

In the Shadows of the National Recovery: An Overview of New England's Economic Performance in 2005

By Tom DeCoff, Jessamyn Fleming, Nelson Gereu, Brad Hershbein, and Matthew Nagowski

One year after the recovery began in 2004, New England's economy continued to show signs of growth, although signs were weak compared with the growth seen nationwide. All six New England states added jobs over the course of the year; however, the region's job growth was relatively sluggish compared with the nation's. Unemployment rates remained relatively level throughout the region, despite a national dip. Moreover, the region's real estate markets did not perform as well as the nation's.

Employment

New England added some 43,000 jobs to its payrolls — a mild 0.6 percent increase — between December 2004 and December 2005. Employment growth in the nation, on the other hand, was a more robust 1.5 percent. Although job growth fell short of its long-term annual average, the region managed to add jobs in both 2004 and 2005, following job losses in 2001, 2002, and 2003.

Average employment levels in most of the region's industry supersectors remained steady or grew modestly between 2004 and 2005. The largest gains for the region were in professional & business services (2.0 percent) and education & health services (1.5 percent), although national growth rates in these supersectors outperformed the region. In fact, average growth in national employment levels exceeded growth in regional employment levels for all major sectors except other services, where regional job counts increased 0.5 percent (the nation shed jobs in this supersector). Regional job growth especially lagged the nation in construction (0.8 percent compared with 4.3 percent) and leisure & hospitality (0.6 percent compared to 2.5 percent), not to mention wholesale trade and retail trade.

Unemployment

Although the region failed to create jobs as quickly as the nation did in 2005, New England was

New England in 2005 at a glance

- Job growth in the six New England states and the region as a whole lagged the growth seen in the nation.
- Regional joblessness was consistent from the end of 2004 through the end of 2005 but nevertheless remained below the national rate.
- New England's typically strong residential real estate markets showed signs of weakening.

better at keeping its labor force employed. Over the course of 2005, regional unemployment was at a steady 4.7 percent before dipping to 4.6 percent in December, unchanged from the year-earlier period but still below the national rate. Nevertheless, the nation saw a steeper decline in joblessness over the same period, from 5.4 percent to 4.9 percent. Although joblessness did not worsen for the region in 2005, steady unemployment hurt the region — the gap between the unemployment rates of the region and the nation narrowed further, and New England lost its bragging rights to the lowest unemployment rate among the Census divisions.

New England's average employment-population ratio (the fraction of the working-age population employed) remained high, at 64.4 percent in 2005, a slight tick upwards from its 2004 level of 64.2 percent. Nonetheless, the region maintained the third-highest ratio among the nine Census divisions and a ratio higher than the nation's. Between December 2004 and December 2005, average initial claims for unemployment insurance dropped in four of the New England states but remained steady in the region overall (a 0.6 percent decline). Meanwhile,

Chart 1 - Nonagricultural Employment

Percent Change, December 2004 to December 2005

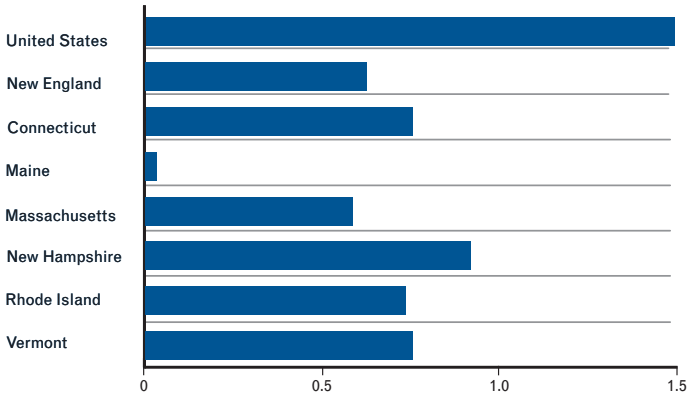


Chart 2 - Employment by Industry

Percent Change, 2004 to 2005 (Annual Average)
(Not Seasonally Adjusted)

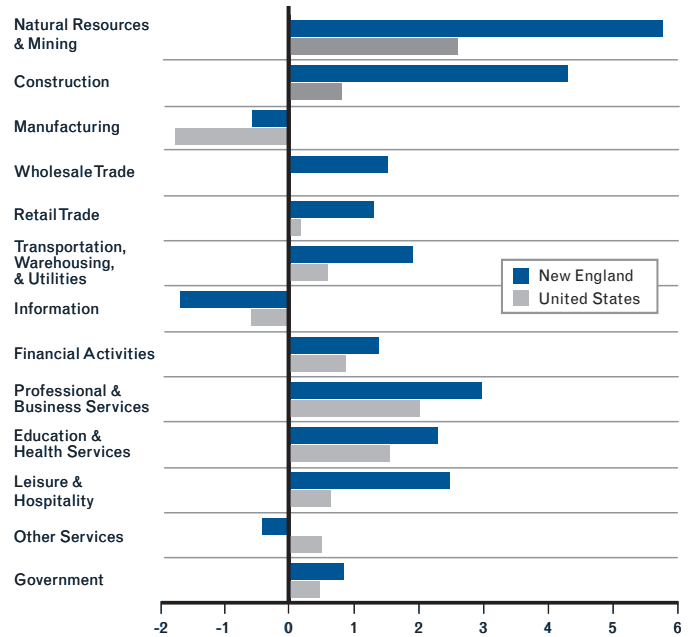
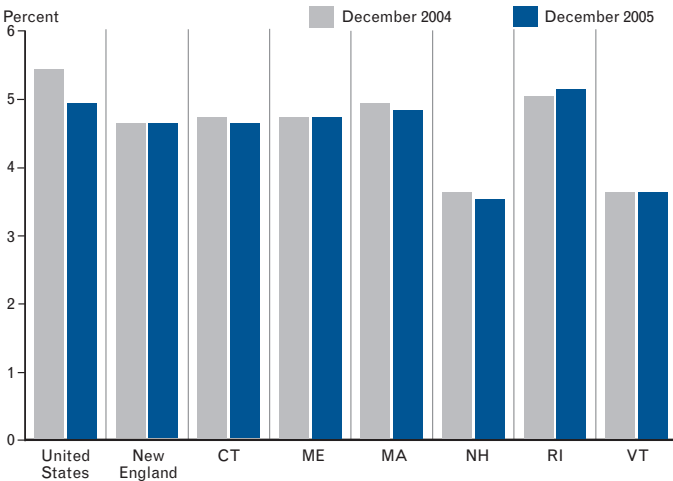


Chart 3 - Unemployment Rate

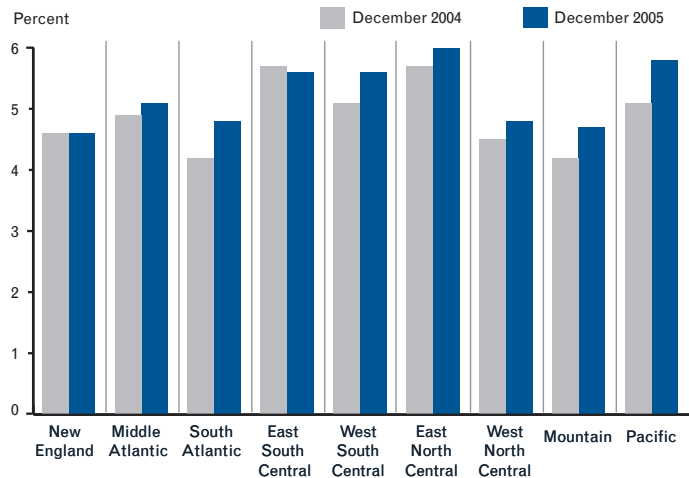


claims tapered off at a much more significant rate for the nation (down 4 percent).

Income and Wages

New Englanders' personal income rose 4.3 percent between the fourth quarters of 2004 and 2005, which was not as rapidly as in the nation (4.7 percent). In fact, only one New England state — Rhode Island — saw income rise as quickly as the nation did. Wage and salary disbursements, the largest component of personal income, increased 4 percent for the region, a pace that also lagged the nation's. On the other hand, growth in the region's annual 2005 per capita income (5.1 percent), exceeded the nation's (4.6 percent), and the region sustained a per capita income level (\$42,314) higher than the nation's (\$34,586), not to mention the highest per capita income among the Bureau of Economic Analysis

Chart 4 - Unemployment Rate, by Census Division



regions. Moreover, three New England states — Connecticut, Massachusetts, and New Hampshire — continued to land among the top 10 states, ranking first, second, and sixth, respectively.

Consumer Prices

New England consumers saw overall prices rise 3.3 percent in the 12 months ending in November 2005, marking a second consecutive year of inflation below the national rate. A whopping increase of

Chart 5 - Per Capita Income, 2005

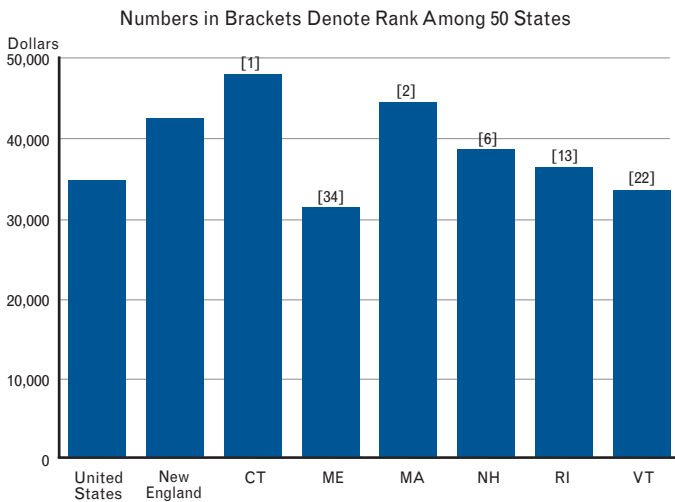


Chart 6 - Consumer Price Index

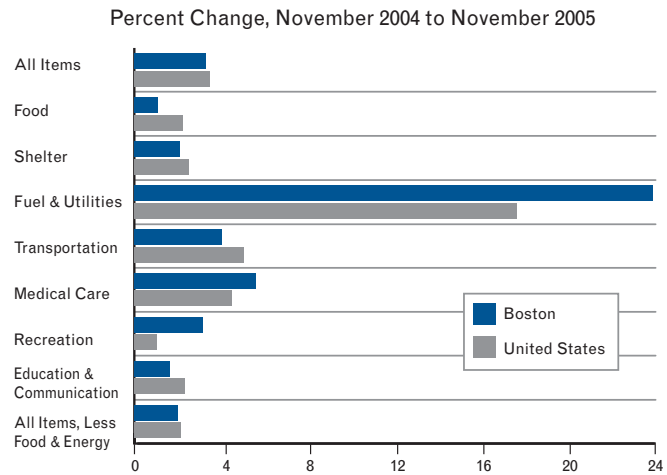


Chart 7 - Conventional Mortgage Home Price Index

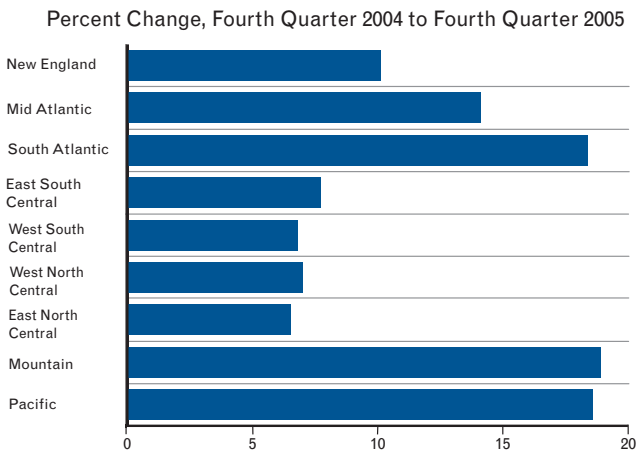
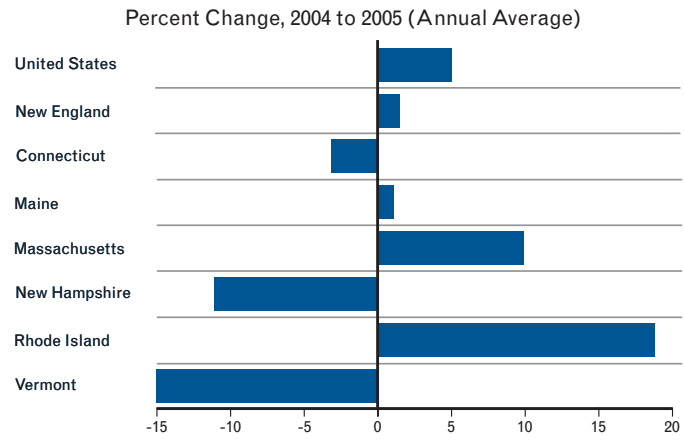


Chart 8 - Housing Permits



nearly 24 percent for fuel & utilities items was largely responsible for the region's overall price increases; a smaller but nonetheless large 17.5 percent increase in fuel & utilities prices was largely responsible for national inflation as well. Regional price inflation was near or below 3 percent for most other categories, although relatively higher for transportation and medical care items (4.0 percent and 5.5 percent, respectively). These trends were also seen in national price changes.

Consumer Confidence

The region's lackluster economic performance in 2005 resounded with consumers. In the 12 months ending in December 2005, the region's consumer

confidence index slipped 12.6 percent as future expectations worsened. Meanwhile, across the nation, consumer confidence remained steady. Future expectations also worsened nationally, but not as markedly.

Residential Real Estate

Regional home prices, as measured by the conventional mortgage home price index, rose 10.1 percent between the fourth quarters of 2004 and 2005. Although an impressive gain, the region's home price increase was relatively smaller than increases seen in many other Census divisions and the nation as a whole. Moreover, it represented the region's slowest acceleration since 1998. The United States as a whole outpaced all but one of the six New England states.

In the fourth quarter of 2005, median home prices for 8 of the 10 New England metro areas for which data were available exceeded the national median of \$225,300 by a wide margin, with levels ranging from \$245,700 to \$468,500. Between 2004 and 2005, the average value of residential construction contracts rose just 1.9 percent, a slight up-tick compared with the 14.3 percent national upswing.

Demand for new housing in the region looked only slightly more promising, as the average number of housing permits issued edged up just 1.5 percent between 2004 and 2005 — overshadowed by the national 5.0 percent gain. Sizable increases in Massachusetts and Rhode Island were offset by steep declines in New Hampshire and Vermont.

Merchandise Exports

The value of exports was up for most New England states between 2004 and 2005, and the region itself saw an increase of 6.1 percent, or \$2.4 billion. The United States as a whole saw a rate of growth exceeding 10 percent. Exports to most of the region's major destinations increased, led by surges to the Netherlands (22.4 percent) and France (18.5 percent), although exports to Singapore and Taiwan dropped markedly (20.2 percent and 15.9 percent, respectively). The region's major exporting industries fared well in 2005, with exports of transportation equipment and paper showing double-digit rates of growth. However, exports from the nation as a whole grew at faster rates for nearly all major destinations and industries.

Overall Economic Activity

Economic activity was generally positive for the New England states in 2005. By the end of the year, five of six states posted gains in the economic activity index from December 2004. Maine was the only New England state — and the only state in the nation except for Hurricane Katrina victim Louisiana — to see economic activity decline. Two states, Connecticut and New Hampshire, recorded boosts that exceeded the national increase.

—Tom DeCoff

Chart 9 - Merchandise Exports

Percent Change, 2004 to 2005 (Annual Total)

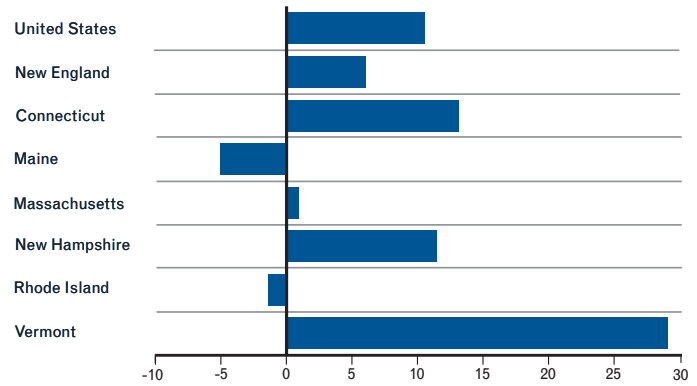
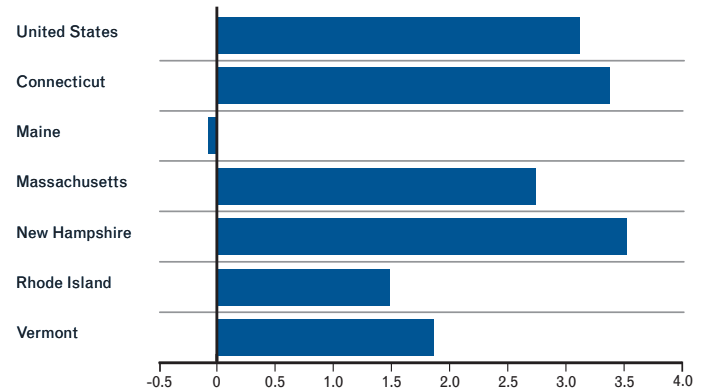


Chart 10 - Economic Activity Index

Percent Change, December 2004 to December 2005



Connecticut

The Constitution State marked its second year of gradual recovery in 2005. Between December 2004 and December 2005, total nonagricultural employment rose by 12,500 jobs, roughly half the gain of the year-earlier period. The 0.8 percent increase, while among the higher of the New England states, trailed the 1.5 percent national gain, and Connecticut remained nearly 30,000 jobs short of its pre-recession peak of 1.7 million. Average annual employment levels increased in all of Connecticut's metro areas, but the growth was generally quite modest, with the exceptions of the Hartford-West Hartford-East Hartford and Norwich-New London NECTAs (New England City and Town Areas), which each witnessed gains of 1.2 percent.

Job gains over 2005 were widespread across industries, with the strongest performers including education & health services (up 4,000 jobs, or 1.5 percent, on average) and professional & business services (up 2,600 jobs, or 1.3 percent). Other industries posting sizable gains were leisure & hospitality (2,100 jobs), transportation, warehousing, & utilities (2,000 jobs, the only significant gain in this industry in New England), financial activities (1,800 jobs), and the government sector (1,200 jobs). Connecticut's 2005 job losses occurred in just two industries; unfortunately, they were the two hardest hit by the recession. Manufacturing and information, both down more than 10 percent since their pre-recession peak, continued to shed jobs, with the former losing 1,800 (0.9 percent) and the latter, 800 (2.2 percent). Both declines, however, are markedly smaller than they were two years ago, and, in manufacturing's case, smaller than last year's as well (the information decline in 2005 was roughly the same as in 2004). While layoffs in manufacturing included traditional heavy industry firms, such as Nidec America Corp (fans and motors) and Hamilton Sundstrand (aircraft parts), they also reflected the closing of Stamford's Purdue Pharma, which lost its patent for OxyContin.¹ This one-time event, unrelated to underlying business conditions, may be a sign that the manufacturing slump is easing.

Also encouraging, the state's labor force grew by nearly 14,000 people (0.8 percent) over 2005, and the unemployment rate finished the year at 4.6 percent.

Connecticut in 2005 at a glance

- Connecticut saw its second year of job gains, but its employment level remained below peak.
- Unemployment rates held even as the labor force continued to grow.
- Personal income showed robust gains.
- The housing sector was strong throughout 2005, but showed signs of cooling.

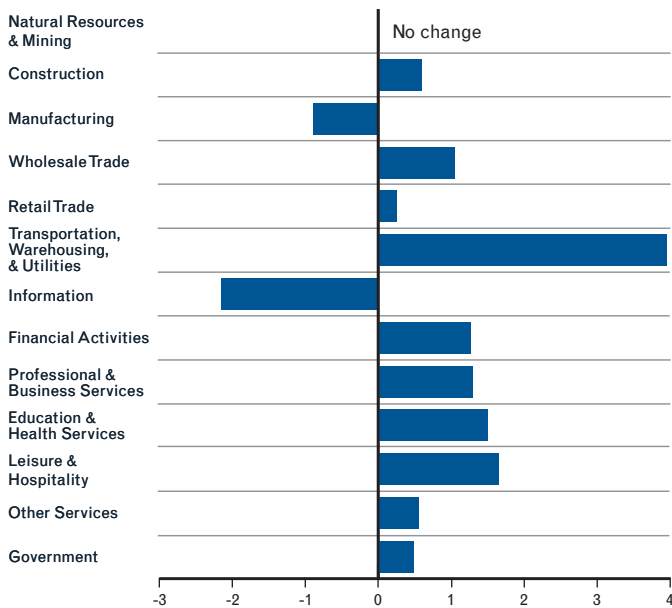
Although the unemployment rate had risen early in 2005, to 5.0 percent, it declined late in the year to clock in slightly under the national rate of 4.9 percent and about even with its own December 2004 rate. In a cautionary note, however, many of Connecticut's metro areas saw slight rises in their average unemployment rates during 2005. Further, weekly initial unemployment insurance claims fell an average 1.8 percent over the entire year, and continued claims dropped 9.4 percent. Both these reductions, while certainly good news, were smaller than those of the previous year.

With the slight but steady gains in employment came a rise in the state's personal income: Connecticut, already the wealthiest state in the country by this measure, enjoyed a 5.5 percent hike in per capita income between 2004 and 2005. Its average level of \$47,819 was 38.3 percent above the national average and 13.0 percent above the regional average. The jump was buoyed by strong fourth-quarter performance of proprietors' income (up 7.4 percent) and across industries, with the government, professional & technical services, finance & insurance, and health care & social assistance sectors all making sizable contributions. Even manufacturing workers saw their hourly wages rise 4.3 percent.

In turn, Connecticut's housing sector showed signs of strength throughout 2005. Existing-home sales were up from 2004; the fourth quarter 2005 annual rate was 79,300 compared with a rate of 77,200 in the year-earlier period. Although sales remained near their historic high even with the

Employment by Industry - Connecticut

Percent Change, 2004 to 2005 (Annual Average)
(Not Seasonally Adjusted)



recent decline, some evidence of the housing market slowing down was seen in the reduction of housing permits issued in 2005: Total permits slipped 3.5 percent, and single-family permits fell 7.5 percent. Home prices, however, continued to soar, with the conventional mortgage home price index up 13.2 percent, the state's second consecutive year of double-digit increases. Moreover, median house prices exceeded \$250,000 for the four metro Connecticut areas for which there are data, with the Bridgeport-Stamford-Norwalk area, the most expensive in New England, reaching \$468,500.

Exports, too, continued to perform well, as the dollar value of merchandise goods rose 13.2 percent, to \$9.7 billion, for the year. Shipments of transportation equipment, the state's largest export product, surged 23.9 percent and drove much of the overall increase. Each of Connecticut's three largest trading partners, Canada, France, and Germany, imported more of the state's goods, with France's purchases, in particular, ballooning 35.5 percent.

Connecticut ended 2005 on a general upswing, but its recovery is ongoing. At its 2005 average pace for job growth, the state will not reach its pre-recession employment peak until early 2008 — an eight-year process. While Connecticut faces the

reduction of around 1,500 well-paying jobs at Electric Boat in Groton, as well as other layoffs on the horizon during 2006, many companies announced plans for expansion through 2008.² Moreover, other indicators are steadily positive, and the economic activity index grew 3.4 percent over the course of 2005, narrowly edging the U.S. rate of 3.1 percent and besting every other New England state except New Hampshire.

—Brad Hershbein

Maine

New England's northernmost state did little but tread water in 2005, as 2004's mild growth came to a standstill. For the 12 months ending in December, nonagricultural payroll was flat, finishing the year with 612,300 jobs. Not only was Maine the only state in the region to experience virtually no job growth, the 2005 benchmark revisions reduced the year-end job count by nearly 6,000. However, unlike those of Connecticut and Massachusetts, Maine's employment level remained above its pre-recession peak. While Maine's two NECTAs, Bangor and Portland-South Portland-Biddeford, mirrored the trend of the state as a whole, the Lewiston-Auburn area added about 500 jobs (1.1 percent).

By industry, Maine's job record was more mixed. Repeating the 2004 pattern, the strongest performer was the education & health services industry, Maine's largest, which experienced growth of 1.2 percent (1,300 jobs) from its 2004 annual average. Other

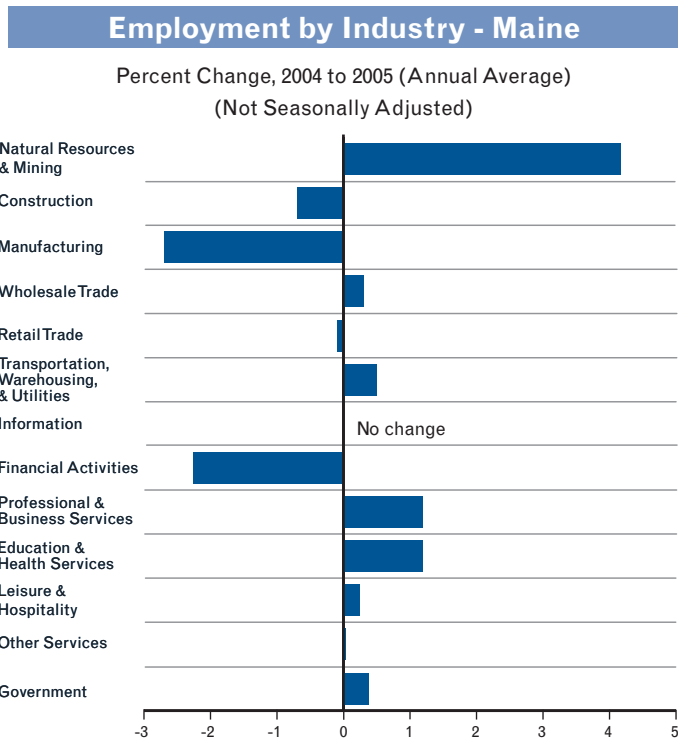
Maine in 2005 at a glance

- Maine was the only New England state with negligible payroll job growth.
- Unemployment rate held steady while the labor force grew.
- Income growth, though respectable, was the slowest in New England.
- Maine's exports declined for first time since 2000.

industries contributing to job gains over the year included professional & business services, with net creation of 600 jobs (1.2 percent), and the government sector, with 400 new jobs (0.4 percent). Countering this job growth, manufacturing divested 1,700 jobs (2.7 percent), financial activities shed 800 jobs (2.3 percent), and construction lost 200 jobs (0.7 percent), the only loss in this industry in the region. Maine's remaining industries showed little change over the year.

Despite the dormant payroll employment picture, Maine's labor force grew the most rapidly in the region during 2005; its annual average that year, at 711,900, was 1.8 percent higher than in 2004. Surprisingly, even with this surge in the labor force, the state's unemployment rate edged up only slightly, from 4.7 percent in December 2004 to 5.0 percent in late summer, before returning to 4.7 percent by year's end. This presents something of a puzzle, for if the labor force grows and the unemployment rate remains unchanged, the number of employed individuals must rise; yet, in Maine's case, the number of payroll jobs was flat. While there are more than a few potential explanations, according to the Maine Department of Labor, the most likely is a rise in either commuting or telecommuting to jobs outside the state.³ Neither of these employment types would be counted in the state's payroll employment, but would be reflected in labor force and unemployment rate numbers, which are based on place of residence rather than place of employment. Commensurate with this conjecture, Mainer's initial claims for unemployment insurance fell 4.5 percent from 2004 to 2005, and continuing claims declined 6.0 percent. Also, Maine's average labor force participation rate ticked up from 66.5 percent to 67.0 percent between 2004 and 2005. Together, these numbers suggest Maine residents are finding jobs, but not necessarily the conventional, salaried, close-to-home kind.

In accord with the lackluster employment measures, the state's total per capita personal income rose 4.0 percent between 2004 and 2005. As it did the previous year, this rate fell short of the advance in every other New England state; it also represents a deceleration from Maine's own 2004 increase. As of 2005, Maine's per capita income of \$31,252 was below the national average and well below the regional average.



The best performing industries were again health care and government, which together accounted for roughly half of the increase in Maine's employee compensation. The state's manufacturing workers who managed to keep their jobs saw little increase in pay: Hourly wages grew just 1.8 percent in nominal terms. With the length of the workweek unchanged, and inflation averaging over 3.0 percent, real take-home pay for these workers declined over 2005.

Tepid income growth and rising interest rates, in turn, helped signal the first cooling of Maine's housing sector since the recession hit in 2001. Existing-home sales dropped to an annualized rate of 30,800 in the fourth quarter of 2005, a 7.8 percent deceleration from its year-earlier level that resulted in the lowest volume since 1997. Moreover, new housing permits inched up a scant 1.5 percent between 2004 and 2005, and single-family permits were flat, a significant braking from the 20 percent-plus growth seen in the previous two years (though both remain above historical averages). While the value of residential construction contracts edged up by a respectable 3.8 percent, it also was nowhere near the 25.1 percent jump in 2004. Home prices, which are generally a lagging indicator, represented Maine's sole upbeat real estate news in 2005. The conventional mortgage

home price index climbed 11.1 percent between the fourth quarters of 2004 and 2005, and the median sales price of a Portland-South Portland-Biddeford area home approached the quarter-million dollar mark. Whether these home price increases will continue in 2006 remains to be seen.

In another troubling sign for Maine, the value of the state's merchandise exports slid 5.0 percent from 2004 to 2005 and marked the first decline in four years. The drop was entirely due to exports of transportation equipment, which, after doubling in value between 2003 and 2004, plunged by over two-thirds in 2005. This was mainly a result of the completion in 2004 of two oil rigs destined for Brazil, which caused an unusual spike in Maine's transportation exports that year;⁴ still, even discounting for that event, that sector's exports were flat relative to 2002 levels. Exports from Maine's other major industries, computer & electronic products and paper, continued to see slight increases in value. Canada and Malaysia, Maine's largest trading partners, together accounted for more than half of the state's \$2.3 billion in exports in 2005.

In many areas of the economy, Maine concluded 2005 no better than it began the year; in some areas, the situation worsened. Maine's recovery seems to have stalled, and, accordingly, the state's average coincident economic activity index barely budged between 2004 and 2005 — and actually fell slightly over the course of the year — as the other New England states saw gains. In fact, Maine was the only state in the country to see a decline over this period, except for Louisiana.

—Brad Hershbein

Massachusetts

After a year of solid growth in 2004, the Massachusetts economy continued to expand in 2005. Slow but steady growth was observed in nearly all facets of the economy, including employment, personal income and wages, real estate markets, and exports.

Total nonagricultural employment grew only a modest 0.6 percent between December 2004 and December 2005. The state's rate of employment growth was on par with the New England average but was the second lowest of the six New England states, and far below the national average (1.5 percent). Job growth in the Bay State remained well shy of the state's long-term average (1.0 percent), and total nonagricultural employment still had not reached its pre-recession peak, attained in February 2001.

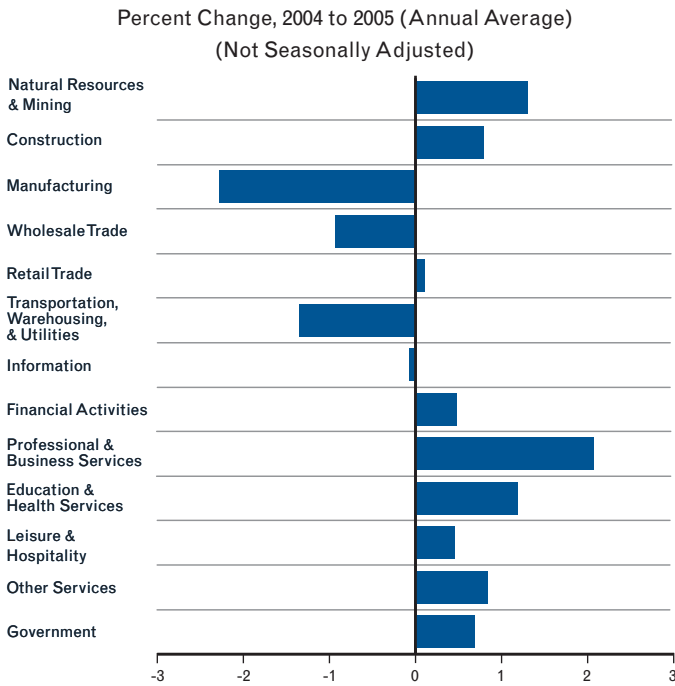
The sector with the strongest employment growth was professional & business services, which added, on average, 9,400 jobs or 2.1 percent, between 2004 and 2005. Other gains were seen in the education & health services sector, which added 6,900 jobs (1.2 percent), the government sector, which added 2,800 jobs (0.7 percent), and the construction sector, adding 1,100 jobs (0.8 percent).

Meanwhile, manufacturing continues to be the weakest sector of the state's economy, with job losses occurring at a higher rate in Massachusetts than in

Massachusetts in 2005 at a glance

- Relatively slow growth prevented the state from reaching its pre-recession employment peak.
- Professional & business services and education & health services added the most jobs in 2005, while manufacturing continued to shed jobs.
- Income growth remained solid, while real estate markets and exports both slowed considerably in 2005.
- Economic activity was sustained above its pre-recession peak in February 2001.

Employment by Industry - Massachusetts



both the region and the nation. Comparing annual averages in 2004 and 2005, the manufacturing sector cut 7,200 jobs, or 2.3 percent. December 2005 marked four and a half years of decline for manufacturing in Massachusetts, during which 106,000 jobs were lost, a 34.8 percent plummet.

Additionally, Massachusetts was the only state in the region to see a decrease in transportation, warehousing, & utilities employment (1,100 jobs or 1.4 percent). Wholesale trade and the information sector also saw decreases in employment of 0.9 percent (1,300 jobs), and 0.1 percent (100 jobs) respectively.

Modest overall job gains in the Bay State translated into a slight decrease in the unemployment rate, from 4.9 percent in December 2004 to 4.8 percent in December 2005. Despite finishing the year with the second highest unemployment rate in New England, behind only Rhode Island, Massachusetts' unemployment rate remained just below that of the nation. Meanwhile, the number of average weekly unemployment insurance claims fell 8.2 percent over the course of 2005, the second highest rate of decline in the region, and more than double the national pace of improvement.

While the unemployment rate in Massachusetts as a whole fell in 2005, the unemployment rates of all

seven Massachusetts NECTAs increased. Massachusetts NECTAs finished 2005 with unemployment rates ranging from 4.5 percent (Pittsfield) to 7.1 percent (New Bedford), with four of the seven above both the state and national unemployment rates. The largest increases in unemployment were seen in New Bedford and Barnstable Town.

Despite continued job losses in the manufacturing sector in 2005, the average hourly wage for manufacturing workers in Massachusetts increased by \$0.78, to \$17.67. This 4.6 percent increase was the highest in New England and well above the national average. Likewise, growth in total personal income of all workers was solid at 4.1 percent, and wages and salaries grew 3.7 percent from fourth quarter 2004 to fourth quarter 2005. Per capita income in the state rose 5.0 percent in 2005, to \$44,289. Although growth in income was among the lowest in the New England states, Massachusetts maintained the second highest per capita income in the nation, behind Connecticut.

Real estate markets in the Bay State witnessed a considerable slowdown over the course of 2005. Comparing fourth quarter 2005 with fourth quarter 2004, the conventional mortgage home price index was up 7.9 percent, the lowest growth rate of all the New England states and far below the national average. Slower growth was also observed in metropolitan areas throughout Massachusetts, with only one of seven areas (Springfield) showing a double-digit rate of growth. The median sales prices of existing homes in the Boston-Cambridge-Quincy area rose to \$397,500 over the course of 2005. After rising by more than 40 percent in 2004, the number of existing homes sold fell 2.3 percent from fourth quarter 2004 to fourth quarter 2005. Correspondingly, the value of residential construction contracts, which rose by more than 30 percent between 2003 and 2004, grew only 1.5 percent between 2004 and 2005.

Growth in aggregate exports from Massachusetts also slowed decidedly in 2005, with exports up only 0.9 percent from their 2004 level. Of the state's three largest exporting industries, only one saw an increase. Exports of chemicals increased 7.7 percent, while machinery exports fell 5.7 percent. Exports of computer & electronic products declined 6.3 percent. Changes in exports to the state's largest destinations in 2004 were mixed; exports to the Netherlands

increased by 19.2 percent, while exports to Germany by 14.5 percent. Exports to Canada, the Bay State's largest destination for exports in 2004, grew only 0.8 percent in 2005.

Despite the Bay State's weaker economic growth in 2005 than in the previous year, the state's economic activity index provided no reason for concern. The index climbed steadily throughout the year, finishing 2.7 percent above its December 2004 level. This increase, though below the national average growth rate, kept Massachusetts at a level of economic activity above its pre-recession peak of February 2001.

—*Jessamyn Fleming*

New Hampshire

After 2004 job growth that was on par with the nation as a whole but significantly outpaced the rest of New England, employment gains in New Hampshire dropped relative to the national rate and converged with the rest of New England in 2005. Compared to a national employment growth rate of 1.5 percent, gains in nonagricultural employment in the Granite State subsided in 2005 to a more tepid 0.9 percent, adding 5,900 workers to payrolls statewide; New England experienced a modest 0.6 percent increase in payroll numbers over the same period.

Despite a trend towards convergence with the rest of the New England states, New Hampshire still

possessed the best performing employment market in the region. Save for manufacturing, every sector added jobs on average in 2005. Gains were spearheaded by strong growth in education & health services, professional & business services, and financial activities, growing on average 4.7 percent (1,800 jobs), 3.2 percent (1,700 jobs), and 2.4 percent (1,300 jobs), respectively, between 2004 and 2005. Job growth among other sectors accounted for the remaining 1,100 jobs that were added across the state.

Manufacturing employment was plagued by several significant layoffs in 2005, including the loss of 120 jobs at Teleflex Medical in Jaffrey, 100 jobs at Teradyne Connection Systems and 200 jobs at Basketville Casket Co., both in Nashua, as well as the large loss of 560 jobs when Car Component Technologies unexpectedly shut down its Bedford and Merrimack locations in November.⁵

Over the last few years the Granite State has slowed the hemorrhaging of its manufacturing jobs — especially seen in 2001 and 2002 — and even posted a gain in 2004. However, in 2005, New Hampshire lost, on net, 1,900 manufacturing jobs (2.0 percent). This cut would have been more severe had it not been for the strength of defense-related contractors like BAE and smaller high-tech manufacturers.⁶ Nevertheless, over the course of 2005, workers in the state's remaining manufacturing jobs saw an increase in their average weekly hours and wages by 3.0 percent and 2.5 percent, respectively.

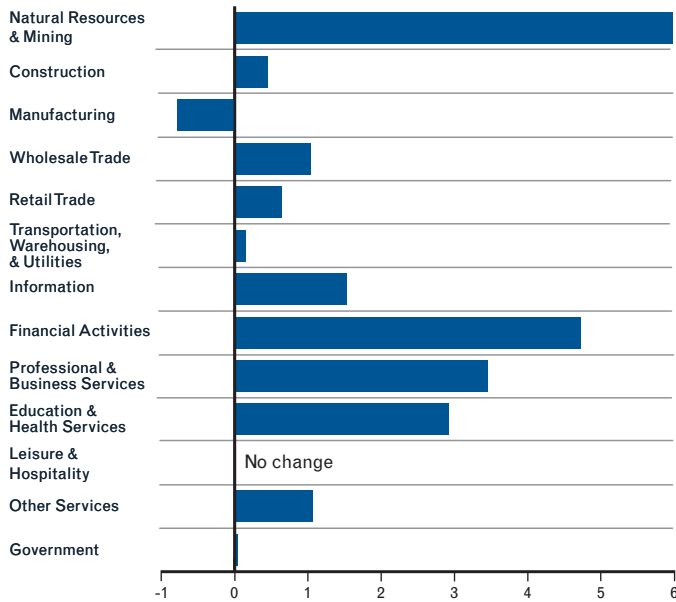
As employment rose in New Hampshire, the state's unemployment rate fell slightly, to 3.5 percent. This drop occurred as 5,000 individuals entered the state's workforce, bringing the state's total civilian labor force to 733,900. Like Vermont to the west, the Granite State continued to enjoy an unemployment rate significantly lower than both the regional and national averages. Between December 2004 and December 2005, initial claims for unemployment insurance rose 5 percent, but, the 2005 annual average was 4 percent below its year-earlier period. Mirroring strong gains around the region and across the country, personal income in New Hampshire grew 4.4 percent between the fourth quarters of 2004 and 2005; even so, this growth fell significantly behind the blistering 8.6 percent growth in personal income that the state realized a year earlier.

New Hampshire in 2005 at a glance

- New Hampshire continued to lead the New England region and outpaced the nation in terms of economic performance.
- Employment growth was robust across many sectors, but the state's manufacturing sector realized job losses, following slight gains in 2004.
- The housing market was considerably softer than in 2004 and relative to the rest of the New England states and the nation as a whole.

Employment by Industry - New Hampshire

Percent Change, 2004 to 2005 (Annual Average)
(Not Seasonally Adjusted)



Despite these gains, New Hampshire's flourishing real estate market of the last couple of years began to subside in 2005, as data indicate several soft spots developing in the state's housing market. On average, monthly housing permits issued in New Hampshire fell 11 percent in 2005, versus gains of 1.5 percent and 6.3 percent for New England and the nation, respectively. Moreover, New Hampshire's conventional mortgage home price index grew at a lower rate (9.5 percent) than both the regional and national annual averages. It was also the only state in the region to witness a decrease in the average value of its residential construction contracts (2.6 percent), whereas the nation as a whole posted a healthy gain in this metric.

Total exports from New Hampshire expanded 11.5 percent, to a record value of \$2.5 billion between 2004 and 2005, outpacing both the region and the nation, but lagging neighbors Connecticut and Vermont. As Maine experienced a decline in the value of its exports over the same period, New Hampshire surpassed Maine in total exports by the end of 2005 and found itself as the fourth largest exporter in New England.

Growth in the Granite State's exports was led by machinery and electrical equipment, appliances &

components, posting gains of 30.4 percent and 25.8 percent, respectively. Among New Hampshire's three largest export markets, the value of goods shipped to Canada and the United Kingdom rose 5 percent, while total exports to Japan fell 14 percent.

Indisputably the fastest growing economy in the region over the last 15 years, New Hampshire continued to outpace its New England brethren in 2005, despite noticeable hiccups in its housing market. As reflected in the state's economic activity index, New Hampshire experienced stronger growth than the other New England states and the nation as a whole, posting a 3.4 percent climb between December 2004 and December 2005.

— Matthew Nagowski

Rhode Island

In 2005, the Ocean State saw employment gains for the 14th consecutive year, adding 3,600 net payroll jobs. In percentage terms though, the gain was only 0.7 percent, larger than in 2004 (0.6 percent), but smaller than in 2003 or 2002 (1.1 percent and 0.9 percent). This percentage increase was the third largest in the region, but fell well behind the national average. As one of the New England states not bearing large employment or economic declines in the period during and after the 2000-2001 national recession, Little Rhody benefited from several consecutive years of growth. The same pattern largely continued during 2005.

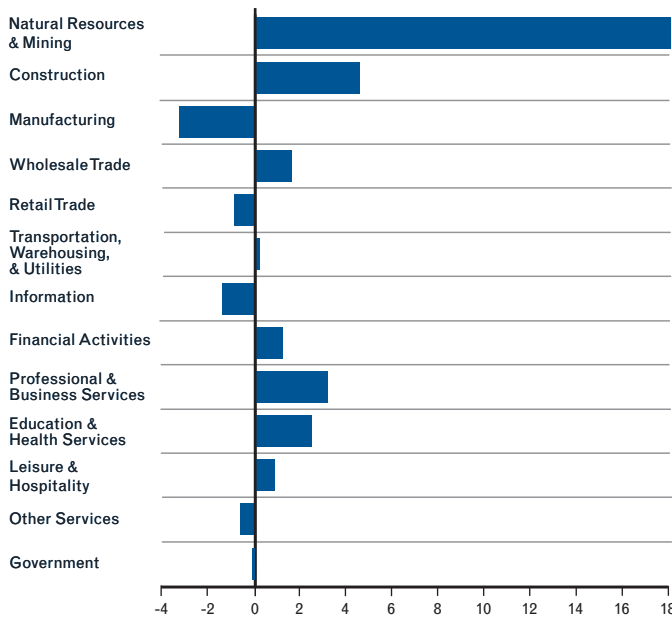
Among industries, employment trends followed recent patterns in 2005, on average, with the largest

Rhode Island in 2005 at a glance

- Rhode Island continued to grow in 2005, though less quickly than in the preceding few years.
- Personal income grew at about the national average rate, and more quickly than any other New England state.
- The ferocious pace of house price growth abated somewhat but remained strong.

Employment by Industry - Rhode Island

Percent Change, 2004 to 2005 (Annual Average)
(Not Seasonally Adjusted)



number of jobs added in education & health services — 2,300 jobs (2.5 percent) since 2004, and the largest relative gains in construction — 1,000 jobs added, for a 4.5 percent gain. The continued gains from construction followed the same pattern seen at both regional and national levels, while the percent gains in both education & health services and professional & business services (1,700 jobs added, a 3.2 percent gain) were second only to New Hampshire among the New England states, and above regional and national averages. The state continued to lose manufacturing jobs, as the long-term trend away from manufacturing continued. Rhode Island lost 1,900 such jobs in 2005, and this 3.3 percent decline was greater than in 2004, and the most severe among the New England states. Other industries adding jobs included wholesale trade (300 jobs), financial activities (400 net jobs added, despite job reductions including layoffs at Citizen’s Bank), and leisure & hospitality (400 jobs). Industries reducing employment besides manufacturing included information (200 jobs), retail trade (500 jobs) — a sector in which most New England states showed gains — and other services (200 jobs). The public sector also lost 500 jobs in 2005, a 0.7 percent decline; Rhode Island was

the only state in the region to lose government jobs.

Overall, the Rhode Island labor market remained largely unchanged from 2004. The unemployment rate increased slightly, from 5.0 percent in December 2004 to 5.1 percent in December 2005. This rate was the highest in New England and exceeded the national average. However, weekly claims for unemployment insurance fell 3.1 percent over the course of 2005, trailing the nation but ahead of the region. Manufacturing workers, on the other hand, saw their average weekly hours fall 1.9 percent, a steeper drop than that of the United States as a whole. Hourly wages grew only 0.7 percent, well below the inflation rate, so wage growth for manufacturing production workers was negative in real terms.

Despite the continuing difficulties faced by the manufacturing sector, statewide personal income grew 4.7 percent, identical to the national average and ahead of all the other New England states. Wages and salaries expanded a smaller amount (3.7 percent). Per capita income grew 5.7 percent, from \$34,207 to \$36,153 during 2005, as Rhode Island became the 13th wealthiest state in the nation (although only the fourth wealthiest in New England).

Rhode Island’s residential real estate market performed well but showed some evidence of cooling. The conventional mortgage home price index rose 11.0 percent during 2005, a rate lower than that of the United States, but above the regional average. Although this increase marked the sixth consecutive year of double-digit price appreciation, it was considerably lower than the gains seen in the past three years. Furthermore, existing-home sales dropped 0.5 percent, from 19,400 in December 2004 to 18,900 in December 2005. More housing continues to be brought on line, as the average number of housing permits grew 18.8 percent from 2004 to 2005. The value of residential construction contracts grew as well, but only 4.9 percent, well below the national average. In the Providence-Fall River-New Bedford NECTA, the median home price rose to \$294,400, among the highest levels in New England.

Total exports from the Ocean State declined in 2005, by 1.4 percent, and Rhode Island was one of the two New England states to see a drop. This decrease was driven by a large decline in computer & electronic products, the state’s largest exporting sector

in 2004. The value of exports from this sector plummeted by nearly one-third between 2004 and 2005, the largest sector-wide decline of any state in New England. The miscellaneous manufacturing sector, which accounted for the largest share of Rhode Island exports following the decline of computer & electronic products exports, grew only 2.0 percent. Exports from the third largest sector, waste & scrap, grew 2.6 percent. Exports to Canada, by far the largest destination of Rhode Island's goods, shrank 3.0 percent. The value of exports to Singapore and the United Kingdom also declined (47.8 percent and 5.9 percent respectively).

Throughout the 2000-2001 recession and post-recession period, Rhode Island's overall economy, as measured by the Philadelphia Fed's coincident economic index, performed well. The index never showed a decline, and continued to grow. The growth over the course of 2005, however, was only 1.5 percent, a much slower pace than in previous years. This index provides a good summary for the economic performance of Rhode Island in 2005, as growth was steady, but not as fast as in 2003 and 2004.

—Nelson Gerew

Vermont

During the year after Vermont surpassed its pre-recession employment levels, the state continued to add jobs and climb past its previous peak of 303,800 jobs. In December 2005, total nonagricultural payrolls in Vermont tallied 306,400 jobs.

However, just as in 2004, Vermont joined the rest of New England with employment growth considerably below the national average in 2005. The Green Mountain State realized a 0.7 percent increase in employment — a net gain of 2,100 jobs — as compared with a national growth rate of 1.5 percent and a regional rate of 0.6 percent.

Modest growth in business & professional services and education & health services led Vermont's continued job expansion; these sectors added over 1,900 jobs to Vermont's economy in 2005 and were the only employment sectors to enjoy more than a 2 percent gain over their 2004 average. Construction job growth significantly decelerated to 0.6 percent (100 jobs were added) after gaining over 8 percent in 2004, while gains of slightly over 1 percent in each of

Vermont in 2005 at a glance

- The relatively strong and broad-based employment growth seen in 2004 abated in 2005, with the strongest gains found in both business & professional services and education & health services.
- The Burlington-South Burlington metropolitan area continued to lag the state as a whole in its labor market performance.
- Growth in IBM's semiconductor business and a strengthening Canadian Loonie resulted in strong growth for Vermont's exports.

the government; transportation, warehousing & utilities; and retail trade sectors were offset by job losses in the other services sector, as well as losses in the information and wholesale trade sectors. Furthermore, Vermont was the only New England state to lose jobs in either the natural resources & mining or leisure & hospitality sectors.

On the manufacturing front, Vermont manufacturers shed only 100 jobs (0.3 percent), on net, over the course of 2005, despite experiencing a number of widely publicized mass layoffs. Specialty Filaments in Burlington, York Capacitor in Winooski, and Belden CDT Inc. of Essex Junction all turned off the lights to their plants in 2005, laying off close to 400 workers in the process.⁷ Nonetheless, Vermont's manufacturing sector saw less job loss on a percentage basis than the rest of New England and the nation at large.

While payroll employment in Vermont climbed slightly in 2005, more individuals also entered the labor force, helping to maintain the state's unemployment rate at 3.6 percent between December 2004 and December 2005. In response to several year-end layoffs, claims for unemployment insurance skyrocketed by close to 75 percent in December 2005 as compared to December 2004, but for the whole year applications were only up 8 percent.

The Burlington-South Burlington NECTA — Vermont's only metropolitan area as reported by the

U.S. Census — lagged the rest of the state in terms of employment indicators. Between December 2004 and December 2005, nonagricultural employment in this area fell by 2,000 jobs or 1.7 percent. In turn, unemployment rose over the same 12-month period, from 3.2 percent to 3.5 percent.

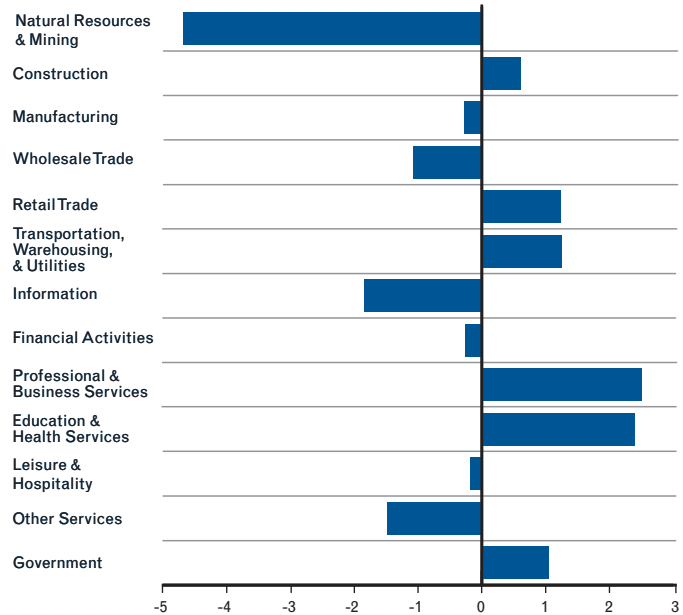
Even with the Burlington area’s relatively soft labor market, Vermont continued to experience strong gains in per capita income growth and annual wage and salary disbursements, posting increases on par with the rest of the nation and stronger than those for the New England region as a whole. For manufacturing workers, a rise in average hourly wage levels combined with a decline in average hours worked, resulting in no significant difference in average weekly earnings.

The nation’s booming housing market did not overlook Vermont in 2005. At a 13.7 percent rate of growth, Vermont’s conventional mortgage home price index rose faster than the New England and national averages between the fourth quarter of 2004 and the fourth quarter of 2005. For the year, the average value of Vermont’s residential construction contracts rose 8.3 percent, a faster rate than in any other New England state, by far. However, perhaps indicating underlying softness in Vermont’s housing market, the number of new housing permits fell by 15 percent across the state.

A red-hot semiconductor industry in combination with a prolonged strengthening of the Canadian Loonie (dollar) continued to improve the competitive position of Vermont’s exports. IBM, which can lay claim to close to three quarters of the total value of Vermont’s exports, reported a \$700 million increase in its exports, helping to bring Vermont’s total annual exports up 29 percent — or nearly \$1 billion — to \$4.24 billion in 2005. Moreover, Vermont’s exports to Canada grew by close to 40

Employment by Industry - Vermont

Percent Change, 2004 to 2005 (Annual Average)
(Not Seasonally Adjusted)



percent as Canada became the final destination for half of Vermont’s exports. Overall, Vermont’s exports grew close to the three times the national rate, and five times the rate in New England as a whole.⁸

Coming off of extremely robust economic growth in 2004, Vermont’s economic engines cooled somewhat in 2005, as the state’s growth became more unevenly scattered across certain sectors of the economy. This is most clearly reflected in a drop in the rate of growth in Vermont’s economic activity index — 1.9 percent between December 2004 and December 2005, compared with 3.4 percent a year earlier.

—Matthew Nagowski

Endnotes:

¹ *Business & Employment Changes Announced in the News Media*. March 2006. Connecticut Department of Labor.
² *ibid.*
³ Communication with Dana Evans, state labor economist at the Maine Department of Labor.
⁴ Murphy, Edward D. “Emerging economies promising for trade.” *Maine Today*. June 17, 2005.
⁵ McKeon, Albert. “Teradyne reduces workforce.” *The Telegraph*. November 20, 2005. “Terradyne Layoffs” *The Associated Press*. January 12, 2005. Spiller, Karen. “200 employees of Batesville Casket Co. in Nashua, N.H. to lose jobs” *The Telegraph*. May 10, 2005. “States urges laid off employees to apply for help.” *The Associated Press*. November 17, 2005.

⁶ Measured from December 2004 to December 2005 on a seasonally adjusted basis.
⁷ Wright, Leslie. “2005 Year in Review.” *The Burlington Free Press*. December 25, 2005.
⁸ McLean, Dan. “State exports up \$1 billion.” *The Burlington Free Press*. February 17, 2006.
⁹ Wright, Leslie. “2005 Year in Review.” *The Burlington Free Press*. December 25, 2005.
¹⁰ McLean, Dan. “State exports up \$1 billion.” *The Burlington Free Press*. February 17, 2006.