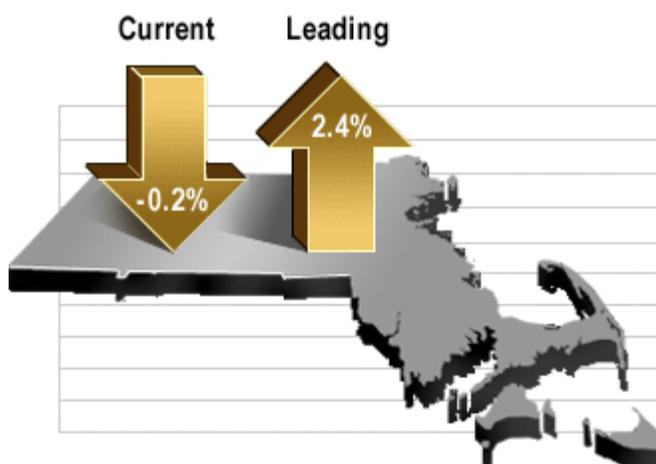




The Current and Leading Indices - May 2003

Select a Report

- Home
- About
- Publications
- Indices
  - » The State of the State Economy
- Regions
- State Data Center
- Contact
- « Back



The Massachusetts Current Economic Index for May was 125.9, down 0.2 percent from April (at annual rates), and down 0.4 percent from May 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 May was 2.4 percent, and the three-

month average for March through May was 1.9 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 2.4 percent over the next six months (through November). Because of monthly fluctuations in the data on which the index is based, the three-month average of 1.9 percent may be a more reliable indicator of near-term growth.

The ten indicators that comprise the leading index are sharply divided between positive and negative signals about the future course of the state's economy. On the negative side are the employment-based indicators, especially total payroll employment and withholding taxes. The surprisingly good Massachusetts employment reports for April and May are misleading. A careful analysis of April and May employment reports corrects for the seasonality glitches in the official release. This analysis reveals that employment is still seeing a decline that is consistent with stagnant withholding revenues and sales taxes, as well as high initial unemployment claims.

On the plus side are the rebound in stock markets, the strength in motor vehicle sales, and—to a lesser extent—the rise in consumer confidence. These are largely expectation-based indicators, as opposed to "real" indicators such as employment and incomes.

At turning points, expectations tend to lead real indicators, though they can turn out to be false expectations, as they were in spring 2002. There are good reasons, however, for

Recent Index Values

	CURRENT	LEADING
MAY - 02	126.4	1.6
JUN - 02	126.4	- 0.2
JUL - 02	126.3	- 0.7
AUG - 02	126.3	- 1.5
SEP - 02	126.3	- 0.3
OCT - 02	126.3	0.7
NOV - 02	126.1	- 0.4
DEC - 02	126.2	- 0.8
JAN - 03	126.0	- 0.8
FEB - 03	125.9	- 1.5
MAR - 03	125.9	1.2
APR - 03	125.9	2.1
MAY - 03	125.9	2.4

these expectations to be fulfilled this time. Demand for technology products appears to be rising, and the combination of low inventories, obsolescence of existing equipment, and business tax incentives from Washington is likely to sustain this nascent growth in investment spending. The federal income tax cuts should also have substantial effects later this year, supporting consumer spending.

Job growth will lag the turnaround in production for several months, however. Firms are waiting to hire until they see the turnaround gain traction. This tentativeness reflects the biggest risk for the prediction of the leading index to come to fruition. It will take a sustained recovery in business investment spending to get the Massachusetts economy back on track. Now, at least, it appears to be headed in the right direction.

### Contributions of Indicators to the Leading Index

	MAY	MAR - MAY AVERAGE
<b>Trend</b>	2.6	2.6
<b>Total Nonagricultural Employment</b>	- 0.7	- 0.8
<b>Withholding Taxes</b>	- 0.7	- 0.7
<b>Sales Taxes</b>	- 0.2	- 0.2
<b>Unemployment Rate</b>	- 0.1	0.0
<b>Consumer Confidence (New England)</b>	0.1	- 0.2
<b>Interest Rate Spread (10-year less 3-month)</b>	0.0	0.1
<b>Bloomberg MA Stock Index</b>	0.9	0.6
<b>Initial Unemployment Claims</b>	- 0.1	0.0
<b>Construction Employment</b>	- 0.1	- 0.1
<b>Motor Vehicle Sales Taxes</b>	0.7	0.6
<b>TOTAL</b>	2.4	1.9

*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 toward faster or slower growth than the long-term trend of 2.6 percent. The index value is their sum. In May, three indicators contributed to a forecast of above-trend growth: consumer

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

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

Several recent months of the indexes 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.

07/01/03

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 May, except the interest rate spread and the Bloomberg stock index, which are through June 20.

[» Top](#)

