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Kicking into a Higher Gear

Economic Update to
NEW HAMPSHIRE GOVERNMENT FINANCE
OFFICERS ASSOCIATION

Friday, May 8, 2015

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

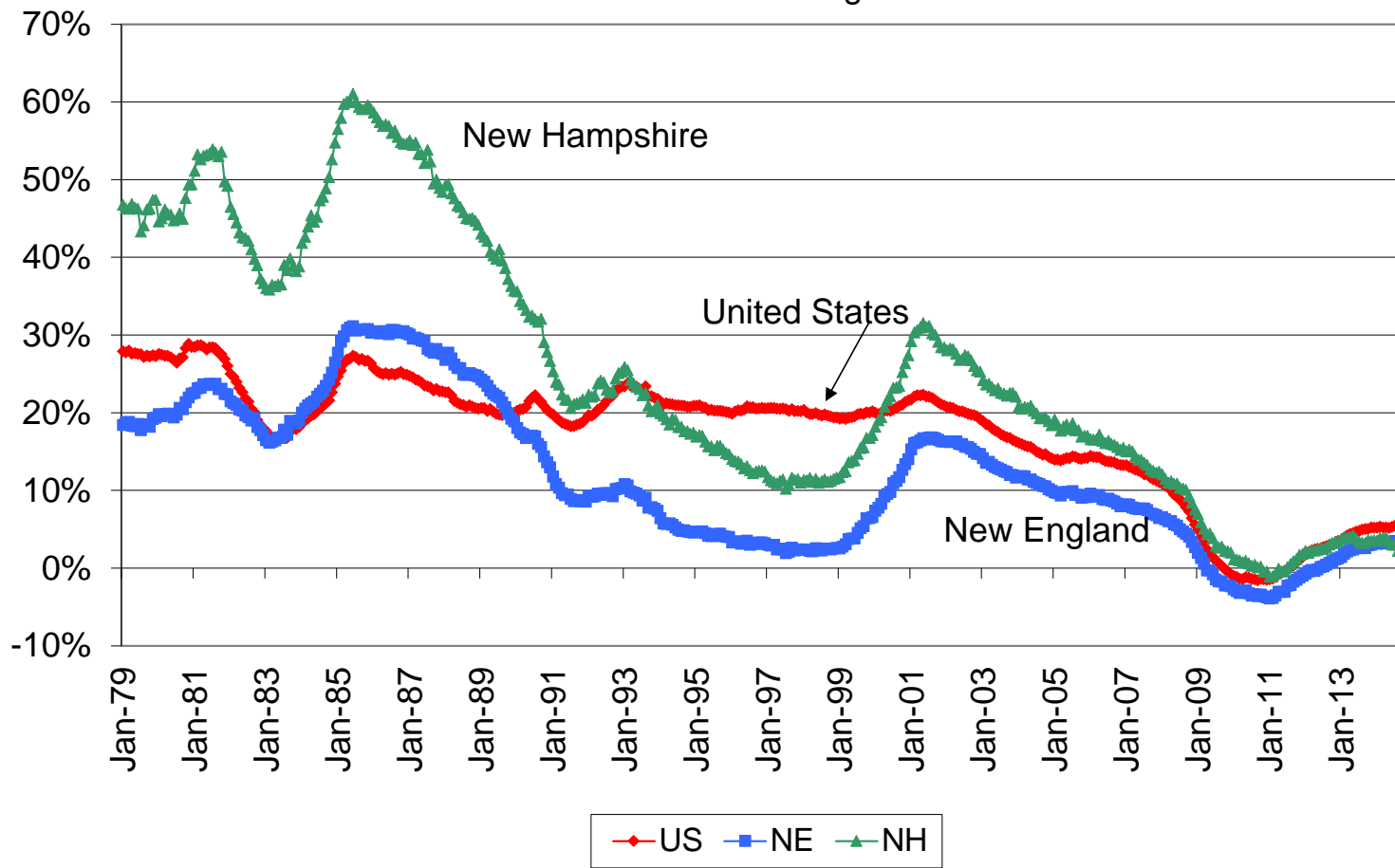
Anecdotal evidence from Fed Bank of Boston, April 15, 2015

- Business activity continues to expand in New England, although contacts are not quite as upbeat as in the previous round.
- With a few exceptions, retailers, manufacturers, and selected business services firms report increases in revenue compared with a year earlier.
- Commercial real estate fundamentals continue to improve across most New England markets; residential real estate sales were slowed by severe winter weather, but contacts expect the effects to be temporary.
- Aside from ongoing energy price increases associated with limited natural gas capacity in the region and the effects of the strong dollar, contacts say non-labor costs and prices are steady.
- Only a few firms experiencing strong demand are doing any significant hiring; one retailer is raising its entry-level wages.

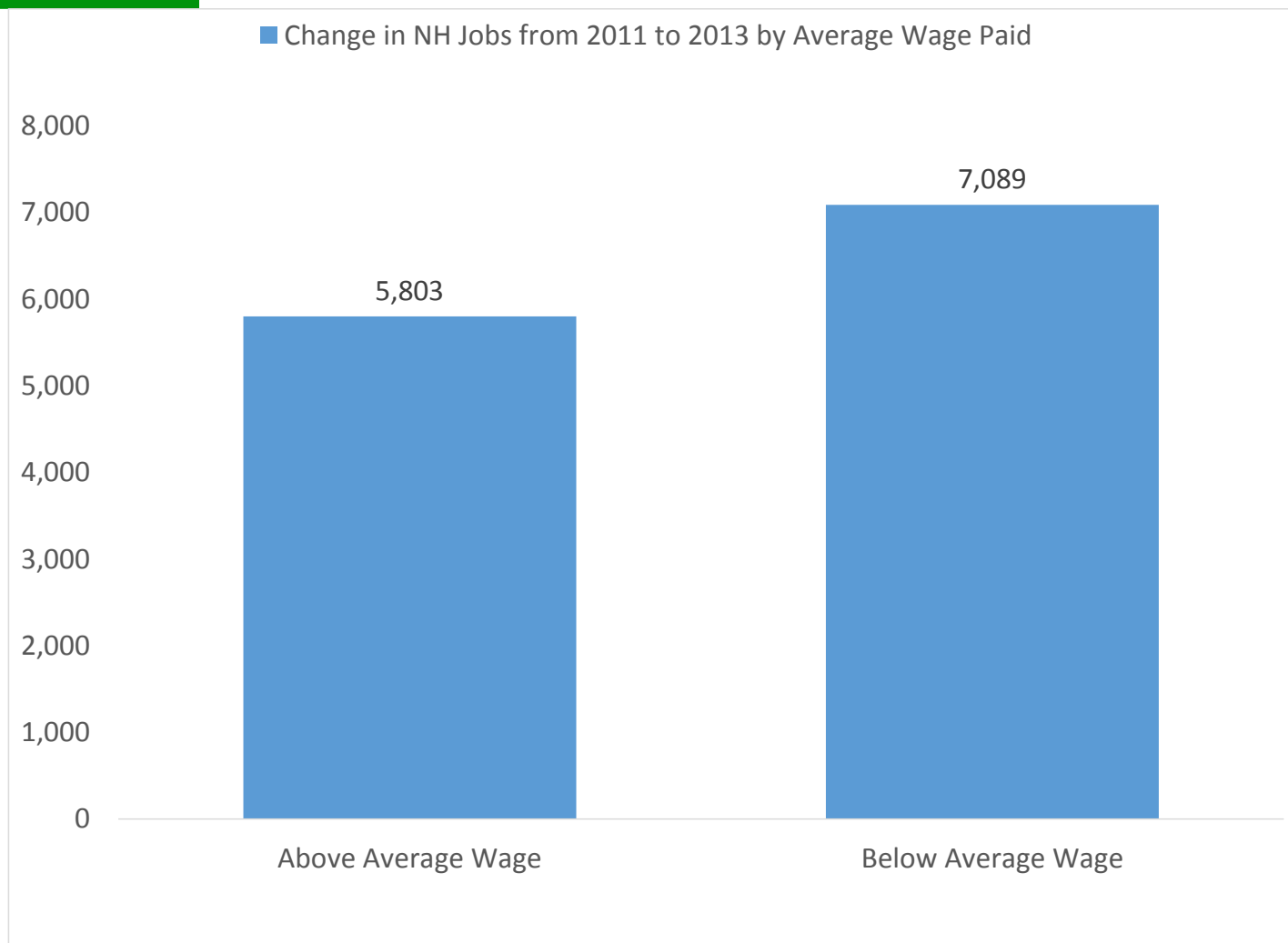
New Hampshire Job Creation – Region and US

Percent Change in Payroll Employment Over Previous Ten Years

The Great Convergence



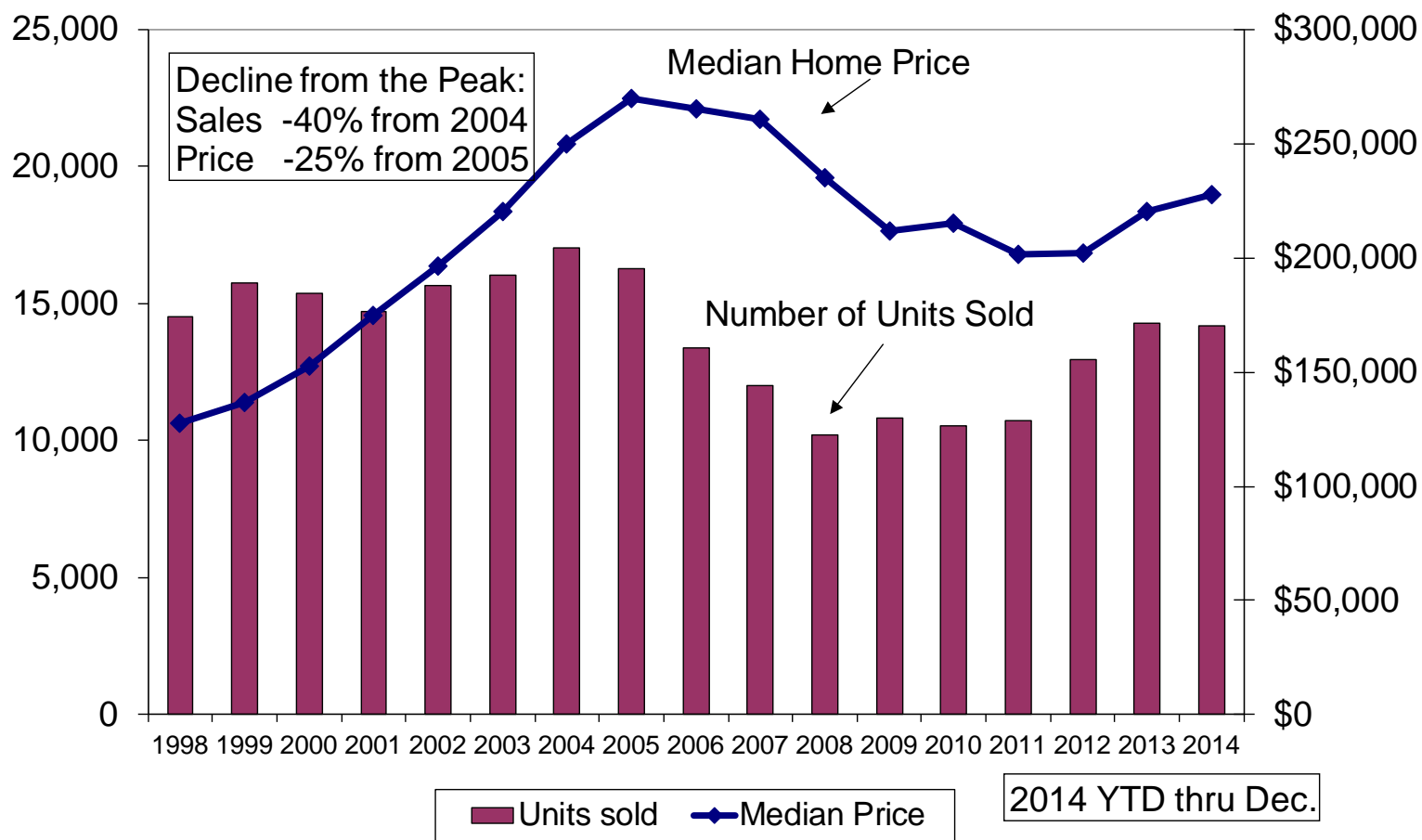
2011-2013 job growth still leans toward below average wage jobs



Source: NH Economic and Labor Market Information Bureau

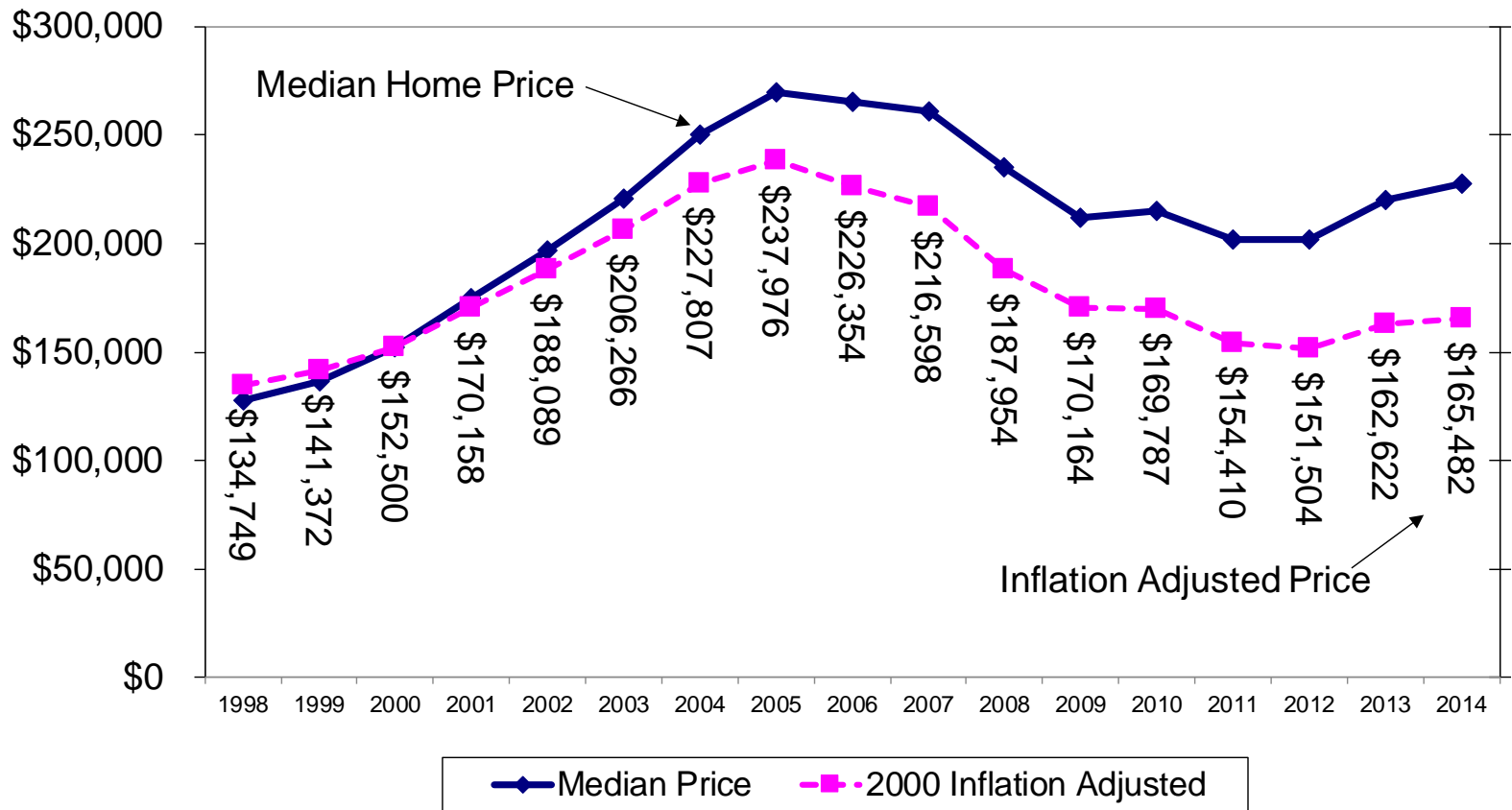
NH Single-Family Residential Home Sales and Price (MLS)

Source: NH Association of REALTORS



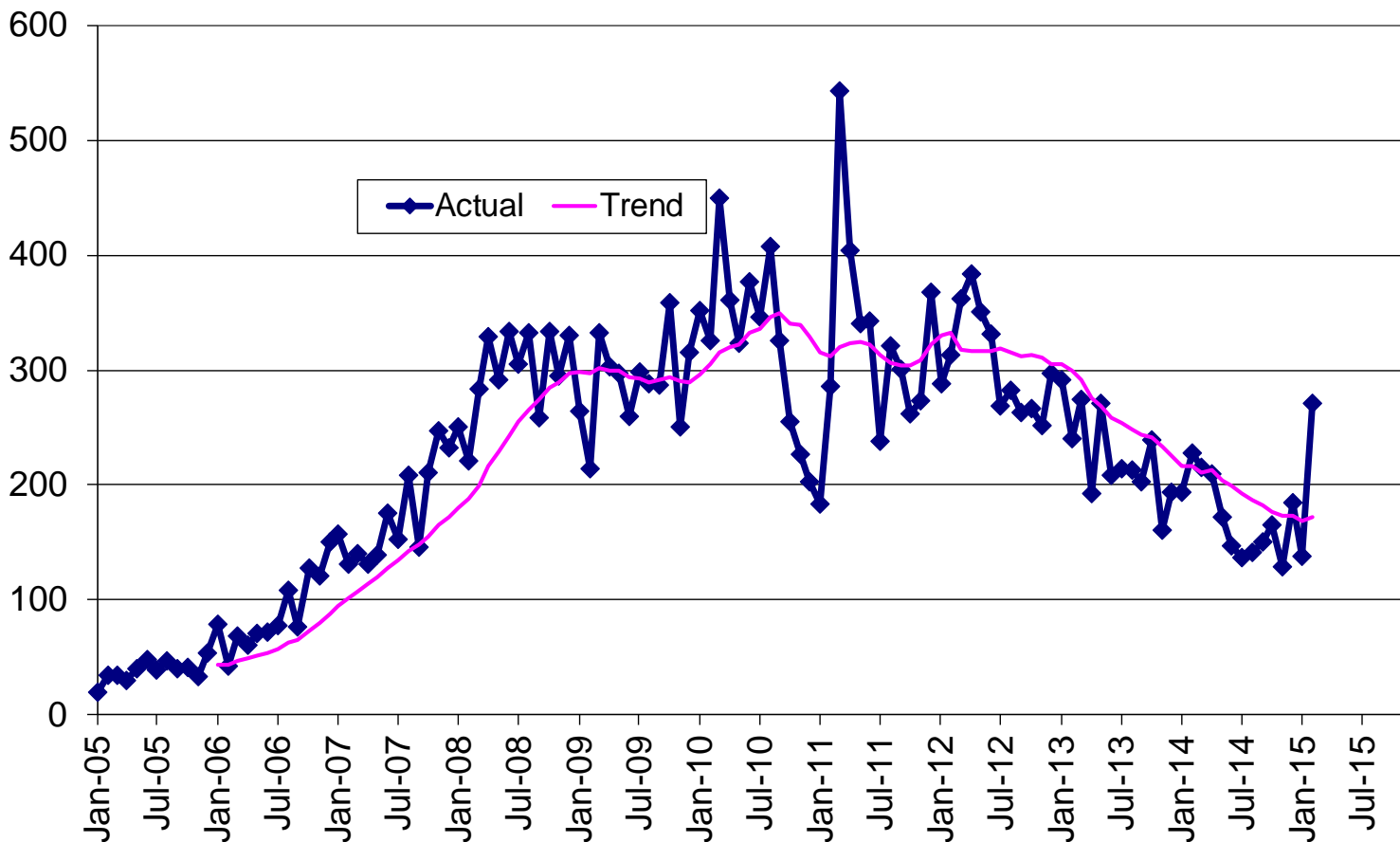
Home Prices Return to the Long Term Trend:

NH Single-Family Residential Home Price (MLS)
Source: NH Association of REALTORS



NH Foreclosures – Worst is Over

NH Monthly Foreclosure Deeds

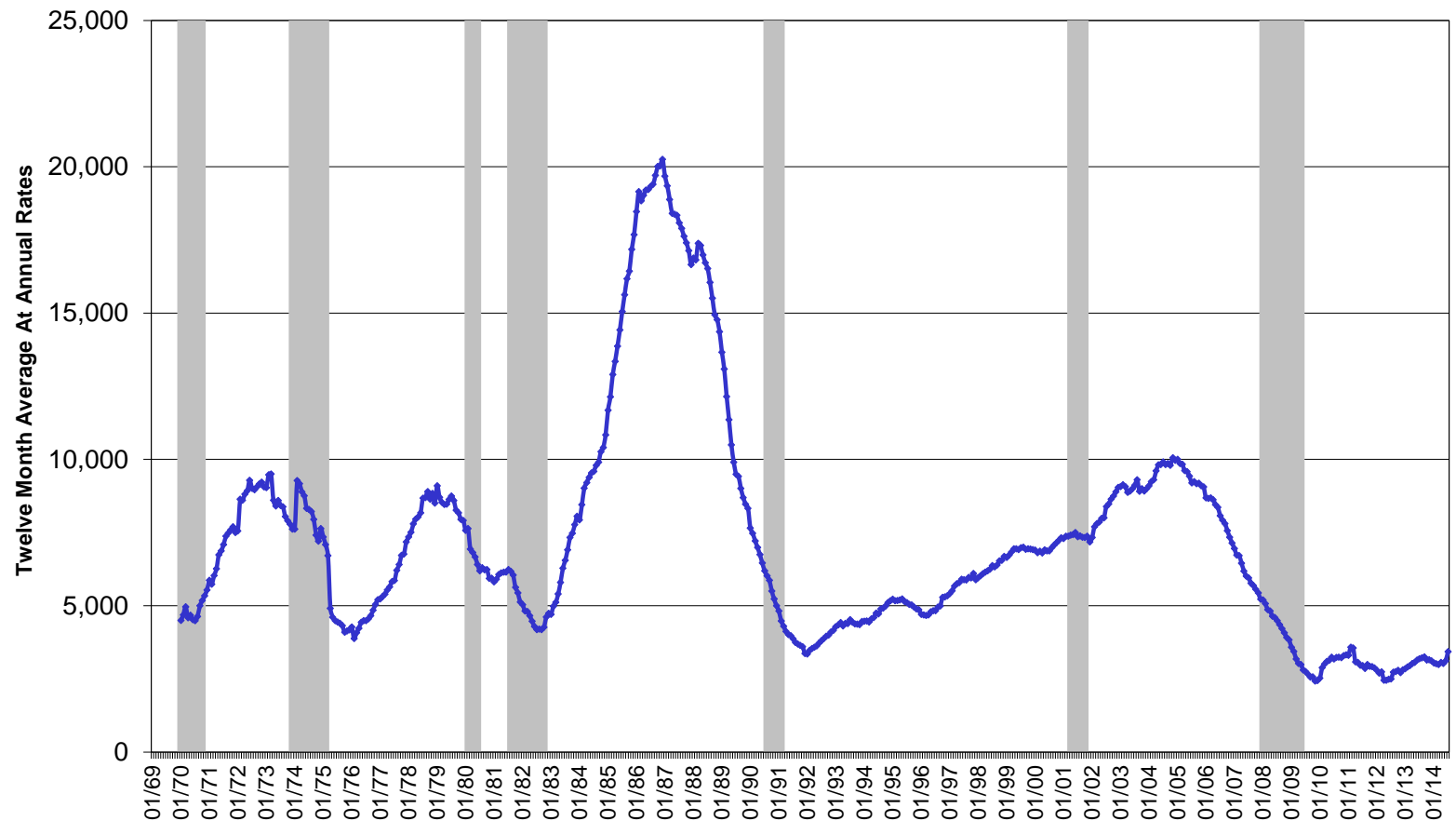


Source: Real Data Corp. compiled by NH Housing

New Hampshire Home Building

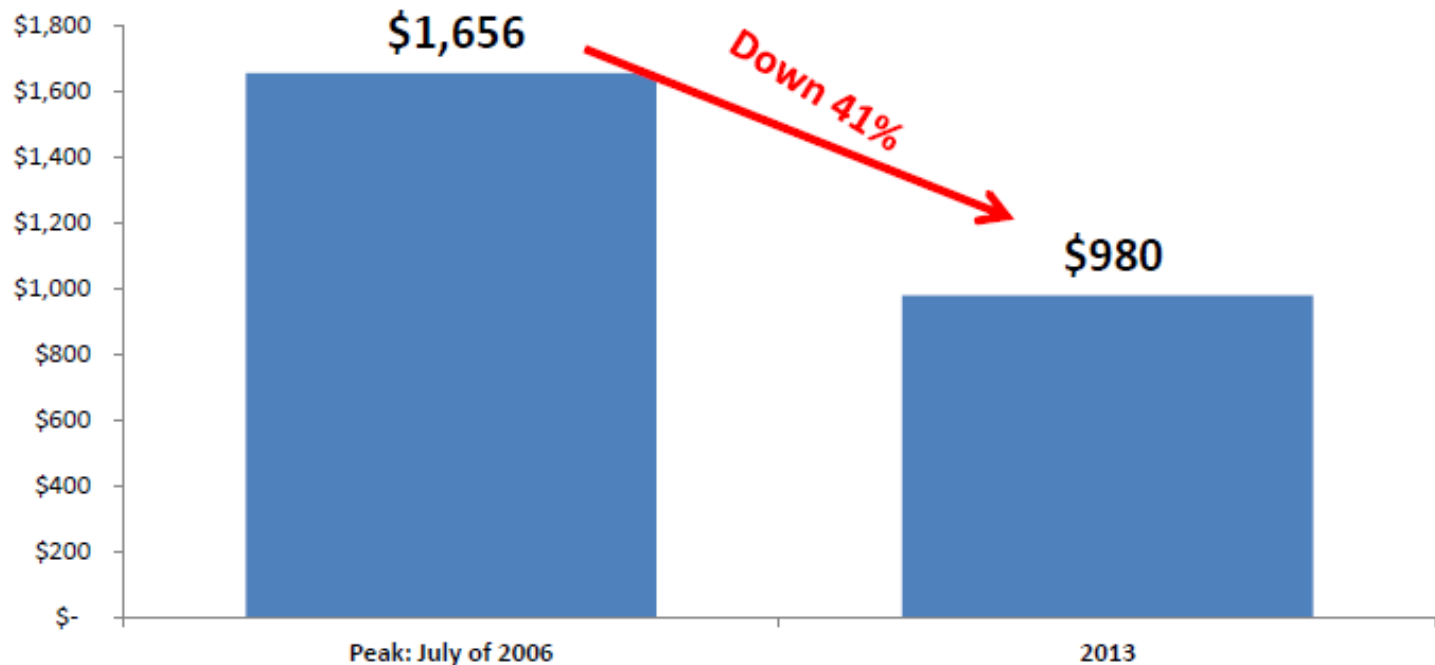
Monthly Housing Permits in New Hampshire January 1969 to July 2014

Grey boxes represent
recessionary periods



Declines in Prices and Interest Rates Affect Affordability

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

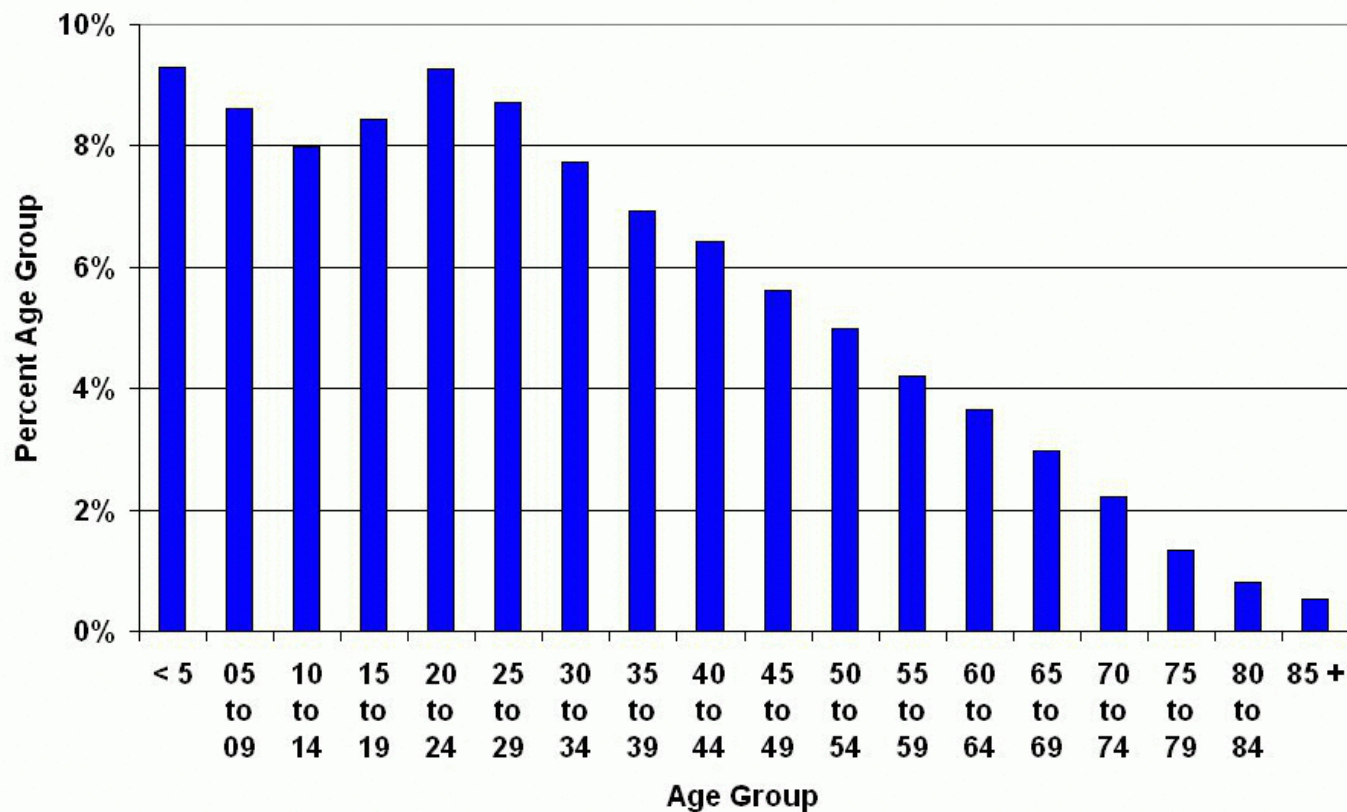


But.....

- 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.

The Aging Bubble ...

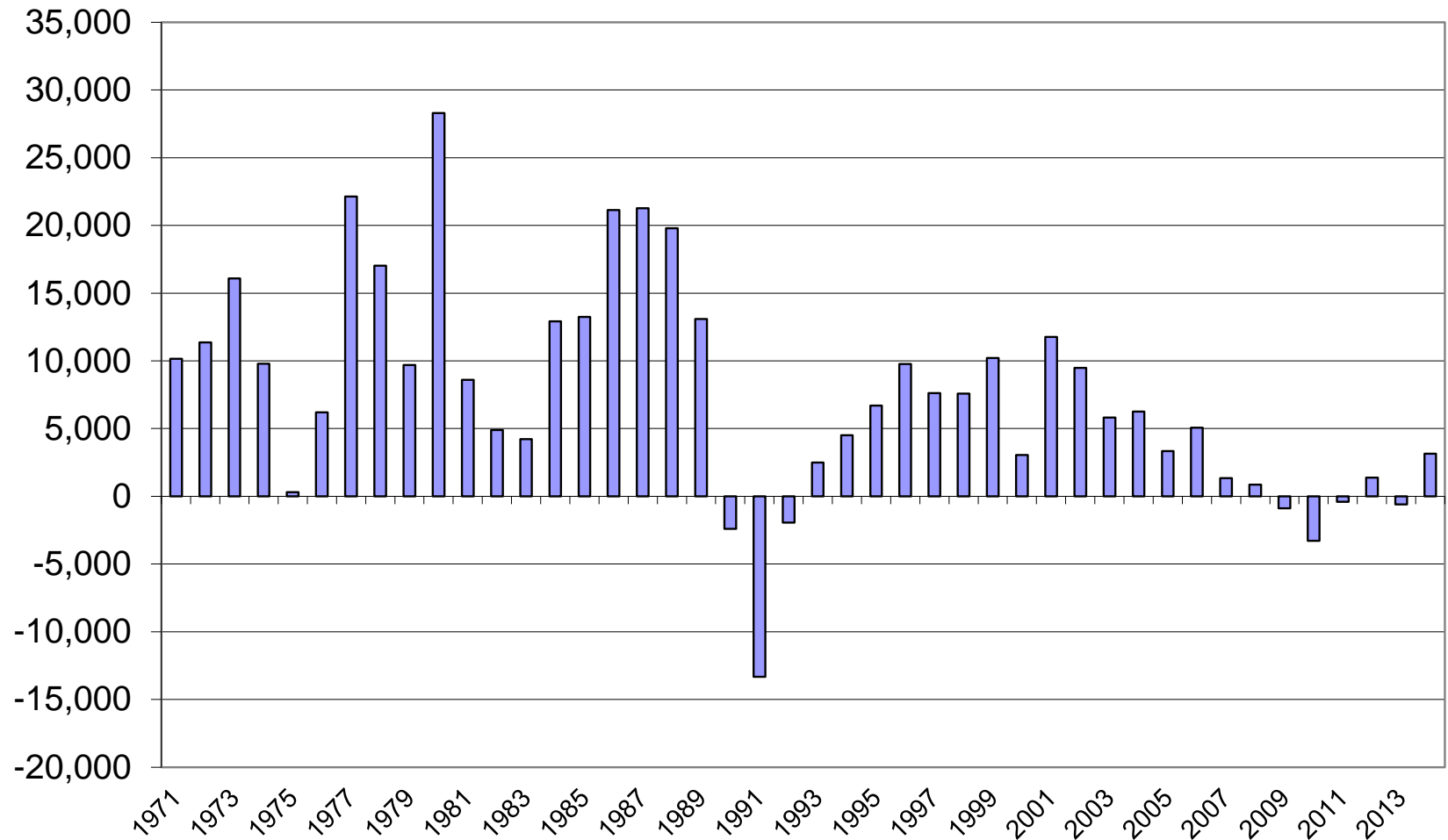
New Hampshire Population Distribution by Age, 1900





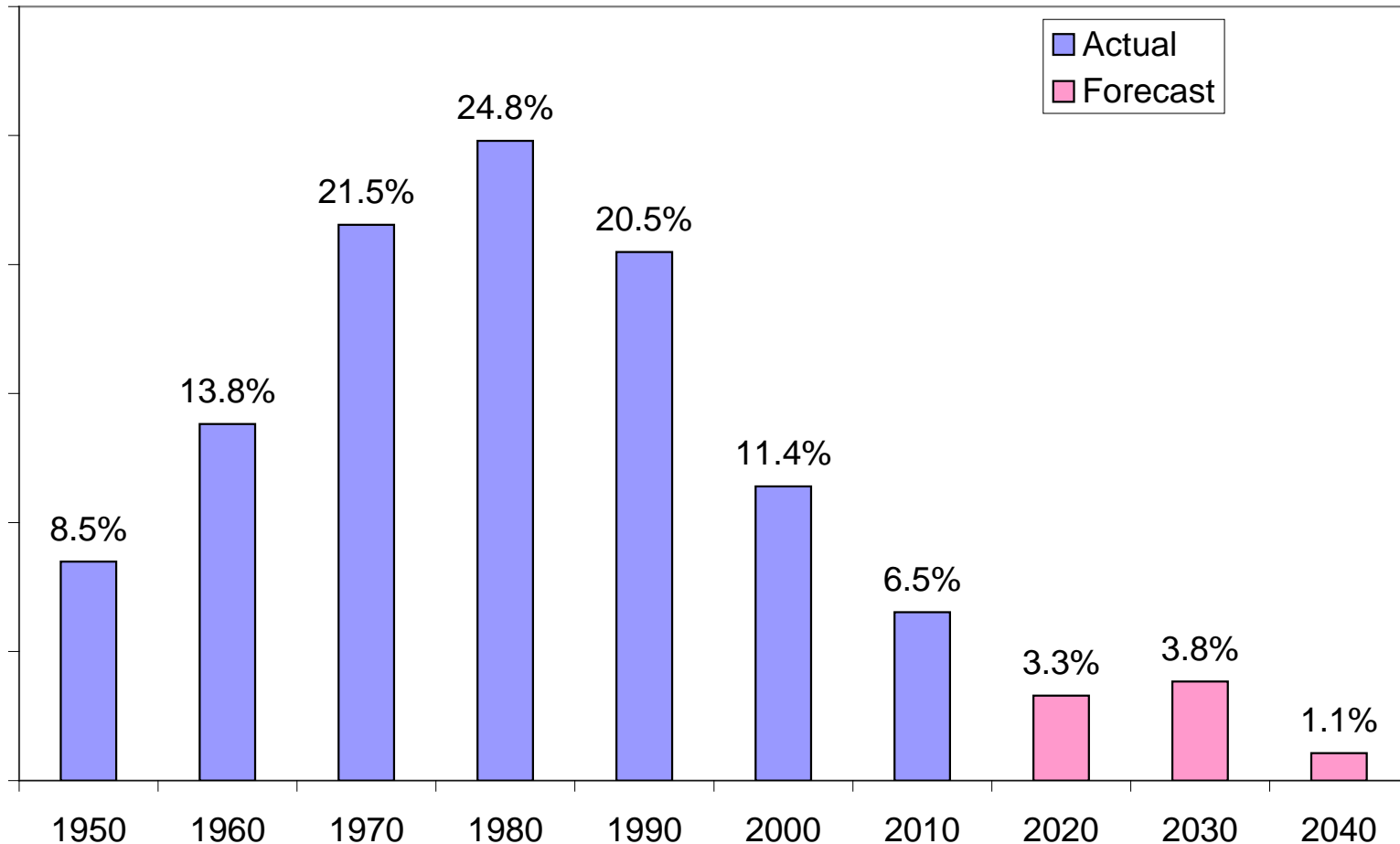
Migration slowed in last decade

Net Migration Into and Out of New Hampshire



NH Population growth anticipated to be slower

Ten Year Percent Change in New Hampshire Population by Decade End



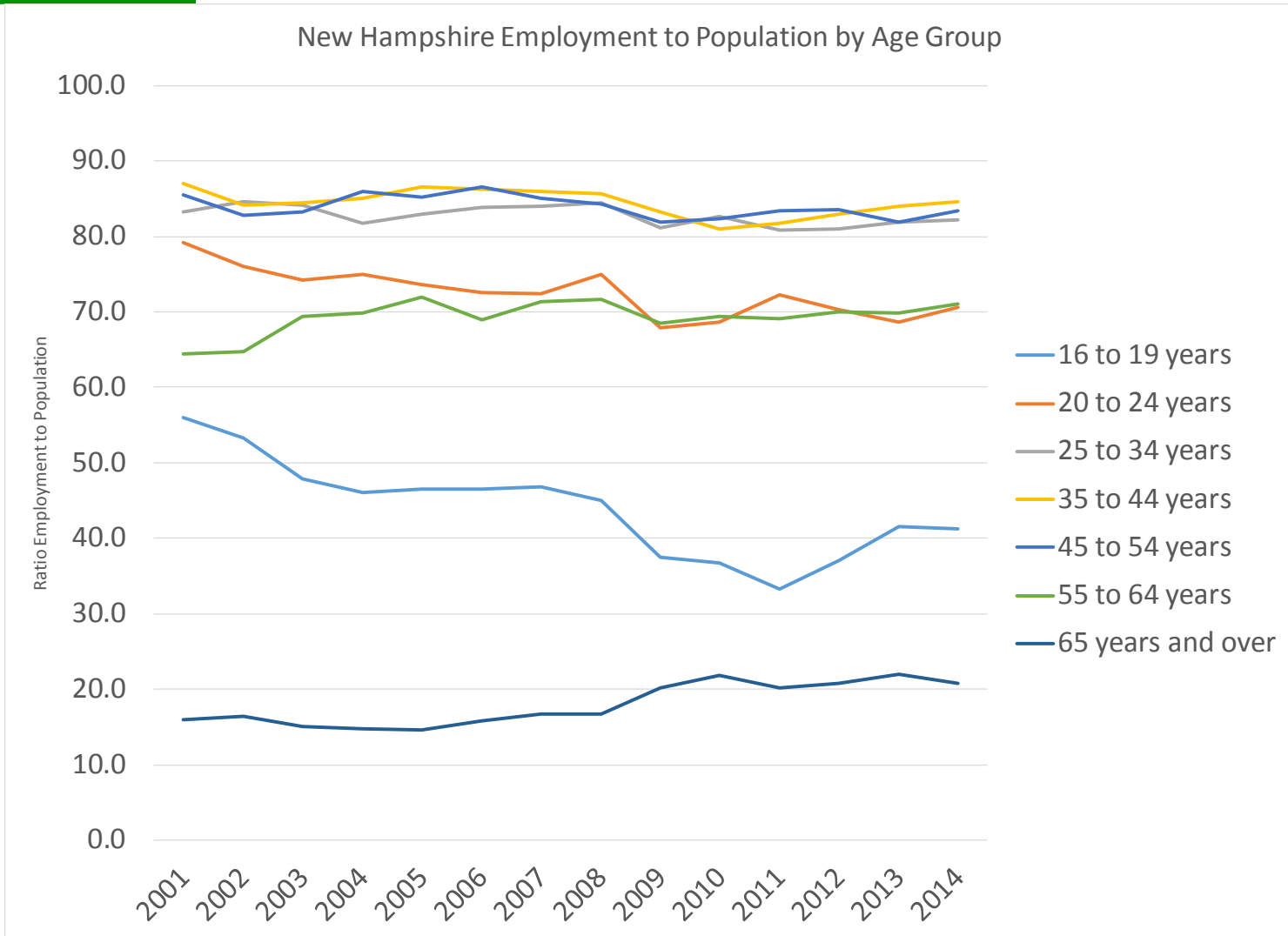
While NH Dept of Employment expects increasing jobs

	2012 to 2022
<u>Change in Employment (ELMI Projection)</u>	PctChange
Central NH Planning Commission	9.2%
Lakes Region Planning Commission	6.3%
Nashua Regional Planning Commission	9.5%
North Country Council	4.8%
Rockingham Planning Commission	14.7%
Southern NH Planning Commission	14.1%
Southwest Region Planning Commission	4.8%
Strafford Regional Planning Commission	9.5%
Upper Valley / Lake Sunapee Regional Planning	10.2%
New Hampshire	10.5%

Working Age Population Will Decline in Every Region

	2010 to 2025
<u>Working Age Population (age 25 to 64)</u>	PctChange
Central NH Planning Commission	-6.8%
Lakes Region Planning Commission	-9.2%
Nashua Regional Planning Commission	-3.0%
North Country Council	-12.9%
Rockingham Planning Commission	-1.2%
Southern NH Planning Commission	-1.5%
Southwest Region Planning Commission	-4.1%
Strafford Regional Planning Commission	-0.5%
Upper Valley / Lake Sunapee Regional Planning	-6.8%
New Hampshire	-4.0%

Combined with labor force participation reality (declines by age)



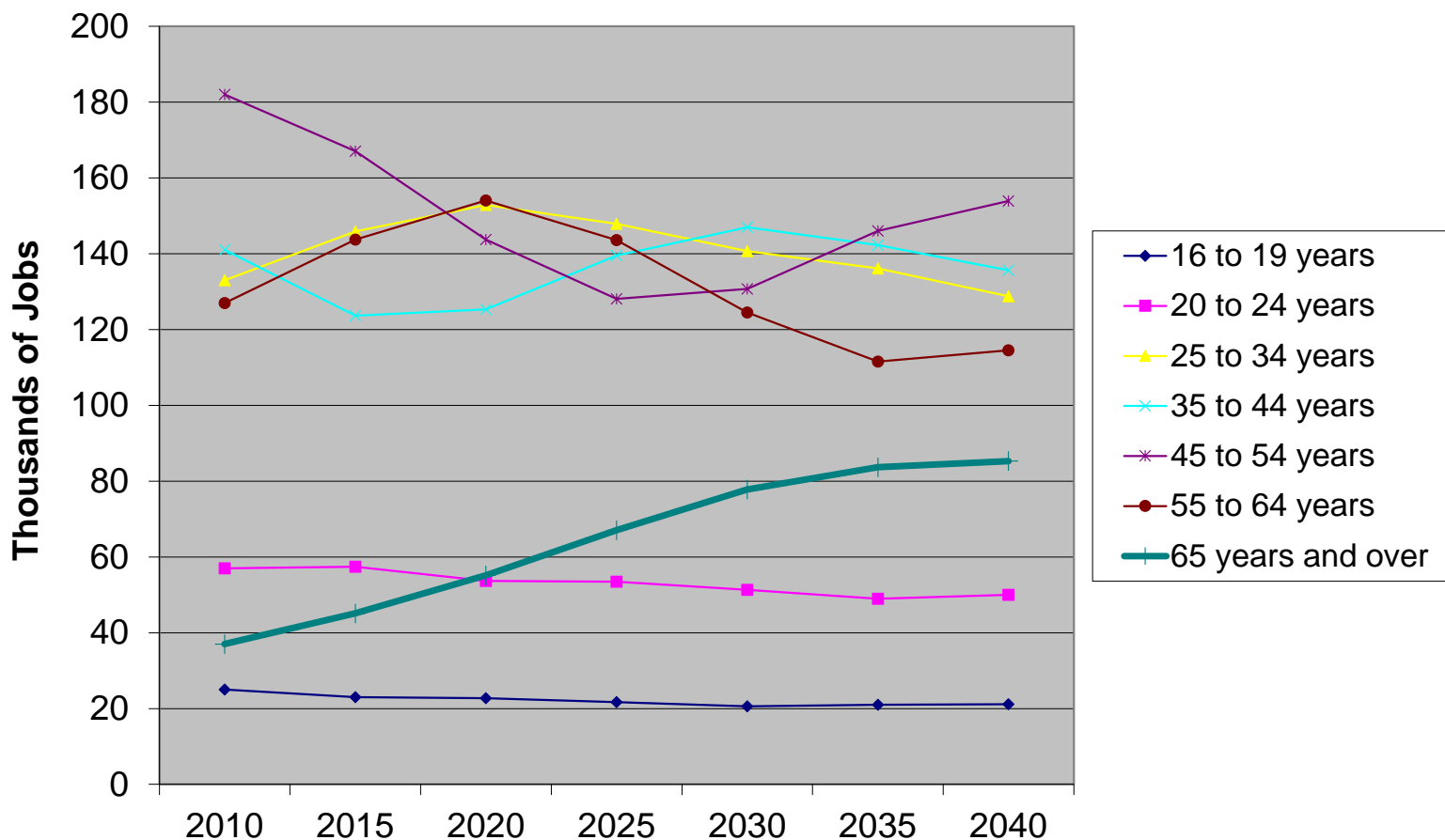
Populations aging into lower labor
force participation rates →

702,000 —————→ 689,313

All else equal, workforce will decline

While Elder Workforce Portion is Projected to Increase

New Hampshire Employment by Population Group (Forecast)



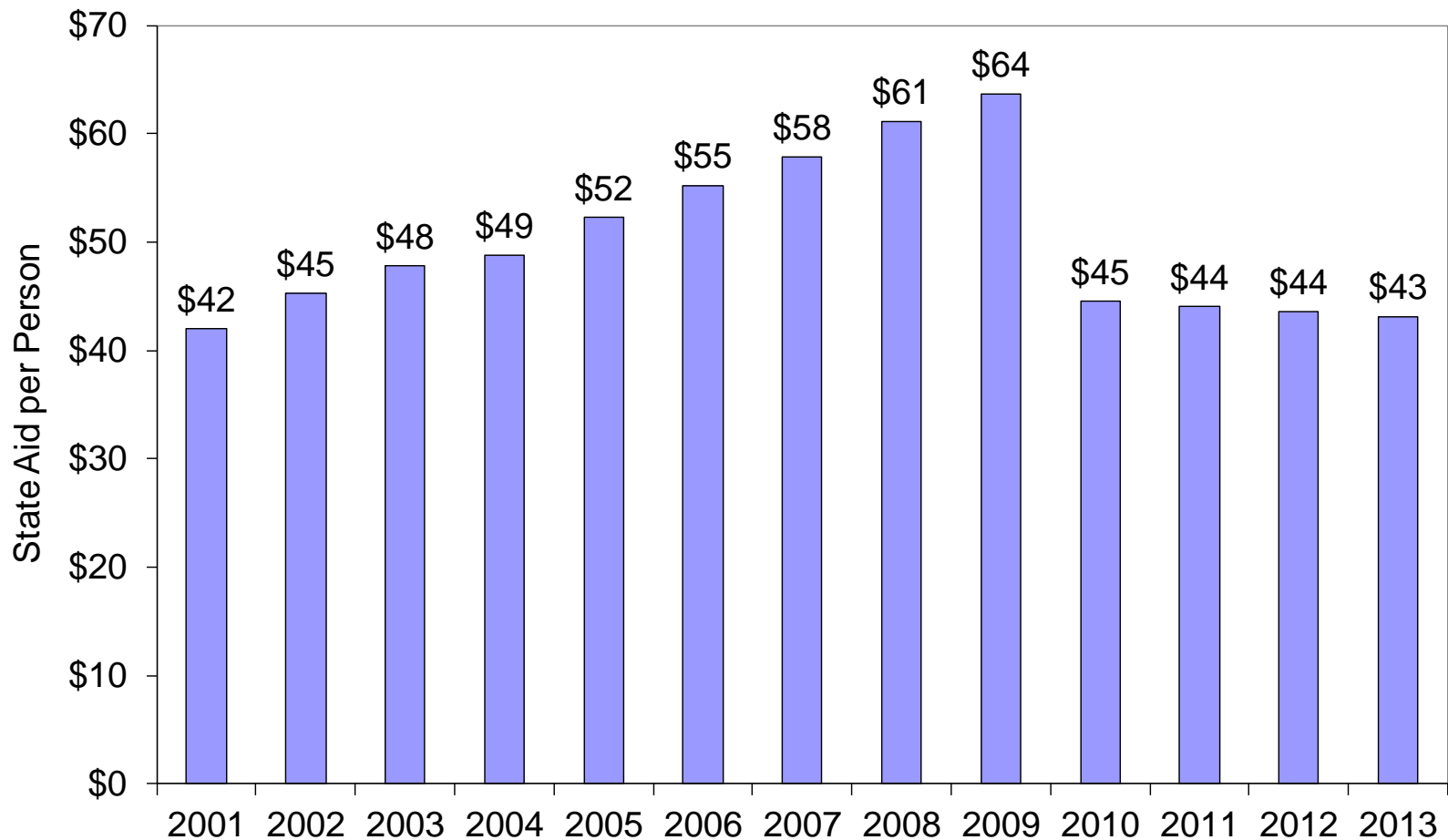
What to do if you want a growing workforce?

- Increase residents?
 - Increase Birth rates – how?
 - Increase in-migration to the state.
- Increasing longevity (decrease death rates, improve health of older population – how?)
- Increase Productivity – (workforce training, skills development, substance abuse)
- Increase labor force participation rates for our fastest growing populations (those over the age of 65).

New Hampshire Municipal Finances

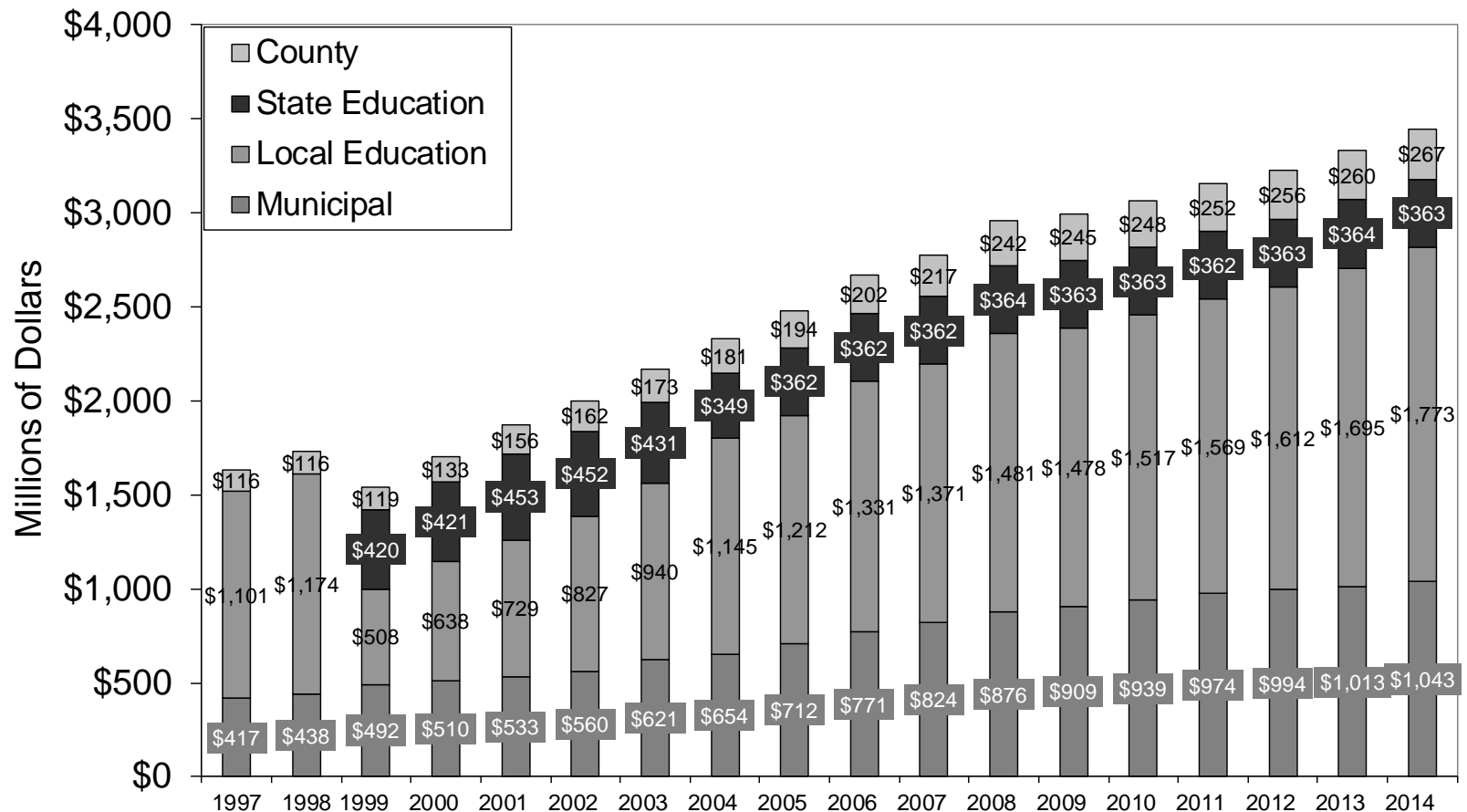
State Aid per Person Level Funded

New Hampshire State Aid to Municipalities Only



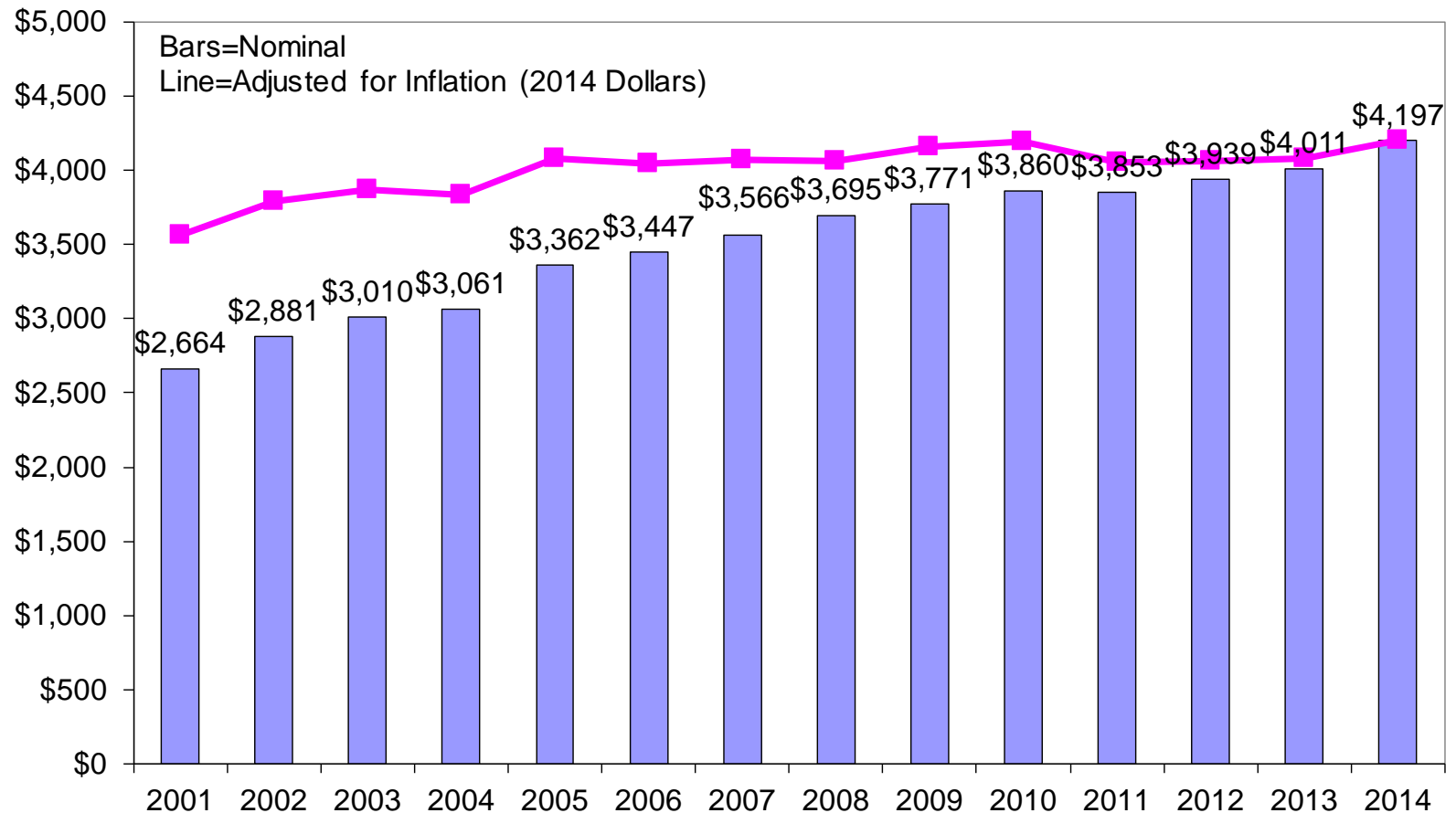
Schools Drive Property Tax

Property Taxes by Function 1997 to 2014



Municipal Expenditures Hold the Line

Per Capita Gross Appropriations for New Hampshire Cities and Towns
2001- 2014



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 Slack Disappearing

Underemployment Gap Closes Fast

Underemployment gap, % of labor force

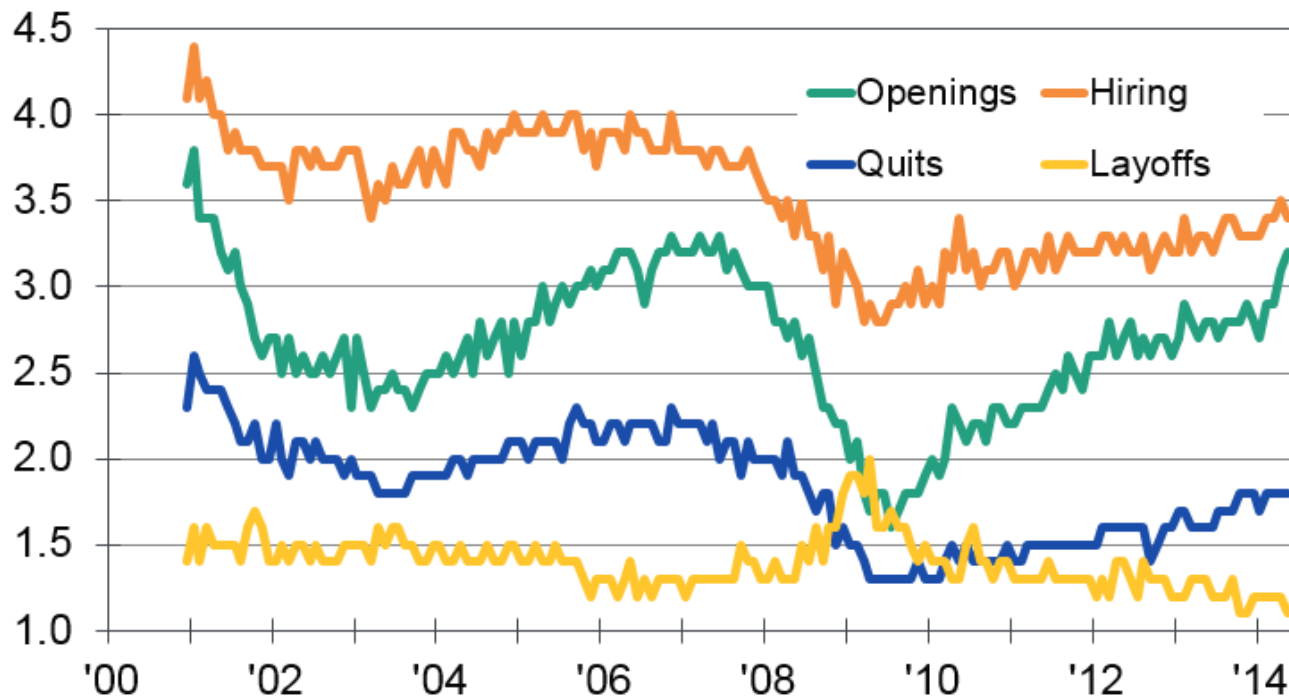


Sources: BLS, Moody's Analytics

Labor Market Improves

Getting Better In the Job Market

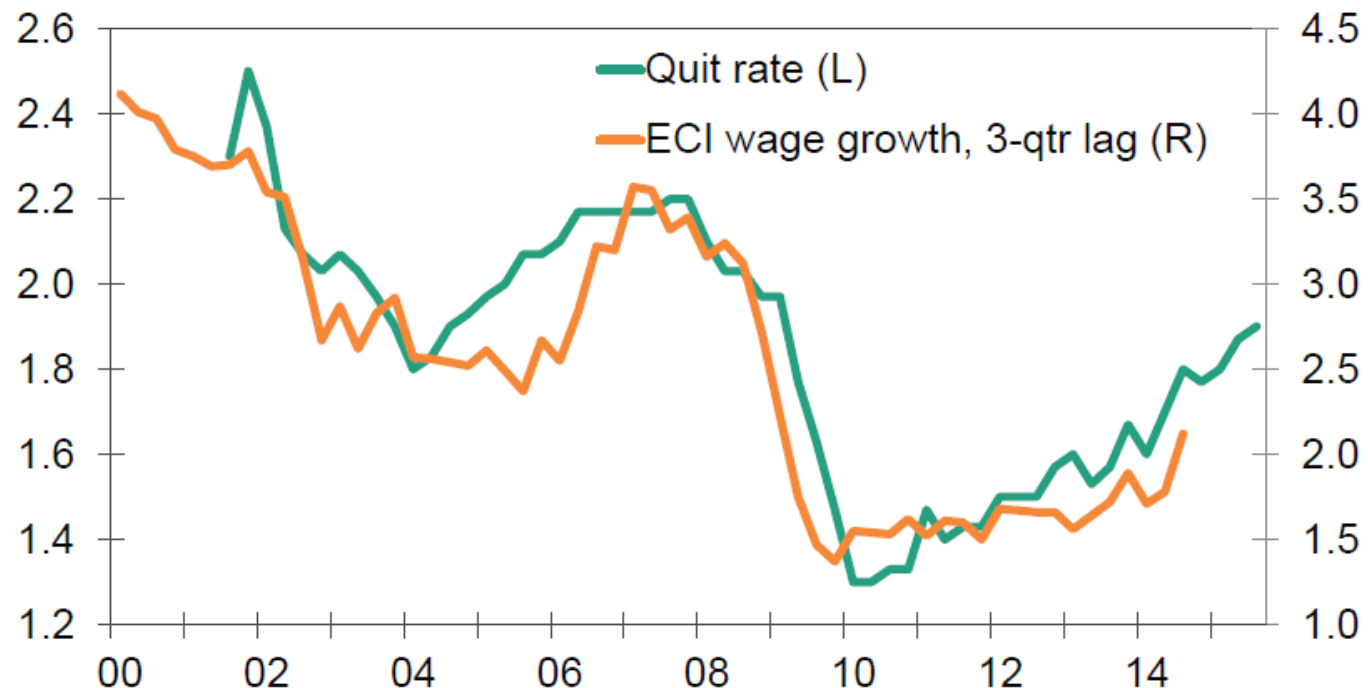
Rate, %



Sources: BLS, Moody's Analytics

Employers Facing Increasing Labor Cost

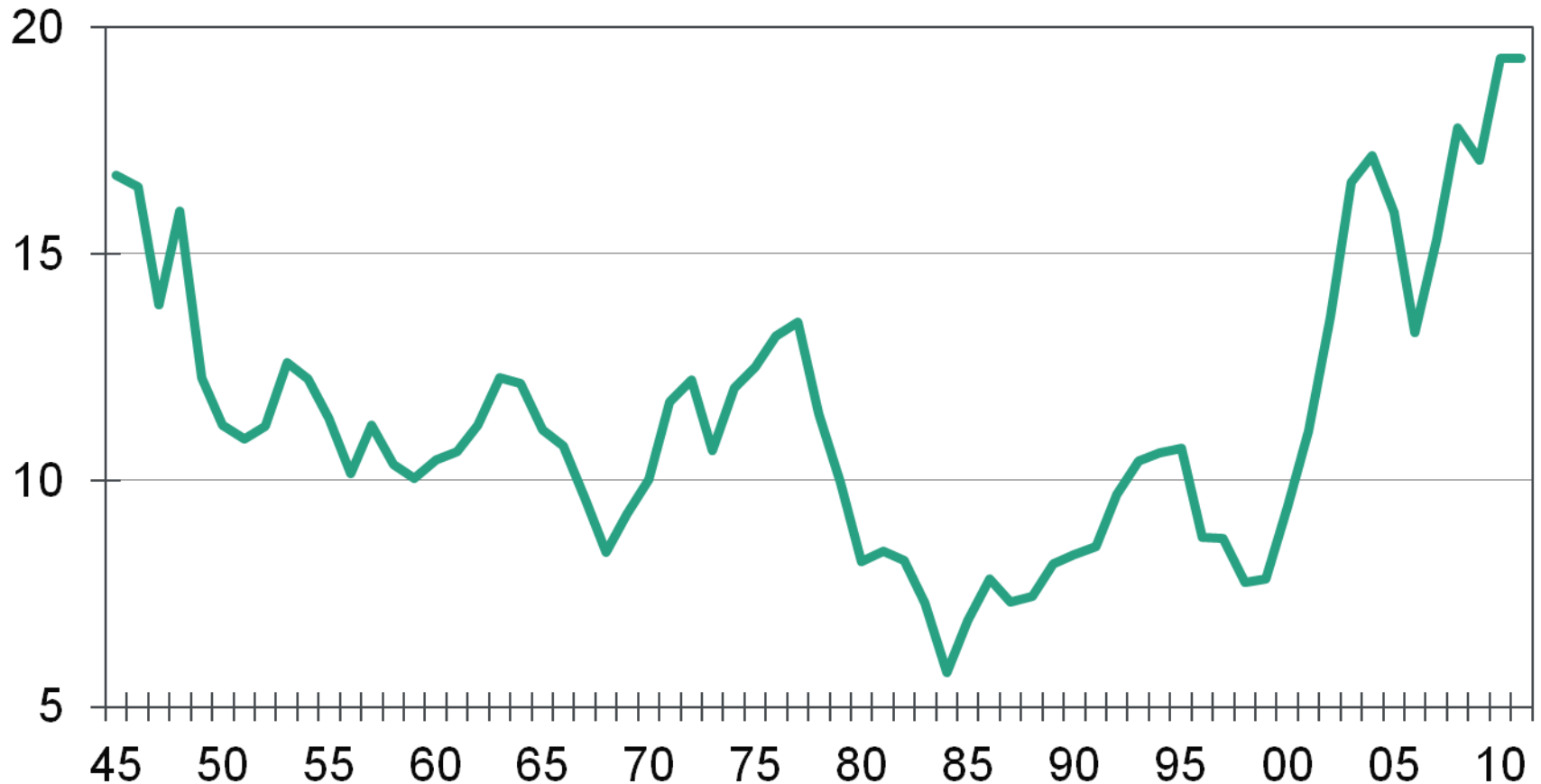
Wage Growth Is Set to Accelerate



Sources: BLS, Moody's Analytics

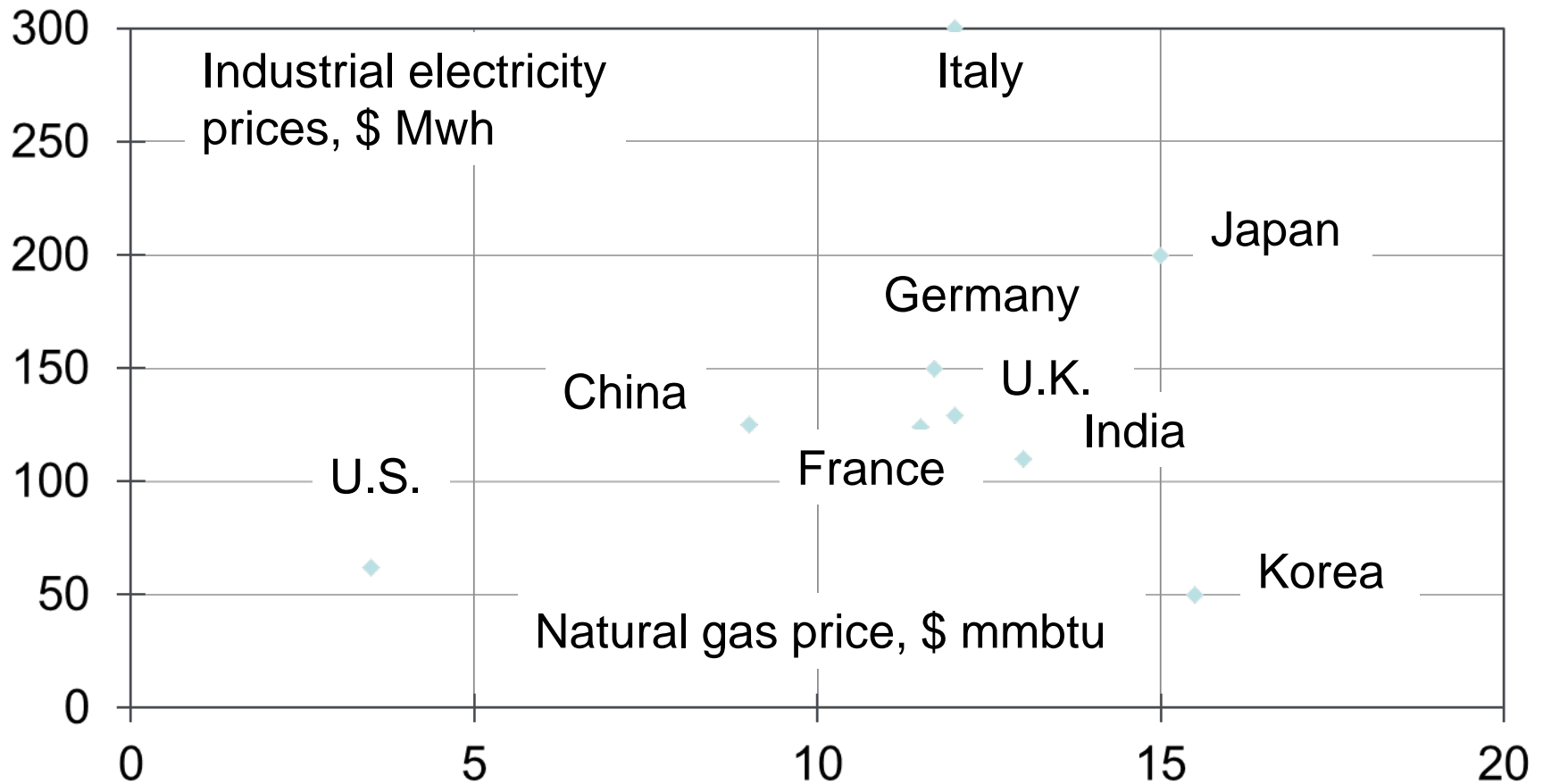
Businesses Have Never Been as Profitable...

After-tax corporate profit margin, %



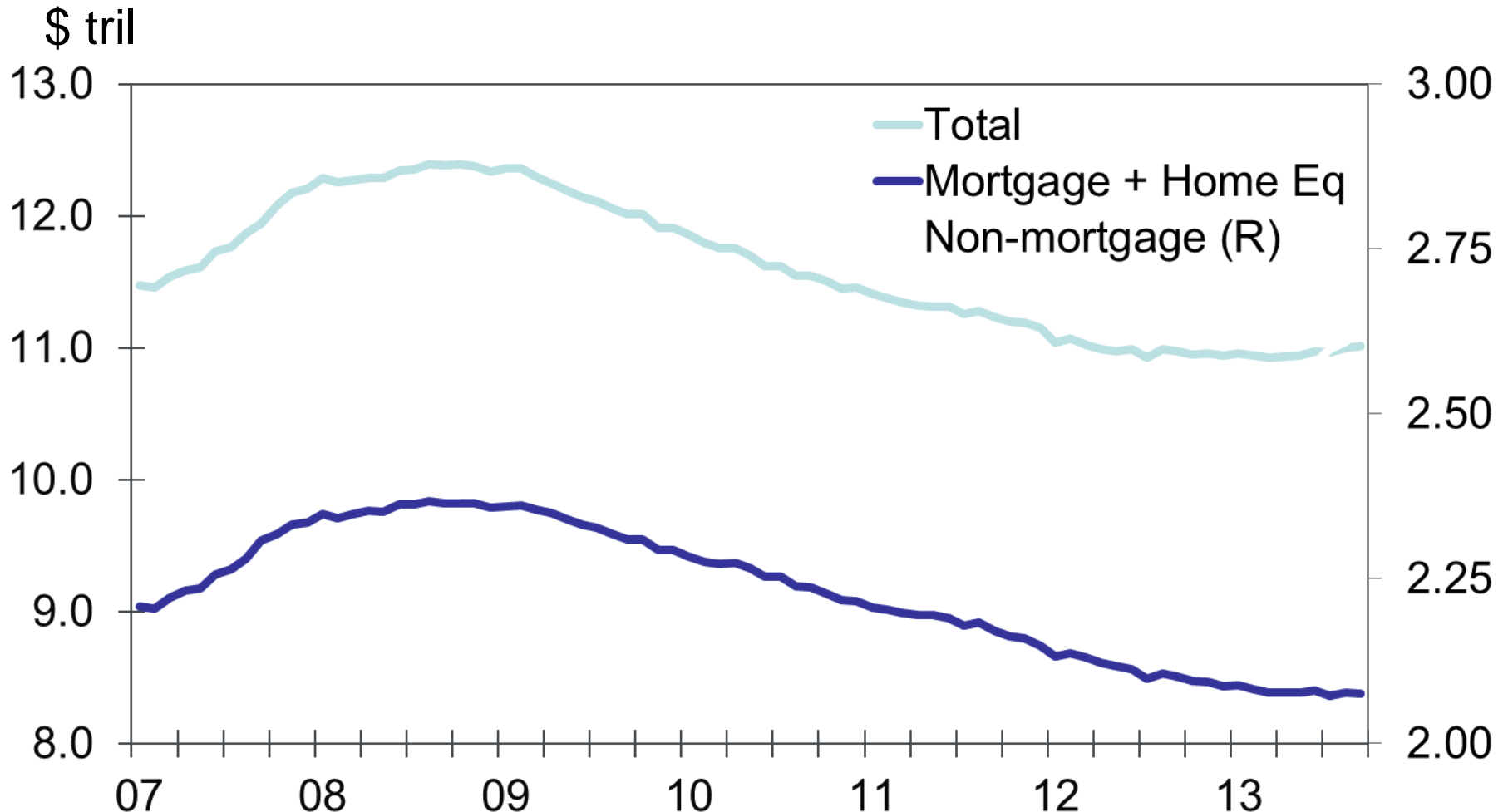
Sources: BEA, Moody's Analytics

...And Have a Significant Energy Advantage



Sources: Country sources, Moody's Analytics

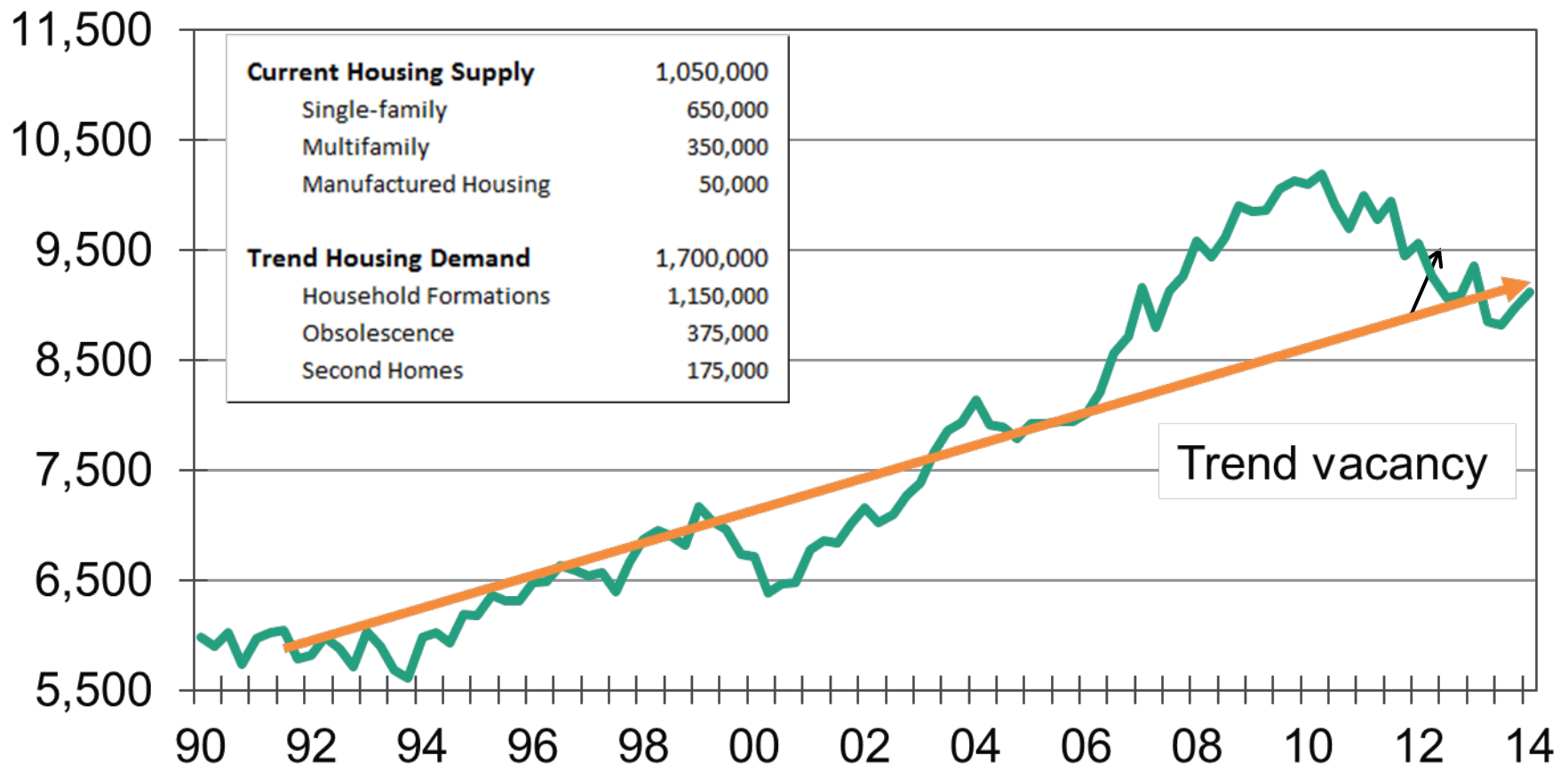
Households Have Delevered...



Sources: Equifax, Moody's Analytics

Housing Will Provide the Catalyst...

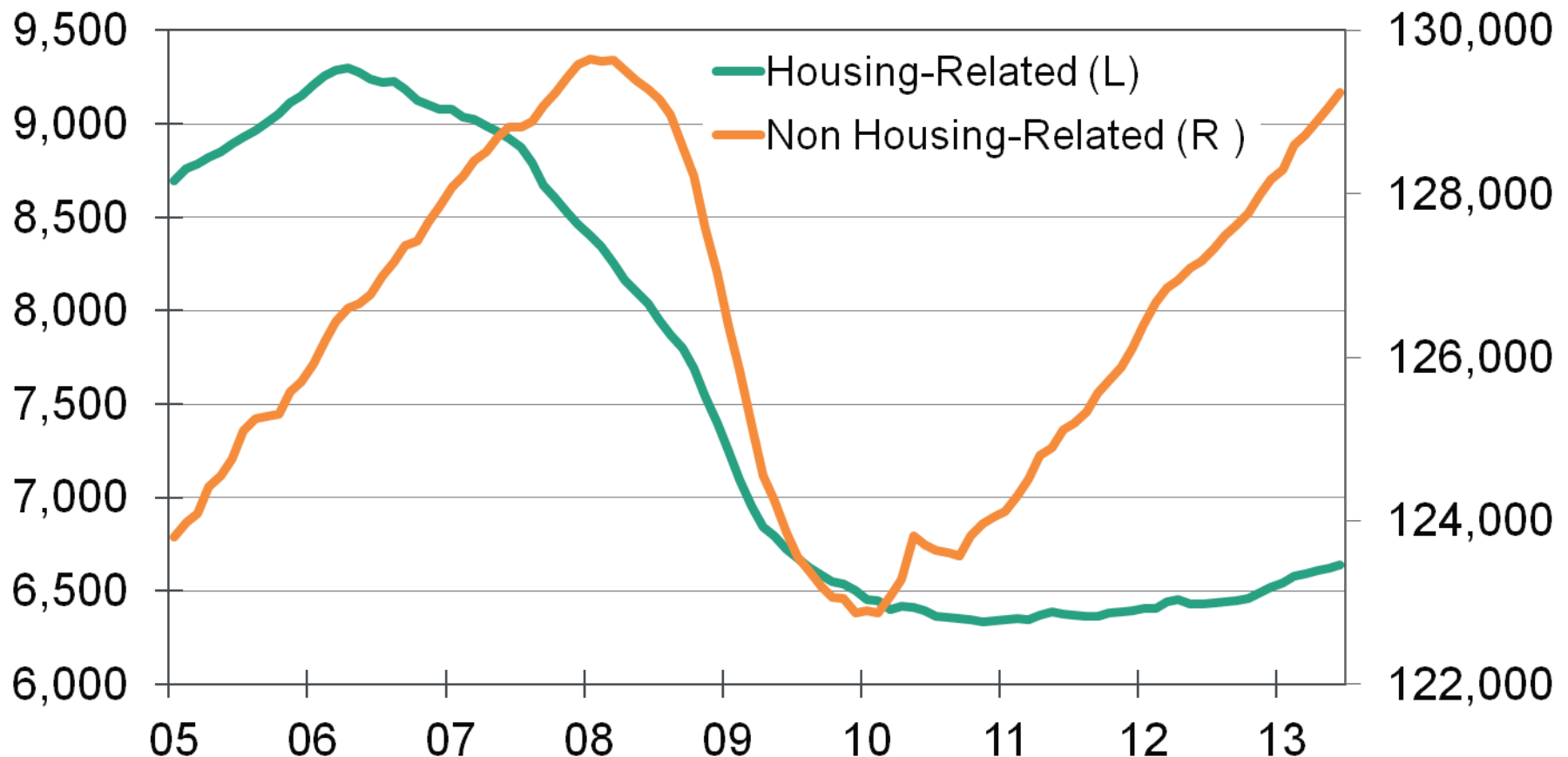
Vacant homes for sale, for rent and held off market, the



Sources: Census, Moody's Analytics

...Meaning More Homebuilding and Jobs

Millions of jobs



Source: Wall Street Journal, Moody's Analytics

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