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IN ECONOMICS AND FINANCE

SECOND DISTRICT HIGHLIGHTS



Job Growth in New York and New Jersey: Mid-2007 Review and Outlook

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Employment in the New York–New Jersey region expanded by about 0.9 percent in 2006. Slightly slower job growth—on the order of 0.8 percent—was recorded in the first half of 2007 and is expected to continue throughout the year, in part reflecting moderating growth in the national economy. The employment rise in New York State was led by a strong expansion of services jobs in New York City; any sustained weakening in the city’s financial sector would be unlikely to affect employment significantly until 2008.

Economic activity in New York and New Jersey continued to expand in 2006, and a slight acceleration during the second half of the year provided a fair amount of momentum going into 2007. Aided by an especially brisk rise in New York City’s economic activity, New York State experienced somewhat stronger economic growth in 2006 and the first half of 2007 than did New Jersey, where activity expanded at a steady but slow pace in 2006 and then edged down in early 2007. Nevertheless, composite measures of economic activity confirm that both states have fared reasonably well: the sustained expansion from the troughs reached in 2003 pushed the level of activity at mid-2007 close to its pre-recession peak in New York State and well beyond pre-recession peaks in New Jersey and New York City.

Employment in the region also continued to grow in 2006 at about the same pace as in the previous year, and data for the first half of 2007 suggest only a slight deceleration. In New York State, job growth was led by a strong expansion of employment in New York City. Looking ahead, we expect the region to continue to add almost as many jobs in 2007 as in 2006. We forecast that the combined

employment level in the New York–New Jersey region will average 0.8 percent higher in 2007 than in 2006, reflecting the creation of roughly 104,000 net new jobs. While the rate of job growth will be roughly equivalent in the two states, job growth in New York State will again be led by a strong expansion of jobs, 1.5 percent, in New York City. Our expected expansion in employment assumes that growth in the national economy will slow modestly, as projected by the June Blue Chip consensus forecast for the growth rate in real, or inflation-adjusted, GDP.¹ Our job forecast also assumes that, despite the recent turmoil in the financial markets, many of the broad trends observed in services sector employment in 2006 and the first part of 2007 will continue through the end of the year. If there were to be a sustained weakening in the financial sector, the predominant impact on employment and income, especially bonus income, would likely be felt in 2008.

In this edition of *Second District Highlights*, we first review developments in economic activity and employment in New York State, New York City, and New Jersey in 2006 and the first five months of 2007, and then present our job growth projections for the full year. The forecast is

followed by a discussion of sectoral trends that bear significantly on employment in the region, including trends in finance and new media. We close by considering several potential risks to the employment outlook.

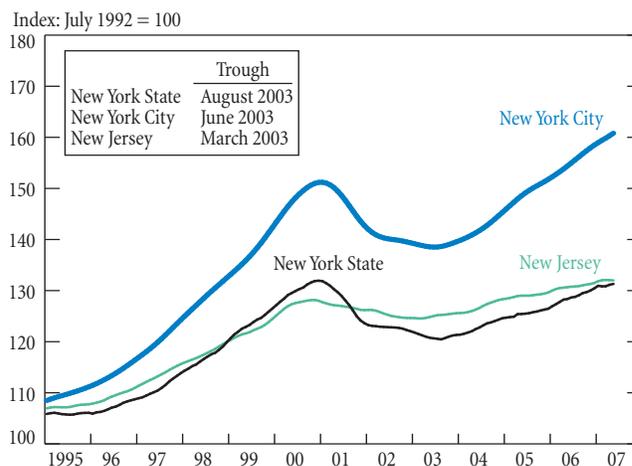
Recent Economic Performance in the Region

To measure economic activity in the region, we use the Federal Reserve Bank of New York indexes of coincident economic indicators (CEIs), reported monthly and constructed separately for New York State, New York City, and New Jersey. Each of these indexes is a single composite measure computed from four variables: payroll employment, the unemployment rate, average weekly hours worked in manufacturing, and real wage and salary earnings. The indexes show that the expansion in activity that began during 2003 continued throughout 2006 and into early 2007, though at an uneven pace within the region (Chart 1).²

In New York State, the CEI increased by 2.5 percent in 2006, a moderately higher rate of growth than the 2.0 percent rate observed in 2005. By the spring of 2007, the CEI was growing at a rate of a little more than 2.0 percent, thus signaling some letup in the pace of expansion. Strong growth in New York City led the expansion of activity statewide: The CEI for the city grew 4.3 percent on average in 2006 and sustained that pace during the first few months of 2007. The relative strength of the current expansion in New York City partly represents a rebound from the steep decline in activity—almost 10 percent—during the city’s prolonged cyclical downturn from 2001 through 2003; several key sectors, particularly finance, bounced back smartly after having been hit especially hard.

Several of the components that make up the CEI have propelled activity in New York City over the past year. The city’s labor market improved substantially during 2006. Payroll employment growth has roughly matched the comparable U.S. numbers, expanding 1.7 percent in 2006 and slowing a bit, to 1.5 percent, thus far in 2007. The city’s unemployment rate averaged 4.9 percent in 2006, down almost a full point from 2005 and only slightly above the U.S. rate of 4.6 percent. In the first quarter of 2007, the unemployment rate reached a record low—a development that in part reflects the fact that employment of city residents (estimated from the monthly Current Population Survey) expanded 2.0 percent in 2006, reaching its highest level on record, while the adult population in the city grew

Chart 1
Indexes of Coincident Economic Indicators



Source: Federal Reserve Bank of New York staff calculations.

less than half as fast.³ At midyear, New York City’s jobless rate, though up noticeably from its low, remained at a subdued level. Earnings in the securities industry, a key driver of overall earnings in the city, were buoyed in 2006 and early 2007 by a record \$23.9 billion in bonuses and by the addition of roughly 10,000 new positions in the industry.⁴ More broadly, the sustained strong recovery in the city’s economy has pushed the CEI roughly 7 percent beyond its pre-recession peak. The relatively robust growth in New York City was countered by a weaker performance in upstate New York. As a consequence, economic activity statewide, though expanding at a moderate pace, remained slightly below its pre-recession peak at mid-2007.

In New Jersey, economic activity continued to expand in 2006 at roughly the same pace as in 2005, 1.4 percent. More recently, activity declined modestly, though it still exceeded its year-earlier level. While New Jersey’s growth rate fell short of that observed in New York State and New York City, one must keep in mind that New Jersey’s downturn was not as deep or prolonged as New York’s. In fact, the recovery in activity in New Jersey began in early 2003 and, by the end of 2004, the level of activity in the state had surpassed its pre-recession peak. Nevertheless, the more modest growth in New Jersey in 2006 and the first part of 2007 reflects, in part, the weaker growth in employment in the state, a rate less than half that nationwide. Despite the relatively sluggish job growth rate, the state’s unemployment rate averaged a fairly low 4.6 percent in 2006 and 4.5 percent in the first half of 2007.

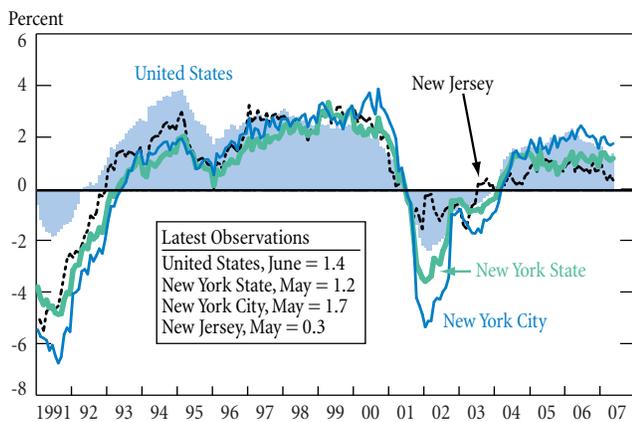
¹The consensus forecasts are published monthly in *Blue Chip Economic Indicators*.

²See Orr, Rich, and Rosen (1999) for the details on the construction of the indexes, and <http://www.newyorkfed.org/research/regional_economy/index.html> for the complete historical series.

³The Current Population Survey is a monthly survey of households conducted by the U.S. Bureau of the Census for the U.S. Department of Labor. See Bram and Orr (2006) for a discussion of the trends in alternative measures of employment in New York City.

⁴New York State Office of the State Comptroller (2007).

Chart 2
Private Sector Job Growth in the United States and the Region
Twelve-Month Percentage Change in Employment



Sources: U.S. Department of Labor, Bureau of Labor Statistics; Moody's Economy.com.

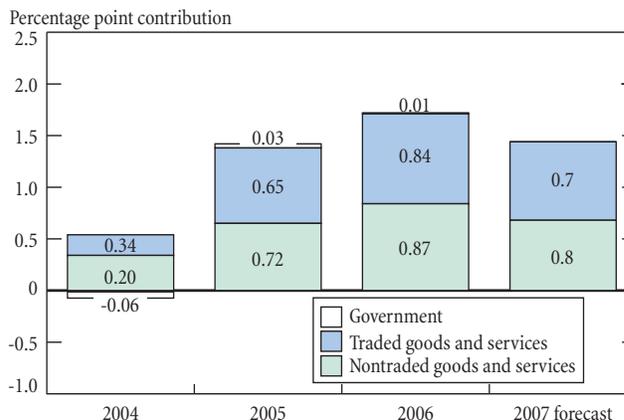
Regional Job Trends in 2006 and the Job Forecast for 2007

Job growth in the nation decelerated modestly on a year-over-year basis throughout 2006 before leveling off in the first half of 2007; job growth in New York State and New Jersey held fairly steady in 2006 and into early 2007, though at rates significantly below those of the nation. Focusing on private sector employment trends, we note that national job growth fell from about 2.2 percent year-over-year in early 2006 to about 1.5 percent in early 2007 and has remained at roughly that rate for the past several months (Chart 2).⁵ The growth rate of private sector employment in both New York State and New Jersey remained quite steady in 2006 at about 1 percent. In New York City, which alone accounts for 44 percent of all jobs in the state, the pace of growth was particularly strong and, at 2.0 percent, exceeded job growth rates in the nation. This strength in the city's job growth is a departure from earlier trends: the city, like the region, typically trails the nation in job growth rates. In the city and the region, job growth has slowed only slightly in 2007.

The relatively rapid job growth in New York City was led by a strong expansion of employment in several of the city's major services industries, including finance, professional and business services, education and health, and leisure and hospitality. In fact, one of the interesting features of job growth in 2006 was the continued expansion of jobs in *traded goods and services*—a term economists use for the financial, professional and business, information, and manufacturing sectors that serve regional, national, and international markets (Chart 3). Employment in these sectors was slow to pick up in

⁵In our analysis, we emphasize private sector employment, which excludes government jobs and accounts for roughly 85 percent of total employment.

Chart 3
Sectoral Contributions to New York City's Total Job Growth



Sources: U.S. Department of Labor, Bureau of Labor Statistics; Moody's Economy.com; Federal Reserve Bank of New York staff calculations.

Note: *Government* comprises federal, state, and local government; *traded goods and services* comprises financial activities, professional and business services, information, leisure and hospitality, and manufacturing; *nontraded goods and services* comprises construction, transportation and utilities, total trade, and education and health services.

this recovery, but by 2005 it was expanding at a modest clip and then accelerated further in 2006. Despite a weak job performance in the U.S. manufacturing sector, a strong national economy helped drive nationwide demand for business and professional services in New York City, while a third year of soaring profits and revenues in the financial sector spurred job growth in securities firms and investment banks. Services sectors geared toward meeting more purely local demand also saw a pick-up in employment; in particular, health services jobs continued to expand at a steady pace while demand for workers in the private education sector, primarily colleges and universities, accelerated.

Our forecast puts the region's overall job growth in 2007 modestly below the 2006 pace.⁶ Some of the slowing in job creation is expected to result from the national economy's moderating growth rate: According to the June Blue Chip consensus forecast, growth in real, or inflation-adjusted, GDP will slow from 3.3 percent in 2006 to 2.1 percent in 2007.⁷ Specifically, we project that New York City will continue to be the region's engine of growth, with total employment rising 1.5 percent in 2007 following a gain of 1.7 percent in 2006

⁶We base our regional forecast on an informal process of extrapolation from recent trends, making adjustments for information on structural shifts in the region's economic fundamentals and for information derived from our current analysis. Our forecast is made within the framework of the Blue Chip consensus forecasts, which provide the macroeconomic context.

⁷See *Blue Chip Economic Indicators* (2007). The August survey, which was released on August 10, trimmed the 2007 growth pace to 2.0 percent, in part reflecting altered financial conditions.

Table 1

**Employment in New York and New Jersey:
Past and Projected Growth
Annual Percentage Change**

	2005	2006	January-May 2007	2007 Forecast
New York and New Jersey	0.9	0.9	0.8	0.8
New York State	0.9	0.9	1.1	0.9
Private sector	1.0	1.2	1.2	1.0
Public sector	0.4	-0.2	-0.2	-0.1
New York City	1.5	1.7	1.5	1.5
Private sector	1.7	2.0	1.8	1.7
Public sector	0.2	0.0	-0.5	0.0
New Jersey	1.0	0.9	0.6	0.7
Private sector	0.9	0.8	0.5	0.6
Public sector	1.3	1.1	0.9	1.3

Sources: New York State Department of Labor; New Jersey Department of Labor; Moody's Economy.com; Federal Reserve Bank of New York staff projections.

(Table 1). Private sector employment in New York City is projected to rise 1.7 percent, also slightly less than in 2006 but still adding more than 53,700 jobs to the city's economy. While job creation in and around New York City has been relatively strong, it has been fairly sluggish across much of upstate New York. For the state as a whole, we project a gain of 73,000 jobs, or 0.9 percent, roughly on par with the job gains recorded in 2006. New Jersey is also expected to maintain a modest pace of job growth in 2007, just slightly below that recorded in 2006. We project that employment in the state will rise 0.7 percent, reflecting the addition of roughly 30,000 new jobs.

Government payrolls, representing roughly 16 percent of total employment in New York State and only a marginally smaller share of New York City's employment, are likely to prove flat or show a minor decline in both the state and the city. Small gains in New York's state and city payrolls are likely to be offset by the continued paring of federal payrolls. However, local government payrolls in New Jersey, also about 16 percent of total employment, are expanding at a moderate clip. Despite some expected declines in federal government jobs, New Jersey's state and local government jobs are expected to continue the expansion begun in 2006. We project that overall government employment in New Jersey will expand by about 1.3 percent, or 8,200 jobs, in 2007, and thus contribute significantly to overall job growth statewide.

Recent Developments in the Region's Key Sectors

Employment in the region's key sectors in 2007 has so far followed the trends established in 2006. The financial sector saw healthy gains in both employment and wages in New York City in 2006 and the first half of 2007. The growth rate of employment in this sector continued to exceed the rates seen

nationwide (Table 2), and strong income gains in the securities industry sustained the sector's three-year streak of healthy profits and bonus income. Although initial public offerings were relatively weak last year, proprietary trading and mergers and acquisitions activity pushed revenues to new highs. And while securities industry employment as of mid-2007 remained about 14,000 jobs below the last cyclical peak in 2000, the average wage (including bonuses) in this industry was nearly 50 percent higher in 2006 than in 2000—\$331,000 as compared with \$229,500.⁸ The marked increase in the average wage suggests that the long-established trend of relocating lower paying jobs to nearby and cheaper locations has continued.⁹

While the reports for the first half of 2007 signaled continued strength in this sector, more recent developments increase the risk of deceleration or even decline in financial sector employment and wages (including bonuses); however, any such weakening would not likely occur until 2008.¹⁰ But a prolonged downturn in financial activity could lead to broader weakness in supporting business services, thus increasing the downside risk for citywide employment in 2008. In addition, the timing of bonus payments implies increased downside risk to income in 2008. Most bonus payments are paid in January-February, following the calendar year in which the revenue was earned. Thus, a decline in 2007 earnings would reduce bonuses paid in 2008.¹¹

The expanding national economy and strong corporate profits in New York City's financial sector have helped boost demand for other professional and business services such as corporate headquarters management, legal services, advertising, and accounting. This sector added 16,000 jobs in 2006, and job creation has continued at roughly the same pace in the first half of 2007. The sector has also expanded in New Jersey and elsewhere in New York State, though at significantly slower rates, and has been a source of strong job growth nationwide.

Employment in health and private education services picked up sharply in the nation in 2006 and has continued at that brisk pace in the first half of 2007. The sector remains a similarly bright spot in state job numbers. New York State added

⁸The dollar figures are Federal Reserve Bank of New York calculations, based on Quarterly Census of Employment and Wages (QCEW) data reported by the New York State Department of Labor.

⁹See Dilot et al. (2000) for a summary of key trends in New York City's financial industry.

¹⁰See Bram and Orr (1999) for a discussion of the link between New York City's financial sector and the broader city economy.

¹¹Financial sector wages (including bonuses) have ranged from 26 to 32 percent of all wages paid in New York City over the 2000-2006 period. In recent years, bonus income has ranged from a low of \$10 billion in 2002 (following the September 11 attacks) to as much as \$23.9 billion in 2007, which represents about 8 percent of personal income in New York City.

Table 2

Employment Growth by Industry Sector Annual Percentage Change

Industry Sector	United States		New York		New York City		New Jersey	
	2006	January-May 2007	2006	January-May 2007	2006	January-May 2007	2006	January-May 2007
Total	1.9	1.5	0.9	1.1	1.7	1.5	0.9	0.6
Private sector	2.1	1.5	1.2	1.2	2.0	1.8	0.8	0.5
Construction	5.2	0.6	3.5	3.3	4.4	4.9	3.1	-1.7
Manufacturing	-0.2	-0.9	-2.2	-2.5	-6.6	-7.2	-1.6	-2.5
Trade	1.1	0.9	0.2	0.6	1.4	0.9	-0.4	-0.1
Transportation and utilities	2.0	1.7	1.3	0.5	2.7	1.7	0.8	-0.3
Information	-0.2	1.1	0.1	-0.6	1.5	0.0	1.8	0.5
Financial activities	2.6	1.6	1.8	1.8	3.0	2.7	0.3	1.2
Professional and business services	3.6	2.4	2.4	2.3	2.9	2.7	1.6	1.8
Education and health services	2.7	2.8	2.0	2.0	2.3	2.2	1.8	1.9
Leisure and hospitality	2.5	3.4	1.1	1.6	2.4	2.5	1.5	0.6
Public sector	0.8	1.4	-0.2	0.4	0.0	-0.4	1.1	1.0

Sources: U.S. Department of Labor, Bureau of Labor Statistics; Moody's Economy.com; New York State Department of Labor; New Jersey Department of Labor.

roughly 30,000 jobs last year, of which about 16,000 were located in the city. New Jersey gained approximately 10,000 jobs in health and education employment in 2006. This brisk rate of job creation in New York State and New Jersey appears to have continued in early 2007. Moderate to strong job gains were observed in college and professional training, home health care, nursing facilities, and social assistance agencies, while hospital employment grew slowly in both states and New York City.

The region's information sector has seen little or no net job growth over the past year, with notable job declines occurring in the motion picture and (non-Internet) publishing industries. However, employment has grown briskly in the region's new media industry cluster. While employment numbers and the pace of job creation have fallen short of the extraordinary levels seen at the height of the dot-com boom in the late 1990s, recent trends do roughly parallel those of the *mid*-1990s. For example, employment at New York City Internet firms—which include Internet publishing firms, web search portals, Internet service providers, and data processing firms—advanced roughly 6.5 percent (an addition of 1,000 jobs) in both 2005 and 2006.¹² In New Jersey, this industry cluster registered a gain of close to 2,000 jobs or approximately 13 percent in 2006, while total wages grew more than 20 percent. Moreover, within the professional and business services sector, firms specializing in computer systems design and related services saw job gains of roughly 9 percent in New York City, 7 percent in New York State, and 8 percent in New Jersey in 2006. While these jobs do not necessarily focus on Internet activities, the com-

puter systems industry is considered to be an integral part of the new media industry cluster.¹³ Thus, although it would be premature to hail the arrival of another new media boom, there are signs that the new media cluster is showing stronger growth than most other industries.

Over the past year, the leisure and hospitality sector has registered moderate job growth in the region, as in the nation. Restaurant and bar businesses, which largely serve the local market, dominate this sector, and they have shown job gains in both New York State and New Jersey. Tourism and business travel also appear to have contributed to this sector's job growth in New York State, though not in New Jersey. Because visitors patronize establishments in a variety of industries, there is no simple industry statistic that captures all the relevant employment changes.¹⁴ Our solution is to use the job numbers in the accommodation (hospitality) industry, which accounts for roughly 1 percent of private sector employment.

In New Jersey, accommodation employment ran nearly 3.0 percent lower in the first half of 2007 than a year earlier, after edging down in 2006; these declines were driven almost entirely by job losses at casino hotels. In New York State, by contrast, the number of hotel jobs expanded moderately. In New York City, where much of the region's tourism is centered, accommodation employment levels were little changed in 2006—evidently constrained by a lack of new hotel construction in the preceding years. However, job creation picked up

¹³See Bram and De Mott (1998).

¹⁴A report by the New York State Department of Labor (2006) estimates that tourism-related businesses account for 4.0 percent of employment and 2.3 percent of total wage and salary earnings statewide.

¹²Detailed employment data on these industries are reported with a six- to nine-month lag.

noticeably in the first half of this year, and development currently under way is projected to boost the number of hotel rooms in the city by 5 percent in 2007 and 6 percent in 2008—changes that should buoy hiring activity in this industry.¹⁵

After expanding briskly in 2005 and most of 2006, construction employment in the region slowed in early 2007 in New Jersey and parts of upstate New York, a pattern also seen nationally. At the same time, construction employment in New York City, Long Island, and the Lower Hudson Valley has continued to expand at a fairly vigorous pace. This mixed employment performance mirrors recent trends in the issuance of residential building permits, which weakened noticeably in northern New Jersey and parts of upstate New York but remained fairly strong in New York City, Long Island, and the Lower Hudson Valley through the first few months of 2007. It is also consistent with recent trends in the market for existing homes, which has shown signs of weakening across parts of upstate New York and in northern New Jersey, but has remained fairly resilient in New York City.

The divergent trends in construction employment seen in northern New Jersey and downstate New York—particularly New York City—also apply to commercial real estate markets. Northern New Jersey's office vacancy rate has remained high, evidently reflecting a combination of sluggish demand and a substantial volume of new construction in recent years; not surprisingly, office rents in New Jersey have been flat over the past year. In contrast, at mid-2007, Manhattan's vacancy rate approached the record lows set in 1999-2000, while asking rents were up more than 30 percent from mid-2006.¹⁶ The strong demand for Manhattan office space underscores the robust job creation in New York City, just as weak demand for office space in northern New Jersey is indicative of more subdued job gains in New Jersey, both in the construction industry and in industries dominated by office workers.

The manufacturing sector in the region, as in the nation, has shed jobs steadily over the years; 2006 was no exception, nor is 2007 shaping up to be one. Job losses in this sector in both New York State and New Jersey were markedly more severe than in the nation in 2006 and the first half of 2007. This job decline in the region reflects not only a continuing shift in manufacturing jobs to other countries and other locations in the United States, but also an increase in manufacturing productivity, which has been pervasive across the nation. Heightened productivity, achieved in part through advances in

technology, has enabled manufacturers to use less labor per unit of output. At the same time, of course, technology advances have encouraged the development of higher skilled manufacturing jobs in the region:¹⁷ indeed, New York State manufacturing firms responding to the Federal Reserve Bank of New York's Empire State Manufacturing Survey in March 2007 identified the shortage of skilled workers as a particular concern.¹⁸ While productivity increases may have created as well as displaced jobs in the region, the fact that real aggregate earnings in New York State's manufacturing sector have declined suggests that the shift of manufacturing activity away from the region is a key driver of the long-term declines in employment.

Conclusion

Our employment forecast calls for an expansion of employment on the order of 0.8 percent for all of 2007, a rate that is only modestly lower than the job growth rate posted in 2006 but on par with the rate in the first half of the year. Job growth will be roughly similar in New York State and New Jersey, and the employment rise in New York State will again be led by a relatively strong expansion of jobs in New York City. We base our employment forecast on the assumption that the Blue Chip consensus forecast will be on target with its projection of a moderate slowing in growth in real GDP this year. We also assume a continuation of existing employment trends in the region's key services sectors.

One downside risk to our employment forecast is a slower than projected expansion of national economic activity, which would provide correspondingly less impetus to job growth in the region. In addition, a sharp contraction in financial activity would set back job growth in that sector and, given the number of jobs related in some way to the finance sector, could have some repercussions for our job growth forecast for New York City. However, given the midyear date, such employment slowdowns in response to unanticipated weakening in demand would be more likely to occur in 2008. Mitigating the potential negative impact on employment of a retrenchment in the finance sector is the fact that the fiscal position of the city is currently very solid: The city ended the fiscal year on June 30 with an unusually large surplus, more than \$4.0 billion, which would help relieve any gap in the budget and thus limit potential public sector employment cutbacks arising from a decline in revenues.

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¹⁵See NYCVisit.com (2006).

¹⁶Colliers ABR, Inc. (2007)

¹⁷Recent research (Deitz and Orr 2006) suggests that New York State has become more specialized in high-value-added manufacturing.

¹⁸The survey report is available at <http://www.newyorkfed.org/survey/empire/3_2007.pdf>.

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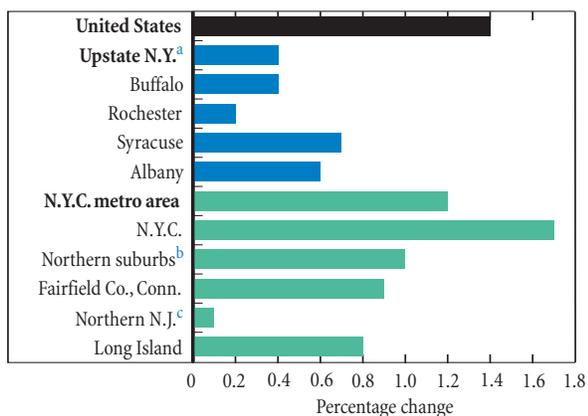
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Economic Trends in the Second District

Job Growth in the Nation and Selected Metropolitan Areas

April-June 2006 to April-June 2007



Sources: U.S. Department of Labor, Bureau of Labor Statistics; U.S. Department of Commerce, Bureau of the Census; Moody’s Economy.com.

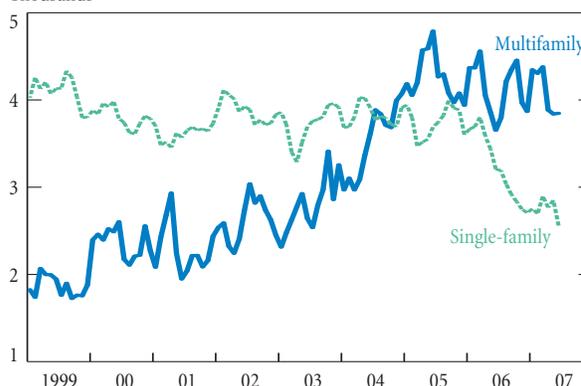
Note: Housing permit data are seasonally adjusted by Federal Reserve Bank of New York staff.

^aUpstate New York comprises the four metropolitan areas listed as well as Binghamton, Elmira, Glens Falls, Ithaca, and Utica-Rome.

Housing Permits in New York and New Jersey Combined

Three-Month Moving Average, Seasonally Adjusted

Thousands



^bThe northern suburbs of New York City comprise Dutchess, Orange, Putnam, Rockland, and Westchester counties, New York.

^cNorthern New Jersey comprises Bergen, Essex, Hudson, Hunterdon, Middlesex, Monmouth, Morris, Ocean, Passaic, Somerset, Sussex, and Union counties, as well as Pike County, Pennsylvania.

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