

Garden State Economic Forum:
New Jersey at the Crossroads

***“The Future Ain’t What It
Used to Be!”***

--Y. Berra

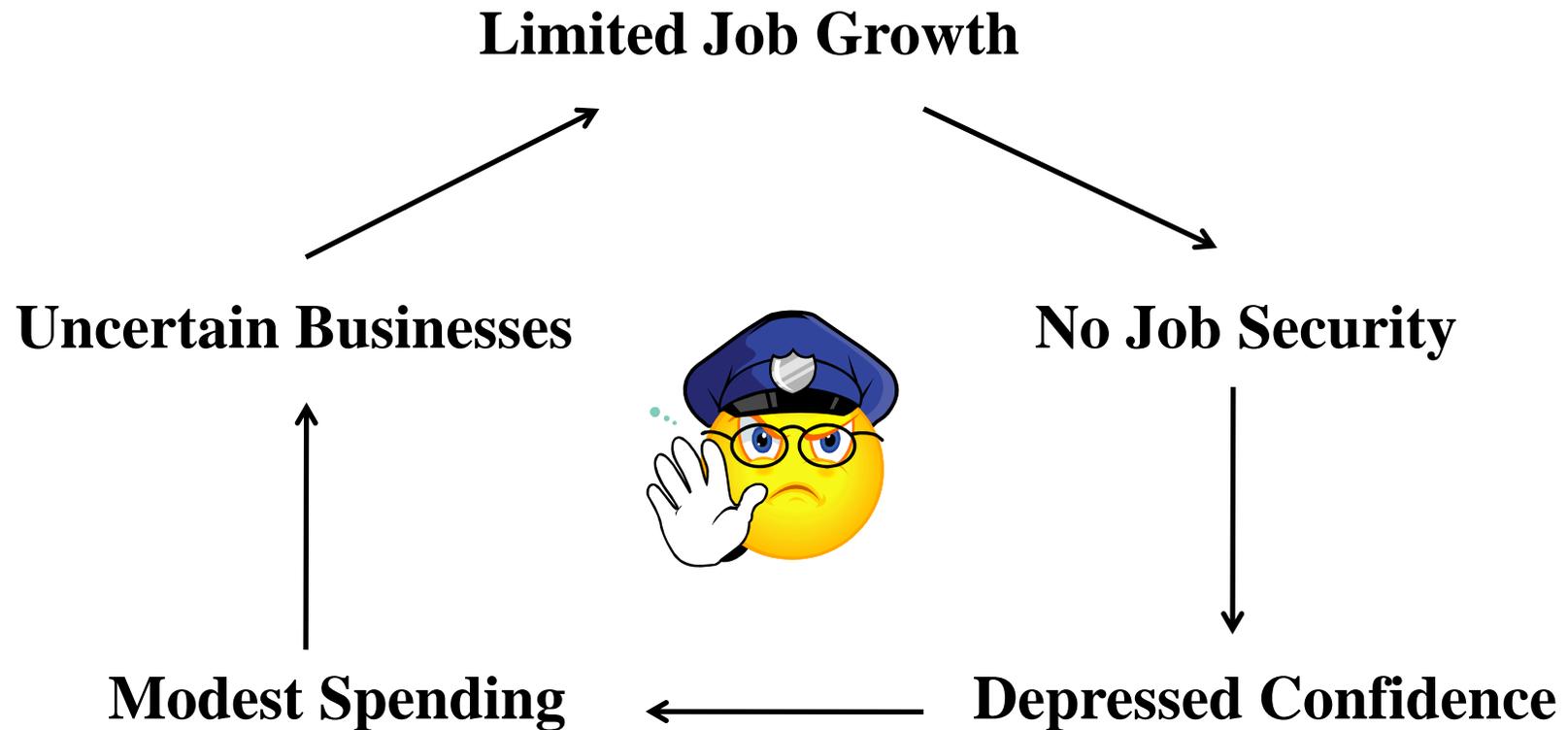
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This Is the Recovery We Were Always Going to Get!



How do we get back to stronger growth?

The Recovery Was About to Change Gears Early This Year!



The Negative Feedback Loop Was Reversing!

What Got in the Way?

OIL!



Debt ceiling battles, a debt downgrade, sovereign debt issues, volatile stock markets and weak job growth hurt confidence

Outlook: Slow, Steady, Grinding Recovery Continues



1. Labor market firming.
 - Confidence will return with it.
2. Businesses have \$2 trillion of liquid assets.
 - Investment remains robust.
3. Weak dollar a help – exports driving growth.
 - Farmers are feeding the world.
4. Housing no longer a restraint.
5. Low interest rates will ultimately help.

It's a process so give it some time!

The Future: Lots of Hurdles To Clear



- **Inflation:** Food, energy, imports all to rise rapidly .
 - *\$4.00/gallon a killer.*
- **Housing:** No recovery in sight.
 - *Mobility is being limited.*
- **Fiscal Restraints:** Governments normally expand not contract.
 - *“There is no such thing as a free budget cut!”*
- **Uncertainties:** Political, regulatory, taxes, health care.
- **European Debt:** Eurozone recession means slower U.S. exports.
- **Bubbles:** Without them, we are in a slower growth mode.

Outlook: Don't plan on the 3.5%-4% growth we had in the past two decades but more like 2.5%-3%

New Jersey: Some Positives in the Negatives



- **Housing:** Not the default crisis seen elsewhere.
 - *Equity market upturn with growth improving coupled with low prices means high income households can buy.*
- **Lack of Mobility:** States with slower population growth benefit moderating outmigration.
 - *Buys time to correct the imbalances driving out households.*
- **Fiscal Restraints:** The process is underway – each year gets easier.
 - *Cannot get back to solid growth if state is cutting and in a bind.*
- **Globalization:** It is all about trade in goods and ports are a major plus.
- **Bubbles:** Slower tax revenue growth but easier budgeting process.

Implications: Expect slowly improving economic and revenue growth but not any surge coming from income, sales or corporate taxes.