

**New Hampshire Economic Outlook**  
New England Economic Partnership  
November 10, 2009

**Executive Summary**

While it's likely the recession is technically over, for many it doesn't feel that way and won't until unemployment stops climbing and job growth returns. And that is at least a year away.

Employers resist hiring and firing at turning points in the economy, meaning unemployment is always a lagging indicator of economic activity. As a recession begins, firms reduce employee hours before laying off staff. And as the economy expands, businesses grow over time before making the commitment to hire new people. Since this so-called Great Recession is marked by its severity, unemployment rates will stay high even as economy improves, and will probably not decline until the second half of 2010. Increasing unemployment rates, even as economy recovers, are to be expected because firms are trying to produce more with fewer people.

Based on data through July 2009, it is likely that the Consumer Price Index will decline this year, the first decline in this broad measure since 1956. While lower inflation may sound attractive, workers expecting a cost of living increase next year may be disappointed.

Declining housing prices across the United States are being felt here in the Granite State as well. In the early 1990's, recession housing prices also declined in New England, but were largely unaffected elsewhere in the country, making housing comparably more affordable in NH. That meant homeowners could sell a home outside of New England and move here for less money. But now housing prices are falling everywhere. Also, a significant number of houses are underwater, owing more on their mortgages than the value of the home. That locks up available sellers. All of this implies a lower migration into the Granite State as the economy recovers.

The shape of the recovery remains in question. Is it a V shape, with a rapid bounce out, or a slower U shape? Some forecasters have even suggested an L shape, which would mirror Japan's "lost decade" of the 1990's. There is also a risk of a double dip recession if the private sector doesn't follow the government stimulus and bailout with investments of its own—and even then the recovery will be slow.

New Hampshire still holds some advantages relative to its neighboring New England states. New Hampshire remains one of the most business-friendly states in the US, according to the Tax Foundation, because of its lack of sales tax or a personal income tax. The president of the Tax Foundation recently referred to New Hampshire at the "Switzerland of the Northeast" due to its tax climate. New Hampshire was again ranked the best state in which to raise children, according to the Annie E. Casey Kids Count report card. The Kids Count report looks at ten categories, such as low birth weight,

children in single parent households, high school dropouts, teen pregnancy and infant mortality. In July Forbes magazine said the Manchester-Nashua region finished first on its list of “America’s 100 Cheapest Places to Live”, with the most affordable housing, lowest overall cost of living and a compelling combination of safety, employment opportunity and general quality of life. Finally the town of Merrimack was the highest ranked community in the state and number 43 of the Top 100 Best Places to Live in America in 2009, according to CNNMoney.com’s annual list.

**Highlights of the November 2009 Forecast**

- The Granite State manufacturing forecast calls for an annual job loss of about -1.8 percent per year – however most of those job losses will occur in 2009 and 2010.
- Private service producing employment is expected to grow by 1.2 percent annually in the forecast period 2008 to 2013. Educational and health services will post the highest annual job growth at 2.5 percent, followed by professional and business services at 2.1 percent.
- New Hampshire has done very well under the American Recovery and Reinvestment Act, getting more funds and projects underway faster than most other states.
- The state could see more than 20,000 new "green" jobs under president-elect Barack Obama's 10-year, \$150 billion energy independence plan, according to a University of New Hampshire analysis.

The following table shows actual and forecast economic and employment growth for New Hampshire, New England and the United States for the November 2009 NEEP forecast.

**NEEP Forecast Summary Comparisons  
Average Annual Rates of Growth November 2009 Forecast**

	<u>Actual</u> 1998-2003	<u>Actual</u> 2003-2008	<u>Forecast</u> 2008-2013
Gross State Product			
GSP-New Hampshire	3.0	2.0	2.3
GSP-New England	2.2	1.7	2.5
GDP-United States	2.9	2.4	2.4
Total Non-Farm Jobs			
Jobs-New Hampshire	1.0	0.9	0.7
Jobs-New England	0.4	0.5	0.2
Jobs-United States	0.6	1.1	0.8

**Current Conditions**

There is rarely good news on the jobs front in a recession, and this time around was no exception. The Granite State gained no net jobs between 2007 and 2008. Losing industries shed 5,600 jobs and other industries gained an equal amount. Manufactured

non-durable goods and construction accounted for the most job losses and hospitals accounted for the most gains, followed by local government.

Even so New Hampshire has not weakened as much as the region or the nation. The Jobs Index for New Hampshire, New England and the United States shows that since the official beginning of the recession (December 2007) through July of 2009 the United States job base has shrunk by 5 percent. New England lost 4 percent of the jobs held in December 2007, while NH lost only 3 percent.

So how did we get here? After all, in the last five years the U.S. economy withstood a host of destructive threats, each of which could have slowed economic expansion. Corporate malfeasance, wars in Iraq and Afghanistan, off-shoring and outsourcing, rising energy prices and interest rates, and the falling value of the dollar, could all have slowed economic growth, or thrown the economy into reverse. In 2005, Hurricane Katrina ravaged the Gulf Coast, causing energy prices to spike in the U.S. and around the world. Still the economy moved forward.

With the benefit of hindsight, we now know that massive amounts of financial capital funneled into mortgage markets, investments in subprime loans, and exotic financial instruments were really driving the economy. When those ground to a halt, that eventually led to the announcement by The National Bureau of Economic Research that the recession officially began in December 2007.

As early as 2006, residential housing, which had pumped billions of dollars into consumer pocketbooks through sales of new and existing homes, refinancing and home equity loans, began to falter. In most of the country, hot real estate markets really cooled off through 2007 and 2008 as the real estate sector began the great unwinding.

Then came March 2008. Global investment bank Bear Sterns went bankrupt under the weight of bad debt tied to the sub-prime mortgage crisis and The Federal Reserve loaned funds to assist that company's sale to JP Morgan, an unprecedented move at the time. But more bailouts followed. In late summer 2008, the U.S. Treasury Department brokered the \$200 billion taxpayer bailout of Fannie Mae and Freddie Mac, the largest residential mortgage holders in the country. Add to that the \$85 billion federal loan to American International Group (AIG), the largest U.S. insurance company, followed by the failure of Lehman Brothers. Some say the federal government's refusal to help Lehman Brothers turned the U.S. financial crisis into a full blown, worldwide financial panic.

The year only got worse from there. By the fall of 2008, financial markets were cliff diving since banks were unable or unwilling to lend to each other. That was evidenced in the spread between three-month U.S. Treasury bills and the LIBOR (London Interbank Offering Rate), which tracks the interest banks charge to lend each other money. Economists have nicknamed this difference the TED spread. The bigger it gets, the less lending is occurring. The spread increased from a historical difference of about 0.5 percent to between 5 and 6 percent by Oct. 10, 2008. As financial market liquidity evaporated college students couldn't get loans, the Manchester airport couldn't refinance

its debt, some small businesses couldn't meet their payrolls and municipalities worried that they couldn't finance road construction or pay for plowing. The lifeblood of the economy dried up, and that halted economic growth.

Thanks to unprecedented monetary and fiscal policies by the federal government, the TED spread has now fallen back to the historical norm of 0.5 percent— meaning financial panic has ended. The American Recovery and Reinvestment Act (TARP), and other financial rescue programs were part of that intervention.

## **Manufacturing**

Goss International, a printing press maker in Durham, had to cut up to 170 jobs in a second round of layoffs this summer. Most of the cuts were expected to occur at New Hampshire operations. The latest layoffs mean the US workforce would be cut by one third this year.

Emerson Electric of Portsmouth announced that it will close its 90 employee division at Pease by December 31, and move the division to an existing facility in Texas. Fisher makes control valves, wireless controls, digital controllers and diagnostic instruments used for chemical pipelines for industries including life sciences, industrial HVAC, and the food and beverage industry.

BAE Systems, a Nashua based defense contractor, expected to cut 250 jobs by the end of August. BAE is New Hampshire's largest manufacturing employer.

On the other hand Teleflex Medical OEM in Jaffrey, an original equipment manufacturer for medical devices used in surgery, recently completed an expansion of its manufacturing facility. The company will be adding 65 manufacturing jobs. Medical device manufacturing is one of the few industries in the state that continues to add manufacturing jobs with specified skill sets.

Granite State manufacturing employment shrunk at an annual rate of -5.0 percent from 1998 to 2003, but then declined at an annual rate of -1.2 percent from 2003 to 2008. The forecast calls for an annual job loss of about -1.8 percent per year – however most of those job losses will occur in 2009 and 2010.

## **Private Services**

From July 2008 to July 2009 education and health services in New Hampshire gained 500 jobs, while government gained 900 jobs. Construction, leisure and hospitality, and financial services all declined in the same time period.

The New Hampshire Automobile Dealer Association expected as many as 1,000 layoffs as a result of the closing of Chrysler and GM auto dealerships.

The downturn has even extended to the private healthcare sector. Elliot Health System in Manchester is imposing a one-year wage freeze, eliminating its match on voluntary retirement savings and cutting back on vacation benefits, all in order to avoid layoffs. Employee cuts include elimination of the merit program through which annual wage increases were granted; vacation cuts ranging from one vacation day to a week; and suspension of the 2 percent employer match for employees contributions to 403(b) supplemental retirement savings.

The loss of business in financial services is also tied to real estate market decline. For example, Bank of New England stopped making new residential mortgage loans this year, and will layoff 20 people from September through November, due to insufficient volume and return.

New Hampshire private service producing employment increased at an annual rate of 1.8 percent from 1998 to 2003, and 1.4 percent from 2003 to 2008. Private service producing employment is expected to grow by 1.2 percent annually in the forecast period 2008 to 2013. Educational and health services will post the highest annual job growth at 2.5 percent, followed by professional and business services at 2.1 percent.

### **Construction and Real Estate**

A prime cause of the recession, real estate is still working to recover from its fall. Sales of existing homes in NH declined by 2 percent in 2008, compared to the same period in 2007, according to Multiple Listing Service data collected by the Northern New England Real Estate Network. Prices fell by 13 percent in 2008, compared to 2007.

Housing permit data indicates that building activity in NH and New England declined between 2006 and 2009. Total construction contract awards appear to be steady, but commercial real estate markets locally and nationally will continue to cool down as they generally lag behind any residential market trends by about 18 months. Also, building activity will no doubt decline.

After increasing in every year since 2005, the number of recorded foreclosure deeds declined between June 2008 and July 2009. Cumulatively, the first seven months of 2009 account for a more modest increase in foreclosure deeds than the same time period in 2008, from 4,818 to 5,418. The current trend suggests that 2009 overall will have fewer foreclosure deeds than 2008, but still will be the second worst year for foreclosures on record.

The highest rents and home prices in the state are in southern NH. During the last five years, rents have grown fastest in Coos, Cheshire, and Sullivan counties, and slowest in Hillsborough County.

In a balanced housing market, the purchase price of an existing home should increase at about the same rate as the median rent for apartments. After all, houses and apartments are just different products in the same market. Between 2000 and 2006, home purchase

prices have increased faster than rents in most areas of NH. Preliminary data for 2009 shows that housing prices and apartment rents are returning to the trend seen between 1990 and 2003 when they were closer aligned, the result of a 22 percent decline in housing prices and a moderate increase in rents from 2006 to 2009.

New Hampshire has not experienced a spike in homeowners seeking breaks on their property assessments. Abatements give homeowners a drop in their property assessment, allowing them to cut the amount of their property tax bill. Figures from the state Board of Tax and Land Appeals showed the board received 578 abatement appeals for the 2008 calendar year, a 24 percent reduction from the previous year. An increase in abatements will more likely be triggered by rising property tax rates, as communities face a shrinking tax base and lower state aid.

The cities of Manchester and Somersworth have both asked the State Supreme Court to rule on the legality of a proposed tax cap charter amendment. Both petitions have the potential to settle a statewide debate about whether or not the tax and spending caps violate the state constitution or laws. Several cities instituted caps believing they were legal, but a March 2009 ruling in Merrimack Superior Court in Concord struck down that city's proposed cap.

## **Government**

New Hampshire has done very well under the American Recovery and Reinvestment Act. New Hampshire has been spending federal stimulus money on transportation faster than most states. The US Transportation Department says the state is among the top 10 in percentage of stimulus money for transportation already put to work. The state sped up contract approvals, changed laws and was helped by a huge backlog of projects.

According to the New Hampshire Office of Stimulus the state has created about 3,000 jobs with its share of the federal stimulus money, based on the \$407 million received by the state so far. New Hampshire's total award from the American Recovery and Reinvestment Act should be about \$1.5 billion.

New Hampshire auto dealers received \$29 million from the Federal government in rebates from the Cash for Clunkers program. New Hampshire led the nation in the per capita amount of federal stimulus committed in the "Cash for Clunkers" program, at \$17.51 per person – the next closest state was Vermont at \$15.90 per person.

Federal support for local social service programs is certainly needed. This year the number of food stamp recipients in New Hampshire increased by about one third (36%). At the end of August the number of people covered by food stamps stood at 89,211, representing almost 7 percent of the state population.

In Fall of 2010 the federal prison being constructed in Berlin, which will have some positive economic impact on the region. Construction began about two years ago. Once finished the prison will employ about 300 people.

Despite fewer airline passengers and troubling economy, Manchester-Boston Regional Airport's economic impact continues to grow. The airport has a \$1.24 billion impact in 2008, and is nearly double what it was five years ago.

### **Conference Theme: Re-energizing the New England Economy: The Role of the Green Revolution**

The state's incentives for "green power" proved a draw for the company that plans to build a string of 410-foot wind turbines across remote ridge lines in northernmost Coos County. Like 29 other states New Hampshire is offering tradeable credits for renewable energy through the state's Renewable Portfolio Standard. The 2007 law requires utilities to buy a certain percentage of power from renewable resources, with the goal of having 25 percent of electric power coming from renewables in the year 2025. Renewable power is more expensive than conventional power, so the renewable energy credits under the Renewable Portfolio Standard create an additional source of revenue for the project.

Roughly \$9 million the state received through its portion of the Regional Greenhouse Gas Initiative auctions will be used on energy efficiency projects around the state. The single largest grant will total \$7.6 million, for a state utility administered fund that will pay for weatherization of low income homes, aid in purchasing energy-star appliances, and energy efficient business equipment.

According to a recent "Clean Energy Economy" study from the Pew Charitable Trusts, by 2007, 68,203 businesses in the United States had generated more than 770,000 jobs in the clean energy economy. And between 2006 and 2008, about \$12.6 billion of venture capital investments was directed toward clean technology businesses in 40 states and the District of Columbia. In 2007 there were 465 clean industries and 4,029 clean jobs in New Hampshire.

Using a broader definition, there were about 16,800 "green" jobs in New Hampshire in the first quarter of 2007. And the state could see more than 20,000 new "green" jobs under president-elect Barack Obama's 10-year, \$150 billion energy independence plan, according to a new University of New Hampshire analysis. Of all the counties in New England, Hillsborough is among the best positioned to achieve growth in green industries. The county already has a 4.2 percent concentration of jobs that fit into this category – the highest in New Hampshire and well above the 3.2 percent national average. The average New Hampshire "green" job pays \$54,400, the study showed, which is about 23 percent higher than the average job.

Here are the five sectors they came up with, according to research scientist Matt Magnusson:

- Energy efficiency: Includes construction-industry jobs geared toward making homes and buildings more efficient.
- Environmental services: Recycling, water quality testing, etc.

- Green transportation: Low-emission or mass transportation, including public rails.
- Renewable energy: wind or solar, for example.
- Smart tech: Designing and manufacturing the technologies that make renewable energy possible.

Of the 17,000 green jobs that exist in New Hampshire today, 8,400, or nearly half, fall into the smart tech category, according to the study.

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