

New Hampshire ECONOMIC CONDITIONS

November 2022

Back Road through White Mountains of NH PHOTO CREDIT

I-93 Through Franconia Notch PHOTO CREDIT

Franconia Notch State Park NH PHOTO CREDIT

Thanksgiving Cornucopia PHOTO CREDIT

Gross Domestic Product

After decreasing in the first and second quarters of 2022, U.S. gross domestic product (GDP) increased at an annualized rate of 2.6 percent in the third quarter. GDP measures the value of goods and services produced in a region.

The largest component of GDP, personal consumption expenditures (PCE), measures the value of goods and services purchased by American consumers. PCE, which accounts for approximately seventy percent of GDP, increased in each of the first three quarters of 2022, growing 1.2 percent, or \$168 billion, over that time. Consumer spending likely increased because employment and job growth also increased, giving consumers money to spend. GDP data is adjusted for inflation, so increasing PCE indicated that consumer spending increased at a faster rate than inflation. Excess savings during the pandemic, the result of stimulus payments and the

inability to spend on some goods (due to supply shortages) and services (due to social distancing measures), have likely contributed to higher consumer spending in 2021 and 2022.

Private domestic investment, which measures the amount of money domestic businesses invest within the U.S., increased in the first quarter of 2022, before declining in the second and third quarters. Residential investment and nonresidential structures¹ were the primary cause for declining private domestic investment, indicating a slowdown in all sectors of real estate. Most other types of business investment either increased or remained relatively unchanged throughout 2022.

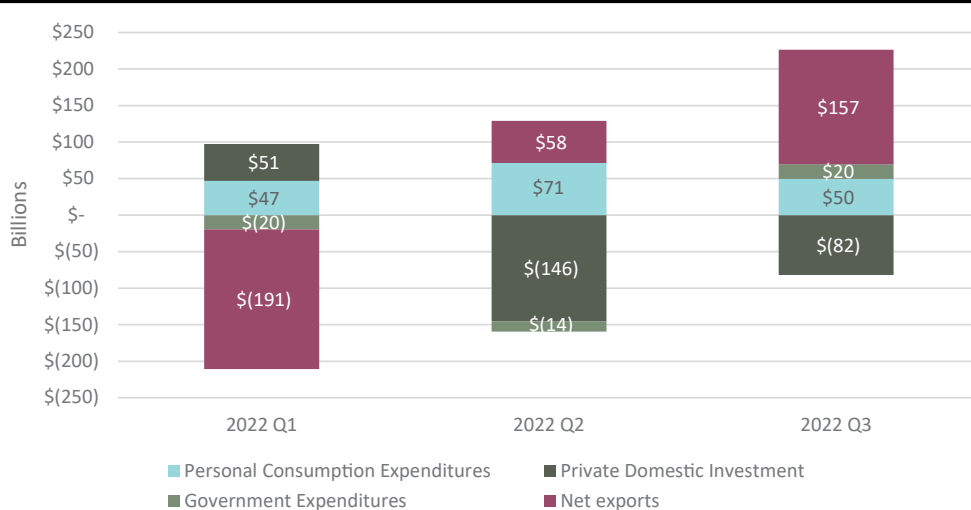
Net exports, which measure the difference between exports (goods and services produced in the U.S., which increase GDP) and imports (goods and services produced outside of the U.S.,

which decrease GDP), fell by \$191 billion² in the first quarter of 2022, the largest factor in negative GDP growth that quarter (overall, GDP declined by \$82 billion in the first quarter). Net exports increased during the second and third quarters, mostly due to an increase in exported U.S. goods and services. Government spending declined slightly during the first two quarters of 2022, before increasing in the third quarter.

GDP in New Hampshire

Third quarter GDP data is not yet available for New Hampshire, but New Hampshire's GDP followed a similar trend to the U.S. overall in the first and second quarters of 2022. New Hampshire's GDP declined more rapidly, falling at an annualized rate of 14.9 percent in the first quarter and 2.5 percent in the second quarter, but still grew at a faster rate than U.S. GDP since the beginning of the pandemic. In the second quarter of 2022, New Hampshire's GDP was 6.5 percent higher than GDP in the first quarter of 2020, while U.S. GDP was 4.8 percent higher.

Components of US GDP Growth, 2022 Q1-Q3



Source: U.S. Bureau of Economic Analysis

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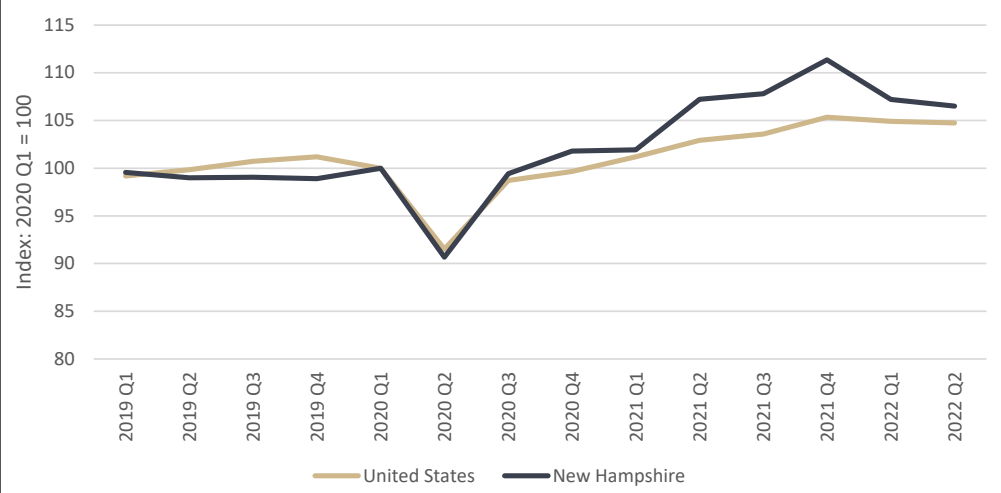
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¹ Residential investment includes home construction, remodeling, and real estate broker's fees. Nonresidential structures are defined as commercial and health care buildings, manufacturing buildings, power and communication structures, and other structures.

² Chained 2012 dollars.

GDP Index, New Hampshire and US



Source: U.S. Bureau of Economic Analysis

of 2022, before declining 1.1 percent in the second quarter of 2022.

The contribution to GDP from several industries continued to increase over the first two quarters of 2022, although the rate of growth slowed. The information industry's value added increased 24.7 percent since the pandemic began, but growth slowed to just 0.3 percent (1.0 percent annualized) in the second quarter of 2022. Value added from the professional, scientific, and technical services industry followed a similar trend, expanding 18.4 percent since the first quarter of 2020, but with growth slowing to 0.4 percent (1.7 percent annualized) in the second quarter of 2022.

GDP by Industry

Among private industries, the finance and insurance industry experienced the largest decline in value added³ during the first half of 2022. After increasing 18.8 percent during the second, third and fourth quarters of 2021, finance and insurance GDP fell 13.6 percent in the first half of 2022, eliminating most of the gains from the previous year. Rising interest rates and falling stock prices likely contributed to GDP declines for this industry.

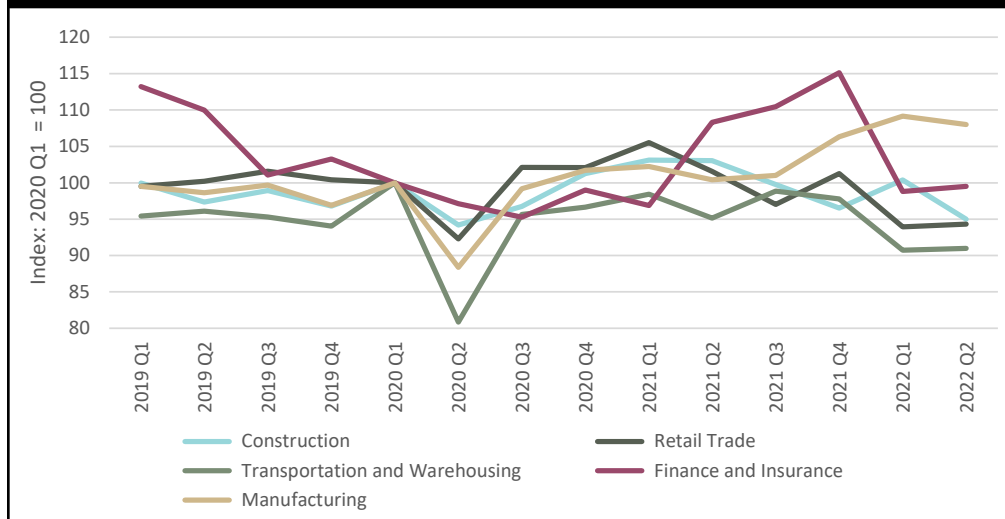
The transportation and warehousing industry's contribution to New Hampshire's GDP was relatively flat since the pandemic began, as increases in shipping goods were offset by declines in transportation of people. Transportation and warehousing GDP declined 7.2 percent in the first quarter of 2022, as supply chain issues, fuel costs and worker shortages affected value added from this industry.

The construction industry's value added peaked in the first quarter of 2021 at \$2.14 billion. Since then, GDP for the construction industry declined 7.9 percent, to \$1.97 billion. The retail trade industry's value added also peaked during the first quarter of 2021 at \$5.77 billion. Since then, value added from retail trade fell to \$5.16 billion, a 10.6 percent decline. The manufacturing industry's contribution to GDP, which remained close to pre-pandemic levels for most of 2020 and 2021, increased 8.1 percent over the fourth quarter of 2021 and first quarter

While employment in the arts, entertainment and recreation industry remains below pre-pandemic levels, value added increased 25.9 percent since the first quarter of 2020. Growth slowed to 0.5 percent (2.2 percent annualized) in the second quarter of 2022.

Value added growth for the administrative and support and waste management and remediation services industry slowed in the second quarter of 2022, however, it increased 1.0 percent (3.8 percent annualized), and has increased 30.1 percent since the first quarter of 2020. This industry includes temporary staffing businesses, which have been supplying labor to firms in other industries that have not been able to hire adequate staff.

Industries with Declining Value Added



Source: U.S. Bureau of Economic Analysis

³ Value added measures an industry's contributions to overall GDP by determining the increase in dollar value of a good or service resulting from the inputs, or value, of New Hampshire labor and materials used in its production.

The accommodation and food services industry's contribution to GDP increased 2.7 percent (10.9 percent annualized) in the second quarter of 2022, although this was the slowest rate of growth since 2020.

Summary

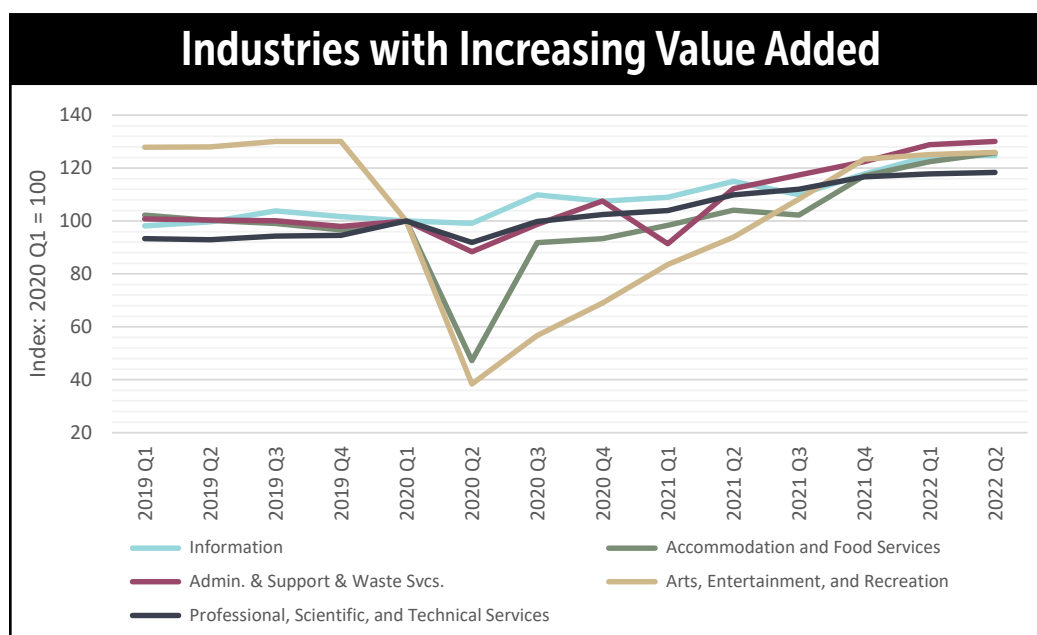
The U.S. and New Hampshire economy face headwinds, and many economists believe a recession is likely in the near future. Rising interest rates and high inflation, particularly housing prices and high energy costs, will likely lower the rate of economic growth.

However, GDP data indicated that U.S. economic growth continued in the third quarter of 2022, and that declines in

the first two quarters of 2022 were likely not an indication that the U.S. had already entered a recession.⁴

New Hampshire's GDP will likely follow a similar trajectory in the third quarter (state-level GDP data will not be released until late December). Both in New Hampshire and nationally, housing appears to be the weakest sector of the economy. National GDP data showed that, while most other components of GDP increased in the third quarter of 2022, business investment in real estate continued to decline. Housing is already in short supply in New Hampshire, and a slowdown in new construction would make this shortage more severe.

– Greg David, Economist



Source: U.S. Bureau of Economic Analysis

⁴ Two quarters of negative GDP growth is viewed as an unofficial indicator of recession, but this definition is not used by the National Bureau of Economic Research (NBER), the nonprofit research organization that officially determines when the U.S. economy enters a recession. The official NBER criteria for determining a recession includes: "a significant decline in economic activity that is spread across the economy and that lasts more than a few months." It should be noted that the NBER waits for sufficient data before announcing a recession, a process that takes several months.