Recovery Hopes, Recession Realities and Local Budget Battles

by Gregory DeFreitas

Will this year prove to be the start of a fragile recovery, or just the pivot point of a double-dip recession? Since it began late in 2007, the Great Recession has driven bankruptcy and foreclosure rates sky high, slashed nearly 8 million jobs, swollen the ranks of the unemployed to 15 million, and shrunk the coffers of local and state governments across the country.

After two years of such grim news, the first months of 2010 seemed to offer welcome relief on many fronts. As a typical headline suggested: "From the Mall to the Docks, Signs Are Building of an Economic Turn."[1] Retail sales jumped 9.1% and new home sales climbed 26.9% in March over the March 2009 levels. In March and April, according to the latest survey of regional conditions by the Federal Reserve (*The Beige Book*), most regions of the country registered improvements in retail sales, home purchases, manufacturing activity and business capital investment.

Though the country's overall economic activity, as measured by real gross domestic product (adjusted for inflation), shrank at an overall annual rate of 2.9% in 2009 from its 2008 level, it bottomed out in mid-2009 and managed to grow thereafter. In the last three months of the year, it jumped 5.6%%. And the first quarter of 2010, real GDP rose a healthy 3.0%. Personal consumption, inventory investment, and export expenditures remained strong, though softer than in late 2009, and partially counterbalanced by falling state and local government spending.

The availability of more good-paying jobs is clearly the most important economic indicator for most Americans. After more job shrinkage nearly every month of the past year, there was finally strong net growth of 208,000 new nonfarm jobs in March. Even larger payroll job gains were racked up in April (+290,000) and May (+431,000), boosting hopes of a trend toward labor market revival (Table 1). By way of contrast, last May the job count plunged by 387,000.

The national unemployment rate has also improved, dipping below the 10% at year-end to 9.7% by May. Unlike the employer survey (CES) with which the U.S. Department of Labor collects its job counts, the unemployment rate is derived from a different survey of 50,000 households (CPS). As a result, more available jobs may not immediately be reflected in individual households' reports of their current employment status. And news of job growth may encourage increased labor market participation, which can in turn raise the unemployment rate. Big interstate differences in unemployment remain, with Nevada and Michigan among those well into double-digit rates. But 37 of the 50 states recorded lower unemployment in May than the month before.

Corporate profits and executive bonuses were certainly big winners in recent months. First-quarter profits at large (S&P 500) companies leapt a "dazzling" 87% over the past 12 months.[2] And the $140 billion in Wall Street bonuses and other compensation at the largest firms made last year the biggest pay year on record there.

Unfortunately, there is little evidence that any of that has trickled down to improve the job and pay prospects of the average working family. In April, average hourly wages crept up an anemic 1 cent to $22.47. Lower-paying temporary government jobs for the 2010 Census count have been a major component of recent job growth, particularly in May: of the 431,000 new jobs that month, fewer than one in ten (41,000) were created in the private sector.

And while the unemployment rate is declining, it is moving far more slowly than at the same stage in previous recessions. As the seasonally adjusted rates in Table 1 show, unemployment is high for nearly all demographic and skill groups, but far higher for males, African Americans, Latinos, youth and those without college degrees. Joblessness among both blacks and Hispanics is still well into double digits (15.5% and 12.4%, respectively), and over one in four teenage jobseekers remains unemployed. About 38% of black teens is jobless, a staggering figure even if lower than their 48.4% rate in December. The duration of joblessness has become ever more worrying, with 6.8 million people -- nearly half the unemployed (46%) -- being out of work for 27 weeks or more – two and one-half times as high the long-term jobless rate at the recession's start in 2007.

The official unemployment figures understate the breadth and depth of joblessness. They omit millions of individuals who have temporarily grown too discouraged to continue job search, but who tell government surveyors that they are currently available for and desire a job. Among those counted as employed, rising numbers indicate that they are working part-time involuntarily; that is, they want and need a full-time job, but cannot find one. Including such marginally attached workers and the discouraged unemployed, together with the official unemployed, the BLS has (since 1994) published estimates of a broader, alternative measure of "labor underutilization." By this broader gauge, the latest May report shows that the underemployment rate is still near historic highs ay 16.6%.

Across the country, for each available job vacancy, there are still over five unemployed jobseekers, according to the Dept. of Labor employer survey (JOLTS).[3]As of May, the country had 7.4 million fewer jobs than at the start of the recession. Even that daunting figure understates how much job creation will be needed to return the unemployment rate to its pre-recession level. Since then, increases in the working-age population have expanded the number of new jobs needed by about three million. The Economic Policy Institute has estimated that in order to create another 10.4 million net new jobs, even if the economy attained the peak job-creation rate (2.6% per year) of the 1990s boom, would take until early in 2015![4]

Wage stagnation and mass unemployment make sustained growth in consumer spending unlikely. Indeed, after the highly publicized retail "turnaround" this March, April retail sales were nearly flat: the standard same-store sales measure rose just 0.5% – less than one-third as high as the consensus forecast of business economists. Soft sales were the norm in nearly every retail sector. Some high-end chains like Nordstrom and Saks Fifth Avenue bucked the trend (with 7.5% and 3.2% gains, respectively), but only in comparison with their unusually steep sales plunge last year.

In May, for the first time since last fall, retail sales declined sharply (-1.2% over the year-ago level). The sales drop was led by shrinking building materials sales, in part reflecting the fall off in housing. Media reports on the May sales decline found no shortage of surprised economic pundits. The retail slowdown did not seem to fit easily with their hopeful forecasts of resurgent consumer spending.

Nor did the news in the bellwether housing sector, once the special federal tax credit for new homebuyers expired on April 30. . New home sales dropped in May to their lowest level since 1963, when consistent recordkeeping began. Sales of pre-owned homes also fell in May. Warming weather and historically low interest rates were not enough to bolster residential construction. New home construction fell 17.2% and new building permits – a leading indicator of upcoming construction activity – declined 10%.

The New York Jobs Picture

How does the New York metropolitan area compare with these national patterns? After 21 months of decline, New York City's economy began expanding in the last quarter of 2009. Gross City Product (GCP) grew by 0.96%, after price inflation adjustment. This was less than one-fifth the national growth pace and too small a gain to offset the production cuts earlier in the year: for all of 2009, the city's GCP contracted 3%.[5]

New York, like the nation as a whole, lost significant numbers of jobs last year. But, the fall in the city's job total (-75,000) over the 12-month span ending last December was, proportionate to its job base, a slower rate (-2.0%) than the -3% national average (Table 2). Without its large public sector, the city's job decline would have been far more pronounced. In the private sector, employers cut 127,500 payroll positions over this same period (-3.9%).

In the first three months of 2010, the city gained 10,500 new jobs – the largest quarterly job increase in two years. However, the 1960-2010 job chart in Figure 1 shows clearly how much ground remains to be regained before the city's job base can recover its 2008 peak. Which sectors of the city's economy expanded, and which kept contracting over the past year? As Figure 3 reveals, all the large industrial categories had fewer jobs in the 12 months ending December 2009. The largest number of job cuts (-30,000 jobs, or -6.6%) came in finance, insurance and real estate (i.e., the FIRE sector). Most of these cuts concentrated in finance and securities, rather than in real estate. Housing sales in New York rose some 20% this April over April 2009. But sales seem to have been concentrated in the low-priced end of the market, where the federal homebuyer tax credit was especially influential until its expiration at month's end.

The manufacturing workforce shrank by11,600 jobs (-12.7%) in 2009 – the highest percentage rate of decline of any sector. With industry-wide employment now at only 80,000, the city's manufacturing workforce is half the size it was at the cyclical peak in 2000. It did, however, appear to be stabilizing in the first quarter of this year. More downsizing seems likely. Pfizer, the world's largest pharmaceutical firm, announced in early May that it would slash 1,400 jobs at its world headquarters in Manhattan. This is a major blow for both its employees and the city's economic development policy of offering "retention subsidies" to preserve jobs at large employers. Just seven years ago, the city lavished $12 million in tax breaks on Pfizer in return for its pledge to create jobs locally. By 2005, the firm's had expanded employment here to a peak level of 6,500. Since then, its job total has shrunk to 4,400. Although Mayor Bloomberg's administration has been far more selective in granting subsidies than was Mayor Giuliani and has promised to recoup the tax breaks from Pfizer, critics see this as still more evidence of failed "corporate welfare." According to Bettina Damiani, director of Good Jobs New York, an employment advocacy group:"This is another example that shows how useless these corporate retention deals are. Major companies don't make location decisions based on tax breaks."[6]

Over the same period, the city lost 13,200 jobs in transportation, warehousing and utilities. Though the city continues to attract massive tourist and immigrant inflows and is still the nation's largest aviation market, passenger traffic to JFK and LaGuardia airports dipped 5.4% in 2009 -- twice as fast a decline as in the year before. Aviation job cuts totaled some 900 over the last two years. Even such relatively small job losses can have magnified ripple effects in other sectors like cargo, ground transport, food services and lodging. According to the

NY State Dept. of Labor, the city's two airports may account (directly and indirectly) for as many as 328,300 jobs and $13.8 billion in wages.[7] The most positive news in air transport for the area came in March when that JetBlue decided to retain its corporate headquarters in New York rather than leave for Orlando. The decision saved the city about 1,000 air transport jobs. Last year, the airline also boosted local construction employment when it invested over $740 million in its new JFK terminal.

There were nearly 10,000 fewer retail sales jobs in the city at the end of last year than 12 months before, a 6.7% decline. New York retailers enjoyed a December sales increase averaging about 3%, compared to a 4.1% drop last December. There was wide variation around this average: sales growth was an anemic 1% at mainstream retailer Macy's , but over 9% at Saks Fifth Avenue.

In the diverse services supersector, long an engine of local growth, job losses totaled 35,400 over the December 2008 to December 2009 period. Among this large sector's specific industries, those directly related to finance tended to be hardest hit. Job losses were concentrated in the plunge of 38,000 business and professional service positions.

Health care and educational services actually added 9,000 more jobs over the year. The health care workforce found itself surprisingly vulnerable to job cuts this past year. In February 2009, the bankruptcies and closures of Mary Immaculate Hospital in Jamaica and St. John's Queens Hospital forced large layoffs. This April 30, 160-year-old St. Vincent's, the only major hospital in Manhattan's Greenwich Village, also closed after a rapid, desperate, and ultimately failed search for a merger partner.. The result: over 3,500 St. Vincent's employees have just lost their jobs. The city's Health and Hospitals Corporation predicts that municipal budget woes will likely require that city hospitals lay off 1,300 more employees over the coming year, as well as leaving unfilled an added 1,300 positions.[8]

The tourism subsector of industries offered more hope as summer approached. In 2009 New York City surpassed San Francisco as the most popular tourist destination in the US, welcoming an estimated 45.25 million visitors. Though this number was still 3.9 percent less than in 2008, it emboldened City Hall to project that a turnaround was underway that would increase the number of tourists some 3.2% in 2010.[9] According to the Fed *Beige Book* in early June, rising tourism in New York this spring has started increasing hotel occupancy rates and ticket sales at Broadway theaters.[10]

The city's unemployment rate rose sharply last year, ending 2009 at 9.7%, compared to 7.1% the previous December. With seasonal adjustment, the rate peaked at 10.6% in October, fell to 10.3% by year's end, and then fell further to 10% by March 2010. One sign of the depth and breadth of the current recession is that

New York's double-digit jobless rate only puts it in the middle of the national rankings in Figure 5. This is doubtless little comfort to the more than 400,000 unemployed New Yorkers.

For those fortunate enough to still have a job, the recession has still taken a serious toll on their wallets. In the non-financial private sector in 2009, inflation-adjusted average wages dropped by 4.8%. Wage cuts hit employees in 70 of the city's 88 private industries, accounting for some four out of five private sector jobs.[11] The fact that the city's worst wage decline in a modern recession has occurred at the same time that Wall Street was enjoying record profits and pay increases starkly underlines again how truly extreme is the ongoing rise in income inequality. The more that average working people face pay losses, the less likely is a near-term increase in broad-based consumer demand large enough to rapidly improve job growth.

How does the center city compare with nearby suburban areas? Long Island lost 24,500 jobs in 2009, a nearly identical rate of job shrinkage (-1.9%) as in the city (Table 2). Despite recent improvement, the region is still about 60,000 jobs short of its pre-recession level in late 2007.

The industries in Nassau and Suffolk Counties suffering the largest job cuts were retail trade (-7,700), construction (-6,200) and manufacturing (-6,200). The latter sector did receive some good news of late with the announcement that a major employer, Canon USA, planned to expand into a $636 million headquarters in Melville. Up to 2,100 jobs will be preserved or created in this move from its current facility in Nassau County. To sweeten the deal, the state's Empire State Development Corporation agreed to add lanes to nearby service roads off the Long Island Expressway (at a taxpayer cost of $8 million).

Unlike the city's pattern over the same span last year, two sectors on the Island managed to expand: wholesale trade (+2,700 jobs) and government (+2,100, mostly school personnel). But county budget pressures are threatening more public sector cuts. For example, Suffolk County school districts have announced up to 450 layoffs by the start of the new school year ithis September.

BUDGET BATTLES

This spring, New York State was just one of 48 states that were in deficit. State and city governments (unlike the federal government) are legally mandated to balance their budgets each year. On January 7th, New York Governor David Paterson was aiming to close the $9 billion state budget gap by thousands of layoffs, higher consumption taxes, and a partial withholding of raises granted to state workers last year. The April 1 budget deadline came and went with no agreement in Albany. For several weeks, emergency budget extensions were needed to keep the state functioning – but opponents nearly forced a government shutdown in the week of June 14th. Only a last-minute stopgap spending vote in Albany prevented what Governor Patterson described as "chaos:" police and fire stations closed, courthouses shuttered, corrections officers furloughed and summer schools and youth job programs ended. Governor Paterson and the legislature did agree to hike the state cigarette tax by another $1.60 per pack, in order to raise $440 million in new revenue. In New York City, this would raise tax to $5.85 per pack, the highest in the country, thereby inflating the retail price to well over $10 per pack. Opponents, while supportive of its potential to discourage youth smokers, criticized its regressive impact on nicotine-addicted adult smokers.

New York City starts its new fiscal year on July 1st, in part to give it a three-month lead time to weigh the implications of the state budget that is supposed to be in effect on April 1st. Lacking a state budget, and with a very real threat of both state and federal cuts in aid to the city, City Hall was still sending mixed messages on the final shape of its budget cuts in mid-June. In January Mayor Michael Bloomberg had proposed a 2011 budget favoring layoffs, expanding the sales tax and mortgage tax recording base, and cuts in summer youth jobs and after-school programs. Many of these changes met considerable public protest and were later scaled back. But the latter changes were based in part on uncertain aid from Albany and Washington DC. Even if all the Mayor's painful gap-closing proposal are undertaken, the nonpartisan Independent Budget Office now forecasts that the city will face a $3.3 billion deficit by 2012.[12]

In sum, the spring of 2010 brought welcome signs of possible improvement in the national and local job markets. However, it also seems clear that, even after nearly two and one-half years of a painful recession, the bursting of our huge housing and stock market bubbles is not done wreaking havoc on consumers' jobs and incomes. As Dean Baker recently observed, the loss of some $8 trillion in housing wealth and $6 trillion in stock wealth should have been expected to slash consumer spending by at least $600 billion to $900 billion. The decline could be even larger if debt-strapped households and retiring baby boomers push the savings rate back up to or above its long-term norm (8%).

> "The housing and stock wealth effects are among the least questioned propositions in economics. Nor is there too much dispute about their size. How could any economist see the collapse of an $8tn housing bubble and the destruction ofmore than $6tn in stock wealth and not expect to see a substantial decline in consumption? Yet, we have dozens of economists being cited in newspapers and broadcast news, all saying that they are surprised by weak consumption. If anything the surprise should be that consumption is still as strong as it is. The saving rate is still near 4%, far below its historic average. Why on earth would any economist expect it to go still lower?
> The reason that consumers are not spending more money has nothing to do with attitudes. The reason that most consumers aren't spending is the same reason that homeless people don't spend much money: they don't have any."[13]

Indeed, the official arbiters of business cycle conditions were largely sounding cautious notes in late spring. The National Bureau of Economic Research (NBER), though stating that "most indicators have turned up," felt it premature to officially declare this recession had ended. And, at its latest Open Market Committee meeting the Federal Reserve sounded a noticeably less upbeat tone about the months ahead. It felt compelled to promise to keep short-term interest rates at their near-zero levels, because:

> "Household spending is increasing but remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit. Business spending on equipment and software has risen significantly; however, investment in nonresidential structures continues to be weak and employers remain reluctant to add to payrolls. Housing starts remain at a depressed level. Financial conditions have become less supportive of economic growth on balance, largely reflecting developments abroad. Bank lending has continued to contract in recent months. Nonetheless, the Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability, although the pace of economic recovery is likely to be moderate for a time."[14]

With private sector hiring and wage growth still anemic and with most states and localities cutting rather than growing jobs, continued federal stimulus programs remain critical to realizing hopes of a sustainable economic recovery. This seemed even more evident this spring after the unprecedented oil disaster in the Gulf of Mexico – promising more lost business and jobs in Gulf states and higher seafood and fuel prices nationally – plus growing economic instability in some of our European trading partners. Both have added major new elements of danger to a US recovery path.

But the preservation, much less the expansion of such efforts, faces mounting attacks. For example, on June 17th in the U.S. Senate, Republican lawmakers united to end continued federal stimulus funds to the long-term unemployed, and to state, county and city taxpayers. They rejected a proposal to reauthorize extended unemployment benefits, to spare doctors a 21% cut in their Medicare reimbursements, and to save cash-strapped states $24 billion in Medicaid program funding. By blocking more unemployment benefits, their no vote ensures that about 1.2 million long-term jobless will be denied more benefits by the end of June. Part of their opposition was directed at the way the government would raise the money for extra jobless benefits: by closing two major loopholes for mostly high-income Americans. Elimination of foreign income tax credits and closing the "carried interest" loophole for investment fund managers would have raised a total of $28 billion.

In contrast to the Senate action, public opinion appears to strongly support continued aid to the unemployed. According to an early June survey by Hart Research, nearly three out of four respondents agreed that it was more important to continue income support and health coverage for workers who lost their jobs than to reduce the federal deficit by cutting unemployment benefits.[15]

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Figure 1

Number of Payroll Jobs in Establishments located in New York City, 1960-2010
(numbers in thousands)

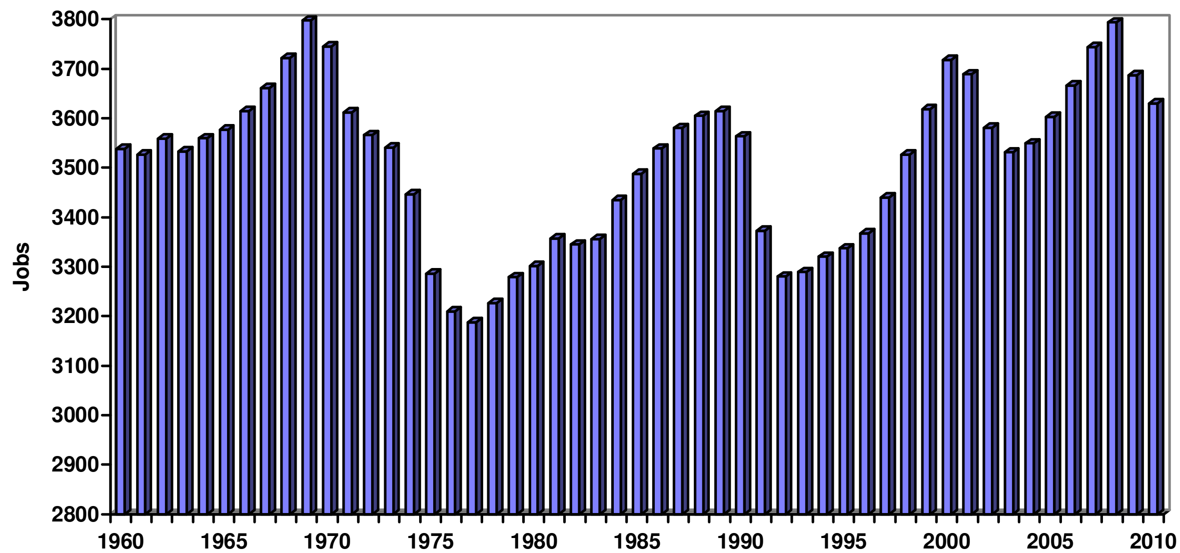
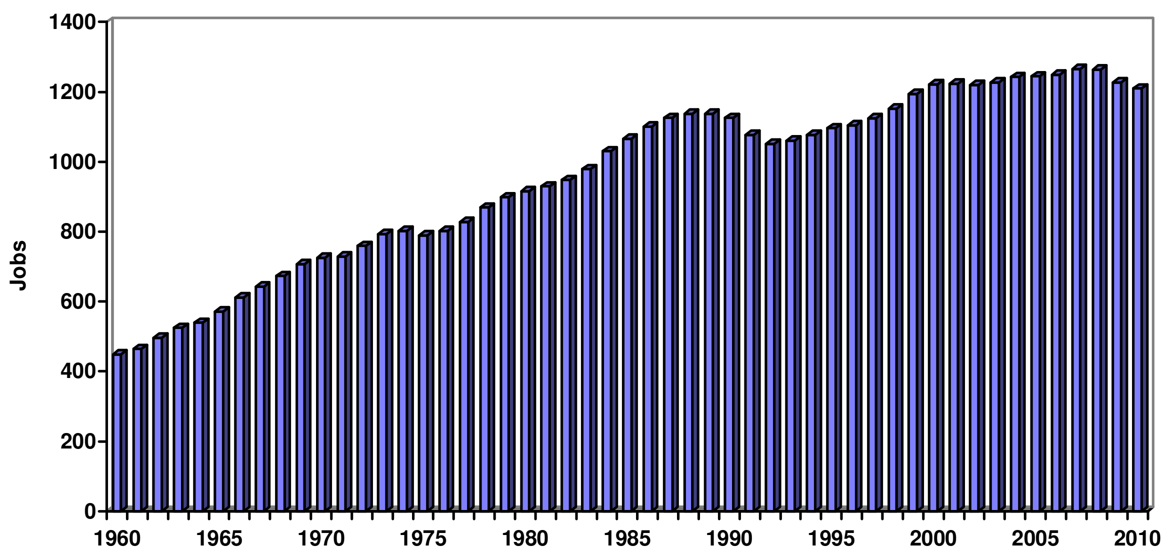


Figure 2

Number of Payroll Jobs in Establishments located in Long Island, 1960-2010
(numbers in thousands)



Figs. 1–2 Source: NYS Dept. of Labor, based on nonfarm establishment surveys, 1960-2010. Each bar through 2009 shows annual average number of jobs. Estimate for 2010 is average of first 5 months (seasonally adjusted).

Figure 3
NYC Job Growth by Industry: Dec. 2008 – Dec. 2009
(in thousands of jobs, and percent change)

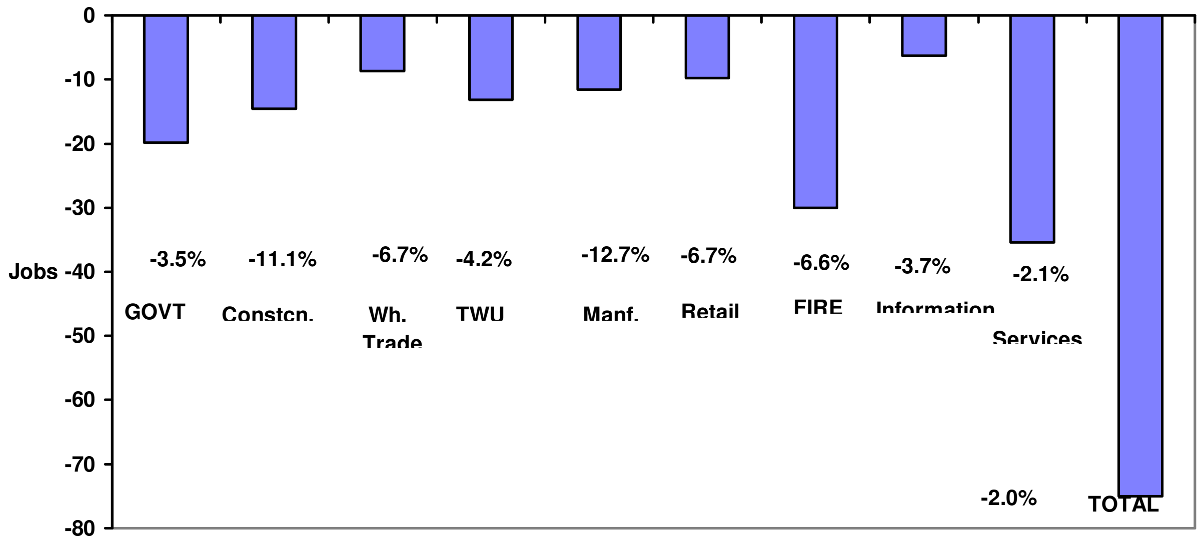
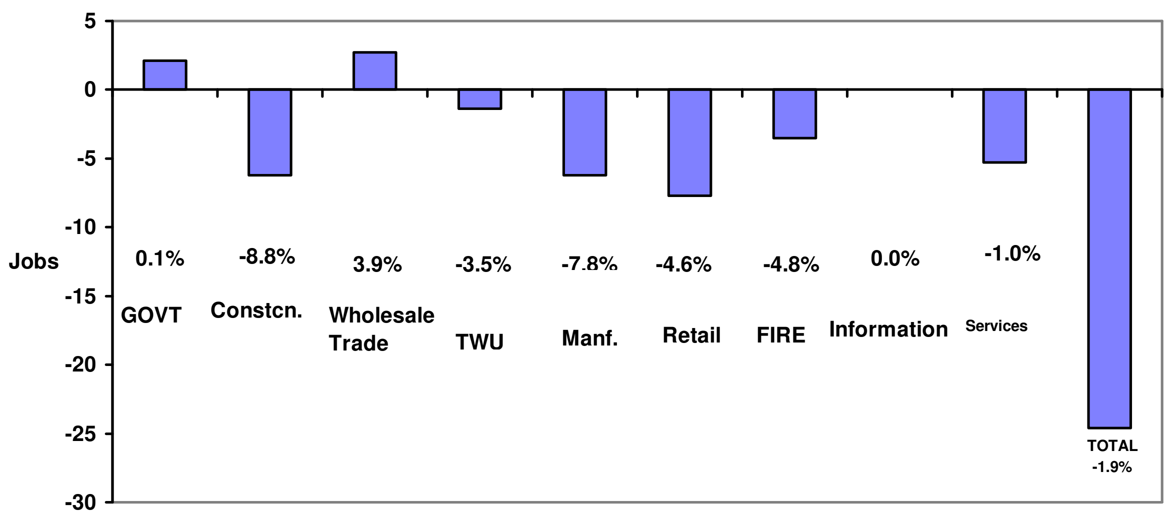


Figure 4
Long Island Job Growth by Industry: Dec. 2008 – Dec. 2009
(in thousands of jobs, and percent change)



Figs. 3–4 Source: NYS Dept. of Labor: nonfarm payroll job data from CES establishment survey in Nassau & Suffolk counties. Year-to-year changes, not seasonally adjusted. Note: FIRE = Finance, Insurance & Real Estate; TW U= Transport, Warehousing & Utilities.

Figure 5
NYC & 20 Major Metro Areas:
Unemployment Rates, April 2010
[not seasonally adjusted]

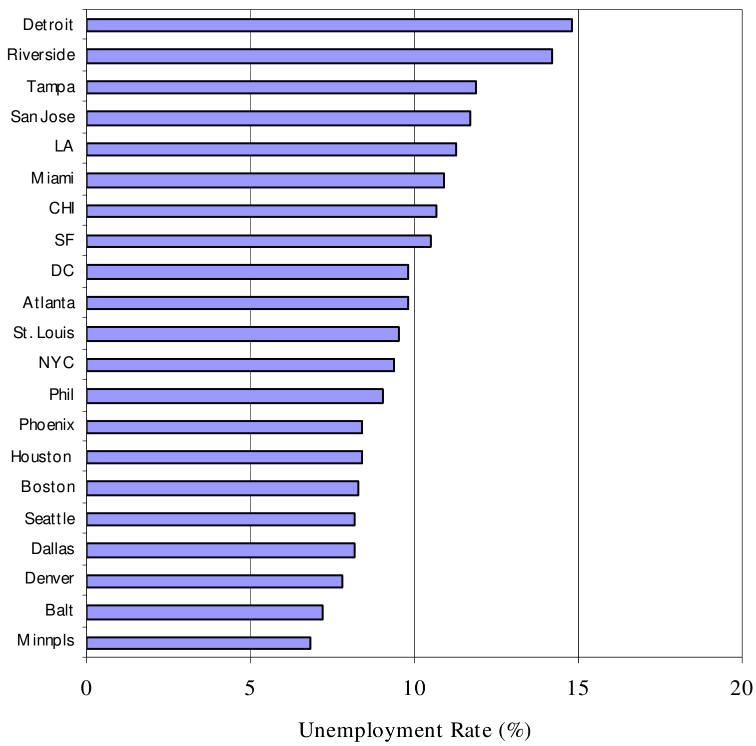


Table 1
Unemployment & Job Changes in U.S., 1982–2010
(monthly estimates, seasonally adjusted)

	2010	2009		2007	2000	1992	1982
Month:	May	May	Dec.	Dec.	Dec.	Dec.	Dec.
JOB GROWTH (in 000s)							
Total, nonfarm	431	-303	-109	41	36	211	-14
Private Sector, nonfarm	41	-292	-83	-14	6	174	-18
UNEMPLOYMENT RATE							
All ages	9.7%	9.4%	10%	5.0%	3.9%	7.4%	#####
Men, ages 20+	9.8	9.8	10.2	4.5	3.4	6.8	10.1
Women, ages 20+	8.1	7.5	8.2	4.4	3.3	6.5	9.3
Race/Ethnicity:							
White	8.8	8.6	9.0	4.4	3.5	6.5	9.7
Black	15.5	15.0	16.2	9.0	7.4	14.3	20.9
Hispanic	12.4	12.7	12.9	6.3	5.7	11.5	15.7
Age & Race:							
All, ages 16–19	26.4	23.2	27.1	16.9	13.2	19.8	24.1
White, ages 16–19	24.4	20.7	23.6	14.5	11.6	16.6	21.5
Black, ages 16–19	38.0	39.9	48.4	33.4	26.3	39.9	48.0
Education:							
Less than HS	15.0	15.5	15.3	7.6	6.3	na	na
HS grad, no college	10.9	10.0	10.5	4.7	3.4	na	na
Some coll. or Assoc. Deg.	8.3	7.7	9.0	3.7	2.7	na	na
College grad, BA	4.7	4.8	5.0	2.2	1.6	na	na
UNEMPLT. > 26 weeks (%)	46.0	27.0	39.8	17.5	11.6	na	na
UNDEREMPLOYMENT (%)	16.6	16.4	17.3	8.8	na	na	na

Notes: Unemployment estimates are for civilian, noninstitutional population ages 16 and over, except for education subsets (ages 25+). UNEMP > 26 weeks is % of the unemployed.

The "underemployment rate" equals the officially unemployed, plus all marginally attached workers , plus all part-time for economic reasons, as a percentage of the civilian labor force plus all marginally attached workers. (BLS alternative measure "U-6

"Job growth" estimates by employers show change from previous month.

Sources: Unemployment rates are from CPS household survey, U.S. Bureau of Labor Statistics (2010).
Job growth estimates are from CES establishment survey, U.S. Bureau of Labor Statistics (2010).

Table 2
Number of Nonfarm Jobs (in thousands) by Place of Work:
New York City, Long Island & All U.S., Dec. 2008–Dec. 2009
(in thousands, not seasonally adjusted)

	Dec. 2009	Dec. 2008	Dec. 2000	% Change 2000-2009	% Change 2008-2009
U.S.	131,821.0	135,917.0	133,308.0	-1.1	-3.0
NY State	8,648.3	8,818.1	8,834.2	-2.1	-1.9
NYC	3,717.8	3,792.8	3,814.2	-2.5	-2.0
Long Island	1,244.5	1,269.1	1,258.0	-1.1	-1.9

Table 2 source: Establishment survey data from US Department of Labor 2009.
Note that data reflect regular revisions by Dept. of Labor.

Table 3
Civilian Labor Force, Employment & Unemployment
(in thousands, not seasonally adjusted)

	Labor Force		Employed		Unemployed		Unemp. Rate	
AREA	Dec. 2009	Dec. 2008	Dec. 2009	Dec. 2008	Dec. 2009	Dec. 2008	Dec. 2009	Dec. 2008
U.S.	158,090.0	154,349.0	137,953.0	143,350.0	14,740.0	10,999.0	9.7%	7.1%
NYC	3,993.3	3,985.7	3,578.6	3,699.3	414.7	286.4	10.4	7.2
Brooklyn	1,129.5	1,122.4	1,003.3	1,037.1	126.2	85.3	11.2	7.6
Bronx	541.6	532.9	466.3	482.1	75.3	50.8	13.9	9.5
Manhattan	942.0	947.8	857.2	886.1	84.8	61.7	9.0	6.5
Queens	1,134.3	1,136.2	1,028.3	1,063.0	106.0	73.2	9.3	6.4
Staten Island	246.0	246.5	223.5	231.0	22.5	15.5	9.1	6.3
LONG ISLAND	1,468.8	1,485.7	1,366.5	1,399.0	102.3	86.7	7.0	5.8
Nassau Co.	686.4	695	641	656.3	45.4	38.7	6.6	5.6
Suffolk Co.	782.4	790.6	725.5	742.7	56.9	47.9	7.3	6.1

Table 3 source: CPS household survey data from NYS Department of Labor 2009. Note that data reflect regular revisions by Dept. of Labor.

NOTES

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