

Employment SECURITY

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Summary of the New Hampshire Economy, Spring 2004

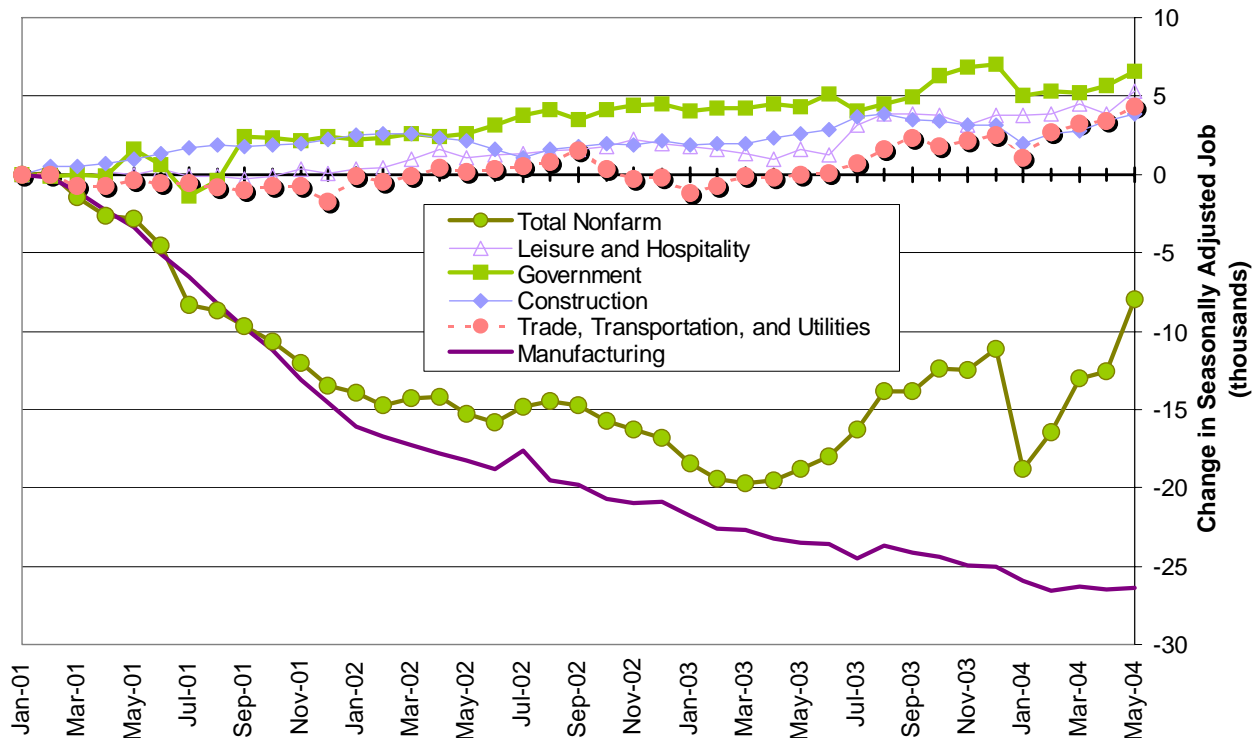
The recession is over and has been for almost two years, but job growth has been struggling as an air of uncertainty remains. With mixed results from the different sectors, growth in certain industries still remains to be realized. Offshoring has been a growing concern to everyone, bringing with it a mixed bag of perceived local job reductions (continued lack of job growth) and the benefit of reduced operating expenses that could lower prices (a contributing factor to the improving economy).

Spring 2004 is brimming with uncertainty. Winter was tough. With cold temperatures and little snow, even ski areas found it difficult to finish the season profitably.

As warmer weather comes, tourism experts optimistically predict that the higher gasoline prices will not affect summer business. Transportation by car is still the most economical means of travelling. People reeling from sticker shock at the gasoline pumps and seeking comfort from an ice cream cone may also face the jolt of dramatic price increases there.

Some positive economic signs can be found at the Manchester Airport with growth proposals and additional hotels looking to move to the area. Meanwhile manufacturing companies continued with reduced workforces as productivity levels of the remaining workers increased. The continued high productivity

Net Change from Nonfarm Employment Peak in January 2001



has helped feed a more positive business confidence. Business confidence and expected growth in product demand may warrant additional employees. Slowly and cautiously, businesses are starting to rebuild their workforces.

Entering spring 2004, New Hampshire maintained an unemployment rate lower than the region and the nation, as well as our high labor force participation rate, a strong trait from our Yankee work ethic. This is further supported by the stronger nonfarm job increases entering this summer's employment picture, which itself is expected to be better than in the previous two summers.

Although consumer confidence indicators leave room for doubt, New Hampshire's Department of Resources and Economic Development was successful in recruiting new businesses to the state in 2003. The industry mix of these businesses included high tech service, manufacturing, and distribution companies. It is anticipated that these new companies will contribute \$4.7 million in new business enterprise taxes to the state coffers and \$34 million in new payroll.¹

The state's budget process is still influenced by the education funding situation and the property taxing system.

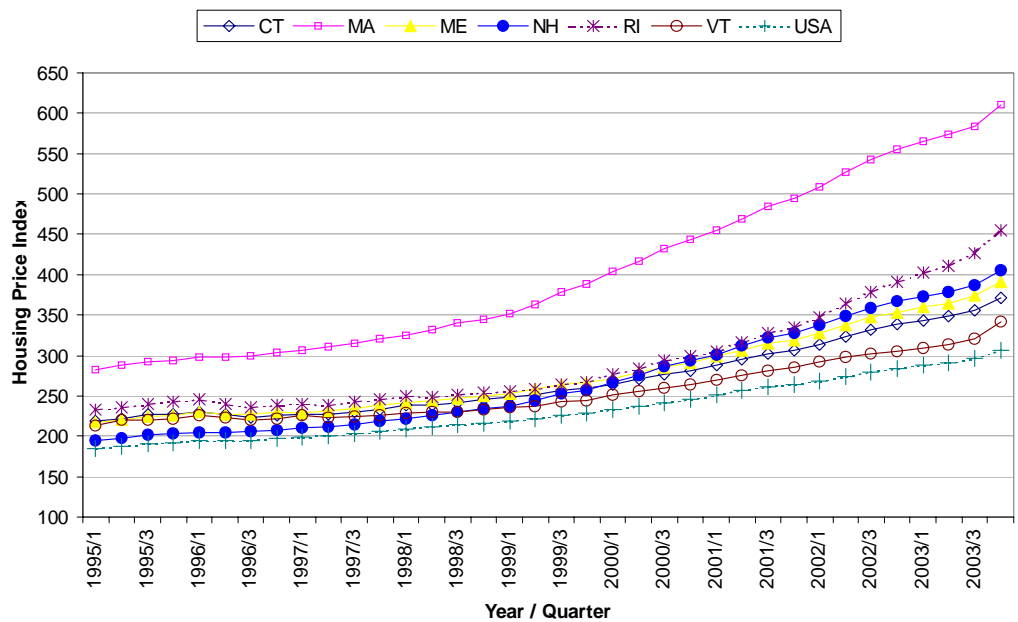
Housing

Housing prices are subject to economic conditions in the state, region, and nation – specifically the sluggish job growth over the year, the limited housing supply, and the prospect of increasing interest rates.

In New Hampshire, prices have continued to climb according to several housing price indicators.

The Office of Federal Housing Enterprise Oversight's (OFHEO) quarterly housing price index tracks the changes in sales prices of homes financed or examined by Fannie Mae or Freddie Mac on a quarterly basis (base year established for this index was 1980=100). During the last two quarters of 2003 the index numbers across the region again surpassed the nation and New Hampshire has been climbing with them.

Office of Federal Housing Enterprise Oversight's Index



Fannie Mae also maintains a quarterly index for repeat sales (1987:1=100). According to this index (not seasonally adjusted) prices of repeat sales in New Hampshire barely increased (0.56 percent) from fourth quarter 2003 to first quarter 2004.

Consumer Confidence

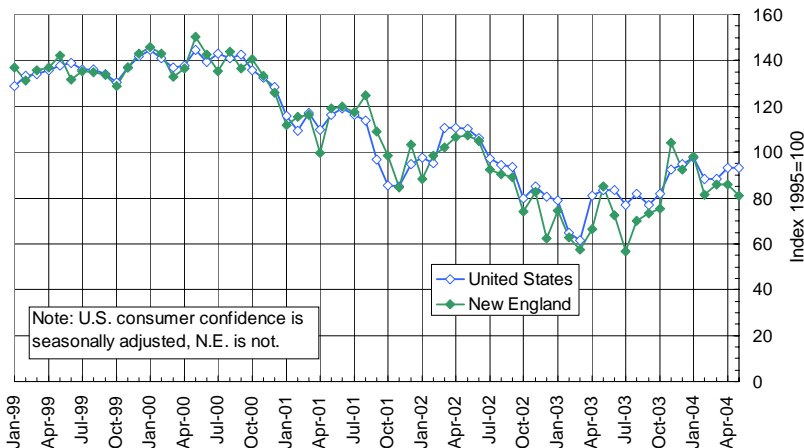
Overall, New England consumer confidence has been more restrained than that of the nation during the first five months of 2004. The national consumer confidence index has dropped 4.5 index points from January to May 2004 while New England has fallen 17 index points during the same period. Even though there

were no major changes in the status of the nation's economy from April to May, many harbored concerns over rising gas prices and the effect they may have on the upcoming summer season. Additional concerns revolved around the signals that interest rates would be rising later this summer. Some indications are that it will be earlier rather than later, and that any rate increases may not be as gradual as had been thought.

Personal Income

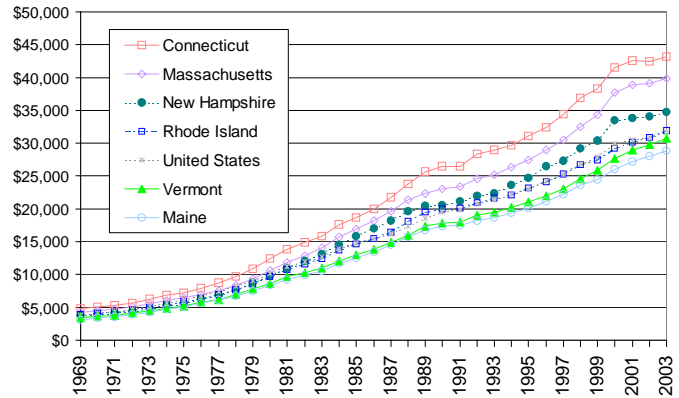
Total 2003 personal income in New Hampshire increased 3.2 percent to reach \$44.7 billion. This was slightly slower than the national growth of 3.4 percent. This could be a direct reflection of the loss of high-wage manufacturing jobs in the state over recent years. From first quarter 2001 to fourth quarter 2003, (annualized) personal income from manufacturing has declined \$849 million (seasonally adjusted).

New England consumers are not as optimistic as consumers nationwide



Still, in 2003, New Hampshire maintained the third highest per capita income in New England at \$34,702. New Hampshire's per capita income was ranked seventh nationally (including District of Columbia which was ranked in first place). Growth in New Hampshire's per capita income, compared to the nation, has slowed to nearly level over the last few years. While some high-paying high-tech jobs have been leaving, New Hampshire's population has been growing, especially from in-migration.

Per Capita Personal Income



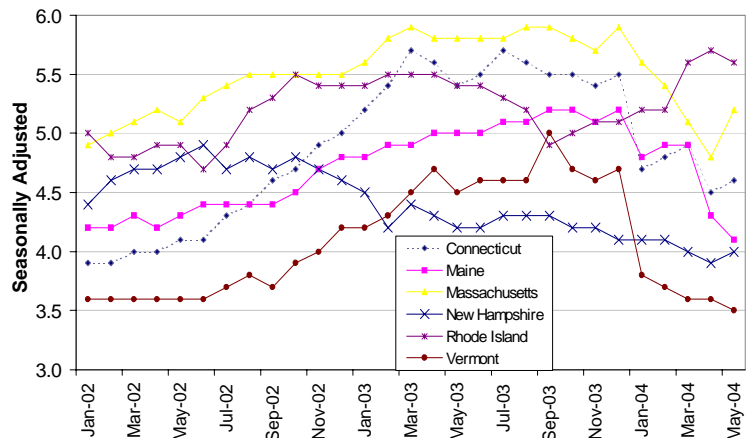
Employment and Unemployment

Spring 2004 brought declining unemployment rates (seasonally adjusted) for New Hampshire and most of New England. The state's May rate of 4.0 percent was four tenths of a percentage point lower than the benchmarked rate of a year earlier. In May, New Hampshire's unemployment rate was 1.6 percentage points lower than the national average of 5.6 percent.

Total Employment

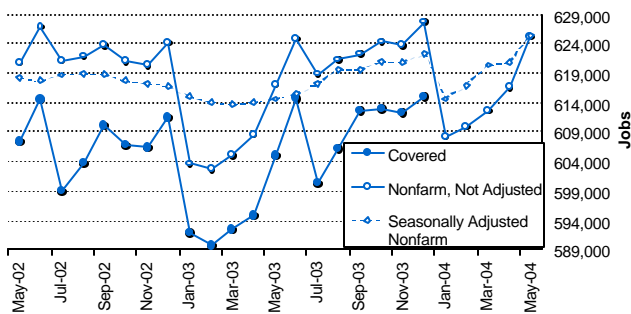
New Hampshire's seasonally adjusted nonfarm employment hit its highest level during the spring of 2001. January 2004 employment was lower than the January 2001 level by 2.3 percent. Although the employment growth of spring months in 2004 is behind 2001, it is still demon-

Unemployment Rates in New England - Jan 2002 to May 2004



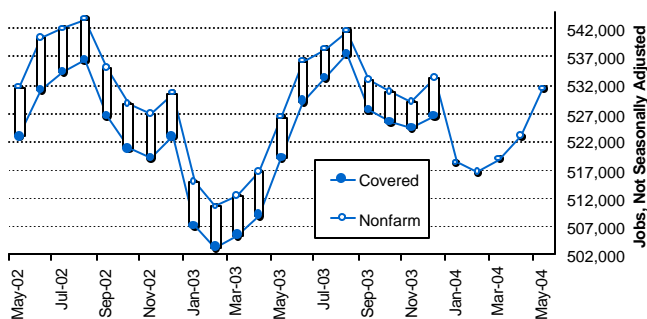
strating more strength than the comparative months of 2002 and 2003.

Total Employment



Total nonfarm employment levels in New Hampshire experienced the typical seasonal drop from December 2003 to January 2004. Unlike the first quarters of 2003, 2002, or 2001, employment started to grow again in February 2004. This increase put New Hampshire employment at its healthiest May point since 2001. Contrary to consumer confidence signals, total employment seems to be growing and lends a positive feeling about the coming summer employment picture.

Private Employment



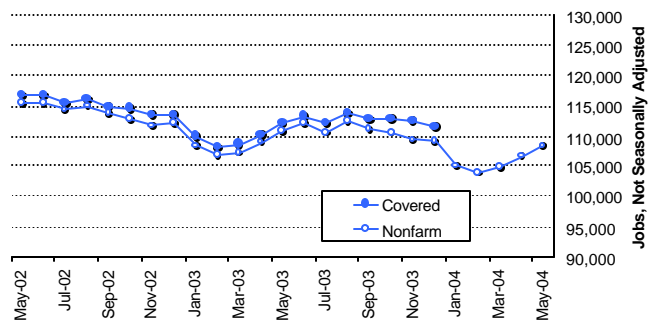
Private Employment

The most recent private covered employment numbers from December 2003 exhibit the same picture of hope for a strengthening economy in the state. Looking at the continued trend from nonfarm figures, after the post-holiday drop, March through May 2004 showed significant growth.

Goods Producing

The goods producing domain encompasses just over 20 percent of private employment in New Hampshire. In recent years its employment levels have been highly affected by the vulnerability of manufacturing, as this supersector makes up three-quarters of the whole domain. Going into spring 2004, goods producing dipped over 5,000 jobs from December to February before starting its seasonal ascent reaching 108,400 jobs in May, primarily due to construction.

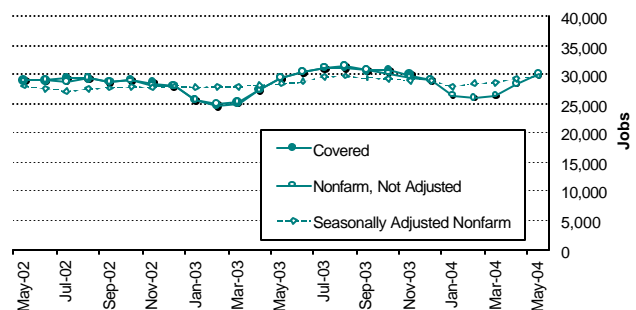
Goods Producing Employment



Construction

Construction has been steadfast, continuing to grow even while economic times were cloudy. The seasonal downturn ended early as lack of snow brought spring conditions to the area. Nonfarm estimates (seasonally adjusted) put construction employment at 29,800 by May 2004, over 1,300 jobs more than May 2003.

Construction Supersector

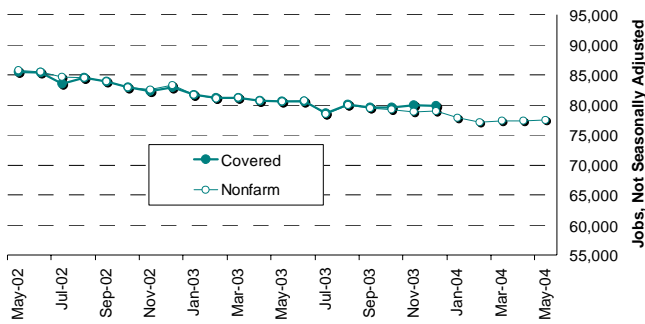


Manufacturing

Manufacturing had somewhat stabilized according to covered employment numbers from December. However, publicized plant closings support the non-

farm estimates showing approximately 1,600 additional jobs cut from the manufacturing forces since the holiday season. This employment loss was split almost evenly between the durable and non-durable goods. Since the drop from December to January, nonfarm estimates show manufacturing employment had stabilized through May 2004.

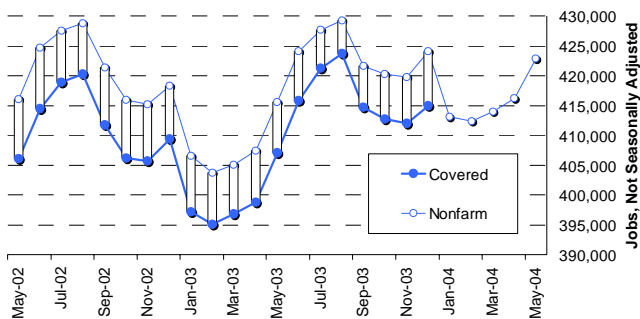
Manufacturing Supersector



Service Providing

Even though goods producing employment grew at a slower rate from January to May, the long-term structural shift of labor resources was evident in the increase in service providing employment. Monthly employment during the first quarter of 2001, compared to 2004, saw service providing employment increases ranging from 4,000 to 7,000 per month.

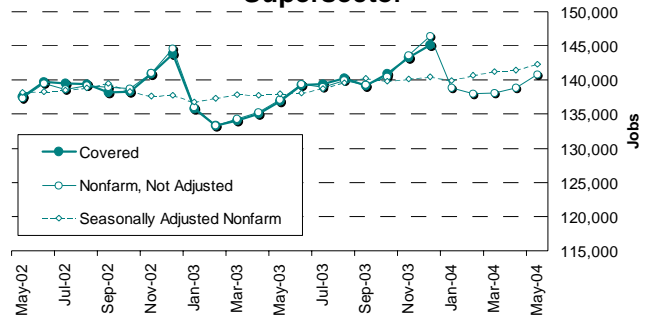
Service Providing Employment



Trade, Transportation, and Utilities

The January seasonal drop in employment in the trade, transportation and utilities supersector was driven by the typical drop in retail trade. By May 2004 approximately 1,000 more jobs in wholesale trade and just over 2,000 more in retail were added after that seasonal drop.

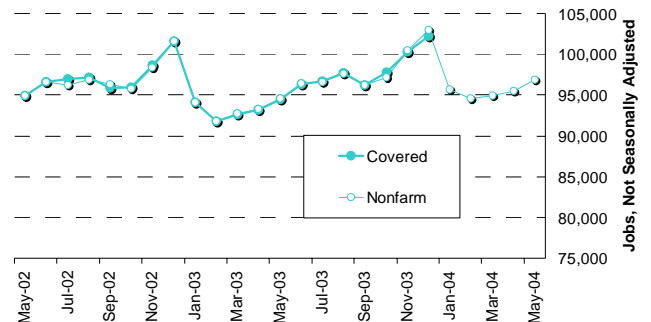
Trade, Transportation, & Utilities Supersector



Retail Trade

The retail trade sector dominates employment within the trade, transportation, and utilities supersector holding nearly 70 percent of its employment. An additional 2,000 positions in May 2004 compared to May 2003 translated into a 2.4 percent retail trade increase over-the-year based on nonfarm estimates.

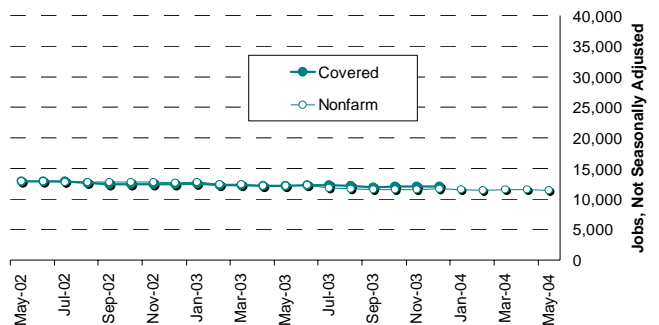
Retail Trade Sector



Information

The information supersector has been experiencing cutbacks as well. Covered employment figures show a drop of 400 from January to December 2003.

Information Supersector

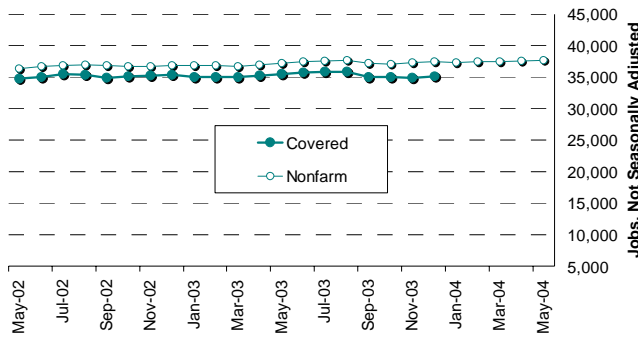


Nonfarm estimates from January 2004 through May have the employment stabilizing.

Financial Activities

Even with interest rates remaining at low levels, there has been minimal movement in the employment levels in the financial activities supersector as a whole, although sector performance was mixed with the only gains shown by the credit and intermediation and the real estate sectors.

Financial Activities Supersector



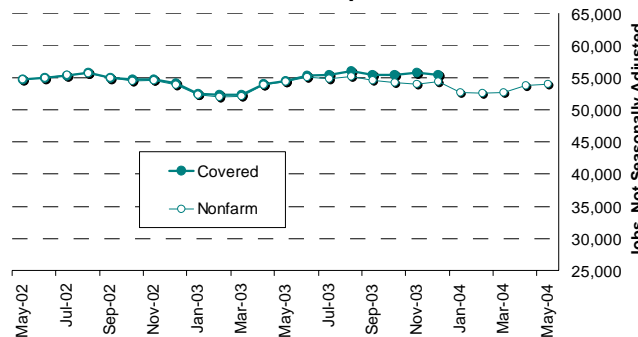
Real Estate and Rental and Leasing

The continued housing crunch and extended low interest rates have helped feed the growth in this sector. Covered employment figures, during 2003, attributed over 400 new jobs within the financial activities supersector to real estate.

Professional and Business Services

The professional and business services supersector's covered employment was 1,300 higher in December 2003 compared to December 2002. During the spring

Professional & Business Services Supersector

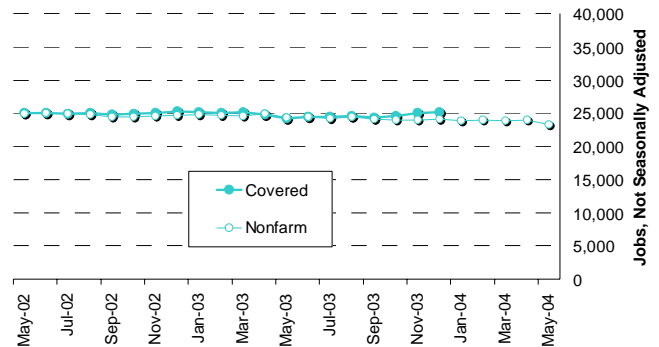


months of 2004 nonfarm numbers showed a strong increase of about 2,000 jobs. Optimism about this growth may be tempered by the concern that these jobs increasingly tend to be the ones outsourced in efforts to cut costs.

Professional, Scientific, and Technical Services

During 2003 employment fell by almost 1,000 jobs in this sector. Although, January through April 2004, employment recovery had occurred, nonfarm May estimates showed a decline of 400 jobs to 23,300.

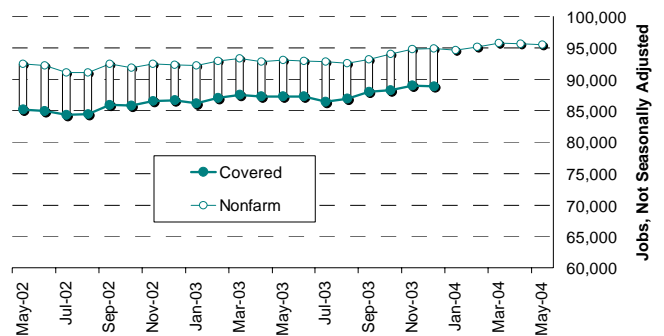
Professional Scientific & Technical Services Sector



Educational and Health Services

The educational and health services supersector had reached a covered employment high by December 2003 and spring growth tracked by nonfarm figures has continued on that path.

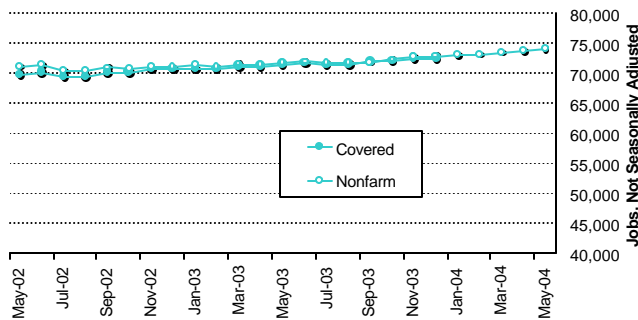
Educational & Health Services Supersector



□ Health Care and Social Assistance

Spurred by the demand for care of the aging “baby boomer” generation, the health and social assistance sector has been a steady contributor to the job growth experienced in the state.

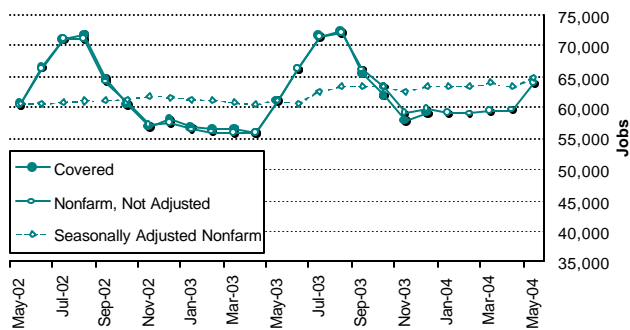
Health Care & Social Assistance Sector



■ Leisure and Hospitality

The leisure and hospitality supersector shows signs of promise as more lodging facilities are being built in the tourist regions and high business-travel demand areas of the state. The spring nonfarm figures show the typical leveling of employment in this supersector, albeit at a slightly higher level than last year, prior to the anticipated summer ascent.

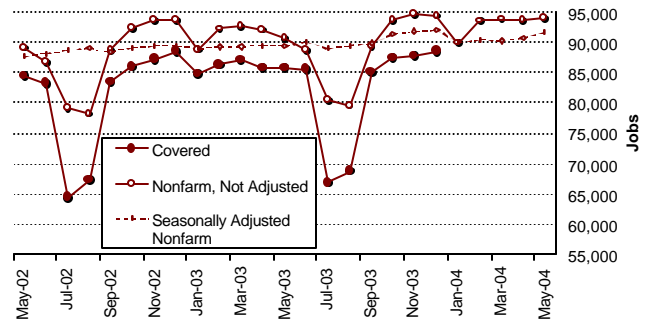
Leisure & Hospitality Supersector



■ Government Ownership

Government employment has seen no remarkable change save the slight increase in the spring, which is probably related to the local government increase in temporary staff to handle town meetings.

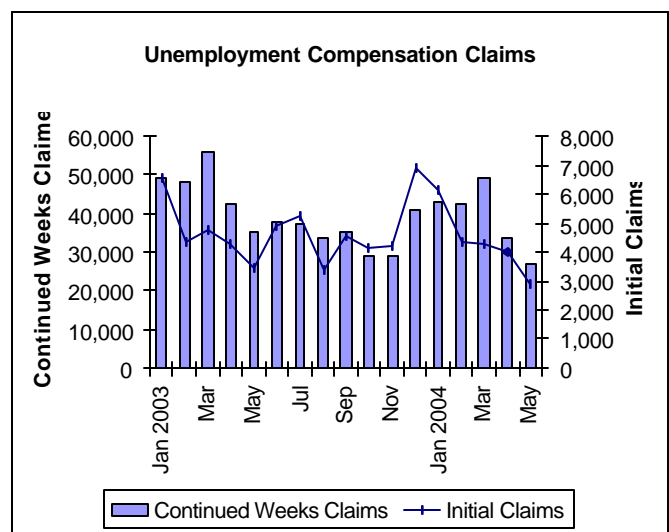
Employment in Government Ownership



Unemployment Compensation

Claims

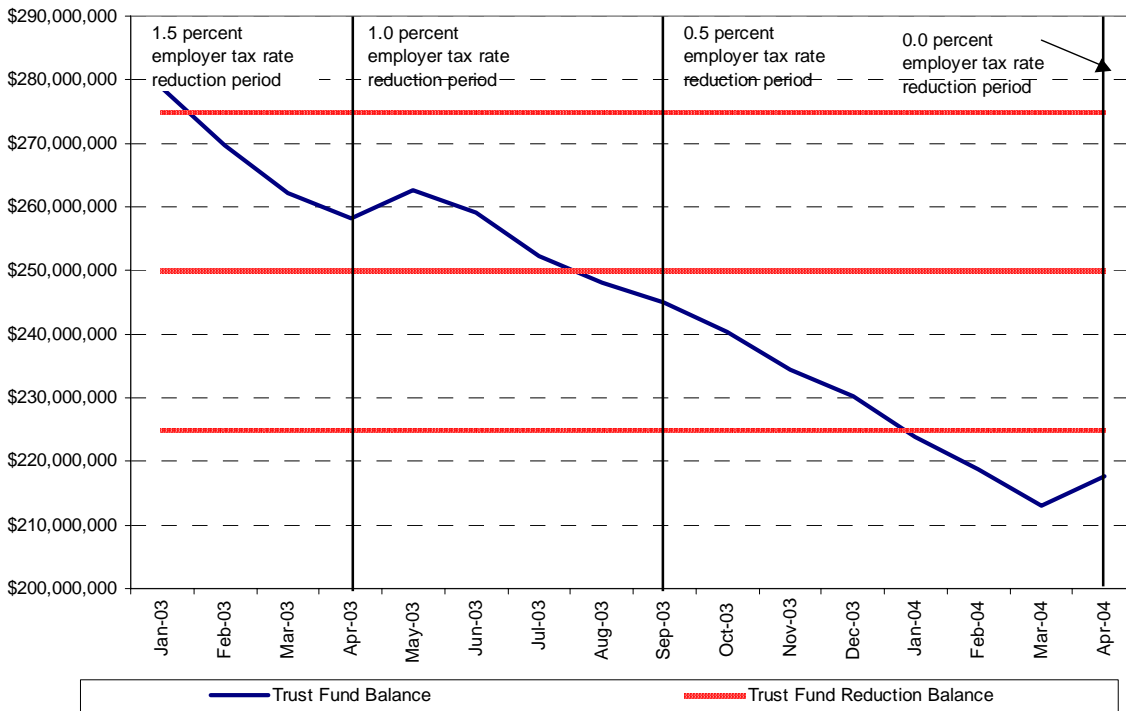
In each of the last two years, initial claims filed for unemployment in New Hampshire from January through April fell six percent compared to the same period in the previous year. May claims continued this trend. An additional sign of improvement for the economy was that the number of continued weeks claimed for unemployment compensation dropped a remarkable 12 percent compared to spring 2003, a reduction of over 27,000 weeks claimed.



Trust Fund

The elimination of the reduction provided to employers paying unemployment taxes has helped keep the unemployment compensation trust fund financially secure. Even though the trust fund continued to decline from January to April, to the tune of \$6.5 million, this

Trust Fund Balance



was still only 30 percent of the drop experienced same period last year.

Conclusion

So far the signs have been positive. New Hampshire has been successful in attracting new firms to the state. The per capita income remains strong, and reductions in the manufacturing workforce have leveled off. If the job market continues to stabilize, consumer confidence will eventually turn around as well. Although the prices at the pump seem to boggle the mind, in real price terms, it's actually cheaper to fill the tank now than it was in the early 1980s. Tourism projections don't

expect the inflated gas prices to hamper summertime tourist traveling plans. Higher fuel prices have also affected the cost of airfare. Because the Northeast is so densely populated, driving the short trip to New Hampshire may become the affordable, attractive alternative to distance travel. But overall it's a 'wait and see' economic environment.

¹ 2003 Annual Report of The Office of Business and Industrial Development, Department of Resources and Economic Development

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