







While recent months have provided some indication that home prices have begun to stabilize in a few markets across the country considerable uncertainty continues to enshroud the housing market. Sales of existing homes rose nationally in 2009 for the first time in four years. At the same time, sales of both existing and newly built single-family homes slumped in December, a clear indication that last fall's boost from the federal tax credit has run its course. There is also considerable angst over the implications of the end of the Fed's program to buy mortgage securities to keep home rates low. Many expect that mortgage rates will rise once the program ends on March 31. Finally, a newly extended homebuyer tax credit is also set to run out at the end of April.

Figure 7 shows trends in single-family





The Great Recession, the worst recession since the 1930s, has caused the steepest declines in state tax receipts on record. Reflecting this fact, New Jersey, along with several other states, faces an acute fiscal crisis. The current fiscal year gap is \$2 billion. As with other states, New Jersey's mid-year gap reflects the difference between actual revenue collections at mid-year and initial budget projections. Even more daunting, the state's gap for FY

layoffs, contract cancellations, lower payments to businesses and organizations that provide direct services, and smaller payments to individuals. Each of these in turn will have multiplier effects that cascade throughout the economy. Similarly, tax increases also reduce demand by directly reducing the amount of money people have to spend. Should such increases materialize and fall heavily on the state's lower and middle-income residents, this effect will be magnified as such residents tend to save relatively little.

Given the fact that a significant second federal stimulus bill seems highly unlikely, a balanced approach to closing the state's gaps — targeted tax increases and budget cuts — will be needed. Such an approach will ensure that important services are maintained and the harmful effects of such actions on the state's economy and citizens are minimized.



