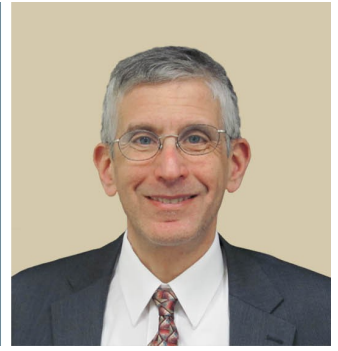


New Jersey Economic Insights

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Outlook New Jersey

A Strong Start for the Year Gives Reason for Hope

New Jersey

The job numbers for January and February show the upward momentum that became evident in 2011 continues. A total of 17,500 jobs were created in New Jersey over the two months with 17,400 of them springing up in the private sector. Over the last year, 52,200 private sector jobs have been created. To be dramatic, this is the first time in this millennium that New Jersey has added so many jobs in a 12 month period. It was also the largest 12-month gain since the period ending in December 2000.

The recent job gains have been reasonably broad-based across industry sectors. Unfortunately, the increased pace of hiring has left the unemployment rate basically unaffected. The jobless rate was 9 percent in both January and February. Continued job growth at the recent pace will bring unemployment down, but, partly because the labor force has expanded as discouraged workers have begun looking for jobs, the rate remains high.

January and February were fairly remarkable. They were the best two-month period of growth in private employment in ten years. Still, the surge was essentially a step-up from a period of steady growth in employment. On average, overall payroll employment in January and February was a solid 0.8 percent higher than the average 2011 level. To put it another way, if payroll employment now remained unchanged through the end of the year, 2012 would still show growth in employment in line with the best years of the last expansion. If payrolls continue to grow, even if not at the brisk pace of January and February, the gain for the year as a whole would be even larger.

Income is also on the upswing. Personal income in New Jersey set another record high of \$474.5 billion (at an annual rate) in the fourth quarter of 2011. For the 2011 as a whole income for state residents amounted to \$469.1 billion, again a record high.

In other indicators of local activity, the New York and Philadelphia Federal Reserve Banks' surveys of manufacturing both showed some further gains in February. The Philadelphia bank also reports that over the three months ending in

January its index of overall economic activity in New Jersey grew more rapidly than in any of our three neighboring states and somewhat more quickly than the nation as a whole. And, as is reported elsewhere in this issue, New Jersey car sales in early 2012 showed substantial gains.

U.S. Economic Outlook

The national economy has recently kept pace with New Jersey. The nation added another 233,000 jobs in February. December, January, and February each saw job gains exceed 200,000, which marks a return to the trend of the early part of 2011. The February unemployment rate was unchanged at 8.3 percent. Retail sales grew strongly in both January and February. Manufacturing output continues to rise, and by February, it had regained two-thirds of the production lost in the recession.

It's widely anticipated that housing activity will finally begin to revive this year. February data on housing starts and home sales showed some fallback from January, and in this context the recent small increases in mortgage rates have led to some

- *New Jersey employment and activity growing well as the year starts*
- *The national expansion remains on track*

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discouragement about the housing outlook. Still, the favorable fundamentals for housing of low prices, low mortgage rates, improved income and higher rents are intact.

Elsewhere, the Federal Reserve has reported that the nation's largest financial institutions generally hold enough capital to withstand an economic downturn comparable to the one we have just come through. That is a reflection of banks retaining the very large profits they have been earning in recent years. While banks' activities remain controversial, it is reassuring to learn that the financial sector is much stronger than it was during the 2008-2009 crisis.

Some have expressed concerns about the possibility of a major retrenchment in federal fiscal policy. As a matter of law, without some budget agreement being reached, there will be substantial automatic cuts across a wide array of federal programs. And, unless Congress acts, next year will see the end of the payroll tax holiday, the shutdown of extended unemployment insurance and a marked increase in income taxes. Given election year politics, there are understandable concerns about practical compromises being reached in time to disarm these economic Doomsday machines. The worries are reasonable, but forecasters are generally assuming that the worst will not happen.

There are also concerns that the recent run-up in gasoline prices

will derail the recovery. Of course, the increase in pump prices drains some consumer purchasing power. On the plus side, households are also benefitting from lower natural gas and electricity prices and less need for heating this winter, so the overall energy bill has not risen as much as the gasoline price increase would suggest. However, given the mild winter, perhaps there will be some payback in the form of higher air conditioning bills next summer! So far, at least, the rise in gasoline prices does not seem to have depressed the various consumer confidence measures. Certainly, increases in income coming in the form of new or higher paychecks should allow most households to ride out a period of higher gasoline prices without cutting back substantially elsewhere.

The annual rate of aggregate wages earned by American workers in January was more than \$100 billion higher than the figures for last summer, when the last gas price peak occurred. It's likely that at worst higher gas prices will absorb less than half these gains. And with employment growing consumers should have access to even larger resources to help fill their tanks.

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Will New Jersey Consumers Open their Purse Strings?

During the last recession consumer spending tumbled. Adjusted for inflation, it fell 3.4 percent from the end of 2007 through the middle of 2009. That may not sound like too big a decline, compared, for instance, to the drops in employment or the stock market in that period, but past recessions have seen little if any decline in consumer spending.

The consumer recovery since 2009 has been tepid. Real growth in consumer spending was just a bit over 2 percent in both 2010 and 2011. That is a lower level of spending growth than consumers generated in every year from 1992 to 2007.

It's easy to recite a long litany of reasons why consumer spending has been so down in recent years: loss of jobs, loss of income, loss of wealth, loss of confidence and loss of ability to borrow. Households have retrenched to boost savings, both to rebuild lost wealth and to make some progress on reducing the debts piled up prior to the recession. Spending on big ticket items such as cars was the first item to be cut, and cuts were largest in this area.

All those negatives certainly remain in place, but the key is that they are less negative than they were a year or so ago. The number of jobs is still well under the prerecession peak, but employment is growing, not falling or stagnant. Household income is moving up. Some of the lost wealth has been regained as the stock market has recovered. Consumer confidence measures have improved, and banks are a bit more willing to lend. The result is an environment more conducive to growth in consumer spending, especially on big ticket items.

One of the hardest hit parts of consumer demand during the recession was motor vehicle sales. Indeed, much of the decline in consumer spending during the recession was on outlays for new cars; the number of new cars and lightweight trucks sold in the United States fell from 16.1 million in 2007 to 10.4 million in 2009. The 2009 figure was the lowest since 1982.

The 2011 unit sales figure of 12.7 million did represent some advance from 2009, but was still well below the pre-recession pace.

In New Jersey, we generally tracked the national trend. New motor vehicle registrations fell from almost 600,000 in 2007 to 400,000 in 2009, while the 2011 figure was around 460,000.

Right now, there is nothing to suggest a boom in spending, or a quick return to pre-recession sales levels, but the pace of growth should pick up from the muted numbers of 2010 and 2011. Since the consumer accounts for about two-thirds of all spending in the economy even a moderate improvement has a big impact on the national numbers.

Narrowing the focus to autos, the improved economic and financial environment, along with the continued aging of the fleet (reports suggest that the average age of cars on the road is 11 years), points to ongoing sales gains. Indeed, January and February saw sharp increases in car sales both nationwide and in New Jersey. New car registrations in New Jersey were a full 32 percent higher than in the same months of 2011 and reached levels not seen at this time of year since 2007.

It's unlikely that the headlong growth of car sales seen in January and February will be sustained. The remarkably mild winter weather probably brought forward some car sales that would have normally occurred in the spring. The rise in gasoline prices could also deter some car buying. Still and all, the recent revival in auto sales suggests that consumers are in a better mood for buying than at any time in the last four years and bodes well for the overall outlook.

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New Jersey Business Pulse Survey

The Recovery Gained Momentum in February

New Jersey businesses reported fairly marked optimism about current economic conditions and the outlook in February. These findings come from a survey administered by 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 in real time from a diverse group of businesses in the state. More than 90 firms spanning a wide spectrum of industries and sizes responded to the February survey. It included 14 questions about current and perspective 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/SurveySummary_feb12.xls.

General Conditions: Growth Now, and Growth to Continue.

The overall assessment of current conditions is markedly tilted toward growth, with comparable views about developments inside and outside of New Jersey. Approximately one-third of the panel sees current conditions improving, with only about a tenth seeing deterioration. Looking over the next year, about half the respondents anticipate growth with only a small portion of about one-tenth seeing deterioration.

Revenues, Hiring and Capital Spending: Outlook is Positive

The outlook for their own companies' revenues is also upbeat, with over 40 percent of the respondents anticipating growth in their New Jersey revenues, and

over half of those expecting growth in revenues in other locales. Nearly one in five of the firms are planning to expand employment in New Jersey — more than twice the fraction that is planning job cuts. The balance of responses is also weighted toward gains in capital spending, both inside and outside the state.

About one-third of the firms report having moderate or strong problems in finding qualified workers for open positions in New Jersey, but roughly equal numbers report no problems in that regard. As has been the case in past months, there is little sign of any problems filling positions outside of New Jersey.

Product Prices and Input Costs

The responses to the price questions in February were very similar to those made in January: a bit more than one-fourth of respondents report recent increases in any prices that they charge and more than 70 percent of the panel have seen recent increases in input costs.

Conclusion

The February results show fairly marked signs of an improved economy. Given the very limited history of this survey, it is hard to draw stronger conclusions from the numbers, but the stronger tone is certainly consistent with that given by numerous other national surveys and data. It also adds to the growing evidence that the expansion is firming. The open-ended responses included concerns over taxation and regulatory policies.

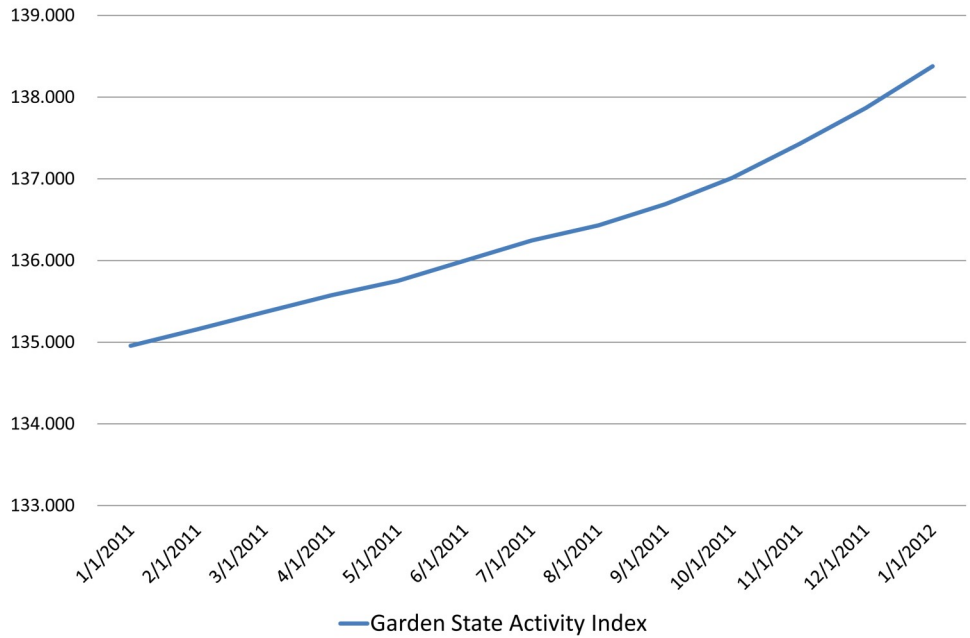
The New Jersey Business Pulse Survey has been created to look beyond conventional economic data and gather views in real time directly from a diverse group of businesses in the state. If your New Jersey firm is interested in participating in this monthly survey, please contact Mary Filipowicz at 609-633-6781.

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.

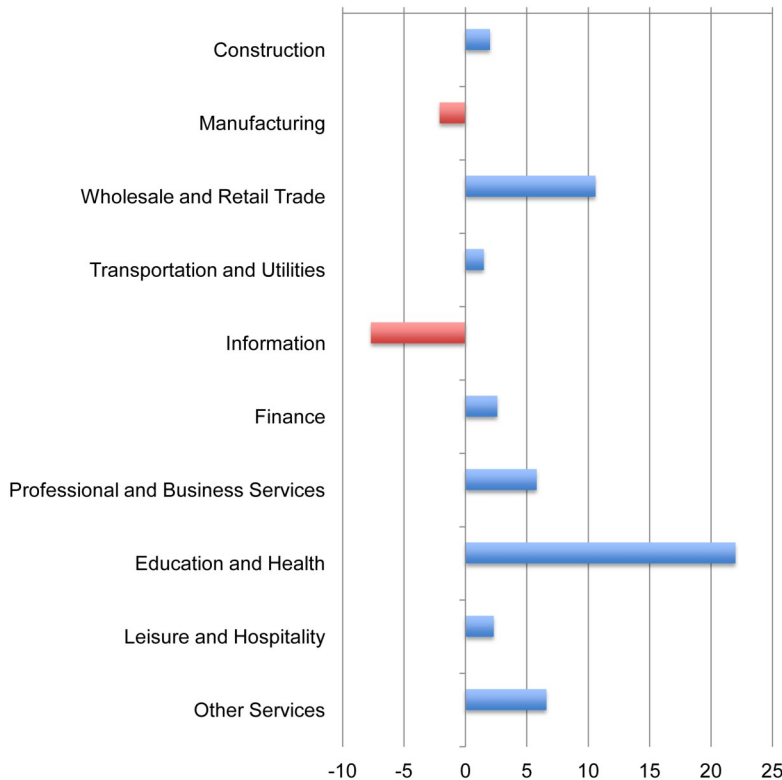
Last August, we began using principal components analysis to calculate the activity index. This statistical technique systemically constructs weighted averages of the three Fed indicators. The new weighted index more accurately reflects the state of the New Jersey economy.

Based on the most recent monthly data, the state economy continues to show healthy growth. This past January, New Jersey's economy reached an index level 2.5 percent higher than the level in January 2011.



Andrew Lai

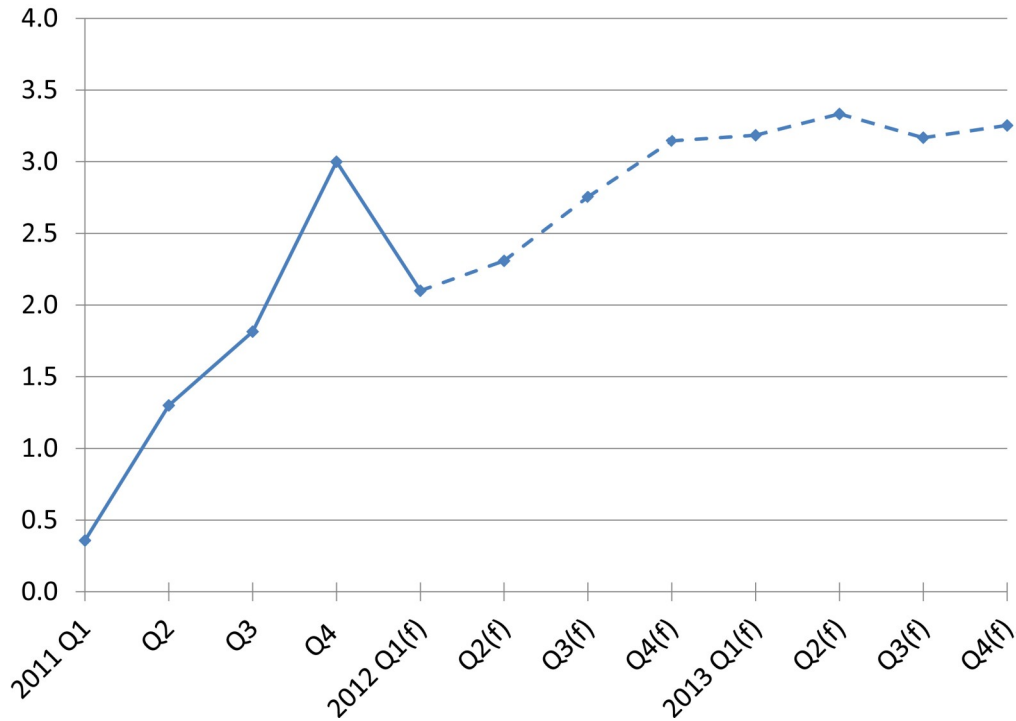
Private Industry Employment Trends



Change in Thousands of Jobs
December 2010-February 2011 to December 2011-February 2012

Data source: New Jersey Department of Labor

Real U.S. GDP Growth



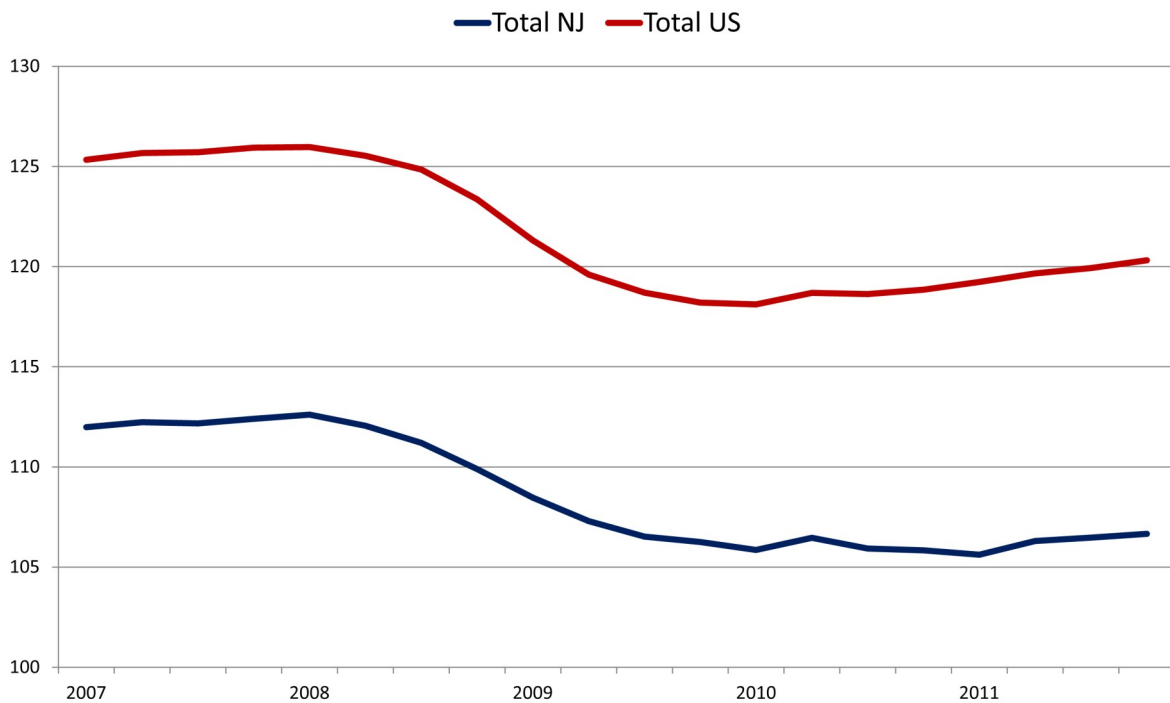
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Data source: U.S. Bureau of Economic Analysis

State & National Job Trends

Total Employment (Relative Employment 1990=100)

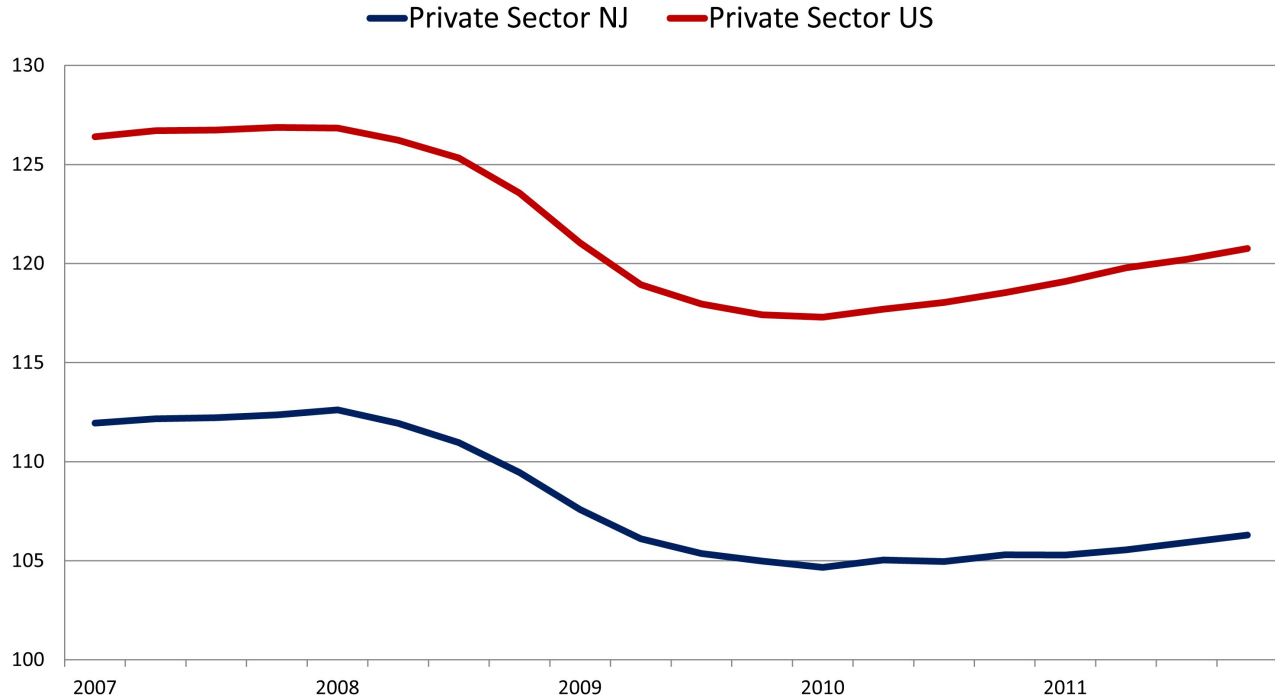
This chart compares the number of employed workers to the base year of 1990. The number 100 represents employment in 1990.



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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