R/ECON Rutgers Economic Advisory Service

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

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EXECUTIVE SUMMARY

R/ECON™'s July 2016 forecast reveals fairly robust growth for the state over next ten years and then a return to normal from 2025 to 2045. In 2015, nonagricultural employment rose by 1.4 percent—or 55,700 jobs[1]—but will dip to about half that rate or average 0.8 percent—33,000 jobs per year—through 2026 and slow down even further to 0.5 percent thereafter. (**See Table 1.**) Still, by early next year the state's job base should tip above the prior peak level, which was achieved in the first quarter of 2008. By the end of the forecast period in 2045 the employment base should be about 4,855,000 jobs, about 20 percent greater than the 2008 peak.[2] By the end of 2026 the nation's employment base will exceed the peak reached in January 2008 by 8.0 percent. This long-run projection reflects long-run economic stability within the state and nation or, perhaps more realistically, a middle ground between the less-predictable crescendos and diminuendos that our economy typically experiences. The fact is, we are in the seventh year of the upside of the current cycle; during the past few decades our economy has run into a rut after about ten years, give or take a couple of years. That we have not quite fully recovered from the last recession hints that we could expect more than a decade's worth (*at least* another three years) of positive growth before our economy takes another major hit.

New Jersey's recovery has been longer and slower than the nation's. Wealth lost in New Jersey from early 2008 to late 2009 was finally recaptured by early in 2015; while the nation's lost GDP; it was regained by mid-2011. Still, from 2018 onward the state's employment growth rate will be slower than that nationwide by 0.1 percentage point. So the state's share of the nation's job base will continue to decline accordingly.[3]

From 2015 to 2026, New Jersey-based GDP will expand at an average rate of 2.0 percent a year compared to a 2.1 percent rate

Table 1
SUMMARY OF NEW JERSEY ECONOMIC FORECAST

Annual Percentage Change	2015	2016	2017	2017-2025	2025-2045
NonAgricultural Employment (000)	1.4%	1.4%	0.8%	0.8%	0.5%
Real Gross Domestic Product ($Bill 2009)	1.9%	2.1%	1.9%	2.3%	2.2%
Personal Income ($Bill)	4.0%	4.4%	4.0%	4.0%	4.0%
Population (000)	0.2%	0.3%	0.7%	0.6%	0.2%
Consumer Prices (1982-84=100)	0.0%	0.5%	2.4%	2.6%	2.6%
Percentage					
Unemployment Rate (average)	5.6%	4.7%	4.7%	5.0%	5.4%

Source: R/ECON™, July 2016

[1] Employment growth is reported in terms of annual averages.

[2] This report reflects the preliminary employment data of May 2016 released in June 2016 by the N.J. Department of Labor, as well as re-benchmarked employment data from 1990 to 2015.

[3] All U.S. forecast information in this report comes from *IHS Economics* forecast from for May 2016.

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nationwide. Thus the state's real GDP will fall from 3.14 percent to 3.02 percent of the nation's real output.

The state's unemployment rate fell throughout 2015 from 6.4 percent in January to 4.8 percent in December. It reached 4.5 percent in January 2016—a level not experienced since the end of 2007. It will average 4.7 percent this year and maintain that level through 2017. We expect the unemployment rate to average 5.0 percent through 2025 and then to average 5.4 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 0.5 percent in 2016, at an average of about 2.3 percent per year through 2025, and then rise slightly during the rest of the forecast period. These forecasted inflation rates are higher than those expected for U.S. consumer prices.

State personal income rose 4.0 percent in 2015; it will rise 4.4 percent in 2016 as labor market conditions have continued to look brighter. Personal income within the state will average 4.0 percent a year through 2045, compared to the 4.3 percent annual growth rate expected nationwide.

Buoyed by the state's economy, population growth is expected to average 0.5 percent a year from 2017 to 2026, an increase of nearly 886,000 residents. But the state's share of U.S. population will fall from the current 2.78 percent to 2.55 percent in 2045. The state's share of nationwide employment, 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.

All age-based demographic forecasts are more distinctive at the national level as compared to the state. The dependency rate (the non-working age population share) within New Jersey is expected to rise by 2.0 percentage points through 2045. Interestingly, this is modest compared to the national dependency rate. The dependency rate is largely being driven by the post-working age population nationwide; New Jersey already has a substantial retirement community, so this cohort's share is forecast to rise more modestly within the state.

Residential permit issuance was 24,270 in 2014 and rose to 28,117 in 2015; it is anticipated to rise to about 31,050 units in 2016. Thereafter, an average of about 38,700 units a year are forecast —in part, pent-up demand due to the Great Recession but also due to the coming of age of the children of baby boomers —the so-called "Echo Boomers." It is upon their shoulders that much of the positive feeling emanating from our forecast.

In 2016, we expect that permits will be split 34/66 between single-family and multifamily permits. This is a high share for multifamily permits compared to the average of 34 percent over the period from 1970 to 2015. This share will be even higher in the forecast period (41 percent from 2017 to 2045). The forecast accounts for rising population, particularly among the fast-growing older population with its tendency to live in smaller units, as well as the improving housing market implicit in the national forecast.

All labor areas in the state will show some gains in the forecast period. The fastest growth among the larger labor areas will be in Camden, Trenton, and MMO. Growth will moderate by area over the longer run. Atlantic City will still be held back by declines at its casino resorts, which will concomitantly constrain its service economy and local government employment