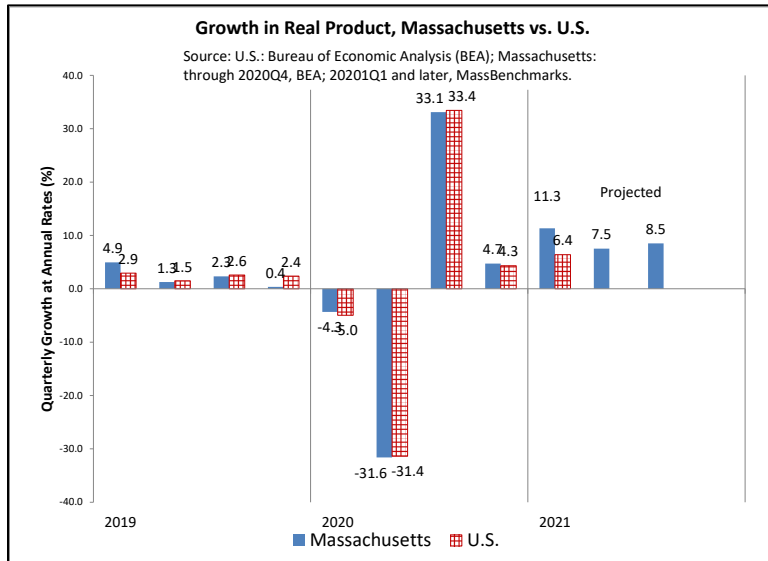


# Massachusetts Current and Leading Economic Indices

The Massachusetts Current Economic Index for March was 208.8, up 7.8 percent from February (at annual rates), and down 7.6 percent from March 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 first quarter of 2021, Massachusetts real gross domestic product (GDP) increased at an 11.3 percent annualized rate of growth, according to MassBenchmarks, while U.S. GDP increased at a 6.4 percent rate according to the U.S. Bureau of Economic Analysis (BEA). In the fourth quarter of last year, Massachusetts GDP increased at a 4.7 percent rate while U.S. GDP increased at a 4.3 percent rate according to the BEA.

Economic growth in both the state and the nation in the first quarter exceeded expectations of most economists at the beginning of this year due to the size of the federal coronavirus relief package that was delivered in March – which had an immediate effect on household income and consumer expectations – and due to the faster than expected distribution of COVID-19 vaccinations. Both factors spurred a sooner start

to opening the economy than seemed likely at the height of the last wave after the fall and winter holiday seasons. Massachusetts has had more potential for a stronger rebound than the nation since its shutdown last year at this time was wider and deeper with larger employment losses than in most states. That potential was partly realized in the first quarter of this year with stronger employment and earnings growth and a faster fall in unemployment rates than 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
2021Q1	6.8%	2.1%	25.7%	6.6%
2020Q4	6.6%	5.1%	9.4%	9.0%
20Q1 to '21Q1	-8.3%	-5.6%	6.5%	1.8%

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

1. Massachusetts and U.S. wage and salary income for 2021Q1 is estimated by MassBenchmarks.

Payroll employment in Massachusetts grew at a 6.8 percent annual rate in the first quarter versus

2.1 percent for the U.S. In the fourth quarter of last year, employment also grew faster than in the nation, at a 6.6 percent rate for Massachusetts versus 5.1 percent for the U.S. payroll employment in Massachusetts in the first quarter was 8.3 percent below the first quarter of last year, versus a shortfall of 5.6 percent for the U.S.

Massachusetts wage and salary growth in the first quarter was strong with growth at a 25.7 percent annual rate. This estimate is based on state withholding taxes net of unemployment insurance withholding. The corresponding estimate for the U.S. was wage and salary growth of 6.6 percent. The strong showing in Massachusetts may reflect in part a good bonus season. The S&P stock index finished 2020 16.3 percent above the end of 2019. These estimates mean that wage and salary income in the first quarter exceeded that of the first quarter 2020 by 6.5 percent in Massachusetts and 1.8 percent in the U.S. The contrast between the return of workers' income to pre-pandemic levels (the shutdown began in mid-March of 2020) and the lack of return of employment to pre-pandemic levels reflects the incidence of job losses. Low-wage sectors such as leisure and hospitality and personal services were hit the hardest in the shutdown and remain the sectors with the highest level of job losses.

Unemployment Rates, Massachusetts and the U.S.				
	U-3 Rate		U-6 Rate	
	MA	US	MA	US
Mar-21	6.8%	6.0%	9.4%	10.7%
Dec-20	8.4%	6.7%	11.3%	11.7%
Mar-20	2.7%	4.4%	7.5%	8.8%

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

The unemployment rate for Massachusetts in March remained higher than for the U.S. – 6.8 percent versus 6.0 percent – but it fell faster during the first quarter, from 8.4 percent in December in Massachusetts versus 6.7 percent for the U.S. The faster drop is consistent with the faster job growth in Massachusetts during this time.

The U-6 unemployment rate in March – 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 (the marginally attached) – was 9.4 percent in Massachusetts versus 10.7 percent for the U.S. These rates are significantly lower than in December, but still significantly exceed pre-pandemic levels. The number of marginally attached unemployed is at levels experienced during the Great Recession and may include persons who would re-enter the regular labor force once they are convinced it is safe to return to work or after schools and childcare options return to normal.

Spending in Massachusetts on items subject to the regular sales and motor vehicle sales taxes grew robustly in the first quarter, at an annual rate of 39.2 percent after growing by 2.8 percent in the fourth quarter of last year. Relative to the first quarter of 2020, this spending is up 13.1 percent, consistent with strong growth in durable goods spending at the national level.

Growth is expected to remain strong through the spring and summer months, with Massachusetts real gross domestic product projected to rise at 7.5 percent annual rate in the second quarter and 8.5 percent in the third quarter of this year – if current expectations are not proved wrong by plausible downside risks. These include setbacks in the expected pace of vaccinations, mutations that do not respond to the vaccines, and supply shortages due to supply chain problems or labor

shortages. Strong U.S. growth may be lifting global growth, but the slow pace of vaccinations in much of the world also serves as a constraint on that growth.

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 first quarter these adjustments added 2.4 percentage points to growth. In the fourth quarter of last year these adjustments subtracted 2.6 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 first quarter these adjustments subtracted 6.4 percentage points from growth. In the fourth quarter of last year these adjustments subtracted 6.1 percentage points from growth.

Several recent months of the current index 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 in the current index refer to Massachusetts. The current index is composed of four indicators: nonagricultural employment, withholding taxes, sales taxes, and the unemployment rate. Withholding taxes and 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 this index, 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

April 29, 2021