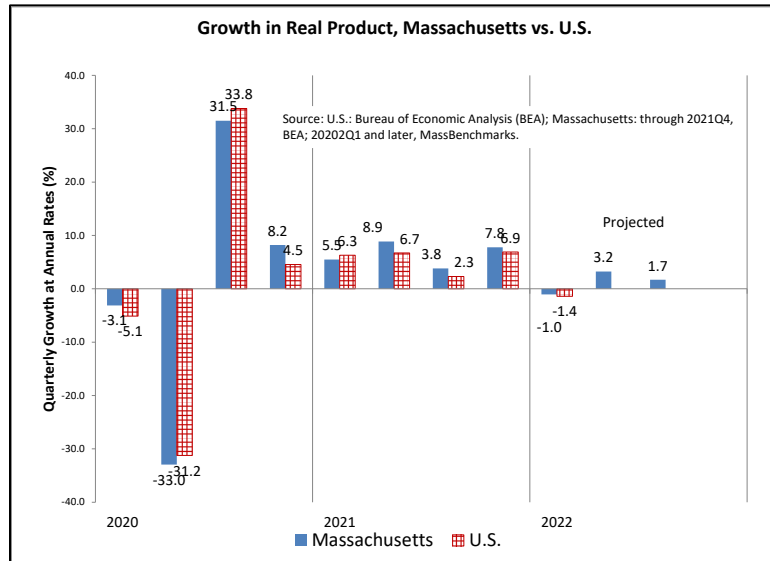


Massachusetts Current and Leading Economic Indices

The Massachusetts Current Economic Index for March was 230.8, up 32.7 percent from February (at annual rates), and up 10.3 percent from March 2020. 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 1978–2021 period.



In the first quarter of 2022, Massachusetts real gross domestic product (GDP) decreased at a 1.0 percent annualized rate, according to MassBenchmarks, while U.S. GDP decreased at a 1.4 rate according to the U.S. Bureau of Economic Analysis (BEA). In the fourth quarter of last year, according to the BEA, Massachusetts GDP grew at annual rate of 7.8 percent while U.S. GDP grew at a 6.9 percent rate.

The sharp slowdown in growth in the first quarter reflects the impact of the Omicron variant of COVID-19, continued supply chain problems, the effect of inflation on purchasing power, and weakening consumer and investor confidence. As the growth-dampening effect of Omicron waned in late winter and early spring, the outbreak of war in Ukraine gave an added boost to inflation, particularly for energy and food prices. At the same time, the labor market continued to exhibit strong gains in employment and

wage growth, falling unemployment, and record low layoffs. Wage and salary growth per worker, however, continued to lag inflation, dampening aggregate spending power and slowing real economic activity.

| | Payroll Employment | | Wage and Salary Income /1 | |
|---------------|--------------------|------|---------------------------|-------|
| | MA | US | MA | US |
| 2022Q1 | 5.2% | 4.8% | 12.6% | 8.1% |
| 2021Q4 | 4.2% | 4.9% | 11.3% | 10.9% |
| 21Q1 to '22Q1 | 5.3% | 4.6% | 9.6% | 11.1% |

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

1. Massachusetts and U.S. wage and salary income for 2022Q1 is estimated by MassBenchmarks.

Massachusetts payroll employment in the first quarter grew at an annual rate of 5.2 percent, slightly faster than the 4.8 percent pace for the U.S. This compares with job growth of 4.2 percent in the fourth quarter of last year in Massachusetts versus 4.9 percent for the U.S. Relative to the first quarter of last year, the number

of jobs increased 5.3 percent in Massachusetts and 4.6 percent in the U.S. However, in March, the state still had 2.4 percent fewer payroll jobs relative to the pre-pandemic peak in February 2020. The gap in the U.S. was down to 1.0 percent of the pre-pandemic peak.

| Unemployment Rates, Massachusetts and the U.S. | | | | |
|--|----------|------|----------|-------|
| | U-3 Rate | | U-6 Rate | |
| | MA | US | MA | US |
| Mar-22 | 4.3% | 3.6% | 6.2% | 6.9% |
| Dec-21 | 4.6% | 3.9% | 7.4% | 7.3% |
| Mar-21 | 6.4% | 6.0% | 9.9% | 10.7% |

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

The unemployment rate in Massachusetts fell to 4.3 percent in March, down from 4.6 percent in December. During the same period, the U.S. unemployment rate fell from 3.9 percent in December to 3.6 percent in March. In March 2021, the unemployment rate for Massachusetts stood at 6.4 percent versus 6.0 percent for the U.S. There is little slack left in the labor market.

The U.S. labor force participation rate in March, at 62.4 percent, was one percentage point below the pre-pandemic peak of February 2020. The Massachusetts labor force participation rate in March, at 66.0 percent is a notch above that of February 2020 (65.9 percent). Job openings continue to far exceed the number of unemployed, and historically low initial unemployment claims in both the state and the nation reflect the desire of employers to avoid shrinking staffing levels.

The tight labor market has boosted workers’ wage and salary income. In the first quarter, MassBenchmarks estimates that wage in salary income in Massachusetts rose 12.6 percent at an annual rate, while wage and salary income for the U.S. rose at an 8.1 percent rate. These far exceed the growth in jobs, meaning that per-worker wages were rising briskly. In the fourth quarter of last year, the BEA estimates that wage and salary income grew at annual rates of 11.3 percent in Massachusetts and 10.9 percent in the U.S. Compared to the first quarter of last year, MassBenchmarks estimates that wage and salary income increased 9.6 percent in Massachusetts and 11.1 percent in the U.S.

| CPI Inflation, Boston Metro and the U.S. | | | | |
|--|-----------|------|------|------|
| | All Items | | Core | |
| | BOS | US | BOS | US |
| 2022Q1 | 10.8% | 9.2% | 8.1% | 6.5% |
| 2021Q4 | 6.6% | 7.9% | 2.5% | 5.6% |
| 21Q1 to '22Q1 | 6.8% | 8.0% | 4.9% | 6.3% |

Sources: Bureau of Labor Statistics, CPI-U; Core inflation excludes food and energy. Quarterly CPI for Boston is the average of the first and third months for quarters 1 and 3, and the mid-month for quarters 2 and 4.

Despite that strong growth, wage and salary income per worker was not keeping up with inflation but was falling in real terms, both nationally and in Massachusetts. Inflation accelerated in the first quarter, as measured by the Bureau of Labor Statistic’s Consumer Price Index (the CPI-U, the Consumer Price Index for All Urban Consumers). In the Boston metropolitan area, inflation (at an annual rate) accelerated from 6.6 percent in the fourth quarter of last

year to 10.8 percent in the first quarter. In the U.S. over the same period, inflation increased from 7.9 percent to 9.2 percent. Compared to the first quarter of last year, consumer prices have

increased by 6.8 percent in Boston and 8.0 percent nationally. These reflect the sharp increase in energy prices, but core prices that exclude food and energy also accelerated in the first quarter, with core inflation of 8.1 percent in the Boston metropolitan area versus 6.5 percent for the U.S.

Inflation erodes the real purchasing power of nominal income which in turn can slow real consumer spending and therefore economic growth. For example, although wage and salary income in Massachusetts grew an estimated 12.6 percent in the first quarter, real wage and salary income only grew an estimated 1.8 percent – after subtracting the 10.8 percent rate of inflation.

The outlook for the second and third quarters calls for slow growth, but the level of uncertainty is high. Although the labor market is strong, consumer and investor confidence are weakening as reflected in the Conference Board’s consumer confidence index and in declines stock market indexes. The Federal Reserve has begun to raise interest rates and is planning to reduce its balance sheet to slow the economy enough to tamp down inflation while still avoiding a recession, a tricky process that heightens anxiety among economists. A Wall Street Journal poll of economists in April puts the probability of a recession in the next 12 months at 28%, up from 18% in January.

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 1978-2021 trend in the growth of the ratio of output to employment. In the first quarter of 2022 these adjustments subtracted 7.9 percentage points from growth. In the fourth quarter of 2021 these adjustments subtracted 0.0 percentage points from growth. In the second and third quarters of this year, these adjustments are expected to subtract 5.3 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 of 2022 these adjustments subtracted 3.9 percentage points from growth. In the fourth quarter of 2021 these adjustments subtracted 2.1 percentage points from growth. These adjustments are expected to subtract 6.0 percentage points from growth in the second quarter of this year and to subtract 4.2 percentage points from growth in the third quarter.

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.

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