

# New Jersey Economic Insights



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## Outlook New Jersey

### State Job Gains Continue and National Expansion Remains on Track Despite Bumps

#### New Jersey

The state’s economy gained some traction in March. The employment report contained two bright spots – another 3,600 private-sector jobs were added and revised data for February showed the state gained 12,400 private sector positions in that month, a big jump from the initial estimate of 6,800. Job growth estimates are frequently revised because the quality of the data improves with time. In an economy such as New Jersey’s that supports more than 3 million jobs, the best way to create job market estimates is with statistical samples. While this method isn’t 100 percent foolproof, the margins of error for such samples still are substantially smaller than those recorded by the best political polls!

In addition to these month over month gains, for both February and March, the total number of private sector jobs was 20,000 higher than for the same months a year ago. In fact, the total number of private sector jobs in New Jersey in March was the highest since July 2009.

**New Jersey will have to add more than another 200,000 jobs to reach the peak of 2008, when the state had over 3.4 million private sector workers, but the recovery has been steady, even if it hasn’t been spectacular. Our state appears to be on the long road back.**

Other indicators also show progress in the local economy. The Philadelphia Fed’s index of manufacturing in the Third Federal Reserve District (which includes South Jersey) continued to show solid progress through March, though the index retreated from its extraordinarily high February level. Our Garden State Activity Index continued its upward advance through March. New motor

vehicle sales in New Jersey in March were apparently the highest since August 2008, suggesting that despite soaring gas prices, drivers retain considerable enthusiasm for new wheels.

Of course, the unemployment rate inched higher to 9.3 percent in March, so it’s reasonable to ask why the jobless rate is rising if the number of jobs available is growing. Technically, the data on unemployment is independent of the numbers on jobs. The two statistics are derived from entirely separate surveys. However, the divergence between these numbers also occurs

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because the unemployment figures count the number of *people* working. The other statistic counts how many *jobs* are filled. The jobs figures count some people more than once – those who hold more than one job– and others, such as the self-employed, are left out of the jobs count altogether. In addition New Jersey firms employ out-of-state residents, meaning that every job added in New Jersey doesn’t go to a New Jerseyan. For all these reasons, a gain in jobs doesn’t automatically reduce the state unemployment rate, which strictly measures how many New Jersey residents are looking for work.

Moreover, the rising economy has apparently encouraged more state residents to try to find jobs. So while the number of state residents who are working has increased in recent months, about in line with the rise in the number

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of jobs, the unemployment rate has risen because more people have decided to look for work than can be accommodated by the steady, but slow pace of job growth.

Given the occasional ambiguity arising from such shifts in the published unemployment rate, some economists prefer to look at the proportion of the working age population

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that is employed (the employment to population ratio), and that has crept up, not down, since the start of the year.

#### **U.S. Economic Outlook** National Gross Domestic

Product (GDP) growth in the first quarter of 2011 was at a modest 1.8% annual rate – down substantially from the figures for the second half of 2010. That number has understandably raised concerns that the expansion is sputtering. However, a look at the details shows that the weakness is attributable to sharp declines in private and public construction spending, as well as a cut in federal defense spending. The decline in construction was surely attributable to the impact of last winter’s storms, and should soon be reversed, while defense spending often fluctuates sharply from quarter to quarter. The fundamentals of the economy are sound – employment has strengthened, manufacturing output is surging ahead, and consumer outlays and business equipment spending grew solidly in the first quarter.

There’s no question that housing remains missing in action, which is historically quite extraordinary for a U.S. economic recovery and not necessarily in sync with the underlying climate for home sales. Rising demand for housing based on demographic figures is not being filled, even as home prices and interest rates remain at levels that should make houses extremely affordable. Clearly, the overhang of foreclosed (or near-foreclosed) properties, and uncertainties about the regulatory structure of housing finance (lenders are not sure what the new rules will be), continue to weigh on the sector. Home buying lethargy is slowing the national expansion. Hopefully, like Mia, the cobra that wandered away from the Bronx Zoo, housing will find its way back. The nation needs this economic engine to drive growth and speed recovery.

Potential pitfalls abound in the national economy. The surge in gasoline prices is draining household purchasing power, and the Japanese catastrophe could reduce U.S. production and sales, particularly in the auto industry. The recent announcement by Standard and Poor’s that the U.S. is on “negative watch” poses no immediate risk of any magnitude to the economy, but clearly should be seen as an indication of the critical need to place federal finances on a long-term, sustainable path. On balance, the risks don’t seem sufficiently large to derail the expansion. They could be enough to slow the pace of an expansion that is already historically weaker than those experienced after other, recent recessions.

## Industry Spotlight

### Small Business in New Jersey: A Big Footprint

How big is a “small” business? The official answer may surprise you. The Small Business Administration (SBA) defines a small company as one with less than 500 employees. Using that measure, small firms are clearly a very big and important part of New Jersey’s economic landscape. According to the SBA, small businesses supported more than 1.8 million New Jersey jobs in 2008 – over half the state’s private-sector total.

This official classification of what constitutes “small” in the world as defined by federal government statistics may be hard to accept – especially for anyone who thinks of small businesses only as family-run restaurants or home day-care centers. You’re not alone if you think a company with several hundred employees is rather large, and shouldn’t be classified as “small.” However, even if the definition of small is reduced to 50 employees or less, the impact of such businesses on the state’s economy remains immense.

The SBA numbers can be used, in combination with Labor Department statistics on employment at business establishments of differing sizes, to estimate the number of New Jersey jobs supported by companies with less than 50 employees and to extend the estimate to 2010. Those 50-or-less-employee businesses had more than 1 million workers on their payrolls in 2010 – equal to almost one-third of all private-sector jobs in New Jersey. Thus, by any reasonable definition, small firms generate an enormous share of New Jersey’s jobs, just as they do in every other state. Moreover, the small company share of state employment has been stable over the last 20 years – it’s not a shrinking sector. To the contrary, small businesses are a dependable, essential driver of economic stability and job growth in New Jersey and will remain so.

Using the Labor Department data, I estimate that in 2010, New Jersey employers with fewer than 50 workers generated payrolls of about \$42 billion, a bit less than a quarter of all private wages and salaries paid in the state.

Since the wage share of New Jersey’s small businesses is less than their share of total employment, it follows that large companies tend to pay more than small ones. It’s certainly possible, even likely, that part-time work is more common at small than large companies, which would help to account for lower wages per worker. Regardless, the wages paid by small businesses are critical to the economic well-being of thousands of New Jersey workers and their families.

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Wages alone don’t provide the complete picture of the benefits small businesses generate for New Jersey. Owner income is also critical to the state’s economy. Close to 200,000 self-employed workers, including farmers, live in New Jersey. The vast majority of New Jersey’s self employed run small businesses – many relying solely on the work efforts of their owners, with no additional workers on the payroll. The income of non-farm proprietors in New Jersey totaled nearly \$35 billion in 2010. Farm income – counting both wages and the earnings of proprietors – was about \$500 million. Putting it all together, small businesses in New Jersey employ more than 1.2 million people, including proprietors and employees, and the contribution of small firms to New Jersey personal income was more than \$75 billion, just counting wages and business earnings.

The contribution of the sector to the state’s gross output is larger than \$75 billion, since items such as payroll taxes, fringe benefits, interest and property taxes paid by the businesses would also be added as part of the dollar volume of their output, but it’s difficult to compute a finer estimate with this data. By any measure, small businesses, considered as a group, are an absolutely essential part of the state’s economy—likely larger than any industry

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“super-sector” such as manufacturing or construction. The comparison isn’t exact, since industry groups include both small and large businesses, but the statistics give an idea of the importance of small businesses.

In what industry sectors are small businesses clustered? High concentrations can be found in the construction, real estate, professional services, health care, hotel-motels and food services and the catch-all “other services” sector, which includes such common-place businesses as auto repair shops, dry cleaners, and hair and nail salons. The utility and information services sectors, in contrast, are light on small companies.

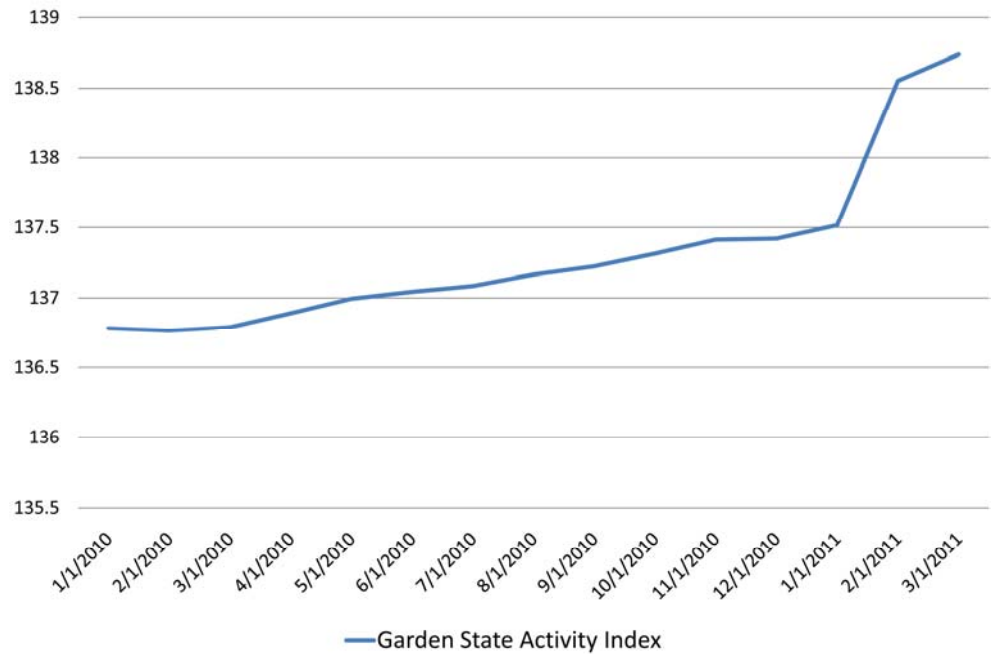
It’s important to note that small enterprises must operate differently than large companies. One key area is finance. In general, large firms obtain funding through sales of bonds and other debt to investors. Most small businesses don’t have that access to the capital markets. A recent study of small businesses by the New York Federal Reserve bank that included North Jersey found small companies rely heavily on credit cards, bank loans and loans from family and friends when they need cash for

expansion or operations. (<http://www.newyorkfed.org/sbfinances/>). This reliance on limited internal resources and comparatively high-cost forms of external financing creates major problems for small companies when they have a financial crisis. The only reliable solution to small business financial problems is an expanding economy that boosts their earnings and puts more lenders at easy about providing credit to small businesses. Clearly, the improving outlook for New Jersey’s economy can only be seen as great news for the small businesses that have been struggling for survival, and for those who are trying to create the new businesses that New Jersey needs to provide the jobs of the future.

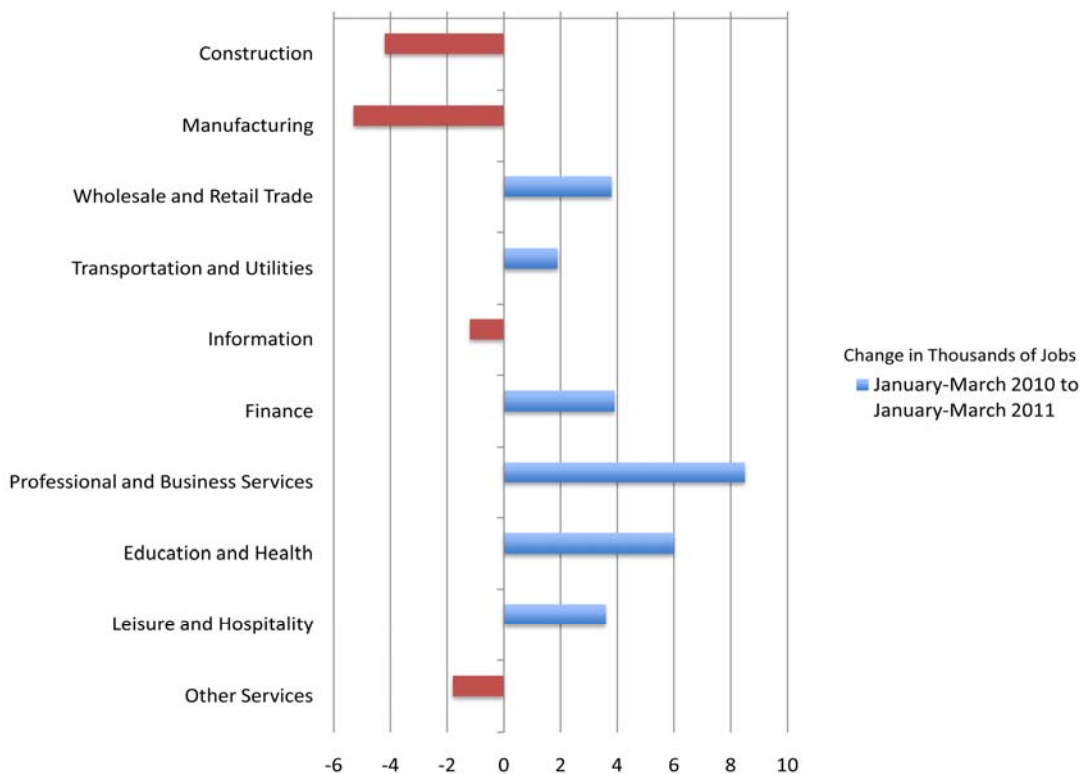
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## Garden State Activity Index

The *Garden State Activity Index* is a measure designed to provide a broad indicator of monthly economic activity in New Jersey. The index is an average of three other measures: the coincident economic indexes for the state produced by the Federal Reserve Banks of New York and Philadelphia, and a measure derived from the Philadelphia Bank's South Jersey Business Survey. The latest reading shows that the index continues to rise moderately, and in March it reached a level about 1% above that of March 2010.

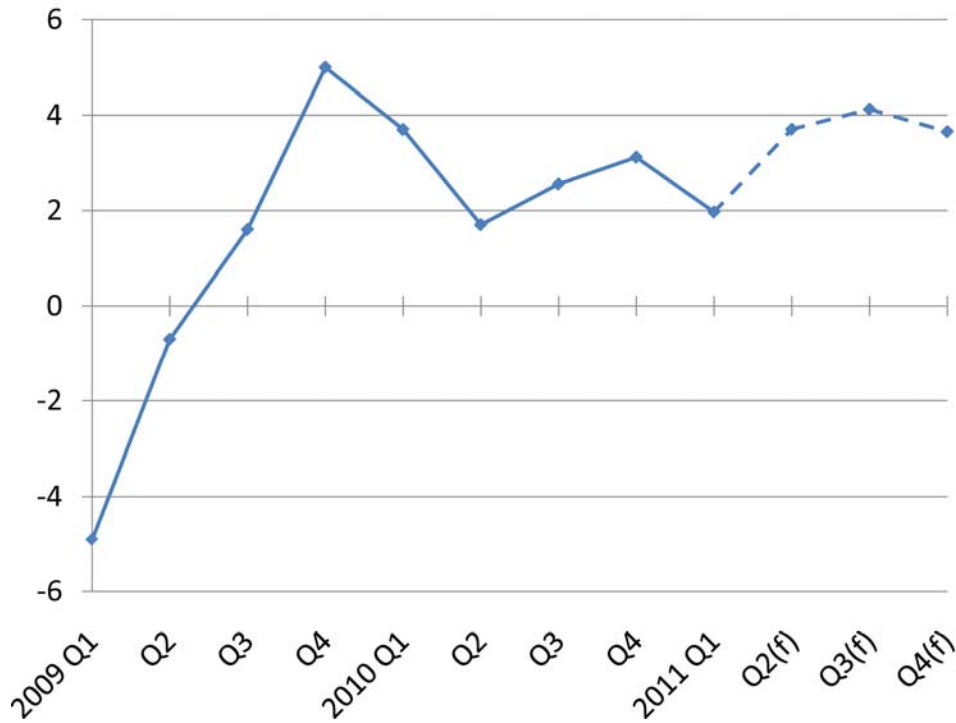


## Private Industry Employment Trends



Data source: New Jersey Department of Labor

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



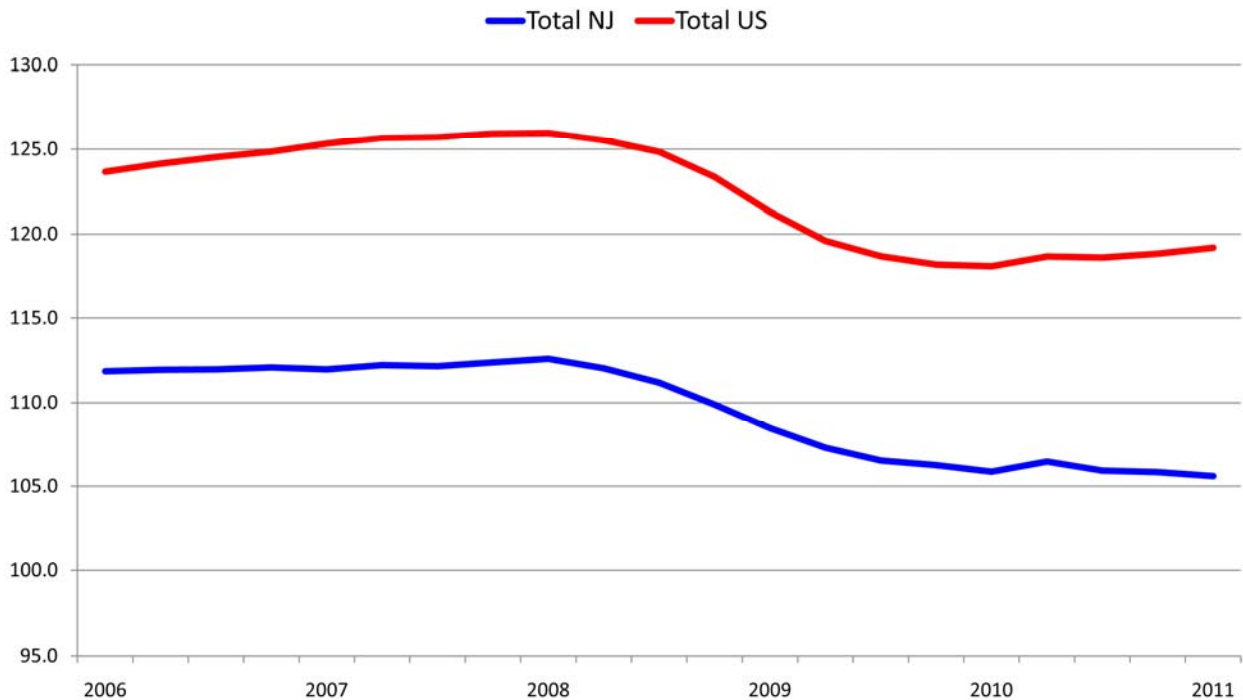
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Data source: U.S. Bureau of Economic Analysis

## State & National Job Trends

### Total Employment (Relative Employment 1990=100)

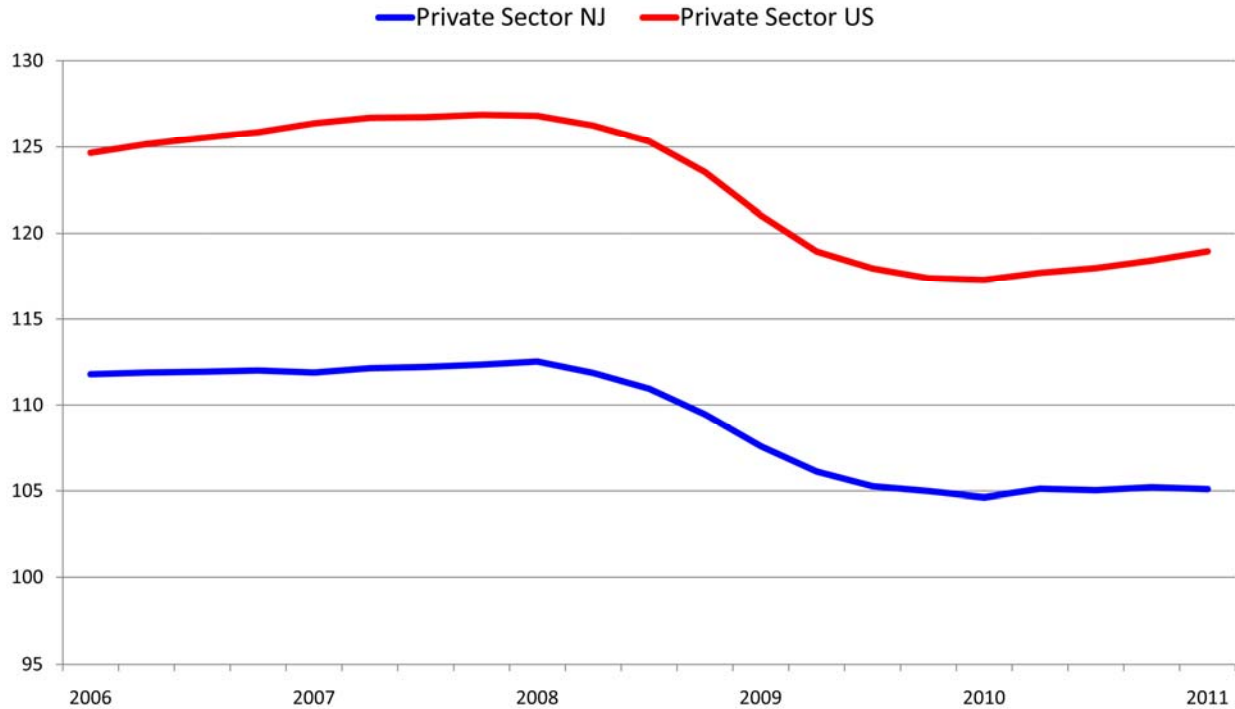
This chart compares the number of employed workers to the base year of 1990. The number 100 represents employment in 1990.



## 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**

*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 and do not necessarily represent the views of the State Treasurer or any other official of the State of New Jersey.*