

Employment SECURITY

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Summary of the New Hampshire Economy, Spring 2005

Spring is here and the air is clean and bright with expectations of new growth and fresh starts following the harsh winter. Retail developers are pushing through plans for big box facilities, and seasonal businesses are preparing to open for the summer. Construction contractors and landscape businesses are gearing up for their peak season.

But in late May, the night temperatures were still dipping into the 30's and the daytime highs generally still required a mackinaw. The clouds and rain moved in the end of April and set up camp to stay through the end of May. How will the summer season play out? Will the season be profitable? Will the weather cooperate, after the raw deal it handed out last year? Will there be enough avail-

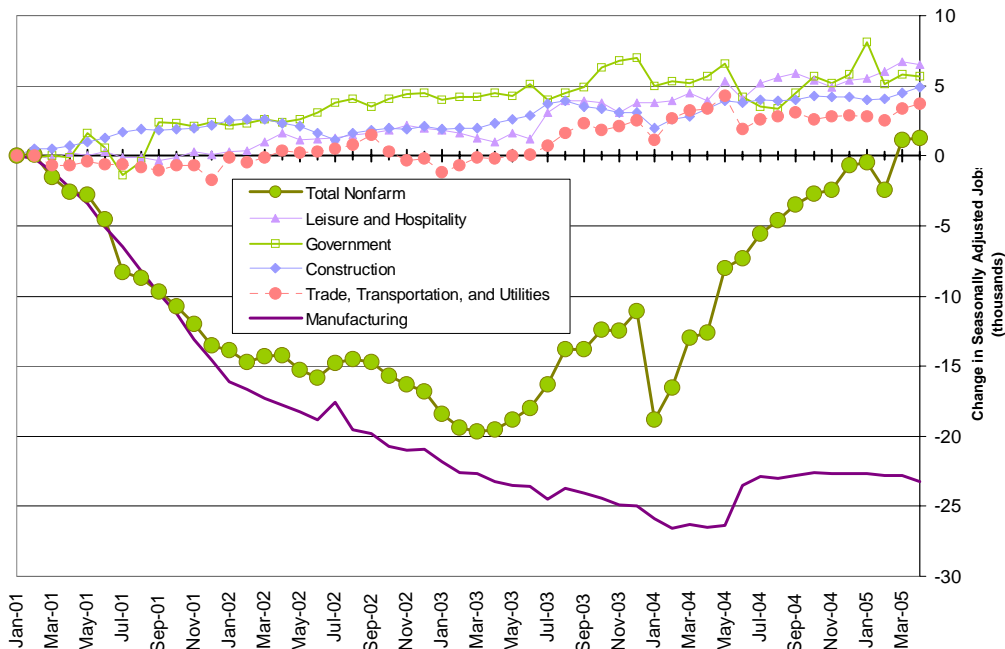
able labor force for the tourist and accommodations industries? What else will add to the mix? Anticipation turned into a wave of concern and shock when the Department of Defense announced that the Portsmouth Naval Shipyard was on the list of recommended closures under the 2005 round of Base Realignment and Closure (BRAC) Act.

The New England states have 25 military facilities that are affected by BRAC. According to a study from the New England Council, nine of the larger military locations in New England, which employ a combination of military and civilian personnel, represent over 69,000 positions and almost \$5.2 billion in wages to the region. If the list that BRAC announced on May 13, 2005 is not altered,

New England would lose 15,000 of these personnel.

A major closure, by BRAC definition, involves an installation with plant replacement value exceeding \$100 million. A major realignment results in a location losing 400 plus military and 29 civilian personnel. Although almost every state experienced some kind of adjustment, three New England locations fell into these

Net Change from Nonfarm Peak in January 2001



major categories: the Submarine Base New London, CT, the Portsmouth Naval Shipyard, ME, and Naval Air Station Brunswick, ME. Of specific interest is the Portsmouth Naval Shipyard, technically located in Maine, but an important part of New Hampshire's seacoast economy.

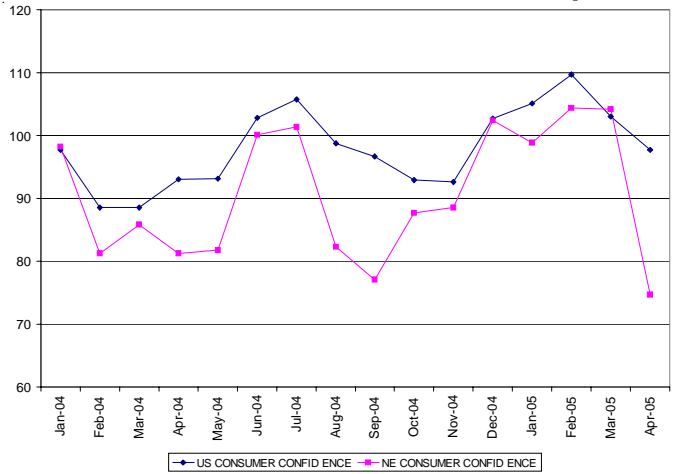
Current employment at the Portsmouth Naval Shipyard is a specialized lot, with expertise that may be hard to place outside of the technical environment of the Yard. That expertise is also well compensated. New Hampshire residents affected by the closure of the Yard would have a hard time trying to recoup the wage levels that they currently experience, without relocating. That kind of loss of human capital to the state would extend well beyond just the boundaries of the Yard, as is discussed in ELMI's study "What if...the Shipyard Closed?"

The high tech boom in the 1990s helped New Hampshire recover from the Pease Air Force Base closing in 1991. This time, although the location of the closure is not within the state's boundaries, New Hampshire's local economy may find it difficult to recover from this event.

Consumer Confidence

Overall, New England consumer confidence has been a little more positive since Fall 2004. The measures of the present situation had been slightly more downcast through July 2004, then became more upbeat during the holiday season. That continued until March when the confidence index dropped almost 30 index points. The last time there was an over-the-month drop close to that size was from August to September in 1981. That slide of 25.0 points heralded the beginning of the recession of the early 1980s. Another large drop occurred in late 1989 and early 1990 when the level dropped over 20 points in three out of five months (the beginning of another recession in New England).

Consumer Confidence: Jan-04 to Apr-05

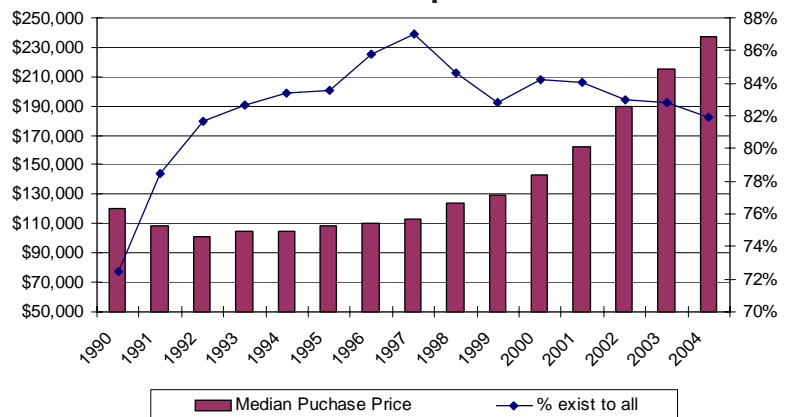


Consumer confidence of future expectations in New England had pretty much followed the same upward trend as the nation, until March 2005 when it dropped. It may have been the looming decision of BRAC weighed heavily on fiscally cautious New Englanders.

Housing and Demographics

Affordable housing in the state has recently been a growing topic of discussion. Arguments have been made and studies done to establish the fiscal bottom line relationship between tax revenues generated by new housing units and expenditures arising from population growth. This has prompted many towns in the state to impose building permit restrictions to allow time to review what impacts rapid development and population growth might have. These restrictions have exacerbated an already growing housing shortage in the state. The economic law of

Median purchase price of homes has increased almost 120 percent since 1995



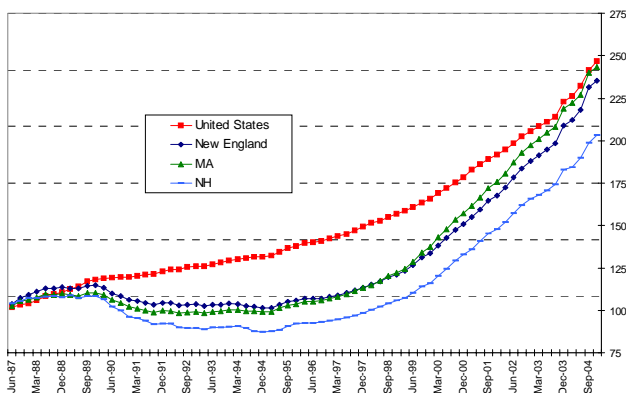
supply and demand has played out its part in rising housing prices.

According to New Hampshire Housing Finance Authority, since 1995 the median purchase price of primary homes in New Hampshire had increased almost 120 percent by 2004. Preliminary figures show that the 2004 median purchase price (of all homes) was \$237,400, with almost 82 percent of the housing sample comprised of existing homes.

According to the Office of Federal Housing Enterprise Oversight (OFHEO) the over-the-year change in housing prices in New Hampshire, through fourth quarter 2004, ranked the state in 21st place with a 10.60 percent change. This was the smallest over-the-year change among any of the New England states, and below the national average of 11.17 percent. Housing prices in the southern part of the state are primarily driven by the “Boston market”. There may be concern over the possible absence of the higher personal income of shipyard workers stagnating housing prices within commut-

Repeat Home Sales Tracking System

*Source: Freddie Mac and Fannie Mae



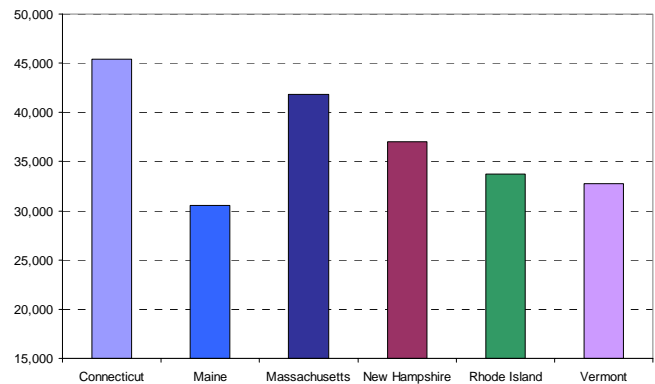
ing distance of the Portsmouth Shipyard. This may even factor into the length of time for selling real estate because of uncertainty about the future employment status of Yard workers.

The repeat sales home price index established by Freddie Mac and Fannie Mae also indicated an

upward trend of housing prices in the state through fourth quarter 2004.

Another method of measuring the housing market is by viewing construction permits. Residential construction permits in New Hampshire have followed seasonal trends, although slightly behind the levels of Spring 2004.

2004 Per Capita Personal Income



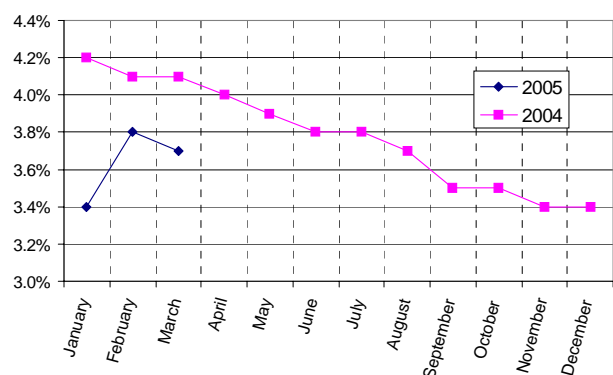
Income

Preliminary 2004 estimates of total personal income for Granite Staters increased 6.29 percent from 2003 to \$48,134 million. Meanwhile, per capita personal income retained the 6th highest ranking nationally after increasing 5.4 percent to \$37,040. The per capita income increased even while the state’s population continued to grow to 1.3 million people in 2004.

Labor Force by Place of Residence Employment and Unemployment

New Hampshire’s seasonally adjusted unemployment rate has maintained a level well below that of

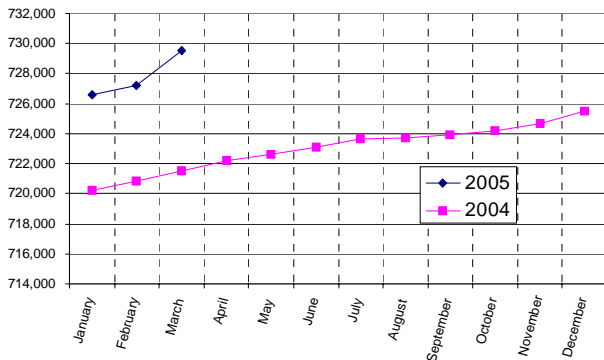
Unemployment Rate



the nation. There have been no real remarkable events with the unemployment rate. The labor force in the state has been on a steady upward trend.

In January 2005 the method for establishing state unemployment levels was redesigned by the Bureau of Labor Statistics (BLS). This incorporated real-time benchmarking along with the Census 2000-based labor market areas. This means that the new estimates will not be comparable to previously calculated estimates. However, historical information is being revised with estimates from the new method, users should watch our web site for updates.

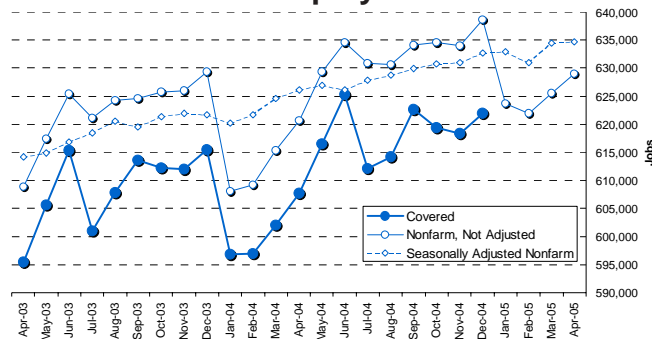
Labor Force



Employment by Place of Work Total Employment

Total nonfarm employment, not seasonally adjusted, in early 2005 has experienced the typical seasonal dip after the holidays. However it could be interpreted as a signal of healthiness that the dip from December to January was smaller by 6,500 this year (December 2004 to January 2005) compared to last (December 2003 to January 2004).

Total Employment

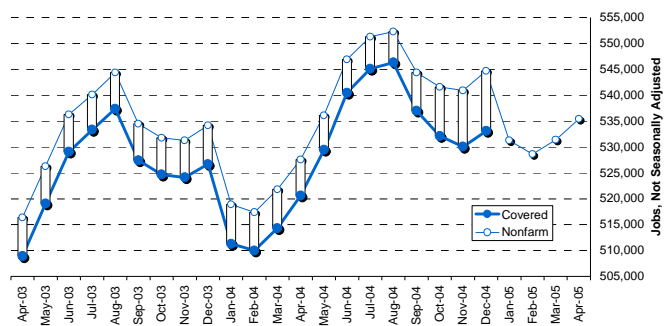


The covered employment seasonal peak in December 2004 was 6,500 above the same time in 2003.

Private Employment

Private employment followed a general growing trend over-the-year. Private covered employment was 533,090 in December 2004, almost 6,400 above the same point in 2003. April nonfarm estimates showed that employment increases continued into the spring. The December to December nonfarm figures counted 10,500 additional jobs and April found its employment level 7,800 ahead of April 2004.

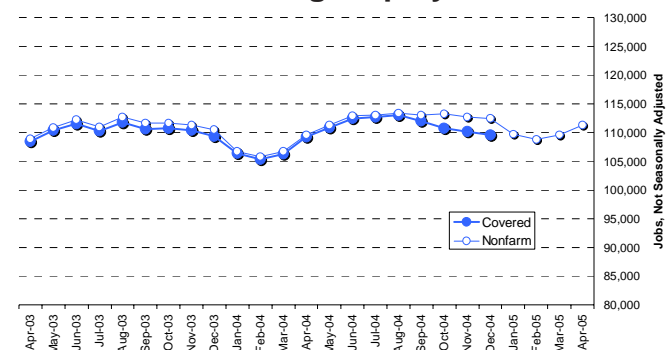
Private Employment



Goods Producing

Overall, goods producing employment looks healthier than this time last year. Covered employment levels ended 2004 slightly above the 2003 level at 109,636. Likewise, nonfarm employment figures show a strong employment growth. Since December, nonfarm employment has increased an average of 2,500 more jobs per month from the prior year.

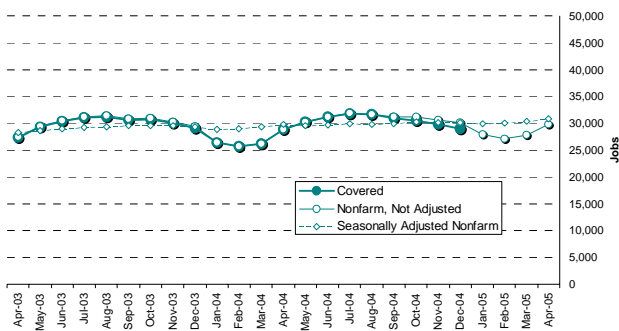
Goods Producing Employment



Construction Supersector

Covered employment in Construction showed a seasonal decline through the fourth quarter, although it was larger than in 2003. The early start to winter cold weather may have been an added factor in the employment levels not even matching those of 2003 in October, November, and December. However, construction's stability is still the shining star of the goods producing domain. Nonfarm figures exhibited continued seasonal growth from January through April to 29,800 jobs.

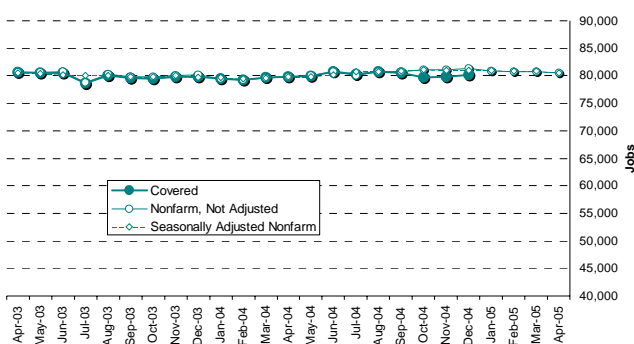
Construction Supersector



Manufacturing Supersector

The receding tide of manufacturing employment has leveled off. Covered employment comparisons for October, November, and December has stabilized at around 80,000 jobs. This was mostly because of durable goods manufacturing. Last year durable goods was the culprit for the losses, this year it increased while nondurable goods had atypical closures. The nonfarm employment numbers continued to grow through the spring.

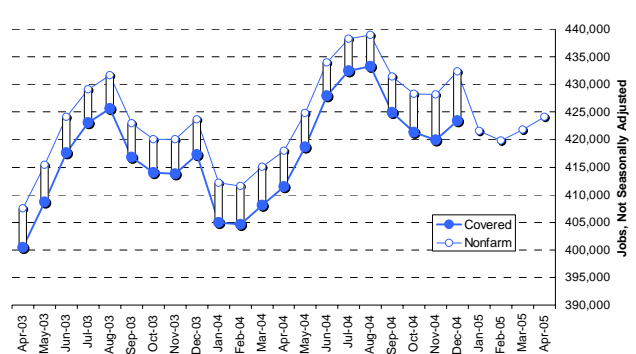
Manufacturing Supersector



Service Providing

The graying Baby Boomers and their demands on the economy have pushed service providing employment to the forefront. A seasonal dip in covered employment took place during fourth quarter. However, December's over-the-year increase was over 500 positions ahead of the increase of December 2003. Nonfarm's characteristic of counting some self-employed and other employment not covered by unemployment compensation lends a similar, but slightly more upbeat assessment to service providing employment.

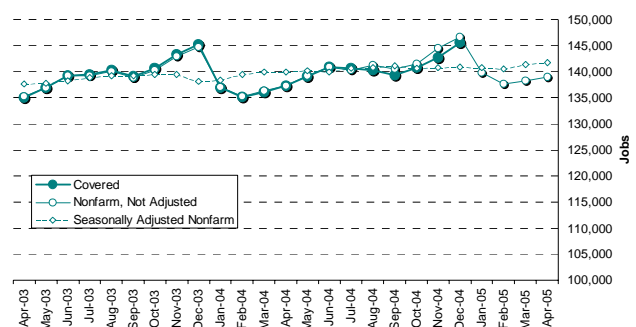
Service Providing Employment



Trade, Transportation, and Utilities Supersector

Covered employment within this supersector followed the same upward slope, but these overall gains fell behind those of last year, especially in November. Retail trade was slower gaining employment during the holiday season, and that was compounded by the larger than normal, seasonal scaling back in transportation and warehousing. December 2004 ended 400 positions ahead of 2003 for the supersector, landing employment at

Trade, Transportation, & Utilities Supersector

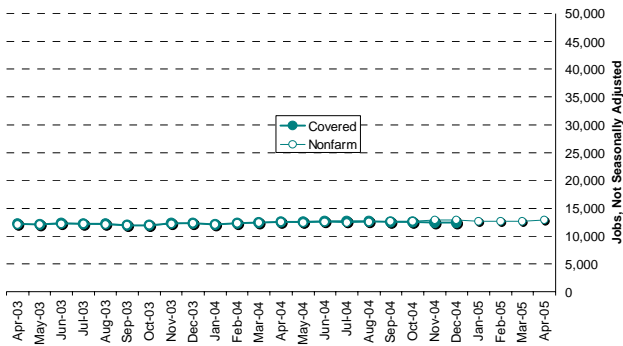


145,476 jobs. Nonfarm employment levels through April 2004 were up 1.24 percent from 2003 at 139,000 jobs.

Information Supersector

After scaling back in 2003, Information employment has stabilized. Fourth quarter 2004 covered employment nudged up slightly from 2003. Nonfarm estimates followed suit.

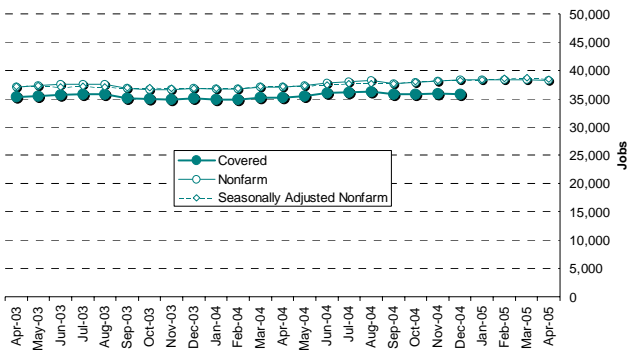
Information Supersector



Financial Activities Supersector

Financial activities have had a pretty consistent employment trend line. The finance and insurance sector has been the main factor in sustaining employment in the supersector. Nonfarm employment carried through April 2005 indicates continued growth increasing more than 1,000 jobs from April 2004.

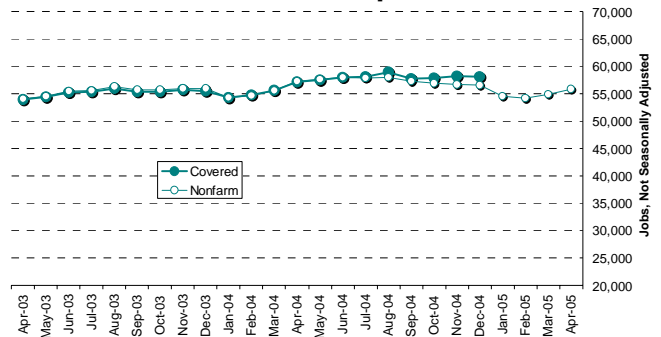
Financial Activities Supersector



Professional and Business Services Supersector

Covered employment continued to expand through the end of 2004. December's employment level of 58,139 was more than 2,600 higher than 2003. The professional, scientific and technical services sector was a major part in bumping up employment during the first quarter 2005. Administrative and support and waste management and remediation services sector had a smaller contribution to the overall growth. Nonfarm estimates lag slightly behind covered jobs data suggesting that a small upward revision may occur when nonfarm estimates are benchmarked.

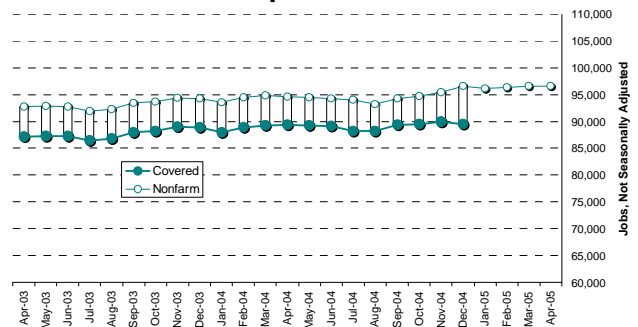
Professional & Business Services Supersector



Educational and Health Services Supersector

By December 2004 covered employment was above 89,500, almost 600 more people than December 2003. Nonfarm estimates also showed an increase of just over 2.0 percent over April 2004.

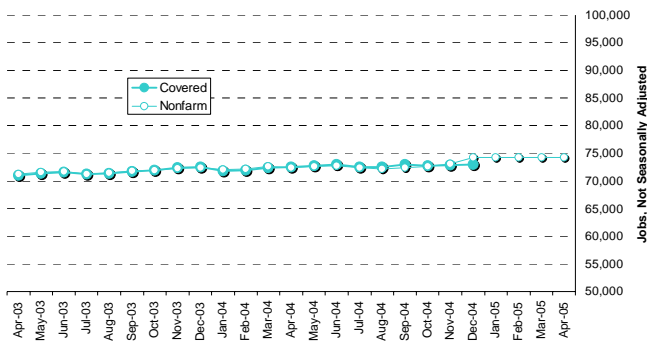
Educational & Health Services Supersector



Health Care and Social Assistance Sector

Most of the over-the-year gains for the supersector were from health care and social assistance with about 450 more covered positions in December 2004. Both the nursing and residential care facilities and the ambulatory health care service subsectors kicked in over 330 new positions, and hospital added just over 160. The social assistance subsector struggled as it retrenched by 386 jobs over-the-year.

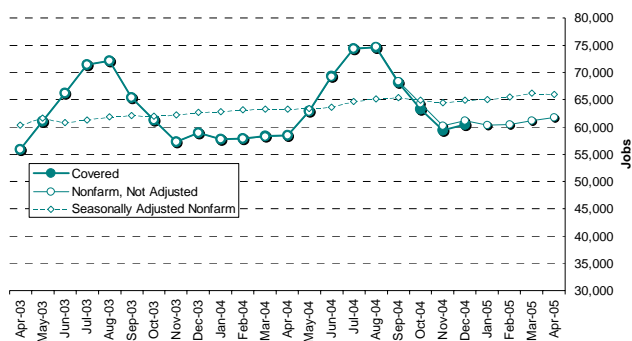
Health Care & Social Assistance Sector



Leisure and Hospitality Supersector

This supersector is one that is directly affected by the state of the local and regional economy. With an environment of uncertainty, tightening monetary conditions, and increased prices for necessities like gasoline, people tend to refrain from discretionary spending on recreational activities. The good news is that covered employment was up almost 1,600 positions ahead of December 2003. Over 95 percent of these employment gains came from the accommodations and food services sector. Nonfarm employ-

Leisure & Hospitality Supersector

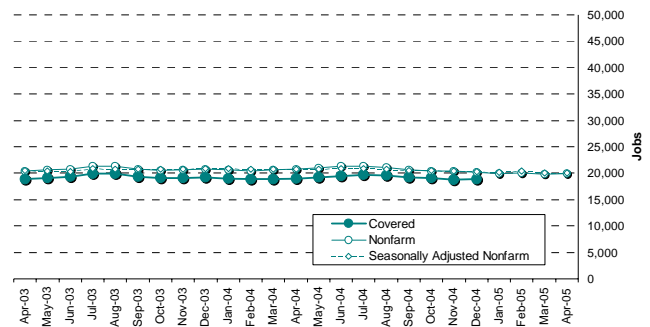


ment through April 2005 showed a 6.0 percent increase over April 2004.

Other Services Supersector

Other services includes repair and maintenance places, personal and laundry services, and membership associations. A majority of these jobs are with businesses that are small and are sensitive to the immediate economic environment. Covered employment saw businesses roll back payrolls by 353 positions in December 2004 compared to the level of the prior year. By April 2005, nonfarm estimates of 19,900 jobs were 800 below those of April 2004.

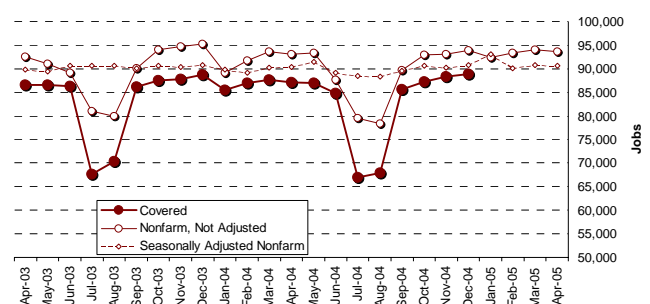
Other Services Supersector



Government Ownership

Covered employment in government had the seasonal increase from October through December as local public schools got back into full swing. However by December 2004 the employment level was less than 100 different from 2003. Nonfarm indicated employment was stable through April 2005.

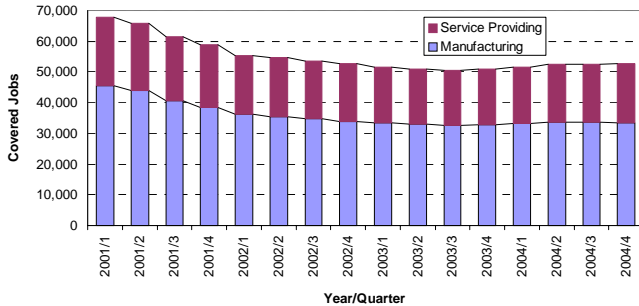
Government Ownership



High Tech Employment

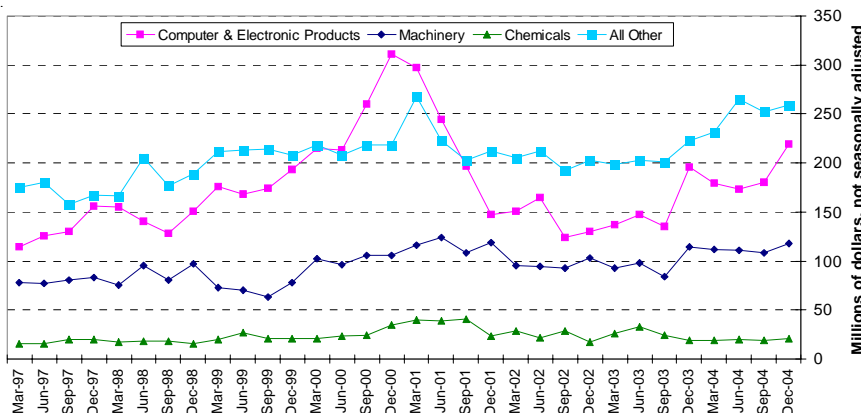
The current definition of high tech employment is from the Office of Technology Policy in the Department of Commerce. Essentially this office took the old Bureau of Labor Statistics (BLS) Standard Industrial Classification (SIC) based definition and crosswalked it to the new North American Industry Classification System (NAICS) industries.

New Hampshire High Tech Employment



High tech employment by third quarter 2002 had dropped from its peak in fourth quarter 2000 by over 14,000 jobs. By third quarter 2003 the losses had been curtailed and by the fourth quarter 2004 employment had started to grow again. High tech employment by definition is dominated by manufacturing industries. Even when high tech employment was scaled back, manufacturing maintained about 65 percent of all high tech employment.

Exports from New Hampshire



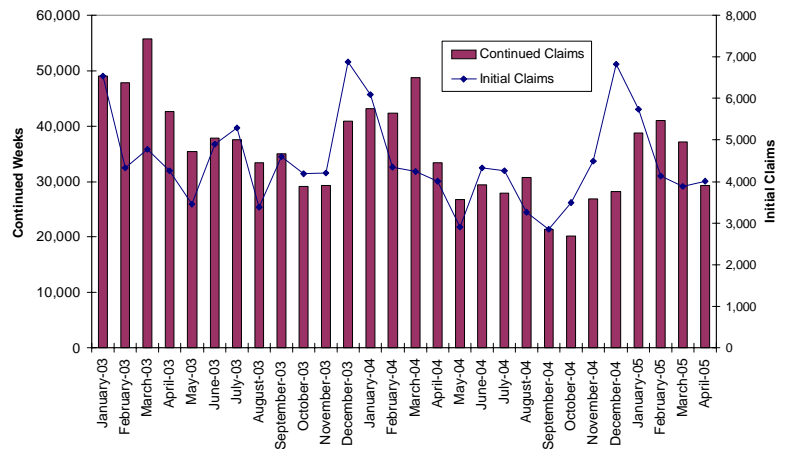
Exports

The reduction in high tech manufacturing employment in the state, over the past couple years, has drawn much attention. Nevertheless, New Hampshire's manufacturers of computer and electronic manufactured goods had their highest fourth quarter level of exports in 2004 since the peak in 2000. Computer and electronic manufactured goods made up almost 36 percent of all the state's exports. Machinery exports also showed continued strength through the end of 2004 finishing at \$118 million dollars.

Unemployment Claims

There are different perspectives to take when reviewing unemployment claims. Initial claims specifically address those individuals who have applied to be eligible to collect unemployment benefits. These claims demonstrate a strong sea-

Unemployment Compensation Claims

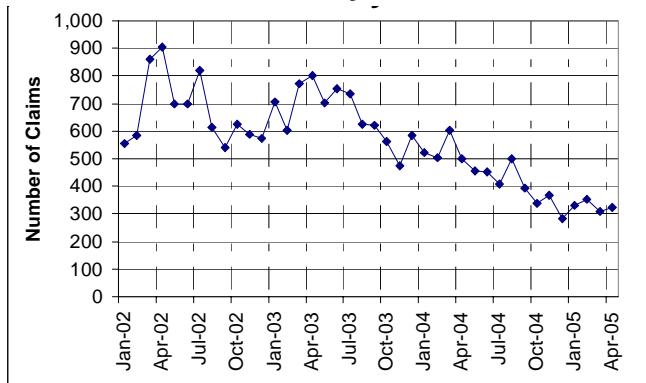


sonal pattern, and have not strayed much beyond those seasonal fluctuations since January 2003. Continued weeks claimed are not as cut and dried as to what and how they represent the economic situation. Continued claims tend to lag a similar pattern to initial claims, spiking and falling back at certain times of the year. On the surface, it's always a good sign to see these

claims on an overall downward trend. However, such a trend can indicate that people are exhausting their benefits.

Reviewing final payment claims helps complete the picture. If there is an increasing number of people receiving final unemployment compensation payments, this could indicate a rising level of people not becoming reemployed. The good sign going into spring 2005 is that final payments are trending downward, an indication of an improving economic situation.

Final Payments



At this point, the state economy is growing, though not robustly. So the concern is, will the shock of the news about the possible shipyard closure stall the recovery?

The Yard news may cause consumers to forego taking on new debt to purchase homes and to put off large durable goods purchases such as cars and major appliances. The financial community may also start to approach borrowers more conservatively to forestall an increase in defaults.

We can hope that the weather will improve as we go into summer giving a boost to the upcoming tourist season and that the economy will continue to be bright.

With the weather, we are at the mercy of mother nature. Economically we are a small state tossing on waves of national and global economic storms.

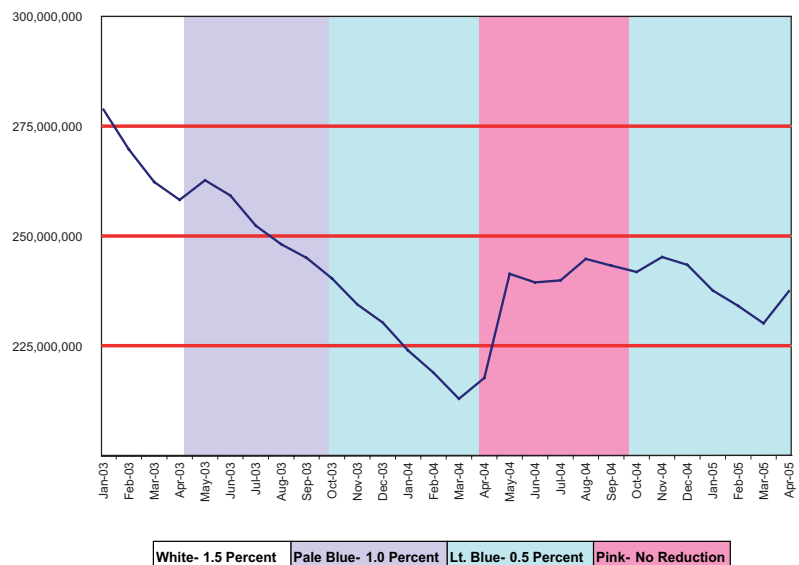
Prepared by:
**New Hampshire Employment Security
 Economic and Labor Market Information Bureau**

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Trust Fund

The volume of unemployment claims paid has a direct effect on the Trust Fund balance. A higher number of unemployment compensation claims paid reduced the Trust Fund to a point that all tax rate reductions to employers were eliminated during the second and third quarters of 2004. Since that point, the declining number of claims combined with the increased contributions (taxes) have restored the balance of the Trust Fund, and again employers are entitled to a tax rate reduction.

Trust Fund Balance



Conclusion

Even if the BRAC process results in closure of the Shipyard, it would require a few years to complete a shut down.