

New York City's Economy in 1980

New York City's economy seemed to function better than the national economy during the recession of 1980. Between January and July, private employment expanded in New York even as it fell in the rest of the country, and the city's unemployment rate did not increase sharply, as it did elsewhere. This represented a major change from the devastating effect on the city's economy of the past two national recessions. In addition to the better employment picture during the 1980 recession, retail sales were strong in the city relative to the rest of the country, tourism thrived, commercial construction activity was brisk, and the local inflation rate was more moderate than nationwide. These factors have been taken by some people as evidence of a broader turnaround in New York City's economic situation.

A closer review of the data for 1980, however, indicates that such an optimistic conclusion about New York City's longer term prospects is unwarranted. In fact, the only job category for which the city's employment record was better than the nation's was construction. Moreover, while the city's unemployment rate was comparatively steady, it remained well above the national average. In addition, the proportion of working-age residents in jobs or actually seeking jobs was still far below the national average because of limited employment opportunities. Also, the pronounced slowing in wage increases relative to the rest of the country that was evident during the fiscal crisis of 1976-78 has not continued. In the last two years, wage costs in the city have accelerated and may now be going up about as fast as in the nation both in manufacturing industries and in other sectors.

Thus, a reading of just the aggregate data conceals great disparities in the city economy, with some notable improvements in selected sectors but no clear turnaround toward economic revival. In large part, the city's economic condition is still fragile.

Disparities in the private economy

For 1980 as a whole, private employment increased at about the same rate in New York City as it did in the rest of the nation—about $\frac{3}{4}$ percent. But all the city's job growth was concentrated in three sectors: finance, services other than financial, and construction. Together, these three sectors account for about half of the city's private employment, compared with less than 40 percent nationwide. Total employment growth in these areas was not robust, just large enough to offset slightly the reductions occurring elsewhere in the city's economy (Table 1).

In absolute terms, the greatest job growth was in the finance, insurance, and real estate sector and in services. Bolstered by higher activity on the stock exchanges and expanded operations of foreign banks in New York, financial sector employment grew by 3.8 percent in 1980, the same rate as in the rest of the country. This marked a significant change from the years prior to 1978 when total employment had been declining annually (Table 2).

Services, the largest local employment sector, grew almost as fast in New York City as it did nationwide. Within this sector are such diverse industries as hotels, business services (for example, advertising, management consulting, and computer and data processing), nonprofit organizations, medical services, and

Table 1

1980 Private Payroll Employment

Level in thousands

Sector	United States		New York City	
	1980 level	Percentage change from 1979	1980 level	Percentage change from 1979
Manufacturing	20,361	-3.4	499	-3.8
<i>Durable</i>	12,215	-4.4	106	-4.6
<i>Nondurable</i>	8,146	-1.7	392	-3.6
Construction	4,469	-0.1	75	5.4
Transportation, communications, and public utilities ..	5,156	0.3	257	-0.6
Wholesale and retail trade	20,573	1.5	615	-1.0
Finance, insurance, and real estate	5,162	3.8	446	3.8
Services	17,741	3.9	889	3.6
Private*	74,487	0.7	2,782	0.8

* Includes mining not shown elsewhere

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

Table 2

Private Payroll Employment in New York City

Percentage changes

Sector	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Manufacturing	-7.2	-8.3	-3.8	-3.4	-7.8	-10.8	0.8	-0.5	-1.2	-2.1	-3.8
<i>Durable</i>	-7.3	-10.9	-3.5	-2.2	-6.1	-17.1	0.6	-1.1	-0.9	-2.9	-4.6
<i>Nondurable</i>	-7.2	-7.5	-3.8	-3.8	-8.2	-8.9	0.8	-0.3	-1.3	-2.3	-3.6
Construction	5.7	0.8	-6.7	2.3	-5.3	-21.4	-16.5	-4.2	1.3	7.9	5.4
Transportation, communications, and public utilities ..	-0.2	-7.5	-0.4	-1.4	-3.6	-4.7	-2.2	-2.1	0.5	-0.3	-0.6
Wholesale and retail trade	-1.8	-4.3	-1.3	-1.4	-3.0	-4.6	-0.8	-1.4	-0.1	0.1	-0.1
Finance, insurance and real estate	-1.3	-1.8	-1.0	-2.5	-2.2	-1.2	-0.9	-0.5	0.9	2.8	3.8
Services	0.8	-1.8	1.0	1.2	-0.6	-1.7	-0.2	2.6	4.6	4.9	3.6
Private*	-2.1	-4.4	-1.3	-1.2	-3.4	-5.2	-0.9	-0.3	1.3	1.6	0.8

* Includes mining not shown elsewhere

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

private education. The two segments that grew the fastest were business services and hotels.

Construction was the one sector in which the city did markedly better than the rest of the country. Whereas construction employment declined 0.1 percent nationwide in 1980, it increased 5.4 percent in the city. Of course, construction jobs still account for a smaller proportion of total employment in New York than in

the rest of the country. The fairly rapid growth of local construction jobs reflects a commercial building and real estate recovery in Manhattan, which has been in progress for a few years. As office space has become scarce, midtown Manhattan rental rates have shot up—more than 60 percent for the year ended 1980. In a recent survey of eighteen major metropolitan areas, the estimated office vacancy rate was down to 3.8 per-

cent in New York City in the autumn of 1980, well below the overall average of 6 percent.¹ This relative scarcity and the rising rents have stimulated new construction. At present, New York City has roughly 9 million square feet of new office space under construction, amounting to about 6 percent of existing space. The only other city with more construction under way is Houston.

Construction employment also has been stimulated by the city's thriving hotel industry. Strong tourist activity has kept local vacancy rates for hotel and motel rooms low, and this has encouraged both new building and renovation. Three new hotels have opened in 1980, and three more are scheduled to open in 1981.

In contrast to the strength in commercial and hotel

construction, residential construction remains weak, just as elsewhere in the nation. In fact, new residential construction declined in each of the five boroughs of New York City during 1980. The lion's share of new building, however, continued to be garnered by Manhattan (Box 1).

In half of New York City's private economy, employment decreased. Trade employment edged down despite a sustained expansion of retail sales, which rose 16.4 percent in New York City during 1980, compared with 6.9 percent nationwide. Job losses were most severe, however, in manufacturing. Employment in New York City's manufacturing sector contracted more than in the rest of the country, and at an even faster rate than in the last three years (Table 2). Just about every one of the large manufacturing industries in the city was harder hit than its national counterpart. In the city's durable goods industries, this sharper decline

¹ The Office Network, Inc., *National Office Market Report* (Fall 1980)

Box 1: Disparity between the Boroughs

The borough of Manhattan overwhelmingly dominates New York City's economic recovery by almost all measures. Nearly 60 percent of the residential building permits issued in 1980 were concentrated in Manhattan although the borough is home to only one fifth of the city's population. Office construction continues to be virtually dormant outside this borough, with only one major office building under way in the other four boroughs. (That one office building is being constructed in Queens.) The bulk of tourist activity, a key factor behind the booming restaurant and record-setting theater attendance, is centered in Manhattan;

so is most of the employment growth. Indeed, between 1977 and 1979, 93 percent of the city's private employment growth was in Manhattan. This same pattern of job growth prevailed in the first half of 1980, the latest data available (table).

In 1979, personal income, on a per-capita basis, ranged from a high of \$13,589 in Manhattan to a low of \$7,179 in the Bronx, despite per-capita income growth which has been slightly faster in the Bronx than any other borough since 1977. Growth of total income, however, continues to be the slowest in the Bronx

Private Insured Employment in New York City

By borough; in thousands

Employment	New York City	Bronx	Brooklyn	Manhattan	Queens	Staten Island
1977	2,631.8	163.6	369.4	1,691.8	368.5	38.5
1979	2,716.8	160.6	366.2	1,771.2	377.4	41.4
Percentage change	3.2	-1.8	-0.9	4.7	2.4	7.5
1979, 1st half	2,694.3	159.8	364.4	1,754.8	374.7	40.6
1980, 1st half	2,731.3	159.3	364.1	1,791.4	373.2	43.3
Percentage change	1.3	-0.3	-0.8	2.1	-0.4	6.7

Data are for private sector workers covered by unemployment insurance

Source: New York State Department of Labor.

Box 2: Labor Force Participation in New York City

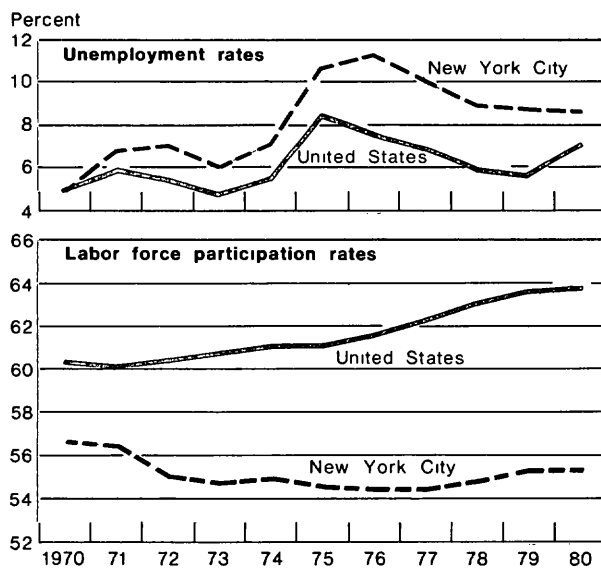
The limited nature of the city's economic revival is mirrored in the labor markets. Although the unemployment rate in 1980 was basically unchanged in New York City while rising sharply in the rest of the country, joblessness continued to be much higher in the city (chart). The stability of the city's jobless rate was largely the result of a reduction of the size of the city's labor force and not because its job market was substantially stronger than the nation's. Indeed, if the city's labor force had grown in 1980 at the same rate as the nation's, all other things being the same, the city's unemployment rate would have risen to 10.9 percent instead of remaining unchanged at 8.6 percent.

Actually, the city's civilian labor force has been declining for several years now. This decline is partly the result of the city's shrinking population. According to the 1980 census, the city's population has fallen by about 10 percent since 1970.

The size of the labor force also depends on what fraction of the population is at work or actively looking for work—the labor force participation rate, as measured by the ratio of the civilian labor force to the civilian noninstitutional population aged 16 years or more. It is not widely appreciated how much lower participation rates are in New York City, compared with the rest of the country. The difference is striking. In 1980, however, in both the city and the nation, labor force participation was virtually unchanged from a year earlier at 55.3 and 63.8 percent, respectively (chart).

Labor force participation in New York City decreased in the first part of the 1970s. In contrast,

Unemployment Rates and Labor Force Participation Rates



Source United States Department of Labor, Bureau of Labor Statistics

participation rose steadily in the nation. Since bottoming out in 1977, however, the city's labor force participation rate has edged up, but it is still less than it was in 1970.

No doubt many different factors are contributing to this widening disparity between the labor force participation rates in the city and the nation.

Box 2: Labor Force Participation in New York City (continued)

It is well known from past empirical studies that the availability of jobs is a key determinant of labor force participation among workers who are not the principal breadwinners of their families. In all likelihood, then, the paucity of job opportunities in New York City is primarily responsible for the low labor force participation rate among city residents. In addition, the underground economy may be relatively larger and thus siphon off a greater share of workers in New York City than it does elsewhere, but there are no hard data to substantiate this hypothesis.

The rates of unemployment and labor force participation for a given group of people can be

combined to form the employment-population ratio, defined as the ratio of employment to the civilian noninstitutional population. Whereas the unemployment rate measures what proportion of the labor force is seeking work, the employment-population ratio indicates what proportion of all the people who could work actually do. For both adult men and women, this ratio remained lower in New York City than nationwide in 1979, the latest data available (table). It is among teenagers, however, that the largest discrepancy is observed. The employment-population ratio for teenagers is less than half as large in New York City as it is in the rest of the country.

Employment-Population Ratio*

In percentages

Group	1975	1976	1977	1978	1979
Men, 20 years and over					
New York City	68.1	67.3	67.2	67.9	68.5
United States	72.9	73.2	73.7	74.6	74.7
Women, 20 years and over					
New York City	38.2	37.9	39.2	41.4	41.6
United States	42.3	43.5	44.7	46.5	47.7
Teenagers, 16-19 years					
New York City	23.5	21.9	22.3	23.9	23.1
United States	42.3	43.3	45.2	47.6	47.9

* For New York City, this represents the ratio of employment to *civilian* noninstitutional population. For the nation, this represents the ratio of employment to *total* noninstitutional population. Since there is a very small military population in New York City, the difference is minor.

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

occurred even though New York does not have many jobs in the automotive industry, which suffered the greatest losses nationwide. On top of that, employment in nondurable goods industries, which represents close to 80 percent of local manufacturing jobs, fell more than twice as fast as the national rate. The apparel industry, which employs nearly four out of ten nondurables manufacturing workers in New York City, was especially weak. Employment fell by more than 4 percent. Nationwide, apparel industry jobs decreased by only 1 percent. The printing and publishing industries, which account for one fourth of local nondurables jobs, were relatively strong in comparison with the rest of the city's manufacturing sector, growing by close to 1 percent. But, nationwide, these jobs increased by almost 3 percent.

In addition to the city's decline as a production center, its dominance as an industrial headquarters center continues to diminish. Although its headquarters concentration still far exceeds that of any other city in the country according to the traditional yardstick of headquarters concentration—the number of *Fortune's* 500 industrial companies located in New York—this measure can be misleading. Indeed, the number of these firms in the city rose from 78 in 1979 to 81 in 1980.

This increase, however, did not result from any new firms moving in but from the inclusion in the 1980 list of three firms already located in the city. Moreover, there have been several departures of large companies, which are not counted in this grouping, as well as substantial retrenchments in corporate staffs of other firms. In fact, employment in administrative offices of manufacturing firms in the city fell by 3,500 during 1980 to 50,900.

Other indicators of economic performance also have not looked particularly positive in 1980. Joblessness, for example, has remained high and labor force participation low (Box 2).

Overall, then, the New York City economy is still in a transitional phase, moving out of manufacturing and into service industries—continuing the pattern of job change which has prevailed during most of the postwar period. This greater than national service industry orientation does have some beneficial effects during recessions, or at least it did prior to 1969, and seems to have had some during the 1980 recession.

Competitive forces

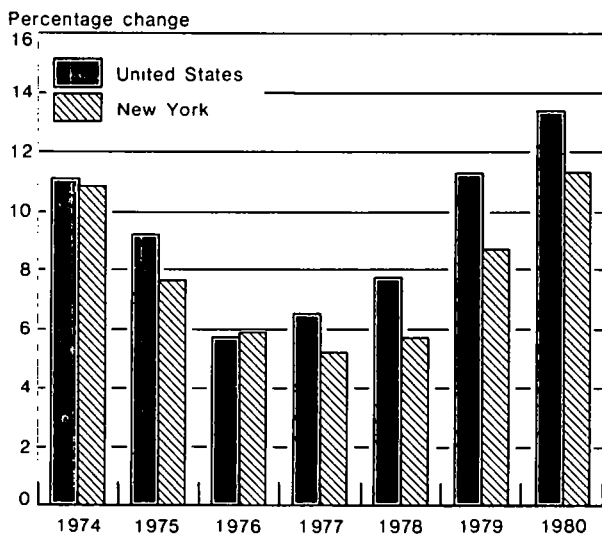
New York City's economic performance in 1980 suggests that certain facets of the local economy are continuing to undermine the city's attractiveness as a business location. At the same time, however, there has been noticeable improvement in certain other facets—enough to support at least limited growth of the city's economy and to preclude a repetition of the massive job losses that occurred in the 1970s.

One area of improvement has been in the easing of local price pressures. In recent years, the consumer price index for the New York-Northeastern New Jersey area has been rising at a slower rate than in the nation or than in many other metropolitan areas (Chart 1). Since 1974, when this crossover in the rates of inflation first occurred, the local consumer price index has increased by 53 percent compared with 67 percent nationwide.² During 1980, the index rose 11.3 percent locally, while rising 13.5 percent nationally. Nevertheless, the cost of living remains comparatively high in New York City, especially when total Federal, state, and local taxes are included in calculating household budget costs (they are not counted in the consumer price index).

A reduction of strike activity in New York City relative to the nation also contributes favorably to the city's business environment. Workdays lost due to strikes in New York City decreased from 63 percent of the

Chart 1

The Consumer Price Index for the United States and the New York-Northeastern New Jersey Area



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

² The higher than national inflation rate in 1976 is mainly attributable to the transit fare hike which had been in effect for only a small part of 1975.

nationwide total in the 1960-69 period to 3.9 percent in the decade of the 1970s. In the earlier period, the city accounted for an average of 7 percent of the nation's labor stoppages and about 7 percent of the workers involved. In the 1970-79 period, approximately 3 percent of the nation's work stoppages and 4 percent of the workers involved were in New York City. While a great improvement, this is still above the city's share of the nation's labor force, which declined from about 4.0 percent in 1970, the earliest data available, to 2.8 percent in 1980.

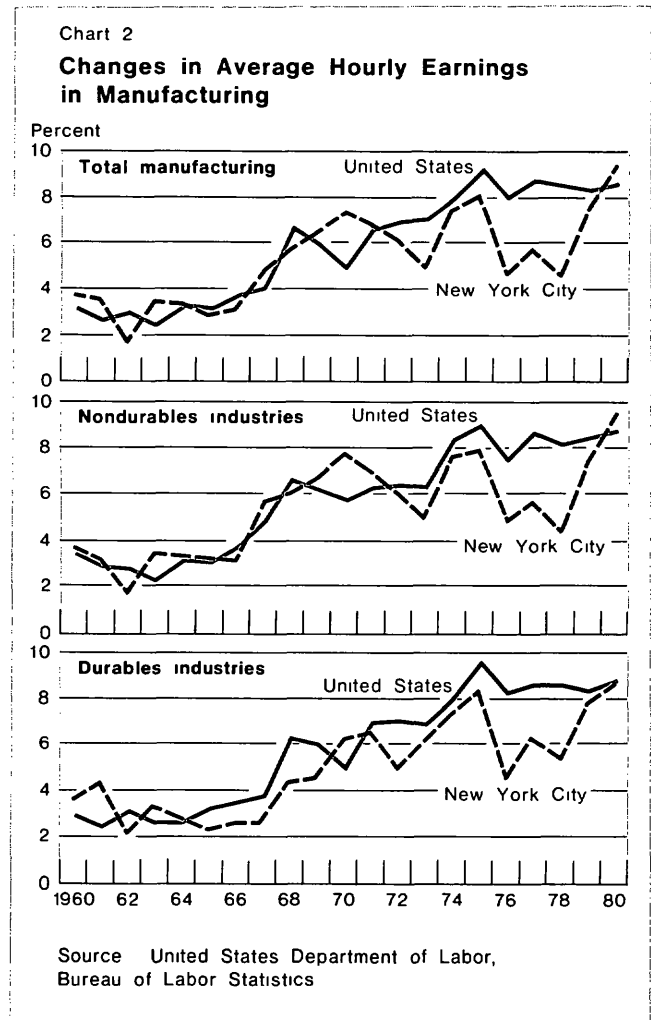
In addition, the city's business environment has benefited from reductions of the state and local tax burden. In the late 1970s, New York City and New York State began to decrease the number of taxes along with the rates at which remaining ones were levied. The expiration of state surcharges on general business corporations and on banks, the phaseout of the state unincorporated business tax, the lowering of the city commercial rent tax, and the 3½-year freeze on the city real estate tax rate at its 1978 level (a decrease from 1977) are important examples. At the same time, various tax-incentive programs aimed at promoting industrial and commercial development were adopted. Moreover, state personal income tax rates have been gradually lowered. These cuts amounted to more than \$1 billion in reduced tax payments for the 1980 calendar year.

It would be wrong, however, to minimize the remaining impediments to a decisive economic turnaround for New York City.

First, one of the most promising developments for the city's economic situation had been the comparatively slow growth of labor costs. Over the last two years, though, average hourly wages have accelerated once more (Chart 2). This raises questions about the potential impact on New York's competitive position, particularly since the level of wages continues to be higher in New York for many of the occupational categories surveyed by the Bureau of Labor Statistics.

Second, the price of energy remained relatively high in New York City. The cost of a typical month's electricity for a single-family house was more than double the national average and more than triple the Pacific Coast average. As for office energy costs, a recent survey found that, in New York City, they were almost double the costs in Houston, Atlanta, or Dallas. In industry, electricity prices were also about double the United States city average in 1980. Between 1975 and 1980, however, industrial energy prices grew faster nationwide than in the city.

Finally, the continued deterioration of New York



City's infrastructure, reflecting years of delayed maintenance and lack of new capital investment, greatly weakens the city's long-term economic potential. This decay increasingly reduces its attractiveness as a place to live and to work and raises concern about where resources will come from to finance remedial investments that are needed with increasing urgency.

In sum, while New York City withstood the 1980 recession reasonably well, it clearly has not fully overcome all its economic problems. The city's longer term growth prospects are clouded by the remaining vestiges of a high-cost environment that has contributed to its economic decline for many years. Complacency based on misplaced optimism would be a serious mistake at this critical point.

Rona B. Stein