New Jersey Economic Insights

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Outlook New Jersey

Despite Dueling Data Sets, State Still Seems on Course for Sturdy Jobs Growth

New Jersey

New Jersey added 9,900 jobs in June, following May's large increase of 14,400. The two-month gain of 24,300 was the best since the December 1999 to January 2000 period. Over the last year, the number of jobs in New Jersey has grown by 65,000, which ranks us sixth among the states. Our overall 1.8 percent increase in the last 12 months was a bit higher than the nation's.

Despite the continued sturdy growth in jobs, the state's unemployment rate rose from 9.2 percent in May to 9.6 percent in June. As we discuss in the accompanying *Economic Analysis* article, two sets of numbers on employment: the jobs count, which is based on a survey of employers, and the unemployment report, which is based on a much smaller sample of households, are pointing in different directions.

- ***New Jersey employment continues to grow, notwithstanding the rise in the unemployment rate.***
- ***National economic indicators have softened.***

On the whole, we think the job count numbers are probably providing a more accurate guide to what's going on in the state than the unemployment rate. Certainly, the marked 17,000 decline in employment from May to June that was reported with the unemployment numbers seems very much at odds with the 9,900 increase in the state's job count, reported by employers, and other information, such as the number of applications for unemployment insurance, which were little changed from May to June. If the labor market were truly deteriorating as sharply as the unemployment figures suggested, we likely would have seen a noticeable increase in claims for unemployment insurance. But we haven't.

It helps to keep in mind that the job count number is an estimate based on a survey of more than 5000 employers and so begins from a strong data base. However, the unemployment numbers are derived from a much smaller survey of households.

To be sure, there are caution signs for the state's economy, mirroring national developments. Notably, the Federal Reserve Bank of Philadelphia's manufacturing index, which reflects the views of manufacturers in the Delaware Valley region, has been fairly depressed for several months. July was the third straight month in which the headline "general conditions" index of this survey was negative. Also, our survey of state businesses has softened — see the article on page 5. However, through June, the state's job numbers have stayed on an upward path.

U.S. Economic Outlook

National economic indicators have softened, suggesting growth will continue to be lackluster. Real gross domestic product (GDP) grew at a meager 1.5 percent annual rate in the second quarter and June was the third

(Continued on page 2)

consecutive month to see job growth under 100,000. Retail sales fell in June for the third month in a row. Sharp declines in gasoline prices helped drive down retail outlays but sales have also been weak in other sectors. Consumer confidence and other forward-looking indicators, such as manufacturing surveys across the nation and the national index of leading economic indicators, have moved down. Manufacturing production, meanwhile, has been moving in a saw tooth pattern, with June's 0.7 percent increase offsetting a decline of the same magnitude in May.

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Housing has been a brighter area, with new starts apparently on the upswing. New and existing home sales declined in June, but this looks to be mostly a payback to some stronger gains in prior months. It does seem that reduced prices and exceptionally low interest rates are starting to get housing into gear. Even so, the negative developments have recently outweighed the positives, and the near term outlook for the U.S. economy looks weaker than it did a few months ago.

The continuing turmoil in Europe is probably a major factor weighing on the outlook. The economic weakness there is likely holding back industrial activity across the globe. The overhang of doubts about what will happen is causing businesses to hesitate on hiring and expansion plans and investors to curb their appetite for financing risky projects. Of course, uncertainty about post-election U.S. economic policy is also likely a negative, but not obviously more so than a few months ago.

The Federal Reserve has been edging toward taking additional steps to encourage greater lending to private businesses. It seems likely the Fed will step up its purchases of long-term U.S. government and agency debt. By doing so, the Fed will reduce interest rates on these securities, making them less attractive to investors, leading to an increased demand for private securities. An increased flow of credit to the private sector will, in principle, provide more funds for business and would help the economy grow. This sounds complex and convoluted. It is. There are no reliable estimates of how much help the Fed can provide to the economy through such means, but with standard monetary policy tools such as reductions in short-term interest rates exhausted, and tax and spending policy apparently on the sidelines until after the election, these are the only ones available.

We saw midyear scares in both 2010 and 2011. Fortunately, both times the economy improved noticeably toward the end of the year. Let's hope the third time is *not* the charm.

Economic Analysis

Why New Jersey's Recovery Has Been for Real

The spurt in the state's unemployment rate to 9.6 percent naturally leads to the thought that New Jersey is not recovering from the recession. Moreover, news accounts that the state's economy shrank last year would reinforce these concerns. The concerns are genuine — to put it bluntly, this has not been your father's recovery.

Nonetheless, despite the dour headline statistics, the broad array of indicators show that New Jersey has been gradually emerging from the recession.

Indeed, our recent pace of growth appears to match or exceed that of the nation as a whole; unfortunately, that national pace has been decidedly slow compared to past recoveries.

Unemployment Is Not the Only Story in the Labor Market

The rise in the unemployment rate naturally gets the most attention. The press and public have for generations been told that this statistic is ***the*** measure of the health of the labor market. The celebrated "misery index" of the 1970s was the sum of the national unemployment and inflation rates.

However, economists have long known that there are flaws in looking at the unemployment rate in isolation. A major problem is, simply put, that it is a rate: the ratio of the number of unemployed to the number of people in the labor force. The unemployment rate can rise merely because the labor force has risen faster than the number of people working.

In the second half of 2011 New Jersey's unemployment rate fell less rapidly than the nation's as a whole because our labor force grew more rapidly than the nation's. This was a very unusual development for New Jersey, since our population growth is noticeably slower than the nation's.

However, the numbers in the June unemployment report may be a poor guide to what's actually happening in the state's job market. These numbers are compiled from a fairly small survey of about 1,200 households in the state. Because of the small size of the sample, estimates of figures such as the precise number of New Jersey residents working in any month are subject to fairly wide margins of error. Certainly, New Jersey's unemployment rate is higher than the nation's. But so is a much more favorable statistic, the ratio of our employed residents to our population. Going much beyond that gets chancy.

The continuing increases in the job numbers suggest that the state is so far this year growing at a pace comparable to, or faster than, that of the country as a whole.

In looking at short-term movements in labor market conditions the headline number on the number of jobs in the state – which is different than the number of residents at work – is usually considered a much better indicator of what's going on than are swings in the unemployment rate.

The job count is derived from a much larger survey than the one used to compute the unemployment rate. The data is provided by employers and the continuing increases in the job numbers suggest that the state is so far this year growing at a pace comparable to, or faster than, that of the country as a whole.

At the moment, while the rise in the unemployment rate certainly raises some flags, we believe that the job count is giving the better view on what's happening in the state's labor market. That view is clearly one of recovery.

(Continued on page 4)

2011 State GDP: Preliminary, and Possibly Flawed

Last month the U.S. Bureau of Economic Analysis (BEA) released data showing that New Jersey's real GDP fell last year by 0.5 percent, with the state's performance ranking 47th in the nation and 2 percentage points lower than the nation's 1.5 percent gain. Since there is a belief that "GDP" is the best measure of aggregate activity, isn't this hard proof that the state hasn't been recovering?

The answer is a decided "no," for a number of good reasons. State GDP is derived from much more fragmentary data than the celebrated national GDP numbers. That's why the very first estimates of a state's GDP comes in nearly 6 months after the year ends — much later than we get national GDP figures. It was also startling to see that New Jersey's GDP growth trailed the nation's by a much larger margin than the difference in employment growth. This wider margin could be accounted for by the way BEA estimates the output of the real estate sector. It calculated that it plunged much more than would be indicated by the numbers on employment in the industry, or home sales, or home prices, or rents. BEA uses fairly arbitrary and mechanical procedures to produce these early estimates — the agency has no special knowledge of or information on or insight to New Jersey real estate.

When you exclude the real estate sector, New Jersey's economy grew about 0.6 percent in 2011, compared to a 1.8 percent gain for the U.S., and our rank was 36th, not 47th.

BEA notes that the 2011 numbers are "advance" estimates, subject to potentially large revisions. This is more than government boilerplate — revisions in estimates of state GDP can be large. Last year, more than half the states saw their 2010 growth rates revised by at least 1 percentage point; in one case more than 6! The upshot is that this bleak estimate of the state's 2011 growth and rank should be taken with a fair number of grains of salt.

Adding Up the Recovery

The upswing in unemployment must be acknowledged, but, on balance, the indicators suggest that the state's economy is growing. "Growth" must be distinguished from "normality." Obviously, the economy of the state — and the nation — remains a long way from a full recovery. New Jersey was a bit later than other states to start its recovery; this is because being nowadays essentially a service economy, we did not benefit much from the fairly dramatic rebound in heavy industry when the national recession ended. Also, we went through painful cuts in government operations ahead of the rest of the country. With these events behind us, we are now seeing growth on a par with the nation as a whole.

Unfortunately, matching the nation does not add up to very rapid growth: the national economy continues to face serious headwinds stemming from the legacy of public and private debt piled up in the last decade and serious economic and financial weakness in Europe. These problems didn't exist — or were much less severe — in past business cycles. Moreover, in those periods, no matter how much squabbling went on in Capitol Hill, or between the Congress and the President, the Federal Reserve was able to help the economy recover by reducing interest rates. Now, with the interest rates the Fed controls effectively at zero, that prop to growth has been diminished. The upshot is that the national recovery is likely to stay lackluster for some time. The good news is New Jersey is likely to keep pace. The bad news is the pacesetter isn't running that fast.

— *Charles Steindel*

New Jersey Business Pulse Survey

Increased Concerns Bubble to the Surface

In May and June, New Jersey businesses reported increased concerns about current conditions and the outlook for the global and state economies, while continuing to express optimism about the outlook for their own companies. These findings come from a survey administered by the New Jersey Department of the Treasury. In all, 69 firms responded to the May survey while 92 reported in June. Detailed results, along with an explanation of how indexes were constructed, may be found at http://www.state.nj.us/treasury/economics/index.shtml

General Conditions: Down from the Peak

Respondents have become notably more downbeat about current conditions in the nation. Their overall assessment of national conditions declined in both May and June to the lowest readings in 2012. Indeed, the index value summarizing the response to this question was below 100 in June. This decline is consistent with recent moves in many other indicators and surveys of national conditions. As yet, though, respondents are considerably less gloomy than during the second half of 2011 — a period of economic softness that proved to be fairly short-lived.

Assessments of New Jersey conditions have also softened, though not as markedly as for the nation as a whole. Panelists remain modestly upbeat about the outlook for both the nation and the state, though less so than in recent months.

Revenues, Hiring and Capital Spending: Outlook Remains Positive

As was the case last year, there is a contrast between the fairly marked falloff in respondents' assessments of general economic conditions and their views on their own firm's prospects. Responses to the questions regarding the outlook for their company's revenues, employment, and capital spending remain positive, though generally less so than earlier in the year. Inside New Jersey, the survey finds there are still substantial numbers of firms reporting difficulty finding qualified workers, offset by a roughly equal number saying they have no problems in that regard.

Product Prices and Input Costs

On balance, firms in June reported little change in the prices they charge — in May, responses were pointing more to cuts in prices (an index value below 100 suggests that product prices are falling). Firms continue to report that they are facing increases in input prices, despite the recent marked drops in the prices of oil and other commodities.

Conclusion

The May and June results suggest lessened forward economic momentum in general conditions, though respondents retain confidence their firms will continue to grow. These movements appear to parallel recent shifts in national economic but so far have not been as marked as the deterioration seen in the second half of 2011. In the open-ended responses, there were concerns expressed about tax and regulatory issues, both at the state and the national levels, as well as some discussion about the potential impact of the presidential election.

— *Charles Steindel*

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

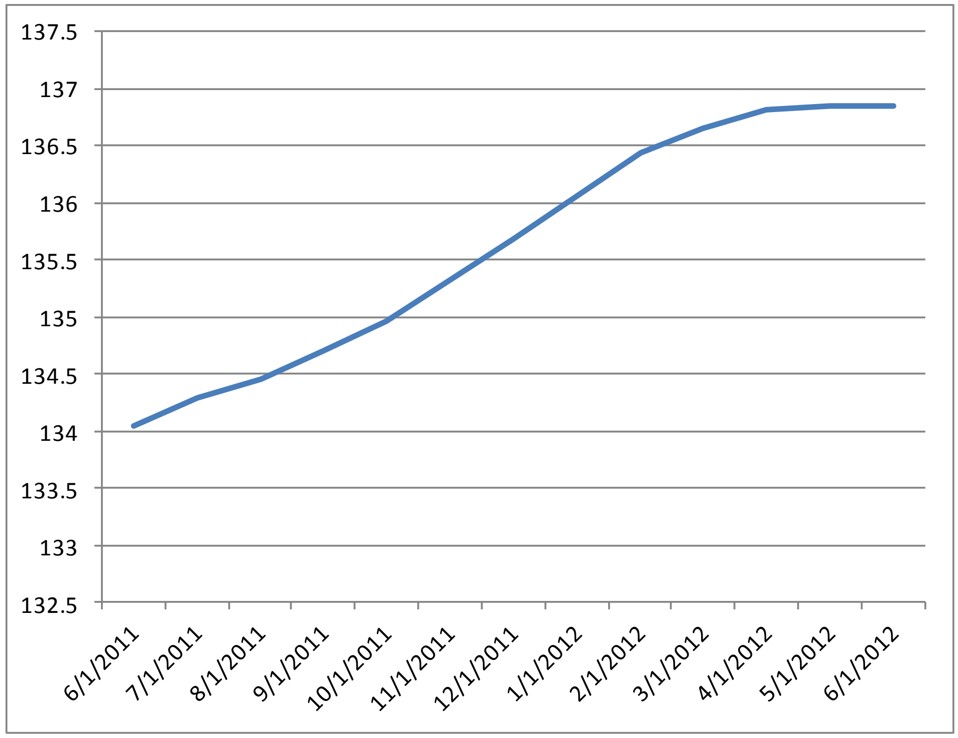
Garden State Activity Index

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.

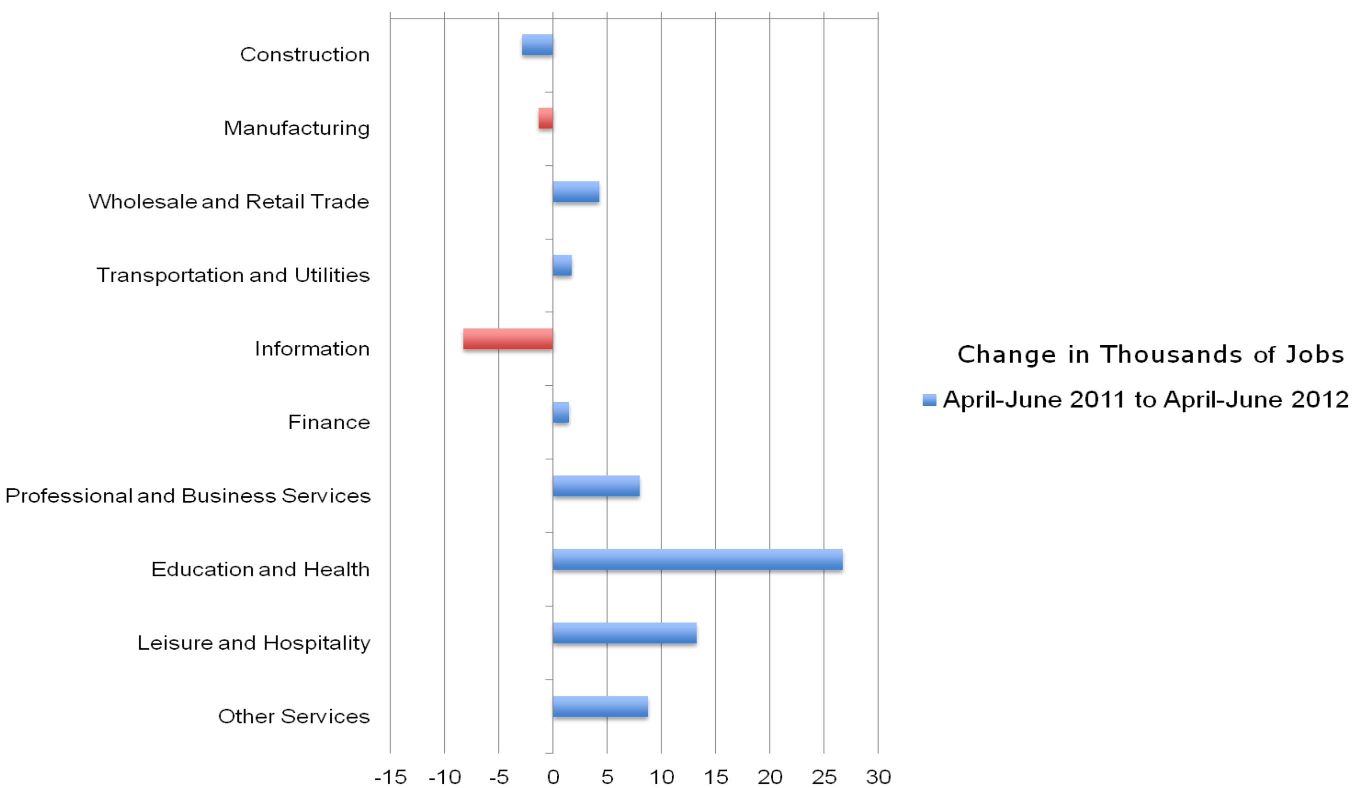
To construct the *Activity Index* we use principal components analysis, which takes a weighted average of the three Fed indicators. The composite index reflects the current state of the New Jersey economy.

Based on the most recent monthly data, the state economy has grown at a moderate pace over the past year. This June, New Jersey's economy reached an index level 2.1 percent higher than the level in June 2011.

-Andrew Lai

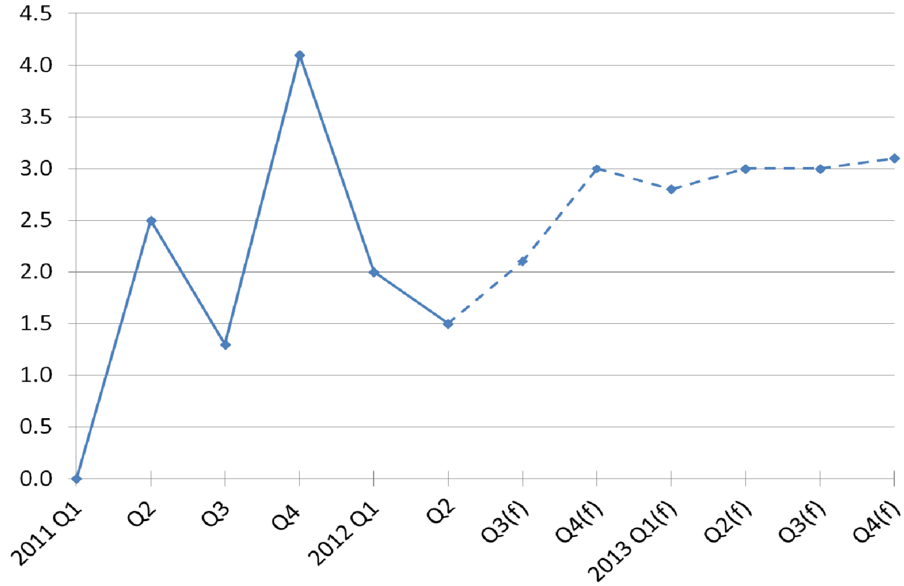


Private Industry Employment Trends



Data source: New Jersey Department of Labor

Real U.S. GDP Growth



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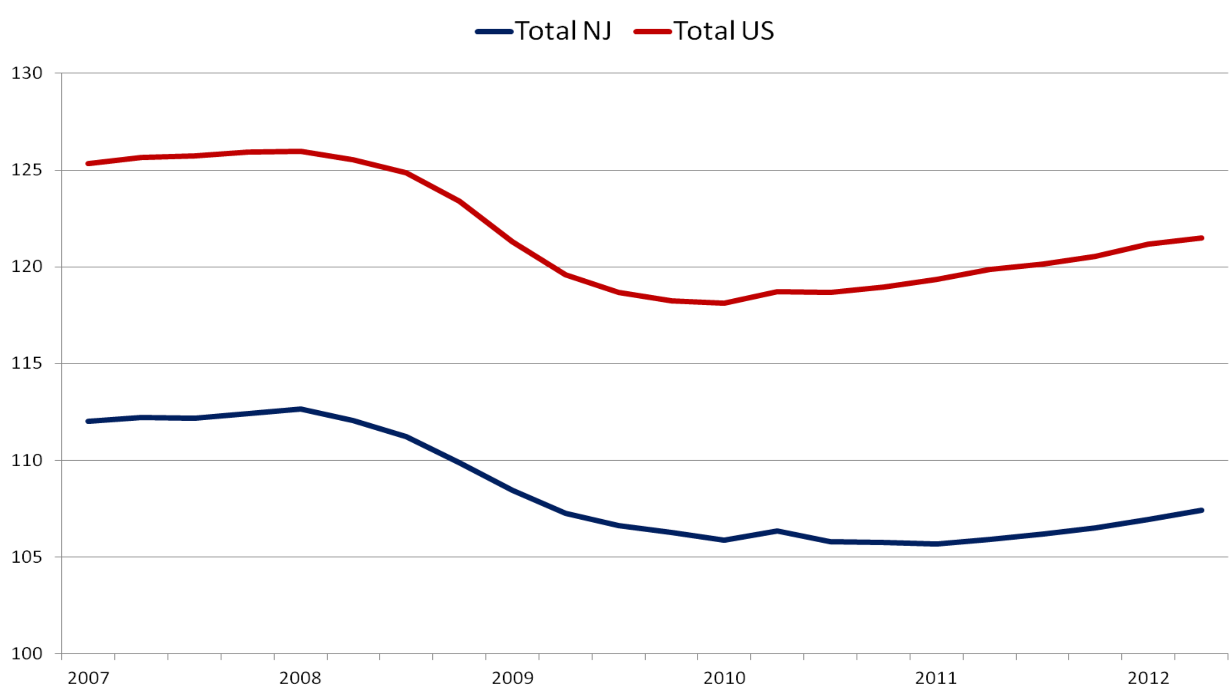
Data source: U.S. Bureau of Economic Analysis

State & National Job Trends

Total Employment *(Relative Employment 1990=100)*

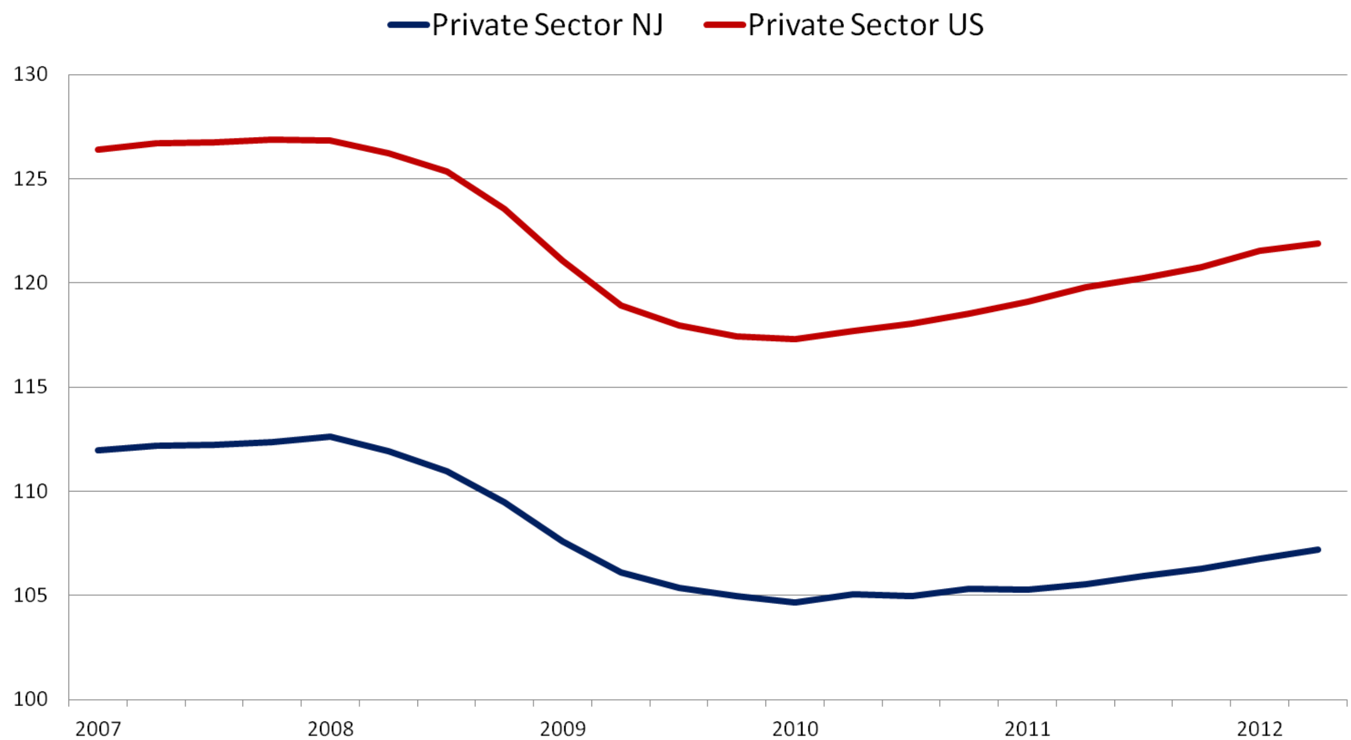
This chart compares the number of employed workers to the base year of 1990. The number 100 represents employment in 1990.



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

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