DEVELOPMENTS
New England

New England Developments | Policy Issues Shaping the Regional Economy | Spring 2006

A Reliable Energy System Requires Public Action

If policy-makers want a reliable energy system, they must confront the difficult and related challenges of investing in and siting energy infrastructure. Whether it's a natural gas pipeline, a power plant, transmission wires, or anything else, building energy infrastructure is expensive and risky.

by Carrie Conaway

Energy has once again moved to the forefront of the nation's attention. High and volatile oil and natural gas prices, the East Coast blackout in August 2003, and the impacts of Hurricanes Katrina and Rita all highlighted weak points in the nation's energy infrastructure. More important, they reminded us why energy policy matters. For our day-to-day functioning and our economic growth, the region and the nation need a reliable supply of energy—and reliability cannot be attained without public policy.

Having a reliable energy system means having enough capacity and variety of sources to handle routine disruptions without incident. But it also means planning ahead so that the right infrastructure—whether natural gas pipelines, electrical power plants, transmission and distribution wires, or fuel oil and gasoline delivery systems—is available in the right place and at the right time. Businesses will invest in reliability to some extent. But as a society we have an interest in having a more reliable system than what businesses will provide on their own, with more backups and stopgaps to ensure system stability. Because of the long lead times in building energy infrastructure, this requires making decisions, investments, and policy today so that we can meet expected demand many years from now.

Reliability is of particular concern to New England, for several reasons. First, there is an almost complete lack of indigenous sources of fossil fuel in the region—no coal deposits, no oil fields, no sources of natural gas—even though these sources constitute three-quarters of the region's energy consumption. As a result, the region's energy comes at higher cost because it must be transported farther to get here, and the region may be more vulnerable to interruptions in supply and price spikes in world markets. For the same reason, the region must be careful not to become too dependent on any one source of fuel. This has become a particular concern with natural gas, since the region's natural gas consumption has increased by 80 percent in the last 15 years and now makes up 20 percent of the region's total energy use.

In addition, electricity deregulation substantially changed the region's wholesale and retail electricity markets over the last decade. While many of the changes resulted in improvements in the region's energy system, some of the changes—particularly around incentives for investment in generation—have likely reduced electrical reliability. Since electricity constitutes one-third of total energy consumption in the region, and since many of the fuels used to produce electricity are also used to satisfy our other energy needs, concerns about reliability in electricity translate into concerns about reliability

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LOOK INSIDE

Northeast Utilities System

The Connecticut Light and Power Company ✦ Yankee Gas Services Company ✦ Western Massachusetts Electric Company ✦ Public Service Company of New Hampshire

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for the energy system as a whole.

What kinds of public policies could help promote reliability for New England?

- **Maintaining fuel diversity.**

  The region has historically enjoyed one of the most diverse energy portfolios in the nation. In electrical generation, for instance, no more than one-third of the region's electricity comes from any one fuel source, one of the lowest percentages in the nation. However, a variety of factors have pushed natural gas forward as the fuel of choice, to the point that the region's historic diversity, and hence its reliability, may be threatened. To address the growth in natural gas, governments could provide incentives to increase pipeline capacity, make it easier to site natural gas facilities, or restrict how natural gas is used. More generally, they can promote renewable energy sources, which are the only sources of energy that are actually indigenous to the region. And they can help foster investment in technologies of the future, which might bring benefits to the region down the line.

- **Reducing demand growth**.

  Reducing demand growth cuts back on the amount of capacity the region requires to meet its needs, which can help improve system reliability because "a kilowatt saved is a kilowatt earned." To promote this goal, policy-makers can ensure that retail energy customers face real-time prices, so that customers would have a greater incentive to conserve at times of peak demand. And policy-makers can also encourage energy efficiency, which reduces the overall level of demand.

- **Improving infrastructure investment and siting.**

  If policy-makers want a reliable energy system, they must confront the difficult and related challenges of investing in and siting energy infrastructure. Whether it's a natural gas pipeline, a power plant, transmission wires, or anything else, building energy infrastructure is expensive and risky. Before businesses incur these costs, they need clear signals that their investments are likely to pay off—that they will have a fair opportunity to recoup their costs. This has been a particular problem in electrical generation ever since states and the federal government began deregulating the electricity system in the 1990s. Generators have become leery of investing in new facilities, arguing that given current prices and regulations, they can make back the variable costs of producing electricity, but not the fixed cost of the initial investment in a new power plant. As a result, they are building fewer power plants and adding less capacity. Right now, fewer than 1,000 megawatts of new capacity are anticipated to come online between now and 2008, and only 3 megawatts are actually under construction. Several proposals have been put forward to address this issue, most revolving around the idea of creating a market-based mechanism to pay generators for adding capacity. But the proposals have been contentious, largely because of concerns about their cost and effectiveness, and there is currently no consensus about how to move forward.

  Furthermore, even if the right incentives were in place, it would still be difficult to find communities willing to host this new infrastructure. The reason is, while the benefits of energy infrastructure accrue regionally or nationally, the costs are borne locally. The siting process thus tends to emphasize local over regional concerns. This is a plus, on the one hand, because the process gives those who bear the greatest costs from a particular project—localities—the greatest say in its approval or denial. But if every town can say no, then who will say yes? New England's fragmented local decision-making, coupled with increasing community concerns about the safety, security, and economic impacts of these facilities, make it increasingly difficult to site any new energy infrastructure in the region. But the cumulative effect of these localities' decisions may be indirectly undermining the reliability of the energy system. Until government can resolve the jurisdictional and regulatory issues, the region will continue to build insufficient capacity to meet its reliability needs.

Government and markets have long worked together to create a reliable energy system for New England. Businesses have invested in technologies and infrastructure, from water wheels to power plants, that have increased the region's productivity and fostered economic growth. And government has helped ensure that the benefits of these technologies are broadly available, that firms have sufficient opportunity to earn back their investments, and that firms invest enough to ensure a reliable system. At the moment, however, this relationship shows evidence of fraying, which is causing concern about New England's energy future.

New England's energy problems were not quickly created, and neither will they be quickly resolved. In order to surmount them, firms will have to invest in the right kind of infrastructure in the right place and at the right time. And

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government will need to play an active role in ensuring that system reliability is not given short shrift in the process, through policies to address issues such as fuel diversity, demand growth, and infrastructure investment and siting. This will not be easy, but it is critical for the region's future. Without the assurance of an energy system that can meet immediate demands along with long-term growth, the region puts its economic prosperity at risk. ■

Carrie Conaway is the deputy director of the New England Public Policy Center, Federal Reserve Bank of Boston.

The New England Public Policy Center has recently released a report on energy issues in New England. The full report is available at http://www.bos.frb.org/economic/neppc/wp/2005/neppcwp0502.htm.

New England's Energy Picture

By Noreen S. Kirk

When energy prices rise nationwide, they rise even higher in New England. This perennial cost differential is a competitive disadvantage that has long troubled businesspeople, policymakers and the economic development community. But the dramatic rise in prices in recent months has brought the issue into even sharper focus. Everyone wants to know what's driving New England's high electricity costs and what can be done to rein them in.

According to ISO New England's Web site, "… [I]t is New England's disproportionate reliance on gas and oil power plants for supply that is the cause of the problem." The narrative goes on to point out that fuel costs are the main driver of electricity prices. Since prices of oil and natural gas—the fuels New England most relies on to generate electricity—have skyrocketed, the region is over a barrel, so to speak, in terms of energy costs.

Raymond P. Necci, president and chief operating officer of The Connecticut Light and Power Company, also sites the lack of fuel diversity as a major cost factor.

"Connecticut used to have good fuel diversity, spread among nuclear, natural gas, coal and hydro," Necci says. "Now we're very dependent on natural gas-fired generation. As natural gas prices run up, electricity prices run up. We need to diversify the New England mix by increasing use of either coal technology with scrubbers or nuclear."

After passage of the Clean Air Act, developers shifted to gas-fired power plants as a cleaner way to produce electricity. Necci says the current market encourages the use of natural gas for generation, because gas turbines and gas-fired plants have the shortest time-to-market and because even low-cost generators receive marginal pricing. As a result, the market is highly influenced by natural gas prices.

"We are at the end of all gas pipelines," says Necci. "We are prisoners to hurricanes and other infrastructure problems. Additional construction of infrastructure or of LNG facilities in the region would help the gas supply."

Thomas Kiley, president and chief executive officer of the Northeast Gas Association, says infrastructure is key to mitigating price volatility. Right now, New England gets 40 percent of its natural gas from Canada, 40 percent from the Gulf of Mexico and 20 percent from the Distrigas LNG facility in Everett, Mass. He points out that the region needs more LNG facilities to be able to receive liquefied natural gas from overseas and more interstate pipeline infrastructure to deliver the supplies.

"In North America, we're consuming more gas than we're producing," Kiley says, "and that's forecast to continue. We need to be able to access additional supplies."

ISO's Web site asserts that high energy costs in New England are also driven by "inadequate transmission infrastructure … and insufficient conservation …" CL&P's Necci says his company, which distributes but does not generate electricity, is addressing both factors in Connecticut. CL&P is engaged in the construction of several transmission upgrades costing in excess of $1 billion to bring much-needed power into southwestern Connecticut. When the last of the projects is completed, about four years from now, they will help to reduce the federally mandated congestion charges Connecticut customers currently pay. CL&P is making a number of other electric infrastructure improvements in its territory, as well.

The company also works with customers to help them conserve energy and reduce costs. CL&P has been running workshops for its commercial and industrial customers, and Necci says businesses seem to understand that it's the market and not the distribution company that is driving up costs. Still, he says, "These types of energy prices will have a major impact on economic development in the area. We always had high energy prices, but those were balanced by our work force, quality of life and location. Now energy is going to become more of a factor as companies look at New England and decide whether or not they should be here."

Necci says that political and legislative leaders in the New England states need to tackle the region's energy issues head-on because high energy costs stifle economic development and make the region unaffordable for young people.

"If you want a good quality of life, you need a secure energy supply that's not so dependent on world politics and weather in the Gulf," Necci says. "We're trying to get a dialogue going with state leaders to determine how we can create a market that has price stability for customers as well as providing reliable energy for everyone to use." ■

Noreen S. Kirk is a writer based in Andover, Conn.

New England: New Century, New Game

It's time for the New England states to collaborate for a brighter energy and economic future.

By Neal Peirce and Curtis Johnson

New England has the dubious distinction of being at the end of the energy pipeline. Only Hawaii is more vulnerable to interruption of energy supply. New England's electricity costs are 36 percent above the national average.

So in light of global energy threats—instability in the Middle East, Asia's insatiable energy appetite, the prospect of more hurricanes and flooding wrought by global warming—can New England survive and prosper? Are the six states ready to unite in a search for radical diversification of energy sources? Can they conserve so smartly that they reduce their vulnerability?

The answers should be yes. The region has top corporations, nationally renowned research laboratories and scores of activist groups pushing new energy experiments. Self-reliance, ingenuity and technological prowess are New England trademarks. With its six states working closely together, New England could lead the energy revolution America needs.

As early as the 1970s, far-sighted regional leaders such as the late Senator Paul Tsongas of Massachusetts began to suggest inventive regional energy strategies.

Massachusetts, in 1997, was the first state to set up a "renewable portfolio standard" requiring utilities to use a minimum amount of "clean" energy alternatives. Connecticut, working with its utilities, has spent more than $1.5 billion in 20 years on conservation and load management. All New England states now have programs to promote conservation and new energy sources. Most of the region's utilities seem ready to partner in these efforts providing they're allowed to charge customers enough to offset their extra costs.

The region has top corporations, nationally renowned research laboratories and scores of activist groups pushing new energy experiments. Self-reliance, ingenuity and technological prowess are New England trademarks. With its six states working closely together, New England could lead the energy revolution America needs.

The emerging mega-issue is how to stem the greenhouse gas emissions linked to global warming, rising sea levels, more dangerous storms and lung disease. New England and its New York-New Jersey neighbors are vying with the progressive West Coast trio of California, Washington and Oregon in taking tough measures to reduce greenhouse gas emissions.

But New England is still a fossil fuel glutton. Regional demand for natural gas has jumped 70 percent in recent years. And the harsh fact is that New England's reliance on imported fossil fuels costs billions of dollars that could be recirculating, creating new companies and new jobs to bolster the region's perilously slow-growth economy. The lost opportunity is immense.

Plus, as Erich Stephens of People's Power and Light in Providence notes, today's skyrocketing prices of natural gas mean New England has little choice: It must develop renewable sources if it's to hope for any energy price stabilization.

Criss-crossing New England in the past two years, we were startled by the rising chorus of impatience with the energy status quo. College students, firms pioneering new technologies, mayors and grassroots energy activist groups are all demanding a new, smarter energy future.

New England has made a start on a new generation of energy-efficient buildings and pioneered projects focused on local generation and co-generation, waste-to-energy, solar and wind. Burlington, Vt., now fills a startling 42 percent of its energy needs from renewable sources.

A number of universities have begun to set ambitious "green" standards for new buildings, undertake recycling programs, and cut overall energy use.

And lots of energy organizing is under way in New England. Groups such as Clean Air-Cool Planet, the Conservation Law Foundation and Hartford-based nonprofit SmartPower are encouraging take strong action to cut back on fossil fuels and advance renewables.

State government has a significant partnership role to play. That's what the Massachusetts Renewable Energy Trust, the Connecticut Clean Energy Fund and a smaller counterpart in Rhode Island are trying to do. Funded by a small surcharge on utility bills, they provide grants and loans to trigger progress from solar and wind to tidal energy experiments.

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New Game, New Century, *from page 4*

In Boston, Mayor Thomas Menino's Green Building Task Force is promoting the economic advantages of green buildings. In Connecticut, state government and 15 municipalities have joined SmartPower's 20% by 2010 campaign, committing to purchasing 20 percent clean energy by the end of the decade. Providence recently became the first Northeast capital city to sign on to the campaign. Many New England corporations are saving money through energy conservation, reducing greenhouse gas emissions and investing in clean technologies.

None of this means that New England's 20th century-style energy patterns will disappear anytime soon. Renewable energy sources have a long way to go to meet New England's existing (not to mention growing) energy demand. Most of the inventing, financing, putting-in-place of a truly less dependent regional system remains to be done. Still, renewable energy remains the bright frontier.

Some movement is starting on the private capital side. For example, the New Energy Capital Corp., a New England-based investment firm, has a biomass power plant in Maine and a cogeneration plant in Massachusetts. Ironically, part of New Energy Capital's funding comes from the California State Teachers' Retirement System. That's because of California State Treasurer Phil Angelides' Green Wave initiative. Its goal: to mobilize the immense investment powers of the state-run, multi-billion-dollar pension funds to develop clean technologies in California that can then be sold across the globe. If there's any parallel effort by New England state treasurers, it's a well kept secret.

New England also needs strong region-wide commitment. Each state is just too small, too interlinked with its neighbors, to innovate effectively alone. Biofuels present golden opportunities, for example, but they cry out for a rational New England-wide distribution system developed with the utilities' savvy in building and managing energy grids.

Sudden emergencies underscore the need. After a frightening 1965 energy blackout, the region created ISO New England, an around-the-clock watchdog/coordinator of power flowing over the region's 7,000 miles of electric transmission lines, ready to protect the region against sudden outages.

But a lot more may be critical now. More hurricanes like Katrina could cripple the nation's oil refining and distribution capacity. A sudden jolt in global markets could send oil prices soaring north of $100 a barrel. New Englanders' capacity to heat buildings or drive cars could be stretched to a breaking point. Interstate plans for mass transportation would be mandatory. Today, in large part, it doesn't exist.

Political and corporate leaders, scientists, planners and nonprofits must lead New England's energy revolution with new ideas and advocacy. New England's civic and political leaders must speak out collectively, for example, to counter local opposition to projects such as wind farms. The message needn't be hostile—simply that every reasonable new piece of energy supply is needed to enhance New England's energy future.

Why not hold a New England-wide natural resources summit, suggests Rick Handley of the Coalition of Northeast Governors. Patterned after a successful Maine conference convened by Gov. John Baldacci, its theme could be economic and environmental opportunity. Imaginative interstate research and development could explore new ways to tap into the region's energy potential.

We believe that the combination of new energy initiatives across New England—by governments, universities, corporations, utilities, and nonprofits—may be ready for spontaneous combustion. New Englanders are supposed to be a smart bunch. It's time to overcome old turf barriers and move the needle forward—fast. ■

For more information on New England's energy activist organizations, renewable energy "pioneers" and technical information, visit http://www.newenglandfutures.org/issues/energy/resources.

Power POINTS

Treating Workers Well is Good for the Economy

The national Work Environment Index, a report released this fall by the Political Economy Research Institute at the University of Massachusetts, shows that treating workers well correlates to a stronger economy. The report is based on a study that rates working environments in the 50 states and the District of Columbia in terms of job opportunities, job quality and workplace fairness. PERI reports that "States ranking high on the list generally have faster economic growth and lower poverty rates, and conversely, states at the bottom of the list tend to have slower economic growth and higher poverty rates." New England fared well, with New Hampshire, Vermont and Connecticut in the top 10 at 2nd, 4th and 6th, respectively; Maine and Rhode Island tied for 12th place and Massachusetts at 18th. Delaware received the highest score and Louisiana the lowest.

New England States are Healthy States

Vermont, New Hampshire and Massachusetts are the top three healthiest states in the nation, according to Health Care State Rankings 2005, a national report published annually by Morgan Quitno Press. Maine, Connecticut and Rhode Island didn't fare badly, either, coming in at 5th, 10th and 12th, respectively. The study evaluates each state in more than 500 health care categories. Factors considered include infant mortality rates, the percent of population not covered by health insurance, per capita expenditures for health care, percent of population lacking access to primary medical care, childhood immunization rates, and percent of adults who smoke. Minnesota took 4th place, while Mississippi ranked 49th and 50th.

Granite State is Most Livable

New Hampshire once again ranked first in Morgan Quitno's annual ranking of the most livable states. The rankings are based on more than 500 economic, educational, health-oriented, public safety and environmental statistics. Vermont and Massachusetts also made the top 10, at slots three and seven, while Connecticut, Maine and Rhode Island ranked 14th, 15th and 23rd.

In the national Work Environment Index, New England fared well, with New Hampshire, Vermont and Connecticut in the top 10 at 2nd, 4th and 6th; Maine and Rhode Island tied for 12th place and Massachusetts at 18th.

Safe Cities ... and the Other Kind

Newton, Mass., is the safest city in America, according to the new edition of City Crime Rankings, an annual reference book published by Morgan Quitno Press. The report, which analyzed 369 cities of various sizes, is based on FBI data in six crime categories: murder, rape, robbery, aggravated assault, burglary and motor vehicle theft. The only other New England city to make the top 25 was Warwick, R.I., at 16th. Hartford, Conn., ranked 24th among the 25 most dangerous cities and was the only New England city to make that undesirable list.

Region's State Retirement Systems Strained

State pension funds in New England are among the least healthy in the country, according to a recent analysis by Standard & Poor's. Many states are struggling, the report says, because of increasing pension fund contribution demands at a time when costs are also escalating in other areas, such as education and Medicaid.

The funded ratio, a key measure of the health of a pension fund, has fallen dramatically among the states since 2000, S&P reports. In simple terms, the ratio compares a state's assets to its liabilities. The higher the ratio, the more assets are available to cover liabilities. The top-ranked state, Florida, had a funded ratio of 112.1 percent. Vermont ranked 12th at 93.4 percent. Massachusetts was 37th, New Hampshire 39th, Maine 43rd, Connecticut 46th and Rhode Island—with a funded ratio of 59.4 percent—came in 48th.

New England Metros Offer Quality of Life

Seven metropolitan areas in New England made the top 50 in Business Development Outlook magazine's 2005 Quality of Life Annual Report. The report spotlights places that make good business locations because their quality of life is attractive to prospective employees. The rankings were based on analysis of a variety of factors, including the local economy, transportation, recreation, climate, health, housing and education.

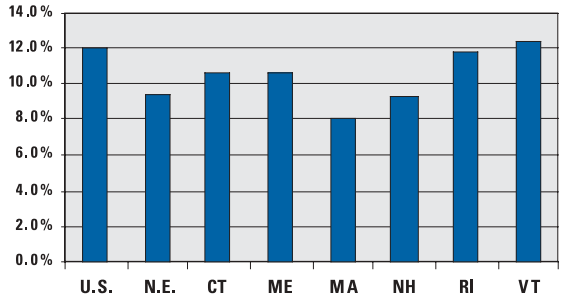
San Francisco was ranked No. 1, while Orlando placed No. 50. In between were the Boston area (Massachusetts/New Hampshire/Maine), ranked 2nd; Stamford/Norwalk, Conn., 14th; New Haven/Meriden, Conn., 19th; Bridgeport, Conn., 27th; Providence, R.I., 29th; Danbury, Conn., 36th; and Hartford, Conn., 37th. ■

Economic Outlook, from page 8

Connecticut has the highest per capita income in the nation, which is good for employees, but partially explains Connecticut's anemic employment growth.

Housing price inflation has been a mixed blessing for New England and the nation [see Exhibit 3]. New England prices increased 9.4 percent, which is good for existing homeowners, but makes the region unaffordable for many workers. There are, however, signs that the prices are leveling off.

Exhibit 3: House Price Growth
Q3 2005 over Q3 2004



New England electric output [see Exhibit 4], a reliable barometer of economic activity, grew 1.9 percent in the 12-month period ending in December, though the industrial class (manufacturers) declined. Overall, electric consumption confirms the economy is expanding, but growth is lackluster. While energy price increases have dampened demand, the recent softness in electric usage is worrisome because it implies the economic recovery may have stalled or lost momentum.

The 2006 Outlook

The near-term outlook for job growth and income is consistent with recent history. Exhibit 5 shows that employment growth continues at an unimpressive pace. Northern New England has the strongest employment growth. Southern New England employment growth remains sluggish.

Exhibit 6 shows housing activity and new housing units per 1,000 population. Forecasted housing activity slows in 2006 from levels that were already tepid compared with national activity. Only New Hampshire has been adding new units at a rate near the national average.

Real personal income growth in 2006 in New England is only 2.1 percent compared with the U.S. growth of 3.5 percent. This difference is consistent with the weak employment forecast for the region. On a positive note, we still enjoy the highest per capita incomes in the nation.

This regional forecast is linked to the national outlook, which indicates ongoing growth in 2006. If the national economy stalls, New England would not escape the U.S. business cycle. ■

Bruce G. Blakey is corporate economist and manager of market research for Northeast Utilities.

Note: Forecasts presented in exhibits 5-7 are based on the November 2005 outlook of the New England Economic Partnership (http://www.neepecon.org/.)

Print Date, February 13, 2006

Exhibit 4:
New England Weather - Normalized Net Energy for Load
12-Month Rolling Percent Change (through December 2005)

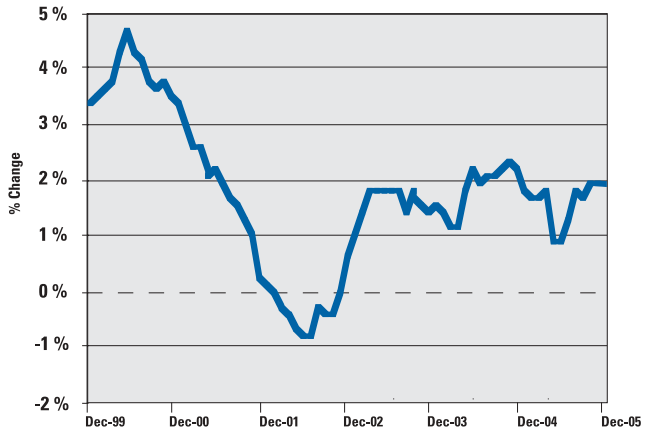


Exhibit 5: Total Employment Grows Moderately

	2005 Jobs (000's)	Growth 2005	Growth 2006
U.S. Total	133,700	1.7%	2.0%
New England	6,940	1.1%	1.4%
Connecticut	1,670	1.1%	1.1%
Maine	620	0.9%	1.1%
Massachusetts	3,210	0.8%	1.4%
New Hampshire	640	2.0%	2.4%
Rhode Island	500	1.4%	1.4%
Vermont	310	1.5%	1.5%

Exhibit 6: Housing Activity Slows

	New Units Per 1,000 Population	Level (000's) 2005	Level (000's) 2006
U.S. Total	5.8	16,800	16,500
New England	2.6	56.9	52.4
Connecticut	2.0	11.9	11.4
Maine	4.0	8.2	7.5
Massachusetts	2.0	23.3	20.0
New Hampshire	5.5	7.8	7.5
Rhode Island	1.5	2.7	3.0
Vermont	4.0	3.0	3.0

NOTE: U.S. Data are Starts, Regional Data are Permits

Exhibit 7: Personal Income Grows Slowly in New England

	2004 Per Capita Income	Growth 2005	Growth 2006
U.S. Total	$30,600	3.4%	3.5%
New England	$37,100	2.7%	2.1%
Connecticut	$42,700	2.6%	2.8%
Maine	$28,900	2.8%	1.0%
Massachusetts	$38,600	2.6%	2.1%
New Hampshire	$34,200	3.5%	2.3%
Rhode Island	$31,000	2.8%	1.3%
Vermont	$30,200	2.9%	0.8%

Economic OUTLOOK

By Bruce G. Blakey

Current Economic Conditions

Exhibit 1 shows job performance for the United States and New England as of December 2005. Unlike prior years, unemployment rates are not materially lower in New England than in the nation. New Hampshire and Vermont unemployment rates are below 4 percent. Unemployment rates in the rest of New England are close to the national unemployment rate (4.9 percent). Connecticut is at the national average, which is a relatively new phenomenon. Unfortunately, the low rates in New England in recent years were mainly due to weak population growth, not rapid employment growth. Many New England residents have either moved to more prosperous or affordable parts of the country or otherwise left the labor force, thereby causing the unemployment rate to drop. A downside to weak labor force growth is a looming labor shortage if the regional economy surges. We don't have the labor pool to satisfy the needs of businesses that want to grow, and the area is too expensive to attract people from outside the Northeast.

Exhibit 1: Job Performance December 2005

	Unemployment Rate	12- Month Employment Growth	
		Total	Manufacturing
U.S. Total	4.9%	1.5%	-0.4%
New England	4.7%	0.6%	-0.5%
Connecticut	4.8%	0.6%	-0.7%
Maine	4.8%	0.4%	-2.2%
Massachusetts	4.9%	0.4%	0.1%
New Hampshire	3.5%	1.5%	0.9%
Rhode Island	5.2%	0.8%	-3.4%
Vermont	3.6%	1.3%	1.3%

Job growth for December 2005 over December 2004 in New England was 0.6 percent, compared with national growth of 1.5 percent [see Exhibit 1]. Both New Hampshire and Vermont outperformed the nation. Massachusetts, which has 46 percent of New England jobs, had only 0.4 percent job growth over this period. This difference is consistent with a recurring theme in the New England economy: More rapid growth occurs in the northern states, particularly New Hampshire.

Exhibit 2 shows a second recurring theme in New England: Income is high because New England jobs pay well.

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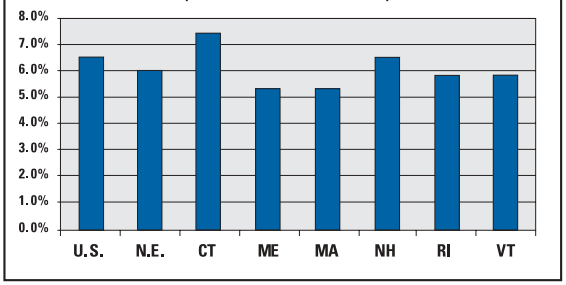
Exhibit 2: Nominal Personal Income Growth (Q2 2005 over Q2 2004)



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Policy Issues Shaping the Regional Economy

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