

The logo for MassBenchmarks, featuring the text "MassBenchmarks" in a serif font.**EXCERPTS FROM THE BOARD**Commentary on the state of the state economy by the *MassBenchmarks* Editorial Board**Massachusetts Economy Is Slowing but Remains Well Positioned, Declares  
*MassBenchmarks* Editorial Board***Deferred public investments in infrastructure and  
education are taking their toll.*

The Massachusetts economy is emitting mixed signals. While the state continues to add jobs at a brisk pace, according to the *MassBenchmarks* Current Economic Index the growth in gross state product slowed during the second half of last year, mirroring the trend in the national economy. Even so, the state continues to outperform the national economy, and has done so consistently for a considerable period of time.

The national slowdown is being driven by reductions in nonresidential fixed investment, slowing growth in consumer spending, and the drag on international exports created by the strengthening dollar and slow global growth. While these national trends are undoubtedly having an effect on the state economy, our industry mix of high technology and knowledge-based companies has helped to mitigate the impact of national and international headwinds. Activity in communications and information technology is doing well nationally, and the health and education sectors remain strong. Consumer spending in the Commonwealth, measured by state sales tax receipts, also remains strong. And while the unemployment rate has dropped below 5%, the state's labor force participation rate has also decreased over the past year, suggesting that regional labor markets may yet contain some slack.

Growth continues to be distributed unevenly across the state, with the economic performance of the Greater Boston area outpacing the state's other regions. But among those regions, the Boston area ranks the most unequal in income. According to the Brookings Institution, Boston, in fact, has the highest income inequality of any major city in the country.

A potentially troubling development for both growth and inequality is the fiscal condition of state government. Even though tax receipts are coming in over projections, nontax revenues are lower than expected, in part due to the disappointing performance of the Plainridge Park casino in Plainville. In addition, expenses are higher than expected, especially in non-discretionary accounts, perhaps most importantly in areas of health care and health insurance.

The most important challenges for the state involve long-term issues, which will require significant investments. A number of these issues represent genuine constraints on the future economic growth and prosperity of the Commonwealth. Notably, these are areas where return on investment would be high and associated reductions in inequality could be significant. These problems include aging transportation infrastructure in need—in some cases dire need—of repair, refurbishing, and expansion. The state's transportation challenges were vividly illustrated during the record-breaking winter of 2015. In the months since, a steady stream of neglected infrastructure investments have been identified.

In addition, the persistence of large achievement gaps in the Commonwealth's K-12 education system, especially in the state's urban communities, continues to inhibit future economic growth and perpetuate inequality. The upshot is that the failure of many school districts to successfully prepare their students to compete for newly created jobs will have increasingly negative economic consequences for both them and the Commonwealth.

High school graduates need literacy and numeracy skills to obtain postsecondary training and education, and postsecondary completion rates need to be increased. The need for "middle skills" in our high-technology companies cannot be satisfied unless students entering training programs start with a strong set of basic skills. Additionally, housing availability and cost have long been issues. Increasing housing supply in areas of greatest need continues to be constrained by a myriad of archaic and highly restrictive state and local regulations.

Especially in transportation infrastructure and education, there is a clear need for substantial and strategic new investments. In light of these challenges, the choice state leaders have made to freeze state capital investments seems shortsighted and counterproductive. With interest rates near historic lows, failing to make strategic investments in critical infrastructure projects that offer high returns represents a significant, missed opportunity for the Commonwealth.

Bottom line, the state economy is doing well despite the global setting of slowing economic growth and rising uncertainty. Still, there are issues that demand attention if the state's long-run economic health is to be secured. It will take political will and creative approaches to make the necessary investments to meet Massachusetts' long-term challenges. And the longer the delay, the more expensive the job will become.

This summary reflects the discussion of the members of the Editorial Board of *MassBenchmarks* at its meeting on January 29, 2016. It was prepared by Executive Editor Robert Nakosteen and was reviewed and edited by the members of the Editorial Board. While discussion among the Board members was spirited and individual Board members hold a wide variety of views on current economic conditions, this summary reflects the consensus view of the Board regarding the current state of the Massachusetts economy.

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