

# New Jersey Economic Insights

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## First Annual Garden State Economic Forum

To hear the latest insights on the state of the New Jersey economy from a distinguished group of prognosticators, be sure to sign up now for the first ever Garden State Economic Forum. It will be held at the New Jersey State Museum in Trenton on Nov. 14 from 9 a.m. to 1:30 p.m. and will feature presentations by Joel Naroff of Naroff Economic Advisers and Erica Groshen of the New York Federal Reserve. For the full program go to <http://www.state.nj.us/treasury/gsef/economic-forum.shtml>

## Outlook New Jersey

### New Jersey Indicators Hold Fast Yet Serious Risks Remain

#### New Jersey

Our unemployment rate notched down to 9.4 percent in August. Private sector employment fell 11,300, but most of the decline simply reflected the strike at Verizon. The August numbers were collected during the strike while the workers have since returned to their jobs and will be counted in September.

Most of the rest of the loss was in leisure and hospitality. It's likely the numbers in this sector in August were held back by ephemeral effects such as early departures of college students holding summer jobs and perhaps, some effects of the storms that hit the state. On the whole, correcting for the Verizon strike, the state's numbers looked reasonably steady in the face of the massive jolts the financial turmoil gave to household and business confidence, as well as the poor weather. Despite the drop from July to August, employment levels in the state remained higher than a year earlier. The steady gains in our Garden State Economic Index through August also show that the state's economy remained basically on track through the late summer.

The environment looking forward remains quite unsettled. Some indicators look less bleak than they did in August. In particular, while the September reading of the Federal

Reserve Bank of Philadelphia's manufacturing index was still quite negative, it was less dire than in August, when it suggested an imminent collapse of production. Similarly, our own survey of New Jersey businesses suggests firms are more bullish about the future than they were in August. These fragmentary readings reinforce the view that much of the recent financial turmoil *may* not have deeply negative effects on economic activity. However, the emphasis is important. We are still facing significant risks.

On a more upbeat note, the U.S. Department of Commerce has

issued revised numbers on personal income for individual states and New Jersey's figures were boosted. While income numbers for the nation as a whole have been revised down for the last few years, incomes for New Jerseyans were revised up around 2 percent, and have set new record

- New Jersey indicators are holding up well given financial and weather shocks.
- National indicators have recently softened, though not sufficiently to suggest an immediate turndown in the economy. Still, serious risks are evident.

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highs for each quarter from the second quarter of 2010 through the second quarter of 2011. Much of the upward revision involves higher estimates of the income New Jersey residents earn out of state (most likely, primarily in New York.) Of course, income earned in New York by New Jersey residents is less beneficial for the state from a tax standpoint than money earned in our borders, but nonetheless the higher numbers provide more evidence on our recovery from the recession.

### U.S. Economic Outlook

The recent national economic numbers have been mixed. As yet, there are only scattered signals that the economy is skidding into another recession. Financial market turmoil is little-abated as the continuing European debt crisis has weighed on the markets: A default by Greece could damage confidence in other Euro area nations and could trigger large losses of capital in financial institutions around the world, risking another round of credit contraction and thus potentially reversing the recovery in the world's economy. In addressing this situation, it is extraordinarily difficult to design policies that would be effective in resolving immediate problems, do not introduce the potential for further problems down the road, and would be accepted by all the nations of the Euro area.

Turning to the domestic numbers, as was the case for New Jersey, the national job report for August was softer than in recent months. Private employment was unchanged. Even correcting for the national impact of the Verizon strike, gains were quite limited. Retail sales were also lackluster. The softness in employment and retail sales were reflected in weak numbers for personal income and spending. Looking at more timely data, consumer confidence measures remained deeply depressed in September, and weekly new claims for unemployment insurance (more or less a measure of layoffs) have remained mired at levels higher than those seen last spring. Not all the news has been bad. There was a solid increase in industrial production in August, the index of leading economic indicators continues to rise, and July saw a surprisingly strong increase in the nation's exports. Resales of existing homes surged in August, giving some

hope that lower prices and lower interest rates may stir some life into the housing market. August's construction and capital spending numbers were also positive.

Despite the softness in many measures of activity, broad inflation indexes have stayed a bit on the high side, in part reflecting some special factors such as shortages of Japanese car models and the feed through of recent commodity price hikes into apparel costs.

Japanese auto production has revived, and commodity prices have fallen back, suggesting these hikes will ease off, but some have been disturbed by the failure of other prices to fall.

**There was a solid increase in industrial production in August [and] the index of leading economic indicators continues to rise**

Most analysts would likely agree that fiscal (national tax and spending) policies are almost surely more effective at this point than monetary policy (The Fed can't lower interest rates below zero and all their policy moves of the last year are essentially efforts to mimic the impact of negative interest rates. It's not an easy thing to do.) The problem is that there is a massive gridlock — analytical as well as political — as to what effective fiscal policy would consist of. To simplify, one camp favors increasing spending in the short run, while possibly enacting long run cuts. The other favors spending cuts across the board.

We believe a reasonably substantial portion of the recent stagnation in activity reflects the continuing impact of the Japanese disaster and the recent surge in commodity prices, as well as the onset of financial turmoil. This suggests we could see some modest improvement in fall and into next year. However, it seems unlikely right now that the improvement could be great enough to generate a marked reduction in unemployment in the near term. Moreover, as mentioned, the economy remains highly vulnerable to falling into an outright recession.

## ***Irene and Lee Hit Hard But Their Legacy May Be Short-Lived***

New Jersey saw an extraordinary spell of weather from early August through early September. The first three weeks of August featured a series of major rainstorms, with severe flooding in parts of the state. That set the stage for our August 27-28 encounter with Hurricane Irene, which resulted in the evacuation of more than one million residents, widespread power outages and more heavy rain and flooding. A week after Irene departed, the remnants of Tropical Storm Lee settled in over the state for several days, leading to the most severe flooding that the state has experienced since June 1972.

### **Assuming such payments come in a timely fashion, the events of late August and early September will not affect the overarching trajectory of the state's economy**

they will have an impact on the pocketbook. However, it's most likely the effect on the state as whole (not of course, on those who lost their homes) will be minor.

This conclusion may seem startling, in light of estimates that put the insured damage the state has suffered is in the area of \$2 billion. Unfortunately, the dollar total of physical damage is a highly misleading gauge of the cost of the storms and floods to the state's economy.

The more important effect is how these events will weigh on state employment, production and incomes. Based on many such events in the past, in New Jersey and elsewhere, the impacts are likely to be fairly small and short-lived.

It's fair to claim that all 8.8 million Garden State residents were impacted by these events. All of this also happened at a time of year when many had urgent chores to do in connection with the end of summer vacation and the start of the school year. It's natural to think these storms had a major effect on the state's economy — we'll all be talking about them for years to come, so surely

- First of all, a large portion, if not most, of the dollar losses will be offset by private insurance and federal funds.
- Second, the amount of the physical loss should be compared to figures such as the size of the state's economy (nearly \$500 billion is produced every year in New Jersey) or the value of physical property in the state (not precisely estimated, but likely between \$1 trillion and \$2 trillion) or the normal loss in value of physical property in the state from wear and tear and aging (probably more than \$1 billion a *week*). By all these metrics the storm damage was not terribly large.
- Sales and production are also likely to be little affected. Purchases and output that were postponed during the storms can be quickly made up. There's often speculation that rebuilding after a storm could provide a major impetus to activity, but evidence for that — except after a mega-event like Hurricane Katrina — is scant.
- In recognition of the disruptive effect of the storms and floods, the state is giving taxpayers the option to postpone some payments until Oct. 31 — the most visible ones are the personal and corporate estimated payments previously required to be submitted by Sept. 15. This change will shift some volume of tax receipts from September to later months, but it is anticipated that there will be no net effect on revenues for the fiscal year as a whole.

Obviously, for some people and for some localities Irene and Lee will leave permanent marks on their lives and fortunes. As is the case in any such event, people, businesses, and governments are seeking recovery payments from insurers and the federal government, and will be in some distress if these do not appear. But, assuming such payments come in a timely fashion, the storms will not affect the overarching trajectory of the state's economy.

## *New Jersey Business Pulse Survey*

### ***Businesses Concerns Have Eased Somewhat, Some Are Optimistic***

New Jersey businesses remained pessimistic about general economic conditions in September, but expressed greater optimism about the outlook than they did in August.

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. About 50 firms spanning a wide spectrum of industries and sizes responded to the August survey. The survey included 14 questions about current and prospective conditions. Detailed results may be found at <http://www.state.nj.us/treasury/pdf/septsummary.xls>

#### **General Conditions: Current Situation Still Negative, But Outlook Has Improved — Especially for New Jersey:**

As was the case in August, roughly 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. Looking forward, though, the fraction seeing conditions improving over the next year is considerably larger — about one-fifth expect moderate or substantial improvement — and the share seeing further deterioration over the next year (less than one-third) are both smaller than those seeing conditions currently worsening and also less than the negative response to this question in August. About one-fifth of the panel anticipates moderate or substantial improvement over the next year; this is comparable to the August response. The gist is that there appears to be somewhat less apprehension about the outlook, but it is still on balance negative. Once again, respondents show noticeably less concern about local conditions, with only about one-third (still a high proportion) reporting that the current New Jersey situation is deteriorating, while the fraction anticipating improvement in the state over the next year is a bit larger than that expecting deterioration.

**Revenues, Hiring and Capital Spending — Improvement Anticipated:** Firms are rather upbeat about their own prospects, with the share of respondents seeing larger revenues over the next year (both from New Jersey operations and from those outside the state) exceeding that expecting declines.

**New Jersey Firms Seem To Be Planning to Expand Payrolls:** About 30 percent of the respondents anticipate increasing their local job count over the next year, while only about 15 percent plan cuts. This is stronger than the results for operations outside New Jersey, where the fractions anticipating job gains and job cuts are roughly equal. Respondents are similarly upbeat about boosting capital spending in the Garden State but cooler about plant increases elsewhere.

**Product Prices Starting to Move Up, Input Cost Growth Widely Evident:** Price increases seem to be becoming more evident. About one-third of the respondents report that they have recently increased any of their prices, which is a higher proportion than in August, though a nearly equal proportion report that they have not recently raised prices. More than three-fourths agreed that costs have recently risen.

**Conclusion:** Respondents continued to be somewhat downbeat about the current situation, especially outside New Jersey. However, assessments of the outlook — especially in the state — and their own firm's situation are substantially better. Their in-state hiring plans are especially encouraging, though the widespread reports of difficulty finding qualified workers may put a crimp in these plans. These results are encouraging since they suggest that global financial turmoil is not yet, at least, hitting home — the turbulence on Wall Street may not be flowing into Main Street.

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

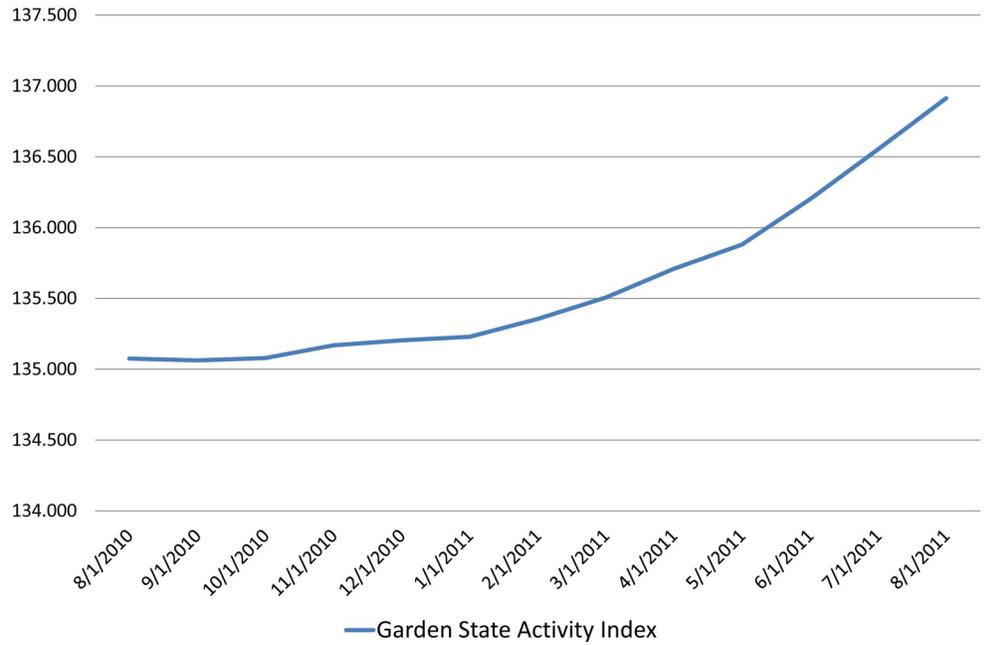
## Garden State Activity Index

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.

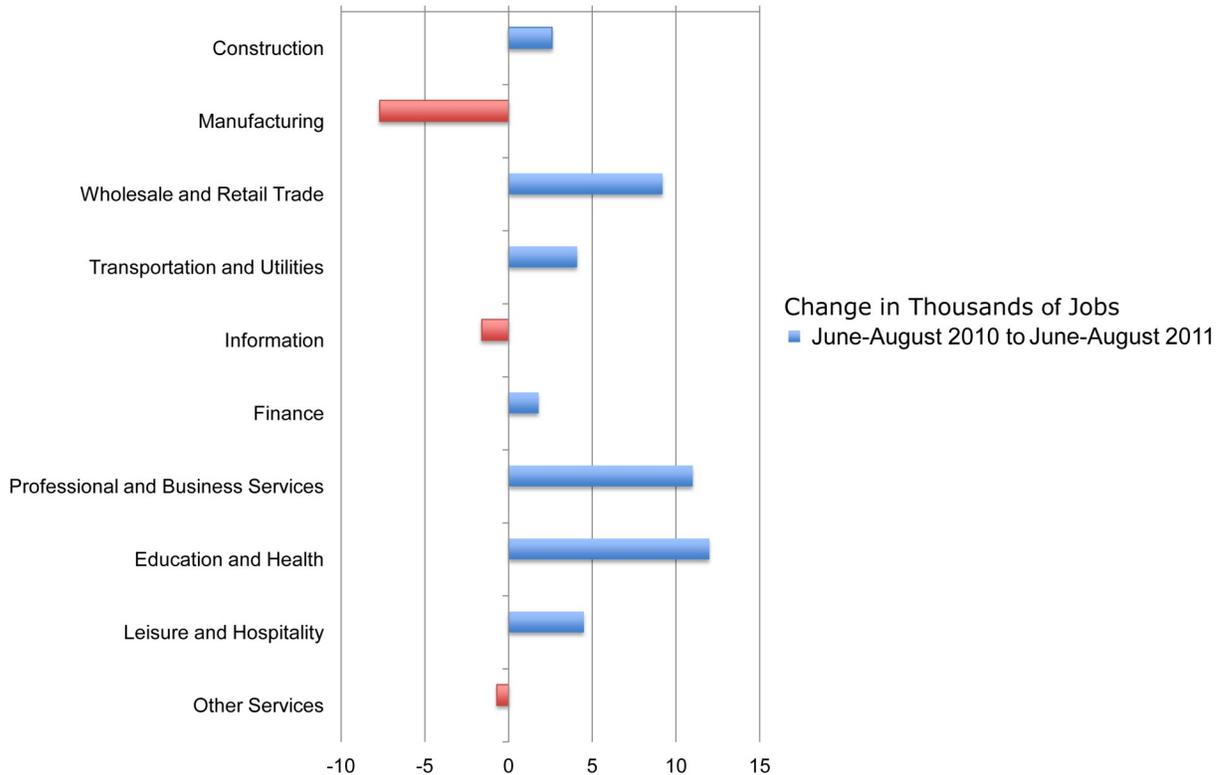
We recently began using principal components analysis to calculate the activity index. This statistical technique systemically assigns weights to the three components in building the index. The new weighted index should more accurately capture the state of the Garden State's economy.

Based on the most recent data, the New Jersey economy continues to grow at a steady rate. In August, the index was **1.4 percent higher** than in August 2010.

-Andrew Lai

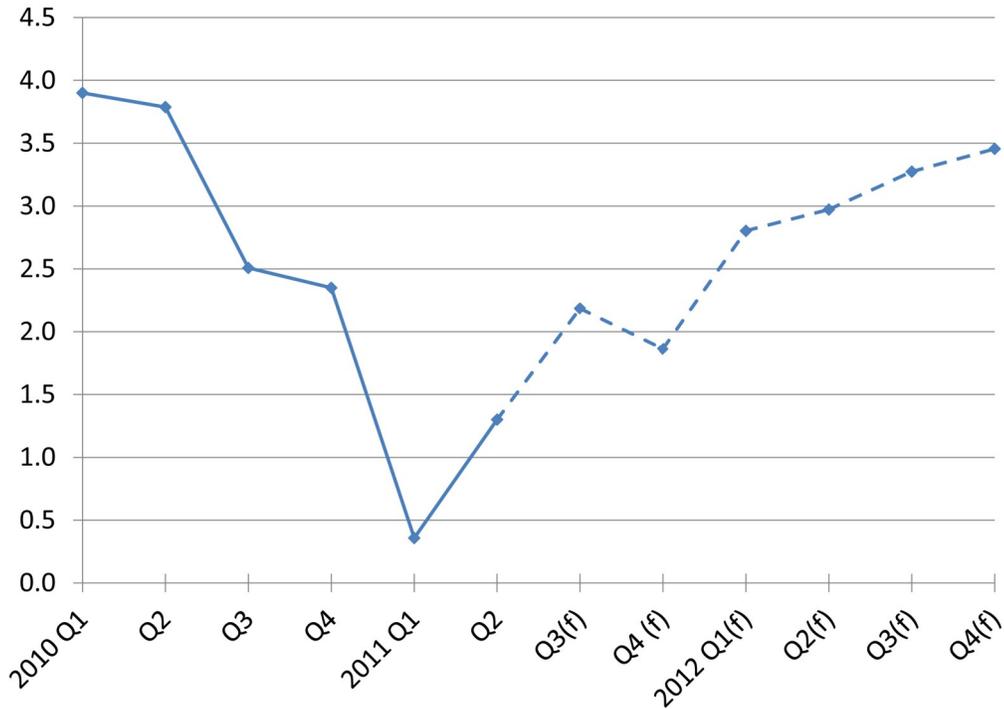


## Private Industry Employment Trends



Data source: New Jersey Department of Labor

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



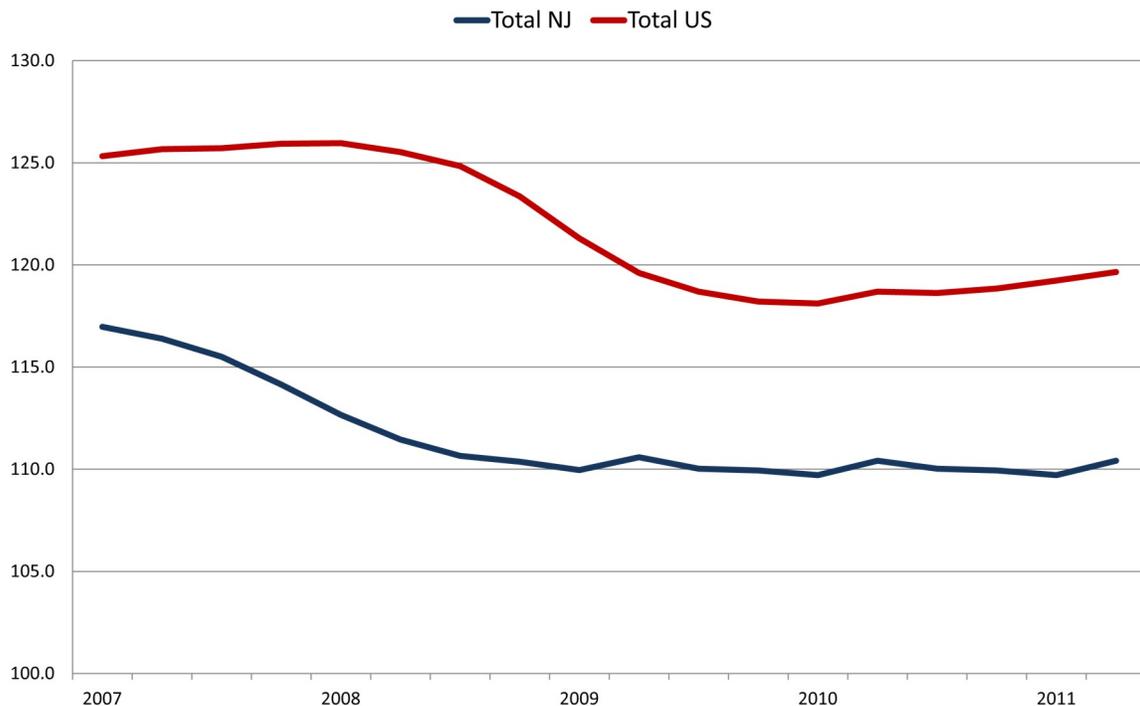
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Data source: U.S. Bureau of Economic Analysis

## State & National Job Trends

### Total Employment *(Relative Employment 1990=100)*

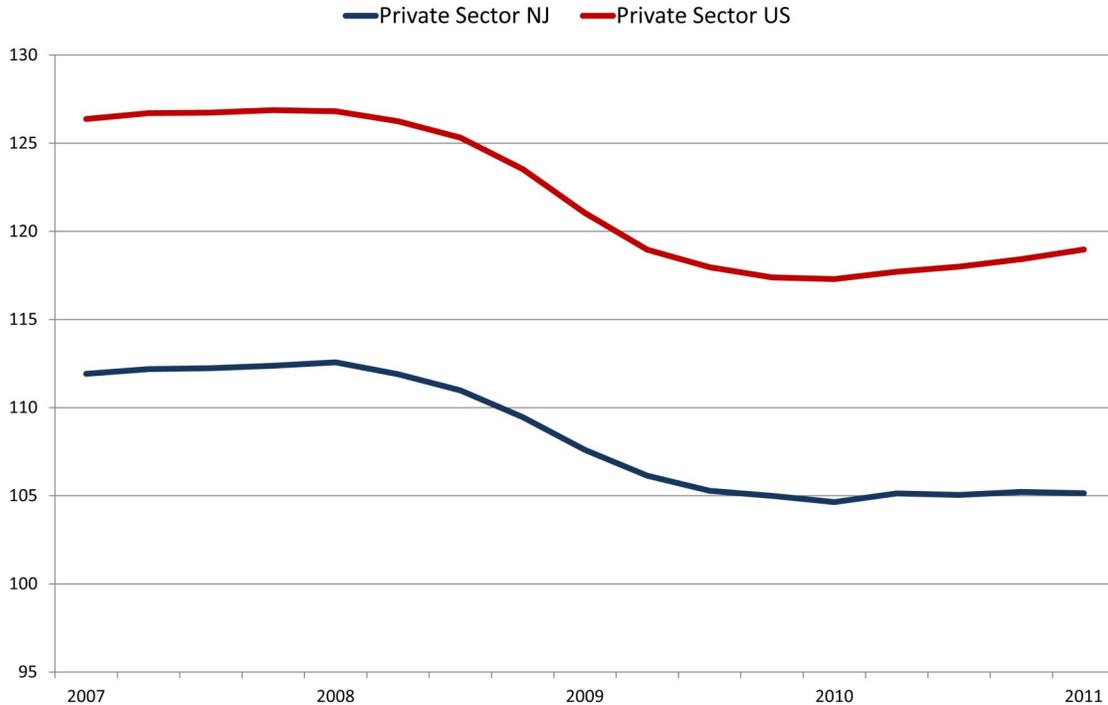
This chart compares the number of employed workers to the base year of 1990. The number 100 represents employment in 1990.



## 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.*