

New Jersey Economic Forecast

Executive Summary and National Forecast

August 2020

NJ's Pandemic Recovery and the Revised State Budget

For more information about the full report, please email lahr@rutgers.edu

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EXECUTIVE SUMMARY

R/ECON's New Jersey forecast for August 2020 reveals a state still recovering from an economic lockdown caused the COVID-19 pandemic. Global, national, and state forecasts have experienced significant downward revision for 2020 employment growth.¹ Those revisions cut into the economy deeply across the board in the second quarter of 2020. It was so deep that the state is unlikely to experience a job count any time soon that is anything close to what it had collected by the fourth quarter of 2019.

About 16.7% of New Jersey's 4.2 million jobs were lost between February and May 2020. Most of the jobs dropped or furloughed were in lower-paying industries—stores, restaurants, hotels, and recreation and entertainment, and personal services. The spending of households of former workers was buoyed by federal stimulus funding, which kept the crisis from becoming a complete disaster. Thus, state GDP is expected to fall just 4.9% in 2020, while personal income actually will rise 5.8%. Personal income falls in 2021 as federal payments falter. Recovery continues apace through 2024, however. Then, slow population growth and inflation caused by rising interest payments on the nation's ever-burgeoning debt (now 106% of GDP) slow both the national and state economies.

In many ways, the economy's reaction to the pandemic was predictable. Spending at food stores did not quite compensate for revenue declines at restaurants. Shopping online and telecommuting were pressed ahead of schedule. Unable to travel by air, wealthier households spent less and vacationed nearer to home. As always, lower-income families spent any extra income at their disposal. The hospitality and entertainment industries suffered most. Brick-and-mortar retail and personal services also languished. Many contracted business services were badly hurt. Transportation, especially transit and air transportation, did not do well, although federal funds kept both of these industries afloat for the time being. Outside of household paper goods, hand sanitizer, and vitamin C, supply chains suffered little disruption. Manufacturers, truckers, wholesalers, and businesses services closed for a month at most and then swiftly returned to day-to-day business dealings. The toughest things to track were the breadth furloughs, the depth of cuts in workers' hours, and number of entrepreneurs who were forced to shutter their businesses, giving up their dreams.

In any case, a substantial slice of the state's economy ground to a halt. Unemployment in April rose to 16.3%. To the surprise of many, it edged downward in May to 15.4%. Then, despite the resumption of most retail trade

¹ The current forecast is based on the Moody's Economy.com national baseline forecast as of mid-August 2020, state employment data through Q2 2020 plus some information on July 2020, state GDP data through Q1 2020 (July 2, 2020, release) and state income data through Q1 2020 (June 24, 2020 release).

and outdoor dining, as well as the partial opening of parks and beaches, the state's unemployment rate bobbed up to 16.8% in June. It then fell to 13.8% in July. It is expected to recover from here on out as more establishments are able to open up, and the economy pulls itself up by its bootstraps. It will taper off and reach 5.0% by early 2024. Through the rest of the forecast horizon, it should bounce between 5.5% and 6.0%.

At the national level, Moody's forecasts have been fairly steady but rising since April. In mid-2019, they expected a national downturn in the second half of 2020. It appeared to soften as it approached, but the arrival of the pandemic caused its quickening. With Fed interest rates near zero and a debt already high, only stimulus spending could pull the economy out of recession. No one in Congress questioned the general idea of a stimulus, just its magnitude. Now that Congress is in the midst of triggering a third set of funds, it is no longer a question of whether inflation will affect the economy over the long run, but a matter of how much drag inflation will place on the national economy. Prices are now likely to rise more than 2.5% annually in the near term, and only extremely exuberant growth will quell it.

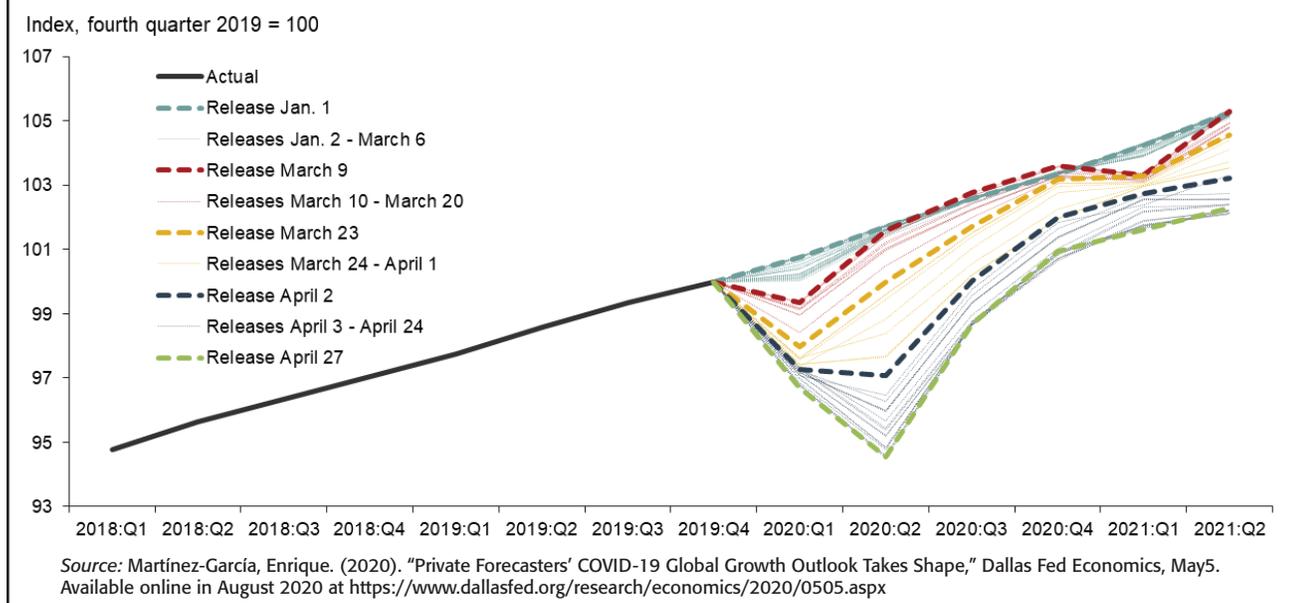
The state has its own spending plan; a budget touted in May has recently been revamped. We examine the New Jersey Treasury's forecast of revenues and show an alternative that shows \$1.6 billion more revenues in the state's favor. This suggests even more funding will be available for Governor Murphy's unofficial rainy-day fund.

Introduction: Forecasting During the COVID-19 Crisis

The accuracy of economic forecasts largely depends on the availability of historic statistical evidence. When we predict outcomes of disasters, we reflect upon local historical data or data from elsewhere to inform forecasts. Prior to this year, there have been few economic lockdowns caused by epidemics; those that existed have been limited to a nation or small set of nations and many of those were in Africa where data are sparse. There are, of course, no data on global pandemics outside of the Spanish Flu of 1918-1919, which occurred when economic data were not widely recorded on a regular basis.

At the beginning of the current crisis, forecasting economists had little basis on which to hang a reliable forecast; instead, we used intuition and anecdotal evidence to guide us. Even as early as February 18, 2020, nearly two months after the dangers of COVID-19 had been announced by WHO and a month before lockdowns were effected in the U.S., Vivian Wang of the *New York Times* cautioned against economic optimism. Since then forecasters have slowly obtained information that can viably inform our forecasts. **Figure 1** shows the evolution of a consensus forecast of the global economy. Note how the consensus progressively worsened from January through the end of April 2020

Figure 1
CONSENSUS FORECAST OF GLOBAL ECONOMIC GROWTH
FROM JANUARY TO APRIL 2020, 2019 Q4=100



Forecasting accuracy is related to uncertainty. With respect to the current crisis some uncertainty pertains to public perception. Politicians are focused on measures that minimize overall societal impacts of the pandemic, while the general population worries about how it will affect their health and livelihoods. After economic lockdowns, such reactions feed into how the economy will rebound. Regulatory-type measures clearly limit access to some aspects of the economy; for example, mandated social distancing likely limits restaurants with indoor seating only to about 50% of capacity and theaters to 25% of capacity, at best. But consumer fear of contagion can dampen visitation even further. The number of identified positive cases and count of deaths attributed to COVID-19 affect consumer fear, which also feeds into a jurisdiction's taste for taking regulatory action.

In early April, with some trepidation, forecasting firms started to take stabs at what they thought would happen in the U.S. Note, public-school lockdowns occurred nationwide in mid-March, while other mandated closings varied by state and, often, local jurisdiction. Moreover, information on exactly what was closing where was not easy to uncover at the time. It was clear that the national economy was starting to tank during the first quarter of 2020. Just how steeply it would do so in the U.S. remained a question until mid-April when official March statistics became available. Some ideas could be gathered from economic data rolling in from Europe, where the pandemic was striking harder. But lockdowns abroad were not implemented much earlier than they were here. Meanwhile, some analysts were applying sources of big data—e.g., streamed data from

Google Trends, credit card purchases, toll roads, and mobile phones—in something close to real time to inform their forecasts.²

In the U.S. it was not until mid-May, when data for April became available, that forecasters had any true sense of what detailed sectors were affected and the degree to which their job counts changed by industry, not to mention changes in average hours worked. Even then, COVID-19-induced changes in data collection techniques, survey response rates, and the manner in which population estimates had to be developed.³ This led some analysts to question the efficacy of some official statistics.⁴ In fact, even official data collections for May 2020 were not perfectly aligned, quality-wise, with those of prior months — extreme counts of outlier observations raised some concerns. Officials at the U.S. Bureau of Statistics assured that their institution’s estimates met normal reliability standards. If they had not already done so, forecasters could somewhat confidently adjust core equations with three months of COVID-affected data in hand; most notably those associated with unemployment rates and those of sectors predisposed to deleterious features of a lockdown. Those most notably are transportation services, bricks-and-mortar retail stores, personal services establishments, the hospitality industry, and entertainment and recreation venues. Upward bumps for e-commerce-related establishments, food stores, and building material and garden equipment retailers had become a part of the data history.

Other matters were also announced and, hence, known by forecasters. The Federal Reserve responded to the economic fallout by slashing short-term rates to zero, reducing bank capital liquidity and reserve requirements, and allocating trillions of dollars to make short-term funding markets more liquid. It also escalated its efforts at quantitative easing by purchasing T-bonds and agency mortgage-backed securities.

Meanwhile, Congress implemented two rounds of fiscal policy measures in response to COVID-19 and is postured to make a third. It has sent out more fiscal stimulus funds than that it had adopted during the entire Great Recession. Our lawmakers are not focused on red ink due to the emergency-nature of the

² One excellent source of such data for states is available free of cost for glimpses selected aspects of state and national economies is <https://www.tracktherecovery.org/>. It is developed from data developed via sources and techniques described by Raj Chetty, John N. Friedman, Nathaniel Hendren, and Michael Stepner. (2020). “How Did COVID-19 and Stabilization Policies Affect Spending and Employment? A New Real-time Economic Tracker Based on Private Sector Data,” *National Bureau of Economic Research Working Paper* No. w27431. Available online in August 2020 at https://iepecdg.com.br/wp-content/uploads/2020/06/tracker_paper.pdf. A team led by Bruce Mizrach, a Professor of Economics at Rutgers University, also has done some work on New Jersey with such data (see <http://econweb.rutgers.edu/mizrach/research.html#covid>).

³ For details, see the June 5, 2020, U.S. BLS memo on this subject; it is available online at <https://www.bls.gov/cps/employment-situation-covid19-faq-may-2020.pdf>. An online conference on this matter will be held online on September 10, 2020, for which registration is located at <https://www.bls.gov/regions/new-england/notices/2020/datausersconferencebos2020.htm>.

⁴ Rosenberg, Eli and Heather Long. (2020). “What the Labor Department Is Doing about the Error that Led to a Lower Unemployment Rate,” *Washington Post*, June 10. <https://www.washingtonpost.com/business/2020/06/10/unemployment-error-fix/>

crisis. This has buoyed consumer spending, particularly that of households most affected by paid-work reductions. Its effects have been broad, including expanded unemployment insurance benefits, stimulus checks to lower- and middle-income households, and funds for the hard-pressed healthcare system, which had to adapt due to the need to isolate and care for COVID-19 patients. The legislation also included expanded small business lending and grants via the Paycheck Protection Program, direct bailout funds for airlines and other companies deemed critical to national security, and funds to enable low-interest loans and loan guarantees. A good chunk of the funds also has been allocated to support state and local government initiatives.

All of this stimulus has an economic downside, of course. The nation's budget deficit is expected to swell to \$3.7 trillion this fiscal year and well over \$2 trillion in 2021. Our federal debt-to-GDP ratio surged to 106% in June 2020. For context, its prior all-time high, just after World War II, was 106%. So, the nation's budget is in critical condition. Inflation is one definite response.⁵

Also, recall that oil prices dropped drastically early on during the crisis. Since then they appear to have rebounded to their long-run course, paralleling certainty in the demand for oil.

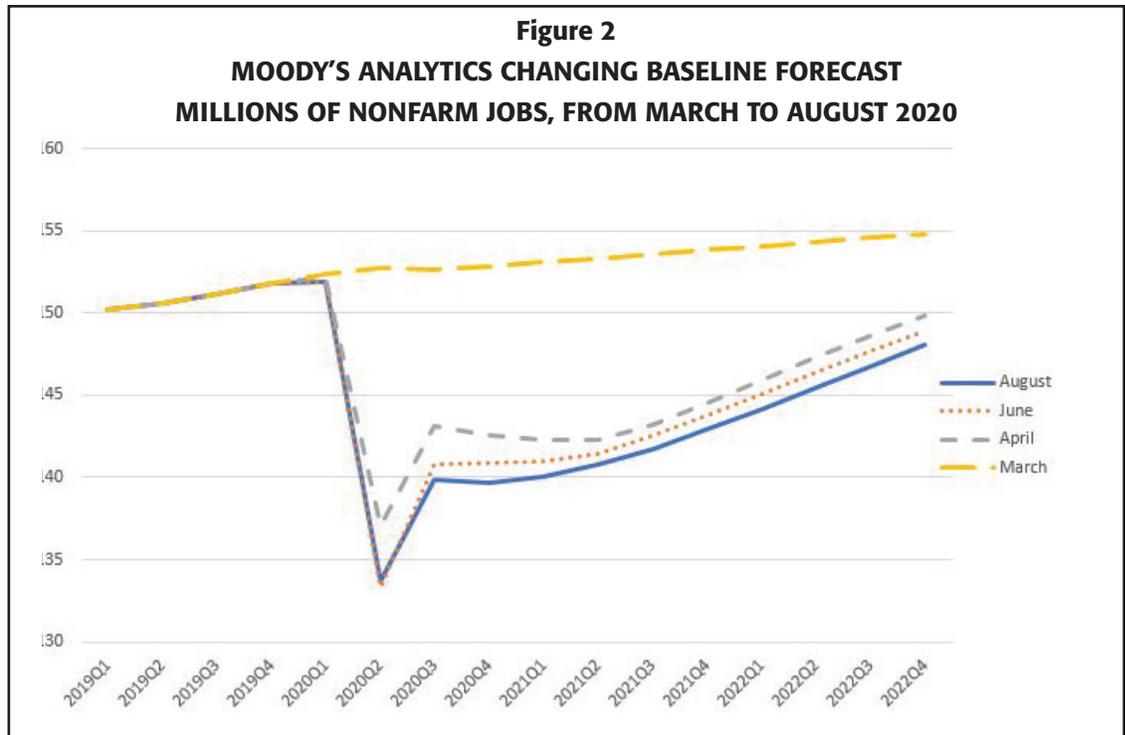
Without a vaccine for the virus or an extraordinarily effective treatment for those who suffer COVID-19, entertainment, travel, and trade will continue to suffer, with tourism venues being prime victims. Forecasters are not expecting a significant second wave of the virus will disrupt businesses again, and assume that a vaccine will be widely distributed with most populations inoculated by next summer. This is despite recent hope emanating from the White House indicating pre-election vaccine delivery.

NATIONAL FORECAST

Moody's Analytics has been downgrading its expectations for the national economy since early March, and its baseline for August 2020⁶ is no exception (see **Figure 2**). But compared to those from July, the baseline in August is a minor tweak, albeit downward; in essence, Moody's forecasting process seems to have achieved equilibrium. The reason seems to be a consensus of opinion among forecasting firms with regard to implications of how federal COVID-19 stimulus funds are likely to be allocated. Some generalities of this are discussed in the Executive Summary. While **Figure 1** shows little change in total non-farm employment, many changes were made in the details of Moody's baseline

⁵ Cox, Jeffrey. (2020). "Fed Officials Expect that Coronavirus Will 'Weigh Heavily' on the Economy, Minutes Show," CNBC, August 19. <https://www.cnbc.com/2020/08/19/fed-minutes.html>

⁶ August 2020, U.S. Macroeconomic Outlook: Baseline and Alternative Scenarios. Moody's Analytics: West Chester, PA..



forecasts, particularly from April through July. Further, note that the nation is not expected to bounce back to pre-crisis expectations within the next two and a half years.

Moody's August baseline economic forecast for the U.S. reveals a strong rebound through the third quarter of 2020. Growth in 2021 is expected to be restrained until vaccines are developed and distributed—an expectation for next summer. Jobs and GDP are not expected to return to pre-crisis levels until late 2023. Recovery growth should be strong in 2022 and 2023. By 2025, the growth rate for jobs is expected to settle down to 0.5-0.6% annually and that for GDP hovering around 2.0%, a smidgen below long-run rates predicted prior to the current crisis. Part of the drag on the economy is expected to be inflation as reflected by

Table 1
SUMMARY OF U.S. ECONOMIC FORECAST

Annual Percentage Change	2019	2020	2021	2022	2020-2030	2030-2050
Non-Agricultural Employment	1.40%	-6.40%	0.00%	3.40%	1.11%	0.57%
Real Gross Domestic Product	2.20%	-4.90%	2.60%	5.20%	2.60%	2.00%
Personal Income	3.90%	5.80%	-2.80%	5.10%	4.04%	3.88%
Population	0.50%	0.50%	0.50%	0.50%	0.48%	0.24%
Consumer Prices	1.80%	1.10%	1.90%	2.80%	2.45%	2.29%
Percentage						
Unemployment Rate (average)	3.70%	9.00%	8.80%	6.60%	4.30%	4.48%

Source: Moody's Analytics Forecast, August 2020.

the change in the consumer price index (CPI) in **Table 1**. It jumps from pre-crisis levels rising less than 2% annually to levels closer to 2.3% annually in the long run, but even higher (2.5% or more annually) through 2025.

The unemployment rate, which was as high as 14.7% nationwide in April, has recovered each month since, from 13.3% in May to 11.1% in June to 10.2% in July. Expectations are for it to continue declining through the first quarter of 2024 when it levels off and, thereafter, hovers at about 4.5%. Most interesting within Moody's forecast is the decline in the rate of population growth. In the not-so-distant past it grew at a fairly steady pace of 1% annually. During the past decade, it fell to half that—0.5% per year. Moody Analytics calls for the annual population growth rate to decline to 0.3% by about 2035 and to 0.1% by 2050. This transition appears to be a result of current immigration reforms.