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Center for Urban Policy Research

Nancy H. Mantell, Ph.D.
Michael L. Lahr, Ph.D.

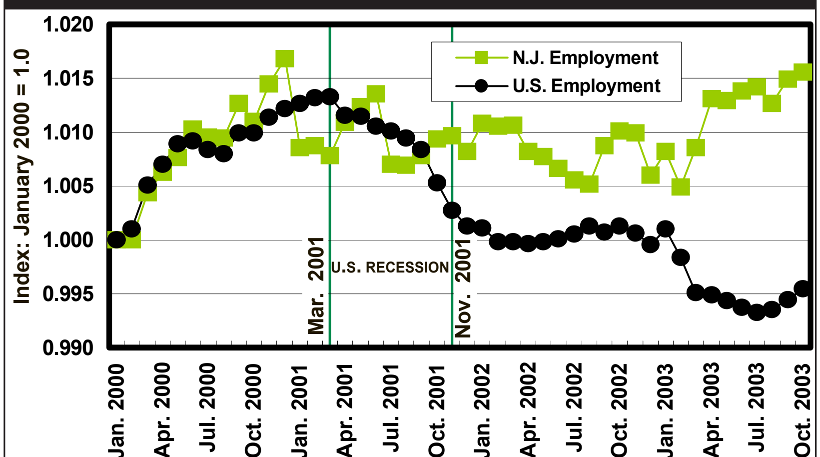
Forecast of December 2003
New Jersey: Leading the Way to Recovery

EXECUTIVE SUMMARY

After months of job loss, employment growth has finally returned to the U.S. economy. The country gained 286,000 jobs between July and October 2003, but the total number of jobs is still 1.8 percent below the peak level reached in March 2001. New Jersey experienced strong employment growth between February and October 2003, and as of October, employment was only 5,300 jobs, or 0.1 percent, below the peak achieved in December 2000. (See **Chart 1**.) More importantly, it was 42,300 jobs above the low reached in February 2003. Overall, the state has performed considerably better than the nation in terms of job restoration during the recovery.

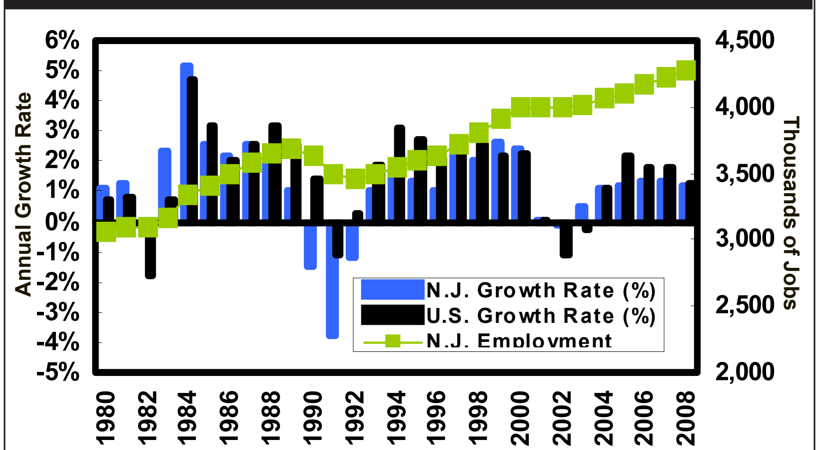
The R/ECON™ forecast indicates that employment will grow in New Jersey at an average annual rate of 1.1 percent (or 45,600 jobs) between 2002 and 2008. Although New Jersey emerged from the recent recession with less damage to its economy than that experienced by the country as a whole, the state will experience a weaker rebound from the recession. Employment growth in the United States will surpass growth in New Jersey beginning in 2005. (See **Chart 2**.)

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



Sources: N.J. DOL and U.S. DOL, Bureau of Labor Statistics, November 2003.

CHART 2: EMPLOYMENT GROWTH IN NEW JERSEY AND THE UNITED STATES, 1980 TO 2008



Sources: N.J. DOL and R/ECON™.

THE STATE UNIVERSITY OF NEW JERSEY
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EDWARD J. BLOUSTEIN SCHOOL OF PLANNING AND PUBLIC POLICY
CIVIC SQUARE • 33 LIVINGSTON AVENUE • NEW BRUNSWICK, NEW JERSEY 08901-1982
Telephone: (732) 932-3133, ext. 565 • Fax: (732) 932-2363

CENTER FOR URBAN POLICY RESEARCH

DESIGNED BY DAHK MUHAMMAD AND EDITED BY CATHERINE LIAPES

Table 1
SUMMARY OF NEW JERSEY ECONOMIC FORECAST
2002 TO 2008

	2002	2003	2004	2004 to 2008
Annual Percentage Growth				
Nonagricultural Employment	-0.1	0.5	1.1	1.3
Real Gross State Product	1.3	1.6	1.9	2.2
Personal Income	3.4	3.6	5.3	5.2
Population	0.9	1.0	0.9	0.7
Consumer Prices	2.0	2.3	1.8	2.1
Percentage				
Unemployment Rate (average)	5.8	5.8	5.8	5.5

Source: R/ECON™.

Real output was unchanged in the recession year of 2001 in New Jersey, and we estimate that it grew 1.3 percent in 2002. (See **Table 1.**) The R/ECON™ forecast for New Jersey looks for growth in real output to be weak compared with growth in the United States as a whole. Nevertheless, output growth in New Jersey will accelerate through the forecast period. The implied increase in productivity in the state is 1.4 percent a year, about 80 percent as fast as the growth rate for the United States as a whole.

The inflation rate of 2.3 percent in 2003 is up from last year's rate, primarily because of the rapid rise in oil prices early in the year and late in the summer. The rate will fall back to 1.8 percent in 2004 and average 2.1 percent from 2004 to 2008. These rates are similar to those of the national economy.

The state unemployment rate will average 5.8 percent this year and next year, as it did in 2002. The rate will decrease through the rest of the forecast period, falling to 5.4 percent in 2008. Throughout the period, the state rate will be slightly lower than the U.S. rate.

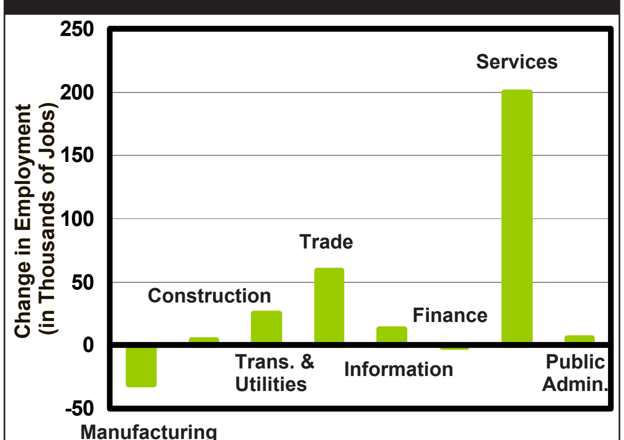
The recession kept personal income growth to only 3.4 percent in 2002. With the end of the recession, personal income should rise by 3.6 percent this year and 5.3 percent in 2004. Personal income growth will average 5.2 percent a year during the rest of the forecast period. Income growth will be sustained over the forecast period by relatively rapid growth in proprietors income and, in the later part of the period, by faster growth in interest, dividends, and rent as profits improve and interest rates rise.

The state's population rose by 0.9 percent a year between 2000 and 2002. It will increase 0.8 percent a year between 2002 and 2008. The state will add 421,630 residents between 2002 and 2008, pushing the population to just above 9 million in 2008. As in the past decade, population growth in New Jersey will be somewhat slower than growth in the United States as a whole.

Over the forecast period, most job growth in New Jersey will be in the service supersectors. The manufacturing sector will shed jobs and will be responsible for nearly all jobs lost in the state during the forecast period. (See **Chart 3**.) The finance sector will experience losses in its insurance industry. The construction, information, and public sectors will add a few thousand jobs. The state's transportation sector will grow rapidly, recovering from the layoffs occasioned by the recession and the impacts of the terrorist attack of September 11, 2001.

The service supersectors will be the greatest sources of job generation over most of the forecast period. All four service supersectors will add jobs, with the strongest growth in professional and business services. Together, the four supersectors will provide two-thirds of the state's new jobs and increase their job share from 39 percent in 2002 to 41 percent in 2008. The trade sectors will supply 19 percent of the job growth and hold their job share steady at 18 percent.

CHART 3: EMPLOYMENT GROWTH IN NEW JERSEY, BY INDUSTRY, 2002 TO 2008



Sources: N.J. DOL and R/ECON™.