



NYC Quarterly Economic Update

Office of the New York City Comptroller

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BUREAU OF BUDGET

November 2016

New York City Economy Accelerated, Amid Signs of Weakness in the Third Quarter

Overview: Real gross city product (GCP) grew at an estimated annual rate of 2.6 percent in the third quarter of 2016, better than the 1.6 percent in the second quarter. The U.S. economy grew 2.9 percent, the highest growth in two years. The city benefited from an acceleration in private-sector job growth and a rise in commercial leasing activity. However, the unemployment rate increased to 5.5 percent, growth in average hourly earnings of private-sector employees continued to be anemic, and the labor force experienced a sharp drop. Venture capital investment posted its second consecutive quarter of year-over-year decline, amid a nationwide contraction in investment.

Economic outcomes in New York City during the third quarter of the year include:

Overall economic growth resumes	page 2
Acceleration in private-sector job creation	page 3
Record decrease in labor force participation	page 7
Slight increase in personal income tax collections	page 9
Drop in venture capital investment	page 10
Increase in commercial leasing activity	page 11



**Table 1: Third Quarter of 2016 Key Economic Indicators
NYC Compared with U.S. for 2Q16 and 3Q15**

		3Q16	2Q16	3Q15
GCP/GDP Growth, SAAR	NYC	2.6	1.6	3.2
	U.S.	2.9	1.4	2.0
Payroll-Jobs Growth, SAAR	NYC	2.7	1.1	2.6
	U.S.	1.7	1.3	1.9
PIT Withheld, Growth, NSA	NYC	2.2	0.5	7.9
	U.S.	1.9	-2.0	6.3
Inflation Rate, NSA	NYC	0.9	0.9	0.1
	U.S.	1.1	1.1	0.1
Unemployment Rate, SA	NYC	5.5	5.2	5.2
	U.S.	4.9	4.9	5.2

SAAR=Seasonally adjusted annual rate. SA=Seasonally adjusted. NSA=Not seasonally adjusted.

Real gross city product (GCP) grew at an estimated annual rate of 2.6 percent in 3Q16, a full percentage point above the 1.6 percent recorded in 2Q16, but slightly less than the national economic growth rate of 2.9 percent (advance estimate) (Chart 1). The national economy outpaced the city economy for the first time in four quarters. Private-sector job growth in the city accelerated substantially from 1.1 percent in 2Q16 to 2.9 percent growth in 3Q16. However, other indicators signaled weakness in the economy. The city's unemployment rate rose from 5.2 percent to 5.5 percent, while the national unemployment rate was unchanged at 4.9 percent.

In 3Q16 most of the city's private-sector job gains (53.2 percent) were in low-wage industries. Average hourly earnings of private-sector employees in the city increased by only 1.1 percent and led to a slight increase in personal income tax collections as withholding taxes increased, partially offset by a decline in estimated tax payments.

Commercial leasing activity in Manhattan increased in 3Q16 after four consecutive quarters of decline. The residential market was mixed. In Manhattan, prices increased, but the number of sales dropped in 3Q16 while in Brooklyn and Queens both prices and the number of sales increased. Finally, venture capital investment experienced its second consecutive quarter of year-over-year decline.

The U.S. economy, as measured by the change in real GDP, grew 2.9 percent (advance estimate) in 3Q16, the biggest increase since 3Q14. Consumer spending grew 2.1 percent and contributed 1.47 percentage points to the GDP growth. Within consumer spending, motor vehicles and parts and housing and utilities contributed the most to the GDP growth.

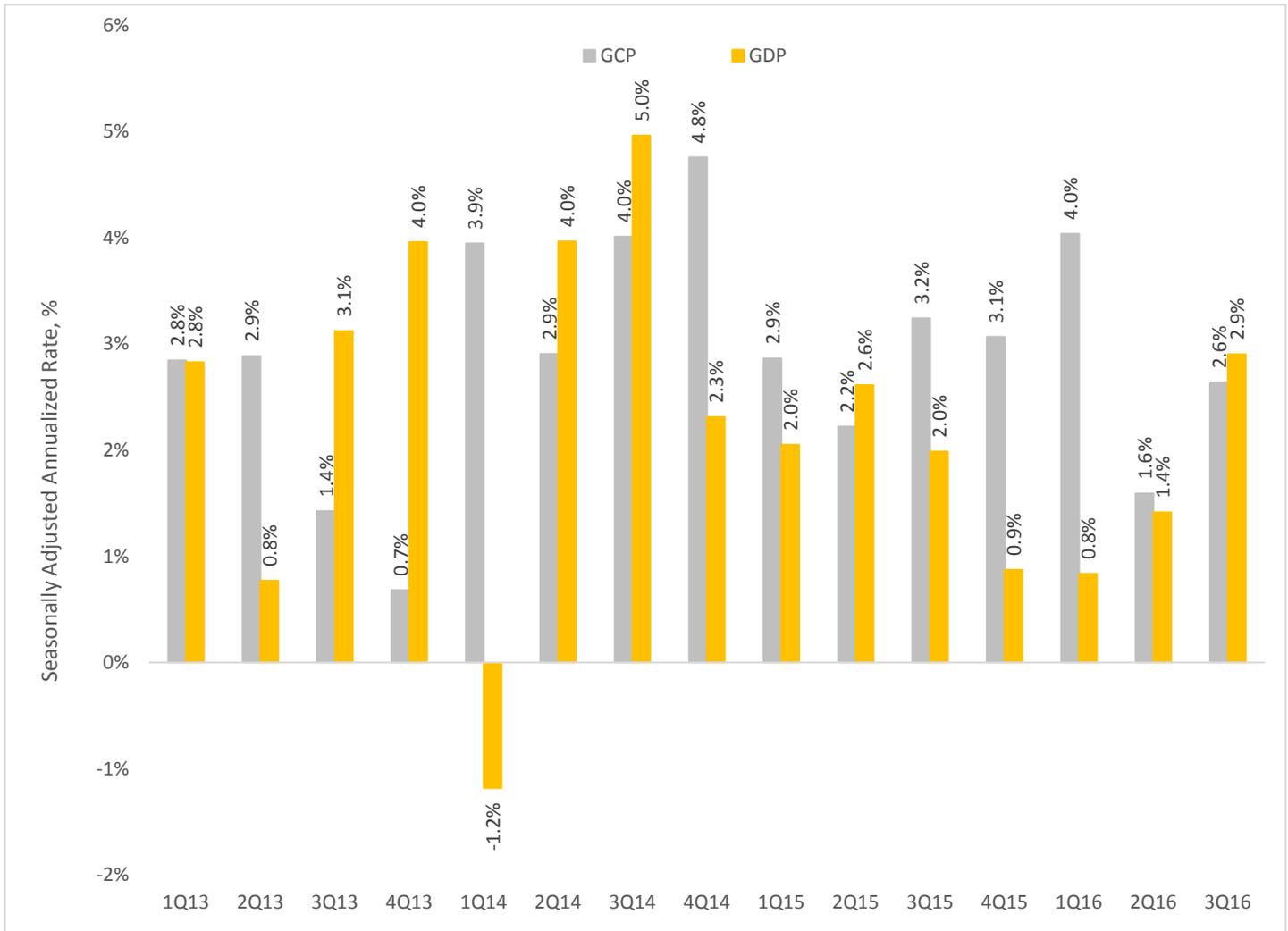
Private investment grew 3.1 percent in 3Q16 after three quarters of decline and contributed 0.52 percentage points to the GDP growth. The reason for this growth was private inventories, which increased after five consecutive quarters of decline, and contributed 0.61 percentage points to the GDP growth.

Net exports added 0.83 percentage points to GDP growth as exports grew 10 percent, the largest increase since 4Q13, while imports grew 2.3 percent. This may signal that the recent rise in the exchange rate value of the dollar has not been too harmful to the U.S. economy.

Government expenditures grew 0.5 percent and added 0.09 percentage points to GDP growth, mainly due to a 2.5 percent increase in federal spending.



Chart 1. Percent Change in Real Gross City Product (GCP) and National Real Gross Domestic Product (GDP), 1Q13 to 3Q16



Source: BEA and NYC Comptroller

New York City continued to churn out jobs in 3Q16. The city’s private sector added 26,800 jobs, or 2.9 percent (seasonally adjusted annualized rate), in 3Q16, more than the 10,400 jobs created in 2Q16. The nation’s total private-sector jobs grew 1.8 percent (SAAR) in 3Q16, more than the 1.4 percent increase posted in 2Q16 (Chart 2).

However, high-wage industries lost 1,100 jobs in the city. Of the 26,800 private-sector jobs created in 3Q16 in the city, 14,300 were in low-wage industries and 13,700 were in medium-wage industries.

The average annual salary of an employee was about \$42,000 in a low-wage sector job, about \$75,000 in a medium-wage sector job, and about \$187,000 in a high-wage sector job as of 2015. The wage gap between low-, medium-, and high-wage earners widened since the end

of the recession in 2009 through 2015, the most current year for which data is available. During that time the average pay in high-wage industries increased by 9.3 percent and in mid-wage industries by 7.4 percent after adjusting for inflation. In contrast, the average wage in low-wage industries did not change at all in real terms over those six years. Stagnant wages in the low-wage segment of the labor market have detracted from the economic boost provided by employment gains.

The export sector – which depends on the national and global economies and primarily provides goods and services to customers outside of the city – expanded more than the local sector, which generally provides support for the export sector and the local population or local consumption. Of the new private-sector job gains, 55 percent, or 14,700 jobs, were in



export-sector industries, such as leisure and hospitality, while 45 percent, or 12,100 jobs, were in local-sector industries, such as education and health services.

Among the industries that added jobs in 3Q16 over 2Q16, the biggest gain was in leisure and hospitality, which continued with its longest uninterrupted growth (since 2Q09 or over seven years of growth) and added a record high of 12,800 jobs in 3Q16. However, most of the jobs (8,300) were created by bars and restaurants, which are generally low-wage. Bars and restaurants continued with their longest uninterrupted growth, with an expansion of 112,400 jobs or 56.6 percent since 1Q09. Accommodations also added a record high of 1,900 jobs in 3Q16.

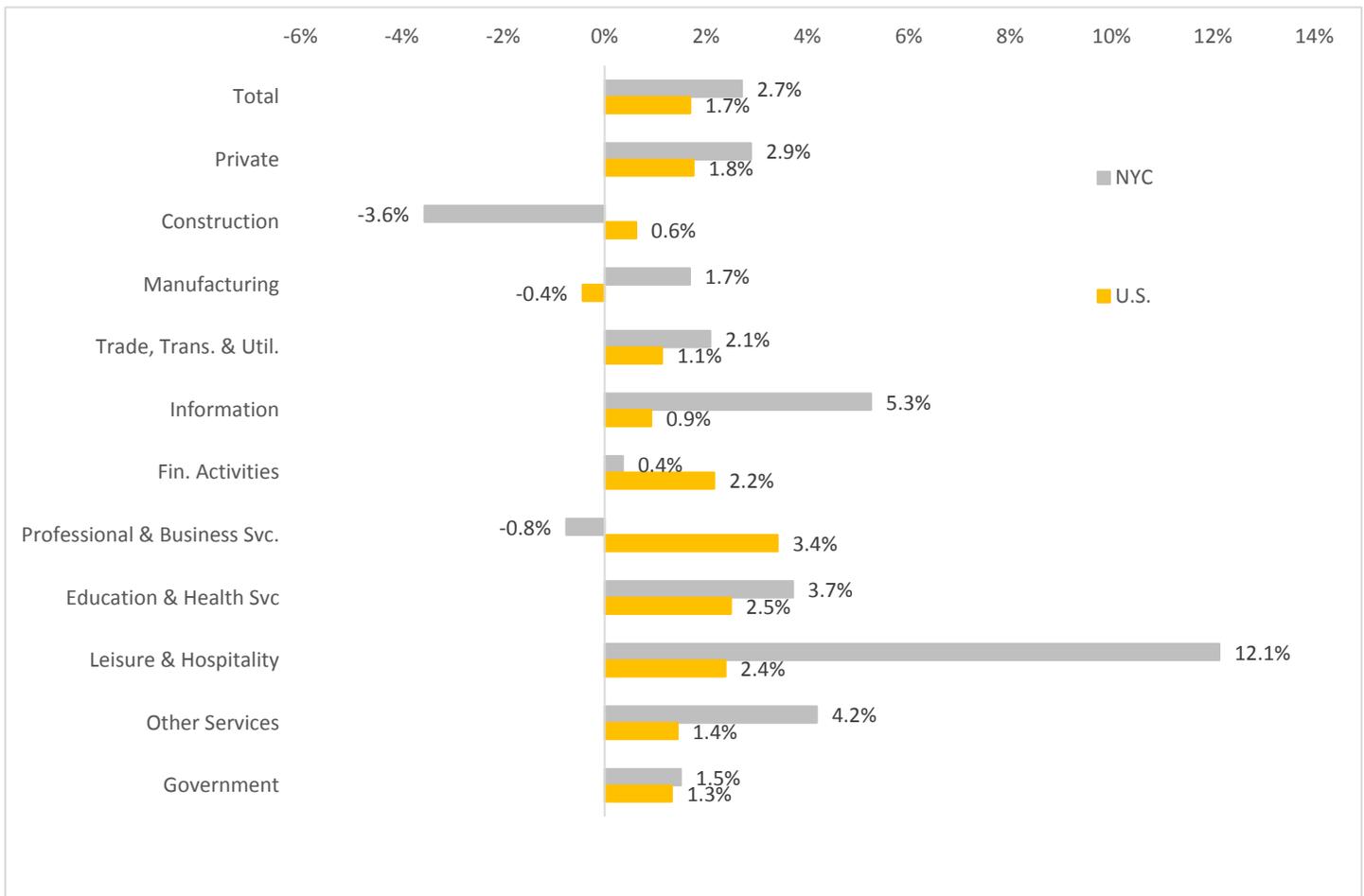
Next, education and health services added 8,200 jobs, of which 6,100 were in educational services. Wholesale trade added 3,500 jobs, and transportation and utilities added 2,200.

However, retail trade lost 2,500 jobs. With the exception of 1Q16, the city has lost jobs in retail trade in every quarter since 1Q15. The information sector added 2,500 jobs, of which 1,600 were in telecommunications.

Other services, which includes personal and laundry services, added 2,000 jobs. Financial activities added 400 jobs in 3Q16, after two consecutive quarters of decline, but all the gains were from real estate. Manufacturing added 300 jobs.

Industries experiencing declines included professional and business services, which lost 1,400 jobs. This contraction follows a loss of 1,100 jobs in 2Q16 – the first decline since 3Q09. The main cause of decline was computer system design, which lost 600 jobs in 2Q16 and 2,500 jobs in 3Q16. Also, construction lost 1,300 jobs, the first decline in over three years.

Chart 2. Annualized Percent Change in Payroll-Jobs, NYC and the U.S., SAAR, 3Q16 over 2Q16



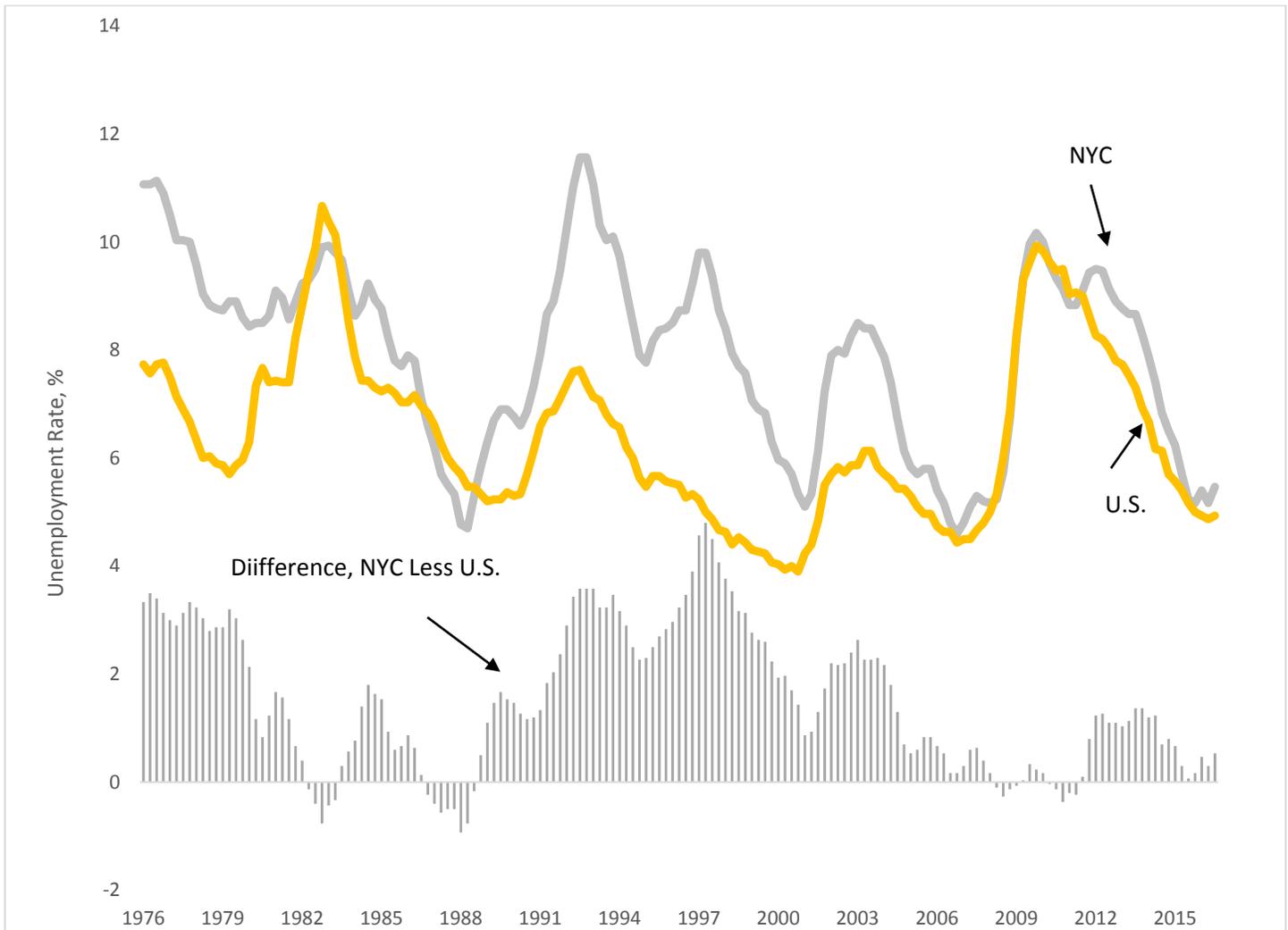
Source: U.S. Bureau of Labor Statistics (BLS) and NYS Department of Labor



NYC’s unemployment rate, adjusted for seasonality, rose to 5.5 percent in 3Q16, the highest in over a year (since 2Q15). The U.S. unemployment rate remained unchanged at 4.9 percent in 3Q16 for the third consecutive quarter (Chart 3). The increase in the city’s rate was not due to an increase in job seekers alone. Rather, the number of employed residents fell sharply as the number of unemployed New Yorkers rose by 6,800 in 3Q16.

The unemployment rate increased in all of the five boroughs in 3Q16 from a year ago. Among the five boroughs, Manhattan had the lowest unemployment rate (not seasonally adjusted) in 3Q16, at 4.9 percent, followed by Queens (5.0 percent), Staten Island (5.9 percent), Brooklyn (5.9 percent), and the Bronx (7.8 percent).

Chart 3. Unemployment Rate, NYC, U.S. and NYC Less U.S., Quarterly (SA), 1Q76-3Q16



Source: U.S. Bureau of Labor Statistics (BLS) and NYS Department of Labor

In direct contrast to the surge in payroll employment at city firms, the number of employed city residents decreased by 85,800 to 3.9 million in 3Q16, the biggest decline on record. As a result, the city’s employment-to-population ratio fell to 56.3 percent in 3Q16, the lowest ratio in over two years (since 2Q14).

This is not the first time that resident employment numbers have diverged from the payroll jobs. The divergence in the measurements may be due to different sources and methodologies for the data. Payroll jobs are based on a survey of over 18,000 businesses located in the State and includes people with more than one job and nonresidents



working in the city, but excludes unpaid farm workers, unpaid family members, and self-employed individuals. In contrast, resident employment is based on a smaller survey of households (1,500 in New York City) and counts city residents with jobs in or out of the city, on a farm or in a factory, and working for someone else or for themselves. In the household survey, each working person is counted only once.

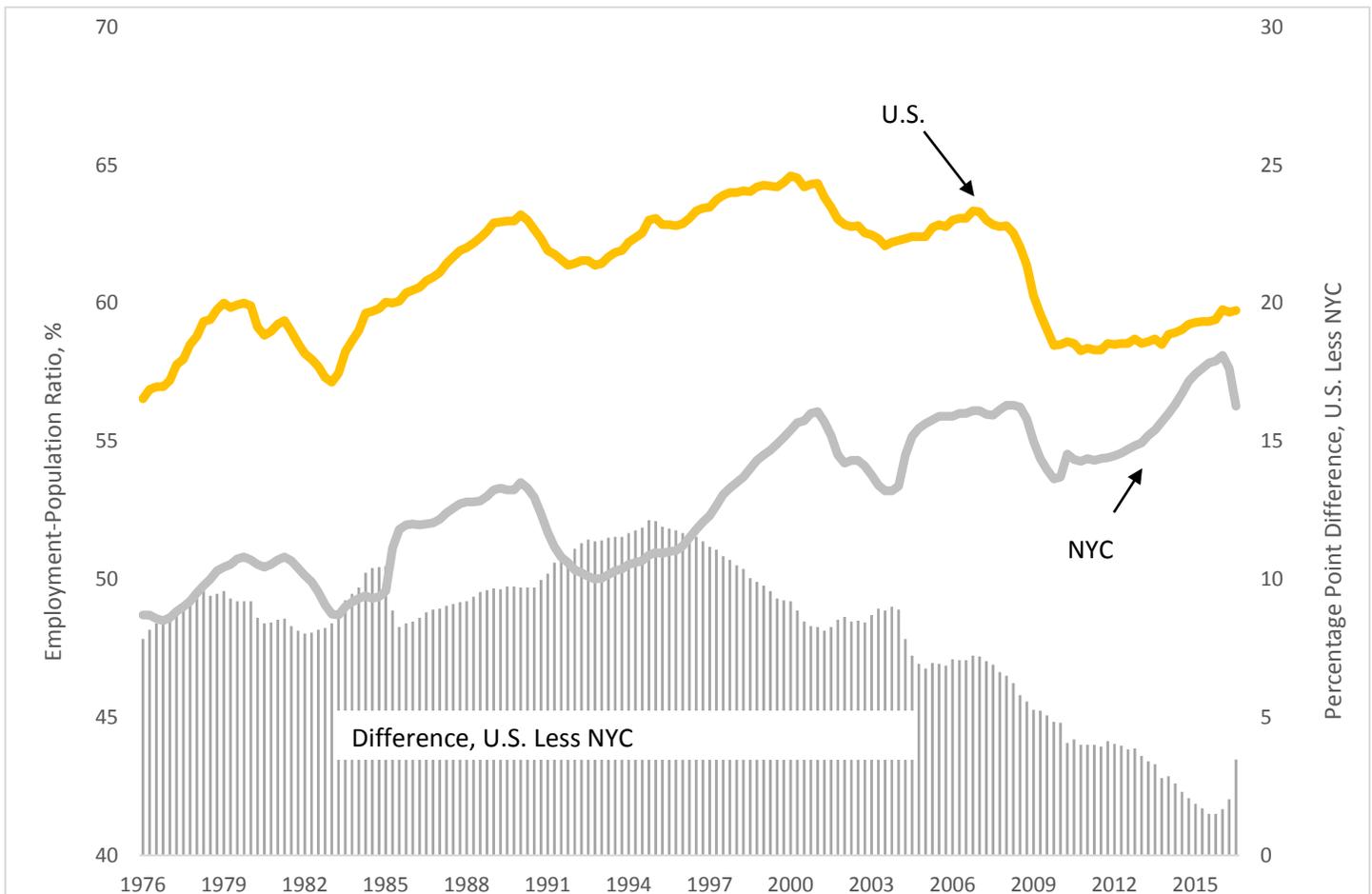
All employment and unemployment data are also subject to annual revisions, which can be significant. In the past, there have been eight quarters since 1990 when similar divergences occurred. Except in two years, in 2001 and 2010, the contrasting data vanished with annual revisions. It is therefore possible that these declines are a statistical anomaly, most likely related to the different methodologies and sample sizes used in measuring employment.

If the trends are real, however, other possible reasons for the apparent decline in the city resident employment may include changes in part-time employment and migration patterns. As the economy improves, part-time workers may be voluntarily leaving the labor force. According to the Current Population Survey, the number of part-time employees in the city fell 85,800 or about 16 percent in 3Q16 from 3Q15.

Finally, the city’s strong economic performance after the recession, as well as migration and immigration trends, led to a surge in resident employment. Some of these gains could be reversing themselves as city residents leave for employment opportunities outside the city. It is also possible some employed city residents could have moved to nearby suburbs.

The national employment-to-population ratio remained unchanged at 59.7 percent in 3Q16. As a result, the spread between the city’s and the national ratio widened to 3.5 percentage points, the biggest in about four years (Chart 4).

Chart 4. Employment-Population Ratio, NYC, U.S. and NYC Less U.S., Quarterly (SA), 1Q76-3Q16



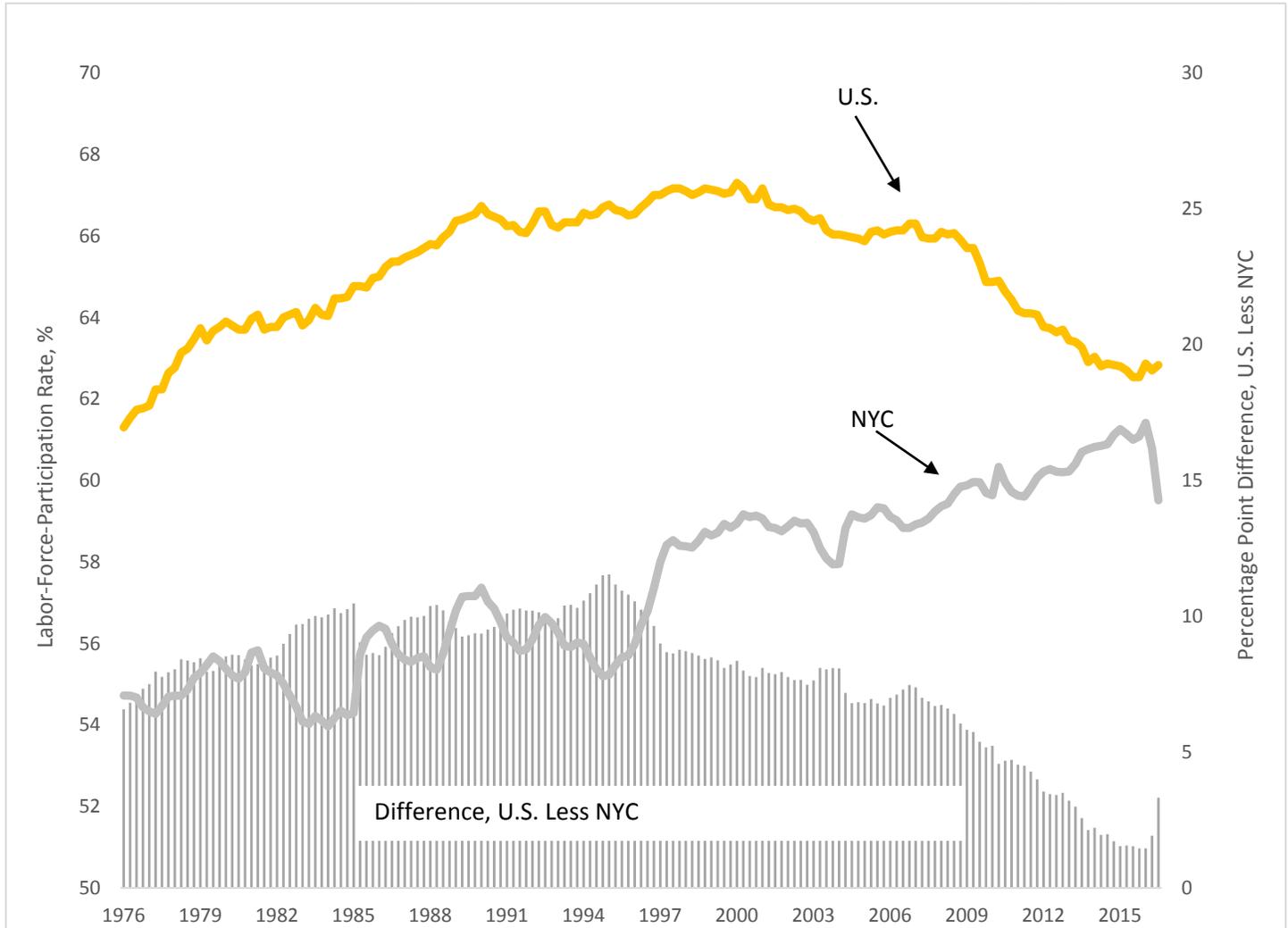
Source: U.S. Bureau of Labor Statistics (BLS) and NYS Department of Labor



Due to the large decline in employed city residents, the city's labor force decreased by 79,000 in 3Q16, the largest quarterly decline on record. The labor force includes all city residents who are employed or looking for a job. As a result of the contraction, the city's labor-force-participation rate (LFPR), which is the ratio of the total labor force to the total non-institutional population (16 years old and over), fell to 59.5 percent in 3Q16, the lowest in over eight years (since 2Q08).

In contrast, the U.S. LFPR rose to 62.8 percent in 3Q16 from 62.7 percent in 2Q16. The spread between the U.S. and the city's LFPR rose to 3.3 percentage points, the highest since 4Q12 (Chart 5).

Chart 5. Labor-Force-Participation Rate, NYC, U.S. and NYC Less U.S., Quarterly (SA), 1Q76-3Q16



Source: U.S. Bureau of Labor Statistics (BLS) and NYS Department of Labor



Table 2: Third Quarter 2016 Economic Indicators Compared to 2Q16 and 3Q15

		3Q16	2Q16	3Q15
County Unemployment Rate, NSA (Source: NYS DOL)	Bronx	7.8	6.6	7.2
	Kings	5.9	4.9	5.5
	New York	4.9	4.2	4.5
	Queens	5.0	4.1	4.6
	Richmond	5.9	4.8	5.5
Commercial Vacancy Rate (Source: Cushman & Wakefield)	Midtown	9.5%	9.2%	9.3%
	Midtown South	6.7%	6.3%	5.8%
	Downtown	9.9%	9.8%	10.3%
	Manhattan Total	9.1%	8.8%	8.9%
Commercial Rental Rate (per sq ft) (Source: Cushman & Wakefield)	Midtown	\$79.91	\$79.18	\$77.04
	Midtown South	\$70.29	\$68.62	\$67.05
	Downtown	\$59.13	\$59.14	\$57.92
	Manhattan Total	\$73.71	\$72.99	\$71.02
Number of Apartment Sales (Source: Douglas Elliman)	Manhattan	2,974	2,736	3,654
	Brooklyn	2,741	1,888	2,368
	Queens	3,750	2,611	3,642
Case-Shiller Home Price Index (Source: Moody's)	NY Metro Area	181.03*	182.70	178.01*
	US 20-City Composite	188.01*	187.89	178.88*
Hotel Industry (Source: CBRE Hotels)	Average Daily Occupancy Rate	89.5*	90.0	91.5*
	Average Daily Room Rate	\$254.50*	291.69	\$263.9*
MTA Average Weekday Ridership (Source: MTA)	NYC Transit	7,478,205	7,887,208	7,494,297
	Subway	5,509,751	5,786,736	5,512,229
	Bus	1,968,453	2,100,472	1,982,067
	Long Island Rail Road	315,976	312,177	311,210
	Metro North	283,975	286,657	293,950

*Data includes July and August, excludes September



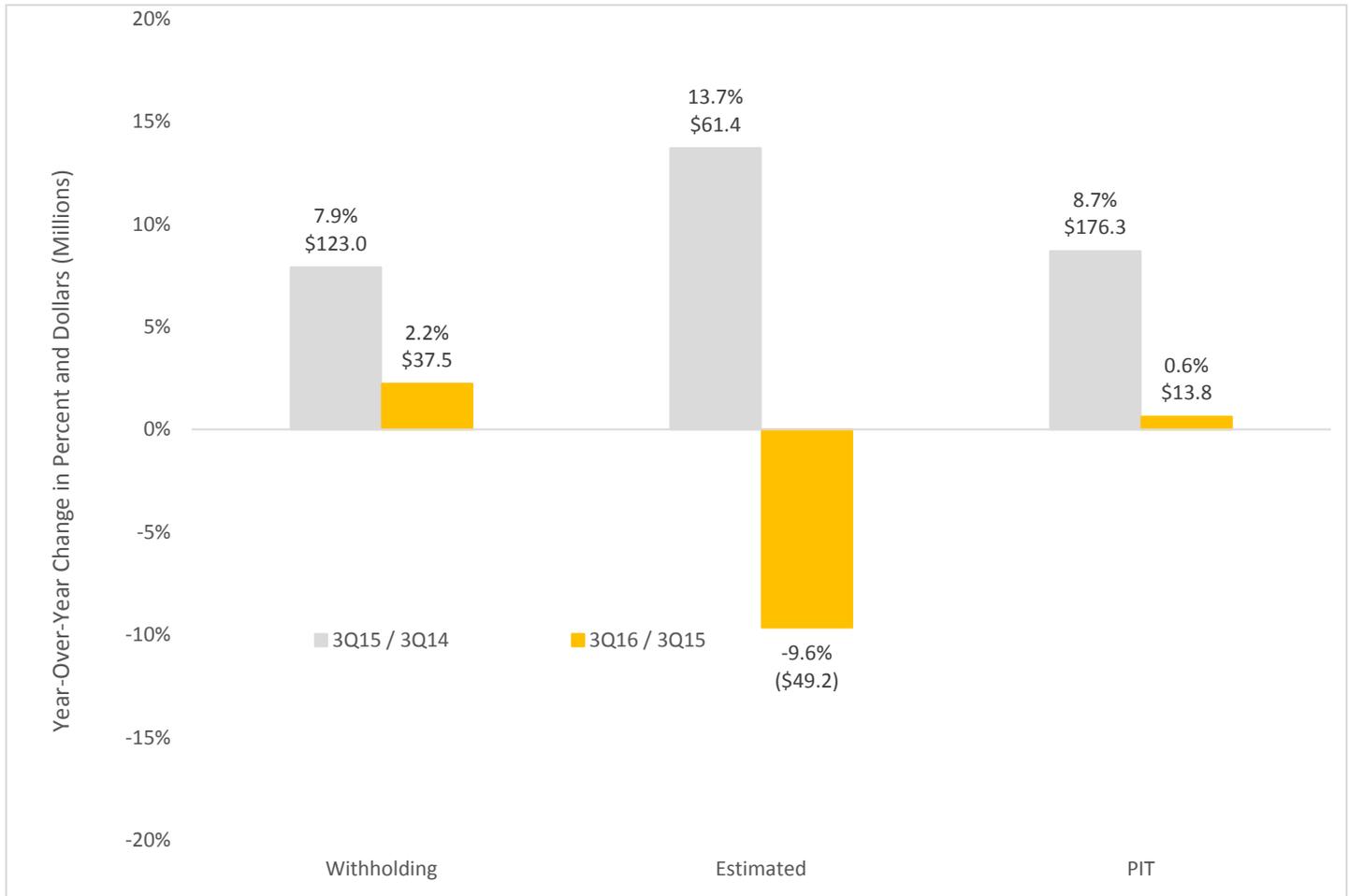
NYC personal income tax (PIT) revenues, a proxy for personal income, rose 0.6 percent on a year-over-year basis to over \$2.2 billion in 3Q16. Two main components of the PIT revenues are withholding taxes and estimated tax payments. On a year-over-year basis, personal income taxes withheld from paychecks rose 2.2 percent to over \$1.7 billion in 3Q16. Estimated tax payments, which reflect trends in taxpayers' non-wage income, including interest earned, rental income, and capital gains, fell to about \$460 million in 3Q16, 9.6 percent lower than the \$510 million in 3Q15 (Chart 6).

The decline in estimated taxes reflects increased economic uncertainty about the U.S. presidential election in the run-up to Election Day, as well as speculation over the Fed's rate hike

and the continued concern over global economic growth. Estimated tax payments fell more than \$43 million or 9.1 percent in September from a year ago.

Modest growth in taxes withheld from paychecks reflects a continuation of anemic private-sector wage growth in 3Q16. Average hourly earnings (AHE) of total private NYC employees, another proxy for personal income, rose 1.1 percent on a year-over-year basis to \$34.01 in 3Q16, well below growth of 3.8 percent in 3Q15. The city's AHE was flat in 2Q16 and increased only 0.1 percent in 1Q16, on a year-over-year basis. U.S. average hourly wages grew 2.4 percent to \$25.59 in 3Q16 from 3Q15 after growing 2.8 percent in 2Q16 and 2.0 percent in 1Q16, on a year-over-year basis.

Chart 6. Changes in Personal Income Tax Revenues, in Percent and Dollars (millions), 3Q15 over 3Q14 and 3Q16 over 3Q15



Source: NYC OMB



Venture capital (VC) investment continued to decline nationally for the fourth quarter and in the New York metro area for the second consecutive quarter on a year-over-year basis. VC investment fell 28.5 percent in the metro area, to about \$1.4 billion in 3Q16 after falling 37.0 percent in 2Q16 (Chart 7). The NY metro area has nonetheless fared better than the nation. Total venture capital investment in the U.S. fell 36.4 percent to \$10.6 billion in 3Q16 from 3Q15.

VC investment in Upstate NY seems to have all but collapsed, falling 78.3 percent to \$15.3 million in 3Q16 after falling 90.6 percent in 2Q16. Total investment in the U.S. and Silicon Valley fell for the fourth consecutive quarter in 3Q16, on a year-over-year basis. Total investment in Silicon Valley, which has the biggest concentration of VC investment, fell 43.5 percent to \$4.6 billion.

The number of VC deals in the U.S., New York metro area, and Silicon Valley followed the same trend as the amount of investment. The number of deals in the New York metro area fell to 112 in 3Q16 from 145 in 3Q15.

The number of deals in the U.S. fell to 891 and in Silicon Valley to 264 in 3Q16 from 1,189 and 373, respectively, in 3Q15.

Despite the decline in growth, the NY metro area’s share of VC investment rose to 12.7 percent in 3Q16 from 11.3 percent in 3Q15 and the share of deals increased to 12.6 percent in 3Q16 from 12.2 percent in 3Q15. However, Silicon Valley’s share of VC investment fell to 43.4 percent in 3Q16 from 48.8 percent in 3Q15 and its share of deals fell to 29.6 percent in 3Q16 from 31.4 percent in 3Q15.

The biggest increases in investment were in Sacramento and Colorado. VC investment in Sacramento rose to \$6.5 million in 3Q16 from \$285,000 in 3Q15 and in Colorado rose to about \$139 million in 3Q16 from \$91 million in 3Q15.

VC investment in New York State in 3Q16 decreased 26.4 percent from a year ago, to about \$1.3 billion. The number of deals in New York State fell 25.2 percent to 104 in 3Q16 from 139 in 3Q15.

Chart 7. Venture Capital Investment by Regions, 3Q16



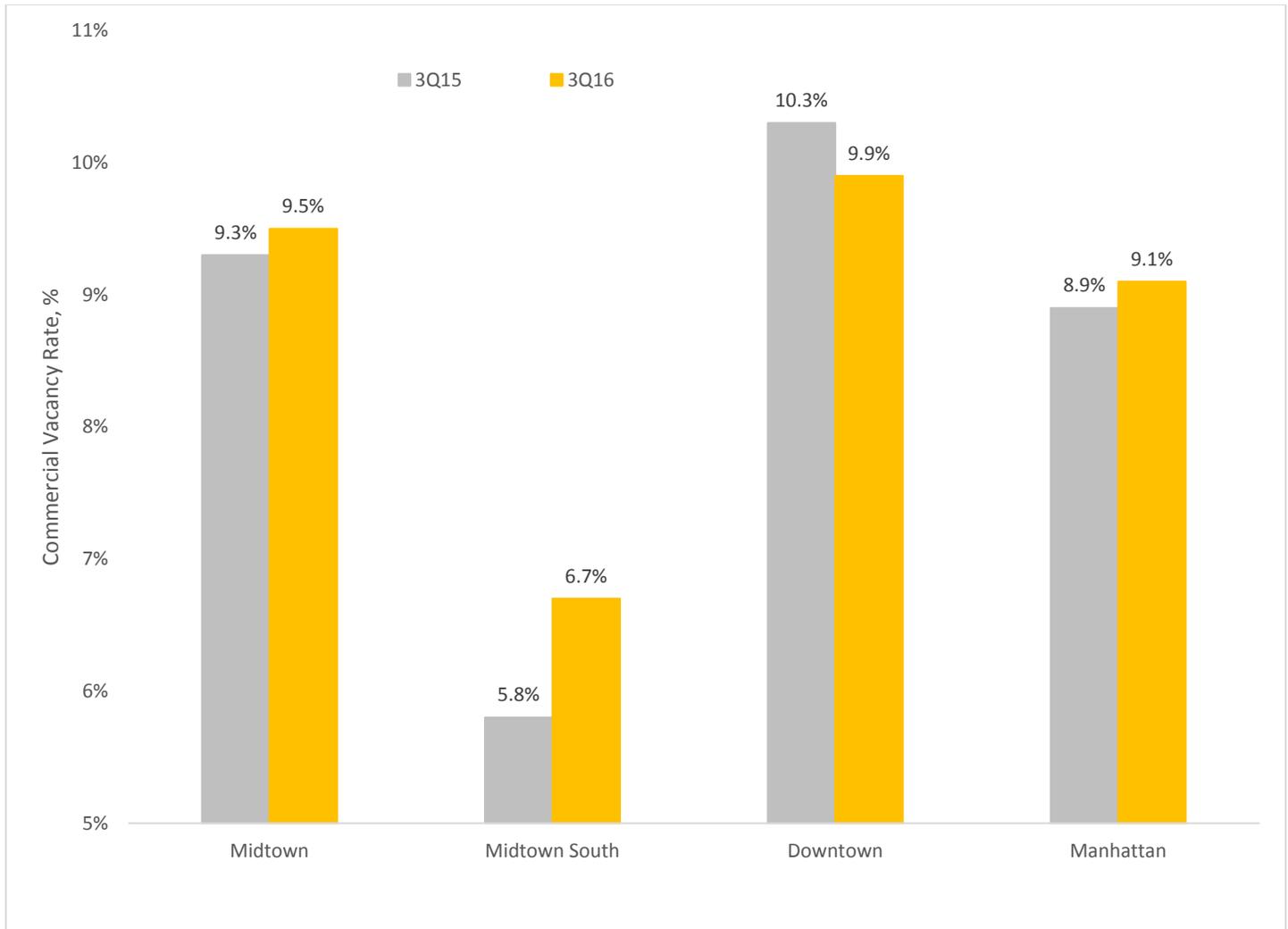
Source: PricewaterhouseCoopers/National Venture Capital Association, MoneyTree™ Report, Data: Thomson Reuters



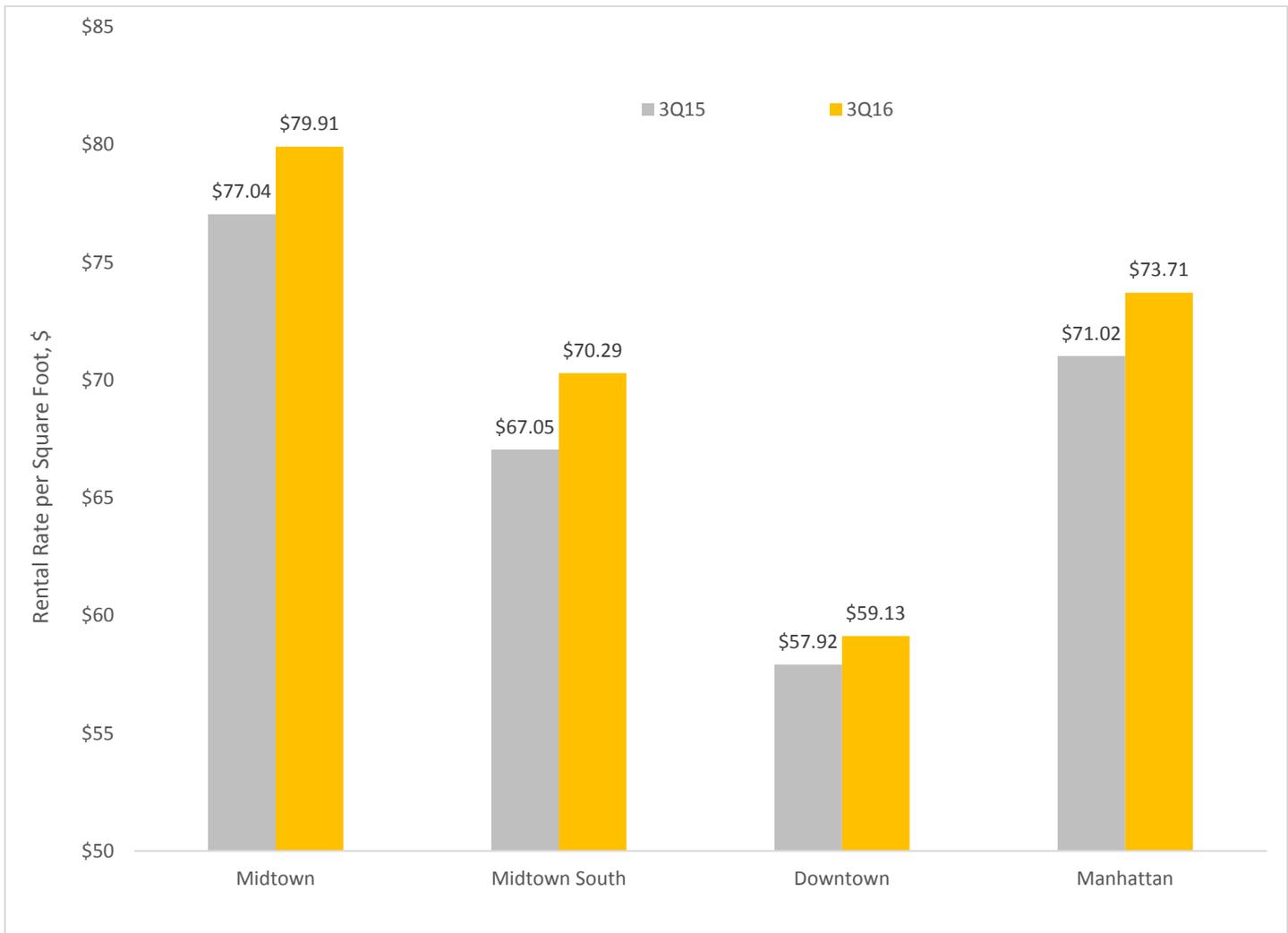
New commercial leasing activity in 3Q16 totaled 6.9 million square feet (msf), 5.8 percent higher than in 3Q15. The 3Q16 expansion follows four quarters of year-over-year decline. Most of the new leasing in 3Q16 took place in Midtown (5.1 msf) followed by Midtown South (1.0 msf) and then Downtown (850,000 sf). However, on a year-over-year basis, new leasing increased only in Midtown.

Despite the increase in leasing activity, the Manhattan office vacancy rate, including sublease space, was 9.1 percent in 3Q16, higher than 8.9 percent in 3Q15, according to Cushman & Wakefield. On a year-over-year basis, the vacancy rate dropped 0.4 percentage points in Downtown, but increased 0.2 percentage point in Midtown and 0.9 percentage points in Midtown South. Overall asking rents increased in all the submarkets (Chart 8 and 9).

Chart 8. Overall Commercial Vacancy Rates, 3Q16 and 3Q15



Source: Cushman & Wakefield

**Chart 9. Overall Commercial Rental Rate per Square Foot, 3Q16 and 3Q15**

Source: Cushman & Wakefield

The city's housing market was mixed in 3Q16—prices increased, but the number of Manhattan sales decreased on a year-over-year basis. According to a report from Douglas Elliman, the average sales price in Manhattan rose 17.0 percent to over \$2.0 million, the median sales price increased 7.6 percent to about \$1.1 million, and the average price per square foot rose 13.0 percent to \$1,692 in 3Q16 over 3Q15. However, the number of sales fell 18.6 percent to 2,974 causing the listing inventory to increase 10.8 percent to 6,263 in 3Q16 from the prior year.

The listing inventory grew faster than the number of sales leading to an increase in the absorption rate. The absorption rate, defined as the number of months to sell all inventory at the current rate of sales, rose to 6.3 months in 3Q16 from 4.6

months in 3Q15. Also, days on the market from last list date rose 8.2 percent to 79 days.

According to the Douglas Elliman report, new developments skewed all the price measures higher in Manhattan. For example, the median sales price of a new development almost doubled to \$4 million while the median price of a resold home rose 2.6 percent to \$950,000 in 3Q16 from 3Q15.

Housing market conditions tightened in both Brooklyn and Queens as sales expanded and inventories declined. In Brooklyn, the average sales price rose 14.8 percent to \$983,511 and the median sales price rose 8.7 percent to \$735,000 in 3Q16, compared to 3Q15. On a year-over-year basis, the number of sales rose 15.8 percent to 2,741 in 3Q16, the listing inventory fell 36.5 percent to 2,624, and the



absorption rate fell to 2.9 months. On the other hand, the days on market rose to 81 in 3Q16 from 55 in 3Q15.

In Queens, the number of sales rose 3.0 percent to 3,750 and the listing inventory fell 18.3 percent to 4,291 in 3Q16 compared with the same period last year. Days on the market was 92 days in 3Q16, unchanged from 3Q15, and the absorption rate fell 20.9 percent to 3.4 months in 3Q16 from 3Q15. The average sales price rose 7.6 percent to \$561,966 and the median sales price rose 10.7 percent to \$499,000, 3Q16 over 3Q15 (Chart 10).

Douglas Elliman reports that the number of 1- to 3-family homes sold in Brooklyn rose 21.5 percent and in Queens rose 9.3 percent in 3Q16, compared to the previous year. The average sales price per square foot rose 18.8 percent in Brooklyn, and 13.0 percent in Queens in 3Q16 compared to 3Q15.

According to the Case-Shiller index, which tracks single-family home prices, the not-seasonally-adjusted New York metro area home price index increased 1.7 percent in August 2016 over August 2015. During the same period, the New York metro area's inflation rate was 1.1 percent, indicating a

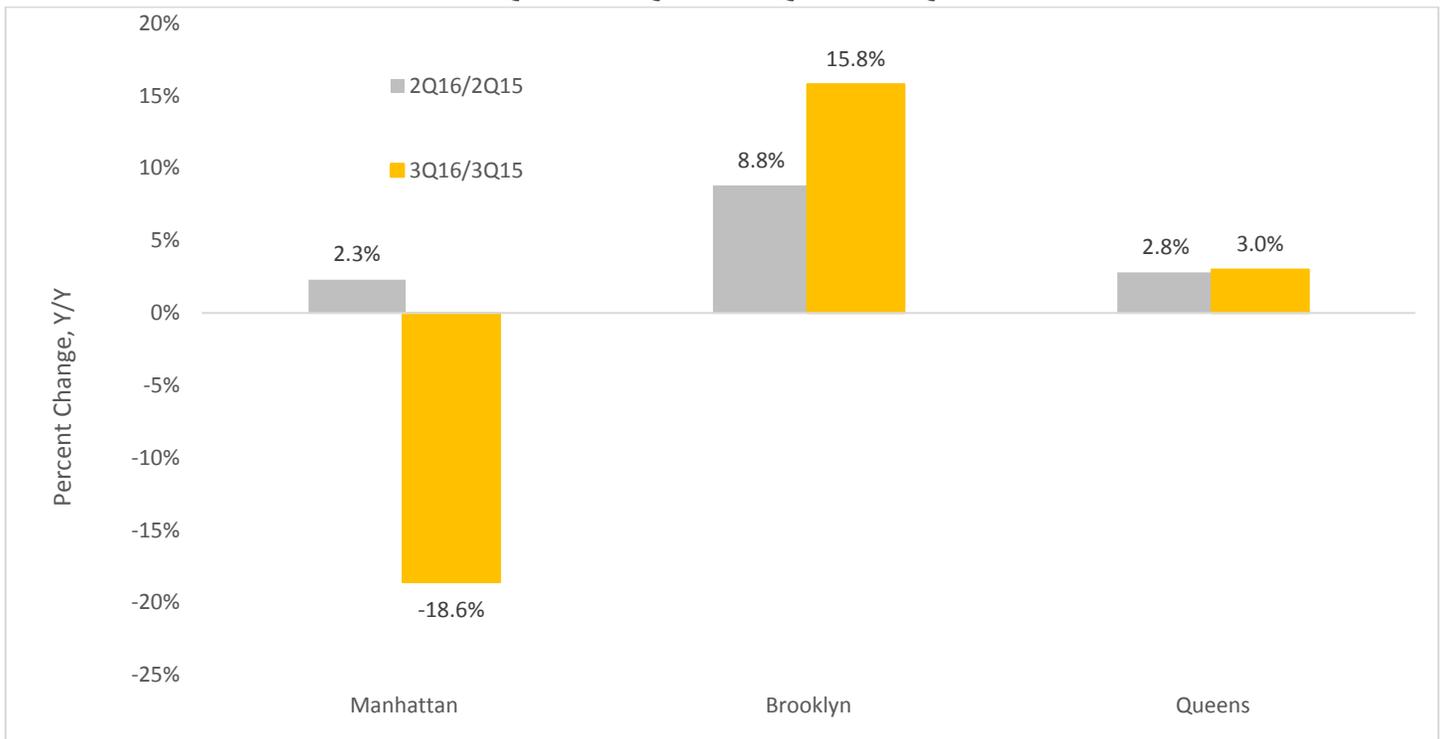
modest increase in real home prices. However, on a month-over-month basis, New York metro area home prices remained flat in August after falling for three consecutive quarters.

The U.S. 20-city composite index rose 5.1 percent in August 2016 on a year-over-year basis and increased 0.2 percent from July. The U.S. inflation rate was 1.1 percent in August on a year-over-year basis.

Among the Case-Shiller's 20 metro areas, the New York metro area saw the smallest growth (1.7 percent) while Portland, Oregon metro area saw the largest jump in home prices (11.7 percent) in August 2016, compared to the prior year.

According to the Case-Shiller report, U.S. home prices had a sharper decline and a faster rebound than the New York metro. As of August 2016, the U.S. 20-city composite index was 37.4 percent higher than its most recent trough and 8.9 percent below its peak. In comparison, the New York metro area home price index was 12.6 percent higher than at its trough in March of 2012, but was still 16.4 percent below the peak reached in May 2006 (Chart 11).

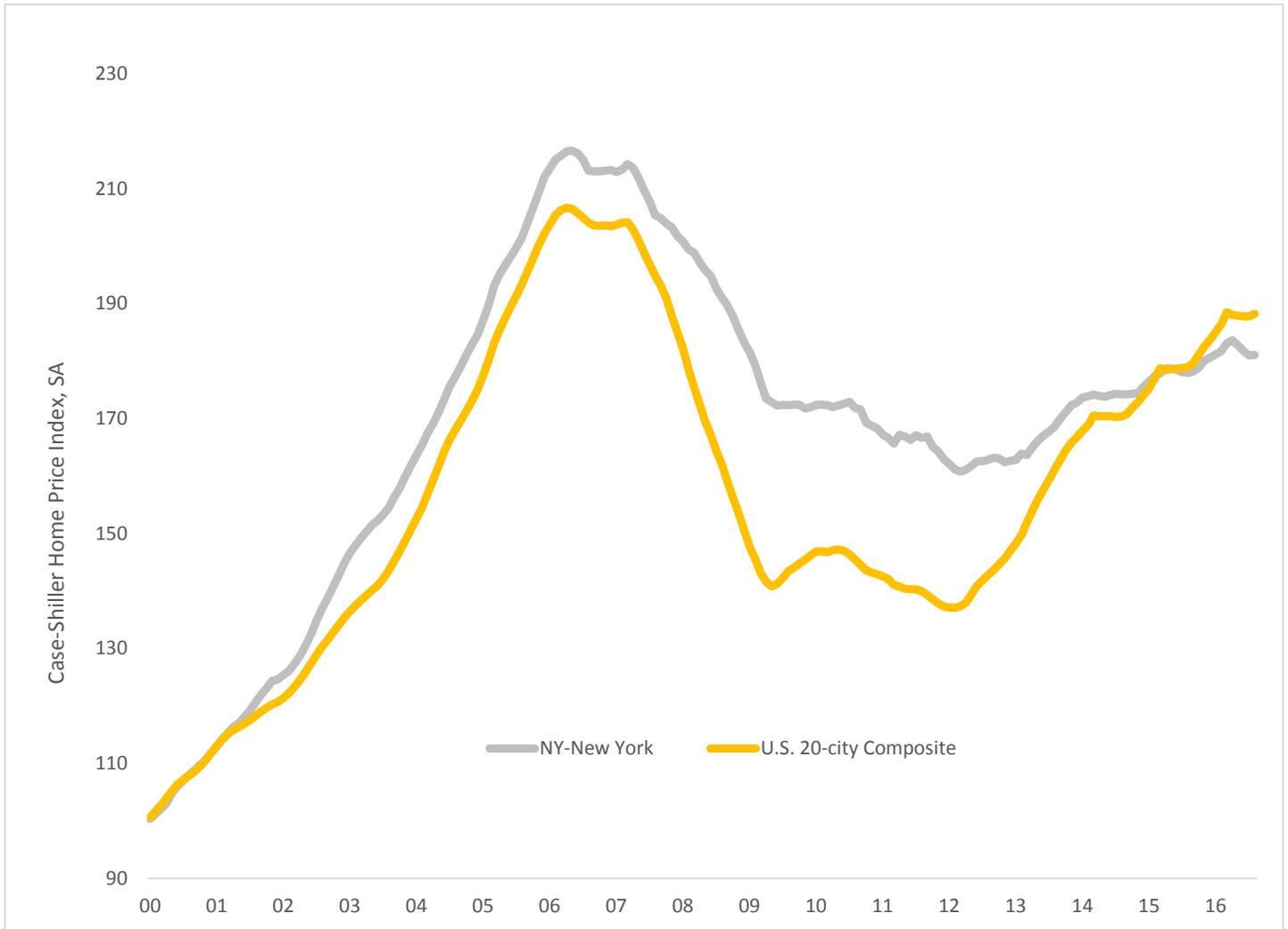
Chart 10. Percent Change in the Number of Apartment Sales, Manhattan, Brooklyn, Queens, 2Q16 over 2Q15 and 3Q16 over 3Q15



Source: Douglas Elliman



Chart 11. Case-Shiller Home Price Index, Monthly SA, January 2000 to August 2016



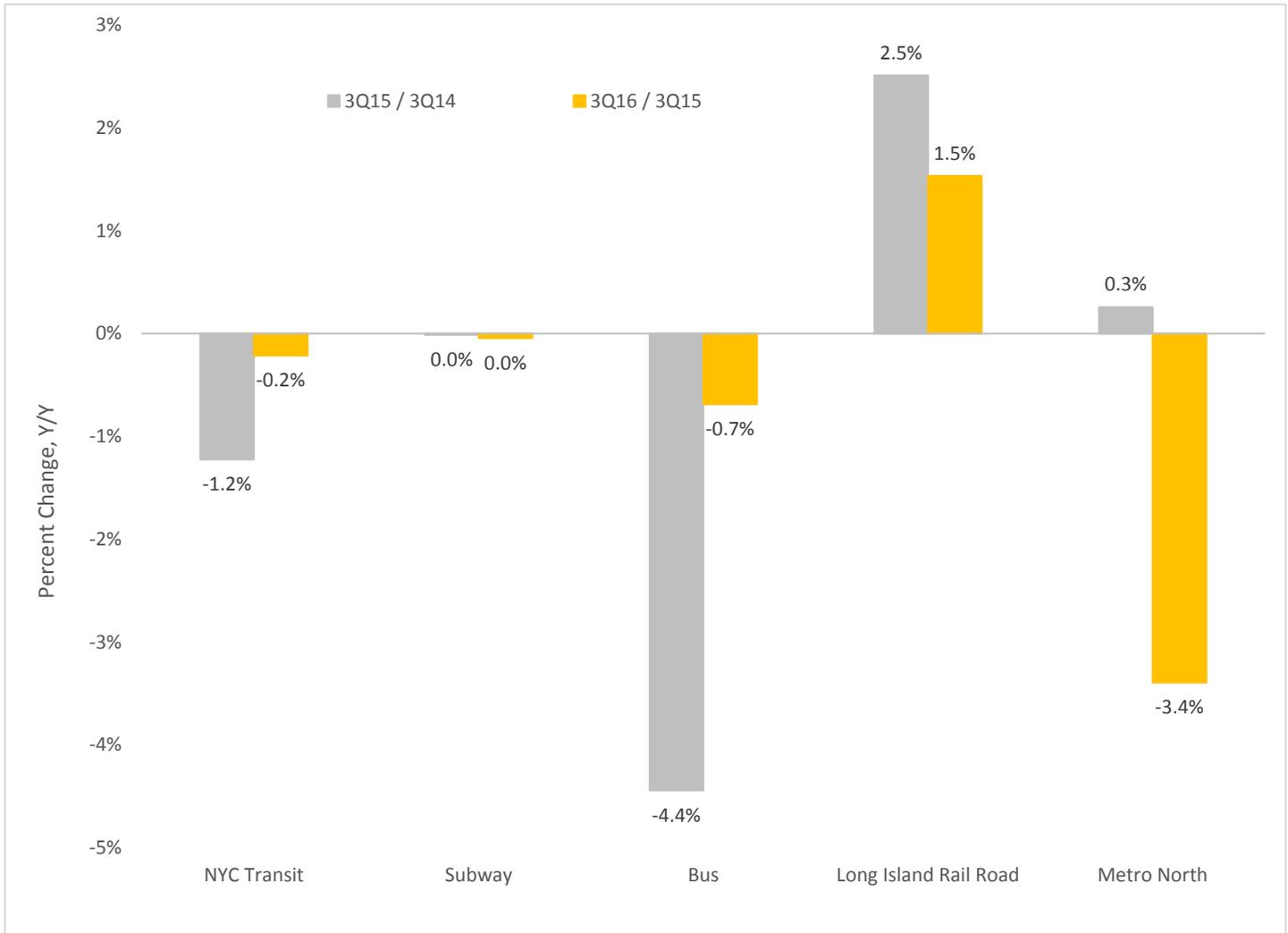
Source: Standard and Poor's

Average weekday ridership on MTA NYC Transit fell 0.2 percent in 3Q16 from a year ago. Average weekday ridership on the system's subways was unchanged, but bus ridership fell 0.7 percent. During the same period, ridership on the Long Island Rail Road rose 1.5 percent, but ridership on Metro North fell 3.4 percent (Chart 12).

Ridership usually reflects the city's economic activity and employment. However, a rise in income and more taxi rides, including the use of Uber and similar services, or increased bike riders, could counteract this effect.



Chart 12. Percent Change in MTA Average Weekday Ridership, 3Q15 over 3Q14 and 3Q16 over 3Q15



Source: Metropolitan Transportation Authority

Broadway show ticket sales and attendance slowed in 3Q16. According to the Broadway League, total gross weekly Broadway ticket sales were about \$311 million in 3Q16, 2.5 percent lower than the \$319 million sales in 3Q15. Total attendance was about three million in 3Q16, 0.3 percent lower than in 3Q15.

Also, the city’s hospitality market fell in July-August 2016 compared to the same period in 2015 (September numbers are not yet available). According to CBRE Hotels, the hotel occupancy rate in Manhattan averaged 89.5 percent in July-

August 2016, lower than 91.5 percent a year ago. Also, the average daily room rate fell on a year-over-year basis to \$255 in July-August 2016, from \$264 in previous year. Weakness in the hotel market may be due in part to a decline in foreign tourism from the stronger dollar and weak global economy.



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