New Jersey Economic Insights

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Outlook New Jersey

New Jersey's Economy Continues to Push Ahead in Choppy Waters

New Jersey

There's understandably been a great deal of attention paid to the recent run-up in New Jersey's unemployment rate, which rose from 9.2 percent in May to 9.9 percent in August. Fortunately, there are also very good reasons to be quite skeptical that the deterioration in reported unemployment gives an accurate read on developments in the state. Other indicators suggest that the recovery is continuing, though perhaps less briskly than in the winter and spring.

> - ***New Jersey's economy continues to advance, although some indicators have softened.***
> - ***The national economy has also been bumpy but the Fed is attempting to add some momentum.***

The surge in the unemployment rate was the result of an estimate by the U.S. Bureau of Labor Statistics (BLS) that 47,500 fewer New Jersey residents were working in August than in May. If not revised, that would be the largest three month employment decline in the history of the state. Of course, if so many people were losing jobs, the number of claims filed for unemployment insurance in the state would be surging, as was the case in 2008 and 2009. In fact, the number of claims filed has been little changed or declining, with the number far below those seen during the recession, which technically ended in June 2009. Claims figures are very hard numbers, and by itself the stability of claims suggests that the reported drop in employment should be viewed skeptically.

More fundamentally, the reports on the numbers of jobs in the state show no such collapse. A decline in the job count in July was nearly reversed by a 5,300 increase in August. From May to August the state gained 5,300 jobs. That increase was more modest than the unusually rapid growth seen earlier in the year, but it is still growth. Indeed, over the last year the 1.3 percent rise in the number of jobs in New Jersey was virtually equal to the national gain.

We should again note that the unemployment rate, and the associated estimate of employment, are based on a BLS survey independent of the one taken to compute the numbers of jobs in the state. Published statistics show that historically the job count figures have been more accurate than the employment numbers used in computing the unemployment rate. By itself, this history doesn't mean that the recent employment numbers are wrong, and the job count figures are right, but with the lack of any other corroborating information, we think the benefit of the doubt should go to the more upbeat job measure.

To be sure, the job numbers suggest that the state's economy has recently been growing more slowly than

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earlier – as has been the case with the national economy. Our monthly survey and index also suggest that the pace of recovery has cooled off. Not all the indicators have been weak, though. For example, personal income of New Jersey residents rose 0.8 percent in the second quarter to a new record high. In addition, housing permits continue to show double-digit increases compared to 2011. While the permit count remains low, the increase suggests that housing may be reviving. The Federal Reserve Bank of Philadelphia's survey of local manufacturing showed conditions in September were basically stable, after two months of more marked weakness, and that producers were quite positive on the outlook. On balance, while the recent numbers understandably give rise to caution, the state's recovery appears to be continuing.

U.S. Economic Outlook

National economic indicators were fairly lackluster over the summer. Recent months have seen job increases averaging less than 100,000, compared to gains of more than 200,000 at the start of the year. Manufacturing production fell sharply in August, and on balance has been little changed in recent months. Orders received by durable goods manufacturers plunged in August suggesting that the weakness may persist. However, the headline number on orders was heavily distorted to the down side by a collapse in orders received by Boeing. This drop will have no immediate effect on production, and will in all probability be quickly reversed. Outside of auto sales, retail spending gains have been muted, as has nonresidential construction spending. However, as noted, auto sales have been good, and housing indicators have also been fairly upbeat.

It seems that the prospects of a "fiscal cliff" at year-end are weighing on the national economy. Under legislation adopted to resolve last year's debt ceiling crisis, we will see widespread tax increases and sharp cuts in large segments of Federal spending on Jan. 1, 2013, unless Congress overrides the law. While nobody seriously thinks this will happen, it's also hard to see any resolution prior to the presidential election, and the shape of any solution is quite unclear. Given this massive uncertainty, it's not terribly surprising that businesses right now are hesitant to make commitments to hire or expand capacity. Indeed, there are reports that some defense contractors are moving ahead with preparations to lay off workers in case the spending cuts move forward.

Looking past the short-term problem of the "fiscal cliff" it has become clearer that the national recovery has been disappointing. After some months of internal debate, the Federal Reserve announced that it will likely defer any interest rate increases to at least 2015 and will launch an aggressive program of purchasing government-guaranteed mortgage-backed securities. The aim of this program is to reduce the supply of safe haven investments in the financial markets, thus spurring investors to fund riskier private sector projects helping the economy grow.

Housing permits continue to show double digit increases compared to 2011

The commitment not to raise interest rates for three years provides some reassurance that private returns will continue to be attractive, at least compared to short-term Treasury bills. Of course, by undertaking these actions the Fed has boosted the risk that inflation could rise. Nonetheless, the Fed's view is that a bit of added inflation risk is acceptable. Looking beyond recent increases in food prices, which can be chalked up to the drought, and some energy price gains — in part due to production and distribution disruptions stemming from Hurricane Isaac — inflation is quite low. The Fed's move has been roughly paralleled by actions of the European Central Bank aimed at easing some of the Continent's financial problems.

In summary, the economy has been recently sailing through some choppy waters, and New Jersey has not been immune to the disturbances. It does appear that the economic situation will remain clouded until there's some further resolution of the political situation.

Economic Analysis

Are New Jersey's New Jobs Good Ones?

While New Jersey has recently seen its best overall job growth in many years, questions are being asked about the nature of the jobs being created — are they good jobs or bad jobs? It is hard to provide a definitive answer, but so far the available data show little evidence of any marked changes in the jobs people hold in New Jersey. In other words, the new jobs seem to be about as "good" as the old ones.

Why is it hard to tell whether a new job is good or bad? First, it's important to define what we mean by a "good" job? There seems to be a sense that a "good" job is well-paying, secure, and accompanied by a healthy package of fringe benefits, particularly health care and perhaps also including defined benefit (employer-paid) pensions. It's hard to find strong evidence, but it does seem clear that the national economy — as well as New Jersey's — has been generating fewer of these positions. There is nothing new about this, however. It reflects long-term trends in the economy. Not many of these jobs were created in the last economic expansion, either in New Jersey or elsewhere in the nation.

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In the final analysis, whether a new job is a "good" job is in the eye of the worker — are the job duties suited to the worker's skills? Are the hours and location convenient? Are the salary and benefits consistent with maintaining or improving one's standard of living? Such questions cannot be answered without having an incredibly large amount of data about workers and jobs that, frankly, is just not available.

Moreover, there isn't any simple way to differentiate "new" from "old" jobs. As we noted in a piece here last fall (http://highpoint.state.nj.us/treasury/economics/documents/newsletter/2011/nov.pdf), New Jersey's job market is remarkably fluid and dynamic. The job creation numbers headlined every month are merely the difference between the numbers of people hired less the number of people losing or leaving jobs. In recent years, New Jersey's businesses made about 800,000 hires — some for "new" positions, but the bulk to fill vacant old positions. However, for all 800,000 of those hires (equal to about 25 percent of all the private sector jobs in the state) the job was new to the person who got it.

About the best we can do is look at the pay and benefits for New Jersey's workforce. If jobs are getting worse, it's likely we will see the compensation for a typical worker declining. If compensation is rising, however, it would appear that the new jobs resemble the old ones. At least, they are not worse, and they may be better.

The U.S. Bureau of Labor Statistics provides detailed data on the distribution of wages by type of job per state. The latest numbers are from 2011. From this we can see the pay range for New Jersey workers. These are the actual wages paid, which are more revealing than the average or median wage paid. The problem with these statistics is that it might be that nobody earns a salary near the average or median!

A more illuminating way to examine typical wages would be to look at the 25th to 75th percentile range of wages — the broad mid-range. By definition, half the jobs in the state pay wages in this range (25 percent pay less, 25 percent pay more). For the years 2007 to 2011 this range was:

2007: $23,530 to $59,150
2008: $24,170 to $61,400
2009: $24,380 to $63,060
2010: $24,460 to $64,150
2011: $24,640 to $65,490

So the range has been consistently moving up. In other words, typical jobs in New Jersey — those held by half the workers — continue to, year in and year out, pay slightly higher wages than the year before.

Of course, this analysis is limited: It refers to jobs, not workers. Many workers in this middle range could have seen reductions in pay as they lost one job and took another — or failed to find another position. On the other hand, other workers in the range could have seen their pay rise as they changed positions — otherwise the range would move down.

Typical jobs in New Jersey — those held by half the workers — continue to ... pay a slightly higher wage than the year before

Also, the ranges cover only wages, not benefits. However, we do have numbers on benefit expenses borne by employers in the Middle Atlantic region (New York, New Jersey and Pennsylvania) through the second quarter of 2012. At that time private employers in the region were paying an average of $10.22 an hour in benefits — an all-time high. The dollar cost of benefits is an imperfect measure of the value workers get from those benefits, because health-care costs — about one-fourth of all nonsalary compensation — have risen so much. But the dollar amount suggests local employers are still to be willing to pay substantial amounts of compensation.

To get back to the question posed at the start – while we can't make any definitive judgment, the salary and benefit information provide few signs that typical jobs in New Jersey are noticeably "worse" than a few years ago. We do, however, need more of them.

— *Charles Steindel*

New Jersey Business Pulse Survey

Businesses Remain Concerned

New Jersey businesses in July and August continued to report concerns about current conditions and the outlook for the global and state economies, though they remained upbeat about the outlook for their own companies. These findings come from a survey administered by the New Jersey Department of the Treasury.

The New Jersey Business Pulse Survey looks beyond conventional economic data and gather views in real time directly from a diverse group of businesses in the state. In all, 78 firms responded to the July survey while 56 firms reported in August.. These firms span a wide spectrum of industries and sizes. The survey includes 14 questions about current and perspective conditions and allows respondents to give their views on other topics of their choice. Detailed results may be found at the Business Outlook tab at http://www.state.nj.us/treasury/economics/

General Conditions: Still Downbeat, But Prospects May Be Looking Up

Respondents remain somewhat pessimistic about current conditions in the nation. The index value summarizing the response to the question about national conditions remained below 100 in both July and August. Nonetheless, the recent readings have been well above the very gloomy responses received in the latter part of 2011, and the decline seemed to have ended in August.

While assessments of New Jersey conditions deteriorated in July, August respondents appeared to have basically neutral view on the state's economy.

The respondents views on upcoming conditions in the nation and New Jersey were negative in July but turned positive in August. The inference is that business sees current problems as being short-lived.

Revenues, Hiring and Capital Spending: Outlook Remains Positive

Respondents remained bullish on the prospects for their own firms, with the answers to these questions generally revealing expectations that revenues, employment and capital spending will be either little-changed or rise, both in and outside of New Jersey. In August there appeared to be some greater optimism about New Jersey employment and capital spending than elsewhere, though given the relatively small number of respondents to the questions about operations outside of New Jersey not too much should be drawn from those differences. Respondents did not report major difficulties finding qualified job candidates for positions either inside or outside of New Jersey.

Product Prices and Input Costs

On balance, firms in July reported some tendency for cuts in the prices they charge (an index value above 100 suggests that product prices are falling), but in August prices looked to be more stable. Firms continue to report that they are facing increases in input prices. However, even in months seeing marked drops in the prices of oil and other commodities, responses to this question consistently result in index values suggesting input price hikes. This tendency suggests that an index value of 100 should not be literally read as suggesting input price stability. In all likelihood a lower index value is more consistent with stable input costs.

Conclusion

The July and August results suggest some continuing concern about overall economic conditions. On the whole, though, these concerns did not appear to worsen and indeed may have eased in August.

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.

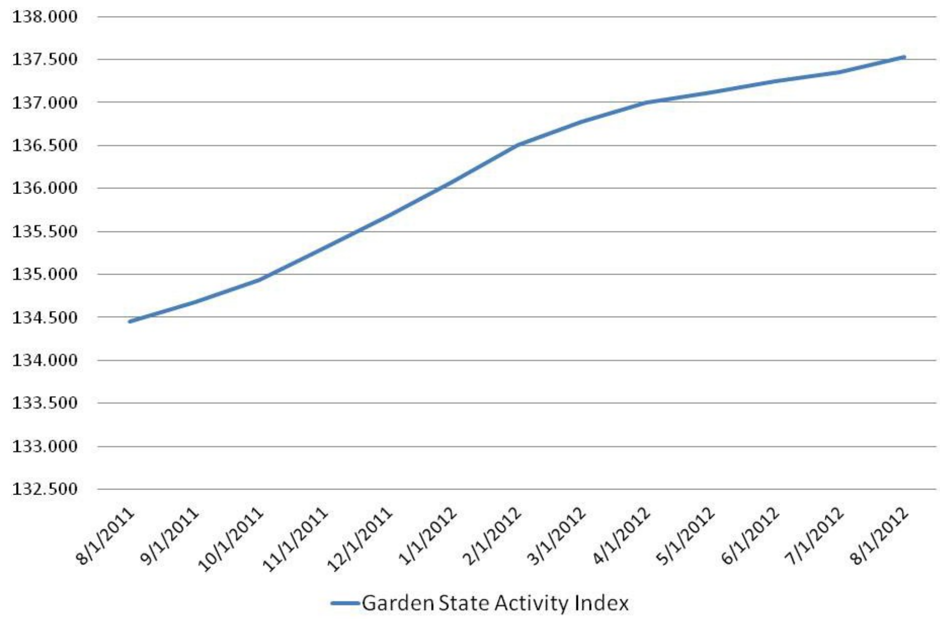
Garden State Activity Index

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.

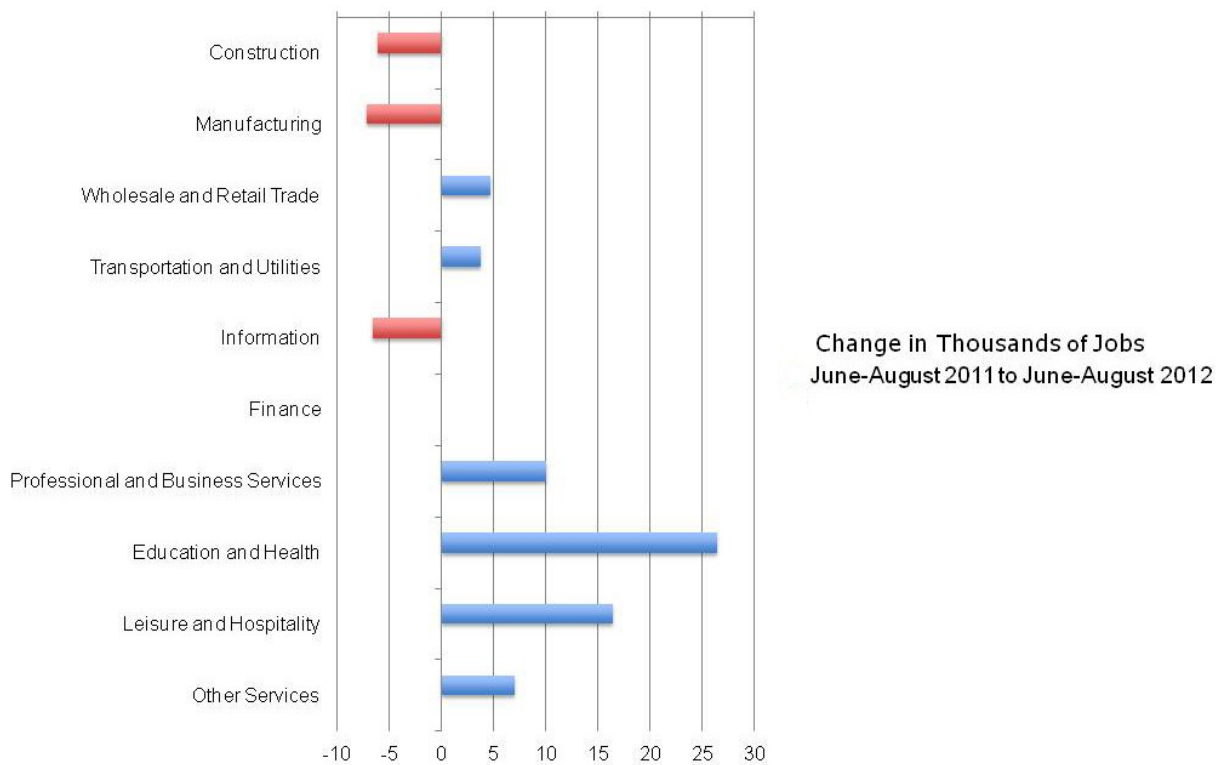
To construct the *Activity Index* we use principal components analysis, which takes a weighted average of the three Fed indicators. The composite index reflects the current state of the New Jersey economy.

Based on the most recent monthly data, the state economy has continued to grow at a moderate clip over the past year. This August, New Jersey's economy reached an index level 2.3 percent higher than in August 2011.

— *Andrew Lai*

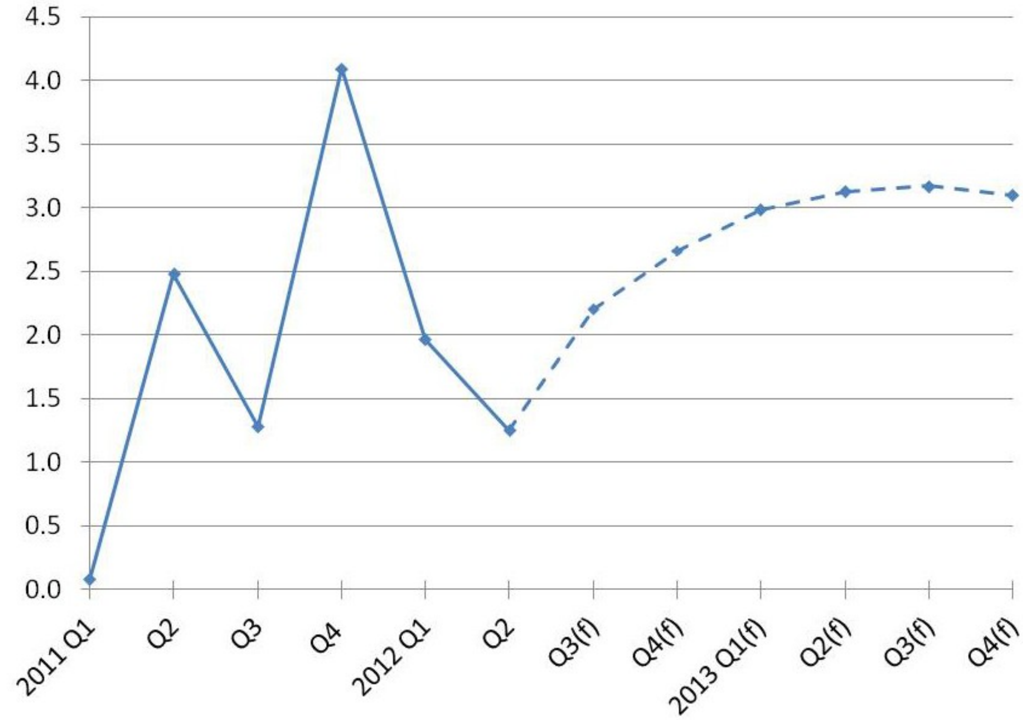


Private Industry Employment Trends



Data source: New Jersey Department of Labor

Real U.S. GDP Growth



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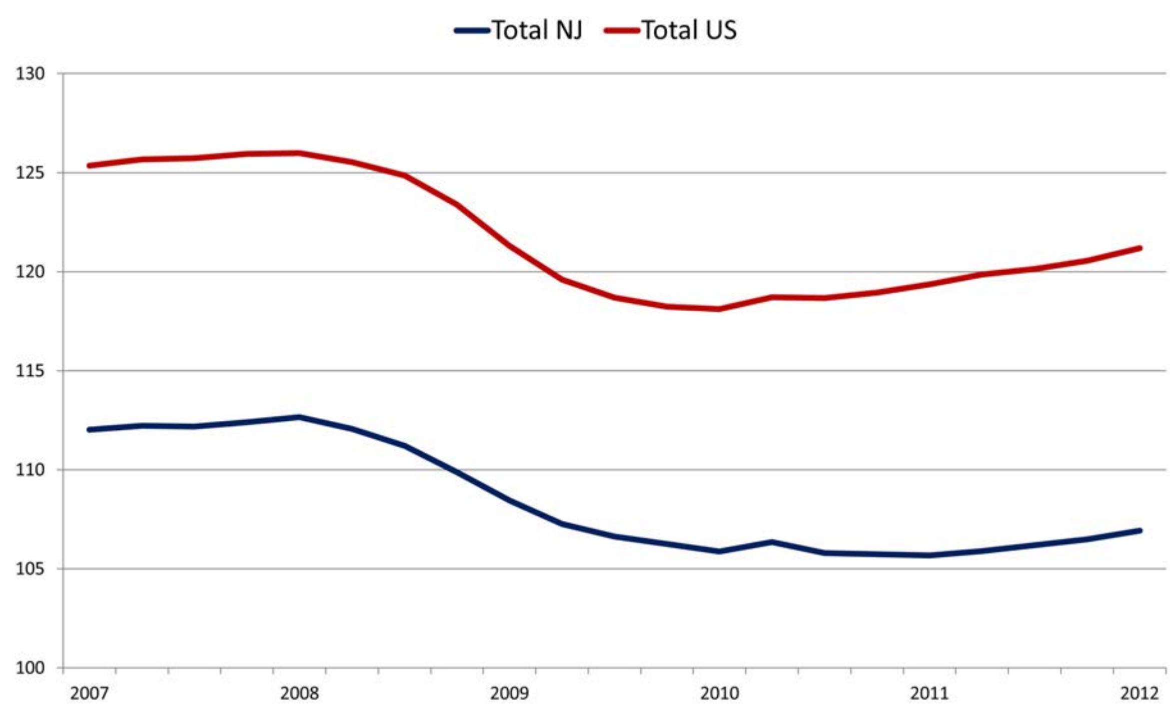
Data source: U.S. Bureau of Economic Analysis

State & National Job Trends

Total Employment *(Relative Employment 1990=100)*

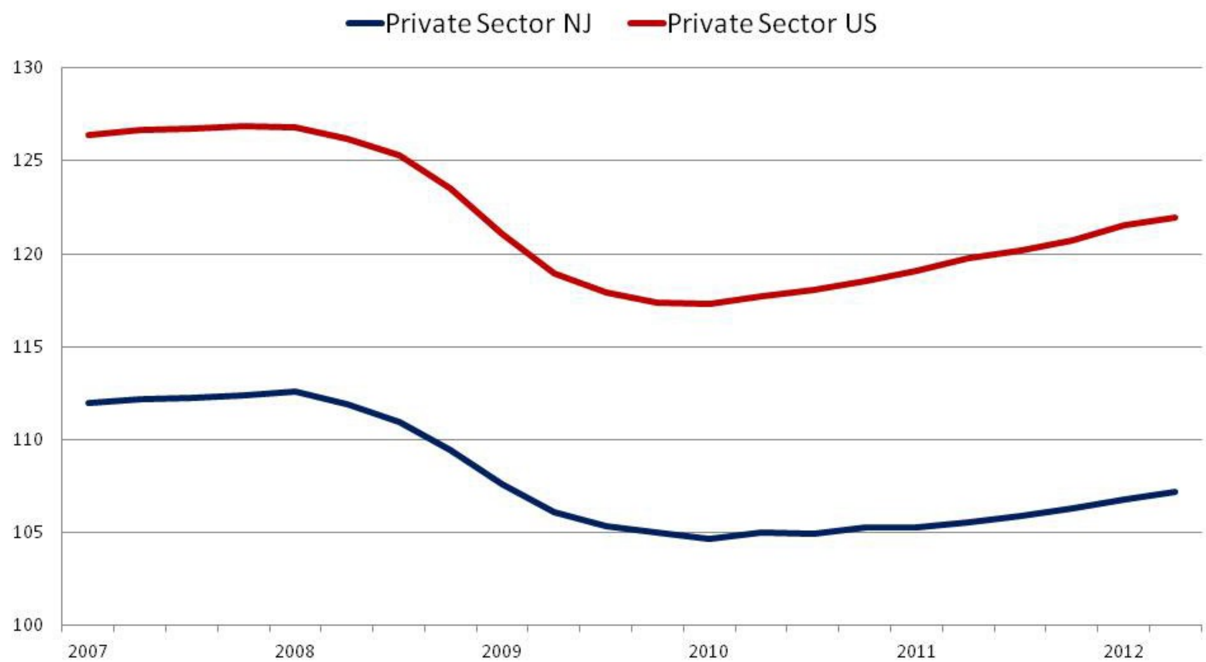
This chart compares the number of employed workers to the base year of 1990. The number 100 represents employment in 1990.



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.