## FORECAST OF APRIL 2010

# NEW JERSEY: THE FUTURE LOOKS BRIGHTER, BUT WE STILL NEED MORE JOBS!

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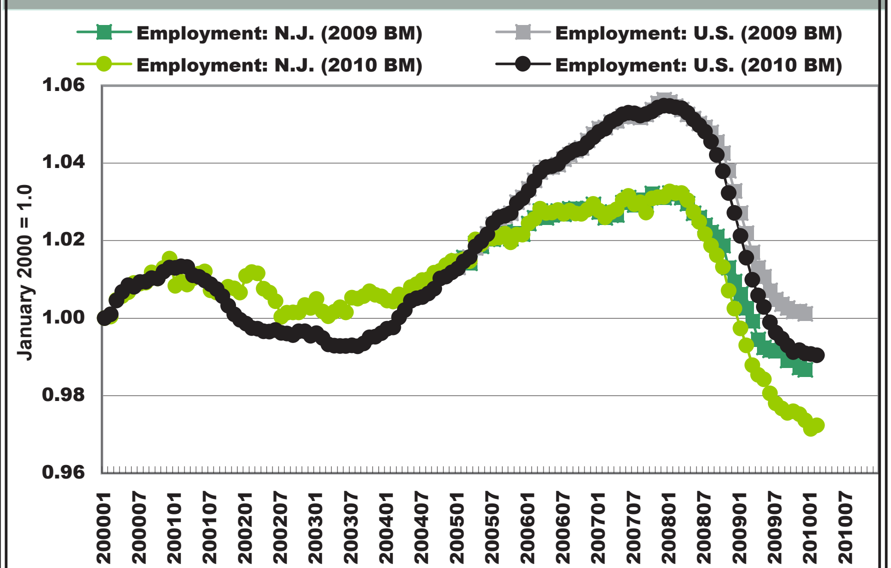
## EXECUTIVE SUMMARY

New Jersey's recession began in January 2008, a month after it started in the U.S. New Jersey lost 242,900 jobs between January 2008 and January 2010, or 5.9 percent of its peak employment base. Job losses occurred in every month except October 2009 when there was a gain of 1,500 jobs. Preliminary estimates for February 2010 indicate that the job base increased by 3,700—this is hopefully the beginning of the turn-around that we expect this year. During the first year of the recession New Jersey's job base declined more than the nation's (-2.9 percent compared to -2.6 percent); however, since the beginning of 2009, the state's pace of job loss has been slower than the nation's (-2.6 percent compared to -3.0 percent). Over the course of the recession, New Jersey has accounted for 2.9 percent of the national job loss—very slightly less than the 3.0 percent that could be expected based on its share of the national job base However, New Jersey has now lost twice as many jobs as it gained during the expansion of mid-2002 to 2007, while the U.S. job base has now fallen so that it is 0.2 percent below its 2003 low point. (See **Chart 1**.) Revisions to both U.S. and New Jersey employment data released recently indicate that job losses were more severe throughout the past two years than was shown in the unrevised data.

The New Jersey unemployment rate has been lower than that in the U.S. through most of the past decade, and the experience during the recession was no exception until this year. Currently the state unemployment rate is slightly above the national rate. There is some indication in the most recent data that both the U.S. and New Jersey rates may have peaked at 10.1 percent for the U.S. and 10 percent for the state at the end of 2009. (See **Chart 2**.)

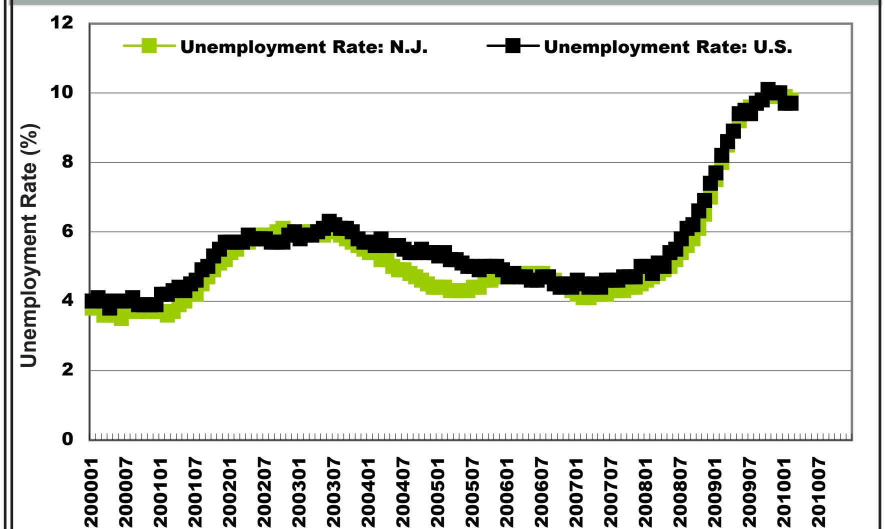
CHART 1: NEW JERSEY AND U.S. EMPLOYMENT INDICES 2000 TO 2010




*Sources:* lwd.dol.state.nj.us/labor/lpa and www.bls.gov, March 2010.

Our forecast indicates that the recovery in New Jersey will begin this year but that it will not be complete until early 2016, when the state will have regained all the jobs lost during the recession.. The U.S., on the other hand, will begin its job expansion three years earlier in early 2013. This forecast for New Jersey assumes that the U.S. experienced a five-quarter dip in real gross product (GDP) running from mid-2008 through mid-2009 and a two year period of decreasing employ-

CHART 2: NEW JERSEY AND U.S. UNEMPLOYMENT RATES
2000 TO 2010



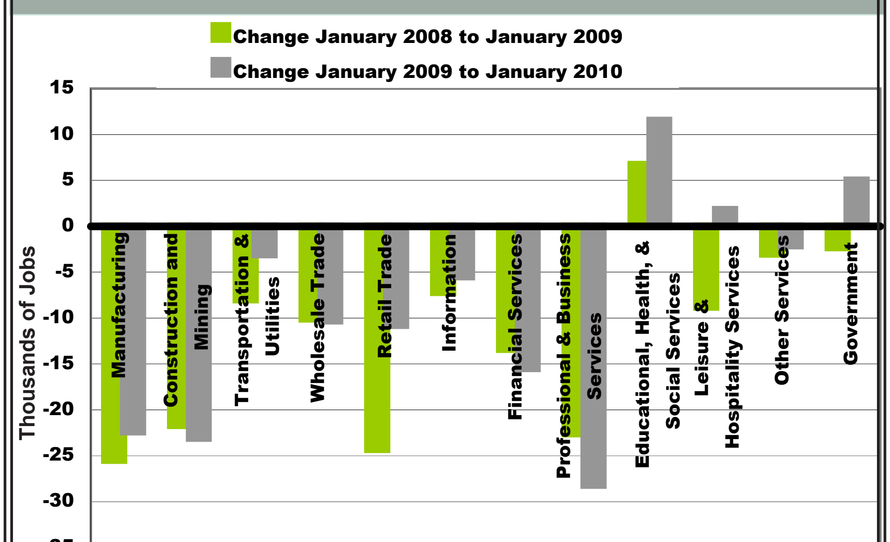

*Sources:* lwd.dol.state.nj.us/labor/lpa and www.bls.gov, March 2010.

ment lasting through the first quarter of 2010. The U.S. unemployment rate peaked at just over 10 percent at the end of 2009, while that for New Jersey peaked at 10 percent at the end of 2009. Thus in both New Jersey and the U.S. the unemployment rate has already reached its expected peak.

During the recession most of the job losses in New Jersey have been in manufacturing, professional and business services, and construction. In terms of the percent of job loss, the manufacturing and construction sectors bore the brunt of the recession. The professional and business services lost the largest number of jobs but only 8 percent of its job base. We expect the professional and business services sector to turn around during the recovery and be, as it was during the past decade, a strong contributor to growth, as will the other service sectors. Construction employment will begin to rise in 2011 and contribute to growth during most of the forecast period. After continuing declines through 2014, manufacturing employment will be close to stable.

Between January 2008 and January 2010, the state had a net job loss of 242,900. The only growth sectors were educational, health, and social services and government. (See **Chart 3**.)

CHART 3: ANNUAL EMPLOYENT CHANGE IN NEW JERSEY
JANUARY 2008 TO JANUARY 2010




*Source:* lwd.dol.state.nj.us, March 2010.

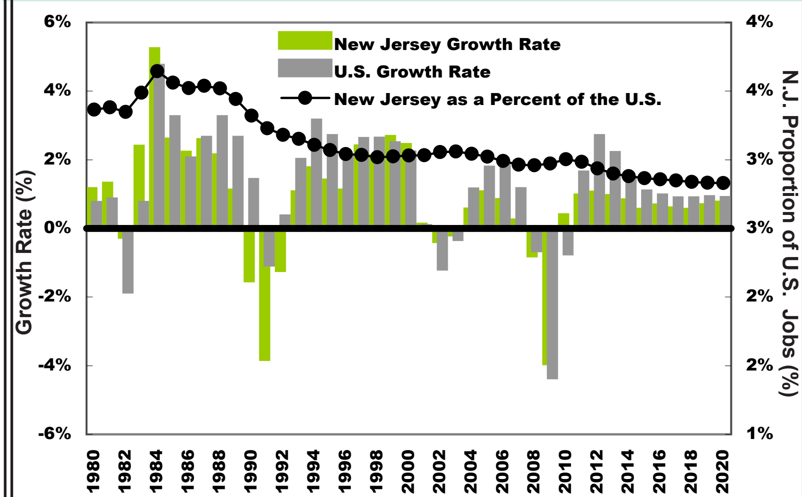
Once the expansion begins in 2016, the economy will grow at an average rate of only 24,600 jobs or 0.6 percent a year through the rest of the forecast period. By the end of the forecast period in 2020 the state's employment base will exceed the 2007 peak by 113,000 jobs or 3 percent. Employment growth in the U.S. was considerably faster than in New Jersey during the economic upswing that began in 2002. We expect that during the recovery employment growth in the U.S. will again outperform that in New Jersey. By the end of the forecast period the nation's employment base will exceed the 2007 peak by close to 8 percent. (See **Table 1**.) Thus New Jersey's share of the national job base will decline from its current 3.0 percent to 2.8 percent in 2018 and thereafter. (See **Chart 4**.)

Since 2000, growth in GDP has been more robust than growth in state real output. We expect this pattern to persist over the forecast period as well. Between 2008 and 2020, output in New

Jersey will expand at an average rate of 1.8 percent a year compared to the average rate of 2.3 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 3.7 percent in 2008, primarily because of rapidly rising energy prices through the first half of the year. Inflation turned briefly to deflation in late 2008 and early 2009 as the recession and lack of demand for goods and services of all types pushed prices down. For all of 2009 New Jersey's consumer prices were unchanged from the 2008 level. The return to a more normal economic picture in 2010 will be accompanied by a low inflation rate averaging 1.8 percent a year from 2009 to 2020.

CHART 4: NEW JERSEY AND U.S. EMPLOYMENT GROWTH
1980 TO 2020




*Sources:* Global Insight U.S. Forecast, March 2010, and R/ECON™, April 2010.

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

| | 2008 | 2009 | 2010 | 2011 | 2011 to 2020 |
|---|---|---|---|---|---|
| *Annual Percentage Growth* | | | | | |
| Nonagricultural Employment | -0.7% | -3.9% | 0.2% | 0.9% | 0.7% |
| Real Gross State Product | 0.6% | 1.1% | 1.7% | 1.4% | 1.9% |
| Personal Income | 4.1% | -1.4% | 3.9% | 3.8% | 4.6% |
| Population | 0.3% | 0.5% | 0.5% | 0.4% | 0.6% |
| Consumer Prices | 3.7% | 0.0% | 1.6% | 1.7% | 2.0% |
| *Percentage* | | | | | |
| Unemployment Rate (average) | 5.5% | 9.2% | 9.1% | 7.9% | 5.6% |

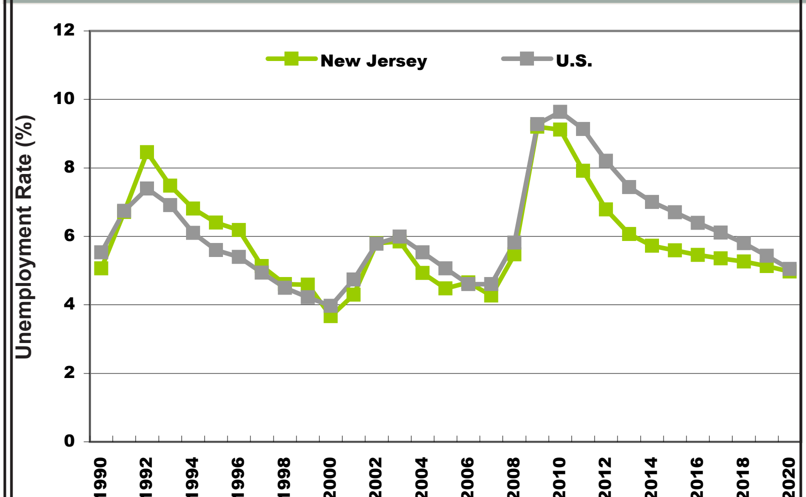
*Source:* R/ECON™, April 2010.

New Jersey's unemployment rate peaked at a quarterly rate of 9.9 percent at the end of 2009. It will remain below the national rate during the forecast period, averaging 6.1 percent from 2010 to 2020, compared to an average of 7 percent for the U.S. The rates in both the state and nation will fall to 5 percent at the end of the forecast period. (See **Chart 5**.)

Personal income rose 5.6 percent in 2007, and, with the onset of the recession, rose only 4.1 percent in 2008. Income is estimated to have fallen in 2009 by 1.4 percent as the recession persisted. Over the rest of the forecast period income will rise at an average rate of 3.9 percent a year, somewhat lower than the 4.3 percent growth expected for the U.S.

The state added 277,000 residents between 2000 and 2009, growing at an average annual rate of 0.4 percent. However, the rate of growth lessened from one year to the next until 2007 when it began to increase slightly. The growth in population will average 0.5 percent a year over the forecast period, rising slightly in the later years as the economy improves. The state will add 529,000 residents over the course of the forecast. As a result, New Jersey's population will top 9 million

CHART 5: NEW JERSEY AND U.S. UNEMPLOYMENT RATES
1990 TO 2020




*Sources:* Global Insight U.S. Forecast, March 2010, and R/ECON™, March 2010.

in 2016 and will rise to 9.2 million in 2020. Population growth in New Jersey will continue to be slower than it is nationwide, so that the state's share of U.S. population will fall from the current 2.83 percent to 2.70 percent in 2020. Thus, during the full forecast period, the state's share of national employment will remain slightly higher than its share of the nation's population.