

FORECAST OF APRIL 2006

NEW JERSEY: WEAK BUT CONSISTENT GROWTH

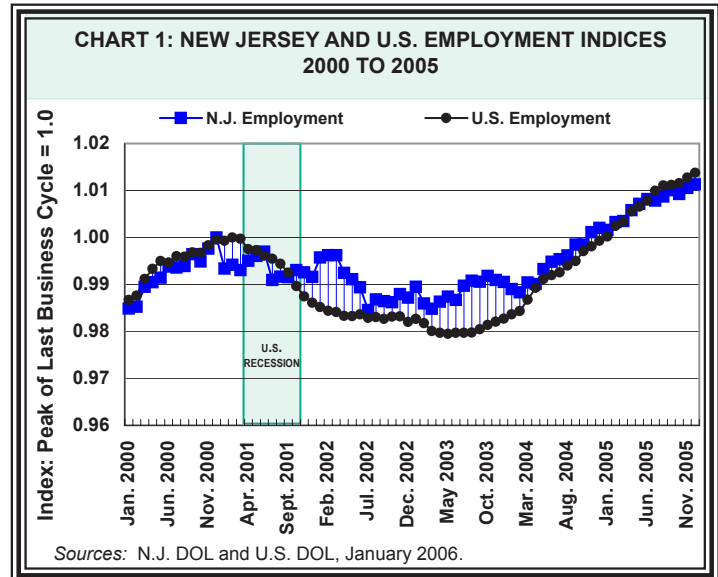
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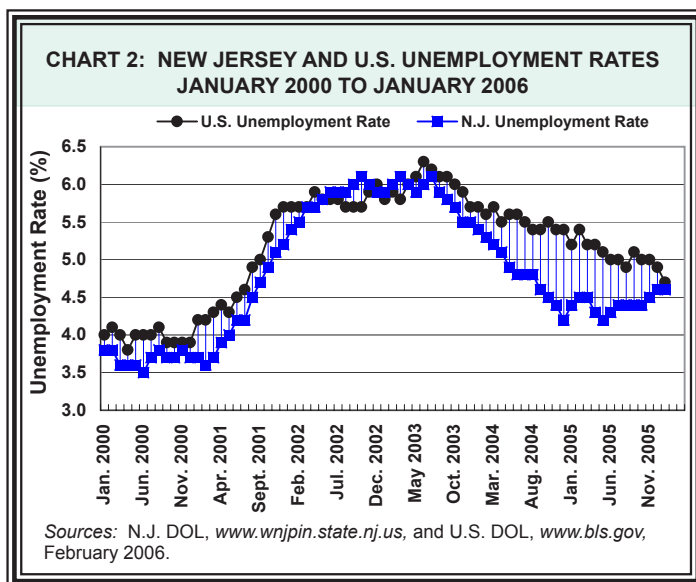
EXECUTIVE SUMMARY

New Jersey's economic performance was stronger in 2005 than in the previous year, but the state's economy greatly underperformed that of the nation in both years.¹ (See **Chart 1.**) Employment increased by only 23,200 jobs in 2004 and by 51,500 jobs in 2005. The state's economy had a strong start in 2005, adding 55,000 jobs in the first quarter, compared with the first quarter of 2004. However, the pace of the expansion slowed over the course of the year. Preliminary data for January 2006 indicate a weak start for this year as well.

The state's unemployment rate has been consistently lower than the national rate since mid-2003. However, the weakness of the state's expansion, compared with that of the nation, is clearly indicated in the unemployment rate data. (See **Chart 2.**) While the national unemployment rate has fallen steadily since early 2005, the state rate has



trended up during the same period. By January 2006, the state rate was only 0.1 percentage point lower than the national rate; in December 2004, the state rate was 1.2 percentage points lower.



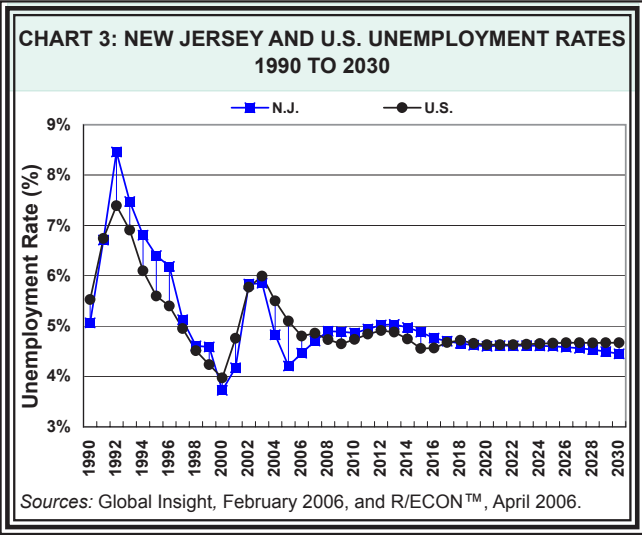
The R/ECONTM forecast indicates that employment will grow by 0.9 percent (or 38,300 jobs) in New Jersey this year and at an average annual rate of 1 percent (or 44,200 jobs) between 2006 and 2030. (See **Table 1.**) Over the forecast period, the United States will also add jobs at a rate of 1 percent a year. Thus, over the course of this long-range forecast, New Jersey is expected to retain its current 3 percent share of the nation's jobs.

Growth in national real output was more robust than growth in state real output in 2004 and 2005, and we expect that to be the case in the next several years. However, in the longer term, from 2010 to 2030, real output in New Jersey and in the nation as a whole will expand at the same rate—2.7 percent a year.

Table 1
SUMMARY OF NEW JERSEY ECONOMIC FORECAST
2004 TO 2030

	2004	2005	2006	2006 to 2010	2010 to 2030
<i>Annual Percentage Growth</i>					
Nonagricultural Employment	0.6	1.3	0.9	1.0	1.0
Real Gross State Product	3.4	2.2	1.4	2.5	2.7
Personal Income	5.5	5.4	5.9	5.7	5.4
Population	0.5	0.4	0.6	0.8	0.7
Consumer Prices	3.8	3.9	2.2	2.0	2.5
<i>Percentage</i>					
Unemployment Rate (average)	4.8	4.2	4.5	4.8	4.7

Source: R/ECON™, April 2006.



The state’s consumer inflation rate rose 3.9 percent in 2005, primarily due to the rapid rise in oil and natural gas prices after Hurricanes Katrina and Rita and as political problems in various oil-producing nations led to supply concerns. The state’s inflation rate will average 2.1 percent from 2005 to 2010 and then about 2.5 percent a year in the long term. The fallback in inflation rates to the 2 percent range in both the state and the nation in the next few years assumes that oil prices will retreat from their recent highs. By 2012, the price for West Texas Intermediate will be \$48 a barrel.

New Jersey’s unemployment rate averaged 4.2 percent in 2005, down substantially from the previous three years. The rate is expected to rise to 4.5 percent this year and then to trend up to 5 percent by 2012. The rate will average 4.7 percent from 2010 to 2030. The state and national rates will converge at 4.7 percent in 2008 and then move more or less in sync with each other in the long run. (See **Chart 3**.)

After two years of very slow growth during the recession and recovery, personal income in New Jersey rose 5.5 percent in 2004 and an estimated 5.4 percent in 2005. Income growth will average 5.5 percent a year through the forecast period.

The state’s population increased at an average annual rate of 0.7 percent from 2000 to 2005. It will expand by 0.7 percent a year through 2030, adding 1.7 million residents during the forecast period. The population will exceed 9 million in 2010 and 10 million in 2024. Population growth in New Jersey during the forecast period will be slightly slower than growth nationwide.

The fastest job growth in New Jersey during the forecast period will be in four service sectors, which

will grow at average rates of at least 1.3 percent a year and provide nearly two-thirds of the state’s new jobs. Since 1990, manufacturing has lost jobs at a rate of over 3 percent a year, for a loss of 200,000 jobs. Since 2000, the information industry has lost jobs at an average annual rate of 5 percent, a loss of 31,000 jobs. Both industries are expected to continue to decline during the forecast period, although at considerably slower rates. The construction industry, which gained jobs during the 1990s and through 2005, will show little job change over the period.

Note

1. The R/ECON™ forecast and the accompanying analysis use New Jersey employment data benchmarked to 2004. The appendix presents the 2005 benchmarked data, which was released after the forecast was finalized.