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1997 Job Outlook: The New York–New Jersey Region

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Major industrial and government restructurings have dominated employment reports in the New York–New Jersey region, leading to widespread pessimism about the region's job prospects. Nevertheless, for the past several years, the two states have managed to achieve modest job gains. In 1997, employment growth in New York and New Jersey should accelerate slightly as the pace of restructurings slows.

Employment in the New York–New Jersey region continued its gradual but steady recovery in 1996. By year-end, the region is expected to post a modest annual job growth rate of 0.8 percent, slightly below the rate in 1995. Although by no means outstanding, this figure is impressive given the sizable losses in state and local government employment in the region in recent years—56,000 jobs since 1993, and 21,000 jobs in 1996 alone. Also remarkable is that the region achieved its modest job gains despite a slowing in U.S. employment growth from its 1995 rate.

This edition of *Current Issues* investigates whether the New York–New Jersey region can sustain its improved job performance in 1997. Employment growth at the state level will be constrained in the new year by the expected cooling of the nation's economy. Fortunately for the region, however, downsizings in the government sector are showing clear signs of easing in 1997. Moreover, in the private sector, the huge restructurings undertaken by manufacturing firms in recent years are beginning to wind down, and job creation in services, though decelerating, remains a potent force in the region. An analysis of these and other local employment trends leads us to predict that the job growth rate for the region will edge up to 0.9 percent in 1997.

We begin our analysis by presenting our projections for employment growth in the region as a whole and in New York State, New York City, and New Jersey separately. We then examine current employment trends in five key sectors—government, manufacturing, transportation and public utilities, services, and finance—and assess each sector's potential for generating new jobs in the region. Finally, we comment on the risks that may alter the outlook for 1997.

A Brightening Picture for 1997

The slow recovery of employment in the region continued in 1996, and we expect a relatively modest growth rate of 0.8 percent to prevail for the year.[1] In 1997, the region's job growth rate is likely to accelerate slightly, to 0.9 percent, yielding 110,000 new jobs (Table 1). Two-thirds of these jobs are expected to be generated in New York State and one-third in New Jersey, a distribution that reflects the relative size of the two states; in fact, growth rates should be roughly the same in each state. New York City will also fare well: we project that the city's overall employment will grow by 0.9 percent. Despite recent gains, however, all three areas have yet to achieve the job levels enjoyed before the 1989-92 downturn (Chart 1).

The mild improvement in job growth overall in 1996 largely reflects the completion of most major govern-

Table 1
Employment Growth in the New York–New Jersey Region
Annual Percentage Change

	1994	1995	1996	1997
New York and New Jersey	1.2	1.0	0.8	0.9
New York State	0.9	0.8	0.7	0.8
Private sector	1.1	1.4	1.2	1.2
Public sector	-0.1	-2.0	-1.7	-0.6
New York City	0.9	0.2	0.7	0.9
Private sector	1.5	1.2	1.3	1.2
Public sector	-2.2	-4.4	-3.0	-0.7
New Jersey	1.8	1.5	0.8	1.0
Private sector	2.1	1.8	1.2	1.2
Public sector	0.5	0.1	-0.3	0.1

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

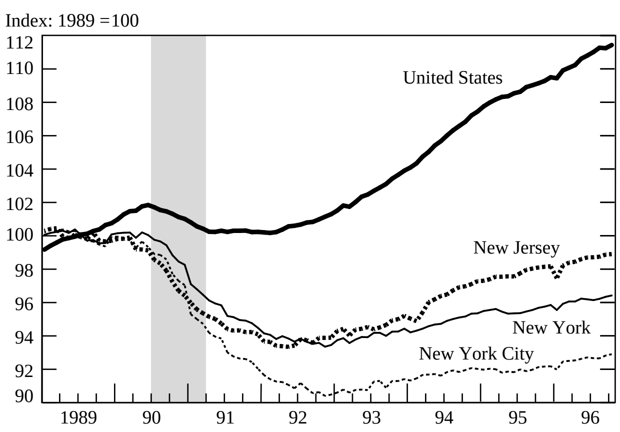
Note: The figures for 1996 and 1997 are projections.

ment downsizings. Since 1993, such downsizings have eliminated about 56,000 jobs. In 1996, government declines will shave about 0.2 percentage point off growth, compared with 0.25 percentage point in 1995. This improving trend is expected to continue in 1997; government job losses should not offset employment gains in services and other sectors to the same extent as in 1996.

Within private industry, the outlook is mixed. Manufacturing jobs will continue to disappear, though at a somewhat slower rate than in the recent past. As of October, far fewer major downsizings and plant relocations had been announced in 1996 than in recent years. Moderating national job growth will rein in the expansion of the region's trade and services sectors. In the banking and utilities sectors, mergers, consolidations, and cost-cutting efforts will keep employment under some pressure throughout 1997. The region's construction sector, however, is expected to expand at a moderate pace.

Overall, the gap between the region's employment growth and the nation's is expected to narrow from 1.7 percent in 1995 to roughly 1.2 percent in 1996 (Chart 2).[2] This represents the smallest gap between the two growth rates in almost a decade. Moreover, with U.S. activity expected to slow, the region's job growth performance should move even closer to that of the nation in 1997.

Chart 1
Trends in Regional Employment
Seasonally Adjusted Data



Source: U.S. Department of Labor.

Notes: Data are reported through October 1996. Shaded area denotes a national recession.

Outlook by Sector

Government Downsizings Easing. At the federal level, the nation's budget deficit continues to constrain job growth, and government employment levels are projected to fall 2.0 percent in 1997.[3] By contrast, at the state level, budgets are in fairly good shape, and the growth in state and local government employment nationwide will likely accelerate from 1.2 percent in 1996 to 1.7 percent in 1997. The outlook for government employment in the New York–New Jersey region lies between these two projections.

In 1996, the government sector continued to shed jobs in the New York–New Jersey region, resulting in a 1.3 percent drop in employment. The rate of loss, however, was down from the 1.4 percent decline in 1995 and thus produced slightly less of a drag on the region's overall performance. For 1997, we expect overall government employment losses to shrink dramatically, to a relatively mild 0.4 percent, as major downsizings ease in both New York and New Jersey.

In New York City, government job losses will ease significantly in 1997. Government cuts there are projected to reach only about 2,000, down substantially from the more than 13,000 jobs lost in 1996 and the more than 23,000 jobs eliminated in 1995. The city's government job losses, while relatively modest, will largely offset the gains in other parts of the region, leaving growth in local government employment in the region essentially flat in 1997. Recently announced plans to consider further cuts, however, could lead to reductions beyond those currently projected (Meyers 1996).

At the state level, New York and New Jersey government job losses will also be much milder in the new year. The two states will likely shed about 5,000 jobs, considerably less than the projected loss of 11,000 jobs in 1996. The state government job cuts will be concentrated in New York; New Jersey's government job levels will probably remain fairly flat. In addition, both New York and New Jersey are expected to wrestle with budget deficits, but given the leanness of staff, layoffs as large as those experienced in recent years are unlikely.

More Declines in Manufacturing. International competition and the drive for productivity have kept U.S. and regional manufacturing employment under intense pressure since the recession ended in 1992. In 1996, manufacturing employment in New York and New Jersey declined at a slightly faster rate than in the nation—by about 1.6 percent as opposed to 1.0 percent. In 1997, the nation's manufacturing payroll is expected to stabilize, at least temporarily. In the New York–New Jersey region, however, the slippage in manufacturing employment will likely continue, albeit at a slower pace, because of continued restructuring and the relocation of firms to other states. The persistence of manufacturing job losses is part of the regional and national shift to a service-based economy. Nevertheless, the region should lose slightly less than the 23,000 jobs shed in 1996.

Manufacturing employment in New York State and New York City stabilized or improved in several broad categories in 1996. Employment in chemicals, rubber, fabricated metal products, industrial machinery and equipment, electronic machinery and equipment, and miscellaneous manufacturing expanded moderately. Overall, however, the sector declined at an annual rate of 1.2 percent during 1996, with large job losses occurring in textile and apparel manufacturing. Because manufacturers in New York State continue to face some of the highest costs in the nation, the long-term trend of employment losses in this sector seems unlikely to reverse itself in 1997.[4] Moreover, if we factor in slower national growth, the rate of decline in manufacturing employment in New York State can at best be expected to stabilize in the near future.

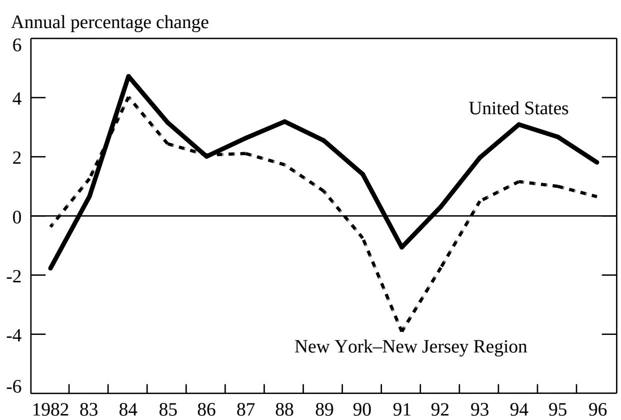
In New Jersey, chemical-related jobs accounted for the greatest number of manufacturing losses in 1996. Employment in New Jersey's chemical industry fell at an annual rate of 3.5 percent, with nearly 4,000 jobs eliminated by September. This sharp drop compares with a decline of just 0.5 percent at the national level. The majority of New Jersey's losses were split between the pharmaceutical and the non-drug-related chemical industries. All except two broad categories of manufacturing employment fell, however; employment in industrial machinery and equipment held fairly steady, and printing and publishing added several hundred jobs. The breadth of job losses and the ongoing pressure for productivity growth in the chemical industry suggest that relief in New Jersey's manufacturing sector is unlikely in 1997.

A Mixed Outlook for Transportation and Public Utilities. The transportation and public utility sector comprises highly diverse industries, including airlines, railroads, communications, and gas and electric utilities. Nationally, employment in these industries is expected to increase about 2.5 percent this year and almost 2 percent again in 1997. Regionally, the 1996 cutbacks at AT&T, PSE&G, and NYNEX have led to heavy job reductions in this sector, but these losses have been offset to a large extent by gains at small trucking, warehouse, aviation, and cable companies. As a result, job losses should be limited to 0.5 percent in 1996, and the sector could stabilize in 1997. The outlook for this broad sector, however, varies by state and industry.

In New York State, a surge in hiring by mainstream and cable television companies has more than made up for the cutbacks at NYNEX. In addition, although gas and utilities are eliminating staff, airline transportation companies are hiring. In New York City, expanding employment at communications firms as well as at airline, trucking, and warehouse firms is a good sign. Overall, slight growth in employment in New York State in the transportation and public utilities sector is possible in 1997.

In New Jersey, AT&T's 1996 restructuring and job reductions dealt a heavy blow to state employment. By the end of September, these losses, combined with cutbacks at PSE&G, had lowered employment for the entire transportation and public utilities sector by 5,000 jobs. Unfortunately, corporate layoffs scheduled for 1997 are likely to cause further moderate job losses.

Chart 2
Job Growth Rates in the United States and the New York–New Jersey Region



Source: U.S. Department of Labor, Bureau of Labor Statistics.

Note: Data are reported through October 1996.

Strong but Decelerating Growth in Services. Services remain the fastest growing component of job growth nationwide. In the region, services also continue to be the primary source of new jobs (Chart 3). We anticipate that regional growth in this sector will reach about 2.4 percent for all of 1996, only slightly below nationwide growth rates. Together, regional business, consumer, health, and social services have consistently achieved growth rates of 3 to 4 percent over the past several years. Although still the engine of job gains, advances in these fields will soften in 1997—from about 3.8 percent to a range of 2.5 to 3.0 percent—as economic growth moderates nationwide. In the region, the only service industry poised to exceed its 1996 growth rate is private education, which will benefit from the entry of baby-boomers' children into schools and colleges.

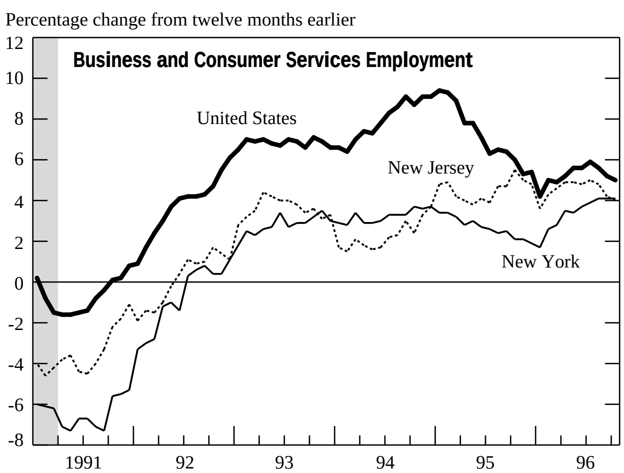
Over the past twelve months, strong job growth was visible throughout the region in both business services and consumer services. Business services—industries providing service inputs to firms—include accounting, advertising, marketing, engineering, management, motion picture production, and computer services. Consumer services mostly cater to individuals and include recreation, amusement, eating and drinking, and private educational services. In addition, employment in retail outlets has gotten a boost in recent months from strong income growth and heavy tourism.

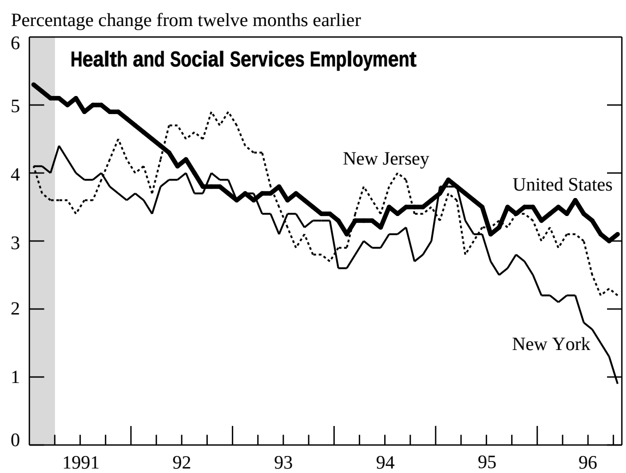
Health and social service industries, a source of many new jobs in the first half of the 1990s, contributed significantly to regional job growth in services in 1996 (Chart 3). In these industries, however, a dramatic slowing is already under way. For example, particularly in New York City, consolidation of facilities, cost cutting, and reduced reliance on hospital care and treatment are curbing job growth in hospitals. Strong advances in other health-related services, such as nursing homes and home health care, will only partly compensate for the slow growth in hospital jobs. Although these adverse trends in health care employment have had only a moderate effect in New Jersey to date, they may prove stronger in that state in 1997.

The overall growth in service jobs has one drawback: the bulk of the new jobs pay below-average wages (Table 2). Nonetheless, the vast majority of these jobs are skilled and, though not high-paying, offer salaries within 10 to 15 percent of the region's average. Only a few categories—educational, engineering, and management services—pay above-average wages. Thus, most of the region's job gains are developing in sectors with below-average wages. If this trend continues, the region may find it increasingly difficult to keep pace with the nation's growth rate in personal income.

Financial Employment Still Suffering. Although financial industry profits continue to contribute to the regional economy, financial employment is being squeezed in the New York–New Jersey region by bank mergers and the restructuring of the insurance industry. Employment in securities, real estate, and financial holding companies is rising, but the growth rate is well below the national average. Consequently, regional financial employment has stagnated in 1996; at best, it will expand nominally in 1997 as large bank mergers begin to subside. This stagnation contrasts sharply with

Chart 3
Growth Sectors





Source: U.S. Department of Labor, Bureau of Labor Statistics.

Note: Shaded area denotes a national recession.

Table 2
Jobs Created in the Service Sector, by Wage Category
Thousands of Jobs

Service Industry	New York State	New York City	New Jersey
LOWER WAGE			
Business	21.3	9.8	19.1
Health	11.8	4.4	6.0
Motion pictures	8.8	6.3	N.A.
Recreation	8.5	3.2	N.A.
Social	4.6	0.9	3.4
Personal	1.1	0.6	0.4
HIGHER WAGE			
Educational	4.5	3.2	0.6
Engineering and management	3.4	3.0	1.9
Legal	-1.0	-1.0	-0.5

Sources: New York Department of Labor; New Jersey Department of Labor.

Notes: Chart reports jobs created from July 1995 to July 1996. Wage categories are based on median earnings of full-time, full-year workers computed from the U.S. Bureau of the Census' March 1995 Current Population Survey. N.A. indicates data were not available.

the national experience: financial employment jumped approximately 2 percent in 1996 and is projected to expand another 1 percent in 1997.

Two structural forces limiting job growth in the financial sector in the New York–New Jersey region are changing technology and financial deregulation. Because of technological advancements, firms can relocate their back-office functions far from the region to cities with lower operating costs. Front-office functions such as marketing and sales are also becoming candidates for relocation as technology becomes more sophisticated. In addition, regulatory changes are leading to numerous mergers and acquisitions, which in turn typically lead to job reductions. One trend that may help to stabilize employment in New York City is the decision of highly profitable securities and financial conglomerates to make only conservative additions to local staff in recent years—a departure from their practice in earlier periods of recovery and expansion. Thus, in the event of any slowing of financial activity, job losses on Wall Street are likely to be more modest than in the past.

In New York State, job gains at securities firms, real estate companies, and other financial institutions were countered by job losses at banks in 1996. Mergers and acquisitions reduced banking employment by 4 percent—a loss of 5,400 jobs. In marked contrast, the nation added 8,000 banking jobs in the same period.

New Jersey has fared better than New York in this period of financial industry consolidation. In that state, financial employment expanded close to 1 percent in 1996. The rate of growth is likely to slow in 1997, however, as job losses from mergers peak. In addition, small mergers and acquisitions are likely within the banking community, and employment in New Jersey's insurance industry remains under pressure to consolidate.

Risks and Long-Term Prospects

Our short-term projections for employment in the New York–New Jersey region are, of course, subject to some uncertainty. Because the budget gaps for New York State and New York City remain unusually large, state and local government jobs may prove more vulnerable than we have projected. For both the state and the city, spending programs continue to rise faster than revenues. Without some resolution of these disparate growth rates, the payrolls for government employees of New York State and New York City will remain prone to cuts. Additional budget crises at either level of government could also lead to a leveling off or even an outright decline in health and social service jobs. Other risky industries are utilities and insurance companies, particularly in New Jersey. Disappointing new ventures and lower than expected revenues from the new AT&T spinoffs could lead to another round of restructurings and job losses.

Although the job outlook could get a modest boost from welfare reform, large increases in employment from this source appear unlikely. Both New York City and New York State will struggle to place significant numbers of welfare recipients on private payrolls in 1997 to meet new federal standards while continuing to provide food and shelter to the needy. Because the region's total job growth will reach a modest 87,000 jobs in 1996 and 110,000 jobs in 1997, the number of welfare recipients that private industry could absorb appears to be slight. Moreover, city and state unions will likely accept only a limited number of welfare hires (Firestone 1996).

On a more positive note, some developments suggest an improved *long-term* outlook for employment in the New York–New Jersey region. The potential for job growth in both states has increased with the introduction of more competitive tax rates and improvements in select government regulations. For example, New York City's hotel tax was recently reduced from 21.25 percent to 15.25 percent. New York State has reformed workmen's compensation by lowering the rate structure and curtailing the potential for third-party lawsuits. The deregulation of the electrical utility industry in New York State is expected to translate into lower rates, particularly for large commercial users. In addition, New Jersey has reduced personal income taxes. Each of these changes has enhanced the region's cost competitiveness.

Two broader developments—a reduction in excess office space and steady foreign immigration—have also boosted the region's economic prospects. The need for office space is encouraging new construction and construction employment, particularly in New York City, where vacancy rates are lowest. Moreover, New York and New Jersey continue to attract heavy foreign immigration. Although immigration entails some costs, such as education for children, it also fuels the demand for housing and adds to the region's labor force. In New York State in the early 1990s, foreign immigration prevented the state from suffering a large net outflow of people. While none of these developments will make the region a leader in job growth next year, they have helped position the two states for higher growth in the long run.

Conclusion

Although the nation's economy is projected to slow in 1997, the pace of employment in the New York–New Jersey region will remain stable. In fact, employment growth is expected to pick up very slightly as public restructurings begin to subside. Together with the small gains made in the past few years, this most recent advance moves the region's performance closer to that of the nation. Because of this relative improvement, fewer people are leaving the region, and labor force participation has begun to rise, particularly in New York City.

Many factors will influence the job outlook for 1997. On the downside, the potential for budget cuts and resurgent corporate restructuring could mean fewer than projected jobs. On the upside, New York and New Jersey have taken steps to boost the region's competitiveness by streamlining regulations, cutting taxes, and lowering production costs such as electricity and the rates for workmen's compensation. In the long term, these changes will both improve the region's ability to retain and attract business and promote stronger job growth in the two states.

Endnotes

1. For our 1996 job outlook, see Orr and Rosen (1996).

2. For a discussion of the relationship between national and regional job growth rates, see McCarthy and Steindel (1996).

3. All U.S. sectoral employment projections presented in this article are compiled from DRI/McGraw-Hill (1996). Our expectations of employment growth in the region are conditional upon the U.S. forecasts.

4. For a review of the costs affecting the manufacturing sector, see Howe and Leary (1996).

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