



# MassBenchmarks

A program of the Economic and Public Policy Research Group at the UMass Donahue Institute in collaboration with the Federal Reserve Bank of Boston

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## Special Releases

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### Massachusetts Economy expands at a torrid pace in Q2, UMass journal reports

*Growth reflects strong gains in employment, earnings, and spending*

JULY 2018

Massachusetts real gross domestic product grew at a 7.3 percent annualized rate in the second quarter of 2018 according to the *MassBenchmarks* Current Economic Index, released today by *MassBenchmarks*, the journal of the Massachusetts economy published by the UMass Donahue Institute in collaboration with the Federal Reserve Bank of Boston. Nationally, real gross domestic product grew at a 4.1 percent annualized rate according to the U.S. Bureau of Economic Analysis (BEA). For the first quarter of this year, the BEA estimates that Massachusetts real gross domestic product grew at a 1.5 percent rate while U.S. GDP grew at a 2.2 percent rate.

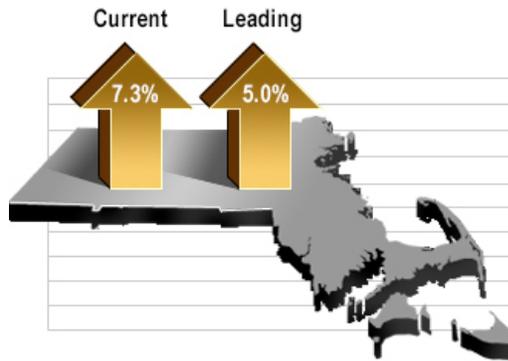
The Massachusetts economy accelerated sharply in the second quarter, bucking the expectation of slower growth due to low unemployment and demographic constraints. Data from the U.S. Bureau of Labor Statistics (BLS) survey of employers and recent trends in state tax revenues indicate that the recent surge in state economic growth reflects strong gains in employment, earnings, and consumer and business spending.

Payroll employment in Massachusetts in the second quarter expanded at a 2.9 percent pace, as compared to a 1.7 percent rate for the U.S. In contrast, in the first quarter of 2018, employment grew at a 0.9 percent annual rate in Massachusetts versus 1.7 percent for the U.S. Since the second quarter of last year, the number of jobs in Massachusetts has grown by 1.6 percent, the same rate of growth as the U.S.

Income and spending, as measured by state tax collections, expanded at a torrid pace in the second quarter. Wage and salary income in Massachusetts, as estimated from state withholding tax collections, grew at a 19.2 percent annualized rate in the second quarter, while *MassBenchmarks* estimates U.S. wage and salary income grew at a 3.7 percent rate during the same period (the BEA's estimate will be released July 31). In the first quarter of 2018, the BEA

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estimates that wage and salary income grew at a 6.2 percent rate in Massachusetts and a 5.8 percent rate nationally. Since the second quarter of 2017, wage and salary income has grown by 6.8 percent in Massachusetts and 4.8 percent in the U.S.

Spending in Massachusetts, as measured by regular sales tax receipts and motor vehicle sales taxes, expanded at a robust 6.7 percent rate in the second quarter, following a more modest growth rate of 3.4 percent in the first three months of the year. Since the second quarter of 2017, this spending measure is up 4.8 percent. The uptick in spending in the second quarter was led by a sharp increase in motor vehicle purchases.

The unemployment rate of Massachusetts residents remained at a near historical low of 3.5 percent in June, with no change since March. In June of 2017, the unemployment rate was 3.8 percent. For the U.S., the unemployment rate was 4.0 percent in June of this year, 4.1 percent in March, and 4.3 percent in June of last year. The state's lower unemployment rate reflects the higher educational attainment of its workforce. Both state and national unemployment rates are well below pre-recession levels.

The broader U-6 measure of unemployment in Massachusetts has changed little over the past year. The U-6 measure includes a count of the number of persons who are part-time for "economic reasons," meaning that they prefer full-time work. In June, the U-6 was 7.5 percent, about the same as June 2017, when it was 7.4 percent. The number of workers who are working part-time but want a full-time job stands at about 100,000, which is about 30,000 above the pre-recession level of 70,000 in 2007. The U.S. U-6 rate of unemployment in June was 7.8 percent, down from 8.5 percent a year earlier.

"Low unemployment rates and strong demand for labor and housing may finally be lifting wage rates," noted Alan Clayton-Matthews, *MassBenchmarks* Senior Contributing Editor and Associate Professor of Economics and Public Policy at Northeastern University, who compiles and analyzes the Current and Leading Indexes. "They are also leading to increases in the cost of living, particularly for housing," Clayton-Matthews added. While the overall consumer price index for the Boston area (All Urban Consumers CPI, BLS) rose 3.2 percent in the year ending in May, the housing component was up 4.5 percent and the rent component was up 5.6 percent during the same period.

The *MassBenchmarks* Leading Economic Index is predicting that the state economy will grow at a 5.3 percent rate in the third quarter and a 5.0 percent rate in the fourth quarter of this year. Since the statistical model used to calculate the Leading Index does not consider demographic projections of population and labor force growth, there is real reason to believe the Massachusetts economy will not be able to sustain this pace of growth, even for the remainder of 2018.

However, recent history suggests that it may well be possible to continue the rapid expansion, at least in the near-term. While overall Massachusetts job growth in the last 12 months (from June 2017 to June 2018) was 1.7 percent, employers in technology and knowledge-based sectors were able to expand their payrolls at a faster pace. For example, employment in the professional, scientific, and technical services sector grew 5.8 percent; in software, employment grew 3.2 percent, and construction added 7.3 percent to its job count during the same period.

It is likely that many of these new jobs were filled by workers who either migrated to the state or remained in the state after moving here to go to college. The incomes generated by these relatively well-paid jobs can be expected to boost demand for jobs in all sectors, many of them in more moderately-paid or lower-paid service roles. The capacity of Massachusetts to provide all of these new workers with adequate housing and transportation options is a major concern, and will continue to weigh heavily on the Commonwealth's ability to attract and retain the workforce it will need to sustain its economic expansion.

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