



Summary of the New Hampshire Economy Fall 1998

Another autumn has come to a close. Much of this year's fall foliage splendor was washed away by mid-October rains. Are the Asian financial crisis and Wall Street jitters threatening to wash away the golden hues of a New Hampshire economic recovery approaching its autumn? The state has been in a prolonged period of economic growth and prosperity. Are the good times winding down?

New Hampshire economic signals through September were mixed:

- Initial claims for unemployment compensation through the first three quarters of 1998 were the lowest in ten years, and continued weeks claimed were down.

- The seasonally adjusted unemployment rate was the lowest for September in at least twenty years. The number employed was up from September 1997. The number unem-

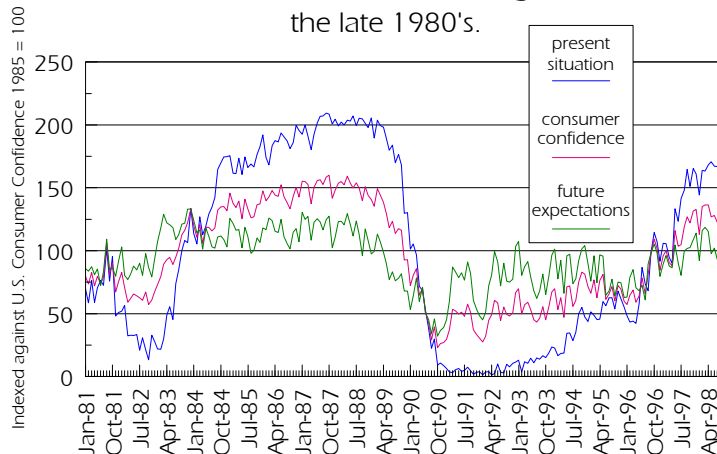
ployed was down by 18.7 percent. But the civilian labor force shrunk slightly.

- September's not seasonally adjusted, nonfarm employment was 0.7 percent lower than a year earlier. But the year-to-date average was just slightly higher than in the first three quarters of 1997.

- New England consumer confidence in 1998 reached highs for the decade, and the current situation index attained its highest level since July 1989. But a sharp drop in future expectations left the composite index down over the year.

- Real estate prices in New Hampshire were climbing as evidenced by the Repeat-Sales Home Price Index and the dollar valuation of permitted residential units. Through August, single family housing permits issued were up. But the number of multifamily units authorized slipped.

In September, the New England consumer confidence present situation index reached its highest level since the late 1980's.



source: New England Electronic Economic Data Center

Employment and Unemployment —

There have been mostly positive signs in labor force estimates. We can expect the average unemployment rate for 1997 to settle near 2.8 percent, based on monthly labor force estimates through September and recent trends. In September the preliminary seasonally adjusted unemployment rate was the lowest September rate in the current series which stretches back to 1978. At just 2.4 percent, it was down significantly from 3.0 percent in September 1997 and 4.2 percent in September 1996. This would leave 1998 tied with 1986 for the third lowest average annual unemployment rate in the current series which dates back to 1978. Only 1987 and 1988 ended with lower average rates.

September's preliminary seasonally adjusted unemployment level was measured at 15,640 compared to 19,230 a year earlier. It had dropped by 18.7 percent over the year and 40.2 percent from the benchmarked September 1996 level. New Hampshire's labor force shrunk to 647,330 workers, slightly lower than revised August estimates and less than 0.2 percent below the level of last September's benchmarked estimate.

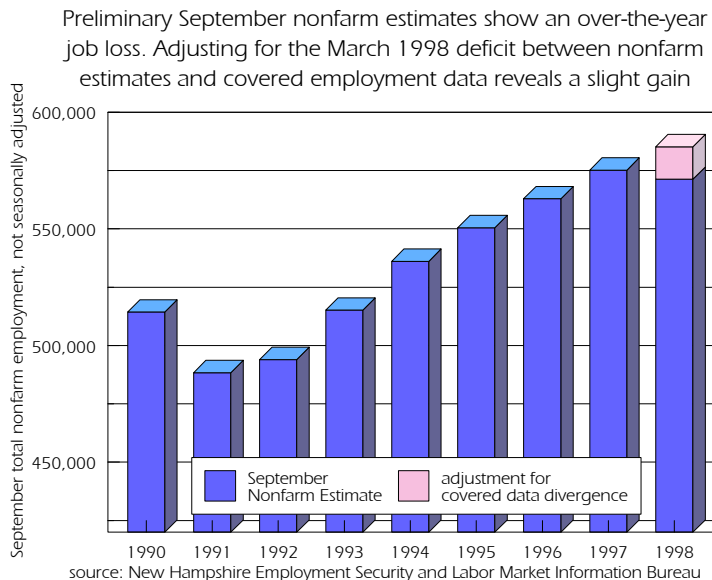
Claims for unemployment compensation insurance benefits were down. The total number of initial claims filed for the calendar year through September decreased by

7.0 percent. The initial claims count for the first three quarters of 1998 was the lowest in ten years while continued weeks claimed decreased 23.7 percent compared to 1997.

Nonfarm employment for 1998 should average 585,400, 3.0 percent higher than 1997, based on the latest covered employment data and nonfarm estimates. This would exceed the annual growth in both 1996 and 1997. Through the first nine months of the year total nonfarm employment, not seasonally adjusted, averaged 0.9 percent higher than for the same period in 1997. In preliminary September estimates it was pegged at 571,300, a 0.7 percent dip from a year earlier. Adjusting the September number for the difference between the latest covered data and the nonfarm series reveals an over-the-year gain.

Consumer Confidence —

The Conference Board's New England Consumer Confidence Index for September 1998 was 117.3. This was down from the 126.9 registered a year earlier and represented the year-to-date low. The present situation index, at 181.5, hit its highest level since July of 1989. The total index was restrained by the future expectations index which fell to 74.6, its lowest level since July 1996. The future expectations index has been consistently lower than the present situation index since October 1996 when the



latter cracked the 100 barrier for the first time during the current recovery. The gap between the two components of consumer confidence was larger in September than for any month since December 1988. Jitters over the stock market and unease over the world economy had begun to take their toll. The New England consumer confidence series is not seasonally adjusted and is fairly volatile. The U.S. Consumer Confidence Index, which is seasonally adjusted, fell less markedly from August to September, and was down slightly over the year at 126.0 compared to 130.2 in September 1997. In October the U.S. Consumer Confidence Index fell again — to 117.3. This was its fourth straight monthly decline. While the present situation index, at 163.5, remained higher than it was a year ago, the future expectations index fell to 86.6 drawing the Consumer Confidence Index down by nine points. The U.S. series is indexed to 1985 = 100. The regional series are indexed, in turn, to the U.S. series.

Construction

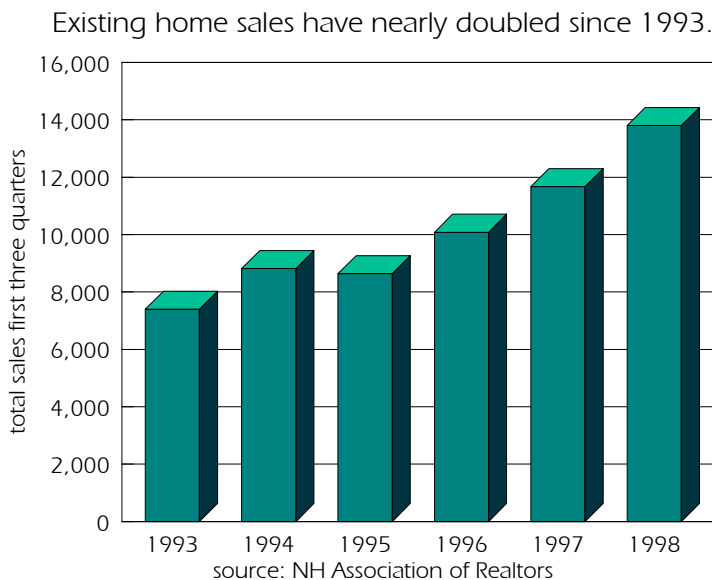
The Federal Reserve Bank Board of Governor's *Beige Book* of September 16, 1998 characterized construction activity as very strong across the nation, though some areas which had been experiencing high levels of activity reported signs of slowing. Nationally, construction employment had added 258,000 jobs over the year, despite a drop of 20,000 jobs in September. The summary noted that

in some areas shortages of qualified construction workers created a significant obstacle to new construction.

Construction employment in New Hampshire has mirrored the national trend. Though preliminary not seasonally adjusted nonfarm construction employment estimates showed little September to September gain, averaging monthly estimates from the first of the year though September yields a gain of 5.4 per cent or 1,122 jobs over the same time period in 1997.

In a recent publication by the Federal Reserve Bank titled *The Economic Performance of the New England States in 1997: An Overview*, the New Hampshire residential real estate market was characterized as a strong contributor to the rosy picture of the state's economy. A number of factors have combined to push real estate activity and in turn construction activity. In the residential market, high demand has led to increased existing home sales, resulting in low inventory and spurring new residential construction. Low office vacancy rates have induced developers to undertake the construction of new commercial buildings. Many real estate agents were still saying that values in 1997 were below those of the 1980s.

Indicators of residential housing activity presage a continuation of the growth trend



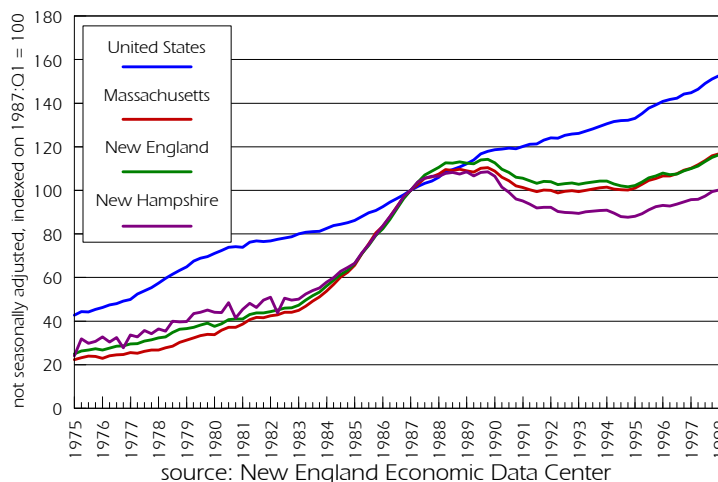
noted in the *1998 Spring Summary*. New permits for privately-owned housing units increased 11.8 percent or 398 total units for August 1998 year-to-date over the same time period in 1997. The cumulative total of single family housing permits through August, increased for the fifth straight year. As mortgage interest rates fell, the eight-month count outstripped 1997's modest 1.6 percent gain, swelling by 18.2 percent. The 3,329 single-unit permits was the most tallied for any January through August since 1989. For New England, single family housing permits for the first eight months of the year rose 10.7 percent. The number of multifamily housing units permitted in New Hampshire during the first eight months of 1998 was down compared to the same period in 1997. Multiunit housing construction in this recovery has not yet approached the heights recorded in previous recoveries.

Real estate prices were on the rise. The Repeat-Sales Home Price Index for New Hampshire reached 101.85 in the second quarter — the highest level recorded in any spring since 1989. The dollar valuation of permitted residential units advanced 7.6 percent increasing the per unit average by \$7,807. The indexed value of residential construction contracts also showed an increase, averaging 20.6 percent, for January through August 1998 compared to the first eight months of 1997.

The index value for total construction contracts in 1998 through August averaged 29.4 percent higher than in 1997 portending a bright near-term future for construction employment. Through August, nonbuilding construction was up by 76.2 percent and nonresidential construction by 12.7 percent as measured by the McGraw-Hill Construction Contract Value Indexes. An extraordinarily high index for July drove the nonbuilding gain. This may have reflected the awarding of contracts for gas pipeline construction projects.

The onset of construction on two natural gas pipelines that will connect northern New England to Maritime Canada and two of the world's largest natural-gas fields has begun to affect employment according to reports from the North Country. The cost of the New Hampshire portion of the Portland Natural Gas pipeline is estimated to be approximately \$1.16 million per mile for nearly eighty miles extending across several New Hampshire communities. In addition to providing well-paying, though temporary, construction jobs and an alternate source of energy for business and residences, the pipeline will add to the tax bases of the communities it passes through. Many of these are economically hard-pressed North Country towns.

The New Hampshire repeat-sales home price index has climbed steadily since first quarter 1995, but has not yet approached the hyperinflated levels of the late 1980s.



The recently enacted multi-year highway and mass transit plan is expected to bring New Hampshire in excess of \$100 million in federal transportation funds for fiscal year 1999. Currently under discussion is a proposal to designate U.S. Route 2, which travels from the Maine coast through New Hampshire's White Mountains and across Vermont to Lake Champlain, as an international corridor/highway. This would qualify the route for funds from the Transportation Equity Act of the 21st Century and provide another boost for the North Country economy.

Manufacturing

Covered manufacturing employment continued to move upward through the first quarter of 1998. The latest available data discloses a March to March increase of 3.9 percent. Continuing the long-term pattern, durable goods led the way with a 5.0 percent over-the-year increase. Electronic and other electrical equipment increased from 19,080 to 20,576, a gain of 1,496 jobs (nearly half of the entire durable goods manufacturing growth). Primary metal manufacturing gained 17.6 percent, the highest over-the-year percentage gain of all durable goods manufacturing. Nondurable goods manufacturing grew by just 1.5 percent. Modest gains in textile mill products, printing and publishing, and rubber and plastics products offset losses in apparel manufacturing and paper and paper products.

It seems apparent that manufacturing employment growth has weakened. Whether this weakening has turned to a decline will become clearer when more covered employment data becomes available and the nonfarm estimates are benchmarked. A string of 54 straight months of over-the-year manufacturing employment gains finally came to an end with the unbenchmarked, not seasonally adjusted May nonfarm estimates. The unbenchmarked May through August estimates and the preliminary September estimate have tallied gradually accumulating over-the-year losses. By September, the over-the-year deficit had grown to 2,700 jobs. Benchmark revisions later this year are likely to moder-

ate this trend since covered employment data in March counted nearly 800 more manufacturing jobs than the sample-based nonfarm employment estimates. Taking into account the March divergence between covered employment data and nonfarm estimates, durable goods nonfarm manufacturing employment is virtually unchanged from September to September. Nondurable goods manufacturing employment, however, shows a significant slide.

Published reports give mixed signals about manufacturing employment in the near term. In durable goods manufacturing, a number of firms have announced expansions. Freudenberg-NOK, is ready to begin construction on a new plant in Northfield which will be in full operation early in 1999. The plant will manufacture complete axle seals and is expected to employ about 250 people in three shifts once production is up and running.

The City of Lebanon's Planning Board has granted site plan approval to Luminescent Systems Inc. to build a new 81,000 square foot manufacturing plant. Luminescent plans to increase the size of its work force from 150 to 165.

The town of Hudson has landed the corporate headquarters for a global communications cabling firm that could bring as many as 170 jobs to town. MOD-TAP of Harvard, Massachusetts, and Manchester is completing talks to purchase a seven acre parcel in Hudson. The company plans to erect a 65,000 to 80,000 square foot facility that will house manufacturing in the rear and a two story office headquarters in the front.

In Dover, Cambridge Tool, an "engineered die casting service," has begun the first phase of its 70,000 square foot expansion project. The added capacity is expected to lead to the addition of about 75 new jobs.

In conjunction with area employers, the Laconia Community Technical College will be starting a machine tool course at its site on Route 106. The course will be basic in scope,

provide an introduction to the trade, and teach mathematics skills. Follow-up training will be provided by employers participating in the plan.

Other durable goods manufacturers are experiencing hardships. The *Keene Sentinel* reported that Markem Corp., was forced to lay off 31 employees during the month of July due, in part, to the decline of currency values in East Asia, the home of some of Markem's customers. The Laconia Local Office of New Hampshire Employment Security recounted that complications from reduced orders partly attributable to the economic problems in Asia have continued to plague a firm in their area. The company had been anticipating a vigorous increase in business and had used the Laconia Local Office for recruiting early in the spring. Now, word has been received that, rather than adding workers, the company will be forced to lay off seventeen employees.

A *Foster's Daily Democrat* news item in September related that General Electric was scheduled to permanently lay off 118 employees from the Somersworth location in October. Company officials cited a move in the commercial meter market toward electronic meters that require less labor to produce and the transfer of operations to the company's partner in Mexico.

In nondurable goods manufacturing: In the North Country, Crown Vantage reduced its workforce from 903 in January 1998 to 828 in June 1998 according to published reports. Response to an early retirement offer, however, left the pulp and paper-maker in the unexpected position of possibly having to hire additional workers to fill some essential positions vacated by retirees. There is continuing concern about the future of this longtime North Country mainstay. Company officials have been quoted as saying that the Berlin/Gorham operation had very little time left to make the local plants profitable. The current flood of unlimited supplies of Indonesian pulp at one third less than the U.S. price has left Crown Vantage's Berlin/

Gorham plant operating in the red month after month. The state's political establishment has long placed a high priority on maintaining the viability of the paper industry in the North Country.

Malden Mills Industries, Inc., maker of Polartec® fleece, has had to cut back employment. After rebuilding from the devastating fire of 1996, the company was having difficulty obtaining financing in the regional banking environment. Setbacks to Malden Mills affect other businesses in New Hampshire. "Malden Mills represents about 70 percent of our raw materials," said Chuck Henderson, CEO of Chuck Roast Mountainwear, a clothing manufacturer in Conway, NH.

The *Portsmouth Herald* reported in August that the Swiss chocolate maker, Lindt and Sprungli, plans to double its space to accommodate production needs which now exceed 4.5 million pounds of chocolate a year from the Stratham facility alone. Plans have been submitted to the Stratham Planning Board for a 100,000 square foot warehouse. Increased sales this past year prompted the company to establish a second production line, doubling the factory's output.

Transportation, Communications, and Public Utilities

The latest covered employment data showed a 3.2 percent over-the-year increase in the Transportation, Communications and Utilities (TCU) industry division in March 1998. March data counted over 300 more jobs than the sample-based not seasonally adjusted nonfarm estimate. Preliminary nonfarm estimates for September 1998, however, showed an over-the-year loss of 400 jobs.

The completion of two new pipelines will greatly expand the supply and accessibility of natural gas to New England. This has tremendous implications for energy use patterns and energy prices in New Hampshire that we can only begin to imagine. Wausau Papers has already signed a contract to draw 4.6 million cubic feet of natural gas daily from

the pipeline. Other potential customers in the North Country include Crown Vantage, the Androscoggin Valley Hospital, and the new state prison. In Newington, three groups, spurred on by the prospect of electric utility deregulation, are floating proposals to use natural gas to generate energy.

The federal courts ruled in favor of Public Service of New Hampshire (PSNH), the state's largest electric utility, in its challenge of the state Public Utilities Commission deregulation plan. As a result, to carry out deregulation the state must now litigate or negotiate agreements with individual electricity providers. Agreements have been reached with New England Electric, which began to affect rates on July 1, and Unitil, which will begin to affect rates next March 1. Upon settling with the state, Unitil withdrew from the federal lawsuit on electricity restructuring scheduled to be heard in Rhode Island in November. PSNH remains as the main combatant in the suit and the chief impediment for the state's plans for deregulation.

The Laconia Community Technical College is tentatively scheduling for the fall a course leading to a Class A (Tractor Trailers) Commercial Drivers License. There is an increasing demand for drivers, and the career opportunities and wages are good.

Trade

The 1998 projections for New England retail trade sales growth of between four and seven percent appear to be confirmed by the figures emerging through September. The U.S. Census Bureau announced advanced estimates of U.S. retail sales for September of \$224.9 billion, up 4.3 percent from September 1997. These estimates are adjusted for seasonal, holiday, and trading-day differences, but not for price changes. Total sales for the third quarter of 1998 were up 4.1 percent from the same quarter a year ago.

Bloomberg L.P. reports U.S. retailers predict that a strong holiday retail sales season will push holiday sales to the best gain in six years. Retailers believe that confident con-

sumers are encouraged by a bright employment outlook and will be attracted by a flood of cheaper imported goods from Asia. At the same time the Federal Reserve Board (FRB) in its *Beige Book* notes some uncertainty among retailers they contacted concerning a possible fallout for 1999 and beyond from financial market turmoil. Nonetheless most retail contacts in the Boston District of the Federal Reserve Board expect strong sales growth for the remainder of the year.

As a result of low overall unemployment and the continued growth of activity in the retail trade industry, labor markets remain tight. Nationally the FRB reports that contacts say worker shortages are impinging on retailer expansion plans and making seasonal hiring very difficult. Despite the reported labor scarcity, U.S. retail trade employment increased by 37,000 in September and wholesale trade employment increased by 14,000.

Large national retailers are continuing to expand their market space in New Hampshire. The siting of new Rite Aid Pharmacies in many communities throughout the state is a current manifestation of this trend. This is just one of the latest in a wave of expansions that have included Wal-Mart, Home Depot, and many nationwide restaurant chains. New Hampshire's first Target store is planned for Concord.

In each of the first eight months of the year New Hampshire seasonally adjusted nonfarm Wholesale and Retail Trade employment combined showed an over-the-year increase, but in September the preliminary nonfarm employment estimate showed a decline. Through September total trade employment averaged 1.4 percent higher than during the same period in 1997. Likewise, retail trade employment averaged 1.6 percent higher for the first nine months of the year but showed a 1.2 percent loss when comparing the preliminary September 1998 estimate to the benchmarked September 1997 estimate. If the predicted strong sales environment continues through the remainder of 1998,

the present retail trade employment year-to-date monthly average of 120,222 will lead to a new high water mark for annual average employment exceeding the pre-recession high of 113,400 seen in 1989. March covered employment data counted nearly a thousand more retail trade jobs than the March nonfarm estimates, so the September to September loss may disappear with benchmark revisions.

The robust economy may be contributing to a slowing of employment growth in eating and drinking places. Employers may be having difficulty filling their jobs after months of sub-three percent unemployment. Eating and Drinking Places is the largest component of Retail Trade. Not seasonally adjusted nonfarm employment in this industry group reached a 1998 high of 39,500 in July, representing an over-the-year decrease of 1,100 jobs. It then fell to 36,100 jobs in September as the summer tourism season wound down and many seasonal workers returned to school full time. September's preliminary estimate was 5.7 percent lower than a year earlier. The March nonfarm estimate fell 1,500 jobs below the employer-reported covered jobs data, so benchmarking may soften this decline.

Monthly average wholesale trade employment for the first nine months of 1998 averaged 28,744 jobs. This represents an increase just 0.3 percent or 111 jobs over the same time period in 1997. In March nonfarm estimates were understating wholesale trade employment by 5.3 percent as compared with covered employment data. Benchmarked nonfarm estimates available late this year will likely boost wholesale trade numbers.

Finance, Insurance, and Real Estate

The tale of Finance, Insurance, and Real Estate (FIRE) in recent years features a knight in shining armor arriving to save a declining industry division. Years of mergers and downsizing have left the former mainstays of the division, depository institutions and insurance carriers, with greatly diminished employment. After suffering serious

losses of jobs from the late 1980s through 1992 FIRE employment leveled off. Health maintenance organizations (HMOs) started to revive sagging insurance employment in the mid 1990s, but intense competition and mergers are now beginning to take a toll on their employment. The redeemer of the industry division has arrived in the form of the securities and commodity broker industry group. Employment in that group more than tripled between March 1995 and March 1998, adding almost seventeen hundred new jobs.

If the rate of increase suggested by first quarter covered employment data and 1998 nonfarm sample estimate trends for the ensuing months stands up after benchmarking, we can expect nonfarm employment numbers approaching or exceeding the peaks of the late 1980s when banking and insurance employment was still riding high. According to not seasonally adjusted nonfarm employment estimates, Finance, Insurance, and Real Estate employment for the first nine months of 1998 exceeded 1997 employment for the same period by just one percent, but the September to September increase was 2.4 percent. First quarter covered employment data, however, showed an over-the-year FIRE employment increase of 6.7 percent and suggested that nonfarm estimates were understating March employment by about five percent.

Services

In spite of over-the-year losses in May, August, and September, average Services employment for the first nine months of the year remained a slim 0.8 percent higher than for the same period in 1997. The revised monthly nonfarm Services employment estimate for May registered the first over-the-year loss since 1991. In the September preliminary estimates, the not seasonally adjusted nonfarm employment losses had stretched to 1,000 jobs, a 0.6 percent slippage from September 1997.

Average not seasonally adjusted Health Services employment through September

averaged 0.2 percent lower than for the same period in 1997. The struggles of managed care organizations to control medical costs have seen a number of clinics laying off staff. The Hitchcock Clinics have recently announced closing of their mental health facilities. In clinics throughout the state, less-senior physicians, particularly those in specialties deemed less essential, are feeling less than secure in their positions.

Employment in private hospitals, the largest group within health services, was up slightly from September 1997 by one percent. For the first nine months of the year hospital employment averaged 2.1 percent higher than in 1997.

Business services which recently has been a prime mover in the services division saw employment fall by 2.7 percent from September to September. Still, year-to-date in September it showed a 2.1 percent average gain over the same period in 1997.

Based on covered employment data Amusement and Recreation Services gained an average of 612 jobs for the four-quarter period ending in first quarter 1998 compared with the previous four quarters. This represented a 7.8 percent gain. Hotels and motels registered a 4.0 percent gain for the same period. A strong regional economy swelled tourism-related industries. The average gains in these two groups from first quarter 1997 to first quarter 1998 were 5.9 percent and 4.2 percent, respectively. Clearly the ski industry jump-started the 1998 tourism calendar.

Government

The average of monthly nonfarm estimates of total government employment through August revealed a 0.1 percent decline from the same period in 1997. In September the preliminary estimate revealed total government employment up by just 1.3 percent over the year. September, of course, marks the start of a new school year. The September employment growth spurt may

reflect a new staffing level for the new year.

Federal employment estimates show slight declines over the year for both September and the nine-month average. The patterns for both state and local government employment mirror those for total government with a large average monthly increase for the period from January through September, but a slender increase from September to September.

Although not seasonally adjusted nonfarm estimates of total government employment registered a 0.9 percent loss from March to March, covered employment data counted a 2.1 percent over-the-year growth. Nearly all of that growth occurred in local government which added 1,454 of the 1,590 new jobs. March nonfarm estimates showed no change in local government employment over the year and losses in both state and federal jobs.

Federal employment, however, is expected to be on the rise. The U.S. Department of Commerce, Bureau of the Census has been seeking census takers for the year 2000 Census since April 1998. They have begun to lay the ground work for the year 2000 count earlier than for prior censuses. Census territories will be established in Concord, Lebanon, Keene and Manchester. Several New Hampshire Employment Security local offices are currently recruiting census takers, crew leaders, and office clerks. The positions are temporary, but many will last well into the year 2000. During 1990, the last census year, federal government employment swelled by 1,800 jobs at its May 1990 peak compared to May 1989.

The "Claremont Case," in which the state supreme court ruled unconstitutional the state's current method of funding schools with local property taxes, remains unresolved. In a stopgap measure, the legislature set aside \$62 million for the fiscal year beginning in July 1999 for distribution to property poor communities. The allotment of this

temporary money will generate some difficult deliberations at town and school board meetings and within municipal governments in the coming months. Questions about whether, absent a settlement, municipalities will legally be able to collect property taxes after the court's April deadline have already caused some cities to delay or alter planned requests for bond issues.

Ground-breaking took place in Berlin in August for a new state prison. This will employ about 220 people when it opens in early 2000 and employment will grow as its population expands to 1,000 inmates. These new jobs will not be enough to reverse the long-term population drain in the North Country which has mirrored the decline in paper manufacturing.

Conclusion

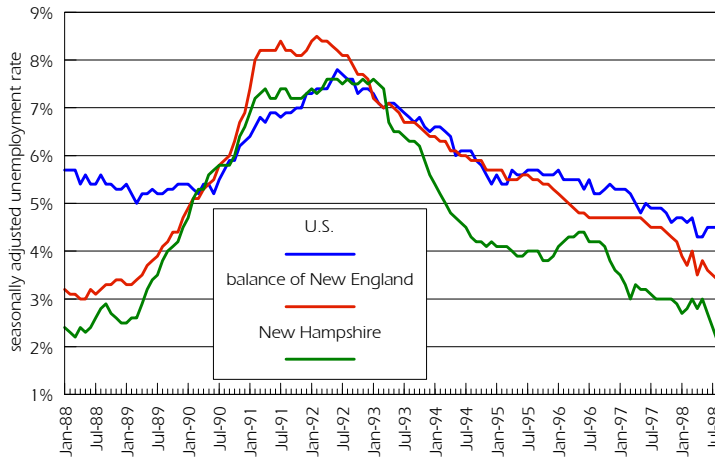
The New Hampshire economy continues to exhibit strength and vitality. It leads the region in growth. Its unemployment rate is

close to the lowest in the nation. These are uncertain times, however. New Hampshire is not an island unto itself. Global economic problems have played havoc with the stock market and could serve to weaken consumer confidence among New Hampshire businesses' customers, whether local, regional, or international. Less confident consumers put off purchases leading to reduced demand for products. New Hampshire employers depend on local demand and also markets spread across the region, the nation, and the globe. Possible signs of weakness are inconclusive. More data needs to be gathered before we can conclude that New Hampshire employment growth has slowed. If it has slowed, is it in response to reduced demand for New Hampshire products or a tightened labor market that is struggling to meet the needs of the state's employers?

Prepared by:
New Hampshire Employment Security
Economic and Labor Market Information
Bureau

Contact:
Peter Bartlett, Economist
(603) 228-4122

New Hampshire's unemployment rate has consistently outperformed the New England and U.S. rates



source: New Hampshire Employment Security Economic and Labor Market Information
U.S. Department of Labor Bureau of Labor Statistics