

RUTGERS ECONOMIC ADVISORY SERVICE

FORECAST OF JULY 2000

NEW JERSEY: THE ENDURING EXPANSION

EXECUTIVE SUMMARY

May 2000 saw the beginning of a fourth year of economic expansion in New Jersey. We expect solid performance by the economy this year: employment will grow nearly as fast as it did in 1999, and the unemployment rate will fall to 3.8%. There will be an uptick in the inflation rate, but that is expected to be temporary. Although no downturn is in sight, the economy's rate of growth will decelerate over the forecast period.

The R/ECON™ forecast for New Jersey in 2000 looks for employment to rise by 63,100 jobs, or 1.6%, with growth in real output of 3.0% and inflation at 3.1%. The state's population will increase by 0.7% in 2000. (See **Table 1.**) The employment growth rate will fall to 1.5% in 2001 and will continue to decrease in 2002 and beyond. Population growth will decelerate to an annual rate of 0.5% between 2001 and 2005. Output growth will slow to 2.6% in 2001 and will continue to decelerate over the course of the forecast. These forces will combine to push the unemployment rate to more than 4% by 2002.

Table 1
SUMMARY OF NEW JERSEY ECONOMIC FORECAST
July 2000

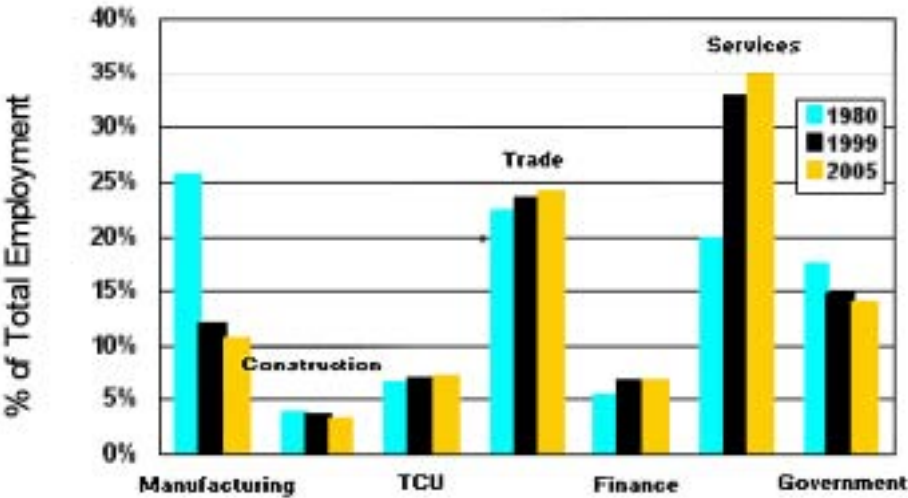
<i>Annual Percentage Growth</i>	1999	2000	2001	2002
Nonagricultural Employment	1.7	1.6	1.5	1.4
Real Gross State Product	2.4	3.0	2.6	2.4
Personal Income	5.6	6.3	5.3	5.2
Population	0.6	0.7	0.6	0.5
Consumer Prices	2.0	3.1	2.7	2.6
Percent				
Unemployment Rate (average)	4.6	3.8	3.9	4.1
<i>Source: R/ECON™</i>				

Personal income rose 5.6% in 1999. Income growth will be even more rapid in 2000 as wages increase by more than 7% and higher interest rates push up unearned income. An expected decline in interest rates after this year will slow the rate of growth of unearned income, while slower growth in the economy will check growth in earned income. Wages will rise approximately 5.2% a year between 2001 and 2005, and personal income growth will average 4.8% a year for the same period.

Real gross state output rose approximately 2.4% in 1999. It will rise at a faster rate this year, but the slower economic growth expected over the next several years will decrease the growth rate of gross state product to an average of 2.1% a year from 2001 to 2005.

The services and trade sectors will provide three-quarters of the net increase in jobs over the forecast period. The fastest growth will occur in the communications and services sectors. Declines in the manufacturing sector will slow from -2.7% per year over the past two decades to an average of -0.8% per year during the forecast period. The structure of the economy will thus continue its shift away from reliance on manufacturing and toward dependence on services. (See Chart 1.) By 2005, only 11% of the state’s job base will be in manufacturing, down from more than 26% in 1980 and 12% in 1999. By 2005, the service sector will provide 35% of the state’s jobs, up from 20% in 1980 and 33% in 1999. The public sector’s share of the job base will continue to decline over the forecast period. The shares of the finance sector and the transportation, communications, and utilities sector will be stable.

CHART 1: EMPLOYMENT STRUCTURE OF NEW JERSEY'S ECONOMY



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