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Current Issues

IN ECONOMICS AND FINANCE

SECOND DISTRICT HIGHLIGHTS

New York and New Jersey Poised for Modest Job Growth in 2005

James Orr and Rae Rosen

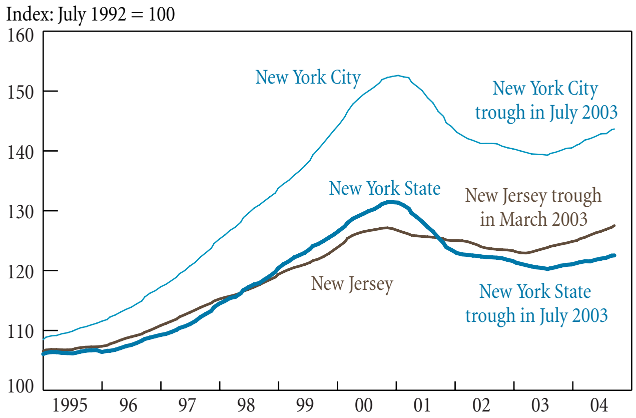
Combined employment in New York and New Jersey will expand by 1.1 percent in 2005, following projected growth of 0.9 percent in 2004. Slower than expected growth in the U.S. economy or a falloff in financial market activity, however, could jeopardize the states' employment outlook.

An economic recovery appears to be well under way in New York State and New Jersey. Three composite measures of economic activity show sustained increases from troughs reached in 2003, signaling a continuing improvement from the downturn that began in late 2000 (Chart 1).

Employment levels in both states are also rebounding from the challenges of the 2001-03 period, although at a relatively modest pace. In 2001 alone, private sector employment had dropped by about 3.0 percent, or almost 300,000 jobs by year-end, as the adverse effects of the national recession were compounded—particularly in New York City—by the 9/11 attack on the World Trade Center and significant declines in the finance and information sectors. Combined employment in New York and New Jersey bottomed out in mid-2003, and private sector job growth in the first nine months of 2004 has closely matched rates nationwide.

Many of the factors that had weakened employment growth in the two states through much of 2003 are no longer weighing down the labor markets, and several sources of job strength have reemerged. The ongoing recovery of the national economy has supported a pickup in job growth in the "export" components of industries such as trade, transportation, tourism, finance, and professional and business services.[1] Meanwhile, the long-term expansion of jobs in the education and health sectors continues apace. Finance jobs have expanded modestly, although mostly outside New York City. Furthermore, estimates suggest that the negative employment effects associated with 9/11 have largely passed.[2] However, in this recovery, jobs have not bounced back as readily in New York State and New York City as they have in New Jersey, and job levels throughout New York State remain far below their prerecession peaks.

Chart 1
Indexes of Coincident Economic Indicators



Source: Federal Reserve Bank of New York staff calculations.

Despite the weaker job performance in the state and the city, both New York and New Jersey appear likely to continue to add jobs. Accordingly, we predict that combined employment levels in the two states will expand 0.9 percent in 2004—reflecting the net addition of about 115,000 new jobs—and this growth rate will continue in 2005. Our expected expansion in jobs assumes that continued vigor in the U.S. expansion—consistent with the *Blue Chip Economic Indicators* (2004) forecast—will provide broad-based support for employment growth. It also assumes stable to expanding financial activity and a pickup in construction as the rebuilding of the commercial infrastructure around the World Trade Center gets under way.

In this edition of *Second District Highlights*, we analyze the employment recovery in New York State and New Jersey through the first three quarters of 2004 and present our job growth projections for 2004 and 2005. We also consider several potential risks to the employment outlook, such as slower than expected growth in the national economy and a falloff in financial market activity.

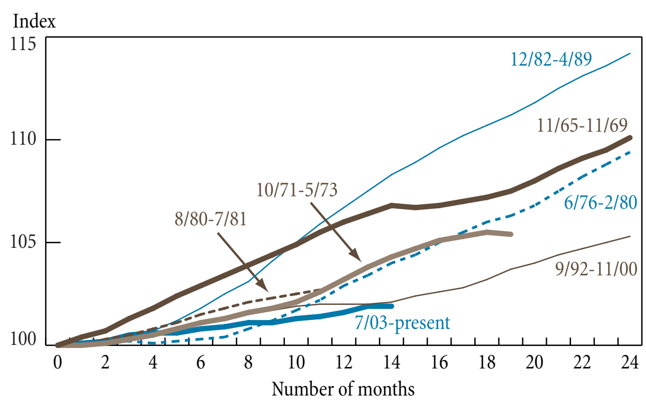
Economic Activity and Aggregate Employment

The economies of New York and New Jersey are showing clear signs of recovering from the downturn that started in late 2000. Continued increases in our indexes of coincident economic indicators (CEIs)—constructed separately for New York State, New York City, and New Jersey—show that the upturn is taking hold (Chart 1).[3] In New York State and New York City, the trough is estimated to have occurred during the summer of 2003; in New Jersey, where the downturn was substantially milder than it was in New York, the trough is estimated to have been reached earlier, in March 2003. Significantly, in all three areas, the downturn was less severe than it was in the early 1990s. Note, however, that while a recovery is apparent, as of September 2004 the overall level of economic activity in New York State and in New York City remained considerably below prerecession peaks, whereas activity in New Jersey had more or less matched its prerecession peak.

When measured by the growth patterns in the CEIs, the pace of the current recovery is not particularly unusual. New York State's recovery has been on a par with the one that began in 1992, but it has been somewhat weaker than the recovery of either the late 1960s or the 1980s (Chart 2). The rebound in New York City is roughly in line with previous recoveries (Chart 3). In New Jersey, the recovery is developing somewhat faster than the one that began in 1992, but compared with other expansions, it is occurring at the same or at a somewhat slower pace (Chart 4).

Employment levels in both states have begun to pick up as economic activity has risen. Over the past year, however, private sector employment has increased at a modest pace that mirrors the relatively weak national growth in this recovery (Chart 5). Combined private sector job growth in New York and New Jersey, on a year-over-year basis, had been negative since mid-2001, and it remained so through early 2004. Relatively heavy job losses in New York City for much of 2002 and 2003 helped keep the two states' job growth performance modestly weaker than the nation's. From September 2003 to September 2004, New York and New Jersey together have added about 120,000 jobs, public and private, equivalent to roughly 1.0 percent of total employ-

Chart 2
New York State Expansion Patterns
Increase from the Index of Coincident Economic Indicators Trough: First Twenty-Four Months

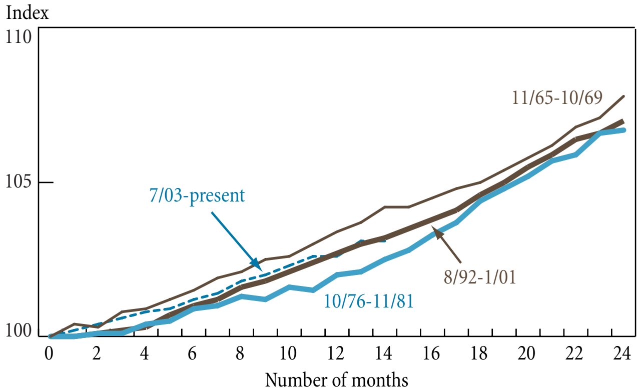


Sources: U.S. Department of Labor, Bureau of Labor Statistics; Federal Reserve Bank of New York staff calculations.

Chart 3

New York City Expansion Patterns

Increase from the Index of Coincident Economic Indicators Trough: First Twenty-Four Months

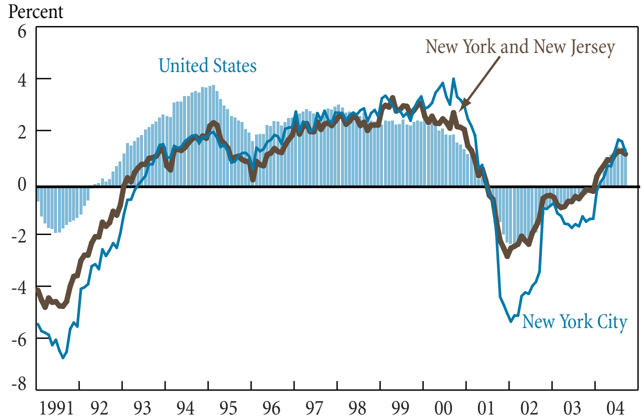


Sources: U.S. Department of Labor, Bureau of Labor Statistics; Federal Reserve Bank of New York staff calculations.

Chart 5

Private Sector Job Growth in the United States, New York and New Jersey, and New York City

Twelve-Month Percentage Change in Employment



Sources: U.S. Department of Labor, Bureau of Labor Statistics; New York State Department of Labor; New Jersey Department of Labor.

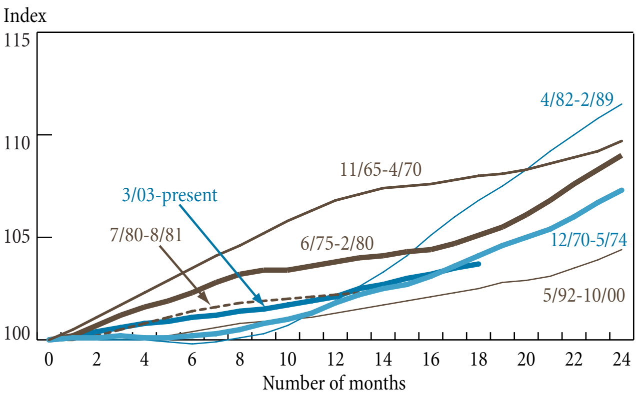
ment, but job levels still remain about 200,000 below their late 2000 peak.

These combined aggregate job levels mask some variation in the two states. The employment decline is centered entirely in New York. Although jobs in the state in September 2004 had expanded by approximately 53,000 from one year ago, or a little less than 1.0 percent, employment remained almost 250,000, or about 2.7 percent, off its late 2000 peak.[4] Moreover, much of the employment weakness in the state is concentrated in New York City. Despite the diminution of the employment declines associated with the 9/11 attack on the World Trade Center,[5] it was not until early 2004 that the city began to regain the more than 200,000 jobs lost in this downturn. By comparison, employment losses in New Jersey were fairly mild in this downturn—roughly 50,000 jobs, or about 1.2 percent of total employment.[6] By September 2004, job levels in New Jersey had surpassed their prerecession peaks and in fact had reached an all-time high for the state.

Chart 4

New Jersey Expansion Patterns

Increase from the Index of Coincident Economic Indicators Trough: First Twenty-Four Months



Sources: U.S. Department of Labor, Bureau of Labor Statistics; Federal Reserve Bank of New York staff calculations.

Employment Developments through September 2004

In the first nine months of 2004, employment in New York and New Jersey grew modestly from year-earlier levels in all major sectors except manufacturing.[7] The overall pattern of job recovery has tended to follow broadly the growth trend in the U.S. economy: employment in major consumer-oriented services sectors has outperformed employment in business-oriented sectors, particularly in the professional and business services and the finance sectors. The growth in consumer-oriented sectors is exemplified by the gains in the leisure and hospitality sector and the private education and health services sectors—key sources of new jobs in the two states. The continued expansion of jobs in education and health services throughout the downturns in New York and New Jersey has matched the performance of these sectors nationwide. In fact, there has been a well-established job growth trend in these sectors in both states: on a year-over-year basis, employment has expanded in every year since 1990, and the expansion rates in these sectors have roughly matched those of the United States for the past two years.[8]

Employment in the leisure and hospitality sector, which declined sharply following 9/11, has bounced back, and growth has returned to its pre-attack trend. This pattern appeared first in New Jersey in early 2003 and in New York State and New York City by year-end. The pickup in travel-related employment largely results from an expansion of leisure travel and a slow but measurable upswing in business travel.

In contrast, jobs in the business and professional services sector—which comprises a range of industries, including temporary employment help, legal services, accounting, and computer systems design—continued to contract throughout 2003 and only began to recover in early 2004. Significantly, the decline and subsequent rebound in this sector developed with a marked disparity between the states, evidenced by the slower rate of loss and faster recovery in New Jersey and the deeper loss and slower recovery in New York State and in New York City. Moreover, both states' recovery in the business and professional services sector has lagged the U.S. employment recovery. Notably, the sector's job growth both in New York and New Jersey has centered on gains in temporary help and services to buildings; expansion in computer systems design and related work, a key source of growth in the 1990s, has been comparatively slow.

Developments in the finance sector followed a slightly different pattern. In 2003, New Jersey eked out a small gain in financial jobs while New York City recorded a loss of 11,000. Moderate gains in financial employment elsewhere in New York State, however, offset the losses by about a third. These trends carried over into 2004, with financial employment remaining flat in New York City, expanding modestly at the state level, and growing at a moderately faster clip in New Jersey.

In part, the explanation for the divergent trends in the finance sector turns on an ongoing pattern of structural change in the location of financial employment. Beginning well before the 9/11 attack, relatively high operational costs in New York City prompted banks, securities firms, and insurance companies to move routinized functions from the city to New Jersey and other areas with lower costs. In addition, the restructuring of the banking industry through mergers and acquisitions has put downward pressure on employment levels in New York City, since the overlap in headquarters staffing is usually eliminated following the consolidations. These developments are part of a long-standing pattern, and while the attack on the World Trade Center may have temporarily exacerbated the trends, 9/11 is not the primary reason for the job expansion in New Jersey's finance sector.[9]

Developments in two other sectors were also important for New York and New Jersey. Employment in the construction industry fell sharply in 2003 in both states and is only now beginning a modest recovery. In addition, the long-term drop in manufacturing employment continues unabated. Notably, the rate of decline in manufacturing jobs in New York City and New York State has outpaced that in New Jersey, and the losses have been especially pronounced in the city. Job losses averaged 10 percent or more per year during the 2001-03 period before moderating to about half that rate in 2004.

Employment Projections for 2004 and 2005

Looking ahead, we expect that combined employment in New York and New Jersey will continue to expand at a relatively modest pace—0.9 percent in 2004 and 1.1 percent in 2005 (see table). This growth reverses three years of job declines and, by 2005, combined employment in the two states will have surpassed its previous peak level, reached in 2000. The projected gains, however, continue to mask a distinct difference between the employment outcomes forecast for New York and for New Jersey. As we observed, by early 2004, New Jersey had regained all the jobs lost during the recession, and the state has since set record levels of employment; at projected rates, neither New York State nor New York City will match its prior peak level of employment by the end of 2005.

Jobs in both states will be aided by a continuation of the national expansion, as growth in real, or inflation-adjusted, GDP is expected to decelerate only modestly, from 4.4 percent in 2004 to 3.5 percent in 2005.[10] This relatively strong U.S. growth should continue to support an expansion of employment both broadly and in those sectors more closely linked to conditions outside New York and New Jersey—the

Employment in New York and New Jersey: Past and Projected Growth

Annual Percentage Change

	2002	2003	2004	2005
New York and New Jersey	-1.2	-0.5	0.9	1.1
New York State	-1.5	-0.7	0.6	0.9
Private sector	-2.2	-0.8	0.8	1.0
Public sector	1.7	-0.5	0.0	0.5
New York City	-2.9	-1.5	0.7	1.1
Private sector	-3.6	-1.4	0.9	1.2
Public sector	0.5	-2.1	-0.3	0.5
New Jersey	-0.3	-0.1	1.5	1.6
Private sector	-0.7	-0.5	1.3	1.6
Public sector	1.8	1.8	2.8	1.5

Sources: New York State Department of Labor; New Jersey Department of Labor; Federal Reserve Bank of New York staff calculations.

Note: The 2004 and 2005 figures are Federal Reserve Bank of New York projections.

"export" components of industries such as trade, transportation, tourism, finance, and professional and business services.

Several other factors will influence private sector employment growth in both states over the medium term. A wave of college and technical-school enrollments and an increasing reliance on providers of health and social services are signaling continued strength in the demand for private education and health services. Rising numbers of permits for residential construction activity, particularly in the multifamily segment, are pointing to continued strength in housing, and commercial construction activity should begin to step up as the overhang of office space lessens. An additional lift to construction jobs should be provided from ongoing large-scale public works projects. Although construction employment in New York City has been relatively weak through September 2004, the city is expected to participate in the growing demand for construction workers next year and for several years to come, as redevelopment projects in Lower Manhattan move from the planning stage to the construction stage.

Following two years of sizable employment declines, the information sector is expanding again in New York State, reflecting the strong growth in New York City, but stagnating in New Jersey. Jobs in motion picture production and sound-recording studios are leading the way in New York City, and newly introduced tax incentives may provide some support for more growth in this sector.[11] Publishing, cable, and broadcast subsectors are also adding jobs in the city, albeit at a more moderate pace, and these trends are projected to continue over the balance of 2004 and throughout 2005. In contrast to New York State, New Jersey is experiencing sluggish overall employment in the information sector; the state lacks its neighbor's expanding motion picture and sound-recording industry and has contracting telecommunications and data-processing sectors.

Employment in financial services is also developing disparately between the two states. In New York City, finance sector employment remains sluggish, held back by restructuring in the banking industry. The city is not projected to add financial services jobs in 2004, although minor growth is possible in 2005. New York State is expected to add financial services jobs this year and next, but at a very slow pace, reflecting an increase in demand for the retail component of financial services. In contrast, banks in New Jersey are expanding branches, job losses there due to major financial mergers are expected to be few, and some firms will continue the long-term trend of relocating financial services to New Jersey.[12]

Manufacturing is the only major sector projected to see a job decrease through 2005. This decline, roughly 40,000 jobs over the 2004-05 period, continues a long-term fall in manufacturing jobs in New York and New Jersey that has averaged about 6.0 percent annually since 2000.[13] In upstate New York, weak employment is expected to continue to weigh down job growth prospects in several manufacturing-intensive metropolitan areas, including Buffalo, Rochester, and Binghamton.

In the public sector, the most recent recession's impact on state and city revenues was far greater than the impact of prior downturns, and revenue shortfalls were one factor motivating New York State and New York City governments to prune their respective payrolls. The fiscal restraint appears to have carried over into 2004. This year, the New York State government is not expected to add jobs, while local government employment in New York City could decline modestly. In contrast, state and local governments in New Jersey added approximately 11,000 jobs in 2003 and are expected to add another 17,500 this year; we project the expansion of jobs to continue in 2005.

Taken together, these private and public sector developments suggest a gradually improving labor market in New York City and New York State, with respective payroll employment growth of 0.7 percent and 0.6 percent this year, accelerating slightly to 1.1 percent and 0.9 percent in 2005. These gains equal about 24,000 net new jobs in New York City this year and more than 38,000 next year, while the state should add 52,400 jobs in 2004 and 77,700 jobs in 2005. New Jersey is projected to post a 1.5 percent gain this year, or about 61,500 jobs, and a 1.6 percent increase, or 63,700 jobs, in 2005. Because New Jersey lost fewer jobs in the recession, began to recover earlier, and has been growing faster, by the first quarter of 2004 the state had regained all the jobs lost in the recession and has since set record levels of employment.

Conclusion

After declining since 2000, employment in New York and New Jersey is expected to expand in 2004 and 2005: our forecast calls for combined job growth on the order of 1.0 percent in both years. We base our analysis on the assumption that the *Blue Chip Economic Indicators* will be on target with its projections of continued strong growth in real, or inflation-adjusted, GDP in both years. We also assume in both states a modest bounce-back in several industries that have displayed some weakness in this recovery, especially information and construction. Job growth in New Jersey will outpace growth in New York State and New York City; employment levels in 2005 in the state and the city will still not reach their prerecession peaks.

The two states also face several risks to employment growth. A slower than projected national expansion, for example, would provide correspondingly less impetus to their economies. In addition, it is uncertain whether the expansion in financial market activity expected to support finance sector employment in New York City and elsewhere will be sustained. Should this activity wane, even the modest employment pickup projected in the sector for 2005 may not materialize. Moreover, any significant slowdown could lead to revenue shortfalls and consequent fiscal pressures on the states and localities. The tax revenues on corporate and personal income generated in the finance sector, in particular, have been important components of the swings in tax revenues in New York State and New York City.[14] While the near-term fiscal positions in the two states do not pose serious threats to job growth, a marked decline in the financial markets could challenge policymakers to address any revenue shortcomings without harming the recovery. In contrast, should a more rapid recovery develop in the financial markets or should the U.S. recovery exceed current projections, the outlook for job growth in New York and New Jersey would brighten.

Notes

1. The components include freight handling, air travel, warehousing, and services to the finance sector.

2. See Bram (2003) and Dolfman and Wasser (2004).

3. The CEI is a summary measure of economic activity constructed using four variables: average weekly hours worked in manufacturing, payroll employment, the unemployment rate, and real wages and salaries. Orr, Rich, and Rosen (1999) describe the CEI's construction.

4. The relatively weak performance in New York State has been linked to the state's large structural employment losses in this cycle compared with previous cycles. See Groshen, Potter, and Sela (2004).

5. See Bram (2003).

6. The New Jersey Department of Labor has recently developed a report that tracks job creation, job destruction, new hires, and separations, although with a considerable lag. (The data can be found at <http://lehd.dsd.census.gov/led/01/004/index.html>.) With time, this new report should shed more light on the dynamics of the New Jersey labor market in the downturn and recovery.

7. Here, a major sector corresponds to a "super-sector," as defined by the U.S. Bureau of Labor Statistics' North American Industry Classification System (NAICS).

8. Employment data on a NAICS basis are available only back to 1990. This limitation prevents comparisons of current employment trends in specific sectors with trends in earlier cycles.

9. Although roughly 19,000 financial jobs may have moved from New York City to New Jersey in the immediate aftermath of the 9/11 attack, all but 5,000 of them are estimated to have returned to the city (see Dolfman and Wasser [2004]).

10. *Blue Chip Economic Indicators* (2004).

11. Specifics on the tax incentives can be found at <http://www.nyc.gov/html/film/html/incentives/tax_credit_overview.shtml>.

12. See Orr and Rosen (2000) for a summary of key trends in New York City's financial industry.

13. See Deitz and Garcia (2001) for a discussion of manufacturing job trends in upstate New York.

14. See Bram et al. (2004) and Edgerton, Haughwout, and Rosen (2004).

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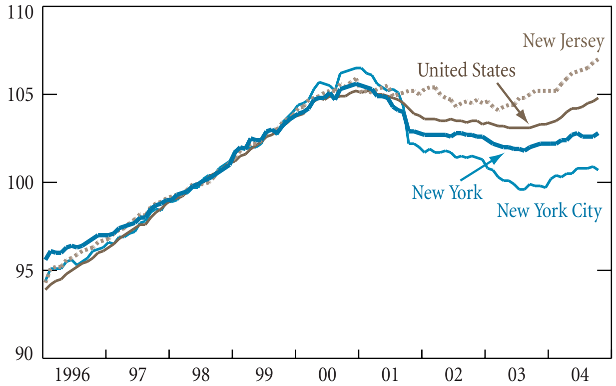
Economic Trends in the Second District

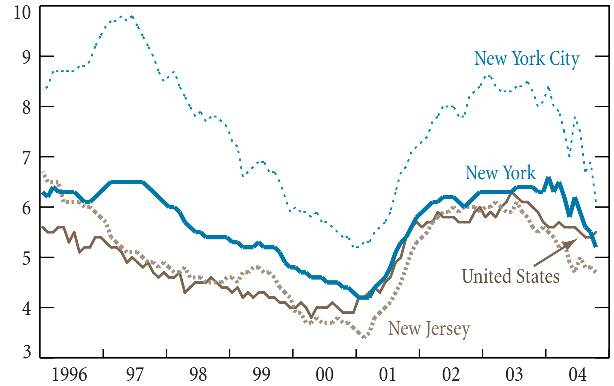
Payroll Employment

Index: 1998 = 100 (seasonally adjusted)



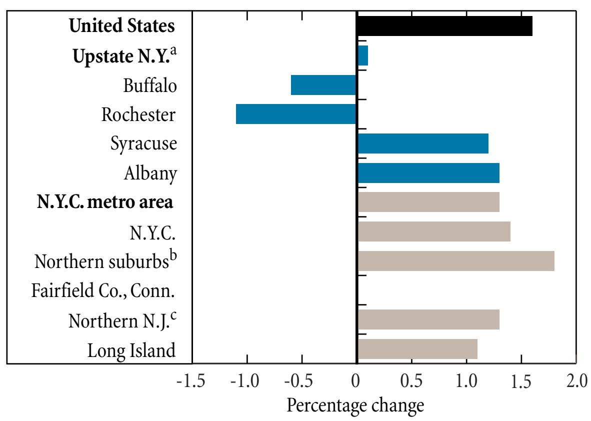
Unemployment Rates

Percent (seasonally adjusted)



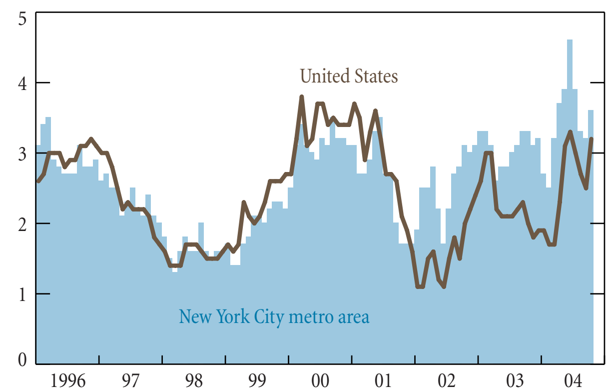
Job Growth in the Nation and Selected Metropolitan Areas

August-October Average (2003 to 2004)



Regional and National Inflation

Twelve-Month Percentage Change in Consumer Price Index



Sources: New York, New Jersey, and Connecticut Departments of Labor; U.S. Department of Labor, Bureau of Labor Statistics; U.S. Department of Commerce, Bureau of the Census; Federal Reserve Bank of New York.

[a] Upstate New York comprises the four metropolitan areas listed as well as Binghamton, Elmira, Glens Falls, Jamestown, and Utica-Rome.

[b] The northern suburbs of New York City comprise Dutchess, Orange, Putnam, Rockland, and Westchester Counties, New York, and Pike County, Pennsylvania.

[c] Northern New Jersey comprises Bergen, Essex, Hudson, Hunterdon, Mercer, Middlesex, Monmouth, Morris, Ocean, Passaic, Somerset, Sussex, Union, and Warren Counties.

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