NJBankers
2017-18 Economic Survey

FINAL ANALYSIS and
REPORT OF SURVEY RESULTS

Field Period: February 26, 2018 – April 20, 2018

Conducted for
NEW JERSEY BANKERS ASSOCIATION
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Survey Parameters
The survey panel included all 92 banking member institutions of The New Jersey Bankers Association.

Of the 92 commercial banks or savings institutions in the panel, 67 fully completed the questionnaire. This generated an overall response rate for this census of this “closed finite population” of 72.8%

The survey was fielded from Monday, February 26 through Friday, April 20, 2018.
The economy of the United States in 2017, despite some initial trepidation about the impact of a new administration in Washington, actually accelerated from its 2016 pace. According to the Bureau of Economic Analysis (BEA) – located in the U.S. Department of Commerce – America’s Gross Domestic Product (GDP) – the dollar value of all goods and services produced in the nation – grew by 2.3 percent in 2017, a rate significantly higher than that of 2016 (1.5 percent).\(^1\) The economy continued to grow at a 2.3 percent pace in the first quarter of 2018.

Moreover, by the time this year’s survey was completed in April 2018, the current national expansion (June 2009-April 2018) had reached 106 months in length, tying it for second place in length among all expansions in U.S. history.\(^2\) Thus, in May, it officially became the second longest (107 months).

The consensus of the current survey respondents, not surprisingly, was that the U.S. economy was performing quite well in the broader context of a stronger global economy. The economy’s sustained strength contributed to the Federal Reserve’s decision in March 2018 to increase its benchmark federal funds rate by 0.25 percent to a new band of 1.5 percent–1.75 percent. So, at the time of this survey – late February through mid-April 2018 – the American economy was still in an expansion whose duration was certainly not anticipated as the nation exited the Great 2007-2009 Recession.

Economic survey responses are heavily influenced by the stage of the business/economic cycle at the time when the survey is conducted. While general expansionary phases would tend to yield more positive expectations/outlooks from respondents – and recessionary phases the opposite – there are many subtleties in survey interpretations. For example, in a strong expansion, respondents could have dimmer expectations for the future because they may believe that the “good times” can’t last forever – and vice versa in the depths of a recession. Nonetheless, shifts in the business cycle still help interpret shifts in responses and expectations over time.

\(^1\) This is percent change in chained 2009 dollars. In current dollars, GDP increased by 4.1 percent in 2017 compared to just 2.8 percent in 2016.

\(^2\) The longest expansion took place between March 1991 and March 2001. It lasted 120 months or a full 10 years, and we have labelled it the Great Trans-Millennial Economic Expansion.
To establish the status/strength of the economy as well as business cycle position – both nationally and in New Jersey – a commonly-used metric is the monthly and annual change in private-sector payroll employment. The source of private-sector employment is the U.S. Bureau of Labor Statistics’ monthly payroll report, derived from a survey of employers. During recessions, employment change turns sharply negative; during economic expansions, it turns sharply positive. Two simple charts – one for the nation and one for the state – provide the context for the 2017-18 survey.

As a point of reference, the last economic downturn – the Great Recession – started in December 2007 and “technically” ended in June 2009. The beginning and end points were determined by the Business Cycle Dating Committee of the National Bureau of Economic Research. As noted earlier, by May 2018, the economic expansion following the recession reached 107 months in length – one month shy of a full nine years! During the three months (February-April 2018) when the current economic survey was conducted, the expansion was between 104 and 106 months long.

Thus, the macro context of the current survey suggests that there should be a strong sense that the national economy has continued to advance in a sustainable, not-excessive fashion, and that this advancement should extend into the short-term future. Perhaps it is best described as a “Goldilocks Economy” – not too hot, not too cold – just right. Therefore, it is assumed that the current level of activity in many national economic subsectors will also probably advance going forward. This appears to be reflected in a number of the survey responses.

Chart 1: U.S. Private-Sector Employment Change 2009-2017

Chart 1 shows annual private-sector employment change – measured December to December – in the United States for 2009-2017. The numbers in the chart differ from last year’s totals due to annual benchmark revisions of the data series by the Bureau of Labor Statistics. The year 2009 was the final year of the Great Recession.

Payroll employment statistics were first compiled in 1939. The worst year ever in the subsequent history of the series was 2009, when more than 5 million private-sector jobs were lost, even though the second half of the year was “technically” in economic recovery. Growth then advanced modestly in 2010 (+1.3 million jobs), and then jumped to an average of about 2.4 million jobs per year – indicated by the horizontal line in Chart 1 – during the subsequent seven years (2011-2017), a strong annual performance metric. In fact, it matched the annual growth (2.4 million private-sector jobs annually) achieved during the record-long 1991-2001 Great Trans-Millennial Expansion.

But, annual growth actually had slipped below the 2.2 million job mark in 2016 and 2017. However, this employment weakening was not due to economic weakening but rather to labor force constraints.

(numbers in thousands)

Chart 2 shows monthly unfilled job openings for the nation for the past 11 years. In 2006-2007, the peak of the last business cycle, there were 4 million unfilled job openings per month in the United States. At the trough of the last recession (2009-2010), monthly job openings fell to 2 million. In 2016-2017, monthly unfilled job openings had soared to the 6-million level, approaching a record high. Then, in March 2018 – the latest data released in May 2018 – they
increased to 6.6 million, and actually achieved a new record high. This is strong evidence that employers want to continue a strong hiring pattern, but that labor force constraints – potential mismatches between job requirements and labor skills, geographic disparities, and health issues – are inhibiting it. So, at the time of this year’s survey, the nation’s economic momentum was still quite positive – perhaps close to full employment.

The sustained advance of the U.S. economy is detailed in Chart 3, which shows that the nation had gained more than 18.0 million jobs since reaching its employment nadir in February of 2010, eight months after the official end of the Great Recession (June 2009). The nation’s private sector employment rolls are now nearly 9.3 million jobs higher than their pre-recession peak (December 2007). As will subsequently be shown, New Jersey lags significantly behind the nation in this regard.

Source: NJ Department of Labor.
Chart 4 provides the New Jersey equivalent to Chart 1 – annual private-sector employment data for 2009 through 2017. Again, the totals differ from those presented in the 2016-17 report due to benchmark revisions released in March 2018. In 2009, the year the recession ended, the state was still hemorrhaging employment (-115,200 private-sector jobs). Stability and modest growth was then achieved in 2010 (+7,500 jobs), the first full year of recovery. Growth more than tripled in 2011 (+25,200 jobs), and then increased to 45,700 jobs in 2012. At the time, this was a strong upward trend line suggesting economic lift off was in place and that 2013 would be a banner year.

However, Hurricane Sandy hit New Jersey in October 2012, and its full economic impact was felt in 2013. Rebuilding efforts fell short of what had been anticipated and there was a very weak post-Sandy shore holiday season in 2013. This rippled through the state economy as regional vacationers fled to non-New Jersey destinations. Out-of-state dollars stopped flowing into New Jersey, and a significant increment of in-state vacation dollars flowed to out-of-state destinations. As a result, employment growth slipped to 36,500 jobs in 2013, as upward momentum faltered.

The lingering effects of Sandy continued into 2014. Further, as the year matured, the Atlantic City “reset” unfolded. Delayed resizing of the casino industry in the post-East Coast gaming monopoly era finally took hold. While the adjustment process today (2018) has finally run its full course, its effect in 2014 was noticeable: employment growth increased to just 45,900
private-sector jobs, virtually the same as 2012. This occurred while the nation’s private-sector employment growth in 2014 reached its expansion high (+2.9 million jobs).

Finally, the impact of these one-time events attenuated in 2015. Private-sector employment growth increased in 2015 to nearly 57,300 jobs, and then jumped to 63,000 jobs in 2016. However, this resurgence proved to be short lived. In 2017, New Jersey added just 42,900 jobs for the entire year. This drop off should not be given too much credence. Each year, the revision process yields shifting totals – the 2017 number is expected to change when next re-benchmarking cycle is completed early in 2019. Nonetheless, whatever the annual adjustment, the state has consistently underperformed the nation over the longer-term expansion period.

For the last six years (2011-2017), New Jersey’s annual private-sector employment growth averaged about 45,000 jobs per year. This is indicated by the horizontal line in Chart 4. For the same seven-year period, the nation averaged 2.4 million jobs per year. New Jersey accounts for 3 percent of the nation’s job base. For the state to keep pace with national employment growth it would have to secure 3 percent of the nation’s growth, or 72,000 jobs per year (3 percent of 2.4 million). The state’s 45,000 annual job gain falls far short of this mark. The fact that New Jersey is lagging significantly behind the nation cannot be refuted.

As shown in Chart 5 above, New Jersey has also recovered all of its recessionary employment losses, but its advance has certainly lagged that of the nation. The state lost 241,100 private-sector jobs during the Great Recession and its aftermath. During the subsequent employment recovery, New Jersey has added 342,000 private-sector jobs. The state now has 100,900 more
jobs than the pre-recession peak (December 2007). As shown earlier, the nation has nearly 9.3 million more jobs than the pre-recession peak.

The reality of the current business cycle – reflected by the differing national-state job growth performances – helps explain one of the key themes of the 2017-2018 survey: economic optimism at the national level and an improving perspective on the state; nonetheless, there was less than a full economic endorsement for New Jersey. And the basic expectation is that current conditions will likely extend into the future.
SYNOPSIS OF FINDINGS

- This year’s survey results indicate a soaring confidence in the US economy. Nearly 85 percent of respondents indicated the national economy’s health as “good,” and a record 10 percent rated it as “excellent.” For the first time in the survey’s history, no one rated it as “poor.”

- While somewhat more muted than sentiments toward the national economy, confidence in the NJ economy is nonetheless surging. 42 percent of respondents rated New Jersey’s economic health as “good” in 2018, compared to 15 percent in 2016. Still, 2018 marks the eighth consecutive year in which no respondent has rated New Jersey’s economy as “excellent.”

- Just fewer than 69 percent of respondents indicated that as a result of economic and other policy statements of the incoming Murphy gubernatorial administration, they expect that New Jersey’s economy will weaken or decline.

- Respondents clearly see federal policies under the Trump administration as benefiting the US economy, with nearly 3/4 of respondents anticipating economic improvement under its tenure. Despite this optimism, not nearly as many see the Trump administration benefiting the New Jersey economy.

- Respondents overwhelmingly anticipate modification of Dodd-Frank, with components of it being at least partially repealed.

- The 2018 survey continues to show improvement in the business loan market, adding to a now seven-year trend of increasing demand from 2011 to 2018. For the first time, “good” has surpassed “fair” to become the dominant ranking among respondents, with 49 percent indicating that current demand for business loans is “good.”

- Real estate loans are another area of general optimism. Nearly 60 percent of respondents — a record high — rated the current demand for real estate loans as “good.” This increase takes place as the “fair” rating continues to decline, representing an increasing gap between these ratings.

- Continuing trends observed in 2013 and 2016, the 2018 survey shows that the multifamily rental submarket remains the strongest demand sector. This sector is immediately followed by industrial warehousing, with “pick-and-pack” fulfillment centers, a new category for 2018, coming in as the third strongest submarket.

- Respondents communicated that the largest obstacle to business lending is regulatory concerns (30 percent), followed by a lack of qualified borrowers (24 percent) and lack of demand (21 percent). Nevertheless, the perception of lack of demand and lack of qualified borrowers as obstacles is much diminished from five years ago.
• Residential loan demand remains strong, with a slight majority of respondents — 53.8 percent — indicating that demand is “good.” This figure marks continued improvement that has been registered since 2014, when only 22 percent of respondents gave this same rating.

• The refinance market has changed somewhat, with those ranking it “poor” moving from nearly 13 percent to a second-highest record value of 26 percent. Simultaneously, the “excellent” rating moved from just under 5 percent in 2016 to 0 percent in 2018. The “good” rating fell from just under 30 percent to 20 percent. Still, over 50 percent of respondents rated it “fair.” Recent changes in the federal interest rate may have played a role in shaping these results.

• A slight majority of respondents (57 percent) see home prices remaining unchanged over the next six months, though 2018 continues a trend of fewer and fewer respondents anticipating such stability. Despite a continued increase in respondents who see values dropping over the next six months, a minority of respondents fall into this category (16 percent), while 27 percent see values increasing over the next six months.

• Some shifts are evident in the respondents’ assessment of the most significant obstacles to consumer lending. Regulatory concerns — still largest altogether at 31 percent — are steadily declining, while lack of demand (25 percent) and interest rate risk (19 percent) are growing concerns.

• The categories that best contribute to successful strip malls, according to respondents, can be summed up as “Triple-F”: Food, Fitness, and Fun. Respondents marked the top three contributors as being “Starbucks / Similar Cafés (81 percent),” “Urgent Medical Care Centers” (72 percent), and “Supermarkets” (58 percent), with “Health / Fitness Clubs” falling just out of the top three (45 percent).

• The anticipation of either expanding or decreasing the number of bank branches was fairly split, with a balance between those respondents who see the number of branches increasing (24 percent) and those who see it decreasing (18 percent). Still, most (58 percent) do not see the number of their bank’s branches changing.

• Millennials are now the largest sector of the workforce, and most significantly growing market. Nevertheless, over half of respondents (54 percent) indicate that their banks are not fully adapted to serving that customer base.

• Banks are taking steps to better accommodate their Millennial employees. The most common step indicated by respondents toward this end is a mechanism to give voice to Millennial employees (37 percent), followed by adding Millennial representation to steering committees and adding specific programs or initiatives devoted to Millennial employees, both of which were indicated by 30 percent of respondents.
• When asked if the imposition of a “Millionaire’s Tax” will hasten the out-migration of affluent Baby Boomers from New Jersey, the response was a resounding, unmistakable, emphatic “yes.” Nine out of 10 (90 percent) indicated that such a tax will hasten that rate.

• Respondents were split as to whether the $10,000 cap on the SALT deduction from federal tax liability would affect their deposit bases. Nearly 4 in 10 respondents (39 percent) see the $10,000 cap as likely to decrease their deposit bases. Nevertheless, a few more than that do not think it will have an effect, and a smaller portion did not know what effect it would have.

• The expansion of credit unions is perceived as having a negative effect on deposit bases of banks. The majority of respondents, close to 2/3, indicate that the expansion of credit unions has decreased their banks’ deposit bases.
The Current Health of the Economies of the United States and New Jersey

This year’s NJBankers Annual Economic Survey shows soaring confidence in the US economy. 83.6 percent of respondents indicated that the national economy is “good.” Moreover, for the first time in the survey’s nearly decade-long history, the “excellent” rating has made an appearance, with 10.4 percent of respondents placing the current health of the national economy in that category.

These figures represent continued improvement in perceived economic health since 2012, when no respondent selected “excellent” or “good,” 70.9 percent rated it as “fair,” and 29.1 percent selected “poor.” As the “good” and “excellent” ratings have increased, the “fair” rating tumbled to 6.0 percent, representing a sharp contrast to the 57.4 percent rating from 2016. Of particular note, the 2018 survey cycle also marks the first time that no respondent indicated that the national economy’s health was “poor.”

New Jersey’s economic health ratings, though exhibiting more muted changes than that of the country as a whole, demonstrate generally increased optimism. The “good” rating, which had crept from 8.4 percent in 2014 to 14.7 percent in 2016, surged to 41.8 percent in 2018. This change brought the “good” rating within ten percentage points of the “fair” rating, which fell from 72.1 percent in 2016 to a record low of 50.7 percent in 2018. The “poor” rating decreased to approximately half of its 2016 level, moving from 13.2 percent at that time to 7.5 percent in 2018 – its second lowest recorded level. Finally, unlike the national economy, the New Jersey economy maintains a continued persistence of the absence of excellence, with its economy never, during the course of this longitudinal survey, having been rated by any respondent in any survey year as “excellent.”

Overall, both the national and New Jersey economies demonstrate perceived improvement over the past two years. While the national ratings have surged remarkably, the New Jersey ratings demonstrate slower improvement, but improvement nonetheless.

Administration Changes

Impact on US and NJ Economies

The 2018 iteration of the NJBankers survey probed respondents as to how they see recent changes in the political landscape affecting both the national and New Jersey economies. First, respondents shared the anticipated effect of the incoming Murphy administration on the New Jersey economy. While 26.9 percent said that this change would have no appreciable effect on the state’s economy, only 4.5 percent said that matters would improve. A staggering 68.7
percent predict, based on “economic and other policy statements,” that under the incoming governor’s administration New Jersey’s economy will “weaken” or “decline.”

Next, respondents were asked about the effects that the Trump administration would have on both economies going forward. 70.1 percent opined that the Trump administration would strengthen or improve the national economy, compared to 22.4 percent who did not see national economic health changing as a result, and only 7.5 percent who saw national economic health weakening or declining.

Predicted impacts on the New Jersey economy were more muted. While 16.4 percent of respondents felt that the Trump administration would improve New Jersey’s economic health, 40.3 percent indicated that the administration would cause the state’s economy to weaken or decline. A plurality of 43.3 percent of respondents, however, anticipates no appreciable impact of the administration on New Jersey’s economic fortunes.

**Dodd-Frank**

The survey then asked respondents how they anticipate the Trump administration would handle Dodd-Frank. Only 4.5 percent predict a full repeal of Dodd-Frank and a slightly higher 7.5 percent predict no change. Nearly nine out of ten respondents, however (88.1 percent), anticipate some modification in the form of a partial-repeal of the regulations. This breakdown is unsurprising given the unforeseen and likely unintended impacts this regulation has had on smaller affected entities.

**Demand**

**Business Loan Demand**

The 2018 survey continues to show improvement in the business loan market, adding to a now seven-year trend of increasing demand from 2011 to 2018. For the first time, “good” has surpassed “fair” to become the dominant ranking among respondents, with 48.5 percent indicating that current demand for business loans is “good” compared with 45.5 percent indicating that it is “fair.” These figures mean that for the second iteration in a row, the demand for business loans has reached a new record high in the history of this survey.

**Commercial Real Estate Loan Demand**

Real estate loans are another area of general optimism. Nearly 60 percent of respondents — a record high — rated the current demand for real estate loans as “good.” This increase takes place as the “fair” rating continues to decline, reaching a survey low of 26.9 percent. These figures represent an increasing gap between these two ratings. The “excellent” and “poor” ratings remained fairly stable in 2018, reaching 9.0 percent and 4.5 percent respectively. This state of affairs indicates an overall tempered optimism, but little in the way of extreme sentiments in either direction.
Respondents were also asked about the various submarkets that contribute to the above demand. Continuing trends observed in 2013 and 2016, the 2018 survey shows that the multifamily rental submarket remains the strongest demand sector, with nearly 90 percent of respondents rating its demand as “good” or “excellent.” This sector is immediately followed by industrial warehousing, which approached 70 percent. In third were “pick-and-pack” fulfillment centers, a new category for 2018, coming in as the third strongest submarket, with over half of respondents rating demand for such facilities as “good” or “excellent.”

Respondents communicated that the largest obstacle to business lending is regulatory concerns (30.3 percent), followed by a lack of qualified borrowers (24.2 percent) and lack of demand (21.2 percent). Each of these figures represents slight increases from the previous survey cycle, as interest rate risk and “other” obstacles declined. Nevertheless, the perception of lack of demand and lack of qualified borrowers as obstacles is much diminished from five years ago.

**Residential Loan Demand**

This year’s results for residential loans indicate that demand remains strong, with a slight majority of respondents — 53.8 percent — indicating that demand is “good.” This figure marks continued improvement that has been registered since 2014, when only 22.2 percent of respondents gave this same rating. At the same time, the “fair” rating has reached a new survey low of 38.5 percent, while “poor” remains consistent at 4.6 percent, which is tied for a record low first seen in 2016. Nevertheless, the optimism in this sector shies away from extremes, with only 3.1 percent rating demand as “excellent,” although this figure does represent an approximate doubling from the 2016 survey cycle.

**Residential Refinance Demand**

The refinance market has changed somewhat, with those ranking it “poor” moving from 12.5 percent to a second-highest record value of 26.2 percent. Simultaneously, the “excellent” rating moved from 4.7 percent in 2016 to 0 percent in 2018. The “good” rating fell from 29.7 percent to 20.0 percent. Still, over 50 percent rated it “fair.” Recent changes in the federal interest rate may have played a role in shaping these results.

From December 16, 2008 until December 17, 2015, the interest rate was 0.25 percent, which is the lowest federal funds rate possible. It was raised to 0.5 percent in December of 2015, to 0.75 percent in December of 2016, and then was raised three times in 2017: to 1.0 percent in March, to 1.25 percent in June, and to 1.5 percent in December. This sequence of hikes may have influenced demand for refinances. Market saturation may also play a role, as most who were in the market to refinance may very well have done so during the extended period of low interest rates.
Real Estate Values

A slight majority of respondents (56.7 percent) see home prices remaining unchanged over the next six months, though 2018 continues a trend of fewer and fewer respondents anticipating such stability. Specifically, since 2014, when a survey-high 69.5 percent of respondents anticipated no meaningful change in home values over the succeeding six months, a drop has been recorded in each year, culminating in 2018’s second-lowest figure in the history of this question.

While the above decrease in anticipated stability is accompanied by a concurrent increase in respondents who see values dropping over the next six months, a minority of respondents fall into this category (16.4 percent), while 26.9 percent see values increasing over the next six months. It may be the case that some respondents anticipate state and local taxes (SALT) impacting New Jersey negatively, which could account for the slight decrease in optimism about the near future of home values in the state.

Common Obstacles to Lending

The “Common Obstacles to Lending” set of questions was first asked in 2013-14. Here, respondents are asked to rank-order four common obstacles to consumer and business lending: “regulatory concerns,” “lack of demand,” “lack of qualified borrowers,” and “interest rate risk.” Additionally, an “other, specify” catch-all category is included.

In the 2018 survey results, some shifts in which obstacles are seen as most significant are evident. Regulatory concerns, though still largest altogether, at 31.3 percent, are steadily declining, having decreased from a high of 46.1 percent in 2015 to a second-lowest all-time survey value of 31.3 percent in 2018. One of the emergent motifs is an uptick in the lack of demand as a significant obstacle to consumer lending, with this category climbing to 25.4 percent in 2018 after having reached a survey-low value of 21.9 percent in 2016. Interest rate risk is another waxing concern, reaching 18.8 percent in 2018 after climbing steadily year over year since 2015’s figure of 8.3 percent.

Successful Strip Malls

The 2018 NJBankers survey asked respondents which occupants best contribute to successful strip malls. As rated by respondents, the categories that best contribute to successful strip malls can be summed up as “Triple-F”: Food, Fitness, and Fun. Respondents marked the top three contributors as being “Starbucks / Similar Cafés (80.6 percent),” “Urgent Medical Care Centers” (71.6 percent), and “Supermarkets” (58.2 percent), with “Health / Fitness Clubs” falling just out of the top three (44.8 percent).

These figures are expositive of recent commercial development trends. Urgent medical care centers are gaining in popularity in these locales, and are becoming common fixtures in strip
malls. Health and fitness clubs sometimes used to be considered a sign of a shopping center on the decline, but now are a sign of a shopping center on the rise, bringing in customers.

Bank Branches

The 2018 survey asked respondents about their expectations about changes in the number of branches operated by their banks. The anticipation of either expanding or decreasing the number of bank branches was split. Results indicated a balance between those respondents who see the number of branches increasing (24.2 percent) and those who see it decreasing (18.2 percent). Still, most (57.6 percent) do not see the number of their branches changing.

The Millennial Generation

Adapting to Millennial Customers

Millennials are now the largest sector of the workforce, and the most significantly growing market. Nevertheless, over half of respondents (53.7 percent) indicate that their banks are not fully adapted to serving that customer base, while a smaller proportion of respondents, 29.9 percent, indicated that their banks are fully adapted to serving the Millennial generation. Finally, 16.4 percent of respondents indicated that they “don’t know” if their institutions are fully adapted or not.

Respondents also shared qualitative responses indicating specific steps their banks had taken to address the burgeoning Millennial customer base. For one thing, respondents indicated as having worked on communication and marketing, ensuring that they offer and properly support the modes through which Millennials most prefer to communicate and transact business with banks. Others described offering a suite of products attractive to Millennials, ensuring a full scope of digital access to these products. Among such components are mobile banking, mobile deposit capture, mobile fund transfers, instant issuance of debit cards, and integration with social networking platforms such as Facebook. Overall, these steps denote a trend of investing more in digital infrastructure than bricks and mortar. Respondents indicated that these investments reflect the expectations of the Millennial generation.

Additionally, those who indicated that their banks were not yet fully adapted to the new demographic provided steps they felt their banks needed to take to become so. Overall, the dominant theme was a need to expand banks’ digital presences. One major step was to improve mobile banking services and applications, or to implement these services in cases where they do not yet exist. Another was to offer products via digital means that currently require branch visits, like deposits, loan applications, and account opening. Finally, respondents mentioned interfacing with newer technological developments like Apple Pay and Zelle.
**Millennial Employees**

This year’s survey asked respondents to report on various strategies they had implemented to integrate their Millennial employees into their enterprises. They indicated several steps meant to better accommodate them. The most common measure indicated by respondents is a mechanism to give voice to Millennial employees (37.3 percent), followed by adding Millennial representation to steering committees, and adding specific programs or initiatives devoted to Millennial employees, both of which were indicated by 29.9 percent of respondents.

**Taxes**

*“Millionaire’s Tax”*

When asked if the imposition of a “Millionaire’s Tax” will hasten the out-migration of affluent Baby Boomers from New Jersey, the responses was a resounding, unmistakable, emphatic “yes.” Close to 9 out of 10 (89.6 percent) indicated that such a tax will hasten that rate. Only 4.5 percent of respondents indicated that they do not think such a tax will influence the rate of outmigration. Finally, 6.0 percent reported that they “don’t know” if this tax will or will not have such an effect.

**State and Local Taxes Deduction**

The survey then asked respondents about the influence of the $10,000 cap on the state and local tax deduction from federal tax liability on their deposit bases. Respondents were split as to whether the cap would affect their deposit bases. Nearly 4 in 10 respondents (38.8 percent) see the $10,000 cap as likely to decrease their deposits. Nevertheless, a few more than that don’t think it will have an effect (44.8 percent), and a smaller portion did not know what effect it would have (16.4 percent).

**Credit Unions**

Finally, respondents were asked about how the recent expansion of credit unions has affected their deposit bases. This expansion is strongly perceived as having a negative effect on deposit bases of banks. At 64.2 percent, the majority of respondents, close to 2/3, say that the expansion of credit unions has decreased their banks’ deposit bases. 31.3 percent, by contrast, said that the expansion had not affected their bases. Finally, 4.5 percent indicated that the credit union expansion had increased their deposits.
APPENDIX

NJBankers 2017-18 Economic Survey

Time-Series and Cross-Sectional Survey Questions and Responses
Q1. How Would You Rate the Current Health of the United States Economy?
QQ500, 502, 504:
Expected Impact of State and Federal Administrations on NJ and US Economies.

- Murphy on NJ Economy:
  - Strengthen / Improve: 4.5%
  - Remain Unchanged: 68.7%
  - Weaken / Decline: 26.9%

- Trump on US Economy:
  - Strengthen / Improve: 70.1%
  - Remain Unchanged: 22.4%
  - Weaken / Decline: 7.5%

- Trump on NJ Economy:
  - Strengthen / Improve: 43.3%
  - Remain Unchanged: 40.3%
  - Weaken / Decline: 16.4%
Q506: Expectations of Trump Administration's Treatment of Dodd-Frank.
Q7. Please Rate the Current Demand for Business Loans in Your Market.
Q9a. Please Rate the Current Demand for Commercial Real Estate Loans in Your Market.
Q100a.4 Staying with your assessment of demand, please rate the current demand for the following commercial real estate submarkets in your area.
Q18b. Percent ranking common obstacles to business lending as "most" significant

- Regulatory concerns
  - 2013: 13.7%
  - 2014: 17.3%
  - 2015: 12.5%
  - 2016: 26.2%
  - 2017 (imputed): 28.3%
  - 2018: 30.1%

- Lack of demand
  - 2013: 15.4%
  - 2014: 18.4%
  - 2015: 21.4%
  - 2016: 22.1%
  - 2017 (imputed): 22.4%
  - 2018: 22.8%

- Lack of qualified borrowers
  - 2013: 20.0%
  - 2014: 22.6%
  - 2015: 24.2%
  - 2016: 22.4%
  - 2017 (imputed): 23.6%
  - 2018: 24.1%

- Interest rate risk
  - 2013: 15.7%
  - 2014: 15.8%
  - 2015: 15.0%
  - 2016: 12.3%
  - 2017 (imputed): 13.7%
  - 2018: 14.3%

- Other, please specify
  - 2013: 11.8%
  - 2014: 13.3%
  - 2015: 12.5%
  - 2016: 12.3%
  - 2017 (imputed): 11.9%
  - 2018: 14.5%
Q10. Please Rate the Current Demand for Residential Loans in Your Market.
Q12. Please Rate the Current Demand for Residential Refinances in Your Market.

<table>
<thead>
<tr>
<th>Year</th>
<th>Excellent</th>
<th>Good</th>
<th>Fair</th>
<th>Poor</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>34.6%</td>
<td>48.1%</td>
<td>10.6%</td>
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<tr>
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<td>24.9%</td>
<td>20.0%</td>
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</table>
Q13a. In the Next Six Months, Do You Expect that Home Values in Your Market will...
Q510: Which Occupants Now Best Contribute to a Successful Strip Mall?

- Professional Offices: 1.5%
- Other Services Businesses: 3.0%
- Personal Services (nail / hair / salon / spa): 3.0%
- Restaurant (generic, pizzaria, fast-food): 10.5%
- UPS, FedEx, or similar ship/pack/delivery stores: 41.8%
- Health / Fitness Clubs: 44.8%
- Supermarkets: 58.2%
- Urgent Medical Care Centers: 71.6%
- Starbucks / Similar Cafes: 80.6%
Q599: Expectation of Change Over Next 12 Months in the Number of Your Bank's Branches.

- Will increase: 24.2%
- Will be no change: 57.6%
- Will decrease: 18.2%
Q513: Is Your Bank Fully Adapted to Serving the Millennial Generation Customer Base? (those currently between the ages of 21 and 37 years old)
Q514: Please briefly share what steps, efforts, or changes your bank took to become fully adapted to serving the Millennial customer base.

Representative responses:

- 40% of our Associates are Millennials; we are constantly working on marketing and ensuring we properly offer and support the generation’s preference of communicating and transacting business with us.

- An attractive suite of products along with full scope digital access.

- Mobile banking, mobile deposit capture, mobile fund transfers, Facebook, instant issue debit card

- We are investing more in digital than we are in brick and mortar. This is the expectation of the Millennial generation.
Q516: With regard to your millennial employees, has your bank developed any...

- Volunteering and Social Interactivity Programs: 1.5%
- Special Recognition Programs: 1.5%
- Some mechanism to give voice to millennial employees: 37.3%
- Millennial employee representation on advisory groups: 16.4%
- Millennial employee representation on steering committees: 29.9%
- Millennial employee organizations or groups: 16.4%
- Specific programs or initiatives specifically devoted to millennial employees: 29.9%
Q518: Will the Imposition of a "Millionaire's Tax" Hasten the Out-Migration of Affluent Baby Boomers from New Jersey to Other States?

- Yes, it will hasten that rate: 89.6%
- No, it will have no effect on that rate: 4.5%
- Don't Know: 6.0%
Q519: Will the $10,000 Cap on the SALT Deduction from Federal Tax Liability Affect Your Bank's Deposit Base?

- Yes, it will decrease our DB: 38.8%
- No, it will not affect our DB: 44.8%
- Don't Know: 16.4%
Q520: Has the Expansion of Credit Unions Over the Last Several Years Affected Your Bank’s Deposit Base?

- Yes, it has decreased our bank’s deposit base: 64.2%
- Yes, it has increased our bank’s deposit base: 4.5%
- No, it has not affected our bank’s deposit base: 31.3%