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# New Hampshire Economic Forecast

## January 15, 2015

**Dennis Delay**  
**ddelay@nhpolicy.org**

*“...to raise new ideas and improve policy debates through quality information and analysis on issues shaping New Hampshire’s future.”*

# **Anecdotal evidence from Fed Bank of Boston, December 3, 2014**

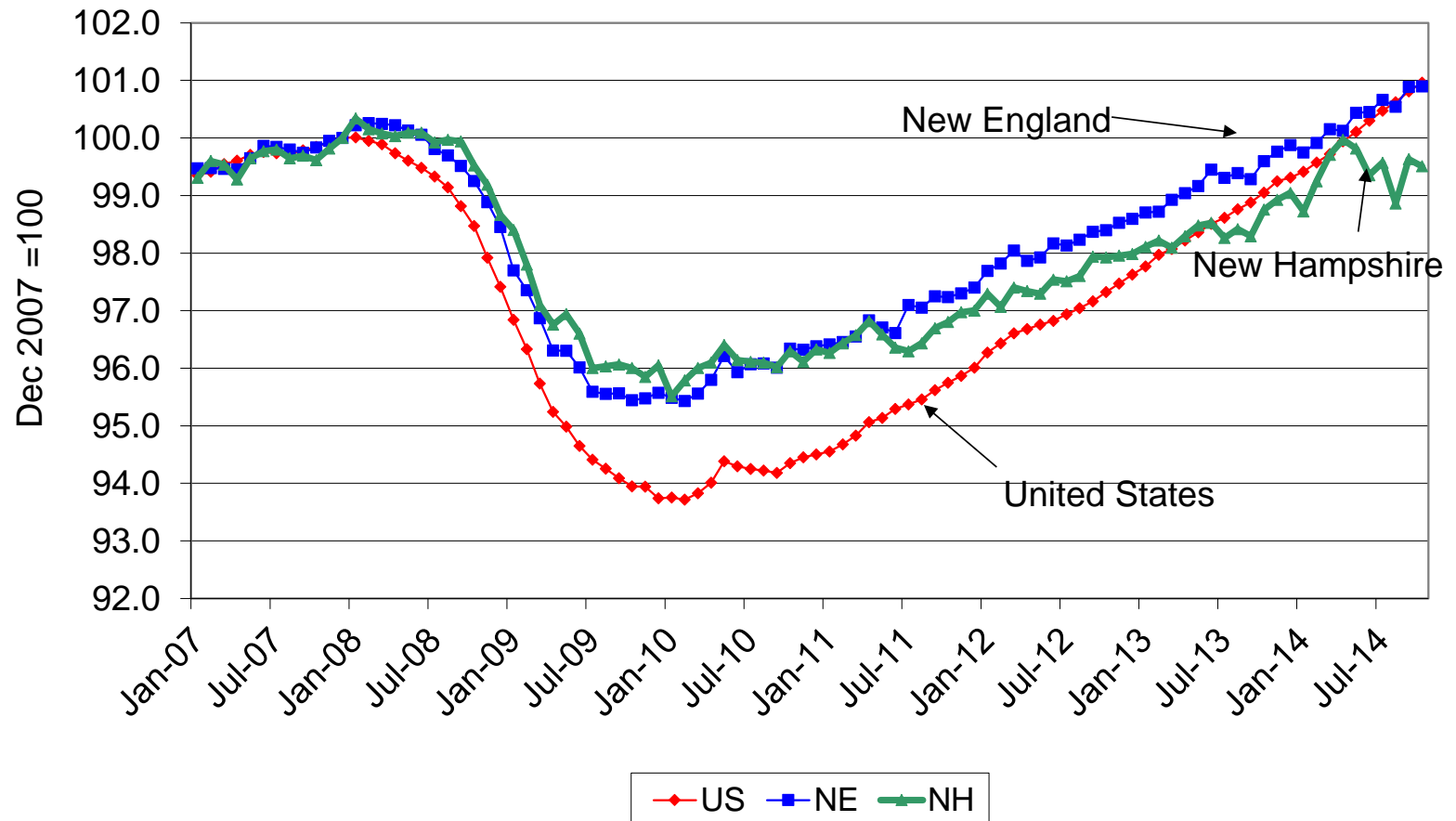
- Business contacts in the New England indicate that activity is generally increasing.
- Retailers and manufacturers report year-over-year increases in sales or revenue.
- Firms in both staffing and software and IT services cite solid or strong demand as they did when contacted three months ago.
- Most commercial real estate markets in the region continue to expand modestly, while residential real estate markets remain unsettled, with most of the New England states seeing increases in the number of homes sold and declines in median sales prices from a year earlier.
- Net hiring is occurring in the sectors with more robust demand; pay levels are rising somewhat for temps but are generally flat in software and IT services.
- Some manufacturers and retailers cite modest price increases, while software and IT services firms are holding prices steady.

## 3 Themes

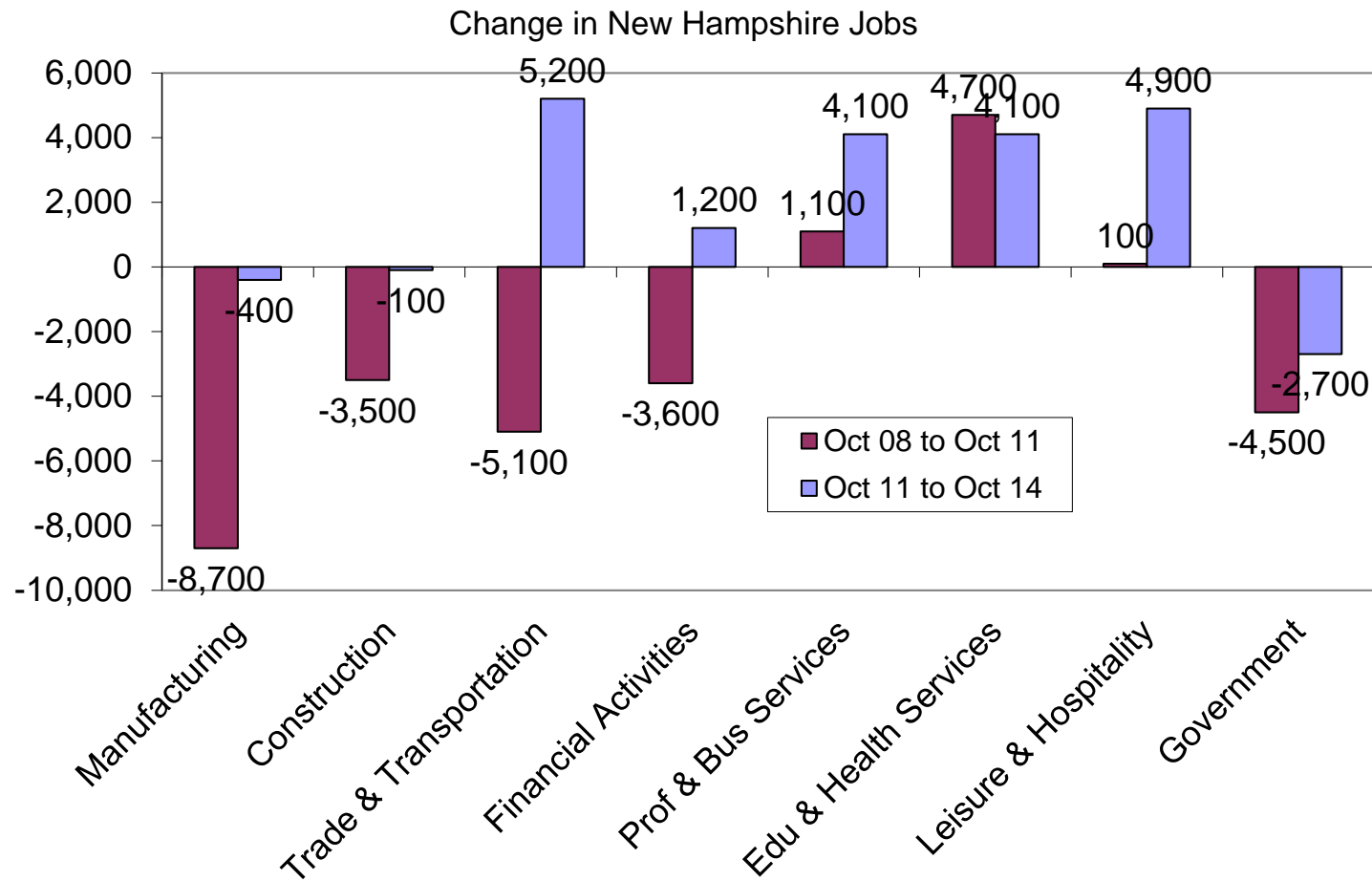
- NH Recovery is Almost Complete
- State revenues
- The forecast

# NH – Less of a decline, but a slower recovery

Index of Total NonFarm Employment  
(Seasonally Adjusted)

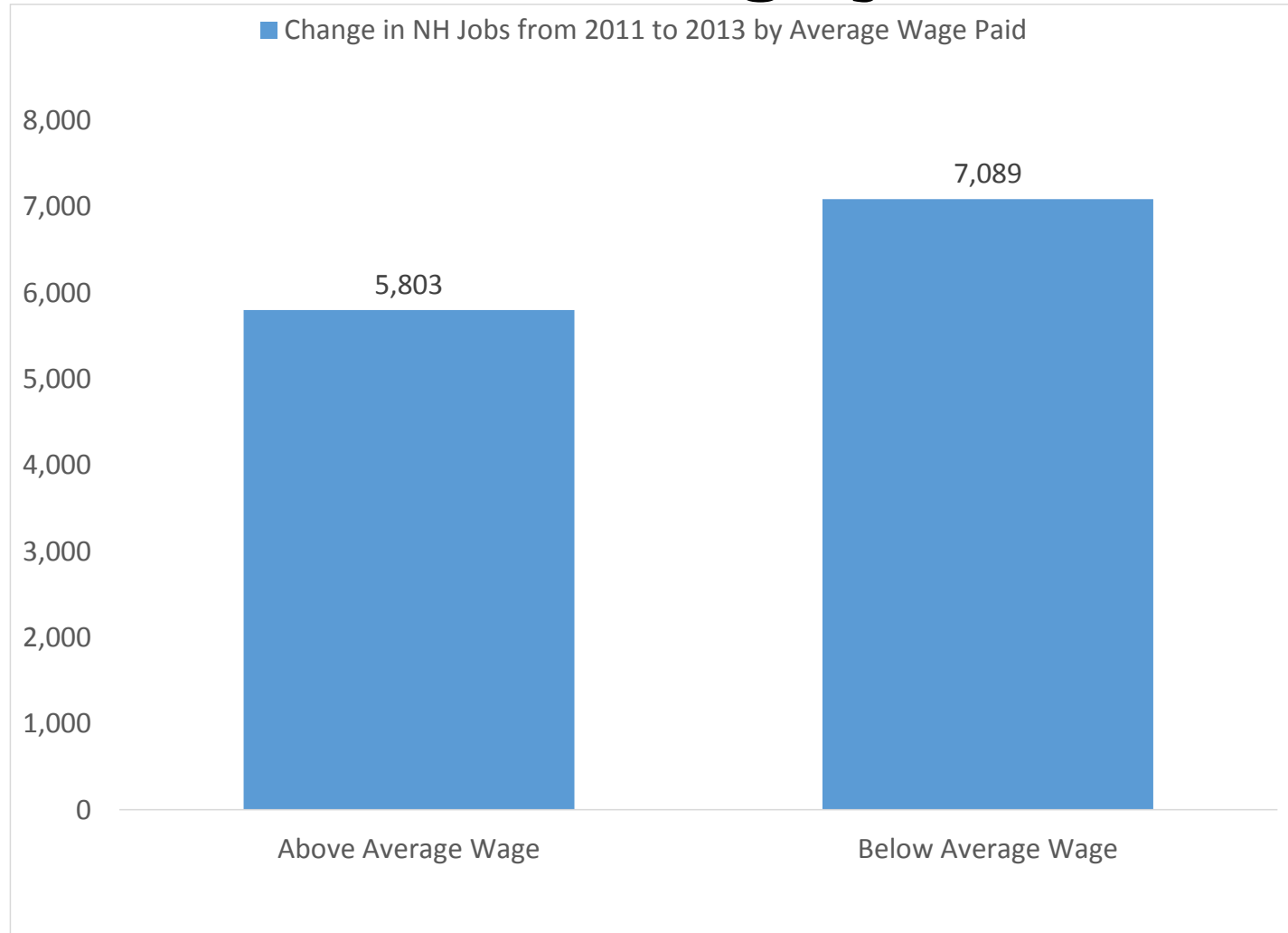


# Manufacturing, construction and financial activities have not recovered, government shrinks



Source: NH Economic and Labor Market Information Bureau

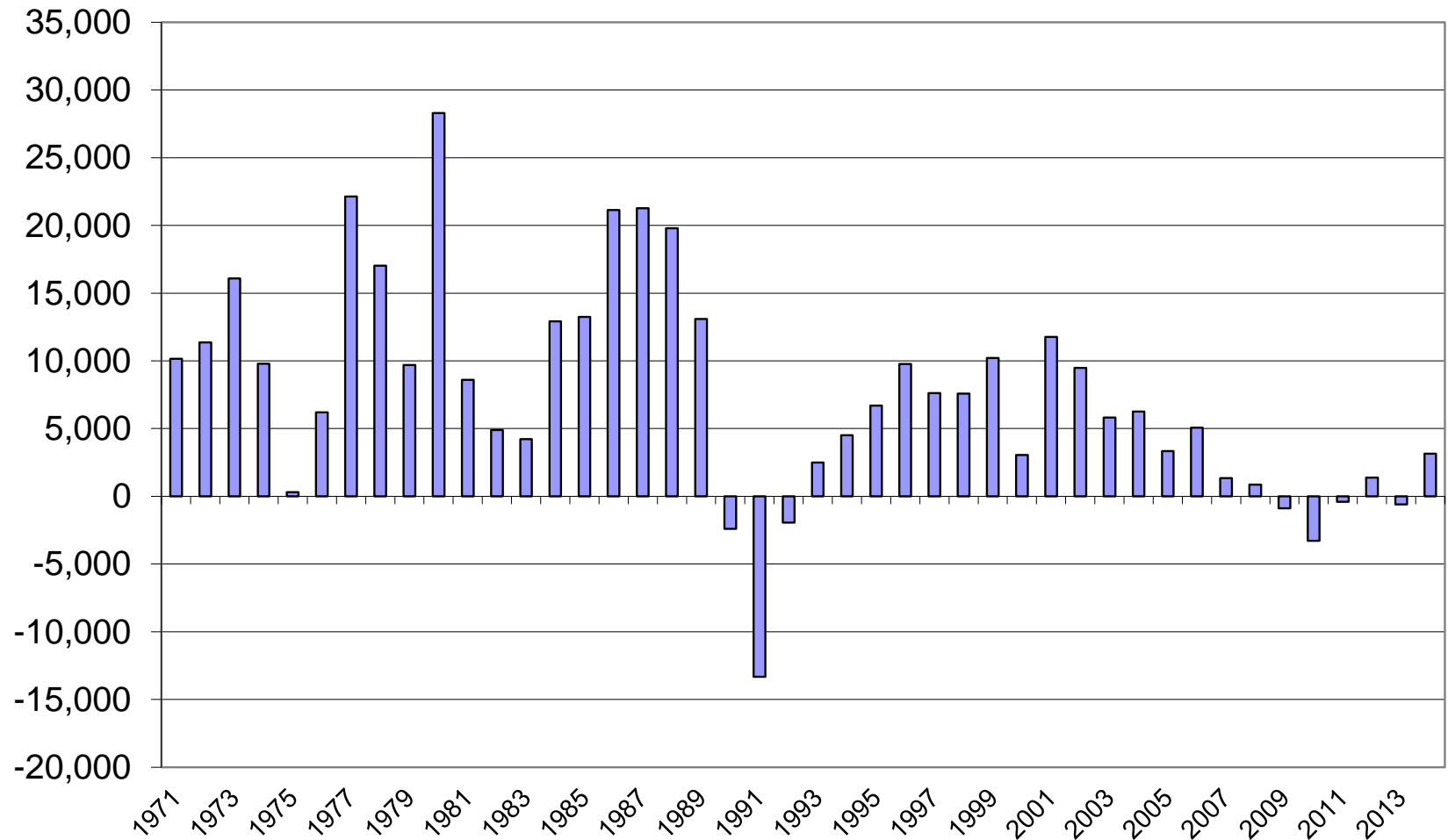
# 2011-2013 job growth still leans toward below average wage jobs



Source: NH Economic and Labor Market Information Bureau

# Migration slowed in last decade

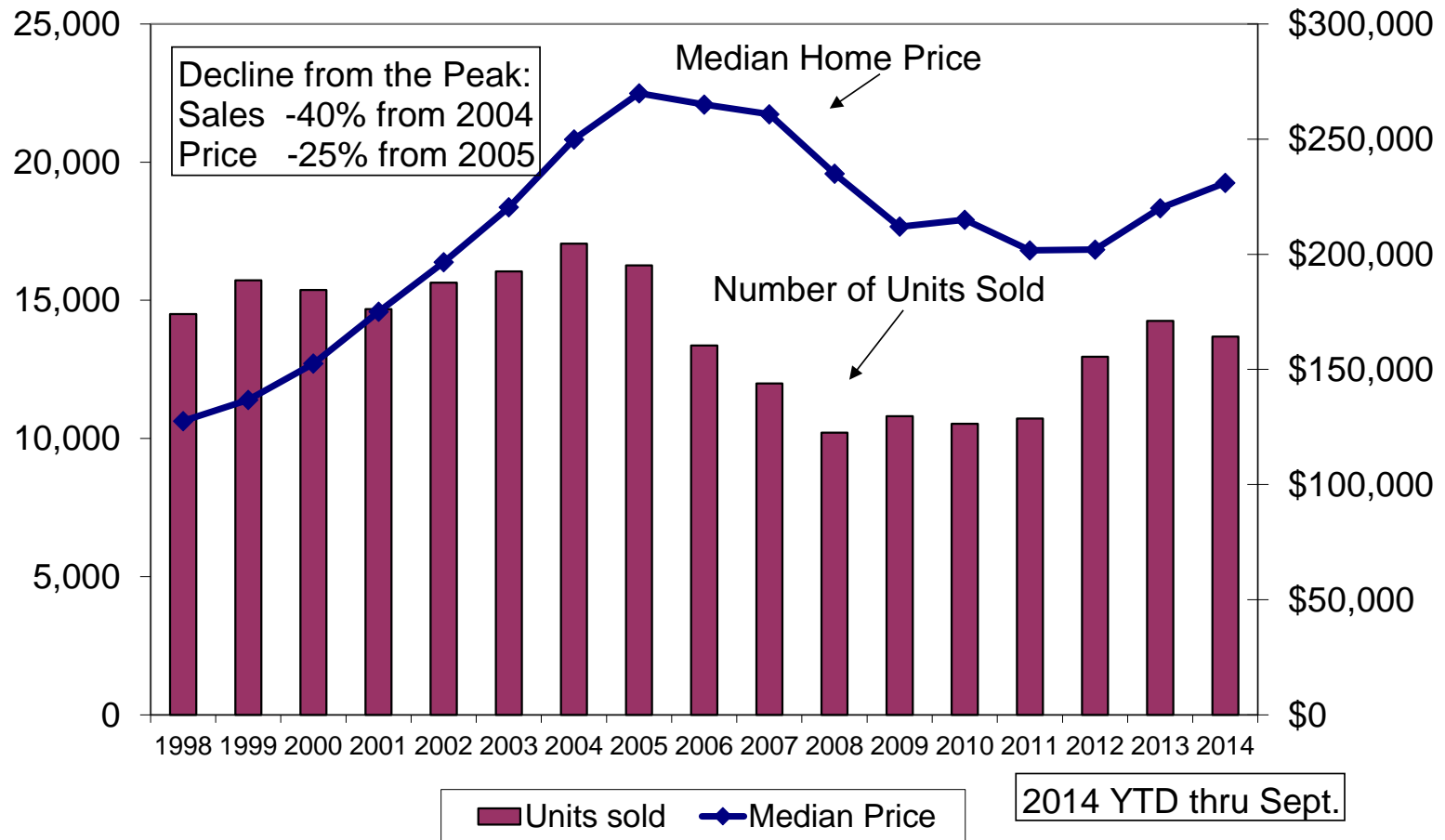
Net Migration Into and Out of New Hampshire



# NH Residential Real Estate Sales and Prices

NH Single-Family Residential Home Sales and Price (MLS)

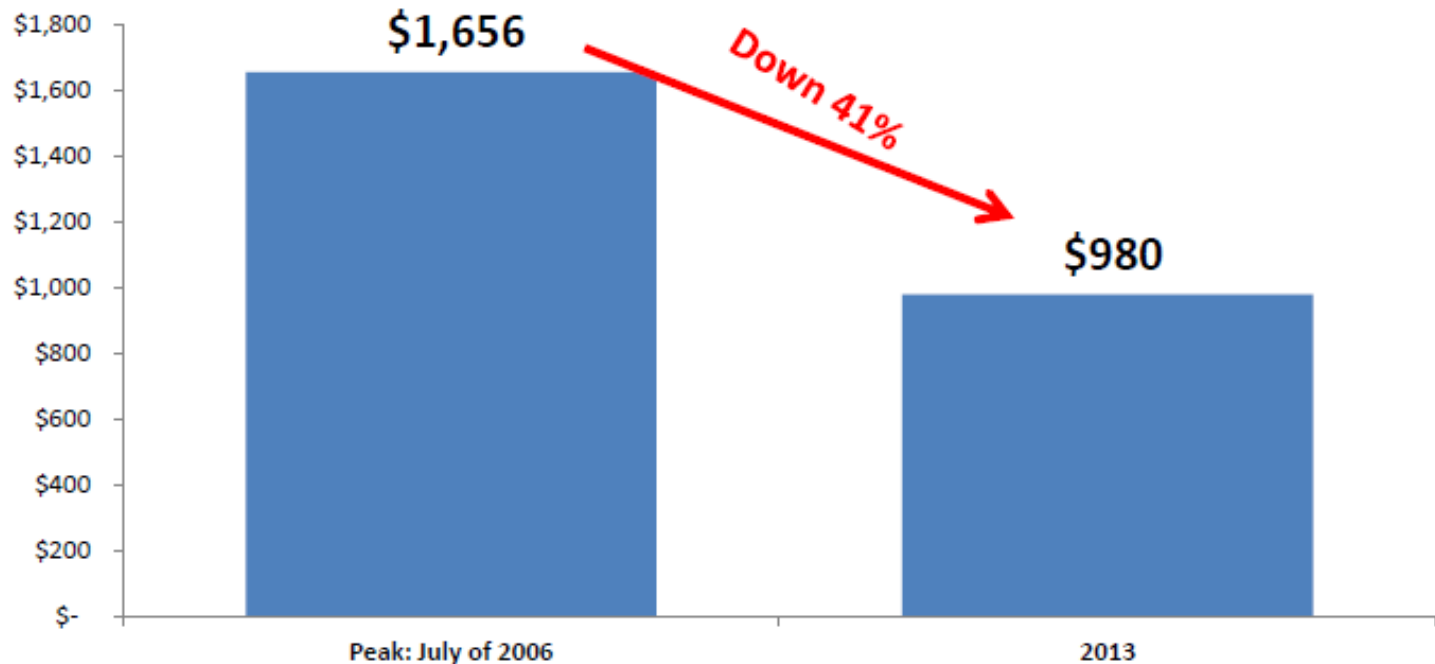
Source: NH Association of REALTORS





# Declines in Prices and Interest Rates Affect Affordability

Monthly Mortgage Payment For Median NH Home  
*30 Year Conventional Mortgage@ 90% of Purchase Price*



# But.....

- NH's Young households are burdened by highest level of student debt in the Nation;
- Lending standards are more rigorous—Qualifying Mortgage, 43% debt to income limit, etc.;
- With rents rising and mediocre job quality, more difficult to save and qualify;
- Nearly 20,000 foreclosed units in past several years in the state—some will not qualify;
- Lack of liquidity is keeping boomers in larger houses than they need;
- Prices and interest rates are rising in past several months, blunting recent affordability improvements.

# NH's Changing Housing Environment Has Consequences

## Environment

## Consequences

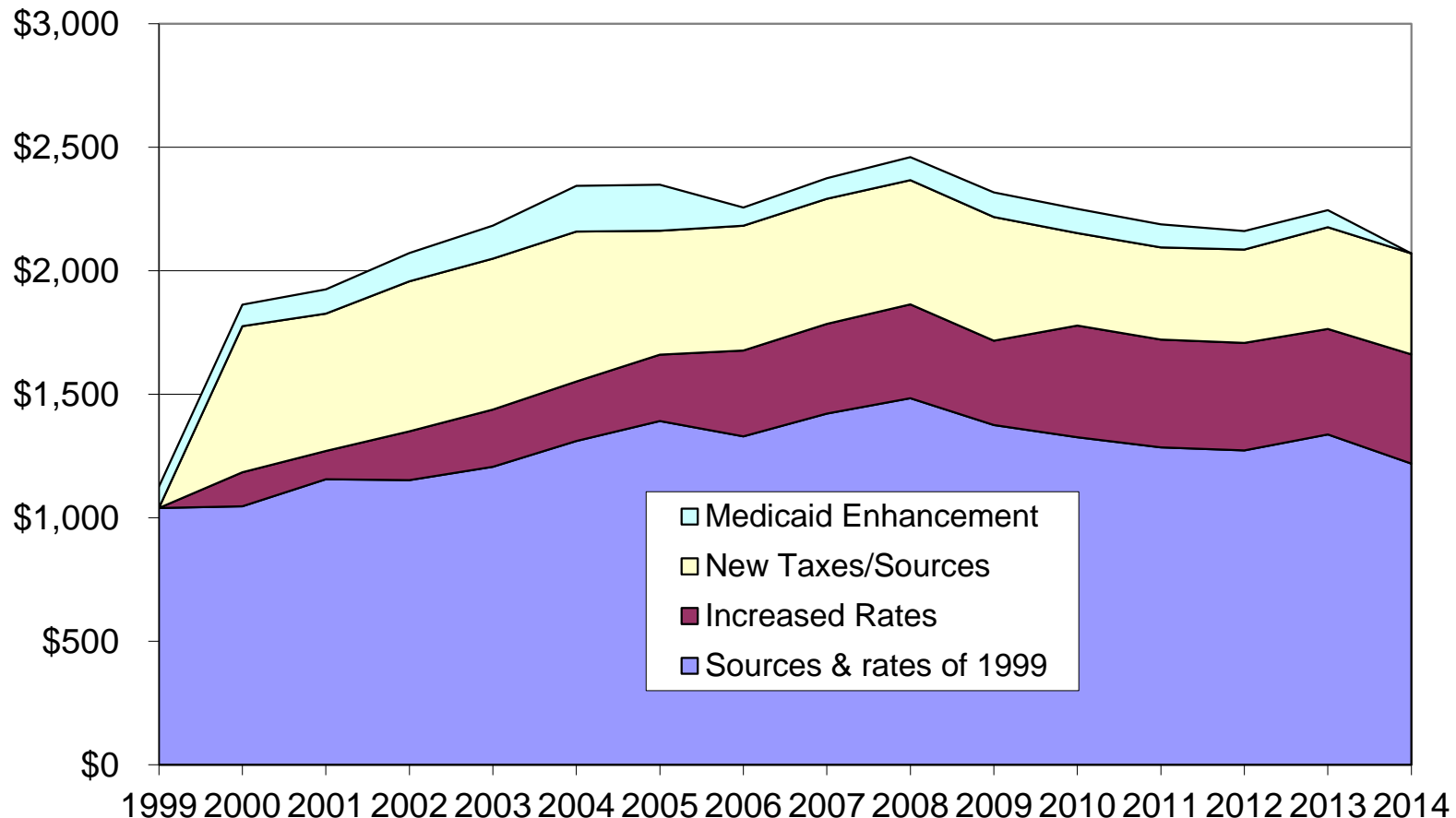
- |  |  |
|--|--|
| <ul style="list-style-type: none"> <li>• New Hampshire's population growth is slowing down</li> <li>• Job quality is poor</li> <li>• Elders will be increasingly larger share of owners and renters</li> <li>• Young home buyers are challenged</li> <li>• Recent trend away from ownership and towards rental</li> <li>• Different problems in different regions</li> <li>• General public, town officials and business are not aware of issues affecting NH's housing</li> </ul> | <ul style="list-style-type: none"> <li>• Fewer new households, and fewer families</li> <li>• Overpayment problems for low income renters</li> <li>• Elder overpayment, and Elders not aware of options available</li> <li>• Future home owners not aware of ownership pitfalls and advantages</li> <li>• Multi-family production shortages</li> <li>• Geographic diversity more important than urban core.</li> <li>• Town officials not comfortable changing existing regulations.</li> </ul> |
|--|--|

## 3 Themes

- NH Recovery is Almost Complete
- State revenues
- The Forecast

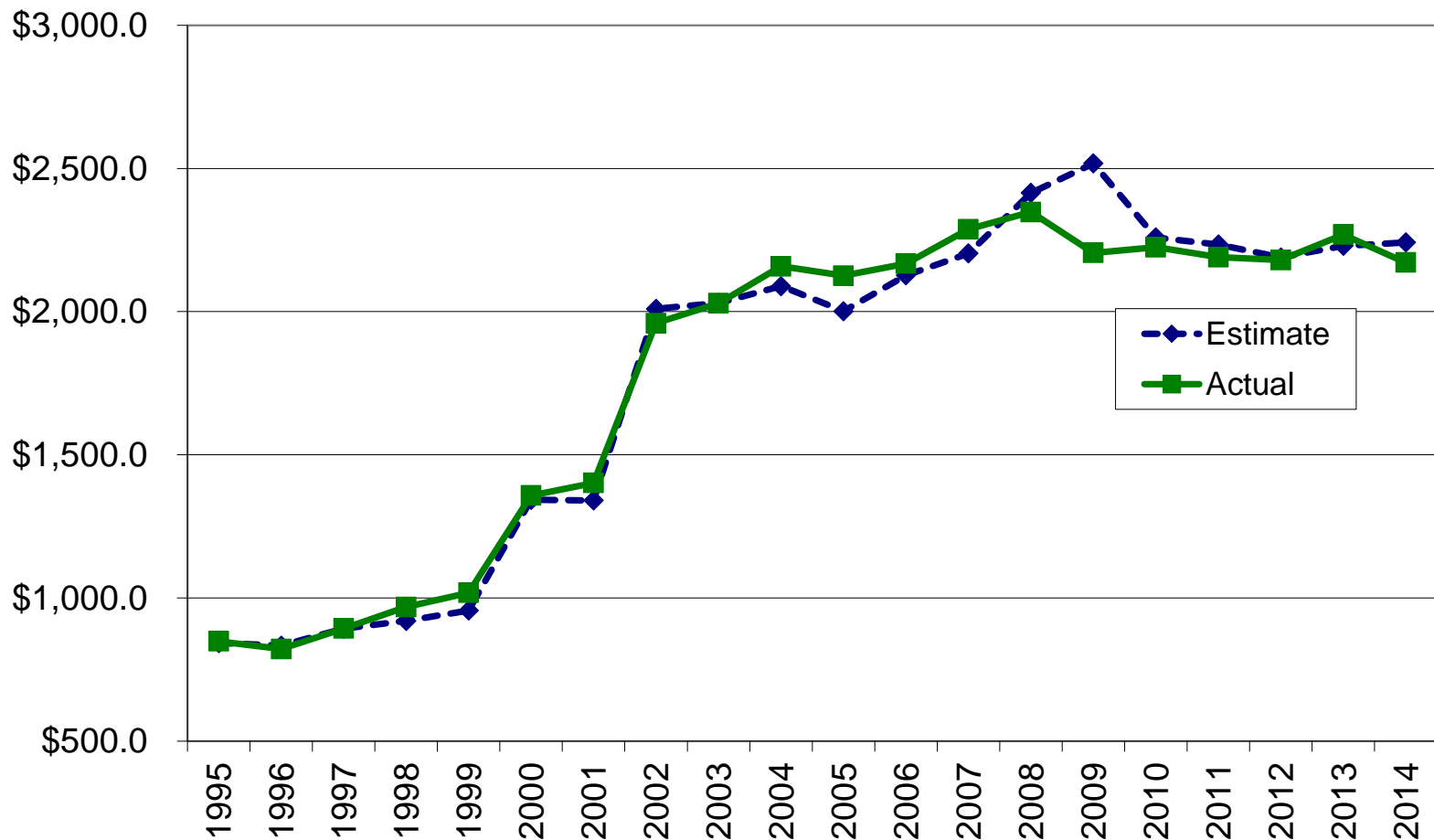
# State Revenues Post Education Trust Fund

NH General Fund and ETF Revenue 1999 to 2014



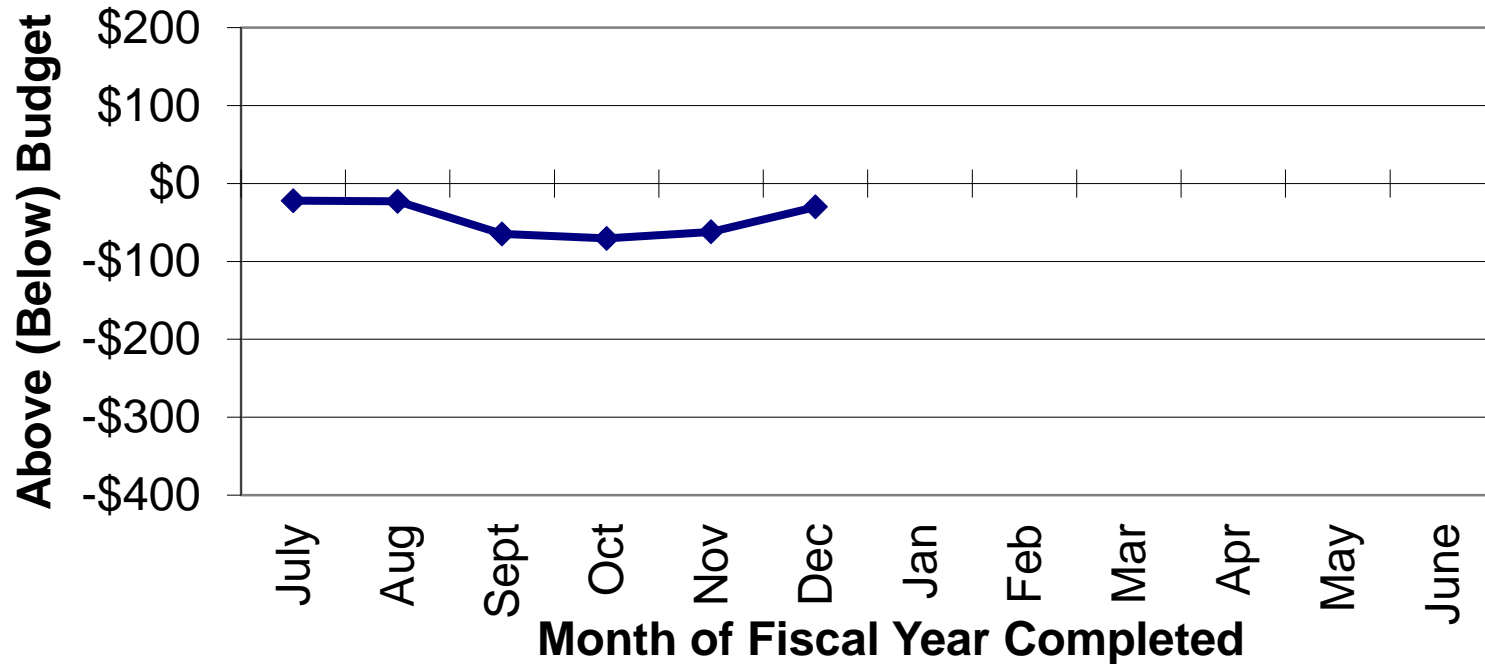
# Great Recession was very hard on state revenue

New Hampshire General and Education Trust Fund Revenue



# NHCPPS Model Showing \$30 Million Revenue Deficit FY15

**NHCPPS Projection of 2015 Combined General Fund  
& Education Trust Fund Revenues  
(in millions of \$)**



# State Tax Revenue in Other States

- State tax revenues declined by 1.2 percent in the second quarter of 2014, according to Rockefeller Institute research
- Total state tax revenue rose 4.5 percent to \$204.8 billion in the third quarter of 2014 from the \$196.0 billion reported in the same quarter of the prior year

Source: Rockefeller Institute ([www.rockinst.org](http://www.rockinst.org)) and US Census



# New Hampshire State Revenue Less Volatile

- The Pew Charitable Trusts examined patterns of revenue and economic volatility across the 50 states.
- Pew found New Hampshire state revenue to be one of the least volatile among states in the US.
- The US average volatility is 5.1% in the years examined (1994 to 2012); NH average 4.1%
- SOURCE: <http://www.pewtrusts.org/en/research-and-analysis/reports/2014/07/15/building-state-rainy-day-funds-policies-to-harness-revenue>

## 3 Themes

- NH Recovery is Almost Complete
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# NEEP Forecast for New Hampshire October 2014

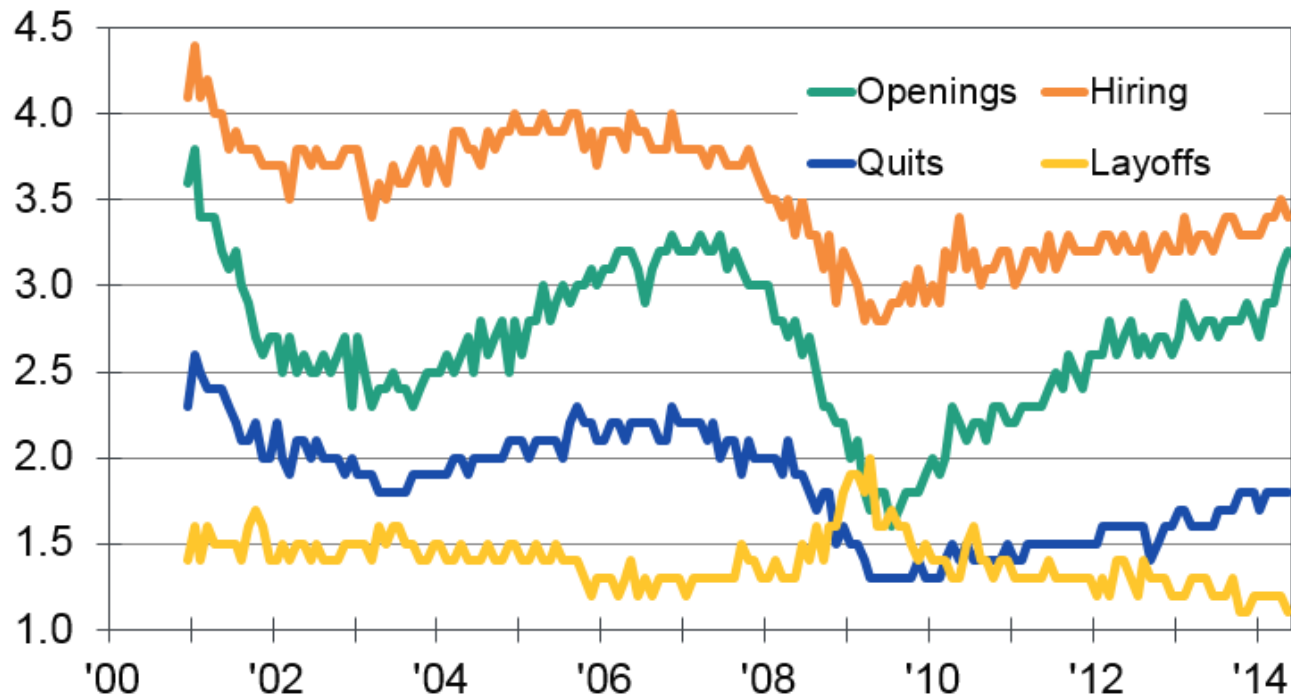
- The Granite State will add only a few hundred manufacturing jobs over the next five years. However, it is expected that Granite State manufacturing output will continue to increase in the forecast period as it has in the past five years.
- In the private services sector employment will increase by about 2.0 percent 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 percent in most areas.

# **Look to an Improving National Economy, Pushed by Housing and Low Energy Prices**

# Labor Market Improves

## Getting Better In the Job Market

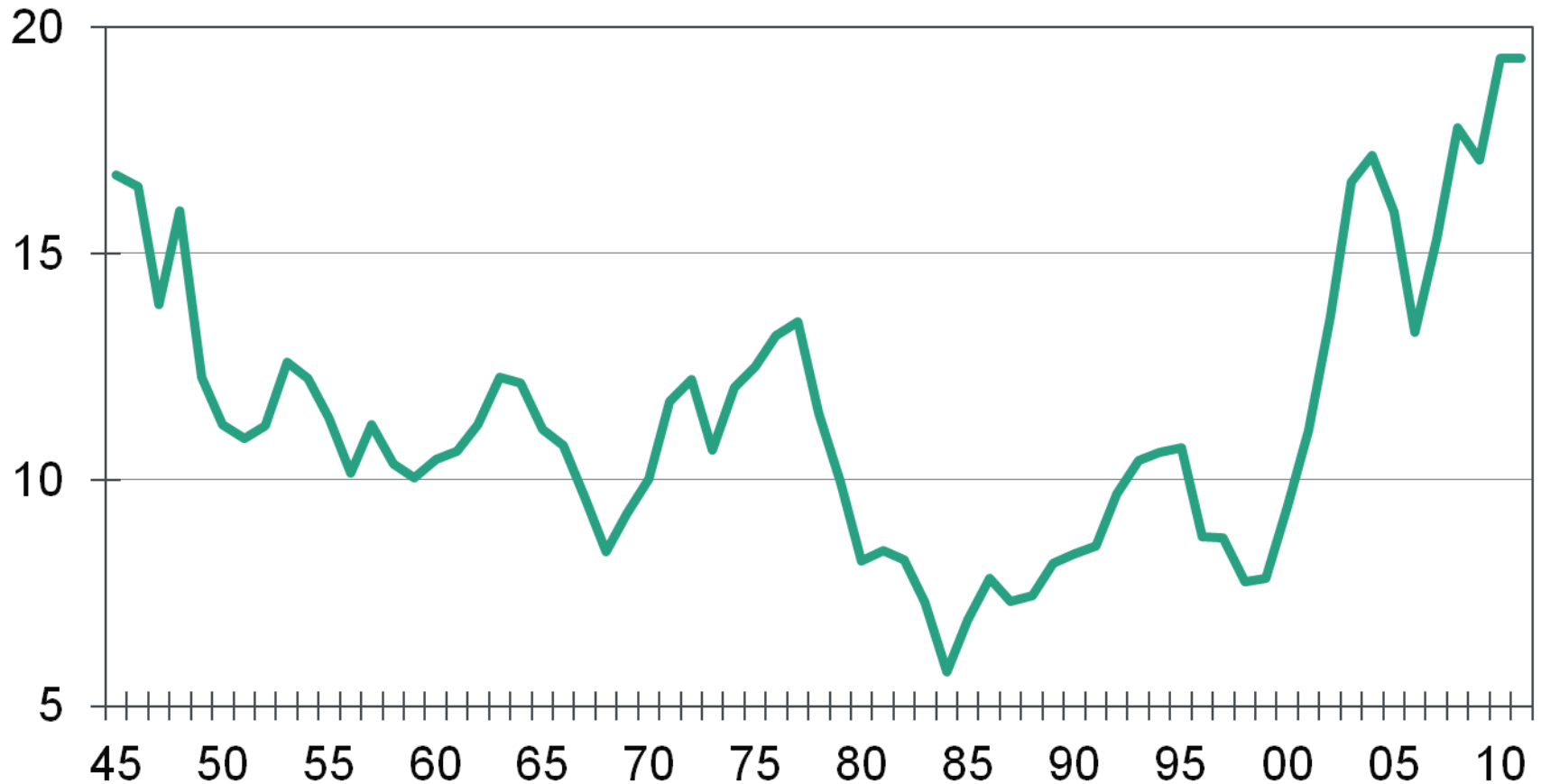
Rate, %



Sources: BLS, Moody's Analytics

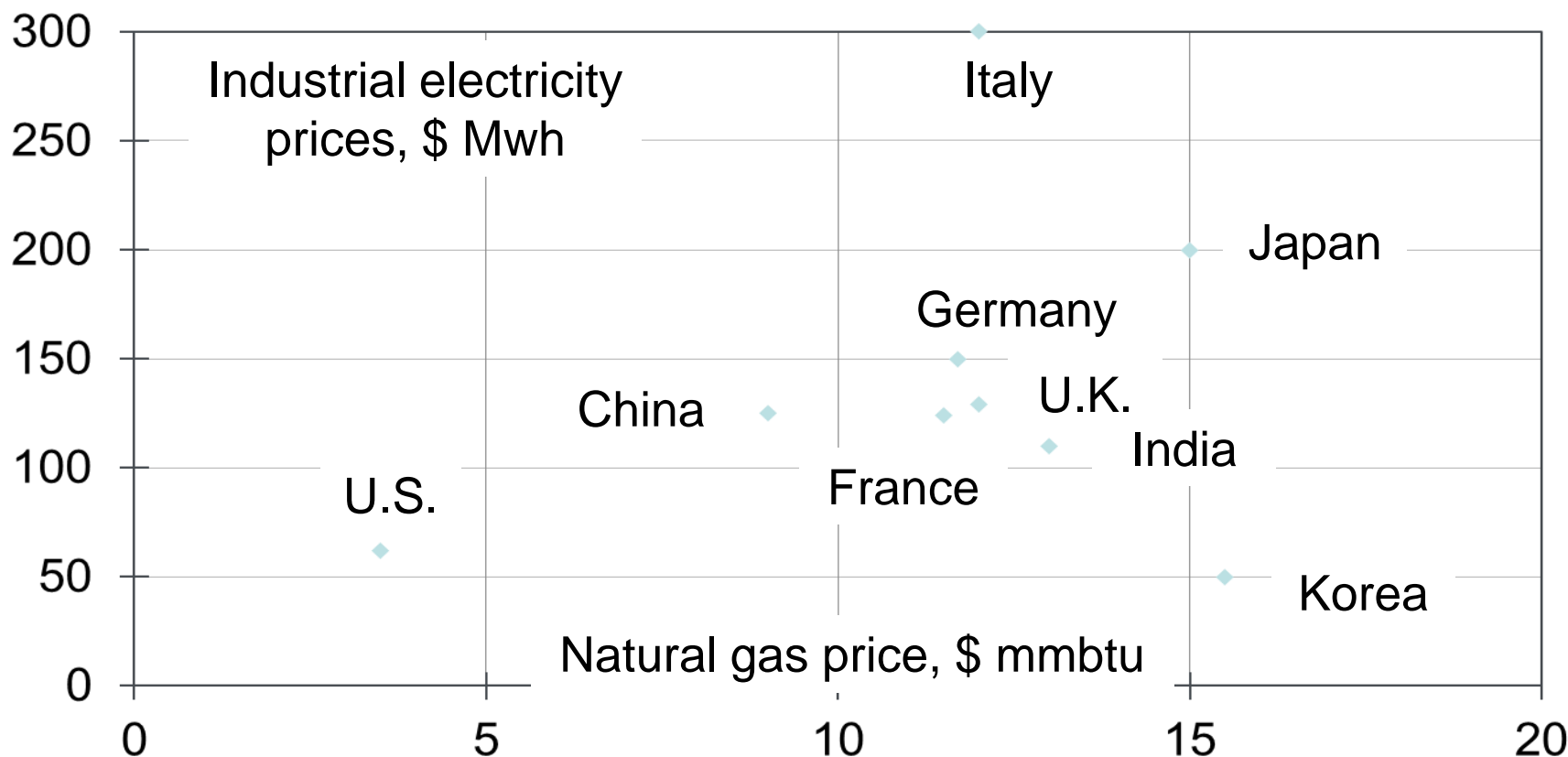
# Businesses Have Never Been as Profitable...

After-tax corporate profit margin, %



Sources: BEA, Moody's Analytics

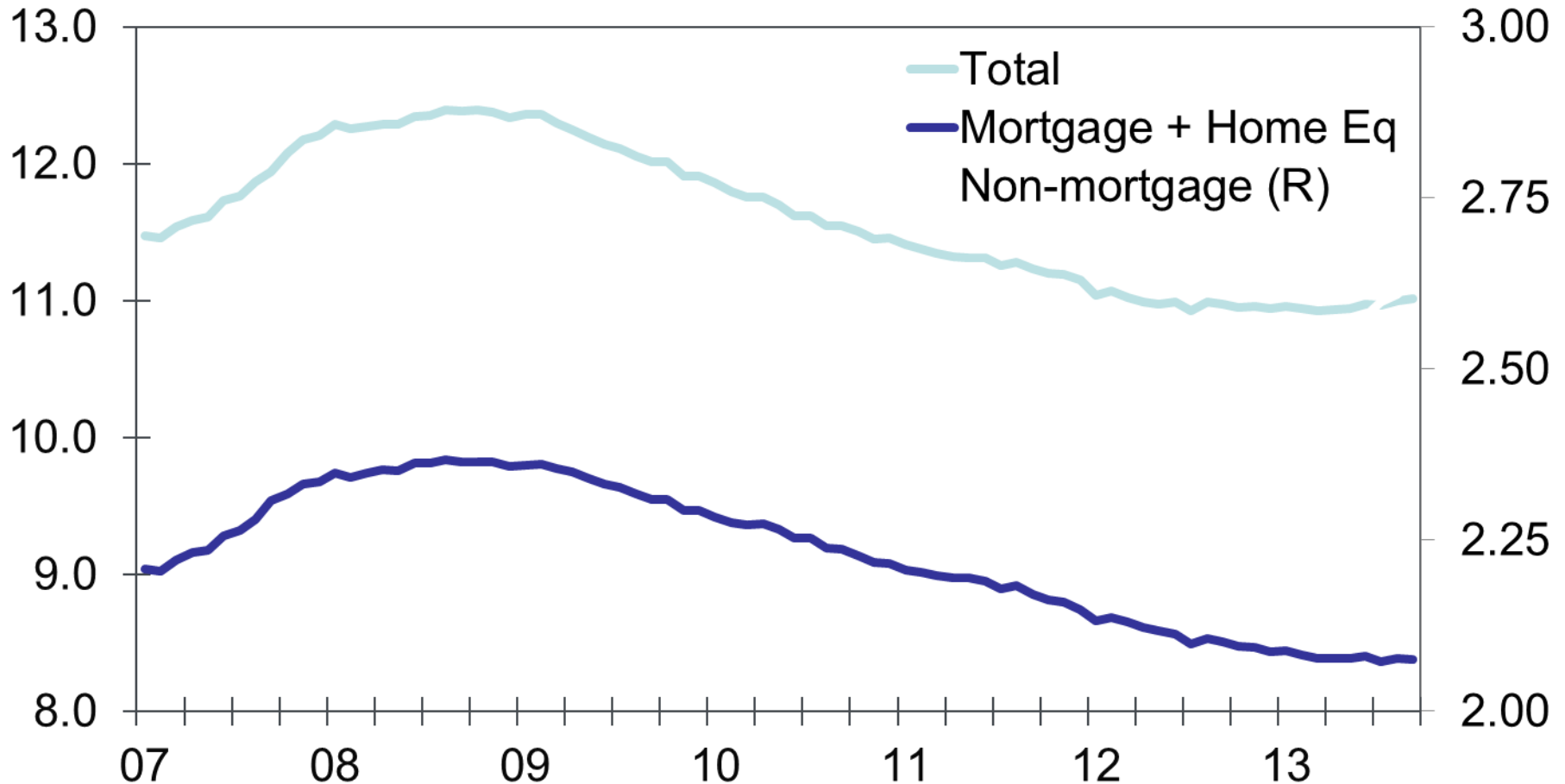
# ...And Have a Significant Energy Advantage



Sources: Country sources, Moody's Analytics

# Households Have Delevered...

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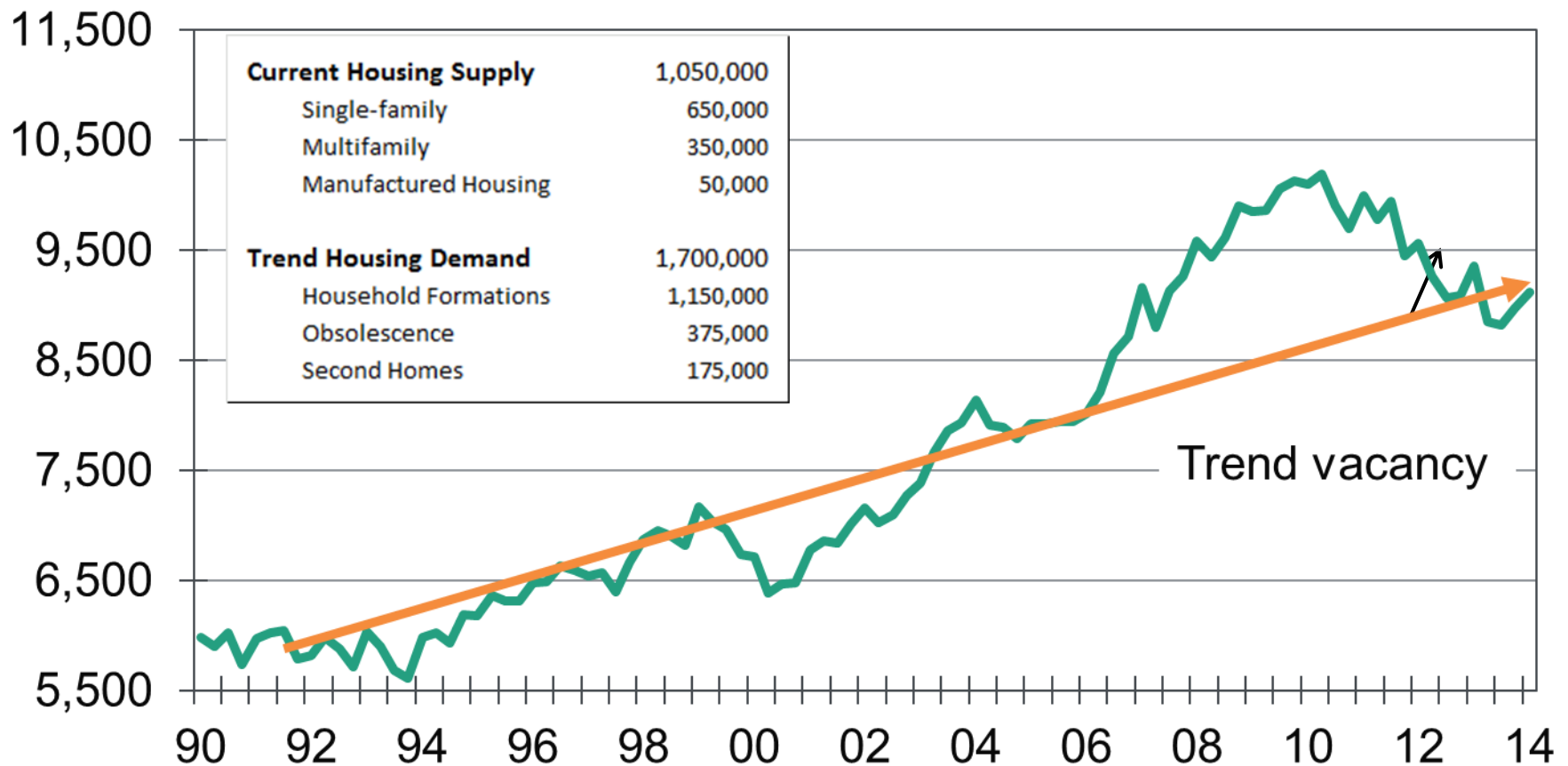


Sources: Equifax, Moody's Analytics



# Housing Will Provide the Catalyst...

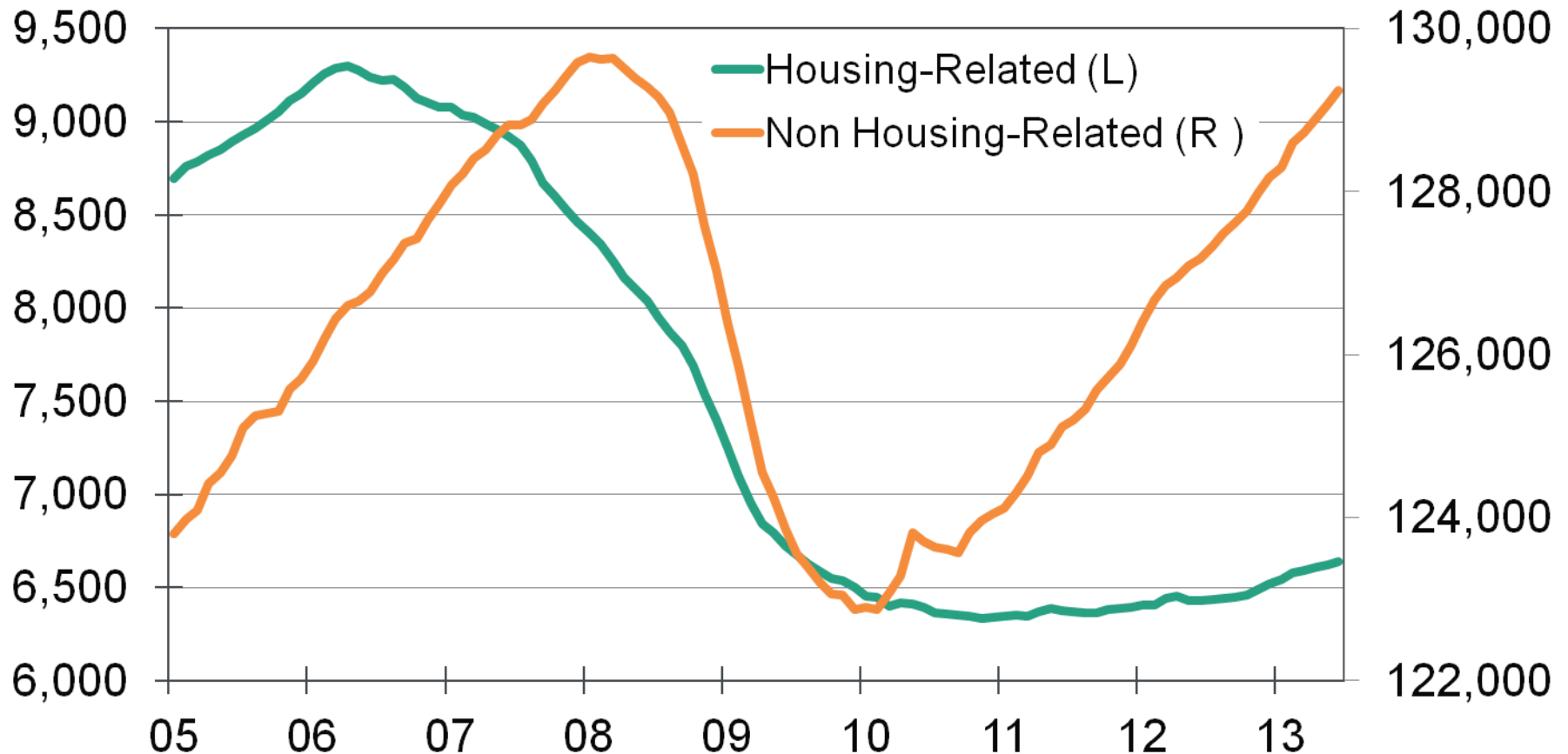
Vacant homes for sale, for rent and held off market, the



Sources: Census, Moody's Analytics

# ...Meaning More Homebuilding and Jobs

Millions of jobs



Source: Wall Street Journal, Moody's Analytics

# New Hampshire Center for Public Policy Studies

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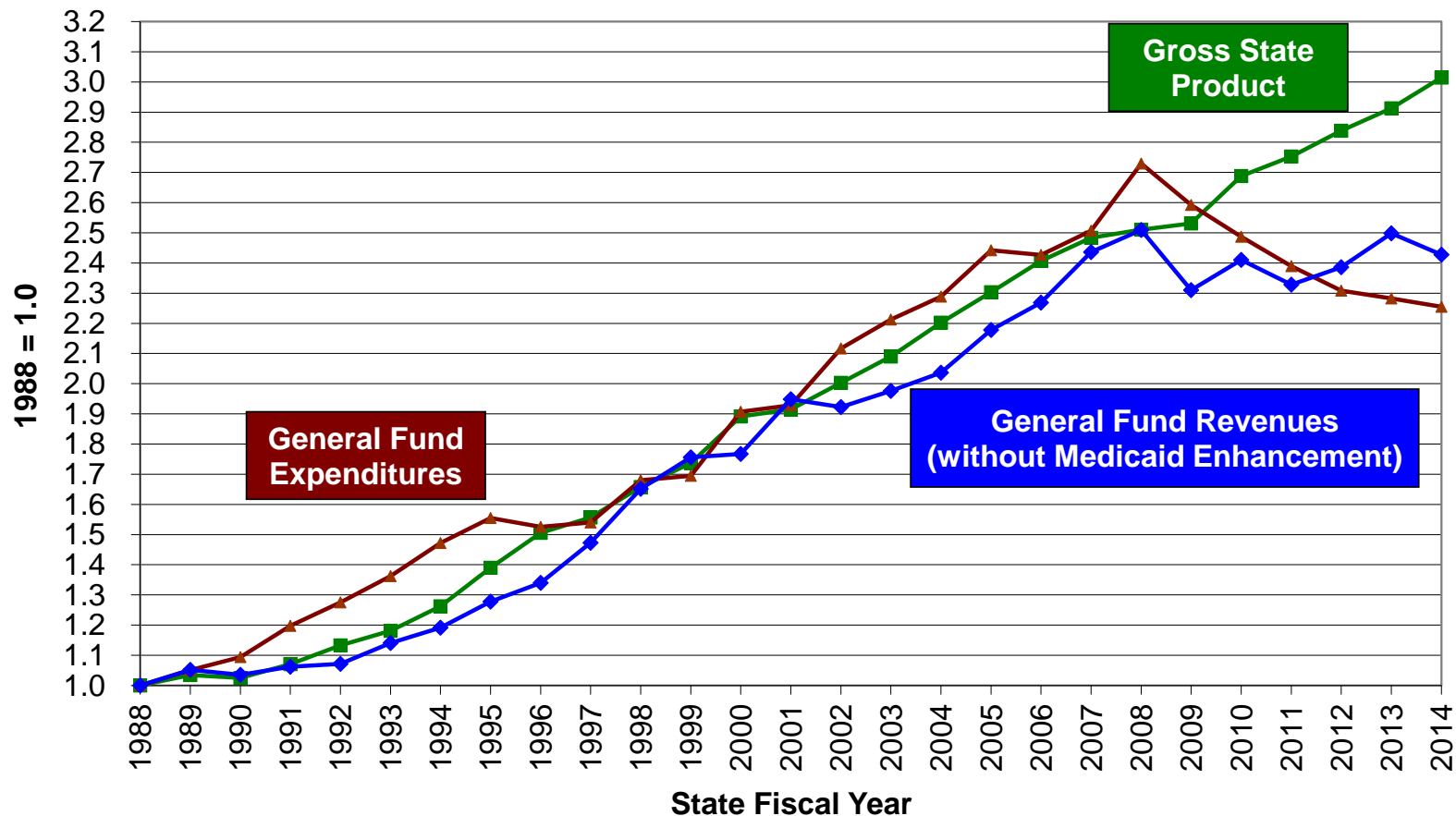
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- (603) 226-2500

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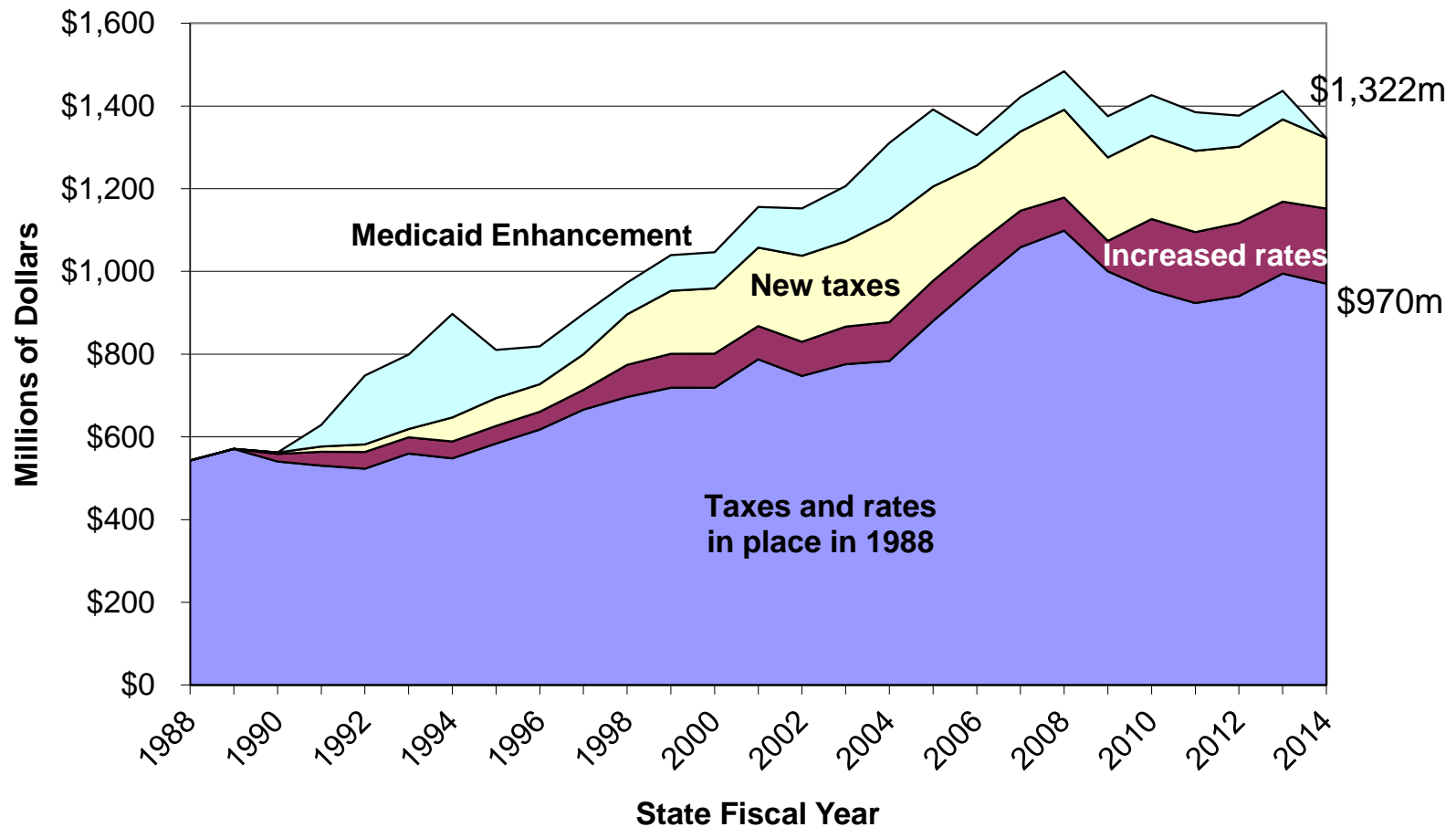
# State Revenues, Expenditures, and Gross State Product

Growth from 1988 Levels



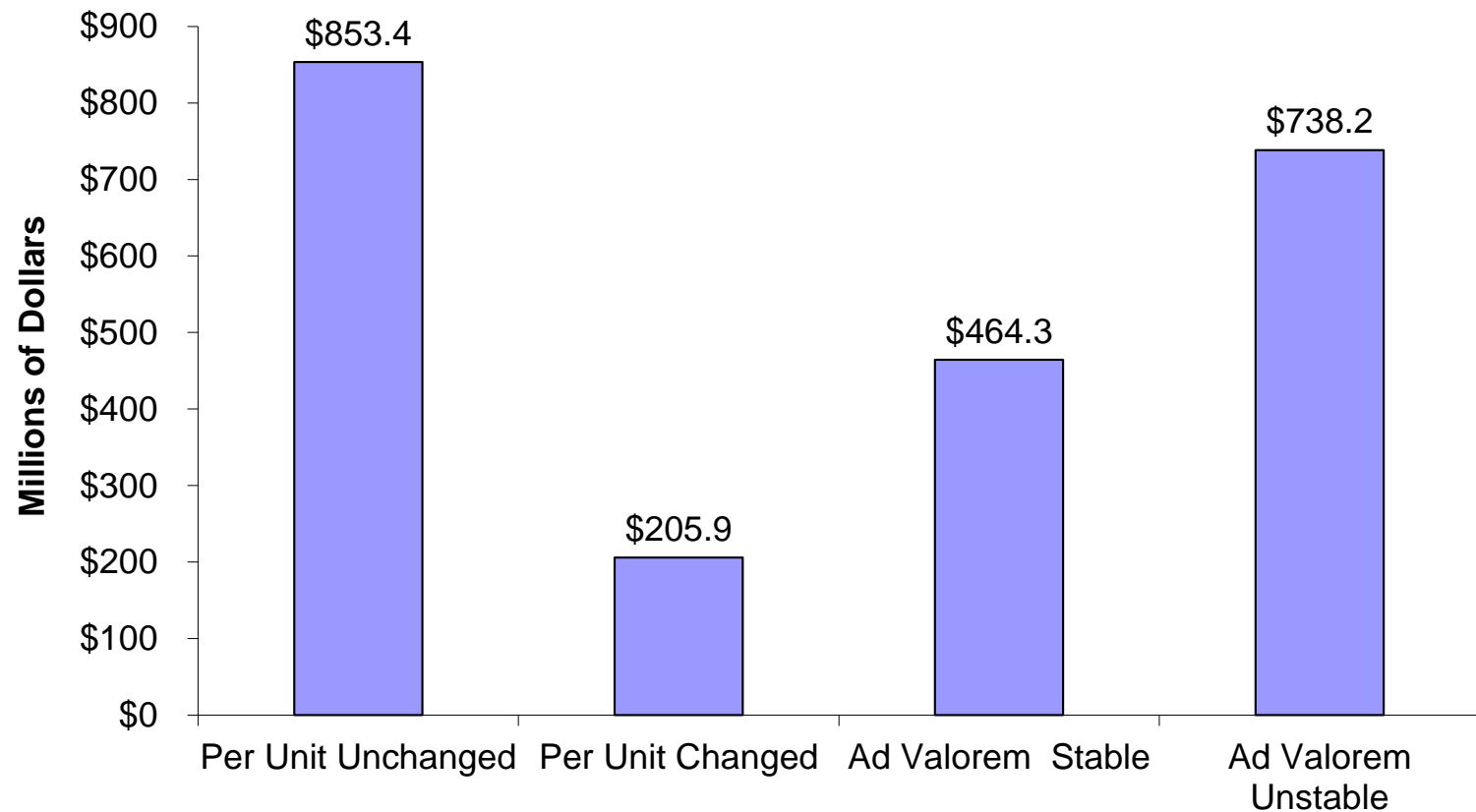
# State Revenues Grew Because of New Taxes and Non-Tax Sources

NH General Fund Revenues 1988 to 2014  
(Current \$)



# Two Thirds of NH Revenue Does Not Grow with Economy, or Is Volatile

2013 New Hampshire State Tax Revenue by Type



## Does New Hampshire Have a Structural Deficit?

“New Hampshire can be characterized as having a long-term structural deficit in the sense that for a given scope of programs and revenue system, expenditures grow automatically faster than revenues.”

KPMG Peat Marwick

February 13, 1992

# Structural Deficit: So What?

- Recognize to scale back on state activities OR recognize the necessity to raise tax rates or add new taxes to maintain a constant level of services.
- Results in more detailed review of all state programs every biennium because there is always a looming shortfall.
- Creates regular atmosphere of crisis and stress.
- Reduces possibility of surpluses for investment in desirable one-time projects.
- Makes long-term strategic planning more difficult.
- Should not be used as a political weapon to bludgeon the other political party.