

## FORECAST OF JULY 2006

# NEW JERSEY: THE EXPANSION SPUTTERS

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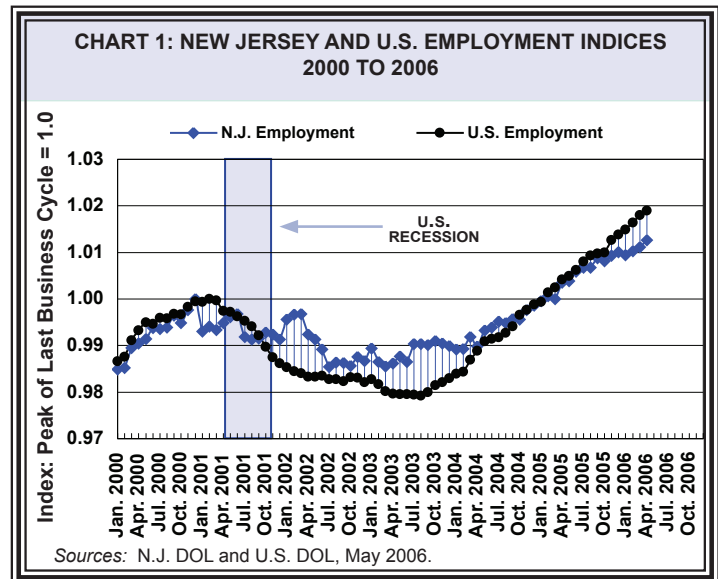
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### EXECUTIVE SUMMARY

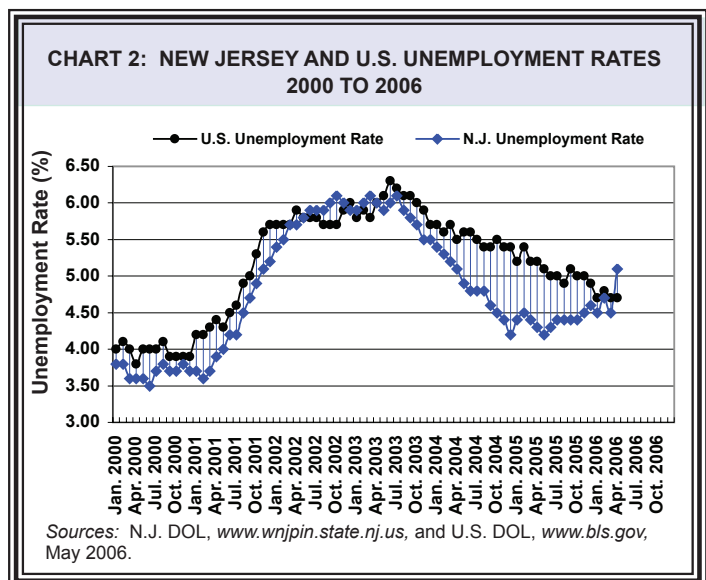
After a weak performance in 2005, New Jersey's economy has continued to sputter in early 2006. The state added 44,100 jobs in 2005, for a growth rate of 1 percent; the growth rate for the nation as a whole was 1.5 percent. **Chart 1** shows that the state's job growth has been weak, compared with growth nationwide, since early 2005. The state gained only 10,400 jobs in the first four months of 2006, which would translate into an annual growth rate of only 0.8 percent. We do expect some improvement through the rest of the year, and job growth should, in the end, match that of 2005.

The state's unemployment rate has been consistently lower than the national rate since mid-2003. However, the weakness of the state's expansion, compared with expansion nationwide, has eroded that positive position in the past year. While the national unemployment rate has fallen steadily since early 2005, the state rate trended up for most of 2005 and into 2006. In April, the state's unemployment rate rose to 5.2 percent, surpassing the national rate by half a percentage point. While a jump of that magnitude is likely to be an aberration, it still implies that New Jersey's labor market advantage has faded. (See **Chart 2**.)

The R/ECON<sup>TM</sup> forecast indicates that employment will grow at a rate of 1.1 percent, or 44,000 jobs, in New Jersey this year and at an average annual rate of 1 percent (or 41,700 jobs) between 2006 and 2016. (See **Table 1**.) Although the nation as a whole will add jobs faster than New Jersey in the next few years, its rate of job growth will slow after 2010. Thus, over the forecast period, New Jersey is expected to retain its current 3 percent share of the nation's jobs.



Growth in national real output was more robust than growth in state real output in 2004 and 2005, and we expect that to be the case this year as well. However, between 2006 and 2016, output in New Jersey will expand by just



**Table 1**  
**SUMMARY OF NEW JERSEY ECONOMIC FORECAST**  
2004 TO 2016

	2004	2005	2006	2006 to 2010	2010 to 2016
<i>Annual Percentage Growth</i>					
Nonagricultural Employment	0.5	1.1	1.1	0.9	1.0
Real Gross State Product	3.4	2.2	2.1	3.4	3.0
Personal Income	5.6	5.6	6.2	6.2	6.1
Population	0.5	0.4	0.5	0.8	0.7
Consumer Prices	3.8	3.9	3.4	1.9	2.7
<i>Percentage</i>					
Unemployment Rate (average)	4.9	4.4	4.6	4.9	4.9

*Source: R/ECON™, June 2006.*

over 3 percent a year—about the same as the average growth rate for output in the nation as a whole.

The state’s consumer inflation rate rose 3.9 percent in 2005, primarily due to the rapid rise in oil and natural gas prices after Hurricanes Katrina and Rita and as political problems in various oil-producing nations led to supply concerns. The state’s inflation rate will fall back to 3.4 percent this year as energy prices stabilize. It will average 2.4 percent between 2006 and 2016. The decline in the inflation rate to a range around 2 percent in both the state and the nation in the next few years is based on the assumption that both oil and natural gas prices will retreat from their recent highs. By 2009, the price for West Texas Intermediate will be about \$56 a barrel, and the price of natural gas will have fallen back to about \$9 per million BTU by 2007.

New Jersey’s unemployment rate averaged 4.4 percent in 2005, down substantially from the previous

three years. The rate is expected to rise to 4.6 percent this year and then to trend up over the forecast period, averaging 4.9 percent from 2007 to 2016. Although the state rate will be higher than the national rate beginning in 2007, the two rates will remain close throughout the forecast period. (See **Chart 3**.)

After two years of very slow growth during the recession and recovery, personal income in New Jersey rose 5.6 percent in 2004 and 2005. Income growth will average 6.1 percent a year through the forecast period.

The state’s population increased at an average annual rate of 0.7 percent from 2000 to 2005. It will expand by 0.7 percent a year through 2016, adding 1.2 million residents during the forecast period. The population will exceed 9 million in 2010. Population growth in New Jersey during the forecast period will be slightly slower than growth nationwide.

The fastest job growth in New Jersey during the forecast period will be in the four service sectors, which will grow at average rates of at least 1.6 percent a year through the forecast period. These sectors will provide more than 60 percent of the state’s new jobs between 2005 and 2016. They supplied more than 70 percent of the state’s new jobs between 1990 and 2005. Since 1990, manufacturing has lost jobs at a rate of over 3 percent a year, for a loss of 200,000 jobs. Since 2000, the information industry has lost jobs at an average annual rate of more than 5 percent, a loss of 30,000 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 2005, will also lose jobs over the forecast period.

