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**Hearing before the New York City
Rent Guidelines Board**

**The Tentative Recovery is Still a Long Way from Restoring Jobs,
Wages and Incomes to Pre-Recession Levels for New York City's
Low- and Moderate-Income Households**

**New York City
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Good morning, my name is James Parrott, Deputy Director and Chief Economist of the Fiscal Policy Institute (FPI). The Fiscal Policy Institute is a nonpartisan research and education organization that focuses on the broad range of tax, budget, economic and related public policy issues that affect the quality of life and the economic well-being of New York City and State residents. FPI regularly prepares reports on the state of the New York City economy and we have conducted several studies on the city's labor market and leading industries. We closely follow wage and income trends affecting New Yorkers. Thank you for the opportunity to testify today.

While the city's economy has begun a recovery from the severe 2001 to 2003 downturn, that recovery has been weak and halting. During the downturn that ran from the end of 2000 to the middle of 2003, and that was significantly compounded by the economic fallout from the September 11th attack on the World Trade Center, New York City lost 237,000 jobs. This amounts to an employment decline of 6.3 percent. Since the low point reached in August of 2003, the city has gained back a net of only 45,000 jobs through March, the latest month for which employment data are available.

The city's employment total is thus still 192,000 (or 5.1 percent) below the level that prevailed at the end of 2000. In part, the city's weak economic recovery stems from the very slow pace of job growth at the national level since 2002. Still, the city's 1.3 percent net increase in jobs over the past 19 months falls short of the 2.4 percent gain in national jobs over that period.

As Figure 1 indicates, only three of the 15 major sectors in the city's economy have seen employment gains of two percent or more since the August 2003 low point. These three sectors (leisure and hospitality, retail trade, and health and social services, all tend to fall at the low end of the wage spectrum. The strongest overall job growth has been in leisure and hospitality, a sector that includes many tourism-related industries, restaurants and much of the city's cultural institutions. Employment in this sector has bounced back from the adverse effects of September 11th, and is up by more than five percent since the end of 2000.

The tourism sector¹ is often heralded as a principal source of job growth for low- and moderate-income New Yorkers. Yet, while the number of tourists and business travelers visiting New York is at an all-time high level, and hotel occupancy is very high, the number of hotel jobs in the city has fallen by 2,200 (or 5.5 percent) over the last six months. Hotel employment provides some of the best-paying union jobs with full health benefits within the tourism sector. The falloff in hotel jobs is primarily due to the acceleration in the conversion of hotel properties into luxury condominiums. The resulting decline in the number of hotel rooms in 2004 and an anticipated further decline in 2005 reflect the fact that the over-heated market for luxury housing has trumped the hotel real estate market. This has prevented the usual market response of an increase in hotel supply in the face of strong demand conditions.²

Figure 1 also shows that of the 15 major sectors in the city's economy, employment in seven of these sectors is still down by more than 10 percent compared to the end of 2000. This presents an astounding picture of what has happened to the local economy in recent years. Construction, manufacturing, transportation and utilities, information services, financial activities, professional services, and administrative and support services all have lost a substantial number of jobs since the high point in the last business cycle. Despite the fact that some of these industries have experienced some job growth over the last year or two, all seven have employment levels more than 10 percent lower than at the end of 2000. For example, professional services has gained 4,600 jobs since the low point in August 2003, but is still 40,000 below the December 2000 level (down 12.2%), and administrative and support services has added 3,000 jobs since August 2003, but is nearly 23,000 jobs short of where it was at the end of 2000 (down 10.9%).

¹ Tourism is not separately identifiable in the Labor Department's employment classification. Tourism spans three broad sectors: tourist-related industries traveler accommodation, and parts of food service and arts and entertainment are within Leisure and Hospitality; parts of air transportation and local transportation are within Transportation, Warehouse and Utilities; and parts of tourist-related shopping are within Retail Trade.

² Forthcoming report by Fiscal Policy Institute on the effect of hotel conversions on the city's tourism sector.

Recently it was reported that the unemployment rate in New York City dropped to 5.2 percent in March. Many things enter into the reported unemployment rate and this is one of those periods when a seemingly low official number does not reflect a strong labor market. There are at least three factors that need to be considered in interpreting the unemployment rate. First, the labor force has declined over the last three years (the March 2005 level was about 42,000 below the March 2002 level). Weak employment conditions often reduce the labor force as discouraged workers give up the search for a job and others postpone their entry or re-entry into the labor force. Second, the monthly household survey used to determine the unemployment rate indicates that resident employment in New York City increased by about 70,000 over the last three years while the establishment survey of employers shows that over the same period, New York City employment has declined by 25,000 (the discrepancy between the two surveys was even greater in the period from early 2001 to early 2002).

And third, there has been a pronounced rise in the number of self-employed in New York City, which has increased by nearly a third over the last four years. In the context of the very weak establishment employment picture, a rise in reported self-employment most likely reflects a weak labor market rather than a strong labor market. These factors combine to understate the number of people reported as unemployed and to artificially reduce the unemployment rate.

The latest data on wages indicate slight improvement at the end of 2004, but that real weekly wages remain well below the mid-2001 levels, before they began falling as the recession set in and the impact of the 9/11-related dislocations were felt. Figures 2 and 3 show the trend in inflation-adjusted real weekly wages at the 20th percentile and the median (or 50th percentile). The 20th percentile reflects the position of a typical low-wage worker. Through the end of 2004, the weekly wage earnings of the 20th percentile worker were 5.5 percent below the mid-2001 peak, and for the median worker, weekly wages were two percent less than the mid-2001 peak.³ Hopefully, the increase in the New York State minimum wage that took effect this past January will boost the wages of the workers at the low end of the city's wage scale.

The weekly wage data cited in the previous paragraph are for individual workers. Similar wage trends have been at work for the total wage earnings of New York City households. In an analysis that categorized households as low-, mid-, and high-wage, FPI found that the median weekly wage of low-wage households fell by 4.2 percent from mid-2001 through the end of 2003. For the mid-wage household group, median weekly wage earnings fell by 4.6 percent over the same period.⁴

³ Weekly wages calculated from the Current Population Survey by the Fiscal Policy Institute and shown on a 4-quarter moving average basis in constant, \$2004:4.

The severity of the 2001-to-2003 economic downturn and the erosion in wages have combined to put household and family incomes well below pre-recession levels. As Figure 4 indicates, the median household income in New York City fell by 6.1 percent from 2000 to 2003, while median family income dropped by 8 percent over the same period.

As a consequence of the substantial job loss suffered in New York City in this decade and the erosion in wages and incomes, the city's middle class is continuing to shrink. Using an income range of \$35,000 to \$100,000 to represent a middle income range, the proportion of New York City families with middle class incomes dropped from 45.8 percent in 2000 to 42.8 percent in 2003. While the proportion of families with incomes below \$25,000 increased substantially over this period (from 25.5 percent to 8.7 percent), as noted above, household wage earnings for low-wage households were falling over this period.⁵

The cost of housing in New York City clearly has been increasing much faster than wages and incomes in recent years. According to the Census Bureau's American Community Survey, the median gross rent paid in the city increased by 4.2 percent in 2003 over the prior year, after adjusting for price changes. Even more striking is the statistic that the share of households whose rent is 35 or more percent of household income rose from 38.5 percent in 2003 to 41.9 percent in 2004.

Without being exhaustive, two other indicators can be cited which demonstrate the economic hardship experienced by many New York City low- and moderate-income residents. The Women's Center for Education and Career Advancement has documented that the income needed for "self-sufficiency" in the city in 2004 is considerably higher than the median family income. The Women's Center calculates a bare-bones budget of costs that a working family faces for housing, child care, food, transportation, health care, miscellaneous expenses, and federal, state and local taxes. Budgets are prepared for different family types and for each of the five boroughs (with separate budgets prepared for North and South Manhattan).

For a 4-person family with two adults and two children, the family income needed to be "self-sufficient" in North Manhattan and the boroughs outside of Manhattan ranges from \$54,600 to \$60,000.⁶ This self-sufficiency range is about 20 percent greater than the city's 2003 median family income level of \$44,131.

⁴ The latest period for the household wage earnings analysis was the fourth quarter of 2003. See, James A. Parrott and Oliver D. Cooke, "The Economic Impact of 9/11 on New York City's Low-Wage Workers and Households," in *The Resilient City*, ed. by Howard Chernick, New York: Russell Sage Foundation, 2005 (forthcoming).

⁵ The share of families in the \$25,000-\$34,999 range increase slightly, from 11.7 percent to 11.9 percent over this period. U.S. Bureau of the Census, "2003 American Community Survey."

The self-sufficiency budgets reflect the high cost of living in New York City. Additionally, over the past year through March 2005, consumer prices have risen by 4.4 percent. This is the largest 12-month increase in recent years. Rising housing, energy and transportation costs have been the major sources of consumer price pressure.

In conclusion, the city's economy is recovering from the very steep job declines experienced during the 2001-to-2003 downturn and 9/11-related adversity. However, New York City has re-gained only about one-fifth of the jobs lost and several major sectors still have ten percent fewer jobs than before the recession began. The apparent good news in the measured unemployment rate masks the fact that the city's labor force has declined and that many residents have turned to self-employment of one form or another in response to weak labor market conditions. Wages and incomes have faltered along with the broader employment picture and remain below pre-recession levels. Living standards for large numbers of New Yorkers continue under severe pressure, a situation not likely to improve markedly given the uncertain outlook for local employment growth and national economic growth.

Thank you for the opportunity to present the views of the Fiscal Policy Institute for your consideration.

⁶ For South Manhattan, the self-sufficiency budget for this family type is \$78,700. Women's Center for Education and Career Advancement, The Self-Sufficiency Standard for the City of New York, 2004, November 2004.

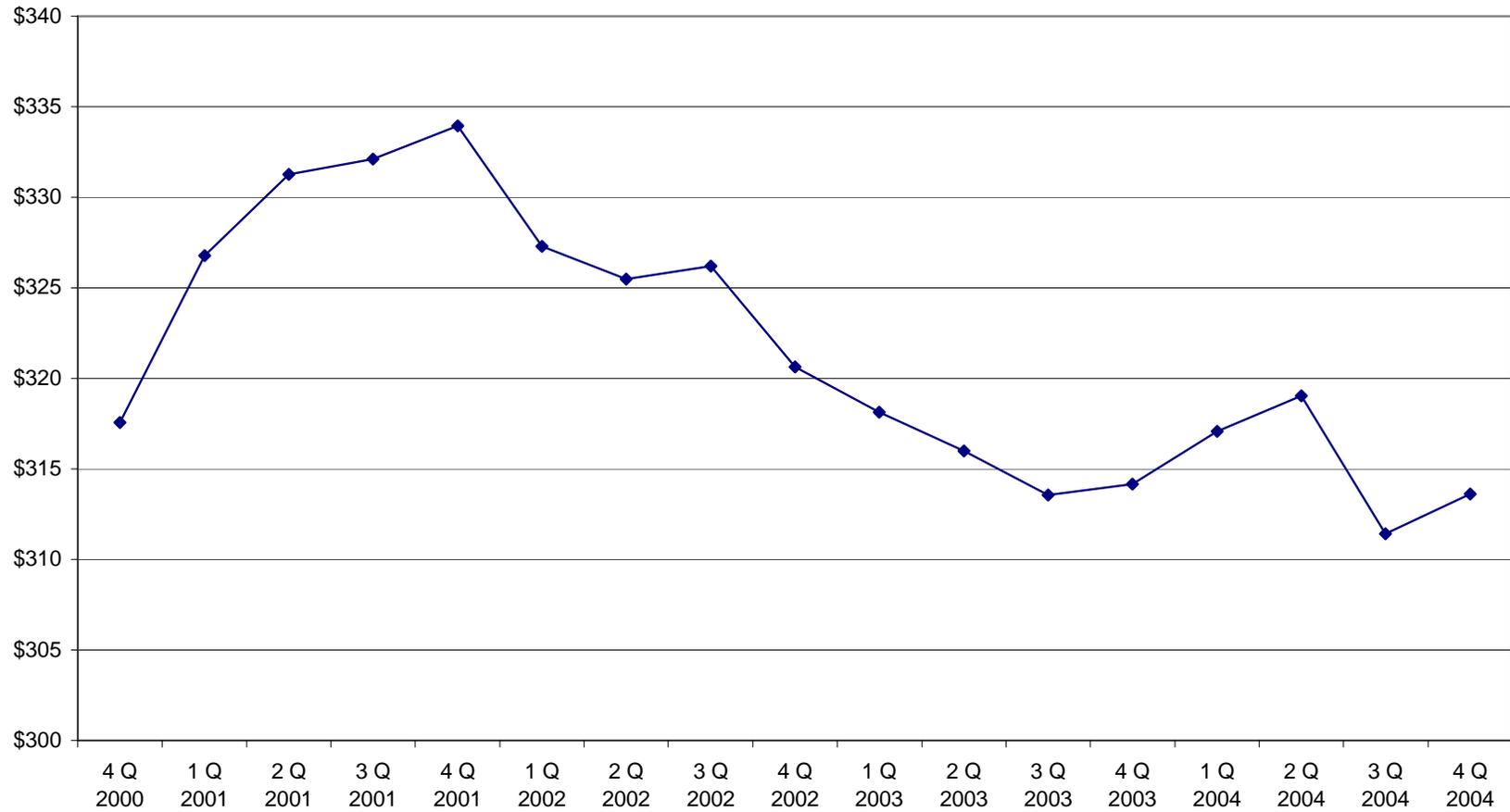
Figure 1

New York City Employment, by Major Sector, Recession and Recovery, December 2000 to March 2005

	March 2005 level	Peak to Low Point Dec. 2000 -Aug. 2003		Low Point to Latest Aug. 2003 - Mar. 2005		Peak to Latest Dec. 2000 - Mar. 2005	
		absolute change	% change	absolute change	% change	absolute change	% change
Total Nonfarm	3,562,460	-236,927	-6.3%	44,952	1.3%	-191,975	-5.1%
Construction	111,215	-12,192	-9.8%	-1,375	-1.2%	-13,567	-10.9%
Manufacturing	113,994	-47,075	-27.6%	-9,827	-7.9%	-56,902	-33.3%
Wholesale Trade	147,186	-7,253	-4.7%	-293	-0.2%	-7,546	-4.9%
Retail Trade	278,274	-17,487	-6.2%	11,323	4.2%	-6,164	-2.2%
Transportation and Utilities	116,193	-15,669	-11.7%	-1,877	-1.6%	-17,546	-13.1%
Information	164,231	-30,350	-15.7%	1,543	1.0%	-28,807	-14.9%
Financial Activities	438,074	-58,912	-12.0%	5,791	1.3%	-53,121	-10.8%
Professional Services	290,056	-44,757	-13.6%	4,556	1.6%	-40,201	-12.2%
Management of Companies	55,590	6,069	11.6%	-2,948	-5.0%	3,121	-4.5%
Administrative and Support	187,487	-25,981	-12.4%	3,041	1.7%	-22,940	-10.9%
Educational Services	144,666	9,507	7.2%	2,151	1.5%	11,658	8.8%
Health and Social Services	528,854	16,055	3.2%	14,574	2.8%	30,629	6.1%
Leisure and Hospitality	276,287	-3,023	-1.2%	16,888	6.5%	13,865	5.3%
Other Services	151,509	-398	-0.3%	2,617	1.8%	2,219	1.5%
Government	553,026	-9,931	-1.8%	-1,396	-0.3%	-11,327	-2.0%

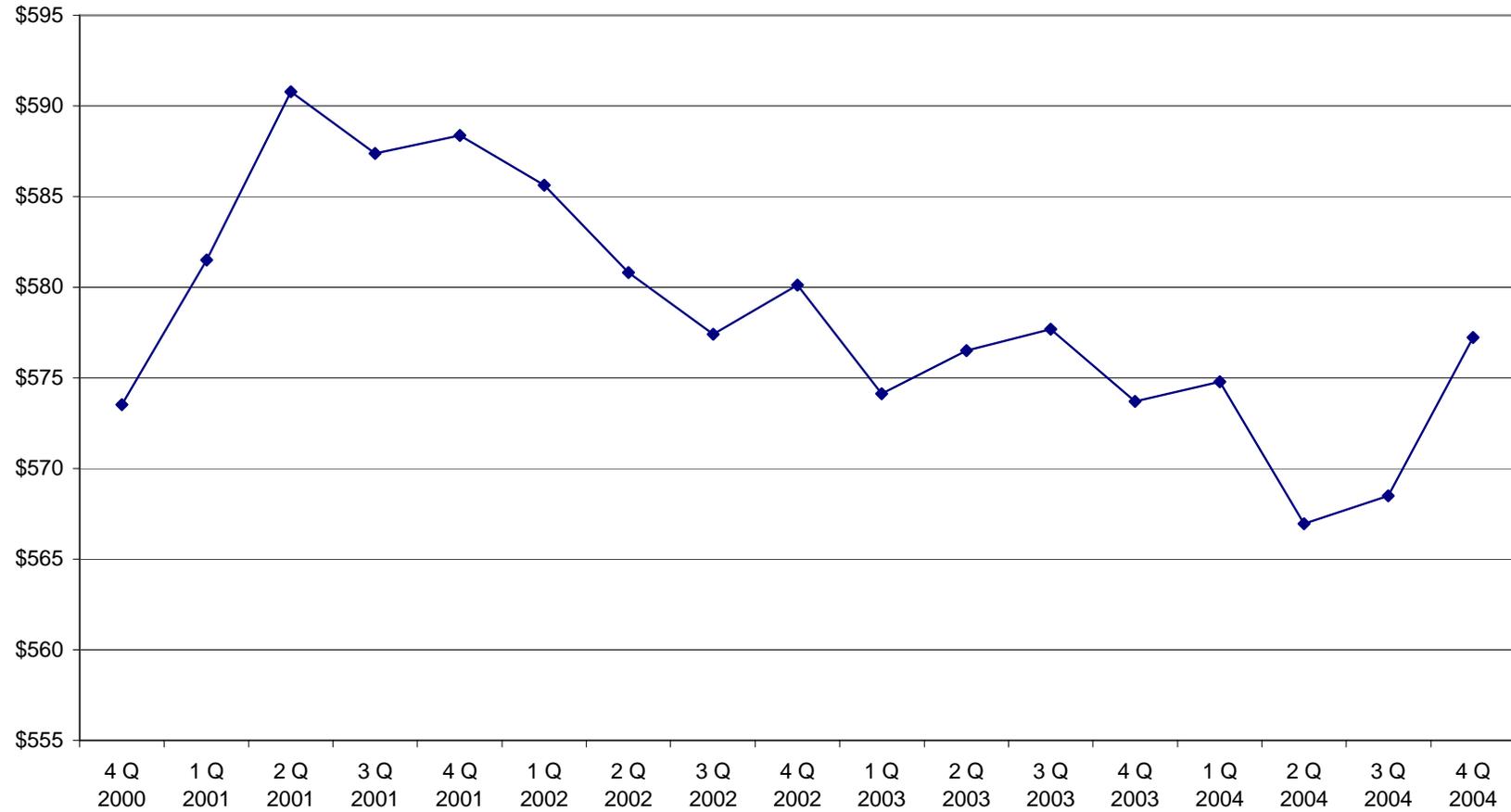
Source: New York State Labor Department data, seasonally adjusted by Fiscal Policy Institute.

**Figure 2: New York City 20th Percentile Weekly Wages,
(4Q moving average, constant \$2004:4)**



Source: CPS ORG data analyzed by the Fiscal Policy Institute.

**Figure 3: New York City Median Weekly Wages,
4Q moving average, constant \$2004:4**



Source: CPS ORG data analyzed by the Fiscal Policy Institute.

Figure 4: Median New York City Household and Family Incomes, 2000 to 2003

(incomes in \$2003 constant dollars)

	median household income	median family income	median non-family household income
2000	\$42,548	\$47,966	\$33,261
2001	\$40,197	\$43,691	\$31,324
2002	\$40,103	\$44,692	\$30,619
2003	\$39,937	\$44,131	\$31,031
2000-03	-\$2,611	-\$3,835	-\$2,230
% change	-6.1%	-8.0%	-6.7%

Source: U.S. Census Bureau, American Community Survey, 2003.