FORECAST OF JULY 2009

NEW JERSEY: IS THE RECESSION FADING?

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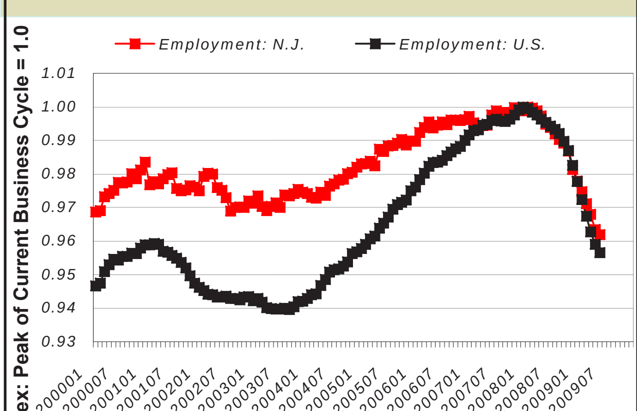
EXECUTIVE SUMMARY

New Jersey's recession began in January 2008, a month after it started in the U.S. New Jersey lost 155,900 jobs between January 2008 and May 2009. During the first year of the recession New Jersey's job base declined at the same rate as the nation's; however, since the beginning of 2009, the state's pace of job loss has been slower than the nation's (-1.6 percent compared to -2.1 percent). Over the course of the recession, New Jersey has lost 2.6 percent of the national job loss—less than the 3.0 percent that could be expected based on its share of the national job base. (See **Chart 1**.) Unfortunately, as the chart also makes clear, New Jersey has now lost more jobs than it gained during the expansion of 2003 to 2008.

Our forecast indicates that the recession in New Jersey will be longer but shallower than the nation's, while the recovery will be slower. The state will regain all the jobs lost during the recession, but not until toward the end of the next decade. This forecast for New Jersey assumes that the U.S. will experience a five-quarter dip in real gross product (GDP) running through mid-2009 and a period of decreasing employment lasting through early 2010. The nation will recover its peak employment level early in 2013. The U.S. unemployment rate will peak at 10.2 percent in mid-2010. (See **Chart 2**.)

CHART 1: NEW JERSEY AND U.S. EMPLOYMENT INDICES
2000 TO 2009



Sources: lwd.dol.state.nj.us/labor/lpa and www.bls.gov, June 2009.

During the recession most of the job losses have been, and will be, in manufacturing and professional and business services. Professional and business services will turn around during the recovery and be a strong contributor to growth, as will the other service sectors; manufacturing employment will be close to stable over the long run.

Between May 2008 and May 2009, the state had a net job loss of 135,100. The loss was concentrated in professional and business services, manufacturing, construction, and finance. The only growth sectors were educational and health services and local government. (See **Chart 3**.) This situation showed a severe deterioration from May 2007 to May 2008 when all the service sectors were still growing.

The R/ECON™ forecast indicates that New Jersey's employment base will decline by 197,000 jobs between 2007 and 2010 on an annual average basis. However, the decline from the quarterly peak of 4,089,100 at the beginning of 2008 to the quarterly trough at the end of 2010 will total 217,000. The state's economy will begin to revive in 2011. It will add 19,000 jobs by 2012 and then grow at an average rate of 41,000 jobs or 1 percent a year through the rest of the forecast period. (See **Table 1**.) Employment growth in the U.S. was considerably faster than in New Jersey during the economic upswing that began in 2002. We expect that during the recovery employment growth in the U.S. will again outperform that in New Jersey, although it will slow somewhat in the later years of the forecast period. Thus New Jersey's share of the national job base will decline from its current 3.0 percent to 2.8 percent in 2014 and thereafter. (See **Chart 4**.)

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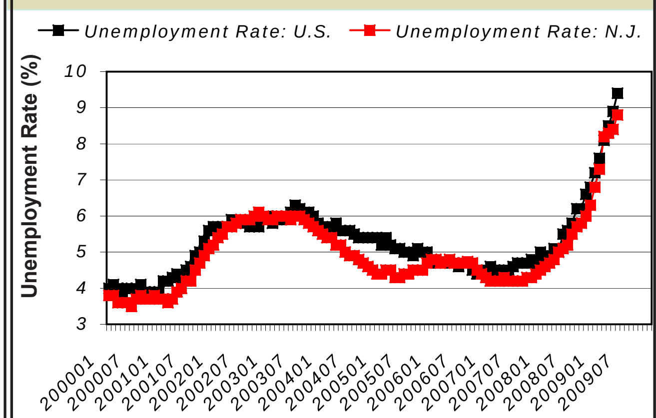


Sources: lwd.dol.state.nj.us/labor/lpa and www.bls.gov, June 2009.

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 2.1 percent a year between 2009 and 2029.

The state's unemployment rate has been lower than the nation's during most of this decade; except in February of this year, it has remained on the low side during this recession. New Jersey's rate has increased sharply over the past two years—from 4.5 percent in December 2007 to 6.8 percent in December 2008, and to 8.8 percent in May 2009. The U.S. rate passed 7 percent in December 2008 and rose to 9.4 percent in May 2009. (See **Chart 2**.) New Jersey's unemployment rate is expected to peak at 10.4 percent at the end of 2009,

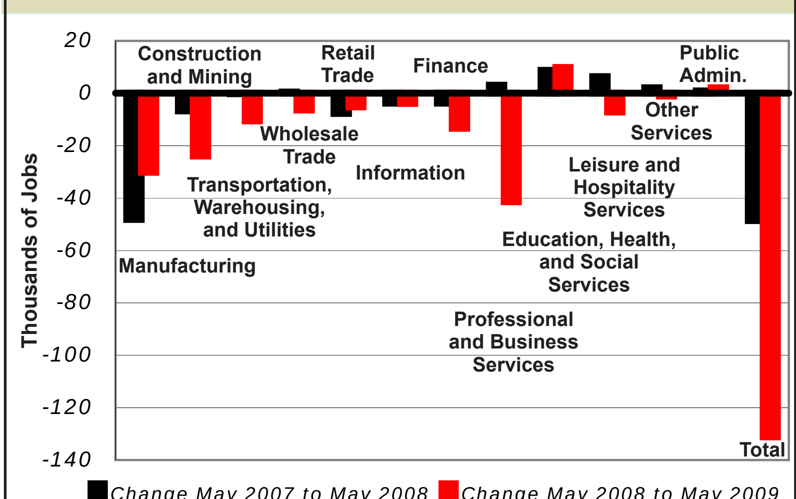
Since 2000, growth in GDP has been more robust than growth in state real output. We expect this pattern to persist over the forecast period as well. Between 2008 and 2029, output in New Jersey will expand at an average rate of 1.9 percent a year compared to an average rate of 2.6 percent a year expected 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 2.4 percent in 2007 and then popped up to 3.7 percent in 2008, primarily because of rapidly rising energy prices through the first half of the year. Inflation will turn

Table 1
SUMMARY OF NEW JERSEY ECONOMIC FORECAST

	2008	2009	2010	2011	2011 to 2019	2019 to 2029
Annual Percentage Growth						
Nonagricultural Employment	-0.5%	-3.4%	-1.0%	0.0%	0.9%	1.0%
Real Gross State Product	0.6%	0.3%	-0.6%	0.5%	2.1%	2.3%
Personal Income	3.4%	1.9%	1.3%	2.5%	4.8%	5.2%
Population	0.3%	0.5%	0.4%	0.4%	0.6%	0.8%
Consumer Prices	3.7%	-0.7%	2.1%	2.5%	2.1%	2.1%
Percentage						
Unemployment Rate (average)	5.5%	9.4%	10.1%	8.8%	6.3%	4.9%

Source: R/ECON™, June 2009.



Source: lwd.dol.state.nj.us, June 2009.

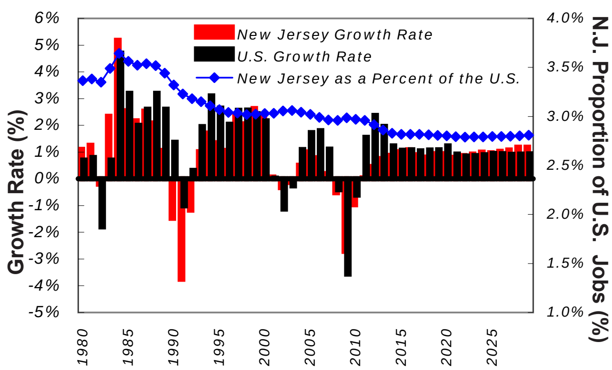
but fall below the national rate toward the end of 2010.

It will average 5.5 percent over the rest of the forecast period, remaining below the U.S. rate after 2010. (See **Chart 5**.)

Personal income rose 5.9 percent in 2007, and, with the onset of the recession, rose only 3.2 percent in 2008. Income growth will fall to less than 2 percent a year in 2009 and 2010 as the recession persists. Over the rest of the forecast period income will rise at an average rate of 4.9 percent a year.

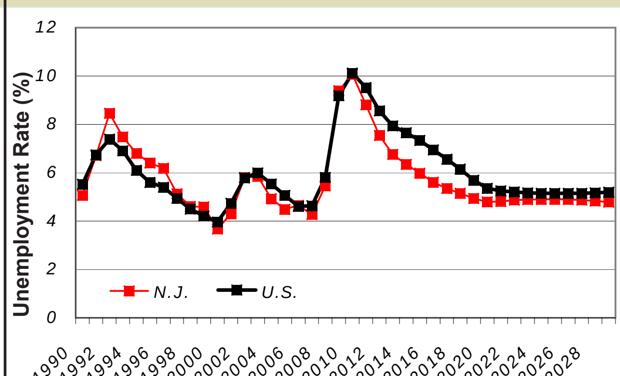
The state added 251,800 residents between 2000 and 2008, growing at an average annual rate of 0.4 percent. However, the rate of growth declined

CHART 4: NEW JERSEY AND U.S. EMPLOYMENT GROWTH 1980 TO 2029



Sources: Global Insight, May 2009, and R/ECON™, June 2009.

CHART 5: NEW JERSEY AND U.S. UNEMPLOYMENT RATES 1990 TO 2029



Sources: Global Insight, May 2009, and R/ECON™, June 2009.

each succeeding year, except for a small upward blip in the rate in 2008. The growth in population will remain at half a percent or less over the next several years and rise slightly as the economy improves. The state will add 1.3 million residents over the course of the forecast, growing at an average rate of 0.7 percent a year. As a result, New Jersey's population will top 9 million in 2016 and will rise to nearly 10 million in 2029. Population growth in New Jersey will continue to be slower than it is nationwide, so that the state's share of U.S. population will fall from the current 2.84 percent to 2.69 percent in 2029. Thus, during the full forecast period, the state's share of national employment will remain slightly higher than its share of the nation's population.