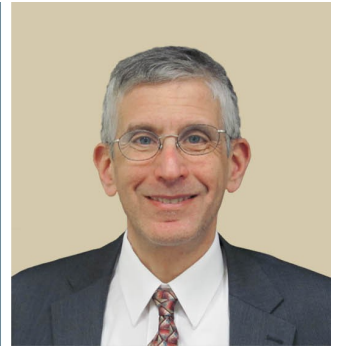


New Jersey Economic Insights

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Outlook New Jersey

State and National Job Figures Show Signs of Firming, but Jobless Rates Remain Unacceptably High

New Jersey

Recent job gains in the state have erased the storm-induced losses of last summer. New Jersey added 10,400 private sector jobs in November, the largest gain since April. The majority of November's job gain was in retailing. And while most, if not all, of the new retail jobs were temporary holiday positions, the underlying pace of job formation in New Jersey still appears to have picked up.

The downside of the November labor market report was our unemployment rate's remaining at 9.1%. That's not only unacceptably high but also means the gap between New Jersey's unemployment rate and the nation's widened. Looking a little deeper, it is clear New Jersey's unemployment rate is so high not because job growth in the state has been noticeably lower than the nation's but rather because the growth of our labor force has been so much stronger. Over the last year New Jersey's labor force has swelled by 1.7% while the nation's was unchanged.

If our labor force had not grown and instead matched the national pace, our November unemployment rate would have been very substantially below both the reported number and the national figure of 8.6%. However, even if such an adjustment were made, New Jersey's unemployment rate would still be too high and too few people would be at work.

- *The state and nation are now on an upswing*
- *But how long will it last?*

It's plausible to believe that much of the rebound in our labor force has been due to the re-emergence of job opportunities in the state. The improved job market encourages people to re-enter the labor force to look for work. It's important to keep in mind, though, that while the labor market may be improving, it's still very far from healthy.

In other reads on the local economy, the Federal Reserve Bank of Philadelphia's survey of local manufacturers

showed continuing improvement in December, with the headline index of business activity moving solidly into positive territory. The dramatic August plunge in this measure was one of the most troubling developments in the national economy at that time and the steady recovery since then has been a very reassuring signal of ongoing growth

in the area and the nation. Finally, New Jersey personal income set a record high in the third quarter of 2011. This was the fifth straight quarter in which income reached a new high — a sign the state's economic recovery is continuing.

U.S. Economic Outlook

The national economic numbers continue to show steady improvement. The national unemployment rate fell to 8.6% in November. Growth in the national job count has also firmed a bit. Some disappointment was expressed over the supposedly meager 0.2% gain in retail sales in

(Continued on page 2)

November. However, this more modest gain followed a number of very strong months. The disappointment may have stemmed from the usual overreaction to news accounts of crowded shopping mall parking lots and heated stories about online holiday shopping. It has often been the case that there is little or no connection between the amount of frenzy conveyed in such stories and hard sales numbers.

Other national indicators have also generally been favorable, though industrial production did decline in November after some months of marked increases. Consumer and business surveys have reported marked improvement in attitudes since the summer and inflation measures remain quite low. Even in housing, the latest figures on starts and sales show some gains. In sum, national conditions seem to be substantially better than a few months ago. But they are still a long way from good in any absolute sense. In any sort of normal time a national unemployment rate of 8.6% would not be seen as favorable!

The European financial situation remains very troubled. We are continuing a pattern in which European nations and institutions announce what appear to be major initiatives and markets initially rally strongly in response. Subsequent analysis and actions then suggest that the latest set of initiatives are not likely to be adequate to prevent a major financial crisis and the rally then fizzles out and reverses. In other words, one step forward and one step back. It's very hard to predict what will happen but the very high interest rates some nations are now paying on their government debt suggests that strains are increasing. The European Central Bank's massive low interest loans to banks in the region buys some time but, as was the case for the comparable Fed actions a few years ago, does not resolve underlying problems.

The situation in Washington is not as grave but remains disturbing. Partisan gridlock delayed consideration of matters such as the expiring payroll tax holiday and the extension of unemployment insurance benefits. With the presidential election season now in full swing it's likely any major policy decisions will be deferred until 2013. The Federal Reserve is apparently planning major changes in the way it publically discusses its outlook, including perhaps the introduction of clearer goals for inflation and possibly unemployment and the announcement of some definite numbers on the outlook for interest rates. Many economists have argued that providing such information would help stabilize financial markets and the economy over the long run. Indeed, the work of this year's winners of the Nobel Prize in Economics (including Princeton University's Professor Christopher Sims) is intimately connected with this field of research. However, in current conditions it is not at all clear that greater candor and openness from the Federal Reserve would greatly improve economic growth in the near term, since no matter what the Fed might say, it clearly can't move short-term interest rates below zero, which is about where they are right now.

On the whole the current national numbers look very upbeat. Nevertheless, the more troubling signals from Europe and Washington raise significant questions about how much of the recent strength will carry through into 2012.

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New Jersey Employment Dynamics: There's More Hiring (and Layoffs) Than You Think

Common ways to describe our state's labor market include words and phrases such as "tepid" or "nobody's hiring." That's very understandable: despite some recent gains, the total number of jobs in New Jersey is still about 200,000 under its pre-recession peak, and even with recent drops, November's 9.1% unemployment rate is unacceptably high.

The headline figures, though, are only part of the story. The jobs number reports the change in the number of people working at New Jersey firms from one month to another. A moment's reflection will show that it also equals the number of jobs filled less the number of jobs

Even in that glum year [2010] New Jersey's labor market was more dynamic than many might imagine

lost. For somebody looking for work, the critical concern is likely to be the number of jobs that New Jersey businesses are seeking to fill. Of course somebody who is currently working would likely have some interest in how many jobs firms are likely to eliminate.

The U.S. Department of Labor does compile numbers on job gains and losses by state. The 2010 numbers are now complete and they show that even in that glum year New Jersey's labor market was more dynamic than many might imagine, with volumes of hiring several times larger than the monthly headlines suggest. The flip side, though, is that job losses were also very high.

The raw numbers are rather eye popping. Between December 2009 and December 2010 New Jersey private employers filled nearly 800,000 positions. That number equals nearly 25% of the total count of private sector jobs in the state! Over the same period, New Jersey employers report that nearly 800,000 jobs were lost because workers were laid off, quit or retired. There was virtually no difference between these two huge numbers, which is consistent with the state's private sector job total being

almost unchanged over that year. The presentation by Erica Groshen, Vice President of the Federal Reserve Bank of New York, at our Garden State Economic Forum last month (<http://www.state.nj.us/treasury/gsef/Economic-Forum-Groshen.pdf>) gives more detail on the types of industries that have been generating and shedding jobs in New Jersey over the past few years.

The underlying reality of the labor market is that at any point in the business cycle, tens of thousands of job positions are being filled each and every month in New Jersey, while tens of thousands of workers are either leaving jobs or seeing their positions eliminated. Firms are constantly filling and eliminating "permanent" positions. A recession is really a period in which job gains ebb relative to job losses, while an expansion is a period in which job gains are higher than job losses. In both periods there is a lot of hiring (and firing).

New Jersey is hardly unique in this process. In 2010, in the United States as a whole, private sector hiring in each quarter averaged about 6.3% of employment. New Jersey's figure matched the nation. Indeed, our hiring rate was higher than states such as Texas (5.9%) and Pennsylvania (5.8%). On the other hand, Georgia, which is often viewed as currently having one of the weakest labor markets in the nation, reported a quarterly hiring rate averaging 6.8% in 2010. Naturally, the anomaly can be resolved by looking at the comparable job loss rate, with Texas and Pennsylvania having lower rates than New Jersey and Georgia's being higher.

The lesson that can be drawn from this is that the numbers do not show that relative to other states there has been any particular reluctance of New Jersey firms to hire workers. For the unemployed, the challenge is find openings that best match their skills and the Department of Labor's new OnRamp search engine on the Jobs4Jersey.com site is a tool that should help facilitate that process. and we all hope it proves to be of value.

New Jersey Business Pulse Survey

Business Sentiment Bounces Back from October's Low

New Jersey businesses reported lessened concerns about general economic conditions and somewhat brighter views about the outlook in November. These findings come from a survey administered by the New Jersey Department of the Treasury.

More than 70 firms spanning a wide spectrum of industries and sizes responded to the November survey which posed 14 questions about current and prospective conditions. Detailed results may be found at <http://www.state.nj.us/treasury/pdf/novsurveynumbers.xls>.

General Conditions: Current Situation Less Negative While the Outlook is Neutral

The overall assessment of current U.S and global conditions is much closer to balanced than it was in October. November saw a noticeable drop in the fraction of respondents who see U.S. and global economic conditions as currently deteriorating. Less than 30 percent of the panel saw current deterioration. In contrast, in October, about half of the respondents saw a current decline in conditions. Respondents have also become more upbeat about the future with almost equal numbers expecting improvement and deterioration over the next year. The upswing in the responses was also evident when the focus was limited to New Jersey. About equal numbers saw improvement and deterioration in general conditions in the state last month, while the assessment of future conditions was modestly weighted toward the positive.

Revenues, Hiring and Capital Spending: Improvement Anticipated Worldwide and in New Jersey.

Turning to the outlook for their own companies, the balance of responses was noticeably weighted toward anticipated gains in revenues, employment and capital spending, both worldwide and in their New Jersey operations. In particular, the more upbeat outlook for New

Jersey businesses is markedly better than the October responses for the same questions.

The response to the question regarding difficulty in hiring workers for New Jersey operations was similar to that in October. A bit more than a quarter of the panel moderately or strongly agreed that this is a concern. This is about the same fraction that does not see this as a problem.

Product Price Increases Remain Infrequent, while Input Cost Growth could be ebbing

Only a fifth of October's respondents report that they have increased the prices that they charge. This share has drifted down in recent months. Nearly two-thirds report increases in some input costs. While this is obviously a pronounced share, it is noticeably lower than that seen in October, and suggests that at least some of the recent surge in energy and other input costs is starting to diminish.

Conclusion

The November results were substantially stronger than in October, with respondents reporting stabilization in current conditions and increased optimism about the outlook. This noticeable improvement is in line with those seen in many other local and national business surveys, as well as in surveys of consumer attitudes. National economic numbers have also recently strengthened. It remains to be seen whether the recent improvement lasts. The continuing turmoil in world financial markets over the European debt situation continues to cast large shadows over the outlook.

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.

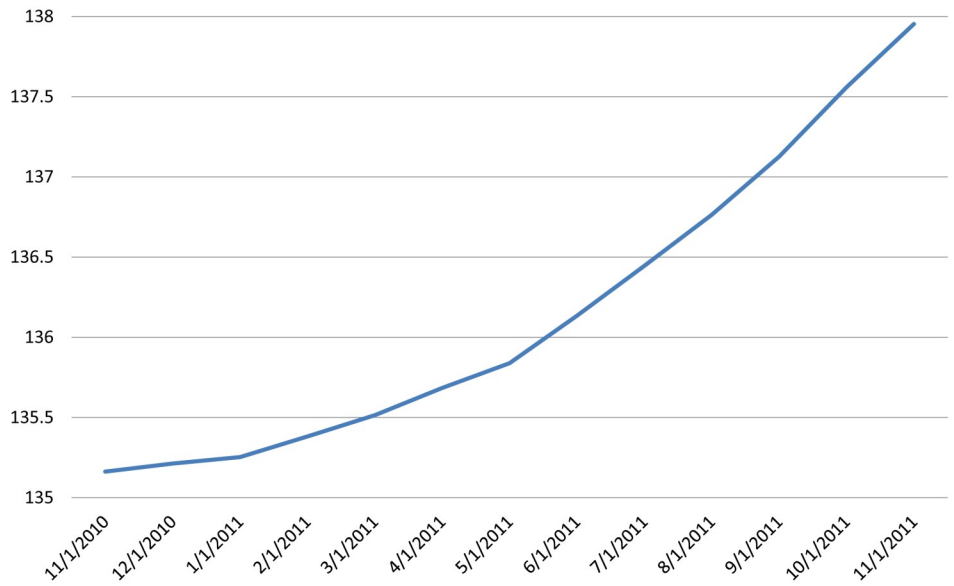
Garden State Activity Index

The *Garden State Activity Index* is our broad measure of monthly economic activity in 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.

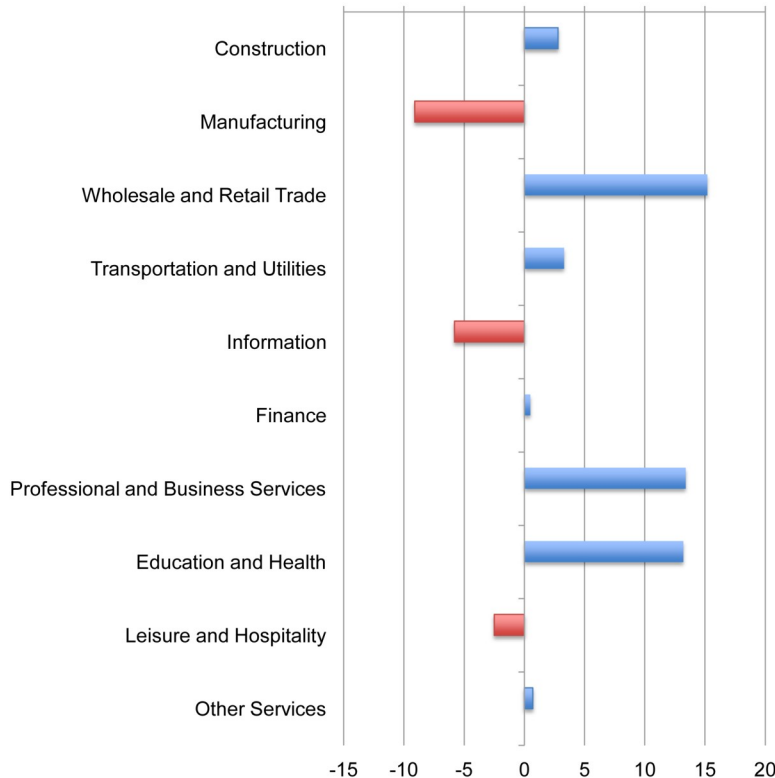
In the August 2011 newsletter, we began using principal components analysis to calculate the activity index. This statistical technique systemically constructs weighted averages of the three Fed indicators. The new weighted index should more accurately capture the state of the New Jersey economy.

Based on the most recent monthly data, the state economy shows moderate upward growth; this past November, New Jersey's economy reached an index level **2.1% higher** than the level in November 2010.

-Andrew Lai



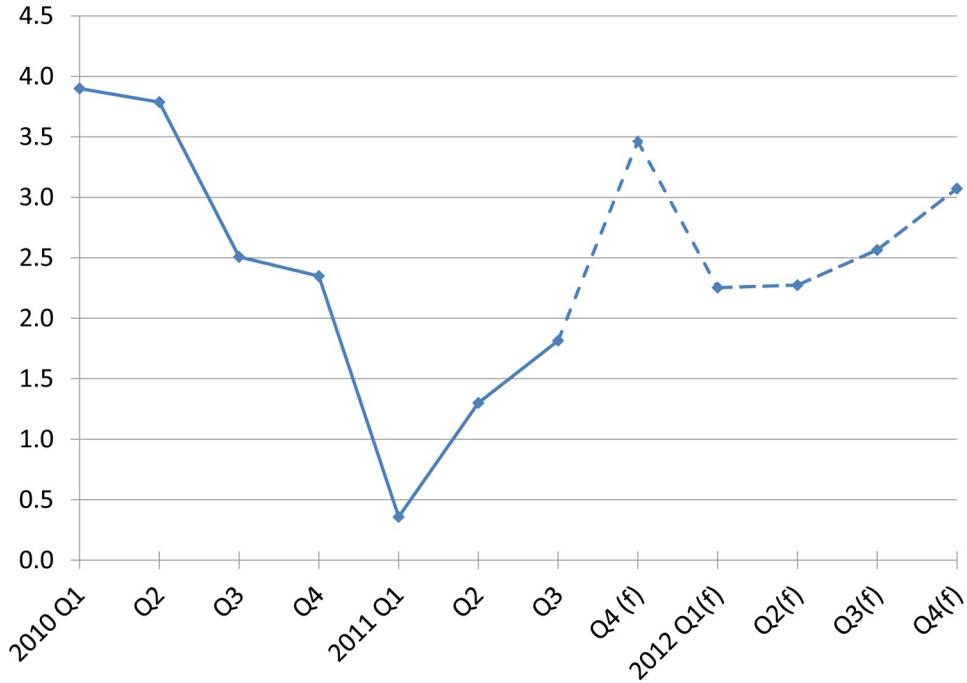
Private Industry Employment Trends



Change in Thousands of Jobs
August-November 2010 to August-November 2011

Data source: New Jersey Department of Labor

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



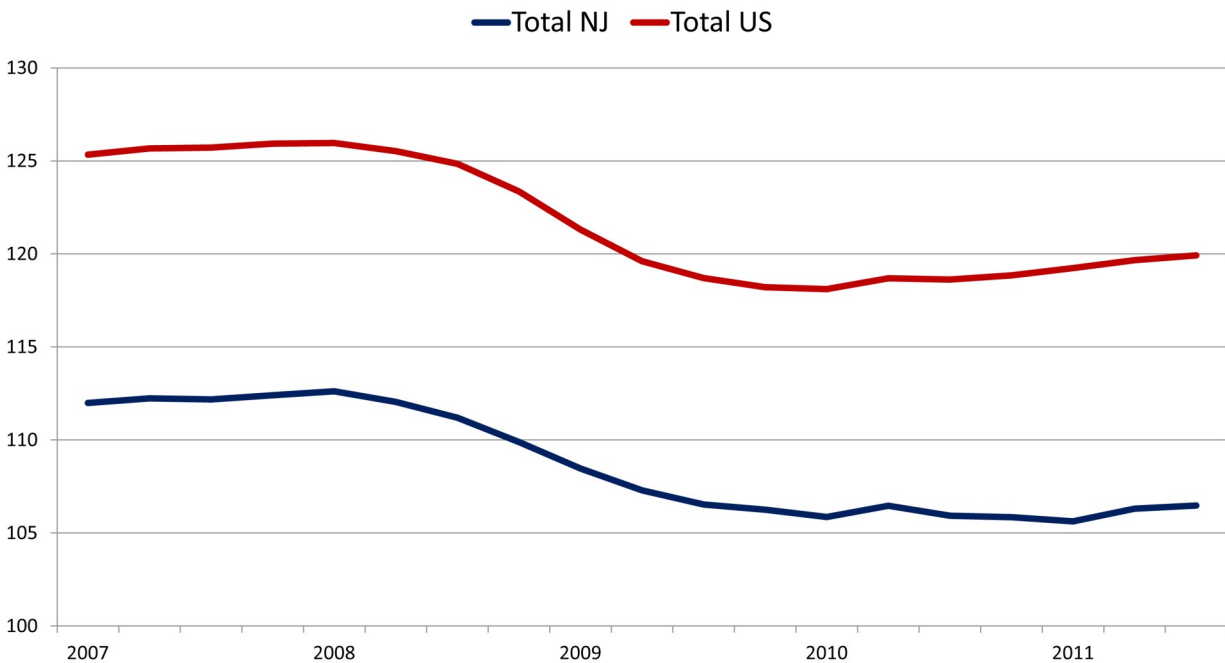
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Data source: U.S. Bureau of Economic Analysis

State & National Job Trends

Total Employment (Relative Employment 1990=100)

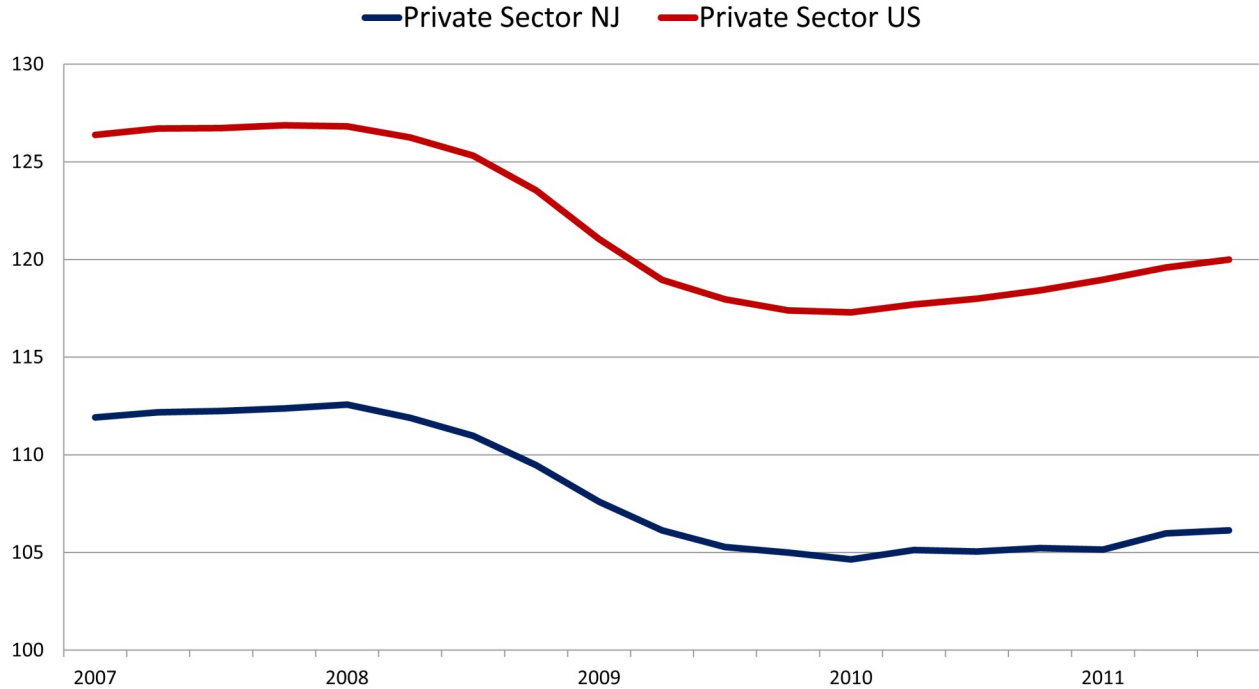
This chart compares the number of employed workers to the base year of 1990. The number 100 represents employment in 1990.



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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