



# RUTGERS ECONOMIC ADVISORY SERVICE

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## FORECAST OF JULY 2002 NEW JERSEY: RECOVERY IS ON THE WAY!

### EXECUTIVE SUMMARY

The nation's economy grew rapidly in the first quarter of 2002, although much of the growth was the result of businesses replenishing their inventories rather than responding to an increase in final demand. The growth in gross domestic product was, however, accompanied by a small decline in payroll employment and a substantial increase in the unemployment rate. New Jersey's first quarter also was characterized by a decline in employment and an increase in the unemployment rate. Employment barely changed in April, and the unemployment rate fell slightly, strengthening our contention that the economy is scraping along the bottom, just waiting to jump into recovery. During the forecast period—2002 to 2006—the state will add jobs at an average rate of 0.8 percent (or 33,100

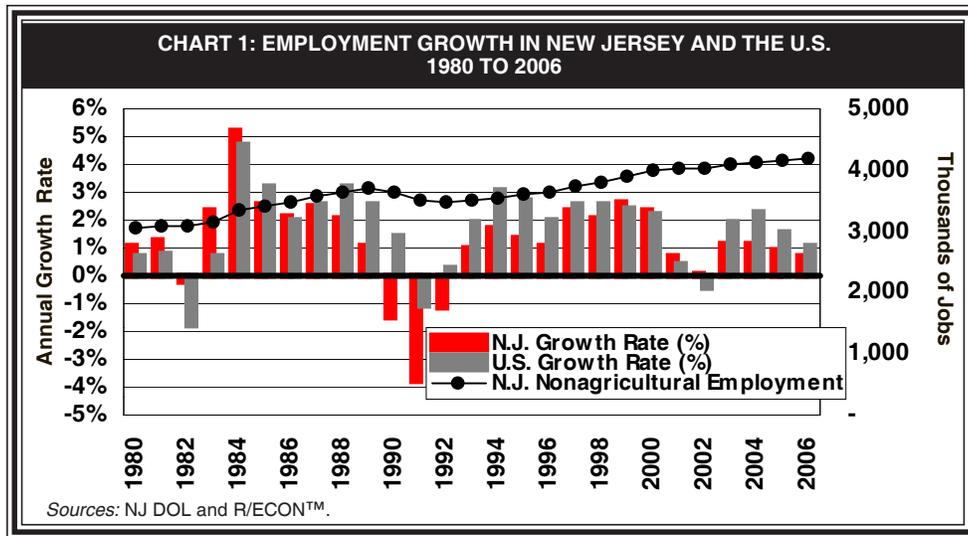
jobs) a year. (See **Table 1.**) This is a comparatively slow rate of growth. During the two decades from 1980 to 2001, annual job growth averaged 46,000; it had averaged 45,000 a year since 1945.

The employment recovery has been slowed by problems in a few specific industrial sectors: manufacturing, transportation, communications, securities and commodities dealers, and business services. The gains made in jobs at securities and commodities dealers just after the events of September 11, 2001, have been reversed. Firms have sent their employees back to Manhattan, and weaknesses in the industry, which surfaced as a result of less activity in mergers and acquisitions and new issues, led to layoffs. Losses in air transportation employment sustained after September 11, when the airlines made large cutbacks in flights, personnel, and equipment, have begun to be reversed as air travel revives. Business services was one of the state's fastest-growing sectors in the expansion of the late 1990s. However, with less need for computer-programming services after Y2K problems were addressed, the sector weakened in 2000. Further weakness in the sector occurred when firms cut back on temporary help as the economy softened.

The R/ECON™ forecast for New Jersey looks for growth in real output of 2.4 percent this year and for an inflation rate of only 1.8 percent. (See **Table 1.**) Output growth will strengthen after 2002, averaging 3.2 percent a year between 2002 and 2006. The inflation rate will rise to 2.1 percent in 2003 and average 2.5 percent a year from 2003 to

	2000	2001	2002	2003	2003 to 2006
<i>Annual Percentage Growth</i>					
Nonagricultural Employment	2.4	0.7	0.1	1.2	0.9
Real Gross State Product	3.7	2.0	2.4	3.1	3.3
Personal Income	8.1	3.5	4.3	6.2	5.5
Population	0.8	0.7	0.6	0.6	0.7
Consumer Prices	2.9	2.6	1.8	2.1	2.5
<i>Percentage</i>					
Unemployment Rate (average)	3.8	4.2	5.4	5.3	5.0

Source: R/ECON™.



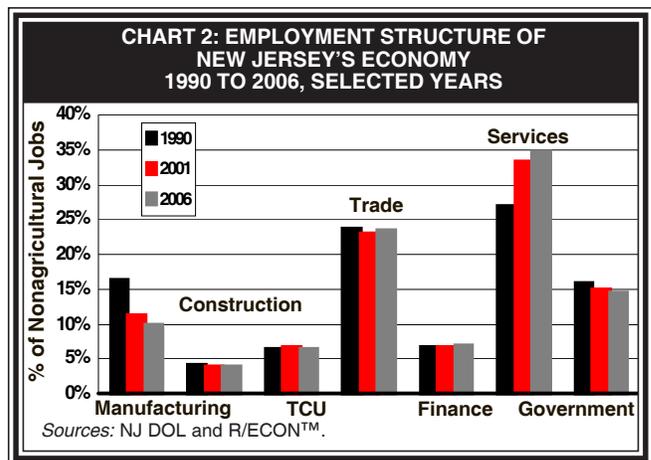
2006. The state’s population will increase by 0.7 percent a year between 2001 and 2006. At that rate, New Jersey will add 288,100 residents for the period. After surpassing the national growth rate for several years, the rate of employment growth in New Jersey will be slower than the rate for the nation 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 5.1 percent over the next four years, and remain below the nationwide level.

Personal income rose 8.1 percent in 2000, but the growth rate declined to 3.5 percent in 2001 due to the slower pace of the economy. Personal income will grow 4.3 percent this year and average 5.7 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 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 7.6 percent. Employment will decrease slightly in communications and utilities, but increase in all other major sectors. The services sectors will provide nearly 60 percent of the new jobs, and the trade sectors will account for more than 25 percent. The fastest-growing industries will be “other services,”<sup>1</sup> hotels/casinos, and

nonbank finance.<sup>2</sup> Declines in the manufacturing sector will slow from an average of -2.7 percent per year in the 1980s and 1990s to an average of -1.5 percent per year in the forecast period. By 2006, only 10 percent of the state’s job base will be in manufacturing, down from 16 percent in 1990 and 11 percent in 2001. (See **Chart 2.**) By the end of the forecast period, the service sector will provide nearly 35 percent of the state’s jobs, up from 27 percent in 1990 and 33 percent in 2001.



Notes

1. “Other services” includes social services, educational services, legal services, amusements, personal services, and engineering and management services.
2. Nonbank finance includes securities and commodities dealers, insurance, and real estate.