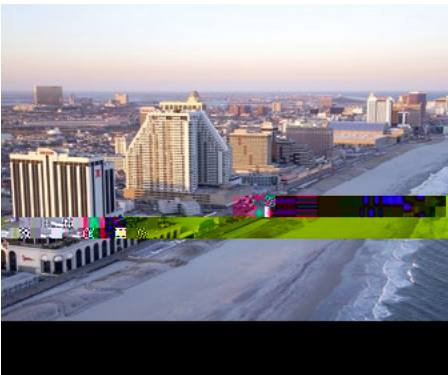


# THE SOUTH JERSEY ECONOMIC REVIEW

SUMMER 2015

## About the SJER

The SJER is part of a broader and ongoing Stockton University 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](mailto:sjer@stockton.edu) with the subject line "sjer".



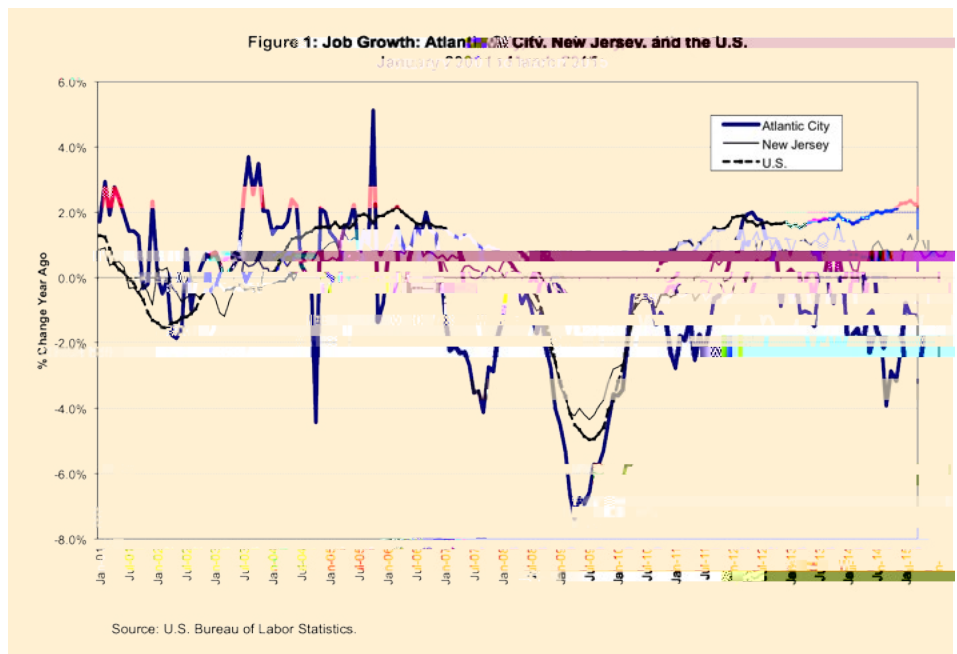
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## ATLANTIC CITY'S CURRENT ECONOMIC SITUATION

As expected, last year's wave of casino closures has taken a toll on Atlantic City's economy in recent months. As Figure 1 shows, last year's early rate of job loss (tied to the Atlantic Club's closure in January 2014) accelerated over the final quarter of 2014 in tandem with the closures of Showboat, Revel, and Trump Plaza in late August and September. At the same time, the pace of job contraction in the metropolitan area moderated during this year's first quarter. Whereas the metro area's job base was contracting at a 3% year-on-year rate late last year, this year's first quarter saw the rate of contraction slow to 1%. Total employment in the metropolitan area was contracting at a 1.1% rate year-on-year in March, while it was growing 0.9% statewide and 2.2% nationally. Though the local economy remains in a precarious situation, this winter's moderation in the rate of job loss is both noteworthy and intriguing. (See analysis on p. 4.)

While efforts to chart redevelopment plans for the local economy are well underway, it is clear Atlantic City's economy will continue to face significant challenges over the near-term horizon. Among others, these include weak job and income growth, a declining labor force and population, significant fiscal pressures, and continued uncertainty over the future of gaming—both within Atlantic City (the potential for additional casino closures still hangs over the local economy) and in the state (the so-called northern option that would allow for casino gaming outside Atlantic City). The fluidity of the redevelopment process—both in political and technical terms—represents another source of uncertainty. Yet, despite these challenges, it remains clear that some private sector agents still view the metropolitan area as a good long-term investment.



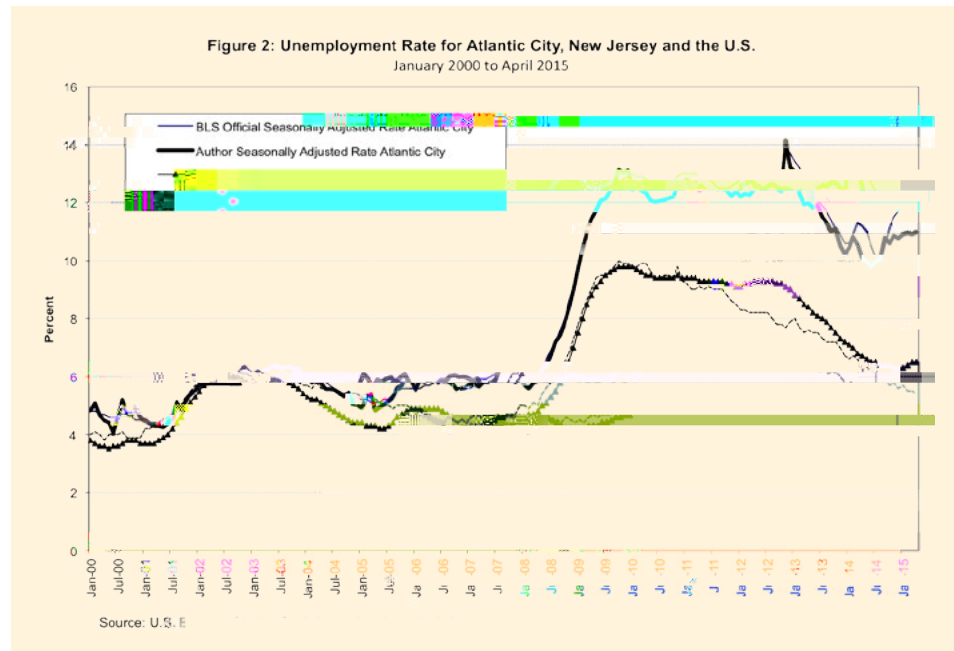
## AC's CURRENT ECONOMIC SITUATION...

Reflecting last fall's casino closures, official U.S. Bureau of Labor Statistics estimates indicate that Atlantic City's seasonally adjusted unemployment rate rose sharply in last fall's final quarter. The metro area's unemployment rate rose from 10.5% in September to 11.7% in December.<sup>1</sup> (Figure 2) Unfortunately, official BLS seasonally adjusted unemployment rates for metro areas for the first several months of this year were still unavailable (due to an on-going revision process) at the time the report went to press. My own estimates of Atlantic City's seasonally adjusted unemployment rate (which uses BLS estimates through April of this year as an input) put the rate at 11% for the first quarter of this year. At the same time, as Figure 2 shows, while my estimation procedure produces seasonally adjusted figures that are (over the long-run) close to the BLS' official estimate, my estimates for the past few years have been consistently higher than official estimates. Thus, it seems likely that once the official estimates are released (some time this summer) they will show a seasonally adjusted unemployment rate in the metro area that lies somewhere north of 12%. As shown, Atlantic City's unemployment rate was far greater than the state's (6.4% in the first quarter) and the nation's (5.6%).

Given the loss of approximately 6,000 casino hotel jobs last fall, the rise in the metropolitan area's unemployment rate over the past several months has been rather modest. This reflects a significant decline in the metropolitan area's labor force however. Official BLS seasonally adjusted estimates (which, again, are only available through December 2014) indicate that the local area's labor force was down a whopping 5,500 (-4.2%) year-on-year in the final quarter of 2014. This decline reflects some combination of an increase in the local discouraged worker population and out-migration.<sup>2</sup> (See Population analysis p. 9)

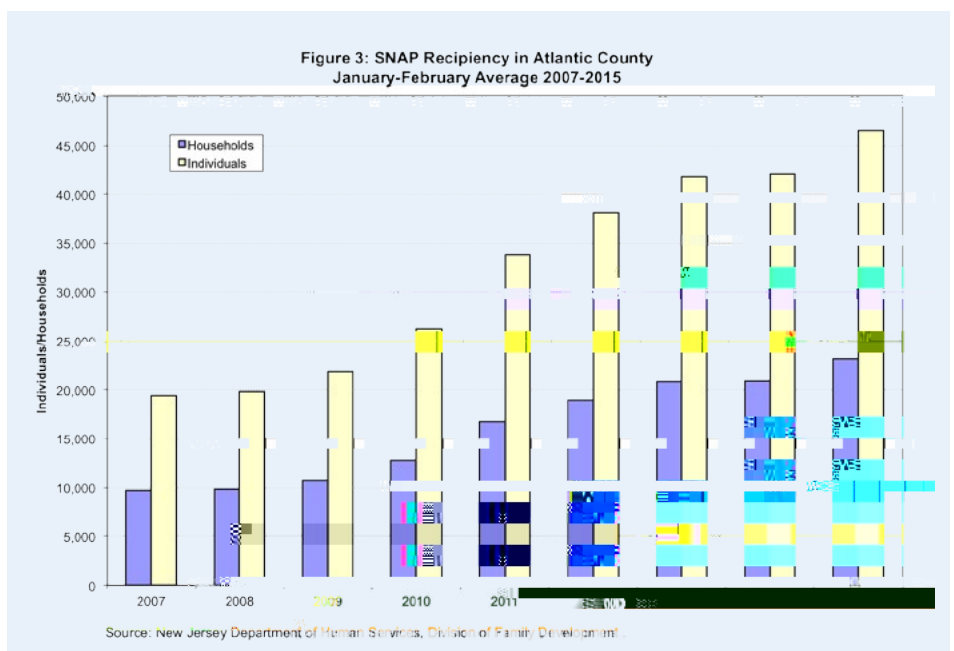
## SNAP RECIPIENCY

While the metropolitan area's unemployment rate has increased only modestly during the past few months (which, as noted, seems likely to reflect a growing pool of discouraged workers and/or out-migration—both of which serve to reduce the labor force), SNAP (food stamps) reciprocity data compiled by the State's Division of Family Development (housed within the Department of Human Services) provide another means of gauging the extent of economic duress caused in the



wake of last fall's casino closings. As Figure 3 shows, SNAP reciprocity began to increase significantly in 2010 in the wake of the Great Recession and financial crisis. Between 2007 and 2012, the number of individuals and households receiving food stamps in Atlantic County nearly doubled. Food stamp reciprocity continued to increase in 2013, but by early 2014 the rate of increase had slowed markedly, with the January-February

2014 average up only 0.6% year-on-year (its slowest rate of increase in seven years). In the wake of last fall's wave of casino closures, however, reciprocity jumped again this past winter, as the January-February 2015 averages for individuals and households rose by 10% year-on-year. Statewide, reciprocity over the same period was up 6% (households) and 5.6% (individuals).



## EMPLOYMENT BY INDUSTRY

Through the first quarter of this year, total employment in the metropolitan area was down 1% (-1,300 jobs) year-on-year. (Table 1) This year-on-year job loss appears remarkably modest in light of last fall's wave of casino closures. As explained in more detail in the Benchmarking analysis discussion, the newly-benchmarked employment estimates that yielded this modest first-quarter job loss figure are especially intriguing. (See p. 4.)

Table 1: Atlantic City Establishment Employment by Industry

Industry	1q 2011
Total	130.6
Private	107.2
Total ex-Leisure & Hospitality*	86.7
Leisure and Hospitality (L&H)	43.9
Accommodation and Food Services	42.6
Accommodation	32.5
Casino Hotels	31.0
Food Services and Drinking Places	10.1
Arts, Entertainment, and Recreation*	1.2
Construction	4.1
Manufacturing	2.1
Wholesale Trade	2.8
Retail Trade	14.8
Transportation and Utilities	2.6
Information	0.8
Financial Activities	4.0
Professional and Business Services	9.4
Education and Health Services	18.2
Hospitals	6.3
Other Services	4.5
Government	23.4
Federal Government	2.8
State Government	4.4
Local Government	16.2

As Table 1 reveals employment in the leisure and hospitality sector (L&H) declined by -3,700 in the first quarter. The loss of jobs in L&H was of course driven by declines in casino hotels whose employment was unsurprisingly down 5,600 in the first quarter. This decline was offset, however, by surprisingly strong first quarter employment gains in restaurants/bars (+ 900) and arts, entertainment, and recreation (+ 600). The arts, entertainment, and recreation industry comprises the other major component of the L&H sector, i.e., it captures employment accommodations and food services. Job gains were even recorded in the accommodations industry casino hotels (+ 400).

Job losses in L&H were considerably offset, however, by gains in other industries that totaled 2,400 (+ 2.7%) in the first quarter. The largest job increase occurred in construction which saw employment increase + 1,000 or 23.4% year-on-year. Other notable gains were recorded in retail trade (+ 400), professional & business services (+ 300), education &

## **NEW RESIDENTIAL DEVELOPMENT..**

support existing firms' expansions. The job creation that will flow from such efforts will eventually serve to increase the demand for either new (or refurbished) housing—demand





## ANNUAL BENCHMARKING...

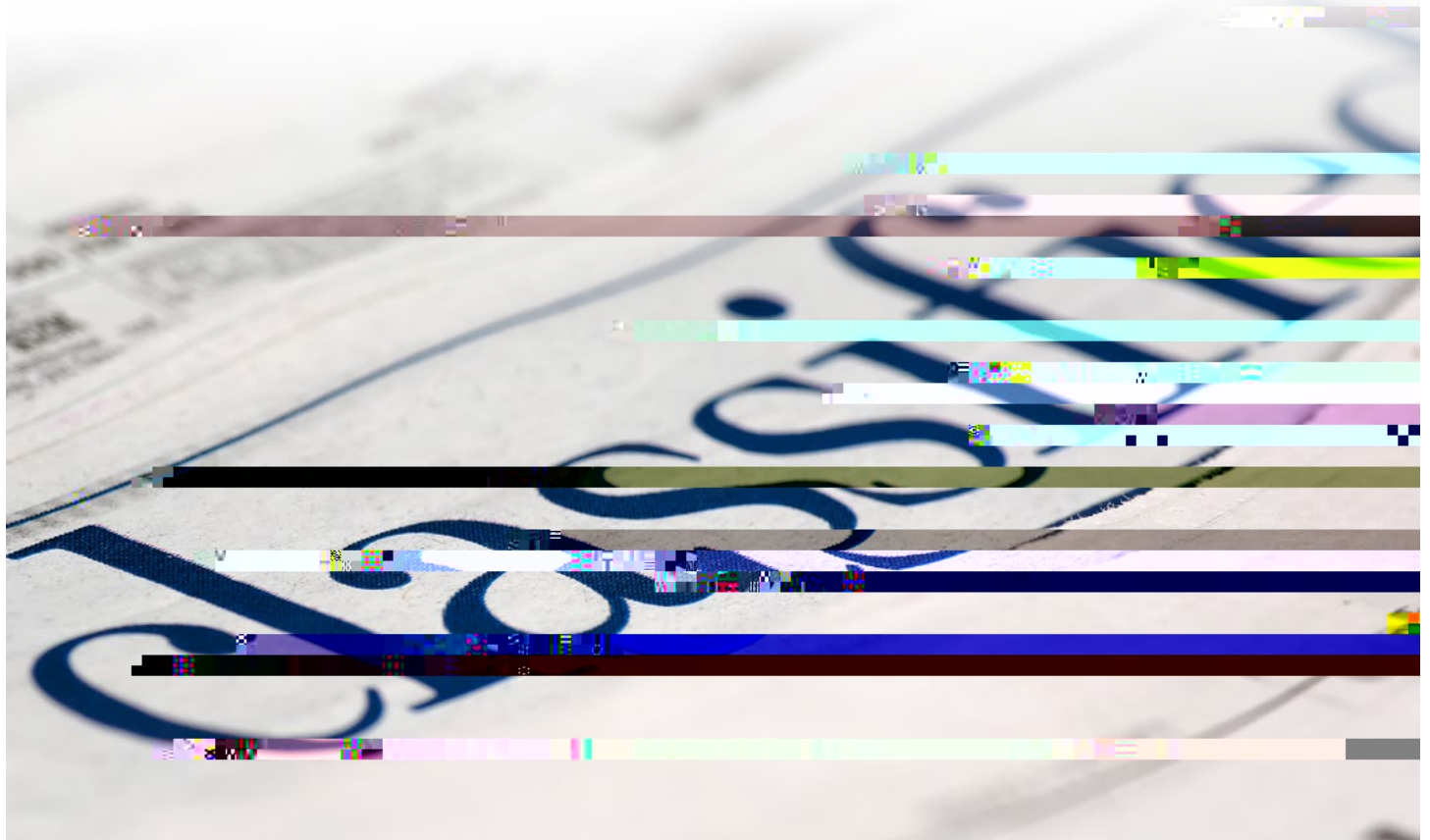
the DGE-reported (fourth-quarter 2013) employment for the four casinos that closed during 2014, as well as employment loss estimates cited in the local press during the past winter.<sup>5</sup>

My own take on the revisions is that because the revision process excluded key fourth-quarter data from the unemployment insurance program, future revisions will likely occur. And, for reasons explained above—namely, those concerning the under-representation of small firms in the monthly payroll survey, and the implications of this during key cyclical turning points and/or other major dislocation events—I expect future revisions will be in the downward direction—especially those for the fourth-quarter of 2014 (and perhaps for the first quarter of 2015 as well). How large those revisions will be of course is unknowable.

On the assumption that the newly estimated job loss in the casino hotels (-6,900 between 4q 2013 and 4q 2014) is broadly accurate

(which seems a reasonable assumption), the critical question becomes whether or not the newly estimated job gains in the L&H sector year-on-year in the final quarter of last year) the L&H sector (+1,400) are accurate. Half of the latter gains were tied to construction—as previously mentioned—and, thus, they too seem reasonable in light of the aforementioned construction projects. Of course, once these construction projects are completed these jobs (which seem to have buoyed employment well in the months following last fall's casino closures) will ostensibly vanish absent additional new projects in the pipeline. More open to question are the 4q 2013 and 4q 2014 job gains in professional & business services, and education & health services. Finally, newly-estimated job gains in restaurants/bars and arts, entertainment, and recreation (which significantly reduced the total job loss in the L&H sector) also seem surprisingly robust.

Thus, I believe it is likely far too early to assume that the broader effects of last year's wave of casino closures on the local economy have entirely run their course. Equally (if not more importantly), the possibility of additional casino closures still hangs over the local economy. And, the fact remains that the local economy remains under serious duress—a reality that is reflected in its declining labor force and population (see next section), and rising food stamp reciprocity. All of that said, should the revised estimates hold up, they suggest that the local economy's performance in the face of massive employment losses in its long-time economic engine has been rather remarkable over the past few months. Stay tuned.



## AC'S POPULATION DECLINE AND IMMIGRATION'S POTENTIAL ROLE IN AC REDEVELOPMENT

While myriad factors will determine the success of Atlantic City's redevelopment over the coming years, the ability to attract new families and residents—especially into Atlantic City's urban core—will likely prove pivotal. While immigration policy is a politically divisive issue, there is a growing body of literature that suggests that immigrants can play an important positive role in urban redevelopment. Taking cues from this literature, many metropolitan areas—including Baltimore, Detroit, Cleveland, and Dayton—that have suffered long and steep economic declines (and the subsequent population losses that accompany them) have begun (over the recent past) to tailor policies designed to attract, recruit, and in some cases poach immigrants in an effort to revitalize their neighborhoods and economies. As a recent article by [redacted] noted:

“Rick Snyder, the Republican governor of Michigan, has asked the federal government to offer 50,000 visas to people who agree to live in Detroit. His administration has directed cash towards NGOs that market Motown to immigrants and made it easier for skilled migrants to get professional licenses. Like Baltimore, Detroit woos refugees brought to America under federal programmes—and even tries to poach those who may have settled elsewhere.”<sup>6</sup>

While opponents of immigration often assume that immigrants put downward pressure on local wages (and thereby exacerbate the economic situation of existing workers) and/or represent additional demand on scarce public resources, the new body of literature suggests that immigrants often provide net benefits to the economies and communities into which they move.

A well-cited 2013 study by the right-leaning Manhattan Institute documented these various benefits.<sup>7</sup> Chief among these were:

- “Immigrants have different skills and job preferences from native-born Americans, and so they make American workers more productive. Immigrants complement rather than substitute for native-born workers and capital moves to take advantage of available labor.”
- “The educational backgrounds of immigrants and native-born Americans are different. Statistically, the average skills of native-born American workers are distributed in a bell-shaped curve. Many Americans have high school diplomas and some college education, but relatively few adults lack high school diplomas and even fewer have Ph.D.'s in math and science. In contrast, immigrants' skills are distributed in a U-shaped curve, with disproportionate

shares of adults without high school diplomas who seek manual work and others with Ph.D.'s in math and science.”

- “Start-ups lead to economic growth, and immigrants found new companies in America at greater rates than do the native-born. Examples include Sergey Brin's Google, Andrew Grove's Intel; Jerry Yang's Yahoo!; Pierre Omidyar's eBay; and Elon Musk's PayPal and SpaceX, to name but a few. Alexander Graham Bell, Levi Strauss, Adolph Coors, and Henry Heinz were all immigrants who founded profitable new American businesses.”
- “In recent years, immigrants have had higher labor force participation rates than native-born Americans . . . Since 1999, the difference between the labor force participation rates of the two groups have been steadily increasing. In 2012, 67.5 percent of immigrants participated in the labor force, compared to 63.2 percent of native-born Americans.”



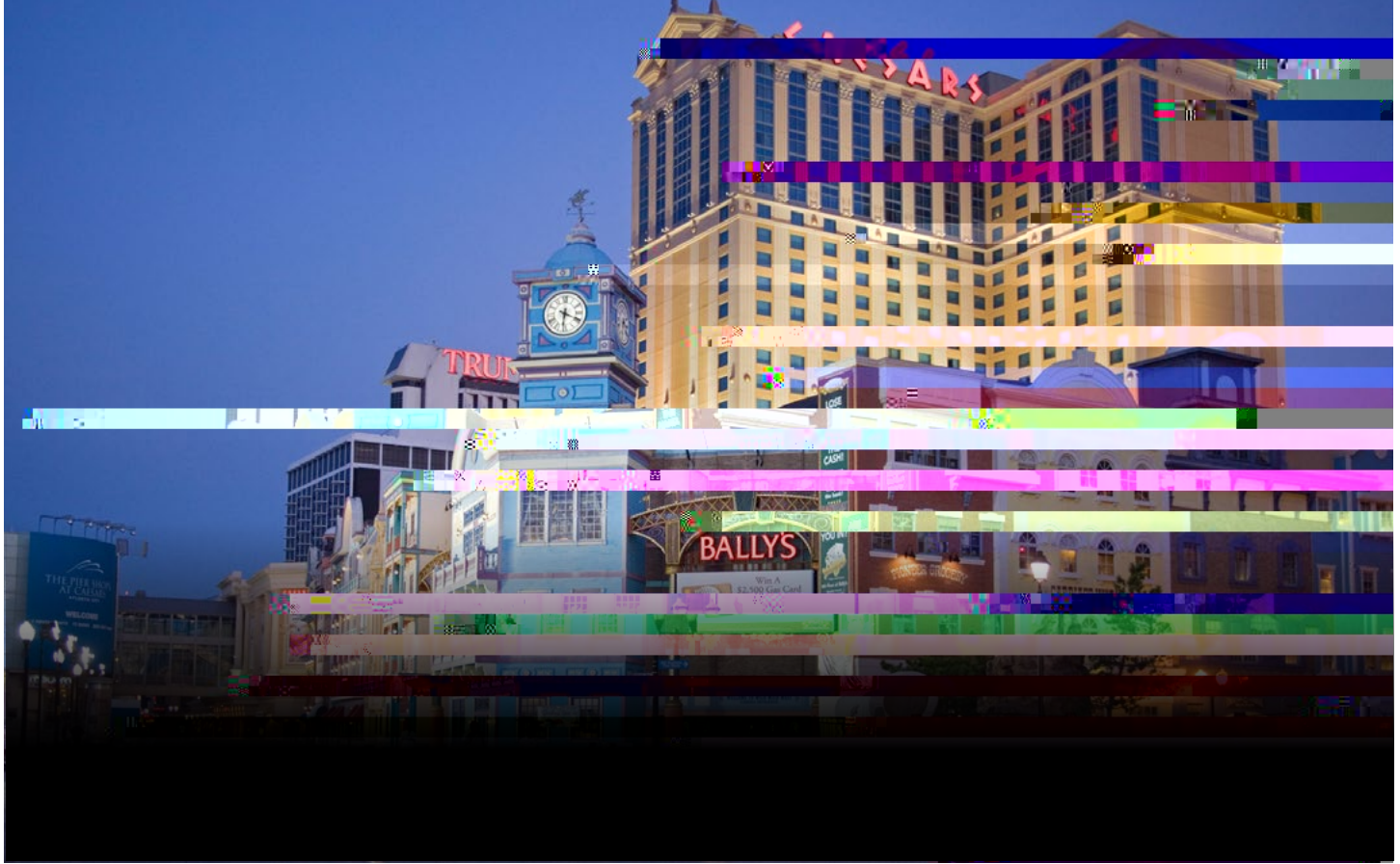


## AC'S POPULATION, IMMIGRATION...

This recent literature and the city-level policies it has begun to foster in recent years may prove relevant to Atlantic City's longer term redevelopment efforts. In particular, recently-released (late March) population estimates for metropolitan areas by the U.S. Census Bureau revealed that Atlantic City saw its population decline by -0.3% last year, as population fell to 275,209 from 276,167 in 2013. While the (annually released) new metro area population estimates provide







<sup>1</sup> The survey from which official unemployment data are derived uses the 12<sup>th</sup> day of the month as a reference date. The three casino closures last fall occurred on August 31<sup>st</sup>, September 2<sup>nd</sup> and 16<sup>th</sup>. Thus, the first full month that would have captured the closings' immediate unemployment effects was October 2014—hence, the September reference in this sentence.

<sup>2</sup> Discouraged workers are not included in the official unemployment count.

<sup>3</sup> It should be noted, however, that casino-reported total employment (to the DGE) often differs considerably from the official establishment industry-based employment estimate. While these two estimates of casino employment are generally quite similar in terms, they differ in terms.

<sup>4</sup> In other words, the new benchmarked employment estimates resulted in a positive 3,000 job for casino hotels employment for the 4q 2013 to 4q 2014 period: -9,900 (original estimate) vs. -6,900 (new benchmarked estimate).

<sup>5</sup> The -6,900 decline is also broadly consistent with my own estimate of total casino job loss (-7,300) developed under Scenario 2 in the Summer 2014 edition of the

<sup>6</sup> The Economist article is accessible here:

<http://www.economist.com/news/united-states/21642226-two-cities-hope-embracing-immigrants-can-reverse-their-decline-rolling-out-welcome>

<sup>7</sup> The Manhattan Institute report is accessible here: [http://www.manhattan-institute.org/html/ib\\_18.htm#.VNpGkeBF-So](http://www.manhattan-institute.org/html/ib_18.htm#.VNpGkeBF-So). Additional research on the role of immigration in economic development (from the left-leaning Fiscal Policy Institute in New York City) is accessible here: