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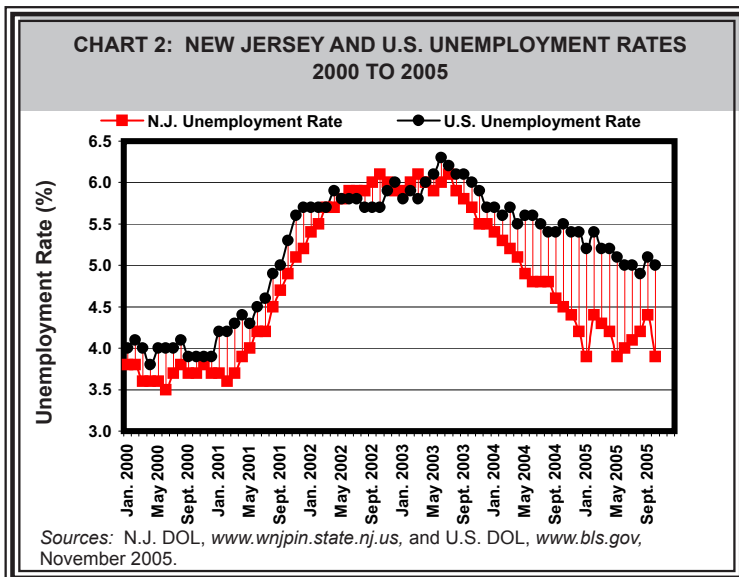
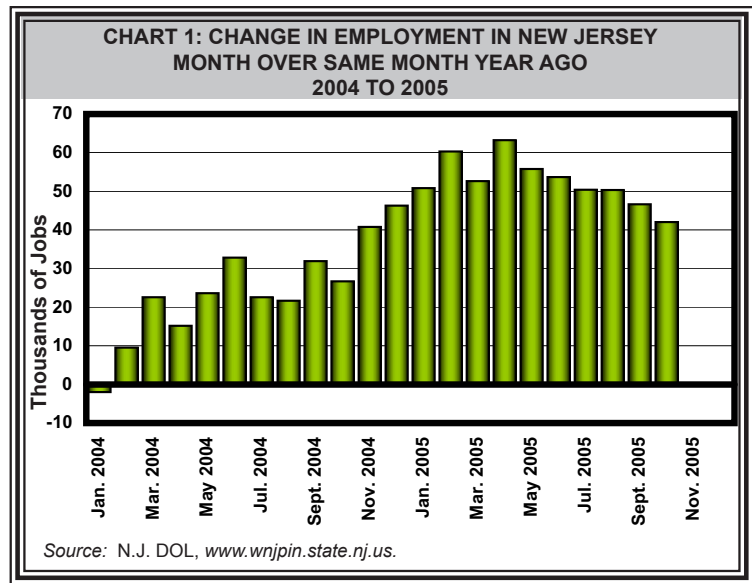
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FORECAST OF DECEMBER 2005 NEW JERSEY: EXPANDING SLOWLY

EXECUTIVE SUMMARY

New Jersey's economic performance was weak in 2004. Employment increased by only 23,200 jobs, and, at just 0.6 percent, the state's employment growth rate was significantly lower than the nationwide rate of 1.1 percent. This year, the state's economy had a strong start, adding 55,000 jobs in the first quarter, compared with the first quarter of 2004. However, the pace of the expansion has weakened over the course of the year. (See **Chart 1**.) The state is now expected to add only 52,500 jobs in 2005, for a growth rate of 1.3 percent; the nationwide rate will be 1.6 percent.

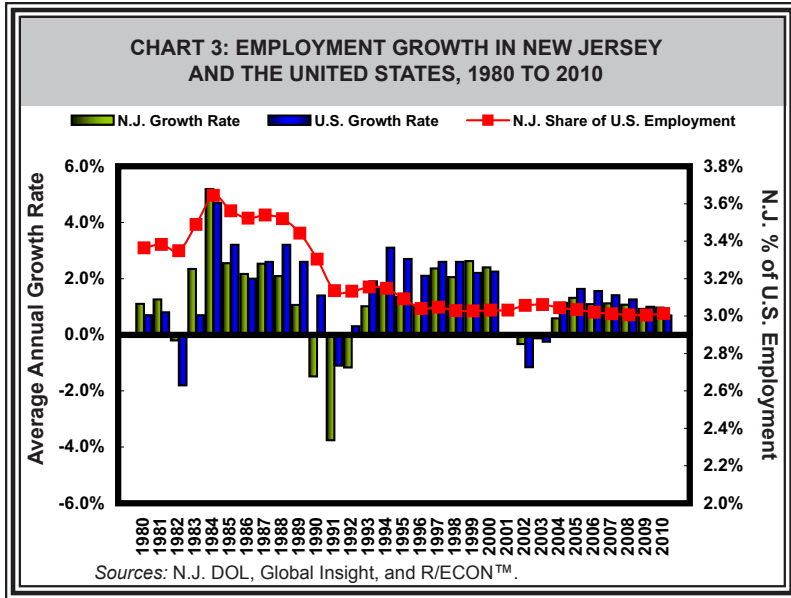
The state's unemployment rate has been consistently lower than the national rate



since mid-2003. However, the weakness of the state's expansion, compared with that of the nation, has begun to show up in the unemployment rate data. The national unemployment rate has fallen steadily since early 2005, but the state rate rose between May and September. In January 2005, the state rate was 1.3 percentage points lower than the national rate; by September the difference was only 0.7 percentage points. (See **Chart 2**.) In light of other information about the state's economy, it may be that the large drop in the state's preliminary unemployment rate in October was a statistical anomaly.

The R/ECON™ forecast indicates that employment will grow at a rate of 1.3 percent in





New Jersey this year and at an average annual rate of 1.1 percent (or 44,400 jobs) between 2005 and 2010. (See **Chart 3**.) Over the forecast period, the United States will add jobs at a rate of 1.2 percent a year. The slight differential in growth rates means that the state's share of national employment will fall very slightly, from 3.04 percent in 2004 to 3.02 percent in 2010.

Growth in national real output was much more robust than growth in state real output in 2004. We expect that output at the national level will grow slightly faster than output at the state level for the next couple of years. New Jersey's gross state product will increase at an average rate of 3.1 percent between 2004 and 2010, slightly faster than the national rate of 3.2 percent.

Table 1
SUMMARY OF NEW JERSEY ECONOMIC FORECAST
2004 TO 2010

| | 2004 | 2005 | 2006 | 2006 to 2010 |
|---------------------------------|------|------|------|------------------|
| <i>Annual Percentage Growth</i> | | | | |
| Nonagricultural Employment | 0.6 | 1.3 | 1.1 | 1.1 |
| Real Gross State Product | 3.2 | 3.2 | 2.6 | 3.2 |
| Personal Income | 5.5 | 5.5 | 5.8 | 5.9 |
| Population | 0.7 | 0.8 | 0.9 | 0.8 |
| Consumer Prices | 3.8 | 3.9 | 2.4 | 2.1 |
| <i>Percentage</i> | | | | |
| Unemployment Rate (average) | 4.8 | 4.2 | 4.3 | 4.7 ^a |

Source: R/ECON™.
^a Average for 2007 to 2010.

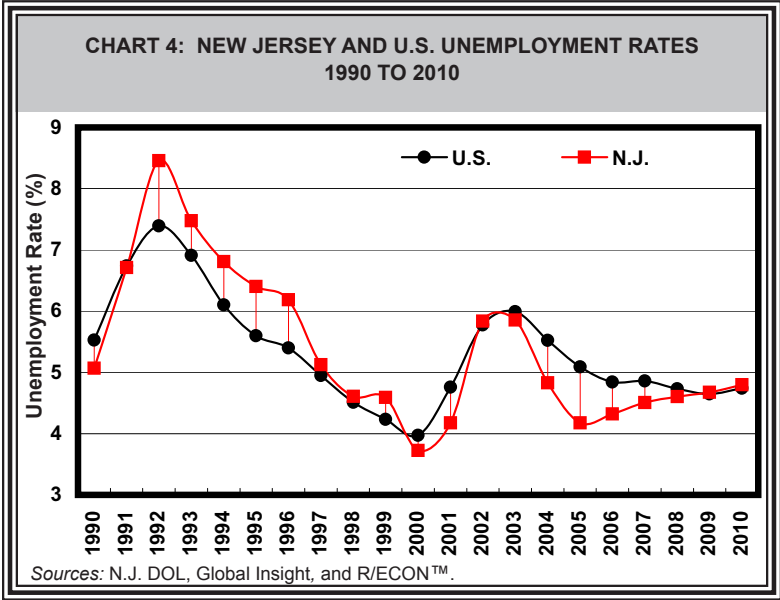
The state's consumer inflation rate rose to 3.8 percent in 2004, primarily due to the rapid rise in oil and natural gas prices during the middle part of the year. The rate will climb to 3.9 percent in 2005, again primarily as a result of sharp upward movements in energy prices after Hurricanes Katrina and Rita. The inflation rate will average 2.2 percent from 2005 to 2010. (See **Table 1**.) The fallback in inflation rates to the 2 percent range in both the state and the nation in the next few years assumes that oil prices will retreat from their recent highs. By 2010, the price for West Texas Intermediate will be \$42.50 a barrel, near its 2004 average price.

The state unemployment rate averaged 4.8 percent in 2004, down substantially from the previous year. The rate is expected to fall to 4.2 percent this year and then to trend up over the rest of the forecast period, averaging 4.7 percent from 2007 to 2010. The state and national rates will converge at 4.7 percent in 2009, after which the state rate will rise above the U.S. rate. (See **Chart 4**.)

After two years of very slow growth during the recession and recovery, personal income in New Jersey rose 5.5 percent in 2004. Income will increase 5.5 percent this year, and income growth will average 5.9 percent a year through the rest of the forecast period.

The state's population increased at an average annual rate of 0.8 percent from 2000 to 2004. It will expand by 0.8 percent a year through 2010, adding 450,000 residents during the forecast period. The population will exceed 9 million in 2008. Population growth in New Jersey during the forecast period will be slightly slower than growth nationwide.

The fastest job growth in New Jersey during the forecast period will be in the transportation industry and the service sectors, which will grow at average rates of at least 1.7 percent a year through the forecast period and provide two-thirds of the state's new jobs. Since 1990, manufacturing has lost jobs at a rate of over 3 percent a year, for a loss of nearly 200,000 jobs. Since 2000, the information industry has lost jobs at an average annual rate of 6 percent, a loss of more than 28,000 jobs. Both industries are expected to continue to decline during the forecast period, although at considerably slower rates. The



construction industry, which gained jobs during the 1990s and through 2004, will show little job change over the period.