Recent Trends in the New York City Economy

April 2003

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State Comptroller

Office of the State Deputy Comptroller for the City of New York
Report 1-2004

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Introduction

New York City has been experiencing an economic recession since the end of 2000. Although the downturn continues, especially in measures of income, tax revenues, and the commercial real estate market, conditions are not deteriorating at the rate they were a few months ago. Revised data indicate that on a seasonally adjusted basis, job losses in New York City slowed to 56,100 during 2002, compared to 161,900 in 2001.

However, the revisions also show that job losses in the City—and the State—during the recession have been larger than originally reported. Over 206,000 jobs have been lost in the City since the local recession began in January 2001. This represents over 41 percent of the jobs created during the economic expansion of the late 1990s. The largest job losses have been in professional and business services (71,800), information (39,100), manufacturing (30,700), securities (33,600), trade (22,200), and transportation and warehousing (14,000). Total job losses at this point in the current recession are now comparable to those at the same point in the early 1990s recession.

The nation entered into a recession in March 2001, but aggressive interest rate reductions on the part of the Federal Reserve helped growth resume at the end of 2001, despite the impact of the September 11th terrorist attacks. Consumption spending surged, especially for automobiles, although it has since slowed. Growth in investment resumed briefly, but has also sagged more recently. Growth in the gross domestic product slowed to 1.4 percent in the fourth quarter of 2002 as businesses and consumers reacted to the many risks that cloud the economic outlook (e.g., the buildup to the war with Iraq and escalating tensions with North Korea).

Although the national economy is currently expanding, it is not generating jobs. This recalls the period that followed the recession of the early 1990s. At that time, the national economy showed only modest employment gains through 1992 and into 1993—the period known as "the jobless recovery." A similar pattern is evident in the job data for 2002. Throughout the year, the nation showed some small job gains and a more recent bout of small losses, leaving overall employment levels for the year down by only 0.2 percent. Given the recent downward revisions to employment in many states, it is likely the national employment revision to be released this summer will follow a similar pattern.

While the rate of decline in the local economy has eased somewhat compared to 2001, the City's financial condition has deteriorated more severely than the local recession might have implied. The current downturn has affected incomes more than jobs, and the resulting contraction in tax revenues has intensified an imbalance between revenues and expenditures that persisted throughout the 1990s but was hidden by temporary surpluses created by the surge in Wall Street profitability. When the local economy began to decline in early 2001 (after the financial markets peaked in the summer of 2000), revenue collections were affected well before the World Trade Center attack accelerated job and revenue losses and greatly expanded the scope of the City's fiscal and economic problems. The City's response to this fiscal crisis, through both expenditure cuts and revenue increases, will have an impact on future economic growth. These problems are not unique to New York; in fact, the National Conference of State Legislatures recently reported that 43 states are running deficits.

The financial markets declined for a third consecutive year in 2002, with the Standard & Poor's 500 Index falling by over 20 percent. A rally that started in late 2001 ended in March 2002 when a stream of corporate scandals that began with Enron drove markets sharply lower again, and 2002 ended with markets falling due to concerns over a possible war with Iraq. These concerns continued to pull the market down in early 2003, although markets rallied somewhat in March during the early stages of the war.

The downturn on Wall Street has been a major factor in the City's fiscal problems. Wall Street profits and bonuses declined in both 2001 and 2002, the first consecutive declines since 1989-90. During the intervening decade, profits and incomes rose dramatically, as did the financial markets. Wall Street's increasing importance to the City's economy is evident as we estimate that personal income tax revenues from Wall Street bonuses declined between 2000 and 2002 by about $250 million, representing 5.6 percent of personal income tax collections in 2002. By contrast, the decline in Wall Street bonuses between 1987 and 1989 lowered personal income tax revenue by about $14 million, or about one half of one percent of 1989 revenue. In addition, the declines in the financial markets between 2000 and 2002 have led to an estimated 65 percent decline in capital gains realizations, representing a revenue loss of about $650 million.

Despite the seriousness of the current downturn, it is fundamentally cyclical. Job losses have already slowed somewhat, and a few sectors are beginning to stabilize, although at levels below those in recent years. Local consumer confidence remains low, reflecting the many potential risks still on the horizon—primarily the war with Iraq.

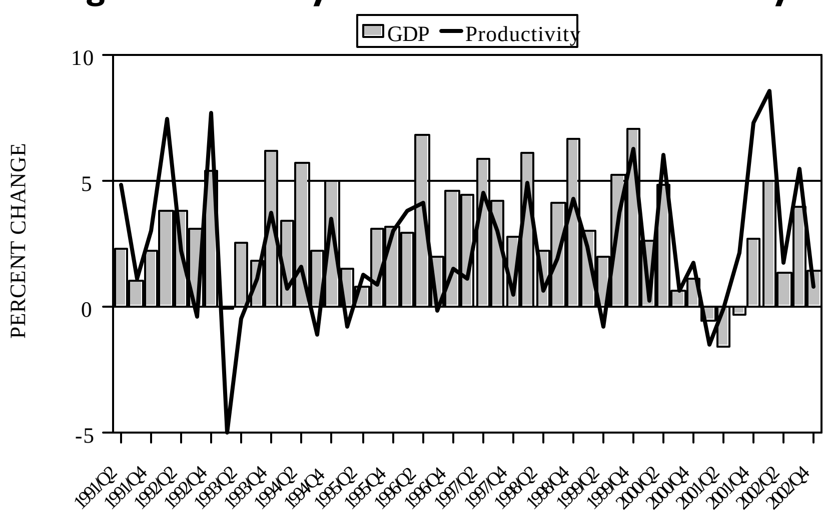
While a prolonged conflict could lead to serious disruptions in the economy, if the war is resolved quickly we expect growth in the nation to resume later in the year. The City's recovery will most likely lag behind the nation's. We expect a continuation of local job losses in 2003 before modest job gains resume, following the pattern set by the recovery from the early 1990s recession. Some measures of the local economy will likely continue to deteriorate in 2003, such as the unemployment rate or the commercial vacancy rate. Regardless, a return to the spectacular employment and income gains experienced in the late 1990s is not likely to be repeated for some time.

National Economy

The high productivity gains of the 1990s—characterized by increased capital investments, especially in information-technology software and hardware—contributed to the prolonged economic expansion of the last decade (see Figure 1). Excessive supply over demand emerged in the late 1990s, however, as businesses overextended their capacity and credit. By 2000, businesses were cutting back their spending plans in response to the quick buildups of inventories and debt burden. The economy slipped into a recession in the first quarter of 2001, but recovered in the fourth quarter despite the economic disruptions caused by the terrorist attacks of September 11, 2001. This recovery was partly due to aggressive and timely actions from the Federal Reserve. Twelve consecutive cuts lowered the federal funds interest rate from 6.5 percent in late 2000 to 1.25 percent by late 2002, and led to other interest rate reductions throughout the economy. Lower mortgage and loan rates boosted home and auto sales and reduced the debt burdens for businesses. In addition, a portion of the 2001 personal income tax rebate was used for increased consumer spending.

Figure 1

High Productivity Growth Boosts the Economy



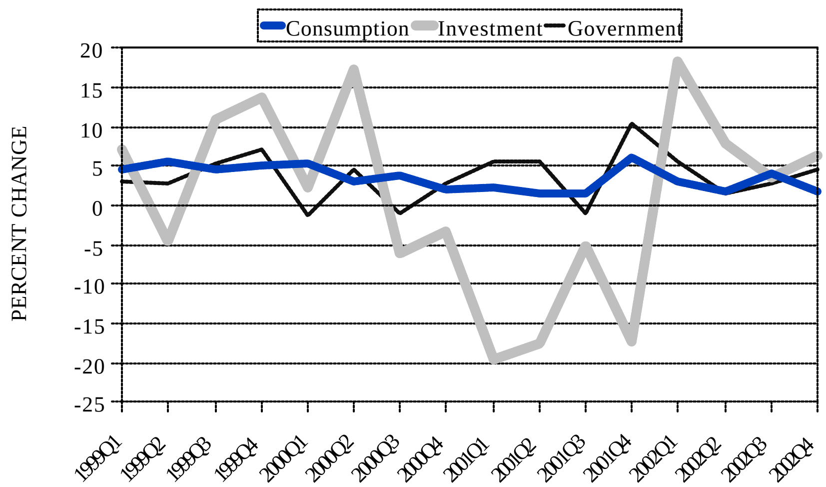
Source: U.S. Bureau of Economic Analysis; U.S. Bureau of Labor Statistics

Gross Domestic Product (GDP) grew at an average annual rate of 2.9 percent from the fourth quarter of 2001 to the fourth quarter of 2002, after declining at an average annual rate of 0.8 percent during the recession. Figure 2 shows the growth rates for three of the major components of GDP over the last four years. Consumption spending grew throughout this period—even during the recession—while private domestic investment declined as early as the third quarter of 2000 and did not turn around until the first quarter of 2002. Government spending was a contributor in 13 out of the 16 quarters. Although not shown in the chart, another major component of

GDP—net trade (exports minus imports)—was a drag on GDP growth in 14 out of the 16 quarters.

Figure 2

Percent Change in Components of Real GDP



Source: U.S. Bureau of Economic Analysis

Consumption spending grew at an average annual rate of 1.8 percent during the recession, led by housing-related spending and noncyclical spending (e.g., medical care). The surge of spending on automobiles, which began in the fourth quarter of 2001 and was inspired by low-interest financing incentives, boosted the average annual rate of growth in consumption spending to 3.4 percent from the fourth quarter of 2001 to the fourth quarter of 2002. Private domestic investment declined at an average annual rate of 15 percent in each quarter of 2001, driven by lower business spending that included decreased investments on structures, equipment, and software. Increased residential investment helped growth in overall investment recover to an average annual rate of 9 percent in 2002. Government spending increased at an average annual rate of 3.4 percent during the recession, but since then growth has accelerated to an average annual rate of 5 percent, reflecting increased spending on national defense after the September 11th terrorist attacks. The trade deficit worsened as a strong dollar and weakening overseas markets hampered exports.

Despite the rebound in productivity since the start of the recession—it increased at an average annual rate of 4.7 percent from the fourth quarter of 2001 to the fourth quarter of 2002—the recovery has been soft and shaky. Overall economic growth has been dampened as 2002 progressed, primarily because businesses have scaled back investment. Consumer spending (which accounts for about two-thirds of the GDP) has continued to grow, although the rate of expansion has slowed somewhat as consumer confidence has fallen. Businesses and consumers are reacting to the many possible risks that cloud the economic outlook (e.g., the military confrontation with Iraq and escalating tensions with North Korea). If consumers continue to spend, stronger economic growth will then depend on how quickly business confidence will be restored and businesses start to invest.

New Industrial Classification System Introduced

New York State Department of Labor data used for reporting current employment statistics and wages have been converted from the Standard Industrial Classification (SIC) to the North American Industrial Classification System (NAICS), beginning with data released in March 2003. The SIC system was established in the 1930s, a period when the U. S. economy was more reliant upon manufacturing than it is today. Because of its structure, the SIC system did not adequately capture employment and wages in many service industries, especially those that have emerged in recent years. NAICS will provide increased data for these industries, and will also provide for a standardized system among the United Sates, Canada, and Mexico. The NAICS system is not comparable with the SIC system, but the New York State Department of Labor has reclassified historical data going back to 1990 on a NAICS basis to allow for the evaluation of trends.

The SIC system reported seven major industries: mining; construction; manufacturing; transportation, communications, and public utilities; wholesale and retail trade; finance, insurance, and real estate (FIRE); services; and government. NAICS will largely maintain the reporting for the goods-producing industries—mining, construction, and manufacturing—that was used under the SIC system. However, many changes have been implemented for the service producing industries, including the recognition of more than 150 new and emerging industries.

In the NAICS system, both wholesale and retail trade have been combined with transportation and utilities, which no longer incorporates the communications industries. The FIRE and government (public administration) sectors are largely unchanged, although FIRE is now referred to as financial activities. Service industries have undergone the greatest change, with many industries that had been included in services in the SIC system now broken out into new sectors. Professional and business services, education and health services, and leisure and hospitality each represent their own new sectors under NAICS, whereas they were previously components of services in the SIC system. The remnants of the SIC service sector is now classified as the “other services” sector in NAICS.

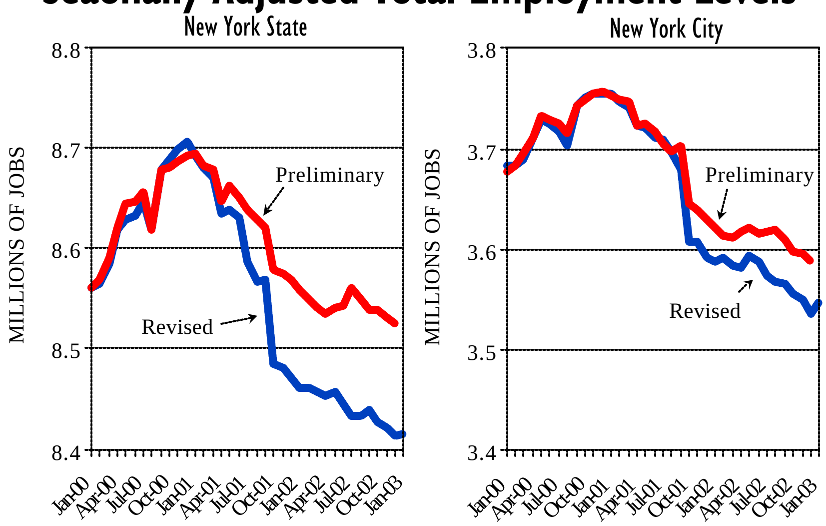
A new sector called information has been developed in the NAICS. This sector includes communications industries such as telephone and broadcasting that were formerly part of the SIC transportation, communications, and public utilities sector. Publishing industries, which had been included with manufacturing in the SIC system, are also now part of the information sector. Additionally, some industries that had been part of services under the SIC are now part of the new information sector, such as motion pictures and information and data processing.

Employment Revisions

The annual revisions to employment data released in mid-March 2003 showed that employment levels in the State and City during 2001 and 2002 were significantly lower than originally reported. On an annual average basis, the cumulative reduction in State employment through 2002 totaled over 104,000 jobs, while in the City it was lower by over 36,000 jobs. The balance of the State's job revision was concentrated in the suburban areas around New York City and in the major upstate metropolitan areas—Long Island (-16,100), Rochester (-8,500), Westchester County (-5,500), Buffalo (-5,300), and Syracuse (-4,500). Although employment in most areas was revised downward, in a few parts of the Hudson Valley it was found to have been slightly higher, such as in Rockland (1,500) and Dutchess (1,000) counties.

In general, the revisions showed that the State's economy was hit harder by the recession that had begun prior to September 11, 2001, and that the terrorist attack had a greater impact (both in the City and its surrounding suburban areas) than originally reported (see Figure 3).

Figure 3
Seaonally Adjusted Total Employment Levels



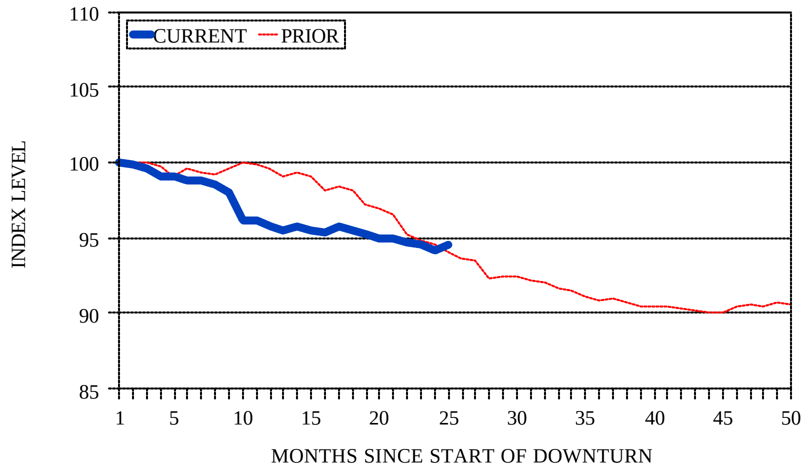
Source: U.S. Bureau of Labor Statistics; NYS Department of Labor; OSDC analysis

New York City Employment

The local economy remained in recession in 2002, affecting incomes—especially those related to Wall Street—more than jobs. As a consequence, both City and State budgets have been affected to a greater extent than the significant job losses would already imply. The revised employment data for December indicate that on a seasonally adjusted basis, New York City lost an additional 56,100 jobs during the twelve months of 2002. The total job loss since the economy peaked in January 2001 has now reached 206,500, with 75,100 jobs lost in the month following the World Trade Center attack. By comparison, 360,000 jobs were lost in the early 1990s recession, which lasted about twice as long as the current downturn has persisted to date. However, the bulk of the job losses in the last recession did not occur until after it had persisted for more than two years, while the current recession had a surge in losses after the World Trade Center attack (see Figure 4). Overall, both the current and the prior recession have had comparable impacts on jobs at this point in their respective durations.

Figure 4

NYC Employment Trends in Current and Prior Downturns

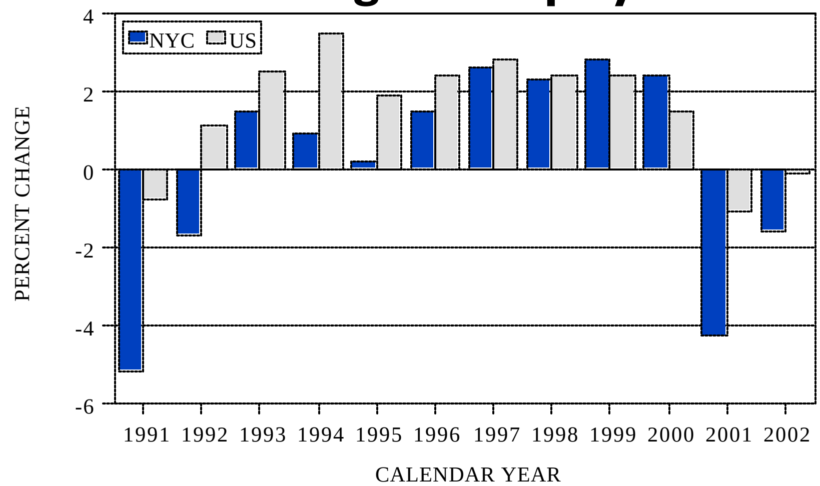


Note: Employment has been indexed to January 2001 = 100 and April 1989 = 100
Source: NYS Department of Labor; U.S. Bureau of Labor Statistics; OSDC analysis

While a protracted and messy war with Iraq could cause deterioration in the national and local economies, the uncertainties that accompanied the buildup to the start of the conflict had already caused many businesses and consumers to postpone purchase and investment decisions, thereby slowing growth in early 2003. Although economic growth remains positive, the national economy has not moved decisively from job losses to job gains, recalling the period that followed the recession of the early 1990s. At that time, the national economy showed only modest employment gains through 1992 and into 1993—the period known as "the jobless recovery." In New York City, employment ceased to decline in late 1992, but the recovery stalled and then did not show any sizable gains until 1996 (see Figure 5).

Figure 5

Annual Change in Employment

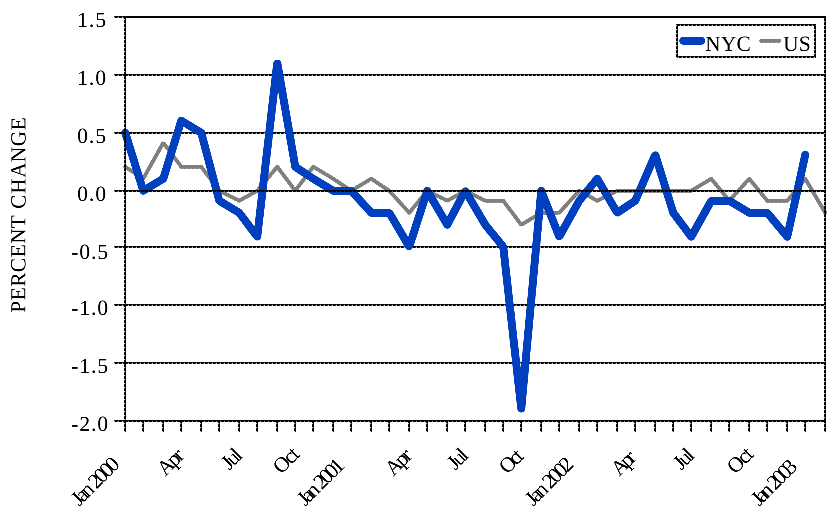


Note: Change is from December to December on a seasonally adjusted basis.
Source: NYS Department of Labor; U.S. Bureau of Labor Statistics; OSDC analysis

A similar pattern is evident in the job data for 2002. Throughout the year, the nation showed some small job gains and a more recent bout of small losses, leaving overall employment levels for the year down by only 0.2 percent. However, the recent employment revisions showed that job levels in many states are lower than originally reported, which will be reflected in the national data when it is revised this summer. Locally, the City showed smaller job losses in early 2002 before losses increased somewhat in the second half of the year (see Figure 6), resulting in the net loss of 56,100 jobs for all of 2002.

Figure 6

Monthly Change in Employment

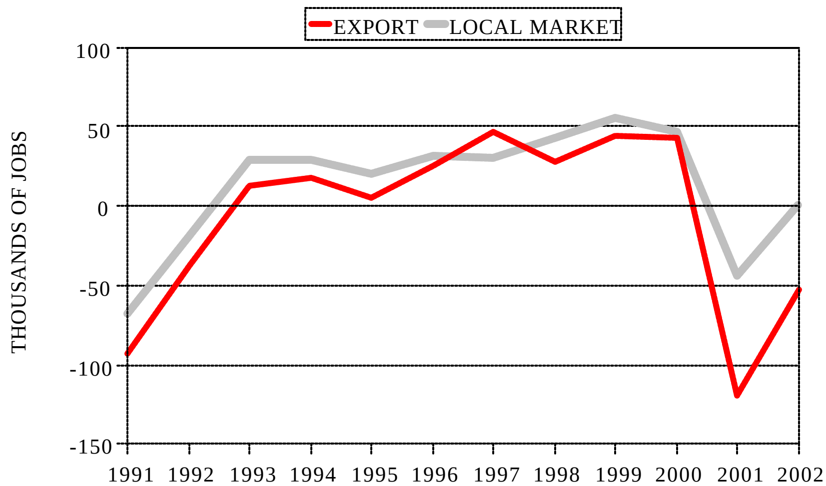


Note: Change is month-to-month on a seasonally adjusted basis.
Source: NYS Department of Labor; U.S. Bureau of Labor Statistics; OSDC analysis

The following discussion of recent local employment trends is based on a grouping of employment into export, local market, and government sectors. The export sector consists of industries whose markets extend beyond the City's borders but bring income into the City. Local markets are those that service the needs of City residents and businesses. The export sector has not performed as well as the local market sector (see Figure 7), and had greater job losses than the other sector in the last two recessions. As indicated earlier, this discussion is based on the industry groupings used in the NAICS classification system, which has reorganized the industries and created several new sectors.

Figure 7

NYC Employment Changes by Major Sectors



Note: Change is from December to December on a seasonally adjusted basis.
Source: NYS Department of Labor; OSDC analysis

Export Sector

Although the rate of job loss in the City's export sector slowed markedly in 2002, this sector accounted for the bulk of the City's job losses last year, declining by 52,800 jobs (see Figure 8). Although job losses occurred in every major component of the export sector in 2001, several began to recover in 2002.

The accommodations sector—formerly known as the hotel sector—was hit hard by the decline in tourism that followed the World Trade Center attack. However, hotel occupancy rates have since rebounded (although room rates have declined), and the industry added 600 jobs in 2002. This was the only major industry within the export sector to add jobs last year.

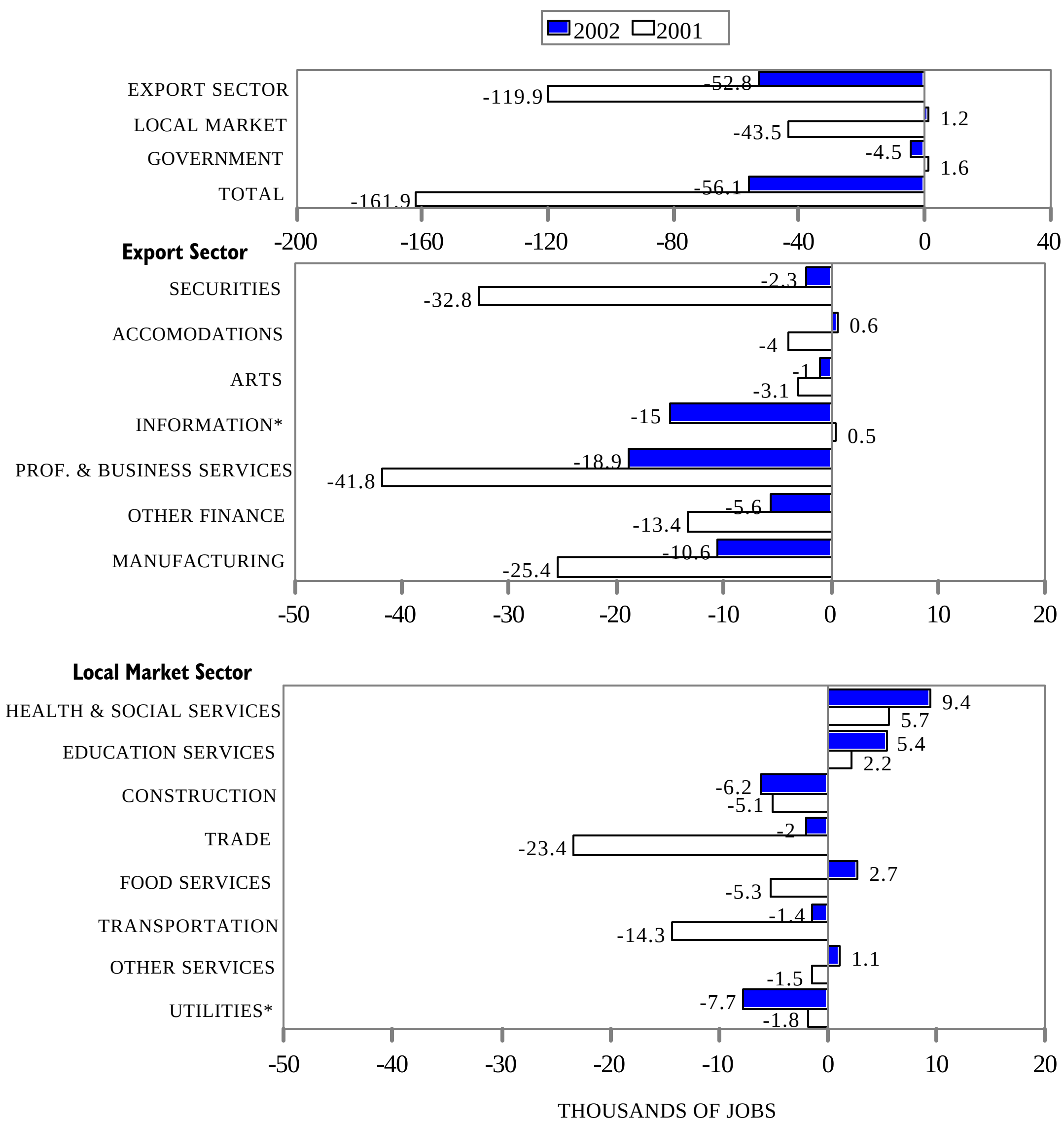
Employment declined in the remaining components of the export sector, although the rate of job loss slowed in most of them compared to 2001. In the securities sector, job losses slowed from 32,800 in 2001 to 2,300 in 2002. Nonetheless, since employment in this sector peaked at the end of 2000 (one month before the peak for the overall City economy), job losses have totaled 35,300—a 17.6 percent decline. With jobs in this sector paying on average over $250,000 in 2001, the impact of these losses on the local economy is significant. The lost income from securities jobs represents 40 percent of the wage impact from all job losses, even though the sector accounts for only 16 percent of the overall losses over the last two years.

Job losses in professional and business services have slowed markedly, to 18,900 in 2002 from 41,800 in the previous year. Most of the losses over the last two years

Figure 8

Employment Changes in New York City

(thousands of jobs, seasonally adjusted, December to December basis)



* Telecommunications is included in Utilities, not in Information.
Source: NYS Department of Labor; seasonal analysis by OSDC

have been in professional, scientific, and technical services, most notably in computer systems (11,500 jobs in 2001 and 6,100 in 2002) and advertising (11,300 jobs in 2001 and 2,500 in 2002). Corporate headquarters—known as management of companies and enterprises in the NAICS system—shed 3,300 jobs in 2002 after adding 5,400 in 2001. Employment in administrative support services—which includes temporary help agencies—has declined by 15,100 jobs in the last two years, although only one quarter of those losses occurred in 2002. Some improvement was also evident in the non-securities portion of the finance sector. Losses in banking slowed to 2,300 jobs in 2002, from 4,300 jobs in 2001, while losses in insurance almost ceased, declining by just 400 jobs after a 3,600 decline in 2001. The rate of job loss in real estate and rental and leasing remained almost constant, at 4,600 jobs in 2002, while job losses in 2001 converted to a small gain of 800 jobs in 2002 for firms in the funds, trusts, and other financial vehicles sector.

Our former culture and media sector is now represented by the arts, entertainment, and recreation sector and the information sector. The arts sector includes museums, the performing arts, spectator sports, and recreation industries, and lost 1,000 jobs in 2002, compared to a 3,100 loss in 2001. The new information sector gathers together a broad range of media firms—print, motion picture, broadcast, and Internet (we treat telecommunications, which is classified within this NAICS code, as part of the local market sector). Information was the one major component of the export sector where employment deteriorated in 2002, as an overall job gain of 500 in 2001 reversed to a loss of 15,000 in 2002. Much of this is due to the motion picture and sound recording sector, which posted a 9,800 job loss in 2002 but had a 7,000 job gain in 2001. Job losses in traditional publishing—newspapers, books, periodicals, etc.—held relatively constant in 2002 at 3,800, while job gains resumed in radio, TV, and cable broadcasting, where employment rose by 1,800 in 2002. The balance of the information sector, which primarily reflects Internet-related businesses, saw an increase in job losses to over 3,000 in 2002.

Finally, manufacturing losses totaled 10,600 jobs in 2002, compared to 25,400 in 2001. Much of the slowdown in last year's rate of decline came because apparel manufacturing lost less than half the number of jobs it did in 2001. On a percentage basis, the decline in manufacturing employment during the current downturn amounts to 18.5 percent, compared to 19.1 percent in information, 11.9 percent in professional and business services, 16.9 percent in securities, and 11.8 percent in transportation and warehousing. While much of the attention has been on the losses in professional and business services and in the securities sector because of their high incomes, manufacturing has been shedding jobs at a greater rate. Moreover, because commuters make up a smaller share of the manufacturing workforce than professional services and securities, the decline in manufacturing has a greater impact on City residents.

Local Market Sector

Employment growth resumed in the City's local market sector during 2002 with a gain of 1,200 jobs, following losses of 43,500 jobs in 2001. Unlike the export sector, where nearly every component declined in 2001, several local market components continued to grow throughout 2001 and into 2002.

Health and social services was up 9,400 jobs in 2002 after a 5,700 job gain in 2001. Employment gains in ambulatory health care services increased in 2002 compared to 2001 because of a gain in home health care services, which more than offset declines in doctors' and dentists' offices, labs, and outpatient care facilities. Likewise, the rate of increase in nursing employment increased due to gains at nursing care facilities and mental health and substance abuse facilities. Hospital employment gains held steady at about 1,000 jobs in 2002, although most of the gains in 2002 were in general hospitals rather than specialty hospitals, as in 2001. The rate of job increases rose in social assistance as losses in several components in 2001 reversed into gains in 2002. In educational services, employment increases more than doubled, to 5,400 jobs, as a surge in job gains at colleges more than offset increased job losses in private elementary and secondary schools.

The City's food service sector (i.e, restaurant and bars) resumed growth in 2002 with a gain of 2,700 jobs. Job losses in trade slowed from 23,400 in 2001 to 2,000 in 2002. Although losses in wholesale trade increased to 4,600 in 2002, job gains resumed in retail trade with a 2,600 job advance. These gains were concentrated in food, health and personal care, and general merchandise stores, although employment continued to fall in clothing, sporting goods, hobby, book, and music stores. Growth also resumed in the "other services" sector, with a gain of 1,100 jobs. This sector contains various components of the old SIC-based service sector, including repair facilities, personal and laundry care services, and religious, civic, and political organizations.

The bulk of the transportation and warehousing industry's 1,400 job decline in 2002 losses came from courier and messenger firms (1,200 jobs). In 2001, transportation had lost 14,300 jobs, primarily due to a 7,800 job decline in air transportation. Air transportation added 1,000 jobs in 2002, however, employment in this industry was still nearly 22 percent below its level at the start of the recession two years ago.

Job losses increased in the remaining components of the local market. Construction lost 6,200 jobs in 2002, up from 5,100 in 2001. While electric, gas, and water utilities added 200 jobs in 2002, this gain was more than offset by a large jump in losses in telecommunications—up to 7,900 in 2002, from 1,100 in the prior year.

Government Sector

The government sector swung to a loss in 2002, with a decline of 4,500 jobs compared to a small gain of 1,600 jobs in 2001. Local government had reported a small gain in 2001, but then experienced losses of 5,300 in 2002, reflecting the fiscal pressures affecting the City. State government showed a very small gain in 2002, while federal government employment was essentially unchanged.

January 2003

Seasonally adjusted employment in the City actually rose—by 12,200 jobs—between December 2002 and January 2003. Employment increased in manufacturing, wholesale trade, transportation and warehousing, insurance, arts, accommodations, food services, health services, social services, and government. Declines occurred in retail trade, utilities and telecommunications, information, securities, and professional and business services. Most of the increase was in the local market sectors, which rose by 10,000 jobs, while employment in the export sector fell by 1,500.

Unemployment

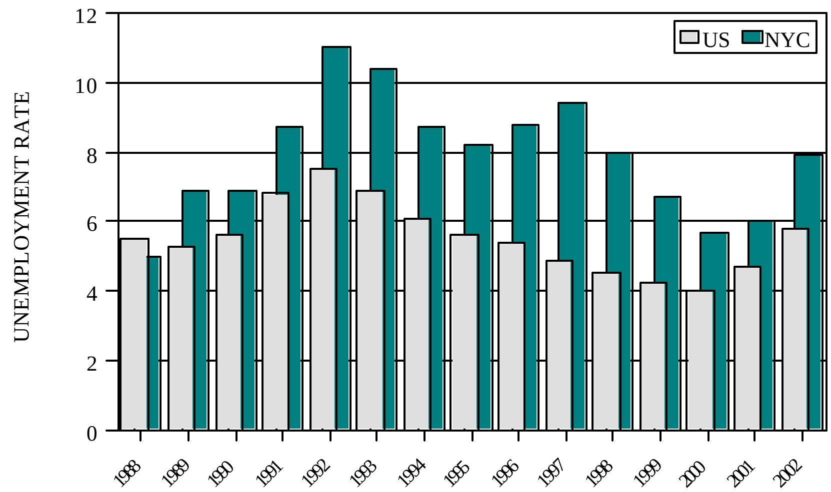
The labor market remains depressed as employers avoid hiring new workers and continue to lay off employees, indicating that businesses have not yet regained confidence in the economy. Unemployment rates are considered a lagging economic indicator because they continue to rise well after a recovery is underway. In 2002, annual unemployment rates[1] in the City and in the nation rose to 7.9 percent and 5.8 percent, respectively (see Figure 9), as the number of unemployed had the largest increase in at least a decade. This is the second year the unemployment rate in both the City and the nation rose since reaching decade lows in 2000. Over these two years the average annual local unemployment rate has risen by 2.2 percentage points; during the last recession, it rose by 6 percentage points, reaching a peak of 11 percent in 1992.

On a seasonally adjusted basis, the monthly unemployment rate in the City advanced steadily from 7.3 percent in January 2002 to 8.5 percent in December 2002. The largest increase in unemployment was for adults between the ages of 16 and 24 (see Figure 10), as many graduates began hunting for a job but could not find one. Unemployment rose more for men than for women and was at a higher level for men than for women.

[1] The unemployment rate is defined as the proportion of labor force participants without jobs. The labor force consists of people who are either employed or seeking jobs. People who are not active in the labor force are not counted as unemployed.

Figure 9

Unemployment Rates



Source: U.S. Bureau of Labor Statistics; NYS Department of Labor; Current Population Surve

The local unemployment rate has continued to climb in the new year, rising to 8.6 percent in January 2003. The national unemployment rate has moved sideways,

Figure 10

Unemployment Rates and Labor Participation Rates by Demographic Group

	2002 (percent)		Change from 2001 (percentage points)	
	Unemployment Rate	**Participation Rate**	**Unemployment Rate**	**Participation Rate**
All (Adults aged 16 and over)	7.9	59.1	1.9	1.0
Age				
16-24	17.1	46.2	3.1	2.4
25-44	7.5	76.2	1.9	-1.2
45-64	5.3	68.2	1.5	3.0
65+	3.7	14.5	2.1	4.1
Race/Ethnicity				
Black	10.6	58.6	2.0	1.7
Hispanic	9.3	57.5	1.5	1.7
White	7.0	58.6	1.9	0.6
Gender				
Male	8.5	66.7	2.4	0.5
Female	7.4	52.6	1.4	1.3

Source: Current Population Survey; OSDC analysis falling from 6 percent in December 2002 to 5.7 percent in January 2003, and then rising to 5.8 percent in February.

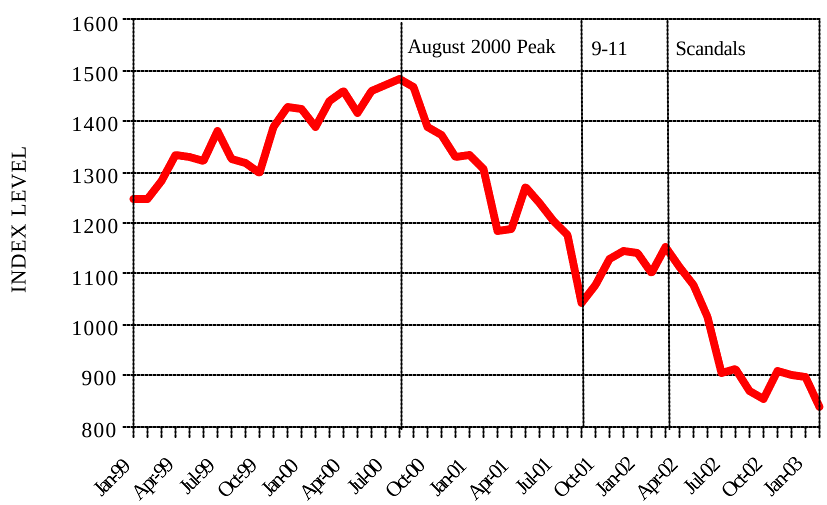
Unemployment and labor force statistics are available for various demographic groups in the unpublished Current Population Survey. Notably, the labor force participation rate[2] in the City actually increased 1 percentage point in 2002, to 59.1 percent, despite a poor outlook for those seeking work. The largest increase in participation was in the 65 and over age group. A possible explanation is that more retirees sought work after their retirement investments shrank due to the stock market slump. Participation rates rose more among Hispanic and black adults.[3] Labor force participation also rose more among women than among men.

Wall Street

The financial markets declined for a third consecutive year in 2002. As reflected in the performance of the Standard & Poor's 500 Stock Index, the markets peaked in mid-2000 as the run-up in technology stocks came to an end and then began to move sharply lower (see Figure 11). A modest rebound in mid-2001 quickly turned into significant declines in the aftermath of the September 11th terrorist attacks. Markets then began to recover, although 2001 still ended lower than the year began. This recovery ended in March 2002, when the stream of corporate scandals that began with Enron drove markets sharply lower again. A modest rally in the fall ended by

Figure II

Standard & Poor's 500 Stock Index



Source: Standard & Poor's

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2 The labor force participation rate is defined as the share of the overall population aged 16 and over that is actually working or actively seeking work. Reasons that people don't participate in the labor force may include that they are students, are retired, are homemakers, are disabled, or are considered "discouraged workers" who have stopped looking for jobs.

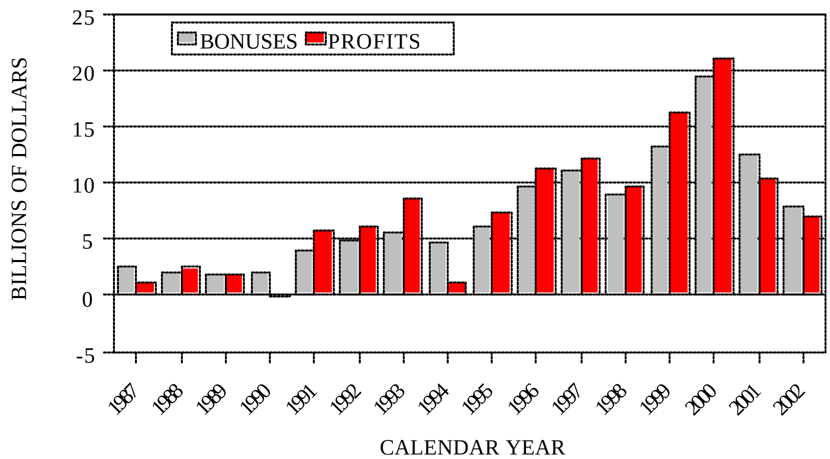
3 Data for black adults and white adults includes black Hispanics and white Hispanics.

December as uncertainties over a possible military conflict with Iraq began to weigh on the financial markets.

In 2002, profits of security firms belonging to the New York Stock Exchange declined by over 33 percent compared to 2001, to just under $7 billion—the lowest level earned since 1994 (see Figure 12). This is the second year of declining profits for security firms, which experienced a 50 percent drop in earnings in 2001 and have declined by 66.9 percent in the two-year period. Profits have not fallen for two consecutive years since 1989-90, when they dropped by over 100 percent.

Figure 12

Wall Street Bonuses and Profits



Note: Bonuses are paid in the fourth quarter of the current calendar year and in th first quarter of the following calendar year. Bonuses are OSDC estimates.
Source: NYS Department of Labor; New York Stock Exchange; Securities Industry Association; OSDC analysis

During 2002, the decline in revenues for security firms was centered in losses on securities trading accounts, declining margin interest, and decreases in other income such as initial public offerings and mergers and acquisitions. During the fourth quarter, there was an almost 55 percent increase in "other" expenses compared to one year earlier, mainly stemming from payments to settle various securities industry investigations. Despite the penalty payments, total expenses—especially interest expenses—have also fallen.

As a result of the decline in Wall Street profits, we now expect bonuses paid to workers in the industry in 2002 to fall by over 37 percent, to $7.9 billion. As with profits, this is the lowest level since 1995. Bonus payments also declined in 2001, and have fallen by almost 60 percent in the two-year period. The last two-year consecutive decline occurred in the late 1980s, when bonuses fell by over 25 percent. As a positive aside, we expect that bonuses paid to workers in all other industries in 2002 will not decline compared to 2001, and will total about $8.6 billion.

The increasing importance of Wall Street to the New York City economy is apparent as we have calculated the effect of declining bonuses on personal income tax revenues for both the current period and for the late 1980s. We estimate that between 2000 and 2002, personal income tax revenues from Wall Street bonuses were about $250 million lower, which represents 5.6 percent of total personal income tax collections in 2002. By contrast, the decline in Wall Street bonuses between 1987 and 1989 lowered personal income tax revenue by about $14 million, or about one half of one percent of 1989 revenue.

Wages

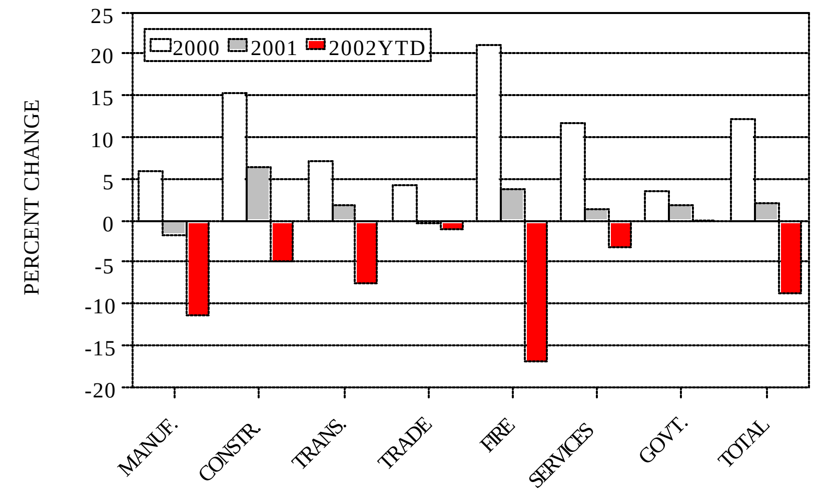
The rate of wage growth has been affected by job cuts, slower average salary growth, and reductions in Wall Street year-end bonuses as firms in the City respond to the current recession. Total wages (including bonuses) grew by only 2 percent in 2001. This was the lowest rate since 1994, and considerably less than the 12.3 percent gain in 2000. For the first half of 2002, the latest period for which data are available, wages paid in the City have declined 8.9 percent when compared to the same period one year earlier. The Citywide average salary was $61,046 in 2001, although in nonfinancial industries the average was $46,691. In the financial sector, the average wage in the securities industry was $252,313, about 5 times higher than the nonfinancial average; other financial sector jobs earned $91,270 on average. While the Citywide average salary rose 3.3 percent in 2001, the average has declined 5.1 percent in the first half of 2002 when compared to the same period one year earlier.

The recession has affected wage growth unevenly among the sectors of the local economy, but all have seen a rapid slowdown and decline over the last two years (see Figure 13).[4] Wages on Wall Street grew by 36.2 percent in 2000 (the same year Wall Street earned a record $21 billion in profits), but growth slowed to 3 percent in 2001. In the first half of 2002, wages declined 21 percent, primarily reflecting reduced bonus payments received in the first quarter of 2002. If first quarter wages are excluded in 2001, when record bonuses were paid out on the industry's 2000 profits, the wages paid for Wall Street in the latter three quarters of 2001 fell 9.6 percent, compared to the same period of 2000. Overall, Wall Street accounted for 21.3 percent of total wages paid in New York City in 2001 (but employed only 5.2 percent of the City's labor force). With the declines in wages across all sectors, however, Wall Street's share of total wages has increased to 22.2 percent in the first half of 2002.

[4] This section utilizes the industry organization used in the SIC system. As with the payroll employment data, the New York State Department of Labor is converting the wage data to a NAICS basis. Data beginning with the first quarter of 2000 will be restated on a NAICS basis, but earlier data will remain in the SIC format. Our future reports will utilize wages on a NAICS basis.

Figure 13

Change in Wages by Sector in New York City

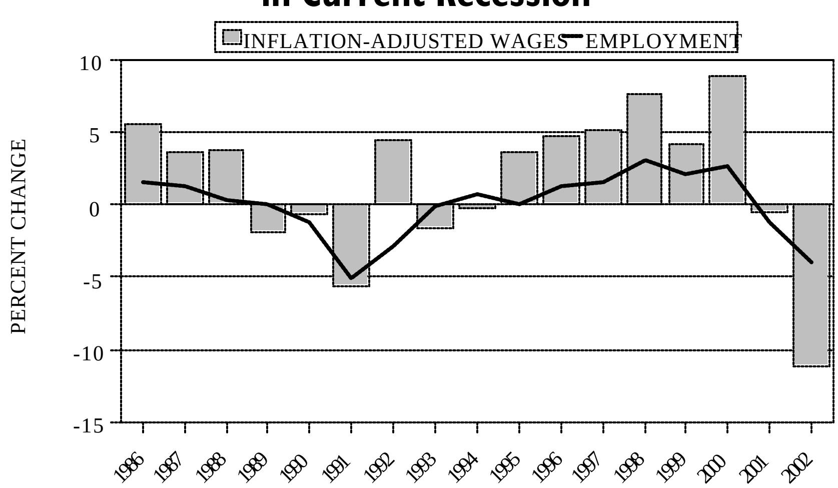


Note: Change for 2002 is from the first half of the year compared to the same period in
Source: NYS Department of Labor

The service sector, which accounts for 30 percent of wages paid in the City, experienced wage growth of 1.3 percent in 2001 and a decline of 3.5 percent in the first half of 2002. Within services, each sub-sector has responded differently to the recession. In 2001, wages paid in most of the sector's cyclical components either fell or barely grew. For example, business services fell 6.6 percent, motion pictures fell 4.5 percent, auto repair fell 1.7 percent, hotels grew 0.5 percent, and engineering and management grew 0.5 percent. By contrast, wages paid in the noncyclical service sectors saw growth, such as in education (6.5 percent), social services (6.3 percent), and health services (5.8 percent). This pattern was repeated in 2002.

Figure 14

Wages Decline More Than Employment in Current Recession



Data for 2002 is for the first half compared to the same period in 2001.
Source: NYS Department of Labor; U.S. Bureau of Labor Statistics

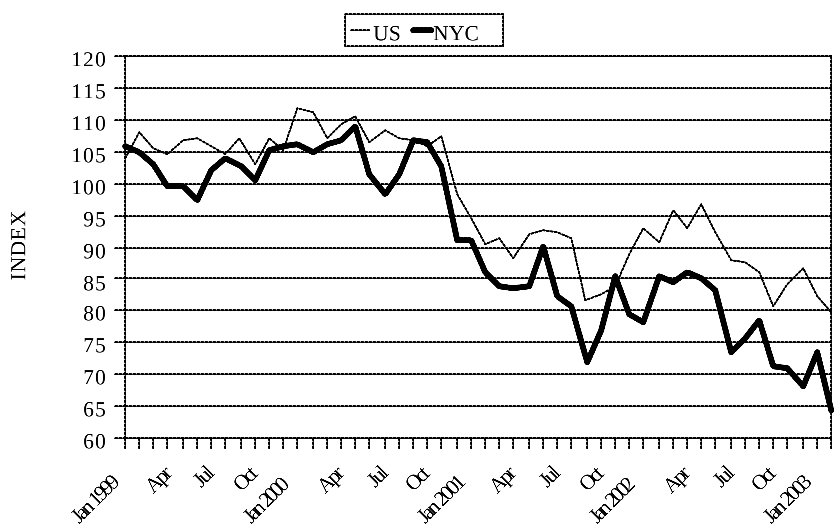
Given the sharp decline in the first half of 2002, it is likely that when data for the full year is available, 2002 will be the first year to show a wage decline since 1991, when wages fell by 1.3 percent. That year was the only year during the last recession in which wages declined. If wages are adjusted for inflation, however, they show declines of 1.9 percent in 1989, 0.7 percent in 1990, and 5.6 percent in 1991. On an inflation-adjusted basis, wages declined by 0.5 percent in 2001, and the decline in the first half of 2002 is over 11 percent (see Figure 14). This underscores the severity of the current recession, relative to that of the early 1990s, in that it is affecting incomes and revenues more than jobs.

Consumer Confidence

Consumer confidence at the national and local levels is declining (see Figure 15). The level of confidence peaked and began to fall in early 2000, but the rate of decline accelerated as the recession began in late 2000. Confidence fell sharply after the September 11th terrorist attacks, but recovered and started to climb in early 2002. Since the spring of 2002, however, confidence has declined again. City residents hold a particularly poor outlook for the future—through much of mid-2002, the future outlook fell less than the current outlook, but since the late summer City residents have become even more pessimistic.

Figure 15

Local Consumer Confidence Still Below The Nation



Source: University of Michigan; Siena Research Institute

Tourism

The events of September 11, 2001 dealt a serious blow to New York City's tourism industry, reversing the growth that had characterized most of the 1990s. While some indicators pointed to a slowdown earlier in 2001, NYC & Company found that the domestic visitor count had remained strong prior to September, growing by 4.7 percent. After September, the number of domestic visitors dropped by

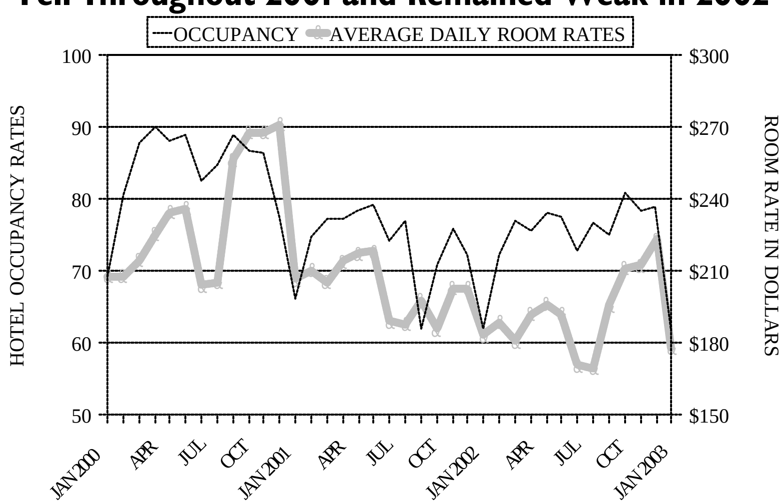
7.5 percent, bringing the 2001 total to 29.5 million people, 0.3 percent higher than in 2000. The number of international visitors to New York City in 2001 dropped by over 15 percent compared to 2000, according to NYC & Company's forecast. While the actual numbers are not yet available, NYC & Company projects that domestic travel to New York City declined by over 10 percent in 2002. The forecast anticipates that international tourist growth was flat in 2002.

Another measure of the tourism downturn comes from airport statistics. In 2000, the Port Authority of New York and New Jersey reported that passenger traffic at the three major New York City airports had risen 3.5 percent, with equivalent gains for both domestic and international passengers. In the first six months of 2001 the slowdown had already begun, with domestic traffic up less than 0.25 percent and international traffic falling 2.6 percent. The events of September 11th further eroded traffic, resulting in a decline of 10.2 percent in total passenger traffic for the year (domestic traffic fell 9.3 percent and international traffic fell 12.3 percent). Data for all of 2002 shows domestic traffic down 1.4 percent and overseas traffic down 4.2 percent.

In 2002, hotel occupancy rates reached 75.2 percent, slightly higher than the 73.4 percent posted in 2001. However, average daily room rates remained depressed (see Figure 16), averaging $193.99 during 2002, or 5 percent below the average rates in 2001. Hotel occupancy rates peaked at 84 percent in 2000 and started to decline early in 2001, long before the events of September 11th. A drop in international tourism may explain some of this slowdown. Domestic travelers include many "day trippers" who do not need rooms, and thus an increase in domestic tourism may not benefit the hotel industry

Figure 16

Hotel Occupancy and Average Daily Room Rates Fell Throughout 2001 and Remained Weak in 2002

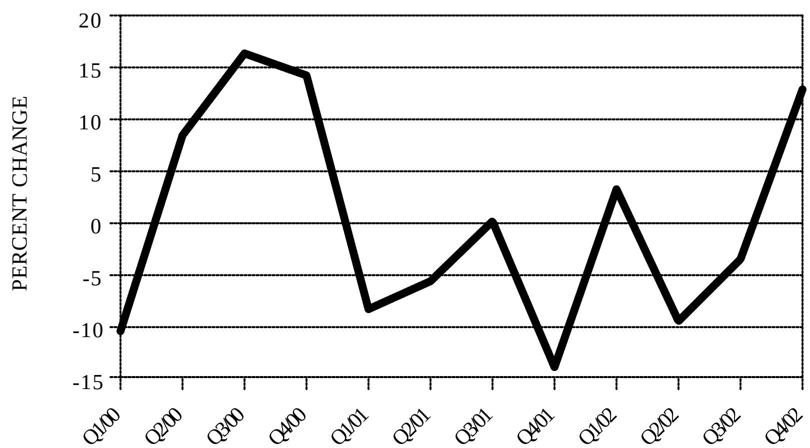


Source: PKF Consulting

After growing by 6.5 percent in calendar year 2000, Broadway attendance began to slow early in 2001 (see Figure 17) and declined by over 7 percent for the entire year, according to the League of American Theatres and Producers. Because of a very strong fourth quarter, however, annual growth was essentially flat in 2002. That strength has continued into 2003, with a gain of 24.2 percent in the first two months of 2003, although that gain is compared to a very weak comparable period in 2002. The four-day musician's strike in March 2003, however, will dampen gains for that month. While attendance does have seasonal patterns throughout the year, rates of growth fluctuate from year to year based on the level of tourism, special events in the City, the popularity of shows, ticket prices, and other factors.

Figure 17

Broadway Attendance Soars at End of 2002



Change is from the same period one year earlier.
Source: League of American Theatres and Producers, Inc.

Population

The American Community Survey (ACS), a major part of the U.S. Census Bureau's effort to reengineer the decennial census, is conducted annually to provide more timely demographic data for users. Since 1996, the Census Bureau has conducted the ACS annually in selected counties in the United States. When fully implemented in 2003, the ACS will provide the same detailed demographic data as is currently collected on the decennial census long form, using a sample of three million households. Before the full implementation of the ACS, the Census Bureau is conducting supplementary surveys to experiment and test the quality and reliability of data collection. These surveys use the questionnaire and methods developed for the ACS to collect data from a national sample of 700,000 households in 1,203 counties; however, the results from either survey cannot be directly compared to decennial census data because of methodological differences.

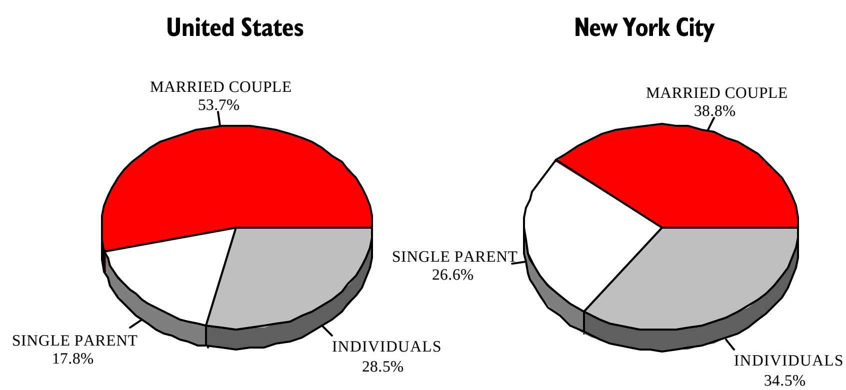
Demographic data provided from the supplementary survey show the City's population increased 0.1 percent in 2001. Over the year, the proportion of the City's population between the ages of 25 and 64—the years of labor force participation—increased by 1.6 percent, but the population aged from 0 to 24 and 65 and over decreased by 1.9 percent and 0.7 percent, respectively. The share of the working age group was 55.1 percent in 2001, about 3 percent higher than the national average. In addition, the median age in the City was 34.6 years old, 1.1 years younger than the national median.

The population of the City has become more racially diverse as the share of minority groups has grown.[5] Hispanics, the largest minority group, grew to 27.8 percent of the City's population. The black non-Hispanic population accounted for 24.6 percent of the population, while the Asian or Pacific Islander non-Hispanic population grew to 10.7 percent. Meanwhile, the white non-Hispanic population shrank, dropping its share to 34.5 percent. By comparison, the nation's white non-Hispanic population totaled 68.8 percent of the population.

The structure of households in the City differs from that of the nation (see Figure 18). The number of married-couple households in the City increased faster than single-parent households. This was a reverse of the downward trend for married couples over the last few decades. Meanwhile, the number of individuals living alone declined by 1.4 percent.

Figure 18

Composition of Households in 2001



Source: U.S. Census Bureau

[5] This report utilizes U.S. Census Bureau terminology when discussing official population data. According to the Census Bureau, "Hispanic" is defined as "a self-designated classification for people whose origins are from Spain, the Spanish-speaking countries of Central or South America, the Caribbean, or those identifying themselves generally as Spanish, Spanish-American, etc. Origin can be viewed as ancestry, nationality, or country of birth of the person or person's parents or ancestors prior to their arrival in the United States. Spanish/Hispanic/Latino people may be of any race."

The recession has significantly affected household incomes in the City. The real (i.e., inflation- adjusted) median household income fell by $1,836 to $38,866 in 2001, a decline of 4.5 percent. For the nation, household income in 2001 fell only $110, to $42,317. In addition, women in the City suffered a greater earnings loss in 2001, with their real median earnings falling by $1,403 to $32,859. In contrast, the real median earnings for men dropped $660, to $36,780.

The decline of household income in the City brought more people below the poverty level, and the City's poverty rate increased 1.3 percentage points in 2001, to 19.2 percent. Of the population below the poverty level, 36.1 percent were younger than 18. Of the families with children under age 18 living in poverty, 68 percent were headed by a single mother. The percent of all households in the City that received either public assistance income or some form of noncash benefits increased in 2001 by 1.6 percentage points, to 31.3 percent. Nationally, the poverty rate dropped in 2001 by a statistically insignificant 0.1 percentage point, to 12.1 percent.

Public Assistance

According to New York City's Human Resources Administration (HRA), the number of people receiving Public Assistance (PA) in June 2002 was at its lowest level since May 1965. HRA reported that the June 2002 caseload level was 14.4 percent lower than the level in June 2001 (see Figure 19). However, the number of people receiving Food Stamps, a federal benefit for unemployed and poor working families, declined by only 2 percent over the same period. Because of the increase in non-PA recipients receiving Food Stamps, the rate of decline for those participating in this program was less than the total for people receiving PA. At the end of FY 2002, non-PA recipients receiving food stamps accounted for 47.9 percent of all recipients compared to 21.9 percent at the end of FY 1995. This increase is partly attributed to the ability of eligible clients to retain their Food Stamps privilege as they move from welfare to work. Food Stamps enrollment increased at HRA during the spring of 2002, and that

Figure 19

Assistance Programs

(levels in thousands)

	FY98	FY99	FY00	FY01	FY02
Persons receiving Public Assistance	763.3	675.5	572.1	497.1	425.4
Percent Change	---	-11.5	-15.3	-13.1	-14.4
Persons receiving Food Stamps	1,073.1	991.3	896.7	836.2	819.5
Percent Change	---	-7.6	-9.5	-6.7	-2.0
Persons receiving Medicaid	1,644.6	1,629.2	1,593.5	1,608.7	2,028.1
Percent Change	---	-0.9	-2.2	1.0	26.1

Source: Mayor's Management Report

trend is expected to continue as more clients move from welfare to work and HRA encourages Medicaid recipients to apply for Food Stamps.

During FY 2002 Medicaid enrollment increased significantly as the Disaster Relief Medicaid program began operating to care for the victims of the September 11th terrorist attacks. Because this was a temporary relief program, HRA expects that the Medicaid rolls will increase in FY 2003 as eligible individuals convert from Disaster Relief Medicaid to an appropriate program—either standard Medicaid or Family Health Plus.

Indeed, data for the first four months of FY 2003 show that the Medicaid rolls continue to grow rapidly, increasing by 27.6 percent compared to the same period in FY 2002. The increase in Food Stamp enrollment that began in the spring of FY 2002 has continued into the first four months of FY 2003, with the rolls growing by 3.4 percent. However, the overall decline in the number of persons receiving public assistance has continued, with an 8.9 percent decrease in this same period.

Transportation

In the four boroughs serviced by the Metropolitan Transportation Authority (MTA) subway system, ridership increased rapidly in the late 1990s. However, the onset of the recession and the World Trade Center attack brought a slowdown in ridership growth (see Figure 20) as employment levels in the City began to fall. Ridership gains slowed from 7 percent in 2000 to 1.3 percent in 2001, and have increased at a 0.5 percent rate in 2002. Average weekday subway ridership in the City was just over 4.6 million riders in 2002. Manhattan was the only borough to show an actual reduction in ridership during the last two years, down 0.4 percent in 2001 and 0.6 percent in 2002. Nevertheless, the total number of riders in Manhattan—nearly 2.6 million per weekday on average—is almost three times greater than in the next highest borough, Brooklyn, which has an average of almost 950,000 riders each weekday.

The MTA bus system, which operates in all five boroughs, has average weekday ridership levels at about half the subway levels, and bus ridership patterns have been different from subway patterns. Growth increased in 2001 at a faster rate (5.1 percent) compared to the increase in 2000 (4.5 percent), before the rate of increase slowed to 3 percent in 2002. The Bronx is the only borough where the number of MTA bus riders is greater than the number of subway riders, by about 1.5 times. Growth in bus ridership slowed in every borough in 2002, with the smallest decline in Queens and the largest decline in the Bronx. MTA bus ridership in Queens may have benefited from riders seeking alternative transportation during a private bus company strike last summer.

Many of the jobs the City has lost in sectors such as finance and business services were held by commuters, thereby affecting ridership on the suburban rail lines. Overall ridership on the Long Island Rail Road declined by 1.9 percent in 2002, the first such decline in seven years. Ridership during rush hours, which accounts for over 60 percent of the traffic on the railroad, declined 4.4 percent, but ridership during off-peak periods increased 2.4 percent. Ridership data for Metro-North is not yet available for 2002, although weekday ridership increased only 1.4 percent in 2001 after growing by 6 percent in 2000. Like the Long Island Rail Road, growth in off-peak ridership (2.4 percent on weekdays and 3.1 percent on weekends) had exceeded that of rush-hour ridership (0.9 percent).

Figure 20
Change in Average Weekday Ridership
(percent)

	Brooklyn	Bronx	Manhattan	Queens	Staten Island	Total
Subway						
1999	5.8	5.3	7.4	5.7	---	6.7
2000	6.6	4.7	7.8	5.5	---	7.0
2001	4.0	4.1	-0.4	2.8	---	1.3
2002	1.5	3.3	-0.6	1.9	---	0.5
Bus						
1999	7.7	6.6	9.4	7.8	9.5	8.0
2000	5.0	4.7	2.8	5.6	6.6	4.5
2001	6.0	4.4	4.5	5.8	4.6	5.1
2002	4.0	1.4	2.1	4.8	2.4	3.0

Source: Metropolitan Transportation Authority

In addition to the transportation offered by the MTA, the City's Department of Transportation (DOT) oversees seven private bus lines. About three-quarters of the customers served by these lines are in the Bronx and Queens. The number of customers using these buses increased throughout the late 1990s, with large increases in 1998 and 1999 (gains averaged 9.3 percent in those two years). There was a 12.2 percent decrease in total ridership in 2002, but part of the decline is attributable to a bus strike that affected three of the Queens bus lines last summer.

Commercial Real Estate Market

The weak national economy, coupled with the downsizing of many financial services firms, has affected New York City's commercial real estate markets. The City's office market has weakened, but has not fallen to the levels reached during the last downturn. Leasing activity—18.8 million square feet during 2002—was down almost 32 percent from 2001. However, much of that falloff came in the final quarter of the year, as leasing activity in the fourth quarter of 2001 had been boosted as tenants displaced by the World Trade Center attack looked for temporary and permanent replacement space. Leasing activity in the first three quarters of 2002 was only down 5 percent from the same period a year ago. The average size of transactions was smaller in 2002, which also contributed to the drop in overall leasing activity. Uncertainty over the economy and the buildup to the war with Iraq also affected commercial real estate activity. However, some of the negative associations with the downtown area since the September 11th terrorist attacks seem to be disappearing. Faced with declining earnings and the need to cut occupancy costs, many firms are considering moving to or staying in Lower Manhattan to take advantage of the available incentives and competitively priced space.

Office space continues to become available, especially sublease space, which accounted for about 40 percent of the space available at the end of 2002 (rather than a more usual share of about 20 percent), according to Insignia/ESG. Net absorption[6] was negative in all three markets in 2002—by 5.4 million square feet in Midtown, 1.8 million square feet in Midtown South, and 1.8 million square feet in Downtown. By the end of 2002, about 20.7 million square feet of office space was available in Midtown, with 9.7 million square feet available in Midtown South and 15.8 million square feet in Downtown.

Manhattan's vacancy rate rose to 12 percent in the fourth quarter of 2002 (see Figure 21), its highest level since the 12.6 percent rate reported in the second quarter of 1997. Vacancy rates are highest in Midtown South, an area hit hard by the downturn in the technology sector, while the Downtown market has had the largest increase in vacancy rates over the past year. Rates in all three markets had reached their cyclical lows during 2000—3.2 percent in Midtown, 3.7 percent in Midtown South, and 4 percent in Downtown. As indicated earlier, however, the deterioration in the commercial real estate market is not as severe as in earlier downturns. Overbuilding in the late 1980s, especially on a speculative basis (i.e., property that

Figure 21
NYC Office Markets

	Avg. Asking Rent ($ per square foot)		Overall Vacancy Rate (percent)	
Market	**Q4/2001**	**Q4/2002**	**Q4/2001**	**Q4/2002**
Midtown	$52.83	$48.15	8.2	11.1
Midtown South	38.74	32.23	11.2	13.5
Downtown	39.45	39.17	9.5	13.2
Manhattan Avg.	46.67	42.96	9.0	11.8

Source: Cushman & Wakefield

[6] Net absorption is the amount of space leased compared to the amount listed as available

was not pre-leased), coupled with the significant job losses in the early 1990s recession, pushed vacancy rates up considerably, to about 20 percent in Downtown and about 14 percent in Midtown in 1994. Midtown South's vacancy rate reached over 25 percent in early 1995.

Rental rates in the fourth quarter of 2002 are below the rates of one year earlier, with the Midtown rate dropping below $50 per square foot. Rents had peaked in late 2000 and early 2001, reaching over $56 per square foot in Midtown, over $45 per square foot in Midtown South, and over $43 per square foot in Downtown.

Housing

The number of New York City households living in rental apartments far exceeds the number that own their own homes. Census data from 2001 showed that New York City has a home ownership rate of 33.4 percent.[7] Data from the 1999 Housing and Vacancy Survey performed by the U.S. Census Bureau showed that the highest percentage of households that own their homes is in Staten Island (63.6 percent), followed by Queens (44.9 percent), Brooklyn (27.6 percent), Manhattan (21.9 percent), and the Bronx (20.8 percent). Manhattan differs from the rest of the boroughs in that cooperative apartments make up a substantial portion of owned residences, accounting for 80.5 percent, while condominiums account for 15.3 percent, and one-, two-, and three-family homes represent only 4.2 percent. Ownership of traditional homes in the outer boroughs ranges from 60.1 percent in the Bronx to 94.7 percent in Staten Island. Cooperative apartments account for 20.8 percent of owned homes in Brooklyn, 23.1 percent in Queens, 38.3 percent in the Bronx, but only 0.2 percent in Staten Island. Finally, condos make up about 5 percent or less of the homes owned in each outer borough.

More than two thirds of City households live in rental apartments, and in 2001 the 3.6 percent vacancy rate for these units was the sixth lowest of any city in the nation. The vacancy rate has declined every year since 1996 (when it was 5.5 percent) and is the lowest the City has seen since 1989, when the rate was 3.2 percent. As a result of the low vacancy rate, many apartments in the City continue to be subject to either rent control or rent stabilization. In 1999, only 18.9 percent of renting households in the City lived in unregulated apartments.

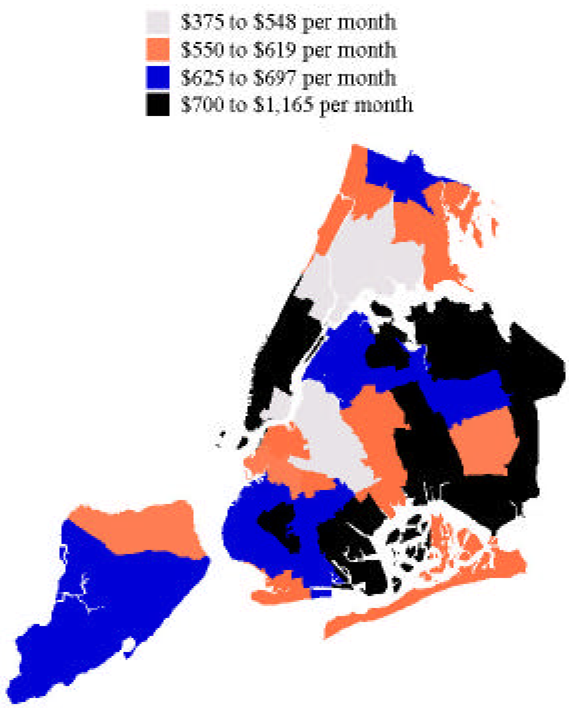
The median contract rent in the City in 1999 was $625 per month, up from $470 in 1991. Median rents were highest in Queens ($700), followed by Manhattan ($690) and Staten Island ($650). Rents were below the City median in Brooklyn ($600) and the Bronx ($550). Of the ten Bronx neighborhoods identified in the Housing and

[7] San Francisco, with a rate of 48.6 percent, was the only other metropolitan area in the country where the home ownership rate was below 50 percent.

Vacancy Survey, the median rent was less than $600 per month in nine of them (see Figure 22), with the single exception of Williamsbridge/Baychester at $650 per month. Rents in all three Staten Island neighborhoods were between $315 and $650 per month, while neighborhoods in Queens generally had monthly rents of $600 or greater. Rents in Manhattan were lowest in areas of Upper Manhattan and the Lower East Side, and the highest in other East Side neighborhoods. Several Brooklyn neighborhoods had the lowest median rents, although in some areas of Borough Park and Flatlands/Canarsie median rents reached $700 per month.

Figure 22

Median Contract Rents in 1999 by Neighborhood

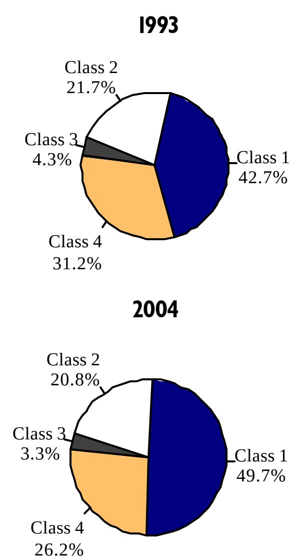


Source: U.S. Census, NYC Housing and Vacancy Survey

In the City overall, 14.6 percent of rental apartments had monthly rents of $1,000 or more in 1999. Manhattan had a higher concentration of these apartments, accounting for 32.6 percent of the rental units in the borough, while these high-rent apartments made up only 11.5 percent of units in Queens and less than 10 percent of units in each of the remaining boroughs. A similar percentage of City apartments (15.5 percent) rented for less than $350 per month. In addition to having few high-rent units, there were also few low-rent apartments in Queens (6.7 percent of all units) and Staten Island (10.1 percent), but there were larger concentrations in the Bronx (21.6 percent) and Manhattan (19.5 percent).

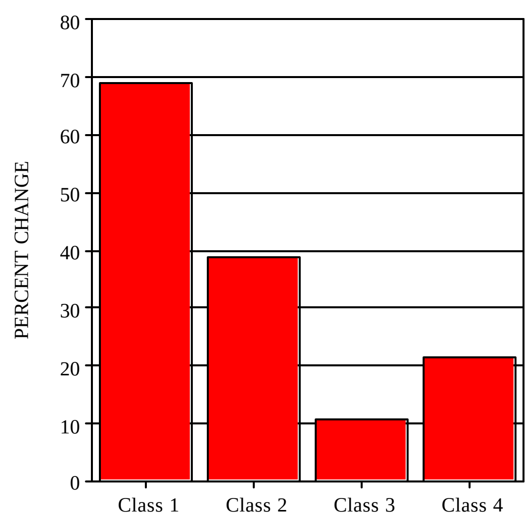
New York City began measuring the market value for all real property in FY 1993, when it totaled $323 billion. Through FY 2004,[8] the market value of City real property has increased 45 percent to $468 billion, representing an average annual increase of 3.4 percent. Because total market value declined by 8.8 percent between fiscal years 1993 and 1997, most of the increase in market values have been realized in the most recent fiscal years, with gains of 8.4 percent in FY 2001, 10.7 percent in FY 2002, 9.5 percent in FY 2003, and 9 percent in FY 2004.

Figure 23
Share of Total NYC Market Value by Class



* FY 2004 values are tentative.
Source: NYC Department of Finance

Figure 24
Growth in Market Values for NYC Real Property
FYs 1993 to 2004*



* FY 2004 values are tentative.
Source: NYC Department of Finance

With a market value of $137.9 billion in FY 1993, class one properties (one-, two-, and three-family homes) accounted for 42.7 percent of the market value for all City real property (see Figure 23). Since FY 1993, the market value of class one properties has increased 69 percent, which exceeds the rate of growth for all other classes of City real property (see Figure 24). After declining by 1.3 percent during fiscal years 1993 to 1999, property values have increased by 71 percent since FY 1999. As a result, class one properties now account for about half of the City's market value in FY 2004. For class two (all other residential property), market values increased at an average annual rate of 3 percent between fiscal years 1993 and 2003; for class three (utility property) the average increase was 0.9 percent; and for class four (commercial property) the average increase was 1.8 percent.

[8] The market values for FY 2004 are tentative.

Outlook

Last year at this time, the consensus among economists was that both the nation and the City would experience stronger growth by the second half of 2002. Indeed, through the early summer, national and local employment showed signs of improvement, while profits in the City's security industry rose compared to the second half of 2001. During the second half of 2002, however, instead of the continued growth that was expected the recovery slowed, with national employment levels ending the year down slightly and the City losing over 56,000 jobs. The financial markets were battered by scandals, and securities industry profits fell substantially in the second half of the year compared to the first half, with profits for the year reaching only about $7 billion. Capital gains realizations continued to fall and year-end bonuses in the securities industry declined by an estimated 37 percent, contributing to continued fiscal problems for the City. Currently, economic growth is restrained in the nation and recession still plagues the City. Recent employment revisions showed larger job losses in 2001 and 2002 than originally reported.

We believe that much of the restraint in growth was due to the unease and uncertainty that preceded the start of the war with Iraq, which caused businesses to defer spending and moderated the pace of consumer buying. While a prolonged and messy conflict could lead to serious disruptions in the economy, if the war is resolved quickly we expect growth to resume in the nation later in the year. The City's recovery will most likely lag behind the nation's because the City's economic health depends on the financial industry, which will need time to modify business practices exposed during the recent corporate scandals and rebuild investors' confidence. Many components of the City's business and professional services sector are connected to national business needs, so recovery in these sectors is also dependent on the national recovery. Some local economic measures will continue to deteriorate, such as the unemployment rate and the commercial real estate vacancy rate (which is expected to rise with the completion of several new buildings later in the year). Wage and personal income growth in 2003 will likely be restrained by the sharp decline in 2002 financial sector bonuses that were paid in the first quarter of 2003. Changes in government spending may also affect components of the economy that continued to expand during the recession, such as health, social, and educational services. Thus, while we do not anticipate growth locally this year, we doubt that the economy will slip as deeply as it did last year, and by 2004 we expect that it will begin to expand.