



The Economic Recovery in Maine and the Nation

Maine Bankers Association Directors Forum
May 11, 2011

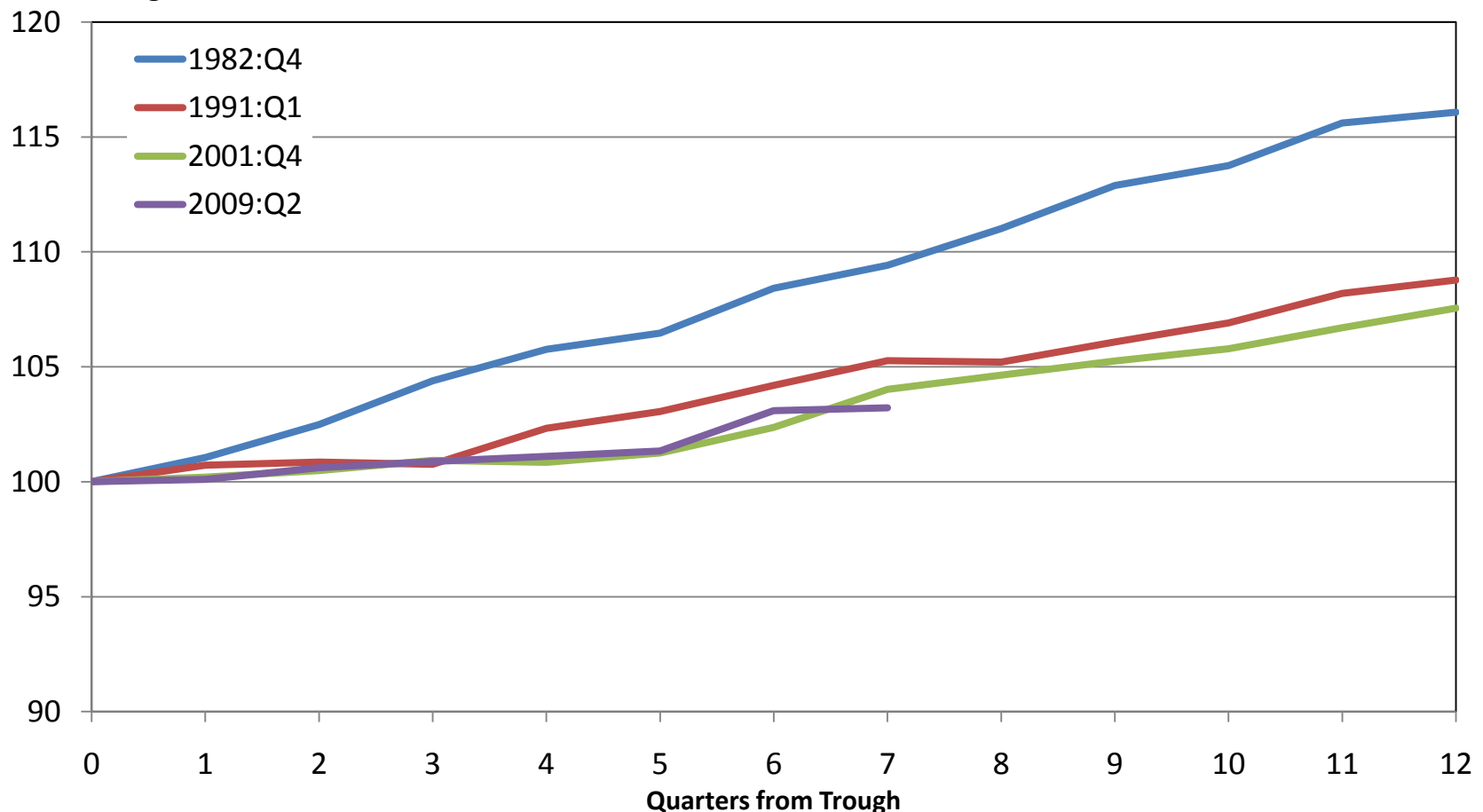
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Vice President and Director, NEPPC
Federal Reserve Bank of Boston

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

Index, Trough=100



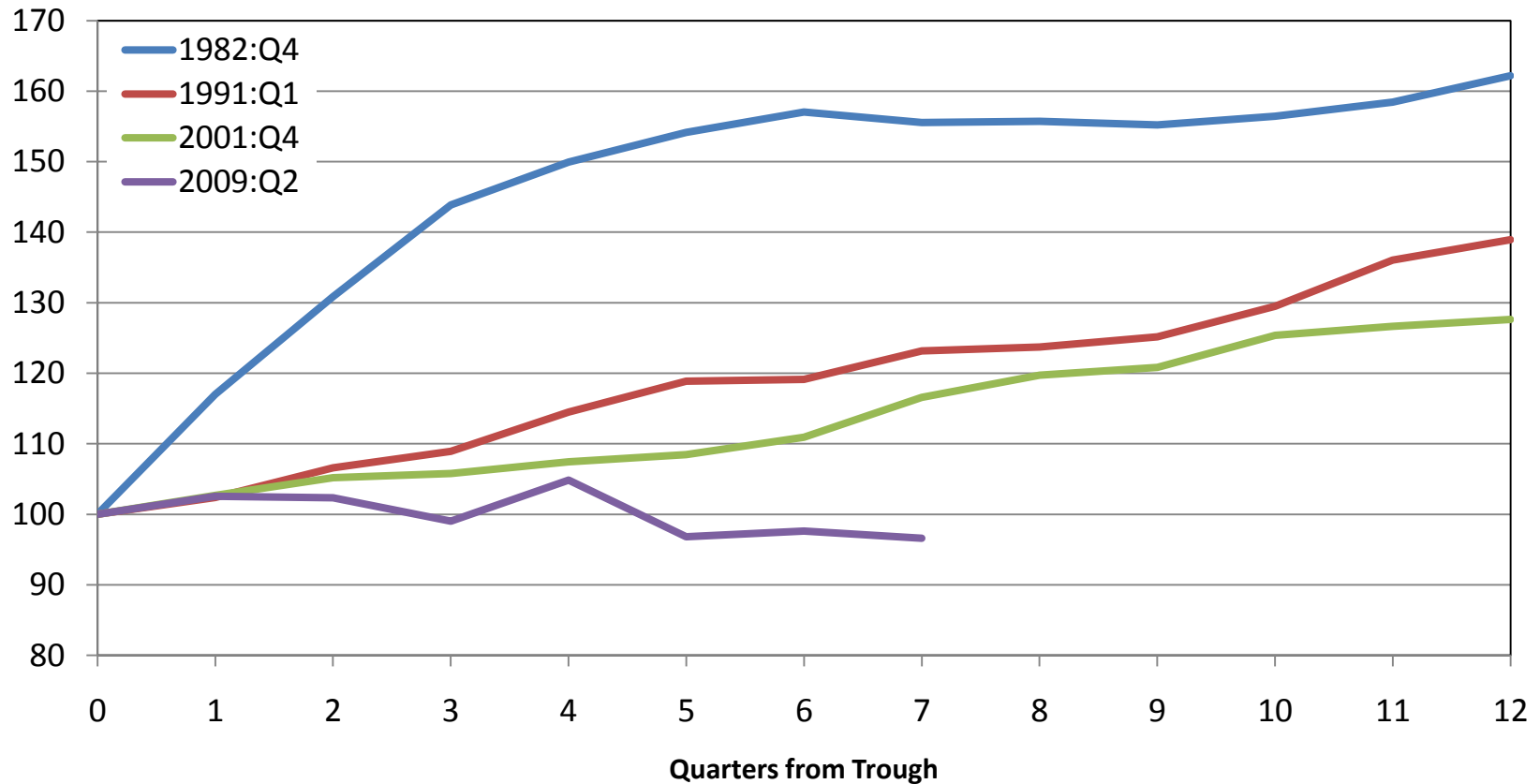
Source: BEA and NBER/Haver Analytics

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.

Real Growth in Residential Fixed Investment from Trough of Last Four Recessions

Index, Trough=100

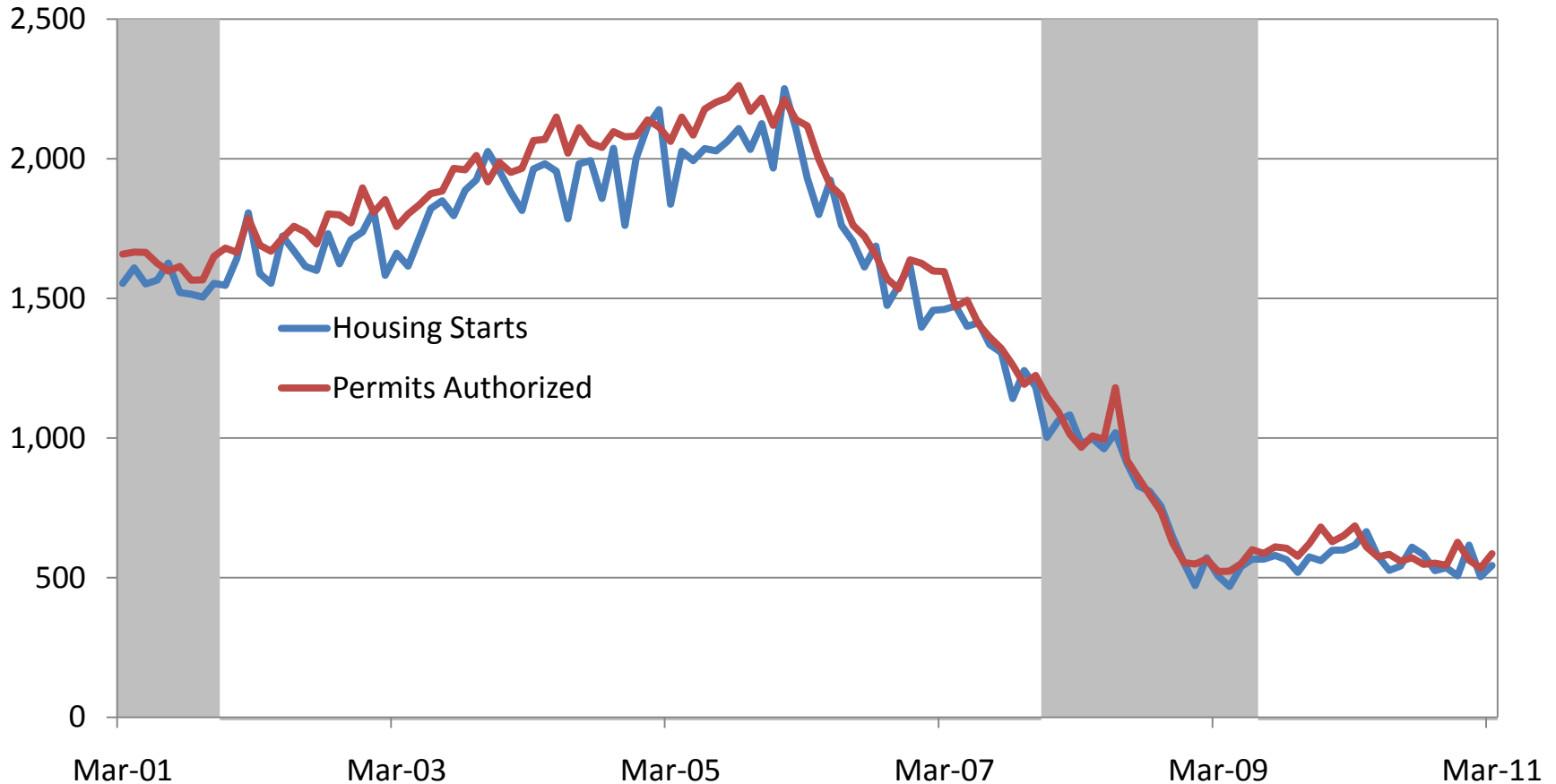


Source: BEA and NBER/Haver Analytics

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.

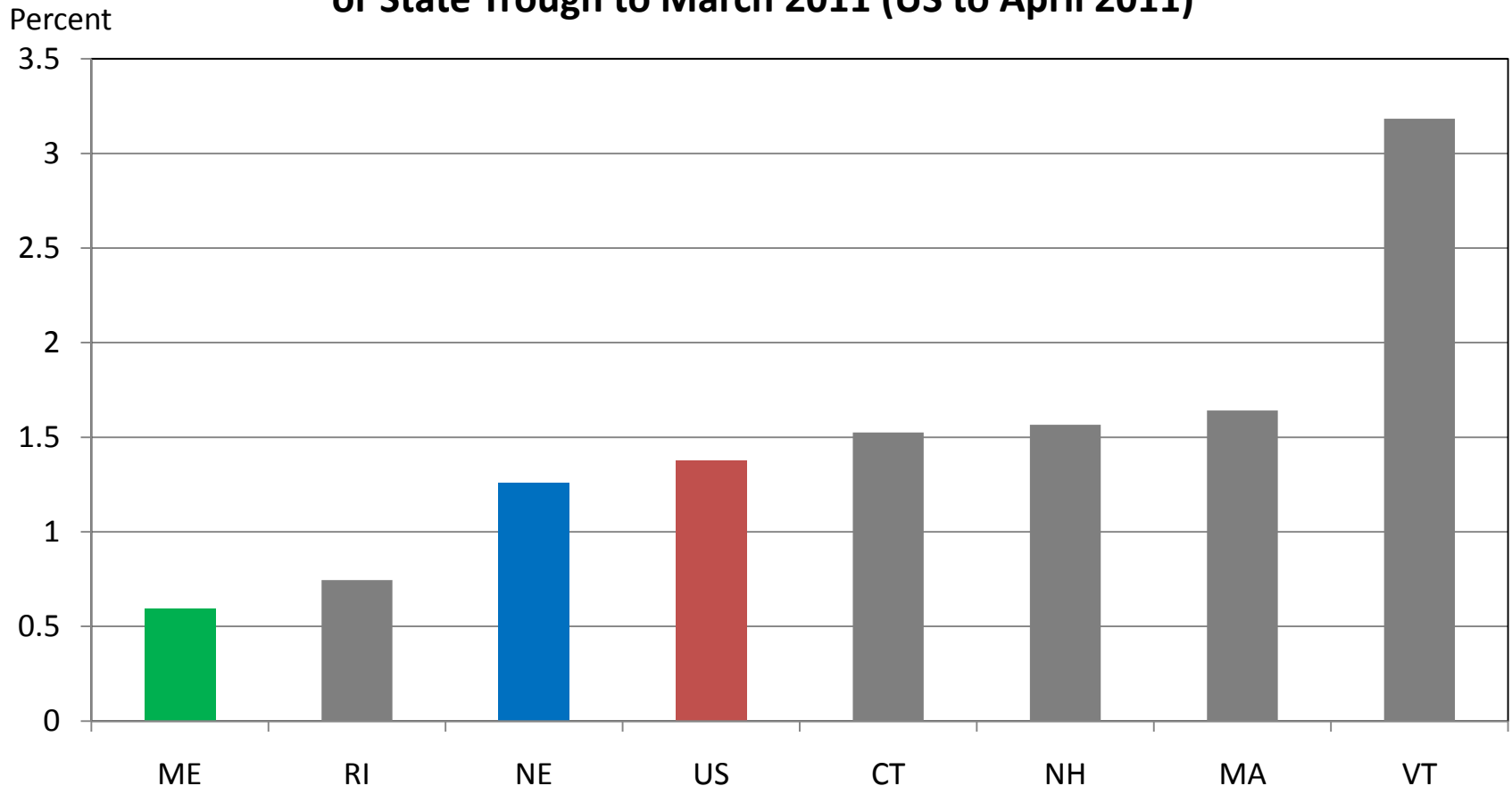
Thousands of Units, Seasonally Adjusted Annual Rate



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.

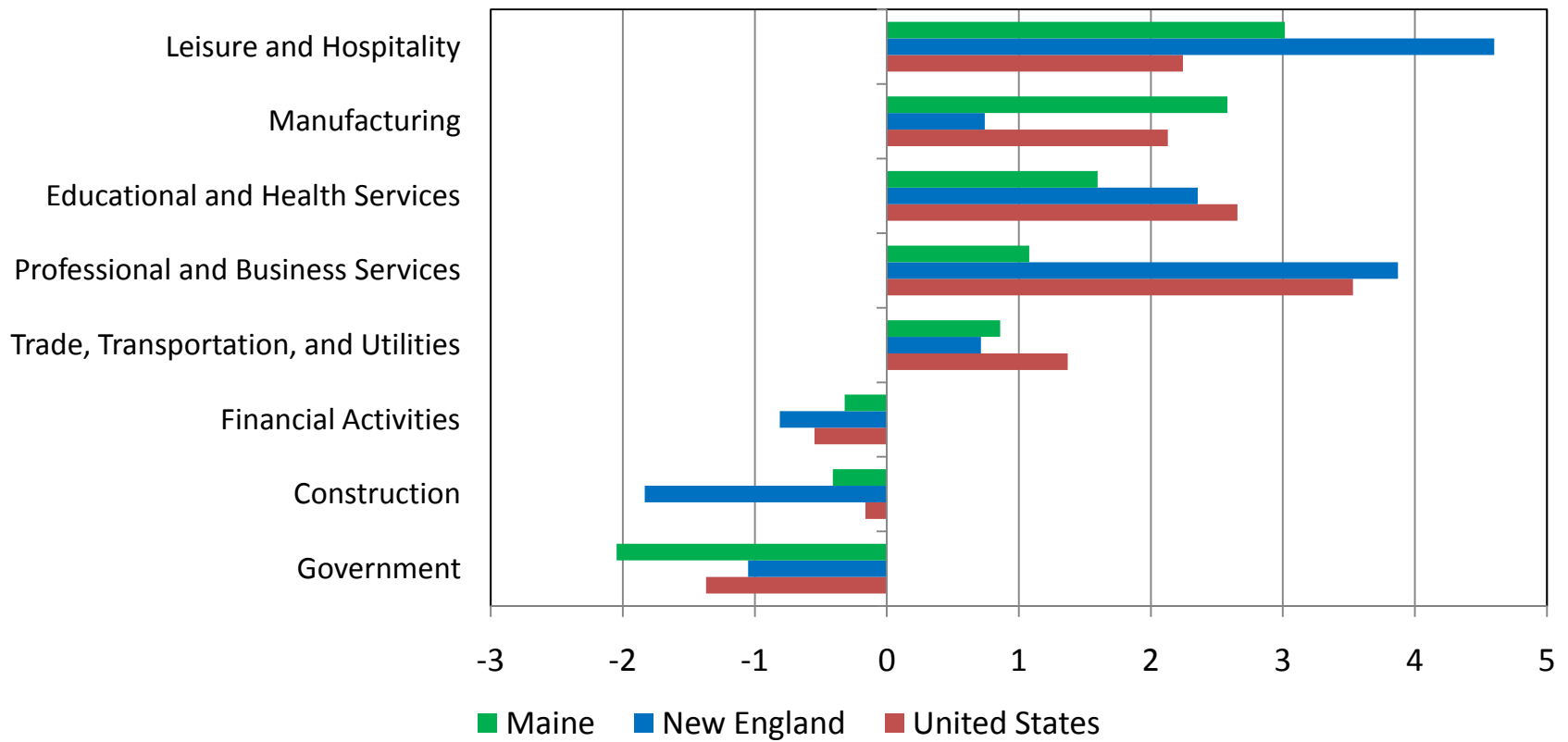
Change in Nonfarm Employment from US, New England, or State Trough to March 2011 (US to April 2011)



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

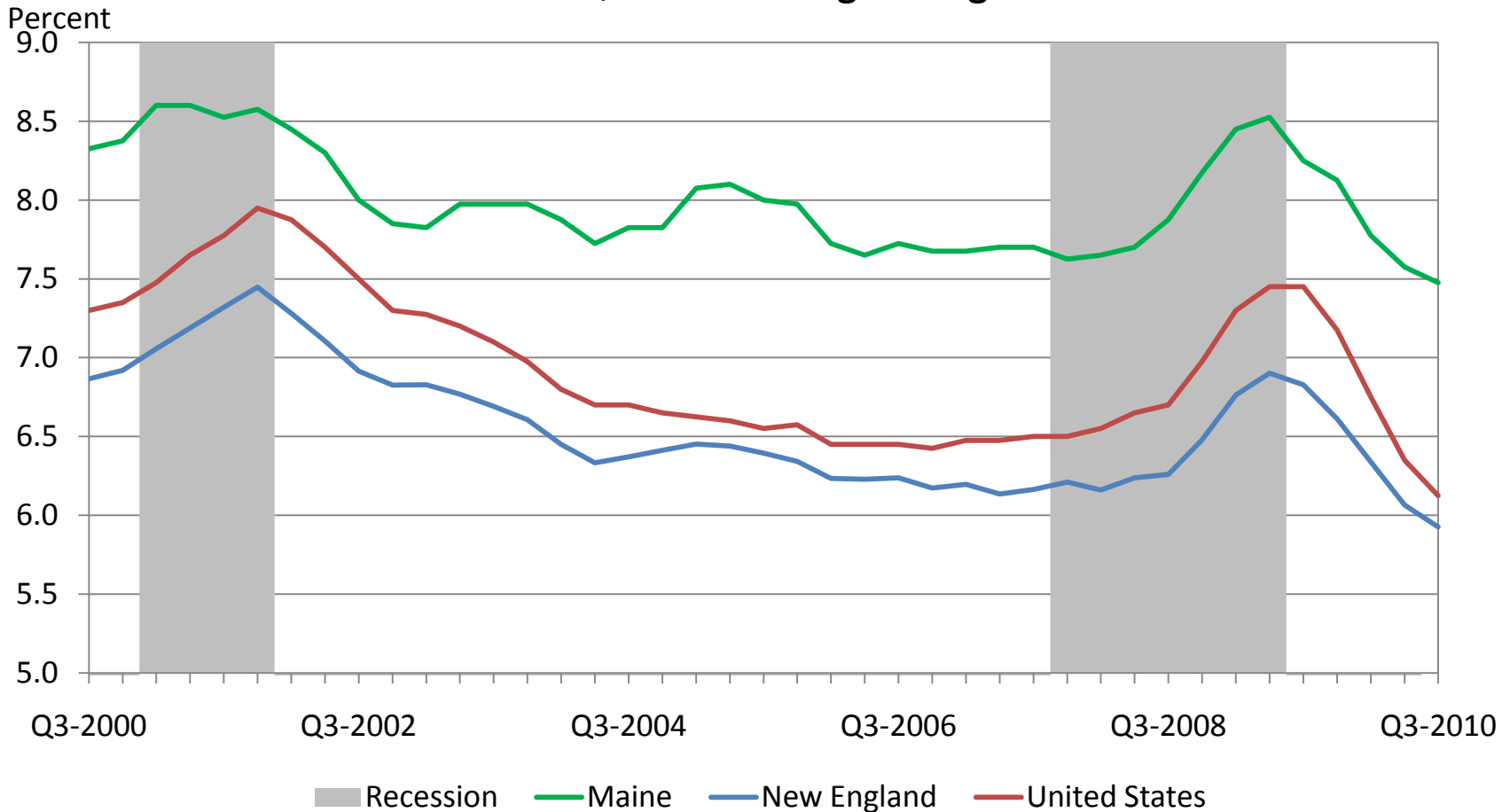
Some services industries are not recovering as quickly in Maine as they are elsewhere.

Percent Employment Change from
ME, New England, or US trough to March 2011 (US to April 2011)



Job destruction rates have fallen below pre-recession levels.

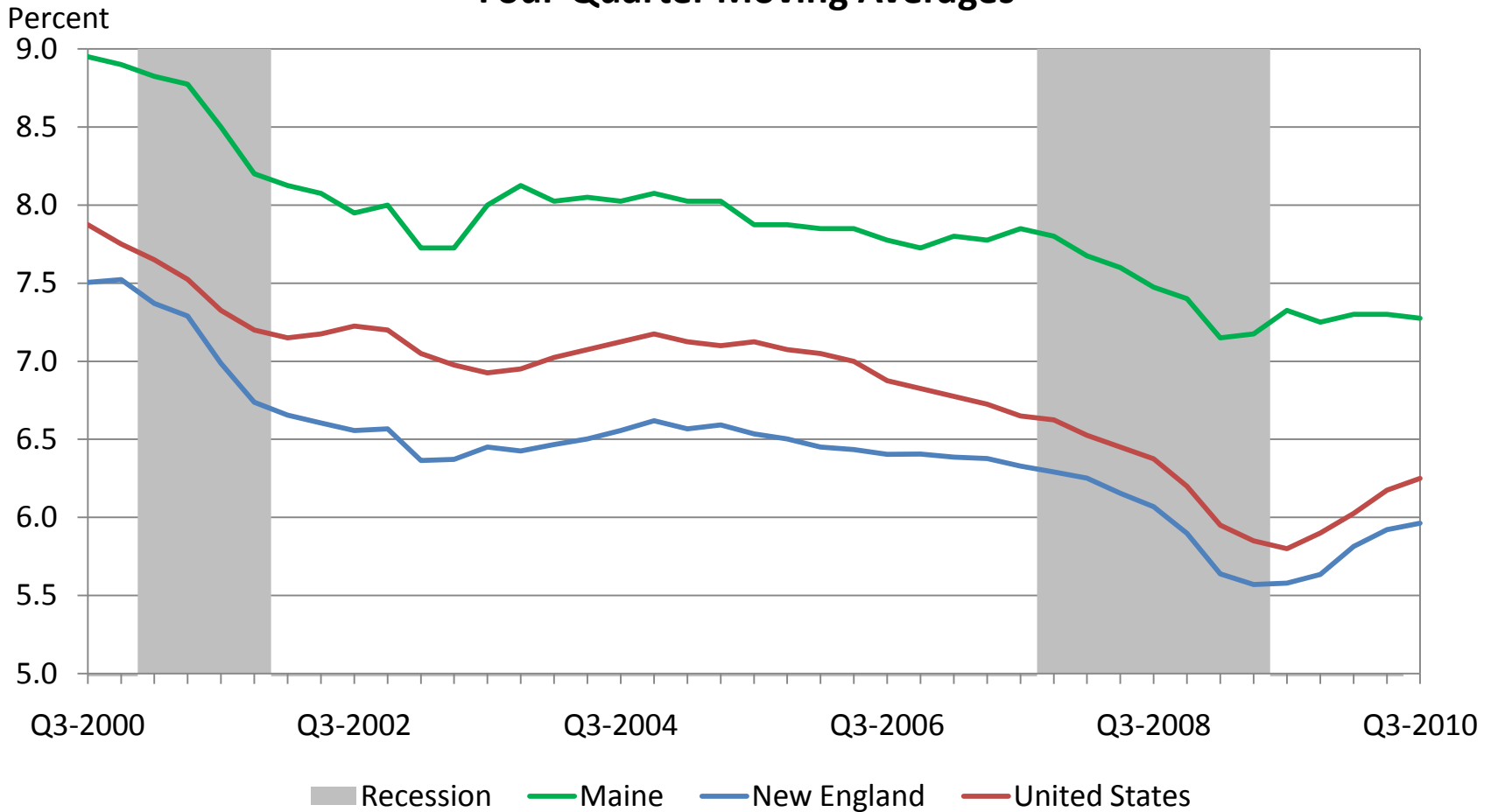
Job Destruction Rates Four Quarter Moving Averages



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

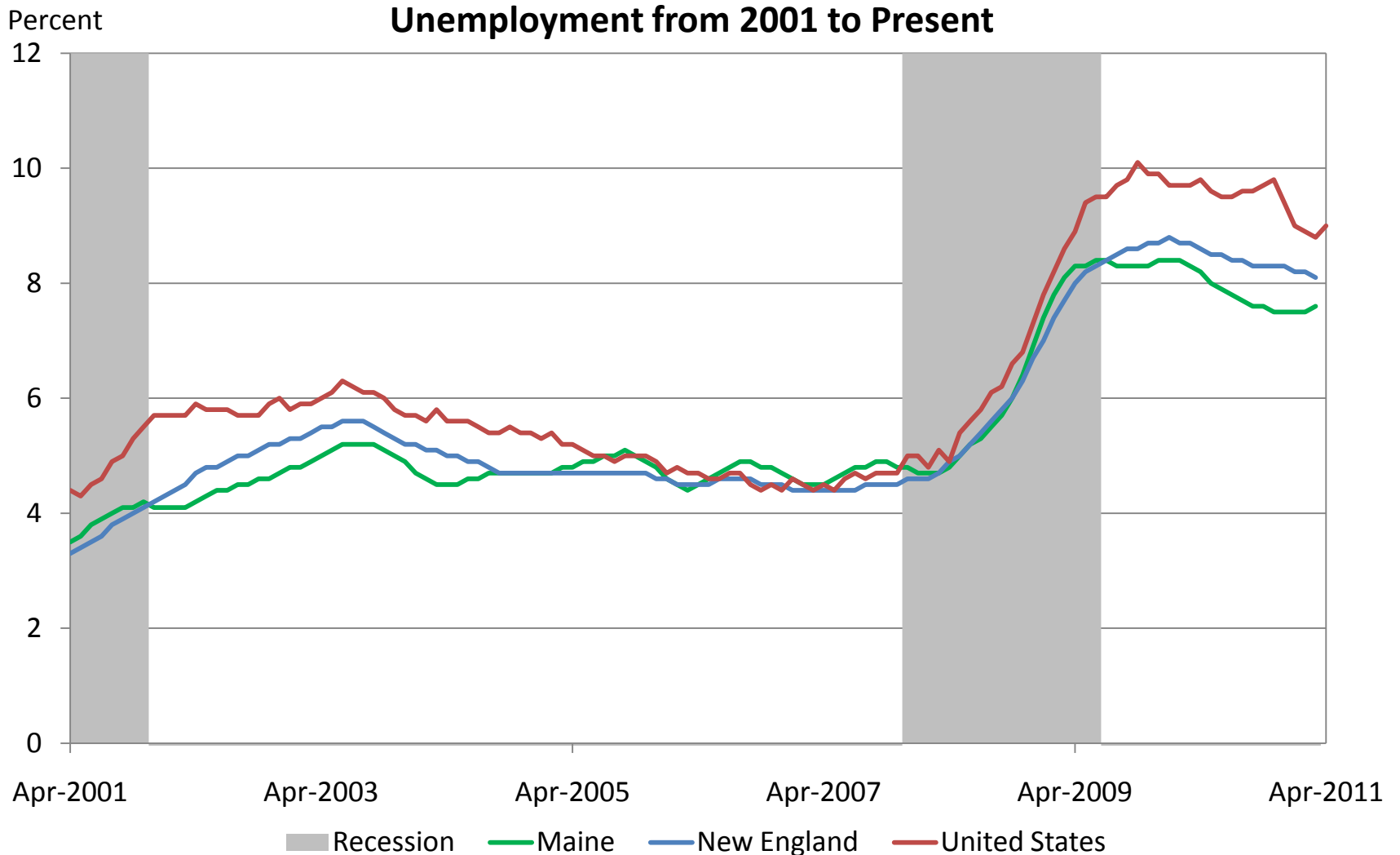
But job creation remains sluggish, making it difficult for laid-off workers to find new jobs.

Job Creation Rates Four-Quarter Moving Averages



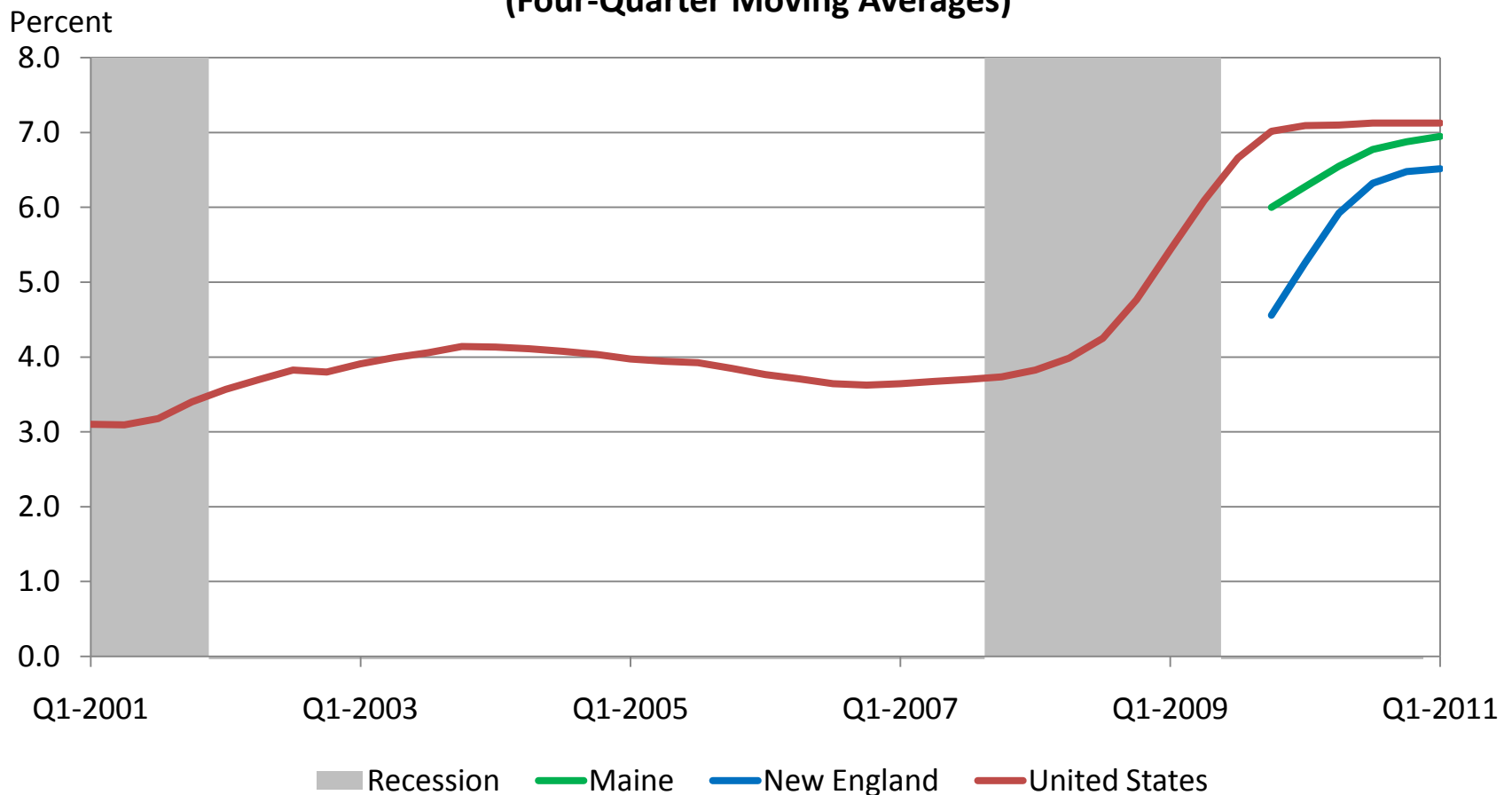
Source: Calculations Based on Bureau of Labor Statistics Data/Haver Analytics

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



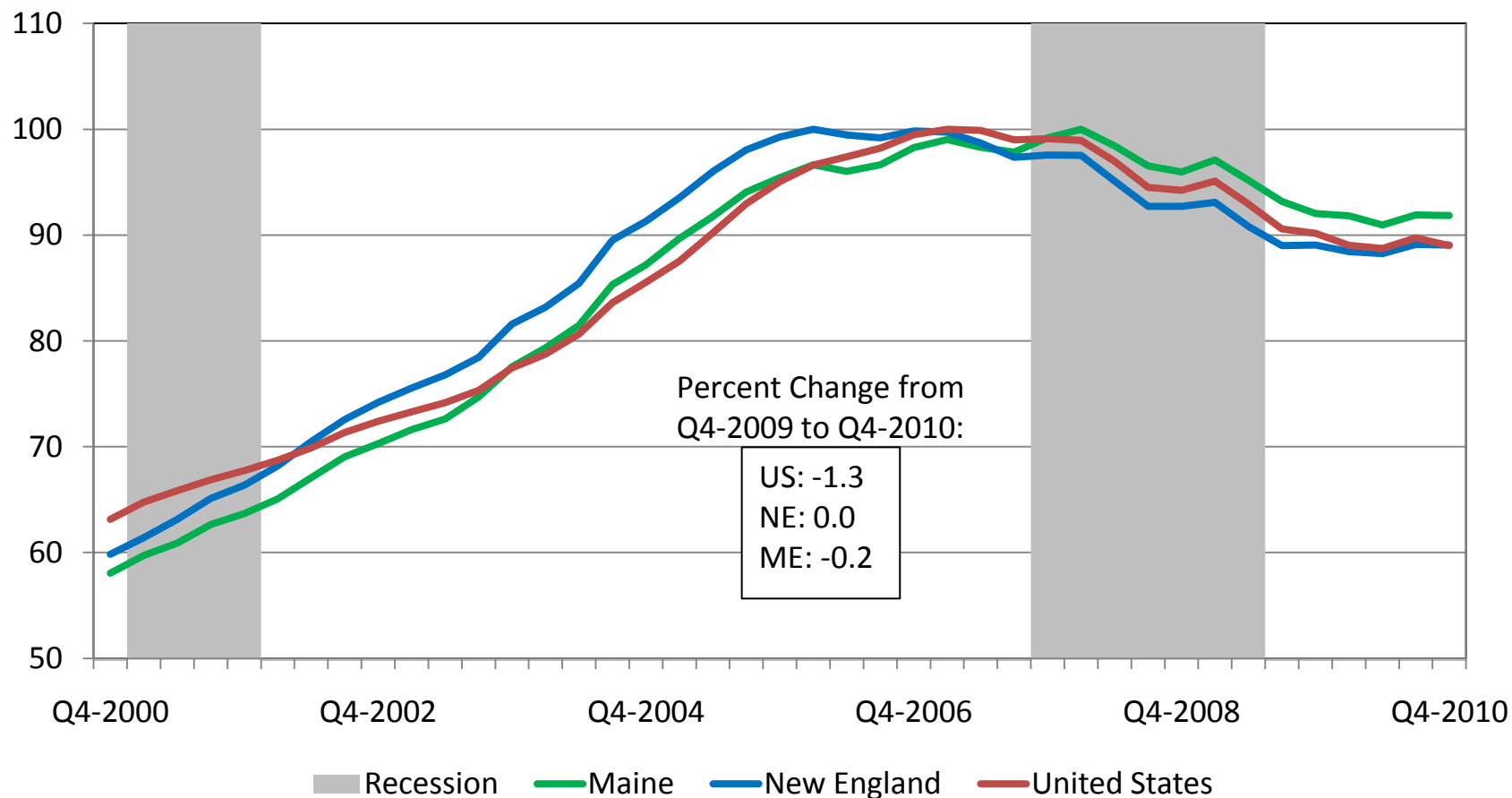
But Maine has a serious and growing problem in “hidden” unemployment.

**"Hidden unemployment" = discouraged workers + others "marginally attached" to the labor force + workers involuntarily working part-time.
(Four-Quarter Moving Averages)**



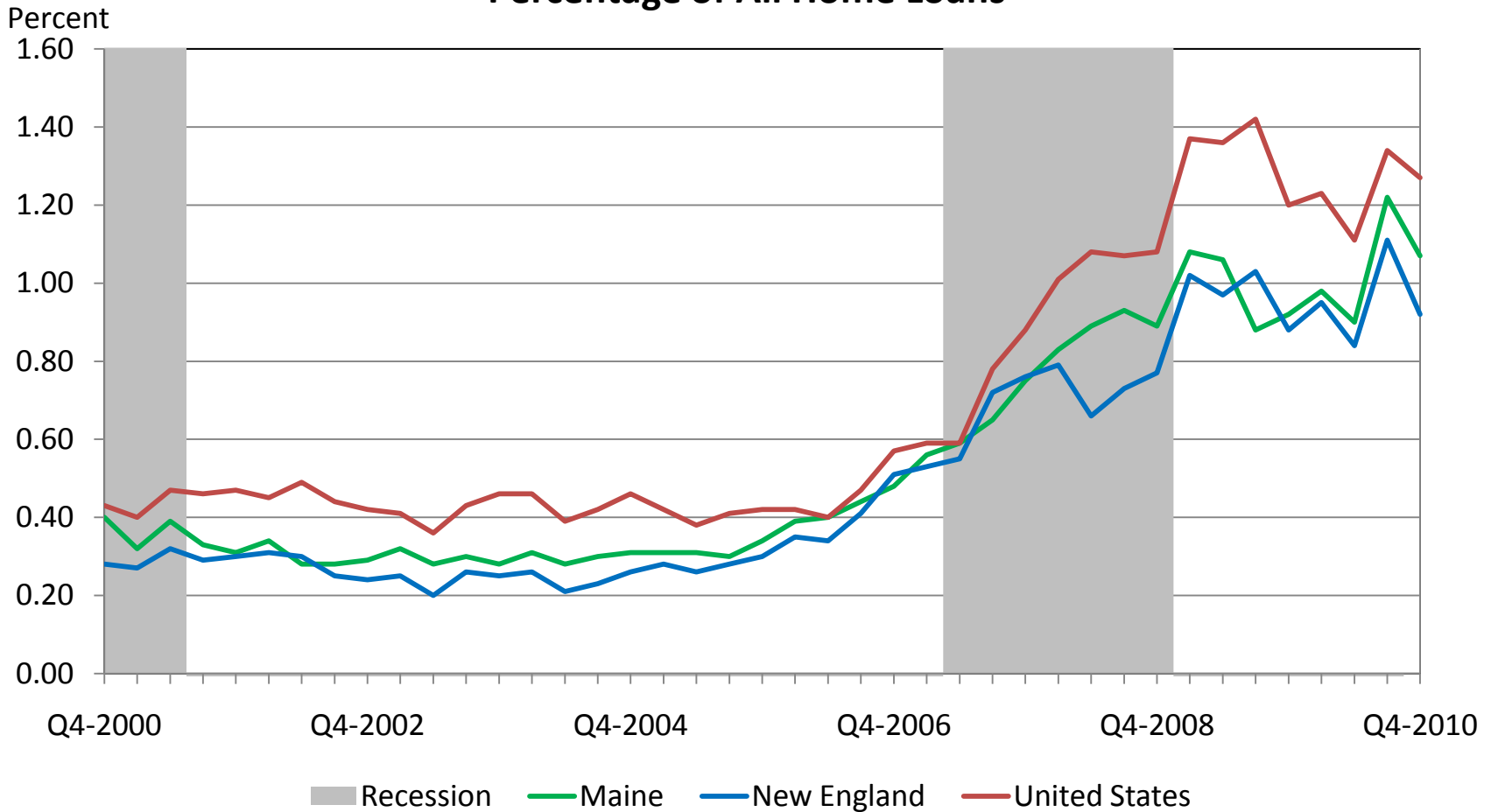
House prices shown some signs of stabilization according to one widely-cited source.

FHFA House Price Index
(Peak=100)



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

Foreclosure Starts- Percentage of All Home Loans



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 weeks)
 - 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.