

Friends of Local Government
Policy Paper Series

2014:

The Unexpected Economic Soft Patch

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

Volume 6, Number 2
June 2014

Preface

This is the 22nd 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, is entitled, "**2014: The Unexpected Economic Soft Patch.**"

Dr. Hughes and Dr. Seneca have previously authored:

Volume 1, Number 1, *From Wall Street to Main Street. 2009: Unprecedented Economic Challenges;*

Volume 2, Number 2, *2010: A Stabilizing Economy but Uncertainties Remain;*

Volume 3, Number 2, *2011: Economic Growth, but Slowdowns Persist.*

Volume 4, Number 2, *2012: New Jersey Employment Upswing? Or Will It Succumb to the National Slowdown?*

Volume 5, Number 2, *2013: The New Jersey Employment Expansion Gains Momentum*

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.

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. Please see Dr. Hughes' biography at:

[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.

2014: The Unexpected Economic Soft Patch

James W. Hughes, Ph.D., Contributing Author

Joseph J. Seneca, Ph.D., Contributing Author

The sixth year of national economic expansion commenced in July 2014, and the Great Recession (December 2007-June 2009) – while not yet a distant memory – is beginning to slip deeper into the past. The nation has made significant economic progress over the past four years, fully recovering all of its recessionary employment losses, and demonstrating strong aggregate job growth momentum deep into 2014.

However, this national pattern is not the case for New Jersey, as its economy hit an unexpected soft patch in mid-2013. The state's employment performance had lagged in the recovery's early stages – the second half of 2009 and 2010 – but then it became much more competitive. It demonstrated sequential year-by-year improving job increases (2011 and 2012) and even matched the nation's growth pace in 2012. This improvement continued in the first half of 2013, and it appeared the economic liftoff was imminent. But, then somebody hit the economic pause button, and job growth faltered. There is no way to sugar-coat New Jersey's recent economic reality: over the past year, the state's employment trajectory flat-lined. The job growth momentum that had been building up has been lost.

There is no simple explanation for this unexpected setback. Although there are many possible contributors, there is nothing that will remove the uncertainties that have arisen in regards to the state's economic future. Nonetheless, there is at least a positive national backdrop.

National Employment Momentum

A significant positive for the New Jersey economy for the near term future is the sustained private-sector employment growth momentum of the United States economy. Thus, national economic tailwinds should be supportive of the state's economic activities for the balance of 2014. The national economic headwinds of the recessionary years and their immediate aftermath have subsided.

The pattern of annual private-sector employment change in the United States between 2009 and 2013 is detailed in figure 1. In 2009, the nation was hemorrhaging jobs, shedding more than 5 million. Payroll employment statistics were first compiled in 1939. In the subsequent

history of this data series, 2009 was by far the worst year. From this deep and extremely harsh setback, modest recovery ensued in 2010, when the economy gained 1,277,000 jobs. Then, the next three years – 2011, 2012, and 2013 – employment increases averaged 2,354,000 jobs annually. This is a very positive metric. This annual average increase in employment actually exceeds that achieved during America’s record 1991-2001 economic expansion, when the nation added approximately 2.2 million private-sector jobs per year. And, based on the first six months of this year, the United States is on track to add more than 2.5 million jobs for 2014. That would be the best job growth year since 1999, 15 years ago, when private-sector employment grew by 2.7 million jobs.

In addition, March 2014 was a signature economic date. At that point, all of the 8.8 million private-sector jobs lost during the Great Recession were finally recovered – certainly not the same jobs, but the total number of jobs gained finally exceeded the recession losses. Thus, in March, the nation finally surpassed its pre-recession employment peak (December 2007). Moreover, two months later (June 2014) the recovery/expansion achieved a milestone: it reached its fifth anniversary – 60 months in length. This exceeded the 58-month average length of all post-World War II economic expansions in the United States.

Thus, the nation is providing a strong context for renewed growth in New Jersey. Where does the state currently stand?

The New Jersey Employment Trajectory

Figure 2 provides the annual private-sector employment change in the state for the years starting in 2009 and ending in 2012. In 2009, New Jersey was hemorrhaging jobs, just like the nation: 114,400 jobs were lost in one of the worst economic years in the state’s history. Stability and slow job growth returned in 2010, as employment increased by 8,200 jobs. Growth more than tripled in 2011 to 28,800 jobs. Improvement continued in 2012, as employment increased by 45,400 jobs. The green line in figure 2 suggested a trajectory that would lead to a breakout year in 2013.

That trend continued though the first half of 2013. Based on the first 6 months of the year, New Jersey was on track to add 62,800 jobs – surpassing 2012 (figure 3). That would have been the best employment growth year since the year 2000, more than a decade ago. Optimism started to spread throughout the business community. But, then in a totally unexpected development, the economy started to actually shed jobs. New Jersey went from regional economic locomotive to economic caboose.

As shown in table 1, in the first six months of 2013 (December 2012-June 2013) the state added 31,400 private-sector jobs. During the second six months (June 2013-December 2013), 11,600 jobs were lost, a complete turnabout. To reiterate: a robust 31,400 job gain in the first

half of the year was supplanted by an 11,600 job loss in the second half of the year. So, as shown in figure 4, the 62,800 potential gain in 2013 was reduced to an actual gain of just 19,800 jobs, well less than half the job increase of 2012! That is how our trajectory now looks: growth shrinkage rather than growth advancement.

But the employment losses were apparently staunch in 2014. During the first five months (December 2013-May 2014), New Jersey gained 7,400 private-sector jobs. This would translate into an annual gain of 17,800 jobs if that pace of growth were maintained for the balance of the year. This would suggest that the state has survived the soft patch, but that growth has slipped down to a much lower threshold. Nevertheless, the small gain of 7,400 occurred in the context of robust national job growth.

What Happened?

This has turned out to be a real head scratcher! Such a reversal of fortune was not on anybody's radar screen. There are a number of factors that have been raised to explain this startling turnabout. One is the aftershocks of Super Storm Sandy, which damaged the 2013 summer shore season. Dollars from out-of-state which would have flowed into New Jersey were attracted to other beach destinations such as in Delaware and Maryland, for example. And, at the same time, the state may have exported vacation spending streams as New Jerseyans shifted to out-of-state vacation locations. More significant may have been the delays in spending of repair and rebuilding monies from the federal government. A second explanation is the aftereffects of mergers and acquisitions in the pharmaceutical industry as the affected companies reduced headcount. In addition, the shift of life sciences-based pharmaceutical research activities out of New Jersey to California and Massachusetts, and their negative multiplier effects, contributed to the employment pause. Moreover, financial activities and telecommunications, two economic sectors that New Jersey is particularly strong in, have not been growth contributors, and have not been able to counterbalance the short-term negative effects of Sandy and pharma. The state's housing sector also lagged the national housing recovery as the large overhang of foreclosures and near foreclosures continued as the judicial processes in New Jersey delayed market clearing activity.

The Longer Term Picture

Figure 5 details New Jersey's long-term economic roller coaster ride since 1981 using *total* employment (including government jobs at all levels), not just the private sector. The employment scales of the great economic expansions of 1982-1989 (+662,400 private-sector jobs) and 1992-2000 (+578,500 jobs) stand in vivid contrast to those of the 2002-2008 expansion (+128,700 jobs) and to the current (2010-present) expansion (+93,700 jobs). As should be evident by the relative size of the blue growth bars in figure 6, the post-2000 employment

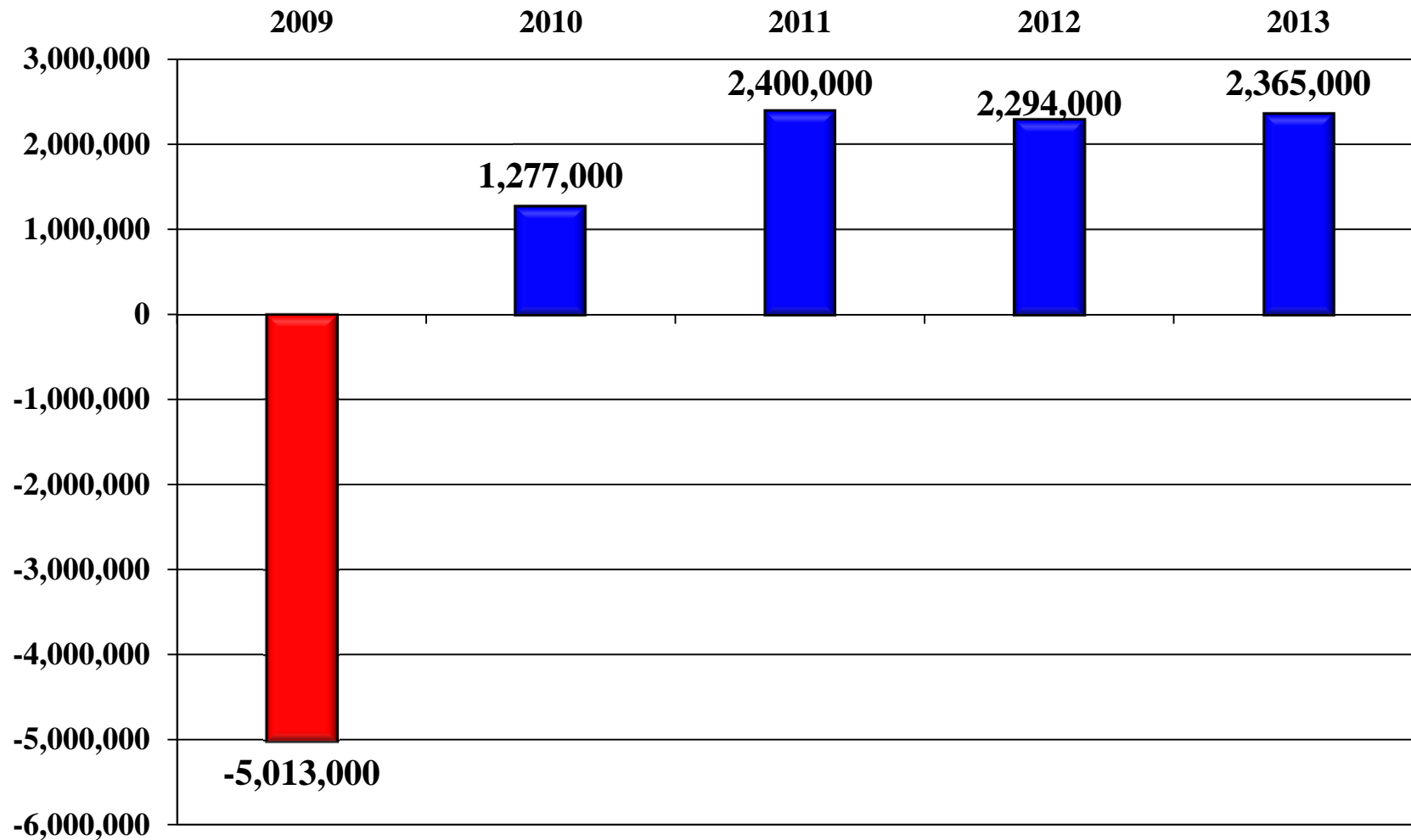
increases are the smallest of any expansion since 1980. If this is the new “normal,” then sustained future job growth will probably require sustained public effort.

Summary

The bottom line is that the state has recovered just 53.6 percent of the private-sector jobs lost in the recession. Of the 241,000 private-sector jobs that had been lost, only 129,200 have been recovered through May 2014. In contrast, the nation had achieved full private-sector employment recovery last March 2014. In terms of total employment (private and public), as of May 2014 New Jersey has recovered only 97,000 of the 256,000 jobs lost during the recession, or 37.8 percent. In contrast, the nation had fully recovered its total employment losses in May 2014.

Last year at this time there was optimism that the state would continue to make strong job recovery gains into 2014. Obviously, the employment situation then changed dramatically. Does this mean that the grim economic reaper will be making his way through New Jersey as 2014 comes to a close? Most likely not, but right now, uncertainty reigns and we will all have to live with it. Fortunately, growth has picked up, albeit modestly, in the first half of 2014, and the soft patch appears to be in the rear-view economic mirror. But, we are still much further away from full recovery than we had previously anticipated.

Figure 1
U.S. Private-Sector Employment Change
2009-2013

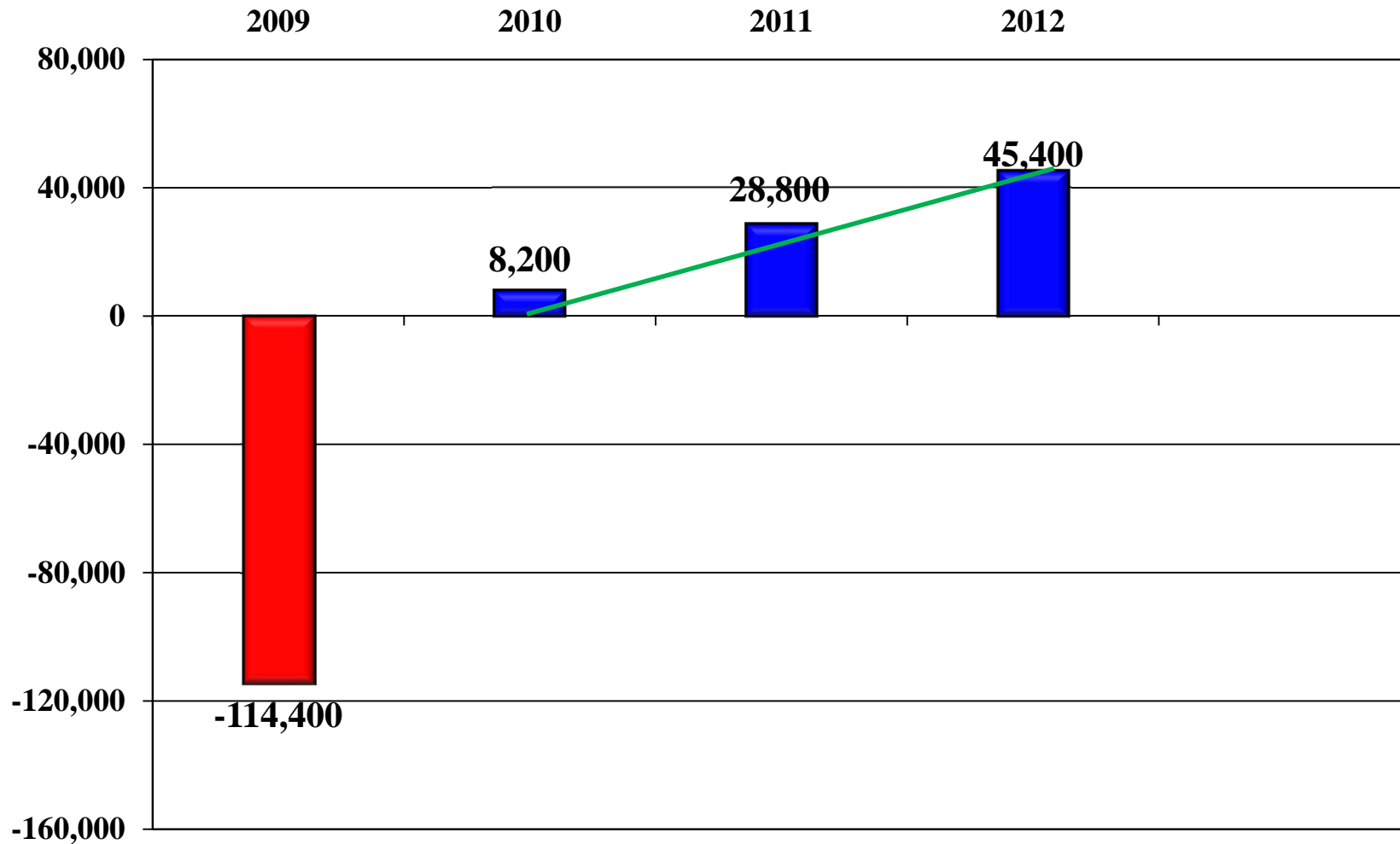


Source: U.S. Bureau of Labor Statistics.

Note: Employment change measured from December to December, seasonally adjusted.

Figure 2

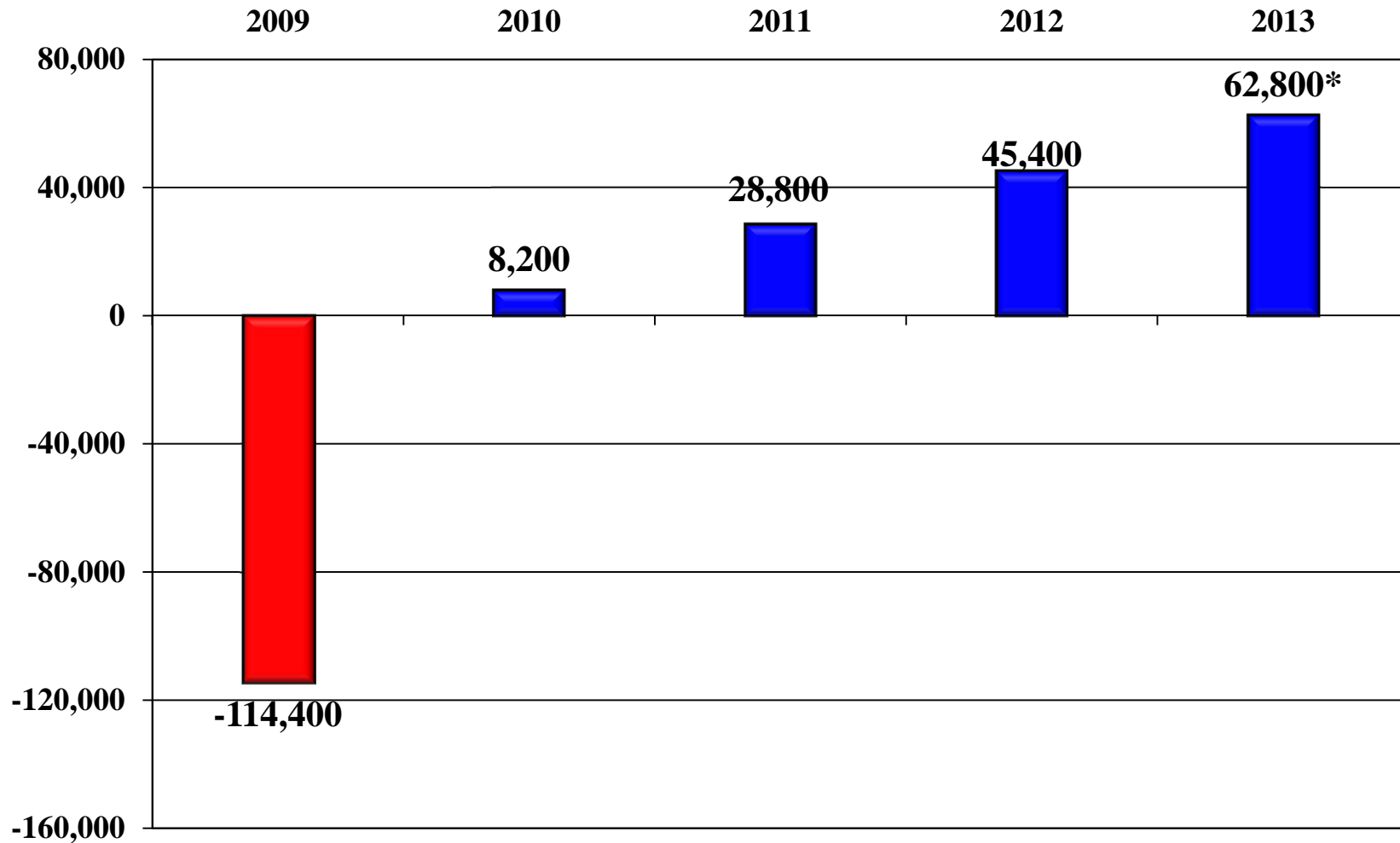
New Jersey Private-Sector Employment Change 2009 - 2013



Source: U.S. Bureau of Labor Statistics.

Note: Employment change measured from December to December, seasonally adjusted.

Figure 3
New Jersey Private-Sector Employment Change
2009 - 2013



▶ Source: U.S. Bureau of Labor Statistics. *Estimate based on data through June 2013.

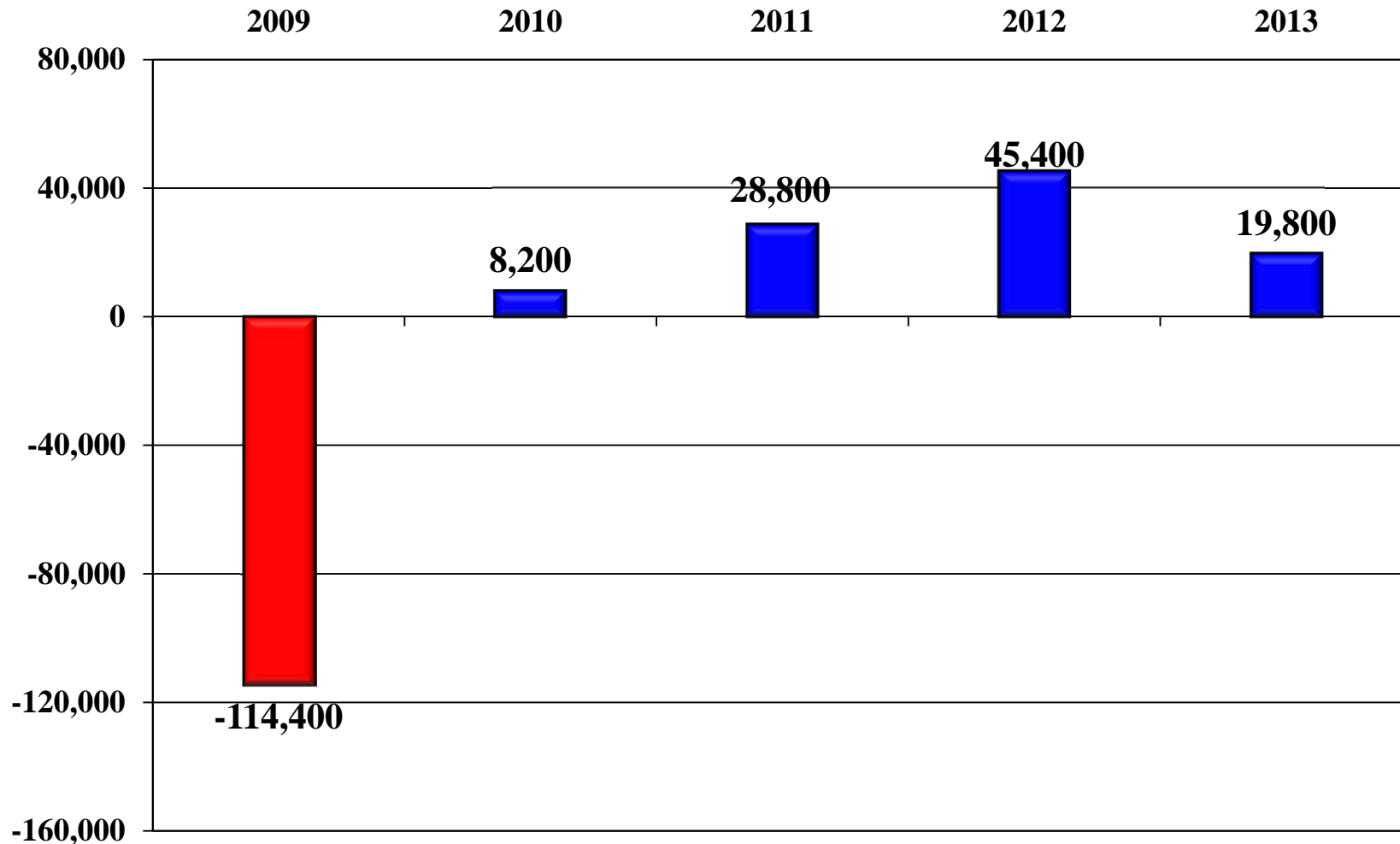
Table 1

2013: Private-Sector Employment

- ▶ 2013: First 6 Months +31,400 jobs
- ▶ 2013: Last 6 Months -11,600 jobs
- ▶ 2013: Full Year +19,800 jobs



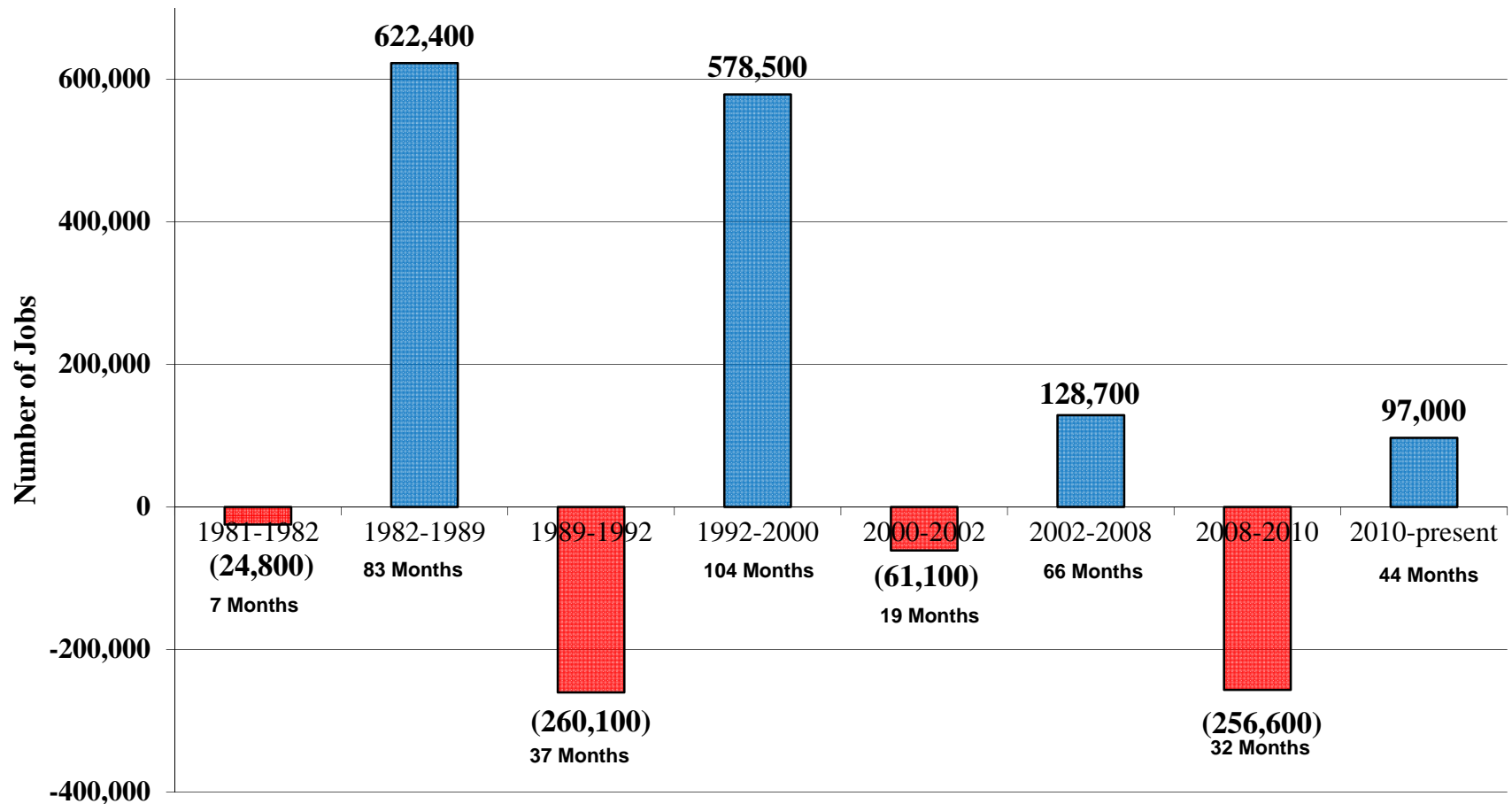
Figure 4
New Jersey Private-Sector Employment Change
2009 - 2013



Source: U.S. Bureau of Labor Statistics.

Note: Employment change measured from December to December, seasonally adjusted.

Figure 5
 New Jersey's Economic Roller Coaster
 (Total employment change for periods indicated)



Recessions: September 1981 - April 1982; March 1989 - April 1992; December 2000 - July 2002; January 2008 - September 2010
Expansions: April 1982 - March 1989; April 1992 - December 2000; July 2002 - January 2008; September 2010 - May 2014

► *Source: New Jersey Department of Labor. Note: () indicates employment loss.*