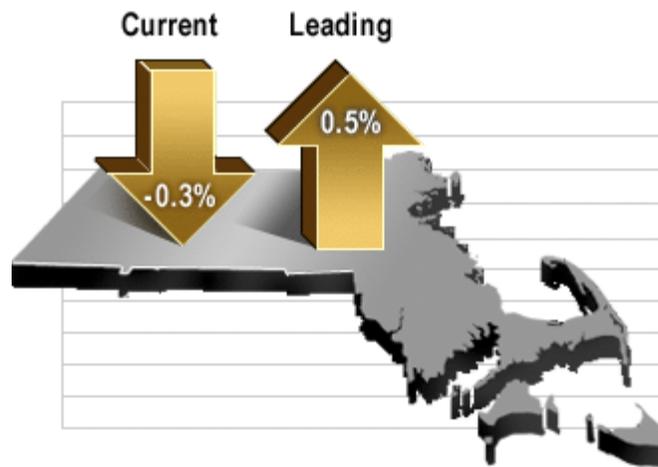




The Current and Leading Indices - September 2002

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The Massachusetts Current Economic Index for September was 127.5, down 0.3 percent from August (at annual rates), and down 0.5 percent from September of last year. The current index is normalized to 100 in July 1987 and is calibrated to grow at the same rate as Massachusetts' real gross state product over the 1978–1997 period.

The Massachusetts Leading Economic Index for

September was 0.5 percent, and the three-month average for July through September was -0.2 percent (negative 0.2 percent). The leading index is a forecast of 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 0.5 percent through March 2003. Because of monthly fluctuations in the data on which the index is based, the three-month average—a 0.2 percent decline—may be a more reliable indicator of near-term change.

Throughout last winter and spring, the leading index was positive, suggesting that a recovery would begin in the summer or fall of this year. The recovery did not materialize, and the economic outlook for Massachusetts has deteriorated. According to the current index, the state economy contracted at an annualized rate of 0.5 percent in the third quarter, the seventh consecutive quarterly decline. In contrast, the U.S. economy grew at an annualized rate of 1.3 percent in the second quarter (and is expected to exhibit strong growth in the third quarter), the third consecutive quarterly rise. The state's relative weakness is due to its substantially higher concentration of information-technology producers in combination with businesses' lack of capital spending on IT products.

The recession is likely to continue into the beginning of next year, despite the positive value of September's leading index. Quarterly reports from technology companies are almost universally downbeat. Sales disappointments and downward revisions in revenue projections for the remainder of the year indicate little or no

Recent Index Values

	CURRENT	LEADING
SEPT - 01	128.1	- 1.6
OCT - 01	127.9	- 0.4
NOV - 01	127.8	0.7
DEC - 01	127.7	1.6
JAN - 02	127.7	1.1
FEB - 02	127.7	1.9
MAR - 02	127.6	0.9
APR - 02	127.7	0.6
MAY - 02	127.5	0.7
JUN - 02	127.6	- 0.6
JUL - 02	127.4	- 0.1
AUG - 02	127.5	- 1.0
SEPT - 02	127.5	0.5

growth. Many firms with a substantial presence in the state, including EMC, Lucent, Hewlett Packard, and Sun Microsystems, have announced layoffs or are in the midst of laying off workers. As a result of the bear market, the finance industry is also shedding workers.

This recent news is not yet captured in the indices' underlying indicators, nor is October's consumer confidence for Massachusetts (which plummeted, according to a MassInsight survey). The Massachusetts economy should continue to contract even as the U.S. economy expands.

Contributions of Indicators to the Leading Index

	SEPT	JUL - SEPT AVERAGE
Trend	2.6	2.6
Total Nonagricultural Employment	- 0.6	- 0.8
Withholding Taxes	0.0	0.0
Sales Taxes	0.0	- 0.1
Unemployment Rate	- 0.5	- 0.7
Consumer Confidence (New England)	- 0.1	- 0.1
Interest Rate Spread (10-year less 3-month)	0.0	0.0
Bloomberg MA Stock Index	- 0.8	- 1.0
Initial Unemployment Claims	- 0.1	- 0.1
Construction Employment	- 0.1	0.0
Motor Vehicle Sales Taxes	0.2	0.0
TOTAL	0.5	- 0.2

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

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

For the three-month period ending in September, no indicators contributed to a forecast of above-trend growth. Six indicators contributed to below-trend growth: total nonagricultural employment, sales taxes, the unemployment rate, consumer confidence for New England, the Bloomberg stock index for Massachusetts, and initial unemployment claims. Four indicators contributed to average-trend growth: withholding taxes, the interest rate spread between 10-year and 3-month U.S. Treasury securities, construction employment, and motor vehicle sales taxes.

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.

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.

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

The 10 indicators that comprise the leading index usually do not 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 toward faster or slower growth than the long-term trend of 2.6 percent. The index value is their sum. In September, only motor vehicle sales taxes contributed to a forecast

indicators are as of September, except the interest-rate spread and the Bloomberg stock index, which are through October 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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