

# Multi-Year Budget Workgroup: New Jersey Economic Outlook

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# New Jersey Economic Outlook

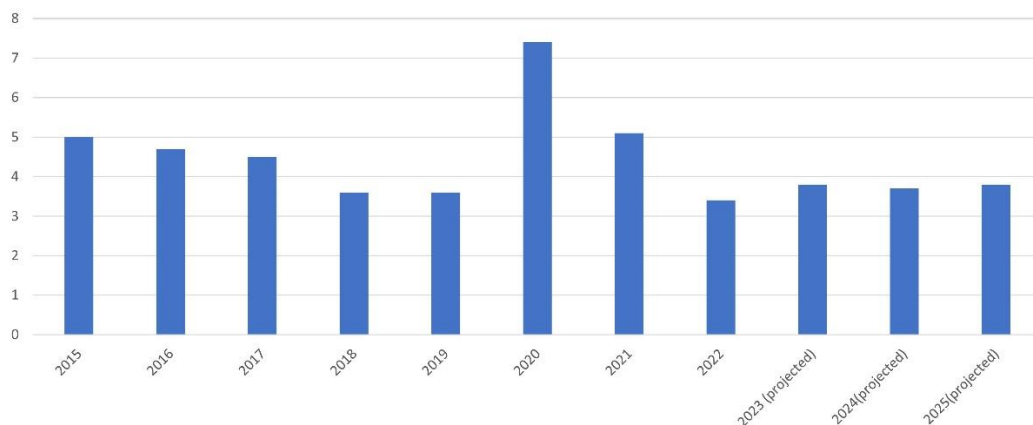
By Charles Steindel

New Jersey’s economy did well in 2022, setting new highs in jobs, output, and income, generally matching or exceeding growth in neighboring states, and keeping pace with the national expansion. However, the widespread expectation is that the national economy could fall into a recession in the near future, reflecting the interest rate hikes the Federal Reserve has generated to bring down price inflation. In this environment New Jersey’s economy will face headwinds. If, as is widely expected, any recession would be relatively modest and short, New Jersey should start to recover in 2024. Nevertheless, ongoing corrections in the equity and housing markets will weigh upon many New Jersey residents and impact state revenues for some time.

## 2022: Arguably a Very Good Year

Preliminary numbers show that the number of jobs in New Jersey hit a new record high in August 2022, and kept growing through the end of the year (the job figures for 2022 are still subject to the regular annual “benchmark” revision, which will be released in March. It is now anticipated that the current numbers are underestimates). The recovery from the pandemic collapse has been remarkable: New Jersey saw a drop in jobs in early 2020 that was notably larger than the national average, but has since experienced larger than average gains. The state’s job count grew 3.6% from December 2021 to December 2022, higher than the national gain of 3.0%, as well as New York’s 3.1%, and a touch better than Pennsylvania’s 3.5%.

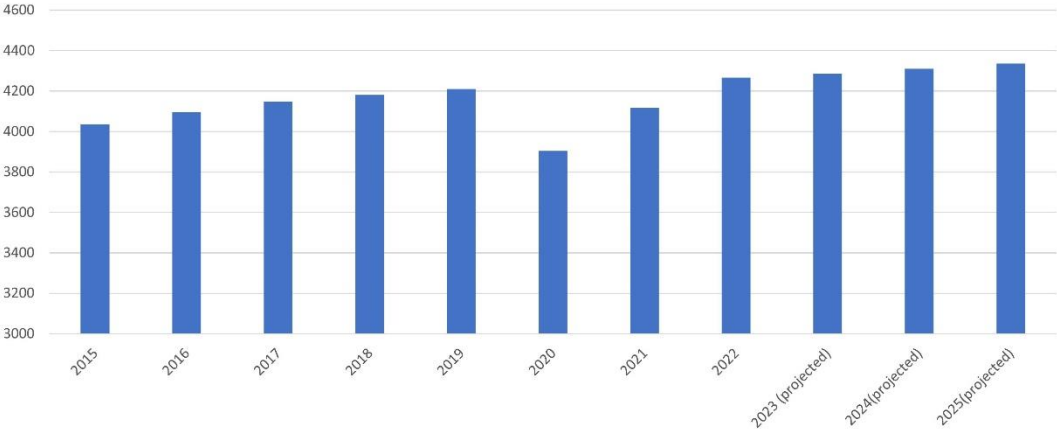
## New Jersey’s Fourth Quarter Unemployment Rate



Also noticeable has been the distribution of job growth. Government employment at year-end 2022 remains well-below its pre-pandemic level, and, even after gains in the last two years, is only comparable to the levels at the turn of the millennium. In the private sector, education and health care, and leisure and hospitality, were the two sectors most affected by the pandemic, and ones which employ many low and moderate wage workers. By the end of 2022 education and health care jobs had set a new high, and leisure and hospitality was only modestly short of its old peak.

The improvement in jobs has been reflected in the numbers on unemployment. The state’s unemployment rate tumbled from 5.1 % in December 2021 to 3.3% in September 2022., before bumping up to 3.4 %. The drop in the unemployment rate was accompanied in the second half of 2022 by a marked pickup in the growth of the state’s labor force, reversing a drop seen in late 2021 and early 20220.

## New Jersey’s December Job Count (thousands)



The data on state output and income reinforce the good news we have received on the labor front. The first three quarters of 2022 saw New Jersey set new records for the dollar value of state Gross Domestic Product (GDP), and the first and third quarters set new records for “real” (inflation-adjusted) GDP. The dollar value of GDP is of particular importance since its long-term growth is, to a rough approximation, a plausible proxy for the growth of the revenue base for both state and local governments.

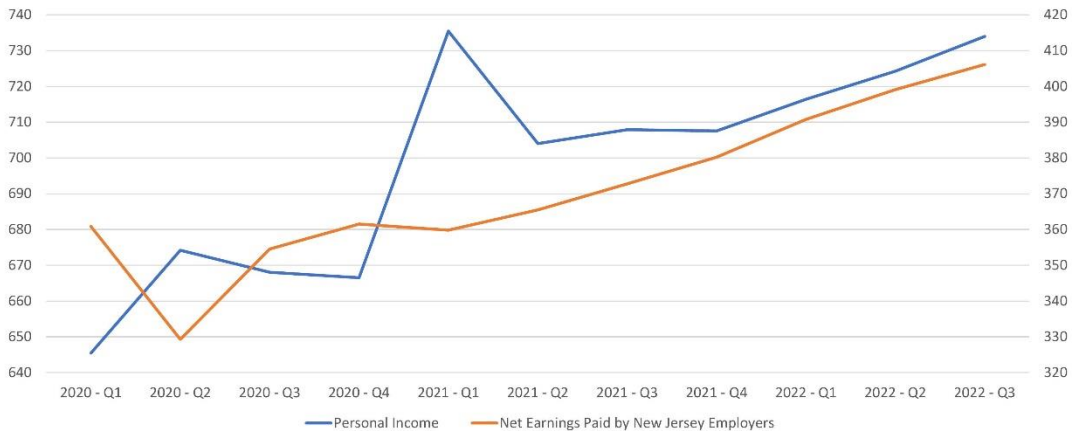
## Real GDP Growth: 2022:Q1 to 2022:Q3 Average Compared to 2021:Q1 to 2021:Q3 Average



2022 looks like it could have been a year in which the growth of New Jersey’s GDP was comparable to, or better than, the nation as a whole—something that has rarely happened over the last 30 years. Nonetheless, it looks like New Jersey has, or soon will drop a notch in the national ranks of state GDP, as Washington has been growing very rapidly. New Jersey has been in the position that all states with larger GDPs have had smaller populations, but this will no longer be the case if and when we fall behind the state of Washington (admittedly, given the importance of the “hard to measure” information sector to Washington’s economy, the estimates of that state’s output may have an unusually large margin of error).

New Jersey’s personal income in the first three quarters of 2022 was 3.7 percent higher than in the comparable period of 2021. This growth was a bit lower than the national increase of 4.1 percent. However, price levels, as measured by the national Consumer Price Index, advanced 8.3 percent over that period. Thus, adjusted for inflation, the income of New Jersey residents fell. However, personal income is comprised of many components. Probably the most important is the category called “net earnings,” which consists of wages and other forms of employee compensation, plus an estimate of the income of unincorporated businesses. This component (corrected to remove out-of-state earnings) averaged a robust 8.9 percent higher in the first three quarters of 2022 than in 2021, slightly ahead of price inflation and well above the nation’s 7.1 percent gain. Aggregate personal income growth in New Jersey and the nation as a whole was held down relative to the growth of earnings by the end of federal COVID-stimulus payments, which had the effect of boosting income levels temporarily in 2020 and 2021.

## New Jersey Personal Income (billions of dollars, annual rate)



New Jersey's housing market boom ebbed in 2022. New Jersey Realtors reports that the number of single-family homes sold in the first 11 months of the year was down 17.2 percent from 2021. However, prices continued to rise, with average sales prices in that period of 2022 9.8 percent higher than in 2021. In November 2022 the average sales prices of single-family homes sold was \$584,311. The median price was substantially lower--\$470,000—but clearly still at a high level. New Jersey homeowners appear to be generally able to afford their homes, but there are some risky signs. The Mortgage Bankers' Association reports that in the third quarter of 2022 only .95 percent of mortgages in the state were in the foreclosure process, which was the lowest proportion since the second quarter of 2007 and a far cry from the 2013 peak of 8.35 percent. However, nearly 4 percent of all mortgages were 90 days or more past due, which could suggest some potential for foreclosures to ramp up.

On the construction front, preliminary data from the US Census Bureau show that permits for new housing units in the state in 2022 were little-changed from 2021 at just over 38,000. More than half of the permits were from buildings with at least 5 units.

### The Outlook: A Recession Looming?

As 2023 begins, there are major concerns that a national recession may soon be underway. In order to reverse the increase in price inflation, the Federal Reserve has been engineering marked increases in interest rates; these will have the effect of restraining many forms of economic activity. In addition, the impact of the huge amounts of COVID relief expenditures by the federal government are fading. Furthermore, the war in Ukraine has pushed up grain and energy prices, draining spending power.

Finally, China, whose economy is now on a par with the US as the world's largest, is coping with numerous problems, most importantly financial imbalances and risks of COVID-related disruptions. Chinese problems could retrigger supply-chain headaches.

While job growth has, so far, remained strong, in the latter part of 2022 retail sales and industrial production moved down, joining an ongoing slippage in homebuilding. The likelihood seems strong that aggregate U.S. growth will falter or reverse, and some job losses will emerge—numbers of major corporations have been announcing fairly substantial layoffs, including Goldman Sachs and the large tech companies—setting the ground for a recession. With inflation apparently now starting to retreat from its highs, in such an environment the Federal Reserve may relatively soon stop raising rates and, possibly, later in the year, begin bringing them down again. In such a case, with some corrections to the energy and food situations, and China resolving some of its problems, the expectations are that a recession would be relatively mild, and growth would resume in 2024. One important element that will cushion a recession in 2023 will be rapid growth of personal income, reflecting strong wage gains, higher interest income, and this year's large cost of living adjustment to Social Security benefits.

New Jersey will not be immune from a recession. At the least, the state's huge logistics sector will be hurt by a softening in demand for goods shipped to the Port of New York and New Jersey. New York City has experienced a subpar recovery, due to ongoing softness in the financial and tourism sectors, which are vulnerable to a national downturn. Weakness in the Big Apple will have some spillovers to New Jersey, in areas such as retail sales and real estate. As mentioned, there is also some potential for a ramp-up in foreclosures. Given a mild recession we expect a modest loss of jobs in 2023, and an uptick in the unemployment rate.

The recovery from the recession is also expected to be fairly sluggish: while the Fed might bring interest rates down substantively, given the current partisan gridlock in D.C., along with concerns over the level of federal debt, there is little likelihood of much cyclical relief on the tax or spending fronts. It was a hopeful sign that numbers of major economic indicators in New Jersey actually grew better than the national average, but in looking ahead it would be better to assume that the longer-term trend of slower growth here continues.

In this environment, not only will income and spending growth slow, but so will real estate transactions (in number and dollar values), as well as capital gains realizations. All these factors will work to hold down revenues. A return to growth in 2024 will ease the situation, but as we saw in the last decade, it will take some time before revenues again grow robustly.

## Five-Year Projection of Key Economic Indicators

(All numbers, with the exception of Capital Gains Realizations, project year over year percentage growth)

	2022	2023	2024	2025	2026	2027
National Outlook						
Real GDP (year over year)	2.1	1.3	2.0	2.3	2.0	2.0
Current dollar consumer spending growth	6.2	3.3	4.3	4.5	4.0	4.0
Personal Income growth	2.1	5.9	4.5	4.5	4.0	4.0
Capital Gains Realizations (level, billions)	1000	600	500	700	800	900
Personal Income plus realizations (growth)	2.0	4.0	4.1	5.2	4.3	4.3
CPI growth	7.1	3.3	2.4	2.6	2.5	2.5
Unemployment Rate	3.6	3.8	3.7	3.8	3.9	4.0
New Jersey						
Taxable Consumer Spending	5.2	2.3	3.3	3.5	3.0	3.0
Personal income plus realizations	1.5	3.5	3.6	4.7	3.8	3.8
Unemployment rate	3.9	3.7	3.6	3.7	3.9	4.0

### Impact on State Finances

Turning to state finances, in the first six months of Fiscal 2023 major revenues were 3.2% higher than in the comparable period of Fiscal 2022. This is in contrast to the projection that revenues will drop 3.2% over the course of the entire fiscal year, comparing the Certified 2022 revenue level to the estimates embodied in the Appropriation Act. The actual amount collected so far in Fiscal 2023 has been more than \$1.1 billion higher than if the projected 3.2% decline had occurred in this period. While there are many unknowns that will affect revenues in the second half of the fiscal year, it does not seem imprudent now to assume that they would be \$1 billion higher than the amount assumed in the Appropriations Act.

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*The Multi-Year Budget Workgroup was formed by the Steve Sweeney Center for Public Policy at Rowan University's College of Humanities and Social Sciences to bring together fiscal, budget and public policy experts on an ongoing basis to develop multi-year revenue projections, analyze whether those revenues would be sufficient to cover the cost of maintaining state services at current levels, and develop policy recommendations to improve services and cost efficiency. The Workgroup's June 2022 report, **New Jersey's Fiscal Future: Comparing Multi-Year Revenue Forecasts With Current Budget Projections** can be downloaded at [https://chss.rowan.edu/centers/sweeney\\_center/news/multi-year-budget-workgroup-report.pdf](https://chss.rowan.edu/centers/sweeney_center/news/multi-year-budget-workgroup-report.pdf).*

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