

New Jersey
Economic Insights
By Dr. Charles Steindel

January 2011

Dear Readers,

The New Jersey Treasurer's office is delighted to send you the first of what will be a regular series of economic reports researched and presented by Dr. Charles Steindel, Chief Economist of the New Jersey Department of Treasury and head of the newly formed Office of the Chief Economist. Dr. Steindel spent 25 years as a senior economist with the Federal Reserve Bank of New York, where he helped guide and prepare U.S. economic forecasts. Now he's zeroing in on the economy of New Jersey. These newsletters will provide insights and commentary along with essential data. They are designed to help everyone with a stake in New Jersey's economy make better decisions about the future. We hope you find value and insight in what we have prepared.



Treasurer Andrew Sidamon-Eristoff

Outlook New Jersey

2011 Forecast

Gathering Signs of Recovery

Private sector job growth

Steadily rising incomes

Continued high unemployment



Chief Economist Charles Steindel

New Jersey:

2011 could be the best year for New Jersey's economy since 2007. Statewide, **personal income has begun to move up**, and that should soon translate into higher spending and employment. If the national recovery continues to gain traction, demand for products made by Jersey businesses will expand and the state's airports, roads and rail yards will get a lot busier. **If the positive trends continue at the current pace, most companies across New Jersey's diverse mix of industries will post moderate but noticeable job gains and overall job growth in the private sector will more than offset any cuts that may come in government employment.**

We have already seen the business and professional services sector begin to expand. **It's a safe bet that 2011 will also see retailers, firms that profit from entertainment and leisure spending, as well as transportation and warehouse companies, looking to expand their workforces. Indeed recent months have seen some gains in the state's overall job count, though unemployment remains above 9%.**

Once the signs of fledgling economic recovery become more apparent, discouraged workers who stopped looking for work will start searching again. But the economy won't expand fast enough to provide a job to everyone who wants to work. That will keep unemployment stubbornly high even as the number of jobs available starts to climb. **Housing sales and homebuilding will remain at depressed levels, because confidence in long-run prospects is likely to lag.** The large number of foreclosed properties on the market will continue to put downward pressure on home prices. The commercial real estate cycle, meanwhile, will stay near its bottom because recession-wary businesses will hold back on renting more offices and warehouses until the need for new space is critical.

Still, with any luck, 2011 will be a year in which households and businesses begin to look beyond the tough times of the recent past, stop hoarding cash and start to spend at a pace that will accelerate expansion

The national picture:

New Jersey's growth reflects an improved national economy. National indicators have strengthened in recent months, putting to rest the summer fears of a "double-dip" recession. Although the unemployment rate nationally was still 9.4% in December, **recent numbers show growth in private employment, auto sales, and manufacturing. And the agreement between the Administration and Republican leaders in Congress not to raise taxes removed a cloud of uncertainty** hovering over the state and national economies.

Consumer spending should rise as personal income and household wealth expand, and there is increased recognition that the national economy is growing, Indeed, the numbers for holiday sales around the nation suggest that consumers are loosening their purse strings. More consumers are likely to grow confident enough to risk buying big-ticket items such as cars and appliances. The rollback of payroll taxes would give a modest boost to household spending by putting more money in the hands of consumers.

If the economy remains on track, **businesses will ramp up capital spending** and put more excess manufacturing capacity back to work. Profits will stay high, moving up even more as the economy improves. The **housing market will revive**, thanks to continued low mortgage rates and a stabilization of prices. **Exports, especially to Asia, will continue to grow rapidly. More people will be hired, but inflation will stay low as the unemployment rate remains much higher than in the recent past. The Federal Reserve will likely keep short-term interest rates near zero** into 2012, making it as easy as it can for businesses and consumers to borrow.

But many potholes remain on the road back to expansion. **Congress will be reluctant to increase federal spending, and stimulus aid, a major prop to the recovery, is likely to disappear. Commercial vacancies will stay high. State and local governments will be strained** because they will find it difficult, if not impossible, to cut spending or raise taxes enough to make up for lost federal stimulus aid. The recovery could still falter, **but the longer it sputters along, the higher the chances that public confidence will grow and the economy will expand at a pace that provides more jobs and income for everyone.**

Bottom Line:

Yes, 2011 could be the best year of the last four for the nation and New Jersey.

However, even if 2011 brings a turnaround, it won't be a great year for everyone. Unemployment will remain unacceptably high. Growth will be restrained in comparison to past recoveries from deep recessions. Economic dislocation will remain a reality for many people. But if the year progresses as it now appears it will, perceptions will begin to change. Businesses and households will spend more and the pain of this recession should start to fade.

New Jersey Economic Indicators

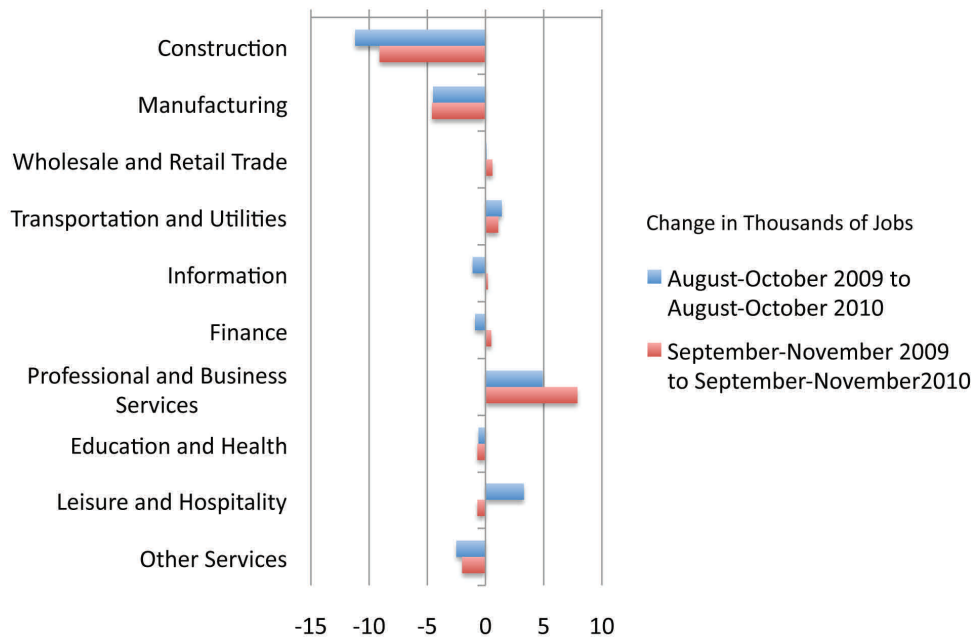
Forecasts

2007	2008	2009		2010	2011	2012
1.4	0.3	-2.4	New Jersey Real State Product Growth ¹ (Percent)	2.6	3.0	3.9
6.0	2.5	-2.6	New Jersey Personal Income Growth ¹ (Percent)	2.7	4.5	2.9
4079	4048	3892	Payroll Employment ² (Thousands)	3848	3877	3961
0.2	-0.7	-3.9	Payroll Employment Percent Change ²	-1.1	0.8	2.2
4.3	5.5	9.2	Unemployment Rate ² (Percent)	9.6	8.6	7.7
13066	9169	7211	Single-family housing permits ³	7500	7700	9000
12323	9194	5210	Multi-family housing permits ³	5900	6200	6500
255.4	241.6	229.3	Housing Price Index ⁴ (1991 Q1=100)	225.9	234.9	246.7
19084	25766	34662	Personal Bankruptcies ⁵	40000	45000	48000

Data Sources: 1) U.S. Bureau of Economic Analysis, 2) New Jersey Department of Labor, 3) U.S. Census Bureau 4) Federal Housing Finance Agency 5) American Bankruptcy Institute

Private Industry Employment Trends

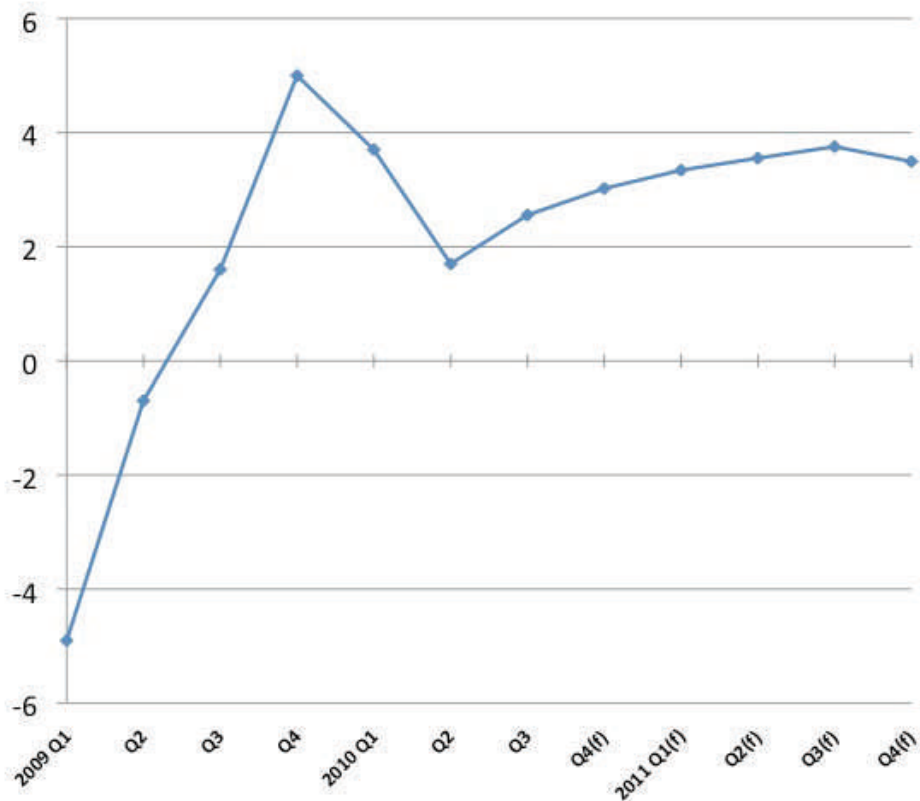
Private Industry Employment Trends



Data source: New Jersey Department of Labor

Real U.S. GDP Growth

(percent change, compound annual rate)



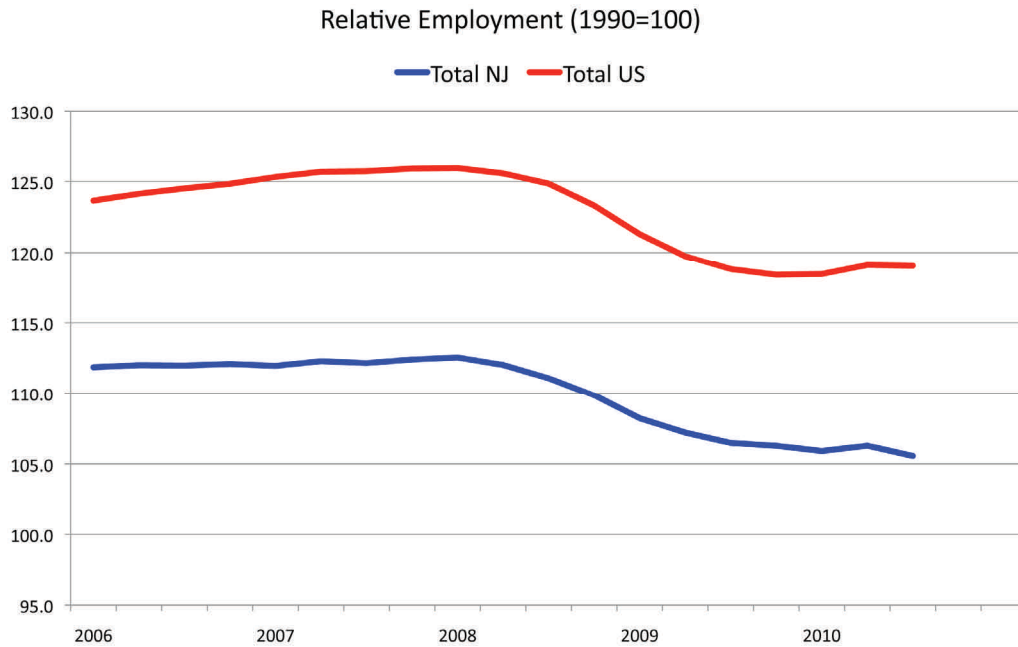
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Data source: U.S. Bureau of Economic Analysis

State & National Job Trends

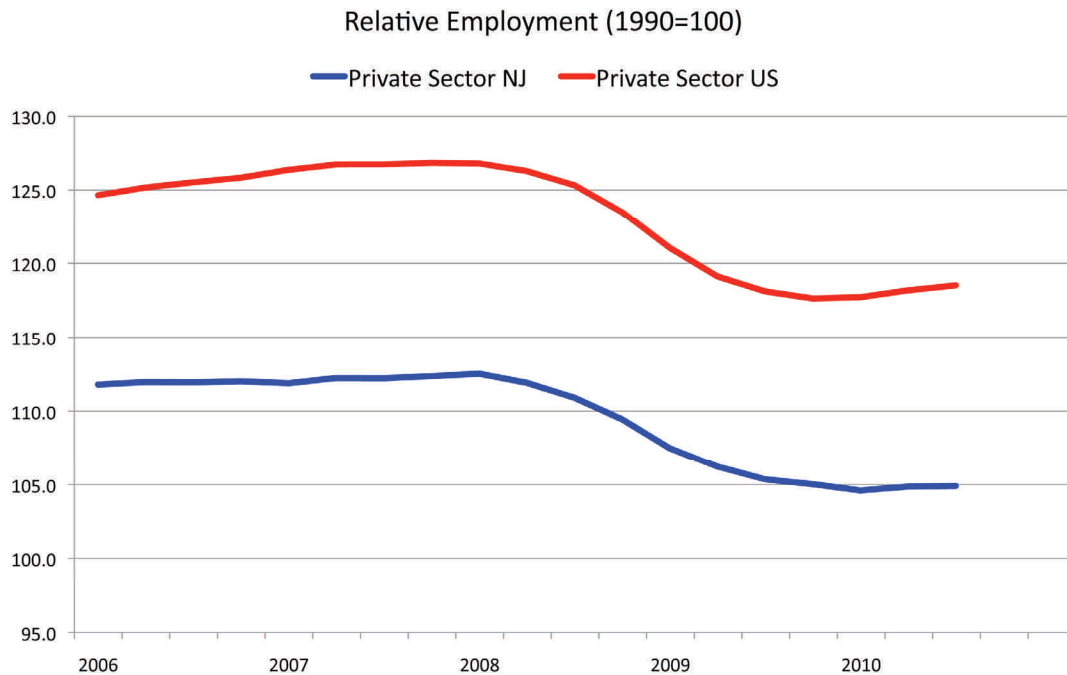
Total Employment Growth

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



Private Sector Job Growth

This chart compares 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 percentage gains in total and private sector employment in New Jersey and compare them with the gains for 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.