



RUTGERS ECONOMIC ADVISORY SERVICE

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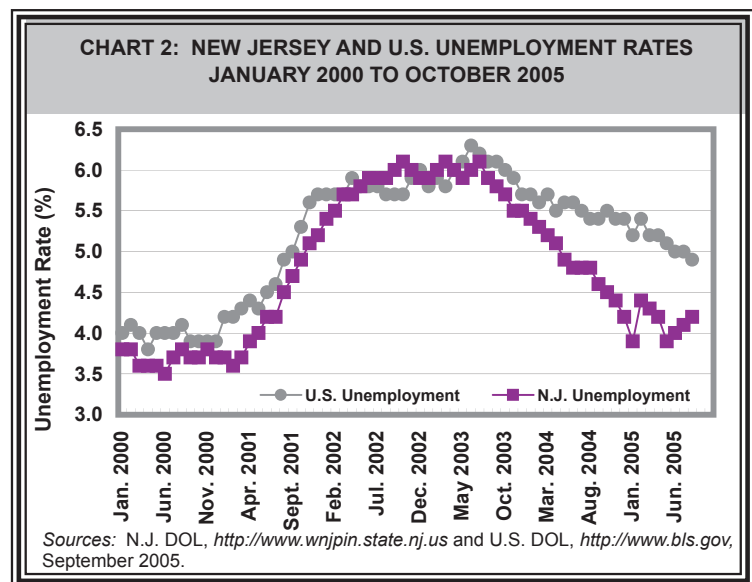
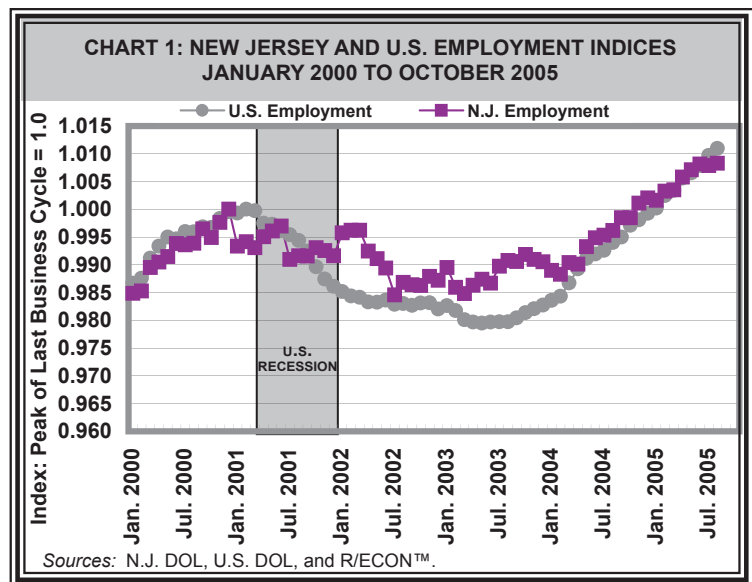
FORECAST OF OCTOBER 2005 NEW JERSEY: MILD EXPANSION AHEAD

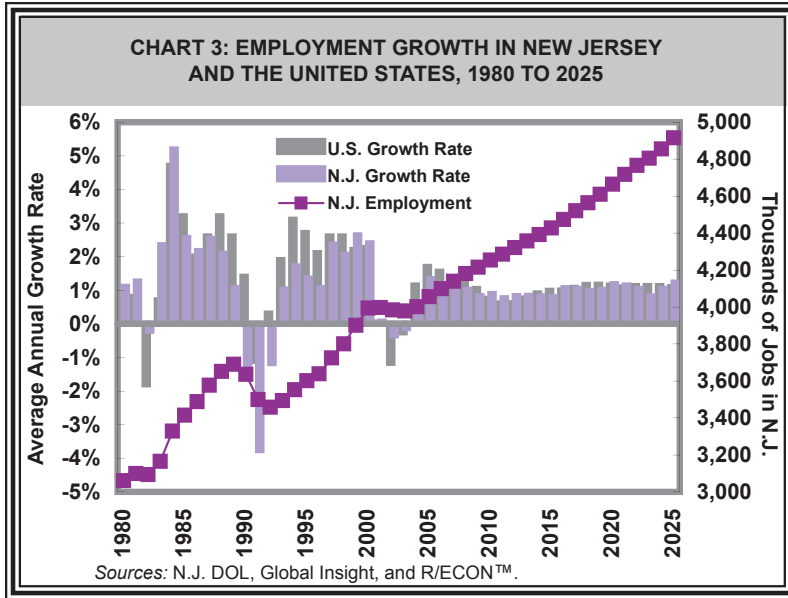
EXECUTIVE SUMMARY

In 2004, the New Jersey economy added 23,200 jobs—more than recovering the 18,400 jobs lost in 2002 and 2003. As of November 2004, employment in the state surpassed the level reached at the peak of the last business cycle in December 2000. In August 2005, employment was at an all-time high of 4,057,400—29,000 jobs, or 0.7 percent, above the previous peak. Nationwide, in January 2005, employment surpassed the previous peak reached in February 2001 and has since grown by 1.1 percent or 1.43 million jobs. (See **Chart 1**.)

Although New Jersey suffered a much milder recession than the nation as a whole in 2001 and 2002, job growth in the state has been weaker than nationwide growth since the end of 2004. 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 that of the nation, has begun to show up in the unemployment rate data. The national unemployment rate has fallen steadily since early 2005, but the state rate has been rising since May and is now only 0.7 percentage points lower than the national rate; in January 2005, the state rate was 1.3 percentage points lower than the national rate. (See **Chart 2**.)

Growth in national real output was much more robust than growth in state real output in 2004; therefore, it is not surprising that job growth nationwide was stronger than growth in New Jersey. Real gross domestic product





rose 4.2 percent in 2004, while real gross state product rose only 3.2 percent. We expect that output and employment at the national level will grow slightly faster than output and employment at the state level through the forecast period.

This year, real output will rise at an average annual rate of 2.9 percent in New Jersey, compared with 3.7 percent in the nation as a whole. (See **Tables 1** and **2**.)

The R/ECON™ forecast indicates that employment will grow at a rate of 1.3 percent in New Jersey this year and at an average annual rate of just less than 1 percent (or 43,000 jobs) between 2005 and 2025. (See **Chart 3**.)

Over the forecast period, the United States will add jobs at a rate of 1 percent a year.

The slight differential in growth rates means that the state's share of national employment will fall very slightly, from 3.04 percent in 2004 to 2.99 percent in 2010. The implied increase in productivity in the state is 1.4 percent a year, considerably less than the 1.9 percent rate of productivity growth for the United States as a whole.

The difference in productivity is presumably a result of the difference in industrial mix, industry growth, and some catching up on the part of the rest of the United States. The goods-producing industries, which tend to have high value added, provide a relatively low proportion of the state's jobs. They are expected to decline further in New Jersey while growing slightly in the nation as a whole over the forecast period.

The state's consumer inflation rate rose to 3.8 percent in 2004, primarily due to the rapid rise in oil and natural gas prices during the middle part of the year. The rate will return to 3.7 percent in 2005 and average 2.4 percent from 2005 to 2025. The fallback in inflation rates to the 2 percent range in both the state and the nation in the next few years assumes that oil prices will retreat from their recent highs to an average of \$55 per barrel in 2005 and 2006. It is assumed that by 2010, the price for West Texas Intermediate will be back in the \$42.50 range, near its 2004 average. However, as of mid-September 2005, in

Table 1
SUMMARY OF NEW JERSEY ECONOMIC FORECAST
2004 TO 2025

	2004	2005	2006	2006 to 2015	2015 to 2025
<i>Annual Percentage Growth</i>					
Nonagricultural Employment	0.6	1.3	1.1	0.9	1.1
Real Gross State Product	3.2	2.9	2.6	2.7	2.1
Personal Income	5.3	5.5	5.8	5.7	6.8
Population	0.7	0.8	0.9	0.8	0.8
Consumer Prices	3.8	3.7	1.6	2.2	2.6
<i>Percentage</i>					
Unemployment Rate (average)	4.8	4.1	4.2	4.9	4.9

Source: R/ECON™.

Table 2
SUMMARY OF U.S. ECONOMIC FORECAST
2004 TO 2025

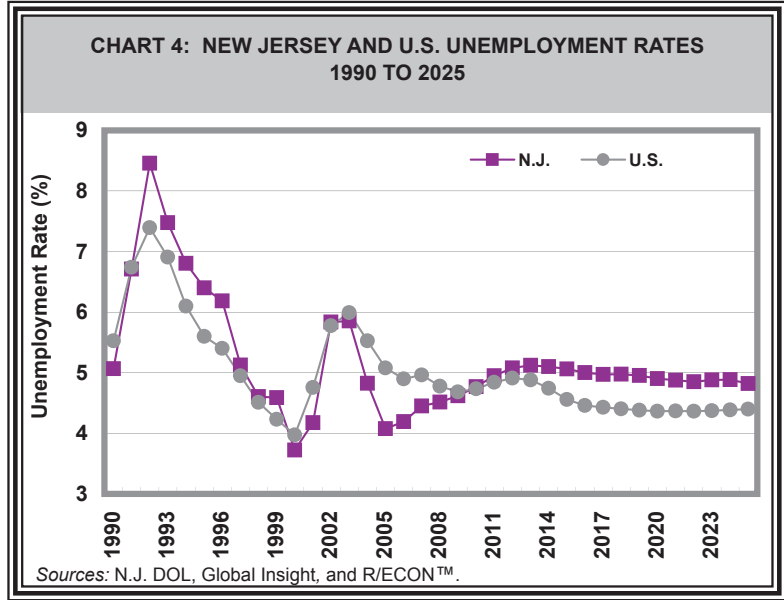
	2004	2005	2006	2006 to 2015	2015 to 2025
<i>Annual Percentage Growth</i>					
Nonagricultural Employment	1.1	1.7	1.5	0.9	1.1
Real Gross Domestic Product	4.2	3.7	3.2	3.0	3.0
Personal Income	5.9	6.2	6.2	5.7	6.0
Population	0.9	0.9	0.9	0.9	0.8
Consumer Price Index	2.7	3.1	2.2	2.3	2.7
<i>Percentage</i>					
Unemployment Rate (average)	5.5	5.1	4.9	4.8	4.4

Source: Global Insight, *U.S. Economic Outlook*, August 2005.

the aftermath of Hurricane Katrina, the price for West Texas Intermediate was near \$70 per barrel; it is not clear that the price will fall substantially any time soon. There is a compelling reason for thinking that oil prices will remain high. The growth in global demand for oil is more than twice the growth in supply, “but refinery capacity will increase . . . [slowly] further inducing the bottleneck effect.”¹ U.S. refiners have not built a new facility since 1976. High oil prices are a risk to the forecast, because if the oil price stays high, output and employment growth rates at the national and state levels are likely to be weaker than those shown in **Tables 1** and **2**.

The state unemployment rate averaged 4.8 percent in 2004, down substantially from the previous year. The rate is expected to fall to 4.1 percent this year and then to trend up over the rest of the forecast period, averaging 4.8 percent from 2006 to 2025. The state and national rates will converge at 4.7 percent in 2010, after which the state rate will remain above the U.S. rate. (See **Chart 4**.)

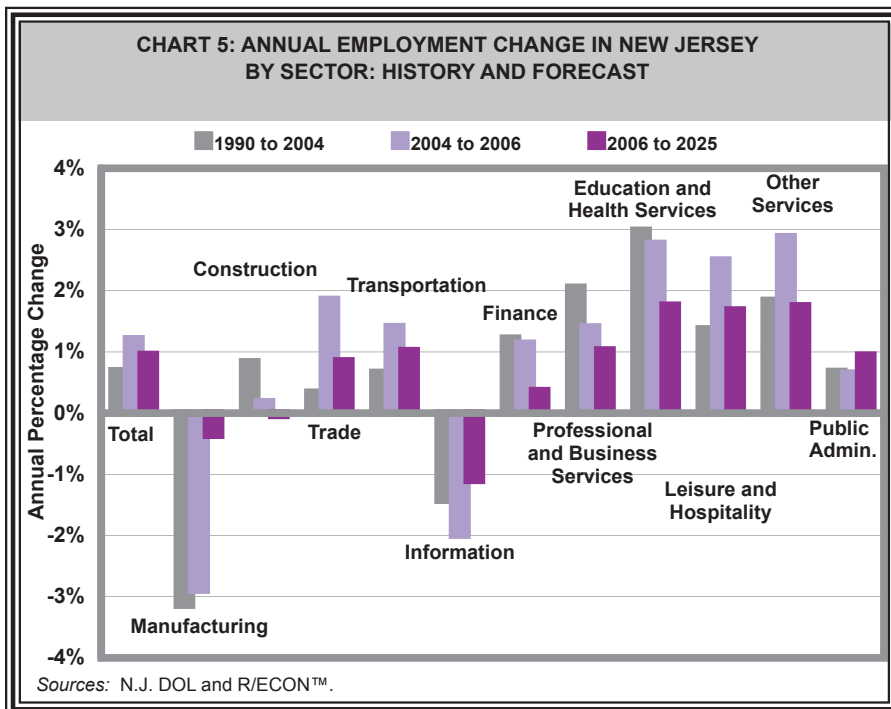
After two years of very slow growth during the recession and recovery, personal income in New Jersey rose 5.3 percent in 2004. Income will increase 5.5 percent this year, and income growth will average 6.2 percent a year through the rest of the forecast period.



The state’s population increased at an average annual rate of 0.8 percent from 2000 to 2004. It will expand by 0.8 percent a year through 2025. The state will add 1.6 million residents during the forecast period, pushing the population to more than 10 million in 2022. Population growth in New Jersey during the forecast period will be slightly slower than growth nationwide.

As was the case between 1990 and 2004, the fastest job growth in New Jersey will be in the service sectors: education and health care, leisure and hospitality, and “other services.” (See **Chart 5**.) These

three service sectors and the transportation sector will grow at average rates over 1 percent a year through the forecast period and provide more than half of the state’s new jobs. Since 1990, manufacturing has lost jobs at a rate of over 3 percent a year, for a loss of nearly 200,000 jobs. The information industry has lost jobs at an average annual rate of 1.5 percent, a loss of more than 20,000 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 2004, will lose a few thousand jobs during the forecast period.



Note

1. Brushan Bahree and Thaddeus Herrick, "Oil Industry's Refining Squeeze Limits Prospects of Price Relief," *Wall Street Journal*, May 24, 2005.