



RUTGERS ECONOMIC ADVISORY SERVICE

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FORECAST OF OCTOBER 2004 NEW JERSEY: MODERATE EXPANSION AHEAD

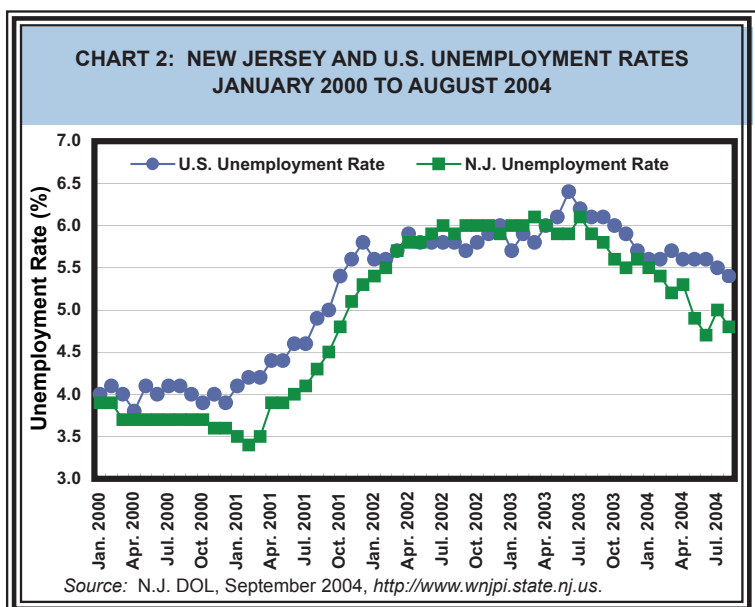
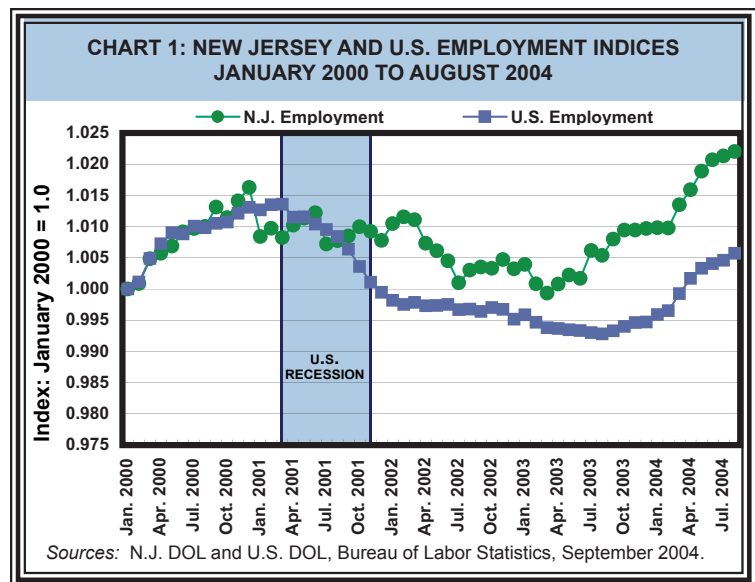
EXECUTIVE SUMMARY

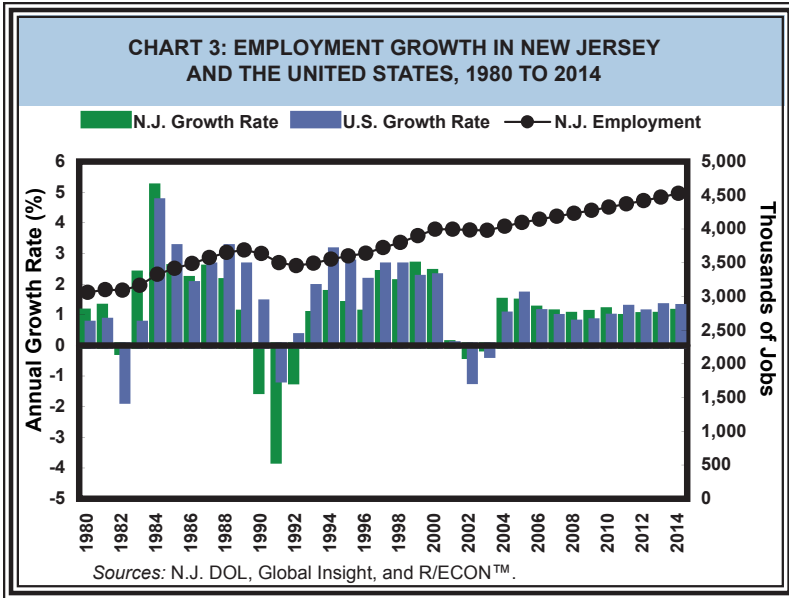
The New Jersey economy has added jobs at a rapid pace over the past year. The state gained 65,900 jobs from August 2003 to August 2004—a growth rate of 1.7 percent—and 89,800 jobs between the bottom of the employment cycle in March 2003 and August 2004.¹

Employment in the state is now at an all-time high—23,000 jobs or 0.6 percent above the previous peak reached in December 2000.² Job growth in New Jersey has far exceeded that for the nation as a whole. Nationwide, employment has grown only 1.4 percent since its low point in August 2003, and the national employment level is still more than a million jobs (0.8 percent) below the peak reached in March 2001. (See **Chart 1**.)

The relative strength of the New Jersey economy on the employment front also can be seen in the unemployment rate. The state's unemployment rate fell to 4.8 percent in August, down from a peak of 6.1 percent in July 2003. In August, the U.S. unemployment rate fell to 5.4 percent, down only 0.9 percentage points from the peak of 6.3 percent reached in June 2003. Thus, the U.S. unemployment rate remains well above New Jersey's rate. (See **Chart 2**.)

Growth in national output has surpassed output growth in the state. U.S. gross domestic product rose 3 percent in 2003 and 3.7 percent in the first half of 2004. In New Jersey, we estimate that output rose only 2.1 percent in 2003 and 3 percent in the first half of 2004.





The R/ECON™ forecast indicates that employment will grow in New Jersey at an average annual rate of 1.2 percent (or 50,000 jobs) between 2003 and 2014. In 2014, the state will house 4.5 million nonagricultural jobs. Over the forecast period, New Jersey will add jobs at a slightly faster rate than the nation as a whole, where employment will grow 1.1 percent a year. (See **Chart 3**.)

The R/ECON™ forecast for New Jersey looks for growth in real output to be somewhat weaker than growth in the United States as a whole. (See **Table 1** and **Table 2**.) Output growth in the state will average 2.8 percent a year from 2003 to 2014—0.4 percentage points lower

than the average annual growth rate in that period for the nation. The implied increase in productivity in the state is 1.6 percent a year, about three-quarters the rate of productivity growth for the United States as a whole.

The state’s consumer inflation rate will rise to 3.2 percent this year, primarily because of the rapid rise in oil prices in the spring and summer. The rate will fall back to 2.2 percent in 2005 and average 2 percent from 2005 to 2014. These inflation rates are slightly higher than those forecast for the national economy. The fallback in inflation rates to the 2 percent range in both the state and the nation depends on the assumption that oil prices will retreat from their highs (which reached nearly \$50 per barrel in August), but only to a range near \$35 a barrel.

The state unemployment rate averaged 5.9 percent in 2003, up slightly from the previous year. It will fall to 5 percent this year and 4.9 percent in 2005 and then remain in the low 5 percent range through 2014. The state and national rates will move closer together after this year. (See **Chart 4**.)

Befitting the state’s emergence from the recession, personal income in New Jersey will grow 5 percent this year and more rapidly in the rest of the forecast period—a major improvement from the average growth of 2.5 percent a year between 2000 and 2003.

The state’s population increased by an average of 0.8 percent a year between 2000 and 2003. It will continue to increase 0.8 percent a year between 2003 and 2014. The state will add 775,000 residents dur-

Table 1
SUMMARY OF NEW JERSEY ECONOMIC FORECAST
2003 TO 2014

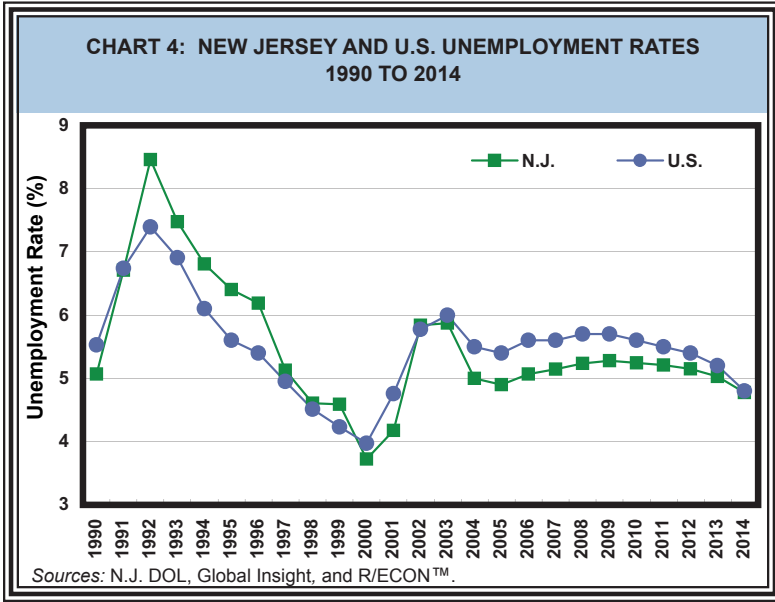
	2003	2004	2005	2005 to 2014
<i>Annual Percentage Growth</i>				
Nonagricultural Employment	-0.1	1.5	1.4	1.1
Real Gross State Product	2.1	2.8	2.4	2.8
Personal Income	3.1	5.0	5.3	5.5
Population	0.7	0.8	0.9	0.8
Consumer Prices	2.5	3.2	2.2	2.0
<i>Percentage</i>				
Unemployment Rate (average)	5.9	5.0	4.9	5.1

Source: R/ECON™.

Table 2
SUMMARY OF U.S. ECONOMIC FORECAST
2003 TO 2014

	2003	2004	2005	2005 to 2014
<i>Annual Percentage Growth</i>				
Nonagricultural Employment	-0.3	1.0	1.7	1.0
Real Gross Domestic Product	3.0	4.3	3.3	3.1
Personal Income	2.8	5.3	4.8	5.7
Population	0.9	0.9	0.9	0.9
Consumer Price Index	2.3	2.6	1.9	2.1
<i>Percentage</i>				
Unemployment Rate (average)	6.0	5.5	5.4	5.5

Source: Global Insight, U.S. Economic Outlook, September 2004.

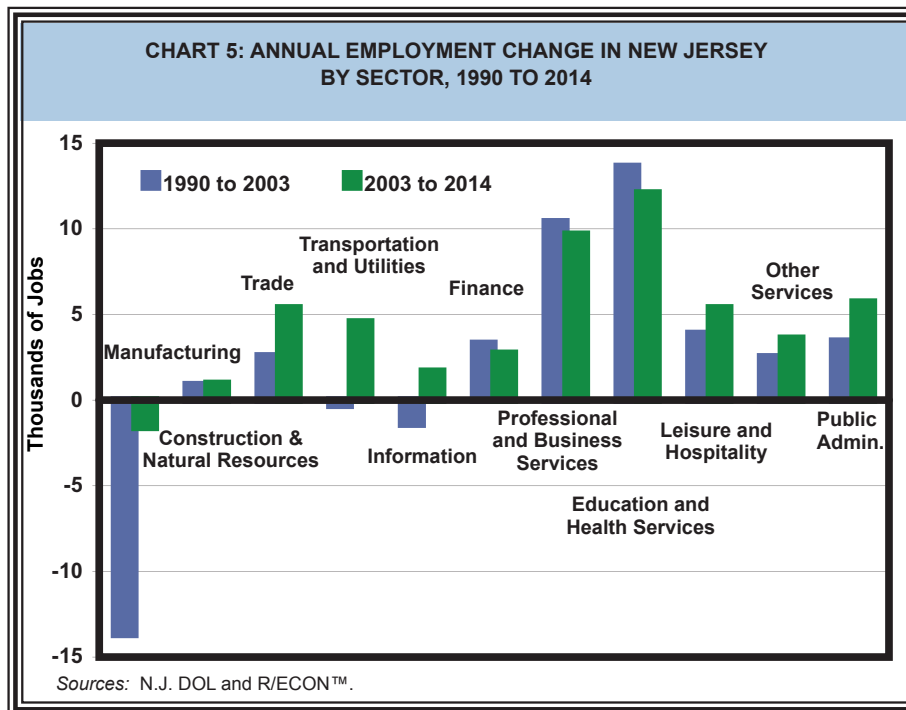


Although New Jersey has recovered from the recession in terms of its total job base, as of August 2004, the private sector still had not fully recovered. Since 2000, much of the state’s job growth has been in public administration, while the economy lost 18 percent (75,000) of its year 2000 manufacturing job base and 20 percent (26,000) of its year 2000 information jobs.

Over the forecast period, we expect some improvement in the manufacturing and information sectors; however, most job growth in New Jersey will be in the service supersectors, primarily in education and health care and in professional and business services. (See **Chart 5**.) Together, the four service supersectors will provide 59

ing this period, pushing the population to 9.4 million in 2014. As in the past decade, population growth in New Jersey will be slower than growth nationwide over the forecast period.

percent of the state’s new jobs, while all sectors other than manufacturing and natural resources will gain jobs.



Notes

1. The annualized growth rate since the end of 2003 is even stronger at 2.2 percent.
2. The May revisions of the job data indicated that the expansion actually began in April 2004, when the number of nonagricultural jobs in New Jersey surpassed the December 2000 peak by 500.