FORECAST OF JULY 2010

NEW JERSEY: A WEAK RECOVERY LIES AHEAD!

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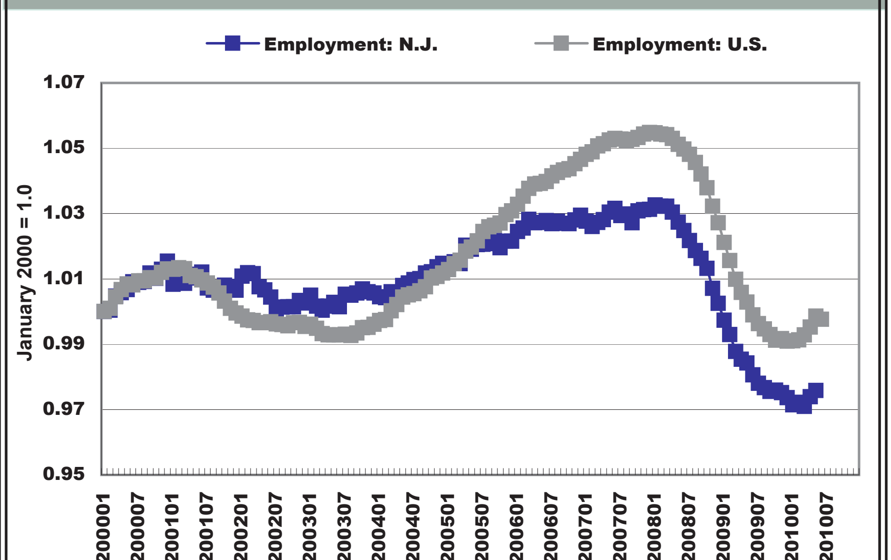
EXECUTIVE SUMMARY

New Jersey's recession began in January 2008, a month after it started in the U.S. New Jersey lost 244,600 jobs between the January 2008 and the March 2010 trough of the business cycle. Thus the state lost 5.9 percent of its peak employment base in a bit more that two years. A real turnaround seems to have begun this spring following the national employment recovery that began in January. While New Jersey accounted for 2.9 percent of the national job loss during the recession, it has so far accounted for less than 2 percent of the job gain during the recovery. (See **Chart 1**.)

The New Jersey unemployment rate has been lower than that in the U.S. through most of the past decade, and this held true during the recession until 2009. Since January 2009 the state and national unemployment rates have been close to identical, and both are now falling slightly from the highs reached at the end of 2009. As of May 2010, both the state and national unemployment rates were 9.7 percent. (See **Chart 2**.)[i]

Our forecast indicates that New Jersey will begin to recover its lost jobs this year but that the growth will be so slow that the average number of jobs in the state will not surpass the 2008 level until 2011, and not surpass the 2007 peak until 2016. The U.S., on the other hand, will begin its job expansion three years earlier—in early 2013. Our current forecast for New Jersey assumes that the U.S. experienced a five-quarter dip in real gross product (GDP) running from mid-2008 through mid-2009 and a two-year period of decreasing employment lasting from the first quarter of 2008 to the last quarter of 2009. The U.S. unemployment rate peaked at 10.1 percent in October 2009, while that for New Jersey peaked at 10 percent in December 2009. Thus in both New Jersey and the U.S. the unemployment rate has peaked, although in neither case has it retreated far.

CHART 1: NEW JERSEY AND U.S. EMPLOYMENT INDICES
2000 TO 2010



Sources: lwd.dol.state.nj.us/labor/lpa and www.bls.gov, June 2010.

During the recession most of the job losses in New Jersey were in manufacturing, professional and business services, and construction. In terms of the percent of job loss, the manufacturing and construction sectors bore the brunt of the recession. The professional and business services sector lost

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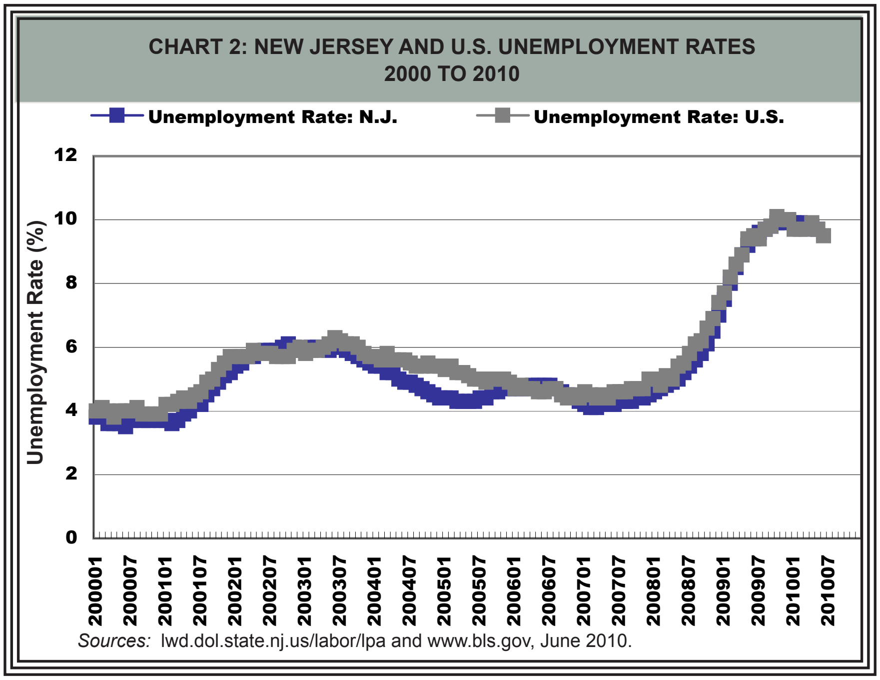
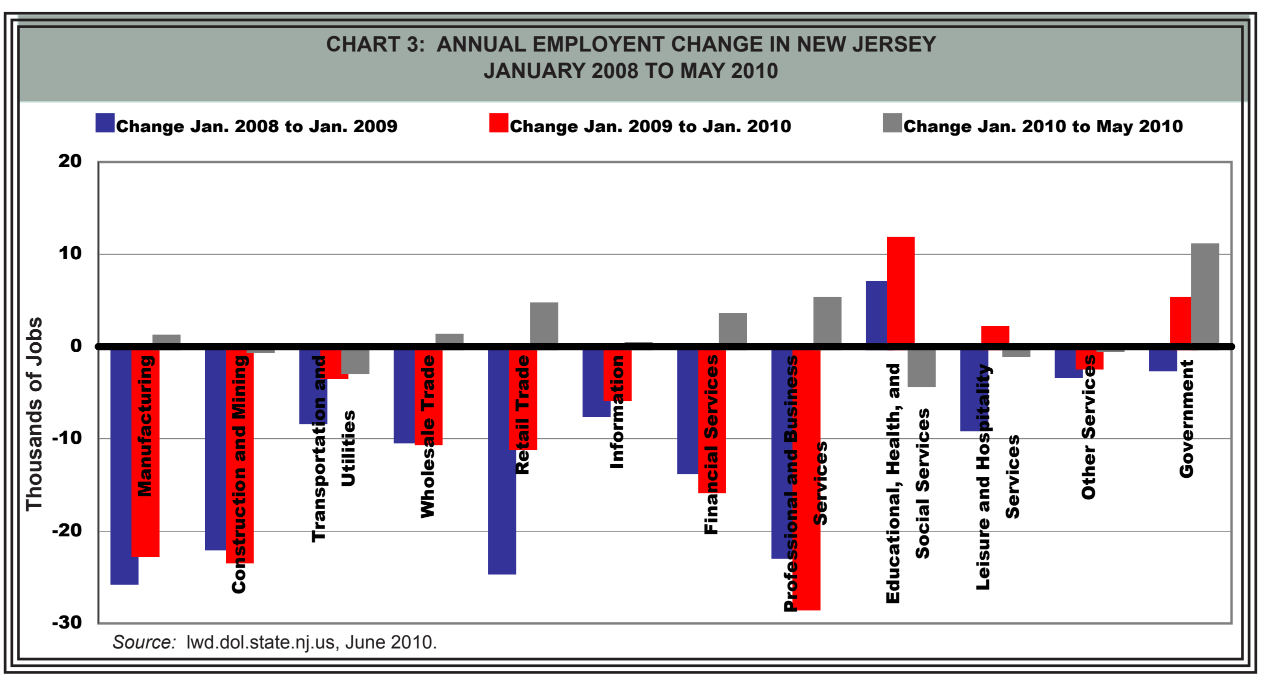
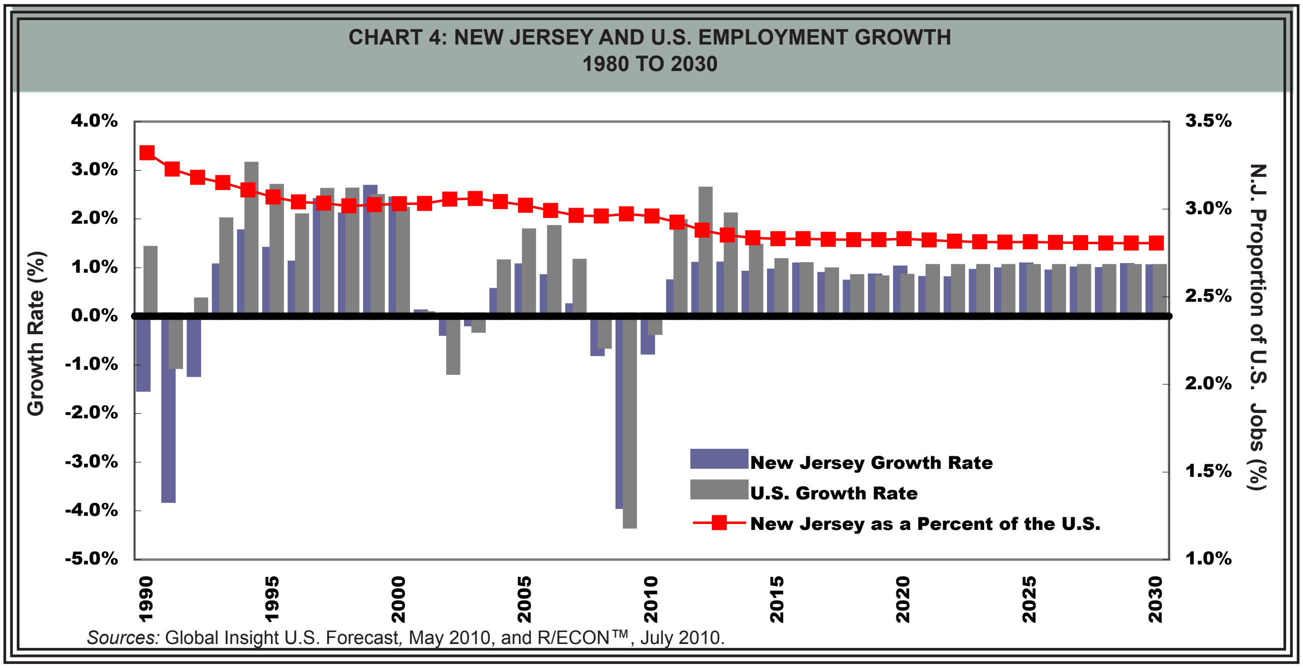


Between January 2008 and January 2010, the state had a net job loss of 242,800. The only growth sectors were educational, health, and social services and government. Since January the state has gained 17,600 jobs with losses in construction, transportation and utilities, educational and health services, leisure and hospitality services, and "other" services. More than half the net job gain was the result of temporary hiring for the decennial Census, while the very unusual loss in educational and health services was primarily in education. (See **Chart 3**.)

During the recovery, we expect average annual employment gains of 0.7 percent or 27,400 jobs. Once the expansion begins in 2016, the economy will grow at an average rate of 38,000 jobs or 0.9 percent a year through the rest of the forecast period. By the end of the forecast period in 2030 the state's employment base will exceed the 2007 peak by more than 500,000 jobs or 13 percent. We expect that during the recovery and expansion, employment growth in the U.S. will continue to outperform that in New Jersey. By the end of the forecast period the nation's employment base will exceed the peak reached in 2007 by 19 percent. New Jersey's share of the national job base will decline

the largest number of jobs but only 8 percent of its job base, compared to 26 percent for construction and 16 percent for manufacturing. Professional and business services have begun to turn around in 2010 and we expect it to be, as it was during the past decade, a strong contributor to growth, as will the other three service sectors. Construction employment will begin to rise in 2011 and contribute to growth during most of the forecast period. After continuing declines through 2017, manufacturing employment will be close to stable.





from its current 3.0 percent to 2.8 percent in 2014 and remain at 2.8 percent through the rest of the forecast period. (See **Chart 4**.)

Since 2000, growth in GDP has been more robust than growth in state real output. We expect this pattern to persist over the forecast period as well. Between 2008 and 2020, output in New Jersey will expand at an average rate of 1.85 percent a year compared to the average rate of 2.3 percent a year expected nationwide. In the longer run, from 2020 to 2030, the state's real output will grow at a rate of 2.3 percent a year, compared to the nation's 2.5 percent. These differentials are due to the relatively higher costs of living and doing business in New Jersey, as well as the state's lower rate of population growth. (See **Tables 1** and **2**.)

The state's consumer inflation rate rose 3.7 percent in 2008, primarily because of rapidly rising energy prices through the first half of the year. Inflation turned briefly to deflation in late 2008 and early 2009 as the recession and lack of demand for goods and services of all types pushed prices down. For all of 2009 New Jersey's consumer prices were unchanged from the 2008 level. The return to a more normal economic picture in 2010 will be accompanied by an inflation rate averaging 1.8 percent a year from 2009 to 2020 and 2.1 percent a year from 2020 to 2030.

New Jersey's unemployment rate peaked at a quarterly rate of 9.9 percent in the last quarter of 2009. It will remain below the national rate during much of the forecast period, averaging 6.6 percent from 2010 to 2020, compared to an average of 7.1 percent for the U.S. During the second decade of the forecast period the unemployment rates for the state and nation will be very similar at about 5 percent. (See **Chart 5**.)

Personal income rose 5.6 percent in 2007, and, with the onset of the recession, rose only 2.5 percent in 2008. Income fell in 2009 by 1.8 percent as the recession persisted. It should return to positive territory this year, and rise at an average rate of 4.5 percent a year over the forecast period, somewhat lower than the 4.9 percent growth expected for the U.S. However, on a per capita basis, income will grow nearly identically in the state and nation.

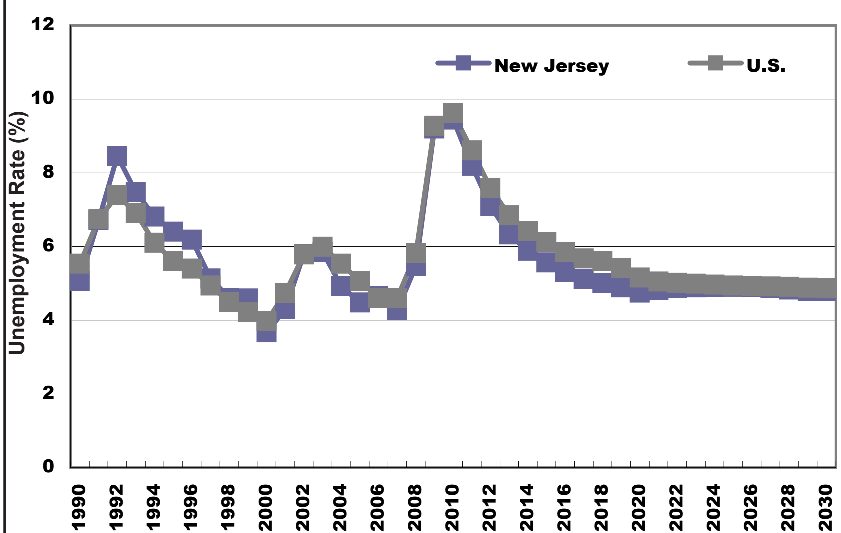
The state added 277,000 residents between 2000 and 2009, growing at an average annual rate of 0.4 percent. However, the rate of growth lessened from one

Table 1
SUMMARY OF NEW JERSEY ECONOMIC FORECAST

	2009	2010	2011	2011 to 2020	2020 to 2030
Annual Percentage Growth					
Nonagricultural Employment	-3.9%	-0.7%	0.7%	0.9%	0.9%
Real Gross State Product	1.0%	1.6%	1.8%	2.0%	2.3%
Personal Income	-1.8%	3.3%	4.1%	4.7%	4.4%
Population	0.5%	0.6%	0.4%	0.5%	0.6%
Consumer Prices	0.0%	1.7%	1.7%	2.0%	2.1%
Percentage					
Unemployment Rate (average)	9.2%	9.6%	8.6%	6.1%	5.0%

Source: R/ECON™, July 2010.

CHART 5: NEW JERSEY AND U.S. UNEMPLOYMENT RATES
1990 TO 2030



Sources: Global Insight U.S. Forecast, May 2010, and R/ECON™, July 2010.

year to the next until 2007 when it began to increase slightly. Population growth will average 0.6 percent a year over the forecast period, rising slightly in the later years as the economy improves. The state will add 1.1 million residents over the course of the forecast. As a result, New Jersey's population will top 9 million in 2016 and will rise to 9.8 million in 2030. Population growth in New Jersey will continue to be slower than it is nationwide, so that the state's share of U.S. population will fall from the current 2.83 percent to 2.60 percent in 2030. Thus, during the full forecast period, the state's share of national employment will remain slightly higher than its share of the nation's population.

Table 2
SUMMARY OF U.S. ECONOMIC FORECAST

	2009	2010	2011	2011 to 2020	2020 to 2030
Annual Percentage Growth					
Nonagricultural Employment	-4.3%	-0.3%	1.9%	1.3%	0.9
Real Gross Domestic Product	-2.4%	3.5%	2.9%	2.7%	2.5
Personal Income	-1.7%	3.4%	4.9%	5.3%	4.8
Population	1.0%	1.0%	1.0%	1.0%	0.9
Consumer Price Index	-0.3%	1.8%	1.7%	2.1%	1.9
Percentage					
Unemployment Rate (average)	9.3%	9.6%	9.1%	6.6%	4.9

Source: Global Insight, *U.S. Economic Outlook,* May 2010.

Note

i. U.S. employment declined in June as a result of the end of temporary hiring for the Census. The U.S. unemployment rate fell to 9.5 percent in June. The release of these data was too late to influence this forecast.