RUTGERS ECONOMIC ADVISORY SERVICE

Center for Urban Policy Research

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FORECAST OF DECEMBER 2002
NEW JERSEY: ARE WE OUT OF THE RECESSION?

EXECUTIVE SUMMARY

Both New Jersey and the United States entered a recession in 2001—the nation in March and New Jersey three months later. Although the end of the recession has not been designated officially, growth in output resumed in the fourth quarter of 2001 and U.S. employment bottomed out in April 2002. (See **Chart 1.**) In November 2002, employment in the United States was still nearly 1.6 million jobs, or 1.2 percent, below its March 2001 peak. It has risen by less than 200,000 jobs since its low point.

Just as New Jersey entered the recession later than the nation as a whole, employment in the state reached its low point later in the year—in September 2002. New Jersey's recession has been much milder than that of the nation; the state lost only 32,400 jobs, or 0.8 percent of its peak-level employment, and regained a third of them in October 2002. During the forecast period—2002 to 2007—the state will add jobs at an average rate of 1 percent (or 40,600 jobs) a year. (See **Table 1.**) That rate is relatively low; it is 10 percent lower than the average annual growth rate during the post–World War II period.

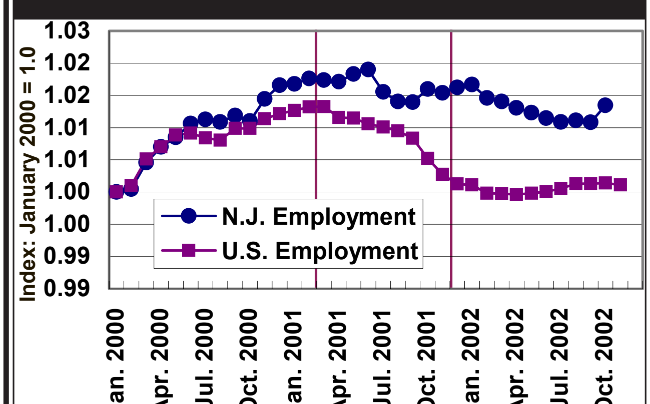
The R/ECON™ forecast for New Jersey looks for growth in real output of 1.1 percent this year and for an inflation rate of 2.4 percent. (See **Table 1**.) Output growth will strengthen in 2003, with growth of 4.1 percent, as the economy finally emerges from the recession. However, growth will be mild in the long term, with real output rising an average of only 2.6 percent a year from 2003 to 2007. This mild growth will put little pressure on prices in New Jersey; the consumer inflation rate

Table 1
SUMMARY OF NEW JERSEY ECONOMIC FORECAST
2000 TO 2007

	2000	2001	2002	2003	2003 to 2007
Annual Percentage Growth					
Nonagricultural Employment	2.4	0.7	-0.3	0.9	1.0
Real Gross State Product	6.6	1.6	1.1	4.1	2.6
Personal Income	9.9	3.0	4.0	4.3	4.9
Population	0.8	0.7	0.8	0.9	0.7
Consumer Prices	2.9	2.6	2.4	2.3	2.2
Percentage					
Unemployment Rate (average)	3.8	4.2	5.4	5.5	5.2

Source: R/ECON™.

CHART 1: NEW JERSEY AND U.S. EMPLOYMENT INDEX



Sources: N.J. DOL and U.S. DOL, Bureau of Labor Statistics, November 2002.

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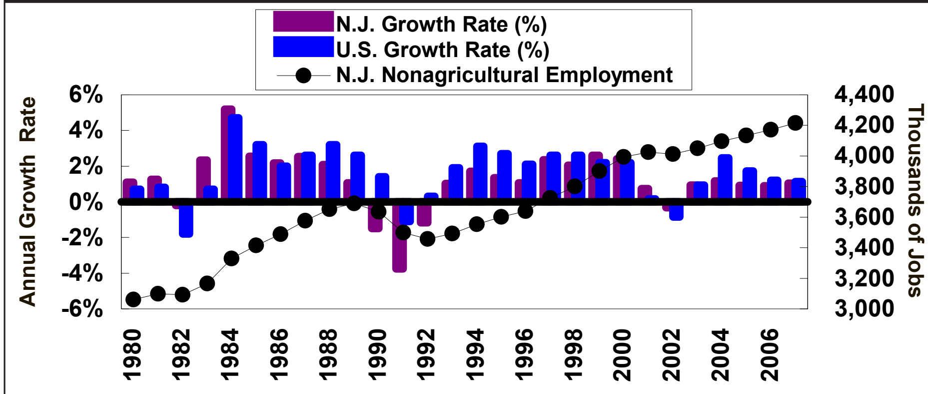
will average 2.2 percent from 2003 to 2007. The state's population will increase by 0.7 percent a year between 2001 and 2007. At that rate, New Jersey will add 389,000 residents over the period and have a population of 8.87 million in 2007.

CHART 2: EMPLOYMENT GROWTH IN NEW JERSEY AND THE UNITED STATES 1980 TO 2007



Sources: N.J. DOL and R/ECONô .

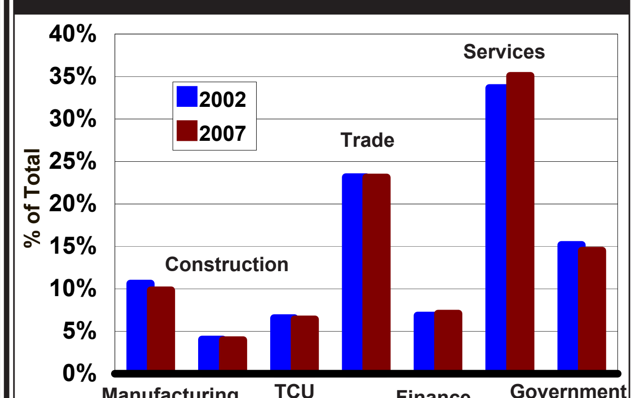
Employment grew faster in New Jersey than in the nation as a whole at the end of the last expansion, and the state suffered a smaller rate of job loss than the nation did this year. However, the state's employment growth rate is likely to be slower than the rate nationwide during the recovery and expansion period through 2007. (See **Chart 2**.) The relatively weak performance expected is predicated on the state's industrial structure. New Jersey's manufacturing sector is expected to continue to lose jobs, while the nation's manufacturing sector will expand slightly. The communications sector, long a mainstay of the state's economy, is expected to show little growth. Finance is the only sector in New Jersey that is likely to grow as fast as its counterpart nationwide. Finance jobs are expected to continue to move to New Jersey from New York and to increase to keep up with household and business needs.

The state unemployment rate will average 5.4 percent this year, up from 4.2 percent in 2001. The rate will increase just slightly next year as people reenter the workforce with the end of the recession. It will average 5.2 percent over the rest of the forecast period.

Personal income rose 9.9 percent in 2000, but the growth rate declined to 3 percent in 2001 with the onset of the recession. Personal income will grow 4 percent this year and average 4.8 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. Toward the end of the period, growth will be strengthened by a resumption of strong growth in interest and dividend income as the improving economy pushes both interest rates and corporate profits higher.

Over the forecast period, employment in manufacturing will decline by 2.5 percent, with most of the durable-goods industries and food production experiencing job losses. Utility employment will also decrease slightly. All other major sectors will experience employment gains. The service industries will provide 61 percent of the new jobs, and the trade sector will account for 21 percent of them. The fastest-growing industries will be "other services,"[1] banking, hotels/casinos, nonbank finance,[2] and business services. Each will grow more than 8 percent over the five-year period from 2002 to 2007. By 2007, only 10 percent of the state's job base will be in manufacturing, down from 16 percent in 1990 and 11 percent in 2002. (See **Chart 3**.) By the end of the forecast period, the service sector will provide 35 percent of the state's jobs, up from 27 percent in 1990 and 34 percent in 2002.

CHART 3: DISTRIBUTION OF EMPLOYMENT IN NEW JERSEY, BY INDUSTRY, 2002 TO 2007



Sources: N.J. DOL and R/ECONô .

Notes

1. "Other services" includes engineering, management, education, and social services.

2. Nonbank finance includes securities and commodities dealers, real estate, and insurance.