

RUTGERS ECONOMIC ADVISORY SERVICE

FORECAST OF OCTOBER 1999

NEW JERSEY'S EXPANSION TO CONTINUE INTO THE NEW CENTURY

EXECUTIVE SUMMARY

New Jersey's employment base grew substantially in the first eight months of 1999 with the addition of 40,700 new jobs. Most of these positions were in the services, retail trade, and financial sectors. The unemployment rate fell as low as 4.1% in February, but it has since come to a more sustainable level.

We expect that the state will add 68,300 jobs this year. A slowdown in the economy, as indicated by lower growth in real gross state product, will push the increase in jobs to less than 60,000 in the year 2000. The rate of inflation, though still low by historical standards, is likely to gain momentum both this year and next. Also low in comparison to recent history, the state's unemployment rate will average 4.6% this year and increase to 4.9% next year. Over the long term, job growth will average 0.9% a year, about half its current rate, while real output will increase by less than 2% annually. The average unemployment rate will be just over 5% between 2000 and 2020, while the rate of inflation should remain under 3% a year. (See Table 1.)

Table 1
SUMMARY OF NEW JERSEY ECONOMIC FORECAST
October 1999

| <i>Annual Percentage Growth</i> | 1998 | 1999 | 2000 | 2000 to 2020 |
|---------------------------------|------|------|------|--------------------|
| Nonagricultural Employment | 2.0 | 1.8 | 1.5 | 0.9 |
| Real Gross State Product | 2.8 | 2.4 | 1.9 | 1.8 |
| Personal Income | 5.7 | 5.1 | 5.2 | 4.8 |
| Population | 0.7 | 0.6 | 0.5 | 0.5 |
| Consumer Prices | 1.3 | 2.1 | 3.0 | 2.6 |
| Percent | | | | |
| Unemployment Rate (average) | 4.6 | 4.6 | 4.9 | 5.2 |

Throughout the forecast period, most of the increase in employment will be in the services sector. Health services will make a comeback after several years of consolidation among hospitals. Growth in the business services sector, which has been the fastest-growing sector of the economy over the past two decades, will slow substantially after the turn of the century. The communications and non-bank finance sectors will grow rapidly. Declines in the manufacturing sector will slow from -3% per year over the past 20 years to under -1% per year during the next 20 years. By 2020, the service sector will account for 40% of the state's jobs, compared with this year's share of 33%. The share of manufacturing jobs in the state will decrease from the current 12% to 9%.

Personal income will increase by 5.1% this year, a decline from the 1998 rate of 5.7%. As employment and wage growth slow later in the forecast period, income growth will average 4.8% a year between 2000 and 2020.

Over the forecast period, population growth will average 0.5% a year. The population will increase from 8.1 million in 1998 to 8.2 million in 2000, and to 9.1 million in 2020.

Since the recovery from the recession of the early 1990s began in New Jersey, real output growth has been considerably faster than job growth, pushing productivity up just less than 1% a year. Output should rise 2.4% in 1999, 1.9% in 2000, and at an average rate of 1.8% a year between 2000 and 2020. Thus, during the forecast period, productivity will continue to grow at similar rates.

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