

MassBenchmarks**EXCERPTS FROM THE BOARD**Commentary on the state of the state economy by the *MassBenchmarks* Editorial Board**State economic outlook remains positive declares the
MassBenchmarks Editorial Board***Weak business investment, global trade, and household formation weigh
on state's growth prospects*

As the second quarter comes to a close, the Massachusetts economy looks to be in good condition although there are a number of issues that merit concern. After a slower than expected first quarter, in part due to the severe winter, state and national employment continues to grow. State wages and salaries are rising at a healthy clip. Sales tax revenues are up, indicating that households have increased their spending. The unemployment rate, after stalling for a time, is dropping again and remains below the national rate. The negative impact of federal fiscal policy, which has been a drag on state and national economic growth, is diminishing. And while the overall pace of global trade remains weak, Europe is growing again, albeit slowly, and Chinese growth is projected to be above seven percent in the coming year. Both regions are critically important trading partners for the Commonwealth.

While there is consensus that the state economic outlook is positive, there are risks to the downside that keep our optimism of the cautious variety. The rebound in single-family housing construction has stalled and, outside of hot markets in the immediate Boston area, the housing recovery has slowed. Business investment, a key driver of state economic activity, remains weak. Although the negative impact of "fiscal drag" is moderating, it does appear to be having an impact on the Commonwealth's vaunted "innovation economy" and is likely part of the reason why state employment in research and development sectors has been stagnant of late. All these factors serve to slow, though not reverse, the state's economic expansion.

Additionally, a number of possible structural issues, both at the national and state level are cause for concern. Long-term unemployment remains high and it is now very clear that the longer a person is out of work the more diminished their prospects are for finding a job. Household formation remains below its long-term average, a troubling trend that has been in evidence since the beginning of the recession and one that may help to explain the lack of sustained growth in single family housing construction and weak demand for consumer durables. And there are anecdotal reports of a shortage of technical workers in some key areas. However, there are a number of efforts underway that are designed to assist Massachusetts employers in strengthening their partnerships with local educational institutions to help build sustainable workforce pipelines in high demand occupations. If sustained, these efforts should help to alleviate any ongoing hiring difficulties.

Despite these concerns, the Board remains optimistic about the performance of the state economy and the outlook for the remainder of 2014.

This summary reflects the discussion of the members of the Editorial Board of *MassBenchmarks* at its meeting on May 30, 2014. 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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