RUTGERS ECONOMIC ADVISORY SERVICE

Center for Urban Policy Research

Nancy H. Mantell, Ph.D.
Michael L. Lahr, Ph.D.

FORECAST OF JULY 2005
NEW JERSEY: CAUTION — SLOW GOING AHEAD!

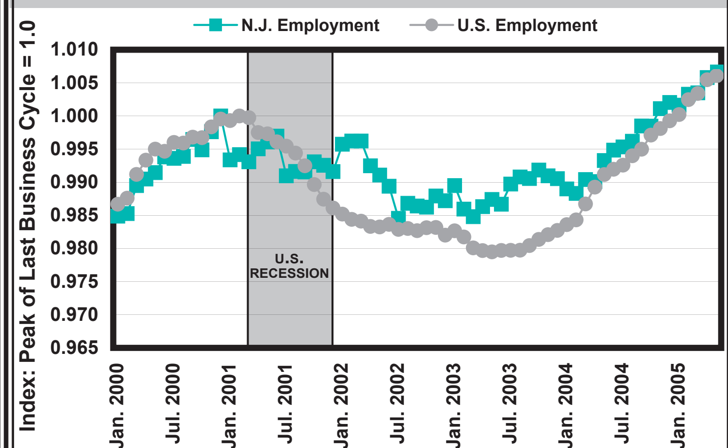
EXECUTIVE SUMMARY

In 2004, the New Jersey economy added 23,200 jobs—more than recovering the 18,400 jobs lost in 2002 and 2003.[1] As of November 2004, employment in the state surpassed the level reached at the peak of the last business cycle in December 2000. In May 2005, employment was at an all-time high of 4,051,100—27,100 jobs, or 0.7 percent, above the previous peak. Nationwide, in January 2005, employment surpassed the previous peak reached in February 2001 and has since grown by 0.6 percent or 774,000 jobs.[2] (See **Chart 1**.)

Since the end of 2004, job growth in New Jersey has been somewhat weaker than growth in the United States as a whole; however, the state's unemployment rate has been consistently lower than the national rate. In May, the state rate, at 3.9 percent, was more than a percentage point lower than the national rate of 5.1 percent. (See **Chart 2**.) That may imply that there is very little slack in the state's economy, with nearly 63 percent of the civilian population over 16 employed; nationwide, only 61 percent of the civilian population over 16 is employed.

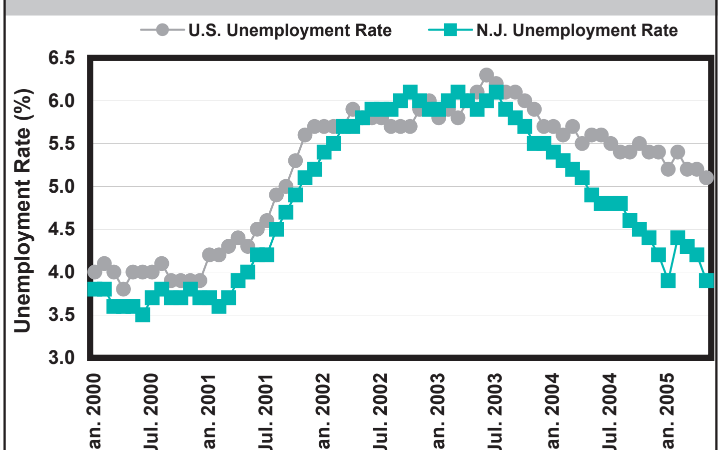
With the robust growth in national output in 2004, it is not surprising that job growth nationwide was stronger than growth in New Jersey. Real gross domestic product rose 4.2 percent in 2004, while real gross state product rose only an estimated 3.6 percent. We expect that output and employment at the na-

CHART 1: NEW JERSEY AND U.S. EMPLOYMENT INDICES
JANUARY 2000 TO MAY 2005



Sources: N.J. DOL, U.S. DOL, and R/ECON™.

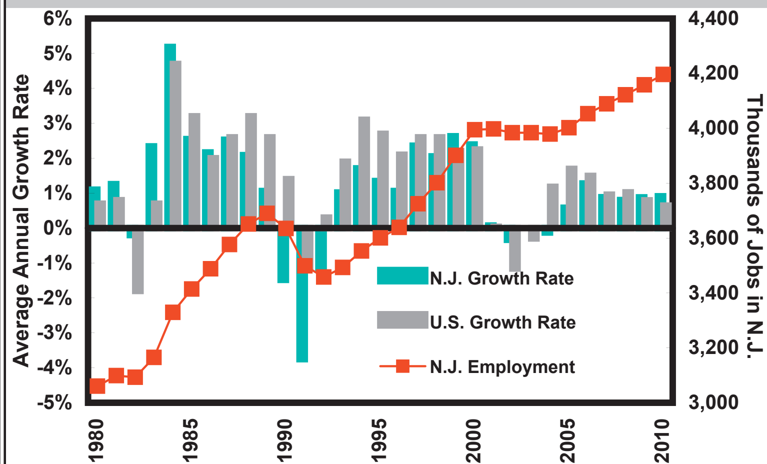
CHART 2: NEW JERSEY AND U.S. UNEMPLOYMENT RATES
JANUARY 2000 TO MAY 2005



Sources: N.J. DOL, *http://www.wnjpin.state.nj.us* and U.S. DOL, *http://www.bls.gov*, June 2005.

DESIGNED BY DAHK MUHAMMAD AND EDITED BY CATHERINE LIAPES

CHART 3: EMPLOYMENT GROWTH IN NEW JERSEY AND THE UNITED STATES, 1980 TO 2010



Sources: N.J. DOL, Global Insight, and R/ECON™.

tional level will grow slightly faster than output and employment at the state level through the forecast period.

Real output will rise at an average annual rate of 2.9 percent in New Jersey, compared with 3.2 percent in the nation as a whole. (See **Tables 1** and **2**.) The R/ECON™ forecast indicates that employment will grow at a rate of 1.3 percent in New Jersey this year and at an average annual rate of 0.9 percent (or 37,200 jobs) between 2005 and 2010. (See **Chart 3**.) Over the forecast period, the United States will add jobs at a rate of 1 percent a year. With this pace of employment growth in New Jersey, the state's share of national employment will fall very slightly, from 3.04 percent in 2004 to 3.02 percent in 2010. The implied increase in productivity in the state is 1.95 percent a year, just less than the 2 percent 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
Annual Percentage Growth				
Nonagricultural Employment	-0.1	0.6	1.3	0.9
Real Gross State Product	3.3	3.6	3.1	2.9
Personal Income	2.2	5.2	5.8	5.5
Population	0.8	0.7	0.8	0.9
Consumer Prices	2.8	3.8	3.4	1.9
Percentage				
Unemployment Rate (average)	5.9	4.8	4.2	4.7

Source: R/ECON™.

Table 2
SUMMARY OF U.S. ECONOMIC FORECAST
2003 TO 2010

	2003	2004	2005	2005 to 2010
Annual Percentage Growth				
Nonagricultural Employment	-0.3	1.1	1.7	1.0
Real Gross Domestic Product	3.0	4.2	3.5	3.1
Personal Income	3.2	5.8	6.5	5.6
Population	0.9	0.9	0.9	0.9
Consumer Price Index	2.3	2.7	2.9	2.1
Percentage				
Unemployment Rate (average)	6.0	5.5	5.2	5.0

Source: Global Insight, *U.S. Economic Outlook,* June 2005.

The state's consumer inflation rate rose to 3.8 percent in 2004, primarily due to the rapid rise in oil and natural gas prices during the middle part of the year. The rate will return to 3.4 percent in 2005 and average 1.9 percent from 2005 to 2010. The fallback in inflation rates to the 2 percent range in both the state and the nation in the next few years assumes that oil prices will retreat from their recent highs to an average of $50.50 in 2005 and $48.30 in 2006. By 2010, West Texas Intermediate will be back in the $42.50 range, near its 2004 average. However, as of the end of June 2005, West Texas Intermediate was near $60 per barrel; it is not clear that it will fall substantially any time soon. This is a risk to the forecast, because if the oil price stays high, output and employment growth at both the national and state levels are likely to be weaker than shown in **Tables 1** and **2**.

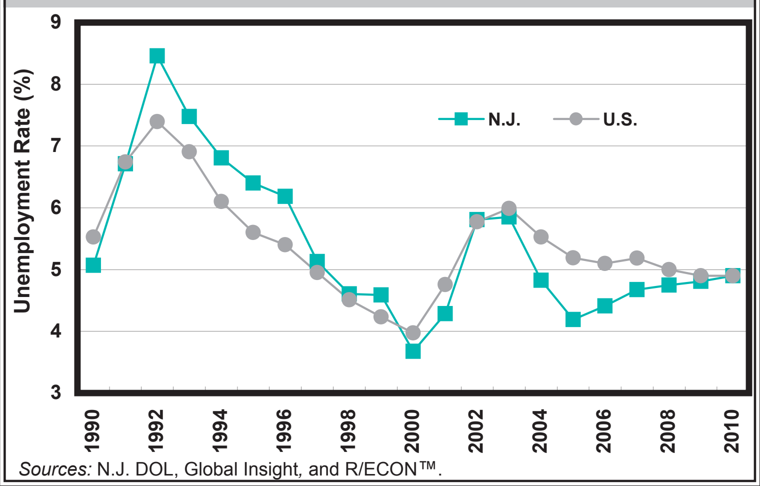
The state unemployment rate averaged 4.8 percent in 2004, down substantially from the previous year. The rate is expected to fall to 4.2 percent this year, and then to trend up over the rest of the forecast period, averaging 4.7 percent from 2006 to 2010. The state and national rates will begin to converge after this year, ending at 4.9 percent in 2010. (See **Chart 4**.)

Personal income in New Jersey increased by 5.2 percent in 2004, after two years of very slow growth during the recession and recovery. Income will rise 5.8 percent this year, and growth will average 5.5 percent a year through the rest of the forecast period.

The state's population increased at an average annual rate of 0.8 percent from 2000 to 2004. It will expand by 0.9 percent a year through 2010. The state will add 450,000 residents during the forecast period, pushing the population to 9 million in 2008 and 9.15 million in 2010. Population growth in New Jersey during the forecast period will be slightly slower than growth nationwide.

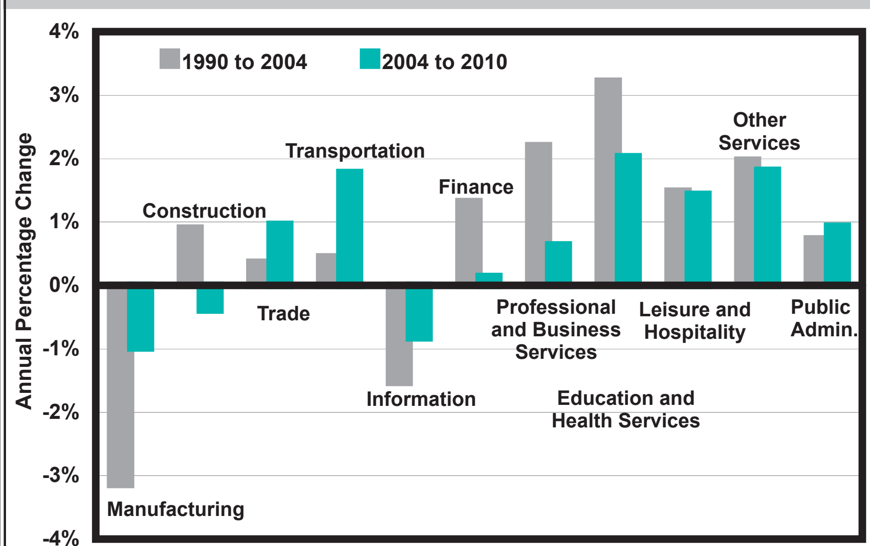
Since 1990, the first year for which we have employment data for New Jersey using the North American Industry Classification System (NAICS), manufacturing has lost jobs at a rate of over 3 percent a year, for a loss of nearly 200,000 jobs. The information industry has lost jobs at an average annual rate of 1.5 percent, a loss of more than 20,000 jobs. Both industries are expected to continue to decline during the forecast period, although at considerably slower rates. The construction industry, which gained jobs during the 1990s and through 2004, will lose a few thousand jobs during the forecast period. As was the case in the historical period, the fastest job growth in New Jersey will be in the service sectors: education and health care, leisure and hospitality, and "other services." (See **Chart 5**.) These three service sectors and the transportation sector will grow at average rates over 1 percent a year through the forecast period and provide more than half of the state's new jobs.

CHART 4: NEW JERSEY AND U.S. UNEMPLOYMENT RATES 1990 TO 2010



Sources: N.J. DOL, Global Insight, and R/ECON™.

CHART 5: ANNUAL EMPLOYMENT CHANGE IN NEW JERSEY BY SECTOR: HISTORY AND FORECAST



Sources: N.J. DOL and R/ECON™.

Notes

1. This loss is based on average annual data, rather than peak-to-trough data.

2. More recent data indicates an increase of 964,000 jobs (0.7 percent) through June 2005.