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CENTER FOR URBAN POLICY RESEARCH

FORECAST OF JANUARY 2009

NEW JERSEY: DOWNTURN FOR SURE, BUT HOW BAD WILL IT BE?

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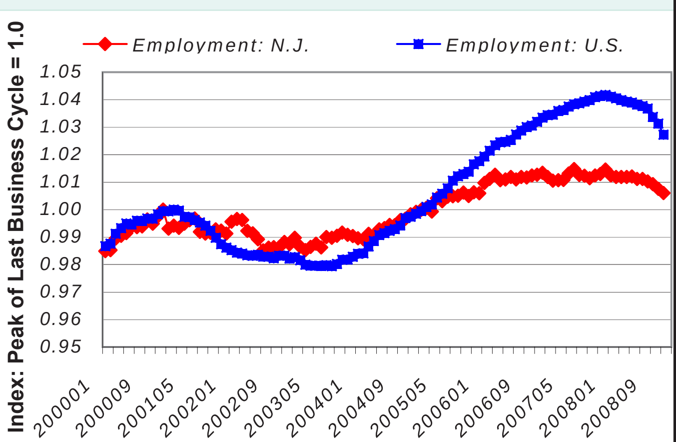
EXECUTIVE SUMMARY

The National Bureau of Economic Research finally made it official: the U.S. is in a recession and has been since economic activity reached a peak in December 2007. Since that time, New Jersey's economy has lost 34,400 jobs, about 1.8 percent of the 1.9 million jobs lost thus far this year in the U.S. Since New Jersey has about 3 percent of the national job base these numbers indicate that the state is doing less badly than the nation. (See **Chart 1**.) We expect another relatively small decline in the New Jersey job base in 2009, with a turnaround expected in early 2010.

This forecast for New Jersey assumes that the U.S. will experience a four-quarter dip in real gross product (GDP) running through mid-2009 and a period of declining employment lasting through the end of 2009. The U.S. unemployment rate will peak at 8.7 percent in the first quarter of 2010.

Our forecast indicates that the recession in New Jersey will not be as bad as it is in the nation primarily because of the way its economy is structured. A large proportion of the job losses in the U.S. have been and are likely to be in the manufacturing, construction, and financial sectors. New Jersey's manufacturing sector comprises only 7 percent of the state's economy compared to 10 percent in the nation. Transportation equipment manufacturing is likely to lose 1.5 million jobs in the U.S. in the next year and a half. But there are only about 6,000 jobs in the industry in New Jersey. In the unlikely event that the state lost them all, it would mean a direct loss of only 0.2 percent of the employment base. Construction comprises about 4 percent of New Jersey jobs compared to 5.5 percent in the U.S. The U.S. has already lost half a million construction jobs and is likely to lose at least that many more in the next year or so—a total of nearly 20 percent of its construction job base in 2006. New Jersey is likely to lose less than 10 percent of its 2006 construction job base during the recession. New Jersey does have a slightly greater proportion of its employment base in the financial sectors than does the U.S. However, it has a smaller proportion in real estate—a sector that has been harder hit in the nation than in the state. The state does have a large exposure to the securities industry, and we expect that industry will lose nearly 20 percent of its 2007 job base during the recession. Besides New Jersey's direct exposure to the securities industry it will also feel an impact from the job loss in that industry in New York City, since many employees of the City's securities industry reside in New Jersey. That impact will be seen in the extremely slow growth in the residence adjustment component of personal income in 2009 and 2010.

CHART 1: NEW JERSEY AND U.S. EMPLOYMENT INDICES 2000 TO 2008



Sources: lwd.dol.state.nj.us and www.bls.gov, June 2008.

The state's unemployment rate has been lower than the nation's during most of this decade, and it has remained on the low side during the recession. Even so, New Jersey's rate has increased sharply since the end of last year—from 4.2 percent in

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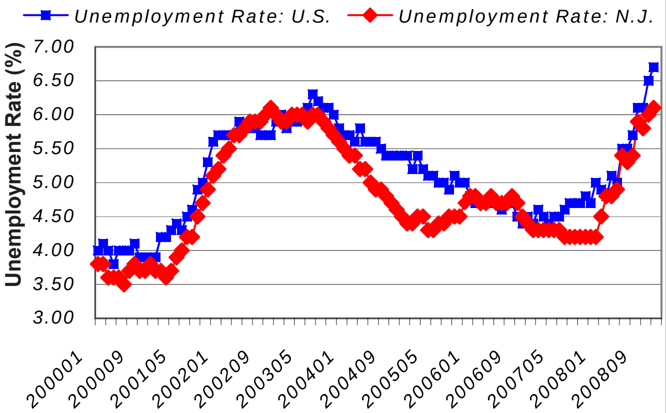
CHART 2: NEW JERSEY AND U.S. UNEMPLOYMENT RATES
2000 TO 2008



Sources: lwd.dol.state.nj.us and www.bls.gov, June 2008.

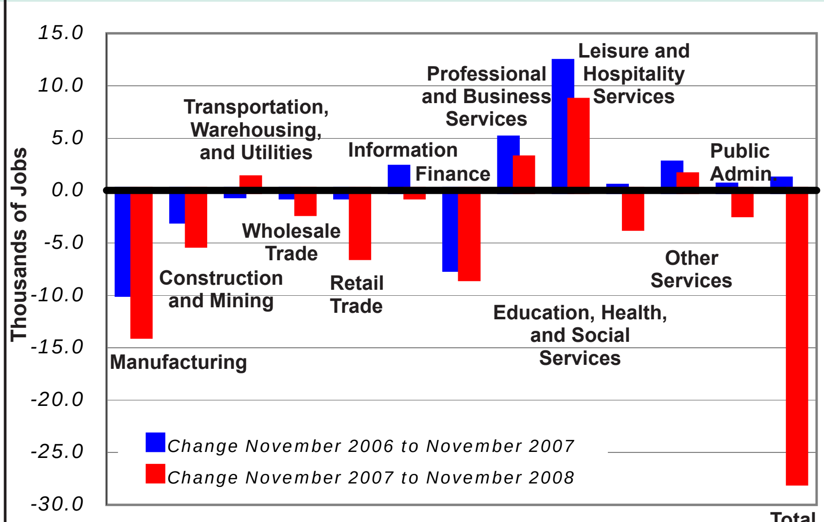
December 2007 to 6.1 percent in November 2008. It remains well below the U.S. rate, which rose to 6.7 percent in November 2008. (See **Chart 2**.) New Jersey's unemployment rate is expected to remain below the national rate through recession and subsequent recovery.

Between November 2007 and November 2008, the state had a net job loss of 27,800, and a loss of 34,400 jobs between the December 2007 peak employment level and November 2008. The total November to November job loss of 41,800 was concentrated in manufacturing and finance, with substantial losses in construction and retail trade as well. Of the total of 14,000 jobs added over the course of the year, 60 percent were in education and health services and the rest were in professional and business services, other services, and transportation. (See **Chart 3**.)

The R/ECON™ forecast indicates that New Jersey's employment base will decline by 33,000 jobs in 2008 and 2009 and barely grow in 2010. It will grow at a rate of 33,100 jobs, or 1 percent, a year between 2010 and 2018. (See **Table 1**.) The state will add only 296,000 jobs to its employment base over the course of the 11-year forecast, or about 27,000 jobs a year. That is about 10,000 net new jobs less than the state's experience since 1980. Until this year, employment growth in the U.S. was considerably faster than in New Jersey since the last economic upswing began in 2004. We expect that once the recovery begins jobs growth in the U.S. will again outperform that in New Jersey. Thus New Jersey's share of the national job base will decline from its current 3.0 percent to 2.9 percent in 2012 and thereafter. (See **Chart 4**.)

Since 2000, the nation's growth in real output has been more robust than growth in the state's real output. We expect this pattern to persist over the forecast period as well. Between 2007 and 2018, output in New Jersey will expand by an average rate of 2 percent a year compared to an average rate of 2.3 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.

CHART 3: ANNUAL EMPLOYMENT CHANGE IN NEW JERSEY
2006 TO 2008



Source: lwd.dol.state.nj.us, December 2008.

The state's consumer inflation rate rose 4.1 percent in 2006, primarily because of high energy prices and increasing wage rates. The rate of inflation slowed to 2.4 percent in 2007 and then popped up to 3.7 percent in 2008, again because of rapidly rising energy prices through the first half of the year. The inflation will turn briefly to deflation in 2009 as the recession and lack of demand for goods and services of all types pushes prices down. A return to a more normal economic picture in 2010 will be accompanied by a low inflation rate averaging 2.5 percent a year between 2009 and 2018.

New Jersey's unemployment rate averaged 4.7 percent in 2006 and fell to 4.2 percent in 2007. It is expected to climb to an average of 5.4 percent this year and rise to 7 percent in 2009 and

Table 1
SUMMARY OF NEW JERSEY ECONOMIC FORECAST

	2007	2008	2009	2010	2010 to 2018
Annual Percentage Growth					
Nonagricultural Employment	0.1%	-0.2%	-0.6%	0.1%	1.0%
Real Gross State Product	1.1%	2.2%	0.5%	0.5%	2.4%
Personal Income	5.5%	3.4%	2.7%	2.9%	5.3%
Population	0.2%	0.4%	0.6%	0.6%	0.7%
Consumer Prices	2.4%	3.7%	-1.6%	2.6%	2.5%
Percentage					
Unemployment Rate (average)	4.2%	5.4%	7.0%	7.2%	5.4%

Source: R/ECON™, January 2009.

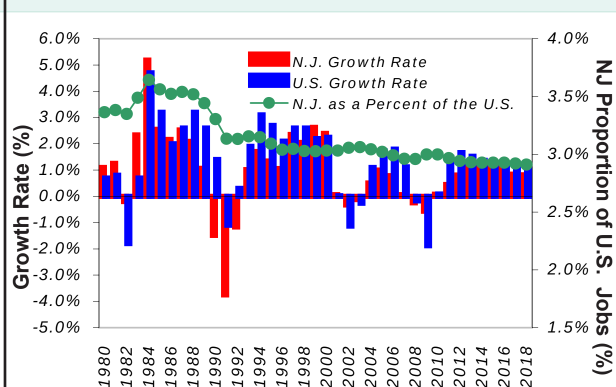
to a peak of 7.2 percent in 2010. It will average 5.4 percent over the rest of the forecast period, and remain below the U.S. rate throughout the forecast period. (See **Chart 5**.)

After growing an extraordinary 7.4 percent in 2006, personal income rose 5.5 percent in 2007. It will rise only 3.4 percent this year and even less in 2009 and 2010. Personal income will rise at an average rate of 5.3 percent a year over the rest of the forecast period.

The state added 254,000 residents between 2000 and 2007, growing at an average annual rate of 0.4 percent, but with growth declining nearly every year in that period. The state will add 614,000 residents over the course of the forecast, expanding at an average rate of 0.6 percent a year. As a result, New Jersey's population will top 9 million in 2013 and will rise to 9.3 million in 2018. 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 2018. Thus the state's share of national employment will remain about the same as its share of the nation's population.

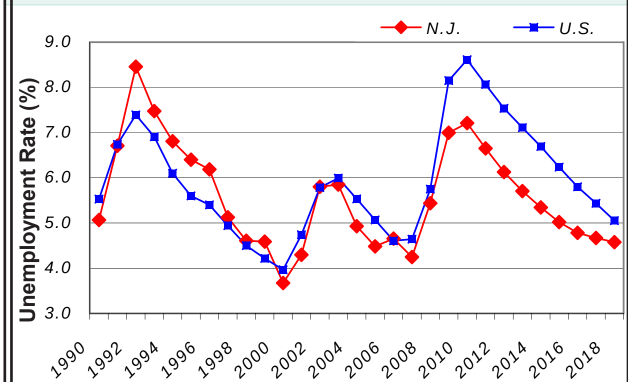
The fastest job growth in New Jersey during the forecast period will be experienced by the four service sectors. These sectors, taken together, will grow 1.6 percent a year through the forecast period. The other strong growth sectors will be transportation and trade. The cyclical nature of the construction industry will leave it with a small decrease in jobs in 2018 compared with 2007. Manufacturing, utilities, and information will continue to lose jobs, as they have for many years.

CHART 4: NEW JERSEY AND U.S. EMPLOYMENT GROWTH 1980 TO 2018



Sources: Global Insight, December 2008, and R/ECON™, January 2009.

CHART 5: NEW JERSEY AND U.S. UNEMPLOYMENT RATES 1990 TO 2018



Sources: Global Insight, December 2008, and R/ECON™, January 2009.