RUTGERS ECONOMIC ADVISORY SERVICE

Center for Urban Policy Research

Nancy H. Mantell, Ph.D.
Michael L. Lahr, Ph.D.
Norman J. Glickman, Ph.D.

FORECAST OF OCTOBER 2002
NEW JERSEY: THE RECOVERY—SLOW AND SLOWER

EXECUTIVE SUMMARY

The nation's economy is in the midst of what appears to be an almost jobless recovery. New Jersey's economy, which entered the recession several months after the rest of the nation, is still scraping along what we think is the bottom of the downturn. The state's job base has declined by 32,200 positions, or 0.8 percent, since the peak reached in April 2001, and remained at 4,002,100 from July to August 2002. The unemployment rate peaked at 5.6 percent in March and April 2002, and has since fallen to 5.3 percent, implying that the economy is poised on the brink of recovery. During the forecast period—2002 to 2012—the state will add jobs at an average rate of 0.9 percent (or 37,900 jobs) a year. (See **Table 1.**) That is a comparatively slow rate of growth. During the two decades from 1980 to 2001, annual job growth averaged 46,000; it had averaged 45,000 a year since 1945.

Table 1
SUMMARY OF NEW JERSEY ECONOMIC FORECAST
2000 TO 2012

	2000	2001	2002	2003	2003 to 2012
Annual Percentage Growth					
Nonagricultural Employment	2.4	0.7	-0.3	1.0	0.9
Real Gross State Product	6.6	1.6	0.3	1.9	3.1
Personal Income	8.1	3.0	3.9	5.8	5.1
Population	0.8	0.7	0.6	0.6	0.7
Consumer Prices	2.9	2.6	2.3	2.1	2.6
Percentage					
Unemployment Rate (average)	3.8	4.2	5.4	5.2	4.8

Source: R/ECON™.

The R/ECON™ forecast for New Jersey looks for growth in real output of 0.3 percent this year and for an inflation rate of 2.3 percent. (See **Table 1**.) Output growth will strengthen after 2002, averaging 3.1 percent a year between 2003 and 2012. The inflation rate will average 2.6 percent a year from 2003 to 2012. The state's population will increase by 0.7 percent a year between 2002 and 2012. At that rate, New Jersey will add 619,200 residents for the period and have a population of 9.16 million in 2012.

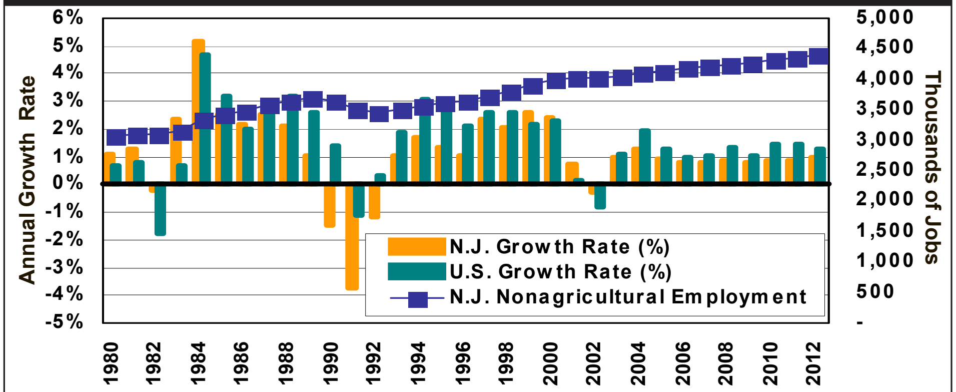
After surpassing the national growth rate for several years, the rate of employment growth in New Jersey will be slower than the rate for the nation as a whole through the forecast period. (See **Chart 1**.)

The state unemployment rate will average 5.4 percent this year, up from 4.2 percent in 2001. It will average 4.8 percent over the next ten years and remain about half a percentage point below the national unemployment rate.

Personal income rose 8.1 percent in 2000, but the growth rate declined to 3 percent in 2001 with the onset of the recession. Personal income will grow 3.9 percent this year and average 5.2 percent a year during the rest of the forecast period. Income growth will be sustained over the forecast period by relatively rapid growth in proprietors income; continuing corporate layoffs will push former employees to open their own small businesses. After this year, the improving economy will

EDWARD J. BLOUSTEIN SCHOOL OF PLANNING AND PUBLIC POLICY
CIVIC SQUARE • 33 LIVINGSTON AVENUE • NEW BRUNSWICK, NEW JERSEY 08901-1982
Telephone: (732) 932-3133, ext. 565 • Fax: (732) 932-2363

CHART 1: EMPLOYMENT GROWTH IN NEW JERSEY AND THE UNITED STATES 1980 TO 2012

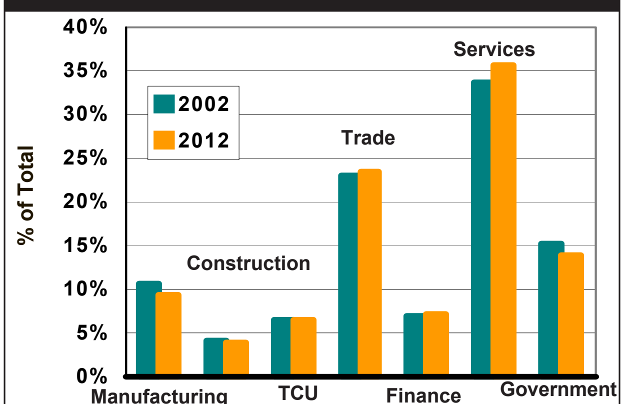


Sources: NJ DOL and R/ECON™.

include higher interest rates and corporate profits, leading to strong growth in interest, dividends, and rent in New Jersey.

Over the forecast period, employment in manufacturing will decline by 4.5 percent, with almost all the decline occurring in the durable-goods industries. Employment will also decrease slightly in utilities. All other major sectors will experience employment gains. The services sectors will provide 55 percent of the new jobs, and the trade sectors will account for a quarter of them. The fastest-growing industries will be "other services,"[1] business services, nonbank finance,[2] and hotels/casinos. By 2012, only 9 percent of the state's job base will be in manufacturing, down from 16 percent in 1990 and 11 percent in 2002. (See **Chart 2**.) By the end of the forecast period, the service sector will provide 36 percent of the state's jobs, up from 27 percent in 1990 and 34 percent in 2002.

CHART 2: DISTRIBUTION OF EMPLOYMENT IN NEW JERSEY, BY INDUSTRY, 2002 TO 2012



Sources: NJ DOL and R/ECON™.

Notes

1. "Other services" includes engineering, management, education, and social services.

2. Nonbank finance includes securities and commodities dealers, real estate, and insurance.