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## REGIONAL FINANCE REPORT

Summer 2011



### AFTER RECESSION, PA HAS FARED BETTER THAN US AND NJ



Throughout the recession, Pennsylvania has fared better than the nation and better than its neighbor to the east, New Jersey. In May, Pennsylvania's unemployment rate was 7.4%, below the U.S. rate of 9.1% and New Jersey's 9.4%.

Why has it been better in Pennsylvania? It really hasn't been - it has just been less bad, economists say.

Pennsylvania didn't have a big housing boom, so it didn't have as big a collapse when the housing market tanked and pulled the nation into its worst recession in history.

"The housing markets and states and regions in the fastest-growing areas were the ones that got clobbered the most - the Floridas, the Arizonas of the world," said Stephen Mullin, senior vice president at Econsult Corp., in Philadelphia.

When the housing bubble's burst constrained credit and consumer demand, manufacturing tumbled next. Again, Pennsylvania dodged the worst - mostly because its manufacturing sector had already taken its hit in the recession of the early 1980s. These days, "Pennsylvania is no longer part of the Rust Belt. Pennsylvania has diversified away from that manufacturing belt," said

James Diffley, chief regional economist with IHS Global Insight.

Meanwhile, New Jersey more closely tracked the national economy. Manhattan's financial industry, rich with workers who live in New Jersey, was both a cause of the recession and among its earliest victims. Those employees fed some of New Jersey's housing boom and bust, as their job losses added to the state's economic crisis.

It wasn't as big or loud as California's and Arizona's bursting bubbles, but enough to hurt.

"We have a housing crisis and a finance-industry crisis," said Carl Van Horn, public-policy professor at Rutgers University. "Both of those industries are very important in New Jersey."

Interestingly, this was not the case during the recession of the early 1980s. Manufacturing, important in Pennsylvania, had already been struggling as the nation's economy became more service-based - and eventually declined. In the aftermath of that recession, Pennsylvania's unemployment rate rose to a stunning 12.9%, well above the nation's worst rate of 10.8%. New Jersey's rate barely rose above 9%, since its manufacturing base was small.

Source: Philadelphia Inquirer

### ECONOMIC OPTIMISM DECLINING NATIONALLY, LOCALLY

Both nationally and locally, business decision makers are holding back previously optimistic attitudes toward economic recovery, according to two recent studies. The American Institute for Certified Public Accountants released its quarterly outlook last month, which stated accountants in executive roles around the country are "far less optimistic" about the direction of the economy than



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they were during the first quarter of the year.

On May 26, Alloy Silverstein Group released a similar survey of New Jersey and Philadelphia area chief executives and financial officers that similar concerns. Both surveys considered factors such as unemployment and hiring, energy costs, inflation, and health care costs.

According to the AICPA study, 12% of companies nationally are planning to hire workers, while 21% said they have too few employees but are hesitant to hire. The Alloy Silverstein study reports 18 % of New Jersey-area executives are hiring, but 61% have no plans to do so. Roger Koppl, director of the Institute for Forensic Science Administration at Fairleigh Dickinson University, said uncertainty is the biggest takeaway from the AICPA survey. "Uncertainty is the enemy of business expansion and business foundation," Koppl said, adding that the survey results come from unemployment, concerns about government debt and deficit, and increasing costs.

Only 19% of respondents to the Alloy Silverstein survey said they believe the economy will sustain recovery, while nationally, only 33 % of those surveyed expressed optimism, a decrease from 48% in the first quarter of 2011.

Herbert Gishlick, an economics professor at Rider University, said a stagnant housing market, the end of a recent increase in manufacturing and fear of international instability also are giving decision-makers pause. He added that New Jersey's links to international ports and the New York financial district have an impact on the local economy that may not be seen at a national level.

Source: NJ Biz

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## SMALL BUSINESS LENDING CONTINUES TO SLIDE

Small-business lending continues to fall, according to a Small Business Administration study that shows the value of outstanding loans slid 2.4% between December 2010 and March. That decline follows a 1% decrease in small-business loans in the fourth quarter of 2010. Some New Jersey bankers say that trend is likely to continue as small-business owners remain cautious in their growth projections.

"I don't see a lot of people looking to increase their debt," said Frank Sorrentino III, chief executive officer of North Jersey Community Bank. "They're not looking to buy equipment, expand or hire anyone. They're making do with less and all of those reasons translate to less leverage, less debt."

Banks held \$624.3 billion in small-business loans, which the SBA defines as \$1 million or less, at the start of this year. That amount fell to \$609.4 billion in March, according to the SBA Office of Advocacy. Specifically, the micro-business loans, those under \$100,000, dropped the most, 2.9%, compared with a drop of 2.2% for loans between \$100,000 and \$1 million. Those levels suggest small-business owners are not confident the economy is improving.

"People are holding their cards close to their vest," said Ted Morgan, senior vice president with BNB Bank. "Now is not the time to expand. Now is not the time to buy anything. This is a time to shrink, to hunker down. This is not the time they're going out to take on all kinds of risks."

Source: The Record

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## MANUFACTURING LOANS UP SHARPLY IN N.J.

Loans to New Jersey manufacturers are up 25% this year, and dollar volume of loans are up 33%, according to officials of the Small Business Administration. According to Jorge Silva-Puras, a regional administrator with the SBA, New Jersey manufacturers received 79 loans for \$52 million from Oct. 1 through May 31, compared to 63 loans for \$39.1 million for the same time span the previous year.

"We're seeing a renaissance in the manufacturing sector," Silva-Puras said. "Manufacturers know that in order to stay competitive, they need to get leaner and become more innovative. New Jersey manufacturers certainly have access to a diverse labor force, as well as tools available to them through the SBA, state and other local resources, which allow them to compete for new business."

Source: NJBiz



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