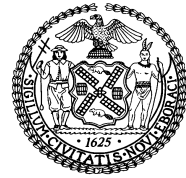


# Economic Notes

New York City Office of the Comptroller

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## NYC'S ECONOMY: A GOOD RUN IN 1Q01

**SUMMARY:** The economic slowdown that started in 3Q00 worsened in 1Q01, but more visibly for the nation than for New York City (NYC). March U.S. jobs and unemployment were weaker, but NYC's jobs and unemployment rate continued to improve. The full impact of the four 50-basis-point Federal Reserve rate cuts is expected to be felt in the second half of 2001.

- **Gross City Product (GCP)**, adjusted for inflation, grew at an annualized rate of 2.8 percent in 1Q01, below the 3.6 percent in 4Q00, but above the nation. U.S. GDP grew 2.0 percent in 1Q01, compared with 1.0 percent in 4Q00. The City's strong job growth and the decline in the unemployment rate boosted GCP. GDP was up because all of its components improved in 1Q01 over 4Q00.
- **Payroll Jobs** in 1Q01 were up by 20,300 or 2.2 percent, better than the 15,200 rise in 4Q00. The private sector added 18,100 jobs, mostly of 14,400 more service jobs. The public sector added 2,200 jobs. U.S. jobs rose 1.2 percent in 1Q01, better than the 0.7 percent rise in 4Q00, but March showed a loss.
- **Personal Income Tax (PIT)** revenues in 1Q01 fell 0.7 percent over 1Q00, reflecting an acceleration of refund payments and a slower economy. After correcting for changes in tax laws, PIT is estimated to be up 5.6 percent. These numbers are below the PIT change in 1Q00, implying weaker Wall Street bonuses.
- **The Inflation Rate** in NYC improved in 1Q01, reflecting more stable energy prices. It fell to 2.8 percent in 1Q01, down from 3.2 percent in 4Q00. The U.S. inflation rate was unchanged at 3.4 percent.
- **The Unemployment Rate** in NYC fell to 5.2 percent in 1Q01 from 5.6 percent in 4Q00. The 1Q01 rate was the lowest since 5.1 percent in 3Q88. But the number of City residents employed fell by 16,500, after falling by 23,400 in 4Q00. As a result, the employment/population ratio fell to 55.5 percent in 1Q01, compared with 55.9 percent in 4Q00. The labor-force-participation rate fell to 58.5 percent in 1Q01, from 59.2 percent in 4Q00. The U.S. unemployment rate rose to 4.2 percent in 1Q01, up from 4.0 percent in 4Q00. The U.S. labor-force-participation rate increased to 67.2 percent in 1Q01, from 67.1 percent in 4Q00.

Summary Table. *Five Key Economic Indicators, NYC and United States, 1Q01\**

	Period	1. GCP/GDP Growth	2. Payroll-Jobs Growth	3. Personal-Income-Tax Growth	4. Inflation Rate	5. Unemployment Rate
NYC	1Q01	+2.8% <b>W</b>	+2.2% <b>B</b>	-0.7% <b>W</b>	2.8% <b>B</b>	5.2% <b>B</b>
USA		+2.0% <b>B</b>	+1.2% <b>B</b>	7.7% <b>B</b>	3.4% <b>N</b>	4.2% <b>W</b>

\***B**=Better than prior period. **N**=No change. **W**=Worse. Indicators 1, 2, and 5 are comparisons of 1Q01 with 4Q00; indicators 3-4 compare 1Q01 with 1Q00. Sources: See Charts 1, 3, 5, 7, and 9.

- **Leading Indicators** for the City were down. All three- help-wanted advertising, initial unemployment claims, and the number of building permits authorized- deteriorated in 1Q01. Also, the NYC hotel industry had a relatively slow season, as the occupancy rate hit the lowest level since first-quarter 1996.

The year 2001 began on a sour note. After a weak fourth-quarter 2000- which was reflected in GDP and its components, in stock market indices, and in a continued decline in consumer confidence- the Federal Reserve started the new year by lowering its target interest rate, the federal funds rate, by 50 basis points in January 3rd. Although the market welcomed this inter-meeting rate cut, the signs of slowdown persisted. In February 2001, consumer confidence fell to 106.8- later revised to 109.2, the lowest since 100.1 in June 1996- the stock market declined further, and corporate layoff announcements began to appear with regularity. Signs of recession also began to appear, as U.S. payroll jobs declined by 53,000 in March. These signs led on March 20 to the Fed's third target rate cut of 50 basis points.

Against this background, GDP was expected to grow at most by 1.0 percent in first-quarter 2001, the same as fourth-quarter 2000. However, GCP growth was harder to predict because some regional indicators, such as jobs, unemployment, income, and the inflation rate were not deteriorating as fast as those of the nation.

The data for first-quarter 2001 provide mixed economic signals. At the national level, GDP grew faster than expected, but there were a few signs of weakness such as a rise in jobless claims in March, a drop in the index of help-wanted advertising index in March, and a decline in the consumer confidence index in April. The City's economy was in the same predicament, as the City's economy performed more strongly than the nation's in first-quarter 2001, but all of the City's leading economic indicators deteriorated.

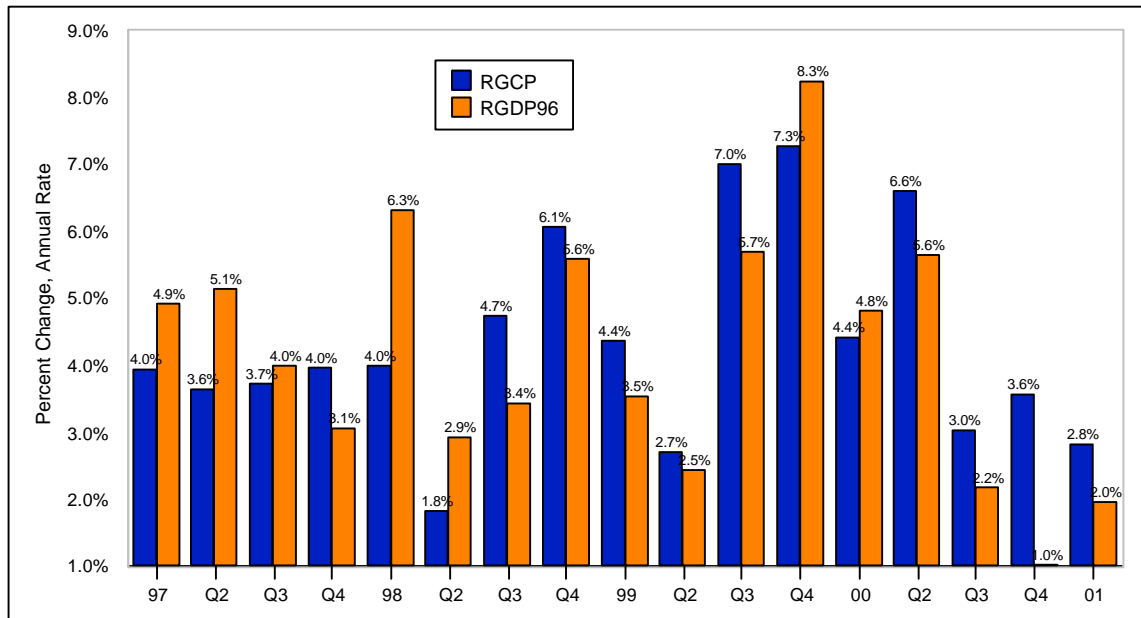
By April 18, the Fed had already made its fourth rate cut of 50 basis points, reducing the target fed funds rate to 4.50 percent. Both the fed funds rate and the discount rate were 200 basis points below where they were at the beginning of 2001. It takes six months or more for rate cuts to yield their full effect. So while the second quarter may continue to show weakness, the prospects are better for a recovery in the third and fourth quarters of 2001.

## **1. Gross City Product and the Silicon Alley 30**

Seasonally adjusted real gross domestic product (GDP) grew at an annualized rate of 2.0 percent in first-quarter 2001. First-quarter GDP was much higher than the expected 1.0 percent rate, and higher than the 1.0 percent growth in fourth-quarter 2000. The reason was an improvement in all the components of GDP over fourth-quarter 2000. Consumer spending rose 3.1 percent in first-quarter 2001 compared with 2.8 percent in fourth-quarter 2000. Business spending rose 1.1 percent, compared with a decline of 0.1 percent in fourth-quarter 2000. Inventories declined by \$7.1 billion in first-quarter 2001, after growing \$55.7 billion in fourth-quarter 2000. The net export deficit decreased to \$404.9 billion in first-quarter 2001, from \$441.7 billion in fourth-quarter 2000. Government spending rose 4.0 percent in first-quarter 2001, up from 2.9 percent in fourth-quarter 2000.

The seasonally adjusted real gross city product (GCP) grew 2.8 percent in first-quarter 2001, a decline from 3.6 percent in fourth-quarter 2000, but above the national rate of 2.0 percent. A rise in the payroll jobs and decline in unemployment rate contributed to the City's job gain. Slower growth in personal income, as measured by changes in personal income tax collections, served as a brake on GCP growth. (See Chart 1.)

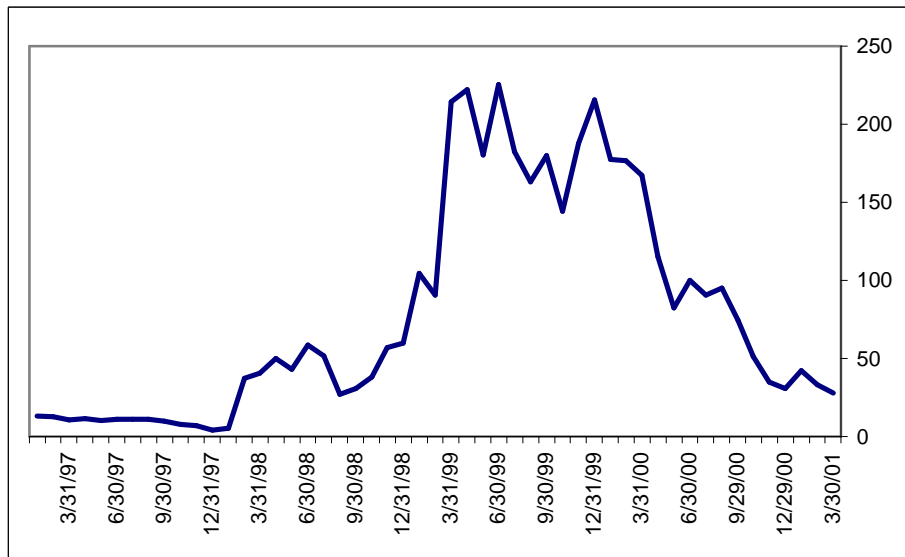
Chart 1. *Real GCP and GDP, Percent Change, Annual Rate, Quarterly, 1997-2001*



Source: GDP data from U.S. Department of Commerce. NYC GCP estimates are based on a Comptroller's Office model that incorporates (among other variables) monthly NYC jobs data and quarterly GDP data, and changes retroactively when these numbers are revised for past months and years. RGDP96=Real GDP in chain-weighted 1996 dollars.

The Alley 30 index, which measures the performance of dot-coms in the City, averaged 34.3 in first-quarter 2001, less than one-fifth of the 173.8 valuation of these companies in first-quarter 2000.

Chart 2. *The Alley 30 Index, Monthly data, 1997-2001*



Source: NYC Comptroller's Office, based on NASDAQ month-end stock prices of 30 NYC-headquartered dot-com companies, weighted by their market capitalizations. June 2000=100.

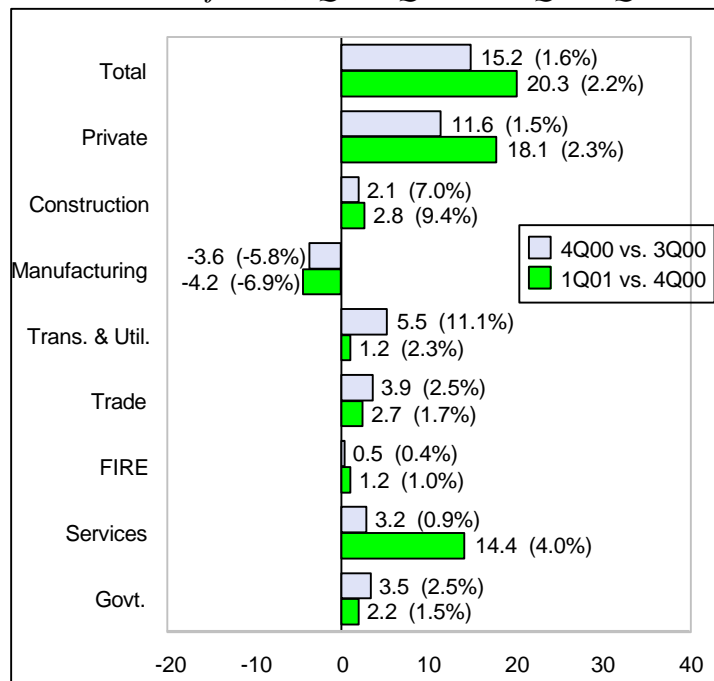
## 2. Jobs

During the first quarter of 2001, average payroll jobs were up by 20,300, a much stronger gain than the 15,200-jobs increase in fourth-quarter 2000 and the 6,800-job increase in third-quarter 2000. The private sector added 18,100 jobs and the public sector added 2,200.

The gains in the private sector caused from the addition of 14,400-jobs in services, 2,800 jobs in construction, 2,700 jobs in wholesale and retail trade, 1,200-jobs in transportation and utility, and 1,200-jobs in FIRE (finance, real estate, and insurance). Within services, business services added 10,400 jobs, bars and restaurants 3,600 jobs, motion picture and amusement places 3,200 jobs, engineering and management 1,900 jobs, social services 900 jobs, and legal added 400 jobs. Health services lost 1,300 jobs in first-quarter 2001 after losing 1,600 jobs in fourth-quarter 2000. Within FIRE, the securities industry added 1,000 jobs, real estate gained 500 jobs, and insurance added 200 jobs, but banking lost 500 jobs.

The public-sector gains reflect a 2,700-job increase in local government, partly offset by a loss of 400 jobs in federal government and a loss of 100 jobs in state government. (See Chart 3.)

Chart 3. NYC Job Growth ('000) and Annualized Percent Change, Seas. Adjusted, 1Q01/4Q00 and 4Q00/3Q00



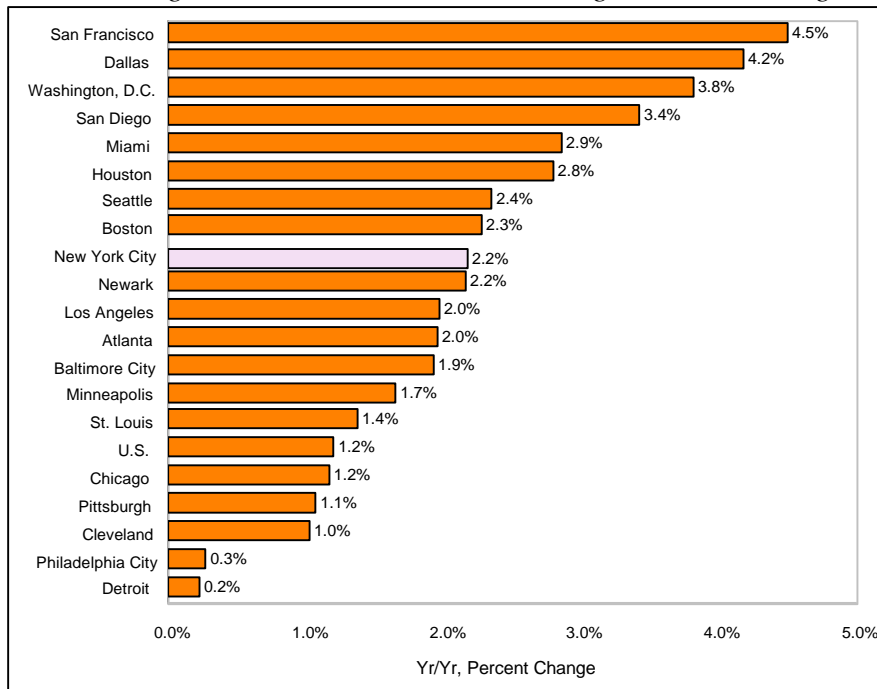
Source: NYS Department of Labor. Quarterly seasonal adjustments are by the NYC Comptroller's Office.

Compared with 20 largest metro areas, NYC had the ninth highest rate of job growth, 2.2 percent. San Francisco had the highest rate, 4.5 percent, and Detroit had the lowest, 0.2 percent. (See Chart 4.)

### 3. Income

Personal-income data for the City are published annually by the Bureau of Economic Analysis of the Department of Commerce. However, the data appear with a lag of at least two years. So as a proxy for income, personal income taxes (PIT) and average hourly wages are used. Both point to an income slowdown.

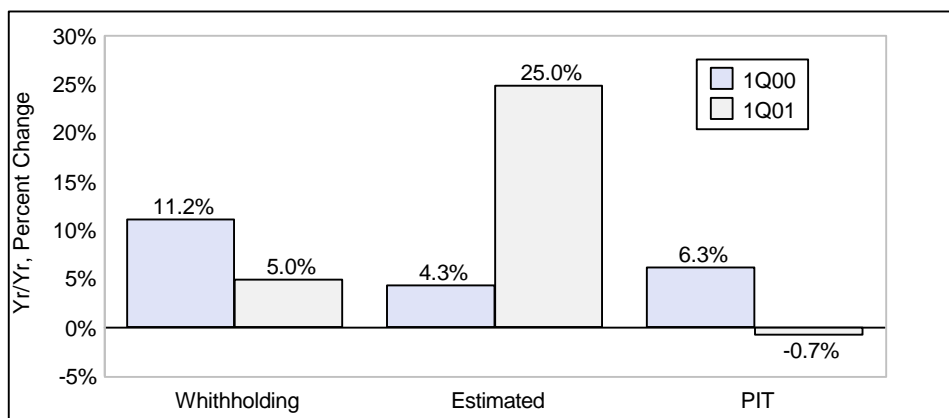
Chart 4. *Job Growth, 20 Largest Metro Areas and U.S. Average, Percent Change, 1Q01 over 1Q00*



Source: U.S. Bureau of Labor Statistics. Where available, data are for the entire metro areas (MSAs or PMSAs). In three cases (Baltimore, New York City and Philadelphia), metro data are unavailable and city data are used.

On a year-over-year basis, PIT fell 0.7 percent in first-quarter 2001, a substantial decline from 6.3 percent in first-quarter 2000. The decline in PIT can be attributed to timing and a slowing economy. The timing issue is the acceleration of refund payments by the State. Corrected for the changes in tax laws, first-quarter 2001 PIT would be 5.6 percent higher than first-quarter 2000. Similarly, on a year-over-year basis, PIT grew 36.0 percent in first-quarter 2000. Withholding taxes, i.e., the amount of taxes withheld from employee paychecks, showed a weaker growth of 5.0 percent in first-quarter 2001, compared with 11.2 percent in first-quarter 2000. However, the estimated-tax payments on interest income, rental income, and capital gains were up 25 percent in first-quarter 2001, compared with 4.3 percent in first-quarter 2000. (See Chart 5.)

Chart 5. *Personal Income Taxes, Year-over-Year Percent Change, 1Q01 and 1Q00*

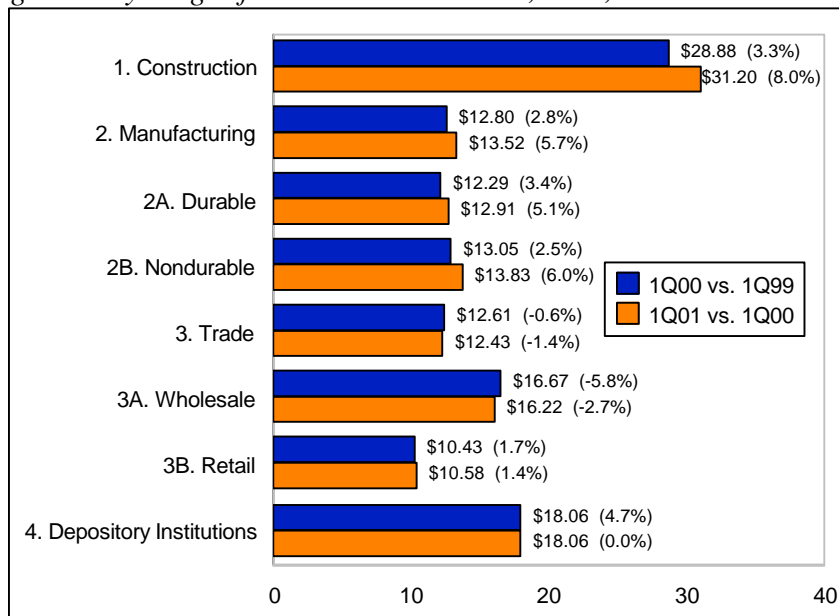


Source: NYC Comptroller's Office, based on data from the NYC Department of Taxation and Finance. Quarterly data on withholding and estimated taxes are components of personal income taxes (PIT) and can provide an early indication of changes in PIT revenue.

Of the four industrial sectors for which average hourly wages are monitored, two showed an increase, one remained unchanged, and one declined in first-quarter 2001. On a year-over-year basis, construction hourly wages were up by 8.0 percent in first-quarter 2001, a sign of a strong real estate market, whether commercial or residential. Also, manufacturing wages were up 5.7 percent.

On the other hand, hourly wages in wholesale and retail trade fell 1.4 percent, a sign that retail sales are slowing as consumer spending cools down. Hourly wages for depository institutions remained unchanged compared with first-quarter 2000. (See Chart 6.)

Chart 6. *Average Hourly Wages for Selected Industries, NYC, Year-over-Year Percent Change, 1Q01*



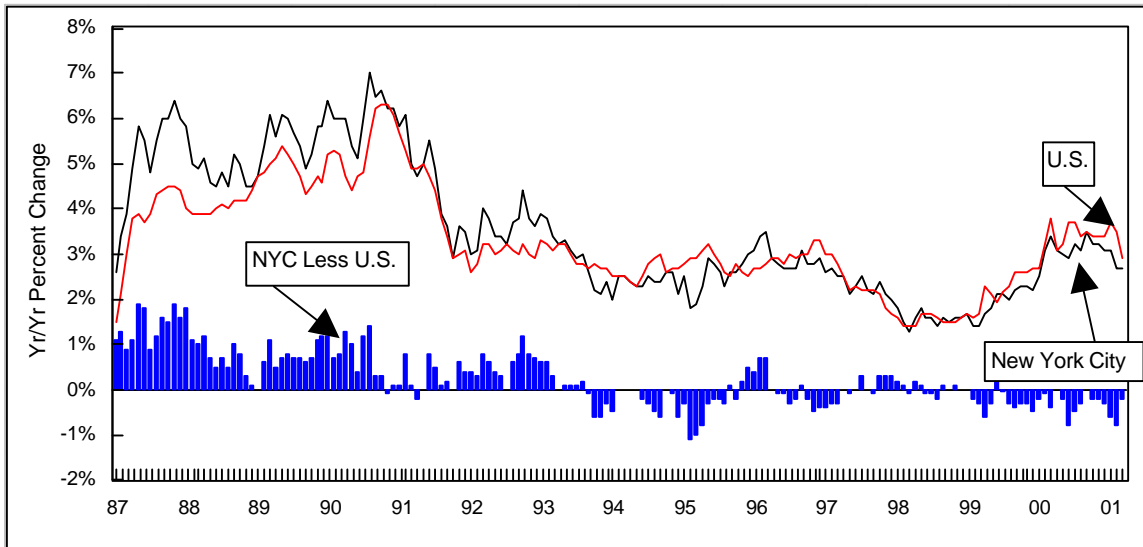
Source: NYS Department of Labor.

#### 4. Inflation

The NYC metro area inflation rate, as measured by the year-over-year change in the consumer price index, fell to 2.8 percent in first-quarter 2001 compared with 3.2 percent in third and fourth-quarter 2000. The core inflation rate, which includes all items except food and energy, fell to 2.5 percent in first-quarter 2001 compared with 2.7 percent in fourth-quarter 2000. As in the last six quarters, the rise in energy prices had the largest percentage increase of the components of the first-quarter inflation rate. It rose by an annual rate of 8.8 percent. Other items of the consumer price index that were up were medical care by 4.3 percent, services by 3.6 percent, housing by 3.5 percent, food and beverages by 2.6 percent, and transportation by 2.1 percent. Only the price of apparel and upkeep (dry cleaning and laundry) fell 1.7 percent in the first quarter of 2001.

The first-quarter 2001 inflation rate in the NYC metro area was below the national average of 3.4 percent for the tenth consecutive quarter. The nation's core rate was 2.7 percent as the energy prices rose 12.1 percent and the price of food and beverages were up by 3.0 percent. (See Chart 7.)

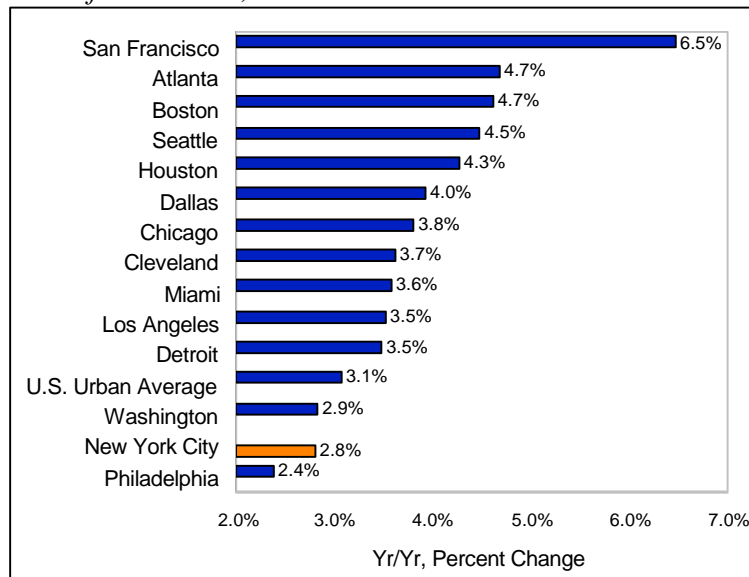
Chart 7. *Inflation Rates, NYC, U.S. and NYC Less U.S., Monthly, Year-over-Year, 1987-2001*



Source: U.S. Bureau of Labor Statistics (BLS). Computation of differences by the NYC Comptroller's Office. Inflation data for NYC are collected for the BLS on a metropolitan wide basis for a limited number of areas.

Compared with 13 other metro areas and the U.S. urban average, the City's metro area had the second-lowest inflation rate. San Francisco had the highest rate of inflation, 6.5 percent, and Philadelphia had the lowest, 2.4 percent.

Chart 8. *Inflation Rate, 14 Metro Areas and U.S. Urban Average, 1Q01*



Source: U.S. Bureau of Labor Statistics (BLS). Quarterly inflation rates are computed by the NYC Comptroller's Office as averages of monthly BLS data. Data are collected by the BLS for only ten of the largest 20 metro areas.

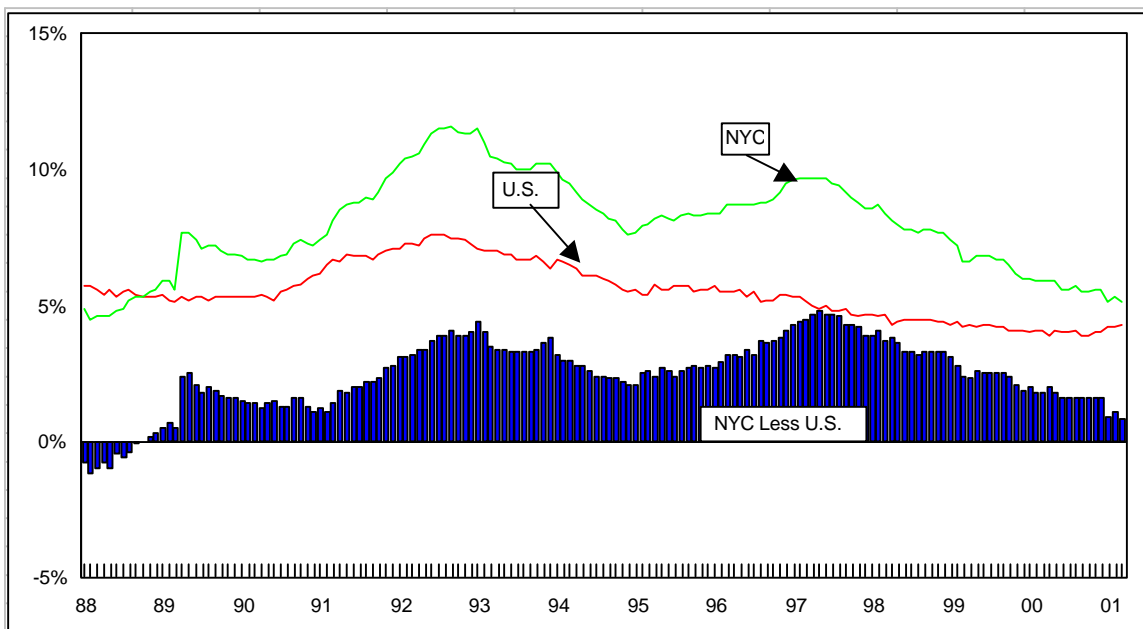
## 5. Unemployment

While City establishments created 20,300 jobs, the number of City residents employed fell by 16,500 in first-quarter 2001. Civilian employment had already fallen by 23,400 in fourth-quarter 2000 and by 2,400 in third-quarter 2000. As a result, the employment/population ratio fell to 55.5 percent in first-quarter 2001 compared with 55.9 percent in fourth-quarter 2000. The City's labor force declined for the third consecutive quarter by 30,300 in first-quarter 2001- after dropping 27,200 in fourth-quarter 2000 and 10,700 in third-quarter 2000- pushing the labor-force-participation rate down to 58.5 percent, from 59.2

percent in fourth-quarter 2000. The number of unemployed residents declined by 13,800 in first-quarter 2001, the biggest drop since 15,200 in fourth-quarter 1999. As a result, the unemployment rate fell to 5.2 percent, the lowest since 5.1 percent in third-quarter 1988.

U.S. labor statistics showed signs of economic weakening while the City job numbers were relatively strong. Yet the City’s preliminary civilian employment data, based on a survey of a sample of households, continued to be weaker than the national average. The number of unemployed U.S. residents rose at an annualized rate of 29.7 percent, which led to an unemployment rate of 4.2 percent in first-quarter 2001, higher than the 4.0 percent in third- and fourth-quarter 2000. The U.S. employment/population ratio was 64.4 percent, the same as in fourth-quarter 2000, and the labor-force-participation rate rose to 67.2 percent in first-quarter 2000 from 67.1 percent in fourth-quarter 2000. The U.S. unemployment rate in the first quarter was 1.0 percentage point below the City’s, the smallest gap between the two rates since first-quarter 1989. (See Chart 9.)

Chart 9. *Unemployment Rate, NYC, U.S. and NYC Less U.S., Monthly (SA), 1988-2001*



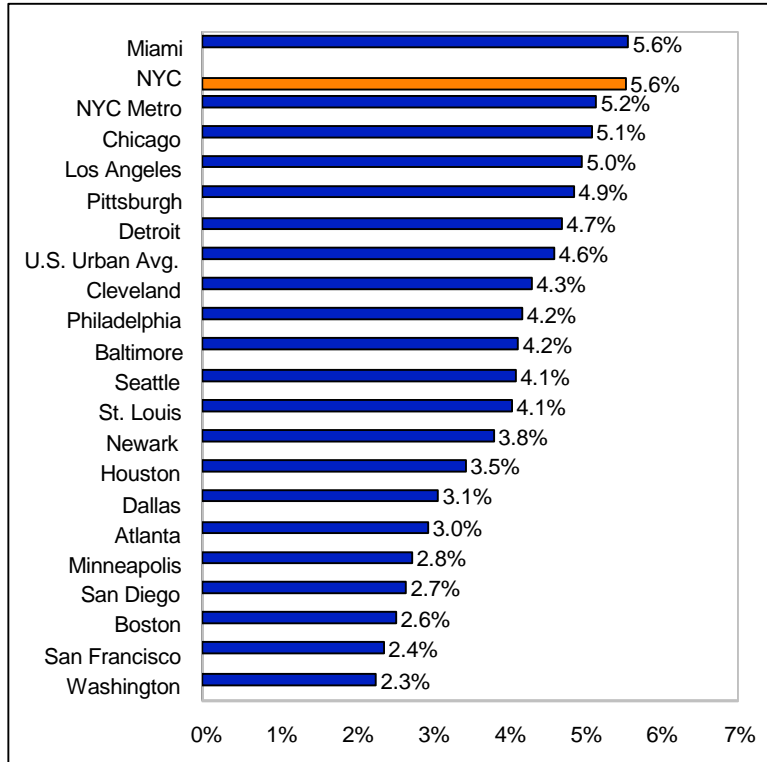
Source: Seasonally adjusted (SA) series and differences computed by the NYC Comptroller’s Office based on monthly data from the NYS Department of Labor and U.S. Bureau of Labor Statistics.

Compared with the 20 largest cities and metro areas, NYC and Miami had the highest unemployment rate, 5.6 percent, in first-quarter 2001, and Washington D.C. had the lowest, 2.3 percent. (See Chart 10.)

## 6. Tourism and the Hotel Industry

The hotel industry showed signs of slowdown, but the first quarter is historically always slower than the fourth quarter. The average daily occupancy rate was 73.3 percent in first-quarter 2001, the lowest first quarter since 72.2 percent in first-quarter 1996. The average daily occupancy rate was 84.0 percent in fourth-quarter 2000 and 79.1 percent in first-quarter 2000.

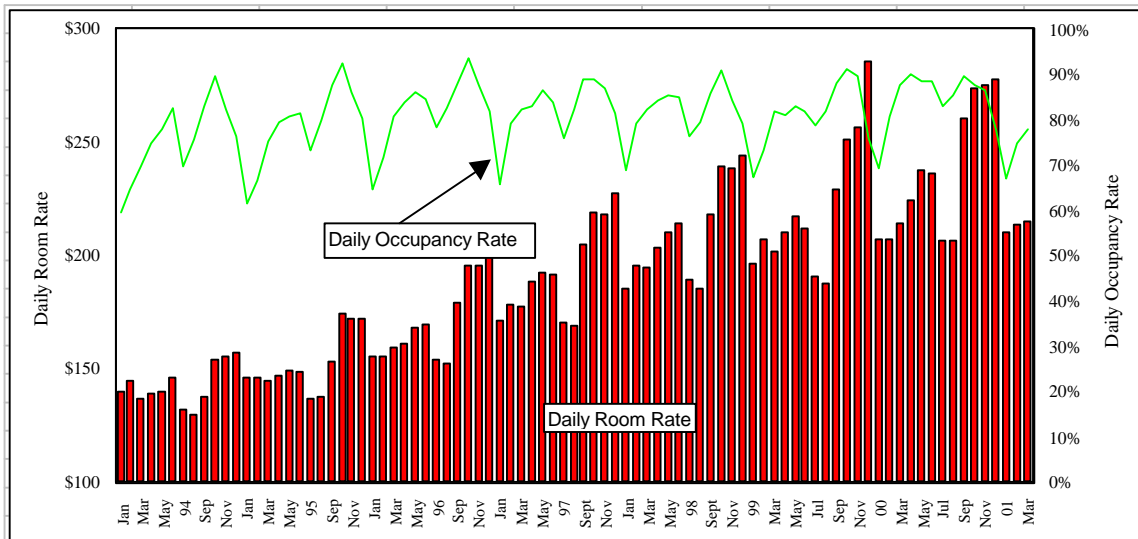
Chart 10. *Unemployment Rate, 20 Largest Metro Areas and U.S. Urban Average, 1Q01*



Source: BLS. All data are for metro statistical areas, i.e., MSAs or Primary MSAs (PMSAs); the NYC area is a PMSA.

The average daily room rate was \$213 in first-quarter 2000 compared with \$210 in first-quarter 2000 and \$276 in fourth-quarter 2000. The cold winter and the weak national economy help explain the slowdown in the hotel industry. (See Chart 11.)

Chart 11. *Daily Room and Occupancy Rates, NYC Hotels, 1994-2001*



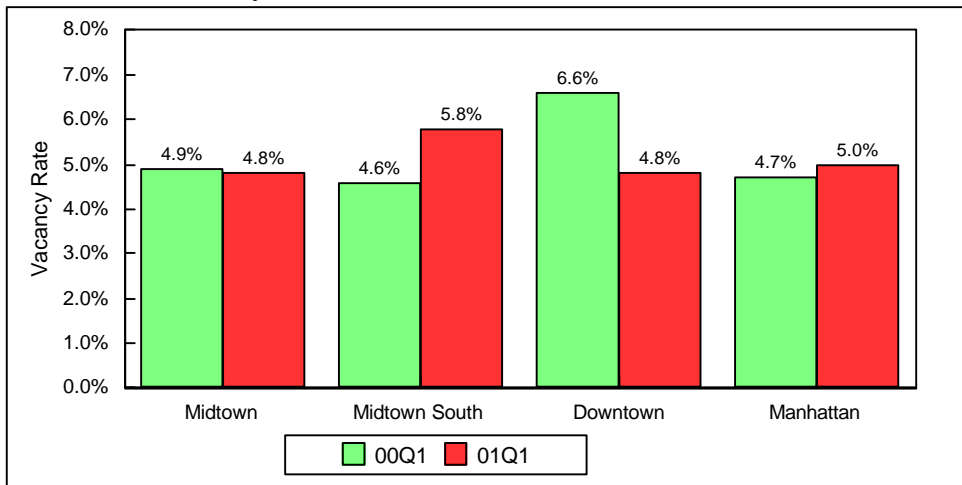
Source: PKF Consulting.

## 7. Real Estate

Commercial real estate continued to benefit from the booming economy in all covered areas except Midtown South. The vacancy rate in Midtown South was 5.8 percent in first-quarter 2001, compared with 4.6 percent in 2000. The reason for the decline in Midtown South was the slowdown in the high-

tech/Internet sector, which has made Midtown South its headquarters. Midtown South suffered in the second quarter because of the steep NASDAQ drop of April 2000. The vacancy rate in other areas continued to decline, especially in Downtown, which is experiencing record-low vacancy rates. Most of the tenants in Downtown are banks and securities-industry firms. (See Chart 12.)

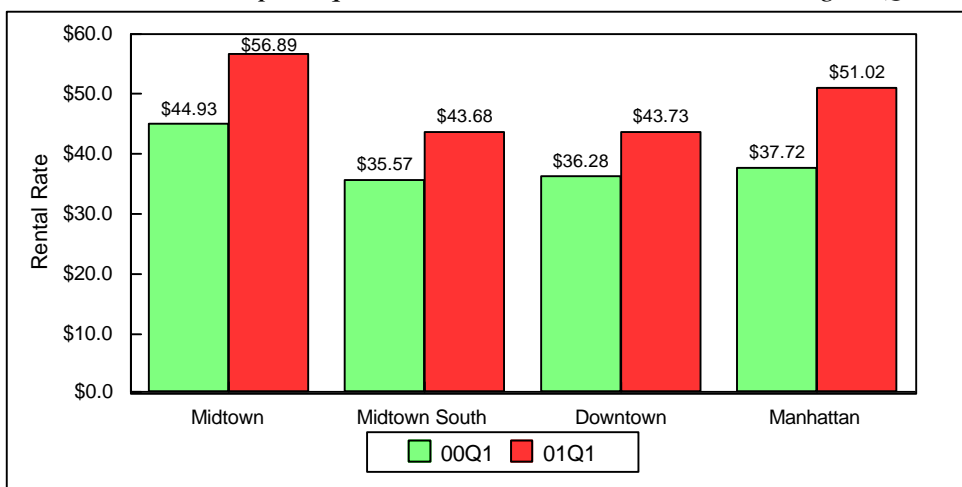
Chart 12. Vacancy Rates, Manhattan, Overall Commercial, 1Q00 and 1Q01



Source: Cushman and Wakefield.

The continuing high demand for commercial space has kept rents high. The biggest rise in rents was in Midtown, where rents increased by 26.6 percent, to \$56.89 per square foot in first-quarter 2001, from \$44.93 in first-quarter 2000. Midtown South rents were up 22.8 percent and Downtown rents were up 20.5 percent. (See Chart 13.)

Chart 13. Rental Rates per Sq. Ft., Manhattan, Commercial, Average, 1Q00 and 1Q01



Source: Cushman and Wakefield. The average is weighted by square footage; only “direct” rentals are included, i.e., space that is immediately available, not space under construction.

## 8. Leading Economic Indicators

All of the three leading economic indicators deteriorated in first-quarter 2001, a sign that the City’s economy is weakening. However, the possibility of a recession is still questionable since a recession begins with decline in jobs, which as of March had not yet happened. Also, the four interest-rate cuts could revive the economy before the City enters a recession. (See Table 1.)

On a year-over-year basis, the help-wanted-ad index fell by over 30 percent to 40.3 in first-quarter 2001, a sign that companies are imposing hiring freezes. In first-quarter 2000, this index was up 10.8 percent. Ad volumes are measured by the Conference Board every month and are sensitive to labor market conditions, specifically the change in supply of jobs. The national help-wanted advertising index averaged 71 in first-quarter 2001, San Antonio had the highest index, 168.3, and Hartford had the lowest, 27.7.

First-quarter 2001 initial unemployment claim rose by 5,208 a month on a quarter-over-quarter basis. On a year-over-year basis, it rose by 5,175, the first time it rose since 4,331 in first-quarter 1995, and the biggest increase since 9,097 in first-quarter 1991. This variable measures the number of first-time applicants for the unemployment insurance. A rise in jobless claims has a negative impact on the consumer sentiment and consumer spending.

Finally, the number of building permits authorized declined by 174 on a year-over-year basis. First-quarter 2001 was the first decline since 1067 in first-quarter 1996. This indicator measures the construction activities in the City and is sensitive to economic conditions.

Table 1. *Three Leading Economic Indicators, NYC, 1Q01 vs. 4Q00 and 1Q00\**

<b>Help-Wanted Ads (Averages of Monthly Indicators, Seasonally Adjusted)</b>			
1Q00	58.0	4Q00	45.0
1Q01	40.3	1Q01	40.3
<b>Change</b>	<b>-30.5% W</b>	<b>Change</b>	<b>-10.4% W</b>
<b>Initial Unemployment Claims (Monthly Average)</b>			
1Q00	30,278.3	4Q00	27,549.1
1Q01	35,453.7	1Q01	32,756.9
<b>Change</b>	<b>+ 5,175.3 W</b>	<b>Change</b>	<b>+ 5,207.8 W</b>
<b>Number of Building Permits Authorized (Period Totals, NSA)</b>			
1Q00	20,543.0	4Q00	20,889.0
1Q01	20,369.0	1Q01	20,369.0
<b>Change</b>	<b>- 174 W</b>	<b>Change</b>	<b>- 520 W</b>

\***B**=Better than prior period; **N**=No change; **W**=Worse. NSA=Not seasonally adjusted.

Source: Conference Board (help-wanted ads), NYS Department of Labor (unemployment insurance claims), and NYC Dept. of Buildings (permits). Averages and seasonal adjustments by the NYC Comptroller's Office.