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KEYNOTE:

The State of the State Economy

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Hogan Conference Center
College of the Holy Cross, Worcester, MA

September 15, 2022

EMERGING ISSUES FORUM

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The State of the State Economy

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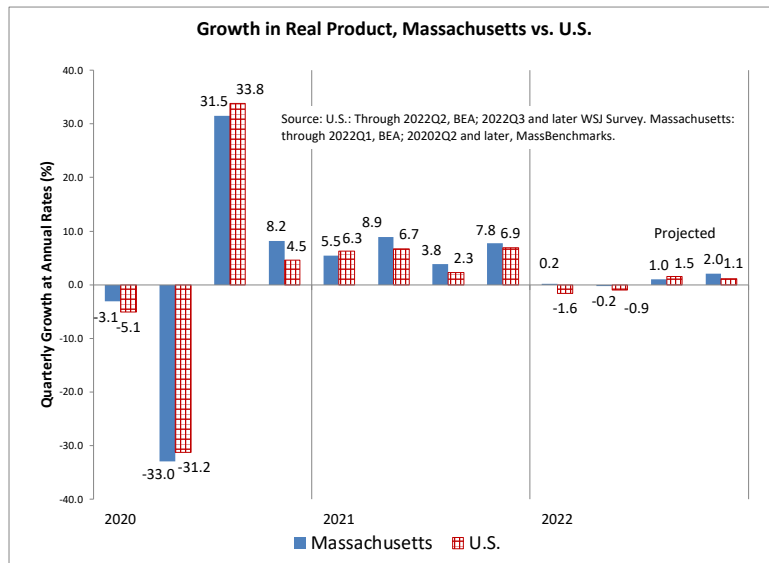
September 15, 2022

Holy Cross College, Worcester, MA

*The following reflects my personal and professional assessment of the available evidence.
It does not necessarily represent the views of my employer.*

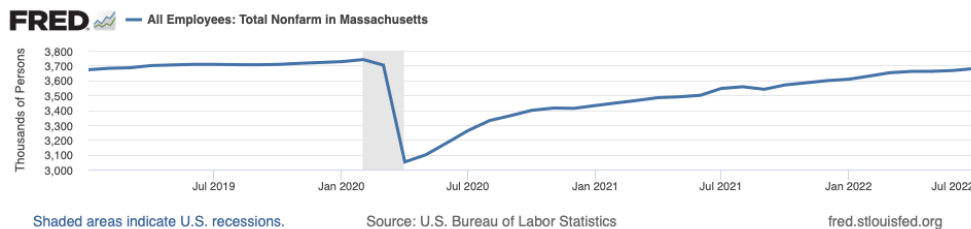


Some serious headwinds have significantly slowed economic growth in 2022



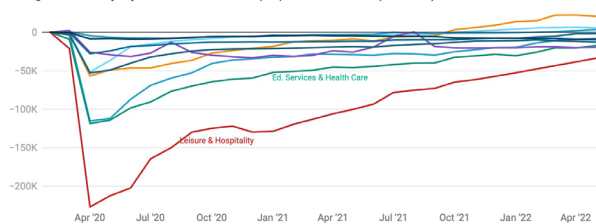
It has been an uneven recovery

Since the employment trough in April 2020 through July 2022, Massachusetts has gained over 629,000 jobs (or 91% of those lost during the pandemic)



Service jobs have been hardest hit and their rebound has been slow.

Change in seasonally adjusted labor force from a pre-pandemic baseline (Feb. 2020). Massachusetts.



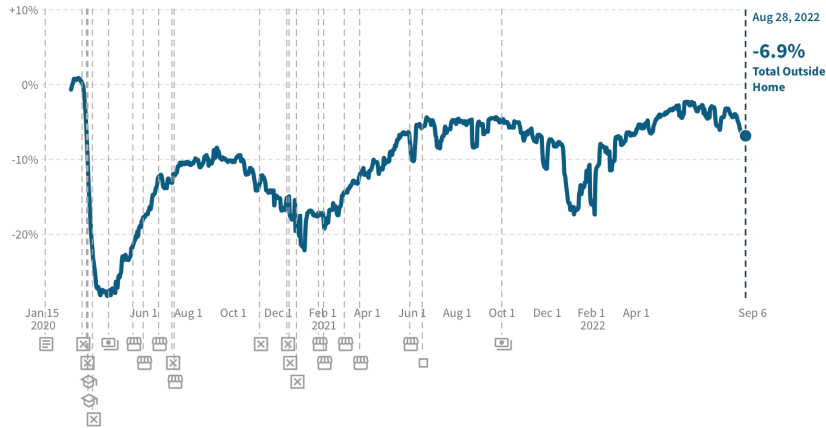
NOTES:



Main Street businesses that require face to face interactions continue to cope with reduced demand

In **Massachusetts**, as of August 28, 2022, total time spent away from home decreased by **6.9%** compared to January 2020.

[DOWNLOAD CHART](#)



data source: Google COVID-19 Community Mobility Reports

Source: <https://tracktherecovery.org>



Labor force participation remains below pre-pandemic levels



Shaded areas indicate U.S. recessions.

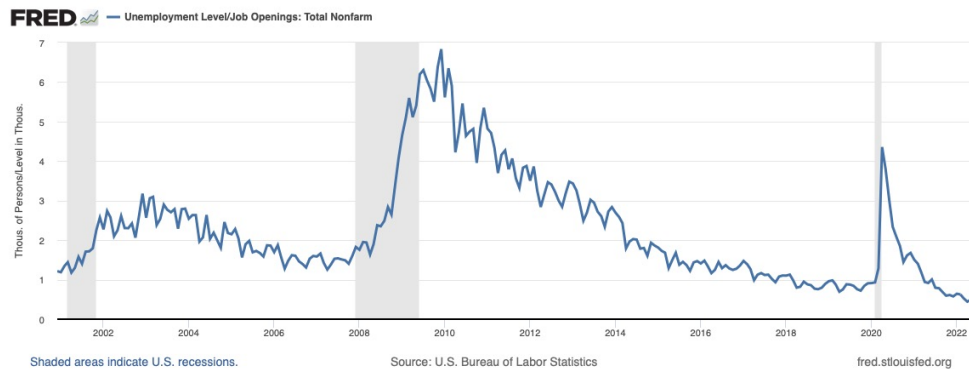
Source: U.S. Bureau of Labor Statistics

fred.stlouisfed.org

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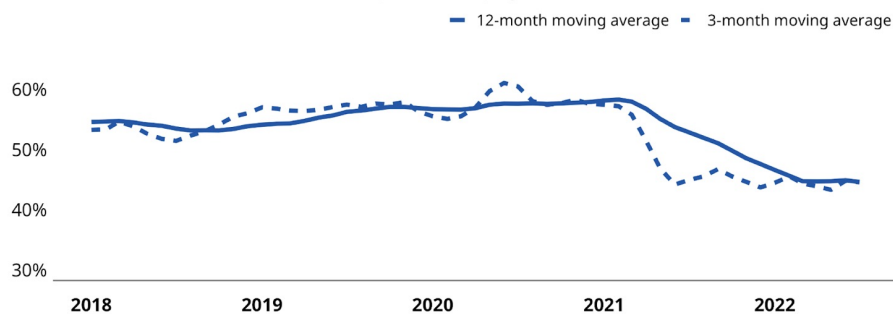
In July there were roughly 52 unemployed workers for every 100 job openings



Wage growth has been widespread,
but in many cases is not keeping pace with inflation

About 46% of workers are getting inflation-adjusted raises

% of workers whose wages grew faster than inflation over the year,
Jan 2018 - July 2022



Source: Current Population Survey microdata via CADRE @ Kansas City Fed.
Note: Change is calculated on year-over-year basis

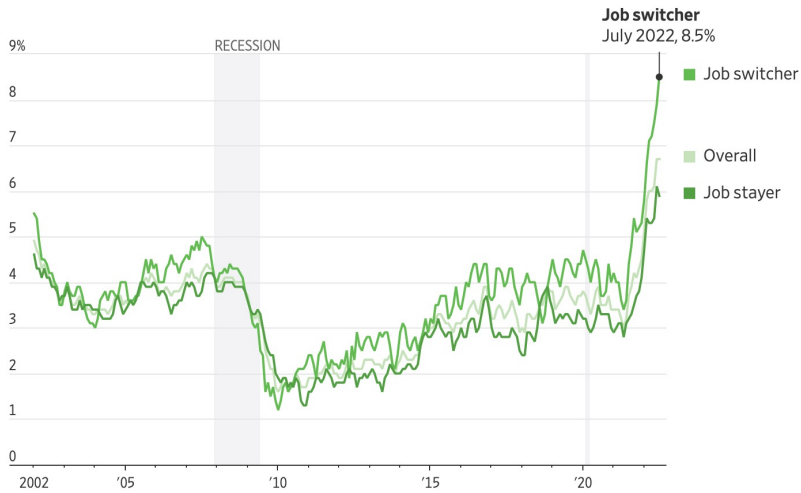


NOTES:



Wages are rising fastest for job switchers...

Monthly median wage growth for job switchers

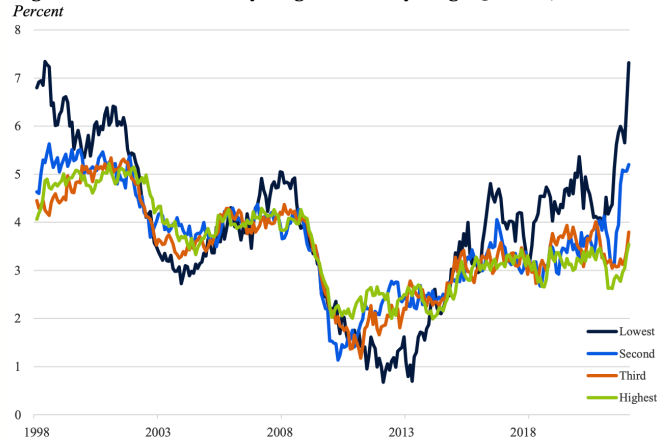


Note: 3-month moving averages of median hourly wage growth
Source: Atlanta Fed



... and lower wage workers

Figure 2-32. Median Hourly Wage Growth by Wage Quantile, 1998–21



Sources: CPS; CEA calculations.
Note: Values are Kalman smoothed monthly values.

Source: Council of Economic Advisors

NOTES:



Incomes are not keeping up with living expenses for many of our neighbors

Living Wage Calculation for Massachusetts

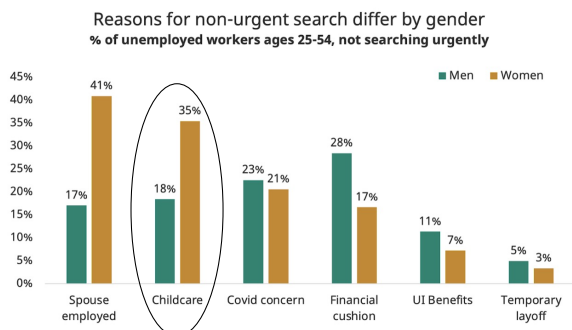
	1 ADULT				2 ADULTS (1 WORKING)			
	0 Children	1 Child	2 Children	3 Children	0 Children	1 Child	2 Children	3 Children
Living Wage	\$21.88	\$44.23	\$57.19	\$76.45	\$31.29	\$37.91	\$43.77	\$48.04
Poverty Wage	\$6.19	\$8.38	\$10.56	\$12.74	\$8.38	\$10.56	\$12.74	\$14.92
Minimum Wage	\$14.25	\$14.25	\$14.25	\$14.25	\$14.25	\$14.25	\$14.25	\$14.25

Source: MIT Living Wage Calculator



Cost of living challenges have exacerbated the labor supply crunch

Unemployed women seeking jobs aren't searching as urgently as men



Source: Indeed Hiring Lab Job Search Survey. Data from July 2021 to February 2022. Respondents were able to choose multiple reasons.



Annual cost in Massachusetts

College: \$12,778

Housing: \$14,419

4-year-old care: \$15,095

Infant care: \$20,913

Sources: Economic Policy Institute, Indeed

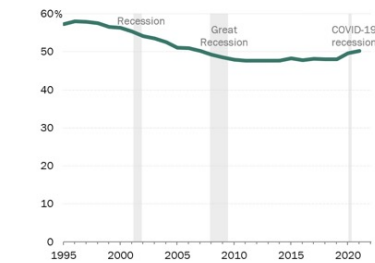
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The aging of the workforce helps to explain the labor supply crunch

Unlike in other recent recessions, the pandemic has increased retirement among older adults

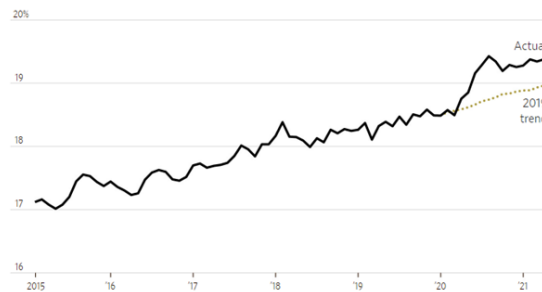
% of U.S. adults ages 55 and older who are retired



Note: "Retired" refers to those not in the labor force due to retirement. The COVID-19 recession began February 2020 and ended April 2020.
Source: Pew Research Center analysis of July, August and September Current Population Survey monthly files (IPUMS).

PEW RESEARCH CENTER

Share of U.S. population retired



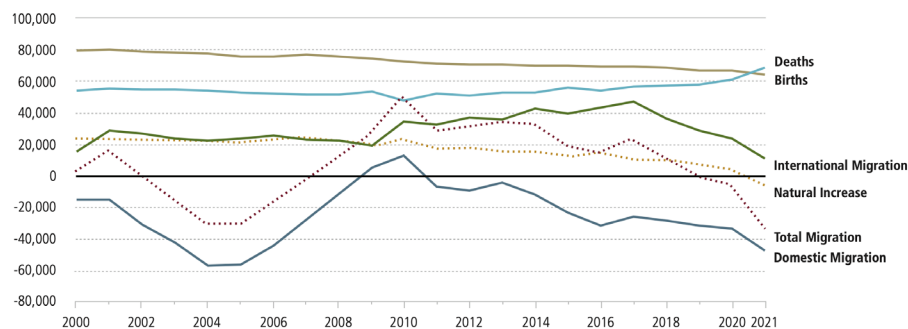
Source: IPUMS-CPS, University of Minnesota via Federal Reserve Bank of Dallas

Source: Pew Research Center



State demographic trends are not encouraging

■ Figure 7. Massachusetts Estimated Components of Population Change, 2000 – 2021



■ Source: U.S. Census Bureau Population Division, ST-2000-7, CO-EST2020-ALLDATA, and NST-EST-2018-ALLDATA; UMDI analysis

Source: MassBenchmarks, UMass Donahue Institute

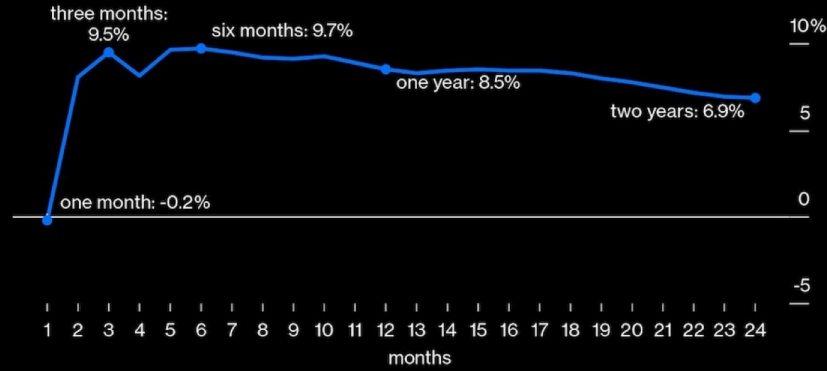
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Inflation has reached a 40-year high

What's the Inflation Rate?

Annualized rate of change in US consumer price index over different time periods (as of July 2022)



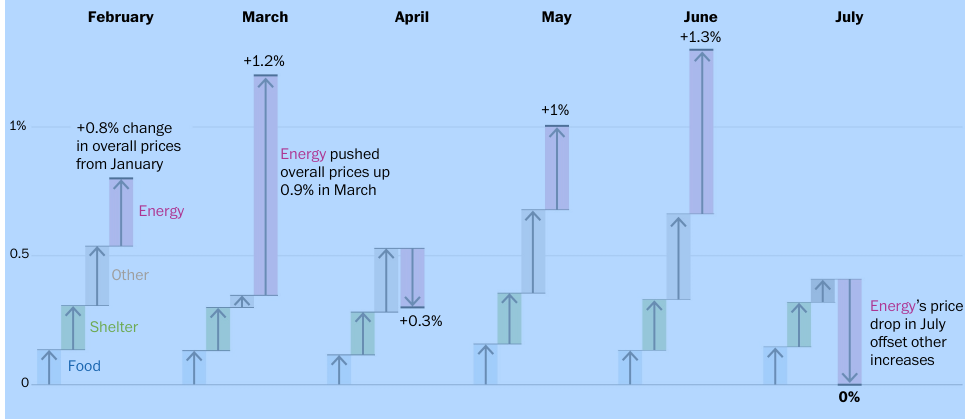
Source: US Bureau of Labor Statistics

BloombergOpinion



Supply constraints have fueled a rapid rise in inflation

Monthly change in overall consumer prices

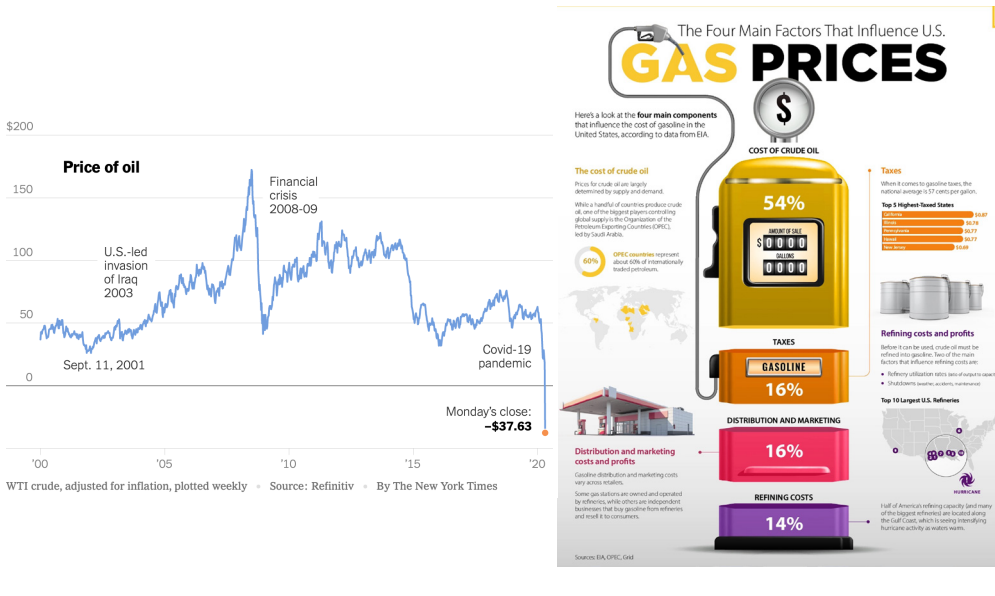


Source: Bureau of Labor Statistics, Washington Post

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Gasoline prices have been steadily declining of late



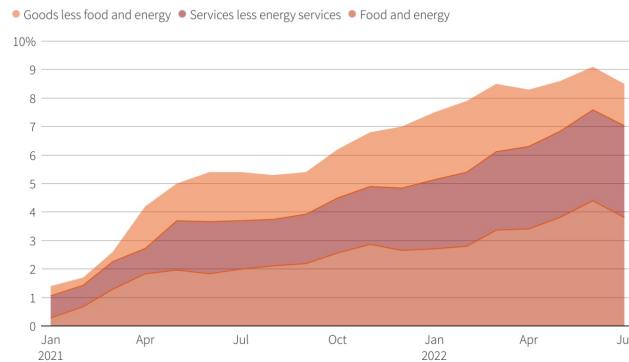
Interest rate hikes can be expected to continue

"Reducing inflation is likely to require a sustained period of below-trend growth. While higher interest rates, slower growth, and softer labor market conditions will bring down inflation, they will also bring some pain to households and businesses. These are the unfortunate costs of reducing inflation. But a failure to restore price stability would mean far greater pain."

-- Jay Powell,
Chair of the Federal
Reserve Board

As goods inflation eases, services step in

Consumers were expected to shift spending away from goods to in-person services as the coronavirus eased, and they have. But while goods prices are falling, service inflation has picked up. Falling energy prices helped ease headline inflation in July.

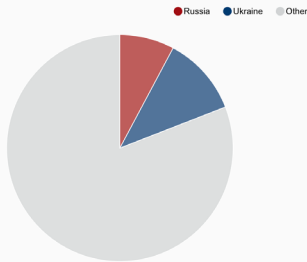


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The ongoing war in Ukraine is disrupting global food and energy supplies and fueling inflation

Figure 1. Russian and Ukrainian shares in the global cereals trade (wheat, corn, and coarse grains)



Source: USDA estimates April 2022

BROOKINGS

The share of natural gas imports by the European Union from Russia.



Source: Eurostat By Karl Russell



Engineering a “soft landing” is going to be very tricky

A soft landing is really just getting back to 2 percent inflation while keeping the labor market strong. And it's quite challenging to accomplish that right now. Nonetheless, we think there are pathways for us to get there. -- Jerome Powell, Chair, Federal Reserve Board

The painful fact, though, is that historically when we've had inflation above 4 percent and we've had unemployment below 4 percent, essentially always, since World War II, that's been followed by a recession within the next two years. -- Larry Summers



Steven Day/AP

NOTES:



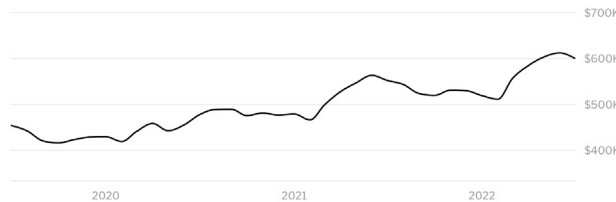
Rising interest rates have begun to cool the red-hot housing market

Median Sale Price (All Home Types)

\$600,300

+8.7% YoY | Jul 2022

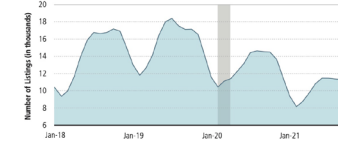
1y 3y 5y



Source: Redfin, MassBenchmarks

Figure 6. Inventory/Sales All Homes Boston Metro Area

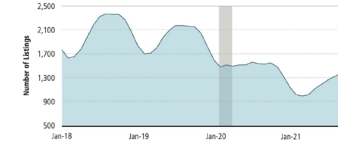
Jan 2018 – Oct 2021



Source: Inventory/Sales data from Zillow's Real Estate Inventory. Note: The trend of inventory/sales of all homes in Boston, MA, metro area from January 2018 to October 2021. Vertical shading indicates a recession (recession data come from Federal Reserve Economic Data).

Figure 7. Inventory/Sales All Homes Springfield Metro Area

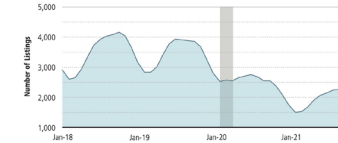
Jan 2018 – Oct 2021



Source: Inventory/Sales data from Zillow's Real Estate Inventory. Note: The trend of inventory/sales of all homes in Springfield, MA, metro area from January 2018 to October 2021. Vertical shading indicates a recession (recession data come from Federal Reserve Economic Data).

Figure 8. Inventory/Sales All Homes Worcester Metro Area

Jan 2018 – Oct 2021

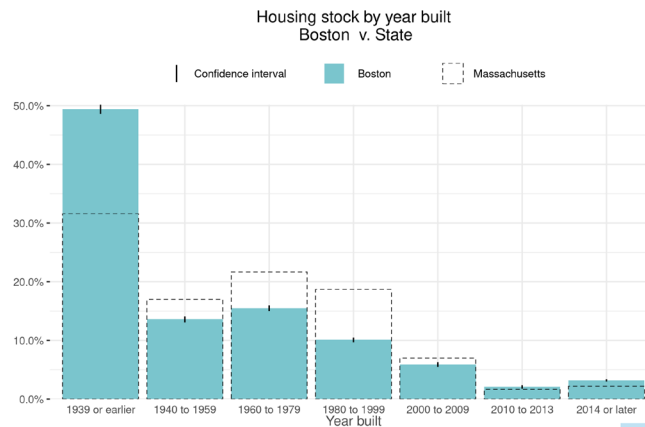


Source: Inventory/Sales data from Zillow's Real Estate Inventory. Note: The trend of inventory/sales of all homes in Worcester, MA, metro area from January 2018 to October 2021. Vertical shading indicates a recession (recession data come from Federal Reserve Economic Data).



If you don't build it, they can't come

Inadequate housing production exacerbates serious affordability problems



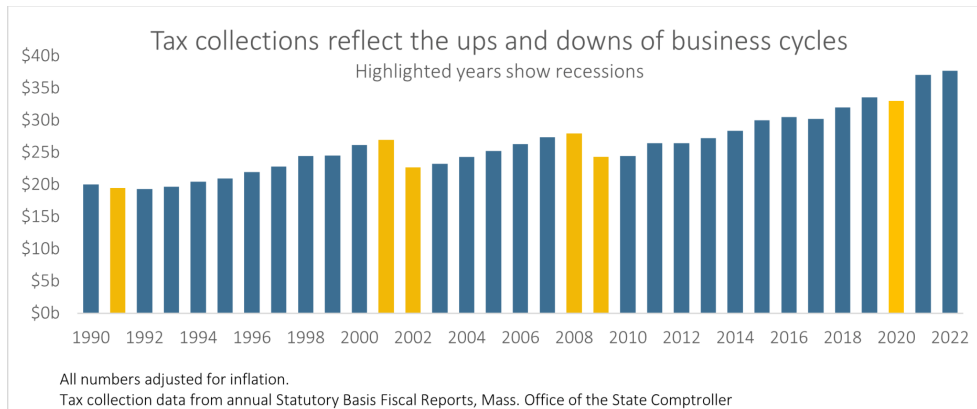
Source: U.S. Census Bureau American Community Survey, 2016-2020 5-year estimates, Table S2504: Physical Housing Characteristics



NOTES:



The Commonwealth is in an extremely strong financial position



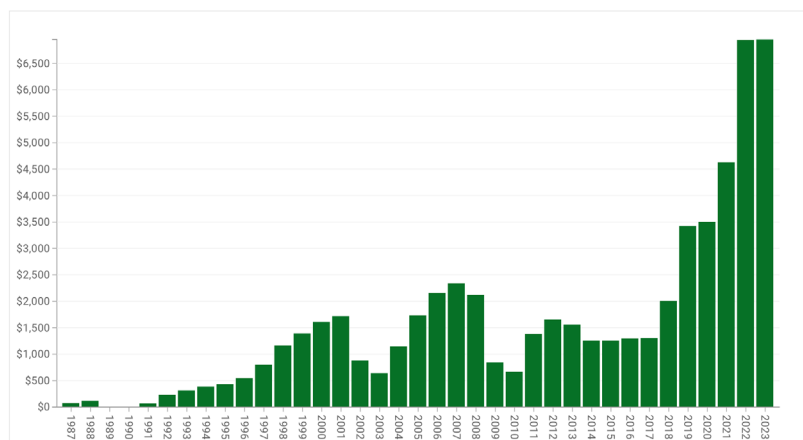
Source: MassBudget



The state's "rainy day fund" is at a record high

Fiscal Year-End and Current Stabilization Fund Balances (In \$ Millions)

(FY2023 Balance is as of August 22, 2022)



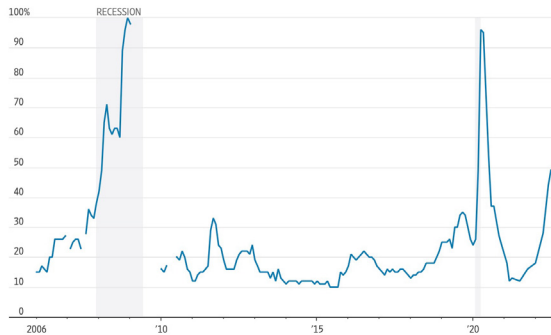
Office of the Comptroller, Commonwealth of Massachusetts

NOTES:



Private forecasters are increasingly less sanguine about the economic outlook

Probability the U.S. is in a recession in next 12 months including today



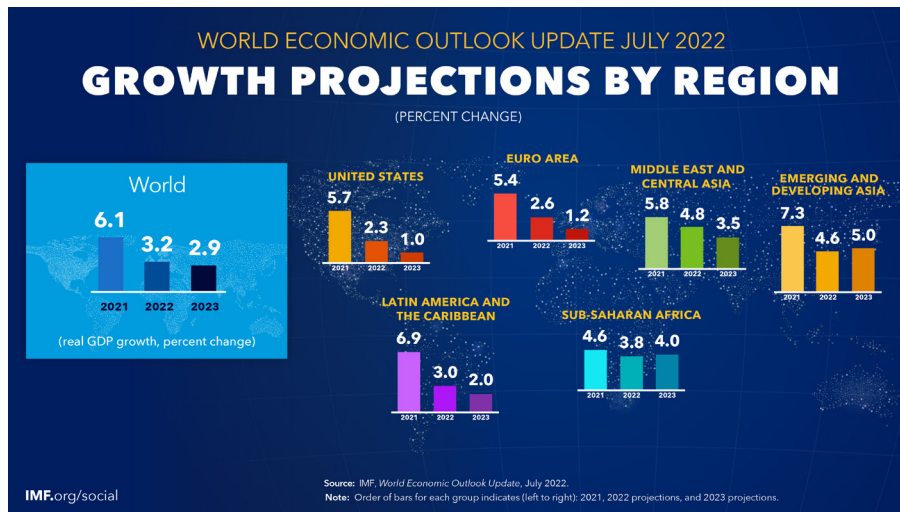
Note: Gaps indicate question not asked or data unavailable.
Source: Wall Street Journal surveys of economists

The outlook for the rest of the year is for slow growth, but the level of uncertainty remains high. MassBenchmarks estimates the annualized rate of real GDP growth for Massachusetts will be 1.0 percent in the third quarter and 2.0 percent in the fourth quarter... and most analysts see risks to growth as skewed towards the downside.

-- MassBenchmarks, July 2022



The global outlook is for moderating growth, but risks to the downside abound



NOTES:

EMERGING ISSUES FORUM



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