R/ECON™ FORECAST: JANUARY 2016

NEW JERSEY: AN ECONOMY ON THE MEND FOR THE LONG TERM

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EXECUTIVE SUMMARY

The January 2016 R/ECON™ forecast shows stronger growth for the state in 2016 than in 2015. Nonagricultural employment rose by an estimated 1.2 percent—or 45,700 jobs in 2015[1]—after growth of 0.7percent or 27,700 00 jobs in 2014. Growth will improve to 1.7 percent this year; it will then average 0.8 percent over the rest of the forecast period, which goes through 2025. **(See Table 1.)** At these rates the job base will return to the peak level reached in the first quarter of 2008 late in 2016. By the end of the forecast period in 2025 the employment base should be more than 280,000 jobs, or nearly 7 percent, greater than at the 2008 peak.[2]

By the end of 2025 the nation's employment base will exceed the peak reached in January 2008 by 13.7 percent. Given its slower recovery and rate of expansion through 2025, New Jersey's share of the nation's job base will decline from 2.82 percent in 2015 to 2.78 percent in 2025.[3] We estimate that the output lost in the recession in New Jersey during the period from early 2008 to late 2009 was finally regained in 2015, while the nation's lost output was made up in mid-2011. Thus, the state's output recovery took about three and a half years longer than that of the nation. Between 2015 and 2025, output in New Jersey will expand at an average rate of 2.0 percent a year compared to the 2.4 percent a year rate expected nationwide. Thus the state's real GDP will fall from 3.15 percent to 3.02 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 12 percent. The decline will continue over the forecast period to 9 percent in 2025. The differential in output growth leading to the state's falling

[1] Employment growth is shown on the basis of annual average data.

[2] This report reflects the preliminary employment data of November 2015 released in December 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.

[3] All U.S. forecast information in this report comes from the long term *IHS Economics* forecast of December 2015.

productivity advantage has been due to and will result from, 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.

The state's unemployment rate fell in most of 2015 from 6.3 percent in January to 5.3 percent in November. We expect it to decline further to an average of 5.1 percent in 2016 and remain in a range near 5.2 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 not change during the forecast period.
New Jersey's consumer prices rose 1.4 percent in 2013 and 1.3 percent 2014, just less than the national rate. The state's inflation rate was unchanged in 2015, held down by falling oil and other energy prices both early and late in the year. Prices will rise 1.3 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.

State personal income rose 4.7 percent in 2014 and an estimated 4.3 percent in 2015; it will rise 5.2 percent in 2016 pushed by improving labor market conditions, and at an average rate of 4.9 percent a year from 2016 to 2025, comparable to the 4.8 percent annual 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. Assisted by the improving economy, population growth is expected to average 0.6 percent a year from 2014 to 2025, for an increase of more than 500,000 residents. The state's share of U.S. population will fall from the current 2.79 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.

Table 1
SUMMARY OF NEW JERSEY ECONOMIC FORECAST

	2014	2015	2016	2016 to 2025
Annual Percentage Change				
Nonagricultural Employment	0.7%	1.2%	1.7%	0.7%
Real Gross State Product	0.4%	2.3%	2.7%	1.9%
Personal Income	4.7%	4.3%	5.2%	4.9%
Population	0.3%	0.5%	0.7%	0.6%
Consumer Prices	1.3%	0.0%	1.3%	2.6%
Percentage				
Unemployment Rate(average)	6.6%	6.0%	5.1%	5.2%

Source: R/ECON™ January 2016

THE NATION

Current Economic Situation and Forecast

The December 2015 *IHS Economics* forecast for the U.S. was used to produce the R/ECON™ January forecast for New Jersey. The forecast includes the Bipartisan Budget Act of 2015; thus it assumes that the debt ceiling is suspended through March 2017 and the federal government is financed through October 2017. It also assumes that the Fed will begin to tighten rates in December—as it did. Rates are expected to rise gradually and hit 3.25 percent by the end of 2018. The expectation is that this slow series of actions will avoid overreactions in the bond and stock markets. In terms of foreign trade, our major trading partners are expected to grow somewhat more slowly than the U.S. over the forecast period, while our other big trading partners will grow about 50 percent faster. In the energy sector, oil prices will remain under $100 per barrel for West Texas Intermediate through 2021 and natural gas prices will remain under $5 per BTU through the full forecast period.

Mortgage rates will begin to rise in 2016, along with other interest rates, and stabilize at 5.8 percent in early 2019. Home price appreciation was about 4 percent in 2015 and will average 4 percent a year during the full forecast period. Housing starts surpassed 1 million units per year in 2014. They will rise to 1.6 million in 2020, and then remain at that level during the rest of the forecast period. Sales of existing houses will average 5.4 million a year beginning in 2016, up from 5.3 million in 2015.

Consumer prices rose 1.6 percent in 2014 and only 0.1 percent in 2015. Given the trends in energy and housing prices, the CPI will rise about 2.4 percent a year from 2015 to 2025, as will industrial prices.

Real GDP rose 1.6 percent in 2014 and 2.5 percent in 2015. Growth will average 2.5 percent a year from 2015 to 2025. **(See Table 2.)** That growth rate is quite low compared to the long-term average (1970 to 2010) of 3.2 percent