FORECAST OF JANUARY 2007
NEW JERSEY: SLOW GROWTH IN 2006 EXTENDS INTO THE FUTURE

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EXECUTIVE SUMMARY

New Jersey’s economy expanded very slowly in 2006, with the addition of only 34,600 jobs. The state’s job growth, at 0.9 percent, was half a percent slower than that of the nation whose employment base increased by 1.4 percent. (See Chart 1.) As implied in Chart 1, the state’s job growth weakened over the course of the year. The state added over 40,000 jobs in the first quarter of 2006 (at an annual rate), but less than 25,000 in the fourth quarter. The state’s performance was also lackluster when compared to its historical record. Over the 60 year post-World War II era, New Jersey added jobs at an average annual rate of 1.6 percent, or about 40,000 jobs. During the past 30 years the number of jobs added annually continued to vary around 40,000, although the annual growth rate dipped toward 1.3 percent as the job base rose. Unfortunately we expect that New Jersey will continue to underperform the nation in terms of job growth again in 2007.

While weak job growth is a concern, the distribution of growth across industries is also a problem. Nearly a quarter of the state’s new jobs in 2006 were in the public sector, clearly a problem when the state is trying to lower the tax burden on its residents. Further, of the three-quarters of new jobs in the private sector, most were in the relatively low wage administrative support and food service industries, while high wage sectors like manufacturing and information continued to decline.

The state’s unemployment rate was consistently lower than the nation’s from mid-2003 until March 2006. However, their relative positions changed after March as a result of New Jersey’s comparatively slow expansion. In April, the state’s unemployment rate jumped to 5.2 percent, surpassing the national rate by half a percentage point, and indicating that New Jersey’s labor market advantage has faded. In our opinion the particularly sharp decline in the state’s unemployment rate in October 2006 was likely the result of a statistical anomaly. (See Chart 2.)
The R/ECON™ forecast indicates that New Jersey’s employment base grew at a rate of 0.9 percent, or 34,600 jobs, in 2006. With a weaker economy expected for the nation in 2007, job growth in New Jersey will slow further in 2007 and then average 0.9 percent a year between 2007 and 2016. (See Table 1.)

Although the nation as a whole will add jobs faster than will New Jersey over the next few years, its rate of job growth will slow substantially after 2011. Through 2016, New Jersey’s share of the nation’s jobs will hover close to its current 3 percent. (See Chart 3)

Growth in national real output was more robust than growth in state real output in 2004 and 2005, and we expect that to be the case over the forecast period as well. Between 2005 and 2016, output in New Jersey will expand by an average of 2.5 percent a year compared to an average of 3.1 percent a year expected for the nation as a whole. This is due to the greater maturity of New Jersey’s economy and the state’s lower rate of population growth.

The state’s consumer inflation rate rose 3.9 percent in 2005, primarily due to the rapid rise in oil and natural gas prices after Hurricanes Katrina and Rita but also due to supply concerns based on political problems in various oil-producing nations. The state’s consumer inflation rate rose to 4.1 percent in 2006 with the run-up of energy prices before autumn and with increasing wage rates. The inflation rate will begin to fall in the first quarter of 2007 and average 2 percent a year between 2007 and 2016. Declines in the inflation rates for both the state and the nation to around 2 percent over the next few years assume that oil and housing prices will retreat from the highs reached in mid-2006. By late 2012, the price for West Texas Intermediate will be under $60 per barrel, while the price of housing will begin to climb in late 2007.

New Jersey’s unemployment rate averaged 4.4 percent in 2005, down substantially from the previous three years. The rate rose to 5.0 percent in 2006 and will continue to rise until 2008, with slow growth expected for employment, peaking at 5.6. The state’s unemployment rate will then trend downward to 5 percent in 2016. Although the state rate will be higher than the national rate beginning in 2006, the two rates will start to converge in 2011. (See Chart 4.)

After two years of very slow growth during the recession and recovery, personal income in New Jersey rose 5.6 percent in 2004 and 5.7 percent in 2005. Income growth should average 5.8 percent a year between 2005 and 2016.

The state’s population grew at an average annual rate of 0.7 percent from 2000 to 2005. It will expand by 0.7 percent a year between 2005 and 2016, adding 0.7 million residents. As a result, New Jersey’s population will exceed 9 million in 2010, and reach 9.4 million in 2016. Population growth in New Jersey during the forecast period will continue to be slower than growth nationwide.
The fastest job growth in New Jersey during the forecast period will be experienced by the four service sectors. They will grow at rates averaging at least 1.2 percent a year through the forecast period. These sectors will provide more than seven out of ten of the state’s net new jobs during the next 10 years. The tilt of the economy toward services is not a new phenomenon in New Jersey—during the preceding 15-year period these sectors also supplied 70 percent of the state’s new jobs.

Other bright spots in the state’s economy in the forecast period will be finance and transportation. Both are high-paying sectors that will gain jobs over the forecast period. On the other hand, the construction industry, which gained jobs during the 1990s and through 2005, will lose them in the forecast period with the slowdown in the residential real estate market.

Since 1990, manufacturing has lost jobs at a rate of over 3 percent a year, for a total loss of 200,000 jobs. Since 2000, the information industry has lost jobs at an average annual rate of more than 5 percent, yielding a total loss of 30,000 jobs over the past 5 years. Job losses in both industries will continue to mount throughout the forecast period, although at slower rates.