

A Recovery on Track or Derailed on the Way Back to Growth?

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The 1930s was the last time the economy staggered under as many "structural" burdens, as opposed to the familiar "cyclical" problems that create temporary recessions once or twice a decade. The structural faults represent once-in-a-lifetime dislocations that will take years to work out. Among them: the job drought, the debt hangover, the banking collapse, the real estate depression, the health-care cost explosion, and the runaway federal deficit. "This is a sick economy that won't respond to traditional remedies," said Norman Robertson, chief economist at Mellon Bank. "There's going to be a lot of trauma before it's over."

Time Magazine Article
September 28, 1992



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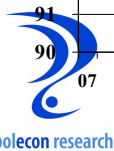
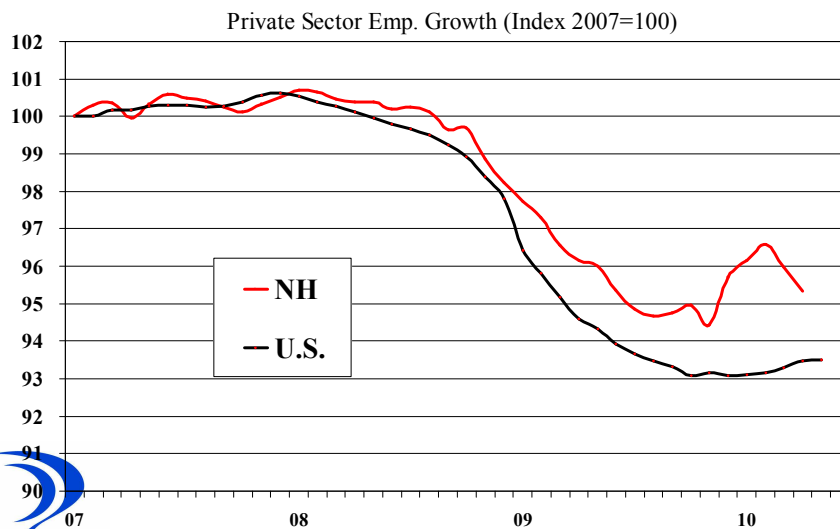
21 months following the end of the July 1990 to March 1991 recession, and in the early stages of the longest and strongest economic expansion in the history of the country – 120 months

National Overview

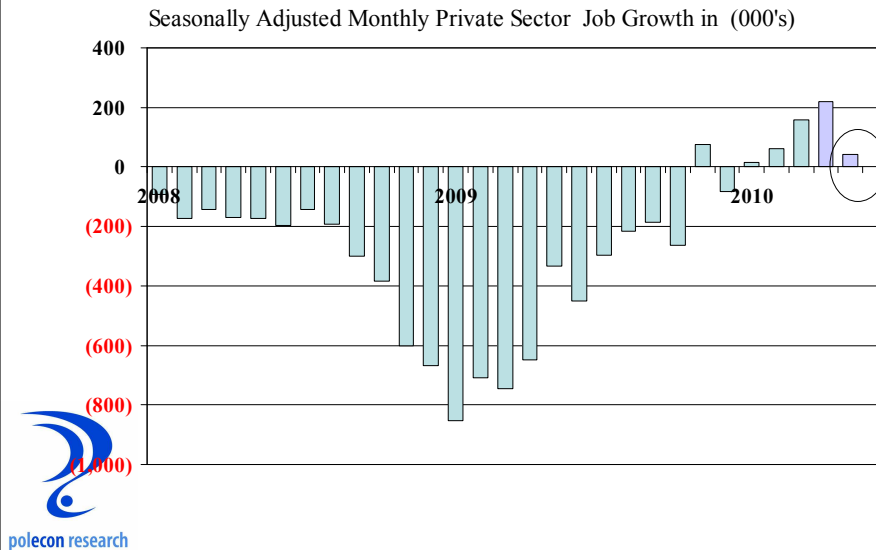
- The recession is over, self-sustaining (without government support) recovery is beginning to take hold
- Confidence (Business and Consumer) still a key missing ingredient
- Despite sometimes conflicting data, the economy and the labor market are improving
- All (most) indicators suggest an increase in the pace of hiring
- Growth will continue despite the economic equivalent of the trials of Job
- Threats include:
 - European debt crisis
 - Public policy and uncertainty
 - Increased taxes



Private Sector Employment Growth is Returning



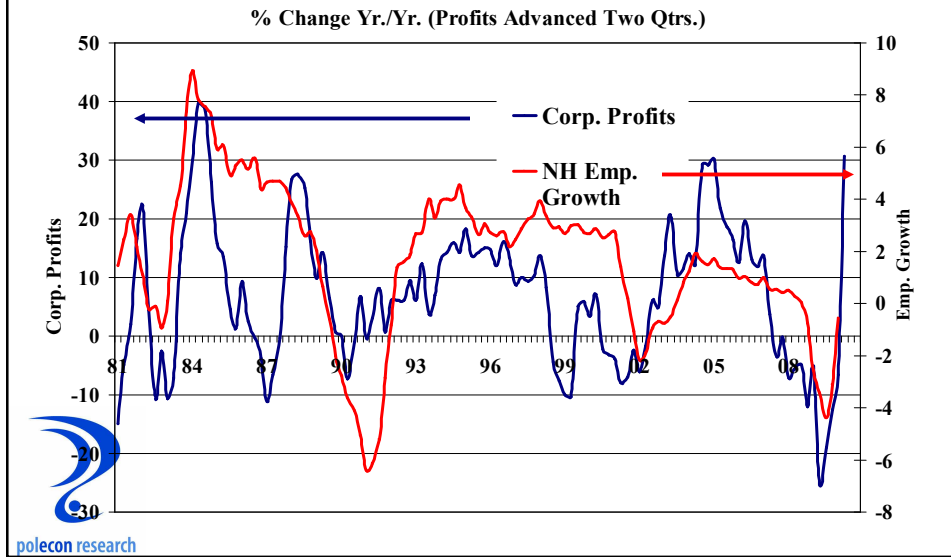
U.S. Private Sector Job Growth in May Was an Anomaly in a Improving Job Market



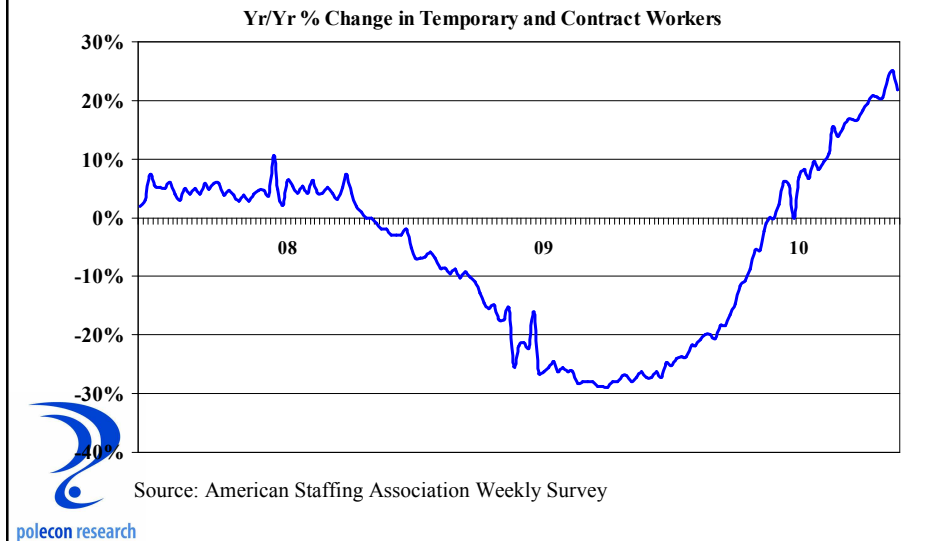
Indications that Stronger Employment Growth is Imminent

- Corporate profit growth
- Temp and contract employment rising sharply (precursor to permanent gains)
- Average length of workweek increasing
- Productivity at record levels that can't be sustained
- Withholding taxes suggest much larger employment gains in May than indicated by government data
- Household survey of employment (better at capturing growth by small and new firms) also suggests larger job gains than evidenced in establishment survey

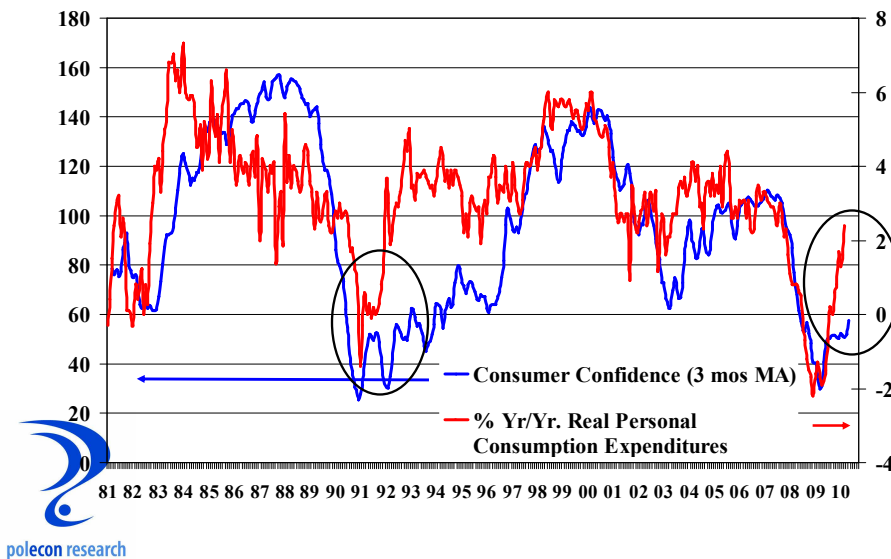
Profitability is Returning and Hiring Usually Lags Turning Points in Profit Growth by About 2 Quarters



Growth in Temporary and Contract Workers Usually Leads Permanent Emp. Growth



Consumers *Remain Gloomy* but are Spending Anyway - The Economy Would Get a Bigger Boost From Greater Confidence

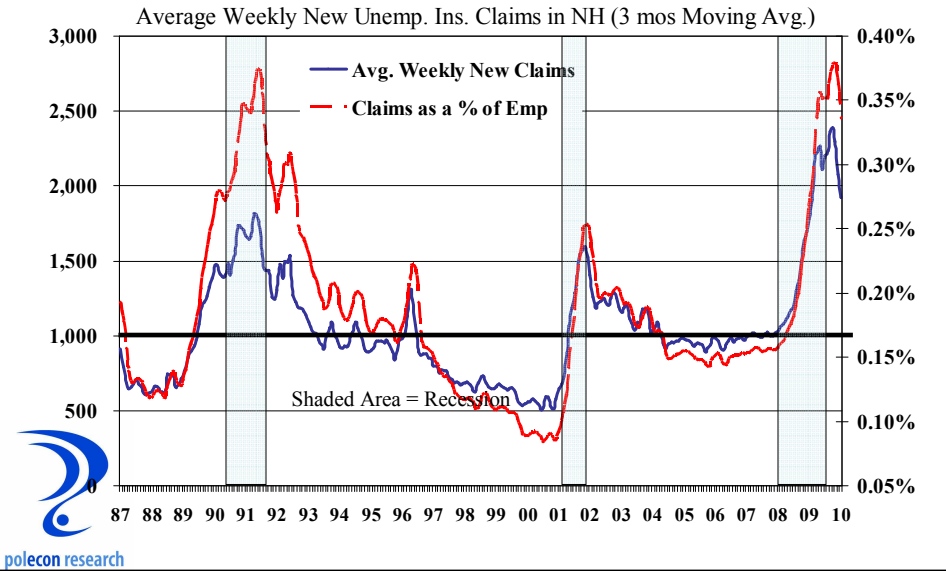


Impediments to a Stronger U.S. Recovery

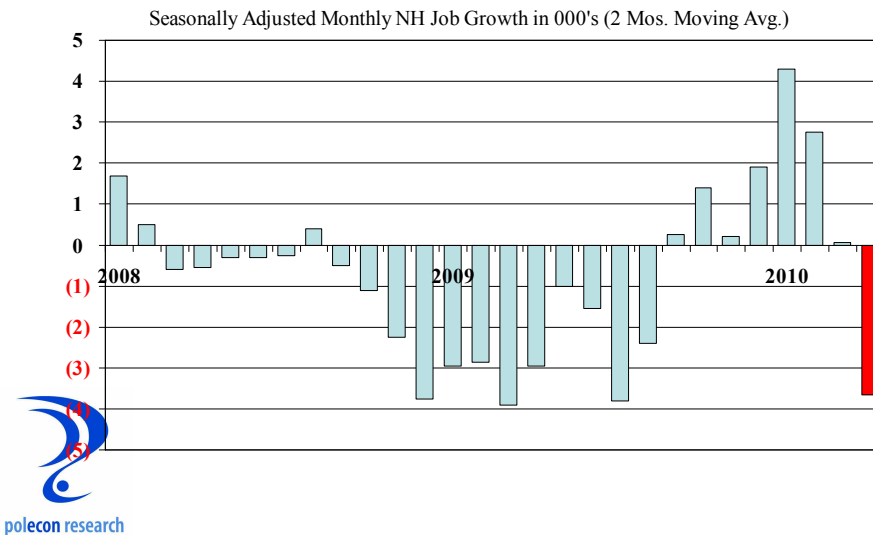
- Confidence - business and household
- European financial and debt crisis
 - Stock market decline, wealth effect on consumer spending
 - Stronger dollar hurts exports
- Unprecedented policy uncertainty nationally
 - Health Care (what's the impact on employers)
 - Taxes (expiration of cuts, higher cap gains, etc)
 - Financial regulatory reform
 - Energy policy
 - Immigration reform
- Locusts, pestilence, what more could happen?



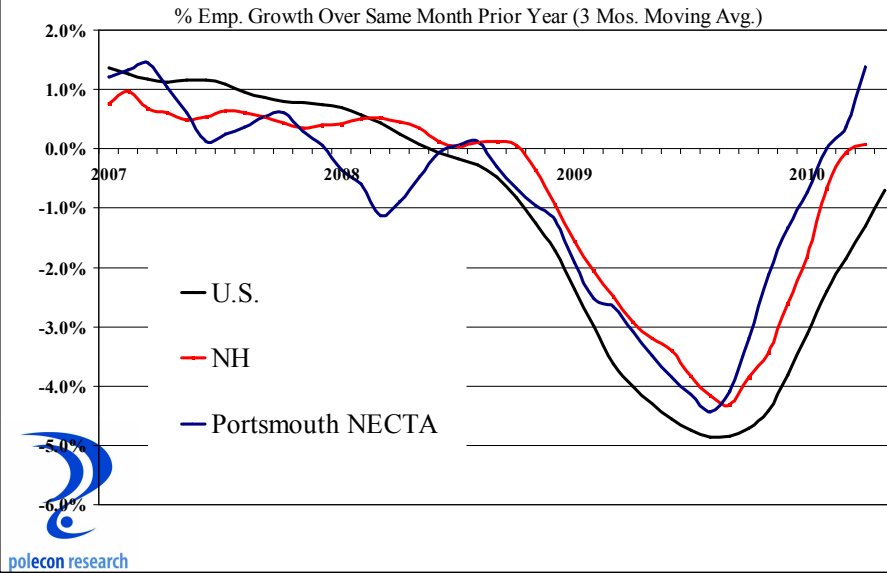
In NH, New Unemployment Claims Have Been Stubbornly High – the Relationship Between Employment Growth and Initial Claims is Breaking Down?



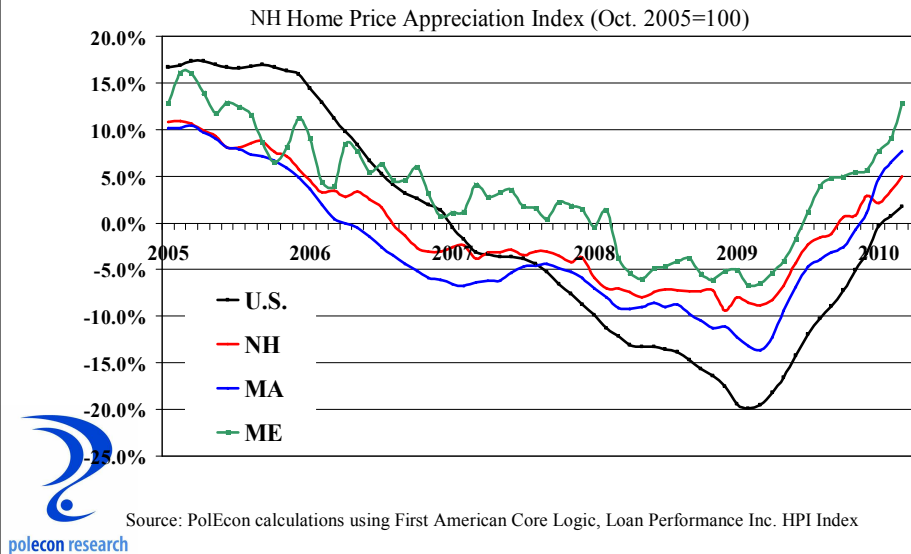
NH's Employment Growth Was Gaining Momentum – Recent Preliminary Data WILL BE REVISED UPWARD EVENTUALLY



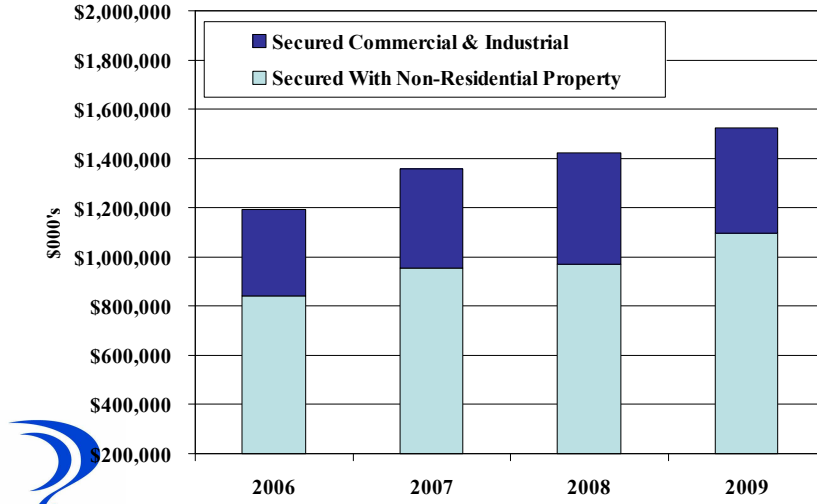
NH is Recovering More Quickly but the Portsmouth NECTA is Recovering Even Faster



NH Home Prices Have Fallen Over 20% Since Peaking the Fall of 2005 but Have Been Growing Year Over Year Since Oct. 09

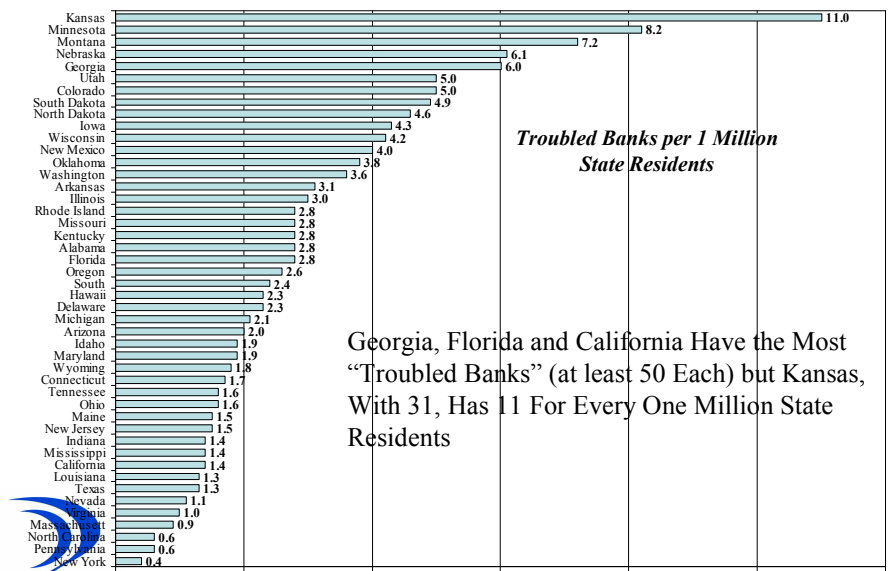


Credit Has Been a Concern but Small Business Lending by NH Community Banks Continues to Grow



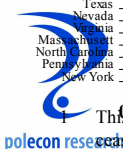
Source: FDIC "Statistics on Depository Institutions"

NH Banks are Strong: Only 4 States- New Hampshire, Alaska, VT and WV Had Not One of the 682 Unofficially "Troubled Banks"¹ as of May 2010



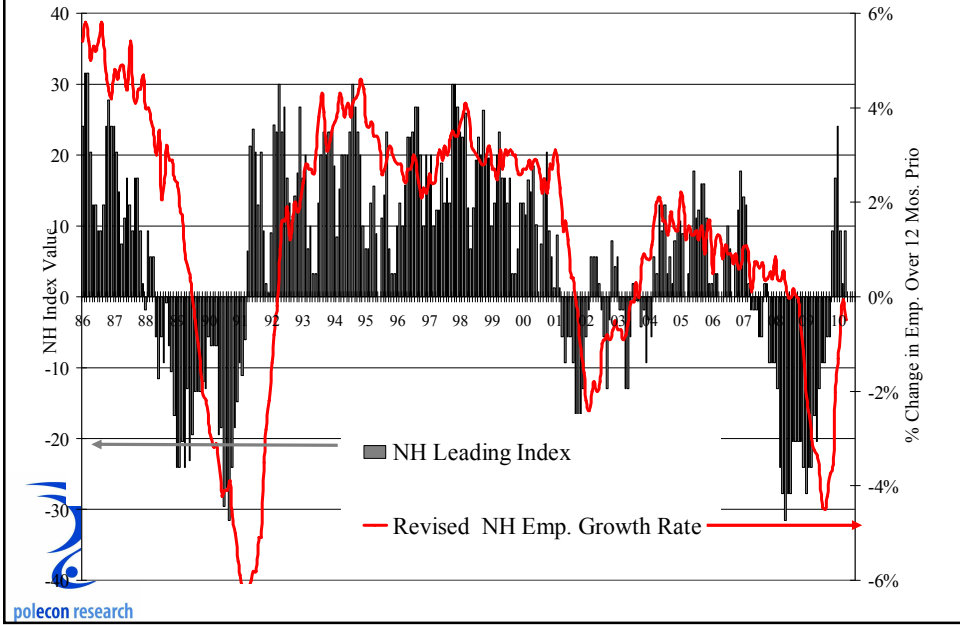
Troubled Banks per 1 Million State Residents

Georgia, Florida and California Have the Most "Troubled Banks" (at least 50 Each) but Kansas, With 31, Has 11 For Every One Million State Residents

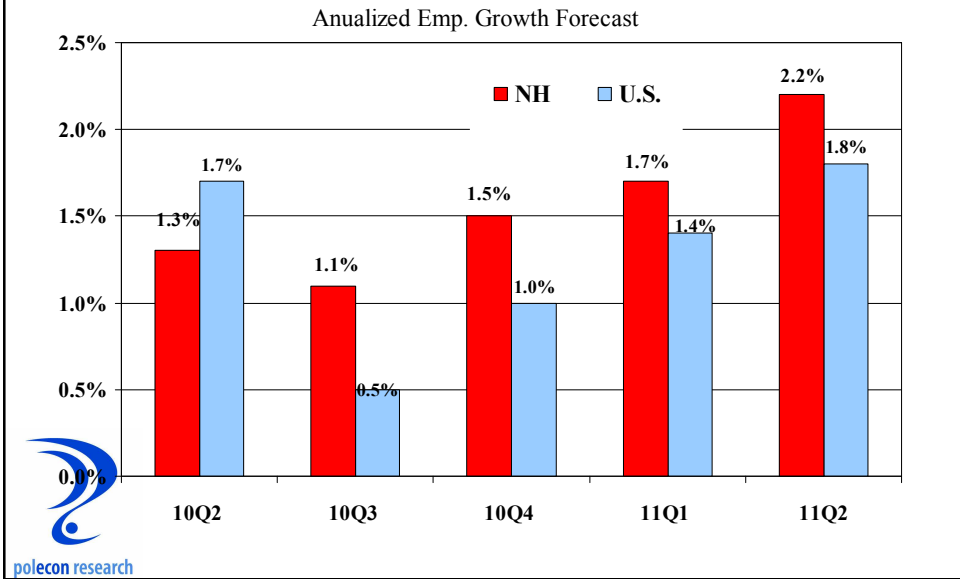


¹ This list is unofficial based on FDIC published consent orders, written agreements, formal agreement and cease and desist orders

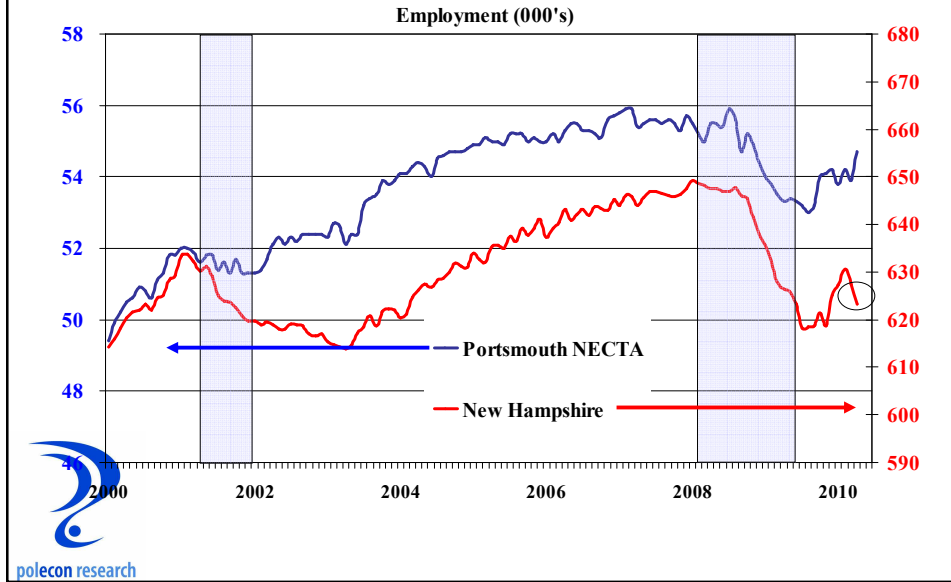
Polecon's NH Leading Index Signals Much Better Growth Ahead



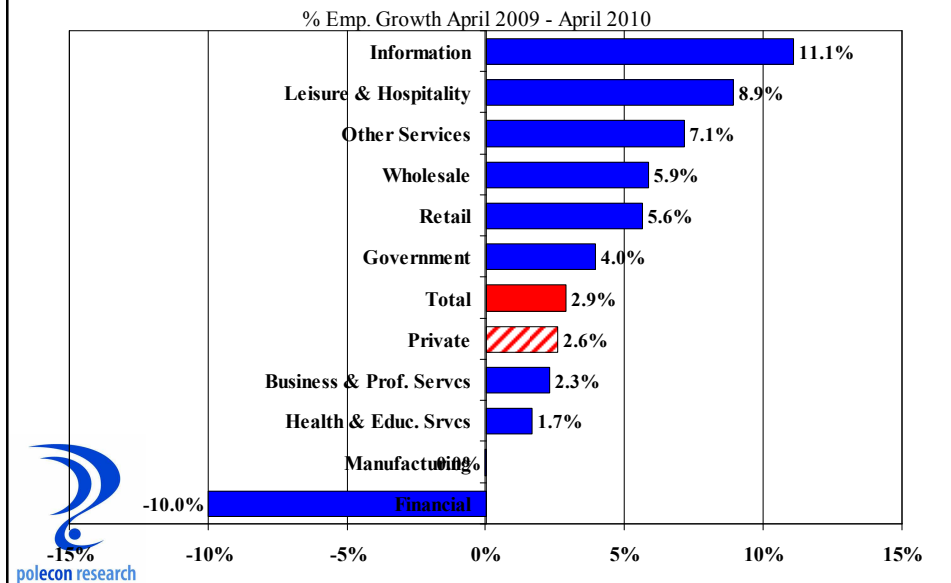
Emp. Growth Rate May Dip Before Gaining Momentum This Fall



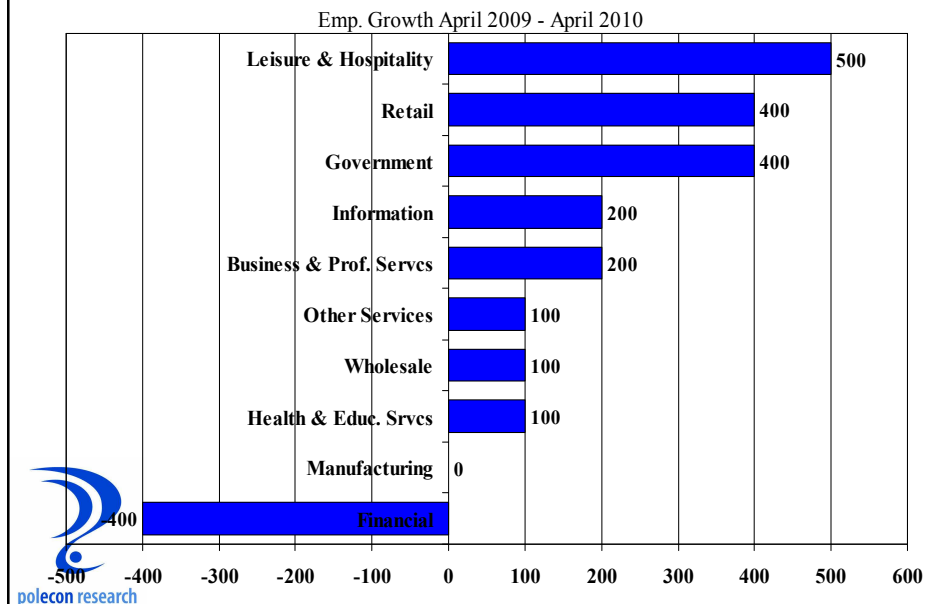
The Portsmouth Area Did Not Lose Jobs at the Same Rate and Will Regain Jobs Sooner than NH or the U.S.



Nearly All Major Industries in the Portsmouth NECTA Have Added Workers Over the Past 12 Months



The Numbers Behind the Percentages



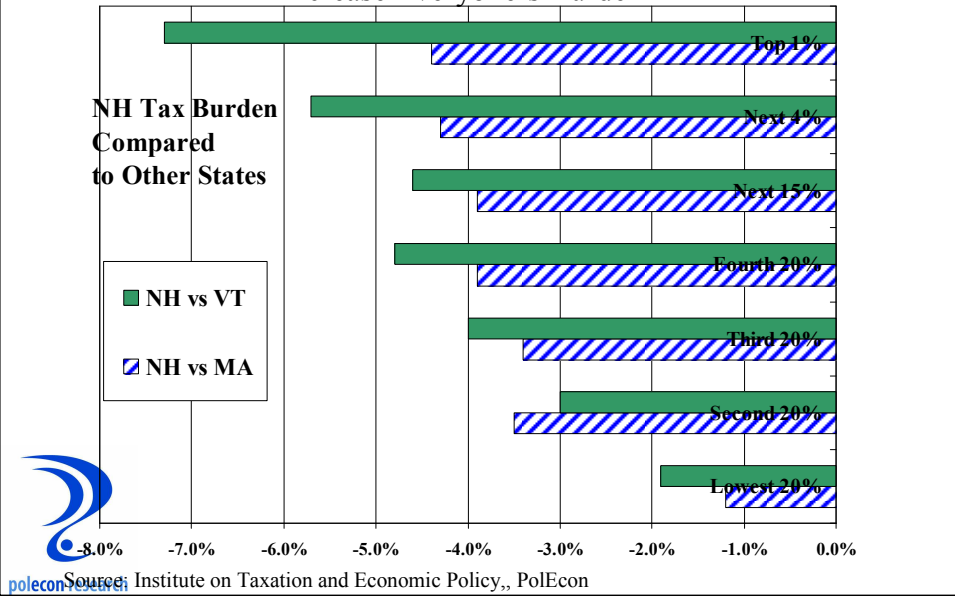
Some Keys to the State of NH's Relative Success

- Low overall tax burden in a region with high burdens
- Magnet for skilled, well education households that makes state attractive to entrepreneurs and high-productivity, higher-growth industries
- Generally a low percentage of 'volitional spending' – doing what we *need* to do, not what different groups *want* us to do
- Historically we have survived without a broad-based tax because of balance and compromise (even with large political majorities):
 - The "left" had to accept limited discretionary spending
 - The "right" had to accept revenue "adjustments" (higher rates, new or expanded fees/taxes with limited impacts on economic activity)

• *Editorial Note: Today we seem to have less balance and willingness to compromise and thus there is a potential for a larger crisis*

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Across the Income Spectrum, NH Households Pay a Smaller % of Their Income in State & Local Taxes – Increased “Fairness” Can Increase Everyone’s Burden



Bigger Revenue Declines Contribute to Larger State Deficits – But Spending and Other Factors Play a Large Role. *NH Deficits per capita are Lower Because of Lower Spending*

