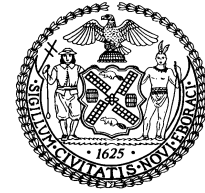


Economic Notes

New York City Office of the Comptroller

Alan G. Hevesi, Comptroller

1 Centre Street, NY, NY 10007



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NYC'S ECONOMY: STRONG 2000 AND 4Q00

SUMMARY: The year 2000 opened with a strong U.S. economy, but costlier energy and lower stock-market values led to consumer caution and a weak year-end. The City's economy fared better, but its future depends on a U.S. recovery. To prevent a further decline in U.S. growth, the Federal Reserve lowered its target interest rates by a full percentage point in January 2001. However, it takes 6-9 months for interest changes to be fully absorbed.

- **Gross City Product (GCP)**, adjusted for inflation, grew at an annual rate of 3.6 percent in 4Q00, above the City's 3.0 percent rate in 3Q00, and above the U.S. 1.4 percent rate in 4Q00. U.S. problems included weak private investment, an inventory overhang, and a higher trade deficit. A major City setback was the loss of half its dot-coms' market value in 2Q00 and again in 4Q00. The Comptroller's Alley 30 Index (of the stock prices of the 30 largest NYC-based NASDAQ-listed dot-coms) plunged to 38.8 in 4Q00 from 182.5 in 4Q99.
- **Payroll Jobs** in 4Q00, seasonally adjusted, grew by 32,800 or 3.6 percent, the strongest gain since a rise of 36,600 in 4Q83. The private sector gained 28,700, the largest rise since 34,400 in 1Q99. U.S. payroll jobs in 4Q00 rose only 0.7 percent, up from 0.2 percent in 3Q00. NYC was 5th among the 20 largest metro areas.
- **Personal Income Tax (PIT)** revenues, a proxy for incomes, fell 1.8 percent over 4Q99, probably mainly as a result of timing of bonus payments. Withholding taxes rose 4.8 percent (reflecting more jobs) and estimated taxes fell 6.5 percent (from lowered capital gains). In 2000, PIT was up 0.8 percent, withholding was up 7.0 percent, and estimated taxes were up 1.6 percent.
- **The Inflation Rate** for the NYC metro area was 3.2 percent in 4Q00, same as 3Q00. Energy prices rose by 14.4 percent in 4Q00. The core rate (all items less food and energy) was 2.7 percent, up from 2.5 percent in 3Q00. The U.S. urban average was 3.4 percent, down from 3.5 percent in 3Q00.
- **The Unemployment Rate** in the City improved to 5.5 percent in 4Q00, the lowest since 5.5 percent in 4Q88, but still the highest among the 20 largest metro areas.

Summary Table. *Five Key Economic Indicators, NYC and United States, 4Q00 and 2000**

	Period	1. GCP/GDP Growth	2. Payroll-Jobs Growth	3. Personal-Income-Tax Growth	4. Inflation Rate	5. Unemployment Rate
NYC	4Q00	+3.6% W	+3.6% B	-1.8% W	3.2% N	5.5% B
USA		+1.4% W	+0.7% B	2.1% W	3.4% B	4.0% N
NYC	2000	5.3% B	2.2% W	0.8% W	3.1% W	5.7% B
USA		5.0% B	2.0% W	11.2% B	3.4% W	4.0% B

*B=Better than prior period. N=No change. W=Worse. Indicators 1, 2, and 5 are comparisons of 4Q00 with 3Q00; indicators 3-4 compare 4Q00 with 4Q99. Sources: See Charts 1, 3, 5, 7, and 9.

- **Other Indicators** were mixed. The hotel-occupancy rate was 84.0 percent in 4Q00, slightly down from 4Q99, but for the year 2000 the rate was the best since 1980, an average of 84.3 percent. The average daily room rate was \$237.50. Manhattan's commercial vacancy rate dropped to 3.7 percent in 4Q00 from 6.7 percent in 4Q99. NYC economic indicators improved on a quarterly and annual basis.

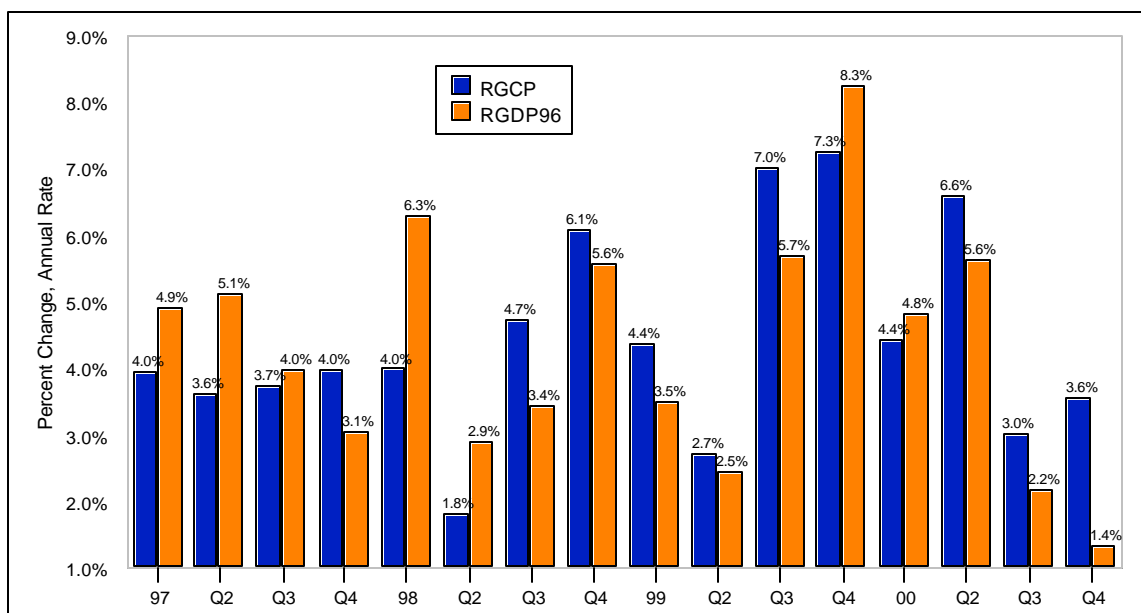
For the year 2000 taken as a whole, both the U.S. and City economies were strong. However, in the fourth quarter of 2000, the U.S. weakened significantly while the NYC economy remained strong. Reasons for the U.S. decline were weaker consumer spending, a drop in non-residential fixed investment, and a rise in the net export deficit, all of which reflected a rise in energy prices and capital losses on Wall Street. Consumers were cautious at year-end and the economy showed signs of weakness. This persuaded the Federal Reserve to cut the target federal funds rate twice in January 2001, each time by 50 basis points, from 6.50 to 5.50 percent.

The national slowdown has so far largely reflected a manufacturing-sector decline because of slower demand and high inventories. Since the NYC economy relies less on manufacturing than the nation as a whole, it has been spared from the worst impact of the slowdown. However, it has suffered a major economic disappointment because of a decline in the value of NYC-based Internet-related companies (the so-called “dot-coms”). NYC’s good performance relative to the nation should continue. However, if the U.S. economy’s growth remains slow, it will put brakes on the growth of the City’s economy.

1. Gross City Product

Real gross domestic product (GDP) grew at an annualized rate of 1.4 percent in the fourth quarter, the smallest growth since 0.8 percent in the second quarter of 1995. NYC’s real gross city product (GCP) grew at an annualized rate of 3.6 percent in the fourth quarter, above the 3.0 percent in the second quarter. (See Chart 1.)

Chart 1. *Real GCP and GDP, Percent Change, Annual Rate, Quarterly, 1997-2000*



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.

GDP Growth Components in the Fourth Quarter of 2000. All the GDP components, except government spending, either declined or grew more slowly in the fourth quarter than in the third quarter. Consumer spending grew at an annualized rate of 2.9 percent, down from 4.5 percent in the third quarter, the weakest growth since mid-1972. Fixed non-resident investment declined by 1.4 percent. Imports grew by a weak 0.5 percent and exports declined 4.3 percent, leading to an increase in the trade deficit to \$442.2 billion in the fourth quarter, up from \$427.7 billion in the third quarter. Inventory accumulation continues to be high, \$67.1 billion. Government

spending increased at an annualized rate of 2.9 percent, up from a 1.4 percent decline in the third quarter.

GCP and NYC's Dot-Coms in the Fourth Quarter of 2000. The City's economy fared better than the nation's in the fourth quarter. The real gross city product (GCP) grew at an annualized rate of 3.6 percent in the quarter. Strong job growth, a lower unemployment rate, and a rise in personal income taxes—an income indicator—all contributed to a relatively strong GCP growth.

However, some of these economic gains were offset by a sharp fourth-quarter downturn in the values of shares in the dot-com industry. The Comptroller's Office has created the Alley 30 Index—a capitalization-weighted index—to track the performance of the 30 largest NYC-headquartered dot-coms quoted on the NASDAQ. The Alley 30 Index fell to an average of 38.8 in fourth-quarter 2000 from 182.5 in the same quarter in 1999. (See Chart 2.)

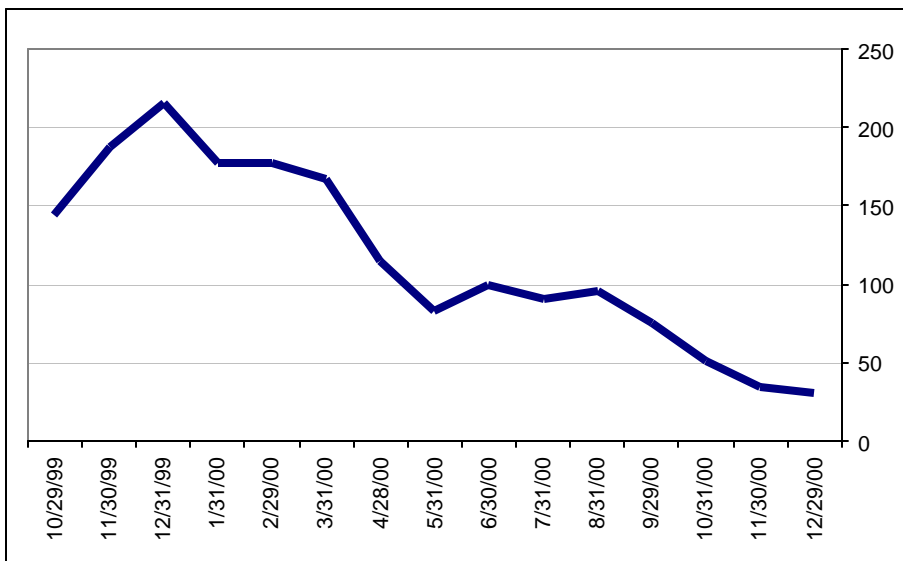


Chart 2. *The Alley 30 Index, Monthly, October 1999-December 2000*

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.

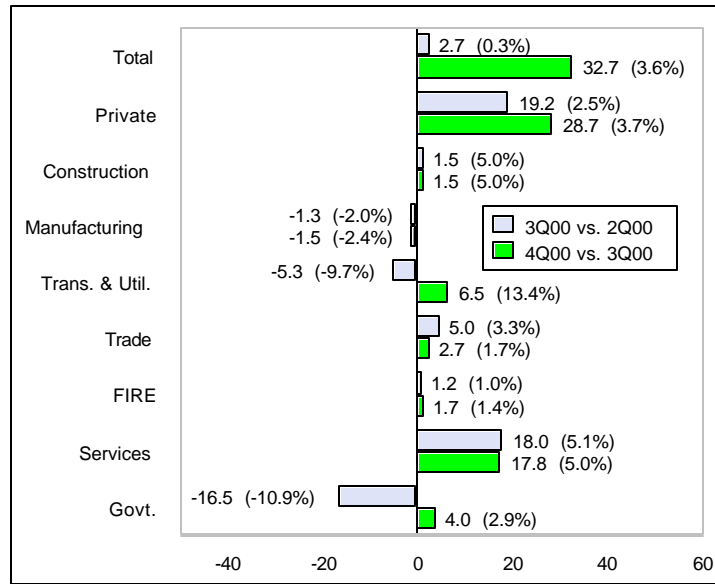
GDP and GCP for 2000. Despite weakness in the fourth quarter, the U.S. economy was strong for the year 2000 as a whole. GDP grew 5.0 percent, the highest since 7.3 percent in 1984. GCP grew 5.3 percent in 2000, the highest growth rate since 6.9 percent, also in 1984.

2. Jobs

The City gained 32,800 jobs in fourth-quarter 2000, the strongest gain since 36,600 in fourth-quarter 1983. The private sector added 28,700 jobs, the highest increase since 34,400 in the first quarter of 1999. Governments added a net of 4,100 jobs as a result of a 6,600-jobs gain in local government, offset by a 2,500-job decline in the Federal Government. (See Chart 3.)

Within the private sector, services added the most jobs, 17,800; next were transportation and utilities, 6,500 jobs; then wholesale and retail trade, 2,700 jobs; finance, insurance, and real estate (FIRE), 1,700 jobs; and construction, 1,500 jobs. Manufacturing lost 1,500 jobs.

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



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

Within services, business services added 9,500 jobs, social services added 2,100 jobs, and health services added 1,300 jobs. Engineering and management added 2,100 jobs, motion picture and amusement added 1,200 jobs, eating and drinking places added 1,100 jobs, and legal services added 300 jobs.

Within the FIRE sector, the securities industry added 1,200 jobs and insurance added 1,000 jobs. Banking lost 500 jobs and real estate remained unchanged from the third quarter.

Compared with the 20 largest metro areas and on a year-over-year basis, NYC, with job growth rate of 2.5 percent, ranked fifth in fourth-quarter 2000. Dallas had the highest rate of job growth, 3.9 percent, and Cleveland had the lowest, 0.2 percent. (See Chart 4.)

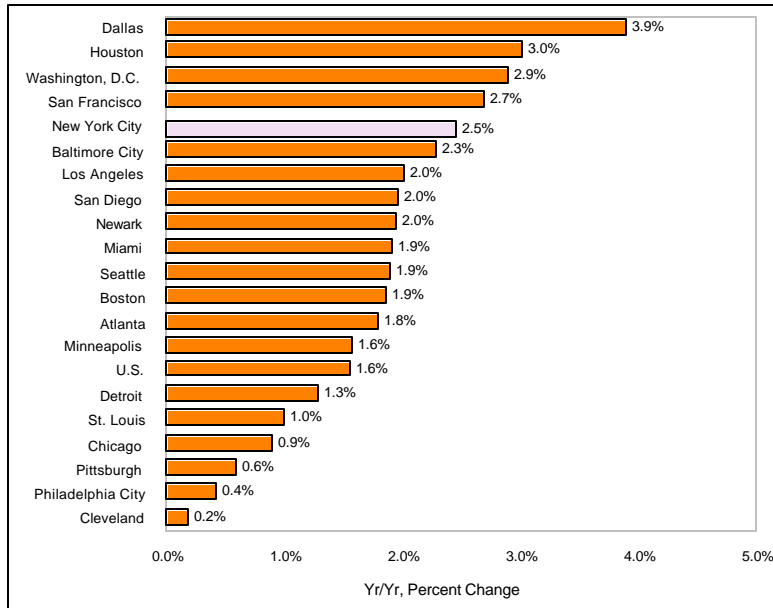


Chart 4. *Job Growth, 20 Largest Metro Areas and U.S. Average, Percent Change, 4Q00 over 4Q99*

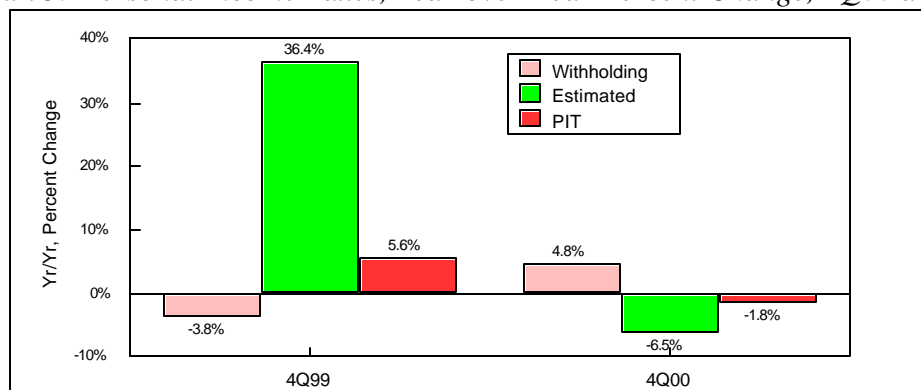
Source: U.S. Bureau of Labor Statistics. Where available, data are for the entire metro areas (MSAs or PMSAs). In three cases (Baltimore, New York City and Philadelphia), metro data are unavailable and city data are used.

On an annual basis, NYC jobs grew 2.2 percent in 2000, the ninth-highest job growth of the 20 largest metro areas. Atlanta and Dallas had the highest rate of job growth, 3.6 percent, and Cleveland had the lowest, 0.6 percent. The average U.S. job growth was 2.0 percent in 2000.

3. Income

Personal income taxes (PIT) and average hourly wages are used as a proxy for income because personal income data are published only annually and with a two-year lag. On a year-over-year basis, PIT dropped by 1.8 percent in fourth-quarter 2000, compared with a gain of 5.6 percent in fourth-quarter 1999. (See Chart 5.)

Chart 5. *Personal Income Taxes, Year-over-Year Percent Change, 4Q00 and 4Q99*



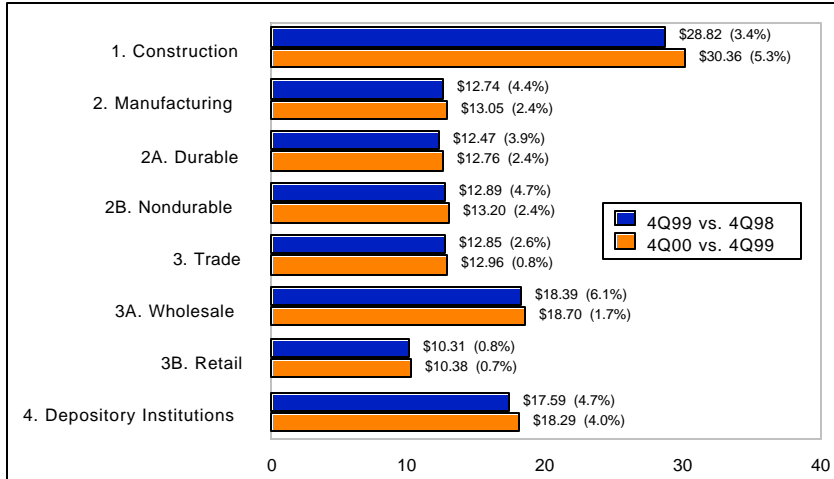
Source: NYC Comptroller's Office, based on data from the NYC Department of Taxation and Finance. Quarterly data on withholding and estimated taxes are components of personal income taxes (PIT) and can provide an early indication of changes in PIT revenue.

The drop in PIT may reflect a shift in the timing of recognizing bonus income, from late December 2000 to January 2001. PIT collections in January 2001 have come in 12.6 percent above the January 2000 rate, which supports the idea that some bonuses were shifted from 2000 to 2001. However, it is too early to say whether or not other factors are involved. On a year-over-year basis, total PIT was up 0.8 percent, withholding was up 7.0

percent, and estimated taxes were up 1.6 percent in 2000.

Average hourly wages, another measure of income, increased in the fourth quarter compared with the same quarter in 1999, for all of the selected industries. (See Chart 6.)

Chart 6. *Average Hourly Wages for Selected Industries, NYC, Year-over-Year Percent Change, 4Q00*



Source: NYS Department of Labor.

The biggest gain was in construction, 5.3 percent, followed by depository institutions, 4.0 percent. Average hourly wages rose 2.4 percent in manufacturing and 0.8 percent in wholesale and retail trade.

4. Inflation

The inflation rate, which is measured as a year-over-year change in the consumer price index, was 3.2 percent in the fourth quarter, the same as in the third quarter, in the NYC metro area. This was the highest rate since 3.3 percent in the first quarter of 1996. The core inflation rate, which includes all items except food and energy, was 2.7 percent, the highest since 2.9 percent in the third quarter of 1996.

Fourth-quarter NYC inflation mostly reflects a rise in the prices of energy, medical care, housing, transportation, and services. Energy prices increased 14.4 percent, medical care 4.3 percent, housing 4.0 percent, transportation 3.8 percent, services 3.5 percent, and food and beverages 1.6 percent. Only the price of the apparel and upkeep fell, by 2.1 percent.

The fourth-quarter U.S. inflation rate was 3.4 percent and the core rate was 2.6 percent. U.S. energy prices were up 15.3 percent and food prices 2.5 percent. For 2000, the City's inflation rate was 3.1 percent, the highest rate since 3.6 percent in 1992, but less than the U.S. average for the year of 3.4 percent. (See Chart 7.)

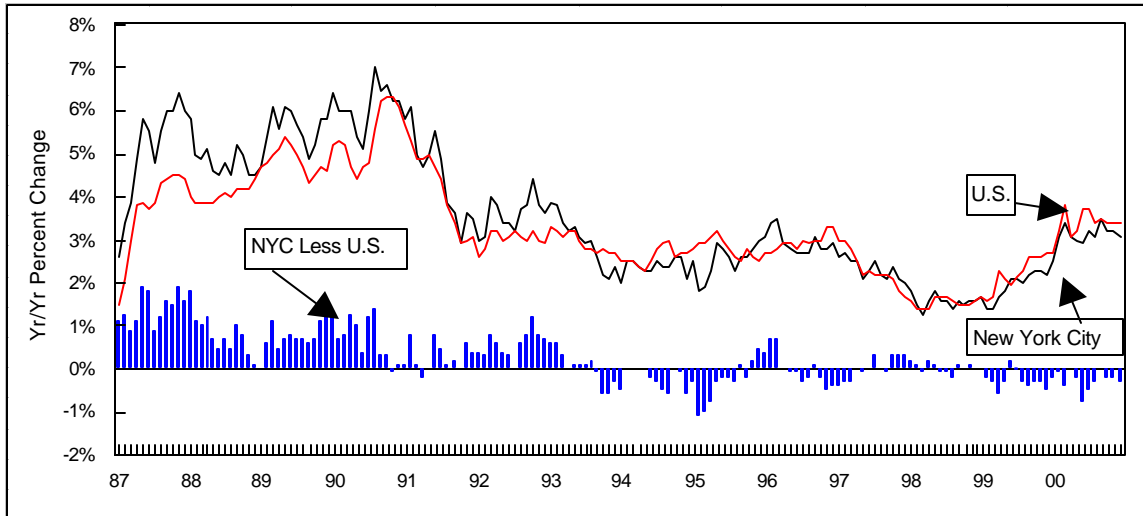


Chart 7. *Inflation Rates, NYC, U.S. and NYC Less U.S., Monthly, Year-over-Year, 1987-2000*

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 14 largest metro areas and the U.S. urban average, New York City had the fourth-lowest inflation rate, 3.2 percent, in the fourth quarter. San Francisco had the highest, 5.1 percent, and Philadelphia had the lowest, 2.4 percent. (See Chart 8.)

For the entire 2000, New York City with 3.1 percent had the second-lowest inflation rate after Philadelphia's 2.7 percent. San Francisco had the highest inflation rate, 4.5 percent. The U.S. urban average inflation rate was 3.4 percent.

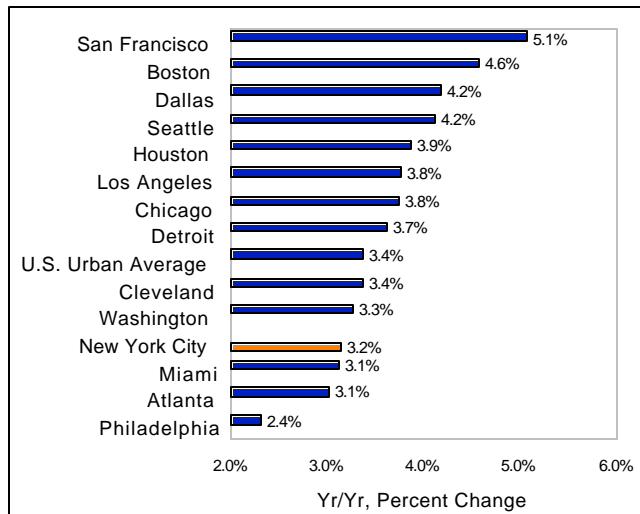


Chart 8. *Inflation Rate, 14 Metro Areas and U.S. Urban Average, 4Q00*

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

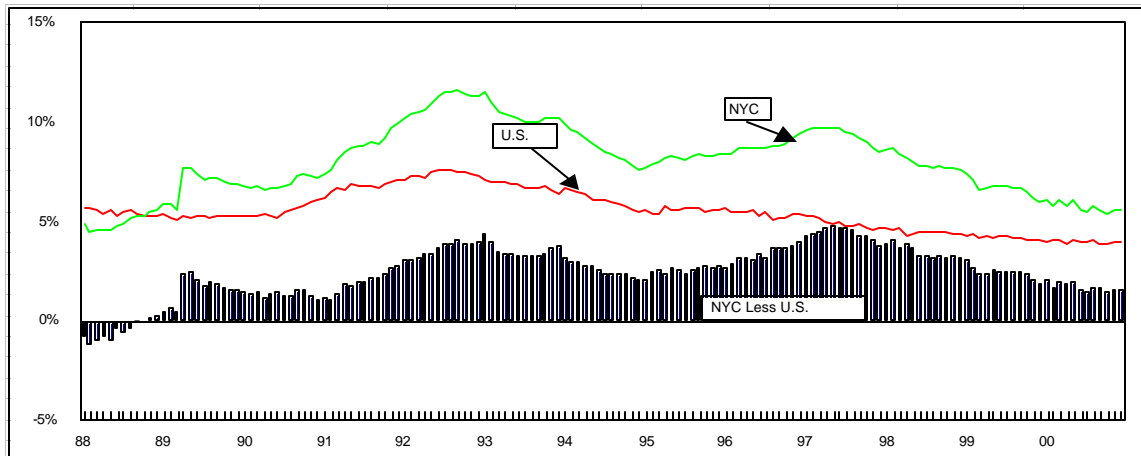
The number of the City residents with jobs increased by 27,500 in the fourth quarter after a 5,600-job decline in

the third quarter. The number of unemployed residents declined by 2,400, and the labor force was up by 25,000. The unemployment rate was 5.5 percent, the lowest since 5.5 percent in the fourth quarter of 1988. The labor-force-participation rate was 59 percent and the employment-population ratio was 55.8 percent, a record.

During 2000, civilian employment, which measures the number of City residents with jobs, increased by 65,500. The labor force was up by 34,700, and the number of unemployed residents declined by 30,900. The unemployment rate was 5.7 percent, the lowest since 5.0 percent in 1988.

Although the City’s civilian employment numbers improved, they continued to lag the national average. In the fourth quarter, the U.S. unemployment rate was 4.0 percent, 1.5 percentage points below the City’s. The U.S. employment-population ratio was 64.4 percent, 8.6 percentage points above the City’s. Finally, the labor-force-participation rate was 67.1 percent, 8.1 percent above the City. (See Chart 9.)

Chart 9. *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 20 largest metro areas, NYC continued to have the highest fourth-quarter unemployment rate, 5.4 percent, followed by Miami, 5.3 percent. Boston had the lowest unemployment rate, 1.8 percent. (See Chart 10.)

For the entire year 2000, NYC had the highest rate of unemployment among the 20 largest metro areas, 5.7 percent, followed by Miami and Los Angeles, 5.5 percent. San Francisco had the lowest rate of unemployment, 2.1 percent. The average U.S. unemployment rate was 4.0 percent in 2000.

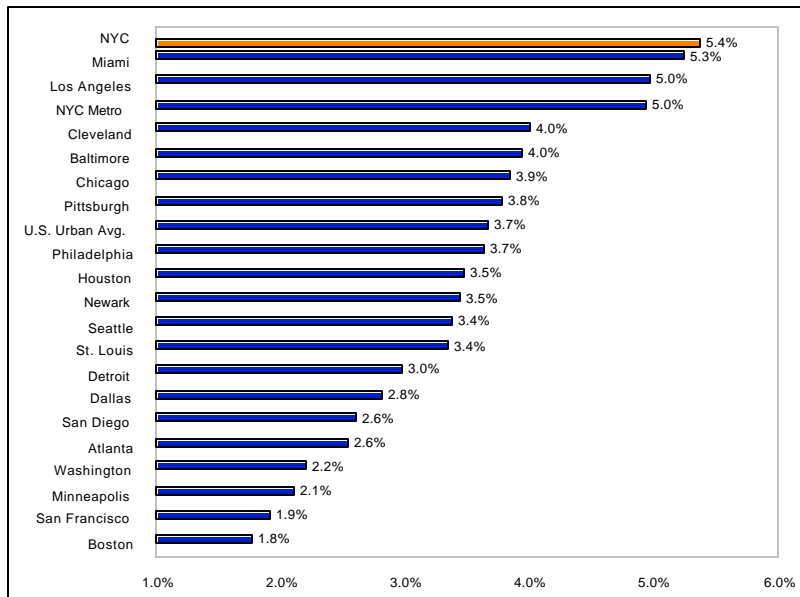


Chart 10. *Unemployment Rate, 20 Largest Metro Areas and U.S. Urban Average, 4Q00*

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

6. Tourism and the Hotel Industry

The hotel industry had a record year in 2000, although demand showed some weakness in the fourth quarter compared with the same period in 1999. The average hotel occupancy rate was 84.0 percent in fourth-quarter 2000, slightly below 85.5 percent in the same period last year. The average daily room rate was \$275.72 in fourth-quarter 2000, compared with \$264.47 last year. However, 2000 was the best year for the hotel industry since 1980. The average hotel occupancy rate in 2000 was 84.3 percent and the average daily room rate was \$237.50. (See Chart 11.)

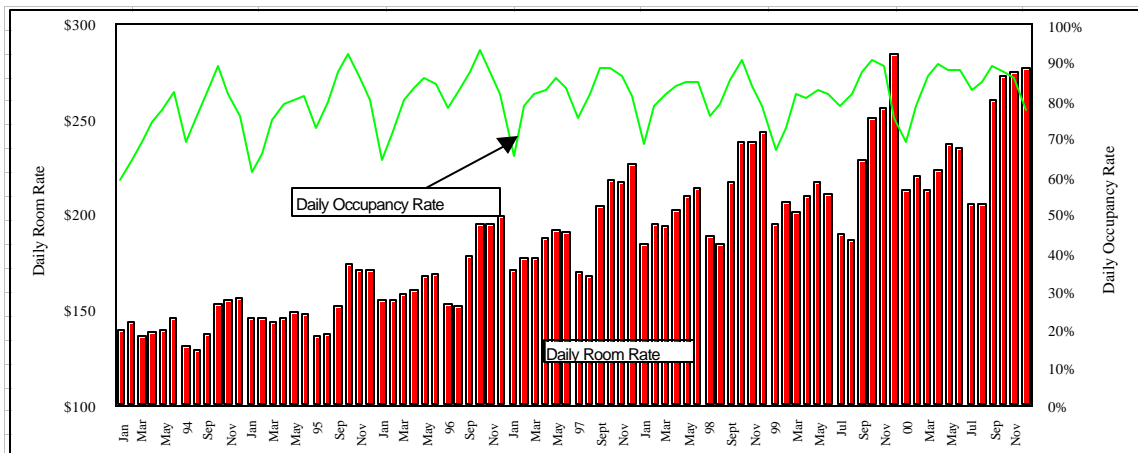


Chart 11. *Daily Room and Occupancy Rates, NYC Hotels, 1994-2000*

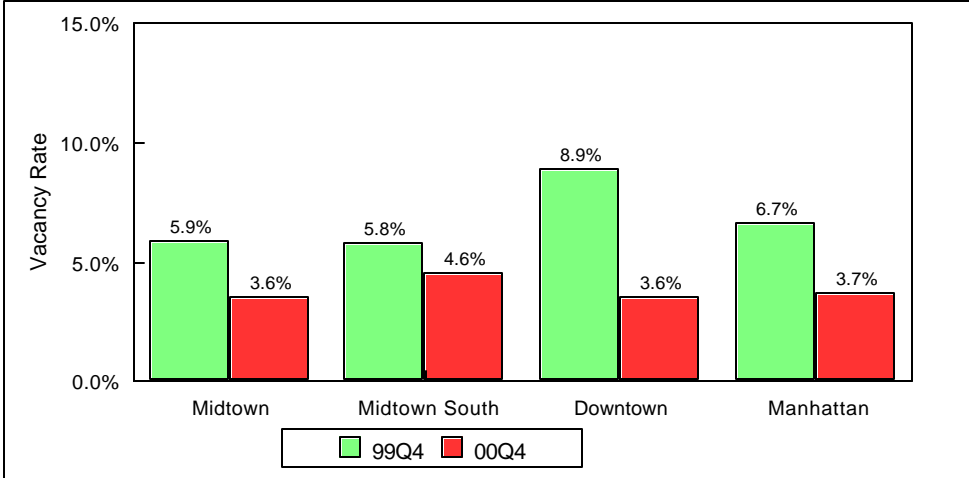
Source: PKF Consulting.

The lower occupancy rate in the fourth quarter reflected a slowdown in the national economy and the addition of about 3,000 new rooms in 2000. Overall, the City's hotel occupancy rate in 2000 was very high and, is therefore probably difficult to sustain.

7. Real Estate

The commercial real estate market continues to be marked by low vacancy rates, which declined in Manhattan to 3.7 percent in fourth-quarter 2000 from 6.7 percent in fourth-quarter 1999. The biggest decline was in the downtown area, which declined to 3.6 percent in fourth-quarter 2000 from 8.9 percent in fourth-quarter 1999. (See Chart 12.)

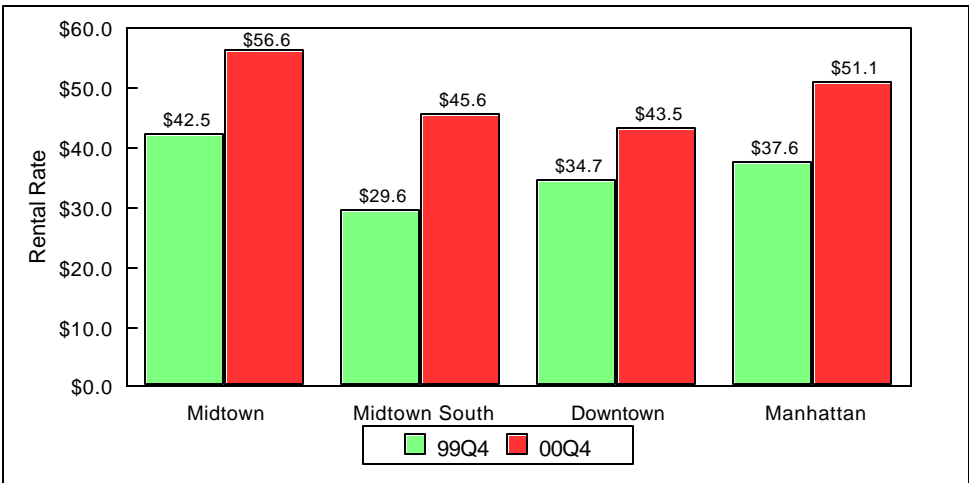
Chart 12. Vacancy Rates, Manhattan, Overall Commercial, 4Q99 and 4Q00



Source: Cushman and Wakefield.

As vacancy rates declined, rental rates increased. Rental rates in Manhattan averaged \$51.1 per square foot in fourth-quarter 2000, up from \$37.6 in fourth-quarter 1999. The biggest rent increases were in Midtown South, rising to \$45.60 per sq. ft. in fourth-quarter 2000 compared with \$29.60 per sq. ft. in fourth-quarter 1999. (See Chart 13.)

Chart 13. Rental Rates per Sq. Ft., Manhattan, Commercial, Average, 4Q99 and 4Q00



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 and still point to a continued growth but possibly at a slower pace. (See Table 1.)

The help-wanted advertising index declined by 3 points to 45.0 in the fourth quarter, compared with 48.0 in the third quarter (a 6.3 percent decline). When the help-wanted advertising index for all of 2000 was compared with 1999, the decline was less, 2.3 percent. This index is sensitive to labor-market conditions and provides a gauge of demand for workers. The Conference Board publishes the help-wanted advertising index for 51 cities, and the nation, every month. The national help-wanted advertising index average was 77.3 in the fourth quarter, significantly above the City's 45.0. Hartford, with an advertising index of 31.0, was the only city with a help-wanted advertising index less than NYC. San Antonio had the highest advertising index, 178.3.

The number of initial unemployment claims declined by an average of 1,780 per month to 27,143 in the fourth quarter, from 28,923 in the third quarter. The fourth-quarter average drop was more than the annual average of 914 per month. Initial unemployment claims measures the number of first-time applications for unemployment insurance and its decline means more people are finding jobs.

Table 1. *Three Leading Economic Indicators, NYC, 3Q98 vs. 3Q97 and 2Q98**

Help-Wanted Ads (Averages of Monthly Indicators, Seasonally Adjusted)			
1999	51.8	3Q00	48.0
2000	50.6	4Q00	45.0
Change	-2.3% W	Change	-6.3% W
Initial Unemployment Claims (Monthly Average)			
1999	28,699	3Q00	28,923
2000	27,785	4Q00	27,143
Change	-914 B	Change	-1,780 B
Number of Building Permits Authorized (Period Totals, NSA)			
1999	80,355	4Q99	19,632
2000	86,271	4Q00	20,889
Change	+5,916 B	Change	+1,257 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 by the NYC Comptroller's Office.

The number of building permits authorized was up by 6.4 percent in fourth-quarter 2000 over fourth-quarter 1999. This increase was significantly higher than the 1.1 percent rise in fourth-quarter 1999 over fourth-quarter 1998. In 2000, the number of building permits authorized rose 7.4 percent, compared with 7.1 percent in 1999. The number of building permits authorized shows the level of construction activity in the City and is sensitive to economic conditions.