R/ECON™ Rutgers Economic Advisory Service

FORECAST OF JULY 2015

NEW JERSEY: PROSPECTS FOR THE LONG TERM

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EXECUTIVE SUMMARY

The July 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 1.1 percent in 2015 and 2016 and then average 0.8 percent over the rest of the forecast period, which goes through 2045. **(See Table 1.)** At these rates the job base will return to the peak level reached in the first quarter of 2008 in mid-2017. By the end of the forecast period in 2045 the employment base will be nearly a million jobs, and 23 percent, greater than its level at the peak.[1] These projections assume no specific recession/recovery cycle disrupts the state's or nation's growth. Although 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, a caveat to keep in mind is that this is a long term TREND forecast; it does not purport to indicate at what point(s) CYCLES may occur.

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 completed 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; its rise will continue so that it exceeds that peak by 29 percent in 2045. Given its slower recovery and rate of expansion through 2025 and similar rate of expansion in the last 2 decades of the forecast, New Jersey's share of the nation's job base will barely change—going from 2.85 percent in 2014 to 2.84 percent in 2045.[2] In 2014, three years into its recovery, the state's economy had still not regained quite all the output lost in the recession, making the state's output recovery more than three years longer than that of the U.S. Between 2014 and 2025, output in New Jersey will expand at an average rate of 2.4 percent a year, about the same average rate expected nationwide.

Table 1
SUMMARY OF NEW JERSEY ECONOMIC FORECAST

	2014	2015	2016	2016 to 2025	2025 to 2045
Annual Percentage Change					
Nonagricultural Employment	0.7%	1.1%	1.1%	0.8%	0.7%
Real Gross State Product	0.4%	2.3%	3.2%	2.4%	2.1%
Personal Income	3.0%	6.0%	5.8%	4.8%	4.2%
Population	0.3%	0.3%	0.6%	0.6%	0.3%
Consumer Prices	1.3%	-0.1%	2.1%	2.7%	2.5%
Percentage					
Unemployment Rate (average)	6.6%	6.3%	6.0%	5.7%	5.2%

Source: R/ECON™, July 2015.

[1] This report reflects the preliminary employment data of May 2015 released in June 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, as well as revised and preliminary gross state product data for the period 1997 through 2014 released in June 2015 by the BEA.

[2] All U.S. forecast information in this report comes from the long term *IHS Economics* forecast of May 2015.

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Output in the state will expand at an average rate of 2.1 percent from 2025 to 2045, only 5 percent slower than the nation. 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 15 percent. Since then, the advantage has declined to 10 percent; and it will continue to decline over the long run to 7 percent in 2045. The differential in output growth leading to the state's falling productivity advantage has been and will be 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 May 2015 level of 6.5 percent to 6 percent in 2016 and an average of 5.4 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 40 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** 0.1 percent this year, pushed down by falling oil and other energy prices early in the year. Prices will rise at an average of about 2.5 percent per year from 2015 to 2025, and 2.6 percent per year from 2025 to 2045 slightly faster than inflation in the U.S. At these rates inflation should not be a concern for the economy even over the long term.

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 pop up 6 percent in 2015. Between 2015 and 2025 income will rise an average of 4.9 percent a year. From 2025 to 2045 personal income will rise 4.2 percent a year. The rate of increase in personal income in the full forecast period is expected to be slower than in 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 population will surpass 9 million this year. After adding 600,000 residents over the following 2 decades, there will be just over 10 million New Jerseyans in 2045.

The state's share of U.S. population will fall from the current 2.8 percent to 2.6 percent in 2045. 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. Although its advantage will shrink, New Jersey will remain a state with both higher income per capita and higher productivity than the nation.