

New Jersey Economic Insights



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SCHEDULE CHANGE: Starting next month, *New Jersey Economic Insights* will be shifting to a bimonthly publication schedule, with the next issue to be released in July. We will, however, continue to distribute monthly updates of the information from the New Jersey Business Pulse Survey and the Garden State Activity Index. The Survey and Index numbers will be available on the soon to be activated website for the Office of Chief Economist/Office of Revenue and Economic Analysis. It will be reachable through the Department of the Treasury’s home page at <http://www.state.nj.us/treasury>.



Outlook New Jersey

April’s Resumed Growth in Jobs Suggests March May Have Been an Anomaly

New Jersey

New Jersey added 2,600 jobs in April, while March’s job loss number was revised downward by 4,900, dropping from 8,600 to 3,700. In the private sector, the state gained 6,300 jobs in April. The turnaround strongly suggests that March’s decline was likely due largely to a shift in monthly employment patterns related to the extraordinarily warm winter. The upshot is that state private sector employment remains on a moderate uptrend.

The number of employed New Jersey residents increased by a fairly healthy 5,500 in April. Nonetheless, this gain was outstripped by an outsized 10,000 increase in the state’s labor force, the largest since November 2007, which led to a bump up in the unemployment rate to 9.1 percent from 9.0 percent. The surge in our labor force may be a sign discouraged workers have been heartened by the recent gains in employment and have started actively searching for work. In the world of labor statistics, an “officially” unemployed person is one who is out of work *and* looking for a job.

The only other significant piece of recent information bearing on the state’s economy was a fairly large drop in May in the Federal Reserve Bank of Philadelphia’s manufacturing index. This index is based on a survey that includes some South Jersey firms. In principle, a decline of this magnitude may be troubling, but an even larger decline late last summer proved to be a false signal of weakness. Of course, the Devils’ inevitable

Stanley Cup victory should spur activity, at least in the form of motorcades following the Cup around the state.

Returning to the weather, we have emphasized how the extraordinarily mild winter likely distorted the economic numbers. The reported data correct for shifts coming from normal seasonal variations — such as hiring for holiday sales jobs and construction layoffs when winter

sets in — but last winter was anything but normal. To get a sense of how odd the winter was, one New Jersey weather station reported a drop of close to 25 percent in the number of heating degree days from December 2011

- *New Jersey employment rebounded in April, showing the recovery is continuing*
- *While national economic indicators are holding up, Europe’s ongoing problems are casting shadows*

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through March 2012, compared to the same period in 2010-2011. The mild weather dramatically reduced utility usage, but also likely helped stimulate construction and car purchases.

U.S. Economic Outlook

National economic indicators continue to show growth, but there are some cautionary signs. On the positive side, employment continues to grow. April's net gain of 115,000 jobs — and private sector growth of 130,000 jobs — was on the low side, but increases in earlier months were revised up. Retail sales stayed on a fairly robust upward path. While sales changed little in April, this pause came after strong gains in January, February and March. But manufacturing production rose sharply in April after a decline in March. And all the major housing indicators including starts, sales of existing homes and sales of new homes, were up. The housing gains are particularly heartening since the mild winter likely boosted the numbers at the start of the year. On the cautionary side, though, along with the drop in the Philadelphia Fed index, preliminary results suggest that manufacturing orders were on the soft side in April, and the Conference Board's Index of Consumer Confidence fell in May. Countering those reports is the news that the other standard measure of consumer attitudes, the University of Michigan's Index of national consumer sentiment rose to a 3 and a half year high in May.

The real concern about the outlook stems from the seemingly endless European financial crisis. The political dimensions of the crisis have been expanding, further complicating the path to a possible resolution. Meanwhile, European economic indicators continue to weaken, and the softness is affecting world commodity markets and helping bring down the price of oil and gasoline — hardly an entirely bad thing! The weakening demand is apparently affecting some other nations including, perhaps, China. As we have noted, though, the true risk for the U.S. is not a European recession, but a financial crisis starting in Europe that damages U.S. banks. At the moment, there is little U.S. policy can do about the situation. It is unlikely that the Federal Reserve will undertake whatever limited expansionary policy it can absent firm signs that the U.S. is weakening, and federal tax and spending policy decisions are clearly on hold from now through the election.

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Economic Analysis

New Jersey — the Hidden High-Tech State

New Jersey has a long and diverse history as a contributor to the advancement of science and technology. We even have our own Inventor's Hall of Fame dedicated to recognizing the many inventors who made their discoveries in our great state. The notables include Thomas Edison, Albert Einstein, Willis Carrier and David Sarnoff. The homegrown inventions honored at the museum range from the light bulb to air conditioning, bubble wrap, Teflon, LCDs and condensed soup. These items were once considered "High Tech" but are now part of everyday life.

Along with a rich history, New Jersey also has a vibrant present in high technology. In fact, if you put together all the technologically intensive sectors in New Jersey, the Garden State can definitely be called a High-Tech State.

So what constitutes "High Tech" today?

In a July 2005 article published in the Bureau of Labor Statistics' *Monthly Labor Review*, 45 industries were identified as sectors of high-technology employment.

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and wage data, we get some interesting results.

Some of the selected industries are to be expected, like the manufacturing of computers, communications and aerospace equipment, chemicals, drugs and other highly technological products. Software development, computer engineering and system design services, research and development and

telecommunication services are also no surprise. Yet some of the industries like corporate management, securities and commodity exchanges, monetary authorities, natural resource extraction and transportation, even forestry, are less likely to spring to mind.

New Jersey's total 2010 employment in all 45 high-tech industries was 421,600, which accounted for 13.4 percent of the total 3,135,100 private sector jobs in the state. In comparison, high-tech employment made up 11.4 percent of total U.S. private sector employment in the same year. Another way of comparing New Jersey with the nation would be to say that of the 12.45 million high-tech jobs in the United States in 2010, 3.4 percent were located here – a larger proportion than our 2.8 percent share of jobs classified as other than high-tech.

The pharmaceutical and medicine manufacturing industry is where New Jersey had its highest percentage of total U.S. employment with 32,800, or 11.8 percent, of the U.S. total of 278,800 jobs. In second and third place in state were basic chemical manufacturing and scientific research and development services with 5 percent and 4.8 percent of the respective national job counts in these sectors.

Not only is New Jersey high-tech intensive, but workers in our high-tech industries earn more than they do in other states. In 2010, wages in New Jersey high-tech industries averaged \$104,500 per worker, compared to the national level of \$87,200. In the aggregate, wages in New Jersey's high-tech firms amounted to \$44.05 billion, or 25.2 percent of the state's private sector total.



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High-tech, like other areas of the state's economy, suffered during the recession, losing approximately 40,600 jobs, an 8.8 percent decline, between the third quarter of 2008 and the first quarter of 2010. By the third quarter of 2011, though, high-tech employment had stabilized and regained a portion of its job losses from its

The U.S. Census ranks New Jersey fifth among the states based on percentage of the population with at least a bachelor's degree.

Even high-tech industries value proximity to customers. So once again, a key advantage is location, location,

low point. Earnings in the sector fell by about \$2.2 billion during the same recessionary period. They have since recovered and now show signs of strong wage growth, close to 5 percent per annum.

New Jersey's high-tech advantages are numerous.

location. Augmenting this is our extraordinarily well-educated workforce; compared to other states there are above average numbers of people in New Jersey who have the technical skills needed to work in a high-tech environment. The latest statistical abstract from the U.S. Census ranks New Jersey fifth among the states based on percentage of population with at least a bachelor's degree. And the 2010 American Community Survey estimates that 13.3 percent of the population 25 and older has a graduate or professional degree compared to 10.4 percent in the entire U.S.

Looking ahead, as the U.S. and world economies continue their recoveries, high-tech is likely to lead the way. Some industries will inevitably do better or worse than others. But with our large high-tech base, which goes beyond pharmaceuticals and the life sciences, New Jersey is well-positioned to benefit.



New Jersey Business Pulse Survey

Continuing Optimism

New Jersey businesses continued to be upbeat about current economic conditions and the outlook in April according to 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 directly from a diverse group of businesses in the state. More than 75 firms spanning a wide spectrum of industries and sizes responded to the April survey. The survey 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/SurveySummaryApril12.xls>

General Conditions: On an Upswing.

The overall assessment of current conditions remains markedly tilted toward growth. As was the case in March, nearly half the respondent saw current conditions improving outside New Jersey, though there was slightly higher proportion in April – about 10 percent – seeing some deterioration. New Jersey conditions were viewed as essentially as strong as those elsewhere – a decided improvement relative to past results. Looking ahead over the next year, well over half the respondents anticipate growth outside New Jersey, with only about an eighth seeing and deterioration. Inside New Jersey, the proportion of respondents expecting growth is a bit smaller, but so is the fraction expecting deterioration.

Revenues, Hiring and Capital Spending: Outlook Remains Positive

Pessimism is very hard to find in the answers to questions about firm revenues, employment and capital spending. While in general the typical response to all

these questions remains “no significant change,” negative answers are rare. About 10 percent of the respondents see New Jersey revenues declining modestly and noticeable portions in all cases anticipate modest or significant growth.

About 30 percent of the firms report having moderate or significant problems locating qualified workers for open positions in New Jersey. But roughly equal numbers report no problems in that regard. As has persistently been the case, respondents report fewer problems finding qualified staff for their operations outside New Jersey.

Product Prices and Input Costs

Responses to these questions in April were similar to those received in March: About one-third of the panel reported that they have recently boosted the prices that they charge, while about two-thirds have seen recent increases in input costs.

Conclusion

The April results were quite similar to March and show continuing growth in the state. These results reinforce the message given by the April rebound in private sector jobs in New Jersey, and work to confirm the notion that the March decline in employment was probably not the start of a negative trend. In the open-ended responses there were concerns expressed about tax and regulatory issues, both at the state and national levels. One panelist did note the potential for foreign economic problems to impact the state.

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.

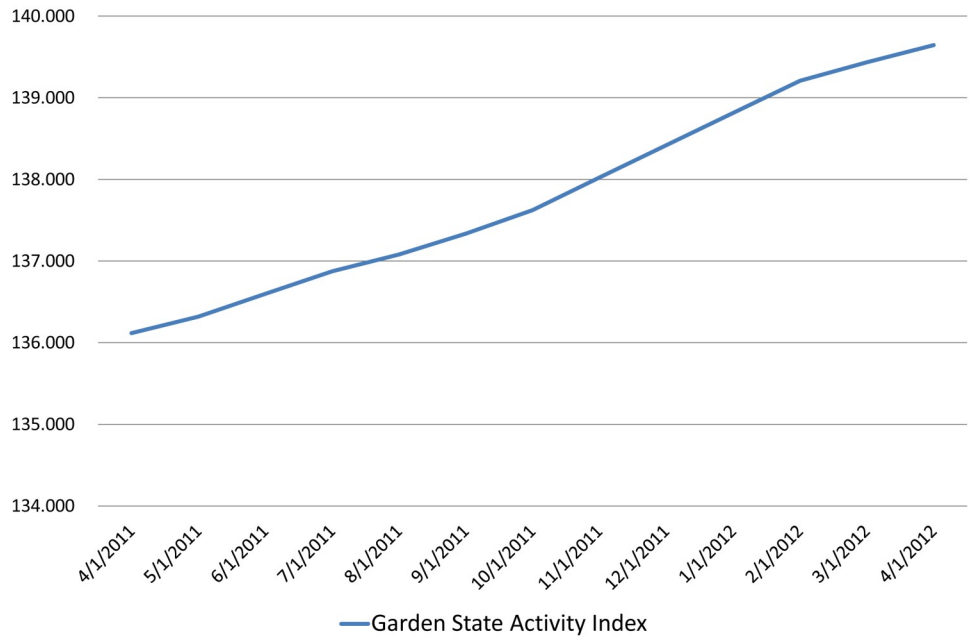
Garden State Activity Index

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.

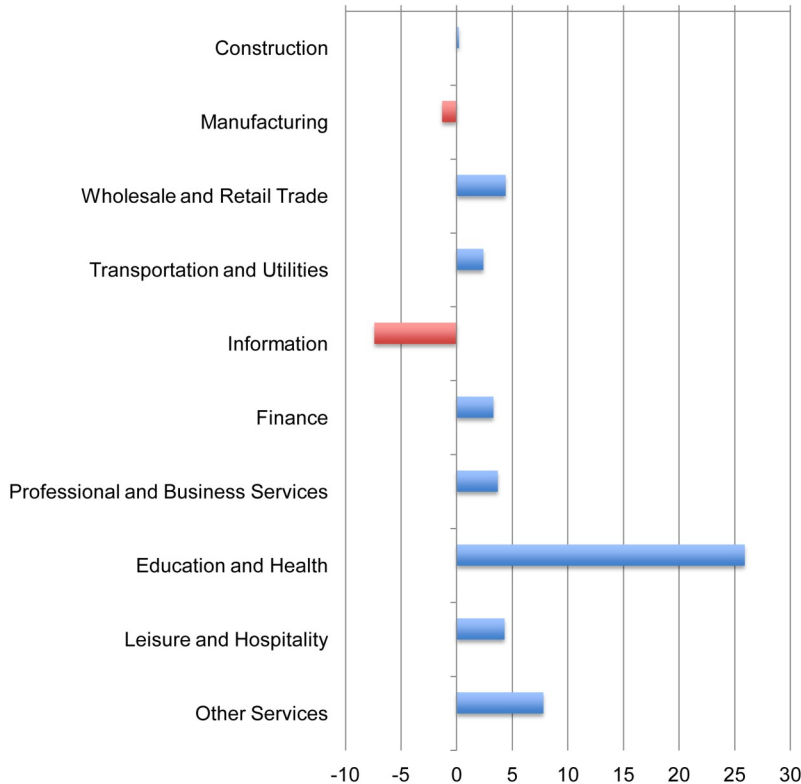
To construct the *Activity Index* we use principal components analysis, which takes a weighted average of the three Fed indicators. The composite index reflects the current state of the New Jersey economy.

Based on the most recent monthly data, the state economy has grown at a moderate pace over the past year. This April, New Jersey's economy reached an index level 2.6 percent higher than in April 2011.

-Andrew Lai



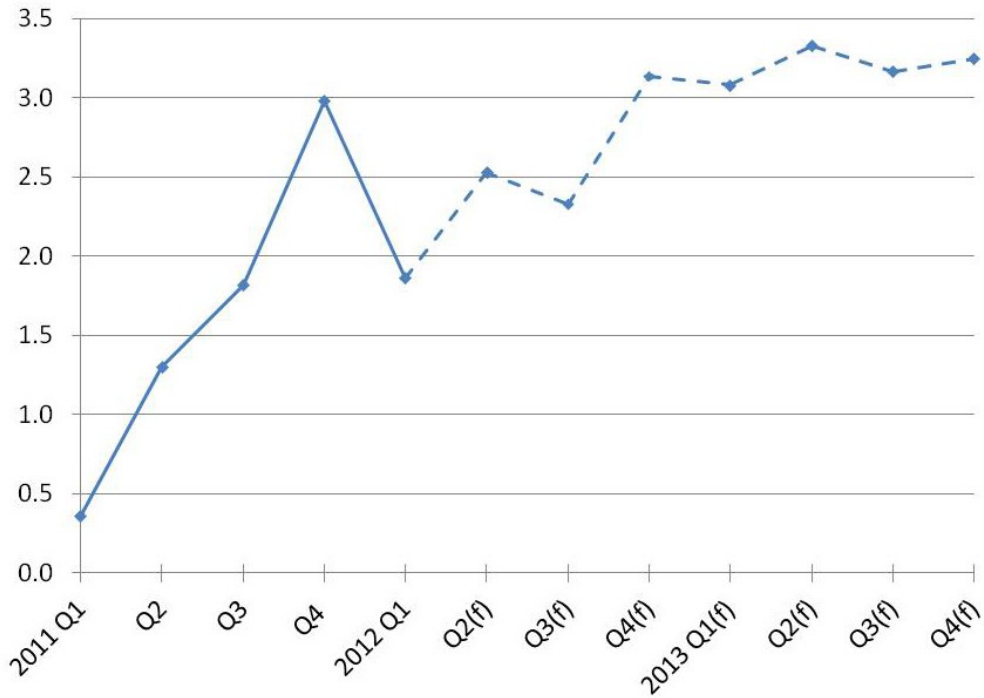
Private Industry Employment Trends



Change in Thousands of Jobs
February-April 2011 to February-April 2012

Data source: New Jersey Department of Labor

Real U.S. GDP Growth



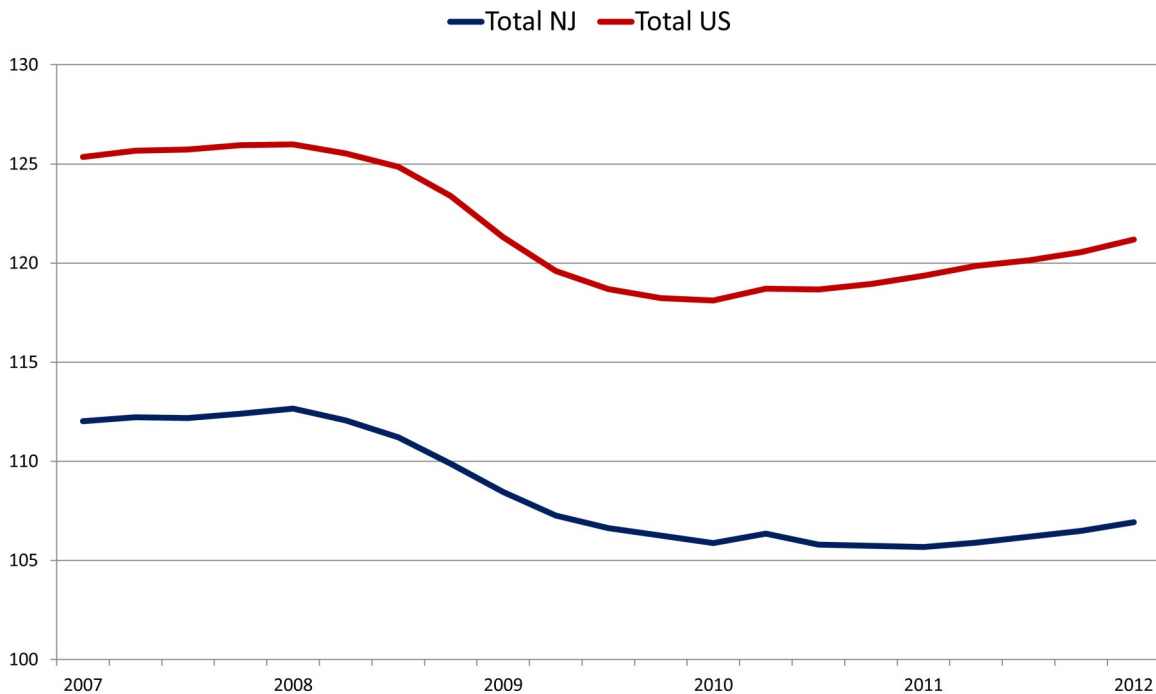
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Data source: U.S. Bureau of Economic Analysis

State & National Job Trends

Total Employment (Relative Employment 1990=100)

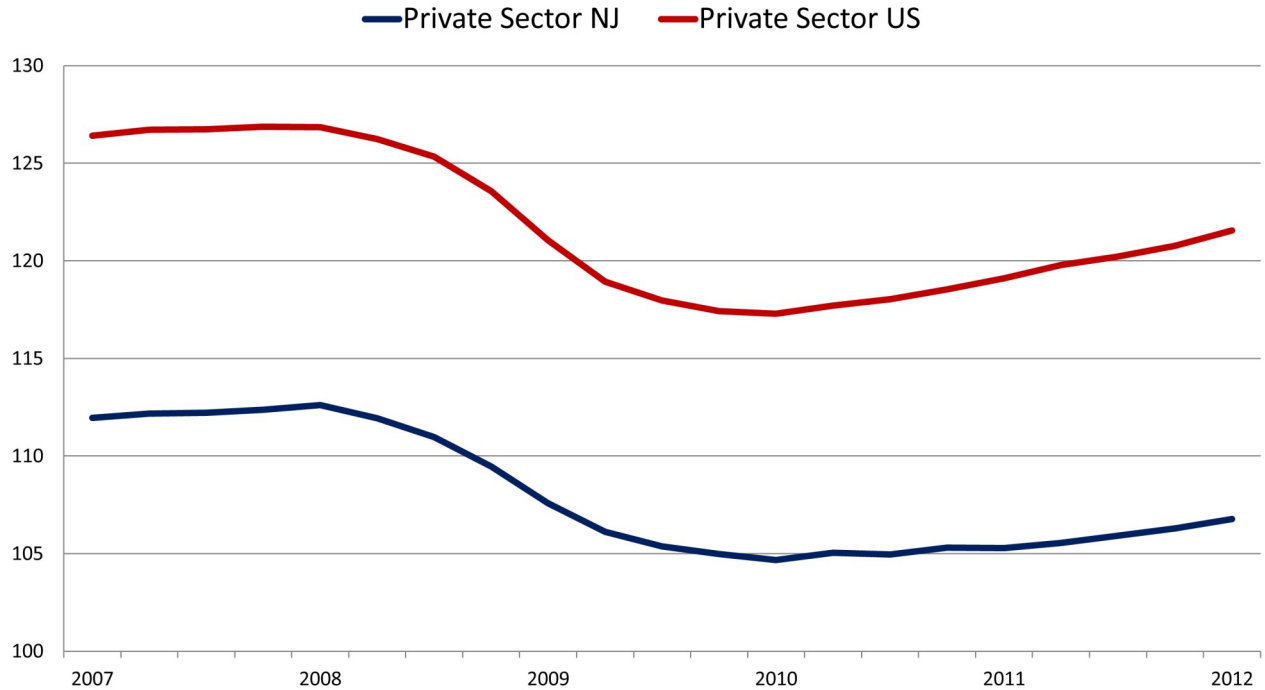
This chart compares the number of employed workers to the base year of 1990. The number 100 represents employment in 1990.



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

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.