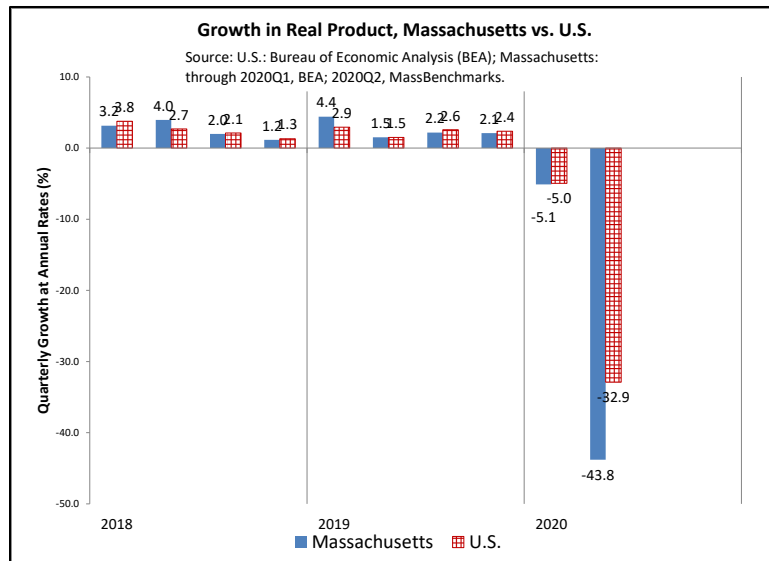


# Massachusetts Current and Leading Economic Indices

The Massachusetts Current Economic Index for June was 183.4, up 68.2 percent from May (at annual rates), and down 16.8 percent from June 2019. The current index is normalized to 100 in July 1987 and is calibrated to grow at the same rate as Massachusetts real gross domestic product over the 1978–2019 period.



In the second quarter of 2020, Massachusetts real gross domestic product (GDP) declined 13.4 percent from the first quarter, representing an annualized rate of decline of 43.8 percent according to MassBenchmarks, while U.S. real gross domestic product declined by 9.5 percent in the second quarter, an annualized rate of decline of 32.9 percent according to the U.S. Bureau of Economic Analysis (BEA). In the first quarter of 2020, the BEA estimates that the Massachusetts and U.S. economies declined by

5.1 percent and 5.0 percent respectively on an annualized basis.

These second quarter declines reflect the impact of COVID-19 shutdowns of economic activity, particularly in leisure and hospitality, personal services, construction, retail and wholesale trade, healthcare, education, and manufacturing. This was the steepest quarterly decline on record of economic activity in both the state and the nation. As the economy began to reopen in April, growth reversed course sharply in a positive direction, so the second quarter results reflect both the sharp drop from the peak in February and the climb from the trough in April.

The Massachusetts economy along with several other states in the Northeast was hit harder by COVID-19 early on than the country as a whole, was shut down earlier and more completely than most other states and has reopened later and more slowly than most states. Therefore, it is not surprising that the economic hit was greater.

In the second quarter, payroll employment fell by 16.5 percent in Massachusetts versus 12.0 percent in the U.S. from the first quarter. These represent annualized rates of decline of 51.4 percent in Massachusetts and 40.0 percent in the U.S. In the first quarter of this year, employment in Massachusetts fell 0.1 percent versus a growth of 0.4 percent nation-wide, on an annualized basis. Relative to the second quarter of last year, employment in Massachusetts is down 16.3 percent versus 11.2 percent for the U.S.

Employment and Earnings Growth at Annual Rates, Massachusetts and the U.S.				
	Payroll Employment		Wage and Salary Income /1	
	MA	US	MA	US
2020Q2	-51.4%	-40.0%	-37.7%	-25.4%
2020Q1	-0.1%	0.4%	0.5%	0.0%
19Q2 to '20Q2	-16.3%	-11.2%	-10.3%	-5.6%

Sources: U.S. Bureau of Labor Statistics; U.S. Bureau of Economic Analysis; MassBenchmarks.

According to MassBenchmarks estimates, wage and salary income in Massachusetts fell 11.2 percent in the first quarter, representing annualized rates of decline of 37.7 percent and 25.4 percent respectively. In the first quarter, according to the BEA, wage and salary income on an annualized basis rose 0.5 percent in Massachusetts versus 0.0 percent for the U.S. Relative to the second quarter of last year, wage and salary income fell 10.3 percent in Massachusetts versus 5.6 percent for the U.S.

Unemployment rates rose faster and remain higher in Massachusetts than the U.S. From March to June, the unemployment rate rose from 2.8 percent to 17.4 percent in Massachusetts, versus a rise from 4.4 percent to 11.1 percent in the U.S. Based on the Bureau of Labor Statistics Current Population Survey, MassBenchmarks estimates that the U-6 unemployment rate – which includes persons working part-time but who want full-time work and persons who want work but have not looked for work in the last four weeks – rose from 7.9 percent in March to 21.2 percent in June. The BLS reports that the national U-6 rate rose from 8.7 percent in March to 18.0 percent in June.

Unemployment Rates, Massachusetts and the U.S.				
	U-3 Rate		U-6 Rate	
	MA	US	MA	US
Jun-20	17.4%	11.1%	21.2%	18.0%
Mar-20	2.8%	4.4%	7.9%	8.7%
Jun-19	2.9%	3.7%	6.2%	7.2%

Sources: U.S. Bureau of Labor Statistics/ MassBenchmarks.

The fall in employment and earnings, as well as the economic shutdowns decreased spending in the state. Spending on items subject to the Massachusetts regular sales and motor vehicle sales taxes fell 11.1 percent in the second quarter from the first, an annualized rate of decline of 37.5 percent, according to MassBenchmarks. In the first quarter, such spending rose 4.4 percent on an annual basis. Relative to the second quarter of last year, such spending is down 7.5 percent on a year-over-year basis.

As the economy continues to reopen, third quarter growth should be sharply higher. State economic indicators for May and June are uniformly up relative to April. After losing 690,500 jobs in March and April, 138,700 were added in May and June. Initial unemployment claims have fallen steadily from 409,000 in March to 144,000 in June. The U-6 unemployment rate fell from 26.4 percent in April to 21.2 percent in June, suggesting more part-time workers are finding

full-time work. Spending on items subject to the regular sales tax and motor vehicles began to rise sharply in May. Given that Massachusetts started opening up later than most other states and that it is having success limiting the spread of COVID-19, it has great upside potential and will likely grow faster than the U.S. in the third quarter. Nevertheless, employment and economic activity will still be well below the peak of February.

The fourth quarter is more uncertain, however. For Massachusetts as well as the nation, the pace of the recovery and length of time the economy is operating below capacity will depend on the course of COVID-19, policies to prevent its spread, cooperation of the public in its behavior, and success in finding and distributing a vaccine.

The current and historical quarterly estimates for state domestic product growth include adjustments for changes in productivity growth. These adjustments are estimates of the quarterly deviations from the 1978-2019 trend in the growth of the ratio of output to employment. In the second quarter of 2020 these adjustments added 9.6 percentage points to growth. In the first quarter of 2020 these adjustments subtracted 7.1 percentage points from growth.

The current and historical quarterly estimates also include “cyclical” adjustments, as the relationship between the growth in the current indicators and that of gross domestic product changes over the course of the business cycle. In the second quarter of 2020, these adjustments added 6.6 percentage points to growth. In the first quarter of 2020, these adjustments added 0.0 percentage points to growth.

Several recent months of the indices are revised each release. These revisions are a result of the statistical method used to create the index, as well as revisions in the underlying indicators.

All the indicators except interest rates refer to Massachusetts. The current index is composed of four indicators: nonagricultural employment, withholding taxes, sales taxes, and the unemployment rate. The leading index includes these four current indicators plus the other six (leading) indicators in the contributions table. All the indicators are as of June, except for interest rates and the Bloomberg stock index for Massachusetts, which are through July 24, 2020. The MassInsight Consumer Confidence Index is usually released every third month. Intervening months are interpolated, and changes in the Conference Board’s Consumer Confidence Index for the U.S. are used to extrapolate to the current month of the index, as needed. Series measured in current dollars or values, i.e., withholding taxes, sales taxes, the Bloomberg stock index, and motor vehicle sales taxes, are deflated by the U.S. consumer price index for all urban consumers, excluding food and energy.

For a description of the methodology used to construct these indices, see: Alan Clayton-Matthews and James H. Stock, “An application of the Stock/Watson index methodology to the Massachusetts economy”, *Journal of Economic and Social Measurement*, vol. 25 (1998/1999), pp. 183-233.

Alan Clayton-Matthews  
MassBenchmarks  
Northeastern University, School of Public Policy and Urban Affairs

July 30, 2020