

Employment SECURITY

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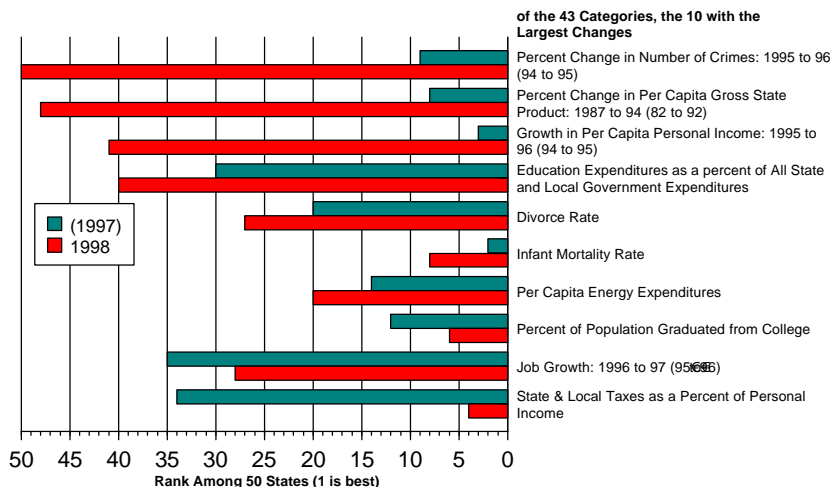
Summary of the New Hampshire Economy Spring 1998

When Morgan Quitno released its 1998 most livable state rankings in April, New Hampshire had fallen from second place in 1997 to eleventh place. Has the quality of life slipped drastically in the Granite State? Has the economy gone into a slide? Certainly, the economic evidence doesn't show that! What it does show is lower unemployment rates, a growing labor force with more workers employed and fewer unemployed, growth in the total number of nonfarm jobs, improved consumer confidence, a growing manufacturing sector. The inventory of real estate on the market is shrinking, stirring a demand for new construction. Consumer confidence in New England continues to grow.

year for which GSP has been estimated. This compared the state's GSP from near the peak of the eighties boom to a point only two years into the recovery, while New Hampshire's economy was still gaining momentum. (3) A drop from third to 41st in percent growth in per capita personal income from 1995 to 1996 (again, the latest year for which estimates are available). Preliminary, comparable numbers, released April 27 by the U.S. Bureau of Economic Analysis, moved New Hampshire up to a 17th place tie with Arizona in per capita personal income growth rate from 1996 to 1997. In both years New Hampshire ranked eighth in per capita personal income level.

Morgan Quitno's methodology is to rank the fifty states in 43 (in 1998) different categories. Averaging the 43 scores yields the overall most livable ranking. The state's descent in the Morgan Quitno rankings was driven largely by significant movement in three categories: (1) A drop from ninth place to last place in the percent change in the number of crimes from 1995 to 1996. A 7.6 percent growth resulted from an increase, building on New Hampshire's small base, of 2,300 crimes. New Hampshire still ranked third best in crime rate. (2) A drop from eighth to 48th in percent change in per capita gross state product from 1987 to 1994 — the most recent

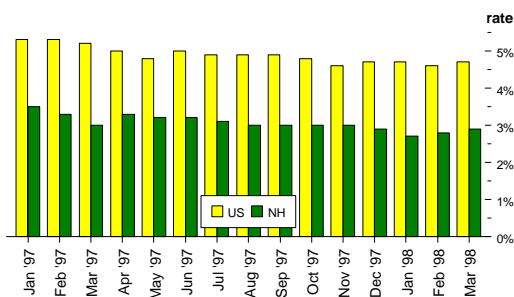
Large Drops in 3 Morgan Quitno Rankings Helped to Move NH to 11th Place



So, in spite of a large slide in this arbitrary index, there is ample evidence that the Granite State economy is still on track. The unemployment rate has continued to decline. Through the first three months of 1998, the not season-

ally adjusted unemployment rate averaged 3.2 percent compared with 3.7 percent during the first quarter of 1997. The January, February, and preliminary March rates were the lowest since January, February, and March of 1989. The average annual unemployment rate for 1997 was 3.1 percent, down 1.1 percentage points from 1996.

New Hampshire's Seasonally Adjusted Unemployment Rate Fell Well Below The National Average Each Month



More of the state's residents are entering the labor force. During the first quarter of 1998, our civilian labor force, not seasonally adjusted, rose 3.1 percent, to average 640,470, compared with 621,010 during the same period in 1997. At the same time the number of unemployed New Hampshire residents fell by 23.8 percent to 21,690. The civilian labor force swelled by 3.4 percent in 1997 with 26,820 more employed and 5,770 fewer unemployed. The total number of initial claims filed for unemployment insurance benefits decreased by 18.5 percent in 1997. Continued weeks claimed fell by 16.4 percent. In the first quarter of 1998 initial claims were down by 12.1 percent from the same quarter in 1997; continued weeks claimed by 25.5 percent.

Nonfarm employment continues to expand. Total nonfarm employment, not seasonally adjusted, averaged 564,800 in the first quarter of 1998, an increase of 12,900 jobs or 2.3 percent over first quarter 1997. Annual average nonfarm employment increased by 2.6 percent in 1997.

Consumer confidence in the region's economy abounds. The Conference Board's New England Consumer Confidence Index for March 1997 was at 134.7, showing a considerable gain over the 90.6 registered a year earlier. The New England index is not seasonally adjusted and can see wide swings. The U.S. consumer confidence index, which is seasonally adjusted, was up over the year at 134.4 versus 118.5 in March 1996.

The housing market shows increased vitality. The New Hampshire sales of existing homes in the fourth quarter of 1997, at 4,430, exceeded sales in the fourth quarter of 1996 by 26 percent. Total sales for 1997 were 16,329 - up 18 percent from 1996. The average selling price per unit was \$124,260, an increase of seven percent from 1996. Cumulative single family housing permits, seasonally adjusted, for the first two months of 1998 rose by 12.1 percent compared to the first two months of 1997. Total housing permits grew by 6.3 percent compared to the same period in 1997.

The Federal Reserve Board's March "Beige Book" reports that the residential real estate market in New England is strong. "Activity has risen most markedly in Massachusetts and New Hampshire." In these two states high demand and extremely low inventory levels have pushed prices up four to nine percent compared to last year.

CONSTRUCTION

Although the snows came early to New Hampshire in the winter of 1997-98, they did not seem to slow construction work. Was it the higher than normal temperatures that El Niño brought? They have continued into 1998 with an early spring. Was there so much work and have cold weather construction techniques been perfected? Construction employment in the second half of 1997 continued longer and stronger than during the 1996 season. The seasonal employment drop from the August peak to December 1997 was 5.7 percent com-

pared to 9.3 percent in 1996. In February 1997, the trough before the seasonal upturn, construction jobs had declined by 20.9 percent from the previous peak. In February 1998 construction employment was down only 14.0 percent from the August 1997 peak.

For a second year in a row the number and share of multi-family housing units permitted increased compared to the number of single family homes permitted. Three times as many multi-family units were permitted than in 1991. Each year since 1991 the total number of seasonally adjusted housing permits in New Hampshire has grown. The growth trend since 1991 is similar to that of the tranquil period from 1969-1983. This is a sustainable rate unlike the explosive and damaging cycle of speculation that shook the state in the mid-to-late 80s. The recent growth in multi-family housing is good news. A growing shortage of affordable housing is developing for a sizable segment of the New Hampshire population particularly in the southern regions of the state. Monthly rent for a two-bedroom apartment in the Nashua area reportedly averages \$746.

McGraw Hill Construction Information Group data shows a nine percent growth in dollars going for construction in the state in 1997 compared to 1996. This increase was worth \$1.32 billion to firms doing contracting in New Hampshire. Residential construction accounted for 43 percent of the total. Regional Financial Associates of West Chester, Pennsylvania has predicted that housing permits in New Hampshire will increase about 13 percent in 1998 resulting in another good construction year. Manpower availability, however, may be a drag on the growth since there are mounting signs that the trained employees lost in the construction crash of the early 90s have not been replaced.

Portents of future activity are numerous. Some projects in the offing are: the conversion of a former telephone company building in Manchester by a real estate developer, at a cost

of \$3.5 million, into — “the Elms Apartments” — with commercial space on the first floor and 48 upscale apartments with 1,000-1,400 square feet of living space each in the upper floors; a \$2 million expansion of the Derryfield School; a \$5.4 million expansion to the St. Ann Home in Dover which will provide a “greater continuum of elderly living and housing services”; portions of the New Hampshire Department of Health and Human Services are relocating to the New Hampshire Hospital office park and the State plans to build a \$4.9 million parking garage to accommodate the influx of state workers; Ellico Properties will receive \$4.4 million in bonds through the Business Finance Authority to cover the acquisition and construction of Insight Technologies’ new 70,000 square foot manufacturing facility in Londonderry; and construction has begun on a new 60,000 square foot air freight facility for Hampton Air Cargo at the Pease International Tradeport in Portsmouth.

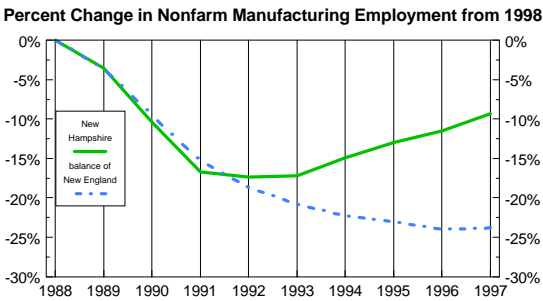
MANUFACTURING

1998 got off to an impressive start with average not seasonally adjusted first quarter manufacturing employment showing an over-the-year increase of 2.8 percent. This compares to a first-quarter-to-first-quarter increase of 2.3 percent for employment in all industries.

In 1997 seasonally adjusted nonfarm estimates of manufacturing employment remained above the 105,000 mark for the entire year. Annual average manufacturing employment growth still lagged behind total nonfarm growth - 2.4 versus 2.6 percent, respectively. The gap was closed considerably from 1996, however, when the rates of growth were 1.8 and 2.6 percent. Through March 1998, manufacturing has seen over-the-year job gains every month for fifty-three straight months dating from November 1993. The year 1997 ended with a gain of 2,500 manufacturing jobs over the 1996 annual average, compared to a gain of 1,800 in 1996.

The January and March seasonally adjusted level of 108,800 manufacturing jobs represented the highest level since December 1989.

Manufacturing Employment in New Hampshire is Bouncing Back Smartly, the Balance of New England has not Yet Turned the Corner



In the first quarter of 1998, 70 percent of the state's manufacturing employment was involved in the production of durable goods. Durable goods manufacturing provided most of the manufacturing growth in 1997. Durable goods manufacturing employment grew by 3.1 percent in 1997, accelerating just slightly from a 3.0 percent rate of growth in 1996, and beating out the rates of growth for total nonfarm employment both years. Nondurable goods manufacturing employment reversed the 0.9 percent job loss in 1996 with an anemic 0.9 percent gain in 1997. No nondurable goods manufacturing major industry group saw a net change, plus or minus, of greater than 300 jobs from 1996 to 1997.

Starting the new year, the differences in employment growth in durable versus nondurable goods manufacturing intensified. Durable goods manufacturing saw employment increase by 4.1 percent from first quarter 1997 to first quarter 1998. Nondurable goods employment was unchanged over the same period.

The durable goods manufacturing industry group with the largest net over-the-year first-quarter gain in jobs, by far, was Electronic and Other Electrical Equipment - up by 1,200 jobs (6.7 percent). Primary Metal Industries and

Fabricated Metal Products also had significant net gains (400 and 500, respectively) and larger percent gains (7.9 and 7.0 percent). Stone, Clay, and Glass Products, with the next to the smallest employment level among durable goods manufacturing major industry groups, showed the fastest growth of all. It was up 9.8 percent. The next to the largest group, Industrial and Commercial Machinery and Computer Equipment grew by just 1.1 percent.

The strength of New Hampshire's manufacturing sector is its diversity. Even though firms long established in New Hampshire such as Davidson Textron and Vishay Sprague have had to lay off workers in recent months, there are vibrant new firms waiting in the wings ready to push the boundaries of the latest technologies. Even though a new phenom such as Cabletron may have announced cut backs while undergoing growing pains, old timers such as Lockheed Martin (Sanders) have been able to retool and find renewed vigor.

TRANSPORTATION, COMMUNICATIONS, AND PUBLIC UTILITIES

From 1991 to 1995 employment within this division grew by 2,600 workers. Since that time employment growth has stagnated with monthly nonfarm employment ranging between 18,800 and 19,700 employees. The 1997 annual average was down just slightly from that 1995 peak. This industry division is not labor intensive and is unlikely to have a large impact on employment levels in New Hampshire. The products and services it provides, however, do have a major impact on the state's economy.

Northwest Airlines has begun and Southwest Airlines is expected to begin service from Manchester this year. Northwest, the world's fourth largest airline, provides service to its Detroit hub from which passengers can link to flights nation- and worldwide. Southwest will begin with service to Orlando, Nashville, Chicago, and Baltimore-Washington in June 1998. Presently there are 45 flights scheduled from

Manchester each day. This additional service should boost the 1.11 million passengers served in 1997 (a 13 percent increase over 1996 levels) to higher levels in 1998.

As part of the first phase of a planned expansion at the Pease Tradeport which could reach 185,000 square feet, in time, plans were approved for an enlarged 45,000 square foot passenger terminal. A new baggage carousel, customs and immigration service area, and skyway loading from lounge to plane are included, and a second 45,000 square foot building will house Air Cargo at Pease LCC. Another project at Pease could lead to continuing flights into the Tradeport carrying perishable foods from South America. New Hampshire Perishables Corporation has proposed building a \$9 million cargo distribution center at the airport. Phase one of this project will see the construction of a 75,000 square foot warehouse with freezer and refrigeration systems and a 50,000 square foot two story building for trade shows.

Coming soon to many New Hampshire communities will be copious quantities of natural gas thanks to new pipelines now under construction or getting underway soon. The Hibernia oil project off Canada's Grand Banks produced its first oil in November 1997. This field is estimated to contain 666 million barrels of recoverable crude oil and, of most importance to eastern Canada and New England, 1,017 billion standard cubic feet of natural gas. A second pipeline will connect New England to the Sable Offshore Energy Project via pipe stretching from Country Harbor, Nova Scotia, through New Brunswick, to Westport, Maine. From there the line will link with the Portland Natural Gas Transmission System (PNGTS) pipeline linking Westport to the Trans-Canada Extension at Colebrook, New Hampshire.

PNGTS and the Maritimes project will join to move south from Westport, Maine, to Dracut, Massachusetts. There it will link to the lines coming into New England from the south and

west. First gas through the system is scheduled from the PNGTS connection to the Trans-Canada link in November 1998. On March 20, 1998, an important first step was completed when a subcontractor for the project completed a pilot hole under the Piscataqua River between Newington, New Hampshire, and Eliot, Maine. With larger quantities of natural gas in New England comes the potential of expanded natural gas pipelines into central and western New Hampshire for commercial and residential use.

The prospect of the ready availability of large amounts of natural gas may shape future direction of electricity generation in New Hampshire. In Newington, three companies have applied for planning board permission to build natural gas powered electricity generating plants along the Piscataqua River. A fourth company is also expected to apply soon. Two of the proposed 525 megawatt plants, if approved, would be on line in the year 2000. New England-wide, proposals for 18 new gas-fired power plants have been announced.

A process of deregulating the electric utility industry began with a February 1997 decision of the Public Utility Commission. Public Service of New Hampshire, the state's largest electric utility, went to court to block the implementation of the decision, injecting considerable chaos into the process. The company position was sustained by the U.S. Court of Appeals in Boston on February 4, 1998. The Court's decision effectively delayed the start of deregulation, tentatively set for July 1, 1998, for PSNH customers, approximately 70 percent of the state's electric customers.

While PSNH was challenging the state order, Granite State Electric company signed an agreement with the State permitting its customers to buy electricity competitively from any supplier beginning July 1, 1998. As a start the Granite State rates will be cut a guaranteed ten percent, lowering the average monthly electric bill to \$54. Additional savings may be possible

if the previously announced sale of New England Electric Systems' (Granite State's parent company) nonnuclear generating plants goes through. It may not be possible to put the Granite State Electric agreement into effect, however, until a resolution is achieved in the PSNH litigation.

In an attempt to remove the barriers to deregulation, the PUC revised its February 1997 order hoping to placate PSNH. A key to the new PUC order was the method used to set rates for the transportation and distribution companies which will be left under PUC control once deregulation begins. PSNH has agreed to sell its generating plants. It would remain in the business as a transporter and distributor of electricity supplied by other companies. PSNH would still be subject to PUC rulings with the attendant impact on how much of the "stranded" cost it would be permitted to recover. Negotiations are continuing.

TRADE

The demand for retail consumer goods is chiefly what drives the economy. U.S. Commerce Department estimates (adjusted for seasonal, holiday, and trading-day differences) showed nationwide retail sales were \$214.8 billion in January 1998, an increase of 0.1 percent from December 1997 and 2.4 percent from January 1997.

The Federal Reserve's January 1998 "Beige Book" reported New England retailers' sales grew at a moderate-to-strong pace during the fourth quarter of last year. Most contacts reported that labor markets were tight during the holiday hiring period, with employers encountering difficulty in finding, attracting, and retaining employees. In February and March most of their retail contacts reported a growth in sales at a rate higher than in the second half of 1997. This adds further support to 1998 retail growth projections for New England of between four and seven percent. The Fed's regional retail contacts said their employment

levels had been either increasing moderately or holding steady, but tight labor markets continued to restrain hiring and retention of employees.

Credit card debt still has the potential to dampen retail trade growth. Nationally, total revolving debt reached \$533.5 billion in January 1998, an over-the-year increase of 5.6 percent. Although there is no readily available data on New Hampshire credit card debt, a large share of the nation's bankruptcies have been driven by overuse of plastic. According to the March 1998 New Hampshire Bankruptcy Statistics report, there were 4,645 new nonbusiness bankruptcy filings during the previous twelve months, an 18.9 percent over-the-year increase.

New Hampshire not seasonally adjusted non-farm employment estimates for Wholesale and Retail Trade combined reached a level of 143,800 in March 1998, an over-the-year increase of 2,500 jobs. Total trade averaged 141,800 in the first quarter of 1998, representing an over-the-year increase of 3,600 jobs for the quarter. Wholesale trade added 400 of those jobs, raising its average for the quarter to 28,200.

Retail trade employment climbed to 112,600 in January 1996, bringing the level back to where it was before the recession. It is highly seasonal in nature with many of its component major industry groups peaking for the Christmas shopping season. December 1997 saw not seasonally adjusted retail employment peak at 124,700 jobs, just 1.8 percent higher than the December 1996 peak. January 1998 saw the smallest December to January decrease (0.4 percent) in Retail Trade employment since 1984. Average first quarter employment was up 2.8 percent from a year earlier. Retail trade employment reached 115,600 in March, an over-the-year increase of 2,300. Retail trade is an important generator of student, entry, and second jobs for the economy and provides many retirees with part-time jobs to supple-

ment social security and pensions. It is often the training ground for new workers, be they teenagers in their first jobs, homemakers or empty nest parents entering the work force for the first time, or welfare recipients who are now expected to seek work. Retail trade employers are asked to teach the most basic job skills such as attendance, proper dress, and communication and teamwork skills.

Eating and Drinking Places is the largest component of Retail Trade. Although slowing the first quarter, which is commonly a sluggish time for restaurants, the growth in this group has been strong in recent years. It added 1,100 jobs to retail trade employment in 1997. Over the last two years it has out-performed the all industries total.

Automotive Dealers and Service Stations added 800 nonfarm jobs over the year, a 6.3 percent increase, according to preliminary March estimates. Food Stores gained 500 reaching 21,000 jobs.

General Merchandise Store employment peaked a month earlier than usual, in November, at the same level as in November 1996. As a result, it ended the year with an over-the-year 5.3 percent decline. The deviation from the usual seasonal pattern may have been due, in part, to generally high employment levels which thwarted General Merchandise Store employee-recruiting efforts during the holidays. This helped to create the unusual November-December-January pattern exhibited in total retail trade employment this winter. By March 1998, General Merchandise Store employment had regained its March 1997 level.

The winding down of Wal-Mart's initial push into the state, after opening their new warehouse in Raymond in the first quarter of 1997, and the passing of such old mainstays as Lechmere and Building 19 in Manchester, contributed to a slowing of retail trade employment growth. The lull may be only temporary as other retailers are taking up the slack, and

Wal-Mart has revealed plans to nearly double the floor space in several existing stores to create super stores which will carry a full line of groceries in addition to their current general merchandise lines.

FINANCE, INSURANCE, AND REAL ESTATE

In 1997 Finance, Insurance, and Real Estate (FIRE) employment grew by 3.5 percent, based on nonfarm estimates. This was only the second time in the last eight years that this division made a net contribution of new jobs to the state's economy. A major contributor was the insurance industry which continued to grow, in spite of recent or ongoing acquisitions of well established New Hampshire employers such as Healthsource, Matthew Thornton, and Chubb Life, with their attendant downsizing. New players ratcheted up employment as they vied for a share of the state's medical insurance premium dollars in the increasingly competitive Health Maintenance Organization field.

Covered employment data through third quarter 1997 shows FIRE employment bottoming out in January 1995 and trending steadily upward since then. Average Finance, Insurance, and Real Estate employment for the 12-month period ending in September 1996 showed an increase of 0.8 percent. In the following twelve months, ending in September 1997, employment gains accelerated to 3.9 percent. The largest average gain over the latest 12-month period was in Security Brokers. The largest September to September net gain was in insurance carriers which added 561 covered jobs.

Covered employment data allows more detailed analysis by industry group although the data is not directly comparable to nonfarm estimates which factor in such noncovered employment as commission-compensated insurance agents. Noncovered employment numbers for the division are based on estimates by the U.S. Census Bureau from their County Business

Patterns survey. They have fluctuated widely in recent years.

Covered employment in depository institutions (banks and credit unions) reversed the 388 September to September job loss of the previous year, gaining 553 jobs from September 1996 to September 1997. This did not signal the end of the continued mergers which have consolidated administrative functions and resulted in downsizing. It just marked a lull while the banks regroup for the next round. Effective in April 1998, People's Heritage Financial Group of Portland, Maine completed its acquisition of CFX Bank and merged it into Bank of New Hampshire which it had acquired in 1996. This effectively brings to a close the meteoric rise of CFX. In completing the merger, People's Heritage was required by Federal regulations to sell five branches. This included the two Concord Savings Bank branches acquired by CFX just a year earlier. All five branches were purchased by First Essex Bankcorp of Andover, Massachusetts.

SERVICES

Services, which contains a diverse group of industries and is the largest of the nine industry divisions in private employment, has been on a continual upswing for quite some time. It barely paused for the last recession. Commonly lumped in with retail trade in the "service producing sector," it is often perceived as a supplier of low-paying low-skill jobs. This reputation may apply to Hotels and Other Lodging Places, Amusement and Recreation, and Personal Services. Services' employment numbers, however, are dominated by relatively high paying, white- and pink-collar worker employing industries such as Health Services, Business Services, Educational Services, Social Services, and Engineering and Management Services.

In March 1998 the Services industry division reached the 162,900 job level (based on not seasonally adjusted nonfarm employment

estimates) gaining 4,100 over-the-year. Its 2.7 percent growth in average annual employment in 1997 represented a considerable slowdown from the 5.0 percent average of the previous five years. Health Services reached 47,400 jobs in March, virtually unchanged from March of 1997. Employment in hospitals, the largest component of Health Services, which saw slow but steady growth throughout 1997 and into 1998, was up 3.1 percent over the year at the end of the first quarter. Both the Concord Hospital and the Portsmouth Regional Hospital are advancing on plans to add cardiac surgical care units challenging Optima Health of Manchester's monopoly on this specialty in the populous southern part of the state. Portsmouth Regional also includes in its plans an expanded intensive care unit.

Business Services gained 1,500 jobs from March to March — a 5.3 percent increase. Covered employment in private Educational Services reached 11,654 in July 1997, an over-the-year increase of 103 jobs.

GOVERNMENT

In 1997 average government employment increased by just 0.6 percent. Each March from 1984 to 1997, nonfarm estimates of total government employment have shown an increase over the prior March. For the first time since 1983, March government employment declined over the year in 1998. Federal employment increased 300 and local government remained unchanged, but state government declined. Much of the decline may be attributable to changes in the state education sector such as the timing of spring break or a decline in the number of work-study students employed by state institutions.

Two major issues have gripped the state of New Hampshire this spring: deregulation of the electric utility industry and a state supreme court decision of the "Claremont case" that found the current method of funding public education in the state was unconstitutional.

This decision, promulgated in December, has consumed much attention of the state's political establishment since moving deregulation to interior pages of the state's daily papers. Both issues will likely have a significant long-term impact on the people of the state.

In the Claremont decision the court issued two challenges to the state. One is to define an "adequate" education. The second is to establish a means of funding that is fair and proportional. Whatever the definitions and funding mechanisms that are arrived at, the end result is likely to be new state monies going to "property poor" communities, many of which are the state's largest and most densely populated cities and towns. This may lead to increased local government employment in education or in other areas of local need if local revenues earmarked for education are freed up. It is unlikely that much will be left over to increase state employment, even though currently state revenues are running well ahead of expectations for the fiscal year.

CONCLUSION

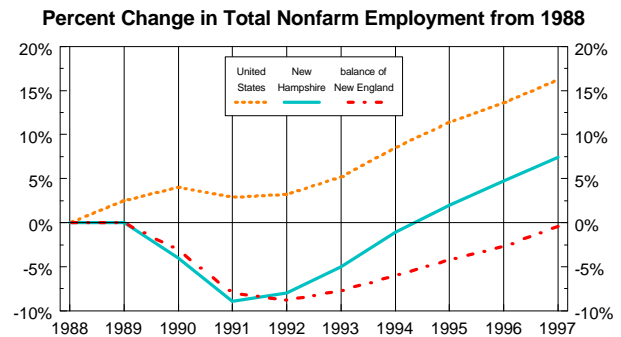
New Hampshire continues to be one of the best success stories in the nation. Its unemployment rate is one of the lowest among the fifty states, and has month after month been lowest in New England. Though both New Hampshire and New England were hurt severely by recession in the beginning of the decade, both are recovering smartly, and New Hampshire is leading the way. Since bottoming out in 1991, New Hampshire's nonfarm employment growth has outstripped national employment growth. Our Morgan Quitno rank has slipped, but there has been no faltering in the New Hampshire economy.

Particularly heartening has been the resilience of New Hampshire manufacturing. Its employment growth has been accelerating since 1992 even though manufacturing in the balance of

New England has been on a steady decline for the entire decade with the exception of a slight upturn from 1996 to 1997.

Another encouraging sign is evidence that the real estate market has turned the corner. The long time buyer's market is becoming a seller's market. With housing stocks diminished, building activity has quickened. This will have impact all the way up and down the economy, from the employment of more construction workers to sales of building materials, home furnishings, household appliances, and home electronics.

New Hampshire's Recession was Much Deeper than the Nation's but Its Recovery has Outpaced the Rest of New England and Paralleled the U.S.



The state's economy is vibrant and growing. As a result of the strong economy, state revenues are running far ahead of projections. We are full of optimism, and ready to solve the school funding challenge posed by the Supreme Court and the problem of ensuring competitive electric rates framed by the Public Utilities Commission, and any other challenge that may face us in the coming months.

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