Editor's Note: This article is the second in a series of periodic reviews of the Second District's economy.

Update on the Second District's Economy

by Rae D. Rosen

The recovery in the Second District continues to lag the recovery in the nation as a whole. On balance, the economies of New York and New Jersey appear to have shown no significant growth in recent months.[1] Over the January-August period, only a few indicators showed some limited signs of improvement while others were flat or continued to decline. Personal income has continued to increase in real terms, but real retail sales have been more or less unchanged over the past year. Regional inflation has been decelerating more rapidly than at the national level, although the slowdown may simply reflect weak demand. Weakness is also evident in the regional labor market, especially in the manufacturing sector. Continued declines in manufacturing employment have more than offset gains in the service sector,[2] and total household employment has fallen. Unemployment rates have dropped this year, but almost entirely because of a decline in the labor force. In turn, the decline in the labor force appears to reflect, at least in part, the migration of workers out of the region in search of better job opportunities as well as the dropout of discouraged workers.

Labor market developments

Employment. Overall, the District's labor market appears to be the weakest of the regional indicators. While employment at the national level is growing at a modest pace after recovering the jobs lost during the recession (Chart 1), employment in New York and New Jersey has continued to decline, although the rate of decline slowed markedly late in the fall of 1992. The data suggest that neither New York nor New Jersey has yet to make any progress in recovering the more than 800,000 jobs lost during the recession, even after an allowance is made for possible undercounting of jobs in New Jersey.[3] Although the New York–New Jersey area is not the only region posting net job losses, it has had a poorer post-recession labor market than the Pacific region, the Mountain region, the broad swath of Mid-

[1]The term "New York and New Jersey" is used interchangeably with the "Second District" in this article, partly because of limitations on data availability and partly in the interests of defining a reasonably meaningful economic unit The Second Federal Reserve District technically comprises New York State, the northern counties of New Jersey (Middlesex, Somerset, Hunterdon, Bergen, Passaic, Union, Essex, Sussex, Warren, Morris, Monmouth), and Fairfield County, Connecticut, the District has oversight responsibilities for Puerto Rico and the Virgin Islands In aggregate, the northern New Jersey counties in this District account for 70 percent of New Jersey's personal income and population

[2]Services are defined narrowly to include business, personal, health, and legal services, but not service-producing activities such as trade and utilities For a more detailed discussion, see Rae D Rosen, "Recent Developments in New York City's Economy," Federal Reserve Bank of New York *Quarterly Review*, Summer 1993

[3]Employment in New Jersey may not be as weak as it appears from these statistics The declines in manufacturing and local government that dominate the losses in New Jersey are consistent with other reports. But the declines in construction and the slow growth in service employment are somewhat at odds with other measures of New Jersey's economy, including reasonably moderate gains in personal income and continued growth in new business starts (both measures are discussed more fully in a later section of this report) As a result, it appears that New Jersey's current employment count in sectors other than manufacturing and government may be understated Such a miscount is particularly likely during the initial phase of a recovery period, when new service and construction firms may remain outside the range of some statistical surveys for several quarters. However, the weaker payroll tax collections in New Jersey suggest that if, indeed, there has been some undercounting of employment, the shortfall is unlikely to be extensive

America, or New England (Chart 2)

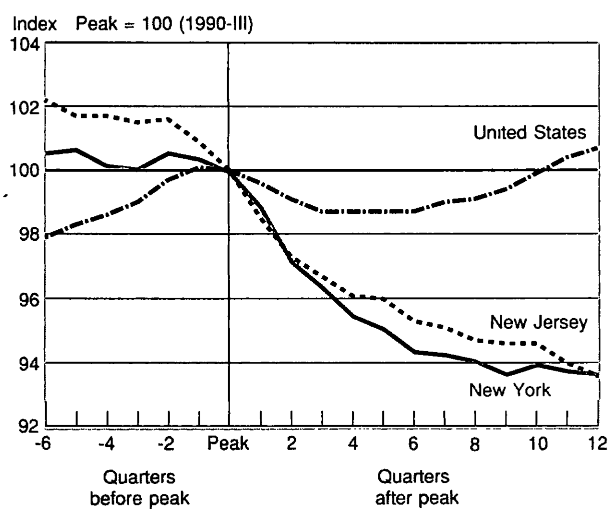
More recently, from December 1992 to August 1993, the rate of decline in the District's employment slowed from the annual rate of 2 to 4 percent characteristic of the 1990-92 period to an annualized rate of 0 6 percent. Manufacturing losses of 50,000 jobs so far this year more than offset the small gain in nonmanufacturing employment, with the District losing a total of 44,000 jobs from December to August New Jersey suffered the greater decline, accumulating a total loss of 37,000 jobs as employment dropped at an annual rate of 1.6 percent In New York, the annual rate of decline slowed to near zero (0 1 percent), and just 7000 jobs were lost

Manufacturing, the weakest sector Somewhat contrary to popular perception, manufacturing employment in the District is only slightly less important than in the nation overall (13 percent of all employment compared with 16 percent nationally), yet the District is losing manufacturing jobs at an annual rate of 5 percent (December 1992 to August 1993) whereas the rate of loss for the nation is about 3 percent Rates of decline in most of the District's manufacturing industries have exceeded the comparable national rates of loss and, even adjusted for the difference in composition, the District's aggregate manufacturing losses exceed those of the nation.

Chart 1

Nonagricultural Employment

Seasonally Adjusted Index



Sources Bureau of Labor Statistics, establishment survey data, Federal Reserve Bank of New York

Note Last-quarter data for New York and New Jersey are through August

An unusual confluence of problems appears to be undermining the manufacturing sector in the Second District Intense competition from abroad, reductions in defense spending, weak export markets, corporate restructuring, and uncertainties caused by health care reform proposals are all working to the detriment of the District's manufacturing sector Manufacturing employment losses in the District are occurring in the context of relatively weaker demand, production, and profits than in the United States as a whole The losses stem in part from a combination of production and marketing problems the District has a high concentration of older, less efficient plants, and many of its firms face intense domestic and international competition. Because of these competitiveness problems, the stronger national economy and increased national demand for manufactured goods apparently have had minimal spillover effects in the District's manufacturing sector

In addition, cutbacks in defense spending have reduced demand and employment in the electronic equipment and aerospace industries Weak European markets have limited export demand for instruments and industrial machinery, important exports from New York State. Demand for health-related instruments and equipment has also fallen sharply in the absence of details on the national health policy as institutional buyers adopt a "wait and see attitude."

At the same time, manufacturers in New York and New Jersey, including some of the nation's largest companies, are reducing their work force as part of a larger restructuring effort to meet the demands of the 1990 marketplace. Some of these manufacturers have suffered poor earnings or major losses and are reorganizing their corporate structures to handle saturated markets, markets that have shifted from original product lines (such as the market for computers, which has evolved from mainframes to mini and personal computers), or markets that are perceived to be threatened with price regulation These reorganizations, which could be substantial over the next few years, feed the continuing loss of manufacturing jobs.

Stability in the nonmanufacturing sector. Overall, the District's nonmanufacturing employment in the first three quarters of this year showed a slight improvement that reflected growth in nonfinancial services and construction employment. All other nonmanufacturing sectors—transportation and public utilities, retail and wholesale trade, financial services and public employment—declined Within the District, New Jersey had a disproportionate share of the regional weakness. Virtually all nonmanufacturing sectors declined in that state, with the exception of transportation and utilities employment, which was unchanged.

In New York, ongoing mergers and acquisitions continued to reduce banking employment, and budget constraints held down state and local government employment (although government payrolls increased temporarily in the third quarter of 1993 because of summer job programs). From December 1992 to August 1993, New York's service sector actually expanded by 29,200 jobs, an annual rate of increase of 1.9 percent, but this growth rate was considerably slower than the 5.6 percent pace of the nation's service sector. If the service sector in New York had grown at the same pace as the nation's, the state's economy would have gained 87,000 service jobs instead of just 29,200.

Employment effects of defense spending reductions. The ongoing contraction in military spending has also trimmed employment in both New York and New Jersey through the reduction of prime contract awards[4] and the prospective realignment of several military bases

[4]Prime contract awards are all contracts of $25,000 or more made by the Department of Defense to nonmilitary suppliers

Although neither New York nor New Jersey receives above-average awards of prime contracts on a per capita basis, some local areas *within* each state do receive concentrated levels of defense contracts and spending. Several of these local economies are vulnerable to the deep cutbacks that have been proposed by the Administration (see box). In addition, the military base realignments that are scheduled to occur over the next four years will produce a net loss of 7,400 jobs in this region.

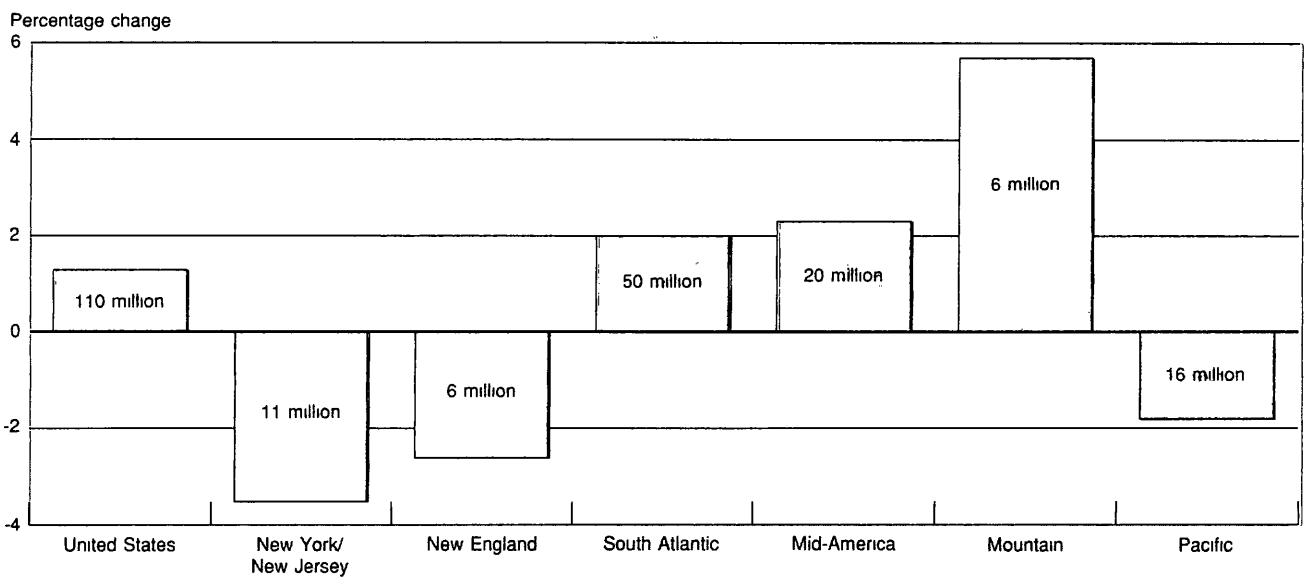
The employment losses due to base realignments in the Second District are almost wholly confined to New York State. The Plattsburgh Air Force Base and the Staten Island Naval Station are scheduled to close, and Griffiss Air Force Base and Fort Monmouth are to be scaled back, creating a net reduction of 9,300 jobs in New York In New Jersey, the Ewing Naval Test Center will be closed, but McGuire Air Force Base (outside the Second District) will be expanded, bringing a net *addition* of 1,900 jobs to New Jersey. That the realignments are stretched out over a four-year period should help to ease the loss of jobs, but the effects of the change will still be pronounced at the local level.

The unemployment rate The rate of job loss in the

Chart 2

Employment by Region

Recession Trough to 1993-II



Sources Bureau of Labor Statistics, establishment survey data, Federal Reserve Bank of New York

Note Figures within bars represent total regional employment as of 1993-II

Box: Focus on Cuts in Prime Defense Contracts at the Local Level

New York and New Jersey are affected not only by base closings and expansions but also by ongoing and extensive nationwide reductions in defense expenditures for procurement of military hardware and by lesser reductions in research and development On a statewide basis, military spending is not a major contributor to employment or income in New York and New Jersey, although in absolute dollar volume, such spending is quite substantial On a per capita basis, however, neither New York nor New Jersey ranks high on the list of

Prime Contract Awards to Metropolitan Statistical Areas in New York and New Jersey

	Prime Contracts Fiscal Year 1992 (Thousands Of Dollars)	Personal Income 1991 (Thousands Of Dollars)	Contracts as a Percentage of Personal Income (Percent)	Estimated Defense Industry Employment[†]	"Deep Cut" Defense Industry Job Losses[‡]	"Deep Cut" Job Losses as a Percentage of 1992 Nonagricultural Employment (Percent)
New York MSAs						
Albany-Schenectady-Troy MSA	297,664	17,195,830	1 7	8,993	(3,669)	−0 9
Binghamton MSA	513,936	4,783,196	10 7	15,527	(6,335)	−5 6
Buffalo PMSA	118,806	22,037,690	0 5	3,589	(1,464)	−0 3
Nassau-Suffolk PMSA	2,860,779	72,912,550	3 9	86,428	(35,263)	−3 4
New York PMSA	755,924	208,543,923	0 4	22,838	(9,318)	−0 2
Rochester MSA	99,045	22,293,290	0 4	2,992	(1,221)	−0 3
Syracuse MSA	350,002	13,531,500	2 6	10,574	(4,314)	−1 4
Utica-Rome MSA	118,266	5,197,213	2 3	3,573	(1,458)	−1 2
All other MSAs	118,731	19,230,729	0 6	3,588	(1,464)	−0 4
Total New York MSA	5,233,153	385,725,921	1 4	158,102	(64,506)	−0 9
Total New York	5,429,802	407,522,000	1 3	164,042	(66,929)	−0 9
New Jersey MSAs[§]						
Bergen-Passaic PMSA	565,112	37,002,490	1 5	14,199	(5,495)	−0 9
Jersey City PMSA	147,567	10,616,110	1 4	3,708	(1,435)	−0 6
Middlesex-Somerset-Hunterdon PMSA	130,451	28,559,722	0 5	3,278	(1,269)	−0 2
Monmouth-Ocean PMSA[‖]	450,536	24,410,799	1 8	11,320	(4,381)	−1 4
Newark PMSA	642,974	49,249,150	1.3	16,155	(6,252)	−0 7
Trenton PMSA[††]	315,380	8,902,203	3 5	7,924	(3,067)	−1 6
All other MSAs	45,785	10,468,243	0 4	1,151	(445)	−0 2
Total New Jersey MSA[§]	2,297,805	169,208,717	1 4	57,735	(22,344)	−0 8
Total New Jersey	3,318,777	196 691.568	1 7	83,386	(32,270)	−0 9

Sources U S Department of Defense, Bureau of Economic Analysis, Defense Budget Project, Bureau of Labor Statistics

Notes MSAs (metropolitan statistical areas) and PMSAs (primary metropolitan statistical areas) are economic communities defined by the Office of Management and Budget MSAs are areas with a population nucleus of at least 50,000 An area qualifies as an MSA if it contains (1) a city of at least 50,000 population or (2) a Census-defined urbanized area of at least 50,000 with a total metropolitan population of 100,000 PMSAs are cities and/or counties that define a cohesive economic unit or a multicounty intrastate portion of an interstate MSA

[†]Estimates are based on Department of Defense Prime Contract Awards to the state in fiscal year 1992, indexed to total state defense industry employment for fiscal year 1992

[‡]Job losses for fiscal years 1992-98 stemming from military cutbacks under the Defense Budget Project's "deep cut" scenario The Defense Budget Project estimates that New York State would lose 40 8 percent of its military-related employment and New Jersey. 38 7 percent

[§]Includes MSAs entirely contained within the State of New Jersey Does not include New Jersey areas that are part of the Philadelphia PMSA, the Allentown-Bethlehem MSA, or the Wilmington PMSA

[‖]Located partially in the Second, and partially in the Third; Federal Reserve District

[††]Located in the Third Federal Reserve District

Box: Focus on Cuts in Prime Defense Contracts at the Local Level *(Continued)*

recipients According to the prime contract awards data from the Department of Defense,[†] the average per capita award to a state was about $450 in fiscal 1992 New York received $300 on a per capita basis; New Jersey received $430 Spending on a per capita basis was two to three times higher in states such as Virginia, Massachusetts, Maryland, Mississippi, and Connecticut [‡] Indeed, an earlier *Quarterly Review* article analyzing the effects of defense reductions found that neither New York nor New Jersey would be severely harmed by the ongoing and proposed reductions in defense spending [§]

Although neither state is the recipient of proportionately large military expenditures, defense spending is not disbursed evenly throughout New York and New Jersey Some local areas within the states are heavily concentrated points of military expenditure For example, Long Island, with just 14 percent of New York's population, typically receives over 50 percent of the state's prime contract awards The accompanying table examines the importance of the prime contract awards to the large metropolitan areas in New York and New Jersey by looking at the ratio of the value of prime contracts to local personal income.[‖] The numbers reported in the table confirm the significance of the awards in Long Island and indicate that military contracts are also important in the New York cities of Binghamton, Syracuse, and Utica-Rome, and in the New Jersey communities of Monmouth-Ocean and Trenton (Trenton is in the Third Federal Reserve District).

The potential job loss for each community is calculated by distributing statewide defense-related employment losses, as estimated by the Defense Budget Project under the option of "deep budget cuts" of approximately 40 percent over the 1992-98 period, across localities by their share of state prime contracts [††] The results suggest that the potential job losses range from negligible (1 2 percent) to significant (as much as 5 5 percent of local employment) under the "deep budget cuts" assumption [‡‡] Clearly, in addition to Long Island, several other communities in New York and New Jersey are sensitive to the defense build-down The estimated reductions should not, of course, be viewed as precise forecasts, but as signals that highlight the local areas within, or bordering, the Second District that may be particularly vulnerable to future defense budget cuts

†Department of Defense, Atlas/Data Abstract for the United States and Selected Areas, Fiscal 1992

‡Note, however, that proportionately little military spending occurs in Fairfield County, the sole Connecticut county included in the Second District

§Ronnie Lowenstein and Richard Peach, "The Impact of the Current Defense Build-down," Federal Reserve Bank of New York *Quarterly Review*, Autumn 1992

‖The ratio of prime contracts to personal income is used as a measure of the relative importance of the military contracts to the local community Because estimates of gross production are not typically made at the substate level, personal income is a reasonable indicator of the size of a local economy

††The index is computed by dividing the prime contracts awards for each state by total civilian defense-related employment The defense-related state employment numbers are drawn from the Defense Budget Project, Bureau of Economic Analysis, Washington Headquarters Services Directorate for Information Operations and Reports, U S Department of Defense

‡‡These estimates represent the extreme losses that might occur if the most severe of the defense budget proposals were enacted

District has slowed from a pace of 3 2 percent in 1992 to an annualized rate of 0 6 percent in the first eight months of 1993 (December 1992 to August 1993, the latest data) At the same time, the unemployment rate has shown a noticeable decline, dropping to around 7.1 percent in New York and 7.7 percent in New Jersey in September 1993—well below the respective rates of 8 8 and 9 0 percent in September 1992 (Chart 3)

Although a falling unemployment rate is usually associated with an improving economy, this is not always the case, especially at the regional level, if unemployed people are dropping out of the labor force or migrating to other regions in search of jobs Such a situation appears to have developed recently in New York and New Jersey As Chart 4 indicates, the outright decline in the regional labor force since 1990 is in sharp contrast to the recent national trend and to the national and regional trends before 1990 This sharp break in the regional labor force pattern suggests not only substantial discouragement and withdrawal from the work force but also *outmigration* from the region. Indeed, the U S Census Bureau estimates that New York and New Jersey had a net outmigration averaging about 40,000 persons per year over the five-year period from 1985 to

1990 Since then, deteriorating economic conditions appear to have accelerated the rate of outmigration to an estimated 74,000 people in 1992, with New York accounting for over 80 percent of the outflow[5] Hence, the improvement in the unemployment rate in New York and New Jersey is not an unambiguous sign of economic health, but rather, at least in part, a sign of distress and adjustment

Overall, the current employment situation remains weak, exacerbated by the realignment of military bases, restructuring in the manufacturing sector, and the outmigration of households seeking more attractive conditions elsewhere. The decline in the unemployment rate appears to be primarily due to outmigration and the withdrawal of discouraged workers. The underlying data are consistent with a contracting labor market

Personal income

In nominal terms, personal income in New York and New Jersey appears to have been increasing (Chart 5), although it is difficult to know how much personal income has risen in 1993 because of the early payment of bonuses in 1992. In the chart, we have attempted to remove this distortion by averaging fourth-quarter 1992 and first-quarter 1993 income and calculating the average year-over-year percentage change for the combined quarters. It appears that personal income has grown in the two most recent quarters relative to the preceding two quarters in New York and New Jersey as well as the nation. Nevertheless, this region's rate of growth remains below the national rate of growth. The recent gains in nominal regional income, combined with slower inflation (discussed below), suggest that the region continues to experience some increase in real personal income (perhaps 1 to 2 percent over the past year).

Retail sales

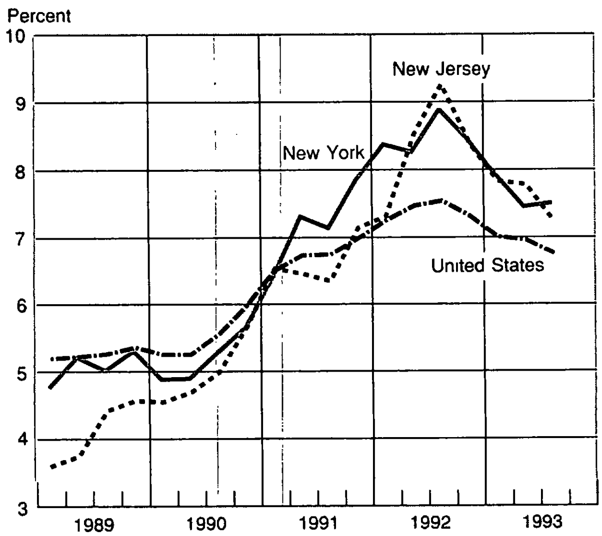
Total retail sales for the first six months of the year advanced just 1 percent over the past year (year over year), an increase well below the 4.5 percent rise in the nation's retail sales The quarterly regional pattern in the first half of 1993 reflected the effects of severe winter weather and a subsequent snapback (Chart 6). The District's sales in recent months appear to have been more volatile than national sales as well as some-

[5] U S Bureau of the Census, Population Estimates Branch

Chart 3

Unemployment Rate

Seasonally Adjusted



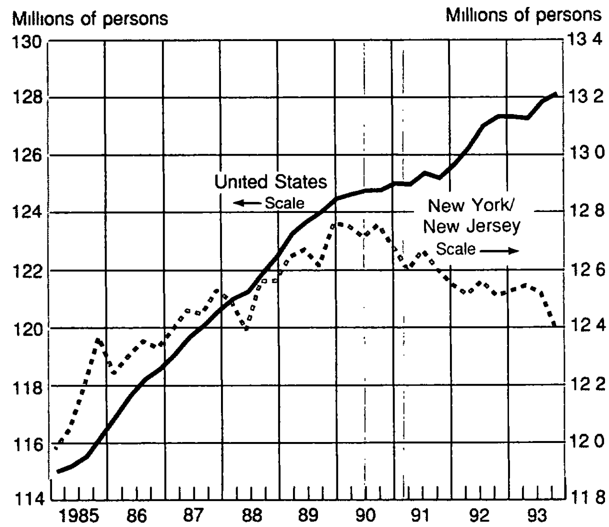
Sources Bureau of Labor Statistics, Federal Reserve Bank of New York

Note Shaded area indicates period designated a recession by the National Bureau of Economic Research

Chart 4

Declining Regional Labor Force

Quarterly Average



Source Bureau of Labor Statistics

Note Shaded area indicates period designated a recession by the National Bureau of Economic Research

what weaker. Overall, the rate of increase in the District's retail sales has roughly matched that for the goods component of the regional consumer price index, suggesting relatively flat real sales over the past year. For the second half of 1993, only July data for New York are available and the preliminary nominal estimate of sales growth is rather strong (about 16 percent at an annual rate), with the gains spread across most categories. Although the strong gains in the second quarter of 1993 probably reflected a weather-related reversal, the gain in July sales is promising because it extends that trend for a fourth consecutive month.

Inflation

The regional CPI. Rates of inflation have fallen sharply in the District. Measured by the consumer price index for the New York–northeastern New Jersey region, price inflation averaged 3.3 percent during the first nine months of 1993 and slowed to around 2.6 percent as of September (year over year). The quarterly data in Chart 7 indicate that this decrease is an extension of the cyclical decline in regional inflation, which had peaked above 6.0 percent in 1990.

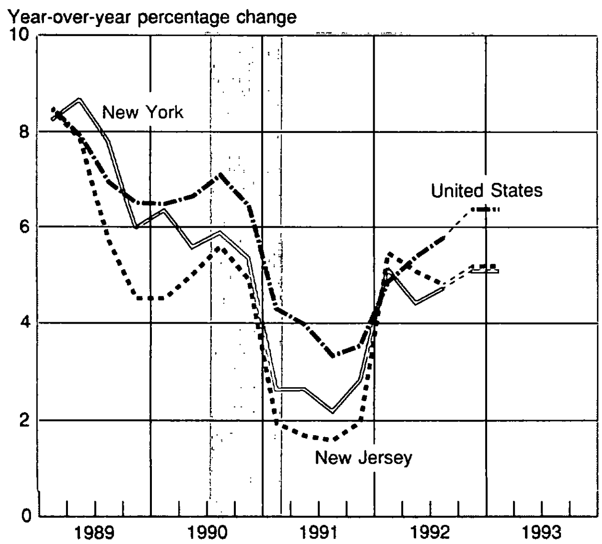
In a welcome change from the situation that prevailed in the 1980s and early 1990s, the data also suggest that the difference in the inflation rates of the greater New York City metropolitan area and the rest of the nation has narrowed. Although the Second District, particularly the greater New York metropolitan area, remains one of the most expensive regions in the country, local price increases are moving closer to the national rates of inflation, a development that could help to improve the region's competitiveness over the longer term. The narrowing spreads may also reflect relatively weaker demand locally than at the national level.

Housing costs. Home prices throughout the downstate New York metropolitan area rose just 0.7 percent over the last four quarters (through June 1993) and remained well below 1989 peak levels. Many owners of cooperatives, condominiums, and single-family homes chose to rent out their properties over the past two to three years in lieu of sale at distressed prices. As a result, a surplus of rental housing drove the cost of renting down in many parts of the greater metropolitan area. The cost of shelter, a major component of the regional consumer price index and an important source of inflation in recent periods, declined. Elsewhere in the District (and outside of the area surveyed for the consumer price index), home prices advanced moderately, on the order of 0.5 to 6 percent (Chart 8).

Labor costs. Despite the weak demand for labor, most evidence points to regional salary gains in excess

Chart 5

Personal Income



Source: Bureau of the Census.

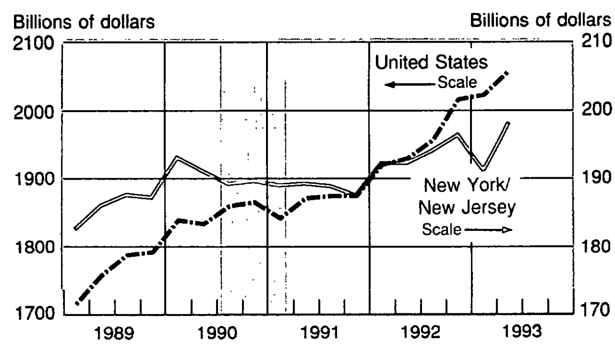
Notes: Levels of personal income for the fourth and first quarters of 1991-92 and 1992-93 were averaged before calculating the year-over-year percentage change for the fourth and first quarters of 1992-93. This adjustment minimizes the distortion in the quarterly pattern produced by the early payment of bonuses in fourth-quarter 1992.

Shaded area indicates period designated a recession by the National Bureau of Economic Research.

Chart 6

Retail Sales

Quarterly Total, Seasonally Adjusted Annual Rate



Source: Bureau of the Census.

Note: Scales increase at comparable rates of growth. Shaded area indicates period designated a recession by the National Bureau of Economic Research.

of the local rate of inflation. In 1992, aggregate wages and salaries paid in New York rose 5 9 percent even as employment fell 3 percent.[6] In addition to the large salary gains in the finance, insurance, and real estate sector (boosted by the accelerated bonuses), moderate gains were reported in many service categories as well Although similar data are not available for 1993, recent surveys suggest that the trend continues in 1993, with salaries rising on average 4 to 5 percent. Indeed, the employment cost index for all workers in the Northeast rose at a 4.1 percent annual rate from December 1992 through September 1993, compared with a national gain of 3 6 percent The relatively stronger performance in the Northeast was probably in large part fueled by a 4 1 percent rate of growth in the finance, insurance, and real estate sector These gains in the employment cost index also suggest that wages in the Second District have continued to rise at a moderate pace through the third quarter of 1993. Such an outcome could reflect an increase in demand for highly skilled, highly paid workers even while the overall demand for labor is declining

[6]Wages and salaries rose 40 percent in 1992 in New York's finance, insurance, and real estate sector This striking increase was primarily due to the payment of 1992 year-end bonuses in December 1992 instead of January 1993, the more typical payment date The bonuses were accelerated in anticipation of higher marginal tax rates in 1993 See the discussion of personal income

Real estate

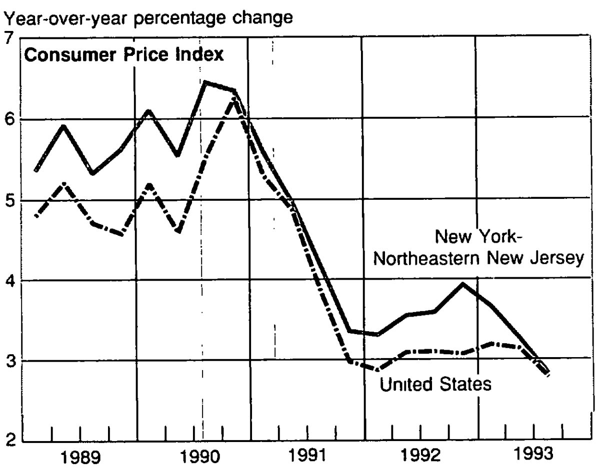
Residential real estate. In the aggregate, existing home sales in New York and New Jersey maintained a steady pace of about 260,000 units (annual rate) for the five quarters ending in March 1993. However, sales fell 3 percent in the second quarter of 1993, the most recent quarter for which data are available A large rise in New York was more than offset by an even larger slide in sales in New Jersey Poor regional consumer confidence, documented by various surveys, and the weakness in the regional job market appeared to be discouraging some home buyers despite the availability of attractively low mortgage rates.

The market for new one-to-four-family homes performed in a similarly weak and irregular manner Permits for construction of one-to-four-family homes, which closely track new home sales, were unchanged in New Jersey during the first eight months of the year and declined 6.1 percent in New York relative to their level during the same period one year earlier (Chart 9) The cumulative volume of permits followed the same weather-driven pattern as retail sales, falling sharply in the first quarter because of severe winter weather and then rebounding in the spring and summer months.

Commercial real estate In the past, commercial real estate has tended to be a lagging indicator of the District's economy, so it is significant that much of the

Chart 7

Declining Inflation Rates

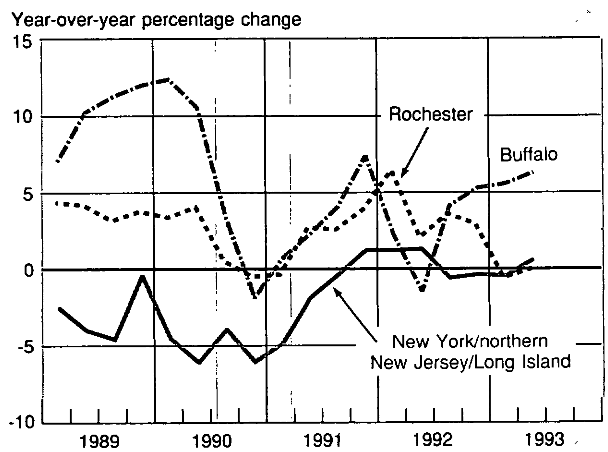


Source Bureau of the Census

Note Shaded area indicates period designated a recession by the National Bureau of Economic Research

Chart 8

Median Sales Price of Existing Single-Family Homes



Source National Association of Realtors

Note Shaded area indicates period designated a recession by the National Bureau of Economic Research

market in the major urban areas throughout the District appears to have reached a trough The markets for prime space in Manhattan,[7] the Westchester/Mid-Hudson area, and central New Jersey all appear to have bottomed out In the second quarter of 1993, vacancy rates for prime commercial space in midtown Manhattan receded to 13 4 from 13.8 percent in the previous quarter (and fell nearly 2 percentage points from one year earlier) Prime space vacancies in downtown Manhattan declined slightly from 22 percent to 21 6 percent in the second quarter. In the Westchester/Mid-Hudson market, the vacancy rate fell from 23 3 to 22 5 percent In the suburban markets in central New Jersey, the vacancy rate in the second quarter was unchanged at 19 8 percent, but that rate was a full percentage point below the rate a year earlier These prime vacancy rates, however, are somewhat misleading as a reflection of the market as a whole since the improvement in part represents a significant amount of tenant upgrading from secondary to primary space Indeed, vacancy rates for secondary space are rising sharply Less expensive prime leasing rates may also be encouraging some lessees to increase their square footage and create more generous office space for each employee

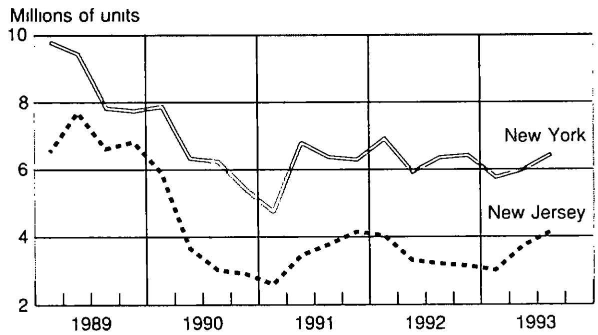
Even with the recent improvements in the absorption rate for prime space, the contract data for new office construction suggest that office construction continues to decline throughout most of the District. Other forms of nonresidential building, however, have made some gains in New York and New Jersey Year-to-date through August, contract awards for total nonresidential buildings have risen 9 percent in New York and 8 percent in New Jersey[8] The mixed performance of the nonresidential market also seems consistent with the overall assessment of a basically flat District economy with emerging pockets of growth

[7]The central business district in Manhattan alone has more office space than all the District's other central cities combined

Chart 9

Permits for One-to-Four-Family Homes

Seasonally Adjusted Data



Source Bureau of the Census

Notes Values for 1993-III are estimates based on average growth rates during July and August Shaded area indicates period designated a recession by the National Bureau of Economic Research

Business starts and failures

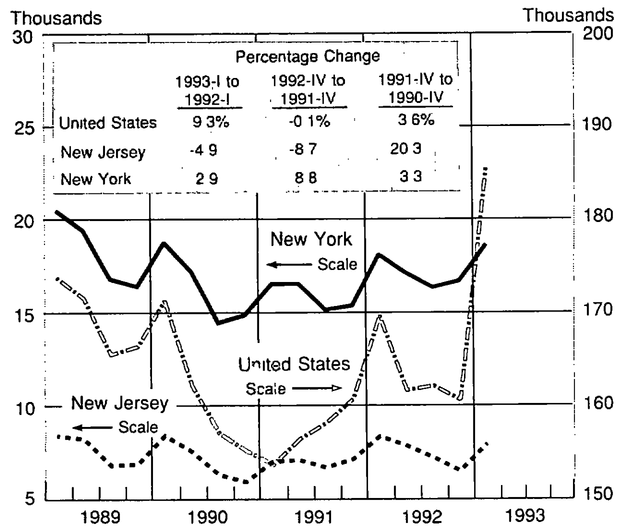
The number of business failures, generally conceded to be a lagging indicator, appears to have peaked in both New York and New Jersey In 1990, the failure rates in New Jersey and New York were, respectively, 54 and 59 per 10,000 business firms, compared with a national rate of 74 By 1992, the failure rate per 10,000 firms, had doubled to 103 in New Jersey and 117 in New York (while the national rate rose to 110) Reflecting the losses in regional employment, regional business failures were heavily concentrated in wholesale and retail trade these sectors claimed roughly one-third of the failures in 1992

[8]Dodge Construction Potentials Bulletin

Chart 10

New Business Incorporations

Not Seasonally Adjusted



Source Dun and Bradstreet

Note Shaded area indicates period designated a recession by the National Bureau of Economic Research

More encouraging news is that in the first half of 1993, the number of business failures began to subside, falling about 10 percent in New York and about 6 percent in New Jersey. Equally important, businessmen's expectations have evidently been improving. New business formations continued to rise at a moderate pace in the first three months of the year in New York and New Jersey (Chart 10).

Conclusion

In general, it appears that the District's economy has not yet begun to expand. The labor market is performing poorly, with continuing job losses concentrated in the manufacturing sector. Several major employers headquartered in New York and New Jersey have recently announced restructuring plans that are likely to result in significant job losses over the next few years. Unemployment rates remain quite high despite declines in recent months; these declines are due largely to a contraction in the labor force resulting from outmigration and the dropout of discouraged workers. There have also been some positive developments. Thus, the continuing rise in real income as well as the bottoming out of the market for prime commercial real estate are encouraging signs. Overall, however, the recovery in the Second District may continue to be slower than in the United States as a whole.