



# RUTGERS ECONOMIC ADVISORY SERVICE

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## FORECAST OF OCTOBER 2001 NEW JERSEY'S ECONOMY: STUMBLING BUT NOT FALLING

### FOREWORD

This long-term forecast for New Jersey's economy was in production before the events of September 11, 2001. Therefore, it does not take into consideration the business losses sustained in the terrorist attack in New York City. The jobs and wages lost were New York's, although some income impacts will be felt in New Jersey. Nor does this forecast include the military, fiscal, and monetary responses to the attack; these are generally responses made by agents outside of the state, for entities outside of the state. Rather than try to account for these events numerically, we speculate throughout this report on the possible impacts the attack on New York City will have on New Jersey's economy.

The forecast does include some of the immediate business responses to the attack. These include

the possibly temporary relocations of some financial- and service-sector businesses to New Jersey, as well as some employment losses in the air transportation sector. We considered a drop in New Jersey's residential income due to the loss of life of so many New Jersey residents. It soon became clear, however, that this loss would be offset by quick responses on insurance claims and donations from sources outside the state.

An addendum to this forecast presents two alternative short-term forecasts that consider the impact of the attack in different ways.

### EXECUTIVE SUMMARY

New Jersey's economy will grow very slowly this year and in 2002. There will be some revival in the following several years; growth will be stronger toward the end of the forecast period. This year the number of nonagricultural jobs has fallen each month except May. However, because of great strength in the job market at the end of 2000, average employment in 2001 will be 0.7 percent higher than average employment in 2000. We expect an uptick in growth early in 2002; therefore, over the two-year period from 2000 to 2002, the job base will increase by about 42,000 positions.

The R/ECON™ forecast for New Jersey looks for growth in real output of 2 percent this year and inflation of 3.1 percent. (See **Table 1.**) Output growth will revive somewhat in 2002, with an even stronger revival expected in the following

	2000	2001	2002	2002 to 2005	2005 to 2020
<b>Annual Percentage Growth</b>					
Nonagricultural Employment	2.5	0.7	0.4	0.9	1.0
Real Gross State Product	2.7	2.0	2.5	3.1	3.0
Personal Income	7.5	6.2	5.2	5.2	4.8
Population	0.9	0.7	0.7	0.6	0.6
Consumer Prices	2.9	3.1	2.6	2.6	2.5
<b>Percentage</b>					
Unemployment Rate (average)	3.8	4.3	5.0	5.1	5.7

Source: R/ECON™.



few years. The inflation rate will remain close to 2.5 percent each year through most of the forecast period. The state's population will increase by 0.7 percent in 2001 and 2002, then climb an average of 0.6 percent a year over the rest of the forecast period.

The services sectors will provide more than two-thirds of the increase in employment in New Jersey during the forecast period, while the trade sectors will account for 19 percent. The fastest-growing major sectors will be "other" services,<sup>1</sup> business services, and nonbank finance. However, the growth of business services will be only about a quarter the rate seen in the past two decades, while "other" services employment should grow about three-quarters as fast as it did in the earlier period. Nonbank finance, a category that includes securities and commodities dealers as well as real estate and insurance, will grow at about one-third the rate it grew over the past two decades. Declines in the manufacturing sector will slow from -2.7 percent per year during the past twenty years to -0.7 percent per year during the first twenty years of the century. However, the decline in 2001 and 2002 will be substantial. By 2020, only 8 percent of the state's job base will be in manufacturing, down from more than 25 percent in 1980 and 12 percent in 2000. (See **Chart 1.**) By the end of the forecast period, the service sector will provide 39 percent of the state's jobs, up from 20 percent in 1980 and 33 percent in 2000.

The state unemployment rate will average 4.3 percent this year, up from 3.8 percent in 2000, but still below the national level of 4.5 percent. It will rise to 5 percent in 2002, then average 5.1 percent in the following three years. The unemployment rate will average 5.6 percent from 2006 to 2020, reflecting higher unemployment rates nationwide and

the relatively slow long-term growth of employment.

Personal income will rise 6.2 percent this year and slow to a rate of 5.2 percent next year. The high rate of growth in income in 2001 was spurred by rapid growth in wages and salaries and proprietors income early in the year. Much of the growth next year comes from proprietors income, as layoffs at major corporations push more people into opening their own small companies.

Real output rose an estimated 2.7 percent in 2000. It will rise only 2 percent this year with the weaker economy, then improve over the remainder of the forecast period. Productivity will increase nearly 2 percent a year.

Note

- 1. Other services include engineering, management, education, and social services.

