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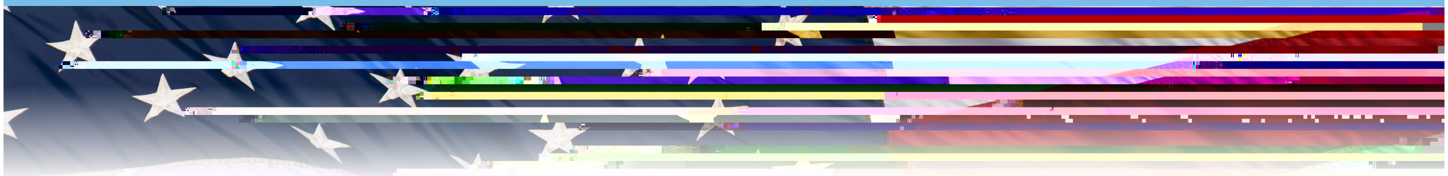

THE SOUTH JERSEY ECONOMIC REVIEW

One Year On: Assessing the Impact of the 2020 COVID-19 Recession on the Southern New Jersey Regional Economy

Signs of a national economic recovery represent especially good news for a southern New Jersey regional economy that was battered by last year's COVID recession.

In addition to exploring the broader employment and labor force impacts of last year's COVID recession on the southern New Jersey regional economy, this edition of the South Jersey Economic Review provides estimates of the decline in Atlantic City's overall economic activity (gross domestic product) last year, documents the rise of SNAP recipiency by regional households, analyzes the regional housing market, and assesses the region's economic outlook over the near-term horizon.

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by 15.8 percent (-21,100 jobs) last year, the third-largest decline (in proportional terms) among all U.S. metropolitan areas.

Unsurprisingly, Table 1 is dominat1o by metropolitan area economies that rely heavily on the leisure ano hospitality (L&H) sector ano oil-relat1o industries.[1] As is well-known, the nature of the pandemic ano the lockdowns it induc1o wreak1o

COVID recession was signi cant.

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Figure 1: Atlantic City, NJ Metropolitan Area
Labor Force, No. Unemployed, Unemployment Rate
March 2020 to March 2021

Source: U.S. Bureau of Labor Statistics.

to the restart of remote-based public education last fall). Unemployment began rising again last fall (climbing to 15.3 percent in November from 10.8 percent in September) before declining in December in tandem with another signi cant decline in the labor force.

In March of this year, the metropolitan area's unemployment rate stood at a seasonally adjusted 11 percent. e local labor force has declined 3.6 percent since March 2020 (-4,300), while the number of o cially unemployed individuals stands at nearly 13,000—twice its March 2020 level.

Estimating the Decline in Atlantic City's Gross Domestic Product

While the U.S. Bureau of Economic Analysis won't release 2020 GDP gures for metropolitan areas until December of this year, state level GDP gures (which are released on a more timely basis) can be leveraged

Table 3: New Jersey GDP for Selected Industries & Sectors: Comparing the COVID Recession with the Great Recession

	2020 COVID Recession			2009 Great Recession		
	Change %	Change ($ millions)	Share of $ Change	Change %	Change ($ millions)	Share of $ Change
All industry total	**-4.1%**	**-$22,597**	**100%**	**-4.1%**	**-$21,892**	**100%**
Utilities	1.7%	$145	-0.6%	-0.3%	-$29	0.1%
Construction	-3.7%	-$670	3.0%	-12.2%	-$2,340	10.7%
Manufacturing	-1.3%	-$638	2.8%	-18.7%	-$11,613	53.0%
Wholesale trade	-4.0%	-$1,869	8.3%	-12.2%	-$5,609	25.6%

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to shed additional light (beyond the employment impact described above) on how the COVID recession affected Atlantic City's overall economy last year.

Recently released (though preliminary) state GDP figures show that New Jersey's economy contracted 4.1 percent last year—identical to its rate of contraction in 2009 amid the Great Recession. By way of comparison, the national economy contracted 3.5 percent last year which was worse than its 2.5 percent contraction in 2009.

While New Jersey's experience last year was (in output terms) on par with its Great Recession experience, Table 3 (p.4) makes clear that the 2020 COVID recession was quite different than the Great Recession. In particular, the COVID recession produced much larger proportional output declines than the Great Recession did *in the industries most affected by each recession*. For example, in 2020, the state's arts, entertainment, and recreation industry along with its accommodation and food services industry (which jointly constitute the broad leisure and hospitality sector) saw real output declines of 42 and 26 percent, respectively. In contrast, the two largest industry-based output declines experienced during the Great Recession were smaller: -18.7 percent in manufacturing and -15.5 percent in accommodation and food services.

At the same time, the COVID recession's impact was more widespread than the Great Recession's. For example, the output declines experienced by manufacturing (-$11.6 billion) and wholesale trade (-$5.6 billion) accounted for nearly 80 percent of the state's total GDP decline in 2009 (which equaled -$21.9 billion). The two largest output declines in 2020 occurred in health care services (-$3.4 billion) and transportation and warehousing (-$2.7 billion). These declines accounted for just 27 percent of the state's total GDP decline (-$22.6 billion), however.

Several other differences across the two recessions are noteworthy. The unique nature of the COVID recession proved especially hard on both the educational and health services industries. Reflecting their general "recession proof" tendencies, both industries experienced output *gains* during the Great Recession. In 2020, both industries recorded significant declines. The "other services" category (which tends to be dominated by an array of small businesses) was also deeply affected by last year's recession. Whereas this industry's output declined 6 percent in 2009, last year it declined by 16.4 percent. Retail trade meanwhile weathered the COVID recession relatively well as its decline of 4 percent was less than the -5.6 percent it recorded in 2009. Finally, the information industry (which includes traditional publishing, software, radio and TV broadcasting, cable and wireless, and data processing and hosting) recorded a robust 6.5 percent output increase last year. In 2009, it saw output decline -3.5 percent. The analysis that follows leverages these state level industry-based output figures to provide a set of estimates of the overall effect of the COVID recession on Atlantic City's GDP last year.

I begin by dividing Atlantic City's economy into two broad segments: the leisure and hospitality (L&H) sector and a broad non-L&H sector. This reflect two considerations. First, while the L&H sector's contribution to Atlantic City's economy has declined considerably since the Great Recession (from 28.7 percent of total metropolitan area GDP in 2008 to 16.7 percent in 2019), it remains central to Atlantic City's economy. In fact, the sector's share of Atlantic City's GDP is five times greater than its share of statewide GDP (3.1 percent). Figure 2 plots the historic relationship between real annual rates of output growth in Atlantic City's L&H sector against those for its overall economy

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e second consideration regards a point made previously. Namely, the COVID recession had an extremely adverse impact on the L&H sector. Nationally, L&H output declined 27

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Figure 3 shows the historic relationship between annual rates of growth in gaming industry win, L&H output, and total GDP over the past twenty years in Atlantic City. The correlation coefficient between annual rates of growth in the gaming industry's brick and mortar win and L&H output equaled +0.57 between 2002 and 2019. While this correlation does not provide a basis for drawing concrete conclusions about the relationship between the two series, it nevertheless suggests that the 50-60 percent declines

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Figure 4: EZ Pass Toll Transactions vs. Atlantic City GDP and GDP Per Toll Transaction
2009 to 2020*

* 2020 GDP is an estimate as explained in the text.

Mac's House Price Index.[6] is national year-on-year rate of single-family home price appreciation is among the highest ever recorded outside the housing market boom during the mid-2000s (which ended in the historic housing market collapse that helped trigger the

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Great Recession and related nancial crisis) and the late 1970s. Statewide, single-family home prices were up 13.1 percent between February 2020 and February 2021. In the Atlantic City and Ocean City metropolitan areas (Atlantic County and Cape May County, respectively) prices rose 18.6 and 17.9 percent, respectively, during this period. (Figure 6)

e COVID recession's impact on the regional housing market warrants careful scrutiny over the coming year. is is especially true in the case of the Ocean City metropolitan area whose economy is heavily dependent on real estate (both for summer shore rental home and second-home reasons).[7] Anecdotal evidence from around the country suggests that many second-home owners in places like Cape May took up quasi-permanent residency in their second homes during the past year owing to the ability to work remotely during the pandemic. is dynamic has not only a ected the supply of summer shore rentals but may prove to have longer-term economic implications should these owners continue to live and work in their second homes on a more regular basis in the future.

Looking Ahead: Late 2021 and 2022

While the current momentum of the national recovery should translate into a solid summer 2021 shore season, a sustained recovery for the southern New Jersey regional economy in late 2021 and 2022 will hinge on the longer-term post-pandemic strategy of the local gaming industry and continued regional economic diversi cation.

National Outlook

Re ecting the recovery's accelerating momentum, the U.S. economy advanced at a 6.4 percent annual rate in this year's rst quarter, up from a 4.3 percent clip in last year's fourth quarter. is was the third-fastest rate of advance (outside of last year's third-quarter initial bounce-back from the second quarter COVID-induced lockdown) recorded by the national economy since the third quarter of 2003. e rst quarter gure was driven by a robust 11.3 percent advance in personal consumption expenditures and a 44.8 percent increase in non-defense federal spending. While the national job reports in April and May were somewhat weaker than expected, it remains true that the national economy has added jobs in twelve of the past thirteen months. (At the same time, employment remains 7.6 million below February 2020.)

e national unemployment rate stood at a seasonally adjusted 5.8 percent in May compared to 14.8 percent in April 2020 (its high-water mark during last year's recession). Importantly, weekly initial claims for unemployment insurance have trended lower since early February 2021. While the national job market story over the coming months will hinge critically on the labor force (which remains nearly 3.5 million (-2.1 percent) below its February 2020 level), current expectations of the national economy's

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Americans amassed during the COVID recession of 2020. In fact, by one estimate, Americans managed to accumulate “excess savings” (savings in excess of what they would have saved absent the pandemic) of roughly 6 percent of GDP through the rst three quarters of 2020. e most recent round of federal stimulus checks—which were deposited into many Americans’ bank accounts by the U.S. Treasury in mid-March—added yet more to this cash pile.

Meanwhile, most housing markets around the country continue to be white-hot. Fueled by historically low mortgage rates (the product of the Federal Reserve’s ultra-accommodative pandemic monetary policy), and pandemic-induced changes in preferences for larger homes and open space, home prices of existing single-family homes jumped dramatically over

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Endnotes

1 e presence of three oil dependent metropolitan areas in Table 1 re ects the collapse of oil prices which plunged to an 18-year low last spring in response to the pandemic-induced national lockdown.

2 e openings of the Hard Rock Hotel & Casino and Ocean Casino Resort in June 2018 helped buoy the leisure and hospitality sector that year.

3 Brick and mortar win represents casino win only (slots and table games), i.e., it excludes internet gaming, and sports wagering revenue. Brick and mortar win is a better indicator for tracking the gaming industry's impact on the local economy as it requires visitation to Atlantic City.

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