



FORECAST OF APRIL 2011

NEW JERSEY: A WEAK RECOVERY BEGINS!

Nancy H. Mantell, Ph.D.

Michael L. Lahr, Ph.D.

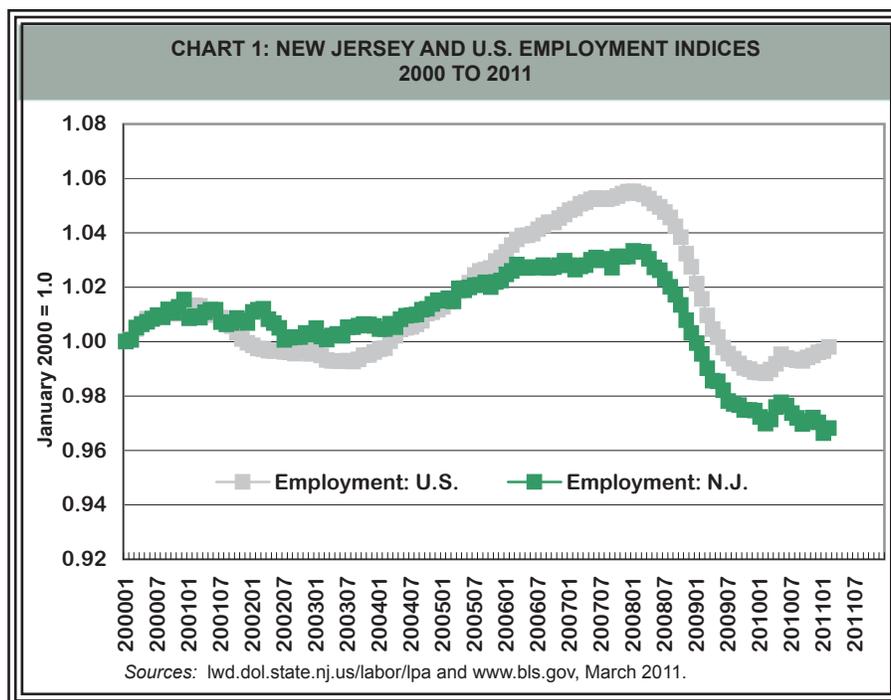
EXECUTIVE SUMMARY

While the U.S. economy strengthened in 2010 and into early 2011, the New Jersey economy continued weak. The state began to add jobs in March 2010 when the nation did, but then lost them rather steadily through January 2011. The good news is that the decline in 2010 was only 24,000 jobs from January 2010 to January 2011, compared to losses of 135,000 and 107,000 in the previous two years. Preliminary data for February show (again) the beginnings of a turnaround. (See **Chart 1**.)

The culprit in the state's heavy losses in the past year was the public sector. After growing steadily through the first decade of the century, government employment plunged in the second half of 2010 and into

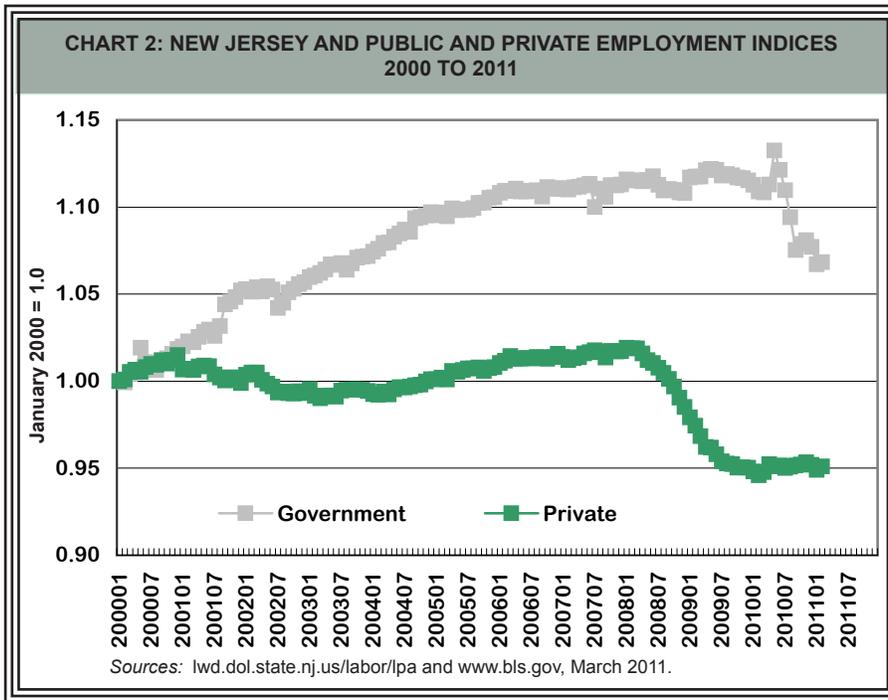
early 2011. However, as can also be seen in **Chart 2**, the private sector has not taken up the slack. During 2010, private sector jobs stayed in a range very close to 3,210,000. They dipped again in January 2011 and returned to that average level in February.

The New Jersey unemployment rate was lower than that in the U.S. through much of the past decade, and this held true during most of the recession as well. In New Jersey the decline in the unemployment rate in 2010 seems to have been the result of people dropping out of the labor force as both the number of people employed and unemployed fell during much of the year. The state rate has risen above the national rate in early 2011 when some workers seeing more opportunity re-entered the labor force. (See **Chart 3**.)



Between January 2008 and January 2011, the state had a net job loss of 265,700. The only growth sector over the full period was educational, health, and social services. (See **Chart 4**.) Between January 2010 and January 2011 the state lost 24,000 jobs, all of them in the public sector. The private sector added 3,000 jobs in that period and another 6,800 in February 2011.

Our forecast indicates that New Jersey will begin to recover its lost jobs in 2011, but the growth will be so slow that the average number of jobs in the state will not surpass the 2007 peak until 2015. The U.S. will begin its job expan-



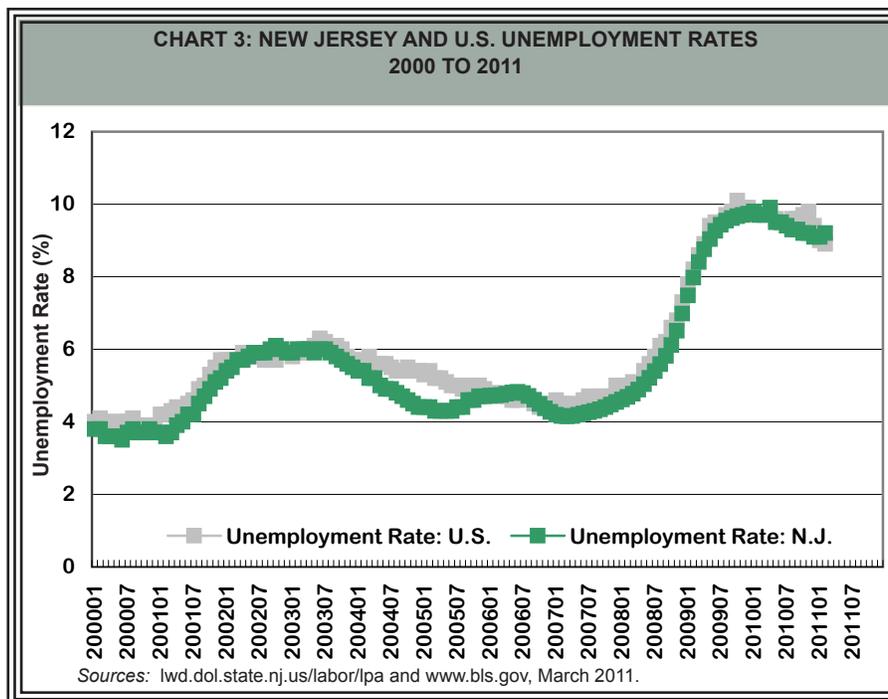
employment growth in the U.S. will continue to outperform that in New Jersey. By the end of the forecast period the nation's employment base will exceed the peak reached in 2007 by 17 percent. Thus New Jersey's share of the national job base will decline from its current 3.0 percent to 2.8 percent in 2030. (See **Chart 5**.)

During the past decade growth in GDP has been considerably more robust than growth in state real output. We expect this pattern to persist over the forecast period as well. Between 2010 and 2030, output in New Jersey will expand at an average rate of 1.9 percent a year compared to the average rate of 2.7 percent a year expected

sion a year earlier—in 2014. This current forecast is a long-term trend forecast—that is—business cycles do not occur explicitly. Over the forecast period from 2010 to 2030, which includes the recovery from the recession of 2008 to 2010 and expansion from 2015 to 2030, we expect average annual employment gains of 0.8 percent or 34,500 jobs. By the end of the forecast period in 2030 the state's employment base will exceed the 2007 peak by 465,000 jobs or 11 percent. We expect that during the recovery and expansion,

nationwide. The differential is due to the relatively higher costs of living and doing business in New Jersey, as well as the state's lower rate of population growth. (See **Table 1**.)

New Jersey's consumer prices were stable in 2009 and rose 1.8 percent in 2010. The recovery and expansion of economic growth beginning in 2011 will be accompanied by an inflation rate averaging 1.9 percent a year from 2010 to 2030.



New Jersey's unemployment rate peaked at a quarterly rate of 9.7 percent in the last quarter of 2009 and the first quarter of 2010. It averaged 9.4 percent in 2010 and will come down slowly as the state's economy recovers, leveling off at 5 percent from 2025 on. The rate will average 5.7 percent from 2011 to 2030, compared to an average of 5.8 percent for the U.S.

Personal income rose 5.9 percent in 2007 and, with the onset of the recession, rose only 2.5 percent in 2008. Income fell in 2009 by 2.6 percent as the recession persisted. It returned to positive territory in 2010 with growth of 2.6 percent and will rise at an average rate of 4.5 percent a year over the forecast

Table 1
SUMMARY OF NEW JERSEY ECONOMIC FORECAST

	2009	2010	2011	2011 to 2020	2020 to 2030
<i>Annual Percentage Growth</i>					
Nonagricultural Employment	-3.9%	-1.0%	0.5%	1.0%	0.7%
Real Gross State Product	-2.4%	-0.8%	1.7%	2.0%	1.9%
Personal Income	-2.6%	2.6%	4.5%	4.5%	4.5%
Population	0.7%	0.7%	0.6%	0.5%	0.7%
Consumer Prices	0.0%	1.8%	1.8%	1.9%	2.0%
<i>Percentage</i>					
Unemployment Rate (average)	9.1%	9.4%	8.4%	6.0%	5.1%

Source: R/ECON™, April 2011.

period, somewhat lower than the 4.9 percent growth expected for the U.S. On a real per capita basis, income will grow nearly identically in the state and nation at about 1.9 percent per annum.

The state added 378,000 residents between 2000 and 2010, growing at an average annual rate of 0.44 percent. This was just over half as fast as population growth in the 1980s and was only half as fast as national population growth. Population growth will average 0.6 percent a year over the forecast period, rising slightly in the later years as the economy im-

proves. The state will add more than 1.2 million residents over the course of the forecast. As a result, New Jersey's population will top 9 million in 2016 and 10 million in 2030. Population growth in New Jersey will continue to be slower than it is nationwide, so that the state's share of U.S. population will fall from the current 2.8 percent to just less than 2.7 percent in 2030. Thus, the state's share of national employment will remain slightly higher than its share of the national population.

