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Economics Group

Special Commentary

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COVID-19 Crisis Hits New Jersey

The Garden State economy has slowed abruptly as efforts to suppress the spread of the coronavirus were put in place this spring. Outside of New York, New Jersey has the highest number of coronavirus cases, hospitalizations and deaths, which made the shuttering of the state economy necessary, yet painful. Nearly 890,000 initial jobless claims were filed in the past six weeks, a stunning rise compared to the roughly 42,000 new claims filed during the entire month of February. The quick and severe manner in which the coronavirus has upended normalcy in the Garden State is perhaps best exemplified by the delayed grand opening of the American Dream megamall, which has been more than 20 years in the making. Parts of the mall will now be used as a temporary COVID-19 testing site.

New Jersey has the second most cases after New York.

The rapid rise in unemployment comes as the New Jersey economy was beginning to lose some momentum. Prior to the crisis, employment growth was running at sluggish 1.0% pace and the unemployment rate had been steadily on the rise, hitting 3.8% in March. Similarly, payroll employment fell sharply by 31,800 jobs in March, the largest one-month drop since 1947. Given the wave of new jobless claims, we expect the unemployment rate to easily climb into the double digits in April. Unfortunately, this is just a preview of what lies ahead. COVID-19, and efforts to contain it, are profoundly changing the business environment, and nowhere is that more evident than in the densely populated Northeast Corridor.

New Jersey's symbiotic relationship with its neighboring states has long been an invaluable asset. This relationship, however, is presenting some logistical challenges as a large number of residents commute to New York or Pennsylvania. In an effort to suppress the spread of the virus, lawmakers now require all NJ Transit buses, trains and light rail vehicles to run at 50% capacity. As social distancing guidelines are unlikely to be significantly relaxed for quite some time, many workers may find gaining access to New York City or Philadelphia more challenging as the economy begins to gradually reopen. Especially at risk are the North Jersey communities which owe their appeal to efficient transportation links to New York City. Similarly, many out-of-state residents flood the South Jersey shore region in the summer. Even if the spread of the virus subsides this summer, we would expect to see fewer tourists.

Figure 1

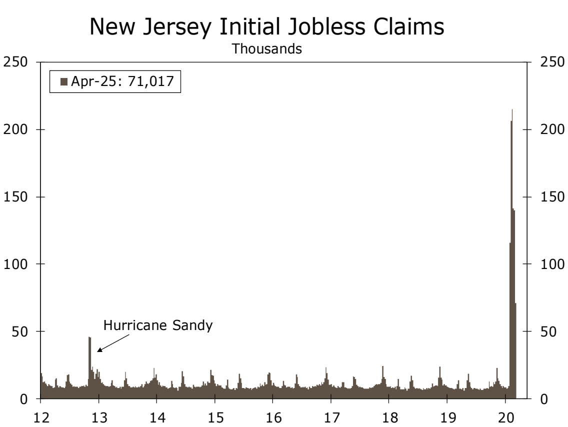
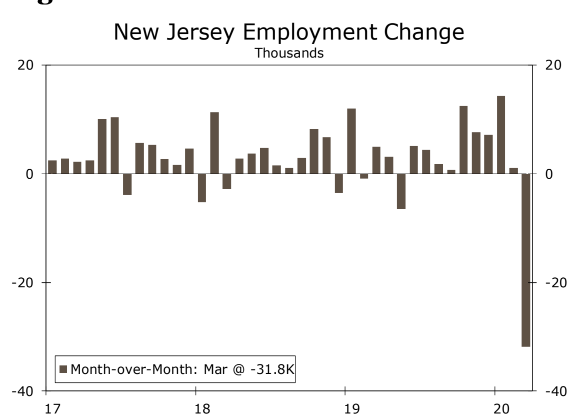


Figure 2



Source: U.S. Department of Labor and Wells Fargo Securities

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South Jersey's tourism sector has taken a big hit.

Tourism and visitor spending plays a vital role in the Garden State economy. In 2018, the state saw roughly 111 million visitors and almost $45 billion in visitor spending, which is equivalent to 7% of state GDP. South Jersey is particularly dependent on tourism, as its casinos, restaurants, night life venues and beaches are a major draw of visitors from all over the Northeast. Due to statewide orders to shut down all nonessential businesses, all nine Atlantic City casinos have been closed. Given casinos employ roughly 24,000 in the Atlantic City metro area, or about 18% of total metro payrolls, the shuttering is already having a devastating impact. Gaming revenue was down 44% in March, as casino and sports wagering revenue collapsed by 62% and 58%, respectively. Not surprisingly, internet gaming revenue was up 66%. Once businesses are allowed to re-open, casino operators will need to find creative ways to abide by social distancing guidelines, a difficult task given casinos generally require large, dense crowds and are mostly indoors.

The economic pain has not been limited to casinos—the coronavirus crisis is wreaking havoc on the entire hospitality industry. During March, statewide employment at hotels, bars & restaurants fell by 14,200, about half of the total employment loss. Restaurants and bars have been especially hard hit, as stay-at-home orders have essentially prohibited dining out. Some restaurants have found limited success offering curb-side pick-up and delivery options, but this has made up only about 20% of the loss of business for seated-dining restaurants. Restaurants with established drive-thru windows and pick-up facilities have fared considerably better, as have restaurants with a long history of delivery services, such as pizza chains and Chinese food establishments.

Figure 3

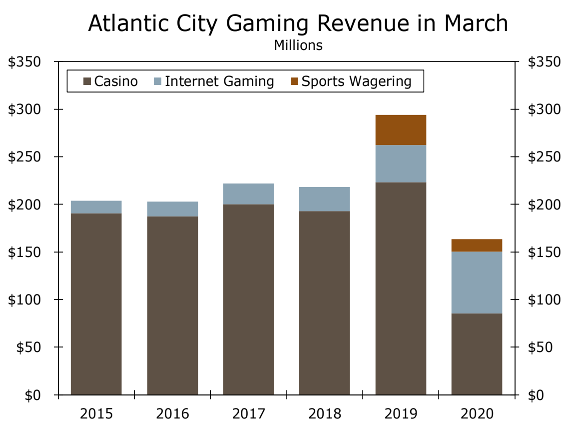
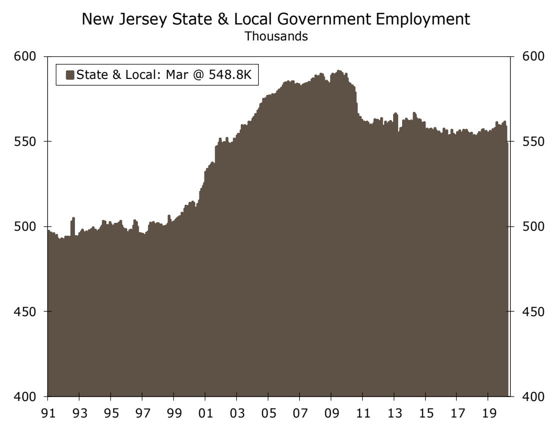


Figure 4



Source: NJ Division of Gaming Enforcement, U.S. Department of Labor and Wells Fargo Securities

New Jersey's fiscal situation is deteriorating.

The drop-off in tax revenue from diminished retail sales, visitor spending and gaming will inflict further damage on the state's already poor fiscal situation. New Jersey tends to fall near the bottom of the list of states in terms of long-run fiscal health, primarily due to its large unfunded pension liabilities and the slower recovery from the Great Recession. Making matters worse, the recent swings in financial markets pose a significant risk to household wealth. New Jersey residents derive a larger proportion of their income from interest, dividends and rents than the nation as whole, reflecting higher per capita stock ownership. With many companies freezing, reducing or eliminating dividends, this will further restrain income growth, while lower share prices will weigh on household wealth and the public employee pension system.

The high number of COVID-19 cases is also imposing a serious cost on the state's Medicaid system. New Jersey has already frozen roughly $1 billion in spending, and lawmakers are advancing plans to extend the fiscal year by three months. The fiscal shock has also led lawmakers to join other hard-hit states to request federal aid. Officials have hinted that they may tap the Federal Reserve's recently established Municipal Liquidity Facility (MLF), which would allow the state and some municipalities to issue short-term debt to help cover revenue shortfalls. The MLF is not a panacea for New Jersey's fiscal challenges and even a large fiscal package will only provide short-term relief. Budgetary pressures are likely to persist well into the future and will likely necessitate some cutbacks in state & local government payrolls (549,000 employees and 13% of total payrolls), which would make the downturn more severe and draw out the eventual recovery.

Healthcare is under significant pressure.

Somewhat counter-intuitively, the coronavirus crisis is posing a considerable threat to the state's enormous healthcare industry. While portions of the industry have been heroically on the front lines of the crisis, most non-emergency services have been drastically reduced. Medical and dental practices have temporarily shuttered or pared back operations, and the lack of elective surgeries has led to significant job cuts. Medical practices were ill-prepared for such a sudden shutdown. Health & social assistance saw a sharp decline (-2,800) in payrolls during March. Non-emergency services should restart once there is clear indication that the spread of the virus has slowed, and many of these workers will likely return. Many New Jersey hospitals, however, have found themselves in increasingly dire straits in recent years thanks to mounting financial pressures (nine hospitals in the state have closed since 2008), and recent events will exacerbate the stress.

While efforts to contain the pandemic will certainly leave a mark on every industry, the state's trade, transportation & warehousing sector may see relatively fewer job cuts in coming months. To be sure, the global recession and ensuing downshift in international trade will weigh heavily on the many wholesale trade, transportation and logistics firms in the state, particularly those tied to the Port of New York & New Jersey in the near term. On the other hand, nationwide stay-at-home orders have led to a surge in online shopping. The Garden State has long been a gateway into the wealthy and densely populated Northeast, and the need for robust e-commerce supply chains will continue to drive demand for logistics services, warehouses and distribution facilities.

Figure 5

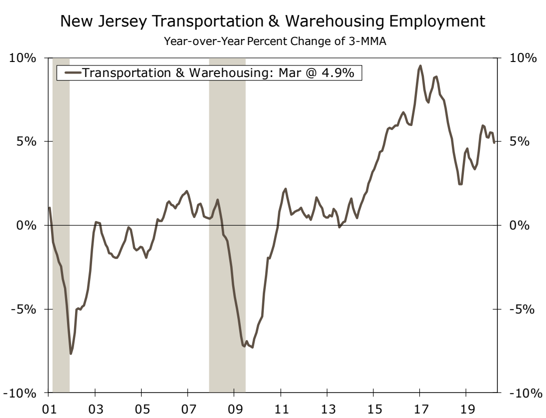
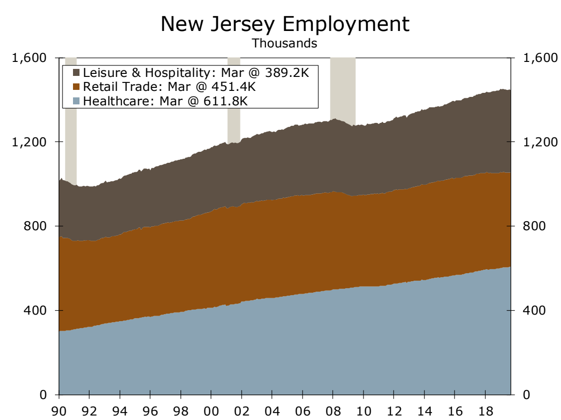


Figure 6



Source: U.S. Department of Labor and Wells Fargo Securities

New Jersey has announced some tentative re-opening plans.

Given how hard New Jersey's economy has been hit by the virus, we expect it to take longer to re-open compared to other states. While Governor Murphy recently announced that state and county parks and golf courses could reopen the first weekend in May, a broader re-opening of the economy appears to still be weeks away. Using data from the University of Washington's Institute for Health Metrics and Evaluation, we estimate that New Jersey's economy may begin to re-open in late May or early June, provided that social distancing guidelines are in place, limits are placed on the size of group gatherings and testing and contact tracing capabilities are further enhanced. Launching the re-opening process is only the beginning, however.

Businesses will need to implement a consistent set of protocols governing everything from who needs to wear masks and how many customers can enter a store or restaurant at the same time. Restaurants may need to move tables further apart and retail stores may need to maintain proper crowd size and possibly take temperatures. Construction workers may work in staggered shifts and 'open concept' offices may need to be spread out. Adopting clear and coherent protocols is essential to restore confidence so that workers and consumers feel safe about re-engaging in economic behavior.

Driving has picked up but mass transit use appears to remain at its lows.

While the road to recovery will likely begin in June, it will be long and winding. Mobility data from Apple shows that driving and walking have increased in New Jersey and in New York City, suggesting that a growing number are re-engaging with the economy. Mass transit use remains depressed, however, and shows no improvement from its lows. The pace of recovery will largely depend on how well the spread of the virus can be contained, as well as progress at developing therapeutics to treat those that contract the illness. There is some hope on that score. The confirmed cases growth curve has flatted in New Jersey, with fewer newer cases and fewer daily deaths. Moreover, the first drug to treat symptoms of the disease, Remdesivir, was approved this past week. More therapeutics will be needed, however, to treat the wide variety of symptoms tied to COVID-19. Several promising trials are currently in progress, but a vaccine will likely be needed before the economy can regain full strength. While several potential vaccines are in various stages of trials, the timetable for production at significant scale is at least a year to 18 months away.

We have updated our forecast for New Jersey to include the effects of COVID-19. As a base case, we expect economic weakness to linger a little longer in New Jersey than the nation as whole and are looking for real GDP to decline in each of the first three quarters of 2020. We expect the bulk of the decline in the second quarter, with real GDP declining at a 30% annual rate, when the majority of the impact from shutdowns will become apparent. For the year, the decline will be somewhat less dramatic, with output falling 7.3% and nonfarm payrolls falling 6%, or by 250,000 jobs. Leisure & hospitality, retail trade, administrative services and household and personal services will account for the bulk of job losses, but layoffs will be evident across most industries. We expect the unemployment rate to jump to the mid-teens but to begin to decline later this year, remaining elevated well into 2021.

Figure 7

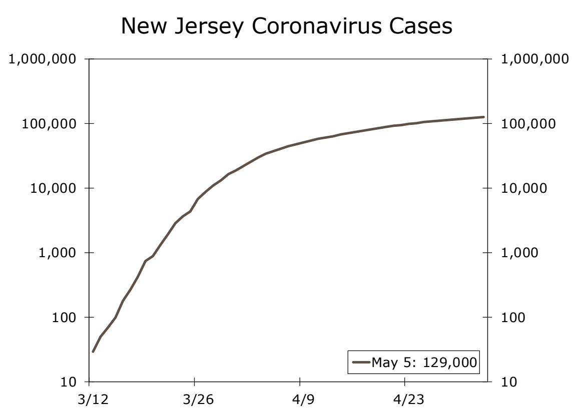
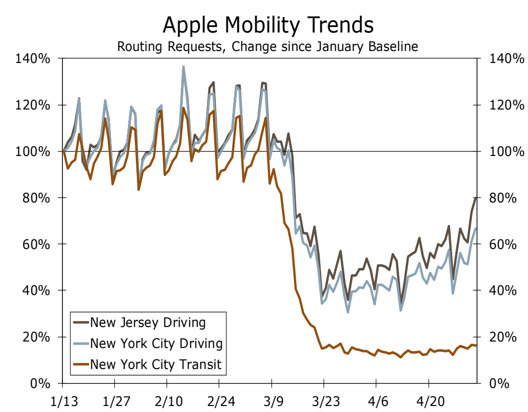


Figure 8



Source: World Odometers, Apple and Wells Fargo Securities

New Jersey Economic Outlook

	Actual						Forecast	
	2014	2015	2016	2017	2018	2019	2020	2021
Real Gross Domestic Product, $ Millions	525,729	535,299	539,943	543,530	555,755	563,950	522,500	542,600
Annual Rate	0.5	1.8	0.9	0.7	2.2	1.5	(7.3)	3.8
Nominal Personal Income, $ Millions	520,079	542,097	556,440	577,081	607,884	630,449	613,425	645,400
Nominal Personal Income, Percent Change	4.8	4.2	2.6	3.7	5.3	3.7	(2.7)	5.2
Real Median Household Income, $	69,270	72,452	71,645	72,977	74,176	75,660	73,475	73,250
Population, Thousands	8,865	8,868	8,871	8,886	8,886	8,882	8,875	8,884
Change in thousands	8	3	3	15	1	(4)	(7)	9
Percent Change	0.1	0.0	0.0	0.2	0.0	(0.0)	(0.1)	0.1
Nonfarm Employment, Thousands	3,961	4,005	4,065	4,122	4,159	4,195	3,945	3,900
Change in thousands	32.1	44.0	60.5	56.1	37.1	36.2	(250.4)	(44.5)
Percent Change	0.8	1.1	1.5	1.4	0.9	0.9	(6.0)	(1.1)
Unemployment Rate, Annual Average	6.7	5.8	5.0	4.6	4.1	3.5	13.5	12.2
Total Housing Permits	28,119	31,050	26,751	28,893	27,639	37,082	23,000	20,200
Single-Family Permits	10,907	10,411	9,639	9,997	10,452	11,887	9,800	10,000
Multifamily Permits	17,212	20,639	17,112	18,896	17,187	25,195	13,200	10,200
FHFA Home Price Index, Percent Change	2.4	2.7	2.7	2.6	3.8	4.0	3.6	3.5

Sources: National Association of Realtors, Federal Housing Finance Authority, U.S. Department of Commerce, U.S. Department of Labor, Moody's Analytics & Wells Fargo Securities
Forecast as of: May 05, 2020

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