

## RUTGERS ECONOMIC ADVISORY SERVICE

FORECAST OF JULY 2001

### NEW JERSEY: GROWTH AT A SNAIL'S PACE

#### EXECUTIVE SUMMARY

After experiencing rapid employment growth during the last four years, New Jersey's economy will expand slowly this year and slow down even more in 2002. Although the job base actually declined slightly from February to May, we do not expect the slowdown to turn into a recession. The job base, on an annual average basis, will increase by 31,400 in 2001 and by 12,700 in 2002. Stronger growth will resume in 2003 and beyond, when the economy will add an average of nearly 42,000 jobs each year.

The R/ECON<sup>TM</sup> forecast for New Jersey looks for growth in real output of 2.6 percent this year following an estimated 3.5 percent rise in 2000. Growth in output will continue at modest levels in 2002. The economy will strengthen after 2002, with output growth averaging 2.8 percent a year from 2002 to 2006. (See Table 1.)

**Table 1**  
**SUMMARY OF NEW JERSEY ECONOMIC FORECAST**  
**2000 to 2006**

<i>Annual Percentage Growth</i>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2002 to 2006</b>
Nonagricultural Employment	2.5	0.8	0.3	1.0
Real Gross State Product	3.5	2.6	1.6	2.8
Personal Income	7.3	5.2	5.5	5.4
Population	0.9	0.3	0.5	0.4
Consumer Prices	2.9	2.9	3.3	2.8
<b>Percent</b>				
Unemployment Rate (average)	3.8	4.3	4.9	4.9

Source: R/ECON<sup>TM</sup>

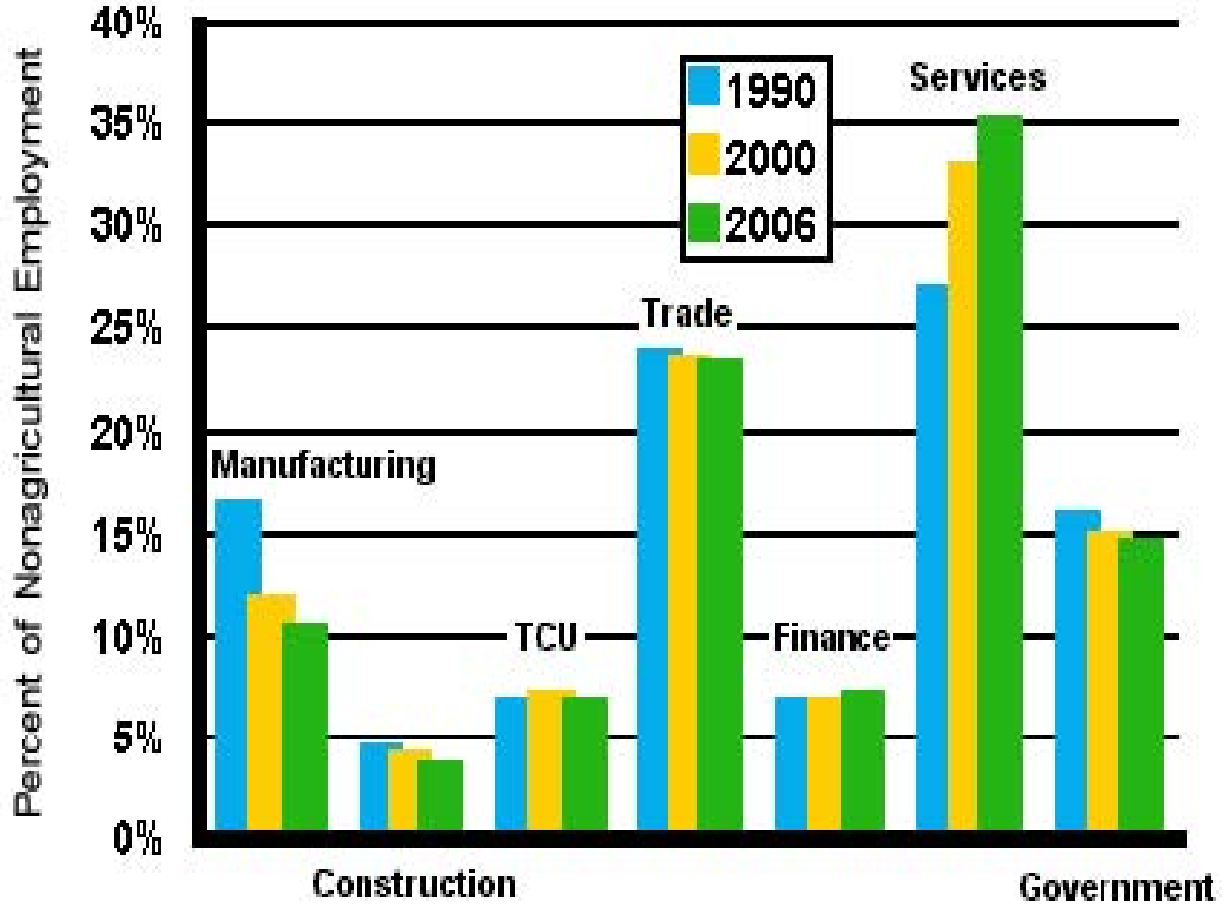
The state's job base will grow too sluggishly in the next two years to pull the unemployment rate back down to the 3.8 percent experienced in 2000. The unemployment rate will climb to 4.3 percent this year and average 4.9 percent from 2002 to 2006. The slower economy expected in the years ahead will cause population growth to moderate to 0.4 percent a year between 2000 and 2006, about half the growth rate experienced during the 1990s.

Personal income will rise 5.2 percent this year, down from the 7.3 percent growth experienced in 2000. The high rate of growth in income in 2000 was due to a rapid increase in wages and salaries and proprietors income. Some of this year's rise in income will result from large financial and high-end service-sector bonuses earned in 2000, but paid in early 2001. The expected rise in real personal income in New Jersey this year, 2.3 percent, is twice that expected for the U.S. It is one reason to think that recessionary forces in 2001 may be less powerful in New Jersey than elsewhere in the country. Slower growth in earned income, caused by a smaller increment in employment as well as smaller bonuses in the financial sectors, will keep the growth rate of income under 6 percent for the next several years.

Over the forecast period, both the construction and manufacturing sectors will lose jobs. The service sector will provide 64 percent of the increase in private-services-producing and public employment in New Jersey, while the trade sector will account for 18 percent and the financial sector for 9 percent. About a quarter of the new service-sector jobs will be in business services—a much smaller proportion of sectoral growth than was the case during the 1990s, when business services was the major driver of most of the growth in the economy. Besides business services, other sectors that will display rapid growth in the next few years are hotels, nonbank finance, and transportation.

The decline in manufacturing employment will slow from 2.7 percent per year over the past two decades to 1.1 percent a year between 2000 and 2006. By 2006, only 10.2 percent of the state's job base will be in manufacturing, down from more than 16 percent in 1990 and 11.6 percent in 2000. (See Chart 1.) By 2006, the service sector will provide 35 percent of the state's jobs, up from 27 percent in 1990 and 33 percent in 2000.

CHART 1: NEW JERSEY EMPLOYMENT BY SECTOR  
1990 TO 2006, SELECTED YEARS



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