The State of Working New York 2003:

Unbalanced Regional Economies through Expansion and Recession

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Executive Summary

Recovery may be finally beginning, but will be hard and slow

As of the fall of 2003, New York workers still face an economy weakened by the combined effects of a national recession, the bursting of the Wall Street and dot-com bubbles, and the economic devastation wrought by the September 11, 2001, attack on the World Trade Center. These factors have combined to make the rate of job loss over the last two-and-a-half years much greater in New York State than in the nation as a whole.

While the National Bureau of Economic Research declared that the national recession officially ended in November 2001, the nation has lost a million more jobs since then, making this the Unites States' most prolonged period of job loss since the 1930s. For New York, layoffs continued at a high level through the first half of 2003. Despite proclamations about the national economy, clearly the recession in New York State continued into 2003.

From the beginning of the national recession in March of 2001, through July 2003, New York state lost 265,000 jobs, a 3.1% decline. New York's decline exceeded by one-and-a-half times the national 2.0% rate of job loss during this period. New York City, as the area of the country most affected by the combined effects of the September 11th attacks and the bursting of the Wall Street and dot-com bubbles, bore the brunt of this recession's impact on New York State. In fact, New York City accounts for three-fourths of the state's job loss since December 2000, the state's peak month for employment.

Nationally, manufacturing has borne the brunt of the recent downturn, accounting for 85% of the 2.7 million jobs loss. Many upstate New York regions, because of their heavy reliance on manufacturing, have suffered job losses exceeding the rate of national decline.

New York workers are paying a steep price during the 2001-2003 recession. For example:

- There were 574,000 unemployed New Yorkers during the first half of 2003.
- New York's real median hourly wages, which rose far less than the nation's in the late 1990s, declined by nearly one percent in the first half of this year.
- New York's unemployment insurance system, a crucial part of society's safety net, has fallen far short as a response to economic hardship. New York's unemployment insurance recipiency rate, while slightly above the nation's, is far below that of New York's neighboring states.
- New York's unemployment insurance exhaustion rate, which measures the number of people whose unemployment benefits have run out relative to initial claimants, was 57.9% in 2002, far greater than the national rate of 42.4%. This indicates that most unemployed New Yorkers are not finding new jobs.

The downturn has affected blue collar and white collar workers alike. While New York shares in the nation's loss of manufacturing jobs, New York's financial sector lost 48,000 jobs over the last two years, while in the nation as a whole there was a slight gain in finance employment. The decline in New York's information sector slightly exceeded the decline in manufacturing (14.9% vs. 14.7% declines), and in both cases New York's losses surpassed national declines. The Empire State also lost 85,000 jobs in professional and business services, a 7.6% job drop compared to the nation's 4.7% decline.

New York City, whose economy had been the driving force behind the state's polarized growth in the late 1990s, lost 240,000 jobs between December 2000 and June 2003, a 6.4% decline and more than three times the national decline. As FPI studies have documented, the loss of about 100,000 jobs, or 40% of the city's total decline, can be traced directly to 9/11. The bursting of the Wall Street and dot-com bubbles, together with the effects on closely related industries such as business services and management consulting, cost the city roughly another 100,000 jobs.

New York is made up of three super regions, each reflecting different economic trends and characteristics

Chapter Two of ***State of Working New York 2003*** reviews the long term performance of the New York State economy, and suggests that New York State is best understood as being made up of three distinct super economies:

- **New York City**;
- **Eastern New York** (the Capital District, Hudson Valley and Long Island); and,
- **Western and Northern New York** (Western New York, North Country, Mohawk, Central New York, the Southern Tier, and the Finger Lakes).

Of the three super regions, New York City continues to be the most dynamic and volatile, experiencing substantial population, employment and income growth in the nineties, but also severe job losses in the current recession. Eastern New York is less dynamic, but continues to grow. In contrast, Western and Northern New York is stalled—experiencing population loss, weak job growth during the 1990s and job declines during the post 2001 recession that exceed the nation's.

Despite New York City's dynamic overall economic performance in the 1990s, including its contribution to jobs on Long Island and in its northern suburbs, economic indicators clearly show that the benefits of this dynamism were not distributed evenly. Income and jobs in New York City during the 1990's were highly polarized. Poverty rates and the number of poor and near poor increased, while median incomes dropped. Real (inflation-adjusted) median family income in the Bronx and Brooklyn were substantially below the state average and far lower than most areas in the state. With the exception of Manhattan, every borough in New York City was worse off in 2000 than in 1990 in relation to real median family income.

Eastern New York fared somewhere between the two other super regions. Between 1990 and 2000, suburban New York City growth was heavily influenced by commuter incomes derived from the city. In the case of the Capital District, employment was more stable in part because of government spending, including in industries such as health care and social services. Growth on Long Island was offset by a substantial loss of defense contracting in the early 1990s. In the Hudson Valley, largely reflecting IBM's downsizing in the early 1990s, computer manufacturing employment dropped sharply. (About half the number of jobs were restored in recent years when IBM opened its new chip fabrication facility in East Fishkill.) The Capital District may be at the beginning of a more positive form of economic diversification as evidenced by the recent announcement of an alliance between International Sematech, a consortium of leading semiconductor companies, and the State University of New York at Albany.

Western and Northern New York, by contrast, largely stagnated even during the expansion of the late 1990s. This super region still depends heavily on the manufacturing sector. During the mid 1990s, manufacturing in Western and Northern New York declined significantly while factory employment rose in most of the country, including in several Great Lakes states. While the manufacturing sector has borne the brunt of the national recession, total employment in Western and Northern New York declined even more than in the nation as a whole from 2001 to 2003. Finally, despite continued economic weakness, unemployment rates in Western and Northern New York that are below the nation's are not indicative of underlying economic health, but rather are the result of a decrease in the labor force as residents have given up looking for a job and many, especially in the 20 to 34 age group, have left the region altogether.

Job stagnation and income polarization across regions and among New Yorkers will constrain growth in the future

In the 1990s, for the state overall, real median family income stagnated—growing only two tenths of one percent from $55,648 to $55,786. Declining median family incomes in New York City played a big factor in keeping the statewide number flat. Between 1990-2000, real median family income grew in 52 of the state's 62 counties but only 6 counties had growth rates greater than the U.S. Twenty seven counties had growth rates that were less than half that of the nation's. Poverty rates were also up in every labor market region in the state. The number of poor and the number of near poor (those earning 200% of the poverty threshold) increased in every region of the state.

Confirming previous FPI analyses, 2000 census data indicate that the gap between the richest and the poorest New Yorkers increased during the 1990s. There is greater income polarization in the downstate region than upstate. Encouragingly, however, many counties that had median family incomes below the state median experienced an increase in this measure during the decade.

New York has the fourth highest per capita income among the fifty states, but many of the state's metropolitan areas lag behind the national average. Between 1994 and 2001, most New York metropolitan areas ranked below other U.S. metropolitan areas in per capita income growth. Only four of New York's thirteen metropolitan areas have per capita incomes that are higher than the U.S. average and only three (New York City, Dutchess County, and Albany-Schenectady-Troy) experienced growth rates that were higher than the nation's during this period. In terms of per capita income growth, most New York metropolitan areas ranked far below other metropolitan areas in the country. For example, out of a group of 263 metropolitan areas, Jamestown ranked 240th in per capita income growth from 1994 to 2001, Newburgh 198th, and Rochester 193$^{rd.}$ Not one of the state's metro areas ranked among the top 25 metropolitan areas nationally, and only New York City and Dutchess ranked among the top 50 U.S. metro areas.

The job growth rate from 1992 to 2000, particularly in the Western and Northern New York super region, was much worse than the U.S. Many high paying jobs were lost and replaced by low paying jobs, and the number of poor and near poor increased. The fact that the number of poor and near poor did not decline, even as unemployment rates dropped, indicates that many New Yorkers work at low paying jobs.

The economy, particularly in the Western and Northern super region, was generally unable to develop modern technology based firms in sufficient quantities to offset the loss of jobs in other sectors that paid high wages. The skewed dependence of regional economies (and governments) on a few high-wage sectors --finance in New York City and manufacturing in other areas of the state--has created economies that cannot easily adjust to the changes in the economic climate.

Low population growth, except for New York City, may also temper economic activity in the state. In the Western and Northern New York super region, the total population declined between 1990 and 2000. There was also a large out-migration of people in the 20 to 34 age group, dramatically altering the composition of the state's workforce outside New York City. This young adult age cohort declined sharply in the Eastern New York super region as well as in Western and Northern New York.

Relatively low unemployment rates not necessarily a reflection of strength

Low unemployment rates in some regions are not indicative of strong economies. Rather they are the result of demographic changes---lower numbers of 16 to 64 year olds—which reduced the civilian labor force, helping to account for lower unemployment rates. Despite the fact that economies in Western and Northern New York had larger job losses than the U.S., most areas had lower unemployment rates than the nation. For example, Central New York's 5.6% unemployment rate in June 2003 was below the nation's 6.4% rate, but its civilian labor force had declined by 2.3% in the 1990s while the civilian labor force increased 11.5% nationally. Civilian labor force declines occurred in five of the labor market regions including Central New York, Long Island, Mohawk Valley, Western New York and the Southern Tier. The other regions including the Hudson Valley, the Finger Lakes and the Capital District had low growth rates that ranged from 0.8% to 2.2%. During the period New York's civilian labor force grew by only 0.4% overall.

Urban areas in the state continue to lose population to the suburbs and rural areas, increasing the socio-economic disparity between cities and suburbs. In the 1990s, six of the state's thirteen metropolitan statistical areas had population declines that ranged from -1.4% for Syracuse to -5.2% for Utica and Rome. New York City, with a population increase of 8.9%, boosted the overall urban population growth rate for the state's metropolitan areas. Overall, the population of upstate metropolitan areas increased by 1.1% during the decade.

Sprawl without growth and widening city-suburban disparities

Internal migration within metropolitan areas from cities to suburbs and rural areas has led, as described by Rolf Pendall of Cornell University, to "sprawl" without growth. This sprawl without growth has been particularly detrimental to the fiscal health of local governments because it reduced their economic base and increased the cost of providing services. During the 1990s, the total population of the Western and Northern New York super region declined by 0.5%. Yet, as an indication of sprawl without growth, the population of the cities and villages in Western and Northern New York declined by 7.4% while the suburban and rural portions of that region experienced a 5.1% population gain.

An analysis of 2000 census data by the State University of New York at Albany's Lewis Mumford Center for Comparative Urban and Regional Research found that central city-suburb disparity increased in the 1990s. The Mumford Center analysis was based on comparisons of trends for a number of variables, including, education, housing, occupation, poverty, and unemployment. For example, in the Rochester metropolitan area, the poverty rate in the city of Rochester was more than three times that in the suburbs. The city of Rochester's unemployment rate was two times the rate in the suburbs. There were far fewer home owners and much more vacant housing in the City of Rochester than in its suburbs.

Diverse regions with common problems

The regional profiles suggest economic developments in the 1990s have created conditions that will influence the direction and pace of recovery from the current recession. For many economies in the state, the current recession is, in terms of the character of job and income changes, a continuation of the 1990s.

- Overall, in every region except for the North Country, the current recession has resulted in the loss of high wage jobs which have been replaced by low wage jobs. In the Capital District, for example, the average wage of the ten largest employment growth industries was $33,837 compared to the average wage of $42,864 for the ten industries that lost the most jobs.
- Lower wages have contributed to an increase in the number of the poor and near poor in most regions in the state. In about half the counties, the number of families with incomes below 200% of the federal poverty threshold increased over the decade. New York City and its suburbs had a high concentration of the states poor and near poor.
- A detailed review of sources of personal income growth shows that the growth in wages and salaries in the 1990s was much weaker than in the 1980s and that weak wage and salary growth in the 1990s held back income growth. In every labor market region except for New York City, the growth in wages in the 1990s was surpassed by growth in transfer payments.
- Throughout New York, many new jobs were created between 2000 and 2002 in hospitals, social services and education. The aging of the population has especially affected the demand for workers in health care related facilities. Employment in nursing and residential facilities increased by 8.9% in the Mohawk Valley, 7.8% in the Capital District, 9.4% in the Finger Lakes, 3.0% in the Southern Tier, and 7.7% in the Western New York region. Unfortunately, in most cases these jobs paid very low wages.