NEW ENGLAND ECONOMIC OUTLOOK FALL 2014

The U.S. economy and the New England regional economy continue to improve. Growth rates are higher and unemployment rates lower than in the previous years coming out of the 2008-2009 recession. The forecast for New England, however, is for continuation of growth rates below the national average and below what would typically be associated with strong growth. The NEEP forecast is that total employment growth will average 1.3% per year and overall growth 2.7% per year through the forecast period, or out to 2018.

While economic conditions are improved, there continues to be significant downside risk with the forecast. The prospects for reoccurring recession in Europe negatively impacts the export prospects to a major market for New England companies and weakens a key source of foreign direct investment in the region. In addition, global political conditions and national security concerns can adversely impact energy markets, the investment climate and consumer confidence and threaten sustained growth in New England.

All the states in the region are projected to have employment growth below the national average over the forecast period. Demographic factors including lower labor force growth than the U.S. average continue to contribute to slower employment growth than the national average across the region.

Massachusetts, Vermont and New Hampshire are expected to continue to have the strongest economies in the region over the forecast period. Massachusetts has already recovered the jobs lost in the recession, and Vermont and New Hampshire will soon follow. Maine's economy shows some signs of improvement after a long period of limited employment growth. Connecticut and Rhode Island are expected to remain with the highest unemployment rates in the region over the forecast period. The Rhode Island economy, however, is improving but from a high unemployment base, and Connecticut continues its very slow recovery from the recession.

The housing market remains a positive factor in the regional economy, with rising home prices bolstering the construction industry and related industries. Median housing prices across the region are expected to continue to increase, averaging a modest 2.5% annual growth over the forecast period.

Gross Regional Product

In the region, gross regional product (GRP) growth is expected to rise slowly and peak within the forecast period in 2015. GRP is forecast to increase before declining below 3% again in the last quarter of 2015. The region's overall growth is expected to be at or near the US average over the forecast period.

Employment

Annualized growth in employment in the region is forecast to slowly rise to peak of 1.8% in mid-2015 and then dampen. The region's employment growth is expected to be 0.5 to 1% below national employment growth until 2016, after which it converges with the national average through the rest of the forecast period.

On a percent change basis from 2014-2018, the strongest sector of the regional economy is expected to be professional and business services, increasing by 2.7%, followed by construction (1.9%), leisure and hospitality (1.8%), and health and education services (1.4%). A majority of the net job growth in the region is expected to be in three sectors – professional and business services, health and education and leisure and hospitality. Manufacturing, trade, finance, and government are expected to have lower level growth.

Unemployment

With the slow employment growth, the unemployment rate in the region is expected to decline only gradually -- from 6.0% in the second quarter of 2014, to 5.6% in late 2015 and then to below 5% but not until the fourth quarter of 2017. This is a significant decline from its peak at 8.7% in 2010 first quarter, and just below the pre-recession rate of 5.0%. The region's unemployment rate is expected to remain below the national average throughout most of the forecast period mainly due to the relatively high level of educational attainment of the workforce in the region and slow labor force growth.

Across the Region

Within the region Vermont is expected to have the highest average annual growth in employment on a percent change basis over the forecast period. Average annual employment growth in Vermont is expected to be 1.5%, followed by New Hampshire (1.4%) and Massachusetts (1.3%). All of the New England states are expected to continue to have below the US average (1.7% annually) employment growth, with Maine and Connecticut having the lowest forecasted annualized growth rate over the forecast period at 1.0%.

Vermont and New Hampshire are expected to continue to have the lowest unemployment rates in the region. Connecticut and Rhode Island are expected to continue to have the highest unemployment rates in the region.

Housing

Housing prices have changed from a headwind to a tailwind for the economy, with prices rising nationally and in the region. Over the forecast period the increases in median price in the region are expected to be the highest in Vermont (39.1%) and Massachusetts (32.5%). Maine (18.6%) is expected to have the lowest growth in housing prices in the region. Even with rising prices in the region anticipated over the full forecast horizon, housing prices in all the New England states except for Vermont are expected to remain below their peak levels at the end of the forecast period

Conference Theme: The Road Ahead: Economic Development Challenges and Opportunities for New England

The region faces many economic challenges. Highlighted in the forecast is the challenge of being in an extended period of slow growth and slow recovery from the 2008-2009 recession. The slow recovery makes it difficult for many individuals and families across the region to meet their needs and to invest in their future. This is especially true as income growth for the majority of residents has been weak or non-existent.

The challenges associated with an extended period of slow job and income growth are not unique to New England states, as these challenges are evident in most states across the nation and pervasive globally. What is relatively unique in New England is the region's demographics -with a rapidly aging population and steep declines in young adult population threatening the region's workforce skills and education advantage.

New England has had significantly lower growth in total population than the U.S. average since 1990. Within the region's slow population growth is an aging population and sharply declining young adult population. Four of the six New England states are in the top seven in median age, and all have percentage of the population 25-44 below the U.S. average.

Since 1990 all the New England states have experienced double-digit percent decline in their young adult, 25-44 populations, compared to 2% young adult population increase in the nation. The cohort of young workers necessary for growing the regional economy and for maintaining the strong technology base is therefore at significant risk in New England. The region will have difficulty retaining and attracting large employers and rapidly growing companies if the young adult population continues to decline.

One of the best economic development opportunities for the region can come from_"flipping" the demographic challenge. New England states can be positioned as global leaders in applying technology in education, health care and social services, serving youth and children and an aging population in innovative ways. The innovations can be used to make the region more attractive to young adults, particularly those with children, help to retain more young people in the region, and help to reduce costs associated with an aging population. And once proven effective, the innovations can be exported.

The New England states can be leaders in educating children and youth, with the goal of achieving the highest post-secondary matriculation rates in the nation and having the most effectively aligned education and training system with the economic future. Policies to achieve these aspirations can involve private, non-profit and public investment and innovation in early childhood education-to-16+ education and young adult/family policies that are also *aging friendly* such as dense(r) living, walkable cities and towns, affordable housing and new systems of public and shared transportation.

The region's innovative capacity has been a key source of economic advantage in the past and it can continue to be so. Ambitious, yes; difficult, definitely; but, if the knowledge base and intellectual capacity in the region can be applied to the region's demographic challenges, addressing the challenges might be a source of economic advantage rather than a drain on the economy.

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