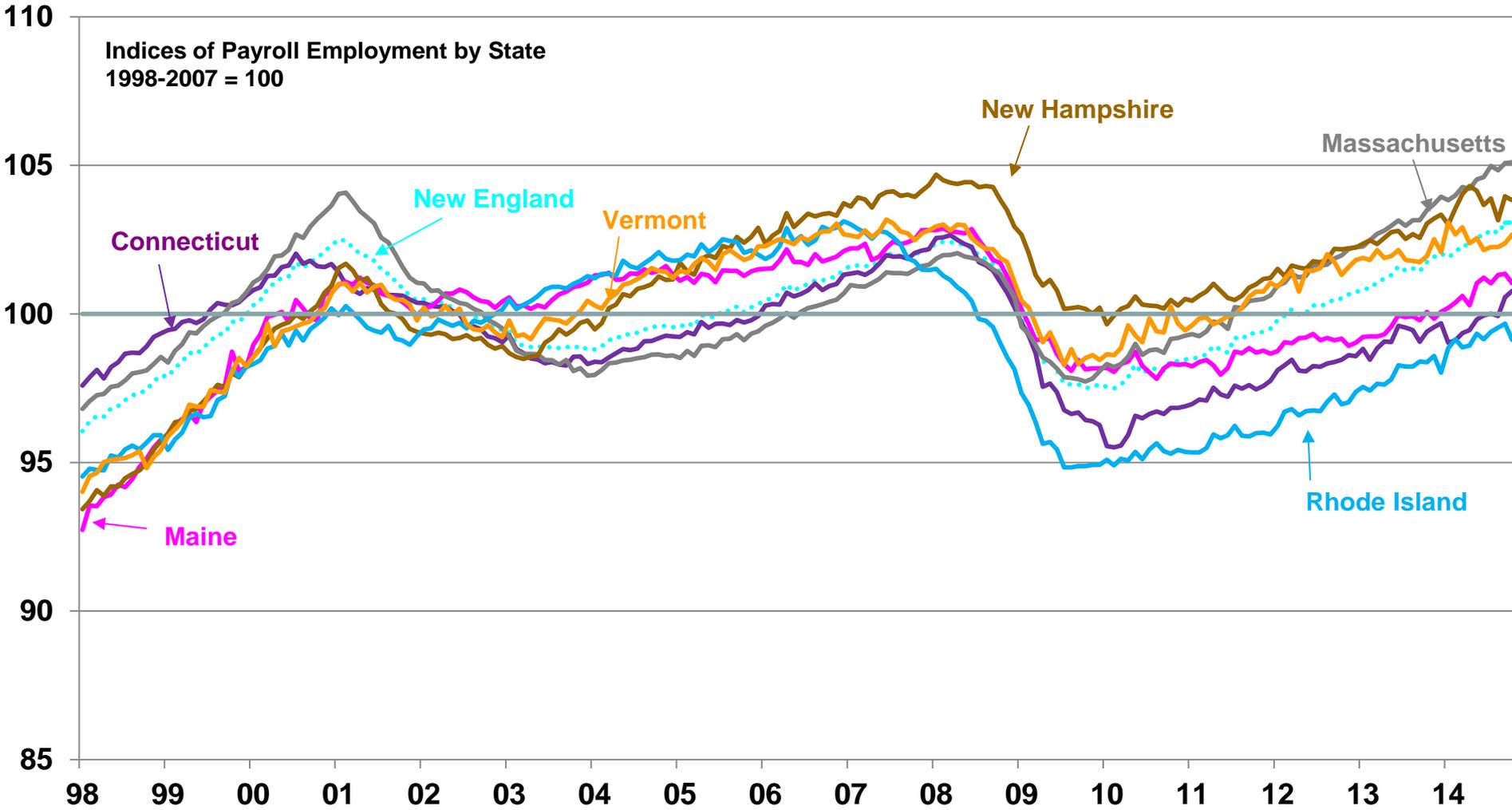
# Massachusetts Lost 4.3 Percent of Its Jobs; Gains since then have Exceeded Jobs Lost by Two Thirds



Source: Bureau of Labor Statistics, Haver Analytics



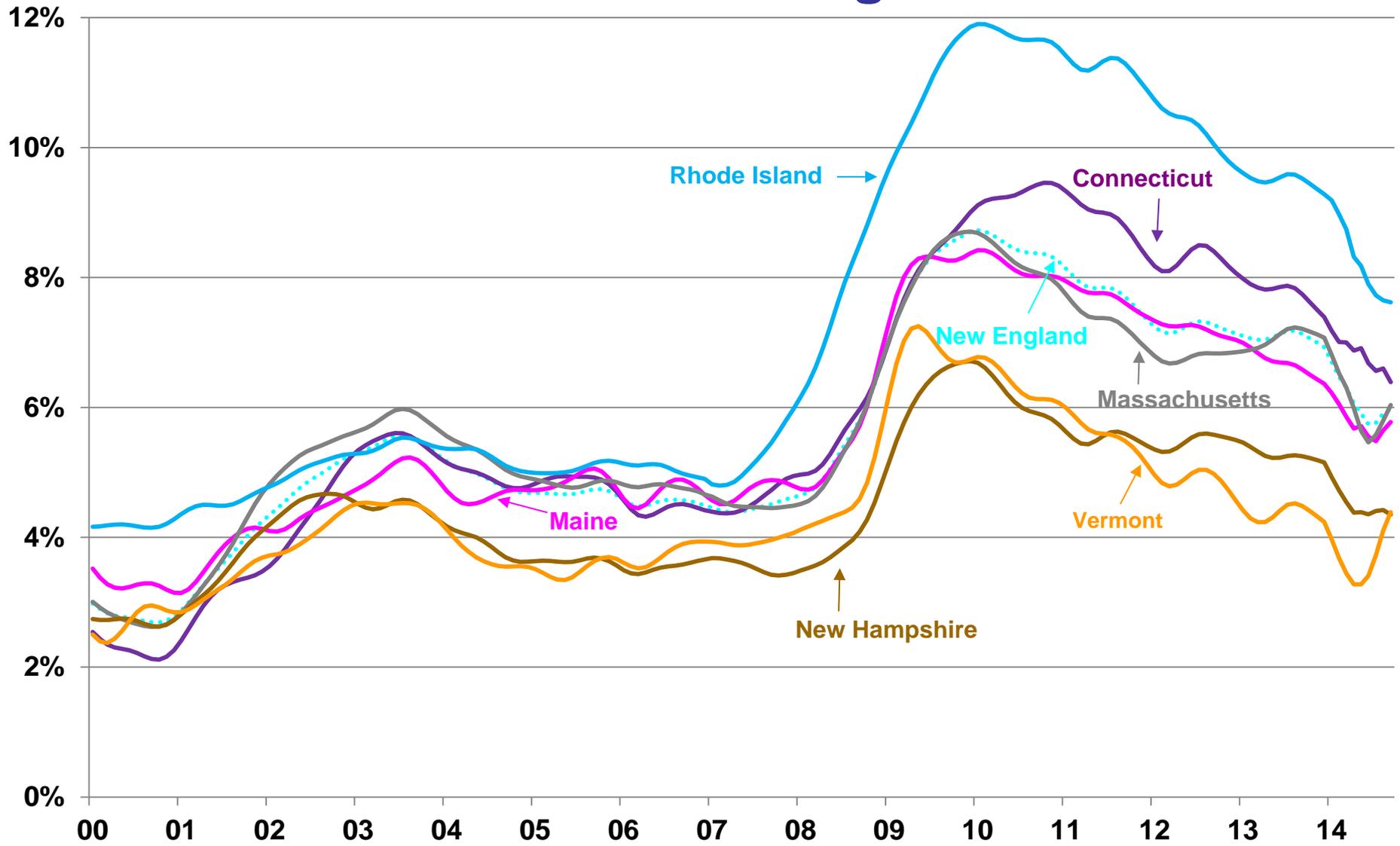
# In New England, Massachusetts, New Hampshire and Vermont are Strongest Relative to their History



Source: Bureau of Labor Statistics, Haver Analytics



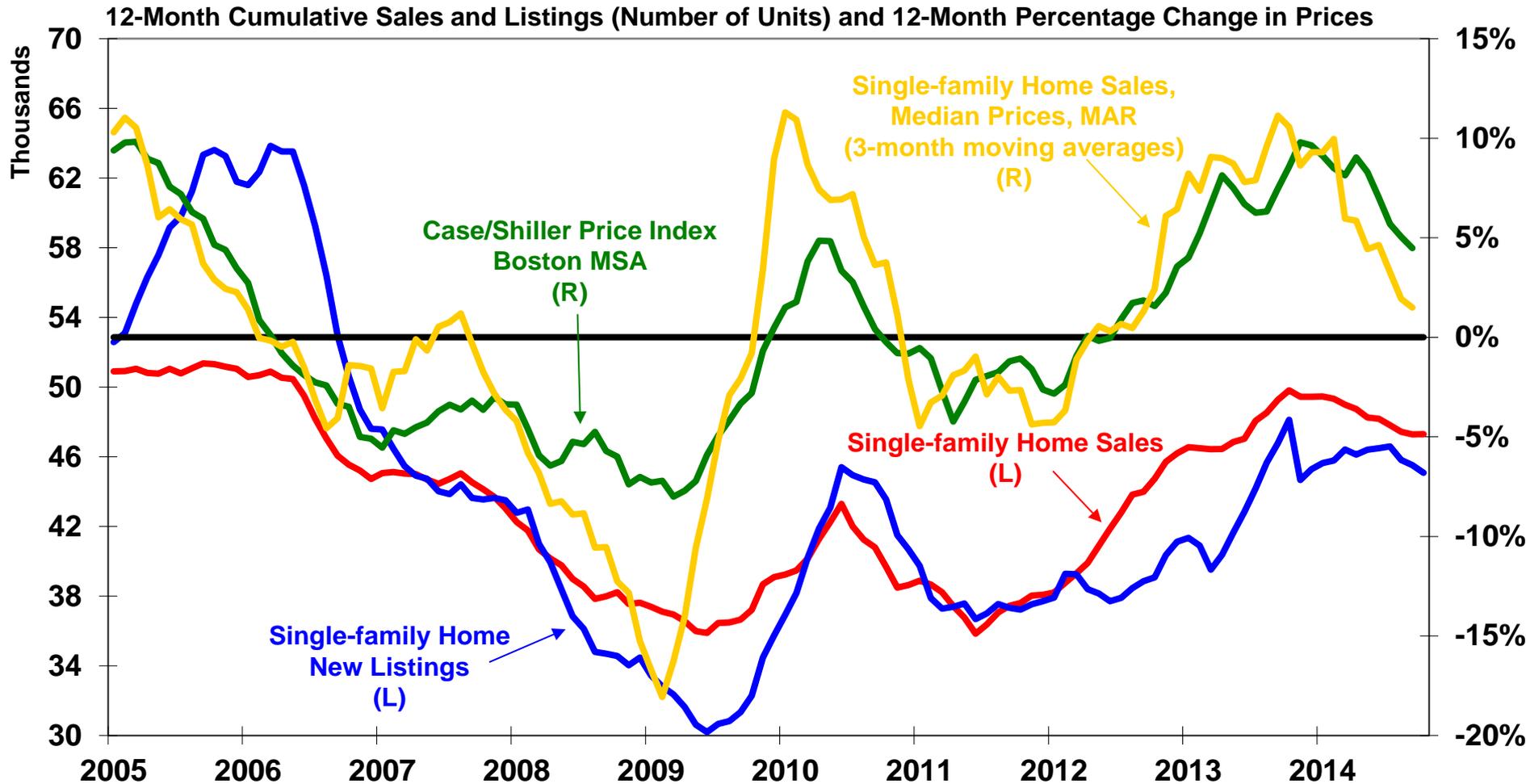
# Unemployment Rates Provide a Similar View within New England



Source: Bureau of Labor Statistics, Haver Analytics



# Note: Massachusetts' Housing Market is Performing Fairly Well

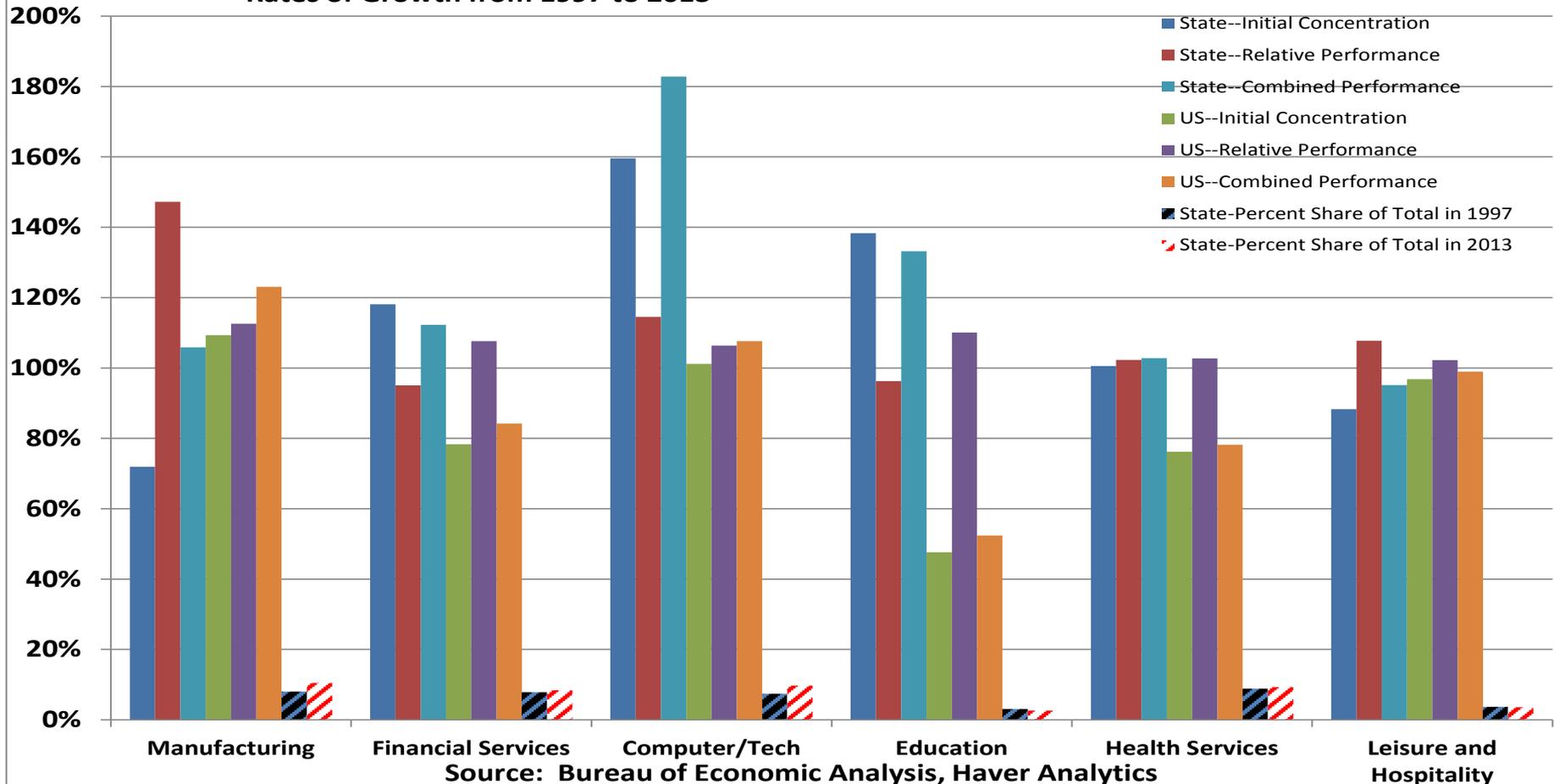


Source: Massachusetts Association of Realtors, FHFA, Haver Analytics

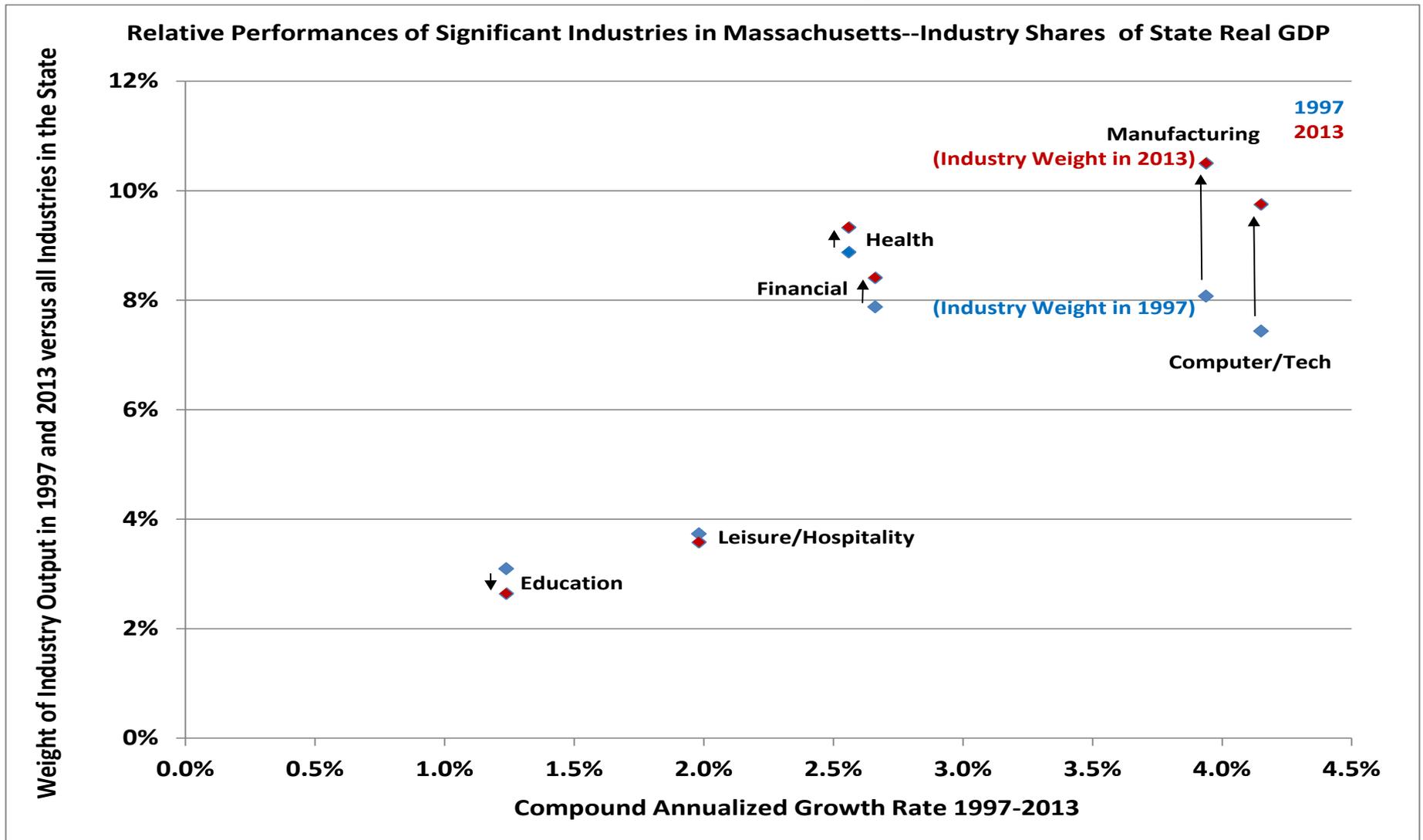


# A Question for Massachusetts, “Are We Good or Are We Lucky?”

Percentage of Real Gross State Product by Sector in Massachusetts and the United States Compared to the Averages for the Six States in Terms of Initial Concentrations and Rates of Growth from 1997 to 2013



# More on the Subject...

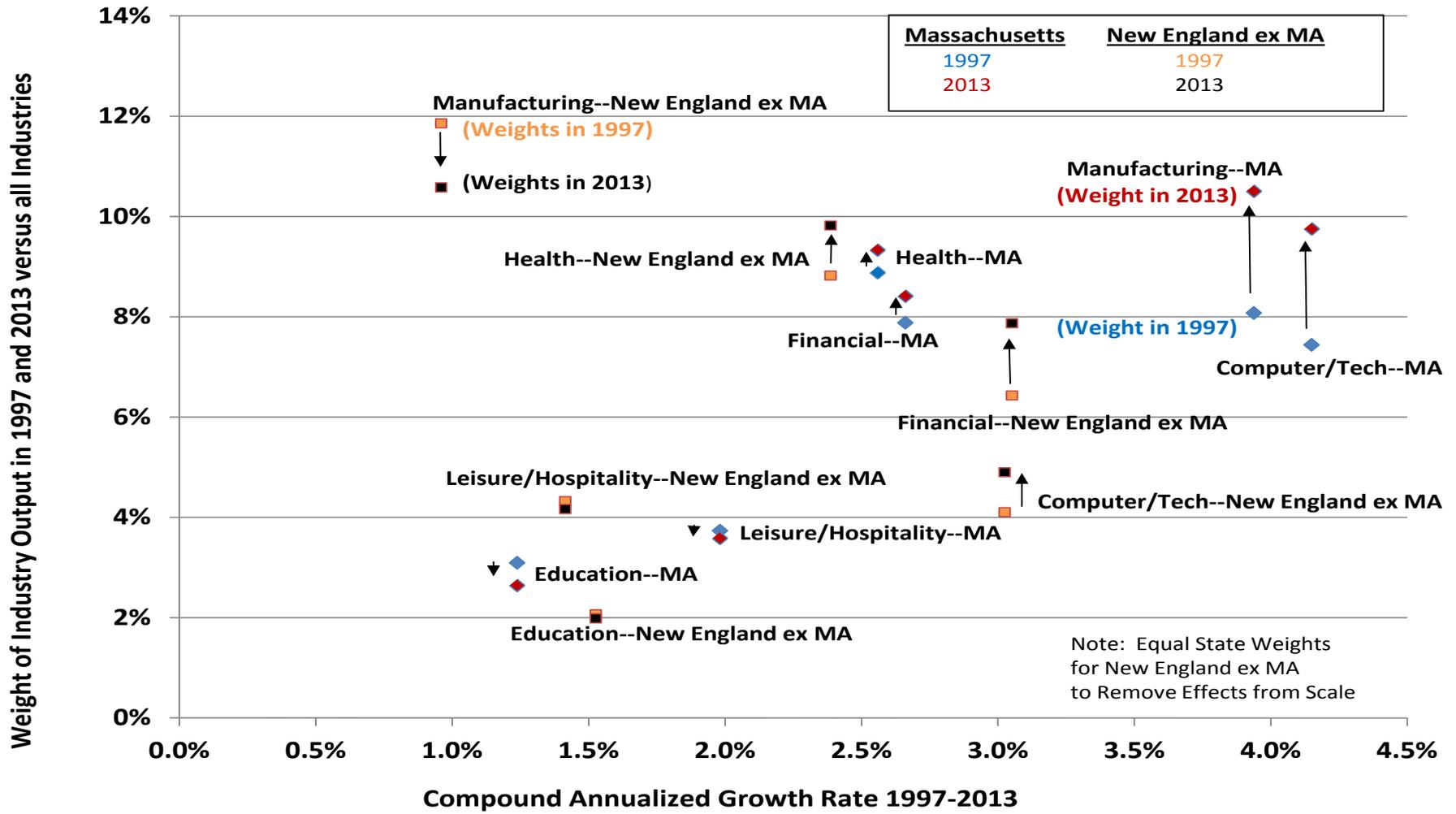


Source: Bureau of Economic Analysis, Haver Analytics



# More on the Subject with added Comparisons

Relative Performance of Significant Industries inside and outside Massachusetts--Industry Shares of State Real GDP

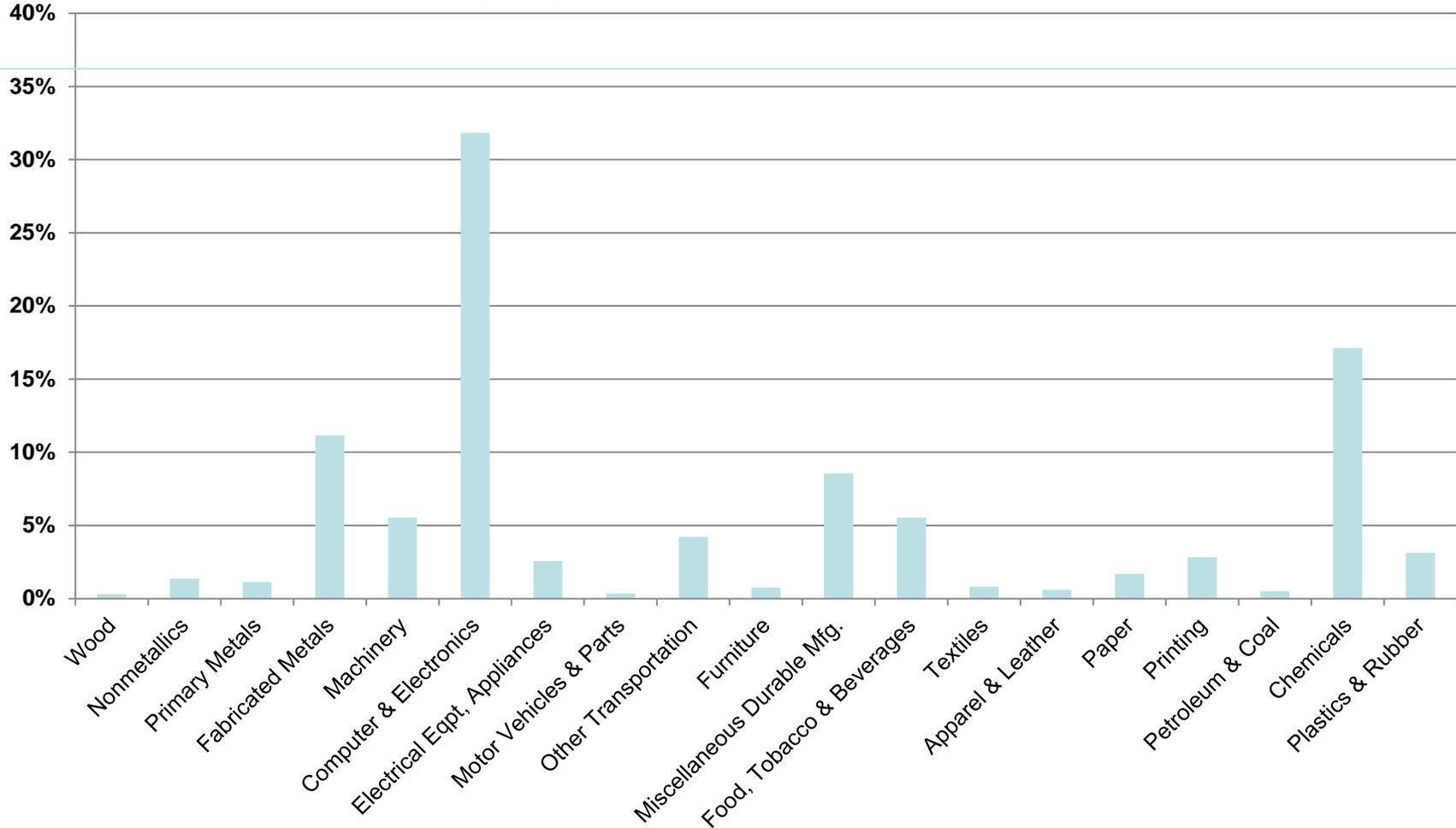


Source: Bureau of Economic Analysis, Haver Analytics



# Manufacturing in Massachusetts is Heavily Focused on Computers and Electronic Components

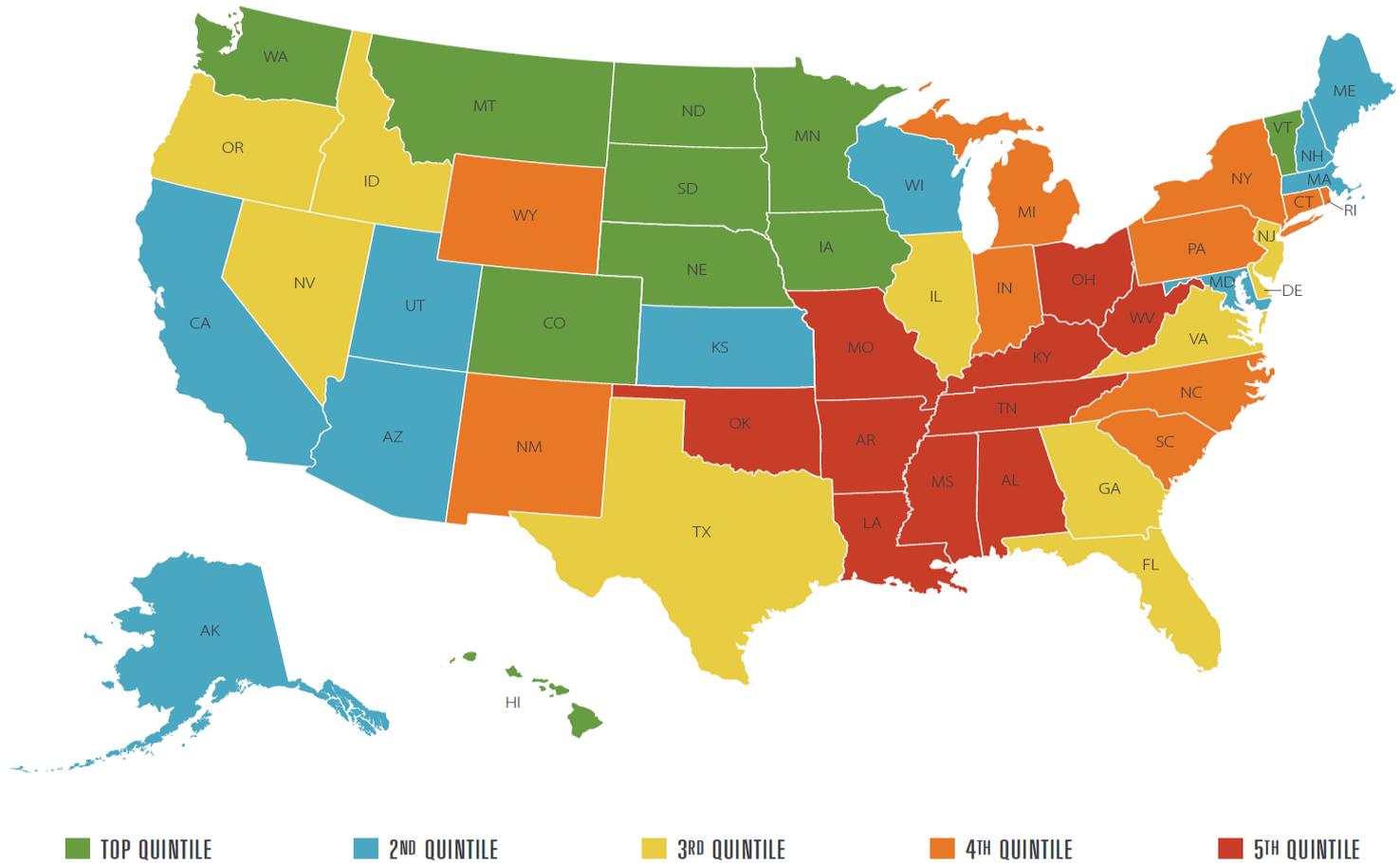
Nominal Values of Manufactured Products by Category in 2012 as a Percentage of the Value of All Manufactured Goods in Massachusetts



Source: Bureau of Economic Analysis, Haver Analytics



# There are Broader Measures of Well-Being by States, such as this Recent Representation from Gallup



# A Look at the Sub-Indices Involved with Well-Being

## States with the Highest and Lowest Scores on the Well-Being Sub-Indices

Well-Being Sub-Indices	Highest	Lowest
Life Evaluation	Nebraska	West Virginia
Emotional Health	Alaska	West Virginia
Work Environment	North Dakota	Mississippi
Physical Health	North Dakota	West Virginia
Healthy Behavior	Vermont	West Virginia
Basic Access (Medical)	Massachusetts	West Virginia

**Gallup-Healthways Well-Being Index, 2013**



# Note: Puerto Rico now is Receiving Special Attention

## Puerto Rico Hires Cleary Gottlieb

By Emily Glazer and Mike Cherney

Puerto Rico's finance arm hired restructuring lawyers at Cleary Gottlieb Steen & Hamilton LLP in recent weeks, people familiar with the matter said, as the troubled island battles a weak economy and perpetual budget deficits. It is unclear what Cleary Gottlieb's role will be for the Government Development Bank for Puerto Rico, which announced in early March it is working with a unit of restructuring adviser Millstein & Co. to analyze its liquidity, debt load and cash flow as it tries to boost its finances. Puerto Rico finance officials have said they intend to honor their obligations and are working to eliminate the island's budget deficit for the coming fiscal year.

Even so, many investors remain concerned about the outlook for the commonwealth, which has roughly \$70 billion in debt. Puerto Rico last month completed a \$3.5 billion bond sale that people familiar with the matter said has bought it another year before it faces any immediate restructuring concerns.

**The Wall Street Journal**

April 8, 2014

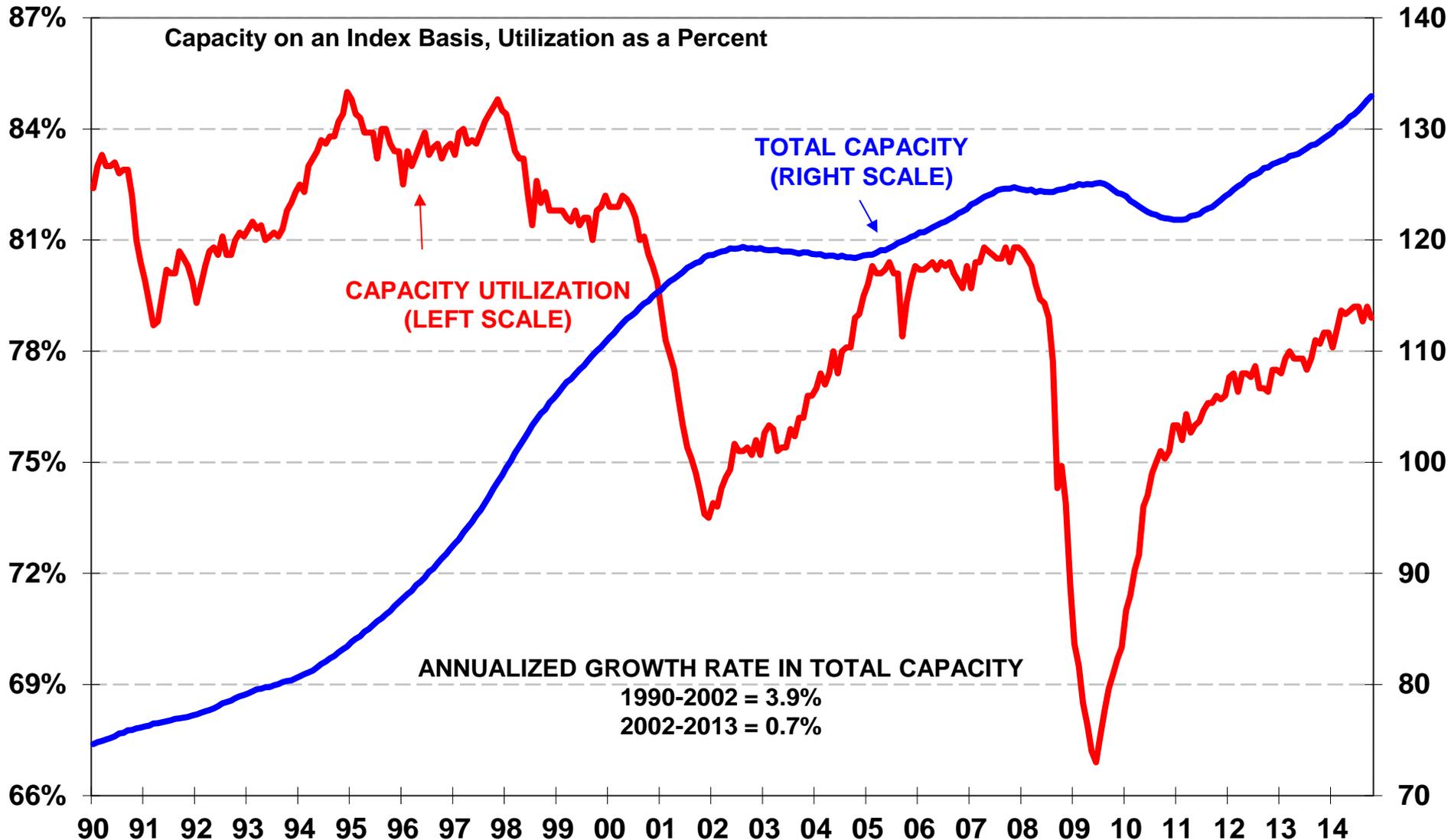




# Setting Monetary and Fiscal Policies



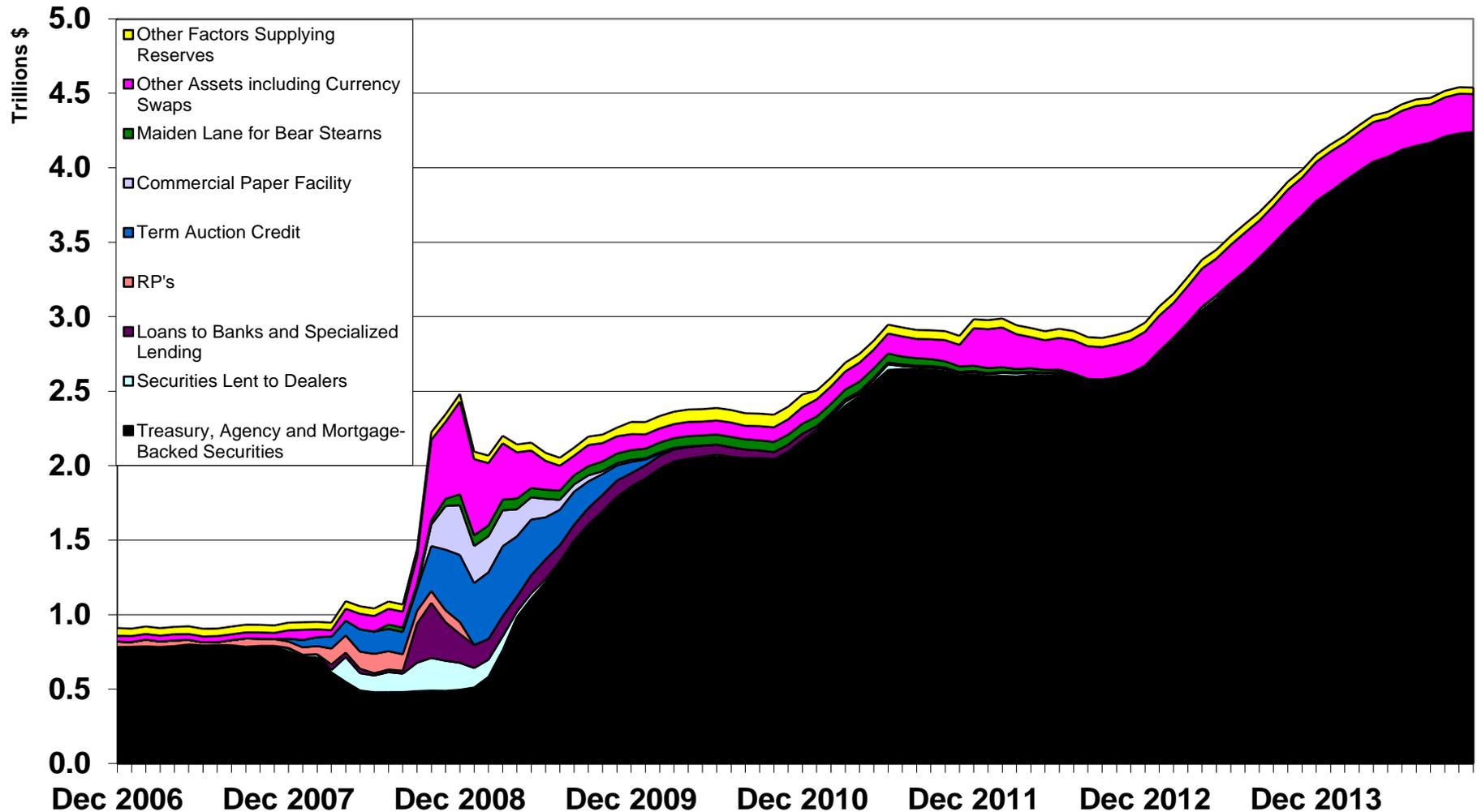
# The Fed's View of the Economy has Room for Growth



Source: Federal Reserve Board, Haver Analytics



# The Fed's Balance Sheet Expanded due to Financial Crisis that Prompted Quantitative Easing, now Ended



Sources: Federal Reserve Board, Haver Analytics

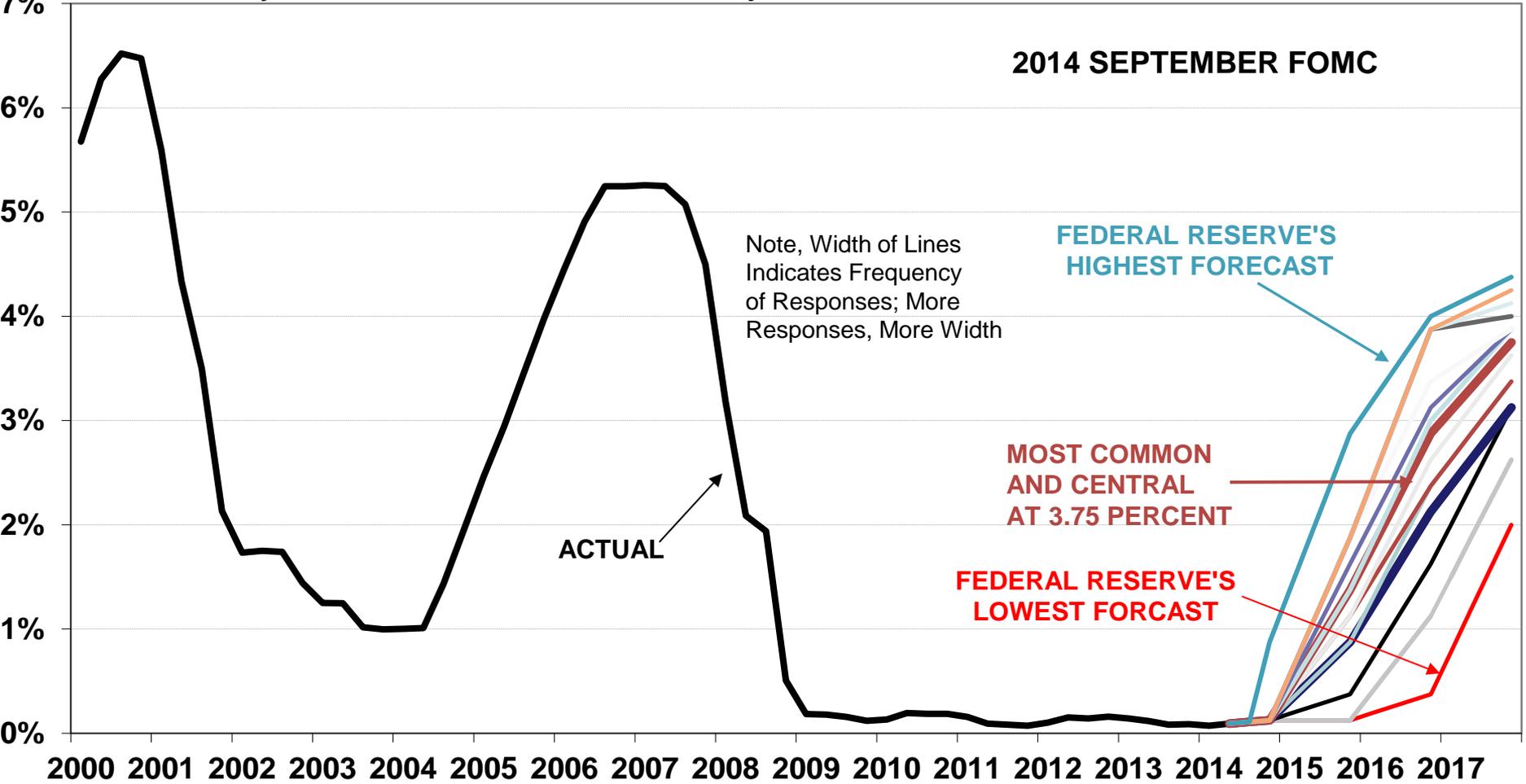


# The Fed has Many Views Regarding Monetary Policy

## ECONOMIC ASSUMPTIONS FOR 2014-2017 FEDERAL RESERVE'S FEDERAL FUNDS RATE PROJECTIONS

Quarterly Pattern Consistent with Year-End Projections

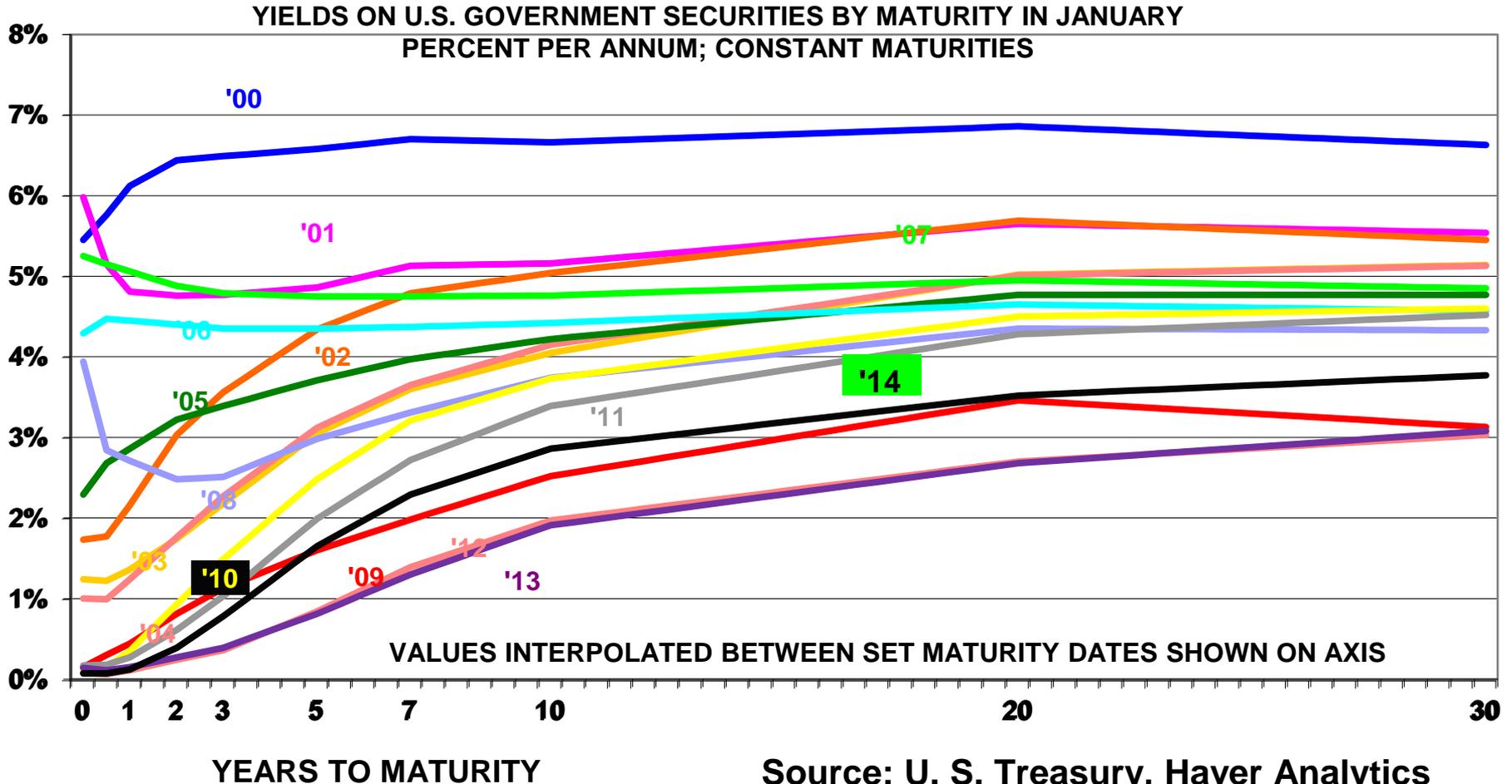
2014 SEPTEMBER FOMC



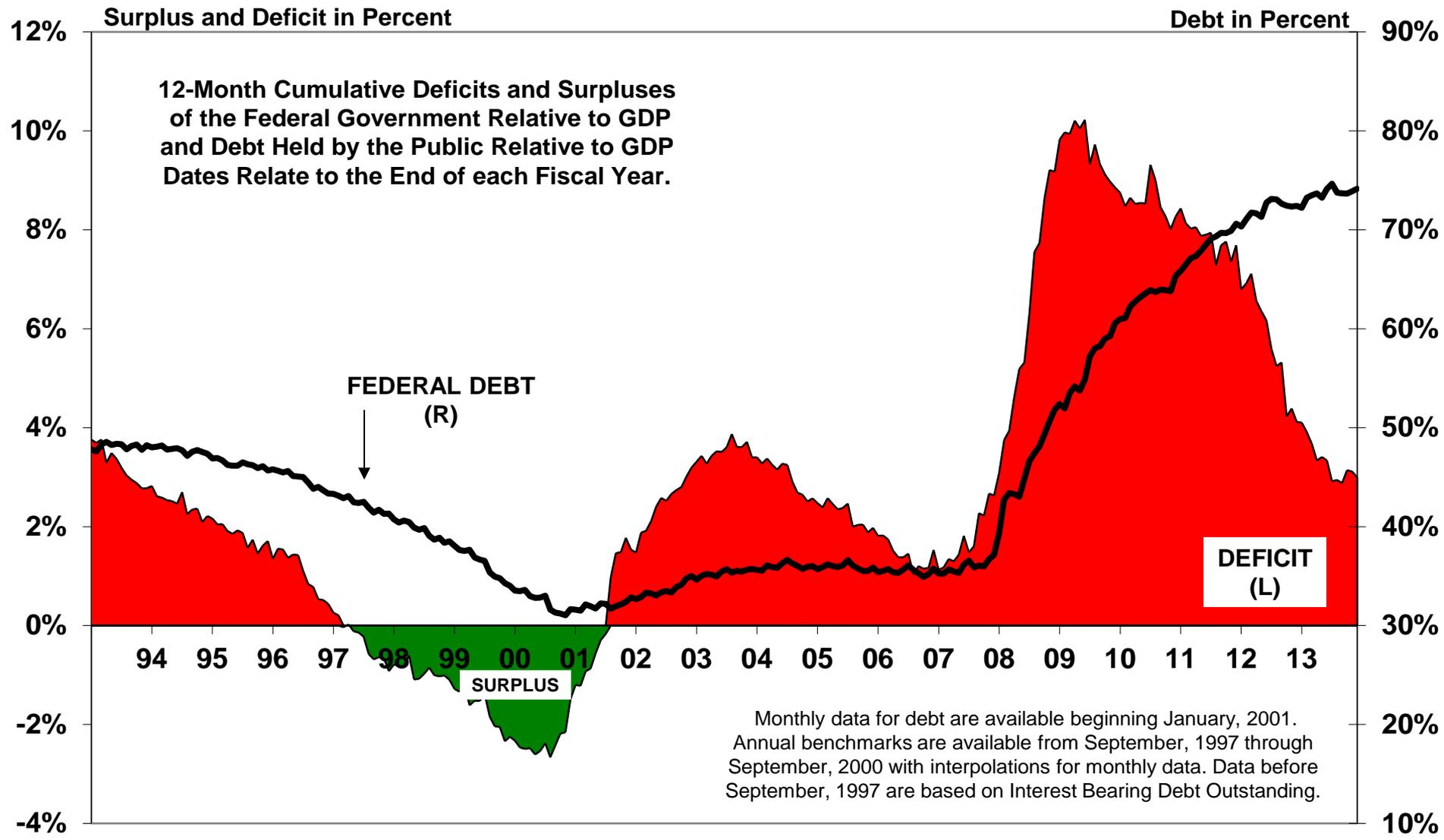
Sources: Federal Reserve Board, Haver Analytics



# The Yield Curve Moved Upward—until It Moved Downward



# Deficits are Declining; the Rising Debt Burden is Peaking



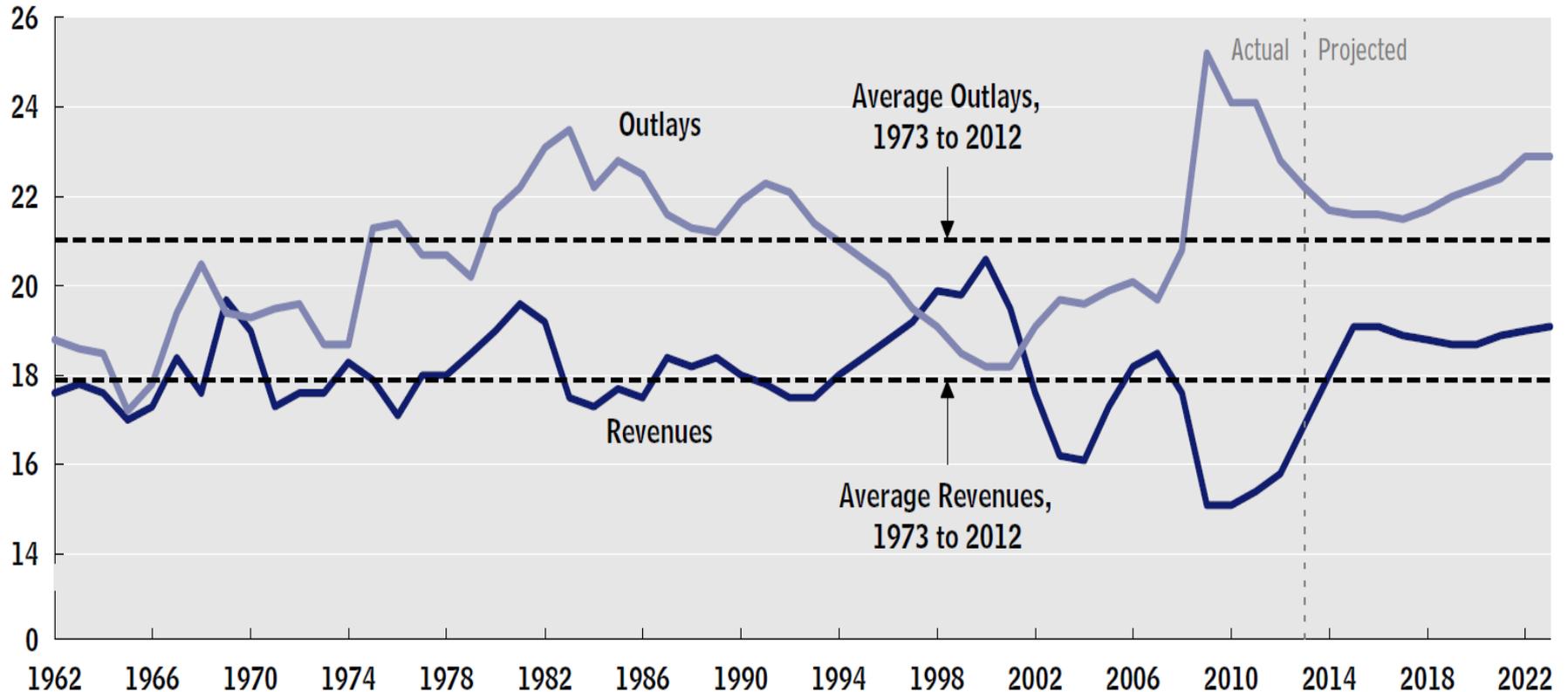
Sources: U.S. Treasury, Macroeconomic Advisers, Haver Analytics



# Long-term, the Outlook is Poor according to the CBO

## Total Revenues and Outlays

(Percentage of gross domestic product)



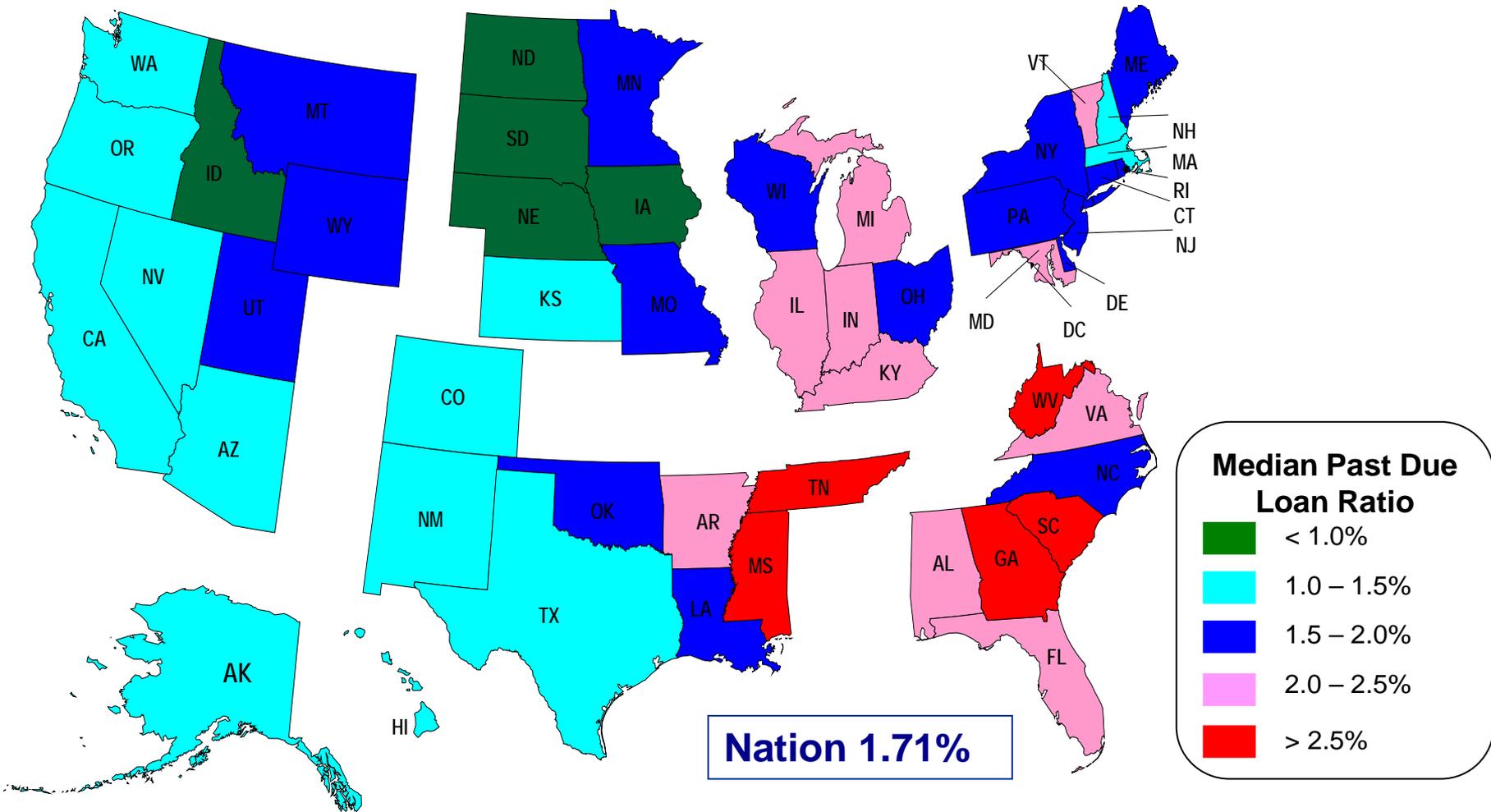
Source: Congressional Budget Office



# Banking Conditions



# The Northeast is in the middle of the pack for past due loans.

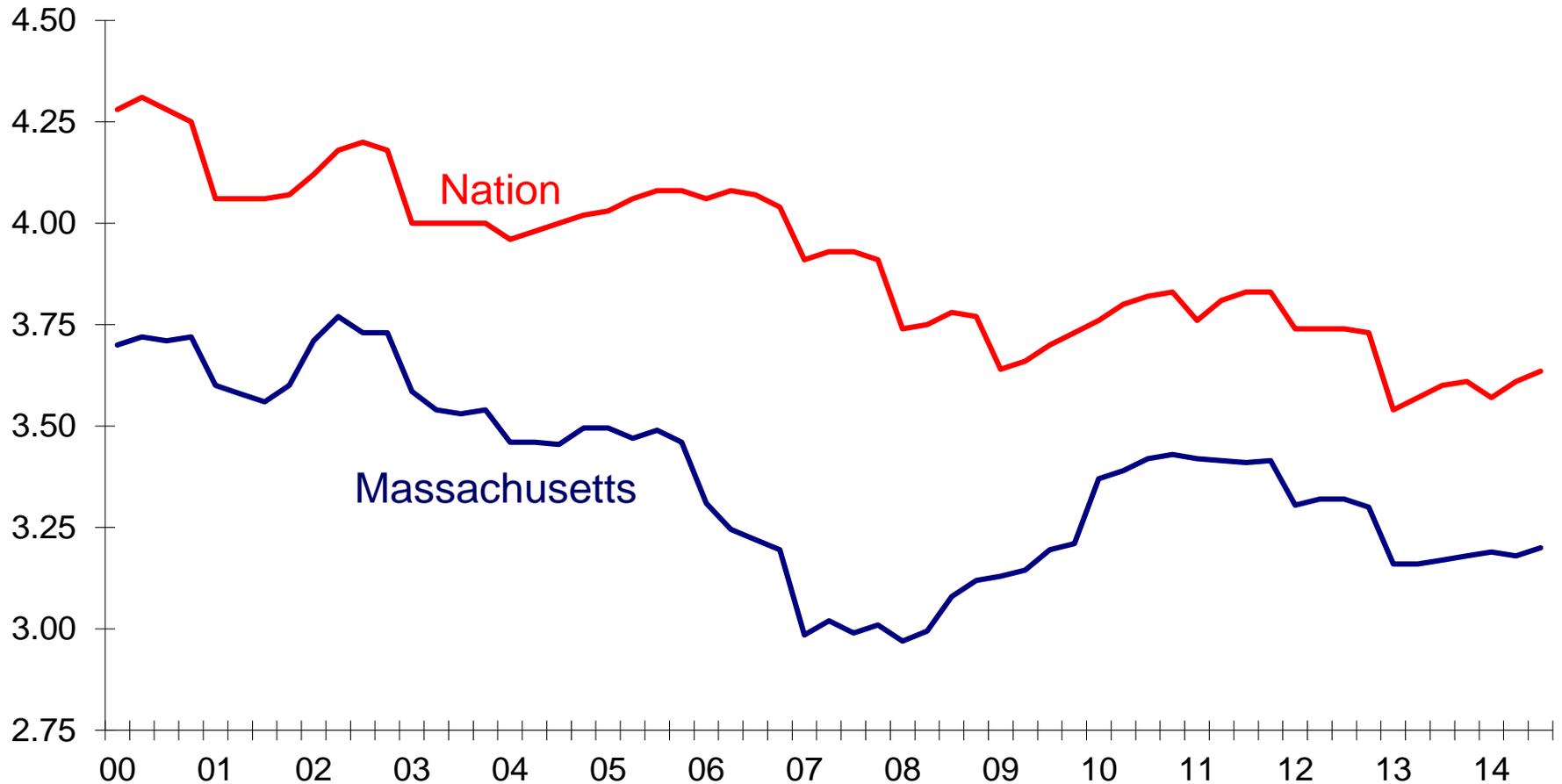


Source: FDIC. Data as of September 30, 2014



# Net interest margin pressure remains a challenge.

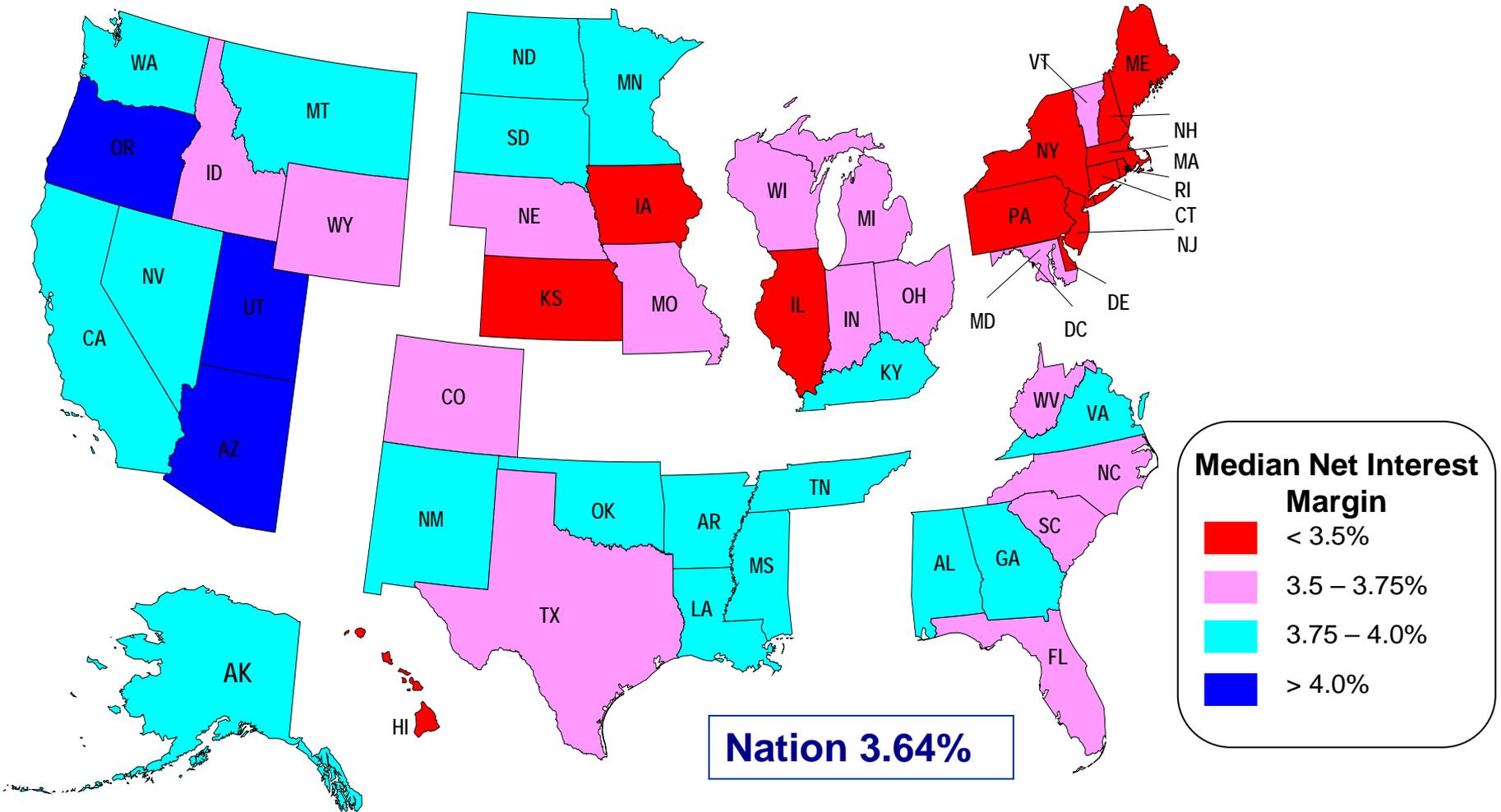
Net Interest Margin (median %)



Source: FDIC. Data as of September 30, 2014.



# Net interest margins are lower in the Northeast than other areas of the country.

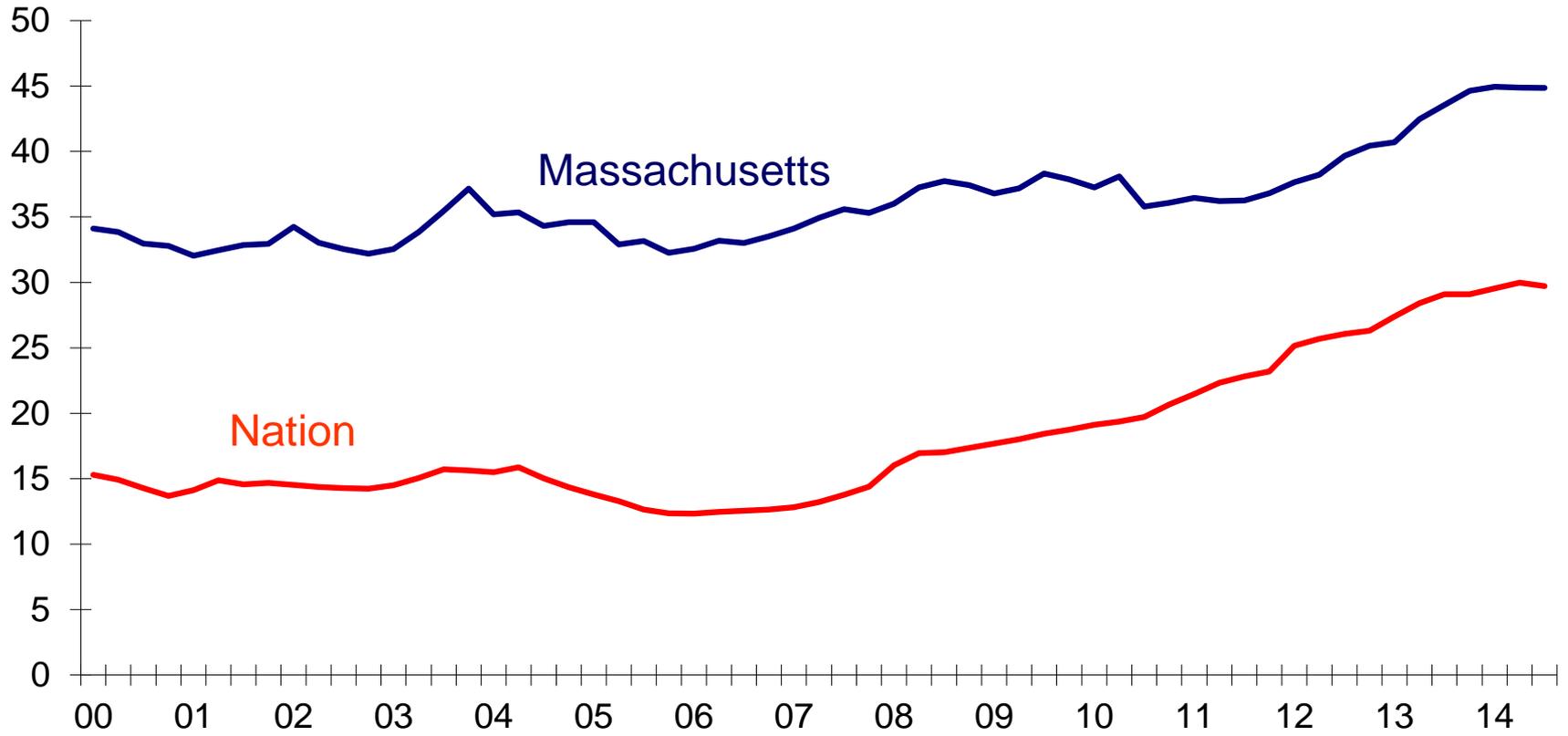


Source: FDIC. Data as of September 30, 2014



# NIM pressure has resulted in record level asset duration.

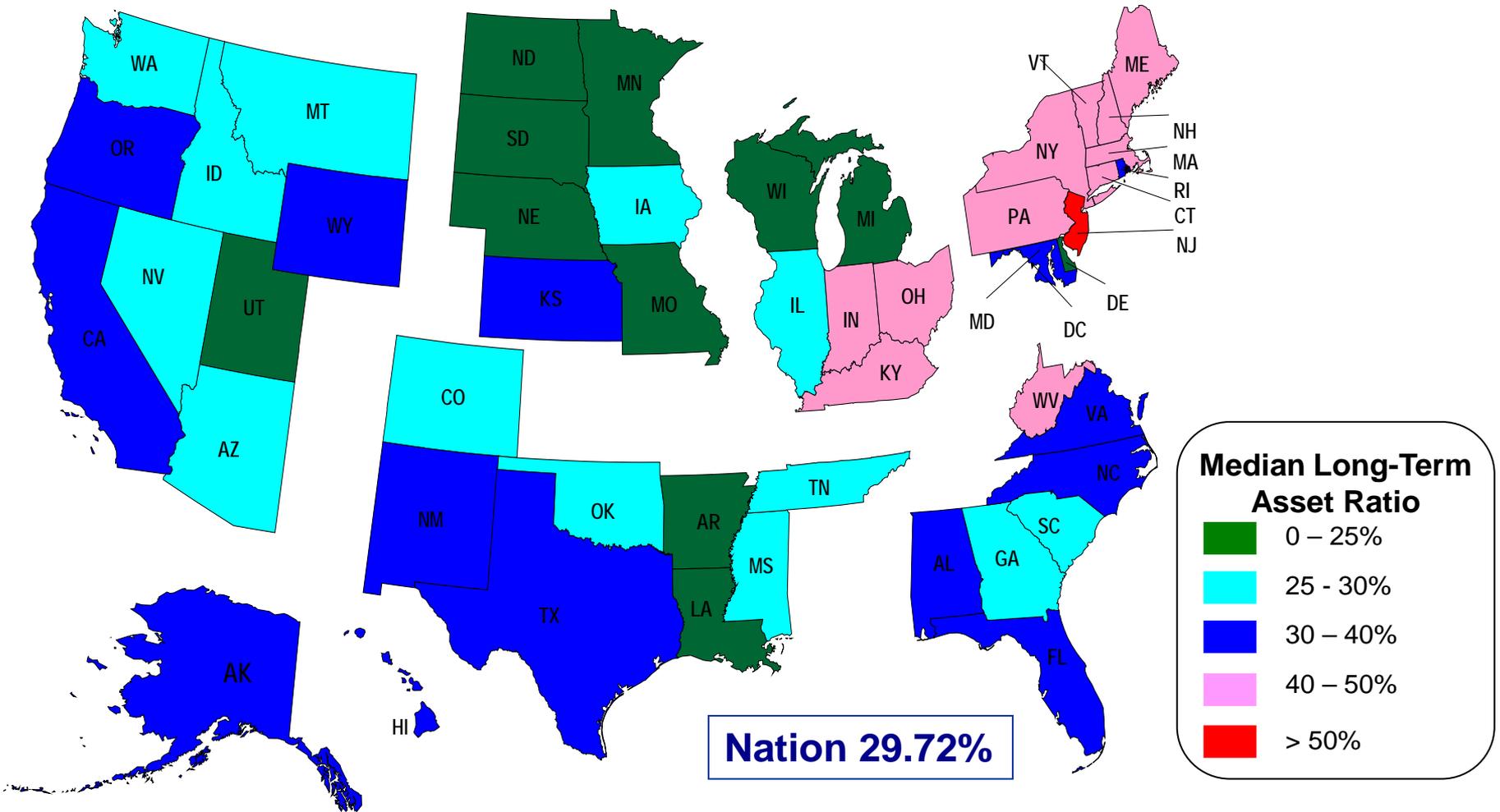
Long-term assets (>5 yrs.) to earning assets (median %)



Source: FDIC. Call filers. Data as of September 30, 2014.



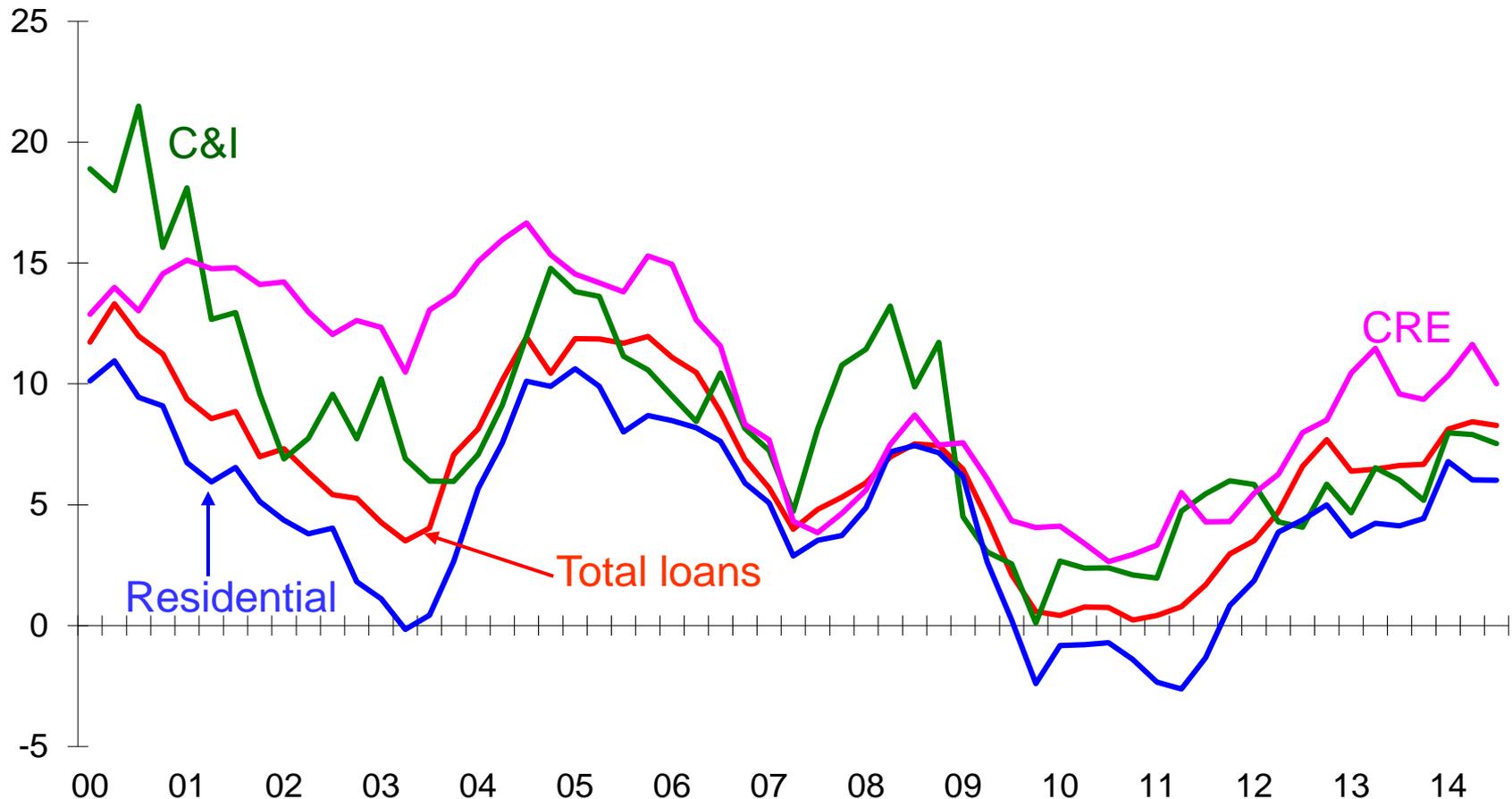
# Long-term asset ratios are high in the Northeast.



Source: FDIC. Data as of September 30, 2014

# Commercial loan growth is strong and may help institutions reprice loan portfolios.

Year-over-Year Growth (median %)

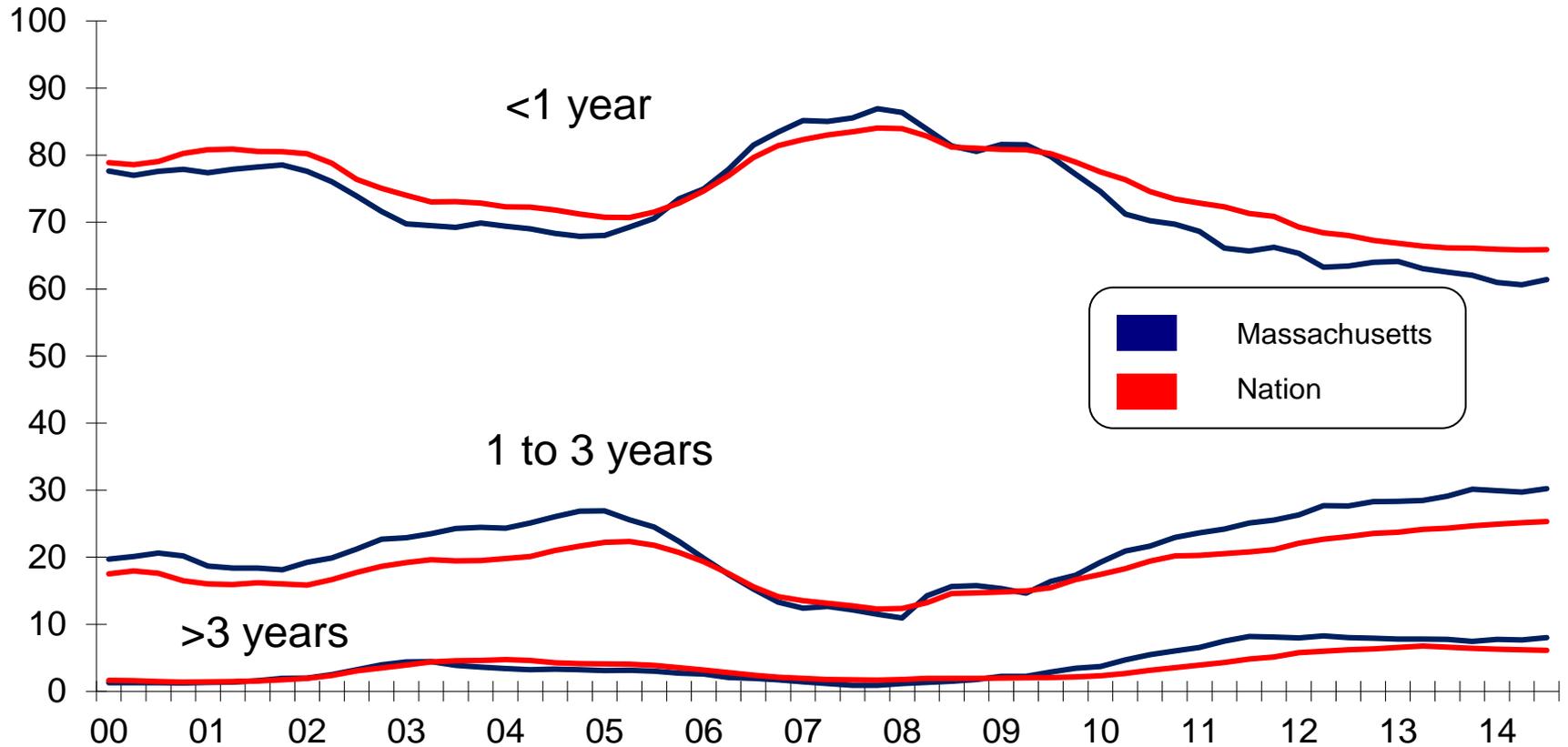


Source: FDIC. CRE includes nonfarm/nonres, multifamily, and C&D loans. Data as of September 30, 2014.



# Most time deposits are short term and may reprice quickly when (if) rates rise.

Time deposits to total time deposits maturing or repricing (median %)



Source: FDIC. Call filers. Data as of September 30, 2014.



# ***Disclaimer***

*The views expressed in this presentation are those of the presenter and do not necessarily reflect official positions of the FDIC. Some of the information used in the preparation of this presentation was obtained from publicly available sources that are considered reliable. However, the use of this information does not constitute an endorsement of its accuracy by the FDIC.*

