

RUTGERS ECONOMIC ADVISORY SERVICE

FORECAST OF DECEMBER 2000

NEW JERSEY: A SLOWDOWN AHEAD ♦ BUT NO RECESSION

EXECUTIVE SUMMARY

New Jersey's economy continued its strong performance this year. Employment growth should come in at 1.5% in 2000, putting the job base at more than 3.9 million for the year—an increase of 235,000 jobs since the peak reached at the end of the last business cycle in 1989. The unemployment rate will average only 3.9% for 2000, its lowest level in more than a decade and a rate that is lower than the national rate. The New Jersey expansion will continue through the five years covered in this short-term forecast, although employment growth will be more sluggish and the unemployment rate will rise. We expect employment to increase by an average of only 36,500 jobs a year in the next five years. In the near term, the slower growth will occur as recent higher inflation and interest rates take their toll; further into the forecast period, the slower state economy will reflect a general slowdown in the national economy—the “soft landing” that was hoped for after the very rapid growth of the past few years.

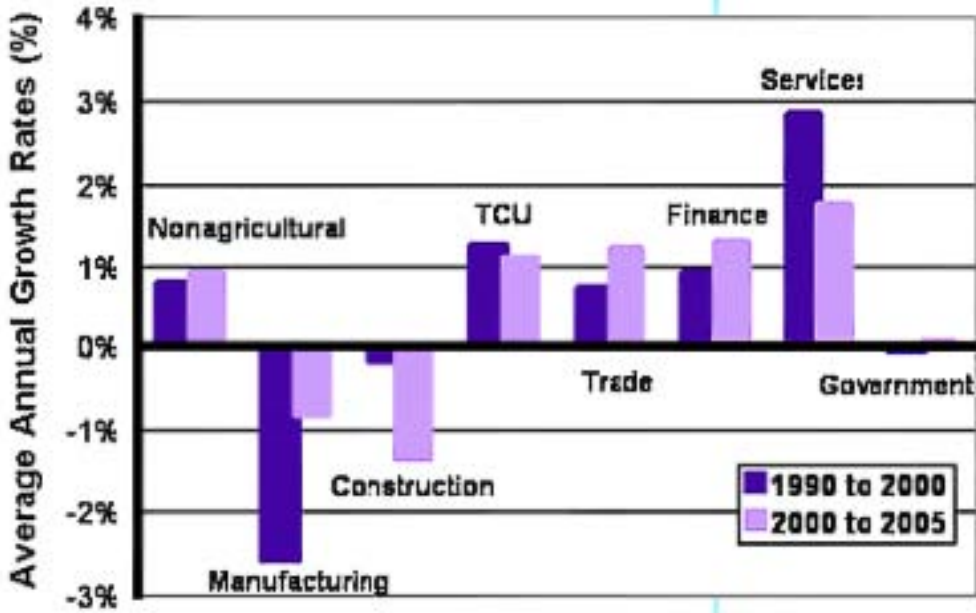
The R/ECONTM forecast for New Jersey looks for real output growth of 3.5% this year and for an inflation rate of 3%. (See **Table 1.**) Real output growth will slow over the next two years and then recover for the rest of the forecast period. The rate of inflation will be relatively steady near 2.5% through 2005. The state's population increased by 0.6% in 2000. The slower economy and the aging of the population will reduce population growth to about 0.4% a year over the rest of the forecast period.

Table 1
SUMMARY OF NEW JERSEY ECONOMIC FORECAST
December 2000

<i>Annual Percentage Growth</i>	1999	2000	2001	2002	2002 to 2005
Nonagricultural Employment	1.7	1.5	1.0	0.7	1.0
Real Gross State Product	3.4	3.5	2.5	2.2	2.9
Personal Income	4.2	5.4	5.3	5.5	5.1
Population	0.6	0.6	0.4	0.3	0.4
Consumer Prices	2.0	3.0	2.5	2.4	2.6
Percent					
Unemployment Rate (average)	4.6	3.9	4.1	4.2	4.3
<i>Source: R/ECONTM</i>					

In the next several years, as in the past decade, the services sector will be the fastest-growing major industrial sector. (See Chart 1.) However, growth in the sector will decline from an average of 2.8% a year in the 1990s to 1.8% during this forecast period, primarily because of a slackening in growth in the business services sector. Employment in the other private services-producing sectors—transportation and utilities, trade, and finance—will grow just over 1% a year. The rate of decline in manufacturing will be substantially slower than it was in the last decade. The decline in manufacturing jobs will improve from -2.5% a year in the 1990s to below -1% a year during the forecast period.

CHART 1: NEW JERSEY EMPLOYMENT GROWTH BY INDUSTRY, 1990 TO 2000 AND 2000 TO 2005



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