

FORECAST OF JULY 1999

NEW JERSEY: THE ECONOMY JUST KEEPS CHUGGING ALONG!

EXECUTIVE SUMMARY

During early 1999, New Jersey's economy continued on its upward path propelled by the nation's seven-year growth cycle. There were strong increases in employment, low inflation, and a voracious consumer economy, as reflected by housing permits, residential construction contracts, and new vehicle registrations. Between December 1998 and May 1999, the job base grew by 26,900, a rise of 1.7% at annual rates. More than 400,000 jobs have been added to the economy since the bottom of the recession of the early 1990s; the current employment level exceeds the 1989 peak by 150,000. During the first five months of the year, however, the unemployment rate rose from 4.4% to 4.7%. Both the unemployment rate and the number of unemployed were as high in May 1999 as in early 1998.

The R/ECONTM forecast for New Jersey is for a continuing but slowing expansion. (See Table 1.) In 1998, employment rose by 76,200 jobs, or 2.0%, with output growth of 2.8%, and little inflation. There will be reduced growth in 1999 in both output and employment, while inflation will remain under 2%. The state's population increased by 0.7% in 1998. It will slow a bit over the forecast period as foreign immigration declines.

Table 1
SUMMARY OF NEW JERSEY ECONOMIC FORECAST
July 1999

<i>Annual Percentage Growth</i>	1998	1999	2000	2000 to 2004
Nonagricultural Employment	2.0	1.9	1.4	0.9
Real Gross State Product	2.8	2.2	1.7	1.5
Personal Income	5.6	5.7	5.6	4.9
Population	0.7	0.7	0.6	0.5
Consumer Prices	1.3	1.8	2.0	2.5
Percent				
Unemployment Rate (average)	4.6	4.5	5.2	5.2

Over 90% of the net increase in employment over the forecast period will be in services and trade. The fastest growth will occur in the communications and services sectors, particularly business services and hotels/casinos. Declines in the manufacturing sector will slow from the -3% per year experience of the past two decades to -1% per year during the forecast period.

The state unemployment rate is expected to average 4.5% this year, down from 4.6% in 1998. It will rise to 5.2% in 2000 as economic activity at both the state and national levels slows, and remain in the low 5% range through 2004.

Personal income will rise 5.7% in 1999, a small increment over last year's 5.6%. Income growth will remain rapid in 2000 as growth in interest, dividends, and rent speed up. However, as employment and wage growth slow later in the forecast period, income growth will fall to under 5.0% per year.

Since the recovery began in New Jersey, real output growth has been considerably faster than job growth, indicating strong productivity growth. Output rose an estimated 2.8% in 1998. The expected economic slowdown later this year will pull the growth rate of gross state product to 2.2% this year and to 1.7% in 2000. Over the next four years, we expect output gains of about 1.5% a year. This implies lower gains in productivity between 1998 and 2004.

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