

New Jersey Economic Insights

Dr. Charles Steindel
Chief Economist
June 2011



Outlook New Jersey

Pace of Recovery Picked Up in the Garden State in April as National Economy Slowed

New Jersey's economy keeps generating jobs, but you wouldn't know it from the unemployment rate. April saw a third straight increase in total employment. Private sector employment rose by 13,400 jobs and government employment rose by 600 positions. Yet the unemployment rate remained distressingly high at 9.3 percent.

However, unemployment is not just a measure of the number of people who are out of a job. It is a measurement of those who are out of work *AND* actively looking for employment. The unemployment rate didn't fall in April because more people who had quit looking for work during the recession resumed their searches, offsetting the increase in jobs.

That high unemployment rate masks the extremely encouraging fact that over the last three months, the state's economy has created 32,000 jobs – an increase of 0.8% from January. What's more, New Jersey ranked eighth among the states in the number of jobs added in this period, and our percentage gain was noticeably higher than the 0.5% national average. Among the encouraging details in the April report were gains in construction, manufacturing, and leisure and hospitality – sectors that employ hundreds of thousands of New Jersey workers. Stabilization or growth in these industries has been badly needed. The growth in these sectors suggests that the recovery will expand to more sectors of the economy and employment will keep rising.

The key issues going forward are whether job growth can be sustained and whether this growth will be reflected in a lower unemployment rate. Our Garden State Activity index of New Jersey's economy continued to move up in April. However, the Federal Reserve Bank

of Philadelphia's local index of manufacturing activity pulled back from 18.5 in April to 3.9 in early May. The May reading still suggests growth in local manufacturing activity, but at a much slower pace than recently. On balance, the evidence suggests that the economy will continue to move forward, but not at breakneck speed.

U.S. Economic Outlook

Much of the national data for April was weak.

Manufacturing output fell, as did the Index of Leading Economic Indicators. Home sales and housing starts remained dismally low, and retail sales growth slowed

from the brisk pace of recent months. A smorgasbord of factors can account for the weak April results, including the aftershocks of the Japanese catastrophe rippling through the world economy, rising gas prices straining consumer resources and statistical anomalies caused by the unusually late date of Easter.

The effects of many of these factors have or soon should fade, brightening the national outlook. Nonetheless, given the economy's slow growth before these factors arose, questions about the sustainability of the recovery are again being raised. When Gross Domestic Product is growing at an annual rate of only about 3 percent, short-lived factors look a lot more ominous than when growth is running at 5 percent per year.

“On balance, the evidence suggests that the economy will continue to move forward, but not at breakneck speed.”

Industry Spotlight

Logistics and New Jersey, Perfect Together

“Amateurs talk tactics, professionals talk logistics”

Military saying

“It’s a material world”

Madonna

“Counting the trucks on the New Jersey Turnpike”

(Apologies to) *Paul Simon*

Logistics is the science of efficiently arranging the production and distribution of goods. Good logistics are key to business success – just as they are to effective military operations. The grossly exaggerated observation that we have a “service” economy hides the critical importance of logistics. A very large portion of what is labeled “service production” is actually work done to support the production and distribution of material goods. In this instance, the Madonna song is right: For all producers, it’s a material world, and logistics makes access to materials possible.

The narrow logistics sector – which is included in the “service-producing” portion of the economy – can be thought of as industries involved with the distribution and storage of goods, including areas such as trucking, rail and water transportation and warehousing.

Benjamin Franklin is quoted as saying New Jersey is a “barrel tapped at both ends,” referring to the role the Garden State played and still plays in distributing goods and raw materials to two of the largest urban areas in the nation. **New Jersey’s location on both New York Harbor and Delaware Bay, and the fairly short and level land route it offers between the two, has made the state an irreplaceable link in the U.S. transportation system.** Today, New Jersey provides logistical services to the world, including our neighbors in New York City and Philadelphia.

Our logistical infrastructure backbone is massive, including enormous facilities such as the ports of Newark

and Elizabeth, and the numerous warehouses and distribution centers dotted along the New Jersey Turnpike. The Turnpike and other major roads such as Interstates 287, 80, 78 and 295 are as much a part of the state’s logistics capital as are the railroads, warehouses and ports. And, of course, an incredible volume of high-value freight goes through Newark Airport as well as smaller airports throughout the state.

To give a rough sense of the sheer size of the enterprises, consider estimates that New Jersey has 750 million square feet of warehouse space — an expanse equal to more than half the land area of Hudson County. The nation as a whole had more than 10 billion square feet of warehouse space in 2003. Most likely, that figure has not grown materially in the last eight years. So it’s safe to calculate that New Jersey, with less than 3 percent of the nation’s population and a mere one-quarter of one percent of U.S. land area, has considerably more than 5 percent of U.S. warehouse space.

There are three private logistics industries that generate significant numbers of New Jersey jobs: trucking, transportation support, and warehouse and storage. **These industries employ a large number of New Jersey residents who earn good wages. Combined, employment in these industries is a bit less than 80,000 people. In 2009 these workers earned more than \$4 billion, making average pay more than \$50,000 a year.** Regionally, these jobs are mainly in the northeastern quadrant of the state, with about half the jobs in warehouse and storage concentrated in Middlesex and Hudson counties.

“There are three private logistics industries that generate significant numbers of New Jersey jobs: trucking, transportation support, and warehouse and storage.”

(Continued on page 3)

Logistics is closely linked to construction and government. Including private highway and road construction workers as well as state and local highway workers in the logistics sector adds more than 12,000 jobs and close to a billion dollars in wages to the totals.

Moreover, many other workers are involved in building and renovating warehouses, repairing and maintaining vehicles and other equipment, and providing financial and information support. **A plausible estimate is that more than 100,000 New Jersey jobs are either directly in the logistics sector or in areas closely connected to it.**

Logistics employment in the state, though, inched down before the recession. It dropped sharply once the downturn hit. The likely explanation for the pre-recession slide in logistics employment is the spread of technology, which increased efficiency in the handling of materials and the scheduling of shipments, but also reduced employment. In other parts of the nation, strengthening

local demand offset the impact of technology, and the logistics job count moved up until the recession took hold. Then weak local demand for goods reduced the need for logistical labor everywhere, including New Jersey.

Still, while the industry hasn't grown in New Jersey, logistics remain a bedrock of the state's economy. As real estate agents say, it's location, location, location—and New Jersey's location is hard, if not impossible, to beat. Major projects are underway that should bolster our position as a logistics leader, most visibly the widening of the Turnpike in central New Jersey, and the Port Authority's project (now in its planning stages) to elevate the Bayonne Bridge roadway. Our strong logistics sector is a prominent attraction to industries such as manufacturing, importation and distribution that depend on the efficient storage and transportation of products.

New Jersey Business Pulse Survey **Cautious Optimism about State and Global Outlooks**

New Jersey businesses expressed cautious optimism about the state and world economy in April. These findings come from a survey conducted by the Office of the Chief Economist in 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 directly from a diverse group of businesses in the state. The April survey drew responses from 100 firms spanning a wide spectrum of industries and size. It posed 14 questions about current and prospective conditions and allowed respondents to give their views on other topics of their choice. Detailed results may be found at <http://www.state.nj.us/treasury/pdf/April-Business-Pulse-Survey-Results.xls>.

General Conditions: Steady As You Go, but Better Times Ahead

The responding firms said general conditions inside and outside New Jersey showed little change over the prior month; the overwhelming majority reported conditions were either little changed, moderately improved or worse. Looking toward the next year, there was a decidedly more upbeat tone with more than three-fourths of the firms seeing their Garden State revenues growing and nearly all firms with operations outside New Jersey expecting out-of-state sales gains. Less than one-fifth of respondents expect national or world conditions to deteriorate and less than one-fourth expect to see any slippage in the state.

Hiring and Capital Spending: Yellow Light Still On

Firms still express considerable caution about plans to expand their workforces and plant and equipment either in New Jersey or elsewhere. Less than one-fourth of respondents expect to make any significant changes in their workforce inside or outside New Jersey. Similarly, about two-thirds of the firms foresee little change in their capital spending in New Jersey over the next year while more than half of the respondents expect significant changes in

their firms' out-of-state spending. While these results support the general assessment that the economic expansion is unusually slow, they do not show much indication that further rounds of sharp cuts in employment and spending are in the offing.

There has been some recent speculation that the sustained high unemployment rate may reflect structural factors: the unemployed may not have the skills needed for emerging occupations or may be demanding unrealistically high pay. Our survey does not show much sign of that. Firms indicate that they have little or no problem finding qualified employees either inside or outside the state.

Input Costs Up, but Product Prices Are More Stable

Less than one-third of the respondents indicate that they have recently increased any of the prices they charge their customers. In contrast, more than three-fourths indicate that some of the prices they pay suppliers have recently risen (about one-fifth strongly agree that their input costs have gone up). It's not surprising, given the recent sharp boosts to the costs of gasoline and other commodities, to see firms are reporting they are paying more. So far, those input price hikes are leading to only scattered increases in sales prices.

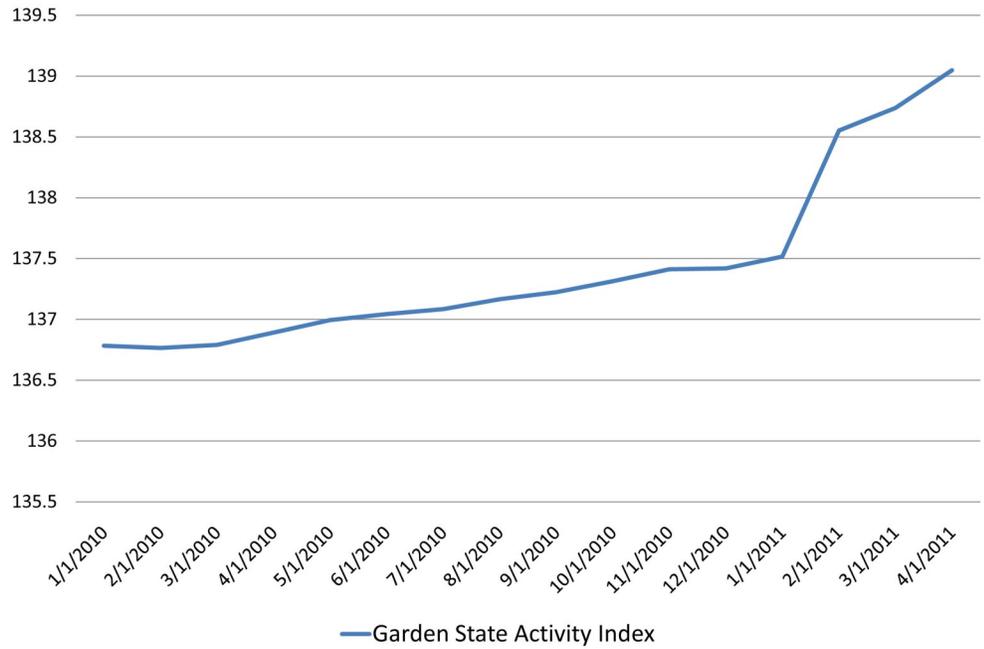
Finally, in their open-ended responses, 28 firms reported a variety of concerns. They included the increase in the price of gasoline and other energy costs and the levels of taxation in the state – with several citing real estate taxes – and regulatory barriers. Two reported difficulties in small firms gaining funding.

Future of the Survey

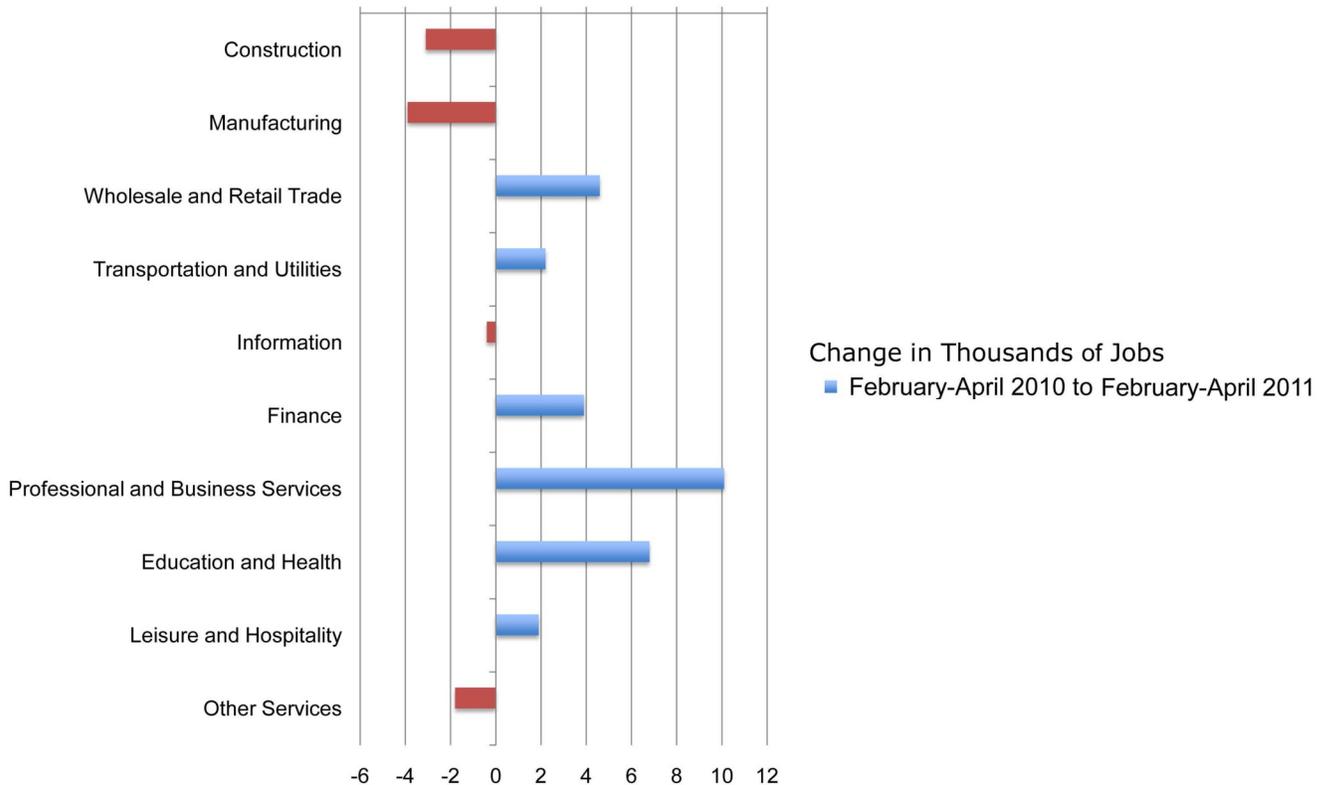
If your New Jersey firm is interested in participating in future surveys, please contact Mary Filipowicz at 609-633-6781.

Garden State Activity Index

The *Garden State Activity Index* is a measure designed to provide a broad indicator of monthly economic activity in New Jersey. The index is an average of three other measures: the coincident economic indexes for the state produced by the Federal Reserve Banks of New York and Philadelphia, and a measure derived from the Philadelphia Bank's South Jersey Business Survey. The latest reading shows that the index continues to rise. In April it reached its highest level since March 2009 and was more than 1% above than its April 2010 value.

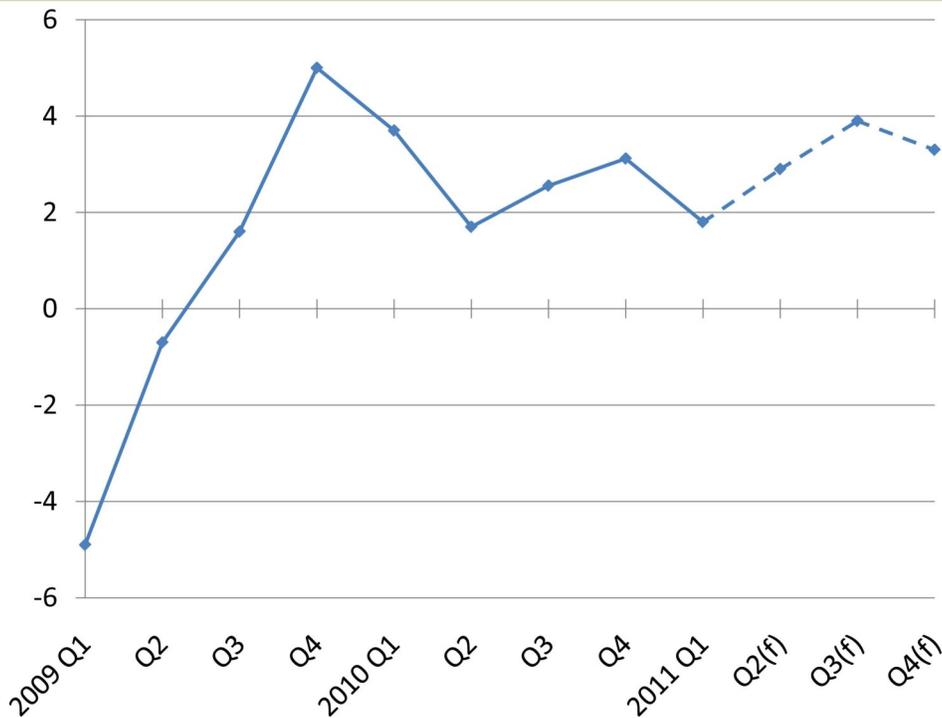


Private Industry Employment Trends



Data source: New Jersey Department of Labor

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



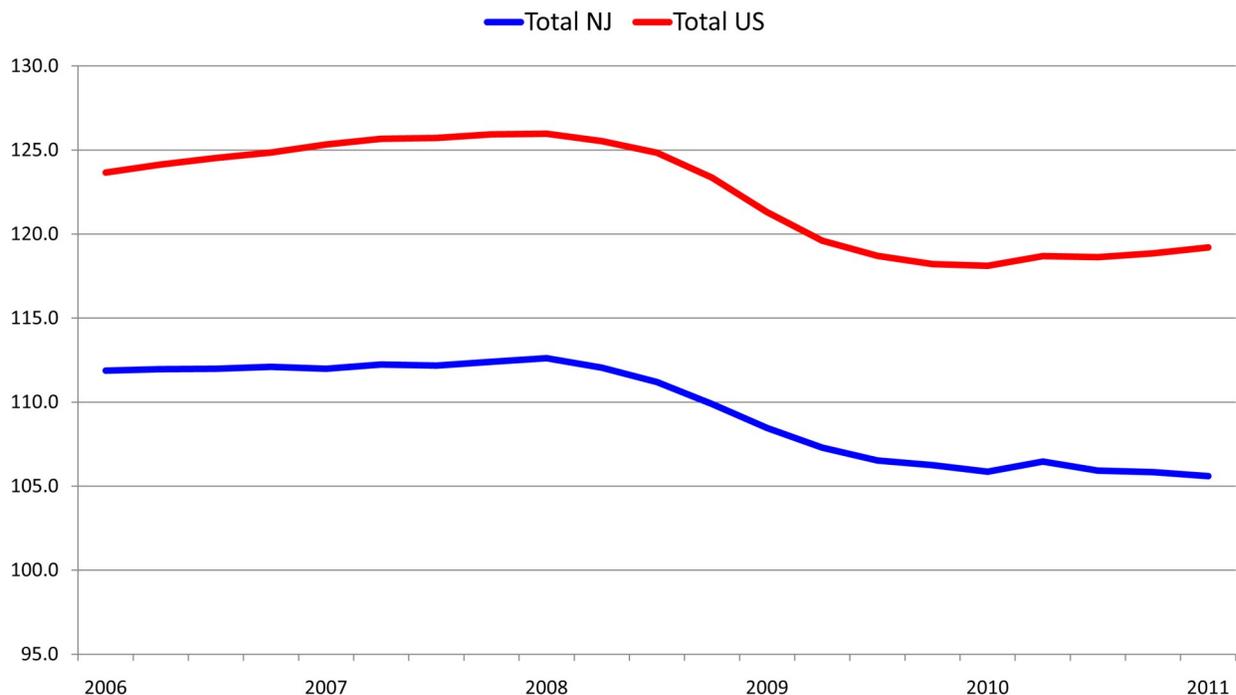
(f) - forecast

Data source: U.S. Bureau of Economic Analysis

State & National Job Trends

Total Employment (Relative Employment 1990=100)

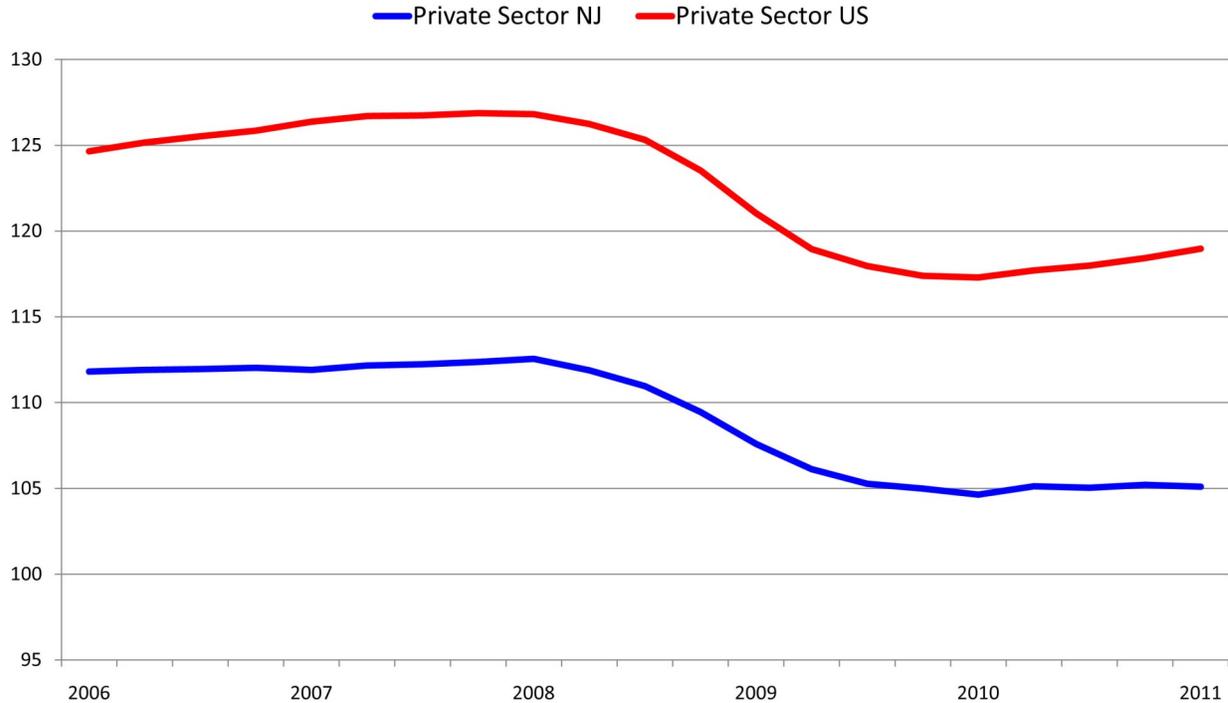
This chart compares the number of employed workers to the base year of 1990. The number 100 represents employment in 1990.



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.