

FORECAST OF JULY 2014

NEW JERSEY: THE EVERLASTING RECOVERY!

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EXECUTIVE SUMMARY

The July 2014 R/ECON™ forecast shows continuing but slow growth for the state, with a distinct slowdown in growth this year following the very difficult winter of 2013/2014. The forecast shows growth in nonagricultural employment of only 0.3 percent—or 13,500 jobs in 2014—after growth of 1.2 percent or 44,800 jobs in 2013. Growth will be stronger in 2015 and then average 0.9 percent over the rest of the forecast period. (See Table 1.) At these rates the job base will return to the level of the first quarter of 2008 in late 2017. By the end of the forecast period in 2024 the employment base will be about 254,000 jobs, or greater than the base at the peak.¹

As of May 2014, the jobs recovery in the U.S. was complete, as nonagricultural employment regained slightly more than all 8.7 million jobs lost in the recession. The private sector recovery was accomplished a couple of months earlier. By the end of 2024 the nation's employment base will exceed the peak reached in January 2008 by about 7 percent. Given its slower recovery and rate of expansion, New Jersey's share of the nation's job base will decline from its current 2.85 percent to 2.84 percent in 2024.²

As a result of the recession, New Jersey lost 4.3 percent of its gross output between 2007 and

2009. Output rose from 2011 to 2013, putting the state on track to more than regain the full loss in 2014. Between 2013 and 2024, output in New Jersey will expand at an average rate of 2.0 percent a year, about 25 percent slower than the average rate expected nationwide. 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. Since then, the advantage has declined, and it will fall substantially over the rest of the forecast period. The differential in output growth leading to the state's falling productivity advantage 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 its smaller proportion of

Table 1
SUMMARY OF NEW JERSEY ECONOMIC FORECAST

	2013	2014	2015	2015 to 2024
<i>Annual Percentage Change</i>				
Nonagricultural Employment	1.2%	0.3%	1.2%	0.9%
Real Gross State Product	1.1%	1.6%	2.6%	2.0%
Personal Income	2.2%	3.4%	3.6%	4.5%
Population	0.4%	0.5%	0.7%	0.7%
Consumer Prices	1.4%	1.6%	1.3%	1.8%
<i>Percentage</i>				
Unemployment Rate(average)	8.2%	6.8%	6.0%	5.2%

Source: R/ECON™, July 2014.

¹ This report reflects the preliminary employment data for May 2014 released in June 2014 by the N.J. Department of Labor as well as fourth quarter 2013 income data released in March 2014 by the U.S. Bureau of Economic Analysis. It also takes into account the preliminary gross domestic product data for 2013 released by the U.S. Bureau of Economic Analysis in June 2014.

² All U.S. forecast information in this report comes from the *IHS Economics* forecast of June 2014.

working age population. The state's unemployment rate will fall from its current (May 2014) level of 6.8 percent to 5 percent and just below in the last four years of the forecast period. Even though the state rate has fallen substantially in the past year, it is still higher than the national rate; it will remain at least a bit higher through next year. While the height of the unemployment rate is a challenge, the real concern is that the unemployment rate has fallen primarily because people have stopped considering themselves to be part of the labor force. This is evident in the labor force participation rate, which has fallen from 67 percent as recently as 2009 to less than 64 percent this year.

New Jersey's consumer prices rose 1.4 percent in 2013, just less than the national rate. The state's inflation rate will rise 1.6 percent this year and average about 1.8 percent per year from 2014 to 2024, compared to 1.9 percent a year for the U.S. Thus inflation should not be a concern for the economy in the next decade.

Personal income rose 3.4 percent in 2012 and 2.2 percent in 2013. The slowdown 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 is expected to rise at an average rate of 4.3 percent a year from 2013 to 2024, somewhat slower than the 4.8 percent annual growth rate expected for the U.S. over the decade.

The state added 469,000 residents between 2000 and 2013, 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 0.7 percent a year from 2013 to 2024, compared to 0.8 percent a year for the U.S. The state will add 700,000 residents over the decade. As a result, New Jersey's population will top 9 million in 2015 and end the forecast period at 9.6 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 2.81 percent to 2.79 percent in 2024. The state's share of national employment, personal income, and real output will remain higher than its share of the national population. Thus it will remain a state with both high income per capita and high productivity.