

An Overview of New England's Economic Performance in 2007

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--New England's economy showed bright signs of growth in 2007, but residential real estate cast a shadow. Job growth was moderate and on par with that of the nation, but the region fared better with an unemployment rate lower than the national average. Exports from the region rose in value, but at a lesser pace than seen in the nation. Although the region remained the richest in per capita income, growth in total personal income in New England was slower than in the nation. Declining home prices, a significant reduction in housing permits, and spikes in foreclosures rounded out a generally dismal real estate picture. But no matter how dreary, the overall picture for New England may be a little brighter than that for the nation.

At a Glance

- As a whole, the region added jobs at about the same pace as the nation did, with all states but Rhode Island contributing.
- While national unemployment rose, joblessness in the region remained relatively steady during most of the year, and even dipped slightly by year's end.
- Consumer price inflation was atypically lower in the region than in the nation overall, especially for fuel and shelter.
- A decline in the home price index compiled by the Office of Federal Housing Enterprise Oversight—the region's first since the mid-1990s—plus a significant slide in housing permits, and a decline in the average value of residential construction contracts—added up to a poor housing market for the region, although perhaps better than the nation.

Employment

New England states added some 50,000 jobs over the course of 2007. Although this 0.7 percent increase was almost at the rate seen nationally (0.8 percent) and marked the region's fourth consecutive year of job growth, New England has lagged the nation in job growth since 2001.

The region's employment growth was uneven across major industries. Following recent trends, the service sectors were the biggest contributors. The fastest-growing sector was also the region's largest—education & health services, which added nearly 32,000 jobs between December 2006 and December 2007 (a 2.5 percent increase). The professional & business services sector was also a major contributor, adding more than 12,000 jobs (a 1.4 percent rise). Another 6,300 leisure & hospitality jobs bolstered the service sector as well. The public sector also generated jobs for the region, adding more than 11,000 jobs over the course of the year. However, while these sectors were the brightest spots for the region's labor market, job growth was faster on a national scale in each of them.

In some sectors, the regional labor markets mirrored trends in the nation. Manufacturing continued its seemingly perpetual decline, shedding 1.9 percent jobs nationwide and a lesser 1.4 percent regionally. At the end of 2007, New England was home to just shy of 706,000 manufacturing jobs—down from roughly 942,000 jobs at the end of 2000. Softening real estate markets affected construction employment, which dropped slightly more than 3 percent nationally and a lesser 1.0 percent in the region. Financial activities also shed jobs, but slightly more so in the nation (1.2 percent) than in the region (1.1 percent).

Chart 1 - Nonagricultural Employment

Percent Change, December 2006 to December 2007

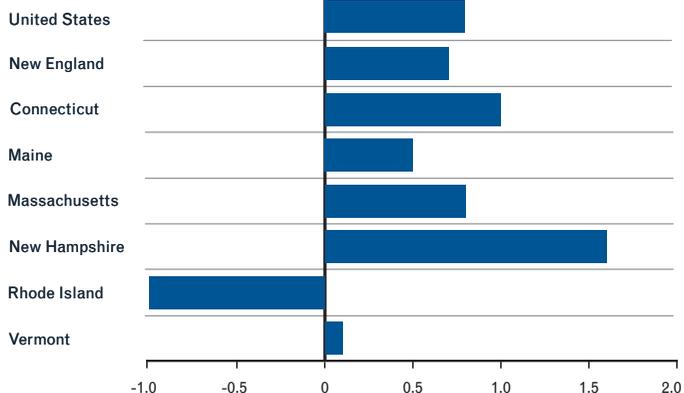


Chart 2 - Employment by Industry

Percent Change, 2006 to 2007 (Annual Average)
(Not Seasonally Adjusted)

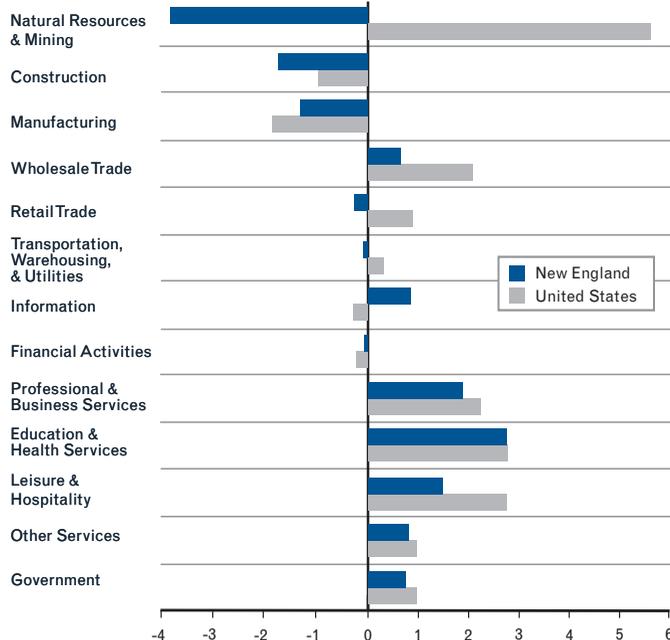


Chart 3 - Unemployment Rate

Percent

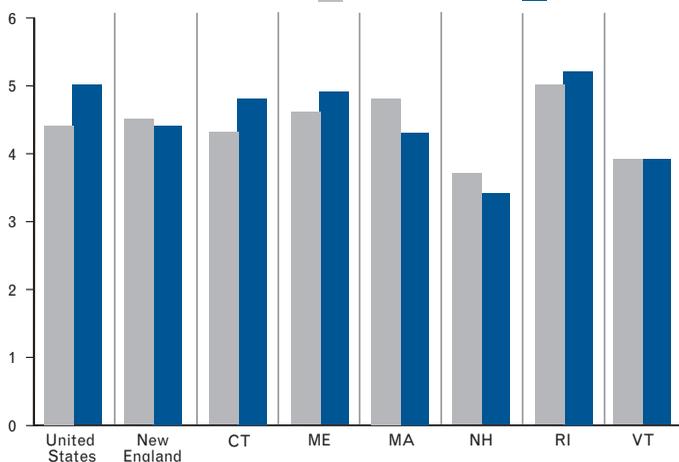


Chart 4 - Regional Unemployment Rate

Percent

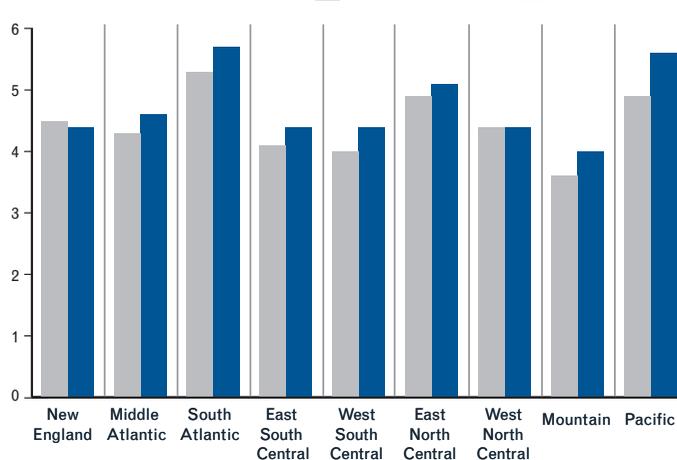
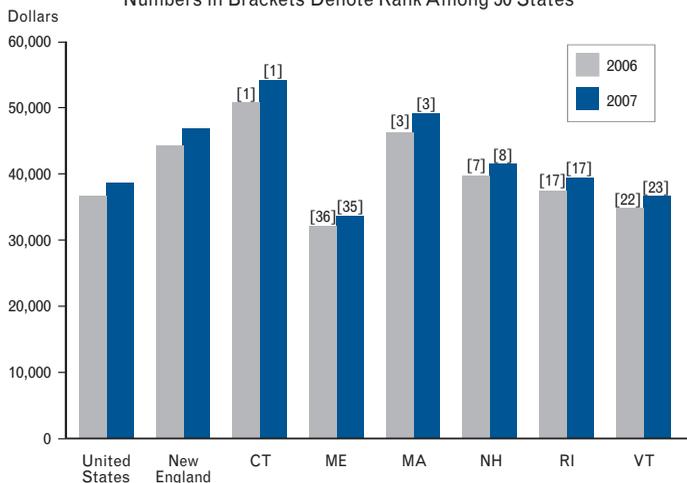


Chart 5 - Per Capita Income

Numbers in Brackets Denote Rank Among 50 States



Unemployment

With the additional jobs created during 2007, New England saw its unemployment rate dip slightly, from 4.5 percent in December 2006 to 4.4 percent in December 2007. The national unemployment rate ticked up to 5.0 percent during this period, as the other eight Census divisions witnessed a rise in unemployment.¹

Despite a decline in joblessness in New England, average initial claims for unemployment insurance increased 3.3 percent (above the national 2.9 percent jump).

Income and Wages

New England saw total personal income rise more than \$36 billion between fourth quarter

2006 and fourth quarter 2007. This 5.6 percent increase trailed the growth seen nationally (5.9 percent) and among the eight U.S. regions defined by the Bureau of Economic Analysis (only the Great Lakes region showed slower growth).² Wages and salary disbursements—the largest component of personal income—were up 4.9 percent for New England, compared with a

Data Revisions

Monthly state employment data are estimates of job counts based on data from the Current Employment Statistics (CES) sample of nonfarm establishments. Once a year, these sample-based estimates are realigned to benchmarks, which are comprehensive counts of employment derived primarily from data reported in unemployment insurance (UI) tax reports. For more information on these revisions, see BLS's article (<http://www.bls.gov/web/cesmart.htm>).

Similarly, unemployment data are benchmarked each year to align with annual averages of Current Population Survey (CPS) state estimates of labor force and unemployment; they also undergo other annual revisions such as the re-estimation of models and the incorporation of population controls.

The latest data revisions, released in January 2008, affected data for 2006 and 2007. For the most part, job growth in New England was revised downward from prior estimates. The 2006 benchmark-based data showed overall job growth in the region to be 0.8 percent between December 2006 and December 2007. The latest benchmark revisions show that growth to be 0.7 percent. The latest benchmark revisions actually showed faster job growth for Massachusetts and New Hampshire, but job growth was downgraded in Maine and

Vermont, and even more so in Rhode Island, where growth of 0.7 percent was reversed to a 1.0 percent loss.

In general, revisions to unemployment data were favorable for New England states. All states saw downward revisions in their unemployment rates (by as much as 0.3 percentage points). The unemployment rate for the region as a whole was also revised downward, as the national rate was unchanged.

Job Growth

(Percent Change, December 2006 to December 2007)

	2007 Benchmark	2006 Benchmark
United States	0.8	1.0
New England	0.7	0.8
Connecticut	1.0	1.0
Maine	0.5	0.7
Massachusetts	0.8	0.7
New Hampshire	1.6	0.9
Rhode Island	-1.0	0.7
Vermont	0.1	0.3

Unemployment Rate

(Percent, December 2007)

	2007 Revisions	2006 Revisions
United States	5.0	5.0
New England	4.4	4.6
Connecticut	4.8	5.0
Maine	4.9	5.1
Massachusetts	4.3	4.5
New Hampshire	3.4	3.6
Rhode Island	5.2	5.5
Vermont	3.9	4.0

Chart 6 - Regional Per Capita Income

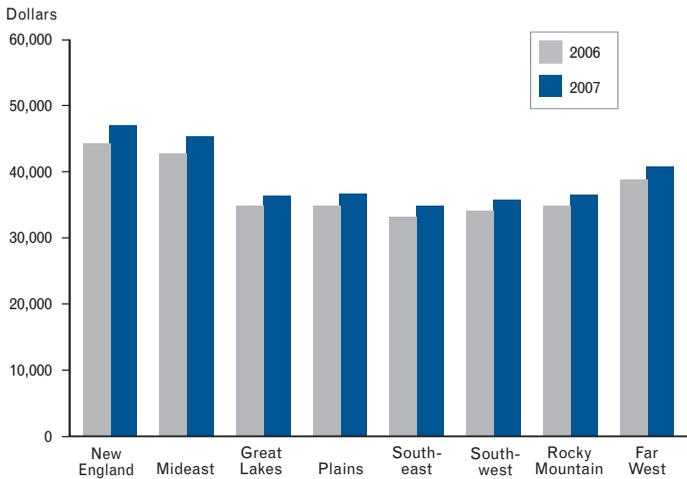


Chart 7 - Consumer Price Index

Percent Change, November 2006 to November 2007

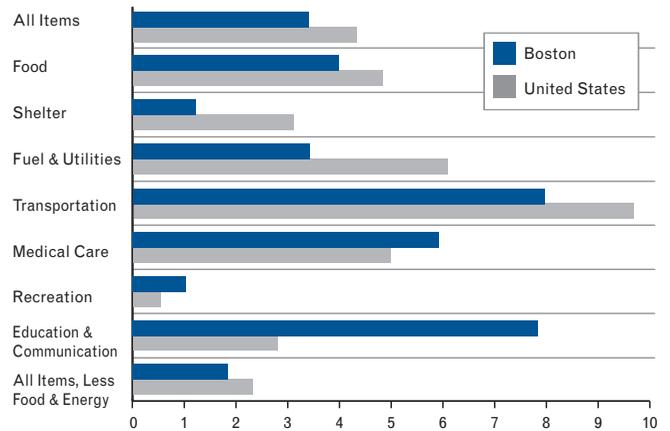


Chart 8 - Home Price Index

Percent Change, Fourth Quarter 2006 to Fourth Quarter 2007

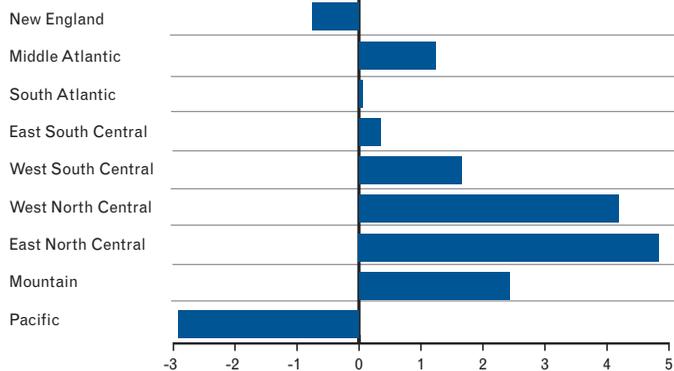
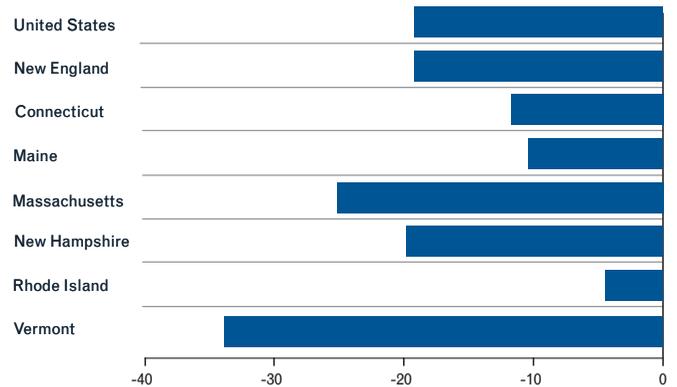


Chart 9 - Housing Permits

Percent Change, 2006 to 2007 (Annual Average)



4.7 percent national increase. These gains kept New England perched above all regions in per capita income: at \$46,948, that figure led other regions by as much as \$12,000 and exceeded the national average by more than \$8,000. Three New England states were leaders among the 50 states: Connecticut bested all other states, while Massachusetts and New Hampshire were among the top 10.

Employer Costs

Labor costs incurred by private-sector employers rose at similar rates in both New England and the nation (as measured by the employment cost index developed by the Bureau of Labor Statis-

tics). Nationally, the costs of total compensation rose 3.0 percent between the fourth quarters of 2006 and 2007, compared with a slightly lower 2.9 percent rise for the region. Costs associated with wages and salaries—a major component of total compensation—grew at somewhat faster rates (3.3 percent in the nation, and 3.1 percent in the region).

Consumer Prices

For the 12 months ending in November 2007, overall consumer price inflation in the Boston area was 3.4 percent.³ Larger increases in prices related to transportation (8.0 percent), education (7.8 percent), medical care (5.9 percent), and food

Chart 10 - Merchandise Exports

Percent Change, 2006 to 2007 (Annual Total)

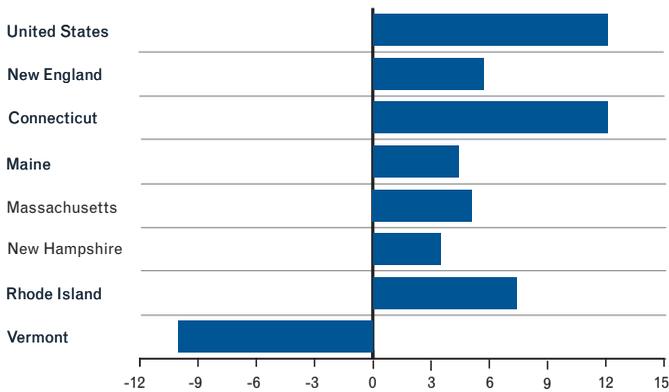
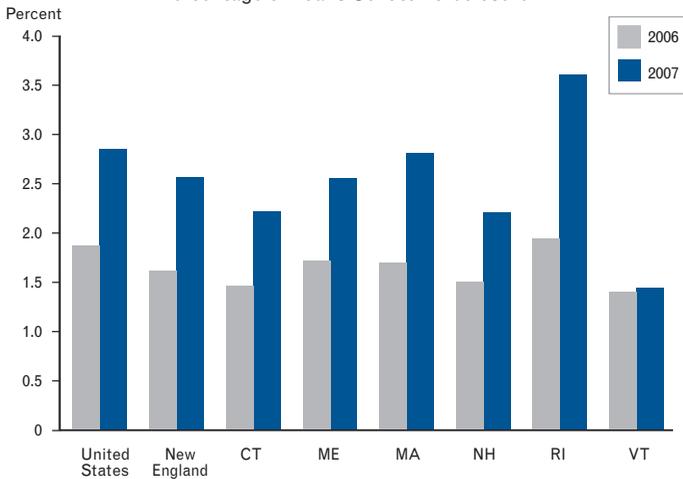


Chart 11 - Annual Foreclosure Starts

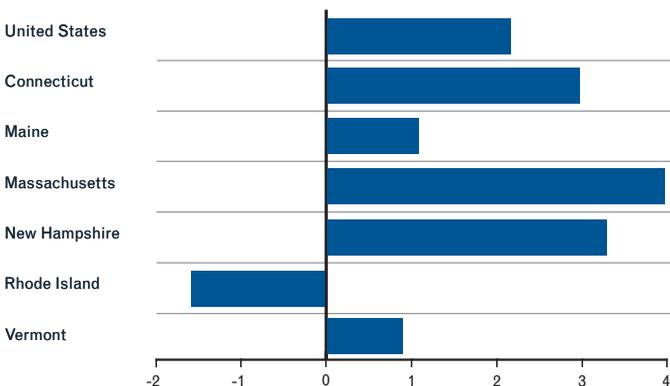
Percentage of Loans Sent to Foreclosure



Source: Mortgage Bankers Association/Haver Analytics

Chart 12 - Economic Activity Index

Percent Change, December 2006 to December 2007



(4.0 percent) were somewhat tamed by smaller increases associated with recreation (1.0 percent) and shelter (1.2 percent). The consumer price index for all items less food and energy (sometimes called the “headline” or “core” CPI) rose 1.8 percent for the Boston area—revealing that food and energy had a significant impact on prices. Contrary to historical trends, consumer price inflation was milder for Boston than for the nation (4.3 percent). In fact, Boston’s price increases were less steep than national increases for all major categories except education, where the metro area’s prices rose 7.8 percent, compared with 2.8 percent nationally.

Real Estate

Real estate markets showed definite signs of weakening in 2007. For starters, the home price index of the Office of Federal Housing Enterprise Oversight (OFHEO) fell 0.7 percent between the fourth quarters of 2006 and 2007—the region’s first decline since the mid-1990s. New England was one of only two regions to show a decline, as the nation as a whole saw home prices rise by a slight 0.9 percent. With a 1.2 percent decline in prices associated with purchases only (no refinancings), New England also fared worse than the nation, where prices slipped 0.5 percent.

Another sign of faltering real estate was the widespread decline in median home prices. The national median price dropped, and 7 of the 11 metropolitan areas in New England for which data are available posted declines between the fourth quarters of 2006 and 2007. Nevertheless, home prices in 10 of New England’s 11 metro areas exceeded the national median at the end of 2007.

Housing permits took a nosedive in 2007, plummeting about 25 percent in both New England and the nation. All six New England states saw double-digit rates of decline, ranging from 17.2 percent in Rhode Island to 31.9 percent in Vermont. Although the regional and national trends were similar, the national decline in single-unit

Looking Ahead

Through the first quarter of 2008, labor markets show signs of deterioration regionally and nationally. The United States, which showed 1.2 percent job growth between March 2006 and March 2007, showed just 0.4 percent between March 2007 and March 2008. Similarly, New England, with 0.9 percent job growth between March 2006 and March 2007, saw year-over-year employment rise 0.5 percent at the end of first quarter 2008.

Unemployment was on the rise through the end of March. Both the United States and the region saw unemployment rates rise from March 2007 to March 2008, and all New England states

but Massachusetts showed year-over-year increases.

Job Growth

(Percent Change)

	March 2006 to March 2007	March 2007 to March 2008
United States	1.2	0.4
New England	0.9	0.5
Connecticut	0.9	0.6
Maine	0.4	0.1
Massachusetts	1.0	0.7
New Hampshire	0.9	1.5
Rhode Island	0.6	-2.0
Vermont	0.1	0.1

Unemployment Rate

(Percent)

	March 2007	December 2007	March 2008
United States	4.4	5.0	5.1
New England	4.4	4.4	4.8
Connecticut	4.4	4.8	5.3
Maine	4.6	4.9	5.0
Massachusetts	4.6	4.3	4.4
New Hampshire	3.8	3.4	3.9
Rhode Island	4.9	5.2	6.1
Vermont	4.0	3.9	4.6

permits was a little steeper than the decline in New England.

A bright spot for the region during a year of real estate anxiety was a 5.5 percent rise in the average value of all construction contracts between 2006 and 2007. Primarily fueled by double-digit booms in Massachusetts and Rhode Island, the region remained fairly insulated from trends in the nation, where contract values fell nearly 9 percent. Residential contract values fell off by 7.5 percent in New England, whereas the national plunge was much more severe (23.2 percent). Growth in the value of nonresidential contracts was a little better than in the nation, but the value of nonbuilding contracts (for highways, bridges, dams, utility systems, airports and the like) surged regionally (18.1 percent), compared with a 4.2 percent national rise.

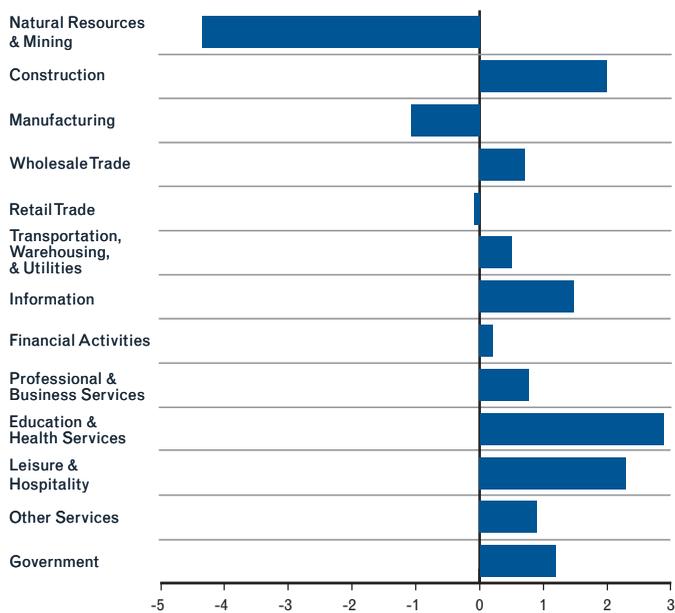
Merchandise Exports

At nearly \$50 billion, the value of New England exports was up 5.7 percent between 2006 and 2007. Although Vermont witnessed a 10.0 percent decline, the remaining New England states saw moderate to strong growth. Still, the region's growth in exports was at less than half the pace seen nationally (12.1 percent).

Among the region's top destinations in 2006, increases were most notable in exports to France (up 17.8 percent, reversing a similar decline from 2005 to 2006) and China (up 14.3 percent). On the other hand, the value of exports to Singapore dropped more than 15 percent, and exports to the Netherlands slipped 13.5 percent. The value of the region's exports to Canada—the top destination—declined by \$235 million, or 2.7 percent. The nation as a whole, in contrast, saw export values to all these destinations rise.

Employment by Industry - Connecticut

Percent Change, 2006 to 2007 (Annual Average)
(Not Seasonally Adjusted)



Exports of computer & electronic products—New England’s largest export industry—rose just 0.6 percent in value in 2007, slightly edging the national growth (0.5 percent). However, in other major industries, the value of the region’s exports did not increase as fast as those of the nation. Where New England saw the largest surges in value—a 13.3 percent increase in transportation equipment and a 12.9 percent increase in chemicals—the United States as a whole saw more: 14.2 percent and 13.6 percent, respectively. And major industries posting declines for the region (a 4.9 percent drop in paper, and a 1.3 percent decline in electrical equipment, appliances, & components) realized better-than-moderate increases nationally (9.4 percent and 7.6 percent, respectively).

Overall Economic Activity

The New England states ran the gamut over the course of 2007 in economic activity. With a 3.9 percent climb in the Philadelphia Fed’s economic activity index from December 2006 to December 2007, Massachusetts led all New England states—in fact, all but three states in the nation. At the other end of the spectrum, Rhode Island was

among only four states in the nation to see a decline in overall economic activity. The other New England states showed moderate to strong increases, with economic growth in New Hampshire and Connecticut (as well as Massachusetts) outpacing the national rate of 2.1 percent.

—Tom DeCoff

Connecticut

- Connecticut created jobs at a faster rate than the nation as a whole, with growth focused in the education & health services sector.
- Nevertheless, the state’s unemployment rate increased to 4.8 percent in December 2007, one of the highest rates in New England.
- Housing market contractions were evident in declining sales of existing homes, housing permits, and construction contracts.
- Gains in per capita income and job growth were offset by a contracting housing market and rising unemployment, leaving Connecticut’s net economic performance steady.

Connecticut added more than 16,000 jobs (a 1.0 percent increase) between December 2006 and December 2007, outpacing job growth in the region and the nation. The education & health services sector added nearly half (7,700) of the new jobs created. Other industries contributing to the state’s job growth in 2007 included leisure & hospitality (3,300 jobs, a rise of 2.4 percent), government (4,200 jobs, 1.7 percent), and even construction (900 jobs, 1.3 percent), where both the nation and region saw job losses amid turmoil in the housing market. Connecticut outperformed most New England states in those three industries. However, while the state added more construction jobs than any other in the region, it also saw the greatest decline in construction contracts across the region (see below).

Connecticut ended 2007 with an unemployment rate of 4.8 percent—a 0.5 percentage point rise relative to December 2006, and among the high-

est in New England, although just below the national average of 5.0 percent. This rise in unemployment partially reflects job losses in the manufacturing and financial activities sectors (1,900 and 2,100 jobs lost, respectively). These losses accounted for much of the region's decline in these sectors.

Home to the city of Waterbury that is known for manufacturing, the Waterbury NECTA (New England City and Town Area) has consistently experienced the state's highest unemployment rate and provided further evidence of the state's shrinking manufacturing sector in 2007. That NECTA ended 2007 with a 6.7 unemployment percent rate—more than a full percentage point over those in Connecticut's other NECTAs: New Haven (5.3 percent), Hartford–West Hartford–East Hartford (5.2 percent), and Norwich–New London (4.7 percent).

Mirroring the job growth statewide, personal income and wage and salary disbursements continued to grow in 2007. Total personal income in the state rose by 6.6 percent, or \$11.9 billion, between the final quarters of 2006 and 2007. This coincided with a 6.6 percent rise in per capita income, to \$54,117—the highest level in the nation. Wage and salary disbursements also rose by 6.6 percent, or \$6.4 billion, in 2007. Although the manufacturing sector faced a decline in employment, hourly earnings in this sector increased by \$0.84 (4.3 percent)—one of the largest gains in New England.

The export sector has propelled much of Connecticut's recent economic growth, and total exports rose by 12.1 percent in 2007.⁴ Exports of transportation equipment, the state's largest exporting industry, grew 7.3 percent between 2006 and 2007. Machinery, the state's second-largest exporting industry, saw its exports surge more than 16 percent. And exports of computer & electronic products—the third-largest exporting industry—showed the highest growth: roughly 22 percent. Although exports in these industries showed strong growth between 2006

and 2007, growth was slower than what was seen between 2005 and 2006 and was accompanied by a greater decline in manufacturing employment.

Although the export sector helped Connecticut sustain its overall economic growth, the housing sector faced a different fate. In fact, Connecticut was one of the New England states most affected by the housing market crunch. Sales of existing homes declined by more than 17 percent between the fourth quarters of 2006 and 2007—not as severe as the national decline but the worst in New England. Median home prices increased in both the Bridgeport–Stamford–Norwalk and Hartford–West Hartford–East Hartford metro areas (among the few increases seen in New England), but the New Haven–Milford and Norwich–New London areas saw prices fall, although by not as much as the national median fell.

The number of housing permits issued in Connecticut declined nearly 21 percent, to an average of 620 per month—the lowest since 1991, a recession year. Sounding a similar warning, the average value of all construction contracts fell 17.4 percent, the steepest rate of decline in both New England and the nation as a whole. Nonresidential contracts accounted for most of that decline, plummeting over 40 percent in 2007. The average value of residential contracts, on the other hand, fell by about 12 percent.

Connecticut's index of economic activity indicated overall success despite these mixed results. The state saw an index increase of 3.0 percent over the course of 2007, despite the housing market downturn and declines in manufacturing and financial activities. The rise in per capita income and exports brightened the outlook for the Constitution State.

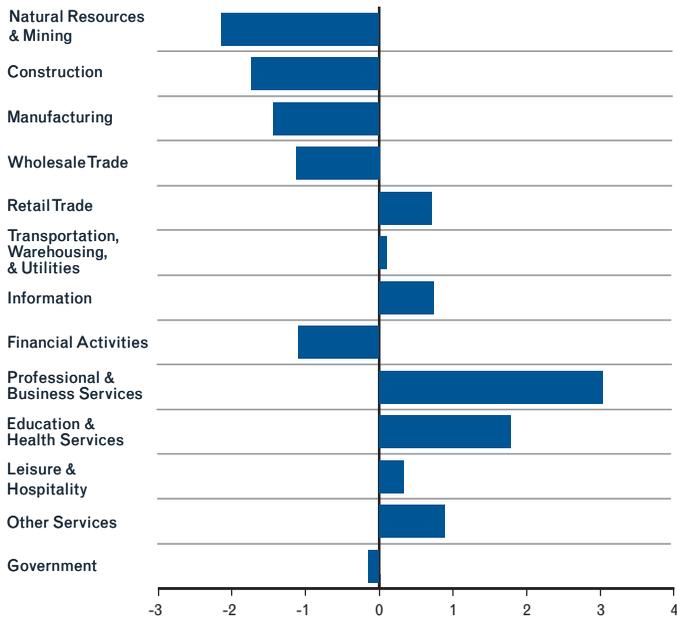
—*Elena Papoulias*

Maine

- Maine's overall economy kept a steady pace in 2007, as per capita income rose and the state added nearly 3,000 new jobs.

Employment by Industry - Maine

Percent Change, 2006 to 2007 (Annual Average)
(Not Seasonally Adjusted)



- Additional service-sector jobs offset declines in manufacturing employment.
- A lack of an oversupply of speculatively built homes helped insulate Maine during a time of housing market contraction: construction employment, housing permits, and the average value of construction contracts declined at slower rates than in the rest of New England.

Modest economic gains and losses kept Maine in the middle of the New England pack for 2007. Job growth was a modest 0.5 percent, as the state added 2,900 new jobs between December 2006 and December 2007. This was the second-lowest rate of increase in New England, but faster than the Pine Tree State's job growth in 2006. This growth was largely attributable to employment increases in education & health services (1,400 jobs, an increase of 1.2 percent), professional & business services (1,400 jobs, 2.7 percent), retail trade (600 jobs, 0.7 percent), government (400 jobs, 0.4 percent), and leisure & hospitality (300 jobs, 0.5 percent). These gains were part of an overall growth trend in each industry across the New England states.

Following the region's trend, Maine saw job declines in some industries. For example, Maine's construction sector, reflecting the declining housing market, lost about 200 jobs. Still, this 0.6 percent decline was modest relative to a New England drop of 1.0 percent, and a national loss of 3.0 percent. Maine's manufacturing sector also shed 800 jobs during 2007, a 1.4 percent drop. However, this decline was relatively modest compared with the nation but on par with New England. Maine's financial sector faced a similar decline, losing about 500 jobs (1.5 percent).

The job losses in these sectors accompanied a rise in Maine's unemployment rate, to 4.9 percent by year's end—an increase of 0.3 percentage points from December 2006. This rate exceeded the New England average of 4.4 percent, but remained below the national rate. Unemployment rates in each of Maine's three NECTAs fluctuated during 2007 and ended the year above December 2006 levels. The 0.5 percentage point increase seen in Lewiston-Auburn (4.6 percent to 5.1 percent) was the largest, although Portland-South Portland-Biddeford witnessed an increase of 0.4 percentage points (3.4 percent to 3.8 percent). Although Maine faced an unemployment rate higher than that of New England, the average number of unemployment insurance claims rose by only 1.4 percent—the second-slowest rate of increase in New England.

Despite losing some jobs, the manufacturing sector saw a 3.4 percent increase (or \$0.63) in average hourly earnings—the median increase in that sector in New England. And all wage and salary disbursements rose by 5.2 percent, keeping Maine in the middle of the New England pack. Similarly, Maine's per capita income increased to \$33,722, a healthy 5.1 percent gain that was on par with that of the rest of New England and the nation. This gain improved Maine's ranking among the 50 states slightly—from 36th in 2006 to 35th in 2007.

In its housing sector, Maine fared better than the other New England states and the nation. The

only severe decline occurred in sales of existing homes, which dropped by nearly 15 percent between the fourth quarters of 2006 and 2007—the second-highest rate of decrease in the region. Still, median home prices, housing permits, and the value of construction contracts declined more slowly than in the rest of New England. The median home price in the Portland–South Portland–Biddeford metro area dipped by \$3,100 (although at \$242,100 it was one of the lowest prices in New England), and the number of housing permits issued fell by 20 percent. These declines were the lowest in New England after those seen in Rhode Island.

The average value of all construction contracts fell by 2.6 percent between 2006 and 2007, reflecting a nearly 20 percent decline in residential construction but also an increase of almost 16 percent in nonresidential construction. Overall, the Maine housing market suffered a decline similar to that experienced in the rest of New England, but not as severe. One possible explanation is that Maine does not face a large supply of vacant new homes—the result of speculative overbuilding—which other New England states face.⁵

Maine’s 4.4 percent growth in exports in 2007 was relatively weak compared with the rest of New England and the nation. As Maine’s economy shifts away from manufacturing to the service sector, the forestry products industry saw a 24 percent decline in exports, while the paper industry lost 2.8 percent of its ground. However, exports of computers & electronic products grew nearly 10 percent.

Maine’s overall economic activity grew just 1.1 percent over the course of 2007. Although the Pine Tree State’s economy has not seen impressive growth trends, its housing market and manufacturing sectors have declined more slowly than those of the rest of New England and the nation. On all counts, Maine largely follows regional trends.

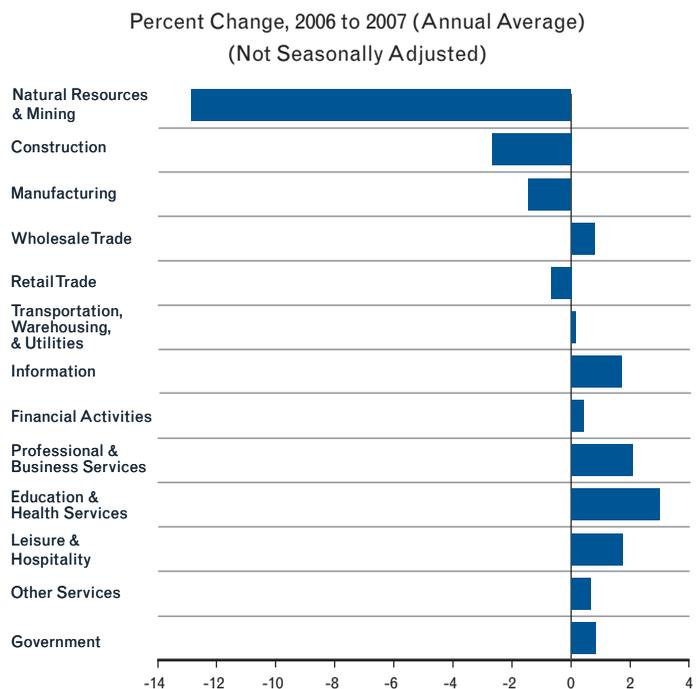
—*Elena Papoulias*

Massachusetts

- Modest employment growth accompanied a significant decline in the unemployment rate.
- Job creation was concentrated in education & health services and professional & business services, while job loss occurred in manufacturing and construction.
- Per capita income remained the third-highest in the nation, while real estate slowed considerably.
- Overall economic performance was strong: Massachusetts recorded one of the largest growth rates in economic activity index among the 50 states.

Despite a slowdown from the previous year, the Bay State saw modest employment growth in 2007. Massachusetts gained 25,900 jobs over the course of the year, for an increase of 0.8 percent. That rate was equal to the nationwide growth in employment, and slightly ahead of New England’s 0.7 percent rise. The state’s highest gains occurred in the two sectors that also experienced the strongest growth in 2006: education & health

Employment by Industry - Massachusetts



services added 16,000 jobs (a 2.6 percent increase), and professional & business services added 8,400 jobs (a 1.8 percent increase). Other industries reporting job gains included government (1.1 percent) and leisure & hospitality (0.6 percent). Among industries losing jobs, the worst declines again occurred in manufacturing, down 1.5 percent, and construction, down 1.3 percent. In both sectors, Massachusetts witnessed a job loss rate higher than the New England average, but less than the national average. Retail trade and financial activities also shed jobs (0.6 percent and 0.4 percent, respectively).

Employment fell in several Massachusetts NECTAs between December 2006 and December 2007. Marginal to significant job losses between 0.1 and 1.3 percent occurred in Barnstable Town, New Bedford, Springfield, and Worcester. Meanwhile Boston–Cambridge–Quincy saw job growth of 0.8 percent, adding 20,200 jobs. This rise in employment was still down from the 1.1 percent year-over-year gain seen in December 2006.

A significant decline in the state's unemployment rate—from 4.8 percent in December 2006 to 4.3 percent in December 2007—mirrored the state's overall growth in employment. Massachusetts ended the year with an unemployment rate substantially lower than that of the nation (5.0 percent), and slightly lower than that of New England (4.4 percent). However, while joblessness in the state fell, the average number of initial claims for unemployment insurance rose 3.3 percent between 2006 and 2007. This increase followed a 3.5 percent drop in insurance claims the previous year.

The notable decline in Massachusetts's unemployment rate was driven by significant decreases in the unemployment rates of the state's seven NECTAs, where year-end unemployment rates ranged from 3.9 percent (Boston–Cambridge–Quincy and Pittsfield) to 6.3 percent (New Bedford). All seven NECTAs posted declines in their rates from December 2006, with five of

the seven maintaining rates below the national average.

Despite persistent job loss in the manufacturing sector over the past several years, the average hourly wage for manufacturing workers in Massachusetts rose \$1.00, to \$19.26, in 2007. This 5.5 percent increase was the highest increase in New England, and more than twice the national growth. Total personal income for all workers in Massachusetts rose 5.7 percent, and wage and salary disbursements increased 4.9 percent from fourth quarter 2006 to fourth quarter 2007. Rising 6.0 percent to \$49,082, per capita income in Massachusetts was the third-highest in the nation, behind only Connecticut and New Jersey.

While per capita income remained high, the Bay State saw a considerable downturn in the real estate market in 2007. The OFHEO home price index for Massachusetts fell 2.2 percent between the fourth quarters of 2006 and 2007—among the worst declines seen by other states in the nation. The median sales price of existing homes also fell in Boston–Cambridge–Quincy (\$7,300), Pittsfield (\$18,000), and Worcester (\$15,700), rising only in the metropolitan areas of Barnstable Town and Springfield. The number of existing homes sold in Massachusetts also dropped 8.3 percent between fourth quarter 2006 and fourth quarter 2007, but this decline was not as severe as that in the nation.

The percentage of loans sent to foreclosure continued to climb, with Massachusetts holding the second-highest foreclosure rate in New England. The number of housing permits issued in Massachusetts fell 27.6 percent between 2006 and 2007, while the average value of residential construction contracts grew a mere 3.0 percent (although Massachusetts was one of only two New England states to see an increase at all). Yet the average value of nonresidential contracts jumped nearly 45 percent, so the average value of all construction contracts rose 26.6 percent, outperforming growth in the region, not to mention the decline in the nation.

At 5.1 percent, growth in exports from Massachusetts slowed in 2007, and trailed increases in both New England and the United States. The state's three largest exporting industries saw small increases: machinery exports rose 5.1 percent, while exports of computer & electronic products rose 2.6 percent, and chemical exports a mere 1.2 percent. Exports to Canada, the Bay State's largest export destination in 2006, grew 8.1 percent. Yet exports to the Netherlands tumbled 17.8 percent, while those to Germany fell 5.7 percent.

Despite a slowdown in the housing sector, the state's economic activity index painted a noticeably different picture. The Philadelphia Fed's index for Massachusetts rose 3.9 percent between December 2006 and December 2007. This increase was the highest in the region and among the highest in the nation, indicating strong overall economic performance.

—Charu Nidhi Gupta

New Hampshire

- New Hampshire's employment growth rate was double that of the region and nation.
- Growth in personal income was modest, and the state slipped from sixth to seventh nationally in per capita income.
- The state's housing market continued to soften in 2007, with declines in housing prices, housing permits, and residential construction contract values.

After a weak economic performance in 2006, the Granite State returned to form as one of New England's top economies in 2007. New Hampshire experienced robust growth in employment relative to that of the nation and region, adding 10,100 jobs over the course of 2007. This growth rate of 1.6 percent exceeded the growth seen in the other New England states and was double that of either New England or the nation.

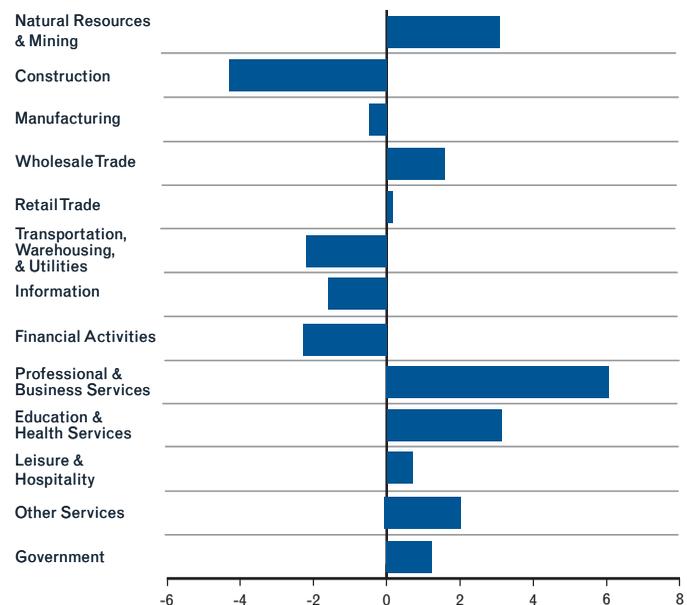
It is no surprise that most industries in New England's fastest-growing job market added jobs

between 2006 and 2007. Professional & business services, education & health services, and government led the way, growing 5.2 percent (3,300 jobs), 3.3 percent (3,400 jobs), and 2.4 percent (2,200 jobs), respectively. Other sectors added 1,100 new jobs. Financial activities experienced the largest decline, 1.0 percent (400 jobs). Manufacturing also continued its annual decline, losing 200 jobs (0.3 percent); most notable was the lay-off of 120 employees by Customized Structures in Claremont.⁶ However, these manufacturing job losses were much less severe than those in other New England states.

New Hampshire continued to post the lowest unemployment rate of all New England states. The state's unemployment rate fell from 3.7 percent in December 2006 to 3.4 percent in December 2007—1.5 percentage points lower than the national rate. However, the number of initial claims for unemployment insurance averaged 1,012 per week in 2007—a rise of 5.7 percent. This increase was well above the national and regional averages, with only Rhode Island registering a higher rise.

Employment by Industry - New Hampshire

Percent Change, 2006 to 2007 (Annual Average)
(Not Seasonally Adjusted)



Total personal income across the state rose a modest 2.9 percent between the fourth quarters of 2006 and 2007 and exceeded \$55 billion. Still, this increase significantly lagged the increases seen in other New England states and the nation as a whole. Likewise, wage and salary disbursements grew merely 0.8 percent—far more slowly than in other states in the region and in the nation. These lackluster results led to New Hampshire's second consecutive decline in rank in per capita income among the 50 states. Dropping from sixth to seventh in 2006, the Granite State ranked eighth in the United States in 2007, with per capita income of \$41,512.

Partly because of a weakening U.S. dollar, New Hampshire exports reached a record value of \$2.9 billion in 2007—a rise of 3.5 percent from 2006. However, the state failed to fully capitalize on a thriving national export market, ranking 42nd among the 50 states in export growth, and lagging well behind the national increase of 12.3 percent.⁷ Machinery and computers & electronic products led the growth in state exports, gaining 9.6 percent and 5.9 percent, respectively. Exports to the Netherlands—New Hampshire's third-largest destination market—declined 25 percent (\$48 million), largely accounting for the state's relatively poor performance. Meanwhile, exports to the state's two largest markets, Canada and Germany, increased 1.3 percent and 7.5 percent, respectively.

New Hampshire's residential real estate market began to feel the strain of the national housing crisis in 2007. The state's OFHEO home price index declined by 0.7 percent between the final quarter of 2006 and that of 2007—the first decline since the first quarter of 1995. The effect was more severe for the state's purchase-only index (which does not include refinancings), which declined 2.5 percent. This decline was steeper than the slip in the national index (0.5 percent), and only Rhode Island performed worse among New England states. The number of housing permits issued declined 24.9 percent between 2006 and 2007, to the lowest level since

1995. And the value of residential construction contracts fell 16.4 percent, more sharply than in the region, but less severely than in the nation.

On a brighter note, the average value of all construction contracts for New Hampshire kept pace with that of the region, rising 5.1 percent between 2006 and 2007. Strong growth in non-residential and nonbuilding contracts (24.2 percent and 28.7 percent, respectively) helped compensate for the decline in residential contracts. This may explain why New Hampshire was one of only two New England states to experience job growth in the construction industry (300 new jobs, a 1.1 percent gain).

Unable to fully capitalize on the weakening dollar with exports, and facing a slowing housing market, the Granite State countered with strong employment growth and higher personal income to bolster economic activity over the course of 2007. The result was a 3.3 percent increase in the state's economic activity index, which meant that it outperformed the nation and all other New England states but Massachusetts.

—*Robert Clifford*

Rhode Island

- Rhode Island was the only state in New England and one of six states in the nation to experience job loss in 2007, with the biggest declines occurring in the construction and manufacturing industries.
- The state's unemployment rate remained the highest in New England.
- Per capita income grew at about the national rate, ranking the state 17th among the 50 states.
- Among the 50 states, Rhode Island experienced one of the worst declines in overall economic activity.

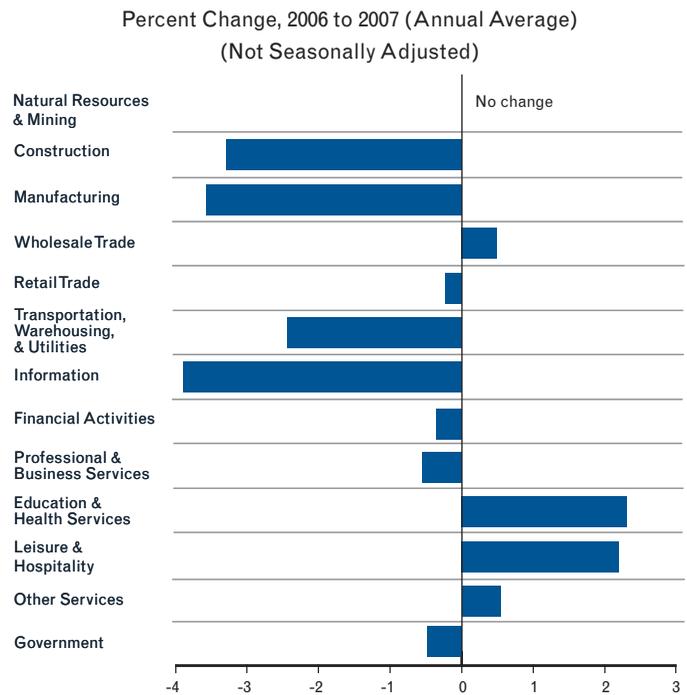
After 15 consecutive years of employment growth, the Ocean State lost 5,200 jobs over the course of 2007, for a decline of 1.0 percent.

Rhode Island was the sole state in New England and one of six states in the nation to report job loss for the year. The most severe declines occurred in the construction and manufacturing industries, which saw 6.5 percent and 4.2 percent drops in employment, respectively. The declines in these two sectors were the worst in the region, and more than twice the national rates. Retail trade also suffered job loss of 0.6 percent. The state's only major sectors to see job growth were education & health services, which added 1,600 jobs (1.6 percent), and leisure & hospitality, which added 700 jobs (1.4 percent). However, these increases were still well below the national average, and only leisure & hospitality outperformed the New England increase.

In recent years, Rhode Island has held the highest unemployment rate among the New England states. The state had the highest rate in December 2005 (5.2 percent) and December 2006 (5.0 percent). By the end of 2007, the rate had risen back to 5.2 percent—again the steepest in the region, and higher than the national rate. Average initial claims for unemployment insurance also climbed 7.4 percent between 2006 and 2007, more than twice the regional and national increases.

Average hourly earnings for manufacturing workers grew by \$0.36, to \$13.78, from 2006 to 2007. Although this 2.7 percent rise was marginally higher than the national growth rate, wages for Rhode Island's manufacturing workers were the lowest in New England, and well below the national average. Total personal income for all workers in Rhode Island rose 4.1 percent from fourth quarter 2006 to fourth quarter 2007, while wages and salaries rose a mere 1.7 percent. Both were considerably lower than the national increases and trailed those for all New England states but New Hampshire. On the other hand, per capita income grew 5.2 percent, to \$39,463, in 2007. This rate of increase was on par with the national growth, and placed Rhode Island 17th in the nation in per capita income. Within New England, Rhode Island continued to rank behind Connecticut, Massachusetts, and New Hampshire.

Employment by Industry - Rhode Island

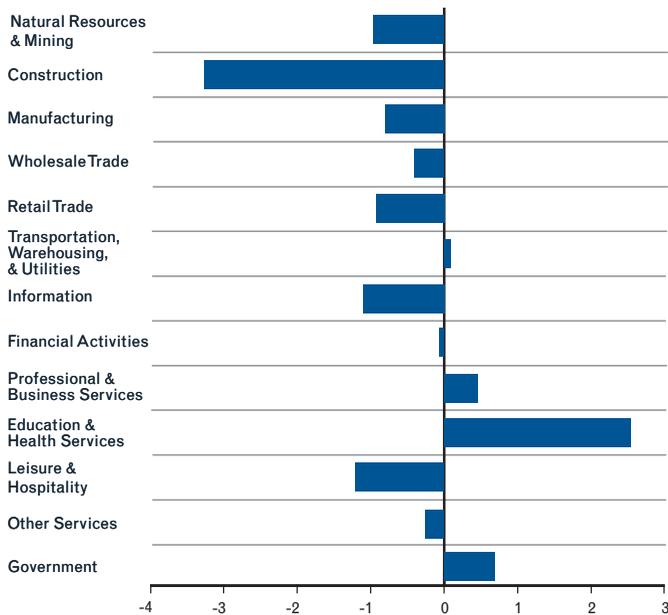


Like the rest of the nation, Rhode Island experienced a softening of the real estate market in 2007. The OFHEO home price index dropped 2.4 percent between the fourth quarters of 2006 and 2007—the worst performance among the New England states and the sixth-worst decline in the nation. The median price of an existing home in the Providence–Fall River–New Bedford metro area fell \$18,100 from fourth quarter 2006 to fourth quarter 2007, to \$273,200. Sales of existing homes dropped 15.0 percent over the same time, and housing permits fell 17.2 percent between 2006 and 2007, but both declines were less severe than the national drops. Foreclosures also soared in 2007, leaving Rhode Island with the worst foreclosure rate in New England. Despite the slowdown in the housing market, the average value of all construction contracts in the state climbed 18.1 percent in 2007, fueled by a 4.5 percent rise in residential contracts (the largest increase among the New England states) and a 40.0 percent rise in nonresidential contracts.

The value of exports from Rhode Island grew at a faster rate (7.4 percent) than those from any other New England state except Connecticut. Of

Employment by Industry - Vermont

Percent Change, 2006 to 2007 (Annual Average)
(Not Seasonally Adjusted)



the state's three largest exporting industries, waste & scrap and computer & electronic products saw substantial increases (41.4 percent and 20.0 percent, respectively), while the miscellaneous manufacturing sector experienced a decline of 10.7 percent. Exports to Canada—the largest destination for Rhode Island goods—fell slightly (2.9 percent), while exports to the United Kingdom and Mexico, the other top destinations, fell more dramatically (7.7 percent and 30.8 percent, respectively).

According to the Philadelphia Fed's economic activity index, Rhode Island saw a considerable decline in overall economic performance over the course of the year. Significant job loss, slow economic growth, and a downturn in the housing market hindered Little Rhody's economic activity in 2007. The 1.6 percent drop in the index for Rhode Island was the only decline in New England, and was the next-to-sharpest decline among the 50 states.

—Charu Nidhi Gupta

Vermont

- Job loss in the construction and manufacturing industries slowed Vermont's overall job growth.
- Vermont was the only New England state to experience a decline in exports.
- With falling housing prices, declining home sales, a drop in housing permits, and a significant decrease in the average value of residential construction contracts, the housing crisis appears to be taking hold of the state's real estate market.

Vermont's economy continued to cool for the third straight year. With only slight employment growth and declining exports, and the subprime mortgage crisis softening the real estate market in 2007, Vermont lagged its New England brethren.

Vermont's labor market continued to soften in 2007, adding just 300 jobs, an increase of 0.1 percent. Besting only Rhode Island's performance, the Green Mountain State lagged job growth regionally (0.7 percent) and nationally (0.8 percent). The state's nonagricultural employment totaled 308,500 jobs in 2007.

Modest growth in education & health services led all industries, as that sector expanded 2.9 percent in 2007, with an additional 1,600 jobs. Other industries experiencing job growth in 2007 were leisure & hospitality (0.6 percent), financial services (0.8 percent), and professional & business services (0.9 percent)—which together added 500 jobs to Vermont's economy. The construction industry saw the largest drop in employment, losing 800 jobs (a 4.6 percent decrease). Manufacturing continued to decline rapidly, shedding 600 jobs (1.7 percent) in 2007 after losing 800 jobs (2.2 percent) in 2006. Retail trade also experienced a modest decline of nearly 1 percent, or 400 jobs.

Vermont's unemployment rate, a low 3.9 percent in December 2007 (on par with its December 2006 rate), was well below the national rate and

was the second lowest in New England. Nevertheless, Vermont saw a slight increase in the average number of initial unemployment insurance claims in 2007 (about 2 percent).

Vermont continued to experience strong growth in statewide personal income. The 5.7 percent increase between the fourth quarters of 2006 and 2007 was slightly below the national growth rate but narrowly above the regional rate. This gain translated into a strong 5.2 percent growth in per capita income, to \$36,670 (ranked 23rd among the 50 states)—on par with the national growth rate, but behind the regional growth of 5.9 percent. Wage and salary disbursements followed a similar trend, rising 4.6 percent and nearly matching the national rate but lagging regional growth.

As New England's third-largest exporter, Vermont failed to capitalize on the weakening U.S. dollar. The state saw the value of its exports decline by 10 percent (\$381 million) in 2007, the only New England state to experience a decline. Exports of computers & electronics—Vermont's largest exporting industry, accounting for nearly 70 percent of the state's exports—declined by 17 percent (\$508 million). These declines were spread out among Vermont's largest export destinations. Softening demand from Canada, the state's leading export destination, led to a decline of 19.4 percent (\$324 million). Declining demand from Taiwan and Singapore, the state's other two major trading partners, led exports to those destinations to drop 30.3 percent (\$92 million) and 34.8 percent (also \$92 million), respectively.

Signs of a weakening real estate market began to appear in Vermont. The Green Mountain State's home price index increased by 2.4 percent, the largest increase of all New England states. However, the state's purchase-only index declined by 0.8 percent, the first decline since the first quarter of 1999. Weakening sales of existing homes accompanied the softening house prices, declining 13.5 percent (2,000 homes) between fourth quarter 2006 and fourth quarter 2007. Signaling

further softening in the state's real estate market, the number of new housing permits tumbled by nearly one-third—the largest decline in the region, and steeper than the national drop.

Trouble in the housing market translated into trouble for the construction industry. The average value of all construction contracts dropped 16.1 percent between 2006 and 2007. Declining total contract values and large job losses in the industry partly reflected a 37.5 percent plummet in the average value of residential contracts—by far the deepest decline among New England states, and much worse than the national decline. The state also experienced declining contract values in nonresidential construction (down 11.6 percent), but saw slight gains in the average value of non-building contracts (up 0.5 percent).

With weak employment growth, declining export values, and a softening housing market, it is no surprise that Vermont was one of New England's poorest-performing economies in 2007. As a metric of overall economic health, the state's economic activity index grew a meager 0.9 percent between December 2006 and December 2007. This was the slowest growth rate among New England states, and the Green Mountain State's own worst performance since 2002.

—Robert Clifford

Endnotes

¹ The nine Census divisions are: New England, Middle Atlantic, East North Central, West North Central, South Atlantic, East South Central, West South Central, Mountain, and Pacific.

² The eight regions defined by the Bureau of Economic Analysis are: New England, Mideast, Great Lakes, Plains, Southeast, Southwest, Rocky Mountain, and Far West.

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

⁴ "Exports Help Maintain Connecticut's Economy," *Daily Campus*, March 19, 2008.

⁵ Tux Turkel, "Maine Housing Market Bucks National Trend," *Kennebec Journal Morning Sentinel*, January 17, 2008.

⁶ Sarah Schweitzer, "N.H. Plant Stuns City with News of Layoffs," *Boston Globe*, December 24, 2007.

⁷ Evangelos Simos, "N.H. Exports Close '07 Out with a Bang," *New Hampshire Business Review*, March 14, 2008.