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

FORECAST OF OCTOBER 2012
NEW JERSEY: A SLOW GOING RECOVERY

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

EXECUTIVE SUMMARY

The October 2012 R/ECON forecast for New Jersey looks for growth in nonagricultural employment of 1.2 percent or 44,900 jobs in 2012, with most of the increase in the first half of the year. This is an above-average rate as the economy comes decisively out of the recession, but the rate of growth will slow as the recovery/expansion progresses. Growth will continue between 2012 and 2032 at an average rate of 0.9 percent or 35,500 jobs per year. The level of jobs will recover to the 2007 peak in 2018; by the end of the forecast period the employment level will be more than 500,000 jobs greater than the peak level.

The U.S. will begin its job expansion at least three years earlier—at the end of 2014. 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 18.5 percent, and New Jersey's share of the national job base will decline from its current 2.93 percent to 2.82 percent in 2032.

In terms of gross output, New Jersey lost 4.8 percent in 2009 and regained 30 percent of it in 2010. Real gross domestic product fell from $440 billion in 2009 to $427 billion in 2011, even with an upward bounce in 2010. Real output in the U.S. also declined 3.8, although from 2007 to 2009, rather than from 2008 to 2011 as was the case in New Jersey. R/ECON forecasts that output will return to the peak 2008 level by 2014. The loss in GDP for the U.S. in 2008 and 2009 was more than recovered by 2011. Between 2011 and 2032, output in New Jersey will expand at an average rate of 1.7 percent a year. (**See Table 1**.) This is considerably slower than the average rate of 2.5 percent a year expected nationwide. (**See Table 2**.) The differential is due to the relatively higher costs of living and doing business in New Jersey and the state's lower rate of population growth.

The state's unemployment rate will fall from its current (August 2012) level of 9.9 percent to near 6 percent by the end of this decade, and to 5.6 percent by the end of the forecast period. That 6.1 percent is the state's average unemployment rate over the period from 1970 till the beginning of the recent recession.

New Jersey's consumer prices rose 2.7 percent in 2011 because of high inflation rates in agricultural and oil prices in the early part of the year. The rate of inflation

Table 1
SUMMARY OF NEW JERSEY ECONOMIC FORECAST

	2011	2012	2013	2013 to 2022
Annual Percentage Change				
Nonagricultural Employment	0.1%	1.2%	0.6%	0.9%
Real Gross State Product	-0.5%	1.2%	1.4%	1.7%
Personal Income	4.0%	3.2%	3.7%	4.1%
Population	0.4%	0.4%	0.3%	0.6%
Consumer Prices	2.7%	1.9%	1.9%	2.0%
Percentage				
Unemployment Rate (average)	9.3%	9.2%	8.7%	6.2%

Source: R/ECON™, October 2012.

EDWARD J. BLOUSTEIN SCHOOL OF PLANNING AND PUBLIC POLICY
CIVIC SQUARE • 33 LIVINGSTON AVENUE
NEW BRUNSWICK, NEW JERSEY 08901-1982 • TELEPHONE: (848) 932-2839 • FAX: (732) 932-2363

Table 2
SUMMARY OF U.S. ECONOMIC FORECAST

	2011	2012	2013	2013 to 2022
Annual Percentage Change				
Nonagricultural Employment	1.2%	1.4%	1.4%	1.0%
Real Gross State Product	1.7%	2.0%	1.8%	2.6%
Personal Income	5.0%	3.3%	4.1%	4.6%
Population	1.0%	0.6%	1.0%	0.9%
Consumer Prices	3.1%	2.0%	1.6%	2.0%
Percentage				
Unemployment Rate (average)	9.0%	8.2%	8.0%	5.7%

Source: Global Insight U.S. Long Term Forecast August 2012

will be much slower in the forecast period, at only 2 percent a year from 2011 to 2032.

Personal income rose 4.0 percent in 2011 as the state began to come out of the recession. It will rise at an average rate of 4.0 percent a year over the forecast period, somewhat lower than the 4.5 percent growth expected for the U.S. On a real per capita basis, income will grow more slowly in the state than in the nation at about 1.3 percent per annum for the state and 1.6 percent per annum for the U.S.

The state added 378,000 residents between 2000 and 2010, growing at an average annual rate of 0.44 percent. This was just over half as fast as population growth in the 1980s and was only half as fast as national population growth. Population growth will average 0.6 percent a year from 2010 to 2032, compared to 0.9 percent a year for the U.S. The state will add 1.2 million residents in that period. As a result, New Jersey's population will top 9 million in 2016 and come just over 10 million in 2032. Since New Jersey's population growth will continue to be slower than growth nationwide, the state's share of U.S. population will fall from the current 2.8 percent to 2.6 percent in 2032. However, the state's share of national employment and personal income will remain slightly higher than its share of the national population.

THE NATION

Current Economic Situation and Forecast

The August 2012 IHS Global Insight Long Term Forecast for the U.S., which was used for the current R/ECON™ forecast for New Jersey, is similar in the near term to the U.S. forecast on which we based our July 2012 forecast. Both forecasts show employment growth of 1.4 percent in 2012 and GDP growth of 2.1 percent. Inflation remains essentially a non-issue with the consumer inflation rate expected to increase less than 2 percent a year over the forecast period. The September 2012 IHS Global Insight forecast for the U.S. which goes out only 10 years and therefore could not be used for the R/ECON long term forecast, also is very similar over the next few years to the August forecast.

The major concerns keeping the forecast for U.S. growth slow are the Eurozone debt crisis and the deterioration of growth prospects around the world, particularly in China. Global Insight made a Greek exit from the Eurozone a part of its baseline forecast in June and it remains one of Global Insight's assumptions.

The August Global Insight forecast has lower oil prices than those in the June 2012 forecast beginning in 2013—offsetting some of the drag on production and consumption brought about by the generally weak world economy. The forecast assumes that the price of West Texas Intermediate will average about $92 a barrel in 2012 and average below $90 a barrel through 2017 when it begins to rise—reaching $127 a barrel in 2032.[1] The price of natural gas (Henry Hub spot) averaged $7 per million BTU in 2007 and peaked at over $11 per million BTU in early 2008. The forecast assumes that the price of natural gas will not surpass $7 per million BTU during the forecast period. This could change if the supply of natural gas from hydrofracking is cut for environmental/policy reasons. The housing market is showing signs of recovery and housing prices have begun to rise this year. However, substantial and steady increases will not begin until

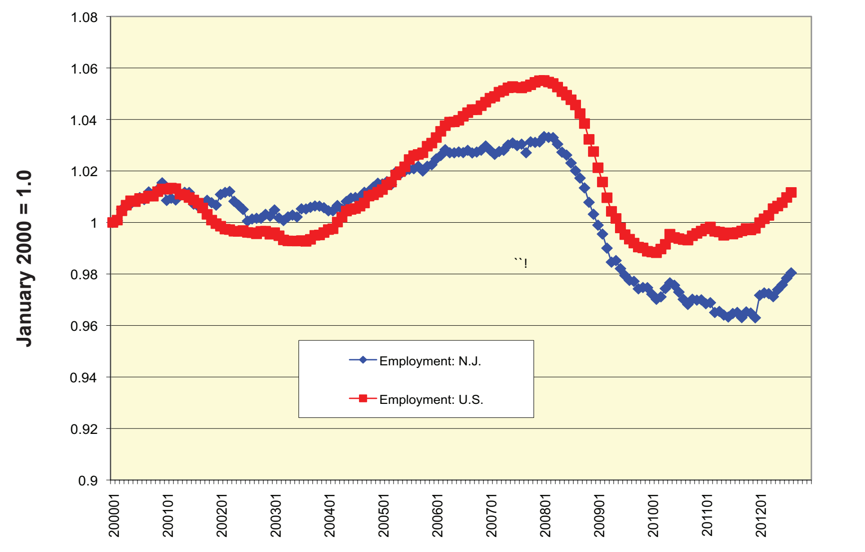
[1] All U.S. forecast information is from the IHS Global Insight U.S. Long Term Forecast of August 2012.

2014 for existing homes and as late as 2017 for new ones. They will increase at an average rate of 4 percent a year from 2013 to 2032. Consumer prices rose 3.1 percent in 2011 and, given the trends in energy and housing prices, will rise at an average rate of 2.0 percent this year and 1.9 percent a year between 2012 and 2032.

The key policy assumptions going into this forecast are that the payroll tax cut and emergency unemployment insurance benefits begin to phase out in 2013; the Bush tax cuts extend through 2013, and the automatic spending cuts scheduled for 2013 are delayed for a year. The forecast assumes that the Obama health-care reform goes into effect on schedule, and that the Fed will hold rates near zero until late in 2014.

The August 2012 Global Insight Long Term forecast shows that real GDP rose by 1.7 percent in 2011 and it will increase 2.0 percent in 2012. Growth will average 2.6 percent a year from 2012 to 2032. (**See Table 2**.) That long-term growth rate is low compared to the long-term average (1970 to 2010) of 2.8 percent a year. Employment will increase by 1.4 percent this year for a gain of 1.9 million jobs. Between 2012 and 2032, job growth will average 1.0 percent or 1.5 million jobs a year with nearly 90 percent of the gains in the private sector. At this rate, the U.S. will surpass its 2007 employment peak of 137.6 million jobs in late 2014. The unemployment rate peaked at 10.1 percent in October 2009. It averaged 9.6 percent in 2010 and 9 percent in 2011. The rate fell to 8.1 percent in April 2012, but it bounced up slightly from May to July returning to 8.1 percent in August. It is expected to average 8.2 percent for all of 2012 and fall to just above 5.1 percent in 2032.

CHART 1: NEW JERSEY AND U.S. EMPLOYMENT INDICES 2000 TO 2012



Sources: www.wnjpin.state.nj.us and www.bls.gov.

NEW JERSEY

Employment Overview

New Jersey's economy improved slowly and steadily during most of 2011 and into mid-2012. After hitting bottom in January 2011, employment was up by 72,100 jobs in August 2012, including a small dip in July. The speed of growth in New Jersey has lagged that in the nation throughout the recovery. Through August 2012 the U.S. had regained 46 percent of the 8.75 million jobs lost during the recession, while New Jersey had regained only 28 percent of the 257,000 lost jobs. (**See Chart 1**.)

New Jersey relied on the public sector for job growth in the first decade of the century; however, since early 2011 there has been a shift, in that now almost all job growth is in the private sector. The number of private sector jobs barely changed in 2010, but it has risen 2.1 percent, or 66,600 jobs, since January 2011. New Jersey's public sector, after shedding about 20,000 jobs (exclusive of Census related temporary jobs) has added 5,900 jobs so far this year. The public sector in the U.S. has continued to shed jobs this year, and it is down nearly 3 percent from its peak level (excluding the Census temps).