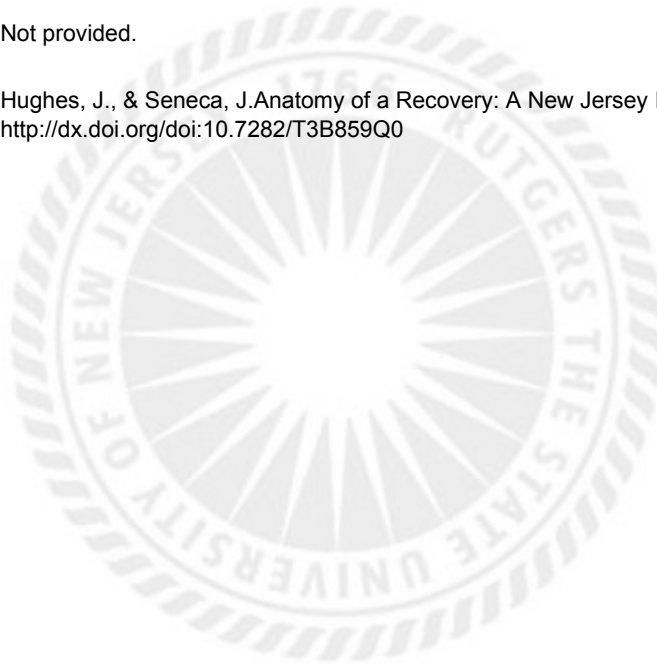


Anatomy of a Recovery: A New Jersey Report Card

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Anatomy of a Recovery: A New Jersey Report Card

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In November 2004, New Jersey finally achieved the full recovery of all the jobs lost in the 2000–02 statewide economic downturn, surpassing the December 2000 pre-recession employment peak and setting a new historical employment high. New records were subsequently set each month for the next six months. Despite these milestones, the state has not yet entered the economic fast lane. Private-sector employment growth in New Jersey in 2003 and 2004 was weak compared to past state expansions. Moreover, New Jersey has traditionally been the regional economic locomotive, a role the state so ably played during the economic expansions of the 1980s and 1990s. But in 2004 New Jersey was no longer the “leader of the pack.” In addition, in 2004 the state’s growth rate started to fall behind the nation’s. Is this simply a temporary soft patch in the economic road to further prosperity, or is it a faltering of the state’s historic economic trajectory?

Executive Summary

- New Jersey added 576,300 jobs during the robust 1992–2000 expansion, a period which marked the full maturation of the state’s second major economic transformation—the flowering of a sophisticated knowledge-based economy. In the final years of the 1990s, New Jersey consistently outpaced the nation in job growth.
- By 2000, the state had achieved advantageous concentrations of employment, relative to the nation, in such advanced high-paying sectors as financial activities, professional and business services, information, educational and health services, and trade, transportation, and utilities. The state’s vast office markets were close to full occupancy.
- But the post-2000 years have been economically trying for both the nation and New Jersey. While the state’s recession was relatively mild, with only

62,200 jobs lost between the cyclical employment peak of December 2000 and the cyclical employment low of July 2002, its emergence from this “shallow” downturn has been slow—more tortoise-like than hare.

- In fact, the expansion of the 2000s to date has demonstrated unprecedented weakness. Between July 2002 and April 2005—a 33-month period (2.75 years, or 11 quarters)—annual employment growth averaged only 31,200 jobs. This is less than one-half the annual average (67,200 jobs) of the preceding 1990s expansion (1992–2000) and barely one-third that (89,900 jobs) of the earlier 1980s expansion (1982–89). This lag could be due to the current expansion’s relative youthfulness, but that is not the case.
- When the first 33 months (11 quarters) of each of the three expansions are directly compared, the conclusion is that the current recovery still lags badly. In the first 33 months of the 1980s expansion (April 1982–January 1985), employment grew by 299,600 jobs. In the equivalent period of the 1990s expansion (May 1992–February 1995), employment growth was less than half that: 141,700 jobs. In the 2000s expansion, only 85,800 jobs were added in the same initial 33-month period (July 2002–April 2005). This is barely 60 percent of the 1990s gain and less than 29 percent of the 1980s gain.
- Moreover, up until 2005 there has been unique dependence on the contributions of public-sector employment to bolster the overall job growth in the current expansion: Average annual private-sector employment has totaled only 17,800 jobs through April 2005. This compares to 49,700 private-sector jobs annually in the 1990s expansion and 102,900 private-sector jobs in the 1980s. The bottom line is that the current expansion has had the weakest total employment growth and the weakest private-sector

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employment growth of any expansion in the post–World War II era.

- ❑ This is partially due to an unprecedented slow employment recovery for the nation as a whole. But it does not fully account for the state’s lagging national rankings.
- ❑ While 2004 represented the best job-growth year in New Jersey since 2000 and was the third straight year of economic improvement, its scale (46,300 jobs) was still modest relative to the nation and much closer to that of its neighbors. New Jersey is the 9th largest state economy as measured by total employment. Thus, if the state matched the national rate of employment growth, it would rank 9th in absolute employment growth. However, in 2004, the state ranked 13th in total employment growth, falling behind New York (ranked 6th) and Pennsylvania (ranked 11th), admittedly both larger in absolute employment size.
- ❑ However, this comparison may actually understate New Jersey’s lag. The state’s leading job growth sector in 2004 was government. Government accounted for 32.4 percent—nearly one third—of all the jobs gained in 2004. This compares to only 6.7 percent for the nation as a whole.
- ❑ In contrast, private-sector employment has been lagging in New Jersey. The state ranked 21st among the states in absolute private-sector employment growth, adding only 31,300 private-sector jobs in 2004. In contrast, New York ranked 5th (+81,500 private-sector jobs), nearly triple that of New Jersey, while Pennsylvania ranked 10th (+49,300 private-sector jobs), nearly double that of New Jersey.
- ❑ Moreover, the state has still not returned to the total private-sector employment peak of December 2000. As of April 2005, there were still 23,100 fewer private-sector jobs in New Jersey than more than four years ago.
- ❑ Shifting the analysis to “rates of growth” instead of “absolute growth” for 2004, the state’s slower growth position is even more apparent. New Jersey ranked 31st among the 50 states in the rate of growth of total employment in 2004 and 41st among the 50 states in the rate of growth of private-sector employment. In the latter category, New York, Connecticut, and Pennsylvania all ranked ahead of New Jersey.
- ❑ Until 2004, New Jersey’s economic performance was influenced, at least in part, by a unique national recovery and job-loss economic expansion. There was unprecedented weakness in the nation’s labor markets long after the recession ended. During the national recession (March 2001–November 2001), the nation lost 1.6 million jobs. For the next 18 months, while Gross Domestic Product (GDP) expanded, an additional 1.1 million jobs were lost as the nation struggled with a job-loss economic recovery.
- ❑ In total, 2.7 million jobs were lost. This just missed being the worst employment loss in the United States since the Great Depression. But the nation’s labor markets finally awoke in May 2003, when employment growth resumed. The pre-recession employment peak was finally surpassed in January 2005, fully 16 quarters after that peak.
- ❑ This performance contrasts markedly with that of the national economy as it emerged from the 1990–91 recession. Then, a *job-less*—as distinct from a *job-loss*—economy recovery first ensued, but it took only seven quarters to pass the pre-recession employment peak, compared to 16 quarters in the current cycle. In the 40-month period following the end (November 2001) of the last recession, the nation’s employment grew by 2.0 million jobs. In the 40 months after the end (March 1991) of the earlier recession, the nation’s employment grew by 6.0 million jobs.
- ❑ The extended job-loss economic growth period of the current cycle, the extraordinary length

necessary to achieve full employment recovery, and the severe growth lag over a 40-month post-recession period, is unprecedented in the post-World War II period. Obviously, New Jersey was affected by this weak national economic situation.

- But the nation added 3.1 million jobs between May 2003 and March 2005. In retrospect, 2004 turned out to be a breakout year for the national economy, as 2.2 million jobs were gained. For New Jersey, national economic headwinds were transformed into national economic tailwinds, but the state failed to share fully in the nation's new economic trajectory.

Given the weakness of private-sector employment growth in New Jersey and an unprecedented dependence on public-sector employment expansion driving the recovery and expansion, there is real question as to whether the state is losing its regional economic leadership. Fortunately, all of the state's employment growth in 2005 has been in the private sector, while government employment actually declined. Between December 2004 and May 2005, the state gained 20,800 private-sector jobs and lost 1,900 public-sector jobs. This is a dramatic reversal of the pattern established in the pre-2005 recovery years and may signal improved performance to come. Nonetheless, there is still a high degree of uncertainty regarding if and when the state will return to its status as regional economic locomotive.

New Jersey's Economic Cycles: The Big Picture

New Jersey rides a perpetual economic roller coaster. During the past quarter-century, the state has experienced three expansions (including the one

now in progress) and three recessions. These economic swings are graphically depicted in figure 1. The starting point is the 1981–82 recession, which was extremely modest not only in scale (-24,800 jobs) but also in duration (seven months). This minor setback was surprising for two reasons. First, it followed the very harsh economic adjustments of the 1970s, when New Jersey's great manufacturing employment hemorrhage gained momentum. Second, its shallow nature was in stark contrast to the 1981–82 national recession, which was the worst economic setback in the United States since the Great Depression. In any case, this modest statewide recession provided a springboard for the subsequent 1982–89 expansion, which has been called the New Jersey economic miracle. This expansion lasted 83 months and generated a net employment growth of 622,400 jobs—a gain greater than that of any other expansion in the state's history.¹

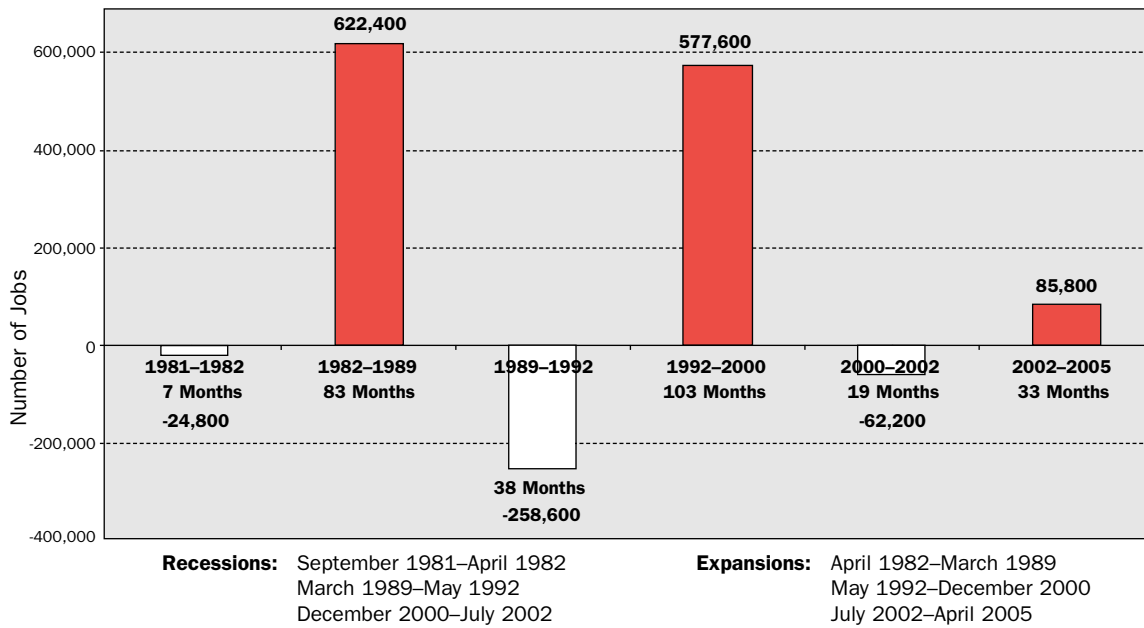
In a seeming affirmation of the old adage that “no good deed goes unpunished,” this record expansion was followed by a record recession. The 1989–92 downturn was the longest (38 months) and deepest (-258,600 jobs) recession in New Jersey's history. In a reversal of the pattern of the last cycle, this time the national downturn was extremely modest, lasting only eight months. Nonetheless, the state's steep setback was followed by the 1992–2000 upturn, which became the longest (103 months) peacetime expansion in the state's history, and the second longest overall. Its net employment gain of 577,600 jobs, however, was significantly below that of the 83-month expansion of the 1980s.

It was soon followed by the first new millennium recession (2000–02), which was quite shallow. In fact, the employment losses of the 2000–02 recession were much closer in scale to the modest 1981–82 downturn than they were to the much more severe 1989–92 recession.² The conventional economic wisdom during the late 1990s was that the 1989–92

¹ However, the expansion ranked only third in length, trailing considerably the record 110-month-long expansion of 1961–70 and the 103-month-long expansion of 1992–2000. This makes its record employment gain even more impressive.

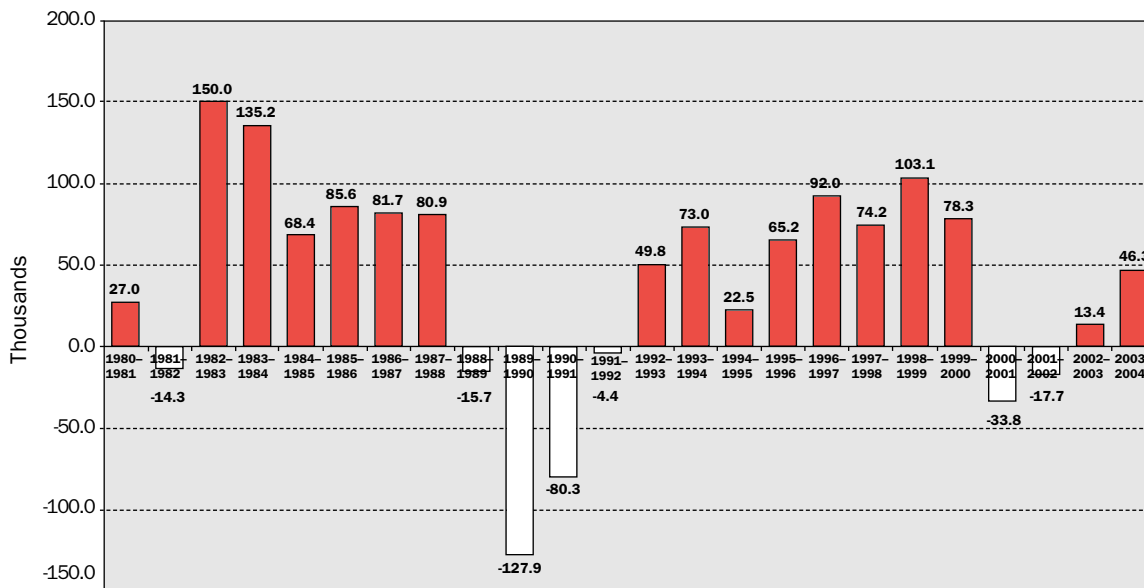
² In addition, the 1981–82 New Jersey–United States pattern was again replicated. The nation experienced its second-worst downturn, measured by employment losses, since the Great Depression, but New Jersey's employment losses were small by historical standards.

FIGURE 1
New Jersey's Economic Roller Coaster
(Employment Change for Periods Indicated)



Source: New Jersey Department of Labor.

FIGURE 2
New Jersey Total Nonfarm Employment
Annual Change (December to December), 1980–2004



Source: New Jersey Department of Labor.

experience would be the model for the “next” recession in New Jersey. However, the economic reality that ultimately transpired was that the 1981–82 downturn became the more appropriate model for the 2000–02 recession.

This conclusion is reinforced by figure 2, which presents *annual* employment changes (measured December to December) for the 1980–2004 period. The 127,900 jobs lost between December 1989 and December 1990—the worst year of the 1989–92 recession—was almost four times greater than the 33,800 jobs lost between December 2000 and December 2001—the worst year of the 2000–02 recession.

The current expansion began in 2002 and reached 33 months in length by April 2005. As of that date, the employment gain (85,800 jobs) fell far short of the two earlier expansions (figure 1). This is expected since it is still a relatively young expansion that is likely not near maturity. But despite its youthfulness, it is possible to measure comparable performances.

Perspectives on the Current Expansion

One useful perspective can be achieved by comparing the *average annual employment growth* of all three expansions in the context of the state’s long-term annual trend growth (table 1). During the 23_ years between September 1981 and April 2005, a period encompassing the three recessions and three expansions, average annual employment growth in New Jersey was 39,800 jobs. This is the measure of New Jersey’s long-term trend growth, defined by the annual average of the net employment gain of nearly 1 million (939,000) jobs over a 283-month period (23.6 years). Since this period includes the employment losses (-345,600 jobs) of the three recessions, there is obviously a higher average annual job growth during the expansion phases of the business cycle.

The strength of the economic boom of the 1980s is revealed by an average annual employment growth of 89,900 jobs during the 83-month (6.9 years) expansion between April 1982 and March 1989 (table 1). This is 126 percent higher (more than double) than the long-term trend growth. However, in the second expansion, employment growth was not nearly as robust, with an average annual gain of 67,200 jobs during the 103 months (8.6 years) between May 1992 and December 2000.³ Nonetheless, this was still 69 percent higher than long-term trend growth.

In contrast, the current expansion has demonstrated unprecedented weakness. Between July 2002 and April 2005—a 33-month period (2.8 years)—annual employment growth averaged only 31,200 jobs, or nearly 22 percent *below* long-term trend growth. Moreover, 31,200 jobs per year is less than one-half that (67,200 jobs) of the 1990s expansion and barely one-third that (89,900 jobs) of the 1980s expansion.

Obviously, this lag could still be attributed to the current expansion’s relative youthfulness, but that is not the case. When the first 33 months of each of the expansions are directly compared, the conclusion is that the current one still lags badly. In the first 33 months of the 1980s expansion (April 1982–January 1985), employment grew by 299,600 jobs. In the equivalent 33-month period of the 1990s expansion (May 1992–February 1995), employment growth was less than half that—141,700 jobs. In the 2000s expansion, only 85,800 jobs were added in the first 33 months (July 2002–April 2005). This is barely 60 percent of the 1990s gain and less than 29 percent of the 1980s gain.

Converting these 33-month totals to annual average employment gains reinforces the picture of an extraordinarily slow expansion. In the first 33 months of the 1980s expansion, employment grew at an average of 108,900 jobs per year, a level far higher than the average (89,900 jobs) for the entire 83-month-long expansion. In this case, growth slowed as the upturn matured. In the first 33 months of the

³ Although not shown in the table, this annual growth level is virtually identical to that (67,100 jobs) of the state’s record-long 1961–70 expansion.

TABLE 1: New Jersey Employment Expansion Comparisons
(Numbers in thousands)

Long-Term Trend				
	September 1981	3,108.6		
	April 2005	4,047.6		
		Change: 939.0		
		Length: 283 months or 23.58 years		
		Annual: 39.8		
1980s Expansion				
	April 1982	3,083.8		
	March 1989	3,706.2		
		Change: 622.4		
		Length: 83 months or 6.92 years		
		Annual: 89.9		
1990s Expansion				
	May 1992	3,447.7		
	December 2000	4,024.0		
		Change: 576.3		
		Length: 103 months or 8.58 years		
		Annual: 67.2		
2000s Expansion				
	July 2002	3,961.8		
	April 2005	4,047.6		
		Change: 85.8		
		Length: 33 months or 2.75 years		
		Annual: 31.2		
First 33 Months of Each Expansion				
		Total	Annual	Private Annual
1980s	April 1982–January 1985	299.6	108.9	102.9 (estimated)
1990s	May 1992–February 1995	141.7	51.5	49.7
2000s	July 2002–April 2005	85.8	31.2	17.8

Source: New Jersey Department of Labor.

33 months of the current expansion is considerably below long-term trend growth (39,800 jobs per year). There has not been an expansion in the post-World War II period where annual employment growth has lagged so far behind long-term trend growth. The second factor is the unique dependence, until 2005, on public-sector employment to bolster the overall job picture: Average annual private-sector employment totals only 17,800 jobs.⁴ This compares to an annual growth of 49,700 private-sector jobs in the 1990s expansion and 102,900 private-sector jobs annually in the 1980s expansion. The bottom line is that the current expansion has had the weakest total employment growth and the weakest private-sector employment growth of any expansion in the post-World War II era.⁵

1990s expansion, employment grew at an average of 51,500 jobs per month, a level below that (67,200 jobs) for the entire 103-month expansion, indicating that growth accelerated as the expansion reached its later stages. Thus, two different patterns are evident, suggesting that it is still possible for the current expansion to catch up if the 1990s model prevails, i.e., stronger growth as the expansion lengthens.

However, there are two factors working against this “catch-up” possibility. First, the average annual employment growth (31,200 jobs) during the first

A Perspective on the New Millennium Business Cycle

December 2000 marked the end of the New Jersey expansion that started in May 1992. The first recession of the new millennium then ensued and lasted until July 2002. The most noticeable feature of the 2000–02 recession was its modest scale not only in relation to the immediately preceding

⁴ As will be discussed subsequently, government accounted for nearly 43 percent of job growth during the July 2002–April 2005 expansion, an unprecedented share.

⁵ The earlier expansions are analyzed in James W. Hughes and Joseph J. Seneca, *Then and Now: Sixty Years of Economic Change in New Jersey*, Rutgers Regional Report Issue Paper Number 20 (New Brunswick, NJ: Edward J. Bloustein School of Planning and Public Policy, Rutgers University, January 2004).

downturn (1989–92) but also to the scale of the accompanying U.S. recession. The forces producing the national job-loss economic recovery were much more muted in New Jersey except for the setbacks dealt to the state's vast telecommunications industry. While the nation fell into a deep economic hole, New Jersey slipped into a relatively shallow one. Subsequently, however, the state's emergence from this shallow hole has been extraordinarily modest, both in comparison to the nation and to the expansion of the first half of the 1990s.

The Preceding Expansion and “Recessionette”

New Jersey's most recent downturn began, and the last economic expansion ended, in December 2000, as gauged by the state's cyclical employment peak. Three months earlier (September 2000), total payroll employment in the state surpassed 4 million jobs for the first time; by December 2000, it topped out at 4,024,000 jobs, the end of the 103-month expansion.

During the expansion (May 1992 to December 2000), New Jersey had a net increase of 576,300 jobs despite losing 53,900 manufacturing jobs (table 2). Powerful employment gains were registered in the private service-providing sector, led by professional and business services (+186,200 jobs), trade, transportation, and utilities (+129,500 jobs), educational and health services (119,800 jobs), and financial activities (+43,000 jobs). The expansion marked the coming of age of New Jersey as a major national financial center, symbolized by the growing Hudson River “Gold Coast” office skyline, and as an

TABLE 2: New Jersey Nonfarm Payroll Employment Expansion: May 1992–December 2000
(Seasonally adjusted, numbers in thousands)

	May 1992	December 2000	Change: 1992–2000	
			Number	Percentage
TOTAL NONFARM	3,447.7	4,024.0	576.3	16.7%
TOTAL PRIVATE SECTOR	2,878.5	3,430.0	551.5	19.2
GOODS PRODUCING	588.3	575.3	-13.0	-2.2
Natural Resources and Mining	2.4	1.9	-0.5	-20.8
Construction	110.0	151.4	41.4	37.6
Manufacturing	475.9	422.0	-53.9	-11.3
PRIVATE SERVICE-PROVIDING	2,290.2	2,854.7	564.5	24.6
Trade, Transportation, & Utilities	778.5	908.0	129.5	16.6
Information	113.0	127.5	14.5	12.8
Financial Activities	223.1	266.1	43.0	19.3
Professional and Business Services	416.1	602.3	186.2	44.7
Educational and Health Services	385.3	505.1	119.8	31.1
Leisure and Hospitality	258.9	303.6	44.7	17.3
Other Services	115.3	142.1	26.8	23.2
GOVERNMENT	569.2	594.0	24.8	4.4

Note: North American Industrial Classification System (NAICS) employment sectors.
Source: New Jersey Department of Labor.

expanding professional and business services hub, typified by maturing suburban growth corridors.

But the expansion finally wound down and was supplanted by the 2000–02 statewide economic downturn. Between the cyclical employment peak (December 2000) and the cyclical employment low (July 2002), New Jersey experienced a net loss of 62,200 jobs. This was an order of magnitude quite different from the 258,600 jobs lost in the 1989–92 recession, thus leading to the designation “recessionette.” Nonetheless, during the 19-month 2000–02 downturn (table 3), major and painful employment setbacks occurred in manufacturing (-56,100 jobs), trade, transportation, and utilities (-28,400 jobs), professional and business services (-24,000 jobs), and information (-16,200 jobs). However, despite sustained employment losses suffered by Wall Street firms in Manhattan during this period, New Jersey had a net gain of 9,400 jobs in financial activities. In addition, positive growth in

**TABLE 3: New Jersey Nonfarm Payroll Employment
Employment Recession: December 2000–July 2002***(Seasonally adjusted, numbers in thousands)*

	December 2000	July 2002	Change: 2000–2002	
			Number	Percentage
TOTAL NONFARM	4,024.0	3,961.8	-62.2	-1.5%
TOTAL PRIVATE SECTOR	3,430.0	3,357.9	-72.1	-2.1
GOODS PRODUCING	575.3	529.1	-46.2	-8.0
Natural Resources and Mining	1.9	1.5	-0.4	-21.1
Construction	151.4	161.7	10.3	6.8
Manufacturing	422.0	365.9	-56.1	-13.3
PRIVATE SERVICE-PROVIDING	2,854.7	2,828.8	-25.9	-0.9
Trade, Transportation, & Utilities	908.0	879.6	-28.4	-3.1
Information	127.5	111.3	-16.2	-12.7
Financial Activities	266.1	275.5	9.4	3.5
Professional and Business Services	602.3	578.3	-24.0	-4.0
Educational and Health Services	505.1	527.6	22.5	4.5
Leisure and Hospitality	303.6	309.5	5.9	1.9
Other Services	142.1	147.0	4.9	3.4
GOVERNMENT	594.0	603.9	9.9	1.7

Note: North American Industrial Classification System (NAICS) employment sectors.
Source: New Jersey Department of Labor.

the remaining service industries kept total private service-providing employment losses to only 25,900 jobs.

Overall, the total 2000–02 employment losses (-62,200 jobs) represented only 10.8 percent of the 1992–2000 expansion gains (576,300 jobs), as shown in table 4. An even smaller share (4.6 percent) of the boom years' employment gains was lost in the private service-providing sector: 25,900 jobs lost following a 564,500 jobs gain. Thus, the job "givebacks" were relatively minor in scale during the past downturn. This stands in marked contrast to the preceding boom–bust cycle. During the severe 38-month-long March 1989 to May 1992 economic setback, New Jersey's employment losses totaled 258,600 jobs (table 5).⁶ This loss represented 41.5 percent of the employment gains (+622,400 jobs) of the preceding

employment losses (-62,200 jobs) had been recaptured 28 months after the end of the downturn. By April 2005, the net employment growth of the expansion had reached 85,800 jobs.

The detailed employment sectors for the first 11-quarter recovery are presented in table 6 (July 2002–April 2005). Goods-production employment continued to contract (-29,600 jobs) during this 33-month period, caused by the loss of 34,300 manufacturing jobs in the context of an increase of 4,700 construction jobs. Private service-providing employment expanded by 78,600 jobs, led by educational and health services (+31,500 jobs) and leisure and hospitality (+26,500 jobs). The only service industry to lose jobs was information (-14,900 jobs), reflecting the continued structural difficulties of the telecommunications sector.

April 1982 to March 1989 expansion, and this simple statistic is one of the most effective barometers of the depth of that recession. The 10.8 percent giveback of the last downturn is relatively modest in this context.

Recovery and Expansion

Figures 1 and 2 also illustrate the scale of New Jersey's current expansion that started in July 2003. Full employment recovery was achieved by November 2004, when the state's total payroll employment (4,028,400 jobs) finally surpassed the previous record peak (4,024,000 jobs) of December 2000. Thus, all of the recession's

⁶ Table 5 classifies jobs according to the older Standard Industrial Classification (SIC) codes, which were subsequently replaced by the North American Industrial Classification System (NAICS). However, NAICS data is not available prior to 1990.

An Additional Cyclical Comparison

One barometer of current economic performance of New Jersey is a more detailed comparison of the 33-month (11 quarters) expansion to date with the first 33 months of the 1992–2000 expansion (table 7). The total employment increase (85,800 jobs) between July 2002 and April 2005 is slightly more than half of that (141,700 jobs) of the May 1992 to February 1995 period, while the current rate of growth (2.2 percent) is barely half that (4.1 percent) of the earlier period. Thus, as was pointed out earlier, the 2002–05 expansion is far more modest.

But even this conclusion is overly generous since public-sector employment growth has been an extraordinarily large component of the current expansion. Almost 43 percent of the total growth (36,800 jobs out of 85,800 jobs) in the 2002–05 period is accounted for by government. This stands in marked contrast to the 1992–95 expansion, when government employment accounted for only 3.5 percent (5,000 jobs out of 141,700 jobs) of total growth. Moreover, the gain of 36,800 government jobs in the current expansion is

**TABLE 4: Recession Job Losses as a Percentage of Expansion Job Gains
December 2000–July 2002 and May 1992–December 2000**
(Seasonally adjusted, numbers in thousands)

	Change: 2000–2002	Change: 1992–2000	Loss as a Percentage of Gain
TOTAL NONFARM	-62.2	576.3	10.8%
TOTAL PRIVATE SECTOR	-72.1	551.5	13.1
GOODS PRODUCING	-46.2	-13.0	a
Natural Resources and Mining	-0.4	-0.5	a
Construction	10.3	41.4	b
Manufacturing	-56.1	-53.9	a
PRIVATE SERVICE-PROVIDING	-25.9	564.5	4.6
Trade, Transportation, & Utilities	-28.4	129.5	21.9
Information	-16.2	14.5	111.7
Financial Activities	9.4	43.0	b
Professional and Business Services	-24.0	186.2	12.9
Educational and Health Services	22.5	119.8	b
Leisure and Hospitality	5.9	44.7	b
Other Services	4.9	26.8	b
GOVERNMENT	9.9	24.8	b

Notes: ^a Both periods exhibited losses.
^b Both periods exhibited gains.
North American Industrial Classification System (NAICS) employment sectors.
Source: New Jersey Department of Labor.

**TABLE 5: Recession Job Losses as a Percentage of Expansion Job Gains
March 1989–May 1992 and April 1982–March 1989**
(Seasonally adjusted, numbers in thousands)

	Change: 1989–1992	Change: 1982–1989	Loss as a Percentage of Gain
TOTAL NONFARM	-258.6	622.4	41.5%
TOTAL PRIVATE SECTOR	-265.1	590.1	44.9
GOODS PRODUCING	-179.1	-24.8	a
Mining	-0.8	0.4	200.0
Construction	-57.1	57.7	99.0
Manufacturing	-121.2	-82.9	a
PRIVATE SERVICE-PRODUCING	-86.0	614.9	14.0
Transportation/Public Utilities	-11.9	46.3	25.7
Wholesale Trade	-25.8	71.2	36.2
Retail Trade	-60.2	129.6	46.5
Finance/Insurance/Real Estate	-14.5	74.6	19.4
Services	26.4	293.2	b
GOVERNMENT	6.5	32.3	b

Notes: ^a Both periods exhibited losses.
^b Both periods exhibited gains.
Standard Industrial Classification (SIC) System employment sectors.
Source: New Jersey Department of Labor.

**TABLE 6: Cyclical Employment Low to Date
New Jersey Nonfarm Payroll Employment
July 2002–April 2005 (11 Quarters)**

(Seasonally adjusted, numbers in thousands)

	July 2002	April 2005	Change: 2002–2005	
			Number	Percentage
TOTAL NONFARM	3,961.8	4,047.6	85.8	2.2%
TOTAL PRIVATE SECTOR	3,357.9	3,406.9	49.0	1.5
GOODS PRODUCING	529.1	499.5	-29.6	-5.6
Natural Resources and Mining	1.5	1.5	0.0	0.0
Construction	161.7	166.4	4.7	2.9
Manufacturing	365.9	331.6	-34.3	-9.4
PRIVATE SERVICE-PROVIDING	2,828.8	2,907.4	78.6	2.8
Trade, Transportation, & Utilities	879.6	890.4	10.8	1.2
Information	111.3	96.4	-14.9	-13.4
Financial Activities	275.5	281.9	6.4	2.3
Professional and Business Services	578.3	584.4	6.1	1.1
Educational and Health Services	527.6	559.1	31.5	6.0
Leisure and Hospitality	309.5	336.0	26.5	8.6
Other Services	147.0	159.2	12.2	8.3
GOVERNMENT	603.9	640.7	36.8	6.1

Note: North American Industrial Classification System (NAICS) employment sectors.

Source: New Jersey Department of Labor.

more than seven times greater than the increase of 5,000 government jobs in the 1990s expansion. Thus, the modest performance of the 2002–05 expansion was achieved via unusually robust public-sector employment expansion. At the same time, total private-sector employment growth (49,000 jobs) in the current cycle is significantly lower than the 136,700 jobs gain of the 1992–95 period.

2004: A National But Not a New Jersey Breakout Year⁷

The nation's labor markets finally awoke in 2004, with a net job growth of 2.2 million jobs, a total

well above national trend growth. Thus, the United States finally achieved a “breakout” year. While the state's 2004 economic performance was positive and marked the fourth straight year of improvement, it was nowhere near “breakout” status. For the first time in six years, New Jersey's rate of job growth fell behind that of the nation. The state is no longer one of the leaders in employment growth; instead, it lags the nation.

New Jersey is the ninth-largest state economy as measured by total employment. This is New

Jersey's expected ranking among the states in absolute job growth if New Jersey matched the nation in employment growth. As shown in table 8, the state ranked 13th among the 50 states in total job growth in 2004, lagging behind both New York (ranked 6th in total job growth) and Pennsylvania (ranked 11th).⁸ In 2004, for the first time in five years, the nation's job growth rate (1.7 percent) eclipsed that of New Jersey (1.2 percent). Moreover, this comparison may actually understate the lag.

The state's leading employment growth sector in 2004 was government. Government accounted for 32.4 percent—nearly one third—of all the jobs gained in 2004. This compares to only 6.7 percent for the nation as a whole. In contrast, private-sector employment lagged badly in New Jersey. It ranked 21st among the states in absolute private-sector employment growth, adding 31,100 private-sector

⁷ The detailed data cited in this section can be found in James W. Hughes and Joseph J. Seneca, editors, *Sitar-Rutgers Regional Report* 8, 2 (New Brunswick, NJ: Edward J. Bloustein School of Planning and Public Policy, Rutgers University, May 2005).

⁸ New York ranks 3rd in employment size, following California and Texas. Pennsylvania ranks 6th, while Connecticut ranks 27th. Thus, all four states fall below their expected position based on employment size. The only exception is Connecticut's rank (20th) in the rate of private-sector employment growth in 2004.

jobs in 2004. In contrast, New York ranked 5th, while Pennsylvania ranked 10th, nearly double that of New Jersey.

Thus, after years of trailing New Jersey, New York and Pennsylvania have moved ahead in the national employment-growth rankings. If the analysis shifts to rates of growth instead of absolute growth, the state's lagging position is even more apparent. New Jersey ranked 31st among the 50 states in the rate of growth of total employment in 2004 and 41st among the 50 states in the rate of growth of private-sector employment. Moreover, the state has not returned to the private-sector employment peak of December 2000. There are fewer private-sector jobs today in New Jersey than existed more than four years ago.

Two Diverging Views of the Expansion

“There are lies, damned lies, and statistics,” Mark Twain once quipped. While such an indictment of statistics is overly harsh, no doubt there are different ways of data selection and presentation, all legitimate, that can paint remarkably dissimilar pictures of what is actually happening in the world. It all depends on the outcome of the “Battle of the Baselines!”

The July 2002 baseline (starting point) used in the earlier cyclical comparison measured gains from the

**TABLE 7: New Jersey Nonfarm Payroll Employment
33-Month (11 Quarters) Recovery Periods
May 1992–February 1995 vs. July 2002–April 2005**

(Seasonally adjusted, numbers in thousands)

	May 1992– February 1995		July 2002– April 2005	
	Number	Percentage	Number	Percentage
TOTAL NONFARM	141.7	4.1%	85.8	2.2%
TOTAL PRIVATE SECTOR	136.7	4.7	49.0	1.5
GOODS PRODUCING	-10.6	-1.8	-29.6	-5.6
Natural Resources and Mining	-0.4	-16.7	0.0	0.0
Construction	11.4	10.4	4.7	2.9
Manufacturing	-21.6	-4.5	-34.3	-9.4
PRIVATE SERVICE-PROVIDING	147.3	6.4	78.6	2.8
Trade, Transportation, & Utilities	34.6	4.4	10.8	1.2
Information	7.1	6.3	-14.9	-13.4
Financial Activities	4.6	2.1	6.4	2.3
Professional and Business Services	45.6	11.0	6.1	1.1
Educational and Health Services	35.1	9.1	31.5	6.0
Leisure and Hospitality	13.6	5.3	26.5	8.6
Other Services	6.7	5.8	12.2	8.3
GOVERNMENT	5.0	0.9	36.8	6.1

Note: North American Industrial Classification System (NAICS) employment sectors.
Source: New Jersey Department of Labor.

cyclical employment trough through April 2005 (table 7). Of the total employment increase of 85,800 jobs, 57 percent (49,000 jobs) were in the private sector, while 43 percent (36,800 jobs) were in government. Even though this is a high proportion of public-sector jobs, the conclusion of the authors is that the private-sector gains are at least under way.

But how does the state's current economy look in comparison to its last employment peak (December 2000), just before the job losses began (table 9)? The economy of April 2005 had only 23,600 more jobs than the December 2000 baseline. However, there were 23,100 fewer private-sector jobs. Thus, New Jersey had still not achieved full private-sector employment recovery. Positive overall employment growth occurred only through the net addition of 46,700 government jobs since December 2000. This reveals that the economy looks better only because of unsustainable rapid public employment expansion at a time of deep statewide fiscal crisis and deficit

**TABLE 8: Employment Growth Ranking among the 50 States
Connecticut, New Jersey, New York, and Pennsylvania
2004 (Dec. 2003–Dec. 2004) vs. 2005 Year-to-Date (Dec. 2004–May 2005)**
(Numbers in thousands)

TOTAL EMPLOYMENT					
2004	Absolute Growth		2005		
	Rank	Increase		Rank	Increase
New York	6	80,700	Pennsylvania	7	31,800
Pennsylvania	11	50,800	New York	12	21,000
New Jersey	13	46,300	New Jersey	13	18,900
Connecticut	25	23,500	Connecticut	35	5,500
Percentage Growth					
Connecticut	24	1.4%	Pennsylvania	29	0.6%
New Jersey	31	1.2	New Jersey	35	0.5
New York	39	1.0	Connecticut	40	0.3
Pennsylvania	41	0.9	New York	44	0.2
PRIVATE SECTOR EMPLOYMENT					
2004	Absolute Growth		2005		
	Rank	Increase		Rank	Increase
New York	5	81,500	Pennsylvania	7	30,000
Pennsylvania	10	49,300	New York	9	27,100
New Jersey	21	31,300	New Jersey	10	20,800
Connecticut	25	24,700	Connecticut	34	5,200
Percentage Growth					
Connecticut	20	1.8%	New Jersey	31	0.6%
New York	36	1.2	Pennsylvania	32	0.6
Pennsylvania	40	1.0	New York	39	0.4
New Jersey	41	0.9	Connecticut	40	0.4

Source: U.S. Department of Labor, Bureau of Labor Statistics.

financing. Moreover, public-sector jobs, while providing needed public services, also require public revenues. The best way to generate those revenues is to expand the private-sector employment base.

Otherwise, tax rates must continually rise to meet public-sector needs with likely negative effects on future economic growth and the state's competitiveness.

Thus, two legitimate baseline employment periods tell two distinct tales of economic recovery: (1) weak, and (2) much weaker. New Jersey's economy has a modest record, as measured against its recession low. But by a different baseline, the state's economy has just barely nudged back above where it stood just 4½ years ago, while still not recapturing all of the private-sector jobs lost in the downturn.

2005: New Directions?

The detailed employment performance of New Jersey for the first five months of 2005 is presented in table 10. As noted earlier, all of the employment growth in 2005 has taken place in the private sector, a sharp reversal from the pattern of 2004 and the earlier years of the decade. Within the private sector, more than one-half of the employment increase was accounted for by trade, transportation, and utilities (13,500 jobs out of 20,800 jobs). In addition, educational and health services had the second highest increase (6,900 jobs). While the key sectors of financial activities and professional and

business services—which are extraordinarily important to the state’s office markets—grew, combined they added only 5,100 jobs. Growth of this scale will not alleviate the office space overhang plaguing the state.⁹ Gains in office-linked employment continue to remain sluggish.

It is certainly true that part of New Jersey’s unprecedented lag in total employment, private-sector employment, and office-linked employment is due to the weak national employment recovery following the 2001 recession. Thus, a detailed view of national business cycles is important.

National Business Cycles: A Comparison

Following the severe 1981–82 recession, the U.S. economy experienced two brief recessions that interrupted an otherwise two-decade-long stretch of record economic prosperity. From 1982 to 1990, the U.S. economy expanded for 92 straight months and

added 21 million jobs. The subsequent eight-month recession that began in July 1990 and ended in March 1991 was a relatively short and mild interlude before another major economic expansion took hold, this time lasting for a record-setting 120 months.¹⁰ During this second decade-long growth period, employment grew by nearly 24 million jobs.

The recession that began in March 2001 ended, like its counterpart of the early 1990s, a relatively brief eight months later, in November 2001.¹¹ Since then, the nation has had 12 consecutive quarters of growth in real Gross Domestic Product (GDP). A review of the components of this most recent

**TABLE 9: Cyclical Employment Peak to Date
New Jersey Nonfarm Payroll Employment
December 2000–April 2005**

(Seasonally adjusted, numbers in thousands)

	December 2000	April 2005	Change: 2000–2005	
			Number	Percentage
TOTAL NONFARM	4,024.0	4,047.6	23.6	0.6%
TOTAL PRIVATE SECTOR	3,430.0	3,406.9	-23.1	-0.7
GOODS PRODUCING	575.3	499.5	-75.8	-13.2
Natural Resources and Mining	1.9	1.5	-0.4	-21.1
Construction	151.4	166.4	15.0	9.9
Manufacturing	422.0	331.6	-90.4	-21.4
PRIVATE SERVICE-PROVIDING	2,854.7	2,907.4	52.7	1.8
Trade, Transportation, & Utilities	908.0	890.4	-17.6	-1.9
Information	127.5	96.4	-31.1	-24.4
Financial Activities	266.1	281.9	15.8	5.9
Professional and Business Services	602.3	584.4	-17.9	-3.0
Educational and Health Services	505.1	559.1	54.0	10.7
Leisure and Hospitality	303.6	336.0	32.4	10.7
Other Services	142.1	159.2	17.1	12.0
GOVERNMENT	594.0	640.7	46.7	7.9

Note: North American Industrial Classification System (NAICS) employment sectors.
Source: New Jersey Department of Labor.

⁹ The overall Class “A” office vacancy rate stood at a very high 25.6 percent rate in the first quarter of 2005. For office market statistics, see the quarterly *Sitar-Rutgers Regional Reports* published by the Edward J. Bloustein School of Planning and Public Policy.

¹⁰ We use the dates of expansion and recession as determined by the National Bureau of Economic Research (NBER), the recognized arbiter of the timing of the business cycle. The NBER analyzes a series of economic indicators to establish the periods of growth and decline in the nation’s economy.

¹¹ While the two recessions are of identical duration (8 months), they differed dramatically in cause. The last recession was unlike any other in the postwar period: It was characterized by low interest rates, low inflation, strong consumer spending (especially on housing), and a dramatic collapse in business investment following the bursting of the dot.com and technology bubbles of the late 1990s. In contrast, the 1990–91 recession had the typical recession characteristics of rising interest and inflation rates, slowing consumer expenditures, and faltering housing markets.

**TABLE 10: New Jersey Nonfarm Payroll Employment
December 2004–May 2005***(Seasonally adjusted, numbers in thousands)*

	December 2004	May 2005	Change: 2004–2005	
			Number	Percentage
TOTAL NONFARM	4,032.2	4,051.1	18.9	0.5%
TOTAL PRIVATE SECTOR	3,391.4	3,412.2	20.8	0.6
GOODS PRODUCING	508.9	498.1	-10.8	-2.1
Natural Resources and Mining	1.6	1.6	0.0	0.0
Construction	170.3	166.6	-3.7	-2.2
Manufacturing	337.0	329.9	-7.1	-2.1
PRIVATE SERVICE-PROVIDING	2,882.5	2,914.1	31.6	1.1
Trade, Transportation, & Utilities	878.1	891.6	13.5	1.5
Information	97.2	95.9	-1.3	-1.3
Financial Activities	280.8	281.8	1.0	0.4
Professional and Business Services	585.0	589.1	4.1	0.7
Educational and Health Services	553.2	560.1	6.9	1.2
Leisure and Hospitality	332.3	336.4	4.1	1.2
Other Services	155.9	159.2	3.3	2.1
GOVERNMENT	640.8	638.9	-1.9	-0.3

Note: North American Industrial Classification System (NAICS) employment sectors.
Source: New Jersey Department of Labor.

recession and subsequent recovery is informative, particularly when compared to the previous eight-month recession of 1990–91 and its equivalent recovery period.

Tables 11 and 12 list quarterly rates of change for real GDP and employment for two five-year periods commencing in 1989 (table 12) and 2000 (table 11). During the 2001 recession, GDP declined in the first quarter of 2001 by 0.5 percent, weakly recovered in the second quarter by 1.2 percent, before falling again in the third quarter by 1.4 percent (table 11). As the recession ended in November 2001, GDP concluded the year by growing by a tepid 1.6 percent in the fourth quarter. The economy then expanded for the next 12 quarters, and GDP growth averaged a strong, above-trend, 3.5 percent annualized rate over that period. This growth rate compares favorably with the 3.1 percent annualized growth in the 12 quarters following the end of the 1991 recession (table 12).

added 3,099,000 jobs (2.4 percent) through March 2005. As of January 2005, the United States surpassed its previous peak employment level but did so fully 16 quarters after that peak.

This performance contrasts markedly with that of the economy as it emerged from the 1990–91 recession (table 12). During this earlier recession, which lasted from July 1990 to March 1991, 1,231,000 jobs were lost (1.1 percent), and the rate of decline in employment was very similar to that of the 2001 recession (1.2 percent). Immediately after the end of the recession, there was a further decrease in jobs by 259,000 in the second quarter of 1991. A period of job-less economic recovery then ensued for the next three quarters, when employment was essentially stagnant from the third quarter of 1991 through the first quarter of 1992. However, beginning in April 1992, employment growth accelerated and averaged 604,000 jobs for the next eight quarters. By the first quarter of 1993,

The new element in the current recovery period is the considerable weakness in the nation's labor markets that continued long after the recession ended. During the recession of March 2001 through November 2001, the nation lost 1,632,000 jobs, or 1.2 percent of total employment. For the next 18 months, while GDP expanded, an additional 1,052,000 jobs (0.8 percent) were lost as the nation struggled with a job-loss economic recovery. Job losses totaled 2,684,000 from March 2001 until May 2003 (or -2 percent), when employment growth resumed. The nation then

TABLE 11
United States Real Gross Domestic Product and Payroll Employment
2000–2004

Year	Quarter	Real Gross Domestic Product (Annualized percentage change)	Change in Payroll Employment (Thousands)
2000	I	1.0%	841
	II	6.4	462
	III	-0.5	283
	IV	2.1	362
2001	I	-0.5	27
	II	1.2	-482
	III	-1.4	-480
	IV	1.6	-844
2002	I	3.4	-264
	II	2.4	-64
	III	2.6	-127
	IV	0.7	-89
2003	I	1.9	-254
	II	4.1	-53
	III	7.4	99
	IV	4.2	302
2004	I	4.5	531
	II	3.3	693
	III	4.0	401
	IV	3.8	569

← Recession ends

6 quarters of job losses

12 quarters of GDP growth: average=3.53%

6 quarters of job gains

Sources: U.S. Department of Commerce, Bureau of Economic Analysis; U.S. Department of Labor, Bureau of Labor Statistics.

employment surpassed the previous peak, taking only seven quarters after the recession ended in March 1991 to do so.

The equivalent 12-quarter period after the 2001 recession witnessed extended and severe job losses for six consecutive quarters before job growth resumed in the third quarter of 2003 (table 11). This pattern contrasts dramatically with only one quarter of job loss and three quarters of level employment, followed by eight quarters of strong employment growth after the end of the earlier recession in March 1991.¹²

This comparison of recession and recovery between the two business cycles strikingly shows the dichotomy between output and employment changes during the two periods. Employment declines were similar during both recessions. Output growth,

however, was significantly higher in the most recent recovery (3.5 percent per quarter versus 3.1 percent). Given this higher growth in output, it is even more surprising that the employment changes during the two recovery periods differed so sharply. Employment fell for one quarter and then stagnated for three quarters following the end of the earlier recession in March 1991. But job growth then accelerated during the next eight quarters, and total employment swiftly passed its previous peak. In the most recent cycle, comparing an identical 12-quarter period of recovery and despite higher growth in GDP, employment continued to plunge for six quarters after the end of the recession in November 2001.

The analysis above is focused on changes in total employment during both business cycles. A detailed

¹² During the record 120-month expansion following the 1991 recession, job growth continued for another 28 quarters after the first quarter of 1994 (the end of the 12-quarter comparison made in tables 1 and 2). It is, of course, unknown how long the current economic expansion will last.

TABLE 12
United States Real Gross Domestic Product and Payroll Employment
1989–1994

Year	Quarter	Real Gross Domestic Product (Annualized percentage change)	Change in Payroll Employment (Thousands)
1989	I	4.1%	712
	II	2.6	408
	III	2.9	335
	IV	1.0	483
1990	I	4.7	809
	II	1.0	202
	III	0.0	-335
	IV	-3.0	-367
1991	I	-2.0	-576
	II	2.6	-259
	III	1.9	2
	IV	1.9	-24
1992	I	4.2	40
	II	3.9	339
	III	4.0	248
	IV	4.5	530
1993	I	0.5	498
	II	2.0	744
	III	2.1	699
	IV	5.5	844
1994	I	4.1	930

Sources: U.S. Department of Commerce, Bureau of Economic Analysis; U.S. Department of Labor, Bureau of Labor Statistics.

examination of the components of employment changes during the recovery phase provides further insight into the nature of the two cycles. Table 13 lists the employment changes at the industry level for the 40-month recovery period to date following the end of the last recession in November 2001. Table 14 gives the employment changes for an identical 40-month period from the end of the previous recession in March 1991.

The recovery from the end of the most recent recession to March 2005 has been modest, with a total job gain of 2,047,000, or 1.6 percent since November 2001 (table 13). This increase is in sharp contrast to the 5,956,000 jobs gain (5.5 percent) that occurred in the comparable time period after March 1991 (table 14). A large part of this difference is the continued loss of manufacturing jobs experienced

during the current recovery. From November 2001 to March 2005, manufacturing lost 1,513,000 million jobs, or 9.6 percent of its total employment.¹³

The loss in manufacturing significantly offset the 2,756,000 jobs gain in the private service-providing sectors. The private service sector gain was led by 1,346,000 new jobs in education and health and 700,000 additional jobs in professional and business services. Job losses occurred in the information sector (-403,000), particularly in the telecommunication industry within that sector (not shown). Employment in the trade, transportation, and utilities sector has essentially been flat in the current recovery period (2,000). Gains in warehousing employment and related activities were offset by losses in retail trade and in air transportation.¹⁴ On balance, with losses in goods-producing activities and

¹³ Most of this loss (933,000 jobs) occurred in durable goods manufacturing.

¹⁴ Employment losses were significant in airlines following the terrorist attacks of 9/11.

gains in service-providing industries, private-sector employment grew by 1,625,000 jobs during the 40 months (1.5 percent). This gain is dwarfed by the 5,143,000 private-sector jobs (5.7 percent) that were added during the 40 months following the end of the previous recession in March 1991 (table 14). In that period, there was a relatively small loss in manufacturing jobs of 114,000 (-0.7 percent). This loss was swamped by the large gains in private service-providing industries that added 5,115,000 jobs (7.6 percent).

The leading growth sectors within private services were the same as in the current recovery—educational and health services and professional and business services. The gain in educational and health service employment was similar (1,460,000 jobs) to the most recent recovery, while professional and business services added considerably more jobs in the earlier recovery compared to the most recent experience (1,522,000 versus 700,000). Employment in trade, transportation, and utilities grew significantly in the earlier period

**TABLE 13: United States Nonfarm Payroll Employment
November 2001–March 2005 (40 Months)**

(Seasonally adjusted, numbers in thousands)

	November 2001	March 2005	Change: 2001–2005	
			Number	Percentage
TOTAL NONFARM	130,879	132,926	2,047	1.56%
TOTAL PRIVATE SECTOR	109,551	111,176	1,625	1.48
GOODS PRODUCING	23,211	22,080	-1,131	-4.87
Natural Resources and Mining	600	619	19	3.17
Construction	6,784	7,147	363	5.35
Manufacturing	15,827	14,314	-1,513	-9.56
PRIVATE SERVICE-PROVIDING	86,340	89,096	2,756	3.19
Trade, Transportation, & Utilities	25,709	25,711	2	0.01
Information	3,531	3,128	-403	-11.41
Financial Activities	7,844	8,163	319	4.07
Professional and Business Services	16,093	16,793	700	4.35
Educational and Health Services	15,866	17,212	1,346	8.48
Leisure and Hospitality	11,982	12,640	658	5.49
Other Services	5,315	5,449	134	2.52
GOVERNMENT	21,328	21,750	422	1.98
Federal	2,758	2,720	-38	-1.38
State	4,977	5,038	61	1.23
Local	13,593	13,992	399	2.94

**TABLE 14: United States Nonfarm Payroll Employment
March 1991–July 1994 (40 Months)**

(Seasonally adjusted, numbers in thousands)

	March 1991	July 1994	Change: 1991–1994	
			Number	Percentage
TOTAL NONFARM	108,542	114,498	5,956	5.49%
TOTAL PRIVATE SECTOR	90,054	95,197	5,143	5.71
GOODS PRODUCING	22,780	22,808	28	0.12
Natural Resources and Mining	758	656	-102	-13.46
Construction	4,881	5,125	244	5.00
Manufacturing	17,141	17,027	-114	-0.67
PRIVATE SERVICE-PROVIDING	67,274	72,389	5,115	7.60
Trade, Transportation, & Utilities	22,368	23,166	798	3.57
Information	2,689	2,735	46	1.71
Financial Activities	6,602	6,883	281	4.26
Professional and Business Services	10,705	12,227	1,522	14.22
Educational and Health Services	11,381	12,841	1,460	12.83
Leisure and Hospitality	9,267	10,108	841	9.08
Other Services	4,262	4,429	167	3.92
GOVERNMENT	18,488	19,301	813	4.40
Federal	3,095	3,009	-86	-2.78
State	4,359	4,590	231	5.30
Local	11,034	11,702	668	6.05

Note: North American Industrial Classification System (NAICS) employment sectors.
Source: U.S. Department of Labor, Bureau of Labor Statistics.

**TABLE 15: United States Nonfarm Payroll Employment
Recession to Recovery, 2001–2005**

(Seasonally adjusted, numbers in thousands)

	Recession		Recovery 1 (Job-Loss)		Recovery 2	
	March 2001–November 2001		November 2001–May 2003		May 2003–March 2005	
	Change: March–November		Change: 2001–2003		Change: 2003–2005	
	Number	Percentage	Number	Percentage	Number	Percentage
TOTAL NONFARM	-1,632	-1.23%	-1,052	-0.80%	3,099	2.39%
TOTAL PRIVATE SECTOR	-2,014	-1.81	-1,299	-1.19	2,924	2.70
GOODS PRODUCING	-1,198	-4.91	-1,390	-5.99	259	1.19
Natural Resources and Mining	-9	-1.48	-30	-5.00	49	8.60
Construction	-80	-1.17	-88	-1.30	451	6.74
Manufacturing	-1,109	-6.55	-1,272	-8.04	-241	-1.66
PRIVATE SERVICE-PROVIDING	-816	-0.94	91	0.11	2,665	3.08
Trade, Transportation, & Utilities	-499	-1.90	-427	-1.66	429	1.70
Information	-186	-5.00	-338	-9.57	-65	-2.04
Financial Activities	46	0.59	141	1.80	178	2.23
Professional and Business Services	-674	-4.02	-174	-1.08	874	5.49
Educational and Health Services	399	2.58	705	4.44	641	3.87
Leisure and Hospitality	-15	-0.13	100	0.83	558	4.62
Other Services	113	2.17	84	1.58	50	0.93
GOVERNMENT	382	1.82	247	1.16	175	0.81
Federal	2	0.07	16	0.58	-54	-1.95
State	125	2.58	36	0.72	25	0.50
Local	255	1.91	195	1.43	204	1.48

Note: North American Industrial Classification System (NAICS) employment sectors.

Source: U.S. Department of Labor, Bureau of Labor Statistics.

(798,000, or by 3.6 percent) versus only a very small gain in the most recent period (2,000). Employment in the information sector rose slightly in the earlier recovery (46,000) compared to a substantial decline in the recent recovery (-403,000).

The government sector added 422,000 jobs in the most recent recovery period (2 percent) led by employment gains of 399,000 jobs in local government. The gain of 422,000 public-sector jobs was just over half the growth (52 percent) in government jobs in the earlier recovery (813,000). Most of the increase in public-sector jobs during that time was also in local government (668,000).

One key difference between the two recessions, as noted in the earlier discussion, is that employment continued to decline for a much longer period following the end of the recent recession compared with the 1991 economic downturn. The comparison made above masks this effect by analyzing the

employment change over the entire 40 months of the current recovery. However, the 40-month period analyzed here actually consisted of an 18-month job-loss phase (November 2001 to May 2003) and a subsequent 22-month job-recovery phase (May 2003 to March 2005). Accordingly, table 15 provides employment data by sector for the eight-month recession period (March 2001 to November 2001) and the subsequent two distinct phases of the recovery.

The job-loss phase of the recovery was dominated by the loss of 1,390,000 goods-producing jobs (6 percent), with almost all of these losses occurring in manufacturing (-1,272,000). This loss overwhelmed the small gain in private service-providing jobs (91,000) and caused a large loss of 1,299,000 private-sector jobs (-1.2 percent). Within the private service-providing sector, educational and health services (705,000 jobs), financial activities

(141,000 jobs), leisure and hospitality (100,000 jobs), and other services (84,000 jobs) all contributed to growth. However, these increases were nearly fully offset by losses in trade, transportation, and utilities (-427,000 jobs), information (-338,000 jobs), and professional and business services (-174,000 jobs). The rate of loss of jobs in the information sector is noteworthy since it was an *acceleration* in the decline experienced during the recession itself.¹⁵ The public sector added 247,000 jobs (mostly in local government), reducing the decline in total employment to 1,052,000 during the job-loss phase of the recovery.

Finally, if belatedly, employment growth resumed, and from May 2003 to March 2005 the national economy added 3,099,000 jobs. A major component of this turnaround was the stabilization of employment in the manufacturing sector following the harsh and relentless loss of 2,381,000 jobs during the recession and job-loss recovery. Construction, supported by a red-hot housing market, added 451,000 jobs, leading to a net gain of 259,000 jobs in the private goods-producing sector. The private service-providing sector added 2,665,000 new jobs, led by a rebound in professional and business services (874,000). Educational and health services gained 641,000 jobs; trade, transportation, and utilities added 429,000 jobs; and employment in leisure and hospitality increased by 558,000 jobs.

¹⁵ The 18-month period of the job-loss recovery exceeded the eight-month period of the recession, but the information sector was the only private service-providing industry to have a larger job decline in the job-loss phase of the recovery than during the recession itself.

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Job growth in the public sector slowed from 247,000 in the 18-month job-loss recovery period to 175,000 new jobs in the May 2003 to March 2005 (22-months) job-growth phase.

In January 2005, the nation's total employment finally surpassed its previous peak level reached in March 2001. Thus, three years after the recession was officially declared over in November 2001, the nation had regained all of its employment losses.

Conclusion

It is within this context that New Jersey faces an uncertain economic future. This report is not playing a game of "Chicken Little"; the economic sky is not falling. Despite the recent slow growth, New Jersey's economy still remains leading-edge. But there is a question of whether the state's current prosperity is obscuring the start of long-term slippage. The conventional wisdom of the past regarding economic assumptions may now be history. Certainly, the evidence strongly suggests that a renewed and innovative emphasis on state economic development strategy and policies is warranted. New Jersey's recent intense focus on income redistribution issues and policies should be rebalanced toward policies that focus on income growth and economic expansion. ■

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