Chapter 1
Economic Recovery in New York Since Mid-2003

New York State's economy has been in recovery for two years since employment bottomed-out nationally in mid-2003. The recession officially ended in November 2001. But, the nation as a whole and the overwhelming majority of the states continued to lose jobs until the spring of 2003. So far, the Empire State has gained back 126,500 jobs, nearly half of the 273,000 jobs that it lost during the recession (March through November 2001) and the ensuing "job loss recovery" (November 2001 through May 2003). In this report we refer to the period of job growth than began in May 2003 as the "recovery." Since the "job growth recovery" began in mid-2003, New York's 1.5% job growth trails the nation's 3.0% growth. Other measures of New York's economic performance -- the growth in total output, total personal income, total wages and hourly wages -- also have improved since the bleak days after September 11 and the protracted slump in 2002.

Yet, in many ways, New York's recovery is tenuous. Wage growth trails the increase in the production of goods and services. The national economy, which has a significant influence on the course of the state's economic fortunes, has been growing very slowly by historic standards. Manufacturing employment, which has been the backbone of the economies of Upstate New York and several other states, dropped much further over the past four years than in previous downturns and there are scant indications of a rebound. Much of the nation's growth has been fueled by low interest rates but that is coming to an end as the Federal Reserve has increased short-term interest rates 10 times since June 2004 and long-term interest rates are starting to rise.

Real estate prices have surged in many parts of New York State and the nation, and housing construction has boomed. Just as the late 1990s stock boom for a long time defied predictions of its demise, the real estate boom has continued even as short-term interest rates have risen, a development that normally would have dampened activity. However, just as the stock bubble did eventually burst, at some point, the real estate market undoubtedly will cool. While a decline in the housing market would affect many New Yorkers, it is worth noting that the fall-out from the ending of the housing boom is not expected to be as dramatic as the severe impact when the stock market crashed.

New York's recovery comes after a recession and downturn continuing until mid-2003 that were much steeper in the Empire State than in the nation as a whole **(see Figure 1.1)**, and followed a late 1990s boom period during which many parts of Western and Northern New York endured relative stagnation and a worrisome outflow of working age population. The national manufacturing bust since 2000 has further sapped economic vitality from upstate New York. New York City and the downstate region, so dependent on the city's economy and its jobs, paid a price for the stock market and dot.com bubbles of the late 1990s when those burst in 2001 and 2002. Moreover, the jobs and livelihoods of thousands of city residents and businesses across the economic spectrum were devastated by the economic wreckage of the September 11th terrorist attacks. Downstate New York and the Hudson Valley corridor in

Eastern New York have seen a recovery fueled in part by the national trend in consumption spending and construction and real estate-related activity.

New York's recovery restrained by relatively weak national economic picture

In many ways, the national economic picture reflects a debt-induced recovery. Between the first quarter of 2001 and the first quarter of 2005, gross domestic product grew by 21.7% in nominal terms (this was 11.4% in real, inflation-adjusted dollars). However, total national debt -- household, government and corporate -- outstanding grew nearly 50% faster than gross domestic product, increasing by 34.8% over the past four years. Low interest rates and easy credit enabled consumers to readily borrow for consumption or to purchase housing. Household consumption expenditures, which account for 70% of GDP, have grown as fast as GDP, but only because of consumer borrowing. Total wages and salaries have increased by only two-thirds the rate of the growth in consumption, with the difference borrowed. Residential investment has been the only sector of the economy significantly contributing to growth, and most of the housing investment has been made possible by a huge, $2.8 trillion increase in home mortgage debt. This 58% increase in mortgage debt roughly matches the increase in residential investment between the first quarters of 2001 and 2005. The trade deficit has grown by three-quarters and business investment in plant and equipment increased by a paltry 1.4% over the past four years. **(See Figure 1.2.)**

Through its control of short-term interest rates, the Federal Reserve Bank seems determined to cool the super-heated housing market and, eventually, long-term interest rates are likely to rise sufficiently to slow the housing market and probably the broader economy as well. Additionally, the skyrocketing U.S. trade deficit will likely put pressure on interest rates to rise to avert a flight from the dollar.

U.S. job growth since the end of the recession has been weak by historical standards

U.S. job growth has been exceptionally weak over the past four years **(see Figure1.3)**. Even though the March to November 2001 recession was shallower than most recessions over the past five decades, the nation's employment level is only slightly above where it was at the recession's start, an improvement that substantially trails the average recovery from the nine other recessions since 1949.

2001-2003 downturn more severe in New York than in the nation as a whole

During the March to November 2001 "recession" period proper, New York State lost jobs nearly twice as fast as the nation, and in the November 2001 to May 2003 downturn period that followed (the "job loss recovery"), the state's job loss was only slightly greater than the nation's. New York City's job loss during the recession period, which included the brunt of the economic fallout from the September 11 attack, was 3.7%, nearly three times the national job decline. During the post-recession downturn from November 2001 to May 2003, the city's job loss was over two-and-a-half times the national decline. **(See figure 1.4)**

In our 2003 edition of the State of Working New York, we noted the following characteristics of the 2001 to 2003 recession:

- Manufacturing accounted for the bulk of national job loss, and New York's manufacturing base, while proportionately smaller, lost jobs at a faster pace than the nation.
- New York was hard hit by the September 11, 2001 terrorist attacks -- which particularly affected the transportation and hospitality sectors -- and by the bursting of the dot.com and Wall Street financial bubbles.
- Unemployment hit both blue- and white-collar workers in New York. Proportionately fewer of the unemployed received unemployment compensation, and the long-term nature of unemployment spells here meant that New York also had a higher unemployment compensation exhaustion rate than six major comparable states (California, Illinois, Massachusetts, Michigan, New Jersey and Pennsylvania).
- New York City exerted a large influence on the state's downturn, losing jobs at nearly twice the rate of state job loss between March 2001 and May 2003.
- Job growth in the downstate suburbs and in the Hudson Valley was offset by job loss in many metro areas in western New York, some of which had job declines on a par with New York City.

New York followed the nation out of the 2001 to 2003 recession much sooner than after the early 1990s recession. During the early 1990s recession, New York State did not see a month-to-month job gain until December 1992, 19 months after the nation started to gain jobs in June of 1991. Following the end of the 2001 to 2003 recession, New York started to gain jobs two months after the national low-point reached in May of 2003. **(See Figure 1.5)**

2005 marks the second year of recovery in New York's total wages and personal income

While the state's job loss was greater in the early 1990s recession, the real value of total wages and personal income dropped more in the latest recession. The 4.0% drop in real total wages and the 2.0% decline in real personal income in 2002 far surpassed the one-year declines in these measures for any other year in recent decades.

Most of the broad measures of the state's economic performance declined each year from 2001 to 2003 **(see Figure 1.6)**. Personal income in constant dollars managed a small increase in 2003 and Gross State Product only registered a decline in 2002. The real value of total wages declined in each of the three years, a decline not seen since the early 1930s. With the recovery, total real wages and personal income are projected to increase by moderate amounts in 2005 for the second year since the end of the recession.

New York's job growth ranking among all states improved slightly in the 2nd year of recovery

In the first year of recovery following May 2003, New York State's rate of total job growth of 0.5% ranked 45th amongthe 51 states (including the District of Columbia, which has an employment level greater than a dozen states). Nevada, Florida, Arizona, Idaho and Utah topped the list with growth rates between 5.9% and 2.9%. Four states – Michigan, Massachusetts, Illinois, and Ohio – all lost jobs in the first year of the recovery. **(See Figure 1.7.)**

In the second year of recovery (which we extend by two months to take into account July of 2005, the latest month for which data are available for all states), New York State's growth rate nearly doubled to 1.0%, and the state's relative growth ranking rose to 42nd position among the 51 states. Oregon replaced Florida among the five top-ranking states, for which 14-month growth rates ranged from 7.8 to 3.8%. In the second year of recovery, only Michigan continued to lose jobs and three southern states – South Carolina, Georgia and Tennessee – experienced slower growth and dropped below New York in the rankings.

How New York's major sectors have fared compared to the U.S. during the recovery

Through the first two years of recovery, New York's job growth has been led by healthcare, leisure and hospitality, retail trade, educational services, and administrative and support services. In two of these areas – retail trade and educational services – New York's job growth has surpassed the nation's. New York's growth in "other services" also has exceeded the nation's. This sector includes such activities as repair, personal care and laundry services and religious organizations. Leisure and hospitality, which includes tourism, gambling and restaurants, has grown by more than five percent in both New York and the U.S. Healthcare employment has increased even faster at the national level than in New York over the past two years. Administrative and support services, led by hiring in temporary help agencies, has grown rapidly at both the state and the national levels. **(See Figure 1.8.)** Overall, the finance and insurance sector has not shown much growth since the return of some Wall Street jobs has been offset by further consolidation among commercial banks.

Reflecting record levels of housing market activity, construction employment has been the fastest-growing sector in the U.S., registering an 8.1% gain over the past two years. In New York, increases in residential construction have been offset by a decline in heavy construction and commercial activity, resulting in only a 1.5% construction job gain over the past two years. Employment in wholesale trade, government, and management of companies has declined in New York while growing in the U.S.

Job declines in both manufacturing and information have been much steeper in New York State than in the country as a whole during the recovery. Since 2000, manufacturing jobs have been disappearing at an alarming rate across the country. Thirty two states have experienced declines in manufacturing between 2000 and 2004 exceeding 15%. In New York, the manufacturing job decline has been nearly 21%, a percentage drop exceeded among the larger manufacturing states only by North Carolina, Massachusetts and Michigan.

A more detailed look at where New York's job changes are most pronounced

Figure 1.9 lists the 21 detailed New York industries that have increased employment by 4.5% or more in the first 25 months of recovery (4.5% is three times the state's overall 1.5% job gain over this period). The previous Figure 1.8 was at a "super-sector" level, while Figure 1.9 is at a more detailed "industry" level in the North American Industrial Classification System. For example, "home health care services" is a detailed industry that is a constituent part of the "health care and social assistance" super-sector. The detailed industry biggest gainers include food and drinking places, temporary help agencies, colleges and professional schools, and nursing facilities. The two industries with the fastest growth rates over the past two years -- temporary help agencies and investment banking – had also been among the industries losing the most jobs during the downturn.

The downstate and Hudson Valley real estate boom has helped residential construction employment grow rapidly and has boosted employment in architectural and engineering services and building materials retail stores. Four other categories of retail stores are included in the list. Strong tourism interest in New York has translated into job gains in industries such as traveler accommodation and performing arts, as well as in parts of the food service industry. Roughly comparable growth occurred in both gambling and religious organizations.

Figure 1.10 shows the 19 detailed industries where employment has dropped by over 5% during the past two years of recovery in statewide employment. Seven manufacturing industries are included in this list, with chemical manufacturing the industry losing the most jobs, 8,400, over this period.

Changing technologies and the rapid spread of internet-based commerce are the driving forces behind some of the employment losses detailed in Figure 1.10. Reflecting the continuing shake-out among internet companies, the list is topped by the industry that includes Internet Service Providers (ISPs), web search portals and data processing firms. Similarly, continued consolidation in the telecommunications area and the spread of wireless communications explains the further decline among wired telecommunications carriers. The decline in traditional travel service businesses probably reflects increased consumer use of the internet to make travel arrangements.

Heavy construction employment is down because of recession-related declines in commercial construction and reduced local government infrastructure spending. State government education employment has declined by 4,700, or 7.4%, over the past two years.

Manufacturing, information and government-funded services dominate New York's changing job picture since the peak

From New York's peak month for employment, December 2000, through the latest month for which data are available at this writing, June 2005, the state is still down 166,500 jobs. The manufacturing sector alone has lost 161,600 jobs during this period **(see Figure 1.11)**. Employment in the information sector, which includes publishing, motion pictures, broadcasting and telecommunications, as well as on-line information systems, is off by nearly 60,000, representing an 18% decline. Several other major sectors are still down by 20,000 jobs or more, including: professional services, finance and insurance, wholesale trade, and administrative and support services. While New York's retail trade employment growth has outpaced the nation's during the recovery, there were still slightly fewer retail jobs in the state in June 2005 than at the December 2000 peak.

On the plus side, health care and social assistance have added nearly 93,000 jobs in New York since the end of 2000. Private educational service employment has shown the fastest growth, with a 19% gain (+56,000 jobs). And government, particularly local public education, has added nearly 22,000 jobs. Activity in all of these growth sectors depends in significant measure on one form or another of government spending. Local public elementary and secondary schools are directly government funded. Government-funded Medicaid is one of the biggest driving forces behind the growth in such health care fields as nursing homes and home health care. Increased spending by state and federal-funded tuition assistance programs might be a factor in the job growth in private colleges and universities.

The leisure and hospitality sector has grown by more than 30,000 jobs since the end of 2000. This sector has been boosted by the rebound in tourism, strong consumption spending on restaurant meals and cultural activities, and by the expansion of gambling venues within the state. However, the extensive conversion in 2004 and 2005 of Manhattan hotel rooms into luxury condominiums has reversed New York City's hotel job gains.[1]

* * * *

The next chapter looks at how the downturn and the recovery have affected New York's workers and their families. Chapter Three begins to explore how population, employment and income changes, as well as the housing boom, have played out differently depending on the region within New York State and Chapter Four provides detailed profiles for each of the state's 10 labor market areas.

---

[1] See Fiscal Policy Institute, See, Fiscal Policy Institute, Taking Away the Ladder of Opportunity: Hotel Conversions and the Threat Posed to New York City's Tourism Jobs and Economic Diversity, May 2005.