



# RUTGERS ECONOMIC ADVISORY SERVICE

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## FORECAST OF APRIL 2003 NEW JERSEY: A RECESSIONARY MOOD?

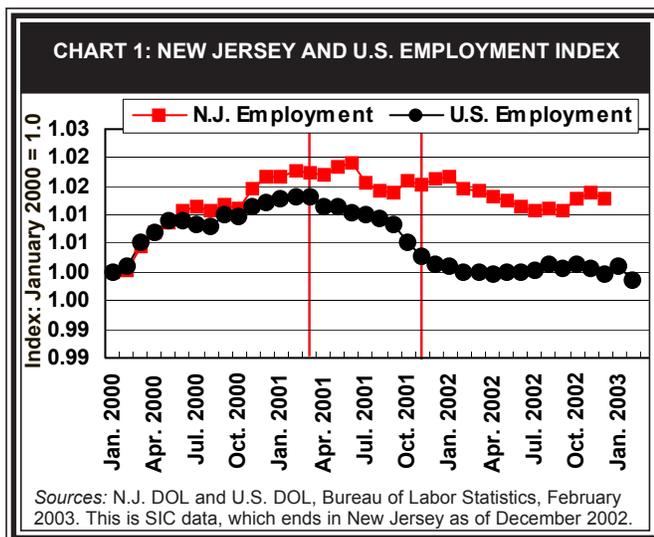
### EXECUTIVE SUMMARY

The recession, or at least a recessionary mood, remains a problem for both New Jersey and the United States as a whole. The malaise evident in the reluctance of many firms to expand their workforce is a result of both fear of war and terrorism and actual economic problems. Output growth resumed in the United States in the fourth quarter of 2001 and continued through 2002, however, U.S. employment hardly changed over the course of 2002. (See **Chart 1**.) The job base recovered slightly in January 2003 but in February 2003 suffered its sharpest decline since just after the terrorist attack on September 11, 2001. In February, employment in the United States was still 1.9 million, or 1.4 percent, below the peak reached in March 2001.

**Table 1**  
**SUMMARY OF NEW JERSEY ECONOMIC FORECAST**  
**2002 TO 2022**

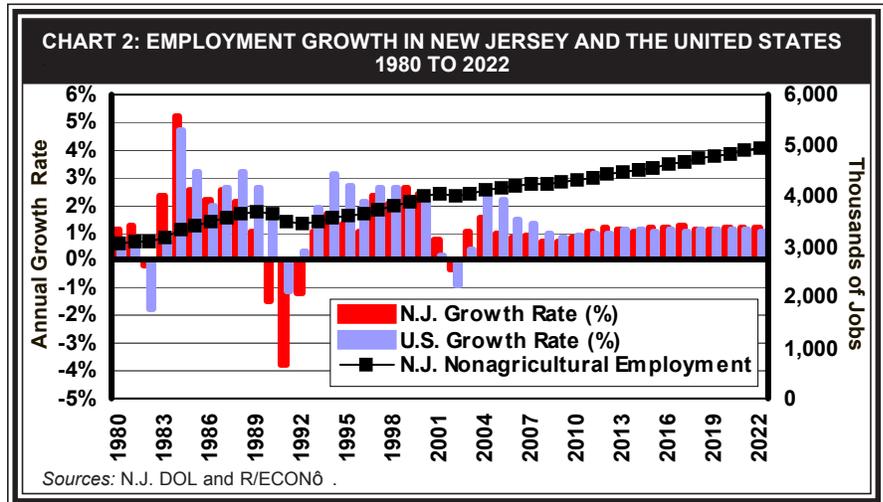
	2002	2003	2004	2004 to 2008	2008 to 2022
<i>Annual Percentage Growth</i>					
Nonagricultural Employment	-0.4	1.0	1.6	0.8	1.1
Real Gross State Product	0.9	4.4	2.8	2.4	4.1
Personal Income	3.1	4.2	5.2	5.3	5.6
Population	0.9	0.8	0.6	0.6	0.8
Consumer Prices	2.0	2.0	3.3	2.7	2.6
<i>Percentage</i>					
Unemployment Rate (average)	5.4	5.6	5.3	5.5	5.5

Source: R/ECON™.



New Jersey entered the recession in June 2001, when the level of employment reached a cyclical peak at 4.034 million jobs.<sup>1</sup> Employment fell to a low point in September 2002, with a loss of 32,400 jobs, or 0.8 percent of its peak level. By December 2002, a quarter of the recessionary job loss had been regained.<sup>2</sup> Between 2002 and 2008, the state will add jobs at an average rate of 1 percent (or 40,600 jobs) a year. Over the rest of the forecast period, through 2022, job growth will average 1.1 percent, or 50,000 jobs, per year. (See **Table 1**.) For the full forecast period—2002 to 2022—employment growth will be 4,000 jobs per year greater than average annual employment growth during the post-World War II period, and nearly identical to growth over the past two decades.

The R/ECON™ forecast for New Jersey looks for growth in real output of 4.4 percent this year as the economy finally emerges from the recession. The inflation rate of 2 percent matches last year's rate, even with the rapid rise in oil prices early in the year. Output growth will weaken in 2004, with growth of 2.8 percent, and remain mild over the next few years. It will pick up in the longer term, with growth averaging 4.1 percent a year from 2008 to 2022.



The recovery in 2003 will strengthen at the end of the year, exerting an upward pressure on prices that will continue into early 2004. Thereafter, the mild growth expected will provide little impetus for rapid inflation. Consumer price inflation will average 2.7 percent from 2004 to 2008, and 2.6 percent from 2008 to 2022.

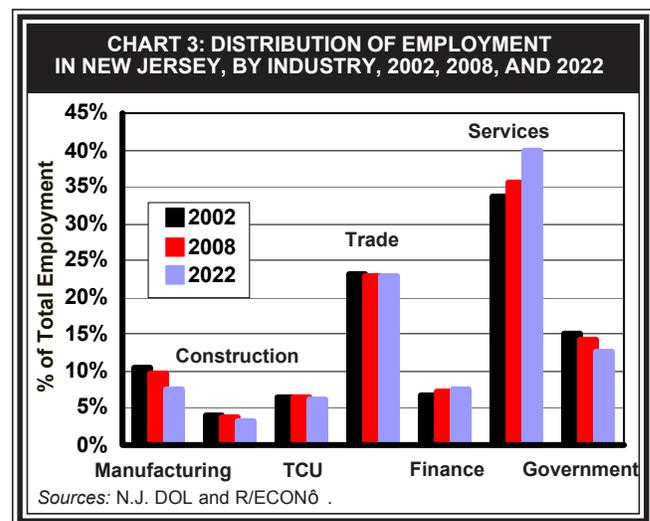
The state's population rose 0.9 percent a year between 2000 and 2002. It will increase by 0.6 percent a year between 2002 and 2008, and by 0.8 percent a year for the rest of the forecast period. At those rates, New Jersey will add 1.37 million residents between 2002 and 2022. The population will rise from 8.59 million in 2002 to 9.96 million in 2022.

During the recovery and expansion period through 2008, the state's employment growth rate is likely to be slower than the rate nationwide, although this relationship may reverse in the longer term. (See Chart 2.) The relatively weak near-term performance is predicated on the state's industrial structure. The once strong manufacturing sector will continue to lose jobs throughout the forecast period, while the nation's manufacturing sector will be stable. The state's transportation and communications industries will be slow in recovering from the massive problems of the past several years. Both business and health services will grow slowly in the next several years and more rapidly in the long term. New Jersey's financial sector is the only sector that is likely to grow faster than its counterpart nationwide.

The state unemployment rate will average 5.6 percent this year, up from 5.4 percent in 2002.<sup>3</sup> The rate will decrease slightly in 2004 but average 5.5 percent over the rest of the forecast period.

The recession kept personal income growth to only 3.1 percent in 2002. With the end of the recession, personal income should rise to 4.2 percent this year and 5.2 percent in 2004. Personal income growth will average 5.5 percent a year during the rest of the forecast period. Income growth will be sustained over the forecast period by relatively rapid growth in proprietors income. Transfer payments will also sustain the income stream, particularly after 2010 as the baby boomers begin to draw down their retirement benefits.

Over the forecast period, employment in manufacturing will decline by 24 percent, with most of the losses in durable-goods industries. Utility employment will also decrease slightly. All other major sectors will experience employment gains. The service industries will provide 63 percent of the new jobs, and the trade sector will account for 21 percent of them. The fastest-growing industries will be "other services,"<sup>4</sup> business services, nonbank



finance,<sup>5</sup> and retail trade. Each will grow more than 25 percent over the twenty-year period from 2002 to 2022. By 2022, only 8 percent of the state's job base will be in manufacturing, down from 16 percent in 1990 and 11 percent in 2002. (See **Chart 3.**) The public sector will also lose job share,

decreasing from 15 percent of employment in 2002 to 13 percent in 2022. 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 34 percent in 2002.

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#### Notes

1. The employment and unemployment rate data used in the body of this report are as of January 2003. Employment is benchmarked to 2001 and uses Standard Industrial Classification Codes.
2. Using data benchmarked to 2002, employment peaked in New Jersey in December 2000 at 4.03 million, and no firm bottom has occurred. On an average annual basis, employment rose 0.07 percent in 2001 and declined by 0.09 percent in 2002.
3. The unemployment rate benchmarked to 2002 averaged 5.8 percent.
4. 'Other services' includes engineering, management, education, and social services.
5. Nonbank finance includes securities and commodities dealers, real estate, and insurance.