

FORECAST OF OCTOBER 2015

NEW JERSEY: IMPROVED PROSPECTS FOR THE SHORT TERM

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EXECUTIVE SUMMARY

The October 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 1.2 percent this year and in 2016; it will then average 0.8 percent over the rest of the forecast period, which goes through 2025. (See Table 1.) Unfortunately, at these rates the job base will not return to the peak level reached in the first quarter of 2008 until mid-2017. By the end of the forecast period in 2025 the employment base should be more than 250,000 jobs, or 6 percent, greater than at the 2008 peak.¹

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 through 2025, New Jersey's share of the nation's job base will decline from 2.85 percent in 2014 to 2.79 percent in 2025.² 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 1.9 percent a year, compared to the 2.5 percent a year rate expected nationwide. Thus the state's real GDP will

fall from 3.2 percent to 3 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 15 percent. Since then, the advantage has declined to 11 percent. The decline will continue over the forecast period to 7 percent in 2025. 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.

Table 1
SUMMARY OF NEW JERSEY ECONOMIC FORECAST

	2014	2015	2016	2016 to 2025
<i>Annual Percentage Change</i>				
Nonagricultural Employment	0.7%	1.2%	1.2%	0.8%
Real Gross State Product	0.4%	2.3%	2.7%	1.8%
Personal Income	4.7%	4.9%	5.7%	4.3%
Population	0.3%	0.5%	0.7%	0.6%
Consumer Prices	1.3%	0.1%	1.5%	2.6%
<i>Percentage</i>				
Unemployment Rate(average)	6.6%	6.0%	5.4%	5.6%

Source: R/ECON™, October 2015.

¹ This report reflects the preliminary employment data of August 2015 released in September 2015 by the N.J. Department of Labor, as well as rebenchmarked employment data from 1990 to 2014. It also includes income data through the second quarter of 2015 released in September 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 September 2015.

The state’s unemployment rate fell in most of 2015 from 6.3 percent in January to 5.7 percent in August. We expect it to decline further to an average of 5.4 percent in 2016, and remain in a range near 5.6 percent through 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 stay in place over the forecast period. 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 will rise 0.1 percent in 2015, held down by falling oil and other energy prices early in the year. Prices will rise 1.6 percent in 2016, and at an average of about 2.6 percent per year during the rest of the forecast period, almost identically to U.S. consumer inflation rates. Over this period the rate of inflation will be very close to the Fed’s target rate.

Personal income rose 3.3 percent in 2012 but only 0.5 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 4.7 percent in 2014; it will rise 4.9 percent in 2015, and an average of 4.4 percent a year from 2015 to 2025, somewhat slower than the 4.7 percent annual

	2014	2015	2016	2016 to 2025
<i>Annual Percentage Change</i>				
Nonagricultural Employment	1.9%	2.1%	1.7%	0.9%
Real Gross State Product	1.6%	2.5%	2.8%	2.4%
Personal Income	3.7%	4.2%	4.6%	4.7%
Population	0.9%	0.8%	0.8%	0.8%
Consumer Prices	1.6%	0.1%	1.6%	2.5%
<i>Percentage</i>				
Unemployment Rate (average)	6.2%	5.3%	5.0%	5.1%

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

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 population will surpass 9 million in 2016 and 9.5 million in 2025. 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, so that New Jersey will remain a state with both higher income per capita and higher productivity than the national average.