Office of the New York City Comptroller
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ECONOMIC NOTES

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City's Economic Growth Slows to a Crawl

*Overview: **Evidence is mounting that the national economic doldrums are catching up to New York City. The city's economic growth slowed further in the first quarter of 2008 and job creation since January has been negligible. Like the national economic picture, local economic indicators give mixed signals, suggesting a period of stagnation rather than sharp decline.***

- **Real Gross City Product grew 0.8 percent in 1Q08 after growing 1.4 percent in 4Q07.** The U.S. economy grew 1.0 percent (final estimate) in 1Q08 after growing only 0.6 percent in 4Q07. Unlike the U.S., the city's economy benefited from strong job growth early in the year, a relatively strong real estate market, and tourism. However, the fall-off in Wall St. activities will have a negative impact on the city's economic output this year.

- **NYC payroll jobs remained virtually unchanged in 2Q08, but U.S. jobs fell 0.6 percent in 2Q08 over 1Q08.** The city's private sector added only 300 jobs in 2Q08 after adding 11,100 jobs in 1Q08. Sectors adding jobs in the second quarter included information (1,500 jobs), professional and business services (1,400), construction (1,300) and education and health services (1,200). However, data for June showed a 4,300-job loss in the city's securities industry, bringing the total losses in the industry to 9,000 since October 2007.

- **NYC's unemployment rate jumped to 5.4 percent in June, and averaged 5.1 percent in the second quarter.** The national unemployment rate was 5.5 percent in June and averaged 5.3 percent for the quarter. The city's unemployment rate had fallen to a low of 4.1 percent in February. A slippage in employment and a surge in labor force entrants pushed it back above 5 percent in the second quarter.

- **The City's payroll tax withholdings increased 6.1 percent in the first half of 2008 compared to the same months of 2007.** Income tax withholding is an indicator of personal income growth. Withholdings were up 6.3 percent in the first quarter and 5.9 percent in the second quarter, on a year-over-year basis. Total income tax collections were up 19.3 percent in the first half of 2008, due to a surge in estimated tax payments, usually associated with taxpayers' estimates of their interest earnings, rental income, and capital gains realizations.

- **The City's general sales tax collections rose 6.5 percent in January through May, on year-over-year basis.** Approximately 60 percent of sales tax collections are derived from consumer purchases and the rest from business spending. Sales tax collections were unusually strong in March, indicating that Wall St. bonuses and/or tax refunds played a role.

- **The Manhattan office vacancy rate rose to 7.1 percent in 2Q08 from 6.1 percent in the previous quarter**, according to Cushman & Wakefield. The office vacancy rate reached a low of 5.3 percent in 2Q07. During the second quarter, the average asking rent in Manhattan office buildings rose to $71.59, up from $65 in the first quarter.

- **Manhattan apartment sales prices declined slightly in 2Q08,** according to Prudential Douglas Elliman. On a square-foot basis, they fell 2.0 percent in the quarter, but were still 10.9 percent higher than in the same quarter of 2007. However, the number of transactions rose 35 percent, while the listing inventory increased 11 percent. The Real Estate Board of New York reports that Brooklyn condo prices were up 4 percent in April compared to April 2007.

- **Transit ridership, an indicator of the city's economic activity, continues to increase.** According to the MTA, total monthly passengers using the subway rose 5.8 percent; using the Long Island Rail Road rose 5.6 percent; and using the Metro-North Railroad rose 4.1 percent in the first four months of 2008, on a year-over-year basis. The increases apparently reflect a shift to mass transit due to high gas prices, as traffic volume on bridges and tunnels fell 0.6 percent.

INSIDE FOCUS: Metropolitan Area Economies

Summary Table. *Five Key Economic Indicators, NYC and U.S., 2Q08 vs. 1Q08 and 1Q08 vs. 4Q07*

	1. GCP/GDP Growth, SAAR		2. Payroll-Jobs Growth, SAAR		3. PIT Withheld, Growth, NSA		4. Inflation Rate, NSA		5. Unemployment Rate, SA	
	NYC	*U.S.*	*NYC*	*U.S.*	*NYC*	*U.S.*	*NYC*	*U.S.*	*NYC*	*U.S.*
1Q08/4Q07	0.8% Worse	1.0% Better	1.1% Worse	-0.3% Worse	6.3% Worse	1.7% Worse	3.7% Worse	4.1% Worse	4.8% Better	4.9% Worse
2Q08/1Q08	Not Available	Not Available	0.0% Worse	-0.6% Worse	Not Available	Not Available	4.0% Worse	4.4% Worse	5.1% Worse	5.3% Worse

NSA means Not Seasonally Adjusted. SA means Seasonally Adjusted. SAAR means SA Annualized Rate. PIT means Personal Income Tax. Comparisons for "Better," "Worse," or "No Change" are with the prior quarter.

New Measurements of Regional Economies

Summary: A new data series released by the U.S. Bureau of Economic Analysis allows, for the first time, a comparison of the size and composition of metropolitan area economies. The data show that the New York metropolitan area is the single biggest contributor to U.S. gross domestic product, but others are growing more rapidly.

Due to the happenstance of political history, we are accustomed to thinking of economic geography in terms of states, counties and cities. Economists, however, have long observed that metropolitan areas are the basic unit of economic geography, with regional economies centered around a central city core rising and falling as one, and competing with one another for economic preeminence. Now, with the release of a new data series for metropolitan areas from the U.S. Bureau of Economic Analysis (BEA), it is possible to see exactly how much each major metropolitan area contributes to the national economy and how the economic base of those areas differ.

In September 2007, the BEA issued its first estimates of gross domestic product (GDP) for 363 metropolitan areas.[1] The figures include estimates of total GDP for each area for 2001 through 2005, as well as the contribution of major industry sectors to the total of each. Although rough rankings of the economic importance of major metro areas were previously made based on population or employment data, the GDP figures are revealing because they better take into account the value that each area adds to the national economy. Metro areas that are characterized by high-value services and industrial activities tend to rise in the relative rankings, while those that grow primarily through population influx tend to fall. For example, the Washington, D.C. metropolitan area, with its high-tech industries and well-educated population clustered in its Maryland and Virginia suburbs, emerges as more of an economic powerhouse, while some sunbelt growth cities, like San Antonio and Jacksonville, shrink in relative importance.

The importance of the New York metropolitan area to the nation's economy is also underscored. The metropolitan economy centered around New York City contributed 9.1 percent of the nation's gross domestic product in 2005, although it contains only 6.6 percent of the nation's population. Moreover, the economic gap between our region and its next largest competitor, the Los Angeles metropolitan area, is considerably larger than the population difference between the two.[2] In 2005, the New York metro area contained only 7 percent more people, but contributed 43 percent more to the nation's total economic output.

As Table 1 shows, over 44 percent of the nation's gross domestic product is generated in just fifteen metropolitan areas, which contain about 35 percent of the country's population. The New York metro area's economy alone exceeded $1.1 trillion in 2005, making it approximately the size of Canada's.

Table 1: Fifteen Largest Metropolitan Economies, 2005

	Metro GDP	% of US GDP
	($billions)	
New York	1,129.1	9.1
Los Angeles	788.9	6.3
Chicago	461.4	3.7
Washington, DC	347.6	2.8
Houston	316.3	2.5
Dallas-Fort Worth	315.5	2.5
Philadelphia	295.2	2.4
San Francisco	391.6	3.1
Boston	261.1	2.1
Atlanta	242.4	1.9
Miami	231.8	1.9
Detroit	198.6	1.6
Seattle	182.2	1.5
Minneapolis	171.4	1.4
Phoenix	160.0	1.3
Top 15 metro areas	1,493.2	44.2

Source: US Bureau of Economic Analysis

For a number of years, the New York City Comptroller's Office has been preparing estimates of New York City's gross city product (GCP) using its own methodology. We estimated it at $487 billion in 2005, suggesting that New York City, with about 42 percent of the metropolitan area's population, accounts for about 43 percent of its total economy. That approximate proportionality is a reminder that our region's economy is very evenly dispersed and that its prosperity requires both a healthy central city and thriving suburban economies.

Regional Growth Rates

In the past, assessments of relative rates of regional

[1] *BEA Introduces New Measures of the Metropolitan Economy,* News Release, US Bureau of Economic Analysis, September 26, 2007.

[2] New York metro figures include the Bridgeport-Stamford-Norwalk metropolitan area, as well as the New York-Long Island-Northern New Jersey metropolitan statistical area. Four MSAs are combined in the figures for Los Angeles, including data for Los Angeles, Riverside, San Bernardino, Orange, Ventura and Kern counties.

economic growth were based almost entirely on population or employment changes. The new BEA figures provide a new yardstick for measuring metropolitan growth as well.

Table 2 shows the fifteen largest metropolitan areas ranked by rate of real GDP growth from 2001 to 2005. The growth rates presented in the table are not necessarily reflective of the underlying, long-term rates of regional economic growth. The period 2001–2005 encompassed one recession and only part of the subsequent recovery. Unique circumstances prevailed during that period in several metro areas. The San Francisco-San Jose metro area was, for example, still recovering from the dot.com technology bust, while the New York metro economy was adversely affected by the stock market decline in 2000–2001 and, of course, the 9/11 terror attacks. The new BEA data do allow us, however, to get additional insight into regional economic growth and the factors driving it.

Table 2: Annual Growth Rate of Real and Real Per Capita GDP, Major Metropolitan Areas, 2001–2005

Metropolitan Area	GDP	Population	Per Capita GDP
	(annual percent change)		
Washington, DC	4.3	1.5	2.8
Miami	4.1	1.3	2.8
Los Angeles	3.7	1.3	2.4
Phoenix	3.5	3.5	0.0
Dallas-Fort Worth	2.8	2.0	0.8
Houston	2.6	2.4	0.2
Philadelphia	2.5	0.4	2.1
Atlanta	2.5	2.8	-0.3
Minneapolis-St. Paul	2.4	0.9	1.5
New York	2.0	0.4	1.6
Seattle	1.8	0.9	0.9
San Francisco	1.4	0.0	1.4
Chicago	1.4	0.6	0.8
Boston	1.4	0.1	1.2
Detroit	0.5	0.1	0.4

Source: US Bureau of Economic Analysis; NYC Comptroller's Office

Although New York ranked only tenth in terms of real growth, the regions that it outpaced were, for the most part, centered around economically healthy cities with which New York City often competes directly for talent, businesses and prestige.

Furthermore, a number of fast-growing metropolitan areas grew primarily because they experienced very rapid population increases. The chart also shows the annual rate of population growth for each area from July, 2001 through July, 2005, and the adjusted, or per capita, rate of real economic growth. Several metro areas, including Phoenix, Dallas-Ft. Worth, Houston and Atlanta, showed relatively rapid rates of real GDP growth, but it was driven primarily by population increases. In Phoenix and Atlanta, especially, GDP per capita did not grow at all over that time period. That does not necessarily mean that those regional economies were becoming less productive; more likely, their rapid population growth elicited equally rapid growth in low-value added services required by their burgeoning population. Nevertheless, it does underscore that rapid GDP growth cannot simply be equated with increases in the population's economic well-being, if population is growing just as fast.

In contrast, several large metropolitan areas experienced relatively slow growth in real GDP, but when an adjustment is made for their slow population gains, the growth is more impressive. The New York metro area, in particular, scored a 1.6 annual percent gain in real per capita GDP, ranking fifth highest among the large regional economies. Philadelphia, Minneapolis-St. Paul, and San Francisco also performed well on a per capita basis. Several metropolitan economies grew rapidly on a per capita basis as well as on a gross basis. The Washington, D.C., Miami, and Los Angeles metro areas were among them.

The Regional Economic Base

The new BEA data include estimates of gross regional product by major economic sector, permitting an analysis of the components of our region's economy, and a comparison to other metro areas, in a manner that has not been possible before. It is particularly revealing to look at the "location quotient" of gross regional product. A regional location quotient is the ratio of the percentage share of an industry's output to the total regional product, divided by that industry's percentage share of national product.[3] It is a convenient way to measure an industry's relative degree of regional concentration. If the quotient is greater than 1, the region is more specialized in that sector than is the nation as a whole, and if it is less than 1, it is less specialized.

Because real estate-related employment is scattered among a number of occupational categories, it is easy to understate the huge role real estate plays in our regional economy. According to the BEA estimates, the real estate sector accounted for nearly $200 billion of the New York metropolitan area's gross product in 2005, showing a location quotient of 1.3, or 30 percent higher than the national average. Other sectors in which our regional economy has a degree of concentration include Information, Management of Companies, Professional and Technical Services, and Arts, Entertainment and Recreation.

[3] Location quotients are commonly used in regional economic analysis, but because of data limitations, usually use employment shares.

It is not surprising that the New York region's highest location quotient, 1.7, is that for Finance and Insurance. The financial sector accounts for 13.6 percent of our regional economy, but for only 8.2 percent of national domestic product. Philadelphia's location quotient for financial and insurance is identical to New York's, but Charlotte's, at 3.7, is by far the highest.

It is also unsurprising that the production of goods—manufacturing—is an under-represented portion of our regional economy. It is somewhat unexpected, however, to find that New York's health care and social assistance sector is roughly proportional to the national average, and that its retail trade, and accommodation and food service sectors are significantly smaller than the average.

The highest location quotients among major metropolitan areas are for Boston in educational services (2.6), Seattle in information (2.2), and Philadelphia in educational services (2.0). As Table 3 indicates, New York's location quotient for educational services is only slightly above the national average, which could be a concern if, as some economists argue, education is a long-term driver of economic growth.

Table 3: Composition of NY Metro Area GDP and Regional Location Quotients

	NY Metro	US	Location Quotient
	(Percent)		(Ratio)
Total Gross Regional Product	100.0	100.0	1.0
Private industries	91.5	88.5	1.0
Goods producing	9.2	18.4	0.5
Retail trade	5.2	6.5	0.8
Information	7.3	4.8	1.5
Finance and insurance	13.6	8.2	1.7
Real estate	17.5	13.4	1.3
Professional and technical services	9.4	7.5	1.3
Management of companies	3.0	2.0	1.5
Educational services	1.1	1.0	1.1
Health care and social assistance	7.0	6.9	1.0
Arts, entertainment and recreation	1.1	0.9	1.2
Accommodation and food services	2.0	2.6	0.8
Other services, except government	2.0	2.2	0.9
Transportation and utilities	3.7	4.6	0.8
Government	8.5	11.5	0.7

Source: US Bureau of Economic Analysis; NYC Comptroller's Office

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