

The Economic Performance of the New England States in 2003: An Overview

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New England Employment

Employment in New England was 0.7 percent lower in December 2003 than in December 2002¹ (see Chart 1), translating into 51,000 lost jobs. Month-to-month declines occurred in 9 of the 12 months of 2003, and the region finished the year with its lowest job count since 1999. Although this decline marked the region's third anniversary of a languishing labor market, losses in 2003 were less severe than in 2001 or 2002. Employment growth in four states could not offset the contractions in both Massachusetts and Connecticut, which together account for the majority of the region's jobs. Meanwhile, national employment declined in the first half of the year and rose in the second before ending the year slightly below where it began.

Job losses were felt in nearly all major industries in the region and were often more severe than the corresponding losses nationwide (see Chart 2). Losing jobs the fastest was the information sector, where the 2003 average job count was 6.2 percent smaller than in 2002 (see Chart 3). The nation also experienced losses in information jobs at a roughly comparable rate (5.8 percent). Manufacturing was New England's second biggest loser, as declines in all six states resulted in 6.1 percent fewer jobs regionally. Nationwide manufacturing levels also declined, but not as rapidly (see Chart 4). Moreover, the region showed declines in the construction, professional & business services, government, and financial activities sectors, despite slight to moderate growth nationwide. Only two of New England's major industries added jobs from 2002 to 2003. Growth of 1.5 percent in the region's education & health services employment added nearly 18,000 jobs but lagged the 2.3 percent growth measured across the nation (see Chart 5). Employment growth

New England's 2003 Economic Milestones

- Burdened by the poor performances of the labor markets in Connecticut and Massachusetts, the New England region lost jobs for the third year in a row.
- The region lost jobs in nearly all major industries and added jobs in only two: leisure & hospitality and education & health services.
- Even with an unemployment rate that rose, New England had a lower rate of joblessness than most other Census divisions and the nation overall.
- Demand for residential real estate remained strong, as home prices soared at above-average rates.
- Consumer price inflation persisted at a higher rate in the region than in the nation; fuel prices escalated at twice the national rate.

in leisure & hospitality (1.3 percent) barely edged the rate of growth nationally (1.2 percent) (see Chart 6).

Unemployment

Throughout 2003, the region's rate of joblessness fluctuated between 5.3 percent and 5.5 percent, flirting with its highest level since 1995, before finishing the year at 5.4 percent (see chart on page 9). Even with a 0.2 percentage point rise from the previous December, the region's unemployment rate remained lower than rates in six of the nine Census divisions and lower than the national rate, which actually decreased by 0.3 percentage points over the course of the year. Consistent with this relatively low unemployment rate, New England's average employment-population ratio (the fraction of the working-age population employed) was 64.4

Chart 1 - Nonagricultural Employment

Percent Change, December 2002 to December 2003

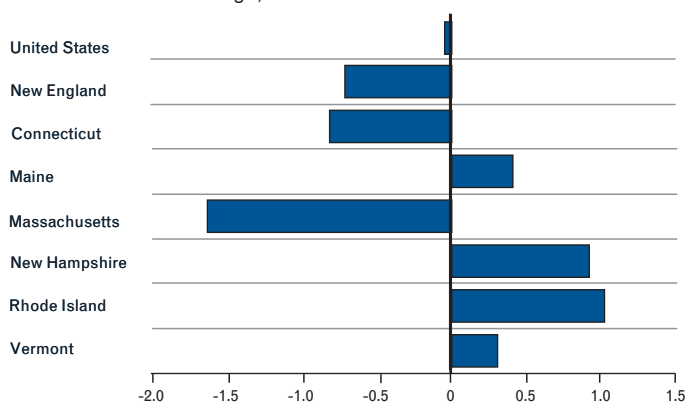
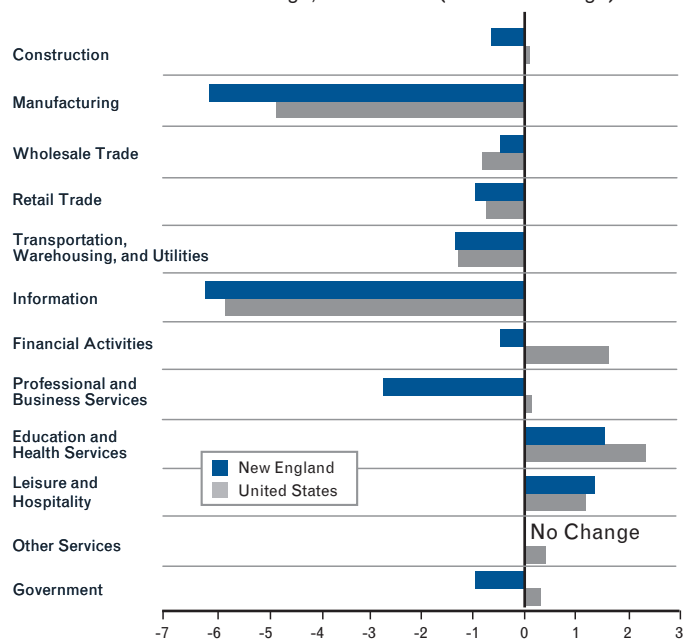


Chart 2 - Employment by Industry

Percent Change, 2002 to 2003 (Annual Average)



percent in 2003 — a higher ratio than the nation overall and the second highest ratio among the nine Census divisions. The employment–population ratios of each of the six New England states also exceeded the national ratio (see Chart 7).

The region’s help wanted index, a gauge of job vacancies advertised in print media, edged up by 1 point between December 2002 and December 2003, but also hit a record low in September. In fact, help wanted index values for the three New England metro areas for which these data are available sank to record lows at some point during 2003 before ending the year at levels higher than or equal

to 2002 year-end levels. The national index also hit a record low in 2003 and fell slightly, by 2 points, from December 2002 to December 2003.

Between December 2002 and December 2003, average initial unemployment claims dropped in all the New England states and were down 11.2 percent for the region as a whole. Although this decline was twice as fast as what occurred in the region in the preceding 12 months, overall claims in the nation declined at an even more rapid pace.

Income and Wages

Between the third quarters of 2002 and 2003,² all six New England states reported higher personal income, giving the region as a whole a 2.6 percent increase that trailed the nation’s and the other seven BEA regions’ (see charts on page 13). Wages and salaries were up 1.4 percent over the course of the year and also trailed the 2.3 percent growth nationally. For manufacturing production workers in all six states, average hourly earnings were higher in 2003 than in 2002; however, the region’s 2.5 percent increase lagged the nation’s.

Real Estate

Between the fourth quarters of 2002 and 2003, all six New England states saw double-digit rates of growth in the repeat-sales home price index. The region’s overall rise (11.2 percent) outpaced the national upswing and was the third highest among the nine Census divisions. In the fourth quarter of 2003, six of the seven New England metro areas for which data are available posted median home prices that exceeded the national median (see charts on page 16 and 17).

All states showed increases in the number of existing homes sold over the course of 2003. Four states manifested double-digit rates of growth between the fourth quarters of 2002 and 2003, and the 12.1 percent surge across the region as a whole outpaced the national 9.3 percent increase (see chart on page 17). The average number of housing permits issued in New England during 2003 was up 2.5 percent from 2002 but trailed the growth in permits across the nation (see Chart 8).

Chart 3 - Information Employment

Percent Change, 2002 to 2003 (Annual Average)

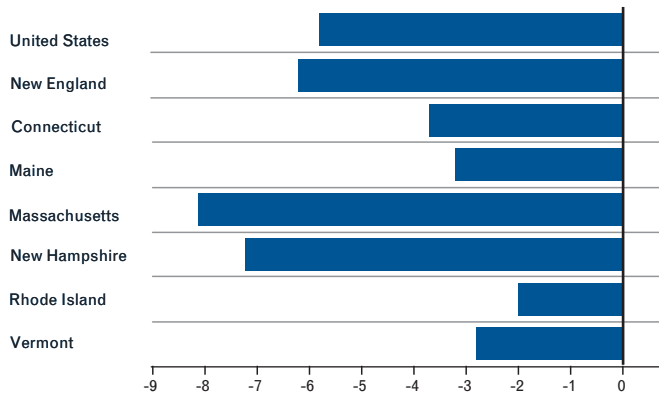


Chart 5 - Education & Health Services Employment

Percent Change, 2002 to 2003 (Annual Average)

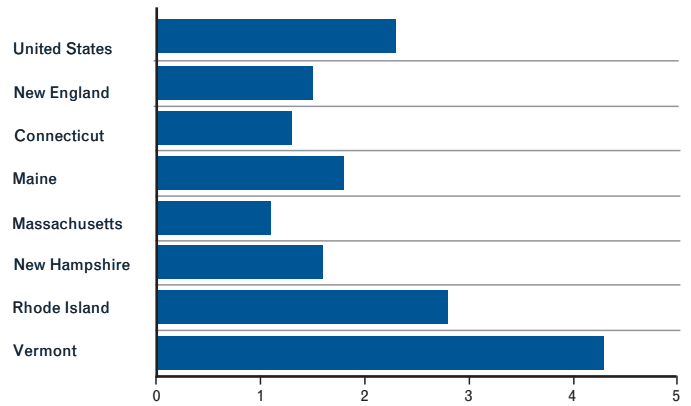


Chart 4 - Manufacturing Employment

Percent Change, 2002 to 2003 (Annual Average)

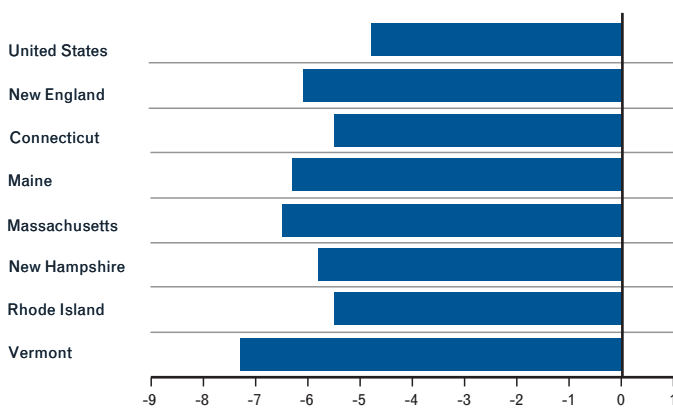
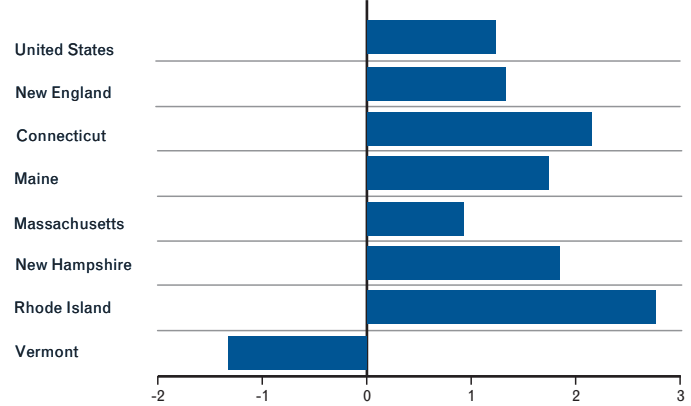


Chart 6 - Leisure & Hospitality Employment

Percent Change, 2002 to 2003 (Annual Average)



Consumer Prices

Since 1996, consumer price inflation has been higher in the Boston area (which covers parts of Connecticut, Maine, Massachusetts, and New Hampshire) than in the nation (see chart on page 14). By November 2003, regional prices had climbed 3.0 percent from year-earlier levels. Fuel prices, after falling between 2001 and 2002, soared 12.8 percent, nearly double the rate of increase nationwide. Regional price increases in medical care, shelter, and food exceeded 3 percent and either matched or surpassed the national rates. Education & communication was the only category of consumer goods for which the national price increase surpassed the regional rate.

Consumer Confidence

Following three years of faltering sentiments, New England consumers became more optimistic about the economy in 2003, as the region's consumer

confidence index witnessed a 48.7 percent resurrection over the 12 months ending in December 2003. Both the present and the future components of the index improved, having plummeted during 2002 (see chart on page 15). Consumers across the nation were also more optimistic, but the national index, having not fallen as steeply in 2002, did not manifest such a dramatic increase.

Merchandise Exports

With five of its six states reporting higher exports in 2003 than in 2002, New England's 6.8 percent growth in annual merchandise exports outpaced the 4.4 growth in U.S. exports (see Chart 9 and charts on page 20). Mammoth boosts in exports to the Netherlands (50.8 percent), Germany (23.0 percent), and Mexico (20.3 percent) more than offset waning exports to France, Korea, the United Kingdom, and Canada. Among the region's top exporting industries, chemicals and miscellaneous

manufactured goods saw the biggest increases (38.1 percent and 25.3 percent, respectively), while transportation equipment and fabricated metal products slowed the most.

Overall Economic Activity

Between December 2002 and December 2003, all six New England states showed improvement in the Coincident Economic Activity Index, and three states ended 2003 with record-high levels.³ However, only the indexes for two New England states (New Hampshire and Rhode Island) met or exceeded the 1.3 percent average rate of growth seen across all 50 states (see Chart 10). Unlike payroll employment levels, these composite indexes showed a clear economic turnaround by the end of 2003 for all six New England states.

—Tom DeCoff

Connecticut

The Constitution State's post-recession malaise continued during 2003. Between December 2002 and December 2003, total nonagricultural employment fell by 12,500 jobs, fewer than over the preceding 12 months, but still a major disappointment. The 0.8 percent drop was the second largest among the New England states, behind that of Massachusetts, and was more severe than that of the United States. Average annual employment levels decreased in all of Connecticut's metro areas except New London-Norwich, which posted small gains; the two largest metro areas, Hartford and New Haven-Meriden, endured the heaviest losses, with percentage drops twice the state average. One spot of good news: the statewide job loss seems to have slowed, as employment remained roughly constant through the second half of the year.

Chart 7 - Employment-Population Ratio

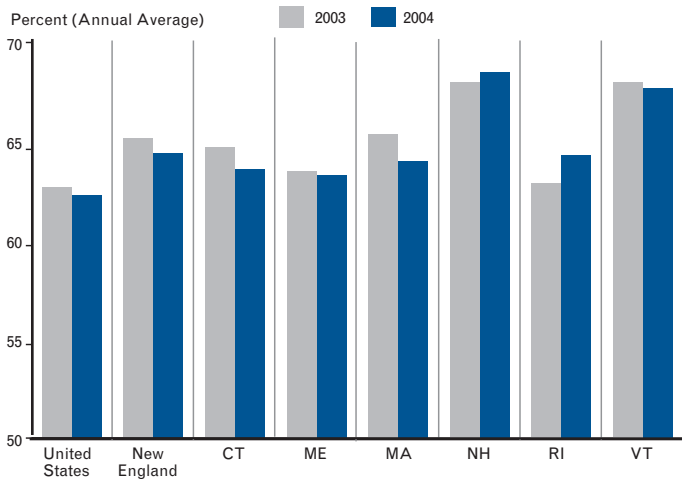


Chart 9 - Merchandise Exports

Percent Change, 2002 to 2003 (Annual Total)

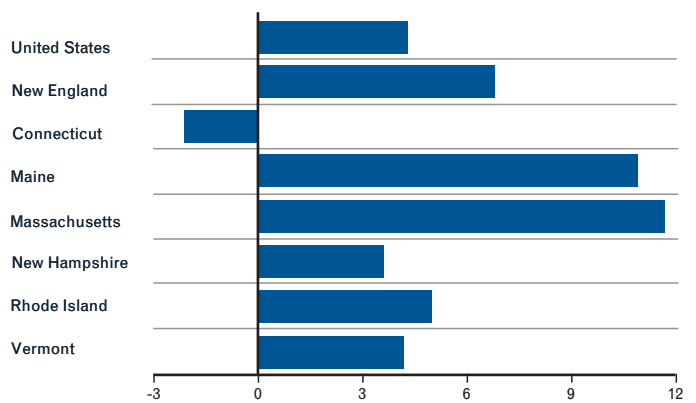


Chart 8 - Housing Permits

Percent Change, 2002 to 2003 (Annual Average)

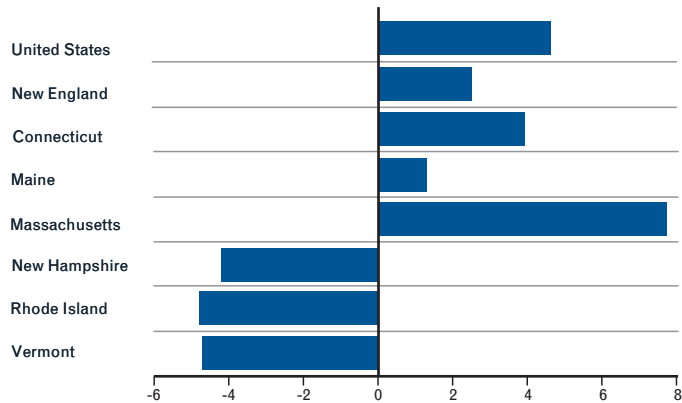
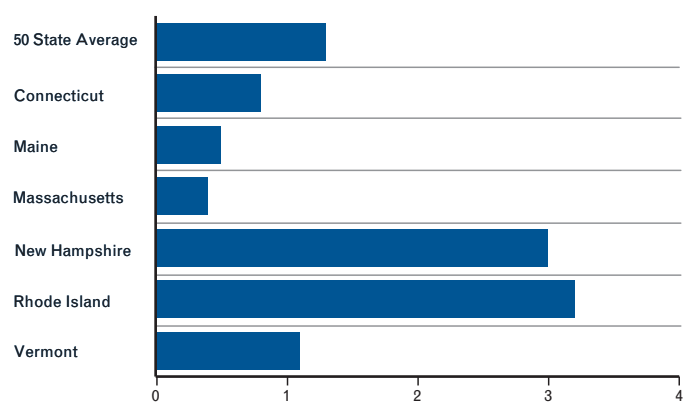


Chart 10 - Economic Activity Index

Percent Change, December 2002 to December 2003



The manufacturing sector continued to fare the worst among the state's industries in 2003, divesting 11,700 jobs, or 5.5 percent since 2002 (annual average comparisons). Although severe, Connecticut's manufacturing job loss was the second smallest in percentage terms among the New England states. Other Connecticut industries that suffered large job declines in 2003 include professional & business services (5,700 jobs), state government (3,900 jobs), retail trade (3,100 jobs), construction (2,100 jobs), and information (1,500 jobs). Contributing to these were mass layoffs⁴ at Cigna and Aetna⁵ (both health insurance), Pratt and Whitney⁶ (aerospace), Fleet⁷ (banking), Pfizer⁸ (pharmaceuticals), and The Hartford⁹ (financial services and insurance). The government sector also saw hefty layoffs, as budget deficits forced the state to cut its workforce nearly 8 percent and the city of Hartford to cut its personnel 15 percent.¹⁰

Mitigating some of these losses were gains in the education & health services and leisure & hospitality industries; over the course of 2003 these industries saw employment increases of 3,500 jobs and 2,500 jobs, respectively. Employment in financial activities, wholesale trade, and transportation, warehousing & utilities experienced little change.

The labor force continued to grow, rising by 11,000 workers during 2003 (annual average). The decline in jobs in conjunction with this 0.6 percent gain in the labor force precipitated an increase in the unemployment rate, which rose from 5.0 percent in December 2002 to 5.7 percent by July 2003, before falling slightly to 5.5 percent at year's end. Reaching a seven-year annual high, Connecticut's unemployment rate surpassed that of every other New England state save Massachusetts, but still remained below the national average of 5.7 percent. While weekly initial unemployment insurance claims fell 9.6 percent from December 2002 to December 2003, the average decline for all months of the year was a more modest 1.0 percent. Together, the drop in claims and the unemployment rate rise may imply that Connecticut's displaced workers are taking longer to find new jobs.¹¹

The state's total personal income rose 2.3 percent between the third quarters of 2002 and 2003. Contributing were increases in transfer payments,

Connecticut's 2003 Economic Milestones

- Connecticut finished 2003 with its third year in a row of net job losses.
- Unemployment rates fell slightly, and the labor force continued to grow slowly.
- Connecticut was the only New England state to see exports decline.
- Home prices as well as the number of homes sold increased in Connecticut.

proprietors' income, and wage and salary disbursements — even among manufacturing workers, whose hourly wages rose 3.3 percent over the same period as their weekly hours fell 1.0 percent. A single sector, finance & insurance, accounted for the majority of the state's gain in total personal income.¹²

Labor market uncertainty did not seem to affect Connecticut's housing sector. Existing-home sales rose 10.2 percent to an annual rate of 57,200 in the fourth quarter of 2003, and the repeat-sales home price index continued its upward swing, rising 10.3 percent from the fourth quarter of 2002. Although the home price index increase was the smallest among the New England states, it was the state's highest in five years. Median house prices in the Hartford and New Haven-Meriden metro areas shot up to \$214,700 and \$227,400, respectively (up from \$183,500 and \$202,000 during the fourth quarter of 2002). Residential construction also appeared healthy in 2003, with total housing permits issued up 3.9 percent over the previous year, the second highest increase in New England.

Exports, on the other hand, did not perform well. The dollar value of merchandise goods exported from Connecticut in 2003 declined 2.1 percent, while every other New England state posted sizable increases. Shipments of transportation equipment, the state's largest export product, plunged 19.5 percent over the year, more than offsetting gains in exports of computers (4.0 percent) and machinery (17.0 percent). Of Connecticut's top export destinations, Canada and France both imported fewer of the state's goods; Germany, in contrast, imported

16.4 percent more over the year.

While Connecticut's total tax revenues through December 2003 (midway through the 2004 fiscal year) were up 3.4 percent from year-earlier levels, revenues from the corporation business tax were down a sharp 26.0 percent over the same period. Personal income and sales taxes, Connecticut's chief sources of state revenue, made up the difference; they rose 9.8 percent and 0.5 percent, respectively, from year-earlier levels.

The Constitution State ended 2003 with its third consecutive year of job loss, repeating the experience following the recession in the early 1990s. Although this last recession was shallower, it still packed a wallop: seasonally adjusted total non-agricultural employment fell steadily from its peak of 1,700,700 jobs in July 2000 to 1,639,000 jobs in July 2003, and hardly budged from that level through February 2004. The peak-to-trough loss of 3.6 percent is twice as sharp as that of the nation as a whole and second-worst among the New England states. And while certain companies have announced plans for expansion — Prudential Realty, home improvement store Lowe's, and furniture store IKEA all expect to add several hundred Connecticut jobs — most of these plans will not take effect until 2005, and plant closings such as Dana Engine, Kendro Labs (medical equipment), and many others are slated to occur in 2004.¹³ Low expected job growth stands as an impediment to a robust economic recovery in Connecticut's near future.

—Brad Hershbein

Maine

Maine's nonagricultural employment increased 0.4 percent between December 2002 and December 2003. Although 2,600 nonfarm jobs were lost in the first half of the year, twice that many jobs were added in the second half. Employment levels rose both in the Portland area (1.2 percent), where the pickup occurred in the second half of 2003, and in the Lewiston-Auburn area (0.2 percent).

As in most of New England, manufacturing in Maine experienced yet another employment decline in 2003, losing about 4,300 jobs (annual average) since 2002, a contraction of 6.3 percent.

About 1,400 jobs were lost in the paper industry, where employment fell 12.1 percent. Several major paper manufacturers announced layoffs: Great Northern Paper, Georgia Pacific, Fraser Papers, and SAPPI.¹⁴ Textile mills & products employment fell 11.6 percent. Contributing to this decline, Biddeford Blankets and Pittsfield Woolen Yarns closed in September 2003.¹⁵ After a drop of almost one-third in 2002, leather & allied product manufacturing employment decreased marginally, by 0.1 percent in 2003. In the durable goods manufacturing sector,¹⁶ semiconductor & other electronics and computer & electronic equipment manufacturing lost about 1,200 jobs combined. Of 44 mass layoffs in Maine during 2003, 17 were in the manufacturing sector. Other shrinking industries in Maine include professional & business services (700 jobs), information (400 jobs), and transportation, warehousing & utilities (400 jobs), in which Maine's 2.5 percent decline was the worst among the New England states. Suffering lesser job losses were retail trade, financial activities, and natural resources & mining. Employment growth in other industries offset these declines. Because of growing demand for health care and social services, the education & health services sector gained 1,900 jobs in 2003.¹⁷ Employment climbed 6.1 percent (1,200 jobs) in the other services industry and expanded 2.4 percent (500 jobs) in the wholesale trade industry. Both of these increases were the

Maine's 2003 Economic Milestones

- In 2003, nonfarm employment increased 0.4 percent, compared with a decline of 0.7 percent in the New England region and virtually no change in the United States as a whole.
- The manufacturing sector lost the most jobs in 2003, while the education & health services sector gained the most.
- Average hourly earnings of manufacturing production workers and overall personal income grew faster in Maine than in the region or the nation.
- Exports of paper and computer & electronics expanded 13.0 percent and 7.8 percent, respectively, although employment fell in both of these sectors.

largest among the New England states and well above national averages. Other industries with job gains included construction (1,000 jobs), leisure & hospitality (1,000 jobs), and government (400 jobs).

The Pine Tree State's unemployment rate remained below both the national and the New England averages, increasing to 5.2 percent in December 2003 from 4.8 percent in December 2002. In Maine's three major metropolitan areas — Bangor, Lewiston–Auburn, and Portland — unemployment rates rose between December 2002 and December 2003 — to 3.4 percent, 4.6 percent, and 2.8 percent, respectively. Maine's average weekly initial unemployment insurance claims fell 1.2 percent from December 2002 to December 2003 — the smallest decline in all six New England states, and a smaller decline than those of New England as a whole (11.2 percent) and the nation (13.4 percent).

Between third quarter 2002 and third quarter 2003, Maine saw a personal income increase of 4.1 percent that led the other New England states (tied with Vermont), and surpassed the region's 2.6 percent and the nation's 3.6 percent increases. Over the same period, wage and salary disbursements increased 2.7 percent, to \$19.1 billion. Although manufacturing production workers in Maine, at \$16.28 per hour (annual average), earned less than workers in Connecticut and Massachusetts in 2003, Maine's average hourly earnings increase of 4.7 percent led those of all the other New England states and the nation (2.9 percent). Average weekly hours of production workers increased 0.4 percent, while hours in the region and the nation fell slightly.

Maine's repeat-sales home price index rose 11.8 percent from fourth quarter 2002 to fourth quarter 2003, on par with the rest of the region. Over the same period, existing home sales had a banner year, jumping 12.7 percent, to an annual rate of 42,600 homes in the fourth quarter of 2003. In the Portland area, the median sales price of existing homes climbed to over \$200,000 in 2003, roughly in line with home prices in other non-Boston New England metro areas. The average number of housing permits authorized in 2003 grew slightly, by 1.3 percent, while the average value of residential construction contracts increased at a more significant rate of 11.3 percent, well above the increase across

New England as a whole.

From 2002 to 2003, the Pine Tree State's exports grew faster than those of most other New England states and at more than double the rate of growth in the nation. Exports increased in the computer & electronics and paper industries (two of the three largest exporting industries from Maine in 2002), notwithstanding the declines in employment witnessed by these sectors. Computer & electronics exports jumped 13.0 percent, while exports of paper rose 7.8 percent. Forestry & logging exports declined slightly, by 0.3 percent. Exports to Canada, the largest destination for Maine's goods in 2002, increased 3.8 percent, while exports to Malaysia, the state's third largest export destination, jumped 41.1 percent. Singapore, the second largest exports destination, imported 9.7 percent less from Maine in 2003 than a year earlier.

Total general fund revenues in Maine increased 2.7 percent (\$63.0 million) from FY2002 to FY2003. Sales and use taxes revenues increased by \$21.4 million (2.6 percent) over FY2002, totaling \$857.5 million. Corporate income taxes receipts climbed 17.9 percent (\$13.8 million), and revenues from insurance companies' taxes increased 28.7 percent, up by \$15.8 million from 2002.

According to the Federal Reserve Bank of Philadelphia's Coincident Economic Activity Index, Maine's economy was stagnant in 2003. From December 2002 to December 2003, Maine's index climbed just 0.5 percent. This change was among the lowest in New England, although ahead of Massachusetts, and ranked 40th in the country.

—Krista J. Becker

Massachusetts

The second full year of the jobless recovery was not kind to Massachusetts. Like 2002, 2003 was a difficult year for employment. The Bay State shed jobs in all months save April, for a cumulative loss of nearly 53,000 payroll jobs — quadruple the total number of jobs added in the four New England states where employment grew in 2003. The region's poor performance is mostly attributable to Massachusetts alone. The 1.6 percent employment decline in 2003 — identical to that in 2002 — is by

far the largest in New England and is far worse than the national average. Indeed, it is larger than that of any other state but Oklahoma. While many states showed improved performance in 2003, Massachusetts continued to suffer employment cutbacks.

The vast majority of these job losses were concentrated in the Boston metropolitan area. From December 2002 to December 2003, Boston lost 50,600 jobs, nearly all of the state's (and the region's) total. This 2.6 percent drop was larger than the declines in almost all metro areas nationwide for which payroll employment data are available. Among the nation's major urban areas, only San Francisco, San Jose, and Detroit endured larger declines.

The 53,000 lost jobs were spread across almost all industries in the state. The most visible and widely noted were in technology industries, which continued to see particularly heavy losses. Computer systems design, for example, lost 5,600 jobs, an 11.6 percent decline (though much smaller than the previous year's loss of 11,800 jobs). Information was the largest loser in percentage terms, shedding 8,100 jobs in 2003, for an 8.1 percent decline. Manufacturing, which includes technology industries such as electronics and communications equipment, lost 22,600 jobs, a 6.5 percent decrease. Professional & business services bore 16,500 losses, a drop of 3.6 percent. Financial activities lost 4,400 jobs, a 1.9 percent drop. All these declines were the steepest in the region and considerably more severe than those

nationwide. Employment in most industries, however, dropped less sharply in 2003 than in 2002. The Massachusetts public sector was also a large source of layoffs in 2003; government payrolls shrank by 2.3 percent, or 9,900 jobs. Two sectors grew: education & health services added 6,400 jobs (a 1.1 percent increase), and leisure & hospitality added 2,700 jobs (a 0.9 percent increase). Both growth rates, however, were the smallest among the six New England states.

The statewide unemployment rate increased from 5.5 percent in December 2002 to 5.9 percent in December 2003. It ended the year as the highest in New England and higher than the rate of the United States as a whole. The Boston area continued to have a lower unemployment rate than the state — 5.0 percent in December 2003, slightly below the previous December's 5.1 percent. The highest unemployment rates among the state's metro areas were in New Bedford (8.8 percent), Lawrence (7.9 percent), and Fitchburg-Leominster (8.0 percent). Unemployment rates for other state metro areas ranged between 5 and 7 percent. On a more positive note, initial claims for unemployment insurance decreased by nearly 14 percent over the course of 2003, the second-largest improvement in the region, and a larger decline than in the United States overall.

Relatively weak employment performance has been accompanied by anemic growth in income. Personal income grew 2.2 percent from the third quarter of 2002 to the third quarter of 2003, substantially less than in any other New England state but Connecticut and well below the national average of 3.6 percent. Among the 50 states, only Michigan experienced smaller income growth. Wage and salary disbursements echoed this performance, with an increase of 0.7 percent, also the lowest in the region. Such modest growth in Massachusetts incomes has not been sufficient to keep pace with regional consumer price increases: Massachusetts has seen a decline in real income. For manufacturing production workers, average hourly earnings increased only 1.7 percent, significantly less than the national rise, while average weekly hours decreased 0.5 percent.

Despite weak income growth, the residential

Massachusetts' 2003 Economic Milestones

- Massachusetts employment continued to fall; its 1.6 percent loss was the largest in the country, tied with Michigan and worse than just one other state — Oklahoma.
- Nominal income growth was extremely low throughout 2003; the 2.2 percent increase was the lowest in the region and well below the U.S. average.
- Residential real estate stayed strong, but commercial real estate remained weak.
- In the national perspective, Massachusetts is a major outlier; its overall economic performance in 2003 placed it among the five weakest states

real estate market retained its strength. House prices continued to escalate, with the repeat-sales home price index increasing 11.0 percent over the course of 2003 — a pace more rapid than in the United States but on par with the regional average. In the Boston metro area, the index climbed 10.2 percent — a rate higher than the national average, but the lowest annual growth since 1998. Price increases in the Worcester and Springfield areas were 11.4 percent and 11.0 percent, respectively. The median sale price of existing homes in the Boston area increased to an eye-popping \$406,800 — 2.4 times the national median. Statewide, existing-home sales increased 14.3 percent between fourth quarter 2002 and fourth quarter 2003, the second highest rise in the region. Annual average housing permits increased 7.7 percent over 2002, the fastest growth among the states in the region, while the value of construction contracts expanded 11.8 percent.

In contrast, commercial real estate in the Boston area remained weak in 2003. Average office vacancies (based on quarterly data) were up 6.6 percentage points for the year, to nearly 20 percent, with a 3.9 point increase in downtown vacancies (reaching 12.8 percent) and a 7.8 point increase in suburban vacancies (to 24.1 percent). These increases are considerably greater than those in 2002.¹⁸ The downtown rate remained below the national average, while the suburban rate continued to soar far above it, as software and technology companies required considerably less space.¹⁹

Massachusetts led New England export growth with an 11.7 percent increase in 2003. The largest exporting industry, computer & electronic products, saw 9.5 percent growth. Exports of chemicals, the second-largest exporting industry, grew 41.9 percent. However, machinery exports declined 6.7 percent. Of the state's largest export destinations, exports to Japan increased (2.3 percent), but exports to Canada and the United Kingdom decreased (2.5 percent and 9.4 percent, respectively).

In January 2003, the Massachusetts consumer confidence index stood at 63, its lowest point in nine years. This was accompanied by equally bleak values for the assessment of present situation and future expectations components (28 and 86, respectively). Throughout 2003, however, the indexes

recorded sizable increases. By January 2004, overall consumer confidence had swelled to 91; the present situation component had increased to 48; and the future expectations component had reached 119.²⁰

Massachusetts' total tax revenue for FY2003 was up \$676 million (4.7 percent) over FY2002. This was driven by 7.7 percent growth in income tax receipts, by far the largest source of revenue. Sales tax revenue showed little year-to-year variance. Despite increased employment in leisure & hospitality, the state's take from the room occupancy tax fell in 2003 — revenue was down by \$3.3 million through June and by \$20 million through December (declines of 2.7 percent and 27.0 percent).

The general economic trend for Massachusetts in 2003 is captured by the Philadelphia Fed's Coincident Economic Activity Index. From December 2002 to December 2003, the state's index edged up slightly, by 0.4 percent, lagging the growth in the indexes of the other five New England states, trailing the average rise of 1.3 percent seen across the 50 states, and placing Massachusetts among the 10 states with the worst economic performance during 2003.

—*Nelson Gerew*

New Hampshire

After difficult economic times during the recession and a subsequent weak recovery, New Hampshire's economic conditions improved in 2003. However, not all facets of the economy enjoyed growth, and several sectors had mixed performances. An example is the labor market, which exhibited both positive and negative indicators.

Overall employment grew 0.9 percent between December 2002 and December 2003, a modest gain although it was the second largest percentage increase in New England. This expansion was not consistent across all sectors of the state's economy. Comparing average annual employment data for 2003 and 2002, the largest job growth occurred in the government sector, which added 1,400 jobs, or 1.6 percent, and leisure & hospitality, up 1,100 jobs, or 1.8 percent. Retail trade, New Hampshire's largest employment sector, grew only 0.3 percent, adding 300 jobs, although this was the only retail expansion in New England. Construction added

New Hampshire's 2003 Economic Milestones

- New Hampshire capped off 2003 with the lowest unemployment rate among the New England states and the fifth lowest rate among the 50 states.
- New Hampshire showed more improvement in the Coincident Economic Activity Index than any other New England state.
- The volume of existing homes sold in the Granite State increased faster than that of any other New England state.
- New Hampshire was the only state in the region where the average value of construction contracts declined over the course of 2003.

900 jobs, or 3.2 percent, and financial activities created 600, or 1.7 percent, additional jobs.

In contrast, manufacturing continued its long decline. It has shed more than 22,000 jobs over the past five years and jettisoned 4,900 jobs, about 5.8 percent, in 2003. However, according to the Business and Industry Association of New Hampshire, the state is holding onto a higher share of high-paying manufacturing jobs than the New England region as a whole.²¹ Indeed, New Hampshire is making gains in attracting as well as retaining certain manufacturing jobs. Mass layoffs in the state's manufacturing sector were down 53.4 percent in 2003 from the year before.²² Successful manufacturing job creation and retention included Insight Technology, Inc., in Londonderry, where 30 jobs were added,²³ Janos Technology, Inc., which added 75 jobs in Keene,²⁴ and the decision by Europackaging USA not to relocate out of state, which kept an additional 130 jobs in New Hampshire.²⁵ These gains were overshadowed by plant closings such as that of Tyson/Jac Pac, which shut down a plant in Manchester, shedding 550 jobs.²⁶ Even with its precipitous decline in employment, manufacturing still accounted for 13.0 percent of employment in New Hampshire in 2003, exceeding the averages of both New England and the United States, each with 11.2 percent. New Hampshire's information industry also experienced employment losses in 2003, shedding roughly 900

jobs, or 7.2 percent of its total employment.

Unemployment rates in New Hampshire offer a positive indicator of economic performance. The year 2003 saw declines in unemployment rates both statewide and in several metro areas. With a rate of 4.1 percent, New Hampshire recorded the lowest rate of any New England state and the fifth lowest rate in the nation. The state unemployment rate in December 2003 was 0.5 percentage points lower than in December 2002. Likewise, Manchester, Nashua, and Portsmouth-Rochester all witnessed declining unemployment rates. Statewide initial unemployment insurance claims in December 2003 were down 20 percent compared with December 2002.

During 2003, manufacturing workers who kept their jobs experienced an average wage increase of 4.5 percent, up to \$14.65 per hour, and a slightly longer work week at just over 40 hours, compared with 2002. Despite these increases, production workers in New Hampshire were still paid about \$1.60 less than the New England average per hour and worked an average of half an hour less per week. Compared with a year earlier, total wages and salaries paid by New Hampshire employers increased 3.6 percent in the third quarter of 2003, fueling an increase of 3.4 percent in residents' personal income.

New Hampshire's real estate and housing markets had mixed performances. The repeat-sales home price index was up 10.5 percent in the fourth quarter of 2003 compared with the same quarter in 2002. Existing-home sales also experienced significant growth in the fourth quarter, increasing 15.0 percent over the year-ago level and registering the largest percentage increase in New England. Despite these surges, average housing permits declined 4.2 percent in 2003, and the value of construction contracts in New Hampshire fell 6.0 percent, the only contraction in New England.

Exports from New Hampshire were up in the aggregate by 3.6 percent in 2003, despite falling to the state's largest trading partners, Canada (1.6 percent), the United Kingdom (2.2 percent), and Germany (15.4 percent). Exports by industry painted a brighter picture, as two of the state's three largest exporting industries experienced growth. Exports of

computers & electronics grew 7.8 percent, and machinery exports grew 0.9 percent, although exports of electrical equipment fell 5.1 percent.

One indicator that clearly points to a recovering economy in New Hampshire is the Federal Reserve Bank of Philadelphia's Coincident Economic Activity Index, which grew 3.0 percent in New Hampshire between December 2002 and December 2003, the largest increase in New England. This improvement (based on measures of employment, unemployment, manufacturing work hours, and wage and salary income) underscores the positive signs of the New Hampshire economic recovery.

The economic recovery has translated into higher tax collections for the Granite State. Through the first six months of FY2004 (July 2003 through December 2003), revenues for New Hampshire's general and education funds increased \$62 million, or 8.5 percent, year over year. Although receipts from the state's largest source of tax revenue, business taxes, were up only modestly at 1.4 percent, collections from the state's second largest revenue source, the meals and rooms tax, were up a more robust 4.3 percent. This revenue growth builds upon the improved revenue performance observed throughout FY2003, when collections totaled \$2 billion, a 3.3 percent improvement over FY2002 levels.²⁷

While the full effects of New Hampshire's economic recovery have yet to filter out to every sector, it is clear that the state economy developed significant forward momentum in 2003.

—*Nick Turner*

Rhode Island

The State of Rhode Island and Providence Plantations continued its slow, but steady expansion in 2003. Hampered by low consumer confidence, a severe winter, and a rainy spring, the first half of the year provided few signs of recovery. However, by the end of December 2003, Rhode Island had the highest year-over-year rate of employment growth among the New England states in construction, financial activities, professional & business services, and leisure & hospitality. Rhode Island was the only New England state to experience job growth in the transportation, warehousing & utilities sector. In all of the above sectors, growth in the Ocean State out-

paced the U.S. average. In total, nonagricultural establishments added 5,000 jobs over the course of 2003. This growth represented a 1.0 percent increase, the highest among New England states and equivalent to Rhode Island's long-term average.

Although most of Rhode Island's major industries saw employment growth between 2002 and 2003, some experienced differing patterns in the first and second halves of 2003. Jobs in education & health services, the state's largest industry by employment, saw year-over-year increases of more than 4.0 percent in the first two quarters. Despite slower growth in the second half of 2003, annual average employment levels increased a solid 2.8 percent. Average annual employment in the construction industry increased 7.0 percent, adding 1,400 to the payrolls, even though job counts declined in the first quarter. Professional & business services expanded by 500 jobs, a 1.1 percent increase, despite a rough first half of the year. Pell Bridge token sales and passenger traffic at T.F. Green Airport both rose in the latter half of 2003,²⁸ signaling a long-anticipated return of growth in tourism, and annual average employment in the leisure & hospitality industry increased by 1,300 jobs in 2003. Financial activities added 700 jobs. Total government payrolls were essentially unchanged during 2003, with increases at the local level offsetting cutbacks to state employment. Wholesale trade and retail trade employment levels

Rhode Island's 2003 Economic Milestones

- Rhode Island demonstrated the largest rate of job growth among New England states in most major industries, including the construction, financial activities, professional & business services, leisure & hospitality, and transportation, warehousing & utilities sectors.
- Total nonagricultural payroll employment grew 1.0 percent over 2003, the highest rate of growth among the New England states, and equal to Rhode Island's long-term average.
- The repeat-sales home price index was up a robust 17.5 percent, a rate more than double the nation's and the highest in the region.

also remained flat.

Employment in the information sector decreased slightly, to an annual average of 11,000 jobs. Manufacturing employment continued its long-term downward trend, averaging 3,400 jobs less in 2003 than in 2002. While this 5.5 percent year-to-year decrease was not as severe as the loss experienced in 2002, it was steeper than the 4.8 percent national decline. Rhode Island, like the country as a whole, saw some jobs move overseas. A.T. Cross, one of Rhode Island's oldest manufacturing companies, announced it will shift all of its manufacturing jobs to China by 2006.²⁹ However, Rhode Island's losses in manufacturing and information were the smallest percentage losses experienced by states in the region.

The Ocean State's year-end unemployment rate fell from 5.4 percent in 2002 to 5.1 percent in 2003, remaining well below the national average of 5.7 percent. Rhode Island's labor force filed 1.6 percent fewer initial claims for unemployment insurance in December 2003 than a year earlier.

Between the third quarters of 2002 and 2003, Rhode Island's total personal income growth of 3.9 percent exceeded the region's growth rate and was slightly above that of the nation. Contributing to the rise, wage and salary disbursements increased 3.4 percent statewide. Despite rises of over 1.0 percent, average weekly hours and average hourly earnings of manufacturing production workers remained below regional averages.

The repeat-sales home price index for Rhode Island rose a robust 17.5 percent between the fourth quarter of 2002 and the fourth quarter of 2003. This pace was more than double that of the nation and was the highest in the region. Home prices in the Providence metro area rose more than 17 percent over the course of the year, the steepest increase of the 16 New England metro areas for which the repeat-sales index is available. The median sales prices of existing homes in the Providence metro area finished 2003 at \$240,700. One explanation for the rapid price increases is a lack of supply. On average, Rhode Island issued 4.8 percent fewer housing permits in 2003 than in 2002. By contrast, the average annual value of residential construction contracts increased a dramatic 36.0 percent, vastly

outpacing the nation as a whole and all the other New England states.

Exports from Rhode Island increased 5.0 percent from 2002 to 2003. Exports of computer & electronic products and miscellaneous manufacturing, Rhode Island's two largest exporting industries, rose by 25.5 percent and 8.4 percent, respectively. Exports of waste & scrap, the third largest exporting industry in 2003, decreased 12.2 percent. Exports to Canada and Singapore, the state's leading export destinations, increased 8.9 percent and 25.5 percent, respectively. Exports to Mexico, the next leading destination, decreased 10.8 percent.

After adjusting for some discrepancies, total general revenues for Rhode Island increased 3.8 percent in the first half of FY2004 compared with the same period of FY2003. The two largest revenue components also grew. The adjusted growth rate of personal income tax revenues was 2.0 percent over the same period. Revenues from sales and use taxes grew 4.0 percent in the first half of FY2004 versus FY2003 (this growth could be understated because of complexities surrounding the remittance of some taxes).³⁰

Rhode Island's Coincident Economic Activity Index, as measured by the Federal Reserve Bank of Philadelphia, performed well in 2003. Year-over-year growth was 3.2 percent, the steepest in New England and more than double the average increase for all U.S. states. According to this index, the Rhode Island economy barely stumbled in the recession of 2001 and expanded fairly steadily throughout 2002 and 2003.

— *Thomas H. Back*

Vermont

For New England's smallest state economy, 2003 was modestly better than 2002. After losing 0.6 percent of total nonagricultural employment in 2002, and a further 0.6 percent over the first four months of 2003, Vermont reversed its downward employment trend, with the job count increasing 0.9 percent over the last eight months of the year. While still well below its January 2001 peak of 303,600, Vermont's December 2003 employment level of 299,300 marked the first time since 2000

that the state experienced a net gain in jobs for the year. Furthermore, the state's modest employment growth rate in 2003 exceeded those of New England and the nation, both of which recorded net losses in employment.

The Burlington metropolitan statistical area remained responsible for roughly one-third of the state's total payroll employment, finishing at 108,200 after a marginal decline of 0.1 percent over the course of the year. The state's other metropolitan area for which employment data are available, Barre-Montpelier, experienced a slightly faster decline, with payrolls falling 0.3 percent, to 34,000 jobs.

While Vermont's unemployment rate increased 0.5 percentage points over the course of 2003, its December 2003 rate of 4.2 percent was still second lowest in the region. After IBM, the state's largest private employer, laid off roughly 500 employees from its Essex Junction plant in August,³¹ the September rate of 5.0 percent was the state's highest since March of 1994. Furthermore, there were 2,121 initial claims for unemployment insurance in September, the state's highest recorded monthly total since at least 1987.³² Initial claims actually declined by 12.6 percent over the course of the year, however. Unemployment in the Burlington area remained relatively low, with an average rate of 3.3 percent, despite an increase of 0.3 percentage points over 2002. Hartford-Lebanon had an even lower annual average unemployment rate, 1.8 percent, while

Newport had the state's highest rate, 7.1 percent.

As was the case in New England and the nation, the manufacturing sector in Vermont continued to suffer in 2003. Notwithstanding increases in manufacturing workers' average weekly hours (0.1 percent) and hourly earnings (1.4 percent), average annual employment in manufacturing was 7.3 percent lower than in 2002, declining faster than in any other New England state. Within manufacturing, the weakest industry area was computer & electrical equipment, which lost 1,350 jobs, or 12.3 percent, from 2002. Part of this loss can be attributed to IBM, the state's largest non-government employer, which cut around 500 jobs through attrition in 2003, in addition to the above-mentioned layoff.³³ Retail trade was the next-biggest industry loser, shedding 783 jobs, or 2.0 percent. Other job-shedding industries included information (2.8 percent); transportation, warehousing & utilities (2.2 percent); and natural resources & mining (5.0 percent). Vermont was also the only New England state to experience a decline in leisure & hospitality employment (1.3 percent). Gains in services were led by health care & social assistance, which added 1,800 jobs, or 4.7 percent. Growth in government employment was also rigorous, gaining 1,033 jobs, or 2.0 percent, including a 425-job increase in state government education (5.8 percent). Employment also increased in construction (3.3 percent), wholesale trade (1.2 percent), financial activities (0.3 percent), professional & business services (0.2 percent), and other services (0.1 percent).

Personal income grew 4.1 percent in Vermont between the third quarters of 2002 and 2003, tying Vermont and Maine for the highest rate of growth among the New England states. Wage and salary disbursements also grew 2.7 percent over the same period, nearly twice the rate of growth seen in New England as a whole.

House prices in Vermont continued to increase as the repeat-sales home price index increased 12.2 percent between the fourth quarters of 2002 and 2003, slightly faster than in New England as a whole. Existing-home sales increased by only 1.3 percent, however, compared with a 12.1 percent increase for the region. Moreover, the average annual number of housing permits issued in the state

Vermont's 2003 Economic Milestones

- Total nonagricultural employment grew 0.3 percent in 2003, but still ended the year 1.4 percent below its pre-recession peak.
- Manufacturing and retail trade collectively lost more than 2,000 jobs, declining faster than in any other New England state.
- Total exports grew 4.2 percent, led by a \$112 million jump in exports of computer and electronics products.
- The state's Coincident Economic Activity Index rose 1.1 percent to 143.7, just shy of its pre-recession peak.

declined by 4.7 percent. The average monthly value of residential construction contracts grew 3.5 percent, helping employment grow in this sector.

Total exports from Vermont increased 4.2 percent in 2003, more slowly than the growth rates for New England and the United States. Exports of computer & electronic products, making up roughly three-fourths of the state's total exports, grew by nearly \$112 million, a 6.0 percent increase. Exports of machinery grew by almost \$24 million, or 23.1 percent, while transportation equipment exports declined by \$12 million, or 13.3 percent.

General fund revenues in FY2003 totaled \$866.1 million, up 3.2 percent over the previous fiscal year. Growth was faster in the first six months of FY2004, when revenues totaled \$444.4 million, 7.3 percent higher than the same period in FY2003. The fastest growing component was corporate rev-

enues, which in FY2003 grew to \$28.6 million, 10.5 percent higher than in the previous year. In the first six months of FY2004, corporate taxes were \$15.6 million, or 86.6 percent higher than in the first six months of FY2003.³⁴

While Vermont's slow rate of employment growth in 2003 might indicate that the state still has not recovered from the recession, the Federal Reserve Bank of Philadelphia's Coincident Economic Activity Index suggests otherwise. After declining in the first four months of the year, Vermont's index increased in seven of the remaining eight months, finishing the year 1.1 percent higher than its December 2002 level. The December 2003 level was only marginally lower than the state's historical high in July 2001.

— Eamon Aghdasi

Endnotes:

- ¹ The 2003 benchmark revisions marginally mitigated the number of job losses in the region, from a previously recorded 0.8 percent decline to a 0.7 percent decline. National employment levels were also revised upward slightly, from a 0.1 percent decrease to relatively no change.
- ² Data for the fourth quarter of 2003 were not available at press time.
- ³ The index is developed for each of the 50 states by economists at the Federal Reserve Bank of Philadelphia and is derived from total nonfarm employment, unemployment rates, average hours worked in manufacturing, and wages and salaries. The index, which begins in 1979, is useful for time-series analysis for measuring monthly economic activity at the state level, among other purposes.
- ⁴ Mass layoffs are defined as 50 or more unemployment claims filed against a single firm in one month.
- ⁵ Levick, Diane. "Health insurance costs going nowhere but up: More layoffs expected throughout the industry." *Hartford Courant* (23 February 2003).
- ⁶ Moran, John. "Pratt expects to complete round of job cuts soon." *Hartford Courant* (15 January 2003).
- ⁷ Gosselin, Kenneth. "Fleet cutting staff 3.8 percent; 190 in state to lose jobs; loan losses reduce profits for quarter." *Hartford Courant* (17 January 2003).
- ⁸ Moran, John. "No bitter pill for state; Pfizer reorganization spares southeastern Connecticut deep job cuts." *Hartford Courant* (30 April 2003).
- ⁹ Levick, Diane and Barbara Nagy. "In a deeper slump: Layoffs at The Hartford expected to delay region's recovery." *Hartford Courant* (13 May 2003).
- ¹⁰ Pazniokas, Mark. "City expects further cuts in workforce; officials struggle to close \$46 million projected shortfall." *Hartford Courant* (22 March 2003).
- ¹¹ According to the March issue of *Connecticut Economic Digest*, the ratio of insured unemployment rate to unemployment rate in Connecticut fell to 0.61 in 2003, from 0.75 in 2002, suggesting that average unemployment spells were increasingly outlasting unemployment insurance payments <<http://www.ctdol.state.ct.us/imi/misc/cedmar04.pdf>>.
- ¹² Bureau of Economic Analysis <<http://www.bea.gov/bea/regional/sqpi/>>. "Finance and insurance" (NAICS sector 52) and "real estate and rental and leasing" (NAICS sector 53) compose the "financial activities" supersector.
- ¹³ Connecticut Department of Labor. *Business & Employment Changes Announced in the News Media* (February 2004).
- ¹⁴ Maine Department of Labor. Bureau of Employment Services. *Announcements of Plant Closings or Dislocations Reported to the Dislocated Work Unit, 2003. Employers served by the Rapid Response Program* <<http://www.state.me.us/labor/lmis/>>.

¹⁵ Maine Department of Labor. *Labor Market Digest* (November 2003):3.

¹⁶ U.S. Department of Labor Statistics. *Mass Layoff Statistics* <<http://www.bls.gov>>.

¹⁷ The MES Foundation: Jobs in Maine. *Fastest Growing Occupations in Maine* <<http://www.mesfoundation.com>>.

¹⁸ CB Richard Ellis / Haver Analytics.

¹⁹ Mass High Tech. *Pulse of Technology* (December 2003).

²⁰ Mass Insight / MassDevelopment Project <<http://www.massinsight.com>>.

²¹ "NH manufacturing summit aims to lift economy." *The Union Leader* (25 February 2004).

²² U.S. Bureau of Labor Statistics. *New Hampshire at a Glance* <<http://www.bls.gov/eag/eag.NH.htm>>.

²³ "Forty-five companies looking to fill 200 positions join job fair." *The Union Leader* (24 January 2004).

²⁴ "Anatomy of a move: how 75 jobs were brought to NH." *New Hampshire Business Review* (5 March 2004)

²⁵ "Why a packaging firm chose to remain in NH." *New Hampshire Business Review* (2 February 2004). "Manufacturers Decry Deep Cuts in MEP Program." *The Union Leader* (2 February 2004).

²⁶ "Tyson workers want job, not training." *The Union Leader* (20 February 2004).

²⁷ State of New Hampshire Monthly Revenue Focus <<http://admin.state.nh.us/accounting/reports.asp>>.

²⁸ Ramsay, Glen. URI/Providence Journal Index of Leading Economic Indicators for the State of Rhode Island.

²⁹ Barmann, Timothy C. "Chip maker's layoff the latest exodus." *The Providence Journal* (4 December 2003).

³⁰ An example of the complexities is that some taxpayers submitted a single payment for the two different taxes, making it difficult for the Division of Taxation to determine the proper allocation.

³¹ The New England Economic Project. *Economic Outlook, 2003-2007* (October 2003): 224-227.

³² The Federal Reserve Bank of Boston's seasonally adjusted initial unemployment claims data series begins in 1987.

³³ "2003: The year in business." *The Burlington Free Press* (28 December 2003).

³⁴ State of Vermont Joint Fiscal Office.