



THE SOUTH JERSEY ECONOMIC REVIEW

Winter 2011

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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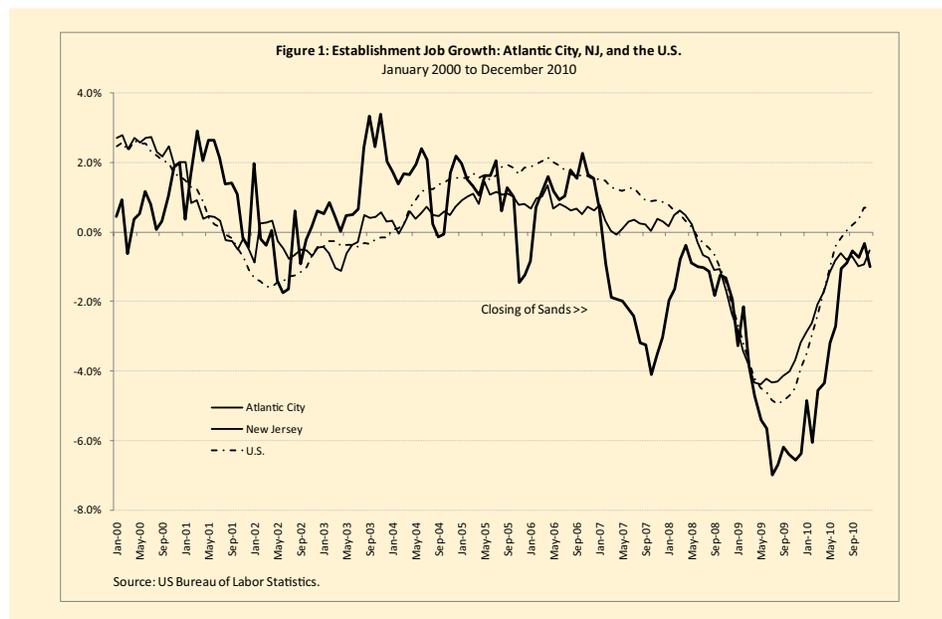
NATIONAL ECONOMIC SITUATION

Several indicators suggest that the national economic situation continues to gradually improve. The Bureau of Economic Analysis' (BEA) advance fourth-quarter GDP release indicated that real GDP growth accelerated to 3.2% from 2.6% in the third quarter. The acceleration in real GDP in the fourth quarter reflected an acceleration in personal consumption expenditures, a marked downturn in imports, and an upturn in residential fixed investment. These gains were offset by a significant downturn in private inventory investment as well as a decrease in government spending. BEA data released in late November indicated that corporate profits reached a record annual rate of \$1.66 trillion dollars in the third quarter. (Fourth-quarter and year-end data will be released in March.) The corporate sector's strong rebound has been reflected in equity markets—the S&P 500 is up nearly 11% since the end of November.

The national unemployment rate edged down to 8.9% in February from 9% in January. The total cumulative decline in the unemployment rate in December and January (-0.8 per-

centage points) was the fourth largest ever recorded. (Consecutive monthly declines of -0.9 percentage points occurred three times in the 1950s.) Most importantly, the most recent jobs report suggests that private sector hiring—the key to the economy's recovery—has begun to pick-up. Private sector payrolls added 222,000 jobs in February, the largest increase since April, 2010. Gains were broad based with the largest increases recorded in professional and business services, construction, manufacturing, health and social services, and transportation and warehousing. A decline in public sector payrolls of 30,000 brought the total change in payroll jobs to 192,000.

New Jersey. Recent jobs and unemployment data suggest that the pace of the Garden State's recovery from the Great Recession remains anemic. In December, employment in New Jersey was contracting at a 0.8% year-on-year pace. (Figure 1) As Table 1 shows, New Jersey lost 4.9% of its employment base between December, 2007 and June, 2009 (from peak to trough), ranking it 28th among the states. Since the recession's trough, however, New Jersey has



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seen its jobs base shrink an additional 1.5%, ranking it 47th among the states. Alternatively, only three states (Nevada, Rhode Island, and

Georgia) have recorded larger job losses (in percentage terms) since the recovery's official onset. Finally, while the state's unemployment rate improved steadily last year, this largely reflected a shrinking labor force during the second half of the year.

Atlantic City

Last fall brought preliminary signs that Atlantic City's economy was beginning to stabilize. More recent employment data indicate that the road to stabilization will be bumpy. Year-on-year job losses improved to an average -800 between July and October of last year compared to 8,100 in 2009 and 5,200 in the first half of last year. Job losses in the final two months of last year, however, averaged 2,300. (Figure 2) In December, establishment employment in the metropolitan area was contracting 2.3% year-on-year—significantly worse than New Jersey's -0.8% and the nation's +0.9%.

Unemployment in the Atlantic City metropolitan area—a seasonally adjusted 12% in December—remains extremely elevated. New Jersey's unemployment rate stood at 9.1% in December. The number of unemployed individuals in the metropolitan area was approximately 16,400 in December. While the number of unemployed in Atlantic City has declined since mid-2009 (when the national recession officially ended), it remains two times its December 2007 level (the official onset of the national recession).

Atlantic City 2010 in Review

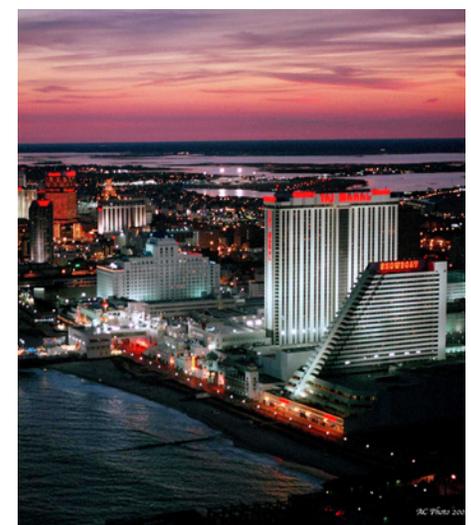
Last year marked the fourth straight in which establishment employment declined in Atlantic City. (Camden and Vineland-Millville-Bridgeton also recorded their fourth consecutive year of job losses in 2010.) Last year's job loss, which totaled 3,200, was far less than 2009's decline (-8,100), though greater than 2008's loss of -2,000. (Figure 3)

The key leisure and hospitality sector (which includes hotel casinos, restaurants/bars, and arts and entertainment) saw

Table 1: Employment Losses and Gains Across the States

State	Peak-Trough		Since Trough	
	December 2007-June 2009	Rank	June 2009-December 2010	Rank*
Nevada	-11.6%	50	-3.1%	50
Rhode Island	-6.0%	35	-2.1%	49
Georgia	-6.6%	39	-1.9%	48
New Jersey	-4.9%	28	-1.5%	47
Alabama	-6.3%	37	-1.4%	46
Missouri	-4.2%	21	-1.3%	45
Delaware	-5.3%	30	-1.2%	44
California	-7.3%	44	-1.2%	43
Colorado	-4.8%	27	-1.2%	42
New Mexico	-4.5%	23	-1.1%	41
West Virginia	-1.5%	4	-1.1%	40
Montana	-3.8%	18	-0.9%	39
Ohio	-6.9%	41	-0.9%	38
Kansas	-3.2%	11	-0.8%	37
Illinois	-5.6%	32	-0.7%	36
Florida	-8.9%	47	-0.7%	35
Connecticut	-4.8%	26	-0.6%	34
Washington	-4.6%	24	-0.6%	33
Wyoming	-2.6%	9	-0.6%	32
Mississippi	-5.3%	31	-0.5%	31
New York	-2.7%	10	-0.5%	30
Oregon	-7.4%	45	-0.5%	29
Wisconsin	-4.9%	29	-0.4%	28
Maine	-4.4%	22	-0.2%	27
Hawaii	-5.9%	34	-0.2%	26
North Carolina	-6.4%	38	-0.2%	25
Vermont	-4.1%	20	-0.2%	24
Maryland	-3.4%	13	-0.1%	23
Idaho	-7.5%	46	-0.1%	22
Michigan	-9.8%	48	-0.01%	21
Virginia	-3.5%	14	0.03%	20
Iowa	-3.3%	12	0.05%	19
Minnesota	-4.6%	25	0.28%	18
Arizona	-9.8%	49	0.3%	17
Utah	-6.1%	36	0.3%	16
Tennessee	-7.2%	42	0.3%	15
Louisiana	-1.8%	5	0.4%	14
Oklahoma	-2.5%	8	0.4%	13
Nebraska	-2.2%	6	0.4%	12
South Dakota	-1.2%	3	0.4%	11
Pennsylvania	-3.7%	15	0.4%	10
Arkansas	-3.8%	19	0.5%	9
Indiana	-7.2%	43	0.5%	8
Massachusetts	-3.7%	16	0.6%	7
Alaska	0.3%	2	0.8%	6
South Carolina	-6.9%	40	0.9%	5
Kentucky	-5.8%	33	0.9%	4
Texas	-2.3%	7	1.6%	3
North Dakota	1.4%	1	1.6%	2
New Hampshire	-3.8%	17	2.4%	1
United States	-5.4%		-0.2%	

*States appears in ascending order of job growth (loss) since trough.
 Source: US Bureau of Labor Statistics.



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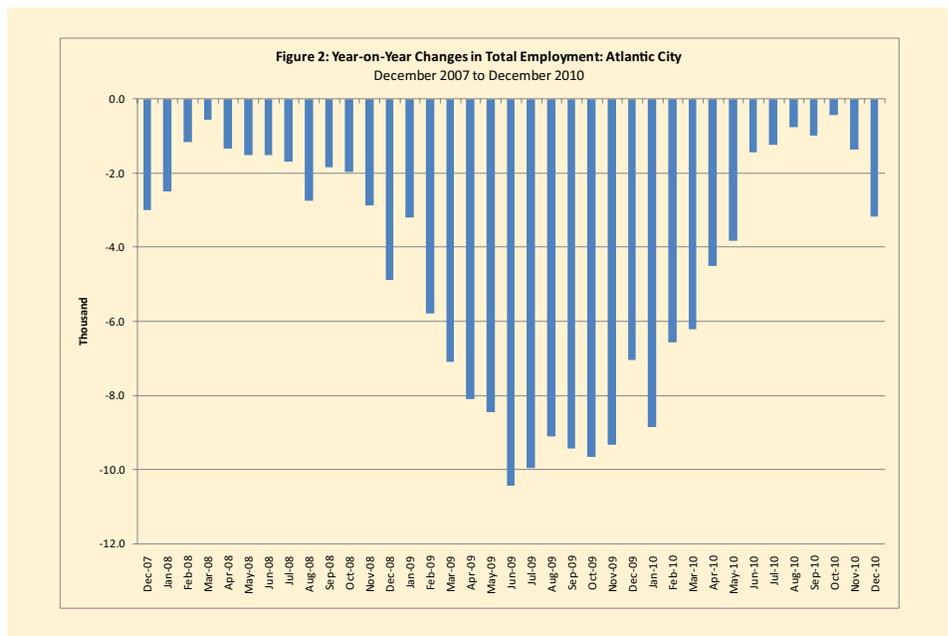
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employment decline by 1,600 jobs last year, a 3.2% decline. While last year's job loss in leisure and hospitality was less than 2009's, it accounted for 51% of all job losses in the metropolitan area, up from 43% in 2009 and 22% in 2008. (The sector's losses accounted for all job losses in the metropolitan area in 2007). The leisure and hospitality sector's share of total metropolitan area employment has declined to 36% from 38.7% in 2005.

The remainder of last year's job loss was broad based. The most significant losses (in absolute terms) occurred in construction (-700), manufacturing (-400), and professional and business services (-300). These three industries are also those that recorded the largest job losses (again, in absolute terms) in the metropolitan area since 2006. As has been the case for several years, the metropolitan area's educational and health services sector was the only sector that recorded job gains (+700) in 2010. Unlike past years, however, the employment gains in this sector last year were largely concentrated outside hospitals.

Preliminary personal income data for



metropolitan areas released by the US Bureau of Economic Analysis show that real personal income in Atlantic City declined 0.3% in 2008 and 2009. This represented only the second time since 1969 (the first year for which these data are available) that real personal income in the metropolitan area declined in consecutive years. (Real personal income in Atlantic City

also declined in 1990 (-2.1%) and 1991 (-4.5%).) Statewide, real personal income declined 1.3% and 2.2% in 2008 and 2009, respectively. As Figure 4 shows, transfer receipts (which, among other things, include unemployment insurance payments and income maintenance

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Figure 3: Establishment Employment Detail: Atlantic City, NJ

Sector/Industry	Average Annual Employment (000)				2007-2008		2008-2009		2009-2010	
	2007	2008	2009	2010	Change	% Change	Change	% Change	Change	% Change
Total Nonfarm	150.2	148.2	140.1	136.8	-2.0	-1.4%	-8.1	-5.5%	-3.2	-2.3%
Total Emp w/NJCCC data	153.3	150.7	142.8	139.6	-2.5	-1.7%	-7.9	-5.3%	-3.2	-2.2%
Total Private	127.6	125.8	118.0	114.9	-1.8	-1.4%	-7.8	-6.2%	-3.1	-2.6%
Leisure and Hospitality	54.7	54.2	50.7	49.1	-0.4	-0.8%	-3.5	-6.5%	-1.6	-3.2%
Accommodation	41.1	40.6	37.0	35.0	-0.4	-1.1%	-3.7	-9.0%	-1.9	-5.2%
Casino Hotels (NJDOL)	38.6	38.2	34.8	33.4	-0.5	-1.2%	-3.4	-8.8%	-1.4	-4.1%
Casino Hotels (NJCCC*)	41.7	40.7	37.6	36.2	-0.9	-2.3%	-3.1	-7.7%	-1.4	-3.8%
Food Services/Drinking Places	11.8	11.7	11.9	11.8	-0.1	-1.1%	0.2	1.7%	-0.1	-1.0%
Accommodation and Food Services	52.9	52.3	48.9	46.8	-0.6	-1.1%	-3.5	-6.6%	-2.0	-4.2%
Manufacturing	3.8	3.3	2.6	2.2	-0.5	-13.0%	-0.8	-23.3%	-0.4	-14.7%
Construction, Mining, Nat'l Resources	6.9	6.9	5.3	4.6	-0.1	-1.1%	-1.6	-23.3%	-0.7	-13.3%
Financial Activities	4.5	4.5	4.3	4.1	0.0	0.2%	-0.2	-4.4%	-0.2	-5.2%
Information	1.1	1.1	1.0	0.9	-0.1	-8.0%	-0.1	-4.8%	-0.1	-7.5%
Educational and Health Services	18.2	18.3	18.5	19.1	0.0	0.2%	0.2	1.0%	0.7	3.5%
Hospitals	6.2	6.3	6.4	6.5	0.1	1.6%	0.1	0.8%	0.1	1.7%
Government	22.7	22.4	22.1	22.0	-0.3	-1.1%	-0.3	-1.3%	-0.1	-0.6%
Federal Government	2.7	2.6	2.7	2.8	-0.1	-4.3%	0.1	3.2%	0.1	3.8%
State Government	3.9	3.7	3.1	3.1	-0.2	-4.7%	-0.6	-17.2%	0.0	0.0%
Local Government	16.0	16.2	16.3	16.1	0.1	0.9%	0.1	0.9%	-0.2	-1.3%
Profess. and Business Services	11.5	10.5	9.8	9.4	-1.0	-9.0%	-0.7	-6.9%	-0.3	-3.2%
Retail Trade	16.4	16.2	15.5	15.5	-0.2	-1.4%	-0.6	-3.9%	0.0	-0.3%
Wholesale Trade	3.0	3.2	3.1	2.9	0.2	6.6%	-0.1	-4.4%	-0.1	-4.1%
Transportation, Warehousing, and Utilities	2.9	3.0	2.6	2.5	0.1	2.3%	-0.4	-12.2%	-0.2	-5.7%
Other Services	4.4	4.7	4.6	4.5	0.3	6.1%	0.0	-0.7%	-0.1	-2.2%

Source: New Jersey Department of Labor and Workforce Development.

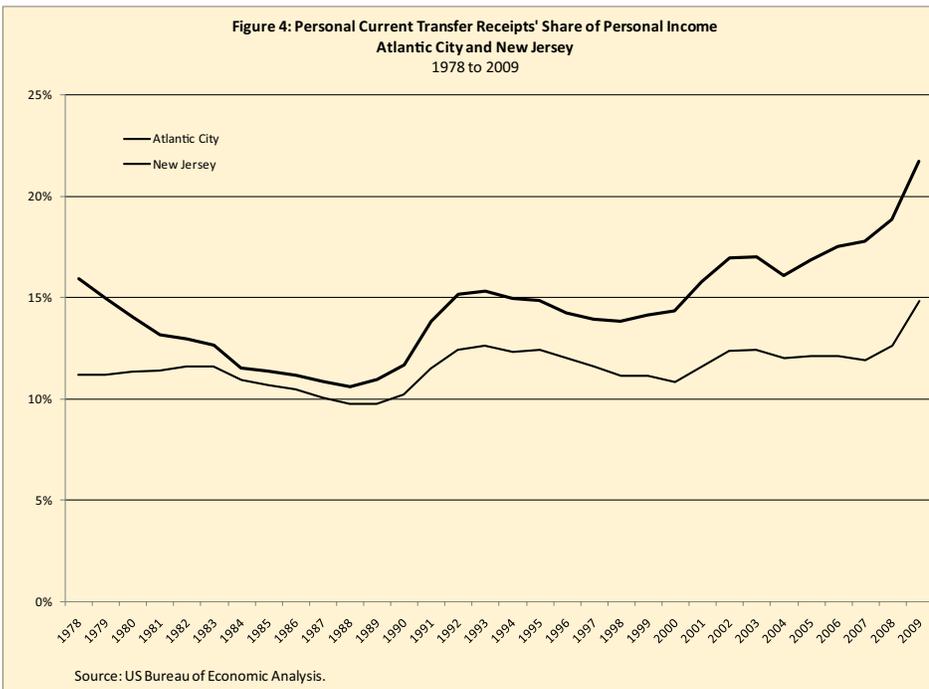
Table 2: Establishment Employment Change in New Jersey's Metro Areas
4th Quarter 2007 to 4th Quarter 2010

Metropolitan Area/Division	4Q 2007	4Q 2010	Change	% Change
Atlantic City (Atlantic County)	149.4	135.9	-13.4	-9.0%
Camden (Burlington, Camden & Gloucester)	545.0	508.9	-36.1	-6.6%
Edison (Middlesex, Somerset, Monmouth & Ocean)	1,048.7	966.7	-82.0	-7.8%
Newark-Union (Hunterdon, Union, Essex, Sussex & Morris)	1,048.3	968.2	-80.0	-7.6%
Trenton-Ewing (Mercer County)	242.1	233.8	-8.3	-3.4%
Vineland - Millville - Bridgeton (Cumberland)	62.9	59.6	-3.3	-5.2%
Bergen-Hudson-Passaic (Bergen, Hudson & Passaic)	922.2	850.3	-71.9	-7.8%
New Jersey*	4,116.9	3,865.0	-251.9	-6.1%

* Due to estimation methodology, the metro areas/divisions do not sum to state total.
Source: New Jersey Department of Labor and Workforce Development.

Jersey, the number of unemployed individuals more than doubled in every county in the state (save Cape May) between the fourth quarters of 2007 and 2010. (Table 3) The largest percentage increase occurred in Hunterdon County (+139.8%), while the smallest (+83.7%) occurred in Cape May. Owing to these counties' small labor forces, however, their unemployed populations accounted for very small proportions of total statewide unemployment. Reflecting the size of their labor forces, Bergen, Essex, and Middlesex accounted for 27% of total unemployment statewide in the fourth quarter of last year. As shown in the two right-most columns of Table 3, the county distribution of unemployment remained fairly constant during the past three years. Bergen County recorded the largest increase in the share of statewide unemployed (from 8.5% to 9.5%), while Essex recorded the largest decrease (to 8.9% from 10.4%).

Figure 4: Personal Current Transfer Receipts' Share of Personal Income
Atlantic City and New Jersey
1978 to 2009



Housing Market

Home price and start data in recent months suggest that the national housing market picture remains bleak. Indeed, many analysts fear that a double-dip in the national housing market has either already set in (in the aftermath of federal programs that temporarily lifted the market last spring) or is eminent.

National Association of Realtors (NAR) data indicate that home prices in the Atlantic City metropolitan area were up 7% in last year's fourth-quarter. (Figure 5) NAR data show that single family home prices increased 2.3% last year in the metropolitan area, following a 12.6% decline in 2009. At the same time, Freddie Mac's Conventional Home Mortgage Price Index (CHMPI) for Atlantic City shows that single-family home prices continued to decline last year—though the pace of decline eased considerably during the second half of the year.

While the true trajectory of regional home prices thus remains somewhat ambiguous, permit data clearly indicate that local homebuilders remain extremely cautious. The six-month average for single-family home permits stood at 33.5 units in December, down 21% from December, 2009, and off 82% from the October, 2004 peak level of 184. (Figure 6) Employment in the metropolitan area's construction industry, moreover, continues to reflect the fallout of the housing market crash. Last year, construction employment accounted for just 3.3% of the metropolitan area's total employment base—an historical low.

program monies) played a significant role in boosting personal income in the metropolitan area over the past two years. In 2009, transfer receipts accounted for nearly 22% of total personal income in Atlantic City. (The median for all US metropolitan areas was 19.8% in 2009.) Statewide, transfer receipts accounted for 14.8% of total personal income in 2009.

Assessing the Great Recession's Toll on New Jersey's Metropolitan Areas

Employment. Between the fourth quarter of 2007 (the official onset of the Great Recession) and last year's fourth quarter, New Jersey's

employment base contracted 6.1%—representing a job loss of 252,000 jobs. Table 2 shows the distribution of these job losses across the state's metropolitan areas. As shown, Atlantic City's loss of 13,400 jobs during this period represented a 9% decline—the largest percentage decline among the state's metropolitan areas/divisions. The 7.8% employment contraction recorded by both Edison and Bergen-Hudson-Passaic represented the second-largest declines across the state's metro areas. The smallest decline (-3.4%) occurred in the Trenton-Ewing metropolitan area.

Unemployment. Reflecting the breadth and severity of the Great Recession across New

Table 3: No. Unemployed Across the State's Counties and Metro Areas

County/Metro Area/Division	4q 2007	4q 2010	Change	% Change	County's Share State Unemployed 4q 2007	County's Share State Unemployed 4q 2010
ATLANTIC CITY (Atlantic County)	7,534	16,238	8,704	115.5%	4.1%	4.1%
Camden	12,286	26,779	14,493	118.0%	6.7%	6.8%
Burlington	8,991	19,952	10,961	121.9%	4.9%	5.1%
Gloucester	6,350	14,569	8,218	129.4%	3.5%	3.9%
CAMDEN (BURLINGTON, CAMDEN & GLOUCESTER)	27,628	61,300	33,673	121.9%	15.1%	15.8%
Middlesex	15,491	33,551	18,060	116.6%	8.5%	8.5%
Somerset	5,228	11,940	6,712	128.4%	2.9%	3.1%
Monmouth	11,824	26,184	14,359	121.4%	6.5%	6.7%
Ocean	11,550	25,183	13,633	118.0%	6.3%	6.4%
EDISON (MIDDLESEX, SOMERSET, MONMOUTH & OCEAN)	44,093	96,857	52,764	119.7%	24.1%	24.8%
Hunterdon	1,903	4,547	2,644	138.9%	1.0%	1.2%
Union	11,309	24,281	12,972	114.7%	6.2%	6.1%
Essex	18,978	37,992	19,014	100.2%	10.4%	8.9%
Sussex	3,007	7,133	4,126	137.2%	1.6%	1.9%
Morris	7,787	17,606	9,819	126.1%	4.3%	4.6%
NEWARK-UNION (HUNTERDON, UNION, ESSEX, SUSSEX & MORRIS)	42,984	91,558	48,574	113.0%	23.5%	22.8%
TRENTON-EWING (MERCER COUNTY)	7,214	14,949	7,735	107.2%	3.9%	3.6%
VINELAND - MILLVILLE - BRIDGETON (CUMBERLAND COUNTY)	4,135	8,835	4,700	113.6%	2.3%	2.2%
Bergen	15,522	35,804	20,282	130.7%	8.5%	9.5%
Hudson	14,049	30,455	16,406	116.8%	7.7%	7.7%
Passaic	12,171	24,694	12,523	102.9%	6.7%	5.9%
BERGEN-HUDSON-PASSAIC (BERGEN, HUDSON & PASSAIC)	41,743	90,953	49,210	117.9%	22.8%	23.1%
Cape May	3,784	6,950	3,166	83.7%	2.1%	1.5%
Warren	2,149	4,963	2,814	130.9%	1.2%	1.3%
Salem	1,527	3,340	1,813	118.8%	0.8%	0.9%
County Total*	182,790	395,943	213,152.7	116.6%	100.0%	100.0%
New Jersey	199,178	414,135	214,957	107.9%		

* Due to estimation methodologies, county total does not sum to state total.
 Source: US Bureau of Labor Statistics

Figure 5: Single Family Home Prices in Atlantic City
 Fourth Quarter 2005 to Fourth Quarter 2010



Sources: National Association of Realtors and Freddie Mac.

Evolutions in Atlantic City Gaming Industry's Revenues 2004-2010

Among the most important questions facing the Atlantic City gaming industry (both casino operators and policymakers) regards the evolving significance of different types of revenues to the industry's overall health. More specifically, changes in operators' market shares should reflect evolutions in the respective contributions different revenue streams make to total industry revenue and operators' success in responding to those revenue dynamics. This is especially true in light of the heightened competitive regional gaming landscape and the subsequent decline in daytrip or convenience gamblers to Atlantic City's gaming halls over the past few years.

The following analysis sheds light on the nature of the industry's revenue dynamics

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



Source: U.S. Census Bureau.



over the past seven years (from 2004 to 2010).¹ While the analysis reveals several insights – some obvious, others less so – among the most important appears to be that (at least on the revenue side of the equation) the correlation between size (as measured by room market share) and total revenue market share increased during the period. In other words, “bigger” increasingly came to mean “better” in terms of revenue—at least over this period which was marked not only by heightened regional gaming competition but also by the most significant national recession since the Great Depression. At the same time, the analysis that follows turns

up several important caveats that caution against assuming that this (unsurprising) finding implies that there is but *one* model for “success” in Atlantic City’s gaming industry. Indeed, as the Great Recession recedes into the past, and as the region’s gaming market embarks on its next phase, it will face a new set of market conditions which may or may not validate models that proved successful during the past several years. Finally, it should be pointed out that the ultimate financial success of industry operators is a function of *both* revenues and costs (as well as larger issues related to the financial health of parent corporations). The analysis presented here

focuses solely on revenues and thus captures but one part of the story.

All of the data referenced in the text that follows are presented in the tables and figures that appear on pages 7 and 11-14. All data were derived from New Jersey Casino Control Commission publications. (One final note: the 2010 figures presented in the table and figures were estimated based on year-to-date rates of growth through the first three quarters of 2010.)

Total Revenue and Market Share

Between 2004 and 2010, industry-wide total revenue (gaming and non-gaming) declined approximately 18% (from \$5.9 to \$4.8 billion). During this period, only two operators recorded increases in total revenue (Harrah’s (+ 17.9%) and Borgata (+ 10.4%). (Table B, p.12) Five operators, however, gained market share (based on total revenue) during this period. In rank order from largest percentage point gain to smallest these were: Borgata (5.1), Harrah’s (4.2), Trump Taj Mahal (1.0), Caesars (0.8), and Tropicana (0.6). Showboat’s share of industry-wide total revenue remained constant during the period at 8.1%. The industry’s remaining operators lost market share, with the largest declines experienced by AC Hilton (-2.0) and Trump Plaza (-1.7).

Bigger and Better?

Figure A (p.12) shows the relationship between operators’ share of the industry’s total room count in 2010 and their shares of total industry revenue. (All data for Figures A-I are also presented in Table A.) Borgata and Harrah’s held the largest market shares of total revenue at 19.4% and 13.5%, respectively. These two operators also accounted for the largest shares of rooms at 16.2% and 15.2%. Moreover, the four operators located in Figure A’s southwestern-most portion (AC Hilton, Resorts, Trump Marina, and Trump Plaza) had room shares and total revenue shares that lie between 3.8% and 5.5%. Taking *these* six properties alone, there does appear to be an important positive relationship between size (measured in room market share) and total revenue market share.

At the same time, the group of operators encircled in Figure A suggests that this relationship is not as straight-forward as first appears. Consider first a comparison of Caesars, Bally’s, and the Taj Mahal. These three operators’ revenue market shares are nearly identical (roughly 11%). But, their room shares vary widely from 6.7% (Caesars) to 11.8% (Taj

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Table A: Market Share of Rooms and Revenue Categories in Atlantic City's Gaming Industry, 2004-2010												
Panel A	ROOMS						TOTAL REVENUE			CASINO REVENUE		
	No. Rooms		% Change in Room Count	Market Share		Chg. Market Share (pps.)	Market Share		Chg. Market Share (pps.)	Market Share		Chg. Market Share (pps.)
	Casino/Year	2004	2010	2004-2010	2004	2010	2004-2010	2004	2010	2004-2010	2004	2010
AC Hilton	804	809	0.6%	5.3%	4.7%	-0.6	6.1%	4.2%	-2.0	6.1%	4.5%	-1.6
Bally's AC	1,745	1,705	-2.3%	11.5%	10.0%	-1.5	13.3%	11.8%	-1.6	13.5%	12.2%	-1.3
Borgata	2,000	2,769	38.5%	13.2%	16.2%	3.0	14.3%	19.4%	5.1	13.2%	17.9%	4.7
Caesars	1,140	1,141	0.1%	7.5%	6.7%	-0.8	10.1%	11.0%	0.8	10.3%	11.9%	1.6
Harrah's	1,630	2,590	58.9%	10.8%	15.2%	4.4	9.3%	13.5%	4.2	9.4%	13.0%	3.6
Resorts	879	942	7.2%	5.8%	5.5%	-0.3	5.0%	4.0%	-1.0	5.2%	4.3%	-0.9
Sands	620	N/A	N/A	4.1%	N/A	N/A	3.8%	N/A	N/A	4.0%	N/A	N/A
Showboat	1,309	1,331	1.7%	8.6%	7.8%	-0.8	8.1%	8.1%	0.01	8.2%	8.3%	0.1
Tropicana	2,125	2,129	0.2%	14.0%	12.5%	-1.6	7.9%	8.4%	0.6	7.6%	7.9%	0.3
Trump Marina	728	728	0.0%	4.8%	4.3%	-0.5	5.4%	3.8%	-1.6	5.5%	3.9%	-1.6
Trump Plaza	904	906	0.2%	6.0%	5.3%	-0.7	6.5%	4.7%	-1.7	6.6%	4.9%	-1.7
Trump Taj Mahal	1,250	2,010	60.8%	8.3%	11.8%	3.5	10.2%	11.2%	1.0	10.5%	11.3%	0.8
Industry	15,134	17,060	12.7%	100%	100%	-	100.0%	100.0%	-	100%	100%	-

Panel B	ROOM REVENUE			FOOD & BEVERAGE REVENUE			OTHER REVENUE		
	Market Share		Chg. Market Share (pps.)	Market Share		Chg. Market Share (pps.)	Market Share		Chg. Market Share (pps.)
	Casino/Year	2004	2010	2004-2010	2004	2010	2004-2010	2004	2010
AC Hilton	5.3%	2.9%	-2.4	6.1%	3.7%	-2.4	7.9%	2.3%	-5.6
Bally's AC	11.4%	9.6%	-1.8	13.8%	12.3%	-1.5	13.3%	8.6%	-4.7
Borgata	19.7%	22.3%	2.6	19.2%	25.3%	6.2	14.8%	24.0%	9.2
Caesars	8.1%	7.7%	-0.4	9.5%	8.7%	-0.8	12.1%	8.9%	-3.2
Harrah's	11.3%	15.6%	4.3	8.5%	14.7%	6.1	5.3%	15.0%	9.7
Resorts	4.2%	2.9%	-1.3	3.7%	3.3%	-0.4	5.3%	1.9%	-3.4
Sands	2.5%	N/A	N/A	3.5%	N/A	N/A	2.5%	N/A	N/A
Showboat	9.0%	7.3%	-1.7	7.8%	8.1%	0.2	3.2%	5.6%	2.4
Tropicana	10.9%	13.2%	2.3	7.6%	7.2%	-0.4	9.1%	10.1%	1.0
Trump Marina	4.3%	3.0%	-1.3	5.2%	3.3%	-2.0	7.2%	4.8%	-2.5
Trump Plaza	5.6%	4.5%	-1.1	6.1%	3.9%	-2.2	6.7%	4.4%	-2.4
Trump Taj Mahal	7.6%	11.0%	3.4	9.0%	9.6%	0.6	12.6%	14.6%	1.9
Industry	100%	100%	-	100%	100%	-	100%	100%	-

Source: New Jersey Casino Control Commission and author calculations.

Mahal). A similar relationship exists between Showboat and Tropicana. Next, consider a comparison of Tropicana, Taj Mahal, Bally's, and Caesars. Tropicana's room share (12.5%) is greater than these other operators' and yet its revenue market share is considerably less.

Putting the two foregoing paragraphs together, the conclusion would seem to be: a positive relationship between size (in terms of room market share) and total revenue market share holds for the top and bottom strata of the industry (where top and bottom are measured in terms of revenue market share), but does not necessarily hold (at least

to the same extent) for the middle strata of the industry.² The analysis presented below delves further into this issue by comparing the complex relationships that exist among revenue market shares, and other types of revenues captured by market operators.

The Relationship between Rooms, Room Revenue, and Total Revenue

Figures B, C, and D provide further evidence of the complex relationship that exists between rooms, room revenue, and total revenue. Figure B reveals the relationship between changes in operators' market share of

the industry's total room count and changes in market share of total revenue during the 2004-2010 period. As shown, only three operators recorded increases in room market share (Harrah's, Taj Mahal, and Borgata). These gains reflect the additions to these operators' room counts during the period. (Table B) While Borgata's and Harrah's position in the northeast quadrant of Figure B (along with the collection of operators occupying the southwest quadrant) suggest that increases (decreases) in room market share supported



increases (decreases) in total revenue market share, there are at least three outliers that suggest that the relationship between rooms and total revenue is more nuanced.

First, the increase in the number of rooms at the Taj Mahal (61%) – the largest percentage increase among all operators during the period – clearly translated into additional room market share. At the same time, the Taj Mahal's increase in room market share did not allow it to reap anywhere near the increase in revenue market share experienced by Borgata and Harrah's. Second, both the Tropicana and Caesars lost room market share during the period, but managed modest gains in revenue market share. Moreover, despite losing room market share during the period, the Tropicana actually gained *room revenue* market share. Comparing Tropicana and Caesars with the Taj Mahal highlights the broader point that capturing room market share was *not a necessary condition* for gaining total revenue market share. Third, a comparison of the Tropicana and Bally's serves to further underscore the complexities underlying the relationship between changes in room market share and total revenue market share. Whereas both operators experienced equal declines in room market share, Tropicana managed a modest increase in market share, while Bally's suffered a decline in revenue market share between 2004 and 2010.

Figure C provides an alternative version of the same story. In particular, it shows the

relationship between *changes* in total revenue market share and room market share in 2010.³ Once again, there appears to be a positive relationship between changes in total revenue market share and room market share (in 2010). (A positively sloped trend line (running from the southwestern quadrant of the figure to the northeastern quadrant) could clearly be fitted to the scatter plot.) In other words, it appears that eventual size (measured in terms of room market share in 2010) mattered (in terms of gains in total revenue market share between 2004 and 2010). At the same time, however, Bally's and Caesars represent important outliers. Bally's had the fifth-largest room market share in 2010 and experienced a loss in total revenue market share during the period. And, Caesars, with only the seventh-largest room market share, eked out a modest increase in revenue market share. In fact, Caesars' share of the industry's room count in 2010 was less than Showboat's, which only maintained its share of total industry revenue during the period.

Figure D considers the relationship between changes in room *revenue* market share and changes in total revenue market share over the period. In particular, whereas Figures B and C explored the relationship between room counts (and room market share) and total revenue market share, Figure D focuses on room revenue. This is important owing to the role that occupancy rates and average room rates play in determining total

room revenue (and room revenue market share) across casino operators.

Most importantly, Figure D shows that those operators that successfully captured room revenue market share during the 2004-2010 period (Harrah's, Taj Mahal, Borgata, and Tropicana) also captured market share in terms of total revenue. Importantly, these four operators were also those with the largest market shares of rooms in 2010. Collectively, these operators accounted for 57% of all rooms in the industry in 2010. At the same time, however, there is a striking difference between the Borgata-Harrah's coupling and the Tropicana-Taj Mahal coupling. In particular, despite sizable increases in their respective market shares of total room revenue, the increases in total revenue market share experienced by Tropicana and Taj Mahal pale in comparison to those recorded by Borgata and Harrah's. Finally, as was the case with Figures B and C, Caesars represents an important outlier. More specifically, despite a modest decline in its share of industry room revenue during the period (-0.4 pps.), Caesars managed to increase its share of total industry revenue (+0.8 pps.). Indeed, Caesar's increase in market share (of industry revenue) was only marginally smaller than the Taj Mahal's (+1.0 pps.) despite the latter's significant capture of additional room revenue share during the period (+3.4 pps.).

The Relationship between Casino Revenue and Total Revenue

Figure E shows the relationship between changes in casino revenue market share and changes in total revenue market share. The relationship shown is the least surprising produced in this analysis, as it clearly reflects the continuing significance of casino revenues to operators' total revenues. (Although, it should be point out that casino revenue accounted for 80% of total industry-wide revenue in 2004 and only 74% in 2010. This important trend is analyzed further below.) Clearly, there is a positive relationship between rising casino revenue market shares and rising total revenue market shares. Borgata and Harrah's sizable gains in casino revenue market share clearly translated into strong gains in total revenue market share. Moreover, the five operators that saw the most significant declines in casino revenue market share were also those that suffered the largest declines in total revenue market share (as evidenced by the cluster of operators in Figure E's southwest

quadrant). Showboat, it should be noted, does represent an exception. Whereas Showboat saw its share of casino revenue rise modestly during the period, its market share of total revenue remain unchanged.

The Relationship between Casino Revenue and Room Revenue

Figure F shows the relationship between changes in room revenue market share and casino revenue market share. The collection of operators in the southwest quadrant of Figure F suggests that there is a negative relationship between these two items; losses in room revenue market share were associated with losses in casino revenue market share. At the same time, there is no similarly obvious relationship among the operators that occupy the northeast quadrant. While all of these operators gained market share in both categories, there are clearly important differences between them. Perhaps most importantly, sizable increases in room revenue market share for both the Taj Mahal and Tropicana did not translate into large gains in casino revenue market share—in fact, both operators' gains in the latter not only trailed Harrah's and Borgata's, but also trailed Caesars' gain which actually saw its share of room revenue *decline* during the period. Figure F thus suggests that while there is clearly an important relationship between gains in room revenue market share and casino revenue market share (ostensibly the former helping to support the latter), the relationship is not necessarily clear cut.

The Relationship between Food & Beverage and Total Revenue

Figure G shows the relationship between changes in food and beverage revenue market share and changes in total revenue market share. Figure G makes clear that Borgata's and Harrah's rising market shares (of total industry revenue) during the 2004-2010 period were strongly supported by rising shares of the industry's food and beverage revenues. It should be noted that Borgata's 25% share of food and beverage revenue dwarfs that of second-place Harrah's (14.7%). Indeed, in 2010, food and beverage revenue accounted for 15.6% of Borgata's total revenue compared to an industry-wide average of 12%. Finally,

it should also be noted that Tropicana's and Caesar's increases in market share (total revenue) came despite losses in food and beverage market share.

The Relationship between Other Revenue and Total Revenue

Figure H shows the relationship between changes in other revenue (e.g., ones tied to artistic performances) market share and changes in total revenue market share. While the pattern shown in Figure H is roughly similar to that shown in Figure G – implying that increases in other revenue market share tended to translate into increases in total revenue market shares (save the exception of Caesars once again) – there is one notable change in the pattern. Namely, both Trump Marina and Trump Plaza saw declines in their market shares of other revenue that were less than Caesars' and unlike Caesars recorded declines in their market shares of total revenue.

The Relationship between Other Revenue and Casino Revenue

Finally, Figure I shows the relationship between changes in other revenue market share and changes in casino revenue market share. There is one important anomaly that warrants against drawing the conclusion that seems to flow from the figure—namely, that there is a positive relationship between increases in market shares of these two revenue streams. Specifically, Caesars experienced a decline in its market share of other revenue and yet managed to increase its share of casino revenue (by more than Showboat, Tropicana, and the Taj Mahal—which all recorded gains in market shares of other revenue). This seems to imply that significant market share increases in other revenues (concerts, performances, etc.) are not a *necessary* condition for successfully capturing additional casino revenue market share. (Caesars' share of industry-wide other revenue not only declined during the period but is also significantly smaller than the Taj Mahal's.)

Skinning the Cat

Table B (pgs. 11 & 12) provides additional insight in the gaming industry's revenue dynamics over the 2004-2010 period. While a host of observations could be drawn from the data presented therein, the following seem especially important, as they reinforce the foregoing analysis. Specifically, while size (in terms of room market share) clearly mattered during the period under investigation, the precise relationship between size and revenue is complex.

Taken as a group, those operators that recorded increases in total revenue market share recorded a 0.3% *decline* in total revenue between 2004 and 2010. This group ("gainers" hereafter), saw casino revenue decline 8.5%. However, this decline was nearly entirely offset by strongly gains in room revenue (+44%), food and beverage revenue (+12.7%), and other revenue (+52.2%). As noted, of the five gainers, only two (Borgata and Harrah's) saw increases in total revenue over the period. The composition of gainers' revenues also changed dramatically during the period. In particular, casino revenues' contribution to total revenue declined to 72% from 78%. Room revenue climbed to 11.7% of all revenue from 8.1%; food and beverage revenue increased to 12.3% from 11%; and, other revenue climbed to 4.3% from 2.8%.

Taken as a group, those operators that recorded decreases in total revenue market share during the period recorded a 36.5% decline in total revenue. As shown in the table, these operators recorded sizable declines in every revenue category (with the largest, in percentage terms, occurring in the casino category). In fact, the decline in casino revenue among these operators accounted for 87% of the total revenue decline they collectively recorded. As a group, these operators experienced far more modest changes in the composition of their revenues. In particular, casino revenue's share of total revenue declined to 77.2% from 80.7%; room revenue's share increased to 8.6% from 6.2%; food and beverage revenue's share increased to 11.1% from 10.1%; and, other revenue's share actually declined to 2.9% from 3%.

Among the most interesting observations that can be culled from Table B regards a comparison between the Taj Mahal, Caesars, and Harrah's. Consider first the relative size of each of these three operators' casino revenues in 2004 which were roughly similar in absolute dollar size. And, each operator's casino revenue accounted for roughly 80% of all revenue in 2004. During the period, Harrah's and the Taj Mahal expanded their room counts significantly which allowed each to capture significant room market share (4.4 and 3.5 percentage points, respectively) and sizable increases in room revenue (63.9% and 71.5%, respectively). Both operators' additions to room inventory, moreover, resulted in sizable increases in room revenue's share of total revenue. Despite these similarities,

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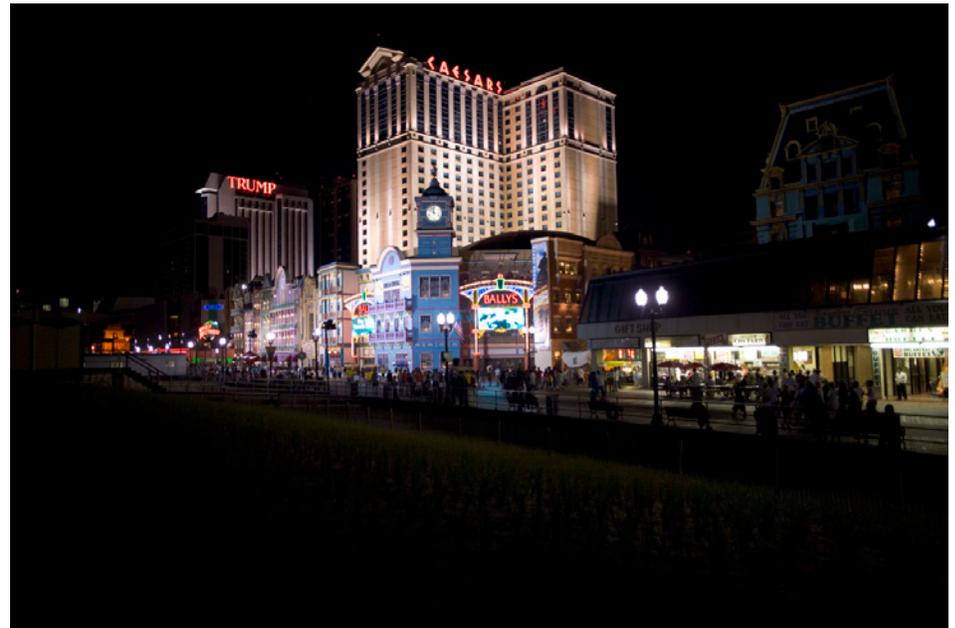
however, Harrah's enjoyed an 18% increase in total revenue between 2004 and 2010, while the Taj Mahal recorded an 11% decline. Of course, it should also be noted that Harrah's share of the industry's total room inventory, at 15.2%, remained larger than the Taj Mahal's (11.8%). Still, despite this important difference, the foregoing suggests that the relationship between rooms and total revenue is far from clear cut—the capture of significant room market share and room revenue market share did not insulate an operator from declining revenue during the period.



Finally, adding Caesars to the above story further complicates it. In particular, Caesars room inventory remained unchanged during the period, which translated into a smaller share of the industry's room inventory (6.7% in 2010 vs. 7.5% in 2004). Moreover, unlike Harrah's and the Taj Mahal, Caesars saw a considerably more modest increase in room revenue's share of total revenue (to 7.4% from 5.8%), as well as a much smaller percentage increase in room revenue (+12.5%). Despite this, Caesars' decline in total revenue (-12%) was only slightly larger than the Taj Mahal's (-10.7%). And, Caesars' decline in casino revenue over the period (-13.2%) was significantly less than the Taj Mahal's (-19%). Most importantly, Caesars share of industry-wide revenue increased 0.8 percentage points (to 11%), while the Taj Mahal's increased 1 percentage point (to 11.2%). The last point is worth underscoring: whereas the Taj Mahal's share of the industry's

total room inventory is nearly double that of Caesars' its share of total industry revenue is only nominally greater (11.2% vs. 11%).

As noted, Showboat maintained its market share of total industry revenue (8.1%) during the period, despite an 18.7% decline in total revenue between 2004 and 2010. Thus, while Showboat's decline in revenue was significantly worse than the gainers' it was far better than the operators that lost market share during the period. Comparing Showboat with these operators is especially illustrative. As noted, every operator that lost market share over the period recorded declines across *all* revenue categories during the period. Showboat, however, managed to double its



“other revenue” over the period (+99.6%), while market share-losing operators (as a group) registered a 38.5% decline. Further, it should be noted that Showboat's increase in other revenue during the period came despite declines across every other revenue category and despite a decline in its share of rooms (which fell to 7.8% from 8.6%).

Finally, the bottom panel of Table A—indicating whether operators' gained or lost market share in different revenue categories and room inventory—proves especially interesting. First, the three operators that recorded the largest gains in total revenue market share during the period (Borgata, Harrah's, and the Taj Mahal) gained market share across all categories shown. While these gains translated into increases in total revenue for the first two operators, they did not for the Taj Mahal. On the other end of the spectrum, the five operators that lost market share during

the period recorded losses in market share across all revenue and room categories.

The three remaining operators (Caesars, Tropicana, and Showboat) present more mixed pictures—and thereby seemingly provide important exceptions that caution against drawing any hard and fast conclusions regarding “best” models in the industry.

All three of these operators lost room market share during the period. Caesars and Showboat also saw declines in their market shares of room revenue—while, importantly, the Tropicana recorded an increase. All three operators gained casino revenue market share and two (Caesars and Tropicana) gained total revenue market share (while Showboat

maintained its share). Caesars' increase in total revenue market share came despite losses in its share of food and beverage and other revenues. Showboat saw gains in its market share of these two revenue categories. And, the Tropicana gained share in the other category, but lost share in food and beverage.

If you have followed the analysis to this part—congratulations. If you can make any sense of it, please write. While there are seemingly a number of conclusions that might be reached given the foregoing analysis, some that seem especially important are these: while increases in size (in terms of room market share) supported gains in total revenue market share, they did not necessarily protect an operator from revenue declines (Taj Mahal); increases in size (in terms of rising room market share) *were not a necessary condition* for capturing

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Table B: Revenues, Composition of Revenues, and Changes in Market Share across Revenue Categories in Atlantic City's Gaming Industry, 2004-2010

Increase/ Decrease in Market Share (ppts.)	Casino/Revenue Category	2004					2010				
		Casino	Rooms	Food & Beverage	Other	Total Revenue	Casino	Rooms	Food & Beverage	Other	Total Revenue
5.1	Borgata	\$623,400	\$85,166	\$119,946	\$23,769	\$852,281	\$636,303	\$114,625	\$146,606	\$43,577	\$941,111
4.2	Harrah's	\$445,074	\$48,945	\$53,298	\$8,496	\$555,813	\$462,956	\$80,221	\$84,792	\$27,245	\$655,214
1.0	Trump Taj Mahal	\$496,350	\$33,028	\$56,120	\$20,223	\$605,721	\$402,637	\$56,645	\$55,419	\$26,387	\$541,088
0.8	Caesars	\$488,825	\$35,042	\$59,307	\$19,408	\$602,582	\$424,513	\$39,434	\$50,452	\$16,059	\$530,457
0.6	Tropicana	\$360,273	\$47,026	\$47,630	\$14,572	\$469,501	\$281,220	\$67,675	\$41,706	\$18,325	\$408,925
	Total	\$2,413,922	\$249,207	\$336,301	\$86,468	\$3,085,898	\$2,207,628	\$358,600	\$378,975	\$131,593	\$3,076,796
	Category's Share										
	Total Revenue	78.2%	8.1%	10.9%	2.8%	100%	71.8%	11.7%	12.3%	4.3%	100%
	% Change in										
	Category Revenue										
	2004-2010						-8.5%	43.9%	12.7%	52.2%	-0.3%
0.0	Showboat	\$387,037	\$39,139	\$49,144	\$5,069	\$480,389	\$295,968	\$37,590	\$46,853	\$10,117	\$390,528
-1.0	Resorts	\$247,842	\$18,341	\$23,387	\$8,439	\$298,009	\$154,802	\$15,107	\$19,118	\$3,426	\$192,439
-1.6	Bally's AC	\$637,820	\$49,570	\$86,182	\$21,324	\$794,896	\$433,199	\$49,537	\$71,034	\$15,623	\$569,394
-1.6	Trump Marina	\$260,246	\$18,551	\$32,850	\$11,588	\$323,235	\$138,126	\$15,573	\$18,909	\$8,653	\$183,809
-1.7	Trump Plaza	\$312,867	\$24,417	\$38,378	\$10,797	\$386,459	\$175,496	\$23,399	\$22,840	\$7,949	\$229,723
-2.0	AC Hilton	\$291,133	\$23,039	\$38,098	\$12,657	\$364,927	\$160,422	\$14,909	\$21,387	\$4,185	\$200,862
	Total	\$1,749,908	\$133,918	\$218,895	\$64,805	\$2,167,526	\$1,062,045	\$118,524	\$153,289	\$39,836	\$1,376,228
	Category's Share										
	Total Revenue	80.7%	6.2%	10.1%	3.0%	100%	77.2%	8.6%	11.1%	2.9%	100%
	% Change in										
	Category Revenue										
	2004-2010						-39.3%	-11.5%	-30.0%	-38.5%	-36.5%
	Composition of Revenue										
5.1	Borgata	73.1%	10.0%	14.1%	2.8%	100%	67.6%	12.2%	15.6%	4.6%	100%
4.2	Harrah's	80.1%	8.8%	9.6%	1.5%	100%	70.7%	12.2%	12.9%	4.2%	100%
1.0	Trump Taj Mahal	81.9%	5.5%	9.3%	3.3%	100%	74.4%	10.5%	10.2%	4.9%	100%
0.8	Caesars	81.1%	5.8%	9.8%	3.2%	100%	80.0%	7.4%	9.5%	3.0%	100%
0.6	Tropicana	76.7%	10.0%	10.1%	3.1%	100%	68.8%	16.5%	10.2%	4.5%	100%
0.0	Showboat	80.6%	8.1%	10.2%	1.1%	100%	75.8%	9.6%	12.0%	2.6%	100%
-1.0	Resorts	83.2%	6.2%	7.8%	2.8%	100%	80.4%	7.9%	9.9%	1.8%	100%
-1.6	Bally's AC	80.2%	6.2%	10.8%	2.7%	100%	76.1%	8.7%	12.5%	2.7%	100%
-1.6	Trump Marina	80.5%	5.7%	10.2%	3.6%	100%	75.1%	8.5%	10.3%	4.7%	99%
-1.7	Trump Plaza	81.0%	6.3%	9.9%	2.8%	100%	76.4%	10.2%	9.9%	3.5%	100%
-2.0	AC Hilton	79.8%	6.3%	10.4%	3.5%	100%	79.9%	7.4%	10.6%	2.1%	100%

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Table B: Revenues, Composition of Revenues, and Changes in Market Share across Revenue Categories in Atlantic City's Gaming Industry, 2004-2010

Increase/ Decrease in Market \$ 000 Share (ppts.)	Casino/Revenue Category	2004							2010				
		Lost/Gained Market Share in Category 2004-2010							% Change in Category Revenue 2004-2010				
		Rooms	Casino	Room Revenue	Food & Beverage	Other	Total Revenue	Casino	Room Revenue	Food & Beverage	Other	Total Revenue	
5.1	Borgata	gained	gained	gained	gained	gained	gained	2.1%	34.6%	22.2%	83.3%	10.4%	
4.2	Harrah's	gained	gained	gained	gained	gained	gained	4.0%	63.9%	59.1%	220.7%	17.9%	
1.0	Trump Taj Mahal	gained	gained	gained	gained	gained	gained	-18.9%	71.5%	-1.2%	30.5%	-10.7%	
0.8	Caesars	lost	gained	lost	lost	lost	gained	-13.2%	12.5%	-14.9%	-17.3%	-12.0%	
0.6	Tropicana	lost	gained	gained	lost	gained	gained	-21.9%	43.9%	-12.4%	25.8%	-12.9%	
0.0	Showboat	lost	gained	lost	gained	gained	-	-23.5%	-4.0%	-4.7%	99.6%	-18.7%	
-1.0	Resorts	lost	lost	lost	lost	lost	lost	-37.5%	-17.6%	-18.3%	-59.4%	-35.4%	
-1.6	Trump Marina	lost	lost	lost	lost	lost	lost	-32.1%	-0.1%	-17.6%	-26.7%	-28.4%	
-1.6	Trump Plaza	lost	lost	lost	lost	lost	lost	-46.9%	-16.1%	-42.4%	-25.3%	-43.1%	
-1.7	Bally's AC	lost	lost	lost	lost	lost	lost	-43.9%	-4.2%	-40.5%	-26.4%	-40.6%	
-2.0	AC Hilton	lost	lost	lost	lost	lost	lost	-44.9%	-35.3%	-43.9%	-66.9%	-45.0%	

Source: All data derived from New Jersey Casino Control Commission publications. 2010 figures shown are estimates based on year-to-date growth through third quarter of 2010.

**Figure A: Total Revenue Market Share vs. Room Market Share (2010)
Is Big Better?**

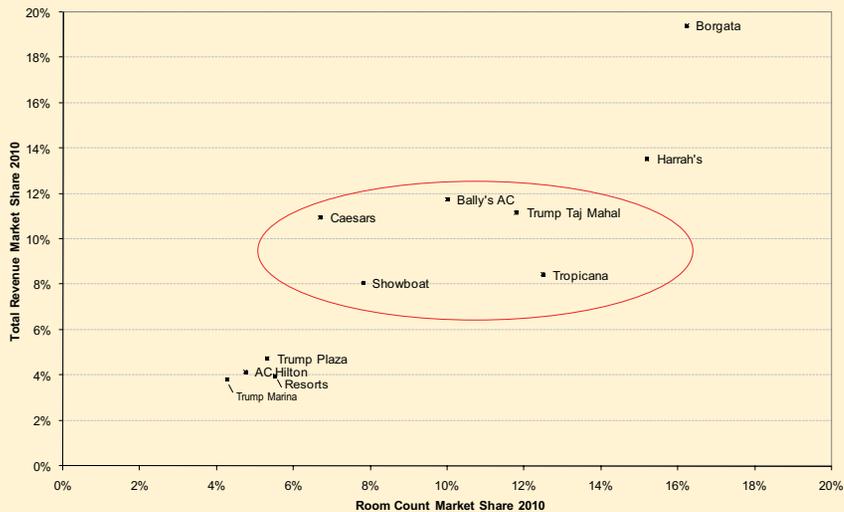


Figure B: Change in Market Shares: Rooms vs. Total Revenue
2004-2010

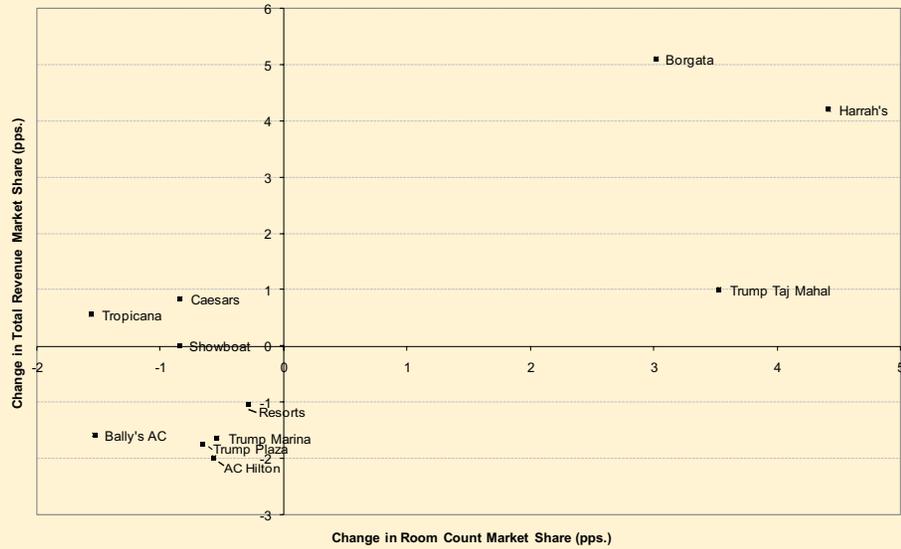


Figure C: Change in Total Revenue Market Share 2004-2010 vs. Room Count Market Share 2010

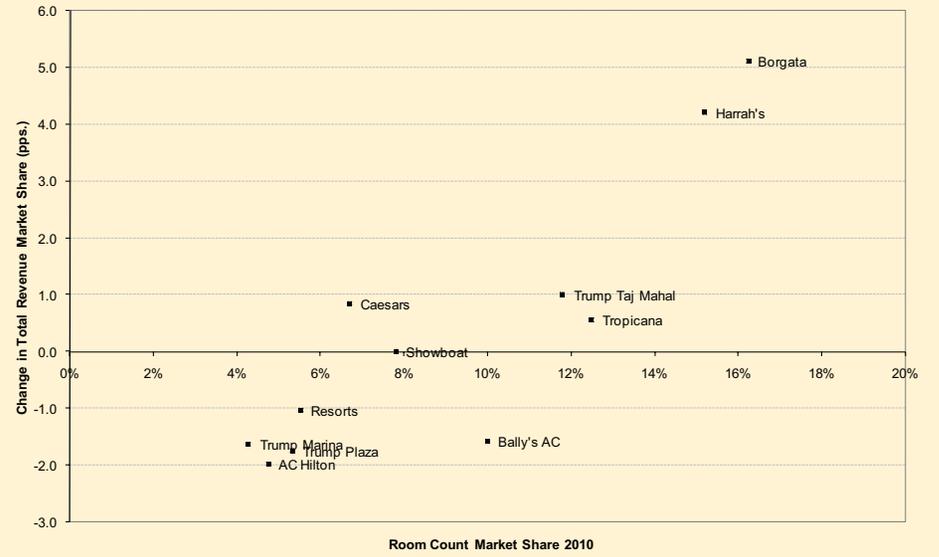


Figure D: Change in Market Shares: Room Revenue vs. Total Revenue
2004-2010

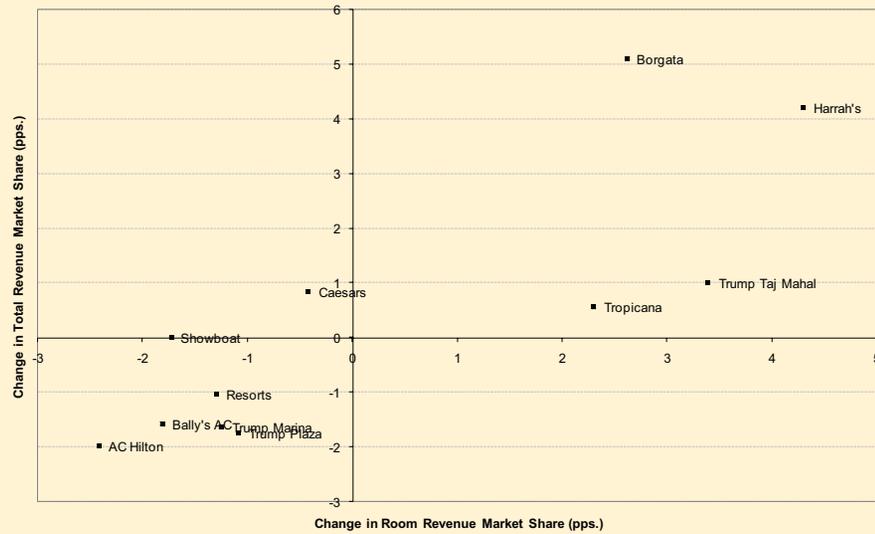


Figure E: Change in Market Shares: Casino Revenue vs. Total Revenue
2004-2010

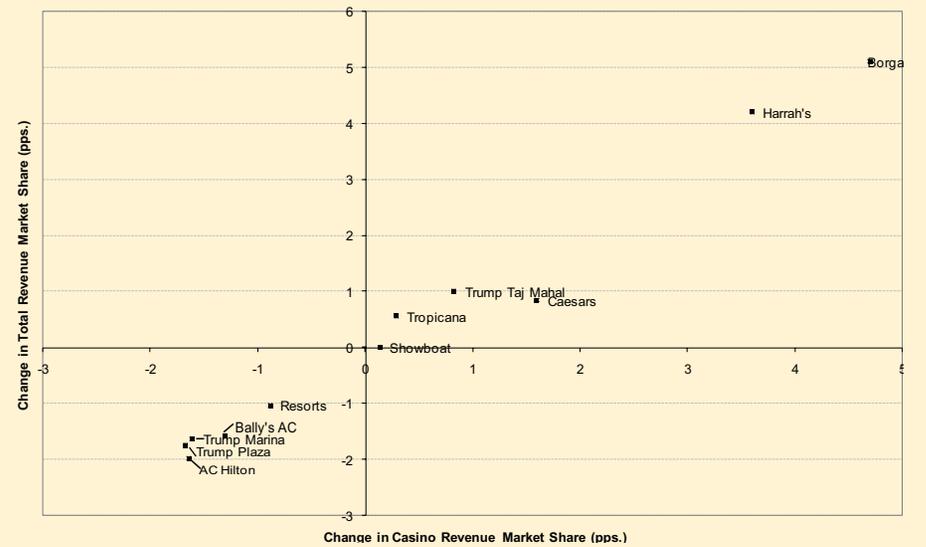


Figure F: Change in Market Shares: Casino Revenue vs. Room Revenue
2004-2010

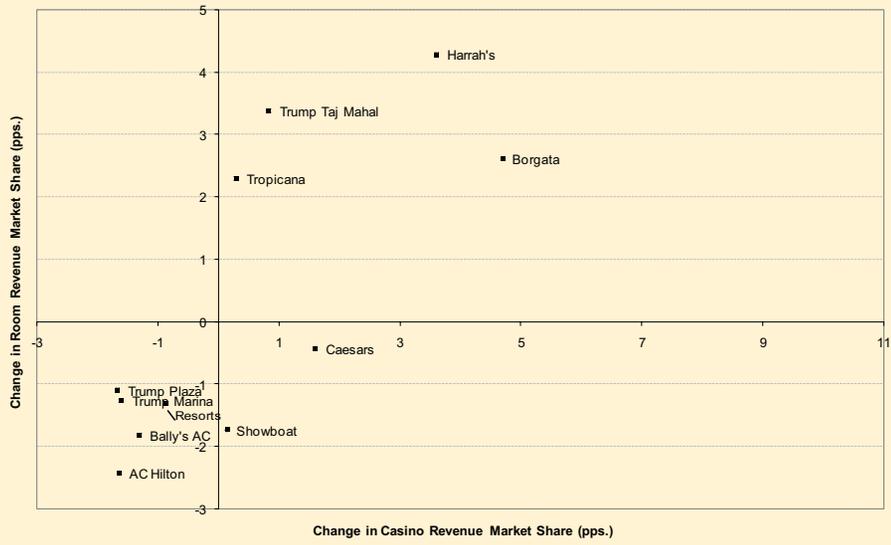


Figure G: Change in Market Shares: Food & Beverage Revenue vs. Total Revenue
2004-2010

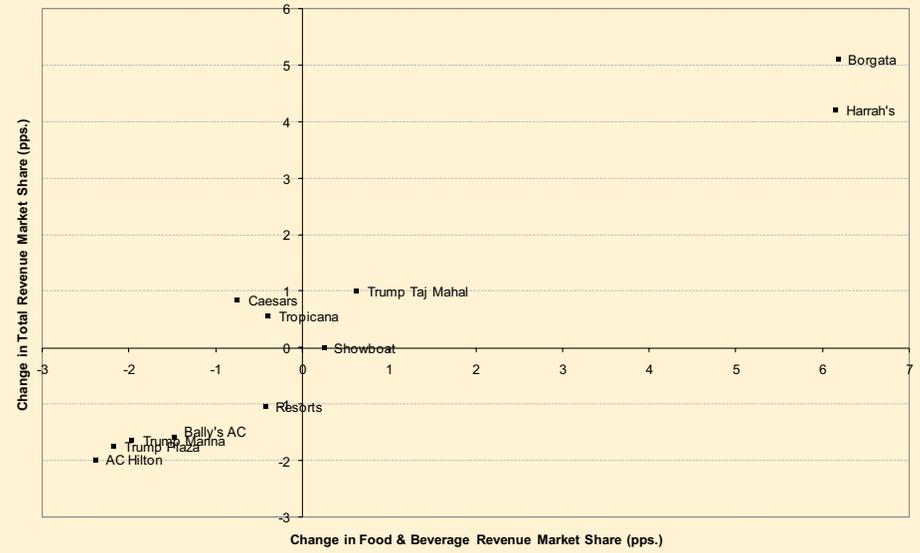


Figure H: Change in Market Shares: Other Revenue vs. Total Revenue
2004-2010

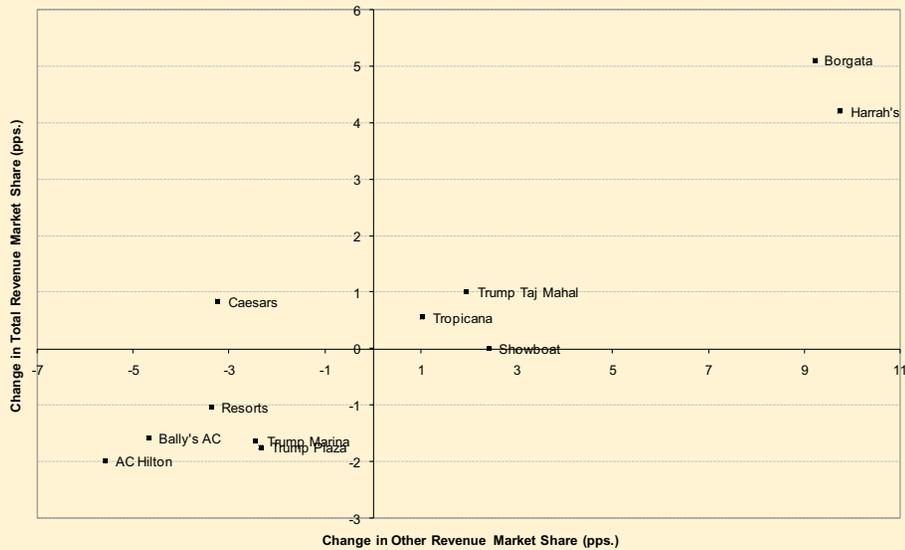
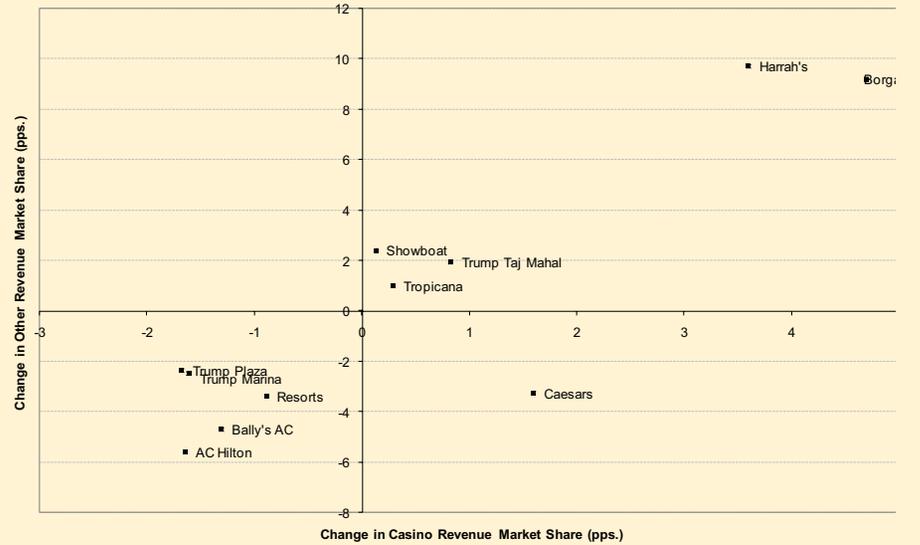


Figure I: Change in Market Shares: Casino Revenue vs. Other Revenue
2004-2010



market share (Caesars and the Tropicana); an increasingly diversified revenue base supported gains in market share; and, finally, gains in casino revenue share were a necessary condition for gains in total revenue market share.

The gaming industry's revenue dynamics over the past seven years have undoubtedly been complex as operators have been buffeted by a host of forces. While rising regional gaming competition has surely been among the most important of these forces, equally important it would seem (especially in light of the above analysis) are competitive dynamics among Atlantic City's existing operators. At a minimum, while size clearly matters, and will ostensibly continue to matter going forward, there are clearly a variety of interacting factors, besides rooms, that played important roles in determining success in the industry during this period. As gaming operators map their courses for the years ahead, among the most important risks they face may be that in trying to differentiate themselves from the growing collection of regional convenience gaming competitors, they simultaneously fail to differentiate themselves from one another. Should adoption of a single "model" prove necessary for success in Atlantic City's gaming industry, it seems likely that the industry will grow increasingly oligopolistic. Whether such an outcome will benefit the industry as a whole in the long-run—and, more broadly, Atlantic City's economy—remains to be seen.

The Year Ahead

National Economy. Barring another financial crisis, it seems likely the US economy will continue to recover—albeit at a pace well below potential—over the coming year. The more significant question facing the national recovery is whether or not the economy settles into a prolonged period of relatively slow growth, i.e., a growth recession—in which it grows at a pace below its long-run trend rate (approximately 3% or so). Perhaps most

importantly, it seems increasingly likely that the national unemployment rate will remain rather elevated over the coming year – likely ranging between 8-9%. While the corporate sector is currently flush with cash, the pace of the economy as well as the health of the labor market will be closely tied to decisions regarding where this cash is ultimately invested. If a significant portion of it continues to find its way into equity markets (which seems to have been a key contributor to rising equity markets as of late) the probability of a growth recession will increase as household incomes will advance at a relatively slow pace, which will in turn constrain the growth in consumption expenditures. Finally, the housing market seems likely to continue to exert a drag on the economy over the coming year. While the overhang of houses has begun to decline, it remains significant. Finally, current geopolitical events may also play an important role in the economy's trajectory over the coming year. In particular, if these events continue to put upward pressure on oil prices, they will undoubtedly constrain the economy's pace of recovery.

New Jersey. As it has historically, it seems likely that New Jersey's economic recovery will closely track the nation's. Given the state's sub-par performance since the official end of the national recession in June 2009, the pace of the state's recovery may accelerate modestly over the coming year. The ultimate pace of the state's expansion, however, will likely depend heavily on the health of its most important private industries: professional and technical services, manufacturing, finance/insurance, wholesale trade, and health care. Combined, these industries account for approximately 40% of the state's gross domestic product and 36% of its employment. Over the past several months, the pace of job growth in finance/insurance and professional and technical services has accelerated, while the pace of job contraction in manufacturing has eased considerably. Recent year-on-year growth in wholesale trade and health care employment, meanwhile, has been more volatile. Retrenchment in the public sector

clearly poses the greatest downside risk to New Jersey's economic recovery over the coming year. The state's multi-billion dollar budget gap and the current political environment will undoubtedly result in significant cuts to state and local government payrolls over the coming year. Such retrenchment in the public sector will constrain the pace of job growth (and, thereby, consumption expenditures) over the coming year and put additional pressure on the private sector to accelerate its pace of hiring. (State and local government employment accounted for approximately 11% of statewide employment prior to the national recession's onset.)

Atlantic City. The pace of economic recovery for Atlantic City's economy will likely accelerate modestly over the coming year, in tandem with a slowly-improving national economy. The state's recent decision to support completion of the Revel casino and the recent purchase of Trump Marina by Landry's Restaurants (which plans to rebrand the casino as the Golden Nugget and invest \$150 million to renovate the property) should provide a desperately-needed boost to construction employment over the coming year. (Construction employment in the metropolitan area has declined 36% since 2007.) While these developments in the gaming industry represent good news for Atlantic City's economy, the aforementioned retrenchment in the public sector is likely to constitute a significant drag on the local economy's job growth over the coming year. State and local government employment account for approximately 13.5% of the metropolitan area's job base. Moreover, owing to strong financial ties, public sector retrenchment will also likely adversely affect the metropolitan area's health and educational services sector which has been the only source of job growth in the economy over the past several years. All told, it seems likely that while the pace of recovery in Atlantic City will accelerate modestly over the coming year it will prove insufficient to trim the unemployment rate in any significant way.

ENDNOTES:

¹ 2004 represents the first full calendar year of operations for Borgata.

² A cubic function would seemingly fit the scatter plot better than a linear one.

³ The difference between Figure A and C is that the former shows the relationship between total revenue market share in 2010 and room market share in 2010, while the latter shows the relationship between the *change* in total revenue market share (between 2004-2010) and room market share in 2010.

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