



**polecon research**

October, 2003

**Highlights:**

- NH Leading Index rises
- The demographics of NH's state budget (pg. 2)
- The "age wave" threatens to swamp NH's skilled workforce (pg. 3)

**NH Index of Leading Indicators: What's Improving (+) and Declining (-)**

- New Claims For Unemployment -
- Manufacturing Production -
- Housing Permits +
- Value of Construction Contracts -
- Help Wanted Advertising (Regional) +
- Consumer Confidence (Regional) +
- US Employment Growth -
- Value of Capital Goods Shipments (US) -
- Yield Curve (Interest Rates) +

# Trend Lines NH

**Economic, Fiscal, Demographic and Policy Insights for NH**

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## Index Slips But NH Economy Continues to Grow

For the third consecutive month the "NH Index of Leading Economic Indicators" registered positive in September. The Index slipped slightly to +5.6, down from a revised August level of +7.4 (revised from +7.9). Although the Index fell slightly, a positive value continues to indicate that the NH economy is entering a growth mode. When the Index score is positive, more of the Index's nine economic indicators are improving (on a moving average basis) than are declining and the NH economy is

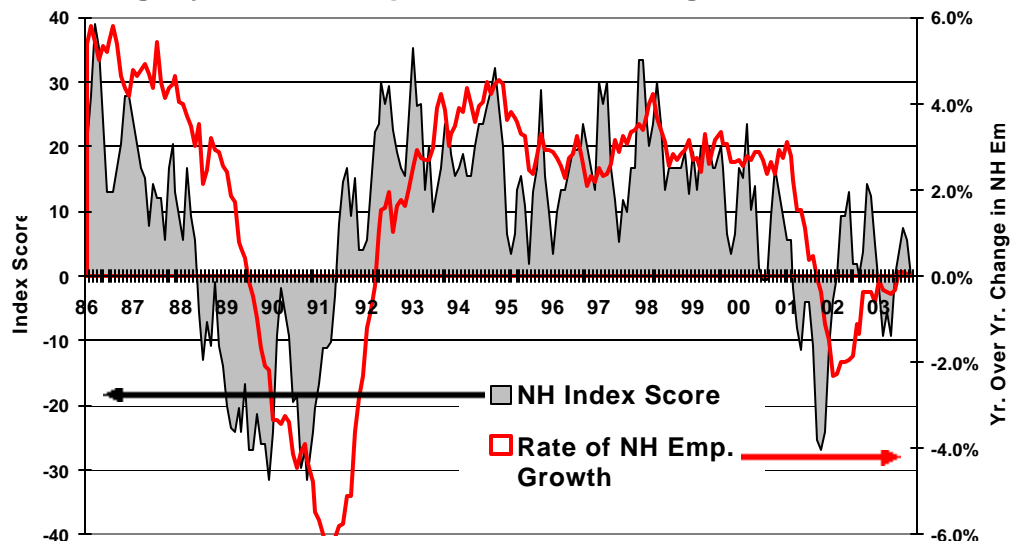
expanding. PolEcon's NH Index is an accurate predictor of changes in the rate of employment growth three to six months in advance.

Despite signaling a growing economy, the Index has not reached a level that is signaling strong job growth. That will not change prior to the upcoming NH primary and political candidates will look to take advantage of the slow job growth in NH and the US between now and the primary. The general election season, however, will likely see

faster job growth.

The NH Index value slipped in September as initial claims for unemployment rebounded after very low levels in August. Capital goods shipments also declined after two straight months of growth, and the total value of construction contracts was unusually low (hinting that it may be revised upward in the next monthly report). On the positive side, help wanted advertising and consumer confidence both increased slightly during the past month.

**The NH Index Of Leading Indicators Moved Slightly Lower In September, But Still Signals Growth**



# Demographic Changes Foretell NH's Budget Pressures

The current budget deficit in NH may or may not be a result of profligacy, depending upon your perspective, but over the past 25 years the annual variations in state expenditures have been predictable.

PolEcon examined more than 20 years of expenditures by the State of NH to determine how much of the change in the size of the state's budget from year to year could be predicted by demographic changes such as population growth, growth in the number of young people and elderly (the dependent population), and how much could be explained by changes in economic conditions such as the rate of unemployment (social service caseloads and costs rise as the economy

weakens and unemployment rises.) The portion of year to year variation in expenditures that is not associated with demographic and economic changes we call "volitional budgeting", or the portion that results from the policy choices of lawmakers that are unrelated to economic and demographic changes.

Our results indicate that 95% of the *change* in the level of expenditures from year to year can be predicted on the basis on changes in the demographic composition and economic circumstances of NH (note that it is the marginal change in expenditures we are explaining on the basis of demographic and economic changes, not the overall size of the state budget.)

Our results indicate that two forces are especially costly for NH state government. Each additional 1,000 elderly residents is associated with an overall budget impact (over many programs) of about \$18 million, while each 1% increase in unemployment is associated with about \$20 million expenditures.

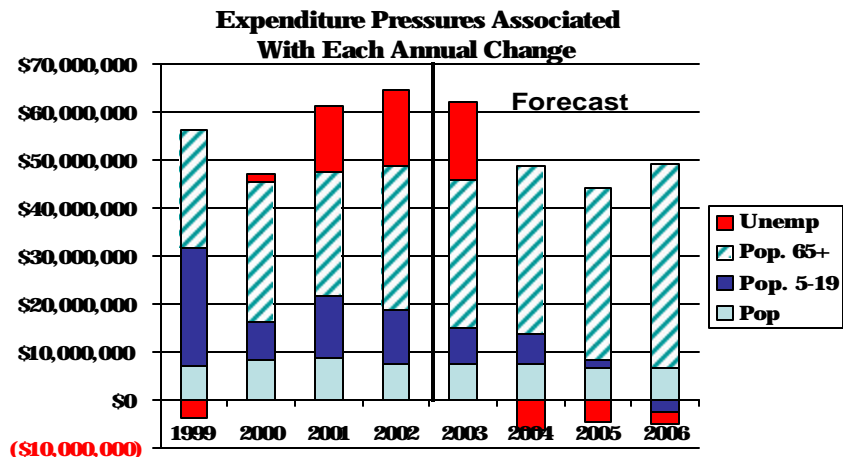
The chart below shows the budget pressures that these factors have added in NH since 1999, and will continue to add based on economic and demographic forecasts.

Our results provide insight into how NH's unique fiscal structure can continue to survive. First, most of our expenditure changes result from the need to serve dependent populations and mitigate

the impacts of a weak economy, with only about 5% associated with meeting "wants" rather than "needs". Second, as pressures to meet dependency and economic related "needs" increase, expenditures on "wants" decline (this can be seen in the pattern of individual expenditures.) Third, our results suggest that the budget pressures can be accurately predicted for budgeting purposes (more accurately than revenues perhaps.) Finally, as long as annual economic and demographic changes do not produce cost pressures above 5% of the state's budget, and lawmakers continue to be able to shift resources from "wants" to "needs", NH's unique fiscal structure can survive.

Most (95%) Of The Annual Variation In NH's Budget Results From 4 Factors

*"..as long as annual economic and demographic changes do not produce cost pressures above 5% of the state's budget, and lawmakers continue to be able to shift resources from "wants" to "needs", NH's unique fiscal structure can survive."*

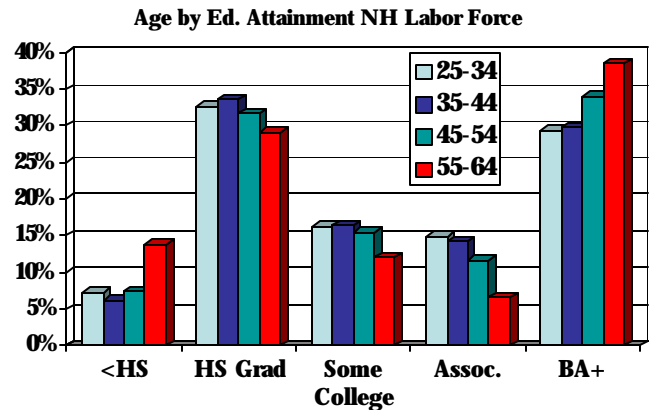


## Will The "Age-Wave" Swamp The NH Economy?

The best educated component of the NH labor force (those aged 55-64) is nearing retirement age, and as the accompanying chart shows, the impact on NH's skilled labor force will be significant. As a result of decades on in-migration of well-educated residents, the educational attainment of NH's older workforce is higher than younger age groups. As older age groups exit the labor force, and the demographic groups behind them are smaller and less well educated, the labor force that remains is less able to support productivity and

income growth unless: 1.) NH can count on a steady stream of well educated in-migrants or, 2.) NH significantly increases the educational attainment of its young workers. The problem is a national one and will be more pronounced for states which cannot attract educated workers or produce them internally, The problem will be especially acute for businesses that have not cultivated loyalty among older workers, or that have not adopted a culture that meets the needs of older workers. The skilled labor shortages of the 1990's

The "Age-Wave" Problem Is The Difference In Percentage Of NH's "Older" And "Younger" Workers With A BA+. It Portends A Looming Shortage Of Skilled Workers



will appear minor compared to the longer term shortages produced by the age-wave. The good news, once

glutting labor markets and depressing earnings, baby boomers are now likely to see increasing competition for their services.

### About The Index

PoEcon's *NH Index of Leading Indicators* is a diffusion index consisting of nine state, regional, and national indicators of economic activity designed to predict changes in the rate of employment growth in NH. When index scores are above zero, more of the leading indicators are

moving in a positive direction and the NH economy is expanding. When the Index is below zero, more indicators are moving in a negative direction and the NH economy is weakening. The Index has a strong statistical relationship with changes in NH employment, Index scores

lead changes in the rate of NH employment growth by 3-6 months. Using kernel regression techniques, Index scores can be converted into a probability that the state of NH will enter into a recession sometime in the subsequent six months.

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### About PoEcon

PoEcon specializes in identifying, understanding and communicating emerging economic, fiscal, demographic, labor market, and public policy trends at the intersection of private sector activity and government policy, where public sector action

or inaction can significantly impact the growth, development, and profitability of industries, individual businesses, communities and geographic regions. PoEcon clients include for-profit firms in the energy, financial,

legal/lobbying industries, not-for-profits, regional development organizations, charitable and government agencies, as well as trade associations, chambers of commerce, and higher education institutions. PoEcon services include economic and public policy

analysis and forecasting, economic and fiscal impact analysis, demographic and labor market analysis and forecasting, cost/benefit analysis, market analysis, strategic economic development, and survey research.