

## **NEW HAMPSHIRE ECONOMIC OUTLOOK**

### **Executive Summary**

New Hampshire's recovery remains slow, but steady. The state has still not returned to the same number of jobs seen before the Great Recession. New Hampshire seems to have relinquished its traditional position of leading New England in the economic recovery period, as current employment growth is faster in Massachusetts and Vermont than in New Hampshire. The forecast expects that New Hampshire jobs will grow faster than the New England region, but slower than the nation.

Manufacturing is still the largest sector of the New Hampshire economy, accounting for 25% of the jobs and almost one third of the contribution to gross state product of export-based industries in New Hampshire. Manufacturing in New Hampshire faces competitive disadvantages from higher than national average energy, health care and labor costs. However there are a number of local efforts underway to invest in New Hampshire manufacturing, primarily through workforce training programs.

### **Highlights of the May 2013 Forecast**

- New Hampshire manufacturing jobs will decline slightly in the forecast period, reflecting increased productivity in that sector of the economy.
- Private services employment will increase at about 2% per year in the forecast period, with the highest growth in professional and business services jobs, followed by leisure and hospitality jobs.
- The New Hampshire housing sector has finally bottomed out, as shown in recent increases in both sales and median home selling prices. A more normal real estate market is expected in the forecast period, with housing permits returning about 6,500 per year.

### **Current Conditions**

In December 2012 the national career networking website Beyond.com ranked Manchester, N.H., as the fourth best place in the country to find a job, based on the growth in the number of job postings from the previous year. Manchester businesses with the greatest number of job postings included health care, information technology, sales and sales management.

According to the 2013 Assets and Opportunity Scorecard produced by the Corporation for Enterprise Development (CFED), New Hampshire residents ranked second in the U. S. in the ability to achieve financial security. The report was based on five broad categories – financial assets and income, business and jobs, housing and home ownership, and health care and education. Indicators across states include poverty rates, student loan defaults, access to banking services, unemployment rates and average wages.

The number of employed New Hampshire teenagers of working age has fallen by almost 40% since the year 2000, according to the University of New Hampshire's Carsey Institute. Reasons for the decline in the employment rate of young people include the loss of entry-level manufacturing jobs, improved workplace productivity and automation. Still, in 2011, 35% of New Hampshire teenagers were employed – the 13<sup>th</sup> best rate in the United States. The Carsey Institute encouraged businesses to create learn-and-earn programs, stimulating the development

of micro-businesses, and a national youth employment strategy as potential solutions to the decline in youth employment.

In prior recoveries, New Hampshire's rate of job growth often substantially outstripped employment expansion in New England and the nation. While that is not occurring now, New Hampshire's job performance picture did brighten with the March 2013 data revisions.

### **Manufacturing**

Granite State manufacturing jobs declined at a 3.2% annual rate in the past five years (2007 to 2012). In the forecast period, New Hampshire manufacturing jobs will decline only slightly, at a 0.3% average decrease each year. However, it is expected that Granite State manufacturing output will continue to increase much faster in the forecast period than the increase in jobs, as was also the case in the past five years.

In November 2012, BAE Systems was awarded a \$41.3 million contract for laser-guided rocket weapons systems. The Nashua location will get 70% of the work on the Advanced Precisions Kill Weapon System (APKWS), with the work to be completed in September 2014. In December BAE was awarded an \$81 million contract to produce components for anti-missile weapons systems, and another \$241 million for work on the F-35 Lightning II Joint Strike Fighter jet project. In January of 2013 BAE Nashua obtained a second contract associated with APKWS worth \$28 million to the defense manufacturing company. Even with all of the above work contracts, BAE still laid off about 200 workers out of a workforce of 4,600 employees in the first quarter of 2013, due mostly to the government spending cutbacks associated with sequestration.

Hypertherm in Lebanon has opened a new 160,000 square foot facility, which will have the capacity to accommodate 500 new jobs over the next three years. Hypertherm designs and manufactures advanced cutting products that are used in shipbuilding, manufacturing and automotive repair. The company also runs a training institute through a local community college, which has trained many of the machinists currently employed by the company.

GE Aviation in Hooksett received 18% of a \$67 million work contract for turbofans for Navy jets. GE Aviation is one of the state's largest employers, with more than 720 workers.

Manufacturing activity in the city of Rochester included Safran, a French aerospace manufacturer building a 275,000 square foot advanced manufacturing facility, and Albany International, an advanced textiles and material processing company that moved its corporate headquarters from Albany, NY, to Rochester, NH, in the year 2010.

Osram Sylvania, one of Manchester largest employers, will be laying off 49 workers because consumers are shifting toward LED and solid state lighting and away from incandescent lights. The plant in Manchester manufactures incandescent bulbs, and some production is being moved to a plant in Juarez, Mexico.

### **Private Services**

Private service producing jobs grew at an annual rate of only 0.2% over the past five years (2007 to 2012). The rate of growth will increase to 2.0% annually in the forecast period. The fastest rate of growth (3.3% annually) will occur in professional and business services jobs, followed by 2.7% annual growth in leisure and hospitality jobs. Education and health service jobs grew by

1.9% annually over the last five years, and the rate of growth will accelerate to 2.5% average annual growth in education and health services jobs from 2012 to 2017.

According to a recent report by the Outdoor Industry Association, outdoor recreation is a \$4.2 billion industry in New Hampshire, employing 49,300 people with wages of \$1.2 billion. The New Hampshire outdoor recreation industry produces \$239 million in state and local tax revenue annually, according to the trade group.

The April 2013 Governor's Conference on Tourism was packed with attendees upbeat about the outlook for the state's tourism industry. Attendance at the conference was up 22% compared to one year ago, and industry experts cited improvements in the economy and consumer confidence, as well as lowering gas prices, as reasons for optimism.

On the negative side, half of the 220 Eastern Mountain Sports (EMS) employees in Peterborough lost their jobs with the shuttering of the distribution center in town. The layoffs are part of the creation of a new retail platform that comprises two companies owned by parent Versa company: Bob's Stores and Eastern Mountain Sports.

An example of restructuring in the state health care industry can be found in western New Hampshire. Cheshire Medical Center, the major hospital in Keene, cut 34 jobs, which hospital officials say was prompted by New Hampshire's stopping state reimbursement of the Medicaid Enhancement Tax (MET). At the same time Cheshire Medical Center announced that the hospital had just acquired the newest technology in radiation oncology. The new Varian TrueBeam machine is a linear accelerator that generates radiation to treat cancer patients, and is touted to lower overall health care costs.

### **Construction and Real Estate**

Construction employment in New Hampshire declined at an annual rate of 4.1% over the past five years (2007 to 2012). New Hampshire construction jobs increased in the five years of the forecast period by about 4% a year, as housing permits recover to an annual rate of 6,500 per year. New Hampshire housing prices will increase by about 4% per year in the forecast period 2012 to 2017, about 1% above the rate of inflation.

The year 2012 was the turnaround year for home sales in New Hampshire. Home sales in the state in 2012 increased by 20% compared to 2011, according to data from the New Hampshire Association of Realtors. Home prices in New Hampshire in 2012 were flat, as measured by the median home selling price. However 2013 may be the turn around year for home prices, because the median home selling price increased by about 4% in the first quarter of 2013, compared to the first quarter of 2012.

### **Government**

The New Hampshire Department of Administrative Services has calculated that state retiree health benefits represent a \$2.2 billion liability for benefits that have already been earned but for which no money has been put aside. The audit from the department estimates that the state already owes \$679 million for post-employment benefits, and that amount will increase into the future.

The Portsmouth Naval Shipyard had a civilian payroll of \$421 million in 2012 for 5,313 employees, most of whom live in New Hampshire and Maine. Although the number of jobs at the

shipyard increased by 126 from 2011 to 2012, the year 2013 appears more uncertain. All of the current employees are facing up to a 20 percent cut in pay as a result of sequestration. At the end of April the shipyard plan was to furlough every employee once a week for 22 weeks pending some change to the sequester. Another impact, according to union representatives, is a higher than normal number of resignations and a higher rate of applications for retirement.

### **Conference Theme: Manufacturing is Changing: Is New England Ready?**

The U. S. Commerce Department looked at the earnings for manufacturing workers and concluded that non-supervisory workers in manufacturing have consistently earned more than comparable workers in other industries. The difference, the so called “manufacturing premium,” has remained consistent over time, and holds whether the economy is contracting or expanding. The Commerce Department economists calculated that a large part of the “manufacturing premium” is due to medical and retirement benefits for factory workers that are usually 60% higher than for non-factory workers.

As of 2011, the latest year available, there were 3,700 companies employing 78,000 in New Hampshire in manufacturing and high tech industries. The average weekly wage in this sector was \$1,323 per week, 44% above the average private sector wage of \$916 per week.

The manufacturing and high technology sector remains the largest single sector of the New Hampshire economy, when measured by the total compensation paid to New Hampshire employees. Of the total \$37 billion in employee compensation paid in New Hampshire in 2012, manufacturing and high technology worker received \$6.8 billion, about 18% of the total compensation paid.

According to the research from the Institute for New Hampshire Studies, the manufacturing sector was the largest export sector of the state economy in the year 2010, when measured by the number of jobs. Travel and tourism is the second most important export industry in employment size to the state's economy after manufacturing.

Calculating manufacturing's share of the state's economic base in terms of gross state product looks somewhat different. Manufacturing is still the most important economic sector in terms of its impact on total gross state product, at almost one-third of the total. Travel and tourism ranks third, with one fifth of the contribution to gross state product as derived from manufacturing. Manufacturing's substantially larger contribution to state economic activity, relative to travel and tourism, is not surprising. Tourism related jobs are concentrated in the retail, accommodations and food service industries, which are relatively low paying jobs. By comparison, the manufacturing sector's higher wages mean more support to gross state product from sales outside of the state.

Manufacturing companies in New Hampshire may have a competitive advantage relative to other states because of New Hampshire's highly skilled workforce. In 2011 New Hampshire ranked 4<sup>th</sup> among the 50 states, and first in New England, with the percentage of adults with a high school degree or better, and 8<sup>th</sup> among the states (4<sup>th</sup> in New England) in the percentage of adults with a college degree or better.

However manufacturing in New Hampshire does face competitive disadvantages. Energy prices in New England and New Hampshire tend to be higher than in other states, as do health care costs. Unit labor costs in New Hampshire have long been above the national average, while states

in the south and western areas of the United States have unit labor costs at or below the national average.

Manufacturing remains important in New Hampshire, as evidenced by several local workforce training initiatives. The Community College System of New Hampshire has made equipment and technology upgrades based on input from local manufacturing companies in each regional college. For example Hypertherm, in Lebanon, partnered with River Valley Community College to create a training program for certified machinists. Another example is Albany International in Rochester creating a work training program with Great Bay Community College to concentrate on composites manufacturing. Freudenberg North America has also worked with the Lakes Region Community College to offer a program that includes plant tours and an advanced manufacturing certificate program.

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