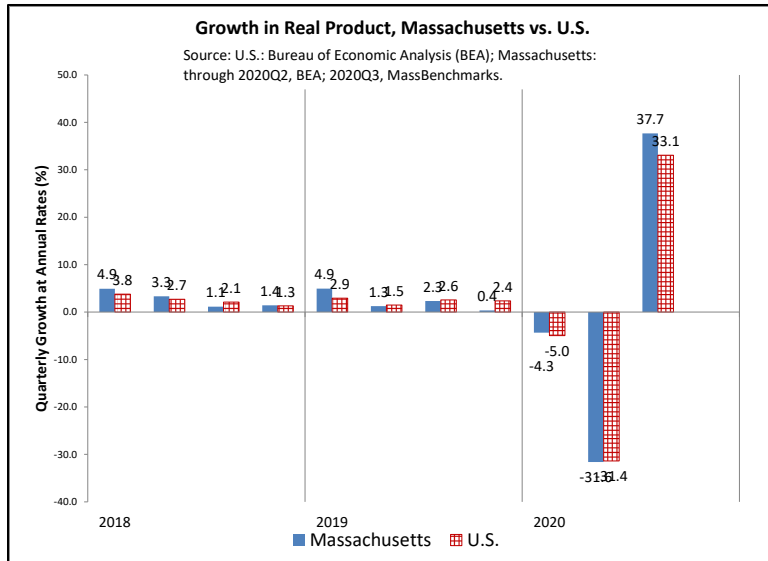


Massachusetts Current and Leading Economic Indices

The Massachusetts Current Economic Index for September was 196.2, up 8.2 percent from August (at annual rates), and down 12.4 percent from September 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 third quarter of 2020, Massachusetts real gross domestic product (GDP) increased at a 37.7 percent annualized rate of growth, according to MassBenchmarks, while U.S. GDP increased at a 33.1 percent rate according to the U.S. Bureau of Economic Analysis (BEA). In the second quarter, Massachusetts GDP decreased at a 31.6 percent rate while U.S. GDP decreased at a 31.4 percent rate according to the BEA.

The record growth in output in the third quarter following the record fall in output in the second quarter reflects the shutdown of the economy late in late Winter/early Spring followed by the partial reopening in late Spring and the Summer. The

The record growth in output in the third quarter following the record

Employment and Earnings Growth at Annual Rates, Massachusetts and the U.S.				
	Payroll Employment		Wage and Salary Income /1	
	MA	US	MA	US
2020Q3	29.5%	22.9%	13.6%	20.0%
2020Q2	-51.2%	-40.0%	-24.9%	-25.7%
19Q3 to '20Q3	-10.8%	-6.9%	-1.8%	-0.6%

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

1. Massachusetts and U.S. wage and salary income for 2020Q3 is estimated by MassBenchmarks.

the economy peaked in February and hit bottom in April. Economic growth surged in May through July and continued in August and September but at declining rates. The pattern in Massachusetts and the U.S. was similar, although the decline in Massachusetts was steeper due to a shutdown that was more complete, imposed earlier, and relaxed more slowly than in most of the country.

In the third quarter, Massachusetts payroll employment grew at a 29.5 percent annual rate after falling at a 51.2 percent annual rate in the second quarter. Corresponding rates of job growth in the U.S. were 22.9 percent in the third quarter and negative 40.0 percent in the second

quarter. Although jobs growth in the state last quarter was better than in the nation, Massachusetts has farther to go to get back to pre-pandemic levels. Relative to the peak in February, the September job count in Massachusetts was still down 10.0 percent versus 7.0 percent for the U.S.

According to MassBenchmarks estimates, wage and salary income in Massachusetts grew at a 13.6 percent annual rate in the third quarter, while U.S. wage and salary income grew at a 20.0 percent annual rate. In the second quarter, the BEA estimates that wage and salary income declined at a 24.9 percent rate in Massachusetts and at a 25.7 percent annual rate in the U.S. Relative to the third quarter of last year, wage and salary income was down 1.8 percent in Massachusetts and 0.6 percent in the U.S.

Aggregate payroll incomes in the third quarter were down less than employment relative to either the February peak or last year because job losses – although widespread – have been concentrated in lower-paying sectors, especially in leisure, hospitality and other services. These include entertainment, hotels, restaurants, barbershops, gyms, and other personal services that include close personal contact or are involved in travel or tourism.

Unemployment Rates, Massachusetts and the U.S.				
	U-3 Rate		U-6 Rate	
	MA	US	MA	US
Sep-20	9.6%	7.9%	13.7%	12.8%
Jun-20	17.7%	11.1%	21.2%	18.0%
Sep-19	2.8%	3.5%	6.1%	6.9%

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

During the third quarter, unemployment rates fell sharply, though they remain higher in Massachusetts than the U.S., and still much higher than before the pandemic. The unemployment rate in Massachusetts in September was 9.6 percent versus 7.9 percent for the U.S. At its peak during the Great Recession, the Massachusetts unemployment rate was 8.8 percent.

In June, the unemployment rate was 17.7 percent for Massachusetts and 11.1 percent for the U.S. In September 2019, the unemployment rate was 2.8 percent in Massachusetts and 3.5 percent in the U.S. The September U-6 unemployment rate – 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 – was 13.7 percent in Massachusetts and 12.8 percent in the U.S., falling from June levels of 21.2 percent in Massachusetts and 18.0 percent in the U.S.

The strong growth in the third quarter was aided in large part by federal fiscal and monetary policy, especially the CARES act, which offered generous income support for households, massive enhancements to unemployment insurance income, and grants and loans to businesses to remain open and reemploy workers. By keeping financial markets functioning and interest rates low, monetary policy made borrowing cheap and kept equity prices high, supporting household wealth and business liquidity. The effect has been felt on consumer spending. Nationally, spending on goods (but not services) has rebounded and surpassed pre-pandemic levels. In Massachusetts, spending on items subject to the state’s regular sales or automobile sales taxes rebounded sharply in the third quarter, growing at an 86.0 percent annual rate after falling at a

37.9 percent annual rate in the second quarter. Third quarter spending on these taxable items in the third quarter was up 7.0 percent from the third quarter last year.

Fourth quarter growth is expected to slow sharply from the third quarter, reflecting trends already appearing in September as the fiscal support from the CARES act wanes. The Wall Street Journal survey of economists' average expectation for fourth quarter U.S. GDP growth was 3.8 percent in their October survey. Recent monthly job growth rates have been decelerating. U.S. industrial production stalled in August and September. In Massachusetts, growth in the current economic index slowed substantially in September, reflecting slower rates of growth in employment, withholding, and sales taxes. Initial unemployment claims are stubbornly remaining elevated, even rising in Massachusetts in September. While continuing claims in the regular unemployment program continue to fall both in Massachusetts and the U.S., PEUC claims for people who have exhausted regular claims are rising steadily as long-term unemployment increases. Increasing rates of COVID-19 infections both locally and across the U.S. and world may slow the pace of re-opening during this Fall and Winter. At least for the fourth quarter, the uncertainty in the outlook is weighted towards the downside.

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 third quarter these adjustments added 6.3 percentage points to growth. In the second quarter these adjustments added 11.8 percentage points to growth. In the first quarter these adjustments subtracted 7.1 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 third quarter these adjustments subtracted 21.2 percentage points from growth. In the second quarter these adjustments added 21.2 percentage points to growth. In the first quarter these adjustments added 0.3 percentage points to growth.

Several recent months of the indices 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 except interest rates refer to Massachusetts. The current index is composed of four indicators: nonagricultural employment, withholding taxes, sales taxes, and the unemployment rate. The leading index includes these four current indicators plus the other six (leading) indicators in the contributions table. All the indicators are as of September, except for interest rates and the Bloomberg stock index for Massachusetts, which are through October 23, 2020. The MassInsight Consumer Confidence Index is usually released every third month. Intervening months are interpolated, and changes in the Conference Board's Consumer Confidence Index for the U.S. are used to extrapolate to the current month of the index, as needed. Series measured in current dollars or values, i.e., withholding taxes, sales taxes, the Bloomberg stock index, and motor vehicle 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 these indices, 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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