

Friends of Local Government
Policy Paper Series

Lift-Off to Tail-Off: More Economic Uncertainty

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Public Policy, Rutgers, the State University of New Jersey**

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Preface

This is the 28th paper in NJLM Foundation's "Friends of Local Government" Policy Paper series. This paper, authored by Dr. James Hughes from Rutgers, the State University of New Jersey, is entitled "**2016: Lift-Off to Tail-Off: More Economic Uncertainty.**"

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, **2011: 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.**"

Volume 7, Number 1: "**2015: Changing Economic and Demographic Dynamics: A New Context for Municipalities**

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.

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Lift-Off to Tail-Off: More Economic Uncertainty

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Final tallies of New Jersey's 2015 employment performance, released in March 2016, revealed that the state had experienced its strongest job growth since 1999. This suggested that New Jersey's economy was finally hitting full stride, setting high expectations for 2016. However, the state's employment growth slipped during the first six months of the year. Economic lift-off was seemingly transformed into economic tail-off. While state monthly job statistics have seemingly become more volatile and erratic – suggesting the possibility of significant data revisions going forward – there is now renewed uncertainty about New Jersey's employment trajectory for the balance of the year and beyond.

Moreover, as the second half of 2016 unfolds, a new *macro-uncertainty* has been introduced to the New Jersey economic outlook. Brexit – the United Kingdom's vote to leave the European Union on June 23 – has thrown Europe's postwar order into disarray, produced additional concerns that U.S. growth remains vulnerable to a new round of global economic turmoil, and raised broader questions of the structural impact of current global economic currents. Such uncertainties are bedeviling the U.S. economy, whose growth had already been slowing significantly this year as the business cycle enters its mature phases.

New Jersey's economy, which has stumbled so far in 2016, will certainly not be immune to these further global and national uncertainties, which have the potential of producing disruptions that were not on the radar screen when we entered 2016. At this time, any forecast has the possibility of being upended by circumstances that are still unfolding. With this caveat in mind, let's first

examine aging business cycle concerns, and the slowing of U.S. employment growth that took place before the Brexit upheaval.

An Aging U.S. Business Cycle: A July 2016 Update

What phases have we been in, where are we now, and how long will the current phase last? As shown in table 1, shortly into the current century the nation entered the expansionary stage of the cycle. The 2001-2007 economic expansion, or upcycle, started in November 2001 – lasted 73 months – and came to an end in December 2007. The Great Recession, the worst economic downturn since the Great Depression, then commenced, lasting 18 months (December 2007-June 2009). But, in June 2009, contraction was finally supplanted by recovery as the current expansion began. As of July 2016, it reached 85 months in length (June 2009-July 2016) – one month into its eighth year. It is already 12-months longer than 2001-2007 expansion (73 months).

A key point of reference is a statistic from the Business Cycle Dating Committee of the National Bureau of Economic Research (NBER): the average length of the 11 post-World War II economic expansions in the U.S. was 58 months. So, via this metric, at 85 months, our current expansion is now quite mature – perhaps living on borrowed time. An alternative NBER reference is the average duration (95 months) of the three expansions that immediately preceded the Great Recession. So, via this metric, our current expansion is not yet fully mature. But, it should be pointed out that one of these three expansions included a significant outlier: the unprecedented record-long 120-month expansion, which started in March 1991 and ended in March 2001 – a full 10 years in length. If that extraordinary event is removed, the remaining two averaged 82.5 months in duration, making the current expansion look more than fully mature. In fact, it is now the fourth longest of the 33 cycles that took place in the United States since 1854!

The National Growth Slowdown

Corresponding to the maturing cycle has been a marked slowdown in the nation's employment growth. Chart 1 details the current U.S. job-growth momentum through December 2015. Each bar represents the annual change in private-sector employment for each year. In 2009 (the far left red bar in the chart), the nation hemorrhaged more than 5-million private-sector jobs. Payroll

employment statistics were first compiled in the United States in 1939. The worst year ever in the subsequent history of the data series was 2009. It will be remembered fondly as the year when many of our most dire economic forecasts were actually realized.

But, stability and modest growth finally returned in 2010, which registered an increase of more than 1.2 million private-sector jobs. Then the nation had three-straight years where employment gains averaged approximately 2.4 million jobs annually: 2011, 2012, and 2013. This represents a strong annual growth metric. But in 2014, employment gains ratcheted up to the 3-million private-sector job mark. That is an *extraordinary* strong annual growth metric. In fact, it was the best private-sector job growth year since 1997 – 19 years ago.

Not surprisingly, that robust pace proved difficult to maintain. Nonetheless, 2015 still proved to be a blockbuster year as employment increased by well over 2.5 million jobs. Combined, 2014 and 2015 added 5.6 million jobs over 24 months – the best two-year performance since the tech bubble of the late 1990s. During the current two-year period, the national unemployment rate fell from 6.7 percent at the start of 2014 to 5.0 percent at the end of 2015.

As a result, there was very positive national employment and labor market momentum as 2015 came to a close – at least in aggregate numbers. However, 2016 to date has been disappointing. Real gross domestic product (GDP) – the nation’s total economic output – increased by just 1.1 percent in the first quarter of 2016. This is less than one half of the average pace (2.4 percent) for all of 2015. This suggests an economy appearing to lose some steam. Employment growth evidences a similar slowdown. Based on the first six months of 2016, the annualized private-sector employment increase for the year will be approximately 1.9 million jobs, far below the 2.5 million plus level of 2015.

So, a business cycle reaching a very mature stage, a distinct slowing of national economic output and employment growth, and growing global uncertainty heightened by Brexit, all represent potential headwinds for the New Jersey economy for the balance of 2016. This is on top of an economic performance that seems to be faltering so far this year following a very strong 2015.

The New Jersey Recovery Trajectory

Chart 2 details the annual private-sector employment change in New Jersey from 2009 to 2015. In 2009, paralleling the nation, the state was hemorrhaging jobs, indicated by the far left red bar in the chart (-115,000 jobs). But, stability returned in 2010 when there was a modest employment increase of 7,700 jobs. Then, in 2011, growth more than tripled to 23,900 jobs. And then it nearly doubled in 2012 when there was a substantial employment increase of 47,300 jobs. Thus, a strong upward trend line was evident through 2012, suggesting major advances were in store for the New Jersey economy. Unfortunately, it looked like somebody then hit the economic pause button, as growth unexpectedly decelerated in 2013 to just 38,700 jobs. While 2014's growth returned 2012's level (47,300 jobs), this two-year period still represented a significant soft patch in comparison to the nation's surging employment gains.

However, two unique factors had come into play – two unique obstacles – that hindered the state's growth in 2013 and 2014. First, Hurricane Sandy and its negative economic aftershocks in 2013 were much, much greater than anticipated. A second major factor was and is the magnitude of the resizing of Atlantic City's casino head count. In 2014, Atlantic City was a major drag on the state's employment metrics and will continue to be so until it fully adjusts to a post-monopoly gaming era.

Nonetheless, it looks like somebody finally hit the economic refresh button in 2015 as the obstacles started to fade away. There was a robust gain of 83,600 jobs in 2015. This was New Jersey's was our best job growth year since 1999, 17-years ago. And the state actually eclipsed the national private-sector employment growth rate for the first time in this century. New Jersey's employment grew by 2.5 percent compared to just 2.2 percent for the nation. It appeared that state's economy was finally achieving economic liftoff.

A Stronger Second Post-2000 Expansion

Moreover, by the end of 2015, the current expansion was looking quite strong, not relative to the nation but relative to the preceding one in New Jersey. Table 2 presents a comparison of the two post-2000 expansions in the state. By December 2015, the length of the present expansion (2010-2015) was 63 months, just three months shy of that (66 months) of the 2002-2008

expansion. (It should be noted that at the state level, the expansions' lengths are measured solely from state recessionary employment troughs, not from the official national end of recession points.) But, despite being three months shorter, the current employment expansion in New Jersey – the right column in table 2 – has been far more robust than the earlier 2002-2008 expansion, the left column. The job growth already achieved by the current expansion was far greater: the 2010-2015 private-sector employment gain (266,900 jobs) was more than double the 127,000 job gain of the 2002-2008 expansion. On monthly basis, the disparity is even more evident: 4,236 per month (2010-2015) versus 1,924 per month (2002-2008). Thus, despite 2016's soft patch discussed below, the state is currently experiencing much stronger employment growth in an expansion that still has a significant way to go.

It also looked like New Jersey was fully extricating itself from what had been called *the lost decade* (2000-2010). As shown in chart 3, the size of the blue bars (positive annual private-sector employment change) of the current expansion is far larger than that of the earlier expansion. And, by the end of 2009, there were 154,000 fewer jobs in New Jersey than at the end of 1999! (This dismal 10-year performance is the sum of all the changes in annual employment in the chart starting in 2000 and ending in 2009.) So, following *the lost decade*, which technically ran from December 1999 to December of 2009, the current expansion looked quite positive.

The Current Slowdown

Unfortunately, the state economy then inexplicably stumbled in 2016. As shown in table 3, New Jersey gained just 15,900 private-sector jobs in the first six months of the year, measured December 2015-June 2016. A drag on the state's metrics has been a key industrial sectors that is most important to the state's office markets – professional and business services. It lost 2,300 jobs during this six month period, and each dramatically its national counterpart (table 4). This certainly has less than positive ramifications for the state's struggling suburban office markets.

There is no apparent reason for the slowdown in New Jersey outside of the national deceleration.. So, given the U.S. economic slowdown and the maturing national business cycle, it would be unrealistic to expect that the state could replicate in 2016 the robust employment growth of 2015. The bottom line is that after a stellar 2015, economic uncertainty returned to New

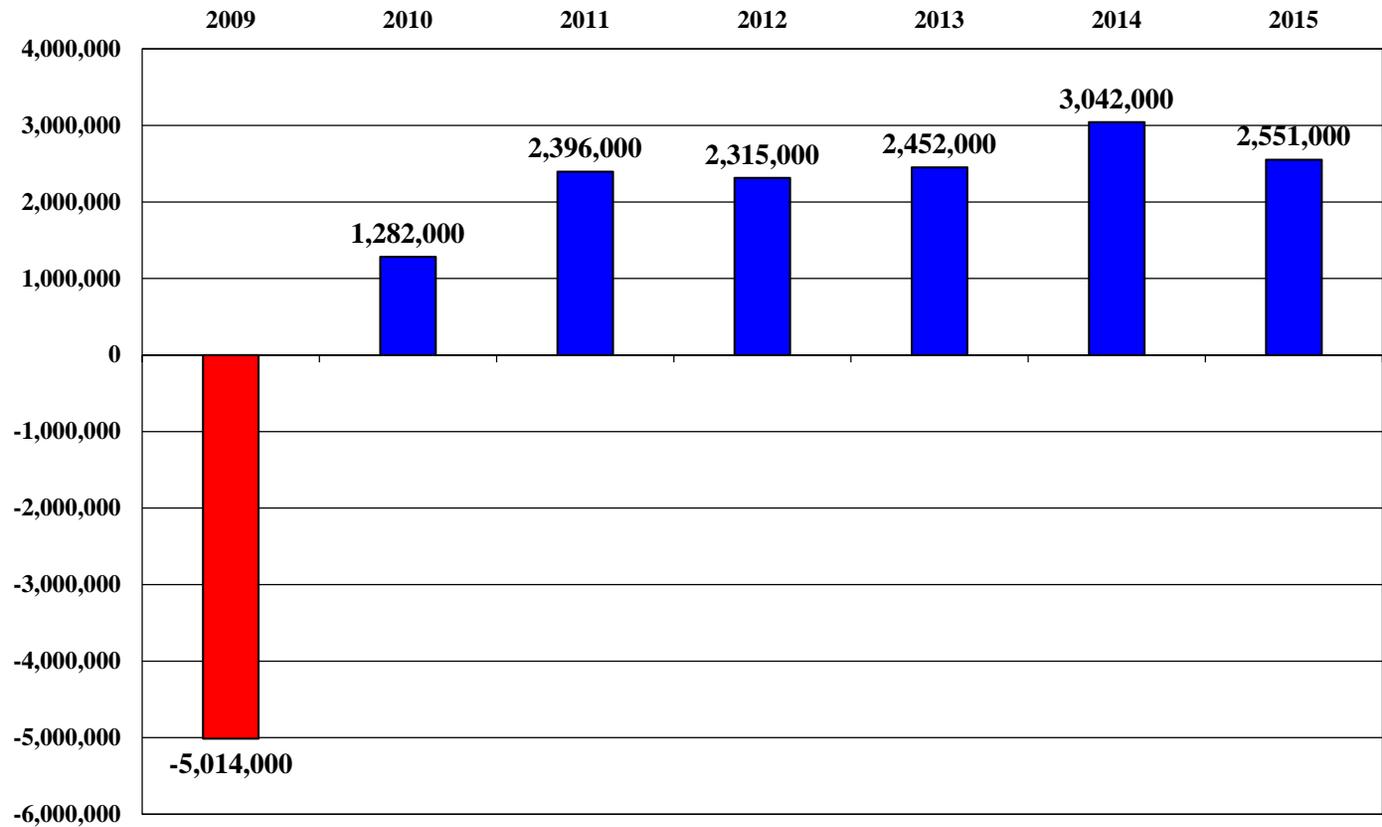
Jersey in 2016, This uncertainty can certainly be increased by the potential disruptions of a new round of global economic turmoil following Brexit. Corporate America had already been showing a new reluctance to hire and to be much more conservative in capital investment. This may be more so the case as the year progresses. New Jersey will not be immune to these concerns.

Table 1
National Business Cycle Phases

Expansion:	November 2001 - December 2007 <u>73 months</u> in length
(Great) Recession:	December 2007 - June 2009 <u>18 months</u> in length
Current Expansion:	June 2009 - July 2016 <u>85 months</u> in length

Year	Employment Change
2009	-5,014,000
2010	1,282,000
2011	2,396,000
2012	2,315,000
2013	2,452,000
2014	3,042,000
2015	2,551,000

Chart 1
U.S. Private-Sector Employment Change
2009-2015

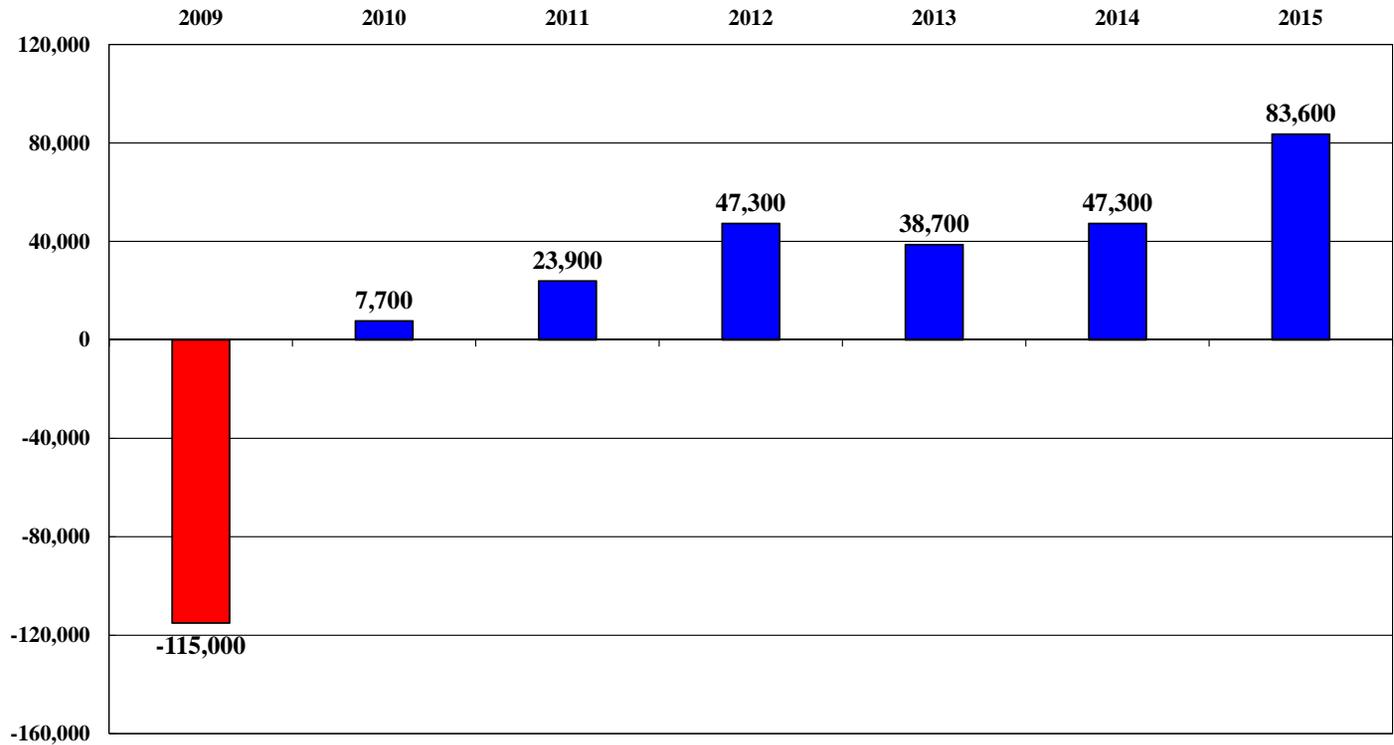


Source: U.S. Bureau of Labor Statistics.

Note: Employment change measured from December to December, seasonally adjusted.

Year	Employment Change
2009	-115,000
2010	7,700
2011	23,900
2012	47,300
2013	38,700
2014	47,300
2015	83,600

Chart 2
New Jersey Private-Sector Employment Change
2009-2015



Source: U.S. Bureau of Labor Statistics.

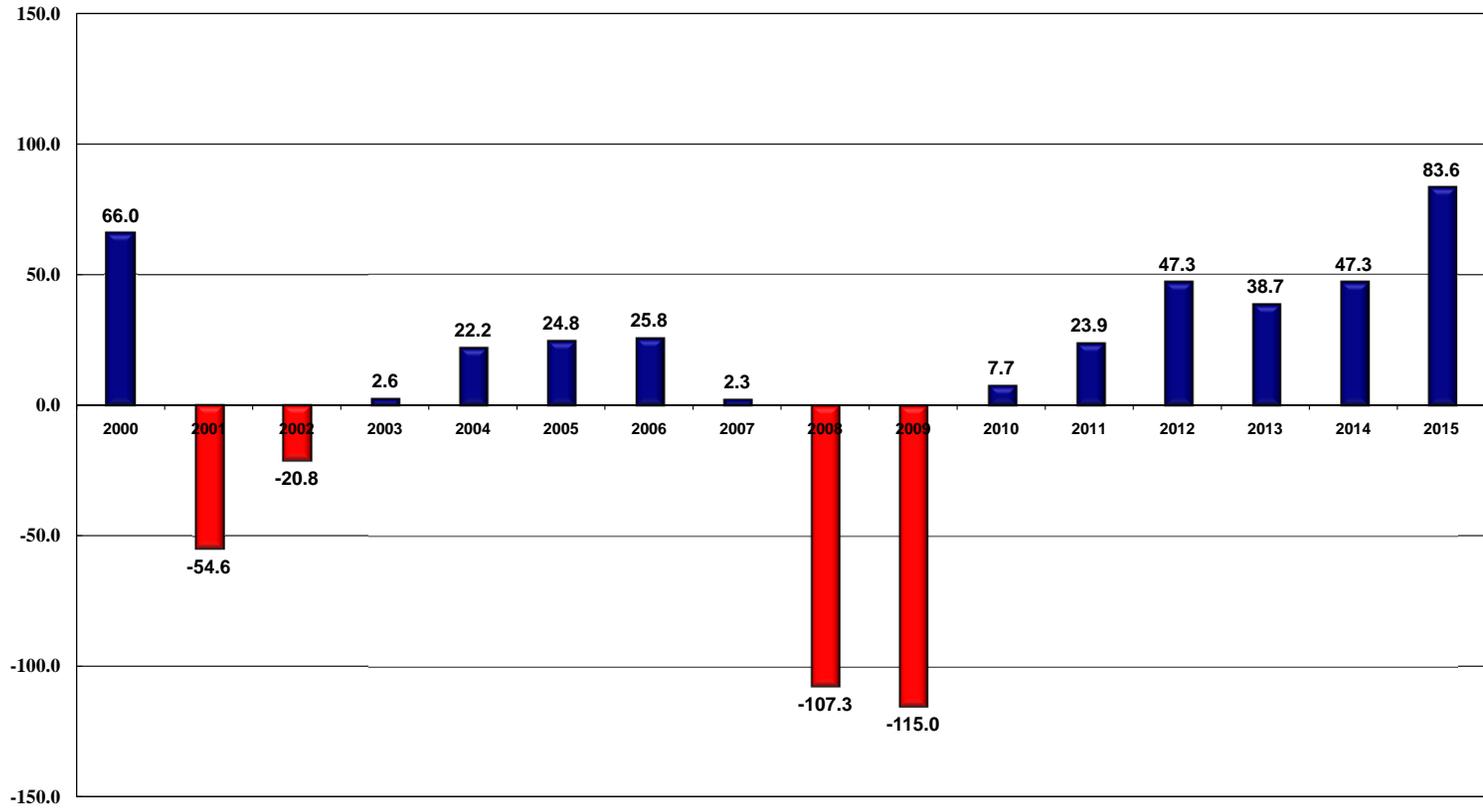
Note: Employment change measured from December to December, seasonally adjusted.

Table 2
Comparison of Post-2000 Expansions

	2002-2008	2010-2015
Length:	66 months	63 months
Private-Sector Job Gain:	127,000	266,900
Monthly:	1,924	4,236

Year	Employment Change
2000	66.0
2001	-54.6
2002	-20.8
2003	2.6
2004	22.2
2005	24.8
2006	25.8
2007	2.3
2008	-107.3
2009	-115.0
2010	7.7
2011	23.9
2012	47.3
2013	38.7
2014	47.3
2015	83.6

Chart 3
New Jersey Private-Sector Employment Change
Annual Change (December to December), 2000-2015



Source: New Jersey Department of Labor and Workforce Development.

Table 3
Year to Date
New Jersey Nonfarm Payroll Employment
December 2015 to June 2016
(Seasonally Adjusted, Numbers in thousands)

	December 2015	June 2016	Change: 2015 to 2016	
			Number	Percent
TOTAL NONFARM	4,072.8	4,090.6	17.8	0.4
TOTAL PRIVATE SECTOR	3,458.2	3,474.1	15.9	0.5
GOODS PRODUCING	390.1	398.8	8.7	2.2
Mining and Logging	1.4	1.4	0.0	0.0
Construction	150.7	155.8	5.1	3.4
Manufacturing	238.0	241.6	3.6	1.5
PRIVATE SERVICE-PROVIDING	3,068.1	3,075.3	7.2	0.2
Trade, Transportation & Utilities	864.6	877.1	12.5	1.4
Information	73.5	75.6	2.1	2.9
Financial Activities	254.8	257.6	2.8	1.1
Professional And Business Services	669.2	654.1	-15.1	-2.3
Education & Health Services	670.7	668.4	-2.3	-0.3
Leisure And Hospitality	364.2	371.5	7.3	2.0
Other Services	171.1	171.0	-0.1	-0.1
GOVERNMENT	614.6	616.5	1.9	0.3
Federal Government	49.5	50.4	0.9	1.8
State Government	142.3	142.5	0.2	0.1
Local Government	422.8	423.6	0.8	0.2

Note: North American Industry Classification (NAICS) employment sectors.

Source: New Jersey Department of Labor.

Table 4
Year to Date Percent Change
Nonfarm Payroll Employment
New Jersey vs. United States
December 2015 to June 2016
(Seasonally adjusted, numbers in thousands)

	<u>Percent Change</u>	
	<u>NJ</u>	<u>US</u>
TOTAL NONFARM	0.4	0.7
TOTAL PRIVATE SECTOR	0.5	0.8
GOODS PRODUCING	2.2	-0.2
Mining and Logging	0.0	-9.1
Construction	3.4	0.7
Manufacturing	1.5	-0.2
PRIVATE SERVICE-PROVIDING	0.2	1.0
Trade, Transportation & Utilities	1.4	0.8
Information	2.9	0.9
Financial Activities	1.1	1.1
Professional And Business Services	-2.3	0.9
Education & Health Services	-0.3	1.4
Leisure And Hospitality	2.0	1.0
Other Services	-0.1	0.5
GOVERNMENT	0.3	0.4
Federal Government	1.8	0.5
State Government	0.1	-0.1
Local Government	0.2	0.5

Source: New Jersey Department of Labor, U.S. Bureau of Labor Statistics.