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State Comptroller Thomas P. DiNapoli- Economic Trends in New York State

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Economic Trends in New York State

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New York State Comptroller

Report 8-2011 **October 2010**

Highlights

- **New York's Gross State Product (GSP) declined for three consecutive quarters beginning in the third quarter of 2008.**
- **Contraction in the economy and employment were less severe in New York than in the nation.**
- **State personal income declined by 3.1 percent in 2009—the first annual decline in 70 years.**
- **The unemployment rate in New York more than doubled to 8.9 percent during the recession—a 17-year high. The unemployment rate had eased to 8.3 percent by August 2010.**
- **Although the New York economy has been growing since the second quarter of 2009, the rate of growth is slowing and job growth is expected to remain weak.**
- **The private sector created 68,900 jobs between December 2009 and August 2010, while the public sector contracted.**
- **Job growth has been concentrated in New York City and its suburbs, which added a total of 90,000 jobs since December 2009. While most upstate cities had some job gains, other parts of the State continued to lose jobs.**
- **Wall Street lost a record total of $54 billion during 2007 and 2008, but earned a record $61.4 billion in 2009. By the second quarter of 2010, profits had returned to historic levels.**
- **Consumer confidence in New York has fallen to its lowest level since the spring of 2009, according to the Siena Research Institute.**
- **Foreclosures in New York rose by 30 percent between 2007 and 2009, but the rate of increase was much lower than it was in the nation.**
- **Home prices fell sharply during the recession, particularly downstate, but stabilized during the first half of 2010.**
- **Despite the recession, tourism has increased around the State, which has boosted employment in the leisure and hospitality sector. In New York City, the number of visitors in 2010 is expected to rise by 4.2 percent to a record 47.5 million.**

The United States is slowly recovering from the worst recession in decades, which was precipitated by high-risk lending practices. Even though the recession has officially ended, the economy remains seriously damaged. While the downturn was less severe in New York State than in the nation, the State still lost 367,400 jobs, and the unemployment rate peaked at 8.9 percent—a 17-year high.

Wall Street, an important economic engine for both New York State and New York City, was hit hard by the recession. The securities industry lost a record $54 billion during 2007 and 2008, and has scaled back employment by 16.6 percent. Since the industry accounted for up to 20 percent of New York State's tax collections, the meltdown in the securities industry caused a sharp decline in tax receipts and greatly exacerbated preexisting budgetary problems.

The national recovery has lost momentum, evidenced by slower growth in the gross domestic product; weak consumer confidence and consumer spending; and disappointing private sector job growth. At its September 2010 meeting, the Federal Reserve Bank noted the slowing pace of the economic recovery and reaffirmed its willingness to provide additional support for the recovery if needed.

New York State's economy is slowly improving, but the recovery is fragile, and setbacks can be expected. Since December 2009, the State has added 61,200 jobs, but the unemployment rate remains stubbornly high. Tax collections have begun to improve, reflecting increased economic activity and renewed Wall Street profitability, but the rate of revenue growth alone will be insufficient to solve New York State's budget problems.

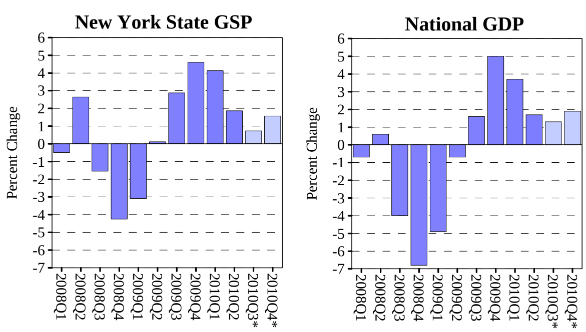
The federal government has been instrumental in helping states, local governments, and school districts weather the economic downturn, yet future assistance may be limited as the federal government turns its attention to reducing its own budget deficit. That means New York State and its localities will likely have to solve their own budget problems. Given the already high tax and debt burden in New York State, the State and its localities should focus their efforts on reducing the cost of government.

Gross State Product

According to IHS Global Insight, New York State's inflation-adjusted Gross State Product (GSP) contracted for three consecutive quarters beginning in the third quarter of 2008 (see Figure 1). Even though growth resumed in the second quarter of 2009, the GSP still contracted by 1 percent for all of 2009, as compared to a 2.6 percent decline in the nation's Gross Domestic Product (GDP). New York's GSP grew at an annual rate of 3 percent during the first half of 2010, but the pace of growth is projected to slow and average 1.2 percent during the second half.

Figure 1

Economic Growth

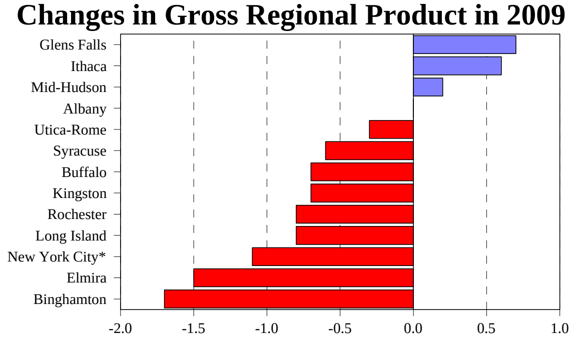


* IHS Global Insight forecast
Source: U.S. Bureau of Economic Analysis

The inflation-adjusted gross regional product declined in most metropolitan areas in the State in 2009, with the largest decline (1.7 percent) in the Binghamton area (see Figure 2). For 2010, IHS Global Insight forecasts that the gross regional product will increase by at least 2 percent in most metropolitan areas. Growth of 2.9 percent is forecast for the New York City area.

Figure 2

Changes in Gross Regional Product in 2009



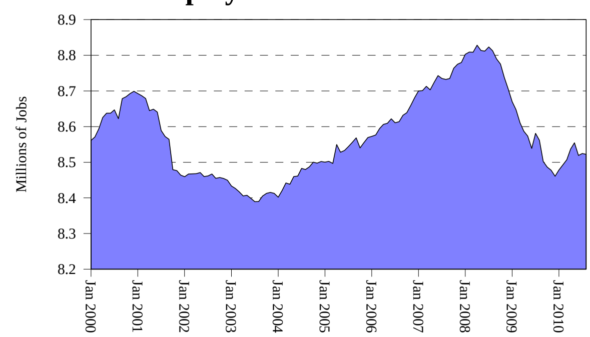
* New York City metropolitan area includes portions of the Lower Hudson Valley and New Jersey.
Source: IHS Global Insight

Employment

New York State lost 367,400 jobs between April 2008 and December 2009 (seasonally adjusted), a decline of 4.2 percent (see Figure 3). Even though the national recession officially ended in June 2009, job losses continued through December 2009 with a total peak-to-trough employment decline of 6.1 percent in the nation.

Figure 3

Total Employment in New York State

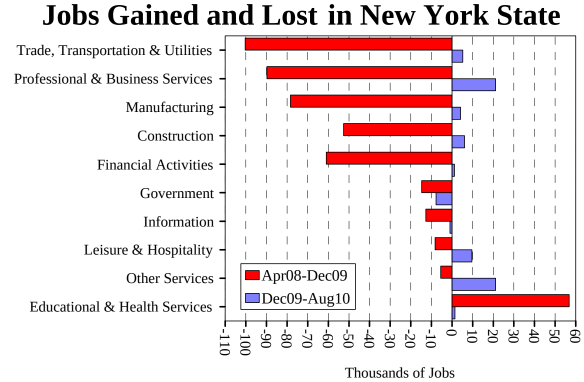


Note: Data are seasonally adjusted.
Sources: NYS Department of Labor; OSC analysis

During the downturn, New York lost jobs in every sector except educational and health services (see Figure 4), which added nearly 60,000 jobs. The trade, transportation, and utilities sector lost the largest number of jobs (100,300), while the construction and manufacturing sectors experienced the largest percentage declines (more than 14 percent in each sector). The finance sector—the focus of the recession—accounted for nearly one-sixth of the job losses statewide. As of August 2010, total employment had grown by 61,200 jobs since December 2009. In addition to continued job gains in educational and health services, job growth resumed in several other private sector industries.

Figure 4

Jobs Gained and Lost in New York State



Note: Data are seasonally adjusted.
Source: NYS Department of Labor

Government employment in New York State has declined by 7,700 jobs since December 2009 as an increase due to temporary workers hired by the federal government for the 2010 Census was offset by a loss of 14,000 State and local government jobs, reflecting continued budgetary pressures. Private sector employment has grown by 68,900 jobs (1 percent); although jobs were lost in May and June 2010, growth resumed in July.

All of the metropolitan areas in New York State lost jobs between April 2008 and December 2009, with the severity of losses ranging from 0.5 percent in Ithaca to 6.6 percent in the Lower Hudson Valley (see Figure 5).

Job growth since December 2009 has been concentrated in New York City and its suburbs, which added a total of 90,000 jobs. While most upstate cities had some job gains, other parts of the State continued to lose jobs.

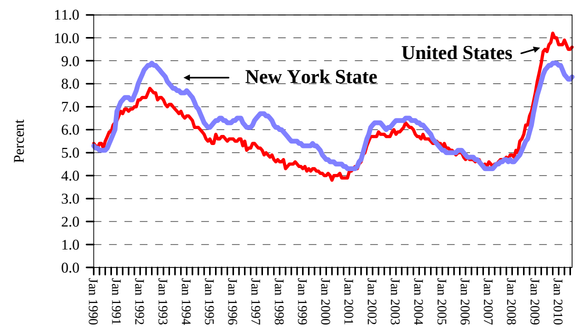
Many metropolitan areas are showing declines in government employment. Within the private sector, employment in educational and health services rose in eight of the 13 metropolitan areas. Employment in professional and business services grew widely around the State, although it did decline in Glen Falls and Ithaca. Financial sector employment has picked up in Kingston, New York City, the Mid-Hudson, Syracuse, and Utica-Rome. An increase in tourism has boosted employment in the leisure and hospitality sector, most notably at hotels and restaurants in New York City.

Unemployment Rate

New York's unemployment rate more than doubled during the recession, rising from 4.3 percent in March 2007 to 8.9 percent in October 2009—the highest rate in 17 years (see Figure 6). By August 2010, the unemployment rate had eased slightly to 8.3 percent, which was lower than the national rate (9.6 percent). Unemployment rates are highest for minorities and residents with low levels of education.

Figure 6

Unemployment Rates



Note: Data are seasonally adjusted.
Source: U.S. Bureau of Labor Statistics

Across the State, unemployment rates rose sharply between August 2007 and August 2009, but by August 2010 rates had begun to decline in all metropolitan areas except Albany, Glens Falls, and Utica-Rome (see Figure 7). The lowest unemployment rate was in the Ithaca metropolitan region (6.1 percent), and the highest rate was in New York City (9.6 percent)—the only area that exceeded the statewide rate.

Figure 5

Total Employment by Metropolitan Area

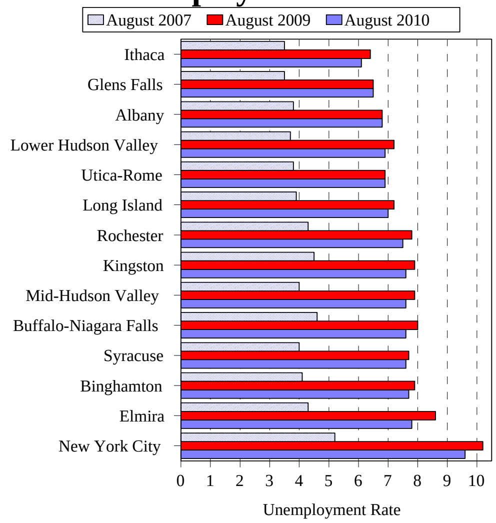
(in thousands)

			Apr 2008 to Dec 2009			Dec 2009 to Aug 2010	
	Apr 2008	Dec 2009	Difference	Change	Aug 2010	Difference	Change
New York City	3,806.3	3,623.6	-182.7	-4.8%	3,694.2	70.6	1.9%
Long Island	1,270.1	1,216.1	-54.0	-4.2%	1,233.2	17.0	1.4%
Lower Hudson Valley	584.2	545.4	-38.8	-6.6%	548.0	2.6	0.5%
Buffalo MSA	553.3	533.2	-20.1	-3.6%	536.7	3.5	0.7%
Rochester MSA	517.6	500.3	-17.2	-3.3%	498.4	-1.9	-0.4%
Albany MSA	452.6	438.3	-14.3	-3.2%	439.1	0.8	0.2%
Syracuse MSA	324.8	314.1	-10.8	-3.3%	314.8	0.7	0.2%
Mid-Hudson Valley	256.4	245.7	-10.6	-4.1%	246.0	0.2	0.1%
Utica-Rome MSA	133.7	131.2	-2.5	-1.9%	130.9	-0.2	-0.2%
Binghamton MSA	115.4	109.8	-5.6	-4.8%	110.5	0.7	0.6%
Ithaca MSA	64.4	64.1	-0.3	-0.5%	64.5	0.4	0.6%
Kingston MSA	63.4	60.6	-2.8	-4.4%	61.9	1.3	2.2%
Glens Falls MSA	55.1	54.2	-0.9	-1.6%	54.2	-0.1	-0.2%

Source: NYS Department of Labor, OSC analysis

Figure 7

Metropolitan Area Unemployment Rates



Note: Data are not seasonally adjusted.
Source: NYS Department of Labor

Wall Street

Wall Street lost a record $54 billion in 2007 and 2008, but the securities industry has rebounded strongly, helped by federal government bailouts and the Federal Reserve's low interest rate policy. In 2009, industry profits reached a record $61.4 billion—almost triple the level of three years earlier. In 2010, profits totaled $10.1 billion in the first quarter—the fourth-highest quarter on record—but declined to $3.9 billion in the second quarter, reflecting lower earnings from proprietary trading and investment banking. Nonetheless, the second quarter was in line with historic levels.

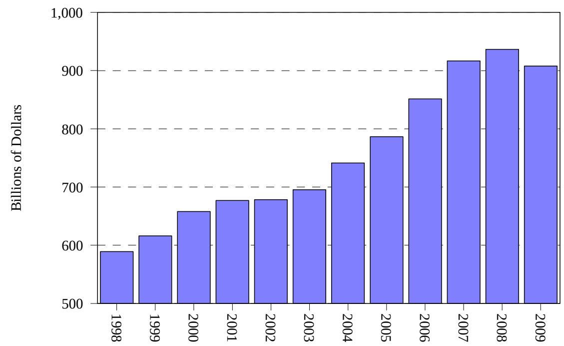
The securities industry's return to profitability led to higher bonuses and average compensation in 2009, but the sector continues to lose jobs. Average compensation at the six largest bank holding companies rose by 12.5 percent in 2009, but weakening profitability in 2010 will slow the growth in compensation. While the securities industry added jobs in New York City in early 2010, job losses have resumed. On a net basis, Wall Street lost 4,200 jobs during the first eight months of 2010 (seasonally adjusted), bringing the loss since January 2008 to 31,300 jobs.

Personal Income

Personal income in New York State fell to $907.9 billion in 2009 (see Figure 8), a drop of 3.1 percent—the first annual decline in more than 70 years. New York's decline was almost twice that of the nation's, and resulted from declines in net earnings (5.4 percent) and income from dividends, interest, and rent (8.4 percent). The decline reflects job losses, and salary and bonus cutbacks (especially on Wall Street). Partially offsetting these declines was a 12.2 percent increase in transfer payments (i.e., government assistance). Income levels grew by 3.2 percent during the first half of 2010 compared with the first half of 2009, reflecting modest job growth and higher Wall Street compensation. Personal income in New York, however, still remains below the levels reached prior to the recession.

Figure 8

Personal Income in New York State



Source: U.S. Department of Commerce, Bureau of Economic Analysis

Housing

After the housing bubble burst, home values declined in most counties in New York State. Between 2007 and 2009, the median statewide sales price for existing homes, as measured by the New York State Association of Realtors, fell by 15.3 percent to $199,000. Home prices rebounded by 12.1 percent during the first six months of 2010, and the number of sales rose by 26.5 percent. With the expiration of the federal tax credit for home buyers, sales were lower by 34.9 percent in July 2010 compared to July 2009.

While the number of foreclosures in New York increased sharply during the recession, rising by 30 percent between 2007 and 2009, the rate of increase was much lower than it was nationally (120 percent). Similarly, in the first half of 2010, foreclosures rose by 1.2 percent in the State and 8.2 percent in the nation. During this period, there was one foreclosure for every 326 households in New York, compared to one for every 78 households in the nation. Nonetheless, New York does have areas of high foreclosure rates, particularly downstate.

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