FORECAST OF JANUARY 2012

NEW JERSEY: THE RECOVERY CONTINUES VERY SLOWLY

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EXECUTIVE SUMMARY

The New Jersey economy has improved over the course of the year—slowly but perceptibly. After hitting bottom in January 2011 employment was up by 52,100 jobs in November. The unemployment rate was down to 9.1 percent from the recessionary peak of 9.9 percent reached in April 2010. However, the daily dose of new problems means that the probability of a strong ongoing recovery is slim.

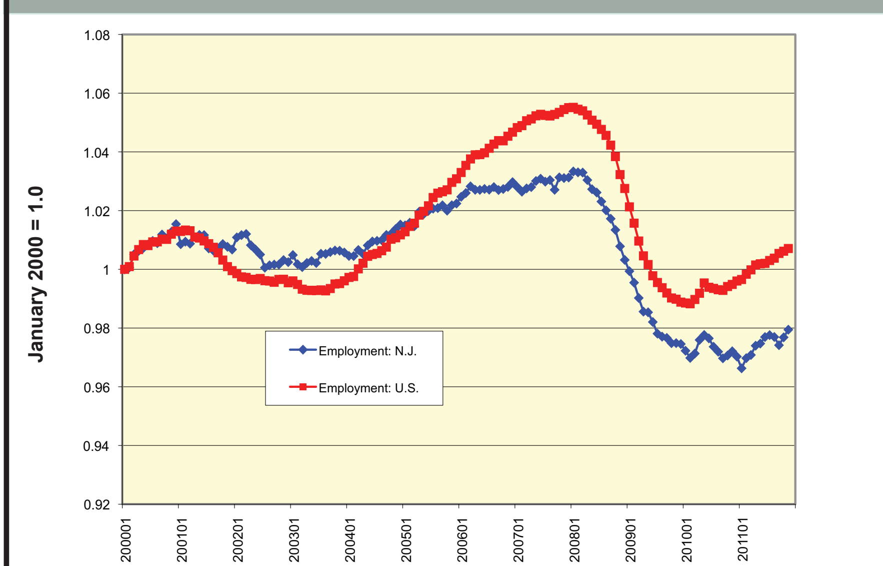
Even with this year's job growth, the pace of recovery in New Jersey lags that in the nation. While the U.S. has regained 28 percent of the jobs lost during the recession, New Jersey has regained only 20 percent. (**See Chart 1**.)

We expect that the U.S. economy will strengthen slowly in the coming months, although not as rapidly as we would like—particularly if Congress actually cuts off extended unemployment benefits after February and does not manage to extend the reduction in the employee payroll tax rate for the next full year. The same can be said for New Jersey's economy.

In New Jersey, the job loss in 2010 was primarily a result of cuts in public sector jobs—jobs at both the state and local levels declined substantially. After growing steadily through the first decade of the century, government employment plunged in the second half of 2010 and into early 2011. The number of government jobs was essentially flat at about 623,000 in 2011. Although, as can be seen in **Chart 2**, private sector jobs barely grew in 2010, they rose by 1.3 percent through the first eleven months of 2011.

Between January 2008 and January 2011, the state had a net job loss of 265,700. The only growth sector over the full period was educational, health, and social services. (**See Chart 3**.) Between January 2010 and January 2011 the state lost 24,000 jobs, all of them in the public sector. Since then the private sector has added

CHART 1: NEW JERSEY AND U.S. EMPLOYMENT INDICES 2000 TO 2011



Sources: www.nj.gov/labor/lra and www.bls.gov, December 2011.

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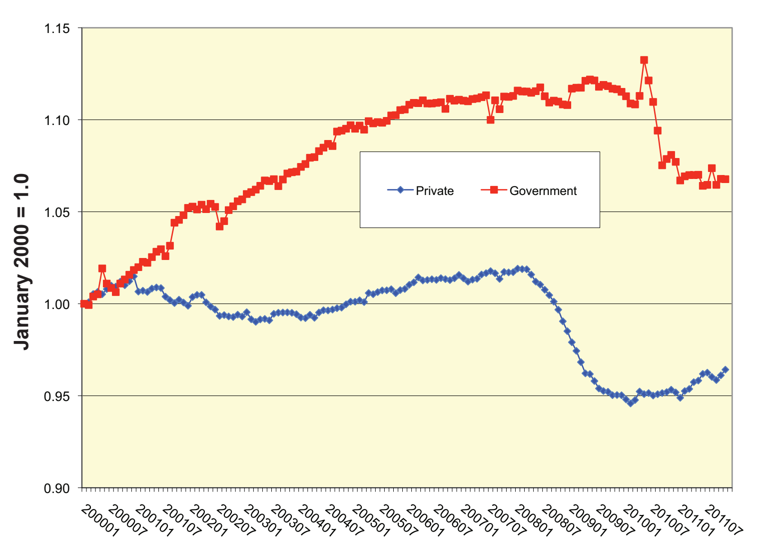
CHART 2: NEW JERSEY PUBLIC AND PRIVATE EMPLOYMENT INDICES 2000 TO 2011



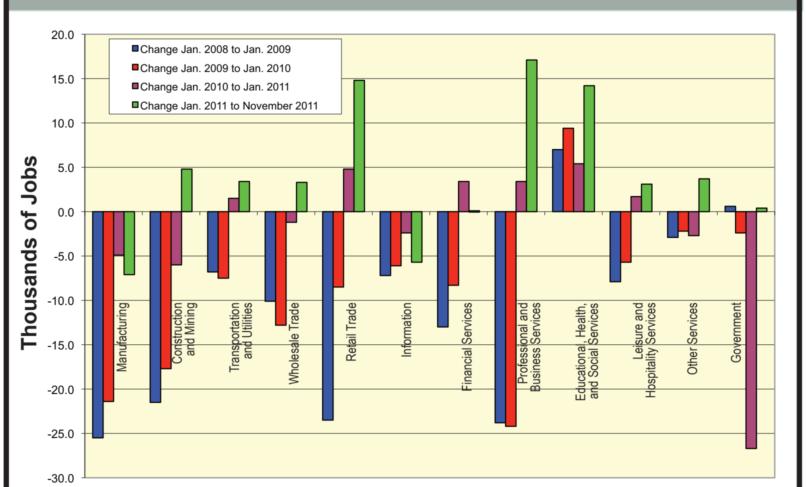
Sources: www.nj.gov/labor/lra and www.bls.gov, December 2011.

52,100 jobs while the public sector has added 400, with gains at the local level outpacing losses at the federal and state levels. Gains this year have occurred in every sector of the economy except manufacturing and information—two industries that have been losing jobs over a long period.

Our forecast indicates that although New Jersey began to recover its lost jobs in 2011, growth will be so slow that the average number of jobs in the state will not surpass the 2007 peak until 2016. The U.S. will begin its job expansion only a year earlier--in 2015. During the period from 2011 to 2030 we expect average annual employment gains of 0.8 percent or 35,200 jobs in New Jersey. By the end of the forecast period the state's employment base will exceed the 2007 peak by 453,000 jobs or 11.1 percent. We expect that during the recovery and expansion, employment growth in the U.S. will continue to outperform that in New Jersey. *(***See Chart 4***.)* By the end of the forecast period the nation's employment base will exceed the peak reached in 2007 by 16.4 percent. Thus New Jersey's share of the national job base will decline from its current 2.95 percent to 2.83 percent in 2030.

The New Jersey unemployment rate was lower than that of the U.S. through much of the past decade, and this held true during most of the recession as well. The state rate rose above the national rate in early 2011 when some workers reentered the labor force as the labor market seemed to improve. *(***See Chart 5***.)* Over the course of the year 74,000 workers entered or re-entered the workforce, while the number of unemployed rose by only 7,000. New Jersey's unemployment rate will come down very slowly as the state's economy recovers, reaching 6.2 percent in 2020 and 5.5 percent in 2030. By 2030 the U.S. rate will be at 5.6 percent.

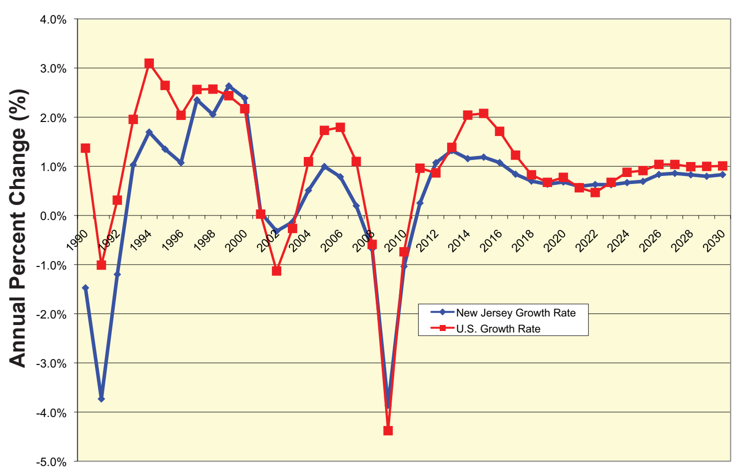
CHART 3: CHANGE IN EMPLOYMENT IN NEW JERSEY JANUARY 2008 TO NOVEMBER 2011



Source: lwd.dol.state.nj.us, March and December 2011.

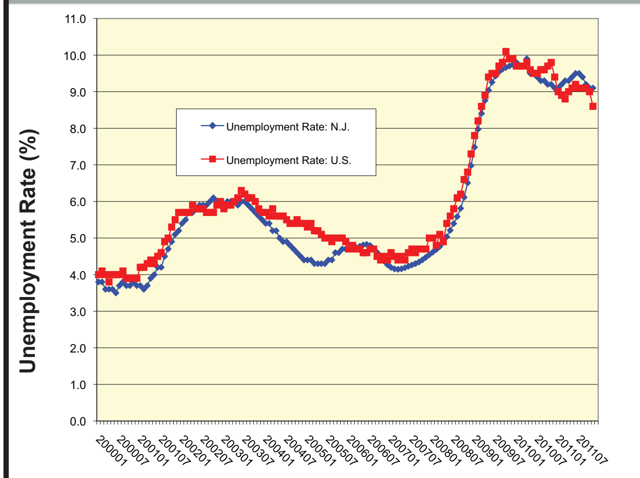
During the past decade, growth in national GDP has been considerably more robust than growth in state real output. We expect this pattern to persist over the forecast period as well. Between 2010 and 2030, output in New Jersey will expand at an average rate of 2.1 percent a year compared to the average rate of 2.5 percent a year expected nationwide. The 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. *(***See Tables 1 and 2***.)*

CHART 4: CHANGE IN NEW JERSEY AND U.S. EMPLOYMENT 1990 TO 2030



Sources: Global Insight U.S. Forecast, December 2011, and R/ECON™, January 2012.

CHART 5: NEW JERSEY AND U.S. UNEMPLOYMENT RATES 2000 TO 2011



Sources: lwd.dol.state.nj.us/labor/lpa and www.bls.gov, September 2011.

New Jersey's consumer prices were stable in 2009 and rose 1.8 percent in 2010. The recovery and expansion of economic growth beginning in 2011 will be accompanied by an inflation rate averaging 2.1 percent a year from 2010 to 2030. The rate was close to 3 percent in 2011 because of high inflation rates in agricultural and oil prices in the early part of the year.

Personal income declined as a result of the recession by 2.6 percent in 2009 and returned to positive territory in 2010 with growth of 3.5 percent. It will rise at an average rate of 4.3 percent a year over the forecast period, somewhat lower than the 4.6 percent growth expected for the U.S. On a real per capita basis, income will grow nearly identically in the state and nation at about 1.6 percent per annum.

The state added 378,000 residents between 2000 and 2010, growing at an average annual rate of 0.44 percent. This was just over half as fast as population growth in the 1980s and was only half as fast as national population growth. Population growth will average 0.6 percent a year over the forecast period, compared to 0.9 percent a year for the U.S. The state will add more than 1.1 million residents over the course of the forecast. As a result, New Jersey's population will top 9 million in 2015 and come close to 10 million in 2030. Since New Jersey's population growth will continue to be slower than growth nationwide, the state's share of U.S. population will fall from the current 2.8 percent to 2.7 percent in 2030. Thus, the state's share of national employment will remain slightly higher than its share of the national population.

Table 1
SUMMARY OF NEW JERSEY ECONOMIC FORECAST

	2010	2011	2012	2012 to 2020	2020 to 2030
Annual Percentage Growth					
Non-Agricultural Employment	-1.0%	0.3%	1.1%	0.9%	0.7%
Real Gross State Product	2.5%	2.6%	2.1%	2.3%	1.8%
Personal Income	3.5%	4.6%	4.5%	4.2%	4.0%
Population	0.4%	0.4%	0.4%	0.6%	0.6%
Consumer Prices	1.8%	2.9%	2.0%	1.9%	1.9%
Percentage					
Unemployment Rate (average)	9.4%	9.3%	8.6%	6.5%	5.7%

Source: R/ECON™, January 2012.

Table 2
SUMMARY OF U.S. ECONOMIC FORECAST

	2010	2011	2012	2012 to 2020	2020 to 2030
Annual Percentage Growth					
Non-Agricultural Employment	-0.7%	1.0%	0.9%	1.3%	0.8%
Real Gross State Product	3.0%	1.8%	1.6%	2.7%	2.3%
Personal Income	3.7%	5.0%	3.1%	4.7%	4.2%
Population	1.0%	1.0%	1.0%	1.0%	0.8%
Consumer Prices	1.6%	3.2%	1.5%	1.8%	1.8%
Percentage					
Unemployment Rate (average)	9.6%	9.1%	9.2%	7.2%	5.8%

Source: Global Insight, *U.S. Long Term Economic Outlook*, December 2011.