The outlook for the Massachusetts economy is strongly positive declares MassBenchmarks Editorial Board

Improving national economy and falling gas prices cause for optimism according to leading regional economists

There is considerable reason for optimism regarding the trajectory of the state economy. State gross product growth has kept pace with strong national growth for the past two quarters. State job growth has been steady, with software, information technology, and staffing services sectors doing well. The Commonwealth's labor force has grown consistently since June, as workers who were previously discouraged re-enter the labor market. And strikingly, Massachusetts has the fastest growing population not only in New England, but in all of the northeastern United States. This is in large part due to international immigration and a lower level of domestic net outmigration than has been experienced in recent recoveries.

The state also appears to be benefitting from a national economic expansion that is gaining traction. The national jobs report for October was especially strong, with over 300,000 jobs added, an increase in the average workweek, modestly rising wages, and upward revisions in job growth for August and September. Falling oil and gas prices are putting more money in the pockets of consumers, and lowering business costs. One board member estimated that the lower oil prices could add as much as half a percentage point to national economic growth this year, a considerable improvement. While falling gas prices will take some of the wind out of the sails of regions that rely heavily on domestic energy production, Massachusetts is not located in one of those regions.

While these signs are very encouraging, significant challenges remain. Electricity prices in Massachusetts are expected to rise steeply this winter largely as a result of the New England region's ongoing difficulties in accessing a sufficient supply of natural gas to power its electricity generators. Rising electricity prices can be expected to partially offset the beneficial effects of the drop in oil prices and will create significant financial challenges for energy intensive industrial users. Federal government expenditures, long an important funding source for a variety of private sector contractors and non-profit research institutions (universities and hospitals), will continue to be squeezed. And, absent action on the part of the incoming Governor and legislature, state infrastructure spending will be significantly constrained in coming years now that state voters have determined that the gas tax will not be indexed to inflation. While stagnant European growth and slowing Asian expansion may slow global trade, recent research suggests that the Commonwealth is less exposed to these developments as it continues to evolve towards an economy driven by high-end services, research & development (R&D) and technology intensive enterprises that serve domestic markets.

Housing production, especially single-family units, remains well below pre-Great Recession levels. A significant drop in household formation is part of the reason why, as forming a household is normally a precursor to purchasing a home. The fact that many young workers are not finding jobs that pay well enough to support a mortgage and are increasingly burdened by student loans, are two more reasons why housing production has yet to fully recover both here in Massachusetts and across the nation.
Despite these challenges, the Massachusetts economy continues to experience solid economic growth, particularly in the Greater Boston region, and the prospects for continued growth remain strong. After a weak first quarter of the year, the Massachusetts economy has rebounded strongly. While there continue to be serious concerns about the geographically and financially imbalanced nature of this recovery, the MassBenchmarks Editorial Board is as optimistic as it has been in some time and expects the state’s economic expansion to continue for the foreseeable future.

This summary reflects the discussion of the members of the Editorial Board of MassBenchmarks at its meeting on December 5, 2014. It was prepared by Executive Editor Robert Nakosteen and was reviewed and edited by the members of the Editorial Board. While discussion among the Board members was spirited and individual Board members hold a wide variety of views on current economic conditions, this summary reflects the consensus view of the Board regarding the current state of the Massachusetts economy.

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