

NEW JERSEY: MILD SLOWDOWN AHEAD!

EXECUTIVE SUMMARY

New Jersey's economy is now in the seventh year of a growth cycle. Employment has risen by more than 400,000 jobs since the bottom of the recession of the early 1990s, exceeding the previous peak level by more than 130,000 posts. As important, both the unemployment rate and the number of unemployed residents have plummeted from their mid-1992 highs. The number of jobless in the first quarter of 1999, at 181,600, is less than half the peak level. Income growth has been strong, and the consumer economy, as reflected in the housing market, is buoyant as well.

The R/ECON™ forecast for New Jersey is for a continuation of the current expansion but at a somewhat slower pace. In 1998, the workforce rose by 76,300 jobs, or 2.0%, with output growth of 3.4% and little inflation. Both output and employment growth will slow slightly in 1999, while inflation will advance to just over 2%. Over the first two decades of the next century, the rate of job creation will average 0.9% per year and output will increase 2.0% per year. (See Table 1.) Population will increase at about half the rate of growth of employment over the long run. Ongoing job activity of this magnitude implies both a rise in labor force participation and more in-commutation to the state.

Table 1
SUMMARY OF NEW JERSEY ECONOMIC FORECAST
April 1999

<i>Annual Percentage Growth</i>	1997	1998	1999	2000	2000 to 2020
Nonagricultural Employment	2.3	2.0	1.5	1.2	0.9
Real Gross State Product	2.4	3.4	2.9	2.5	2.0
Personal Income	5.1	5.1	5.3	5.1	4.7
Population	0.7	0.7	0.6	0.6	0.5
Consumer Prices	2.3	1.3	2.1	2.0	2.4
Percent					
Unemployment Rate(average)	5.1	4.6	4.4	5.0	5.1

More than 90% of the net increase in employment through the forecast period will be in services and trade. We also expect considerable growth in the transportation, communications, and finance sectors. Declines in the manufacturing sector will be somewhat less than the annual average of -3% that persisted over the past two decades, at -1% per year during the forecast period. The change in industrial structure in New Jersey implied by the strength in services and loss of manufacturing positions is shown in Chart 1. By 2020, more than 40% of New Jersey's job base will be in the service sector--up from the current 32%. The job shares of all the other industries will fall, with manufacturing holding only 8% of the state's payroll.

The state unemployment rate is expected to average 4.4% this year, down from 4.6% in 1998. It will inch back up to 5% in the year 2000 as economic activity at both state and national level slows, remaining in the low 5% range for the rest of the forecast term.

Personal income will rise 5.3% this year, up slightly from the 5.1% estimated for 1998. As employment and wage gains slow later in the forecast, income growth will dip to 5.1% in 2000, averaging 4.7% a year between 2000 and 2020--rates comparable to those for the nation.

New Jersey's population will increase 0.6% a year in 1999 and 2000, and 0.5% a year over the next two decades. The decline in population growth can be attributed to tightened welfare and immigration laws as well as the passing of the baby boom age cohorts from their reproductive years. Population will rise from 8.12 million in 1998 to 8.21 million in 2000, reaching 9.07 million in 2020.

Since the recovery began in New Jersey, real output growth has considerably outpaced job growth, indicating strong productivity growth. Output rose an estimated 3.4% in 1998. The economic slowdown projected to begin this year will pull the growth rate of gross state product down to 2.9% this year and to 2.5% in 2000. Over the next twenty years, we expect output to increase 2% a year.

