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New York–New Jersey Job Expansion to Moderate in 2001

James Orr and Rae D. Rosen

Employment in the New York–New Jersey region expanded for an eighth straight year in 2000. Total job growth reached 2.2 percent, falling short of the 2.7 percent pace set by the region in 1999 but surpassing the nation's 2.1 percent growth rate.

Within the region, New Jersey posted a 2.5 percent rate of employment growth in 2000 that roughly matched its 1999 rate and marked the state's fourth consecutive year of growth in excess of 2.0 percent. While job growth in New York State slowed from its robust 1999 rate to a more modest 2.1 percent, it kept pace with job growth in the nation. Employment figures for New York City show that total jobs there expanded at a healthy 2.8 percent clip, continuing an acceleration that began in 1996.

During 2000, developments in the securities and computer-related services industries threatened to slow job growth in New York City and, to a lesser extent, in the New York–New Jersey region as a whole. The retrenchment in the stock market led to a sharp drop in the volume of initial public offerings, mergers and acquisitions, and other financial activities beginning in the third quarter. At about the same time, the failure of an increasing number of Internet, or dot-com, start-ups and the more conservative financing standards imposed on Internet firms by investors seemed to signal that job growth in computer-related services was cooling. Nevertheless, the record profits earned by the securities industry during the first three quarters of the year and the strong pipeline demand for employees with computer and Internet-related skills minimized the negative impact of these developments on job growth in the city and region. Moreover, despite some mild deceleration in job growth in the second half of the year, the region entered 2001 with employment growth rates for the private sector that were well above the corresponding national rate.

Looking ahead, we expect that the expansion of employment in the New York–New Jersey region will continue in 2001, although the rate of job growth will moderate to 1.5 percent. Our forecast for slower growth takes into account the Blue Chip Consensus prediction of a relatively sharp 3.0-percentage-point deceleration in the nation's output (real GDP) growth.[1] It also assumes that broad stock market measures such as the S&P 500 will not decline much below their February 2001 average values for sustained periods of time.

In this issue of *Second District Highlights*, we review employment developments in the New York–New Jersey region in 2000 and present our forecasts for job growth in New York State, New York City, and New Jersey in 2001. We give particular attention to trends in the computer services and securities industries and the effects of these trends on near-term job growth in New York City.

2000 in Review

Total employment in the New York–New Jersey region expanded by 2.2 percent, or roughly 275,000 new jobs, last year. This growth rate was modestly slower than the 2.7 percent pace of job growth in 1999. Private-sector employment expanded 2.4 percent, down from last year's 2.9 percent pace but significantly above the corresponding rate for the nation (see chart). An increase in state and local government jobs prompted a mild acceleration of public-sector employment growth in 2000.

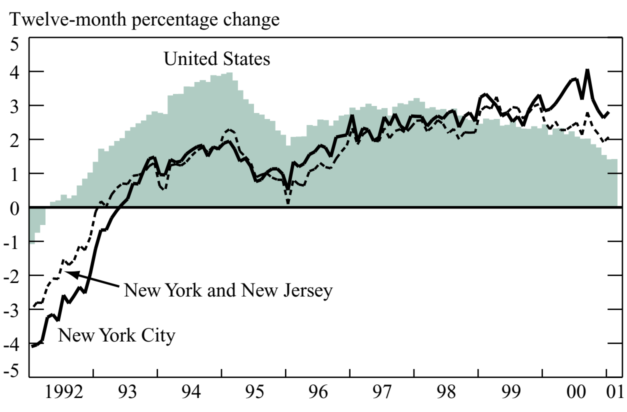
The services and construction sectors recorded the highest rates of employment expansion in the region. Services, the largest of the region's major sectors, grew about 3.6 percent and accounted for roughly 155,000 new jobs. Job gains in this sector were led by an increase of more than 6.0 percent in business services employment, a category that includes jobs in many of the high-tech, new-media, and other computer-related firms. Growth in construction employment remained strong, reaching 6.2 percent in 2000, following a 9.2 percent gain in 1999.

The wholesale and retail trade sector contributed to the region's job growth with the creation of more than 62,000 new jobs in 2000. The securities industry accounted for the bulk of job growth in the FIRE (finance, insurance, and real estate) sector; banking, by contrast, saw employment levels fall as institutions consolidated and then downsized. Employment in the transportation, communications, and public utilities sector expanded only slightly, while the manufacturing sector continued to experience relatively sizable declines.[2]

New Jersey

Recently revised employment figures show that total jobs grew 2.5 percent in New Jersey in 2000, outpacing the nation's employment gains for a second consecutive year and falling only slightly short of the state's fairly strong 2.6 percent growth rate in 1999 (see table).[3] A relatively sharp expansion of local government employment helped to raise the state's rate of total job growth to just below its 1999 pace. The sectors with the highest growth rates were services, trade, and construction. In the services sector, broad-based job gains produced rates of growth exceeding 5.0 percent in several categories, including business services, engineering and management services, educational services, and social services. Job growth exceeded 7.0 percent in the construction sector for the second consecutive year. The transportation, communications, and public utilities sector saw some modest growth, but the loss of 4,300 jobs in manufacturing continued the long-term contraction in this sector's employment levels. Although growth in New Jersey's FIRE sector slowed from its 1999 pace, the 4,000 new jobs in the sector roughly equaled the number of new jobs in the same sector in New York City.

Private-Sector Job Growth in the New York–New Jersey Region and the United States



Sources: U.S. Department of Labor, Bureau of Labor Statistics; authors' calculations.

New York State

In New York State, job gains dropped off from their strong 1999 pace.[4] Total job growth slipped to 2.1 percent in 2000 from 2.7 percent in 1999, primarily because of a slowing in upstate and western New York, while private-sector job growth fell to 2.2 percent in 2000 from 2.9 percent in 1999. Nevertheless, more than 175,000 new jobs were created in 2000, and the state's private-sector job growth rate outpaced the nation's.

In the state's services sector, employment growth moderated to a still-healthy 3.6 percent pace, representing about 105,000 new jobs, with strong gains in business services, engineering and management services, motion picture production, and recreation services. Among the major sectors, construction saw the most rapid expansion, 5.7 percent; the creation of 18,000 new jobs continued the strong growth trend established in this sector in the past several years. The manufacturing sector, by contrast, weighed down the state's job growth, shedding jobs at a rate just slightly below the 1999 rate. Job increases in Buffalo and Rochester were off their 1999 pace, while growth rates in both Syracuse and Binghamton roughly matched their 1999 rates. Within the New York City metropolitan area, both Long Island and the northern counties (Rockland, Putnam, and Westchester) saw jobs expand about 2.0 percent—roughly in step with the U.S. employment growth rate.

Employment in the New York–New Jersey Region: Past and Projected Growth
Annual Percentage Change

	1998	1999	2000	2001
New York and New Jersey	2.1	2.7	2.2	1.5
New Jersey	2.1	2.6	2.5	1.6
Private sector	2.4	2.9	2.5	1.8
Public sector	0.2	1.0	2.0	0.6
New York State	2.1	2.7	2.1	1.5
Private sector	2.3	2.9	2.2	1.6
Public sector	1.2	1.5	1.4	0.8
New York City	2.5	2.6	2.8	1.9
Private sector	2.6	2.9	3.3	2.1
Public sector	1.8	1.1	0.1	0.8

Sources: U.S. Department of Labor; Federal Reserve Bank of New York projections.

Note: The 2001 figures are projections.

New York City
Despite adverse developments in both the stock market and Internet-related industries, job growth surged to 2.8 percent in 2000 from 2.6 percent in 1999. Moreover, New York City's job performance showed few signs of weakening in the final months of the year. Private-sector employment grew 3.3 percent in 2000, representing about 100,000 new jobs. The city's rate of private-sector job growth has matched or exceeded the nationwide rate for the past three years. The expansion of employment was led by an acceleration of growth in the services sector to 5.2 percent, yielding almost 72,000 new jobs. Business services—in particular, the computer and data processing services industry—grew sharply. Jobs in the construction sector also expanded rapidly, by 7.0 percent, although this rate was below the 11.0 percent expansion of the sector in 1999. Ongoing employment growth in the securities industry helped to overcome declining banking employment and allowed the city's FIRE sector to expand modestly.

Forecast for 2001

Overall job growth in the New York–New Jersey region is projected to slow to 1.5 percent in 2001, from 2.2 percent in 2000 (see table). With this slower growth rate, the region should see the creation of roughly 190,000 new jobs. In the private sector, employment growth is expected to drop from 2.4 percent to 1.7 percent. The cutback in national economic growth predicted for 2001 will put significant downward pressure on the growth of regional employment.

Employment trends will again be most favorable in trade, services, and construction, but even in these sectors, jobs will grow at rates below those of 2000. The transportation, communications, and public utilities sector will experience little growth. The FIRE sector in 2001 should maintain its moderate rate of expansion, about 0.7 percent, but proportionately more of the new jobs in this sector will be located in New Jersey. Manufacturing jobs will contract at a higher rate than in 2000 as declining national activity in this sector adds to the ongoing pressures for restructuring and relocation. Finally, the continued expansion of local government employment will contribute to moderate growth in public-sector jobs.

Within the region, job growth will continue the patterns that emerged in 2000:

- New Jersey's job growth is expected to slow to 1.6 percent in 2001 from 2.5 percent in 2000. Although FIRE sector employment will continue its modest pace of expansion and the strong growth in construction sector jobs will ease only slightly, employment growth in the sizable trade and services sectors is expected to slow and manufacturing job declines will deepen.

- In New York State, employment will grow 1.5 percent, down from 2.1 percent in 2000. Construction employment will again expand at a relatively rapid clip, reflecting the pipeline of private and public capital construction projects, but other sectors will see their growth rates slow. Job losses in manufacturing are expected to worsen, in part because of the nationwide slowdown in manufacturing activity and, in particular, the cutbacks in auto and light truck production.

- In New York City, job growth is expected to moderate to 1.9 percent. While this growth rate is significantly slower than the 2.8 percent pace of expansion in 2000, it nevertheless represents the creation of about 70,000 new jobs and exceeds the city's long-run average employment growth performance. The construction, trade, and services sectors will see the highest rates of growth, although the rate of expansion in each of the three sectors will be below that recorded in 2000. Within the services sector, business services should fare especially well; job growth in this industry accelerated in the second half of

2000, reaching an annual rate of almost 12 percent, and this strong performance should carry over into 2001. By contrast, little expansion of employment is expected for the finance sector, where financial market activity is slowing, mergers and consolidations are taking effect, and firms are expanding some finance operations in New Jersey.

What Explains New York City's Strength?

Our look at regional employment trends indicates that New York City has enjoyed more robust job growth than either New Jersey or New York State. While both states saw their expansions slow in 2000, the rate of job gains in New York City accelerated. In 2001, job growth is expected to moderate across the region, but employment will still expand faster in the city than in New Jersey and New York State.

One factor that has given New York City an edge in maintaining and strengthening its job gains in recent years is the rapid growth of the city's computer-related services firms. These firms employ workers with design and graphic skills and workers with technical skills who create computer systems, provide desktop support, and keep software programs running. The firms not only serve end users directly but also meet the intermediate demands of businesses in the New York metropolitan area and beyond, particularly in industries such as telecommunications, finance, and insurance. Employment in these firms has grown about 10 percent per year for much of the 1990s, contributing significantly to the continuing diversification of the city's job base.[5] In 2000 alone, the number of new establishments in the industry increased 8.4 percent. In that same year, employment at computer-related firms accounted for an estimated 15 percent of the net new job growth in New York City.[6]

The computer-related services industry has also been a source of relatively high-paying jobs. In 1999 (the latest year for which data are available at this disaggregated level), the average wage for these services in New York City was \$77,400, well above the \$42,200 average wage for all New York State industries. Moreover, although the average wage in the city's computer services industry is comparable to the average wage in the same industry in New Jersey, it is considerably higher than the \$59,000 average wage paid in the computer and data processing industry in upstate and western New York. Since wages reflect the productivity or "value added" of workers, this pronounced wage gap suggests that most of the work conducted in the New York metropolitan area involves advanced functions such as content design and system development, while computer services upstate may involve a greater range of skills and activities.

The high level of compensation in New York City's computer services industry is also noteworthy because it has undoubtedly contributed to job growth in other sectors of the city's economy. Workers in the industry spend some portion of their considerable earnings on housing and in the city's retail, restaurant, and entertainment establishments. The income that flows into the local economy through this channel in turn supports the creation of new jobs.

A second factor stimulating employment growth in New York City has been the strong performance of the securities industry. Unlike computer services, however, the city's securities industry has not greatly expanded the ranks of its own workers. In fact, between 1990 and 2000, job growth in this industry averaged just 0.4 percent a year, and securities businesses barely increased their share of the employment base in New York City.[7]

Nevertheless, the securities industry—like computer services—has encouraged employment growth in other sectors. First, the industry generates jobs in firms that supply legal, business, marketing, and other support services to securities firms. When securities firms prosper, their demand for such support services typically grows, prompting suppliers to meet the heightened demand by expanding their payrolls.

Second, the securities industry has fostered job growth across sectors through its effect on income. Pay levels for this industry far exceed those in the city's other major sectors. In the past several years, the securities industry has been the single most important source of wage and salary growth in New York City, accounting for 54 percent of wage growth between 1993 and 1998, 10 percent in 1999, and 40 percent in the first quarter of 2000.[8] The yearly bonuses paid to employees—a direct reflection of industry profitability—have also increased significantly as industry profits have reached record highs for four consecutive years.[9] When this wage and bonus income is pumped back into the local economy, it stimulates business activity and job creation in other sectors.

New York City Industry Trends in 2001

How will the city's computer services and securities industries fare this year? Will they continue to give New York an advantage in maintaining and strengthening job gains?

Computer services in 2001 should again provide a boost to the city's job growth. Even in the current environment of slowly decelerating economic activity, the demand for high value-added workers in this industry appears to be growing. Much of this demand comes from firms seeking to expand their business on the Internet or to upgrade their current computer systems and software. In addition, there is evidence that at the same time many dot-coms are failing, other firms are seeking to hire high-tech workers and to revive projects that had been set aside because of staffing shortages created by tight labor markets in 2000.[10]

Nevertheless, while demand in this first part of the year shows signs of continuing strength, we expect slower growth as the year progresses. Given the change in the stock market, the venture capital that supported the operation of many dot-coms in the past may very well be diverted to other industries this year. In the New York City metro area in 2000, this funding rose to $6 billion, more than double its level in 1999.[11] Comparable funds are unlikely to be made available to dot-coms in 2001. In addition, the slower growth rate forecast for the U.S. economy should ultimately retard employment growth in the city's computer and technology services sector.

The securities industry in 2001 may also experience a slowdown in job growth, but the industry is still projected to be a source of stimulus to the city's economy. Employees of securities firms receive a large proportion of their annual earnings in the form of bonuses, paid out in the last month of the year or the first month or two of the following year. Bonuses paid between December 2000 and February 2001 are estimated to total between $12 billion and $13 billion, a sum exceeding last year's record payout (Byrne 2001). Although this bonus income reflects last year's activity, it should help to fortify the city's economy into 2001.

Nevertheless, the downside risk for New York City's securities industry has increased in 2001. We make no forecast of the stock market. However, if broad market measures such as the S&P 500 drop below their February 2001 average values for prolonged periods, the reduction in the securities business will take a toll on the income earned in the industry and ultimately, through indirect channels, on employment in the broader city economy.[12] Because the effects on overall city employment will occur with a lag, they may be slight this year, but they could produce a significant slowdown in job growth in 2002.

One way in which a decline in the securities business would be expected to affect the city economy is through a reduction in the bonuses paid at the end of the current year and the beginning of 2002. Nevertheless, while bonuses have accounted for much of the city's wage growth in the last several years, they may be somewhat less influential now than in the past. The reason is that the city's other sectors have begun to see significant wage growth. Wages for all sectors excluding securities rose 6.8 percent in 1999 and 11.1 percent in the first quarter of 2000. Thus, even if 2001 proves to be a poor year on Wall Street and bonus income drops markedly, the city's economy may be partially cushioned by relatively healthy job and wage growth in other sectors.

Conclusion

Employment in the New York–New Jersey region is poised for moderate growth in 2001. Assuming that broad stock market measures such as the S&P 500 will not decline much below their February 2001 average values for sustained periods, and that the Blue Chip Consensus Forecast of a 3.0-percentage-point deceleration in U.S. economic growth is on target, we project regional job growth of 1.5 percent in 2001. New York City will set the pace at 1.9 percent, while growth will be somewhat slower in New Jersey and the balance of New York State. Should stock market activity contract significantly this year, we would expect further slowing in job growth in the region in 2002, particularly in New York City.

Notes

1. Real GDP is forecast to grow 2.1 percent in 2001, down from growth of 5.1 percent in 2000 (*Blue Chip Economic Indicators* 2001).

2. See Bram and Anderson (2001) for a detailed examination of longer term job trends in the manufacturing sector in the New York–New Jersey region.

3. Revised payroll employment figures for 1999 and 2000 were released by the New Jersey State Department of Labor in late February 2001. The preliminary estimates had shown a deceleration in job growth rates in the state.

4. See Deitz and Garcia (2000) for a discussion of job growth in Buffalo and upstate New York in 1999.

5. We note, however, that the computer services industry is still relatively new in New York City. Even after a decade of strong growth, the industry currently represents only about 2 percent of total city employment. See Bram and De Mott (1998).

6. These establishment and employment figures are based on the New York State Department of Labor's ES202 data on the computer and data processing services industry for the first quarter of 2000. In light of the numerous failures of firms in this industry in subsequent quarters, these figures could overestimate full-year growth rates.

7. Note that during the same decade, New Jersey's securities industry added nearly 25,000 jobs. This increase in part reflects a relocation of jobs from New York City. Although New York City's share of total U. S. securities employment has declined, its share of total securities wages has held at 13 percent, suggesting that the highest paying jobs are increasingly concentrated there. Nevertheless, full-year ES202 wage and salary data from the New Jersey State Department of Labor indicate that the average wage in New Jersey's securities industry reached $100,000 in 1999—a clear indication that mid- to upper-level functions are carried out in the state and that the state's job gains in this industry do not simply represent the relocation of back-office operations from New York City.

8. See Orr and Rosen (2000).

9. In 2000, the unprecedented earnings accumulated during just the first quarter of the year offset the progressively weaker quarterly results that followed and enabled the securities industry to achieve record-high profitability (Securities Industry Association 2000).

10. See, for example, "New Media Bankruptcies Leaving Crumbs," *Crains New York Business*, October 16, 1999; "Alley Layoffs a Surprising Boon to City Hall," *Crains New York Business*, October 30, 2000; and "Silicon Alley's Revenues Fall, and More Layoffs Are Planned," *New York Times*, November 11, 2000.

11. PricewaterhouseCoopers. 2001. *Money Tree Survey*. <http://www.pwcmoneytree.com> (March 16, 2001) .

12. Bram and Orr (1999) discuss the link between the securities industry and overall employment in New York City.

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About the Authors

James Orr is a research officer in the Domestic Research Function of the Research and Market Analysis Group; Rae D. Rosen is a senior economist and public information officer in the Bank's Public Information Area.

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