New Jersey Economic Insights

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Outlook New Jersey

Market Turmoil Dims Prospects for a Strong Second Half but State's Gains in Private Jobs Hold Steady

New Jersey

First things first. The nation's financial markets have been in considerable turmoil this month. They have been showing the effects of a downgrade of the nation's Triple A credit rating by Standard & Poor's, the uncertainty created by the long running controversy over the extension of the U.S. debt ceiling, an intensification of the European debt crisis and some lackluster U.S. economic numbers, most notably the sluggish GDP figures.

Real gross domestic product (GDP) barely budged over the first half of the year, growing at an annual rate of less than 1 percent over the first two quarters. Revisions to the numbers for the last few years also show that the loss of output during the recession was larger than previously estimated.

For New Jersey, the headline number is that our unemployment rate moved up to 9.5 percent in June, its highest level in a year. To put it plainly, we have a long way to go to get back to anything like a satisfactory labor market. Nonetheless, over the last few months, even as the unemployment rate has edged up, there have been noticeable positive signs. The unemployment rate is derived from a relatively small survey of New Jersey residents. The much larger survey of employers shows that private sector hiring has stayed fairly firm during this economic "soft patch." Indeed, New Jersey's private sector added jobs more briskly than the nation at large in much of the first half of the year. June saw Garden State private employers adding 6,400 jobs. Since January New Jersey private payrolls have risen by 38,000 (well over 1 percent). Nationwide, private employment rose 57,000 in June and has been up 851,000 since January. Given New Jersey's size — we account for roughly 3 percent of national private payrolls — our performance stands out.

To be sure, June's job gains appeared to have been swelled by an unusually high amount of hiring in the leisure and hospitality sector; presumably for the most part summer jobs (see the feature on page 3.) These jobs will be gone by the time the leaves change color. Still, strong summer hiring could be a sign of an improving economy since employers hire workers if they see business picking up. It was also the case in June that the state's overall job count was held back by an unusually large 4,700 drop in government employment. While we believe that, unlike many other states, the largest part of government downsizing could be moving behind us, it's clear belt-tightening is still ongoing. In that respect, the signs of a strengthened private sector are very welcome.

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Recent months have seen improved job growth in some of our core private service sectors, such as trade, transportation, utilities and professional services. Service areas connected to real estate, including finance, are lagging, which suggests the continuing morass in the housing market still weighs on the state's economy and job market. Still, given fairly tough national economic circumstances we have done relatively well.

Other information suggests that while overall economic activity in the state may have been lackluster, prospects could be improving. The Federal Reserve Banks of New York and Philadelphia reported in the latest "Beige Book" (short overviews of activity in each of the 12 Federal Reserve districts—New Jersey is split between the New York and Philadelphia Feds, with Mercer, Burlington, Ocean and the counties further south being in the Philadelphia district) that local growth slowed recently, but that was for the period from early June to mid-July. Similarly, our New Jersey Business Pulse survey (see the feature on page 4) also showed softer

(Continued on page 2)

results in June than May. However, the Philly Fed's **July** survey of regional manufacturers was noticeably stronger than in June, especially in assessments of conditions anticipated six months ahead. The Philly Fed/South Jersey Chamber of Commerce South Jersey survey also found respondents were a bit more upbeat about their own firm's activity in the second quarter than in the first, though their view of regional conditions fell back slightly. This survey continued to report positive views about future conditions, albeit less strongly than in the first quarter.

U.S. Economic Outlook
Retail sales were little-changed in June, and manufacturing production, continuing to be impacted by the Japanese disaster limiting supplies of motor vehicle parts, was flat. One pleasant sign was a faint indication of life in the housing market - housing starts rose noticeably in June. Nevertheless, the actual number of units started remained quite low and it's possible that the spurt was little more than catch-up for activity deferred by events such as the spring floods in the Midwest. More importantly, national nonfarm payroll employment rose 117,000 in July. This is much too small a gain to put any sort of dent into national unemployment. Nonetheless, it was a noticeable improvement from May and June and somewhat better than many had feared.

Despite these gloomy numbers and markets there still are good reasons to think the economy should right itself and growth should improve somewhat. Many of the hard knocks (bad weather, Japanese aftershocks, surging gas prices) that have recently held back the economy are passing. Clearly, the near-term outlook has deteriorated. With financial markets in such disarray, and policymaking on both sides of the Atlantic uncertain, downside risks have ramped up. The next few months will tell whether we are seeing fundamental deterioration or a disturbance to what has been a subpar expansion.

The Federal Reserve's recent announcement that it has lowered its internal forecasts and is committing itself to not raising short -term interest rates for at least two years shows the depths of their concern over the situation. But even so they still anticipate that growth will continue.

Summer Fun at the Shore Means Jobs in New Jersey

Since the early 19th century the New Jersey shore has been a popular vacation site. Nearly two centuries later summer vacation activity remains an important element of the economy in large sections of the state — perhaps not as essential to the state as a whole as some popular accounts suggest, but certainly critical to many businesses and communities.

Seasonal Businesses: Large Employers

Most leisure-oriented businesses lie in the "super sector" appropriately called leisure and hospitality. This is a broad group that encompasses industries such as restaurants, hotels and motels, amusement, spectator sports and the like. Employment in this area shows a strong seasonal pattern. In the first quarter of 2010, New Jersey employers reported having a bit over 300,000 workers in these industries. About 55,000 more workers were added to the rolls by the third quarter of that year — roughly a 20 percent increase. About two-thirds of these new jobs were created in the four shore counties (Monmouth, Ocean, Atlantic and Cape May), suggesting that they were surely connected to the vacation season. This summer hiring is about as predictable as the tides — it was not greatly larger prior to the recession. In the third quarter of 2010 there were approximately 125,000 people working in leisure and hospitality in those four counties — accounting for about one-fourth of all private sector jobs in that region of the state. Cape May had the highest share with over one third of its jobs in the sector.

Of course, there are seasonal jobs outside the formal leisure and hospitality sectors. They can be found in industries such as grocery stores, gas stations, repair and maintenance, real estate, and personal services (barbers, hairdressers, nail salons, etc.— including tattoo parlors). Local government employment also expands in the shore area in the summer as life guards and extra police officers are hired. It would be no great stretch to estimate that as much as one-third of all employment in the Shore counties in July and August is in industries in some way connected to vacation with the ratio rising dramatically the nearer one gets to salt water.

Of course, not all jobs in these sectors in these counties in the summer are directly connected to summer activities, but given the huge size of the seasonal expansion, quite likely as much as half are. Given that roughly 35,000 of the 125,000 jobs in leisure and hospitality in shore counties in the third quarter of 2010 had been created since the first quarter, and were surely seasonal, it's reasonable to think that a significant share of the 90,000 "permanent" jobs also have major connections to vacation traffic*.

The Footprints of Beach Activity on the State's Economy

The absolute numbers of summer employment, and the seasonal rise, are impressive, even relative to New Jersey's roughly 3.2 million private sector jobs. The seasonal *increase* in leisure and hospitality (and related areas) in the shore counties is equal to more than 1 percent of the state's private sector total. In other words, statewide private sector employment is boosted by more than 1 percent in the late spring and early summer as the shore readies for its peak season, and then drops by more than 1 percent after Labor Day when the season ends. The bottom line is that many shore communities are utterly dependent on brief, but intense, seasonal activity, and for the four shore counties — especially Cape May — the summer is very big business.

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On some measures of statewide activity, though, the summer season is less impressive. As many know from personal experience, these seasonal jobs generally don't pay all that well. Earnings in leisure and hospitality in the third quarter of 2010 in the shore counties averaged less than $6,000 per worker**. In contrast, the state-wide average for all private industries in that quarter was over $13,000 — more than twice as much. Summer on the New Jersey shore is a highly evocative concept, and helps provide the state with a rich set of cultural touchstones but the prime engines of economic activity for the state as a whole are elsewhere.

* *Yes, Garden State Parkway traffic does peak in July and August.*

** *There is some industry and regional variation. Average earnings in the accommodations and recreation sector in Atlantic County in the third quarter of 2010 were nearly $8,000. The relatively high figure likely reflects casino employee earnings. Incidentally, there are even more dramatic variations on a national scale. Average earnings in the entertainment and recreation sectors in Bronx County, New York, and Brown County, Wisconsin, each exceed $100,000 per year (think pinstripes and NFL).*

New Jersey Business Pulse Survey

Soft Spots Linger, but Optimism Persists

New Jersey businesses were a bit more downbeat about the state and world economies in both June and July, but continued to express optimism about their future prospects. These findings come from a survey administered by the New Jersey Department of the Treasury.

The New Jersey Business Pulse Survey looks beyond conventional economic data and gathers views in real time from a diverse group of businesses in the state. Responses to these surveys were given by more than 170 firms — a sharp increase from the number of respondents in earlier months — 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/NJ-Pulse-Results-June-2011.xls; and http://www.state.nj.us/treasury/pdf/NJ-Pulse-Results-July-2011.xls

General Conditions: Current concerns, but better times are still seen to be coming.

A bit less than half the firms surveyed found general conditions inside and outside New Jersey unchanged in each of the past two months. Significant fractions, though, see some recent deterioration. About one-third reported that economic conditions in New Jersey and elsewhere had deteriorated moderately or substantially in both June and July. However, they did not expect this weakness to linger. The proportion of firms anticipating improved conditions and revenues inside and outside the state over the next year greatly exceeds the proportion expecting continuing deterioration. Nonetheless, in all cases a very frequent response was an anticipation of no significant change. This pattern of responses suggests the outlook is somewhat upbeat, but guarded.

Hiring and Capital Spending: Modest Changes Anticipated

In line with their outlook for general conditions and revenues, firms have remained cautious about plans to expand their workforces and plant and equipment, both in New Jersey and elsewhere. As was the case in May, less than one-fourth of the panel (in both June and July) anticipated making any significant increases in their workforce either inside or outside of New Jersey. Also repeating May's findings, more than one-half of the firms anticipate no change in New Jersey capital spending over the next year, and more than three-fourths of those that responded expect to make no significant changes in or cuts to their firms' out-of-state spending.

Some New Jersey firms report problems in finding qualified workers. Nearly one-third of the panel moderately or strongly agreed in both months that this is a concern. Indeed, more than one in ten strongly agreed. The problem is by no means universal — substantial proportions of the respondents report little or no problem in locating workers for New Jersey jobs. Respondents do say that finding qualified workers is much less of concern for operations outside of the state.

Input Costs Continue to Rise but Product Prices are Stabler

Similar to May's results, roughly one-third of the respondents indicated in both June and July that they have recently increased prices they charge their customers while, while more than three-fourths indicate that some of the prices they pay suppliers have recently risen . In June more than one-third strongly agreed that their input costs have gone up, but this fraction declined in July. These findings suggest some pressure on firms'margins.

Open-ended responses showed firms expressing concerns about issues such as taxes, regulations, housing, input costs, and locating skilled workers, as well as the general state of the economy.

Conclusion: Some Softening in the Results

As was the case in May, there were no major changes in the pattern of survey responses. But there continues to be a shift away from more optimistic toward somewhat more pessimistic views. The net balance has not appeared to have shifted far enough to suggest a major deterioration in the outlook, but suggests that the "soft patch" has persisted a bit longer than anticipated. Input prices continue to be a major concern.

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

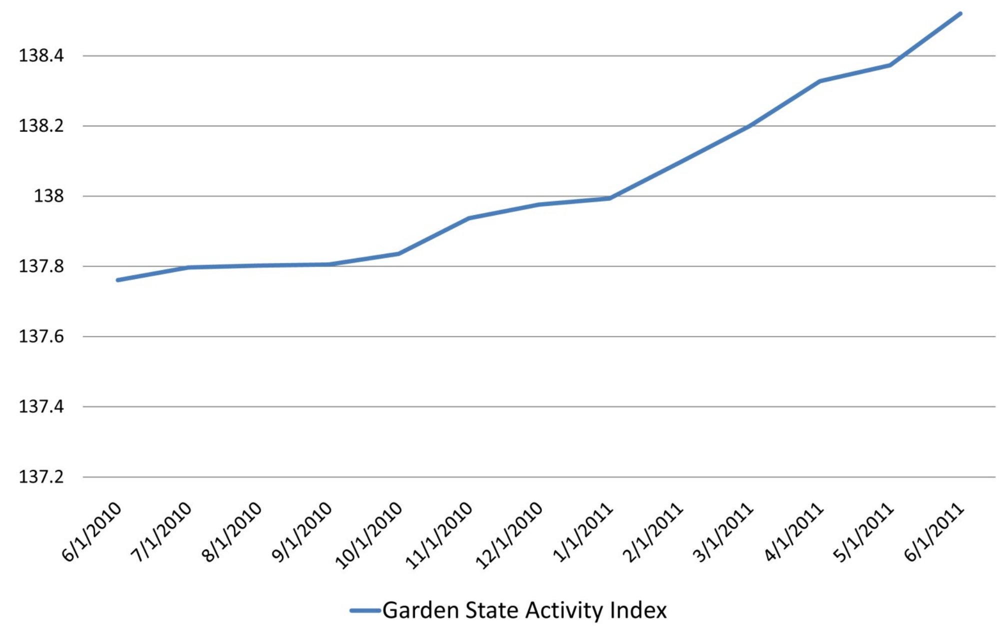
Garden State Activity Index

Our monthly indicator of New Jersey economic activity, the *Garden State Activity Index*, has been recalibrated to more accurately reflect the state's economy. The index continues to incorporate the coincident economic indices produced by the Federal Reserve Bank of New York and the Federal Reserve Bank of Philadelphia, and the Philadelphia Fed's South Jersey Business Survey.

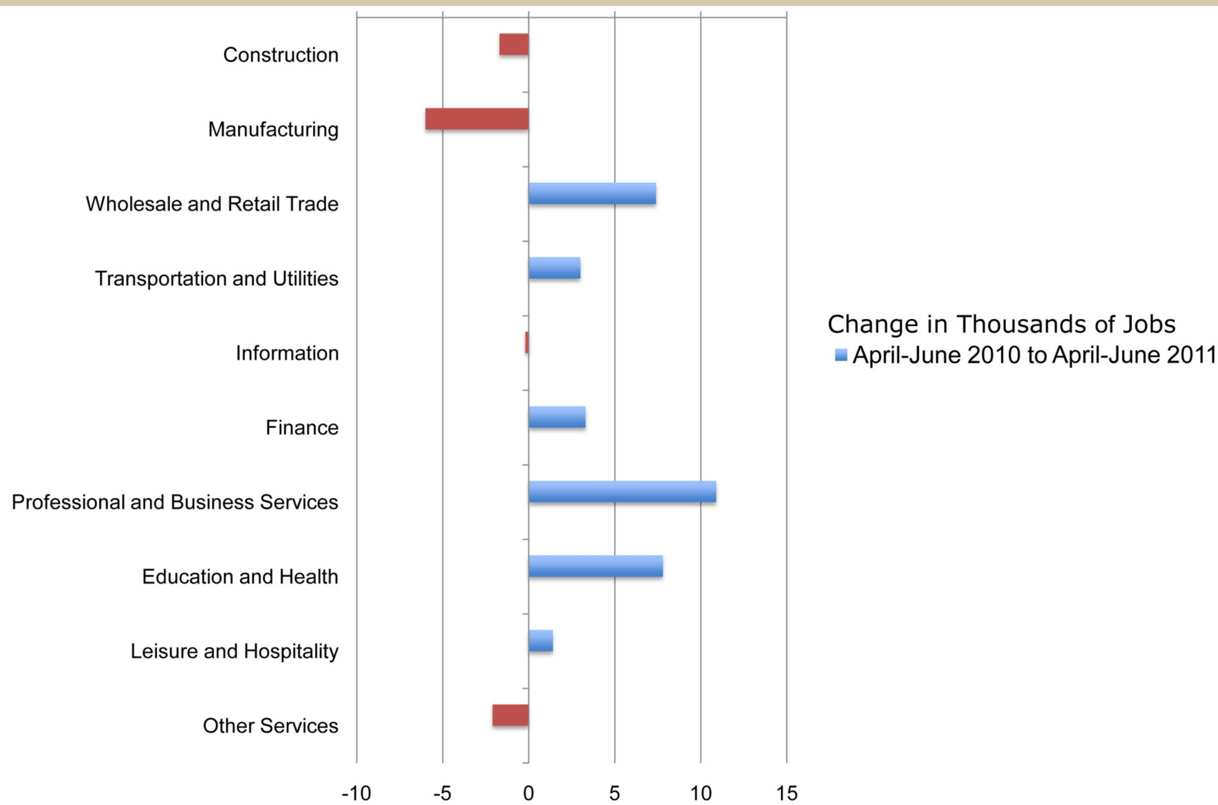
But we are now using principal components analysis to calculate it. This is a statistical technique that systematically constructs weighted averages of the three measures of activity. This enhanced approach should provide a more accurate picture of the Garden State's economy.

Based on the latest economic data, the index increased in June to reach a level about **0.6 percent** above its June 2010 value

—*Andrew Lai*

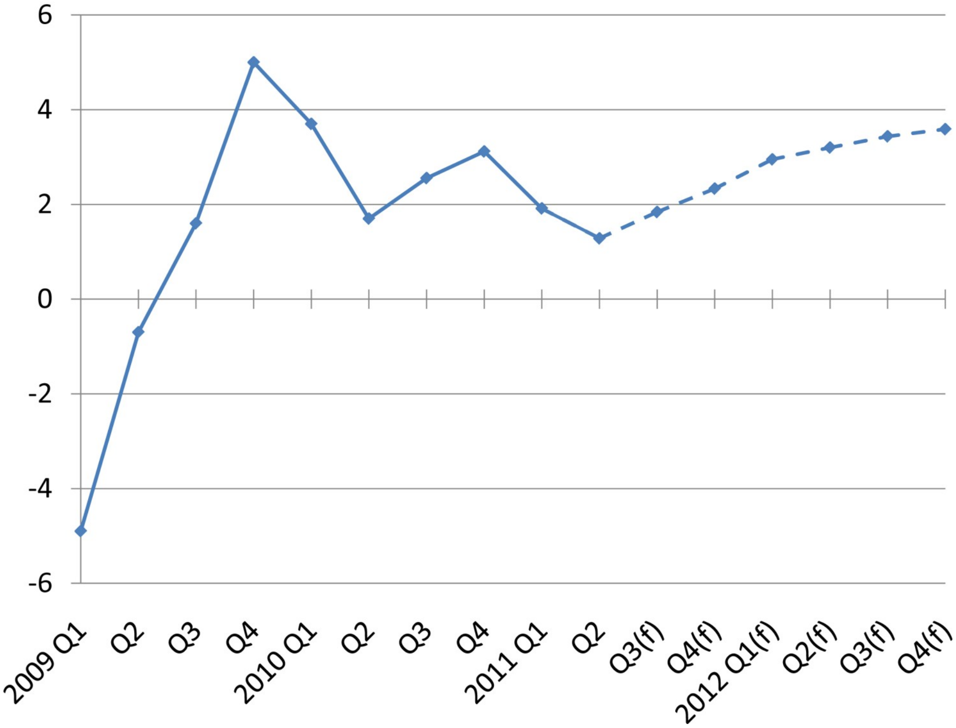


Private Industry Employment Trends



Data source: New Jersey Department of Labor

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



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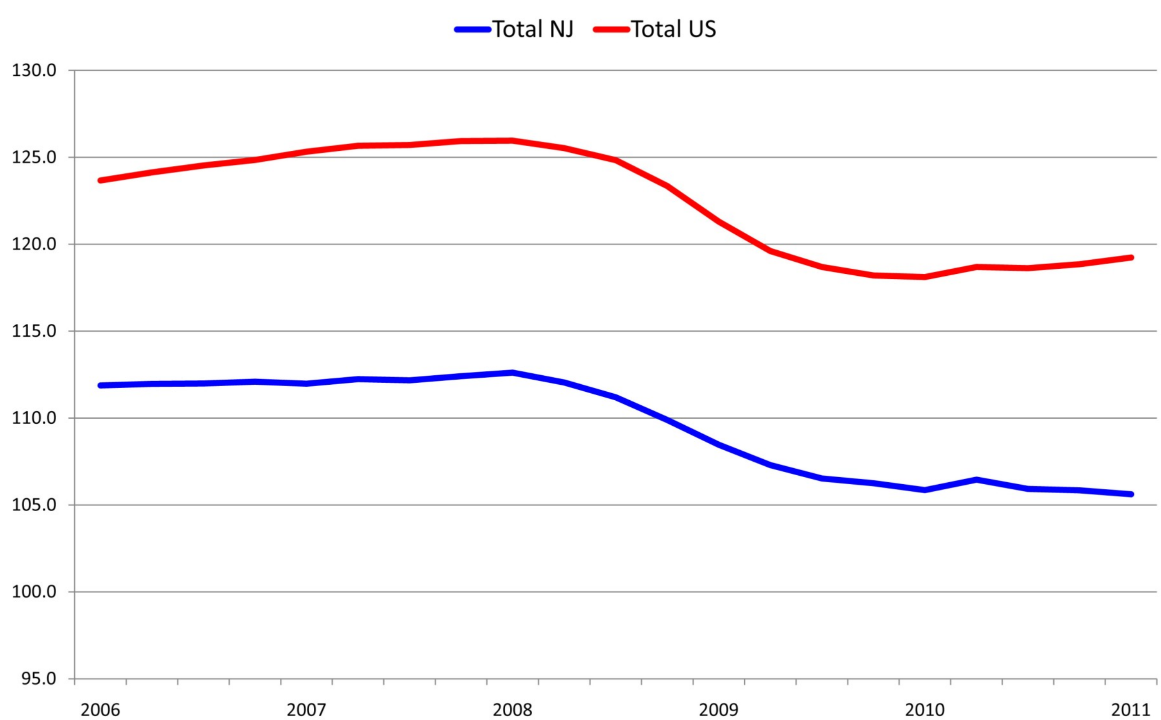
Data source: U.S. Bureau of Economic Analysis

State & National Job Trends

Total Employment (Relative Employment 1990=100)

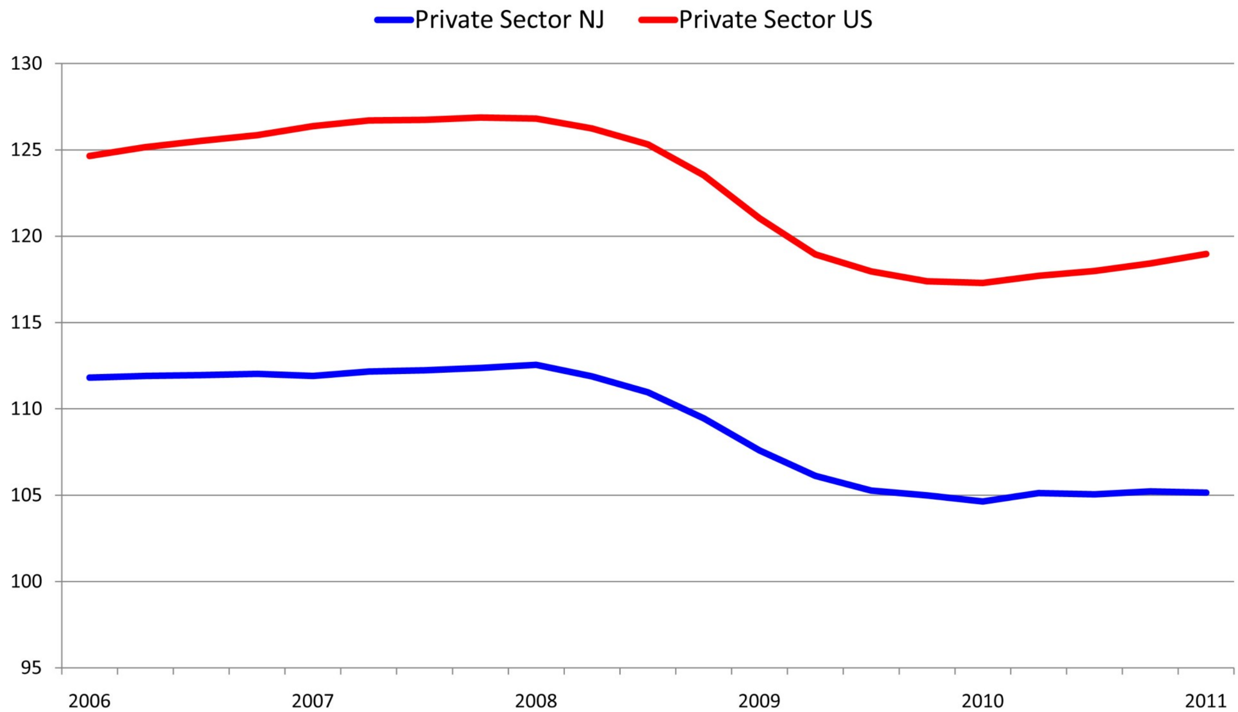
This chart compares the number of employed workers to the base year of 1990. The number 100 represents employment in 1990.



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.