R/ECON™ Rutgers Economic Advisory Service
CENTER FOR URBAN POLICY RESEARCH

FORECAST OF OCTOBER 2010

NEW JERSEY: THE ECONOMY INCHES AHEAD!

Nancy H. Mantell, Ph.D.
Michael L. Lahr, Ph.D.

EXECUTIVE SUMMARY

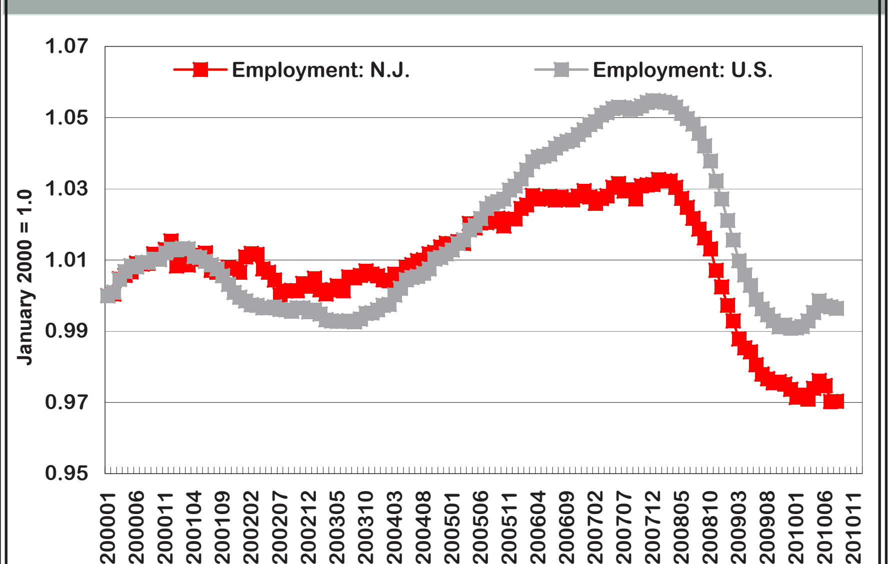
New Jersey's economy has weakened since the last R/ECON™ forecast in July. The state lost 244,500 jobs between the beginning of the recession in January 2008 and the employment trough in March 2010. In the bumpy period since then the state gained 20,000 jobs, only to lose more than that number between May and July. (See **Chart 1**.) The preliminary data for August show an increase of 500 jobs.

As can be seen in **Chart 2** the primary reason for the recent losses is the cutback in government jobs. Public sector jobs in New Jersey rose through the recession of the early part of the decade and the expansion from 2003 to 2008, finally peaking in May 2010. Since May the public sector has lost 30,800 jobs—about 12,000 in the federal sector as the Census was finalized and temporary workers let go, and about 18,000 in the local government sector, which has finally started to cut jobs in response to fiscal difficulties.

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; both have fallen slightly from the highs reached at the end of 2009. As of August 2010, both the state and national unemployment rates were 9.6 percent. (See **Chart 3**.)

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 2014, and not surpass the 2007 peak until 2016. The U.S. will begin its job expansion two years earlier—in 2014. Our current forecast for New Jersey includes the U.S. recession from mid-2008 through mid-2009 with its 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.

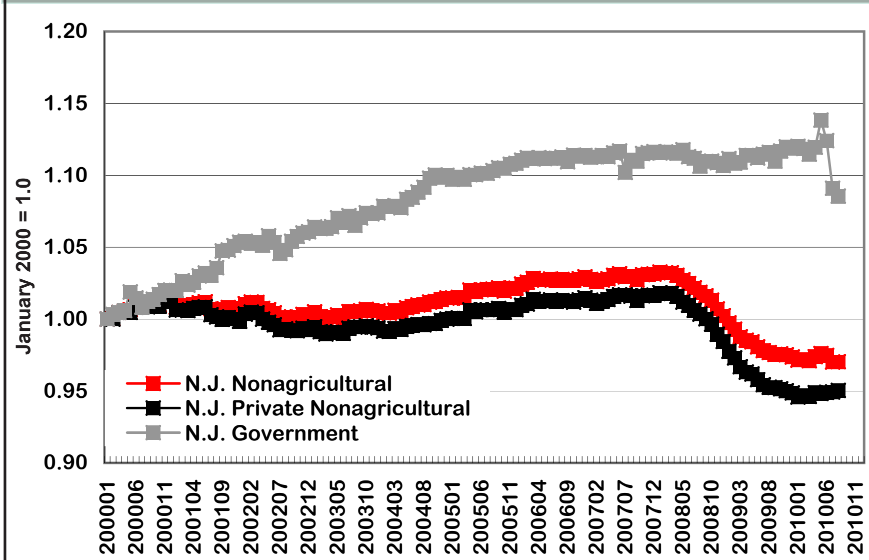
CHART 1: NEW JERSEY AND U.S. EMPLOYMENT INDICES 2000 TO 2010



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

RUTGERS Edward J. Bloustein School of Planning and Public Policy
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 2: NEW JERSEY EMPLOYMENT INDICES
2000 TO 2010



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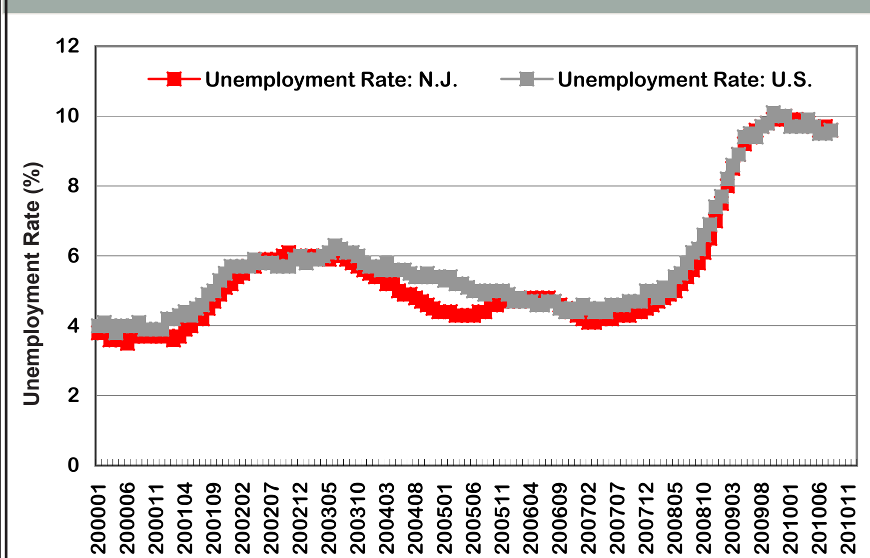
During the recession most of the job losses in New Jersey were in manufacturing, professional and business services, and construction. In terms of the percent of job loss, the manufacturing and construction sectors bore the brunt of the recession. The professional and business services sector lost the 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 the sector to be, as it was during the past decade, a strong contributor to growth, as will the other three service sectors. A turnaround has also begun in trade, finance, and leisure and hospitality services. 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.

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. (See **Chart 4**.) Since January the state has lost 4,100 jobs, most of them in the public sector. The good news here is that the private sector is beginning to show some growth, having added 16,100 jobs since its January 2010 low point.

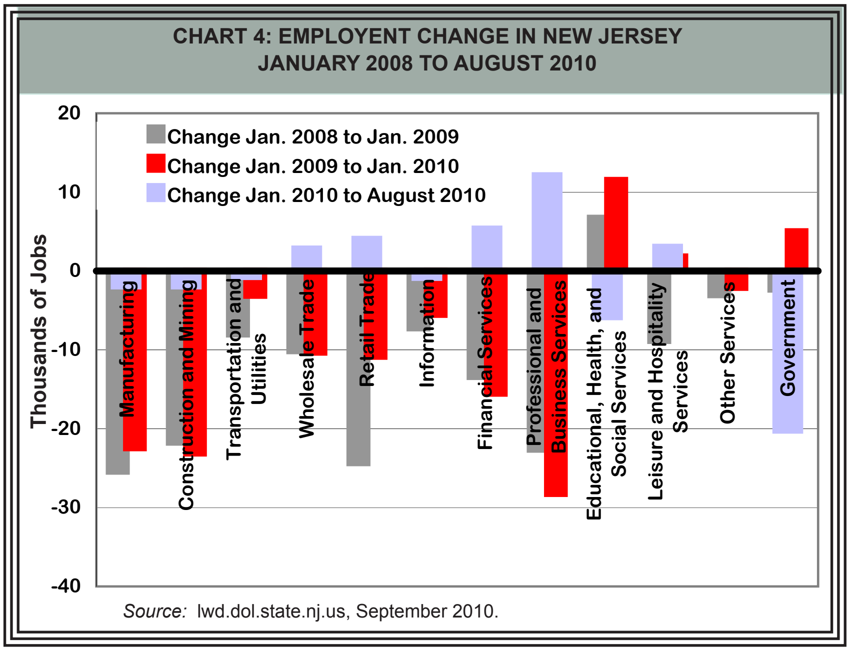
During the recovery, we expect average annual employment gains of 0.7 percent or 27,200 jobs. Once the expansion begins in 2016, the economy will grow at an average rate of 33,000 jobs or 0.8 percent a year through the rest of the forecast period. By the end of the forecast period in 2020 the state's employment base will exceed the 2007 peak by 135,000 jobs or 3 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 8 percent. New Jersey's share of the national job base will decline from its current 3.0 percent to 2.8 percent in 2016 and remain there for the rest of the forecast period. (See **Chart 5**.)

CHART 3: NEW JERSEY AND U.S. UNEMPLOYMENT RATES
2000 TO 2010



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

Since 2000, growth in national 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



recession, rose only 2.5 percent in 2008. Income fell in 2009 by 2.0 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 4.8 percent growth expected for the U.S. On a per capita basis, income will grow nearly identically in the state and nation at about 3.8 percent per annum.

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 year to the next through 2007 when it began to rise 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 560,000 residents over the course of the forecast. As a result, New Jersey's population will top 9 million in 2016 and will rise to near 9.3 million in 2020. 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 2.8 percent to 2.7 percent by 2020. Thus, the state's share of national employment will remain slightly higher than its share of the nation's population.

2020, output in New Jersey will expand at an average rate of 2.2 percent a year compared to the average rate of 2.8 percent a year expected nationwide. The differential is 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 **Table 1**.)

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 levels. The return to a more normal economic picture beginning in 2010 is accompanied by an inflation rate averaging 2.0 percent a year from 2009 to 2020.

New Jersey's unemployment rate peaked in the last quarter of 2009. It will remain below the national rate during most of the forecast period and average 7.1 percent from 2010 to 2020, compared to an average of 7.3 percent for the U.S.

Personal income rose 5.6 percent in 2007, and, with the onset of the

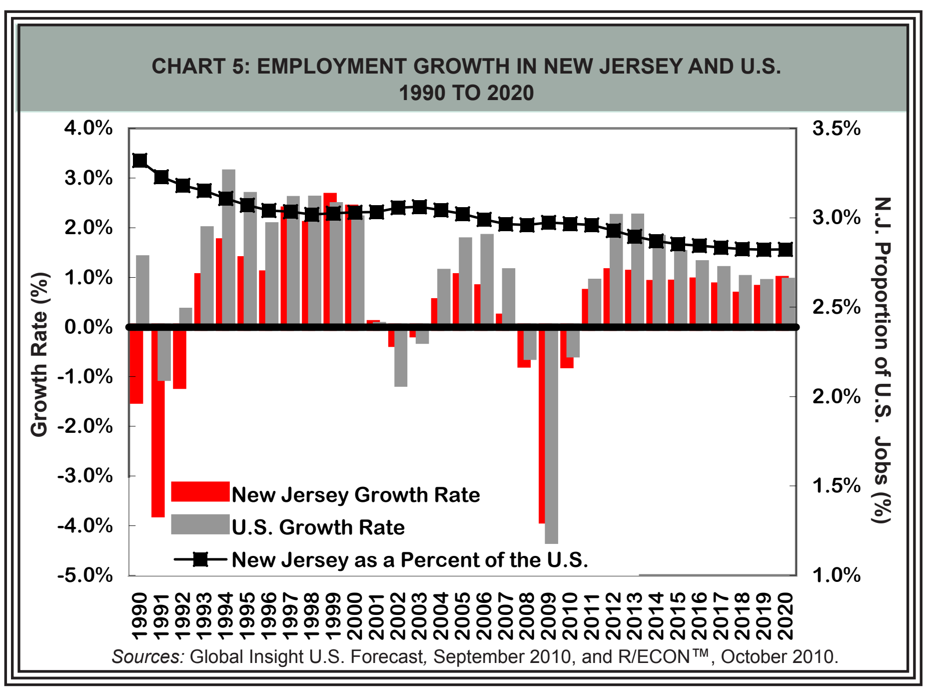


Table 1
SUMMARY OF NEW JERSEY ECONOMIC FORECAST

	2009	2010	2011	2011 to 2020
Annual Percentage Growth				
Nonagricultural Employment	-3.9%	-0.8%	0.7%	0.9%
Real Gross State Product	1.0%	1.7%	1.8%	2.3%
Personal Income	-2.0%	3.3%	4.2%	4.6%
Population	0.5%	0.6%	0.5%	0.6%
Consumer Prices	0.0%	1.9%	1.7%	2.0%
Percentage				
Unemployment Rate (average)	9.2%	9.7%	9.2%	6.5%

Source: R/ECON™, October 2010.