

## R/ECON™ FORECAST: NOVEMBER 2016 NEW JERSEY: PROSPECTS FOR THE LONG TERM

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### EXECUTIVE SUMMARY

R/ECON™'s November 2016 forecast is slightly less sanguine than that for July. In particular employment growth is expected to be less vital through 2026. In 2016, nonagricultural employment will rise by 2.1 percent—or 84,700 jobs<sup>1</sup>—it will moderate substantially to average about 0.4 percent growth annually through 2026. (See Table 1.) While productivity per worker declines (albeit slowly), the sluggish employment outlook will dampen the state's real GDP by a full percentage point to 1 percent annually during the forecast period.

After falling rather rapidly during 2015, the state's unemployment rate reached 4.3 percent in February 2016—but has risen somewhat since, hitting 5.3 percent in August. It will average 4.9 percent this year, then rise a bit more to 5.4 percent in 2017. We expect the unemployment rate to edge upwardly very slightly and average 5.3 percent during the remainder of the forecast horizon. Though the state's rate has fallen below the nation's, on balance the economy will return to favor the nation through the remainder of the forecast period.

New Jersey's consumer prices rose almost imperceptibly in 2015, held back by falling oil and other energy prices both early and late in the year. Prices will rise 0.7 percent in 2016, but bounce back up to the long-run average of about 2.6 percent per year through 2026. These forecasted inflation rates remain higher than those expected for U.S. consumer prices.

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<sup>1</sup> Employment growth is reported in terms of annual averages.

**Table 1**  
**SUMMARY OF NEW JERSEY ECONOMIC FORECAST**

<b>Annual Percentage Change</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2018-2026</b>
<b>NonAgricultural Employment</b>	2.1%	0.6%	0.6%	0.4%
<b>Real Gross State Product</b>	7.0%	2.0%	1.6%	1.0%
<b>Personal Income</b>	3.8%	3.9%	4.1%	3.9%
<b>Population</b>	0.3%	0.4%	0.3%	0.3%
<b>Consumer Prices</b>	0.7%	2.1%	2.3%	2.6%
<b>Percentage</b>				
<b>Unemployment Rate (Average)</b>	4.9%	5.4%	5.4%	5.4%

**Source: R/ECON™, November 2016**

State personal income rose 4.0 percent in 2015; it will rise by 3.8 percent in 2016 and an average of 3.9% annually through the forecast horizon due to the now bleaker-looking labor market conditions.

The weaker-looking state economy will slow the rate of the state's population growth, which is expected to average 0.3 percent a year from 2018 to 2026, an increase of about 219,000 residents.

The state's share of nationwide, personal income and real output all will remain higher than its share of the national population during the forecast period; that is, New Jersey will continue to have both higher income per capita and higher average productivity than the nation.

Building permits were issued for about 30,100 residential units in 2015, with a slight increase forecast for this year. Thereafter, an average of about 33,800 units a year are forecast—in part, pent-up demand due to the Great Recession.

In 2016, we expect that permits will be split 35/65 between single-family and multifamily permits. This reflects the declining trend in the share of single-family permits, which peaked at 88 percent in 1994, but has declined sharply since that time.

This share is projected to increase slightly over the forecast period, averaging about 36% through 2026, still well below its long run average of about 65% since 1970. The forecast accounts for rising population, particularly among the fast-growing older population as well as millennials both of which have a current tendency to live in smaller units, as well as the improving housing market implicit in the national forecast.

A new President in the Whitehouse always brings with it a good deal of uncertainty for any forecast. The incoming Trump Administration is certainly no exception. So what can we expect?

Economically speaking, during his campaign, now President-elect Trump promised new trade deals, improved infrastructure, deportations, across-the-board tax cuts, repeal of the Dodd-Frank legislation on financial regulation, eased environmental standards, and at least some adjustments to the Patient Protection and Affordable Care Act (PPACA)—perhaps better known as “Obamacare.” While he is already pulling back on his targets on some of the promises, there remain some positions that remain contradictory and others that are insufficiently unspecific to enable well-informed speculation. Still, through Executive Orders or sufficient backing in Congress, he could get some of his ideas implemented.

While our President-elect can possibly move unilaterally on trade, the results of taking a hard stance with China or Mexico on this matter could be quite disastrous to the national and world economies. Of course, just the threat of U.S. action could generate repercussions in those trade partner nations (devaluation of the peso and slower rates of international investment in China). He could also take Obama’s lead and rule through Executive Orders to effect changes in environmental regulations. Tax changes

are much more likely, since his targets on this at least coincide with those stated in his party’s platform. Of course, his proposed tax changes do not jibe with rises in spending on things like infrastructure investments, greater military spending, and large-scale deportations, so those plans need a bit more work. Still, he may well end the H1B visa program that allows U.S. companies to hire skilled immigrants. And he has already suggested that he only seeks tweaks to Obamacare to “fix” that program.

Economically, the big state news this quarter is that new tax legislation was signed by Governor Christie. The main features are that the motor fuel tax rose by 23.5 cents per gallon as of November 1. It was offset by a drop in the state’s sales tax rate from 7 to 6.875 percent on January 1, 2017, and further to 6.625 percent on January 1 of the following year. Moreover, after counting ballots submitted by November 8, the added fuel tax revenues are dedicated to the Transportation Trust Fund. This will leave the state’s General Fund a bit tighter than anticipated.

R/ECON analysis shows that funding designated for the Transportation Trust Fund will be about \$1.25 billion annually over the forecast period, albeit with little growth as the added cost of the tax dampens travel. On the other side of the ledger, we find that the loss of the sales tax will cause the state’s General Fund to be about \$600 million lighter annually, although that amount will grow over time as retail sales rise with incomes. Both of these numbers essentially verify equivalents produced by New Jersey’s Office of Legislative Services<sup>2</sup>

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[http://www.njleg.state.nj.us/2016/Bills/A0500/12\\_E3.PDF](http://www.njleg.state.nj.us/2016/Bills/A0500/12_E3.PDF)