



NEW YORK CITY COMPTROLLER
SCOTT M. STRINGER

Bureau of Budget

Q3 2017

NYC Quarterly Economic Update

Economy Keeps Humming in Q3 2017

NOVEMBER 2017



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Overview

- Solid job growth, but unemployment rate rises slightly
- Labor force participation rate and employment-to-population ratio hover around their record highs
- Personal income tax withholding and average hourly earnings are up
- Venture capital investment registers record high
- Best third quarter in a decade for new commercial leasing in Manhattan
- Apartment prices in Manhattan and Brooklyn flat, up in Queens
- Average residential rents fell in Manhattan and Brooklyn, but increased in Queens
- NYC leading economic indicators are mixed, but continue to point to future growth for the City.

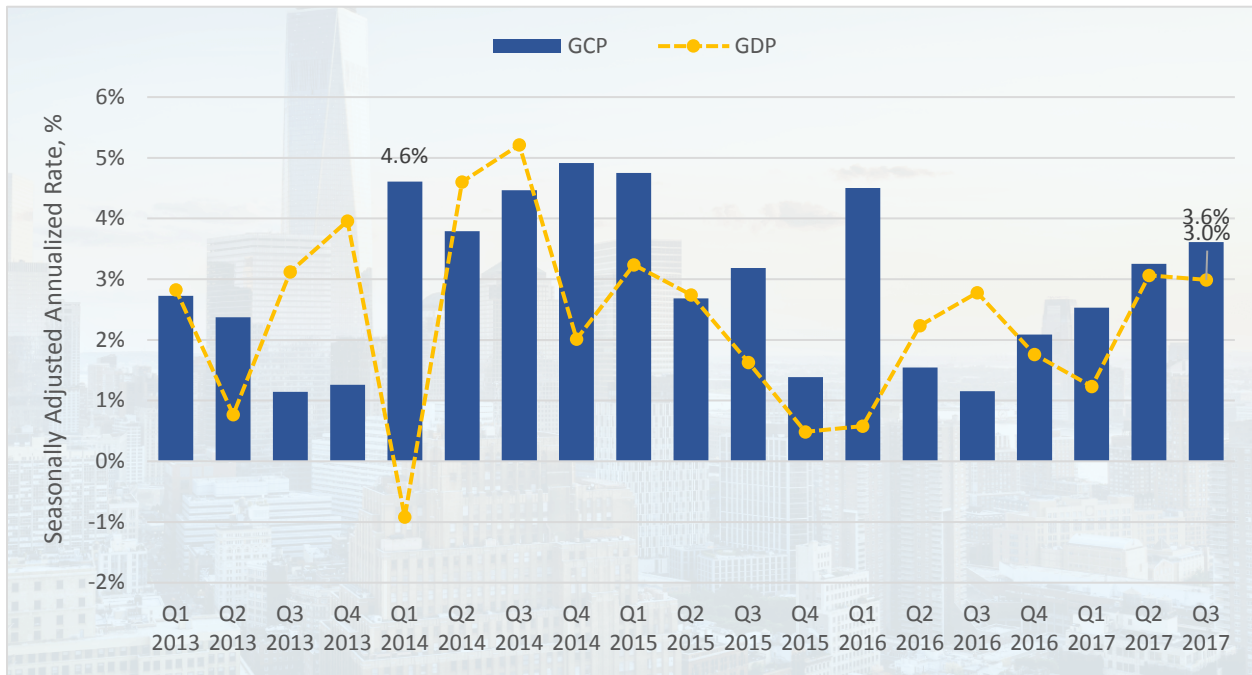
Table 1: Third Quarter of 2017 Key Economic Indicators for NYC and U.S. Compared with Q3 2016

Economic Indicator		Q3 2016	Q3 2017
GCP/GDP Growth, SAAR	NYC	1.2	3.6
	U.S.	2.8	3.0
Payroll-Jobs Growth, SAAR	NYC	2.3	2.7
	U.S.	2.0	1.3
PIT Withheld, Growth, NSA	NYC	2.2	14.0
	U.S.	1.9	4.3
Inflation Rate, NSA	NYC	1.0	1.8
	U.S.	1.1	2.0
Unemployment Rate, SA	NYC	5.4	4.9
	U.S.	4.9	4.3

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

Overall Economic Growth Improved

Chart 1. NYC Real Gross City Product (GCP) Outperformed US Real Gross Domestic Product (GDP)



Source: BEA and NYC Comptroller

National

The U.S. economy continued to grow in the third quarter of 2017 (July through September). Consumer spending, especially on motor vehicles and health care contributed the most to the 3.0 percent increase in GDP, followed by increases in private investment and net export growth spurred by a relatively weak dollar. The bulk of the growth in private investment was in inventory accumulation, which contributed 0.73 percentage points to the GDP growth. Investment in equipment grew at a smaller rate than would be expected contributing only 0.47 percentage points to the total growth. Investment in structures, both residential and commercial, were a negative.

The decline in the commercial and residential investment are expected to be temporary. They were caused by two factors: First, the disruption caused by hurricanes Harvey and Irma, and second, the strong first quarter investment resulting from a warmer than usual early spring that had a dampening effect on the summer and fall quarters' growth.

Government expenditures fell 0.1 percent and deducted 0.02 percentage points from the GDP growth. All the spending was in national defense, which grew 2.3 percent. Nondefense Federal expenditures fell 0.5 percent and state and local government expenditures fell 0.9 percent.

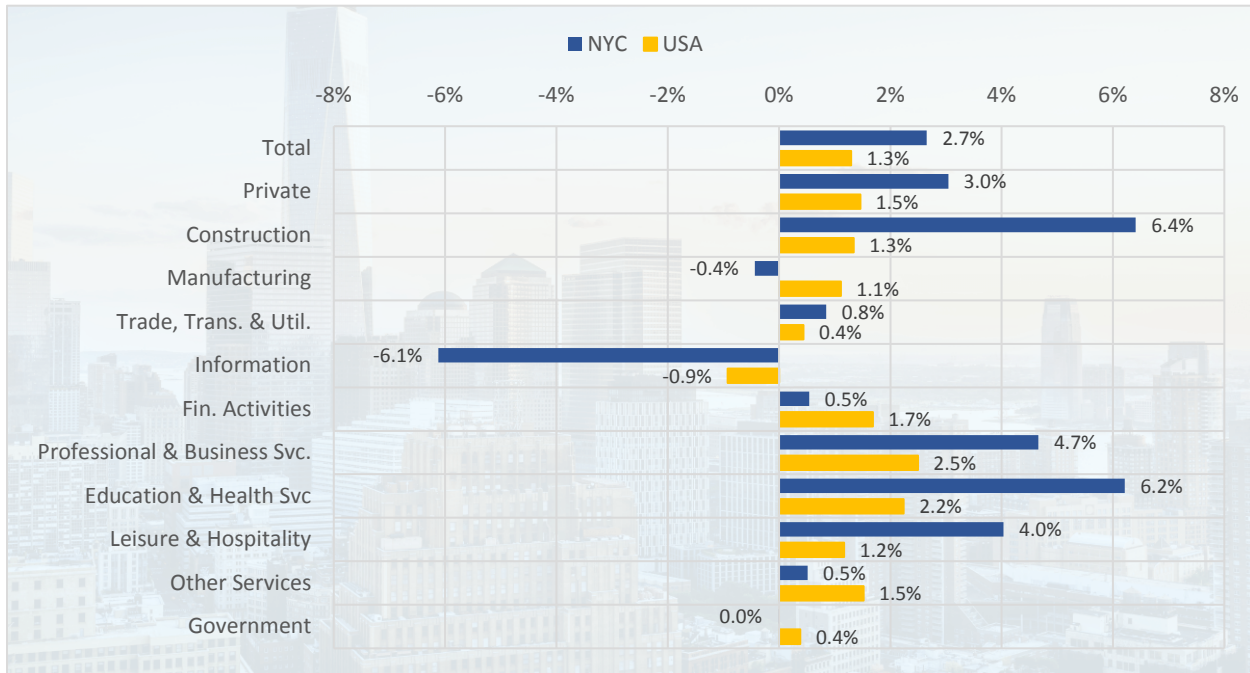
Finally, the impact of hurricanes Harvey and Irma are reflected in the third quarter GDP numbers. GDP less net trade and inventories grew only 1.85 percent, which is the lowest growth since 1Q16. This is partially due to the disruptions and destructions caused by the two hurricanes and are therefore expected to be temporary. As these regions' economies return to normal, and adding the effect of the government and private spending on clean-up and reconstruction, we would expect the GDP to continue to grow robustly over the next four quarters.

New York City

The economy of New York City has grown as well. Estimated growth of the GCP in Q3 2017 was 3.6%. It is difficult to compare this growth to the U.S. GDP growth this quarter. The national estimates included a buildup of inventory investment offset by the impact of the hurricanes. Hurricanes Harvey and Irma did not have a measurable impact on the City's economy and therefore it's likely that economic growth in the City outperformed that of the country.

Private Sector Continued to Create Jobs at a Solid Pace

Chart 2. NYC Continues to Outperform the Nation in Job Growth



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

Job growth in the City continued to be robust in the third quarter. Establishments in New York City added 29,000 jobs, or 2.7 percent on an annualized basis, higher than 23,800 in Q2 2017. Hurricanes Harvey and Irma dampened job growth in the nation. Total job growth in the U.S. was 1.3 percent in Q3 2017 same as in Q2 2017.

The city's private sector job growth continues to outperform the nation as a whole, adding an average of 23,500 jobs per quarter or an average annual growth rate of 2.8 percent, since the end of 2009 when the current recovery began. In comparison, the U.S. private sector jobs grew at an average annual rate of 2.0 percent per quarter.

Of the 29,000 private sector jobs added in Q3 2017 in the City, 13,100 (45.0 percent) were in low wage industries, almost equal amount (13,000 or 44.9 percent) were in medium-wage industries, and 2,900 (10.1 percent) were in high-wage industries. While the percentage in the low wage category in NYC is much

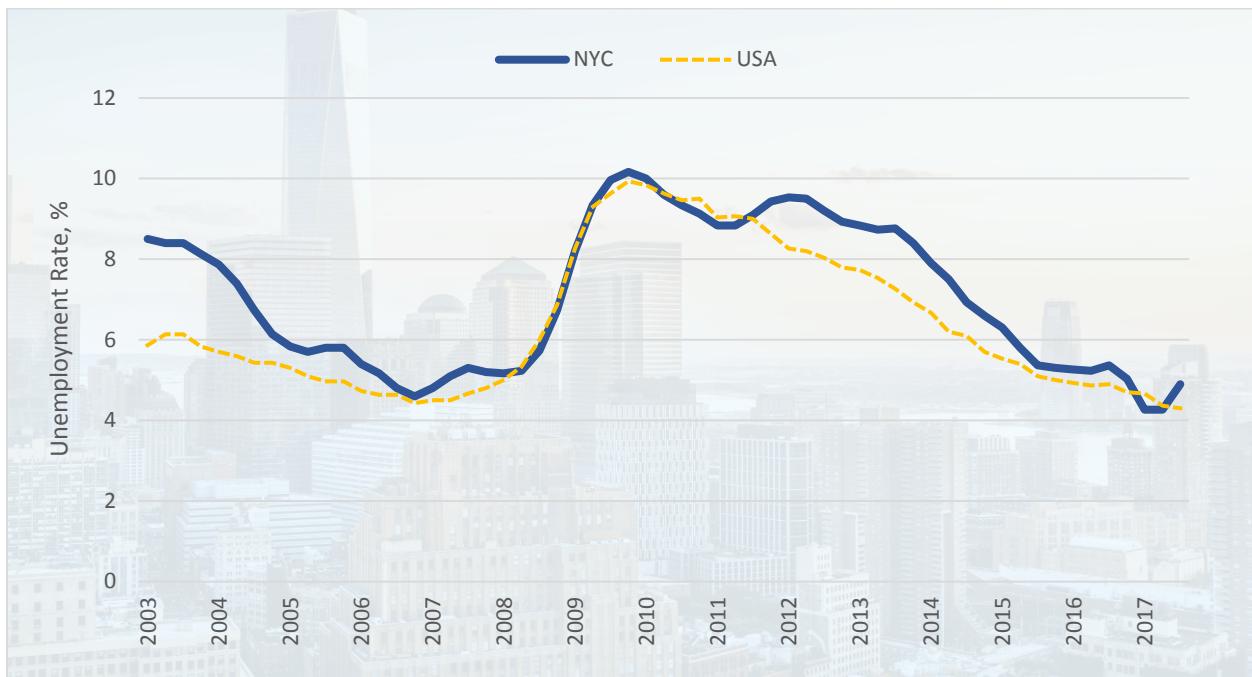
lower than the 61.2 percent nationally, the U.S. growth in high wage industries was 16.2 percent compared to the 10.1% in the City.¹

New export sector jobs, also known as traded sector jobs, were about half the number of new local sector jobs. Traded jobs provide goods and services to people and firms outside of the metropolitan area and depend on the national and global economies, while local jobs provide goods and services in the local market. Traded sector jobs are typically the engine of growth of a local economy, and create new jobs in the local sector.

Of total private sector job gains, 36 percent, or 10,500 jobs, were in traded sector industries, such as leisure and hospitality; finance; and professional and business services, while 64 percent or 18,500 jobs were in local sector industries, such as education and health services.

NYC's unemployment rate, adjusted for seasonality, rose to 4.9 percent in Q3 2017 from its historic low of 4.3 percent in Q2 2017. The U.S. unemployment rate continued its long term slide to 4.3 percent, the lowest rate in over 16 years (since Q1 2001) (Chart 3).

Chart 3. NYC Unemployment Rate Rises From Its All Time Low



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

The increase in the City's unemployment rate was due to an increase of 25,800 in the number of unemployed, and a 5,000-person increase in the City's labor force.

¹ We classify high-wage jobs as those that pay above \$119,000 a year; medium-wage jobs pay between \$60,000 and \$119,000 a year; and low-wage jobs pay less than \$60,000 a year. The average annual salary of a worker in New York City in a low-wage sector job was \$43,000, in a medium-wage sector about \$77,000, and in a high-wage sector about \$185,000 as of 2016.

The unemployment rate, not seasonally adjusted, fell in all five boroughs in Q3 2017 to their lowest third-quarter levels in at least ten years. The unemployment rate in Q3 2017 was:

- 6.8 percent in the Bronx,
- 5.2 percent in both Brooklyn and Staten Island, and
- 4.4 percent in both Manhattan and Queens.

Chart 4. New York City Initial Unemployment Claims Continues to Be Below Trend

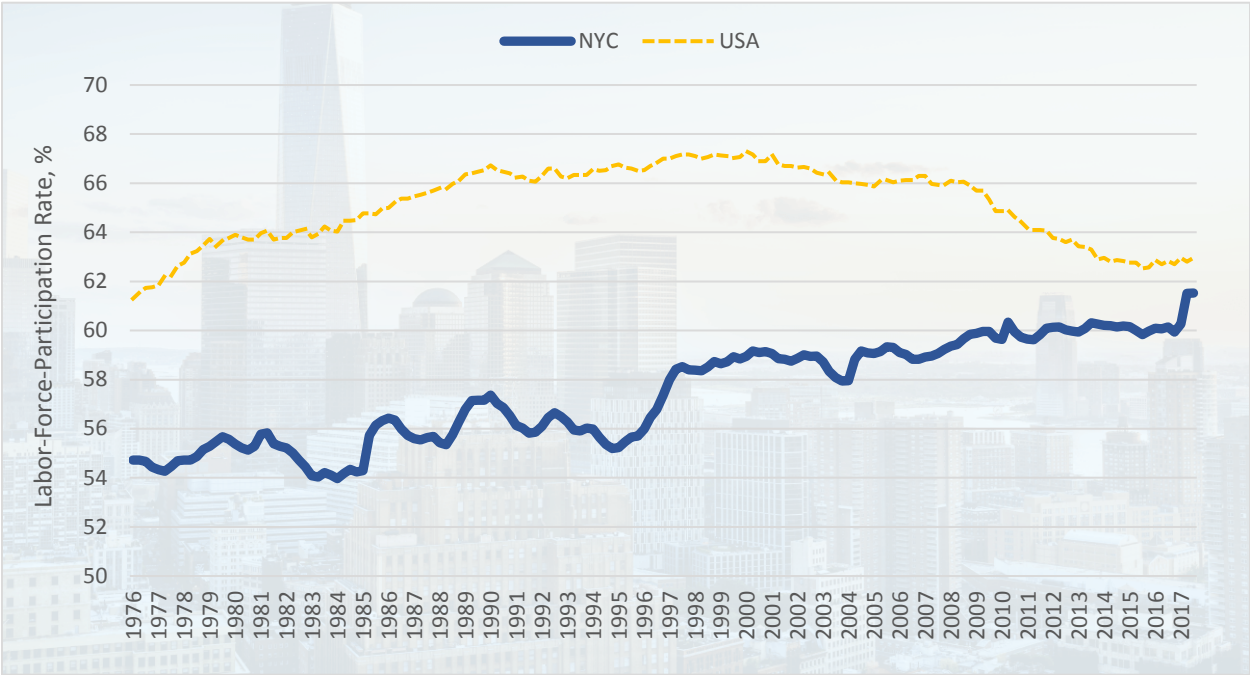


Source: NYS Department of Labor

Initial unemployment claims (a leading indicator of the local economy), which shows the number of applicants for unemployment insurance, continued to decline on a year-over-year basis for the twelfth consecutive quarter. According to the NYS Department of Labor, average initial unemployment claims fell 0.3 percent in Q3 2017 on a year-over-year basis which was much less than the 6.6 percent decline in Q3 2016 (Chart 4).

Labor Force Participation Rate Remains at Record High

Chart 5. Labor Force Participation Rate in NYC Remains at Record High



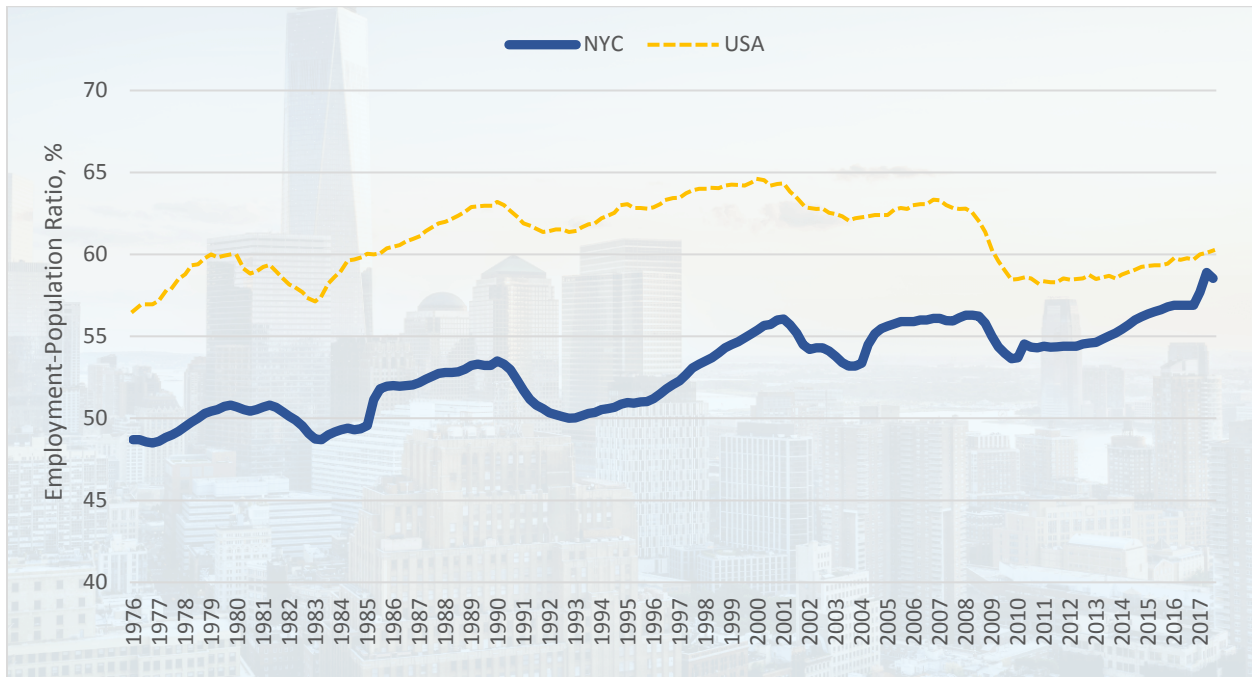
Source: U.S. Bureau of Labor Statistics (BLS) and NYS Department of Labor

The City’s labor force, which is the sum of all city residents who are employed or actively looking for a job, broke its own record for the third consecutive quarter and reached a historical high of over 4.2 million in Q3 2017, after increasing by 5,000 from Q2 2017. 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), remained unchanged at 61.5 percent in Q3 2017, also the highest recorded level (Chart 5). The national labor-force-participation rate rose to 63.0 percent in Q3 2017 from 62.8 percent in Q2 2017. As wages and salaries start to increase, more of the population will tend to join the labor force.²

The gaps between the City and the nation in the labor force participation rate and the employment-population ratio can indicate that the City economy has the potential to grow.

² <https://www.clevelandfed.org/newsroom-and-events/publications/economic-commentary/economic-commentary-archives/2007-economic-commentaries/ec-20070501-the-minimum-wage-and-the-labor-market.aspx>

Chart 6. Percentage of New York City Residents Working Continues to Hover Around Its All Time High

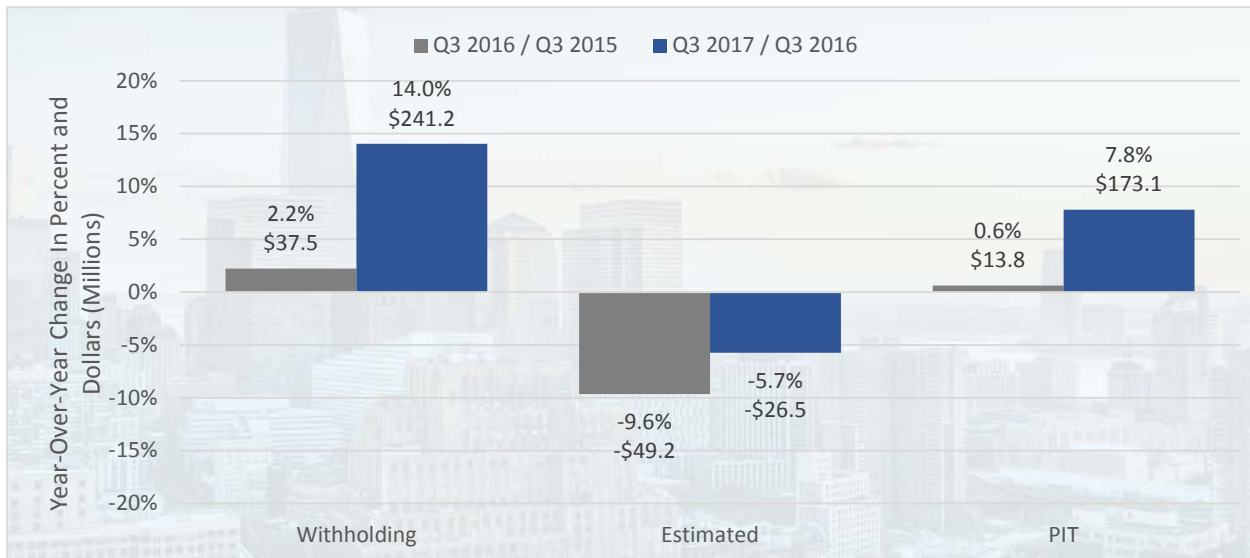


Source: U.S. Bureau of Labor Statistics (BLS) and NYS Department of Labor

The number of employed City residents fell for the first time in seven years, by 20,700 in Q3 2017 from its record high of almost 4.1 million in Q2 2017. Like most economic indicators employment is subject to fluctuations and this decline should not be interpreted as a beginning of a trend. While it contracted as a result of the employment fluctuations, the City’s employment-to-population ratio fell to 58.5 percent. This is still a historically high level and indication that more New Yorkers are working than ever before. The national employment-to-population ratio rose to 60.2 percent in Q3 2017, the highest rate in over eight years. (Chart 6).

Personal Income Tax Collections and Average Hourly Earnings Were Up

Chart 7. Changes in Personal Income Tax Withheld Revenues Indicates Strong Growth in Jobs



Source: NYC OMB

NYC personal income tax (PIT) revenues, an indicator of personal income, rose 7.8 percent or \$173.1 million on a year-over-year basis to about \$2.4 billion in Q3 2017, the highest third quarter on record (Chart 7). The main reason for this increase was withholding tax payments, one of the two main components of PIT revenues. On a year-over-year basis, personal income taxes withheld from paychecks rose 14.0 percent to about \$2.0 billion in Q3 2017, which was the highest third-quarter revenues on record.

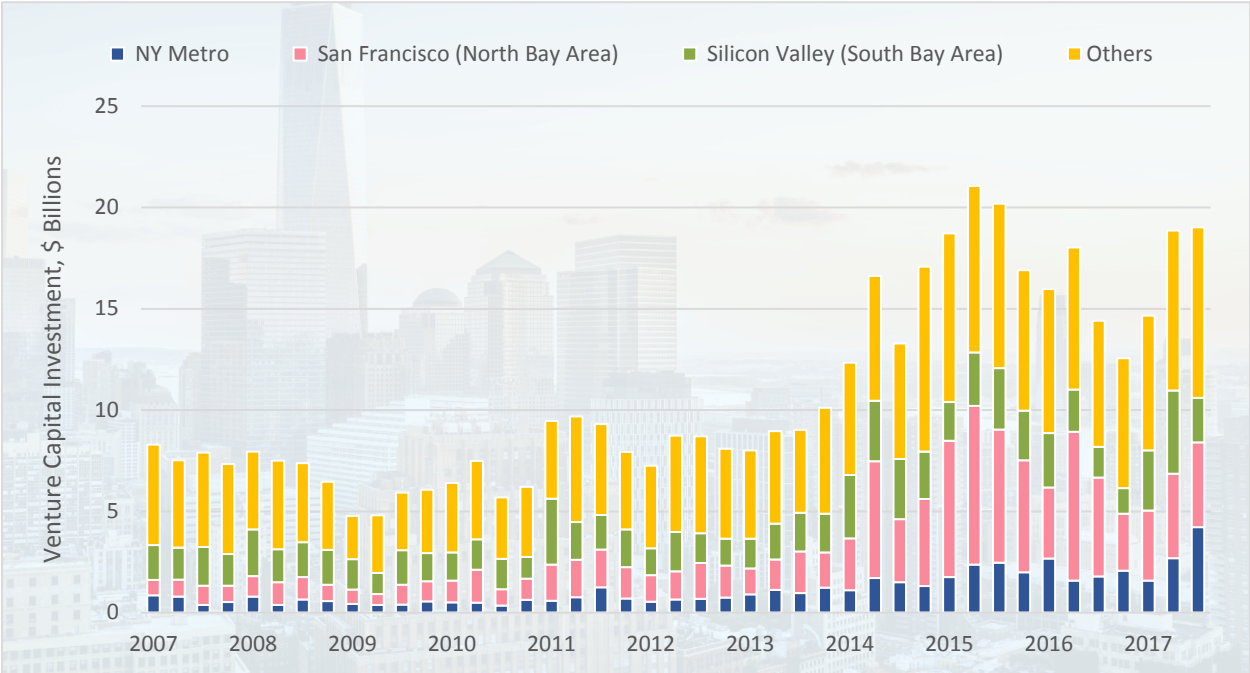
The other main component is estimated tax payments, which indicate trends in taxpayers' non-wage income, including interest earned, rental income, and capital gains. Estimated tax payments fell to \$434 million in Q3 2017, 5.7 percent lower than the \$461 million in Q3 2016. A possible reason for the lower estimated tax payments could be tax planning by people who can defer their income. Tax experts started advising taxpayers to defer income into 2017 and 2018 as soon as the Presidential Election was over.³

Average hourly earnings of all private NYC employees, another proxy for personal income, rose 2.7 percent on a year-over-year basis to \$34.95 in Q3 2017, the biggest third-quarter gain since 2015. U.S. average hourly earnings were \$26.35 in Q3 2017, 2.9 percent higher than \$25.60 in Q3 2016, and the biggest third quarter increase since 2007.

³ <https://www.forbes.com/sites/baldwin/2016/12/14/tax-strategies-for-the-trumpryan-plan/#1d95aea8543e>

Local Venture Capital Investment Registers a Record High On WeWork Investment

Chart 8. Venture Capital Investment by Regions



Quarter	NY Metro	San Francisco (North Bay Area)	Silicon Valley (South Bay Area)	Others	Total
Q3 2017	\$4.23	\$4.18	\$2.20	\$8.42	\$19.03
Q2 2017	\$2.69	\$4.18	\$4.10	\$7.90	\$18.87
Q3 2016	\$1.79	\$4.87	\$1.53	\$6.22	\$14.41

Source: PwC MoneyTree

Venture capital (VC) investment in the New York metro area rose to its highest level on record in Q3 2017 surpassing San Francisco and Silicon Valley. The bulk of the funding was Softbank’s \$3.0 billion direct investment in WeWork. Softbank also invested \$1.4 billion in three WeWork subsidiaries WeWorkChina; WeWorkJapan; and WeWorkPacific. Without this one investment NY metro area VC activity would have come in at its recent averages of \$1 billion to \$2 billion a quarter.

While measured by dollars invested, VC activity seems robust, the number of deals financed have declined nationwide. The number of VC deals in the U.S. fell in Q3 2017, indicating that investors are doing fewer but larger deals. In New York 162 deals were financed, down from 173 the year before. San Francisco and Silicon Valley both also experienced reductions.

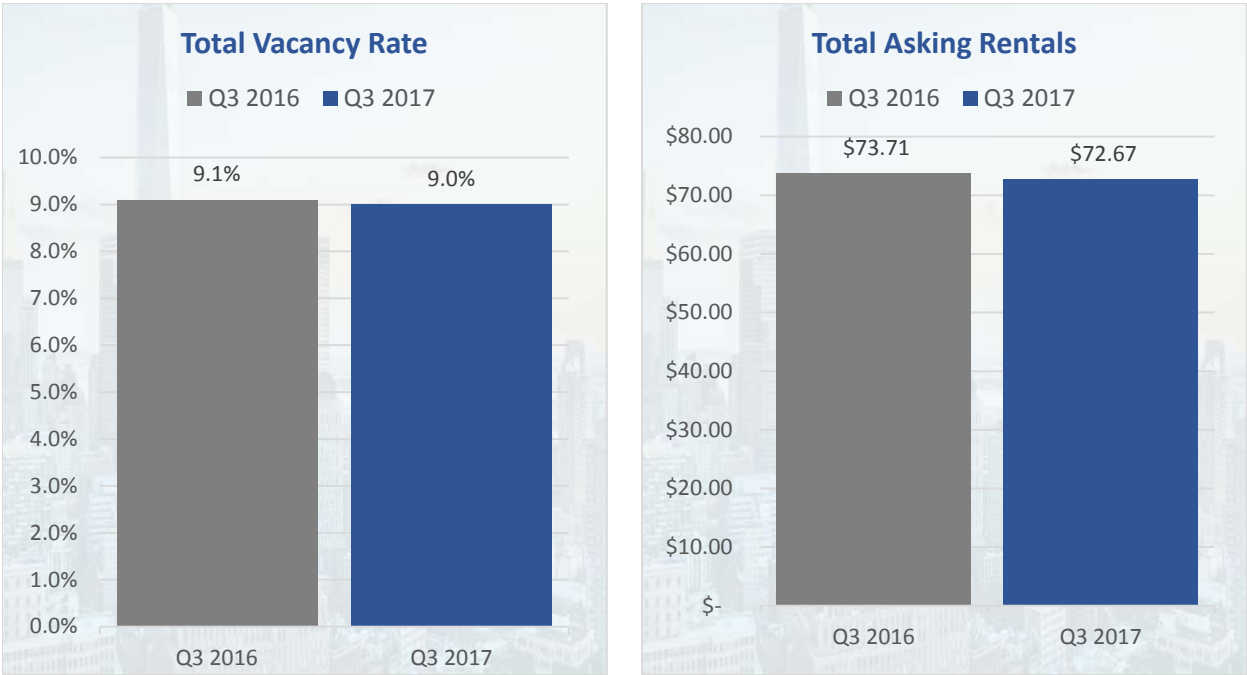
New Commercial Leasing: Highest Third Quarter Since 2006

New commercial leasing activity in Manhattan reached over 8.1 million square feet (msf) in Q3 2017, 17.2 percent higher than in Q3 2016. The latest quarter was the highest level of third-quarter leasing since 2006, according to Cushman and Wakefield. Most of the new leasing in Q3 2017 took place in Midtown (5.3 msf, 3.9 percent higher than Q3 2016) followed by Downtown (about 1.7 msf, almost double the 0.9 msf in Q3 2016) and Midtown South (about 1.2 msf, 15.9 percent higher than Q3 2016).

Total inventory in Manhattan increased by about 1.8 msf, but total available space fell by 0.3 msf in Q3 2017 from Q3 2016. As a result, Manhattan’s overall office vacancy rate, including sublease space, fell to 9.0 percent in Q3 2017 from 9.1 percent in Q3 2016 (Chart 9).

On a year-over-year basis, the vacancy rate fell 1.2 percentage points in Downtown to 8.7 percent, but increased 0.6 percentage points in Midtown South to 7.3 percent and 0.1 percentage points in Midtown to 9.6 percent in Q3 2017. Overall asking rents fell in Midtown and Midtown South, but increased in Downtown in Q3 2017 from Q3 2016.

Chart 9. Commercial Vacancy Rate and Asking Rental Rates are Down



Source: Cushman & Wakefield

Residential Sales: Robust in Manhattan, Brooklyn and Queens

Table 2. Apartment Prices Flat in Manhattan and Brooklyn, Robust in Queens

	Manhattan	Brooklyn	Queens
Avg. Sales Price	\$2,002,835	\$981,623	\$614,492
Avg. Sales Price (Y/Y, %)	-1.3%	-0.2%	9.3%
Number of Sales	3,369	2,914	3,865
Number of Sales (Y/Y, %)	13.0%	6.3%	3.1%
Listing Inventory	6,115	1,826	4,486
Listing Inventory (Y/Y, %)	-2.4%	-30.4%	4.5%
Absorption Rate (Months)	5.4	1.9	3.5
Days on Market	101	85	81
Days on Market (Y/Y, %)	27.8%	4.9%	-12.0%

Source: Douglas Elliman

Housing market prices in Manhattan softened in Q3 2017. Average sales prices and average price per square foot fell for the first time after nine consecutive quarters of growth. Inventories declined for the second consecutive quarter. However, the number of sales increased for the third consecutive quarter in Q3 2017, on a year-over-year basis.

According to Douglas Elliman⁴, on a year-over-year basis, the average sales price in Manhattan fell 1.3 percent to \$2.0 million. Similarly, the average price per square foot fell 11.5 percent to \$1,678 in Q3 2017 over Q3 2016. Both series had their first decline after nine consecutive quarters. Sales volume increased 13.0 percent to 3,369 in Q3 2017 from 2,982 in Q3 2016, the third consecutive quarter of increase. However, the listing inventory fell 2.4 percent from the prior year to 6,115, leading to a decrease in the absorption rate. The absorption rate, defined as the number of months to sell all inventory at the current rate of sales, fell to 5.4 months in Q3 2017 from 6.3 months in Q3 2016. Days on the market from last list date rose 27.8 percent to 101 days. Days on the market are the number of days a property is listed. An increase is considered a weakening of the market. As individual properties take longer to sell the absorption rate will ultimately rise.

Housing market prices softened in Brooklyn as prices decreased. The average sales price fell 0.2 percent to \$981,623 in Q3 2017, compared to Q3 2016. Nonetheless, sales expanded and inventories declined. On

⁴ <https://www.elliman.com/>

a year-over-year basis, the number of sales rose 6.3 percent to 2,914 and the listing inventory fell 30.4 percent to 1,826. As a result, the absorption rate fell to 1.9 months in Q3 2017. On the other hand, the days on market rose to 85 in Q3 2017 from 81 in Q3 2016.

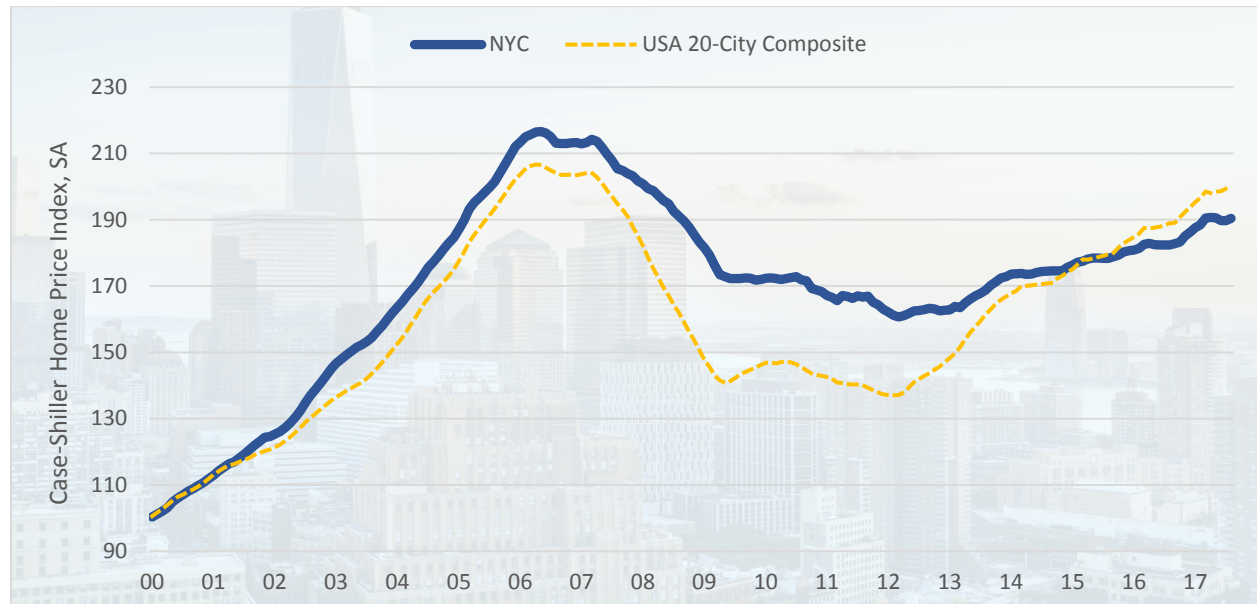
In Queens, unlike Manhattan and Brooklyn, the average sales price rose 9.3 percent to \$614,492 in Q3 2017 over Q3 2016. The number of sales rose 3.1 percent to 3,865 and the listing inventory rose 4.5 percent to 4,486 in Q3 2017 compared with the same period last year. Days on the market was 81 days in Q3 2017, 12.0 percent less than 92 days in Q3 2016. However, the absorption rate rose slightly to 3.5 months in Q3 2017 from 3.4 months in Q3 2016 (Table 2).

The New York metro area home price index increased 4.2 percent in July-August 2017 over the same period in 2016, according to the Case-Shiller index, which tracks single-family home prices, while the U.S. 20-city composite index rose 5.9 percent. U.S. and NYC inflation rates were 1.8 and 1.7 percent respectively in July-August 2017 on a year-over-year basis.

Among the Case-Shiller's 20 metro areas, the Washington metro area had the smallest growth (3.3 percent) while the Seattle metro area saw the largest jump in home prices (13.3 percent) in July-August 2017, compared to the prior year.

New York metro area home prices had a smaller decline during the recession but a slower rebound than the U.S. as a whole. As of August 2017, the U.S. 20-city composite index was 46.2 percent higher than at its trough in 2012 and 3.1 percent below its peak in 2006. In comparison, the New York metro area home price index was 18.5 percent higher than at its trough in March of 2012, but was still 12.1 percent below the peak reached in May 2006 (Chart 10).

Chart 10. NYC Single Family Home Prices Lag the Nation



Source: Standard and Poor's Case-Shiller Home Price Index

Rental Market Mixed

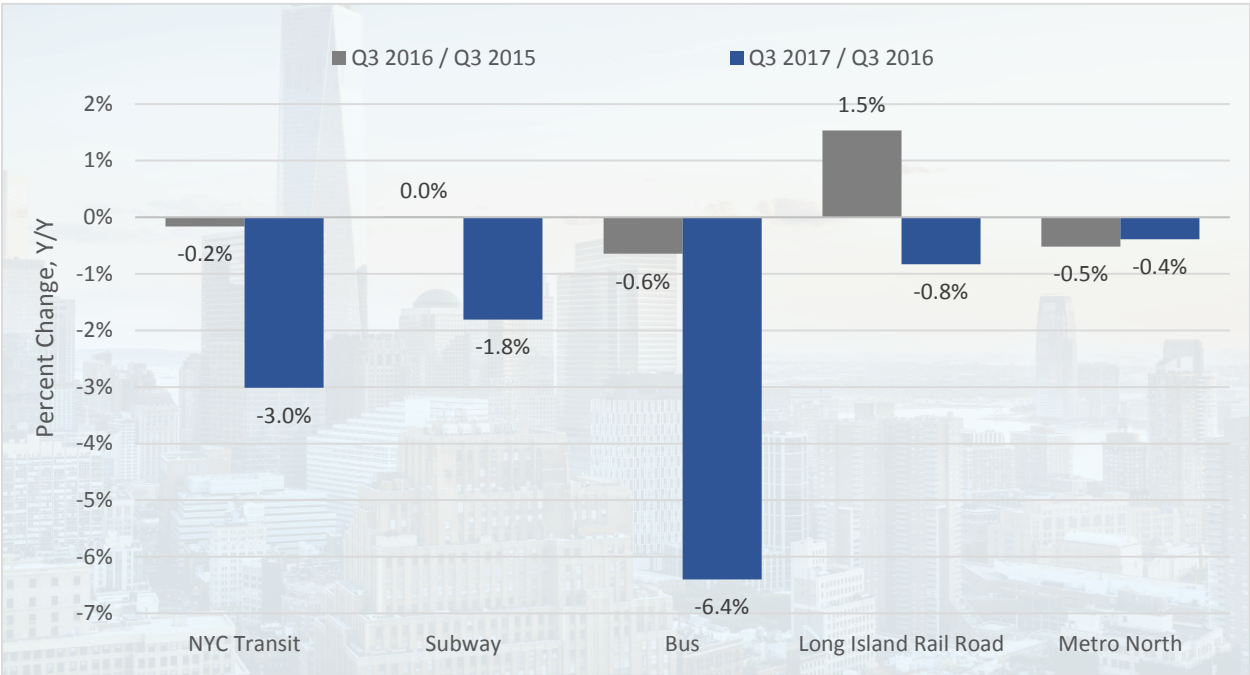
New York City is a city of renters and the rental market was mixed in the 3rd quarter. According to Douglas Elliman, on a year-over-year basis, the number of new leases declined in Manhattan by 10.7 percent and in Brooklyn by 4.1 percent, but increased in Queens by 0.7 percent in September 2017. As a result, the vacancy rate in Manhattan rose to 2.63 percent in September 2017 from 2.38 percent in September 2016.

The decline in the number of new leases forced landlords in Manhattan and Brooklyn to cut asking rents. Average asking rents fell 0.6 percent in Manhattan and 2.3 percent in Brooklyn, but rose 3.5 percent in Queens in September 2017 over September 2016.

Other Indicators

Average weekday ridership on MTA NYC Transit continued falling in Q3 2017. Overall, ridership fell 3.0 percent in Q3 of 2017 from a year ago. Average weekday ridership on the system’s subways fell 1.8 percent and bus ridership fell 6.4 percent. During the same period, ridership on the Long Island Rail Road (LIRR) fell 0.8 percent and on Metro North fell 0.4 percent. (Chart 11).

Chart 11. NYC Public Transportation Ridership Down, Mixed Growth in the Suburbs



Source: Metropolitan Transportation Authority

Broadway show ticket sales improved as attendance increased in Q3 2017. According to the Broadway League, total gross weekly Broadway ticket sales were over \$377 million in Q3 2017, 21.2 percent higher than in Q3 2016. Total attendance was about 3.3 million in Q3 2017, 8.8 percent more than in Q3 2016.

Leading Economic Indicators are Positive

NYC Leading economic indicators are still indicating a healthy economy but there are signs that close monitoring is warranted. A quick assessment of business conditions among firms in the New York City area is provided by ISM-New York, Inc. The report shows that the business conditions in New York City metro area improved in Q3 2017 over Q2 2017. The current business condition index (“BCI”) (which measures the current state of the economy from the perspective of business procurement professionals) rose to 56.4 percent in Q3 2017, above the 52.7 percent in Q2 2017. A reading greater than 50 percent indicates growth.

The NY-BCI (which measures the cumulative change in business activity) rose to 747.6 in Q3 2017 from 737.8 in Q2 2017 and 720.2 a year ago. The ISM six-month outlook (which measures where procurement professionals expect the economy to be in six months) fell to 59.0 percent in Q3 2017 from 69.4 percent in Q2 2017. While still in positive territory, the drop indicates that the future appears less optimistic to more of the respondents.

According to the U.S. Department of Housing and Urban Development, total residential building permits in the City fell 15.5 percent to 4,465 in Q3 2017 from a year ago. Despite the third-quarter decline, the number of building permits in the first nine months of 2017 is 46.3 percent higher than the first nine months of 2016. The robust building environment in the City is not limited to residential construction. According to the New York Building Congress, 2.3 million square feet of new office space will be completed in Manhattan in 2017, followed by 7.2 million square feet in 2018 and 5.6 million square feet in 2019. Not to be undone by Manhattan, Cushman and Wakefield reports that another 6.9 million square feet is either in process or in planning in Brooklyn and another 3.6 million square feet in Queens.⁵

Table 3: Leading Economic Indicators Generally Positive

	Q3 2016	Q2 2017	Q3 2017
ISM-New York Metro Area, SA* Current Business Conditions	52.6	52.7	56.4
ISM-New York Metro Area, SA* Six-Month Outlook	60.7	69.4	59.0
ISM-New York Metro Area, SA* NY-BCI	720.2	737.8	747.6
Initial Unemployment Claims (Source: NYS DOL)	31,937	31,322	31,840
Number of Building Permits (Source: HUD)	5,282	5,651	4,465

⁵ New York Building Congress, *New York City Construction Outlook*, Sept. 19, 2017, <https://www.buildingcongress.com/outlook/>

*Source: ISM-New York, Inc.

Table 4: Third Quarter 2017 Economic Indicators Compared to Q2 2017 and Q3 2016

		Q3 2016	Q2 2017	Q3 2017
County Unemployment Rate, NSA (Source: NYS DOL)	Bronx	7.5	5.7	6.8
	Kings	5.7	4.3	5.2
	New York	4.8	3.7	4.4
	Queens	4.8	3.7	4.4
	Richmond	5.7	4.2	5.2
Commercial Vacancy Rate (Source: Cushman & Wakefield)	Midtown	9.5%	9.8%	9.6%
	Midtown South	6.7%	7.5%	7.3%
	Downtown	9.9%	8.9%	8.7%
	Manhattan Total	9.1%	9.2%	9.0%
Commercial Rental Rate (per sq ft) (Source: Cushman & Wakefield)	Midtown	\$79.91	\$77.61	\$77.67
	Midtown South	\$70.29	\$69.68	\$69.23
	Downtown	\$59.13	\$58.83	\$59.86
	Manhattan Total	\$73.71	\$72.59	\$72.67
Number of Apartment Sales (Source: Douglas Elliman)	Manhattan	2,982	3,153	3,369
	Brooklyn	2,741	2,845	2,914
	Queens	3,750	3,839	3,865
Case-Shiller Home Price Index, NSA (Source: S&P) 100=2000	NY Metro Area	185.27	189.47	192.94*
	US 20-City Composite	191.35	199.00	202.45*
Hotel Industry (Source: CBRE Hotels)	Average Daily Occupancy Rate	90.0	89.5	NA**
	Average Daily Room Rate	\$288.61	\$287.49	NA**
MTA Average Weekday Ridership (Source: MTA)	NYC Transit	7,482,162	7,704,445	7,256,551
	Subway	5,512,884	5,733,303	5,413,279
	Bus	1,969,277	1,971,142	1,843,272
	Long Island Rail Road	315,976	311,645	313,346
	Metro North	292,428	296,500	291,286
ISM-New York Metro Area, SA (Source: ISM-New York, Inc.)	Current Business Conditions	52.6	52.7	56.4
	Six-Month Outlook	60.7	69.4	59.0
	NY-BCI	720.2	737.8	747.6
Initial Unemployment Claims (Source: NYS DOL)	Initial Unemployment Claims	31,937	31,322	31,840
Number of Building Permits (Source: HUD)	Number of Building Permits	5,282	5,651	4,465

*Data for Q3 2017 includes July and August, excludes September

**Data for Q3 2017 is not available

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