

## FORECAST OF APRIL 2016

# NEW JERSEY: A STRONG 2015—AN IMPROVING FUTURE!

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### EXECUTIVE SUMMARY

The April 2016 R/ECON™ forecast shows good growth for the state from 2015 through the 10-year forecast horizon. Nonagricultural employment rose by 1.4 percent—or 55,700 jobs in 2015<sup>1</sup>—after growth of 0.8 percent or 32,900 jobs in 2014. Growth will average 0.9 percent or 38,400 jobs per year over the rest of the forecast period, which goes through 2026. (See Table 1.) At these rates the job base will return to the peak level reached in the first quarter of 2008 early in 2017. By the end of the forecast period in 2026 the employment base should be 370,000 jobs, or 9 percent, greater than at the 2008 peak.<sup>2</sup>

By the end of 2026 the nation’s employment base will exceed the peak reached in January 2008 by 14.4 percent. New Jersey’s recovery has been longer and slower than that of the U.S.; however, from 2018 on the rate of employment growth of the state and nation will be similar. Thus, New Jersey’s share of the nation’s job base will decline from 2.84 percent in 2015 to only 2.82 percent in 2026.<sup>3</sup> We estimate that the output lost in the recession in New Jersey during the period from early 2008 to late 2009 was finally regained by early in 2015; the nation’s lost output was made up in mid-2011. Thus, the state’s output recovery took about three and a half years longer than that of the nation. Between 2015 and 2026, output

in New Jersey will expand at an average rate of 2.0 percent a year compared to the 2.3-percent-a-year rate expected nationwide. Thus the state’s real GDP will fall from 3.14 percent to 3.02 percent of the nation’s real output. Using the ratio of output to employment as a rough measure of productivity, New Jersey had a substantial productivity advantage during the 1990s and until 2008 when the state’s advantage was 16 percent. Since then, the advantage has declined to 8 percent. The decline will continue over the forecast period to 7 percent in 2026. The differential in output growth leading to the state’s falling productivity advantage has been due to and will result from, among other things, the relatively higher costs of

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

	2014	2015	2016	2016 to 2026
<i>Annual Percentage Change</i>				
Nonagricultural Employment	0.8%	1.4%	1.4%	0.8%
Real Gross State Product	0.4%	1.9%	2.2%	1.9%
Personal Income	4.5%	4.0%	4.4%	4.1%
Population	0.4%	0.2%	0.3%	0.6%
Consumer Prices	1.3%	0.0%	0.6%	2.6%
<i>Percentage</i>				
Unemployment Rate (average)	6.7%	5.6%	4.7%	5.1%

*Source: R/ECON™, April 2016.*

<sup>1</sup> Employment growth is shown on the basis of annual average data.

<sup>2</sup> This report reflects the preliminary employment data of February 2016 released in March 2016 by the N.J. Department of Labor, as well as rebenchmarked employment data from 1990 to 2015. It also includes income data through the third quarter of 2015 released in December 2015 by the U.S. Bureau of Economic Analysis, as well as revised and preliminary gross state product data for the period 1997 through 2014 released in June 2015 by the BEA.

<sup>3</sup> All U.S. forecast information in this report comes from the 10-year *IHS Economics* forecast of March 2016.

living and doing business in New Jersey, the state's lower rate of population growth, and its smaller proportion of working age population. It is also the result of the likelihood of the fastest job growth in services—an industry group at the low end of the productivity spectrum.

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 seen since the end of 2007. It averaged 5.6 percent in 2015 and will fall to an average of 4.7 percent in 2016. We expect the unemployment rate to average 5.1 percent from 2017 through the rest of the forecast period. Even though the state rate has fallen substantially in the past six years, it has remained higher than the national rate; that relationship will continue through the forecast period, except for a brief reversal this year.

New Jersey's consumer prices rose 1.4 percent in 2013 and 1.3 percent in 2014, just less than the national rate. The state's inflation rate dipped almost imperceptibly in 2015, held back by falling oil and other energy prices both early and late in the year. Prices will rise 0.6 percent in 2016, and at an average of about 2.6 percent per year during the rest of the forecast period, slightly faster than the U.S. consumer inflation rate. Over this period the rate of inflation will be close to the Fed's target rate.

State personal income rose 4.5 percent in 2014 and an estimated 4.3 percent in 2015; it will rise 4.3 percent again in 2016 pushed by improving labor market conditions, and continue to rise at an average rate of 4.1 percent a year from 2016 to 2026, compared to the 4.7 percent annual growth rate expected for the U.S. The state added 373,300 residents between 2000 and 2010, 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. Estimated growth in

the past 5 years was 154,100 residents, for an average annual growth rate of just less than 0.4 percent. Assisted by the improving economy, population growth is expected to average 0.6 percent a year from 2015 to 2026, for an increase of nearly 600,000 residents. The state's share of U.S. population will fall from the current 2.78 percent to 2.73 percent in 2026. 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, so that New Jersey will remain a state with both higher income per capita and higher productivity than the national average.