

# CURRENT ISSUES

IN ECONOMICS AND FINANCE

## Second District highlights

December 1997

## New York City's Unemployment Picture

From the fourth quarter of 1994 to the second quarter of 1997, unemployment in New York City rose 2 full percentage points, from 7.8 percent to 9.8 percent. In the past, only a recession has brought about such a steep rise. This trend contrasts sharply with joblessness in other areas: in recent years, unemployment in the nation and throughout the rest of the New York–New Jersey region has declined steadily (Chart 1).

Surprisingly, the rise in New York City's unemployment rate does not stem from job losses. Indeed, the city has been creating jobs at a relatively healthy pace in the past few years. From 1994 to 1997, local employment growth averaged about 1 percent annually, close to the pace of the 1980s. Although banking, government, and manufacturing have experienced substantial

job cuts, strong job creation in other industries—including business and health services, construction, and retail—has more than offset these losses.<sup>1</sup>

What, then, accounts for the increase in unemployment in New York City? This issue of *Second District Highlights* briefly examines several explanations that have been offered for the rise.

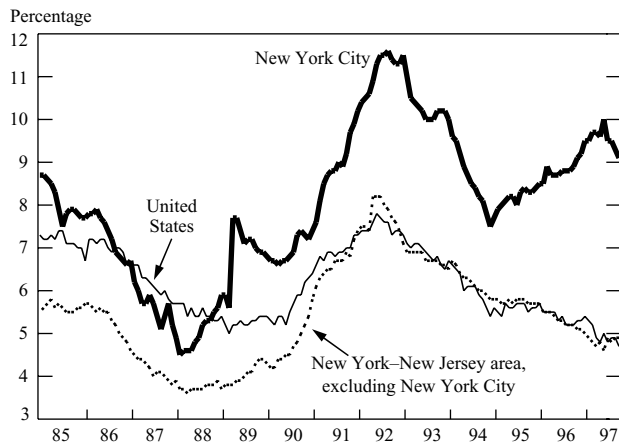
### A COMMUTER ECONOMY?

One explanation holds that New York City's unemployment rate is increasing because virtually all new jobs in the city are being filled by people who reside outside the five boroughs. Indeed, from June 1996 to June 1997, New York City payroll employment, which is based on place of *work*, rose 1 percent. At the same time, household employment, which is based on place of *residence*, rose just 0.1 percent. At first glance, the gap between these two measures suggests that almost all of the net new jobs went to commuters residing outside the five boroughs.

A closer look, however, suggests that a discontinuity in the data—not jobs going to suburbanites—best explains the sharp difference in the growth of payroll and household employment. For 1996, household employment estimates for New York City were based on preliminary assumptions about the city's demographic profile. When new information became available, it was incorporated in the 1997 calculations of household employment, while the 1996 data were left unrevised. This time series break resulted in a reported drop of 28,000 in seasonally adjusted employment between December 1996 and January 1997 (Chart 2).

Once we adopt a broader time frame for our measurement of employment changes, we find that most of the jobs created have in fact gone to New York City residents. From the fourth quarter of 1994 to the second

Chart 1  
**Local and National Unemployment**  
Seasonally Adjusted Data



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

quarter of 1997, the period when unemployment was on the rise, payroll employment increased 2.4 percent while household employment rose 2.1 percent.

**LABOR FORCE PARTICIPATION AND UNEMPLOYMENT**

If the rise in unemployment did not result from job losses, then it must reflect an increase in the labor supply. Adults who are not employed fall into one of two categories: unemployed or not in the labor force.<sup>2</sup> As Chart 3 shows, the rise in New York City’s unemployment rate parallels a steep climb in the city’s labor force participation rate—the fraction of the adult population holding or seeking jobs. From the fourth quarter of 1994 to the second quarter of 1997, New York City’s labor force participation rate rose from 55 percent to 57.3 percent.<sup>3</sup> As a result, even though the adult population was virtually flat, the labor force expanded by 138,000 workers.

During the same period, employment rose 0.8 percent annually, generating a total of approximately 62,000 new jobs, or less than half the number of jobs needed to accommodate the flood of new job seekers. If not for the rise in labor force participation, the unemployment rate would have fallen below 6 percent by mid-1997.

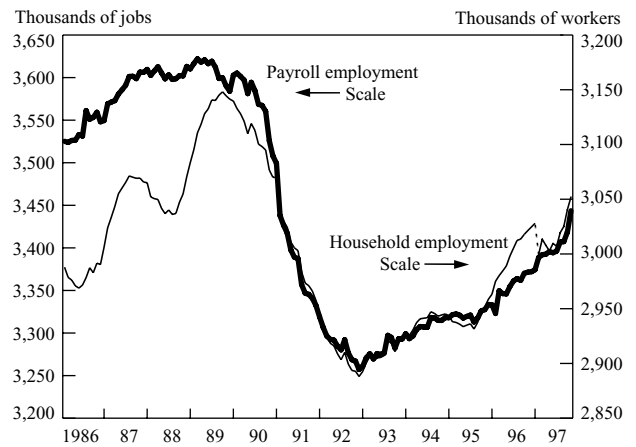
Note, however, that New York City’s labor force participation figures are based on a relatively small survey of 2,400 individuals. Because of the small sample size and other difficulties in compiling the data, the labor force participation figures are subject to some measurement error. For example, the steep dip in participation in 1994 seems suspicious given the improving economic conditions at the time. If the decline was more mild than reported, then the ensuing rise in labor force participation from late 1994 to mid-1997 would be overstated. Nonetheless, even when we take these data problems into account, labor force participation has exhibited a clear upward trend in recent years.

**FACTORS BOOSTING LABOR FORCE PARTICIPATION**

What is driving the increase in labor force participation? Some commentators maintain that the large number of new immigrants to New York City—roughly 113,000 each year—is a significant contributor. As noted earlier, however, the city’s population has not increased, suggesting that the effect of immigration on population is being offset by outmigration. Still, immigration could affect the labor supply if the recent arrivals were more likely to hold or seek jobs than were other residents. According to calculations based on the Current Population Survey, however, recent immigrants’ labor force participation rates are no higher than average.

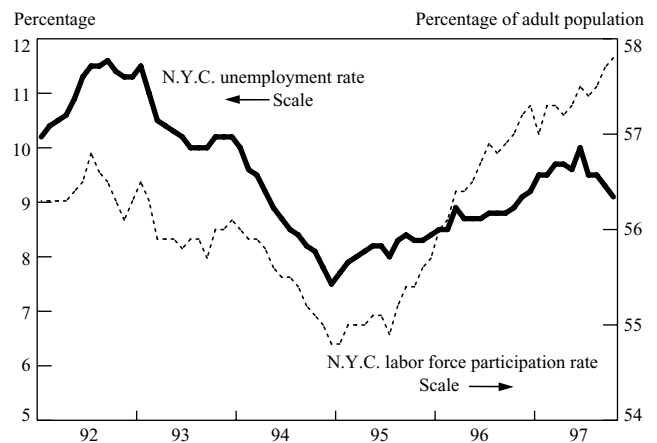
One factor that does help explain the rise in labor force participation is economic growth. During a recession, labor force participation typically falls because some job seekers grow discouraged about finding work and give up their search. As the economy begins to recover, these workers reenter the workforce and participation begins to rise. Although this phenomenon does not typically cause a sustained rise in unemployment, it can for a time put pressure on the unemployment rate.

Chart 2  
**Two Measures of New York City Employment**  
Seasonally Adjusted Data



Source: New York State Department of Labor.  
Note: The dotted line indicates a time series break in the household data, which resulted in a reported drop of 28,000 workers.

Chart 3  
**Unemployment and Labor Force Participation**  
Seasonally Adjusted Data



Source: New York State Department of Labor.

Perhaps the most important stimulus to labor force participation has been the tightening of eligibility standards for public assistance benefits. In early 1995, New York City began imposing more stringent work requirements on some welfare recipients, particularly Home Relief recipients (childless adults). By the end of 1996, the number of Home Relief recipients had fallen by more than a third. In addition, during that period enrollment in AFDC (Aid to Families with Dependent Children), which accounts for a larger percentage of the welfare population, declined 12 percent (Chart 4). Altogether, 200,000 people left the city's public assistance rolls in a relatively short period of time. Policy changes probably explain most of this outflow, although some aid recipients may have elected to reenter the labor force as a result of the brightening job outlook.

#### ADDING IT ALL UP

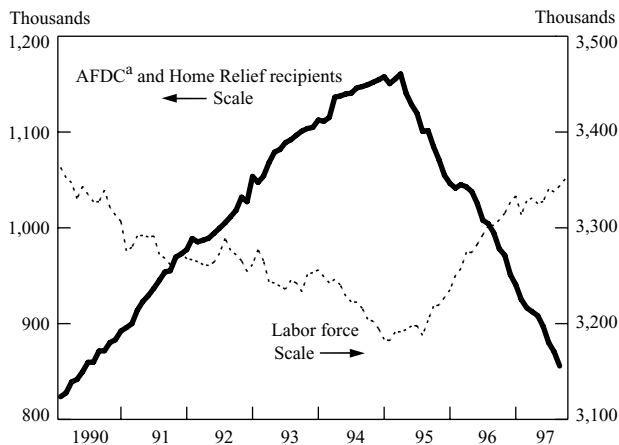
The sharp growth in labor force participation effectively accounts for the 2 percentage point increase in

New York City's unemployment rate since 1994. Although measurement error may have exaggerated the reported rise in the participation rate, the trend is clearly an upward one. A small part of this rise reflects economic growth, which prompts discouraged job seekers to reenter the workforce. The increase has also coincided with reform in the city's welfare policies: in the past few years, welfare rolls have declined by 200,000 people. Although local employment growth has been fairly healthy, it has not been strong enough to accommodate the flood of new workers.

The rise in unemployment, however, has probably run its course. In recent months, employment growth in New York City has accelerated to about 2 percent, and unemployment has moved down from its peak of nearly 10 percent. Moreover, despite continued shrinkage in welfare rolls, labor force growth appears to be moderating. We do, however, expect job growth to slow to an average rate of about 1 percent in 1998.<sup>4</sup> Still, so long as we do not see a renewed surge in labor force participation, the unemployment rate should continue to decline gradually.

—Jason Bram, David Brauer, and Elizabeth Miranda

Chart 4  
**Labor Force Size and Number of Public Assistance Recipients**



Sources: New York State Department of Labor; New York City Human Resource Administration.

Note: Labor force data are seasonally adjusted.

<sup>a</sup>AFDC: Aid to Families with Dependent Children.

#### NOTES

1. For a review of employment trends in the New York City metropolitan area, see James Orr and Rae D. Rosen, "The New York–New Jersey Job Recovery," Federal Reserve Bank of New York *Current Issues in Economics and Finance*, Second District Highlights 3, no. 12 (October 1997).
2. To be counted as unemployed, a person must be available for work and have made some effort to find work during the previous month. Persons who are not seeking work, either because they do not want a job or because they have decided not to look, are classified as not in the labor force.
3. These figures are seasonally adjusted.
4. Our employment forecast for New York City is available at the Bank's regional economy website ([www.ny.frb.org/rmaghome/regional](http://www.ny.frb.org/rmaghome/regional)).

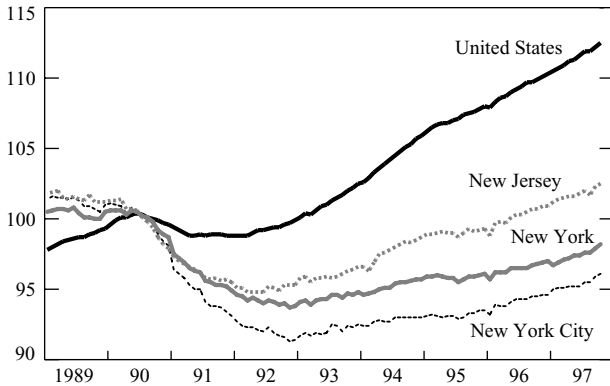
*The views expressed in this article are those of the authors and do not necessarily reflect the position of the Federal Reserve Bank of New York or the Federal Reserve System.*

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# Economic Trends in the Second District

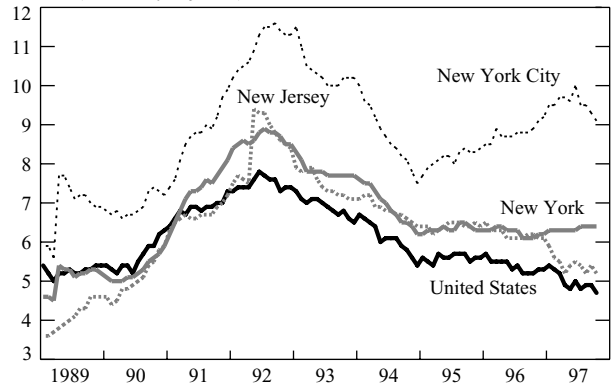
## Payroll Employment

Index: 1990 = 100 (seasonally adjusted)



## Unemployment Rates

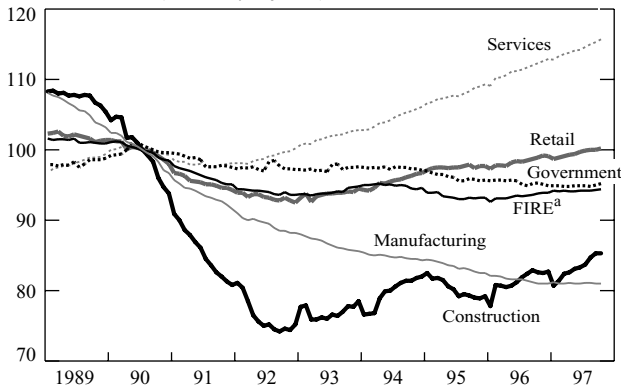
Percent (seasonally adjusted)



## Payroll Employment in Selected Sectors

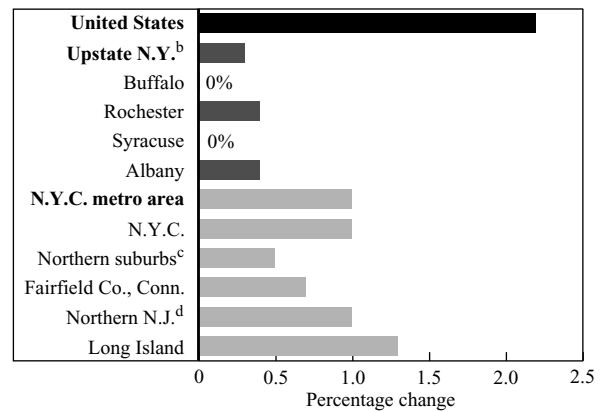
New York and New Jersey Combined

Index: 1990 = 100 (seasonally adjusted)



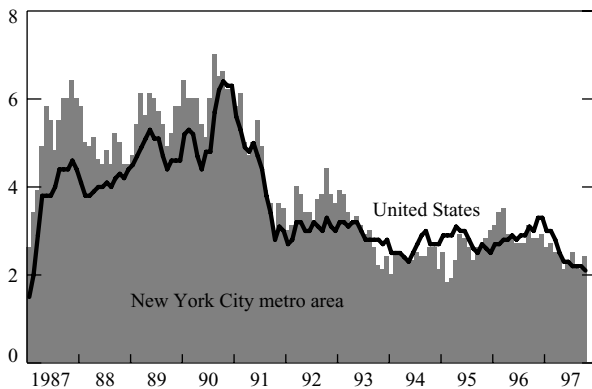
## Job Growth in the Nation and Selected Metropolitan Areas

August-October 1996 to August-October 1997



## Regional and National Inflation

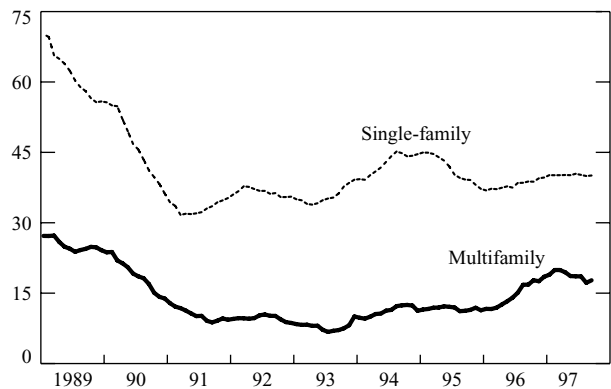
Twelve-Month Percentage Change in Consumer Price Index



## Housing Permits in New York and New Jersey Combined

Twelve-Month Moving Average, Annual Rate

Thousands



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.

<sup>a</sup>FIRE = finance, insurance, and real estate.

<sup>b</sup>Upstate N.Y. comprises the four metropolitan areas listed as well as Binghamton, Elmira, Glens Falls, Jamestown, and Utica-Rome.

<sup>c</sup>The northern suburbs of N.Y.C. comprise Dutchess, Orange, Putnam, Rockland, and Westchester Counties, N.Y., and Pike County, Pa.

<sup>d</sup>Northern N.J. comprises Bergen, Essex, Hudson, Hunterdon, Mercer, Middlesex, Monmouth, Morris, Ocean, Passaic, Somerset, Sussex, Union, and Warren Counties.