Massachusetts Economy Continues its Strong Expansion Declares MassBenchmarks Editorial Board

Imbalanced growth, inadequate transportation infrastructure, and high energy prices, threaten future growth prospects, leading regional economists warn

In a number of important respects, the Massachusetts economy is experiencing its strongest expansion since the heady days of the late 1990s. As the Board anticipated, this year's severe winter weather had only a transitory, and ultimately minor, impact on economic conditions in the Bay State. Employment and the labor force are growing strongly, as documented by the household survey. The payroll survey shows consistent and strong growth in employment. And gross state product growth, as estimated by the MassBenchmarks Current Economic Index (CEI), continues to outpace that of the nation. Once again the state's knowledge-intensive sectors are the primary growth drivers for the Commonwealth.

Industrially, the expansion is being led by the dynamic Professional, Scientific, and Technical Services sector which includes architectural, engineering, and specialized design services; computer services; computer systems design, consulting services; research services; and other related services. Employment in software development is also growing strongly. These sectors rely heavily upon the Commonwealth's highly educated work force which remains in high demand as reflected by the fact that college educated workers continue to have the lowest unemployment rate among all socioeconomic groups in the state. While conditions for less well educated workers have improved, unemployment and underemployment rates in many communities remain troublingly high.

Economic growth continues to be disproportionately concentrated in the Greater Boston region and within the Route 495 belt. While there are notable exceptions to this pattern of imbalanced growth, including the cities of Lowell and Worcester, conditions in regions outside of the Greater Boston region are improving but their economic performance continues to lag.

Notwithstanding the solid performance of the Massachusetts economy, there are a number of short and long-term threats to growth that could serve to slow and in some cases derail the Commonwealth's expansion. Growth pressures in the immediate Greater Boston region are placing increased stress on the state's transportation infrastructure, which this past winter's severe weather revealed to be in serious need of attention and investment.

These same growth pressures, along with inadequate housing production, are fueling rapidly rising home prices throughout Eastern Massachusetts. While this is good news for incumbent homeowners, it puts upward pressure on the cost of living, making it more difficult for the Greater Boston region to attract the highly educated workers it needs to meet the needs of growing knowledge-intensive organizations. And the state's high electricity prices, which have risen in every corner of the state, are beginning to limit economic growth in regions that are sorely in need of more economic opportunities. In Berkshire, Franklin, and Hampshire counties new natural gas hookups have been suspended which is directly constraining business expansions in Western Massachusetts.

Additionally, the relatively slow growth of the global economy and considerable economic and geopolitical
uncertainty continue to weigh heavily on the economic outlook for the nation and the Commonwealth. Greece and Puerto Rico appear to be headed for sovereign debt defaults, with highly uncertain impacts for Europe and North America. Critically important trading partners in Asia, including China and Japan, continue to face serious economic challenges. And the Middle East and Eastern Europe remain politically volatile.

Going forward, while the Commonwealth’s leaders have little control over what happens internationally, it is well within their power to tackle the challenges presented by our aging infrastructure and imbalanced growth patterns. Towards this end, policies that improve our transportation systems, both within Greater Boston and beyond, and extend educational and economic opportunities to more people and regions that have yet to experience the full benefits of the current economic expansion, should be priorities going forward.

This summary reflects the discussion of the members of the Editorial Board of MassBenchmarks at its meeting on June 25, 2015. 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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