

Assembly Labor 9-22-08

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Thank you very much.

Now, since its well recognized that I'm the only totally objective person in NJ, my mission this morning is to provide a brief and objective benchmarking exercise.

Where does NJ stand as the credit and financial crises continue to unfold.

This simply comprises basic data from the NJ Department of Labor and Workforce Development, the US Bureau of Labor Statistics, and Bureau of the Census.

Unfortunately, its not a pleasant task.

Let me start off with the Bad News.

The last national expansion was the weakest employment up-cycle in the United States in 3 decades.

Despite this national weakness, New Jersey still failed to be a full participant in it.

Starting in 2004, New Jersey's job base has totally and absolutely refused to grow at a rate anywhere near the pace that should accompany an economic expansion in NJ – and we grew far, far

slower than the nation.

Baseline: During the previous 2 expansions, 1982 to 1989 and 1992 to 2000, NJ added 74,000 private-sector jobs per year on average –

This is a reasonable baseline expectation of what NJ should have gained during the post 2003 employment expansion.

But, during 2004, 2005, and 2006– all expansion years – NJ gained on average just 23,000 private-sector jobs per year.

This is 1/3 that of a typical NJ expansion year – 23,000 versus 74,000.

To put this into perspective, North Carolina, a key competitor and roughly the same size as NJ, on average gained 92,000 private-sector jobs per year in 2004, 2005, and 2006 – quadruple NJ's performance.

So we have clearly been stuck in an extreme slow-grow economy.

Then after 3 slow-grow years, in 2007 NJ unexpectedly and surprisingly flatlined.

WE gained only 3,700 private sector jobs in 2007 – 3,700 for the entire year– a perilous drop from the weak 23,000 job per year average of 04, 05, and 06.

A No-Go economy was upon us.

During the entire 2003-2007 employment expansion period, measured to the specific month, the nation's private-sector job base grew by 7%.

During the 2003-2007 period, New Jersey's private sector job base grew by only 2.2%.

This is less than one third that of the nation's 7% increase.

Good News: After lagging the national economy for 4 straight years, we finally started to track the nation quite closely in 2008.

Bad News 2: Just as we started to track the nation, the nation cratered.

During the 1st 8 months of 2008, the nation lost 758,000 private-sector jobs – 758,000.

This looks like the start of a full metal jacket national meltdown.

During the 1st 8 months of 2008, NJ lost 14,600 private-sector jobs – 14,600.

So this is actually a bit of relative improvement for NJ, but we are both heading in the wrong direction at a rapid pace.

Bad News 3: As of August 2008, New Jersey still had 10,800 fewer private-sector jobs than it had in December 2000, the peak of the last business cycle.

And this is likely to worsen in the months ahead.

Also, in August 2008, we had 53,400 more government jobs that we had in December 2000.

So, 10,800 fewer private-sector jobs and 53,400 more government jobs than we had 7 and 1/2 years ago.

Obviously, NJ's employment metrics leave something to be desired.

Moreover, our unemployment rate increased from 4.2% at the start of this year to 5.9% in August, an increase of 1.7% in 8 months.

Good News: we're still below the national unemployment rate of 6.1%.

Some Relevant Demographic Benchmarks:

In 2006, NJ had the second highest median household income among the 50 states.

Actually Maryland had the audacity – the sheer audacity – to knock us off of our top-ranked income perch, a position we had long held.

Nonetheless, our median household income remained 33% higher than that of the nation, the same as 2005, and roughly the same as Maryland's – 33% higher than the nation.

This benchmarks our current unique demographic-economic capacity.

If we seceded from the United States and became a separate nation, we'd be the wealthiest country on earth, followed by Luxembourg.

This assumes Maryland was not smart enough to secede.

Obviously, such good news as this must have a Major Caveat, and unfortunately it does:

We not only rank Number 2 in income, we also rank Number 2 in housing costs among the 50 states.

New Jersey's homeownership costs are 52% higher than those of the nation.

So, while NJ incomes are 33% higher than the nation, our homeownership housing costs are 52% higher.

Thus, a substantial part of our income advantage is consumed by higher housing costs.

So we're not really as rich as we think we are.

And high housing costs impact economic growth.

Demographics 2: Slow Population Growth

Between 2000 and 2007, the state's population increased by only 3.2% – 3.2% (April 1, 2000 estimates base to July 1, 2007)

In contrast, the nation's population grew by 7.2% – more than double that of NJ.

7.2% versus 3.2% – advantage US

This is a result of a dramatic post-2002 growth deceleration in NJ. In 2002, NJ's annual population growth totaled 79,000 persons.

2003: 63,000 persons

2004: 56,000 persons

2005: 33,000 persons

2006: 21,000 persons

2007: 19,000 persons

So: 79,000, 63,000, 56,000, 33,000, 21,000, 19,000

Applying all of the keen analytical ability that I've honed during my many years at Rutgers, I think I discern a trend in the making.

I'm not saying we're in a demographic death valley,

but we are certainly in one of the slowest demographic growth phases since world War II.

And it is consistent with our slow employment growth performance.

The cause of this deceleration has been what the Census Bureau calls net internal migration losses,

that is, ignoring immigration from abroad,

more people are moving out of New Jersey to the rest of the country

than people from the rest of the country are moving into New Jersey.

According to the Census Bureau, NJ had a net migration loss of

377,000 persons between 2000 and 2007,

that is, 377,000 more people moved out of NJ to the rest of the country than moved into NJ from the rest of country.

Interestingly, they were replaced by 377,000 immigrants from abroad, almost a one-to-one replacement.

The only reason the state's population grew between 2000 and 2007, was because of a net natural increase of 291,000 people – 291,000 more births than deaths.

As a result of our demographic lag, during the first half of 2006, New Jersey dropped out of the top ten states in total population.

North Carolina, a key economic competitor, became the 10th most populous state, while New Jersey fell to eleventh.

OK - All of the preceding analyses presented publicly available and easily accessible economic and demographic statistics.

Let me now try to sketch out what I see as some of the key contours that will impact NJ going forward.

Such projections are harder and certainly riskier than citing public statistics.

However, after doing economic projections for more than 3 decades, I do believe that you should now take my forecasts as GOSPEL.

You have my personal guarantee – my full personal guarantee – that

they will occasionally be right.

This exercise will consist of a combination of 13 factoids and sound bites.

Number 1: The balance of 2008 and deep into 2009 will see recessionary or near recessionary conditions in the United States, and New Jersey.

A sharp economic rebound is not in the cards.

2. The New 2nd Half Recovery: Just a few months ago, there was chatter about a 2nd half national recovery this year.

Now if there's a 2nd half recovery, the soonest will be the 2nd half of 09.

3. Obviously, many parts of the nation's credit markets are still not functioning properly – We are still in the midst of what is probably the worst global financial crisis since the Great Depression.

4. A virtual tsunami of abundant, seemingly risk-free, cheap global credit and extraordinary low interest rates drove the economy of the 1998-2006 period.

This led to unprecedented wealth on Wall Street– record deals, record profits, record pay – economic gravity was defied.

This era is now history.

5. Broad de-leveraging and recapitalization by financial institutions have supplanted an unprecedented lending and borrowing binge.

6. Wall Street and the nation's financial markets are now undergoing a long-term fundamental structural transformation as well as a short-term cyclical crisis adjustment

A new era of lower returns, thinner profits and fewer jobs is now unfolding. This will be felt in NJ.

Basically, economic wild parties are followed by prolonged economic hangovers. We are now in the early hangover stage.

Goldman and Morgan are now bank-holding companies. Wall Street as we have known it the past generation has ceased to exist.

7. Lenders are now conservative and fearful. Business- and Mortgage lending policies are tightening considerably, even for prime borrowers. This will put a continuing damper on business investment and housing.

8. The home price correction is still in its early phases. Since the size of the national housing bubble was unprecedented, the price correction is going to be a multi year phenomenon.

And NJ's housing-price bubble was even larger than the nation's.

9. The ongoing carnage in housing will continue to weigh on consumer spending, both directly and through a negative wealth effect.

10. Households have too much debt and their balance sheets are stretched at a time when home prices are declining, and energy and food prices are at unprecedented thresholds. This is a bad, bad

combination for the consumer.

11. So, the old adage: “When the going gets tough – the tough go shopping” may now be history.

Consumer retrenchment will ripple through the economy.

Thus, logistics, warehousing, and distribution – key components of NJ’s economy, as well as retail activity may also be facing a period of retrenchment in the years ahead.

12. The federal stimulus package, that is, income tax rebates, was an exercise in political cover that had only a temporary positive impact on growth in the middle of this year. Its impact is history.

Finally, Number 13: Since NJ really didn’t have a 2003-2006 employment boom like the nation, we probably didn’t have any significant over-hiring or over-staffing excesses.

That means may not have such excesses to correct and that may buffer us somewhat.

That’s not the case for New York and the boom states.

However, NJ will experience collateral damage from New York’s Wall Street excesses.

Bottom Line: Your brain’s economic pleasure center should take the next year or 2 off.

Its simply not going to be needed.

Now for those words you are longing to hear, perhaps desperately longing to hear: In Conclusion

Seriously, NJ had very little employment growth momentum when the financial storm clouds started to gather last summer.

Now that the financial storm's full intensity is being felt globally and on Wall Street, NJ has significant financial activity exposure.

The Aftershocks will make their full impact in the state in the months ahead.

So keep your economic seatbelts fastened. Its going to continue to be a bumpy ride.

Thank you very much.