

FORECAST OF JULY 2011

NEW JERSEY: THE WEAK RECOVERY CONTINUES!

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EXECUTIVE SUMMARY

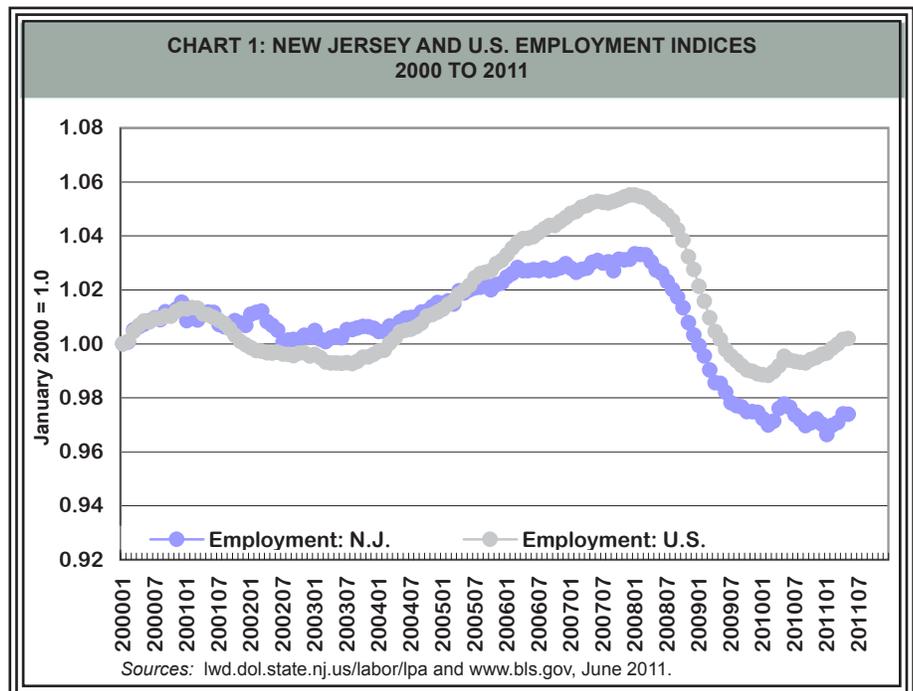
Since our last forecast was published in April 2011 the U.S. economy has weakened as have its prospects for the coming year. However, that does not mean that we expect another recession. We think that the economy will strengthen slowly in the coming months although not as rapidly as we would like. The same can be said for New Jersey. After a loss of 24,000 jobs from January 2010 to January 2011, New Jersey's economy added 30,500 jobs between January 2011 and April 2011. Preliminary data for May showed a small loss. (See **Chart 1**.)

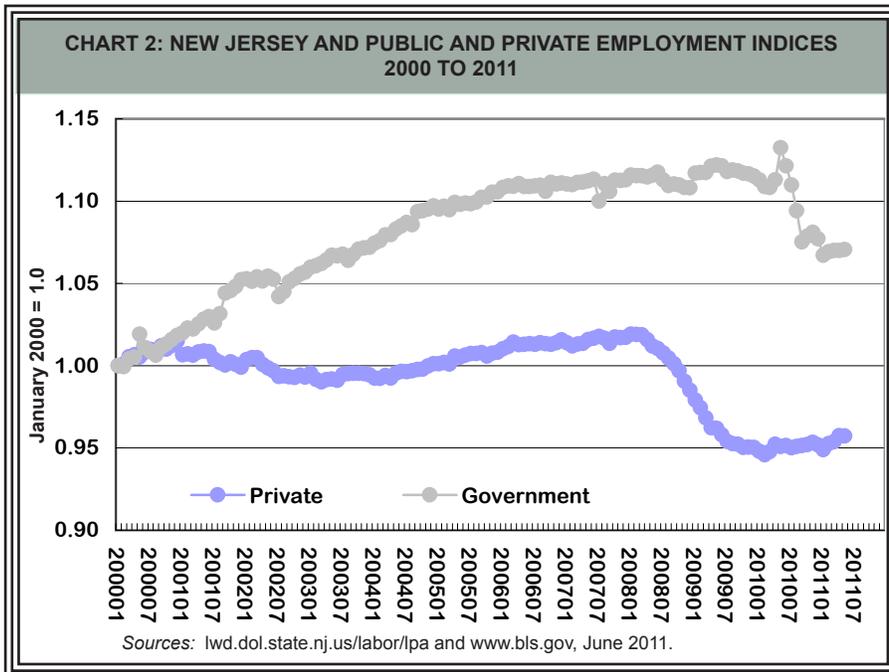
Last year's job loss was primarily a result of cuts in public sector jobs in the state—jobs at all levels of government except defense declined in 2010. After growing steadily through the first decade of the century, government employment plunged in the second half of 2010 and into early 2011. However, as can also be seen in **Chart 2**, the private sector has barely taken up the slack. During 2010, private sector jobs stayed in a range very close to 3,210,000. They dipped again in January 2011 and then grew by 28,800 through April followed by a dip of 700 in May.

The New Jersey unemployment rate was lower than that in the U.S. through much of the past decade, and this held true during most of the recession as well. In New Jersey the decline in the unemployment rate in 2010 seems to have been the result of people becoming discouraged by the job market and, hence, dropping out

of the labor force; both the number of people employed and unemployed fell during much of the year. The state rate rose above the national rate in early 2011 when some workers seeing more opportunity re-entered the labor force. (See **Chart 3**.) New Jersey's unemployment rate rose to 9.4 percent in May, while the U.S. rate rose to 9.1 percent.

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 4**.) 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 21,800 jobs while the public sector has added 2,000 all of them at the local level. The positive note here is





that while gains have been small this year, they have occurred in nearly every sector of the economy.

Our forecast indicates that although New Jersey begins 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 two years earlier—in 2014. The forecast period from 2011 to 2021 includes the recovery from the recession of 2008 to 2010 and expansion from 2016 to 2021. During that time we expect average annual employment gains of 0.9 percent

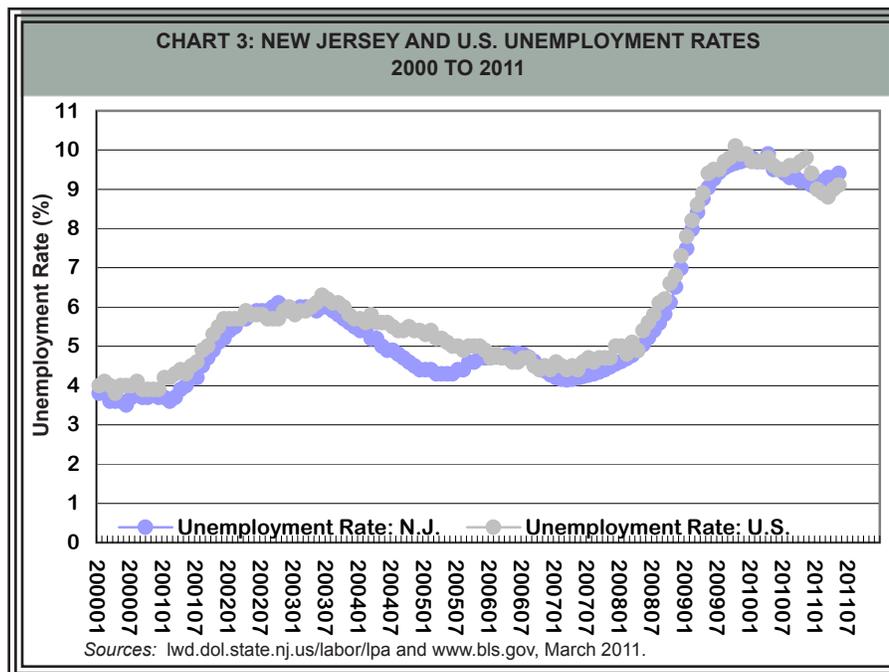
this pattern to persist over the forecast period as well. Between 2010 and 2021, output in New Jersey will expand at an average rate of 1.9 percent a year compared to the average rate of 2.6 percent a year expected nationwide. The differential is due to the relatively higher costs of living and doing business in New Jersey, as well as the state’s lower rate of population growth. (See **Tables 1 and 2.**)

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 accom-

panied by an inflation rate averaging 1.9 percent a year from 2010 to 2030.

New Jersey’s unemployment rate peaked at a quarterly rate of 9.7 percent in the last quarter of 2009 and the first quarter of 2010. It averaged 9.4 percent in 2010 and will come down slowly as the state’s economy recovers, reaching just over 5 percent by 2021, compared to a U.S. rate just under 5 percent in 2021.

Personal income rose 5.9 percent in 2007 and, with the onset of the recession, rose only 2.5 percent in 2008. Income fell in 2009 by 2.6 percent as the recession persisted. It returned to positive territory in 2010 with growth of 2.6 percent



and will rise at an average rate of 4.2 percent a year over the forecast period, somewhat lower than the 4.5 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 1.7 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 0.5 percent a year over the forecast period, compared to 0.9 percent a year for the U.S. The state will add more than 570,000 residents over the course of the forecast. As a result, New Jersey's population will top 9 million in 2016 and come close to 9.4 million in 2021. Since New Jersey's population growth will continue to be slower than national growth, the state's share of U.S. population will fall from the current 2.8 percent to 2.7 percent in 2021. Thus, the state's share of national employment will remain slightly higher than its share of the national population.

THE NATION

Current Economic Situation and Forecast

Although for those still out-of-work it may not feel like the recession is over, the U.S. economy—as measured by real gross domestic product (GDP)—is chugging slowly ahead and has been since mid-2009. The costs of the recession have been felt primarily in the labor market where payroll employment fell by nearly 8.8 million jobs between January 2008 and February 2010. Only 1.8 million jobs have been restored to the economy since then; these have been concentrated in education and health services, which grew through the recession, professional and business services, and leisure, hospitality and other services. Manufacturing has made a bit of a recovery but the

Table 1
SUMMARY OF NEW JERSEY ECONOMIC FORECAST

	2009	2010	2011	2012	2012 to 2021
<i>Annual Percentage Growth</i>					
Nonagricultural Employment	-3.9%	-1.0%	0.1%	1.5%	1.0%
Real Gross State Product	-3.8%	2.5%	1.9%	2.6%	2.1%
Personal Income	-2.6%	2.6%	4.7%	3.4%	4.7%
Population	0.7%	0.7%	0.6%	0.4%	0.6%
Consumer Prices	0.0%	1.8%	2.7%	2.0%	2.0%
<i>Percentage</i>					
Unemployment Rate (average)	9.1%	9.4%	8.9%	8.0%	6.3%

Source: R/ECON™, July 2011.

