

Growing...but Slowing?

An Overview of New England's Economic Performance in 2006

By Tom DeCoff, Jessamyn Fleming, Nelson Gerew, Joanna Helou, Erin Langlois, and Matthew Nagowski

New England's economic performance was somewhat mixed during 2006. On one hand, all six states added jobs over the course of the year, and the region's unemployment rate remained steady. The region as a whole picked up jobs in nearly all major industries. Export values and income and wages also increased. On the other hand, much of the economic growth experienced by the region was slower than that seen in the nation as a whole. Although the unemployment rate did not go up for the region, the nation saw joblessness decrease. Moreover, real estate markets, though weak nationwide, were even weaker in the region.

- The region continued to add jobs across all states and most industries, but not as quickly as the nation as a whole.
- Although New England's joblessness remained stable during the year, the region's unemployment rate surpassed that of the nation for the first time since 1995.
- New England's real estate markets continued to show signs of weakening.

Employment

Over the course of 2006, New England added 62,000 jobs to its payrolls, for a growth rate of 0.9 percent. While this marked the region's best growth since 1999–2000, it has continued to lag the nation in creating jobs since 2000. Nevertheless, some 7 million jobs were recorded on the region's payrolls at the end of 2006, the most since August 2001.

Job creation occurred in nearly all of the region's industries. The fastest growing sector was

also the region's largest—education & health services, where more than 30,000 jobs were added between December 2005 and December 2006 (growth of 2.6 percent). The professional & business services sector was also a major contributor, adding more than 19,000 jobs (2.2 percent). The manufacturing sector continued its gradual descent, shedding roughly 15,000 jobs over the course of 2006. Despite job creation in most sectors of New England, growth in the region's industries lagged the growth seen in each of those industries across the nation as a whole.¹ The exception was retail trade, where job counts remained unchanged in the region but *declined* slightly in the nation over the course of the year.

Unemployment

Despite creating jobs over the course of 2006, New England's unemployment rate remained steady at 4.6 percent between December 2005 and December 2006. In the later months of the year, the national unemployment rate dipped below that of New England for the first time since 1995. Moreover, New England's reign as the Census Division² with the lowest or near-lowest rate of unemployment ended in 2006, as the eight other divisions and the nation as a whole saw joblessness decline over the course of the year. A brighter spot for the region was a 2.5 percent decline in average weekly unemployment insurance claims over 2005.

Income and Wages

Despite representing a \$32.6 billion raise over the course of 2006, the 5.4 percent growth in personal income for New Englanders was among the slowest rates of growth for the eight U.S. regions defined by the Bureau of Economic Analysis (only the Great Lakes region showed slower growth, and

Chart 1 - Nonagricultural Employment

Percent Change, December 2005 to December 2006

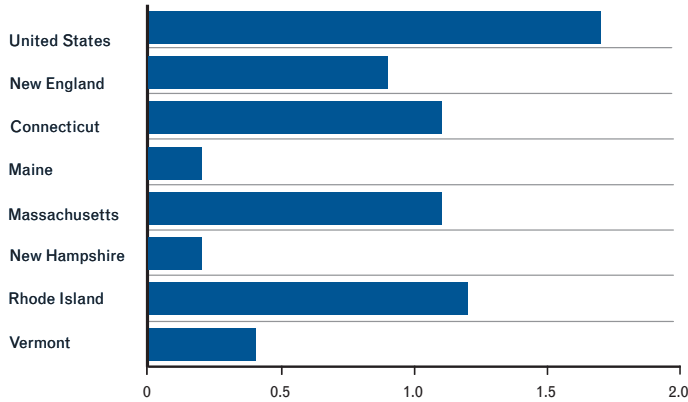
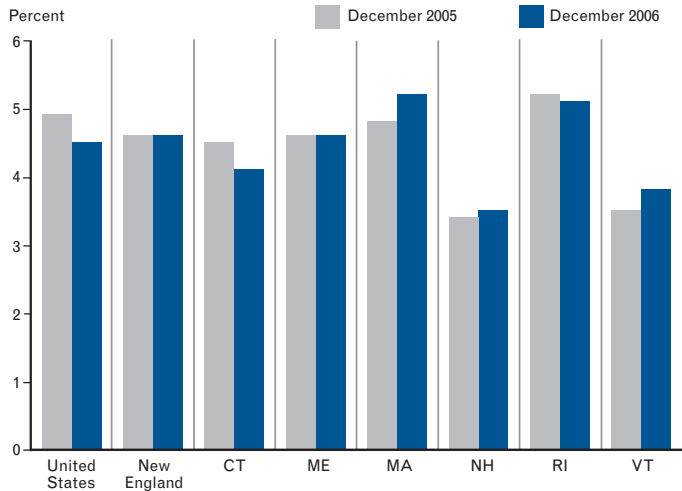


Chart 3 - Unemployment Rate



the Plains region was on par with New England at 5.4 percent). The nation as a whole saw personal income rise 5.8 percent. New England's 5.6 percent increase in wage and salary disbursements—the largest component of personal income—was fair compared with the increases in other regions. Despite relatively weak gains in income, New England continued to lead all regions in per capita income, which climbed to \$43,852 in 2006, more than \$7,500 over the national level. Three New England states continued to record the highest per capita incomes among the 50 states: Connecticut led all states, and Massachusetts and New Hampshire were among the top 10.

Chart 2 - Employment by Industry

Percent Change, 2005 to 2006 (Annual Average)
(Not Seasonally Adjusted)

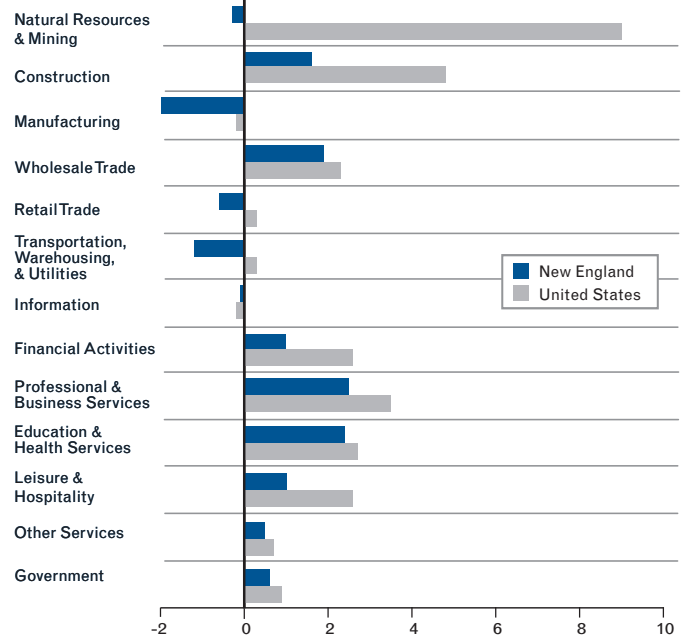
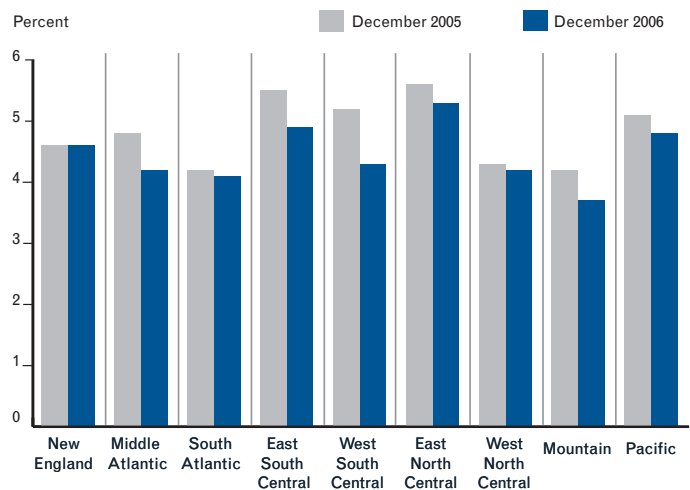


Chart 4 - Unemployment Rate, by Census Division



Consumer Prices

After two years of relatively low consumer price inflation, New England consumers saw prices rise slightly faster than the nation overall. For the 12 months ending in November 2006, regional prices were up 2.1 percent, compared with a national increase of 2.0 percent. After whopping double-digit increases in the past, prices of fuels and utilities climbed by a tamer 4.7 percent in the

More jobs but higher unemployment?

Payroll employment and unemployment are often assumed to have an inverse relationship. That is, an increase in the number of jobs is often assumed to signify a reduction in the unemployment. This is not always true.

Payroll employment figures are derived from surveys that count the number of jobs on establishment payrolls. As a result, payroll employment is the number of jobs, not the number of people with jobs. The unemployment rate is the percentage of the individuals in the labor force who are unemployed and is based on surveys of households, not establishments. Thus, the unemployment rate is a representation of the number of people without jobs. Because of these fundamental differences in measurement, payroll employment and unemployment can manifest an inverse, positive, or no relationship.

In 2006, labor markets in New England and some of its states exhibited this difference. Maine and the region as a whole each added jobs over the

course of the year but saw no reduction in its unemployment rate. Even more interestingly, as Massachusetts, New Hampshire, and Vermont each saw increases in payroll employment, its unemployment rate rose. There can be one or more explanations for these seemingly paradoxical occurrences:

- Individuals with more than one job are counted once in the labor force but more than once in payroll employment.
- Self-employed and unemployed individuals are counted in the labor force but not in payroll employment.
- Interstate commuters are counted in the workplace state's payroll employment but in the residence state's labor force. In fact, Maine's Department of Labor surmised that the disparity there was explained by growth in telecommuting or workers commuting to out-of-state employment locales.

region and actually fell 2.1 percent nationally. Prices associated with transportation also fell, but more in the region (2.3 percent) than in the nation (1.0 percent).

Residential Real Estate

New England's real estate markets were weak in 2006. After showing double-digit escalation in six of the past seven years, home prices, measured by the conventional mortgage home price index, were up just 2.2 percent between the fourth quarters of 2005 and 2006. This performance was outpaced by the national increase of 6.3 percent, and was the worst among all regions. It was also New England's own worst performance since 1996.

Median home prices generally fell across New England metropolitan areas during 2006. Although the national median price also dropped, home prices in 10 of New England's 11 metro areas for

which data are reported exceeded the national median at the end of 2006. The average value of construction contracts (residential, nonresidential, and non-building) was down more than 8 percent for the region, while the nation as a whole posted a slight upward bump of 1.4 percent.

Demand for new housing in 2006 weakened in both the region and the nation. The average number of housing permits issued in New England tumbled by 15.4 percent to its lowest level since 2002, slightly below the 14.8 decline seen nationally. Every New England state sustained a double-digit decline except Vermont, where permits fell only 1.5 percent.

Merchandise Exports

Between 2005 and 2006, the value of exports rose for all New England states except Vermont. Exports from the region as a whole jumped 11.8 percent

Chart 5 - Per Capita Income

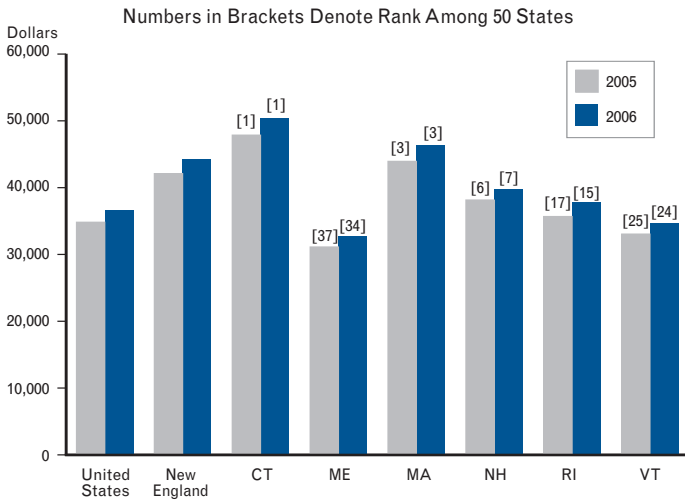


Chart 6 - Consumer Price Index

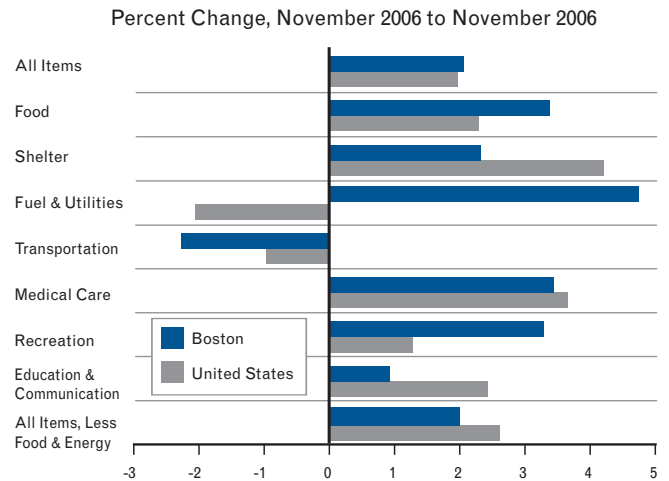


Chart 7 - Total Housing Permits

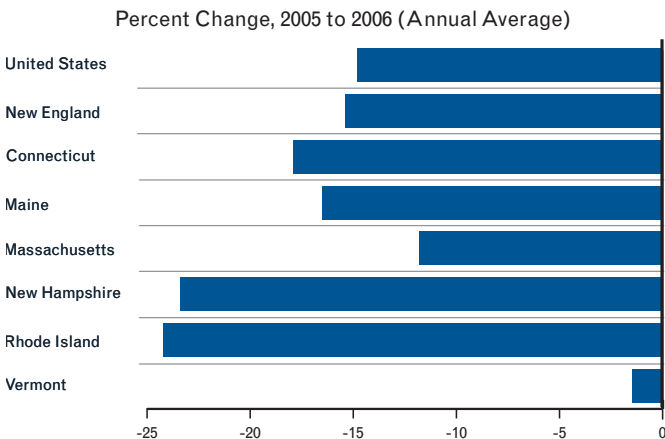


Chart 8 - Merchandise Exports

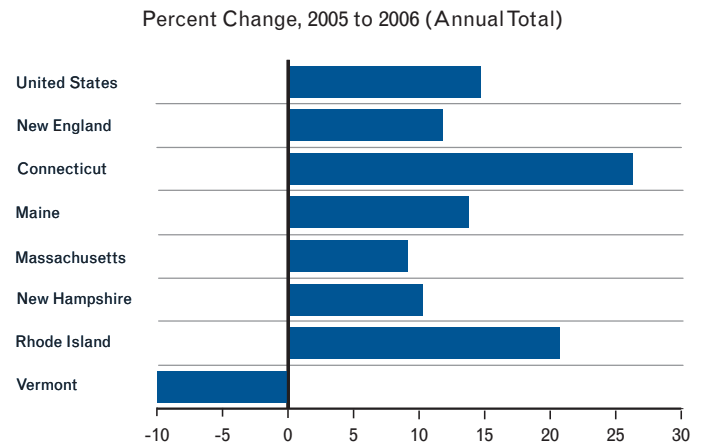
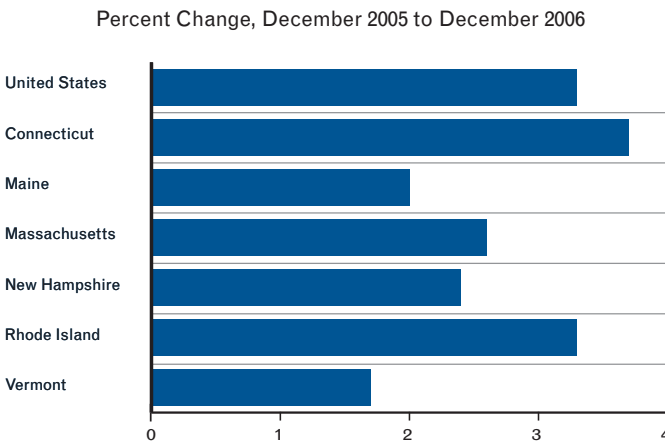


Chart 9 - Economic Activity Index



and exceeded \$47 billion. Once again, the nation outperformed the region, with exports surging nearly 15 percent. Exports to major destinations generally increased at double digit-rates of growth. Destinations attracting booming growth in exports from the region included China (up nearly 33 percent) and Germany and Japan (up roughly 25 percent). The region's major exporting industries also generally fared well in 2006, led by transportation equipment (up by nearly one-third). Exports of machinery, fabricated metals, paper, and plastics & rubber products from the region grew at double-digit rates. The only major industry to experience a decline in exports was miscellaneous manufacturing products, which slipped by nearly 4 percent.

Overall Economic Activity

The economies of all six New England states showed improvements over the course of 2006, according to the economic activity index. Two states, Connecticut and Rhode Island, performed as well as or better than the nation as a whole, with increases of 3.6 percent and 3.4 percent, respectively. Three New England states placed in the bottom quartile in terms of improvement.

—Tom DeCoff

Connecticut

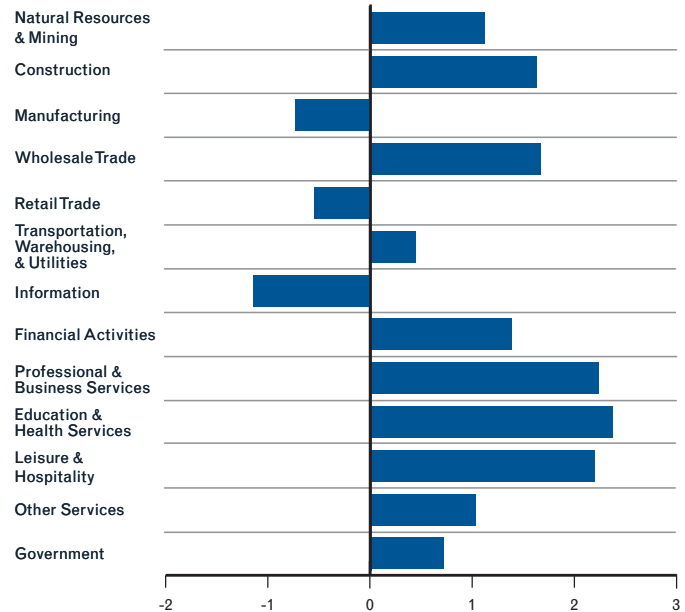
- Connecticut's steady employment growth in 2006 was accompanied by modest income growth and a significant decline in the unemployment rate.
- The state's housing market took a hit, with housing permits and sales and the median price of existing homes all falling.
- Exports rose dramatically, especially those of transportation equipment, machinery, and computer & electronic products.

Growth continued at a slow but steady pace for Connecticut in 2006. Total nonagricultural employment expanded by roughly 17,600 jobs from December 2005 to December 2006, still leaving the state with nearly 15,000 fewer jobs than its July 2000 pre-recession peak. This 1.1 percent growth rate, while higher than that of the previous year and among the highest in New England, was well below the national average. Among Connecticut's metropolitan areas, growth was the most pronounced in Bridgeport-Stamford-Norwalk and Waterbury, at 1.4 percent and 1.5 percent, respectively. Only Norwich-New London experienced a decline in employment, losing 300 jobs or 0.2 percent.

The education & health services industry continued to lead statewide employment growth, adding 7,400 jobs, or 2.7 percent, in 2006. Other industries experiencing significant employment gains included professional & business services (4,100 jobs, or 2.0 percent), leisure & hospitality (2,800 jobs, or 2.1 percent), and construction (1,600

Employment by Industry - Connecticut

Percent Change, 2005 to 2006 (Annual Average)
(Not Seasonally Adjusted)



jobs, or 2.5 percent). Job losses continued in the manufacturing sector, though Connecticut's 0.5 percent decline in manufacturing employment was comparable to the national average and the smallest decline among all New England states. Employment also fell in the retail trade sector, by 0.3 percent (a loss of 600 jobs), a rate only slightly higher than the national rate of decline (0.2 percent).

Growth in payroll employment was accompanied by an increase in the state's labor force, which added 24,600 participants between December 2005 and December 2006. Connecticut was also the only New England state with a noticeable decline in its unemployment rate, which fell from 4.5 percent in December 2005 to 4.1 percent in December 2006 (see sidebar on page 4). Unemployment rates fell in all of the state's metropolitan areas, and average weekly unemployment insurance claims fell by 2.4 percent over the 2005 level.

Connecticut continued to lead the nation in per capita income, which increased to \$49,852 in 2006. Total personal income rose by 4.6 percent between the fourth quarters of 2005 and 2006, among the smallest gain of the New England states. Similarly, Connecticut's 4.4 percent increase in wage and salary disbursements was the second

smallest gain among the New England states (tied with Vermont) and trailed the national increase. Despite continued job losses, average hourly earnings for manufacturing workers rose to \$19.78 in 2006, a 4.3 percent increase over 2005.

By contrast, Connecticut's housing market weakened dramatically in 2006. Existing-home sales fell by 14.5 percent from Q4 2005 to Q4 2006, and the number of housing permits issued between 2005 and 2006 fell by 17.9 percent. While the conventional mortgage home price index did increase by 3.8 percent between Q4 2005 and Q4 2006, median sales prices of existing homes fell in all four metropolitan areas for which data are reported in Connecticut. The total value of construction contracts in the state climbed by 23.8 percent in 2006—the only growth seen among the New England states—but the value of residential construction contracts slipped 7.6 percent from 2005 to 2006, a milder rate of decline than seen in most New England states.

Exports hit record levels in the Constitution State in 2006, with total values rising by an impressive 26.3 percent. Exports of transportation equipment grew by 35.7 percent, while shipments of machinery and computer & electronic products grew by 23.0 percent and 21.7 percent, respectively. Canada, France, and Germany remained the state's three largest export destinations. Exports to Germany in 2006 soared 45.7 percent over 2005 values, while the value of exports to France declined 24.2 percent.

Housing market declines notwithstanding, Connecticut witnessed significant economic gains in 2006. According to the Federal Reserve Bank of Philadelphia's economic activity index, economic performance improved by 3.6 percent over the course of the year. This growth rate exceeded the national average and was higher than that of every state in New England.

—*Jessamyn Fleming*

Maine

- Despite a faltering housing market and tepid payroll job growth, Maine's economy regained momentum after struggling last year.

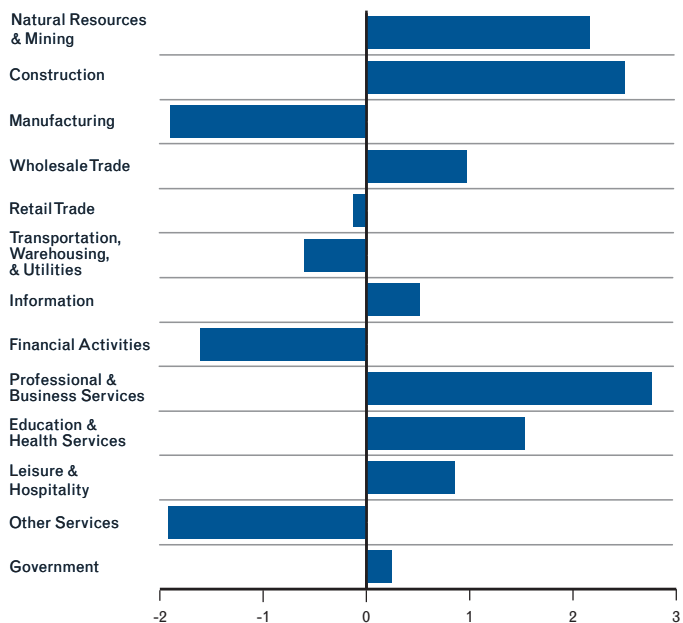
- Strong job growth in southern Maine was offset by losses in the Bangor area.
- Exports, led by semiconductors, surged to an all-time high after falling last year.

The performance of Maine's labor market was uneven in 2006. Some industries and regions performed well while other lagged. On net, Maine's labor market remained largely stagnant over the year. Payrolls gained 1,400 jobs in 2006, for a meager gain of 0.2 percent. In doing so, the northernmost New England state joined its neighbors, Vermont and New Hampshire, in experiencing more tepid job growth than both the southern New England states and the nation.

Education & health services led the state with a gain of 1,600 jobs (1.4 percent), followed by increases of 600 jobs (1.2 percent) in professional & business services, 500 jobs (1.6 percent) in the construction trades, 400 jobs (0.4 percent) in government, and 300 jobs (0.5 percent) in the leisure & hospitality sector. Only in the construction supersector did Maine outperform the region as a whole (1.6 percent growth compared with 0.5 percent). Nevertheless, Maine lagged the nation in job growth

Employment by Industry - Maine

Percent Change, 2005 to 2006 (Annual Average)
(Not Seasonally Adjusted)



in all major sectors. And the Pine Tree State was not without job losses in certain sectors, highlighted by the loss of 1,300 manufacturing jobs (2.1 percent). Other sectors with considerable job loss included other services (700 jobs or 3.5 percent) and financial activities (500 jobs or 1.5 percent).

Maine's unemployment rate remained constant at 4.6 percent from December 2005 to December 2006. Average weekly unemployment claims were 0.9 percent lower in 2006 than in 2005.

The Lewiston-Auburn and Portland-South Portland-Biddeford NECTAs³ both continued to increase employment levels over 2006, with gains of 200 and 1,400 jobs, respectively. The Bangor NECTA was the state's major loser, shedding 1,500 jobs. The area was hit by the loss of 400 jobs with the closing of Georgia-Pacific's Old Town paper mill in the spring of 2006, which sent ripple shocks throughout the Bangor economy. The mill has since been purchased by a group of private investors interested in its electrical generation capacity, but only 50 jobs have since been resurrected.⁴

While Maine was not creating many new employment opportunities, Mainers did experience a 4.7 percent increase in total personal income between the fourth quarters of 2005 and 2006, in conjunction with a 3.9 percent increase in wage and salary disbursements. Mainers also experienced a healthy 5.0 percent increase in per capita personal income, which averaged \$32,348 in 2006. At this level, Maine ranked 34th among the 50 states, moving up three notches since 2005 but remaining well below its regional neighbors to the south.

Income gains for manufacturing workers in Maine were marked by an increase in both the average number of hours worked (up 1.8 hours a week) and average hourly wages (up \$1.29 an hour), the largest increase among the New England states.

Like the rest of the nation, Maine's housing sector displayed signs of weakness in 2006. While Maine's conventional mortgage home price index gained roughly 5 percent between Q4 2005 and Q4 2006, existing home sales decreased by 8.8 percent and new housing permits dropped by 16.5 percent. In the Portland-South Portland-Biddeford area, the median sales price of existing homes inched down-

ward, though significantly less than the relative decrease experienced across the country. Overall, the total value of construction contracts in Maine slipped by 4.9 percent, the smallest decline among the New England states, excluding the increase in contract values in Connecticut.

After a 5 percent decline between 2004 and 2005, Maine's exports surged to a record high in 2006. The total value of electronic products, wood & paper products, seafood, and other goods exported rose 13.8 percent to \$2.6 billion. With shipments valued at \$805 million (up by more than 20 percent since 2005), the semiconductor industry, based in South Portland, continued to be Maine's most important exporting industry. Canada remained Maine's top destination, accounting for more than one third of the state's exports. Maine's other top destinations were mostly in Asia, which no doubt received a large portion of Maine's electronic products.⁵

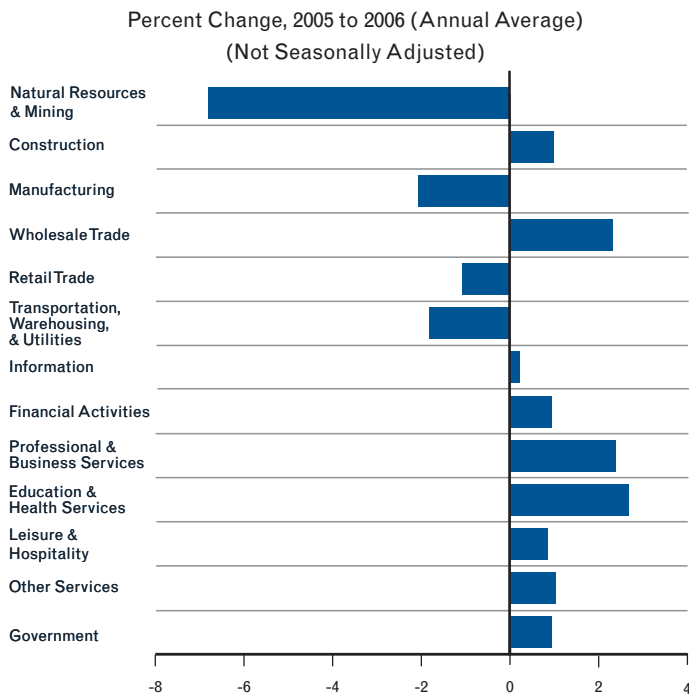
Despite a shaky housing market and Bangor's faltering labor market, Maine's economy regained momentum in 2006 after struggling in 2005. Buoyed by strong income growth, job increases in the southern half of the state, and the strength of exports, Maine's economic activity index increased by 2.0 percent between December 2005 and December 2006—the state's strongest growth in three years. This was also a vast improvement from December 2005, when Maine and Louisiana were originally reported as the only two states to show a decline in economic activity (subsequent data revisions reveal that Maine's coincident economic activity index actually rose by 0.2 percent).

—Matthew Nagowski

Massachusetts

- Massachusetts recorded its strongest employment growth since 2000, but still trailed the region and the nation overall.
- Job creation was heavily concentrated in the education & health and professional & business services sectors.
- The residential housing market softened considerably during 2006, but employment, income,

Employment by Industry - Massachusetts



and growth in overall economic activity remained solid.

The Bay State ended 2006 with relatively strong growth in employment. Massachusetts gained 34,700 jobs from December 2005 through December 2006, an increase of 1.1 percent. While this growth trailed the growth in U.S. employment and remained considerably below the growth Massachusetts saw in the late 1990s, it still was the state's most rapid gain since 2000. It was, however, heavily concentrated in two industries: education & health services and professional & business services. Education & health services added 17,700 jobs over the course of 2006, for a gain of 3.0 percent, outpacing the other New England states and the nation's 2.8 percent growth. Professional & business services added 10,300 jobs (2.2 percent). Other industries experiencing employment gains included leisure & hospitality (0.5 percent), financial activities (0.4 percent), other services (0.9 percent), and government (1.4 percent). Significantly, information also added jobs for the first time since 2000, increasing employment by 0.9 percent. Among industries losing jobs, the most severe declines were once again in manufacturing,

down 1.8 percent, and construction, down 1.1 percent. The decline in manufacturing was less than in recent years, but job losses in construction were the state's first since 2003.

Between December 2005 and December 2006, employment rose, albeit by varying degrees, in all Massachusetts NECTAs, except Barnstable Town. Three NECTAs—Pittsfield, Leominster-Fitchburg-Gardner, and Worcester—experienced their greatest job growth in years (3.3 percent, 0.4 percent and 1.7 percent, respectively). Boston-Cambridge-Quincy employment increased 1.1 percent in 2006, slightly up from the 1.0 percent year-over-year gain seen in December 2005.

Despite growth in payroll employment, Massachusetts's unemployment rate increased, from 4.8 percent in December 2005 to 5.2 percent in December 2006, reaching the highest level among New England states and exceeding the national rate. Average weekly claims for unemployment in 2006 were down 3.5 percent from 2005, the largest decrease in New England. Massachusetts was also the only New England state to experience a decline in the average weekly hours of manufacturing production workers, which dropped by 1.9 percent. Average hourly earnings were up by 3.4 percent, again, slower than all but one New England state (Rhode Island).

Despite weakness in the manufacturing sector, the Bay State experienced relatively strong growth in personal income in 2006. Year-over-year personal income grew 5.7 percent in the fourth quarter of 2006, the fastest rate of growth among the New England states but lagging the growth in national income. Growth in wage and salary disbursements was even stronger, growing by 6.0 percent, slightly trailing the nation but leading all New England states except New Hampshire. Per capita income, by contrast, grew more quickly in 2006, up 5.5 percent to \$45,877, the third-highest level in the nation.

The real estate slowdown was the Commonwealth's biggest economic story in 2006. The conventional mortgage home price index for Massachusetts increased by only 0.2 percent between the fourth quarters of 2005 and 2006, among the lowest increases of any state and well behind all other New

England states and the nation. From 2004 to 2005, the index increased by 7.8 percent. Before 2004, the Bay State had seen six years of double-digit house price appreciation. This softening in the housing sector was also seen in the declines in the median sales prices of existing homes seen in Boston-Cambridge-Quincy (\$9,500), Barnstable Town (\$31,700), and Worcester (\$14,800). Only the western metro areas of Springfield and Pittsfield saw median home prices appreciate.

The weakness of the housing sector in Massachusetts was also visible in other indicators. Existing-home sales in Massachusetts tumbled by 17.5 percent from the fourth quarter of 2005 to the fourth quarter of 2006. Between 2005 and 2006, the number of housing permits issued in Massachusetts slipped by 11.8 percent, albeit a less severe decline than in either the region or nation. The average value of total construction contracts also plummeted in 2006 (20.0 percent), the second steepest drop in the region. By contrast, the nation posted a slight increase.

The value of the Commonwealth's exports increased by 9.1 percent in 2006, below the New England and U.S. averages. Exports of computer & electronic products, the largest exporting sector by value, grew by 7.4 percent, while exports of chemicals fell by 1.8 percent and exports of machinery grew by 18.1 percent. Massachusetts's exports to the Netherlands, the largest destination in 2005, declined by 10.1 percent during 2006, while exports to Canada increased by 7.9 percent and exports to Germany increased by 16.9 percent.

The Philadelphia Fed's economic activity index, a measure of overall economic performance, rose 2.9 percent in Massachusetts between December 2005 and December 2006. This increase, which was the third-highest among the New England states, was below the national rate of growth. Despite the softening in the housing sector, Massachusetts experienced solid, if unspectacular, economic growth in 2006.

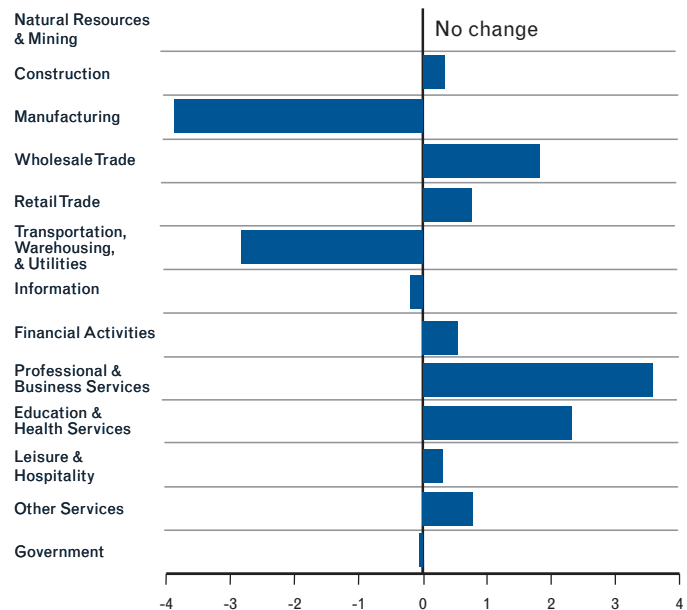
—*Nelson Gerew*

New Hampshire

- Exports continued to grow in value and reached an all-time high of \$2.8 billion.

Employment by Industry - New Hampshire

Percent Change, 2005 to 2006 (Annual Average)
(Not Seasonally Adjusted)



- The state's unemployment rate remained stable at 3.5 percent, well below the national average and the lowest among the New England states.
- New Hampshire experienced a slowing housing market, with large declines in housing permits and construction contract values.

Despite a record storm in October and spring floods that slowed the start of the tourist season and delayed construction projects, New Hampshire's economy continued to recover from the 2001 recession. However, indicators suggested a slowing rate of growth.⁶ In 2006, New Hampshire saw a modest, 0.2 percent gain in total nonagricultural employment, adding 1,400 jobs but lagging job growth seen in the nation and in nearly all other New England states. Among industries, manufacturing had the most severe job loss in the region, and continued to shed jobs at an even faster rate than in 2004 with a 5.6 percent drop (4,500 jobs). Lay-offs in the manufacturing sector included 250 jobs from the closing of the Fraser Papers pulp mill (Berlin's largest employer) and 100 jobs from the closing of the Groveton Paper

Board Plant in March 2006. The construction industry also saw a 2.0 percent decline in the number of jobs (600 jobs), due to a slumping housing market. However, the retail trade, professional & business services, and education & health services sectors all added jobs.

While the Granite State's unemployment rate rose slightly, from 3.4 percent in December 2005 to 3.5 percent in December 2006, joblessness remained below the national rate of 4.5 percent and was the lowest in the region. Average weekly initial unemployment claims rose by a slight 0.9 percent between 2005 and 2006, the only increase among the New England states. Despite the loss of jobs in their sector, manufacturing workers saw their average hourly earnings rise 4.4 percent between 2005 and 2006.

Personal income in New Hampshire rose by 6.9 percent between the fourth quarters of 2005 and 2006, outpacing the growth seen regionally or nationally. The increase in wages and salaries was also greater in New Hampshire (9.5 percent) than in the region or nation. In 2006, per capita income rose by 4.1 percent, to \$39,311, dropping New Hampshire's rank from sixth to seventh among the 50 states.

Like other states in the region, the Granite State's residential real estate market weakened markedly. The conventional mortgage home price index rose 2.1 percent during 2006, slightly slower than the region's rate and one-third of the national pace. Housing permits also declined 23.4 percent between 2005 and 2006 (149,000 permits), the second steepest decline in the region after Rhode Island. Meanwhile, the value of construction contracts declined more than 17 percent over the same period.

New Hampshire experienced its best export year on record, with total exports increasing by 10.3 percent to a total of \$2.8 billion. Remarkably, exports of manufactured goods accounted for 84 percent of all sales abroad in December.⁷ As in 2005, export growth was led by machinery and electrical equipment industries, with gains of 13.7 percent and 7.7 percent, respectively. New Hampshire showed a decline in exports of computer products (8.7 percent). Canada and the United

Kingdom continued to be among the state's top three destinations. The Netherlands replaced Japan as the second-largest receiver of goods, with total exports valued at \$48 billion.

New Hampshire's economic activity index showed a 2.3 percent improvement in 2006, compared with a 3.2 increase over 2005. As such, the Granite State outpaced only Vermont and Maine in New England, and was outperformed by the nation.

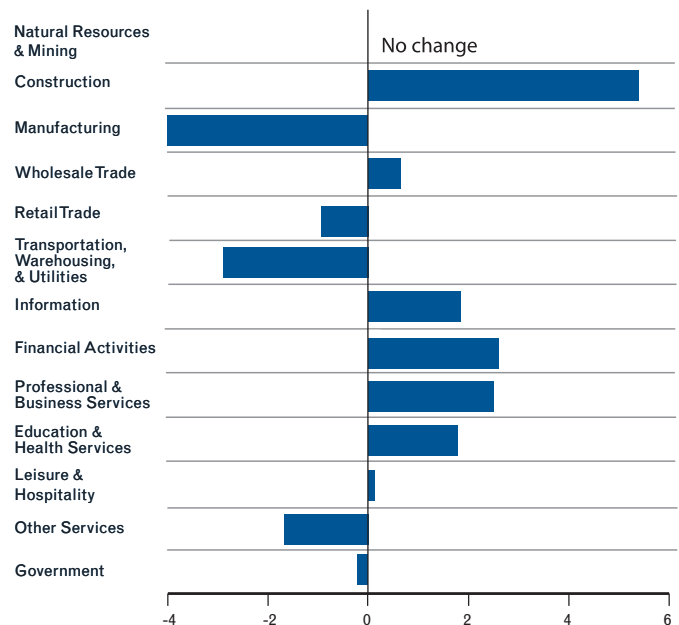
—Joanna Helou

Rhode Island

- Education & health services was the main contributor to job growth in 2006, adding 2,300 jobs between December 2005 and December 2006.
- Manufacturing workers in Rhode Island continued to have the shortest work weeks in the region, though average weekly hours increased slightly over 2005.
- Rhode Island saw its exports increase by a greater percentage than most New England states and was the only state with increases to its top three destinations.

Employment by Industry - Rhode Island

Percent Change, 2005 to 2006 (Annual Average)
(Not Seasonally Adjusted)



Over the course of 2006, Rhode Island created 5,700 jobs, a 1.2 percent increase. Although this was the state's highest percent increase in five years and the largest relative increase among the New England states, Rhode Island's growth lagged that of the nation.

Construction, financial activities, and professional & business services were Rhode Island's fastest growing industries in terms of job growth between December 2005 and December 2006, showing increases of 6.8 percent, 5.5 percent and 3.6 percent, respectively. Combined, this translated into a gain of 5,400 jobs. Growth in these sectors was also more robust in Rhode Island than in the rest of the region. In terms of the number of additional jobs, education & health services was the main contributor, adding 2,300 jobs over the course of 2006. Expansions in this industry included Lifespan (10,935 employees) and Care New England (6,611 employees), which are the state's second- and fourth-largest employers, respectively.⁸ Sectors that lost workers over the year included manufacturing (3.7 percent), retail trade (0.4 percent), and government (0.2 percent).

In recent years, Rhode Island has carried the highest unemployment rate among the New England states. The state had the highest rate in December 2004 (5.1 percent) and in December 2005 (5.2 percent). Although unemployment in Rhode Island dipped slightly, to 5.1 percent at the end of 2006, Massachusetts was the only New England state to end the year with a higher rate (5.2 percent).

Manufacturing workers in Rhode Island had the shortest average hourly work week in the region in 2006 (38.9 hours), though hours increased slightly from the 38.4 hours reported in 2005. Among the New England states, the lowest average hourly earnings in both 2005 and 2006, as well as the smallest net year-over-year increase, occurred in Rhode Island.

Growth in total personal income and wage and salary disbursements was also rather strong for Rhode Island compared with the region. Ocean State residents saw income rise by 5.8 percent between the fourth quarters of 2005 and 2006—on par with the national increase but exceeding

the growth seen in the other New England states except New Hampshire. Conversely, the 5.6 percent growth in Rhode Islanders' wages and salary disbursements was on par with New England as a whole but lagged the nation.

Per capita income increased to \$37,388 in 2006. This 5.8 percent increase allowed Rhode Island to reclaim its 15th place rank among the 50 states, after falling to 17th in 2005. Within New England, Rhode Island continued to rank behind Connecticut, Massachusetts and New Hampshire.

Existing-home sales fell by 18.4 percent over the four quarters ending in Q4 2006 in Rhode Island. The median price of an existing home in the Providence-Fall River-New Bedford metro area decreased by \$3,100 over the same period. Statewide, housing permits dropped by nearly one-quarter between 2005 and 2006, showing a steeper decline than in the region or in the nation as a whole. The average value of construction contracts in Rhode Island also plummeted by nearly one-fourth between 2005 and 2006.

The value of exports from Rhode Island increased at a faster rate than in any other New England state, except Connecticut. The Ocean State was the only state in the region to see exports to its top three destinations (Canada, Mexico and the United Kingdom) grow since 2005.

According to the economic activity index, Rhode Island experienced relatively robust economic growth over the course of 2006 compared with its New England neighbors. The 3.4 percent growth in the index for Rhode Island outpaced the growth seen in the nation and the other states in the region except Connecticut.

—Erin Langlois

Vermont

- Declining semiconductor exports to Canada prompted a 10 percent decline in Vermont's exports.
- For the first time in three years, the unemployment rate increased over the course of the year.
- Vermont's housing sector remained strong relative to its regional and national counterparts.

After slowing last year, Vermont's economy continued to decelerate in 2006. In many respects, the Green Mountain state's economic performance was inconsistent and mixed, with brighter spots such as the housing market marred by falling exports and a softer labor market.

Vermont added 1,200 jobs to payrolls over the course of 2006. Though its 0.4 percent increase bested gains in New Hampshire and Maine, Vermont's job growth paled in comparison to the region's (0.9 percent) and the nation's (1.7 percent). Overall, total nonagricultural employment in Vermont stood at 308,400 jobs at the end of 2006, modestly above the pre-recession peak of 303,700 jobs in January 2001.

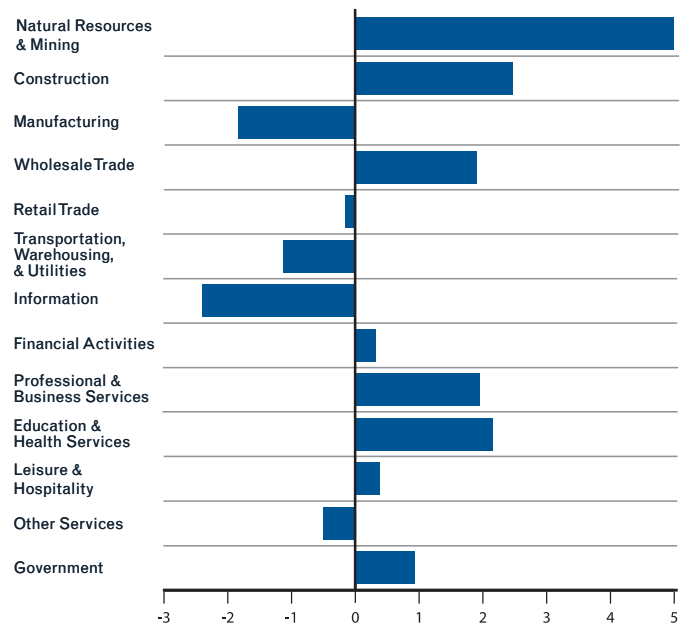
Green Mountain State job growth was generally limited to white-collar industries during 2006. Education & health services led the way, adding 1,200 jobs (2.2 percent). Other sectors to gain jobs included government and professional & business services, which each created 300 jobs (0.6 percent and 1.4 percent growth, respectively). Retail trade, other services, and financial activities all posted negligible job gains.

Gains in these sectors were offset by losses in the construction, manufacturing, and leisure & hospitality sectors. While construction and leisure & hospitality each shed 0.6 percent of their jobs, manufacturing employment declined by 2.2 percent, a loss of 800 jobs. Job loss in manufacturing was only 0.3 percent in 2005.

More than 5,000 workers entered Vermont's labor force during 2006, for a total of 363,600. This rise outpaced the growth in the number of people with jobs. As a result, Vermont's unemployment rate crept up to 3.8 percent in December 2006, the state's highest rate since April 2004. Even so, the average number of weekly unemployment insurance claims declined from 2005, averaging 836, or 3.4 percent fewer claims per week (among the largest drops seen in the New England states). The labor market in Vermont's major metropolitan area, the Burlington-South Burlington NECTA, remained largely unchanged over 2006, as the unemployment rate began and ended the year at 3.2 percent.

Employment by Industry - Vermont

Percent Change, 2005 to 2006 (Annual Average)
(Not Seasonally Adjusted)



Growth in Vermonters' wages and income in 2006 was weak relative to the region as a whole. Among all the New England states, Vermont showed the smallest growth in total personal income between Q4 2005 and Q4 2006 (4.2 percent). In turn, per capita income growth also lagged the rate of growth in the region.

Vermont's housing market remained largely inoculated from the nation's housing slowdown in 2006. Home price increases (measured by the conventional mortgage home price index) bested regional and national averages. Moreover, between 2005 and 2006, the number of new housing permits issued in the state declined only 1.5 percent, a markedly smaller drop than experienced elsewhere in the region and nation. Indeed, the only sign of weakness in Vermont's housing sector was a steep 18.1 percent decline in the value of total construction contracts throughout the year.

After a banner year in 2005, state exports softened considerably in 2006. The total value of Vermont goods shipped to international destinations declined by 10 percent, to \$3.8 billion, leaving Vermont as the only New England state to experience a decline in its exports for the year. Canada demanded 20.8 percent less goods from

Vermont in 2006 than in 2005, a considerable decline given that Canada was the destination of \$1.7 billion in Vermont-made goods, or close to half of the state's 2006 exports.

Vermont's exports of computer & electronic products to Canada dropped precipitously, from \$1.7 billion in 2005 to \$1.2 billion in 2006, a decline of 29.4 percent. As of 2006, Vermont was the source of 4.8 percent of Canadian imports of U.S. computer and electronic products, a considerable amount given Vermont's relative size in the U.S. economy.⁹

Despite modest growth among white-collar "knowledge jobs" and a relatively stable housing market, Vermont's economy underperformed compared to past years. Indeed, based on the Federal Reserve Bank of Philadelphia's economic activity index, Vermont showed the slowest rate of growth among the New England states (1.7 percent) and the third-slowest economic growth among the 50 states over the course of 2006. Only Wisconsin showed a slower rate of growth, while Michigan's level of economic activity actually declined.

—Matthew Nagowski

Endnotes:

¹ In the case of manufacturing, the national decline was less severe than the region's.

² The U.S. Census groups the 50 U.S. states into nine *divisions*, which are New England, Middle Atlantic, South Atlantic, East South Central, West South Central, East North Central, West North Central, Mountain, and Pacific. The Bureau of Economic Analysis groups the 50 states into eight *regions*, which include New England, Mideast, Great Lakes, Plains, Southeast, Southwest, Rocky Mountain, and Far West.

³ The Bureau of Labor Statistics reports data for 21 New England City and Town Areas (NECTAs).

⁴ "A year late, Old Town seeks diversity." *Bangor Daily News*. March 16, 2007.

⁵ "State's 2006 exports set record; Shipments abroad were up 13.7 percent over 2005, with Asian nations playing a growing role as buyers." *Portland Press Herald*. March 9, 2007.

⁶ Bartlett, Peter. "Annual preview: Has N.H. economy weathered the storm?" *New Hampshire Business Review*. December 22, 2006.

⁷ Simos, Evangelos. "2006 the best year ever for N.H.'s exporters." *New Hampshire Business Review*. March 2, 2007.

⁸ Rhode Island Economic Development Corporation, *Top 100 Employers in Rhode Island*. December 2006.

⁹ TradeStats Express, Office of Trade and Industry Information (OTII), U.S. Department of Commerce. <http://tse.export.gov>.