

New Jersey Economic Insights

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November 2011



Outlook New Jersey

Trending in the Right Direction but More Momentum Is Needed

New Jersey

New Jersey's unemployment rate fell to 9.1% in October, the third straight month of declines, as it hit its lowest level since January. The drop came as the state added 4,000 private-sector jobs. That's too low a rate of job formation to bring unemployment back down to acceptable levels any time soon, but it was the first gain since July.

The rise does suggest that a large share of the job losses we saw in August and September can be chalked up to one-off factors — such as our streak of horrific weather and the Verizon strike — and that the state's economy is getting back on track. Indeed, monthly indexes of overall activity in the state tracked by the local Federal Reserve Banks and our office show that the economy continued to expand through August and September.

The Federal Reserve Bank of Philadelphia has reported that area manufacturers are seeing continuing modest growth of activity in November. The pace of growth that the panel was seeing in the economy at large was a bit slower than in October. However, firms are reporting a brisker pace of employment growth and hours worked for their plants. To be sure, there is ***not*** a simple one-to-one relationship between this survey's monthly employment reading and changes in New Jersey's job count — either in total or just in manufacturing — but it is encouraging to see the more positive response. Another encouraging sign is that manufacturers are also expressing a substantial

increase in their optimism about general business conditions six months from now.

There have been some concerns about the possible impact on New Jersey from reduced year-end bonuses on Wall Street. Of course, thousands of New Jersey residents who work on Wall Street would feel the impact of lower bonuses directly, and it's certainly possible that there would

be some feed-through of bonus cuts to their spending. But the direct effect on the state's revenues would be less dramatic, since a very large portion of Wall Street bonuses are subject to tax by New York state, not New Jersey.

At this time of year there is also always speculation about the magnitude of holiday shopping and hiring. Much of the news comes from reports of individual stores, chains or malls. Their focus is on year-over-year growth. This is natural, given the firms' need to meet targets or plans for the year as a whole.

However, year-over-year numbers are heavily affected by what the level of activity was last year, which is not terribly important for judging how rapidly things are changing right now. To estimate the pace of current growth, economists and other analysts focus on month-to-month changes, correcting for normal seasonal variation. Such numbers won't be available until the November figures on full-month employment and sales

- *New Jersey indicators are improving.*
- *National numbers have also recently picked up.*

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are issued by the federal statistical agencies. Even then, they are often subject to later revisions. This is a long way to say that news reports on “Black Friday” or “Cyber Monday” sales and crowds, colorful as they likely will be, will reveal little or nothing about how the nation’s and state’s economies are faring as the year ends.

U.S. Economic Outlook

While our national economic numbers have improved, the seemingly endless European debt crisis continues to pose major risks to the outlook and has injected massive volatility into financial markets. There is continuing talk about whether Europe is slipping into a renewed recession. That, by itself, is only a mild potential negative for this side of the Atlantic (We’d see Volkswagen prices come down a bit, putting some pressure on domestic auto companies, and fewer European tourists would land at Newark airport).

The major concern is whether losses on European debt would damage the solvency of globally important European banks, risking the health of U.S. institutions. Of course, U.S. institutions can themselves suffer major losses on European investments. In fact, recent news suggests that has already happened. It is still extraordinarily difficult to see how Europe will resolve its problems. The difficulty stems not from the inherent complexity of the economic and financial problems but rather from the confused multinational institutional structure in which a resolution needs to be forged. While it is gratifying on one level to see economists tapped to head emergency governments in Greece and Italy and tasked with expediting solutions, on another level it is an unsettling sign of their political systems’ failure to address basic problems.

Turning back to the modestly upbeat national news, the numbers are suggesting that activity is reviving somewhat after a fairly long stretch in which the economy was held back by the aftereffects of the Japanese catastrophe, the surge in energy prices and the general malaise created in the wake of the debt ceiling showdown. Job creation, though still woefully inadequate, has improved and the unemployment rate has edged down. Retail sales have

firmed and industrial activity remains strong. The most recent inflation numbers have been quite low. Some concerns have emerged about lackluster growth in incomes. The personal saving rate has recently moved down as spending growth has outpaced growth in income. Assuming that the income numbers are correct, it’s possible that the relative strength in spending reflects some increased confidence about the future. Indeed, the published consumer confidence measures appear to have bottomed out, and the stock market — always a forward-looking measure — is up from its early autumn low.

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It is just as well that the national numbers are looking modestly better, since it is hard to see at this moment any chance for national policy to take effective positive steps. The failure of the deficit “supercommittee” to reach consensus will likely be mainly the springboard to months of debate with little or no substantive action. The Federal Reserve is scouring any or all potential ways it could exert additional stimulus. There is a heated debate as to the desirability of actions such as the adoption of formal targets for inflation or “nominal” (current-dollar) GDP, announcement of likely future levels for the federal funds rate and further securities purchases.

The amount of effort devoted to analyzing and debating these Fed policy options may obscure the point that it is just about impossible to come up with any solid estimates of the potential effect of any of them and few believe that the impact would be large. While it seems clear that the current amount of monetary stimulus should be sustained, any substantive improvement in the economy will stem from natural recuperative forces such as households and businesses stepping up spending on replacement of worn-out goods or changes in federal taxes and spending.

Professional & Business Services Play a Starring Role in the New Jersey Economy

One of the state's largest private employment sectors — exceeded only by trade, transportation, and utilities and education and health services — is the one labeled “professional and business services.” Roughly 18 percent, or more than one out of every six of the state's private sector jobs, is in this category. That's a total of nearly 600,000 jobs — more than twice as many as manufacturing, and almost equal to federal, state and local government employment. Aggregate pay in the sector in 2010 was more than \$40 billion, nearly one-fourth of the private sector total and the largest for any single sector. Thus, by some key measures this area is central to the state's economy.

‘The high educational achievement and skills of the New Jersey workforce ... works to our advantage in attracting and holding these jobs.’

lion's share of work for lawyers and accountants come from businesses, not from criminal defendants or household tax filers. Architects, engineers, programmers and research scientists also fall within this category. Business management staff is counted as a separate category. Finally, there is a large “bread and butter” category of contract workers of many types: the large temporary help sector which employs workers of virtually any skill, as well as general business services such as waste haulage. In other words, this is a very large sector employing a very broad cross-section of the population.

There is no special geographic concentration to employment in this sector: where there is employment, there will be professional service workers. Of course, management staff — there are more than 70,000 in New Jersey — tend to work in Morris, Middlesex, Somerset, and, especially, Bergen counties, which, in general, are

As the name suggests, these are jobs mostly providing services to businesses. They include highly skilled professionals, such as lawyers and accountants. Contrary to popular images, the

leading areas for corporate headquarters. Other counties in the Northeastern part of the state, including Essex, Passaic, and Hudson, also have a major presence here. Average pay in this portion of the sector is over \$125,000 a year. Almost certainly the high educational achievement and skills of the New Jersey workforce, as well as our location near New York City, works to our advantage in attracting and holding these jobs.

Administrative services are also in this sector and they encompass basic business support services, including temporary help firms and even waste management. There are roughly 240,000 employed in this area, and the work is done all across the state with Middlesex as the leading county. Pay averages about \$40,000 a year — a sharp contrast to corporate management staff, but this is certainly an area that provides a living to tens of thousands New Jersey residents.

Finally, there are the professionals: the lawyers, accountants, programmers, ad agencies, etc. There are over 275,000 of these workers in the state and that's without counting unincorporated sole practitioners. Again, the jobs are spread across the state. Middlesex and Morris tend to be leaders, because of concentrations of more technical workers, likely providing services to corporations. In terms of lawyers, Essex, not Mercer, is in the lead. This is another high earning group, with pay averaging over \$100,000 a year, and another area where our state's highly educated and skilled workers do well.

The demand for businesses services fluctuates with the business cycle and employment and earnings took a serious hit during the recession. In all, 48,000 of these jobs — 7.7% of the peak total in the sector — were lost from January 2008 through January 2010. A very significant positive sign for the state's economy is that there has recently been a noticeable rebound in this sector. The October 2011 total of 599,000 jobs was 22,000, or almost 4 percent, higher than the January 2010 low.

New Jersey Business Pulse Survey

Business Worries Pick Up

New Jersey businesses reported continued pessimism about general economic conditions and increasing concerns about the outlook in October. These findings come from a survey administered by the New Jersey Department of the Treasury.

The New Jersey Business Pulse Survey has been created to look beyond conventional economic data and gather views in real time directly from a diverse group of businesses in the state. Responses to the August survey were made by more than 100 firms spanning a wide spectrum of industries and sizes. The survey includes 14 questions about current and perspective conditions and allows respondents to give their views on other topics of their choice. Detailed results may be found at <http://www.state.nj.us/treasury/pdf/SurveySummaryOctober.xls>.

General Conditions: Current Situation Still Negative While the Outlook Is Gloomier

As has been the case for several months, about half the respondents see U.S. and global economic conditions as currently deteriorating while only a small fraction (less than one in ten) see current improvement. October's respondents, though, appear to be gloomier about the outlook than was the case in September: Nearly half see conditions continuing to deteriorate over the next year, which suggests a noticeable increase in pessimism (less than one-third of September's respondents had a negative outlook). As was the case in September, only about one-fifth of the panel expect conditions to improve over the next year. The assessment of conditions in New Jersey is comparable: Over 40 percent of the panel reported deteriorating conditions in October, while less than one-tenth said the situation was improving. Over one-third expect conditions in the state to improve over the next year, while less than one-fourth expect improvement.

Revenues, Hiring and Capital Spending: Improvement Anticipated Worldwide; New Jersey Plans Are Neutral

Despite the gloomy assessments of general economic conditions, both current and anticipated, firms generally expect revenues outside of New Jersey to grow, with associated gains in employment and capital spending. Their view of New Jersey operations, though, is less upbeat: The numbers of firms anticipating increases in New Jersey revenues, employment, and capital spending are all about equal to the numbers predicting declines in each category.

Product Price Increases are Infrequent, while Input Cost Growth Is Widespread

Less than one-fourth of October's respondents report that they had recently increased any of their prices, which is a lower proportion than September's. Nearly three-fourths agreed that costs have recently risen, which is in line with the fractions reporting cost gains in recent months.

Conclusion

October's respondents were noticeably more downbeat about the current situation and outlook, with the increase in pessimism somewhat more pronounced for their New Jersey operations. These results do contrast with other, somewhat improved figures on both national economic conditions and business surveys (including some from the local area, such as the Philadelphia Federal Reserve's manufacturing report, and a late-October survey from the New Jersey Chamber of Commerce). Consumer surveys, however, have continued to slide.

Our survey is quite new, and does not have a sufficient track record to suggest whether the slippage in October is meaningful. Open-ended responses covered many topics, but one theme that emerged was apparently widespread uncertainty, which is quite understandable considering the long period of major financial market turmoil and ongoing sluggishness in the national and world economies.

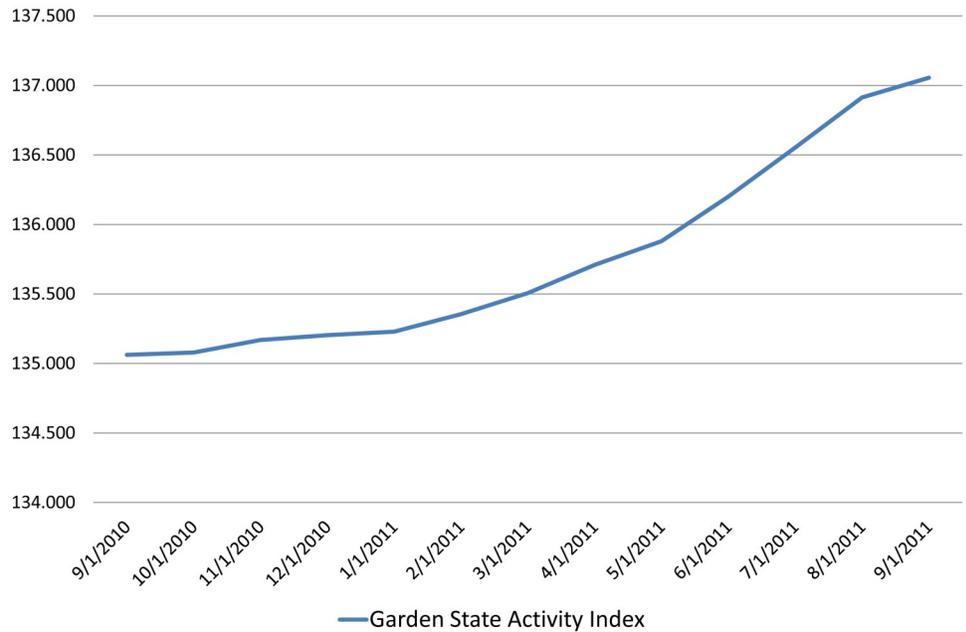
If your New Jersey firm is interested in participating in this monthly survey, please contact Mary Filipowicz at 609-633-6781.

Garden State Activity Index

The *Garden State Activity Index* is our broad measure of monthly economic activity in the state of New Jersey. The index incorporates information from three sources: the Federal Reserve Bank of New York's coincident index, the Federal Reserve Bank of Philadelphia's coincident index, and the Philadelphia Fed's South Jersey Business Survey.

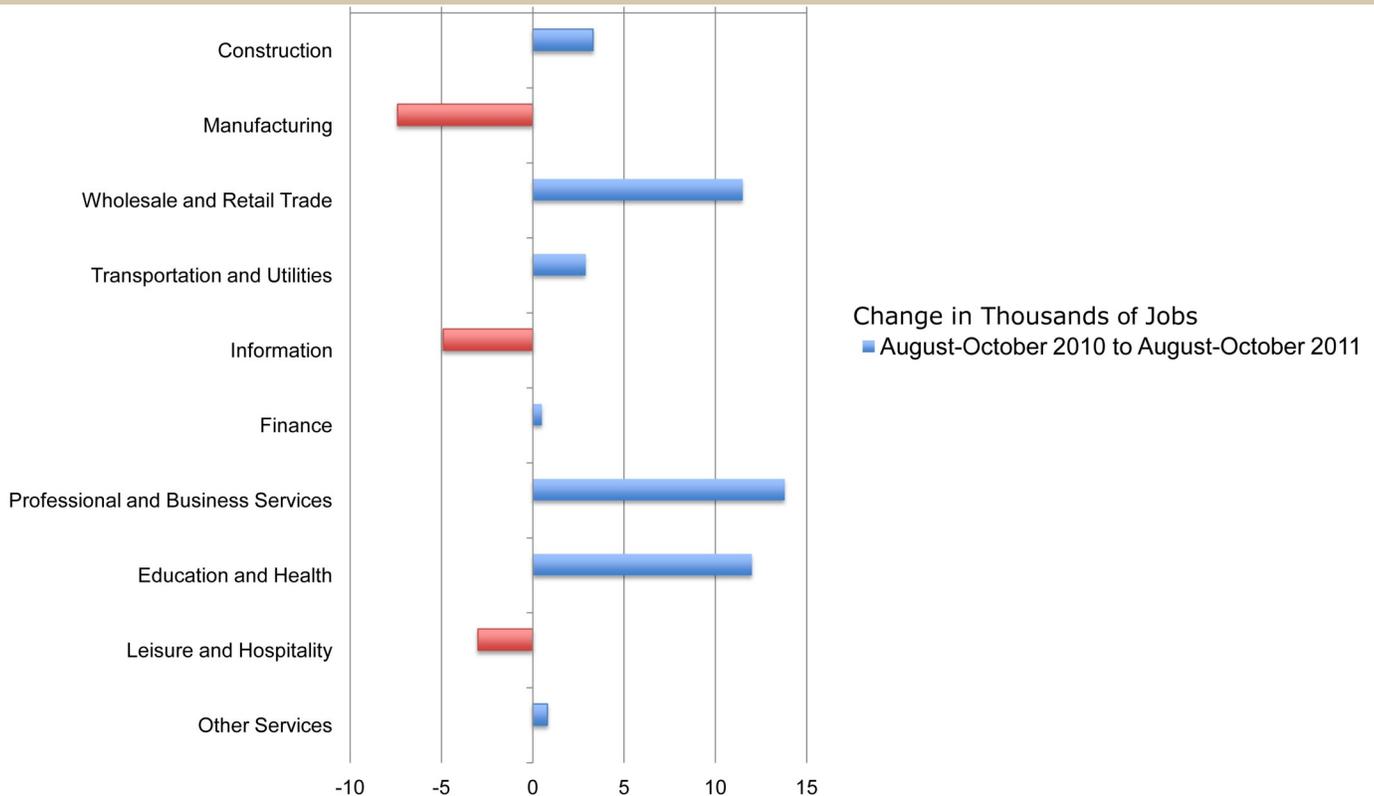
In the August 2011 newsletter, we began using principal components analysis to calculate the activity index. This statistical technique systemically constructs weighted averages of the three Fed indicators. The new weighted index should more accurately capture the state of the New Jersey economy.

Based on the most recent data, the New Jersey economy continues to experience moderate growth; this September, the state's economy reached an index level **1.5% higher** than the level in September 2010.



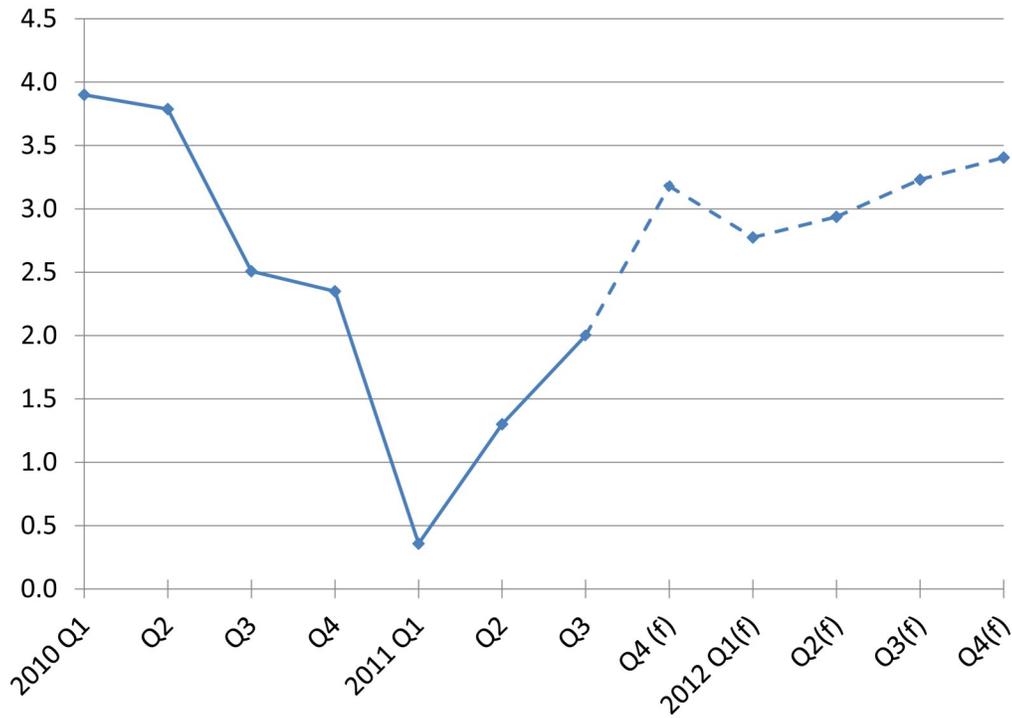
-Andrew Lai

Private Industry Employment Trends



Data source: New Jersey Department of Labor

Real U.S. GDP Growth (Percent change, compound annual rate)



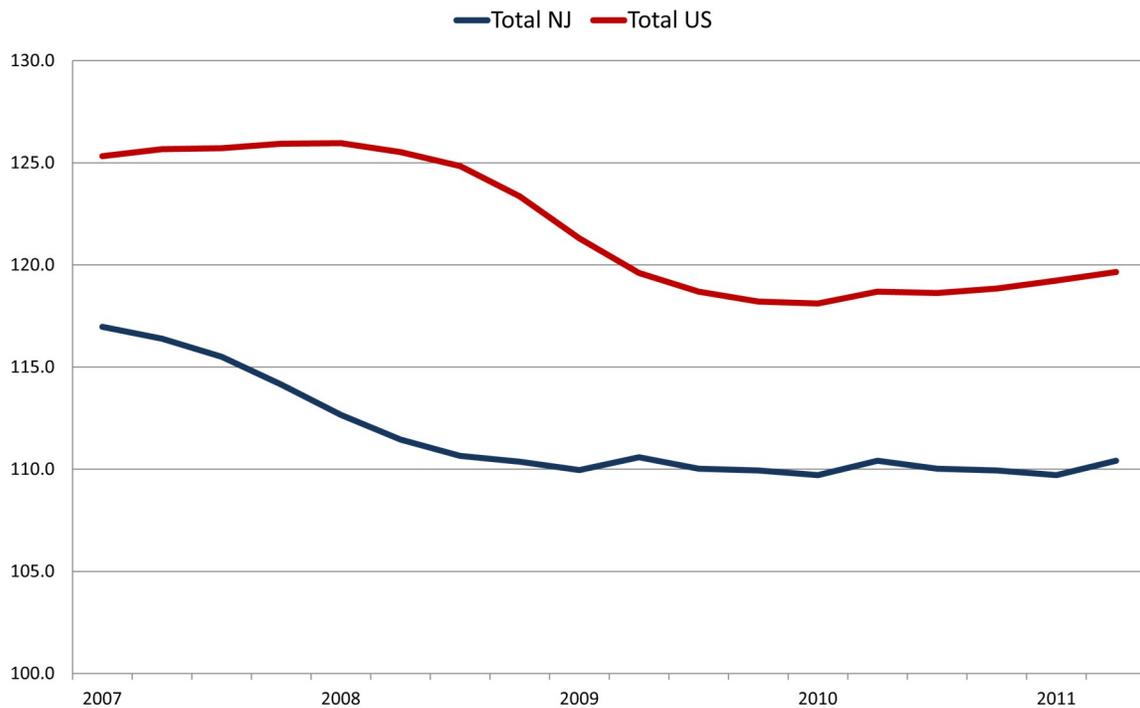
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Data source: U.S. Bureau of Economic Analysis

State & National Job Trends

Total Employment (Relative Employment 1990=100)

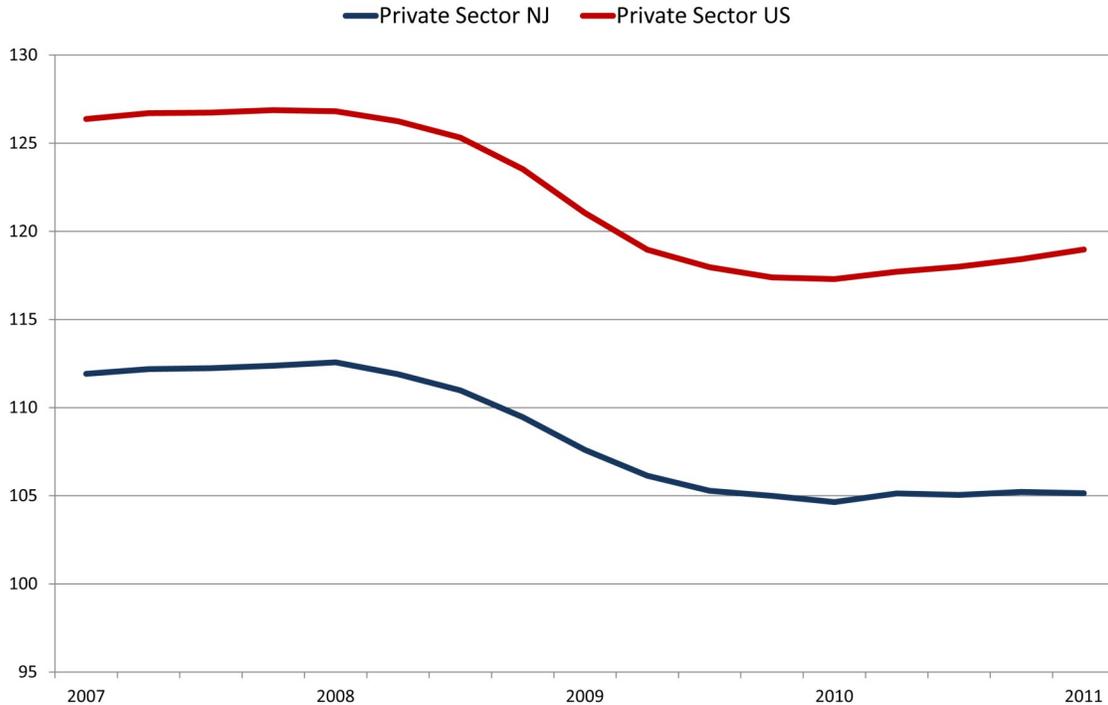
This chart compares the number of employed workers to the base year of 1990. The number 100 represents employment in 1990.



State & National Job Trends

Private Sector Jobs (Relative Employment 1990=100)

This chart compares the number of employed workers to the base year of 1990. The number 100 represents employment in 1990.



Data source: U.S. Bureau of Labor Statistics, New Jersey Department of Labor

Explanatory note: These charts track trends in total and private sector employment in New Jersey and compare them with those of the nation as whole measured against a 1990 baseline.

Disclaimer

This communication is for informational purposes only and is not an offer, solicitation or recommendation regarding the purchase of any security of the State of New Jersey or any governmental authority of the State of New Jersey. The views expressed herein are solely those of Dr. Steindel and do not necessarily represent the views of the State Treasurer or any other official of the State of New Jersey.