

## FORECAST OF JANUARY 2011 NEW JERSEY: THE RECOVERY WILL FINALLY BEGIN THIS YEAR!

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### EXECUTIVE SUMMARY

New Jersey's economy was weak in 2010, losing 42,600 jobs or 1.1 percent of its 2009 employment base jobs after losses of 187,500 from 2007 to 2009.<sup>i</sup> The state's job picture looked as if it were beginning to improve in the early part of the year, but a major decrease in employment in the summer changed that. The state looks extremely weak in comparison to the activity in the U.S. where employment decreased only a half percent in 2010.<sup>ii</sup> (See **Chart 1**.)

As can be seen in **Chart 2**, the reason for the recent losses is the cutback in government jobs. Public sector jobs in New Jersey rose through the recession of the early part of the decade and the expansion from 2003 to 2008, finally peaking in May 2010. Between May

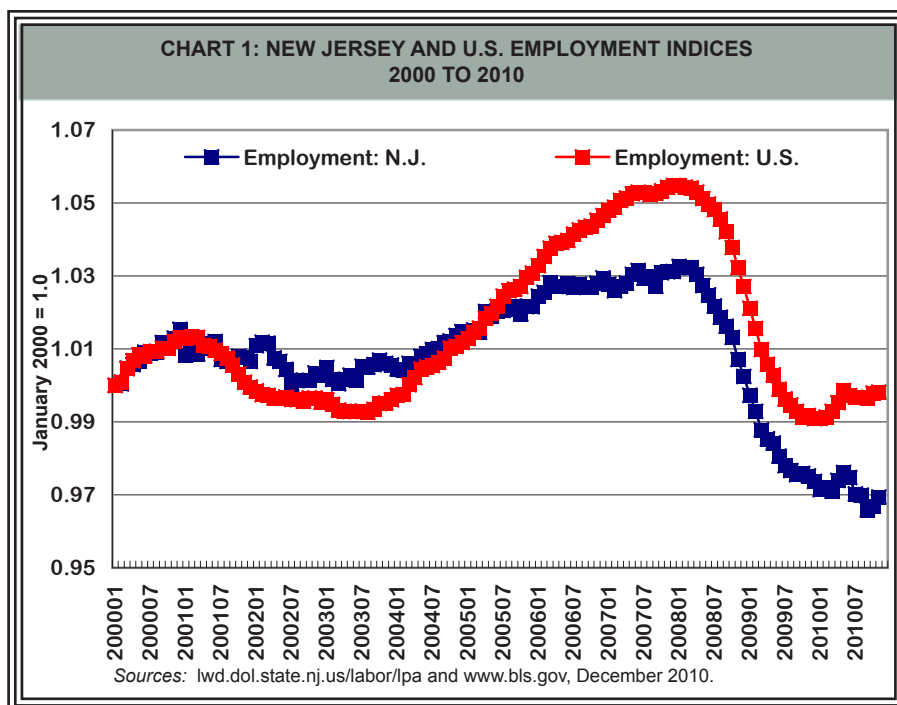
and November the public sector lost 38,900 jobs—about 15,000 in the federal sector as the Census was finalized and temporary workers let go, 2,100 in state government as it responded to budgetary problems, and 21,600 in the local government sector, which finally started to cut jobs in response to fiscal difficulties.

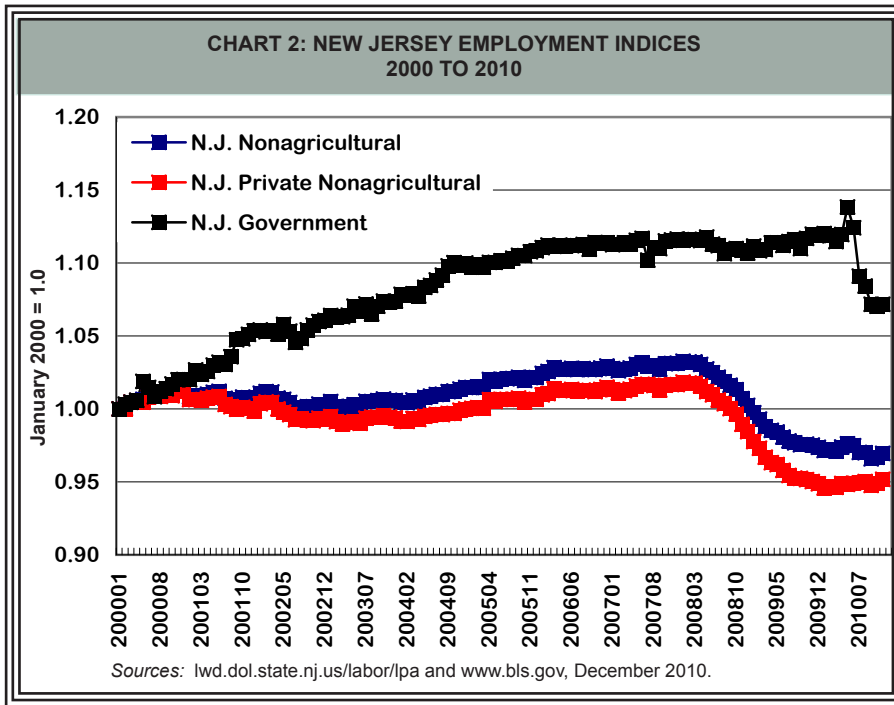
The New Jersey unemployment rate was lower than that in the U.S. through most of the past decade, and this held true during the recession until 2009. From January 2009 to August 2010 the state and national unemployment rates were close to identical near 10 percent. The state rate fell in the later part of 2010 and was down to 9.2 percent in November, while the national rate was back up to 9.8 percent. (See **Chart 3**.)

In New Jersey the decline in the unemployment rate

seems to be the result of people dropping out of the labor force while the recent increase in the national rate seems to be the result of people entering the labor force as conditions improve but not yet finding jobs.

Between January 2008 and January 2010, the state had a net job loss of 242,800. The only growth sectors were educational, health, and social services and government. (See **Chart 4**.) Between January and November 2010 the state lost 7,800 jobs, most of them in the public sector. The good news here is that the private sector is beginning to show some growth, having added 20,500 jobs since its January 2010 low point.





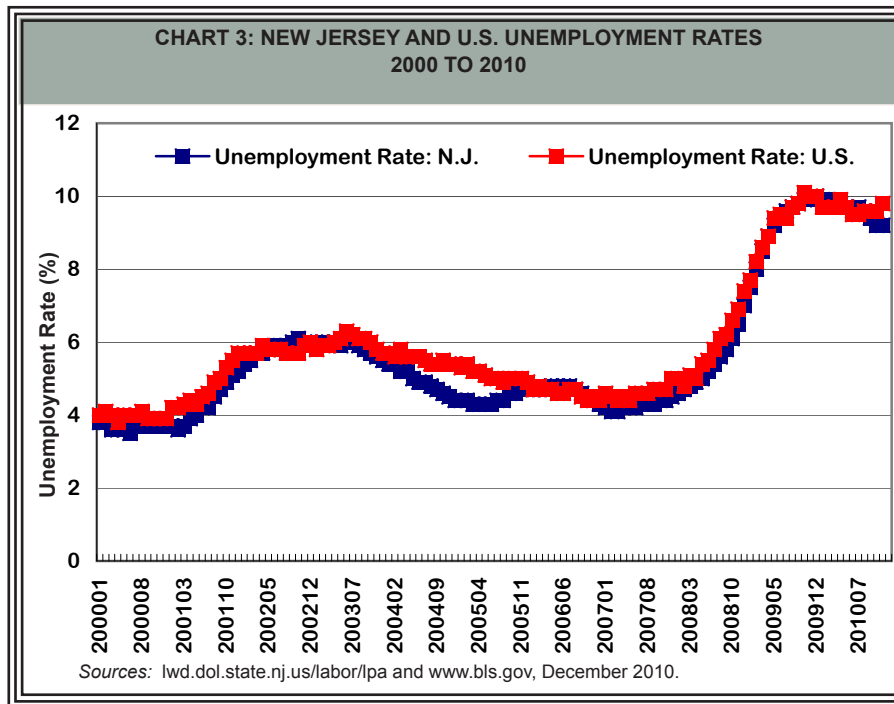
Our forecast indicates that New Jersey will begin to recover its lost jobs in 2011, but the growth will be so slow that the average number of jobs in the state will not surpass the 2007 peak until 2017. The U.S. will begin its job expansion two years earlier—in 2014. The professional and business services sector began to turn around in 2010 and we expect it to be, as it was during the past decade, a strong contributor to growth, as will the other three service sectors. A turnaround has also begun in trade and finance. Con-

struction employment will pick up in 2011 and contribute to growth during most of the forecast period. After continuing declines through 2015, manufacturing employment will be close to stable.

During the recovery and expansion from 2010 to 2020, we expect average annual employment gains of 0.9 percent or 35,800 jobs. By the end of the forecast period in 2020 the state’s employment base will exceed the 2007 peak by 128,400 jobs or 3 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 nearly 9 percent. New Jersey’s share of the national job base will decline from its current 3.0 percent to 2.8 percent in 2015 and remain there for the rest of the forecast period. (See **Chart 5**.)

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 2009 and 2020, output in New Jersey will expand at an average rate of 2.3 percent a year compared to the



average rate of 2.8 percent a year compared to the average rate of 2.8 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 **Table 1**.)

New Jersey’s consumer prices were unchanged from the 2008 level in 2009. The return to a more normal economic picture beginning in 2010 will be accompanied by an inflation rate averaging 2.0 percent a year from 2009 to 2020.

New Jersey’s unemployment rate peaked at a quarterly rate of 9.9 percent in the last quarter of 2009. It averaged 9.7 percent in 2010 and will come down slowly as the

state's economy recovers. The rate will average 6.7 percent from 2011 to 2020, compared to an average of 7 percent for the U.S.

Personal income rose 5.9 percent in 2007, and, with the onset of the recession, rose only 2.5 percent in 2008. Income fell in 2009 by 2.2 percent as the recession persisted. It returned to positive territory in 2010 and will rise at an average rate of 4.5 percent a year over the forecast period, somewhat lower than the 4.9 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 1.8 percent per annum.

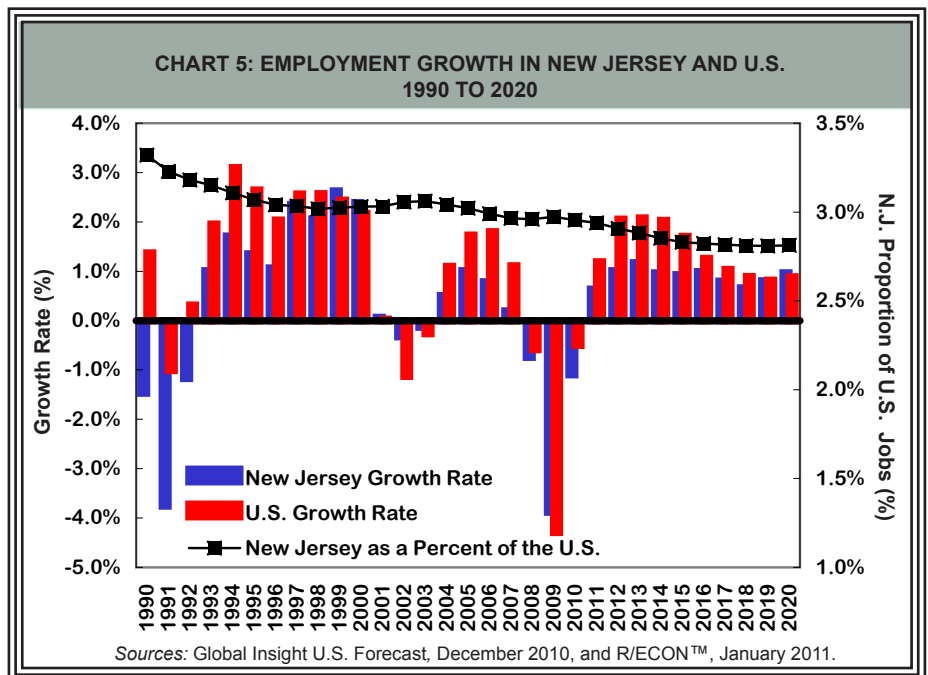
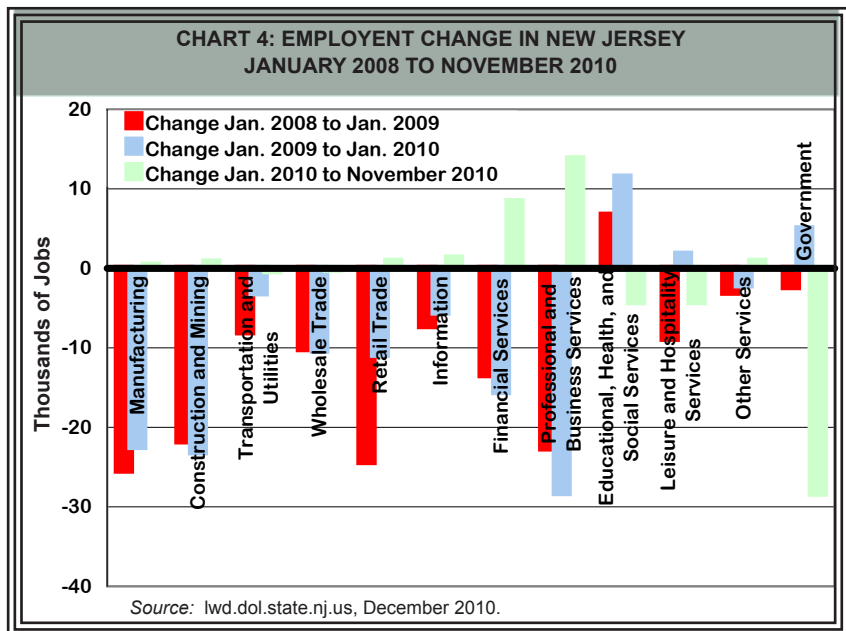
The state added 277,000 residents between 2000 and 2009, growing at an average annual rate of 0.4 percent. However, the rate of growth lessened from one year to the next until 2007 when it began to increase slightly. Population growth will average 0.6 percent a year over the forecast period, rising slightly in the later years as the economy improves. The state will add 550,000 residents over the course of the forecast. As a result, New Jersey's population will top 9 million in 2016 and will rise to near 9.3 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 2.8 percent to 2.7 percent by 2020. 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

	2009	2010	2011	2011 to 2020
<i>Annual Percentage Growth</i>				
Nonagricultural Employment	-3.9%	-1.1%	0.6%	0.9%
Real Gross State Product	-2.4%	1.0%	3.7%	2.3%
Personal Income	-2.6%	3.0%	3.2%	4.6%
Population	0.5%	0.6%	0.5%	0.6%
Consumer Prices	0.0%	1.9%	1.5%	2.0%

	2009	2010	2011	2011 to 2020
<i>Percentage</i>				
Unemployment Rate (average)	9.2%	9.7%	9.1%	6.4%

Source: R/ECON™, January 2011.



**Notes**

- i. Data are annual averages.
- ii. Jobs in the U.S. began increasing early in 2010, but the rate of increase was too slow to pull back up to the average employment base of 2009.