

What's Wrong With the New Hampshire Economy and What Can Be Done About It?

Joint Economic Briefing
New Hampshire House and Senate
Finance and Ways and Means Committees
January 14, 2015

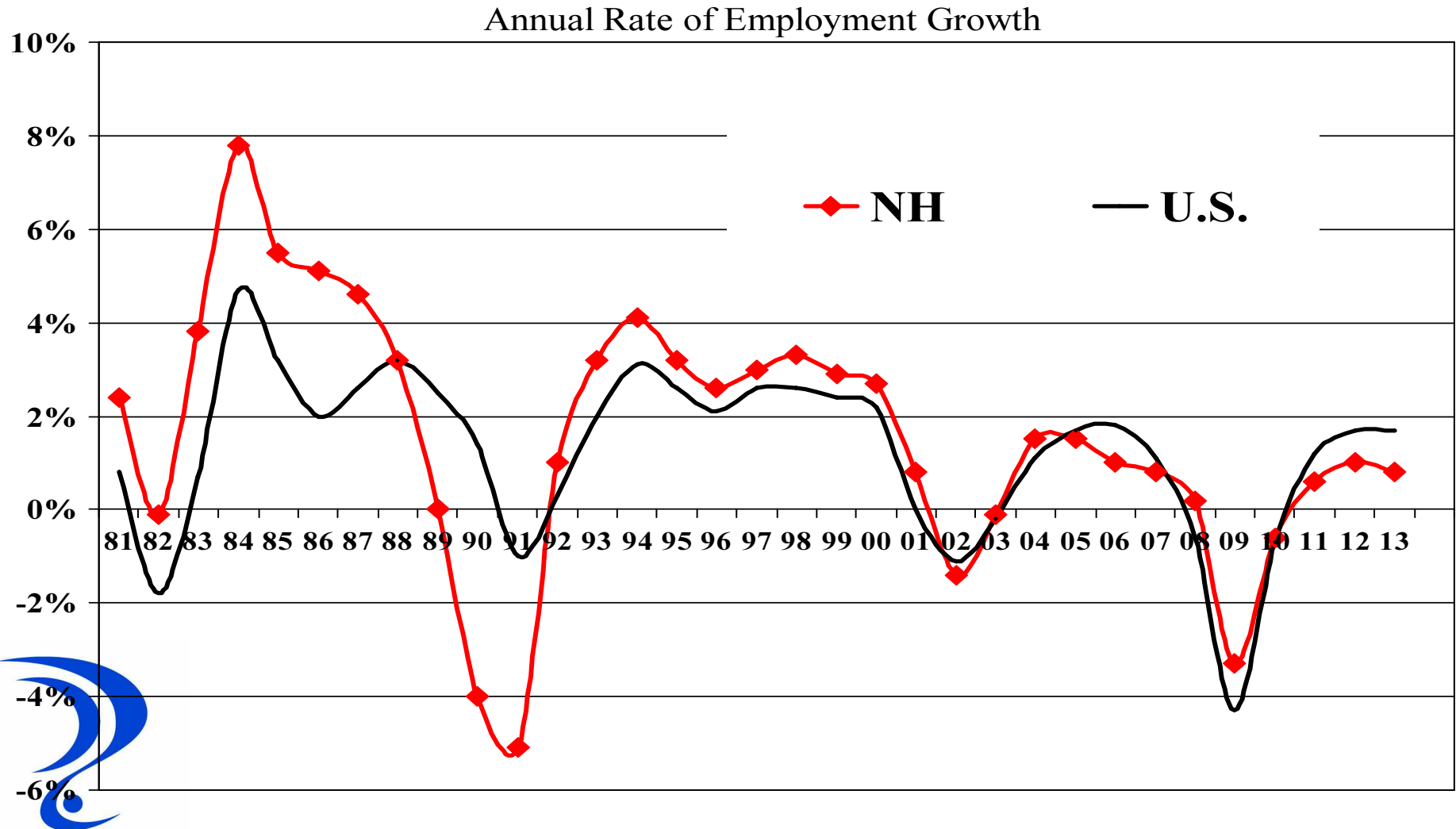


Brian Gottlob
PolEcon Research
bgottlob@poleconresearch.com

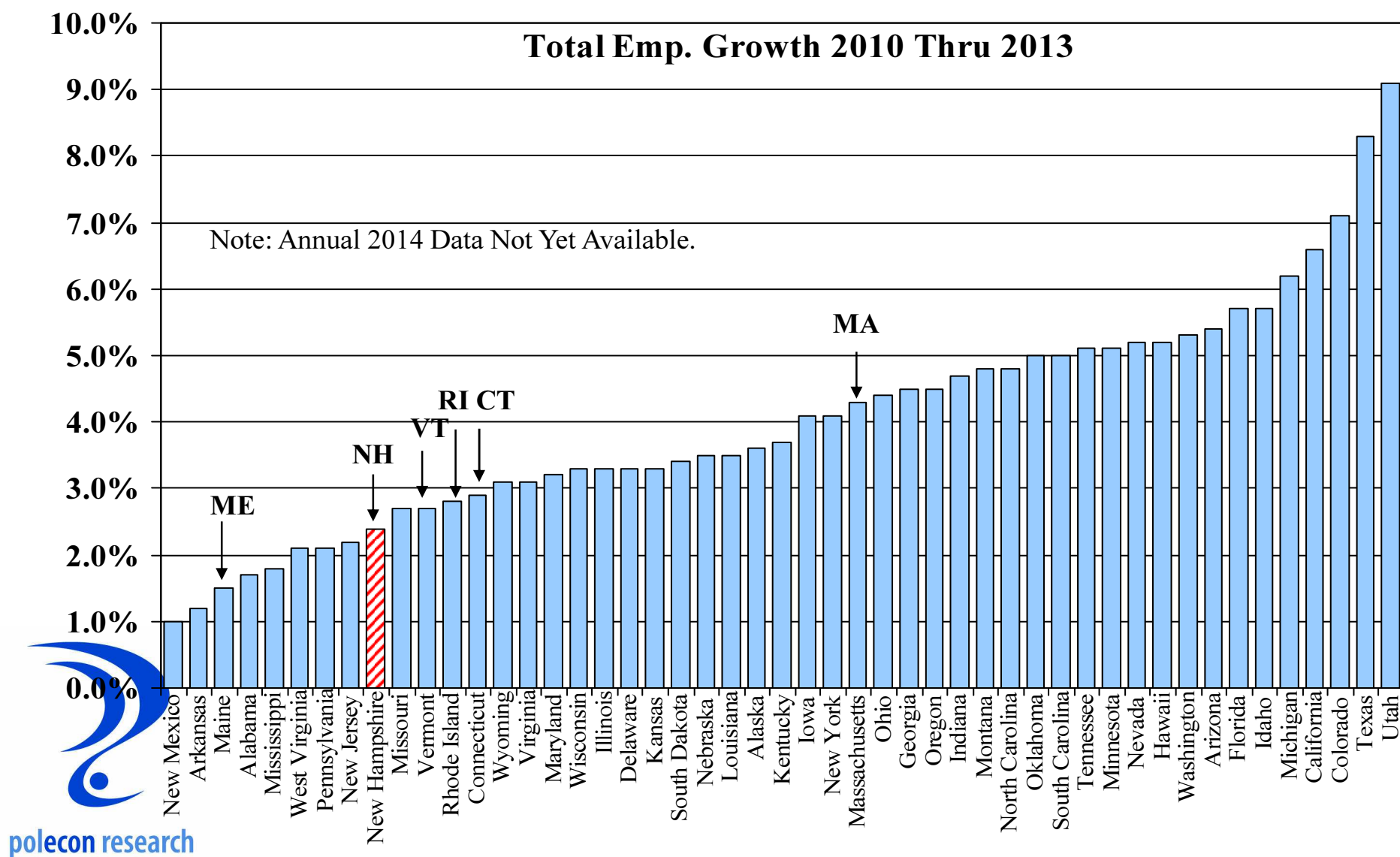
Outline

- NH's Recent and Current Economic Performance in Context
- Factors Influencing NH's Outlook
- Implications for NH Revenues
- Implications for State Policy

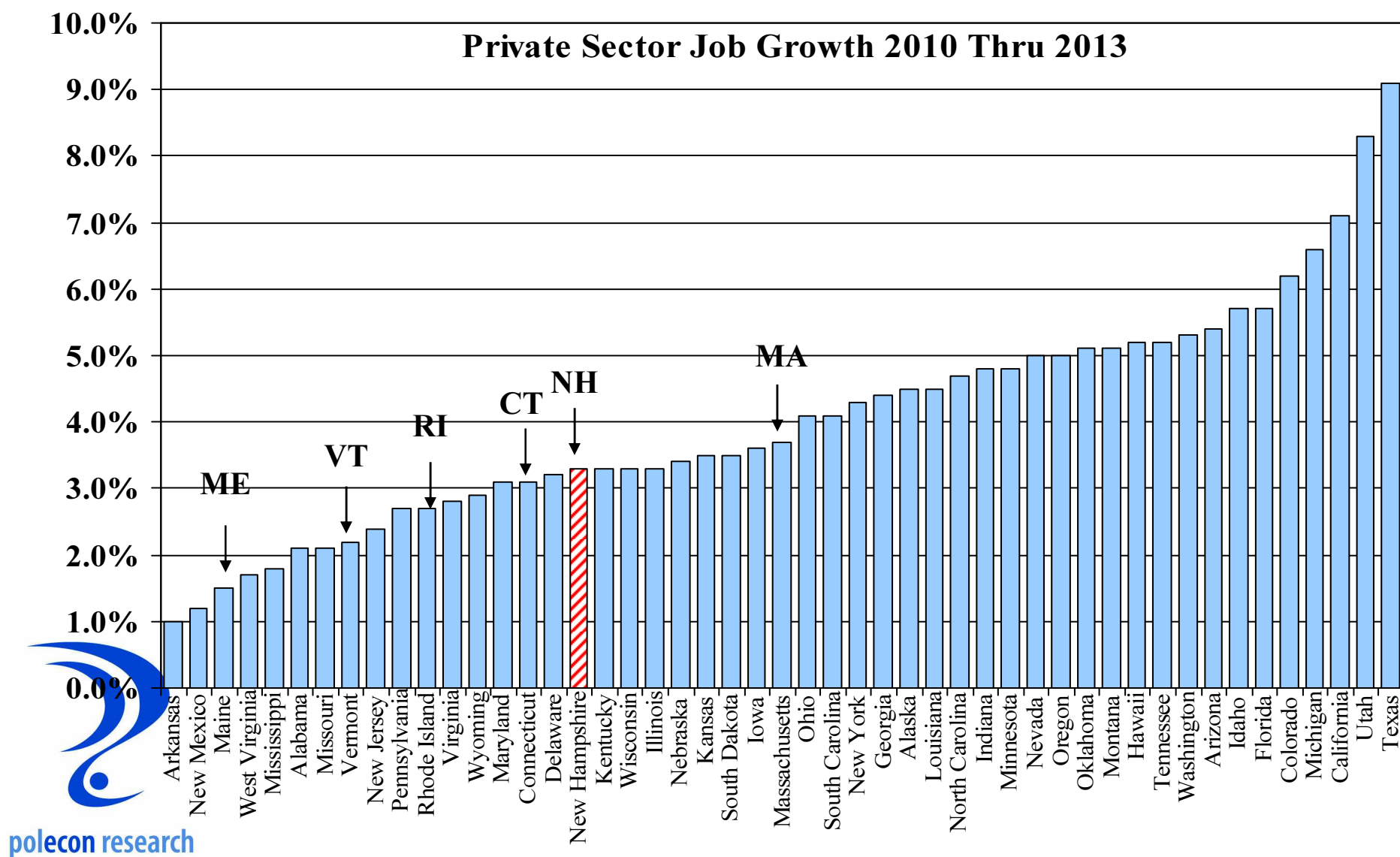
The Pace of Employment Growth Has Been on a Long, Downward Trend Nationally. After Decades of Faster Growth, NH Spent Much of the Past 10 Years Lagging U.S. Employment Growth



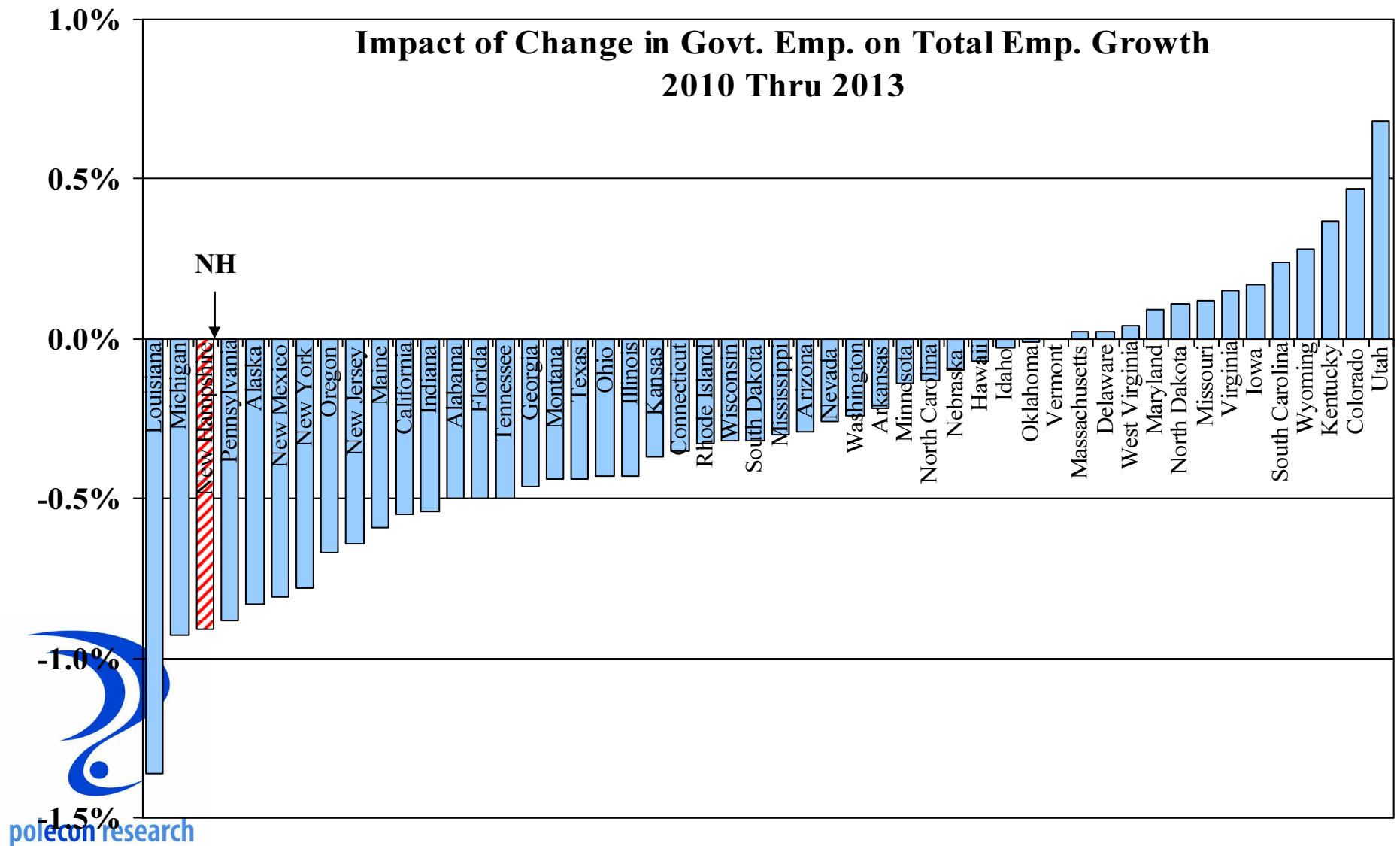
Three Full Years After the Recession Ended, NH Was Near the Bottom in Total Job Growth



But Private Sector Job Growth in NH Has Been Stronger - Below the U.S. Average but Better Relative to Other Northeastern States

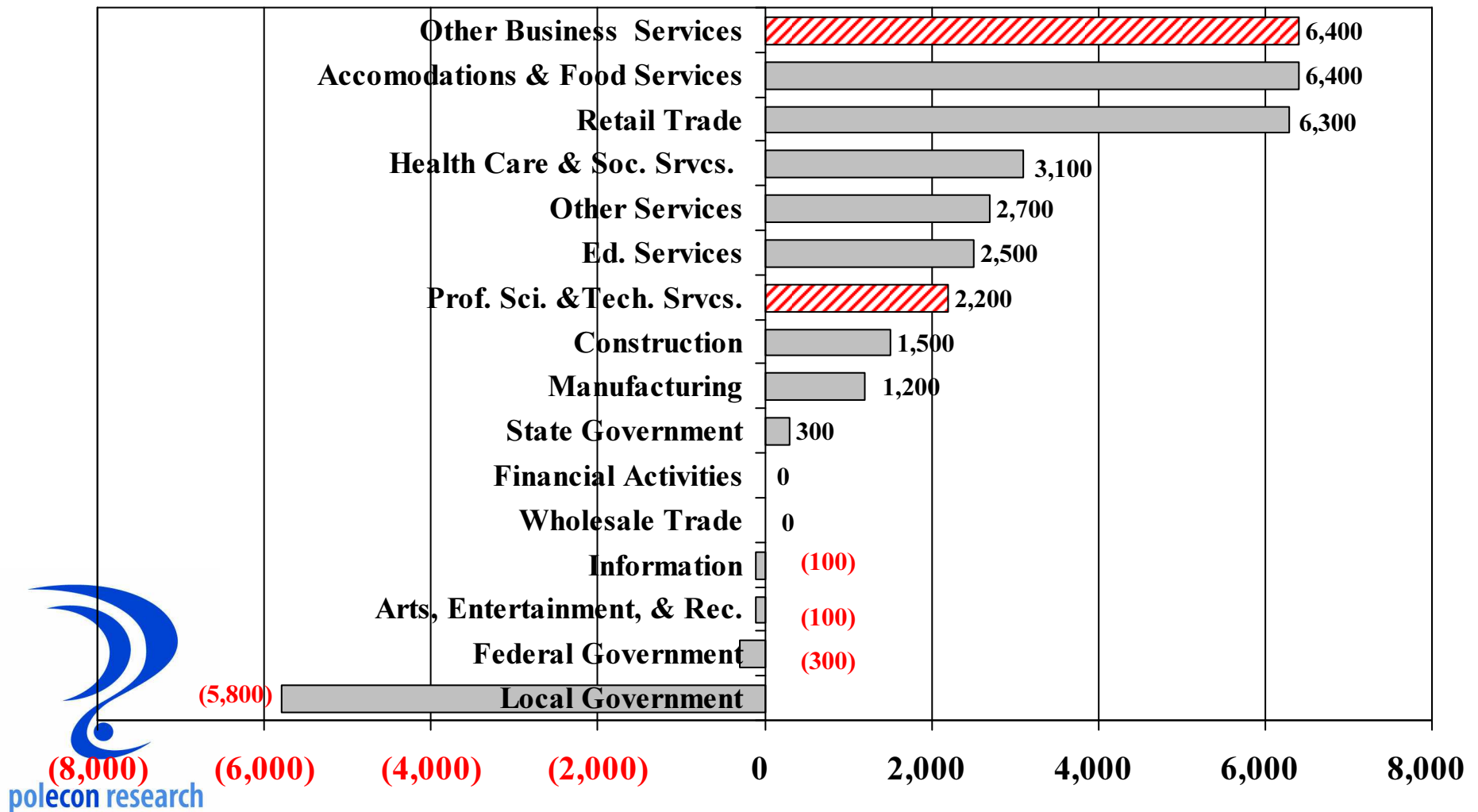


Austerity Cuts to Govt. (Primarily Local Govt.) Shaved About One Percent From NH's Job Growth Since 2010 – More Than in all But Two States



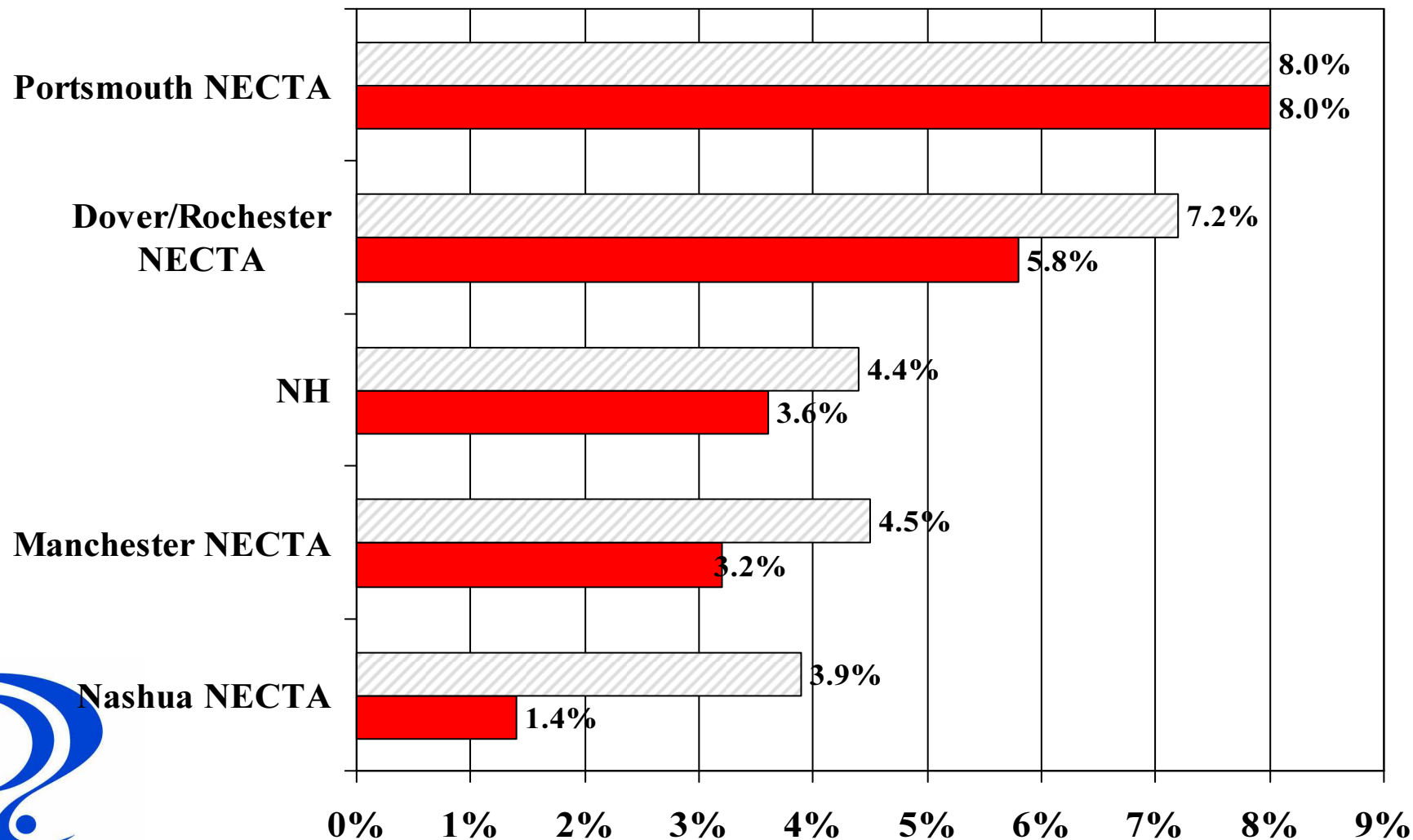
Business & Professional Services Added the Most Jobs (But only 25% are in Highest Skill Industries – Prof./Sci/Tech), While Local Government Shed the Most Jobs Since 2010

NH Job Growth January 2010- November 2014



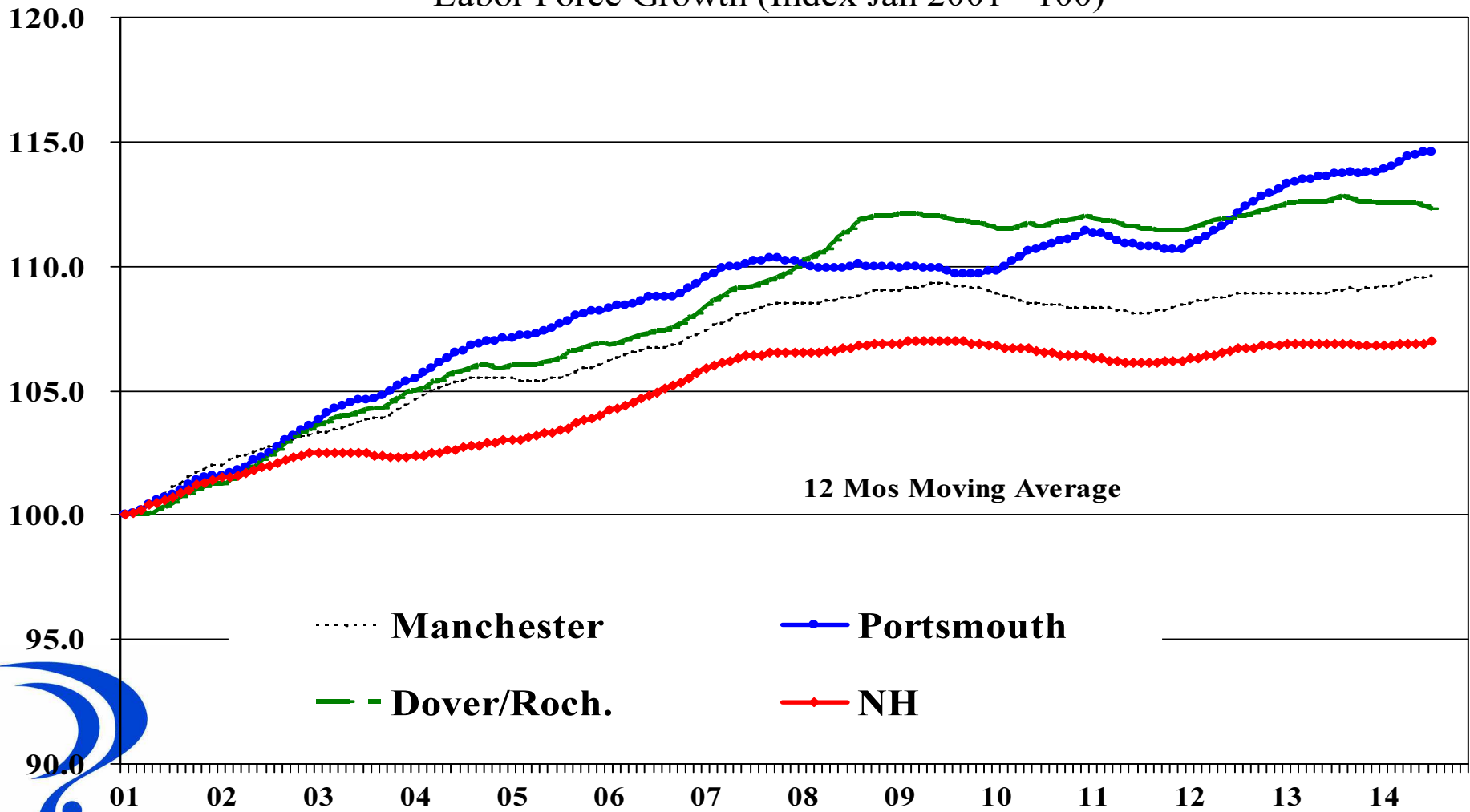
There are Large Regional Differences in Job Growth – Some is Related to Differences in Industry Composition but as Much or More is Related to Labor Force Trends

Labor Force Job Growth 2003 to 2013



Differences in Growth Across NH are Largely Attributable to the Ability to Keep and Attract “Talent” – Today Businesses Follow Labor, a Resource Shortage They Can’t Compensate For

Labor Force Growth (Index Jan 2001 = 100)



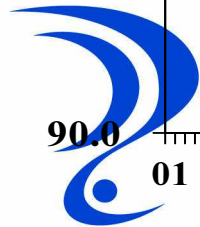
12 Mos Moving Average

..... Manchester

—●— Portsmouth

—■— Dover/Roch.

—♦— NH

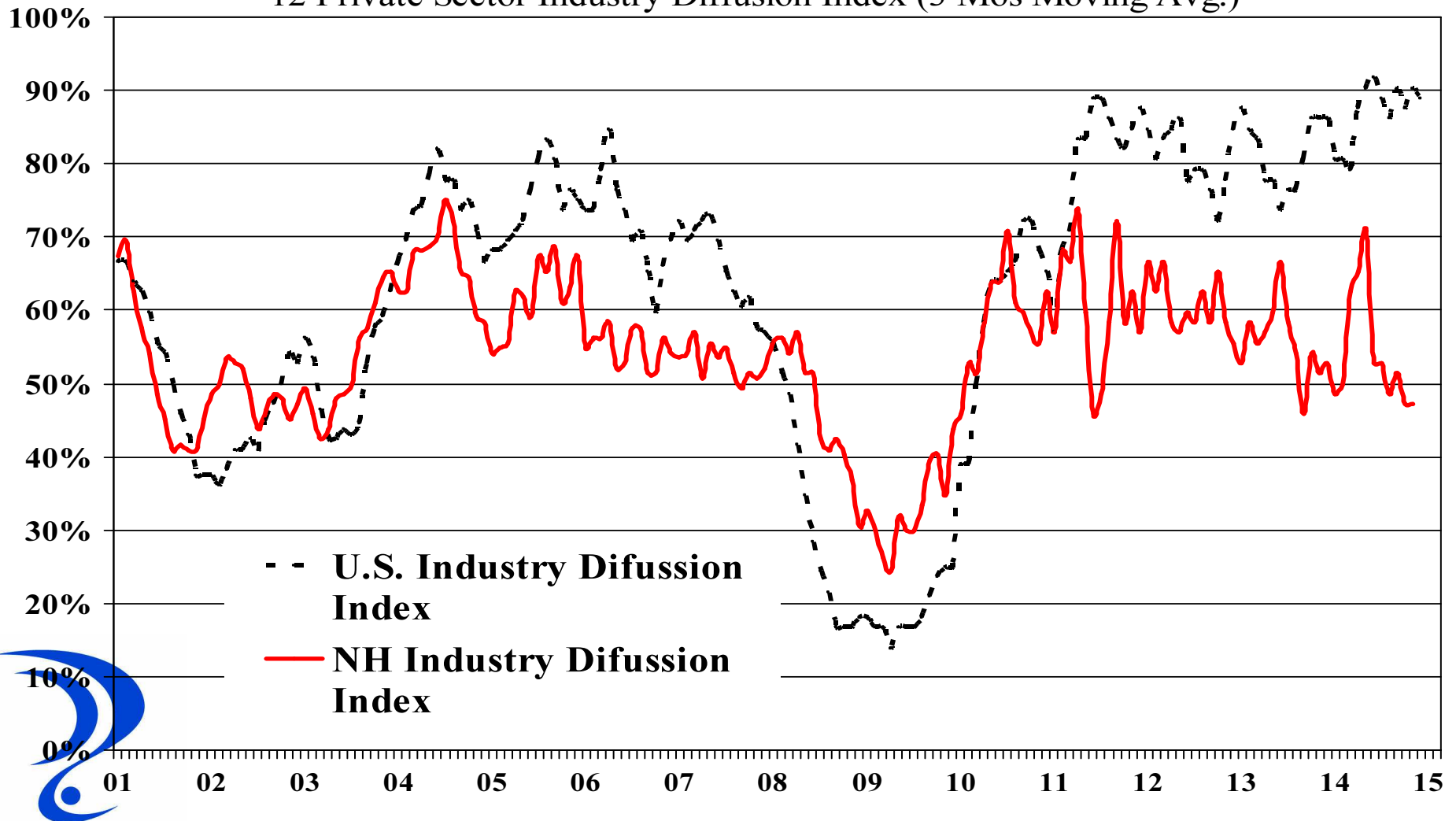


Key Current Economic Indicators Suggest Job Growth Should be Stronger

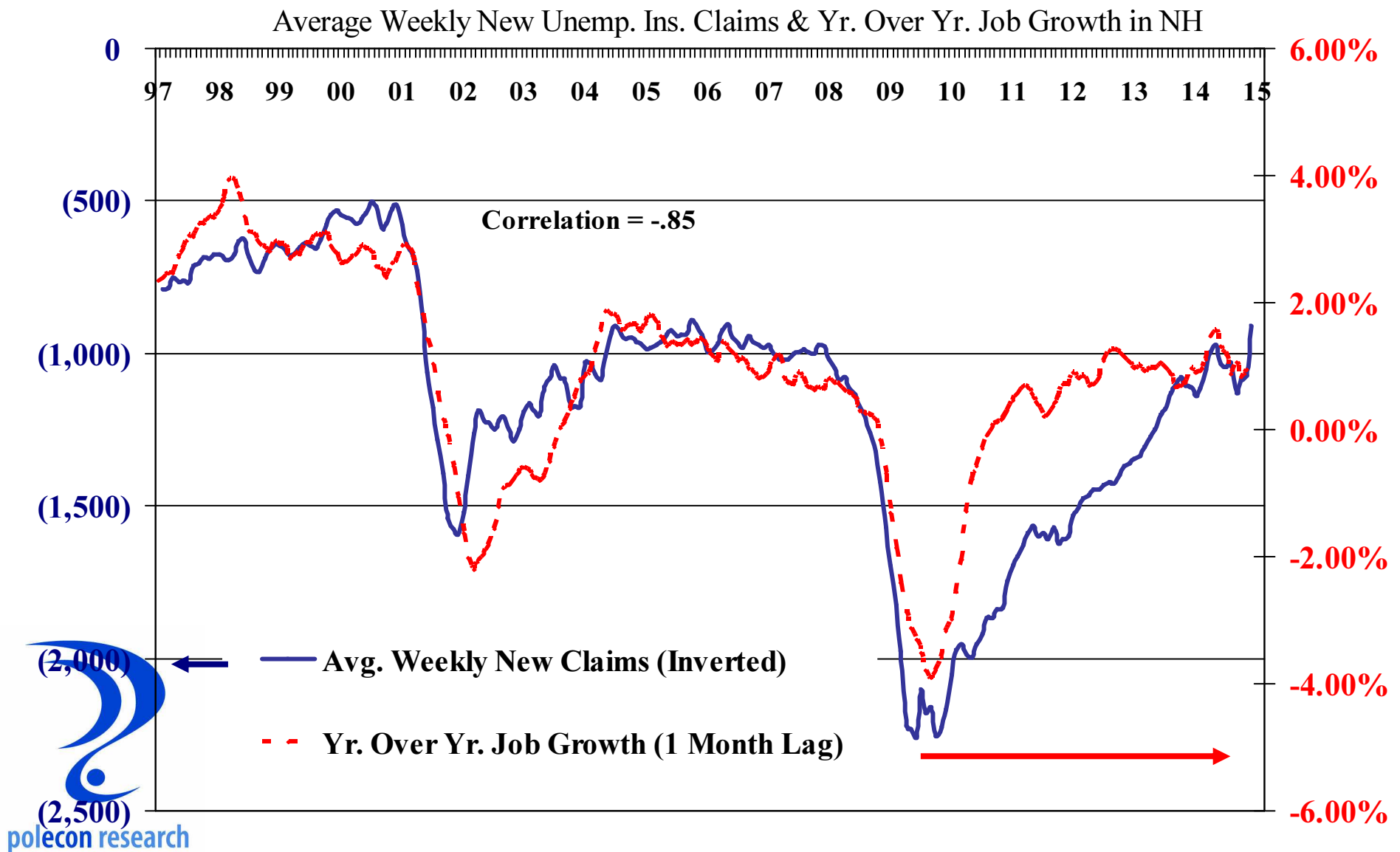


The NH Economy Can't Seem to "Fire on All Cylinders." While Most Industries in the U.S. are Adding Jobs, In NH, Only About One-Half of Major Industries Are.

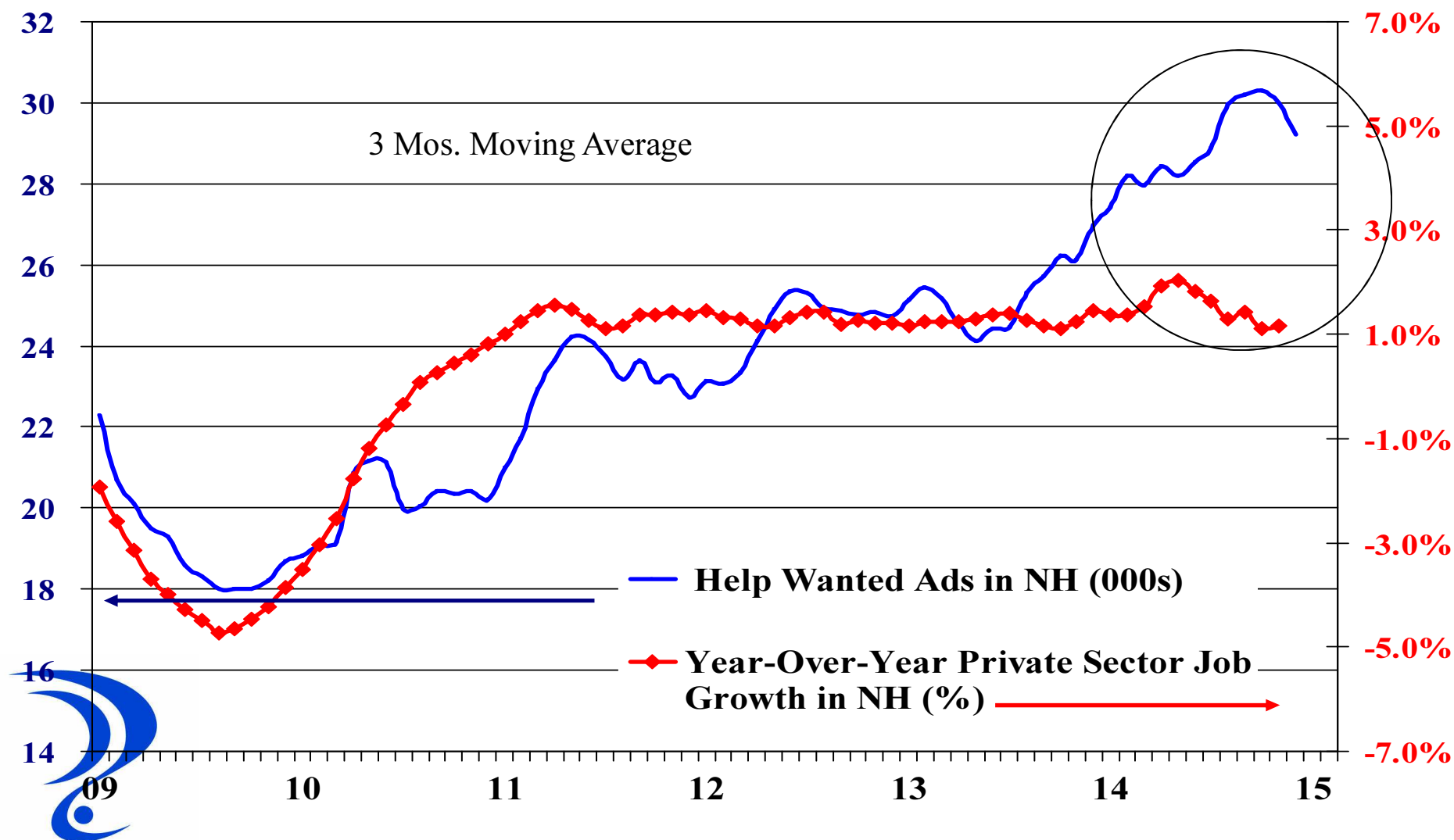
12 Private Sector Industry Diffusion Index (3 Mos Moving Avg.)



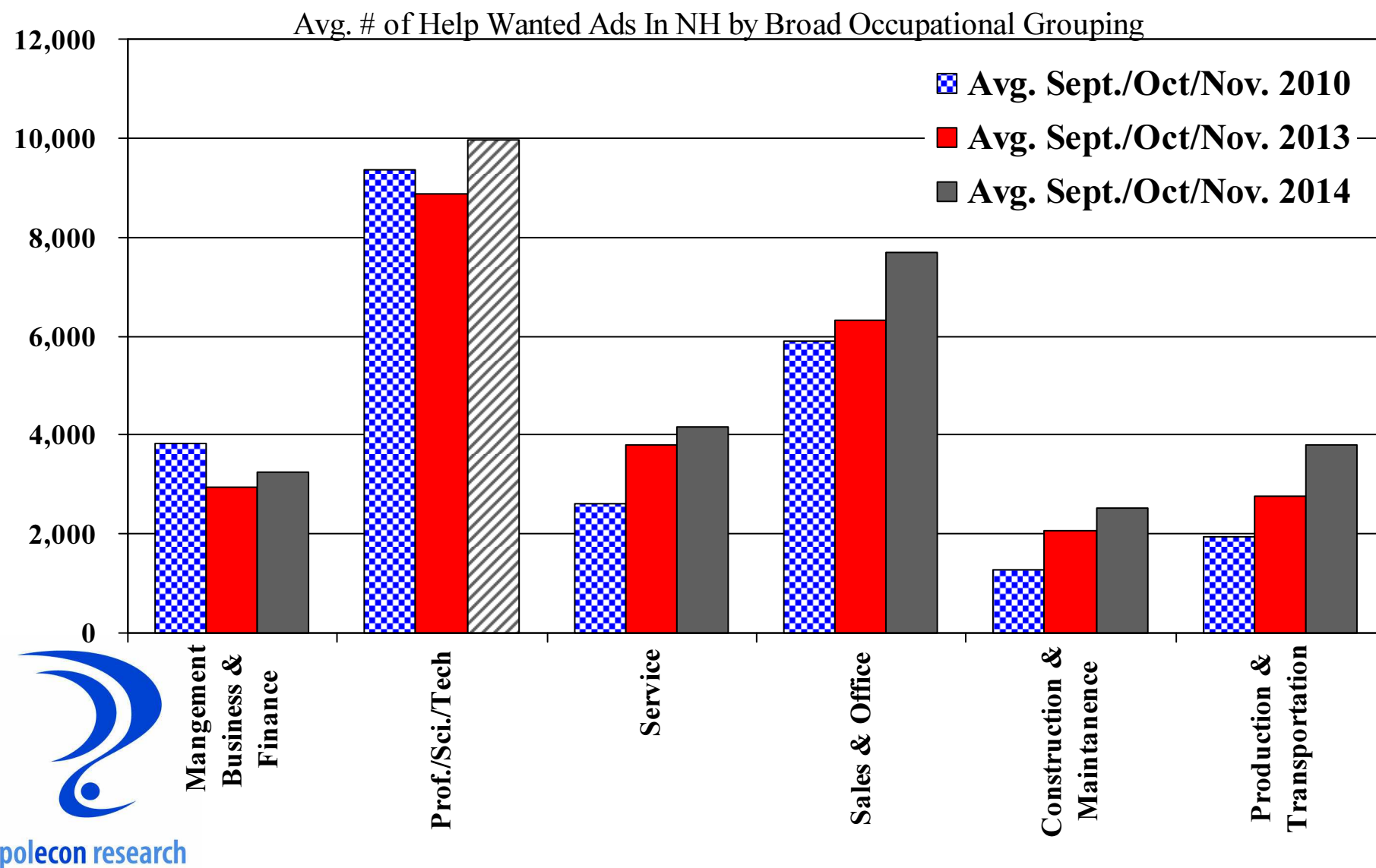
A Sharp Decline in Initial Unemp. Claims is Usually Followed by a Sharp Rise in Hiring –This Time Hiring Has Not Kept Pace



Help Wanted Ads are Growing at a Much Faster Rate Than are Jobs in NH –Employers are Not Able to Fill Openings



The Largest Number of On-Line Job Postings in NH are for Prof./Scientific & Tech. Occupations but Job Growth in Industries Employing Them Has Not Grown as Fast
– Evidence of a Supply Rather Than a Demand Problem?

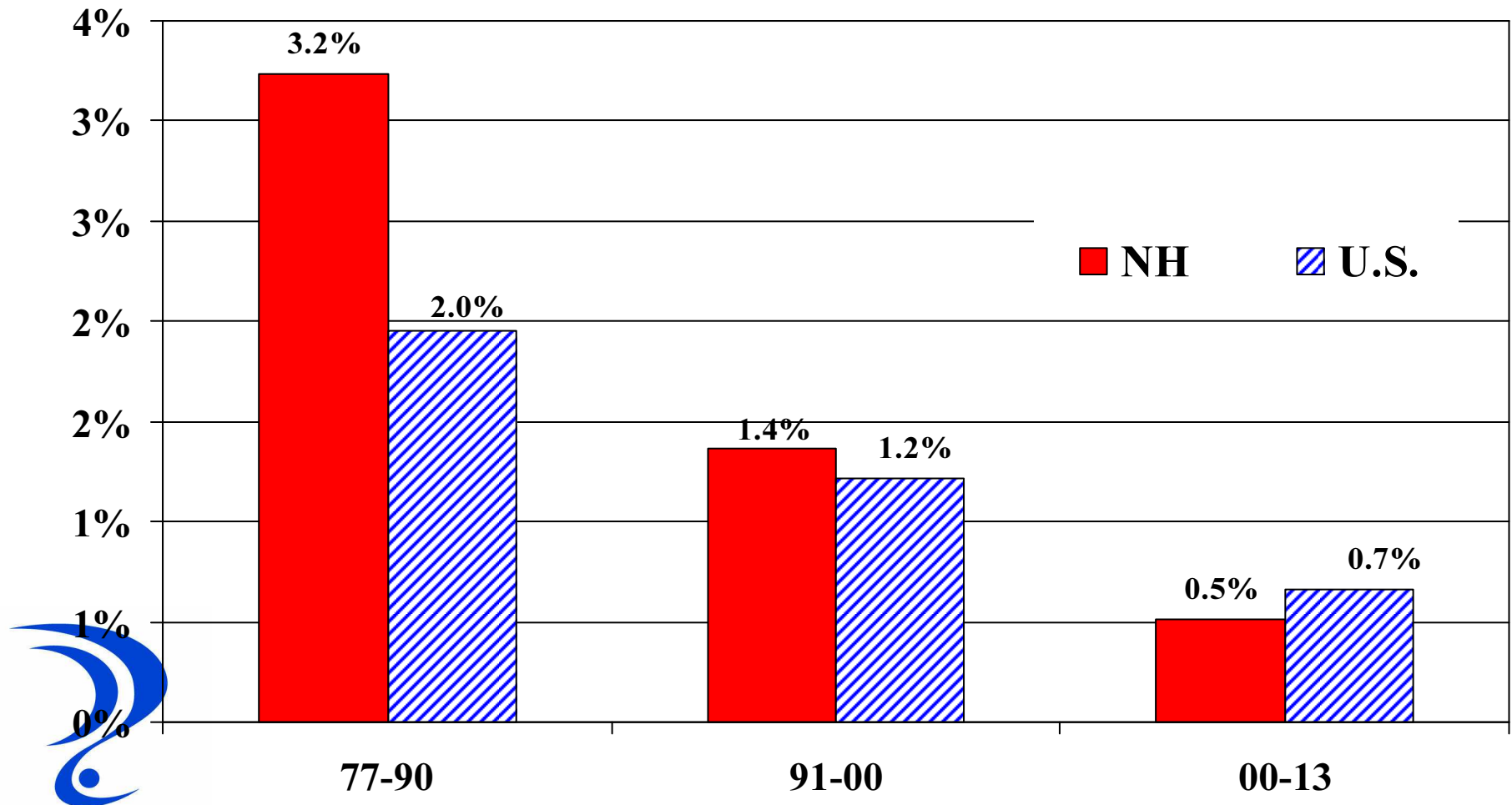


Whether Job Growth is a Matter of Lack of Demand for Labor or a Lack of Supply of Labor is the Most Fundamental Issue Confronting Policymaking – An Accurate Assessment is Critical for Determining the Best Course of Action to Boost the Performance of the New Hampshire Economy

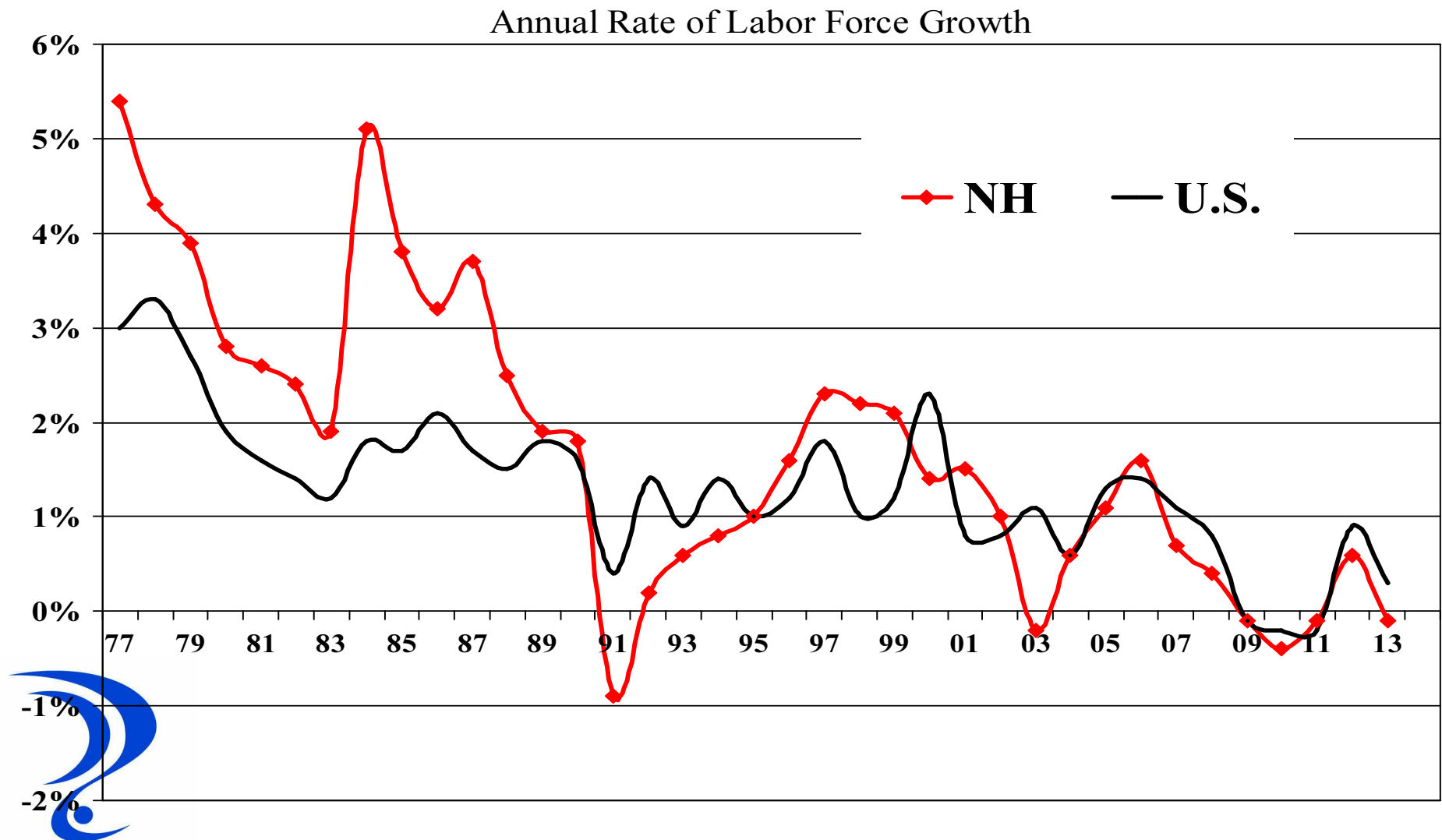


For More than Two Decades an Influx of Skilled Labor Provided NH With an Advantage for Growing Employment. Slow Labor Force Growth is Now Capping Potential Employment Growth

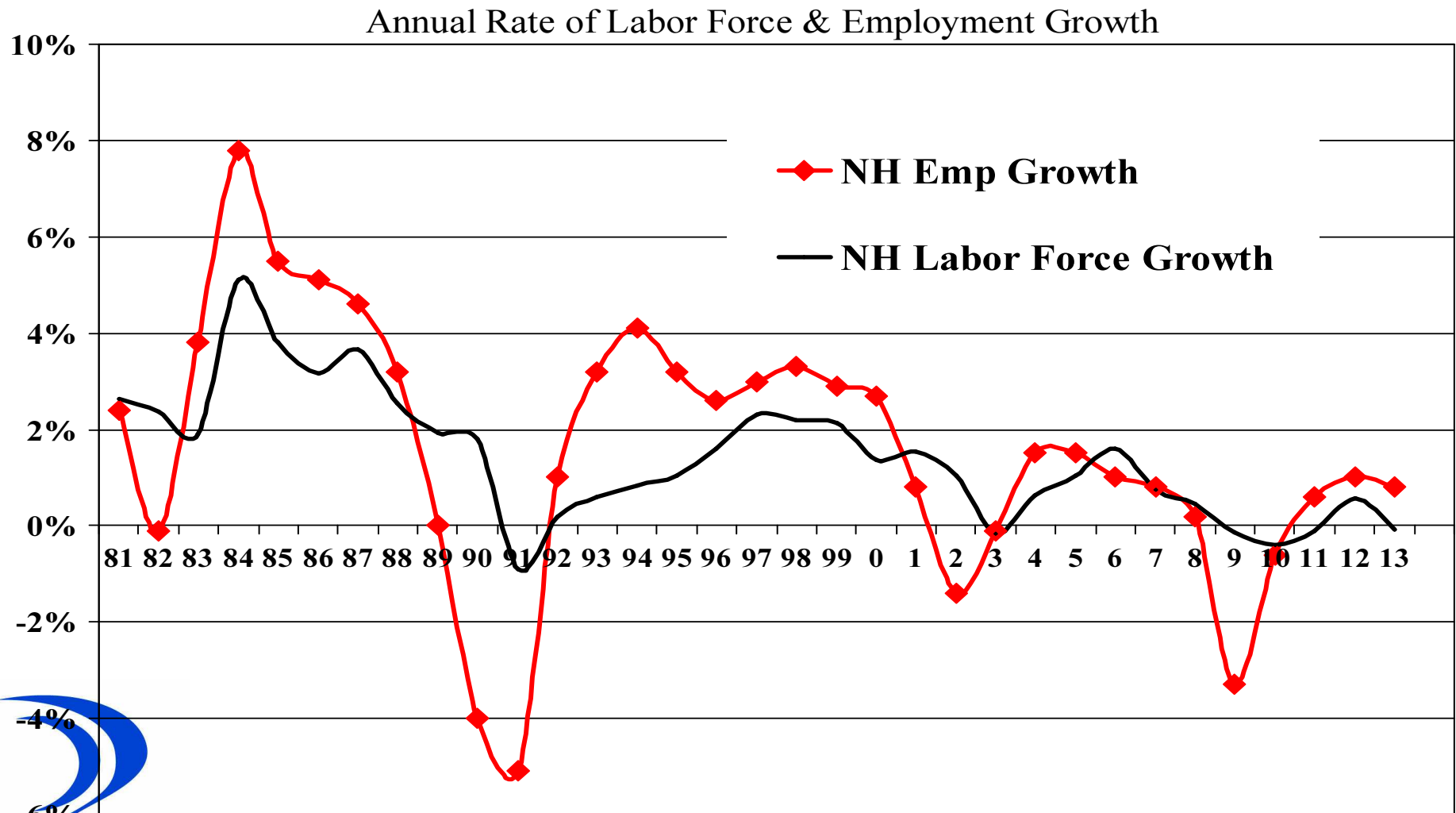
Avg. Annual Labor Force Growth Over Three Time Periods



Slower Labor Force Growth (Some Due to Demographics, Some Structural, and Some Cyclical) Caps the Amount of Job Growth that is Possible in New Hampshire and the Nation

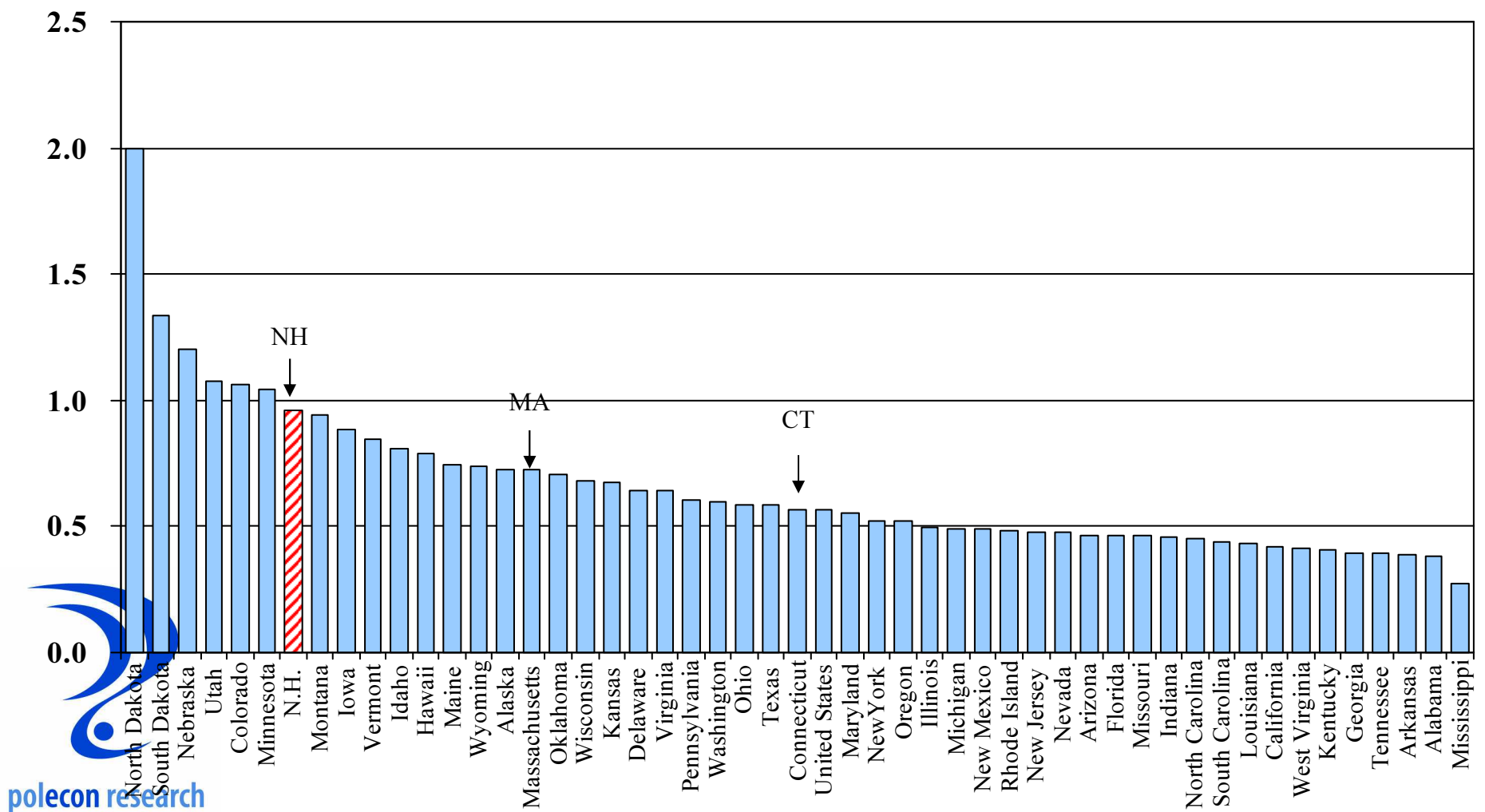


Labor Force and Emp. Grow in Tandem. NH's Slow Labor Force Growth Implies Lower Rates of Employment and Economic Growth



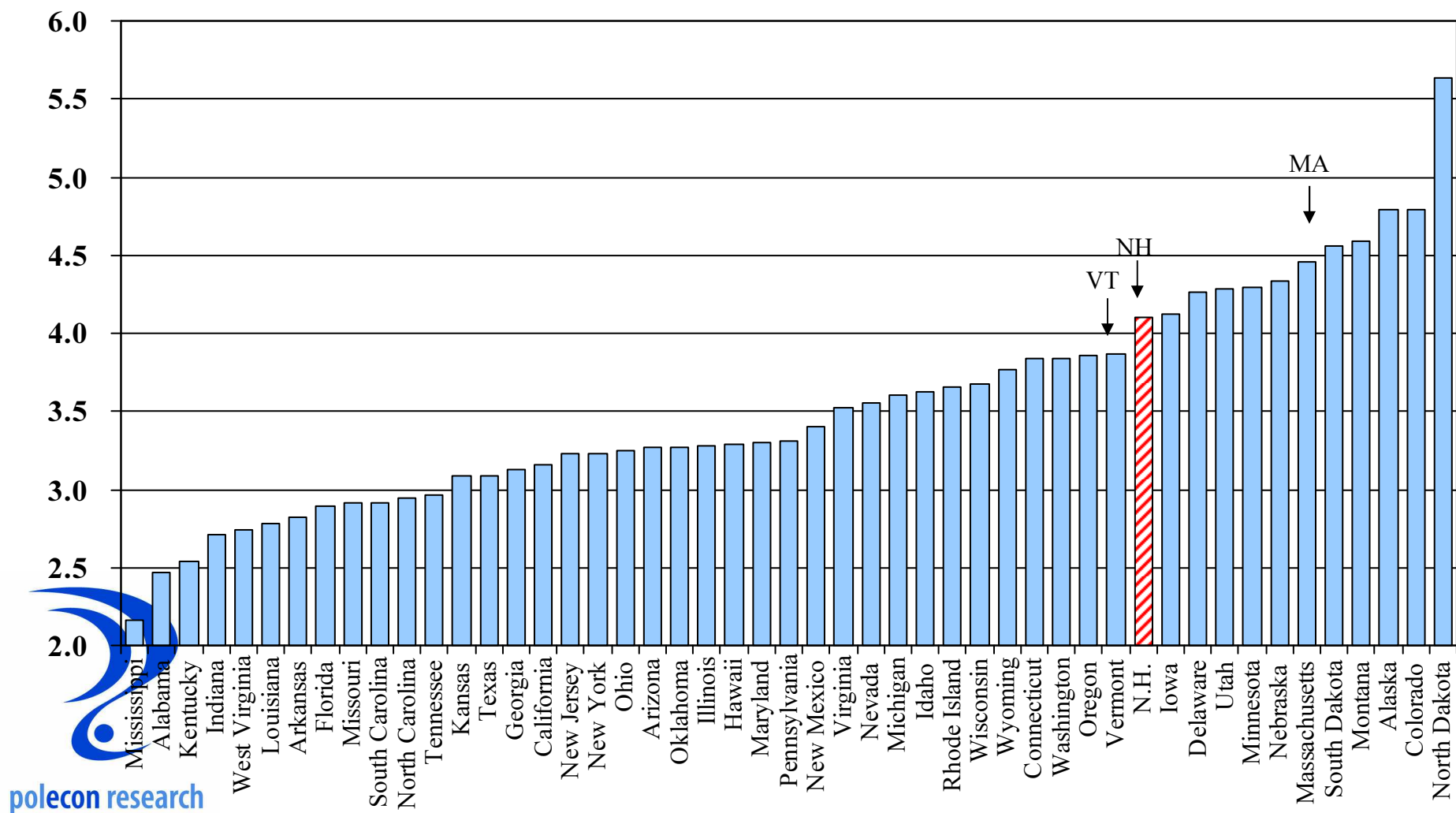
The Number of Advertised Jobs for Each Unemployed Person is Higher in NH Than in all but 5 States - if Unemployed Don't Have the Skills in Demand They Remain Unemployed or Drop Out of the Labor Force – Job Growth Suffers

Number of Help Wanted Ads per Unemployed Individual



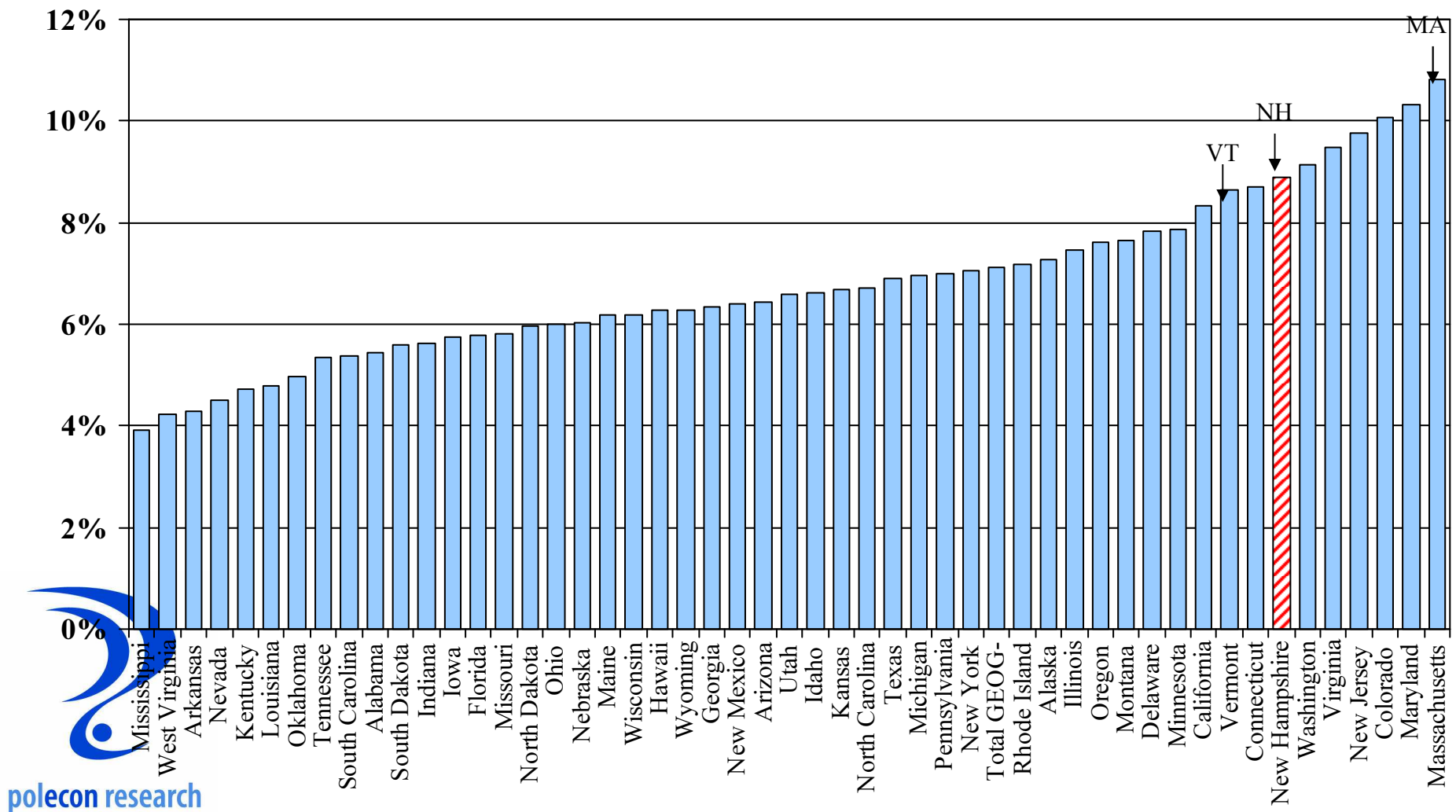
The Number of Help Wanted Ads for Every 100 in the Labor Force is Higher in NH than in Most States, Suggesting Job Growth Should be Higher (Unless there is not Enough Labor Available, there is a Skills Gap, or Both)

Number of Help Wanted Ads Per 100 Individuals in the Labor Force.



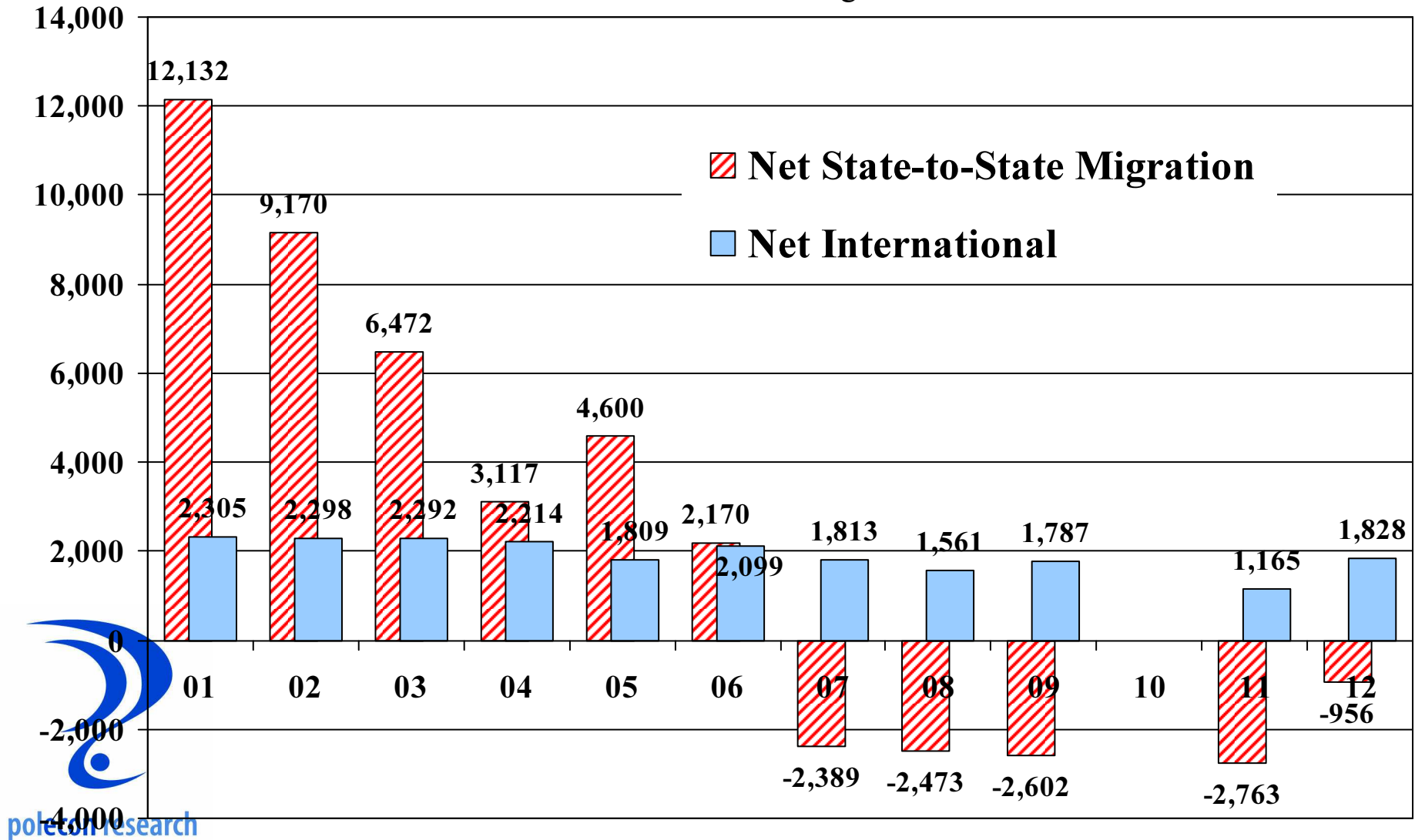
NH Already Has a Relatively High Percentage of its Pop. Age 25-64 With at least a Bachelor's Degree in a STEM Field – Emp. Growth is Just as Much Constrained by Slow Overall Labor Force Growth

% of Population Age 25-64 With at least a BA Degree in a STEM Field

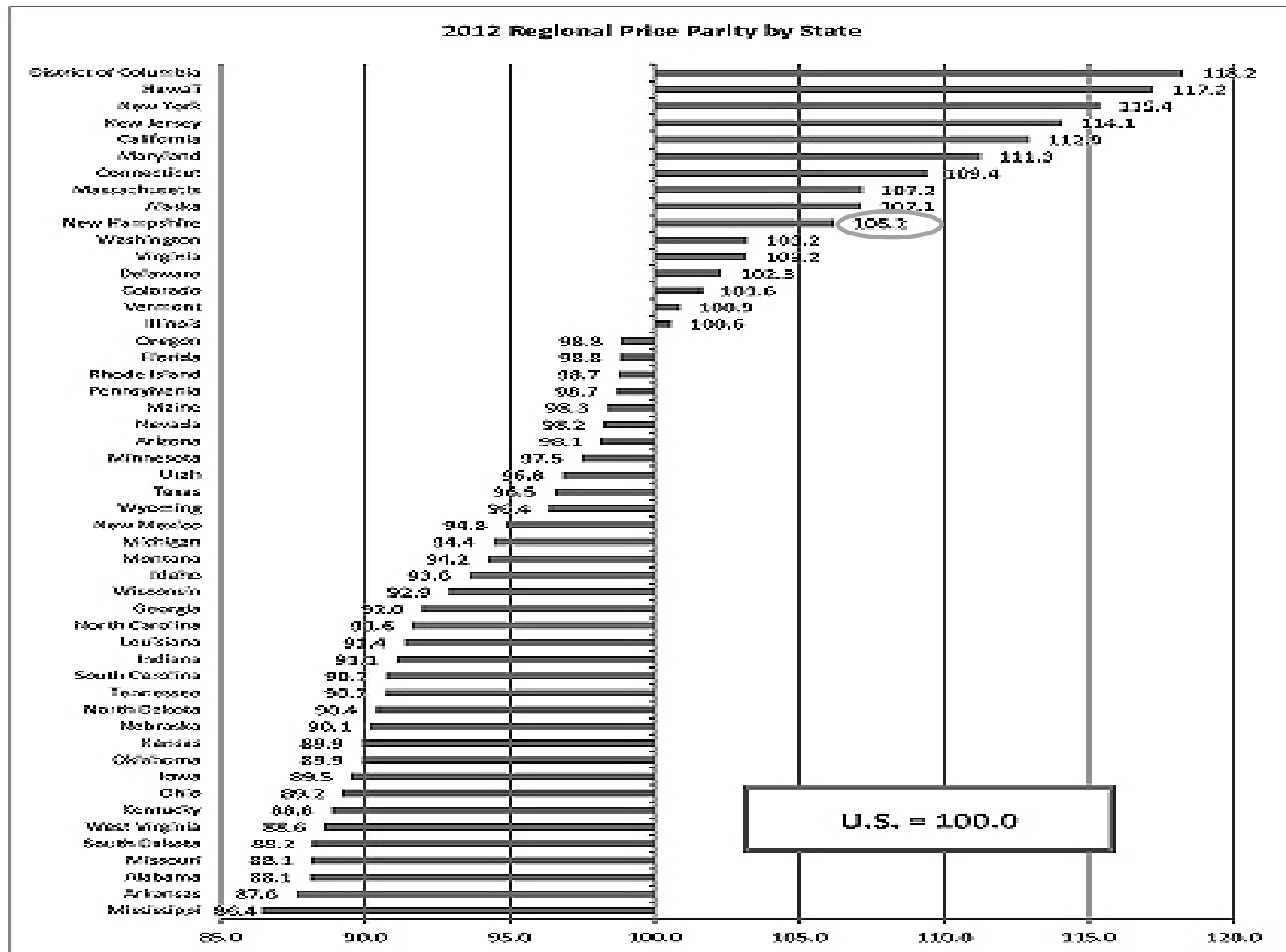


Movement Into NH Slowed Dramatically Over the Past Decade. Other Demographic Trends Play a Role but this has Been the “Game Changer” for the NH Economy

Net Domestic and International Migration to NH



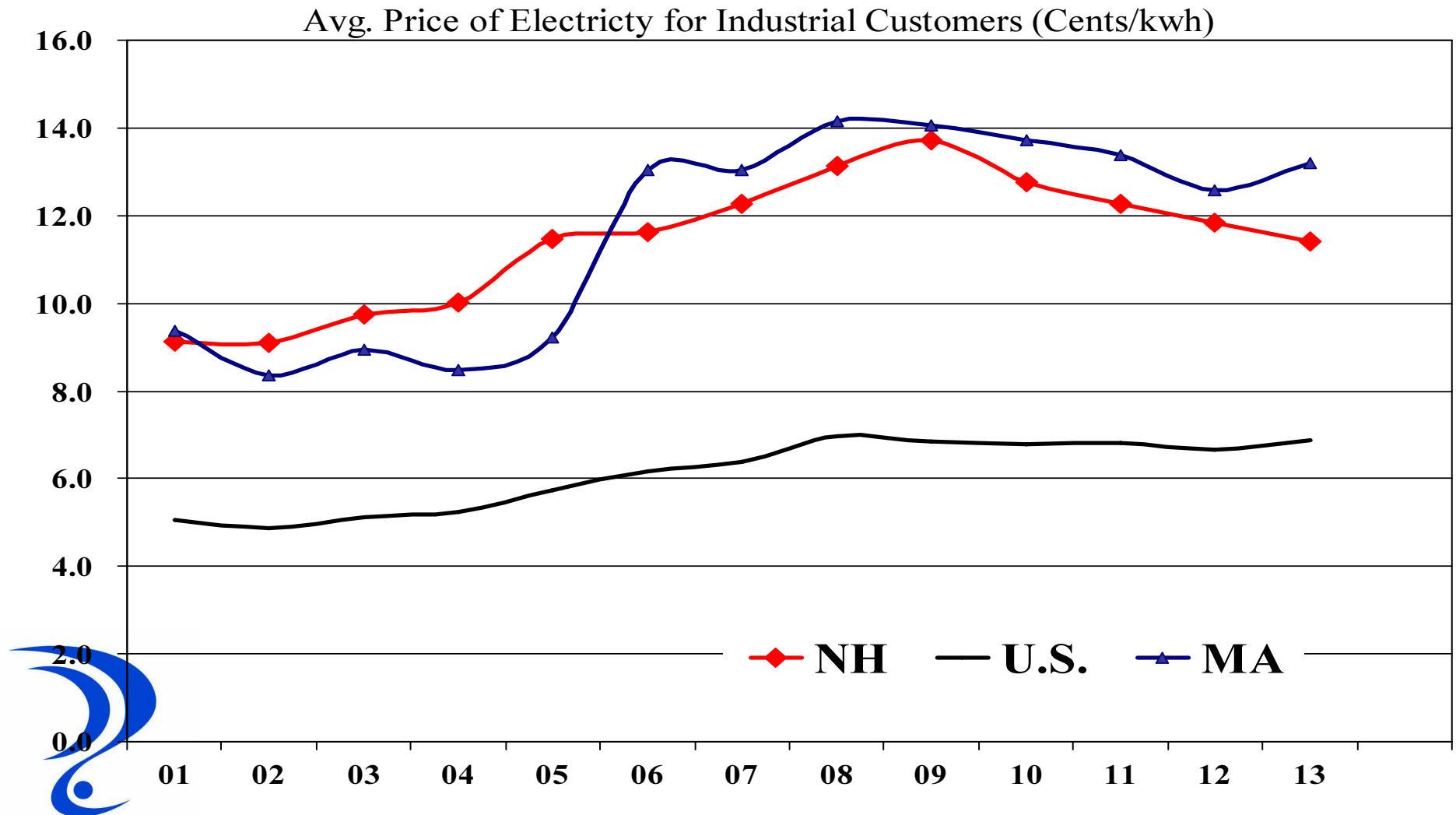
Differences in the Cost of Living Between NH and Higher Cost States in the Northeast are Narrowing (Largely Due to Rents) – “Compensating Factors” Have to Be Present to Justify Higher Costs and Support Pop. Growth



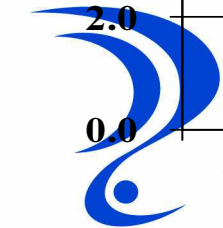
***Lower Gasoline Prices Will, Conservatively,
Put an Additional \$600 Million (and as
much as \$900 Million) in the Pockets of
New Hampshire Families and Businesses
in 2015***



Despite NH's High Electricity Costs for Industrial Customers, the Difference Between NH and the U.S. Avg. Costs Has Narrowed Somewhat in Recent Years

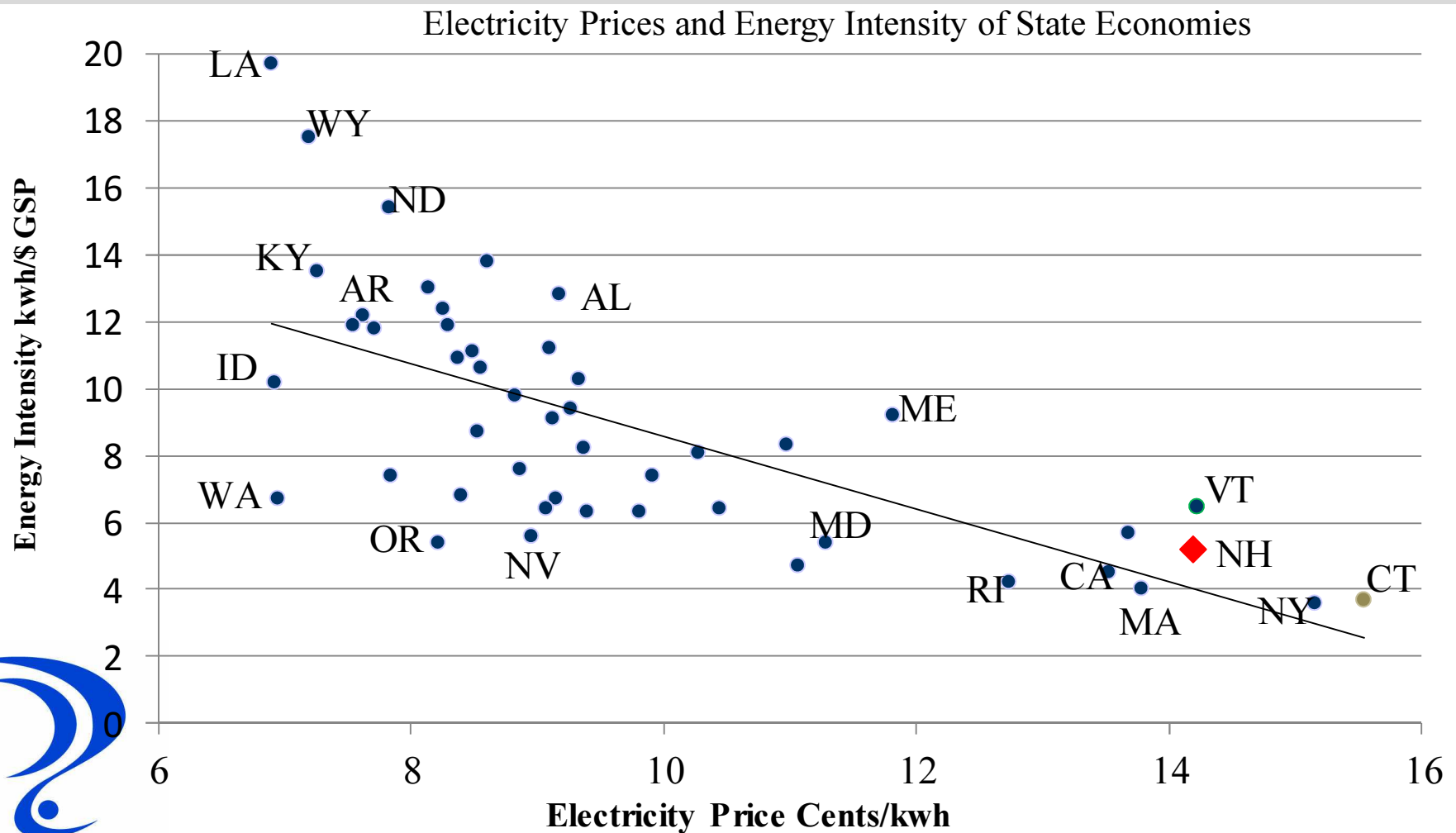


Source: U.S. Energy Information Agency, PolEcon

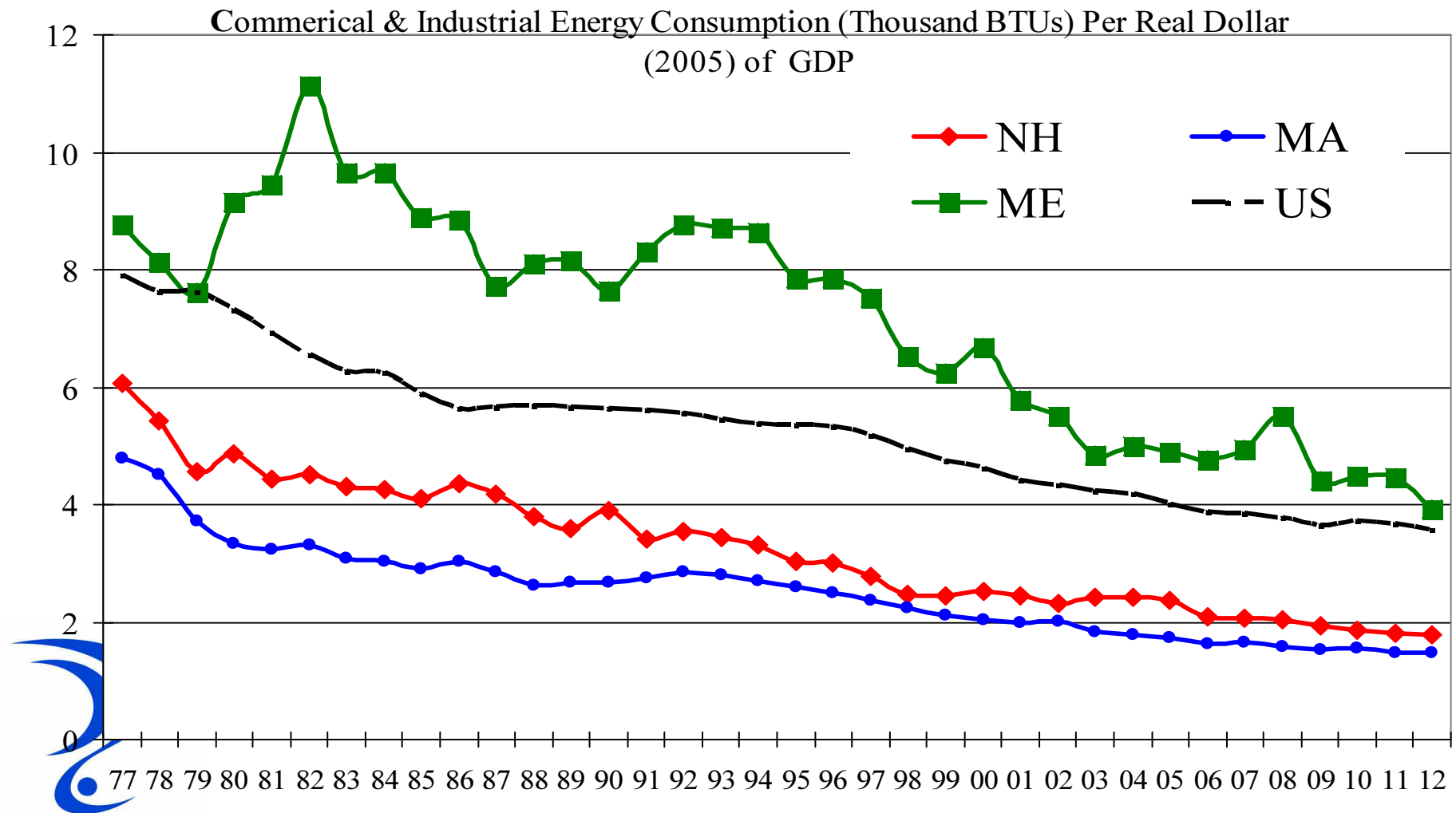


polecon research

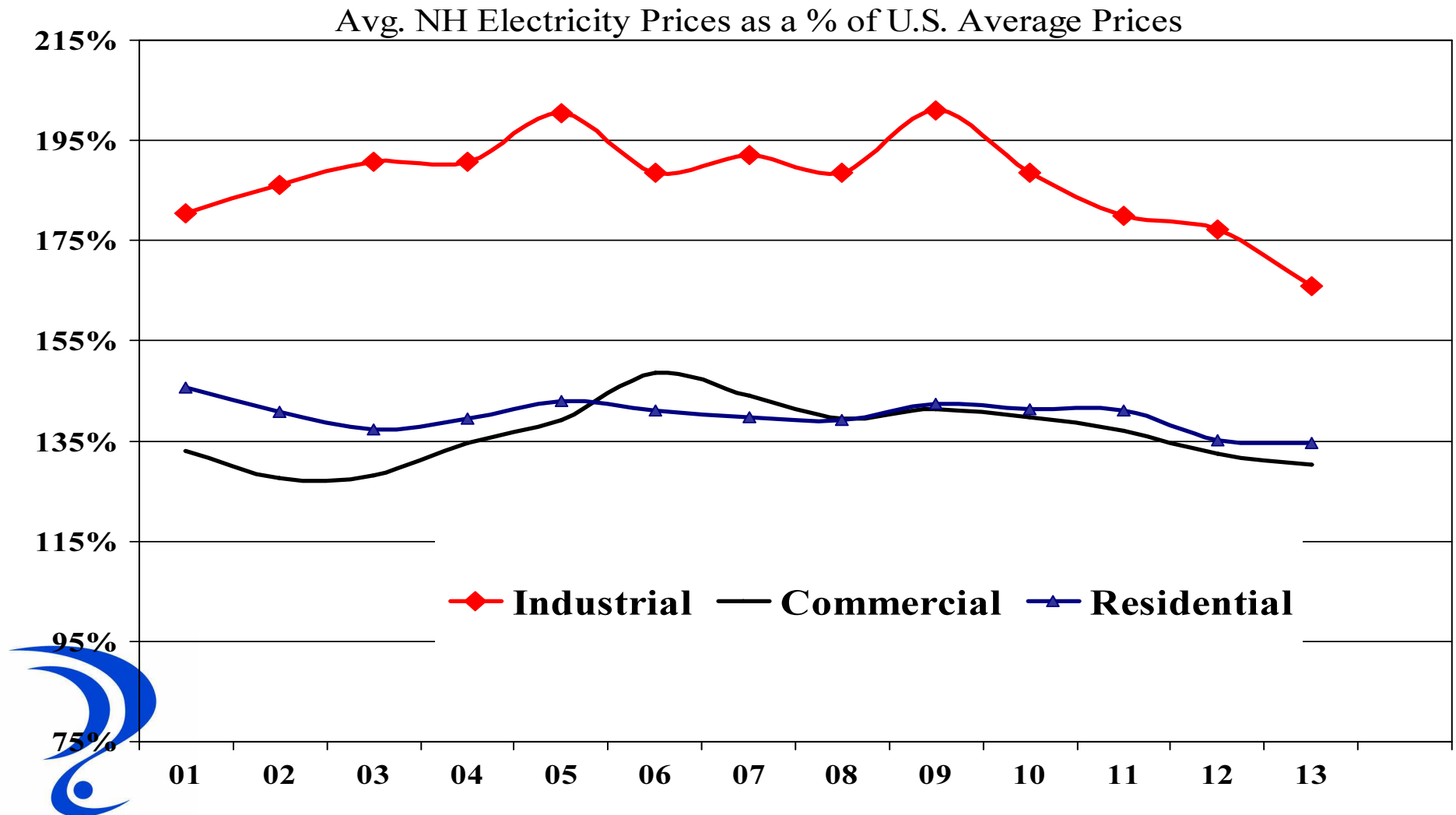
The Economy in State's With High Electricity Costs Become Less Energy Intensive. In the Near-Term, Price Reductions Would be Beneficial But Would Have a Smaller Impact on the Economies of Less Energy Intensive States (Not NH's Economic "Savior")



The Energy Intensity of the NH Economy is Declining. The Commercial and Industrial Sectors Use Much Less Energy Per Dollar of GDP Than the U.S. Average – Offsetting Some of the Disadvantage NH Faces With High Energy Costs



Commercial and Residential Customers in NH Pay About One-Third More for Electricity Than the National Average but Industrial Customers in NH Pay About 70% More Than the U.S. Avg.

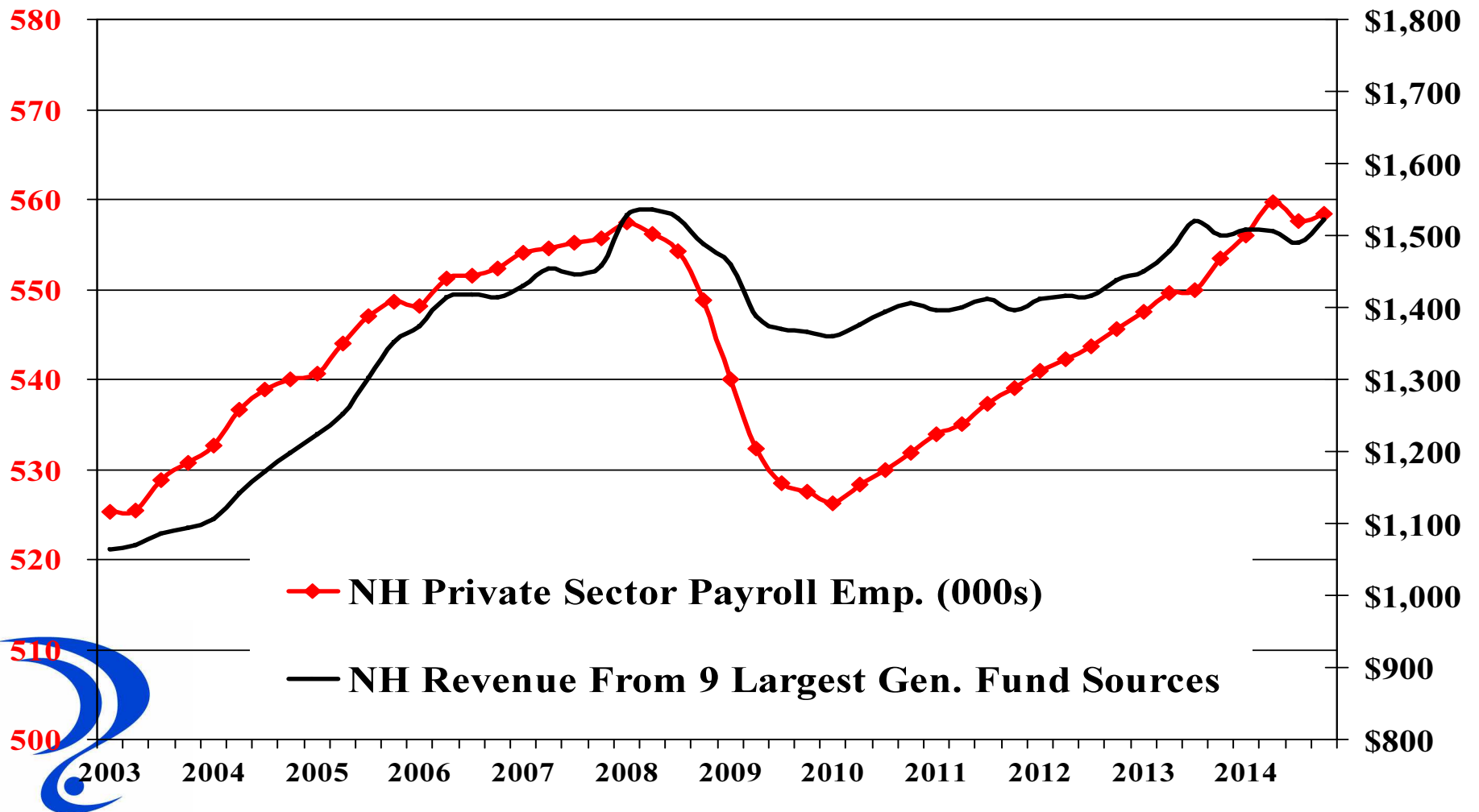


Source: U.S. Energy Information Agency, PolEcon

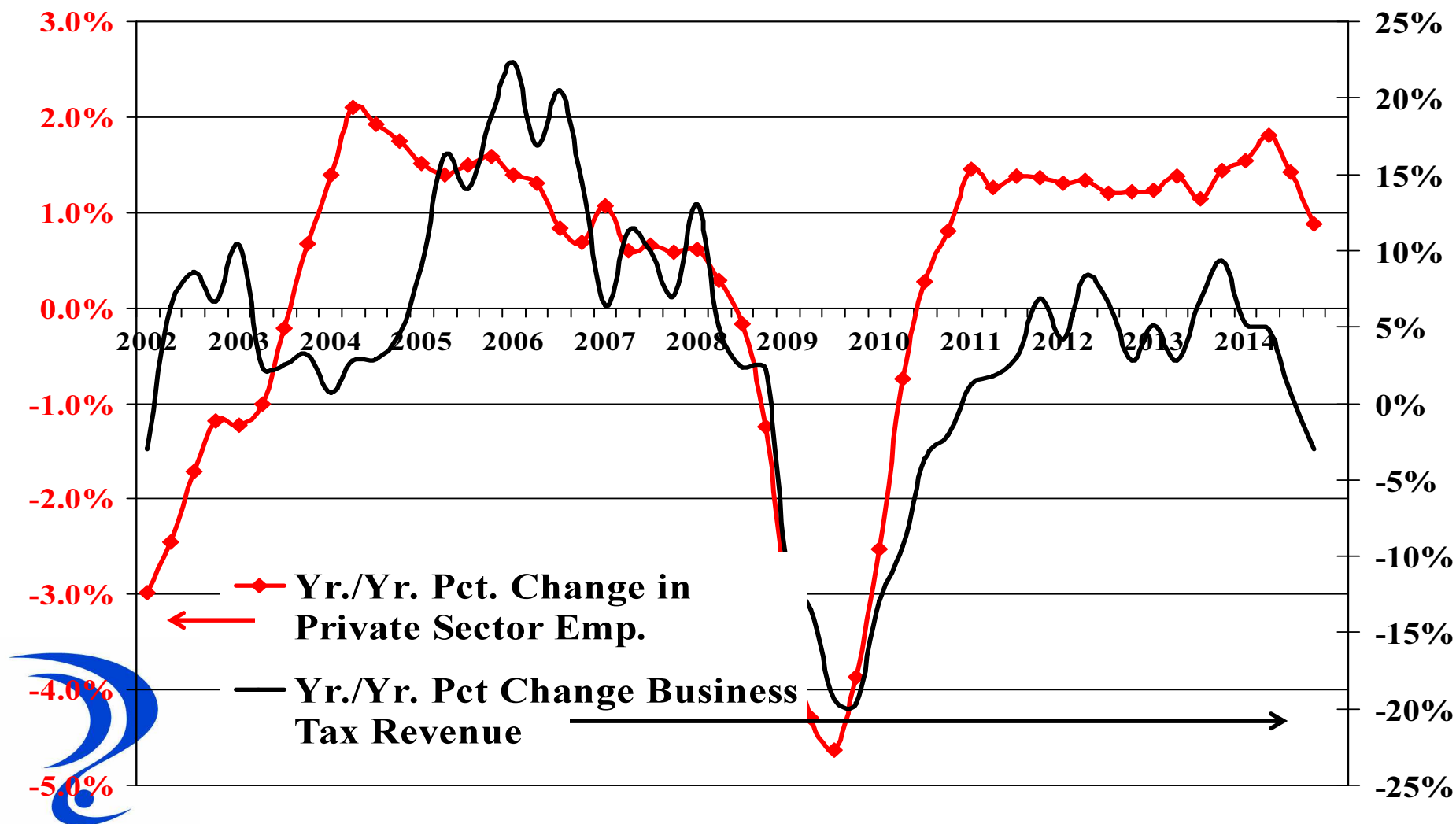
Some Implications for State Revenues

NH Tax Revenues From Major Sources Did Not Fall as Far and are Not Growing as Fast as Suggested by Growth in Private Sector Employment

Private Sector Job Growth and NH Revenue Growth

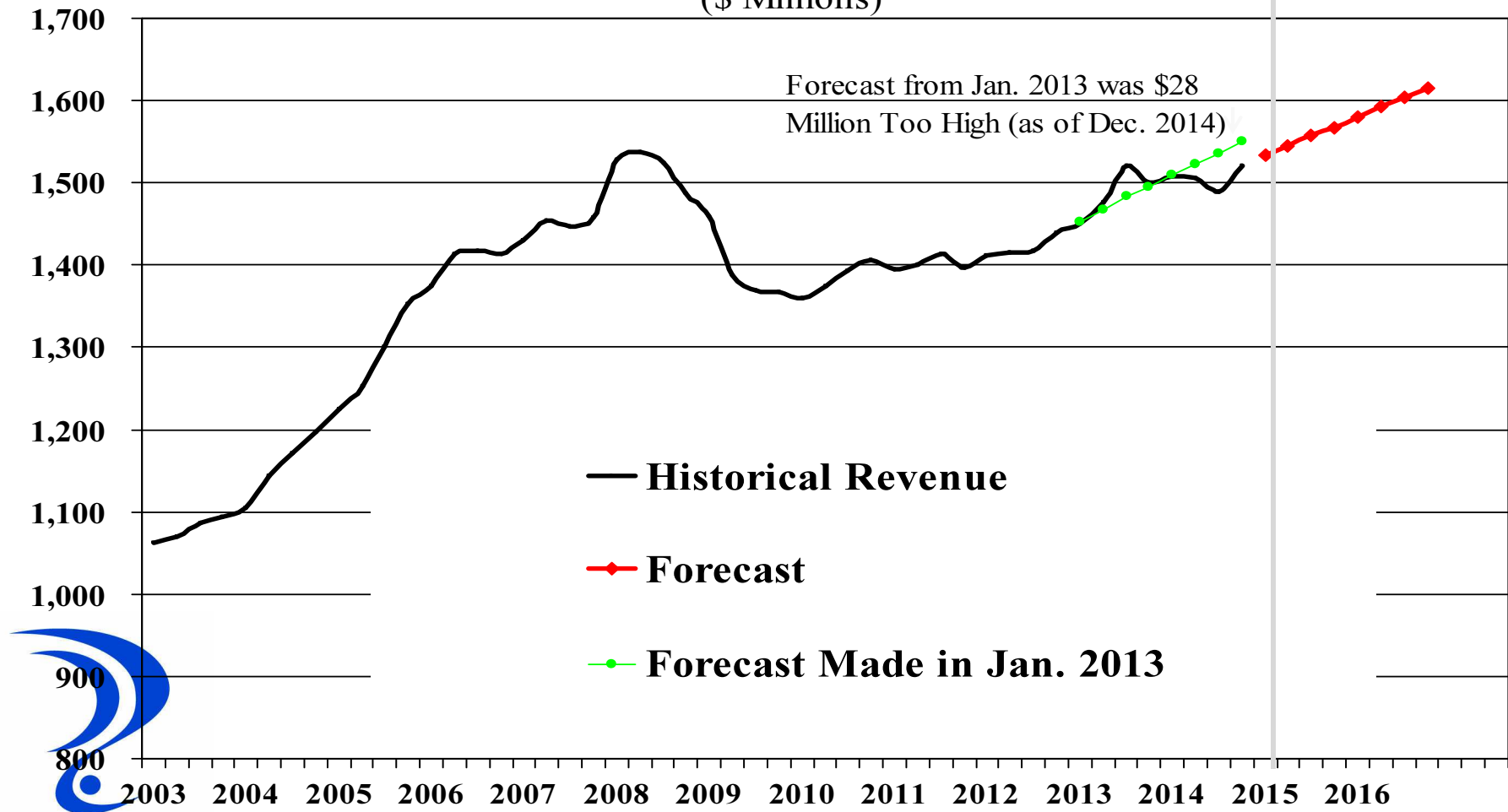


Historically, Business Tax Revenues in NH Tracked Private Sector Job Growth But That Relationship Has Weakened Post-Recession



Pre-Recession Levels of Revenue From Nine Major Sources Will be Reached in the QII of 2015. My Model Forecast Calls for Three Percent Annual Increases Each of the Next Two Years

Actual and Forecast Annualized Revenue From 9 Major Sources of Revenue
(\$ Millions)



Conclusions and Some Editorializing

- Whether job growth trends are the result of lower demand for workers in NH (cyclical and structural) or a limited supply is the fundamental economic policy question that must be answered for effective policymaking.
- A dramatic changes in NH's business climate is not responsible for slower growth trends. Lower business and energy prices will help but are not “game changers.”
- Slow labor force growth is constraining job growth. Demographic trends are hardest to alter – NH must maximize participation and skills of all potential labor.
- Think as much about making NH an “attractive place to live” as an “attractive place to “do business”
- We will not see job gains like we did in the 1980's and mid 1990's again - 1.5% will be the norm.
- Expect modest revenue growth 3%.
- NH's unique system worked because of “balance,” compromise, and cooperation, between business, govt., and citizens, even with large political majorities. Without balance the system will not work.