

Dim outlook for N.E. economy Researchers predict slow growth through 2011

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The region's economic outlook has deteriorated in the past six months, with New England states now projected to grow at an annual rate of 2.2 percent through 2011, slower than the national average of 2.7 percent, according to a widely followed forecast released yesterday.

Massachusetts is expected to lag behind the region as a whole, growing at an average of just 2.1 percent a year in the same period, says the forecast by research group [Moody's Economy.com](#).

The forecast, delivered at the semiannual conference of the nonprofit New England Economic Partnership, comes at a particularly dicey time for the economy, dogged by tight credit and a deepening housing slump. Since Labor Day, the Federal Reserve board has cut interest rates twice, shaving off three-quarters of a percentage point, in an effort to keep the US economy from sliding into recession.

New England's economy has cooled considerably since 2004, when the region enjoyed 4 percent annual growth spurred by expansion in financial services, high technology, and life sciences.

When the economic partnership last met in May, the forecast was for the region to grow at 2.6 percent over the next five years.

In recent months, economic conditions worsened as home foreclosures mounted, volatility roiled the stock market, and crude oil advanced toward \$100 a barrel, all factors felt acutely in New England's housing and financial sectors. Retailers fear consumers will rein in their shopping as the holidays approach.

"The outlook is more pessimistic for short-term growth in the region," University of New Hampshire professor Ross Gittell, vice president of the New England Economic Partnership, told about 75 economy watchers at the Federal Reserve Bank of Boston.

New England's slowdown is being felt most keenly at businesses sensitive to the local economy. Sam McClain, chief executive of Capital Construction, a Chelsea company that builds multifamily homes, restaurants, and corporate interiors, said he's noticed a change in the business climate in recent months.

"I've definitely seen a swing where commercial construction projects are slowing down," said McClain, who expects his company's and industry's revenue to decline for the second half of this year and the first half of next year. "I see people in my industry hunkering down, looking at personnel, making sure everything is lean and mean."

But the region's economists said they still expect New England to escape a recession, defined as back-to-back quarterly declines in gross regional product - the output of goods and services across the six states. In the other piece of good news for New England, the economists said they expect the fall in housing prices to end in the middle of next year.

Perhaps the biggest wild card is oil prices and their ripple effect on everything from gasoline to home heating fuel, especially in a cold-weather region such as New England.

"The risk is a combination of the housing downturn and the spillover effect on consumer spending," warned Mark Zandi, chief economist at Moody's [Economy.com](#) in West Chester, Pa., who said both the national and the regional economies are vulnerable. "If you layer on top of that \$100 oil through next spring, we will be in recession."

Crude oil retreated \$3 to \$91.17 a barrel on the New York Mercantile Exchange yesterday, the lowest price in two weeks. The drop helped vault the benchmark Dow Jones Industrial Average up 319.54 points, or 2.46 percent, to 13,307.09, its biggest gain in eight weeks.

If oil prices stay below triple digits, New England's slowdown could bottom out in the spring and growth could pick up modestly in the second half of 2008, the [Economy.com](#) forecast suggested. The forecast has quarterly growth in the region slowing to an annual rate of 1.6 percent in the current quarter and 1.7 percent in the January-to-March period before reverting to an upward trend.

Of the six New England states, all burdened by high energy costs, only New Hampshire, with an estimated annual growth rate of 3 percent, was projected to grow faster than the national average over the next five years. Connecticut and Vermont were projected to grow 2.3 percent annually, Maine 1.9 percent, and Rhode Island 1.6 percent.

The economic news wasn't all grim. Manufacturers in the region have capitalized on the weaker dollar to boost their exports.

"If you're in aerospace, if you're in sophisticated machine tools, or if you're in technology, you're doing very well," Zandi said.

Companies with global sales also are being aided by the dollar's decline against other currencies, which makes it cheaper to sell goods and services abroad.

"We're insulated from the ebbs and flows of the economy," said Kenneth A. Rubin, senior vice president at [Iron Mountain Inc.](#), a Boston company that stores records and backup data for other firms. "Twenty percent of our business is international. The foreign exchange situation is definitely helping our business."

Alan Clayton-Matthews, professor at the University of Massachusetts in Boston, said the state will experience a "tepid" expansion through 2012 with payroll employment growth edging up only 0.6 percent annually. That rate would fall far below the state's annual jobs growth of 2.2 percent in the 1990s and 4.8 percent in the 1980s.

Still, wages in Massachusetts are projected to remain about 22 percent above the national average, Clayton-Matthews said. Housing prices are projected to bottom out midway through 2008, falling about 10 percent from their 2004 peak, before beginning to recover, he said. But the increase in housing prices later in the decade is expected to be less than the growth in wages, making housing relatively more affordable.

Massachusetts continues to see young college graduates migrating to other states. But it retains several competitive advantages, including higher education levels and research-and-development investments, than elsewhere in the country, said Clayton-Matthews.

"Going forward, we're well positioned to take advantage of the globalization trends in the economy," he said.

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