



REGIONAL ECONOMIC COMMENTARY

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New Jersey Outlook

Mark Vitner, Senior Economist

mark.vitner@wachovia.com

704-383-5635

Anika R. Khan, Economist

anika.khan@wachovia.com

704-715-0575

Yasmine Kamaruddin, Economic Analyst

yasmine.kamaruddin@wachovia.com

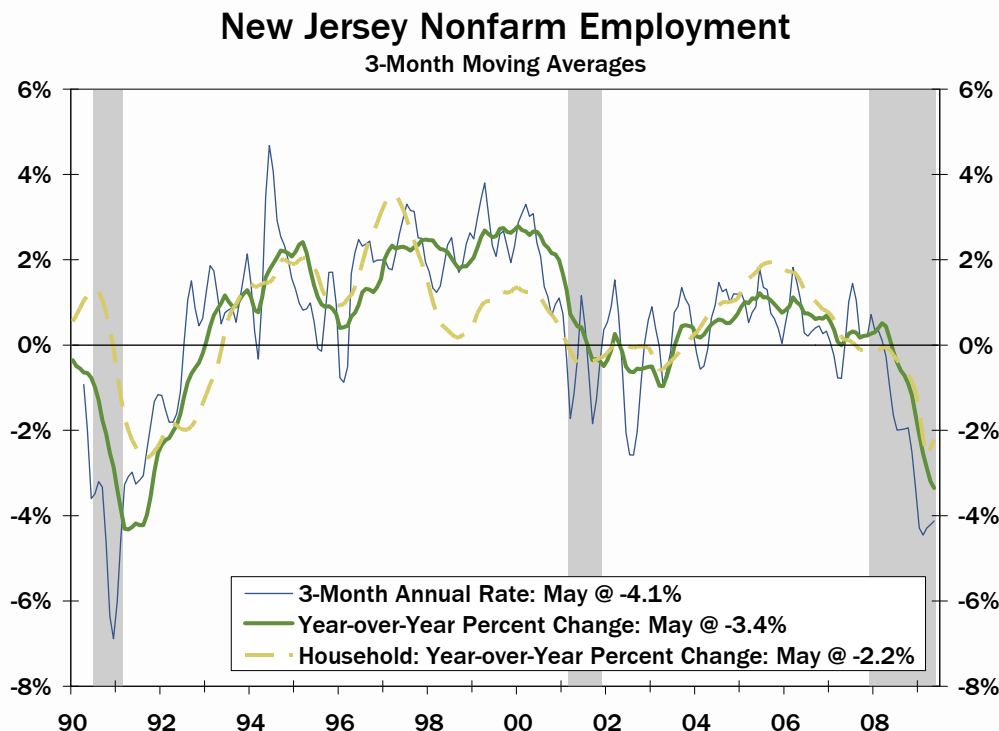
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The Garden State's Economic Outlook is not so Rosy

New Jersey's economy continues to falter under the weight of the current recession and financial crisis. Nonfarm employment has dropped substantially, with the biggest declines in professional & business services and manufacturing. Mergers and acquisitions in the state's pharmaceutical and financial services industries will likely continue to weigh on employment in coming quarters. Housing markets have stumbled with home prices down 6.3 percent from its peak.

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Figure 1



Source: U.S. Department of Labor and Wachovia

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Real gross domestic product in New Jersey eked out a modest gain of 0.6 percent despite the recession and current struggles with the state budget.

Output in the Garden State will likely contract this year, but will likely not be as severe as in the overall national economy.

Economic Activity in New Jersey

While economic growth slowed significantly in New Jersey last year, at least there was growth. States like Florida, Michigan, Delaware and Alaska were not as fortunate with state gross domestic product posting large declines in 2008. Real gross domestic product in New Jersey eked out a modest gain of 0.6 percent despite the recession and current struggles with the state budget. However, similar to many states in the rest of the nation, manufacturing and construction were drags on the Garden State’s economic growth, shaving off 0.5 percentage points from the state’s real GDP last year. Moreover, due to New Jersey’s close proximity to New York and heavy concentration of back office financial services, real GDP for New Jersey’s finance and insurance sector fell 1.0 percent year-over-year. Output also declined in wholesale trade, retailing and transportation & warehousing.

The notable bright spot in 2008 was professional, scientific & technical services which posted a year-over-year increase of 8.6 percent, the largest gain since 1998. The gain was mostly driven by pharmaceutical scientific research & development, but we do not expect the industry to remain the pillar of strength as in recent years. Consolidations and structural changes in the pharmaceutical industry will likely begin to be a drag on the Garden State’s output. Moreover, firms related to the financial services industry, such as legal and accounting, will likely continue to struggle due to the financial crisis as they downsize and seek cost-efficient measures.

Since around 2002, economic growth in New Jersey has generally lagged behind that of the nation. With the state’s primary drivers of economic growth weighed down by the recession and credit markets, output in the Garden State will likely contract this year, but will likely not be as severe as in the overall national economy.

Figure 2

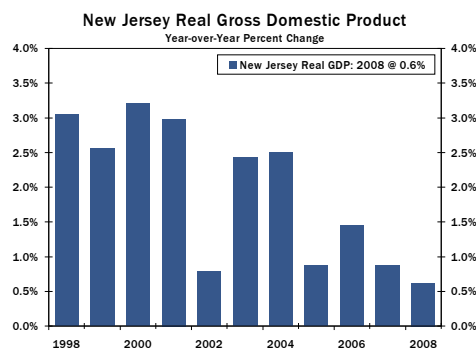
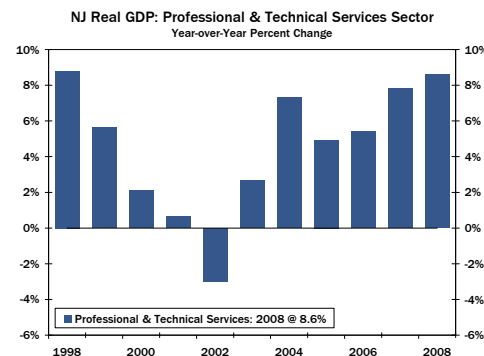


Figure 3



Source: U.S. Department of Commerce and Wachovia

Pharmaceutical Industry: Is the “Medicine Chest” of the Nation Closed?

Some of the nation’s largest pharmaceutical research & development and manufacturing companies are located in New Jersey, producing the second-highest concentration of pharmaceutical jobs in the country. Hence, much of New Jersey’s recent economic and job growth can be attributed to the pharmaceutical industry. The Garden State, however, has lost ground in recent years due to major consolidations and structural changes in the industry that will likely lead to plant closings and layoffs. Consolidations are largely being driven by competition and structural changes in the industry, including issues like the lack of recent “blockbuster” drug discoveries, expiring patents of key drugs and popularity of generic drugs which are significantly less expensive. Even with these challenges, the

industry is still profitable, but forward-looking pharmaceutical companies will likely continue to look to curb costs with some choosing to relocate out-of-the-state.

While the outlook for New Jersey’s pharmaceutical industry seems lackluster, the biotechnology industry may be New Jersey’s next rising star. The Garden State is home to 65 biotech companies and that figure is expected to continue to grow. However, we expect in the near term, the pace of output in New Jersey for the pharmaceutical industry will begin to moderate.

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Financial Crisis Weighing Down New Jersey’s Financial Sector

Many financial services companies relocated their back office operations to New Jersey to take advantage of less-expensive business costs and the close proximity to New York City. About 47 percent of New Jersey’s financial services employment is considered office and administrative. In 2008, finance and insurance output in New Jersey fell 1.0 percent year-over-year and employment in the sector declined by more than seven percent since its peak in 2006.

While the pace of decline in economic growth and employment in New Jersey’s financial sector is moderating, the sector will likely remain challenged as several major financial companies continue to announce additional layoffs, and lending remains constrained until banks are able to restructure their balance sheets.

Figure 4

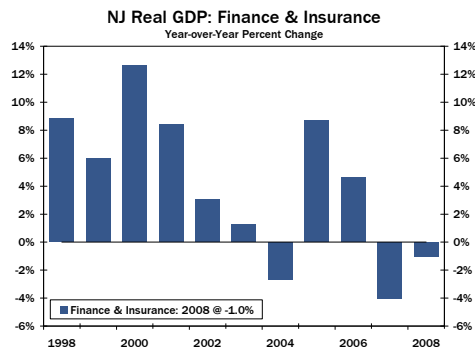
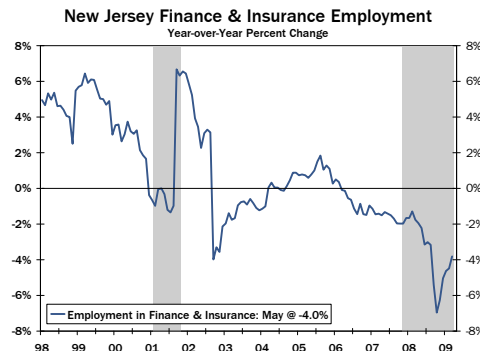


Figure 5



Source: U.S. Department of Labor and Wachovia

New York/New Jersey Port: Port Activity is Down, but not Out

The Port of New York/New Jersey is an important driver of economic growth for the Garden State, providing nearly 230,000 jobs in the metro. Port activity has recently turned down due to slow global economic growth. Economic growth averaged nearly five percent per annum between 2004 and 2007, the strongest four-year period of growth in decades. Strong global growth helped fuel cargo container traffic in the New York/New Jersey Port Authority, which strengthened New Jersey’s economy. As imports and exports surged, containerized cargo traffic in the New York/New Jersey Port Authority spurred job growth and increased the need for warehouse and distribution space.

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Real GDP growth rates slowed in most countries in the first half of 2008, however, and it appears that most major economies have now slipped into recession along with the United States. In 2008, containerized cargo traffic in New York/New Jersey ports fell to its lowest level in 15 years as global growth dried up. Exports and imports are now down 26.3 percent and 34.5 percent, respectively, from their mid-2008 peak, but are beginning to show signs of stabilization. The Baltic Dry Index, a

leading economic indicator of global growth that tracks worldwide international shipping prices for dry cargo, has trended higher over the past two months. Additionally, China and Brazil, two of the top-five trading partners in general cargo tonnage for the Port of New York/New Jersey, have shown signs of better economic activity. The Port Authority has also authorized \$3.3 billion in capital spending in 2009, the largest in the port's history, which should help buoy the port's economy throughout the recession and will likely equip the port with better infrastructure for recovery later.

Figure 6

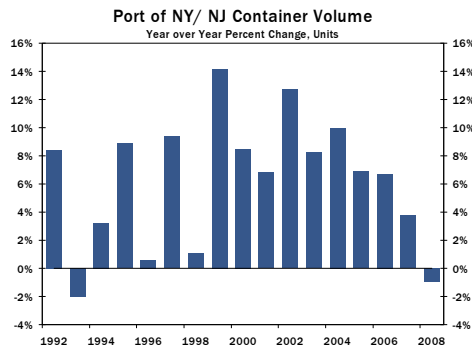
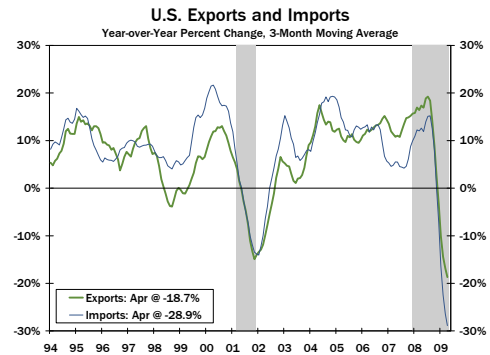


Figure 7



Source: U.S. Department of Labor and Wachovia

Employment: Structural Changes Lead to Job Losses

New Jersey's labor market has slowed considerably over the past year, contracting 3.3 percent with losses across most industries and the unemployment rate reaching 8.8 percent in May 2009. The unemployment rate is the highest in more than 16 years. Professional & business services and manufacturing employment have taken the biggest hits over the last year with a combined net loss off 73,900 jobs. Employment in the scientific research & development services has actually been steadily declining in the past few years, falling 12.5 percent between 2001 and 2007, as pharmaceutical companies have sought to line up operations with increasing costs and loss of patents on top-selling drugs. Pharmaceutical manufacturing jobs, which have also been declining for years now, will likely endure more layoffs over the next two years.

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Figure 8

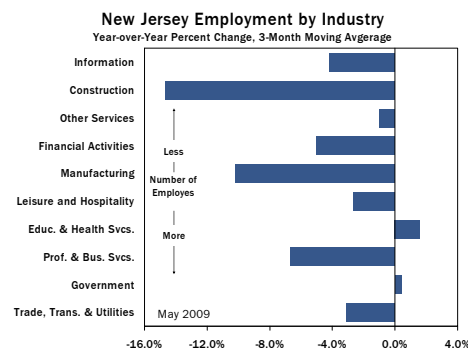
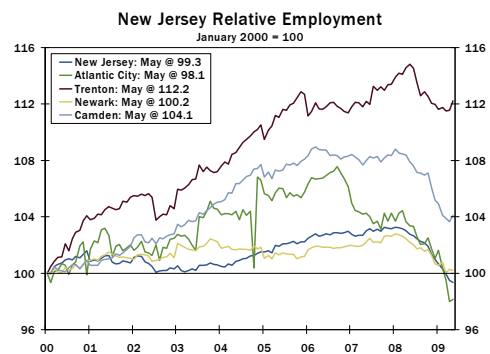


Figure 9



Source: U.S. Department of Labor and Wachovia

Another drag on New Jersey's labor market is the financial sector. Financial activity employment has fallen 5.7 percent over the past year, generating a net loss of 15,400 jobs. The industry also helped spur employment growth in professional and business services like legal services, and accounting, but continued stress in the credit markets will likely continue to put downward pressure on financial employment in the foreseeable future. Today, education & healthcare remain the only industries posting gains in employment.

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On a relative basis, Trenton and Camden have the strongest employment growth with education & health care and government employment leading the way. It should be no surprise that the Atlantic City labor market has seen significant declines as leisure & hospitality is the main driver of employment growth.

Table 1

New Jersey Jobs Report				
Reported	Company	Sector	Gain/Loss	Approximate Date
Jun-09	Fox Rehabilitation	Healthcare	+200	2011
	Gerdau Ameristeel	Manufacturing	-215	Q3-2009
May-09	Horizon Blue Cross	Healthcare	-170	Q2-2009
	Monmouth County	Government	-280	Q2-2009
Mar-09	Roche Holding	Pharma R&D	+120	2010
	Vantage Communications	Telecomm	+150	2011
Feb-09	Silverton Marine	Manufacturing	-200	Mar-09
Jan-09	Revel Entertainment	Construction	-400	Mar-09
	Tropicana	Leisure	-110	Mar-09
Dec-08	Linens 'n Things	Retail	-600	Q1-2009
	Citigroup	Finance	-15%	2009
	Borgata Hotel	Leisure	-400	Q4-2008
Oct-08	Par Pharmaceutical	Pharma R&D	-190	Q1-2009
Sep-08	Emco Distribution	Distribution	-100	Q4-2008
	Kik Custom Products	Manufacturing	-150	Q4-2008
	Ashland Water Technologies	Utilities	-150	Q4-2008
	Abbott Labs	Pharma Manuf.	-134	Q4-2008
Aug-08	Arch Insurance	Finance	+300	2009
	Gannett News	Publishing	-120	Q4-2008
	National Envelope	Manufacturing	-170	Q4-2008
	Star-Ledger	Publishing	-200	Q4-2008
Jul-08	Univ of Medicine and Dentistry	Government	-300	2009
	Sallie Mae	Finance	-160	2008
	Ortho Biotech	Pharma R&D	-280	2008
	Schering-Plough	Pharma Manuf.	-500	2008
Jun-08	Novo Nordisk	Pharma R&D	+200	Q3-2008
Apr-08	ImClone	Biotechnology	+900	2011
	GlaxoSmithKline	Pharma R&D	-100	Q2-2008
Mar-08	Western Union	Business Services	-500	Q2-2008
Jan-08	Passaic County	Government	-110	H1-2008
Dec-07	L'Oreal USA	Manufacturing	+100	2009
Nov-07	US Pipe & Foundry	Manufacturing	-180	2008
Oct-07	Henry Repeating Arms	Manufacturing	+100	Q2-2008
May-07	AJM Packaging	Manufacturing	+250	2008

Source: IHS Global Insight and Wachovia

In 2008, the median home price in New Jersey was \$336,200 far outpacing the national average at \$196,600.

Housing Bottom is Near, but Sales Will Likely be Slow to Recover

New Jersey experienced a run-up in home prices well ahead of the rest of the nation due to restrictive land-use laws and increased migration into the state after the September 11th terrorist attacks. Between September 2001 through September 2002, home prices rose 112 percent. According to the New Jersey National Association of Realtors, the median home price in the third quarter of 2001 was \$224,100 and rose to \$254,000 in the fourth quarter of 2002. Today, New Jersey's median home price remain among the highest ranked in the country. In 2008, the median home price in New Jersey was \$336,200 far outpacing the national average at \$196,600. Home prices have pushed sharply lower in recent quarters, however, due to distressed sales.

Permits for new single-family homes plunged 82 percent from their peak five years ago, but recent consecutive gains suggest a trough may be near. The bottom, however, is forming at historic low levels and will likely continue to challenge builders as many remain cash constrained. Building activity will most likely remain depressed for some time to come as we work through the massive inventory overhang, and builders work to strengthen their balance sheets.

Home sales will likely not turn up in a decisive way until employment conditions improve.

While signs are beginning to emerge that suggest sales of new and existing homes are moving toward a bottom, it does not mean sales are about to turn decisively higher. Home sales will likely not turn up in a decisive way until employment conditions improve. As a result, we do not see any real strength returning to the housing market until late next year or in 2011.

Figure 10

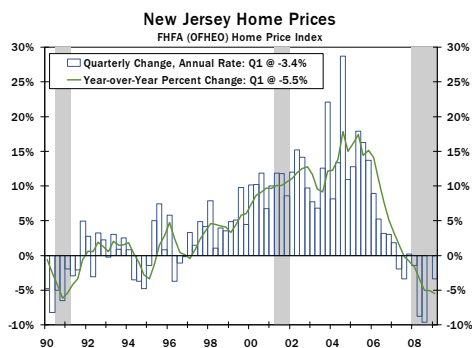
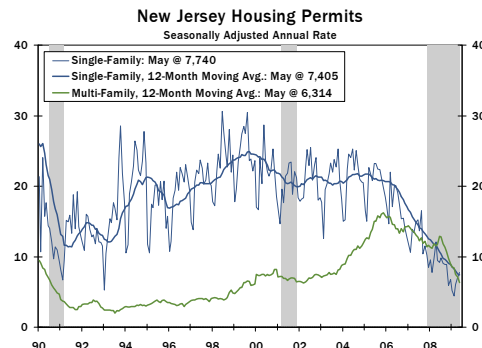


Figure 11



Source: Federal Housing Finance Authority, U.S. Department of Commerce and Wachovia

Most of New Jersey's population drain can be attributed to its high cost of living and relatively higher median home price.

Population Drain Will Likely Pose Long Term Economic Risks

Since 2000, the U.S. population has grown roughly eight percent, which is around a one percent annual growth rate. In contrast, population growth in New Jersey increased only three percent during that same time period, which is roughly a 0.3 percent annual growth rate. Most of New Jersey's population drain can be attributed to its high cost of living and relatively higher median home price, which have led many with low incomes to migrate from the state. The top recipients of New Jersey residents are Florida, Pennsylvania, New York, California and North Carolina. Over the last eight years, more than 430,000 residents have left the state. In particular, counties in Northern New Jersey with the highest cost of living and median home prices, including counties such as Hudson, Essex, Passaic, Union and Middlesex Counties, are seeing the highest levels of out migration. While many are choosing to leave the state, population growth from overseas is adding new residents. Net

international migration has added more than 370,000 new residents to New Jersey in the past eight years. However, more residents have left the state than have been added.

Figure 12

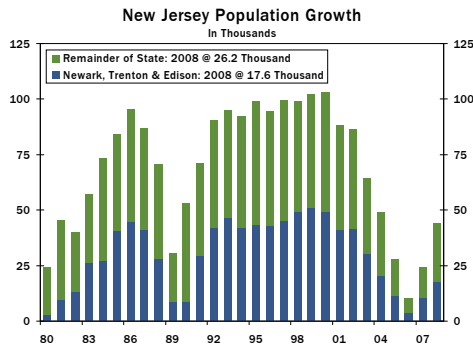
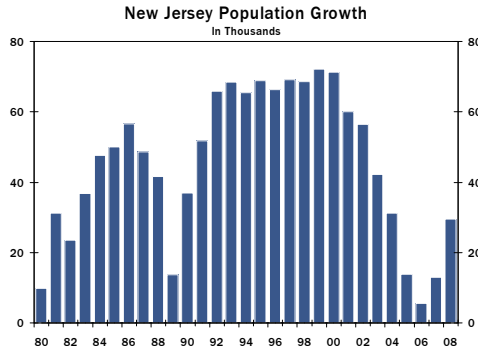


Figure 13



Source: U.S. Department of Commerce and Wachovia

Another notable trend in New Jersey is the median age of New Jersey residents is older than the national average at 38.4 and the percent of the population that is 65 years of age and older is growing. Slower population growth and an older population will likely pose downside risks to employment and economic growth. We do not expect population growth will ramp up again until housing bottoms out and employment growth resumes, which will likely occur somewhere around late 2010 or early 2011 – about a year later than the nation as a whole.

New Jersey Economic Outlook

U.S. economic conditions deteriorated significantly late last year, after the financial crisis intensified. Real GDP fell at a 5.5 percent annual rate during the first quarter of 2009, following a 6.3 percent annual rate decline in the fourth quarter. Weakness is broad based throughout the economy, with even the historically recession-resistant education, healthcare and government sectors seeing signs of strain. The current recession will be the longest and deepest since the 1930s with no state immune to its severity.

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We believe the fourth quarter of last year and the first quarter of 2009 will mark the darkest hours of this recession. Successive quarters should see conditions gradually improve. The recession, however, will likely drag on through this summer, but the worst has likely passed. Afterward, we expect a recovery to gradually build momentum, and although it will take longer to recover to historically healthy levels, the recovery should eventually reach every corner of the economy.

Economic growth in New Jersey has generally lagged behind that of the nation and will likely contract in the current year with a recovery likely beginning later this year. Although New Jersey’s gross state product will likely decline in the coming quarters, the economic contraction will probably not be as severe as in the overall national economy.

The decline in housing permits is likely nearing a bottom in New Jersey. The bottom, however, is forming at historic low levels and will likely continue to challenge builders as many remain cash constrained. The high unemployment rate and slow rate of household formation, however, will likely limit the demand for new housing.

New Jersey Economic Outlook

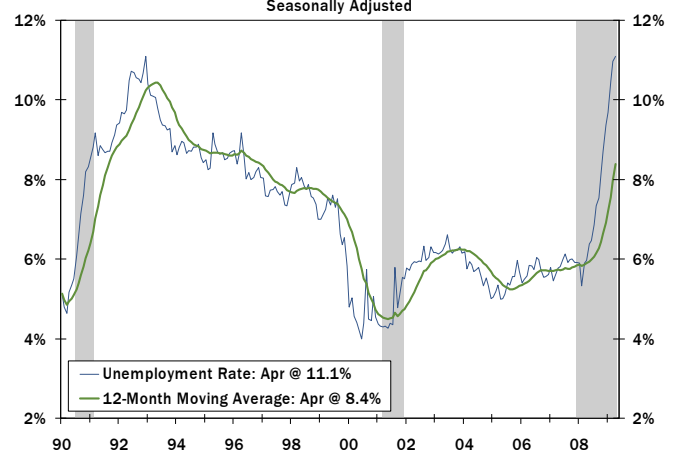
	Actual					Forecast	
	2004	2005	2006	2007	2008	2009	2010
Real Gross Domestic Product by State, Millions	375,788	379,080	384,591	387,955	390,350	380,591	385,920
Annual Rate	2.5	0.9	1.5	0.9	0.6	(2.5)	1.4
Nominal Personal Income, Millions	361,822	376,912	404,474	428,425	442,116	452,250	463,259
Percent Change	5.5	4.2	7.3	5.9	3.2	2.3	2.4
Population, Thousands	8,621	8,635	8,640	8,653	8,683	8,833	9,003
Change, Thousands	114	138	184	196	30	150	170
Households, Thousands	3,134	3,142	3,135	3,150	3,155	3,153	3,159
Change, Thousands	12	7	(6)	14	5	(2)	6
Nonfarm Employment, Thousands	3,999	4,039	4,071	4,079	4,058	3,875	3,900
Change, Thousands	20	40	32	8	(21)	(183)	25
Unemployment Rate, Annual Average	4.9	4.5	4.6	4.3	5.5	8.8	9.5
Total Housing Permits	33,467	36,423	31,344	24,154	17,865	14,800	16,500
Single-Family Permits	21,582	20,605	17,096	12,557	8,915	7,500	8,300
Multi-Family Permits	11,885	15,818	14,248	11,597	8,950	7,300	8,200
Existing Home Sales, Thousands	188	185	155	139	112	120	131
OFHEO Home Price Index, Percent Change	14.8	15.8	9.3	0.9	(3.8)	(1.5)	0.3

Sources: National Association of Realtors, Federal Housing Finance Agency, U.S. Department of Commerce, U.S. Department of Labor and Wachovia

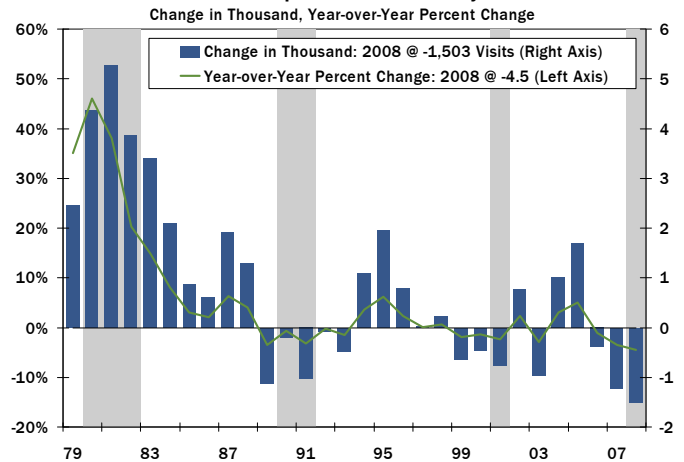
Atlantic City

- Atlantic City is being hit hard in this recession due to a significant slowdown in tourism. Tourism depends heavily on discretionary spending, which has declined significantly. The number of tourists visiting Atlantic City has dropped consistently since 2006 and has plummeted more severely than in previous recessions. Visits to Atlantic City fell 4.1 percent in 2008 from the prior year's levels, a record drop since the series started in 1978. Recent challenges in the tourism industry have pushed the unemployment rate into double digits, far exceeding the nation at 11.0 percent.
- The casino industry is a key driver in Atlantic City and has been feeling the burn of the recession. According to the New Jersey Casino Control Commission, casino revenues in April fell by 14.2 percent, year over year. Casino revenues have been steadily declining since 2006, and increased competition from nearby casinos in Pennsylvania and New York will likely continue to challenge the industry. Furthermore, two of the three casino construction development projects have been put on hold.
- The housing market is undergoing a mild correction with house prices declining 7.4 percent from their peak. Housing starts have fallen 41.2 percent from their high in 2005. While the housing market is not one of the hardest hit in the country, it will continue to be challenged by the high unemployment rate, lack of industry diversity, and slow population growth.
- The city's lack of industrial diversity and weak migration trends make it hard to sustain good population growth. Furthermore, there are many nearby areas in New Jersey and Pennsylvania that have better employment opportunities, which is causing out-migration from Atlantic City. Atlantic City will likely face a weaker recovery due to heavy dependence on the tourism industry.

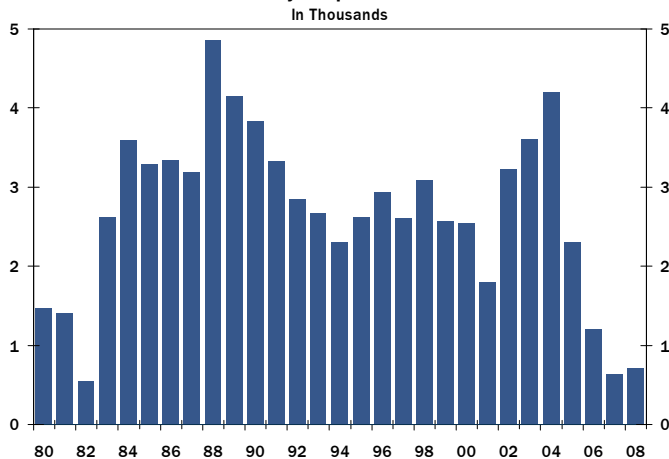
Atlantic City Unemployment Rate



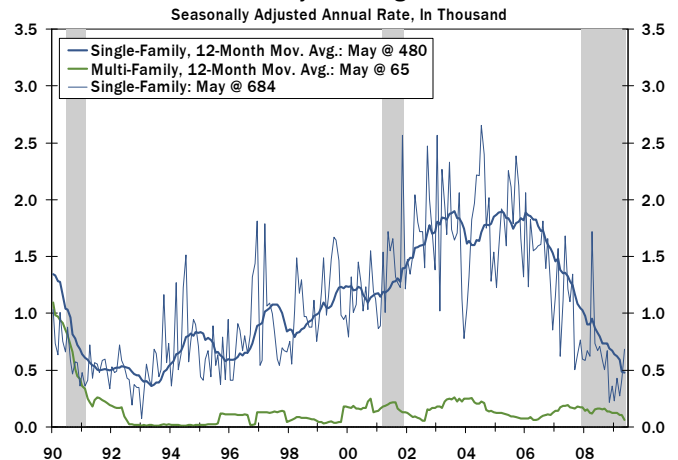
Visit-Trips to Atlantic City



Atlantic City Population Growth



Atlantic City Housing Permits

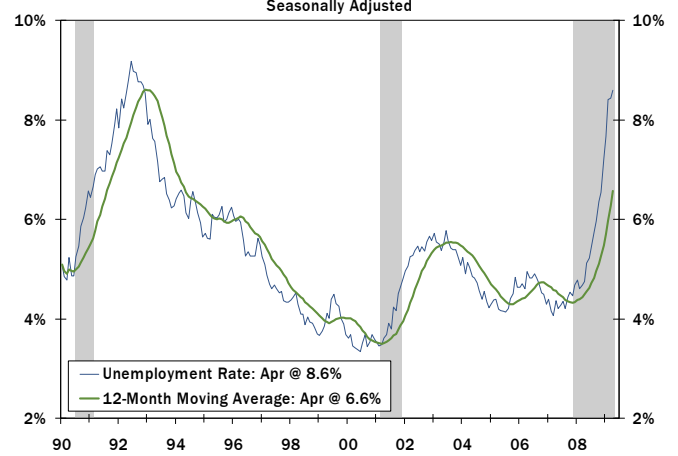


Source: South Jersey Transportation Authority, U.S. Department of Commerce, U.S. Department of Labor and Wachovia

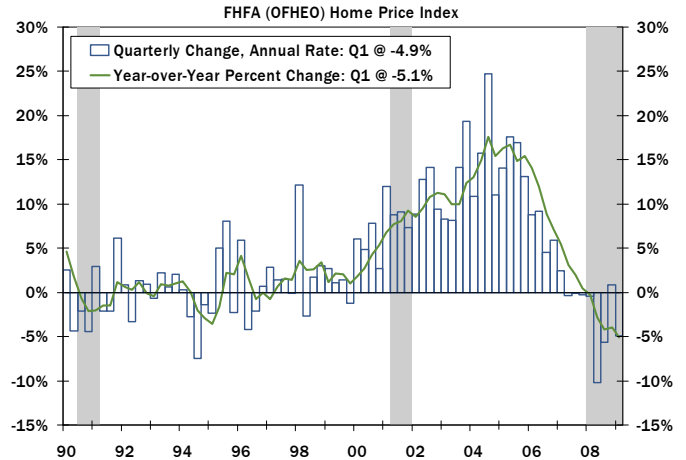
Camden

- Camden's employment is holding up much better than the nation due to a high concentration in somewhat recession-proof industries such as healthcare services, which makes up roughly 16 percent of Camden's employment. The professional & business services sector, however, is the most severely hit, losing nearly eight percent of its employment, or nearly 6,000 jobs since the recession began.
- The Port of Camden is an important economic driver, as the trade, transportation and utilities sector accounts for 23 percent of Camden's employment base. The South Jersey Port Corporation estimated in 2002 that it is responsible for generating about 23,000 jobs in the Camden/South Jersey region. The global recession has posed significant downside risk to the port's employment as trade activity has declined significantly. The sector has lost about five percent of its employment base. However, trade volumes will likely pick up as the global economy gets into recovery mode later this year.
- Home prices generally have fallen about five percent from their peak in December 2007, a very mild correction. Camden did not experience the same run-up in home prices as other parts of the state. Camden's more affordable home prices are very attractive to many residents who live in the northern part of the state where home prices are high due to its close proximity to New York City.
- Population growth has slowed severely since 2006 due to heavy out-migration to nearby areas like Philadelphia and other parts of New Jersey. However, as recovery takes place, population growth is expected to follow a healthy trend as Camden has a diversified industry base, a well-educated workforce, a lower cost of living and benefits from growth activity in Philadelphia.

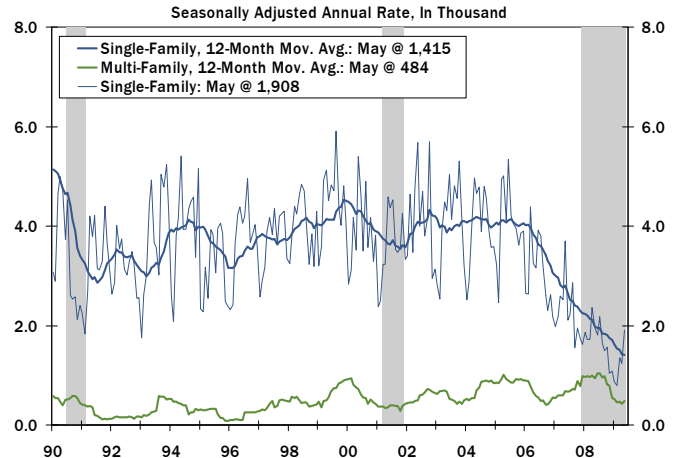
Camden Unemployment Rate



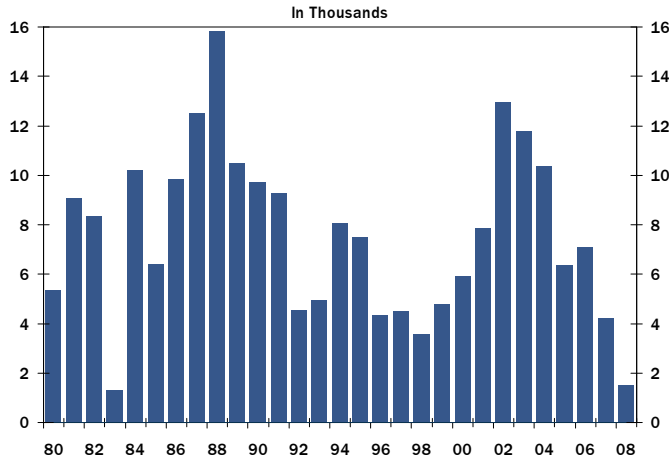
Camden Home Prices



Camden Housing Permits



Camden Population Growth

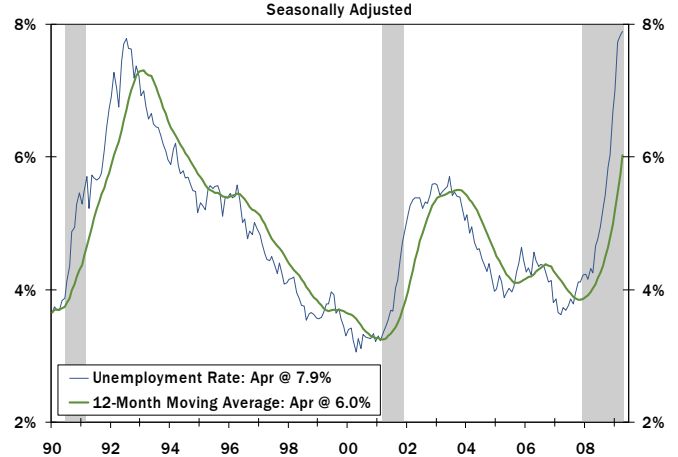


Source: Federal Housing Finance Agency, U.S. Department of Commerce, U.S. Department of Labor and Wachovia

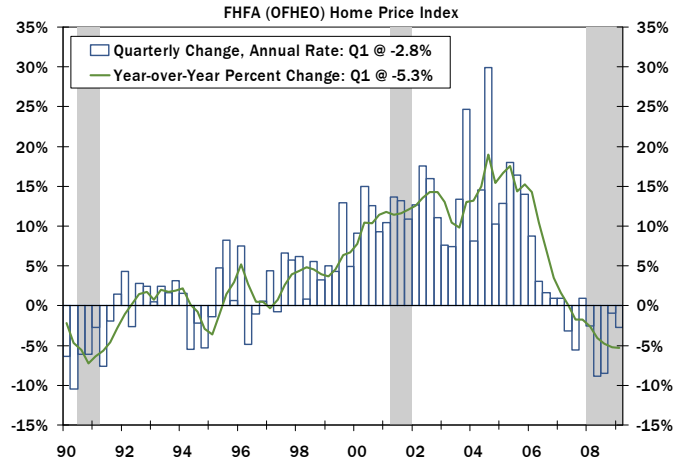
Edison

- Edison has weathered the economic storm fairly well. However, the unemployment rate has moved higher in recent months. Year-over-year, only financial services and education & healthcare added jobs in May. The largest losses have been in the professional & business services sector, which is down about 16,000 jobs since May 2008.
- The pharmaceutical and biotechnology industry in the state is centered in Edison and Newark. The turmoil in the sector led to layoffs in 2008 involving three major companies, and more bad news may come as companies adjust further. A ray of light is that state's incentives encouraged ImClone to expand and create an additional 900 jobs, but this is not expected to be effective until 2011.
- The trade, transportation & utilities sector account for 23 percent of Edison's employment base as the metro is a major transportation hub with an extensive network of highways connecting major cities in the Northeast. The sector is being challenged by lower transport volumes due to the recession.
- Edison has had a very mild home price correction, with home prices declining only 7.1 percent from their peak. However, construction activity has plummeted 20 percent from its cycle peak. Looking forward, Edison's high credit conditions and income levels bode well for the housing market during the recovery period.
- Population growth in Edison reached a record low in 2006 but has since rebounded for two consecutive years. The city's pharmaceutical and biotechnology industries continue to attract a well-educated workforce into the region. At the same time, a weak sellers' market and sub par economic conditions may have prevented many people from moving out of Edison until conditions improve. The high cost of living in Edison, however, will likely dampen affordability and likely hinder in-migration into the region.

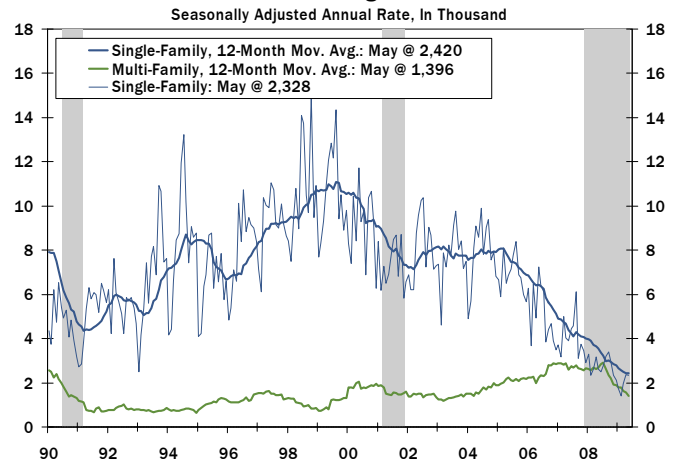
Edison Unemployment Rate



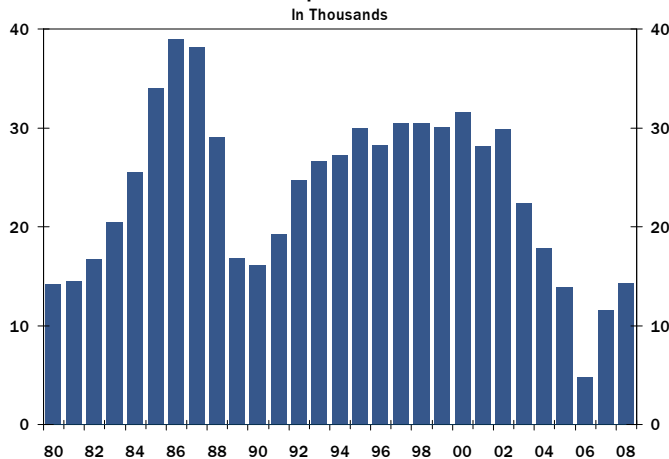
Edison Home Prices



Edison Housing Permits



Edison Population Growth

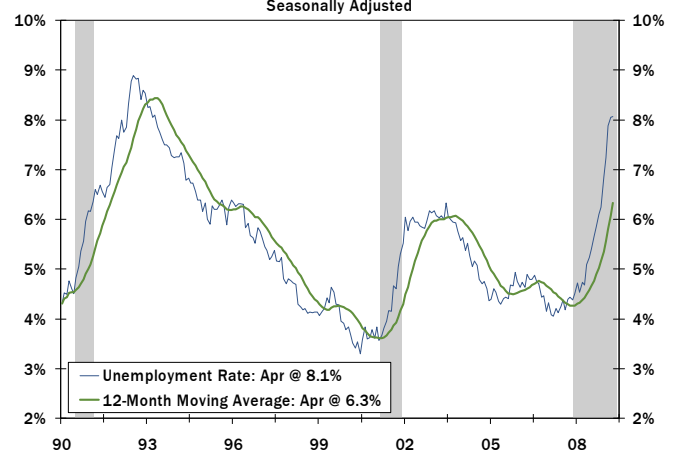


Source: Federal Housing Finance Agency, U.S. Department of Commerce, U.S. Department of Labor and Wachovia

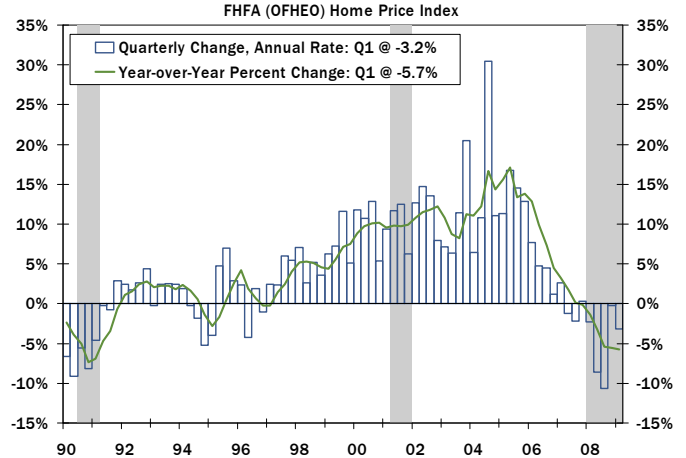
Newark

- Newark has been weathering the recession fairly well compared to the nation, though the unemployment rate has accelerated in recent months, nearly reaching the highs of the 1990-91 recession. Job losses are occurring across the board. Similar to other parts of the state, Newark's skilled labor market was challenged by a series of layoffs in the pharmaceutical sector in 2008 concerning Abbott Labs, Schering-Plough, Novartis and Johnson & Johnson. Recent merger announcements involving Merck and Schering-Plough as well as Pfizer and Wyeth, pose further downside risk to the area's pharmaceutical employment.
- Due to the Port of Newark/Elizabeth, trade, transportation & utilities account for about one-fifth of the employment base, and Newark is considered the fifteenth busiest port in the nation. However, the deteriorating global economic landscape will likely put significant downward pressure to the port's traffic and revenues this year. On the brighter side, the Port Authority of New York and New Jersey is committing to the highest level of capital spending in the agency's history—\$3.3 billion, 28 percent higher than the previous year.
- Newark's residential construction activity has fallen to less than 15 percent of its cycle peak. Meanwhile, house prices have fallen merely 6.3 percent off of the cycle peak. The housing market is experiencing a mild correction, and the declines are already slowing.
- Newark has been suffering from a contraction in population, although there was a slight gain in 2008. Newark benefits from spillover effects from New York City, but the state's high cost of living has impeded population and labor force growth. Newark's biggest downside risks are poor demographics trends and high costs of living and doing business.

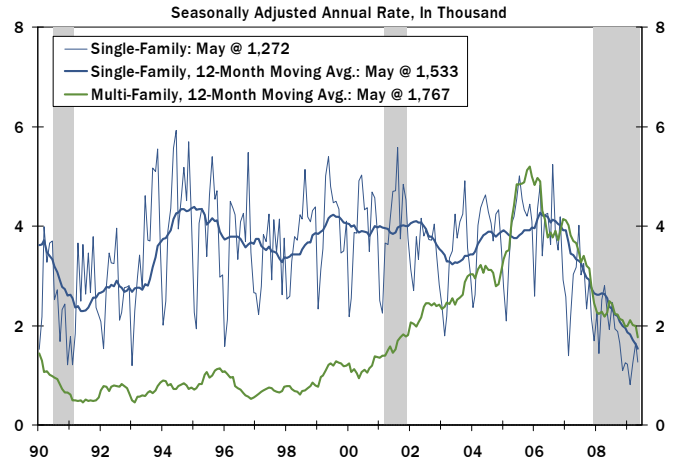
Newark Unemployment Rate



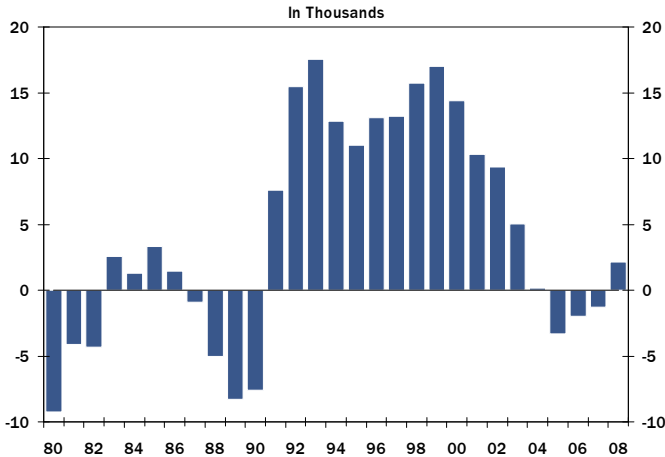
Newark Home Prices



Newark Housing Permits



Newark Population Growth

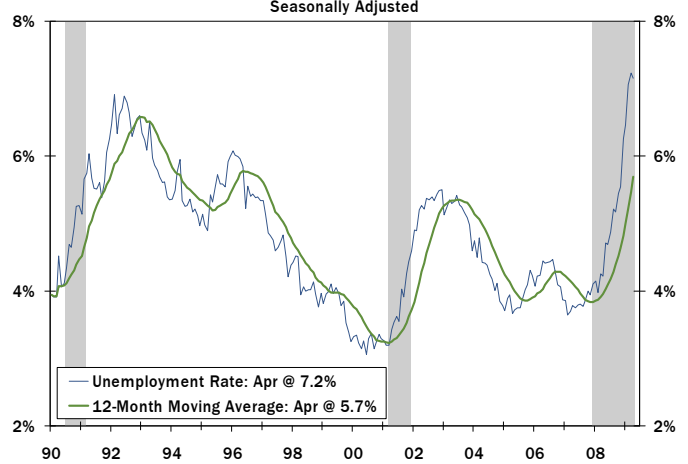


Source: Federal Housing Finance Agency, U.S. Department of Commerce, U.S. Department of Labor and Wachovia

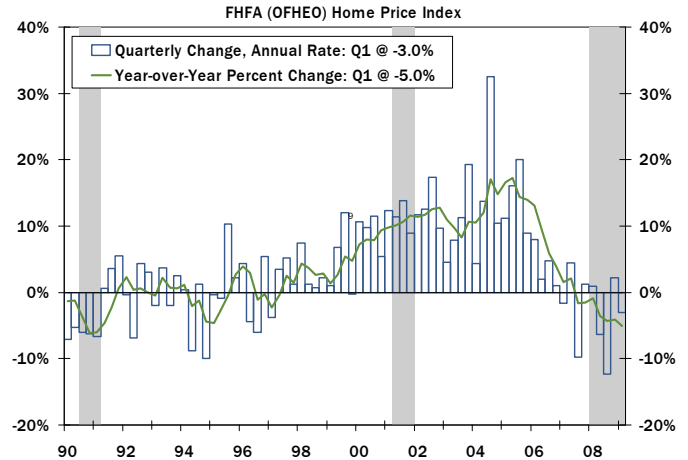
Trenton

- A large part of Trenton’s employment base lies in the government sector which accounts for 28 percent of total employment. With the state facing such a large budget shortfall, estimated at \$1.2 billion for fiscal year 2010, the state budget will likely be reduced significantly resulting in government job cuts. State spending cuts will also likely pose downside risk to many private-industry contractors who depend on government projects. Trenton has so far lost 4.5 percent of its public employment base. The unemployment rate has trended higher, surpassing even that of the 1990-91 recession but is still well below the national average.
- Surprisingly, employment in the trade, transportation & utilities and education & health services industries has experienced positive growth in the Trenton-Ewing MSA since May of last year. Combined, they account for a sizable 29 percent of the area’s employment base, which may help to explain why the area has one of the state’s lowest unemployment rates. However, the acquisition of Merrill Lynch, Trenton’s largest employer in financial services, by Bank of America will likely pose downside risk to the sector’s employment.
- Like many areas of New Jersey, house prices have experienced a very mild correction, in our opinion—a decline of only 7.4 percent since their peak. However, residential construction activity has declined to less than 10 percent of the cycle’s peak. Trenton never really experienced the run-up in residential construction or home prices, and therefore is experiencing relatively mild declines.
- Trenton has had only modest population growth over the past few years. Many migrated from Trenton to areas like Philadelphia and Camden in search of better industrial diversity, which is one of Trenton’s weakest points.

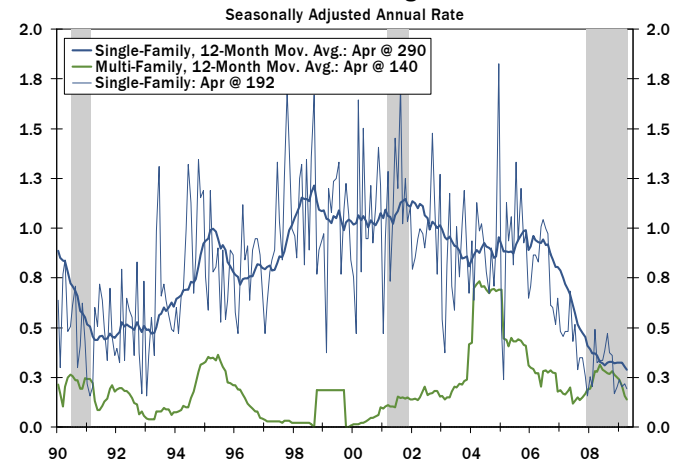
Trenton MSA Unemployment Rate



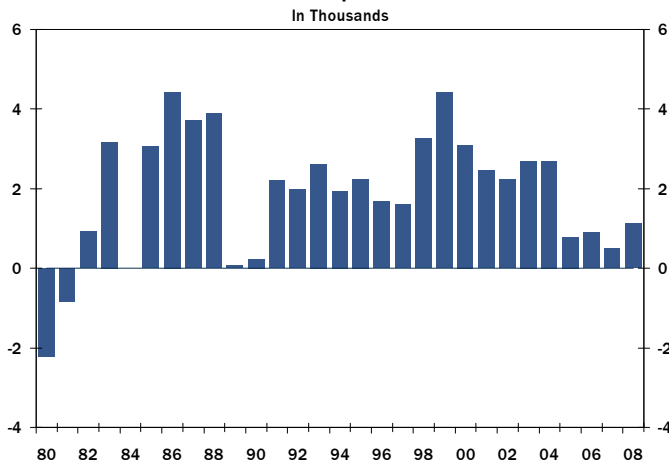
Trenton MSA Home Prices



Trenton MSA Housing Permits



Trenton MSA Population Growth



Source: U.S. Department of Commerce, U.S. Department of Labor and Wachovia

Wachovia Economics Group

Diane Schumaker-Krieg	Global Head of Research & Economics	(704) 715-8437 (212) 214-5070	diane.schumaker@wachovia.com
John E. Silvia, Ph.D.	Chief Economist	(704) 374-7034	john.silvia@wachovia.com
Mark Vitner	Senior Economist	(704) 383-5635	mark.vitner@wachovia.com
Jay Bryson, Ph.D.	Global Economist	(704) 383-3518	jay.bryson@wachovia.com
Gary Thayer	Senior Economist	(314) 955-4277	gary.thayer@wachovia.com
Sam Bullard	Economist	(704) 383-7372	sam.bullard@wachovia.com
Anika Khan	Economist	(704) 715-0575	anika.khan@wachovia.com
Azhar Iqbal	Econometrician	(704) 383-6805	azhar.iqbal@wachovia.com
Adam G. York	Economist	(704) 715-9660	adam.york@wachovia.com
Tim Quinlan	Economic Analyst	(704) 374-4407	tim.quinlan@wachovia.com
Kim Whelan	Economic Analyst	(704) 715-8457	kim.whelan@wachovia.com
Yasmine Kamaruddin	Economic Analyst	(704) 374-2992	yasmine.kamaruddin@wachovia.com
Samantha King	Economic Research Assistant	(314) 955-2635	samantha.king1@wachovia.com

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