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Rutgers Economic Advisory Service

CENTER FOR URBAN POLICY RESEARCH

FORECAST OF JANUARY 2008

NEW JERSEY: IN THE DOLDRUMS

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EXECUTIVE SUMMARY

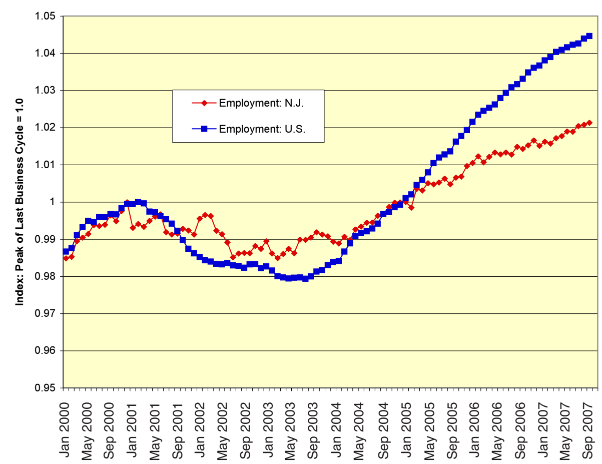
During the first 10 months of 2007 New Jersey's economy has added 22,200 jobs, or about two-thirds the number added in the same period in 2006.[i] The state's job growth rate so far this year—0.6 percent—was only half the nation's, and the nation's job growth this year has slowed by a third from 2006. (Chart 1.) We expect New Jersey to continue under performing the nation in terms of job growth next year and through 2012.

The state's unemployment rate was consistently lower than the nation's from mid-2003 through the end of 2005. However, starting in mid-2005 New Jersey's rate began to rise slowly, while the U.S. rate continued to ease downward. This year the state rate has been below that of the nation, averaging 4.3 percent through November compared to 4.6 percent for the U.S. (See Chart 2.) The state's low unemployment rate is reflective of a decline in labor force participation: the unemployed are dropping out of the labor force rather than continuing to look for work. The unemployment rate is expected to top the national rate in 2008 as well as during the rest of the forecast period.

In 2007 over 70 percent of the state's new jobs were added in its two largest private industries—education and health services and professional and business services. Most of the rest of this year's gains were in retail trade and the public sector. As in 2006, over half the jobs lost this year were in manufacturing. The rest of this year's losses were in transportation and warehousing, construction, and information.

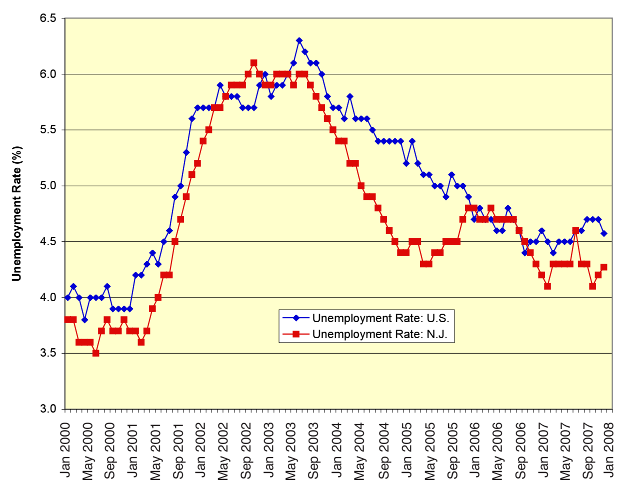
The R/ECON™ forecast indicates that New Jersey's employment base will expand by 0.5 percent in 2007 (with a very weak final quarter), and 0.3 percent in 2008. The rate of expansion will average 0.8 percent per year over the rest of the forecast period. Thus the state will add 344,000 jobs to its employment base over the course of the 10-year forecast. Since U.S.

CHART 1: New Jersey and U.S. Employment Indices 2000 to 2007



Sources: www.wnjpin.state.nj.gov and www.bls.gov, December 2007.

CHART 2: New Jersey and U.S. Unemployment Rates 2000 to 2007



Sources: www.wnjpin.state.nj.gov and www.bls.gov, December 2007.

growth rate is expected to be only slightly faster than New Jersey's over most of the forecast period, the state will come close to retaining its current 3 percent of the U.S. job base.

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Growth in national real output has been more robust than growth in state real output since 2000. We expect this pattern to persist over the forecast period as well. Between 2006 and 2017, output in New Jersey will expand by an average rate of 2.2 percent a year compared to an average rate of 2.5 percent a year expected nationwide. This differential is due to the relatively higher costs of living and doing business in New Jersey as well as the state's lower rate of population growth.

The state's consumer inflation rate rose 3.9 percent in 2006, primarily because of high energy prices and increasing wage rates. The rate of inflation slowed to 2.6 percent in 2007 and will average 2 percent a year between 2007 and 2017. Low inflation rates for both the state and the nation over the next few years assume are based on the assumption that weakness in the demand for housing, vehicles, and labor will offset the high price of fuel.

New Jersey's unemployment rate averaged 4.6 percent in 2006. It will fall to 4.4 percent this year and average 5.2 percent over the rest of the forecast period. Beginning in 2008 the New Jersey rate will be slightly higher than the U.S. rate.

After years of very slow growth, personal income in New Jersey rose 5.5 percent in 2004, 4.2 percent in 2005, and a whopping 7.2 percent in 2006. Income should rise 6.4 percent this year and an average of 4.9 percent a year from 2008 to 2017.

The state added 290,000 residents between 2000 and 2006, growing at an average annual rate of 0.6 percent, but with growth declining every year in that period. It will expand by 0.6 percent a year between 2006 and 2017, adding 544,000 residents. As a result, New Jersey's population will exceed 9 million in 2012, and reach 9.27 million in 2017. Population growth in New Jersey during the forecast period will continue to be slower than it is nationwide, so that the state's share of U.S. population will fall from the current 2.9 percent to 2.8 percent in 2017.

The fastest job growth in New Jersey during the forecast period will be experienced by the four service sectors. These sectors, taken together, will grow 1.4 percent a year through the forecast period. The other growth sectors will be financial services; transportation, trade, and utilities; and public administration. Manufacturing and utilities will continue to lose jobs, although more slowly than in the recent past. Employment in the information industry will decline as well, while the construction industry will be in one of its periodic down cycles after 2010.