



Employment SECURITY

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Summary of the New Hampshire Economy, Fall 2002

Overview

Year-end 2002 finds New Hampshire in economic uncertainty along with New England and the United States. National and New England consumer confidence dropped precipitously in October. The long period of steady employment growth has come to an end. Reports of layoffs continued during the year. The unemployment rate, 4.8 percent in October is reaching up into levels that it has not seen since April of 1994. Then it was on its way down from 7.6 percent in January 1993.

By recent standards, this economic malaise seems mild. Twenty-one months from its January 2001 peak, total New Hampshire nonfarm employment is down just 1.6 percent. During the last recession, 21 months from the employment peak, nonfarm employment had shed 6.5 percent of its jobs.

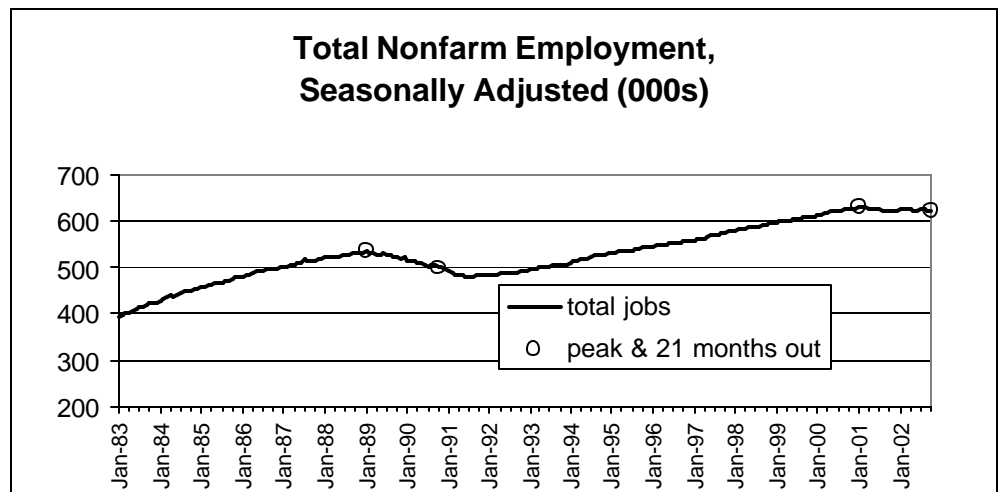
Despite peaking early, annual average employment for 2001 finished higher than 2000. For eight of the first ten months of 2002, the total of nonfarm jobs exceeded that of the same month in 2001, leaving the year-to-date average down by just 0.2 percent.

Consumer spending has helped to buoy the economy through its lull. Low interest rates have kept the real estate market alive and helped

to boost auto sales. Many of New Hampshire's manufacturers make products that become part of automobiles. Real estate transfers generate demand for building materials, furniture and furnishings, and landscaping materials.

A sharp drop in consumer confidence for the U.S. and New England in October may forebode a difficult holiday season for the retail sector. The ills of the stock market may finally be making an impact on the consumer's psyche. The U.S. Census Bureau's "Advance Monthly Sales for Retail and Food Services October 2002" contained some encouraging news, however. Overall sales were up just slightly from September estimates and down slightly from a year earlier. Excluding auto and auto parts sales, which were down sharply by 14.3 percent, the remainder of retail sales was up 4.5 percent over October 2001.

The poor performance of stocks led to declining capital gains, impacting some industries. The insurance industry, which had made its profits



largely on its investments in recent years, now finds that it needs to turn an underwriting profit. In private education, Dartmouth College has been a steadying influence on the economy of the Upper Valley, through good times and bad. They announced a rare layoff of 30 employees because of the poor performance of stocks in its endowment portfolio. An additional 40-50 positions will go unfilled.

High tech industries have taken a severe hit in the current slowdown. Several large New Hampshire high tech employers have had significant layoffs. The new economy has lost some of its sheen. IT professionals have found it necessary to migrate to other industries. Information technology skills have become ubiquitous. They are found in every industry. Producers of high tech hardware and software products have been hard hit. The meltdown of Tyco International, Ltd. had to do as much with corporate malfeasance as with the softening high-tech economy.

After being stilled for a year, the Berlin paper plant opened in June under new ownership. The first delivery of pulp wood arrived at the Gorham pulp mill in November. The locals look forward to the return, in a few weeks, of the long absent sulfurous fumes that are perfume to the logging industry in the adjacent three-state area. The smells will be short-lived as the company plans to install new equipment that will abate them.

New Hampshire has not yet solved its school funding crisis, but its state finances are in better shape than most. Weakness in the stock market has hurt states that are dependent on income tax revenues. For years, these states have had revenues boosted by capital gains. Capital gains have turned to capital losses taking a severe chunk out of revenues. In New England, Massachusetts and Connecticut state budgets are particularly hard hit.

Personal Income

New Hampshire's personal income, seasonally adjusted at annual rates, for second quarter 2002 was \$43,385 million. This was up 2.0 percent from second quarter 2001, matching the gain for the entire New England region. Rhode Island, Maine, and Vermont were the Region's leading gainers, all beating the 2.7 percent gain for the U.S.

New Hampshire, Connecticut, and Massachusetts, which in 2001 all ranked among the top six in per capita income, each had gains substantially less than the U.S.

Total Personal Income (\$ millions) NE States and US			
State	2d Qtr 2001	2d Qtr 2002	% Change
New Hampshire	\$42,993	\$43,835	2.0%
Connecticut	\$145,566	\$147,751	1.5%
Maine	\$34,276	\$35,861	4.6%
Massachusetts	\$248,478	\$251,716	1.3%
Rhode Island	\$31,865	\$33,548	5.3%
Vermont	\$17,500	\$18,121	3.5%
New England	\$520,678	\$530,833	2.0%
United States	\$8,669,921	\$8,904,969	2.7%

Seasonally adjusted at annual rates.

Consumer Confidence

In October, the New England Consumer Confidence Index dropped to 73.9, its lowest level since July 1996. At the same time, U.S. Consumer Confidence reached 79.4, a nine-year low. The Region's Consumer Confidence was slow to recover from the recession of the early 90s, but since 1998 has tracked very closely with the national index.

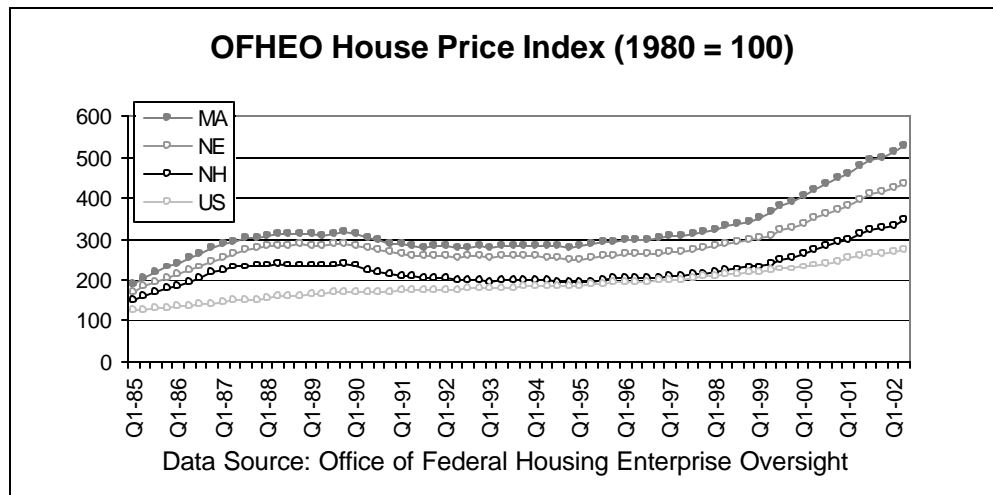
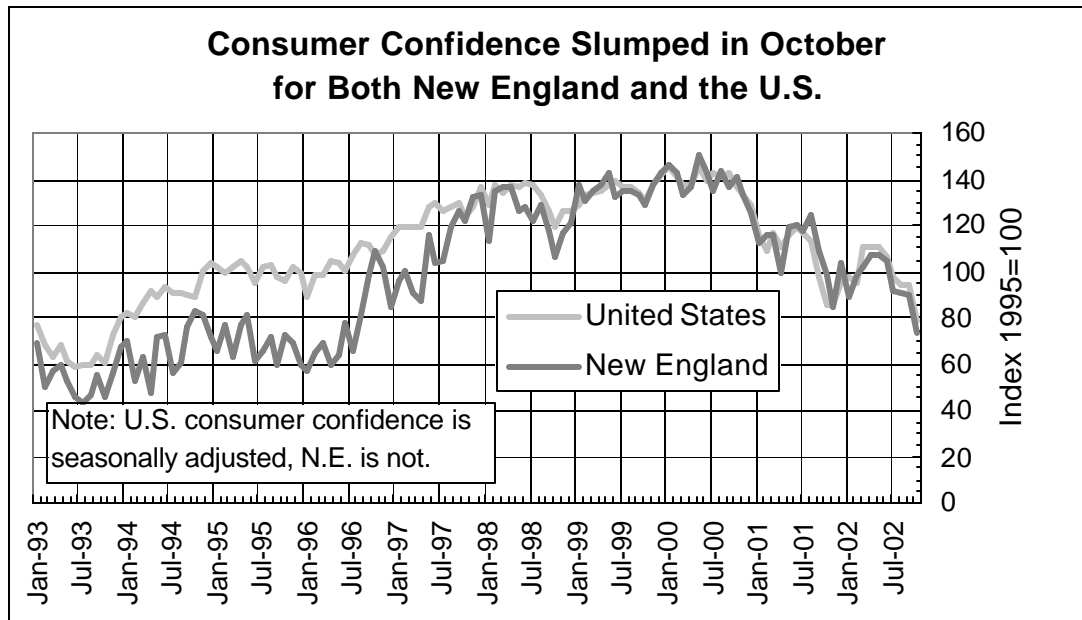
Consumer spending is a major force in the economy's health. Continued spending has helped keep the economy afloat in spite of the poor performance of stocks and other economic indicators. This marked decline in Consumer Confidence numbers suggests that the turning point may not be just around the corner, but a quarter or two away. The October "Beige Book" from the Federal

Reserve Board reported a modest pickup in retail sales in the Boston District in September.

Housing

OFHEO's House Price Index is published on a quarterly basis and tracks average house price changes in repeat sales or refinancings on the same single-family properties. OFHEO's index is based on analysis of data obtained from Fannie Mae and Freddie Mac from more than 17.3 million repeat transactions over the past 27 years. The HPI reflects price movements on a quarterly basis of sales or refinancings of single-family homes whose mortgages have been purchased or securitized by Fannie Mae or Freddie Mac.

New Hampshire home prices through the second quarter of 2002 outperformed the United States. New England and Massachusetts home prices have been driven up by a speculative bubble in the Boston area which many feel cannot be sustained.

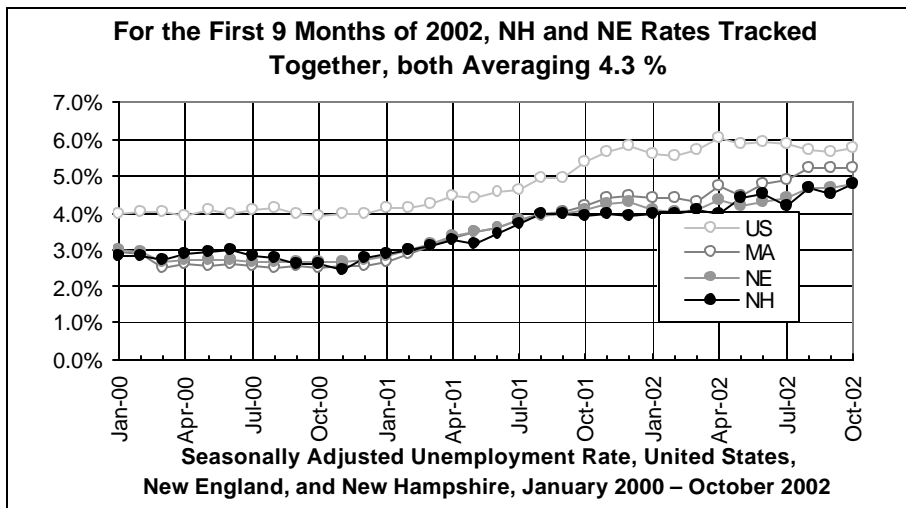


Employment and Unemployment

Labor Force by Place of Residence

◇ Unemployment Rate

The New Hampshire unemployment rate is up slightly in 2002, though its incline is mild compared to the levels reached in previous business cycle dips. Unlike the early nineties, the New Hampshire and New England rates remain well below the national rate. When the annual labor force esti-



quarter 2001. The 1.4 percent drop represented the first second-quarter over-the-year job loss since a drop of more than 3,000 jobs in 1991.

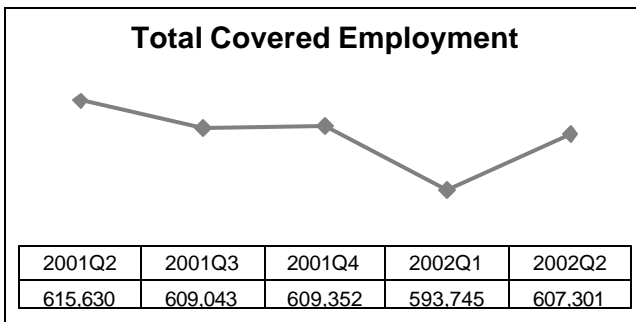
Total Covered Employment has lost jobs over-the-year for three straight quarters. The first quarter of 2002 had the largest loss, just over 13,000. Prior to the fourth quarter of 2001, the last year-to-year quarterly job loss was in the first quarter of 1992.

mates are calculated the first of next year, the average unemployment rate for 2002 will be near 4.7 percent. This is significantly higher than the 2001 average of 3.5 percent but well below the 1992 peak of 7.5 percent.

The nonfarm employment series offers sample-based estimates that are available sooner than the covered employment data. Unlike covered employment data, which is not seasonally adjusted, non-farm estimates come both not adjusted and adjusted for seasonal variations. The seasonally adjusted series enables month to month comparisons. It shows a trend in total employment from June to October of continuing job losses as the level fell by 1,600 jobs.

Employment by Place of Work

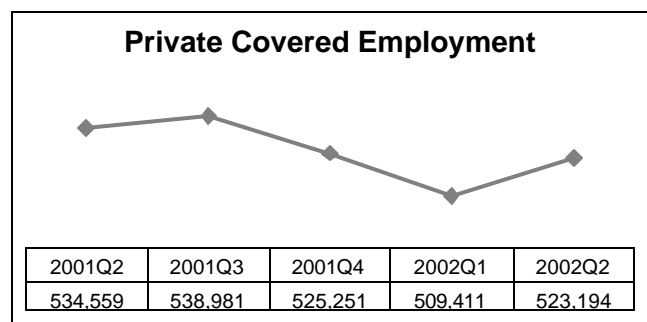
◇ Total Covered Employment



Administering the unemployment compensation insurance program requires the state's employers to report their employment quarterly. The resulting "covered" employment data is a valuable tool for analyzing what has been happening in the state's economy.

Preliminary data for the second quarter of 2002 shows that New Hampshire Total Covered Employment fell by more than 8,000 jobs from second

◇ Private employment

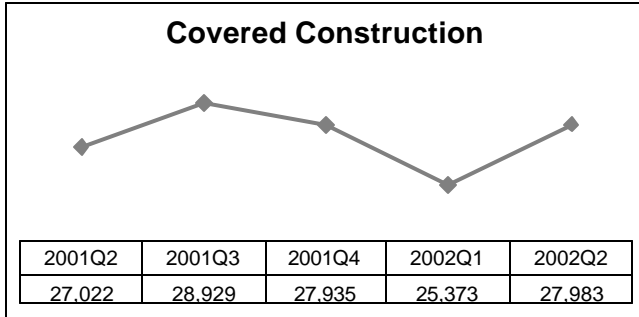


Private covered employment lost 2.1 percent from second quarter to second quarter, more than 11,000 jobs.

The latest nonfarm employment trends show private job losses continuing from June through

October. From June to October, an additional 1,300 private nonfarm jobs were lost.

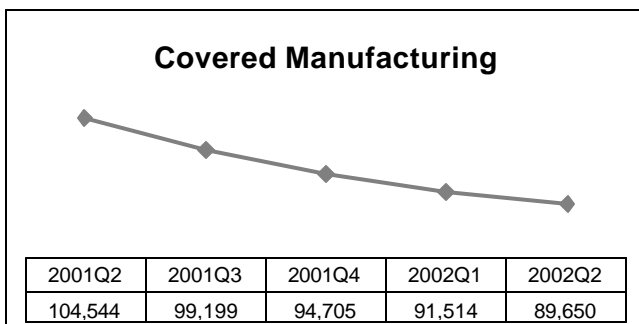
◇ **Construction**



Covered Construction employment had an annual gain of 3.6 percent, nearly 1,000 jobs, in the second quarter of 2002. The number of second quarter construction jobs has increased each year since 1993.

Nonfarm estimates for the period from the end of the second quarter through October, suggest that construction employment continued to grow, adding 400 jobs during that period.

◇ **Manufacturing**



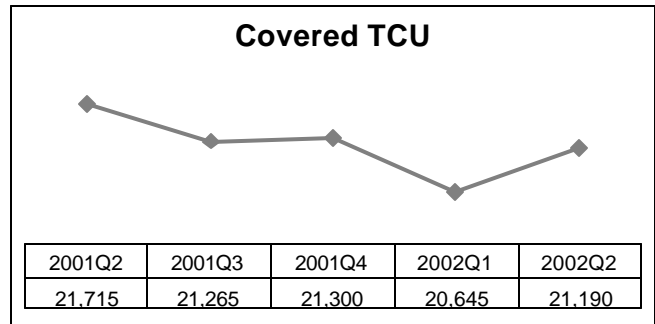
Manufacturing absorbed a fourteen percent loss in covered jobs, second quarter to second quarter. With almost 15,000 fewer jobs the loss over the year was nearly double that of total covered employment. Manufacturing employment has averaged more than 100,000 for the past eleven years.

That streak will come to an end in 2002. The employment level has been considerably below that benchmark since July 2001. For the first six months of 2002 it has averaged closer to 90,000 jobs.

Nonfarm estimates show a slowing of these losses with levels dropping just by 600 from June to October. Still, Manufacturing represented 18.4 percent of New Hampshire's private employment total in October. Nationwide, 12.7 percent of all private jobs were in manufacturing.

Durable goods manufacturing, which accounts for more than 70 percent of the state's manufacturing jobs, sustained most of the job loss, declining by 17 percent. Nondurable goods manufacturing lost just under 2,000 jobs, or 7 percent.

◇ **Transportation, Communications, and Public Utilities**

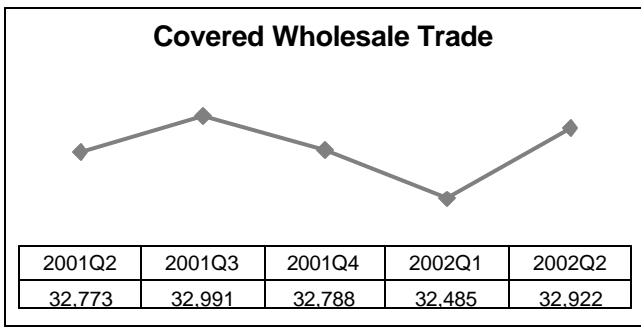


Compared to a year earlier, covered TCU employment was down by more than two percent in the second quarter of 2002. Nonfarm employment estimates suggest that job losses continued into the third quarter of 2002.

◇ **Trade**

◆ **Wholesale Trade**

Wholesale trade showed a slight increase in the second quarter of 2002. The gain of nearly 150 jobs represents a turnaround from the 261 job loss from 2000 to 2001 in the second quarter. For the



period from 1991 to 2000, annual wholesale trade second-quarter gains averaged nearly 1,300 jobs over the year. Wholesale Trade employment trends since June, gauged by seasonally adjusted nonfarm estimates, suggest continued slow growth.

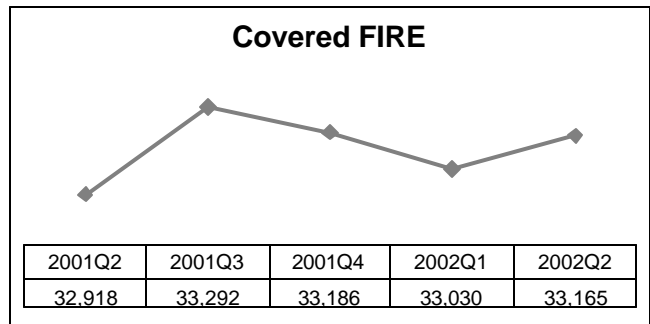
◆ **Retail Trade**



Retail Trade in the second quarter exhibited the largest over-the-year net growth among the industry divisions. Its rate of growth did not match that of Construction, but building on a much larger base, the 1.9 percent bump represented almost 2,500 added jobs. This more than doubled the increase of a year ago. Most of this net gain was split between Building materials and garden supplies, and Eating and drinking places. This is even though the base number of jobs for the latter was five times that of the former.

The latest seasonally adjusted nonfarm estimates show retail trade employment dipping by 500 jobs from June to October.

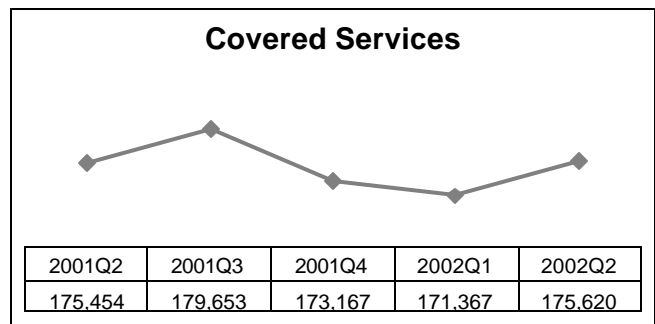
◆ **Finance, Insurance, and Real Estate**



FIRE showed a modest over-the-year gain in covered jobs in the second quarter of 2002. Banks and credit unions experienced the greatest growth while Securities and commodities brokers showed their first second-quarter job loss since 1995. During that period, Securities and commodities brokers had produced most of the modest growth in FIRE. Brokers grew by 4,077 jobs vs. 5,349 for FIRE.

Nonfarm employment trends show FIRE barely growing from June to October.

◆ **Services**



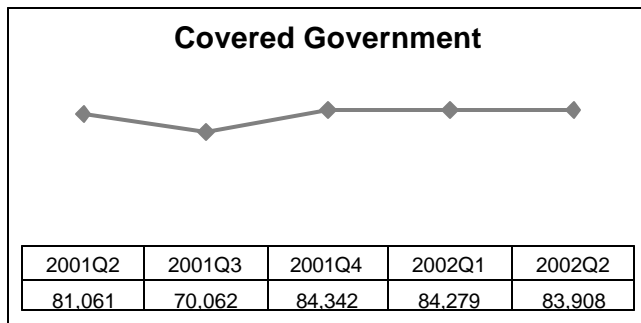
Services has been the major engine of growth in New Hampshire in recent years. Measured by second quarter to second quarter change, private services averaged over 5,800 new jobs every year from 1992 through 2001. Over the four-quarter period ending with the second quarter of 2002, this growth ground nearly to a halt with just over 166 additional jobs tallied.

Business services, which includes both staffing services and software producers, had been the growth leader in private services employment growth for almost a decade. Its second quarter over-the-year job loss accelerated. It was 2 1/3 times larger than that of the previous year, almost 4,000 jobs lost in 2002.

It took significant gains in employment in Health, Social, and Amusement and recreation services, and Membership organizations to overcome the business services bust. Health services, which holds almost 1/3 of the private covered Services jobs, grew by 5.0 percent.

The most recent seasonally adjusted nonfarm employment estimates show a loss of 1,600 Services jobs from June to October. This represents a decline of 0.8 percent. During this period Business services losses slowed to just 0.3 percent.

◇ **Government Employment**



It is common wisdom that public sector employment will grow in response to economic stagnation. Overall, total employment in federal, state, and local government grew 3.5 percent from the second quarter of 2001 to the second quarter of 2002.

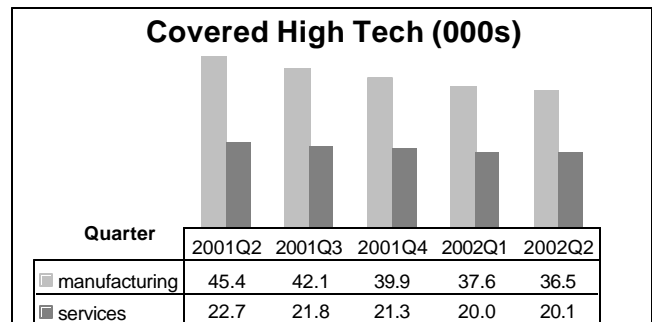
Federal jobs actually declined. The Postal Service is by far the largest federal employer in the state. Federal government employment will be affected by federalization of airport security screening. Two thirds of government jobs in New Hampshire are in the state's city, town, and county govern-

ments. This local government employment grew by 4.3 percent, adding almost 2,300 jobs. The largest share of local government jobs is in schools. Much city and town employment, especially school employment, is sensitive to population growth. Local school employment may have also grown as a result of additional state funding going to communities generated by the new statewide property tax.

State government added about 700 jobs second quarter to second quarter. State government provides most of the direct public-sector social services to state residents. Impacted by the floundering economy, programs such as welfare and unemployment insurance compensation saw modest employment growth of over 125 jobs. Greater job growth was seen in state education programs as the University System and the New Hampshire Community Technical College System added around 300 workers. Higher unemployment rates often contribute to increased enrollments in postsecondary education. The Community Technical College System has been pursuing accreditation that will raise the prospects of its graduates and make transferring credits to four-year colleges easier.

Nonfarm estimates show government employment levels declining slightly from June to October.

◇ **High Tech**



High tech employment was a driver of the state's economy in the long period of expansion. Is it the

Achilles heel of our current period of stagnation? New Hampshire has been considered one of the top high tech states.

Covered employment in high tech industries, as defined by the Bureau of Labor Statistics, covers a broad range of Manufacturing and Services industries where research and development is concentrated and science and technology skills are important. These industries lost 11,500 jobs from second quarter 2001 to second quarter 2002, a loss of 17 percent. Remove high tech industry jobs losses from total private employment and the change becomes positive, though barely. Almost 60 percent of the jobs lost in manufacturing were in high tech. Remove high tech services from total private covered services and the 0.1 percent growth from second quarter to second quarter becomes a 1.8 percent gain.

second five months, the over-the-year increase had slowed to 25 percent. In October 2002 there fewer weeks claimed than in October 2001. This was the first time in the last twenty months that there were fewer claims than in the same month in the previous year.

Conclusion

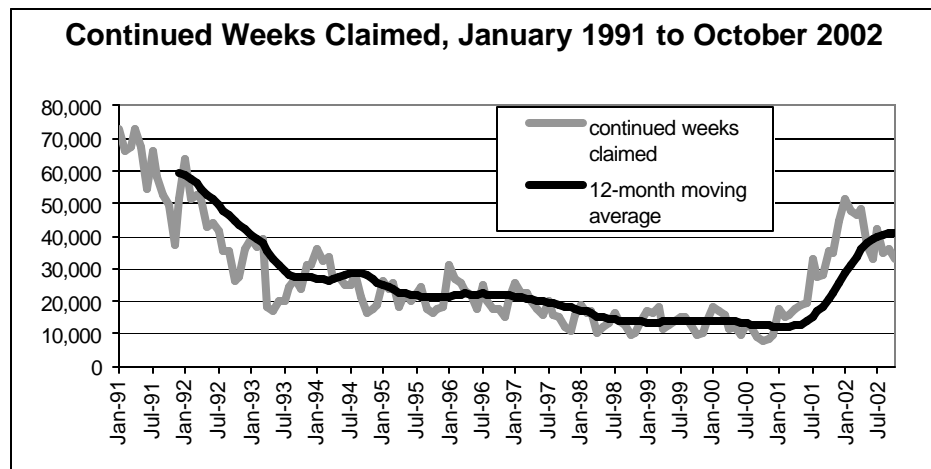
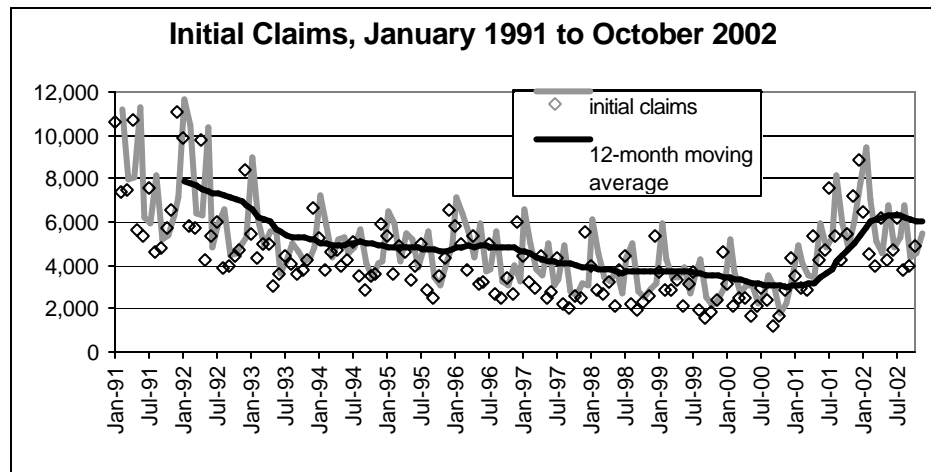
To paraphrase John Donne, No state is an island. It is a part of the main. New Hampshire's economy does not stand alone. It cannot buck the regional and national tide.

The national economy is in a slump. The stock market has been in the dumps. The Fed has lowered interest rates to nearly nothing. Still the economy slumbers.

Unemployment Compensation

Initial claims for unemployment compensation insurance appear to have peaked in January 2002. For the last six months, May through October, initial claims were 11.7 percent lower than for the same period in 2001. Continued weeks claimed appear to be leveling off as well.

For the first five months of 2002, the number of weeks of unemployment compensation paid was 172 percent higher than for the same period in 2001. For the



The New England economy is weak with regional mainstays finance, centered in Boston and Providence, and insurance, centered in Hartford, suffering from the stock market woes. The high tech industries radiating out of the “Route 128” area, north of Boston, have imploded. Consumer confidence is low going into the Holiday season. After a year of 0% financing, it seems as if everyone that had wanted to has purchased a new car, so auto sales are slumping.

The state cannot go it alone. But when the U.S. economy does get back on track, many analysts

expect the Granite State will lead New England into the next expansion.

It is well positioned. It has an experienced, well-educated workforce. Renowned colleges and universities in the region continue to produce skilled workers. Its business climate is among the best. It is in the leading edge of the great Northeast Megalopolis. As a leader in the “new economy” its workforce possesses the key technical and entrepreneurial skills needed to usher it into the next great economic expansion.

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