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The New Jersey Economy: The Expansion Continues

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Preface

This is the 31st 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 "**The New Jersey Economy: The Expansion Continues.**"

Previously, Dr. Hughes and, until 2015, Joseph Seneca, authored the following papers:

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**
Volume 8, Number 1, **2016: Lift-Off to Tail-Off: More Economic Uncertainty**

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

On behalf of the Board of the NJLM Educational Foundation, we thank Dr. Hughes 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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About the Contributing Author

James W. Hughes was named a University Professor by the Rutgers University Board of Governors in June 2017. (A University Professor has the university-wide privilege of teaching and conducting research and educational activities across all Rutgers disciplines and schools.) Previously, he was dean of the Edward J. Bloustein School of Planning and Public Policy for 22 years (1995-2017). He has been a member of the Rutgers faculty since 1971.

The New Jersey Economy: The Expansion Continues

James W. Hughes

As the Great Recession slips deeper into the past, it is important to remain aware of our current position in the business cycle. Benjamin Franklin was once quoted: “In this world, nothing can be said to be certain, except death and taxes.” To these two basic certainties, a third should be added. It would then read: “In this world, nothing can be said to be certain, except death, taxes, and a *continuation of the business cycle*.”[1] The business cycle (or economic cycle) never pauses, never stops, and is always defining and redefining our fiscal status and economic health. The only way not to be completely subject to it is via Franklin’s first certainty–death–which is not a very attractive option. So, where exactly are we as the second half of 2017 unfolds?

Currently, we are still comfortably riding the steep upcycle of the 2009-2017 economic expansion (chart1). The beginning of the expansionary phase of the business cycle started at the end of the Great 2007-2009 Recession. The latter was the worst downturn since the Great Depression; it lasted 18 months, starting in December 2007 and ending in June 2009. At that time, it is not an exaggeration to say that both the nation and New Jersey were staring into the economic abyss. By the time the recession and its harsh aftermath had run its course, the nation had lost an astonishing 8.7 million private-sector jobs, while New Jersey had lost an astonishing 259,000 private-sector jobs. Municipal and state budgets and employee rolls were devastated.

But, fortunately, we have yet to invent a recession that lasts forever. In June 2009, contraction was finally supplanted by recovery. Consequently, June 2017 marked the eighth anniversary of the current economic expansion (June 2009-June 2017)–at that point, it had reached 96 months in length or a full eight years. July 2017 then marked the first month of its ninth year (97 months old). Many state and municipal officials are astonished to find that we are now in the midst of the third longest expansion in the nation’s history.[2]

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[1] As defined by Investopedia.com: “The business cycle is the fluctuation in economic activity that an economy experiences over a period of time. A business cycle is basically defined in terms of periods of expansion or recession. During *expansions*, the economy is growing in real terms (i.e. excluding inflation), as evidenced by increases in indicators like employment, industrial production, sales and personal income. During *recessions*, the economy is contracting, as measured by decreases in the above indicators. Expansion is measured from the tough (or bottom) of the previous business cycle to the peak of the current cycle, while recession is measured from the peak to the trough.

[2] According to the Business Cycle Dating Committee of the National Bureau of Economic Research, since 1854 there have been 33 business cycle phases prior to the current expansion. The longest expansion and current record holder is the March 1991 to March 2001 expansion, which lasted 120 months, a full 10 years. The second longest was the February 1961-November 1970 expansion – 106 months in length. However, there is an asterisk often associated with this event: it was supported by the massive Vietnam War effort. Consequently, it can be asserted that we are now experiencing the second longest peacetime expansion in history.

As this series has pointed out before, the average length of the 11 post-World War II economic expansions in the United States was 58 months, according to the Business Cycle Dating Committee of the National Bureau of Economic Research. So, via this metric, at 97 months (as of July 2017) our current expansion appears to be quite mature. But, expansions rarely die of old age. They usually come to an end because of three possibilities. First are actions taken by the Federal Reserve: sharply raising interest rates and tightening credit to combat inflation (such as it did to counter rampant late 1970s inflation which led to the 16-month long 1981-1982 recession). A second is the bursting of unforeseen economic bubbles (such as the collapse of the housing-credit bubble in 2007 which led to the 18-month long 2007-2009 recession). A third is a major external shock (such as the 1973 OPEC oil embargo which led to the 16-month long 1973-1975 recession). Currently, an external shock would be the likely suspect to undermine the current expansion. Absent such an event, the expansion should continue into 2018.

The Current National Picture

The national economic situation remains positive: a six-year period (2011-2016) where private-sector employment growth averaged 2.4 million jobs annually (chart 2). This stands as a robust annual growth metric. But the United States economy has started to hit labor force constraints. This is evidenced by a national employment growth slowdown during 2016 and the first half of 2017 to an annual pace of 2 million jobs. However, this slowdown in employment growth is not due to a weakening economy but is the result of labor shortages and skill mismatches. This situation is illustrated by chart 3, which shows the number of monthly unfilled job openings in the United States between 2006 and 2016. This data is from the U.S. Bureau of Labor Statistics *Job Openings and Labor Turnover Survey*, often referred to by its acronym: JOLTS. According to JOLTS, at the peak of the last business cycle–2007–job openings were in excess of 4 million per month, as shown by the black line in the left side of the chart–4 million unfilled jobs per month. At the time, that represented a very tight labor market. During the depths of the Great Recession and its aftermath–2009 and 2010–unfilled openings fell to the 2 million monthly level. That's the black line on the bottom of the chart. But by 2016, the far right side of the chart, monthly unfilled job openings were above 5 million, a near record level, far greater than the 2007 business cycle peak. The last available data, April 2017 (not in chart 3), produced a new record level–6 million unfilled job openings. Employers apparently are having a very hard time filling open positions, with a mismatch between worker skills and job requirements, as well as geographic mismatches.

Slow-Go New Jersey

Within this national context, what about our beloved Garden State? In contrast to the nation, New Jersey–while showing improvement–has yet to achieve the economic traction shown by the nation for any sustained period of time. It has been an elusive recovery for the state–an expansion that is finally starting to shed its training wheels. Chart 4 presents New Jersey's the annual private-sector employment change from 2009 to 2016. A key metric is New Jersey's share of the national employment gain. The state has historically accounted for 3 percent of the employment base of the United States. So, if New Jersey grew at the same rate as the nation, it would secure 3 percent of the nation's job growth.

As pointed out earlier, the nation's annual private-sector employment gain of the past six years was 2.4 million jobs per year. The state's 3 percent share of this 2.4 million annual growth would be 72,000 jobs per year, as shown in the boxed area in the chart. However, New Jersey's actual annual employment increase has fallen considerably short of that mark. The horizontal line in the slide indicates the average annual employment gain from 2011 through 2016: 45,400 jobs per year. This is far short of the 72,000 annual gain needed to keep pace with nation. So the state has been an economic laggard during the long national expansion.

However, as is also evident in chart 4, the New Jersey growth trajectory from 2013 to 2016 shows sustained improvement, from a gain of just 37,600 private-sector jobs in 2013 to 60,800 jobs in 2016. In 2013, the state accounted for just 1.6 percent of the nation's private-sector employment increase (37,600 of 2,370,000). In 2016, the state's share had actually jumped to 3.0 percent (60,800 of 2,039,000). So, for the first time in the current expansion, New Jersey's job growth kept pace with that of the nation.

But, the monthly employment data in 2017 failed to show a continuation of this positive development. For the first half of the year–measured from a December 2016 base to June 2017–the state added only 15,600 private-sector jobs. This translates into an annual gain of 31,200 jobs. Does this signal trouble in the Garden State? Possibly, but probably not, because monthly state employment figures have been particularly volatile the past several years and they have been subject to substantial revisions during the annual re-benchmarking that takes place after the full year is completed. For example, last year (2016) at this time, data for the first six months (measured from December 2015 to June 2016) showed an increase of 24,500 jobs, or 49,000 jobs annualized. But, when the re-benchmarked data were released in March of 2017, the actual 2016 annual growth considerable higher–60,800 jobs. So, caution is warranted in reading too much into short-term, state-level monthly employment tabulations. The economic bottom line is New Jersey stands as an improving participant in a national economic expansion that shows no sign of ebbing anytime soon. However, this may not prove to be sufficient to ameliorate any of the state's long-standing fiscal problems.

Demographics and the Economy

There are distinct demographic forces that have helped to moderate economic growth in New Jersey. This is because there are specific demographically-linked components of economic growth. Areas with strong population growth experience an economic boost because of increased housing construction, growing consumer spending, and the expansion of population- and household-serving employment sectors. Unfortunately, New Jersey–along with the entire

Northeast Region–is a demographic laggard. Between 2010 and 2016, the state's population increased by 1.7 percent. While this is above the 1.6 percent average growth for all of the northeastern states, it lags far behind the national population growth rate of 4.7 percent. Other things being equal, New Jersey's economic growth should lag that of the nation because of its slow population growth; its demographically-linked components of economic activity trail far behind those of the nation as a whole.

The six-year 1.7 percent population increase in New Jersey represents an absolute population growth of 152,516 people, or just 25,419 people per year. To put that in perspective, in the 1950s the state added 123,145 people per year (nearly five-times as much) while in the 1960s it added 110,433 people per year (more than four times as much).

Some insight into the factors underlying New Jersey's "slow-go" demography–a total population increase of just 152,516 people over six years–can be gleaned from an examination of the specific components of population change.[3] These consist of net natural increase and total net migration. The first component, net natural increase, is the difference between births and deaths (labeled "vital events" by the U.S. Census Bureau). The state's natural increase in the 2010-2016 period totaled 201,216 people, the result of 649,061 births and 447,845 deaths.

The second component is total net migration. This is the sum of net international migration and net domestic migration. Net domestic migration is the difference between the number of people moving out of New Jersey to the rest of the country and the number of people from the rest of the country moving to New Jersey. Between 2010 and 2016, the state had a net domestic migration of loss of 336,359 people. That means within the United States alone, 336,359 more people moved out of New Jersey than moved into it in this six-year period.

This was only partially counterbalanced by net international migration gains: 297,224 more people moved into New Jersey from the rest of the world than people from New Jersey moving abroad. Adding these two migration components together yields a total net migration loss of 39,135 people. These components can be summarized as follows:

2010-2016 TOTAL POPULATION CHANGE[4]	152,516 people
Net Natural Increase	201,216
Births	649,061
Deaths	447,845
Total Net Migration	-39,135
Domestic	-336,359
International	297,224

[3] Source: Cumulative Estimates of the Components of Resident Population Change for the United States, Regions, States, and Puerto Rico: April 1, 2010 to July 2016 (NST-EST2016-04), U.S. Census Bureau, Population Division.

[4] Total population change includes a residual. This residual represent the change in population than cannot be attributed to any specific demographic component. Thus the components do not add up exactly to the total population statistic.

It is the net domestic migration loss of 336,359 people that underpins New Jersey’s lagging demography. (The state ranks fourth in the country in the size of outmigration.) While a number of out-movers are baby boomer (born 1946 to 1964) retirees, a more recent outflow concerns millennials (born 1980 to 2000).

As pointed out earlier, the nation’s current economic expansion as of July 2017 was in its 97th month–the third-longest expansion in the history of the United States. But, many millennials still face difficulties in the housing market. As a result, a record number of adult children are still living with their baby boom parents. As shown in chart 5, for the nation as a whole, 34 percent of 18 to 34 year olds are still resident in the parental hearth–slightly more than one-third. In New Jersey, 47 percent of young adults live with their parents, nearly one half. New Jersey has the distinction of ranking number one among all the states: nearly one-half in New Jersey (47 percent) versus one-third (34 percent) nationally. However, there are significant variations within the state. In our outer exurban counties, such as Hunterdon and Sussex, fully 55 percent of young adults live with their parents. If we extrapolate this trend, exurban New Jersey will have just two types of adults in the future: the not yet wed (young adults still living at home)–and the nearly dead (their rapidly aging baby boom parents)!

Millennial spatial movements across the state could be described simply as sprawl withdrawal. As soon as millennials are able to form households, many of them depart the Garden State. They want to live in places that older millennials have designated as cool–the coolness factor is critical to where they live and work. There are not an abundance of places in New Jersey outside of Hudson County have been designated millennial cool. The economic consequences currently and going forward are substantial.

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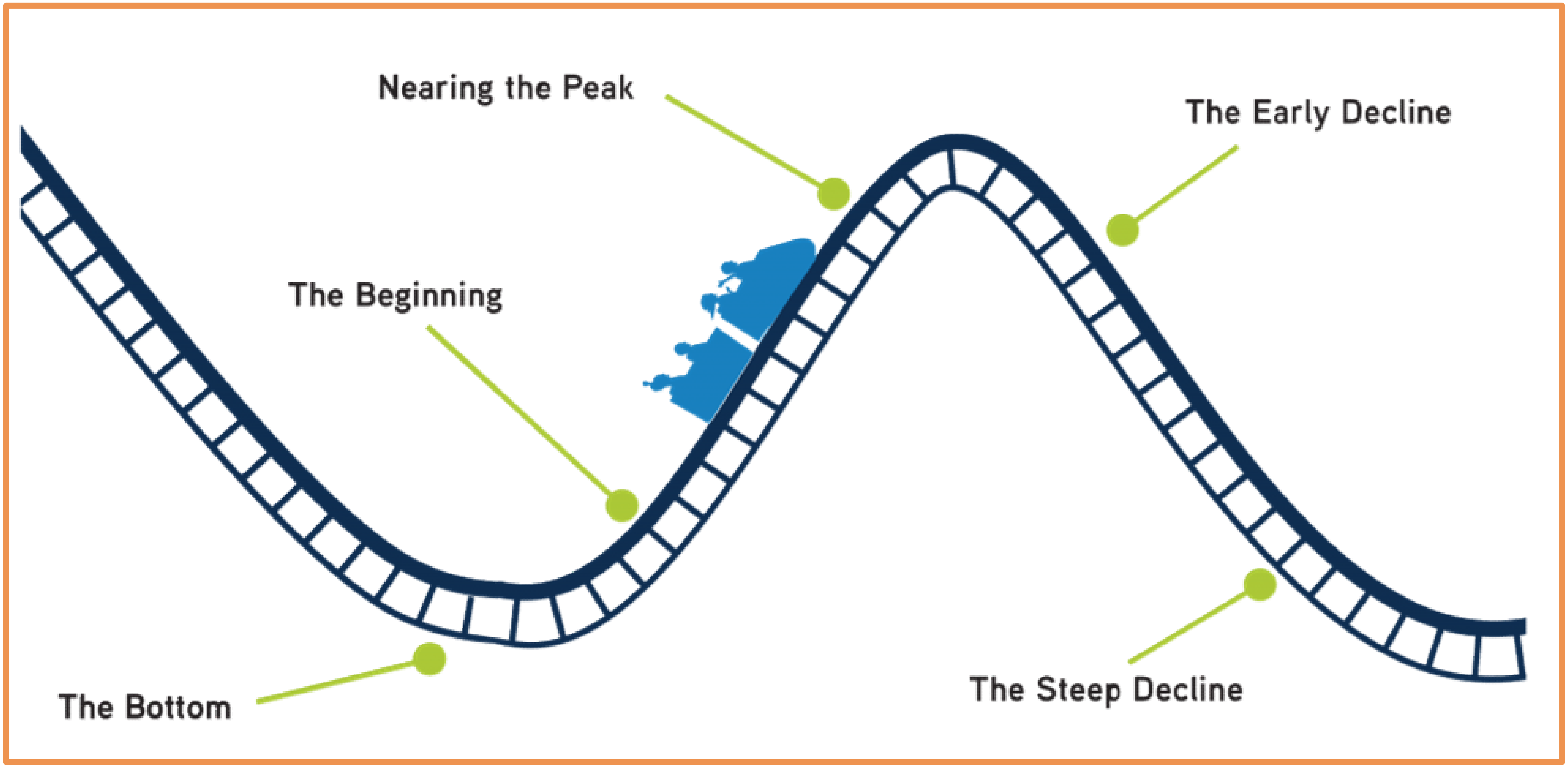
The Business Cycle Roller Coaster Ride



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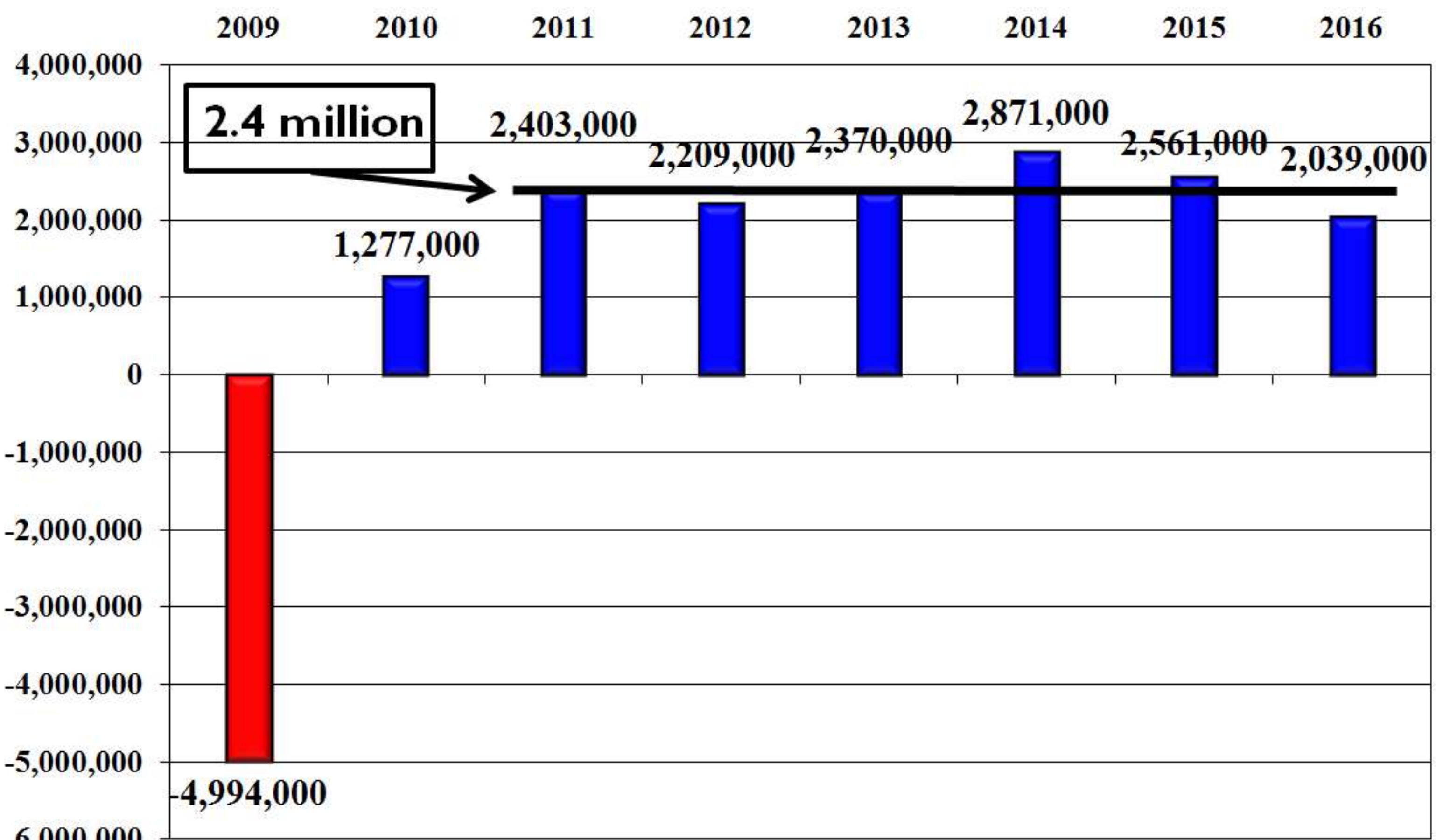
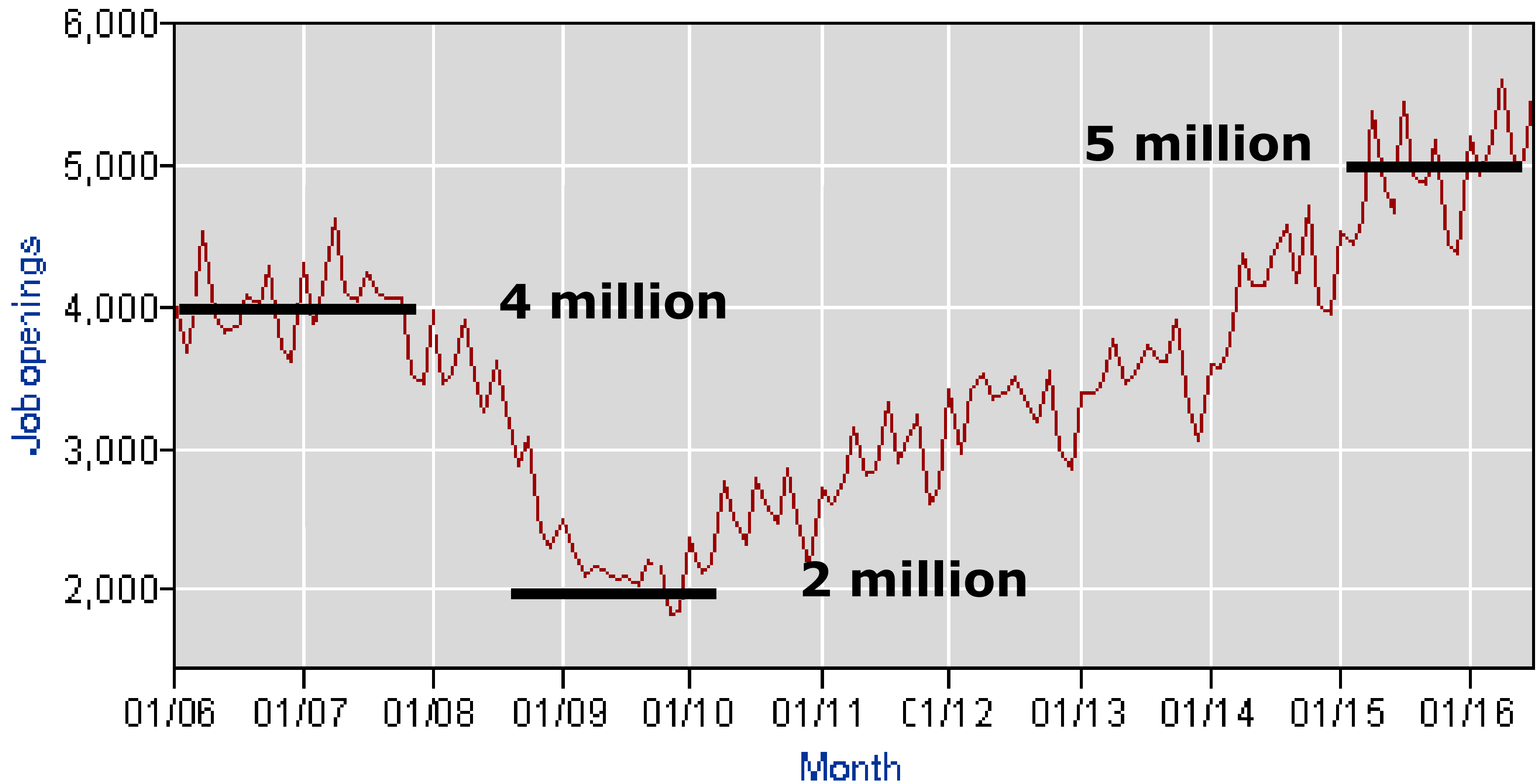
U.S. Private-Sector Employment Change 2009-2016



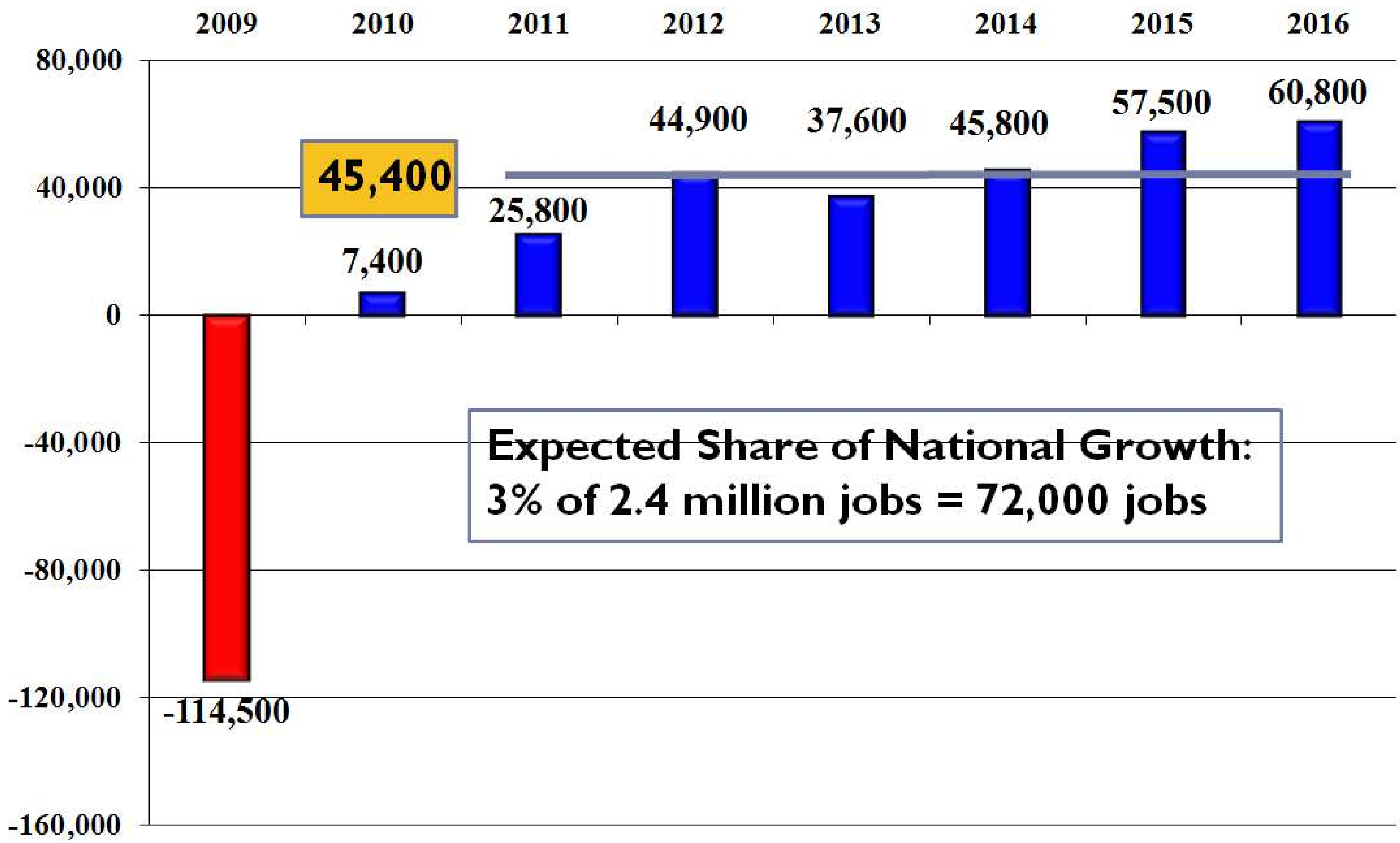
Source: U.S. Bureau of Labor Statistics. Note: Employment change measured from December to December, seasonally adjusted

U.S. Job Openings: 2006-2016
(numbers in thousands)



- Source: Bureau of Labor Statistics - **JOLTS**

New Jersey Private-Sector Employment Change 2009 - 2016



Source: U.S. Bureau of Labor Statistics.
Note: Employment change measured from December to December, seasonally adjusted.

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Adult Children Living With Parents (2015)

Area	18-34 Year Olds Living at Home
United States	34%
New Jersey	47%
Outer Exurban Counties	55%