II. National Economic Outlook

Key Takeaways

- Rebounding from Covid, the US unemployment rate is now at a historical low.
- Standard measures of economic health do not align with public sentiment — high inflation over the past two years, including soaring housing costs, have left many people feeling pessimistic about the state of the economy.
- Inflation and home price appreciation are driving an affordability crisis.
- Robust federal fiscal policy supported rapid economic recovery from Covid-19.

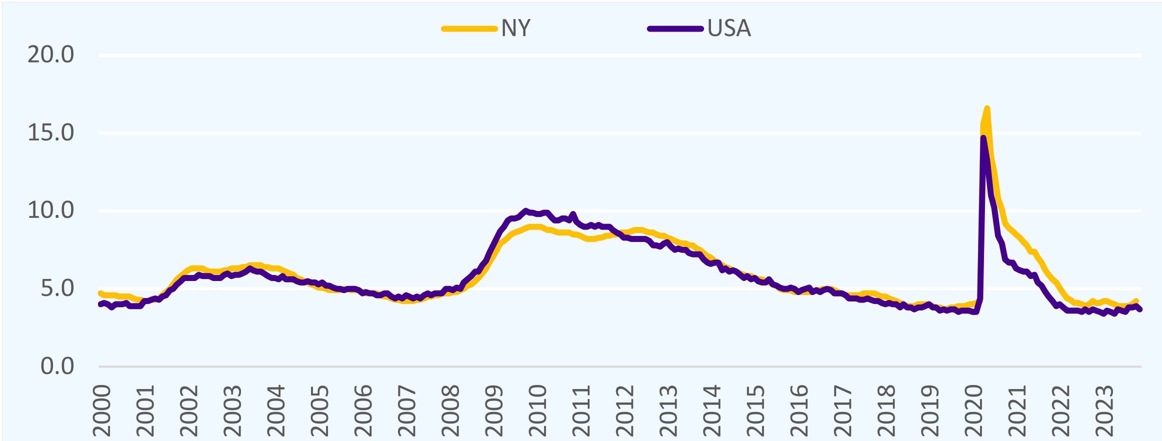
Introduction

Over the last four years, the US economy has experienced one of the most severe recessions in history. Despite the profound impact the Covid-19 pandemic had on people's lives and on labor markets, the national economy now looks stronger than expected — and appears to have recovered to pre-pandemic levels of employment. In fact, evidence shows a strong job market with historically low levels of unemployment and compression in the wage distribution. The strength of the labor market and economy more broadly are attributable to the robust fiscal spending during the pandemic. The Covid-19 fiscal policy proved the importance of large and broad support during crisis. However, standard measures of economic health do not align with public sentiment. High inflation over the past two years, including soaring housing costs, have left many people feeling pessimistic about the state of the economy.

Rebounding from Covid, the US unemployment rate is now at a historical low

The Covid-19 pandemic drove unemployment to increase to nearly 15 percent (over 15 percent in New York) in the first two quarters of 2020. This rate of unemployment far exceeded the top rate of unemployment during the Great Recession, driven in part by stay-at-home orders and in part by the fact that many people did not want to leave their homes and risk catching the deadly Covid-19 virus. However, despite this extreme increase in unemployment in early 2020, unemployment declined rapidly over the following two years and the current rate of unemployment is at a historic low of under 5 percent. New York is experiencing similarly low unemployment rates.

Figure 2.1. Unemployment rate in New York and the USA.



Simultaneously, forecasts of real Gross Domestic Product (GDP) reveal that the economy has consistently out-performed expectations over the last year. The past year started with many economists and policymakers fearing an imminent recession due to the fact that the Federal Reserve was raising interest rates to curb inflation — an action that could have resulted in heightened unemployment. However, no such increase in unemployment has materialized, suggesting that the Federal Reserve might have successfully accomplished a "soft landing," a curbing of inflation without an induced recession. Additionally, estimates of GDP show a strong and growing economy. Forecasts from three major US economic institutions — the Federal Open Market Committee (FOMC), the Congressional Budget Office (CBO) and the Philadelphia Federal Reserve's quarterly Survey of Professional Forecasters — each show improving sentiment regarding economic growth in 2023. Predictions are a bit more variable for 2024, but overall have improved over the past year, as economists become more confident in the state of the economy.

Table 2.1. Projections for real GDP growth rate by 2023 and 2026, by source and date of projection.

		2023	2024	2025	2026
CBO	February 2023 Projections	0.3	1.8	2.7	
	July 2023 Projections	1.5	1.0	2.2	
	December 2023 Projections	2.5	1.5	2.2	
FOMC	March 2023 Projections	0.4	1.2	1.9	
	June 2023 Projections	1.0	1.1	1.8	
	September 2023 Projections	2.1	1.5	1.8	1.8
	December 2023 Projections	2.6	1.4	1.8	1.9
Philadelphia Fed Survey of Professional Forecasters	February 2023 Projections	1.3	1.4	2.2	1.5
	May 2023 Projections	1.3	1.0	2.4	2.3
	August 2023 Projections	2.1	1.3	2.1	1.7
	December 2023 Projections	2.4	1.7	1.8	2.1

Inflation and home price appreciation are driving affordability crisis

While unemployment is low and GDP growth appears robust, prices and particularly the cost of housing have increased dramatically over the past few years, causing many individuals and families to face tightening budgets. Following the peak of the Covid-19 recession, inflation rose to over 8 percent, its highest rate since 1980. This increase in inflation was due in large part to shortages in the supply of goods stemming from the Covid-19 recession, as well as the war in Ukraine, which has caused supply shortages of resources including oil and wheat. Perhaps even more dramatically, home prices in the US have on average seen an over 40 percent increase since the start of the pandemic — an increase in size rivaling the run-up of home prices seen leading into the Great Recession.

Figure 2.2. Year-over-year change in the consumer price index, i.e. inflation

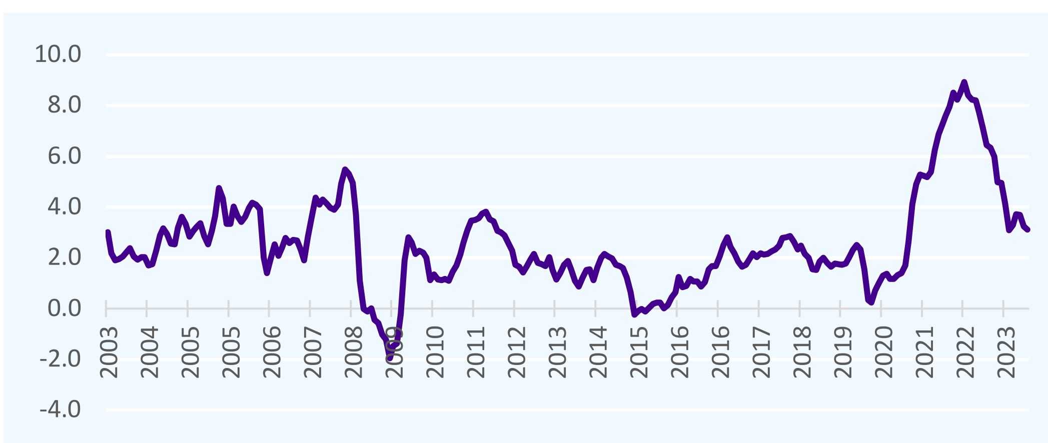
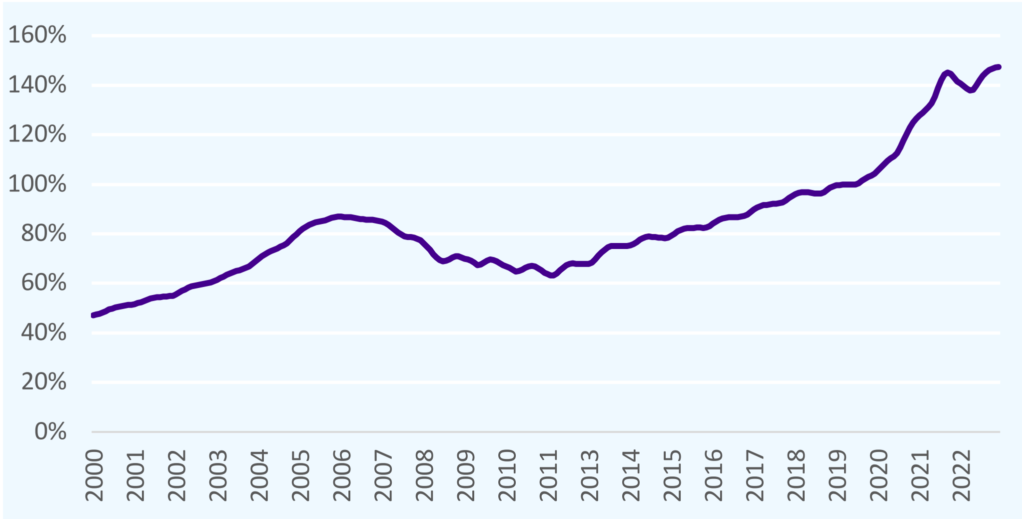
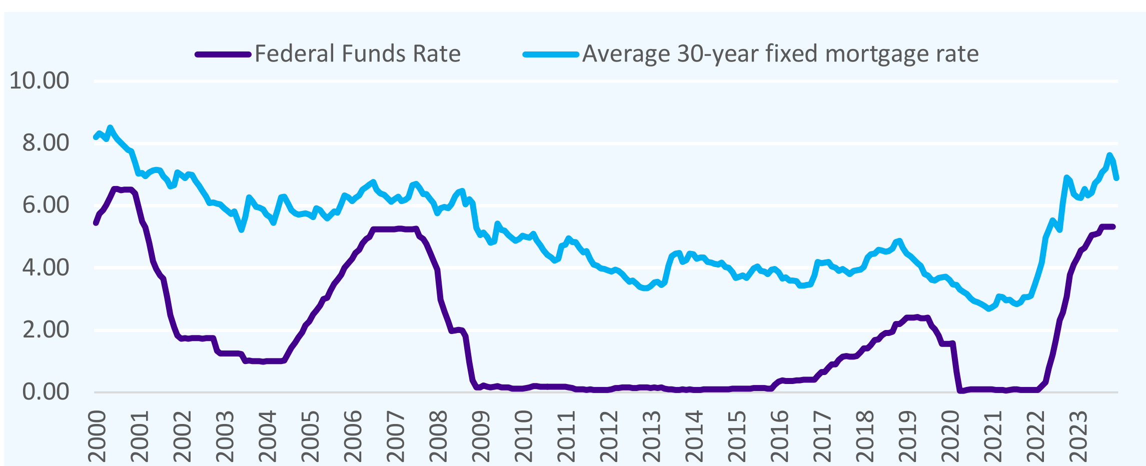


Figure 2.3. Case-Shiller home price index, normalized to 100% in January 2020.



The increase in prices over the past few years has been addressed with monetary policy — increasing the Federal Funds rate — to slow economic activity and bring prices back down. Over 2022 and 2023, monetary policy makers increased the Federal Funds rate from near zero to over 5 percent — a large and rapid hike in rates. This interest rate hike has also pushed up other interest rates in the economy, including mortgage rates, increasing the cost of housing further for families. As of November 2023, inflation has cooled significantly, indicating that monetary policy has served its purpose in cooling prices. However, home prices have remained at historic highs despite the large increase in mortgage rates (which would typically push home prices down), indicating that housing is more expensive than it has ever been in history.

Figure 2.4. Federal funds interest rate and mortgage rates since 2000.



Robust fiscal policy supported rapid recovery from Covid-19

Finally, the Covid-19 pandemic also inspired the largest Federal fiscal spending seen since WWII. Current federal fiscal spending on pandemic aid is estimated to be about $4.6 trillion dollars, over 20 percent of US GDP. The expansion of unemployment insurance, investment in public health resources, and aid to states and municipalities were of huge consequence in helping individuals and communities safely and securely weather the pandemic. Though millions of lives were lost, it is likely that federal fiscal spending over the pandemic saved millions more and created the conditions for a rapid return to robust economic activity and stability.

The success of the large fiscal spending during Covid-19 demonstrates the importance of a robust social safety net for improving economic functioning. Investment in economic security and public health are not only helpful for the individuals that they serve but important pieces of securing a strong and resilient economy.

One area of concern remains the size of US Federal debt, which has grown larger than annual GDP in the past 10 years and shows little sign of slowing. Sustaining robust fiscal spending at the Federal level will require increased taxation to provide new revenue. Building a sound foundation of revenue is of key importance to the health of the US economy over the coming years as it will be important for maintaining services and having the needed resources for any future emergencies.

Figure 2.5. Total government expenditures in billions of US dollars.

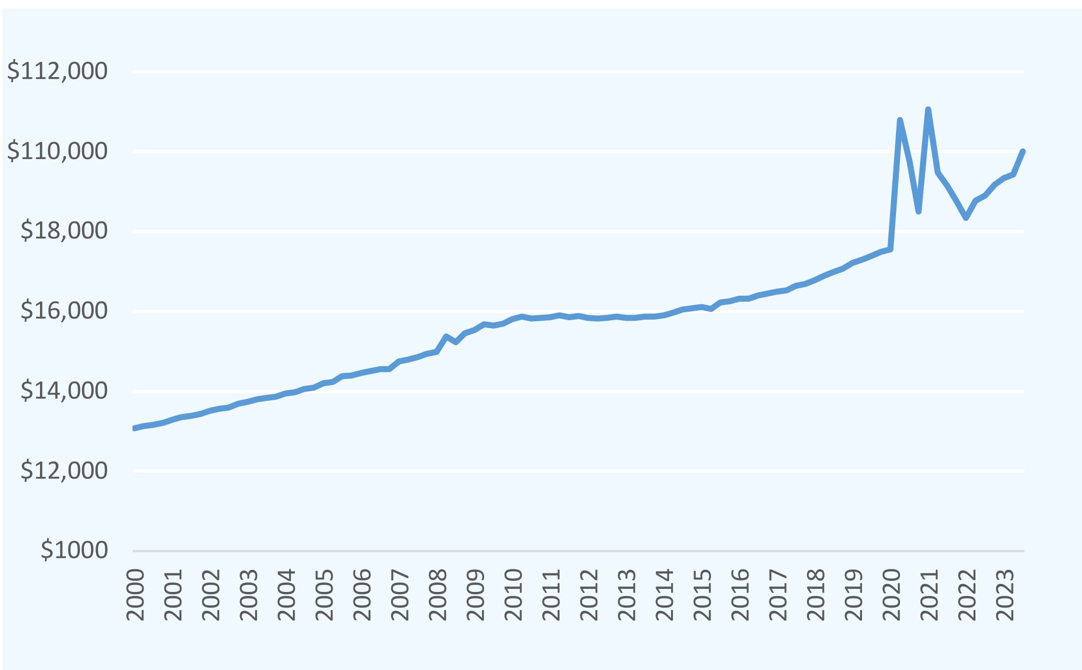
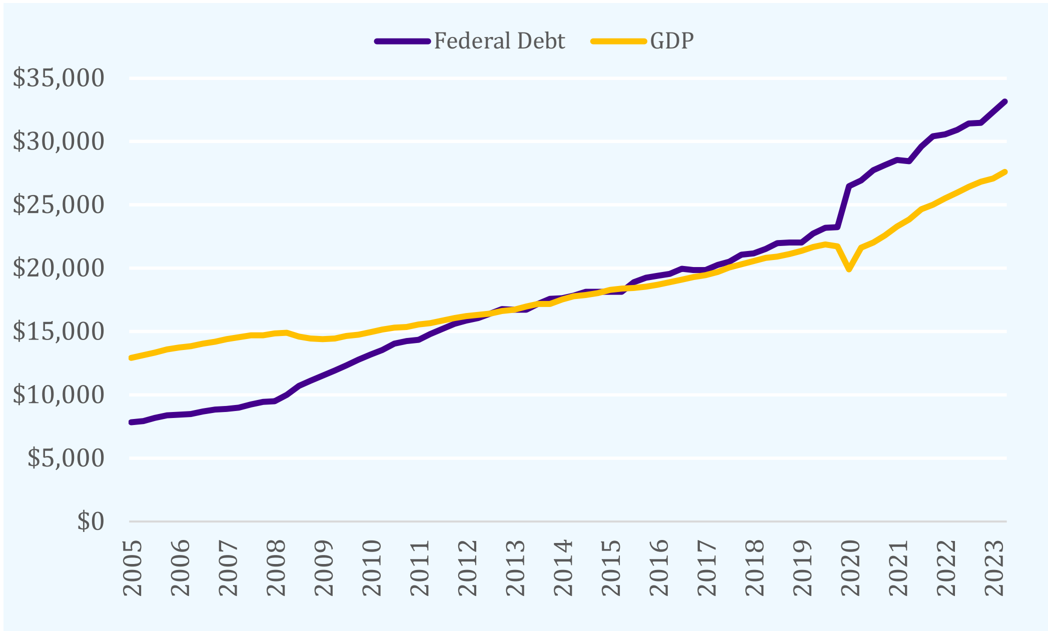


Figure 2.6. Nominal GDP and nominal federal debt level (billions US dollars)



III. State Economic Outlook

Key Takeaways

- New York State is home to one of the largest, most thriving economies in the world; as of 2022, New York's gross domestic product was over $2 trillion, rivaling the entire economy of Canada and larger than the economies of Australia and South Korea.

- Despite New York's aggregate economic strength, New York faces real economic challenges, including a decrease in total employment, climbing poverty rates, and extreme income inequality:

    - New York's total employment is around 9.72 million people — a decline of 120,000 workers since the eve of the pandemic.

    - The past three years have seen a rise in the poverty rate in New York to 14 percent.

    - The average income of the top 1 percent of earners in New York State is about $2.6 million in annual earnings, compared to just over $49,000 for the bottom 90 percent.

Introduction

New York State is home to one of the largest, most thriving economies in the world. As of 2022, New York's gross domestic product was over $2 trillion, rivaling the size of the entire economy of Canada and definitively larger than the economies of Australia and South Korea. Though both Texas and California boast larger overall economies, New York has the highest gross domestic product on a per capita basis of any US state — surpassing $100,000 per resident in 2022.

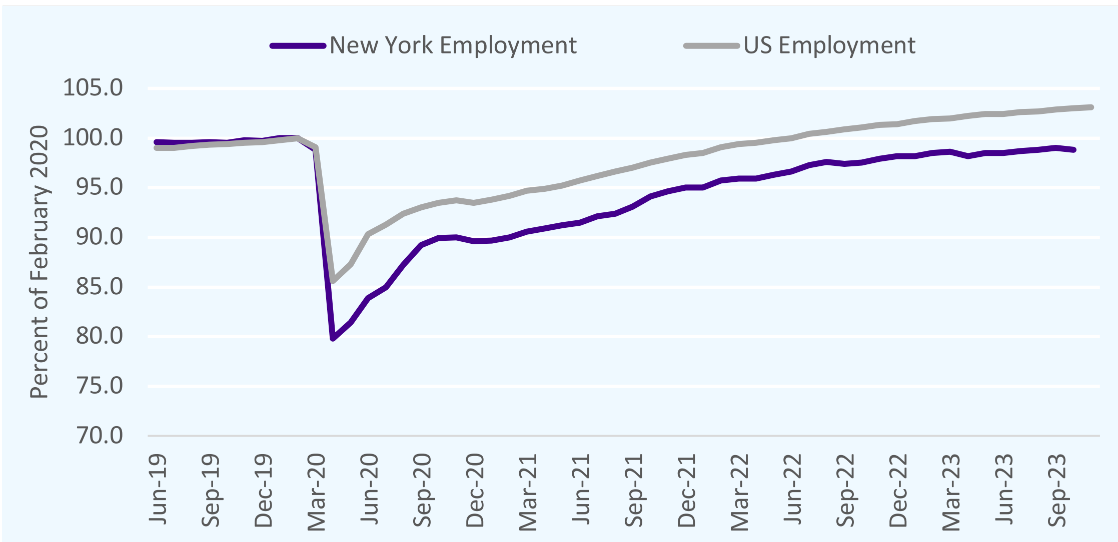
Despite New York's aggregate economic strength, the state faces real economic challenges. First, the Covid-19 pandemic induced a sustained decrease in total employment in the State relative to the rest of the country — in other words, while the rest of the United States has recovered and surpassed pre-pandemic employment, New York remains over 100,000 jobs below its pre-pandemic level as of the end of 2023. Second, poverty rates, which reached a 30-year low in 2020, have been climbing since the pandemic — a sign that New York faces real challenges in meeting the needs of its population. And third, New York's income inequality remains amongst the highest in the country.

A note on definitions. This report uses the terms "economy" and "labor market." By "labor market," the report refers to the wages and employment levels of the State. Discussion of the labor market includes the strength of the workforce as well as the resilience of jobs and employment opportunities. By the term "economy," the report refers to all economic activity taking place in New York, including the labor market, as well as consumption, total economic production, and costs to living such as housing and childcare.

New York's labor market has seen sustained deterioration since the start of Covid-19

In March of 2020, New York's employment (the total number of jobs based in the state) dropped by over 20 percent in a single month. Compared to the US as a whole — which saw a 15 percent decline in employment — New York suffered a worse shock to its labor market, while simultaneously serving as the epicenter of Covid-19 cases in the US. While US employment has surpassed pre-pandemic employment levels, New York's total employment — 9.84 million people in February 2020 — now hovers around 9.72 million people — a decline of 120,000 workers since the eve of the pandemic.

Figure 3.1. New York and US employment as a percent of their February 2020 levels.



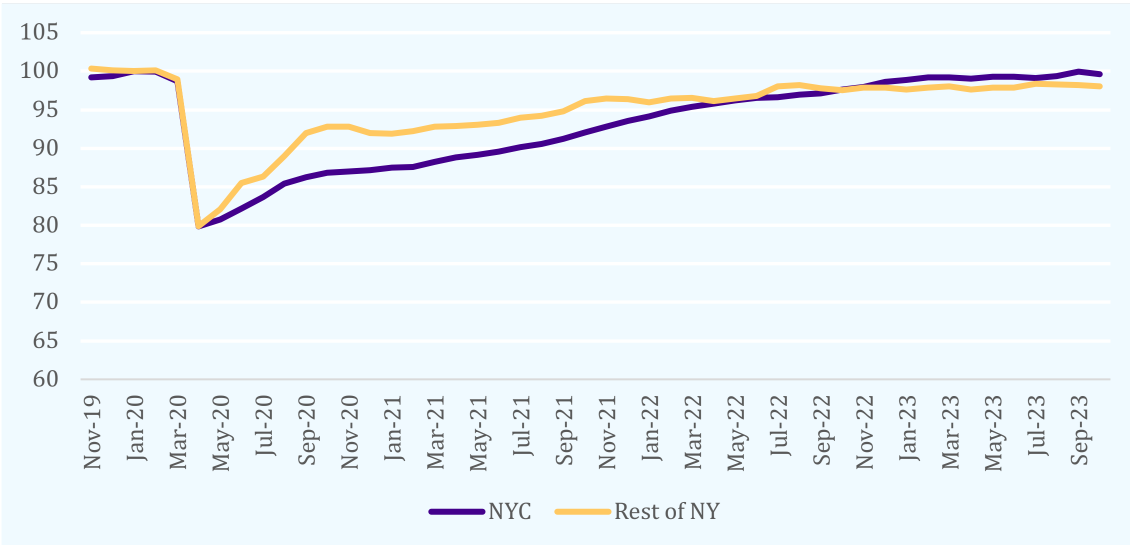
Note: Data from the Bureau of Labor Statistics and downloaded from FRED.

Seen relative to the US labor market, New York's employment level has fallen by four percentage points since the start of the Covid-19 pandemic and has shown no signs of recovery. This sustained deterioration in the size of the labor market following the 2020 Covid-19 recession indicates a potentially permanent shift towards a smaller labor market and economy.

New York's recovery has been strongest in New York City and the Hudson Valley

While overall employment has not fully recovered throughout the state, as of September 2023, employment in New York City had recovered to February 2020 levels. Employment in the rest of the state remains just below a full recovery, at 98 percent of the employment level of February 2020.

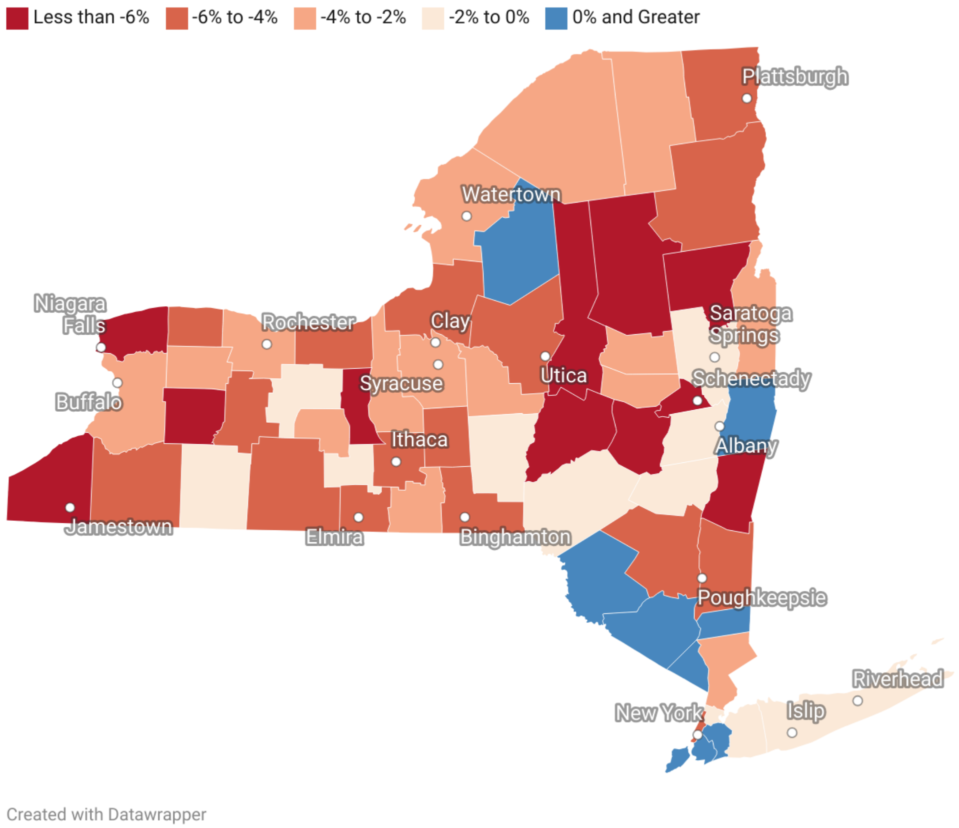
Figure 3.2. Employment relative to February 2020 in NYC and the rest of the State



Note: Data from the Bureau of Labor Statistics and downloaded from FRED.

Data at the county level reveal stark trends in employment across the state. Between 2019 and 2023, almost every county in the state experienced a sustained decline in employment. The only exceptions to this pattern are concentrated in New York City (excluding Manhattan and the Bronx) and parts of the Hudson Valley.

Figure 3.3. Change in employment by county between 2019 and 2023.



Note: Data from the Quarterly Census of Employment and Wages.

Table 3.1. List of counties that experienced positive employment growth between 2019 and 2023.

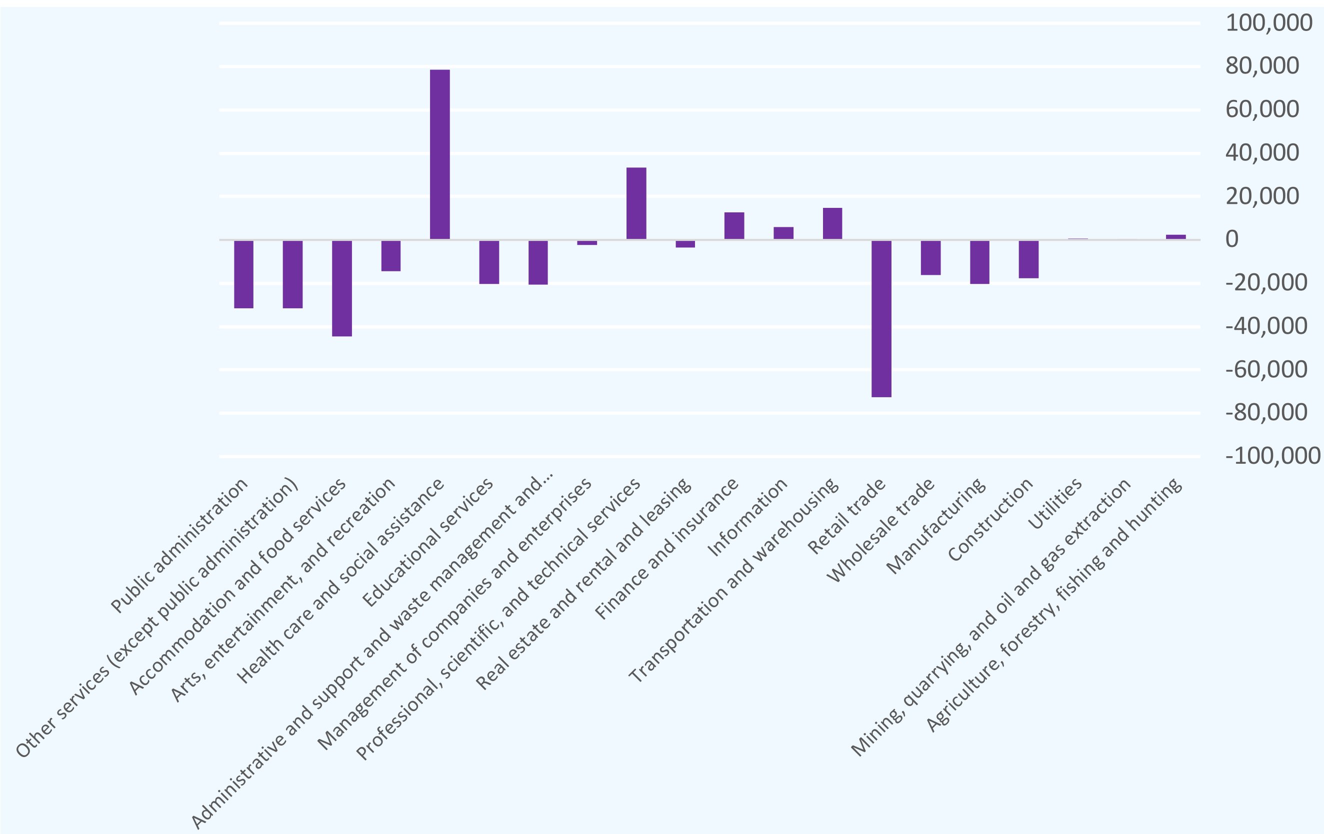
County	Region	Employment 2019	Employment 2023	Change	Pct. Change
Kings County (Brooklyn)	New York City	795,104	861,296	66,193	8.3
Lewis County	North Country	6,488	6,791	304	4.7
Richmond County (Staten Island)	New York City	128,053	132,077	4,024	3.1
Orange County	Hudson Valley	148,273	152,190	3,917	2.6
Putnam County	Hudson Valley	26,343	27,006	663	2.5
Rockland County	Hudson Valley	129,857	133,042	3,185	2.5
Rensselaer County	Capital District	54,484	55,721	1,237	2.3
Sullivan County	Hudson Valley	29,392	29,781	389	1.3
Queens County	New York City	717,786	726,945	9,159	1.3

Note: Data from the Quarterly Census of Employment and Wages.

Retail and Accommodation & Food Services see large declines, while Healthcare & Social Assistance sees growth

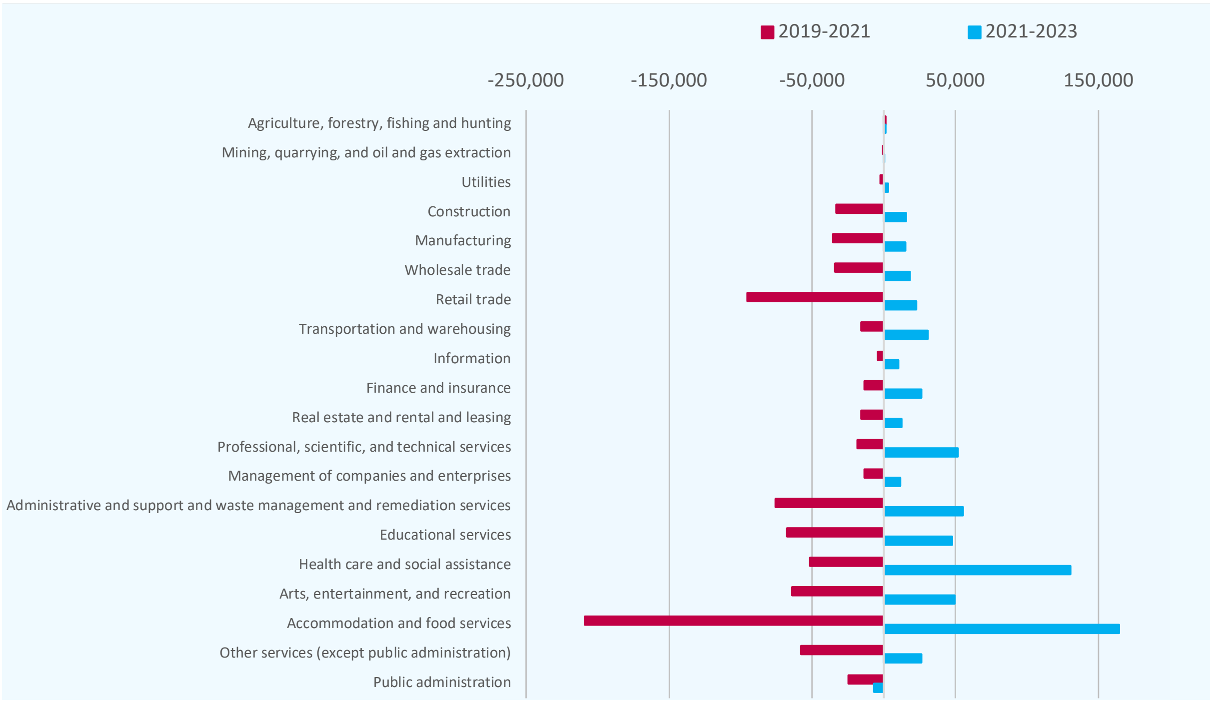
Data at the sectoral level shed light on which types of employment have grown or declined in New York since the start of the pandemic: New York has seen an increase of almost 80,000 jobs in Healthcare & Social Assistance and an almost equally large decline in retail trade. The other sectors that saw growth were mainly those that require high skills and high levels of education, such as professional services and finance. During the first part of the pandemic, between 2019 and 2021, New York's labor market saw large declines in employment across all sectors of the economy (except Agriculture, Forestry, Fishing and Hunting, which make up a very small proportion of the state labor force).

Figure 3.4. Change in employment by industry between 2019 and 2023.



Note: Data from the Quarterly Census of Employment and Wages.

Figure 3.5. Change in employment by industry and by phase of 2020 recession



Note: Data from the Quarterly Census of Employment and Wages.

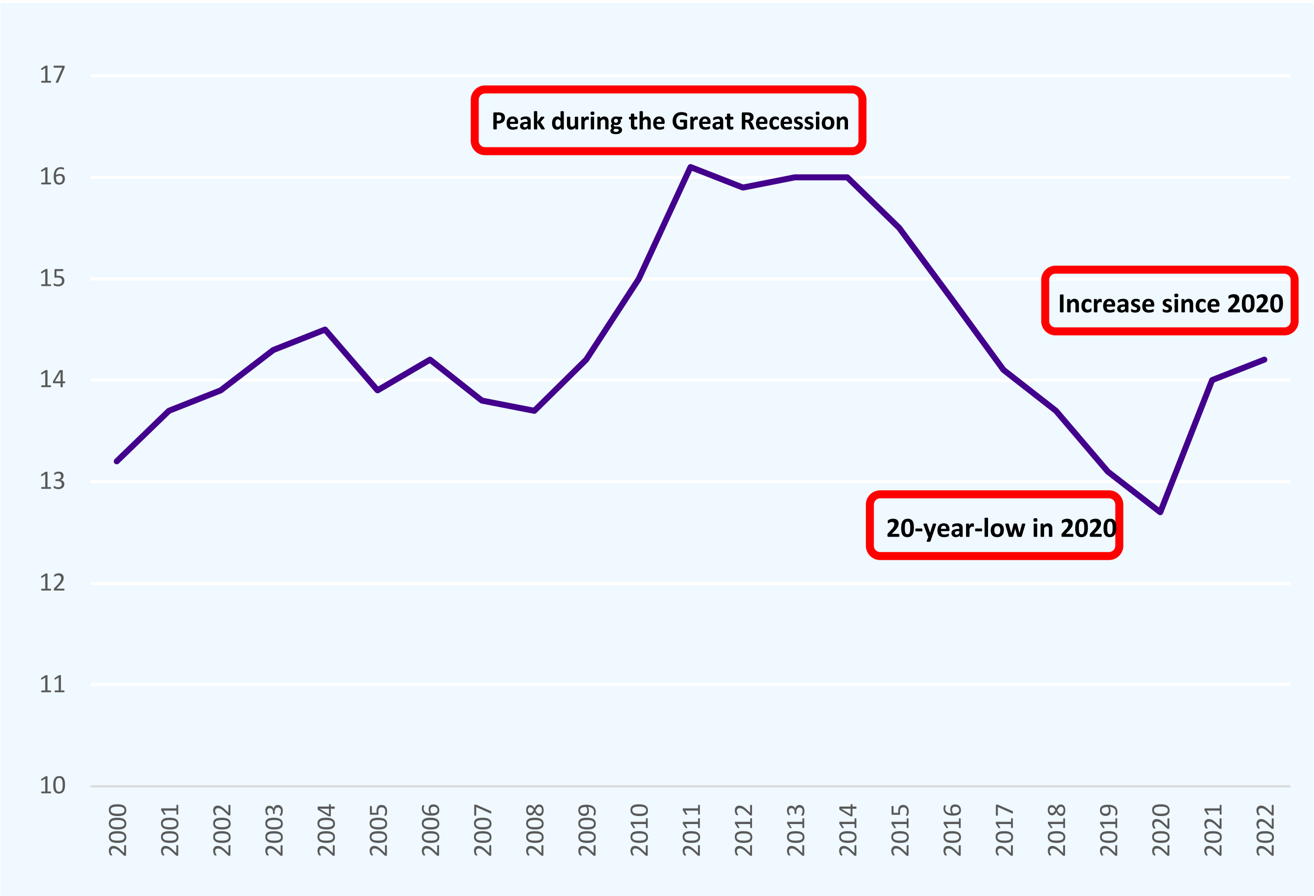
The sectors that saw the largest declines in employment were Retail Trade and Accommodation & Food Services. Retail Trade saw a reduction of almost 100,000 jobs, whereas Accommodation & Food Services saw a reduction of over 200,000 jobs. While Accommodation & Food Services has seen a large resurgence in jobs, nearing its 2019 level, Retail Trade has not recovered nearly as well, reflecting the shift to online retail across the world.

Most sectors have not recovered the jobs lost during the first two years of the pandemic. The sectors that have seen net growth since 2019 are Professional, Scientific & Technical Services, Healthcare & Social Assistance, Information, Transportation & Warehousing, and Finance & Insurance. Overall, these are sectors that have relatively high paid employees and require a relatively high level of skill. Increases to inequality resulting from these changes will be explored in a later section.

Poverty rates in NY have climbed since the pandemic

In 2020, poverty rates hit a 20 year low in New York, due in part to large relief spending during the pandemic and in part to the economy continuing to grow after the 2008 Recession. However, the past three years have seen a rise in the poverty rate in New York to 14 percent.

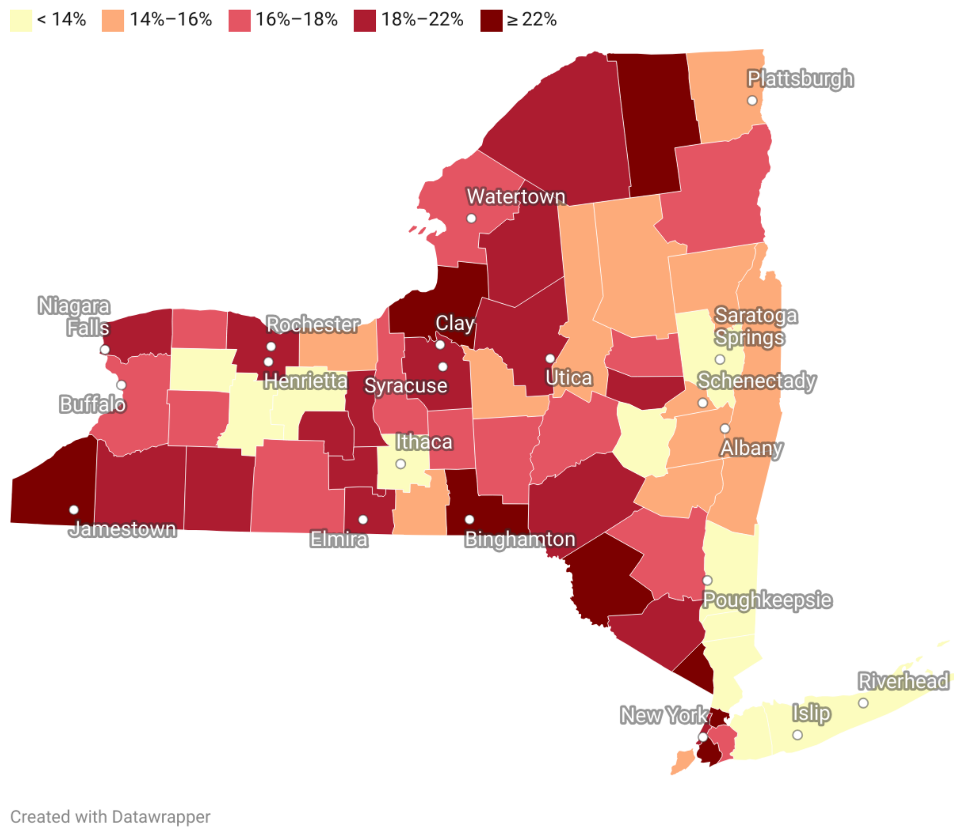
Figure 3.6. Percent living below national poverty line climbing in NY since 2020.



Note: Data from the U.S. Census Bureau and downloaded from FRED.

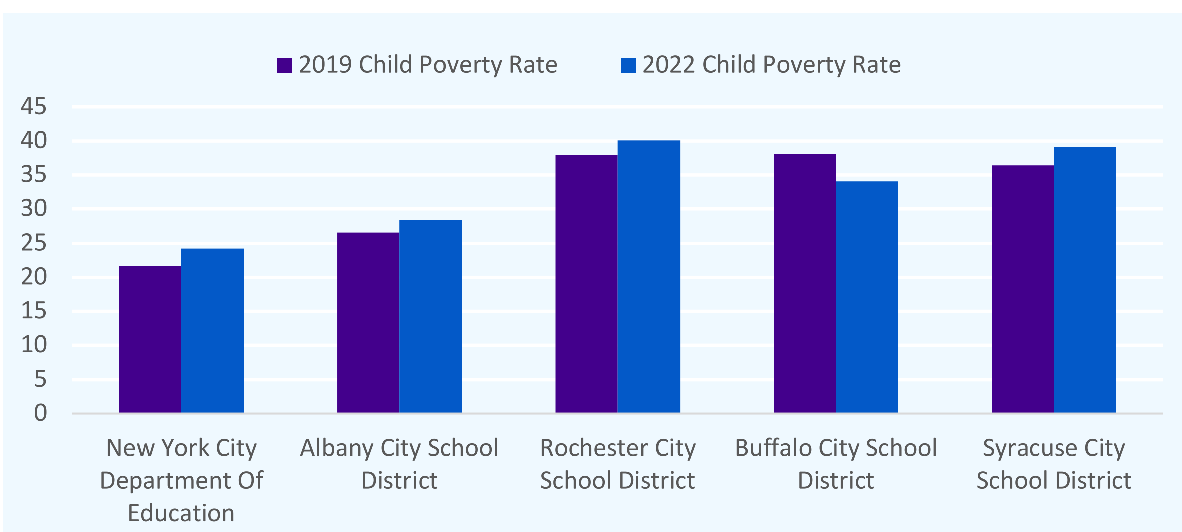
Rates of child poverty in New York remain higher on average than the general poverty rate and vary dramatically across the state. Some of the highest child poverty rates are seen in New York City, by far the largest city in New York. Examining child poverty rates by school district shows that all five of the largest school districts in New York have child poverty rates over 25 percent, with Rochester having a rate of 40 percent in the latest year of data (2022). In four of the five largest cities, child poverty increased between 2019 and 2022, indicating decaying economic security in all major urban areas in the state.

Figure 3.7. Percent children (under 18) living below national poverty line by county, 2022



Note: Data from the U.S. Census Bureau.

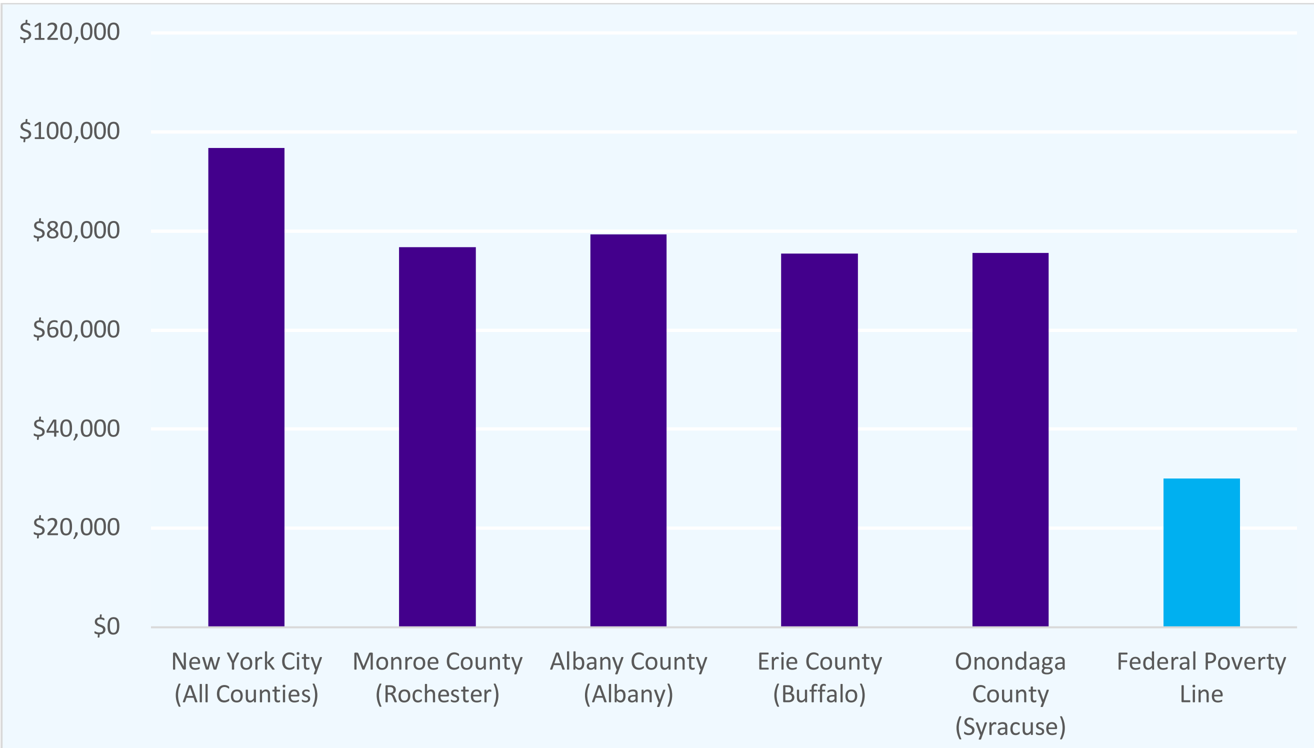
Figure 3.8. Percent children (under 18) living below national poverty line in five of the largest NY school districts, 2022



Note: Data from the U.S. Census Bureau.

It is important to note that poverty rates as measures by the Federal Poverty Line dramatically underestimate the number of families facing serious financial strain. Living wage estimates produced by MIT researchers show that the financial needs of a family of four living in any of the largest five cities in New York far exceed the income level defined by the Federal Poverty Line. That is, all of the statistics on poverty in New York severely undercount the number of families and individuals facing serious financial strain.

Figure 3.9. Living wage for a family of four compared to the Federal Poverty Line

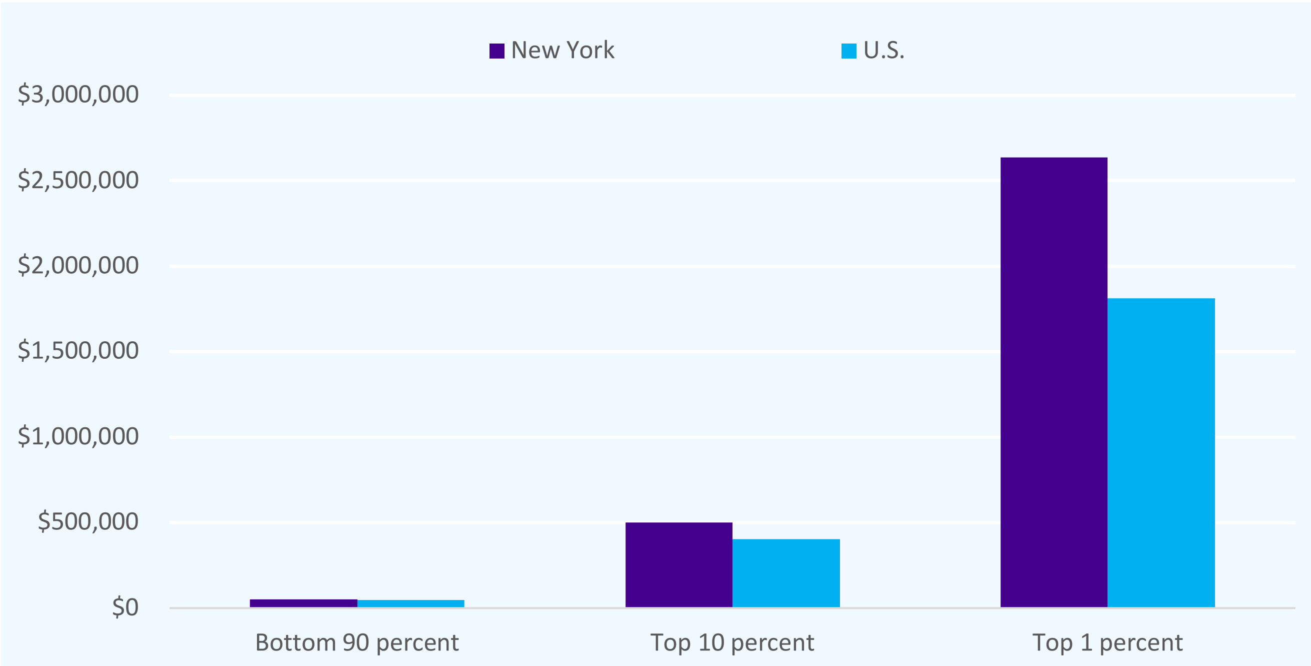


Source: Glasmeier, Amy K. Living Wage Calculator. 2023. Massachusetts Institute of Technology. https://livingwage.mit.edu

Income inequality has been on the rise since 2020 in NY, despite compression in wages

Income inequality is high throughout New York State, and particularly in New York City, which is home to many extremely high earners. The average income of the top 1 percent of earners in New York State is about $2.6 million in annual earnings, compared to just over $49,000 for the bottom 90 percent.

Figure 3.10. Average income by income percentile



Note: IRS Statistics of Income, 2020.

While earners making over $1 million in annual income make up less than 2 percent of tax filers in New York, they take in 35 percent of the income generated in the state. Those making over $10 million annually — less than 0.2 percent of the tax base — earn 18 percent of the total income generated in the state.

Figure 3.11. Share of income earned by households

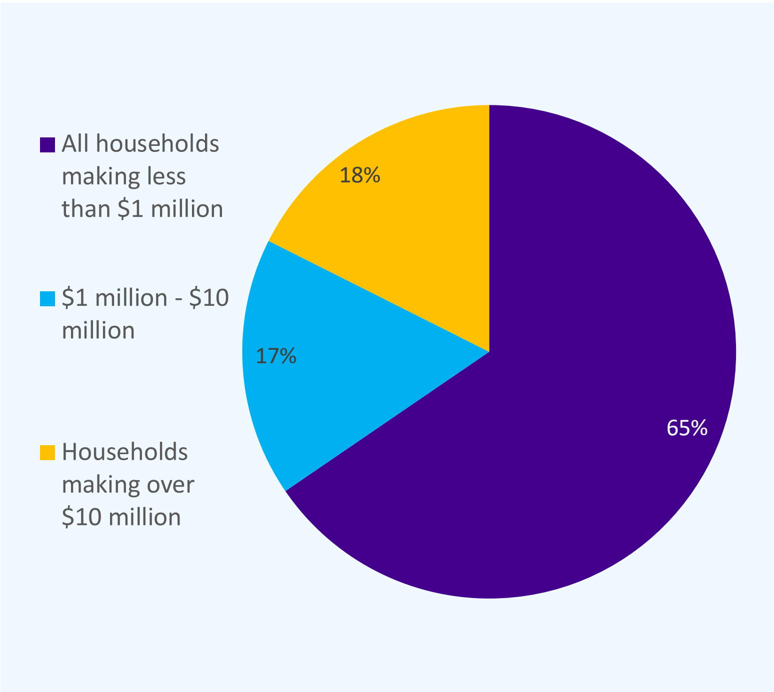
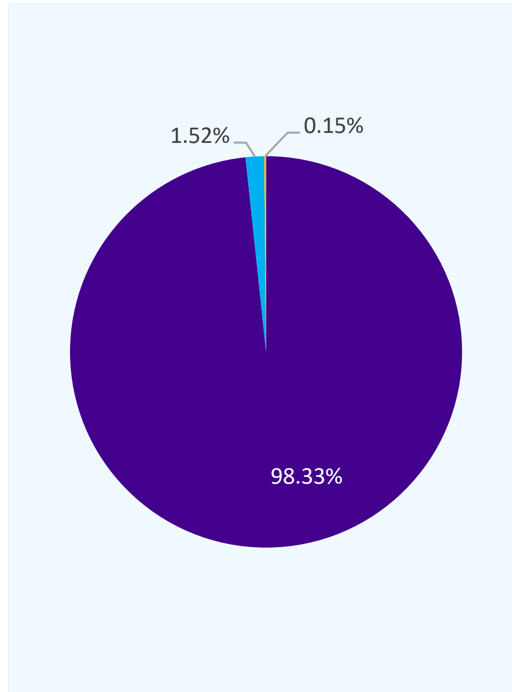


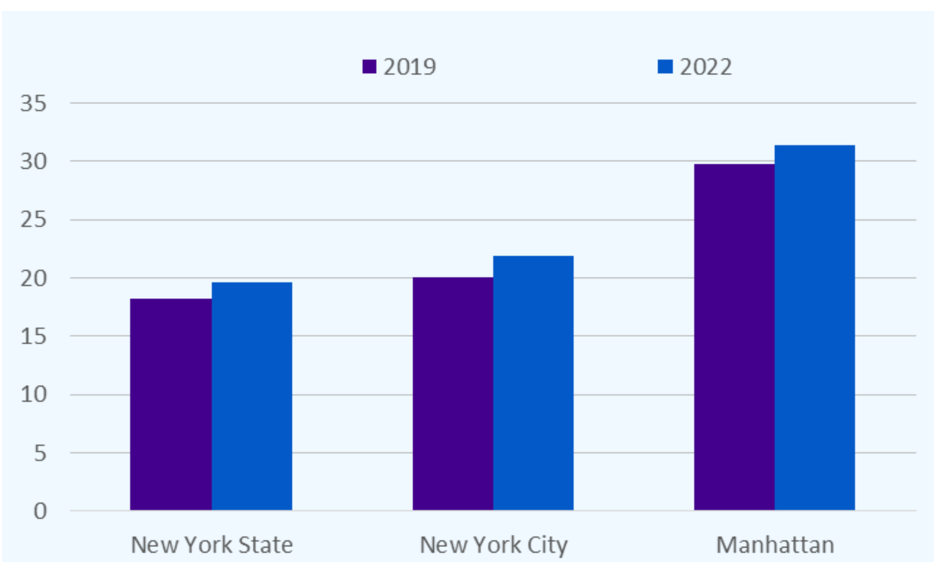
Figure 3.12. Household share of State's population



Note: Data from the NYS Department of Taxation and Finance, 2021 tax filings.

Income inequality increased during the Covid pandemic across New York State. The State's income inequality is driven by the unequal distribution of income in New York City, especially the borough of Manhattan. The top 20 percent of earners command higher wages in New York City, taking in $440,200 on average in 2022, compared with $326,700 statewide. Taken together, the wages of the top 20 percent were 20 times higher than those of the bottom 20 percent statewide in 2022, and 31 times higher in Manhattan. Between 2019 and 2022, this inequality ratio rose across the State and City.

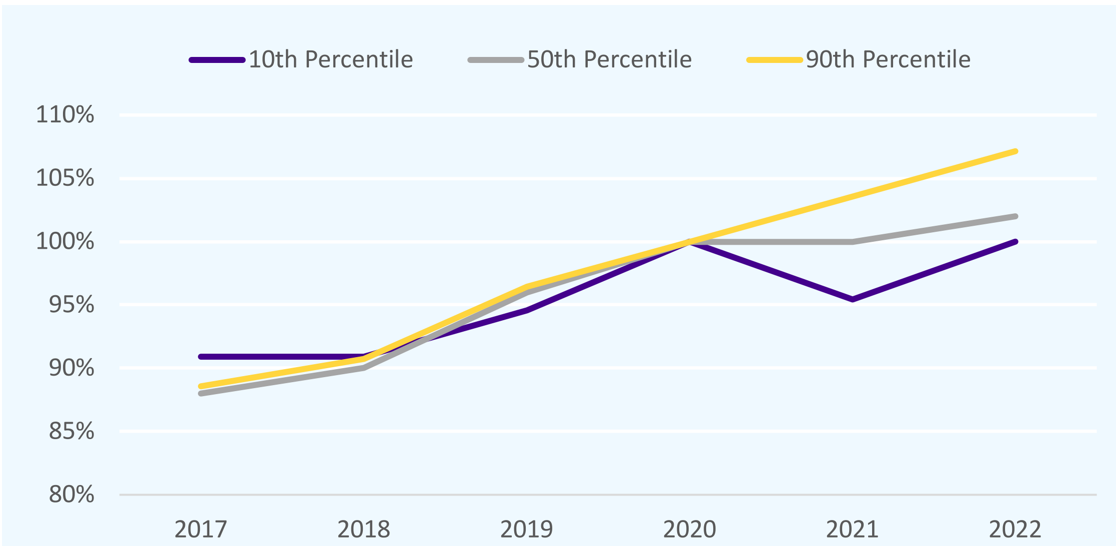
Figure 3.13. Ratio of average income for the top 20% of earners to average income for the bottom 20% of earners



Note: FPI analysis of American Community Survey Public Use Microdata Samples, 1-year files, 2019 and 2022

Income inequality has increased statewide since the pandemic. Comparing the growth in annual income in the 90th percentile to the growth in income for the 50th and 10th percentiles demonstrates that income inequality in New York has increased since 2020. While the 90th percentile of income earners saw growth of over 7 percent between 2020 and 2022, the bottom 10th percentile saw no growth at all, and the 50th percentile of income earners saw just 2 percent growth.

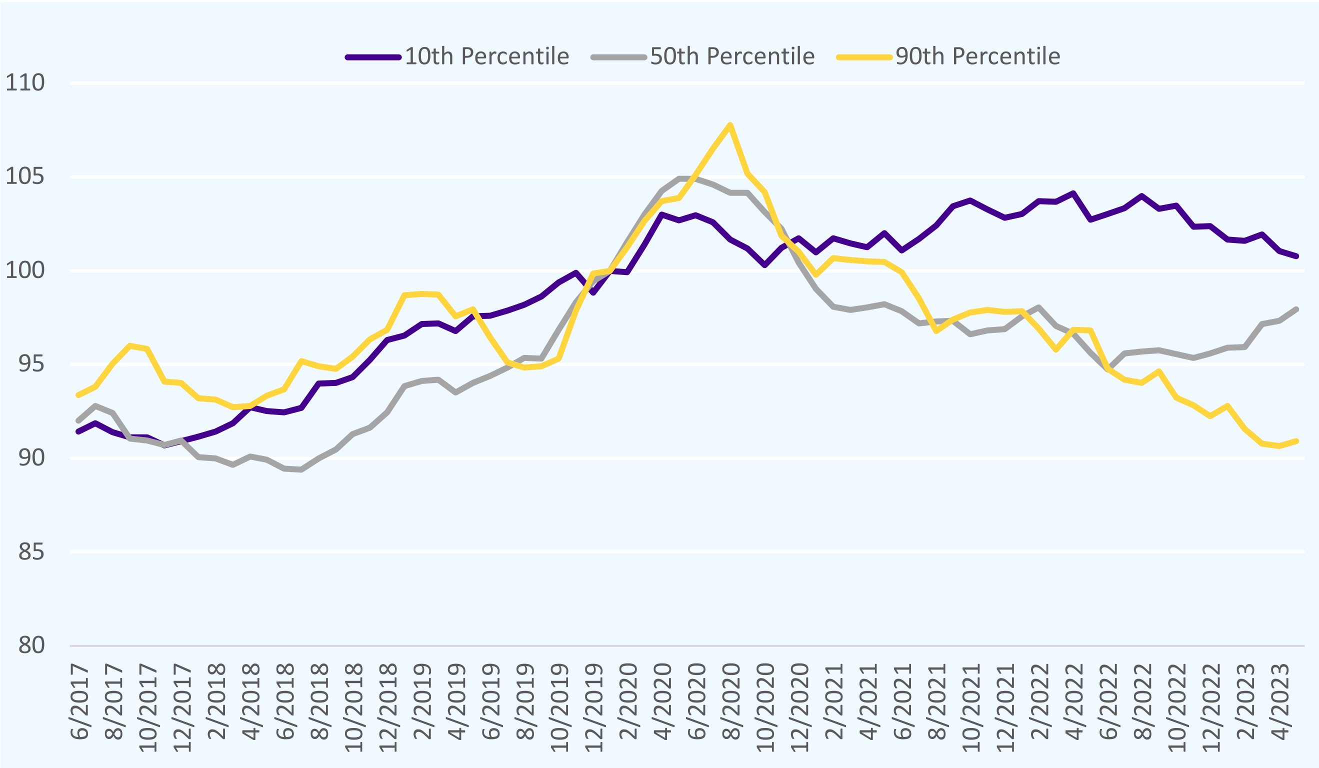
Figure 3.14. Income relative to level in 2020 for individuals in NY by income percentile



Source: American Community Survey and authors' calculations.

In contrast, as with elsewhere in the country, New York has seen some compression in hourly wages since the start of Covid-19 in 2020. While real wages at the 10th percentile of the wage distribution have stayed largely steady between 2020 and 2023, real wages for the 90th percentile of the wage distribution have seen a decline of ten percent. Median real wages have also seen a decline of a few percent since 2020. This compression in real wages across the wage distribution comes from the fact that while inflation has been high, real wages for high earners have declined while real wages have remained steady for low wage jobs. Thus, overall, wage compression has not been attributable to rising wages — simply a staving off of inflation-induced real wage reduction in low-wage jobs.

Figure 3.15. Inequality in real wages in NY has compressed since 2020



Note: Data from the Current Population Survey and authors' calculations.

Unfortunately, as was already demonstrated, this compression in the wage distribution has not translated into compression in the distribution of annual incomes. To the contrary, there has been an increase in income inequality in New York due to increases in non-wage income for high earners in the state.

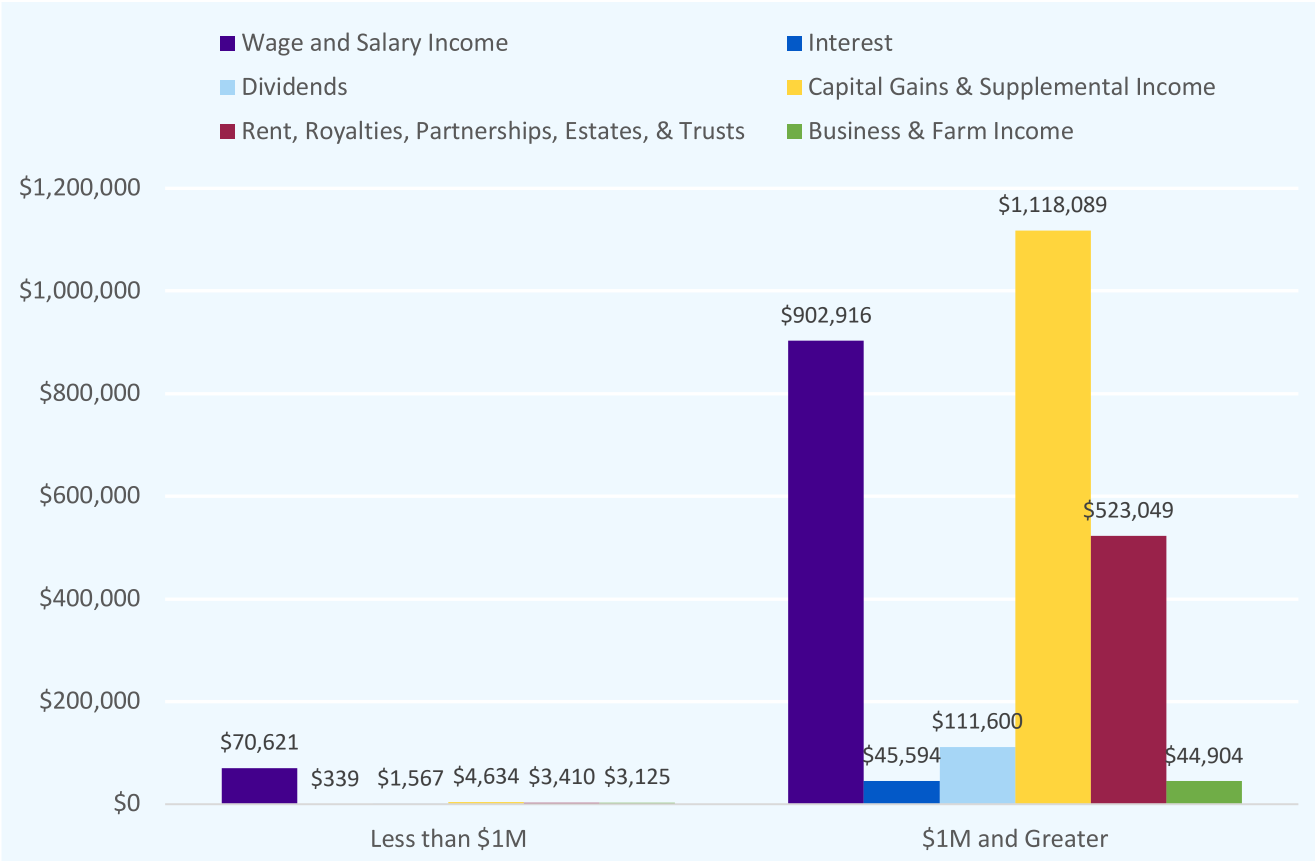
Finally, New York continues to be home for many of the wealthiest people in the world, with over 28,000 tax filers owning wealth in excess of $30 million and over 15,000 tax filers owning wealth in excess of $100 million.[2] With such astounding wealth, these individuals are able to earn a large amount of income from capital gains and other investment income. Tax filers reporting earnings of over $1 million annually report an average of over $1 million in income from capital gains and supplemental income, and another $500,000 from rent, royalties, partnerships, estates, and trusts. Those reporting less than $1 million in annual income report an average of less than $10,000 from these combined sources of investment income.

Table 3.2. Number of New York Tax Filers by Net Wealth

	Number of New York Tax Filers	Share of New York Tax Filers
$5.45 million or more (IRS data)	56,200	0.79%
Over $30 million (ITEP estimate)	28,300	0.40%
Over $100 million (ITEP estimate)	15,300	0.22%
Over $1 billion (ITEP estimate)	78	0.0011%

Note: Data from the IRS; FPI analysis of data from the Institute on Taxation and Economic Policy and NYS Department of Taxation and Finance

Figure 3.16. Average NY household annual earnings by type and income group.



Note: Data from the NYS Department of Taxation and Finance, 2021 tax filings.