
EXCERPTS FROM THE BOARD

The story told within the pages of this journal for the past few quarters continues to be conveyed by the *MassBenchmarks* editorial board. Gross state product is now above the level it reached at the peak of the expansion, while employment growth continues to lag. Compared to the peak of the expansion, 207,000 jobs were lost in the recession. Of this lost employment, only 36,000 jobs have been gained back. Making the picture a bit bleak is the fact that the rate of growth in gross state product now seems to be slowing, from an annual rate of more than 4 percent in 2004 to a current annual rate of 2.5 percent. While the economy is clearly headed in the right direction, it is not going there very quickly and its pace seems to be slowing.

The divergence between what until, at least recently, had been robust growth in gross state product and anemic growth in employment is perplexing. Certainly, the pattern implies solid increases in labor productivity in Massachusetts. The state's productivity, which has long been increasing at rates above the national rate, has seen its rate of growth accelerate recently. These productivity gains may be attributable to the continued salutary effects of massive business investments made during the 1990s. This means, of course, that the state economy can produce considerably more product while keeping a lid on employment growth, or that demand is not growing fast enough to absorb the increased capacity.

Other reasons — some not directly related to the business cycle — may explain the state's tepid employment growth. The recent wave of consolidations and acquisitions, most dramatically in the banking industry, has led to permanent (rather than cyclical) job losses in the state. The information technology industry, which fueled much of the growth in the 1990s, may have moved into a new phase of its life cycle, one not necessarily leading to cyclical job growth. Off-shoring of jobs is occurring in a number of sectors in the state economy: information technology, manufacturing, and services, including professional services. The high cost of living in the state, which makes labor a relatively high-cost resource, also slows new hiring.

Attendant with the slow job growth are some changes in the Massachusetts labor market. Net out-migration has become larger in the past few years. It is well established that out-migrants are younger and have higher-than-average education levels. In addition, labor force participation has been trending downward for the past couple of years. Lower labor force participation is the primary reason that the state's unemployment rate has been low and falling recently. Both of these labor force developments arise out of the slack labor market conditions that continue to afflict the state.

Ironically, even in the face of slow job growth, spot shortages of labor are being seen in some regions and sectors. The financial services, health care, and retail trade sectors all report not being able to fill some of their job openings. These labor shortages are not widespread and do not appear to be accompanied by upward pressure in wages.

The near-term future may include a slowing of the national rate of economic growth, perhaps later this year or into 2007. If it occurs, this slowing could slow the Massachusetts economy even further.

Prepared by Executive Editor Robert Nakosteen