

The New York City economy: is the worst finally over?

New York City's economy is improving. The large contractions in employment, which exceeded 85,000 annually between 1969 and 1976, have been replaced by stability and even expansion in some industries during recent months. Other measures also suggest that the unremitting decline in business activity is ending. The contrast with earlier years is particularly evident in the commercial rental market. Hotel occupancy rates exceed earlier peak levels, and the once-pervasive overabundance of office space has disappeared. New construction and large-scale renovation work have revived the long-dormant building trades. Also on the positive side, inflation in the New York region has been less severe than in the rest of the nation.

Admittedly, this turnaround has by no means overcome the legacy of the previous decline. The city's physical plant continues to deteriorate, unemployment remains high, and the exodus of business persists. New Yorkers still suffer from high costs of living and burdensome taxes. Moreover, parts of the city continue to be plagued by a heavy incidence of crime and poverty. Nevertheless, New York City's long downward slide has at least been arrested.

Labor market conditions

Labor market conditions in New York City have improved noticeably. The decline in payroll employment, which began in 1969 and was largely unaffected by the two intervening periods of national recovery, now has halted. While private employment began to level off in 1976, a reduction in government jobs at the Federal and local levels caused total employment to decrease further. By the latter half of 1977, however, the contraction came to an end as both private and public employment stabilized (Chart 1).

Especially notable is the upturn in manufacturing.

Although total factory jobs edged downward for 1977 as a whole, after increasing for the first time in more than a decade in 1976, they have generally been rising since the fall of 1977.¹ Even in the apparel industry, now less than half its 1948-peak level of 354,000 but still the largest component of factory employment, jobholding has been inching up steadily since 1976.

Among private nonmanufacturing sectors, the "other services" category, which includes such diverse occupations as advertising and legal and personal services, has posted particularly large gains. Progress—albeit small—has also been made among workers in the severely depressed building trades. Construction employment was little changed during 1977 but has shown some growth thus far in 1978, in large part due to increased activity in commercial building. A further pickup is likely because recent actions by various levels of government have greatly increased the probability that such large construction projects as an interstate highway (Westway), a convention center, and the Battery Park City housing complex will be undertaken.

In the remaining private sector industries, however, jobholding has not risen. Employment within the city's financial sector has been fairly constant, but jobs in transportation and public utilities have decreased further as have those in wholesale and retail trade. These weak spots notwithstanding, private employment in New York City appears to be breaking its long cycle of uninterrupted decline. In most major employment sectors, jobholding for the first six months of 1978 was somewhat greater than in the comparable period a year earlier (Table 1).

¹ Factory jobs in New York City currently account for little more than half their 1947 peak of 1,038,900. Nevertheless, this sector is still almost one fifth of total private employment.

Total public employment in New York City has also increased. While Federal Government jobs in the city have been contracting steadily and the number of state jobs has been relatively unchanged, local employment has risen as a result of Federally funded programs. Money received from the Comprehensive Employment and Training Act (CETA) is currently being used to fund almost 30,000 local government jobs out of a total of about 367,000. Other than these CETA jobs, local government employment has been shrinking. In addition to the approximately 77,000 positions which were eliminated during the 1975-77 period, the city administration has promised 3,000 further reductions by June 1979. Moreover, as outlined in the city's latest four-year financial plan, these are only the first cutbacks of an estimated total of 20,000 jobs to be eliminated by June 1982. Thus, the apparent contradiction between these well-publicized layoffs and the rise in public employment indicated in Table 1 is due to the CETA employment program.

Unemployment

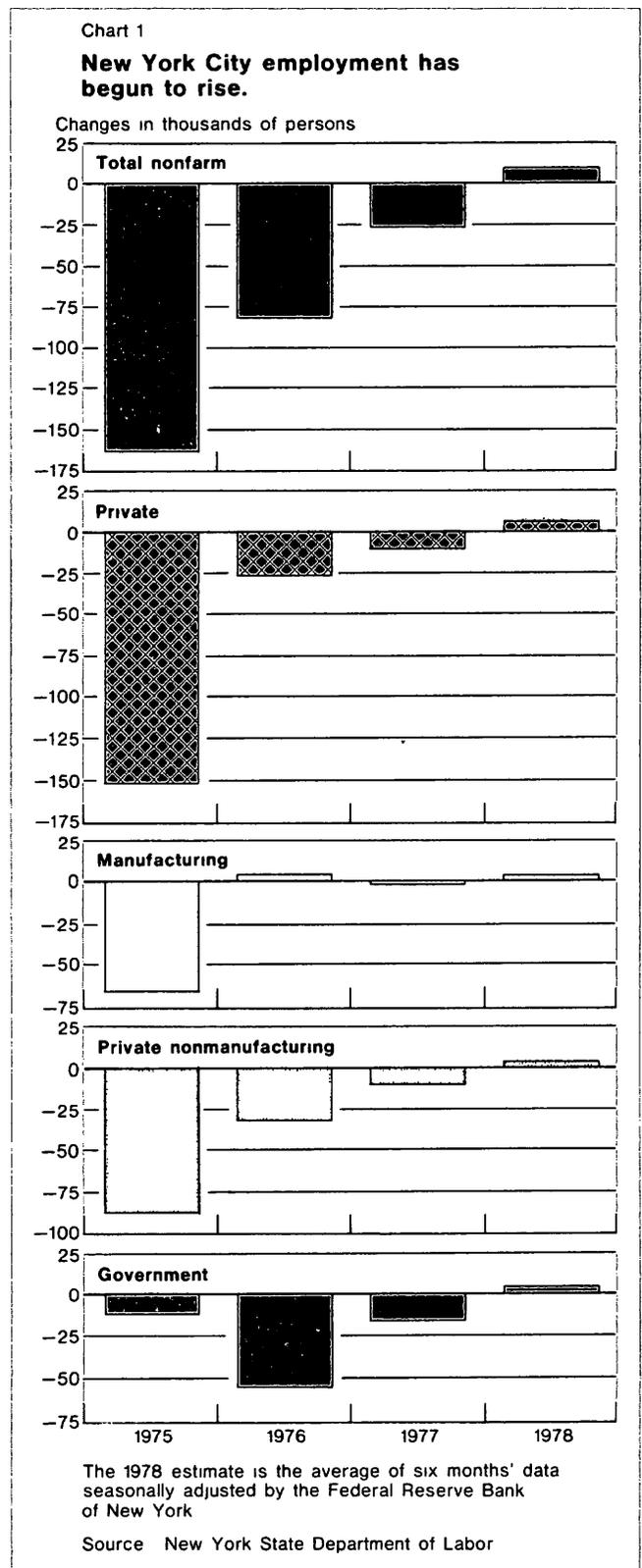
The expansion of jobs in New York City has decreased unemployment among city residents. Over the first half of 1978, the city's unemployment rate averaged 9.1 percent, a 0.6 percentage point decline from the rate posted in the same period a year earlier (Chart 2). This decrease is sizable, but the problem of joblessness is still more severe in the city than it is nationally. While unemployment persists at all age levels, the differences between racial groups are not so great locally as elsewhere. During 1977, the ratio of the nonwhite to the white unemployment rate was lower in New York City than in the nation. Moreover, among nonwhite adult women the jobless rate was 7.9 percent in the city, compared with 11.7 percent nationally.

It is also noteworthy that New York City's labor force, which had been contracting since 1970, has been comparatively unchanged of late. Thus, the lower unemployment rate is attributable to a rise in employment. In the past, such reductions were generally due to the shrinkage in the labor force exceeding the drop in employment.

Business activity

This strengthening in the labor market is, of course, a reflection of the upturn in business activity. One of the most dramatic improvements has been in the commercial rental market, where there has been a turnaround in the demand for both office space and hotel lodging. The simultaneous recovery of these two markets adds to the opportunity for widespread, well-balanced growth.

In the office rental market, the glut of excess capac-



ity which existed a few years ago has disappeared. According to one recent study, total available office space in July 1978 was 166 million square feet, slightly more than half the inventory that was available in January 1973. Large blocks of desirable office space have become scarce, causing rents to rise sharply particularly in midtown locations. In turn, this midtown revival has had a positive effect on the downtown rental market. As the various costs involved with establishing, relocating, or even remaining at a current midtown location increased significantly or as adequately sized accommodations were no longer available, downtown activity also began to pick up. Responding to the heightened demand for additional office space, some new buildings are planned by such major corporations as International Business Machines and American Telephone & Telegraph Company and renovation work is scheduled for the Chrysler Building as well as for several other midtown and downtown sites.

Part of the impetus for this turnaround has been provided by the increased needs of domestic corporations that want to change or enlarge their existing facilities and by the continuing influx of foreign companies, especially in financial industries. Of the fifty foreign bank agencies and branches opened in the United States during 1977, twenty-four were in New York City. In addition, there has also been some shrinkage in available space as a result of the conversions of office buildings into residences and the demolition of older, less desirable structures.

The burst of activity in the hotel industry largely reflects the continuing and growing importance of New York City as a convention and tourist center. With the exception of the summer of 1976 when hotel occupancy was spurred by the Bicentennial Celebration and the Democratic National Convention, occupancy rates during 1977 were consistently above those in 1976 and in the first months of the current year have surpassed those of 1977. While several older hotels have closed in recent years, both new building and extensive remodeling are being undertaken to meet present demand and in anticipation of further growth in the city's tourist trade.

Along with commercial construction, the residential sector has shown an uptick, but the level of activity remains weak. Residential building permits—a key indicator of new housing activity—rose during 1977, but the 7,600 units authorized, while 2,200 more than in the previous year, still only approximate the low levels of the 1930's. They represent just one fifth the number of authorizations issued in 1972. During the first five months of 1978 the number of building permits issued has continued to rise slowly, with most of the increase concentrated in Manhattan (Table 2).

Table 1

New York City Nonagricultural Employment

Not seasonally adjusted; thousands of persons

Sector	Average employment		Change from 1977 to 1978
	January-June 1978	January-June 1977	
Manufacturing	539.1	536.3	2.8
Private nonmanufacturing	2,131.1	2,128.4	2.7
Construction	65.5	63.1	2.4
Finance, insurance and real estate	414.2	413.1	1.1
Wholesale and retail trade	614.5	619.2	-4.7
Transportation and public utilities	255.0	259.8	-4.8
Services	780.6	771.8	8.8
Total private	2,670.2	2,664.7	5.5
Government	501.6	492.3	9.3
Federal	83.5	84.4	-0.9
State	51.0	49.3	1.7
Local	367.0	358.5	8.5
Total nonagricultural ...	3,171.8	3,157.0	14.8

Because of rounding, figures may not add to totals.

Source: New York State Department of Labor.

Table 2

New Housing Units Based on Building Permits Issued

Total of five months of data for each year, not seasonally adjusted

Area	1975	1976	1977	1978
The Bronx	253	158	823	284
Brooklyn	354	252	172	95
Manhattan	169	742	1,216	2,797
Queens	434	340	230	503
Staten Island	362	931	939	841
Total New York City	1,572	2,423	3,380	4,520

Source: New York State Division of Housing and Community Renewal

There has been, however, one area of significantly growing activity within the residential sector. An increasing number of commercial properties are being converted to residential usage. This trend, which began with lofts, has spread to larger projects.

The tourist industry has been a major factor in fueling New York City's current revival. Broadway theaters are having a record season, and special museum shows are attracting ever-larger crowds. According to the New York Convention and Visitors Bureau, approximately 16.8 million people visited New York City during 1977, spending an estimated \$1.6 billion. Compared with 1975, this is an increase of 750,000 visitors spending an extra \$225 million. In recognition of the growing value placed on the tourist trade, the city restored in fiscal 1978 the 1974-75 pre-fiscal-crisis level of funding to the Bureau. Expanded and more aggressive advertising and marketing techniques, together with New York's other well-known attractions and the proposed new convention center now in the planning stage, seem to ensure the continuance of the tourist trade as a major growth industry in New York City.

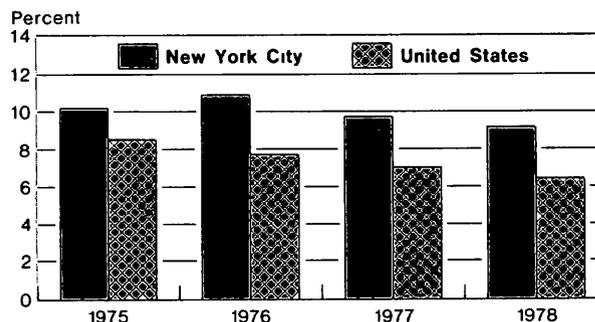
Little of a definitive nature can be said about the trend in local retail sales activity because the data are fragmentary.² It appears, however, that sales in the city followed the same overall pattern as elsewhere. A strong holiday season was followed by weakened sales in January and February. This sluggishness may have largely reflected the disruptive effects of severe snowstorms, since buying has generally rebounded with the warm weather. Although several general merchandise establishments have closed, other stores report that they are reaping the gains from large-scale renovations, innovative marketing, stepped-up promotional campaigns, and Sunday store openings, as well as from the fledgling upturn in the city economy.

Prices and the cost of living

The city's competitive position has also improved. While the level of consumer prices remains higher in New York than in the nation as a whole, the difference has been narrowing as the inflation rate in the New York-Northeastern New Jersey region has been more moderate than that in the rest of the country. For the twelve months ended in June 1978, consumer prices rose 7.4 percent nationally but only 5.5 percent locally. During 1977, the rise in each of the major components of the consumer price index—food, nonfood commodities, and services—was less in New York than in the nation. Price increases in the New York region have also been less severe than those in other major metro-

Chart 2

The unemployment rate in New York City remains high.



The unemployment rate is the average of six months' data, not seasonally adjusted

Source: United States Department of Labor, Bureau of Labor Statistics

politan areas and so these gaps, too, are slowly being reduced (Table 3). To be sure, New York has not been immune from the recent pickup in nationwide inflation rates, but local price increases have been less severe than nationally in a continuation of a pattern which began in 1974.

Although price differences as measured by the consumer price index have decreased, the total cost of living still is comparatively high in New York City, according to the latest estimates prepared by the Bureau of Labor Statistics. In the autumn of 1977, for an urban family of four at an intermediate budget level, the New York-Northeastern New Jersey area was estimated to be one of the most expensive metropolitan areas in the United States in which to live, exceeded only by Anchorage, Honolulu, and Boston. This survey found that the differential in intermediate-level living costs between New York and the average of all other metropolitan areas remained the same between 1976 and 1977—about 14 percent. At the higher budget level the gap in living costs rose by 1 percentage point to 22 percent, but at the lower level the differential narrowed from 6 percent to 5 percent.

Corporate headquarters

Despite the many changes that have occurred in New York City's economy, the well-publicized emigration of both industrial and nonindustrial companies continued during 1977, although at a somewhat slower pace than in the past. Two more of the nation's 500 largest industrial companies joined the exodus, reducing the total number remaining in New York to 82.

² Due to sample revisions, retail sales data are available on a consistent basis beginning only in August 1977

While this is far fewer than the 140 companies which were headquartered in the city in 1956, the relative decline has been in line with that in other older urban areas (Table 4). The exodus of corporate headquarters has the potential of having adverse effects on the city economy beyond the direct loss of jobs or tax revenues due to the relocations themselves. If these companies sever their link with the city's corporate service firms as well as discontinue their usage of the city's cultural and entertainment resources, the effects of the original loss are multiplied several times over. According to one recent estimate by the Conservation of Human Resources Project at Columbia University, employment in the corporate service sector, of which banking is the largest industry, is 2.3 times larger than employment in the corporate headquarters themselves. The same study found, however, that firms which relocate to the suburbs of the city generally tend to maintain these links. Of the Fortune 500 companies that have left the city, approximately two thirds have remained in the tristate region.

The corporate relocation movement has not all been in one direction. Some companies that were considering moving have decided to stay in New York, while some others that had left are now returning—including some smaller companies as well as Fortune 500 firms. In addition, the influx of foreign companies continues strong. These enterprises absorb large amounts of commercial space and employ many New Yorkers. Indeed,

in a survey of Japanese firms in New York City, it was found that, for every Japanese worker that they brought here, 2.1 local residents were employed. Such companies as these, spread out among all sectors of the economy, help support the high concentration of business and ancillary services for which New York is known.

The city's Office of Economic Development (OED) has taken steps to reverse the outflow of businesses from New York. By arranging for some local firms to receive tax abatements and for others to be able to issue tax-exempt industrial development bonds, by assisting firms which are hurt by foreign import competition to obtain Federal aid, and by reducing the time consumed on local licensing and administrative procedures, OED has helped some local companies to maintain or expand their facilities in the city. OED also contracts on-the-job training programs and provides energy counseling to individual businesses.

Government help

The economic problems of New York have created a new awareness within government of its role in fostering the revitalization of the city's economy. The three levels of government have each in different ways directly participated in the efforts to reverse the downward trend in local business activity. In addition to the programs of the OED and reductions in the local business tax burden through both lowering rates and

Table 3

Consumer Prices and the Cost of Living in Selected Metropolitan Areas

Area	Annual change in consumer price index, 1973 to 1977 (in percent)	Annual family budget, autumn 1977 (in dollars)
New York-Northeastern New Jersey	7.3	19,972
Boston	8.1	20,609
Chicago-Northwestern Indiana	7.4	17,330
Detroit	7.6	17,427
Los Angeles-Long Beach	8.6	17,126
Philadelphia-New Jersey	7.9	17,792
Washington D.C.-Maryland-Virginia	8.0	18,026

Price changes calculated at a compound annual rate, costs estimated for a four-person family at an intermediate budget level.

Source: United States Department of Labor, Bureau of Labor Statistics

Table 4

Fortune 500 Companies in Major Cities

1956 and 1977

City	1956	1977	Change
New York	140	82	- 58
Chicago	47	24	- 23
Pittsburgh	22	14	- 8
Detroit	18	5	- 13
Cleveland	16	13	- 3
Philadelphia	14	7	- 7
St. Louis	11	13	+ 2
Los Angeles	10	12	+ 2
San Francisco	8	6	- 2
Boston	7	4	- 3
Total	293	180	- 113

The ten cities are those which had the greatest number of headquarters in 1956, the first year in which this survey was taken

Source: "The Fortune Directory of the 500 Largest U.S. Industrial Corporations", *Fortune* (July 1957 and May 1978)

granting tax credits, the city has adopted a policy of working with the business community rather than continuing its past pattern of developing programs and taking actions which too often proved to be counter-productive to private enterprise and therefore to the city's economy.

New York State has also attempted to help the city through the pursuit of policies which encourage economic growth. Tax incentive and loan programs and several amendments to state regulations governing the insurance and banking industries are examples of such endeavors. A reinsurance exchange and a "free trade" zone for large nonconsumer insurance contracts will begin operating within the next few months. A bill exempting international banking activities from state and city taxes also has been passed by the Legislature and signed by the Governor. This legislation clears away tax obstacles to banks establishing international banking branches that would perform many of the activities now done through "shell" branches in the Bahamas and Cayman Islands, as well as other foreign branches. Establishment of such branches will require changes in Federal Reserve regulations, the implications of which are now under study. In addition, the state's improved financial picture has led to reductions in both the business and personal tax burden. This in turn may help to make New York City, along with the rest of the State, more competitive with neighboring states.

The Federal Government, too, has taken the initiative in developing programs designed to bolster New York City's economy either directly or in conjunction with that of other cities. The President's proposed urban aid package and legislation targeted at specific problems such as mass transit, housing, or unemployment are examples of programs which aim to help New York City, along with other urban centers.

Of the efforts especially planned to assist New York City, one of the most prominent is the Federal Government's commitment to aid the South Bronx. The city is scheduled to receive \$55.6 million in Federal dollars by September 30, 1978, which will be used primarily to increase job opportunities among the area's hard-core unemployed and to restore two major commercial districts. Within the next five to seven years, the city expects Federal contributions to the

rehabilitation of the Bronx to total \$520 million, of which \$200 million will be used for housing subsidies.

As a further spur to the city's economy, the Federal Department of Housing and Urban Development has tentatively agreed to provide a maximum of \$68.5 million in mortgage insurance for the first six buildings at the Battery Park City housing project. This backing will be contingent upon the project's meeting numerous conditions outlined by the Federal Government. Work on the buildings halted in 1975 when fiscal difficulties prevented the state's Battery Park City Authority from selling the bonds necessary to finance construction.

The future

The durability of New York City's turnaround is by no means assured. The city's underlying problems can only be resolved over an extended period of time and with ongoing assistance from all levels of government. Meanwhile, such burdens as high costs of living and of doing business will tend to impede the city's longer term recovery. In the near term, the course of the national economy will doubtless also affect the city's fortunes. The current economic expansion, well into its fourth year, is widely expected to slow down. Such an occurrence could pose a threat to the limited recovery thus far exhibited by the city. In addition, the city's own fiscal situation will be an important determinant of its future economic well-being. New York City's new four-year financial plan is intended to enable the city to meet its short- and long-term financing needs, while it proceeds to balance its budget according to generally accepted accounting principles and gradually to regain access to the credit market. A number of steps have been taken during the past few months toward those objectives. Labor negotiations with more than 200,000 municipal workers were completed; the Congress has agreed upon a loan guarantee bill; the life of the fiscal monitoring agent has been extended on a long-term basis; and authorization for additional borrowing by the Municipal Assistance Corporation has been obtained. Yet these accomplishments, while important, represent only temporary solutions. If New York's economic future is to be secure, the city must continue to attack its underlying economic problems and finally resolve its fiscal problems in a way that enables it to function without special Federal financial aid.

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