

FORECAST OF OCTOBER 2011

NEW JERSEY: THE WEAK RECOVERY DECELERATES!

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EXECUTIVE SUMMARY

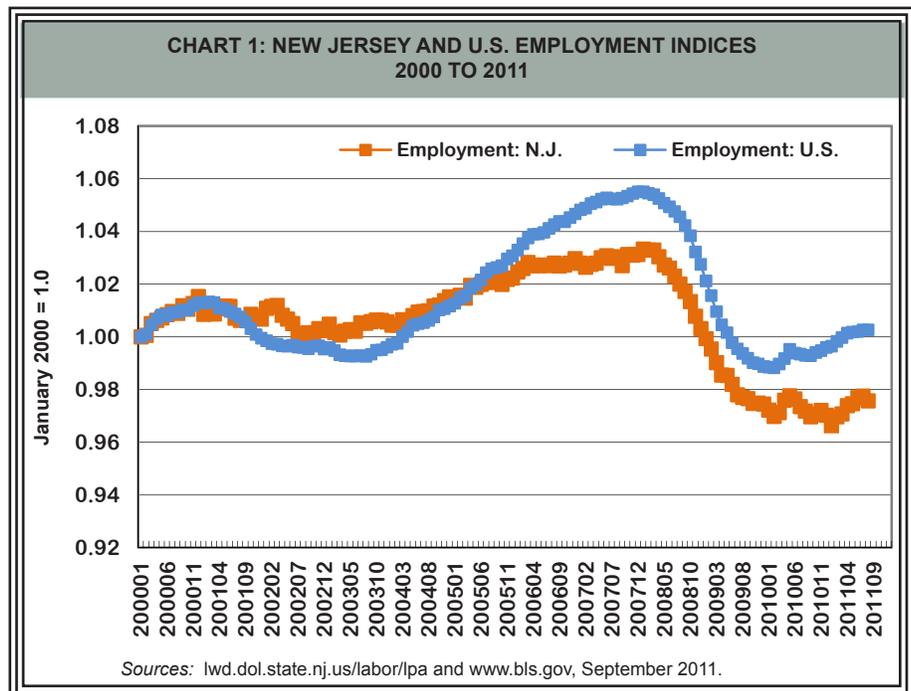
The prospects for both the U.S. and the New Jersey economies have weakened over the course of the year, even since our last forecast was made in July 2011. New problems keep cropping up that diminish the chances of an on-going strong recovery. The good news is that employment is up over last year's levels, output is up, inflation and interest rates are low, and so the forecasts for both the nation and the state remain positive.

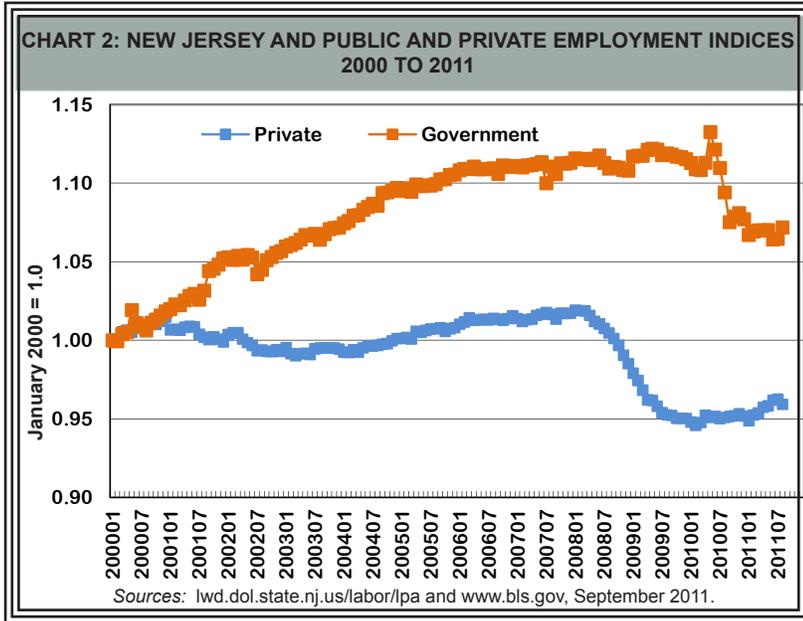
We expect that the U.S. economy will strengthen slowly in the coming months although not as rapidly as we would like. The same can be said for New Jersey's economy. After a loss of 24,000 jobs from January 2010 to January 2011, New Jersey's economy added 37,700 jobs between January 2011 and August 2011, an increase in employment of nearly 1 percent. At the same time the U.S. added jobs at a rate of 0.6 percent. (See **Chart 1.**)

In New Jersey, last year's job loss was primarily a result of cuts in public sector jobs in the state—jobs at all levels of government except defense declined in 2010. After growing steadily through the first decade of the century, government employment plunged in the second half of 2010 and into early 2011. Government jobs have since risen very slightly. However, as can be seen in **Chart 2**, the private sector barely took up the slack in 2010 although private sector jobs rose by just over 1 percent in the first eight months of 2011.

Between January 2008 and January 2011, the state had a net job loss of 265,700. The only growth sector over the full period was educational, health, and social services. (See **Chart 3.**) Between January 2010 and January 2011 the state lost 24,000 jobs, all of them in the public sector. Since then the private sector has added 34,900 jobs while the public sector has added 2,800, all of them at the local level. The positive note here is that while gains have been small this year, they have occurred in every sector of the economy except manufacturing and information, and information would also have grown if not for the strike at Verizon.

Our forecast indicates that although New Jersey began to recover its lost jobs in 2011, growth will be so slow that the average number of jobs in the state will not



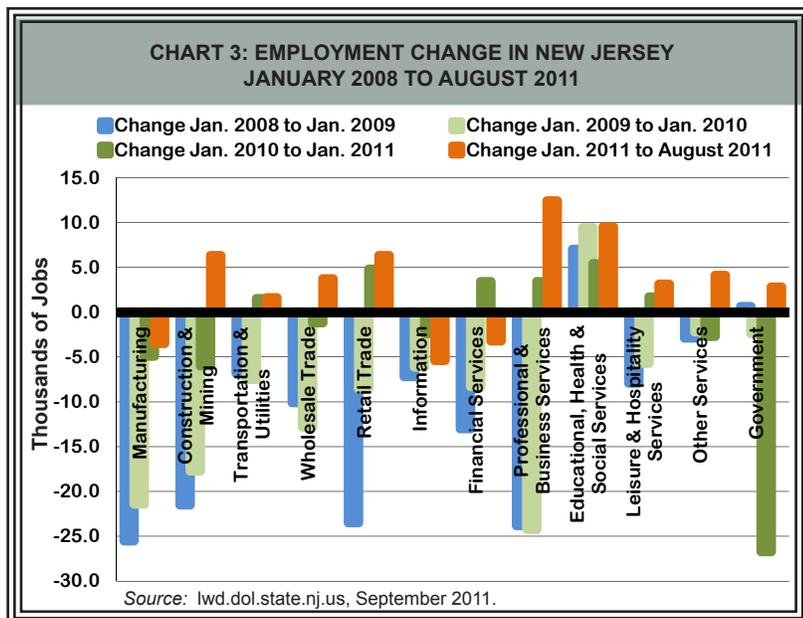


surpass the 2007 peak until 2016. The U.S. will begin its job expansion only a year earlier—in 2015. During the forecast period from 2011 to 2021 we expect average annual employment gains of 0.9 percent or 34,700 jobs. By the end of the forecast period in 2021 the state’s employment base will exceed the 2007 peak by 156,000 jobs or 3.8 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 7.1 percent. Thus New Jersey’s share of the national job base will decline from its current 3.0 percent to 2.9 percent in 2021. (See **Chart 4.**)

The New Jersey unemployment rate was lower than that of the U.S. through much of the past decade, and this held true during most of the recession as well. In New Jersey, the decline in the unemployment rate in 2010 seems to have been the result of people dropping out of the labor force as both the number of people employed and unemployed fell during much of the year. The state rate rose above the national rate in early 2011 when some workers reentered the labor force as the labor market seemed to improve. The state unemployment rate has since remained above the national rate. Even with the Verizon strike, which affected 7,100 jobs in New Jersey in August, the unemployment rate fell from its recent high of 9.5 percent in July. (See **Chart 5.**) New Jersey’s unem-

ployment rate will come down very slowly as the state’s economy recovers, reaching 5.6 percent by 2021, compared to a U.S. rate of just 6 percent in 2021.

During the past decade, growth in national GDP has been considerably more robust than growth in state real output. We expect this pattern to persist over the forecast period as well. Between 2010 and 2021, output in New Jersey will expand at an average rate of 2.0 percent a year compared to the average rate of 2.5 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 **Tables 1 and 2.**)



New Jersey’s consumer prices were stable in 2009 and rose 1.8 percent in 2010. The recovery and expansion of economic growth beginning in 2011 will be accompanied by an inflation rate averaging 2.1 percent a year from 2010 to 2021. The rate is close to 3 percent in 2011 because of very high inflation rates in agricultural and oil prices in the early part of the year. Personal income declined as a result of the recession by 2.6 percent in 2009 and returned to positive territory in 2010 with growth of 2.1 percent. It will rise at an average rate of 4.2 percent a year over the forecast period, somewhat lower than the 4.6 percent growth expected for the U.S. On a real per capita basis, income will grow nearly identically in the state and nation at about 1.5 percent per annum.

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 over the forecast period, compared to 1.0 percent a year for the U.S. The state will add more than 570,000 residents over the course of the forecast. As a result, New Jersey's population will top 9 million in 2016 in 2021 and come close to 9.4 million in 2021. 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 2.7 percent in 2021. Thus, the state's share of national employment will remain slightly higher than its share of the national population.

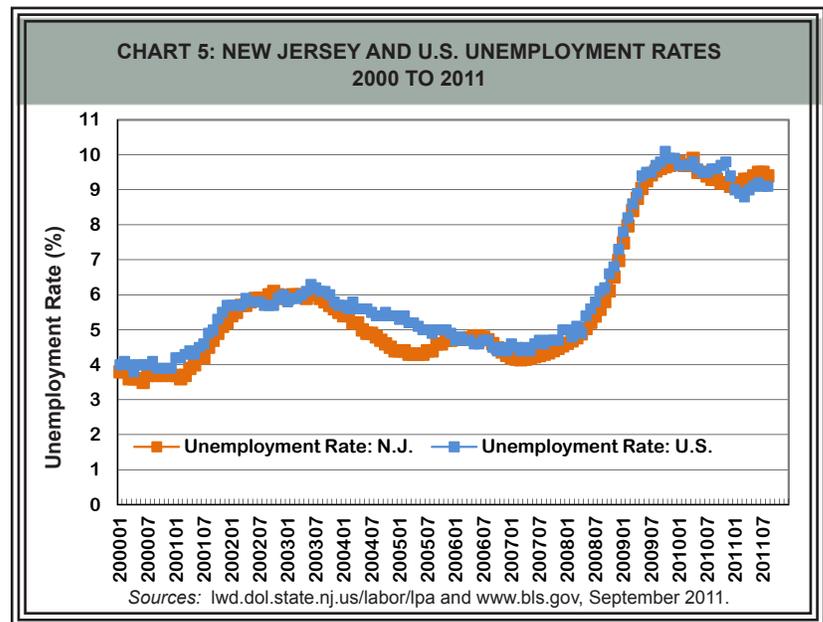
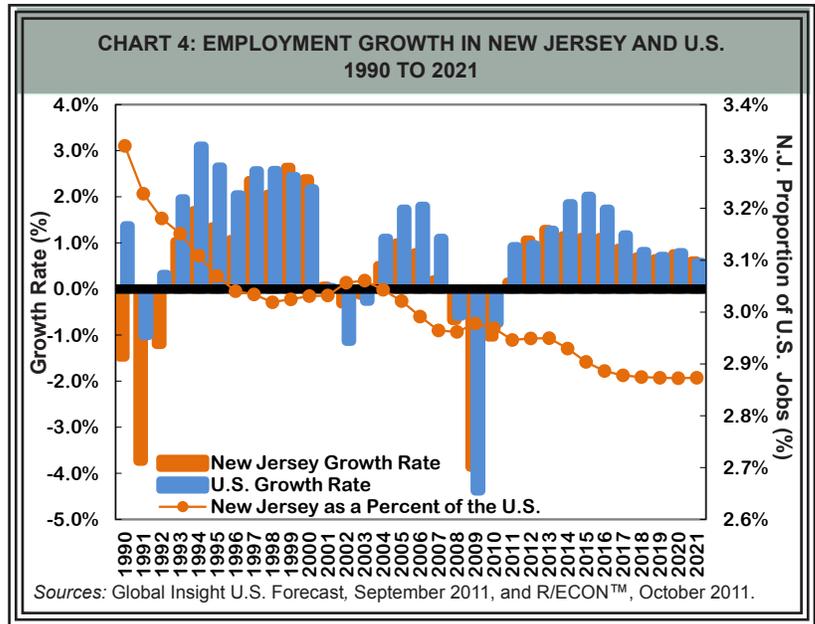


Table 1
SUMMARY OF NEW JERSEY ECONOMIC FORECAST

	2010	2011	2012	2012 to 2021
<i>Annual Percentage Growth</i>				
Nonagricultural Employment	-1.0%	0.1%	1.1%	0.9%
Real Gross State Product	2.5%	2.5%	1.4%	2.0%
Personal Income	2.1%	4.2%	3.8%	4.3%
Population	0.4%	0.4%	0.4%	0.6%
Consumer Prices	1.8%	2.8%	2.0%	2.0%
<i>Percentage</i>				
Unemployment Rate (average)	9.4%	9.4%	8.8%	6.2%

Source: R/ECON™, October 2011.