

What's Going on in the Economy?

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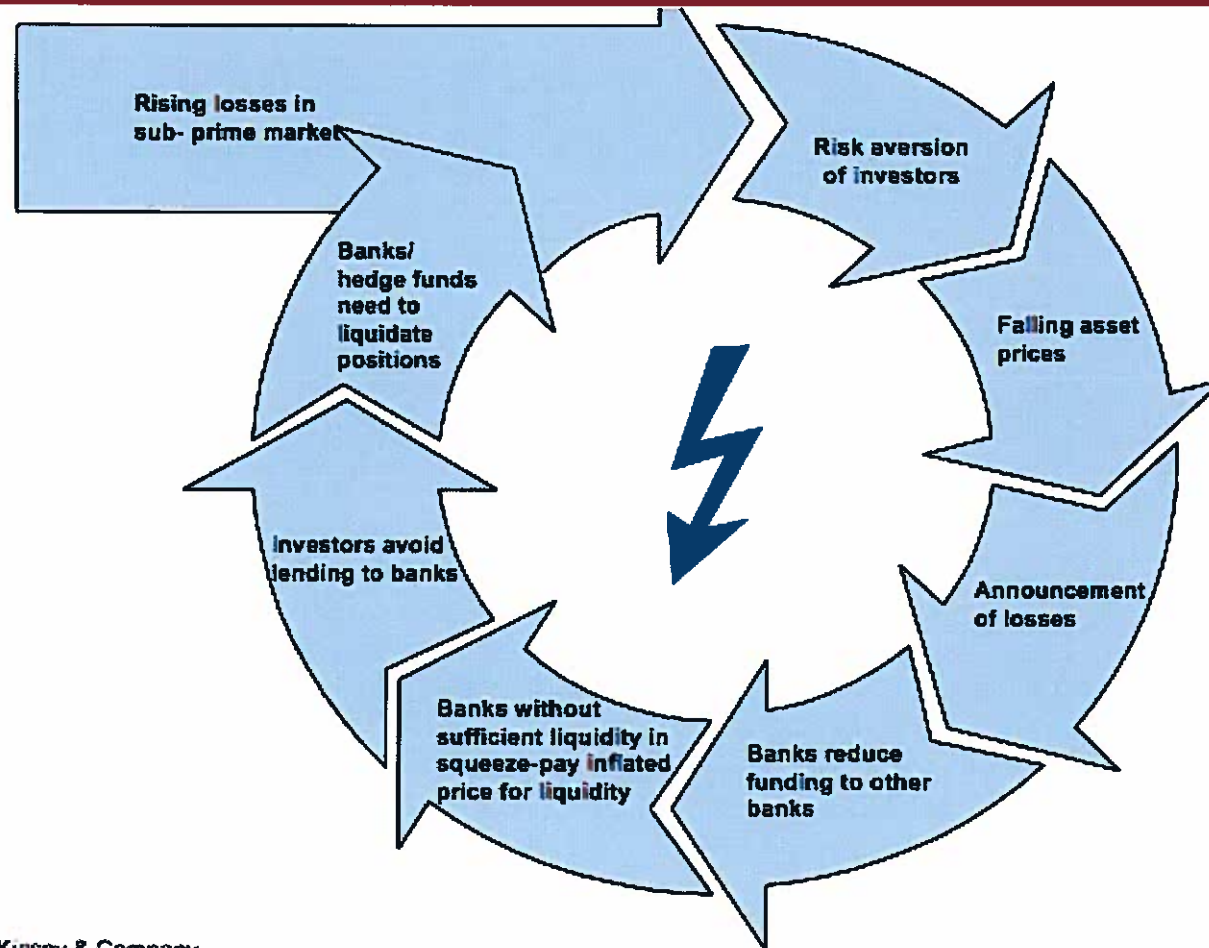
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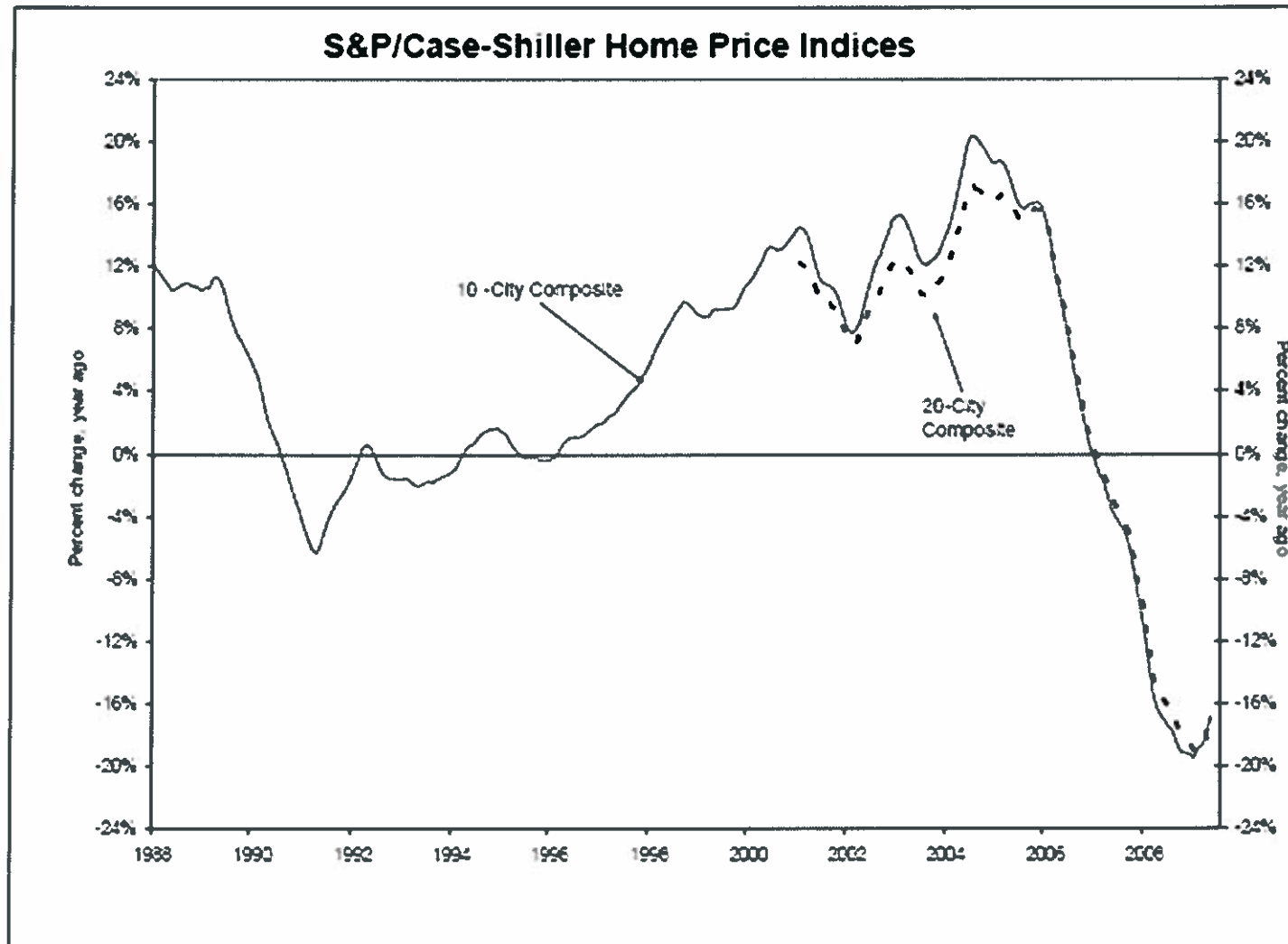
September 21, 2009



While conditions are much better than they were a year ago, our credit markets are still recovering



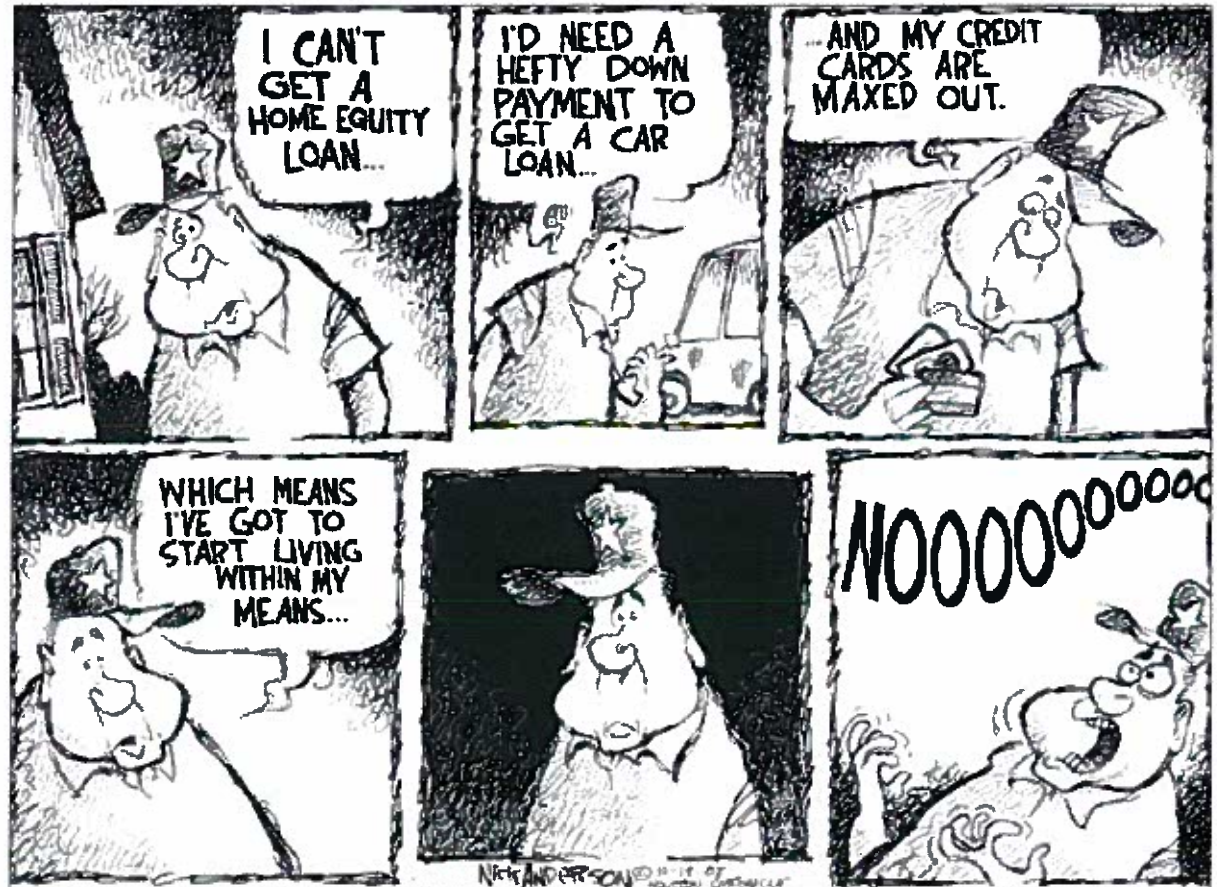
The worst may finally be over in the national housing market



Source: Standard & Poor's and Fiserv

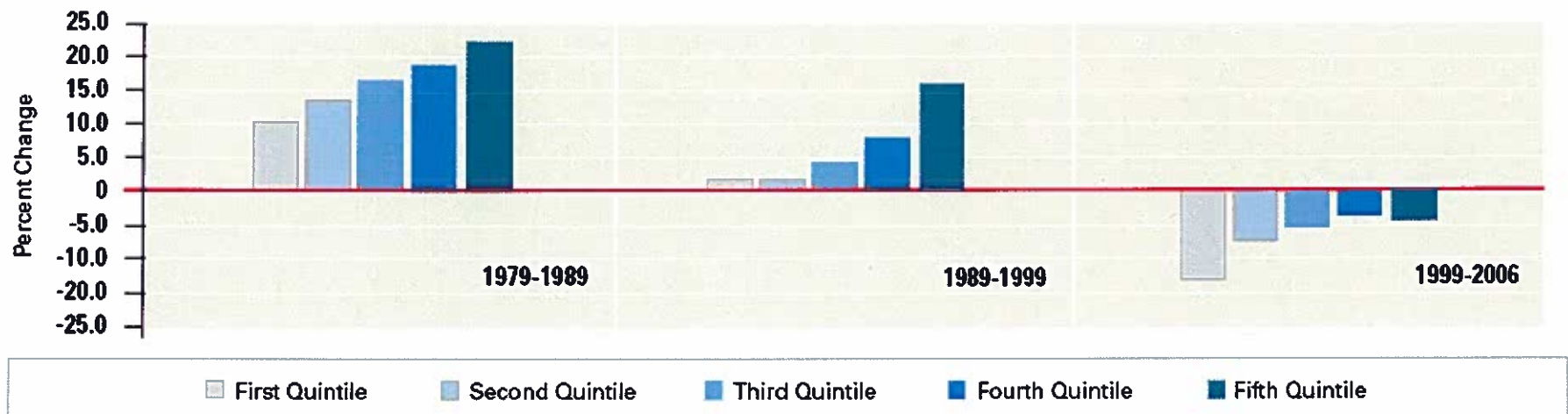
Main Street (aka households and small businesses) has been really struggling to make ends meet....

- In the spring of 2008, UMass Donahue Institute/CHAPA Housing Poll, nearly half of Massachusetts residents (48%) expressed concerned that they or an immediate family member will lose their job in the next 3 months.
- Between July, 2008 and July, 2009, over 109,000 jobs in Massachusetts were lost, 102,500 of which were lost between September, 2008 and April, 2009



...as they contend with stagnant or declining income...

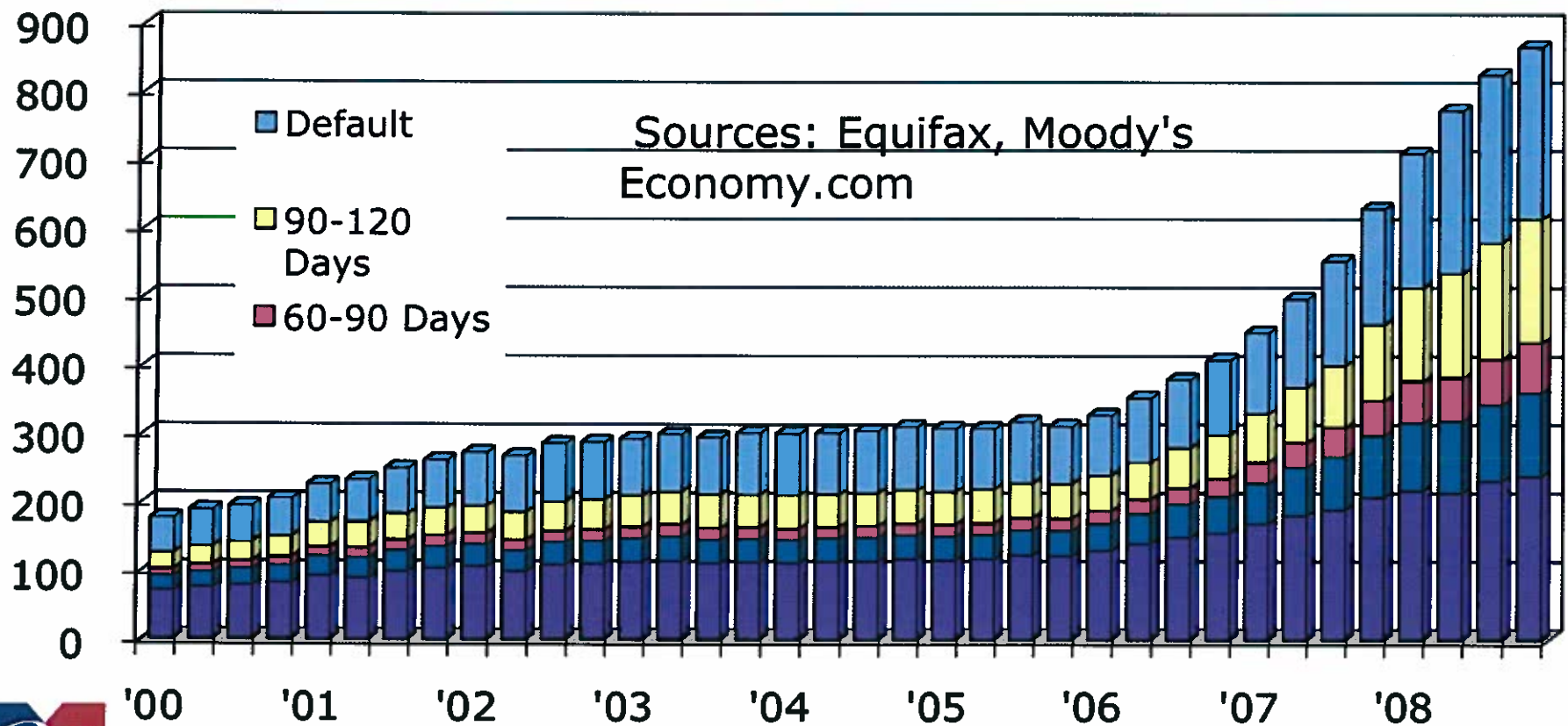
Percent Change Massachusetts Family Median Income — 1979-1989, 1989-1999, 1999-2006 (\$2006)



Source: U.S. Bureau of the Census, PUMS

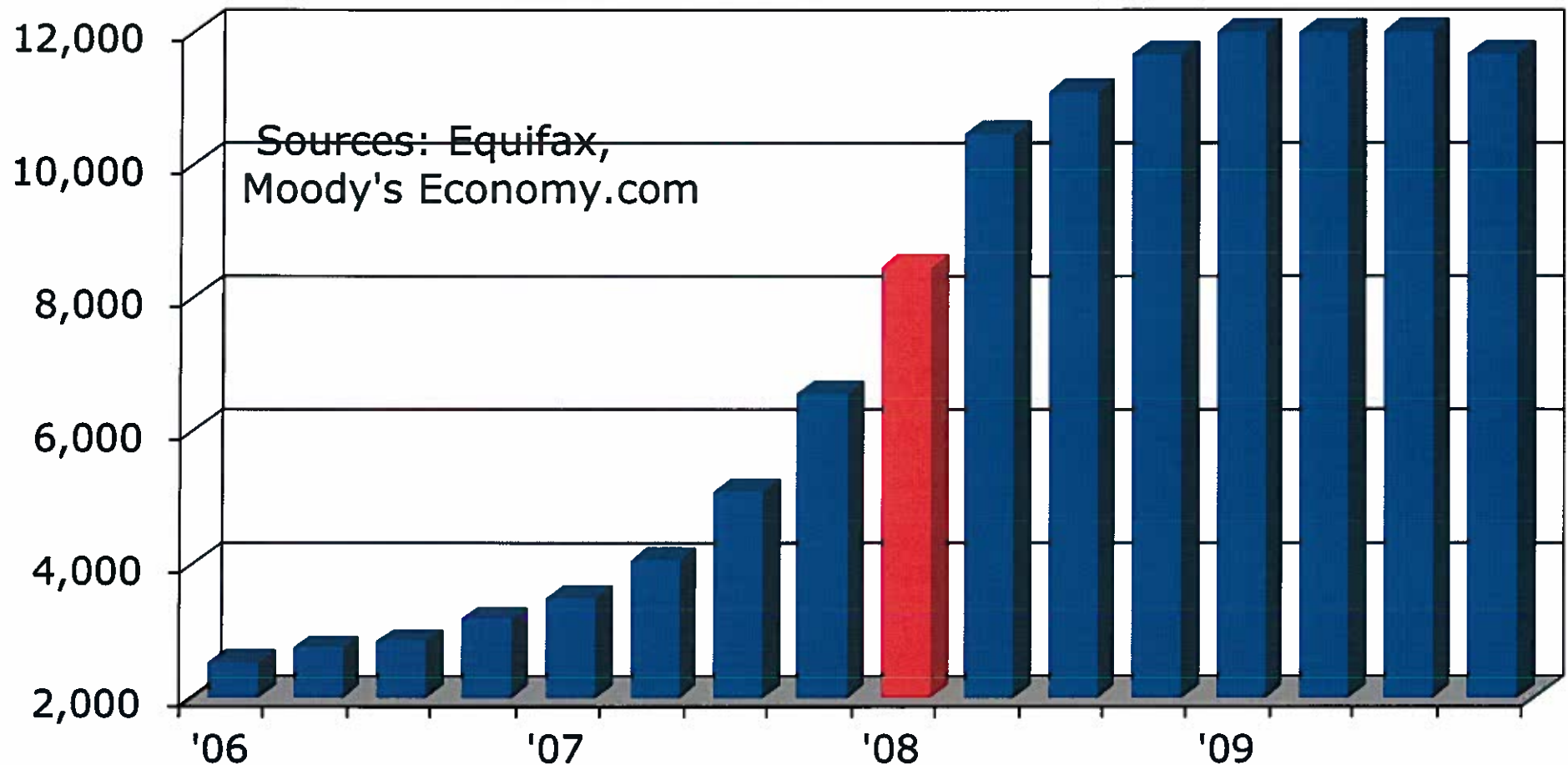
...and struggle to pay their bills on time

Household debt in delinquency or default, \$ bil annualized

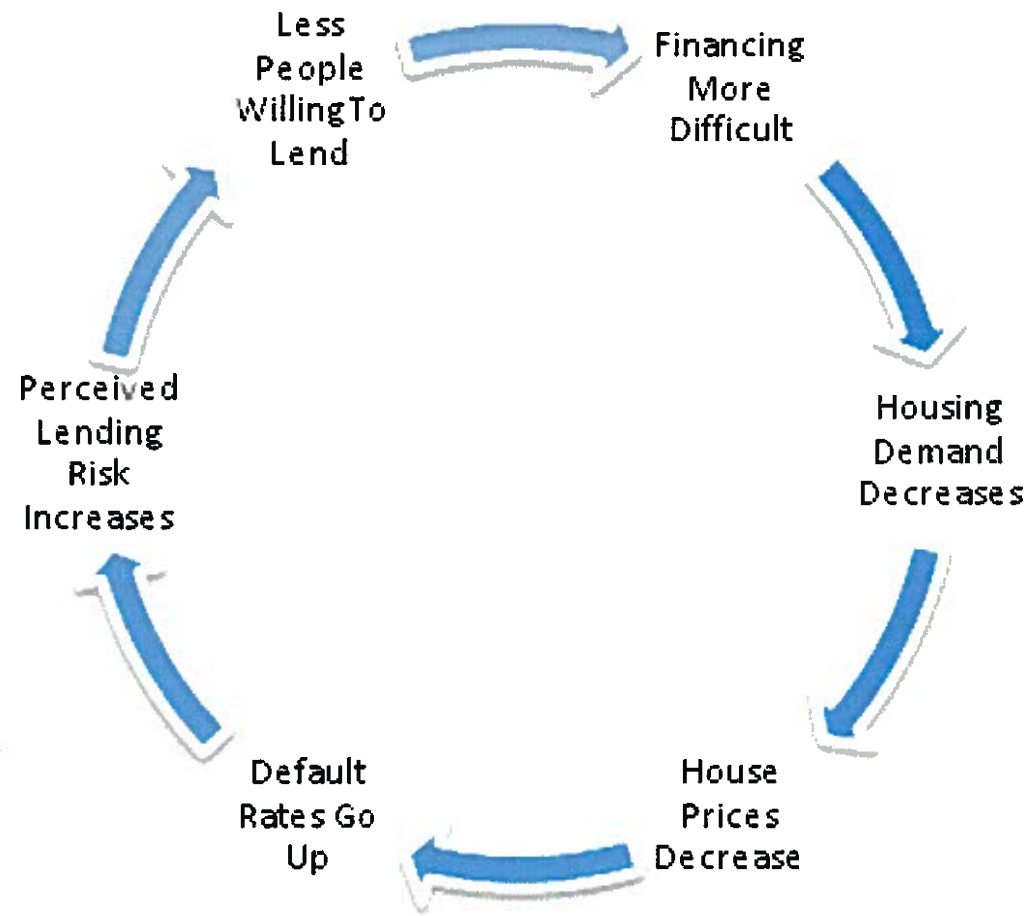


Investment losses and declining home equity have significantly eroded household wealth....

Number of underwater homeowners, Thousands

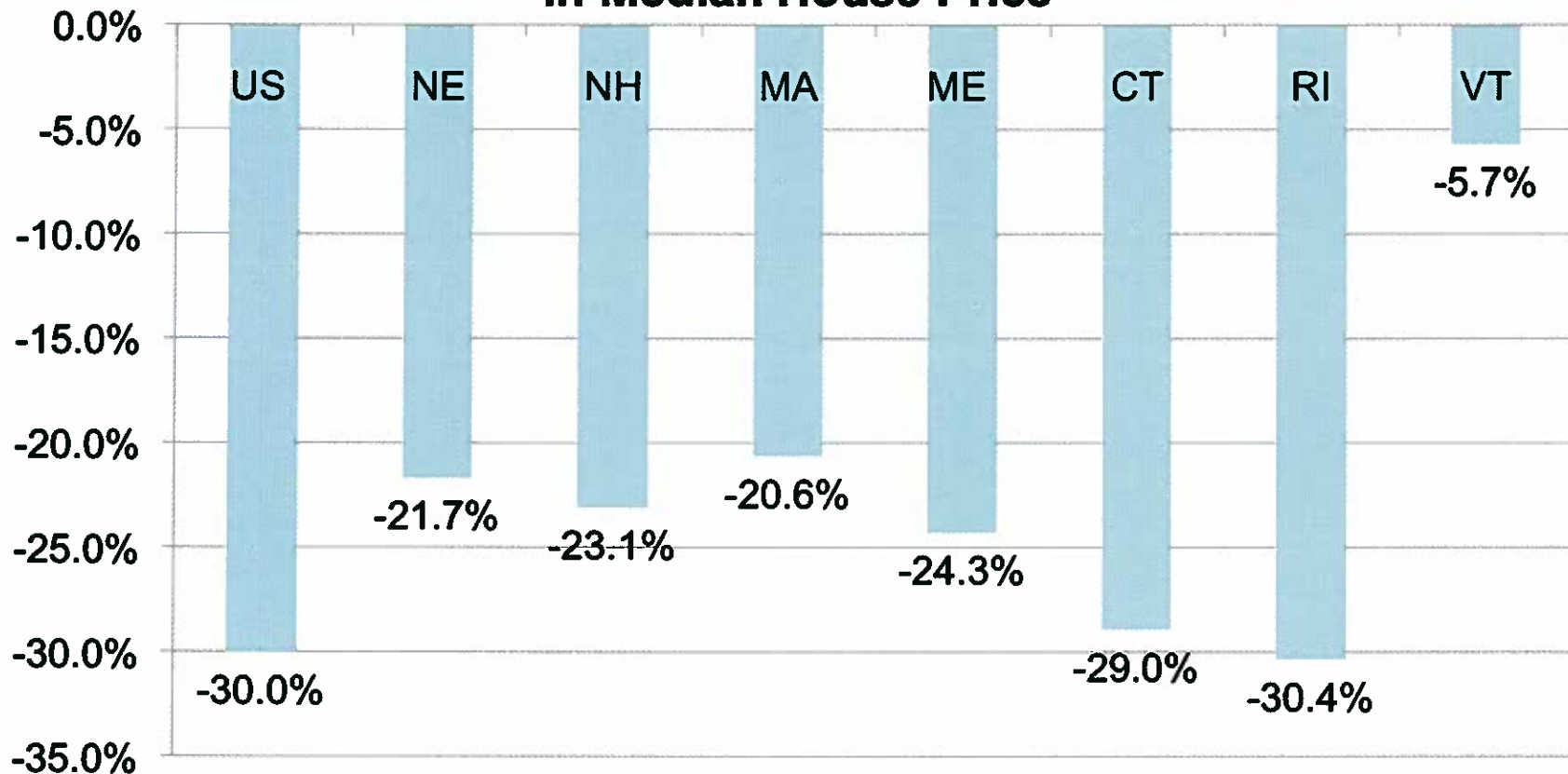


.... fueling a vicious circle that has prolonged the downturn



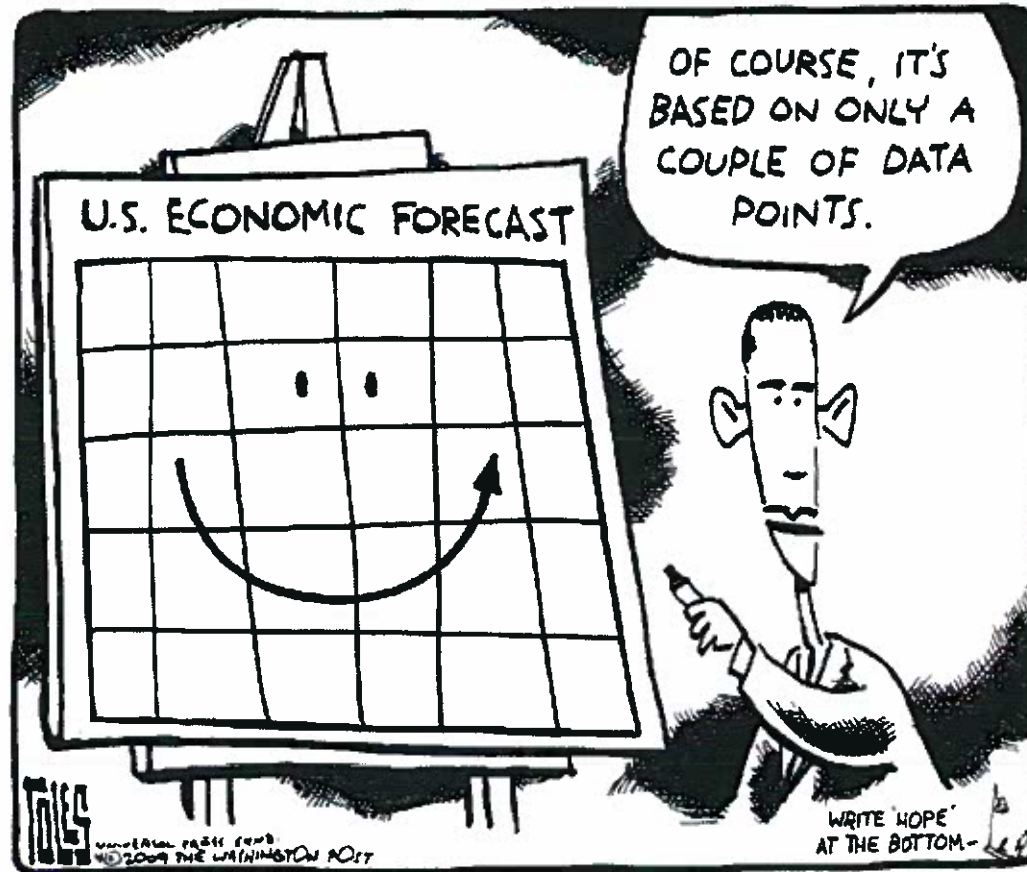
Regional home prices are expected to continue to decline through 2009 but have begun to bottom out

**Peak-Trough Expected Percentage Decline
in Median House Price**

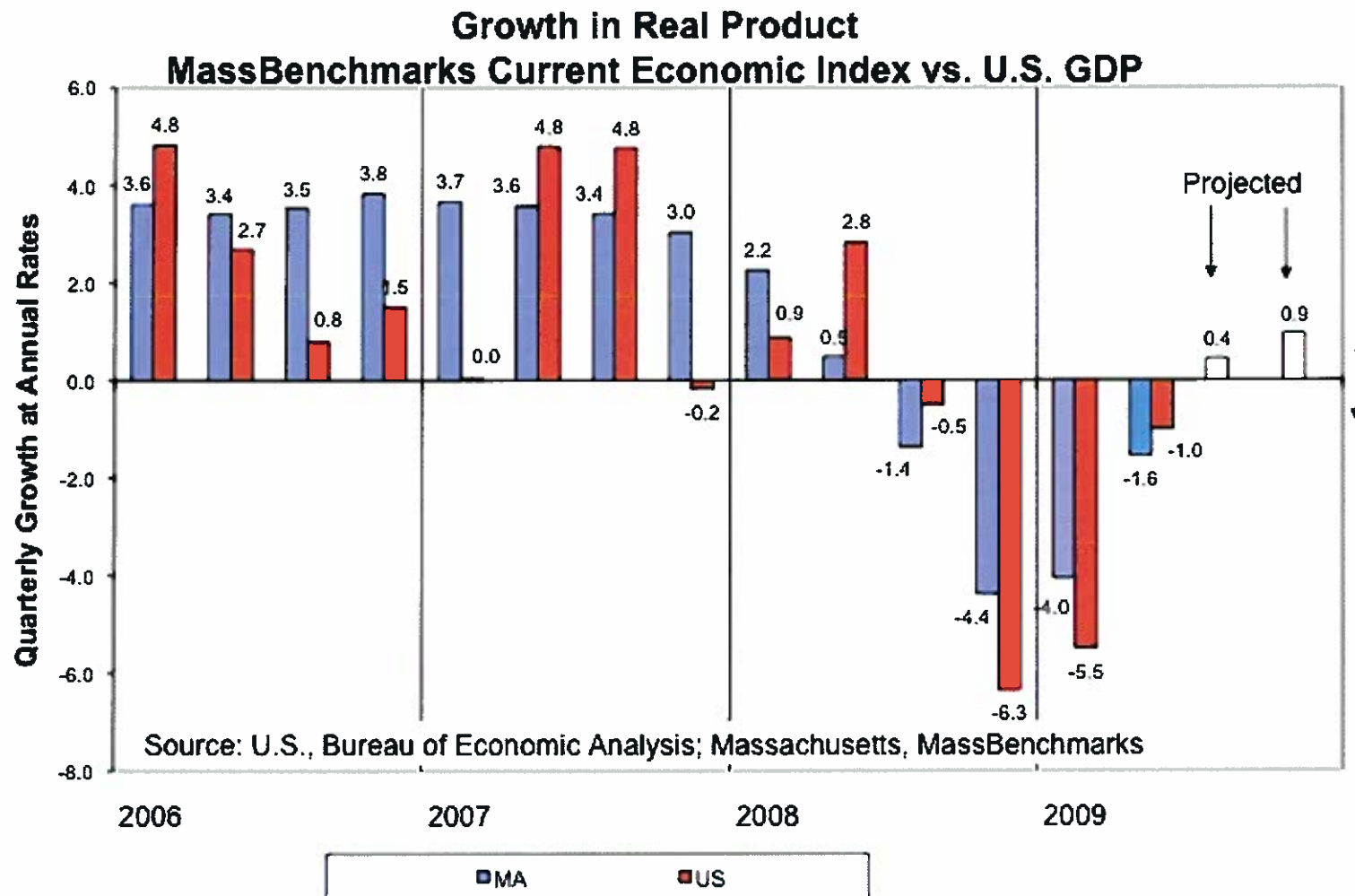


Source: New England Economic Partnership

On a more positive note...there are some definite signs that the pace of economic decline has slowed of late....



...and here in Massachusetts it appears the state economy has hit bottom and is beginning a modest recovery



However, for the next several quarters this will be of little consolation to the unemployed...



.....or to state and local governments
who will likely remain in dire financial straits
for the next few years

- Significant job losses in the retail, construction and financial services sectors are reducing income tax revenue.
- Foreclosures result in losses to both financial institutions and local property tax collectors.
- Given the dismal performance of the stock market, FY10 and FY11's state capital gains tax receipts will likely be much smaller than FY09.
- Job losses and the declining in household wealth (housing and investments) will constrain household spending and by extension sales tax receipts (which will partially be offset by recent tax increases).