




## The Current and Leading Indices - December 2003

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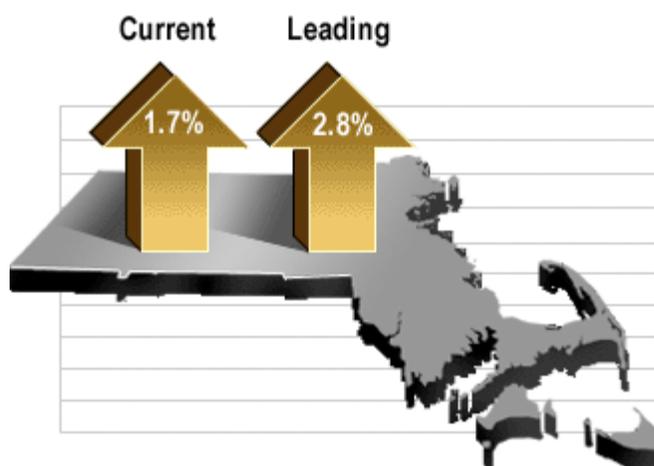
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### Massachusetts Economy Sputters Along in December

Jobless growth continues as the Bay State continues to lag US recovery

*Prof. Alan Clayton-Matthews, UMass Boston*



The Massachusetts Current Economic Index for December was 126.8, up 1.7 percent from November (at annual rates), and up 0.4 percent from December 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

December was 2.8 percent, and the three-month average for October through December was also 2.8 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 2.8 percent over the next six months (through June).

The Massachusetts economy is experiencing a recovery, but is not yet firing on all cylinders. Business spending, especially on information technology products, is strong, but hiring is still weak, even in the tech sector, and the jobless recovery is limiting income growth and consumer spending in Massachusetts.

"The resurgence in business activity is strong and conditions appear favorable for a period of job creation to begin," said *Massachusetts Benchmarks* Co-Editor, Alan Clayton-Matthews. "U.S. investment in information and processing equipment, for example, grew by more than a ten percent annual rate in each and every quarter last year, business confidence remains high, and unemployment claims at both the state and national levels have been low enough to be associated with an improving job market for several months," Clayton-Matthews added. Significantly, productivity growth slowed in the fourth quarter of last year, suggesting that employers have wrung out about all the output they can from existing employees, and will have to hire to meet new demand.

Nevertheless, this lengthening period of relatively jobless growth means slower income growth than would normally occur at this point in a recovery. This has required the downward revision of the estimate

## Recent Index Values

	CURRENT	LEADING
DEC - 02	126.2	0.0
JAN - 03	126.1	- 0.3
FEB - 03	126.0	- 0.8
MAR - 03	126.0	1.0
APR - 03	126.0	1.8
MAY - 03	126.0	2.3
JUN - 03	126.2	3.2
JUL - 03	126.1	2.6
AUG - 03	126.4	3.6
SEP - 03	126.4	3.9
OCT - 03	126.6	3.1
NOV - 03	126.6	2.6
DEC - 03	126.8	2.8

of the state's growth in gross state product in the second half of 2003 and lower expectations for the first half of 2004. Real gross Massachusetts state product is now estimated to have grown at annualized rates of only 0.8 percent in the third quarter and 1.1 percent in the fourth quarter of 2003, significantly slower than national GDP growth of 8.2 percent and 4.0 during those same two quarters.

The outlook for Massachusetts for the next six months is now for growth at just under a 3 percent annual rate, down a full percentage point from the November report. This downgrading of growth is due principally to the dismal December jobs report for the state. Officially, payroll employment was down by 7,100 jobs in December (although due to continuing seasonal adjustment problems, the loss may have even been higher), and the unemployment rate jumped to 5.7 percent as workers who came back into the state's labor force could not find jobs.

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 at the same time 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%. The index value is their sum. In December, five indicators contributed to a forecast of above-trend growth: withholding taxes, consumer confidence for New England, the interest rate spread between 10 year and 3 month U.S. Treasury securities, the Bloomberg stock index for Massachusetts, and initial unemployment claims. Four indicators contributed to below-trend growth: total nonagricultural employment, sales taxes, the unemployment rate, and motor vehicle sales taxes. One indicator, construction employment, contributed to average-trend growth.

## Contributions of Indicators to the Leading Index

	DEC	OCT - DEC AVERAGE
<b>Trend</b>	2.6	2.6
<b>Total Nonagricultural Employment</b>	- 0.8	- 0.8
<b>Withholding Taxes</b>	0.1	0.0
<b>Sales Taxes</b>	- 0.1	- 0.1
<b>Unemployment Rate</b>	- 0.3	- 0.2
<b>Consumer Confidence (New England)</b>	0.3	0.3
<b>Interest Rate Spread (10-year less 3-month)</b>	0.4	0.4
<b>Bloomberg MA Stock Index</b>	0.8	0.8
<b>Initial Unemployment Claims</b>	0.2	0.1
<b>Construction Employment</b>	0.0	0.0
<b>Motor Vehicle Sales Taxes</b>	- 0.3	- 0.3
<b>TOTAL</b>	2.8	2.8

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

contributed to average-trend growth: withholding taxes, 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.

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

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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