



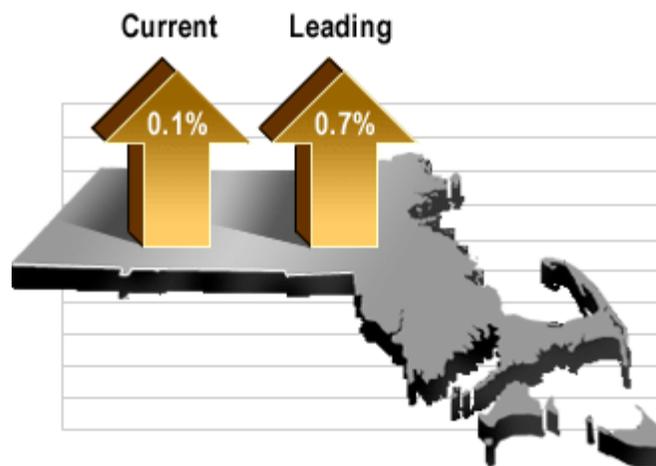
The Current and Leading Indices - October 2002

Select a Report

- [Home](#)
- [About](#)
- [Publications](#)
- [Indices](#)
 - » [The State of the State Economy](#)
- [Regions](#)
- [State Data Center](#)
- [Contact](#)
- « [Back](#)

The state's anemic economy is mired in a shallow rut.

Prof. Alan Clayton-Matthews, UMass Boston



The Massachusetts Current Economic Index for October was 127.3, up 0.1 percent from September (at annual rates), and down 0.4 percent from October of last year. The current index is normalized to 100 in July 1987 and is calibrated to grow at the same rate as the Massachusetts real gross state product over the 1978–1997 period.

The Massachusetts Leading Economic Index for October was 0.7 percent, and the three-month average for August through October was -0.1 percent (negative 0.1 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 0.7 percent through April. Because of monthly fluctuations in the data on which the index is based, the three-month average, a 0.1 percent decline, may be a more reliable indicator of near-term growth.

The economic recovery for Massachusetts, which appeared to be imminent in the spring, faded in the summer, as sales of information technology products disappointed the expectations of executives and stock market analysts. The state's anemic economy is mired in a shallow rut. Real gross state product, as proxied by the Massachusetts Current Economic Index, has contracted for seven consecutive quarters, but the pace of contraction has been slow. In the third quarter, it declined at an annualized rate of 0.8 percent, and has only fallen by 0.4 percent from October of last year.

There are some tangible signs that output of technology products is finally growing, including increases in sales of semiconductors from North American producers (as reported by the Semiconductor Industry Association), three consecutive quarters of growth in investment spending for information and processing equipment

Recent Index Values

	CURRENT	LEADING
OCT - 01	127.9	- 0.4
NOV - 01	127.8	0.7
DEC - 01	127.7	1.6
JAN - 02	127.7	1.0
FEB - 02	127.7	1.9
MAR - 02	127.6	0.8
APR - 02	127.7	0.5
MAY - 02	127.5	0.4
JUN - 02	127.5	- 0.7
JUL - 02	127.3	- 0.2
AUG - 02	127.3	- 1.4
SEP - 02	127.3	0.5
OCT - 02	127.3	0.7

from U.S. businesses (from the U.S. National Income and Product Accounts), and surging merchandise exports from Massachusetts to other countries (from the U.S. Department of Commerce as released by MISER).

However, these positive developments may be too weak and too late to overcome developing weaknesses in consumer confidence and spending. Nor is it likely that they will prevail over a continuing stream of layoffs in manufacturing, finance, and business services that were announced this last quarter and will become effective through the next several months.

Meanwhile, the Massachusetts Leading Economic Index reflects the precarious balance between a slowly improving production sector and a weakening household sector.

Contributions of Indicators to the Leading Index

	OCT	AUG - OCT AVERAGE
Trend	2.6	2.6
Total Nonagricultural Employment	- 0.5	- 0.6
Withholding Taxes	- 0.2	- 0.3
Sales Taxes	- 0.5	- 0.3
Unemployment Rate	- 0.4	- 0.5
Consumer Confidence (New England)	- 0.5	- 0.3
Interest Rate Spread (10-year less 3-month)	0.3	0.1
Bloomberg MA Stock Index	- 0.2	- 0.7
Initial Unemployment Claims	0.1	- 0.1
Construction Employment	- 0.2	- 0.1
Motor Vehicle Sales Taxes	0.3	0.2
TOTAL	0.7	- 0.1

NOTE: Numbers may not add exactly, due to rounding.

between 10-year and 3-month U.S. Treasury securities, initial unemployment claims, and motor vehicle sales taxes. Seven indicators contributed to below-trend growth: total nonagricultural employment, withholding taxes, sales taxes, the unemployment rate, consumer confidence for New England, the Bloomberg stock index for Massachusetts, and construction employment.

For the three-month period August through October, two indicators contributed to a forecast of above-trend growth: the interest rate spread between 10-year and 3-month U.S. Treasury securities, and motor vehicle sales taxes. Eight indicators contributed to below-trend growth: total nonagricultural employment, sales taxes, withholding taxes, the unemployment rate, consumer confidence for New England, the Bloomberg stock index for Massachusetts, initial unemployment claims, and construction employment.

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 of the indicators except interest rates and consumer confidence 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 of the indicators are as of October except the interest rate spread and the Bloomberg stock index, which are through November 18.

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.

The 10 indicators that comprise the leading index do not usually move in tandem. Typically, some may indicate an expectation of faster-than-average growth, while at the same time others may indicate an expectation of slower-than-average growth. The following table accounts for the contributions of each toward faster or slower growth than the long-term trend of 2.6 percent. The index value is their sum. In October, three indicators contributed to a forecast of above-trend growth: the interest rate spread

[» Top](#)

This is an [official](#) Web page of the [UMass Donahue Institute](#). © 2005 [University of Massachusetts](#)