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MASS BUSINESS REPORT

UMASS Boston Semi-Annual Review
Fall 2009



Welcome to the College of Management, UMASS – Boston, Financial Services Forum’s Fall 2009 report on the Massachusetts economy. The *Forum* is a source of current information and commentary about critical issues facing the industries in Boston and at the national level, as well as the health of financial services in general. Please visit the Forum’s website for more information. (<http://www.financialforum.umb.edu/>)

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- Research Assistants: Priyanka Jha, Shuai Wang, Hsiang-Ting Huang, Rajani Singh and Sung-Il Jung

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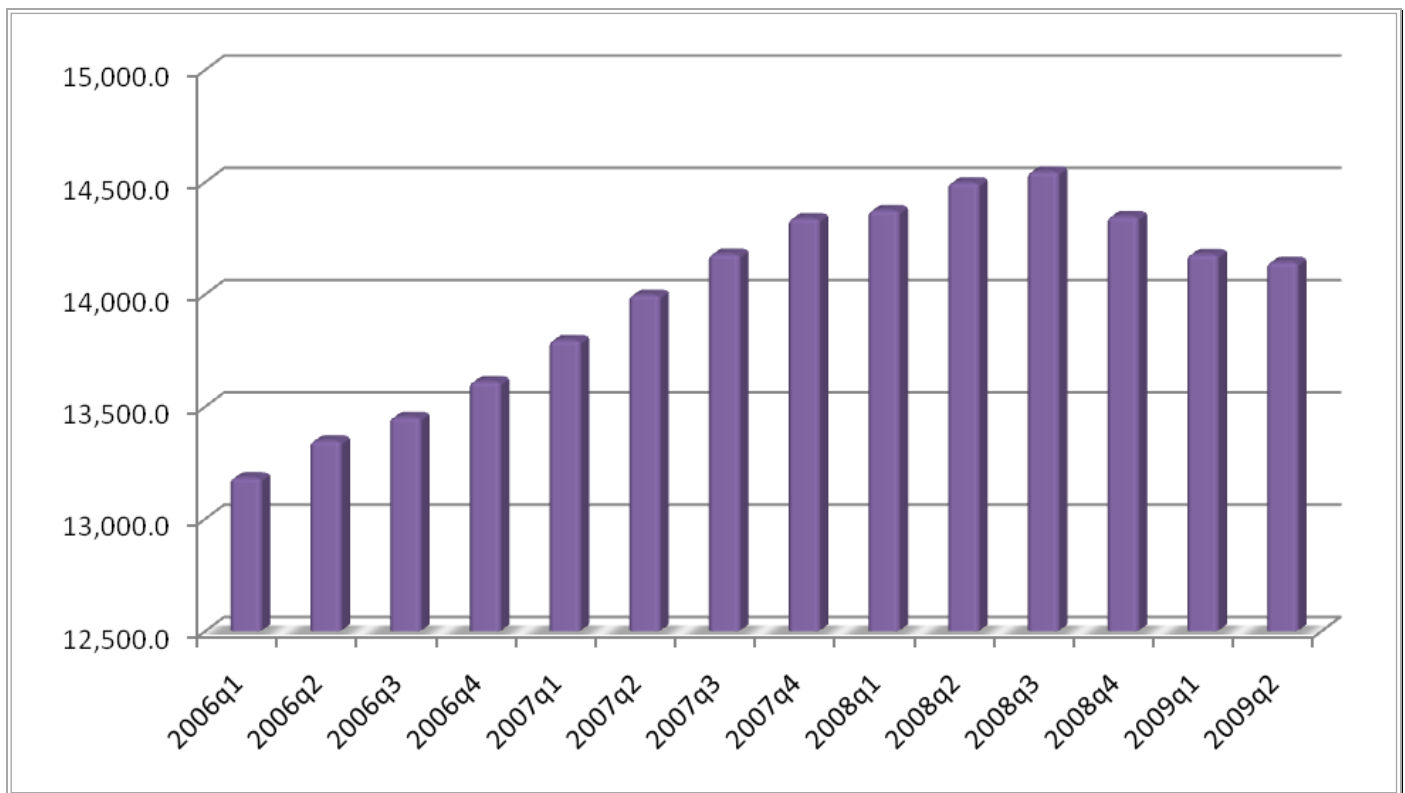


US AND MASSACHUSETTS GDP

Key Points

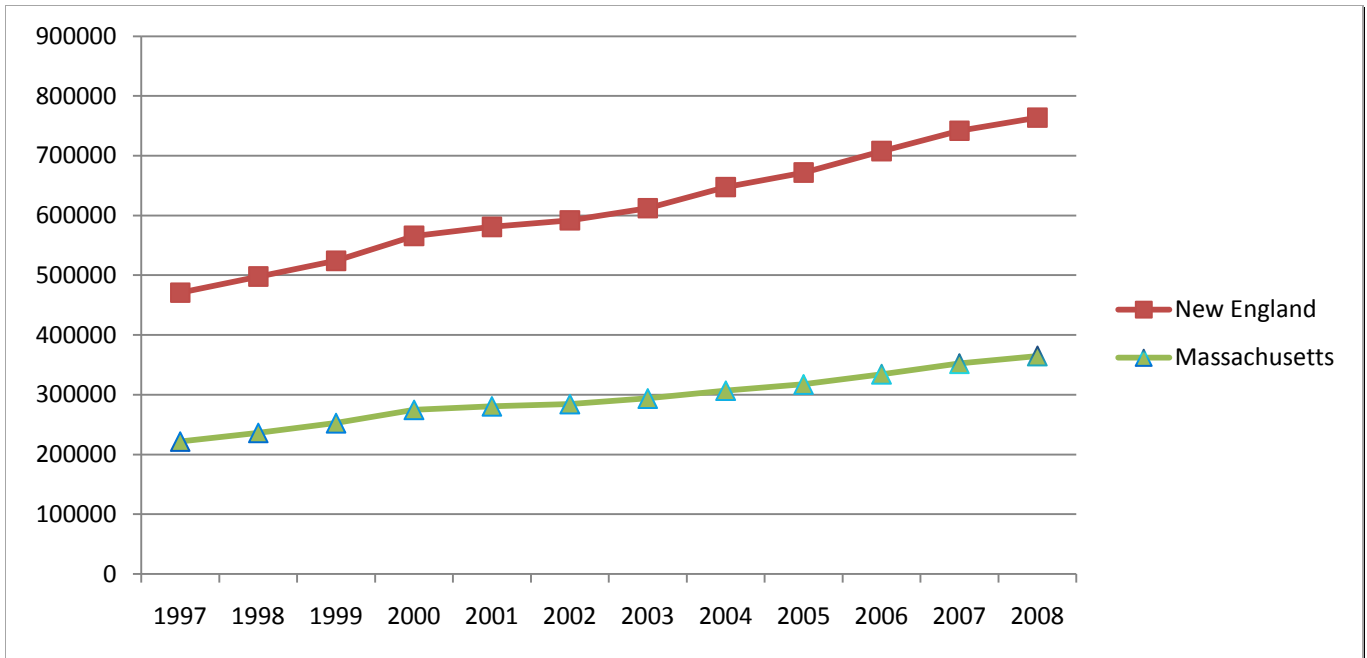
- Contraction of US GDP since third quarter of 2008
- Massachusetts GDP growth in 2008 is greater than that of US, but economic activity index in the state has declined since September 2008.
- Real estate and rental and leasing industry was the biggest part of Massachusetts economy; professional and technical services industry was the second. Finance and insurance industry had a smaller weight than in previous years while health care and social assistance industry became more important.
- Private industries have decreased slightly from 91.0 percent in 2006 and 2007 to 90.9 percent in 2008 - Government expenditures are expected to increase more to support Massachusetts economy including health care subsidies and unemployment benefits.
- Fiscal deficits are high across states – Massachusetts' deficit is the fourth largest in the country.
- In terms of per capita funds received under the fiscal stimulus package, Massachusetts ranks twelfth in the country.

Quarterly U. S. Real GDP (in billions of current dollars)



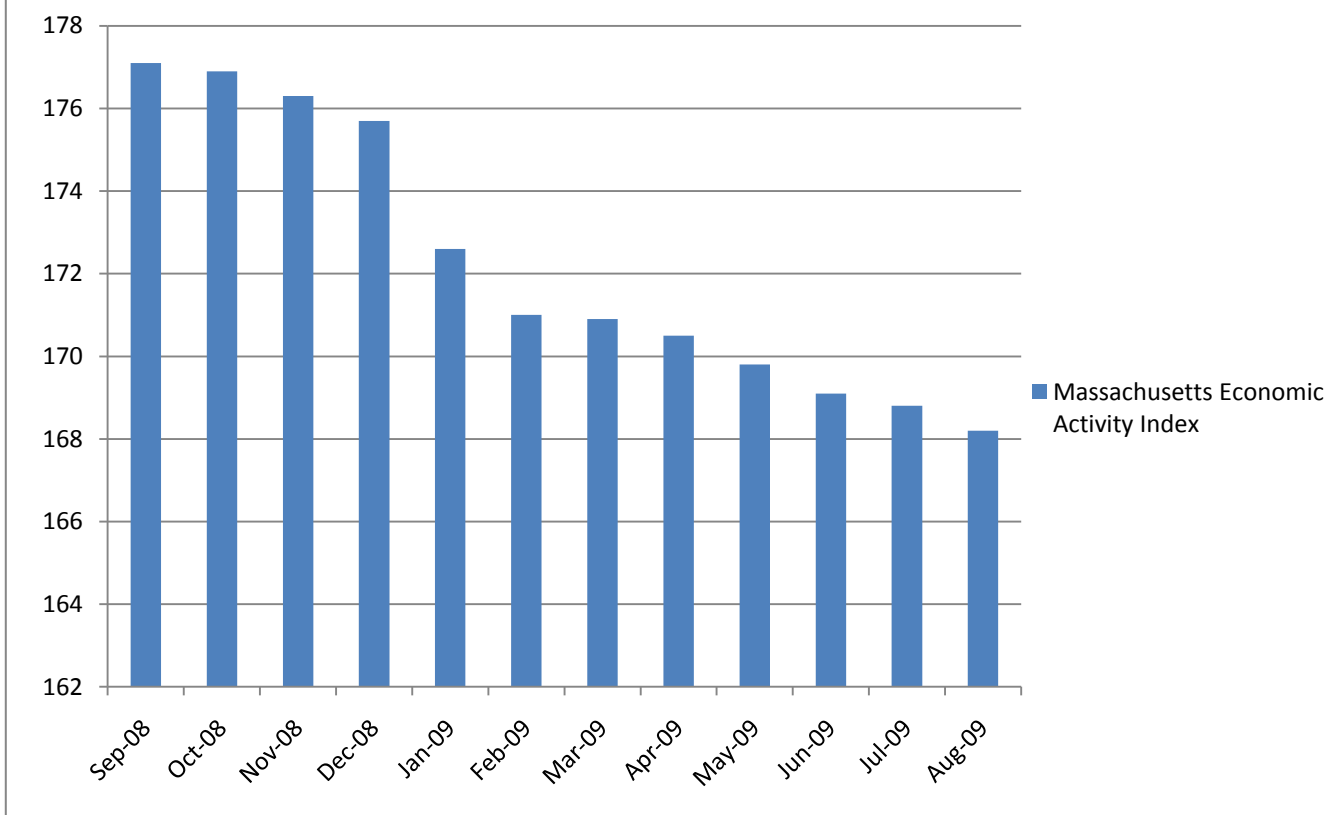
Source: U.S. Department of Commerce, Bureau of Economic Analysis

New England and Massachusetts Real GDP (in billions of current dollars)



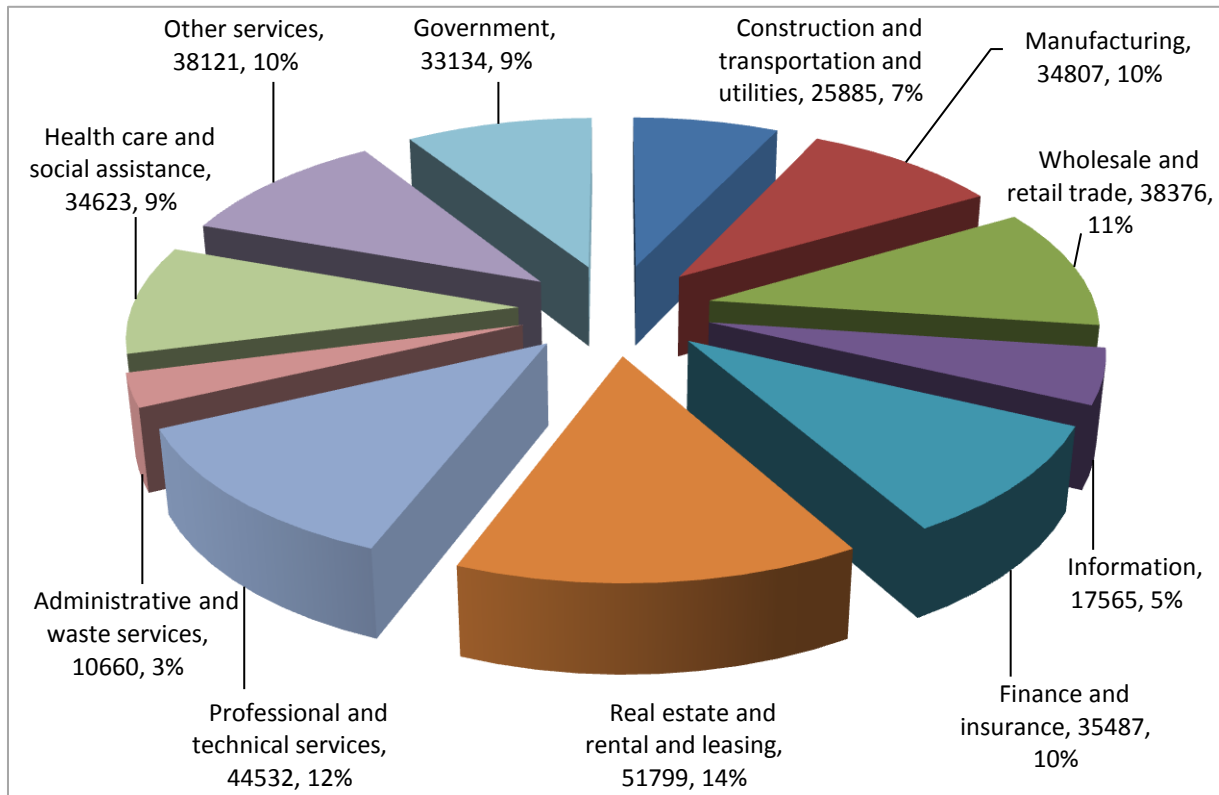
Source: U.S. Department of Commerce, Bureau of Economic Analysis

Massachusetts Economic Activity Index

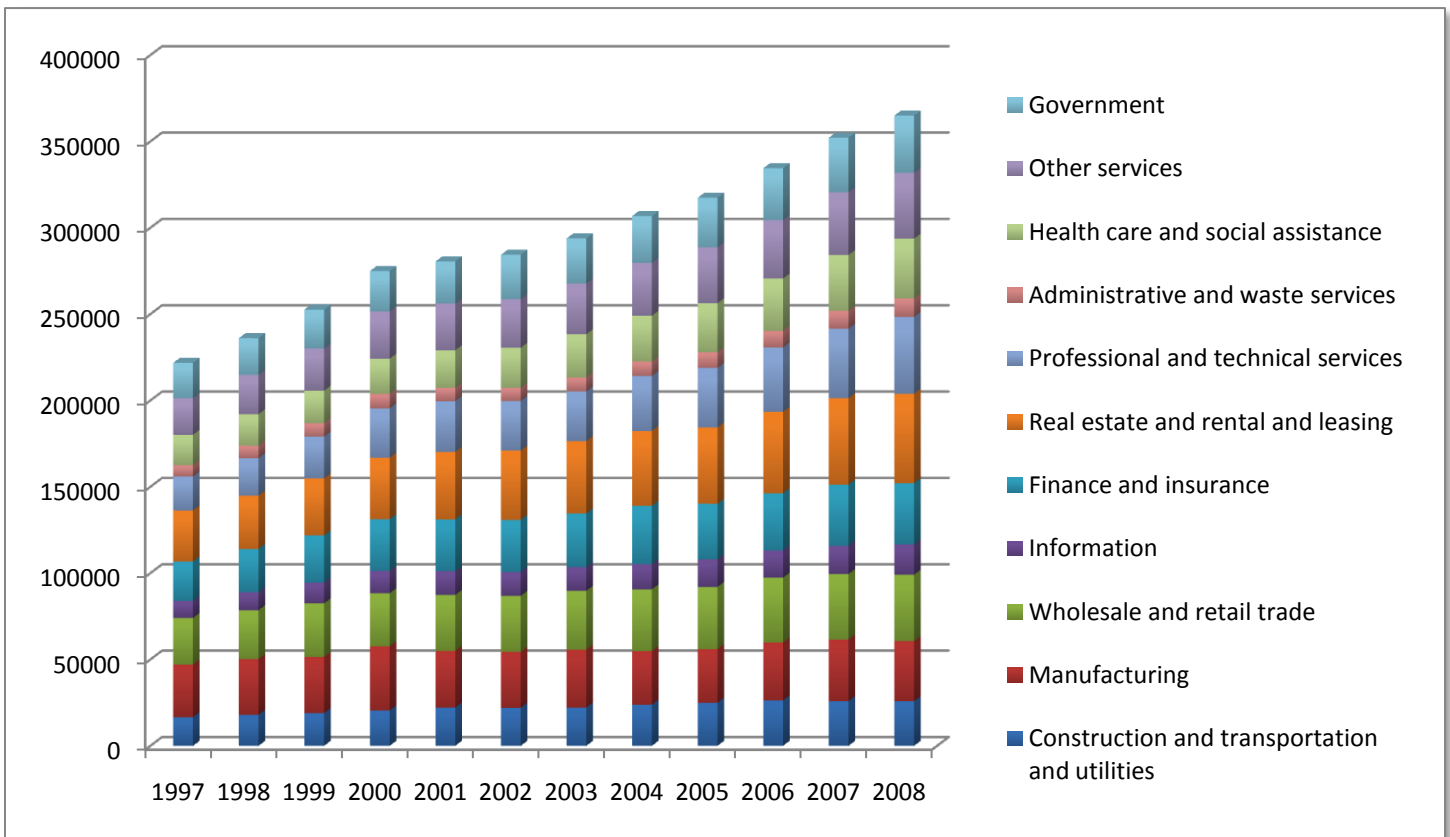


Source: Federal Reserve Bank of Philadelphia

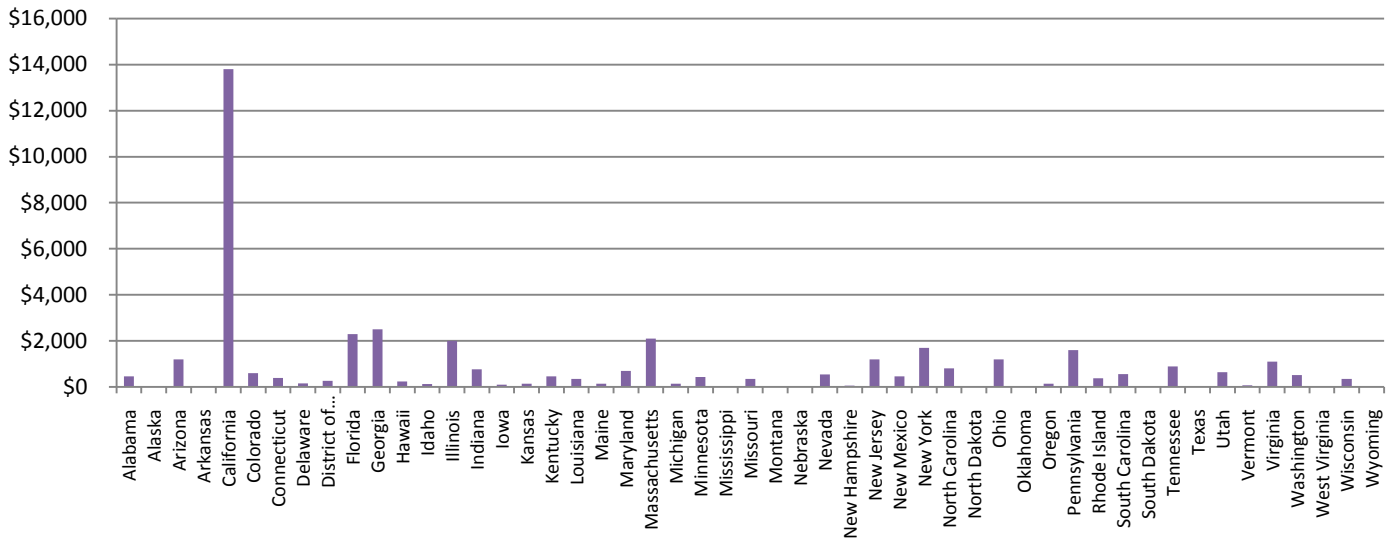
Massachusetts State GDP by Industry in 2008



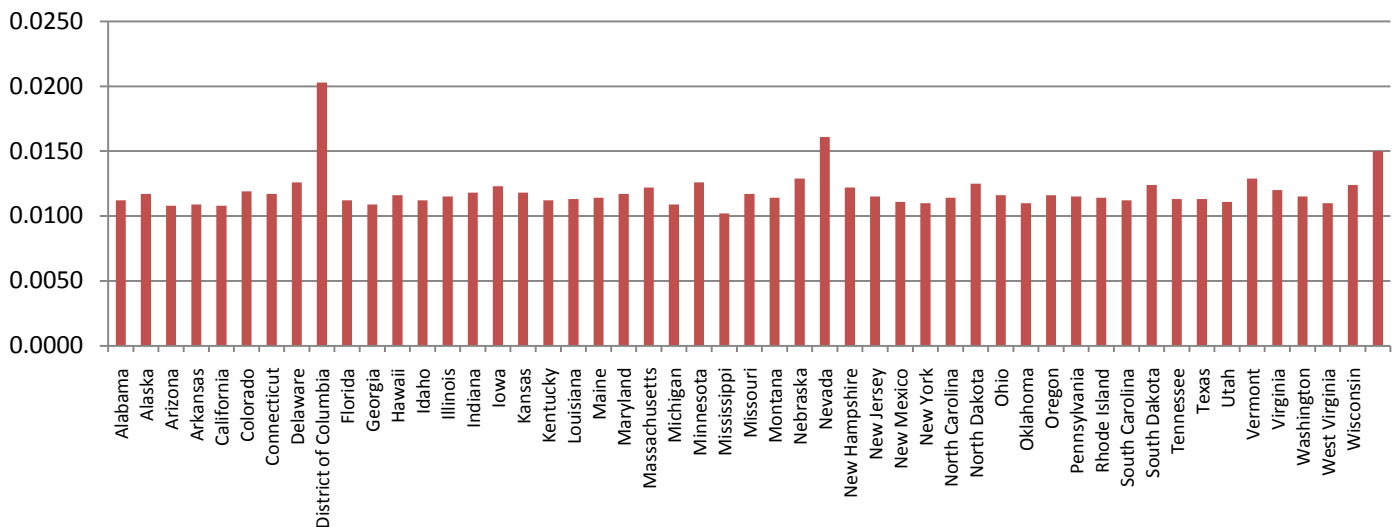
Massachusetts State GDP by Industry from 1997 to 2008 (in billions of current dollars)



Mid-year Fiscal 2009 Budget Deficit (Millions)



Per Capita Funds with Stimulus Packages

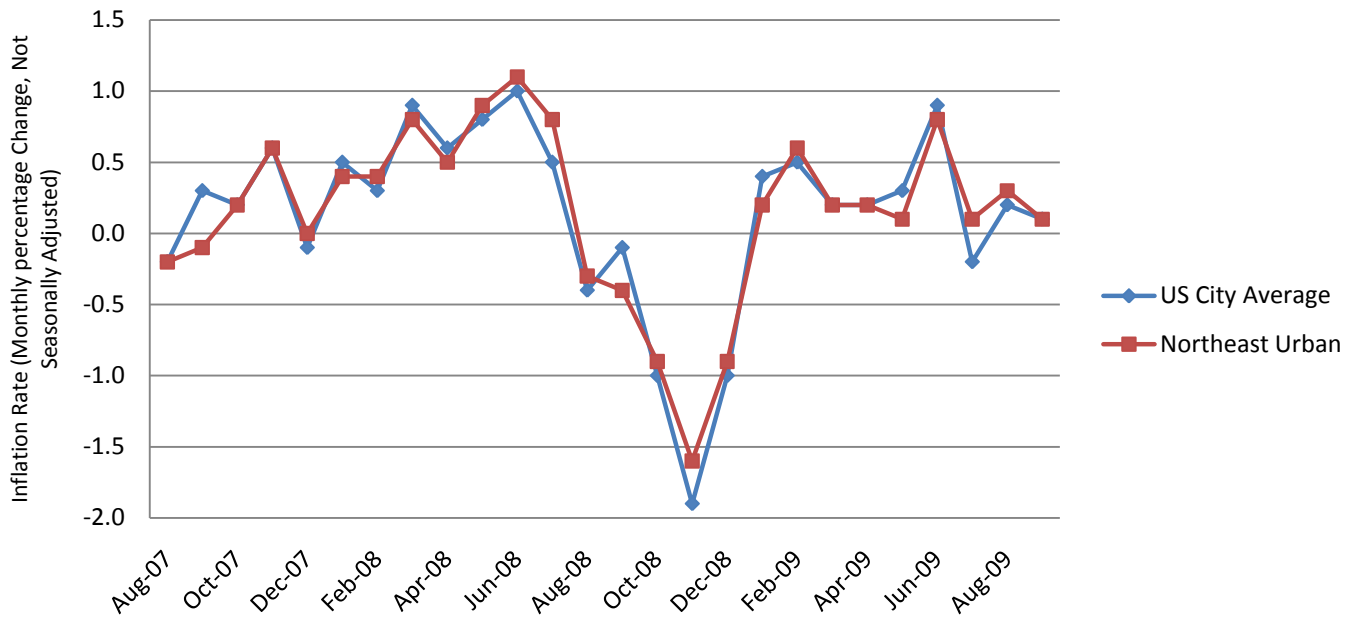


INFLATION RATE BASED ON CONSUMER PRICE INDEX (CPI)

Key Points

- Overall in 2009 the U.S. and Northeast Urban areas are experiencing moderate inflation.
- Deflation nation wide and in the northeast around November and December of 2008; average inflation rates of US cities dropped to -1.9% and to -1.6% in the Northeast in November 2008.
- Gas price hikes caused increase in the inflation between January 2009 and February 2009.
- The highest inflation rates of US City Average and Northeast Urban in 2009 is 0.9 and 0.8 respectively in June.

Inflation Rate Comparison

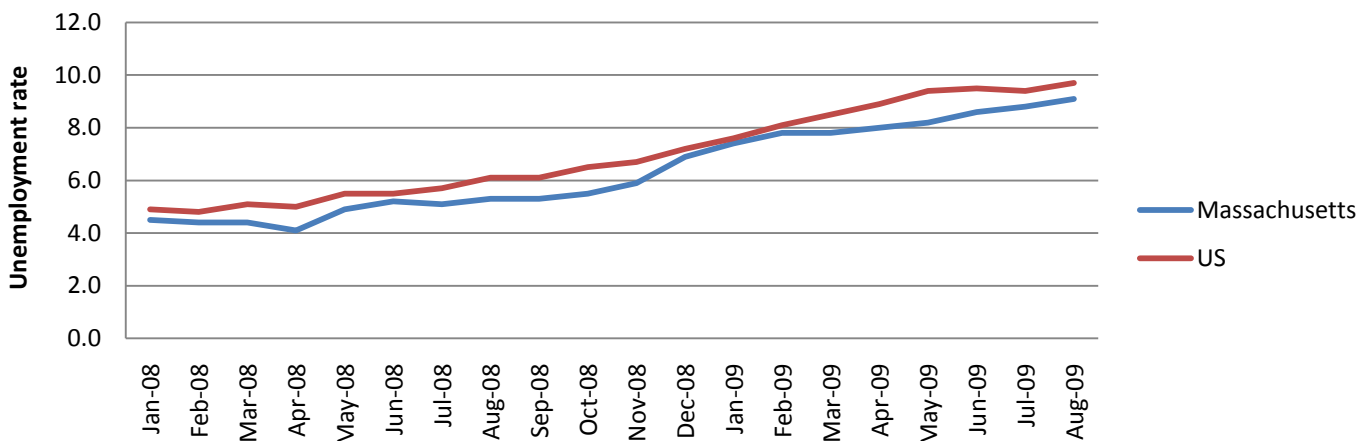


UNEMPLOYMENT

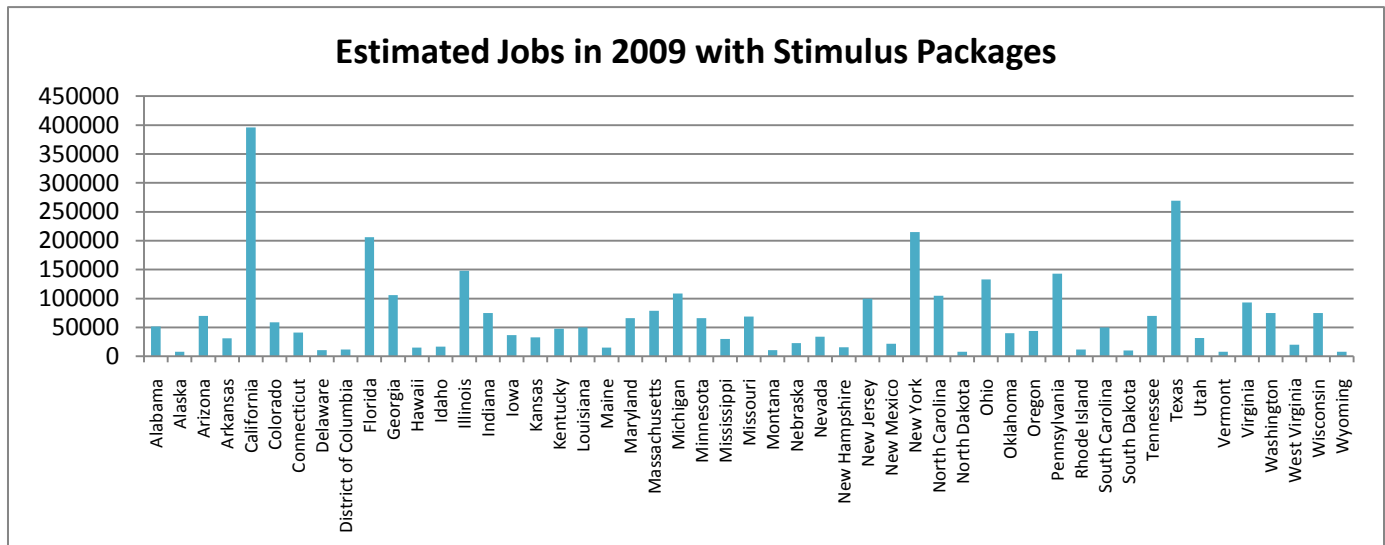
Key Points

- Current US unemployment rate is 9.8% and 9.3% in Massachusetts.
- Massachusetts' reliance on the services industry, as well as high-tech firms, healthcare and education and the absence of major banks has contributed to lower state unemployment rates than the national average.
- Rhode Island has experienced unemployment rate of 12.8% in recent months and is one of the hardest hit states in the country – this is primarily due to mass layoffs in manufacturing plants and housing projects.

Unemployment 2008-2009



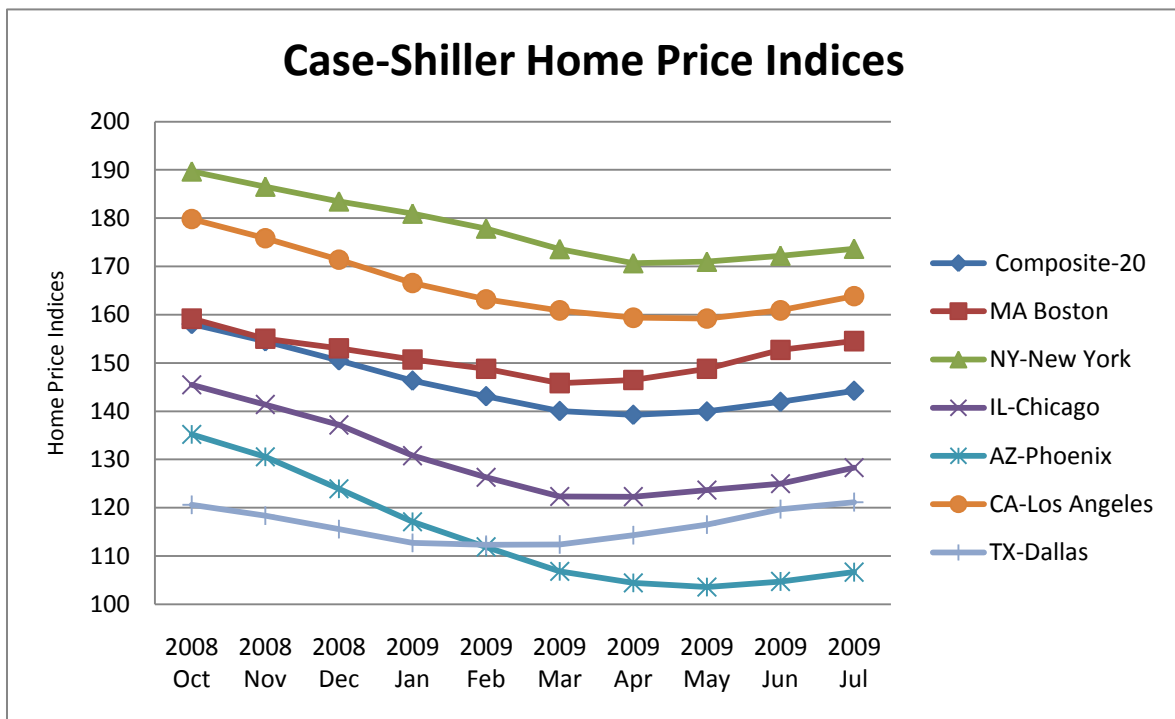
- True extent of the unemployment problem is significantly greater both nationally and regionally if underemployed and discouraged workers are considered – some estimates put the US unemployment rate at about 20% and about 14% in Massachusetts.
- In terms of number of jobs that the stimulus package is estimated to create Massachusetts ranks thirteenth in the country.



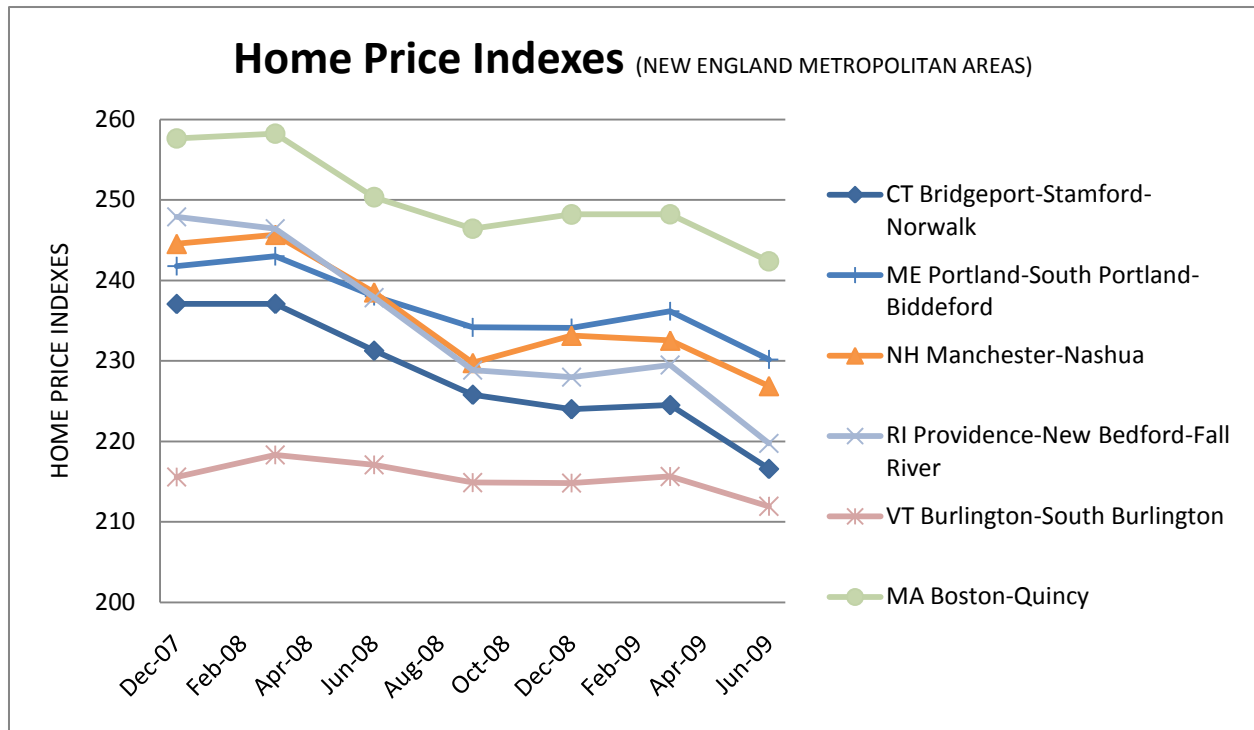
HOUSING/REAL ESTATE PRICES

Key Points

- Case-Shiller Home Price Indices of 6 major cities – Boston, New York, Chicago, Phoenix, Los Angeles and Dallas – show a downward trend until May 2009 with the exception of Dallas.



- The home price indices in Boston are higher than those of Composite-20.
- The home price indices in Boston are lower than those of New York and Los Angeles only.
- From May 2009 to July 2009, the increase in the home price index in Boston is higher than those in New York and Los Angeles. Overall, the Boston housing market has so far recovered better as compared to Composite 20.
- The House Price Indexes (HPI) for single-family detached properties using data on conventional conforming mortgage transactions obtained from Freddie Mac and Fannie Mae comparing six metropolitan areas of six states in New England Area shows that HPI in Boston-Quincy is the highest in New England Area.



Source: Federal Housing Finance Agency <http://www.fhfa.gov>

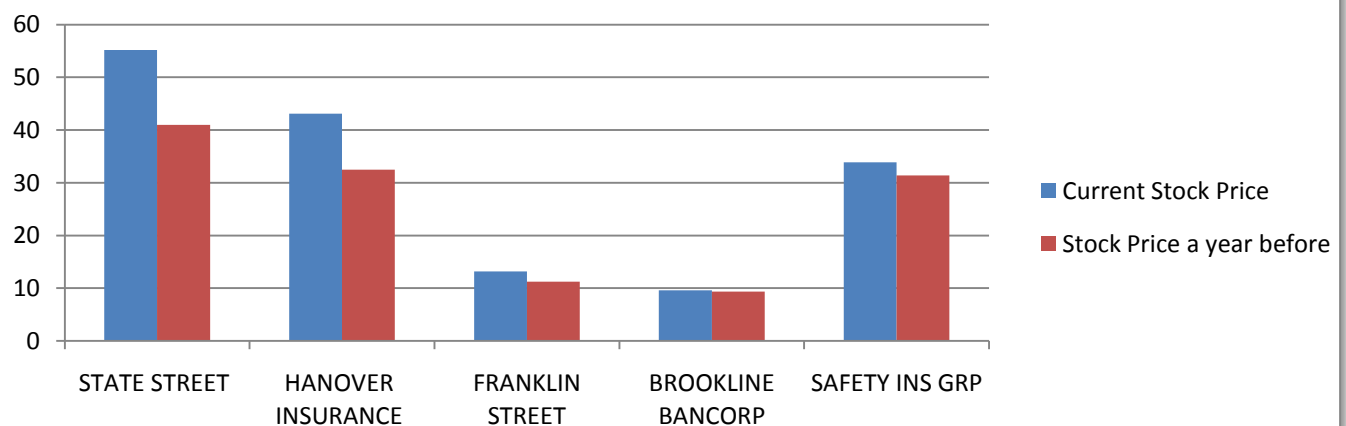
THE “BIG FIVE” IN MASSACHUSETTS

Key Points

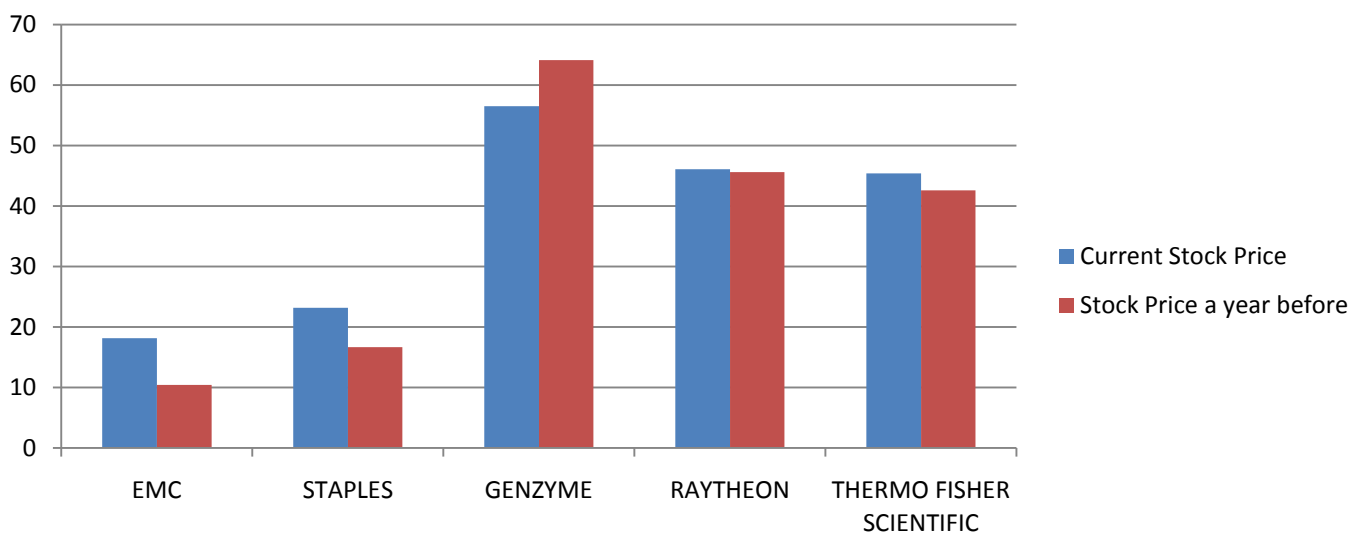
- The largest firms in Massachusetts overall are EMC, Staples, Genzyme, Raytheon and Thermo Fisher Scientific.
- The largest firms in the Financial Services Sector in Massachusetts are State Street, Hanover Insurance, Franklin Street, Brookline Bancorp and Safety Insurance Group.
- The current average beta of top five financial firms 1.11 whereas the average beta of overall top five firms is 0.732.
- Although the equity prices had declined considerably, between October 2008 and October 2009, all of the top five firms in the financial services industry have shown positive gains with State Street and Hanover Insurance showing the largest gains.

- Over the same period, equity price changes for the largest firms overall are mixed – two showed positive gains, two were about the same and one posted a decrease.
- Although stock prices are on the rise, earnings per share (EPS) of most companies have declined over past one year. The mean EPS of all the top five firms with the exception of Raytheon has declined - the average decline in EPS is approximately 20%.
- EPS of all firms in the financial services sector, with the exception of State Street, has shown improvement. The top five financial firms have had an average appreciation of EPS by 28% over past one year.
- None of the top ten firms have shown any important changes in management – all the firms have retained their respective CEOs and Directors.

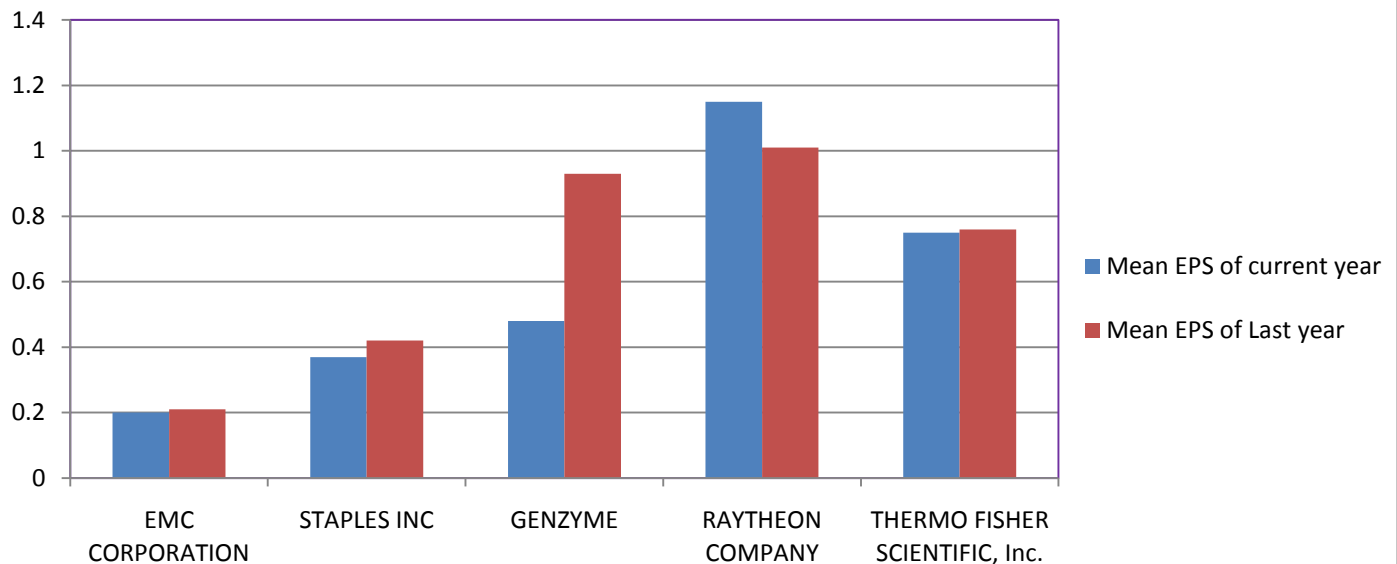
Stock Price: Top 5 Financial Firm



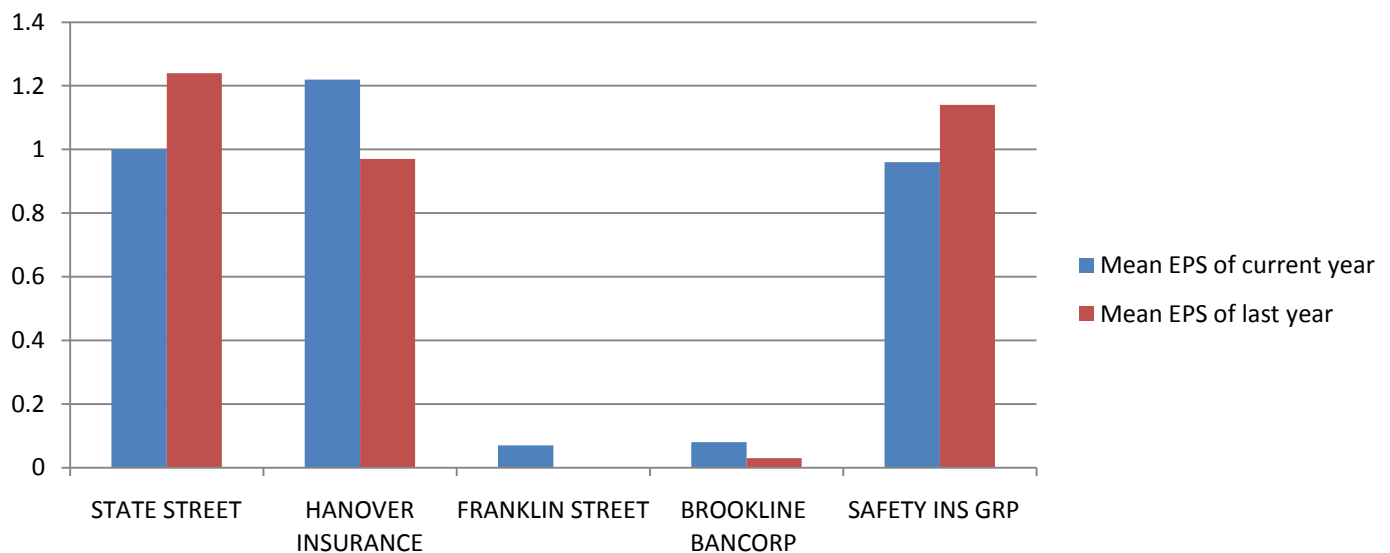
Stock Price: Top 5 Firms



Earning Fluctuations : Top 5 Firms



Earning fluctuations: Top 5 financial firms



MARKET INVESTMENT SENTIMENT INDEX

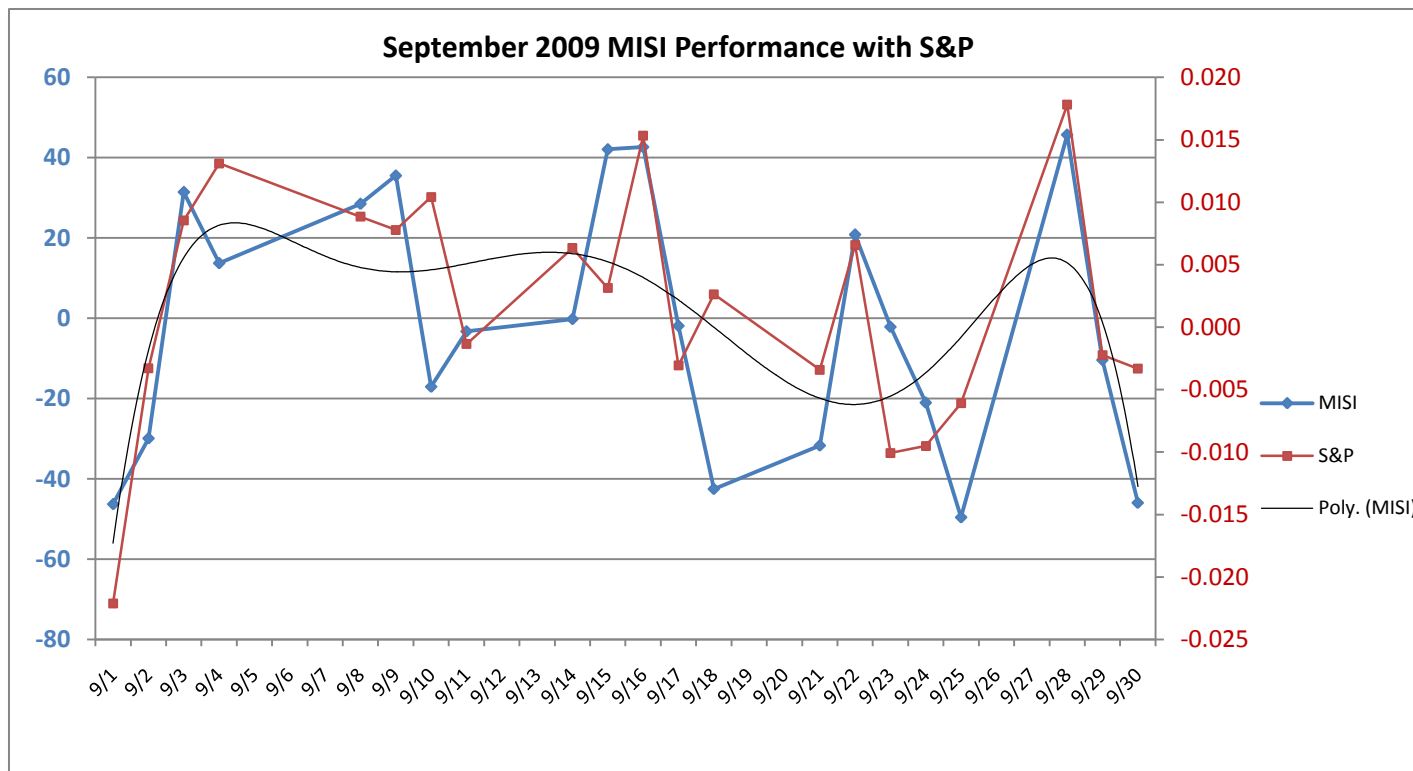
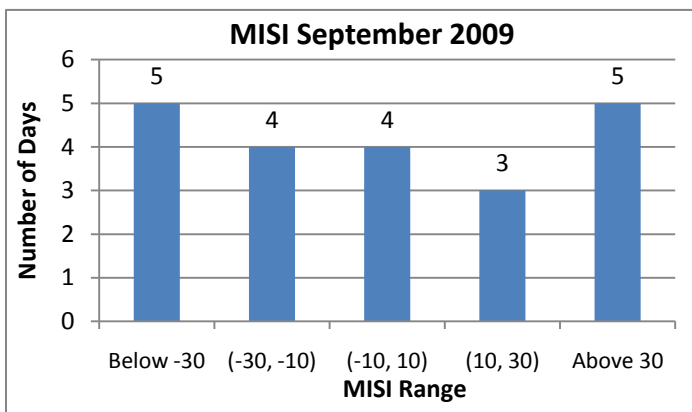
The Market Investment Sentiment Index (MISI) – formerly known as the Massachusetts Investment Sentiment Index – is back after a brief absence! MISI a market-based measure of investor sentiment for 30 companies in the DJIA. The MISI is constructed monthly for every trading day in the month,

using the Spearman's rank correlation of the daily returns and the historic volatility (average standard deviation of daily returns over the previous five days).

The MISI can range from a low of -100 to a high of +100. For values close to 0, the market is considered risk-neutral. The higher the value the more risk-seeking was the market. Similarly, the lower the value is the more risk-averse was the market.

Key Points

- In September, the market has been moderately risk-seeking with a monthly MISI of 19.3.
- In five days, the market was highly risk-seeking with an average score of 39.48. In another five days, the market was highly risk-averse with an average score of -43.22. In three days, it was moderately risk-seeking with an average score of 21. In four days, it was moderately risk-averse with an average score of -19.60. In four days, the market's sentiment was risk-neutral with an average score of -1.88.
- In September 2009, the movements in MISI closely resemble the movements in S&P 500, with the correlation between MISI and S&P 500 at 71.88%.
- The downward sloping trend line denotes the market sentiment to be on a decline towards the end of the month.



OTHER UPDATES

Professor Sally Wright's paper is forthcoming in *Auditing: A Journal of Practice & Theory*, Professor James Grant's paper was published in the *Journal of Asset Management* and he will present a paper at the *Academy of Financial Services Conference*, Professors Thomas Hogan and Yong-Chul Shin will present their papers at the *Northeast Business and Economics Conference*, Professors Mine Ertugrul and Lucia Gao will present their papers at the annual *Financial Management Association Conference*, Professor Eric Hayden published his paper in the *Journal of Pharmaceutical and Healthcare Marketing*, and Professor Atreya Chakraborty published his papers in the *Journal of Economics and Business* and *International Journal of Finance & Economics*.

Professor Phil Strahan from Boston College presented his paper on hedge funds as providers of liquidity in the *Forum's* seminar series. Professor Yong-Chul Shin from the A&F Department, Dr. Chris Probyn (Chief Economist at State Street Global Advisors) and Mr. Paul Connolly, First Vice President and Chief Operating Officer at the Federal Reserve Bank of Boston are scheduled speakers in the *Forum's* seminar series.