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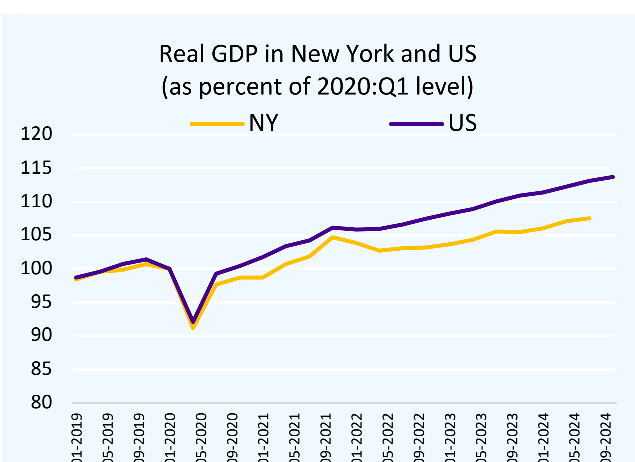
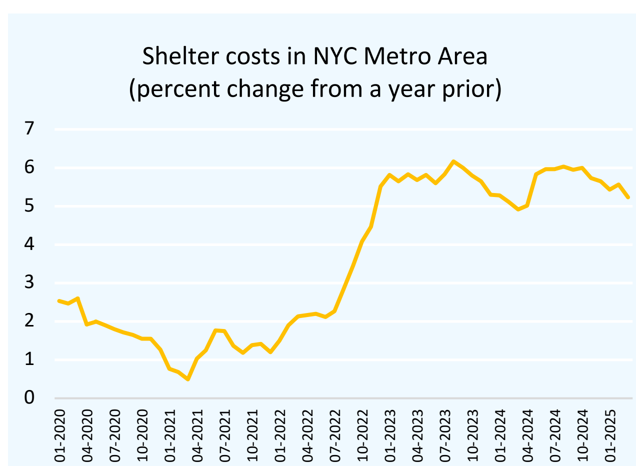
Has New York Already Entered Stagflation?

Executive Summary

Stagflation is the deadly combination of low growth and high inflation. With the implementation of sweeping and high tariffs by the federal government, most economists and forecasters currently predict something resembling “stagflation” on the Unites States’ economic horizon. But New York may have already entered a period of stagflation: New York’s economy has recovered the jobs lost during the Covid-19 pandemic, but lags the economic growth seen in the rest of the country.

- New York was one of the five slowest growing states in the country from 2020-2024, with an annualized growth rate of 1.6 percent. Peer states such as New Jersey, California, and Massachusetts all saw annual growth rates above 2 percent.
- Inflation in New York appears to be stickier than inflation in the US as a whole: while inflation has lowered to about 2.6 percent nation-wide, inflation in the New York City metro area has hovered around 4 percent for the past year, driven by the perpetually increasing cost of housing.
- In 2024 New York’s housing costs continued to climb at a steady 5.6 percent rate annually, while shelter costs around the rest of the country have seen slower price increases over the past year and are now at an inflation rate of 4 percent.
- Cost-of-living pressures are exacerbated by the decline in middle-class jobs and the growth in high-wage jobs in finance and technology, which put upward price pressure on the local economy. Over 2019-2024, the majority of employment growth in New York was in industries with high average wages (over $100,000 per year in 2019) while the majority of job losses were in industries with “middle class” wages (between $40,000 and $100,000 per year).





Introduction

With the implementation by the federal government of sweeping and high tariffs, most economists and forecasters currently predict something resembling "stagflation" on the Unites States' economic horizon. Stagflation is the deadly combination of low growth and high inflation. This combination has proved difficult to manage from a policy standpoint; tools to combat stagnation can produce heightened inflation and tools to contain inflation often assert downward pressure on economic growth.

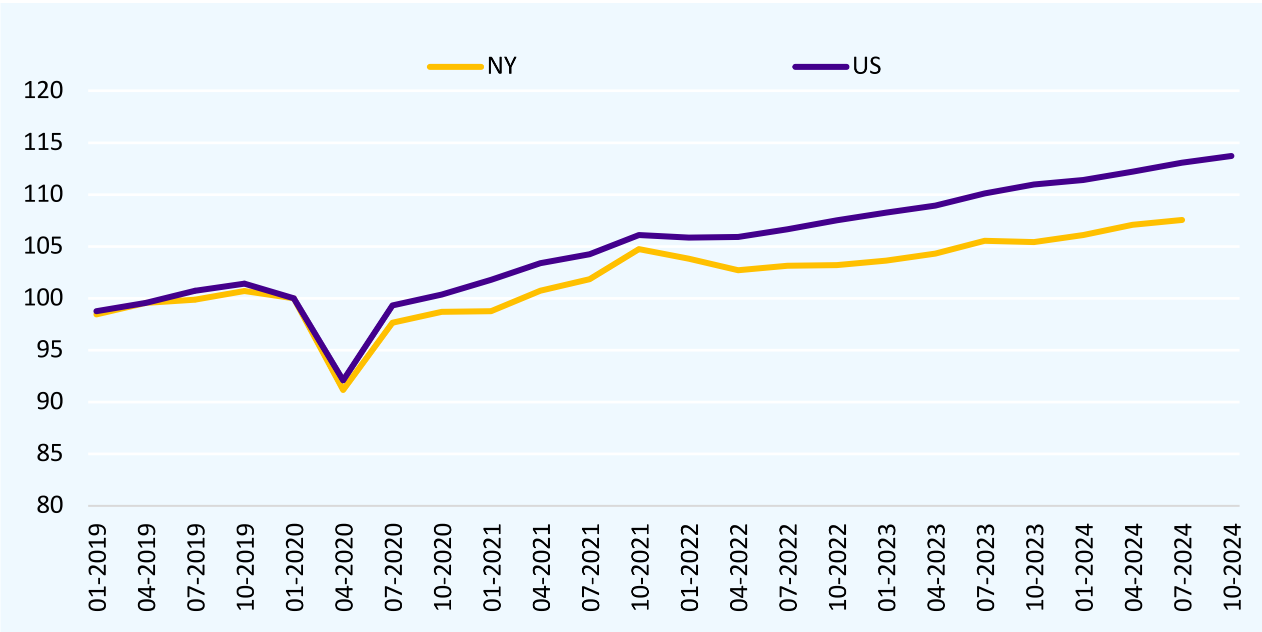
New York's economy has recovered the jobs lost during the Covid-19 pandemic, but lags the economic growth seen in the rest of the country. Simultaneously, inflation in New York appears to be stickier than inflation in the US as a whole; while inflation has lowered to about 2.6 percent nation-wide, inflation in the New York City metro area has hovered around 4 percent for the past year. New York's relatively high inflation rate has been driven by high rates of shelter and rental inflation, which have persisted into 2025, causing many households to face serious housing cost burden.

As the country heads into uncertain territory under the policies of the Trump administration, the consequences for New York of continuing in this economic direction demand urgent attention: New York must find a way to support middle-class job growth, stimulate broadly shared economic growth, and enact bold policies that alleviate the cost-of-living burden faced by so many. A policy agenda that meets the moment will require reforms to housing policy, childcare policy, labor policy, and tax policy; each of these must be designed to promote statewide economic growth and opportunity, particularly for the middle and working classes. Without substantial policy reforms, New York risks continued sclerotic growth and even more severe economic consequences over the next four years.

New York's slow economic growth

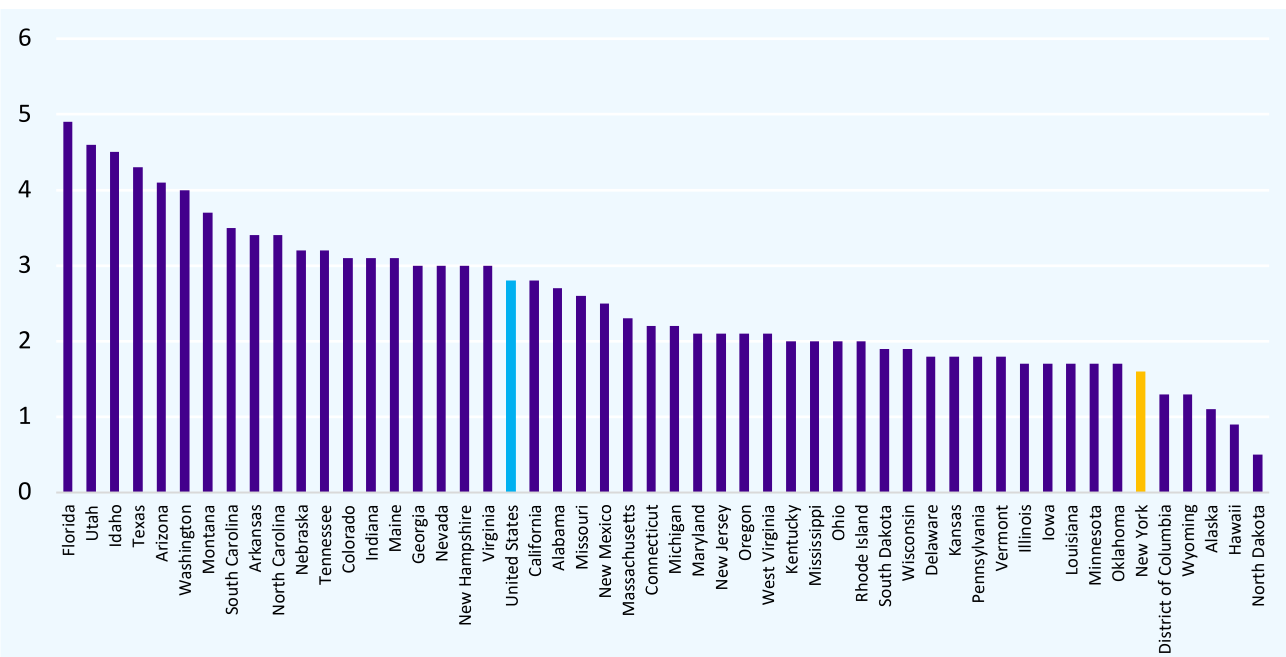
The past five years have marked an unprecedented period of volatility and uncertainty. Despite these challenges, the U.S. economy has been remarkably resilient from a macroeconomic perspective. Total employment exceeds pre-pandemic levels by 4.5 percent and real gross domestic product—a measure of total produced output in the economy—has grown by nearly 14 percent since the start of Covid-19.

Figure 1. Real GDP in New York and the US, as percent of 2020:Q1 level



Note: Data from the Bureau of Economic Analysis.

Figure 2. Real GDP annualized growth rate between 2020:Q1 and 2024:Q3



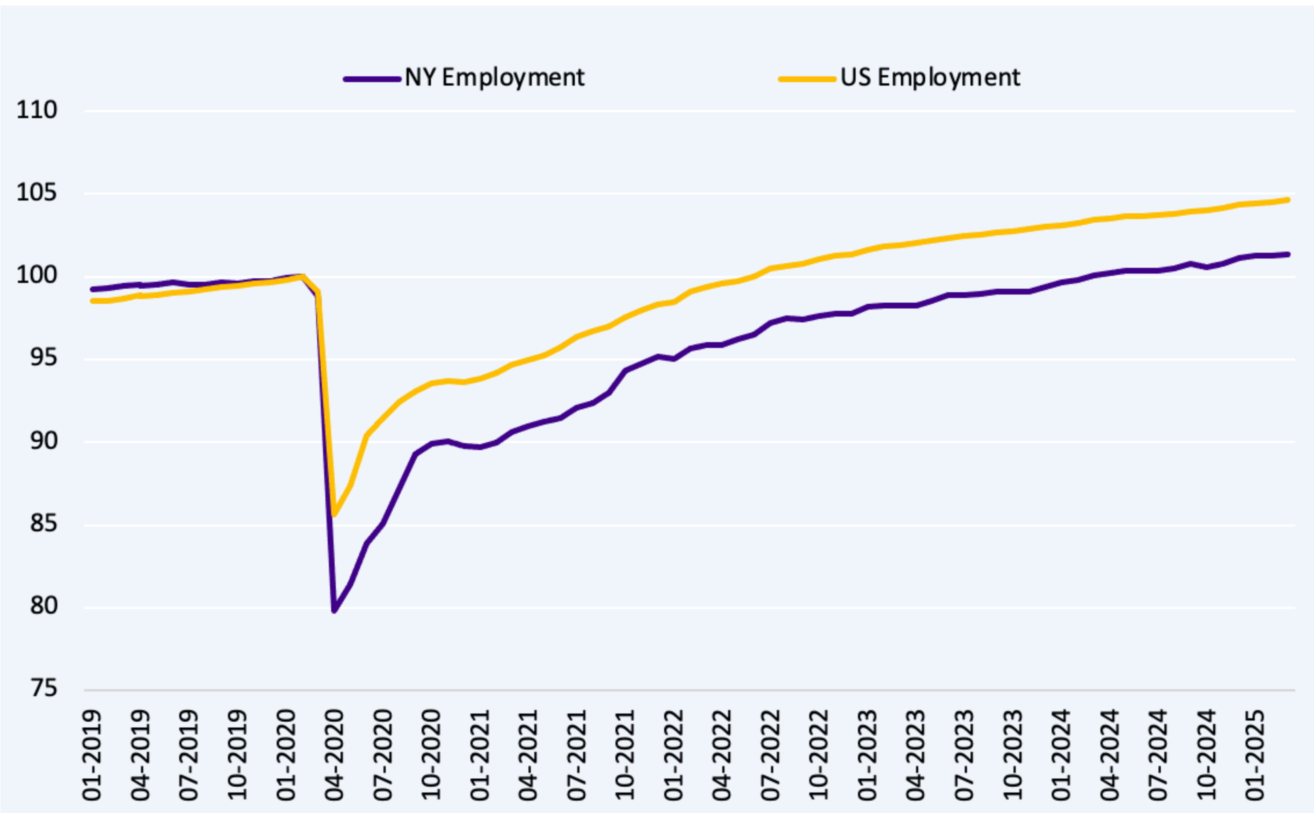
Note: Data from the Bureau of Economic Analysis.

On an annualized basis, the US economy grew by 2.8 percent per year between the first quarter of 2020 and the third quarter of 2024. In contrast, New York has only grown at an annualized rate of 1.6 percent over that same period, making New York one of the five slowest growing states in the country, alongside Wyoming, Alaska, Hawaii, and North Dakota, each of which showed even slower growth over the pandemic and post-pandemic period. Peer states such as New Jersey, California, and Massachusetts all saw annual growth rates above 2 percent. What makes New York so different?

New York's labor market permanently marked by Covid-19

One thing that makes New York different is that New York saw an extremely large negative shock in the early pandemic—a much more severe shock to the economy than most other states. As the epicenter of the Covid-19 outbreak in the early phase of the pandemic, New York's economy faced a uniquely challenging economic situation: while employment fell by about 15 percent on average in the U.S., New York's economy shrank by over 20 percent in April 2020. New York's labor market has only just recently recovered to pre-pandemic levels of employment, lagging the US economy by nearly 3.5 percentage points. If New York were on the same path as the rest of the US, there would be an additional 340,000 employed workers in New York.

Figure 3. New York and US employment as a percent of their February 2020 levels.



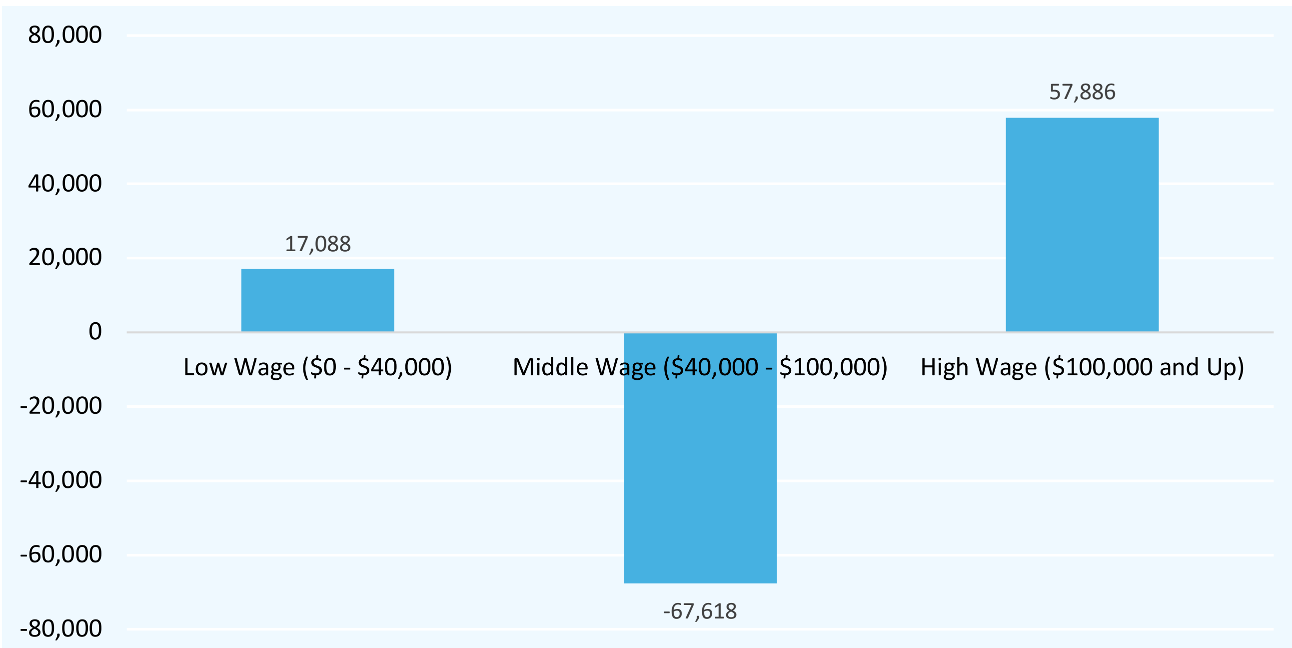
Note: Data from the Bureau of Labor Statistics and downloaded from FRED.

Over 2019-2024, the majority of employment growth in New York was in industries with high average wages (over $100,000 per year in 2019) while the majority of job losses were in industries with "middle class" wages (between $40,000 and $100,000 per year). New York has added nearly 60,000 jobs in high-wage industries over the past five years including over 30,000 jobs in the "Professional and Technical

Services" industry and 14,000 in the "Finance and Insurance" industry. This has led many researchers and commentators on the economy to look optimistically at growth in New York.

While growth of high wage sectors like tech and finance are both important — particularly for New York's fiscal outlook — there have simultaneously been job losses for low- and middle-wage workers. Between 2019 and 2024, there was a net decrease of about 68,000 jobs in middle wage industries, including schoolteachers, government employees, nursing care employees, and manufacturing. Middle-wage jobs are essential to the ability of people to move out of low-wage work and into more professionalized and upwardly-mobile jobs. The decline in middle-class jobs in New York reflects a long run hollowing-out of the middle class that has been part of widening inequality in the Unites States over recent decades.

Figure 4. Employment change over 2019-2024, by average income of industry



Note: Data from the Quarterly Census of Employment and Wages. Industries (using 4-digit NAICS) were grouped by average 2019 annual earnings.

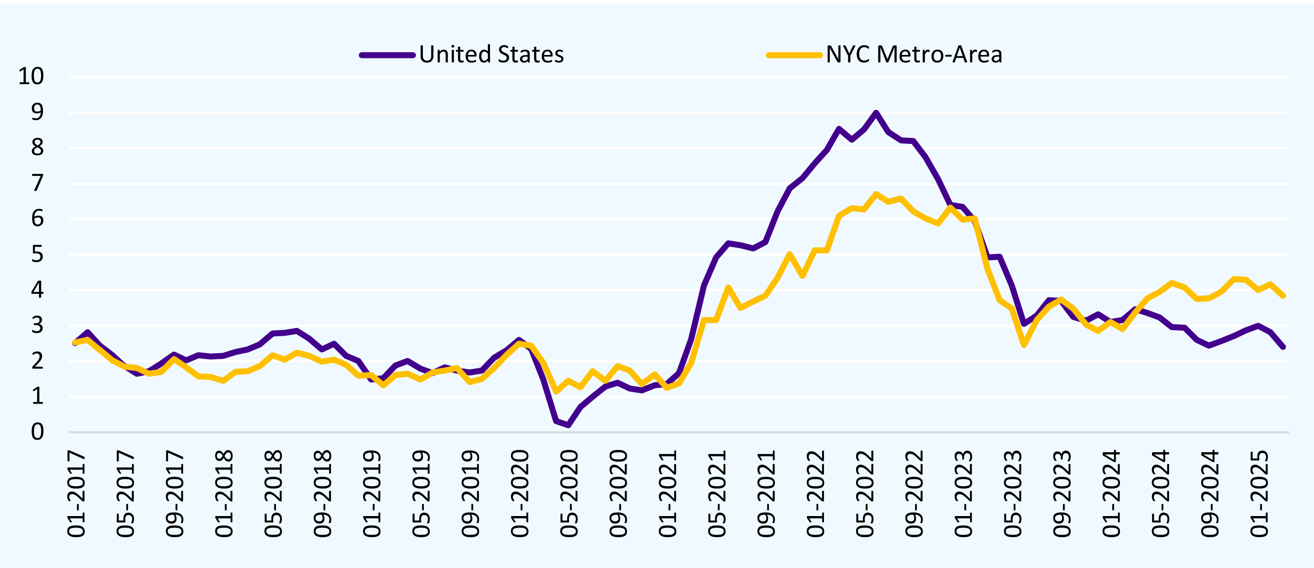
Among low-wage jobs, there has been a large adjustment out of the retail sector and into low-paying healthcare jobs such as those in homecare. The significant upheaval in the State's labor force—the shift away from retail trade, growth in low-wage healthcare, and the increasing presence of the high-paying technology sector—demonstrate the declining opportunity for social mobility that has been a long run trend both in the State and around the country. Jobs with middle-class earning potential have been dwindling, leaving little opportunity for an individual to build savings and establish economic security. Simultaneously, growth in high-wage industries like finance and technology generate economic activity but also put upward price pressure on the local economy—particularly driving up the cost of housing—and exacerbates inequality. Upward cost pressures from the presence of high-earners, paired with an under-supply of middle-class jobs contributes to picture of stagflation that has emerged, with rising costs-of-living alongside stagnating growth.

Housing crisis keeps inflation in New York high

Another factor that likely contributes to the slow growth in New York is the very restrictive housing construction environment, making it difficult for New York to grow in population, and contributing to the significant increases in the cost-of-living that have motivated some working- and middle-class New Yorkers to leave the State.[i] Without policy that significantly reforms zoning restrictions and alleviates the high cost of construction, New York will likely remain in a slow-growth equilibrium and the cost-of-living will continue to climb.

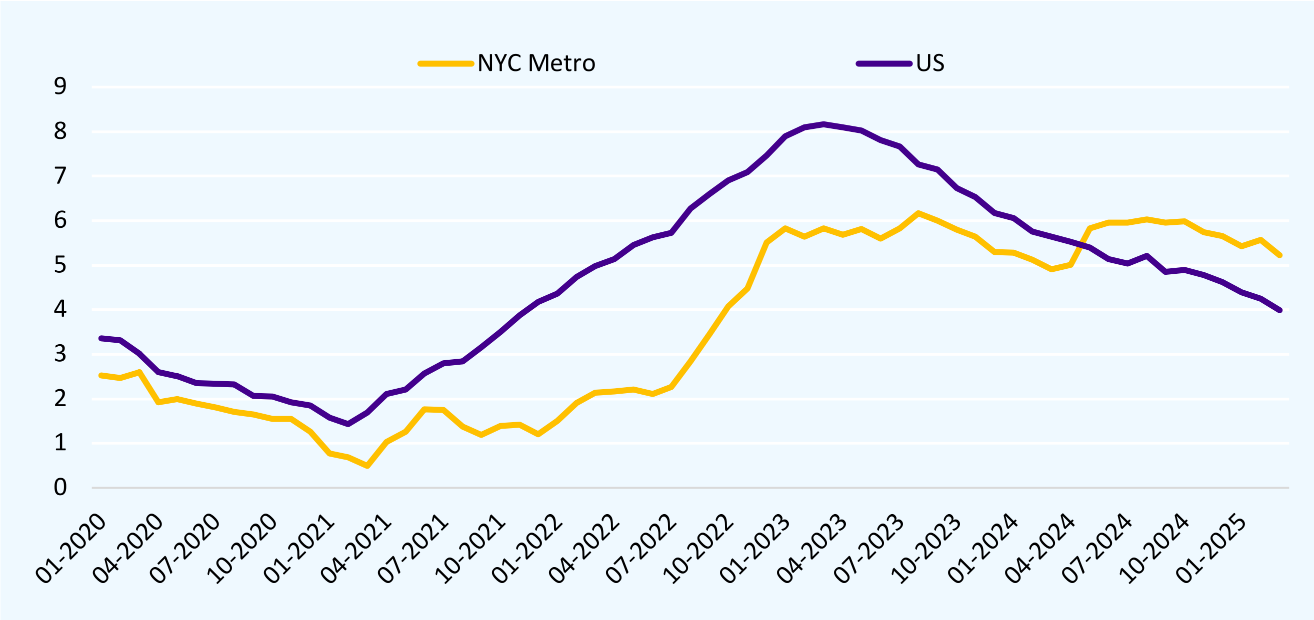
Inflation in New York has remained higher than the U.S. average, with both staying persistently above the target 2 percent. As of March 2025, year-over-year growth in consumer prices in the New York City metropolitan area was 3.84 percent, more than a percentage point higher than the US average, which has fallen to 2.41 percent. This divergence is due largely to the continued rise in housing costs in New York. Whether inflation remains high in New York compared to the rest of the country will depend largely on whether New York policymakers can take sufficient action to increase housing supply and contain costs for New York residents.

Figure 5. Consumer Price Index for All Urban Consumers, percent change from a year prior



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

Figure 6. Shelter costs for all urban consumers, percent change from a year prior



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

While the US as whole saw faster price growth for shelter (housing, both rental and owner-occupied) during the 2021-2023 period, in 2024 New York's housing costs continued to climb at a steady 5-6 percent rate annually. Shelter costs around the rest of the country have seen slower and slower price increases over the past year and are now at an inflation rate of 4 percent. The fact that New York's housing market has seen price increases steadily in the range of 5-6 percent for over two years, with little indication that price growth will slow in the near future, drives home the point that New York faces a severe structural shortage of housing.

The cost of living has become a central concern for most households, with rising prices in all major family budget items. Over 2020-2024, New Yorkers saw an increase in food and beverage prices of 25 percent, an increase in energy costs of 30 percent, and an increase in housing costs of almost 20 percent. The cost of medical care also increased by over 5 percent in that period. These large cost increases constitute a "last straw" for many who already felt the squeeze of high costs in New York, with many households opting to leave the State (or City) entirely in search of lower housing costs.[ii]

Between 2019 and 2023, the median renter household in New York saw an increase in monthly rent of at least $250/month, translating into $3,000 per year in additional housing costs[iii]. In New York City, the median household with a young child saw an increase in childcare costs of over $450 per month, or over $5,400 per year.[iv] Annual food costs for a relatively frugal family of four increased by $3,000 due to climbing food prices.

Figure 7. Consumer price index for New York City metropolitan area, relative to February 2020

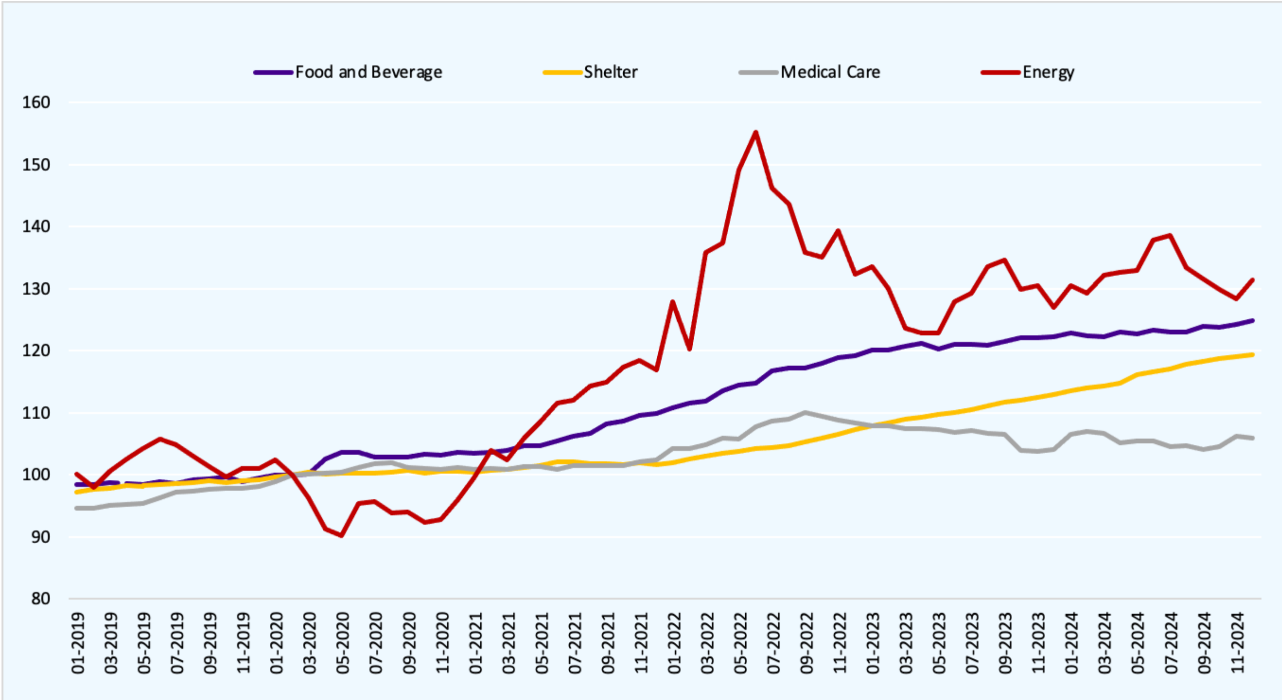
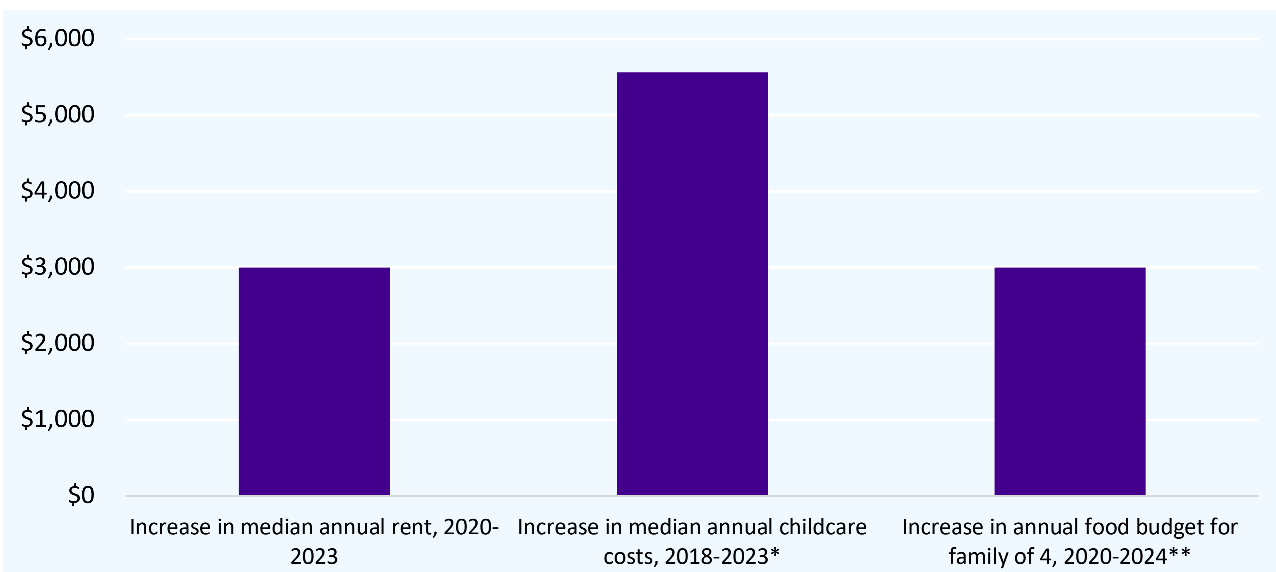


Figure 8. Estimated increase in household budget items costs for New York City family of 4



* Child care cost increases based on the Market Rate Surveys collected by the State in 2018 and 2023. This is the median cost increase for one child in NYC, attending a licensed group family day care home.
** Based on USDA's estimate of a "thrifty" food budget for a family of four of $1,000 per month. Increases will be larger for families with larger food budgets.

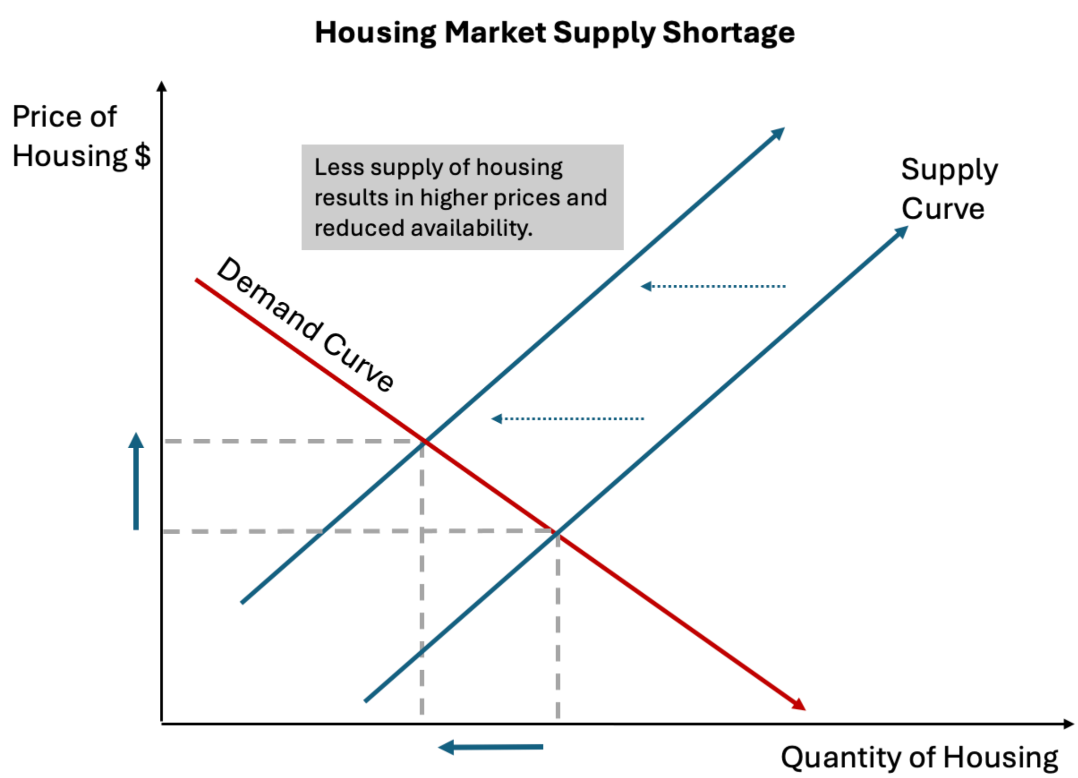
The unsustainable rise in the cost of living must be addressed through a combination of resource management that emphasizes adding housing, building clean energy production, and providing universal childcare as well as sufficient regulation of prices so that state residents do not bear the burden of mismanaged supply of basic universal needs like housing, food, energy, childcare, and medical care.

How to combat stagflation and protect New Yorkers

Ultimately, stagflation is a consequence of the undersupply of resources in the economy. As resources become more scarce, prices rise, and economic activity falls. A simple supply-and-demand graph can demonstrate how we arrive at an economy in stagflation. We see that a leftward shift in the supply of goods and services pushes up prices and decreases overall output. This is what we are likely to see in the United States over the next few years and what we may already be experiencing in New York, which has a known shortage of housing causing both high shelter costs and dampening growth opportunities.

Housing shortages and overall shortages of goods and services act in similar ways; when there is a shock to a market that either increases prices or limits supply, that indicates a "downward" shift in supply that can cause inflation (price growth) as well as declining economic output. Figure 9 depicts restricted supply in the housing market, however, this could be equivalently shown for childcare, food, or energy in New York, all of which have seen major price increases over the past five years.

Figure 9. Housing market supply shortage causes higher prices



Currently, three forces all push towards rising prices and a higher cost-of-living in New York:

1) the Trump administration's tariffs, a tax that will increase the prices of goods that involve importing parts;
2) the Trump administration's immigration policy, which threatens to decrease available labor in home construction, agriculture, food production, childcare and care for older adults and the disabled; and
3) New York's housing shortage.

While New York policymakers can do relatively little about the first two issues above, they have the ability to provide more housing for New Yorkers and thereby manage the cost-of-living crisis through expansion of housing supply. Increasing housing supply will require zoning and regulatory reforms that ease the process of citing and building and will also require fiscal investments that stimulate production. If the supply of housing is not increased, prices will continue to rise, and New York's population will continue to fall or stagnate.

New York can also target policy at increasing childcare and homecare availability for households, which in turn increase the labor force participation rates and earnings of New Yorkers.[v] Increased workforce participation is essential for helping to maintain a strong and growing economy.

Conclusion

While New York State does not have the power to regulate the national economy, and may face a severe economic downturn under the policies of the Trump administration, the State nonetheless has policy tools that can reduce cost burdens and stimulate economic growth.

New York's economy has suffered since the pandemic. New Yorkers of all income levels are feeling decreases in spending power as they face an ever-increasing cost-of-living and dwindling middle-class job opportunities. From a macroeconomic perspective, New York faces serious impediments to sustained and robust growth across the income distribution. While this has not shown an impact on State tax revenue, it poses serious challenges for state policymakers who must find ways to address the unsustainable cost-of-living and build buffers against a possible economic downturn caused by the current presidential administration.

In housing policy, the State needs zoning reform and fiscal investments that will generate a greater supply of housing—both market rate and affordable. Particularly in the suburbs of New York City, adding multi-family housing will alleviate the cost of living for New Yorkers and contribute to overall economic growth of the region. Additionally, direct investment in the construction of mixed-income housing will increase housing supply and ease the affordability crisis. Continuing progress towards establishing universal childcare in the State would also contribute significantly to alleviating family budgets, promoting employment, and stimulating economic growth in the State.

[i] Eisner and Perry, 2024, "Who is Leaving New York?" (https://fiscalpolicy.org/new-families-with-young-children-in-search-of-housing-drive-state-population)
[ii] Ibid.
[iii] American Community Survey, 2019-2023
[iv] New York State Market Rate Survey (https://ocfs.ny.gov/main/reports/2024-Child-Care-Market-Rate-Survey.pdf)
[v] Humphries et al., "Parents' Earnings and the Returns to Universal Pre-Kindergarten," October 2024. (https://www.nber.org/papers/w33038).