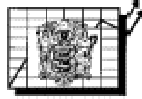


NEW JERSEY ECONOMIC REVIEW & OUTLOOK FOR 2007

“Continued attention to economic development will add to New Jersey’s economic prospects in 2007.”

Joseph J. Seneca, Chairman

New Jersey Review and Forecast: Summary



The economic ledger for New Jersey has been closed on 2006 and a new one has opened for 2007. The state’s economic performance last year was strong in parts and tepid in others. In the current year, New Jersey will benefit from a strengthening national economy, but the state will need to continue to improve its long-run competitive position in order to keep pace with the nation in key areas of economic growth.

The recent changes in economic development policy in New Jersey are very encouraging and affirm the priority given by the Administration to economic growth. The elimination of two business taxes in fiscal year 2007 and the proposed elimination of another in fiscal year 2008 represent major investments to improve the business climate of the state. The reorganization of economic development policy under the Office of Economic Growth has already brought significant economic dividends to New Jersey with a coordinated approach to business retention and attraction. The stem cell initiative for the construction of capital facilities and the further allocation of stem cell research money is the first major strategic state investment in increasing science and technology research capacity in New Jersey since the 1980s. This sustained attention by the state to improving the business environment is exactly what is needed.

On the plus side last year, employment in New Jersey set a new record of 4,085,000 jobs as of December 2006. Total personal income grew by a solid 6.3% from the third quarter of 2005 to the same quarter in 2006, and nearly matched the U.S. increase of 6.7% despite the state’s slower population growth. Exports from New Jersey continued to boom, increasing by an amazing 28.1% over the prior year. This rapid growth in exports, along with continuing large increases in imports, especially in containerized cargo, has led to significant expansion in warehousing

and related trucking and transportation activity throughout the state.

Commercial real estate shows signs of stabilization and even improvement in some areas, as very high rents and low vacancy rates in Manhattan make New Jersey, once again, appealing as a relatively lower cost alternative for business expansion. Several highly visible business relocation decisions provide encouragement that the state can still be a player in the intensely competitive pharmaceutical and telecommunications industries. These include Verizon’s choice to locate and expand operations in the former AT&T site in Somerset County and Bayer Pharmaceuticals’ selection of New Jersey for its U.S. headquarters. However, both the pharmaceutical and telecommunications industries continue to experience profound structural changes as the effects of mergers and acquisitions, along with ever-intensifying competition, are amplified in New Jersey with its still large, but vulnerable, concentrations of research and headquarters operations.

Employment growth in the state improved in 2006 compared to a year earlier. Payroll jobs rose by 33,900 from December 2005 to December 2006. This was increase over the 22,800 jobs gained in 2005. However, the national growth rate in total employment of 1.7% in 2006 exceeded New Jersey’s increase of .8%. Bringing New Jersey’s employment growth closer to the national average is a worthy and important goal for economic development policy.

Job growth in New Jersey encouragingly accelerated in business and professional services in 2006 (13,500). There were also welcomed jobs gains in the information sector (2,200), a sector that has been under intense competitive pressure. Job losses occurred in manufacturing and trade, transportation, and utilities.

The state’s housing sector, following national trends, continued to unwind in 2006 with sharp declines in residential building permits and contract sales, along with large increases in unsold inventory. House price gains moderated significantly in 2006 and

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in some local markets, house values fell. While the rate of decline in the housing sector appears to have stabilized, it will be some time before housing resumes its previous role as an engine of economic growth, both in New Jersey and nationally.

Summary: New Jersey Forecast (% Change)		
	2006	2007
Gross State Product (Current \$, bill)	5.1	5.0
Personal Income (Current \$, bill)	6.1	5.7
Retail Sales (Current \$, bill)	4.9	5.0
Consumer Price Index (All Urban)	3.8	3.4
Total Non-Ag Employment	0.8	0.8

The U.S. Economy



The national economy ended 2006 with a lackluster fourth quarter when real Gross Domestic Product grew by 2.2 %. This increase represented the third straight quarter of below trend growth and was only a marginal improvement on the 2% growth rate of the third quarter. During the last three quarters of 2006, the slowdown in the housing sector, the impacts of a roller coaster ride of energy prices, and the cumulative effects of 17 consecutive quarter point increases in the federal funds rate brought GDP growth below 3%. For the year as a whole, real GDP rose by 3.3% due primarily to a strong first quarter growth of 5.6%.

Recent concerns that weakness in the housing sector would extend to the general economy have not, at least yet, been borne out. Consumer spending rose by 4.2% in the fourth quarter, energy prices retreated, and exports, supported by a weaker dollar and solid economic growth abroad, accelerated. All these private sector positive factors along with increased government spending contributed to growth in the fourth quarter. But inventory accumulation fell sharply and declines in both residential and non-residential investment accelerated.

Employment growth remained robust in 2006 and the Bureau of Labor Statistics benchmark revisions indicate that total employment grew by over 2.2 million jobs. Although this was lower than the 2.5 million jobs added in 2005, the nation has now gained over 2 million jobs annually for three consecutive years.

The outlook is for only modest growth in the national economy, although real GDP growth should increase as the year progresses. Growth will be supported by strong exports, solid consumer spending, and additional government outlays. The housing sector's drag on the economy will moderate from last year's estimated 1% point reduction in GDP growth. Employment growth should approach 2 million jobs. The Federal Reserve (FED) remains focused on inflation as strong job and wage gains, along with tepid productivity growth invoke inflation concerns. Inflation as measured by the Personal Consumption Expenditure index (2.8% in 2006) is above the desirable level stated by the FED, but did not, as of the end of 2006, shown any sign of accelerating. However, weakness in manufacturing and the fourth quarter decline in non-residential investment point to continuing tepid GDP growth well into 2007. Any decline in equity prices, if large and sustained, could also reduce consumer spending.

Employment Profile

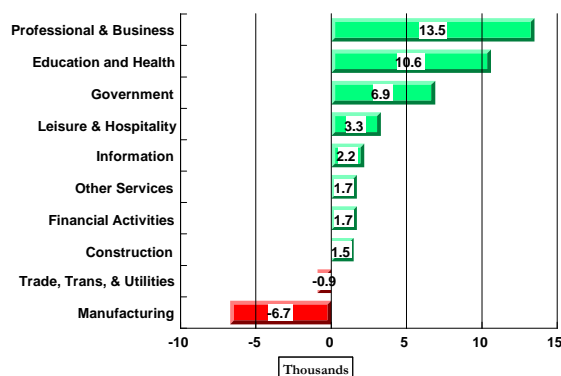


Following data revisions, payroll employment rose by 33,900 jobs in 2006. There were gains in the private service-producing sector (32,100 jobs), which were partially offset by a loss of 6,700 jobs in manufacturing (-2%). The state's manufacturing sector has now lost 101,300 jobs between December 2000 and December 2006, continuing a trend that began in 1969. Arresting this long-term decline remains a difficult, but important challenge. New Jersey still has over 320,000 manufacturing jobs.

The professional and business services sector had the largest gain in employment (13,500 jobs). Of particular note was the growth in employment in management of companies and enterprises, a sub-sector within professional and business services. Education and health services had the second largest increase in employment (10,600 jobs). Leisure and hospitality services added 3,300 jobs. The information sector, encouragingly, added 2,200 jobs after several years of losses. Financial services and other services each grew by 1,000 jobs. Employment fell by 900 jobs in trade, transportation and utilities. The government sector added 6,900 jobs.

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NJ Employment Change (000) by Sector, 2005-06 (Seasonally Adjusted)



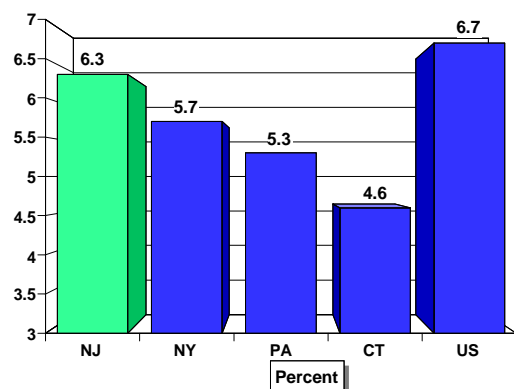
(Source: U.S. Bureau of Labor Statistics)

Personal Income and Consumer Spending



The state's median household income remains the highest in the nation (\$61,672) and the state has the highest population density in the nation. This combination represents a consumer market of unparalleled breadth and depth. Moreover, the state's recent gains in personal income, despite tepid job growth in 2006, have been strong. As of the third quarter of 2006, *total personal income* in New Jersey rose by 6.3% from a year earlier, very close to the U.S. growth rate of 6.7%. This is noteworthy given that population is growing slower in New Jersey compared to the nation. The strong year on Wall Street and record bonuses, along with solid salary and wage increases for the existing work force propelled the state's income growth rate. New Jersey's increase in total personal income exceeded that of all its neighboring states.

Percentage Change in Total Personal Income Q3 2005 - Q3 2006



An analysis of the components of the state's personal income indicates that wages and salaries make up 59.3% of the total, proprietors' income represents 8.1%, dividends, interest and rent account for 14.3%, transfer payments are 11.4%, and another 7% is the result of (net) income earned in other states by residents of New Jersey. This large contribution to personal income is due to the significant positive balance in income earned by New Jersey residents working in other states (mainly New York) compared to the smaller amount of income earned in New Jersey by residents of other states. The comparable percentages for this component of personal income for neighboring states are: Connecticut, 2.9%, Pennsylvania, .9%, and New York, -4.5%.



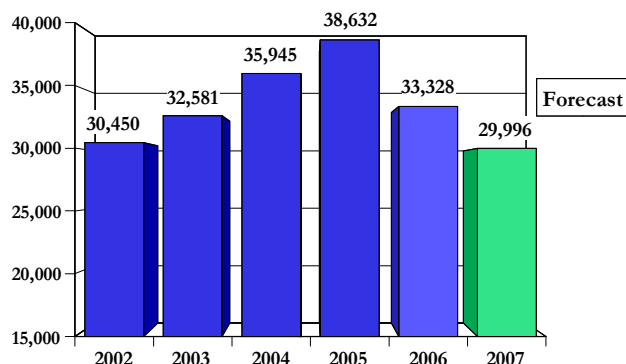
Housing

The housing sector, that former Energizer Bunny of the national economy for much of the current decade, finally ran out of battery power in 2006. The increase in home prices during the 2000 to 2005 boom far outstripped income gains and the resulting sharp decline in housing affordability was the key reason behind the unwinding of the housing sector. At the national level, there were significant declines in both new and existing home sales. Home price increases moderated from double-digit gains to barely positive, and in many local markets, prices fell significantly. Time on the market increased dramatically and the number of homes for sale soared. While there are some signs that the decline in the housing sector is stabilizing, this sector will not contribute to national economic growth for some time.

The performance of New Jersey's housing sector paralleled that of the nation. In 2006, sales of both new and existing homes declined by approximately 18% and the number of homes on the market increased by over 35%. This dramatic drop was based on the fact that house prices in New Jersey rose by an estimated 87% between 2000 and 2005, while median household income in the state grew by only 8.6%. This large disparity finally resulted in a significant decrease in affordability and housing demand. Once the market turned, market psychology kept the decline going. New housing permits in New Jersey fell by 13.7% in 2006 after rising steadily from 2000 to 2005.

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NJ Residential Building Permits, No.



Consumer Prices

Inflation became the economic indicator of concern in 2006 as wage gains increased, unit labor costs rose, productivity tailed off, and energy prices soared and sank several times during the year. The Federal Reserve continued to focus its attention on the risks to the economy of any acceleration in inflation. Overall, for the year, the Consumer Price Index rose by 3.2% nationally. In New Jersey, the rate of increase was significantly higher at 3.8%, led by a 10% increase in energy, a 5.1% increase in housing costs, and a 4% increase in medical care. The overall 3.8% growth in the CPI in 2006 for New Jersey is slightly higher than last year's 3.7% pace.

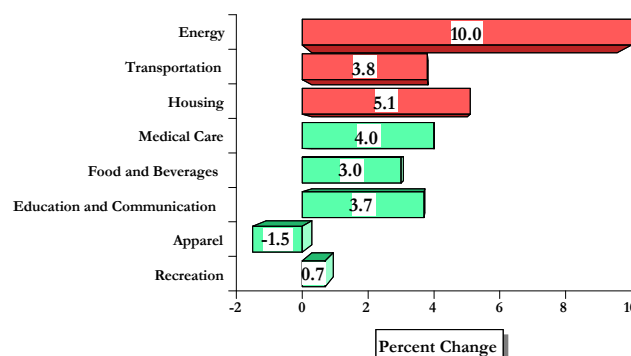
Vehicle Registrations



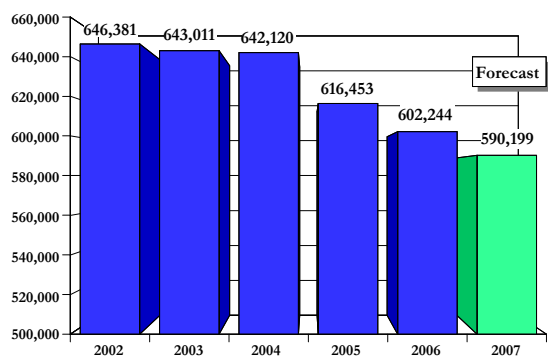
New vehicle registrations in New Jersey fell modestly in 2006, declining 2.3% from the previous year. New registrations are now down significantly from a peak of 646,381 in 2002. However, registrations remained near the still impressive 600,000 level for the year.

The sharp swing in gasoline prices along with the growing realization that long-term energy prices are likely to continue to rise, appears finally to be affecting American consumer preferences in a sustained manner in favor of fuel-efficient vehicles. The complex echo effects on the motor vehicle market of previous start-stop dealer incentive programs also affected sales in 2006. The strong growth in personal income in New Jersey, along with relatively low and stable interest rates, were positive factors supporting vehicle demand.

NY/NJ Consumer Price Index, by Expenditure Category, % Change 2005-06 Annual Average 2006 vs. Annual Average 2005 All Items = 3.8 %



New Jersey New Vehicle Registrations



(*Forecast value for 2006 based on data through November)

Construction Contracts

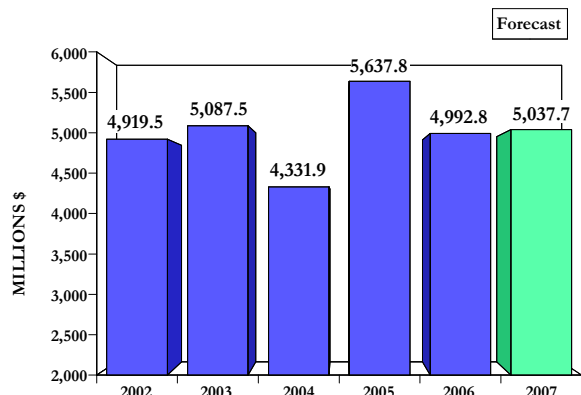


Construction contracts in both the residential and non-residential markets declined in New Jersey in 2006. Non-residential contracts fell by 11% last year although there are signs of improvement in activity in this sector. Rents and costs continue to soar in Manhattan and as a result, the competitive advantage of office expansion in New Jersey has improved. During the third quarter of 2006, there was a net absorption of nearly 1.9 million square feet of Class A office space in the 11-county Northern and Central New Jersey area. The overall vacancy rate for both direct and sublet space was about 18%, on a base of



20.8 million square feet. The vacancy rate was 20.8% in the fourth quarter of 2005 on a base of 24.2 million square feet. Achieving stronger office job growth, however, remains key to any sustained improvement in commercial office space construction. Warehouse construction and distribution activity continues to improve based on significant increases in international trade.

NJ Non-Residential Construction Contracts, \$

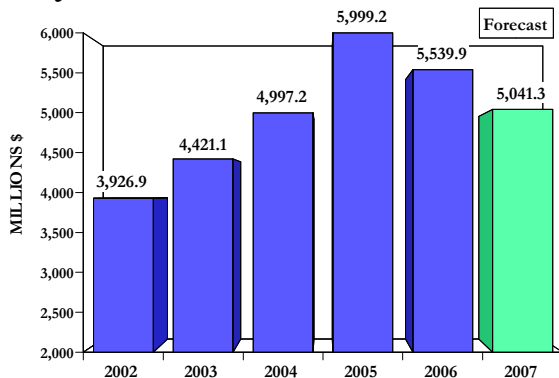


(Source: New Jersey Department of Labor)

Residential construction contracts also declined in 2006 due to increased inventories of homes for sale along with significant declines in sales volume and, in some local markets, prices. As a result, builders reduced construction and offered inducements of improved sale terms and various home features in an attempt to reduce inventory. The value of residential construction contracts fell by 7.6%. Although there are some signs of stabilization in the housing market, a further decline in residential construction contracts is expected this year.

Mortgage rates remain attractive, but there is a significant inventory of both new and existing homes and home prices need to adjust further to improve housing affordability.

NJ Residential Construction Contracts, \$



International Trade

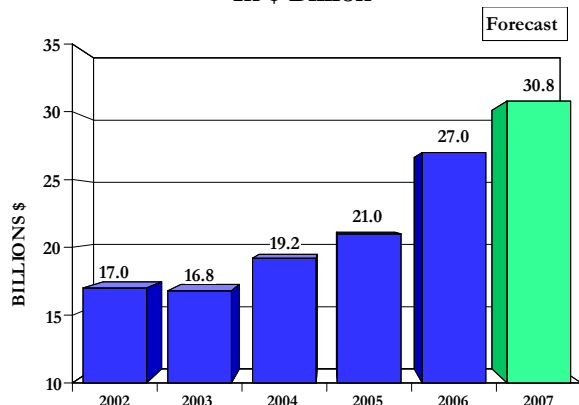
The past year was a blockbuster for international trade. American goods and services became more attractive to foreign buyers as economic growth improved abroad and the dollar depreciated. Over the year, the dollar fell by approximately 4% against other currencies on a trade-weighted basis. As a result, exports from New Jersey soared to over \$27 billion, a gain of over 28% for the year. Chemical products represented almost a third of the state's exports, while primary metals and computer electronics each contributed over 10%. Other major categories of exports were transportation equipment, machinery, and waste and scrap material. The major destinations for the state's exports were Canada (21.7%), the United Kingdom (7.9%), Mexico (6.5%), Japan (6.2%) and Germany (5.3%).

In addition, continued strong demand for imports kept New Jersey ports extremely busy. From 2000 to 2005, the amount of cargo (as measured by standardized 20 foot equivalent sized containers) handled by Port of New York/New Jersey increased by 57% to 4.8 million units. And strong growth continued in 2006. The sustained increase in cargo traffic has supported a significant expansion of warehousing, storage and distribution facilities in New Jersey in areas adjacent to the ports and north and south along the New Jersey Turnpike. Other transportation accessible sites in South Jersey along Interstate 295 and the Turnpike have also experienced significantly increased activity.

Continued public infrastructure investment is necessary to maintain the competitiveness of New Jersey as a gateway for exports and imports. A caveat to this generally bright economic picture for New Jersey, and indeed for the nation, is the long-term sustainability of the large annual imbalances of U.S. international trade (a record \$763.6 billion deficit in 2006, up 6.5% over 2005). These deficits are responsible for the robust growth of inbound containerized cargo. The tonnage of imports into the Port of New York/New Jersey was 20.2 million metric tons in 2005, while the tonnage of exports was 7.9 million metric tons. This is a ratio of 2.6 tons of imports for every one-ton of exports.

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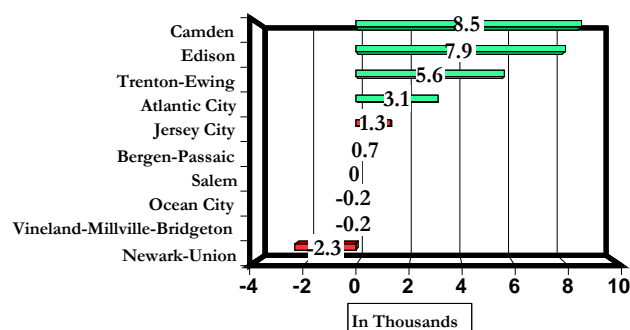
New Jersey Exports, 2002-2007
In \$ Billion



NJ Labor Markets

Employment growth varied across the state's labor markets in 2006. Job gains were highest in the Camden (8,500), Edison (7,900), and Trenton-Ewing (5,600) labor markets. Job growth was also positive in the Atlantic City labor market (3,100) and the Jersey City labor market (1,300). Employment was mostly unchanged in other labor markets, except for the Newark-Union labor market, which lost 2,300 jobs.

New Jersey Labor Market
Non-Ag Payroll Employment Change, 2005-06
(In Thousands)



NJ COUNCIL OF ECONOMIC ADVISORS

About the Council of Economic Advisors:
Established by law in 1993 (P.L. 1993, Chapter 149).

The Council is an advisory organization reporting directly and independently to the Executive branch of government, the Legislature and the public.

The Council prepares an Annual Report and a mid-year Report analyzing current New Jersey economic conditions and forecasting future developments, assists the Governor's Office in the preparation of the annual budget message, and advises the Governor and Legislature on public policies affecting the State's economy.

The Council consists of a Chairman appointed by the Governor and several legislative appointees.

The Council members are:

Dr. Joseph J. Seneca, Chairman
Members: Steven K. Brisgel, Victor H. Boyajian, Esq.,
C. Mark Dadd, Frederick Kelly, PhD.,
George Zoffinger

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<i>(Current \$ or Nos.)</i>	2001	2002	2003	2004	2005	2006	Forecast 2007¹
Gross State Product (bill \$)	362.3	372.7	388.6	410.3	430.8	452.7	475.4
Personal Income (bill \$)	333.0	337.8	343.4	363.8	382.0	405.3	428.4
Retail Sales (bill \$)	105.0	106.7	109.4	116.1	121.7	127.6	134.0
New Vehicle Registrations (000)	655.5	646.4	643.0	642.1	616.5	602.2	590.2
Non-Res. Construction Contracts (mill \$)	5,017.6	4,919.5	5,087.5	4,331.9	5,637.8	4,992.8	5,037.7
Residential Building Permits (No.)	28,277	30,450	32,581	35,945	38,632	33,328	29,996
Res. Construction Contracts (mill \$)	3,885.7	3,926.9	4,421.1	4,997.2	5,999.2	5,539.9	5,041.3
CPI (1982-1984=100) ²	187.1	191.9	197.8	204.8	212.7	220.7	228.2
<i>Employment</i>³							
Total Nonfarm (000) ⁴	3,989.0	3,970.5	3,983.6	4,023.4	4,051.6	4,085.5	4,118.2
Manufacturing (000) ⁵	381.9	358.3	344.4	334.3	327.4	320.7	312.0
Private Service-Providing (000) ⁶	2,828.7	2,833.8	2,852.1	2,875.4	2,906.1	2,938.2	2,967.6

Percentage Change from previous year:	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<i>(Current \$ or Nos.)</i>						
Gross State Product	2.9	4.3	5.6	5.0	5.1	5.0
Personal Income	1.4	1.7	5.9	5.0	6.1	5.7
Retail Sales	1.6	2.5	6.1	4.8	4.9	5.0
New Vehicle Registrations	-1.4	-0.5	-0.1	-4.0	-2.3	-2.0
Non-Res. Construction Contracts	-2.0	3.4	-14.9	30.1	-11.4	0.9
Residential Building Permits	7.7	7.0	10.3	7.5	-13.7	-10.0
Res. Construction Contracts	1.1	12.6	13.0	20.1	-7.7	-9.0
CPI (1982-1984=100)	2.6	3.1	3.5	3.9	3.8	3.4
<i>Employment</i>						
Total Nonfarm	-0.5	0.3	1.0	0.7	0.8	0.8
Manufacturing	-6.2	-3.9	-2.9	-2.1	-2.0	-2.7
Private Service-Providing	0.2	0.6	0.8	1.1	1.1	1.0

1. 2007 forecast by the NJCEA.

2. CPI for NY-NJ-CT-PA metropolitan area.

3. Employment figures for 2001-2006 are seasonally adjusted December totals.

4. Total nonfarm employment for 2002 and 2003 has not yet been revised according to the 2006 benchmark.

5. Manufacturing employment for 2002, 2003, and 2004 has not yet been revised according to the 2006 benchmark.

6. Private service-providing employment for 2002, 2003, and 2004 has not yet been revised according to the 2006 benchmark.