

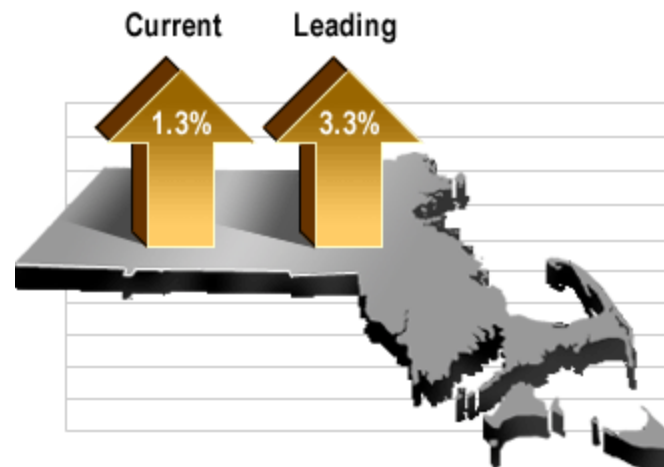
[View as a webpage](#)

Friday, January 29, 2016



Mass economy slows but continues to outpace the nation in Q4, UMass journal reports

Aging labor force, global economic sluggishness expected to slow pace of growth in 2016



Massachusetts real gross domestic product grew at an annual rate of 1.3 percent in the fourth quarter of 2015 according to the *MassBenchmarks* Current Economic Index, released today by *MassBenchmarks*, the journal of the Massachusetts economy published by the UMass Donahue Institute in collaboration with the Federal Reserve Bank of Boston. In contrast, according to the U.S. Department of Commerce, national real gross domestic product grew at an annual rate of 0.7 percent during the same period.

The Massachusetts Leading Economic Index for December is 3.3 percent, and the three-month average for October through December is 4.3 percent. The leading index is a forecast of the growth in the current index over the next six months, expressed at an annual rate. Thus, it indicates that the economy is expected to grow at an annualized rate of 3.3 percent over the next six months (through June 2016) if

productivity were at long-term average rates.

Recently revised data now reveal that in 2015 the state economy grew faster than the nation in all four quarters. *MassBenchmarks* now estimates that the Massachusetts economy expanded at annual rates of 3.1 percent in the first quarter, 5.7 percent in the second quarter, and 2.5 percent in the third quarter. The corresponding rates of growth for the nation according to the U.S. Bureau of Economic Analysis were 0.6 percent in the first quarter, 3.9 percent in the second quarter, and 2.1 percent in the third quarter.

In the fourth quarter of 2015, the Massachusetts economy continued its expansion, but some key economic indicators are sending mixed signals. Job growth and spending were strong in the final three months of the year. But the unemployment rate rose a tenth of a point during the fourth quarter, even as it remained near pre-recession levels. However, wage and salary income appeared to decline in the fourth quarter following robust growth in the third quarter.

Payroll employment expanded at a 1.8 percent annual rate in the fourth quarter, following a 2.4 percent rate of growth in the third quarter. Nationally, job growth was also strong, growing at an annualized rate of 2.0 percent in the fourth quarter, up slightly from a 1.8 percent rate in the third quarter. For the year as a whole, between December 2014 and December 2015, the number of payroll jobs in Massachusetts increased by 2.1 percent while the number of jobs in the U.S. increased by 1.9 percent. While these jobs figures are subject to revision when the annual benchmark revisions are released in March, this represents the fastest job growth in Massachusetts since the end of the 1990's expansion in 2000.

The state's headline unemployment rate — the U-3 measure — was 4.7 percent in December, up slightly from 4.6 percent in September. During the same period, the U.S. unemployment rate declined modestly, falling from 5.1 percent in September to 5.0 percent in December. Both rates are close to pre-recession levels.

The broader U-6 measure of unemployment, however, which includes those who are working part-time but want full-time work, remains significantly above pre-recession levels. The Massachusetts U-6 unemployment rate in December was 9.8 percent while the U.S. rate in December was 9.9 percent. Prior to the recession, the Massachusetts rate was as low as 7.1 percent (in August and September 2007) while the U.S. rate reached its pre-recession nadir of 8.0 percent in March 2007.

"In the fourth quarter, Massachusetts wage and salary income declined at a 6.9 percent annual rate after expanding at a 7.5 percent rate in the third quarter," noted Alan Clayton-Matthews, *MassBenchmarks* Senior Contributing Editor and Associate Professor of Economics and Public Policy at Northeastern University, who compiles and analyzes the Current and Leading Indexes. "Part of this decline may be attributable to lower-than average bonus payments, as December is the beginning of the bonus season and stock market returns for the year were much lower than in recent years," Clayton-Matthews added. "Wage and salary income in the fourth quarter was 2.6 percent higher than in

the fourth quarter of last year so it is clear that the trend remains positive," he concluded. Nationally, wage and salary income is on track to record an annualized growth of 4.9 percent in the fourth quarter, following growth of 5.4 percent in the second quarter.

Spending on items subject to the state regular sales tax and the motor vehicle sales tax both rebounded strongly in the fourth quarter, expanding at a 9.5 percent annualized rate after declining in the third quarter at a 3.2 percent rate. Year over year, this measure of spending indicates a 5.7 percent rate of growth between the fourth quarter of 2014 and the same period in 2015, reflecting both strong job growth and high consumer confidence. The latest MassInsight consumer confidence measure for Massachusetts was 121 in October, its highest level since October 2000.

The *MassBenchmarks* Leading Economic Index suggests that the state economy will continue to expand but will grow at a more restrained pace in the first half of 2016 than in the first half of 2015. The Leading Index is predicting a 2.4 percent annualized rate in the first quarter, and a 2.2 percent rate in the second. Three factors account for this expectation of a more moderate pace of growth. The first is the tightening labor market. As the number of unemployed workers continues to decline and as more baby boomers retire, it is becoming more difficult for employers to find the workers they need. This is reflected in historically low levels of initial unemployment claims, a sign that employers are reacting to the tightening labor market by holding on to the workers they have.

Another factor is expected slower global economic growth in 2016 as a result of slowing growth in China and continued sluggishness in the European economy. A third is recent financial turmoil in global markets in response to the weakness in the global economy and significant declines in commodity prices, especially oil prices. The Bloomberg stock market index for Massachusetts is down 12.7 percent year to date (through January 25th). Market volatility tends to dampen business confidence and investment. Therefore a prolonged market downturn, should it occur, can be expected to put downward pressure on consumer confidence and by extension consumer spending in coming months. Bonuses in the state's financial industry could also be negatively affected, which in turn could lead to lower than expected capital gains tax revenues, which the Commonwealth relies upon to close what has become its annual budget gap and to replenish its "rainy day fund".

MassBenchmarks is published by the University of Massachusetts Donahue Institute in cooperation with the Federal Reserve Bank of Boston. The Donahue Institute is the public service, outreach, and economic development unit of the University of Massachusetts Office of the President. The Current and Leading Indexes are compiled and analyzed by Dr. Clayton-Matthews, Associate Professor of Economics and Public Policy at Northeastern University and released quarterly by MassBenchmarks.

For a full breakdown of the latest indexes, [click here](#). A comprehensive analysis of the state of the Massachusetts economy can be found in the most recent issue of [MassBenchmarks](#).

For more information please contact:

Dr. Alan Clayton-Matthews
Senior Contributing Editor, *MassBenchmarks*
Professor and Director of Quantitative Methods
School of Public Policy and Urban Affairs
Northeastern University
(617) 512-6224
a.clayton-matthews@neu.edu

Dr. Robert Nakosteen
Executive Editor, *MassBenchmarks*
Professor of Economics and Statistics
Isenberg School of Management
University of Massachusetts Amherst
(413) 545-5687
nakosteen@isenberg.umass.edu

Dr. Michael Goodman
Co-Editor, *MassBenchmarks*
Executive Director, the Public Policy Center
(PPC)
Associate Professor of Public Policy
University of Massachusetts Dartmouth
(617) 823-2770
mgoodman@umassd.edu

Dr. Mark Melnik
Director, Economic and Public Policy Research
University of Massachusetts Donahue Institute
617-287-3988
mmelnik@donahue.umassp.edu
