Economists say New Jersey, region positioned for recovery

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TRENTON — Prominent economists say New Jersey is a bit better positioned for the slow recovery facing the nation, and two see additional reasons for optimism about the shore tourism economy.

An impressive roster of experts brought together for the state’s first Economic Forum on Monday were in broad agreement that the U.S. recovery will be a long slow grind, but New Jersey differs in ways that are mostly positive.

“I do think we’re starting to get some pickup in the tourism-related industries, and that applies to the Jersey Shore,” Leonard Nakamura, a vice president of the Federal Reserve Bank of Philadelphia, said in response to a question at the event.

“One of the things we hear is that Jersey Shore establishments have been hanging on, looking for the recovery. So it’s a question of when this pickup comes through, whether it’s going to be strong enough to justify the hopes of those businesses,” he said.

With the weak U.S. and global economy, area businesses are sure to wish the rebound was stronger, he said.

“While I expect tourism to do a bit better than the economy as a whole, we’re not talking about robust growth,” Nakamura said.

Joel Naroff, president of Naroff Economic Advisors, said one of the main drags on the recovery — housing — is less a factor in the state and especially along the shore.

“Housing has not been quite the crisis in New Jersey that it has been everywhere else,” he said. “A lot of housing demand, especially in the shore region, tends to come from equity, and to the extent that the markets are improving, that’s going to stabilize some of the housing market, at least compared to other areas.”

Naroff said another New Jersey advantage is that in an era of increasing global trade, it’s a well-located coastal state.

“We have a tremendous opportunity in the state to become a key transshipment point for goods,” he said.

He also said that state government’s early austerity efforts now mean it will require fewer economy-slowing cuts going forward.

Nakamura said the Economic Research Department at the Philly Fed already is seeing signs that government employment has stabilized and is increasing slightly.

“New Jersey is nearly a year ahead of Pennsylvania in cutting local government jobs and is now on an up trend,” he said.

Whether that can continue will depend on whether the state continues its “belt tightening,” which it might want to do since its bond rating is worse than all other states except California and Illinois, he said.

Erica Groshen, a vice president with the New York Federal Reserve Bank, said New Jersey largely tracks the nation regarding unemployment, but differs in two significant ways.

One is that a higher percentage — 66 percent — of state residents participate in the labor market than do so nationwide, where the rate is 64 percent.

And while New Jersey has lost 247,600 jobs during the recession and in the years since, a higher percentage of the jobs found by the Garden State’s unemployed have been in new areas of work that require more skills and have a better future.

That, unfortunately, can take more time and specialized training. Aaron Fichtner, state assistant commissioner of labor and workforce development, said average duration of unemployment in New Jersey in September was 27.8 weeks, compared with 21.6 weeks for the U.S.

The Garden State Economic Forum, held at the State Museum, was the latest effort by the state Department of Treasury to draw attention to the changing business climate under Gov. Chris Christie. In January, the department began publishing a monthly newsletter by chief economist Charles Steindel with research and commentary about the state’s economy.

“We can have a more business friendly tax environment, we can have a more commonsense regulatory environment, but if no one knows about it, it doesn’t do any good,” said Caren Franzini, chief executive officer of the N.J. Economic Development Authority.

Franzini compared the administration’s $180 million in business tax cuts with the 115 tax and fee increases during the eight years before Christie took office. She also lauded the Red Tape Review Commission and incentives to attract corporations or keep them from leaving the state.

New Jersey’s recovery in large part depends on a national rebound that nearly stalled in the summer. The economists said that while it was back on track, travel along the path will be slow.

“The data have been better, not good, but better. It’s really quite remarkable,” said Ethan Harris, head of North American Economics for Bank of America Merrill Lynch Global Research. “Almost every indicator and hard number in the last month or so has been slightly better than we expected.”

Harris said he expects a “rehab recovery” with growth 3 percent a year at best, and likely slower.

Naroff said the causes of the recession made it inevitable we’d have a sluggish rebound.

“If you think of the recovery as a rocket ship, you want it to blast off, and stage one of that rocket is typically the housing sector,” he said. That stage wouldn’t fire this time because overbuilt housing was a chief cause of the collapse.

Stage two, usually igniting a year or two into the recovery, is readily available credit, he said. That was too damaged in the financial meltdown to help yet.

“We were never going to get a strong recovery,” Naroff said. “We all wanted the hare in the race to the finish line, but we got the tortoise.”

Nonetheless, he listed among positive signs a firming labor market, businesses starting to invest some of their $2 trillion in liquid assets, a weak dollar boosting trade, a stabilized housing market and Fed-induced rock bottom interest rates. That last item is allowing households and businesses to refinance, helping their cash flow.

He said challenges ahead that could derail the recovery include energy prices (as $4 a gallon gasoline did in the spring), government cutbacks and the uncertainty amassing from botched efforts to address the U.S. deficit and the limbo of health-care reform.

Harris predicted another hurdle: a mild recession in Europe in 2012, and possibly a major downturn there.

Naroff offered one hopeful sign about Europe, partly in jest to all of his fellow forecasters present.

“We have really good news. Greece and Italy are going to be run by economists, people who know what’s going on,” he said.

“But, of course, they’re economists, who are generally clueless about everything else.”

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