



THE SOUTH JERSEY ECONOMIC REVIEW

About the SJER

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

Atlantic City's Economy is Struggling

Atlantic City's economy grew 0.5% (+800 jobs) last year – the slowest rate of job growth recorded since 2002 when total establishment employment declined. Last year's rate of job growth in the Atlantic City metropolitan area (which is coincident with Atlantic County) was below state and national benchmarks of 0.9% and 1.8%. Last year's slowdown has accelerated this year. Presently, the area's employment is contracting at a rate of 1.3% year-on-year. This compares to current year-on-year rates of job growth of 0.6% and 1.5% for the state and nation respectively. (See Figure 1)

Atlantic City's current economic woes are largely attributable to recent developments in the casino industry.

The closing of the Sands casino last fall as well as more recent layoffs at the Tropicana have exerted a significant drag on the local economy. Employment in the casino hotel industry, at 37,200 in February, was down 3,600 from its prior-year level. Since peaking at 47,700 in 1998, employment in the casino industry has declined 12.7%. It should be noted that if restaurant and bar employment is taken into account this downward trend is not significantly altered – though, at -5.5%, it is less than the casino-alone decline.¹ (See Figure 2)

While recent trends in the casino industry have exerted a drag on the local economy (in terms of employment and payrolls), it should be noted that *cont'd on page 2*

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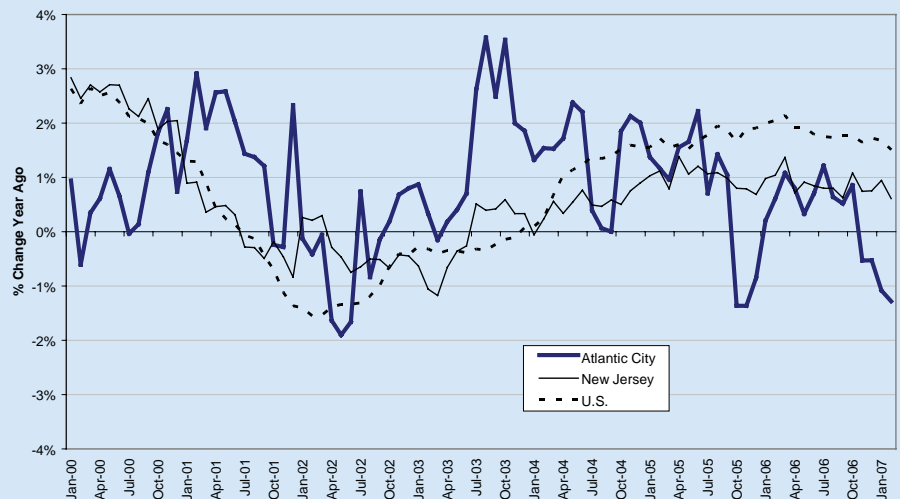
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Figure 1: Establishment Employment Growth
Atlantic City, New Jersey and the U.S.
January 2000 to February 2007



Source: New Jersey Department of Labor and Workforce Development.

The Economic Impact of Population Aging: Implications for South Jersey

By David Burdick, Ph.D. Professor of Psychology and Director of the Stockton Center on Successful Aging Initiative (www.stockton.edu/agingcenter).

Population aging, primarily caused by the aging of the large baby-boom generation (approximately 76 million Americans born between 1946 and 1965) will transform American society. Projections range from “gloom and doom” (staggering age-related health care costs will bankrupt the federal government), to “there’s gold in them thar hills” (as the number of seniors mounts over the next half century, there will be significant economic opportunity for providers of goods and services).

South Jersey will not be immune from the changes. In fact the proportion of the population over age 65 in the coastal counties of Cape May, Atlantic,



and Ocean (collectively approximately 17.7%) is already significantly higher than the national figure (12.1%). In our region, multiple trends (the aging of existing residents, the accelerated growth of housing units in age-restricted communities, the marketing of our area as an attractive retirement location, and increased tourism by aging boomers), will provide many opportunities and challenges to various government and business sectors of our economy.

The unique concerns of the health care sector (in both acute and long-term care) will be the topic of a more extensive article in the next issue of SJER. ■

AC's Economy cont'd from page 1

the scheduled completion of Harrah's Atlantic City \$550-million expansion by Memorial Day may provide some relief for the economy during the second half of the year. In addition, there are several on-going casino expansion plans that may provide a lift to the economy during 2008. These include: the second phase of Harrah's Atlantic City expansion (scheduled for completion in mid-2008); the second phase of the Borgata's \$600 million expansion (scheduled for completion in early 2008);² and, the Taj Mahal's hotel-casino 800-room expansion (scheduled for completion by mid-2008). Longer-term, there are several other casino projects (both new and expansions) in various planning stages. ■

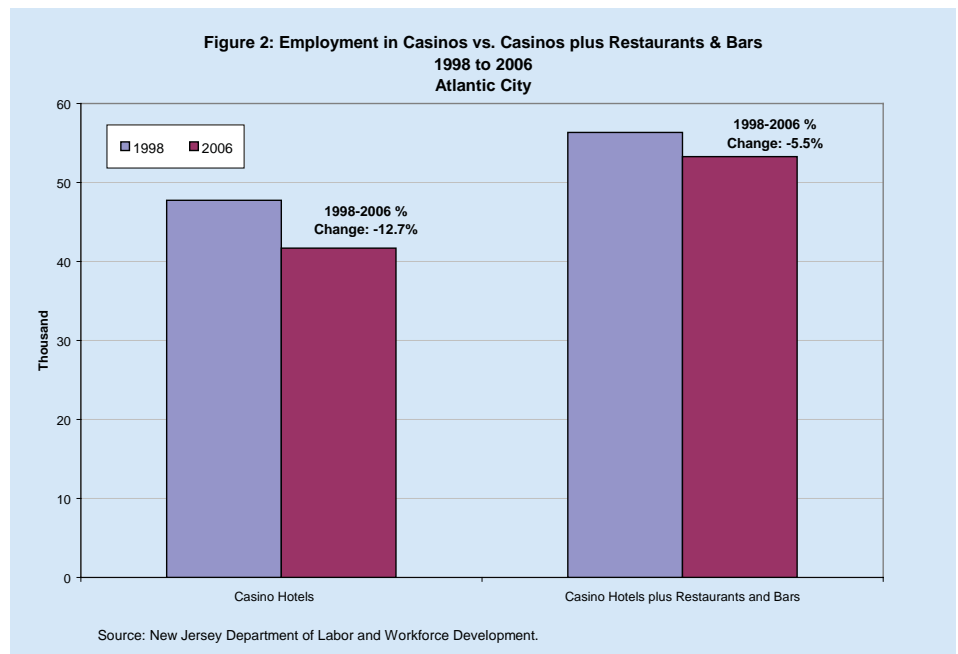


Table 1 provides additional statistical information for the casino industry for the 1997 to 2005 period. As shown, the industry's total revenue increased 8.6% in real (or, inflation-adjusted) terms during this period. In part reflecting its declining

employment, the industry's total payroll (again, in constant dollars) declined 13.6% over the same period. These two trends led to a 20% increase in revenue earned per employee (to \$146,398 from \$122,020). The industry's dollar volume

of business with the New Jersey-based casino service industry declined 13.1% in real terms between 1997 and 2005. Relative to every dollar of revenue the industry earns, \$0.31 was spent
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Table 1: Atlantic City Casino Industry Trends 1997 to 2005

	1997	2005	% Change
Total Revenue* (\$2005 billions)	\$5.8	\$6.3	8.6%
Payroll (\$2005 billions)	\$1.3	\$1.1	-13.6%
\$ Volume of Business with <i>New Jersey-based</i> Casino Industry Service Providers (\$2005)	\$2.3	\$2.0	-13.1%
Employment (thousands)	47.5	43.0	-9.5%
Total Revenue (\$2005) / employee	\$122,020	\$146,398	20.0%
\$ Volume of Business with <i>New Jersey-based</i> Casino Industry Service Providers (\$2005) / Total Revenue (\$2005)	\$0.39	\$0.31	-20.0%
Cash Capital Expenditures (\$2005) / Total Revenue (\$2005)	\$0.04**	\$0.08	103.8%

* Casino revenue accounts for approximately 80% of total industry revenue.
 ** Due to data limitations, this is a 2000 figure.

Source: Author's calculations from New Jersey Casino Control Commission data.

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with New Jersey-based casino industry services providers in 2005. This was 20% less than the \$0.39 spent with these providers in 2000. Largely reflecting its significant capital investment in the metropolitan area in recent years, the industry's cash capital expenditures (which exclude capital leases) per dollar

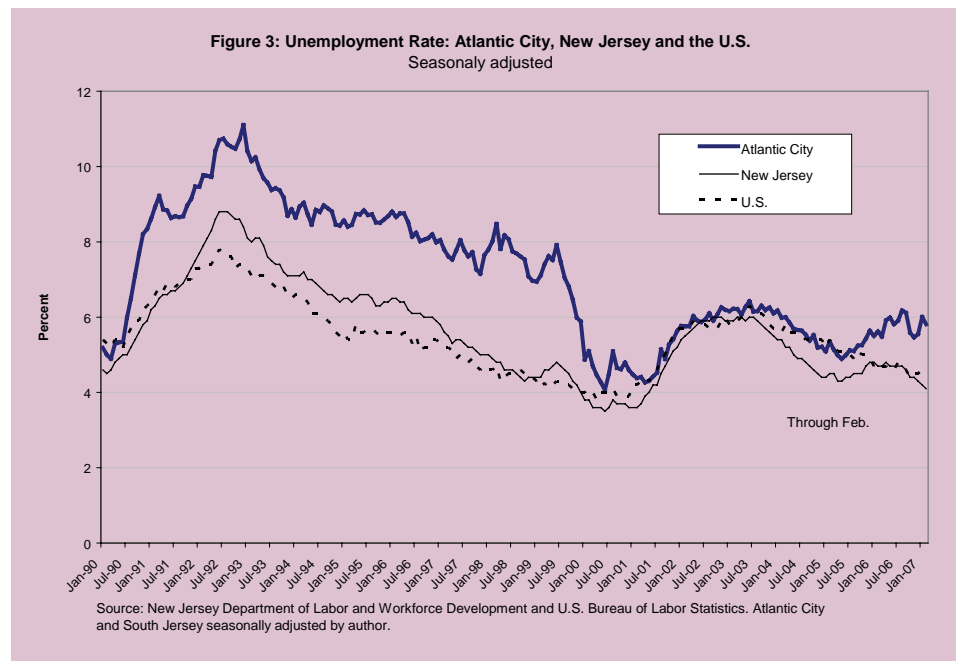
of revenue more than doubled between 2000 and 2005.

While the casino industry obviously remains the most significant industry in the South Jersey regional economy, the above data paint a more nuanced picture regarding the industry's evolving relationship with the regional

economy. On one hand, declines in the industry's employment, payroll, and volume of business conducted with New Jersey-based firms suggest that its overall multiplier effect on the regional economy may have moderated somewhat in recent years. At the same time, the industry's revenue growth as well as its significant physical expansion in the recent past have clearly delivered significant benefits (e.g., tax revenues, construction spending and employment) to the regional economy. While ongoing expansions and the possibility of new properties in the future may yield some net increase in the number of industry jobs over the coming years, the trends described above suggest that the benefits the industry will deliver to the regional economy may derive more from the revenue side.

Unemployment Picture

The seasonally adjusted unemployment rate in Atlantic City stood at 5.8% in February. This compared to the year-earlier level of 5.6% -- the same rate that prevailed in October 2006 (the month preceding the closing of the Sands casino). (See Figure 3) The February 2007 rate of unemployment in the metro area was well above the state's 4.1% and the nation's 4.5%. Given the current weakness in Atlantic City's job growth, the increase in the unemployment rate has been rather modest. This reflects the fact that the area's labor force has declined in recent months. Through the first two months of this year, the metropolitan area's labor force was declining at a rate of 0.6% year-on-year. Indeed, January's and February's declines represented the first two consecutive monthly year-on-year declines recorded in Atlantic City's labor force since mid-2000 when the dot-com



financial bubble burst and the national economy began its slide into recession in the following year. Declines in an area's labor force are often associated with weakness in its labor market (i.e., hiring). Such declines may reflect out-

migration from the area as workers seek employment opportunities elsewhere; increases in the number of "discouraged" workers; and, declines in labor force participation rates.³

Trends beyond the Casino Industry

In addition to the drag exerted by the casino industry, three other industries have contributed to Atlantic City economy's present weakness. Wholesale trade employment in the metropolitan area declined 1.7% during the past six months (from September to February) on a year-on-year basis. While this contraction mirrors the industry's statewide trend (-1%) it lies in stark contrast to the industry's national gain of 2.1% over the same period. Employment in Atlantic City's information sector (which includes



newspapers, publishing, software, broadcasting, telecommunications, and internet services) declined 3.2% over the past six months year-on-year. This compared to industry gains of 1.9% and



0.3% for the state and nation. Finally, while the government sector has recently added jobs at both the state (+1%) and national levels (+1.2%), employment in Atlantic City's government sector declined 1.4%. This decline primarily reflected a steep 6.2% decline in state government employment in the metropolitan area. It should also be noted that the construction industry has also contributed to the current weakness in the metro area economy. (See discussion on Housing Market below.)

Continuing their recent trends, two industries in Atlantic City – retail trade and restaurants & bars – have continued to record robust job gains. While



average employment in retail trade during the past six months was up 3.8% year-on-year (compared to growth of just 0.2% statewide and -0.1% nationally), employment in restaurants & bars for the same period was up an eye-popping 8.7% (compared to state and national benchmarks of 2% and 3.8%). While these trends have undoubtedly helped soften the blow emanating from the Sands closing and Tropicana layoffs, both of these industries tend to pay relatively low wages. This implies that former casino employees who recently lost their jobs and found reemployment in these two industries may have experienced wage declines.⁴

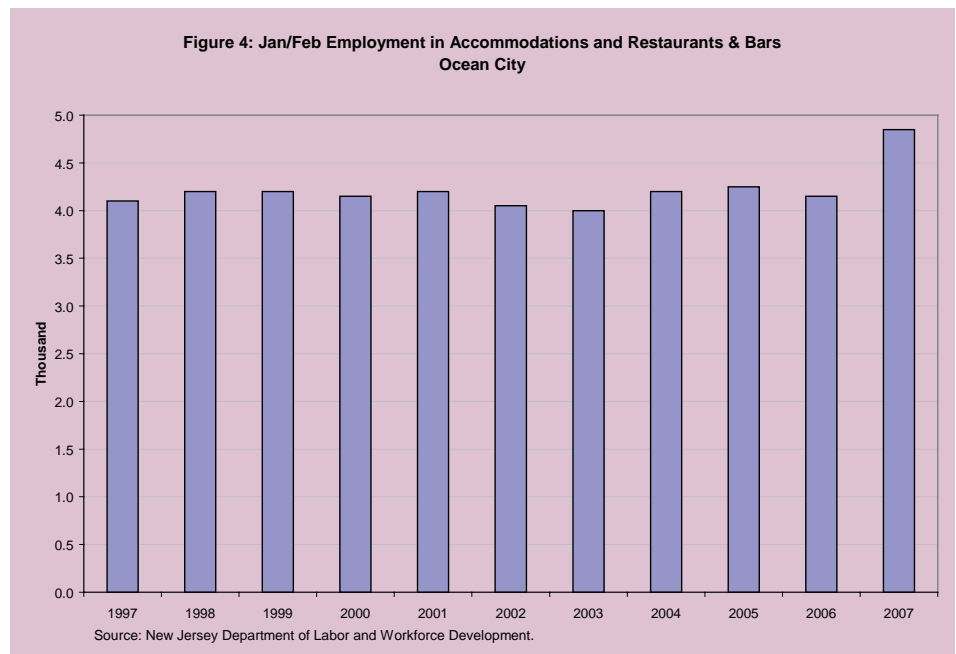
Table 2: Recent Trends in Industry Job Growth: Atlantic City, New Jersey and the U.S.

	Atlantic City (Employment in thousands)			New Jersey	U.S.
	Sept. 2005- Feb. 2006	Sept. 2006- Feb. 2007	% Change	% Change	% Change
Total Nonfarm	151.0	150.5	-0.3%	0.8%	1.7%
Manufacturing	4.2	4.1	-2.8%	-2.1%	-0.4%
Natural Resources, Mining & Construction	6.7	6.6	-2.0%	0.4%	2.5%
Trans. & Warehousing, Utilities	3.0	3.0	1.7%	0.4%	2.1%
Retail Trade	16.0	16.6	3.8%	0.2%	-0.1%
Wholesale Trade	2.9	2.9	-1.7%	-1.0%	2.1%
Financial Activities	4.4	4.6	4.2%	0.7%	2.2%
Information	1.03	1.00	-3.2%	1.9%	0.3%
Professional and Business Services	9.8	10.1	3.2%	1.8%	2.9%
Leisure and Hospitality	57.5	56.2	-2.3%	1.4%	3.3%
Accommodation	45.1	42.7	-5.2%	-1.7%	1.7%
Casino Hotels	42.0	39.8	-5.1%	-5.1%	-0.2%
Food Services and Drinking Places	10.6	11.5	8.7%	2.0%	3.8%
Educational, Health & Social Services	17.9	18.2	1.9%	1.8%	2.7%
Hospitals	6.2	6.2	0.3%	0.2%	2.1%
Other Services	4.2	4.2	0.0%	1.7%	0.8%
Government	23.5	23.1	-1.4%	1.0%	1.2%
Federal Government	2.8	2.7	-3.6%	-2.2%	-0.5%
State Government	4.6	4.3	-6.2%	0.8%	1.4%
Local Government	16.1	16.1	0.3%	1.6%	1.5%

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

Economic Conditions in Ocean City and Vineland-Millville-Bridgeton

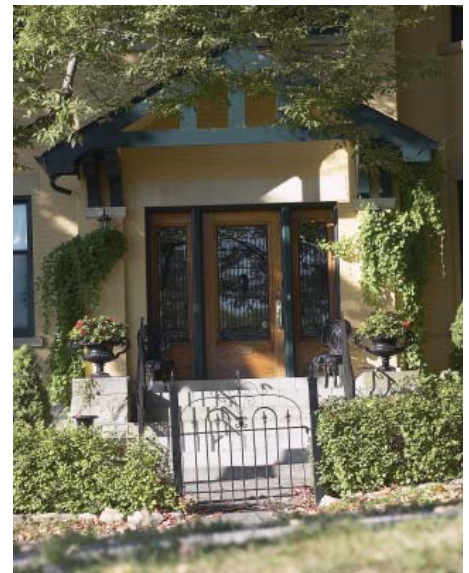
Similar to Atlantic City's economy, Vineland-Millville-Bridgeton's (VMB) economy slowed last year as job growth moderated to 0.1% from 0.9% in 2005. In February, establishment employment in the metropolitan area was contracting at a 0.2% rate year-on-year. In stark contrast to trends in the Atlantic City and VMB economies, job growth in Ocean City accelerated in 2006 (to 0.7% from 0.2%). This acceleration represented 300 jobs. Presently (and, somewhat surprisingly), Ocean City's employment base is growing at a 2.5% rate year-on-year. A significant portion of Ocean City's current robust job growth is attributable to a large (+700) winter (January/February) increase in employment in the metropolitan area's accommodation and food service industries.⁵ (See Figure 4) ■



The Housing Market is Contributing to the Current Weakness

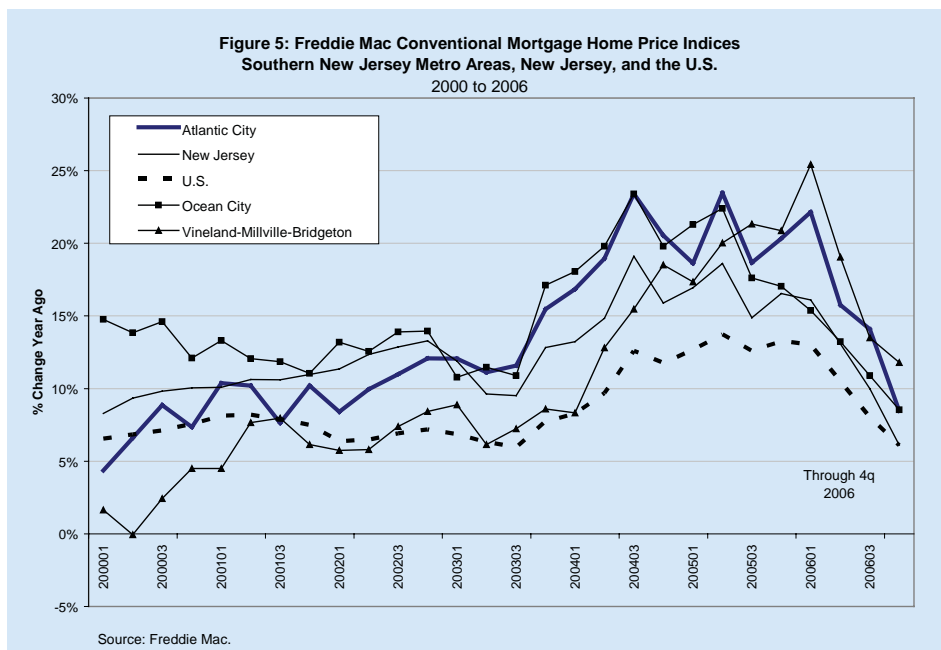
Based on Freddie Mac's conventional mortgage home price index (CMHPI), the rate of price appreciation of single-family homes in the Atlantic City metropolitan area (which is coincident with Atlantic County) slowed sharply in 2006. (See Figure 5) Fourth-quarter 2006 year-on-year growth of 8.5% in single-family home prices in the

metropolitan area was the slowest rate of growth recorded since the first quarter of 2002. The CMHP indices for Ocean City and Vineland-Millville-Bridgeton show similarly steep declines in the rate of home price appreciation. National Association of Realtors data, meanwhile, indicate that the median price of existing single-family homes in the Atlantic City



metropolitan area declined 0.5% last year (to \$254,800 from \$256,100 in 2005).⁶

Of course, the trend in home prices in the South Jersey region is hardly unique, as many metropolitan areas' housing markets have experienced marked declines in home prices over the past several quarters. The ramifications of the national slowdown in the housing market continue to play out. Importantly, while *cont'd on page 6*



The Housing Market
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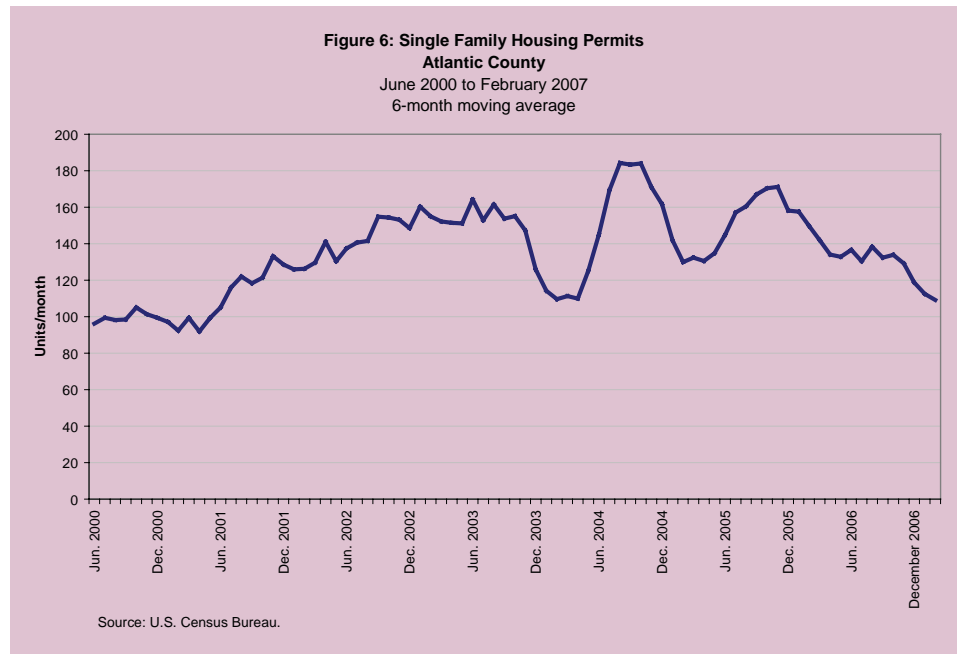
there has been significant coverage of the on-going shake-out in the sub-prime mortgage industry, far less attention has been given to the implications of weaker home prices on consumer spending. Already, several states, including New Jersey, are beginning to feel the effects of the housing slowdown, as collections of real estate transfer taxes and sales taxes linked to purchases of building materials, furniture and other new home-related expenditures have slowed markedly over the past few quarters.⁷ Slower home price appreciation and/or home price depreciation will continue to undermine home equity-related consumption expenditures going forward.



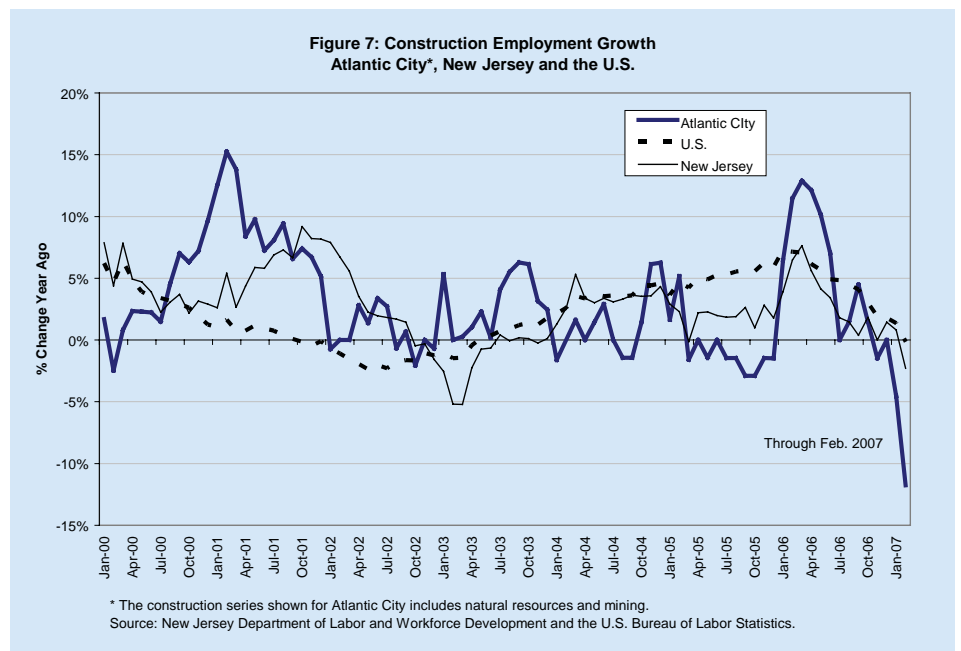
The slowdown in the metropolitan area housing market is also apparent in permit activity. On a six-month moving average basis, single-family permits in Atlantic County have continued their strong downward trend. (See Figure 6) Indeed, on this basis, single-family permits in Atlantic County are quickly approaching their former pre-boom levels of early 2001.



The impact of the current housing slowdown is (not surprisingly) most visible in the dramatic decline in the rate



of construction employment growth in the metropolitan area. As Figure 7 shows, the rate of job growth in construction in Atlantic County has plummeted in recent months. Presently, employment in the industry is contracting at a 11.8% year-on-year rate.⁸ This rate of contraction is significantly worse than current rates of employment contraction in the industry at the state (-2.3%) and national levels (0.1%).



2006 Employment Data Revised Downward

The Department of Labor and Workforce's recently completed annual benchmarking process, which revises metropolitan areas' establishment employment statistics, resulted in a significant 2.1% reduction in Atlantic City's 2006 annual average employment. The metropolitan area's annual employment figure for last year was revised down to 153,000 from an original estimate of 156,100. Table 3 shows the results of the benchmark revisions for the state's other metropolitan areas and divisions. As shown, the two other southern metropolitan areas – Ocean City and Vineland-Milville-Bridgeton – also saw their 2006 employment levels revised downward. ■

**Table 3: Benchmark Revisions for Establishment Employment by Metropolitan Area/Division
2006 Nonfarm Employment (thousands)**

Metropolitan Area/Division	Original Estimate	Revised Estimate	Difference	%
Atlantic City	156.1	152.9	-3.3	-2.1%
Bergen-Hudson-Passaic	902.8	904.2	1.3	0.1%
Camden	544.0	543.5	-0.5	-0.1%
Edison	1,034.5	1,027.3	-7.2	-0.7%
Newark-Union	1,023.8	1,034.0	10.2	1.0%
Ocean City	45.3	44.4	-0.8	-1.9%
Trenton	241.6	243.0	1.4	0.6%
Vineland-Milville-Bridgeton	64.1	63.3	-0.8	-1.2%

Source: New Jersey Department of Labor and Workforce Development

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



Endnotes

¹Thanks is due to Tony Marino for raising this important issue.

²Chet Sheman, "Developments in the PIPELINE for Atlantic & Cape May counties" 2/22/07

³Discouraged workers are not included in the official labor force count because they have not actively sought out employment in the past four weeks because they believe there are no jobs available or there are none for which they would qualify. Thus, when an individual becomes classified as discouraged (often after failing to find a job for some time) s/he is removed from the labor force count. The discouraged worker issue is but one that influences labor force participation rates.

⁴They likely also experienced benefit reductions.

⁵Additional investigation into this large increase failed to pinpoint its origin (e.g., a new business opening, etc.). It may reflect a statistical estimation error.

⁶The NAR data do not cover the Ocean City and Vineland-Milville-Bridgeton metropolitan areas.

⁷"Housing Slump Pinches States in the Pocketbook" New York Times, Abby Goodnough, April 8, 2007

⁸Readers should note that the dramatic decline in the rate of growth in construction employment shown in Figure 7 does not reflect seasonality issues which affect levels of employment not rates of growth. Moreover, the rapid decline in the rate of construction job growth remains stark even on a quarterly moving-average basis (construction employment is contracting at a 5.5% rate year-on-year).