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Changing Economic and Demographic Dynamics: A New Context for New Jersey Municipalities

James W. Hughes, Contributing Author
Joseph J. Seneca, Ph.D., Contributing Author

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Preface

This is the 26th paper in NJLM Foundation's "Friends of Local Government" Policy Paper series. This paper, authored by Dr. James Hughes and Dr. Joseph Seneca from Rutgers, the State University of New Jersey, is entitled "**2015: Changing Economic and Demographic Dynamics: A New Context for Municipalities.**"

Dr. Hughes and Dr. Seneca have previously authored:

Volume 1, Number 1, ***From Wall Street to Main Street. 2009: Unprecedented Economic Challenges;***
Volume 2, Number 2, ***2010: A Stabilizing Economy but Uncertainties Remain*;**
Volume 3, Number 2, 2**011: Economic Growth, but Slowdowns Persist.**
Volume 4, Number 2, **2012: New Jersey Employment Upswing? Or Will It Succumb to the National Slowdown?**
Volume 5, Number 2, **2013: The New Jersey Employment Expansion Gains Momentum**
Volume 6, Number 2, "**2014: The Unexpected Economic Soft Patch.**"

These papers are available on the Foundation's website at www.njlmef.org

On behalf of the Board of the NJLM Educational Foundation, we thank Dr. Hughes and Dr. Seneca for these contributions, and believe you will find this paper informative.

We would also like to note the support of the Foundation's Board for this project, as well as staff from the New Jersey State League of Municipalities.

Michael F. Cerra, Policy Advisor
NJLM Educational Foundation
222 West State Street
Trenton, New Jersey 08608
www.njlmef.org

About the Contributing Authors

James W. Hughes is dean of the Edward J. Bloustein School of Planning and Public Policy at Rutgers, The State University of New Jersey. He has been a member of the faculty since 1971 and was appointed dean in 1995.

Joseph J. Seneca, Ph.D., has taught at all levels of instruction throughout his Rutgers career and has received numerous awards for exemplary teaching and contributions to public service.

Changing Economic and Demographic Dynamics:
A New Context for New Jersey Municipalities

James W. Hughes and Joseph J. Seneca

There are a number of emerging economic, demographic and development trends that will have significant impact on New Jersey's municipalities for the foreseeable future. Many of the long-standing assumptions and certainties of the second half of the twentieth century are being fundamentally disrupted as new dynamics replace familiar conditions. The purpose of this paper is to examine these emerging new dynamics as cogently as possible. We begin with the broad context of analyzing the current status of the national business cycle.

Business Cycle Status: An Update

The nation's current economic expansion, which started in June 2009, continues apace with the expansion now beginning its seventh year (table 1). As of July 2015, it has been 73 months since the Great Recession officially ended. To put that duration in perspective, the average length of the 11 economic expansions that occurred between 1945 and 2009 is 58 months, indicating that at 73 months, the current expansion is now quite mature – perhaps even living on borrowed time.

However, the duration of more recent expansions may be more relevant as a guide to the future. The three expansions that immediately preceded the Great Recession lasted on average 95 months, strongly suggesting that economic upswings have been getting longer. Thus, via this metric, the current expansion is far from full maturity, and it should continue to provide tailwinds for the New Jersey economy for some time to come. As we have pointed out in our last two NJSLOM Educational Foundation policy papers, overall the state has been lagging the nation since the end of the Great Recession, so a continued national economic expansion is crucial for maintaining a positive growth trajectory in New Jersey.

Demography and the Economy

Within this context, fundamental changes are underway in both the national and state economies. In particular, the emergence of a new post-2000 demographic normal has already been instrumental in reshaping New Jersey in terms of the location of economic activity, changing spatial preferences, housing markets, and population geographies. This new demography is the result of fundamental life-cycle transformations of the state's key population cohorts.

The Greatest Age Structure Transformation in History

New Jersey and the United States are both experiencing the greatest age-structure transformation in history. It consists of three age-defined demographic long waves. The first is driven by aging baby boomers – now maturing 60-somethings – exiting the workforce. The second comprises maturing baby busters or afterboomers (Gen X) in their 40s attempting to ascend to the upper rungs of the career ladder.The third is defined by the growing momentum of echo-boomers or millennials (Gen Y) – 20-somethings and young 30-somethings – rapidly swelling the young workforce. Let's briefly review each.

The first long wave, the *baby boom,* is the vastly oversized population cohort born in the explosive-birth era between 1946 and 1964 – the classic pig in the demographic python. It was the largest generation ever produced in American history. New Jersey, being the vast suburban catchment area for New York City and Philadelphia, turned out to be baby-boom central. The baby boom quickly became the most suburban-centric generation in history, defining every dimension of New Jersey at each of its life cycle stages. It was largely born and reared in suburbia, formed households there, worked in newly-built offices there, shopped in enclosed regional malls there, and traded up in the housing market there.

But this suburban legacy is now fading into history. "Empty nesterhood" has arrived with a vengeance. The baby boom is now fully engaged in a furious process of repositioning and resizing itself in the housing market. By the end of this year, the members of this generation will be between 51 and 69 years of age. To their great dismay, the first wave of boomers will turn 70 in 2016. Increasingly, the baby boom represents the suburban generation of the past – the workforce of the past.

The second long wave, *the baby bust*, is that under-sized population cohort produced during the low-birth era from 1965 through 1976. Trailing in the wake of the fabled baby boom, it was also labeled after-boomers, but it is now commonly referred to as Generation X or Gen X. This is America's neglected "Middle Child" sandwiched between the huge baby-boom and millennial behemoths. Now in mid-career, Gen Xers are poised to assume the leadership ranks left open by exiting baby boomers. So, boomers will soon have to move over, since the first Gen Xers turn 50 this year. At the same time, Gen X is the likely purchaser of the "used" shelter of a baby boom resizing in the housing market. However, since Gen X is much smaller in absolute number, potential housing market mismatches are emerging that are affecting many suburban communities,

The third long wave, *echo boomers or millennials* (Gen Y) has overlapping definitions. The classic echo boomers were born between 1977 and 1995, with these boundaries defined by birth rate inflections. Millennials, roughly born between 1980 and 2000 are defined by being the first cohort raised in the digital age. Since there is substantial overlap between the two boundary sets, they are being considered in this paper as synonymous. In any case, this broad cohort represents the second great population bulge of the twentieth century.

Mostly the offspring of the baby boom, they now dominate the workforce of the present – including the municipal workforce – and certainly the workforce of the future. They are already the largest sector of America's labor market, a status achieved last spring. A tech-savvy generation, they generally prefer to live in 24-7 LWP (live, work, play) activity environments. While their parents had a suburban-centric vision, millennials appear to be suburb averse, at least in terms of the composition and housing choices of many of today's suburbs. This is already having a profound impact on New Jersey, altering many of our familiar twentieth-century geographic conditions.

The New Population Geography

As a result of these demographic long waves, the state and regional population geography is changing. This is revealed by population growth by county (figures 1 and 2). Two periods are presented: 1950 to 1980 and 2010 to 2014 (table 2). The maps (figures 1 and 2) show the 35 counties in the broad four-state metropolitan region centered on New York City. The counties shaded red indicate population decline in each map. The 1950-1980 period was one of intense baby-boom dominated suburbanization – population growth pushing ever outward (figure 1).

Simultaneously, much of the regional core was staring into the economic abyss, hemorrhaging people and jobs. Five of the core counties – Bronx, Manhattan, Brooklyn in New York City, and Essex and Hudson counties in New Jersey – are indicated by red on the map. During this period, the population in these five core counties fell by nearly 1.5 million people, while the suburban ring gained 5.3 million people. This pattern of growth essentially defined the entire second half of the twentieth century.

However, a new demographic normal has emerged in the period (2010 to 2014) following the Great Recession. It is now the 12 outlying suburban-exurban counties on the metropolitan edge – indicated in red on figure 2 – that are losing population. Many millennials, suffering suburban fatigue, are leaving the parental hearth for more exciting LWP environments. Thus, the outer perimeter of the metropolitan region is contracting, while the core is now growing. This is indicative of the new housing reality in New Jersey and the region, where rental shelter now dominates current building activity. Whether this trend, only five years in length, will continue is a major question as the millennials age and confront parenthood and school choice.

The Rental Housing Boom

Single-family home construction is no longer the locomotive of the housing train – it's now the caboose. Single-family's share of new housing construction in New Jersey (dwellings authorized by building permit) has fallen from the historical 75-80 percent level down to just 40 percent. Three out of five new housing units – 60 percent – are now multifamily rental. Favored sites are those within walking distance of commuter rail stations.

So, rental housing is now the market driver. However, a key question is whether we are in the process of overbuilding. In housing markets, virtually every "hot" sector ultimately succumbs to excess, the most recent of which was the overbuilding of age-restricted housing. Is rental about to become a market bubble ready to burst? Unfortunately, bubbles are typically not apparent until they burst.

Omni-Channel Retailing

Demographics, in conjunction with advances in information technology, are also a contributing factor changing one of New Jersey's core economic competencies – the nature of shopping and consumer spending. The proliferation of new diverse retail formats and protocols, such as e-commerce, are revolutionizing the retail landscape. What is emerging is omni-channel retailing, which aims to enhance the buyers' overall shopping experience and to leverage customer's online shopping interest to increase sales at brick and mortar stores (figure 3). Omni-channel attempts to seamlessly links in-store experience, to the store's website, to the customer's mobile-device application and to social media platforms. This has four real estate development implications. *First*, a store-closing tsunami has begun. Retailers are ruthlessly culling underperforming stores as they focus on omni-channel strategies. They are right-sizing store portfolios – reducing real estate footprints in terms of both store count and square-footage per store. This can be thought of as "bricks to clicks.) New Jersey reflects this: the state is overstored – and many of these stores are oversized.

Second, at the same time, the actual functions of bricks and mortar are being transformed. For example, adding distribution capabilities from stores – buy online, ship from store, or pick up from store. *Third*, paradoxically, once solely on-line retailers are investing in new bricks and mortar. They are doing this in order to advertise their brand and stimulate web traffic and online sales. This can be thought of as "clicks to bricks." And *fourth*, omni-channel retailing and e-commerce are revolutionizing New Jersey's vast warehouse-logistics infrastructure.

Leading the charge are fulfillment centers – sprawling labor-intensive e-commerce places where orders are received, picked, packed, and readied for customer delivery. On a square foot basis, they employ three- to four-times as many people as traditional warehouses. And sometimes they have three eight-hour shifts per day, a huge benefit to an employment-growth challenged state. The surge in new fulfillment-center construction has increased New Jersey's commercial-industrial footprint to nearly 900 million square feet in size. This has maintained the state's position as the third largest warehouse- distribution-fulfillment market in the country.

Rental and Retail Together: A Question

One of the state's key development formats – mixed-use projects – include rental housing and retail facilities has gained popularity. How will mixed-use developments be impacted by the proliferation of omni-channel retailing and a potential multi-family rental housing oversupply? At this point, there is no definitive answer.

The New Employment Geography

As was the case for population geographies, long-held assumption about employment geographies have also been disrupted by new demographics and information technology. As shown in table 3, the great era of post-World War II employment suburbanization lasted into the early years of the twenty-first century. Between 1950 and 2004, New Jersey's total employment increase (+2.34 million jobs) far outdistanced the meager growth in New York City (+81,800 jobs). As shown in table 4, in 1950, New Jersey's total employment (1.66 million jobs) was less than half (.48) that of New York City (3.49 million jobs). By 2004, New Jersey's total employment (3.99 million jobs) surpassed that (3.55 million jobs) of New York City by 13 percent.

However, during the past 10 years (2004-2014), New Jersey's employment total has stagnated while New York City has surged. During this period, New York added 552,200 jobs while New Jersey lost 36,900 jobs (table 3). As shown in table 4, by 2014 New York City's total employment (4.1 million jobs) once again exceeded than that (3.96 million jobs) of New Jersey. New York City is now the unquestioned economic locomotive of the broad metropolitan region that encompasses most of New Jersey.

This shift in job growth pattern is one of the reasons for New Jersey's suburban office problems. Automobile-centric suburban office campuses and their growth corridors were the hot national market dynamics of the late twentieth century when New Jersey flourished. They are no longer the key market dynamics of the twenty-first century. A new era of corporate urbanism appears underway. Isolated, insulated one-dimensional suburban campuses of yesteryear are yielding to urban multifunctional LWP environments.

Summary

New Jersey’s municipalities are enveloped by broader dynamics that are reshaping the state and region. The era of unbridled suburbanization that once fully engulfed New Jersey is rapidly attenuating. The emergence of the millennial generation with its different life style values has helped to alter the old suburban order. New corporate office protocols are also emerging. The current model of corporate innovation thrives in proximity environments, not in insulated and isolated places. As a result, the regional core and inlying suburban counties have regained their economic attraction and are the new locus of economic and demographic growth.

Demographic change is reshaping the state’s housing markets, led by a resurgence of new rental housing. Advancing information technology in conjunction with demographics and changing corporate business models are disrupting many sectors of the economy – with omni-retailing a case example of forcing change upon the old retail normal. The continued advance of information technology will certainly produce further disruptions to the economic order.

New Jersey’s municipalities will not be insulated from the new dynamics identified here and further changes that are coming. The challenge for the state’s municipalities is to anticipate and adapt to these changes that have emerged in terms of housing and land use protocols, transportation systems, accessibility, and the overall design and planning for new life styles in their communities.

Table 1

Business Cycle Phases

(Great)Recession: December 2007 - June 2009

18 months in length

Current Expansion: June 2009 – July 2015

73 *months* in length

Average Duration of Post-WW II Expansions: *58 Months*

Average Duration of Last Three Expansions: 95 Months

Table 2

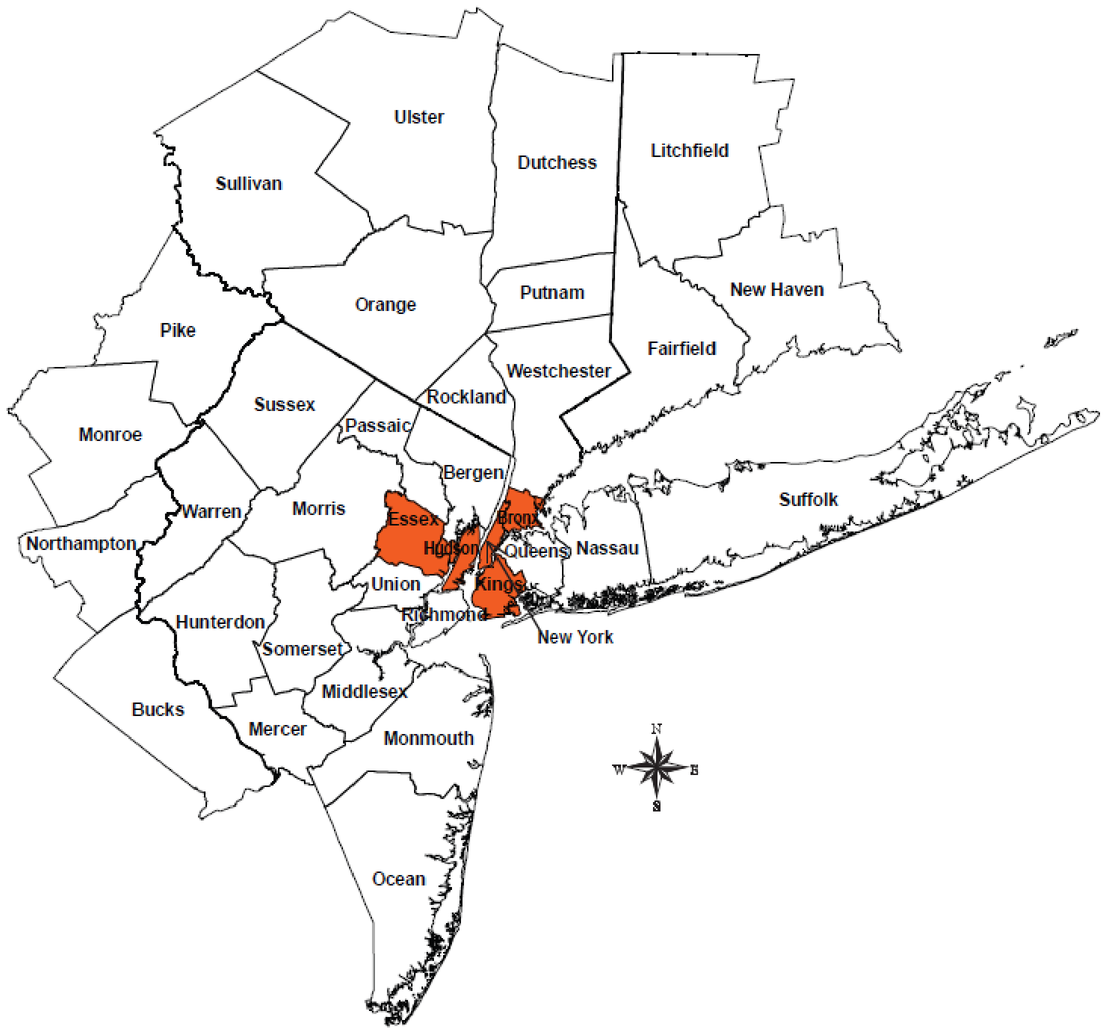
The 35-County, Four State New York Metropolitan Region

Two Periods:

- **1950-1980**: A Baby-Boom-Driven Era of Intense Suburbanization

- **2010-2014**: A Millennial-Driven Post-Suburban Era

FIGURE 1
Counties with Population Decline, 1950–1980



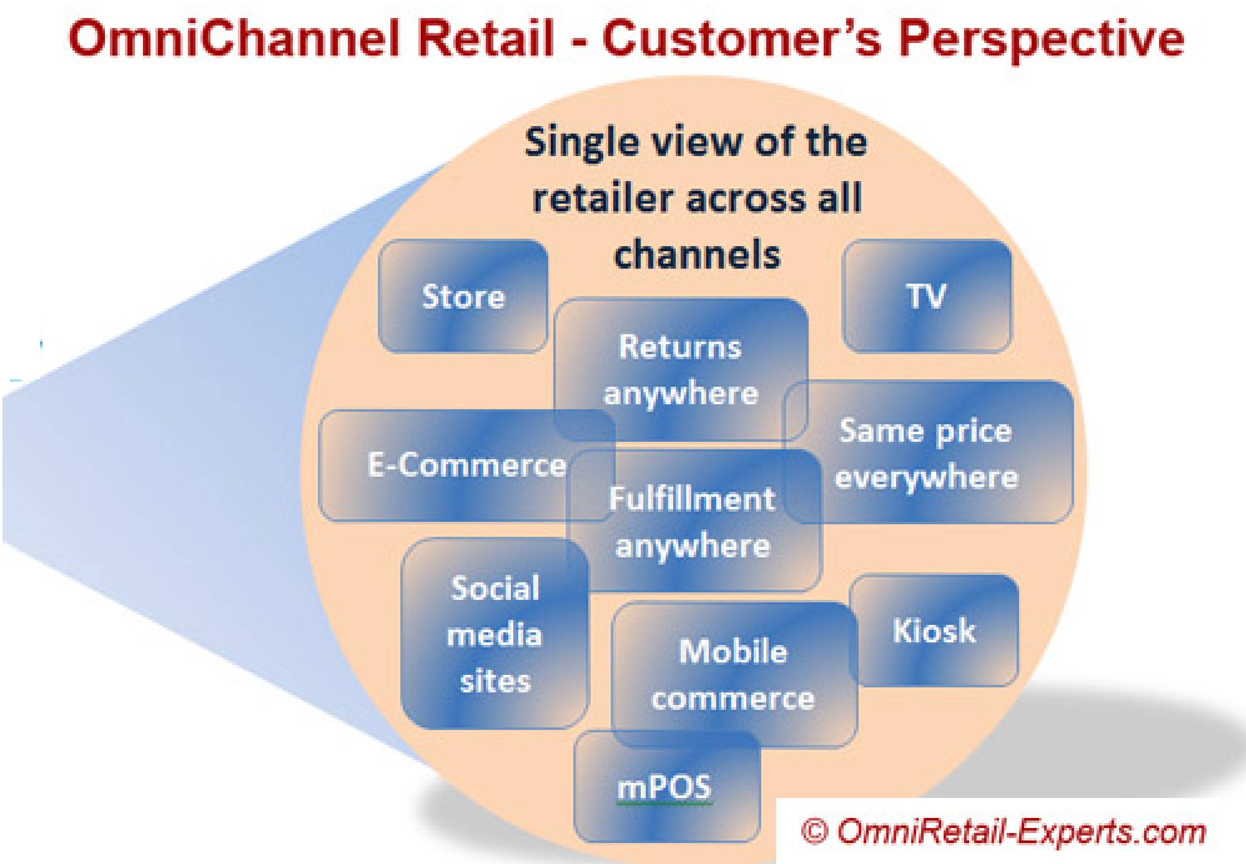
Source: Rutgers Regional Report, based on data from the U.S. Census Bureau, New Jersey Geographic Information Network, NYS GIS Clearinghouse, and National Oceanic and Atmospheric Administration.

FIGURE 2

Counties with Population Decline, 2010–2013

Source: Rutgers Regional Report, based on data from the U.S. Census Bureau, New Jersey Geographic Information Network, NYS GIS Clearinghouse, and National Oceanic and Atmospheric Administration.

Figure 3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Single view of the retailer across all channels
Store
TV
Returns anywhere
E-Commerce
Same price everywhere
Fulfillment anywhere
Social media sites
Kiosk
Mobile commerce
mPOS
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Table 3

New Jersey and New York City: Employment Change

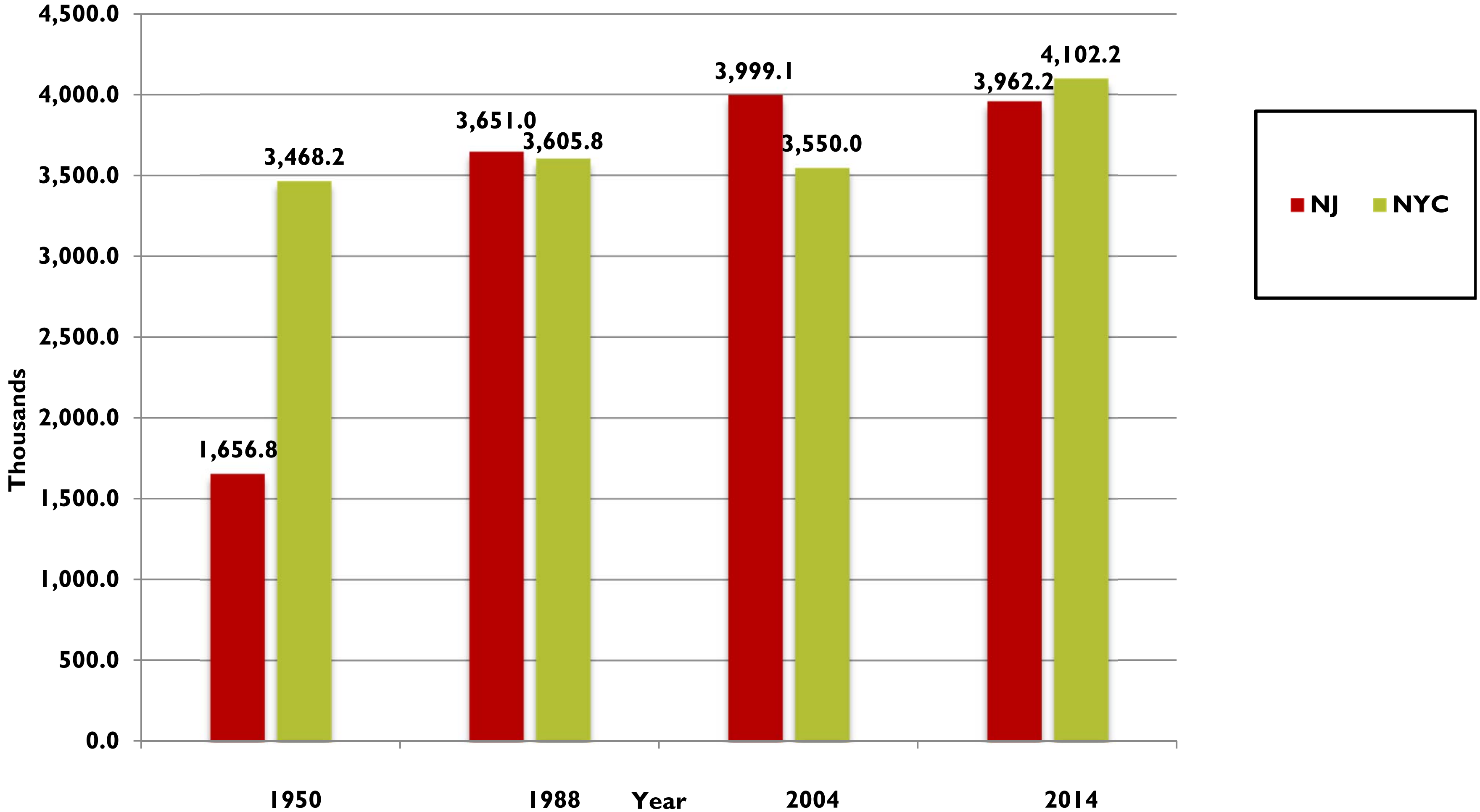
1950-2004	
New Jersey	+2,342,300
New York City	+81,800

2004-2014	
New Jersey	-36,900
New York City	+552,200

Table 4

New Jersey and New York City Employment 1950-2014

Ratio NJ/NYC: 0.48 1.01 1.13 0.97



Source: U.S. Bureau of Labor Statistics.