

## **NEW HAMPSHIRE ECONOMIC OUTLOOK**

### **Executive Summary**

New Hampshire will most likely be the third state in New England to recover the jobs lost in the Great Recession, with the state hitting its pre-recession employment peak in the spring of 2014. Massachusetts has already recovered all of the jobs lost in the recession, and Vermont is close to recovery. What distinguishes this New Hampshire economic recovery, compared to past growth periods, is a lack of migration into the state. In the past, economic growth in New Hampshire also meant a gain of 10,000 to 20,000 new residents each year, most of those coming from nearby Massachusetts. That has not happened in this expansion.

What happens in New Hampshire partially depends on what happens in Massachusetts. There is a connection, and it is a strong connection. New Hampshire contributes to the regional economy by offering a lower-cost alternative for employees and firms looking to reduce expenses and stay in New England. Greater Boston and southern New Hampshire are part of the same regional economy; in fact, the U.S. Census defines the Boston metropolitan area as extending all the way north to Manchester, N.H. Economic activity doesn't stop, or start, at state borders.

### **Highlights of the November 2013 Forecast**

- Granite State manufacturing jobs will decrease by 0.4% annual average each year for the next five years. However, it is expected that Granite State manufacturing output will continue to increase in the forecast period, as it has in the past five years.
- In the Private Services sector employment will increase by 2.0% annually in the forecast period. The fastest rate of growth will occur in professional and business services, followed by leisure & hospitality, and education and health services employment.
- The New Hampshire real estate market has finally seen a return to normal (pre housing bubble) price appreciation and sales growth, according to state realtors. Foreclosure recordings declined steadily over the past year. The state rental market remains strong, with rental costs leveling and vacancies remaining below 5% in most areas.

State, regional and national economic growth and job creation has been disappointing, even allowing for the worst recession in the post World War II period. The period 2002 to 2007 was recognized as an expansion, but job growth was only about 1% per year everywhere (substantially less than 1% in New England). Real economic growth was less than 2% annually in New Hampshire and New England, and still under 3% per year in the rest of the country from 2007 to 2012. The Great Recession (and recovery period) of 2007 to 2012 saw real economic growth at less than one percent per year everywhere, and a loss in total jobs everywhere. We still have fewer jobs in New Hampshire, New England and the United States in 2012 than we had in 2007. The forecast period looks better, but only moderately so. Real economic growth will hover around 3% annually over the next five years (2012 to 2017), while annual job growth never breaches 2% per year.

### **Current Conditions**

An August survey of New Hampshire residents showed they were upbeat about the economy, but at the same time concerned about bad times ahead. The survey is conducted by the University of New Hampshire Survey Center, and sponsored by the state Business and Industry Association of New Hampshire. The percentage of respondents who think that they are personally better off since last year was at its highest point in the last six years. When asked how New Hampshire businesses

will do over the next year, nearly half were looking forward to better conditions, while 27% thought conditions will deteriorate and 27% think conditions will be mixed. These figures are consistent with views held prior to the 2008 recession.

## **Manufacturing**

There are about 2,000 manufacturing companies in the State of New Hampshire, employing more than 66,000 people and accounting for 15% of the state's gross state product.

BAE Systems in Nashua is New Hampshire's largest manufacturing employer. The company employs about 4,000 New Hampshire workers in defense electronics and avionics. The company recently received a \$39 million contract from the Army for infrared missile warning systems to protect military aircraft, with all of the development, spare parts, systems engineering and technical support coming from BAE locations in Nashua, New Hampshire.

GIPlastek of Wolfeboro, a custom molder of structural foam and injection molded plastic parts, is nearly doubling the size of its facility as it expands. The expanded 96,000 square foot facility will employ 96 people, with the potential for more hiring in 2014.

Warwick Mills, a New Ipswich manufacturer of specialty textiles for protective gear, landed a \$94.3 million contract from the U.S. Army for concealable body armor and vests. The company's shift from textile production to high-performance flexible composites for a range of industries, including military, public safety, industrial and aerospace helped it land the contract.

Titiflex, an aerospace manufacturing firm in Laconia, plans to expand its workforce by at least 80 jobs in the next two years. The company employs 335 workers making metal hoses for the space shuttle and international space station, and hoses for the Boeing 737 jet engines.

The Advanced Manufacturing Partnership in Education New Hampshire (AMPedNH) initiative is a \$20 million federal grant program provided by the U.S. Department of Labor to offer training to potential workers. The program is run under the Community College system of New Hampshire, and offers training in robotics and automation, electronics and electromechanics, advanced machine technologies, advanced welding technologies, advanced composites technologies, and engineering and programming, all tailored to meet the specific needs of company or industry. To address students' concerns about cost, accessibility and fear of the technical nature of the program, classes will be available in traditional and online formats. Online academic support and networking resources will be available 24 hours a day online. The first course is being offered free to up to 2,000 students.

Uncertainties surrounding sequestration have caused L-3 Warrior Systems in Londonderry to lay off 61 employees. There are still about 800 employees at the former Insight Technologies, a company that specializes in the development and manufacturing of night vision and electro-optical equipment for the military, firefighting and law enforcement.

Strum, Ruger & Company, a gun manufacturing company in Newport, has decided to open a third manufacturing plant in North Carolina, rather than adding to the existing facility employing 1,200 in New Hampshire. The company has said that while they had a number of criterion for expansion, they "did not find anything suitable" in New Hampshire. Being a right-to-work state was one of Strum Ruger's criteria, as was the fact that other states were offering incentives like buildings and tax breaks. While the company does not plan on reducing its New Hampshire operation, the

company's decision to expand in another state was a disappointment to New Hampshire economic development officials.

Granite State manufacturing jobs declined at a -3.2% annual rate in the last five years (2007 to 2012). In the forecast period, the decline in New Hampshire manufacturing jobs will slow to a -0.4% average loss each year. However, it is expected that Granite State manufacturing output will continue to increase in the forecast period, as it has in the past five years.

### **Private Services**

A good example of the kind of international business that succeeds in New Hampshire is the Manchester based WWPass company, which has half of its 70 workers in Manchester and the other half in Moscow, Russia. The company was started by a Russian born physicist turned entrepreneur, and is developing a patented cloud based authentication technology that safeguards sensitive data and user privacy by using one universal PassKey, thus eliminating users names and passwords that can be intercepted by hackers.

New Hampshire colleges are ranked among the nation's best, according to the 2014 U.S. News & World Report study. The highest ranked school in New Hampshire is Dartmouth College, which ranked 10th this year overall. St. Anselm, a private Catholic college, ranked 120 among the top 180 national liberal arts colleges.

CruCon Cruise Outlet, a specialty cruise travel agency, is expanding in Moultonborough. The new 30,000 square foot building will double the number of current employees, from 75 to 150, when it is complete in the spring of 2014.

Clean Energy Fuels Corp. is building a natural gas compression facility in Pembroke to fuel fleets of clean running vehicles and businesses throughout New England. The company was founded in Texas by T. Boone Pickens and is building in Pembroke in part because it is guaranteed a consistent revenue stream through a one-year contract with Vermont based NH Advantage LLC.

Another potential source of job growth in New Hampshire's future would be the development of the 1,000 acre Pettengill Road land in Londonderry, adjacent to the Manchester airport. The tract of land was made more accessible with the completion of the Manchester airport access road from the Everett Turnpike. The town of Londonderry hopes to get a tax increment financing (TIF) warrant article before the voters in March 2014. The town is currently awaiting word on the status of an application for an \$8.2 million Transportation Investment Generating Economic Recovery (TIGER) grant that, if approved, would fully fund additional road construction. At least one major distribution company has already approached the town with plans to build a 200,000 square foot facility with the promise to add 450 jobs.

There is only one insurance provider in the health insurance exchange established under the Affordable Care Act (ACA). Anthem Blue Cross Blue Shield is the largest insurance provider in the state. In early September Anthem surprised state health care policy makers by announcing it would only include 14 out of New Hampshire's 26 hospitals in the ACA insurance plans. The hospitals not in the network include Concord Hospital, Southern New Hampshire Medical Center in Nashua, most of the rural hospitals in the north and western parts of the state, as well as the state's two for-profit hospitals, Parkland Medical Center in Derry and Portsmouth Regional Hospital.

The New Hampshire health care sector is retrenching, as can be seen in two recent staffing announcements at New Hampshire hospitals. Exeter Hospital announced that it would cut 75 positions from the fiscal 2014 operating budget, affecting every level of the organization, from senior management to administrative support positions. St. Joseph Hospital in Nashua eliminated 54 positions, saying that fewer patients were staying overnight at the 208 bed hospital.

Public Service of New Hampshire, the state's largest investor owned utility, has reportedly lost about 90,000 customers to a competitive service provider as of June 2013. The switch to other power suppliers began in 2012, as competitors offering power from cheaper natural gas generation moved into the New Hampshire market, and the customer migration accelerated in 2013. Nearly a quarter of PSNH's (former) customers now get electric power thorough an alternative provider. Recently the utility has also come under pressure from regulators to divest itself of its own generating assets.

Private service-producing jobs grew at an annual rate of 0.2% over the last five years (2007 to 2012), after growing at annual rate of 2.0% per year from 2002 to 2007. The rate of growth will increase to 2.0% annually in the forecast period. The fastest rate of growth (3.6%) will occur in professional and business services, followed by 3.2% annual growth in leisure & hospitality jobs, and 2.4% average annual growth in education and health services jobs from 2012 to 2017.

### **Construction and Real Estate**

Real estate markets are recovering in New Hampshire, but slowly. Total real estate sales activity (based on returns to New Hampshire's Real Estate Transfer Tax) is 60% below the peak activity seen in 2006. However, residential home sales were up 21% in 2012, compared to 2011, and are on a path to increase another 13% in 2013. The median price for a single family home was flat in 2012, but will probably increase by 10% this year, if current trends hold. Put the two together, and you have a 23% increase in sales volume for the year 2013. However, housing starts are still hovering around 3,000 permits annually, significantly below the long term trend.

Construction employment in New Hampshire declined at an annual rate of 4.1% in the last five years (2007 to 2012), compared to the New England average 4.3% annual decline. Growth in New Hampshire construction jobs will rebound in the five years of the forecast period to 4.3% annual growth, and housing permits will average about 5,500 per year over the forecast period.

### **Government**

Governor Maggie Hassan and the State Employees Association made an agreement to prevent federally-funded state employees from being laid off because of the Federal government partial shutdown in October. The agreement allowed for furloughs instead of layoffs as federal funds ran out, and allowed employees to return to work at the end of the shutdown without losing any benefits.

In another effort to improve the employment situation, the Governor signed into law the Pathway to Work program, designed to encourage unemployed people to start their own businesses. While the program is administered by the Department of Employment Security, participants will work with the state's Small Business Development Center, an outreach program of the University of New Hampshire. To qualify a person must be eligible for unemployment compensation, permanently laid off from a previous job, among other requirements. The new initiative builds on the existing New Hampshire Working program, a three parts jobs program enacted in 2010 to help workers retain and regain employment.

The state government ended the 2013 fiscal year with a \$76.1 million surplus. The Governor wants to put some of the money into the state's Rainy Day Fund, but also to restore funding for some of the cuts made at the Department of Health and Human Services. As part of the budget balancing the Legislature subtracted \$17 million from the state's Renewable Energy Fund, \$1.25 million of which went to the financially troubled Tri-County Community Action program. Renewable energy advocates decried using money that was targeted for "green" energy programs diverted instead to the state general fund.

The so-called Massachusetts "Tech Tax" was repealed in September, after only two months in the Bay State revenue picture. The levy was a 6.25% sales tax on computer and software technology services, and affected New Hampshire as well, because even New Hampshire companies that were providing services in Massachusetts were also liable for the tax. At least one high tech company in Massachusetts was considering moving across the border to New Hampshire to avoid the tax. Massachusetts had not yet said how they will fill the \$160 million hole left by repealing the tax. While the tech tax was repealed the Bay State also increased its gasoline and cigarette taxes, which may drive more purchases from Massachusetts residents in New Hampshire.

### **Conference Theme: Universal Economics? Boston's Role in the Regional Economic Network**

The importance of the Greater Boston area to the New Hampshire economy cannot be overstressed. In fact, by the broadest definition used by the Office of Management and Budget, the Boston-Worcester-Providence, MA-RI-NH-CT Combined Statistical Area includes the five largest counties of New Hampshire (Belknap, Hillsborough, Merrimack, Rockingham, and Strafford). Only in the narrowest definition of a metro area, the three county Boston metro division, [including Norfolk County (MA), Plymouth County (MA), Suffolk County (MA)], does not include a portion of New Hampshire.

Thousands of New Hampshire residents work at jobs in the Greater Boston area, choosing to pay the Massachusetts personal income tax in order to avail themselves of higher wage jobs in Massachusetts, while still enjoying a New Hampshire lifestyle. Nearly 91,000 New Hampshire residents paid the Massachusetts personal income tax in tax year 2010, accounting for more than one quarter of the Bay State's non-resident income tax revenue. The cross-border earnings and spending of New Hampshire residents working in Massachusetts help support the economies of both states.

According to a recent study by the Kauffman Foundation, the Nashua-Manchester Corridor is in the top ten with fastest growing companies, for its size. However, as can be seen in the following map, many more fast growing companies are concentrated around the Greater Boston area.<sup>1</sup>

Southern New Hampshire still holds a cost of doing business advantage over Massachusetts. The Tax Foundation's 2013 State Business Tax Climate Index ranks New Hampshire 8<sup>th</sup> best in the country, compared to 25<sup>th</sup> for Massachusetts.<sup>2</sup> The readers of Chief Executive Magazine in 2013 graded states on a variety of competitive metrics including: 1) taxation and regulation; 2) quality of workforce; and 3) living environment, and ranked New Hampshire 22<sup>nd</sup> among the states, and Massachusetts 44<sup>th</sup>. However energy costs are higher than the national average in both states.

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<sup>1</sup> Source: 2012 Inc. 5000 list and website.

<sup>2</sup> The Tax Foundation business climate tax index is calculated based on a state by state ranking of corporate taxes, individual income taxes, sales taxes, unemployment insurance taxes and property taxes for the most current fiscal year.

Most of New Hampshire's in-migrant population gain has come from Massachusetts. However, this net change is a result of thousands of people moving between the two states. Over the period 2000 to 2010, 143,019 people left Massachusetts for New Hampshire, while 78,459 people left New Hampshire to live in Massachusetts, for a net-migrant gain to New Hampshire of 66,100 residents. Connecticut, New York and New Jersey are also states with domestic net in-migration into New Hampshire.

The two states with the biggest net gain of residents from New Hampshire are Florida and Maine. New Hampshire lost 6,435 residents to Maine between 2000 and 2010, and about 17,000 residents to Florida. New Hampshire also experienced net domestic migration losses to North Carolina, South Carolina and Arizona in that same period.

More recent data shows that migration into New Hampshire from Massachusetts has slowed considerably, probably due to Massachusetts' faster job growth in the last five years.

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