

The Economic Performance of the New England States in 2004: An Overview

by Eamon Aghdasi, Tom DeCoff, Nelson Gerew, Brad Hershbein, Teferi Mergo, and Nick Turner

The year 2004 marked the beginning of New England's economic turnaround. After three consecutive years of job losses — not to mention 86 years of World Series famine — the region emerged victorious. All six New England states added jobs over the course of the year and experienced reductions in unemployment. Job growth in the region, however, was sluggish compared with the nation overall. Recovery was also reflected in strong exports growth, increases in the economic activity index,¹ and improved consumer confidence. Although consumer price inflation in New England was milder than in recent years, home prices continued to escalate at above-average rates.

Employment

The number of nonfarm jobs in New England rose 1.0 percent from December 2003 to December 2004. Although modest, this increase of roughly 71,400 jobs reversed the region's three years of job losses.² Despite its turnaround, New England's labor market was outperformed by the nation, which added jobs at a faster rate of 1.7 percent. Job growth in both the region and the nation fell short of long-term annual averages (1.2 percent and 1.9 percent, respectively).

The performance of industries was quite mixed region-wide. As a general rule, most sectors grew more slowly — or declined more steeply — in the region than in the nation. The information and manufacturing sectors saw the deepest job cuts, with average employment levels dropping 2.8 percent and 2.1 percent, respectively, between 2003 and 2004. In fact, the region's manufacturers have been cutting jobs since 1998, and information jobs have been shed annually since 2001. Nation-wide, job counts were also down in both of these sectors, but not as drastically. Jobs were also cut in New England's transportation, warehousing, &

New England in 2004 at a Glance

- Job growth in all six New England states boosted the region's payroll employment by 1.0 percent — the first increase in three years.
- Despite sluggish job growth compared with the nation, unemployment fell in New England, and the region maintained a lower rate of joblessness than all the other Census divisions.
- Demand for residential real estate remained strong, as home prices soared at above-average rates.
- Exports from both the nation and the region reached record highs.
- For the first time since 1996, inflation in the region was lower than in the nation; however, New Englanders faced double the average rate of price increases for fuel.

utilities; financial activities; other services; and government sectors, while these sectors saw increases nationally.

New England's construction (2.7 percent increase) and professional & business services (1.9 percent increase) sectors showed the fastest job growth among all sectors, although the leisure & hospitality and education & health services sectors also showed notable employment growth. Despite this good news, the only sector to perform better regionally than nationally — albeit by a slim margin — was retail trade, in which New England payrolls picked up an additional 0.9 percent jobs, compared with the nation's 0.8 percent gain.

Unemployment

While the nation led the region in terms of job growth, New England maintained a lower rate of joblessness. Over the course of 2004, the unem-

Chart 1 - Nonagricultural Employment

Percent Change, December 2003 to December 2004

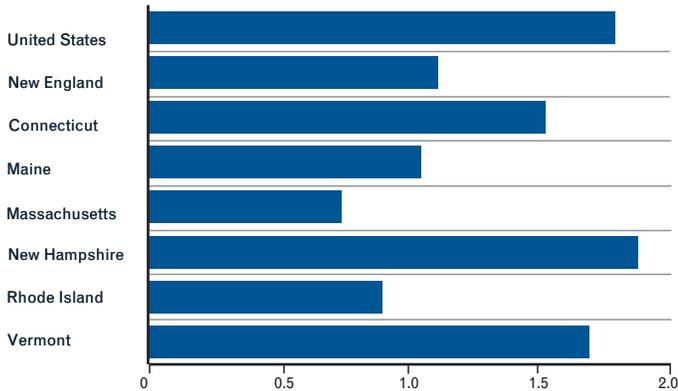
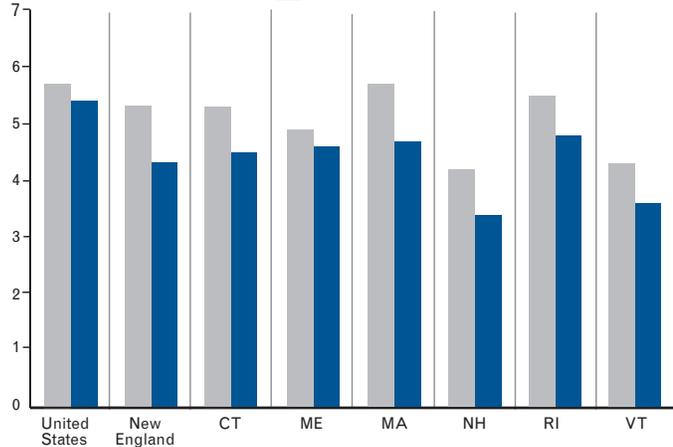


Chart 3 - Unemployment Rate

Percent December 2003 December 2004



employment rate in New England steadily declined from a high of 5.3 percent in December 2003 to 4.3 percent in December 2004, which was well below the rate of the nation and each of the other eight Census divisions. The unemployment rate also declined nationally, from 5.7 percent to 5.4 percent, but remained higher than the unemployment rates of all six New England states.

Consistent with this relatively low unemployment rate, New England's average employment-population ratio (the fraction of the working-age population employed) remained high, at 64.2 percent in 2004, an ever-so-slight slip from its 2003 average level. Nonetheless, the region held the third highest ratio among the nine Census divisions and a ratio higher than the nation's overall,

Chart 2 - Employment by Industry

Percent Change, 2003 to 2004 (Annual Average) (Not Seasonally Adjusted)

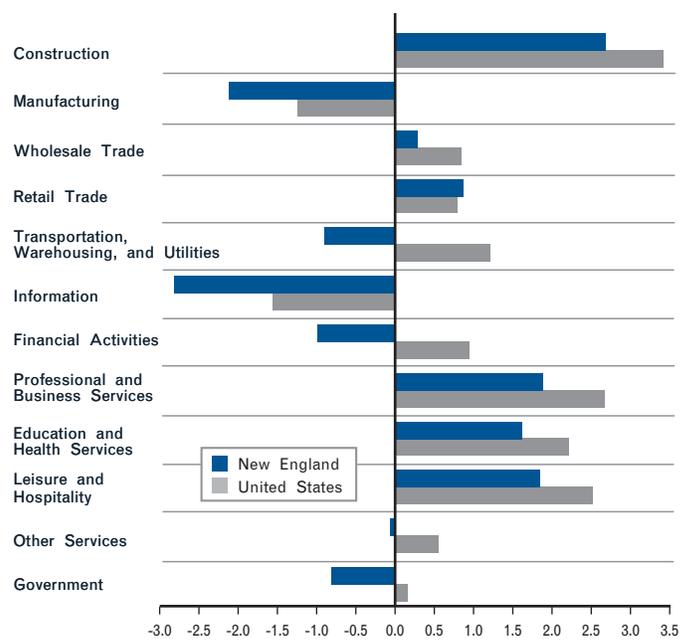
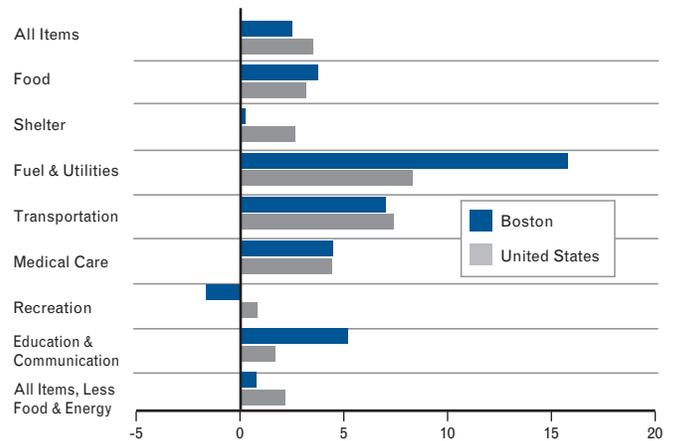


Chart 4 - Consumer Price Index

Percent Change, November 2003 to November 2004



kudos shared by each of the six New England states as well. Between December 2003 and December 2004, average initial claims for unemployment insurance dropped in four of the New England states and were down 3.8 percent across the region as a whole; meanwhile, national claims slowed at more than twice this rate.

Income and Wages

New Englanders saw their total personal

Chart 5 - Per Capita Income, 2004

Numbers in Brackets Denote Rank Among 50 States

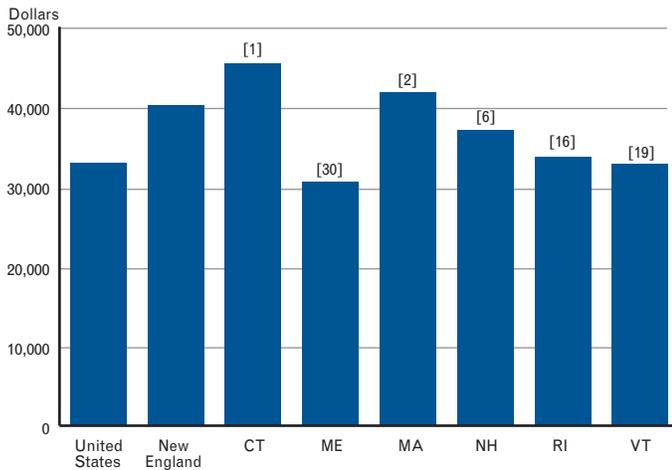


Chart 6 - Housing Permits

Percent Change, 2003 to 2004 (Annual Average)

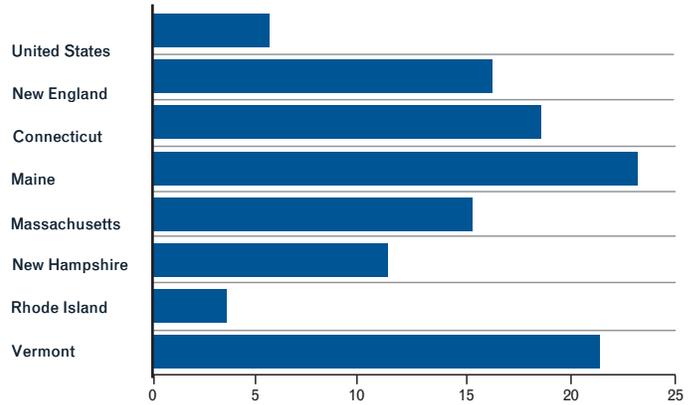


Chart 7 - Merchandise Exports

Percent Change, 2003 to 2004 (Annual Total)

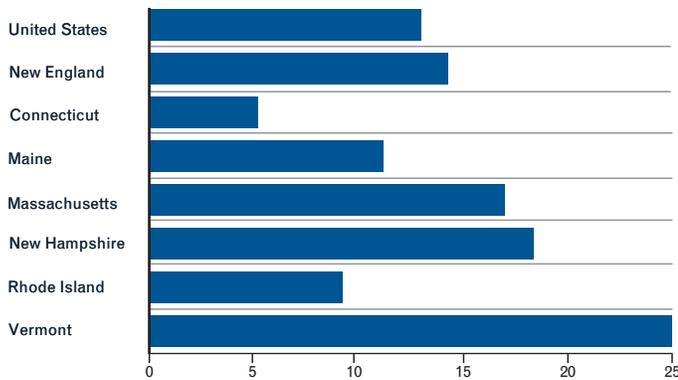
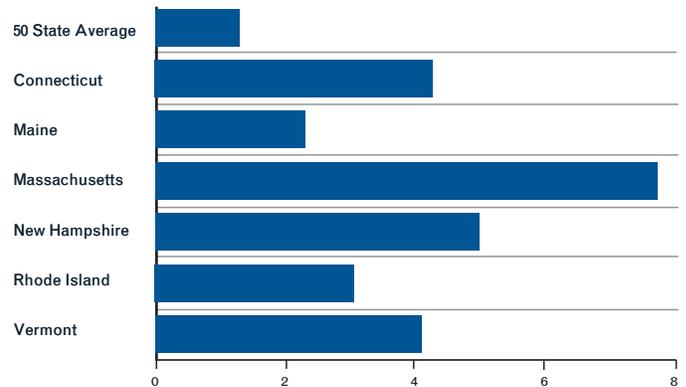


Chart 8 - Economic Activity Index

Percent Change, December 2003 to December 2004



income rise by nearly \$38 billion, or 6.9 percent, over the course of 2004, slightly edging the additional 6.7 percent banked nationwide. This increase helped the region maintain its lead in per capita income over the other eight Bureau of Economic Analysis regions. Each of the six states recorded a gain of at least 5.8 percent, affording three New England states spots among the top ten states with highest per capita income. Two states, Connecticut and Massachusetts, were at the very top. Wages and salaries, the largest component of personal income, climbed 5.6 percent in New England — slightly more than in the nation as a whole.

Consumer Prices

Consumer prices in New England³ rose just 2.5 percent over the 12 months ending in Novem-

ber 2004, the mildest rate of inflation the region has seen since 1998. Since 1990, the average annual rate of inflation for the region has exceeded 3 percent. For the first time since 1996, prices escalated more briskly in the nation (3.5 percent) than in the region. Of all the major categories captured by the consumer price index, fuel saw the steepest jump, 8.3 percent in the nation and nearly double that pace in the region. Other categories to see marked price increases were transportation (7.4 percent in the nation, 7.0 percent in the region) and medical care (roughly 4.5 percent in both the nation and the region). Education prices rose more sharply in the region (5.2 percent), at nearly three times the rate seen nationally (1.7 percent). Prices associated with recreation, the only category to show a decline, fell 1.6 percent in the region while

ticking up 0.8 percent in the nation.

Consumer Confidence

The optimism of New England consumers carried over from 2003 into 2004, as the region's consumer confidence index climbed 10.7 percent in the 12 months ending in December 2004.⁴ National consumer confidence also increased, but not by as much. The "present situation" component of the index improved dramatically in both the nation and the region, but more so in the region.

Real Estate

If consumer price inflation was somewhat grounded for the region, then home price inflation was through the roof, up 12.6 percent between the fourth quarters of 2003 and 2004. The repeat-sales home price index for the United States also continued its climb, up 10.7 percent over the same period, the fastest pace since 1979.⁵ All six New England states saw double-digit rates of growth that exceeded the national pace. In the fourth quarter of 2004, median home prices for six of the seven New England metro areas for which data are available exceeded the national median. Between 2003 and 2004, the average value of residential construction contracts rose more than 22 percent in the region, with gains of more than 20 percent in four of the six states. The corresponding national increase was smaller, but nonetheless a sizable 16.7 percent.

In the fourth quarter of 2004, five of the six New England states⁶ showed increases in the number of existing homes sold compared with a year earlier. Massachusetts led the fray, with a near 15 percent boom. The increase in the average number of housing permits issued was also substantial, up

16.3 percent between 2003 and 2004, surpassing by a wide margin the 5.6 percent growth in permits nationwide. All New England states but Rhode Island posted double-digit rates of growth in permits issued, with increases exceeding 20 percent in some states.

Merchandise Exports

All six New England states showed increases in the dollar value of their exports between 2003 and 2004, bolstering exports for the region as a whole by 14.3 percent, to a record-high \$40 billion. The nation also saw a hefty increase in the total value of merchandise exports, 13 percent, also reaching a record high. Led by expansions to Germany, the Netherlands, and Canada, the largest destination of New England exports, the region increased exports to its nine top destinations (except Malaysia, where exports fell by nearly 10 percent). New England's nine major exporting industries also saw increases from 2003. However, some industries had larger increases than others: chemicals and machinery each boasted increases of more than 30 percent, while growth in exports of transportation equipment and paper was subdued, 4.0 percent and 0.8 percent, respectively.

Overall Economic Activity

Between December 2003 and December 2004, all six New England states showed improvement in the economic activity index, and five ended 2004 with record-high levels. Moreover, growth in the index for four of the six New England states exceeded the average rate of growth seen across the nation, reinforcing New England's economic recovery during 2004.

—Tom DeCoff

Connecticut

After three consecutive years of employment losses, the Constitution State finished 2004 in the black and added 23,500 jobs during the year, a 1.4 percent increase. While lower than the national counterpart, this percentage gain was bested in the region only by New Hampshire and Vermont. Payroll employment remained well below its pre-recession peak, but the number of jobs grew steadily throughout the latter part of the year. The state's metro areas also enjoyed employment growth: Hartford-West Hartford-East Hartford gained 6,400 jobs (1.2 percent), and Norwich-New London added 1,300 jobs (1.0 percent) between December 2003 and December 2004. These areas also demonstrated growing strength in the latter half of the year.

Statewide employment growth was led by education & health services, where average employment rose by 4,800 jobs between 2003 and 2004 (1.7 percent), followed by construction, which gained 3,800 jobs for a 6.2 percent increase, and leisure & hospitality, which added 2,800 jobs (2.2 percent increase). Much of the gain in this last category was from limited-service eating places (1,700 jobs added). Of the three sectors adding jobs, only the construction sector did so more quickly than the nation overall, but all three outpaced the region. Notable expansions in 2004 featured the long-awaited opening of retailer IKEA in New Haven (500 jobs) and an expansion at Foxwoods Casino (325 jobs).⁷

Once again, job losses were greatest in the manufacturing sector in 2004, although the losses were not as severe as in prior years. Manufacturing lost 2,500 jobs (1.2 percent), in stark contrast to the 2002-2003 period, when job losses were tenfold greater. Connecticut endured only 49 mass layoffs in 2004 — far fewer than the 80 in 2003, and the lowest number since 2000.⁸ Some high-profile layoffs did occur in 2004,⁹ however, with the largest at pharmaceutical giant Bayer, which announced 540 layoffs in late 2004. Other high-profile layoffs included Purdue Pharma (300), as well as defense contractors Electric Boat and Sikorsk.¹⁰ Financial activities, the other traditional mainstay of the state's economy, lost 2,000 jobs (1.4 percent), following three years of relatively flat employment levels in this sector. High-profile layoffs included 275 at Wachovia Bank,

Connecticut in 2004 at a Glance

- Connecticut employment grew for the first time in 3 years; the state gained 23,500 jobs for a 1.4 percent increase.
- Manufacturing continued to lose jobs, but less so than in the past. Construction and education & health services led employment growth.
- Personal income grew dramatically (7.6 percent), led by very strong growth in the finance sector (15.3 percent).
- Once again, house prices rose at double digit rates.

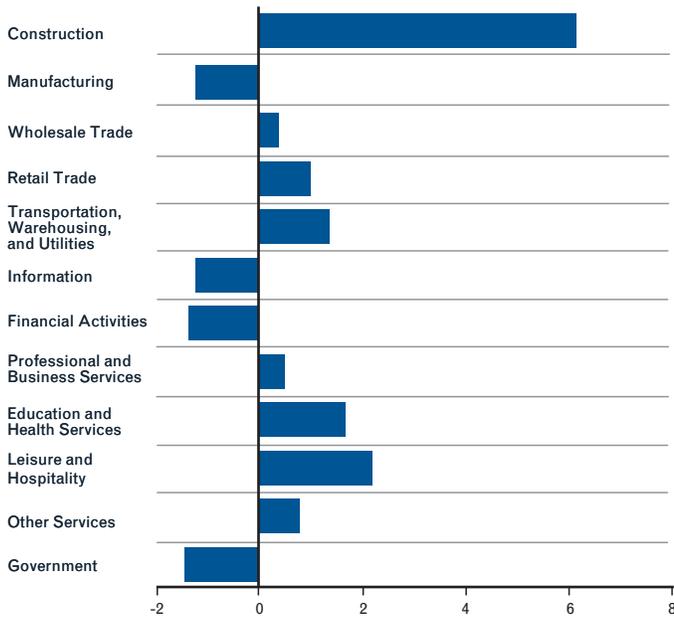
and an additional 200 layoffs are expected in 2005 from the CIGNA-Prudential merger. In 2004, though, the largest loser among sectors was government, with 3,600 jobs cut (1.5 percent).

The net job gain was accompanied by a 0.8 percentage point decline in the state's unemployment rate over the course of 2004. At 4.5 percent in December, Connecticut's jobless rate remained below the national average, though slightly above that of New England. Waning unemployment was also evidenced in the decline in initial claims for unemployment benefits. Similar improvement was also seen in the average hours and earnings of manufacturing production workers. Average hours were up by 0.9 percent, matching the national average, while hourly earnings were up 3.4 percent — easily beating both the U.S. and New England average increases.

Despite rather modest employment growth, personal income soared by 7.6 percent from fourth quarter 2003 to fourth quarter 2004 — the largest increase since 2000. Despite job cuts, financial activities remained a strong driver of the Connecticut economy. Wage and salary disbursements in this sector grew by 6.7 percent — well above the 5.4 rise seen nationwide, second only to New Hampshire's gain among New England states, and the state's fastest growth since the heady days of 1997-1998. This earnings growth was sufficient to maintain the Nutmeg State's position as the state with the highest per capita income, reaching \$45,398 in 2004 — 38 percent greater than the national average and a 5.6

Employment by Industry - Connecticut

Percent Change, 2003 to 2004 (Annual Average)
(Not Seasonally Adjusted)



percent gain from last year. Employment may have only recently turned the corner in 2004, but income surged.

To the delight of homeowners statewide, such impressive income growth was accompanied by further increases in house prices. The repeat-sales home price index had its third consecutive double-digit increase —12.7 percent — between the fourth quarters of 2003 and 2004. The Bridgeport area had the highest house price increases, 14.1 percent. In the Hartford area, the median price of a home rose from \$210,300 in the fourth quarter of 2003 to \$232,800 in the fourth quarter of 2004. In the New Haven-Meriden area, median home prices reached \$264,600, a \$37,300 increase over 2003. As house prices rose, however, existing home sales grew only 1.4 percent. The average number of permits issued grew by 18.6 percent, and the value of construction contracts, by 22.9 percent. This was the third consecutive year of increases for both permits and contracts.

Connecticut's exports increased 5.2 percent over the course of 2004, following two years of decline. This gain was less than half that seen nationwide and trailed the exports growth seen in all the other New England states. The gains were driven by increases in computer & electronic products, which grew 2 per-

cent, and machinery, which grew 41 percent. However, exports of transportation equipment, by far the largest exporting industry in the state, shrank 3.8 percent, largely offsetting the growth in the other leading export industries. The largest destination countries for Connecticut's exports all imported more in 2004 than in 2003, with shipments to leading destination Canada rising 8.9 percent and those to second largest destination, France, rising 7.7 percent. However, exports to Germany, the third largest destination, budged up by just 0.5 percent.

The overall course of Connecticut's economic performance improved by 4.3 percent in 2004, as reflected in the economic activity index. Among the New England states, only Massachusetts and New Hampshire demonstrated faster growth in the economic activity, and growth in Connecticut's index easily exceeded the U.S. average. After more than three years, the index finally surpassed its January 2001 pre-recession peak and ended the year 3.4 percent above that threshold. In 2004, Connecticut firmly exited its post-recession doldrums, with long-awaited employment gains and impressive income growth.

—Nelson Gerew

Maine

The Pine Tree State continued along a path of mild economic growth in 2004. For the 12 months ending in December, nonagricultural payrolls added 6,000 jobs, finishing the year with a record-high level of 616,200. The 1.0 percent rise, although middling for the region, was slightly higher than the previous

Maine in 2004 at a Glance

- Payroll employment has grown for three years in a row.
- The state's unemployment rate declined, but recorded the smallest reduction among the New England states.
- Maine's rise in income, though respectable, was the slowest in New England.
- Maine's exports continue to show rapid expansion.

year's rate of increase and marked Maine's third consecutive year of job growth. The gains were largely continuous throughout the year and extended to Maine's two largest metropolitan areas, Bangor and Portland-South Portland-Biddeford, which together account for over 40 percent of jobs statewide. Each had particularly strong gains, up 2.0 percent (1,300 jobs) and 3.5 percent (6,700 jobs), respectively, over the course of 2004. The employment level in Lewiston-Auburn, Maine's other metro area was also up, by a smaller 1.9 percent (900 jobs).

On an industry-to-industry basis, Maine's job record was more mixed. The strongest performer by far was the education & health services industry, Maine's largest, which experienced respectable growth of 3.6 percent, or 3,800 jobs, from its 2003 annual average. Other industries contributing to job gains over the year included retail trade, with a net creation of 2,100 jobs (about 2.5 percent); the government sector, with 1,100 new jobs (1.1 percent); leisure & hospitality, netting 800 jobs (1.4 percent); and construction, with about 500 new jobs (1.7 percent). Countering some of this job growth, manufacturing lost 1,000 jobs (1.5 percent); professional & business services shed 600 jobs (1.2 percent), the only loss in this industry in the region; and financial activities and other services cut a few hundred

jobs each. Surprisingly, while the nation and the region each continued to post losses in the information sector, Maine reported small gains, though this industry represents only 2 percent of Maine's employment.

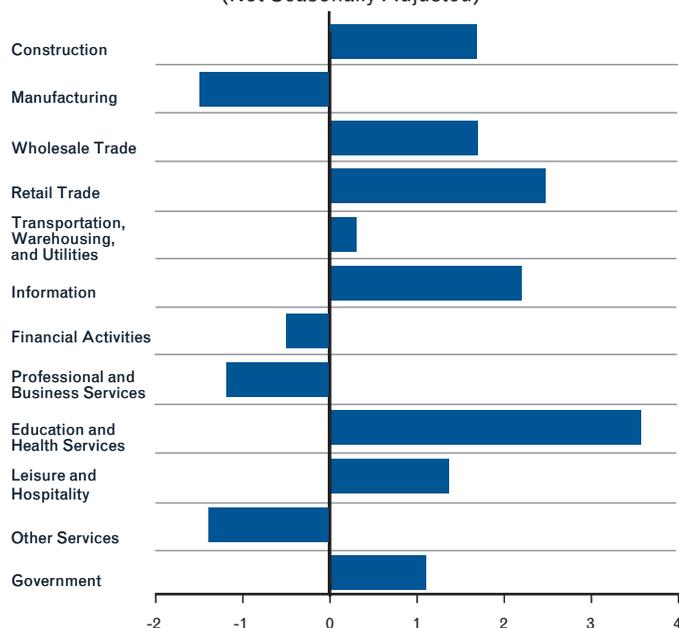
Maine's labor force grew 0.7 percent between 2003 and 2004, and the state's unemployment rate declined from 4.9 percent in December 2003 to 4.4 percent in April 2004 before ticking back up slightly, to 4.6 percent at year's end. Maine thus far has experienced the smallest reduction in its post-recession unemployment rate among the New England states. Commensurately, Mainers' applications for unemployment insurance fell only moderately in 2004 relative to 2003: Initial claims subsided by 4.8 percent, but probably would have declined more substantially (and closer to New England averages) had Maine not had a particularly tough November and December, when two paper companies and a lighting manufacturer enacted layoffs affecting a few hundred workers.¹¹ With these somewhat lackluster improvements, Maine's average labor force participation rate declined slightly, from 66.6 percent to 66.3 percent, between 2003 and 2004.

Maine's per capita income rose 4.8 percent between 2003 and 2004. While this rate normally would be considered quite robust (indeed, it exceeded Maine's record for the two previous years and about tied the national increase), it fell short of the advance in every other New England state. Considering that Maine is also the poorest state in New England, with per-capita income below the national average, the relatively slow income growth seems even more disappointing. Much of the gain came from the state's education & health services and construction industries, as well as the government sector, which together account for about 40 percent of jobs statewide.

Relatively slow income growth apparently did not dampen Maine's housing sector, however. Existing-home sales clipped along at a near-record annual rate of 46,300 in the fourth quarter of 2004, a 9 percent acceleration from the previous year. Moreover, the repeat-sales home price index jumped nearly 14 percent over the same period. Indeed, the median sales price of a Portland-area house has more than doubled over the last five years, reaching more than

Employment by Industry - Maine

Percent Change, 2003 to 2004 (Annual Average)
(Not Seasonally Adjusted)



\$230,000. Average residential construction contracts and housing permits were each up over 20 percent in 2004 and reached record highs.

Also showing strength, the value of Maine's merchandise exports witnessed a solid 11 percent pickup from 2003 to 2004. Although this pace slightly trailed that of the region and nation, it was sufficient to lift Maine's exports to an all-time high. Reflecting the changing nature of the state's economy, the export product with the sharpest growth was not paper or lumber but computer & electronic products, which now accounts for over one quarter of Maine's exports. While Canada, owing to its proximity, continued to be Maine's largest trading partner, importing about one-third of Maine's \$2.4 billion of exports, Malaysia is the up-and-coming destination, importing 43 percent more from Maine in 2004 than it did in 2003.

Maine finished 2004 with both moderately anemic employment growth and moderately impressive housing and export markets. This middle-of-the-road economic performance is evident in the state's coincident economic activity index, which edged up in December a scant 2.3 percent over its year-earlier level even as other states in the region had grown twice as fast. Maine proved to be resilient in the face of recession, suffering less severe consequences than the rest of the region, so now is it enjoying milder gains.

—Brad Hershbein

Massachusetts

The Massachusetts economy was firing on nearly all cylinders in 2004. Strong growth in real estate markets, robust increases in personal income and wages and salaries point towards a healthy economy. However, total employment growth was anemic in 2004, underscoring the tentativeness of the economic recovery in Massachusetts.

Massachusetts added only 22,000 jobs over the course of 2004, an increase of just 0.7 percent — the smallest in New England. Moreover, Massachusetts remained shy of its pre-recession employment peak attained in February 2001. Weak employment growth was evident across many sectors of the state economy. Comparing annual average data for 2003 and 2004, three sectors in Massachusetts sustained the largest

percentage declines in New England: the information sector was off 5.2 percent, losing 4,700 jobs; manufacturing dropped 3.2 percent, or 10,500 jobs; while the financial activities sector declined 1.7 percent, shedding 3,800 jobs. Job losses were also felt in the transportation, warehousing & utilities, wholesale trade, and government sectors.

Among industries adding net jobs over the same period, the largest increase was in professional & business services, which added 8,500 jobs, or 1.9 percent. Sizable employment gains were also seen in the education & health services sector, which added 6,300 jobs (although, this 1.1 percentage increase was the smallest across the New England states), and the leisure & hospitality sector, which added 4,000 jobs, or 1.4 percent.

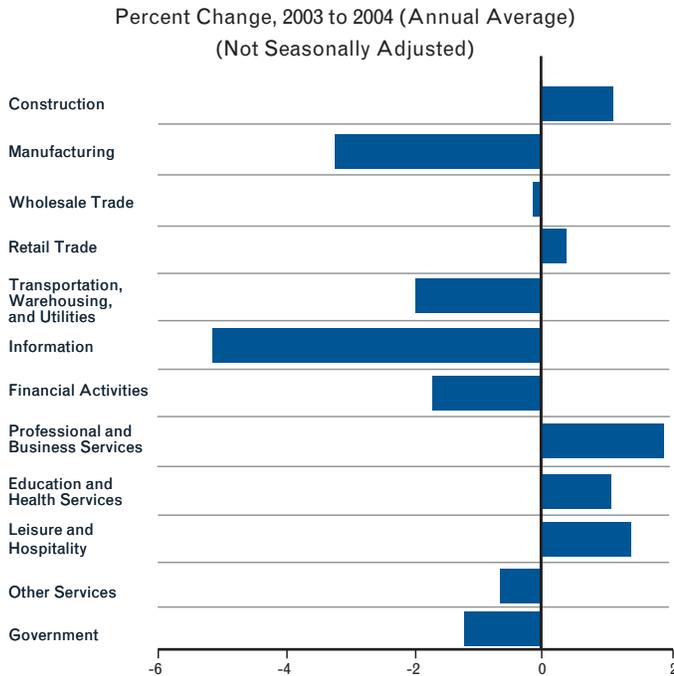
Despite relatively modest job gains, the statewide unemployment rate fell a full percentage point, from 5.7 percent in December 2003 to 4.7 percent in December 2004. Despite this decline, Massachusetts ended the year with the second highest unemployment rate in New England, trailing only Rhode Island. The drop in the state's joblessness was mirrored by declines in the unemployment rates of all seven Massachusetts metropolitan New England City and Town Areas (NECTAs) as well as a statewide drop over the course of the year in the average number of weekly initial claims for unemployment insurance.

Between 2003 and 2004, manufacturing workers witnessed a modest 2.1 percent increase in their average hourly wage, to \$16.89, a level that exceeded the national and regional averages. Between fourth quarter 2003 and fourth quarter 2004, growth in personal income of all workers was also relatively strong, up 6.7 percent. Wages and salaries were up 5.2 percent statewide. As a result of this growth, per capita

Massachusetts in 2004 at a Glance

- Job growth remained anemic in Massachusetts, with only 22,000 jobs added in 2004.
- Personal income growth raised the Bay State's per-capita income to the second-highest level in the nation.
- Real estate markets remained strong.

Employment by Industry - Massachusetts



income rose to \$41,801, increasing Massachusetts' state rank from third to second in the nation, trailing only neighbor Connecticut.

Real estate markets continued their strong performance in the Bay State. The repeat-sales home price index was up 11.3 percent in the fourth quarter of 2004 compared with the fourth quarter of 2003. This growth was evident throughout the state's seven metropolitan areas for which data are available, as all areas but one (Lowell) showed double-digit rates of growth. Home prices continued rising over the course of the year, with the median price of a home in the Boston area surging upward by \$33,400, bringing it to \$387,800. Higher prices did not deter strong growth in existing home sales, which climbed 14.8 percent between the fourth quarters of 2003 and 2004. Paralleling these strong performances, annual housing permits were up 15.3 percent compared to 2003 levels. Robust growth was also observed in the value of construction contracts. Statewide, the annual average value of construction contracts grew 26.3 percent between 2003 and 2004, outpacing the rate of growth seen across the region (22.2 percent) and the nation (16.3 percent).

Aggregate exports from Massachusetts were strong in 2004, up 17.0 percent from 2003. This growth was driven by increases in exports from two

of the state's three largest exporting industries. Increases in exports of chemicals (52.6 percent) and machinery (47.2 percent) — the second and third largest exports in 2003, respectively — more than offset the 2.8 percent contraction in computer & electronic products. Exports to the state's largest destinations of 2003 were also strong in 2004. Exports to Canada, the Bay State's largest destination of 2003, grew 9.8 percent in 2004. Export growth to the Netherlands surged by 43.0 percent, mostly fueled by rapid growth in pharmaceuticals exports.¹² Trade to the state's third largest trading destination of 2003, Japan, expanded 11.0 percent in 2004.

One indicator that highlights improved economic conditions in Massachusetts is the economic activity index, which climbed 7.7 percent between December 2003 and December 2004. This was the largest percentage increase among the New England states and was more than double the average growth rate of the 50 states. The growth in this index reveals that most of the fundamentals are in place for a strong state economy. However, the main drag on the economy was lethargic growth in payroll employment over many sectors and metropolitan areas in 2004.

—Nick Turner

New Hampshire

A number of indicators suggest that New Hampshire's economy improved significantly in 2004, as the state built on the success of the previous year in emerging from the 2001 recession.

The state gained 11,000 jobs in 2004, with total nonagricultural payroll employment rising 1.8 percent over the course of the year. New Hampshire was the only New England state to keep up with the nation's growth rate. The state's total employment level in December 2004, 632,700, was just shy of its pre-recession peak of 634,000 in February 2001.

Average employment levels grew in most major industries between 2003 and 2004. Leisure & hospitality grew fastest both in terms of the number of jobs added (2,500) and the rate of growth (4.0 percent), with the state experiencing a good year for tourism despite below-average snowfall and its effects on skiing and related activities.¹³ The Granite State's rate of growth in leisure & hospitality employment outpaced all other New England states, as did its

New Hampshire in 2004 at a Glance

- New Hampshire's 1.8 percent employment growth rate was higher than the rates of all other New England states.
- In December 2004, the state claimed the lowest unemployment rate in New England and the second-lowest in the country.
- New Hampshire's 2004 decline in manufacturing employment, 0.1 percent, was the lowest in New England, and the state's smallest decline in the past four years.
- Per capita income rose 5.2 percent to \$37,040, the 6th highest level in the nation.

employment growth in wholesale trade (2.3 percent), which benefited from C&S Wholesale Grocers' relocation of corporate headquarters from Vermont to New Hampshire;¹⁴ and in financial activities (1.6 percent), which was largely attributable to Fidelity Investments adding 375 jobs during the year.¹⁵ The information sector also added roughly 400 jobs (2.9 percent), making New Hampshire one of only two New England states to increase payroll employment in this sector.

The state witnessed declining annual employment levels in the trade, transportation, & utilities sector (2.5 percent) and the government sector (0.5 percent). The state's manufacturing sector also experienced another year of job cuts — its fourth straight — although the 0.1 percent dip was dramatically smaller than in the past three years. The computer & electronics products sector, buoyed by increased spending on large military contractors like Nashua-based BAE Systems,¹⁶ added 800 jobs (4.2 percent) and contributed to the overall 1.7 percent expansion (1,000 jobs) in durable goods manufacturing employment. By contrast, nondurable goods lost 1,100 positions (5.2 percent), nearly half of which came from food, beverage, & tobacco products (500 jobs, a decline of 13.5 percent). While total employment in manufacturing declined marginally, average weekly manufacturing hours remained at 40.0 in 2004, lower than in any other New England state.

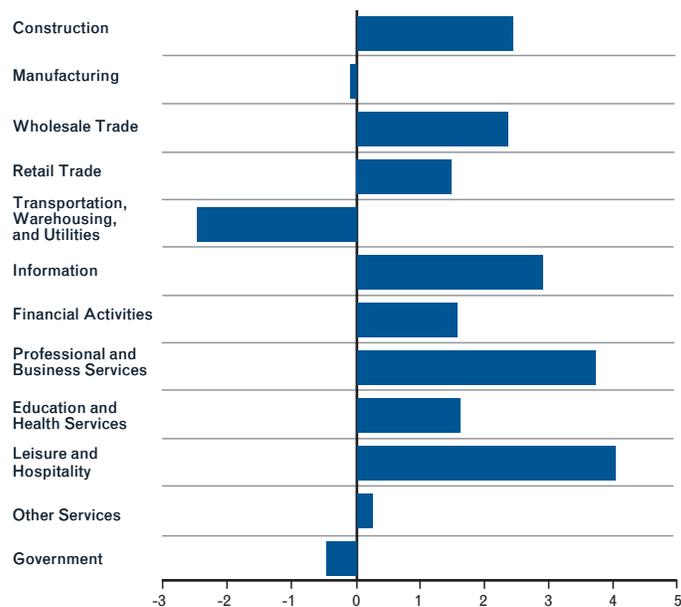
New Hampshire continued to enjoy the lowest unemployment rate among all New England states

and one of the lowest in the nation. After declining or staying even in all 12 months of 2004, the state's unemployment rate stood at 3.4 percent in December, its lowest level since June 2001 and a full 2 percentage points lower than that of the country. Conversely, average weekly initial claims for unemployment insurance increased 5.6 percent over the course of the year, to 1,019 in December 2004, pairing New Hampshire with Maine as the only New England states to witness an increase.

As employment rebounded within the state, so did exports. The value of merchandise exports totaled \$2.3 billion in 2004, an 18.4 percent increase from 2003 that outpaced all other New England states except Vermont. Exports of computer & electronic products, constituting nearly one-third of the state's total exports, increased 22.9 percent over 2003, while machinery exports grew 15.5 percent. Like all New England states, New Hampshire's largest export destination was Canada, which received 23.6 percent of the state's total and saw growth of 7.1 percent (\$36 million) in 2004. Exports to the state's second-largest trade destination in 2003, the United Kingdom, grew 5.0 percent (\$8 million) in 2004, but this gain was dwarfed by the 42.9 percent (\$60 million) growth in

Employment by Industry - New Hampshire

Percent Change, 2003 to 2004 (Annual Average)
(Not Seasonally Adjusted)



exports to Japan.

Total personal income rose 7.3 percent over the course of the year, ending at nearly \$50 billion and yielding the second-highest growth rate in New England. Similarly, wage and salary disbursements grew 7.0 percent, faster than in any state in the region. Average hourly earnings of manufacturing workers also grew, by 4.2 percent, to \$15.48. These increases factored into New Hampshire's 5.2 percent rise in per capita income, to \$37,040, and the state continued to rank 6th in the nation.

Residential real estate markets in New Hampshire remained strong in 2004. The state's repeat-sales home price index increased 11.2 percent between the fourth quarters of 2003 and 2004, slightly slower than the region's rate but slightly faster than that of the country. Moreover, the number of sales of existing homes increased 5.2 percent from fourth quarter to fourth quarter. The average annual number of housing permits authorized increased 11.3 percent, once again trailing New England but outpacing the United States. The value of new residential construction also grew at a healthy pace, although the state's 15.5 percent growth rate from 2003 trailed both New England and the country.

The economic activity index lends greater credence to the notion that New Hampshire is recovering nicely from the most recent recession. The state's index in December 2004 stood 4.7 percent higher than in December 2003, yielding the second-highest rate of growth among the six New England states. Also as of December, the state's index stood roughly 8.6 percent higher than its pre-recession peak in May 2001.

—*Eamon Aghdasi*

Rhode Island

Consistent with trends in the nation and the rest of New England, Rhode Island added jobs in the 12 months ending in December 2004. Unlike the nation, four of the five other New England states, and the region as a whole, the Ocean State added jobs for the third year in a row. Nevertheless, the 0.8 percent employment growth in Rhode Island, which translated into 4,100 additional jobs, was not as much as the growth seen in the region or the nation.

Between 2003 and 2004, average employment

levels rose in several of Rhode Island's major sectors: professional & business services (7.2 percent), education & health services (2.1 percent), leisure & hospitality (1.8 percent), financial activities (1.5 percent), other services (0.9 percent), and construction (0.1 percent). Mirroring the national trend, the largest job-losing sectors were transportation, warehousing, & utilities (3.9 percent) and manufacturing (3.0 percent). Although the Ocean State is not particularly known for its high-tech sector, it lost some information jobs as well. Moreover, the government sector shed about 400 jobs during this period.

Comparing the levels in December 2003 and December 2004, the data on weekly unemployment insurance claims tell a similar story. Rhode Island's 1.6 percent rate of decline was slower than the rate seen across the region or nation. Some experts have predicted that the state may have returned to its long-run status as a lagging state in terms of economic performance, job growth, and the unemployment rate.¹⁷ Although the state's overall unemployment rate, at 4.8 percent in December 2004, stood below the national rate, it was the highest rate among all six states in the New England region. This is hardly unusual for Rhode Island, which historically has suffered with one of the region's highest rates of joblessness. In one bright spot, the Providence-Fall River-Warwick metro area enjoyed a decline in its unemployment rate, from 5.7 percent in December 2003 to 4.9 percent in December 2004, dipping to its lowest level since 2002.

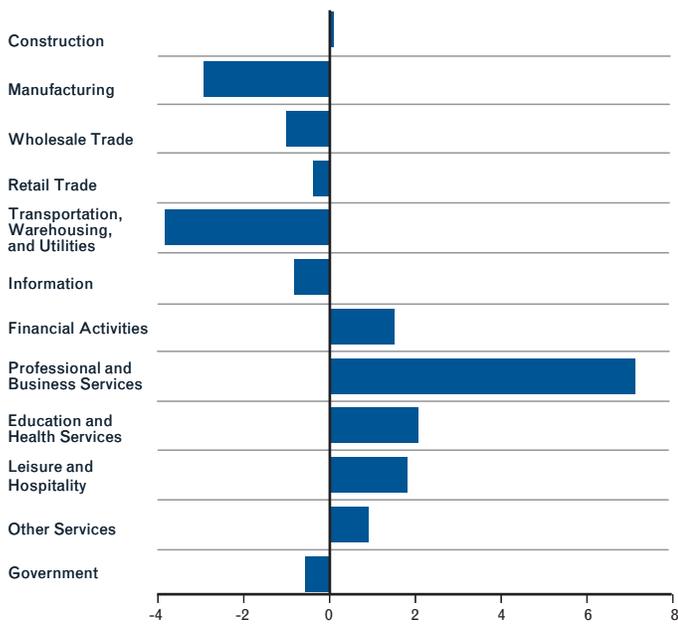
Rhode Island's personal income grew 6.3 per-

Rhode Island in 2004 at a Glance

- For the third year in a row, payroll employment in Rhode Island increased over the course of the year, albeit at a relatively slow pace compared with the nation and the other New England states.
- At the end of the year, Rhode Island recorded the highest unemployment rate among the New England states, but its rate remained below the national average.
- Real estate markets boomed in Rhode Island; home prices escalated at rates unmatched by the nation, the region as a whole, or the other New England states.

Employment by Industry - Rhode Island

Percent Change, 2003 to 2004 (Annual Average)
(Not Seasonally Adjusted)



cent over the course of 2004, trailing the nation, the region, and four of the five other New England states. Nevertheless, this additional income enabled the Ocean State to maintain its position as the state with the 16th highest per capita income in the United States.

The lackluster performance of Rhode Island’s labor market was accompanied by the notably stronger performance of its real estate market. The state’s repeat-sales home price index climbed 17.7 percent over the course of 2004 — a rate exceeding that of the nation, the region, and the five other New England states. Over the same period, the median sales price of an existing home in the Providence metro area jumped to more than \$275,000, a level that continues to exceed the national median and be among the highest in the New England metropolitan areas. Despite rapid increases in prices, the average number of housing permits issued in Rhode Island between 2003 and 2004 rose only 3.6 percent; the other New England states saw permits increase at double-digit rates.

Total exports from Rhode Island expanded 9.3 percent between 2003 and 2004 — satisfactory but not impressive growth when compared with the growth in exports from New England as a whole

(14.3 percent) and the other individual states in the region. Connecticut was the only other state that failed to register a double-digit growth rate. The largest shares of Rhode Island’s exports went to Canada, Singapore, and Mexico. Exports to Singapore and Mexico declined 16.0 percent and 5.9 percent, respectively, while, the state’s exports to Canada grew by 7.8 percent.

Rhode Island’s economic activity index reveals that the state’s economy experienced a mild boost over the course of 2004. Between December 2003 and December 2004, the index increased 3.1 percent — respectable growth, but a slower rate of growth than the national average and the second slowest rate of growth among the New England states.

—*Teferi Mergo*

Vermont

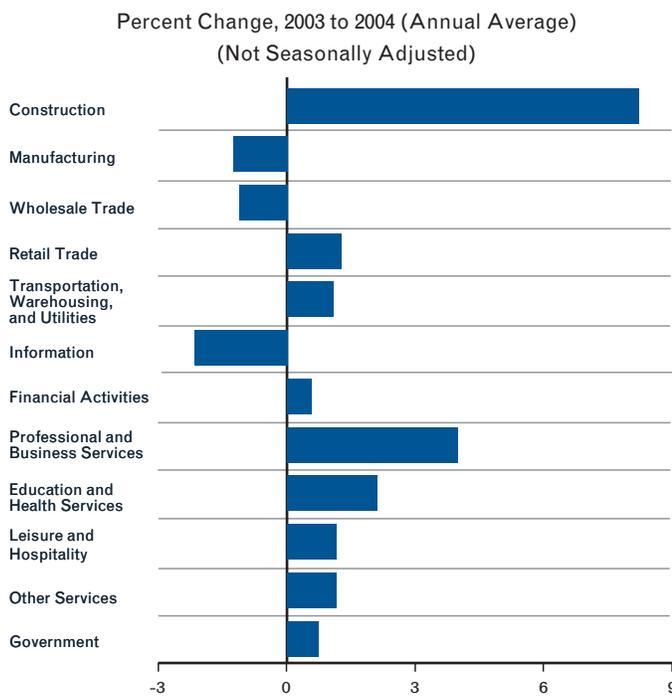
The Green Mountain State, New England’s smallest economy, enjoyed strengthening economic conditions in 2004. Between December 2003 and December 2004, total nonagricultural payrolls added 4,800 jobs, slightly exceeding the gains of the previous year, and the 2004 year-end level of 306,600 jobs, bested Vermont’s pre-recession peak of 303,800 jobs. The 1.6 percent gain was the second largest among the New England states, narrowly trailing that of New Hampshire and the nation overall.

Leading Vermont’s job expansion, the construction industry witnessed healthy growth of some 1,300 jobs — up over 8 percent from its 2003 annual average. Other expanding industries were education & health services, the state’s largest private-sector industry, with a net creation of 1,100 jobs (up

Vermont in 2004 at a Glance

- Payroll employment grew beyond its pre-recession peak.
- Unemployment fell sharply, but the labor force size remained static.
- Vermont led New England in personal income and exports growth.
- Median house prices continued to rise at a double-digit rate.

Employment by Industry - Vermont



about 2 percent); professional & business services, with nearly 800 new jobs (up about 4 percent); and retail trade, with some 500 jobs (up about 1 percent). Despite a mild recovery in the fall, over the course of 2004, manufacturing employment was down about 1 percent (400 to 500 jobs) from the prior year, a situation highlighted when Belden CDT, maker of electronic cables, closed its Essex plant and eliminated 150 jobs in August.¹⁸ The state's other industries, including the large government sector, remained in neutral and marked little change.

Despite the uptick in payroll employment, the size of Vermont's labor force barely budged throughout the year, and the ranks of the unemployed thinned. Consequently, the official unemployment rate declined steadily from 4.3 percent in December 2003 to 3.6 percent at the end of the 2004, one of the lowest rates of any U.S. state and well below the national average. Applications for unemployment insurance fell commensurately with unemployment, with initial claims easing over 20 percent relative to 2003. However, throughout 2004, Vermont's average labor force participation rate — the fraction of people with a job or looking for one — declined from 71.3 percent to 70.7 percent; the 0.6 percentage point drop was twice the size of the national equiva-

lent.

Accompanying the generally positive employment picture, the state's total annual per capita personal income rose a healthy 6.1 percent between 2003 and 2004. This jump, the fifth highest in the nation and the top rate in New England, brought Vermont, perennially one of the poorer states in the region, to an income level roughly equal to that of the national average. Nearly every industry experienced sizable income gains, especially construction and farming, which benefited from good harvests and high prices. The manufacturing sector perhaps faced the toughest time, with average weekly hours and (nominal) hourly wages both flat in 2004.

The housing sector in Vermont, as in the rest of New England, continued to be a bright spot in the economy with the aid of low interest rates. As existing-home sales kept to a historically brisk annual rate of 8,100 in the third quarter of 2004 (the latest data available), the repeat-sales home price index maintained its upward trajectory, surging nearly 13 percent between the fourth quarters of 2003 and 2004.¹⁹ According to the *Vermont Economy Newsletter*, the median sales price of a house rose 10.3 percent, to \$160,000 in 2004. Permits were up a whopping 25 percent over the previous year and reached a level last seen in the late 1980s. Meanwhile, the Vermont Joint Fiscal Office expressed concern about a real estate bubble.²⁰

The state's export market also had a bountiful year. Vermont, despite its tiny economy, is New England's third-largest merchandise exporter and increased the value of its exports a staggering 25 percent from 2003 to 2004. Although this was the most rapid growth rate in the region, Vermont's total export value of \$3.3 billion in 2004 fell below the record \$4 billion of 2000. Shipments of computer & electronic products, the state's largest export product by far, grew 30 percent and carried most of the overall export growth. Of Vermont's trading partners, nearby Canada imported \$1.5 billion of goods in 2004, 40 percent more than in the year before.

Despite somewhat weak labor force growth and a declining manufacturing sector, Vermont undeniably experienced a positive 2004. With most major indicators showing growth — often at rates that are the highest in the region — Vermont seems to have

captured the economic recovery that has been gracing the nation but has been slow in coming to the rest of New England. Indeed, the state's economic activity index showed steady growth during 2004 and finished the year an impressive 4.1 percent over

its December 2003 level. This broad-based index confirms that Vermont's overall economic activity in 2004 steadily grew beyond its pre-recession peak of March 2001.

—Brad Hershbein

Endnotes:

¹The 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.

²The 2004 benchmark revisions showed that, at a pace of 1.0 percent, job growth in New England during 2004 was more robust than the 0.5 percent pace previously reported.

³The consumer price index is actually for the Boston area, which covers parts of Connecticut, Maine, Massachusetts, and New Hampshire.

⁴Between December 2002 and December 2003, regional consumer confidence demonstrated a momentous increase of roughly 50 percent.

⁵The Repeat-Sales Home Price Index is a quarterly price measure derived from data on conventional mortgage loans purchased by Fannie Mae and Freddie Mac since January 1975. Fannie Mae and Freddie Mac use repeat mortgage transactions to identify the sales price of a single physical housing property at two or more points in time, and then aggregate and index the price changes (using the first quarter of 1975 as a base).

⁶At press time, fourth quarter 2004 existing home sales data were not available for Vermont.

⁷Connecticut Department of Labor, *Business and Employment Changes Announced in the News Media* (March 2005).

⁸Bureau of Labor Statistics, Mass Layoff Statistics, <<http://www.bls.gov/mls/home.htm>>.

⁹"Bayer Sheds 110 More Jobs." *New Haven Register* (December 3, 2004).

¹⁰*Business and Employment Changes Announced in the News Media* (March 2005).

¹¹"Brewer Transition Team Shifts to Regional Role." *Bangor Daily News* (November 15, 2004).

¹²World Institute for Social and Economic Research (WISER)

<<http://www.wistertrade.org>>.

¹³Sanders, Bob. "Things Are Looking up for N.H. Economy." *New Hampshire Business Review* (June 25, 2004).

¹⁴"Grocery Distributor Moves Headquarters to New Hampshire." *The Associated Press*. (August 11, 2004).

¹⁵Sanders, Bob. "Economy Rebounds throughout N.H." *New Hampshire Business Review* (December 24 2004).

¹⁶ *Ibid.*

¹⁷Downing, Neil "Opinion Mixed over Strength of Rhode Island Economic Recovery." *The Providence Journal* (July 20, 2004).

¹⁸"A Year in the Life of Vermont Business." *Burlington Free Press* (December 26, 2004).

¹⁹"Prices Shoot Up: But Housing Still Affordable." *Vermont Economy Newsletter* (March 2005).

²⁰January 2005 Economic Review and Revenue Forecast Update. Prepared for the State of Vermont Emergency Board and Legislative Joint Fiscal Committee by Kavet, Rockler and Associates (January 14, 2005).