FORECAST OF APRIL 2009

NEW JERSEY: HOW BAD WILL THE DOWNTURN BE?

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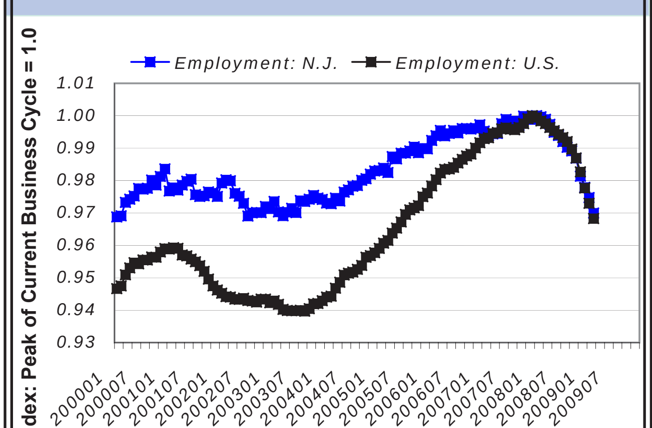
EXECUTIVE SUMMARY

The so-called Great Recession began in New Jersey in January 2008, a month after it started in the U.S. New Jersey's economy lost 103,200 jobs between January 2008 and January 2009 and the preliminary estimate shows the loss of another 19,700 jobs in February 2009. New Jersey's loss of 2.9 percent of the national job loss is very slightly less than the 3.0 percent that could be expected based on its share of the national job base. That is, these numbers indicate that the state's economy is doing almost (but not quite) as badly in terms of job declines, as the nation. (See **Chart 1**.) As the chart also makes clear, New Jersey has now lost almost all the jobs gained during its six and a half year long expansion. In February 2009 the state had only 3,800 jobs more than at its previous trough in mid-2002. We expect the state to lose a total of about 189,000 jobs over the course of the recession, followed by a very weak turnaround in early 2010.

This forecast for New Jersey assumes that the U.S. will experience a five-quarter dip in real gross product (GDP) running through mid-2009 and a period of decreasing employment lasting through early 2010. The U.S. unemployment rate will peak at 10.3 percent in mid-2010.

CHART 1: NEW JERSEY AND U.S. EMPLOYMENT INDICES 2000 TO 2009



Sources: lwd.dol.state.nj.us/labor/lpa and www.bls.gov, March 2009.

Our forecast indicates that the recession in New Jersey will not be quite as bad as it is in the nation primarily because of the way its economy is structured. The state is less reliant on the goods producing industries than is the U.S. as a whole and the state did not have the enormous run-up in new residential construction that occurred in some of the hardest hit areas of the country. A large proportion of the job losses in the U.S. have been and are likely to be in the manufacturing, construction, and financial sectors. New Jersey's manufacturing sector comprises only 7 percent of the state's economy compared to 10 percent in the nation. Transportation equipment manufacturing is likely to lose 1.5 million jobs in the U.S. in the next year and a half. But there were only about 6,000 jobs in the industry in New Jersey when the recession began. In the unlikely event that the state lost them all—and it has already lost 1,000 of them—it would mean a direct loss of only 0.2 percent of the employment base. The U.S. has already lost 800,000 construction jobs and is likely to lose at least that many more in the next year or so—a total of about a quarter of its construction job base in 2006. Although New Jersey is also likely to lose about a quarter of its 2006 construction job base during the recession, that base accounted for a smaller part of the employment mix in the state (4 percent) than in the U.S. (5.5 percent). The real problem for New Jersey is like to be the financial sector. The state has a large exposure to the securities industry, which we expect will lose nearly a quarter of its 2007 job base during the recession. Besides New Jersey's direct exposure to the securities industry it will also feel an impact from the job loss in that industry in New York City, since many employees of the city's securities industry reside in New Jersey. That impact will be seen

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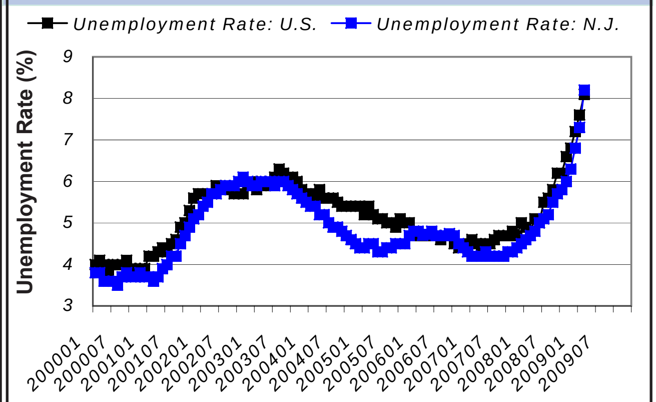
CHART 2: NEW JERSEY AND U.S. UNEMPLOYMENT RATES 2000 TO 2009



Sources: lwd.dol.state.nj.us/labor/lpa and www.bls.gov, March 2009.

in the decline in the residence adjustment component of personal income in 2009 and 2010.

The state's unemployment rate has been lower than the nation's during most of this decade, and it remained on the low side during this recession until February 2009 when it went pushed ahead. New Jersey's rate has increased sharply since the end of last year—from 4.2 percent in December 2007 to 7.3 percent in January 2009 and 8.2 percent in February. The U.S. rate rose to 7.6 percent in January 2009 and 8.1 percent in February. (See **Chart 2**.) New Jersey's unemployment rate is expected to peak at 10.1 percent but be below the national rate after this year and through the recovery.

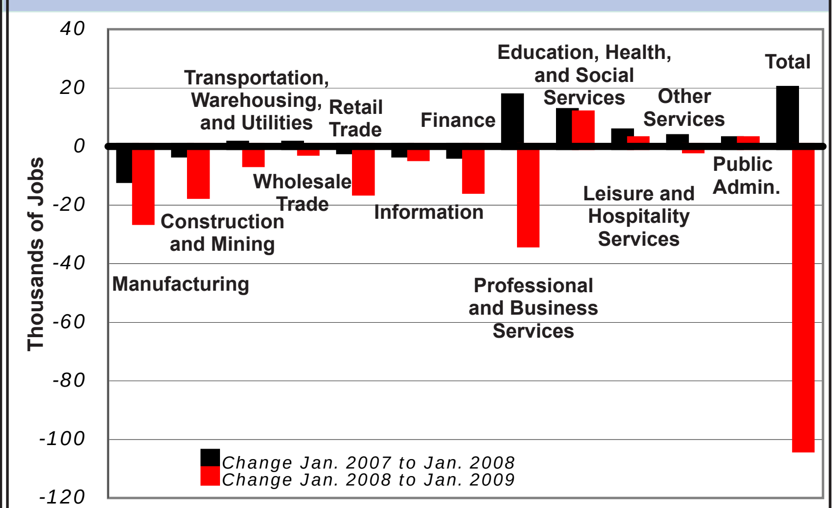
Between January 2008 and January 2009, the state had a net job loss of 103,200. The loss was concentrated in professional and business services, manufacturing, and construction, with substantial losses in retail trade and finance as well. Of the total of 15,400 jobs added over the course of the year, 70 percent were in education and health services and the rest were in leisure and hospitality services and government. (See **Chart 3**.) There were further losses in February 2009. On a preliminary basis those bring job losses in New Jersey to 122,900 from the peak reached in January 2008. The February declines were concentrated—again—in professional and business services and manufacturing.

The R/ECON™ forecast indicates that New Jersey's employment base will decline by 166,000 jobs between 2007 and 2010 on an annual average basis. However, the decline from the quarterly peak of 4,089,100 at the beginning of 2008 to the quarterly trough at the end of 2009 will total 189,000. As the state's economy begins to revive it will add 17,000 jobs in 2011 and then grow at an average rate of 45,000 jobs or 1.1 percent a year through the rest of the forecast period. (See **Table 1**.) Employment growth in the U.S. was considerably faster than in New Jersey during the economic upswing that began in 2002. We expect that once the recovery begins jobs growth in the U.S. will again outperform that in New Jersey. Thus New Jersey's share of the national job base will decline from its current 3.0 percent to 2.9 percent in 2013 and thereafter. (See **Chart 4**.)

Since 2000, growth in national real output has been more robust than growth in state real output. We expect this pattern to persist over the forecast period as well. Between 2007 and 2019, output in New Jersey will expand by an average rate of 1.9 percent a year compared to an average rate of 2.2 percent a year expected nationwide. This 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.

The state's consumer inflation rate rose 4.1 percent in 2006, primarily because of high energy prices and increasing wage rates. The rate of inflation slowed to 2.4 percent in 2007 and then popped up to 3.7 percent in 2008, chiefly because of rapidly rising energy prices

CHART 3: ANNUAL EMPLOYMENT CHANGE IN NEW JERSEY 2007 TO 2009



Source: lwd.dol.state.nj.us, December 2008.

through the first half of the year. Inflation will turn briefly to deflation in 2009 as the recession and lack of demand for goods and services of all types pushes prices down. A return to a more normal economic picture in 2010 will be accompanied by a low inflation rate averaging 2.2 percent a year between 2009 and 2019.

New Jersey's unemployment rate averaged 4.7 percent in 2006 and fell to 4.2 percent in 2007. It climbed to 5.5 percent in 2008 and will rise to 9.5 percent in 2009 and to a peak of 10.1 percent in 2010. It will average 6.2 percent over the rest of the forecast period, remaining well below the U.S. rate. (See **Chart 5**.)

After growing an extraordinary 7.4 percent in 2006, personal income rose 5.5 percent in 2007, and only an estimated 3.5 percent in 2008. Income growth will fall to under 2 percent a year in 2009 and 2010 as the recession persists. Over the rest of the forecast period, during the recovery and following mild expansion, income will rise at an average rate of 4.8 percent a year.

The state added 251,800 residents between 2000 and 2008, growing at an average annual rate of 0.4 percent. However, the rate of growth lessened from one year to the next until a small upward blip in the rate in 2008. The state will add 640,000 residents over the course of the forecast, expanding at an average rate of 0.6 percent a year. As a result, New Jersey's population will top 9 million in 2014 and will rise to 9.3 million in 2019. Population growth in New Jersey during the forecast period 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 in 2019. Thus the state's share of national employment will remain about the same as its share of the nation's population.

During the recession most of the jobs lost will come from the professional and business services, manufacturing, information, construction, finance, and retail trade industries. After the recession winds down, the manufacturing and information sectors will continue to experience structural job declines. (See **Chart 6**.) Most of the employment increases in New Jersey during the rest of the forecast period will be experienced by the four service sectors and the recovering trade sectors. Finance and government will also see some gains.

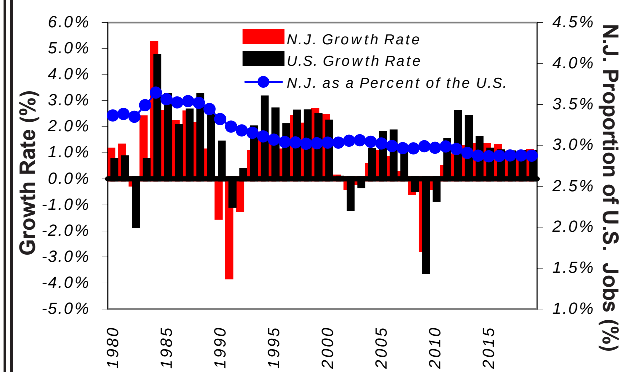
Table 1

SUMMARY OF NEW JERSEY ECONOMIC FORECAST

	2008	2009	2010	2011	2011 to 2019
Annual Percentage Growth					
Nonagricultural Employment	-0.5%	-3.2%	-0.3%	0.4%	1.1%
Real Gross State Product	2.3%	0.5%	0.1%	0.9%	2.3%
Personal Income	3.5%	1.9%	1.1%	3.0%	5.0%
Population	0.3%	0.6%	0.7%	0.7%	0.7%
Consumer Prices	3.7%	-1.9%	1.8%	2.7%	2.2%
Percentage					
Unemployment Rate (average)	5.5%	9.5%	10.1%	8.6%	5.9%

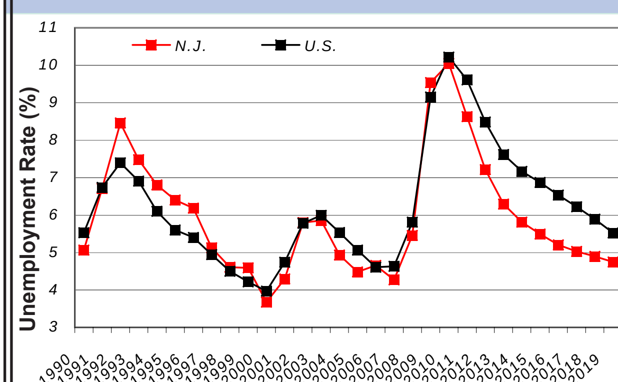
Source: R/ECON™, January 2009.

CHART 4: NEW JERSEY AND U.S. EMPLOYMENT GROWTH 1980 TO 2019



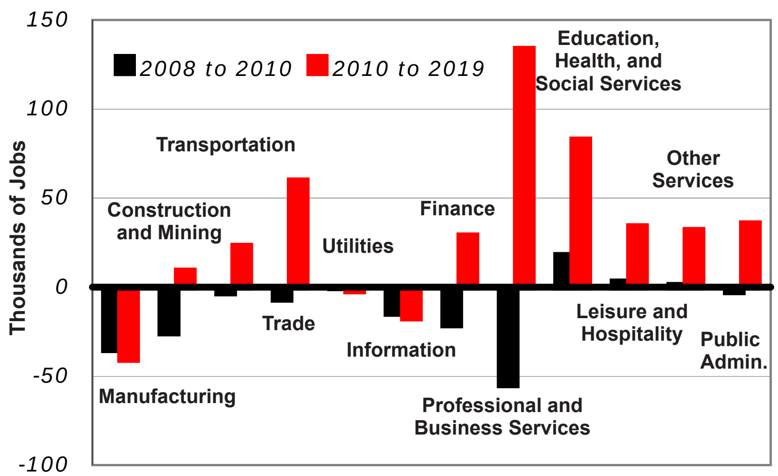
Sources: Global Insight, March 2009, and R/ECON™, April 2009.

CHART 5: NEW JERSEY AND U.S. UNEMPLOYMENT RATES 1990 TO 2019



Sources: Global Insight, March 2009, and R/ECON™, April 2009.

CHART 6: CHANGE IN EMPLOYMENT IN NEW JERSEY
BY MAJOR INDUSTRIAL SECTOR
2008 TO 2019



Sources: lwd.dol.state.nj.us, December 2008, and R/ECON™, April 2009.