Friends of Local Government
Policy Paper Series

The 2018 New Jersey Economy: Same Old, Same Old

James W. Hughes,

Distinguished Professor and Dean,
Edward J. Bloustein School of Planning and Public Policy,
Rutgers, the State University of New Jersey

NJLM Educational Foundation, Inc.
Promoting Innovation in Municipal Government

Volume 10, Number 2
Summer 2018

Preface

This paper is part of the 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: Same Old, Same Old."**

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, 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."**
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."**
Volume 9, Number 1 2017: "**The New Jersey Economy: The Expansion Continues.**

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 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, Secretary/Assistant Executive Director
NJLM Educational Foundation
222 West State Street
Trenton, New Jersey 08608
www.njlmef.org

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 2018 New Jersey Economy: Same Old, Same Old

James W. Hughes

University Professor – Rutgers, The State University of New Jersey and Dean Emeritus of the Edward J. Bloustein School of Planning and Public Policy

The New Jersey economy in 2018 remains in the same "*boring"* condition that has characterized the current expansion to date: moving slowly forward but continuing to lag behind the nation as a whole. This has been the routine state of economic affairs in the Garden State since its full emergence in 2010 from the Great 2007-2009 Recession, continuing once again a situation of general statewide fiscal constraints. An economic miracle that will free New Jersey from such limitations does not appear on the horizon. At the same time, a national economic downturn also does not appear on the horizon, an event which would turn "constraints" into full-blown crises.

But, "*boring*" sometimes has its virtues. There do not appear to be any economic excesses in New Jersey whose termination would have severe and sharp repercussions. During the past five decades, there were periods when the state economy boomed and outperformed that of the nation. However, in retrospect, these were periods often driven by New Jersey-centric economic bubbles which proved to be unsustainable. That certainly does not appear to be the case today. Nonetheless, looking forward, an old admonition should not be ignored: "You never know you're in a bubble economy until it bursts."

The Record-Setting National Expansion

This annual assessment of the New Jersey economy will begin again with an examination of the national business cycle, which is always defining and redefining the broad economic environment of New Jersey and its constituent municipalities. So, where exactly is the nation as the second half of 2018 unfolds?

The bottom line is positive – the current U.S. economic expansion just keeps rolling along! It started in June 2009, which was also the end of the Great 2007-2009 Recession. As is usually pointed out, the latter was the worst downturn since the Great Depression. It lasted 18 months (December 2007-June 2009), and caused unprecedented economic and fiscal havoc thorough out every corner of the nation and New Jersey. It represented an extraordinarily deep economic hole from which the state's municipalities long struggled to climb out. While the immediate and short-term governmental shocks caused by the Great Recession are largely past, many structural changes it spawned are now permanently in place. Those officials who were in office at the time may find it difficult to believe that it is now (July 2018) well over a decade (fully 10 years and seven months) since the Great Recession had its official beginning (December 2007).

But, fortunately, the nation has always managed to surmount economic setbacks and return to growth. In June 2009, contraction was finally supplanted by recovery. Consequently, the current expansion reached the ripe old age of 109 months in July 2018 – fully nine years and one month in length. It now stands alone as the second longest economic expansion in the nation's history, lagging only behind all-time record holder, the March 1991-March 2001 trans-millennial expansion, which lasted a full ten years (120 months). However, the latter period largely represented boom times for the state and for most New Jersey municipalities; that is certainly not quite the case today.

Looking forward, unless a trade war, Middle East conflict, interest rate surge, or some unanticipated event intervenes, the expansion should continue into 2019. It is entirely possible that it will last until July 2019, one year from today. That will make it 121 months in length, the new longest expansion in history. From the perspective of 2009, this is something that could not have been anticipated even in our wildest dreams.

The Current National Employment Picture

National employment growth, a key barometer of economic health, remains highly positive: during the last seven (2011-2017) years of the expansion, private-sector employment growth averaged 2.4 million jobs annually. This is a robust annual growth metric that actually matches the annual private-sector employment gain achieved during the entire 1991-2001 record expansion – 2.4 million jobs per year. The major potential inhibitor that now has to be confronted comprises labor force constraints. The mid-2018 unemployment rate slipped below 4.0 percent. Moreover, unfilled monthly private-sector job openings in the United States now stand at 6.7 million, a record-high level. In fact, for the first time, the total number of job openings in the country exceeded the total number of unemployed individuals. Employers are having a very difficult time filling open positions, caused by general labor shortages, as well as gaps between available worker skills and specific job requirements. If appropriately-skilled labor resources had been available, employment growth would have been even stronger.

New Jersey: The Laggard State

Within this national context, New Jersey has yet to replicate the employment growth momentum demonstrated by the United States. As was detailed in last year's issue paper, a key standard for evaluating the state's employment growth is simply New Jersey's share of the nation's 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 seven years was 2.4 million jobs annually. The state's 3 percent share of this 2.4 million annual growth would be 72,000 jobs per year. However, New Jersey's actual annual employment increase has failed to achieve that level. Between 2011 and 2017, the average annual private-sector employment gain was just 45,000 jobs per year. Moreover, after coming close to matching the 72,000 job benchmark in 2016, when New Jersey added 63,000 jobs, growth retreated in 2017 to 42,900 jobs. So the state has been an economic laggard during the long national expansion, and this is reflected in New Jersey's sustained fiscal struggles. When was this not the case?

Lessons from a Broad Historical Perspective

Believe it or not, there once was a prosperous recent past in New Jersey, in addition to the manufacturing glory years that occurred pre-1970. For example, the decade of the 1980s was once described as the New Jersey *economic miracle.* The preceding decade – the 1970s – had seen the state struggle economically as its once formidable industrial base began to experience what became known as the *great manufacturing employment hemorrhage*. By decade's end, the erosion of the state's historic globally-competitive economic competence was substantial and widespread.

But the 1980s brought with it a remarkable rebound driven by the emergence of a potent replacement – a robust post-industrial service economy. This was physically housed mostly in suburban office buildings, the factory floors of the "new" economy. A great office building boom unfolded, rebranding the state's image. In 1980, New Jersey had been a virtual non player in the regional office market centered on Manhattan. By 1990, the 11-county northern and central New Jersey office market became the fifth largest metropolitan office market in the country. Fully 80 percent of the all of the commercial office space ever built in the history of the state to that point had been erected during the 1980s, mostly in suburban automobile-centric office corridors, then the nation's cutting edge growth model. In contrast, Manhattan's share of the regional office market dropped from 85 percent to 55 percent during the same period of time, reflecting urban economic struggles and rampant suburban economic advancement.

The New Jersey economic miracle of the 1980s was clearly evident in job growth. New Jersey's employment figures of 1983 and 1984 vividly illustrate the scale of the boom. Private-sector employment growth in 1983 and 1984 averaged *140,000 jobs per year!* This was an annual all-time record high in the state. To put its magnitude into perspective, the state gained only 42,900 jobs in 2017. Not surprisingly, because of this job growth, state personal (gross) income tax revenues surged during 1980s. Moreover, the corporations and businesses providing the new jobs in the new office buildings also generated strong increases in the corporate business tax. The fiscal stars of the state were in near full alignment.

At the same time, at the local level, the burgeoning office inventories in many municipalities resulted in unprecedented commercial ratable and property-tax revenue increases. Many municipal assessors were working overtime! Moreover, the surging employment-driven economic health of New Jersey's citizens helped produce a home price boom. Between 1980 and 1988, home prices nationally increased by 45 percent; in New Jersey they increased by 145 percent. A popular joke at the time proclaimed: "People who owned their own home during the boom made more money going to sleep at night than they did going to work during the day." This further bolstered ratable and property tax growth. The fiscal good times were rolling!

But, the shelf life of booms is always limited. In 1989, the New Jersey real estate boom – which was one of the epicenters of a bicoastal national phenomenon – was transformed to bust. It turned out that the fiscal good times were heavily dependent on unsustainable excesses: office overbuilding and overly aggressive home-price surges. The resulting 1989-1992 downturn quickly became the worst economic setback in the state since the Great Depression. State and local fiscal ebullience was supplanted by fiscal crisis.

But there is a positive lesson for 2018 New Jersey. Our current slow but steady multiyear economic advancement was achieved in the absence of unsustainable economic excesses. While we have had to endure fiscal constraints during the current expansion, there are no corrections that have to be confronted that would seriously jeopardize any progress to date. However modest it is in scale, the state's current growth path at least has to be viewed as sustainable.

A second historical example of an excess-driven fiscal boom occurred in the 1990s. New Jersey's growth trajectory was initially modest coming out of the harsh 1989-1992 state economic downturn. But the second half of the decade saw New Jersey experience another employment boom and strong office market advances. For example, in 1999, the state added over 96,000 private-sector jobs, the third best year in history (trailing only the extraordinary 1983 and 1984 gains cited earlier). This growth reflected the nation's remarkable telecommunications capital investment bubble, with New Jersey one of its epicenters. (Route 78 through Somerset County became known nationally as the "telecommunications corridor."). This was linked to a surging stock market, fueled by a high-technology, internet-based "dot-com" bubble. Both phenomena produced a fiscal bounty for the state. For example, by 2000, the state's pension fund was actually in surplus, and "Christmas Tree" items proliferated in the state's budget. But "dot-com" became "dot-bomb" in 2001, leading to a stock market meltdown, recession and fiscal crisis. Seemingly, this was once again a payback for fiscal good times! And it confirmed another old adage: "Wild economic parties are often followed by prolonged economic hangovers."

Looking Forward: Adapting to Disruptions

New Jersey and its municipalities are seemingly not in danger of experiencing a prolonged fiscal hangover since a wild party eluded us. More of the same condition of economic and fiscal modesty appears to be our destiny. Whatever the case, this current cyclical economic position is taking place in the context of longer-term, fundamental structural changes – structural changes that are reshaping America, New Jersey, and its municipalities. The world as we once knew it is being rapidly transformed. What's occurring in the post-Great Recession era are fundamental disruptions of what we thought were "set in concrete" twentieth century assumptions and protocols. Each of these disruptions is now being felt in every municipality.

The Changing of the Demographic Guard

The greatest age structure transformation in history has been redefining America and New Jersey. The fabled baby boom, born 1946 to 1964, was the most suburban-centric generation in history, a generation whose rule in the twentieth century was once unquestioned. Where the baby boom wanted to live, work, and play ultimately resulted in today's sprawling suburban development patterns. But this suburban-centric legacy is now fading into history. By the end of 2018, one half of all boomers will 63 years and older. The median age of retirement in the United States is currently 63 years of age. That means one-half of this generation will soon be retired, having exited the workplace doors for the final time. The baby boom's influence on the economy and society is changing on a daily basis.

Unless you sleep-walked through the past decade, you certainly realize that millennials – the first digital age generation – have now supplanted baby boomers as the most powerful demographic. Born between 1980 and 2000, millennials are defined as the first population cohort born and reared in the unprecedented period of surging information technology. Not surprisingly, their value systems differ greatly from their baby boom parents. The terms experiential, connected, sharing, and passion now dominate American marketing strategies. In fact, millennials are now shaping a new economy of experience. And the economy is reshaping itself to their desires. The bottom line is that urban-centric millennials now rule. They have become the prized labor force commodity, eagerly sought by a corporate America that requires next-gen digital talent. Where millennial talent wants to be now drives corporate locational decision-making.

Consequently, municipalities will see a generation now entering into the child-rearing stage of the life cycle. Those municipalities that understand millennials and their residential desires will have an edge in revitalizing themselves and be able to attract the leading-edge activities defining the new economy.

Innovations in Information Technology

This set of disruptive shifts provided the digital foundation of today's millennial-driven economy. They have fundamentally altered many twentieth century economic norms and commercial real estate markets. The surges of 1980s' job growth detailed earlier involved white-collar work activities defined by pre-Internet style information processing and record keeping –

routine, segmented, standardized work procedures – all staffed by legions of baby boom employees.

But sustained advances in information technology ultimately redefined the very nature of knowledge-based work. Corporate cultures, business models, and office building requirements were radically transformed. Team work, collaboration, creativity, and innovation now define white-collar work activities and key office functions.

But wait, there's more. Post-2007 technology advances continued to define the millennial generation and transform and disrupt the economy. In 2007, the "mobile-Internet-untethered era" unfolded with the introduction of the iPhone. Not surprisingly, millennials comprised the first vast number of adopters. They were the digital frontrunners of a smart phone-driven era that unshackled workers from fixed-in-place information-technology systems. Anyplace became a workplace! Outlook: further disruptions to all established protocols because of sustained advances in information technology. Again, this is another new dimension that municipalities have to understand as they adapt to new demographics and new work environments.

The Office Ecosystem Transformation

A new era of corporate locational decision making is underway. We are in the early phases of a fundamental spatial reorganization of the American economy. It is now well recognized that isolated, insulated, oversized, one-dimensional twentieth century suburban campuses of yesteryear have been yielding to new open, interactive, creative, multifunctional environments and locations favored by millennials and corporate America. Much of New Jersey's suburban office inventory is now between 28 and 38 years of age, with much of it a residual of an earlier information technology and work-process era. The economic reality of today and tomorrow increasingly suggests there is simply too much old obsolete product. The overall ecosystem will most likely contract; it is over-supplied and under-demolished.

In addition, the new corporate normal is the "great space deleveraging." The old twentieth century question was: how much additional space will we need in the future? The new twenty-first century question is: how do we reduce our real estate footprint? New business models are leading to workplace densification: less space needed per worker – fewer workers.

All of this leads to continuing municipal challenges – and opportunities – to redevelop, reshape, and reinvent their "stranded assets" to a new demographic and economic era. To reiterate: the key global corporate office market dynamic today is the belief that innovation thrives in dense, multifunctional, interactive, creative environments – and is stifled in one-dimensional, insular, segmented campuses. Thus, New Jersey's broad office markets are reinventing themselves – removing obsolete properties at the same time as others are being transformed into next generation suburban economic assets. This certainly does not mean a return to past suburban models, but to new, re-ordered, amenitized, multidimensional office ecosystems.

The Revolution in Retailing and Distribution

Advances in information technology have not only defined the ascendant millennial generation, they have disrupted and transformed the very nature of knowledge-based work, and forced the adaptation and re-imagination of our aging office ecosystems. In addition, they have spawned an additional disruptive structural economic shift: the revolution in retailing and distribution. Historically, the one of the Garden State's core economic competencies was baby-boom driven, bricks and mortar shopping and consumption. This is what bulwarked New Jersey's rich landscape of shops.

But we are now confronting the "Great Retail Apocalypse." A bricks and mortar meltdown is underway. E-commerce is revolutionizing how shopping actually takes place for all demographics. As "clicks" replace "bricks," the historic overstoring of most of New Jersey has been exposed. Shopping centers and retail infrastructure, and their property valuations, are under assault. Successful adaptation recognizes that retail is becoming less about traditional shopping, but much more about place, experience, entertainment, wellness, and community. The bottom line is shopping centers will have far fewer shops in the future. The challenges of aging retail infrastructure facing municipalities rival those attendant of aging office parks.

At the same time, e-commerce is revolutionizing New Jersey's warehouse-fulfillment center-logistics infrastructure. This revolution is one of robust growth, a key driver of the state economy. However, the fiscal benefits are limited to select municipalities. Nonetheless, pick, pack and ship fulfillment centers are proliferating across New Jersey. The state is the nation's third largest warehouse-distribution market in the United States with more than 900 million square feet of space. But, just as the national economy and employment growth is being constrained by labor shortages, the expansion of the state's distribution ecosystem is being constrained by developable site shortages.

Summary

New Jersey's municipalities face a relatively constrained fiscal future similar to the immediate past as a result of the state's continued below-average economic growth. On the positive side, there does not appear to be an underlying national or state economic bubble whose bursting could cause substantial turmoil and pain. Concurrently, not responding to the challenges raised by the many fundamental disruptions pervasive throughout New Jersey is not an option. A successful twenty first century New Jersey municipality may look quite different from a successful twentieth century New Jersey municipality.