FORECAST OF JULY 2008

NEW JERSEY: DOWNTURN OR JUST NO GROWTH?

NEW JERSEY: EXECUTIVE SUMMARY

During the first five months of 2008, New Jersey’s economy has lost 10,900 jobs, about 3 percent of the number of jobs lost thus far this year in the U.S. The state’s job base has barely changed since the beginning of 2006, while employment in the U.S. continued to grow until December 2007, before dipping by 324,000 jobs by May 2008. (See Chart 1.) We expect essentially no change in the New Jersey job base in the next two years, with a turnaround expected in mid-2010. Real gross state product will decline slightly at the end of this year and through early 2010. This forecast for New Jersey assumes that the U.S. will experience little growth this year, with a one-quarter dip in gross product at the end of the year and a period of declining employment lasting through early 2009.

The state’s unemployment rate was consistently lower than the nation’s from 2000 to 2001, from mid-2003 through the end of 2005, and again in 2007 through May 2008. Even so, New Jersey’s rate has increased sharply since the end of last year—from 4.2 percent in December 2007 to 5.4 percent in May 2008. It is currently just below the U.S. rate of 5.5 percent. (See Chart 2.) The unemployment rate is expected to be close to the national rate in 2008 and 2009 and to exceed it during the rest of the forecast period.

Between May 2007 and May 2008, nearly 80 percent of the state’s new jobs were added in its two largest private industries—education and health services and professional and business services. (See Chart 3.) The rest of this year’s gains were in the other two service sectors and information. There were losses in all other sectors, with a third each in manufacturing and finance, the latter a result of the softening housing market.

The R/ECON™ forecast indicates that New Jersey’s employment base will barely change in the next three years. The rate of expansion will average 0.7 percent per year over the rest of the forecast period. (See Table 1.) The state will add only 250,000 jobs to its employment base over the course of the 10-year forecast. Employment growth in the U.S. has been considerably
Since 2000, growth in national real output has been more robust than growth in state 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 1.6 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 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. After a blip up to 4.2 percent in 2008, it will average 2 percent a year between 2007 and 2018. The projected low inflation rates for both the state and the nation are based on the assumption that weakness in the demand for housing, vehicles, and labor will offset the high price of fuel in the near term, while the price of fuel will fall and then stabilize in the longer term.

New Jersey’s unemployment rate averaged 4.7 percent in 2006 and fell to 4.2 percent in 2007. During the recessionary period it will climb to 5.2 percent in 2008 and to 5.5 percent in 2009 and 2010. It will average 5.0 percent over the rest of the forecast period. Beginning in 2012 the New Jersey rate will be somewhat higher than the U.S. rate. (See Chart 5.)

After growing an extraordinary 7.4 percent in 2006, personal income rose 5.4 percent in 2007. It will rise just over 4 percent a year in the next couple of years and at an average rate of 5 percent 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 629,000 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 and transportation and warehousing. These sectors, taken together, will grow 1.1 percent a year through the forecast period. The other growth sectors will be trade, financial services, and government.
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 cyclical nature of the construction industry will leave it with almost no net job change over the forecast period.