



FORECAST OF OCTOBER 2008

NEW JERSEY: DOWNTURN FOR SURE, BUT FOR HOW LONG?

Nancy H. Mantell, Ph.D.

Michael L. Lahr, Ph.D.

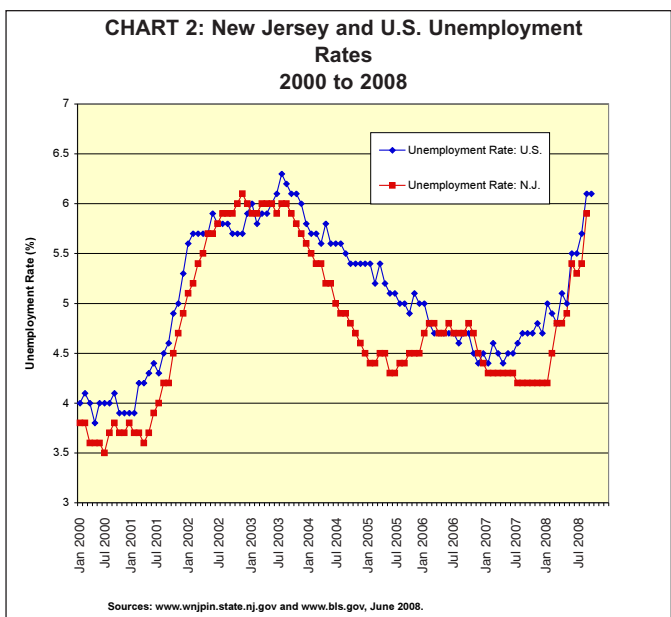
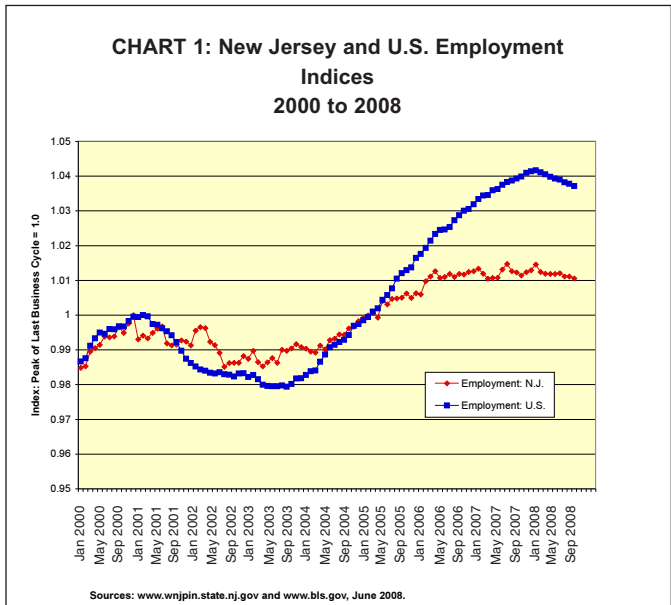
NEW JERSEY: EXECUTIVE SUMMARY

During the first eight months of 2008, New Jersey's economy has lost 16,000 jobs, about 2.6 percent of the number of jobs lost thus far this year in the U.S.ⁱ While the state's job base barely changed between the beginning of 2006 and August 2008, employment in the U.S. grew until December 2007 before dipping by 605,000 jobs between December 2007 and August 2008. (See Chart 1.) We expect declines in the New Jersey job base in 2008 and 2009, with a turnaround expected in early 2010. Real Gross State Product (GDP) will decline slightly at the end of this year and through mid-2010.

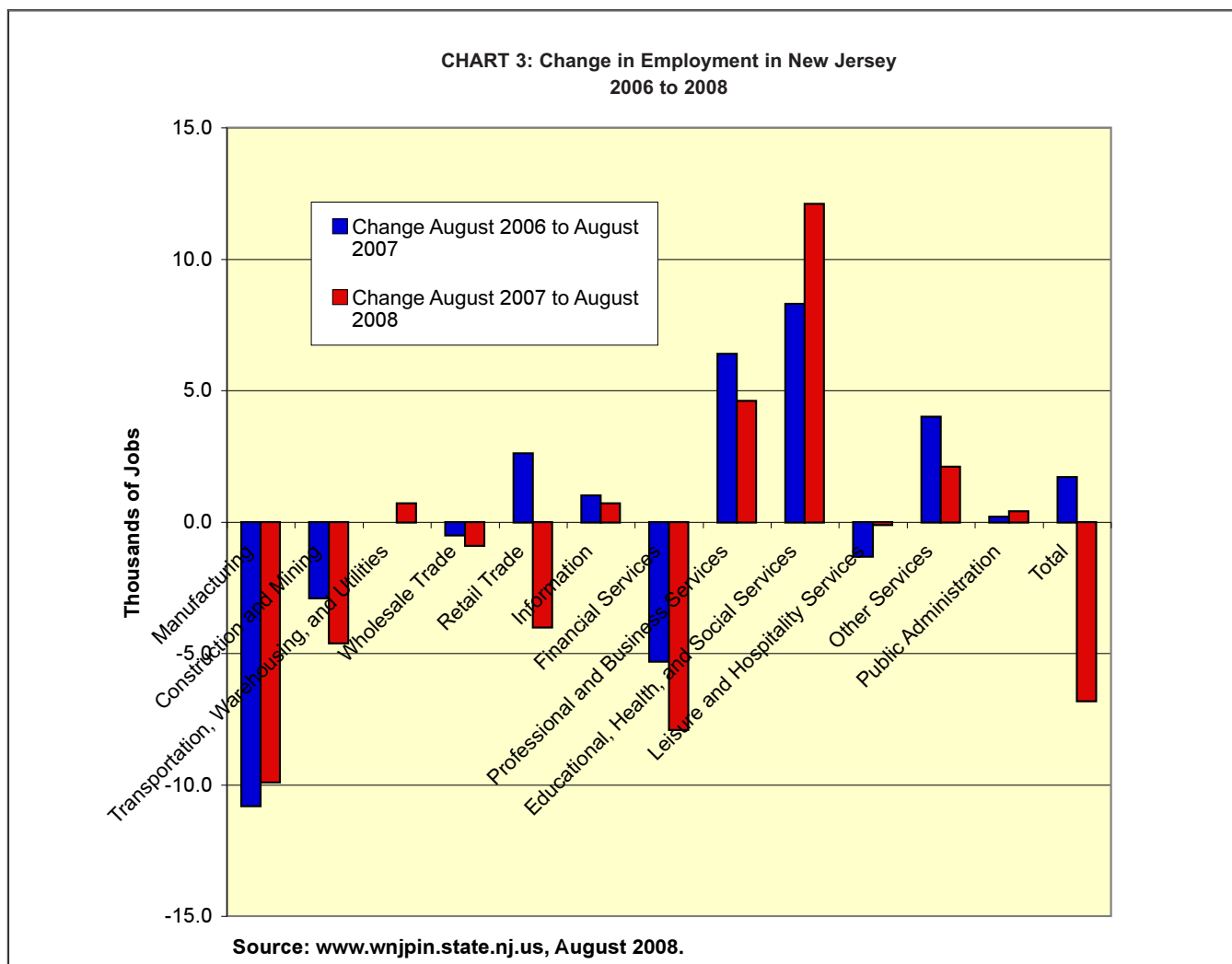
This forecast for New Jersey assumes that the U.S. will experience little growth this year, with a two-quarter dip in gross product at the end of the year and a period of declining employment lasting through early 2009. The U.S. forecast was made before the full extent of the financial crisis was understood (if it is yet). It is likely that our next forecast, which will take more of that crisis into account, will show a weaker economy for both the U.S. and New Jersey, at least in the next couple of years.

The state's unemployment rate was consistently lower than the nation's from 2000 to 2001, from mid-2003 through the end of 2005, and again in 2007 through August 2008. Even so, New Jersey's rate has increased sharply since the end of last year—from 4.2 percent in December 2007 to 5.4 percent in May 2008 and again in July and August. It is still below the U.S. rate, which rose to 6.1 percent in August 2008. (See Chart 2.) New Jersey's unemployment rate is expected to remain below the national rate through 2014 and to exceed it during the rest of the forecast period.

Between August 2007 and August 2008, the state had a net job loss of 6,800. The total job loss of 27,400 was concentrated in manufacturing and finance, with substantial losses in construction and retail trade as well.



Of the total of 20,600 jobs added over the course of the year, 60 percent were in education and health services and most of the rest were in professional and business services. (See Chart 3.)



The R/ECON™ forecast indicates that New Jersey’s employment base will decline by 23,600 jobs in 2008 and 2009 and barely grow in 2010. It will grow at a rate of 33,100 jobs, or 0.7 percent, a year between 2010 and 2028. (See Table 1.) The state will add only 575,000 jobs to its employment base over the course of the 20-year forecast, or about 8,000 jobs a year less than the state’s experience since 1980, as well as 8,000

jobs a year less than in the whole post-World War II period. Employment growth in the U.S. has been considerably faster than in New Jersey since the last economic upswing began in 2004, and it will remain slightly stronger through most of the forecast period. Thus New Jersey’s share of the national job base will decline from its current 2.96 percent to about 2.85 percent in 2013 and thereafter. (See Chart 4.)

TABLE 1: Summary of New Jersey Economic Forecast

	2007	2008	2009	2009 to 2018	2018 to 2028
Annual Percentage Growth					
Nonagricultural Employment	0.1%	-0.2%	-0.4%	0.7%	0.8%
Real Gross State Product	1.1%	1.8%	-0.4%	1.3%	2.3%
Personal Income	5.5%	4.5%	3.8%	5.0%	4.4%
Population	0.2%	0.6%	0.8%	0.6%	0.6%
Consumer Prices	2.4%	4.8%	3.1%	1.6%	2.3%
Percentage					
Unemployment Rate (average)	4.2%	5.2%	5.5%	5.0%	5.0%

Source: R/ECON™ October 2008.

Since 2000, growth in national real output has been more robust than growth in state real output. We expect this pattern to persist over the forecast period as well. Between 2007 and 2028, output in New Jersey will expand by an average rate of 1.7 percent a year compared to an average rate of 2.4 percent a year expected nationwide. This 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.

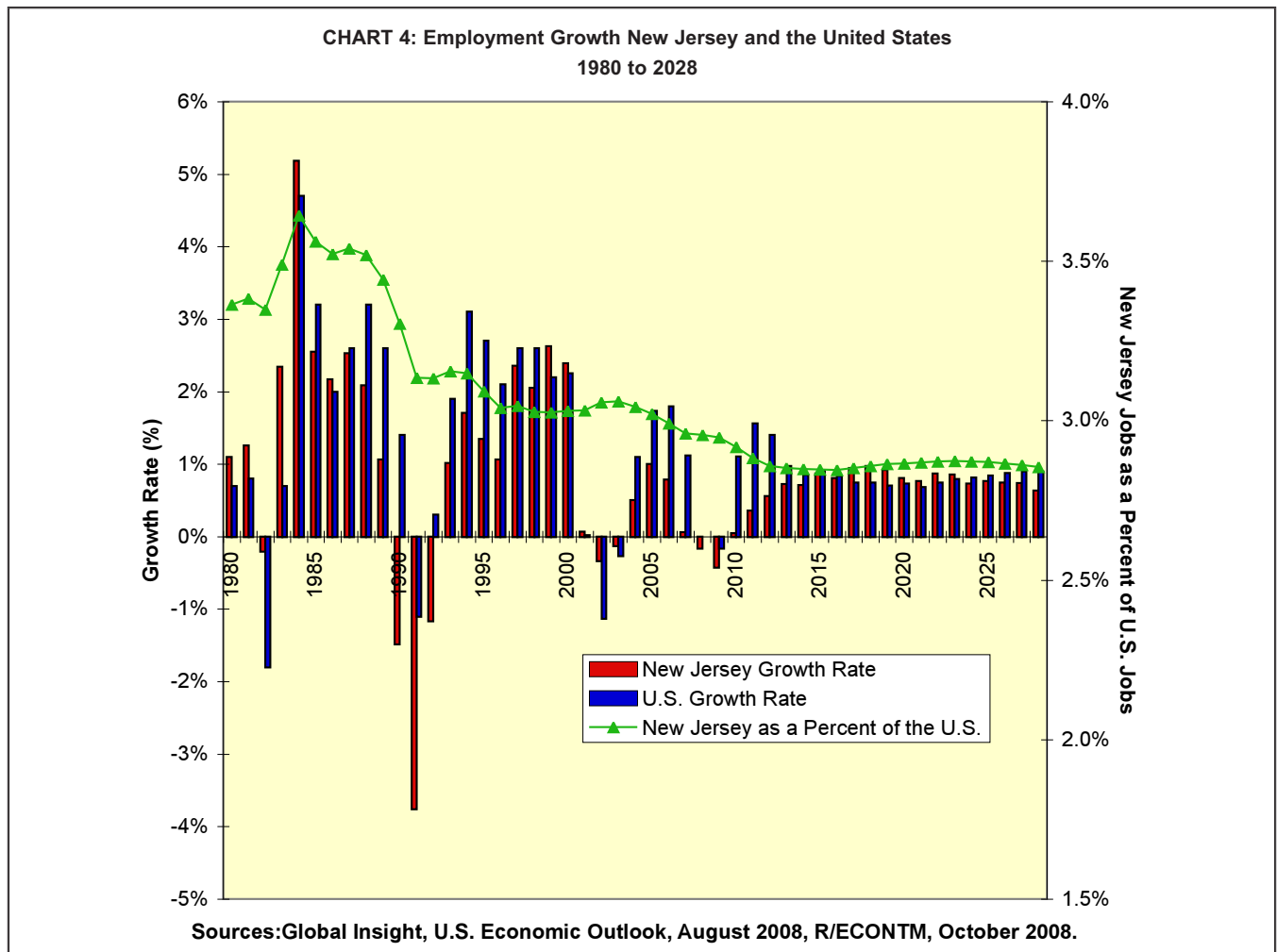
The state's consumer inflation rate rose 4.1 percent in 2006, primarily because of high energy prices and increasing wage rates. The rate of inflation slowed to 2.4 percent in 2007 and then popped up to 4.8 percent in 2008, again because of rapidly rising energy prices early in the year. The rate will decrease next year and will average 2 percent a year between 2009 and 2028. The projected low inflation rates for both the state and the nation over the next few years are based on the assumption that weakness in the demand for housing, vehicles, and labor will offset the high, but eventually declining, price of fuel.

New Jersey's unemployment rate averaged 4.7 percent in 2006 and fell to 4.2 percent in 2007. During the recessionary period in 2008 and 2009, it will climb to 5.2 percent in 2008 and to 5.5 percent the following year. It will average 5.0 percent over the rest of the

forecast period. Beginning in 2015 the New Jersey rate will be somewhat higher than the U.S. rate. (See Chart 5.)

After growing an extraordinary 7.4 percent in 2006, personal income rose 5.5 percent in 2007. It will rise 4.5 percent this year and less in 2009. Personal income will rise at an average rate of 4.7 percent over the rest of the forecast period.

The state added 254,000 residents between 2000 and 2007, growing at an average annual rate of 0.4 percent, but with growth declining nearly every year in that period. The state will add 1.2 million residents over the course of the forecast, expanding at an average rate of 0.6 percent a year. As a result, New Jersey's population will top 9 million in 2013 and will rise to 9.9 million in 2028. Population growth in New Jersey during the forecast period will continue to be slower than it is nationwide, so that the state's share of U.S. population will fall from the current 2.9 percent to 2.7



percent in 2028. Thus the state’s share of national employment will remain about the same as its share of the nation’s population.

The fastest job growth in New Jersey during the forecast period will be experienced by the four service sectors and financial services. These sectors, taken together, will grow 1.1 percent a year through the forecast period. The other growth sectors will be trade, transportation, and government. The cyclical nature of the construction industry will leave it with almost no net job change over the forecast period. Manufacturing, utilities, and information will continue to lose jobs, although more slowly than in the past two decades.

**CHART 5: New Jersey and U.S. Unemployment Rates
1990 to 2028**

