



RUTGERS ECONOMIC ADVISORY SERVICE

Center for Urban Policy Research

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FORECAST OF APRIL 2002

NEW JERSEY: A MILD RECESSION GIVES WAY TO A SLOW RECOVERY

EXECUTIVE SUMMARY

The national economy appears to be recovering, albeit slowly, from last year's recession. New Jersey entered the recession later than the rest of the nation, and its economy fared somewhat better than the national economy during the recessionary period. The state appears to be poised for recovery this year at a somewhat faster pace than the nation as a whole.

In late February 2002, the New Jersey Department of Labor (NJ DOL) published rebenchmarked nonagricultural data for 2001. The new data indicate that the peak of the business cycle in New Jersey, as measured by the number of nonagricultural jobs, occurred in June 2001 rather than in February 2001, as the NJ DOL previously announced. Thus, New Jersey's economy went into recession four months after the U.S. economy.¹

Over the summer, the state lost 20,000 jobs. However, in October 2001, after the terrorist attacks at the World Trade Center, New Jersey gained 8,000 jobs, primarily in the financial sector. Many of the relocated positions were temporary; their return to New York City began as early as November.

Some of the immediate gains in the financial sector were offset by losses in transportation, particularly in air transportation, as the airlines made large reductions in flights and personnel. Some of those reductions were temporary as well. Air travel has already begun to make a substantial recovery.

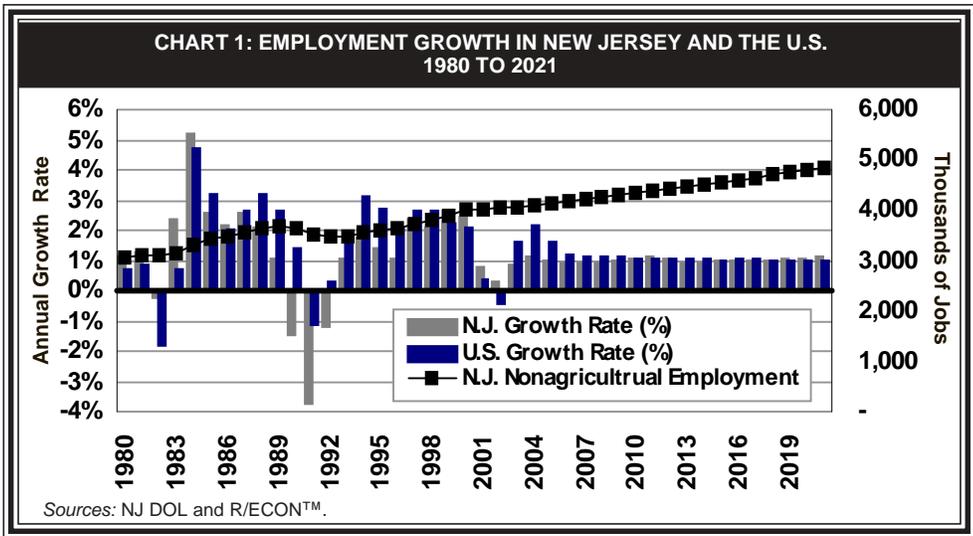
Mild job growth resumed in December 2001 and continued into early 2002. However, state employment growth this year, at 10,500 jobs, will be constrained by continuing repatriation to New York City of some of the jobs transferred to New Jersey, and by a continuation of last year's heavy losses in the manufacturing sector. Over the next several years—through 2006—the state will add jobs at an annual rate of 0.9 percent (or 38,700 jobs). (See **Table 1**.) In the long term, from 2006 to 2021, employment will grow by 1 percent (or 44,100 jobs) a year. Annual job growth during the full forecast period will be about 30 percent slower than the growth experienced over the past two decades. The rate of employment growth in the state will tend to be slower than the rate for the nation as a whole through most of the forecast period; however, the state rate of job growth will be slightly faster than

Table 1
SUMMARY OF NEW JERSEY ECONOMIC FORECAST
2000 TO 2021

	2000	2001	2002	2002 to 2006	2006 to 2021
Annual Percentage Growth					
Nonagricultural Employment	2.4	0.7	0.3	0.9	1.0
Real Gross State Product	2.7	2.0	2.4	3.5	3.8
Personal Income	8.2	4.6	4.4	5.4	5.6
Population	0.9	0.7	0.7	0.7	0.7
Consumer Prices	2.9	2.6	1.5	2.6	2.8
Percentage					
Unemployment Rate (average)	3.8	4.2	5.0	4.7	4.6

Source: R/ECON™.





the national rate for the last few years of the forecast. (See **Chart 1**.)

Estimated real output rose by just 2 percent in 2001 because of the weakening economy. The R/ECON™ forecast for New Jersey looks for output growth to revive over the rest of the forecast period, growing 2.4 percent in 2002, an average of 3.5 percent a year from 2003 to 2006, and an average of 3.8 percent a year in the later years of the forecast period. The improvement in output growth will partially result from productivity increases averaging well over 2 percent a year after 2002. Productivity growth will be fastest in the financial sector; however, productivity in the services, trade, and manufacturing sectors will also increase by more than 2 percent a year.

Consumer prices rose 2.6 percent in 2001. (See **Table 1**.) The inflation rate will fall to only 1.5 percent in 2002, average 2.6 percent a year from 2003 to 2006, and average 2.8 percent a year in the rest of the forecast period.

The state's population will increase by 0.7 percent a year between 2001 and 2021. At that rate, New Jersey will add 319,700 residents between 2001 and 2006, and 949,100 residents between 2006 and 2021.

The state unemployment rate will average 5 percent this year, up from 4.2 percent in 2001, remaining a full percentage point below the expected nationwide level of 6 percent. This is likely a result of New Jersey's stronger employment picture last year. The state unemployment rate will remain relatively steady over the rest of the forecast

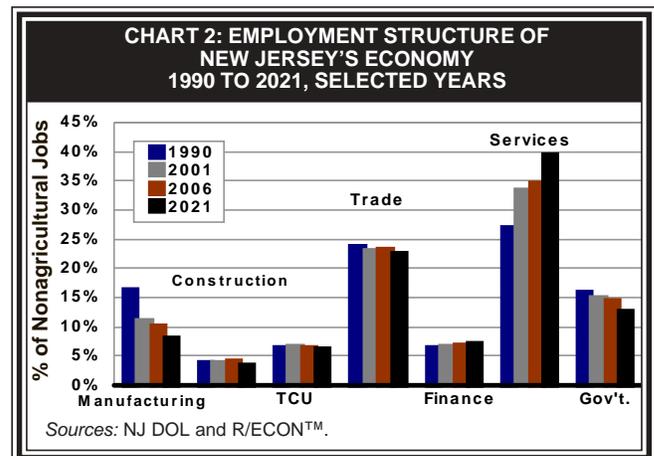
period, in a narrow range between 4.5 percent and 4.9 percent.

Personal income rose 8.2 percent in 2000 and is estimated to have risen only 4.6 percent in last year's slowing economy. Personal income growth will decrease to 4.4 percent this year and average 5.4 percent a year from 2003 to 2006. Income growth will be sustained over the forecast period by relatively rapid growth in

proprietors income, as further layoffs at major corporations encourage former employees to open their own small businesses. On the other hand, income growth will be impeded this year by slow growth in income derived from interest, dividends, and rent and in the residence adjustment.²

Over the full forecast period, employment in manufacturing will decline substantially. Employment in communications and utilities will fall slightly. Declines in the manufacturing sector will slow from an average of -2.7 percent per year in the 1980s and 1990s to an average of -0.7 percent per year in the forecast period. By 2006, only 10 percent of the state's job base will be in manufacturing, down from 16 percent in 1990 and 11 percent in 2001. (See **Chart 2**.) Manufacturing employment will account for only 8 percent of the state's job base by 2021.

Jobs in all other sectors will increase, with the services sectors providing 65 percent of the growth



and the trade sectors accounting for 20 percent of the growth. The fastest-growing major sector will be “other services,” including engineering and management, education, legal, amusement, personal, membership, and social services. Health services and nonbank finance will also grow rapidly.³ “Other services” employment should grow about three-quarters as fast as it did in the previous two decades. Employment in both health services and nonbank finance will grow only about 40 percent as fast as it did in the earlier period. Employment in the business services sector, a major growth sector in the past two decades, will grow only about a quarter as fast as it did in the earlier period. By the end of the forecast period, the service sector will provide 40 percent of the state’s jobs, up from 27 percent in 1990 and 33 percent in 2001.

Notes

1. The unrevised data indicated that the state's economy went into recession in the same month as the U.S. economy.
2. The residence adjustment is the wage income earned by residents of New Jersey in other states, net of the wage income earned by residents of other states in New Jersey.
3. Nonbank finance includes securities and commodities dealers, real estate, and insurance.