

MassBenchmarks**EXCERPTS FROM THE BOARD**Commentary on the state of the state economy by the *MassBenchmarks* Editorial Board**Record snowfall is not expected to derail Bay State's solid economic expansion declares *MassBenchmarks* Editorial Board***But transportation issues and energy prices threaten long-term growth, leading regional economists caution*

While February's severe snowstorms may have temporarily slowed the Massachusetts economy, they do not appear to have derailed the healthy expansion that the Commonwealth has been experiencing in recent quarters. However, it is clear that selected sectors of the economy have been hurt by the storms, particularly in those cases where economic activity has been permanently lost rather than postponed. For example, dinner reservations that were cancelled on Valentine's Day will probably not be made up later, though automobile purchases postponed on President's Day will likely be made up when the weather permits. And some sectors of the economy benefited from the storms, including snow removal services, roofing contractors, plumbers, and even some Boston hotels that registered high occupancy rates when critical health care workers felt compelled to stay overnight in Boston in the absence of reliable public transportation.

The Board expects that the overall negative effects on the state economy will be relatively small and transient, but with a disproportionate impact on low-income workers who are paid by the hour and do not get paid when they do not work. While the precise scale of the economic losses is difficult to estimate reliably, widely cited estimates of over a billion dollars represent a modest fraction of annual economic activity in the state.

The prospects for a continuing expansion are good. In 2014, the U.S. economy had its best year since before the financial crisis and national forecasters are generally expecting steady growth in 2015. The state's high technology sector, which helped protect the state from the worst of the recession, continues to do well and has been steadily adding high-paying jobs.

Nationally, though employment has been growing strongly and unemployment declining steadily, internationally growth prospects remain subdued. Continuing lackluster economic performance is expected in Japan and Europe, and the Chinese economy is slowing. This sluggish global growth and the strengthening dollar both put downward pressure on state export activity. But while these developments bear watching, the outlook for both the state and national economy remains strong.

The state clearly faces a number of serious long-term challenges. Our historic winter weather has highlighted the vulnerability of the state's public transportation system, especially in and around Boston. It has long been acknowledged that outdated equipment and deferred maintenance have weakened the T and its bus, rapid transit and commuter rail systems, but record snowfall revealed a degree of fragility in the state's largest transit system that came as a surprise to employers and commuters alike. The scale of the Commonwealth's transportation challenges extends well beyond the MBTA and includes roads, bridges, and regional transit systems in every corner of the state.

The state's electric power system also faces long-term challenges. The transition from coal-fired to gas-

fired electric generation has created severe bottlenecks in gas supplies. Increased gas pipeline capacity is needed, but is strongly resisted in areas that would be affected. Electricity prices have increased sharply this year, largely as the result of these natural gas supply constraints. Should energy costs remain high, the state economy will pay a high price both in terms of reduced levels of consumer spending and business activity.

Another long-term challenge concerns the loss of skills and experience in the state labor force as baby boomer retirements accelerate. The state's knowledge economy requires a highly educated work force, and ensuring the availability of qualified replacements for our retiring workers will be essential to preserving one of the major competitive advantages of Massachusetts.

Bottom line, the prospects for continued economic expansion in the state are very good. However, several long-term challenges weigh on our future growth prospects and deserve the serious attention of state leaders.

This summary reflects the discussion of the members of the Editorial Board of *MassBenchmarks* at its meeting on March 13, 2015. 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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