nhfpi New Hampshire Fiscal Policy Institute

issue brief

October 26, 2015

New Hampshire's Economy: Moving Forward, but Not Yet Running on All Cylinders

One of the key issues debated throughout this year's extended legislative session was the state of the New Hampshire economy and whether changes in business tax rates would help to foster future growth. While this issue dominated budget discussions, an examination of the true state of the economy often seemed missing. As this *Issue Brief* explains, on one hand, New Hampshire businesses are steadily producing more goods and services and hiring additional workers. At the same time, though, more and more of our fellow residents struggle to provide the basics for themselves, particularly households with children.

When analyzing economic conditions, there are a plethora of approaches one could use. For example, since consumer spending is more than two-thirds of overall spending in the United States, it might make sense to review consumer conditions, such as disposable income, retail sales, and consumer confidence surveys. Alternatively, since one's employment status goes a long way in determining financial health, another method would examine the labor market. This might include data on the number of jobs on employer payrolls or initial unemployment benefit claims, a proxy for the extent of layoffs. Moreover, one could look at the unemployment rate, a simple measure of the share of the labor force that is unemployed.[i]

GDP Growth in New Hampshire Outpacing Most States

	Real gross domestic product		Real gross domestic product per capita	
	Compound annual growth rate, 2010-2014	Rank (1=fastest; 50=slowest)	Compound annual growth rate, 2010-2014	Rank (1=fastest; 50=slowest)
Massachusetts	1.9%	15	1.2%	13 (tied)
New Hampshire	1.5%	22 (tied)	1.3%	10 (tied)
Rhode Island	0.9%	35 (tied)	0.8%	26 (tied)
Vermont	0.9%	35 (tied)	0.8%	26 (tied)
Connecticut	0.3%	44	0.1%	41
Maine	-0.1%	49	-0.1%	44
United States	1.9%		1.1%	

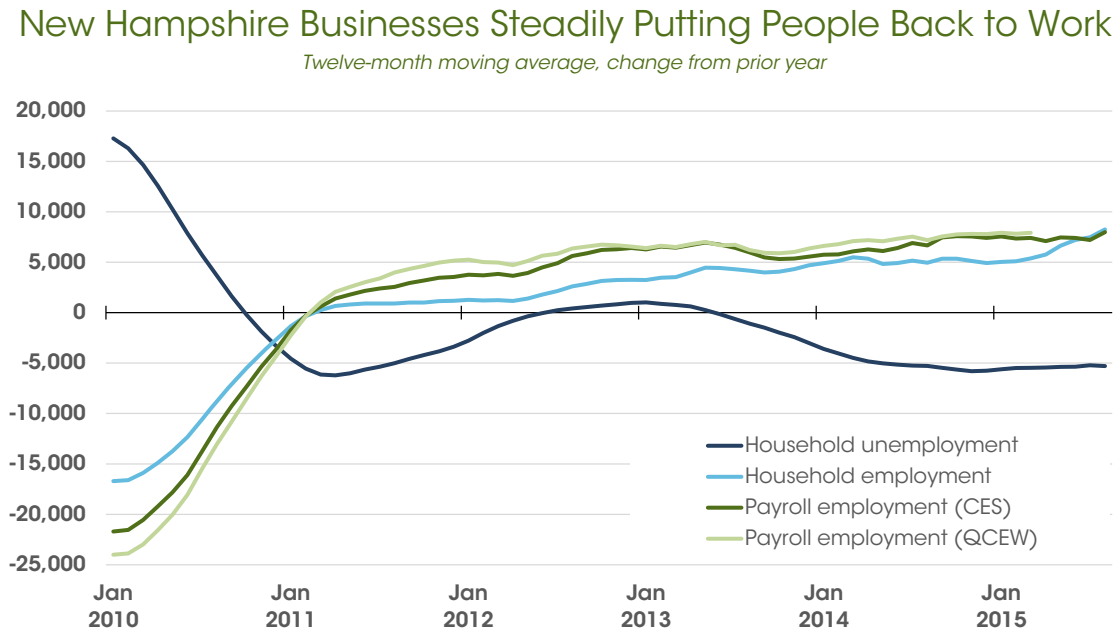
Source: U.S. Bureau of Economic Analysis

To analyze New Hampshire's condition, NHFPI began with the indicator most economists agree is "the most comprehensive measure of the output of all the factories, offices, and shops," Gross Domestic Product (GDP).[ii] Using data from the U.S. Bureau of Economic Analysis (BEA), the table above shows the compound annual growth rate for GDP between 2010 and 2014 for each New England state as well as the United States as a whole.[iii] The table also assigns a ranking for each state, with "1" for

the fastest growth rate and "50" for the slowest. The data show that New Hampshire has been in the middle of the pack since the end of the Great Recession. While it has not advanced as quickly as the national average, New Hampshire has fared better than 26 states, including all of our New England neighbors, with the exception of Massachusetts.

Digging deeper, the BEA also provides data on real GDP per capita, a measure of how large each state resident's slice of the economy would be if we were to divide the total into equal portions. This is important to take into consideration because an economy is only richer if its GDP grows faster than its population. If real GDP grows at the same pace as a state's population, then the average standard of living is theoretically unchanged. If real GDP remains unchanged, but the population increased, then the standard of living has likely declined, since there are more people to share a given amount of economic resources. Based on this metric, New Hampshire has fared well, tied for tenth, outpacing all New England states and slightly above the nationwide average.

Another common way to analyze economic conditions is by looking at measures of employment. The U.S. Bureau of Labor Statistics (BLS) conducts regular surveys to assess the national labor market. One is informally known as the "payroll survey,"



Source: U.S. Bureau of Labor Statistics

which gathers information from a sample of businesses and government agencies to estimate how many jobs employers, in total, have on their payrolls.[iv] A second method is the "household survey," which contacts about 60,000 households to approximate how many people are employed.[v] One difference between the two surveys is that a person who has two jobs counts twice in the payroll survey (since they are on two distinct payrolls), but only once in the household survey (since they are only asked if they are employed). Additionally, a New Hampshire resident who works out of state

would not be counted in the payroll survey, since their employer is not in the Granite State, but would count in the household survey, since they live here.

A third source of information is the Quarterly Census of Employment and Wages (QCEW).[vi] While data from the QCEW is unavailable until several months after the fact, its value cannot be understated. For instance, every year the payroll survey estimates described above are revised to incorporate extra information from the QCEW program. Unlike the payroll or household survey, the QCEW provides a virtual census (98 percent coverage) of employees on nonfarm payrolls. Every employer in the United States who is covered by either state Unemployment Insurance laws or the Unemployment Compensation for Federal Employees program is required to submit a report to state workforce agencies about their organization's level of employment and wages paid.

As the graph above signals, in the teeth of the recession, New Hampshire businesses, on net, shed close to 25,000 jobs over a 12-month period, with nearly 18,000 New Hampshire residents becoming unemployed. This situation has improved since the beginning of 2011, with New Hampshire employers adding to their payrolls and the number of unemployed residents falling. The latest data show that the number of payroll jobs in the state and the number of residents employed now exceed where they were before the Great Recession began and the number of residents unemployed has essentially returned to where it was in 2007.

Over the last few years, the number of payroll jobs being added, on net, has been in the neighborhood of 6,000 to 8,000 annually. Meanwhile, the number of New Hampshire residents becoming employed has risen between 4,000 to 6,000 annually, though recently that number has climbed higher and matched the number of jobs being added. The source of the discrepancy between these two trends is unclear.

Relative to other states, the pace of employment gains in New Hampshire leaves some room for improvement. Using the annual QCEW data, New Hampshire ranks 35th in terms of the percentage change in jobs since either 2010 or 2013. While New Hampshire will likely

Employment Growth Stronger than Most of Region, but Lagging Rest of Country

	2010-2014		*2013-2014*	
	Percent Change	Rank (1=best, 50=worst)	Percent Change	Rank (1=best, 50=worst)
Top 5				
North Dakota	24.0	1	4.1	1
Utah	12.3	2	3.0	6
Texas	11.8	3	3.1	5
Colorado	11.1	4	3.5	3
California	9.7	5	2.8	10
New England				
Massachusetts	6.7	19	2.0	17
New Hampshire	4.3	35	1.3	35
Vermont	3.9	38	1.0	39
Connecticut	3.6	40	0.8	44
Rhode Island	3.6	41	1.6	22
Bottom 5				
Mississippi	2.6	46	0.8	43
New Mexico	2.2	47	0.9	40
Maine	2.2	48	0.7	47
Arkansas	2.1	49	1.0	38
West Virginia	1.2	50	-0.4	50

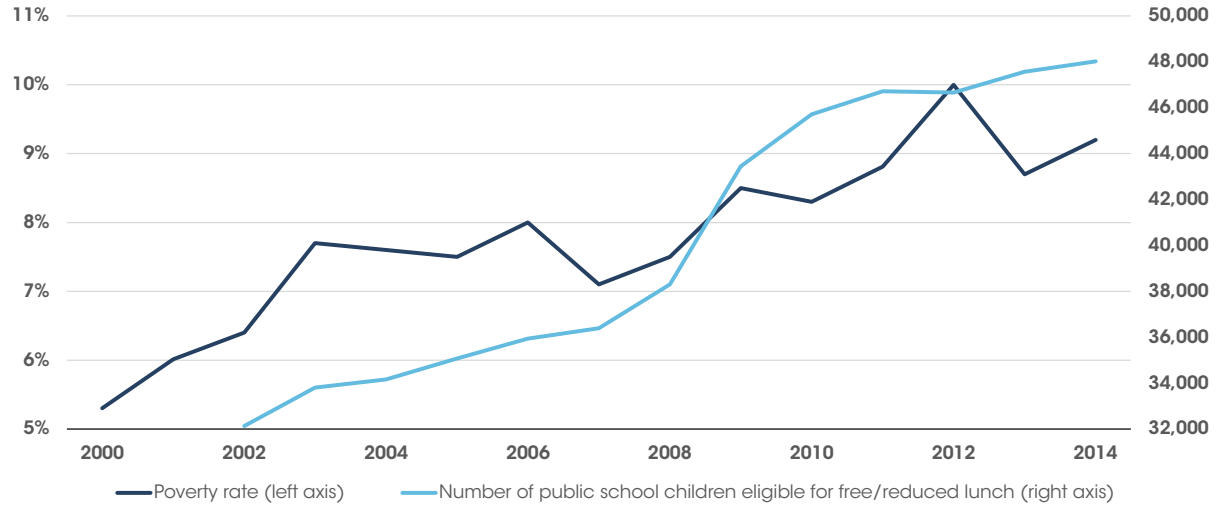
Source: U.S. Bureau of Labor Statistics

never rise to the very top of this list, due to its lack of natural resources for energy-related investment and New England's decades-old pattern of below-average population growth, discussions on how to improve the pace of job gains are warranted. One issue to investigate might be why certain industries are confronting labor shortages and how best to rectify that situation[vii].

More Granite Staters Falling Behind

Regardless of how one puts the various pieces of the economic puzzle together, the data appear to show that New Hampshire's economy is producing more goods and services and employing more people than ever before. Yet, other economic measures demonstrate that these gains are not being realized by all Granite Staters. According to the U.S. Census Bureau, roughly 118,000 or 9.2 percent of New Hampshire residents in 2014 lived in households with incomes below the federal poverty level. (For context, for a family of four in calendar year 2015, the federal poverty level was $24,250.)

More Granite Staters Struggling to Make Ends Meet



Sources: U.S. Census Bureau; New Hampshire Department of Education

While 9.2 percent is the lowest poverty rate among all states, the issue of households not earning enough for basic needs has become more pervasive, with the number of residents living in poverty in New Hampshire almost double that in 2000. The Census data is corroborated by New Hampshire Department of Education data on the number of public school children eligible for free or reduced school lunches.[viii, ix] The Department's data indicate that from 2002 to 2014, the number of children that needed food assistance rose from 32,000 to 48,000. What makes this more worrying is that, while more children were becoming eligible, the number of total public school students in New Hampshire steadily declined over that same time period, from 196,000 to 166,000.

One factor that may be contributing to the strains on New Hampshire workers is the nature of the jobs that are currently available in the state. Although New Hampshire

businesses are employing more people, there has been shift away from higher-paying occupations to lower-paying ones. As the table below details, compared to 2001, there are nearly 31,000 fewer manufacturing and 4,000 fewer construction jobs in New Hampshire, two industries that on average pay quite well. In exchange, New Hampshire has 19,000 more healthcare careers, 9,000 more administrative/waste service jobs, and 7,000 more people working in food service positions. Healthcare occupations pay about the New Hampshire average, while workers in the other two industries earn below-average wages.

Higher-Paying Manufacturing Jobs Have Been Replaced by Lower-Paying Service Jobs

Industry	Employment			Average weekly wage		Percent above/below total avg. weekly wage	
	2001	2014	Change	2001	2014	2001	2014
Manufacturing	97,412	66,451	(30,961)	$860	$1,274	26%	29%
Construction	27,200	23,202	(3,998)	$810	$1,042	19%	6%
Retail Trade	95,032	94,410	(622)	$445	$570	-35%	-42%
Wholesale Trade	26,627	27,124	497	$1,152	$1,632	69%	66%
State Government	19,538	20,544	1,006	$628	$937	-8%	-5%
Other Services	19,082	20,206	1,124	$481	$648	-30%	-34%
Finance & Insurance	26,291	27,885	1,594	$1,029	$1,827	51%	86%
Local Government	51,555	57,203	5,648	$573	$825	-16%	-16%
Professional & Technical Services	26,517	32,443	5,926	$1,098	$1,633	61%	66%
Accommodation & Food Services	48,987	55,962	6,975	$270	$355	-60%	-64%
Administrative & Waste Services	23,574	32,981	9,407	$542	$836	-21%	-15%
Health Care & Social Assistance	67,227	86,458	19,231	$640	$972	-6%	-1%
Total	610,446	626,567	16,121	$682	$984		

Source: New Hampshire Employment Security (*Quarterly Census of Employment and Wages*)

Ultimately, given the long-term trend in the share of Granite Staters living in poverty, policymakers should be concerned not just about the overall performance of the economy but how the people of New Hampshire, especially lower-income households, are faring in it.

[i] The labor force is the sum of the people employed and unemployed. Essentially, it is the number of people who are either working or actively seeking work. http://www.bls.gov/cps/cps_htgm.htm#concepts

[ii] William J. Baumol, Alan S. Blinder, *Economics: Principles and Policy,* 10th edition.

[iii] GDP is initially measured in nominal or current dollars, meaning each good or service sold is valued at the price at which it was actually sold. However, the BEA also provides GDP data in real or inflation-adjusted terms, which is usually a better measure to discern changes in output. http://www.bea.gov/iTable/iTable.cfm?reqid=70&step=1&isuri=1&acrdn=1#reqid=70&step=1&isuri=1

[iv] Officially, this is the Current Employment Statistics (CES) program. http://www.bls.gov/sae/

[v] Officially, this is the Local Area Unemployment Statistics (LAUS) program. http://www.bls.gov/lau/

[vi] http://www.bls.gov/cew/

[vii] http://www.nhbr.com/June-26-2015/Mid-year-review-Labor-pains/

[viii] http://education.nh.gov/data/attendance.htm#free_reduced_school

[ix] The National School Lunch Act was enacted in 1946, providing low-cost or free lunches to school children. Eligibility for the program is based on household income and size. Students are eligible for a reduced cost lunch if their household's income is at or below 185% of the Federal Poverty Line (FPL), and entitled to a free lunch if household income is at or below 130% FPL. These income guidelines are revised once a year to account for inflation. http://nhkidscount.org/sites/default/files/Free%20and%20Reduced-Price%20Lunch.pdf