



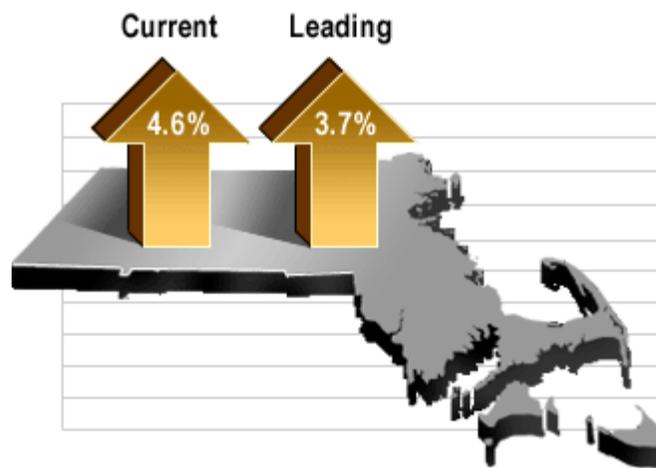
## The Current and Leading Indices - October 2004

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### Massachusetts Economy Heats Up in October

Jobs Recovery Mirrors Previous Recession



The Massachusetts Current Economic Index for October was 129.7, up 4.6 percent from September (at annual rates) and up 2.9 percent from October of last year. The current index is normalized to 100 in August 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 3.7 percent, and the three-month average for August through October was 3.4 percent. Because the leading index is a forecast of the growth in the current index over the next six months, expressed at an annual rate, it indicates that the economy is expected to grow at an annualized rate of 3.7 percent over the next six months (through April). Because of monthly fluctuations in the data on which the index is based, the three-month average of 3.4 percent may be a more reliable indicator of near-term growth.

The state's recovery is gathering momentum. According to the Current Economic Index, the recovery in Massachusetts began in March 2003, making October the nineteenth month of recovery. The rate of growth in the state's real gross state product, as measured by the Current Economic Index, has steadily accelerated from an annual rate of 0.3 percent in the second quarter of 2003, to 3.3 percent in the third quarter of this year. In contrast, U.S. real gross domestic product grew at a 3.7 percent annual rate in the third quarter.

While the Massachusetts labor market has been slow to recover, the pace of its recovery is very similar to that which followed the previous recession in the early 1990s. It was at this moment in the recovery — the year and a half mark — that the job market began to improve significantly. This pattern appears to be playing itself out again during the current recovery. Payroll employment rose substantially in

### Recent Index Values

	CURRENT	LEADING
OCT - 03	126.1	3.2
NOV - 03	126.2	2.9
DEC - 03	126.5	3.7
JAN - 04	126.7	3.7
FEB - 04	127.0	3.5
MAR - 04	127.3	3.8
APR - 04	127.5	2.9
MAY - 04	127.8	2.4
JUN - 04	128.1	2.2
JUL - 04	128.3	1.9
AUG - 04	128.9	3.1
SEP - 04	129.2	3.3
OCT - 04	129.7	3.7

October, and the sharp unemployment rate drop from August to September was maintained in October.

Payroll employment remains slightly below the level the March 2003 level, which was when the Massachusetts economy turned the corner, as was national payroll employment in the nineteenth month of the national recovery. The U.S. recovery began in November 2001 (according the widely accepted NBER's Business Cycle Dating Committee), but U.S. payroll employment did not even begin to recover until 21 months later. National employment did not surpass its November 2001 level until April 2004, which was 29 months into the recovery. Massachusetts is currently on pace to pass this milestone during this holiday shopping season. December would be the twenty-first month of its recovery.

U.S. investment spending for information processing equipment and software, which has been growing at double-digit annual rates for six successive quarters, declined to a 1.6 percent rate in the third quarter. This slowdown in investment is reflected in recent export data. Although Massachusetts merchandise exports this year are running well ahead of last year, in September they were down 11 percent from their peak in May (on a seasonally-adjusted basis). "The primary risk to an acceleration in the state's economic growth is the slowdown in demand for information processing equipment," said *Massachusetts Benchmarks* co-editor and UMass Boston Professor Alan Clayton-Matthews. "Time will tell whether or not this decline in the rate of growth is merely a pause in demand for these products, or something more worrisome," said Clayton-Matthews added.

### Contributions of Indicators to the Leading Index

	OCT	AUG - OCT AVERAGE
<b>Trend</b>	<b>2.6</b>	<b>2.6</b>
<b>Total Nonagricultural Employment</b>	<b>0.1</b>	<b>0.0</b>
<b>Withholding Taxes</b>	<b>0.0</b>	<b>0.0</b>
<b>Sales Taxes</b>	<b>0.4</b>	<b>0.3</b>
<b>Unemployment Rate</b>	<b>0.6</b>	<b>1.0</b>
<b>Consumer Confidence (New England)</b>	<b>- 0.1</b>	<b>- 0.1</b>
<b>Interest Rate Spread (10-year less 3-month)</b>	<b>0.0</b>	<b>0.0</b>
<b>Bloomberg MA Stock Index</b>	<b>0.4</b>	<b>0.1</b>
<b>Initial Unemployment Claims</b>	<b>0.0</b>	<b>0.0</b>
<b>Construction Employment</b>	<b>0.0</b>	<b>0.0</b>
<b>Motor Vehicle Sales Taxes</b>	<b>- 0.3</b>	<b>- 0.5</b>
<b>TOTAL</b>	<b>3.7</b>	<b>3.4</b>

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

The 10 indicators that comprise the leading index usually do not all move in tandem. Typically, some may indicate an expectation of faster than average growth, while others may indicate an expectation of slower than average growth. The following table accounts for the contributions of each towards faster or slower growth than the long-term trend of 2.6 percent. The index value is their sum. In October, four indicators contributed to a forecast of above-trend growth: total nonagricultural employment, sales taxes, the unemployment rate, and the Bloomberg stock index for Massachusetts. Two indicators contributed to below-trend growth: consumer confidence for New England and motor vehicle sales taxes. Four indicators contributed to average-trend growth: withholding taxes, the interest rate spread between 10-year and 3-month U.S. Treasury securities, initial unemployment claims, and construction employment.

For the three-month period August through October, the same sets of indicators contributed to above-trend, below-trend, and average-trend growth as in October.

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.

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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 July 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.

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