

Will New York's Recovery Stall in a National Economic Downshift?

by Gregory DeFreitas and Bhaswati Sengupta

The U.S. economy has slowed noticeably over the past year, and few economists expect much acceleration anytime soon. Surprising resilience in consumer spending has staved off recessionary pressures so far. But, the nation's economic growth in output of goods and services (real GDP), was up just 2.5% after inflation adjustment in the last three months of 2006, -- less than half the pace in the year's first quarter.¹ Gloomy new figures on the pivotal housing market have raised fresh concerns about the health not only of real estate and construction industries, but also of big sub-prime mortgage lenders and consumer finances. Sales of existing homes (85% of the housing market) plunged 8.4% in 2006, the worst decline in 17 years. And the downturn has been widespread, with falling home sales in four out of five states nationwide.

Working people did manage to finally win some positive gains in jobs and wages last year. Job growth nationwide was modest, but enough to trim the unemployment rate to 4.5% (seasonally adjusted) by year's end.² The rates of most racial and ethnic groups declined, though not for black teenagers: 20.2% were unemployed in December, nearly a percentage point higher than at the same time a year ago. Long-term unemployment (6 months or more) accounted for an unusually high 16.2% of all the unemployed in December. Normally, when the jobless rate has been in the 5% to 5.5% range, less than 11% are long-term unemployed. Given persistent labor market slackness, others may be too discouraged by the job shortage to continue looking for work. Labor Department estimates of the fraction "underemployed" -- the official unemployed plus labor force dropouts still available for jobs plus involuntary part-time workers -- fell over the past year, but only to a still-substantial 7.8%.

In the last four months of 2006, average hourly earnings of non-supervisory or production workers (four-fifths of all workers) rose enough to end the year 1.7% higher, after inflation adjustment, than at the same time a year earlier. Moderating prices of fuel and other goods in the autumn played an important role in this trend. But the annual average was still no higher than in 2002, the first post-recession year. And real weekly earnings have fallen for two consecutive months so far this year.

Far more impressive numbers have been racked up by corporate profits. For all of last year, profits leapt by 21.4%, much faster than the 12.5% pace of 2005. However, businesses did not take advantage of this to expand productive capacity: nonresidential investment in new plant and equipment actually declined (by -3.1%) in the fourth quarter last year. That may help explain why productivity (output per work hour) grew last year at the slowest pace since 1997.

In fact, in comparing the current recovery to all others since World War II, corporate profits are the only major indicator enjoying above-average growth. As Table 1 shows, the 2002-06 period lags a full percentage point behind the average annual postwar rate of output growth.³ Investment has been growing at one-half the average of earlier recoveries and job growth at one-fourth the average rate. In sharp contrast, corporate profits have jumped twice as fast of late as in comparable business cycles.

City and Suburbs

For the first time in nearly two decades, New York City's unemployment rate late last year dipped below the national average, falling to the second lowest level on record. This notable decline -- from 5.6 % in December 2005 to 4.0 % just 12 months later -- was partially responsible for the one percentage point drop in the statewide jobless rate over the same period to 4%, *its* lowest on record. The achievement was triumphantly proclaimed *and* claimed by local government authorities.⁴ The economic recovery process in the city unfolded gradually over the last three and a half years, before intensifying considerably towards the end of last year. (See Table 3. Seasonally adjusted month-to-month figures for New York City, Long Island and the nation are presented in the following article.)

Within the city, every borough experienced lower official jobless rates. The largest reduction was in the Bronx, where unemployment fell from 7.3% to 5.4% over the 12 months through December 2006. But even with this improvement, the Bronx still has a rate nearly two percentage points higher than Staten Island and Manhattan. The 149,400 people citywide counted among the unemployed represented a decline of 62,000 over this same period. However, the number employed rose far less, to only by 22,400. Where did the other 39,600 unemployed go? They dropped out of the local labor force, whether out of discouragement with their job-seeking prospects or for other reasons undisclosed by the limited published data. The labor force decline was common to all boroughs of the city.

In contrast, Long Island's labor force expanded by 4,200 more participants during 2006. Long Island's unemployment rate fell to 3.2% at the end of 2006, further bringing down (by 0.7 percentage point) an already low rate that has traditionally trended below the national average.

In weighing these figures, one should keep in mind new research suggesting that the household surveys on which they're based -- the government's monthly Current Population Survey (CPS) -- may increasingly overestimate actual jobholding, particularly by minority youth.⁵ Over 10% of the country's population now fails to respond to C.P.S. interview requests -- more than twice the non-respondent rate in the 1970s. After adjusting for non-respondents, economists John Schmitt and Dean Baker estimate that the official statistics overstate the true employment-population rate by 1.4 percentage points for the full population, and by a sizable 7.4 percentage points for young African-American men ages 20-24, and by 9 percentage points for young Latinos that age.

A new study of young New Yorkers has drawn attention to the unequal progress of different age and race/ethnic groups in recovering from the 2001 recession.⁶ Based on large local samples of CPS household data for 2000 -- 2006, research by the Community Service Society found that black and Hispanic men in 2006 were still less likely to hold a job than in 2000. Sixty-four percent of black men and 70.6% of Hispanics were employed last year, jobholding rates more than 3 percentage points lower than their pre-recession levels. In contrast, white non-Hispanics and women have managed to restore their earlier employment rates. Part of the explanation for the difficulties faced by black men may be the industrial concentration of the majority of their 1990s jobs in government, transport and utilities, wholesale trade, retailing and construction. The first three of these industries had little or no job growth last year (Figure 1). Among the city's young people ages 16 to 24, only 35% have a job -- 9 percentage points lower than their pre-recession jobholding rate. As youth employment has tumbled over the past six years, the fraction of adults aged 55 and over with a job has jumped over five percentage points. This is reflective of a national pattern of delayed retirement, driven in part by older workers' shrinking pension and health insurance coverage and inadequate wage growth.⁷

It is also helpful to look beyond the unemployment reported in household surveys when assessing the overall health of the local economy. Economists generally consider payroll employment -- the number of non-agricultural jobs in the public and private sectors (excluding the self-employed) as reported by the monthly government survey (CES) of employers -- as at least as important and timely a gauge of short-term gains or losses in the local

labor market. Payroll job data seem to tell us a somewhat different story for New York City than its unemployment rate (Table 2). For the entire December 2005 – December 2006 period, the city's payroll count rose to 3,744,700 – a net gain of 48,800 new jobs. This 1.3% annual growth rate was not far behind the national average (1.7%), but it still left the city with 1.8% fewer jobs than in 2000.

Which sectors accounted for job growth in this period? Figure 1 shows that over 70% of new jobs were concentrated in service industries. Within this diverse supersector, two subsectors created disproportionate shares of new positions: health care (39% of new service jobs) and leisure/hospitality (21.2%). Of the 12,700 new health care jobs, home health care, social assistance and hospitals were responsible for increases of 3% or more. Employment growth of 6,900 in leisure and hospitality was driven by hotels, motels, restaurants and bars. The record tourist influx of last year has slowed, but a relatively mild winter and weak U.S. dollar have continued to draw substantial retail trade, as well as hotel and entertainment spending by foreign visitors. The 3,800 net new retailing jobs came from robust hiring by clothing and food stores large enough to outweigh the weakness in department stores and sporting goods. Construction employment, up by 5,200 (4.5%), continued to benefit from the strong commercial market, as well as unusually warm fourth-quarter weather. Of the other big expanding industries, finance, insurance and real estate (FIRE) added 8,200 positions, but real estate was by far the weakest contributor.

Manufacturing jobs continued to decline, as the city lost another 2,500 (-2.3%) over the past year. All the major manufacturing industries suffered employment declines, led by apparel (-9.1%) and miscellaneous durable goods (-15.4%). Long Island also experienced sizable manufacturing layoffs last year, losing 1,700 net jobs. Still more job losses were announced early in 2007. Photocircuits, a half-century-old circuit board maker in Glen Cove, bowed to sluggish sales and closed down, leaving 740 workers without jobs or severance pay. Northrop Grumman plans imminent layoffs of 200 to 300 with completion of a contract for Navy Hawkeye aircraft. The other sector to contract markedly was finance, insurance and real estate. In contrast to FIRE's expansion downtown, Long Island lost 1,200 jobs in all parts of the sector. But, the services supersector added a total of 5,900 jobs, led by hiring in health care, education and professional and business service industries. Still, net job growth on Long Island was only 0.8%, well below the New York City or national rates.

To better understand these patterns, it may be helpful to note that most analyses of shifts in local labor market conditions concentrate mainly on employment in the *private* sector, since the *public* sector accounts for under one-fifth of all jobs and does not vary much in the short term, reducing its value as a cyclical indicator. Even though unemployment has fallen far below its pre-recession high (January 2001) rate, payroll employment still remains substantially below its pre-recession level. Typically, seasonal factors generally create a lot more jobs in the last four months of a year than in others. While the city's job count did advance by 69,000 between August and December of last year, this performance has been its poorest in five years. Moreover, the increase in private sector jobs from November to December remained substantially below its average in the last ten years.⁸ In sharp contrast, the increase in the number of private sector jobs on Long Island in 2006 resulted in its highest number ever recorded for the month of December.⁹ For Long Island, the high payroll employment trends are consistent with its falling unemployment figures, so why is the same not apparent for New York City?

One of the main reasons for this inconsistency may lie in *how* payroll employment is measured. Payroll employment figures do not take into account the number of people who are self-employed, counting only wage and salary workers and recent evidence suggests that the former is playing an ever larger part in the city's new economy. A recent report from the Office of the New York City Comptroller stresses the increasing significance of the self-employed in the local workforce.¹⁰ The report estimates that the number of self-employed in New York City grew by 211,000 between 1997 and 2004, an impressive number compared to the growth in wage and salaried positions of 110,000 over the same period.¹¹ While the city has traditionally maintained a high concentration of independent doctors, lawyers, writers, artists and performers, there now appears to be a rising tendency in other professions as well. Some of the fastest growth in these jobs has been in the information sector, including computer systems services, traditional and internet publishing, broadcasting, etc., and even traditional professions such as law, accounting and architecture have experienced steady increases.¹² Rising immigration has

certainly contributed to this trend, as recent articles in this journal and others have shown.¹³ Interestingly, the report finds that U.S.-born self-employed workers have higher levels of formal education and their average income is significantly greater than wage and salary workers, which itself is reflective of the sectoral concentration of these workers. However, self-employment has grown most sharply in personal service occupations, largely driven by lower-wage households seeking supplementary earnings and by employer preferences to shift the burden of fringe benefits onto “independent contractors” (e.g., taxi fleet owners replacing hired drivers with nominally self-employed drivers leasing their taxis).

The presence of more self-employed workers in the labor market may bias payroll employment figures downwards, a problem that would likely get worse if current trends continue. The difference between the number of jobs in New York City and the number of City residents with jobs may also be exaggerated by the fact that a slowly rising number of city residents work outside the City. As a 2005 study by the New York Fed indicates, the proportion of metro area workers who commute to the city has declined and the number who reverse-commute from the city to the suburbs has grown in recent years.¹⁴

Recognizing these shortcomings in the payroll employment data, one still cannot overemphasize the importance of including employment indicators along with income averages in efforts to gauge the health of the local labor market. Likewise, since higher average incomes may only reflect higher compensation to a small workforce segment, multiple measures of income and wage trends are desirable. This is particularly true for New York, home to the nation’s widest income inequality. Last year saw Wall Street incomes soar from a record \$25 billion in bonuses. Wages of non-supervisory workers have been rising too, but at a far more modest pace; in fact, after inflation adjustment, the wage of the average (50th percentile) New York worker was still 3.2% lower in 2005 than in 2000.¹⁵

Economists at the Federal Reserve Board track short-term movements in the local economy with a monthly index of coincident economic indicators (CEI). The CEI is a composite measure that combines information from four individual series: payroll employment, inflation-adjusted earnings, the unemployment rate and the average weekly hours worked in manufacturing.¹⁶ Like payroll employment, this index decreased fairly rapidly during the recession of 2001 but by the beginning of 2006, it had more than caught up to its pre-recession value and continually increased throughout the year and into the first two months of 2007. According to the Fed’s latest regional overview, the city’s economy shows continued strong economic growth, but “scattered signs of deceleration have emerged.”¹⁷

Near-term Options and Warnings

Early, fragmentary economic data for 2007 has led most forecasters to predict tepid growth in coming months nationwide. In February, new home sales suffered the biggest drop in nine years. Coupled with recent news of falling sales of existing homes, renewed energy price hikes and weak earnings growth, this has raised new questions about what will replace home sales and home equity loans in fueling consumer spending in coming months.

Locally, the pace of production, as measured by Gross City Product (GCP), began slowing last spring and declined to 2.5% growth in the latest, third-quarter figures. In the same period, price inflation has worsened: even after excluding volatile fuel and food prices, the core inflation rate rose to 4% in the third quarter – the highest inflation in 14 years. Should this persist, it could further weaken working people’s hopes of real wage progress. The city’s Independent Budget Office now forecasts that the local economy’s growth will “slow sharply” in the second half of 2007, bringing an end to any wage improvements for the average worker for at least the next two years.¹⁸

A number of disquieting signs of possible job market weakness, some faint, others stark, have begun to draw attention recently. For example, in early November, the city witnessed an event suggesting that substantial

underemployment persists underneath the surface of the low official unemployment statistics. When a new Times Square store advertised that it would accept applications on November 3rd for nearly 200 sales and related jobs at \$10.75 per hour, thousands of applicants began lining up as early as 1 a.m. Even though two-thirds of the openings were only part-time, the mostly young black and Hispanic applicants waited for hours, only to be told at midmorning by an overwhelmed management that no more in-person applications could be accepted.¹⁹

Then, three weeks into 2007, local pharmaceutical giant Pfizer announced massive layoffs, totaling 10,000 jobs. At least 600 of these will be lost with the planned closure of Pfizer's Brooklyn manufacturing plant, located on the very site where the company was founded in 1849. Two months after that, Manhattan-based Citigroup revealed plans to slash 10,000 to 12,000 jobs worldwide in 2007. Another 14,000 positions will be cut through attrition or relocation of employees from New York, London and Hong Kong to low-cost cities here and abroad. Most of those losing jobs are in customer service and credit card operations, but some investment banking positions are also said to be at risk.²⁰ Two days later, Circuit City, one of the country's biggest electronics retailers, announced immediate layoffs of 3,400 – mostly of their senior, higher paid sales staff. The chain's targeted firings were rendered even more controversial by the news that Circuit City's CEO received nearly \$10 million in compensation last year.²¹

In the event of an economic slowdown, New York City's current finances could make possible policy options to soften the job damage. The city is expected to end the current fiscal year in June with a \$3.9 billion surplus, and City Hall now projects a \$1.4 billion surplus in FY 2007-08. The main reason is that, despite a softening in residential real estate, large transactions in the commercial market have brought the city unexpectedly large increases in revenue from property transfer taxes.²² However, Mayor Michael Bloomberg's 2008 budget plans a one-year, \$1 billion cut in property and other taxes, plus \$500 million set aside for public sector retirees' health benefits.²³ Nor can much aid be expected anytime soon from Washington: the current White House budget proposes slashing \$1 billion in funding for a variety of New York City and state programs, including Head Start, K-12 schooling, and adult and vocational training.

Figure 1
NYC Job Growth by Industry: Dec. 2005 – Dec. 2006
 (in thousands of jobs, and percent change)

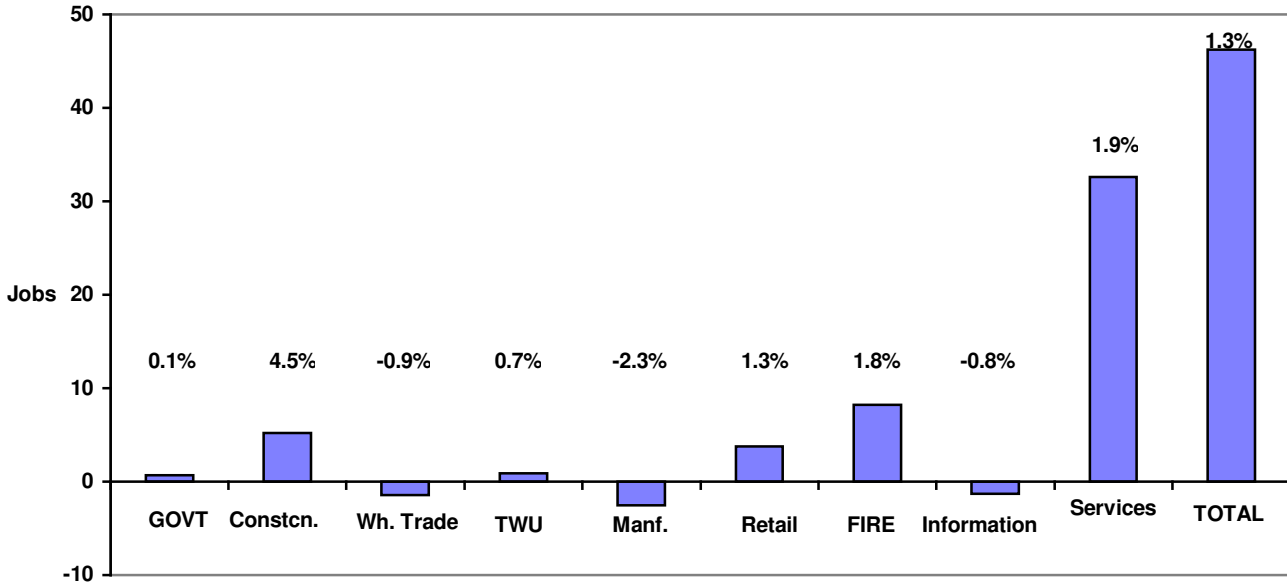
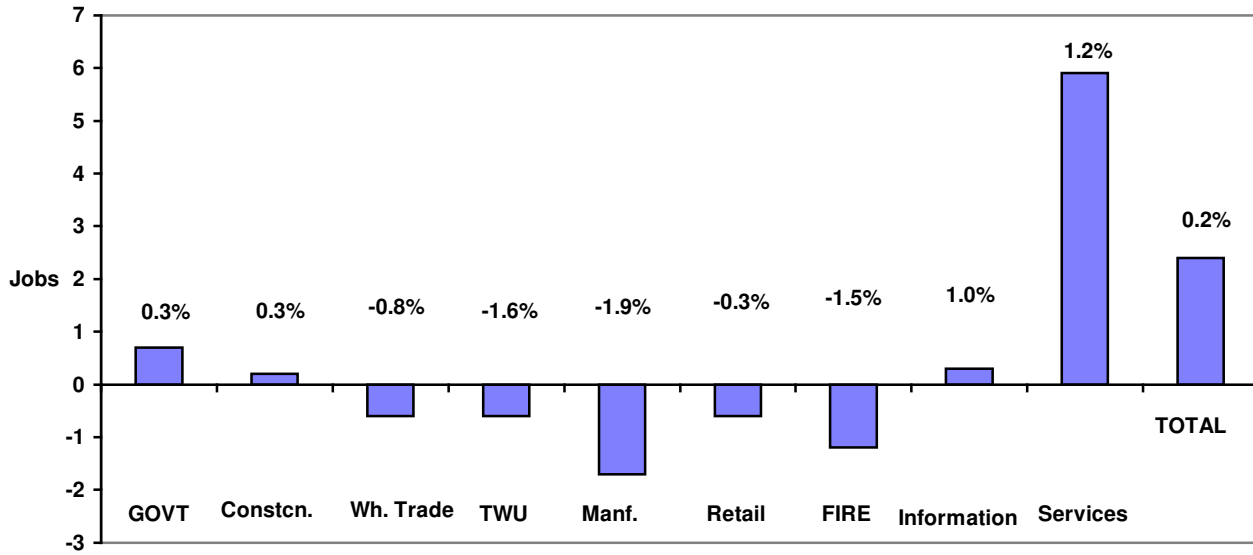


Figure 2
Long Island Job Growth by Industry: Dec. 2005 – Dec. 2006
 (in thousands of jobs, and percent change)



Figs 1-2 source: NYS Dept. of Labor: nonfarm payroll job data from CES establishment surveys. Year-to-year changes, not seasonally adjusted. Note: FIRE = Finance, Insurance & Real Estate; TW U= Transport, Warehousing & Utilities.

Table 1
National Economic Indicators in the 2002-06 Economic Cycle
Compared to All Other Post-WWII Cycles

<i>Avg. Annual Growth Rate in:</i>	<u>Past Recoveries</u>	<u>Current Recovery</u>
CORPORATE PROFITS	4.9	12.1%
OUTPUT (Real GDP)	3.7%	2.7
EMPLOYMENT	2.0	0.5
BUSINESS INVESTMENT In equipment & software	5.8	2.3

Table 1 source: Bivens (2007).

Table 2
Number of Nonfarm Jobs (in thousands) by Place of Work: 2000-2006

	<u>Dec. 2006</u>	<u>Dec.2005</u>	<u>Dec. 2000</u>	<u>% Change</u>	
				<u>2000-2006</u>	<u>2005-2006</u>
U.S.	137,959.0	135,615.0	133,308.0	3.5%	1.7%
NY State	8,772.4	8,706.0	8830.9	-0.7	0.8
New York	3,744.7	3,695.9	3814.2	-1.8	1.3
City					
Long Island	1,277.9	1,268.3	1254.5	1.9	0.8

Table 2 source: Establishment data (not seasonally adjusted) from US Dept. of Labor & NY State Dept. of Labor.
 Note: the data reflect regular revisions made by Dept. of Labor.

Table 3
Civilian Labor Force, Employment & Unemployment:
New York City, Long Island & All U.S., Dec. 2005 – Dec. 2006
 (in thousands, not seasonally adjusted)

<u>AREA</u>	<u>Labor Force</u>		<u>Employed</u>		<u>Unemployed</u>		<u>Unemp. Rate</u>	
	<u>Dec. 2006</u>	<u>Dec. 2005</u>	<u>Dec. 2006</u>	<u>Dec. 2005</u>	<u>Dec. 2006</u>	<u>Dec. 2005</u>	<u>Dec. 2006</u>	<u>Dec. 2005</u>
U.S.	152571.0	149874.0	146081.0	142918.0	6491.0	6956.0	4.3%	4.6%
NYC	3724.0	3763.6	3574.6	3552.2	149.4	211.4	4.0	5.6
Brooklyn	1048.9	1060.7	1003.1	996.8	45.8	63.9	4.4	6.0
Bronx	500.6	507.2	473.4	470.4	27.2	36.8	5.4	7.3
Manhattan	874.4	882.8	843.9	838.6	30.5	44.2	3.5	5.0
Queens	1072.8	1083.4	1034.7	1028.2	38.1	55.2	3.6	5.1
Staten Island	227.3	229.3	219.5	218.1	7.8	11.2	3.4	4.9
Long Island.	1486.2	1482.0	1438.5	1424.6	47.7	57.4	3.2	3.9
Nassau Co.	700.0	698.5	678.3	671.8	21.9	26.7	3.1	3.8
Suffolk Co.	786.1	783.6	760.2	752.8	25.9	30.8	3.3	3.9

Table 3 source: CPS household survey data from NY State Department of Labor, 2007. Note: the data reflect regular revisions made by Dept. of Labor.

Gregory DeFreitas is a Professor of Economics at Hofstra University, Director of its Labor Studies Program, and Director, Center for the Study of Labor and Democracy (CLD). Bhaswati Sengupta is an Assistant Professor of Economics at Hofstra and Assistant Director of CLD.

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NOTES

¹ According to the Commerce Dept.'s final estimates for 2006, the year's annual growth rate (3.3%) was almost identical to 2005, but well below the 3.9% rate of 2004.

² U.S. Bureau of Labor Statistics. 2007. *The Employment Situation: December 2006*. <www.bls.gov>

³ Bivens, L. Josh. 2007. "Current Recovery Great for Profits, Poor by Most Other Measures," *Economic Snapshots*, Economic Policy Institute, April: <www.epinet.org>

⁴ In a January 18th press release, Mayor Bloomberg credited the low unemployment rates in the last four months of 2006 to "five years of innovation, accountability and fiscal responsibility." Office of the Mayor, New York City. 2007. "Mayor Bloomberg Announces City Achieved Lowest-Ever Annual Unemployment Rate in 2006," Press Release, January 18: <www.nyc.gov>

⁵ Schmitt, John and Dean Baker, "Missing Inaction: Evidence of Undercounting of New Workers in the C.P.S." *CEPR Briefing Paper*, Center for Economic and Policy Research (Jan. 2006): <www.cepr.org>

⁶ Levitan, Mark. 2007. "Unemployment and Joblessness in New York City, 2006: Recovery Bypasses Youth," *Community Service Society Annual Report* <www.cssny.org>

⁷ See, for example, Mermin, et. al. 2006. "Why Do Boomers Plan to Work So Long?" *Urban Institute Retirement Project Discussion Paper #06-04* (December).

⁸ The City added 6,900 private sector jobs between November and December (not seasonally adjusted), well below its 10-year average gain of 17,300 during these months.

⁹ The gains were highest in professional and business services and educational and health services, while trade, transportation and utilities and manufacturing recorded a net decrease in the number of jobs in Long Island.

¹⁰ See *Economic Notes*, a quarterly report published by the Office of the New York City Comptroller, January 2007.

¹¹ These numbers imply that self-employed workers rose from 12 to 17 percent of the City's job base.

¹² From 1997-2004, the fastest growth in non-employer businesses were in personal service occupations, such as home health care and child care workers which reflect the changing demographics and lifestyles of the City's population. Non employer businesses are notoriously hard to track by the BLS, which also biases payroll employment figures downwards.

¹³ Schwabish, Jonathan A. and Jane E. Lynch. "Job and Business Growth Among New Migrants: Rising Self-Employment in New York City," *Regional Labor Review*, v. 8 (Fall 2005).

¹⁴ See "The Evolution of Commuting Patterns in the New York City Metro Area" by [Jason Bram](#) and Alisdair McKay, in the Federal Reserve Bank of New York's *Current Issues in Economics and Finance*, October 2005.

¹⁵ Levitan, op. cit.

¹⁶ Bram, Jason and James Orr. 2006. "Taking the Pulse of the New York Economy," *Current Issues in Economics and Finance*, May/June: <www.newyorkfed.org/research/regional_economy>

¹⁷ Federal Reserve Board of Governors. 2007. *Beige Book*, 3/07: <www.newyorkfed.org/research/regional_economy>

¹⁸ New York City Independent Budget Office. 2007. "City's Fiscal Picture Continues to Brighten," *Fiscal Outlook*, Jan.: p. 2.

¹⁹ Ramirez, Anthony. 2006. "Prospect of a Job Lures, Then Frustrates, Thousands," *NY Times*, 11/04: p. 1

²⁰ Dash, Eric and Heather Timmons. 2007. "Citigroup To Cut At Least 10,000 in Overhaul," *NY Times*, 3/27: p. 1.

²¹ Carr, David. 2007. "Thousands Are Laid Off. What's New?" *NY Times* (4/02/07): p. C1

²² New York City's property transfer tax is set at 1% of the sales price of property sold at prices up to \$500,000; for property priced above \$500,000, sales are taxed at 1.425%. New York State also collects additional taxes on such sales.

²³ By FY 2009, City Hall projects a budget deficit of \$2.6 billion. Office of the Mayor, New York City. 2007. "Mayor Bloomberg Presents \$57.1 Billion FY 2008 Preliminary Budget," *Press Release*, January 25: <www.nyc.gov>