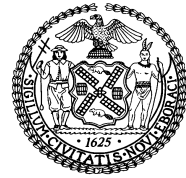


Economic Notes

New York City Office of the Comptroller

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NYC'S ECONOMY WEAKENS IN 2Q01

SUMMARY: Economic conditions weakened further in the second quarter (2Q01), despite the Fed's steep interest-rate cuts and stabilized energy prices in New York City (NYC). This weakness was more pronounced for the nation than for NYC. U.S. job growth was negative for the first time since 1Q92- but NYC posted a job growth for the quarter. The consensus forecast is that an economic turnaround will not occur until 2002. For both NYC and the nation, four of five indicators deteriorated (see Summary Table). Leading NYC indicators are mixed but on balance negative.

- **Gross City Product (GCP)**, adjusted for inflation, grew at an annualized rate of 1.3 percent in 2Q01, below the 2.3 percent rate in 1Q01. The U.S. GDP grew 0.7 percent in 2Q01, compared with 1.3 percent in 1Q01. The rise in payroll jobs helped boost GCP, and consumer expenditure and government spending kept up GDP.
- **Payroll Jobs** were up by 11,500 in 2Q01, about half of the 22,000-jobs increase in 1Q01. The private sector added 12,000 jobs because of a gain of 13,600 jobs in services, while the public sector lost 500 jobs. U.S. jobs fell by an annualized rate of 0.3 percent, the first decline since 1Q92.
- **Personal Income Tax (PIT)** revenues, not adjusted for the changes in tax laws, were up 5.8 percent in 2Q01 reversing a decline of 4.9 percent in 2Q00. Estimated PIT revenues were up 5.6 percent. However, withholding PIT revenues declined 4.2 percent, a sign of a weak job market.
- **The Inflation Rate** in NYC was 3.2 percent in 2Q01, higher than the 2.8 percent rate in 1Q01, but lower than the 3.4 percent U.S. rate. A rise in NYC energy prices contributed somewhat to the inflation-rate increase, but some other key CPI components- such as housing, medical services, and other services- also rose.
- **The Unemployment Rate** in NYC rose to 5.3 percent in 2Q01, from 5.2 percent in 1Q01, while the U.S. unemployment rate rose to 4.5 percent from 4.2 percent over the same period. The City's employment/population ratio was 55.4 percent, compared with the nation's 63.9 percent. The City's labor-force-participation rate was unchanged at 58.5 percent, while the national rate fell to 66.9 percent.

Summary Table. *Five Key Economic Indicators, NYC and United States, 2Q01**

	Period	1. GCP/GDP Growth	2. Payroll-Jobs Growth	3. Personal-Income-Tax Growth	4. Inflation Rate	5. Unemployment Rate
NYC	2Q01	+1.3% W	+1.2% W	5.8% B	3.2% W	5.3% W
USA		+0.7% W	-0.3% W	3.9% W	3.4% N	4.5% W

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

- **Leading Indicators** for the City are mixed, leaning toward negative. The help-wanted-advertising index and initial unemployment claims both deteriorated on a quarterly and semi-annual basis. But building permits were up in 2Q01 over 2Q00. Commercial real estate vacancy rates almost doubled in 2Q01 over 2Q00. The hotel occupancy rate was 79 percent in 2Q01, down from 88.9 percent in 2Q00.

The economy continued to weaken during second-quarter 2001, despite the Federal Reserve's aggressive easing of its monetary policy, with three interest-rate cuts in the first quarter of 2001 and three in the second quarter. Although the real U.S. gross domestic product (GDP) managed to grow at a paltry annualized rate of 0.7 percent, signs point to further decline. Payroll jobs were down by 102,700, the first decline since 55,000 in first-quarter 1992. The unemployment rate rose to 4.5 percent and the inflation rate remained at 3.4 percent. Consumer spending continued to grow, but at a slower pace. The greatest downside risk is indicated by the decline in the Conference Board's July consumer confidence index to 116.5, down from 118.9 in June 2001 and down from its high of 144.7 in May 2000. The combination of negative job growth and continued decline in consumer confidence could show up in further dampening of consumer spending.

The six interest-rate cuts and the Federal tax-rebate checks may help to boost the economy in the coming months, but the consensus is that the economic turnaround will not occur until 2002.

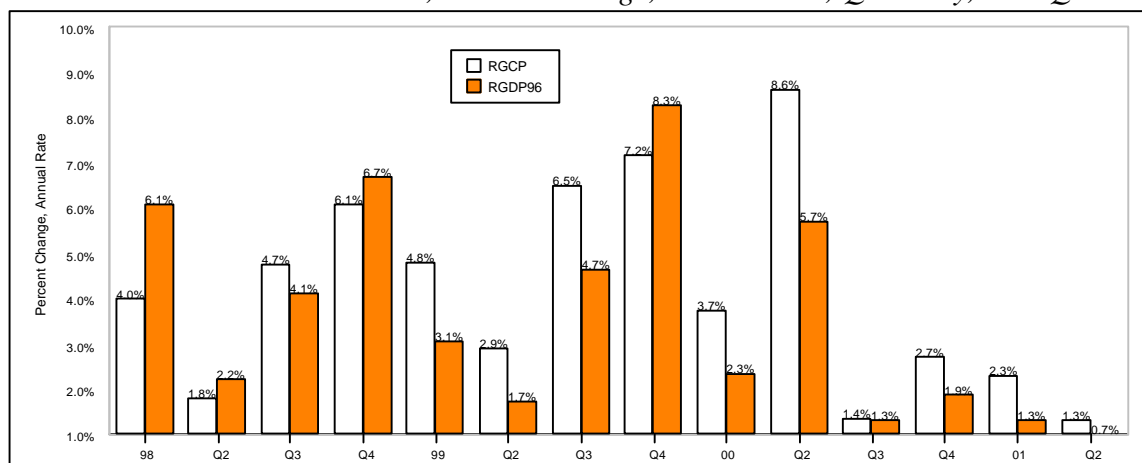
The City ended the second quarter better than the nation, but with a distinctly downward rate. Jobs were up in second-quarter 2001, but grew only half as much as in first-quarter 2001 or second-quarter 2000. Unemployment and inflation rates rose. The City's leading economic indicators, while mixed, on balance point to further weakening.

1. Gross City Product and the Silicon Alley 30

Seasonally adjusted real gross domestic product (GDP) grew at an annualized rate of 0.7 percent in second-quarter 2001, the lowest rate since the decline of 0.1 percent in first-quarter 1993. The rise in GDP mostly reflects higher first-quarter government and consumer spending. Government spending rose 5.5 percent in second-quarter 2001, the biggest growth since 8.5 percent in fourth-quarter 1999. Consumer spending rose 2.1 percent in second-quarter 2001, the slowest growth since 1.9 percent in second-quarter 1997. Fixed nonresidential investment, the largest component of private investment, was down 13.6 percent, probably the biggest drop in decades (and definitely the biggest drop since 1987, the earliest year for which comparable data are available).

The seasonally adjusted real gross city product (GCP) grew at an annualized rate of 1.3 percent, the lowest rate since 1.2 percent in fourth-quarter 1994. Payroll jobs rose, but at a slower pace. (See Chart 1.)

Chart 1. Real GCP and GDP, Percent Change, Annual Rate, Quarterly, 1998Q1-2001Q2



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

If NYC were a country, its gross product of \$373 billion would rank 15th, right after Australia and ahead of the Netherlands, Taiwan, Argentina, the Russian Federation, and Switzerland. (See Table 1.)

Table 1. *Gross Products, NYC and 19 Largest Countries, Current U.S. \$ billions, 2000*

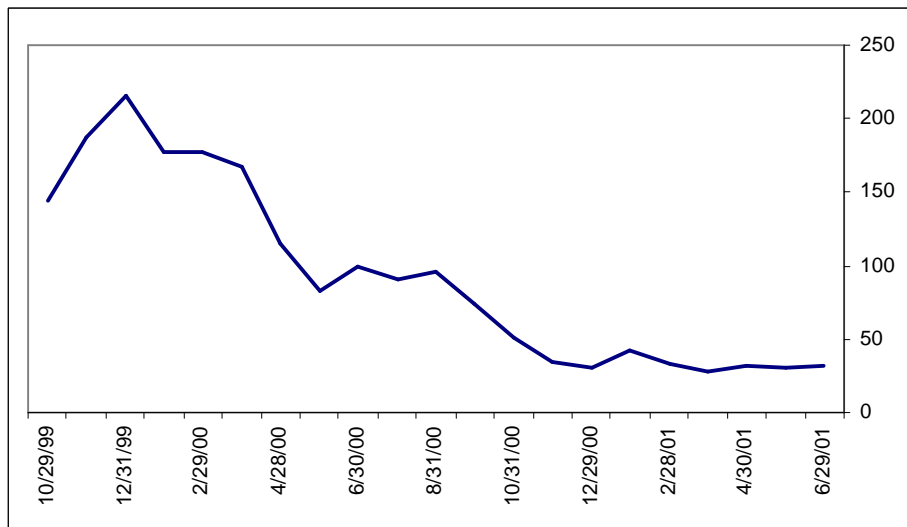
Rank	Country	GDP, \$ billions	Rank	Country	GDP, \$ billions
1	United States	9,962.65	11	Spain	560.08
2	Japan	4,759.52	12	India	474.19
3	Germany	1,878.11	13	Korea (Rep., South)	457.46
4	United Kingdom	1,416.68	14	Australia	381.92
5	France	1,289.10	15	New York City (GCP)	373.30
6	China*	1,079.84	16	Netherlands	370.08
7	Italy	1,076.90	17	Taiwan	310.22
8	Canada	669.47	18	Argentina	285.04
9	Brazil	588.13	19	Russian Federation	246.74
10	Mexico	574.48	20	Switzerland	242.03

* Excludes Hong Kong in source data.

Source: National gross domestic products (GDP) from International Monetary Fund, *World Economic Outlook* (see www.economy.com). NYC gross city product (GCP) is computed by the NYC Comptroller's Office.

The dot-coms have played an important part in the growth of NYC jobs in 1995-2000. Their equity values are important for NYC's future. The Alley 30 index, which measures the equity performance of NYC-based dot-coms, averaged 31.6 in second-quarter 2001 (June 2000=100), less than one-third of the 99.2 index value of these companies in second-quarter 2000. This was less than half of the peak of 209.4 in the second quarter of 1999. Values appear to have stabilized in the second quarter of 2001. (See Chart 2.)

Chart 2. *The Alley 30 Index, Monthly Data, 1999-2001*

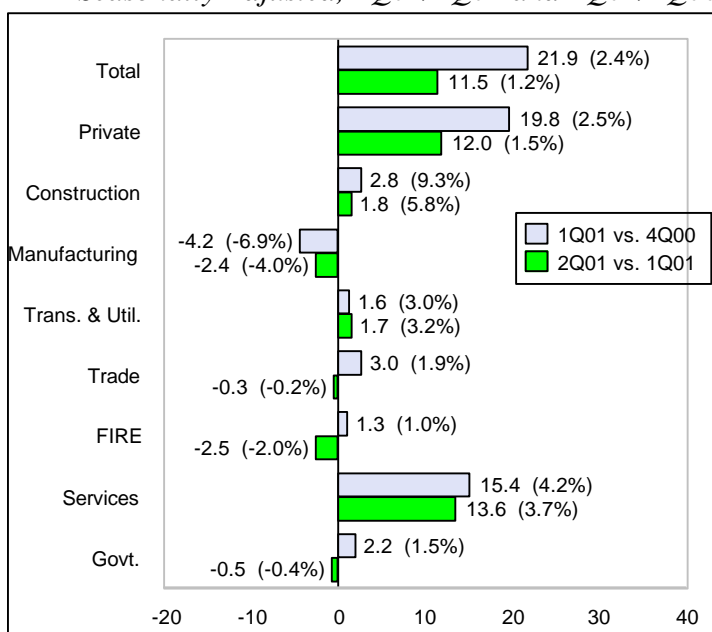


Source: NYC Comptroller's Office, based on NASDAQ month-end stock prices of 30 NYC-headquartered dot-com companies, weighted by their market capitalizations. June 2000 (6/30/00)=100.

2. Jobs

New York City's job growth is clearly slowing down. The City gained 11,500 seasonally adjusted jobs in second-quarter 2001, about half the increase in jobs of 21,900 in first-quarter 2001. The private sector gained 12,000 jobs in second-quarter 2001 and the public sector lost 500 jobs, both smaller gains than in the first quarter. (See Chart 3.)

Chart 3. NYC Job Growth ('000) and Annualized Percent Change, Seasonally Adjusted, 2Q01/1Q01 and 1Q01/4Q00



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

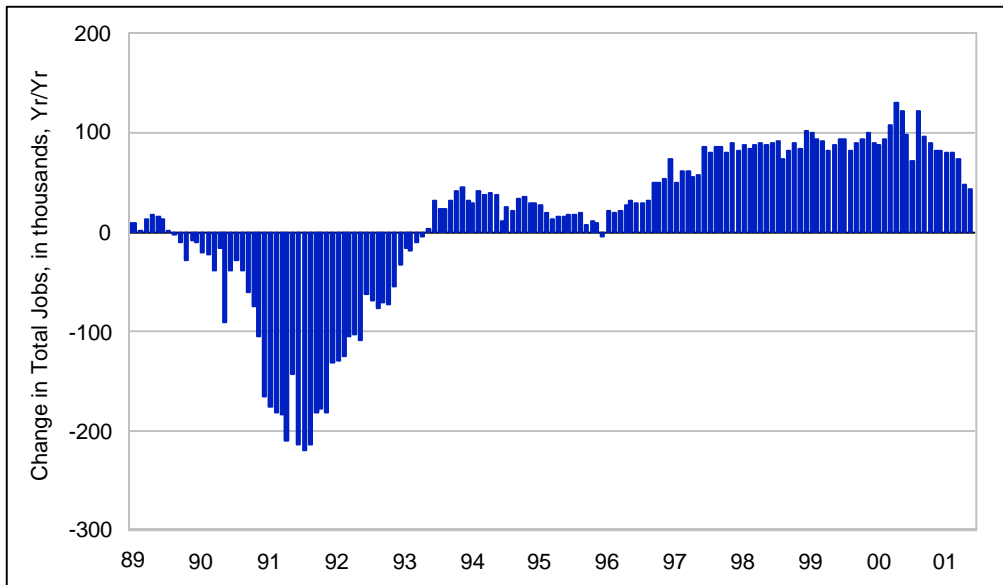
For the first time since the third quarter of 1999, finance, insurance, and real estate (FIRE) lost 2,500 jobs, mainly because of a loss of 2,100 jobs in securities and a loss of 800 jobs in banking. Real estate, however, gained 300 jobs and insurance gained 200. Manufacturing lost 2,400 jobs, and wholesale and retail trade lost 300 jobs. The last time that wholesale and retail trade showed a negative job growth was in the fourth quarter of 1997.

The service sector gained 13,600 jobs. Motion pictures and amusements were up by 3,200 jobs, health services by 2,700 jobs, engineering and management by 1,900 jobs, legal by 1,700 jobs, restaurants and bars by 400 jobs, and social services by 200 jobs. Only business services, the main source of job growth in recent years, lost 5,100 jobs, the first negative number since first-quarter 1995. The decline in business services reflects the slowdown in the dot-coms and the new and old media.

The slowdown also shows up if job gains are compared on a year-over-year basis. Total jobs were up by 55,400 in second-quarter 2001 over second-quarter 2000. This was less than half of the 120,500 jobs gained in second-quarter 2000 over second-quarter 1999. Monthly jobs data show that the year-over-year payroll job growth has been declining to 44,400 in June of 2001 since it reached its peak of 129,900 in May of 2000. (See Chart 4.)

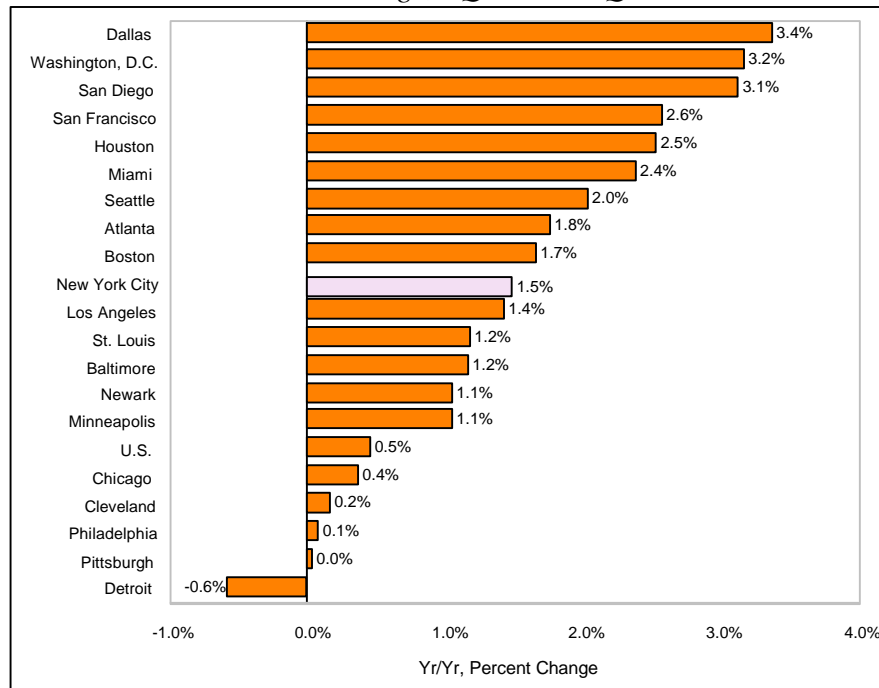
Although the City's job gains were weak, they were above those of the nation. Seasonally adjusted City jobs were up at an annualized rate of 1.2 percent, but U.S. jobs fell 0.3 percent. Compared with other cities, on a non-seasonally adjusted basis, New York City had the tenth-highest rate of job growth, 1.5 percent, in second-quarter 2001 over second-quarter 2000. Dallas had the highest rate of job growth, 3.4 percent, and Detroit had the lowest, a negative 0.6 percent. (See Chart 5.)

Chart 4. NYC, Changes in Total Jobs, Monthly, Year-over-Year, '000, 1988-2001



Source: NYS Department of Labor.

Chart 5. Job Growth, NYC, the 19 Next Largest Metro Areas and U.S. Average, Percent Change, 2Q01 over 2Q00



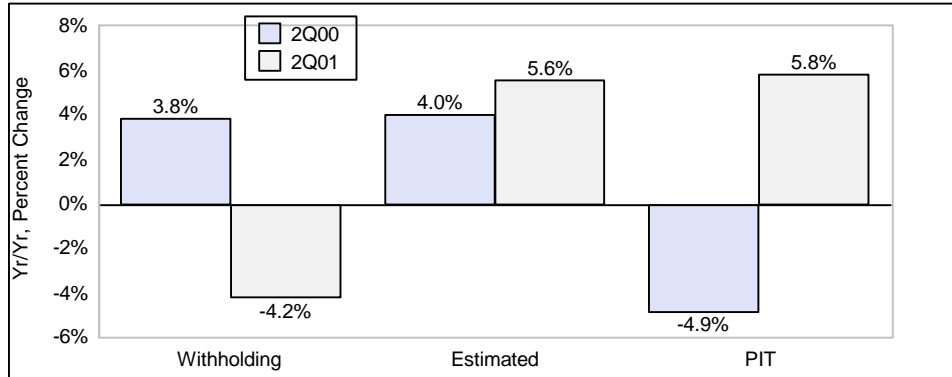
Source: U.S. Bureau of Labor Statistics. All data are for the entire metro areas (MSAs or PMSAs), except for NYC, for which City data are used. The NYC PMSA would include also three counties north of NYC, i.e., Westchester, Putnam, and Rockland counties.

3. Income

For quarterly analysis, personal income taxes (PIT) and average hourly wages are used as a proxy for personal income. Personal income data are published by the Bureau of Economic Analysis of the Department of Commerce only annually and with a one-year lag.

On a year-over-year basis, NYC's PIT rose 5.8 percent in second-quarter 2001. Withholding taxes, i.e., the amount of taxes withheld from employee paychecks, fell 4.2 percent in second-quarter 2001, a sign of the deceleration in job growth. But estimated tax payments- which are based on taxpayers' estimates of interest earned, rental income, and capital gains- were up 5.6 percent in second-quarter 2001. (See Chart 6.)

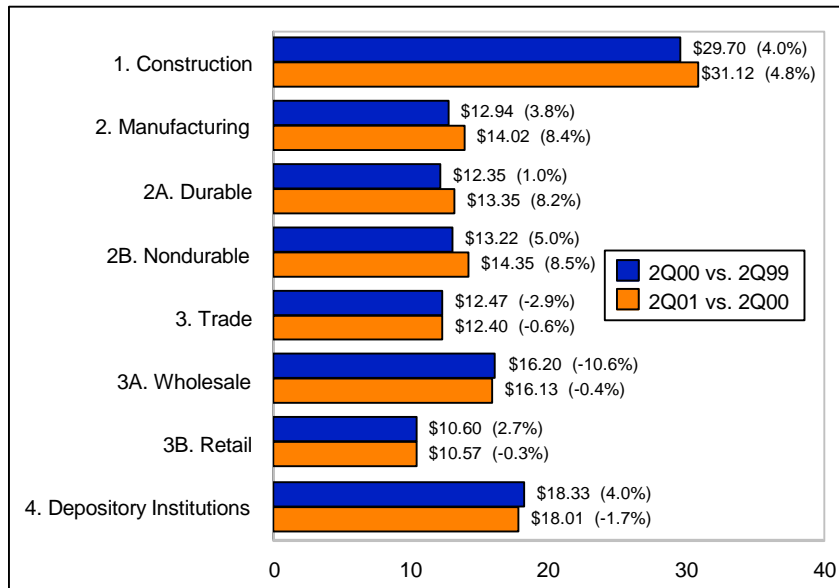
Chart 6. *Personal Income Taxes, Year-over-Year Percent Change, 2Q01 and 2Q00*



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 provide an indication of the mix of changes in PIT revenue.

Changes in average hourly wages were mixed. While average hourly wages in construction and manufacturing increased on a year-over-year basis, average hourly wages declined for trade and depository institutions. The biggest gain was in manufacturing, where average hourly wages rose 8.4 percent in second-quarter 2001. Construction, with 4.8 percent, had the second-highest growth of average hourly wages of the four industrial sectors that are monitored. (See Chart 7.)

Chart 7. *Average Hourly Wages for Selected Industries, NYC, Year-over-Year Percent Change, 2Q01*



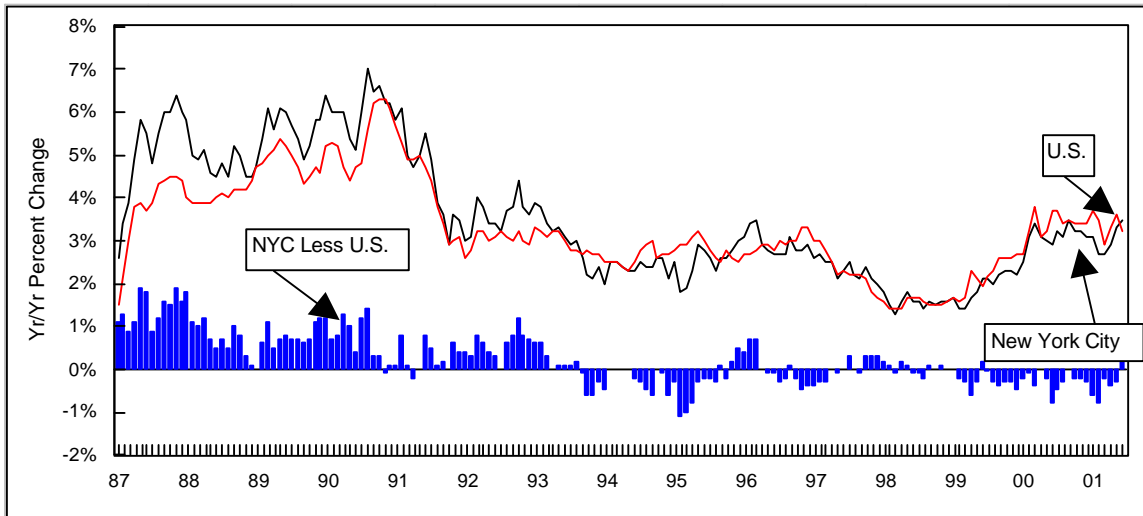
Source: NYS Department of Labor.

Average hourly wages for depository institutions fell 1.7 percent on year-over-year basis; this suggests that layoffs in the banking sector have limited the industry's wage growth. Also, trade wages were down by 0.6 percent, indicating that consumer spending is cooling down.

4. Inflation

The NYC metro area inflation rate, as measured by the year-over-year change in the consumer price index (CPI), rose to 3.2 percent in second-quarter 2001 compared with 2.8 percent in the first quarter. The second-quarter inflation rate (CPI change) of 3.2 percent in NYC metro area was below the national average of 3.4 percent. However, NYC's 3.0 percent core rate, which includes all items except food and energy, was above the nation's 2.7 percent. This indicates that unlike the rise in the national inflation rate, which was caused by higher energy prices, the rise in the City's inflation rate reflects increases not only in energy prices but in other components like housing, medical care, and services. (See Chart 8.)

Chart 8. *Inflation Rates: NYC Area, U.S., and NYC Minus U.S., Monthly; Year-over-Year, 1987-2001*



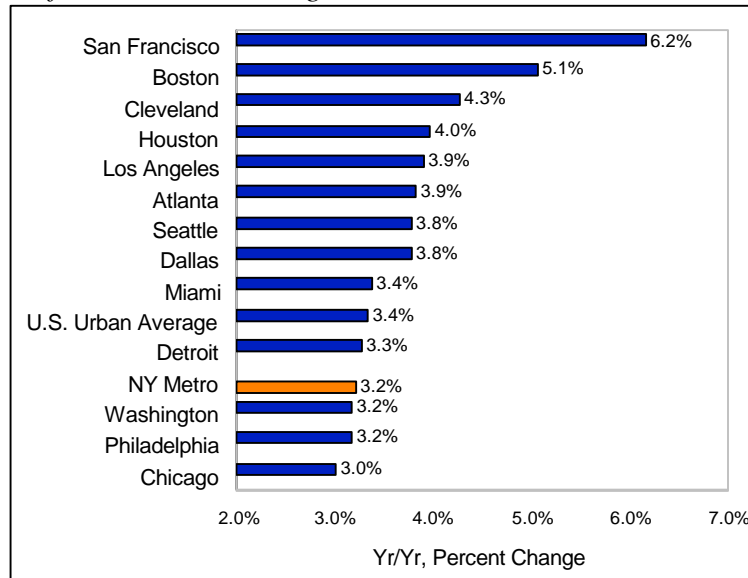
Source: U.S. Bureau of Labor Statistics (BLS). Computation of differences by the NYC Comptroller's Office. Inflation data for NYC and other cities are collected for the BLS on a metropolitan-wide basis.

The City's core inflation rate, 3.0 percent in second-quarter 2001, is the highest rate since 3.4 percent in first-quarter 1996. Although energy prices rose 8.0 percent in the second quarter, this was the lowest energy-price increase since 4.2 percent in third-quarter 1999. Medical-care prices were up 4.8 percent, housing was up 4.3 percent, services 4.2 percent, food and beverages 2.9 percent, and transportation 2.0 percent. The price of apparel and upkeep fell 2.6 percent in second-quarter 2001, the largest decline since a 4.6 percent drop in first-quarter 1999.

During the first half of 2001, the regional NYC CPI rose 3.0 percent, four-tenths of a percent less than the national average of 3.4 percent, on a year-over-year basis. However, for the first time since June 1999, the NYC CPI rose 3.5 percent, three-tenths of a percent more than the U.S. average of 3.2 percent in June 2001.

Compared with 13 other large metro areas, the NYC metro area had the fourth-lowest inflation rate, 3.2 percent, in second-quarter 2001. San Francisco had the highest inflation rate, 6.2 percent, and Chicago had the lowest, 3.0 percent. (See Chart 9.)

Chart 9. *Inflation Rate, 14 Large Metro Areas and U.S. Urban Average, 2Q01*



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 ten of the largest 20 metro areas.

5. Unemployment

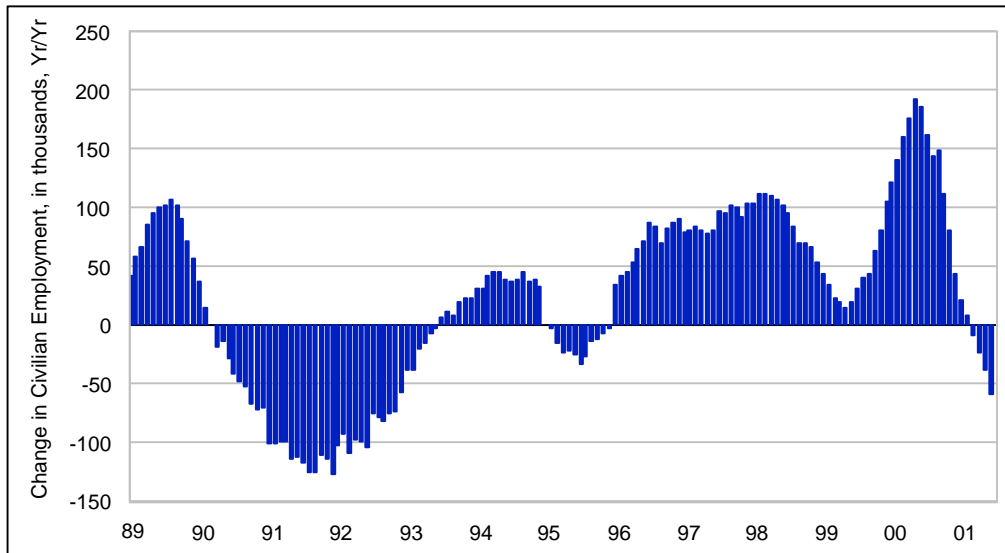
On a seasonally adjusted basis, quarter-over-quarter employment data slightly improved. But signs of slowdown were apparent in non-seasonally adjusted data, when civilian (household-survey-based, as opposed to payroll-based) employment data are compared on a year-over-year basis. After three consecutive quarters of decline, the seasonally adjusted number of employed City residents rose by 1,400 in second-quarter 2001. Civilian employment fell by 15,500 in first-quarter 2001, by 23,400 in fourth-quarter 2000, and by 2,400 in third-quarter 2000. The seasonally adjusted employment/population ratio consequently fell to 55.4 percent in second-quarter 2001, down from 55.5 percent in the first quarter. The City's labor force was up by 5,400 in second-quarter 2001 compared with a decline of 29,300 in first-quarter 2001. The labor-force-participation rate in second-quarter 2001 remained unchanged at 58.5 percent.

The seasonally adjusted number of unemployed residents rose by 4,000 in the second quarter, the first increase since third-quarter 1999. As a result, the unemployment rate rose to 5.3 percent in second-quarter 2001, from 5.2 percent in the first quarter.

The slowdown is also apparent when the changes in the civilian employment are compared on a year-over-year basis. The number of NYC residents with a job declined by 40,000 in second-quarter 2001 over second-quarter 2000. The number of NYC residents with a job rose by a record 185,100 in second-quarter 2000 over second-quarter 1999. Monthly data show a civilian-job decline of 58,800 in June 2001 compared with June 2000. Gains in civilian employment have been declining since the record gain of 192,000 in May 2000. (See Chart 10.)

The weakness in civilian data was more pronounced for the nation. The seasonally adjusted number of unemployed U.S. residents rose at an annualized rate of 24.5 percent in second-quarter 2001 after increasing 29.7 percent in the first quarter. As a result, the unemployment rate went up to 4.5 percent, the highest since third-quarter 1998. The number of employed civilians declined 2.1 percent in the second-quarter, after increasing by 0.8 percent in first-quarter 2001. The decline in employed civilians lowered the employment/population ratio to 63.9 percent from 64.4 percent in the first quarter.

Chart 10. *Change in Civilian Employment, NYC, Monthly, Year-over-Year, '000, 1988-2001*

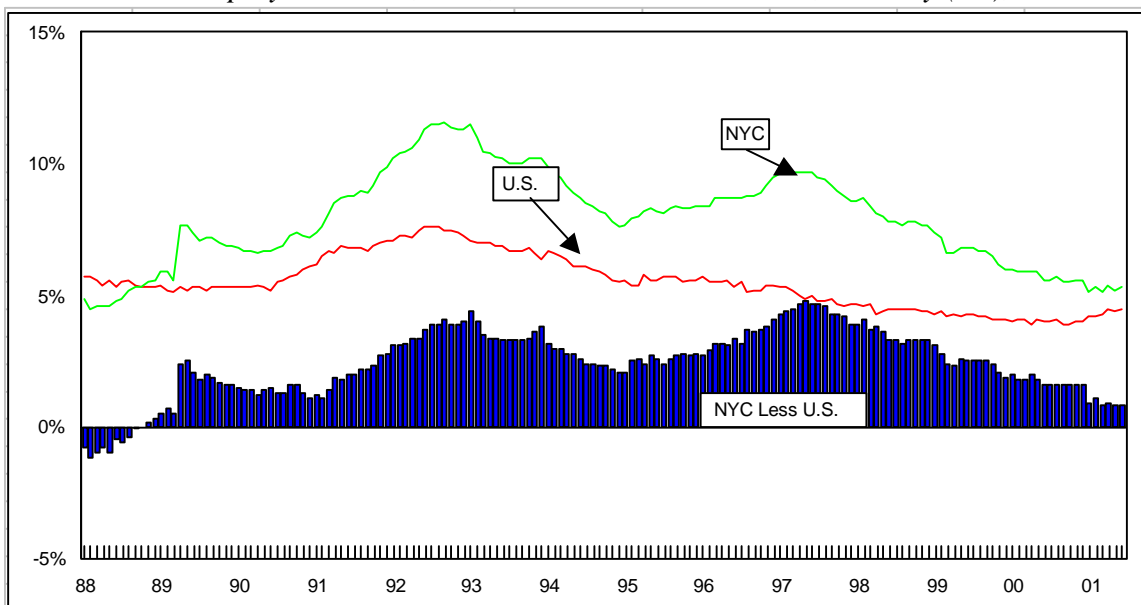


Source: NYS Department of Labor.

The seasonally adjusted number of people in the labor force also dropped by 1.1 percent in second-quarter 2001, after increasing 1.9 percent in the first quarter. The labor-force-participation rate declined to 66.9 percent in the second quarter, from 67.2 percent in the first quarter.

Although the data show a sharper slowdown in the nation than the City, NYC's unemployment rate continues to exceed that of the nation, although the gap has narrowed markedly since 1997. (See Chart 11.)

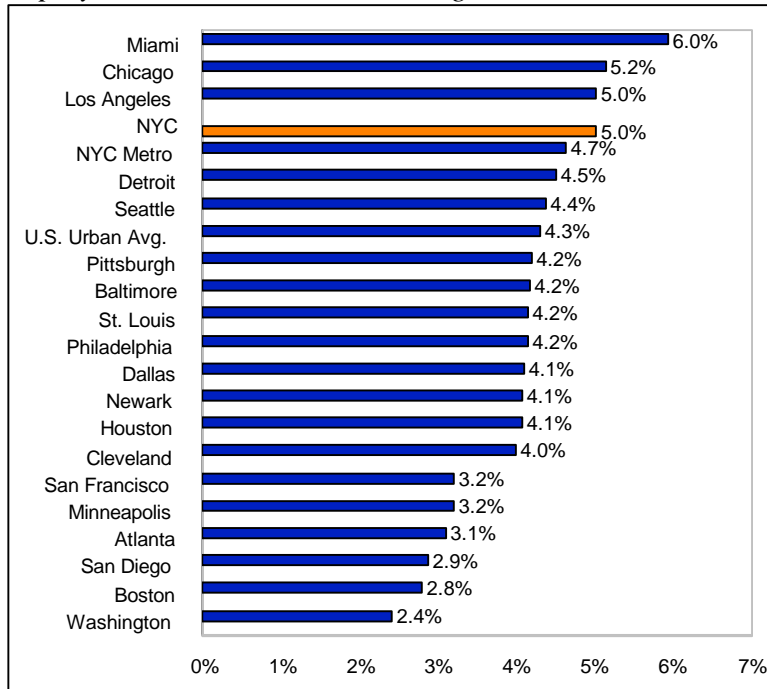
Chart 11. *Unemployment Rate, NYC, U.S. and NYC Less U.S., Monthly (SA), 1988-2001*



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.

The second-quarter 2001 NYC unemployment rate of 5.0 percent (not seasonally adjusted) was the third highest of the 20 largest metro areas, tied with Los Angeles. Miami, with 6.0 percent, and Chicago, with 5.2 percent, had the highest unemployment rates. Washington, with 2.4 percent, had the lowest unemployment rate. (See Chart 12.)

Chart 12. *Unemployment Rate, NYC and 20 Largest Metro Areas and U.S. Urban Average, 2Q01*



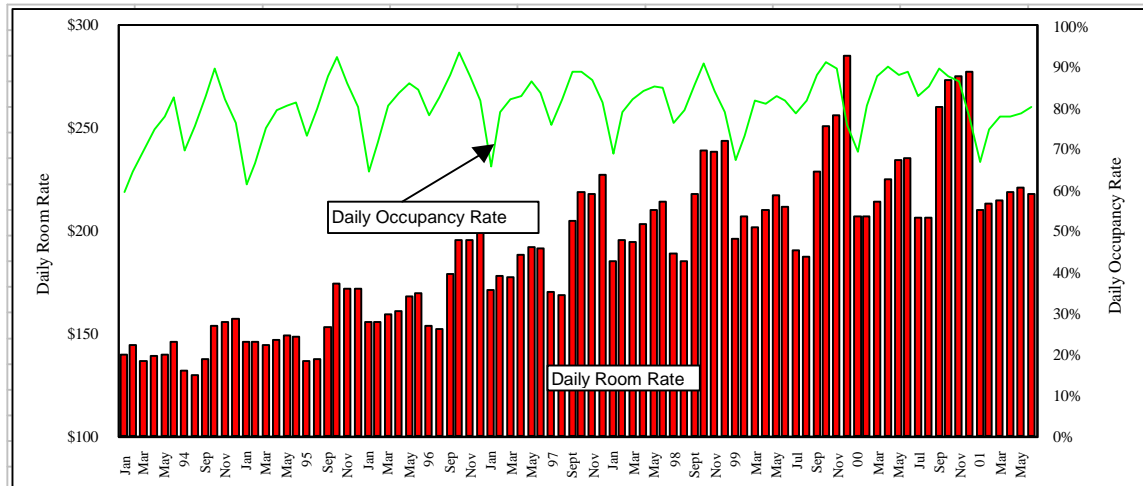
Source: BLS. All data are for metro statistical areas, i.e., MSAs or Primary MSAs (PMSAs); the NYC metro area is its PMSA, which is composed of the five NYC boroughs plus Westchester, Putnam, and Rockland counties. The unemployment rate for NYC alone is slightly higher and is shown for comparison. These numbers are not seasonally adjusted.

6. Tourism and the Hotel Industry

The hotel industry had a relatively slow second quarter. The average daily occupancy rate, which is not seasonally adjusted, was 79.2 percent in second-quarter 2001, the least busy *second* quarter since 78.4 percent in *second*-quarter 1994. The average daily occupancy rate was 73.3 percent in first-quarter 2001 and 88.9 percent in second-quarter 2000.

The average daily room rate was \$220 in second-quarter 2001, versus \$232 in second-quarter 2000 and \$210 in first-quarter 2001. The weak national economy, the strong dollar, and the world-wide economic slowdown are likely causes. (See Chart 13.)

Chart 13. *Daily Room and Occupancy Rates, NYC Hotels, 1994-2001*



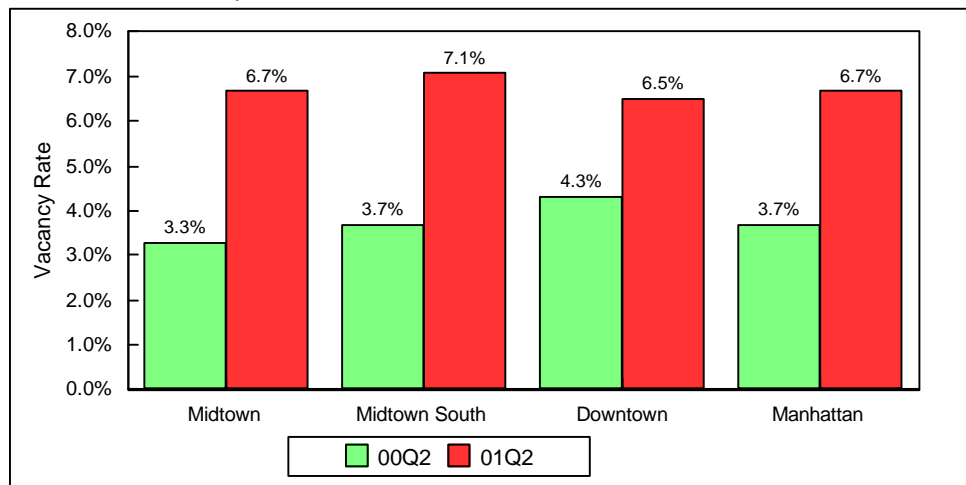
Source: PKF Consulting.

During the first half of 2001, the average daily occupancy rate was 76.2 percent and the average daily room rate was \$217, down from an occupancy rate of 84.0 percent and a daily room rate of \$221 in the first half of 2000.

7. Real Estate

The slower economy had a significant impact on real-estate activities in the City. The vacancy rate almost doubled in some areas of Manhattan as many firms, especially the dot-coms, cancelled their leases or opted for smaller office space. The overall vacancy rate in Manhattan was 6.7 percent in second-quarter 2001, up from 3.7 percent in second-quarter 2000. The biggest change in the vacancy rate was in Midtown and the smallest change was in Downtown. Midtown South had the highest vacancy rate. (See Chart 14.)

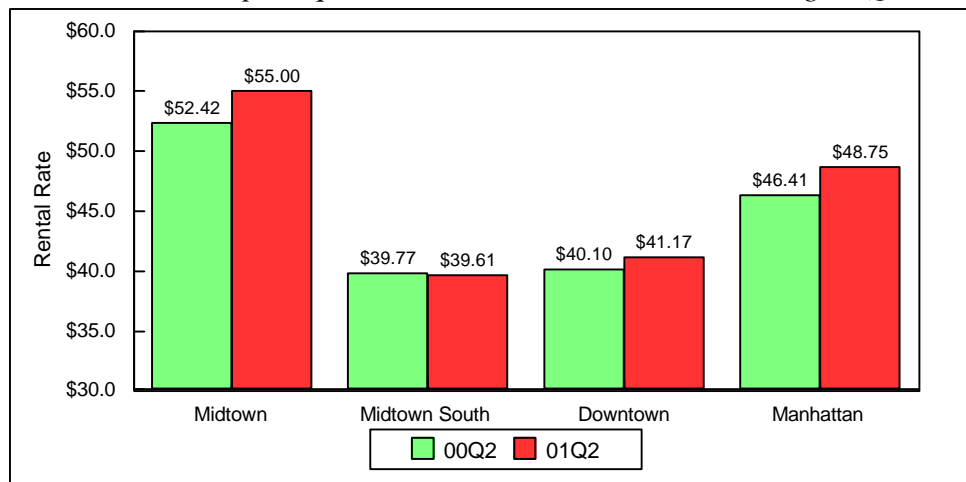
Chart 14. *Vacancy Rates, Manhattan, Overall Commercial, 2Q00 and 2Q01*



Source: Cushman and Wakefield.

On a year-over-year basis, rents were up only slightly in Manhattan in second-quarter 2001, except for Midtown South. Average rental rates in Midtown South during second-quarter 2001 were down from second-quarter 2000. (See Chart 15.)

Chart 15. *Rental Rates per Sq. Ft., Manhattan, Commercial, Average, 2Q00 and 2Q01*



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

The City's leading economic indicators were mixed in the second quarter, but on balance point toward a slowdown. The seasonally adjusted help-wanted-advertising index fell by more than 19 percent in second-quarter 2001 from the first quarter. The Conference Board did not report an index number for June, so the ad-index numbers are subject to change. The City's ad-index slipped faster than the nation's. The national average was 61 in second-quarter 2001, 14 percent below the 70.7 level in the first quarter.

Initial unemployment claims, which track the number of unemployed claiming unemployment insurance, rose by an average of 5,155 per month during second-quarter 2001, slightly below the 5,208 per month in the first quarter. On a year-over-year basis, initial unemployment claims rose by 7,836 per month during the first half of 2001, the largest average monthly gain since 1988, the earliest year for which the data are reported. This indicator is important because it is not model-driven and therefore is often the first sign of employment declines.

The only indicator that improved was the number of building permits authorized. It was up 1,492 in second-quarter 2001 over second-quarter 2000. It was also up for the first half of 2001. The good performance of this indicator probably reflects the low-interest-rate environment. (See Table 2.)

Table 2. *Three Leading Economic Indicators, NYC, 2Q01 vs. 2Q00 and 1Q01**

Help-Wanted Ads (Averages of Monthly Indicators, Seasonally Adjusted)			
1 st Half of 2000	54.7	1Q01	40.3
1 st Half of 2001	37.2	2Q01	32.5
Change	-32.0% W	Change	-19.4% W
Initial Unemployment Claims (Monthly Average)			
1 st Half of 2000	28,253	1Q01	32,757
1 st Half of 2001	36,090	2Q01	37,912
Change	+ 7,836 W	Change	+ 5,155 W
Number of Building Permits Authorized (Period Totals, NSA)			
1 st Half of 2000	42,619	2Q00	22,076
1 st Half of 2001	43,937	2Q01	23,568
Change	1,318 B	Change	1,492 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.