



RUTGERS ECONOMIC ADVISORY SERVICE

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FORECAST OF DECEMBER 2001 NEW JERSEY: THE ECONOMY SLUMPS

EXECUTIVE SUMMARY

Producing an economic forecast is a risky venture in the best of times—and these are not the best of times. In producing the current forecast, we take into account a faltering economic environment in the state and in the country, the terrorist attack on the World Trade Center in September, and, in its wake, the possibly temporary transfer of thousands of jobs from New York to northern New Jersey. All of these situations present problems and questions. They result in an economic forecast that shows New Jersey's economy barely growing in 2001 and 2002 and reviving slowly in the remaining years of the forecast.

In 2001, the number of nonagricultural jobs fell between February and April and between May and September. However, because of great strength in the job market at the end of 2000 and the transfer of jobs from New York City to New Jersey in the aftermath of the events of September 11, average employment in 2001 will be 0.7 percent higher than average employment in 2000. (See **Table 1**.) We expect employment growth to resume in mid-2002, but at the same time, some of the jobs transferred to New Jersey will be repatriated to New York City sites. Thus, job growth in New Jersey will be very slow next year; over the two-year period from 2000 to 2002, the job base will increase by approximately 27,000 positions.

The R/ECON™ forecast for New Jersey looks for growth in real output of 2 percent this year and

for an inflation rate of 2.8 percent. (See **Table 1**.) Output growth will revive somewhat in 2002 and will continue to do so in the remaining years of the forecast. The inflation rate will fall to 2 percent in 2002 and average 2.5 percent a year through the rest of the forecast period. The state's population will increase by 0.7 percent a year between 2001 and 2006. At that rate, New Jersey will add 355,000 residents between 2000 and 2006.

The state unemployment rate will average 4.2 percent this year, up from 3.8 percent in 2000. It will remain substantially below the nationwide level of 4.8 percent. The state unemployment rate will rise to 5.2 percent in 2002—still less than the nation's unemployment rate (6.2 percent in 2002)—and will average 5.2 percent over the next 4 years.

Table 1
SUMMARY OF NEW JERSEY ECONOMIC FORECAST
2000 TO 2006

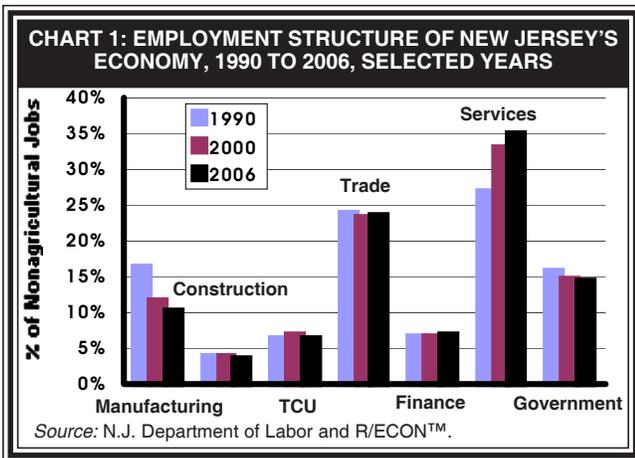
	2000	2001	2002	2002 to 2006
<i>Annual Percentage Growth</i>				
Nonagricultural Employment	2.5	0.7	0.0	0.9
Real Gross State Product	2.7	2.0	2.2	3.0
Personal Income	7.9	5.0	4.9	4.9
Population	0.9	0.7	0.7	0.7
Consumer Prices	2.9	2.8	2.0	2.5
<i>Percentage</i>				
Unemployment Rate (average)	3.8	4.2	5.2	5.2

Source: R/ECON™.

Personal income rose 7.9 percent in 2000. With the slowing economy, personal income growth will decrease to 5 percent this year and average 4.9 percent through the rest of the forecast period. Income growth will be sustained over the forecast period by relatively rapid growth in proprietors income, as layoffs in major corporations push people into opening small companies. It will be impeded in the next couple of years by very slow growth in dividends and by a decline in personal interest income.

Although real output will rise by just 2 percent this year because of the weaker economy, it will improve over the rest of the forecast period, growing by an average of 3 percent a year between 2002 and 2006. The improvement in output will partially result from productivity increases averaging 2 percent a year.

Over the forecast period, employment in the goods-producing sectors (mining, manufacturing, and construction) and in transportation, communications, and utilities will decline. Jobs in all other sectors will increase, with the services sectors providing 64 percent of the growth and the trade sectors accounting for 20 percent of the growth. The fastest-growing major sectors will be “other services,”¹ nonbank finance,² hotels, and business services. Employment in the business services sector will grow only about a quarter as fast as it did during the 1990s; other services employment should grow about three-quarters as fast as it did in the earlier period. Employment in the nonbank finance sector will grow about 40 percent as fast as it did during the 1990s. Declines in the manufacturing sector will slow from an average of -2.1 percent per year in the 1990s to an average of -1.4 percent per year in the forecast period. Most of the decline in manufacturing will occur in 2001 and 2002. By 2006, only 10 percent of the state’s job base will be in manufacturing, down from more than 17 percent in 1990 and 12 percent in 2000. (See **Chart 1.**) By the end of the forecast period, the service sector will provide 35 percent of the state’s jobs, up from 27 percent in 1990 and 33 percent in 2000.



Notes

1. Other services include engineering, management, education, and social services.
2. Nonbank finance includes securities and commodities dealers, real estate, and insurance.