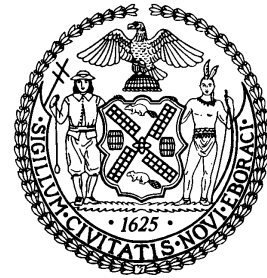


# Economic Notes



New York City Office of the Comptroller

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## NYC'S ECONOMY MAINTAINS FLOW IN 3Q00

**SUMMARY:** The U.S. economy grew at a moderate pace in the third quarter. The City's economy grew faster than the nation's. But signs have appeared of a slowdown for both nation and City.

- **Gross City Product (GCP)**, adjusted for inflation, grew 3.5 percent, ahead of the nation's 2.7 percent. Both figures were below 2Q00. (See Summary Table below.)
- **Payroll Jobs**, adjusted for seasonal fluctuations, grew 0.3 percent in the City and 0.2 percent in the nation. However, private-sector jobs grew 2.5 percent in the City and 1.4 percent in the nation. One reason for slower job growth is the layoff of temporary workers hired for the 2000 Census.
- **PIT revenues**, which are used as a proxy for rise in income, grew 4.2 percent in the City. Also, average hourly wages shows a rise in hourly wages.
- **The Inflation Rate** was up mostly because of higher energy prices, which grew 17.7 percent in the City and 15.9 percent in the nation. The core inflation rate, which includes all items except food and energy, was up 2.5 percent in the City and nation.
- **The Unemployment Rate** in the City continues to exceed that of the nation, although the spread has narrowed. The City and the U.S. unemployment rates both declined relative to 2Q00 and 3Q99.

Summary Table. *Five Key Economic Indicators, NYC and U.S., 3Q00\**

	Period	1. GCP or GDP Growth	2. Payroll-Jobs Growth	3. Personal-Income-Tax (PIT) Growth	4. Inflation Rate	5. Unemployment Rate
NYC	3Q00	+3.5% W	+0.3% W	+4.2% B	+3.2% W	5.6% B
USA		+2.7% W	+0.2% W	+13.7% B	+3.5% W	4.0% B

\* B=Better than prior period. N=No change. W=Worse. Indicators 1, 2, and 5 compare 3Q00 with 2Q00. Indicators 3-4 compare 3Q00 with 3Q99. Annual changes average monthly data (or quarterly data for gross product). Sources: See Charts 1, 2, 4, 6, 8.

- **Other Indicators** were mixed. On a year-to-date basis, all the indicators improved. But on a quarterly basis, they were mixed. Initial unemployment-insurance claims and the help-wanted advertising index deteriorated, while the number of building permits authorized improved. The hotel industry continued to grow. Compared with the third quarter of previous years, the 3Q00 occupancy rate was at a record high since 1980 when data were first available. Finally, on a year-over-year basis, commercial real estate showed a huge drop in 3Q00 vacancy rates and a 27 to 62 percent rise in rental rates.

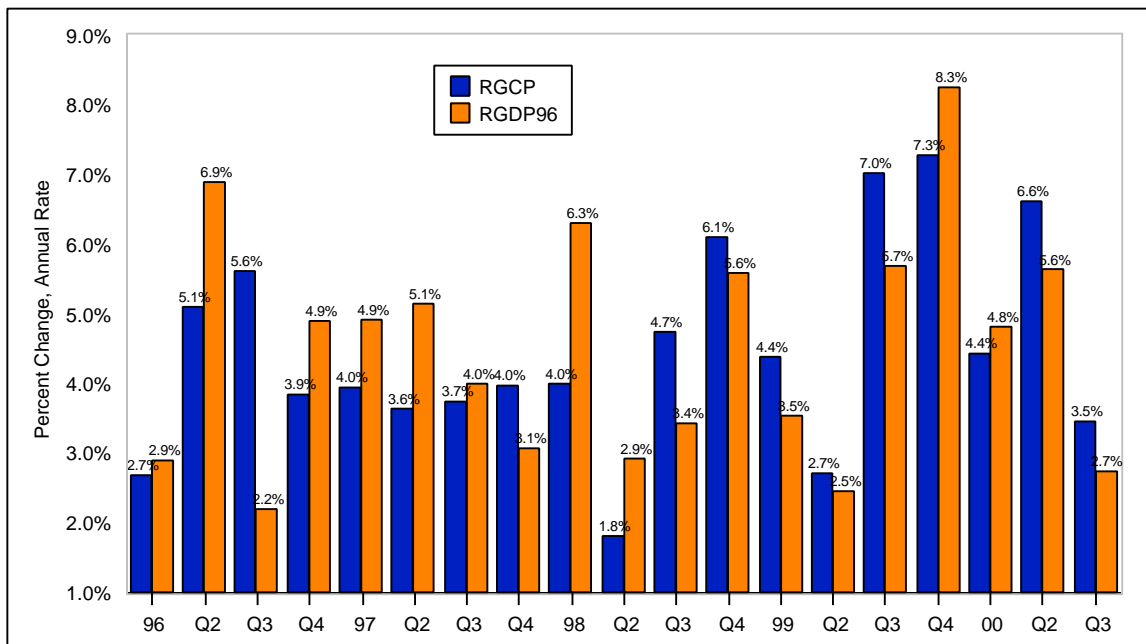
The City's economy continues to grow strongly. However, signs of a slowdown ahead have emerged from statistics on initial unemployment insurance claims, help-wanted advertising, and other regional indicators. In addition, the stock market's nervous fluctuation and declines have had an impact on the City economy, as planned initial public offerings (IPOs) and secondary offerings have been withdrawn.

The national economy grew more slowly than expected but at a healthy pace, 2.7 percent. While the slower means Federal Reserve is less likely to raise interest rates, slower economic growth also means weaker company earnings.

## 1. Gross City Product

For the second quarter in a row, the City's economy out-performed that of the nation. Real gross city product (GCP) grew at an annualized rate of 3.5 percent in the third quarter, 0.8 percentage points above the real gross domestic product (GDP) growth rate of 2.7 percent. (See Chart 1.)

Chart 1. *Real GCP and GDP, Percent Change, Annual Rate, Quarterly, 1996-2000*



Source: GDP data from U.S. Department of Commerce. NYC GCP estimates are by the NYC Comptroller's Office and are preliminary for the latest quarter.

The rise in GCP is attributable to an increase in private-sector jobs and income. The City's private-sector jobs increased at an annualized rate of 2.5 percent in the third quarter compared with the nation's 1.4 percent. Also, the City's income growth, as proxied by the growth in the personal income tax, was up 4.2 percent in the third quarter, on a year-over-year basis. Similarly, withholding taxes, the amount of taxes withheld from paychecks, were up 7.0 percent in the third quarter on a year-over-year basis.

The rise in GDP occurred because the decline in net exports and government expenditures were outweighed by strong consumer spending and private investment. The trade deficit, measured by negative net exports, widened to \$410.8 billion in the third quarter compared with \$403.4 billion in the second quarter. Government spending fell at an annualized rate of 3.6 percent in the third quarter compared with a rise of 4.8 percent in the second quarter.

On the other hand, consumer spending was strong. It grew at an annualized rate of 4.5 percent, compared with 3.1 percent in the second quarter. Private investment grew weakly at 6.9 percent, compared with 14.6 percent in the second quarter; it was the slowest growth since the 3.5 percent growth rate in the third quarter of 1998.

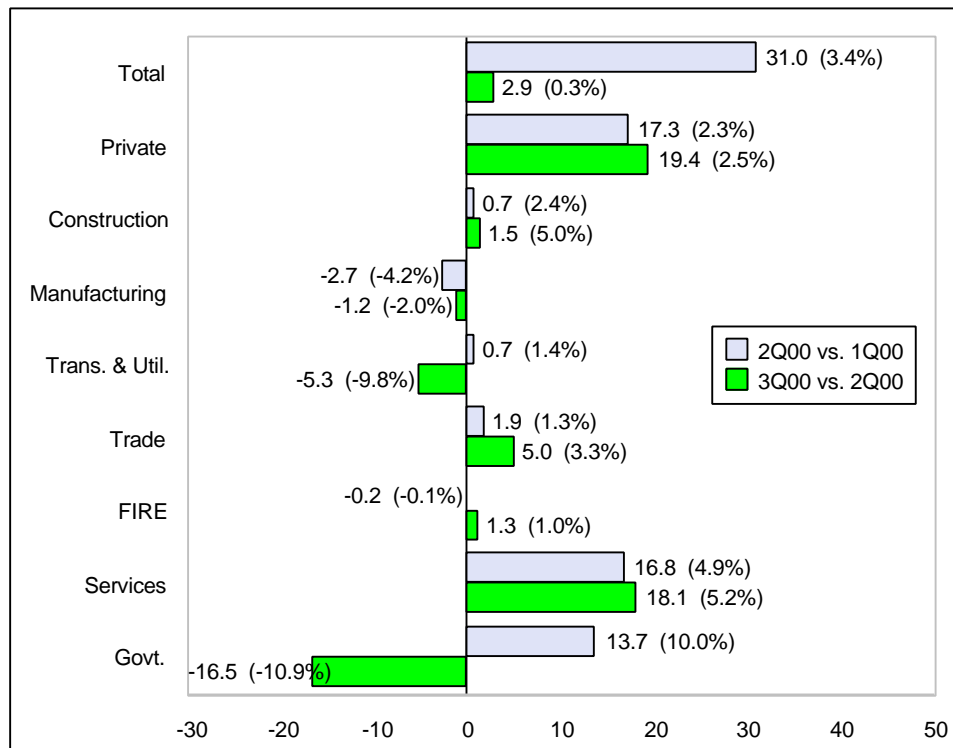
## 2. Jobs

New York City gained 2,900 seasonally adjusted jobs in the third quarter of 2000 compared with a gain of 31,000 jobs in the second quarter. The slow job growth mostly reflects a loss in government jobs, which were down by 16,500. During the third quarter, Federal government jobs declined by 10,900 and local government lost 5,700 jobs. Losses in Federal jobs were due to the layoff of temporary workers hired in June for the 2000 Census. Losses in the local-government jobs were seasonal, reflecting the ending of summer jobs; these losses were relatively small because the summer jobs program has been funded at a lower level in 2000 than in previous years.

The losses in government jobs were more than offset by private-sector gains. The private sector gained 19,400 jobs in the third quarter compared with 17,300 jobs in the second quarter. Services added the most jobs, 18,100, followed by wholesale and retail trade, which gained 5,100 jobs; construction added 1,500 jobs; finance, insurance, and real estate (FIRE) gained 1,300 jobs.

Within services, business services added 8,800 jobs, engineering and management added 1,600 jobs, eating and drinking places added 1,500 jobs, social services and health services each added 1,400 jobs, motion picture and amusements added 1,300 jobs, and legal added 500 jobs. Within FIRE, real estate added 1,300 jobs, securities added 1,000 jobs, insurance added 200 jobs, but banking lost 1200 jobs. During the third quarter, transportation and utilities lost 5,300 jobs and manufacturing lost 1,200 jobs. (See Chart 2.)

Chart 2. NYC Job Growth, '000, and Annualized Percent Change, Seas. Adjusted, 3Q00/2Q00 and 2Q00/1Q00

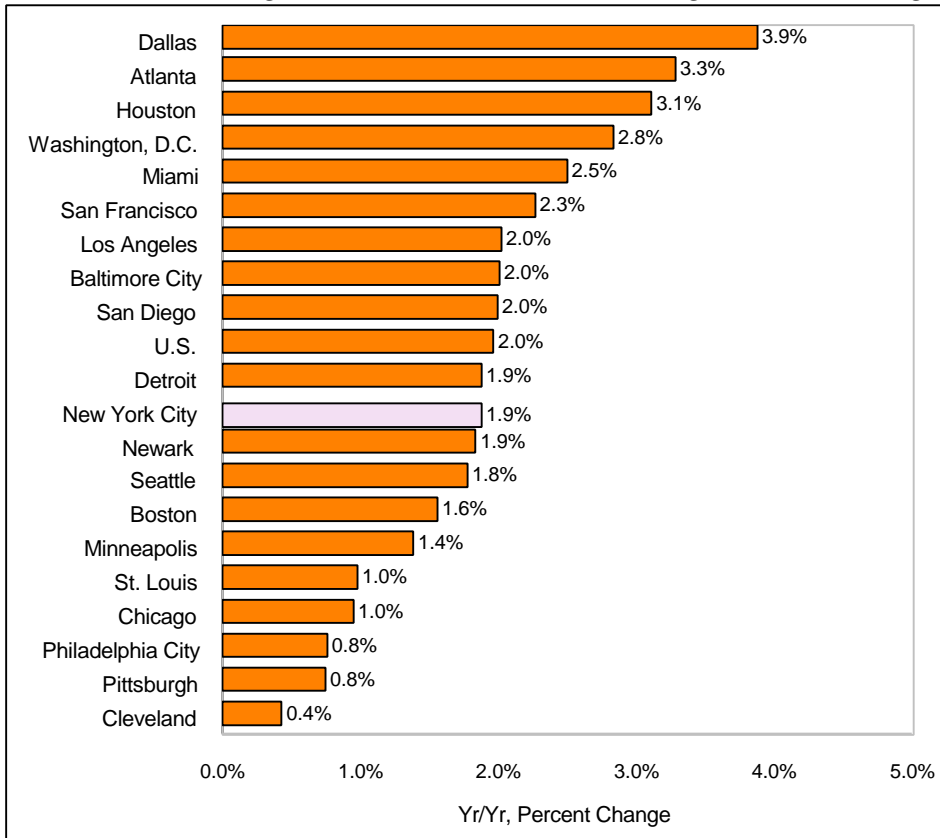


Source: NYS Department of Labor. Quarterly seasonal adjustments are by the NYC Comptroller's Office.

Compared with the U.S. and 20 largest metro areas, the City's non-seasonally adjusted job growth ranked

twelfth. Dallas had the highest rate of job growth, 3.9 percent, and Cleveland had the lowest rate, 0.4 percent.

Chart 3. *Job Growth, 20 Largest Metro Areas and U.S. Average, Percent Change, 3Q00 over 3Q99*



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

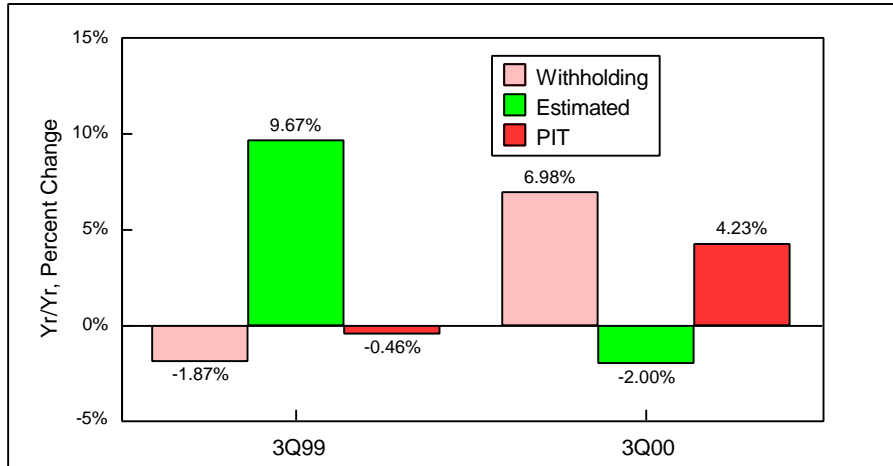
### 3. Incomes

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 tax (PIT) and average hourly wages are used.

On a year-over-year basis, PIT and withholding increased in the third quarter but estimated taxes decreased reflecting the poor performance of Wall Street. Third-quarter PIT rose 4.2 percent and withholding was up 7.0 percent, but estimated taxes fell 2.0 percent. The rise in income tax revenues mostly reflects a strong gain in private sector jobs. PIT for the nation rose 13.7 percent in the third quarter. (See Chart 4.)

The negative growth in PIT and withholding in the third quarter of 1999 results from a change in tax laws during late 1998 and 1999. For instance, ending the 12.5 percent PIT surcharge in December 1998, a reduction in the School Tax Relief Program, and the elimination of the commuter tax, made PIT for 1999 incompatible with 1998. In 1999, PIT on a common rate and base rose 15.1 percent, compared with 14.0 percent in 1998.

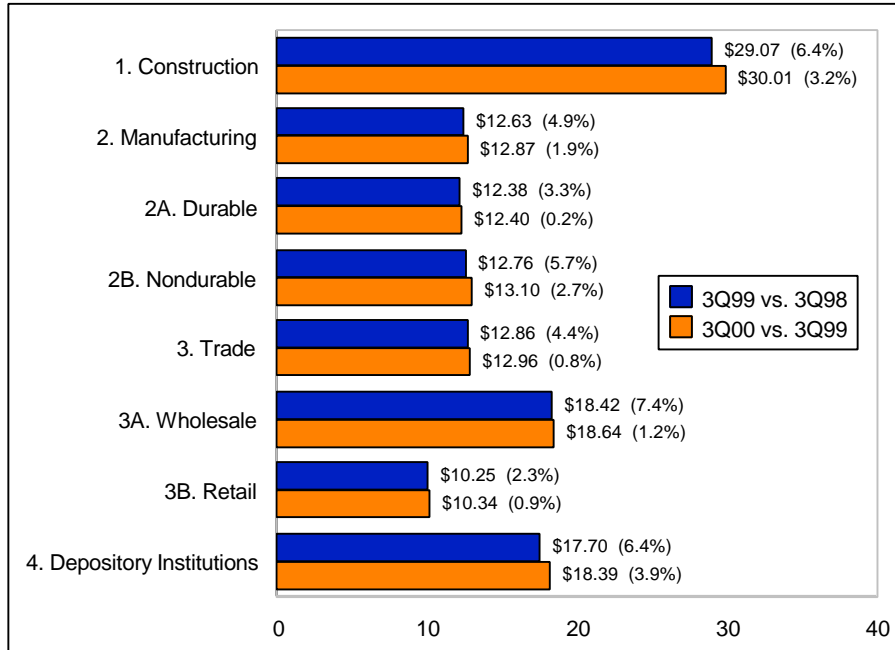
Chart 4. *Personal Income Taxes, Year-over-Year Percent Change, 3Q00 over 3Q93*



Source: NYC Comptroller’s Office, based on data from the NYS Department of Taxation and Finance and NYC OMB.

Another sign of a rise in income is reflected in average hourly wages, which were up for all the sectors that reported during the third quarter. However, third-quarter 2000 average-hourly-wage growth was below that of third-quarter 1999. Average hourly wages were up most, 3.9 percent, for depository-institutions employees, followed by construction workers, 3.2 percent. However, in the third quarter of 1999 average hourly wages for depository institutions and construction were up more, 6.4 percent. The lowest average-hourly-wage growth was in manufacturing, 1.9 percent. Manufacturing average hourly wages were up 4.9 percent in third-quarter 1999. (See Chart 5.)

Chart 5. *Average Hourly Wages for Selected Industries, NYC, 3Q00 over 3Q99*



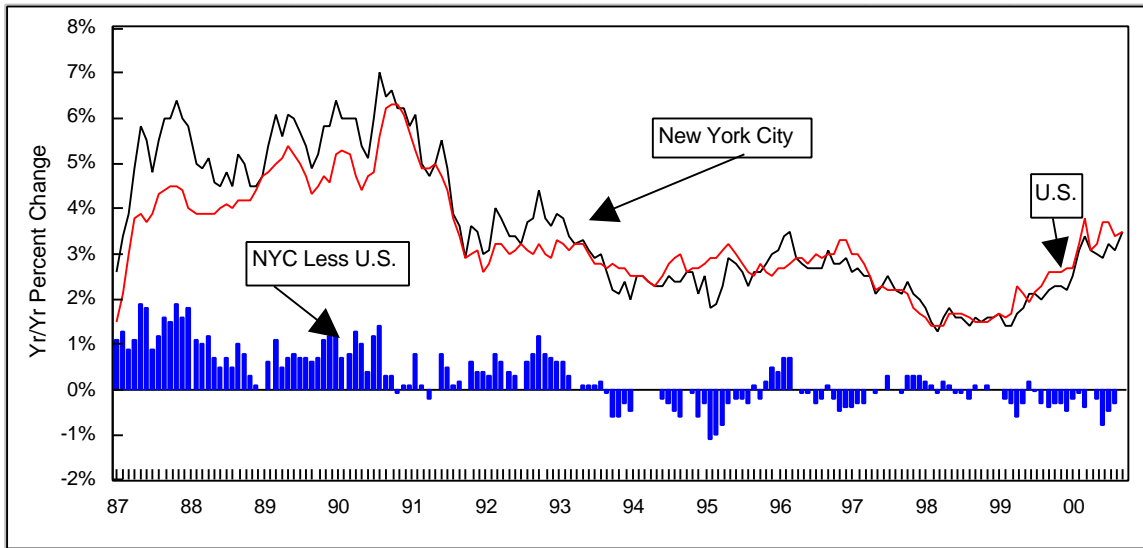
Source: NYS Department of Labor, which does not publish comparable data for higher-level salaried staff.

### 3. Inflation

Inflation crept up during the third quarter. The inflation rate, measured as a year-over-year change in the consumer price index, was 3.2 percent in NYC metro area, which covers New York-Northern New Jersey-Long Island, Connecticut, and Pennsylvania. The metro area’s inflation rate was 0.3 percent below that of

the U.S. rate of 3.5 percent, but was 0.2 percentage points above the second -quarter inflation rate of 3.0 percent. (See Chart 6.)

Chart 6. *Inflation Rates, NYC, U.S., and NYC Less U.S., Monthly, Year-over-Year, 1987-2000*



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

The core inflation rate, which covers all items except food and energy, was only 2.5 percent in the third quarter, indicating that the rise in inflation is greatly impacted by the rise in food and energy prices. While food and beverages prices increased only 1.3 percent, energy prices increased 17.7 percent in the third quarter. The core rate was 2.3 percent in second quarter.

Except for the price of apparel and upkeep, which declined 1.5 percent, the price of other components of consumer price index increased in the third quarter. Transportation costs rose 5.4 percent, housing prices were up 3.8 percent, medical care costs rose 3.7 percent, and the cost of services were up 3.4 percent.

The average U.S. inflation rate was 3.5 percent and the core rate was 2.5 percent. The cost of food and beverages rose 2.7 percent and energy costs rose 15.9 percent in the third quarter.

Compared with 13 other metro areas and the U.S. urban average, the NYC metro area had the third-lowest rate of inflation. Dallas and San Francisco had the highest rate of inflation, 4.7 percent, and Philadelphia had the lowest rate, 2.5 percent. (See Chart 7.)

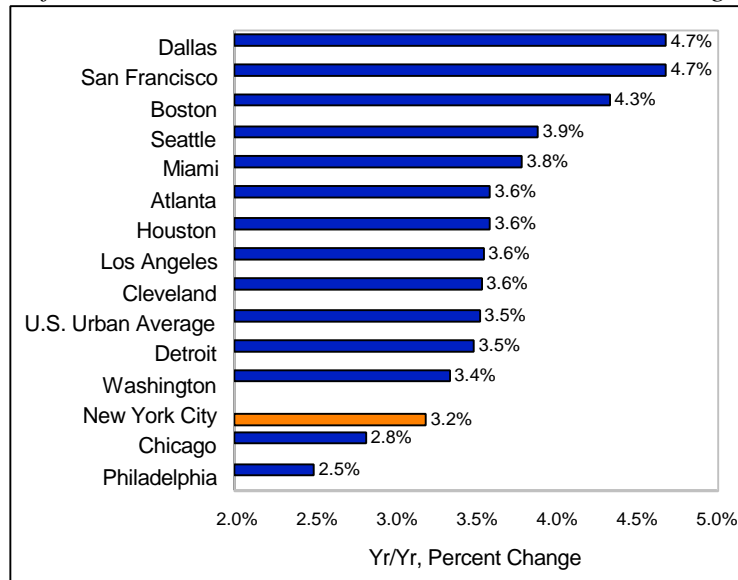
#### 4. Unemployment

The number of civilian unemployed declined by 8,500 bringing down the unemployment rate to 5.6 percent, the lowest rate since 5.5 percent in the fourth quarter of 1988, still 1.6 percentage points higher than the nation's unemployment rate of 4.0 percent. (See Chart 8.)

The number of employed New Yorkers fell by 5,500 in the third quarter compared with a gain of 42,900 in the second quarter. The third-quarter drop in civilian employment reflects the loss in government payroll jobs. As a result, the employment/population ratio dropped to 55.4 percent in the third quarter from 55.6 percent in the second quarter. The City's employment/population ratio is still nearly 10 percentage points below the nation's 64.3 percent. The labor force declined by 13,900 and the labor-force-participation rate

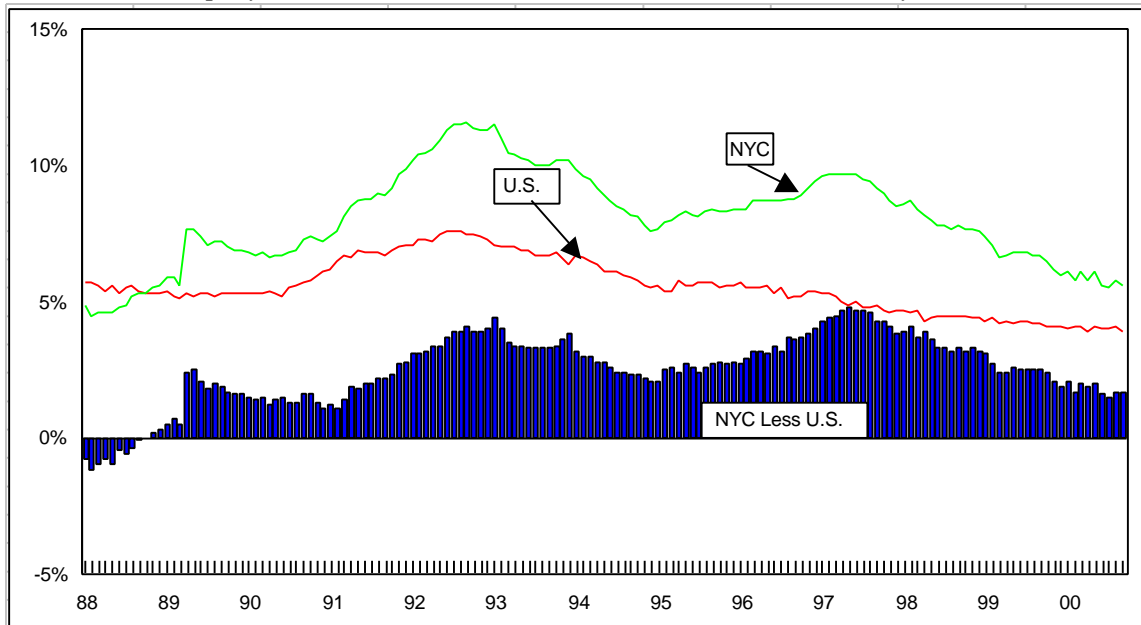
fell to 58.7 percent, still more than 8 percentage points below the nation's 67.0 percent.

Chart 7. *Inflation Rate, 14 Metro Areas and U.S. Urban Average, 3Q00*



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.

Chart 8. *Unemployment Rate, NYC, U.S. and NYC Less U.S., Monthly (SA), 1988-2000*

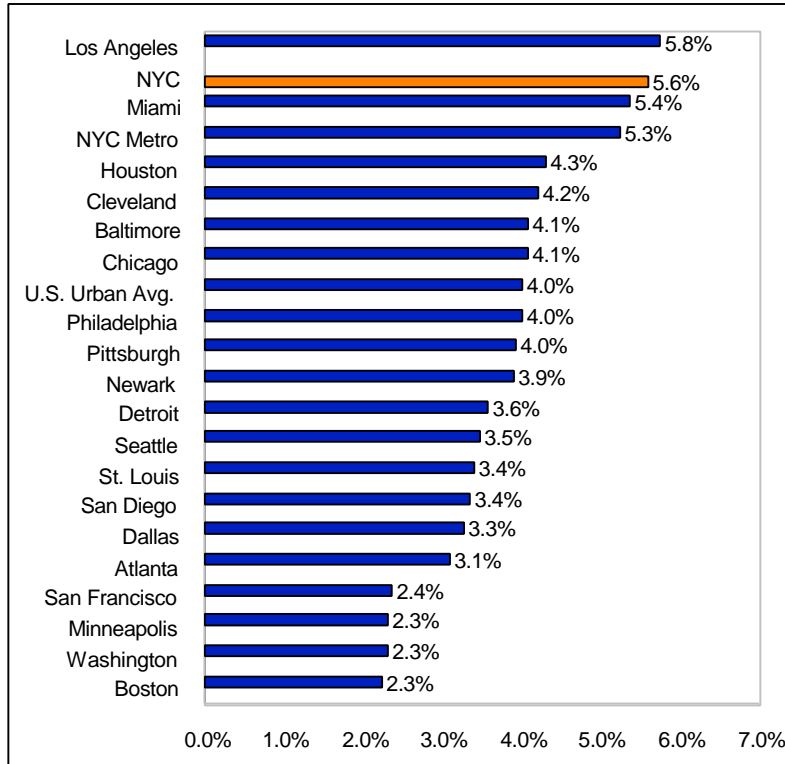


Source: Seasonally adjusted (SA) series and differences computed by the NYC Comptroller's Office, based on monthly data from the NYS Department of Labor and U.S. Bureau of Labor Statistics.

Compared with the other 19 of the 20 largest metro areas, NYC had the second-highest, non-seasonally adjusted unemployment rate, 5.6 percent, in the third quarter. Los Angeles had the highest unemployment rate, 5.8 percent, and Boston had the lowest, 2.3 percent. (See Chart 9.)

Chart 9. *Unemployment Rate, 20 Largest Metro Areas and U.S. Urban Average,*

Not Seasonally Adjusted, 3Q99

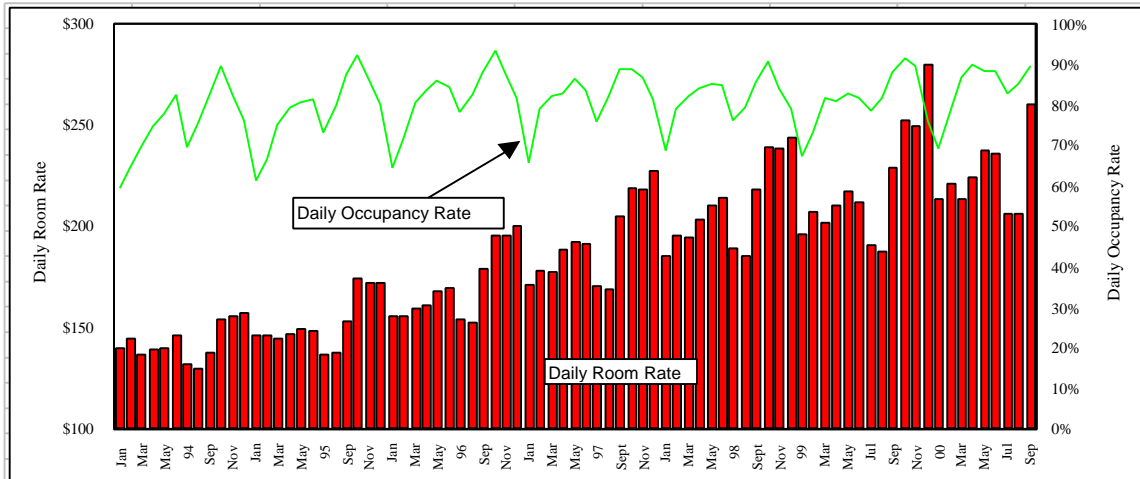


Source: BLS. All data are for metro areas (MSAs or PMSAs); the NYC area is a PMSA. The NYC number is not comparable with that in the Summary Table and Chart 8, which show seasonally adjusted unemployment data.

### 5. Tourism and the Hotel Industry

Tourism and the hotel industry continue to thrive in NYC. In some years the third-quarter hotel-occupancy rate is low; but not in 2000. Although the hotel-occupancy rate was 85.9 percent in third-quarter 2000, it was below 88.9 percent in the second quarter. The current third-quarter occupancy rate is the highest since 1980. The hotel occupancy rate was 82.9 percent in third-quarter 1999 and 80.5 percent in third-quarter 1998. The average daily room rate was \$224.50 in third-quarter 2000, higher than \$202.60 in third-quarter 1999. (See Chart 10.)

Chart 10. Daily Room and Occupancy Rates, NYC Hotels, Monthly Averages, 1994-2000

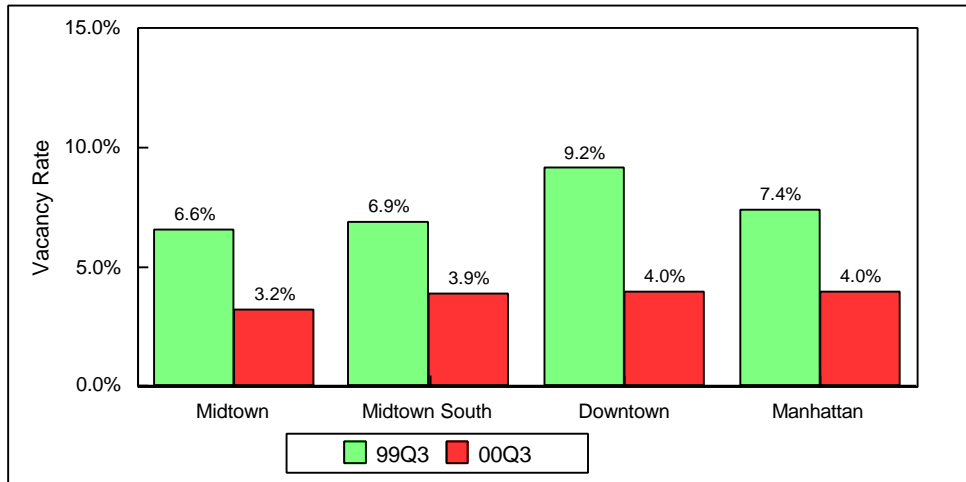


Source: PKF Consulting.

### 6. Real Estate

Despite the moderate economic slowdown, commercial real estate in Manhattan remains highly in demand. In the third quarter of 2000, vacancy rates dropped to half or even less of the level they were in the third quarter of 1999. For instance, the vacancy rate in Downtown dropped to 4.0 percent in the third quarter of 2000 compared with 9.2 percent in the third quarter of 1999. While vacancy rates have dropped throughout Manhattan, the shortage of space remains most acute in Midtown. (See Chart 11.)

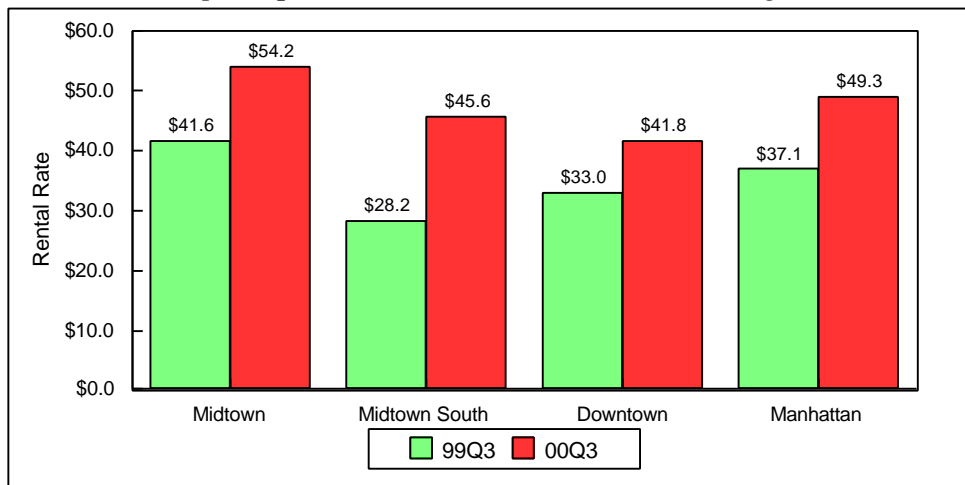
Chart 11. *Vacancy Rates, Manhattan, Overall Commercial, 3Q00 and 3Q99*



Source: Cushman and Wakefield.

The strong demand for commercial real estate led to an increase in rental rates. On a year-over-year basis, average Manhattan rental rates increased by one-third. But Midtown South rates soared by 62 percent. Having become a trendy location for restaurants and night life, the area has also emerged as a preferred site for offices. (See Chart 12.)

Chart 12. *Rental Rates per Sq. Ft., Manhattan, Commercial, Average, 3Q00 and 3Q99*



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.

## 7. Leading Economic Indicators

During the first nine months of 2000, all three of the leading economic indicators improved compared with the first nine months of 1999. However, only one of the three leading indicators in the City improved in the third quarter, a sign that the City's economy could be on a verge of a slowdown. (See Table 1.)

The help-wanted advertising index, which measures the demand for jobs and has proven to be sensitive to labor market conditions, fell to 48 in third-quarter 2000 from 50 in third-quarter 1999. The City's help-wanted ad index was also below the national average of 79. San Antonio had the highest help-wanted ad index, 190, and Hartford had the lowest, 29. The Conference Board, which publishes these numbers, surveys help-wanted advertising volume in 51 major newspapers across the country every month.

Table 1. *Three Leading Economic Indicators, NYC, 3Q00 vs. 2Q00 and 3Q99\**

<b>Help-Wanted Ads (Averages of Monthly Indicators, NSA)</b>			
1 <sup>st</sup> Nine Mos. of 99	51.7	3Q99	50.0
1 <sup>st</sup> Nine Mos. of 00	52.4	3Q00	48.0
<b>Change</b>	<b>0.7 B</b>	<b>Change</b>	<b>-2.0 W</b>
<b>Initial Unemployment Claims (Monthly Average)</b>			
1 <sup>st</sup> Nine Mos. of 99	28,986	2Q00	27680
1 <sup>st</sup> Nine Mos. of 00	28,769	3Q00	28923
<b>Change</b>	<b>-817 B</b>	<b>Change</b>	<b>1243 W</b>
<b>Number of Building Permits Authorized (Period Totals, NSA)</b>			
1 <sup>st</sup> Nine Mos. of 99	60,723	3Q99	21,459
1 <sup>st</sup> Nine Mos. of 00	65,382	3Q00	22,763
<b>Change</b>	<b>4,659 B</b>	<b>Change</b>	<b>1,304 B</b>

\* B=Better than prior period; N=No change; W=Worse. SA=Seasonally adjusted; 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 are computed by the NYC Comptroller's Office.

The seasonally adjusted initial unemployment claims, which measure the number of first-time applicants for unemployment insurance, increased by 1,243 per month to 28,923 in the third quarter. This implies a slowdown in the City's job market. However, on a year-over-year basis, initial unemployment claim improved as it declined by 818 per month in the third quarter of 2000 compared with a decline of 672 per month in third-quarter 1999.

The only indicator that improved in the third quarter was the number of building permits authorized. On a year-over-year basis, it increased by 1,304 in third-quarter 2000 compared with an increase of 1,228 in the third quarter of 1999. The number of building permits authorized is an indicator of the level of construction activity in the City and is sensitive to economic conditions.