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# The State of the State: Current Conditions and the Economic Outlook for Massachusetts

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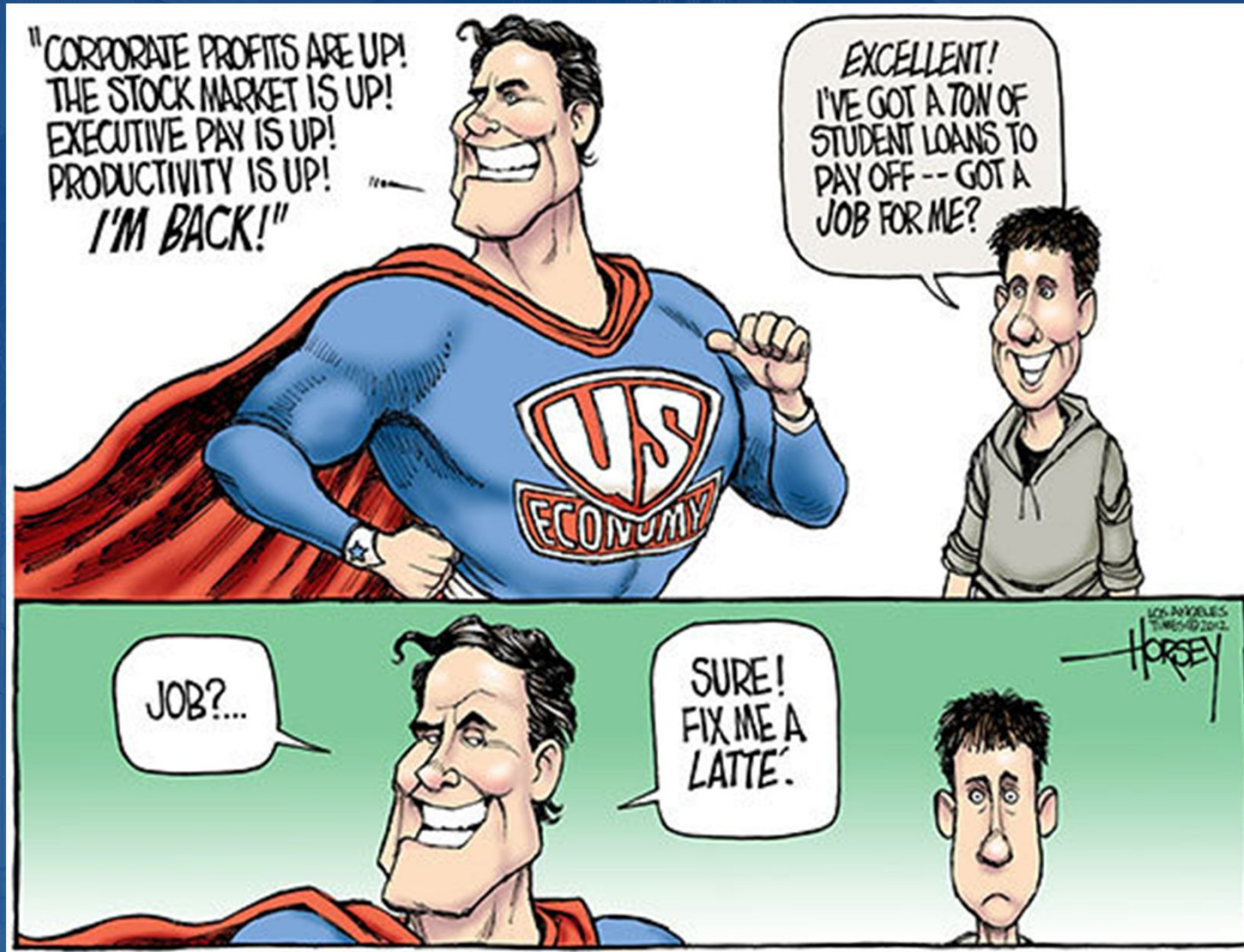
<http://www.umassd.edu/ppc>

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December 4, 2014



# On the one hand...

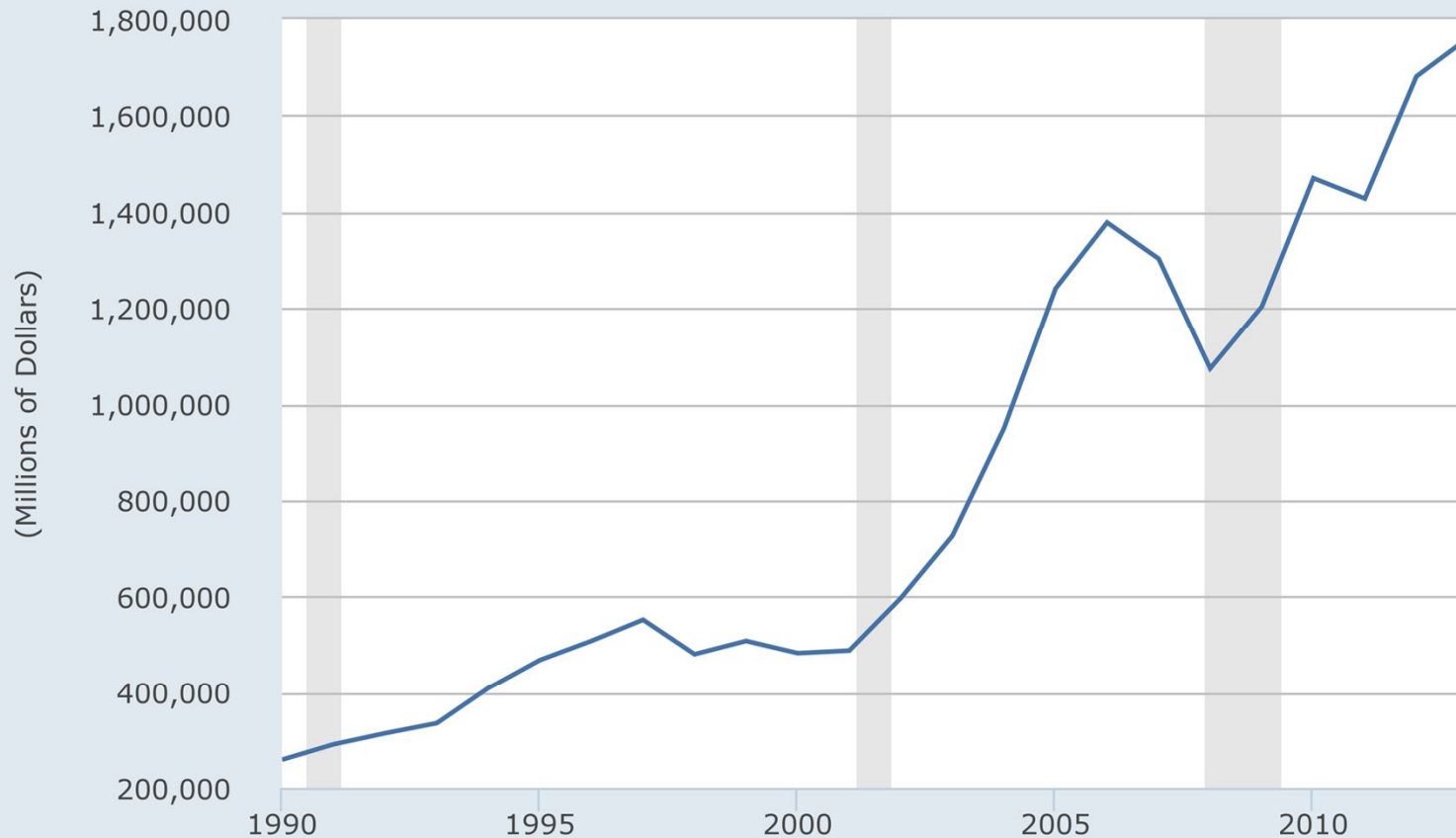




# Corporate profits have never been higher

**FRED**

— Corporate profits after tax

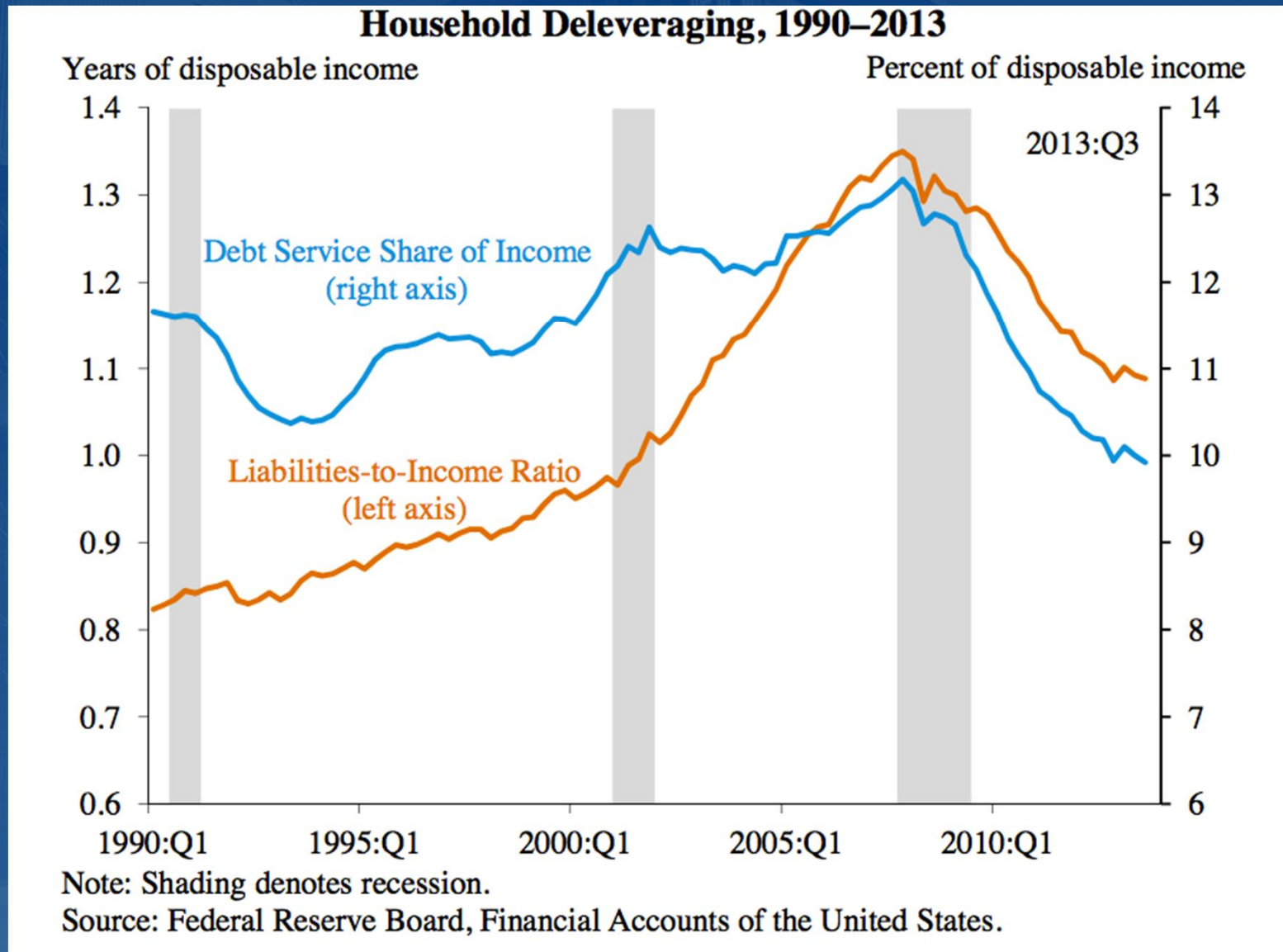


Source: U.S. Department of Commerce: Bureau of Economic Analysis

Shaded areas indicate US recessions - 2014 research.stlouisfed.org



# Consumer balance sheets are much improved

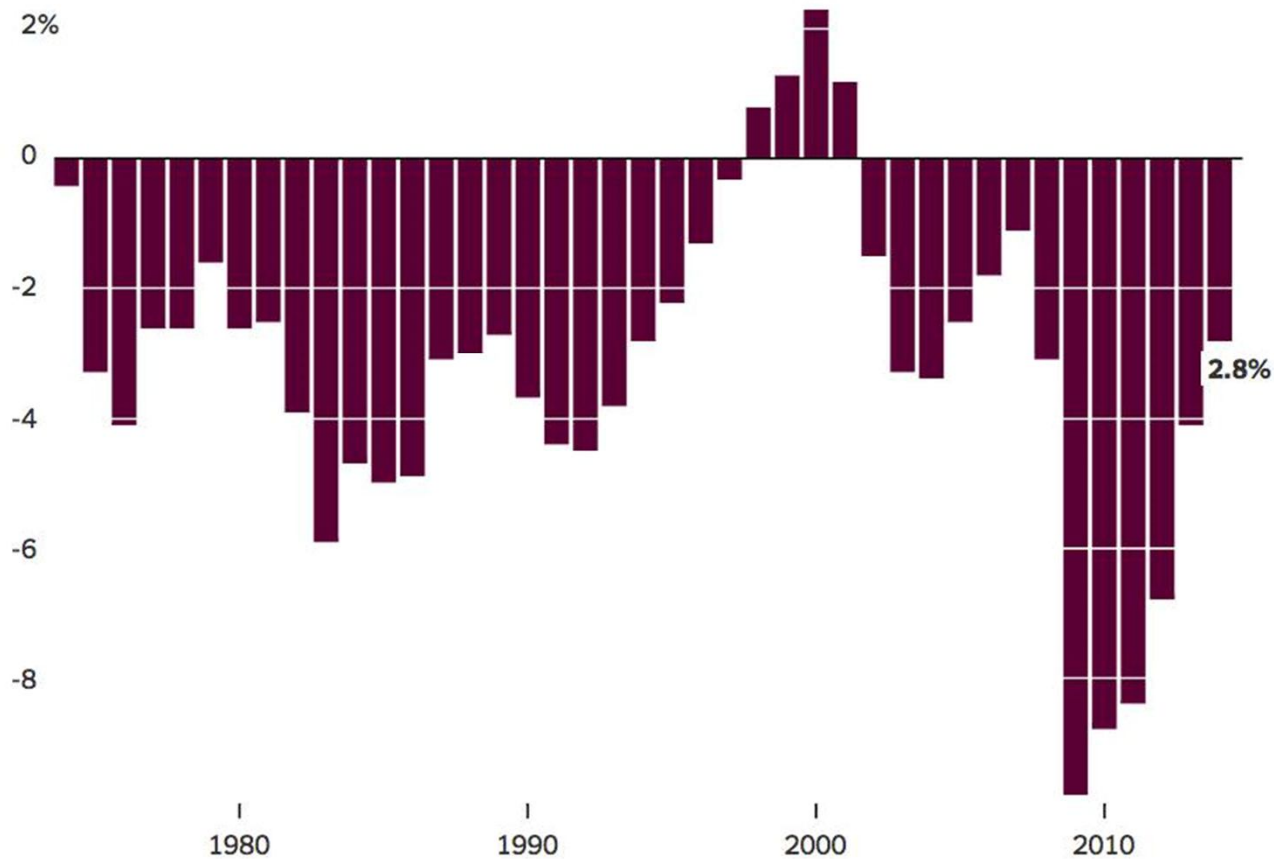




# The federal budget deficit is back to normal

## A Declining Deficit

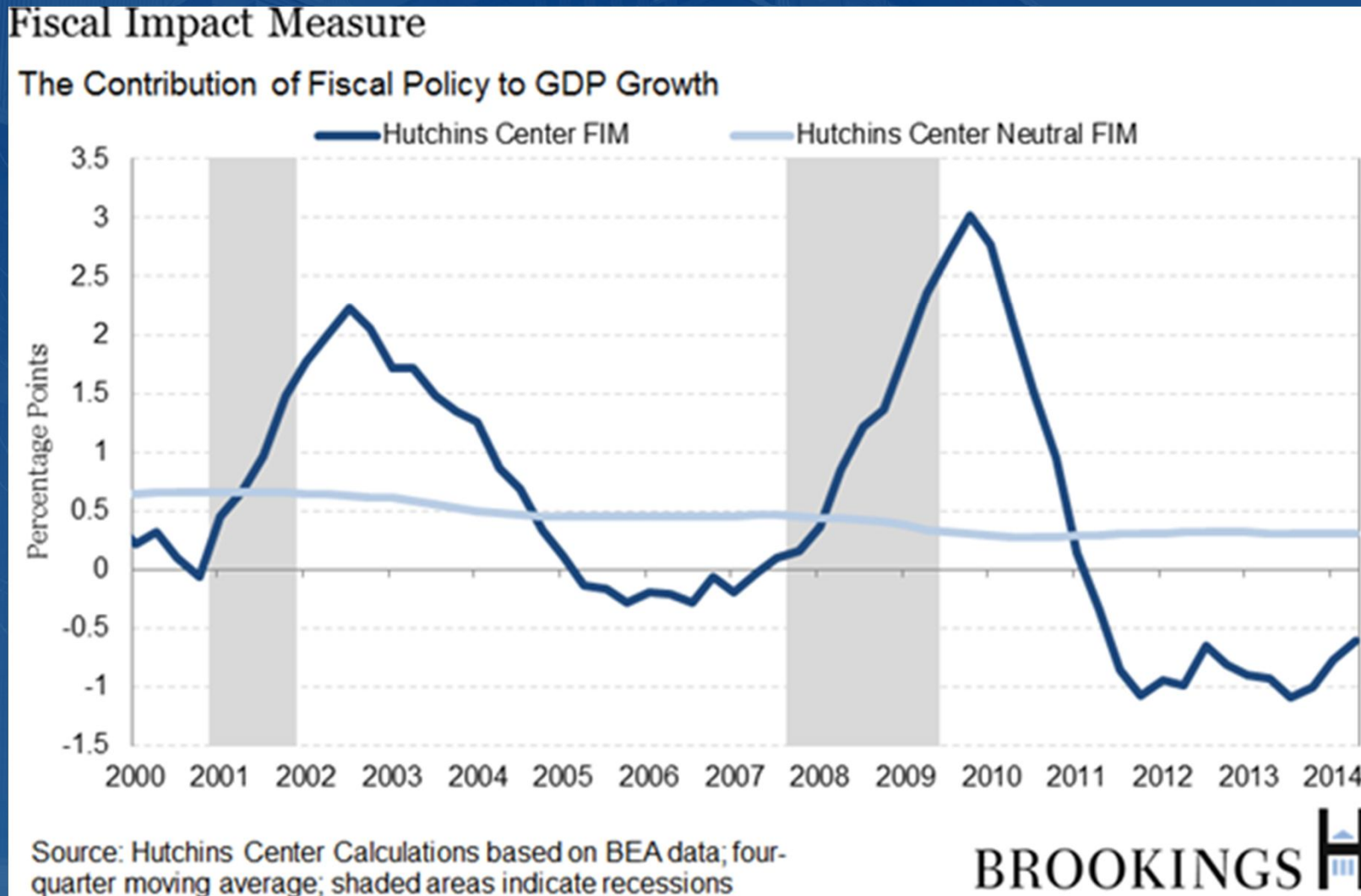
In the just-concluded fiscal year, the budget deficit has sharply declined to 2.8 percent of G.D.P. The average budget deficit from 1974 to 2014 was 3.1 percent.



Source: Congressional Budget Office



# The impact of "fiscal drag" is diminishing

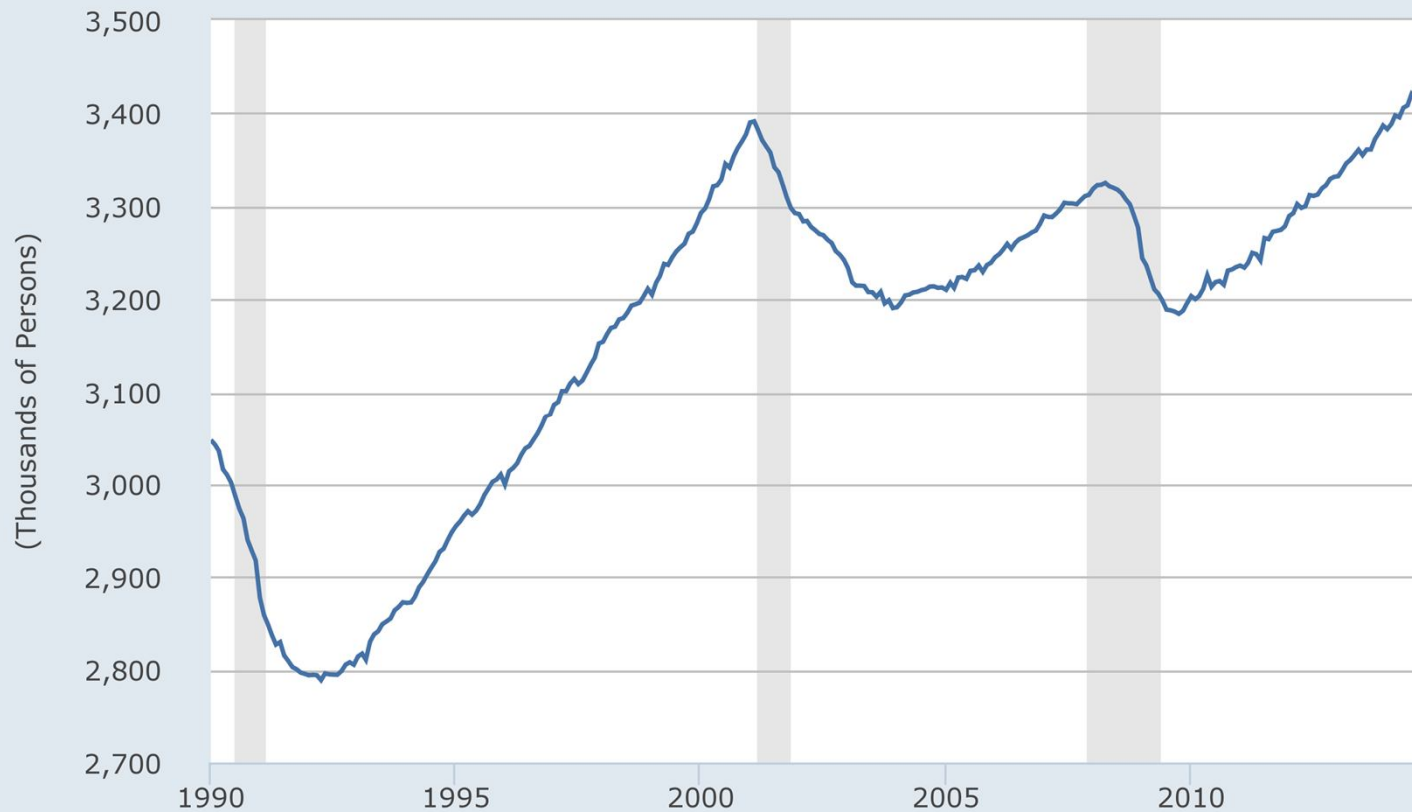




# Massachusetts has finally recovered the jobs lost in the Great Recession AND the Dot-com bubble

**FRED**

— All Employees: Total Nonfarm in Massachusetts



Source: U.S. Department of Labor: Bureau of Labor Statistics

Shaded areas indicate US recessions - 2014 [research.stlouisfed.org](http://research.stlouisfed.org)



# Our labor market recovery has been broad based...

**Table 1. Employment in Massachusetts by Industry, Beginning of the Economic Recovery through September 2014**

| Industry Super-Sectors                          | Employment at Beginning of Recovery (October 2009) | Employment in Most Recent Month (September 2014) | Employment Change | Employment Percentage Change |
|---|--|--|-------------------|------------------------------|
| Natural Resources and Mining                    | 1,300  | 1,000  | -300              | -23.1%                       |
| Construction                                    | 106,700  | 124,200  | 17,500            | 16.4%                        |
| Manufacturing                                   | 253,300  | 248,300  | -5,000            | -2.0%                        |
| Trade, Transportation & Utilities               | 539,300  | 569,500  | 30,200            | 5.6%                         |
| Information                                     | 86,100   | 92,700   | 6,600             | 7.7%                         |
| Financial Activities                            | 210,300  | 209,100  | -1,200            | -0.6%                        |
| Professional and Business Services              | 452,100  | 522,400  | 70,300            | 15.5%                        |
| Education and Health Services                   | 679,900  | 752,700  | 72,800            | 10.7%                        |
| Leisure and Hospitality                         | 299,400  | 339,200  | 39,800            | 13.3%                        |
| Other Services, Excluding Public Administration | 118,500  | 125,900  | 7,400             | 6.2%                         |
| Public Administration                           | 437,300  | 440,000  | 2,700             | 0.6%                         |
| <b>Total, All Industries</b>                    | <b>3,184,200</b>                                   | <b>3,425,000</b>                                 | <b>240,800</b>    | <b>7.6%</b>                  |

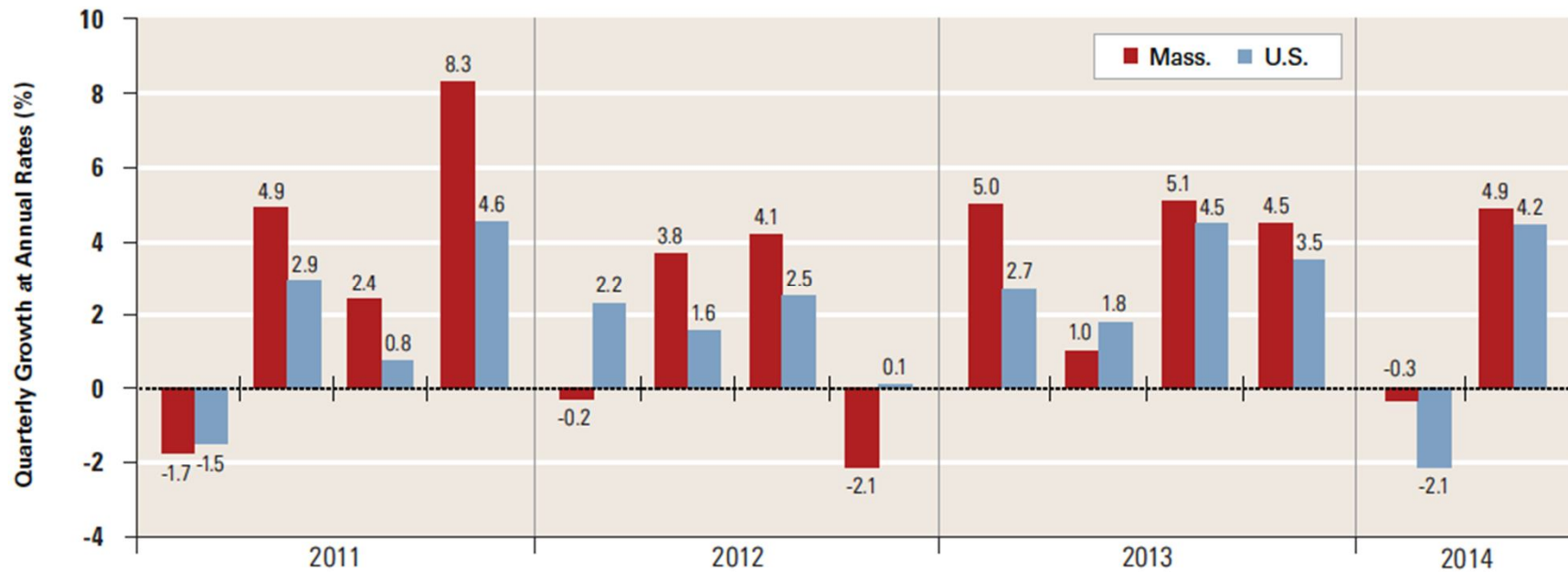
Source: Massachusetts Dept. of Labor and Workforce Development (MADLWD), Current Employment Statistics (CES-790) data; Calculations by authors





...and the state economy has grown moderately of late  
(MA expanded at a 3.2% annualized rate in Q3, 2014)

Figure 1. Growth in Real Product, Massachusetts and U.S.



Source: U.S. Bureau of Economic Analysis Real GDP (U.S.); MassBenchmarks Current Economic Index (Mass)



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# On the other hand...

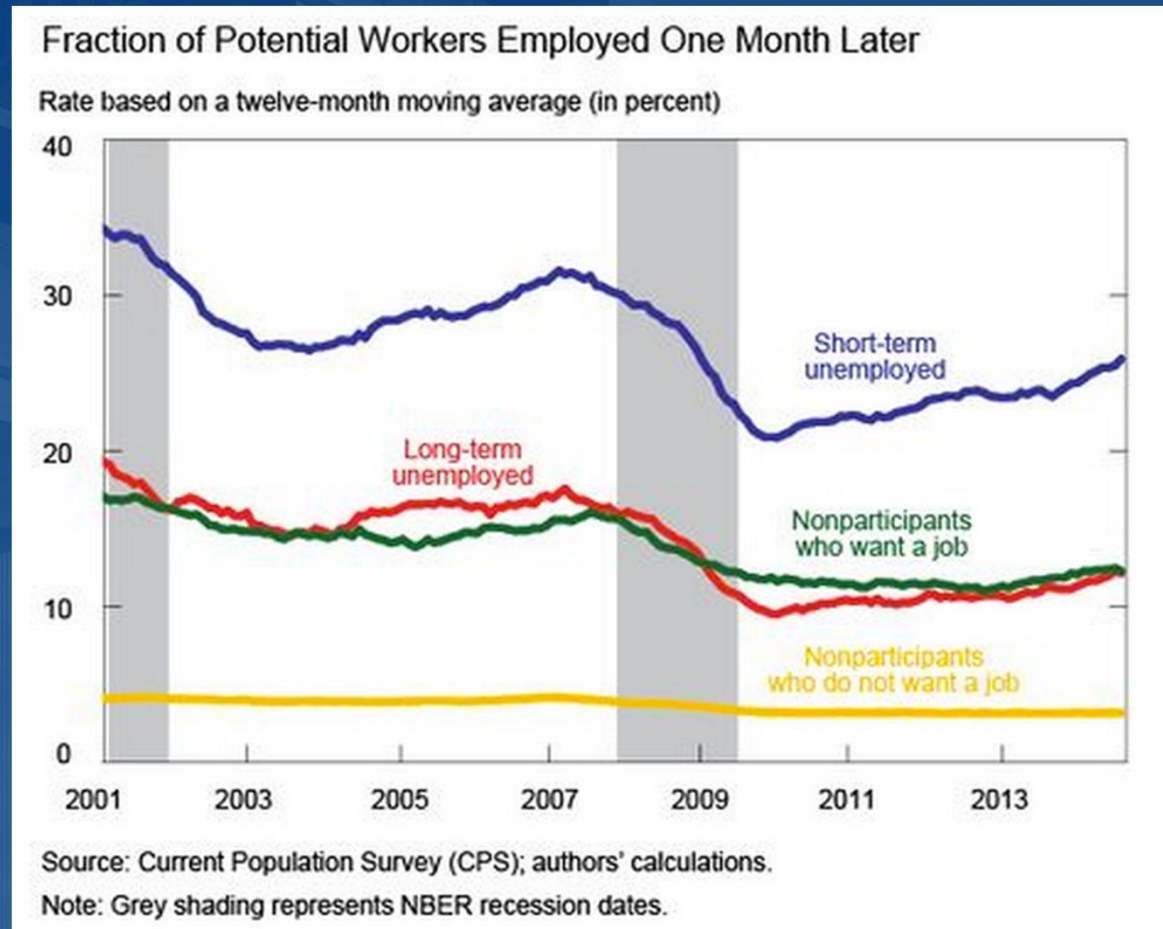




# The rising tide is not lifting all boats

In Massachusetts, in 2013, the annual average unemployment rate was:

- 15.8 percent for workers under 25 years old.
- 20.1 percent for those with less than a high school education.

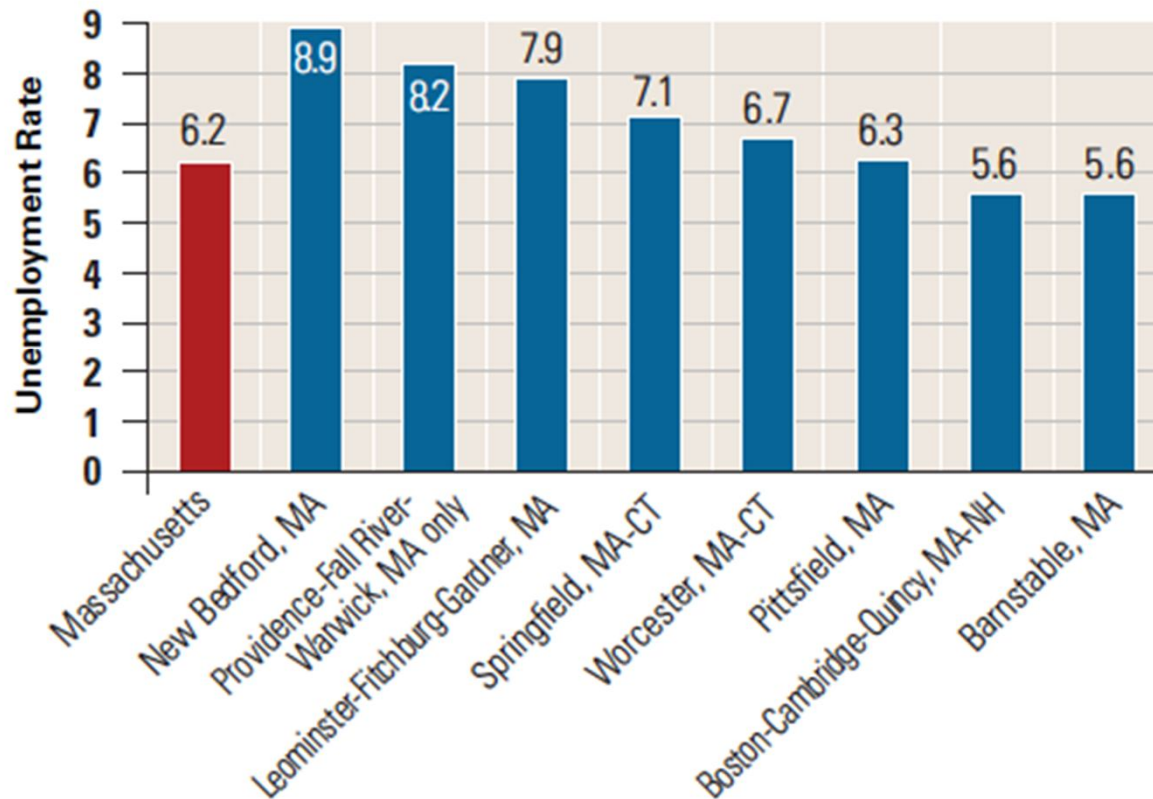


Sources: Bureau of Labor Statistics; Current Population Survey, Federal Reserve Bank of Atlanta



# The jobs recovery has been imbalanced

**Figure 2. Unemployment by NECTA, September 2014**  
(Not seasonally adjusted)

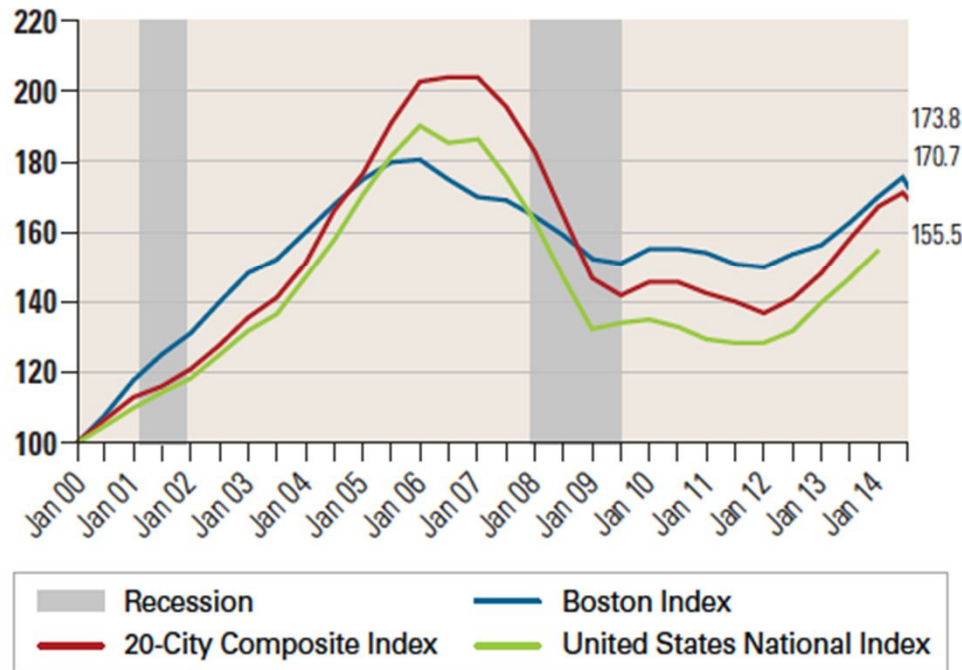


Source: MADLWD, Local Area Unemployment Statistics, Metropolitan NECTAs



# So has the housing recovery

### Figure 5. S&P Case-Shiller Home Price Indices Boston, 20-City Composite and U.S. National January 2000 – June 2014 (Seasonally adjusted)



Source: S&P Dow Jones Indices LLC, S&P/Case-Shiller Home Price Indices; recession dates obtained from the National Bureau of Economic Research (NBER). Both data sets obtained through Federal Reserve Bank of St. Louis (FRED).

### HOME PRICE APPRECIATION SINCE PRERECESSION PEAK

| City             | Top Markets (6-15) |           | % Change 2005-2013 |
|------------------|--------------------|-----------|--------------------|
|                  | 2005               | 2013      |                    |
| Newton           | \$760,000          | \$889,000 | 16.97%             |
| Lexington        | \$705,000          | \$820,000 | 16.31%             |
| Great Barrington | \$285,000          | \$328,250 | 15.18%             |
| Lenox            | \$306,900          | \$345,000 | 12.41%             |
| Winchester       | \$735,500          | \$825,000 | 12.17%             |
| Cohasset         | \$765,500          | \$857,500 | 12.02%             |
| Concord          | \$725,000          | \$810,900 | 11.85%             |
| Edgartown        | \$717,500          | \$801,500 | 11.71%             |
| Needham          | \$663,750          | \$741,000 | 11.64%             |
| Bedford          | \$520,000          | \$579,000 | 11.35%             |

| City        | Bottom 10 |           | % Change 2005-2013 |
|-------------|-----------|-----------|--------------------|
|             | 2005      | 2013      |                    |
| Brockton    | \$275,000 | \$179,000 | -34.91%            |
| Athol       | \$179,900 | \$118,450 | -34.16%            |
| Hyannis     | \$327,000 | \$216,000 | -33.94%            |
| Templeton   | \$241,025 | \$159,900 | -33.66%            |
| Gardner     | \$219,000 | \$147,000 | -32.88%            |
| Southbridge | \$230,000 | \$155,000 | -32.61%            |
| Fitchburg   | \$213,950 | \$145,000 | -32.23%            |
| Randolph    | \$350,000 | \$239,950 | -31.44%            |
| New Bedford | \$240,000 | \$167,098 | -30.38%            |
| Barre       | \$235,000 | \$165,000 | -29.79%            |

SOURCE: Warren Group

# The Global Economy is filled with risk

- The Eurozone and Japanese economies are struggling.
- Commodity prices have declined by over 15 percent since late June –this hurts emerging economies.
- If sluggish global growth persists, it will be difficult for the US to avoid a slowdown.

## Global Economy Still Struggling to Get on Track

The pace of recovery is disappointing and uneven with global growth projected at a lackluster 3.3% in 2014. In advanced economies, legacies of the boom and subsequent 2008-09 crisis still cast a shadow, while several emerging markets are adjusting to lower medium-term growth.

### Risks have increased



- Uneven fragile growth
- Risks from protracted low inflation
- Financial sector excesses
- Simmering geopolitical tensions
- Emerging markets slowing
- Surprises in monetary policy normalization

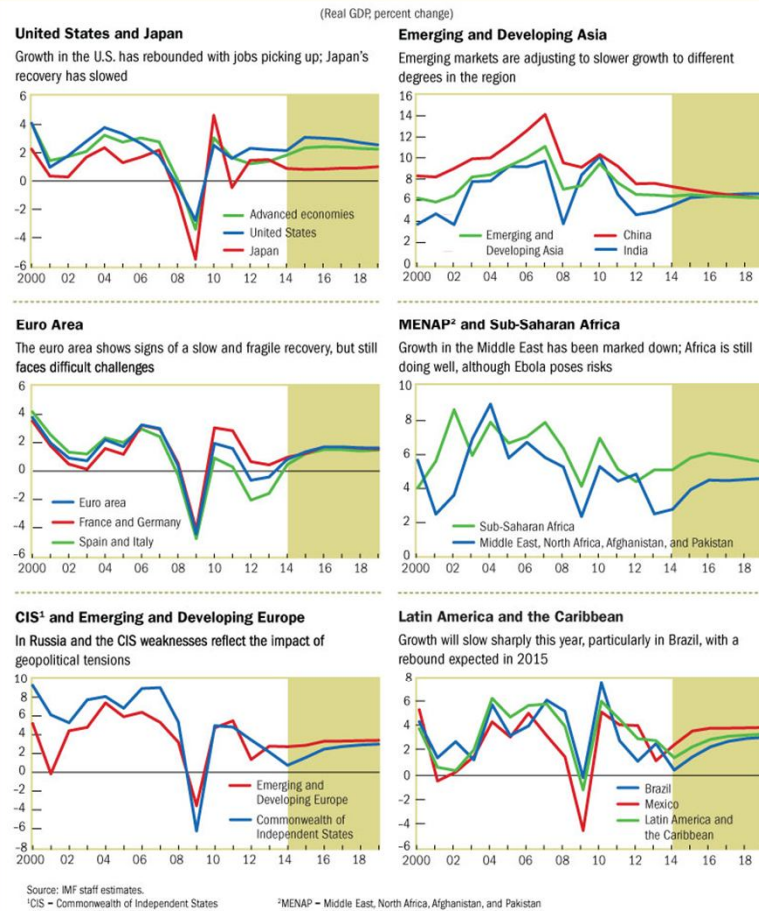
### Ways to stimulate growth and jobs



- Boost infrastructure investment
- Make fiscal policy jobs-friendly
- Reform labor and product markets
- Better regulate financial sector
- Keep interest rates low, as needed
- Reduce private debt



The World Economic Outlook (WEO) is the IMF's primary survey of the global economy, analyzing economic policy and providing forecasts for global prospects. It is published twice a year, with shorter updates in the quarters in-between.



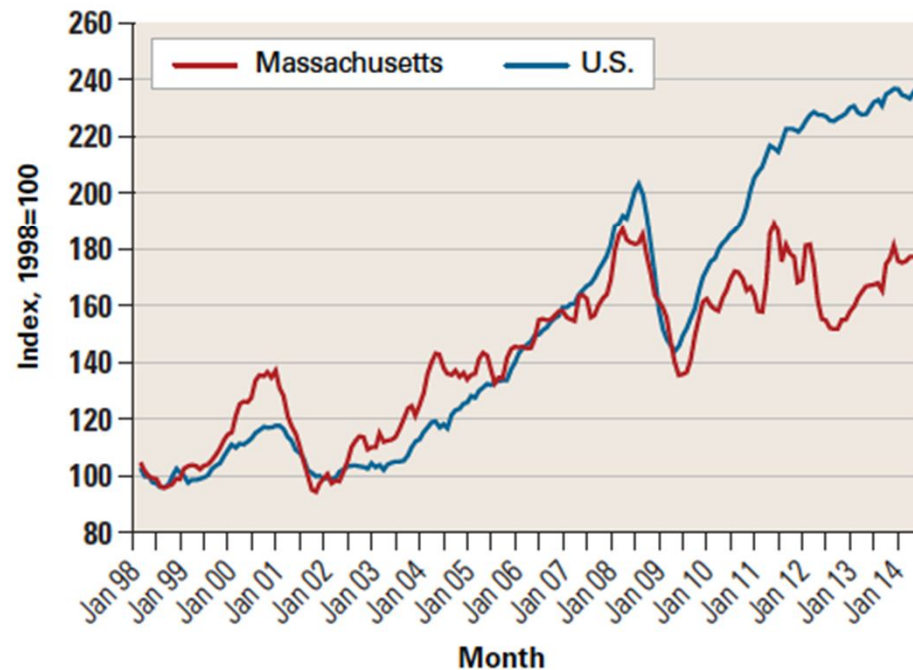


# Global trade has been slow since 2010

This is due in part to the:

- sluggish world economy.
- industry mix of state exporters (no auto or energy exports).
- growing importance of domestic markets for MA goods.
- strength of the dollar and stiff competition.

**Figure 4. Massachusetts Merchandise Exports  
Three-Month Moving Average  
January 1998 – June 2014  
(Seasonally adjusted)**

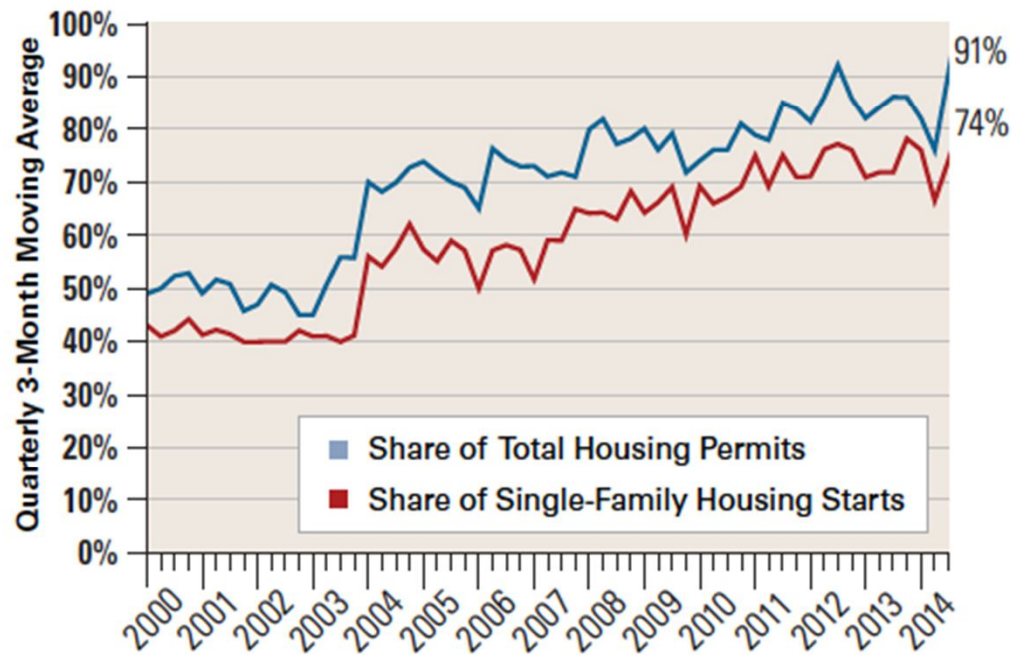


Source: U.S. Department of Commerce; WISERTrade; Seasonal adjustments by author



# Residential development is increasingly concentrated in the dynamic Greater Boston region

**Figure 7. Boston-Cambridge-Quincy MSA's Share of Massachusetts Housing Permits and Starts January 2000 – July 2014**



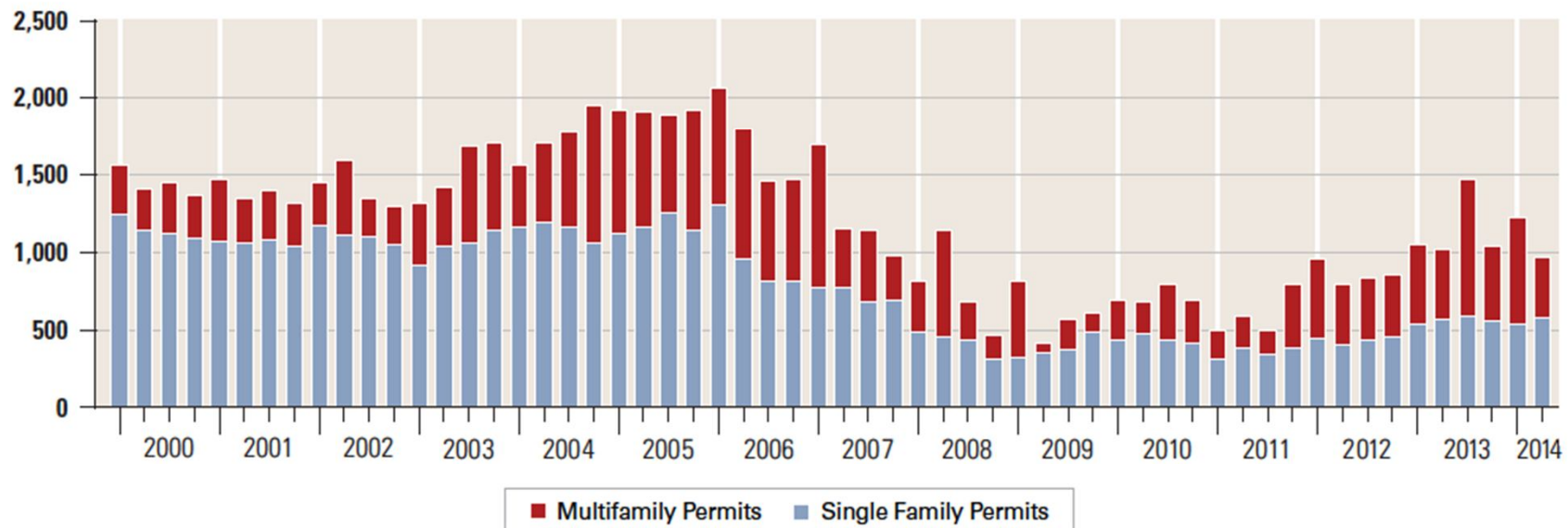
Source: Department of Commerce Census of Construction data seasonally adjusted by FRED; calculations by authors





# Housing production remains below historical averages and is being driven by multi-family developments

**Figure 6. Housing Permits in Massachusetts by Type, Three-Month Moving Averages  
January 2000 – June 2014**



Source: Department of Commerce Census of Construction data, seasonally adjusted by the Federal Reserve Bank of Saint Louis (FRED); calculations by the authors



# The near-term economic outlook is for moderate growth but demographic challenges loom

- At current pace, an aging population will halt our labor force growth by the end of 2018.
- Better alignment of our K-12/Voke and community college systems with employer needs is needed
- Our major competitive advantage remains the education, skills, and “yankee ingenuity” of our residents.

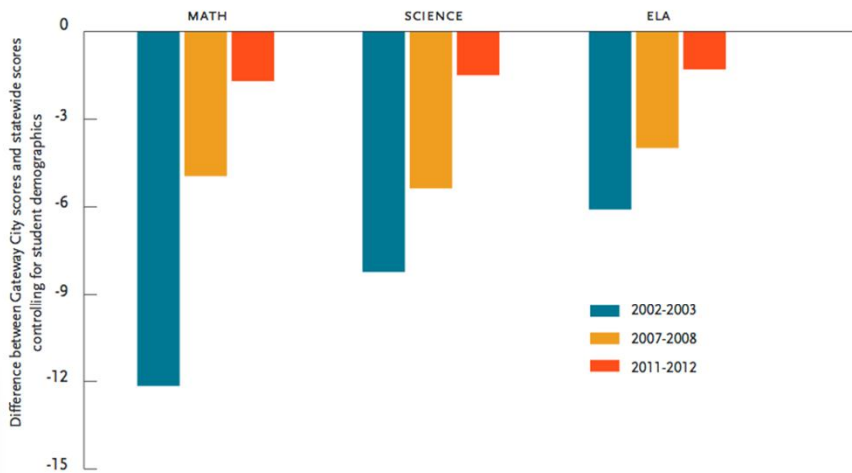


Source: New England Economic Partnership (NEEP)



# Long-term impediment to economic growth: The Urban K-12 Achievement Gap

Gateway Cities have significantly narrowed the performance gap



Source: Analysis of DESE student-level data MCAS files performed by Cape Ann Economics

**How to read this chart:** We compared the MCAS score of each Gateway City student to the statewide average for students with the same demographic make-up (race/ethnicity, family income, language ability). The bars show these differentials averaged for all Gateway City students. A negative differential suggests Gateway City students are scoring lower,

on average, than their peers. To show change over time, scores for earlier years are comparisons to the statewide average in 2011-2012. A 20-point range falls between each level (i.e., needs improvement, proficient, advanced) on the test, so the differentials for 2003 depicted in the figure below represent quite large margins.

## Gateway City College Completion Rates

|                             | Percent of 2005 graduates enrolled in post-secondary completing with 6 years | As a share of 2001-02 ninth grade enrollment |                             |                                      |
|-----------------------------|--|--|-----------------------------|--------------------------------------|
|                             |  | Graduating in 2005                           | Enrolling in post-secondary | Completing post-secondary in 6 years |
| Attleboro                   | 56%  | 63%  | 41%                         | 24%                                  |
| Barnstable                  | 64%  | 66%  | 44%                         | 31%                                  |
| Brockton                    | 44%  | 54%  | 32%                         | 15%                                  |
| Chelsea                     | 49%  | 40%  | 17%                         | 9%                                   |
| Chicopee                    | 62%  | 53%  | 33%                         | 21%                                  |
| Everett                     | 54%  | 76%  | 41%                         | 23%                                  |
| Fall River                  | 51%  | 39%  | 19%                         | 10%                                  |
| Fitchburg                   | 49%  | 63%  | 31%                         | 19%                                  |
| Holyoke                     | 46%  | 40%  | 26%                         | 13%                                  |
| Lawrence                    | 38%  | 45%  | 27%                         | 13%                                  |
| Leominster                  | 60%  | 82%  | 45%                         | 29%                                  |
| Lowell                      | 49%  | 64%  | 33%                         | 20%                                  |
| Lynn                        | 45%  | 62%  | 33%                         | 16%                                  |
| Malden                      | 53%  | 84%  | 52%                         | 30%                                  |
| Methuen                     | 58%  | 68%  | 50%                         | 30%                                  |
| New Bedford                 | 52%  | 53%  | 30%                         | 17%                                  |
| Peabody                     | 60%  | 79%  | 55%                         | 35%                                  |
| Pittsfield                  | 59%  | 62%  | 41%                         | 26%                                  |
| Quincy                      | 63%  | 89%  | 49%                         | 36%                                  |
| Revere                      | 44%  | 57%  | 30%                         | 15%                                  |
| Salem                       | 56%  | 62%  | 41%                         | 23%                                  |
| Springfield                 | 41%  | 42%  | 20%                         | 10%                                  |
| Taunton                     | 57%  | 68%  | 40%                         | 25%                                  |
| Westfield                   | 69%  | 81%  | 52%                         | 38%                                  |
| Worcester                   | 42%  | 57%  | 32%                         | 15%                                  |
| <b>Gateway City Average</b> | <b>53%</b>   | <b>62%</b>                                   | <b>37%</b>                  | <b>22%</b>                           |

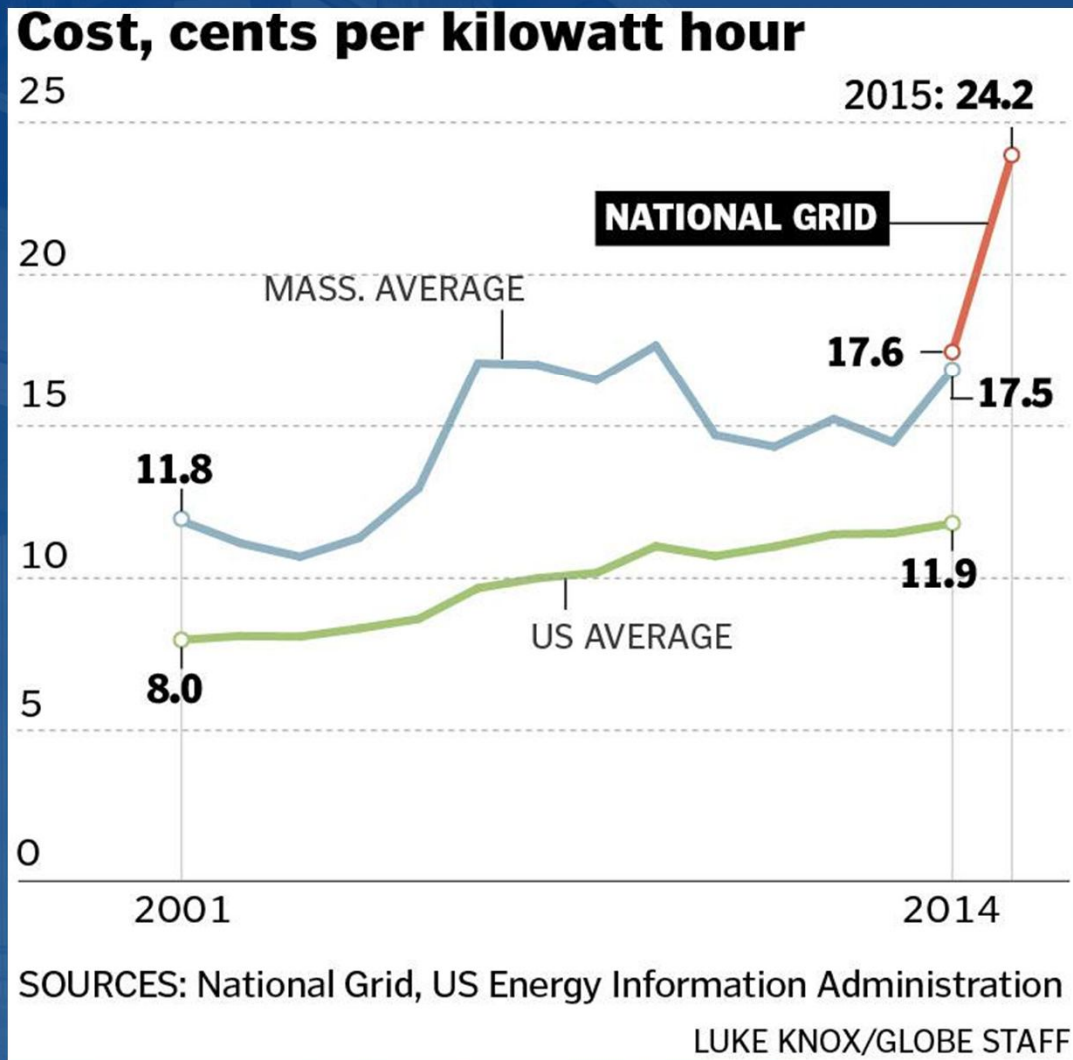
Note: 6-year graduation rate calculated for those enrolling in post-secondary within 16 months of high school graduation

Source: MassINC's analysis of data provided by the Department of Elementary and Secondary Education



# Long-term impediment to economic growth: Uncompetitive energy costs

- Our growing reliance on natural gas as the fuel for electricity generation is straining our pipeline/LNG infrastructure
- Expected retirements of plants in Salem Harbor, Brayton Point, and Vermont Yankee will exacerbate system capacity issues.
- Solutions should consider impacts on emerging domestic renewable energy sectors.





## Long-term impediment to economic growth: Inadequate Housing Production

- Archaic state and local land use and zoning regulations make it very difficult for developers to respond to market demand.
- Statewide, by 2020 Massachusetts needs to build an additional 29,926 units over expected production levels to meet expected demand.

**Table 11. Baseline Forecast for Massachusetts Housing Unit Supply Gap by Unit Type, 2020**

|                      | Berkshire | Cape and Islands | Central | Greater Boston | Northeast | Pioneer Valley | Southeast | Total   |
|----------------------|-----------|------------------|---------|----------------|-----------|----------------|-----------|---------|
| <b>Single-Family</b> | -1,277    | -17              | 18,220  | -25,545        | -3,889    | 6,757          | 12,202    | 6,452   |
| <b>Multi-Family</b>  | -2,007    | -1,198           | -309    | -20,651        | 4,767     | -10,396        | -3,981    | -33,775 |
| <b>Mobile</b>        | 253       | 141              | -636    | 72             | -311      | -1,205         | -918      | -2,603  |
| <b>Total</b>         | -3,031    | -1,074           | 17,275  | -46,124        | 568       | -4,843         | 7,303     | -29,926 |

Sources: Census of Construction 2000-2008, NEEP Forecast Fall 2009, BLS Projections 2006-2016, U.S. Census Projections, American Community Survey 2006-2008

Note: Shortages are denoted by negative numbers and red text; surpluses appear as positive numbers and black text.

Source: L. Koshgarian, A. Clayton-Matthews, M. Goodman, and M. Johnson (2010) "Foundation for Growth: Housing and Employment in 2020" Massachusetts Housing Partnership



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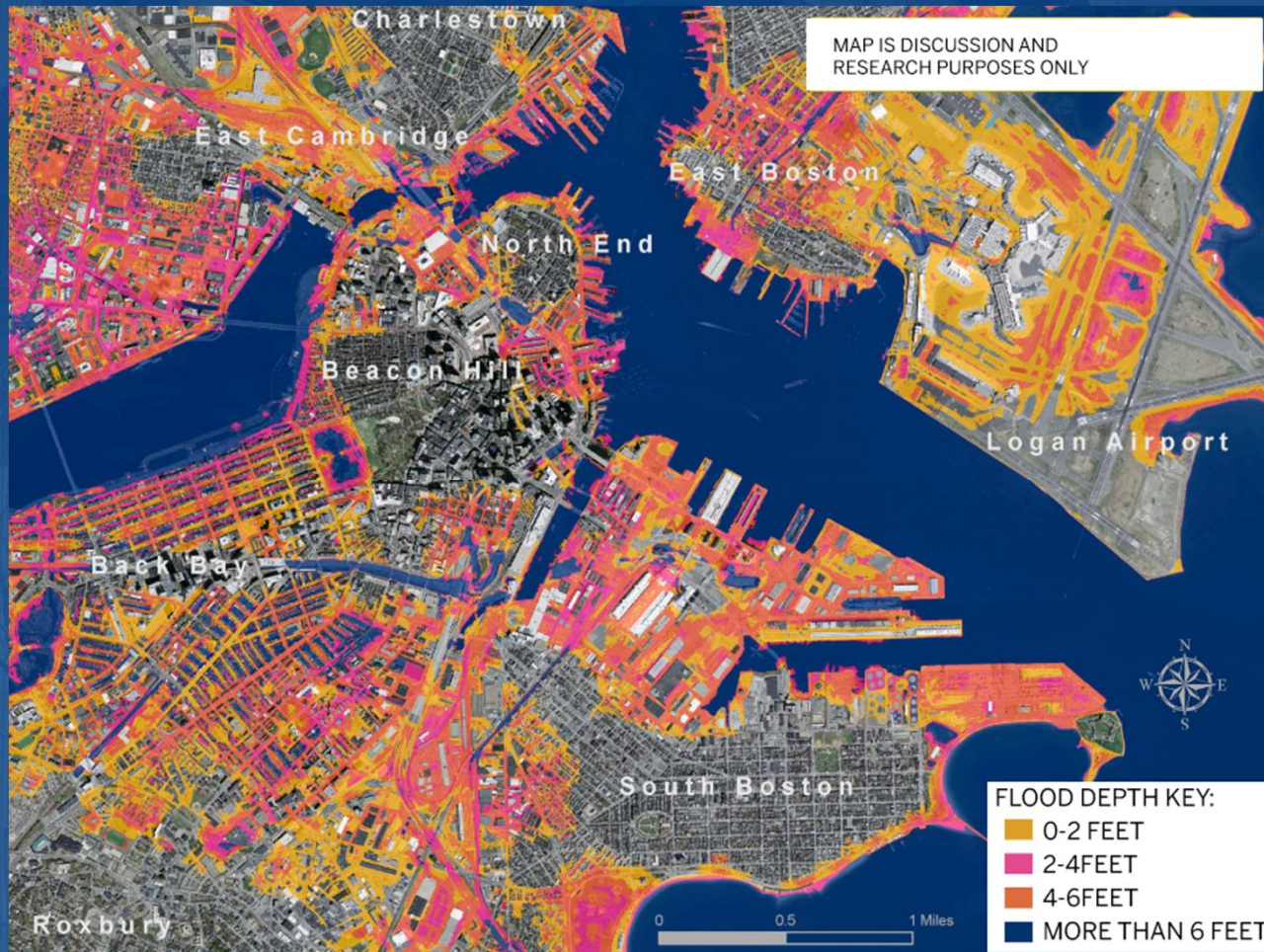
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# Long-term impediment to economic growth: Inadequate Transportation Infrastructure





# Long-term impediment to economic growth: Climate Change/Sea Level Rise



Source: Professor Ellen Douglas, UMass Boston; Boston Harbor Association