R/ECON™
Rutgers Economic Advisory Service

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Still Growing but Slowing:

New Jersey's Economy Adapts to a Tumultuous Federal Administration

Executive Summary

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EXECUTIVE SUMMARY

This R/ECON™ forecast for New Jersey leans on IHS Markit's national baseline forecast of June 2017. This U.S. forecast, to which IHS assigns a 60 percent probability of occurring, shows the country continuing to expand modestly through 2026. Compared to the forecast reported in our prior report (R/ECON™ November 2016), the nation's outlook for employment and output has weakened slightly over the long term.

The main risk to the IHS forecast is political and fiscal uncertainty tied to Washington's inability to advance initiatives for healthcare reform, tax reform and infrastructure. Continued gridlock would lead to less confidence from consumers and business alike with respect to any promises made by the new administration. Also changes in trade agreements, but especially any involving China, could cause economic conditions in trading-partner countries to sag. In turn, problems in emerging U.S. markets would likely worsen, and the dollar would strengthen, thereby causing U.S. export volumes to slacken. Of course, all of this could be more than offset by larger-than-expected corporate tax breaks and an unexpected burst in investment that encourages the adoption of new technologies and improved infrastructure, both of which could lead to welcome enhancements in productivity.

R/ECON™'s July 2017 forecast sees New Jersey lagging the nation significantly in key indicators over the forecast period through 2026. In 2017, nonagricultural employment is projected to increase by 1.4 percent—or 55,000 jobs[1]— the same rate as national employment. It is forecast to drop to 0.8 percent in 2018 (versus 1.2 percent for the nation) and average approximately 0.5 percent from 2018 through 2026 (versus 0.8 percent for the nation). Comparatively slow employment growth will continue to be a drag on state output, with real GDP growing by an average of 1 percent from 2018 to 2026 (versus 2.1 percent for the nation).

After falling rather rapidly during 2015, the decline in the state's unemployment rate slowed through 2016, dropping from 5.0 to 4.7 percent. But, it began to decline somewhat rapidly during the first five months of 2017, reaching 4.1 percent by May: it is projected to average 4.2 percent for the year and the forecast period through 2026, roughly mirroring the national levels.

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 rose somewhat faster (0.8 percent) in 2016, and are projected to reach 2.1 percent growth this year, followed by a return to normal levels for the state—an average annual increase of 2.7 percent—through 2026. The forecasted inflation rates

1 Employment growth is reported in terms of annual averages.

over the 2018-2026 period remain slightly higher than those expected for U.S. consumer prices.

SUMMARY OF NEW JERSEY ECONOMIC FORECAST

Annual Percentage Change	2016	2017	2018	2018-2026
Non-Agricultural Employment (000)	1.5%	1.4%	0.8%	0.6%
Real Gross Domestic Product	1.2%	1.3%	1.3%	1.0%
Personal Income	3.2%	3.3%	4.2%	4.0%
Population	0.1%	0.3%	0.5%	0.3%
Consumer Prices	0.8%	2.1%	2.0%	2.7%
Percentage				
Unemployment Rate (average)	5.0%	4.2%	4.0%	4.2%

Source: R/ECON™, June 2017

State personal income rose 3.2 percent in 2016; it will rise by 3.3 percent in 2017 and an average of 4.0 percent annually through the forecast horizon. This compares to the more robust rate of 4.8 percent for the U.S. but this represents some degree of income convergence since New Jersey is one of the wealthiest states on a household or per capita basis.

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 230,000 residents over the period. Legislated changes in New Jersey's estate tax could curtail the present flow of out-migration of the state's wealthier families, however, and this is not taken into account in the forecast.

The state's share of both national personal income and real national output 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 25,600 residential units in 2016, but are forecast to recover to their 2015 level of over 30,000 in 2017, despite a slower first quarter. Thereafter, an average of about 32,500 units a year are projected through the end of the forecast period (2026).

In 2017, we expect that permits will be split 40/60 between single-family and multifamily permits. This reflects the declining trend in the share of single-family permits, which peaked at over 90 percent in 1994, but has declined sharply since that time. This share is projected to increase over the early years of the forecast period, but decline again in subsequent years, averaging about 40% through 2026, still well below its long run average of nearly 70% 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.