

Friends of Local Government
Policy Paper Series

**2011: Economic Growth, but
Slowdowns Persist**

[James W. Hughes](#), Contributing Author
[Joseph J. Seneca, Ph.D.](#), Contributing Author

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Preface

This is the tenth paper in NJLM Foundation's "Friends of Local Government" Policy Paper series. This paper, authored by Dr. James Hughes and Dr. Joseph Seneca from Rutgers, the State University of New Jersey,.

Dr. Hughes and Dr. Seneca authored the very first paper in this series, titled, *From Wall Street to Main Street. 2009: Unprecedented Economic Challenges*. They also authored the June 2010 paper, *2010: A Stabilizing Economy but Uncertainties Remain*.

These papers are available on the Foundation's website at www.njlmef.org

On behalf of the Board of the NJLM Educational Foundation, we thank Dr. Hughes and Dr. Seneca for these contributions, and believe you will find this paper informative.

We would also like to note the support of the Foundation's Board for this project, as well as staff from the New Jersey State League of Municipalities, including Bill Dressel, Michael Darcy and Matthew Weng.

Michael F. Cerra, Policy Advisor
NJLM Educational Foundation
222 West State Street
Trenton, New Jersey 08608
www.njlmef.org

About the Contributing Authors

[James W. Hughes](#) is dean of the Edward J. Bloustein School of Planning and Public Policy at Rutgers, The State University of New Jersey. He has been a member of the faculty since 1971 and was appointed dean in 1995.

[Joseph J. Seneca, Ph.D.](#), has taught at all levels of instruction throughout his Rutgers career and has received numerous awards for exemplary teaching and contributions to public service. A full profile is available at:

2011: Economic Growth, but Slowdowns Persist

James W. Hughes and Joseph J. Seneca

According to the Business Cycle Dating Committee of the National Bureau of Economic Research, the private, nonprofit, nonpartisan research organization that decides when recessions start and stop, the Great Recession started in December 2009. Then, in September 2010, the Dating Committee finally determined that a trough in business activity occurred in the U.S. economy in June 2009 – 15 months earlier—and that the June 2009 trough marked the official end of the recession. Its 18-month length made it the longest downturn since the Great Depression, surpassing the recessions of 1973-75 and 1981-82, both of which lasted 16 months.

Nevertheless, But the relentless odometer of economic history continues. July 2011 now marks the 43rd month since the start of the Great Recession. Unbelievably, it also marks the 25th month since the start of the recovery, although very few municipal officials in New Jersey believe the recovery is now 25 months old. Nonetheless, the nation and New Jersey (as well as its 566 municipalities) are still struggling to emerge fully from both the worst financial crisis and the worst housing bust since the Great Depression.

Moreover, a recent spate of less than ebullient economic news has suggested that the 25-month old U.S. economic recovery started to slow this past spring. This has begun to erase the optimism that had characterized the beginning of 2011. If this slowdown persists, the likelihood of fiscal improvement for the state's municipalities will diminish. If it proves fleeting, then the fiscal prospects will be more promising.

This is a replay of what happened a year ago. At the beginning of 2010, optimism about the U.S. economy was growing. However, as the year advanced, the positives began to shrink somewhat, and the recovery started to wobble. However, by the end of the year, the recovery began to right itself, which led again to heightened expectations as 2011 began. Like last year, early optimism is now fading. While we do not anticipate a serious downturn, a prolonged and subdued path to full national economic recovery may ensue. This will have obvious ramifications for the New Jersey economy, which closely tracks that of the nation.

Gross Domestic Product

The nation's Gross Domestic Product (GDP), which measures the total output of the U.S. economy, never achieved the rates of growth that characterize a typical recovery. As seen in chart 1 (see Appendix, pg i), as the nation started to emerge from the Great Recession, GDP growth was on a positive trajectory. It went from contraction to expansion starting in July 2009, the beginning of the third quarter. GDP grew by 1.6 percent in the third quarter and then by a strong 5.0 percent in the fourth quarter. The upward trajectory of the green line in the chart underpinned growing optimism. It appeared as if the U.S. economy was finally off the economic races.

However, that potential did not quite materialize. While the first (3.7 percent) and second (1.7 percent) quarters of 2010 still had positive GDP growth, the trajectory shifted south at a time when a normal recovery would be gaining momentum. This led to fears of a “great stall” or a double-dip recession, coinciding with the European sovereign debt crisis and the Gulf Oil spill. However, growth surprisingly rebounded in third quarter to the 2.6 percent level, and then inched up to 3.1 percent in the fourth quarter. The nation avoided the dreaded “great stall”. Instead, the 2010 dip in the green trend line in the chart takes on the appearance of a “great swoon.” Moreover, a modest upward trajectory through the fourth quarter of 2010 was evident, which again led to a more optimistic outlook for 2011.

However, the economy, as is often the case, failed to cooperate. In the first quarter of 2011, the nation had to face unanticipated shocks: sharply rising world oil prices, the supply-chain effects of Japan's disaster, and a series of severe domestic weather events. As a result, GDP growth slipped to 1.8 percent and the trend line shifted down once again. This pattern is very similar to what took place a year earlier. Economic uncertainty has quickly reappeared as questions about the strength of the economy's basic underpinnings reemerged.

Employment Change

A similar issue played out in payroll employment. The bars in chart 2 (see Appendix, page ii) represent the monthly private-sector employment change between January 2009 and June 2011. During the first half of 2009, the United States was still in recession, while in the second half of the year it was technically in recovery. While total private-sector employment declined during the last six months of 2009 and the first two months of 2010, the rate of loss was

steadily decreasing, and the red bars were consistently getting smaller. The losses were transformed into gains as 2010 unfolded. The March (144,000 jobs) and April (229,000 jobs) increases made it seem as if we were achieving economic liftoff, and the January 2009-April 2010 green trend line again suggested that 2010 had the potential of being a breakout year.

However, similar to GDP, job growth faltered. March and April turned out to be the employment highpoints of 2010. A complete break in trend occurred as job growth slipped dramatically in May and June. Again, this corresponded to the European Debt Crisis and the Gulf Oil spill. Then a monthly roller coaster pattern occurred for the remainder of 2010. So, in terms of employment, the United States moved from the Great Recession to a less-than-great recovery. Nonetheless, three straight months of strong employment growth early in 2011 again raised expectations. – February through April were the three best job-growth months of the recovery, with an average of 244,000 private-sector jobs per month. Nevertheless, reminiscent of a year earlier, employment growth, burdened once again by economic shocks and surprises, slowed dramatically in May, with uncertainty the watchword of the day.

New Jersey's Recent Employment Change

New Jersey's monthly private-sector employment change from January 2009 to May 2011 is detailed in chart 3 (see Appendix, page iii.) Monthly employment change at the state level tends to be more volatile than that of the United States. Nonetheless, there is a general similarity between the nation and state. With the exception of November 2009, New Jersey also lost jobs every month in the January 2009 to February 2010 period. Then, paralleling the nation, strong employment growth took place in March and April 2010, only to falter and then fluctuate during the balance of the year. The February 2011 to April 2011 period saw a sharp employment upswing in New Jersey, the same pattern that was evident nationally. The optimism this engendered was then temporarily deflated with the May 2011 slowdown.

The Parallel Rebounds

While the magnitude of the post-recession employment gains in New Jersey and the United States remain disappointing, there is no denying that a fundamental turnaround has taken place. Chart 4 (see Appendix, page iv) details the nation's private-sector employment change the past three years. In 2009, the nation experienced an unprecedented decline of nearly 5 million

private-sector jobs, the worst employment-loss year since payroll employment statistics were first compiled in 1939. While the 2010 rebound to a gain of nearly 1.2 million jobs was modest in scale, it was a dramatic rebound from 2009: i.e., from a loss of 5 million jobs to an increase of 1.2 million jobs. Then, in the first five months of 2011, private-sector employment grew by 908,000 jobs, which represents a much stronger pace that achieved in 2010. Thus, the three-year trend remains largely positive.

This trend is repeated in New Jersey (see Appendix, page v). For all of 2010, the state gained 5,200 jobs. While this is a small number, it represented a major turnaround for the state. During 2009, New Jersey hemorrhaged almost 118,000 private-sector jobs. The State reached job stabilization in 2010, followed by a return to solid employment growth in 2011. New Jersey businesses added more than 18,000 jobs in just five months, more than triple that of all of 2010. Thus, the state remains on a positive upward growth trajectory, closely following the three-year national trend.

The Long Road Back

Despite the return to growth, New Jersey, like the nation, remains in a deep employment hole. Chart 6 (see Appendix, page vi) shows private sector employment in the state between January 1990 and May 2011. The blue line represents the monthly employment level. In 1990, New Jersey had just over 3.1 million jobs, indicated on the far left side of the chart. The first downward slope of the blue line was the painful 1989-92 recession, the worst downturn in the state other than the Great Recession and Depression. Private-sector employment fell to below 2.9 million jobs. The first upward slope – from 1992 to 2000 – was the robust expansion of the 1990s. Employment peaked at just above 3.4 million jobs.

The shallow 2001-2003 employment downturn followed this peak, next came a second upward slope between 2003 and 2007. This was the weak expansion of the mid-2000s. Then the Great Recession of 2007 - 2009 occurred – the second steep downward slope in the chart – which was then followed by the 2010 stabilization. In May of 2011, after a year of stabilization and the resumption of job growth, New Jersey's employment level was just over 3.2 million jobs. As can be seen in the chart, this was the same level as August 1998, almost 13 years earlier. Therefore, in terms of employment, the state is where it was nearly 13 years ago. Recapturing the lost jobs of this period will be a long-term endeavor, and one that could prove even more

difficult if the current national slowdown changes into something much worse. In any case, the sheer scale of New Jersey's "missing" jobs helps explain struggling state and municipal fiscal conditions.

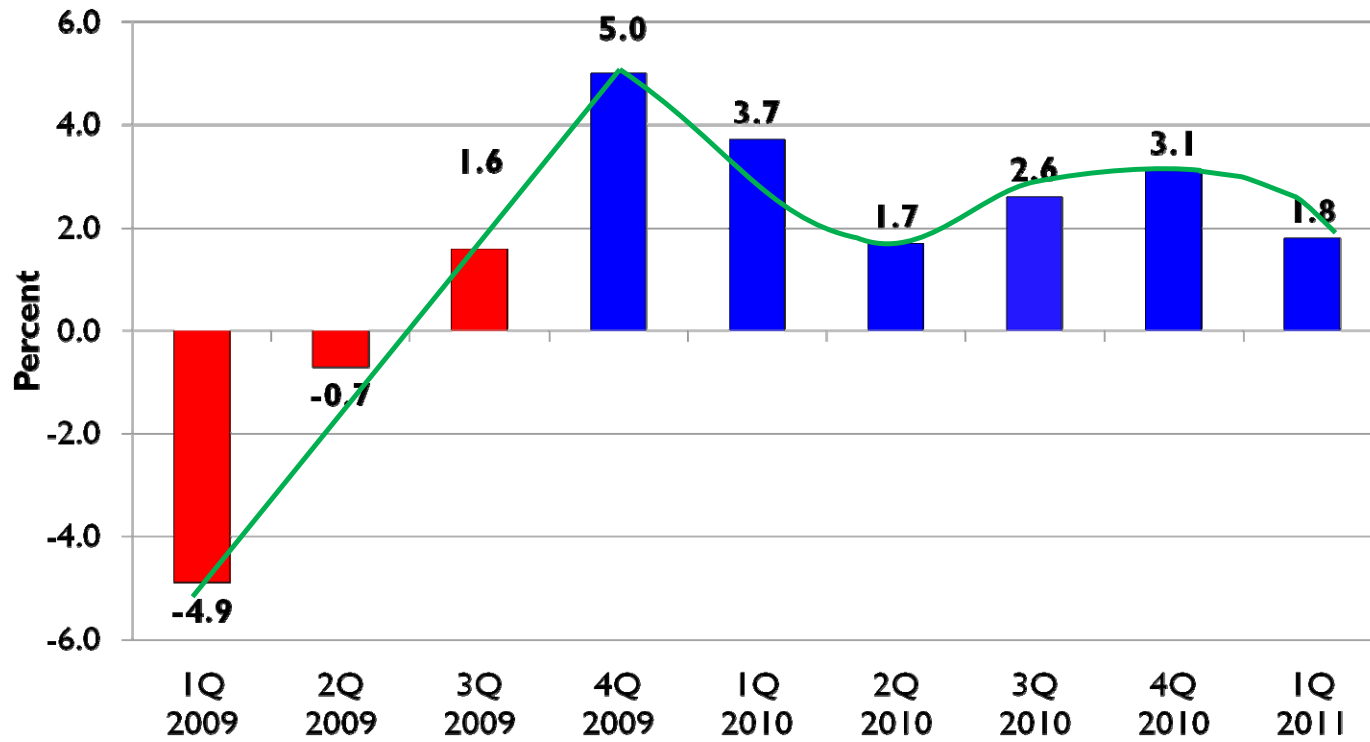
Final United States Benchmark

Chart 7 (see Appendix, page vii) details the difference between GDP recovery and the employment recovery for the nation. The blue line represents cumulative percentage difference in private-sector employment from the start of the recession (December 2007). The red line represents the cumulative percentage difference in GDP from the start of the recession. By the 4th quarter of the 2010, GDP had finally recovered all of its recession losses and surpassed its pre-recession peak. However, private-sector employment was still approximately 6.5 percent below its pre-recession peak by the end of the 4th quarter (December 2010). Thus, the U.S. economy was producing the same economic output as three years earlier with 6.5 percent fewer workers. Alternatively, the U.S. economy was producing the same economic output, but with 7.6 million fewer workers.

This has created a very serious labor market problem. We are now a job-short nation – and competition among the states is intensifying for a limited number of new jobs. Moreover, the lost income of the "missing" 7.6 million workers directly translates into a loss of spending and tax-paying capacity.

We have made substantial economic progress, the three-year private-sector employment trend is positive, and the recovery has gained traction. However, we still have a long road to go, and the current national and global uncertainties represent constraints that may hinder a more accelerated pace of recovery.

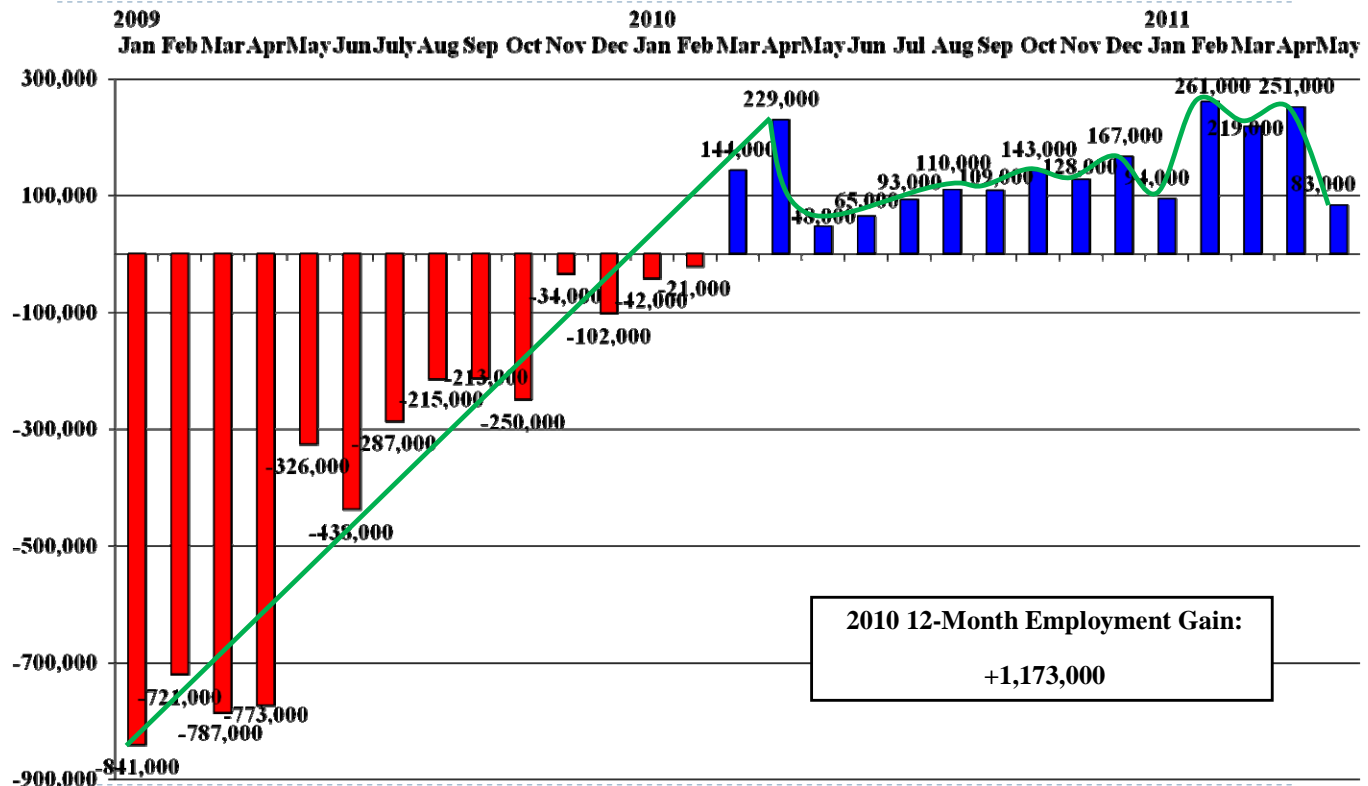
Percent Change in Real GDP: U.S. (seasonally adjusted at annual rates)



► Source: U.S. Bureau of Economic Analysis.

Chart 1

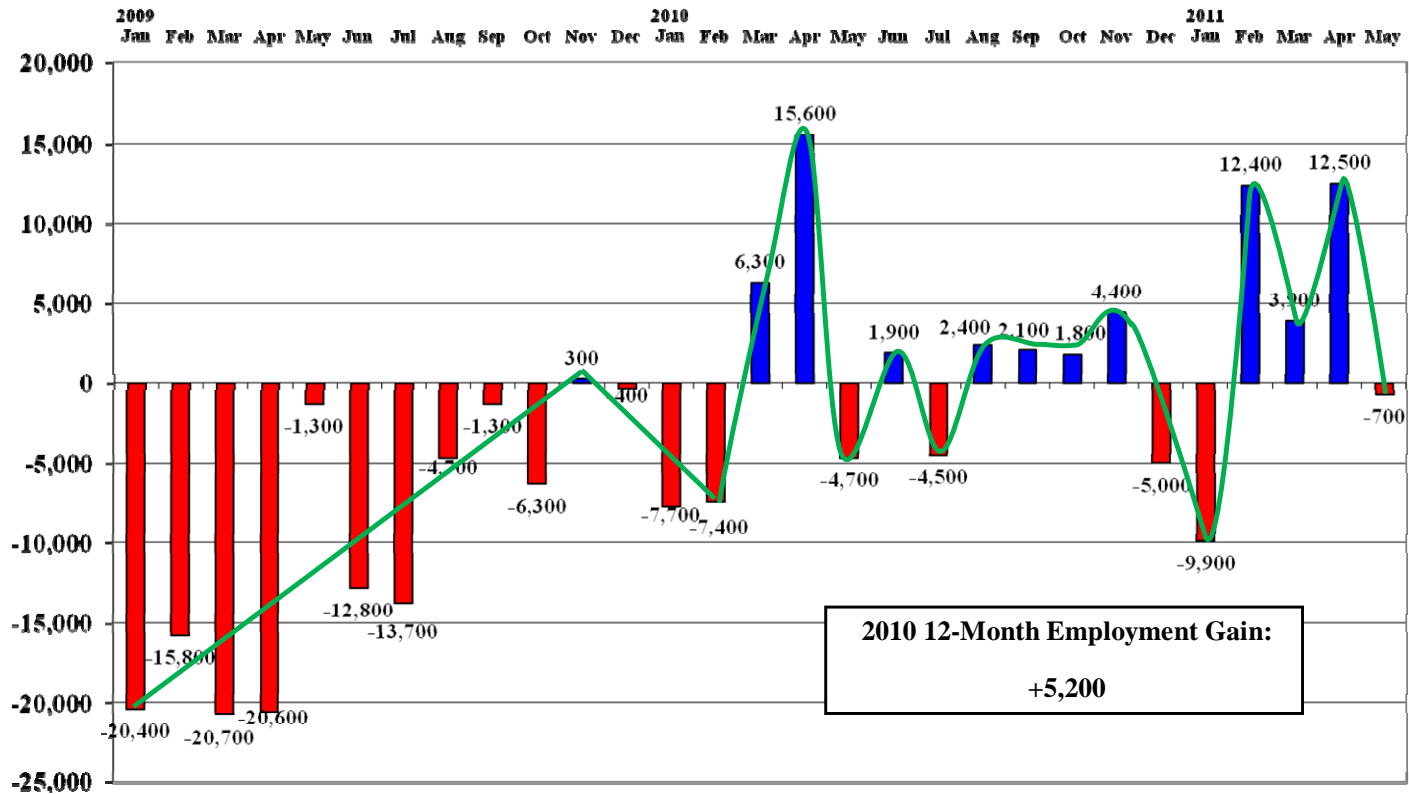
U.S. Private-Sector Employment Change 2009 - 2011



Source: U.S. Bureau of Labor Statistics.

Chart 2

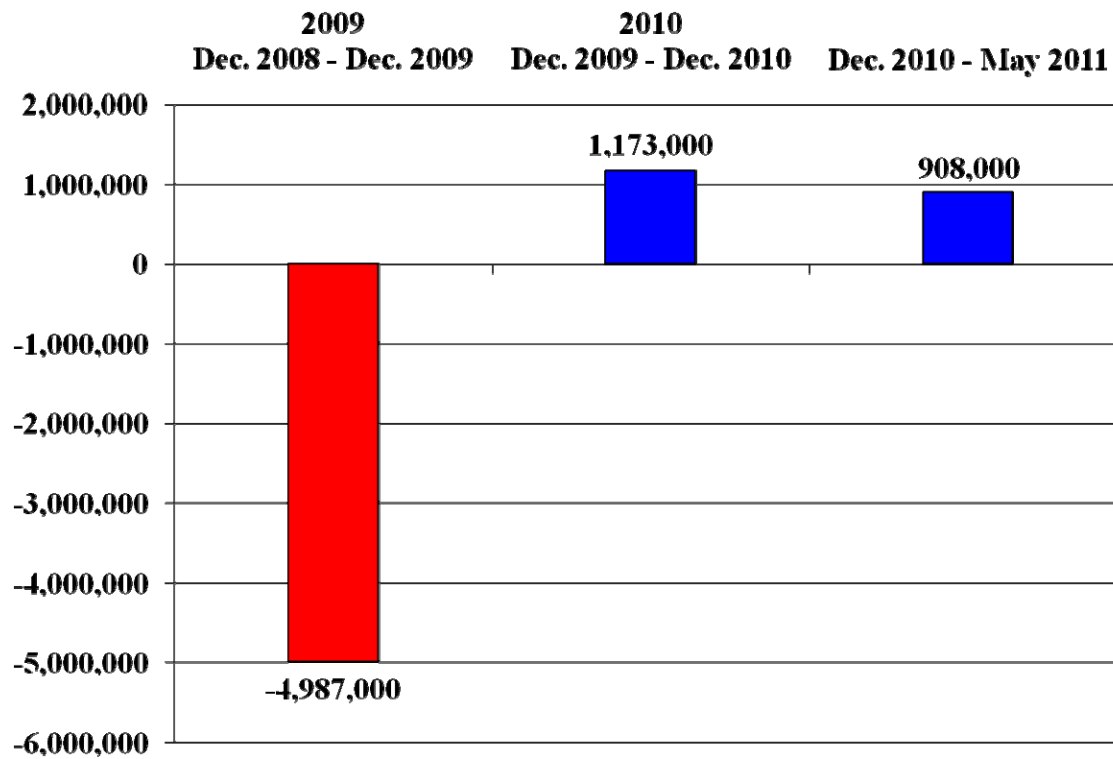
New Jersey Private Sector Employment Change 2009 - 2011



Source: New Jersey Department of Labor and Workforce Development.

Chart 3

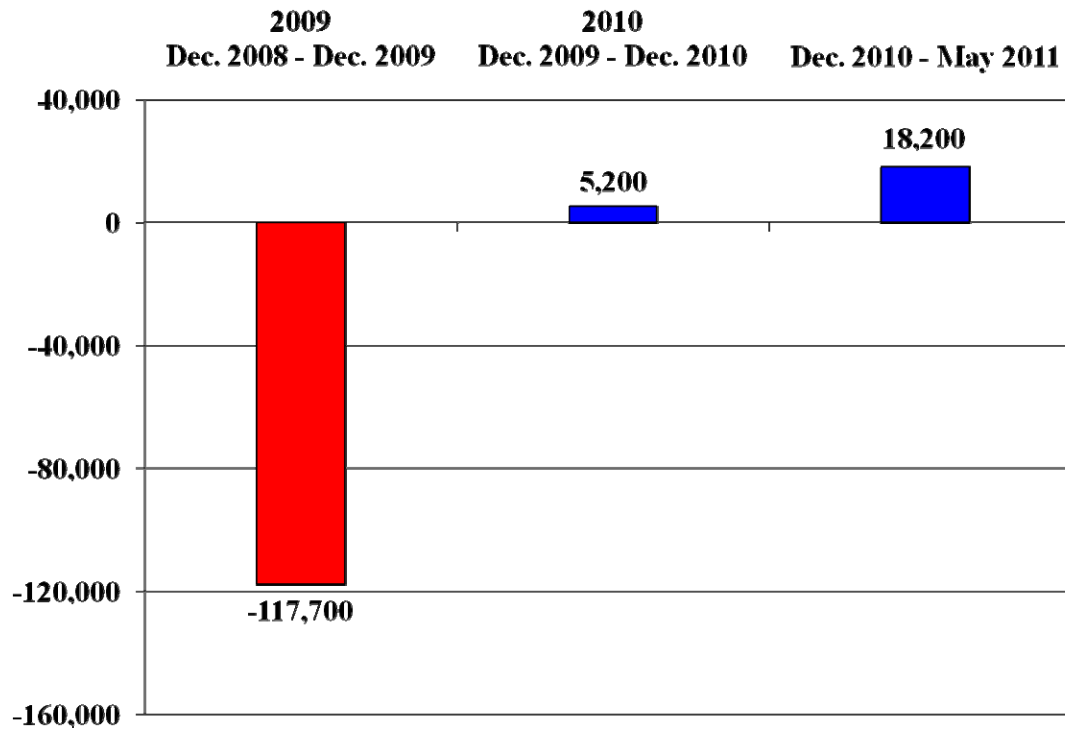
U.S. Private-Sector Employment Change 2009, 2010, 2011



▶ Source: U.S. Bureau of Labor Statistics.

Chart 4

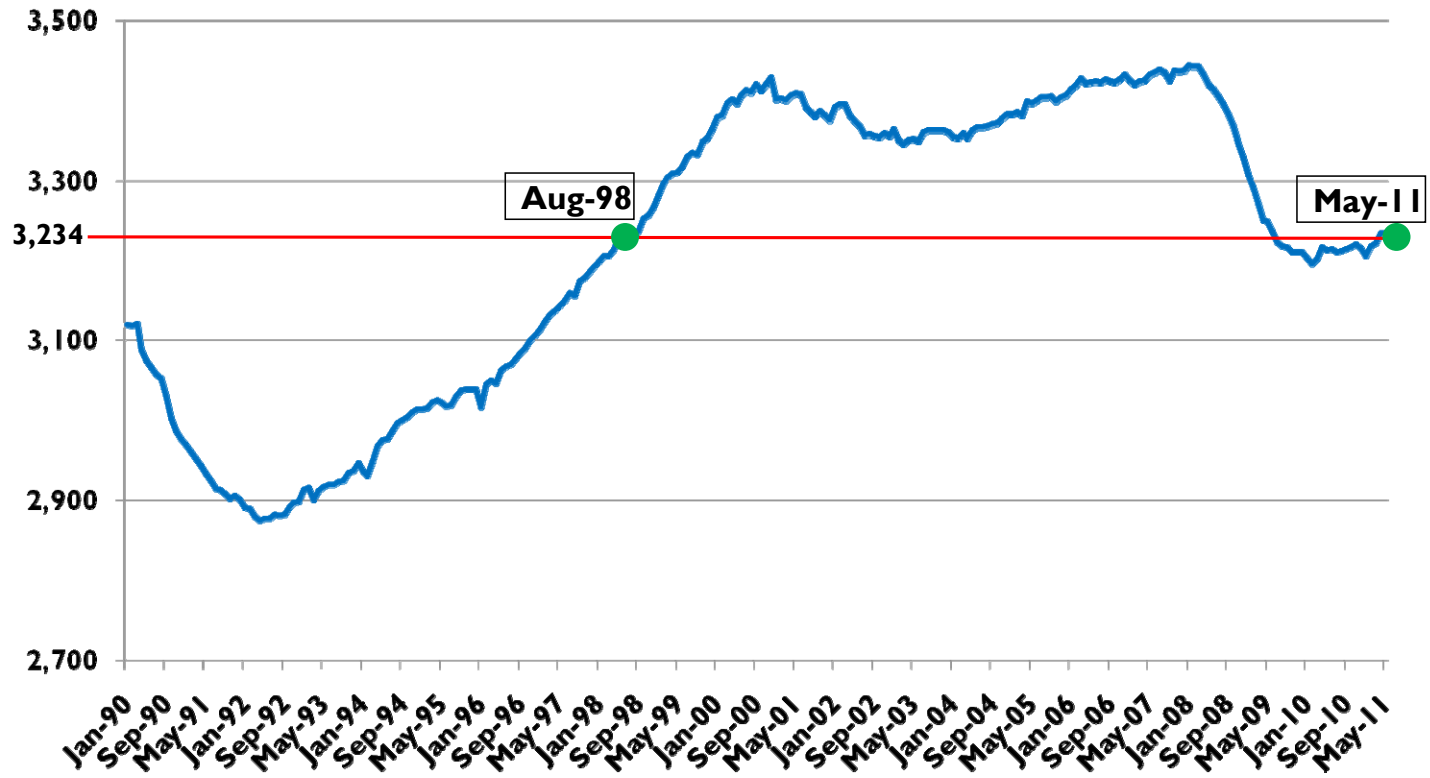
New Jersey Private-Sector Employment Change 2009, 2010, 2011



► Source: U.S. Bureau of Labor Statistics.

Chart 5

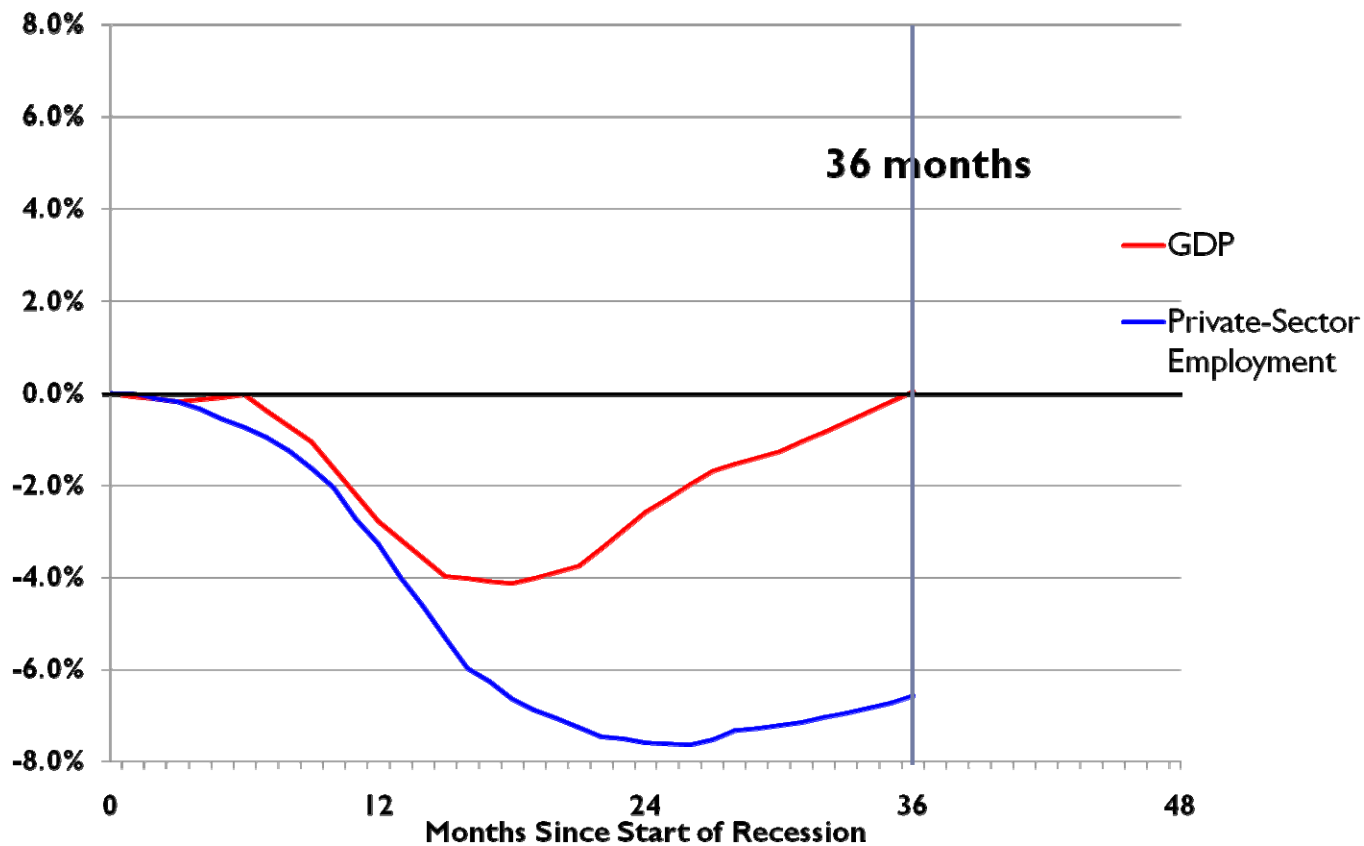
New Jersey Private Sector Employment Monthly, 1990-2011 (seasonally adjusted, in thousands)



Source: New Jersey Department of Labor.

Chart 6

U.S. Private-Sector Employment and GDP Recoveries Percent Change Since Start of Recession December 2007 – December 2010



► Sources: U.S. Bureau of Labor Statistics, U.S. Bureau of Economic Analysis, National Bureau of Economic Research.

Chart 7