



FORECAST OF JULY 2012

NEW JERSEY: THE RECOVERY SPUTTERS ALONG

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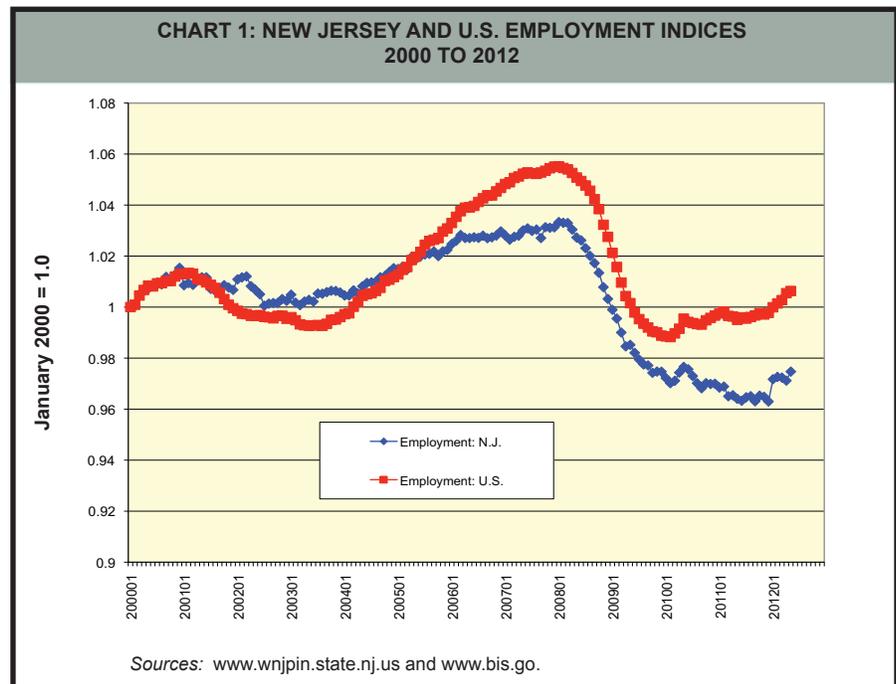
Michael L. Lahr, Ph.D.

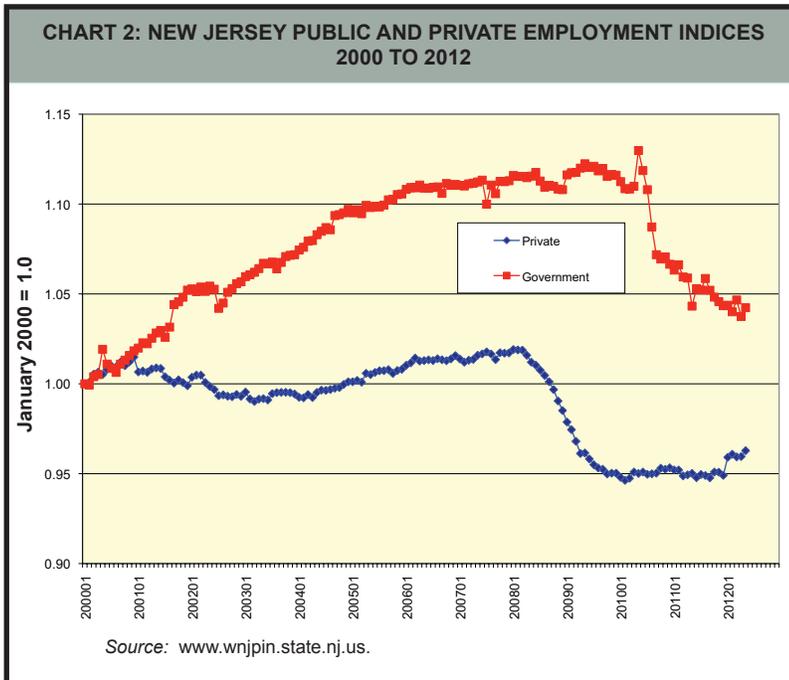
EXECUTIVE SUMMARY

The July 2012 R/ECON forecast for New Jersey looks for growth in nonagricultural employment of 1.3 percent or 49,200 jobs in 2012. This is an above-average rate as the economy comes decisively out of the recession, but the rate of growth will then slow as the recovery/expansion progresses. Growth will continue between 2012 and 2022 at an average rate of 0.8 percent or 31,100 jobs per year. By the end of the period the employment level will be 137,000 jobs above the peak reached in 2007. The unemployment rate will fall from its current (May 2012) level of 9.2 percent to 6 percent by 2020. At that level it will still be well above pre-recession levels.

New Jersey's economy improved slowly and steadily during most of 2011 and into early 2012. After hitting bottom in January 2011, employment was up by 70,000 jobs in May 2012. Although the unemployment rate has risen in the past couple of months it is still less than its recessionary peak of 9.9 percent reached in April 2010. There are so many ongoing problems in the U.S. and global economies that we believe the pace of recovery and expansion in the state in this business cycle will remain modest.

The speed of growth in New Jersey has lagged that in the nation throughout the recovery. However, in a probable anomaly the number of jobs added in May in the state was 17,600—more than a quarter of those added in the U.S.. It is likely that revisions to the data in June and July will reduce that proportion. Through May 2012 the U.S. had regained 43 percent of the jobs lost during the recession, while New Jersey had regained only 27 percent. (See Chart 1.) In terms of gross output, New Jersey lost 4.8 percent in 2009 and regained 30 percent of it in 2010. Unfortunately the newly released preliminary data for 2011 indicate





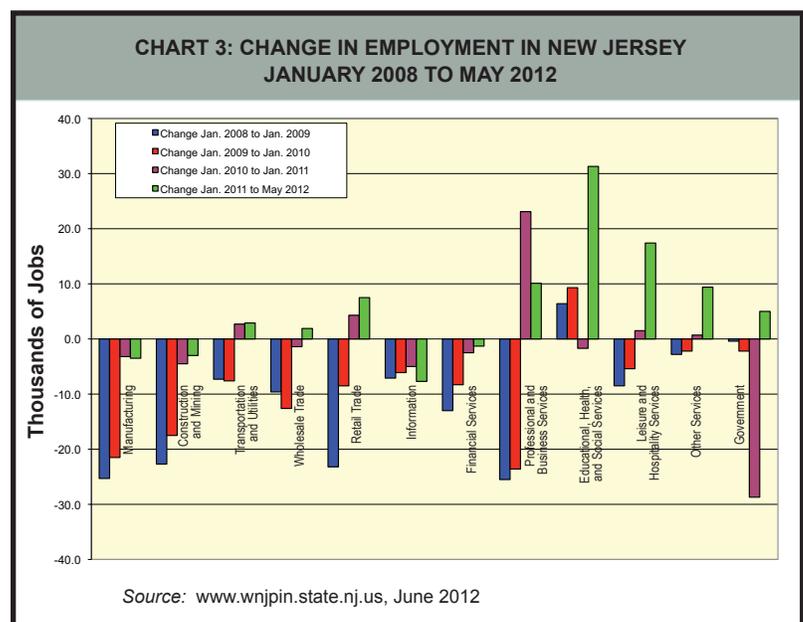
another output dip in 2011. The forecast predicts that output will return to the peak 2008 level by 2014. The loss in GDP for the U.S. in 2008 and 2009 was more than recovered by 2011.

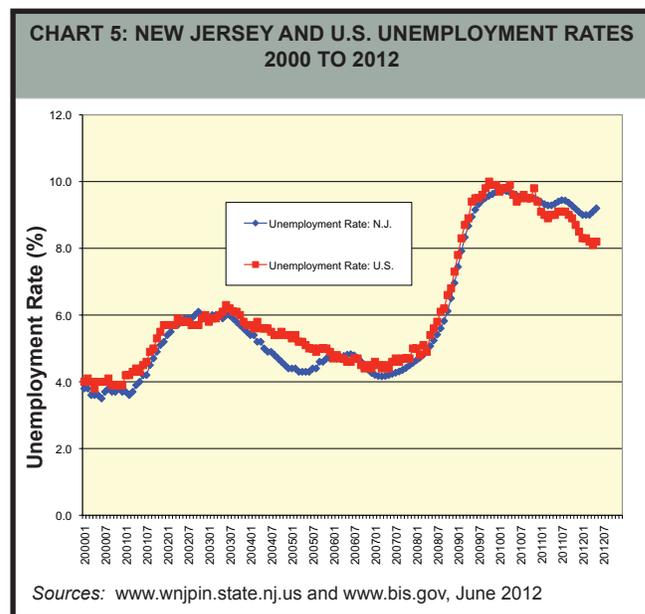
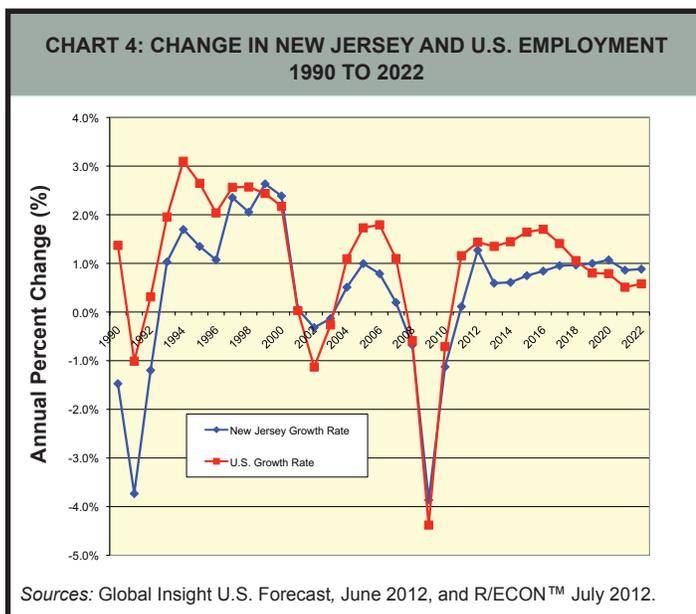
New Jersey relied on the public sector for job growth in the first decade of the century; however, since early 2011 there has been a shift, in that now almost all job growth is in the private sector. As can be seen in Chart 2, the number of private sector jobs barely changed in 2010, but it has risen 2 percent, or 65,000 jobs, since January 2011.

Between January 2008 and January 2011, the state had a net job loss of 257,100. Even the educational, health, and social services sector lost jobs in the last of those three difficult years, after being the only industry to gain jobs in 2009 and 2010. (See Chart 3.) Between January 2011 and May 2012 the state gained 70,000 jobs. In that period, increases in employment in the services, trade, transportation, and government sectors more than balanced job losses in the manufacturing, construction, information, and financial services sectors. (See Chart 3.)

In the past several R/ECON forecasts we predicted that growth in New Jersey would be so slow that the average number of jobs in the state would not surpass the 2007 peak until 2016. Our current forecast, based on a revised model and a steeper output loss, indicates an even later full jobs recovery—toward the end of 2018. The U.S. will begin its job expansion at least three years earlier—in the first quarter of 2015. 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 8.3 percent, and New Jersey’s share of the national job base will decline from its current 2.93 percent to 2.83 percent in 2022.

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. However, the state’s rate has been persistently higher than the national rate since the beginning of 2011. (See Chart 5.) Between December 2010 and May 2011, 57,500 workers have entered or reentered the workforce, while the number of unemployed





has fallen by only 6,200. This combination of forces brought the unemployment rate to 9.2 percent in May 2012. New Jersey’s unemployment rate is expected to decline slowly during the recovery, reaching 6 percent in 2020 and remaining there through 2022. By 2022 the U.S. rate will fall to 5.4 percent.

Between 2011 and 2022, output in New Jersey will expand at an average rate of 1.7 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, the state’s lower rate of population growth, and the weakness in the financial sector—particularly real estate. (See Table 1.)

New Jersey’s consumer prices rose 2.7 percent in 2011 because of high inflation rates in agricultural and oil prices in the early part of the year. The rate of inflation will be much slower in the forecast period, at only 2 percent a year from 2011 to 2022.

Personal income rose 4.2 percent in 2011 as the state began to come out of the recession. It will rise at an average rate of 4.1 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 similarly in the state and nation at about 1.5 percent per annum for the state and 1.6 percent per annum for the U.S.

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 from 2010 to 2022, compared to 1 percent a year for the U.S. The state will add more than 560,000 residents in that period. As a result, New Jersey’s population will top 9 million in 2016 and come close to 9.4 million in 2022. 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 2022. 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

	2011	2012	2013	2013 to 2022
<i>Annual Percentage Change</i>				
Nonagricultural Employment	0.1%	1.3%	0.5%	0.8%
Real Gross State Product	-0.5%	1.2%	1.5%	1.8%
Personal Income	4.2%	4.0%	3.4%	4.1%
Population	0.4%	0.4%	0.4%	0.6%
Consumer Prices	2.7%	1.4%	1.7%	2.1%
<i>Percentage</i>				
Unemployment Rate (average)	9.3%	9.1%	8.6%	6.5%

Source: R/ECON™, July 2012.