

New Jersey Economic Forecast

July 2019

Will Irving

Project Manager and Research Associate,
Rutgers Economic Advisory Service (R/ECON™)
Edward J. Bloustein School of Planning and Public Policy
Rutgers, The State University of New Jersey

Michael L. Lahr

Research Professor and Director,
Rutgers Economic Advisory Service (R/ECON™)
Edward J. Bloustein School of Planning and Public Policy
Rutgers, The State University of New Jersey

RUTGERS

Edward J. Bloustein School
of Planning and Public Policy

EXECUTIVE SUMMARY

R/ECON's New Jersey forecast for July 2019 shows the state continuing to grow at a slower rate than the U.S., but generally maintaining the same trajectory as in our February forecast; this is despite a significant downward revision of state employment growth in 2018.¹ That revision cut the state's growth in average annual employment from 1.5% to 1%, versus U.S. growth of 1.7%. The growth rate for real GDP in 2018 in New Jersey came in at 2%, slower than the February forecast estimate of 2.3%, and the 2017 estimate was revised downwardly from 1.6% to 1.3%. The state's personal income grew at a 3.6% rate in 2018, slightly faster than February's forecast estimate of 3.5%, but still nearly a point slower than the U.S. rate of 4.4%. The employment growth forecast for 2019 remains at 1.1%, slightly higher than the revised 2018 figure of 1.0% and faster than the year-to-date pace of 0.8%. It subsequently declines to 0.6% in 2020 as New Jersey follows the nation into a slowdown. The outlook for state GDP growth softened from 2.2% in 2019 to 1.9%, while the current 2020 estimate of 1.4% is slightly higher than the 1.1% projection in the February forecast. The outlook for real GDP in Moody's baseline national forecast has improved relative to the February forecast, with a more moderate slowdown hitting in the second half of 2020 rather than the first half, and annual growth of 1.7% in that year, compared to 1.1% in the earlier forecast. While New Jersey is forecast to weather the initial downturn in 2020 well, with real GDP growth of 1.4%, state output is projected to continue to slow to a 0.9% growth rate in 2021 while the nation recovers to a 2.1% rate.

At the national level, Moody's forecast has brightened somewhat for the shorter term, with the downturn expected in the second half of 2020 looking somewhat softer than previously expected, at least in terms of output. Moody's forecast for this year may be conservative as well, as it assumes no Fed action on interest rates, even as expectations of one or more reductions over the remainder of the year intensify. At the same time, the federal deficit will top \$1 trillion in fiscal 2019 and is forecast to increase by nearly 20% in fiscal 2020, and while Moody's estimates that fiscal policy (i.e., tax cuts) will add 0.4 percentage points to economic growth in 2019, these gains are not expected to persist as federal debt rises. Interest on the national debt is expected to rise as a result, constraining future growth. Higher rates of interest on the debt would compound such constraints.

Both state and national employment growth are forecast to decline by 0.1% in 2021 following a national economic downturn in the second half of 2020. While national employment growth is projected to recover to a relatively weak 0.6%

¹ The current forecast is based on the Moody's Economy.com national baseline forecast as of June 2019, state employment data through Q1 2018, state GDP data through Q4 2018 (May 1, 2019 release) and state income data through Q4 2018 (March 26, 2019 release).

annual average through 2029, New Jersey will continue to lag behind at about half that pace. Real GDP growth will continue near 2% in 2019 and drop to 1.4% – a less precipitous decline than the U.S. rate – but will continue its decline to 0.9% in 2021 even as the national growth rate recovers. Real output will expand at an annual rate of 1.1% through 2029, and at a slightly stronger 1.3% over the subsequent two decades. New Jersey’s unemployment rate is forecast to remain low through 2020, then rise over the next several years to a longer term average of about 5%.

Inflation on consumer prices is forecast to remain stable, rising only moderately from 1.8% in 2019 to 2.2% in 2021 and over the next decade. Personal income growth is forecast to moderate slightly, declining from 3.6% in 2018 to 3.5% in 2019, then increasing to 3.7% in 2020 before declining to 3.2% in 2021, following the nation into a sharper decline on the heels of the projected 2020 economic slowdown.

New Jersey’s long-term population growth continues to look weak, dropping from 0.4% in 2018 to 0.2% in 2021 and to 0.1% over the longer term, with the state’s share of U.S. population falling from 2.75 percent share to 2.63 percent by 2029.

New Jersey’s average labor force grew by about 20,000 in the first quarter of 2019, and is projected to add about 40,000 more people by the end of the year, reversing a three-year pattern of decline. Following data revisions by the U.S. Bureau of Labor Statistics, job growth in New Jersey in 2018 was revised downward to 1% (versus 1.7% nationwide) and employment is projected to grow at a similar pace this year, followed by a drop-off to 0.6% in 2020 and a slight decline in 2021. Growth is forecast to average about 0.3% over the next decade and over the longer term.

In real estate, prices of new homes were up 8.4% year-over-year in Q1 2019, while the price of existing homes rose more modestly by 2.7%. The market for nonresidential space was more active in Q1 2019 compared with the same quarter the year prior, with permitted space up by nearly 2 million square feet (about 34%) while prices were down by about 12.5%, or \$33 per square foot.

NATIONAL FORECAST

Moody’s June baseline (50% probability) economic forecast for the nation shows a slightly softened expectation for GDP growth in 2019 – down from 2.7% in February to 2.5% in the current forecast – but a less severe downturn in 2020, with GDP growth now projected at 1.7%, versus 1.1% in the February forecast. The long-term outlook remains the same, with real GDP growth of 2.1% annually forecast over the next ten years, restrained by slow population growth, rising

unemployment and slower wage growth. Slow personal income growth (3.8%) in the first quarter of this year relative to the same period in 2018 will strengthen through mid- 2020 before slackening as the economy slows, settling at a longer term annual average of 4.0-4.2%.

Employment growth for the year is projected to slow slightly to 1.6%, with the economy gaining 2.3 million jobs on an average annual basis, followed by a sharp decline to 0.9% growth in 2020 and job losses of 0.1% in 2021. Weak job growth numbers in February and May of this year could portend a softer year than expected. The unemployment rate is expected to continue declining through the first half of 2020, reaching as low as 3.3% before rising again as the economy begins to lose steam. Consumer prices will remain stable with the CPI dipping below 2% for the year. The Fed is projected to hold the overnight lending rate at 2.5% and the ten-year Treasury bond yield is expected to rise to 3.25% by the end of the year.

Moody’s projects the federal budget deficit to increase to nearly \$1 trillion this fiscal year (about 4.5% of GDP). Moody’s estimates that the changes in fiscal policy from the tax overhaul of 2017 will add approximately 0.4 percentage points to GDP growth this year, but that in the longer term these gains will be offset by economic losses due to the resulting increases in federal debt and correspondingly higher interest rates.

Contrary to apparent market expectations, Moody’s forecast assumes that the Fed will not cut rates in the immediate future, holding the federal funds rate at 2.5%. This assumption is conditioned on the expectation that tariffs will not be expanded to cover all imports from China. Nevertheless, all indications as of this writing are that the Fed will decrease rates by 25 basis points in July.

Job growth continues to look strong for 2019, with an estimated 2.3 million jobs to be added, but while the employment growth projection for 2020 has improved slightly since the February forecast from 0.6% to 0.9%, it continues to show significant weakness in the second half of that year, leading into job losses in 2021 and tepid growth of about 900,000 jobs (5%) annually over the long term.

Table 1
SUMMARY OF U.S. ECONOMIC FORECAST

Annual Percentage Change	2017	2018	2019	2020	2021	2019-2029	2029-2049
Non-Agricultural Employment	1.6%	1.7%	1.6%	0.9%	-0.1%	0.6%	0.5%
Real Gross Domestic Product	2.2%	2.9%	2.5%	1.7%	2.1%	2.1%	1.9%
Personal Income	4.4%	4.4%	4.2%	4.5%	3.7%	4.2%	4.0%
Population	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.4%
Consumer Prices	2.1%	2.4%	1.9%	2.1%	2.3%	2.3%	2.3%
Percentage							
Unemployment Rate (average)	4.4%	3.9%	3.6%	3.5%	4.2%	4.3%	4.5%

Source: Moody's Analytics Forecast, June 2019.