



Employment SECURITY

32 SOUTH MAIN STREET
CONCORD, NEW HAMPSHIRE 03301

JOHN J. RATOFF, Commissioner
JOSEPH WEISENBURGER, Deputy Commissioner

Summary of the New Hampshire Economy Fall 1999

Another New Hampshire presidential primary season is approaching. This time around, "It's the economy, stupid," does not seem to apply. The state usually expects a modest economic boost with its quadrennial appearance in the nation's political spotlight. Some have suggested that the telescoping of the primary season this year and the high stakes fund-raising race have diminished the amount of time and money spent by news media this time around in the Granite State. The state's economy is humming along so well that even a normal economic bounce from the primary would hardly be noticed.

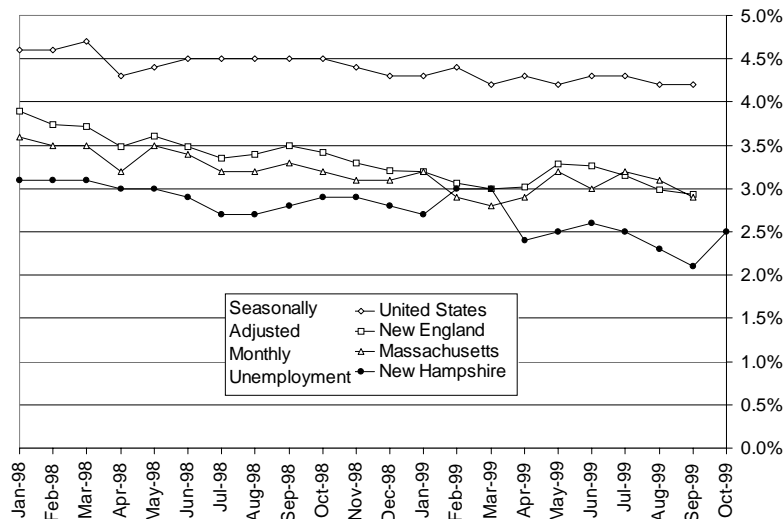
- ◆ The unemployment rate will average below three percent for the second straight year.
- ◆ Initial claims for unemployment compensation insurance benefits continue to fall.

- ◆ For the third straight year, total New Hampshire nonfarm employment will grow by three percent and its growth will exceed the U.S. average for the eighth straight year.
- ◆ New England consumer confidence remains high.
- ◆ The nation's retail chains continue to find New Hampshire a desirable market in which to invest.

Employment and Unemployment —

We can expect the average unemployment rate for 1999 to settle near 2.7 percent after benchmark revisions in early 2000. This would be the third lowest annual average in the current estimating series, which dates back to 1978. The seasonally adjusted unemployment rate for September was 2.1 percent. In preliminary esti-

Unemployment, How Low Can It Go?



mates for October it rose to 2.5 percent as the growth of the labor force outpaced the growth of employment. The September rate tied with three other months, all in 1969, for the thirty-year low in monthly unemployment rate. Because of changed methodology, estimates prior to 1978 are not strictly comparable. The June and July rates tied the lows for the current estimating series for their respective months. August and September each set new lows. September's rate bested the previous September low in 1986 by 0.5 percentage points. The October rate was bettered only in 1986.

October's preliminary seasonally adjusted unemployment level was measured at 16,760 compared to the benchmarked October level 19,340 for 1998. It had dropped by 13.3 percent over the year and 16.7 percent from the benchmarked October 1997 level. New Hampshire's labor force grew to 670,660 workers, swelling slightly from revised September estimates and exceeding last October's benchmarked estimate by 1.9 percent. With the labor force expanding over the year and the number unemployed declining, employment grew by 2.3 percent.

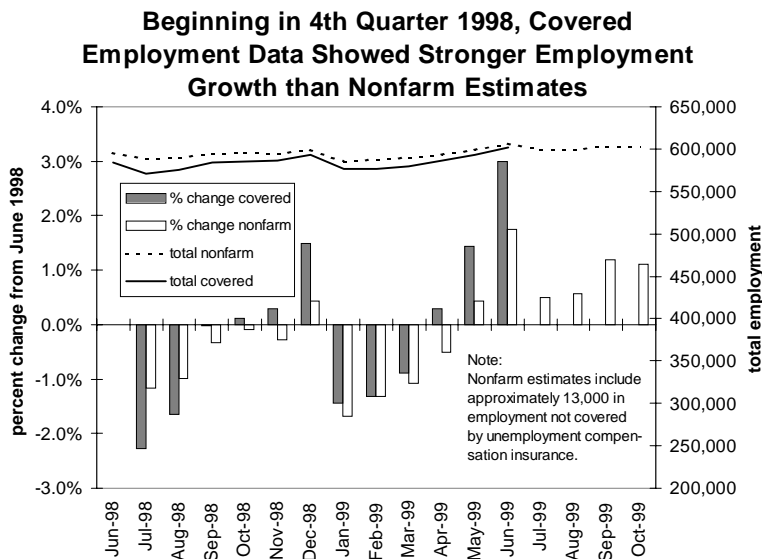
Initial claims for unemployment compensation insurance benefits continued to dwindle. The total number of initial claims

filed for the calendar year through October decreased by 11.7 percent compared to the same period in 1998. Continued weeks claimed, however, edged up by 1.8 percent.

Nonfarm employment for 1999 should top 600,000 for the first time averaging near 606,000, based on preliminary second quarter 1999 covered employment data and nonfarm estimates. This would be 3.1 percent higher than the average for 1998, exceeding the 3.0 percent annual growth in each of the last two years. This seems quite strong in the face of a continually tightening labor market. Through the first ten months of the year total nonfarm employment, not seasonally adjusted, averaged 1.8 percent higher than for the same period in 1998. In preliminary October estimates it was pegged at 602,500, a 1.2 percent rise from a year earlier. Adjusting for the difference between the preliminary covered data and the nonfarm series stretches the October over-the-year gain to 2.4 percent.

Consumer Confidence —

The Conference Board's New England Consumer Confidence Index for October 1999 was 126.2. This was up from the 106.1 registered a year earlier. Though it was the highest October level since 1988, the index had fallen for the third straight



month. In May and July the present situation index reached above the 190 level for the only times in this decade. It had slipped back to 176.3 by October. Future expectations, though forty percent lower than the present situation index, was nevertheless nearly thirty points higher than a year earlier. Future expectations are the flip side of the current situation. When the current situation is very good, the natural tendency is to assume that conditions can't get much better, so it would be more likely that they would deteriorate. 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 for the fourth straight month in October. It had lost nearly nine points since June. Still it remained more than ten points higher than a year earlier. Both the present situation index, at 173.5 and the future expectations index at 101.1 were considerably higher than in October 1998. 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 Governors' October *Beige Book* released November 3, 1999, observed that while real estate and construction remained robust, there were some signs of moderation. This appeared to be an improvement from September's report, which noted that slowing had become apparent in both sales and construction. Rising mortgage rates had been cited as the primary cause. Also contributing were rising building costs and market saturation. Still, it seemed that the numbers of sales and new construction permits/starts in most districts were ahead of a year ago. In September many areas were still reporting projects delayed due to labor and/or material shortages. The commercial real estate market in New England remained strong. New Hampshire contacts reported strong demand and

rising rental rates for both industrial and office space. October's report noted that higher interest rates had somewhat diminished the demand for residential real estate. Still, most respondents characterized the markets as strong, with low inventories continuing to be the major problem in many areas.

Preliminary not seasonally adjusted non-farm construction employment estimates showed an October-to-October gain of 2.0 percent. Though slowed from the 10.9 percent gain of a year ago, the average monthly gain from the first of the year though October was 5.5 percent or nearly 1,300 jobs per month over the same time period in 1998. During this period total nonfarm employment was growing by just 1.8 percent.

The total number of housing units for which permits were authorized in New Hampshire swelled by 5.6 percent to a total of 4,559 units during the first three quarters of 1999. Single family homes accounted for more than 90 percent of the units permitted, a total of 4,139, for an 8.2 percent boost over the same period in 1998. Though a substantial increase, this represented a slowing from the 18.3 percent hike for the first three quarters of 1998. The cumulative single-unit total was the highest for any January through September since 1989. For New England, single family housing permits for the first nine months of the year rose 3.7 percent.

Lack of affordable housing represents one of the biggest potential impediments to continued economic growth in New Hampshire and in New England. The number of multifamily housing units permitted in New Hampshire during the first nine months of 1999 was down compared to the same period in 1998. Multiunit housing construction in this recovery has continued to fall short of the heights recorded in previous recoveries. The 420 units of multifamily housing permitted

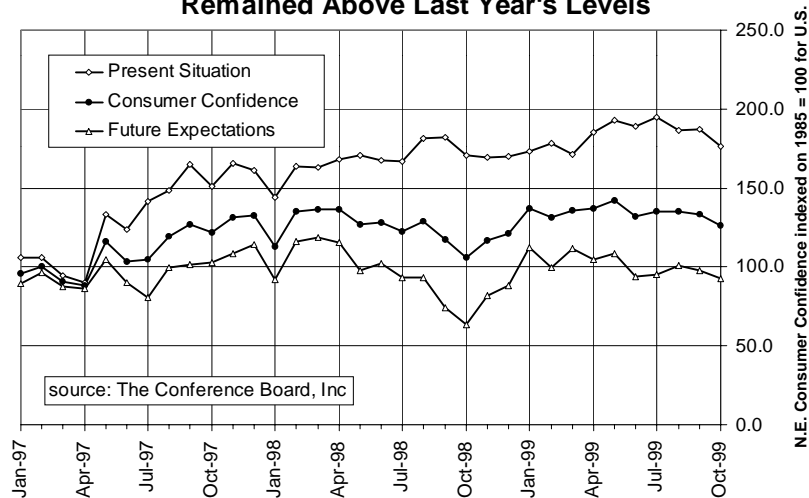
represented only 9.2 percent of the total units authorized, down from 11.3 percent and a decrease of 14.1 percent compared to the same nine-month period in 1998. During the 1970s an average of nearly 2,300 units of multiunit housing were permitted each year. The 1980s averaged nearly 3,000. During the first nine years of the 1990s just over 330 were permitted per year. With close to full employment, the only way to provide employers for new and expanding businesses is to import them. Where will workers willing to relocate and possessing the skills needed by New Hampshire employers find places to live?

Real estate prices continued to rise. The Office of Federal Housing Oversight's House Price Index for New Hampshire advanced 8.1 percent in the second quarter compared to second quarter 1998, reaching 241.26. This surpassed the previous highpoint of 239.61 registered during fourth quarter 1989. New Hampshire Association of Realtors statistics showed strong activity in the existing homes sales market. Statewide, closed sales through the first nine months of 1999 totaled 14,861 — 5.2 percent more than for the same period in 1998. The average sales price per unit of \$143,580 for the first nine months of 1999 was 7.5 percent more than

in 1998, while the total dollar volume grew 13.1 percent over the same period.

Mortgage loan interest rates have been on the increase recently. This is "in part due to lasting signs of strong economic growth and an indication by the Federal Reserve that its bias is to tighten credit at its next meeting rather than loosen or hold the course," according to Freddie Mac's Weekly Primary Mortgage Market Survey of November 4, 1999. The interest rate for a 30-year fixed-rate mortgage averaged 7.84 percent for the week ending November 5, 1999, down from the prior week's average of 7.96 percent but up from the year-ago rate of 6.89 percent. The difference between a 6.89 percent rate and a 7.84 percent rate means an additional \$32,400 in interest payments, over the life of a thirty-year mortgage of \$100,000. This would add \$90 to the borrower's monthly mortgage payment. Lower mortgage interest rates had stimulated a refinance boom and record levels of home sales. Refinancing allowed borrowers to ease debt-service burdens. The November 10 Freddie Mac report, covering the week ending November 12, noted a further slipping of the 30-year fixed-rate mortgage to 7.67 percent. For the same week in 1998 the rate was 6.57. On November 16, 1999 the Federal Reserve raised several key interest rates

**Though Falling for 3 Straight Months,
New England Consumer Confidence
Remained Above Last Year's Levels**



by a quarter point. This was the third increase of the year. Mortgage rates should soon ratchet upward in response to this action by the Fed's Open Market Committee.

Nationwide, total construction contracts, through September, were up seven percent year-to-date compared to the same period a year ago. In the Northeast they were up ten percent for the same period, as measured by the McGraw-Hill Construction Contract Value Indexes.

While showing an over-the-year loss, the January through September indexes of not seasonally adjusted construction contract awards for New Hampshire prepared by the F.W. Dodge Division of McGraw-Hill Information Systems confirmed the sound condition of the state's construction industry. Though total construction contracts registered a loss of 7.2 percent through the first nine months of the year, the major portion of that decrease was in nonbuilding construction. The 34.5 percent decrease between 1998 and 1999 resulted mainly from the completion of one very large project that created a natural gas pipeline connecting New England to Canada. This helped to boost the average of the nonbuilding construction contracts index for the first nine months of 1998 to 63.7 percent above that for the comparable period in 1997. Historically, the construction of the nuclear power plant at Seabrook in the late 1970s pushed this index out of sight for two years, 1977 and 1978. Since then, aside from 1998, this year's January through September average nonbuilding construction contracts index has been topped only twice (in 1987 and 1988). The nine-month 1999 average for residential construction contract awards added 9.6 percent to the more than 20 percent gain registered in the same period in 1998.

MANUFACTURING

Nonfarm estimates show a tightening of manufacturing employment in 1999. Through October, monthly not seasonally adjusted employment averaged 2.0 percent lower over the same period in 1998. From October-to-October manufacturing employment decreased by 1,300 jobs over the year. Although manufacturing employment finished 1.0 percent higher in 1998 than in 1997, over-the-year manufacturing losses began in August 1998 and have continued through to the latest estimates. Durable goods manufacturing employment didn't begin to turn down until October 1998. Through October this year, average monthly employment in durable goods manufacturing had averaged 1.7 percent less than during the ten months of 1998. This loss may disappear after the annual benchmarking revisions. Each year nonfarm estimates are adjusted or "benchmarked" based on the availability of additional covered employment data. Preliminary second quarter 1999 counts of covered durable goods manufacturing employment show a thin June-to-June increase of 88 jobs — just over 0.1 percent. The largest gains were in Transportation equipment and Miscellaneous manufacturing industries. The largest losses were in Industrial machinery and equipment and Instruments and related products.

Nondurable goods manufacturing slumped by 2.7 percent during the first ten months of 1999. For the twelve months from July 1998 to June 1999, over-the-year losses averaged 1,400 jobs. Those losses slowed in the third quarter of 1999 as July actually showed a gain. October's preliminary estimates showed a loss over-the-year of 600 jobs which, combined with the 1,400 job loss for the prior twelve-month period, yielded a 5.7 percent job loss over two years.

As with durable goods manufacturing, the nondurable goods picture is likely to change with benchmarking. The preliminary covered employment data is consistent with a decline in nondurable goods manufacturing employment. It showed a steeper 7.4 percent over-the-year decline from June to June, however. The covered employment numbers tallied large losses in Textile mill products, Apparel and other textile products, and Rubber and miscellaneous plastics products, but Food and kindred products and Paper and allied products showed healthy gains.

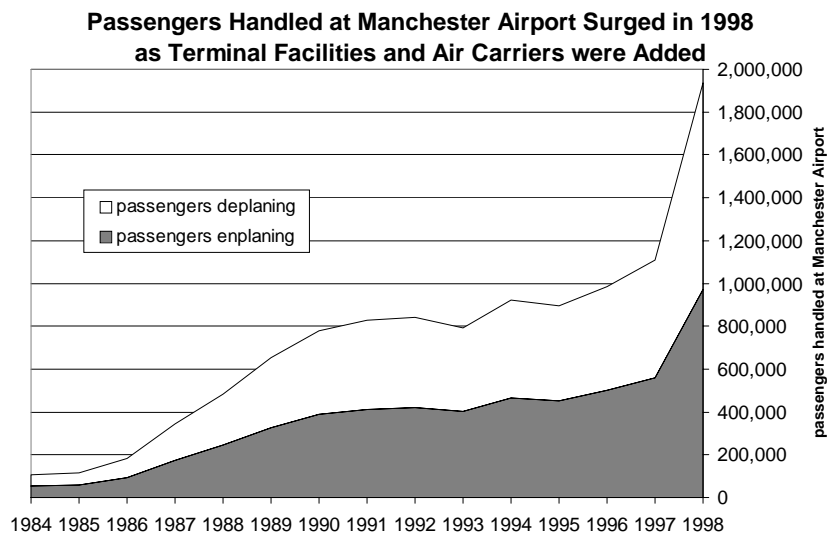
A number of large manufacturers were reclassified in 1999 as industry definitions and manufacturing operations evolved. These changes resulted in a significant shift of employment from nondurable to durable goods manufacturing. Some large operations, which make rubber or plastic parts for the auto industry, were shifted from Rubber and miscellaneous plastics products (nondurable) to Transportation equipment (durable). Another large manufacturer shifted from Textile mill products (nondurable) to Miscellaneous (durable).

Though manufacturing employment growth has weakened over the last twelve months, this weakening does not appear to be broad based. Much of it has to do with the life cycles of companies and with corporate mergers and restructuring of

manufacturers, especially those with out-of-state headquarters. Because many manufacturing operations are still labor intensive, the closing of a small number of units can have a disproportionate effect on a relatively small economy such as New Hampshire's. When Compaq purchases a mainstay like Digital Equipment Corporation and closes a large manufacturing plant, it has a sharp impact. With a statewide manufacturing employment level of 105,000, a large manufacturing plant often represents one or two percent of the total. Recovery from such a loss takes growth by many smaller firms or the scoring of a major new player to the New Hampshire economy. The relatively small losses in the face of retrenchment by some of New Hampshire's largest manufacturers show that there is still vitality in the state's manufacturing sector.

TRANSPORTATION, COMMUNICATIONS, AND PUBLIC UTILITIES

Preliminary nonfarm estimates for October 1999 showed an over-the-year gain of 300 jobs, which yielded a 1.4 percent employment increase. This follows a 6.5 percent increase in the twelve months prior to that. Much of the employment growth in this sector during the past two years has been driven by the expansion of the Manchester Airport. From 1996 to 1998



the total number of passengers going through the Manchester Airport, the sum of those enplaning and deplaning, more than doubled from 984,130 to 1,938,177. This number will top two million in 1999. During the same period, cargo handled increased by thirteen percent and airmail by forty-seven percent

Pan Am Airlines this fall inaugurated scheduled passenger service from Pease International Tradeport to both Orlando, Florida, and Gary, Indiana. They are initially flying one round trip a day to Orlando and five flights a week to Gary, a suburb of Chicago. This marks the first scheduled passenger service to operate from the Pease Tradeport. The airline is trying to arrange service to St. Louis as well. Up until October Pan Am, which has established its headquarters at Pease, had been offering only charter flights since the current owners brought it out of bankruptcy last year. The airline has reconfigured its Boeing 727 aircraft to give passengers more room by cutting the number of seats from 173 to 149 and is assigning more flight attendants than the industry average.

The first of two new natural gas pipelines was completed in April. The second is scheduled for completion in November, though it has run into controversy along the way that may stretch that completion time. The implications on this new energy source for energy use patterns and energy prices in New Hampshire have yet to play themselves out. The rapidly rising oil prices of the last few months and recent reports of high levels of pollution produced by oil-fired power plants may hasten the development of natural gas applications in heavily oil-dependent New England. Though proposals have been made for plants in Newington, Seabrook, and Londonderry to convert some of that gas into lower cost electricity for New Hampshire, no groundbreaking has yet taken place on any new gas fired power plant.

TRADE

Dun and Bradstreet, reporting on its quarterly business expectations survey in a press release dated September 30, 1999, noted that U.S. business executives reported a surge in optimism about prospects for fourth quarter growth. By industry, the retail sector expectations were the most upbeat for growth. The U.S. Census Bureau announced advanced estimates of U.S. retail sales for October of \$252.4 billion, up 8.5 percent from October 1998. Total sales for the August through October period were up 9.8 percent from the same period a year ago. These estimates are adjusted for seasonal, holiday, and trading day differences, but not for price changes.

The Federal Reserve Board (FRB) in its October "Beige Book" noted that retail sales continued steady to strong in most districts. In the Boston District retail sales were characterized as expanding solidly. Growth had been generally exceeding expectations. Discount retailers had earlier reported stronger than expected back-to-school period sales. Very tight labor markets are making the hiring of seasonal help difficult, though contacts reported no difficulty in hiring or replacing permanent help. This follows a summer in which the tourist industry reported an inability to find the usual seasonal help. It had resorted to offering wage premiums in order to attract labor.

Large national retailers continued to expand into New Hampshire. Wal-Mart is still building new stores and expanding existing ones. Target has entered the fray, opening stores in rapid succession in Salem, Nashua, and Concord. Best Buy and Borders Books added stores. "The Bon Ton" is filling an anchor store slot at Steeplegate Mall in Concord that had been vacant since the year after the mall opened. The additions of Woodbine Pantry, Waldenbooks, and Old Navy stores will bring that mall to near full occupancy.

News of a possible addition to Steeplegate to accommodate a proposed Circuit City surfaced early in November. Keene, where local opposition has long forestalled a planned Wal-Mart, is anticipating a new Home Depot. The jobs lost in the bankruptcy and closing of HQ stores in Manchester and Newington can only help retail employers which are struggling to find help. The laid-off employees should be readily absorbed in a steadily expanding retail trade industry.

In each of the first ten months of the year New Hampshire seasonally adjusted nonfarm Wholesale and Retail Trade employment combined showed an over-the-year increase. October's preliminary estimate tallied a 1.1 percent over-the-year gain for all trade and a 0.8 percent gain for Retail Trade. Through October total trade employment averaged 2.2 percent higher than during the same period in 1998. Retail trade employment averaged 1.9 percent higher for the first ten months of the year.

Eating and drinking places is the largest component of Retail Trade. Not seasonally adjusted nonfarm employment in this industry group reached a 1999 high of 41,200 in July, representing an over-the-year increase of 700 jobs. It fell to 37,500 jobs in October as the summer tourism season had wound down and many seasonal workers had returned to full-time school. October's preliminary estimate showed employment unchanged from a year earlier. Calendar year 1999 New Hampshire meals tax revenues through August registered an increase over the same period in 1998 of \$37,375,497. The meals taxes due increase of \$2,941,452 represented a 3.9 percent boost. As of the end of August 1999 the total meals taxes due of \$78,887,151 accounted for 81.9 percent of the revenues generated by the New Hampshire Meals and Rentals Tax.

Showing the largest rate of growth among retail trade industry groups, Automotive Dealers and Service Stations added 600 jobs over the year. This raised its October 1998 employment by 4.4 percent.

Preliminary covered employment data for second quarter 1999 suggest that benchmarking may see a significant upward revision of the monthly nonfarm retail trade employment estimates. The data shows a June-to-June increase of 5.3 percent compared to a June-to-June nonfarm estimates employment increase of 1.1 percent or 1,300 jobs. Of 6,617 jobs added to total covered retail employment, General merchandise stores, Food stores, and Eating and drinking establishments each accounted for about 1,000 added jobs, and Miscellaneous retail stores added over 2,000.

Nationally, according to the U.S. Census Bureau's report on September's wholesale trade activities, sales of merchant wholesalers, after adjustment for seasonal variations and trading day differences but not for price changes, were \$230.9 billion, up 9.3 percent over September 1998. Durable goods gained 9.0 percent and nondurable goods were up 9.6 percent. Within durable goods, Lumber and other construction materials were up 15.0 percent and Electrical goods were up 13.6 percent over September 1998. For nondurable goods, Petroleum and petroleum products jumped 32.7 percent, reflecting the increases seen at the gas pumps over the summer. The Drugs, drug proprietaries and druggists' sundries sector of nondurable goods advanced 17.8 percent from September 1998 to September 1999, seemingly substantiating the concern about the rising cost of pharmaceuticals and health care costs.

Total inventories, nationwide, adjusted for seasonal variations but not for price changes, were \$294.7 billion at the end of August 1999, up 4.6 percent from the prior

August. Durable goods inventories gained 3.9 percent and nondurable goods inventories increased 5.8 percent.

Based on nonfarm estimates, average monthly wholesale trade employment in New Hampshire for the first ten months of 1998 averaged 31,090 jobs. This represented an increase of 2.8 percent or 840 jobs over the same time period in 1997. From October to October, employment grew by 2.3 percent.

FINANCE, INSURANCE, AND REAL ESTATE

According to not seasonally adjusted nonfarm employment estimates, Finance, Insurance, and Real Estate (FIRE) employment for the first ten months of 1998 exceeded 1997 employment for the same period by just 1.7 percent. The October-to-October increase was 1.6 percent. The over-the-year increase, which was 500 jobs in June, remained the same in October. Second quarter covered employment data showed a June over-the-year increase in FIRE employment of 1,759 jobs or 5.7 percent. Gains of 843 jobs in Securities and commodities brokers and 927 in Insurance (which showed no June-to-June gain in unbenchmarked nonfarm estimates) accounted for most of the growth. Losses spread among Depository institutions, Real estate, and Holding and other investment offices took a bite out of those gains.

Though banking employment continued to shrink, the number of FDIC-insured commercial banks and savings institutions which had fallen from 46 at the end of June 1997, to 39 in June 1998, edged back up to 40 as of June 1999. New Hampshire banks registered vigorous growth in total assets of 21.1 percent, in total deposits of 12.7 percent, and in net income of 83.0 percent as of June 30, 1999, over the same time in 1998.

At the end of the second quarter 1999 New Hampshire's FDIC-insured commercial banking institutions had the highest return on assets ratio (4.26) of all the states. This was better by 170 basis points than its ratio of 2.56 for second quarter 1998. The state's commercial banks also owned the fourth from the highest noncurrent loan rate in the country of 1.85 percent for total loans and of 2.20 percent for loans to individuals. Noncurrent loan rates represent the percentage of loans that are past due 90 days or more or in nonaccrual status. Both of these banking indicators are skewed by a large credit card issuing institution located in the state.

New Hampshire's noncurrent real estate loan rate for FDIC-insured banks dropped from 1.17 percent as of December 31, 1998, to 0.98 percent as of June 30, 1999.

SERVICES

Benchmark revisions turned what looked like a slim increase in Services employment at this time last year, based on preliminary monthly estimates, into a hearty annual average gain of 4.7 percent. This year the preliminary nonfarm estimate showed a sound October-to-October growth of 3.1 percent.

Health services still claims by far the largest share of Services employment. Its average not seasonally adjusted employment contracted by a slim 0.2 percent from October to October. Managed care organizations continued to struggle to control medical costs while at the same time fending off a public perception that the quality of medical services has declined. Employment in private hospitals, the largest group within health services, was unchanged over the year.

Business services saw employment jump by 2.6 percent from October to October. Hotels and other lodging places saw a whopping 13.8 percent increase from October to October. The average employment in this group for the first ten months

of the year was 3.4 percent higher than for the same period in 1998. Some of this growth may be attributable to the crowds that swarm to Winston Cup Races and other events at the New Hampshire International Speedway in Loudon. Certainly a healthy economy throughout the Northeast has also contributed to the success of the hospitality industry. A 4.2 percent June-to-June increase in Amusement and Recreation Services, measured by the latest available covered employment data, adds further evidence.

GOVERNMENT

The average of monthly nonfarm estimates of total government employment through October revealed a 1.0 percent gain from the same period in 1998. From October to October the preliminary estimate revealed no change.

Federal employment estimates showed little change over-the-year. Federal employment should be ramping up in preparation for the year 2000 decennial census. During 1990, the last census year, federal government employment swelled by 1,800 jobs at its May 1990 peak compared to May 1989.

State government employment grew from October to October by 1.2 percent. Non-farm estimates include in state employment calculations students in state colleg-

es and universities who are taking part in work-study programs. This often obscures changes in employment in the state employee workforce.

Local Government employment showed a 1.2 percent decline October-to-October in nonfarm employment. The vast majority of local government workers are employed in education.

CONCLUSION

There are still many challenges ahead. The "Claremont Case" school funding issue has been addressed with a state-wide property tax which is set to expire in 2003. We still can't be sure what the effects of electric utility deregulation will be. But, the presidential candidates vying in the upcoming primary will have to focus on defense and foreign affairs, the future of social security and healthcare, and character and integrity issues in New Hampshire this year. The state's economy seems to be in fine shape as we approach the 2000s.

Prepared by:
New Hampshire Employment Security
Economic and Labor Market Information
Bureau
Contact:
Peter Bartlett, Economist
(603) 228-4122