



Regional Economic Outlook

Things are getting worse at a slower pace.

By George N. Saliba, Managing Editor

While the state and national economies continue to struggle, some positive economic news has been sprinkled amid the negative. “Are We On The Way Back Up?” was the title of the Newark Regional Business Partnership’s Regional Economic Outlook seminar, recently held at the Best Western Robert Treat Hotel in Newark.

James Orr, assistant vice president of the Federal Reserve Bank of New York, told the audience that New Jersey is in the “middle of the pack” compared to other states, in terms of the index of coincident economic indicators (this comprises employment, unemployment, hours worked and earnings). In related news, New Jersey’s unemployment rate for September was 9.8 percent, tracking the national trend.

Meanwhile, financial activities sector employment decreased by 5.2 percent in New Jersey and 8.5 percent in New York (between August 2008 and August 2009). Also, manufacturing and construction employment have been off sharply in New Jersey, at 8.7 percent and 11 percent, respectively. However, these latter two sectors are not as prevalent in New Jersey as they are in other areas of the country. Orr explained, “[Therefore], the decline has less of an effect here than a similar decline would have nationwide.”

Concerning residential real estate, New Jersey outperformed the nation for many years, with its home

prices increasing by approximately 15 percent annually. While they have obviously declined recently - as they have across the nation - prices in New Jersey are nonetheless now declining at a slower rate.

Orr cited three factors that would determine the strength of the economy: One is going to be the national economy and how that is going to play out ... [Second,] restructuring in the financial sector is going to be key for New York City and the spin-off effects here. The consolidations, the closings of firms and the regulatory changes are all going to affect that sector. ... Finally, [there are] fiscal pressures in New Jersey. We have a projected budget gap which was closed this year through a combination of tax increases, spending cuts and some stimulus funds. But, continued weakness in the economy is going to bring weakness on the fiscal side [of the state].” The state government’s fiscal woes could have adverse effects.

James W. Hughes, dean of The Bloustein School of Planning and Public Policy at Rutgers University, presented a comprehensive long-term view of employment in New Jersey, including the fact that 75,400 private-sector jobs (net) have been lost between December 1999 and August 2009. In this millennium, an average of just 19,862 private-sector jobs have been created on an annual basis. This is in stark contrast to the economic expansions of the 1980s and 1990s, when an average of 73,652 private-sector jobs were added annually. Recently, 2008 and 2009 saw a total of 152,900 private-sector jobs lost in New Jersey.

Hughes noted that this national recession is historically different from others. For example, in the 1990-1991 and 2001-2003 downturns, approximately 83 percent of the job losses were in construction and manufacturing, with about 18 percent in the services sector. However, since August 2009, the losses have been about 50 percent in services and 50 percent in construction and manufacturing.

Hughes concluded, “Let me sum up: The basic outlook is very similar to what Jim Orr suggested: a slowing of the rate of employment decline, or declining at a slower pace. ... This is the new economic news: things are getting worse at a slower pace. We have a declining rate of change in the rate of change. That’s the best I can

[forecast] for the balance of 2009 and we'll be waiting for the bottoming out in 2010."

Christopher Cornell, an economist with Moody's Economy.com, noted that his firm believes the United States' recession is over, and that it recently published a forecast which shows unemployment reaching a peak of 10.3 percent by the second quarter of next year.

However, Cornell said, "There are fewer people employed today than there were on New Year's Day, 2001. Just because something (the recession) is over doesn't mean it is all good news. Moreover, the [employment] decline began in about December 2007. Assuming that everything goes well and the [federal economic] stimulus does precisely as advertised, we will not reach that prior level of employment until somewhere in mid-2012." **NJB**