

# The Economic Performance of the New England States in 2002: An Overview

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Following a weak performance in 2001, New England's economy continued to struggle throughout 2002. The region faced faltering employment levels, rising unemployment, and escalating consumer prices. Economic uncertainty was reflected in dwindling consumer confidence. Despite a rather gloomy labor market, New England's residential real estate and export markets flourished.

Between December 2001 and December 2002, the region lost roughly 66,000 jobs (1.0 percent), more than double the rate of contraction seen across the country (0.4 percent). All but one New England state (Rhode Island) saw employment levels fall (see Chart 1). Between 2001 and 2002, the industries with the most severe job losses included manufacturing (9.2 percent), information (8.5 percent), professional and business services (5.2 percent), and transportation, warehousing, and utilities (3.4 percent).<sup>1</sup> Smaller job losses were also evident in construction (0.4 percent), but were less severe than the 1.4 percent decline nationwide. Some sectors did show signs of growth, however. Employment in the region's education and health services led the way, expanding 2.8 percent between 2001 and 2002, but this growth trailed the nation's 3.4 percent job growth rate in this sector. Leisure and hospitality, another industry important to New England, showed a 2.0 percent increase in employment, faring better than the nation's overall 0.6 percent decline in this sector. Also, retail trade jobs, which witnessed a 1.3 percent cut nationwide, edged up 0.2 percent in the region (see Charts 2 through 6).

## Unemployment

By December 2002, New England's unemployment rate had risen to 5.1 percent, the highest level since February 1996. The 0.7 percentage point increase from December 2001 was more than twice

the 0.3 percentage point increase seen across the nation as a whole (see Chart 7). Nonetheless, New England's unemployment rate remained well below the rate of the nation as a whole (6.0 percent) and below the rates of all other Census divisions except West North Central.<sup>2</sup> New England's help wanted advertising index, a gauge of the supply of jobs advertised in print media, fell to 22 in December, the region's lowest level since 1958. Despite a rising unemployment rate and fewer available jobs, initial claims for unemployment insurance dropped by 3.8 percent over the course of the year.

## Consumer Prices

Between November 2001 and November 2002, consumer prices climbed 4.0 percent in New England (the greater Boston area), topping the consumer price inflation rate seen across the country (2.2 percent) and marking the highest inflation rate among 14 metropolitan areas.<sup>3</sup> The region's inflation was primarily driven by rising costs of shelter and medical care (up 8.1 percent and 4.6 percent, respectively). Despite rising prices across most major categories of consumer goods, fuel costs slipped 6.9 percent in New England, compared with a slight national increase of 0.1 percent.

## Consumer Confidence

The region's consumer confidence index plummeted nearly 40 percent over the course of 2002 as New England consumers continued to be more pessimistic about the economy than residents of other regions and the United States overall. U.S. residents were also significantly less confident in 2002 than in 2001, although the 15 percent decline in the national index was less drastic. Consumer perceptions of their present situation worsened, as seen in the 38 percent drop in the present situation compo-

Chart 1

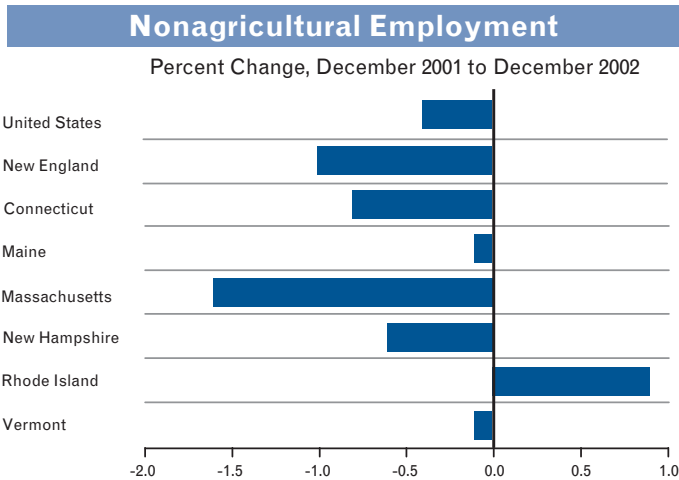


Chart 4

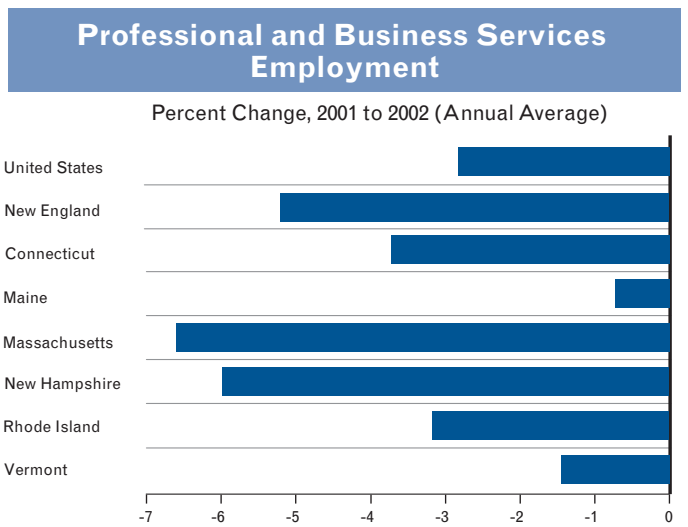


Chart 2

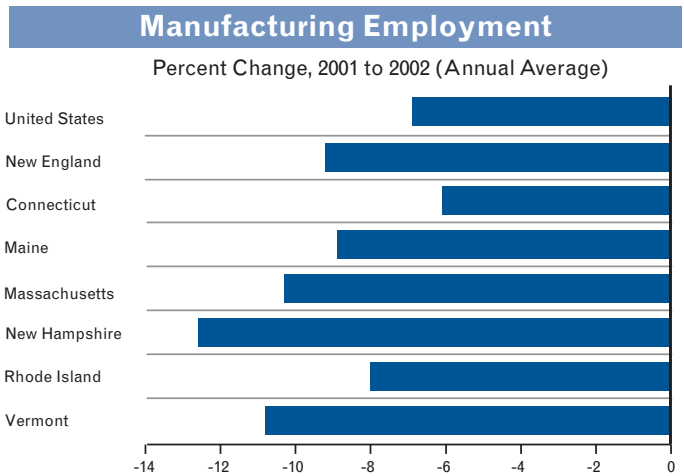


Chart 5

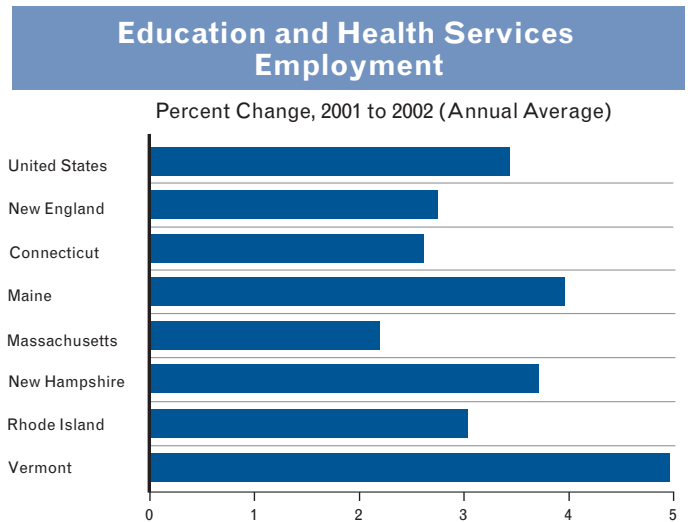
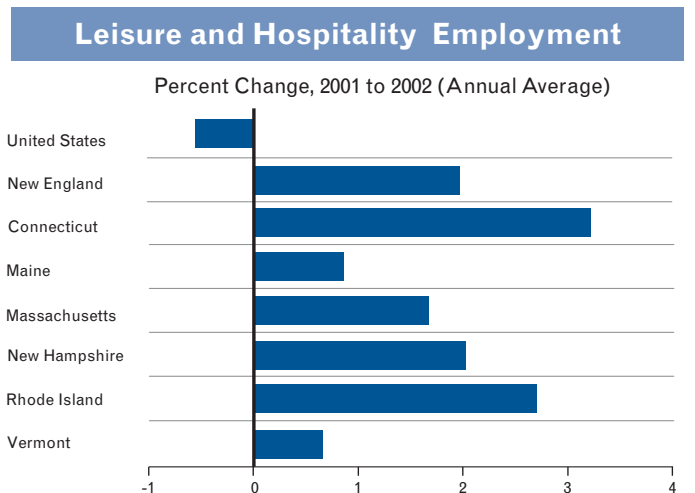


Chart 3



Chart 6



ment of the regional index. New England consumers' outlook for the future also dimmed greatly over the course of the year, to levels not seen since 1996.

### Income

New Englanders earned 3.3 percent more in personal income in the fourth quarter of 2002 than a year earlier, trailing the 3.9 percent growth in national income (see Chart 8). The region's income growth also fell short of growth rates seen in the other seven regions defined by the Bureau of Economic Analysis (BEA), which ranged from 3.4 percent to 4.4 percent. The 1.7 percent growth in regional wage and salary disbursements, the major component of total personal income, also trailed the national increase of 2.4 percent.

Despite below-average personal income growth, New England's per capita income reached \$37,575 in 2002, exceeding the national average of \$30,941 and maintaining its lead over the other seven BEA regions. Moreover, three New England states (Connecticut, Massachusetts, and New Hampshire) ranked among the top 10 states in per capita income (see Chart 9).

### Real Estate

Despite a soft labor market, residential real estate remained strong in New England during 2002. The repeat-sales home price index climbed 11.3 percent between the fourth quarters of 2001 and 2002, outpacing growth in all eight other regions and the nation as a whole (see Chart 10). By the fourth quarter of 2002, median sales prices of existing homes in six of the seven New England metropolitan areas for which data are reported exceeded the national median; Springfield, Massachusetts was the exception.

With its six states posting increases varying from 2.4 percent to 30.2 percent, New England saw an overall 10.2 percent boost in the average number of housing permits authorized in 2002 compared with 2001 (see Chart 11). The increase in permits across the United States was also sizable (6.8 percent), but not as robust as in New England.

The average value of total construction contracts (residential, nonresidential, and nonbuilding com-

bined) rose 4.9 percent between 2001 and 2002, compared with the lesser 1.3 percent growth seen nationwide. Most New England states saw spikes in construction contracts values, with changes ranging from -4.4 percent to 38.3 percent.

### Exports

The dollar value of exports from New England rose 5.6 percent over the course of 2002, outperforming the 1.6 percent growth in U.S. exports overall (see Chart 12). Exports to New England's top 10 destinations also increased, especially to the Netherlands and Korea, where exports surged upward by 48 percent and 30 percent, respectively. Exports from the region's leading exporting industries also flourished: exports of chemicals shot up 52.1 percent (only 10.1 percent across the nation as a whole), and exports of fabricated metal products expanded 28.6 percent (compared with the 3.5 percent increase across the nation). The region's largest export industry—computer and electronic products—saw exports rise 10.5 percent. By contrast, regional exports of transportation equipment declined 13.6 percent.

### Early 2003

New England's weak economy persisted through May 2003, when 0.8 percent fewer total jobs were tallied from 12 months before. Over the same period, the United States lost just 0.3 percent of jobs. Average monthly employment (January through May) was down in some industries and up in others. The biggest losers were the information and manufacturing sectors, where, respectively, 5.4 percent and 5.0 percent fewer jobs were reported than a year earlier. Leisure and hospitality and education and health services continued expanding, with job count boosts of 1.9 percent and 1.8 percent, respectively.

The region's unemployment rate moved down slightly in early 2003, but was back up to 5.1 percent in May, still below the national rate of 6.0 percent and faring better than all other Census divisions except West North Central. Initial claims for unemployment insurance were 4.5 percent lower in April 2003 than in April 2002, compared with a 5.7 percent increase across the nation.

Chart 7

Unemployment Rate

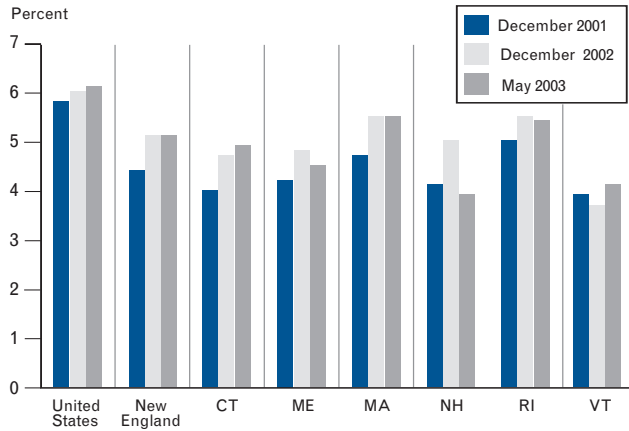


Chart 10

Repeat-Sales Home Price Index

Percent Change, Fourth Quarter 2001 to Fourth Quarter 2002

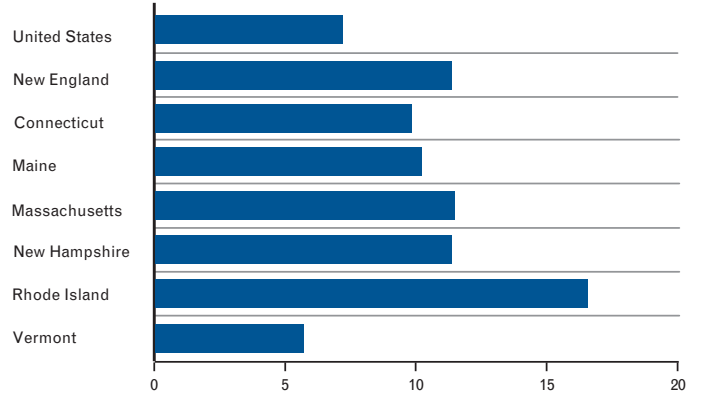


Chart 8

Personal Income

Percent Change, Fourth Quarter 2001 to Fourth Quarter 2002

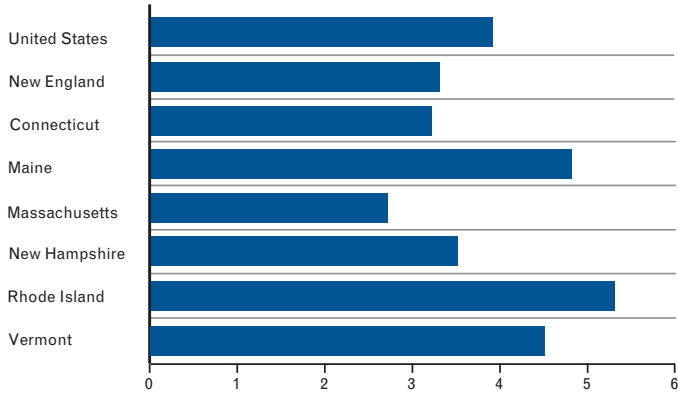


Chart 11

Housing Permits

Percent Change, 2001 to 2002 (Annual Average)

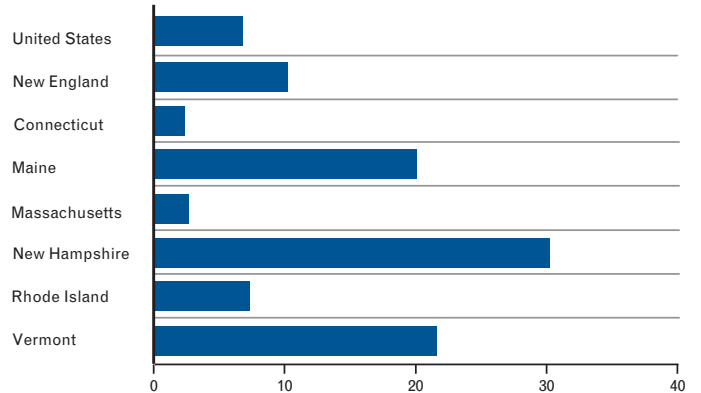


Chart 9

Per Capita Income, 2002

Numbers in Brackets Denote Rank Among 50 States

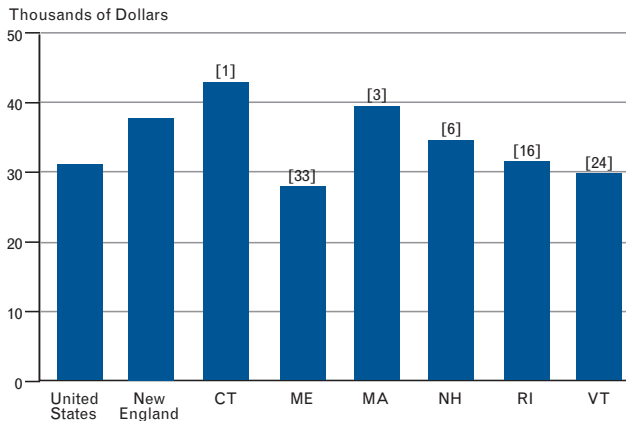
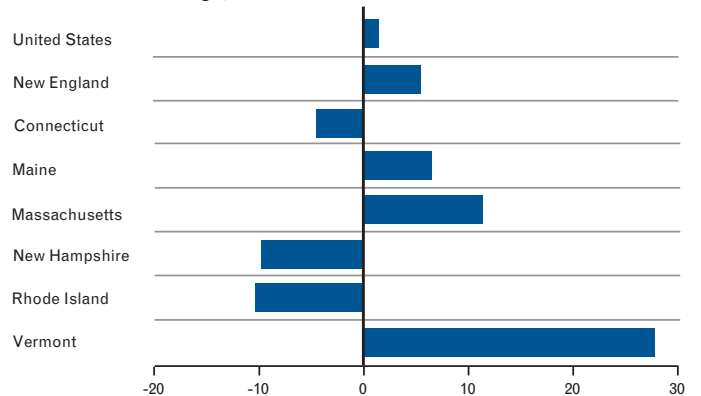


Chart 12

Total Exports by State

Percent Change, Fourth Quarter 2001 to Fourth Quarter 2002



Consumer prices in New England continued to rise through May 2003, outpacing the national 2.1 percent consumer inflation observed. Regional fuel prices, after relaxing somewhat in 2002, rebounded and increased 17 percent between May 2002 and May 2003. Meanwhile, national fuel prices rose almost 9 percent.

Residential real estate continued to perform well through the first quarter of 2003. The regional repeat-sales home price index continued to rise, with all states posting increases from a year earlier. Appreciation in all states but Vermont exceeded the nationwide home price appreciation rate. On the other hand, with all New England states showing declines, average housing permits in 2003 (January to May) were 10.3 percent below year-earlier levels, compared with a 3.1 percent increase nationwide.

## Connecticut

The Constitution State continued to suffer through a downturn in 2002. Total nonagricultural employment decreased by 13,200 jobs between December 2001 and December 2002. The 0.8 percent drop was the second largest decline in New England and was double the rate of the U.S. contraction. Employment levels rose in the Bridgeport, New London-Norwich, and Danbury metro areas, but fell in Connecticut's three largest metro areas, Hartford, New Haven-Meriden, and Stamford-Norwalk.

Employment in the state's manufacturing industry continued its long-term downward trend, shedding 13,700 jobs, or 6.1 percent, in 2002 (annual average). However, Connecticut fared better than the other states in New England, where manufacturing employment losses ranged from 8.0 percent to 12.6 percent. Other industries in Connecticut with job losses in 2002 include professional and business services (7,800 jobs), construction (2,000 jobs), transportation, warehousing, and utilities (1,500 jobs), and wholesale trade (1,300 jobs). Contributing to these losses were significant layoffs announced by United Technologies<sup>4</sup> (aerospace), Ames<sup>5</sup> (retail), Aetna<sup>6</sup> (health insurance), Bayer<sup>7</sup> (pharmaceuticals), Sikorsky Aircraft<sup>8</sup> (aerospace), Proctor and Gamble<sup>9</sup> (consumer products), and Southern New England Telephone<sup>10</sup> (utilities). Employment in the retail

trade and financial activities industries remained generally flat in 2002, averaging 195,400 and 143,000 jobs, respectively.

Some of the job losses in 2002 were counterbalanced by gains in the education and health services and leisure and hospitality industry sectors, which added 6,600 jobs and 3,800 jobs, respectively. As the Foxwoods casino celebrated its tenth anniversary and the Mohegan Sun casino opened a 34-story luxury hotel,<sup>11</sup> the government sector added 4,700 jobs.

While the aggregate number of jobs in Connecticut was dropping, the labor force was growing. During 2002, the average size of the labor force increased by 17,500 people, a 1.0 percent gain over the 2001 annual average. Having either risen or remained level each month since July 2000, the unemployment rate stood at 4.7 percent in December 2002, the highest since September 1997, but lower than the rates of all other New England states save Vermont. Following this trend, weekly unemployment insurance claims rose more than 8 percent from December 2001 to December 2002.

Despite the drop in the number of jobs and the rise in the unemployment rate, Connecticut retained its number one national ranking for per capita income, at \$42,076. Concurrently, personal income, wage and salary disbursements, and average hourly earnings of manufacturing production workers all were on the rise between 2001 and 2002, although average weekly hours of manufacturing production workers slipped 0.1 percent over the same period.

While the labor market did not provide many bright spots in Connecticut's economy, the housing sector did. Existing home sales had a banner year, posting sales at an annual rate of 51,900 in the fourth quarter of 2002. The state's repeat-sales home price index increased 9.8 percent from fourth quarter 2001 to fourth quarter 2002. Over the same period, the median sales price of existing homes in the Hartford and New Haven-Meriden metro areas increased to \$183,500 and \$202,000, respectively, and remained well above the national median of \$161,000. Home construction activity increased, as the annual average number of permits issued rose by 2.4 percent. However, permit growth in Connecticut lagged the other New England states.

Exports in Connecticut suffered widespread

declines from fourth quarter 2001 to fourth quarter 2002 as the dollar value of total merchandise exports from the state dropped 4.4 percent. Exports of transportation equipment, Connecticut's largest exporting industry by far, representing almost half of all exports from the state, decreased 10.8 percent. Computer and electronic products and machinery exports decreased 12.8 and 7.6 percent, respectively. Connecticut's top three export destinations, Canada, France, and Germany, all imported less of the state's merchandise in fourth quarter 2002 than in fourth quarter 2001.

Connecticut's seasonally adjusted total nonagricultural employment peaked at 1,698,800 jobs in July 2000, hit a cyclical low at 1,655,000 in February 2003, and has been hovering around that trough through May 2003. While the total job loss of 43,800 from peak to trough pales in comparison with the job loss experienced in the recession of the early 1990s, the lack of any job growth is one of the factors keeping the Connecticut economy stuck in the quagmire of a shallow, but wide, recession. News of job creation in the manufacturing industry through defense contracts was offset by announcements of payroll reductions by the State of Connecticut (2,885 jobs) and by various private companies including insurance firm The Hartford (1,500 jobs) and retailer Kmart (900).<sup>12</sup> However, Connecticut's labor force continued its steady climb, rising 1.1 percent between April 2002 and April 2003. With the aggregate number of jobs in the Constitution State still shrinking and the number of workers in the labor force continuing to rise, the unemployment rate ticked upward to 5.3 percent in April 2003 and then declined to 4.9 percent in May, still well above its year-earlier level.

## Maine

Between December 2001 and December 2002, Maine's total nonagricultural employment was almost unchanged, with a marginal decrease of 0.1 percent. The first half of the year was much more positive than the second; in the first seven months of 2002, the state added 3,400 jobs, only to lose 3,900 over the remainder of the year. The Maine employment picture was relatively bright, however, compared with the rest of New England—nonfarm

employment in the region was down 1.0 percent, while only one of the region's six states experienced employment growth. After two years of stagnant job growth, Maine employment stood at 604,200 in December 2002.

Following the same trend as in 2001, manufacturing was the weakest sector, with employment falling 8.9 percent. Within this sector, average annual employment fell sharply in computer and electronic products (18.5 percent), as well as semiconductor and other electronic components (23.6 percent), with Sanmina-SCI cutting 535 jobs on two occasions.<sup>13</sup> Manufacturing of leather and allied components suffered (-32.2 percent), as did textile mills and products and apparel (-11.9 percent), with C.F. Hathaway, Nautica, and Kent, Inc. shedding nearly 800 jobs, collectively.<sup>14</sup> Of 41 mass layoffs in Maine during 2002, 10 were in the manufacturing sector.<sup>15</sup> Offsetting this weakness in manufacturing was modest employment growth in various services industries, including education and health services, which saw growth of 4.0 percent. Employment in retail trade also grew 0.6 percent, despite the loss of 1,012 jobs from the closing of Ames Department Stores.<sup>16</sup>

Amid marginal employment declines, the state's average annual unemployment rate in 2002 was 4.4 percent, and by December 2002, unemployment had reached its highest rate (4.8 percent) in almost five years. The state's unemployment rate was low, however, compared with rates for New England as a whole and for the United States. Moreover, average weekly claims for unemployment insurance fell 9.8 percent between December 2001 and December 2002, compared with a 3.8 percent decrease in New England and a 2.0 percent increase in the nation. In the state's three metropolitan statistical areas, Bangor, Lewiston-Auburn, and Portland, unemployment rates were low—3.1 percent, 4.2 percent, and 2.6 percent, respectively, in December 2002. Some non-metropolitan labor market areas, however, exhibited very high average annual rates of unemployment in 2002. Three such areas, led by Dexter-Pittsfield, at 11.5 percent, exhibited annual rates of more than double the state average.

While total employment remained steady in Maine in 2002, wage and salary disbursements

increased 4.1 percent from fourth quarter 2001 to fourth quarter 2002. This increase was higher than increases for New England overall and the United States, and second only to Rhode Island among all New England states. Maine led the New England states, however, in growth of average hourly earnings, with an increase of 5.6 percent during 2002. Similarly, personal income grew 4.8 percent over the course of the year, with Maine again outpacing the United States and New England, and trailing only Rhode Island within the region. Despite sizable income growth in 2002, however, per capita income in Maine, \$27,744 per year, remained the lowest in New England and 33rd in the nation.

House prices in Maine continued to rise at a rapid pace in 2002. By the fourth quarter, the repeat-sales home price index had risen 10.2 percent from the year before. Maine's rise in house prices was slightly lower than New England's but higher than the nation's. The number of existing home sales grew only marginally, by 0.2 percent, to 40,600 by the fourth quarter of 2002. But new construction increased substantially; between 2001 and 2002, Maine's average annual residential construction contracts increased 25.7 percent, to a historical high, and the monthly average of new housing permits rose 20.1 percent.

State exports increased 6.6 percent between the fourth quarters of 2001 and 2002, to \$506.9 million. Export growth was only slightly greater than that of New England, but significantly greater than that of the United States as a whole. Despite a significant drop in employment in the computer and electronic products industry, exports of these goods rose 24.7 percent, to \$133 million. Among other major exporting industries, exports of forestry and logging also increased 16.5 percent, while exports of paper fell 9.6 percent. Exports to Canada, Maine's primary export market, grew 9.5 percent, to \$198 million. Exports to Singapore also grew 28.0 percent, to \$53 million, while exports to Malaysia fell 14.1 percent, to \$39 million.

Maine netted 1,100 new jobs from the end of 2002 through May 2003. Manufacturing employment continued its decline, while employment increased modestly in education and health services, government, and other services. The state's unem-

ployment rate bounced around in early 2003, coming in at 4.5 percent in May. Initial claims for unemployment insurance continued to fall early in the year, but increased in May to a weekly average of 1,549.

## Massachusetts

Massachusetts employment continued its downward slide in 2002, with total nonagricultural employment falling in nine out of twelve months and total job losses amounting to 52,800. The weak employment situation in the state had serious ramifications for New England as a whole; with Massachusetts accounting for almost half of the region's total employment, roughly four out of five jobs lost in New England in 2002 were in Massachusetts. At 1.6 percent, Massachusetts's rate of job loss was steepest among the six New England states, and was significantly greater than rates for the United States and New England as a whole.

Employment losses were greatest in manufacturing and professional and business services, with the sharpest declines coming from technology-related industries. Average annual employment in manufacturing was down 10.3 percent, or 40,100 jobs, with the highest losses coming from such high-tech areas as communications equipment (36.0 percent), semiconductor and other electronic components (21.5 percent), and computer and electronic products (16.6 percent). Of the 325 mass layoffs in the state in 2002, nearly half were in the manufacturing sector. Professional and business services employment declined by 32,100 jobs, or 6.6 percent, the largest drop among all New England states, with computer systems design and related services down 17.4 percent. The information sector lost 10.9 percent of jobs, again outpacing all other states in the region, with the sharpest drops coming in software publishing (14.0 percent) and telecommunications (10.8 percent). Wholesale trade employment also declined faster in the Commonwealth than in the rest of New England, losing 4.2 percent, and Massachusetts was the only state in the region to see employment fall in retail trade, by 0.7 percent. Some industries experienced modest employment gains, including education and health services (2.2 percent), leisure and hospitality (1.7 percent), and other services (1.5

percent), which gained 18,600 jobs, collectively.

Massachusetts's unemployment rate increased from 4.7 percent in December 2001 to 5.5 percent in December 2002. By the end of the year, Massachusetts (along with Rhode Island) had the highest unemployment rate among the New England states, faring worse than the region as a whole, but better than the nation. Among metropolitan statistical areas, unemployment rates were highest in Fitchburg-Leominster, Lawrence, and New Bedford, all of which exhibited annual unemployment rates exceeding 7.0 percent in 2002. Unemployment in the Boston area was relatively low, at 4.8 percent. While the state's unemployment rate increased over the course of 2002, initial claims for unemployment insurance declined, coming in 7.1 percent lower in December 2002 than a year earlier. The state's average labor force in 2002 was 2.7 percent greater than in 2001, growing faster than any other New England state.

Personal income and wage and salary disbursements increased slightly in Massachusetts over the course of 2002, but their growth was slower than in any other state in the region. Personal income grew 2.7 percent in the Commonwealth, compared with 3.3 percent in New England and 3.9 percent in the nation. At \$39,244, however, 2002 per capita income in Massachusetts ranked third highest in the country among all states, trailing only Connecticut and New Jersey. Wage and salary disbursements grew only 0.5 percent, to \$151.9 billion, still making up over one-half of the total for New England. Growth in average hourly earnings of manufacturing production workers (3.1 percent) was more sizable and, at \$16.25, the state's hourly earnings were second only to Connecticut within the region.

House prices continued to climb in Massachusetts, with an increase of 11.4 percent in the state's home price index over the course of the year. The state's housing prices grew at about the same pace as for New England as a whole, but faster than for the nation. The average number of permits issued in Massachusetts rose only 2.7 percent, considerably below the increases for New England and the United States. Similarly, residential construction contract awards grew by 5.8 percent, slower than for both New England and the United States.

By the end of 2002, exports from Massachusetts totaled \$4.4 billion. In adding \$454 million, the state's rate of export growth, 11.4 percent, was more than double that of the region as a whole. Much of this growth, however, can be attributed to a rebound from a dismal 2001, particularly the last two quarters, when exports were markedly depressed. Despite significant losses in manufacturing employment, exports from the state's three biggest merchandise exporting industries—computer and electronic products, chemicals, and machinery—all grew in 2002, with chemicals expanding 70.6 percent between the fourth quarters of 2001 and 2002. Exports to Canada, the state's largest export market, declined 1.4 percent during this period, while exports to Japan and the United Kingdom, the state's second and third largest importers, increased 4.2 and 6.0 percent, respectively.

Massachusetts employment continued to fall in the first four months of 2003 but picked up modestly in April and May, losing a total of 3,500 jobs since December 2002. Despite declining total employment, the state's unemployment rate in May, 5.6 percent, was not markedly different from the rate in December, 5.5 percent. Initial claims for unemployment insurance remained steady early in the year but increased in May. Housing prices continued to increase, while the number of new housing permits and the value of construction contracts decreased.

## New Hampshire

Despite growth in some sectors, New Hampshire's economy was dampened by ongoing weakness in the national economy throughout 2002. The Granite State lost 3,600 jobs, or 0.6 percent, between 2001 and 2002. Manufacturing employment declined 12.6 percent, almost double the nation's 6.9 percent loss, as sluggish demand for high-tech products nationwide triggered serious employment declines in New Hampshire's high-tech related industries. By year's end, one in five jobs in computer and electronics product manufacturing had been eliminated.<sup>17</sup> Facing falling revenues, Enterasys Networks shed 170 jobs at its Portsmouth headquarters in April 2002,<sup>18</sup> while Tyco cut almost 600 jobs following accusations of improper corporate accounting.<sup>19, 20</sup> The state lost another



250 jobs as the newly merged Hewlett-Packard/Compaq corporation eliminated operational redundancies.<sup>21, 22</sup>

The high-tech slowdown also affected software developers, contributing to a 6.0 percent decline in professional and business services jobs. Information sector employment contracted 5.9 percent year over year as the telecommunications sector suffered nationwide, while the continued shutdown of the Berlin and Groton paper mills further depressed manufacturing employment in the state's paper-related industries.<sup>23</sup> Other services also suffered a major employment loss in 2002, dropping 1,700 positions statewide.

On the flip side, the increased demand from a population growing faster than in any other state east of the Mississippi<sup>24</sup> helped to spur employment growth in several of the state's sectors. Construction employment grew 1.5 percent year over year, reaching levels not seen since the late 1980s.<sup>25</sup> The state added to its stock of industrial space, augmenting the Pease International Tradeport with an additional 750,000 square feet of space,<sup>26</sup> while VHG Labs, Harvey Industries, and Stellos all built new manufacturing facilities in the Manchester area.<sup>27</sup> Retail center construction remained intense with new projects including the revitalized Nashua Mall,<sup>28</sup> the new Hooksett Commons near Manchester,<sup>29</sup> and the 150,000 square foot Manchester Commons.<sup>30</sup>

With new retail centers popping up across the state, retail trade added 1,200 new jobs in 2002 to become largest sector in the Granite State, making up 15 percent of payroll jobs. In a major shift from 1990, when manufacturing was the state's primary industry, Wal-Mart is now the largest employer in the state, employing 8,500 employees at its 26 outlets and distribution center.<sup>31</sup>

New Hampshire's largest-ever tourism campaign kicked off in April 2002, inviting tourists to stay longer and enjoy the reminiscence of a "simpler time."<sup>32</sup> The campaign helped to boost leisure and hospitality employment, which added 1,200 jobs relative to 2001 levels. The state's Division of Travel and Tourism reported a 2 percent increase in room and meal revenues and 0.5 percent growth in the number of visitors in 2002 over 2001.<sup>33</sup> The increased utilization of Manchester Airport has also been a

boon to the tourism industry, germinating new hotels in the Manchester area and prompting an expansion of the airport's runways and terminal.<sup>34</sup>

The education and health services sector, the source of much of New England's job growth in 2002, was likewise strong in New Hampshire, growing 3.7 percent. Additionally, the financial activities and transportation, warehousing, and utilities industries grew 2.4 percent and 1.5 percent, respectively, faster than in either the region or the nation. Statewide employment was also augmented by a 2.4 percent increase in government sector jobs in 2002.

While overall employment losses were relatively minor, other labor market indicators illustrated underlying weakness in the economy. The 0.8 percent labor force growth between 2001 and 2002 trailed the region's 1.8 percent increase and marked the slowest expansion since the mid-1990s. In the fourth quarter, the unemployment rate rose to 5.0 percent, its highest percentage since 1994, and initial claims for unemployment insurance were high throughout the year. Average weekly hours for manufacturing production workers softened in 2002, declining almost 2 percent from average 2001 levels.

New Hampshire's personal income grew 2.3 percent in 2002 over 2001, slightly faster than the region's annual growth rate of 2.0 percent. While the wage and salary component of personal income grew 1.9 percent in 2002 over 2001, transfer payments saw the largest growth over the year, rising 8.4 percent in response to greater demand for government aid as the economy slowed and unemployment rose. New Hampshire maintained its sixth-place ranking among the 50 states in terms of per capita personal income, and remained third in New England.

In 2002, New Hampshire sustained the robust real estate market that nationally has characterized this economic slump. The repeat-sales home price index jumped 11.3 percent in the fourth quarter over year-ago levels, while sales of existing homes were up 8.1 percent from the year-earlier period. Strong demand for new homes spurred growth of 30.2 percent in housing permits over 2001 levels.

With 49 percent of New Hampshire's exports considered high-tech,<sup>35</sup> the slowdown in these industries was a blow to the state's export sector. Total exports fell 9.6 percent year over year in the

fourth quarter, contrasting with the region's 5.6 percent gain. The largest group of exports, computer and electronics products, fell 11.6 percent from a year ago in the fourth quarter, while machinery exports declined 13.3 percent, and electrical equipment, appliances, and components dropped 56.4 percent. Exports to Canada, the state's largest export market, rebounded in this period, gaining 15.4 percent, despite a slowdown in the state's other major markets.

New Hampshire's economy saw little improvement in the first five months of 2003. Employment contracted 0.1 percent year over year in May. Manufacturing continued to see large declines, although the slide became less steep. Retail trade, leisure and hospitality, and education and health services all continued to add jobs in the early part of 2003, helping to balance manufacturing losses. Surprisingly, construction employment fell 1.7 percent year over year in May, perhaps signaling the end of the building boom. On a more upbeat note, the unemployment rate came down to 3.9 percent in May, while average weekly claims for unemployment insurance fell 15.7 percent from year-ago levels, offering signs of a possible recovery in 2003.

## Rhode Island

The recent recession in the Ocean State was mild. Suffering less from the fallout of the September 2001 terrorist attacks and relying less on the high-tech sector than its neighbors, Rhode Island was the only New England state to experience an increase in aggregate nonagricultural employment in 2002, adding a total of 4,100 jobs between December 2001 and December 2002. While Rhode Island's 0.9 percent increase in employment was better than the national average, it was just shy of the state's long-term annual employment growth trend of 1.0 percent. The employment situation in Rhode Island is indicative of its overall economic standing—the recession is over, but the recovery is weak.

Employment changes in individual industries were mixed. Manufacturing payrolls continued their long-term erosion, dropping an average of 5,400 jobs in 2002. This 8.0 percent decrease was the steepest since 1991. Government contractors won some defense contracts, but the relocation or shut-

down of many Rhode Island manufacturing plants took their toll. Professional and business services employment decreased 3.2 percent, to an annual average of 48,900 in 2002. Employment levels in both the information and the transportation, warehousing, and utilities industries were flat.

The education and health services industry experienced its largest increase in payroll employment in over a decade, adding 2,600 jobs in 2002. While the federal and state governments shaved jobs in the Ocean State, local governments added roughly 1,300 jobs. After a slight decline in 2001, retail trade jobs expanded more in Rhode Island than in any other New England state in 2002. This increase is attributable, in part, to resilient consumer spending and the continued success of the Providence Place Mall. The longer and hotter-than-average summer in 2002 had residents in Rhode Island and neighboring states flocking to the beaches, helping leisure and hospitality employment rise 2.7 percent over 2001. Also in 2002, employment levels in the wholesale trade and financial activities industries experienced moderate increases of 600 and 300 jobs, respectively, while most New England states saw contractions in these sectors. Job growth in construction slowed, but remained positive and ahead of all the New England states and the nation. Aiding in the growth of construction jobs was the strong housing market and the start of Providence's own "Big Dig"—a three-mile-long tunnel that will help divert sewage away from Narragansett Bay during rainstorms.<sup>36</sup>

Rhode Island's average monthly labor force was 1.5 percent larger in 2002 than in 2001. Unemployment increased from 5.0 percent in December 2001 to 5.5 percent in December 2002, and initial weekly unemployment insurance claims increased 2.0 percent over the same period.

Average weekly hours of manufacturing production workers decreased 1.7 percent in 2002, while their average hourly earnings crept up by 0.5 percent. Between the fourth quarters of 2001 and 2002, the state's overall wage and salary disbursements increased 5.4 percent, while personal income increased 5.3 percent. Both of these percent increases were the largest among the New England states and well above the national averages of 2.4 percent and 3.9 percent, respectively. Rhode Island, with

per capita personal income rising 3.5 percent from 2001, to \$31,319, ranks 16th relative to other states in the nation.

While existing home sales decreased 1.5 percent, the repeat-sales home price index surged 16.5 percent between the fourth quarter of 2001 and the fourth quarter of 2002. This was the fastest rate of growth among the New England states and more than twice that of the United States. Concurrently, the median sales price of existing homes in Providence (Rhode Island's only metropolitan statistical area, MSA) vaulted from \$165,400 in the fourth quarter of 2001 to \$206,100 in the fourth quarter 2002. The Worcester, Massachusetts, MSA also experienced a surge in its median sales price of existing homes. Outgrowth of demand from the Boston MSA, where the median home price is the third highest in the United States and almost double that of Providence, may explain some of the robust growth in prices in the neighboring Providence and Worcester MSAs. The average number of housing permits issued in Rhode Island increased 7.3 percent from 2001 to 2002, below New England's average growth, but outpacing the nation's.

The dollar value of merchandise exports from Rhode Island decreased 10.3 percent between the fourth quarters of 2001 and 2002, the largest contraction among the New England states. Although exports of computer and electronic products and waste and scrap increased by 5.6 percent and 61.2 percent, respectively, exports of machinery decreased 60 percent during the same period, and miscellaneous manufacturing industries (including the state's large flatware and costume jewelry industries) declined 22 percent. Exports to North American Free Trade Agreement (NAFTA) partners Canada and Mexico increased 9.2 percent and 39.1 percent, respectively, while exports to Singapore plummeted 56.9 percent.

As of early 2003, Rhode Island's economy, while not in recession, remains weak. Between May 2002 and May 2003, total nonagricultural employment grew modestly. Furthermore, employment levels have not yet returned to their February 2001 peak of 481,600. In May 2003, the unemployment rate in the Ocean State stood at 5.4 percent, below the national average of 6.1 percent, but above the New

England average and the state's May 2002 level.

## Vermont

While the Green Mountain State remained in recession in 2002, the economic downturn was more moderate than in most other New England states. Total employment declined by only 300 jobs between December 2001 and December 2002, a meager 0.1 percent compared with the region's loss of 1.0 percent. However, employment gains in service-providing industries and government helped offset a dramatic decline in manufacturing employment.

Vermont's manufacturers shed 4,600 jobs, or 10.6 percent, in 2002 to bring employment levels to lows not seen in the last decade. Two rounds of layoffs at IBM, Vermont's largest employer, accounted for one quarter of these losses, as Big Blue cut 800 jobs in August on top of February reductions of 500 workers. Additionally, furniture maker Ethan Allen cut 223 jobs in the state and permanently closed its Randolph facility,<sup>37</sup> and many smaller Vermont companies were forced to downsize.

The construction industry's job pool shrank 2.2 percent in 2002 from the previous year. Rising commercial and industrial vacancy rates, particularly in Springfield and Chittenden counties,<sup>38</sup> slowed demand for new construction. However, heavy demand for new housing and several large-scale hospital projects, including the Rutland Regional Medical Center and the Fletcher-Allen Medical Center, helped to mediate some of the loss.<sup>39</sup>

On the flip side, Vermont's service-providing industries saw a net gain of 3,100 jobs in 2002. Education and health services employment provided the bulk of this boost, expanding 5.0 percent primarily as a result of large additions in health care and social assistance jobs. The leisure and hospitality and retail trade sectors also added jobs, but despite a strong summer season, the short winter ski season and subdued consumer spending limited growth to less than 1.0 percent in both sectors.<sup>40, 41</sup> Employment in the wholesale trade, transportation, warehousing, and utilities, information, and professional and business services sectors all experienced small to moderate declines in 2002, but fared well relative to their regional counterparts.

Six hundred new jobs were added in the government sector over the year. Local government made up more than half of these employment gains, but federal jobs grew 6.9 percent year over year in the fourth quarter, reflecting new immigration services jobs as the Immigration and Naturalization Service beefed up its patrol of the Canadian border.<sup>42, 43</sup>

Almost 9,000 people entered Vermont's labor force in 2002. Even with this 2.6 percent growth and shrinking employment, unemployment rates in the Green Mountain State remained well below national and regional figures, and the fraction of unemployed Vermonters hovered between 3.7 percent and 3.8 percent throughout the year. Mirroring the overall steady trend seen in employment and unemployment for the year, initial claims for unemployment insurance also remained in line with 2001 numbers. Annual unemployment rates in 2002 were not stable in all areas of the state, however. The Barre-Montpelier rate jumped from 3.7 percent in 2001 to 4.2 percent in 2002, while Springfield saw its unemployment rate rise from 5.2 percent to 5.8 percent.<sup>44</sup> Additionally, the fallout from the IBM layoffs was apparent in Burlington, where the rate rose from 2.5 percent in 2001 to 3.0 percent in 2002.<sup>45</sup> The Newport labor market area continued to see the highest rate in the state, with unemployment just over 7 percent, while the towns along the New Hampshire border experienced rates below 3 percent.<sup>46</sup>

Personal income in Vermont grew 4.5 percent year over year in the fourth quarter of 2002, beating both national and regional growth rates. Likewise, fourth quarter growth in wage and salary disbursements, 3.3 percent, outpaced both the region and the nation. Overall, 2002 annual income by place of work mirrored Vermont's employment trends, rising in all service-providing industries, while declining in manufacturing.<sup>47</sup> In spite of this fall in personal income from the manufacturing industry, manufacturing production workers saw their average hourly earnings rise by 1.1 percent over 2001 levels. On a per capita basis, personal income rose 2.8 percent in 2002 over 2001, reaching \$29,567. Second lowest only to Maine in the region, this figure remains substantially below New

England's level of \$37,096, and ranks 24th among the 50 states.

The Vermont housing market remained strong despite the slow economy in 2002. The repeat-sales home price index showed prices increasing 5.7 percent between the fourth quarter of 2001 and the fourth quarter 2002. The continuing rise in housing permits in 2002 also pointed to a resilient housing market, with 21.7 percent growth from the previous year.

Exports rose 28.0 percent between the fourth quarter of 2001 and 2002, a positive sign for the nation's top exporting state on a per capita basis. Vermont's export growth was the steepest in New England, where average exports grew only 5.6 percent year over year. Computer and electronic products, primarily produced by IBM, accounted for three-fourths of exports at the end of 2002, growing 56.5 percent from a 2001 slump. Many of these exports were headed for IBM's sister plant across the border, contributing to a 21.8 percent rise in exports to Canada in 2002. Aside from strength in this traditional market, Vermont also more than tripled its exports to Taiwan, while beefing up exports to Korea by more than one-third.

Vermont appears to be emerging from recession in early 2003. Employment grew 1.1 percent between May 2002 and May 2003, with an addition of 3,400 jobs since the end of 2002. The manufacturing sector continues to eliminate jobs, but losses have somewhat slowed. Moreover, since the end of 2002, employment growth has slightly accelerated in service-providing industries. Despite these positive signs, the ongoing employment declines in manufacturing have put pressure on the unemployment rate, sending it to 4.2 percent in April and 4.1 percent in May—the highest levels seen in six years. Similarly, initial claims for unemployment insurance averaged over 1,000 per week throughout February, March, and April. In sum, despite some positive signs, Vermont's recovery does not yet appear full-fledged.

**Endnotes:**

- <sup>1</sup> In prior articles, December-to-December changes in seasonally adjusted industry employment levels are compared. With the introduction of NAICS, state-level seasonally adjusted data are not available for all industries. Thus, for this article, comparisons of industry employment data are based on annual averages of not seasonally adjusted data, unless otherwise indicated.
- <sup>2</sup> The U.S. Census Bureau classifies New England as a division, a subsection of the Northeast region. However, some data sources label New England and the other Census divisions as regions.
- <sup>3</sup> The CPI for the Boston area covers parts of Connecticut, Maine, Massachusetts, and New Hampshire, and is published every other month. CPI data are bimonthly for most other areas, although the starting month may vary from area to area. In the cases that November data were not available, December data were compared.
- <sup>4</sup> Barbara Nagy and John M. Moran. "UTC Cuts to Hit State." *The Hartford Courant* (17 October 2001).
- <sup>5</sup> Barbara Nagy. "State Loses More Jobs." *The Hartford Courant* (16 August 2002).
- <sup>6</sup> Diane Levick. "Aetna Swings Ax Again." *The Hartford Courant* (12 December 2002).
- <sup>7</sup> John M. Moran. "Bayer to Cut 1,300 Jobs." *The Hartford Courant* (23 May 2002).
- <sup>8</sup> Michael Remez. "Sikorsky Eliminating 265 Jobs." *The Hartford Courant* (4 December 2002).
- <sup>9</sup> "P&G to Cut 1,440 Jobs." *Associated Press Newswires* (23 January 2002).
- <sup>10</sup> Pam Dawkins. "300 More Face Ax in SBC SNET." *KRTBN Knight-Ridder Tribune News: The Beaumont Enterprise, Beaumont, Texas* (27 September 2002).
- <sup>11</sup> New England Economic Project. *Connecticut Economic Outlook* (October 2002). Note that Indian tribal government employment is included in the local government tally.
- <sup>12</sup> New England Economic Project. *Connecticut Economic Outlook* (May 2003).
- <sup>13</sup> Maine Department of Labor, Bureau of Employment Services. The data reflect employers served by the Rapid Response Program.
- <sup>14</sup> Ibid.
- <sup>15</sup> According to the U.S. Bureau of Labor Statistics, instances in which establishments have at least 50 initial claims for unemployment insurance filed against them during a 5-week period are counted as monthly mass layoffs.
- <sup>16</sup> Ibid.
- <sup>17</sup> U.S. Bureau of Labor Statistics. *Current Employment Survey*.
- <sup>18</sup> "New Hampshire Maker of Computer-Networking Equipment to Cut 700 Jobs." *The Boston Globe* (9 April 2002).
- <sup>19</sup> "Tyco Telecommunications Announces Layoffs as Part of Restructuring." *Associated Press Newswires* (7 February 2002).
- <sup>20</sup> "Tyco Subsidiary to Lay off about 100 Workers in NH." *Associated Press Newswires* (3 July 2002).
- <sup>21</sup> "Compaq Operations in New England Are Jittery as They Await Post-Merger Fate." *The Boston Globe* (1 April 2002).
- <sup>22</sup> "Tech grant." *Associated Press Newswires* (24 June 2003).
- <sup>23</sup> "At Halfway Point, Economy Shows Signs of Life." *New Hampshire Business Review* vol. 24, no. 13 (28 June 2002).
- <sup>24</sup> "The 2002 New Hampshire Economic Report." *Business NH Magazine* vol. 19, no. 11 (1 November 2002).
- <sup>25</sup> "At Halfway Point, Economy Shows Signs of Life." *New Hampshire Business Review* vol. 24, no. 13 (28 June 2002).
- <sup>26</sup> "Housing Could Hinder Plan to Add More Jobs at Pease." *Associated Press Newswires* (11 August 2002).
- <sup>27</sup> "Development in the City Continues Apace." *New Hampshire Business Review* vol. 24, no. 24 (15 November 2002).
- <sup>28</sup> "NH Economy Showing Signs of Early Recovery." *The Boston Globe* (1 December 2002).
- <sup>29</sup> "New Retail Development Begun in Hooksett." *New Hampshire Business Review* vol. 24, no. 16 (26 July 2002).
- <sup>30</sup> "Development in the City Continues Apace." *New Hampshire Business Review* vol. 24, no. 24 (15 November 2002).
- <sup>31</sup> "NH's Largest Employer? Wal-Mart, by Far." *New Hampshire Business Review* vol. 24, no. 26 (13 December 2002).
- <sup>32</sup> "NH Posts Tourist Ads, State Triples Budget to Encourage Visitors." *The Boston Globe* (9 May 2002).
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- <sup>34</sup> "Development in the City Continues Apace." *New Hampshire Business Review* vol. 24, no. 24 (15 November 2002).
- <sup>35</sup> "Trade Association Says NH Tech Jobs Up Slightly." *Associated Press Newswires* (26 June 2002).
- <sup>36</sup> Gary Ciminero. "RI's Slow Rise from a Mild Recession." *The Providence Journal* (20 June 2002).
- <sup>37</sup> "Local, State Officials Concerned by Ethan Allen Layoffs." *Associated Press Newswires* (1 May 2002).
- <sup>38</sup> "Industrial Parks Reiterate Current Economic Themes." *Vermont Business Magazine* vol. 30, no. 9 (1 August 2002).
- <sup>39</sup> Ibid.
- <sup>40</sup> "State Bustling with Tourists." *The Burlington Free Press* (12 August 2002).
- <sup>41</sup> "Ski Resorts Heartened by Holiday Weekend Turnout." *Associated Press Newswires* (18 February 2002).
- <sup>42</sup> Vermont Department of Employment and Training. "Statewide and Labor Market Area." *Vermont Labor Market Bulletin* (fourth quarter 2002): 8.
- <sup>43</sup> "INS to Hire 8,000 New Employees in Five Months, 12,000 by October 2003." *Associated Press Newswires* (17 April 2002).
- <sup>44</sup> Vermont Department of Employment and Training. Labor Market Information <<http://www.vtlmi.info>>.
- <sup>45</sup> Ibid.
- <sup>46</sup> Ibid.
- <sup>47</sup> Ibid.