Massachusetts Outlook, 2016-2020

Highlights

- The state’s economic growth will be pulled by two forces in opposite directions. Constraining growth will be a slower increase in the availability of workers as the baby boomers retire. Boosting growth, at least in the short term, will be a federal fiscal stimulus.
- Payroll employment growth is expected to grow by 1.5 percent in 2016, 1.5 percent in 2017, 1.3 percent in 2018, 1.0 percent in 2019 and 0.3 percent in 2020, for an average of 1.1 percent over the forecast period.
- Sectors with the fastest rate of job growth will be construction; professional and business services; leisure and hospitality; and education and health services. Manufacturing employment is expected to decline at an annual average rate of 1.0 percent.
- Labor force growth is expected to decline over the forecast period, from 0.7 percent in 2016 to 0.3 percent in 2020, due to the aging of baby boomers.
- The unemployment rate will remain low, averaging 3.6 percent over the forecast period.
- Population growth is expected to average 0.5 percent over the forecast period.
- Wage and salary income and total personal income are expected to grow at health rates over the forecast period, with annual average rates of growth of 4.8 percent and 5.2 percent respectively.
- The Trump administration’s expected fiscal stimulus should increase economic activity in Massachusetts relative to what it would have been in the short term, but the expansionary effects are likely to wane in the last two years of the forecast.
- The future of Obamacare and the possible loss of federal support for the state’s public health care programs is a big concern for state policy makers and the state budget.

Over the next few years, the state’s economic growth will be pulled by two forces in opposite directions. Constraining growth will be a slower increase in the availability of workers as the baby boomers retire. Boosting growth, at least in the short term, will be a federal fiscal stimulus as personal and corporate tax rates are lowered and government spending is increased. On balance, this will mean continued growth in jobs, incomes, and output, although at slower rates than typical at this stage of the business cycle. Growth will be constrained because the economy is already at or near full-capacity, and because future growth potential is constrained by the demographics of an aging population.

Uncertainties continue to affect the reliability of the forecast, but they are more balanced than in earlier years. There is still the downside risk of a weaker global economy due to a further breakup of the European Union and slower growth in China. However, there are upside risks as well, related to the expected fiscal stimulus in the early Trump administration. Although the details of the Trump administration’s plans, their implementation, and the reaction of businesses and the private sector to them are unknown, there is a consensus that they are likely to have a positive impact on near-term growth of economic activity.
Recent Massachusetts Economic Performance

Massachusetts, as well as the nation, is nearing full employment, and may be beginning to experience growth constraints as the pool of available workers becomes scarce. Unemployment rates and labor force participation rates indicate how tight or slack the labor market is, and the potential for new hires. The statewide unemployment rate in November was 2.9 percent, the lowest it has been since the peak of the “dot.com” expansion in 2000, and much lower than the pre-recession 4.6 percent rate in December 2007. The U.S. unemployment rate in November was 4.6 percent. The broader U-6 unemployment rate, that includes as unemployed those working part-time but who want full-time work, and those who are “marginally attached” to the labor force – that is, they want a job but haven’t looked in the past 4 weeks – was 7.7 percent in Massachusetts in November, or just 0.6 percentage points higher than its prerecession low of 7.1 percent in September of 2007. The U.S. U-6 in November was 9.3 percent.

Except for young adults under 25 years of age, labor force participation rates are very near or above pre-recession levels. For the “prime-age” population, those who are 25 to 54 years of age, the labor force participation rate was 83.0 percent in November, just a bit lower than the 83.5 percent in December 2007. For older persons, 55 years or older, the participation rate in November was 43.2 percent, about three percentage points higher than it level in December 2007 of 40.3 percent. For people under 25, the participation rate in November was 55.3 percent, about four percentage points lower than the level of 59.4 percent in December 2007.

The upshot is that there may be some slack in the state’s labor market, but not much; and less than in most other states in the nation. More labor can be had if the demand is there and the match for the needed and offered skills is adequate, but the supply is limited. Employers may need to increase their wage and salary offers to get the workers they want.

Employment growth in 2016 slowed somewhat from 2015 in both the state and the nation. In Massachusetts payroll employment growth declined from 2.0 percent in 2015 to 1.5 percent in 2016; in the U.S., it slowed from 2.1 percent in 2015 to 1.7 percent in 2016.

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1 The U.S. U-6 rate is published by the U.S. Bureau of Labor Statistics. The Massachusetts rate is calculated from the Current Population Survey, seasonally adjusted, and smoothed to make it comparable to the U.S. rate.
2 The average participation rate in the 12-month period ending in November was 83.0 percent. To smooth out monthly sampling fluctuations, these participation rates are calculated on a 12-month moving average basis. All participation rates in this section are calculated in that manner. For brevity, the text simply refers to the ending month of the 12-month period in question. The year 2007 serves as the pre-recession base for comparison.
3 The 2016 growth for Massachusetts is a forecast since the BLS had not released the December estimate yet. However, it does take into account the recently released second quarter results of the Quarterly Census of Employment and Wages. This information was used to rebenchmark the CES-790 series. The rebenchmarked series showed stronger growth in 2015 than the current CES-790 series and slower growth in the first half of 2016 than the current CES-790 series.
The Outlook for Massachusetts, 2016 to 2020

When the economy is operating at near capacity, its growth is constrained by the growth in inputs to production, especially by labor. In the short run, labor can be used more intensively by longer hours or by “moonlighting”, but ultimately its potential is constrained by population growth. The outlook is for population to grow at about the same rate as in recent years, averaging 0.5 percent per year for the forecast period, just shy of the 0.6 percent average of the prior five years. The marginally slower rate is primarily due to a declining rate of natural increase, as the proportion of the population 65 or more years old is increasing, pulling up the population average death rate. This effect is offset by a healthy increase due to positive net immigration of about 25,000 per year. Between 2011 and 2016, the Census Bureau estimates for annual net immigration have fluctuated between 15,000 and 30,000. With a low unemployment rate relative to the nation and an attractive job market for millennials, the state and the Boston metropolitan area in particular should be able to attract workers to maintain employment growth.

Labor force growth is expected to slow over the forecast period as baby boomers age into cohorts with lower participation rates. In 2016, the labor force is projected to have grown by 0.7 percent over 2015, but by 2020, labor force growth is expected to slow to 0.3 percent. This is the primary reason why rates of job growth are declining in the last several years of the forecast period.

Annual average payroll employment is expected to have grown 1.5 percent in 2016, and that pace is projected to continue into 2017. Thereafter, demographic constraints will impinge on growth, with the rate of job increase decelerating to 1.3 percent in 2018, 1.0 percent in 2019, and only 0.3 percent in 2020. But for the expected fiscal stimulus, job growth in 2017 through 2019 would have been even slower. By 2020, not only will a lack of supply of workers constrain job growth, but also the impact of the fiscal stimulus will be waning as capacity constraints and higher interest rates slow economic growth.

Over the forecast period, payroll employment is forecast to grow an average of 1.1 percent per year. By sector, employment growth is expected to be fastest in construction, with an annual average growth of 3.0 percent, followed by professional and business services; leisure and hospitality; and education and health services, with annual average rates of growth of 2.0, 1.8, and 1.5 percent respectively. Financial activities is expected to grow by 0.8 percent per year, near the economy-wide average; while trade, transportation, and utilities; other services; information; and government are projected to grow more
slowly, at average annual rates of 0.6, 0.6, 0.4 and 0.3 percent respectively. Manufacturing employment is forecast to contract at an average annual rate of 1.0 percent over the forecast period.

Unemployment rates are as low as they can go. They are expected to remain at a low rate of 3.4 percent for the next few years, before rising slightly to 3.7 percent as the impact of the fiscal stimulus wanes.

Tight labor markets are good for workers. Consequently, wage and salary income is expected to rise faster than employment and inflation. Growth is expected to exceed 5 percent annually between 2017 and 2019, and to fall to 4.2 percent in 2020, averaging 4.8 percent for the forecast period. An economy growing at full capacity is also good for non-wage income. Total income, including wage and non-wage income, is expected to grow an average of 5.2 percent over the forecast period.

Overall, the Massachusetts economy is expected to grow slightly slower than the nation’s during the forecast period. Per Moody’s Analytics – which informed the national outlook for the Massachusetts forecast – U.S. payroll employment is expected to average 1.3 percent per year versus 1.1 percent for Massachusetts; while U.S. GDP growth is expected to average 2.2 percent per year versus 2.0 percent for Massachusetts. The slower growth for the state is primarily due to tighter conditions in the labor market that will constrain growth more for Massachusetts.

The Impact of the Trump Administration on Massachusetts

The economic impact of the Trump Administration on Massachusetts will, for the most part, mirror the impacts that are expected for the nation’s economy.

The fiscal stimulus is expected to entail large tax cuts and spending increases. Moody’s Analytics estimates these to be on the order of $1 trillion in tax cuts and $500 billion in spending increases over the next ten years. Approximately two-thirds of the tax cuts will be for personal income taxes, and one-third for corporations. Both will favor high-income households.

One possible change in corporate taxation is a territorial tax system that will encourage businesses that export to locate in the U.S. Another possible provision would provide a one-time incentive to repatriate foreign earnings. Taken together, both provisions would make it possible for more domestic investment for plant, equipment, and research and development. Since a significant proportion of the state’s output supports investment demand for technology equipment, consulting, product development, and
scientific research and development, these changes could boost activity in those sectors, including medical science, information technology, and consulting.

The expectation is that a large portion of the increase in spending will be military-related, which should increase demand for the region’s defense sector.

There is a lot of concern and uncertainty over changes to Obamacare (the Affordability Care Act). These changes could not only affect the welfare of many health care recipients; they could also impose difficult choices for state policy makers and the state budget. The ACA provided large amounts of federal aid for Medicaid expansion and subsidies for the state’s Health Connector. These were expected to total $29 billion over the next five years. If this support diminishes or disappears, to what extent would or could the state step in to maintain existing benefits?

Federal support for medical science research from the NIH may also be in jeopardy. Although the recent 21st Century Cures Act, which provides $4.8 billion in new money for the NIH should help, the priorities of the new administration and the Republican-controlled Congress regarding not protecting NIH funding from sequestration requirements could be harmful for the medical science research institutions in the state.

Higher interest rates brought on by higher expectations of inflation and larger federal government deficits are likely to continue to strengthen the dollar versus the euro and the yen, making the nation and the state less competitive in world trade markets. This effect could be temporary and reverse itself as economic conditions improve in the rest of the world, allowing foreign central banks to raise interest rates.

A more worrisome impact on the Massachusetts economy is the future of immigration policy. Growth in the state’s labor force relies on strong net international migration. Policies that limit or discourage international migration could diminish the state’s economic capacity to expand, as well as hit the higher-education sector. Foreign students from all regions of the world, including the Middle East, come to the region’s colleges and universities, providing significant export and visitor demand to the state.

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