



# RUTGERS ECONOMIC ADVISORY SERVICE

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## FORECAST OF JULY 2004 NEW JERSEY: THE EXPANSION BEGINS!

### EXECUTIVE SUMMARY

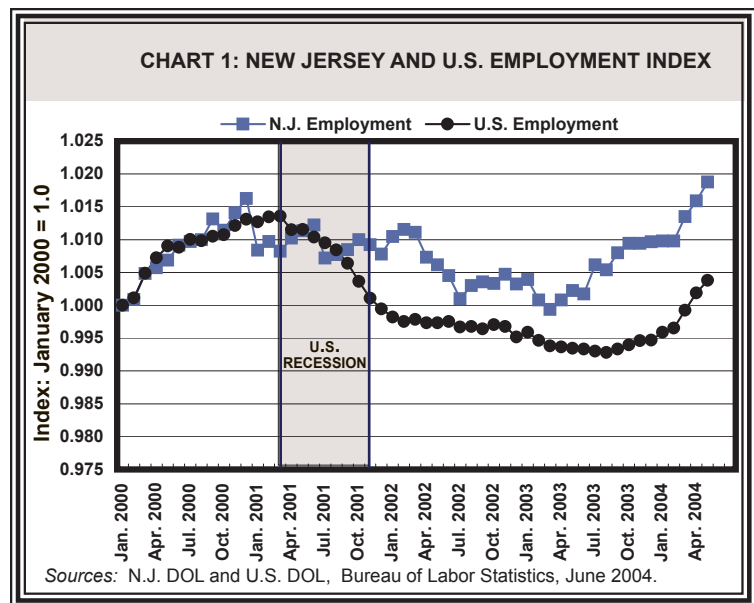
New Jersey's employment picture has strengthened rapidly over the past several months, with the result that the state has gained 65,500 jobs over the past year—a growth rate of 1.65 percent.<sup>1</sup> In May 2004, the number of jobs in the state finally surpassed the peak reached at the end of the last business cycle in December 2000.<sup>2</sup> Over the past year, job growth in New Jersey has been considerably stronger than growth nationwide, although the state and national growth rates have been similar since the end of 2003. However, because job losses nationwide were proportionately greater than losses in the state, the national economy still has a long way (1.3 million jobs) to go before surpassing the employment peak reached in March 2001. (See **Chart 1**.)

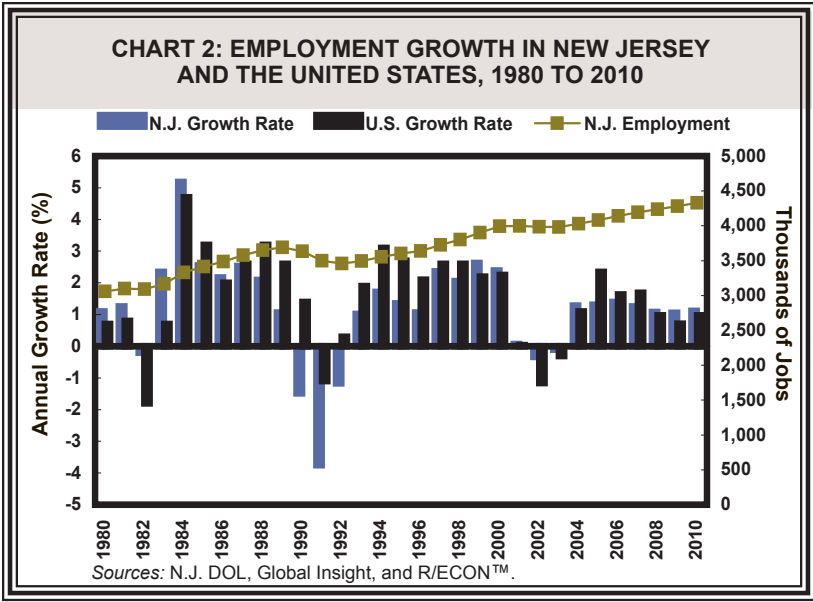
The relative strength of the New Jersey economy on the employment front also can be seen in the unemployment rate. The state's unemployment rate fell to 4.9 percent in May, down from a peak of 6.1 percent in July 2003. However, in May, the U.S. unemployment rate remained at 5.6 percent for the fourth month this year, down only 0.7 percentage points from the peak of 6.3 percent reached in June 2003. Thus, the U.S. rate remains—as has been the case for most of the period since 2000—above New Jersey's rate.

On the other hand, national output has grown rapidly in the past year at 3.1 percent, compared with an estimated 2.1 percent growth rate in New Jersey. Gross domestic product is expected to

continue to expand rapidly in 2004 at 4.9 percent, pushed by strong growth in exports and business fixed investment and by large gains in productivity.

The R/ECON™ forecast indicates that employment will grow in New Jersey at an average annual rate of 1.2 percent (or 50,000 jobs) between 2003 and 2010. In 2010, the state will house 4.3 million non-agricultural jobs. Although New Jersey emerged from the recent recession with less damage to its economy than that experienced by the country as a whole, the state will experience a weaker rebound from the recession. Employment growth in the nation as a whole will surpass growth in New Jersey after this year, and will remain stronger until near the end of the forecast period. (See **Chart 2**.)





Real output was unchanged in the recession year of 2001 in New Jersey, and we estimate that it grew 1.3 percent in 2002 and 2.1 percent in 2003. (See **Table 1.**) The R/ECON™ forecast for New Jersey looks for growth in real output to be weak compared with growth in the United States as a whole. Output growth in the state will average 2.9 percent a year from 2003 to 2010—0.4 percentage points lower than the average growth in that period for the nation. The implied increase in productivity in the state is 1.7 percent a year, about three-quarters the rate of productivity growth for the United States as a whole.

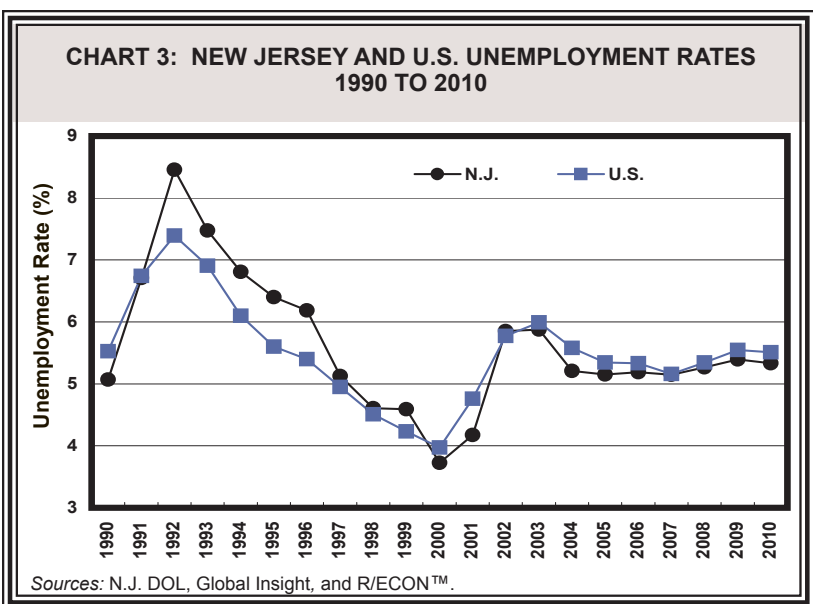
**Table 1**  
**SUMMARY OF NEW JERSEY ECONOMIC FORECAST 2003 TO 2010**

	2003	2004	2005	2005 to 2010
<i>Annual Percentage Growth</i>				
Nonagricultural Employment	-0.1	1.3	1.3	1.2
Real Gross State Product	2.1	3.0	2.9	2.9
Personal Income	3.2	5.3	5.0	5.3
Population	0.7	0.8	0.9	0.8
Consumer Prices	2.5	2.1	1.4	1.9
<i>Percentage</i>				
Unemployment Rate (average)	5.9	5.2	5.2	5.1

Source: R/ECON™.

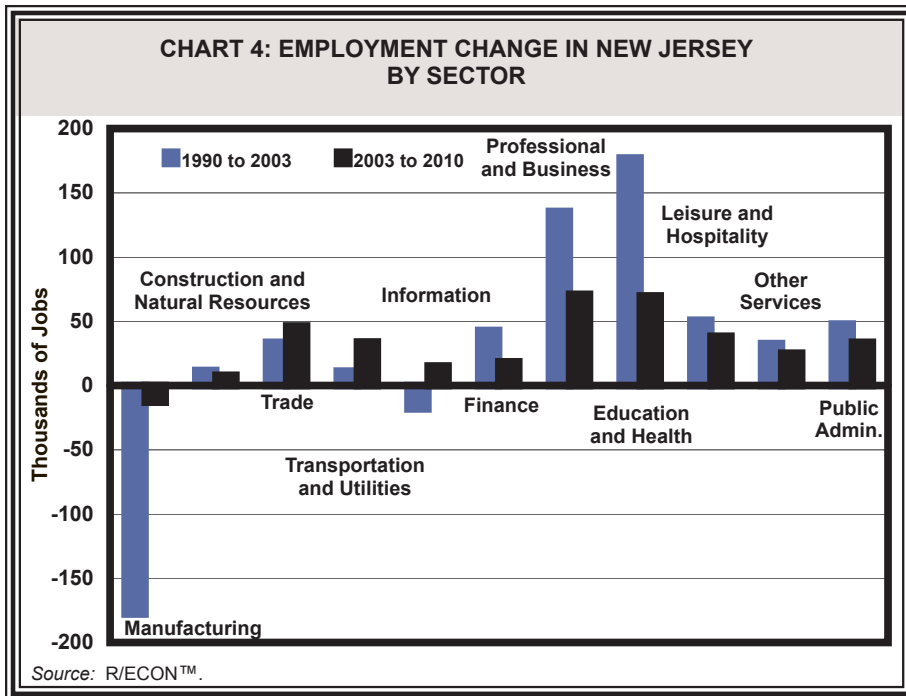
The state’s consumer inflation rate of 2.5 percent in 2003 was up from the rate for 2002, primarily because of the rapid rise in oil prices early in the year and late in the summer. The rate will fall back to 2.1 percent in 2004 and average 1.8 percent from 2004 to 2010. These inflation rates are similar to those forecast for the national economy.

The state unemployment rate averaged 5.9 percent in 2003, up slightly from the previous year. It will fall to 5.2 percent this year and remain in the low 5 percent range through 2010. With slower employment growth, the state rate will move closer to the U.S. rate after this year. (See **Chart 3.**)



The combination of the recession and low inflation rates kept personal income growth low in the first years of the new century. Income rose an average of only 2.3 percent a year between 2000 and 2002. With the end of the recession, personal income rose by 3.2 percent in 2003; the rate of increase will strengthen to 5.3 percent in 2004. Personal income growth will average 5.3 percent a year from 2005 to 2010.

The state’s population rose by an average of 0.8 percent a year between 2000 and 2003. It will continue to increase 0.8 percent a year between 2003 and 2010. The state will add 495,000 residents during this period, pushing the population to more than 9.1 million in 2010. As in the past decade, population growth in New Jersey will be a bit slower than growth nationwide over the forecast period.



Between 2003 and 2010, most job growth in New Jersey will be in the service supersectors, primarily in professional and business services and in education and health care. Together, the four service supersectors will provide 57 percent of the state's new jobs and increase their job share from 40 percent in 2003 to 41 percent in 2010. Manufacturing and natural resources will shed 13,000 jobs between them, while all other sectors will gain employees. (See **Chart 4.**) The state's transportation sector will grow rapidly, recovering from the layoffs occasioned by the recession and the impacts of the terrorist attack of September 11, 2001. The information sector also will be revitalized as people and corporations do more and more business through the links provided by the sector.

*Notes*

1. The annualized growth rate since the end of 2003 is even stronger at 2.2 percent.
2. The May revisions of the job data indicated that the expansion actually began in April 2004 when the number of nonagricultural jobs in New Jersey surpassed the December 2000, peak by 500.