

NORTHERN NEW ENGLAND SCHOOL OF BANKING

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Subject(s): **Economic Demographics: Northern New England (1)**
Monetary Policy (2)

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A bit about me....

- I am a born and bred Maine girl from a small town one hour west of Portland. I grew up on a blueberry farm.
- After 15-16 years of living in Boston and Chicago, my husband and I decided that we wanted to move home and raise our children amongst family. I have 6 and 4-year old daughters
- I work at Spinnaker Trust in Portland, one of three relatively large RIA/investment management companies in the city
- I am the Chief Investment Officer and a Managing Principal at Spinnaker Trust. 85% of my job involves managing two distinct investment strategies: one that is global, macro in nature (executed via ETFs) and one that is more traditional (core equities strategies – stock-picking)
- In my free time, I also do things like I am doing today, teach economics and finance classes at the University of Southern Maine and sit on the board of the CFA Society of Maine
- I love investing and understanding global markets. It is truly my passion, but I am not a trained economist. I have an MBA and a CFA



Northern New
England
Demographics
Well, they ain't good!

Maine Demographics

- Maine is 94.4% non-Hispanic white.
- Maine is the **oldest state** in our nation with a median age of 43.5 years.
- Maine's latest unemployment rate was **3.5%** vs. the nation at 3.8%
- Maine is the 39th largest (geographically) and the 41st most populous state in the nation. Maine's population density is low – 38th in the nation.
- Maine's median household income is \$50,756 (40th in the nation).

Maine Demographics Continued....

- Maine's state tax rate is high, ranging from 5.8%-7.75%. Sales tax is 5.5%. Maine has a ballot item in November that, if passed and implemented, would result in the highest marginal tax rate in the nation.
- Maine average property tax is 1.271% of assessed home value.
- Maine is a very segregated state in that the area surrounding Portland is very economically different from the rest of the state.
- Maine **receives \$2,627 in tourism spending** for every resident of the state, ranking 21st in the nation.
- Young people and recent college graduates have been leaving the state in droves for decades, seeking better job opportunities.

New Hampshire Demographics

- New Hampshire is ranked 41st in terms of population and 21st in terms of population density.
- Curiously, New Hampshire's **median household income is the highest in the nation** at \$75,675.
- New Hampshire is about 94% white and has the 2nd oldest population in the nation (behind Maine).
- New Hampshire's median age as of 2015 was 41.1.

New Hampshire Demographics Continued

- New Hampshire's latest unemployment rate was **2.5%** vs. the nation at 3.8%
- New Hampshire's state tax rate is 0%. Sales tax is 0%.
- New Hampshire generates about \$3,745 in tourism revenue per citizen, the most in our region.
- The median annual property tax paid is 2.05% of assessed home value, the third highest rate in the nation.

Vermont Demographics

- Vermont is the **2nd-least populous state** in the nation (just ahead of Wyoming) and the 6th smallest by area.
- Vermont's median household income is ranked 30th at \$59,494 (vs. Maine at #40 and NH at #1).
- Vermont is the safest state in the nation!
- Vermont is 95.3% white.
- Vermont's median age as of 2015 was 42.8, one of the oldest states in the nation.

Vermont Demographics Continued

- Vermont receives **\$3,620 in tourism spending** for every resident of the state.
- Vermont's latest unemployment rate was **2.8%** vs. the nation at 3.8%
- Vermont's state tax rate is very high at 8.95%, even higher than in Maine, but only applies to taxpayers making over \$411,500 per year. Sales tax is 6%-7%.
- The median annual property tax paid is 1.719% of assessed home value.
- Like Maine, young people and recent college graduates have been leaving the state in droves for decades, seeking better job opportunities.

Urban living vs. suburbia: national trends apply

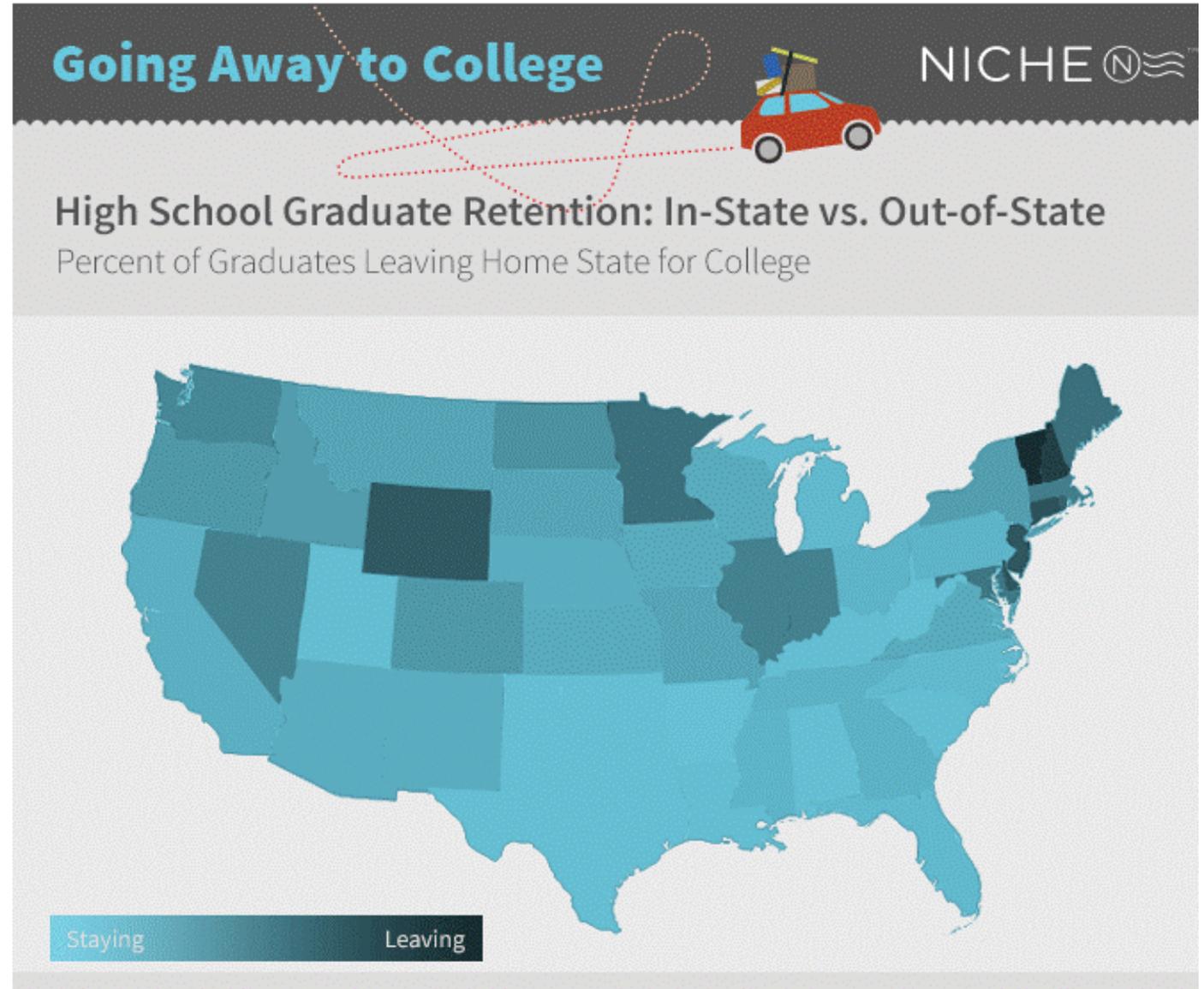
- There is a national trend afoot where cities are seen as more desirable places to live, especially amongst millennials.
- Around Boston, for example, 51 towns and suburbs started 2016 with price declines while the city's prices skyrocketed.
- Median home values in Fairfield County, CT (an hour from Manhattan) are down 21% from their peak in 2003.
- There has long been a wage gap between workers in urban and rural areas, but the GFC caused it to widen. In densely populated labor markets (defined as 1 million + workers), it would be found that the average wage is now 1/3 higher than in less-populated areas – a difference 50% larger than it was in the 1970s.

Urban living vs. suburbia: national trends apply

- The baby boomers who flooded the suburbs to raise their children are getting older and no longer need big homes. Further, living in major metro areas is seen as more environmentally friendly, more social and more desirable amongst millennials.
- Companies like GE, Caterpillar and even our own WEX in South Portland, Maine which were once headquartered in suburbs are moving into cities to “more easily find the talent that they need.”
- A recent article from The Atlantic magazine describes these small, non-capital New England cities are starting to resemble the Rust Belt.

High School Graduate Retention

- As you can see in the chart, Vermont and New Hampshire appear to be among the worst states in the nation in terms of high school graduate retention. Maine is not far behind.

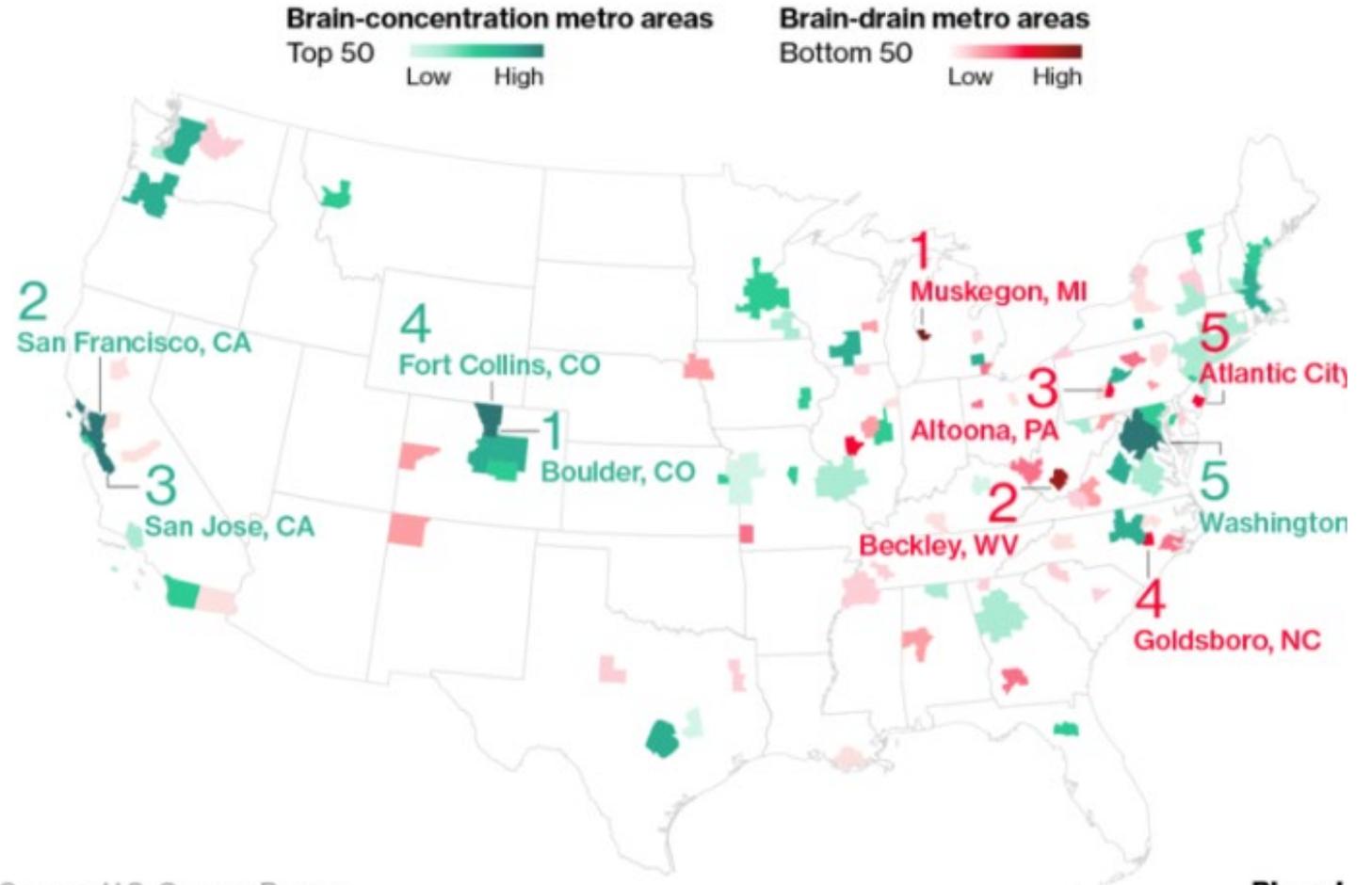


Where Are The Youngsters Going?

- Bloomberg BusinessWeek had a great recent article called, “The Smartest Americans Are Heading West.”
- Boulder, CO is ranked #1 while its neighboring cities Fort Collins and Denver are ranked #4 and #10 respectively.
- The rest of the top-10 in the “brain concentration index” are San Francisco, Washington D.C., Raleigh, and Seattle.
- Our region was not highlighted in this article, but I believe that it would be on the “red” side.
- The worst “brain-drain” city was Muskegon, MI which now offers two years of free college tuition to local high school students with a high GPA
- If you look carefully, you can see a bit of green running from Boston up through coastal & central southern New Hampshire and the greater Portland area. You can also see some green around Burlington

Brain Power

Bloomberg analysis shows metro areas suffering from brain drain and benefiting from brain concentration.



Source: U.S. Census Bureau

Bloomt

Shortage of Young People: Solutions?

- In Maine, 59.23% of recent college graduates leave. In Vermont and New Hampshire, those figures are 69.54% and 64.31%.
- In all three states, these ratios are very high when evaluated nationally.

Shortage of Young People: Solutions?

While the issue is unlikely to be solved, we can take some steps:

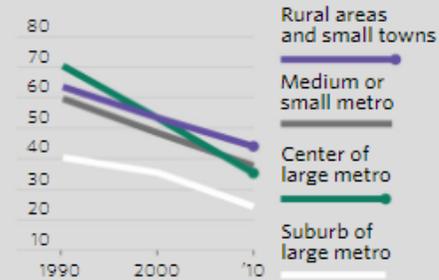
- The Alfond foundation in Maine has created an “Alfond Leaders” program which is a student loan repayment program designed to provide student loan relief for Maine residents who are employed by a Maine-based business in a STEM-related field.
- In Vermont, a law was signed in 2014 that reimburses students for a full-year of a four-year degree if they agree to live and work in high-need economic sectors in Vermont for five years after graduation.
- What else could we do?

Large Metro Areas vs. Rural America

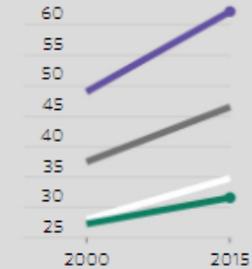
From Breadbasket to Basket Case

In the 1980s, rural Americans faced fewer teen births and lower divorce rates than their urban counterparts. Now, their positions have flipped entirely.

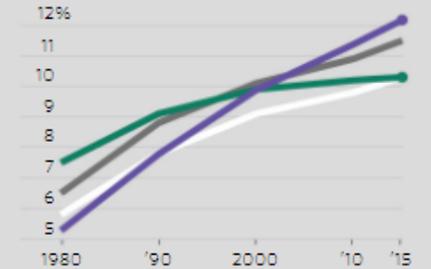
BIRTHS PER 1,000 TEEN WOMEN



DISABLED WORKERS PER 1,000 WORKING-AGE PEOPLE

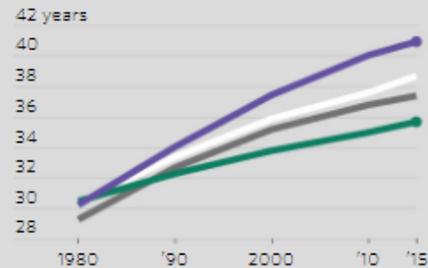


SHARE OF THOSE 16 AND OLDER WHO ARE DIVORCED

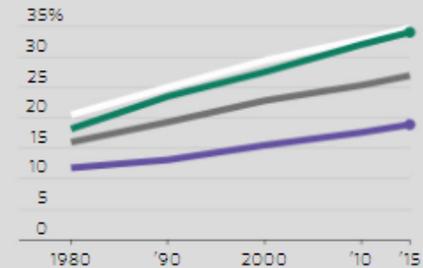


The education and employment gaps between rural and urban areas have widened as rural areas have aged much faster than the rest of the country.

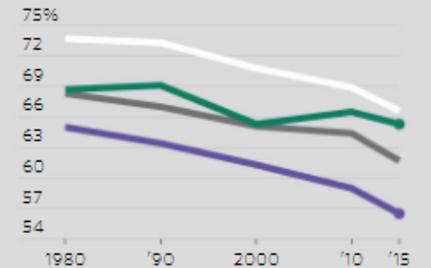
MEDIAN AGE



ADULTS WITH A COLLEGE DEGREE



MALES 16 AND OLDER WITH JOBS

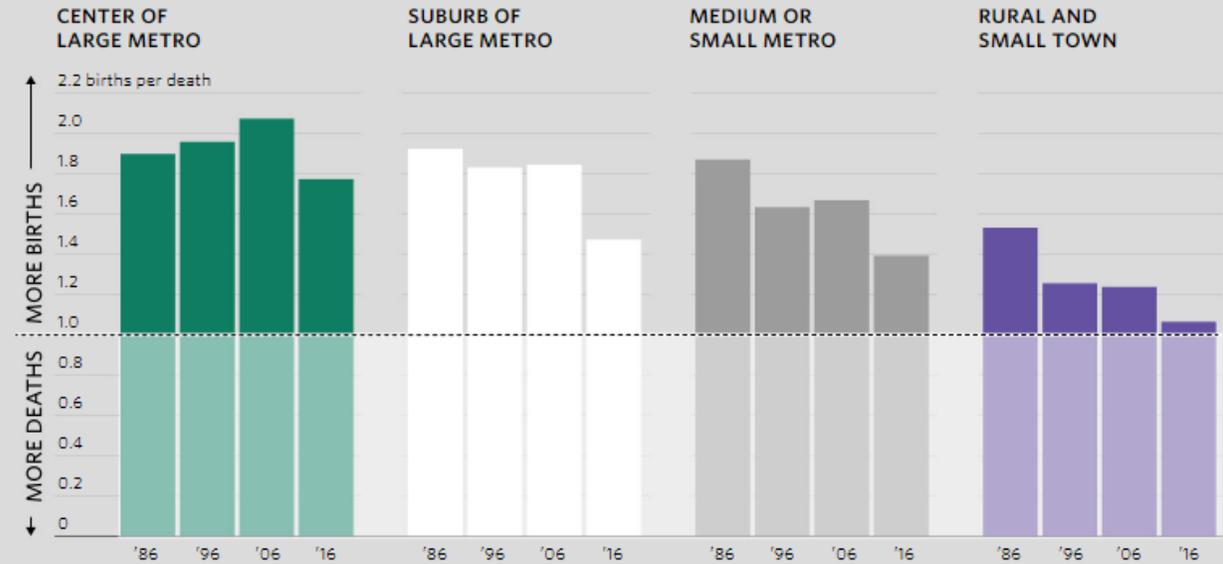


And even after adjusting for the aging population, rural areas have become markedly less healthy than America's cities. In 1980, they had lower rates of heart disease and cancer. By 2014, the opposite was true.

Large Metro Areas vs. Rural America

Hitting the Floor

Rural America is getting perilously close to the milestone at which more people are dying than are being born.



Source: WSJ analysis of Census Bureau data



What have we learned about NNE demographics in the context of national trends?

- We are old and we are white.
- Vermont is losing population, Maine is growing but recording more deaths than births, and New Hampshire is growing but at a much lower rate than in recent years.
- Our collective unemployment rate is low, but this is not necessarily good. Companies are having a really difficult time finding qualified workers.
- Our population density is relatively low which causes a host of issues in terms of accessibility to services.



What have we learned about NNE demographics in the context of national trends?

- We need more “good” jobs to keep our young people here and attract new young people.
- The tax environment really matters for the creation of “good” jobs and robust household incomes.
- It appears that the proximity to a major city (Boston) really matters for the creation of “good” jobs (i.e. high salaries, full benefits).

How can we combat the issues?

Maine, Vermont and Northern New Hampshire need to boost their collective economic environment in order to

- 1) keep young people and recent college graduates in the state
- 2) attract young people from out-of-state to move using “quality of life” arguments
- 3) attract more immigrants & encourage diversity

How can we combat the issues?

To achieve those three goals, we clearly need to boost the economic environment.

- There are two major reasons why companies are not adding jobs in Northern New England: high taxes and less access to a highly educated and/or young workforce.
- Maine and Vermont need to change their tax structure in the hope that growth will follow. What is in place now is not working.
- It is clear that high state and sales tax levels are hurting the economy and discouraging new residents.
- These two states also need to continue to boost tourism.
- Though property taxes are slightly higher in New Hampshire, the lack of state and sales tax has clearly been beneficial.
- New Hampshire's proximity to Boston is also powerful in that many Boston commuters live in Hillsborough County, drive down the 93 daily and collect their tax-free income.
- Will the corporate trend toward working remotely change the landscape over the next decade?

What does this mean for the banking industry?

- The trends that are prominent for national banking (consolidating branches, moving activity online) should be applied more slowly or perhaps not at all in Northern New England because the population is less inclined to rush into and/or be comfortable with new technology.
- However, there may be no choice for our older population as rural communities around the country are experiencing a troubling decline in access to basic financial services. These are called banking “deserts.”

What does this mean for the banking industry?

Of course, banking is far more than traditional deposit-taking.

- **Corporate Lending & Business Banking:** The success of this vertical will depend upon the strength of the local business community.
- **Mortgages:** More baby-boomers generally means less demand for mortgages.
- **Wealth Management:** The majority of wealth management clients will be baby boomers who are retired or on the cusp of retirement. Therefore, they will likely need a lot of financial planning and guidance and will be geared toward high-yielding investments. Wealth Management is a relatively profitable business line.

NNE banking industry: it's not all bad....

- Pockets of southern New Hampshire are thriving, presumably because of proximity to “good” jobs in Boston and in surrounding towns.
- In Maine, greater Portland is doing relatively well. Property values have grown tremendously over the last decade in the five towns around the city. Since I observe this personally on a daily basis, I would attribute property values and the resurgence of the area to one thing: corporate trends around working remotely. Happy to elaborate.
- There are some uplifting examples. Has anyone been to the mill complex in Biddeford/Saco lately? It is booming with new businesses and is incredibly vibrant. It is very encouraging to see.
- Immigrants in Maine have revitalized formerly downtrodden areas of Lewiston and Portland.
- Burlington is a lovely and beautiful city with a large population of students. It does not seem that they are staying after graduation, but perhaps the tide is turning.

Northern New England Demographics: Addendum

I read some really interesting articles in researching this presentation. If you are interested in exploring the topic further, I might suggest googling the following articles:

- The Atlantic's 2016 piece called, "An Unsteady Future for New England's Suburbs."
- "The Smartest Americans are Heading West," Bloomberg BusinessWeek 10/11/17.
- Fox Business article from April of 2017 entitled, "Northern New England's Good Jobless Numbers? They're Bad."
- The Wall Street Journal. "One Nation, Divisible." September 2017.
- Harvard Business Review. "What So Many People Don't Get About the U.S. Working Class." November 18, 2016