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VERMONT ECONOMIC OUTLOOK

The Forecast in Brief

- The May 2010 Vermont forecast update for NEEP¹ represents a small, but measurable upgrade from the last NEEP forecast completed in November of 2009.
 - The forecast calls for a historically restrained and uneven paced recovery for most major macro-variables.
 - Much of the reason for the restrained pace of recovery is tied to the still struggling housing and labor markets. Each continues to contend with the lingering effects of the “Great Recession” and represent key forecast risks going forward.
- Similar to last Fall’s NEEP forecast which called for a turnaround by early calendar year 2011, rates of recovery-growth for most key macro-variables will not even begin to move closer to historical norms until calendar year 2011. Some will remain at subpar levels until as late as calendar year 2012.
 - More normal rates of recovery-growth will return in the Vermont economy only when the residual effects of the housing market downturn and the painful process of financial sector and household de-leveraging have fully run their course.
- Among the major macro-variables for the Vermont economy over the next 4+ calendar years, it is expected that:
 - After reaching “bottom” during the third quarter calendar year 2009 payroll jobs are expected to continue to follow a modest pace of recovery, finally reaching more typical rates of recovery and beginning in the second half of calendar year 2011 and eventually crossing the line to expansion by Q1: 2013.
 - Gross State Product, will start to bounce back in 2010, and pick up pace in calendar years 2011 and 2012, with rates of growth moving closer to historical averages by 2013.
 - Real² Personal Income in Vermont is expected to remain relatively flat in 2010, and resume an upward track in 2011 and beyond, with the pace of recovery in this variable lagging behind that of both the regional and national recoveries.

¹ NEEP means the “New England Economic Partnership”.

² Or inflation-adjusted.

- Most of the forward recovery progress will be driven by the services-producing job categories, but an expected turnaround in goods-producing job sectors will also contribute positively to Vermont’s long-awaited economic/labor market recovery.
 - Among the state’s 11 major NAICS sectors, a total of 9 are expected to see positive job changes over the forecast time horizon with the two exceptions being the Construction and Government sectors.
 - The sectors showing the strongest potential for job increases are the Education & Health Services (at 2.7% per year over the 2009-2014 period), Professional & Business Services (at 2.6% per year over the 2009-2014 period), and Leisure and Hospitality sectors (at 2.2% per year over the 2009-2014 period), the three categories with annual rates of job change that exceed 2.0% per year.
 - The weakest sectors include the Construction and Government sectors which are expected to post an average annual rate of payroll job change of 0.6% and 0.2% per year, respectively.
 - Of particular note is the fact that the Manufacturing sector is expected to climb into the positive category over the 2009-2014 period—albeit at an annual average rate of increase that is still less than 1.0% per year.
- The updated May 2010 NEEP forecast estimates the total “peak to trough” decline in payroll jobs will be 13,800, below the 17,900 payroll job decline forecasted last November, and well below the job losses experienced for the nation as a whole in percent terms.
 - If this performance survives revision, Vermont will have reached its labor market “bottom” and begun its recovery before the U.S. economy overall—meaning the state went into recession earlier and emerged from downturn earlier than the U.S. economy in contrast to past recessions.
 - Although the Vermont recessionary job loss “peak-to-bottom” was less severe, this forecast expects that the state’s job recovery will trail the New England and U.S. averages through the initial years of the forecast period—or during calendar years 2010-2011.
 - For the out-years of the forecast (or for calendar years 2012-2014), the pace of job recovery, and then growth, is expected to be slightly stronger than the New England average, but slower relative to the U.S. average overall.
- The Vermont unemployment rate appears to have peaked in the second quarter of calendar year 2009 at 7.2%, at a level last experienced in May of 1991.
 - Although lower than the 8.2% forecasted peak unemployment rate from the November 2009 NEEP Outlook, that 7.2% peak rate of unemployment still remains 3.5 percentage points higher than the cyclical low experienced before the Vermont labor market began to deteriorate.
 - Despite the relatively slower pace of the jobs recovery expected in Vermont, the state’s unemployment rate overall is expected to remain among the lowest in the New England region throughout the calendar year 2010-2014 forecast period.

- Although the housing market nationally, regionally, and in Vermont appears to have stabilized, a full recovery in housing markets remain a long way out into the future and represents one of the forecast's most significant risks.
 - Price declines in Vermont and in most regions are expected to continue, and the withdrawal of federal support for the housing market during 2010 represents a critical period for markets and it remains unclear if housing has the private sector impetus to continue its recovery on its own.
 - In the near-term, it is expected that additional foreclosures and a substantial inventory of unsold units will continue to put downward pressure on house prices through calendar year 2012.

- Despite the improving tone to this May 2010 NEEP forecast update, the unfolding recovery still faces formidable obstacles and headwinds—as the recent events unfolding around the fiscal austerity measures for Greece, mounting debt problems in the European Union, and the BP oil spill in the Gulf of Mexico attest.
 - Weakness in both residential and commercial construction, the poor fiscal condition of the state and local governments, and energy prices all pose continuing and serious recovery drags or obstacles.
 - In addition, no one is sure—especially since there is no modern historical precedent for—how smoothly the private sector will step up to take the economic recovery baton forward as the unprecedented level of monetary and fiscal support for the economy is progressively withdrawn.

The Current U.S. Situation—Climbing out of the Hole...But It Will Be a Long Hard Slog to Expansion

a. Summary: Most key macroeconomic measures indicate the U.S. economy reached a bottom during the August/September of calendar year 2009. Gross Domestic Product, the broadest measure of economic activity, has returned three quarters of positive change since the second quarter of calendar 2009. Despite persistently high unemployment, job losses abated during the fall of calendar 2009, and appear to have reached a turning point in the spring of calendar 2010. Housing markets have stabilized, even if only due to significant federal government support, and prices, housing starts and sales have flattened out and even shown some positive movement.

Despite the encouraging signs that the economy has indeed turned a corner, it is likely to be a relatively slow and insecure recovery with several potential obstacles still standing in the way of a broad-based recovery. These include:

(1) Confidence: The decline in economic activity during the “Great Recession” was severe, making for a deep “hole” from which to emerge. While a technical recovery is underway, significant improvements will be needed for households and businesses to regain the confidence necessary for recovery and expansion to become self-sustaining.

(2) Labor Market Conditions: The U.S. unemployment remains persistently high and is expected to peak at 10.3% in the first quarter of calendar 2011. Job gains should be aided by temporary census hiring in the summer of calendar 2010, but will be hampered by a number of households where workers will exhaust their unemployment benefits. Also, many discouraged workers will

need to return to the labor force and will be in for a challenging job search and contribute to a rising unemployment rate.

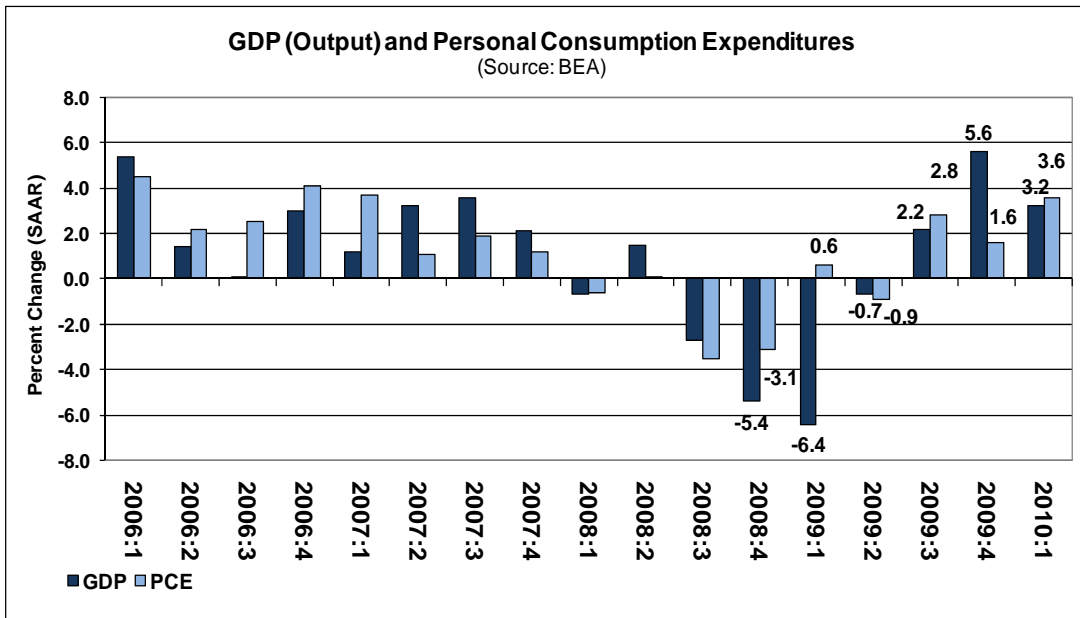
(3) The Poor Fiscal Condition of Many State and Local Governments: Many state and local budgets are currently contending with large, structural imbalances between expenditures and revenues. Pressures to balance state and local budgets are causing reductions in jobs and construction spending despite being tempered somewhat by federal support. These budget balancing measures have been and will continue to exert a drag on the still fragile economic turnaround. Although another round of fiscal relief from the federal level may in fact be forthcoming, the need for additional expenditure reductions and/or significant tax and fee increases over the next several years will act to restrain the economy's recovery-expansion process throughout the forecast period.

(4) On-Going Foreclosure Pressures: Additional foreclosures are likely in the pipeline as Option ARMs originated in 2006 to 2008 undergo rate resets over calendar years 2010 and 2011. Foreclosures could be reduced by successful federal government efforts to encourage lenders to alter loan terms of troubled borrowers, but effective policy in this area is in no way assured.

(5) A Struggling Commercial Real Estate Sector: The value of commercial real estate assets has declined significantly during the downturn and vacancies remain at a problematic and elevated level. If business conditions do not improve soon, defaults on commercial real estate loans could put additional pressure on smaller, regional banks that serve as the primary source of financing for small businesses.

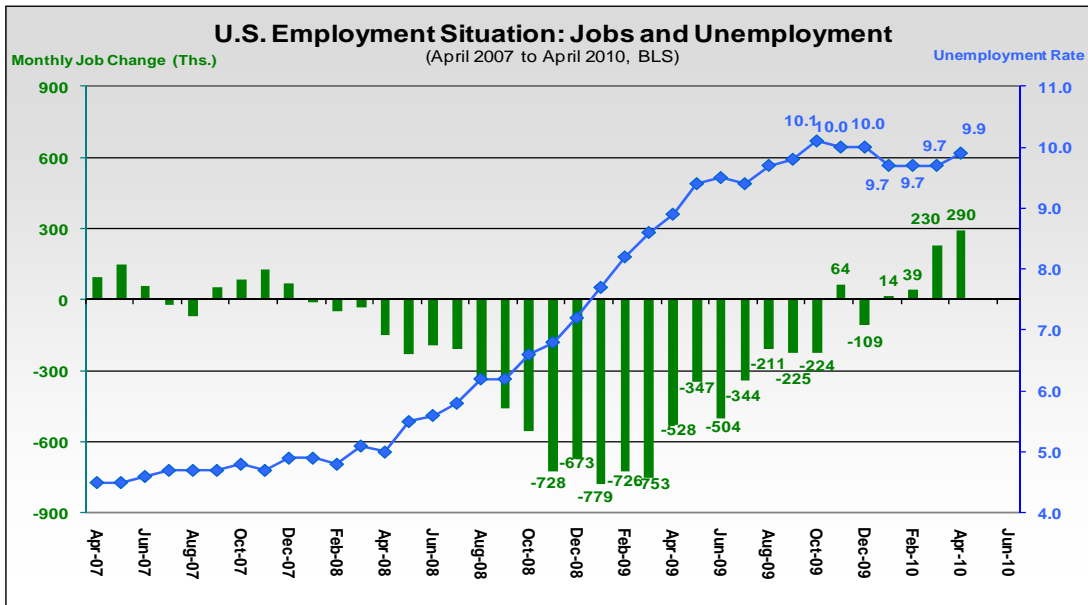
(6) Persistently High Oil Prices: Now stubbornly north of \$75 per barrel, oil prices threaten to siphon off spending power from other areas of the economy. Persistently high oil prices would exert a large drag on what is expected to develop into a self-sustaining recovery by calendar year 2012.

b. Gross Domestic Product Has Turned the Corner: Gross Domestic Product, the broadest measure of economic output, has shown three consecutive quarters of positive change, certainly a welcomed development and a clear sign that a recovery is underway. While the strong overall reading for the fourth quarter of calendar 2009 was primarily a result of businesses replenishing inventories that had been severely drawn down during the recession, the estimate for the first quarter of calendar 2010 was a more broad based indication of economic activity picking up. The rebuilding of inventories continued in the first quarter, but Personal Consumption expenditures expanded substantially and made the largest contribution to the overall change. Other private investment, in addition to inventories, has begun to solidify. While residential investment (which means housing in the GDP report) continued to show weakness in the first quarter of calendar 2010, business investment in software and equipment increased for the third consecutive month and reflects businesses beginning to perceive an improved economic climate. The chart below shows changes in overall GDP and the key component Personal Consumption Expenditures, which accounts for roughly 70% of all economic activity.

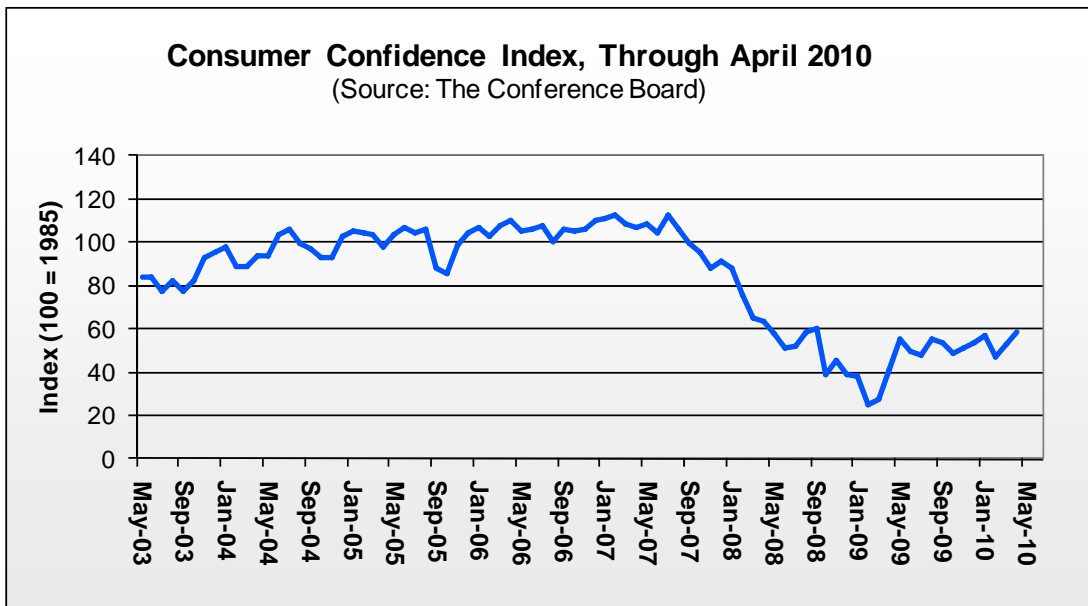


c. An Especially Troubled Labor Market: The Employment Situation report covering the month of April showed a second month of a meaningful net increase in payroll jobs in the U.S., with 290,000 jobs added. The March net increase was also revised up from 162,000 to 230,000 jobs. The April increase was again helped by federal government hiring of temporary Census workers, accounting for more than 60,000 of the net increase. The private sector added the most number of jobs in one month since March of 2006 at 231,000 jobs in April. Despite the payroll job increases (measured by an establishment-based survey), there was an increase in the national unemployment rate (measured by a household-based survey), from 9.7% in March to 9.9% in April. The increase in the unemployment rate was driven by a large increase in labor force as discouraged workers are likely returning to look for work. So far, this is consistent with the expectation that, even with the addition of payroll jobs in the near term, the U.S. unemployment rate should move higher before peaking at the end of calendar 2010 or the beginning of calendar 2011.

Still, the economy seems poised to add jobs over the second half of the calendar year 2010 as virtually all forward looking labor market indicators continue on a positive trend, including total weekly hours, manufacturing overtime hours, help wanted advertisements, temporary workers, and a key production index maintained by the Federal Reserve. As demand for goods and services increases, employers need to boost production and tend to increase hours and bring on temp workers before adding permanent employees. This translates into productivity gains (more output per worker), but eventually employers need to expand payrolls to keep up with demand.



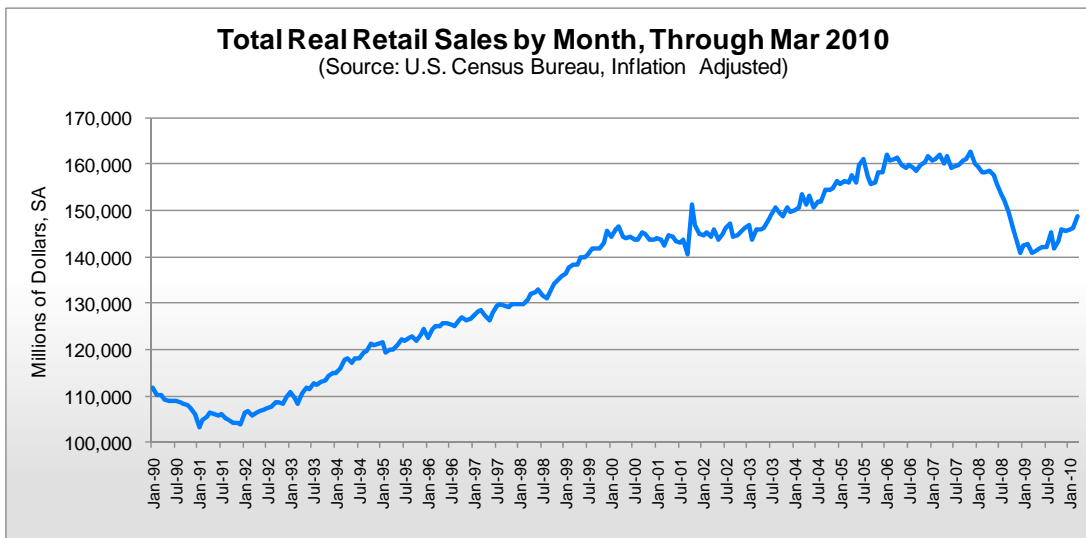
d. Confidence and Consumption are headed in the right direction, but are still “fragile.” Consumer sentiment, as seen in the chart below, is an important factor in consumption decisions. So far in this recovery, confidence has been fragile and has been unable to break out of the plateau around which it has fluctuated for the past year. While Confidence is up from the record lows experienced back in March 2009, American consumers still appear unconvinced that the economy has turned the corner towards a genuine and sustainable recovery.³



Turning to retail spending however, American consumers appear to be moving forward and loosening up their wallets and purses despite some concerns about the future. The second chart below shows retail sales (adjusted for inflation) have picked up significantly climbing by 5.7%

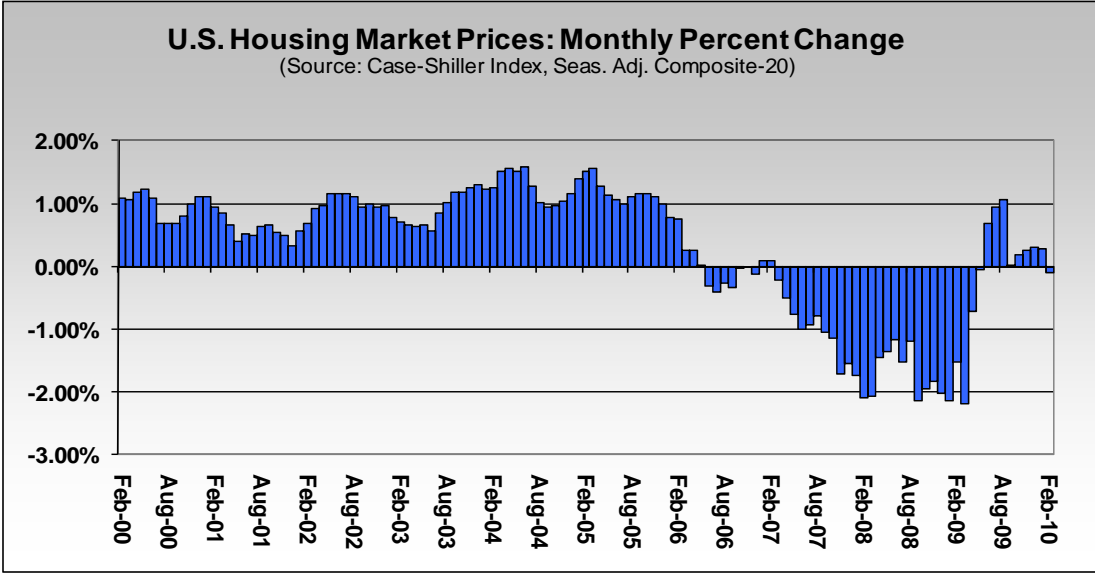
³ The stock market hiccups in early May represent an all too vivid reminder of the fact that the economic recovery is in no way “out of the woods.”

since bottoming out in December 2008. Even with that recovery, consumption spending remains more than 5% below its pre-“Great Recession” level. Sustained improvement in consumption spending will be needed if the current still fragile recovery is to evolve into a sustained recovery-expansion.

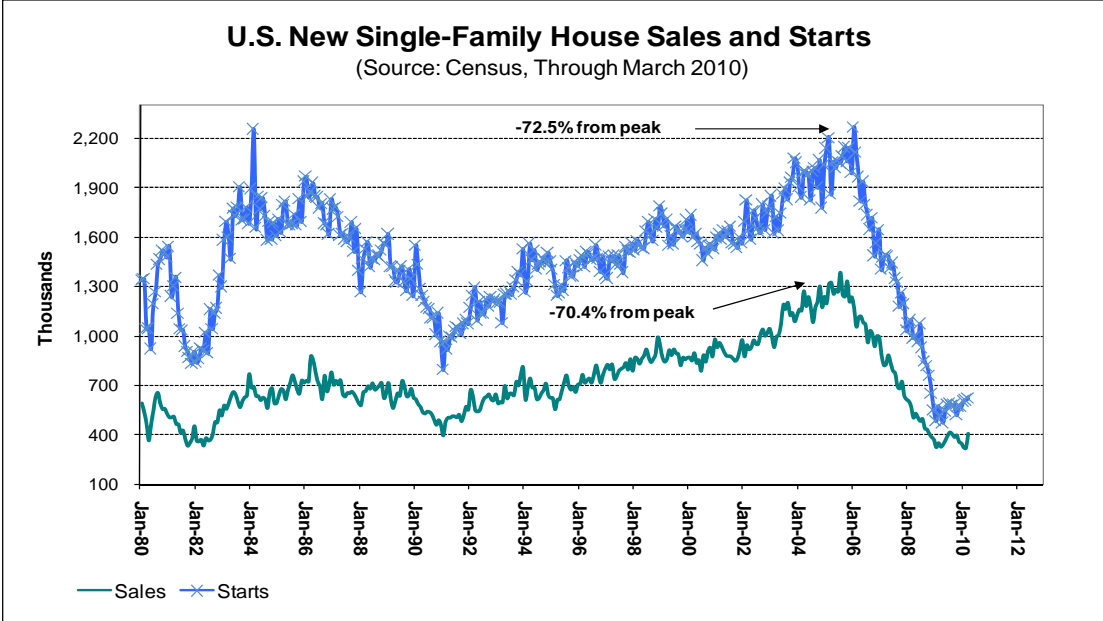


e. Housing Markets: The seasonally-adjusted Case-Shiller Housing Price Index has shown some positive movement on the home price front in eight of the last nine months. February’s 0.7% decline over the month was the first break in the index’s consecutive month increase trend, riding the coattails of the home buyer’s tax credit and the massive \$1.25 trillion mortgage-backed security purchase program executed by the Federal Reserve. These two initiatives had the effect of keeping mortgage rates low, which has been a key to encouraging buyers to get into the market.

With the expiration of the homebuyer’s credit, the housing sector is approaching a critical period in its recovery. Conditions in the market appear to be set for a weak second half of calendar year 2010. These conditions include: (1) only a slowly improving labor market, (2) the continuation of tight credit conditions, (3) a still significant amount of excess housing units in the unsold inventory, (4) and the potential for even more foreclosures (which push prices down further and add even more to unsold house inventory) now that these programs have been wound down. Many analysts believe that some form of federal support to “prop up” the market will continue to be necessary. This could come in some form through Freddie Mac, Fannie Mae, and the Federal Housing Administration, which together already account for more than 90% of securitized mortgage loans. Without this strong federal government support additional price declines in the second half of the calendar year seem almost a certainty, and remain as a significant risk to the still fledgling and atypical U.S. economic recovery.



The continued fragility of the housing market is also evident in the chart below, which highlights a leveling out of sales and starts of new houses since the second half of calendar 2009. Market activity remains at a stunningly low level versus pre-recession levels with starts at 72.5% below their early-2006 peak, and sales 70.4% below the late-2005 peak. These measures of market activity, particularly housing starts, have direct implications for employment in the construction sector, which before the current downturn provided well-paid employment opportunities for many workers (and many without advanced education). Before these job opportunities begin to reappear, more activity in housing starts and sales will be needed. In April, Construction sector added jobs for the second straight month with a gain of 14,000 jobs. While this was a welcomed development, it pales in comparison to the 2.1 million Construction jobs lost since the “Great Recession” began. Clearly, with such steep declines in housing activity, even dramatic improvements in the near term would not correspond to sales and starts levels close to those of the 2006 peaks.



f. Near-Term Recovery Prospects: Most analysts are in agreement that the U.S. economy reached a bottom in late summer of calendar 2009. Despite significant political criticism of Federal fiscal and monetary policy efforts to stimulate the economy, the negative impacts of the recession likely would have been deeper and lasted longer than without those actions. As the recovery takes hold, virtually all indicators are pointing to increased production, which should eventually lead to expanding payrolls, increased income for workers, and a return to the labor force of many discouraged workers. As the question now turns to when and how the federal government will begin to withdraw from the economy, there is likely to be little pressure to do so anytime soon. The obstacles outlined above represent downside risks to the U.S. recovery and due to these risks continued federal government support to the economy in some form may be needed to ensure that another dip into recession is averted. Significant existing slack in the economy and weak price pressures will enable, and perhaps require, the federal government to maintain a stimulatory stance, such as low interest rates, for at least the rest of calendar 2010 and perhaps into the next calendar year of the forecast.

The Vermont Situation

a. Current Conditions: The Vermont economy, like other states in the New England region, appears to have reached a bottom during the second half of calendar year 2009. Labor markets bottomed, and output data suggest gross state product took a turn for the better as well. If true and the data survive revisions, a turning point during the second half of last calendar year would mean that the Vermont economy—which entered the recession earlier than the U.S. average and many of her New England state counterparts—will have done no worse than emerging from the Great recession in sync or perhaps even somewhat earlier than the U.S. or the New England region.

Looking more closely at major indicators for the state, the impact of the recession in Vermont has been most evident in the labor market. The bottom in nonfarm employment was reached in September 2009 with a job loss from peak of 4.8%. So far during this recession, Vermont's job losses have been high, but have not yet reached the just-over-6% decline in non-farm payroll jobs that occurred during the 1990-1991 recession. Barring a significant double-dip in jobs, losses will not be as severe as in the 1990-1992 recession. Currently, nonfarm payroll jobs are 3.9% below the peak, on a quarterly average basis using updated actual data for the first quarter of calendar 2010. Job losses in Vermont slowed in the summer and month-to-month changes turned positive in the fall. Job losses in the Construction and Manufacturing sectors have been particularly severe, as second home construction all but ground to a halt in the state, and already difficult challenges faced by Vermont manufacturers were exacerbated by the "Great Recession."

In terms of the year-over-year change in payroll jobs through the month of March 2010, the state ranks near the top of the U.S. and the New England states. In total payroll jobs, Vermont is down 0.9% from one year ago, and ranks second out of the six New England states. The state ranks second in the region in Private Sector year-over-year job change, with a decline of 1.2%. Both New Hampshire and Vermont are ranked in the top ten for both Total Nonfarm jobs and Total Private Jobs, and Maine rounds out the top three performers in year-over-year terms. The relative position of Vermont reflects the fact that the state started to lose jobs earlier than many other states and likely reached a bottom earlier. Therefore, in year-over-year terms, the comparison is versus a time period in which Vermont was further along in the cycle, resulting in a "less negative" year-over-year change through March.

Rank	State	% Change
1	Alaska	1.4%
2	North Dakota	0.6%
3	New Hampshire	0.0%
4	Montana	-0.5%
5	South Carolina	-0.8%
6	Vermont	-0.9%
12	Maine	-1.2%
14	New York	-1.3%
17	Pennsylvania	-1.4%
22	Massachusetts	-1.6%
25	New Jersey	-1.6%
28	Connecticut	-1.9%
38	Michigan	-2.5%
39	Rhode Island	-2.6%
46	Colorado	-3.1%
47	California	-3.1%
48	Arizona	-3.2%
49	Wyoming	-3.6%
50	Nevada	-4.3%

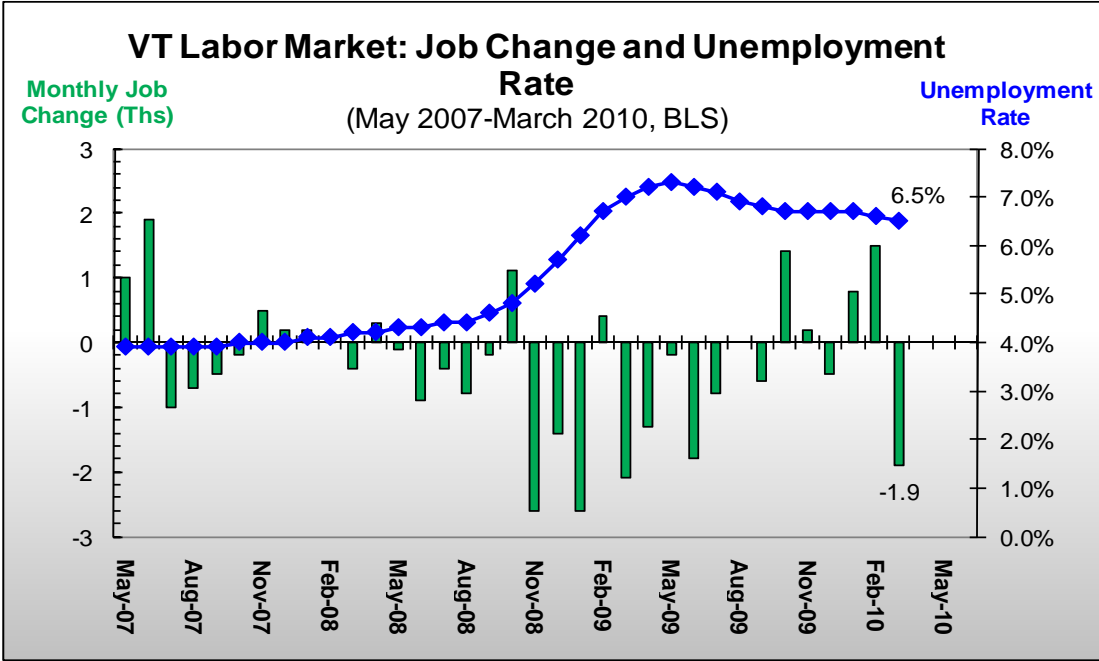
Source: U.S. Department of Labor, BLS

Rank	State	% Change
1	Alaska	0.7%
2	North Dakota	0.1%
3	New Hampshire	-0.4%
4	Vermont	-1.2%
5	Maryland	-1.2%
7	New York	-1.2%
13	Maine	-1.6%
15	Pennsylvania	-1.7%
16	Connecticut	-1.8%
19	Massachusetts	-1.9%
23	New Jersey	-2.0%
32	Michigan	-2.7%
36	Florida	-2.8%
37	Rhode Island	-2.8%
46	Wisconsin	-3.5%
47	Kansas	-3.5%
48	Colorado	-4.0%
49	Nevada	-4.5%
50	Wyoming	-5.3%

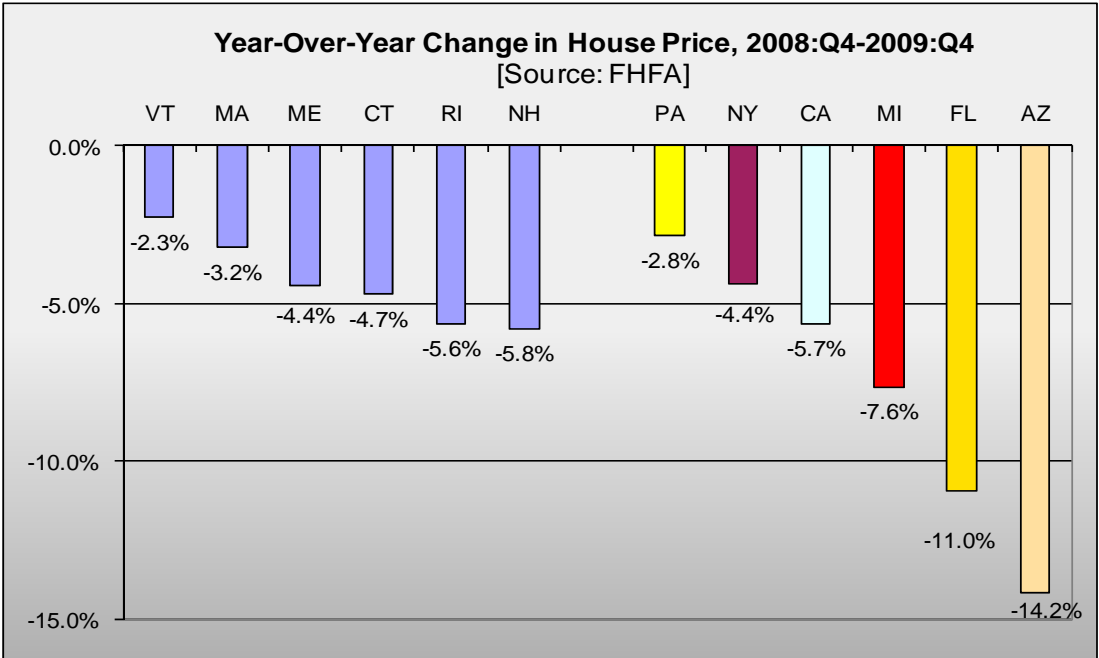
Source: U.S. Department of Labor, BLS

The unemployment rate in Vermont, adjusted for seasonality, increased from 4.5% in May of 2008 to 7.3% in May of 2009, and has declined since then. The official rate sits at 6.5% as of March. This is currently the lowest unemployment rate in New England and one of the lowest in the country. Vermont's unemployment rate has historically maintained a level below that of the U.S. overall and most of the other New England states, and this held true throughout the recession.

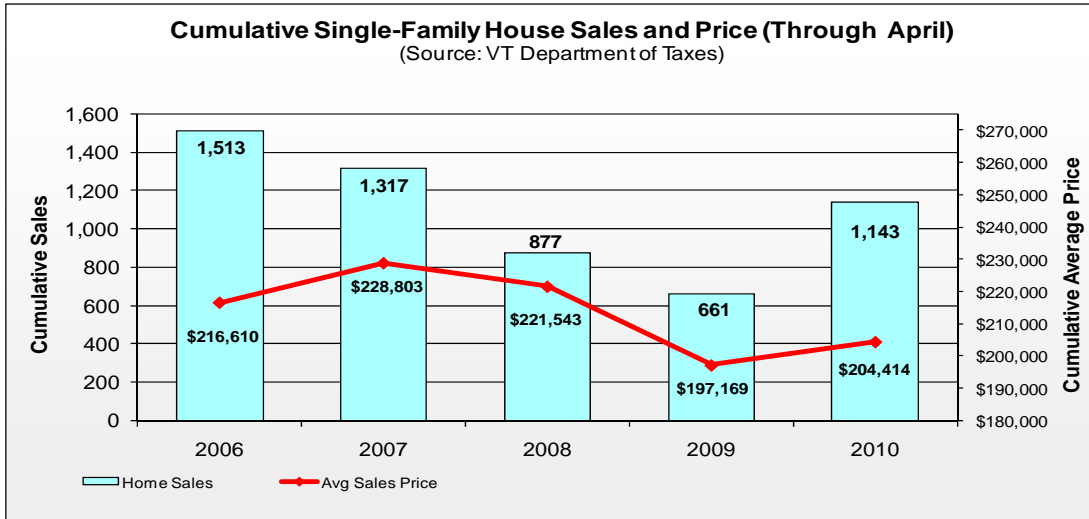
Over the course of the recession, Vermont's unemployment rate has been impacted by changes in employment levels, but also by labor force dynamics, as some job seekers likely became discouraged and left the work force. As overall conditions in the labor market have improved, relatively large increases in labor force have been observed since January of calendar 2010, signaling some "discouraged Vermont workers" appear to be returning to the work force. This labor force growth has been accompanied by employment growth as well over this time period, and this has resulted in the unemployment rate trending down. However, as discouraged workers return to the labor force they are likely to find a challenging job search environment, as job growth is expected to be relatively slow. These labor force dynamics are expected to move the state's unemployment rate slightly higher before a resumption of the current downward trend. It should be noted that Vermont data have been affected by small sample size and significant revisions have occurred in the past. Therefore, while these officially published unemployment data are taken at face value, we recognize that this analysis may be changed by data revisions that could be material.



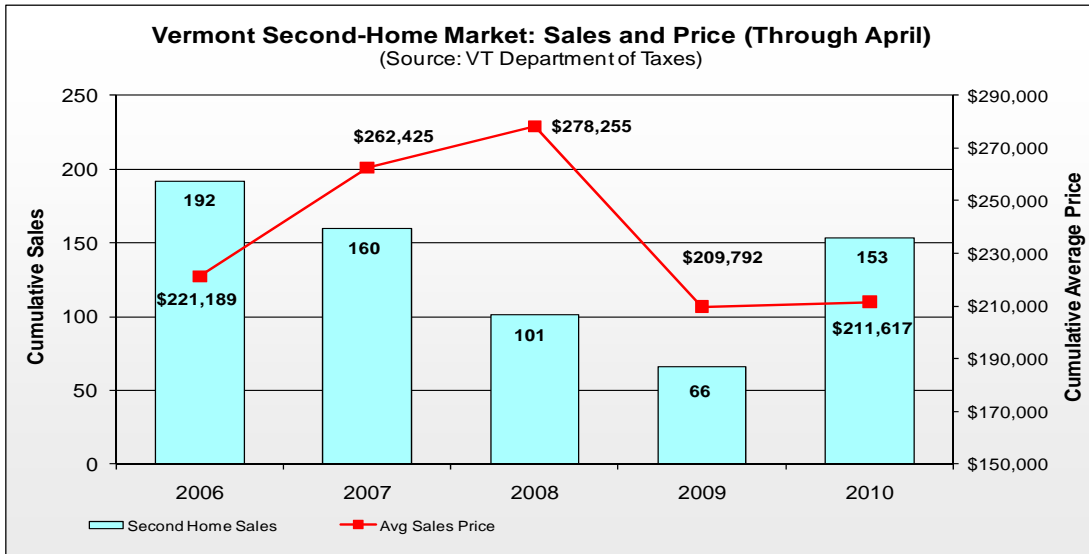
b. Vermont's Housing Market: Housing prices in Vermont have held up relatively well compared to many other states in the country. Using FHFA data on a year-over-year basis, California, Florida, Michigan and Arizona have experienced house price declines in excess of 5%, with Arizona having the largest decline at 14.2%. Vermont has the smallest decline at 2.3%, while New Hampshire has seen declines of 5.8%. New England as a whole has been somewhat insulated from the large price declines seen elsewhere, particularly in the southwest region state of California, Arizona, Nevada, as well as Florida.



Looking at housing price data from the Vermont Department of Taxes' Property Transfer Tax statistics,⁴ the year-to-date through April data show that cumulative average house prices have declined 10.7% from 2007's cumulative average (as the peak year in this data series), but has increased 3.7% over last year's cumulative average sales price. Sales volume also has increased significantly, and is currently are at a level nearing 2007's sales volume levels. The increase in volume represents a significant turnaround in market activity—even if it was the result of the temporary federal incentives.



The vacation home market, an important component to Vermont's economy, has similarly seen large declines in sales and prices, but has also recently rebounded from the previous year's lows. The April 2010 sales level for second homes was equal to sales levels last reached in July 2009. The second home market has been negatively impacted by the financial market meltdown—and particularly in the Boston and New York financial sectors. From a Vermont perspective, high income households in those metro areas represent a key market for second homes in the state.



⁴ This data source is analogous to the National Association of Realtors house sales-price tracking concept.

c. The Bottom Line on the U.S. and Vermont Economies: The U.S. and Vermont economies likely reached a bottom in the fall of calendar year 2009, and have begun the transition to recovery as of the spring of calendar year 2010. Most key indicators show measurable and positive changes—including initial gains in output, housing prices and sales, and construction activity. Labor market improvements have been slow to materialize both in Vermont and at the U.S. level. However, it does appear that the jobs recovery began in the Vermont economy at least one to two quarters before the U.S.—even if only about 1,000 Payroll jobs have been added in Vermont since the state’s labor market turning point. The Vermont unemployment rate remains the lowest in New England and one of the lowest in the nation. More substantial labor market improvements in Vermont, as usual, are expected to lag the other macroeconomic variables in the state, with unemployment rates remaining at elevated levels until calendar 2012.

Despite the encouraging signs that the economy has indeed turned a corner and the process of recovery has begun, the recovery is likely to be a relatively slow and insecure one. This is because the recovery faces an unusually long list of headwinds, if not outright obstacles, to its slow and still fragile progression. Among the more prominent risks-obstacles are: the still uncertain housing market, the fragile but improvements in labor markets, and the daunting fiscal challenges on the state and local government levels. There also has been little evidence of increased lending to small businesses, a critical ingredient for the current turnaround to develop into a sustainable upturn (see the Conference Theme section below). In addition, the recent, sustained rise in energy prices also poses a serious risk to the recovery, and no one is really quite sure how the withdrawal of the unprecedented level of fiscal and monetary stimulus will work out. Add to that, concern about high levels of public debt and the mounting fiscal problems in Greece and other vulnerable countries in the European Union, and the U.S., N.E., and Vermont recoveries still clearly remain “at risk.” This formidable list of headwinds and obstacles to the recovery indicates that emerging economic recovery is in no way “out-of-the-woods.” A “double-dip recession” or a return to a second significant period of economic decline cannot be entirely ruled out.

Overview of the Moody’s Economy.com National Economic Outlook: A Slight Upgrade

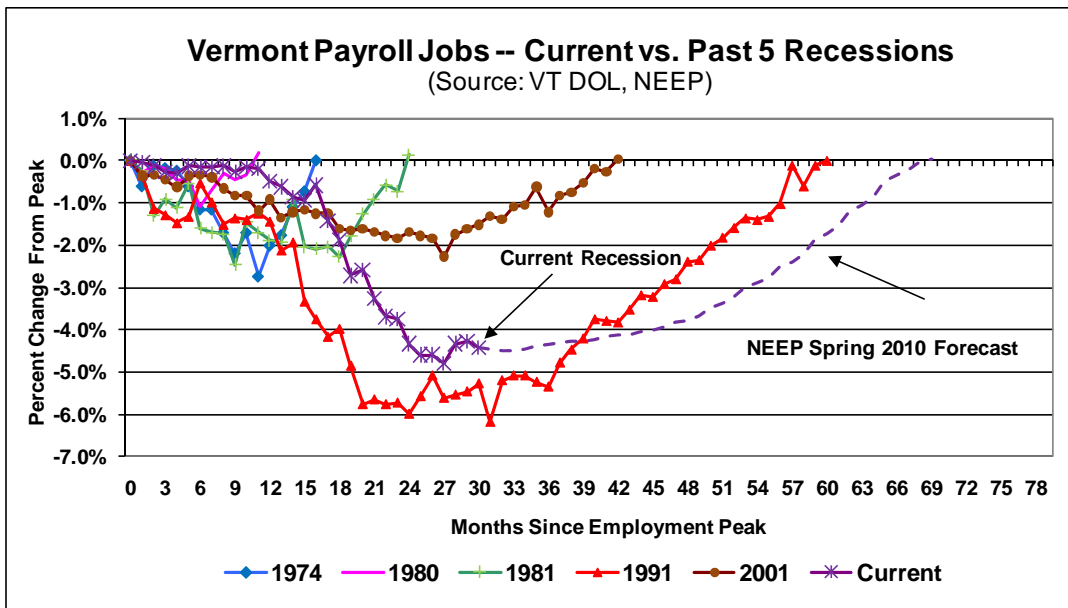
The May 2010 Vermont NEEP forecast update is based on the Moody’s Economy.com U.S. control forecast and represents a slight upgrade from the fall 2009 for many key macro variables. The Moody’s Economy.com U.S. control forecast includes an uneven path for U.S. GDP recovery-expansion, including a positive 2.8% change in calendar 2010, followed by a 3.5% or more annual rate of increase per year from 2011 to 2013. For 2014, the Moody’s Economy.com GDP forecast is for a 2.6% gain. The nonfarm payroll job employment forecast expects some additional job losses for 2010 overall, with recovery to pre-recession jobs levels by the beginning of 2013. The U.S. unemployment rate is expected to move higher before lower, peaking at 10.1% for 2010 overall, and slowly decreasing to 5.8% by 2014, a figure closer to the long term natural rate of unemployment – meaning unemployment is expected to remain elevated for the next three calendar years. Overall, comparing 2009 actuals versus the fall 2009 NEEP forecast, the labor market appears to have fared slightly worse than expected, with higher unemployment and more jobs lost. However, Real Personal Income and Gross Domestic Product did not decline to the extent expected in the fall 2009 NEEP forecast.

The Vermont Forecast Detail

a. Overview: Because the U.S. economy is perhaps the largest factor driving the Vermont economy, this Vermont forecast update generally tracks the pace and profile of the U.S. economic forecast. Payroll jobs in Vermont appear to have bottomed in the fall of calendar 2009 and have slowly increased since then. The total peak-to-trough decline in jobs, if there is no “double dip

recession” in labor markets, amounts to more than 13,000 lost payroll jobs over 8 quarters. That level of job decline was not as long or severe of a decline as was expected in the fall 2009 NEEP forecast, which called for 17,900 jobs lost over 11 consecutive quarters. With a turning point in the job market likely reached, the jobs recovery is expected to take roughly 14 quarters from the trough (second quarter of calendar 2009), until pre-recession employment levels will be reached (see the chart below). Vermont also appears to have reached a bottom in real output, or Gross State Product (GSP), during the first half of calendar 2009, and is estimated to have seen positive changes in GSP since then. On an annual basis, the Vermont forecast expects a 3.5% increase in output in calendar 2010, and an increasing rate of expansion to 4.0% in 2011, 5.1% in 2012, 3.2% in calendar 2013, before returning to 2.4% in 2014, a rate of growth closer to historical averages. Real Personal Income in Vermont appears to have bottomed in the first half of calendar 2009, but has remained relatively flat, with both positive and negative changes since then. Negative changes in Real Personal Income are expected to continue until the second quarter of calendar 2010, before returning to consistent positive changes.

The chart below compares the decline from the peak in non-farm payroll jobs during the “Great Recession” versus the job loss-recovery record of the previous 5 recessions in percentage terms. Note the downturns of 1991 and 2001, which have been characterized as “Jobless Recoveries.” It took 60 months in 1991 and 42 months in 2001 for the labor market recovery from those recessions to reach their respective pre-recession employment levels (e.g. the point of full recovery). Recessions prior to 1991 were followed by much shorter periods of recovery. While this downturn has not resulted in job declines as harsh as the 1990-1992 downturn, the updated May 2010 NEEP forecast calls for previous employment levels to be reached in the first quarter of calendar year 2013, a full 23 quarters or 69 months after peak levels of the second quarter of calendar 2007.



If this forecast holds, Vermont’s overall performance will track consistently with the U.S. and the New England region as a whole, with some variables experiencing stronger rates of change in some years and others lagging behind the nation and regional averages. Output in Vermont will increase at a rate consistent with the New England region over the forecast period, but faster than the U.S. overall in 2010 and 2011, on par with U.S. growth in calendar 2012, and slightly below the nation in 2013 and 2014. Real Personal Income in Vermont is expected to increase at a rate slower than

that of the New England region and the nation throughout the forecast period. Improvements in the labor market are expected to come similarly to that of the region overall in terms of job growth, with the Vermont unemployment rate remaining well below the regional rate. However, job growth in Vermont and the region are both expected to lag behind the U.S. overall over the entire forecast period, even though Vermont's unemployment rate will remain below the national unemployment rate throughout the forecast.

On the sector-by-sector front, among the sectors contributing to Vermont's economic and labor market turnaround include: the Education & Health Services sector (at 2.7% per year over the 2009-14 period), Professional & Business Services sector (at 2.6% per year over the 2009-2014 period) and the Leisure and Hospitality Sector (at 2.2% per year over the 2009-14 period). These sectors are the categories that are expected to increase at a rate greater than 2.0% per annum. Also among the job gainers over the 2009-2014 period is the Manufacturing sector at 0.9% per year—thanks in part to stronger export growth in response to a strongly growing global economy and the decline in the value of the U.S. dollar. Overall, 9 of the 11 of the state's major NAICS categories are expected to recover and add jobs over the 2009-2014 forecast period with only the Construction and government sectors losing jobs on an average annual basis over the calendar year 2009-2014 period. Although the Construction sector is expected to lose jobs over the 2009-2014 period on an average annual basis, the 0.6% per year decline is about 1/8th of the 4.1% per year decline this category experienced over the 2004-2009 time frame. If realized, that performance would represent a significant improvement from the four-year nose dive in jobs in this category as the housing market imploded.

Key among services-producing employers in the state is the website developer Dealer.com. Dealer-com recently released a plan to double its work force and expand the company's operations, which should mean roughly another 100 jobs in the greater Burlington area. The company has planned the growth over a three year period and had considered moving the bulk of the operations to California, but was convinced to stay in Vermont by an authorization of \$3.5 million in incentives by the Vermont Economic Progress Council.

Within manufacturing, several notable businesses are reportedly doing well and some even expanding. Green Mountain Coffee Roasters, Inc. currently employs more than 1,000 people and its growth should probably mean that it is now a former small business. The company, needing more space, plans to expand operations from its central Vermont location in Waterbury to Williston, closer to the only major metro area of Burlington. Elsewhere in the factory sector, Resolution Inc, an eyewear manufacturer located in Williston, has won recent military contracts ensuring continued operations and job retention in the northwest region of the state.

Another major player in Vermont's manufacturing sector is IBM. IBM is the largest employer in the state with roughly 5,000 employees, and any changes at the Essex Junction facility can have significant economic impacts. IBM, after having several rounds of layoffs during the winter of 2009, has begun to hire again and is looking to fill 100 positions, 75 production-operator positions and 25 manufacturing-technician positions, in the immediate future. The company reported an increase of 13% in earnings for the first three months of 2010 when compared to the same level of earnings during the first three months of 2009. This is certainly a welcomed development given the manufacturing sector's on-going difficulties, which also has been exacerbated by the downturn. Indeed, the fact that there is any forward momentum in the state's factory sector at all is one of the more encouraging developments in this spring 2010 NEEP forecast update.

Turning to housing, recovery in the Vermont housing market is expected to be gradual, but should begin by the first quarter of calendar 2011, two quarters before New England region and a full year

before the U.S. overall, when house prices will start to show consistent positive changes. The forecasts also calls for Vermont to experience significantly less severe housing price declines relative to the other five New England states and relative to many other parts of the nation. This is primarily due to more prudent lending practices overall (which have led to much lower foreclosure rates and forced liquidation house sales—including their 25%-30% price discounts) and the comparatively lower level of speculative activity in the state during the housing market boom of the early- to mid-2000s.

b. The Second Worst Recession for Vermont since World War II: This May 2010 forecast upgrade means that the “Great Recession” will likely go down in history as the longest (tied), but only second most difficult downturn for the Vermont economy dating back to the 1930s. Table 4 below compares the peak-to-trough change in selected indicators between the recession of the early 1990s—or the most difficult recession in Vermont since the 1930s—and the current recession. The record for the “Great Recession” was equal to or worse in 5 of 10 macro indicators listed in the table relative to the early 1990s downturn—including the duration from Peak-to-Trough job losses, the decline in Single Family House Permits, job losses in Retail and Manufacturing sectors, and the decline in house prices. On the other side, the declines in Output, Real Personal Income, Total Jobs, Construction Jobs and the change in the Unemployment Rate all are expected to have fared somewhat better during the last downturn relative to the early 1990s recession. However, it should be noted that even the “better” performing variables experienced significant declines, including one in five factory jobs lost and one in four Construction jobs lost during the last recession.

Table 5: "Peak to Trough" Change in Selected Indicators: This Versus the Early 1990s Recession

Variable (Seasonally-Adjusted/Quarter-to-Quarter Basis)	Early 1990s Recession	This Recession	Better/ Worse
Length in Quarters--Peak to Trough Nonfarm Jobs	8	8	Same
Change in Gross State Product (\$2005 Bil.)	-\$0.81	-\$0.35	Better
Percent Change	-5.9%	-1.6%	
Change in Real Personal Income (\$Bil.)	-\$499.0	-\$232.3	Better
Percent Change	-5.4%	-4.3%	
Change in Nonfarm Payroll Jobs (Ths.)	-14.200	-13.365	Better
Percent Change	-5.4%	-4.3%	
Change in Construction Jobs (Ths.)	-8.420	-5.370	Better
Percent Change	-43.2%	-30.7%	
Change in Single Family Housing Permits	-2,710	-2,357	Worse
Percent Change	-65.5%	-80.3%	
Change in Retail Jobs (Ths.)	-2,730	-3,908	Worse
Percent Change	-7.8%	-9.6%	
Change in Manufacturing Jobs (Ths.)	-4,770	-6,640	Worse
Percent Change	-10.7%	-17.9%	
Change in FHFA Index [1980=100] Index Points	-4.09	-18.98	Worse
Percent Change	-1.9%	-4.1%	
"Cyclical High" in Statewide Unemployment Rate	6.6%	7.2%	Better
Change in Percentage Points	4.0	3.9 <i>[Higher Rate]</i>	

Source: May 2010 New England Economic Partnership Forecast

Conference Theme: The Role of Small Business in the Vermont Economy

a. Overview: Small businesses in Vermont, similar to the situation for the U.S. and New England region as a whole, are a key source of economic activity and growth. Small businesses provide many Vermonters and their families with their source of employment and income. Small businesses provide the many of the job opportunities in the state for several key industries such as agriculture, construction, wholesale and retail trade, real estate, professional and business services, and tourism related sectors. The importance of small business in Vermont is not particularly surprising considering Vermont is rural in nature and home to relatively few large companies. Indeed, Vermont is well known for its “mom and pop” type businesses that cater to visitors, a class of young entrepreneurs that make major contributions in the information and technology sector, and a number of small businesses in the professional and business services category.

Table 6 below shows employment by state by firm size category. The table shows that firms with less than 20 employees represents more than one third of all Vermont employment—a larger share than any other New England state. Note the table also shows that the more rural states of Vermont, Maine and New Hampshire in northern New England rank 1, 2, and 3 in the overall New England region in terms of the percentage of total state jobs found at businesses with less than 20 employees.

Table 6: Small Firm Employment as a Percent of Private Jobs

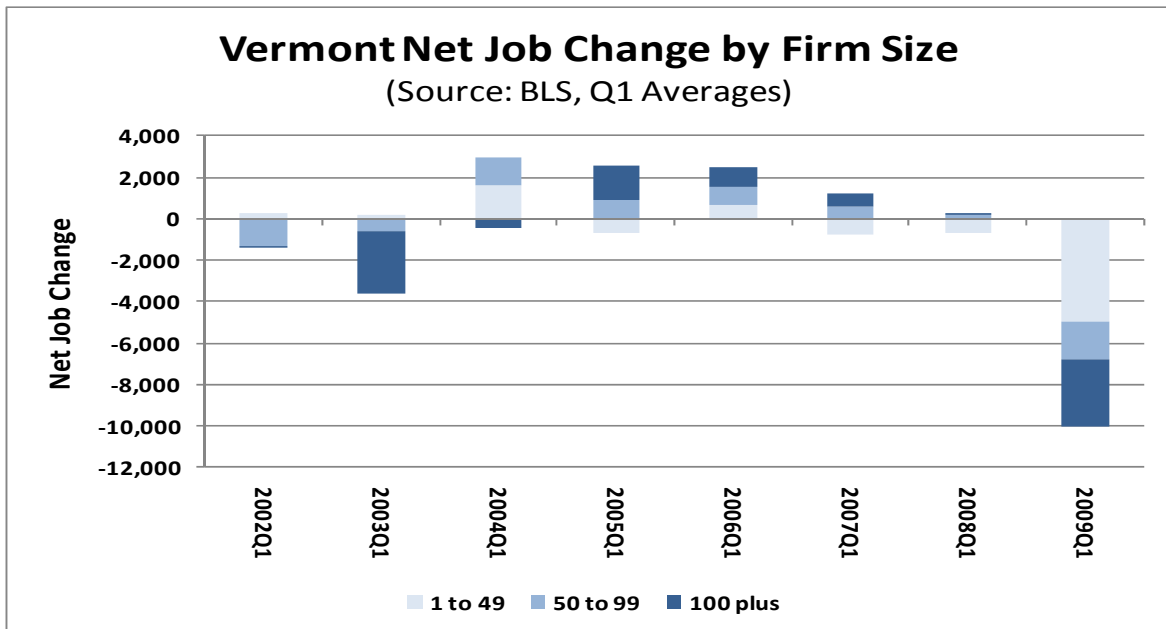
	Jobs in Firms < 20	Total Jobs	Percent of Total
VT	85,078	239,711	35.5%
ME	156,633	465,188	33.7%
NH	164,682	513,176	32.1%
RI	112,997	381,059	29.7%
CT	380,879	1,367,865	27.8%
MA	697,153	2,687,672	25.9%

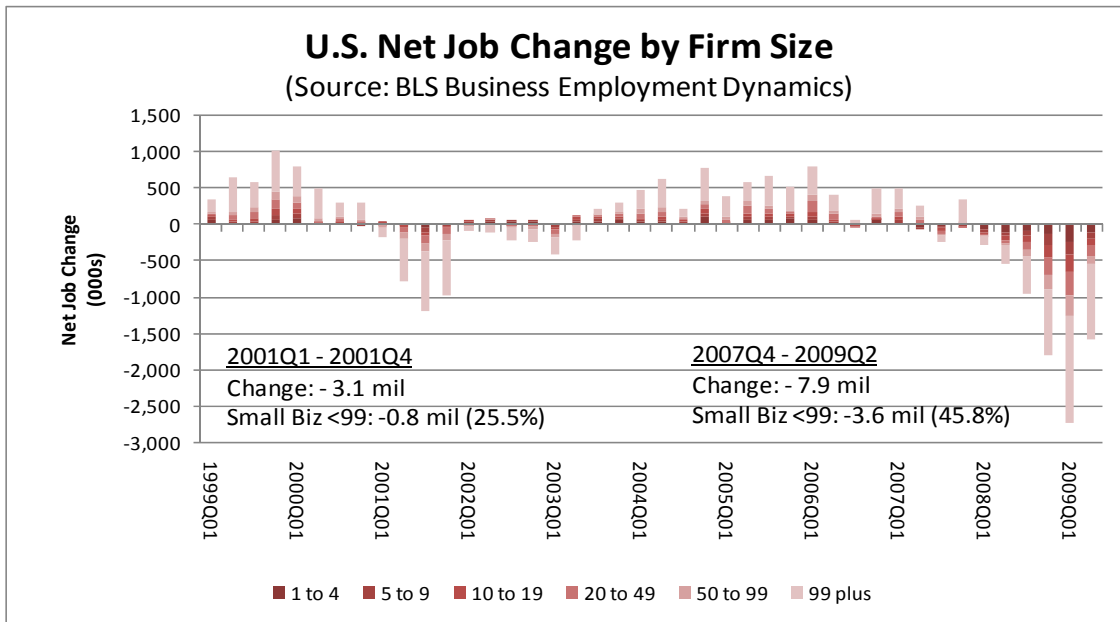
Source: U.S. BLS, 2009 First Quarter Average

As small firms in Vermont have navigated their way through the “Great Recession” some industries have fared better than others. The tourism and hospitality-related businesses appear to have fared relatively well as the industry was bolstered by increased regional tourism (e.g. the “Stay-cation” phenomenon?) and by significant numbers of Canadian visitors to Vermont. In the context of the “Great Recession” and volatile energy prices, some regional visitors (in the Boston, Montreal, and New York metro areas) likely chose to stay closer to home and visit a less expensive destination like Vermont, as opposed to other farther away and more expensive destinations. Canadians in particular continue to recreate and shop in Vermont, as they have enjoyed relatively low prices, lower sales taxes, and greater purchasing power with a relatively weak U.S. dollar. On the other hand, small firms and independent contractors in the construction industry have been severely negatively impacted as residential construction activity, particularly second home construction, has decreased significantly. Second home construction provided many Vermonters with employment during the construction boom of the early 2000s, and this source of employment all but dried up during the economic downturn except for some energy efficiency-conservation

activity. Although some early signs of improvement have been noted in the construction sector (e.g. building permits), construction activity remains at very low levels around the state.

Overall, small firms in Vermont have been faced with challenges similar to those at the national and New England regional levels: rising costs, difficulty obtaining credit (despite the best efforts of regulators and lenders), and most importantly, reduced demand for their goods and services. With these challenges, many small firms have been unable to maintain payroll levels and they have contributed to a significant degree in terms of the state’s job losses. The chart below shows the net job change in Vermont by firm size from 2002 to 2009. From 2007 to 2009, using first quarter averages, Vermont saw a 10,454 total job decline, of which 7,289 jobs or a 69.7% share of total job losses came in firms with less than 100 employees. While this share mirrors the U.S. in that the small business category was the category with the largest job declines, the small business share of Vermont’s job loss was significantly higher than the U.S. average (at 45.8% of the total). These results appear to indicate that the small business recession in Vermont was harsher than that on the U.S. level. This is intuitively logical given the leading and harsh role played by the small business-dominated Construction sector which was hit especially hard during the last downturn.





As the recovery takes shape, the business climate in the state appears to be improving and demand is starting to return—even if only slowly. Many small firms are still struggling to maintain adequate sales levels, and others who want to expand report they are having difficulty doing so because they have been unable to access affordable credit in an environment of increasingly tightening credit standards. Since much of the job recovery and subsequent expansion is likely to come from small businesses, the shape and pace of the recovery in Vermont will depend to a significant degree on how well these small businesses are able to get back on their feet and re-establish themselves as job generators.

Efforts in the state have been made to ensure credit is flowing to small firms, including an initiative by Vermont’s Senator Leahy that could be described as “credit fair.” The event was held in April and brought together more than 20 local lenders in the state and more than 100 businesses potentially seeking credit. The Vermont Economic Development Authority (VEDA), a source for low interest business loans, is also active and recently approved \$6.1 million for projects across the state, including: (1) the expansions of industrial parks in Brattleboro and St. Albans, (2) the expansion of the Vermont Wood Pellet Company in Clarendon, VT, (3) the retention and continued operation of a bed and breakfast in Cavendish, VT, (4) an expansion and land improvement project at the Sugarbush Resort, (5) \$1.7 million in financing directed toward Vermont farmers, and (6) more than \$0.5 million in loans directed specifically for small business activities. All of this comes on the heels of the significant expansion recently completed at the Jay Peak Resort in the state’s Northeast Kingdom made in conjunction with its effective utilization of the EB-5 Immigrant Investor Program.

One important part of the state’s small business infrastructure that continues to struggle is the state’s dairy farmers. For the past several years, the state’s dairy operations have been facing serious challenges brought on by low milk prices, relatively high feed prices, persistently high energy prices, and difficulty accessing credit. Last year in particular, many operations consumed significant portions of their balance sheets to make ends meet. This year, many operations are struggling find the resources to plant their crops. The number of dairy farms in the state has declined from more than 11,000 in 1950 and 2,000 in 1995, to roughly 1,100 commercial operations at present. The State’s Agriculture Secretary recently estimated that as many as 200

more dairy farms could go out of business by the end of 2010 if the significant problems faced by many operations are not addressed. The issue of Vermont's declining dairy farms, nearly all of which are small operations, is not a new one. However, their plight has been severely exacerbated by the impacts and residual effects of "Great Recession."

Among the state's small businesses, several notable businesses are reportedly doing well and some even expanding. Green Mountain Coffee Roasters, Inc. currently employs more than 1,000 people and the company, needing more space, plans to expand operations from its central Vermont location in Waterbury to Williston, closer to the only major metro area of Burlington. The website developer Dealer.com has released its plan to double the work force and expand the company's operations, which should mean roughly another 100 jobs in the Burlington area. The company has planned the growth over a three year period and had considered moving the bulk of the operations to California, but was convinced to stay in Vermont by an authorization of \$3.5 million in incentives by the Vermont Economic Progress Council. Resolution Inc, an eyewear manufacturer located in Williston, has won recent military contracts ensuring continued operations and job retention in the region.

b. Conclusions on Vermont Small Businesses: As in the New England region overall, but especially for the more rural states, small businesses play a critical role in Vermont's economy. Without significant numbers of large companies and major metropolitan areas, small businesses provide employment and income for many residents. However, small businesses usually do not have much product diversification which limits their ability to offset losses in one area of the business with gains in other areas. As demand dried up over the course of the recent economic downturn, small businesses in Vermont have been especially challenged to maintain sales levels and cover costs, let alone earn a sustaining level of return.

As labor costs represent a significant portion of total costs, reducing payroll levels can be the most effective option for employers to cut costs in the short term. Clearly, in Vermont job losses in small firms accounted for a substantial portion of total job losses. As the recovery takes shape, even if only at a snail's pace, demand for the goods and services of small businesses should pick up and encourage employers to add to payrolls. Expansion usually requires access to credit, which is still tight in Vermont—as it is elsewhere. Under the pressure of regulators in the aftermath of the financial system meltdown, lenders are reportedly requiring more documentation and more equity in the business. This has not always been the case for small business lending, and can be especially difficult for small enterprises to develop on their own. If small businesses are to play an important role adding back Vermont jobs, these obstacles will need to be addressed so that small businesses will take a more supportive, if not leading role, as factor facilitating the state's economic and labor market recovery, which is already expected to be restrained by historical standards.

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