



Employment SECURITY

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Summary of the New Hampshire Economy, Fall 2005

The region was just breathing a sigh of relief from the BRAC decision to keep the Portsmouth Naval Shipyard open, when Katrina blew into the Gulf Coast, devastating the area and wreaking havoc with domestic oil supplies. Concerns started to mount, with winter approaching, about whether those damages would affect the home heating oil supplies into the state. Although gasoline prices typically decline when the summer travel season comes to a close, the effects of hurricane Katrina had many facing the reality of prolonged increases in gasoline prices as well as inflated prices of the winter oil supply for heating homes. Then Rita followed, forcing her way through the Gulf, threatening the Texas coast oil supplies, and delaying access to and repairs needed for those oil drilling

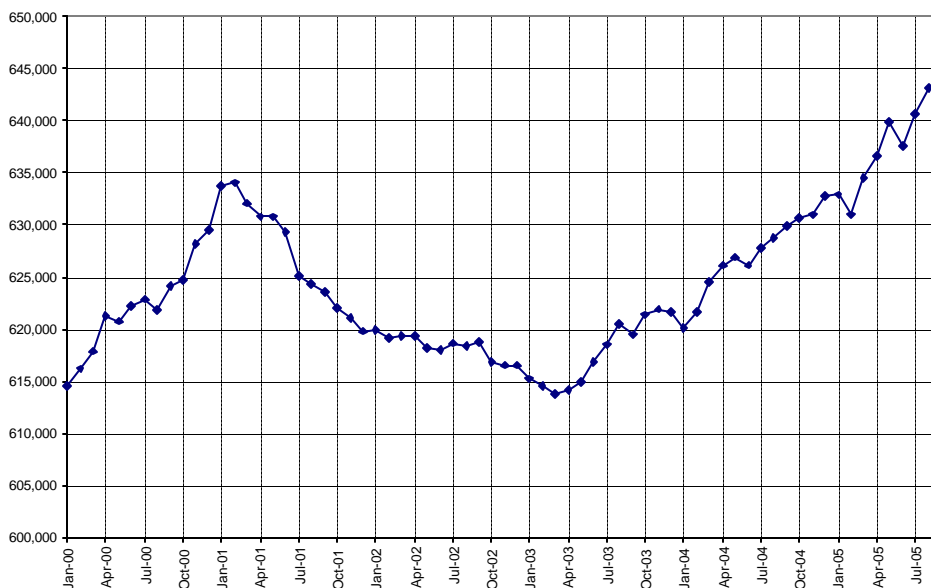
platforms and rigs, as well as the shore-based refineries that had been devastated earlier by Katrina.

Rebuilding and relief efforts sprang up, locally and nationwide, to help the Gulf Coast recover. In September, consumer confidence plummeted, dropping the most points in 15 years, and the Federal Reserve increased interest rates to keep inflation at bay. But New Hampshire residents held firm to helping others, sending firefighters, food, water and financial aid to our neighbors in the south.

New Hampshire had been blessed with beautiful early fall weather throughout September and into

October. That ended abruptly during the Columbus Day weekend. Up to eleven inches of rain fell overnight in parts of the state, creating dangerous flash floods that swept away roads and homes. Flooding continued in low-lying areas of the state. The Governor declared a state of emergency and assessed the extent of the damages and applied for federal emergency funds to help with the repairs. Nature's disasters had hit home, now what additional effects would this have on the local economy?

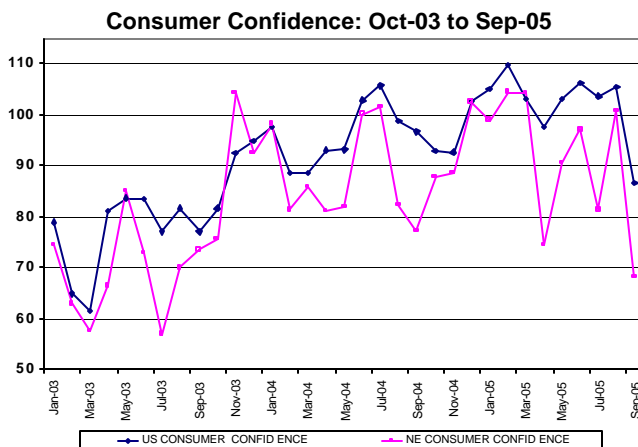
Seasonally Adjusted Nonfarm Employment



Consumer Confidence

Once the storms passed through the 'oil district' general outlooks shifted. It was expected that September's overall consumer confidence would come in lower than August's revised reading of 105.5, but the index reading of 86.6 was much lower than the 98 predicted by analysts. This is the lowest level reached since the 81.7 recorded in October 2003. It may mean consumers will be thinking twice about spending of any nature. The measures of present situation and future expectations mirrored the same swing as the overall reading.

The New England overall reading, which is not seasonally adjusted, dropped dramatically over the month. The region came in at 68.1 dropping over 32 points. That September reading is the lowest since April 2003, which was 66.1.

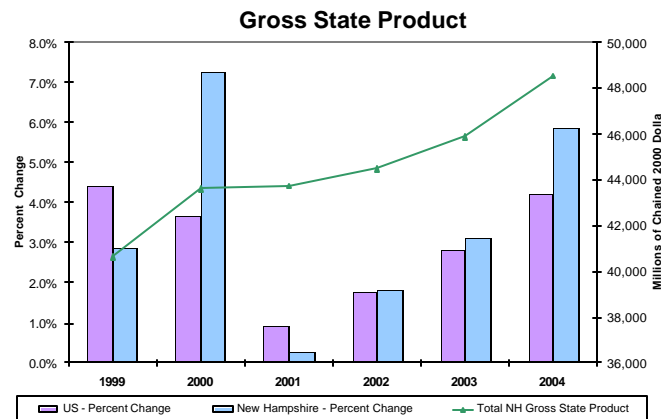


Gross State Product (chained 2000 dollars)

The Gross State Product (GSP) measures the value added in production in a state. The national measure is the Gross Domestic Product (GDP) which measures the value of U.S. output. Although the GDP does differ slightly from the GSP, by including military and federal units not included as part of the state level, it does provide a basis for comparison.

While the state's total GSP continued its increase from year-to-year, the percent change in New Hampshire's GSP differed from the changes

of the nation as a whole. This may be because Manufacturing has traditionally played a more significant role in New Hampshire relative to the nation, resulting in the state experiencing more extreme percent changes in its GSP. These larger percent changes would be expected based on the small size of the state's economy and the specialized areas of production, compared to the nation, whose much larger economy typically has multiple offsetting changes which result in more stable growth rates over time.



From 2000 to 2001, New Hampshire Manufacturing employment and output scaled back dramatically. More recently, the percent change of GSP in New Hampshire rebounded to match the growth rate of the nation by 2002, and has been steadily increasing through 2004.

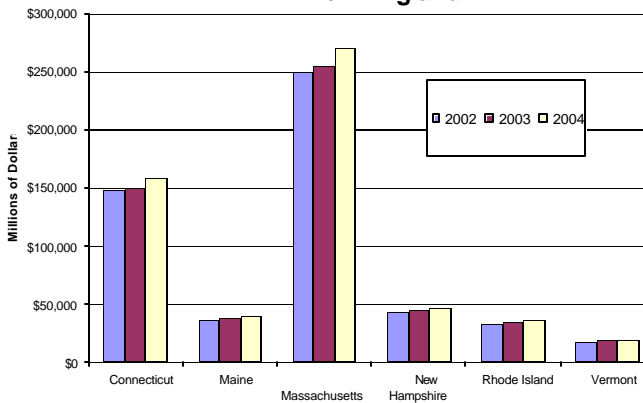
Personal Income

Annualized total personal income in New Hampshire for second quarter 2005 was \$50,149 million. This represented a 1.5 percent increase from the revised first quarter 2005 level of \$49,401 million, according to the Bureau of Economic Analysis. This was an acceleration over the 1.0 percent increase experienced in the first quarter. Unlike the uneven expansion from fourth quarter 2004 to first quarter 2005, all components of personal income increased over-the-quarter from first to second quarter 2005.

Seasonality made the difference in second quarter 2005 in which sectors had the highest share of the

growth in earnings in the state. Construction slid below what it had contributed to the first quarter 2005.

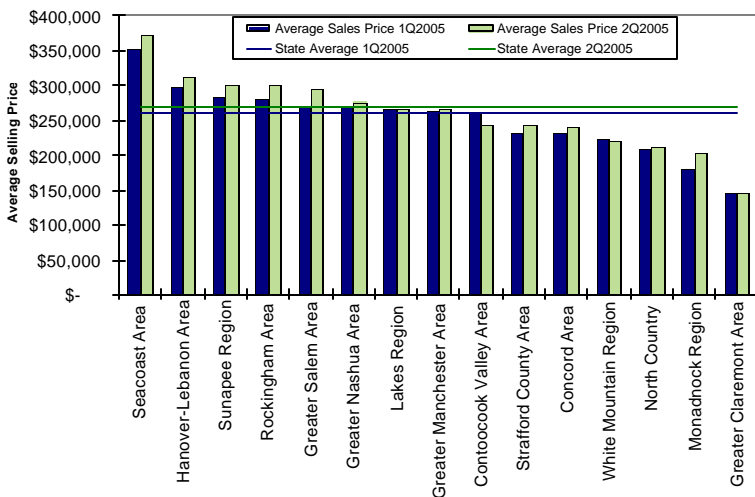
Total Personal Income, by State in New England



Housing

The Northern New England Real Estate Network (NNEREN) tracks residential housing sales throughout New England. They also break out the state into 15 different regions, providing an opportunity to make comparisons of data among areas in the state. Home sales are very seasonal, spring being the strong sales season and winter slower. From first quarter to second quarter 2005, the average sales price declined in two areas of the state, Contoocook Valley Area and White Mountain Region. According to NNEREN, the average sales price of a home in New Hampshire increased three percent over-the-quarter to \$267,517.

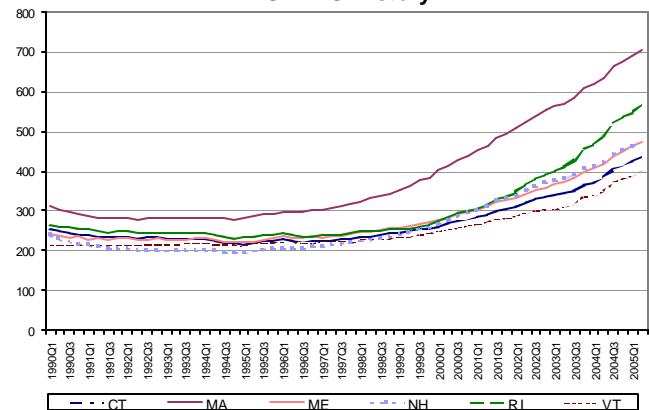
Housing Prices



(Source: Northern New England Real Estate Network)

Another source for tracking residential sales is the Office of Federal Housing Enterprise Oversight (OFHEO). They use the most recent mortgage transactions information provided by Fannie Mae and Freddie Mac to produce an index that measures the change in single-family house prices. The OFHEO announced that the house price index (HPI) showed an annual increase of 13.4 percent nationally from second quarter 2004 through second quarter 2005. The announcement concluded that the increase was the largest over-the-year change in more than 25 years. New Hampshire's change in HPI, for the same period, was slightly lower at 12.4 percent over the year, still representing a healthy increase.

OFHEO History



Energy

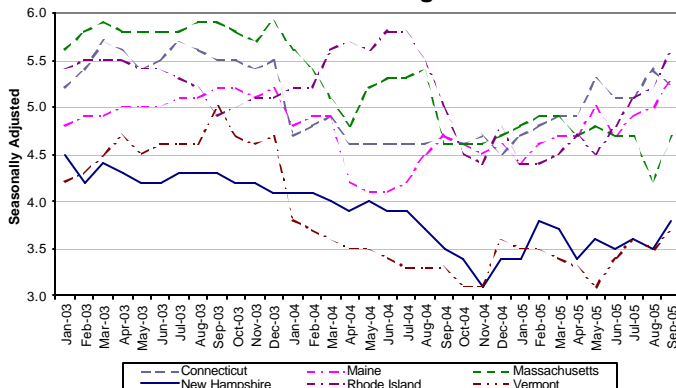
The recent rash of hurricanes and related damage to refineries and energy supplies in the Gulf Coast has raised many concerns about existing and future energy supplies. According to the American Community Survey 2004, about a quarter of the total housing stock in New Hampshire was built in 1939 or before. Even though energy efficient updates may have been conducted, included in the nature of these older homes, along with the charms of their age, are cracks and drafts which make them more difficult to heat.

In addition to residences, changing energy supplies may also adversely impact businesses and industries. This could take

the form of increased expenses for doing business or the lower revenues from reduced sales as well as reduced profit margins.

The increase in the price of gasoline was the most immediate visible change. Other effects, slower to surface, will be the increased costs of running schools and public facilities. Fortunately, because of New Hampshire's traditionally high energy costs, its industry mix leans toward low-energy consuming, high-value-added manufacturing and software consulting. These less energy-dependent industries, along with overall energy conservation efforts will help keep New Hampshire's economy on track.

**Unemployment Rates in New England
Jan-2003 to Aug-2005**



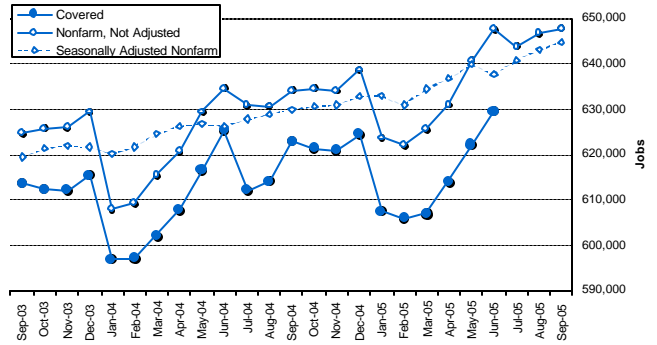
Unemployment Rate

New Hampshire's labor force surpassed 700,000 in 2000 and has continued to grow. From January through September 2005, the labor force increased over two percent to reach 742,050, compared to the 0.5 percent for the same period last year. Even with the continued increased inflow of additional workers, the state continues to maintain one of the lowest unemployment rates in the region. For the past year, New Hampshire has been wrestling with Vermont for having the lowest unemployment rate in New England.

Total Employment

Although unemployment rates are residence-based, and many New Hampshire residents commute to out-of-state jobs, it might be expected that instate job counts would also need to increase to help

Total Employment



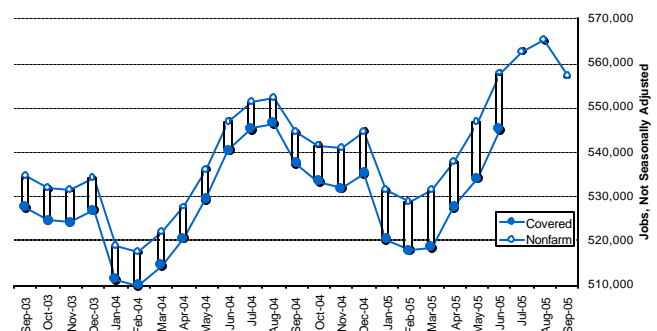
preserve the employed status of residents. Total covered employment grew by 4,300 jobs from June 2004 through June 2005, a growth rate of 0.7 percent. Even though this is less than half of the increase experienced the previous year, it remains a good sign. The 2001 recession was followed by an extended "jobless recovery." Not until 2003 - 2004 did the state see appreciable job growth. The nonfarm employment series offers estimates that are available sooner than the covered employment data. The increases in both seasonally adjusted and not-seasonally adjusted nonfarm total employment, closely resemble the growth in the labor force at 2.2 and 2.4 percent respectively from September 2004 through September 2005. This indicates the state economy remains healthy and growing.

Employment by Industry

Private Employment

Jobs in private covered employment, in the state, increased by 4,600 jobs and 0.9 percent from June 2004 to June 2005. The latest trends in nonfarm

Private Employment

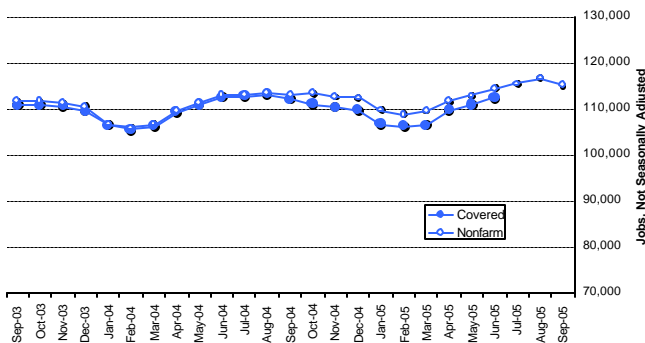


private employment also show a 2.4 percent growth rate, over 12,000 more positions, from September 2004 through September 2005.

Goods-Producing

Goods-producing industries are generally the major contributors to the gross state product by definition, as opposed to service providing industries. Covered employment in these industries ended the year 120 jobs behind the June 2004 level, representing a drop of 0.1 percent. Bringing that picture to a more recent perspective, the nonfarm goods producing estimates through September increased employment by 2,200 jobs over-the-year.

Goods - Producing Employment

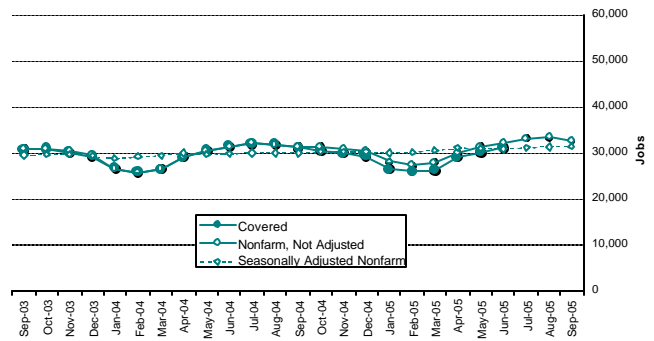


Construction Supersector

In the recent past, employment in Construction had been largely responsible for any growth or stability among the goods-producing industries. The fall 2004 seasonal decline of covered employment in of Construction continued through the spring and summer months of 2005, dropping 271 jobs over-the-year by June. It may have been because very wet and cold weather extended into June, delaying many projects. The most recent nonfarm estimates in September illustrate there is growth and demand, with increases of 1,300 jobs not-seasonally-adjusted, and 1,400 positions seasonally adjusted ahead of September 2004.

Weather is one factor that has a big influence on Construction employment levels. With the recent deluge of damaging natural events, Construction may see a temporary boost in employment from the restoration efforts.

Construction Supersector

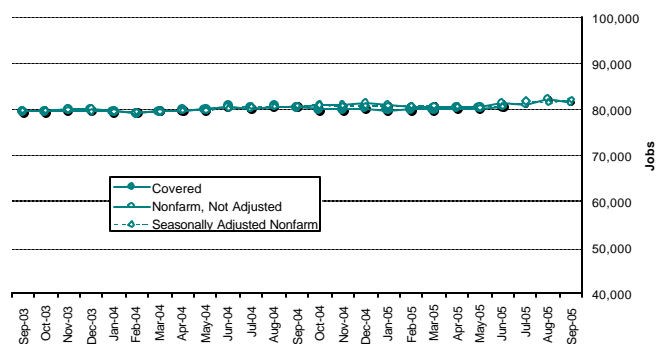


Manufacturing Supersector

New Hampshire's Manufacturing has recently been the center of many concerns. The state has historically maintained a higher than national share of Manufacturing employment, and the high tech specialization of many of these companies in the state was part of the reason why New Hampshire was hit so hard by the 2001 recession. After the two years of employment turbulence in the industry, Manufacturing has had stable employment levels from September 2003 through September 2005.

In June 2005, covered employment in durable goods manufacturing added over 800 workers over-the-year, doing well to mitigate the losses of almost 700 jobs from nondurable goods manufacturing. This resulted in a net gain of 141 covered jobs from June 2004 to June 2005. Nonfarm employment data continued that growing trend through September, indicating an over-the-year increase of 1.0 to 1.5 percent, not-seasonally adjusted and seasonally adjusted respectively.

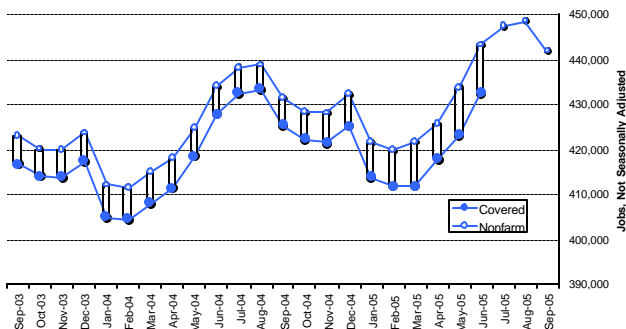
Manufacturing Supersector



Service Providing

Responding to changing demographics, the economy is experiencing the shift of employment from a once production-driven environment to one that is dominated by demand for services. New Hampshire service providing industries added 4,726 covered jobs from June 2004 to June 2005. That was a 1.1 percent increase over the year.

Service Providing Employment

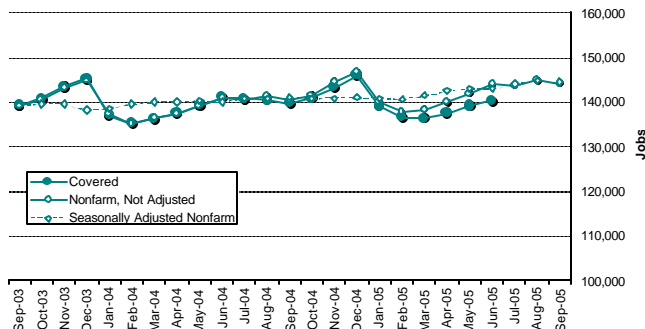


By the nature of businesses included in the service providing industries, there is a quantity of employment that is not covered by unemployment compensation insurance, like some who work on commissions, workers in religious organizations, and work-study students. This employment is included in nonfarm data. The nonfarm series showed employment in the service providing industries grew over-the-year by 2.4 percent, or 10,600 jobs from September to September, supporting the continued positive perspective of current job levels.

Trade, Transportation, and Utilities Supersector

Covered employment figures display the vulnerability of this supersector that, as a whole, came up on the losing side of employment changes. Driven

Trade, Transportation, & Utilities Supersector

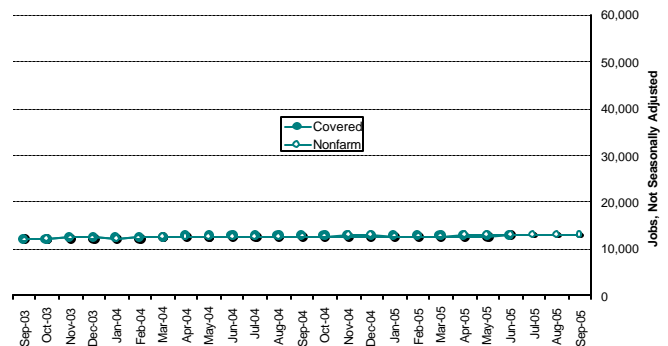


primarily by the volume of Retail trade employment, the entire industry grouping felt the sting from the reductions in Retail trade, dropping overall by 676 jobs. Wholesale trade and Transportation and warehousing combined to add about 200 jobs to partially relieve the loss of over 800 jobs in Retail trade. Nonfarm data were more upbeat showing all sectors in the group - Wholesale trade, Retail trade, Transportation and warehousing, and Utilities - growing from last September's employment level.

Information Supersector

Information covered employment levels have been very stable. There was a slight over-the-year increase of 1.1 percent by June, representing 142 more jobs. Nonfarm estimates brought these figures more current through September with an increase of 300 positions, a 3.1 percent growth rate from September 2004.

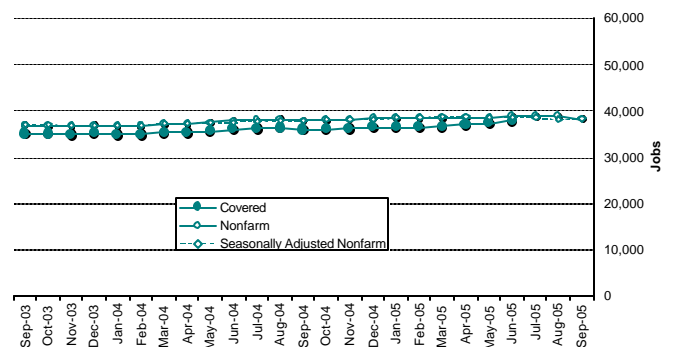
Information Supersector



Financial Activities Supersector

Finance and insurance may eventually feel the pinch of paying out all the claims related to damages from flooding, both locally and nationally. Will the rates

Financial Activities Supersector

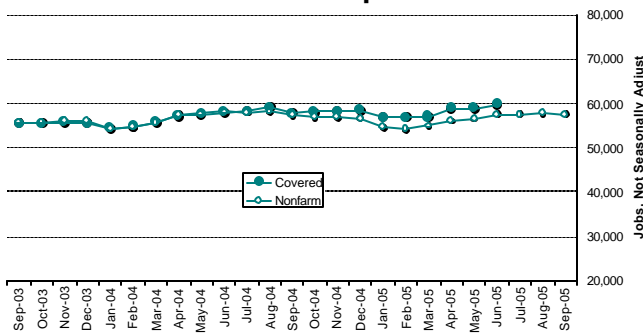


increase as a result? And what kind of effects will employment levels experience from processing claims and diminished financial reserves? As of June 2005, covered employment in the Financial activities supersector had grown by 1,757, an increase of 4.9 percent over-the-year. All subsets of the supersector contributed to the increase, but the lion's share, 1,585 jobs, was from Finance and insurance. Nonfarm figures followed the same upward trend, only slightly modified.

Professional and Business Services Supersector

There was a healthy increase of over three-percent in covered employment in the Professional and business services supersector. Half of this growth, 913 jobs, was from the Professional, scientific, and technical services sector. Computer systems design and related services, and Management of companies and enterprises both added jobs to this sector, 450 and 327 jobs respectively. The Administrative and support and waste management and remediation services sector also added over 30 percent of the job growth in the supersector, increasing by 570 jobs.

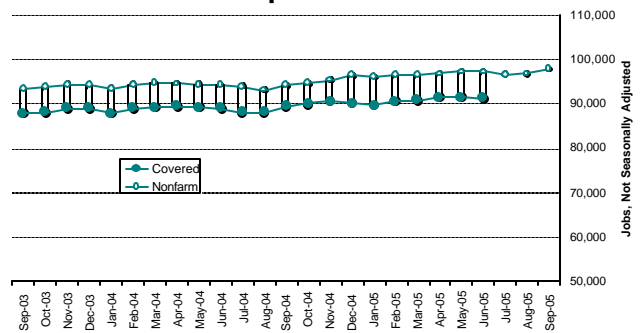
Professional & Business Services Supersector



Educational and Health Services Supersector

Over 2,200 more covered jobs were in the Educational and health services supersector over-the-year. Eighty percent of these jobs were provided by the Health care and social assistance sector. Within that sector, there were job increases across the board, but Hospitals and Ambulatory health care services combined to add over 1,500 jobs. Nonfarm estimates followed the same positive trends, increasing their employment levels by over 3.0 percent through September.

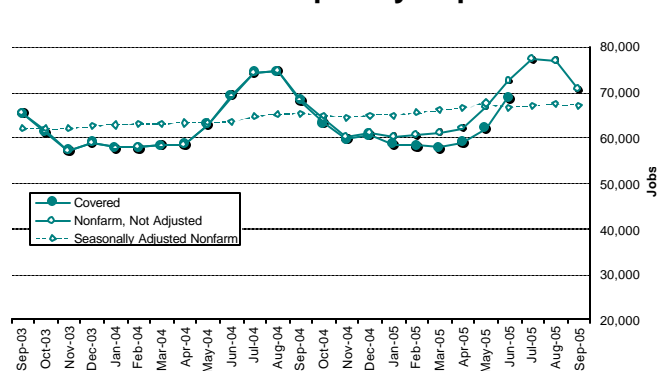
Educational & Health Services Supersector



Leisure and Hospitality Supersector

The less-than-optimal spring and early summer weather may have contributed to Leisure and hospitality not experiencing typical over-the-year increases, cutting back over 500 positions by June 2005. Arts, entertainment, and recreation was the primary culprit for the reduction of payrolls, scaling back 860 jobs from June 2004. Accommodations also struggled with its employment efforts with almost 500 fewer positions in June than there were at the same time last year. Food services and drinking places produced a notable 815 positions, but not enough to outnumber the losses from the other subsets of the supersector. More recent nonfarm data indicate continued employment growth through September.

Leisure & Hospitality Supersector

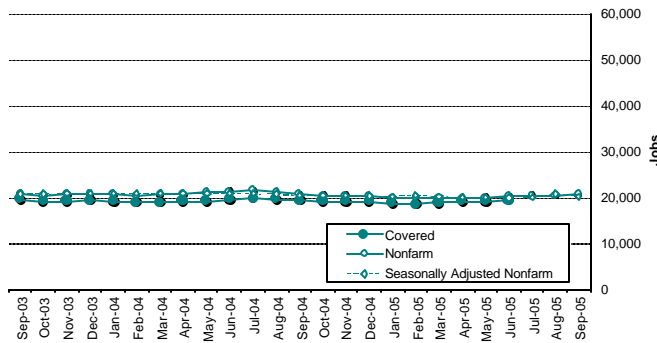


Other Services Supersector

Covered employment in the Other services supersector includes repair and maintenance shops, personal care and laundry services, as well as grantmaking, civic, and professional organizations. There was a slight decline in covered employment over-the-year, 196 jobs, by June 2005. There are

also many fraternal and religious organizations, like the Elks Club, Knights of Columbus, and churches, that make up the bulk of the non-covered employment that nonfarm data include. These data indicate that there was a more significant downward trend of employment within this group.

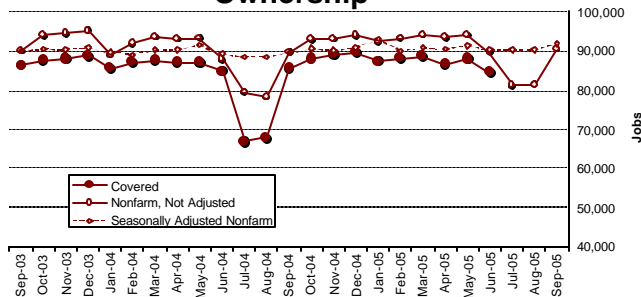
Other Services (exc. Public Administration) Supersector



Government

Overall, Government covered employment followed its seasonal trend heavily influenced by schools. June 2005 found the employment level was almost 300 jobs shy of June 2004’s level.

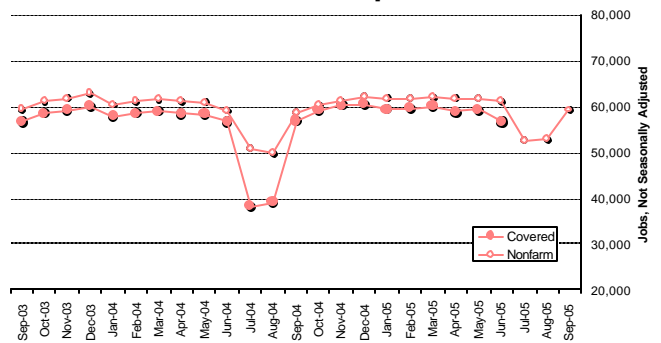
Employment in Government Ownership



Local Government

Local government employment levels are seasonally influenced by the public school schedules in the state. In summer, employment levels typically dip down when schools are recessed for the summer and rebound to previous levels when school resumes each fall.

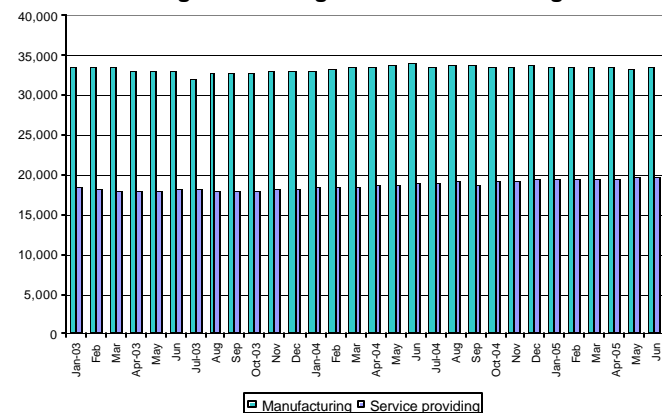
Employment in Local Government Ownership



High Tech

The initial drop in high tech employment was between 2000 to 2001. A high concentration of New Hampshire’s high tech employment has typically been and remains in Manufacturing. The economic downturn in 2001 had a big influence on this employment group as New Hampshire has a higher than national average of both Manufacturing and high tech employment. During the recession period, the Manufacturing portion of high tech employment decreased while the service providing industry portion increased. Since 2003, overall high tech employment has stabilized and is now gradually growing again through June 2005.

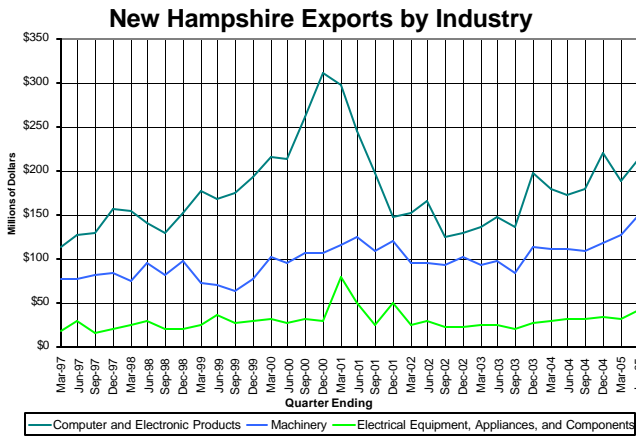
High Tech - Mfg vs Service Providing



Exports

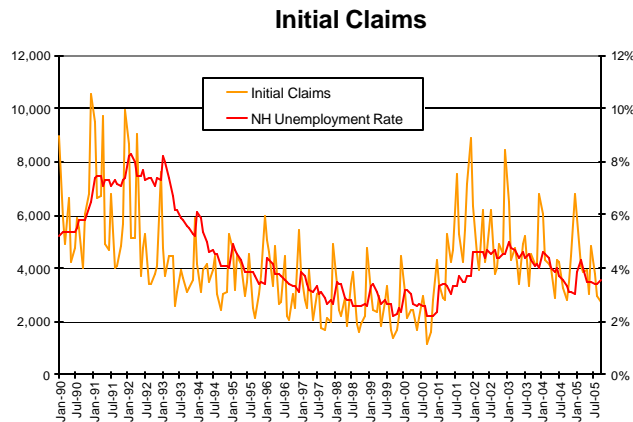
New Hampshire’s top three export groups, as measured by annual dollar amounts, are Computer and electronic products, Machinery, and Electrical

equipment, appliances, and components. By total value, Computer and electronic products has been the leading export for the last decade - and this is largely reflected in employment trends in New Hampshire's Manufacturing. This group peaked in 2000 and was the hardest hit with the "high tech bust" that occurred with the most recent recession. The exports from this industry bottomed out by the fourth quarter 2001 at \$147 million. The recovery was slow, but exports increased and by the end of second quarter 2005 have recouped to an export value of \$210 million.



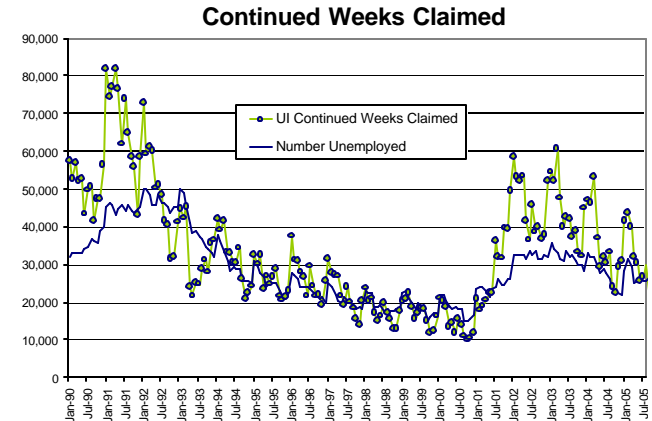
Initial Unemployment Compensation Claims

Initial claims are a reflection of the economic environment. The number of initial claims fluctuates with the business cycle. The 2,759 initial claims in New Hampshire for September 2005 were the lowest number filed since October 2000.



Continued Weeks Claimed

Like initial claims, continued weeks claimed are also a signal of the direction of the local economy. The significant difference being that continued weeks claimed represent benefits paid for a period of unemployment. September's volume of continued weeks claimed was below 21,000 for the first time since April 2001.



Conclusion

There is an elevated air of caution surrounding all aspects of life in the state. The continued deluge of natural disasters is a reminder of uncontrollable influences on the economy. The aftermath has resulted in a growing list of those who want/need donations of resources, time and energy or materials and finances. And winter is coming. From fuel costs to lower consumer confidence levels, these will most likely demand difficult choices concerning the allocation of dwindling disposable income. That could have a stifling effect on the upcoming retail holiday season.

In contrast to the rapid pace of employment growth during the mid 1990's, New Hampshire's economy is now gaining at a steady and measured pace. This is a sign of the resilience and strength of the state's economy.

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