NEW HAMPSHIRE ECONOMIC OUTLOOK

Executive Summary

New Hampshire’s recovery has been lackluster when compared to the New England job recovery. While the assessment of New Hampshire’s current employment picture may improve with next year’s revisions to the current jobs data, the weak performance of the state economy is still a serious concern.

New Hampshire still ranks well among the states in measures of education attainment, quality of life and personal tax burden. Yet that advantage is withering away, and may erode further in years to come.

Imminent concerns about the so-called “Fiscal Cliff” are distracting our attention from New Hampshire’s more fundamental challenges. One thing is certain – a Federal government concerned with getting its own fiscal house in order implies less Federal support for state programs. New Hampshire is entering an uncertain time, with an increasing likelihood of reduced support from Washington, DC.

Highlights of the December 2012 Forecast

- New Hampshire manufacturing jobs will fall only slightly, at a 0.2% average decrease each year, after declining at a 3% annual rate in the last five years.
- In the services sector the fastest rate of future growth will occur in leisure and hospitality, followed by professional and business services jobs. Education and health service job growth will slow from 2011 to 2016.
- New Hampshire real estate markets are improving, but slowly. Residential home sales are up about 20% compared to a year ago, but home prices have seen little change over the past year. The forecast calls for further improvement in local real estate markets through 2016.

Current Conditions

The 2012 Kids Count report from the Annie E. Casey Foundation ranked New Hampshire as the most child friendly state in the country for the ninth time in ten years. The annual state ranking report looks at education, health, family and community support indicators in deriving its assessment of child wellbeing.

In another report, the Manchester-Nashua area ranked second best among cities to raise a family. The report from Kiplinger’s Personal Finance developed its analysis based on comparing the cost of living, income growth, crime rate, health care, public schools, community services, and cultural resources among 360 metropolitan areas across the U.S. The study also relied on interviews with local realtors, educators and public officials.

A July 2012 poll published by the Business and Industry Association showed that about half of New Hampshire businesses surveyed expect improved economic conditions in 2013. Issues that are of major concern to businesses range from the Supreme Court upholding the Affordable Care Act to the “Fiscal Cliff”.

New England Economic Partnership Fall 2012: New Hampshire
The New Hampshire recovery has been disappointing. New Hampshire’s job base declined by about 4.0% but, unlike New England and the United States, has not bounced back. The latest readings show that New Hampshire still has 4.0% fewer jobs now than in December 2007.

In prior recoveries, New Hampshire’s rate of job growth often substantially outstripped employment expansion in New England and the nation. While that is not occurring now, there is reason to believe that New Hampshire’s job performance picture may brighten with upcoming data revisions.

**Manufacturing**

Granite State manufacturing jobs declined at a 3.2% annual rate in the last five years (2006 to 2011). In the forecast period, New Hampshire manufacturing jobs will decline only slightly, at a 0.2% average decrease each year. However, it is expected that Granite State manufacturing output will continue to increase much faster in the forecast period than the increase in jobs, as was also the case in the past five years.

The 2012 Manufacturing and Logistics Report Card from Ball State University and Conexus Indiana ranked all 50 states on manufacturing industry health, including specific rankings on logistics, worker costs, workforce development and other factors affecting manufacturing companies. While New Hampshire received a B+ on overall manufacturing industry health, sector grades were varied. New Hampshire received an A ranking on human capital, and C to C+ rankings on tax climate, expected liability gap, global reach and productivity and innovation. New Hampshire received failing grades on worker benefit costs (D), and sector diversification (D). New Hampshire received a grade of F on logistics industry health, which was based on the capacity to move goods, to store inventory and manage the distribution and processing of manufactured goods. Specific measures in the logistics category include the share of total logistics industry income as a share of total state income, logistics employment per capita, commodity flows data by both rail and road, and finally infrastructure spending as the per capita expenditure on highway construction.

BAE Systems, the state’s largest defense contractor, was awarded a $71.4 million five year contract with the Department of Defense for an electronic warning system that will protect military aircraft from shoulder launched surface to air missiles. The company also obtained a $42 million contract for infrared imaging detectors to protect Army helicopters and fixed wing aircraft and crews from infrared guided missile attacks during low altitude operations, as well as a $30 million contract to retrofit F-35 fighter jets destined for Israel with electronic warfare systems. BAE Systems is located in Nashua and employs over 2,800, making it the largest manufacturing employer in the state.

The GE Aviation factory in Hooksett procured part of a $327 million contract to manufacture jet engine components for the Navy and Air Force fighter jets. The company manufactures gas compressor vanes and tubes, and the work is scheduled to be completed by June 2014.

Other recent defense contracts in New Hampshire included a $20 million grant to L-3 Communications to provide aiming lights for rifles, and a $23 million contract to JCN Construction for the construction and furnishing of an Armed Forces Reserve Center in Brunswick, Maine.
A chemical company in Londonderry plans on hiring almost 100 more workers in the next two years. Kluber Lubrication North America Limited Partnership, a subsidiary of Freudenberg Chemical Specialties, provides seals and vibration control technology components, filters, nonwovens, release agents and lubricants for a variety of industrial sectors. The parent company also has facilities in Bristol and Northfield and is planning to hire at those locations as well.

TurboCam International, a Barrington company that designs and produces turbocharger components, is working on doubling its employee base of 220 workers. The company plans to utilize existing partnerships with local technical schools and expects to begin hiring in early 2013. Although the company has facilities in other countries, it is striving to keep manufacturing jobs in the U.S., which is its main customer base.

Foss Manufacturing, a manufacturer of specialty non woven fibers, plans to invest $15 million and create 150 new jobs in Rome, Georgia. However, the company also announced it is committed to staying and expanding in New Hampshire as its home base. The company invested $5 million in a new production facility in Hampton, New Hampshire, and has added 60 new employees since January of this year. The company currently employs about 400 people.

Companies are also relocating into New Hampshire from nearby Massachusetts. Aspen Technology, a supplier of software that optimizes process chemical manufacturing headquartered in Burlington, Massachusetts, is leasing new office space in Nashua, New Hampshire. Software engineers and quality assurance specialists will be operating from the Nashua office. BurstPoint Technologies moved its 20 employees from Westborough, Massachusetts to Merrimack, New Hampshire at the same time adding engineering and finance positions since making the move. The high tech software company said the biggest reason for the move is the pool of senior technical talent available in New Hampshire.

GT Advanced Technologies in Nashua, an international supplier of components for the solar energy industry, is laying off 25% of its workforce. The company employed 650 people worldwide, with 250 working in Nashua and Merrimack, New Hampshire. The company noted that global demand for solar cells was slowing and prices were falling. The company also cited uncertain financial conditions in Asian markets, including import duties on Chinese goods coming into United States and Europe, as the reasons for the downsizing.

The New Hampshire’s North Country Brown Street Furniture, located in Whitefield, closed. In 2010 the company employed 100 furniture makers, but layoffs cut the staff to 20 positions by May 2011.

Private Services

New Hampshire ranks in the top ten states for business growth, inventiveness and technological innovation, according to two recent reports. New Hampshire ranked 10th out of the 50 states in the 2011 State Entrepreneurship Index compiled by the University of Nebraska – Lincoln. The University looks at measures like the number of new business startups per person, and the income of entrepreneurs. In another study released in the fall of 2012 CNNMoney ranked New Hampshire as one of the ten most inventive states in the country, based on the number of patents issued annually per person.

Businesses throughout New Hampshire have been reporting strong tourism related sales over the past few holiday weekends. Bookings were higher in the Lakes Region and the White Mountains this summer, with an increase in Canadian visitors as well.
Private service producing jobs grew at an annual rate of only 0.1% over the last five years (2006 to 2011). The rate of growth will increase to 1.7% annually in the forecast period. The fastest rate of growth (2.7%) will occur in leisure and hospitality, followed by 2.5% annual growth in professional and business services jobs. Education and health service jobs grew by 2.3% annually over the last five years, but the rate of growth will slow to 1.7% average annual growth in education and health services jobs from 2011 to 2016.

**Construction and Real Estate**

At the local level in New Hampshire, home building companies have seen an increase in activity, but still considerably less demand for new homes than in 2005. Through September 2012 there were a little more than 1,900 residential building permits issued in New Hampshire, compared to about 1,800 in the first nine months of 2011. But in the first nine months of each of the years 2002 through 2005 more than 6,000 residential building permits were issued. New Hampshire realtors have also been more optimistic about the housing market locally, observing that home sales so far this year are up by 20% compared to one year ago.

Housing permit data indicates that building activity in New Hampshire and New England has reached its lowest level in decades. Construction employment in New Hampshire declined at an annual rate of 5.7% in the last five years, compared to the New England average 5.4% annual decline. Growth in New Hampshire construction jobs will be moderate in the five years of the forecast period (1.8% annual growth), as housing permits increase from the current annual rate of 2,200 per year to a more normal 6,000 per year.

**Government**

After the November 6, 2012 U.S. Presidential election, the national balance of political power remains unchanged, with Democrats controlling the White House and the Senate and Republicans in control of the House. While the national divisions seem as intact as they were before the votes were counted, the political balance of power in New Hampshire shifted. The State of New Hampshire still has a Democrat in the corner office (Governor Hassan replacing Governor Lynch), but the 400 member New Hampshire House swung from 298 Republicans and 102 Democrats in the last session to 221 Democrats and 179 Republicans in the upcoming biennium (a ratio very similar to the 2009-2010 New Hampshire House composition). In the New Hampshire Senate Republicans still hold a majority, but only by the slimmest of margins – 13 Republicans and 11 Democrats, compared to 19 Republican and 5 Democrats in the last biennial session.

The State of New Hampshire finished the 2012 budget year with a surplus of $13.6 million, with the balancing coming from cutting spending, rather than raising taxes. In fact, revenue in 2012 was several million dollars less than expected, due to lowering the tobacco tax by ten cents, a shortfall in Medicaid enhancement tax revenues, and $22 million less than expected from the Department of Revenue audits due to layoffs at that department. The budget was balanced largely through cuts to social programs, decreasing state support for public higher education, and reducing Medicaid reimbursements to hospitals.

Improvement in the unemployment trust fund balance has allowed the State of New Hampshire to decrease the unemployment insurance tax per employee by $140, starting January 1, 2013. The state’s unemployment trust fund was depleted during the Great Recession, which meant not only increased taxes but also borrowing funds from the Federal government to shore up the fund.
While the unemployment insurance trust fund has still not returned to levels seen prior to the financial industry meltdown, improvement over the last year has lead to a lowering of the tax rate.

The Manchester-Boston Regional Airport will be offering 45% fewer departing flights than five years ago. The airport spokespeople blamed high jet fuel costs, the recession and a shrinking aviation industry for the cutback in services. Actual passenger numbers at New Hampshire’s largest commercial airport declined by 1.6 million travelers (about 37%) between 2005 and 2011.

The New Hampshire Community College System created the WorkReadyNH program to provide assessment, skill building and a National Career Readiness certification for unemployed and under-employed New Hampshire job seekers to improve foundational workplace skills. The program includes workplace math, critical thinking and reading for information, as well as soft-skills such as teamwork, conflict resolution, employer expectations, and communication. Recently this free workforce development program was extended to include 16 to 18 year olds, and is open to those working 30 hours or less a week, or those who are unemployed.

**Conference Theme: The Next Four Years: Economic Outlook in New England Post Election**

After the Presidential election, public policy discussions turned almost immediately to the “Fiscal Cliff”. The term was coined by Federal Reserve Chairman Ben Bernanke, referring to the expiration of tax cuts on December 31st and the imposition of automatic spending reductions on January 1st, 2013. The taxes would rise with the end of the temporary tax reductions enacted during the administration of George W. Bush and the Obama administration’s temporary payroll tax cuts. Spending cuts would come mainly from automatic sequester reductions to defense and social program spending negotiated by last summer’s “Super Committee”, formed to deal with the Federal deficit.

Chairman Bernanke has warned Congress that the shock of Federal tax increases and spending reductions would plunge the economy into a recession in 2013. The American Action Forum estimates that New Hampshire will lose from 14,000 to 50,000 jobs if the fiscal cliff is not moderated in some way. Moody’s Analytics estimates a 2% decline from the baseline employment in 2014, which would amount to a loss of 13,000 jobs.

For states that have a personal income tax, state tax revenues would actually increase with the expiration of the Bush era tax cuts, depending on whether the state income tax is linked to the Federal personal deductions, or to Federal tax credits for earned income or childcare. Because the expiration of the Bush Tax Cuts would decrease these offsets to tax liability, state income tax revenue would also increase. But there will be no increase in New Hampshire tax revenue because New Hampshire does not have a state personal income tax. Likewise, the New Hampshire state corporate income tax deduction is not linked to the Federal, and therefore New Hampshire would not see an increase in state corporate tax revenues, according to an analysis from the Pew Center for the States.

New Hampshire is one of the “dormant” states whose estate and legacy tax effectively expired because it explicitly referenced the Federal estate tax credit. When the Federal credit disappeared New Hampshire (and 24 other states) no longer had estate taxes, according to an analysis by the Tax Policy Center. They estimate that new estate taxes in New Hampshire could range from $5 million to $27 million in 2013 with the restoration of the Federal tax credit (which would effectively resurrect New Hampshire’s Estate and Legacy Tax).
However this relatively small increase in potential New Hampshire state tax revenue would certainly not offset the damage coming from increased Federal tax obligations and decreased Federal spending in New Hampshire. Spending cuts subject to sequester are proportionally the same in New Hampshire as for the U.S. average, according to the Pew Center analysis.

**Tailwinds Have Become Headwinds**

There are longer term issues for the New Hampshire economy beyond the Fiscal Cliff. For several decades, New Hampshire has been the Northeast’s economic stand-out. With a highly-educated workforce, high rates of in-migration and high income levels, New Hampshire boasted a dynamic economy that gave it distinct advantages over its neighbors.

The Great Recession disrupted much of the New Hampshire economy, as it has across the country. But it is a mistake to assume that the recession is the sole reason for the recent slowdown in the state’s economic engine, or that once the impacts of the recession are behind us, New Hampshire will return to the pattern of reliable growth of years past. After benefiting from nearly three decades of economic tailwinds, New Hampshire now faces a strong headwind.

What does that headwind look like? First, more people are now leaving New Hampshire than are moving here. The recession saw a sustained period of out-migration from the state, but migration into the state was already declining well before the recession. That decline in new arrivals has been accompanied by another worrisome demographic trend: New Hampshire’s population is growing older and at a faster rate than the rest of the country. While the state’s median age was equal to the U.S. average in 1980, New Hampshire’s median age rose to 41 by 2010, compared to the national average of 37.

Second, as the state’s population has aged, the number of New Hampshire residents participating in the workforce has declined. This trend was underway before the recent downturn in the economy, so it is not due solely to the recession. Without increases in capital investment and technology to offset this drop in the labor force, we’ll likely see further declines in economic output.

Third, New Hampshire is also seeing a decline in its educational edge over other states. Many of the people who moved here over the past three decades were highly educated, allowing the state to race ahead of the rest of the country in the percent of residents with a college degree. This translated to greater worker productivity and higher incomes. But over the past decade, New Hampshire’s rate of increase in educational attainment slipped below the national rate. In other words, we’re adding college graduates to our workforce at a slower pace than the rest of the country – a marked departure from the previous decades.

Taken together, these trends have significantly slowed growth in the state economy. Between 2000 and 2010, New Hampshire saw a slower rate of growth in Gross Domestic Product than in any period over the past 40 years. Even as the recession slowed economic growth across the country, many areas outperformed New Hampshire with more buoyant job growth, higher productivity gains, and higher growth in capital stock. New Hampshire also saw a greater drop-off in GDP growth between the 1990s and the 2000s than almost every region of the country.

Viewed this way, New Hampshire’s present economic advantages appear largely to be fueled by decades-old demographic trends that have run their course. Why does this matter? Many of the factors that contribute to the so-called “New Hampshire Advantage” – including a low crime rate,
lower tax burdens, and high rates of job creation – are driven by the state’s economic dynamism. A sustained decline in New Hampshire’s record of economic growth will likely change all that.

The outcomes of these shifts may not necessarily all be negative. Slower population growth will likely mean less congestion and less strain on local government budgets, for instance. And some of the fundamental advantages upon which New Hampshire’s economy is founded – proximity to Boston and a beautiful natural environment, for example – won’t disappear anytime soon. But, at the least, this shift demands a recalibration of the assumptions upon which much state and local policy is founded.

There is no single, simple answer to these challenges. Any response must be a blend of approaches, with the goals of increasing the size and skill level of the workforce, boosting labor productivity, and encouraging capital investment. The question facing the next governor, Legislature and other state policymakers is how to prioritize the options in redesigning New Hampshire’s economic blueprint.

One thing is certain – a Federal government concerned with getting its own fiscal house in order implies less Federal support for state programs. New Hampshire is entering an uncertain time, with an increasing likelihood of reduced support from Washington DC.

Dennis Delay
New Hampshire Center for Public Policy Studies
One Eagle Square, Suite 510
Concord, New Hampshire 03301-4903
(603) 226-2500
ddelay@nhpolicy.org