THE SOUTH JERSEY ECONOMIC REVIEW

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".

Retail, Restaurants, and Construction Post Job Gains

Based on employment data for the first eleven months of last year, retail trade employment in Atlantic City increased by 1,400 jobs year-on-year—a very sizable 9.2% gain. Indeed, last year's job gain allowed the retail trade sector to surpass its pre-recession employment peak of 16,500 recorded in 2007. (Table 1) The health of the metro area's retail trade sector is especially noteworthy in light of the anemic growth in retail trade employment nationally which has reflected retrenchment of households in the aftermath of the national recession and a slow-moving recovery. While it seems unlikely that Atlantic City's retail trade sector will repeat this strong performance in the coming year, last year's robust job gains could signal an important turning point: retailers' expectations of a brighter 2014.

Employment in the metro area's restaurants and bars was up 700 jobs (5.9%) year-on-year through November of last year. Similar to the gains experienced in retail trade, those in Atlantic City's restaurants/bars industry exceeded the national gain (+3.3%). Finally, job gains were also recorded in the metro area's construction industry last year. A gain of 300 construction jobs (6.2%) reversed the late-2012 slump in construction employment that followed the Revel induced run-up in construction jobs in late 2011 and early 2012.

Continued job gains across these three industries (which jointly account for 25% of the metropolitan area's job base) will be critically important to the local economy's fortunes in the year ahead, especially in light of the recent closure of the Atlantic Club.

Retrenchment and Realignment in Gaming Industry Continue

Last year's gains in retail trade, restaurants/bars, and construction employment were offset by 2,300 losses in the accommodations sector which includes casino hotels. Official employment data from the U.S. Bureau of Labor Statistics indicate that casino hotels employment was down 2,100 year-on-year through the first eleven months of last year. Last year's steep decline in casino hotels employment is especially troubling in light

the industry recorded in 2012—its first since

2005. The recent closure of the Atlantic Club, economy over the coming year. At the same time, several recent announcements—United will begin air service from ACY in April; Bass Pro Shops is scheduled to open its 86,000 sq. ft. store this coming fall; and, the Garden State Film Festival is slated to kick off in early April—should bode well for the local economy.

Housing Market Update

Single-family home prices in the metropolitan area continued to edge upward last year, according to data from Freddie Mac. After six consecutive years of year-on-year quarterly declines, single-family home prices posted year-on-year gains in every quarter of 2013. While prices were up 1.2% in last year's first quarter, the rate of home price appreciation accelerated to 3.2% in the second quarter, and accelerated again to 5% in the final two quarters of last year. National Association of Realtors median home-price data meanwhile showed a broadly similar trend, with prices up 3.6% in last year's third quarter, and a more modest 1.3% in the final quarter. Both trends show a clear improvement in the local housing market which—in tandem with the continuation of very low levels of homebuilding in the local economy—should continue into 2014. (Figure 3)

The Diversification Premium

As is widely recognized, Atlantic City finds itself at a crossroads. Owing to increased competition, its long-time economic engine—gaming—has fallen on hard times as a result of the loss of its monopoly on East Coast gaming. On-going efforts (both public and private) will continue to restructure the industry and hopefully nurse it back to health in the near future. Additional efforts aimed at diversifying the local economy's tourism portfolio by marketing, expanding, and improving its non-gaming amenities are important and seem likely to eventually bear some fruit. However, while reenergizing and broadening the local economy's leisure and hospitality sector is undoubtedly important to Atlantic City's future economic success, it is unlikely to prove enough to allow Atlantic City's economy to flourish over the coming decades. Evidence from around the country makes clear that while specialization is "good" for individuals, industrial diversification underwrites success at the metropolitan level.

Table 2 shows a selected group of metropolitan areas based on their 1990 populations. Specifically, each metro area shown had a 1990 population between 90-110% of Atlantic City's 1990 population of 225,431. This yielded 18 metropolitan areas including Atlantic City. Between 1990 and 2012, the median rate of population growth for these metropolitan areas was 23.7% (or, approximately 1% per annum). Atlantic City's total population gain over this period was 22.2% (or, 0.9% per annum). Median nominal personal income growth equaled 185% for the metro areas shown (4.9% per annum). Atlantic City's personal income growth, at 123.3% (3.7% annually), ranked last as did its per capita income growthTD [nFtr(opeis (1(r)18(esul22 TD [or the)]TJ 0.004 Tw spi T* [(C its)) m8at a

	Total Population	Population Growth 1990-2012		Personal Income Growth 1990-2012		Per Capita Income Growth 1990-2012		Employment Growth 1990-2012		% Total Employment Accounted for by 3 Largest Industries			Sum of all Annualized Growth Rates
	1990	Total	Annualized	Total	Annualized	Total	Annualized	Total	Annualized	1990	2000	2012	

jobs. In fact, it should be noted that Atlantic City actually boasted the largest employment base of all the metro areas shown in Table 2 in 1990. In 2012, its employment ranked as only the seventh largest. Further, its employment to population ratio declined by a whopping 10.6 percentage points—from 60.2% (also the high mark in 1990) to 49.6%. The median employment to population ratio change across the other metropolitan areas was a one percentage point increase.

Table 2 also shows the proportion of total employment accounted for each metro area's three largest industries (based on employment) for three time periods: 1990, 2000, and 2012. (Complete employment data for three metro areas were unavailable and they were therefore excluded from this portion of the analysis. Saginaw and Charleston were excluded owing to the fact that they saw population declines between 1990 and 2012.) This proportion provides one means of gauging each metropolitan area's industrial diversification. The higher the proportion the less diversified a metro area's economy is.

Seven of the 13 metro areas shown had 2012 proportions in the 40-49% range. Five had proportions in the low-50% range. Atlantic City's 65% proportion in 2012—reflecting its heavy reliance upon leisure and hospitality—stands out like a sore thumb. In fact, this 2012 proportion is all the more remarkable given the steep declines in gaming employment that have occurred over the past several years.

Perhaps more importantly, when one analyzes how these proportions changed between 1990 and 2012, one sees that nine of the thirteen metro area economies grew more diversified. For example, Fayetteville-Springdale (whose economic performance ranked as the best among all the metro areas shown) saw its three largest industries' share of total employment decline to 45% in 2012 from 53% in 1990. Eight of the aforementioned nine metro areas boast total summed annualized growth rates of 11% or greater. The ninth diversifier (Champaign) had summed annualized growth rates of 9%—as its weak job growth was compensated for by low population growth.

The remaining four metropolitan areas—Lubbock, Santa Cruz, Topeka, and Atlantic City—effectively failed to diversify. (Santa Cruz and Topeka actually grew more concentrated.) In the case of Santa Cruz and Topeka, weak employment growth was matched by weak population growth allowing each metro area to experience modest per capita personal income growth. Atlantic City's near zero job growth and surprisingly strong population growth served to undermine its personal income and per capita income growth.

Writing about New York City's overreliance on finance, Harvard's Edward Glaeser comments,

> New York City has become too dependent on the financial industry. In 2008, 44 percent of Manhattan wages were earned by workers in finance and insurance; the following year, even after the financial crisis and economic downturn had battered the industry, that share stood at a still-enormous 37 percent. And the track record of one-industry towns isn't good. No matter how loudly Chrysler's provocative Super Bowl ad heralded Detroit's comeback, the Motor City's population dropped by a quarter over the last decade and now stands at 39 percent of its 1950 peak. In Russia, Soviet-era monocities like Norilsk, a mining hub, are emblems of urban decline. Economic data, bearing out what those examples suggest, show a positive link between industrial diversity and long-run urban success[i].

While diversification alone does not explain metropolitan economic success (Glaeser's work finds, for example, that a 10 percent increase in the share of the population with a college degree in 1980 was associated with 18 percent more population growth between 1980 and 2010 and 8 percent more income growth between 1980 and 2000), there is abundant evidence that makes clear that it is vitally important. In an analysis involving 300 metropolitan areas between the late 1970s and today (which used the share of wages accounted for by a metro area's four largest industries in 1977) Glaeser found:

> the more concentrated each area was, the smaller its percentage growth in population between 1980 and 2010, and the smaller its percentage growth in real median income between 1980 and 2000. (The changes in the 2010 census make it difficult to use comparable income data for

labor (as opposed to machinery); produces finished products from partially processed materials; produces smaller products with higher value per unit weight; requires less raw materials, square footage, and power; and has a relatively small environmental impact. Moreover, such manufacturing jobs can often provide vital first-rung entry points into the economy for those with little formal education and/or work experience. (twenty six percent of the metropolitan area's population speaks a language other than English at home.) Such entry points are vitally important in light of the family income, poverty, and educational attainment levels discussed above.

The most recent data from the Census Bureau's County Business Patterns (2011) indicate that the metropolitan area had 105 manufacturing establishments—a good number of which are light manufacturers, e.g., food processors, etc. Efforts to aid the growth of the local economy's light manufacturing sector and expand its jobs base would constitute a low-cost, low-risk development strategy that could yield significant returns on tax-payer dollars. Each manufacturing job in Atlantic City had an average annual wage of $42,642, whereas each job in the accommodations and food services industry had an average annual wage of $28,183.

This annual wage differential ties directly to the "internal market" issue raised by Hausmann above. The multiplier effect of one additional local manufacturing job dwarfs that generated by one accommodations and food service job. Were Atlantic City to boast a manufacturing jobs base the size of the three aforementioned metro areas (which would translate into an additional 11,500 manufacturing jobs), the annual wage income generated would equal $489 million. The same number of jobs in the accommodations and food services industry would yield $323 million in additional wage income.

Atlantic City's economy also suffers from a dearth of professional and business services jobs, as these jobs account for just 7% of its employment base, compared to 15.8% for the three most successful metro areas. This broad employment sector includes, among others, jobs in: legal, accounting, engineering, surveying, marketing, environmental, advertising, and R&D services. As with manufacturing, these types of jobs tend to have high wages ($65,000). The lack of professional and business services jobs is both a symptom and a cause of Atlantic City's poor diversification as these types of jobs tend to proliferate in areas with diversified export bases. Finally, it should also be noted that in an age in which the IT and software industries are transforming virtually every sector of the economy in unimaginable ways, Atlantic City boasts a single business establishment engaged in software design and publishing (according to the most recent County Business Patterns data).

While modern literature in urban economics has deepened and elaborated upon the idea that industrial diversification is beneficial to cities, it was the preeminent urbanist, Jane Jacobs, who first articulated its central importance to urban economies. As Glaeser notes,

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