

FORECAST OF OCTOBER 1998

# NEW JERSEY: EXPANSION CONTINUES, BUT SLOWER TIMES AHEAD!

## EXECUTIVE SUMMARY

New Jersey's economy began to expand after its long recession and subsequent recovery in May 1997. Since then, the state has added 91,000 positions to its employment base. Job creation proceeded at an annual rate of 2.5% from May 1997 through the end of the year. Since then, growth has slowed; the state added 37,000 jobs between December 1997 and August 1998. The private service sectors added as many jobs on a monthly basis this year as last.

Although the state's unemployment rate remains above the national figure, it fell below 5% in November 1997. The rate fell to 4.8% in this June and returned to the June level in August. These are the lowest joblessness rates since early 1990. Low unemployment rates and rapid job creation have yet to lead to upward pressure on wage rates and prices.

The R/ECON™ forecast for New Jersey is for a continuation of the current expansion but at a much reduced rate. In 1998, employment will rise by 79,000, or 2.1%, with output growth of 3.4% and little inflation. Both output and employment growth will weaken in 1999, while inflation will rise to more than 2%. In the long run, employment growth will average 0.9% per year and output growth.

Most of the increase in employment this year and throughout the forecast period will be in various service sectors and in retail trade. Health services will make comeback after years of consolidation. Declines in the manufacturing sector will slow from -3% per year over the past two decades to -1% per year over the next 20 years. The change in industrial structure in New Jersey implied by the continuing strength in services and loss of manufacturing jobs is shown in Chart 1. By 2017 the service sector will account for 39% of total jobs, up from the current 31%; manufacturing will account for only 9% of jobs in New Jersey.

The state unemployment rate is expected to average 5% this year, down from 5.1% in 1997. It will rise again to over 5% in 1999 as economic activity at both state and national levels slows and will remain in the low 5% range over most of the forecast period.

**Table 1**  
**SUMMARY OF NEW JERSEY ECONOMIC FORECAST**  
**October 1998**

<i>Annual Percentage Growth</i>	1997	1998	1999	2000	2000 to 2017
Nonagricultural Employment	2.3	2.1	1.4	1.2	0.9
Real Gross State Product	2.4	3.4	2.6	2.2	1.9
Personal Income	5.3	5.1	4.8	5.0	4.9
Population	0.6	0.6	0.6	0.6	0.4
Consumer Prices	2.3	1.3	2.3	2.7	2.5
<b>Percent</b>					
Unemployment Rate(average)	5.1	5.0	5.1	5.2	5.2

Personal income will rise 5.1% this year, down from 5.3% in 1997. As employment and wage growth slow later in the forecast, income growth will decelerate to 4.8% in 1999., and average 4.9% a year between 2000 and 2017.

We expect population growth of 0.6% between 1997 and 2000. In the longer term, growth will average 0.4% per year. The decline in the rate of population growth is the result of two major forces- tightened welfare and immigration laws, and the passing of the baby-boom age cohorts from their reproductive years. The state's population will rise from 8.05 million in 1997 to 8.19 million in 2000, and 8.82 million in 2017.

Since the recovery began in New Jersey, the expansion of real output has been considerably faster than job growth, indicating strong productivity growth. Over the forecast period, productivity should rise about 1% a year, about the same as in the United States as a whole.

