After the harsh winter, New Jersey’s labor market improved markedly this spring, adding 19,500 private sector jobs from March to June and reversing December’s plunge. Much of the recent turnaround has been the leisure and hospitality sector, which experienced noticeable losses in the winter. Retailing also has rebounded. Construction employment continues to be weak, especially in light of the anticipated rebuilding after Sandy and the marked expansion of housing permits. More detailed numbers on the sector show that the weak area has been “specialty trade contractors” (plumbers, electricians and other trades) who probably saw a burst of activity through the middle of last year as homeowners made immediate repairs in the wake of Sandy, and then some retrenchment as that wave passed. As basic homebuilding gains momentum those jobs could well rebound.

As jobs have turned around, the unemployment rate — once again, derived from an entirely separate survey from the job count — continues to decline, reaching 6.6 percent in June. Contrary to some accounts, the decline in recent months has mainly reflected increases in the number of residents at work, not a decline in the labor force — which has increased in each of the last four months. The June unemployment rate was the lowest since late 2008, and the number of residents working was the highest since that time.

In other measures of the state and local economy, new car sales were up a sharp 9 percent in June compared to June 2013, and the survey by the Federal Reserve Bank of Philadelphia showed local manufacturers’ assessment of current conditions to be at a multi-year high. On the flip side, the New Jersey Association of Realtors reported that completed sales of existing homes in June were lower than a year ago, but purchase contracts entered into last month showed a good gain. Finally, as discussed in more depth elsewhere in this issue, the aggregate personal income of New Jersey residents set yet another record high in the first quarter of 2014. All in all, as we anticipated, as the weather warmed up in the spring, so did the state’s economic numbers.

U.S. Economic Outlook

U.S. economic data also has been shaking off the winter chills. Revised GDP numbers for the first quarter now show a marked decline, at a 2.9 percent annual rate. Information on health care spending showed surprising weakness — doubly surprising since the expansion of...
insurance and Medicaid coverage spurred by the January roll-out of the Affordable Care Act was expected to spur usage by previously uncovered groups. In any event, the release of the second quarter GDP number, along with revisions to the data for the past few years, will give us a better fix on current and recent events.

The national labor market definitely seems to be improving. Job growth has exceeded 200,000 in each of the last five months. This is the first time since 1999-2000 that there has been a streak of this length. June’s 6.1 percent unemployment rate matches that of September 2008, just when the economy’s rapid slide was starting. To be sure, declines in labor force participation have helped push down the headline unemployment rate (aggregate resident employment is still a bit under its November 2007 all-time peak), but the recent pickup is encouraging. The number of job openings also has begun to move up noticeably.

The gains in employment have been accompanied by increased manufacturing activity, suggesting that the economy is moving out of the recent dip. Consumer spending on goods, especially autos, is moving up nicely. One puzzling area, though, is housing: after a good gain in April, housing starts fell in both May and June. Although these numbers are quite volatile from one month to the next, and the average number of starts in the second quarter was higher than in the first, conditions would normally seem ripe for much more pronounced gains (especially given the likely rebound in the spring after the hard winter). Incomes and home prices are both up, and credit conditions have eased, all suggesting a much more vigorous pace of homebuilding than we are currently seeing.

Elsewhere, conditions in Europe and China still appear to be vulnerable, with worries about the financial system in both regions, and the recent increase in turmoil in the Middle East and Ukraine has the potential to affect the world economy. (However, oil markets seem to be little concerned with the tensions).

Inflation numbers have recently firmed up a bit. With the unemployment rate now at the verge of 6 percent, this uptick has led to somewhat frenzied speculation that the Federal Reserve will, or should, raise interest rates. Federal Reserve Chair Janet Yellen has indicated about as clearly as someone in her position can that the Fed won’t, and shouldn’t. By any scale, inflation remains quite low, and with limited wage increases there just isn’t the fuel needed to sustain markedly higher price gains. And, as noted above, with the aggregate employment count — once again, different than the job numbers — still below prerecession levels, it’s hard to seriously argue that the economy is overheating.

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Discussions of New Jersey’s economy typically focus on the labor market measures of jobs and unemployment. These monthly figures are assuredly the best indicators of New Jersey’s current performance. However, to gain a broader, longer-term perspective, it’s useful to look at measures that go beyond the labor market. The most comprehensive figures, compiled and released by the U.S. Bureau of Economic Analysis (BEA), are Personal Income and Gross State Product.

Personal income figures come out quarterly, with some lag — it was only toward the end of June that figures for the first quarter of 2014 were released. Personal income is an estimate of the aggregate income earned by all residents of the state. Though the concept seems clear, the actual indicator is a bit more complicated than the name might suggest. Personal income includes all wages and benefits — including pensions — earned by state residents, all non-corporate business income, all interest and dividends, all transfer payments (Social Security, Medicare, Medicaid, unemployment insurance, etc.), and all rental income. Rental income is defined in a somewhat peculiar way, since homeowners are, basically, credited with earning the money they save by not actually paying rent and living in an otherwise identical house. There are technical economic reasons for this odd treatment. The simplest explanation is that it avoids distortion of the income figures when there is a change in the fraction of homes that are owner-occupied. Finally, personal income does not include capital gains.

It may seem that personal income is a pre-tax measure. It really isn’t, since it is measured after payroll and property taxes. It is, however, measured before income tax. Also, personal income is a measure of income earned by state residents, as opposed to a measure of income earned within the borders of the state. Thus it includes the income earned by New Jersey commuters to New York and Pennsylvania, but subtracts the income earned in New Jersey by residents of those states.

With the concept in mind, let’s look at the numbers. In the first quarter of 2014 aggregate New Jersey personal income was estimated to be $508.8 billion (at a seasonally adjusted annual rate). This was a record high, and marked the 12th time in the last 13 quarters that a record was set. Adjusted for inflation, first quarter personal income (in 2009 dollars) was estimated to be $470.9 billion; again, this was a record high, and was the sixth new high since the pre-recession peak was first surpassed in the third quarter of 2011. Correcting for population, per capita income was $57,050 in the first quarter of 2014, and $52,803 in 2009 dollars. Both were record highs.

The gains in income have mainly reflected increases in income earned within the borders of the state. Net income earned outside the state has indeed risen, from a recent low of $32.3 billion in 2009 to a $41.2 billion annual rate in the first quarter of 2014. This $7.9 billion gain, though, is only a portion of the $36.6 billion increase in aggregate personal income over the same period. Considerably more important has been the rise in private wages and salaries paid by New Jersey businesses, which have increased from $177.8 billion in 2009 to $203 billion in the first quarter of 2014.

Measured by per capita income, New Jersey remains a very high-income state. There has been little change in our relative position, and our recent performance has largely mirrored the nation’s. In the fourth quarter of 2007, just before the recession hit, New Jersey’s per capita income of $51,196 ranked second to Connecticut among the 50 states and was 27 percent higher than the national average. In the first quarter of 2014, we were third, at $57,050 (Massachusetts has slipped ahead of us), and 26.2 percent higher than the national norm. Over the last 29 quarters, New Jersey’s per capita in-
come has grown at an annual rate of 1.5 percent vs. the nation’s 1.6 percent.

There is annual data on disposable income: personal income less federal and state income taxes. A new high was set last year for New Jersey’s per capita disposable income, at $48,409. We ranked fourth in the nation in this series, behind Alaska, Connecticut and North Dakota. In 2007 we were second to Connecticut, but since then those two large oil producers have moved ahead of us. From 2007 to 2013, New Jersey’s per capita disposable income rose 11.5 percent, compared to the national gain of 12.7 percent. Thus, as was the case for per capita personal income, there has been little change in New Jersey’s relative per capita disposable income position.

**Gross State Product**

Gross state product is an estimate of the value of goods and services produced by all industries within the borders of the state. It is not an especially reliable indicator. BEA starts with estimates of the income generated by every industry in the state. By itself this is not very well measured; for instance, it is notoriously difficult to measure profits earned within a state’s borders by a multistate or international firm. BEA typically assumes that the growth of wages paid by an industry is equal to the growth of overall income earned by that industry. While wages are well observed (the data on wages is ultimately derived from unemployment insurance tax records), for many industries assuming that wage growth equals income growth is very problematic. Further problems arise in computing real — price-adjusted — gross state product. To do this, BEA assumes that the prices charged by an industry grow at the same rate in every state. This seems innocuous, but in reality the firms in a single “industry” differ greatly in the products they sell and the technology they use, suggesting there is not uniform growth in prices across the whole country. To give a simple example, home construction in Florida differs greatly from home construction in Alaska.

Given the difficulties of measurement, gross state product estimates are only produced annually, with the figure for the prior year (and revisions for earlier years) re-leased in June. The recent figure pegs New Jersey’s gross state product for 2013 at a record $543.1 billion, ranking us 8th in the nation. All the states above us have larger populations; a number below us — North Carolina, Georgia, and Michigan — have noticeably larger populations than New Jersey. In constant 2009 dollars, New Jersey’s 2013 gross state product was $509.1 billion, which was a touch below 2007 ($510.8 billion) and 2008 ($510.4 billion). New Jersey’s constant-dollar gross state product rose 1.1 percent in 2013, which was short of the national gain of 1.8 percent (but higher than the comparable figures for New York and Pennsylvania). But in 2012, our 2.6 percent gain was a bit higher than the national increase.

**Usefulness of These Figures**

Broadly speaking, both personal income and gross state product show that New Jersey’s economic recovery has been ongoing. Personal income may be a more reliable figure, and it has shown a somewhat stronger performance: between 2009 and 2013 personal income rose 13.1 percent while current-dollar gross state product was up 11.1 percent.

However, the importance of both series is less as a measure of near-term growth than as longer-term indicators of the size of the state’s economy. This is particularly important for thinking about government revenues. In the last analysis, people and businesses pay New Jersey taxes and fees from the money they earn that winds up tabulated in personal income or gross product made within the borders of the state (income taxes paid on capital gains realizations is the big exception). New Jersey production was approximately $543 billion last year, and New Jerseyans earned personal income at an annual rate higher than $500 billion in the first quarter of 2014. Even with quite modest growth trends, annual state product should be well over $700 billion a year, and state personal income well above $600 billion a year, early in the next decade, suggesting that the underlying trend in revenues will be positive.

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The New Jersey Business Pulse Survey includes 14 questions about current and prospective conditions in New Jersey and the nation and allows respondents to give their views on other topics of their choice. Thirty-seven firms responded to the May survey and forty-seven responded to the June survey. Detailed results from these and past surveys can be found at http://www.state.nj.us/treasury/economics/surveyresults.shtml.

The website also contains charts and tables summarizing the results, as well as an explanation on how indices are constructed from the answers to the questions.

**Business Conditions and Revenues were Mixed**

For the May/June period, New Jersey-based business owners’ perception of current conditions remained essentially unchanged compared to last year. However, firms report conditions outside of the state as being less favorable than a year ago. Overall, there was less optimism about future conditions than a year ago.

While results show that out-of-state New Jersey establishments’ expectations for revenue growth were higher than were those within the state, expectations for revenue growth among all New Jersey business owners declined somewhat compared to a year ago.

**But New Jersey Firms Expect to Hire More**

Despite the results of business conditions and revenues, more business owners reported having plans to add to their payrolls both inside and outside the state compared to the same period last year. Moreover, most employers found little difficulty in recruiting qualified employees for open positions both in New Jersey and elsewhere.

**Capital Spending Appears Robust**

Capital spending plans among New Jersey-based firms and their outside affiliates increased compared to the same period a year ago. Equally promising, the average level of capital spending plans reported during this period is higher than the average level for this indicator back to the beginning of the survey.

**Prices Charged and Paid**

The number of firms reporting that they charged more for their goods and services declined compared to the same period last year. Similarly, the number of firms that reported paying more for their inputs fell.

**Conclusion**

These results suggest New Jersey business owners are making decisions to invest and grow their firms despite some doubts about the business climate and sluggish earnings. Higher capital spending and hiring is likely to result in economic growth and leverage the kind of favorable climate these firms need in order to thrive.

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.
By Suzanne Schatz

Isolating the manufacturing data from the New Jersey Business Pulse survey, some general trends regarding the business climate for New Jersey’s manufacturers become apparent. Over the last several months, it appears that the business climate for New Jersey manufacturers has been improving. Manufacturers have recently indicated that their assessments of current business conditions have steadily strengthened. After a brief setback in February 2014, New Jersey manufacturers’ assessment of conditions as of May 2014 reached its highest point since April 2012. Additionally, optimism over future business conditions in March reached its highest point since May 2012. Though optimism regarding future conditions decreased slightly in April and May, it regained some ground in June. Prices received have been on the rise since March. Moreover, in March of this year prices paid by manufacturers increased slightly, but started to fall again in April. After decreasing from July 2013 through September 2013, employment by manufacturers has remained on the rise since October 2013. While the employment index saw slight decreases in May and June, it remains noticeably higher than its recent October 2013 low.

Comparing the manufacturing data from the New Jersey Business Pulse survey to the data from the Federal Reserve Bank of Philadelphia’s Business Outlook Survey (BOS), a monthly survey which measures changes in business conditions as reported by manufacturers in the Third Federal Reserve District, the activity of New Jersey’s Manufacturers can be viewed in relation to the Fed District consisting of Eastern Pennsylvania, Southern New Jersey and Delaware. Data regarding employment, current business conditions, future business conditions, prices paid and prices received were compared between the two surveys. The indexes for current business conditions have the strongest positive correlation between the two surveys, suggesting that current business conditions for manufacturers in New Jersey is fairly consistent with those in neighboring states. Data on future business conditions between the two surveys have a small positive correlation, suggesting a loose relationship, but one that moves together. Prices received have a positive, though somewhat weak, correlation, indicating that it is not uncommon for manufacturers in New Jersey, Pennsylvania and Delaware to increase prices they charge customers in the same month. Conversely, prices paid have a small negative correlation, suggesting that the prices manufacturers pay for the products and services they use are only loosely related between our New Jersey respondents and those for the survey covering the entire Third District, and tend to increase and decrease at opposite times. Data on employment showed a very small negative correlation between the two surveys, indicating that employment patterns between New Jersey manufacturers and those in surrounding areas move opposite each other. But the relationship is weak to begin with, so the employment activity of New Jersey manufacturers compared to those in New Jersey, Pennsylvania and Delaware as a whole is largely independent. Overall manufacturing activity in New Jersey, as reported by our survey, seems to be relatively well-aligned with the assessments of manufacturing activity reported for the Philly Fed district.

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.
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.

New Jersey’s economy continues to grow quite strongly. The Activity Index, based on the Federal Reserve Banks’ data through June 2014, has grown a healthy 8.0 percent since the beginning of 2010 and about 2.3 percent over the last year.

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Private Industry Employment Trends

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<th>Industry Category</th>
<th>Change in Thousands of Jobs</th>
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<td>Other Services</td>
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Data source: New Jersey Department of Labor
Real U.S. GDP Growth

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


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, Noel Popwell, and Suzanne Schatz and do not necessarily represent the views of the State Treasurer or any other official of the State of New Jersey.