

ECONOMIC NOTES

Vol. XIV, No. 3 / November 2006

New York City's Economic Growth Slowed in 2Q06

Overview: Signs of economic slowdown are emerging, but a recession is not considered likely. The housing market is sending mixed signals but consumer spending remains strong. The Federal Reserve's decision to defer further fed funds rate hikes coupled with an easing of oil prices may help to achieve a "soft landing."

- **Real Gross City Product (GCP), a measure of the City's overall economic output, grew 2.9 percent in 2Q06**, somewhat below the 4.3 percent rate of the first quarter but above the 2.6 percent U.S. rate. It may signal the beginning of a widely predicted economic slowdown. Of five key economic indicators, only two improved in both the City and the nation.

- **NYC payroll jobs grew at a seasonally adjusted annualized rate of 1.6 percent** or by 12,800 jobs in 2Q06, after an increase of 23,500 jobs in the first quarter. The City's rate of job creation was more than the U.S. payroll employment growth of 1.2 percent. In NYC, the private sector added 12,400 jobs while the public sector added 400 jobs. As of 2Q06, the City's total job count remained more than 100,000 below the peak reached in 4Q00.

- **Personal income taxes withheld from paychecks rose 6.2 percent in 2Q06, on a year-over-year basis.** Estimated tax payments on interest income, rental income,

and capital gains rose 25.9 percent, a rate of increase below that of the previous quarter. A reason for the slower rise in estimated tax payments may be a decline in housing sales and realized capital gains.

- **NYC's inflation rate hit a 15-year high of 4.7 percent in 2Q06.** Core inflation, which excludes food and energy prices, rose to a four-year high of 3.8 percent in 2Q06. The City's inflation rate surpassed the nation's in every category except energy. Energy prices rose 21 percent in the NYC metro area compared with 21.6 percent in the nation.

- **NYC's unemployment rate fell to 5.2 percent in 2Q06, the lowest since 2Q88.** The U.S. Unemployment rate fell to 4.6 percent, the lowest in nearly five years. The City's total of employed residents, labor-force-participation rate, and employment-to-population ratio were all at a record high in 2Q06.

- **The Manhattan commercial real estate market continued to strengthen.** The overall Manhattan vacancy rate improved to 7.8 percent in 2Q06. The average commercial asking rent in Manhattan rose to \$43.46 per square foot, and in Midtown to \$50.35 per square foot. Office space absorption totaled 1.57 million square feet during the quarter, a rebound from the first quarter's negative absorption.

- **General sales tax collections were up 10.1 percent in 2Q06 compared to 2Q05.** Retail employment increased 1.6 percent on a year-over-year basis.

INSIDE FOCUS:

New York City's Tourist Industry

Summary Table. Five Key Economic Indicators, NYC and U.S., 2Q06 vs. 1Q06

		1. GCP/GDP Growth, SAAR	2. Payroll-Jobs Growth, SAAR	3. PIT Withheld, Growth, NSA	4. Inflation Rate, NSA	5. Unemployment Rate, SA
2Q06 vs. 1Q06	NYC	2.9% Worse	1.4% Worse	6.2% Better	4.7% Worse	5.2% Better
	U.S.	2.6% Worse	1.2% Worse	10.2% Better	4.0% Worse	4.6% Better

NSA means Not Seasonally Adjusted. SA means Seasonally Adjusted. SAAR means SA Annualized Rate. PIT means Personal Income Tax. Comparisons for "Better" or "Worse" are with the prior quarter.

ECONOMIC NOTES

Office of New York City Comptroller
William C. Thompson, Jr.
1 Centre Street
New York, NY 10007
www.comptroller.nyc.gov/budget

PREPARED BY

Frank Braconi, Chief Economist
Farid Heydarpour, Principal Economist
Irina Livshits, Economist
Call us at (212) 669-2490.

PUBLISHED BY

The New York City Comptroller's Office
Fiscal and Budget Studies
Marcia Van Wagner, Deputy Comptroller for Budget
Gayle M. Horwitz, Deputy Comptroller/Chief of Staff

• **The City’s housing market shows signs of weakening.** Home price appreciation in the metropolitan area slowed to a 4 percent annual rate in 2Q06. City collections of real property transfer taxes decreased 7.2 percent and mortgage recording tax collections declined 15.8 percent in the quarter compared to 2Q05. The number of new housing units authorized declined by 18.7 percent compared to the same quarter of the previous year.

Tourism and Job Creation In New York City

Summary: Tourism-related industries have been among the City’s engines for job creation in recent years. All told, about 135,000 jobs are directly dependent on tourist spending. Workers in tourism-generated jobs typically have less education and lower earnings than the average New York City worker, yet almost half have some college education. The sector provides important work opportunities for immigrants and other labor force entrants, and supports institutions that are essential to the City’s cultural life.

Through June 2006, New York City had not yet recovered all of the payroll jobs it lost since the 1990s boom. The total number of jobs was still 148,000 below the cyclical peak reached in December 2000, and key industry sectors like finance, business services and information remained well below the levels reached more than five years earlier. Somewhat surprisingly, one of the industry sectors that has expanded its employment rolls beyond the 2000 peak is “leisure and hospitality,” which includes the arts, entertainment, food service and accommodations. The leisure and hospitality sector has increased its employment rolls by about 30,000 workers over the past six years and by 85,000 over the past 15 years.

Despite New Yorkers’ fondness for a dinner out and a night on the town, tourism drives the leisure and hospitality industry. Local demand for entertainment, the arts and food service is supported by income generated in other industries and is therefore dependent on the general state of the City’s economy. But tourists spend dollars earned outside the City, directly supporting the City’s hospitality industry and stimulating related business activities. They not only provide a form of “export income” for the City’s economy, but also contribute to the vitality of entertainment venues and cultural institutions that City residents sometimes take for granted.

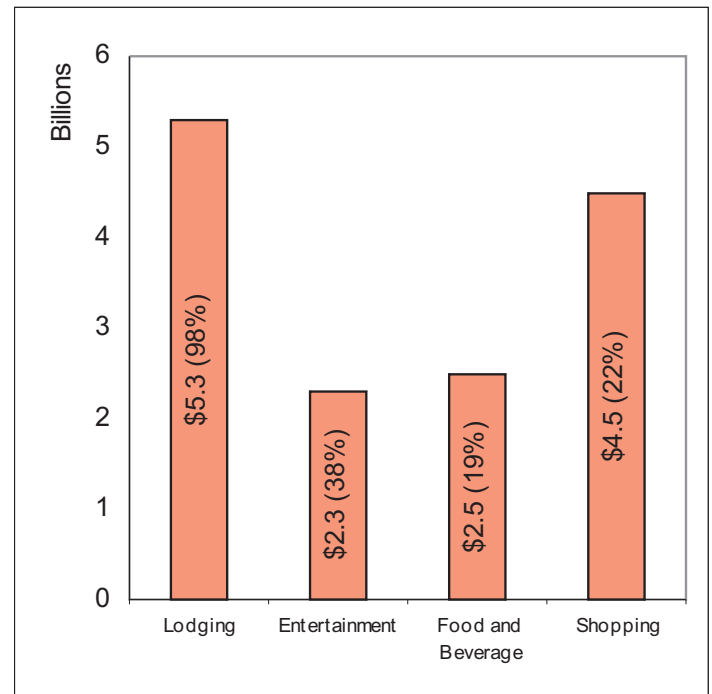
In the uncertain months after 9/11, it was widely predicted that the City’s tourism business would be seriously harmed, perhaps permanently. The number of international visitors dropped nearly 30 percent between 2000 and 2003 while employment in the leisure and hospitality sector declined 30,000 in the five months following 9/11. Domestic visitors were undaunted, however, and by 2005 international visitation had recovered to its pre-9/11 levels and the hotel occupancy rate reached a record high.

The unexpectedly rapid recovery of the tourism business has allowed the leisure and hospitality sector to be a leader in job creation during an otherwise slow recovery from the 2001 recession. Since the low point of the employment cycle in January 2004, the sector has added over 36,000 jobs, accounting for nearly 20 percent of the job creation in the City during that time. Although many jobs in the sector pay relatively low wages, they provide important opportunities to a labor pool adversely affected by a declining manufacturing sector and a stagnant retailing industry.

How important is tourism?

The Comptroller’s Office estimates that total tourist spending on accommodations, food service, and entertainment (AF&E) in New York City was approximately \$10.1 billion in 2005.¹ In addition, tourist and day visitor spending on fashion and other retail items totaled about \$4.5 billion, bringing the total spending by visitors to \$14.6 billion, or to about 31 percent of all spending in those categories. Most tourist spending on transportation accrues to businesses outside of the City, but the local share, including taxi fares and Metrocards, amounts to about \$1.3 billion.

Chart I. Estimated Tourist Spending and Share of Total NYC Demand for Lodging, Entertainment, Food and Beverage, and Shopping



¹ Tourists are defined by New York City & Company, the City’s official tourist marketing agency, as all overnight domestic and international visitors plus “daytrippers” who live more than 50 miles away. Commuters, students, and suburban residents are not considered tourists.

We estimate that tourism provides directly about 135,000 jobs in the five boroughs. That total includes workers in hotels, food service, entertainment and cultural institutions, retail stores and transportation. In keeping with US Bureau of Economic Analysis (BEA) usage, “direct employment” comprises all jobs where the workers are engaged in the direct production of goods or services for tourists. Jobs are also produced indirectly, as when a hotel contracts with a commercial laundry service.

The largest number of direct jobs, and the greatest amount of tourist spending, is within the accommodations industry. New York City has about 70,000 hotel rooms, which were 85 percent occupied during 2005.² The Comptroller’s Office estimates that the industry had room receipts of \$5.3 billion in 2005 and employed directly about 41,000 workers. Except for conference and banquet revenue, virtually all spending on lodging is by out-of-town visitors.

The food service industry is a close complement to the lodging industry, and very important to both the City’s economy and civic culture. Although most food service spending is by City residents and commuters, tourism helps to support a dense and diverse food service industry. The Comptroller’s Office estimates that visitors accounted for about 19 percent of the City’s \$13.5 billion in food service sales in 2005, and a considerably higher percentage of spending in Manhattan’s 3,500 full-service restaurants. Over \$2.5 billion in visitor spending on meals helps to support over 150 full-service restaurants per square mile in Manhattan, a density of eateries nearly five times greater than the next closest urban area of comparable size.

Some of the City’s distinctive entertainment and cultural institutions are even more dependent on tourist dollars. According to the League of American Theaters and Producers, tourists purchased over 80 percent of the 11.5 million tickets sold during the 2004-05 Broadway season, helping to support the City’s 12,000 actors, dancers and musicians, while indirectly contributing to the health of the City’s television, film production, and advertising industries. The Museum of Modern Art reports that from November 2004 through November 2005, 72 percent of its visitors were from outside of the metropolitan area, while the Metropolitan Museum of Art reported that 48 percent of the visitors to its 2005 Van Gogh exhibition were from outside the metropolitan area. Even local sports franchises benefit from out-of-town visitors: an Independent Budget Office survey found that 12 percent of attendees at Yankee games and 10 percent at Mets games reside outside of the tri-state area.³ Overall, we estimate that tourists spent \$2.3 billion on entertainment, culture and spectator sports in 2005.

Tourists also make an important contribution to the City’s economy through their retail purchases. Based on proprietary

surveys, NYC & Company estimates that tourists spend about \$4.5 billion on “shopping” annually. This would constitute about 7 percent of annual retail sales in the City but over 20 percent of retail sales in categories such as clothing, fashion accessories, and art, in which tourist spending is concentrated. Through such purchases, tourism supports about 20,000 retail jobs. From 2000 to 2006, tourism-oriented retail sectors account for virtually all of the City’s retail job growth.

Jobs in the Tourism Sector

The largest number of tourism-generated jobs are in the hospitality industry. New York’s hotels, motels and inns employed, as of July 2006, about 41,500 workers. The industry has added over 5,000 jobs since its low point in early 2002, but it has not yet returned to its pre-recession peak. Because the industry had slack capacity in the early years of the decade, the hotel room inventory and associated employment has lagged the rebound in visitor nights.

About one-third of the City’s 35,000 maids and housekeepers are employed in the hospitality industry. With maids and housekeepers accounting for about 23 percent of all hotel workers, the industry has sometimes been disparaged for generating primarily low-wage jobs. Bureau of Labor Statistics (BLS) data show that the median wage for the occupation in the metropolitan area was \$14.44 per hour in 2005, and the average annual wage was \$29,320.⁴ While the median annual earnings of maids and housekeepers in hotels is well below the regional average for all occupations, the hourly wage is more than double the state’s minimum wage and higher than the median production worker wage in manufacturing.

In New York City, nearly 80 percent of all maids and housekeepers are female and a similar proportion are not citizens or are naturalized citizens. A surprisingly high proportion of them (one-fifth) have some college education, indicating that such jobs are often held by immigrants who use them as stepping-stone positions while they acclimate to the metropolitan labor market and develop their English language skills. There is no statistical difference in earnings between those who have high school diplomas or college exposure and those who do not.

Closely related occupations in which men are more heavily represented are janitors, building cleaners, and building maintenance and repair workers. They account for about 8 percent of local hotel workers. Excepting gender distribution, their demographic profile is very similar to maids and housekeepers. Their median wages are somewhat lower, but earnings are more strongly correlated with education level. About one in fifteen workers in housekeeping, janitorial and maintenance occupations are first-line supervisors who earned, on average, \$41,700 annually in 2005.

² PKF Consulting.

³ Home Base for Mets and Yankees Fans, NYC Independent Budget Office, 1998.

⁴ Occupational Employment Statistics files, US Bureau of Labor Statistics.

Table 1. May 2005 Metropolitan Area Wage Estimates for People Employed in Tourism-Related Occupations.

Occupation	Average Wage
Curators	\$63,700
Musicians and Singers	\$50,190
Chefs and Head Cooks	\$46,380
Museum Technicians and Conservators	\$45,220
Dancers	\$44,699
Housekeeping and Janitorial Managers	\$41,710
Concierges	\$33,250
Cooks, Institutions and Cafeteria	\$29,330
Maids and Housekeeping Cleaners	\$29,190
Baggage Porters and Bellhops	\$29,090
Cooks, Restaurant	\$26,730
Janitors and Cleaners	\$25,760
Tour Guides and Escorts	\$24,890
Retail Salespersons	\$24,470
Waiters and Waitresses	\$24,170
Bartenders	\$22,600
Food Preparation Workers	\$21,640
Counter Attendants	\$19,170
Cashiers	\$18,630
Dishwashers	\$17,640

Source: Bureau of Labor Statistics

About one-third of the non-food service employees of hotels are desk clerks, concierges, cashiers, back-office administrators and lodging managers. Wages can range from \$10.00 per hour for entry-level porters, bellhops and clerks to \$100,000 annually for senior lodging managers. All job categories included, about 17 percent of workers in the lodging industry have at least a bachelor's degree and 48 percent have some college education.

Over 20,000 hotel workers are represented by the New York Hotel Trades Council (NYHTC), a labor organization composed of nine unions. Membership includes room attendants, doormen, bell staff, electricians, waiters and other food service employees. Workers at approximately 40 percent of Manhattan hotels, comprising 70 percent of Manhattan hotel rooms, are currently unionized.⁵

NYHTC recently reached an agreement on a six-year contract with the Hotel Association of NYC (HANYC). The contract will last from July 1, 2006 to June 30, 2012, and will provide wage increases of 4 percent in each of the first three years and 3.5 percent in each of the last three years. HANYC will also increase contributions to the pension fund by 2 percent of payroll, effective July 1, 2006. In addition, union members will continue to receive the same family medical benefits, with no premium-sharing or co-pays, and will get an added sick day and additional vacation time.

Nearly 30 percent of New York's hotel workers are involved in restaurant, bar and other food service operations. With the

⁵ Smith Travel Research; Hotel Association of New York City.

exception of those associated with large convention and banquet services, the positions resemble those in the broader food service industry. Including the approximately 14,000 food service employees who work in hotels, tourism supports about 25,000 food service jobs citywide (not all hotel food service is attributable to tourists). While the industry offers some of the lowest-skill, lowest-pay jobs in the City's economy, it also employs many highly-trained and well-compensated workers. Moreover, it creates creative and flexible jobs that represent appealing options for young people, for people without college educations, and for those who simply prefer to work in non-office environments.

Table 2: Occupational Employment in the Traveler Accommodation Industry, New York State

Occupational Title	% of Employment
Maids and Housekeeping Cleaners	23.0
Waiters and Waitresses	8.6
Hotel Desk Clerks and Receptionists	7.0
Food Preparation and Serving Workers	5.2
Janitors and Cleaners	4.5
Cooks, Restaurants	3.9
Maintenance and Repair Workers	3.5
Cafeteria Attendants and Bartender Helpers	3.0
Bartenders	3.0
Dishwashers	2.7
Baggage Porters and Bellhops	2.3
Janitorial and Housekeeping Managers	2.3
Security Guards	2.0
Laundry and Dry-Cleaning Workers	1.9
Food Preparation Managers	1.5
Accounting and Auditing Clerks	1.3
Office Support Workers and Office Managers	1.3
Hosts and Hostesses	1.1

Source: New York State Department of Labor

At the lowest end of the pay scale are dishwashers, fast food cooks, and counter attendants, the median hourly wages of whom were all below \$8.00 per hour in 2005. These jobs, which account for about 15 percent of all formal jobs in the food service industry, are typically held by young people or others who need a first entry or re-entry into the labor market. As such, they represent important first rungs on the occupational ladder. There are also an unknown number of unauthorized workers in the food service industry, most of whom are in such occupations. A recent study by the Pew Hispanic Center found that 12 percent of workers in the food service industry nationally are undocumented immigrants.⁶

At the other end of the occupational spectrum are chefs and head cooks. According to self-reported Census data, there are approximately 14,000 chefs and head cooks working in New York's 12,000 full- and limited-service restaurants.

⁶ Size and Characteristics of the Unauthorized Migrant Population in The US. Pew Hispanic Center, March 2006.

Their average annual earnings are \$46,000, although 10 percent of them earned above \$71,200 in 2005.⁷ In the more prestigious restaurants and hotels, executive chefs can earn between \$80,000 and \$120,000 a year.

The largest occupational category in the food service industry is waiters and waitresses, with about 36,000 employed in the City's hotels and restaurants. The occupation is appealing to a relatively young and educated worker. Nearly 40 percent of the City's waiters and waitresses are under 30 years of age and 45 percent have some college education. In Manhattan, half of all waiters and waitresses have some college and over 20 percent have four or more years of college. Furthermore, education has a statistically positive effect on wait staff earnings; regression analysis indicates that a waiter or waitress with a college degree earns about one-third more than one holding just a high-school diploma.

According to the Bureau of Labor Statistics' Occupational Employment Statistics survey, waiters and waitresses in the New York metropolitan area earned, on average, \$11.62 per hour in 2005. This figure is reported by the survey respondents, who are usually the proprietor or manager of the establishment, and is intended to reflect tip income as well as base pay. The respondent may not, however, be able or willing to estimate the tip income of wait staff accurately. When waiters and waitresses report their own earnings on Census forms, they indicate annual income about 25 percent greater than the BLS estimates. In any case, it is clear that many waiters and waitresses earn modest incomes, but that the most successful can have significant earnings. According to the BLS estimates, the top decile of waiters and waitresses earned over \$41,900 annually.

After lodging and food service, the largest industry sector driven by tourism is retail trade. Citywide, there are about 282,000 workers in the retail sector; about 20,000 of those jobs are attributable to tourist shopping. Tourist spending is concentrated in clothing and accessories, photographic equipment, gifts and novelties. In those lines, including department stores, tourist spending supports over 20 percent of the jobs.

Retail establishments create jobs primarily for those with high school diplomas, and to some degree, those who have not completed high school. In retailing as a whole, nearly 20 percent of workers are cashiers, who in our area earn about \$9.00 per hour, and 28 percent are salespersons, who earn, on average, close to \$12.00 per hour. However, in the New York area, nearly two-thirds of employees in clothing stores are salespersons and in department stores close to one-half are in the better-paid sales jobs. Moreover, in clothing stores, there is approximately one first-line sales supervisor, earning on average \$44,750, for every five salespersons, offering a fairly good chance for reliable employees to increase their responsibilities and earnings. Department

stores, in particular, also create numerous jobs, such as for stock and shipping clerks and material handlers, which, although relatively low-paid, are suitable for those lacking in education or the "soft skills" necessary for sales floor positions.

While tourism supports many of the labor market's most routinized jobs, it supports some of the most specialized and creative professions as well. Primarily because entertainment and cultural institutions benefit from heavy tourist patronage, many of the City's actors, dancers and musicians, as well as a few art historians and paleontologists, are able to work here. About 33,000 New Yorkers work in the performing arts industries, and another 11,000 are employed at museums, historic sites and other cultural institutions. MoMA, for example, has a paid staff of approximately 800 while the American Museum of Natural History has a scientific staff of 200. About 60 percent of paid employees in the performing arts and cultural institutions have at least a college degree.

Jobs in the transportation sector are often highly skilled and relatively well paid. Air transportation and support services employ approximately 30,000 workers in New York City; roughly one-third of those jobs can be attributed to tourism. The average annual earnings of all workers in air transportation nationally is \$58,000; in our metropolitan area airline pilots, copilots and flight engineers earn \$174,000, air traffic controllers earn \$104,000, and aircraft mechanics earn \$54,000, on average. At the lower end of the pay spectrum, ticket agents and reservation clerks earn, on average, \$34,200.

In ground transportation, tourism helps to support some of New York's traditional immigrant occupations. There were 42,900 licensed taxi drivers in 2005, and 27,300 taxicabs, black cars and limousines operating within the City.⁸ Over 90 percent of taxi drivers were born outside of the US. Many do not drive full-time, using driving as a secondary or fall-back source of income. Tourists account for about 15 percent of taxi riders, and a higher percentage of the value of fares collected, because many tourist trips are to and from the local airports.

Only about 15 percent of tourist-related jobs are in what can be considered the "creative" or "content" sectors of the City's economy. Nevertheless, tourism helps to create job opportunities for segments of the labor force that are finding dwindling opportunities in more traditional sectors such as manufacturing, construction and transportation. Moreover, about 13 percent of tourist-related jobs are held by high school and college students, who find in the sector important first job experiences or flexible and part-time work that complements their studies.

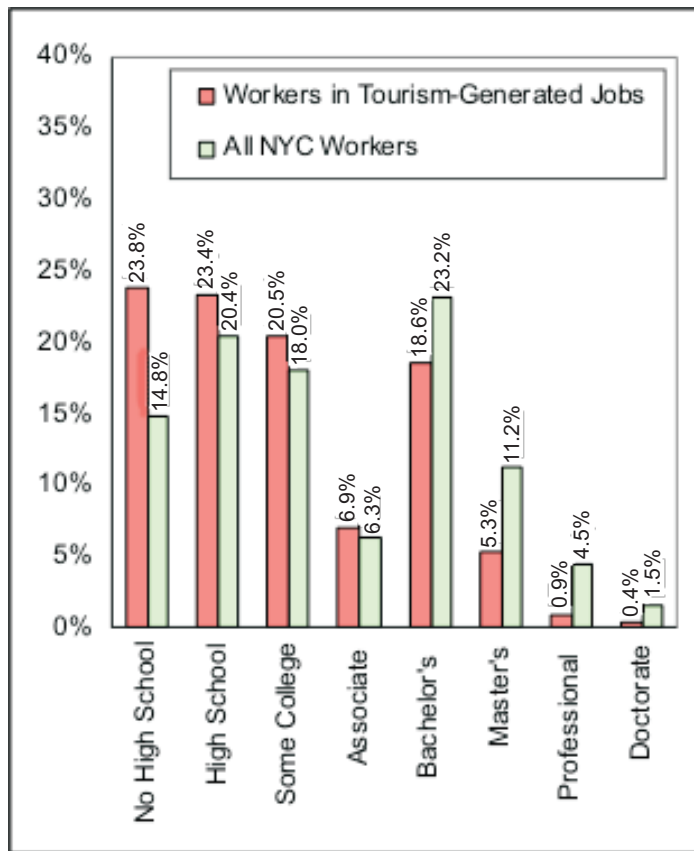
⁷ Since many are the proprietors of their own eateries, BLS earnings data represents only those who are on payroll.

⁸ Schaller Consulting, The New York City Taxicab Fact Book.

Workforce Development for the Tourist Sector

In New York City’s economy as a whole, about 65 percent of workers have at least some college training, whereas in tourist-related industries the proportion is about 51 percent. We estimate that for every 1,000 jobs created by tourist spending, nearly half are filled by workers who possess no more than a high school diploma. The rest are held by workers with some college training. Relatively few positions, except in the performing arts and in cultural institutions, are created for those with advanced professional or academic degrees.

Chart 2: Educational Attainment of Workers in Tourism-Related Jobs



Source: Calculations by the Office of the NYC Comptroller From Census microdata

As is the case with many other industries, the tourism sector is becoming more sophisticated and professionalized, and so the educational qualifications of workers are rising. The New York area offers a range of job training and workforce development programs intended to qualify students for management careers in the sector, to train workers for specialized jobs, and to channel disadvantaged young people into job opportunities.

The City is home to several prominent programs in tourism-related fields. New York University's Tisch Center for Hospitality, Tourism and Sports Management, for example,

offers Bachelor of Science degrees in Hotel and Tourism Management through a program that offers courses in such topics as accounting and financial management, marketing, and meeting and conference management. CUNY’s New York Technical College offers both 2-year associates' degrees and four-year bachelors degrees in Hospitality Management and Tourism Management, while Kingsborough Community College offers associates degrees in Hospitality Services Management. Bachelors degrees in hospitality management can also be obtained at St. John's University, Pace University’s Lubin School of Business, and at Monroe College, where MBAs in the field are also offered. Outside of the City, Cornell University's School of Hotel Administration enrolls approximately 800 undergraduates and 100 graduate students and offers BS, MS and doctoral degrees in the field.

About one-third of workers in the food service industry have at least some college education. Fueled by growth in the restaurant industry and the increasing publicity received by “celebrity chefs,” enrollment in culinary schools is reportedly booming. NYC is home to some of the top culinary and hospitality programs in the country, including The Institute of Culinary Education, The French Culinary Institute, and The Art Institute of New York City. CUNY’s La Guardia Community College and Monroe college also have culinary arts programs. The Culinary Institute of America, perhaps the nation’s most prominent culinary school, is located in Hyde Park, New York, about 80 miles north of the City.

In addition to such degree and professional programs, there are several efforts to ensure that local students and disadvantaged groups gain entry into tourism-related job niches. For example, The Academy of Hospitality and Tourism High School opened in Erasmus Campus, formerly Erasmus Hall High School in the Flatbush section of Brooklyn, in 2006. This public high school seeks to provide rigorous academic education as well as hands-on preparation for careers in the tourism and hospitality industry. The school includes two professional kitchens and one restaurant that support its hospitality and tourism courses. The school is developing internship opportunities for students that will introduce them to job opportunities available in the travel-related business.

Also operating within the City's public schools is the Academy of Travel and Tourism, a partnership between the Department of Education, the National Academy Foundation, and local travel and tourism businesses. The program, which serves some 800 students in twelve City high schools, offers special travel-related courses, guest speakers and conferences, and paid summer internships.

The Careers through Culinary Arts (C-Cap) program links inner-city youth to careers in the food service industry. C-Cap, a not-for-profit organization, works with middle schools and high schools where students take culinary arts and home economics classes in addition to the academic curriculum.

C-Cap organizes career building workshops and helps students get jobs and internships with local restaurants, hotels and other food service establishments. Upper-classmen from C-Cap high schools can also apply for scholarships to pursue post-secondary education in culinary or hospitality related fields.

In 2005, the City Council appropriated \$14 million to supplement federal Workforce Investment Act funding for adult and youth workforce development programs. Administered by the United Way of NYC, NYC Works awards grants to neighborhood organizations that provide job preparation, job placement, and job retention services to structurally unemployed or underemployed adults and young adults. Several offer job training in the hospitality and/or food service fields. For example, the Citizens Advice Bureau, a Bronx-based settlement house, launched the Academic and Career Enrichment Program, which allows young people to receive training for careers in the culinary arts.

Also funded through NYC Works, the Artisan Baking Center in Long Island City was established through collaboration between the Consortium for Worker Education, the Bakery, Confectionary, Tobacco and Grain Miller's Union Local 3, and several prominent bakery owners. The Center offers a variety of free English as a Second Language courses funded through the New York State Department of Education, trains unemployed or underemployed job seekers for careers in the baking industry, and provides job assistance for the graduates of its programs. A wide range of clients are served, including former inmates, people moving from welfare to work, high school dropouts, immigrants, career changers, and professional bakers in need of additional skills.

Improving the Tourism Infrastructure

Successful tourism development requires unusually close cooperation between public agencies and the private sector. Businesses that benefit from tourist spending market their own services, but are also dependent on effective governmental marketing of the destination as a whole, on the efficient provision of public services, and on public investment in the infrastructure that attracts and facilitates large-scale visitation. In recent years, a surprising number of City initiatives have targeted the further development of New York's tourism sector.

New York City markets itself to tourists through New York City & Company, its official tourist agency. The non-profit was formed in 1999 through a merger of the New York Convention and Visitors Bureau, a City agency created in 1935, and New Yorkers for New York, a private business group. The marketing agency has a membership of 1,800 businesses and a 2006 budget of \$16.9 million. New York City contributes about 40 percent of the organization's budget and New York State about 3 percent. In addition, the state's Empire State Development Corporation engages in tourism development marketing for both the state in general and for specific regional destinations, including New York City.

In June, 2006, Mayor Bloomberg announced that he would consolidate NYC & Company with two other municipal marketing entities, NYC Big Events and NYC Marketing. The Mayor also committed the City to an additional \$15 million annually for tourism promotion.

The most critical private component of the tourism infrastructure is the hotel inventory. New York City currently has about 71,000 hotel rooms.

The City is not the largest hotel market in the world, or even the country. Within the United States, Las Vegas, Orlando, Chicago, Los Angeles, Atlanta and Washington D.C. are believed to have more hotel rooms, although direct comparisons are confounded by different city and metropolitan area definitions. Among the City's international competitors, Greater London has about 120,000 hotel rooms while Paris has approximately 75,000.

The number of rooms in New York City has increased by about 12,500 during the past ten years, with most of the increase occurring between 1998 and 2003. During the past few years, a soaring housing market has encouraged developers to convert hotels into residential condominiums, most notably the Plaza Hotel, which converted approximately 600 of its hotel rooms into 200 condominium apartments. Nevertheless, the number of hotel rooms Citywide is expected to grow by over 800 rooms this year.

While conversions have somewhat displaced hotels from prime areas of midtown Manhattan, there has been active development of hotels in Tribeca, Lower Manhattan, uptown, and in the boroughs outside of Manhattan. Notable new projects include Courtyard hotels at East 92nd Street, Park Avenue and 125th Street and at West 54th Street; a 500-room Hampton Inn at 20 Maiden Lane, the 250-room Cooper Square Hotel, and a 250-room Four Points Hotel on West 40th Street. According to PricewaterhouseCoopers, there are also over 1,100 rooms under development in Brooklyn. Hotels in the boroughs are able to offer travelers less expensive alternatives to Manhattan lodging and can satisfy the needs of the City's many ethnic communities, which generate millions of visitor trips from friends and family.

Perhaps the most visible public investment in tourism development is the expansion of the Jacob K. Javits Convention Center. The Center, which currently covers five blocks between 34th and 39th streets and 11th and 12th avenues in Manhattan, opened in 1986. The facility hosted 79 trade shows, conventions, and public expositions in 2005, which over 2.25 million people attended, representing a significant increase from a low of 1.14 million visitors in 2001.

Overall, the City welcomed 4.1 million delegates to group meetings, seminars, trade shows and corporate meetings during 2005, a healthy increase from the record low of

1.61 million in 2002. The travel parties have grown in average size, length of stay, and spending on food, drinks, shopping, and lodging, and generated a record high of \$2.6 billion in economic activity for the City, according to New York City & Company. Convention and meeting visitors usually spend more time and money than other business travelers. In addition, they tend to come to NYC even during economic downturns, when the tourism business does not experience strong growth.

New York City and Toronto are roughly tied for the second-most number of top trade shows and consumer expos in North America, with Las Vegas the undisputed leader. Public officials have been long advocating an expansion of the Javits Center to attract the largest events, which the City is currently unable to host. Many cities have facilities larger than the Javits Center, and total convention center space in North America has jumped from 61.3 million to 82.3 million square feet between 1995 and 2005. That figure is projected to grow to 89.6 million square feet by 2009.⁹

The plan to expand the NYC convention space has been in the making for ten years. In July 2006, the Public Authorities Control Board approved the plan that would allow a \$1.7 billion Phase I expansion and modernization of the Javits Center. The City and State will each pay \$350 million for the expansion. The State will also raise \$800 million through the sale of bonds, backed by a \$1.50 per night hotel tax that the Hotel Association will collect. Under the plan, the exhibition and meeting space will be increased from 760,000 square feet to more than 1.1 million square feet, representing an increase of 45 percent. Meeting room space will go up from 30,000 to 210,000 square feet, an increase of 600 percent. The Javits Center will also house the City's largest ballroom and a new hotel and a loading facility.

In August 2006, Mayor Bloomberg called for "Phase Two" expansion of the Javits Center. The mayor proposed to spend an additional \$600 million to redesign the convention center's façade and to give the center another 300,000 square feet of exhibition space. If the plan goes forward, the total exhibition space will grow to 1.4 million square feet and the Javits Center will become one of the largest convention centers in the country. In addition, this expansion would create two exhibition halls with 40 foot ceilings and with more than a half million contiguous square feet, the kind of prime space preferred by convention organizers. The Mayor committed \$200 million of City capital funds to finance "Phase Two" expansion. However, some critics of the plan believe that the estimated cost of the Phase Two expansion is too low, and the convention center would have to close during the building process.

In addition to the Javits expansion, both the City and State have been involved in a series of tourism-related infrastructure developments. Early in 2006 work was completed on

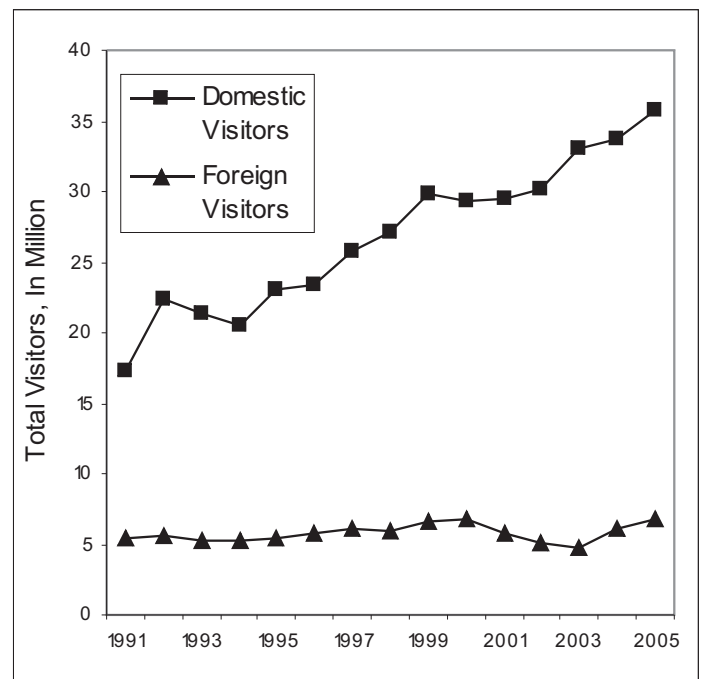
the Brooklyn Cruise Terminal, a new facility design to accommodate the newest generation of cruise ships. The project was financed with \$52 million in City funds, \$2.5 million in federal funds, and \$1.5 million from the Brooklyn Borough President. The City is also renovating the Manhattan Cruise Terminal, converting the current five smaller berths to three that will accommodate larger ships. About 845,000 passengers arrived at the Manhattan terminal in 2004, and the City projects that the number will increase to 1.17 million by 2010.

Other notable tourism-related capital projects include the reconstruction of MoMA's facilities (the City contributed \$65 million to the museum's capital fund and the State \$10 million) and the expansion of the Morgan Library and Museum (\$5 million in City funds out of a total project cost of \$106 million). The City has also committed \$7 million to a \$28 million restoration of the Guggenheim Museum building.

Tourism's Growth Potential

New York is the most-visited city in the United States. The City's share of the U.S. tourism market was about 27 percent in 2005, followed by 12 percent for Los Angeles, 10 percent for San Francisco and Miami, and 9 percent for Orlando. According to New York City & Company, 42.6 million visitors came to New York City in 2005, an increase of 2.7 million people from the prior year. In contrast, London receives about 26 million visitors per year and Paris about 15 million.

Chart 3. Domestic and International Visitors, NYC, 1991-2005



Source: NYC & Company

⁹ Data supplied by Tradeshow Week.

International overseas travel to the United States grew at more than a 5 percent rate during the 1990s, peaking at 25.98 million arrivals in 2000. The combination of a strong dollar, a global economic slowdown, and post-9/11 security concerns then caused international arrivals to plunge by more than 30 percent by 2003. With the dollar declining over 20 percent against a trade-weighted index of major currencies and greater air travel security, travel to the U.S. rebounded strongly in 2004 and 2005, and was up 6 percent during the first four months of 2006. If travel growth continues at approximately its current rate, visitation to the United States by overseas travelers should return to its previous peak by 2008.

Overseas visitors to New York City have been increasing faster than to the country as a whole, according to the Commerce Department. In 1995, about 4.25 million foreign visitors arrived in the City, representing about 20.6 percent of all foreign visitors to the United States (excluding residents of Mexico and Canada). By 2005, visitation had risen to 5.81 million, or 26.8 percent of all overseas tourism. Remarkably, in the two years following 9/11, international tourism to New York City fell slightly less than to the US as a whole, and has increased faster since.

Table 3. Market Share of Overseas Visitors to Select U.S. Cities, in Percent, 1995 vs. 2005

	1995	2005
New York City	20.6	26.8
Los Angeles	16.1	11.9
Miami	14.3	9.6
San Francisco	12.3	9.8
Orlando	12.7	9.3
Honolulu	11.5	8.4
Las Vegas	8.5	8.2
Washington, D.C.	7.7	5.1
Chicago	5.1	5.0
Boston	4.7	3.7

Source: U.S. Department of Commerce, Office of Travel and Tourism Industries

Although international visitors comprise less than 20 percent of all visitors to New York City, they stay longer and spend more than domestic visitors, accounting for about half of all tourist spending in the City. The foreign visitor to the U.S. stays about a week and spends, on average, about \$1,500 in the country.¹⁰ Since less than half of the City's residents were born here, many visitors to the City come to spend time with friends or relatives who have migrated. With the foreign-born population of the City continuing to increase, the world's air passenger traffic growing by more than 4 percent per year, and tighter air security reassuring travelers, international tourism to the City should continue to increase for the foreseeable future.

Domestic visitors are most likely to come from the New England and Mid-Atlantic States, California and Florida. About 25 percent of domestic visitors come to NYC for business or convention activities. Only one-quarter of domestic visitors, mostly business travelers, stay in hotels, and about half of domestic visitors do not stay overnight. Often domestic travelers come to NYC for a special event, such as to celebrate a graduation or a wedding anniversary, and tend to stay here for a short time. The average domestic visitor spends \$300 while in the City, according to New York City & Company.

Domestic travel is more difficult to gauge, because nearly three-quarters of domestic overnight leisure trips are made by car. Nevertheless, according to the Travel Industry Association of America, domestic travel is growing by about 2.5 percent per year and, based on New York City & Company estimates of visitations, New York City is also increasing its share of that market.

Given the continued growth of the domestic and international travel market, and New York City's rising market share in both segments, it appears that the City's tourism market will continue to expand. New York City & Company has established a target of 50 million visitors annually by 2016, which would require a 1.6 growth rate over the coming decade. That seems achievable, given the 4.1 percent growth rate in visitors during the past ten years, and would translate into another 25,000 direct jobs in the tourist sector. ●

¹⁰ 1999 Profile of Overseas Travelers to the U.S. International Trade Administration, US Department of Commerce.