

# FORECAST OF JANUARY 2014 NEW JERSEY'S ECONOMY AND PROSPECTS ARE IMPROVING

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## EXECUTIVE SUMMARY

The January 2014 R/ECON™ forecast shows improving prospects for the state compared to those of last year. It includes growth in nonagricultural employment of 1.6 percent—nearly 63,000 jobs in 2013, after growth of 1.3 percent or 49,100 jobs in 2012. Growth will be moderate over the next three years, at 1.0 percent a year in 2014 and 0.9 percent in 2015 and 2016—for an increase of 175,000 jobs between 2012 and 2016. These growth rates will trend down as the recovery/expansion progresses, so that employment growth between 2013 and 2023 will average 0.8 percent or 32,700 jobs per year. (See Table 1.) In the three and a quarter years since the trough of the recession in September 2010 New Jersey has recovered 56 percent of its lost jobs. At its expected rate of growth the state will regain the peak level of 4,092,200 achieved in January 2008 in early 2017—a full year earlier than shown in our last forecast. Most of the improvement has entered the forecast by way of strong employment data at the end of 2013 and improved income growth shown in the major revision of state income data. By the end of the forecast period in 2023 the employment base will about 200,000 jobs greater than at that peak.<sup>1</sup>

The jobs recovery in the U.S. continues to be considerably faster than that in New Jersey. By November 2013 it had already recouped 7.4

million, or 85 percent, of the 8.7 million jobs lost during the recession. It will begin its job expansion two and a half years earlier than New Jersey—in mid-2014.<sup>2</sup> By the end of 2023 the nation's employment base will exceed the peak reached in January 2008 by 9.9 percent. Given its slower recovery and similar rate of expansion, New Jersey's share of the nation's job base will decline from its current 2.91 percent to 2.85 percent in 2023.

As a result of the recession, New Jersey lost 2.8 percent of its gross output between 2008 and 2010. Output rose in both 2011 and 2012 putting the state on track to more than regain the full loss in 2013. Between 2013 and 2023, output in New Jersey will expand at an average rate of 2.2 percent a year, about 20 percent slower than the average rate expected

	2012	2013	2014	2014 to 2023
<i>Annual Percentage Change</i>				
Nonagricultural Employment	1.3%	1.6%	1.0%	0.8%
Real Gross State Product	1.3%	1.9%	2.6%	2.1%
Personal Income	3.4%	2.6%	5.0%	4.5%
Population	0.3%	0.4%	0.6%	0.6%
Consumer Prices	1.9%	1.5%	1.3%	1.8%
<i>Percentage</i>				
Unemployment Rate (average)	9.5%	8.6%	7.2%	5.6%

*Source: R/ECON™, January 2014.*

<sup>1</sup> This report reflects the preliminary employment data for November 2013 released in December 2013 by the N.J. Department of Labor as well as third quarter income data released in December 2013 by the US Bureau of Economic Analysis.

<sup>2</sup> All U.S. forecast information in this report comes from the IHS Global Insight U.S. forecast of December 2013.

nationwide. The differential is 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 the shift in industrial composition ever more heavily into the service economy.

The state's unemployment rate will fall from its current (November 2013) level of 7.8 percent to 5.2 percent toward the end of the forecast period. Even though the state rate has fallen substantially in the past year, it is still more than a percentage point higher than the national rate; it will remain at least a bit higher throughout the forecast period. More worrying than its height compared to the nation is the fact that most of the decline in the unemployment rate has come from a decrease in labor force participation rather than an increase in resident employment.

New Jersey's consumer prices rose 1.9 percent in 2012, close to the inflation rate in the U.S. The state's inflation rate will fall to 1.6 percent this year and average, like that of the U.S., about 1.8 percent per year from 2013 to 2023. This rate of inflation is well within the stated comfort zone of the Federal Reserve.

Personal income rose 4.9 percent in 2011 as the state began to come out of the recession and 3.4 percent in 2012. With the first three quarters of the year already reported, it appears that income growth in

2013 decelerated to 2.6 percent. The slowdown was primarily 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 is expected to rise at an average rate of 4.5 percent a year from 2013 to 2023, somewhat slower than the 4.8 percent annual growth rate expected for the U.S. over the decade.

The state added 434,000 residents between 2000 and 2012, 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 only half as fast as national population growth. Population growth will average 0.6 percent a year from 2012 to 2023, compared to 0.8 percent a year for the U.S. The state will add 622,000 residents over the decade. As a result, New Jersey's population will top 9 million in 2015 and end the forecast period at 9.5 million. Since New Jersey's population growth will continue to be slower than growth nationwide, the state's share of U.S. population will drift down from its current 2.82 percent to 2.77 percent in 2023. The state's share of national employment and personal income will remain higher than its share of the national population, so it will continue to be a high income state—that is, a good place for retailers, but also a high wage state, so not necessarily a good place for businesses looking for low cost areas in which to expand.