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The South Jersey Economic Review

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New Jersey and Atlantic City's Recent Economic Performance

The pace of job growth in New Jersey has moderated this year, in tandem with slowing national job growth. (See Figure 1, page 3) Employment growth in the state was up 1% year-on-year through August. Nationally, employment was up 1.4% for the same period. Industries with the largest job gains in the state this year include: health care and social assistance (+14,100), professional and business services (+8,000), restaurants and bars (+7,600), government (+6,000), and banking (+5,400). Significant job losses have occurred in the state's non-durable manufacturing sector (-9,000), including a loss of 1,700 in pharmaceuticals. Other jobs losses have been recorded

in information (-1,500) and accounting/bookkeeping/payroll services (-1,300).

The state's seasonally adjusted unemployment rate stood at 5.3% in August, or 0.9 percentage points above its August 2005 rate. This compared to a national unemployment rate of 4.7% in August which was below an August 2005 rate of 4.9%. Real personal income in New Jersey was up 2.9% year-over-year in the second-quarter of 2006, compared to national growth of 3.1%.

After slowing in 2005, Atlantic City's economy has accelerated this year, bucking the state's moderating trend. Through August, employment in Atlantic

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The Sands Closing

Pinnacle Entertainment Inc.'s closing of the Sands Casino resulted in the loss of approximately 2,100 jobs in the Atlantic City metropolitan area. The closure is related to Pinnacle's plan to build a new billion-dollar plus resort. Approximately three-quarters of the jobs lost were full-time positions.

The question of how significant a drag the closing will be on the local economy will largely be a function of how quickly former Sands' employees are able to find new jobs – should they choose to remain in the local labor force. The types of jobs that these employees get, should they find reemployment, will also influence the closing's total impact on the local economy. Importantly, the Atlantic City metropolitan area's unemployment rate has continued to climb this year despite the acceleration in establishment job growth. In August,



Atlantic City's unemployment rate stood at a seasonally adjusted 6.2% or, 1.1 percentage points above its August 2005 rate. (See Figure 3, page 2)

While net revenue for the casino industry was up 6.2% through the first half of the calendar year, and room occupancy rates in the industry were up moderately, employment in the industry was down by 600 jobs year-to-date through August. Given this employment trend, it seems unlikely that the casinos

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The Sands Closing

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will prove a major source of rehiring of former Sands' employees. Indeed, as Figure 4, page 6 shows, average annual employment in the casino hotels industry has increased but twice in the past seven years (see figure 4, page 6). To the extent that Sands' customer base is redistributed among the metro area's remaining casinos, some casinos may need to hire additional personnel in order to meet this increased demand. This possibility will of course hinge upon these casinos' ability to meet new demand with current staffing levels.

At the same time, there are several on-going casino expansion projects that are nearing completion or set for completion in the next year. To the extent these projects result in job creation they ostensibly will help absorb some former Sands' employees. These expansions include: the first phase of a \$550 million expansion of Harrah's Atlantic City hotel casino which is scheduled for completion in early 2007; the \$400 million second phase of the Borgata's expansion is under construction and is scheduled for completion by the end of 2007. Projects with expected completions further out include: a \$250 million expansion of the Taj Mahal hotel casino which is scheduled for completion in 18 to 24 months; and, the second phase of Harrah's aforementioned expansion which is scheduled for completion in mid-2008.

Several on-going developments in Atlantic City's retail sector could also prove a source of job creation in the months ahead. These developments include the completion of the high-end retail and dining project, The Pier at Caesars. While several of the project's retailers have already begun operations, there are some who have not. Further, not all of the project's planned restaurants are currently open.

While job creation in the retail sector could help absorb some former Sands' employees it should be noted that wage levels in the retail sector are well below those in the casino hotels industry. In 2005, the average annual wage in

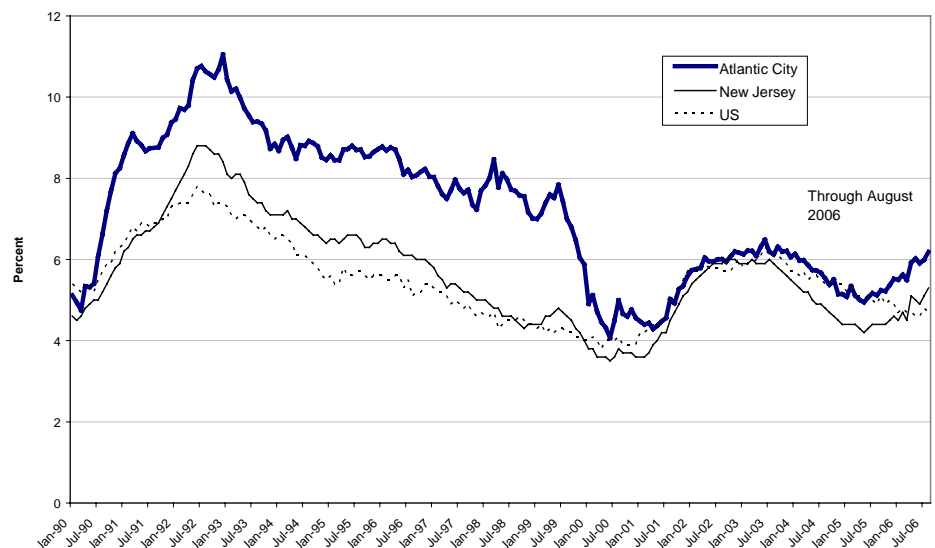
retail trade in Atlantic County equaled \$24,703, whereas the average annual wage in the accommodations and food service industry (which includes casino hotels) equaled \$29,640. This suggests that if former Sands' employees secure reemployment in the local retail sector they will likely experience wage losses. This would necessarily exacerbate the multiplier effects that will stem from the closing.

Despite these types of expansions and developments in the casino and retail trade industries and the job creation they may represent, it remains true that the Sands' closing will constitute a drag on the local economy's fortunes over the immediate short-term horizon. Sands' closed its doors November 11th. Sands' payroll totaled \$51 million in 2005. This represented 4.6% of the industry's total payroll. The hotel casinos industry's payroll in Atlantic City (which equaled \$1.1 billion in 2005) accounted for 12.1% of total personal income in Atlantic County in 2005. A \$51 million decline in the industry's 2005 payroll would have reduced the industry's payroll's share of the county's total personal income to

11.6%. Alternatively, a loss of \$51 million in wages and salaries in 2005 would have reduced personal income growth in Atlantic County to 1% (in real terms) from its actual 1.6%. This loss, of course, does not take into account the multiplier effects that will be associated with a wage loss of this magnitude.

One additional important point is that the Sands closing occurred against the backdrop of a slowing national economy. Since reaching a heady 5.6% in this year's first quarter, GDP growth has slowed considerably in recent quarters. Third-quarter GDP growth slowed to 1.6% from 2.6% in the second-quarter. This slowing national trend in conjunction with a cooling local housing market (see discussion below) will make it difficult for Atlantic City's economy to quickly absorb a one-time, immediate loss of 2,100 jobs. In nine of the past ten years, Atlantic City's economy has gained jobs. The average annual gain in these years equaled 2,000 jobs. This suggests that the metropolitan area's economy's recent avoidance of the general downshifting that has occurred at the state and national levels is unlikely to continue in the months ahead. ■

Figure 3: Atlantic City and New Jersey Unemployment Rate
Seasonally Adjusted



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

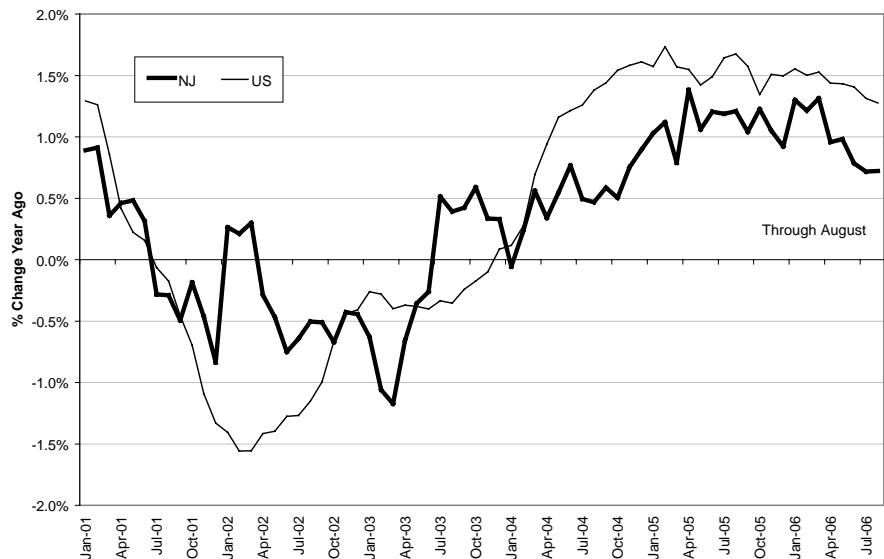
New Jersey and Atlantic City's Recent Economic Performance

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City was up 1.8% year-on-year. While this rate of job growth trailed Trenton's 2.2% pace, it was faster than the state's 1.4%. (See Figure 2) On an industry basis, this year's job growth in Atlantic City has been led by gains in local government (+1,500), restaurants and bars (+1,200), and retail trade (+900). The casino hotels and professional business services industries recorded job losses of 600 and 700 respectively year-to-date through August.

Vineland, Millville, Bridgeton and Ocean City. After slowing last year, job growth in the Vineland-Millville-Bridgeton area has continued to moderate this year. Through August, employment in the metropolitan areas was up 1% year-on-year – on par with the state's rate of job growth. This year's job gain in the metropolitan area was largely attributable to an increase in the number of wholesale trade jobs. Ocean City, which also saw the pace of job growth slow in 2005, has seen a pickup in growth this year, as employment was up 1.2% year-on-year through August. ■

Figure 1: Job Growth: New Jersey and the U.S.
2001 to August 2006



Source: U.S. Bureau of Labor Statistics.

Figure 2: Establishment Job Growth Across New Jersey's Metropolitan Areas

Metro Area/Division	Employment (thousands)		Change	% Change
	Through Aug. 2005*	Through Aug. 2006*		
Atlantic City (Atlantic County)	152.0	154.7	2.7	1.8%
Bergen-Hudson-Passaic	899.0	898.5	-0.6	-0.1%
Camden (Burlington, Camden, and Gloucester)	533.0	539.9	6.9	1.3%
Edison (Middlesex, Monmouth, Somerset, and Ocean)	1,011.5	1,030.1	18.6	1.8%
Newark-Union (Hunterdon, Union, Essex, Sussex, and Morris)	1,022.3	1,019.5	-2.9	-0.3%
Ocean City (Cape May)	44.9	45.4	0.5	1.2%
Trenton-Ewing (Mercer)	234.9	239.9	5.1	2.2%
Vineland-Millville-Bridgeton (Cumberland)	63.3	64.0	0.6	1.0%
New Jersey	4,023.9	4,063.9	40.1	1.0%
U.S.	133,148.0	135,053.0	1,905.0	1.4%

* Average of monthly establishment employment through August.

Source: New Jersey Department of Labor and Workforce Development

New Jersey's Smoking Ban and the Restaurant and Bar Industry

Examination of the most recent employment data suggests that New Jersey's recently-enacted smoking ban, which prevents indoor smoking in public areas (except in casinos), has not had a detrimental effect on employment in the state's restaurant and bar industry. Through August, statewide employment in the industry was up 3.6%, significantly ahead of the 2.5% increase recorded nationally in the industry over the same period. In Atlantic City, meanwhile, employment in the industry was up 4.2% year-to-date through August. ■

Personal Income Growth in Atlantic City Lags the State's and the Nation's

Personal income data from the Bureau of Economic Analysis show that despite Atlantic City's out-performance (as measured by job growth) vis-à-vis the state and the nation in 2003 and 2004, real personal income growth in Atlantic County has lagged the state's and nation's rates of growth in recent years.

Figure 5, page 4 provides detail on various components of personal income growth for Atlantic County, New Jersey and the U.S. for four different time periods: the 1980s, the early 1990s, the

late 1990s, and 2000-2005. (Personal income during the previous business cycle expansion peaked in 2000.) As shown, average annual growth in real personal income in Atlantic County closely tracked the state's and nation's rates of growth until the late 1990s. Between 1995 and 2000, a period of robust national employment and personal income growth, Atlantic County's real personal income growth began to significantly lag state and national benchmarks. Over the

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Personal Income Growth in AC
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recent five years, annual real personal income growth in Atlantic County averaged a mere 0.3% compared to the state's 0.8% and the nation's 1.4%. Proprietors' income in Atlantic County declined a rather startling 8.3% in real terms on an average annual basis between 2000 and 2005. This rate of growth was heavily influenced by a dramatic 35% real decline in proprietor's income in 2001, however. If 2000 and 2001 are excluded from the analysis, real growth in proprietor's income in Atlantic County for 2002-2005 averaged 1% annually. This was significantly less than average annual rates of growth in proprietors' income of 4.4% for the state and 5.1% for the nation over the same three-year period.

In addition to the recent decline in proprietors' income that has worked to limit real personal income growth in Atlantic County in recent years, income in the county derived from

Figure 5: Change in Personal Income and its Components, Selected Years: Atlantic City, New Jersey, and the U.S.
(in billions of 2005 dollars)

	1980	1990	1995	2000	2005	Average annual rate of growth				
						1980-1990	1990-1995	1995-2000	2000-2005	
Atlantic City										
Personal Income	5.3	7.6	8.1	9.0	9.2	3.7%	1.3%	2.3%	0.3%	
Wages and salaries	3.0	5.3	5.2	5.5	5.9	5.7%	-0.3%	1.1%	1.3%	
Proprietors income	0.5	1.0	1.3	1.7	1.1	7.8%	5.5%	5.2%	-8.3%	
Dividends, interest, rent	0.7	1.3	1.1	1.3	1.2	5.8%	-2.1%	3.3%	-3.1%	
Transfer payments	0.7	0.9	1.2	1.3	1.6	1.7%	6.4%	1.8%	3.8%	
Residency adjustment	0.1	-1.0	-0.9	-0.9	-0.8	N/A	-1.8%	-0.8%	-1.5%	
New Jersey										
Personal Income	193.8	276.3	297.6	366.8	382.0	3.6%	1.5%	4.3%	0.8%	
Wages and salaries	107.5	153.3	160.9	199.4	201.6	3.6%	1.0%	4.4%	0.2%	
Proprietors income	11.4	18.2	22.9	28.6	33.4	4.8%	4.7%	4.5%	3.1%	
Dividends, interest, rent	29.6	54.6	51.8	63.7	59.0	6.3%	-1.1%	4.2%	-1.5%	
Transfer payments	21.9	28.0	37.0	39.8	47.0	2.5%	5.7%	1.5%	3.4%	
Residency adjustment	16.1	15.3	18.1	29.1	29.1	-0.5%	3.4%	10.0%	0.0%	
US										
Personal Income	5,157.	7,042.	7,816.	9,547.	10,225.	3.2%	2.1%	4.1%	1.4%	
Wages and salaries	3,075.	3,973.	4,344.	5,471.	5,659.	2.6%	1.8%	4.7%	0.7%	
Proprietors income	390.	553.	628.	828.	971.	3.6%	2.6%	5.7%	3.2%	
Dividends, interest, rent	827.	1,410.	1,447.	1,741.	1,591.	5.5%	0.5%	3.8%	-1.8%	
Transfer payments	629.	863.	1,116.	1,229.	1,527.	3.2%	5.3%	1.9%	4.4%	
Residency adjustment	-1.0	-1.1	-1.1	-1.2	-1.3	0.5%	1.3%	1.1%	1.0%	

Source: Bureau of Economic Analysis.

dividends, interest and rent also declined considerably more in percentage terms than it did on the state and national levels. Specifically, whereas income derived from dividend, interest, and rent

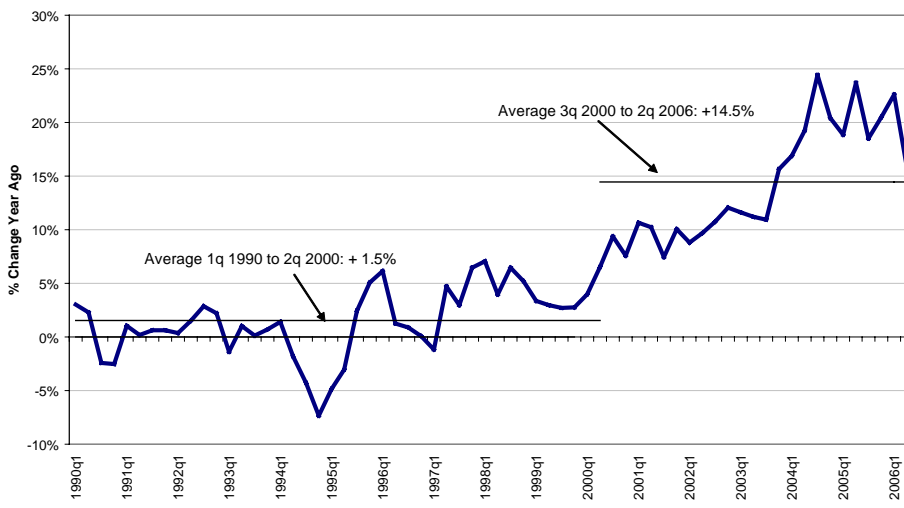
declined 1.5% and 1.8% annually in New Jersey and the U.S., respectively, between 2000 and 2005, it declined 3.1% in the Atlantic City metropolitan area.

Atlantic City's Housing Market Begins to Cool

Reflecting developers' attempts to reduce the inventory of unsold homes, recently released home price data for the nation revealed that the median sale price of a new home in September was \$217,000, down 9.7% from September 2005's figure. Mirroring this national trend as well as ones that have emerged in many metropolitan areas in recent months, Atlantic City's housing market has begun to cool.

Freddie Mac's conventional mortgage home price index for the metropolitan area reveals a marked slowing in the pace of single-family home price appreciation. (See Figure 6) Similar slowdowns in the rate of single-family home price appreciation are evident in the Ocean City and Vineland-Millville-Bridgeton metropolitan areas. Despite the slowdown in home price appreciation, it is worth noting that the year-on-year second-quarter 2006 rate of price appreciation for single-family homes in Atlantic City, at 15.2%, remains significantly above a 1990 to second-quarter 2006 average of 6.8%.

Figure 6: Freddie Mac Conventional Mortgage Home Price Index
Atlantic City Metropolitan Area
1q 1990 to 2q 2006



Source: Freddie Mac

National Association of Realtors' median sales price of existing single-family homes data also reveal a marked easing in the rate of price appreciation. Since reaching 24.7% in last year's fourth-quarter, year-on-year growth in

the median sales price of existing single-family homes in Atlantic City slowed to 15.8% in this year's first-quarter, and slowed again, to 5.1%, in the second-quarter.

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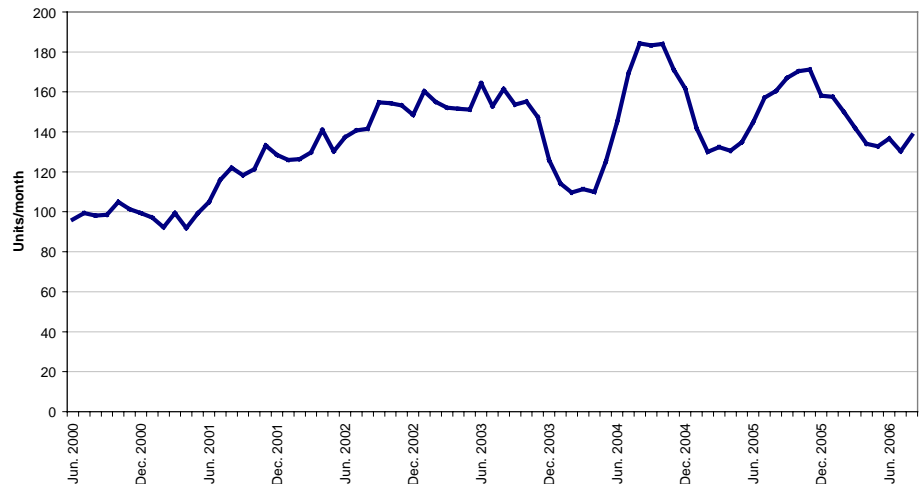
AC's Housing Market Cooling

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The slowdown in Atlantic City's single-family homebuilding market is also apparent in permit activity. For the May to August period of this year, total single-family permits issued in Atlantic County were down 15% from their year-ago level. (See Figure 7) The slowing in the local area's homebuilding industry is also reflected in construction employment data. Employment in Atlantic City's construction industry was down 4.2% year-on-year through August. ■

Figure 7: Single Family Housing Permits

Atlantic County
June 2000 to August 2006
6-month moving average



Source: U.S. Census Bureau.

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Figure 8: Housing Units and Population Growth in New Jersey Counties, July 2000 to July 2005

	% Change July 2000 to July 2005		% Change Housing Units / % Change in Population
	Housing Units	Population	
New Jersey	3.8%	3.4%	1.13
Atlantic County	7.5%	7.1%	1.06
Bergen County	1.7%	1.9%	0.89
Burlington County	5.7%	6.1%	0.93
Camden County	2.0%	1.9%	1.08
Cape May County	7.7%	-3.0%	-2.61
Cumberland County	2.4%	4.7%	0.52
Essex County	1.7%	-0.2%	-8.55
Gloucester County	8.2%	8.4%	0.97
Hudson County	2.8%	-1.0%	-2.82
Hunterdon County	6.5%	6.4%	1.02
Mercer County	4.0%	4.2%	0.96
Middlesex County	3.2%	4.8%	0.66
Monmouth County	4.5%	3.0%	1.50
Morris County	4.2%	4.1%	1.04
Ocean County	7.5%	8.7%	0.87
Passaic County	0.7%	1.6%	0.45
Salem County	3.4%	3.3%	1.02
Somerset County	5.2%	7.0%	0.74
Sussex County	5.1%	5.8%	0.87
Union County	1.1%	1.6%	0.70
Warren County	7.9%	7.2%	1.10

Source: Census Bureau.

Figure 9: Components of Population Change: Atlantic, Cape May, and Cumberland Counties, and New Jersey, 2001-2005

	Components of Population Change July 2001 - July 2005 *				
	2005 Population	Population Change July 2000-July 2005	Births minus deaths	International Migration	Domestic Migration
New Jersey	8,717,925	284,221	209,355	274,795	-188,018
Atlantic County	271,015	17,905	3,998	6,487	7,823
Cape May County	99,286	-3,027	-1,626	291	-1,533
Cumberland County	153,252	6,834	3,035	2,453	1,548

* Components do not sum to total population change shown due to estimation residuals.

Source: Census Bureau

Housing Unit Growth and Population Change in Atlantic, Cape May, and Cumberland Counties

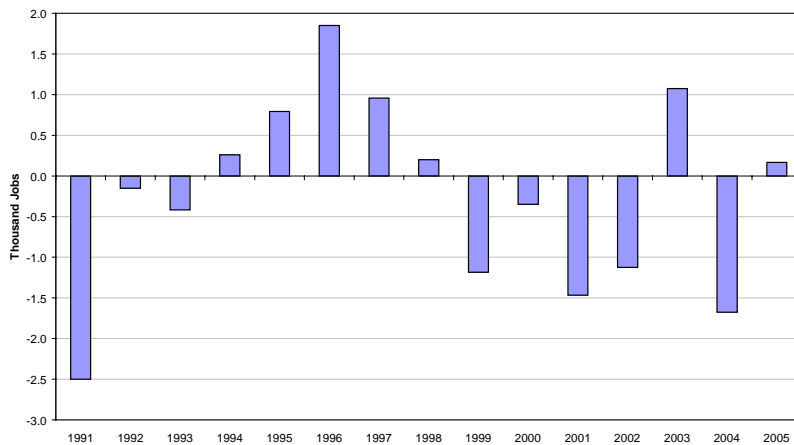
Recently released state and county housing unit estimates from the Census Bureau show that the number of housing units in Atlantic County increased 7.5% (to 123,025) between July 2000 and July 2005. (See Figure 8, page 5) This compared to an overall population gain of 7.1% for Atlantic County over the same period. The number of housing units statewide increased 3.8%, whereas New Jersey's population increased 3.4%. Cumberland County's population gain of 4.7% was greater than its 2.4%

housing unit increase. Cape May County, meanwhile, recorded a 3% decrease in population and a 7.7% increase in housing units.

Census Bureau data on the components of state and county population change reveal important differences in the source of recent population changes in Atlantic, Cape May, and Cumberland counties. (See Figure 9, page 5) For example, domestic in-migration and international migration accounted for the bulk of Atlantic County's

population gain between 2000 and 2005. These sources accounted for 42.7% and 35.4%, respectively, of the county's overall population increase over this period. In contrast, Cumberland County's population gain over the same period was driven by natural increase (43%) and international migration (35%). Cape May's population decline, meanwhile, was driven by natural increase (-1,626) and domestic out-migration (-1,533). ■

Figure 4: Annual Change in Employment in Atlantic City's Casino Hotels Industry 1991 to 2005



Source: Establishment employment data, New Jersey Department of Labor and Workforce Development.



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ENDNOTES

- Whereas establishment job growth tracks employment by establishments' geographic location, the data used to derive unemployment statistics are based on individuals' place of residence. Thus, the two employment series need not necessarily move together over time.
- Chet Sherman, "Developments in the PIPELINE for Atlantic and Cape May counties" October 10, 2006.
- Chet Sherman, "Developments in the PIPELINE for Atlantic and Cape May counties" October 10, 2006.
- New Jersey Department of Labor and Workforce Development's covered employment series.
- State of New Jersey Casino Control Commission.
- The rate cited is for establishment employment in Atlantic City's natural resources, mining, and construction industries – and, thus, primarily reflects construction establishment employment.