

The Securities Industry and the New York–New Jersey Region

*Richard Cantor**

The securities industry in the New York–New Jersey region is currently enjoying strong growth in employment and salaries. The industry is particularly important to the region because it is concentrated locally and pays high wages. Although vulnerable to stock and bond market fluctuations, the industry has positive long-term prospects. The benefits from future growth, however, will likely flow predominantly to highly skilled workers as rapid technological change continues to widen existing income differentials.

RECENT DEVELOPMENTS IN THE REGION

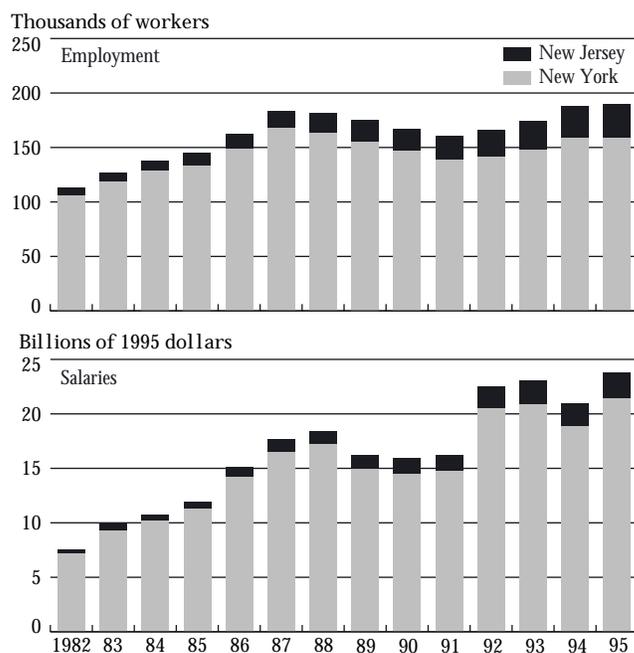
Employment and salaries in the region's securities industry have recovered since coming off their previous peaks in the late 1980s. Chart 1 presents data on employment (top panel) and real salaries (bottom panel) in the securities industry for both New York State and New Jersey. Securities industry employment peaked at more than 180,000 jobs in 1987, then dropped to 155,000 at its trough in 1991. Since then, employment growth has increased steadily and may reach 190,000 jobs by year-end 1996.

*Richard Cantor is an assistant vice president in the Research and Market Analysis Group of the Federal Reserve Bank of New York.

Annual salaries have recovered even more strongly: after rising above \$18 billion (1995 dollars) in 1988, they dropped to \$16 billion in 1989-91, then surged above \$22 billion in

Chart 1

Securities Industry Employment and Salaries in the New York–New Jersey Region



Sources: New York State Bureau of Labor Statistics; New Jersey Bureau of Labor Statistics.

1992. Between 1993 and 1995, salaries averaged more than \$21 billion and are expected to be strong again in 1996.

THE INDUSTRY'S IMPORTANCE IN THE REGION

The economic impact of the securities industry is greater than suggested by its job numbers alone. First, the industry is heavily concentrated within the region. While it provides about 2.5 percent of all private sector jobs in New York State, about 90 percent of these jobs are in New York City, where the industry accounts for 5.3 percent of all private sector jobs. In New Jersey, the securities industry provides only 0.9 percent of private sector jobs, but the state's share of securities industry employment is growing. The industry provides a very significant share of the region's private salaries, 7.5 percent in New York State and 1.9 percent in New Jersey. In addition, the industry's impact extends into other sectors of the economy through the demand for ancillary services. For the past several years, employment and salaries have been moving out of New

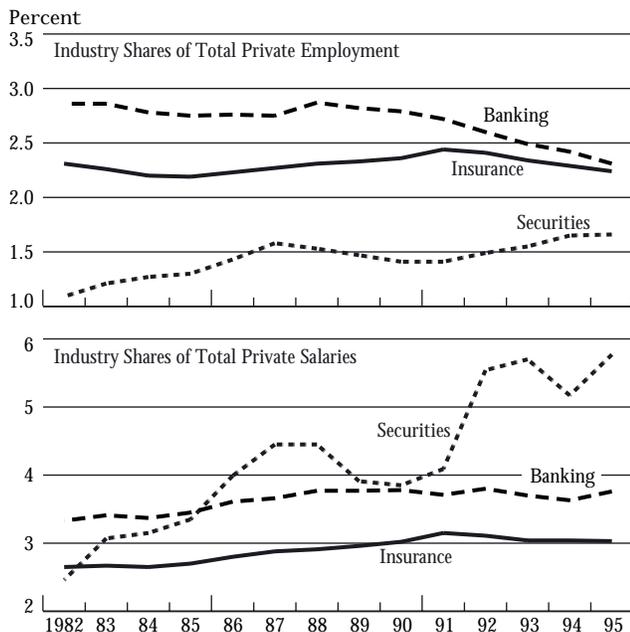
York into New Jersey, reflecting the gradual shift of back-office jobs from the higher cost to the lower cost state.

The recent performance of the region's securities industry contrasts sharply with the performance of the financial sector as a whole (Chart 2). Over the past fifteen years, the shares of regional employment held by the banking and insurance industries have been shrinking, while the share of the securities industry has been rising. An even greater difference, however, is evident in the shares of private salaries held by the three industries. The banking and insurance shares have been relatively flat, while the securities share has been rising sharply.

Chart 3 provides another perspective on the importance of the securities industry to the region's broader economy. The chart depicts the annual growth in total private compensation and salaries for all workers in New York State and for employees of the securities industry subset of the larger group. The two series appear to be contemporaneously correlated, suggesting that increases in salaries in the securities industry cause increases in income statewide.

Chart 2

Relative Importance of the Banking, Insurance, and Securities Industries in the New York–New Jersey Region



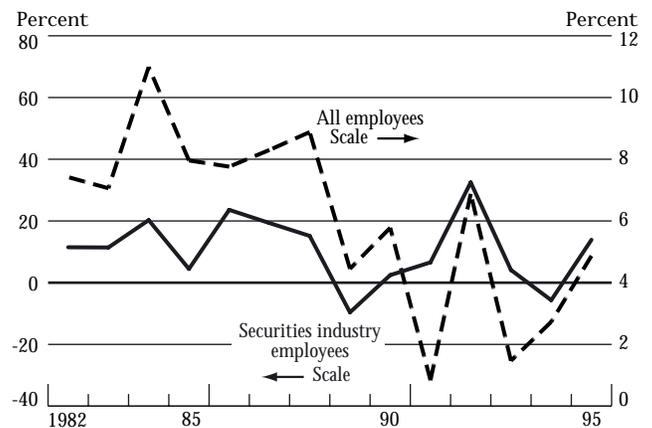
Sources: New York State Bureau of Labor Statistics; New Jersey Bureau of Labor Statistics.

TRENDS IN THE SECURITIES INDUSTRY

Over the past fifteen years, the national securities industry has, on average, grown faster than other industries (Chart 4), and this trend is likely to continue. Because of advances in

Chart 3

Real Growth in New York State Labor Compensation
Annual Percentage Increase



Sources: Securities Industry Association; New York State Bureau of Labor Statistics; New Jersey Bureau of Labor Statistics.

information technology, however, the rewards from such growth are likely to be spread unevenly across the region. On the one hand, such advances clearly enhance the productivity of highly skilled workers, who are heavily concentrated in New York City. On the other hand, they reduce the need to house retail brokers and back-office operations nearby. As a result, the region's share of the nation's employment in the securities industry is likely to continue falling, while its share of salaries will probably keep rising (Chart 5). These developments represent an extreme example of a national phenomenon: technological change is reducing the demand for low-skilled workers while increasing the demand for high-skilled workers, resulting in a further widening of income differentials.

There is some hope that employment in the securities industry may be less volatile than in the past. Over the last twenty years, the industry has diversified its revenue sources away from stock sales commissions toward underwriting, trading, and mergers-and-acquisitions advising. Although we have seen little reduction in employment volatility to date, recent hiring patterns may help to lower employment volatility in the future. In contrast to the excessive hiring spree of the mid-1980s, hiring during the recent bull market has been conducted at a more moderate pace and consequently need not be sharply reversed when the bear market comes.

Chart 4

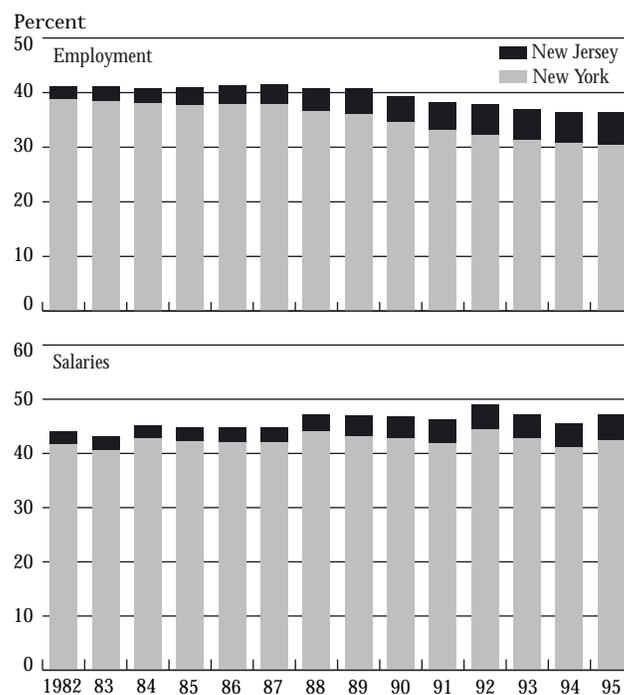
Securities Industry Share of National Private Employment and Salaries



Sources: New York State Bureau of Labor Statistics; New Jersey Bureau of Labor Statistics.

Chart 5

The New York–New Jersey Region's Share of the National Securities Industry



Sources: New York State Bureau of Labor Statistics; New Jersey Bureau of Labor Statistics.

The overall outlook for the region's securities industry appears rather healthy. Apart from the usual market vulnerabilities, few major problems will threaten the industry over the next few years. Most of the brokerage firms have already completed their planned back-office relocations, and the major exchanges appear committed to staying in the city. Future competitive challenges from foreign financial centers are likely to be delayed by local concerns, in particular by the upcoming monetary union in Europe and the financial system difficulties in Japan. Nevertheless, like the downside risks, the upside risks are limited: it is hard to imagine much further improvement in the health of the region's securities industry. Current market conditions are probably as good as they are going to get, and foreign firms preoccupied with matters at home are unlikely to expand their New York presence soon.

The author thanks Rae Rosen and Charles Steindel for comments and Kathleen Foley for research assistance.

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. The Federal Reserve Bank of New York provides no warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, or fitness for any particular purpose of any information contained in documents produced and provided by the Federal Reserve Bank of New York in any form or manner whatsoever.