



THE SOUTH JERSEY ECONOMIC REVIEW

Summer 2012

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@stockton.edu with the subject line "sjer".



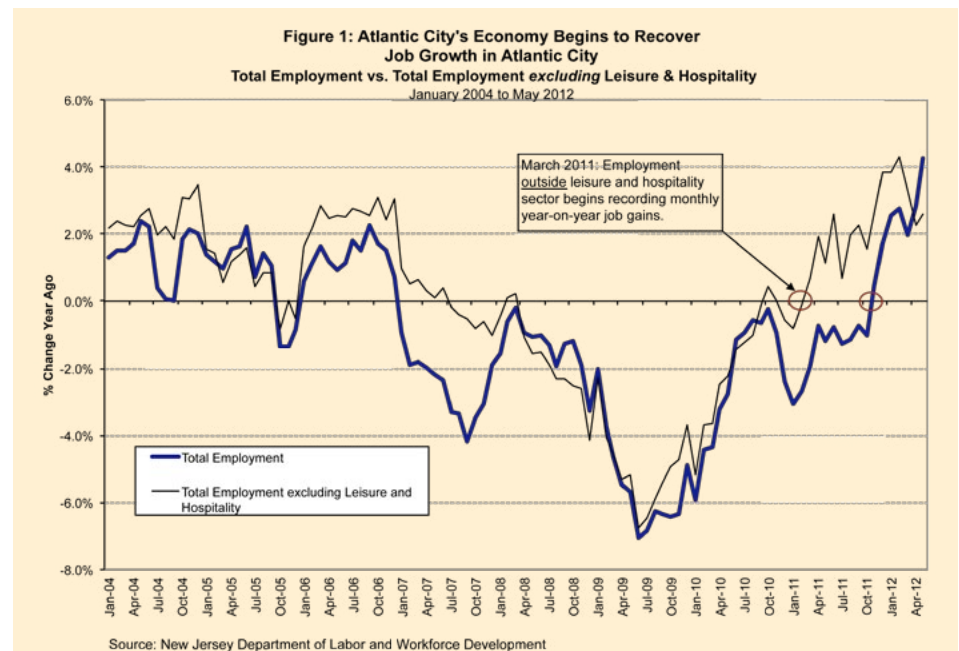
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ATLANTIC CITY'S ECONOMY FLICKERS ON: REVEL OR RECOVERY?

After suffering through the worst national recession in the post-WW II era, a global financial crisis, and a dramatic increase in regional gaming competition, Atlantic City's economy appears to have finally begun to turn the corner in 2012. Fueled by the opening of Revel, total establishment employment in the metropolitan area was increasing at a brisk 4.3% year-on-year rate in May (Figure 1).

While the early-2012 pace of job growth has proven welcome relief for the beleaguered metropolitan area economy, the critical question is whether or not the acceleration in job growth recorded during the past few months will spur a broader, sustainable recovery over the remainder of the year and into 2013.



While much of the recent acceleration in Atlantic City's rate of job growth was tied directly to Revel (construction jobs, the hiring of Revel staff, retail, and dining and bar establishments jobs), it should be recognized that the metro area's economy *outside the leisure and hospitality sector* recorded 15 consecutive monthly year-on-year job gains between March 2011 and May 2012—a fact highlighted in Figure 1. This figure declines to a still-impressive 10 months even if construction—which was temporarily buoyed in the months leading up to Revel's grand opening—is excluded. The leisure and

hospitality sector continued to lose jobs on a year-on-year basis through March of this year. Largely reflecting Revel's formal entrance into the local gaming market, employment in the leisure and hospitality sector increased by 1,800 year-on-year (a 4% increase) in April, and then rose by another 3,500 year-on-year in May (a 7.5% increase).

Table 1 (see page 2) shows industry-based average employment totals for the January–May period for this year compared to 2011. As shown, total establishment employment in Atlantic City was up 3,800 year-on-year—a

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Table 1: Industry Based Establishment Employment, Atlantic City, Selected Periods

	Average Employment (thousands)					2009-2010		2010-2011		Jan-May 2011 - Jan-May 2012	
	2009	2010	2011	Jan-May 2011	Jan-May 2012	Change	% Change	Change	% Change	Change	% Change
Total Nonfarm	140.1	136.8	135.4	132.1	135.9	-3.2	-2.3%	-1.4	-1.0%	3.8	2.9%
Total Private	118.0	114.9	112.4	109.0	111.8	-3.1	-2.6%	-2.4	-2.1%	2.9	2.6%
Leisure and Hospitality	50.7	49.1	46.3	44.6	45.6	-1.6	-3.2%	-2.8	-5.6%	1.0	2.2%
Accommodation and Food Services	48.9	46.8	44.4	43.2	43.8	-2.0	-4.2%	-2.4	-5.2%	0.7	1.6%
Accommodation	37.0	35.0	33.2	32.7	32.6	-1.9	-5.2%	-1.8	-5.2%	-0.1	-0.2%
Casino Hotels	34.8	33.4	31.6	31.1	30.9	-1.4	-4.1%	-1.8	-5.3%	-0.2	-0.7%
Food Services/Drinking Places	11.9	11.8	11.2	10.5	11.2	-0.1	-1.0%	-0.6	-5.1%	0.7	7.1%
Educational and Health Services	18.5	19.1	18.7	18.5	18.8	0.7	3.5%	-0.5	-2.4%	0.4	1.9%
Hospitals	6.4	6.5	6.4	6.3	6.5	0.1	1.7%	-0.1	-2.1%	0.2	2.9%
Financial Activities	4.3	4.1	4.0	4.0	4.1	-0.2	-5.2%	-0.1	-1.8%	0.0	1.0%
Information	1.0	0.9	0.8	0.8	0.8	-0.1	-7.5%	-0.1	-9.9%	0.0	-4.8%
Transportation, Warehousing, and Utilities	2.6	2.5	2.6	2.6	2.5	-0.2	-5.7%	0.1	5.4%	-0.1	-5.3%
Profess. and Business Services	9.8	9.4	9.8	9.6	9.7	-0.3	-3.2%	0.4	4.2%	0.2	1.9%
Retail Trade	15.5	15.5	15.1	14.9	15.3	0.0	-0.3%	-0.4	-2.4%	0.4	2.6%
Wholesale Trade	3.1	2.9	2.7	2.7	2.5	-0.1	-4.1%	-0.2	-7.1%	-0.2	-5.9%
Other Services	4.6	4.5	4.5	4.4	4.5	-0.1	-2.2%	0.0	-0.9%	0.2	3.7%
Nat. Res./Mining, Construction	5.3	4.6	5.5	4.7	5.5	-0.7	-13.3%	0.9	20.1%	0.8	16.7%
Manufacturing	2.6	2.2	2.3	2.2	2.5	-0.4	-14.7%	0.1	5.7%	0.3	14.7%
Government	22.1	22.0	23.0	23.1	24.1	-0.1	-0.6%	1.0	4.6%	1.0	4.1%
Federal Government	2.7	2.8	2.8	2.8	2.8	0.1	3.8%	0.0	1.2%	0.0	0.0%
State Government	3.1	3.1	4.3	4.3	4.6	0.0	0.0%	1.2	40.3%	0.3	7.5%
Local Government	16.3	16.1	15.9	16.1	16.7	-0.2	-1.3%	-0.3	-1.6%	0.6	4.0%
Total ex-Leisure and Hospitality	89.3	87.8	89.1	87.5	90.3	-1.6	-1.8%	1.3	1.5%	2.8	3.2%
Total ex-Leisure and Hospitality and Construction	84.1	83.2	83.6	82.8	84.9	-0.9	-1.1%	0.4	0.5%	2.1	2.5%
Total ex-Leisure and Hospitality, Construction, and Gov't	62.0	61.2	60.6	59.7	60.8	-0.7	-1.2%	-0.6	-1.0%	1.1	1.8%

Source: New Jersey Department of Labor and Workforce Development

AC'S ECONOMY FLICKERS ON

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gain of nearly 3%. While several industries saw job increases, the most significant gains occurred in construction (+800), restaurants/bars (+700), retail trade (+400), and government (+1,000).

A significant portion of this year's increase in construction jobs was tied to work ahead of Revel's formal opening this spring. Sizable shares of the job gains recorded in restaurants/bars and retail trade were also tied to Revel's opening. However, whereas the construction jobs will be lost in coming months, most of those in restaurants/bars and retail trade will presumably remain. This suggests that the early-2012 pace of job growth will likely slow a bit over the coming months largely due to a wind-down of construction-related Revel jobs. The critical question is whether or not the rest of the *private* economy will continue to add jobs over the remainder of 2012. In particular, it seems unlikely that significant additional job gains in the public sector will materialize this year in light of continuing fiscal pressures.

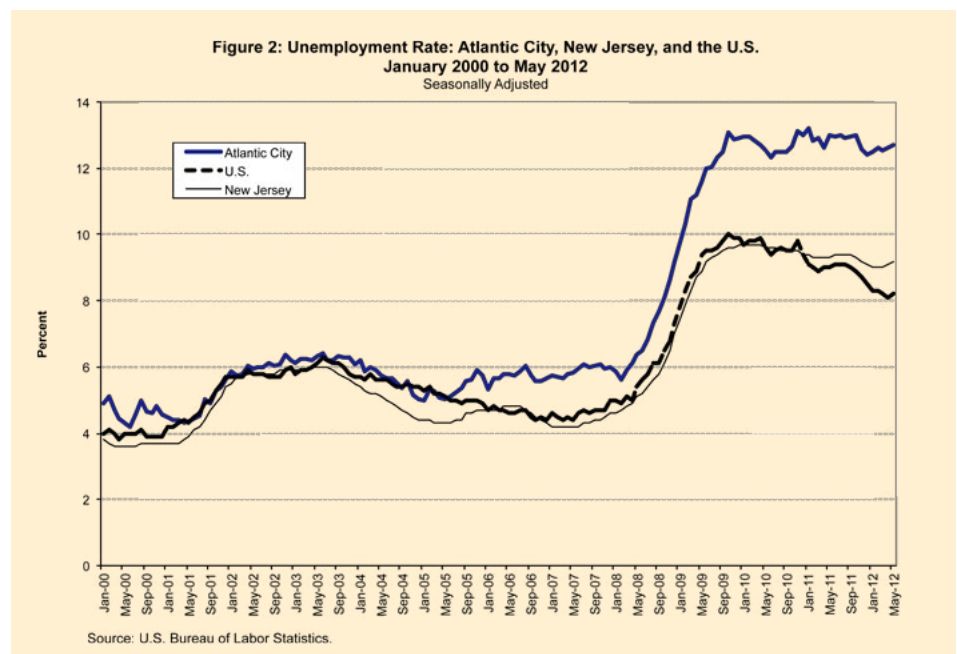
The unemployment rate in Atlantic City stood at a seasonally adjusted 12.7% in May, up slightly from April's 12.6% though below the year-earlier rate of 13% (Figure 2). The modest upticks in the metro area's unemployment rate in both April and May reflected large

increases in the labor force. These increases may in part have been a reflection of Revel-induced reentrancy by long-term discouraged workers into the local labor force. Statewide, the unemployment rate stood at 9.2% in May, one percentage point above the national rate.

While the acceleration in Atlantic City's rate of job growth this spring has unquestionably been a positive development for the local economy, more important is the question of

sustainability. Will the recent Revel-induced uptick in growth eventually propel a broader-based recovery? The path the national economy takes over the remainder of 2012 will figure prominently in the answer to this question. Unfortunately, after gathering steam in the final quarters of 2011, the national economy has slowed considerably in the first half of 2012. GDP growth fell to

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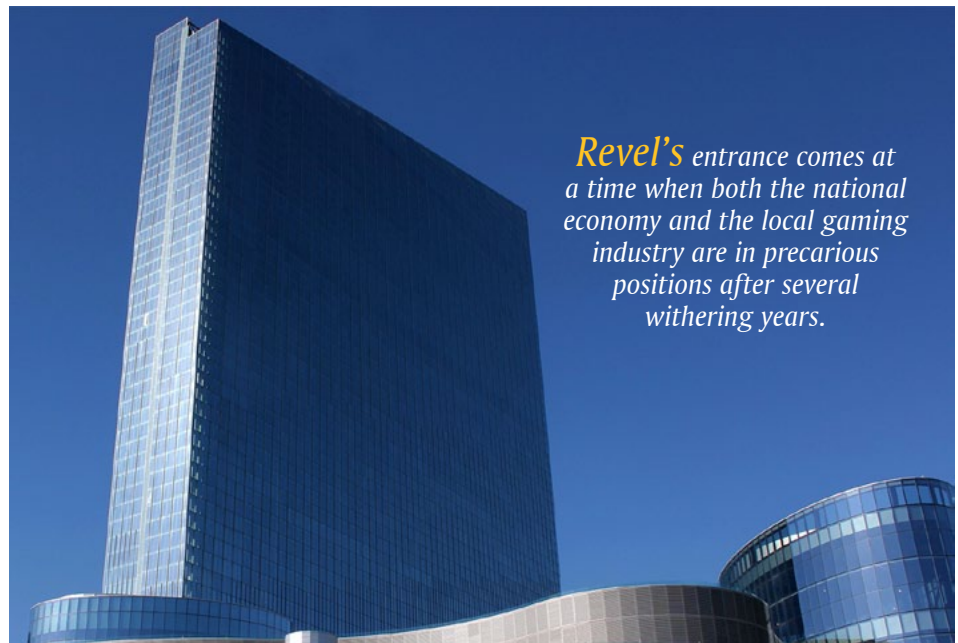


AC'S ECONOMY FLICKERS ON
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an annualized 1.9% in the first quarter of 2012, from 3% in the final quarter of 2011. Reflecting this slowing, the pace of job growth moderated considerably this spring. Meanwhile, the national unemployment rate, which had consistently trended down since last fall, actually rose in May and June.

While the ongoing uncertainty surrounding the European situation clearly played a role in the national economy's slowdown over the past two quarters, more worrying is the prospect that private-sector employers are delaying investment and hiring plans until after the presidential election this November. The issue of sequestration (part of Congress' negotiated debt-limit deal last summer) also looms large as significant automatic federal spending cuts are set to begin in early January unless Congress acts in coming months ahead of the deadline. In addition, while the Supreme Court's recent decision seemingly upheld the constitutionality of the Affordable Care Act, the Act's implementation—which begins in earnest next year—will continue to generate uncertainty over labor costs if only because of continued resistance by public officials in several large states (many of whom have vowed to continue to fight key aspects of the Act).

All told, these factors have dramatically raised the level of uncertainty surrounding the near-term direction of the U.S. economy. This heightened level of uncertainty will continue to check the pace of the national recovery—and, more importantly, private sector hiring—through much of the remainder of the year. This will ensure that the national unemployment rate remains elevated and that consumer confidence remains weak. Indeed, the Conference Board's recently released consumer confidence index fell to 62 in May—its lowest level since January—and far below the 90 reading that indicates a healthy economy. Continued weak housing markets (outside a few locales), labor markets, and confidence will translate into very careful consumers and households over the remainder of 2012. The Fed's recent policy announcement that it will extend its



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so-called “operation twist” program (which is designed to put downward pressure on longer-term interest rates and promote more accommodative financial conditions), noted that the rate of household spending growth has slowed in recent months.

In addition, while the arrival of Revel should help support renewed interest in Atlantic City this summer, it will also soon likely begin to affect other gaming operators—just as Borgata's entrance into the market did in mid-2003. Unlike Borgata's entrance, however, Revel's entrance comes at a time when both the national economy and the local gaming industry are in precarious positions after several withering years. Gross gaming revenue (GGR) has declined for five consecutive years since peaking at \$5.2 billion in 2006. Last year, GGR totaled \$3.3 billion—a 37% decline from the peak. In the two full years that followed Borgata's entrance into Atlantic City (2004 and 2005), the gaming industry saw GGR increase 7.3% and 4.4%, respectively. These radically changed industry conditions make it difficult to forecast Revel's near- and longer-term impact on the local gaming industry. But clearly, if the industry's gaming revenues begin to settle somewhere near the \$3.0–3.2 billion range over the coming few years (i.e., significant growth in gaming revenue does

not materialize), its longer-term success will grow increasingly more dependent upon non-gaming revenue. Operators without the requisite amenities and facilities to make the transition from a casino-driven business model to an entertainment-resort one will likely find profitability increasingly difficult to realize amid the proliferation of regional convenience gaming locales.

The immediate implication of all this for Atlantic City's economy is that this spring's strong pickup in job growth will likely fail to be sustained over the remainder of the year. At the same time, even if the rate of job growth in Atlantic City slows measurably—say to just 1–2% year-on-year—over the second half of this year, it seems likely that 2012 will mark an important turning point for the metro area's economy.

Job Growth around the State Accelerates

Similar to Atlantic City, the pace of job growth in the state's other metropolitan areas and divisions also accelerated through the first five months of 2012 (Table 2). Employment in Ocean City (Cape May County) was up 9.4% year-on-year, while Vineland-Millville-

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Table 2: Employment Growth: Jan-May 2011 vs. Jan-May 2012, New Jersey Metropolitan Areas and Divisions
(thousand jobs)

	New Jersey	Atlantic City	Camden	Edison-New Brunswick	Newark-Union	Ocean City	Trenton-Ewing	Vineland-Millville-Bridgeton	Bergen-Hudson-Passaic
Jan-May 2011	3,805.0	132.1	498.7	967.1	956.7	34.3	239.0	57.1	863.2
Jan-May 2012	3,852.7	135.9	502.7	971.0	966.8	37.6	242.0	58.9	871.6
Change	47.7	3.8	4.0	3.9	10.1	3.2	3.0	1.8	8.4
% Change	1.3%	2.9%	0.8%	0.4%	1.1%	9.4%	1.3%	3.1%	1.0%

Source: U.S. Bureau of Labor Statistics

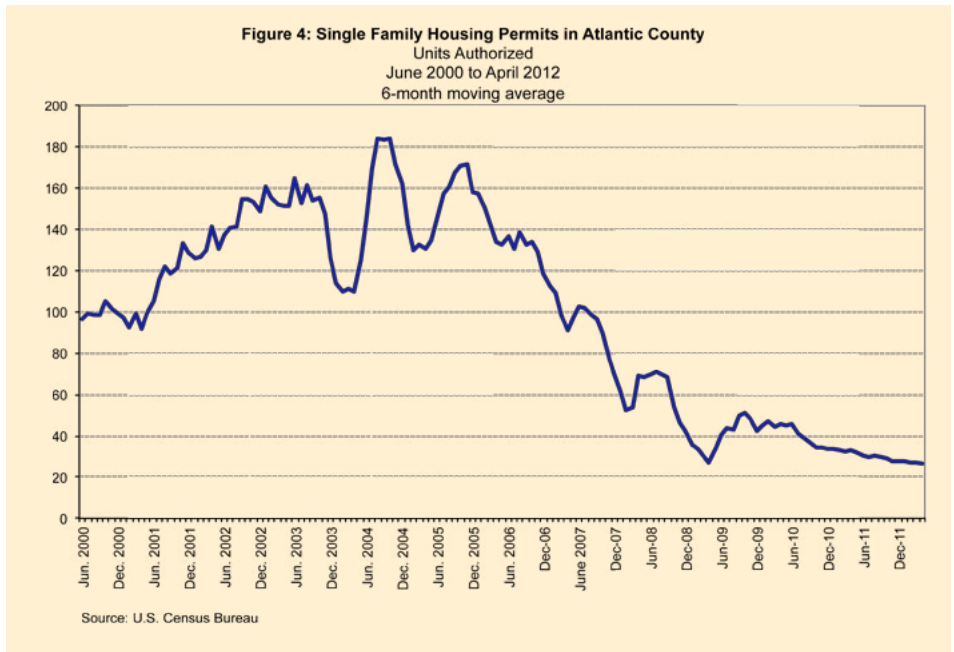
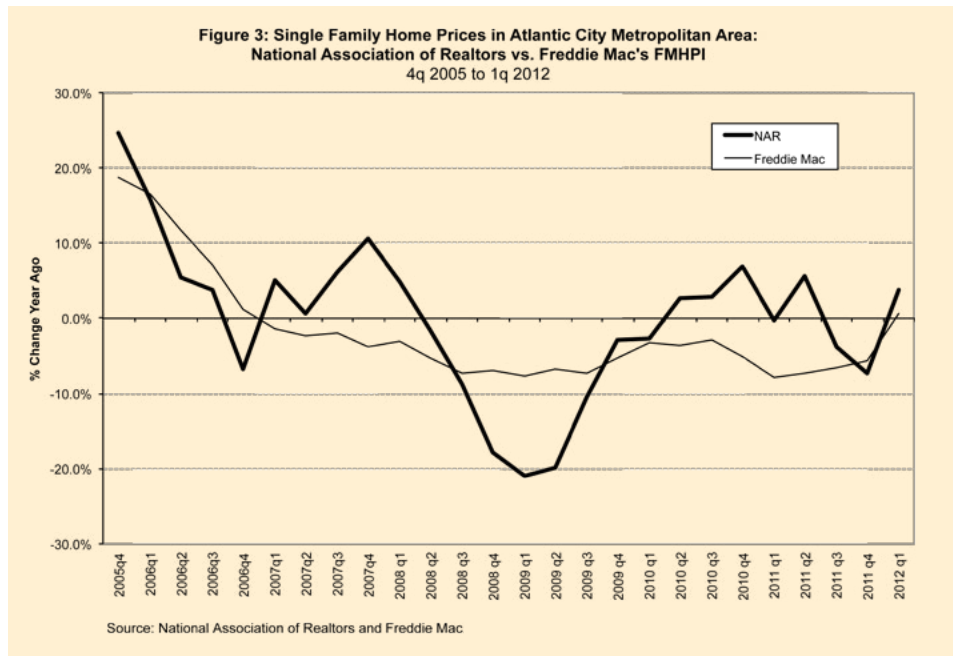
**JOB GROWTH AROUND THE STATE
ACCELERATES**

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Bridgeton (VMB) saw employment expand 3.1%. Average employment in the state's three southern metropolitan areas (Atlantic City, Ocean City, and VMB) during the January-May period this year was up 4% on 2011's total. Statewide employment during this same period increased by 1.3% (47,700 jobs)—a further indication that the state's grinding recovery, which really began in mid-2011, remains on course. May marked the 11th consecutive month in which the state recorded positive job gains on a year-on-year basis.

Atlantic City's Housing Market

Based on Freddie Mac's single-family home price index (FMHPI), home prices in the Atlantic City metropolitan area appear to have turned the corner (Figure 3). In the first quarter of 2012, home prices in the metro area were up a modest 0.7% compared to the first quarter of 2011. This increase represented the first quarterly increase in single family home prices recorded in Atlantic City since the fourth quarter of 2006. In the event this upward trend persists through the remainder of 2012, the fourth quarter of 2011 will represent the trough for Atlantic City single-family home prices. Based on their peak level (reached in the second quarter of 2006), single-family home prices in Atlantic City declined 25.4% during the national housing meltdown that began in late 2006. National Association of Realtors' single-family home price data—which have proven more volatile than the FMHPI over the past few years—showed single-family home prices in Atlantic City up 3.7% year-on-year in this year's first quarter.



The apparent turn in single-family home prices in Atlantic City this year is in part a reflection of the dearth of single-family homebuilding that has occurred over the past six years. As shown in Figure 4, the number of single-family homes authorized by building permit began to plummet in late 2005 and still shows little sign of reviving. In April, the six-month moving average of single family

units authorized stood at 26. This compares to the housing boom peak of 182 reached in late 2004. If the local economy continues to improve over the remainder of 2012, the continuing low level of homebuilding activity in Atlantic City should support modest single-family home price growth over the coming year. At the same time, significantly tightened mortgage lending standards will likely continue to delay robust price recovery for some time.

Great Recession Took Heavy Toll on Real Wages

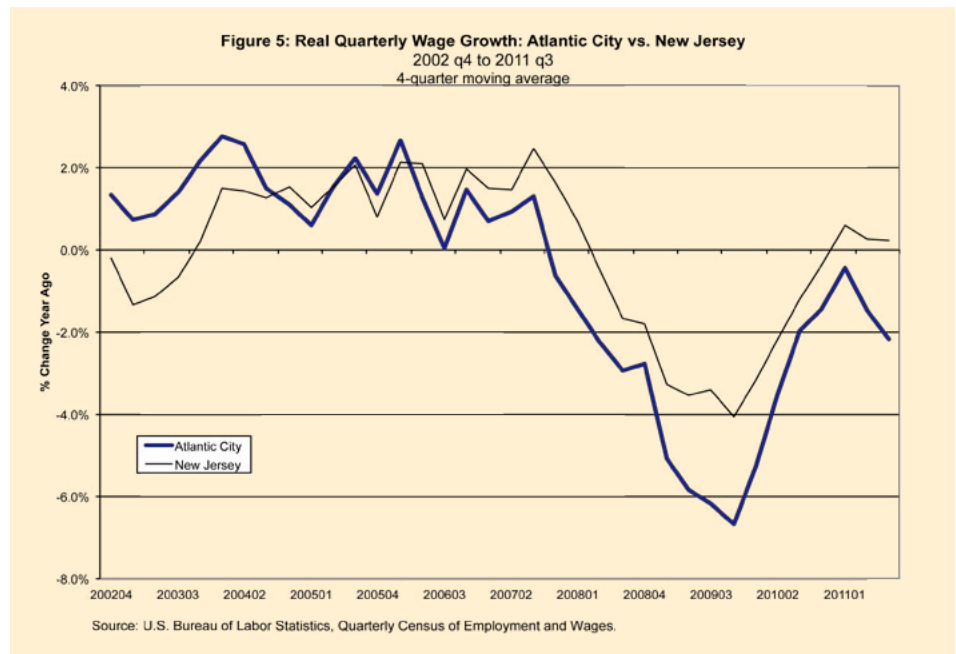
Figure 5 shows the disastrous effects the Great Recession inflicted upon real wage growth in Atlantic City and New Jersey. On a four-quarter moving average basis, real wages began to decline in the fourth quarter of 2007, in tandem with the onset of the national recession which officially began in December 2007. The rate of real wage decline in the metropolitan area continued to accelerate through the fourth quarter of 2009, when real wages were contracting at a 6.7% pace year-on-year. This compared to the 4.1% rate of real wage decline statewide during the same quarter. While the rate of real wage contraction in both Atlantic City and New Jersey moderated during the past two years, real wages in Atlantic City continued to contract through the third quarter of 2011 (the most recent quarter of data available). Statewide, real wages began growing once again in the first quarter of 2011.

If Atlantic City's recent job growth acceleration through the first part of 2012 proves sustainable, positive real wage growth could finally materialize later this year or early next year. However, given their decline during the Great Recession, real wages are unlikely to breach their pre-recession peak until 2014.

Cape May

Fueled by robust job growth in its critical leisure and hospitality sector (which, along with retail trade, accounts for 40% of its employment base), Cape May's economy came zooming back to life this spring after several trying years during the Great Recession (Figure 6). In May, total employment in the Ocean City metropolitan area (which is coincident with Cape May County) was expanding at a healthy 4.7% year-on-year clip. While the seasonality inherent in Cape May County's official establishment employment figures often makes interpretation of its economy's overall health difficult to gauge, this spring's acceleration in job growth suggests that local employers expect the summer of 2012 to mark a long-awaited turning point.

After declining for three consecutive years between 2009 and 2011, average employment for April and May in Cape May's leisure and hospitality sector surged this year, as employers expanded payrolls by 900 positions (a gain of 11% on 2011's payroll level). Six hundred of these jobs occurred



in the accommodations and food services industry. While a similar strong gain in retail trade employment did not materialize (retail trade employment was down by 100 jobs), it should be noted that the gain in leisure and hospitality employment this spring accounted

for only 38% of the total year-on-year job gain the metropolitan area recorded for the April–May period. In other words, the majority of this spring's job gains occurred *outside* the key leisure and hospitality sector—a very good sign for the local economy.

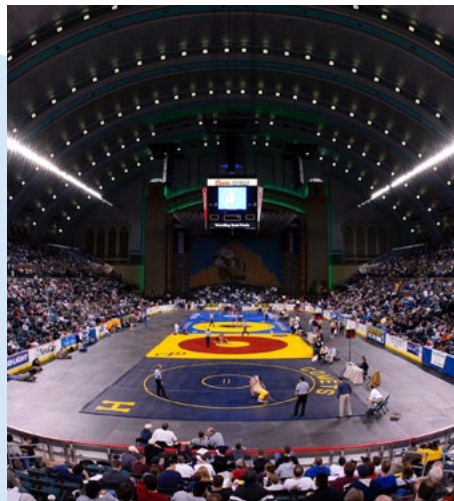
While this spring's acceleration in job growth is undoubtedly welcome news for Cape May's economy, the unemployment rate remains elevated. In May, the metropolitan area's seasonally adjusted unemployment rate stood at 13.2%—above its year-earlier reading, though below its September 2011 peak level of 13.7%.

SOUTH JERSEY ENTERTAINMENT INDEX TO DEBUT FALL 2012

As noted, non-gaming entertainment is widely expected to play a key role in Atlantic City's future economy. Indeed, the development of a greater and more diversified number of entertainment options is seen as the lynchpin to a strategy that aims to differentiate Atlantic City from the proliferation of alternative regional gaming options. The ability to track the health of a larger and more diversified Atlantic City entertainment industry will prove vital to regional stakeholders and policymakers in the years ahead.

In recognition of this important need, the SJER is currently developing the South Jersey Entertainment Index (SJEI). By drawing upon and pooling several relevant data sets, this index will track the performance of the local economy's broader hospitality and entertainment industry, including both its gaming and non-gaming components. This index (including a complete discussion of its methodology) will be produced quarterly beginning in the late fall of 2012.

If you would like to be electronically notified of the inaugural release of the SJEI, send an email to sjer@stockton.edu and include the word "index" in the subject line.



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