



FORECAST OF APRIL 2015

NEW JERSEY: IMPROVEMENT SEEN—IS AN EXPANSION IN SIGHT?

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EXECUTIVE SUMMARY

The April 2015 R/ECON™ forecast shows more rapid growth for the state in 2015 than in 2014. Nonagricultural employment rose by 0.7 percent—or 27,700 jobs in 2014—after growth of 1.2 percent or 45,100 jobs in 2013. Growth will improve to 1.4 percent in 2015 and to 1.5 percent in 2016, and then average 0.9 percent over the rest of the forecast period. (See Table 1.) At these rates the job base will return to the peak level reached in the first quarter of 2008 in late 2016. By the end of the forecast period in 2025 the employment base will be about 325,000 jobs greater than its level at the peak.¹ These projections assume that no new recession disrupts the state's or nation's growth. Unfortunately, this seems rather far-fetched given that the average business cycle (peak to peak) in the U.S. since World War II has lasted about 24 quarters and the current cycle is now in its seventh year.

As of April 2014, the jobs recovery in the U.S. was complete. Nonagricultural employment had regained slightly more than the 8.7 million jobs lost in the recession. The private sector recovery was accomplished a couple of months earlier. By the end of 2025 the nation's employment base will exceed the peak reached in January 2008 by more than 13 percent. Given its slower recovery and rate of expansion, New Jersey's share of the nation's job

base will decline slightly from its current 2.83 percent by 2025.²

By mid-2014, three years into its recovery, the state's economy had regained all the output lost in the recession, making the state's output recovery three years later than that of the U.S. Between 2014 and 2025, output in New Jersey will expand at an average rate of 2.1 percent a year, about 20 percent slower than the average rate expected nationwide. Using the ratio of output to employment as a rough measure of productivity, it appears that New Jersey had a substantial productivity advantage during the 1990s and until 2008 when the state's advantage was 17 percent. Since then, the advantage has declined, and it will continue to fall to about 7 percent in 2025. The

Table 1
SUMMARY OF NEW JERSEY ECONOMIC FORECAST

	2013	2014	2015	2016	2016 to 2025
<i>Annual Percentage Change</i>					
Nonagricultural Employment	1.2%	0.7%	1.4%	1.5%	0.9%
Real Gross State Product	1.1%	1.0%	3.2%	3.0%	1.9%
Personal Income	1.2%	3.0%	5.4%	4.9%	4.4%
Population	0.4%	0.3%	0.3%	0.6%	0.6%
Consumer Prices	1.4%	1.3%	-0.7%	2.1%	2.4%
<i>Percentage</i>					
Unemployment Rate (average)	8.0%	6.6%	6.0%	5.7%	5.4%

Source: R/ECON™, April 2015.

¹ This report reflects the preliminary employment data of February 2015 released in March 2015 by the N.J. Department of Labor, as well as rebenchmarked employment data from 1990 to 2014. It also includes income data for all of 2014 released in March 2015 by the U.S. Bureau of Economic Analysis.

² All U.S. forecast information in this report comes from the IHS Economics forecast of March 2015.

differential in output growth leading to the state’s falling productivity advantage is due to, among other things, the relatively higher costs of living and doing business in New Jersey, the state’s lower rate of population growth, and its smaller proportion of working age population.

The state’s unemployment rate will fall from its February 2015 level of 6.4 percent to under 5.5 percent from 2017 on. Even though the state rate has fallen substantially in the past year, it is still higher than the national rate; it will remain an average of 20 basis points higher through the forecast period. New Jersey’s consumer prices rose 1.4 percent in 2013 and 1.3 percent 2014, just less than the national rate. The state’s inflation rate will **FALL** 0.7 percent this year, pushed down by falling oil and other energy prices.

Prices will rise at an average about 2.3 percent per year from 2015 to 2025, similar to inflation in the U.S. Thus inflation should not be a concern for the economy in the next decade.

Personal income rose 3.4 percent in 2012 and 1.2 percent in 2013. The slowdown in 2013 was the result of the increase in payments for social insurance as the federal social insurance tax rate reverted to its pre-reduction (2010) level. Income rose 3.0 percent in 2014; it will rise 5.4 percent in 2015, and an average of 5.0 percent a year from 2015 to 2024, somewhat slower than the 5.4 percent annual growth rate expected for the U.S.

The state added 507,600 residents between 2000 and 2014, growing at an average annual rate of 0.4 percent. This was just over half as fast as population growth in the 1980s and was less than half as fast as national population growth. Population growth will average 0.6 percent a year from 2014 to 2025, compared to 0.8 percent a year for the U.S. The state

	2013	2014	2015	2016	2016 to 2025
<i>Annual Percentage Change</i>					
Nonagricultural Employment	1.7%	1.9%	2.3%	1.8%	0.8%
Real Gross State Product	2.2%	2.4%	3.0%	2.7%	2.6%
Personal Income	2.0%	4.0%	3.9%	4.6%	4.8%
Population	0.7%	0.7%	0.8%	0.8%	0.8%
Consumer Prices	1.5%	1.6%	-0.7%	2.1%	2.3%
<i>Percentage</i>					
Unemployment Rate (average)	7.4%	6.2%	5.5%	5.3%	5.3%

Source: Global Insight U.S. Forecast March 2015.

will add 587,000 residents over the decade. As a result, New Jersey’s population will top 9 million in 2016 and end the forecast period at 9.5 million. The state’s share of U.S. population will fall from the current 2.8 percent to 2.74 percent in 2025. The state’s share of national employment, personal income, and real output will all remain higher than its share of the national population during the forecast period. New Jersey will remain a state with both higher income per capita and higher productivity than the national average.