

New Hampshire Economic Outlook 2018

New England Economic Partnership

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Executive Summary

The New Hampshire economy is in great shape. Businesses are adding workers at a relatively healthy pace, with various measures of unemployment at record low levels, signaling that any resident who is willing and able can likely find work. These positive labor market signs appear to be flowing through to the pocketbooks and consumer psyches of Granite State households. According to the Business and Industry Association of New Hampshire's recent *Report on Consumer Confidence*, the proportion of households who report stable or improving financial conditions is at its highest in over a decade.

Nevertheless, these healthy economic advances are not being felt evenly, but have been isolated to those cities and towns closely linked to the Boston metro economy. In fact, many parts of rural New Hampshire have recovered very little, if at all, from the Great Recession.

Going forward, the rate at which employers add workers is expected to slow and eventually come to a halt, not so much due to weaker demand on their end, but rather because the inventory of workers from which to select to expand will be extremely limited. Part of this tight inventory stems from the extraordinarily low level of unemployed residents. It is also being driven by a momentous shift in the state's demographic landscape.

For example, the number of residents between 25 to 64 years old, a rough definition of the working-age population, is expected to decline over the coming years, as the much-publicized graying of the baby boom generation unfolds. Economic growth will slowly decelerate, before coming to a standstill in 2019, as employers confront a scarcity of available labor.

Forecast Highlights

- The New Hampshire economy should continue to make strides in 2018. With initial jobless claims (a proxy measure for layoffs) steadily declining and at an extraordinarily low level, the financial condition of New Hampshire businesses appears solid. Additionally, various economic indicators (consumer confidence, median household income, unemployment) signal that household finances are healthy and improving.
- The challenge of finding labor will intensify. Currently, every industry within the Granite State is finding it difficult to fill open job slots, due partly to low unemployment. Also,

with many workers in their late 50s and early 60s, the economy will experience a wave of people who will partially or totally disengage from the workforce.

- Consequently, outside of a significant pickup in attracting out-of-state working age people to move and work here and/or convincing many current Granite Staters who work out-of-state to work back home (neither is assumed in our baseline forecast, though are upside risks), New Hampshire employers will essentially run out of people to hire. Therefore, economic growth is anticipated to grind to a halt around 2019.

	2016	2017	2018	2019	2020	2021
Population	1334.7	1339.7	1345.6	1351.1	1356.2	1360.8
% change	0.3%	0.4%	0.4%	0.4%	0.4%	0.3%
Labor force	748.6	750.4	752.1	751.8	752.6	752.7
% change	0.8%	0.2%	0.2%	0.0%	0.1%	0.0%
Payroll jobs	668.3	675.7	679.7	679.7	679.7	679.7
% change	1.9%	1.1%	0.6%	0.0%	0.0%	0.0%
Unemployment rate	2.8	2.8	2.8	2.8	2.8	2.8
Change	-0.6	0.0	0.0	0.0	0.0	0.0
Gross state product	69.1	70.4	71.5	72.2	72.9	73.7
% change	3.0%	1.9%	1.5%	1.0%	1.0%	1.0%

Current Conditions: Aggregate Economic Indicators Paint Rosy Picture, Though Not Everywhere in the Granite State

At its core, an economy is the total of all the buying and selling (transactions) that take place between businesses, consumers, the financial system, and the public sector. Standard economic indicators (Figure 1) suggest the New Hampshire economy continues to steadily grow.

The private sector, which is responsible for nearly 90% of the production and employment in the Granite State, continues to sell more goods and services to our residents as well other Americans and foreigners, in fact nearly \$3.4 billion worth of extra output from 2015 to 2016 to be precise.

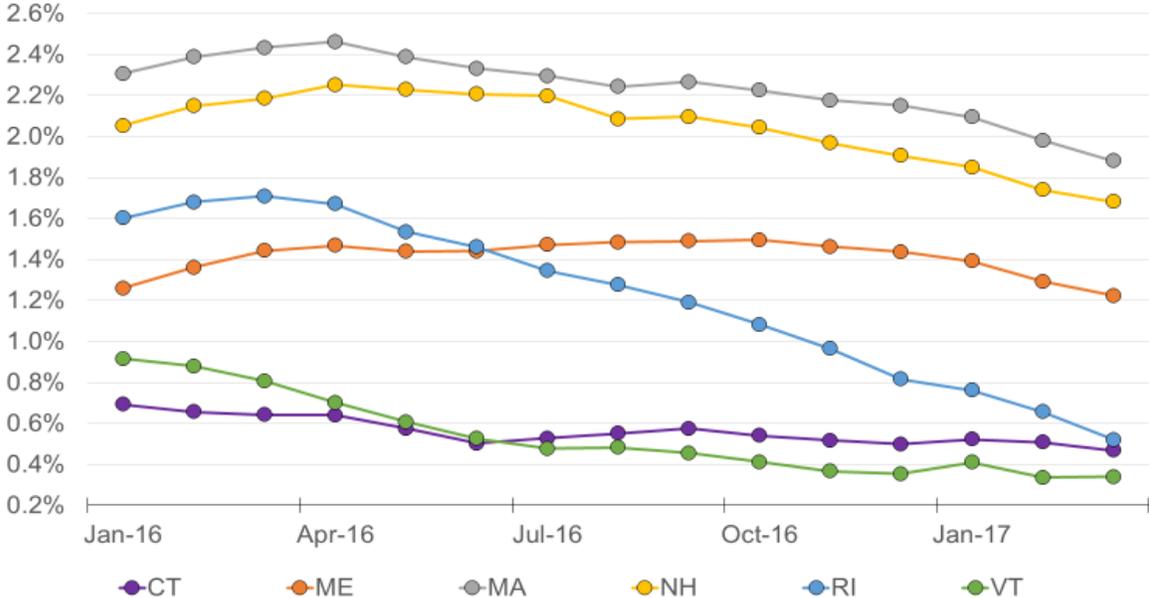
This additional business for New Hampshire firms has translated into them employing more workers and paying out more wages, \$1.3 billion in extra wages to be exact, which has enabled households, overall, to feel historically confident about their financial situation, as evidenced by survey data from the Business & Industry Association and UNH, and allowed them to unleash that confidence and income into more and more consumer purchases.

Figure 1: Various NH economic measures, change from prior year in millions of current dollars



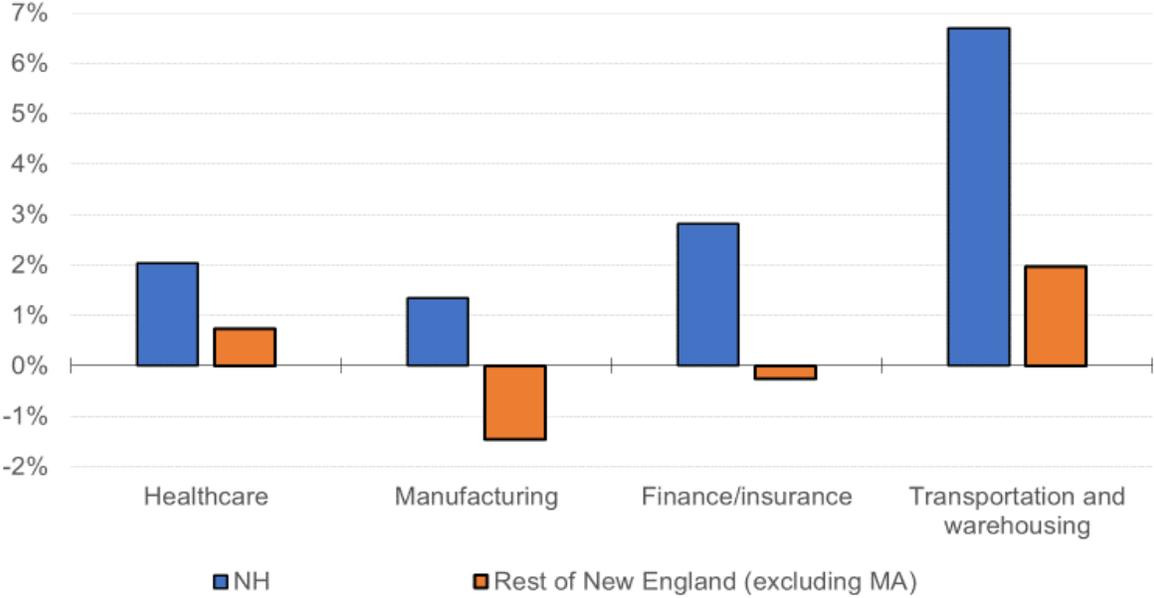
Within the region, New Hampshire has for some time been the 2nd fastest growing labor market, only lagging Massachusetts by a small margin (Figure 2). What is noteworthy is that for each New England state, the rate at which private sector hiring is rising has braked, with three states (Vermont, Connecticut, and Rhode Island) experiencing anemic rates of employment increases.

Figure 2: Private sector employment (QCEW), % change from 12 months prior



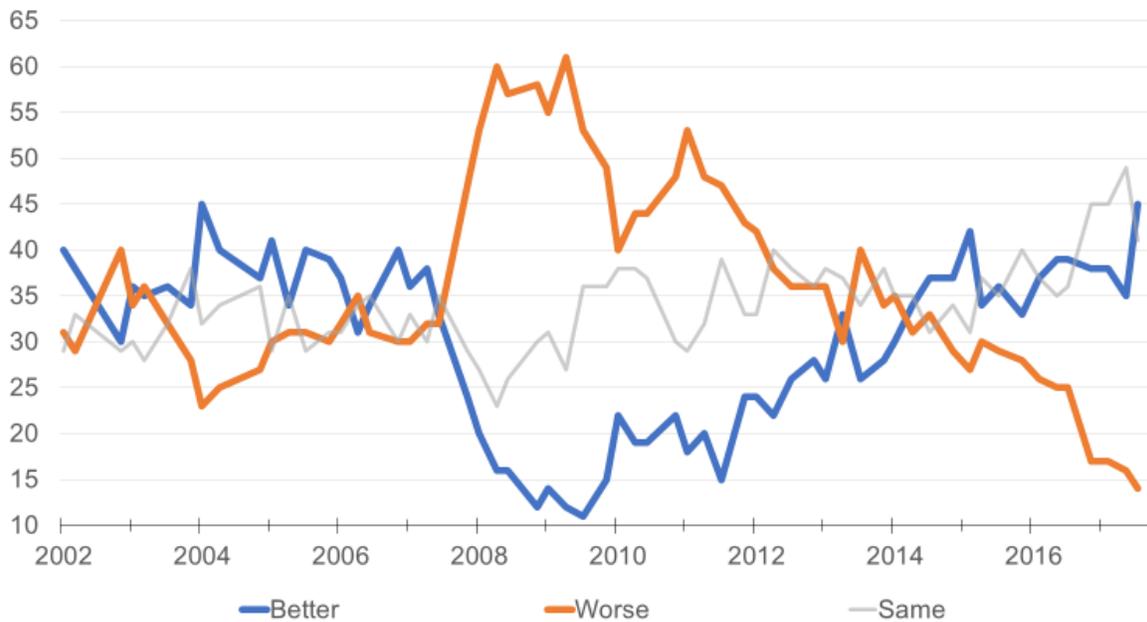
Virtually every private industry is experiencing growth, but, the industries which are catapulting hiring at a much faster rate than the rest of the region (excluding Massachusetts) are healthcare, manufacturing, finance and insurance, and transportation and warehousing (Figure 3).

Figure 3: Private Sector Employment, % change from 2015 to 2016



Regarding households, the Business and Industry Association’s *Consumer Confidence Survey* reveals that the vast majority of Granite Staters are experiencing stable to improving financial conditions. In fact, the percentage of households that are saying their household finances are worse today than one year ago is the lowest ever since the survey began in 2002 (Figure 4).

*Figure 4: UNH/BIA Consumer Confidence Survey
Household Financial Condition, Compared to 1 year ago*

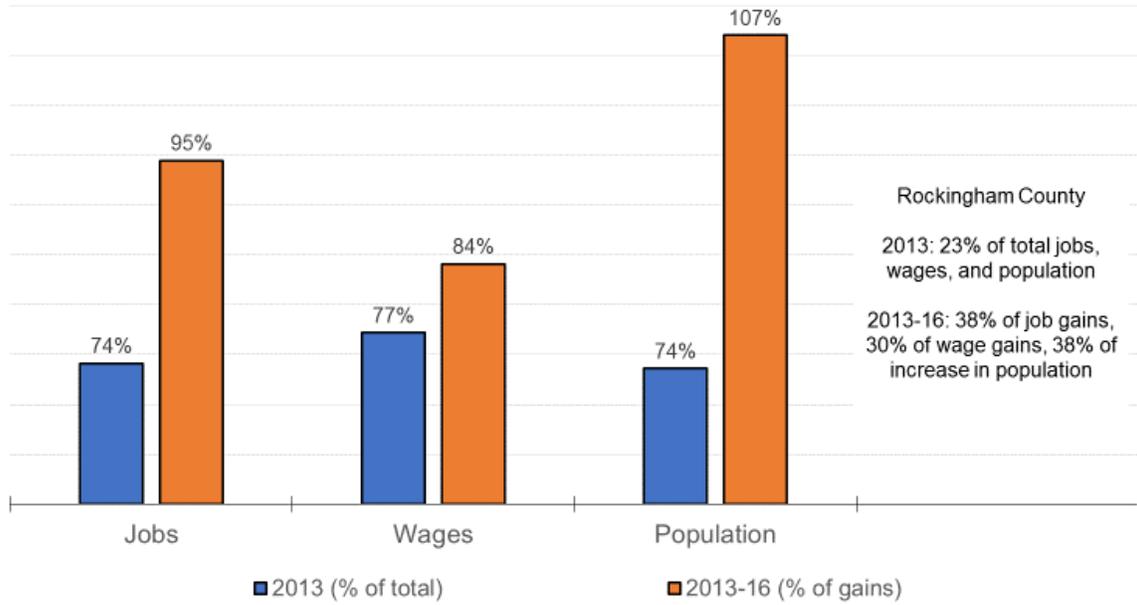


Though our state boundaries suggest that the residents of Salem (which is on the New Hampshire-Massachusetts border) live in the same political entity as the residents of Colebrook (which is near the Canadian border), research by Ross Gittell, Chancellor of the Community College System of NH, suggests that in terms of economic characteristics, we have at least two New Hampshires. He breaks the state into two categories, based on their proximity to Boston:

Urban NH: Rockingham, Strafford, Hillsborough, and Merrimack counties
Rural NH: Belknap, Coos, Cheshire, Sullivan, Grafton, and Carroll counties

Looking at New Hampshire’s economy through this lens, we see that over the past three years, most jobs have been created in urban NH, and that’s where the majority of wages have been paid out, and where most people have moved. One would expect this to some degree, since that is where most of our state’s population and employers are located. Nevertheless, the level of economic activity that has taken place in these four counties is much higher than might be anticipated, even for their size. For example, in 2013, Rockingham County comprised about 23% of the state’s population and labor market (jobs and wages). Yet, between 2013 and 2016, it was responsible for almost 40% of our job gains and population increase (Figure 5).

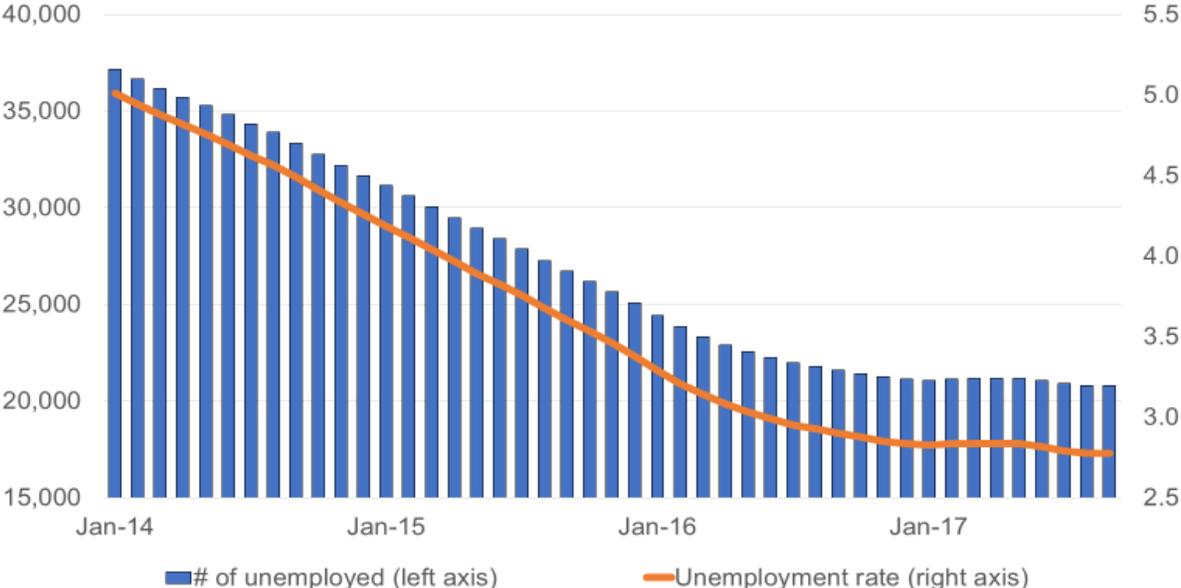
Figure 5: Rockingham, Hillsborough, Merrimack, and Strafford counties only
(New Hampshire's Boston metro counties)



Going Forward: Low Unemployment and Demographics Suggest Labor Shortages

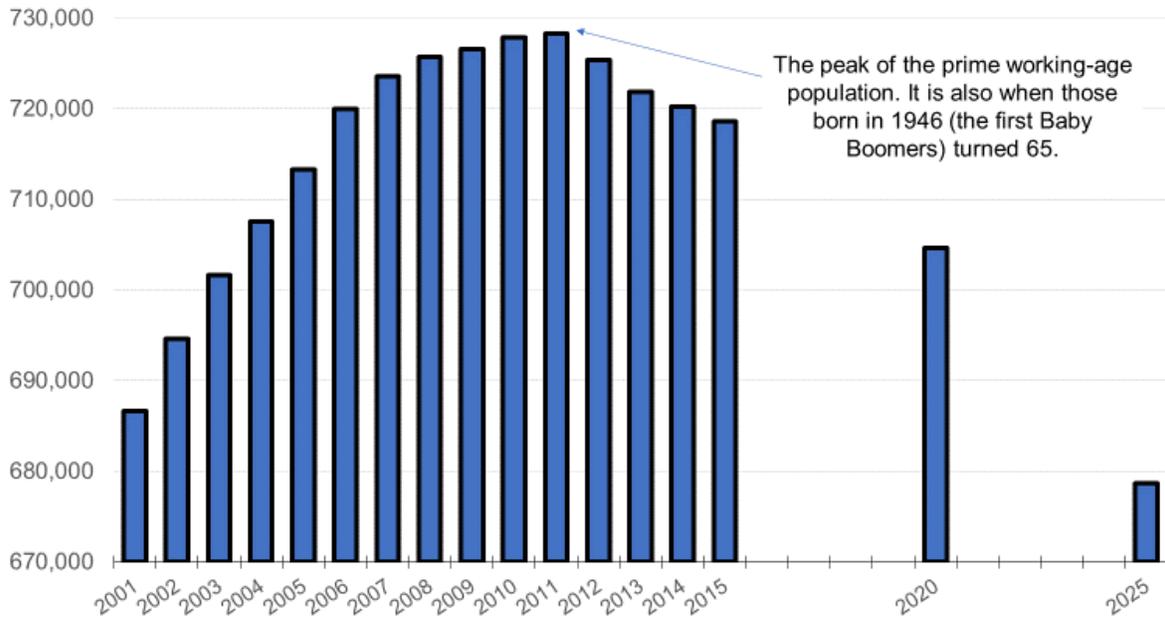
Nevertheless, there are concerns on whether employers will be able to find qualified workers in the future. Throughout the recovery, one avenue in which employers could find personnel to fill their needs was via the ranks of the unemployed. However, this option has faded away, as unemployment, measured by either the number of people or the rate of unemployment, has hit a bottom, at around 20,000 unemployed residents or a 2.8% unemployment rate (Figure 6).

Figure 6: Unemployment: “Appears to have hit a bottom”



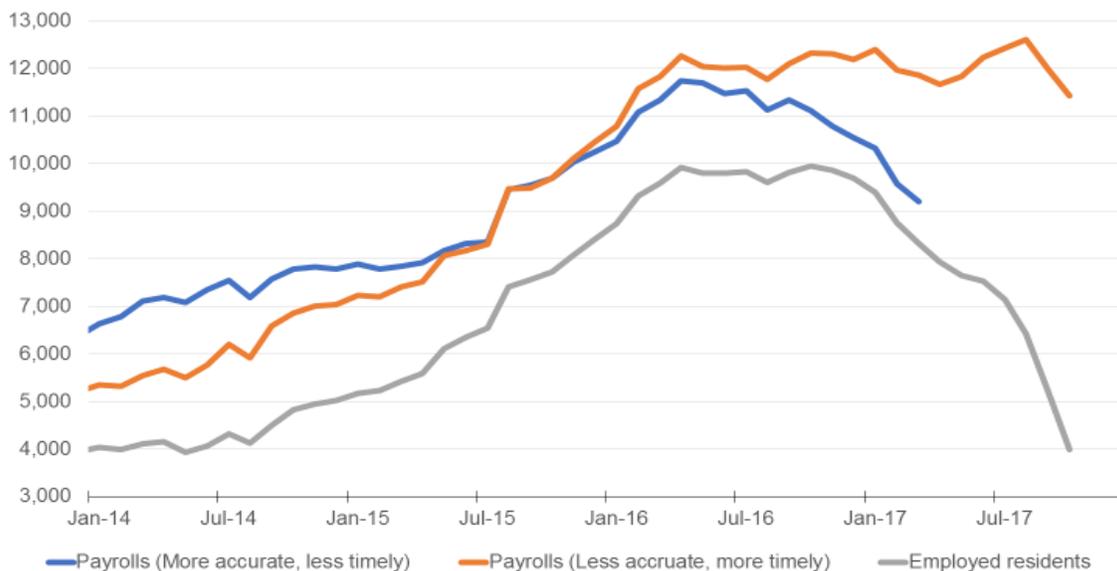
Another headwind for the labor market is that the state’s working age population (residents between the ages of 25 to 64 years old) is shrinking (Figure 7). This is happening (and expected to continue) in large part to a rapid increase in the number of residents between 65 to 74 years old (the much publicized “aging of the baby boomers”). This is important because data show that most people who reach this age cohort disengage from the labor force.

Figure 7: New Hampshire population: 25 to 64 years old



These two factors, along with a low rate of net migration, could make it challenging to find added workers. Indeed, there is preliminary evidence that it is happening already, as data on the employment status of residents (gray line) and a more accurate, though less timely measure of employer payrolls (blue line) suggest that a slowdown in hiring growth is emerging (Figure 8). These two trends are being refuted by a less accurate, though more timely measure of payroll jobs (orange line), so we will need to wait until early 2018 before the evidence is clearer.

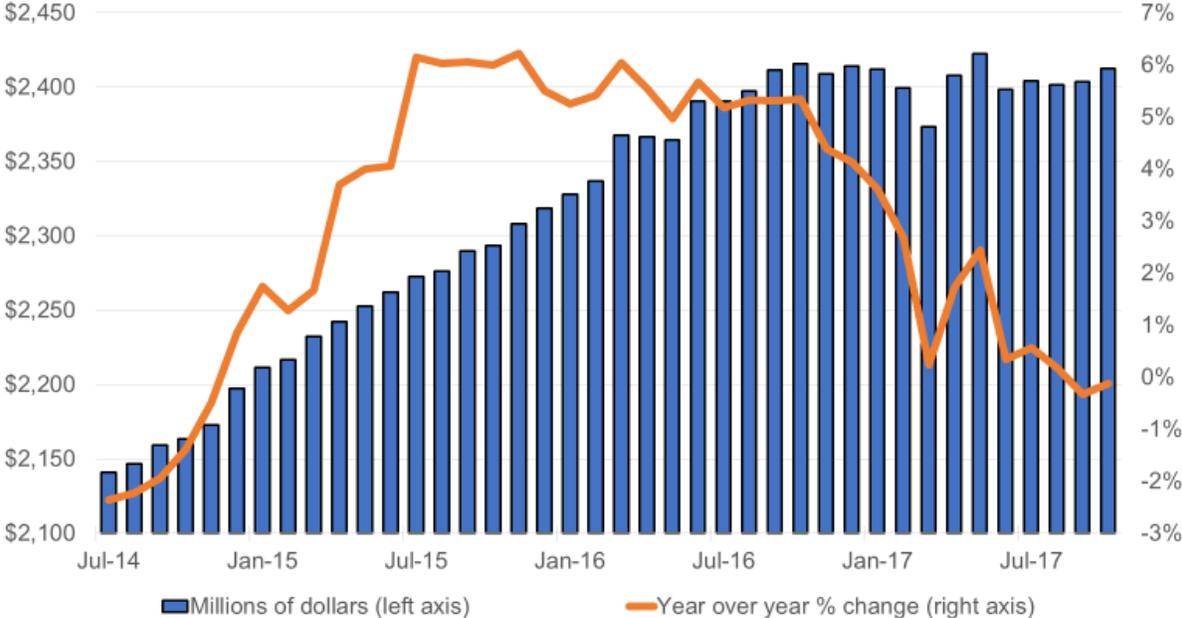
Figure 8: Various measures of New Hampshire employment, # change from prior year



Why does this “potential” slowdown matter? If it has indeed occurred, it could suggest a potential downturn in the economy, though that appears unlikely, as other indicators signal the rate of layoffs is quite low. What could be happening is that the pool of available labor from which employers have to hire has shrunk to such a low level that there are very few qualified candidates from which choose and therefore employers are not able to hire as much as they would prefer. If so, this could threaten future business plans to grow.

At the same time as this “potential” economic slowdown has taken hold, the state has also experienced a downtrend in the growth of state revenues to the point where state revenues are no longer increasing (Figure 9). This might lend further evidence of an economic deceleration, especially since the revenue streams that have been responsible for this slowing are the ones most correlated with changes in the business cycle (corporate profit and income taxes, real estate transfer tax, and the meals and rooms tax, which is the state’s narrow version of a sales tax)

Figure 9: New Hampshire state revenues (General and Education Funds)



Many potential solutions have been discussed throughout the state to tackle the workforce development problem that appears to be coming, if not already happening. Some include:

- Retain more high school graduates that go onto post-secondary education outside of the state (New Hampshire has the 2nd highest rate, with nearly 50% of high school graduates who pursue college leaving the state to do so).

- Retrain adults who only have a high school education and are outside of the traditional school age population

Encourage those nearing or at retirement age to remain in the labor force, and incentivize businesses to keep more workers of that age group on their payrolls.

On this last point, getting more “retirees” to remain engaged in the labor force appears to be a plausible solution, given that by 2025, the 65-74 year old age cohort will grow by 50,000 people as compared to 2015. Yet, it will likely take a substantial increase in the rate of their participation to keep the labor force growing. Figure 10 shows the results of one potential reality, where the labor force participation rates of each of the working-age 10-year cohorts remains constant, but rises for the 65-74 year old age cohort from 35% to 44% (Figure 10). In this scenario, the 25-74 year old labor force remains stable, which is consistent with the baseline NEEP forecast for the New Hampshire labor force out to 2021, but nevertheless, this only keeps the labor force stable. To get it to grow measurably, senior participation rates would likely need to be north of 50%, which seems like a stretch.

Figure 10: One potential labor force reality

	2015				2025		
Age	Population	LFPR	Labor force		Population	LFPR	Labor force
25-34	153,965	86.0	132,410		160,401	86.0	137,945
35-44	154,253	85.9	132,503		166,205	85.9	142,770
45-54	206,962	85.8	177,573		152,249	85.8	130,630
55-64	201,310	74.3	149,573		197,776	74.3	146,948
65-74	128,749	35.3	45,448		180,892	44.0	79,592
	845,239		637,508		857,523		637,884

Another potential solution to the workforce challenges ahead could be to attract more people from out of state to work (and possibly live) in New Hampshire. Historically, Massachusetts has been a place New Hampshire has been able to tap into for more workers and residents. However, persuading New Hampshire residents who work in Massachusetts to work where they live and/or convincing workers in Massachusetts to work in New Hampshire could be difficult, given the wage differential between the two labor markets and the sheer number of good-paying jobs Massachusetts has relative to New Hampshire (Figure 11).

*Figure 11: White collar jobs: Data on pay and employment for
New Hampshire and Massachusetts border counties*

	NAICS 54: Professional and technical services		
	Average annual pay	Average Annual Employment	Location quotient
Middlesex County, MA	\$135,019	128,779	2.33
Suffolk County, MA	\$132,702	79,810	1.94
Hillsborough County, NH	\$93,698	12,209	0.98
Rockingham County, NH	\$80,595	8,639	0.94

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