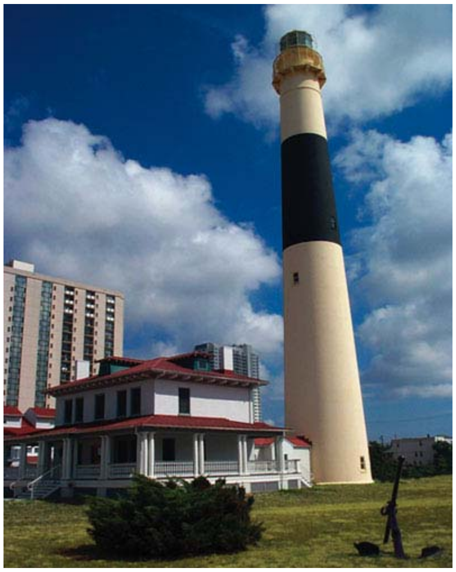
THE RICHARD STOCKTON COLLEGE OF NEW JERSEY

THE SOUTH JERSEY ECONOMIC REVIEW

Summer 2010

About the SJER

The SJER is part of a broader and ongoing Stockton College initiative whose aim is to provide the region's stakeholders and policy-makers timely, high-quality research products and technical assistance that focus on the region's economy, its development, and its residents' well-being. The SJER is produced and distributed exclusively as an electronic journal. If you would like to be electronically notified of future releases of the Review, send an email to sjer@loki.stockton.edu with the subject line "Subscribe SJER".



In This Issue

National Economic Situation 1
NJ Metro Areas' Job Losses 3
AC's Housing Market 3
Tracking ARRA Monies 5
A Tale of Two Gaming Cities 6
Las Vegas' Lesson? 9
AC's Future 10

NATIONAL ECONOMIC SITUATION

Several indicators suggest that the national economy's fragile recovery from the Great Recession remains in a holding pattern. Most importantly, the most recent job report shows continued hesitation on the part of private sector employers to add significantly to their payrolls. The weak 71,000 private sector job gain in July, combined with a Census-driven decline of 221,000 government jobs, resulted in a total job decline of 131,000. June's job estimate, moreover, was revised down significantly from an originally-reported decline of 125,000 to 221,000. The national unemployment rate remained at 9.5%. Combined with several other recent weak indicators (notably a deceleration in real GDP growth in the second quarter to 2.4% from 3.7% in the first quarter) the jobs report has revived talk of a possible double-dip recession.

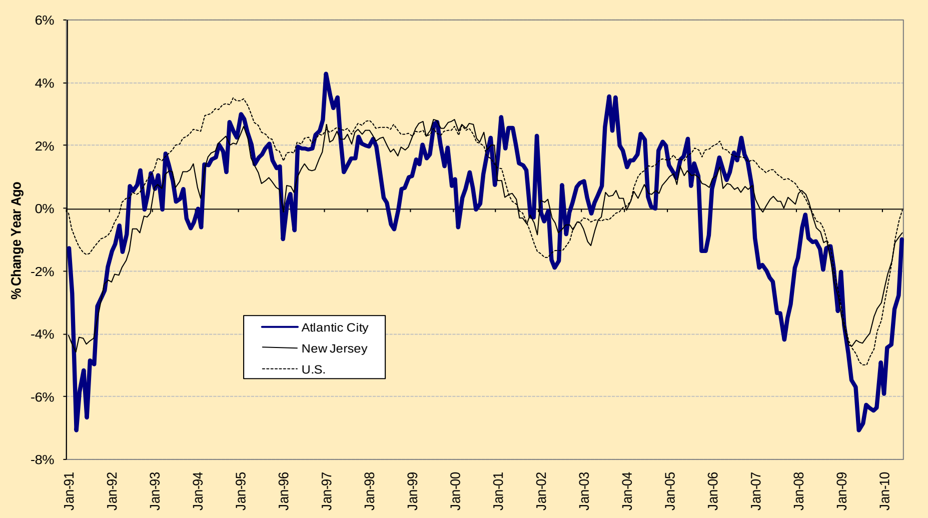
The second quarter GDP release also revised data going back to the beginning of 2007. These data show that in the twelve months since the recession's ostensible trough the economy grew just 3.2%—far below the 5.6% it grew in the comparable period following the 1981-82 recession. Moreover, these revisions showed that the economy's growth was both weaker than originally estimated before the recession's official onset, and that the recession itself was deeper than originally estimated.

While debate over the reasons for the recovery's fragility remains intense, it is clear that the corporate sector has rebounded strongly—reaping the rewards of the cost cutting measures undertaken during the depths of the financial market meltdown in late 2008 and early 2009. This renewed financial health has not, however, translated into significant labor market gains. When (or if) such gains finally materialize will play a key role in determining the economy's fortunes over the next several quarters. At the same time, lackluster consumer spending data suggest that households continue to pay off debts (a form of savings), a trend that reinforces private sector caution.

After several months of improvement, much of it fueled by federal tax incentives, the nation's housing market has slowed over the past few months. Housing starts reached an annual pace of 549,000 in June, down 5.8% from a year earlier. Meanwhile, sales of new homes climbed to an annual pace of 330,000 in June, from a record low of 267,000 in May. Still sales were off 16.7% from the year-earlier period.

cont'd on page 2

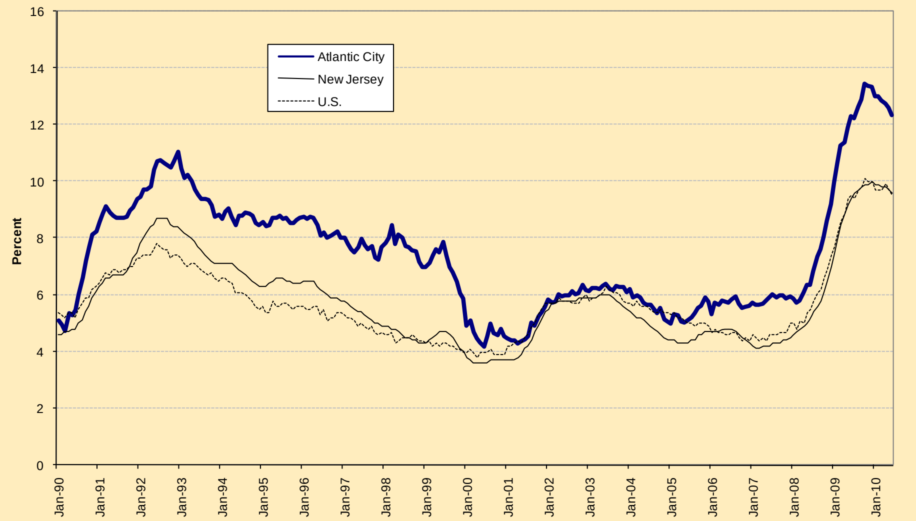
Figure 1: Job Growth: Atlantic City, New Jersey, and the U.S.
January 1991 to June 2010



Sources: U.S. Bureau of Labor Statistics and New Jersey Department of Labor and Workforce Development.

ECONOMIC SITUATION
cont'd from page 1

Figure 2: Unemployment Rate: Atlantic City, New Jersey, and the U.S.
January 1990 to June 2010
Seasonally adjusted



Sources: New Jersey Department of Labor and Workforce Development and the U.S. Bureau of Labor Statistics. Atlantic City's unemployment rate seasonally adjusted by author.

New Jersey

Much like the nation's New Jersey's economic recovery from the Great Recession has been slow and uneven over the past several months. Statewide employment increased in three of the first six months of the year and declined in the other three. June's 1,900 job decline came on the heels of two consecutive months of strong gains and underscored that the state's recovery—like many other states' and the nation's—will be slow and grinding. The state's unemployment rate stood at 9.6% in June—down slightly from its December 2009 10% peak but still obviously elevated. The number of unemployed individuals in the state totaled 438,200 in June.

Based on current job estimates, it appears that the trough for New Jersey employment occurred in March of this year. This implies that the state lost 244,500 jobs from peak (New Jersey's employment peaked in January 2008, one month after the start of the national recession) to trough – a total job loss of 6%. During the early 1980's recession, the state's employment contracted 5% as 180,000 jobs were lost.

Atlantic City

Similar to the national and state economic pictures, Atlantic City's current economic situation remains murky. On one hand, employment in the metropolitan area continues to contract, an indication that stabilization and recovery have not yet fully materialized. In June, total employment was contracting 1% year-on-year. (Figure 1) The pace of job contraction has, however, eased considerably since last summer when the rate of job loss reached 7% year-on-year in June. At the same time, the metropolitan area's unemployment rate has declined in recent months but remains—at a seasonally adjusted 12.3% in June—extremely elevated. (Figure 2)

Figure 3: Atlantic City Employment by Industry

Industry/Sector	Average Employment (000) 1st Half 2009	1st Half 2010	Change	% Change
Total Nonfarm	140.8	135.7	-5.1	-3.6%
Total Employment w/NJCCC Casino Hotels data	143.7	139.2	-4.5	-3.1%
Total Private	118.7	113.7	-5.1	-4.3%
Leisure and Hospitality	50.8	48.4	-2.3	-4.6%
Accommodation	37.2	34.9	-2.3	-6.1%
Casino Hotels (NJDOL)	34.9	33.0	-1.8	-5.3%
Casino Hotels (NJCCC*)	37.8	36.5	-1.3	-3.4%
Food Services/Drinking Places	11.7	11.7	-0.0	-0.1%
Accommodation and Food Services	48.8	46.6	-2.3	-4.7%
Manufacturing	2.8	2.2	-0.7	-23.1%
Nat. Res./Mining, Construction	5.6	4.4	-1.2	-20.7%
Financial Activities	4.5	4.1	-0.4	-8.2%
Information	1.0	0.9	-0.1	-6.7%
Educational and Health Services	18.5	19.1	0.6	3.3%
Hospitals	6.3	6.5	0.2	2.6%
Government	22.1	22.1	0.0	0.0%
Federal Government	2.6	2.8	0.2	6.4%
State Government	3.1	3.0	-0.1	-2.2%
Local Government	16.4	16.3	-0.1	-0.4%
Profess. and Business Services	10.0	9.3	-0.6	-6.4%
Retail Trade	15.2	15.3	0.1	0.8%
Wholesale Trade	3.1	2.9	-0.2	-5.9%
Transportation, Warehousing, and Utilities	2.8	2.5	-0.3	-11.8%
Other Services	4.6	4.5	-0.1	-1.8%

* New Jersey Casino and Control Commission's casino employment estimate.
Sources: New Jersey Department of Labor and Workforce Development and New Jersey Casino Control Commission.

Industry Detail

Average monthly establishment employment in Atlantic City for the first half of 2010 declined 3.6% (5,100 jobs) from the comparable 2009 period. (Figure 3) While this year's job losses have been broad-based, the most significant losses occurred in accommodations (-2,300), construction (-1,200), manufacturing (-700), and professional and business services (-600). While employment in state and local government also declined, the job losses were surprisingly small in light of the state's acute fiscal crisis.

As has been the case since the national recession's onset, the only significant job gains in the metropolitan area were recorded by the educational and health services sector which added 600 jobs. Bucking state and national trends, retail trade employment in Atlantic City also edged up modestly during the first half of the year.

NEW JERSEY METRO AREAS' JOB LOSSES DURING GREAT RECESSION

All of New Jersey's metropolitan areas have recorded job losses since the onset of the national recession in December 2007. (Figure 4) In absolute terms, the Edison-New Brunswick metro area has seen the largest employment decline since the recession's onset, followed by Newark-Union and Bergen-Hudson-Passaic. In percentage terms, however, Atlantic City's 8.3% employment decline is the largest among the state's metropolitan areas.

Figure 4: New Jersey Metro Area Job Losses Since Recession's Onset

Job Loss/Gain Since:	*Dec-07*		*Dec-08*		*Dec-09*	
Metro Area/Division	**Change (000)**	**% Change**	**Change (000)**	**% Change**	**Change (000)**	**% Change**
Atlantic City	-12.5	-8.3%	-7.5	-5.2%	-0.3	-0.2%
Bergen-Hudson-Passaic	-48.3	-5.3%	-25.6	-2.9%	9.2	1.1%
Camden	-29.4	-5.4%	-16.3	-3.1%	-1.0	-0.2%
Edison-New Brunswick	-79.1	-7.6%	-48.4	-4.8%	-5.5	-0.6%
Newark-Union	-73.5	-7.1%	-42.4	-4.2%	-0.6	-0.1%
Ocean City	0.9	2.2%	2.8	6.7%	2.6	6.2%
Trenton-Ewing	-8.4	-3.5%	-7.7	-3.2%	-2.2	-0.9%
Vineland-Millville-Bridgeton	-3.0	-4.9%	-1.4	-2.3%	-0.5	-0.8%
New Jersey	-220.2	-5.4%	-106.0	-2.7%	8.1	0.2%
U.S.	-7,709.0	-5.6%	-4,086.0	-3.0%	654.0	0.5%

Source: New Jersey Department of Labor and Workforce Development and U.S. Bureau of Labor Statistics.
New Jersey metro areas' employment data seasonally adjusted by author.

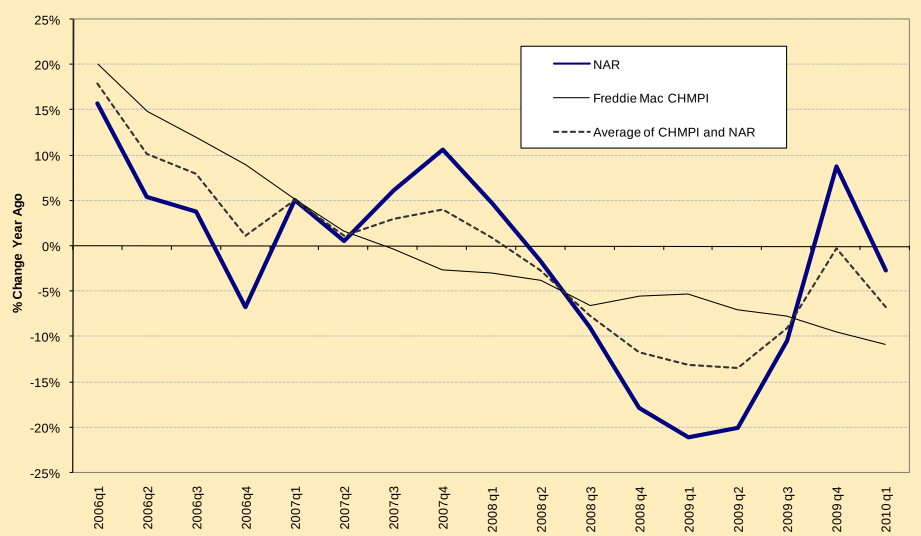
As noted in prior editions of the *South Jersey Economic Review*, the analytic interpretation of Atlantic City's employment losses during the Great Recession is complicated owing to the fact that employment in the metro area began to contract one full year ahead of the national recession's onset due to the closing of the Sands casino in the fourth quarter of 2006. This closing cost the metropolitan area approximately 2,000 jobs and set in motion additional adverse employment effects. Employment in Atlantic City contracted 3.7% between September 2006 and the national recession's onset in December 2007. Hence, since September 2006—the last *local* cyclical employment peak—employment in Atlantic City has declined by 18,400 jobs or 11.8%.

ATLANTIC CITY'S HOUSING MARKET

At present, there is some ambiguity surrounding the trend in single-family home prices in Atlantic City. (Figure 5) Freddie Mac's conventional mortgage home price index (CMHPI) continues to show a clear downward trend in single-family home prices in the metropolitan area. The CMHPI indicates that the pace of home price erosion has accelerated in recent quarters, with prices off 11% year-on-year in the first quarter of this year. Data from the National Association of Realtors, meanwhile, show a more mixed picture. NAR home price data indicate that single-family home prices declined much

cont'd on page 4

Figure 5: Single Family Home Prices in Atlantic City
First Quarter 2006 to First Quarter 2010



Sources: National Association of Realtors and Freddie Mac.

more significantly over the past two years than the CMHPI suggest. However, unlike the CMHPI, the NAR data indicate that federal incentives for first-time homebuyers worked to temporarily slow home price depreciation over the final two quarters of 2009. According to NAR data, single-family home prices in Atlantic City actually rose 9% in last year's final quarter.

Such discrepancies across these home price indicators are not surprising given their different methodologies. On the assumption that the trend in home prices in the region likely lies somewhere between the CMHPI and the NAR series, Figure 5 also shows a straight-line average of the two home price indicators. On this basis, it is clear that home prices continue to decline albeit at a far more modest pace than they have over the past several quarters.

While the pace of foreclosure activity in Atlantic County moderated during the winter months, it has picked up again more recently. (Figure 6) The average number of monthly foreclosures in Atlantic County for the first half of this year equaled 318 – down from an average reading of 376 for the final half of last year, but significantly higher than the 211 recorded for the first six months of 2009. Foreclosure data from RealtyTrac also indicate that nearly 20% of all home sales in the county in the first quarter of this year were foreclosure sales, up from 16% in last year's final quarter, and on par with the first quarter of 2009.

Underscoring the continued caution exhibited by the region's homebuilders, the modest rebound in building permits for single-family home construction in Atlantic City, which began in the second half of last year, has failed to accelerate this year. (Figure 7) The six-month moving average of single-family units authorized stood at 45 in May. At the last cyclical peak—which occurred in October 2004—this indicator stood at 184.

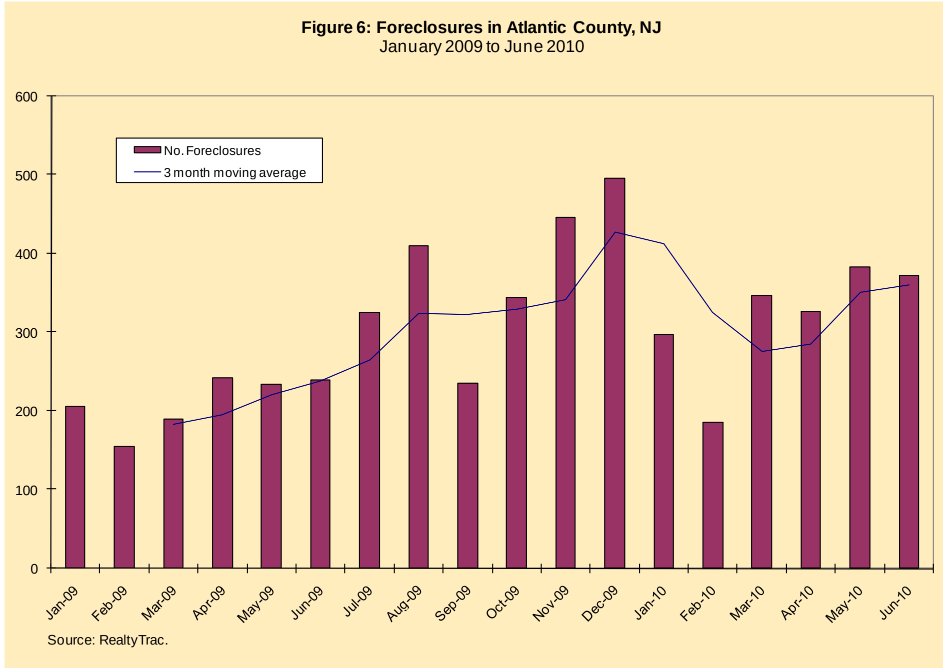


Figure 6: Foreclosures in Atlantic County, NJ
January 2009 to June 2010

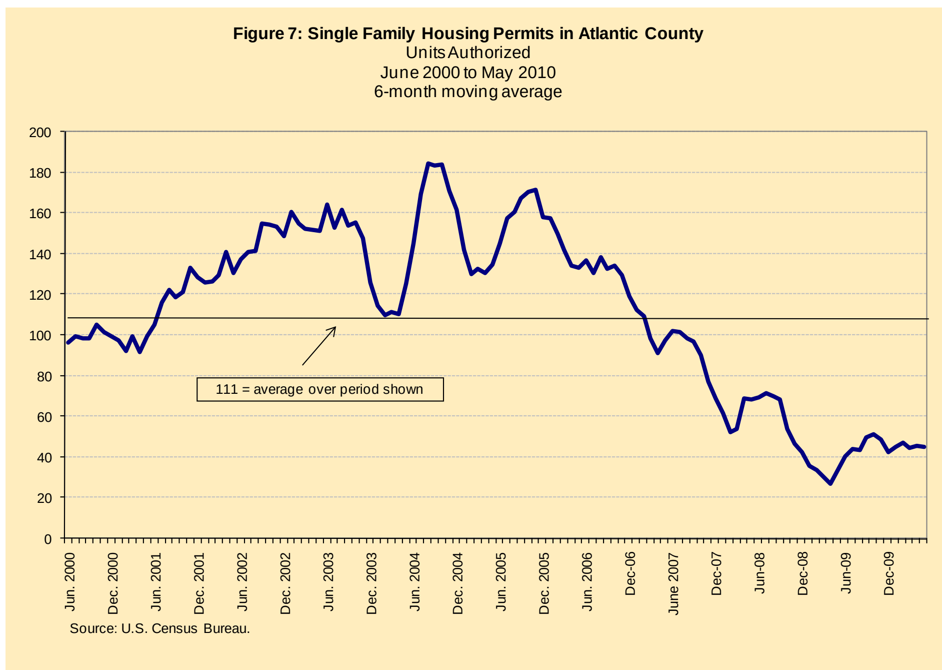


Figure 7: Single Family Housing Permits in Atlantic County
Units Authorized
June 2000 to May 2010
6-month moving average

TRACKING AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) MONIES IN ATLANTIC COUNTY

An analysis of the distribution of ARRA monies in Atlantic County is presented in Figure 8, which lists (only) the top twenty-five largest ARRA awards in the county as of March 31, 2010.[1] Based on this analysis, Atlantic County was awarded $133.3 million of ARRA funds through the first quarter of this year—equal to 1.2% of the county's 2008 total personal income.[2] This implies an average award of $491 per county resident. Atlantic County has received approximately 2.7% of all ARRA funds received by New Jersey. (Atlantic County's population accounts for 3.1% of the state's total population.) The $8.5 million received by the Pleasantville School District—a portion of the $1 billion New Jersey received via the ARRA's State Fiscal Stabilization Fund-Education Fund project in 2009—represented the single largest award.

Figure 8: Largest ARRA Recipients in Atlantic County
Through March 31, 2010

Rank	Zip Code	Recipient	Funding Agency	Award Type	Local Amount	Recipient Role*
1	08232	PLEASANTVILLE SCHOOL DISTRICT	Department of Education	Grants	$8,488,910	S
2	08401	ATLANTIC COUNTY UTILIITIES AUTHORITY	Environmental Protection Agency	Grants	$5,932,500	S
3	08234	EGG HARBOR TOWNSHIP BOARD OF EDUCATION INC	Department of Education	Grants	$5,566,542	S
4	08401	ATLANTIC, COUNTY OF	Department of Labor	Grants	$4,836,097	S
5	08319	ATLANTIC, COUNTY OF	Department of Transportation	Grants	$4,812,169	S
6	08330	GREATER EGG HARBOR REGIONAL HIGH SCHOOL DISTRICT	Department of Education	Grants	$4,712,591	S
7	08404	ATLANTIC CITY HOUSING AUTHORITY AND URBAN REDEVELOPMENT AGENCY	Department of Housing and Urban Development	Grants	$3,652,573	P
8	08240	RICHARD STOCKTON COLLEGE OF NEW JERSEY	Department of Energy	Grants	$3,646,599	S
9	08217	SOUTH JERSEY TRANSPORATION AUTHORITY	Department of the Air Force	Grants	$3,600,000	P
10	08217	SOUTH JERSEY TRANSPORATION AUTHORITY	Department of Defense (except military departments)	Contracts	$3,600,000	P
11	08310	BOROUGH BUENA MUNICIPAL UTILITIES AUTHORITY	Department of Agriculture	Loans	$3,549,000	P
12	08205	GALLOWAY TWP SCHOOL DISTRICT	Department of Education	Grants	$3,501,602	S
13	08205	SEASHORE ELDER HOUSING LIMITED PARTNERSHIP	Department of Housing and Urban Development	Grants	$3,338,865	S
14	08330	HAMILTON TOWNSHIP BOARD OF EDUCATION	Department of Education	Grants	$3,266,390	S
15	08215	PAGE ETC INC	Environmental Protection Agency	Contracts	$3,210,253	S
16	08310	BUENA REGIONAL SCHOOL DISTRICT	Department of Education	Grants	$2,992,037	S
17	08240	RICHARD STOCKTON COLLEGE OF NEW JERSEY	Department of Education	Grants	$2,906,699	S
18	08037	TRANSPORTATION, NEW JERSEY DEPT OF	Department of Transportation	Grants	$2,348,430	P
19	08401	ATLANTIC CITY MUNICIPAL UTILITIES AUTHORITY	Environmental Protection Agency	Grants	$2,322,117	S
20	08401	ATLANTIC CITY BOARD OF EDUCATION	Department of Education	Grants	$2,320,751	S
21	08210	HUMAN SERVICES, NEW JERSEY DEPARTMENT OF	Department of Health and Human Services	Grants	$2,268,803	S
22	08037	HAMMONTON BOARD OF EDUCATION	Department of Education	Grants	$1,950,910	S
23	08234	ATLANTIC COUNTY UTILIITIES AUTHORITY	Department of Energy	Grants	$1,937,875	S
24	08234	EGG HARBOR TOWNSHIP BOARD OF EDUCATION INC	Department of Education	Grants	$1,908,659	S
25	08037	SOUTHERN JERSEY FAMILY MEDICAL CENTERS, INC.	Department of Health and Human Services	Grants	$1,817,440	P
			TOTAL FOR 25 LARGEST AWARDS		**$88,487,812**	

* S=sub-award; P=prime award *Source: Recovery.org*

Figure 8A: Benchmarking Atlantic City's Economic Performance: 1990 to 2006

	Metro Area	Population Growth	Rank	Employment Growth	Rank	Annual Real Personal Income Growth	Rank	Annual Real Per Capita Personal Income Growth	Rank	Sum of Ranks
1	Lafayette, LA	24.1%	5	49.8%	2	4.1%	3	2.8%	1	11
2	Fayetteville-Springdale-Rogers, AR-MO	88.6%	1	86.4%	1	5.5%	1	1.7%	8	11
3	Boulder, CO	32.7%	2	40.6%	5	4.2%	2	2.5%	3	12
4	San Luis Obispo-Paso Robles, CA	21.5%	8	44.2%	3	3.6%	4	2.5%	5	20
5	Lincoln, NE	28.0%	3	36.0%	6	3.2%	7	1.7%	7	23
6	Fort Smith, AR-OK	24.0%	6	33.1%	7	3.3%	6	2.0%	6	25
7	Gulfport-Biloxi, MS	13.5%	13	32.6%	8	3.3%	5	2.8%	2	28
8	Green Bay, WI	23.5%	7	41.3%	4	3.0%	9	1.7%	9	29
9	Cedar Rapids, IA	20.7%	9	27.6%	9	2.5%	10	1.4%	12	40
10	Spartanburg, SC	24.1%	4	18.6%	12	2.3%	12	1.2%	15	43
11	Santa Cruz-Watsonville, CA	10.2%	16	14.0%	15	3.0%	8	2.5%	4	43
12	Lynchburg, VA	18.7%	11	18.5%	13	2.4%	11	1.4%	11	46
13	Lubbock, TX	17.8%	12	24.3%	10	2.2%	13	1.3%	13	48
14	Macon, GA	11.4%	14	21.7%	11	2.2%	14	1.6%	10	49
15	**Atlantic City-Hammonton, NJ**	**20.0%**	**10**	**17.4%**	**14**	**1.6%**	**16**	**0.5%**	**18**	**58**
16	Topeka, KS	9.1%	17	7.9%	17	1.8%	15	1.3%	14	63
17	Champaign-Urbana, IL	10.3%	15	10.3%	16	1.6%	17	1.1%	16	64
18	Saginaw-Saginaw Township North, MI	-5.3%	18	4.0%	18	0.7%	18	0.9%	17	71
	Group Median	20.4%		26.0%		2.7%		1.7%		
	Group Average	21.8%		29.3%		2.8%		1.7%		

* Source: U.S. Bureau of Economic Analysis and U.S. Bureau of Labor Statistics

Figure 8A provides an analysis of Atlantic City's economic performance during the 1990 to 2006 period relative to a select group of other metro areas'. Metro areas in the comparison group had 1990 populations between 90%-110% of Atlantic City's 1990 population. As shown, Atlantic City's total population growth during this period (20%) ranked tenth, while its total employment growth (17.4%) ranked fourteenth. Relative to its population growth, however, Atlantic City's employment growth during this period ranked last in the group. In terms of annual real personal income growth, Atlantic City, at 1.6%, ranked sixteenth. In terms of annual real per capita personal income growth (among the most widely-used proxies of growth in metropolitan area living standards), Atlantic City's 0.5% ranked last. The metro area with the highest annual rate of real per capita income growth was Lafayette, LA, at 2.8%. The implication is that real per capita income in Lafayette would double in approximately 25 years (at this rate of growth), whereas a similar doubling would take approximately 143 years in Atlantic City.

A TALE OF TWO GAMING CITIES

As state policymakers consider Governor Christie's proposed plan to revive Atlantic City's gaming industry—creating and managing a tourism district in Atlantic City—it could prove beneficial to compare the development of Atlantic City's economy and gaming industry over the past two decades with Las Vegas'. Despite a host of obvious and significant differences between the two gaming destinations (not least their respective sizes), such an exercise may still prove instructive. The analysis that follows represents an admittedly modest first attempt at such an exercise.

Population and Employment Growth

Between 1990 and 2006, Las Vegas' population more than doubled, making it the fastest-growing metropolitan area in the United States perennially. (Figure 9) Atlantic City's population increased 20% over the same period (an increase roughly on par with the nation's). Total employment in Las Vegas over the same period increased 146%, whereas it increased 13.6% in Atlantic City. More importantly, each one person increase in Las Vegas' population over this period corresponded to a 0.72 job gain. In Atlantic City, the comparable figure was just 0.08. One interpretation of this statistic is that Las Vegas' strong population growth was fueled by robust employment (economic) growth. A fast-growing economy attracted thousands of job-seeking in-migrants to the metropolitan area. In contrast, Atlantic City's population growth occurred for reasons that were largely unrelated to employment (economic) growth, e.g., natural increase and/or retiree in-migration.

cont'd on page 7

Figure 9: Population and Economic Growth: Las Vegas vs. Atlantic City

LAS VEGAS

	1990	2006	Change	% Change
Population	756,170	1,778,129	1,021,959	135%

Total Establishment Employment Change 1990-2006 relative to population change — **543,700 / 1,021,959 =** **72%**

A	B	C	D	E	F	G	H	I
Sector Employment	1990	2006	Change	% Change	1990 Share Emp	2006 Share Emp	Sector's Contrubtion to Growth	Sector's Employment Gain/ Loss per 1000 Population Change
Total Nonfarm	373.6	917.3	543.7	146%	100%	100%	N/A	N/A
Construction	35.8	108.6	72.8	203%	9.6%	11.8%	13.4%	71
Manufacturing	10.3	27.1	16.8	163%	2.8%	3.0%	3.1%	16
Wholesale Trade	10.7	23.6	12.9	121%	2.9%	2.6%	2.4%	13
Retail Trade	41.7	97.7	56.0	134%	11.2%	10.7%	10.3%	55
Transp., Warehsing, Utils.	14.2	34.8	20.6	145%	3.8%	3.8%	3.8%	20
Information	6.2	11	4.8	77%	1.7%	1.2%	0.9%	5
Financial Activities	20.6	50.2	29.6	144%	5.5%	5.5%	5.4%	29
Prof & Bus Svs	35.1	115.2	80.1	228%	9.4%	12.6%	14.7%	78
Educ & Health Svs	20.5	60.1	39.6	193%	5.5%	6.6%	7.3%	39
Leisure and Hospitality	128.5	271.7	143.2	111%	34.4%	29.6%	26.3%	140
Casino Hotels	87.3	172.1	84.8	97%	23.4%	18.8%	15.6%	83
Restaurants/Bars	22.5	71.5	49.0	218%	6.0%	7.8%	9.0%	48
Other Svs	10.9	24.8	13.9	128%	2.9%	2.7%	2.6%	14
Govt	38.7	92.1	53.4	138%	10.4%	10.0%	9.8%	52

ATLANTIC CITY

	1990	2006	Change	% Change
Population	225,431	269,495	44,064	20%

Total Establishment Employment Change 1990-2006 relative to population change — **18,400 / 44,064 =** **8.2%**

Sector Employment	1990	2006	Change	% Change	1990 Share Emp	2006 Share Emp	Sector's Contrubtion to Growth	Sector's Employment Gain/ Loss per 1000 Population Change
Total Nonfarm	135.7	154.2	18.4	13.6%	100%	100%	N/A	N/A
Construction	6.7	7.1	0.5	7.1%	4.9%	4.6%	2.6%	11
Manufacturing	4.6	4.2	-0.4	-8.9%	3.4%	2.7%	-2.2%	-9
Wholesale Trade	2.4	2.9	0.5	21.2%	1.8%	1.9%	2.8%	12
Retail Trade	14.1	16.0	1.9	13.7%	10.4%	10.4%	10.5%	44
Transp., Warehsing, Utils.	2.8	2.9	0.1	2.2%	2.1%	1.9%	0.3%	1
Information	1.3	1.1	-0.2	-18.8%	1.0%	0.7%	-1.4%	-6
Financial Activities	3.8	4.5	0.7	19.5%	2.8%	2.9%	4.0%	17
Prof & Bus Svs	8.8	11.1	2.3	26.1%	6.5%	7.2%	12.5%	52
Educ & Health Svs	11.5	18.1	6.6	57.4%	8.5%	11.8%	35.9%	150
Leisure and Hospitality	56.4	58.5	2.1	3.8%	41.6%	38.0%	11.5%	48
Casino Hotels	46.7	41.9	-4.8	-10.3%	34.4%	27.2%	-26.0%	-109
Restaurants/Bars	7.9	11.6	3.7	47.2%	5.8%	7.5%	20.2%	85
Other Services	3.7	4.3	0.6	15.8%	2.7%	2.8%	3.1%	13
Government	19.6	23.4	3.8	19.2%	14.4%	15.2%	20.4%	85

Sources: U.S. Bureau of Labor Statistics, U.S. Census Bureau.

cont'd from page 6

Sources of Employment Growth and Economic Diversification

Figure 9 also shows the distribution of employment by sectors for 1990 and 2006, and each sector's employment gain/loss in both absolute and growth terms over the period. Column H shows each sector's contribution to job growth over the period. For example, the increase in professional and business services employment in Las Vegas between 1990 and 2006 (+80,100) accounted for 14.7% of its total employment change. The differences between Atlantic City and Las Vegas shown in Column H are striking. Most importantly, employment gains in Las Vegas' casino industry accounted for 15.6% of the metropolitan area's total employment gain between 1990 and 2006, as casino hotels employment nearly doubled. In Atlantic City, casino hotels employment *declined* during this period, implying that the industry was a drag on the metropolitan area's job growth.[3]

It is also clear that both metro area economies diversified since 1990, as reflected in casino hotels employment decreasing share of each economy. (Figure 10) There is an important difference, however, in the way each area diversified. In particular, Las Vegas' increased diversification occurred along side *increasing* casino employment. In contrast, Atlantic City's occurred along side *decreasing* casino employment. (Figure 11)

Figure 10
Both metro area economies diversified, but . . .
January 1990 to December 2006

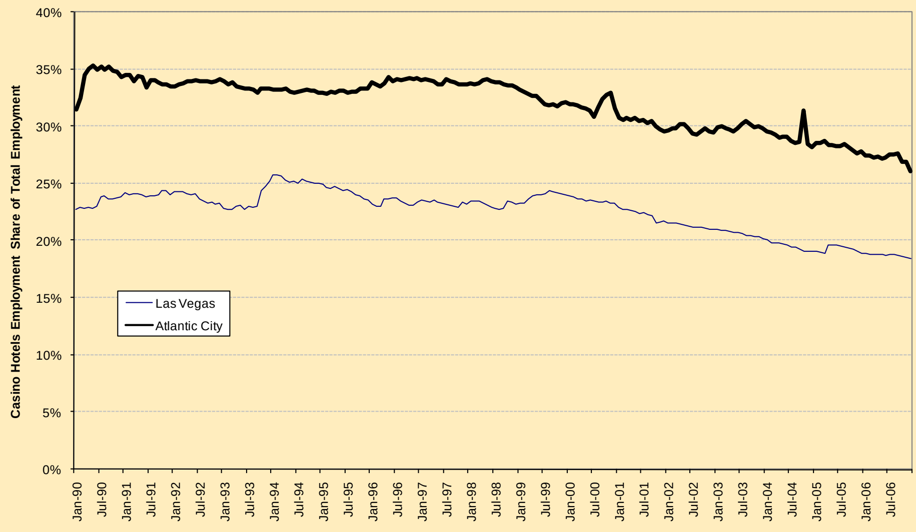
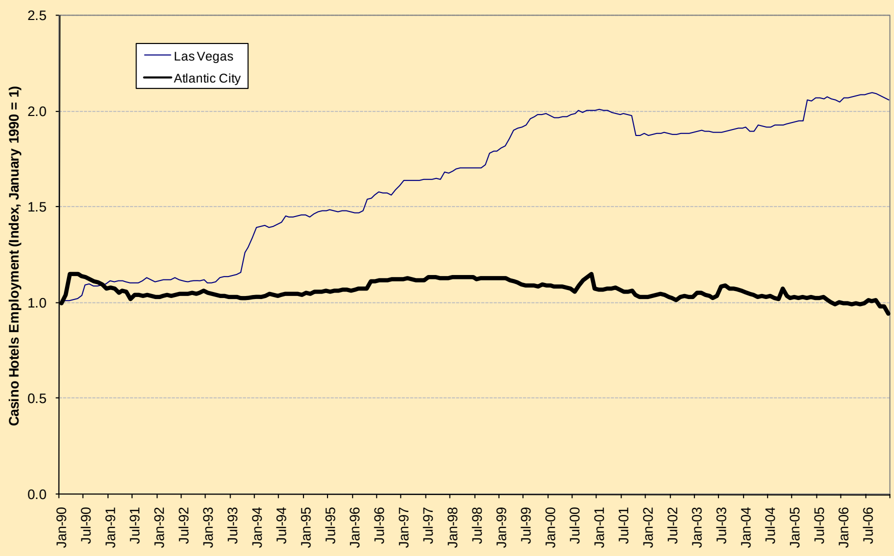
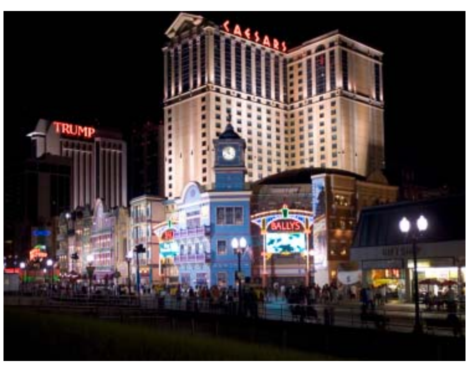


Figure 11
. . . they did so under starkly different conditions
January 1990 to December 2006





Perhaps most importantly, Column H of Figure 9 reveals that *Las Vegas' job growth between 1990 and 2006 was broad-based*. Beyond the casino industry, employment gains across a host of industries contributed to the metropolitan area's total job (economic) growth. These included: construction, professional and business services, retail trade, financial activities, and (even) manufacturing. Gains in government employment, meanwhile, accounted for 9.8% of Las Vegas' job growth during this period. In stark contrast, employment gains in educational and health services accounted for 36% of all job gains in Atlantic City between 1990 and 2006. And, increases in government employment accounted for an additional 20% of all job gains. In other words, Atlantic City's job growth was, unlike Las Vegas', heavily concentrated in just two sectors.

Column I of Figure 9 shows each sector's job gain/loss over the period *relative to the metropolitan area's population increase*[4]. Thus, for example, over the period shown, 39 jobs in educational and health services were gained for every 1,000 new Las Vegas residents. In

cont'd on page 8

A TALE OF TWO GAMING CITIES

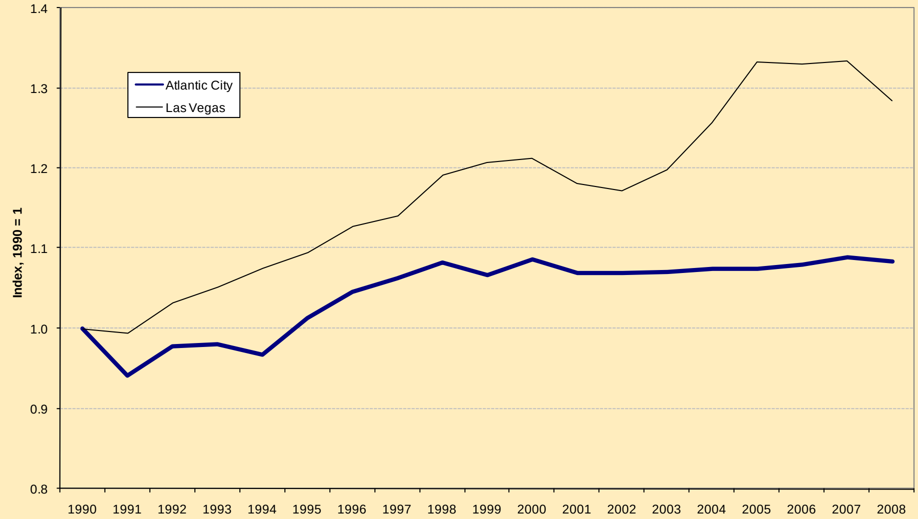
cont'd from page 7

Atlantic City, the comparable figure is an eye-popping 150. For government employment, the comparable figures are 52 in Las Vegas and 85 in Atlantic City. It should be noted that demographic differences do not explain these discrepancies. In particular, the under-19 population accounts for 28.5% of Las Vegas' population, compared to 26.5% in Atlantic City. And, the 65+ population accounts for 18.8% of Las Vegas' population, compared to 14.4% in Atlantic City. In other words, demographic differences between the two metro areas do not appear to provide a reasonable demand-side explanation for the type of job growth Atlantic City experienced vis-à-vis Las Vegas during this period.[5]

There are several other notable differences shown in Column I. For example, twenty transportation/warehousing/utilities jobs were gained per 1,000 new residents in Las Vegas, while only one was gained in Atlantic City. In the information sector (which includes such industries as publishing, telecommunications, and internet related businesses), the comparable figures were five and negative 6. In the financial activities sector, the figures were 78 versus 52. On this basis, had Atlantic City's casino hotels employment expanded like Las Vegas' did between 1990 and 2006, it would have totaled approximately 50,300 in 2006 instead of 41,900 (a difference of 8,400 jobs).

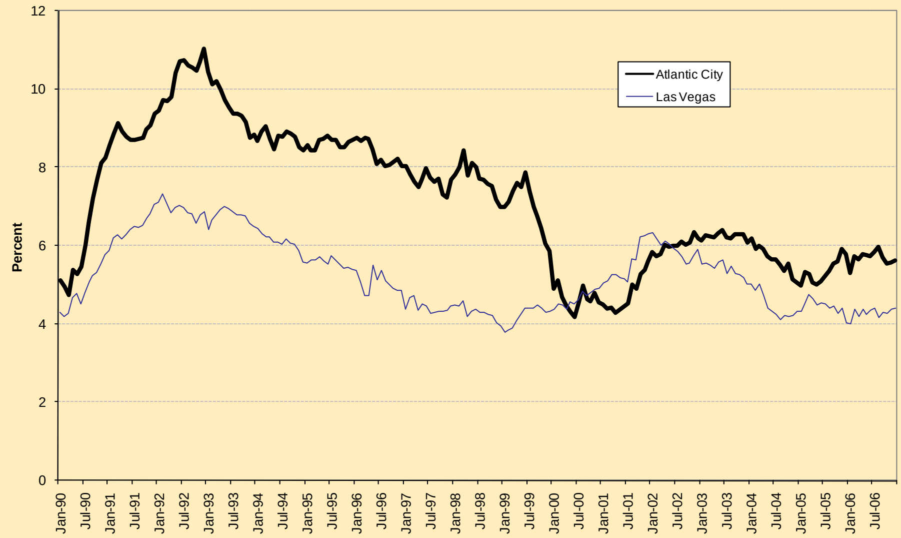
While many factors can contribute to rising living standards in a local/regional economy, including the success of a highly specialized (and, thus undiversified) economy, the broad-based, diversified job growth Las Vegas experienced over the past (nearly) two decades has clearly delivered important economic benefits. Most importantly, real per capita income (among the most widely-used proxies of growth in metropolitan area living standards) in Las Vegas grew 1.8% annually between 1990 and 2006, compared to 0.5% for Atlantic City. (Figure 12) To put this growth differential in a different light, real per capita income in Las Vegas would double in approximately 38 years assuming constant real per capita income growth of 1.8% annually, whereas a similar doubling would take approximately 143 years in Atlantic City. Moreover, the two metropolitan areas' respective unemployment experiences have been decidedly different. The unemployment rate averaged 5.3% in Las Vegas between 1990 and 2006, while it averaged 7.1% in Atlantic City.[6] (Figure 13)

Figure 12: Real Per Capita Personal Income Growth: Atlantic City vs. Las Vegas
1990 to 2008



Source: U.S. Bureau of Economic Analysis, U.S. Census Bureau, and U.S. Bureau of Labor Statistics.

Figure 13: Unemployment: Atlantic City and Las Vegas
January 1990 to December 2006



Source: U.S. Bureau of Labor Statistics. Seasonally adjustment by author.

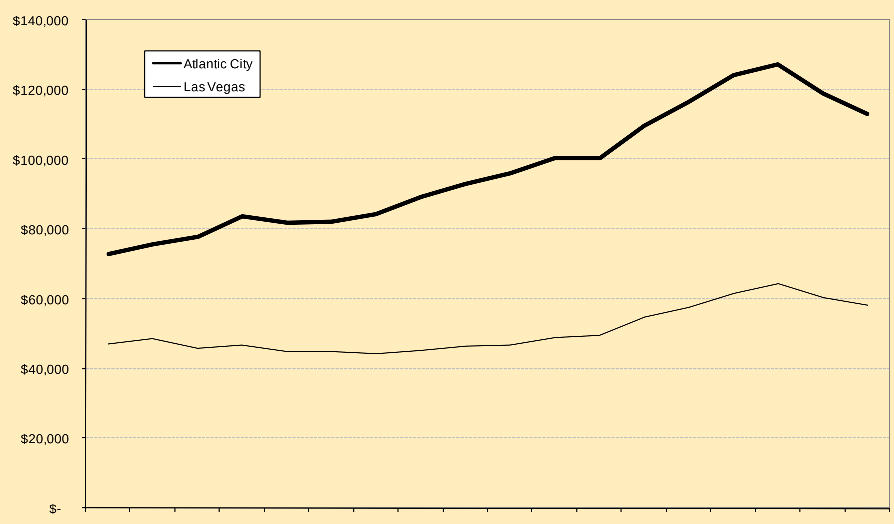
There exists a large economics literature that analyzes the factors that play a role in regional and metropolitan area economic growth. Among others, these factors include: a highly skilled/educated workforce, special locational and/or natural resource advantages, regulatory and/or tax structures, rates of private and public capital investment, in-migration and immigration, and chance. Many of these factors often work in conjunction with one another, generating positive feedback effects. Further, economists have enhanced their understanding of the roles endogenous growth, agglomeration economies, and path-dependent growth processes play in regional/metropolitan growth.

Many of these factors and processes played roles in Las Vegas' stunning growth over the past few decades. While there are several lessons that could be drawn from the analysis presented here, one seems particularly important. Namely, *sustained* growth in a metro area's principal export industry can help engender strong, broad-based growth across the rest of its economy. The result is an increasingly diversified economy whose primary export industry remains central to its economic fortunes. This type of sustained growth is manifested in Las Vegas' casino hotels employment, which grew 4.3% annually between 1990 and 2006.[7] In Atlantic City, casino hotels employment declined 0.7% per annum over the same period. Clearly, many of the aforementioned factors contributed to (and thus help explain) this growth differential—not least the historical contexts and purported policy rationales of gaming's commencement and subsequent development and regulation in each locale. One additional factor (not mentioned above) that is important regards the revenue growth experienced (by the gaming industry) in each metro area.

Between 1992 and 2006, casino industry revenue increased 6.5% annually in Las Vegas, whereas it increased 3.5% in Atlantic City. When these revenue growth figures are combined with the aforementioned employment growth figures, the result is a significant difference in productivity growth (measured as revenue per employee) across the two gaming locales. Whereas productivity increased 1.9% annually in Las Vegas between 1992 and 2006, it increased 3.9% annually in Atlantic City.

The above analysis of Las Vegas' gaming industry and broader economic development since 1990 does *not* constitute an endorsement of any particular economic development strategy. Rather, because gaming is an important driver of both metro area economies, it represents an analytic exercise that may provide useful insights for thinking about why and how the two different gaming destinations' economic experiences have differed so markedly since 1990. To the extent that the type of growth Las Vegas experienced during the past (nearly) two decades is deemed desirable from a policy and stakeholder perspective, there appear to be some important lessons that might be drawn—in particular, the one concerning sustained growth and investment. At the same time, as noted in footnote six, Las Vegas' experience during the Great Recession—which has been even poorer than Atlantic City's—makes clear that part of its economic growth was purely speculative in nature. This is especially true of its well-documented housing market boom. Las Vegas's housing market meltdown has been among the worst of any metropolitan area in the nation. Moreover, Las Vegas gaming industry, similar to Atlantic City's, has not escaped the effects of the Great Recession. What Las Vegas' gaming industry *has* apparently managed to escape are the most pernicious effects of ever-increasing gaming competition.

Figure 14: Productivity Growth: Revenue (Win) per Casino Hotel Employee
Atlantic City and Las Vegas
1992 to 2009



Sources: U.S. Bureau of Labor Statistics, New Jersey Casino Control Commission, Nevada Gaming Control Board.

ATLANTIC CITY GAMING'S FUTURE AND THE FUTURE ATLANTIC CITY ECONOMY

Atlantic City's gaming industry clearly lies at a crossroads. Given gaming's obvious import to the metropolitan area's economy, the same is true of Atlantic City's economy. At present it seems there are two possible futures for the gaming industry and Atlantic City's economy. The first, whose likelihood is remote (for reasons explained below), involves a wholesale transformation of Atlantic City's gaming industry into a genuine East Coast Las Vegas rival. Such a transformation would necessarily involve dramatic growth in the casino industry—both in terms of the number of casinos as well as a diversification of casino properties. Proposed legislation that will allow for smaller casinos in Atlantic City could ostensibly serve to engender such growth and diversification by lowering the capital costs of new entrants. However, this legislation provides for but four new smaller casinos. The transformation envisioned here would involve significantly more than four new casinos.

If the goal is to reinvent Atlantic City via differentiation—and, thereby insulate it from the vagaries of seemingly ever-growing regional gaming competition and transform it into a Las Vegas-like gaming and entertainment destination—one or two new mega casinos and a few boutique casinos (which would undoubtedly prove beneficial to the metro area's economy—at least in the short-run) seem unlikely to prove enough.[8] Las Vegas' casino portfolio is obviously more diverse than Atlantic City's. But, it is the sheer size of Las Vegas' gaming industry—created via significant and sustained investment and growth over the past two decades—that underlies its quasi-monopolistic position, viz., there is only one Las Vegas. Indeed, it is important to remember that Las Vegas' casino industry grew (both in property, revenue, and employment terms) over the past two decades despite a proliferation of regional gaming competition (much of it convenience-based) in neighboring/nearby California, Arizona, New Mexico, and Colorado. Atlantic City gaming's experience over the past few years amid the same type of growing regional (convenience) gaming competition has been decidedly different.

Such a transformation would (needless to say) require a dramatic rethinking by state policymakers regarding the fiscal and economic rationales for Atlantic City gaming. Moreover, such a transformation—which ostensibly could be facilitated by policy and regulatory changes—would ultimately require significant private sector buy-in and investment. Indeed, it is this condition which constitutes this path's greatest downside risk. While policymaking could do much to lay such a path's foundation, it would not materialize in the absence of the requisite private sector buy-in and investment. In the event such a path were pursued and the private commitments necessary for it were realized, Atlantic City could experience the type of broad-based growth Las Vegas experienced during much of the past two decades.[9]

The second possibility involves stabilizing the gaming industry at or near its present size. Such a scenario seems likely to involve modest changes and/or expansions to the existing casino portfolio. The larger growth (multiplier) effects that this scenario would generate would be far more limited than those that would likely materialize under the first scenario. The most obvious benefit of pursuing this second route is clear; the investment monies it would require are far lower (and thus could prove more likely to materialize). This path, however, holds at least two apparent drawbacks.

First, such a stabilization/modest growth policy (as noted above) seems unlikely to genuinely differentiate Atlantic City gaming from the fast-growing number of regional gaming options. Indeed, while the industry currently finds itself bracing ahead of initial indications of the effects of the recent commencement of table games in several Pennsylvania-based gaming establishments, the upcoming opening of the new Sugar House casino in Philadelphia (whose existing non-gaming entertainment and cultural attractions already support a significant tourism industry) on the banks of the Delaware River this fall is likely to represent the most important test for Atlantic City casino operators to date. Thus, the gravest (and, most obvious) downside risk posed by the stabilization/modest growth approach is its potential failure. Should this outcome materialize (i.e., the industry's health continues to deteriorate amid heightened regional gaming competition), the adverse repercussions for Atlantic City's economy will be significant; the gaming industry injected approximately $3.2 billion into the metropolitan area's economy in 2008.[10] This represented approximately one-third of the area's total personal income and nearly one-quarter of its gross domestic product.

The second drawback of the stabilization/modest growth approach involves its limited multiplier and diversification-enhancing effects on Atlantic City's greater economy—an economy that (as detailed above) has struggled significantly over the past several years. In short, should policymakers choose to pursue policies that aim at this second

cont'd on page 11

cont'd from page 10

route, they must also begin to find ways to nurture a broader and more diversified Atlantic City economy—an economy in which gaming remains important but is not the sole and/or primary growth engine. While there are some important efforts underway that would contribute to this goal—perhaps most importantly the NextGen Research Park—significantly more would be needed in order to foster a brighter economic future for Atlantic City.

Given current economic realities—tight fiscal conditions, a weakened consumer environment, high debt burdens, stringent credit conditions for many businesses, and the real likelihood of significantly more subdued national economic growth over the medium term—the second path seems more likely to materialize than the first. Moreover, the vision embedded in the Governor's recently announced "take over" plan appears to have much in common with the stabilization/modest growth path. In the event this plan is adopted, properly executed, and works, Atlantic City's gaming industry should stabilize in the near term and could experience modest growth over the medium-term. (The still-fragile national recovery will play a significant role in this regard.) While such an outcome would be welcome given recent history, and would contribute to Atlantic City's near- and medium-term stabilization, it will—in the absence of additional sustained efforts to nurture a more broad-based, diversified economy—likely prove insufficient to guarantee it robust, broad-based long-term economic growth.

ENDNOTES:

[1] Analysis based on zip-code entry into Recovery.org, the federal website devoted to tracking all ARRA monies.
[2] 2009 personal income data are not yet available.
[3] Note that the closing of the Sands casino in late 2006—which resulted in nearly 2,000 lost jobs—does not result in a significant downward bias in the annual 2006 figure shown. In other words, excluding the data from the final quarter of 2006 entirely (and using the first three quarters worth of data only for 2006) still results in a significant decline in casino employment for the period shown. In fact, this casino closing and the fact that the national recession began to affect both metro areas ahead of December 2007 (the official commencement of the recession) is the primary reason 2006 was chosen as the most appropriate endpoint for the analysis. Additionally, it should be noted that Las Vegas' economy has underperformed Atlantic City's for the past two years. Moreover, Las Vegas' housing and construction sectors have been ravaged by the Great Recession and national housing market downturn—an indication that some of Las Vegas' phenomenal growth was purely speculative-driven.
[4] This column thereby controls for the obvious differences in the two metro areas' respective sizes.
[5] Additionally, it seems unlikely that the purported increase in part-year residents in the Atlantic City/Southern New Jersey region is substantial enough to explain the educational and health care services discrepancy.
[6] Importantly, it should be noted that Las Vegas' unemployment rate has risen dramatically over the course of the past two years and currently stands above Atlantic City's.
[7] Industry-based capital expenditure data at the metro area level would constitute the best indicator of this type of sustained growth. Unfortunately, such data do not exist. Industry-based employment data thus represent the best alternative proxy.
[8] Along these lines, it is interesting to note that while Borgata's entrance into Atlantic City in 2003 provided much-needed new investment, and served to increase total industry revenue, the revenue gains in 2004 and 2005 were unequally distributed. In 2004 (Borgata's first full calendar year of operation), six of the eleven pre-Borgata properties suffered revenue declines, while in 2005, four did. Thus, it seems likely that while the entrance of a few new properties may serve to increase total industry revenue, some existing operators would not benefit. Such a scenario would thus likely limit the employment and income effects on the Atlantic City economy.
[9] Whether or not this type of growth is or is not desirable is debatable. In purely economic (living standard) terms it might be deemed as such. On other terms, it may not.
[10] Oliver Cooke, "The Economic Impact of Gaming in Atlantic City" *Casino Gaming in Atlantic City: A Thirty Year Retrospective, 1978-2008*, eds., Brian J. Tyrrell, Israel Posner, Comteq Publishing. (Margate, NJ: 2009)

All analysis in this issue by:
Oliver D. Cooke, Ph.D., Assistant Professor of Economics, School of Social and Behavioral Sciences, The Richard Stockton College of New Jersey. Please direct comments and questions to: oliver.cooke@stockton.edu.