



FEDERAL RESERVE BANK *of* NEW YORK

Regional Economic Press Briefing

November 29, 2012

The views expressed here are those of the presenters and do not necessarily represent the views of the Federal Reserve Bank of New York or the Federal Reserve System.

Regional Economic Conditions

Jason Bram, Senior Economist

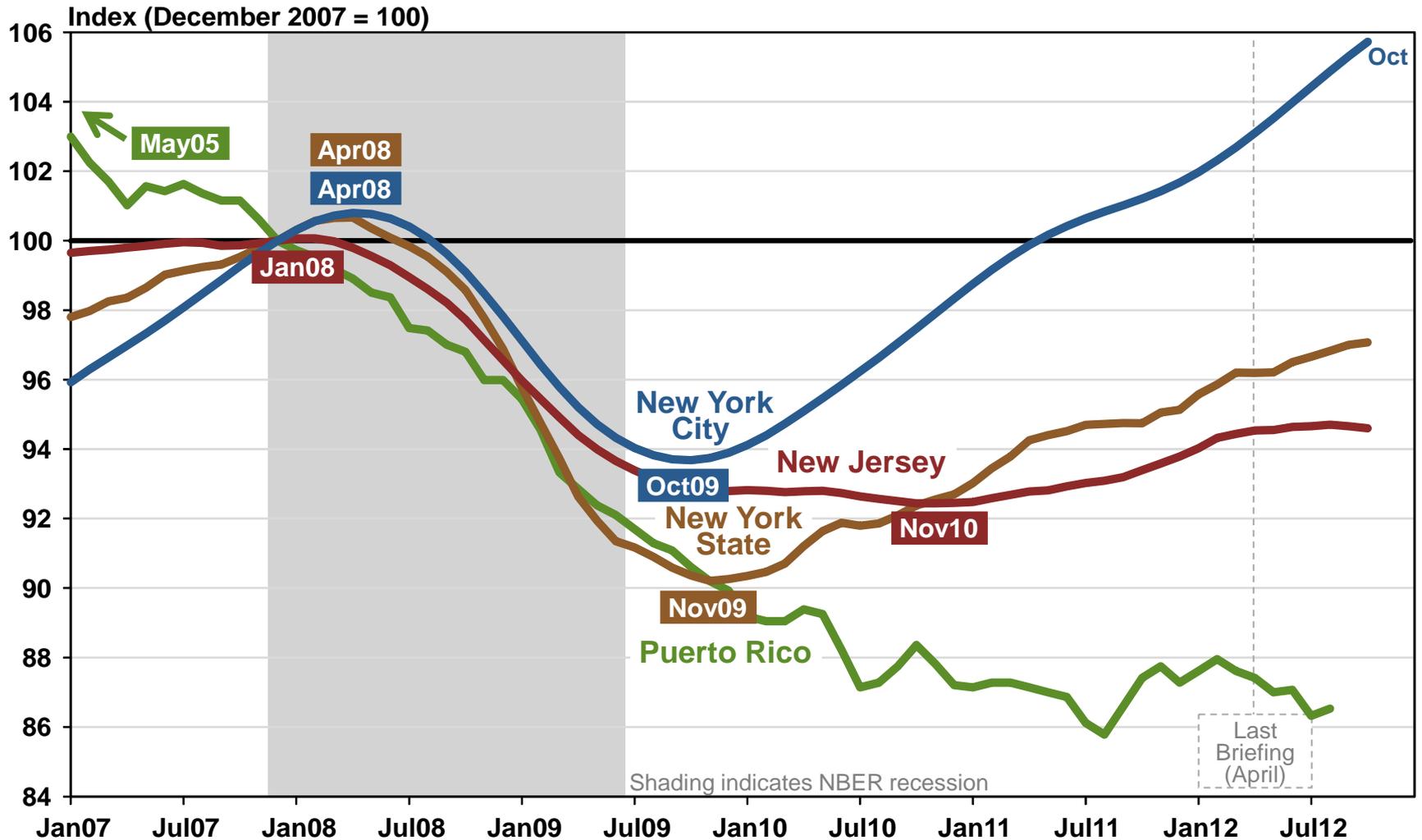
Overview

- Overview of the regional economy before Sandy
 - New York City on a solid growth trajectory
 - New Jersey still sluggish
 - Long Island & upstate New York flat
 - Puerto Rico still bottoming out, no signs of recovery yet
- Breaking down the costs of Sandy
 - Physical damage (homes, property, infrastructure, etc.)
 - Loss of economic activity (due to power, transportation outages)
 - Welfare costs (pain & suffering, quality of life, lost leisure time, etc.)
- Bottom line
 - Short-run disruptions substantial and widespread across NYC metro region
 - Hard-hit communities, individuals, businesses face long road to recovery
 - Regional economy overall likely to bounce back quickly



Regional Economic Activity

Index of Coincident Economic Indicators (CEI)

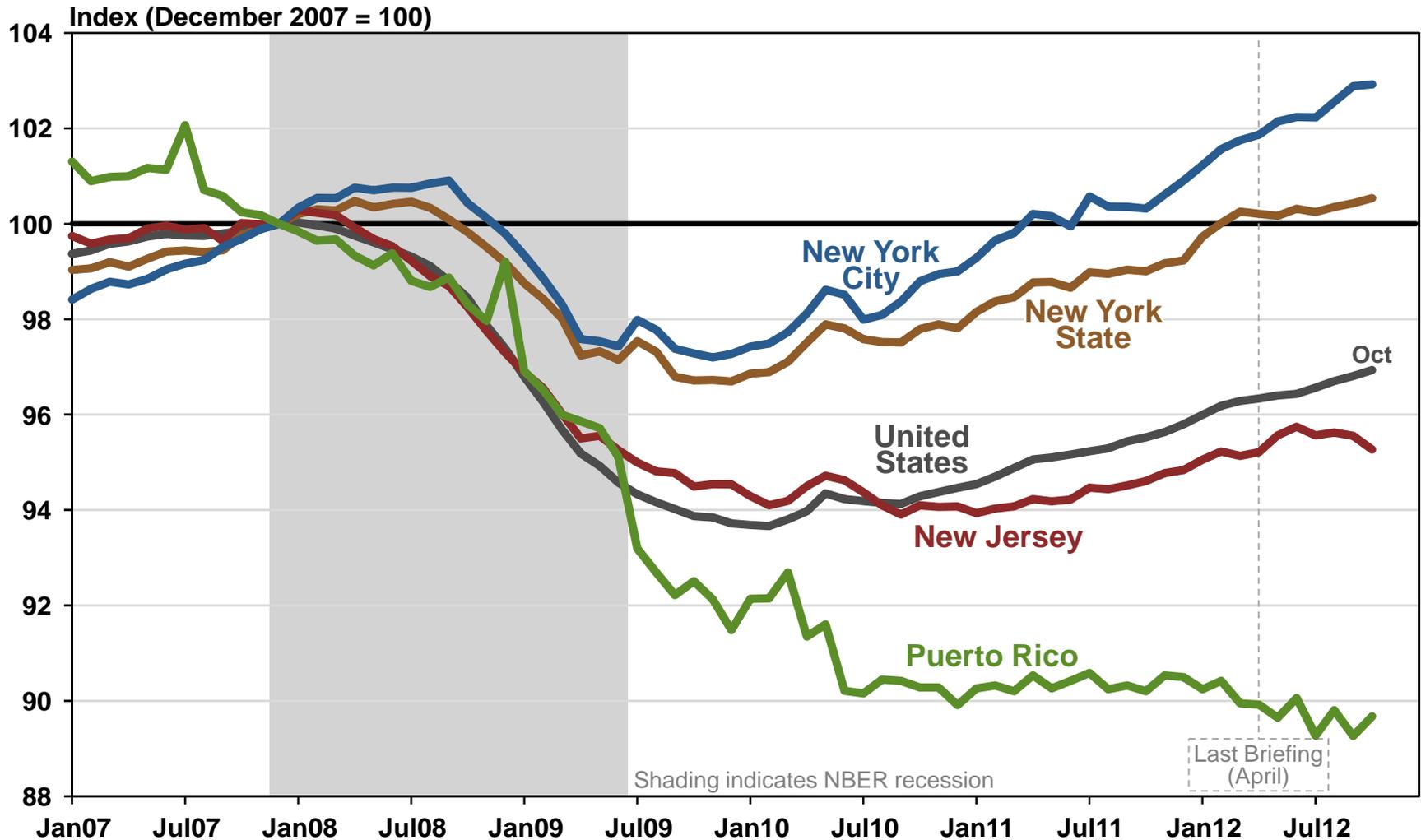


Source: Federal Reserve Bank of New York; Puerto Rico Government Development Bank.

Note: The Puerto Rico composite index is based on a different methodology than the indexes produced by the FRBNY.

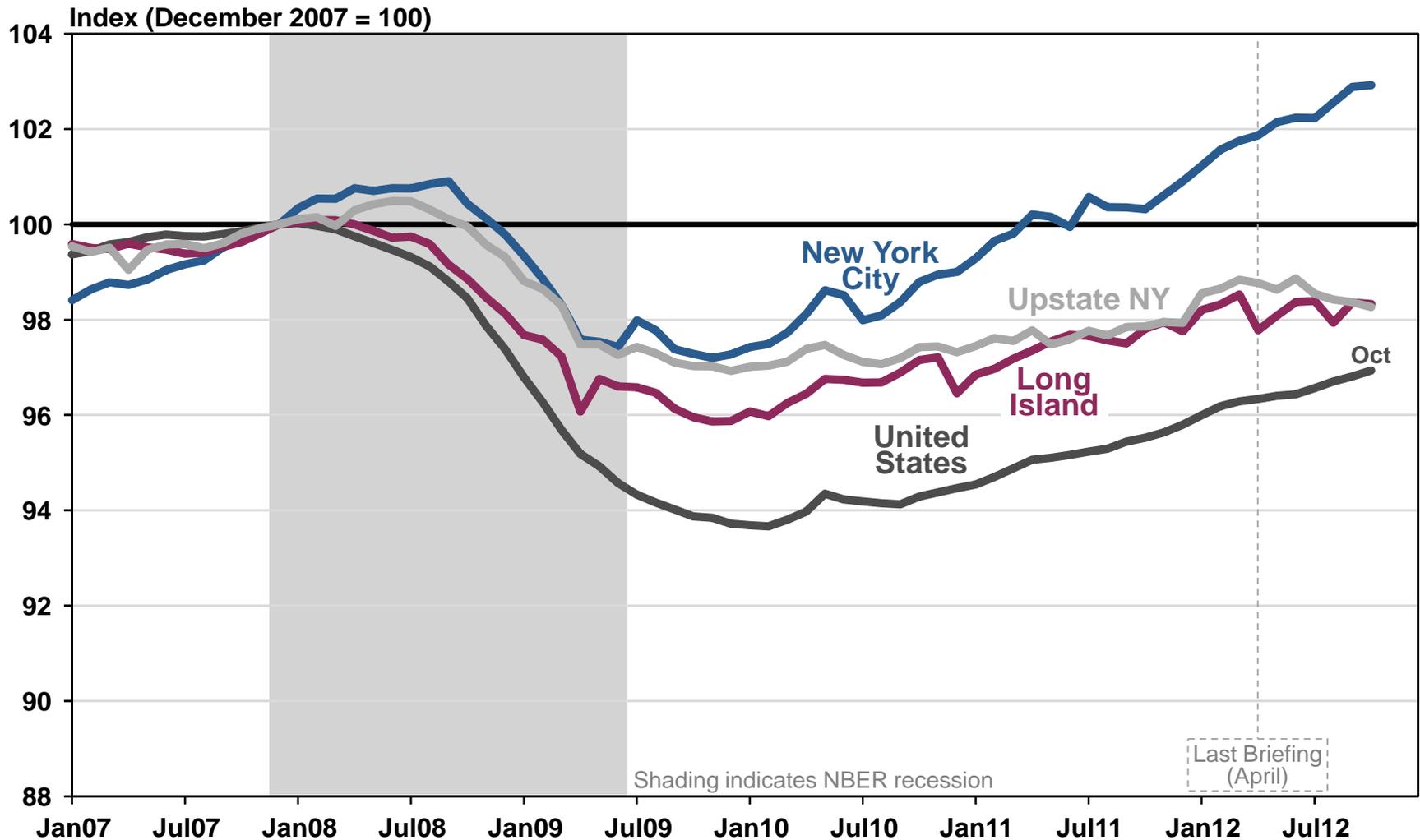
Total Employment

Seasonally Adjusted Index



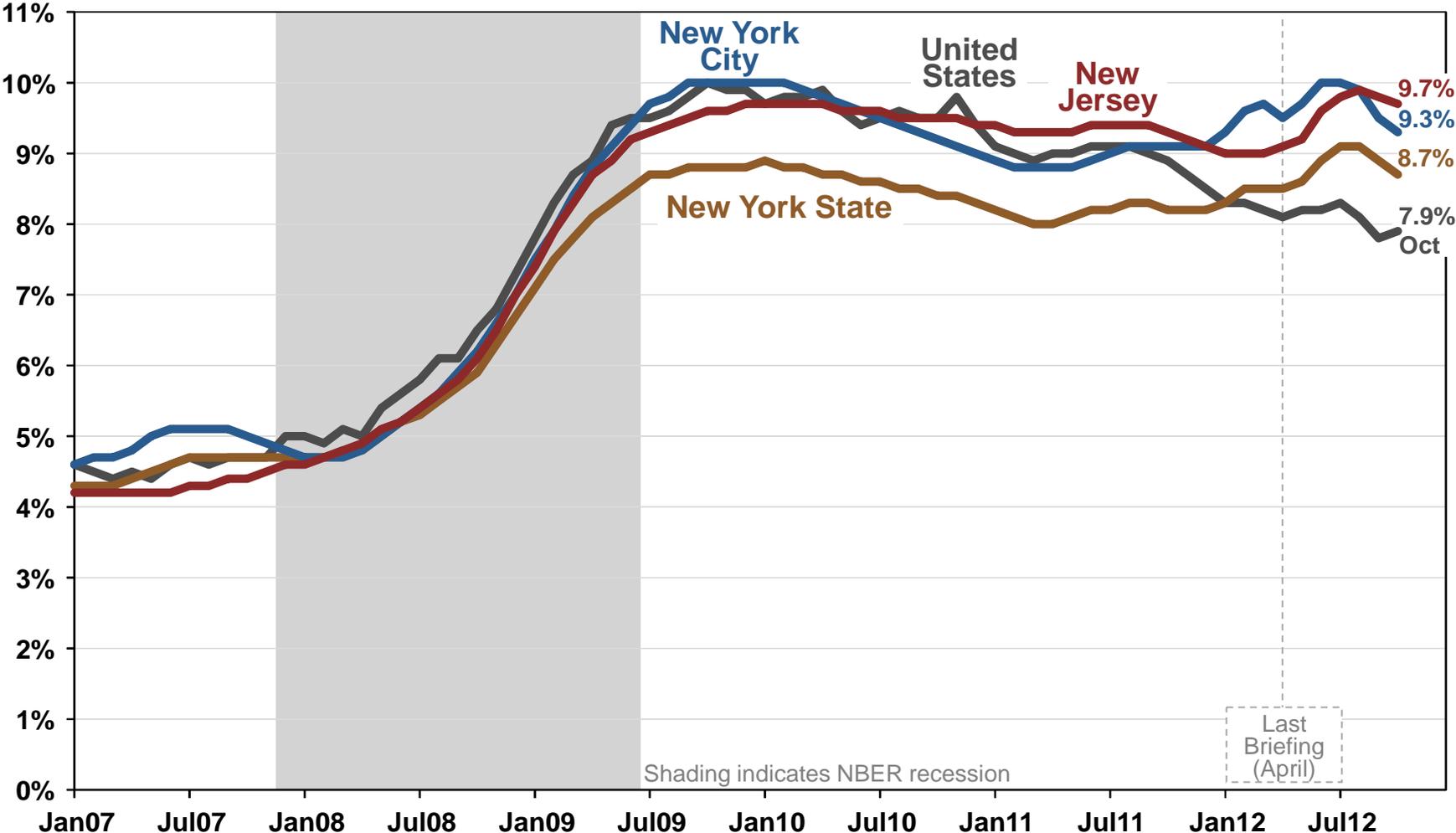
Total Employment

Seasonally Adjusted Index



Regional Unemployment Rates

Seasonally Adjusted Rates



Shading indicates NBER recession

Last Briefing (April)

Assessing the Aftermath of Sandy

Scope of Physical Damage

- Residential real estate & property:
 - Largely in flood-prone areas
 - Scattered wind-related damage across the region
- Commercial real estate & property:
 - Flooding of office buildings (NYC) and retailers along coastlines
 - Damaged or destroyed equipment (e.g., computers, vehicles)
- Infrastructure:
 - Mass Transit: subways, PATH, NJ Transit Rail, LIRR, Metro North, Amtrak
 - Power Infrastructure: power lines, transformers & other equipment
 - Other Public Infrastructure: roads, bridges, tunnels, water & sewer systems, beaches, boardwalks, airports, seaport, schools, hospitals, etc.



Impact on Economic Activity

- Short-term effects:
 - + Pre-storm increase in activity: consumers stocking up
 - - Disruptions: transportation, power, water, schools, etc.
 - + Offsets to activity decline: postponed or shifted within region
 - + Recovery of activity: rebuilding, repair, replacement
- Each full-day equivalent of lost regional output → \$3.8 billion
 - Represents roughly 1.1% of quarterly regional GDP
 - Knocks roughly 0.4% off quarterly U.S. GDP growth (annual rate)
- Long-term effects:
 - Research suggests little long-run effect on GDP
 - However, local consequences (population and activity relocations) may be persistent



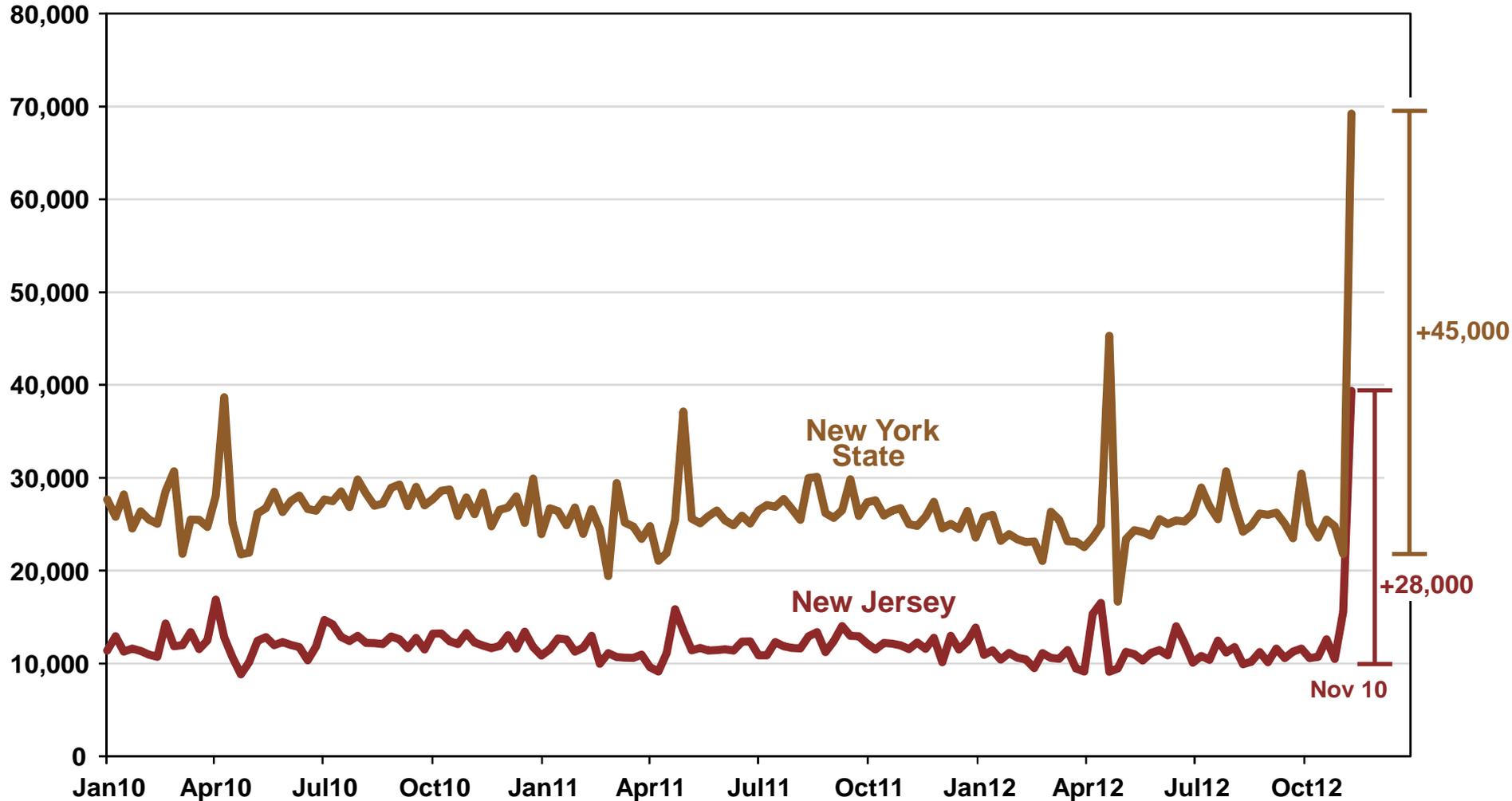
Empire State Manufacturing Survey

- Headline index little changed in November; employment index down
 - Roughly 70% of respondent pool is in upstate NY
 - Response patterns were not much different for upstate vs. downstate firms
- Supplemental questions on Sandy: major disruptions to downstate NY firms
 - Most upstate manufacturers saw no reduction in business activity
 - Every downstate respondent reported some reduction in activity
 - Over 90% of downstate firms shut down or severely crippled for at least a day
 - 40% reported shut down or severely crippled for at least 5 days
 - Biggest contributing factors to reduced business
 - Downstate: Loss of power, loss of communications, workers unable to get in
 - Upstate: Customers affected, supply chain disruptions
- Making up for lost output is harder for service firms than for manufacturers



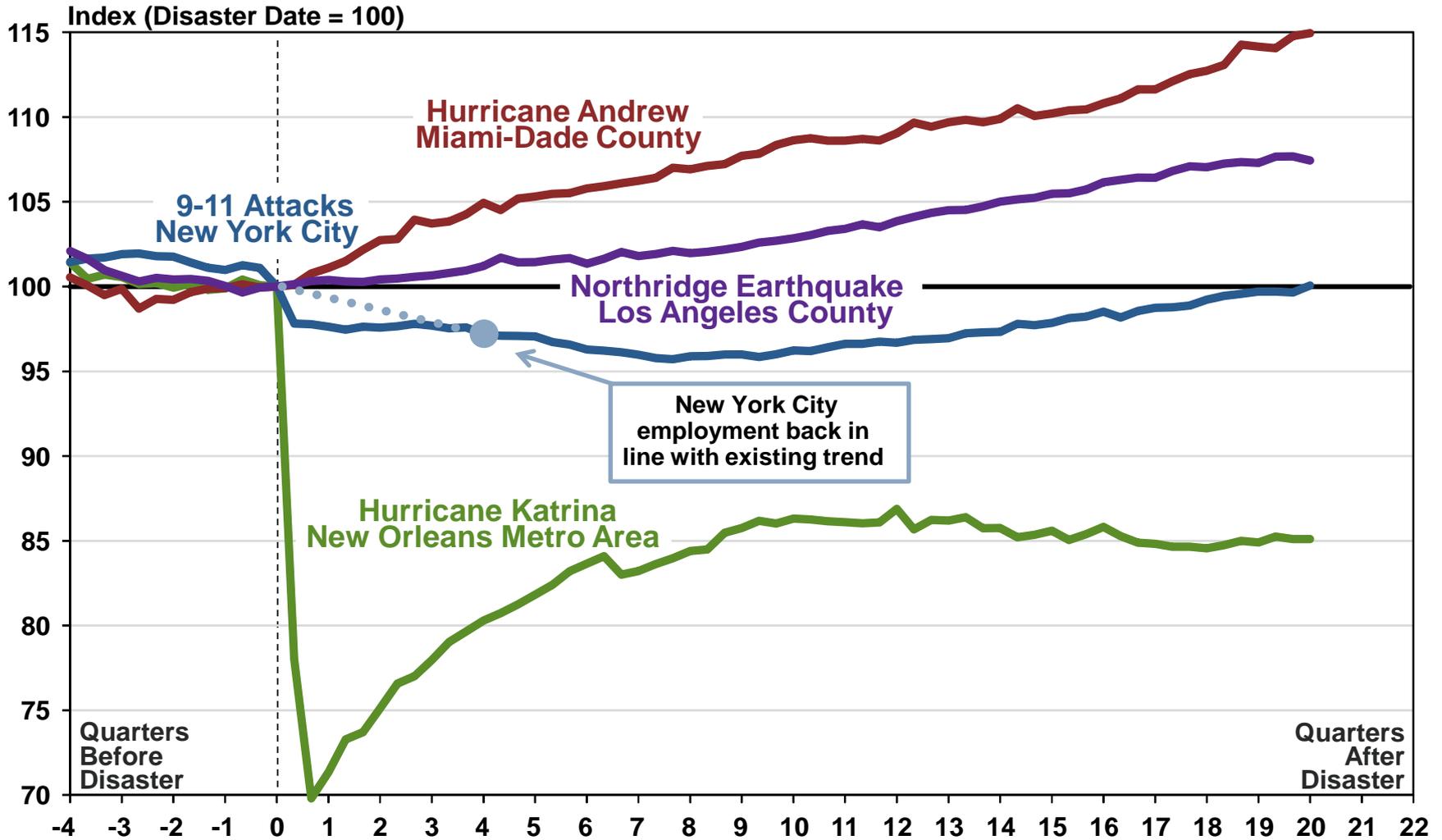
Weekly Initial Jobless Claims

Seasonally Adjusted



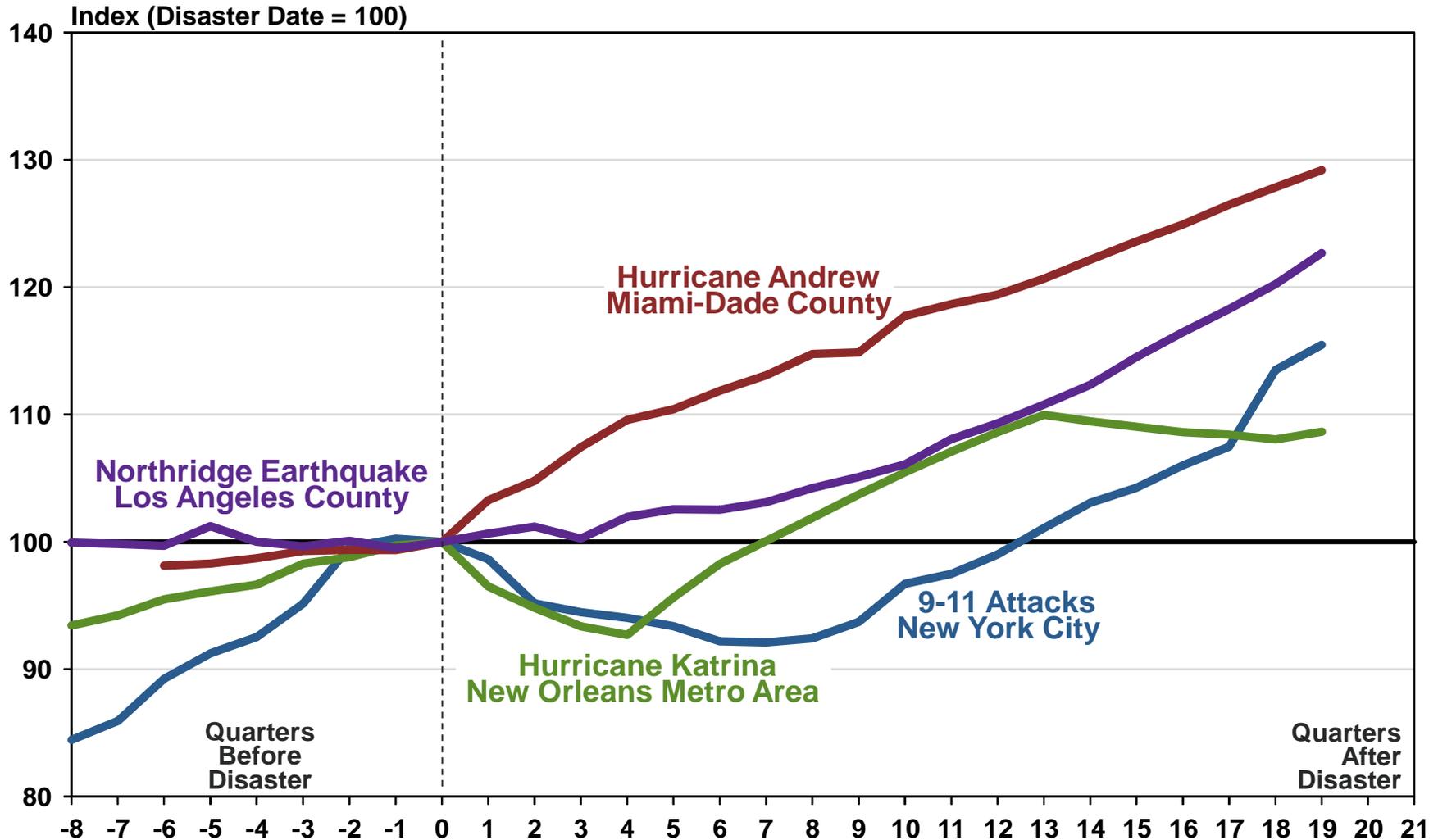
Employment Trends

Before and After Previous Disasters



Wage and Salary Income Trends

Before and After Previous Disasters



Source: Bureau of Labor Statistics (QCEW) and Moody's Economy.com.
Note: Income data was smoothed using a four-quarter moving average.

Welfare Costs

- Impact on quality of life often not included in loss estimates
- Loss of life
- Pain & suffering, quality of life, lost leisure time, etc.
 - Grief and stress associated with loss of homes, personal valuables
 - Days/weeks spent without power, heat, water
 - School children relocated to other schools
 - Additional time spent commuting, traveling
- Often difficult to quantify—total cost likely in the billions
 - Examples:
 - 3 million commuters x 10 extra hours x \$20/hour = \$600 M
 - 3 million homes without power x \$500 value to avoid power loss = \$1.5 B
 - Waiting in gas lines, inability to communicate, etc.

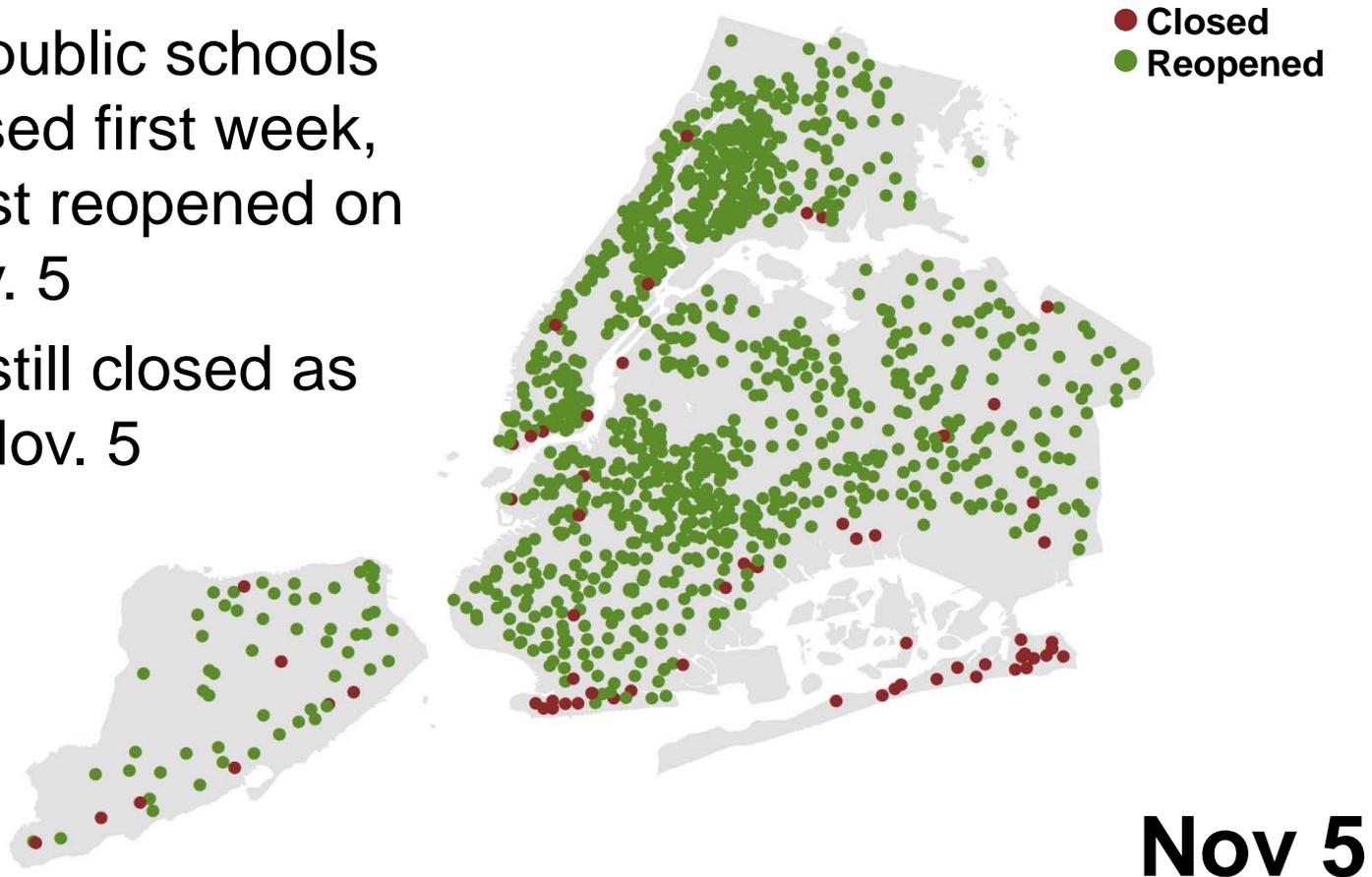


Impacts of Hurricane Sandy on Schools and Students

New York City Schools

Public School Closures: Nov. 5

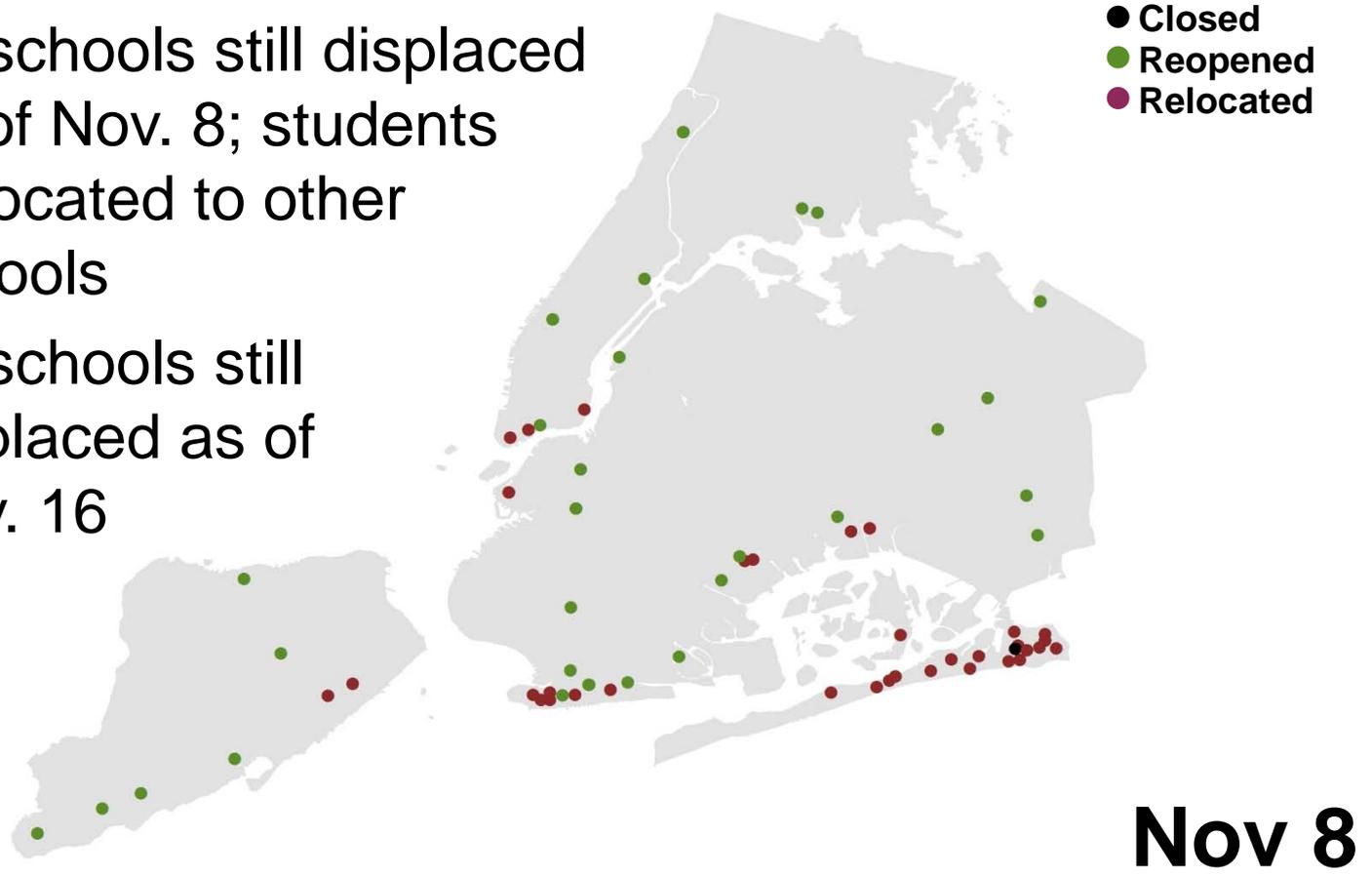
- All public schools closed first week, most reopened on Nov. 5
- 87 still closed as of Nov. 5



New York City Schools

Public School Relocated and Reopened: Nov. 8

- 44 schools still displaced as of Nov. 8; students re-located to other schools
- 23 schools still displaced as of Nov. 16



Nov 8

New York City Schools

Public School Attendance: Nov 8



School Closures Outside NYC

- New Jersey: Roughly 60% of 2,400 schools still closed on November 7
 - 700 still without power on November 7
 - NJ relatively slow in coming back—18% still closed on November 9
- Long Island: Most schools closed for full week, and more than 100 schools require repairs due to Sandy damage



Potential Educational Impacts

- Research shows loss of school days leads to adverse effects on student learning
 - Of particular importance, an agreement allows students to make up three and a half days of lost time
- Psychological effects
- Relocations of families disrupt education
- Closed schools can substantially disrupt parents' work and other schedules



Summary

- Breaking down the costs of Sandy
 - Physical damage (homes, property, infrastructure, etc.)
 - Loss of economic activity (due to power, transportation outages)
 - Welfare costs (pain & suffering, quality of life, lost leisure time, etc.)
 - Most schools shut down for days; some for substantially longer
- Bottom line
 - Short-run disruptions substantial and widespread across tri-state region
 - Hard-hit communities, individuals, businesses face long road to recovery
 - Regional economy overall expected to be back on track by early 2013
- Looking ahead
 - It takes time, but devastated communities typically recover from disasters
 - How can we mitigate impacts of future disasters?



Intelligence From the Hardest Hit Areas

Claire Kramer, Officer, Regional Outreach

Overview

- Outreach Team

- Gathers intelligence about emerging local issues, economic problems, and financial concerns from the ground up
- Identifies knowledge gaps for which the FRBNY is uniquely suited to address and produce actionable analysis
- Ongoing relationships with community organizations, business groups, and government agencies throughout the region

- Sandy-Related Conversations

- Contacted 40+ service organizations operating in the hardest hit areas of the region
- Organizations include local, state, and federal housing and business agencies; chambers of commerce; and economic development authorities
- Focus on small business and housing market conditions



Small Business Recovery

- Access to Credit is Top of Mind
 - Collateral losses limit ability to obtain loans/lines of credit
 - High demand for SBA loans at favorable terms
 - Gap financing needed for short-term cash flow while firms restart operations and wait for SBA and insurance settlements
 - Local loan programs filling short-term financing needs—up to \$25k. Examples include NYC Department of Small Business Services, NY Bankers Association and NY Business Development Corp, and Hudson County Economic Development Corporation



Small Business Recovery

- Insurance Coverage Won't Make Firms Whole
 - Companies lacked flood insurance
 - Major storm damage due to salt water
 - Business disruption insurance policies may not cover damage due to water, wind, or power outages
 - Many firms hold such policies, especially service industry firms
 - Demand for adjusters is greater than capacity
 - Insurance companies have set up mobile claims operations in heavily affected areas



Small Business Recovery

- Business Trade Groups are Engines of Recovery
 - Businesses located in areas with active business organizations are faring better than those in areas without such infrastructure
 - Service organizations in affected areas also sidelined by the storm but used websites and social media to communicate with members while operations were closed
 - Self-help cooperatives among business owners have sprung up to share resources and space



Small Business Recovery

- Business Owners Facing Key Decisions
 - Investment: Firms on waterfront discussing getting big generator systems—but logistical problems remain (i.e. where to locate generators). Renters with short-term leases hesitant to take out loans to renovate spaces they may not be able to retain
 - Relocation: Sandy is prompting relocation discussions. New Jersey or upstate New York where (higher ground) land is cheaper are in consideration, especially for waterfront firms
 - Closing Shop: Business owners close to retirement age are considering not reopening at all



Housing Recovery

- Shelter is Top Priority For Federal, State, and Local Authorities
 - Estimated 40,000 New York City residents need shelter—likely to be low estimate
 - Housing service providers report that most families who lacked power, heat, or hot water, but whose homes did not suffer structural damage, preferred to brave elements
 - Many public housing tenants refused to evacuate or relocate out of fear that a Katrina-like condemnation might take place



Housing Recovery

- Counseling and Service Resources Available
 - State Housing Task forces formed to identify housing priorities, catalog vacant rental housing units, and investigate temporary housing options
 - Housing counseling and service providers aggressively marketing emergency loan programs—examples are Neighborhood Housing Services of NYC and Asian Americans for Equality—in hard hit neighborhoods
 - Over longer term, Center for NYC Neighborhoods will deploy resources to support housing counseling and legal services for homeowners filing insurance and FEMA claims and seeking assistance from mortgage providers



Housing Conditions in the Region

Jaison Abel, Senior Economist

Overview of Regional Housing Conditions

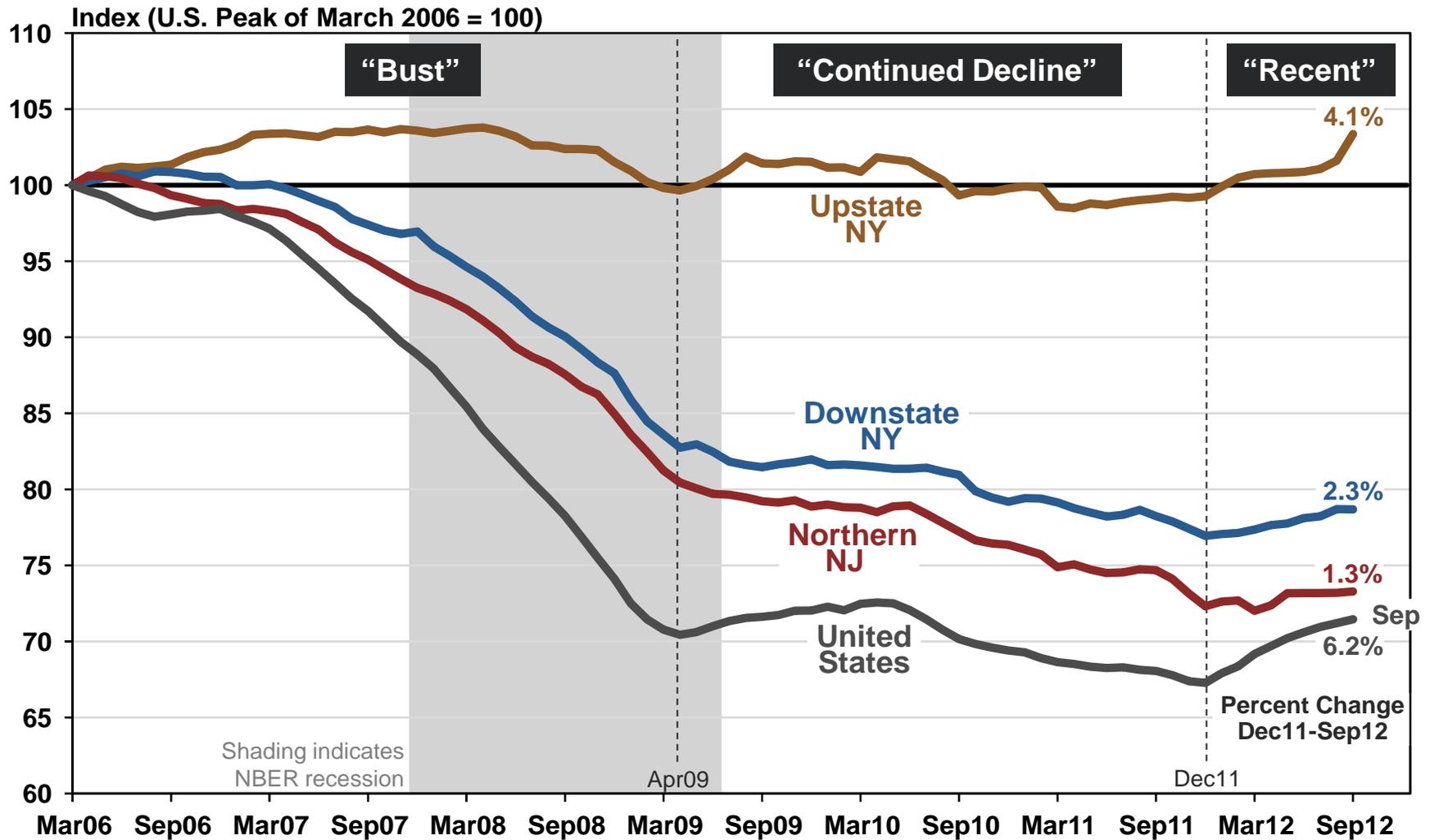
- Many of the region's housing markets have begun to recover
 - Home prices reached a bottom in late 2011
 - Home sales and building activity have stabilized
- Signs of housing-related stress have eased somewhat
 - Negative equity share has edged down remains below national levels
 - Fewer homeowners are becoming delinquent on their mortgages
- Challenges remain going forward
 - The hardest hit places in the region continue to struggle
 - A large and growing backlog of foreclosures exists in the region



Measures of Housing Activity

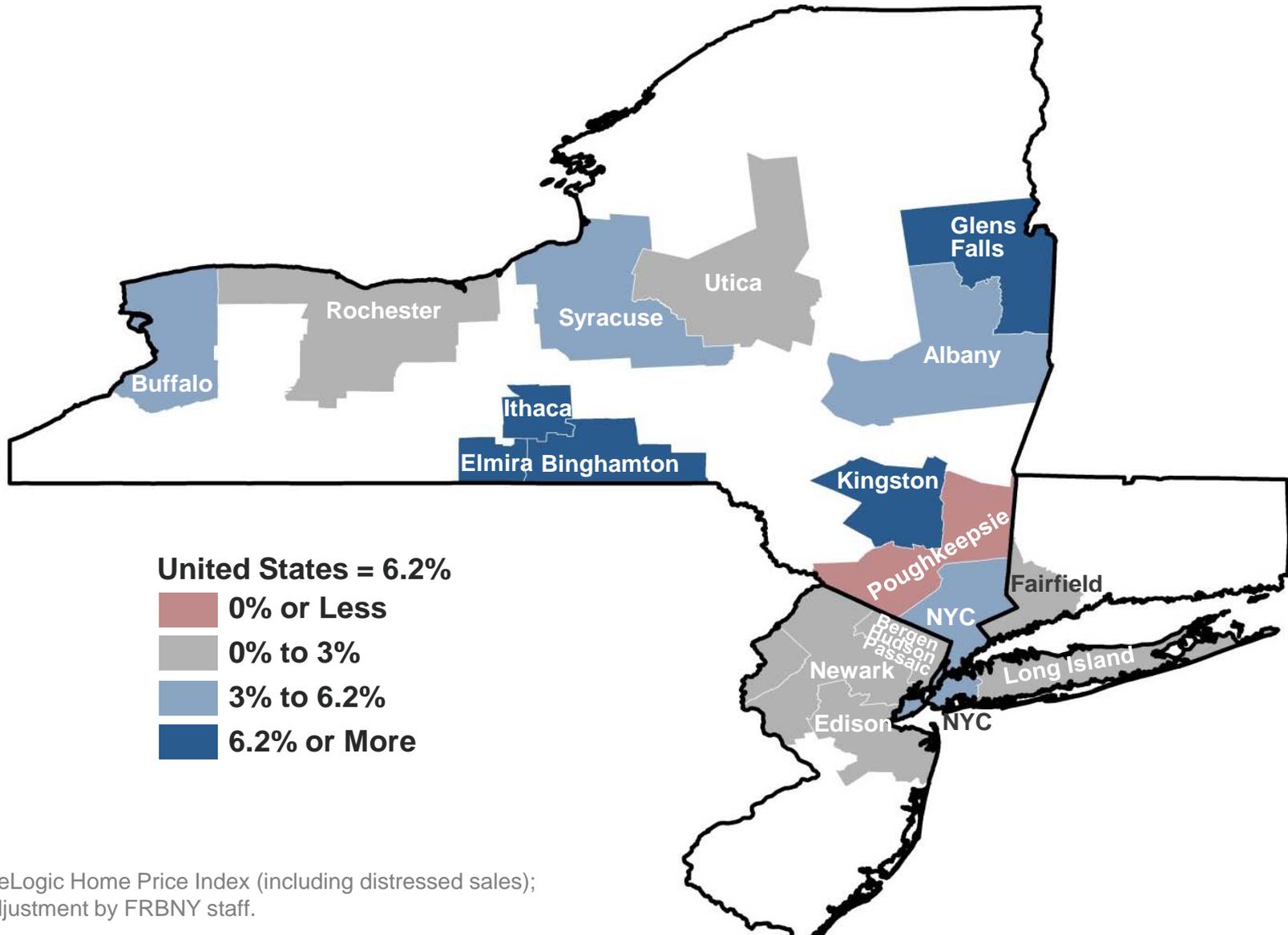
Regional Home Prices

CoreLogic Single-Family Home Price Index, Seasonally Adjusted



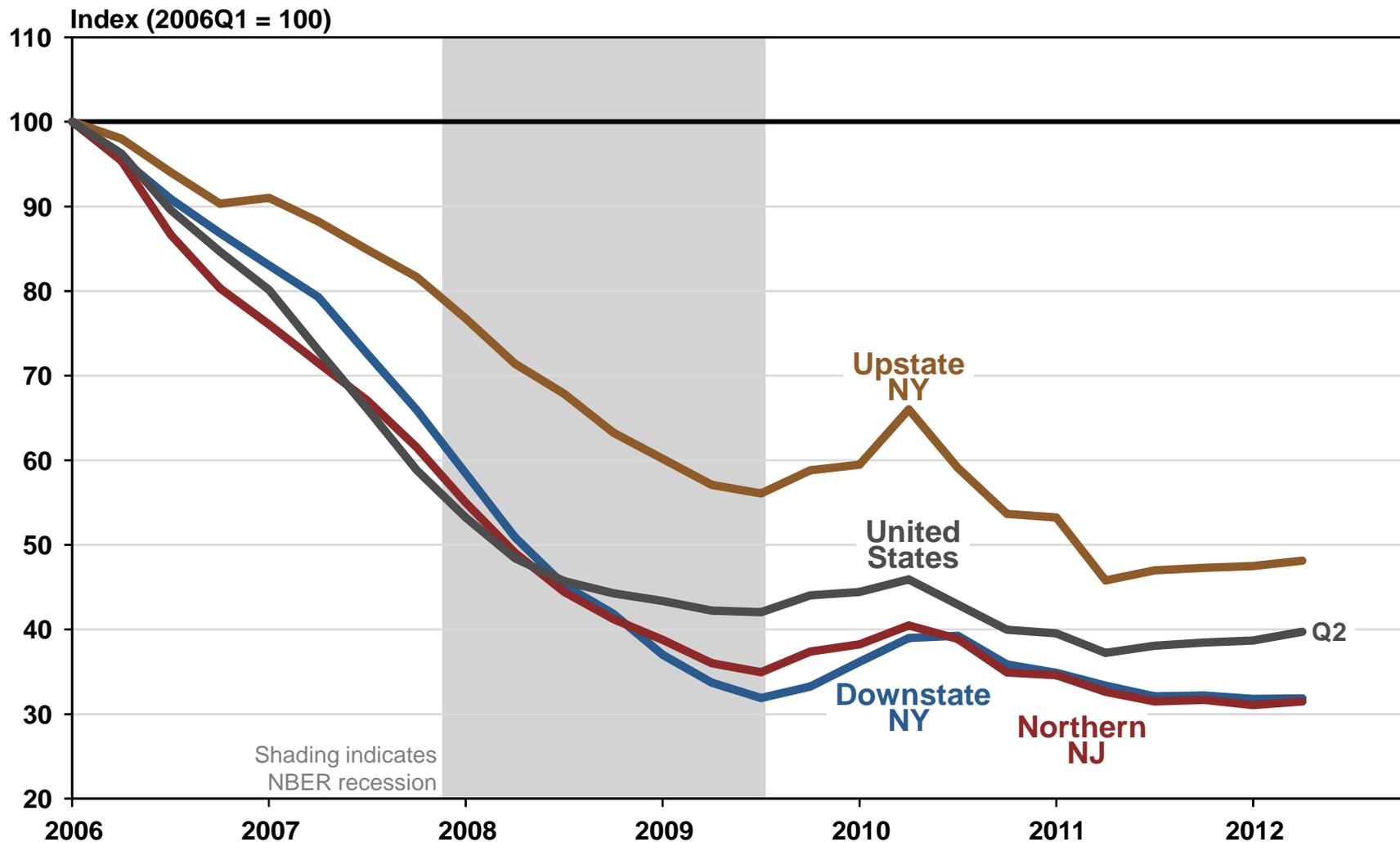
Home Price Changes in the Region

CoreLogic Single-Family Home Price Index, Dec11 - Sep12



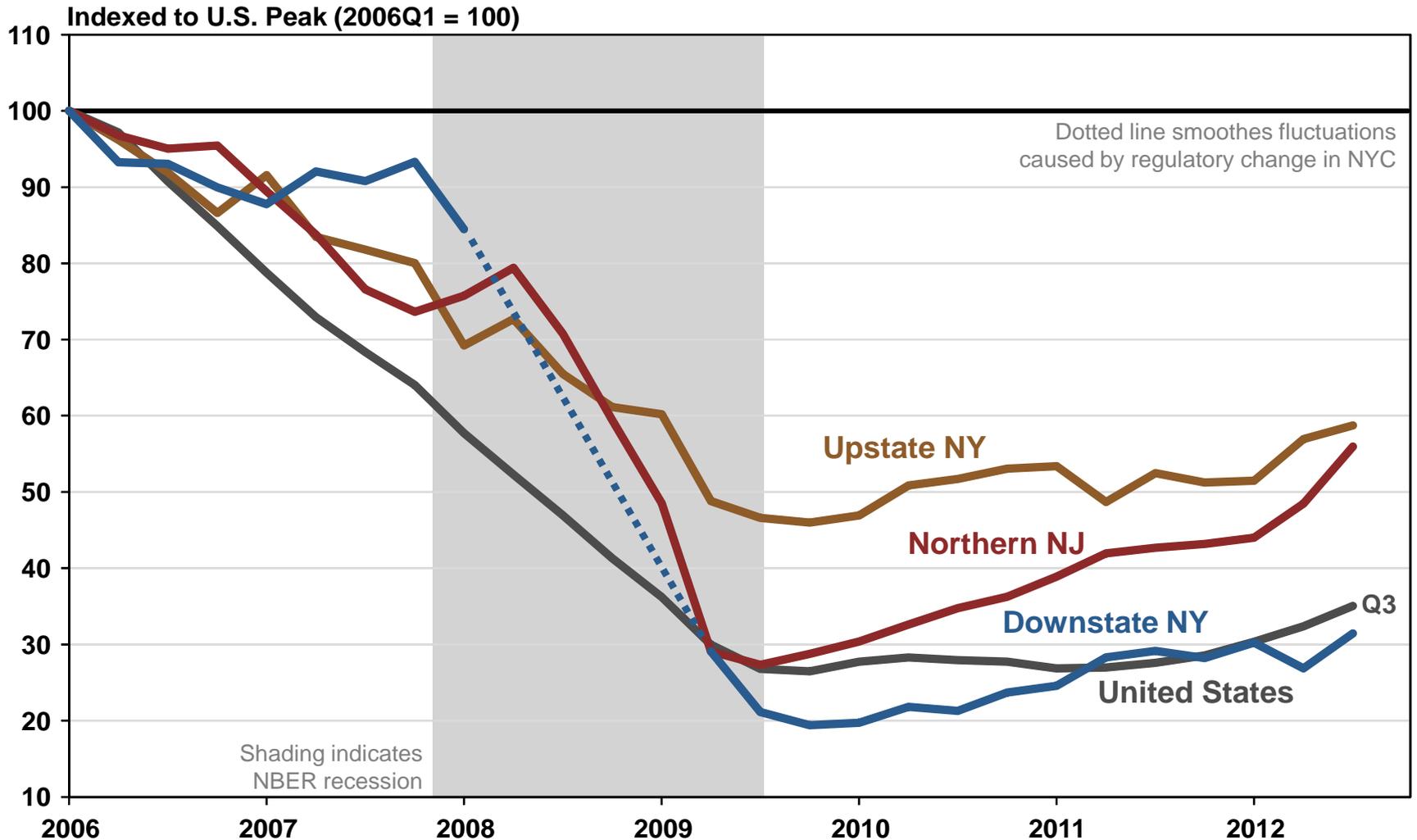
Regional Home Sales

Index of Single-Family Repeat Sales, Four-Quarter Moving Average



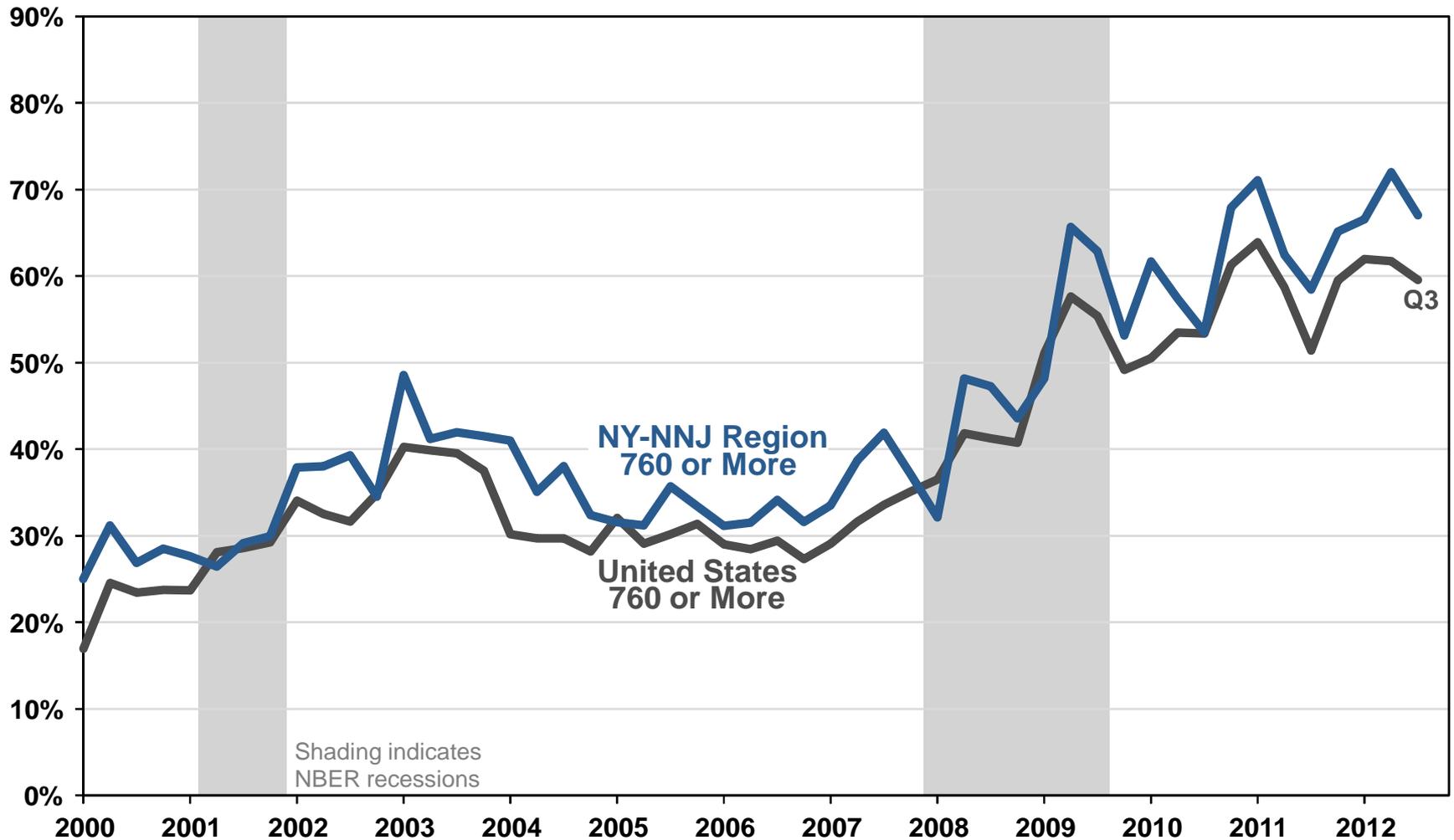
Regional Home Building Activity

Index of Total Residential Home Permits, Four-Quarter Moving Average



Mortgage Originations by Credit Score

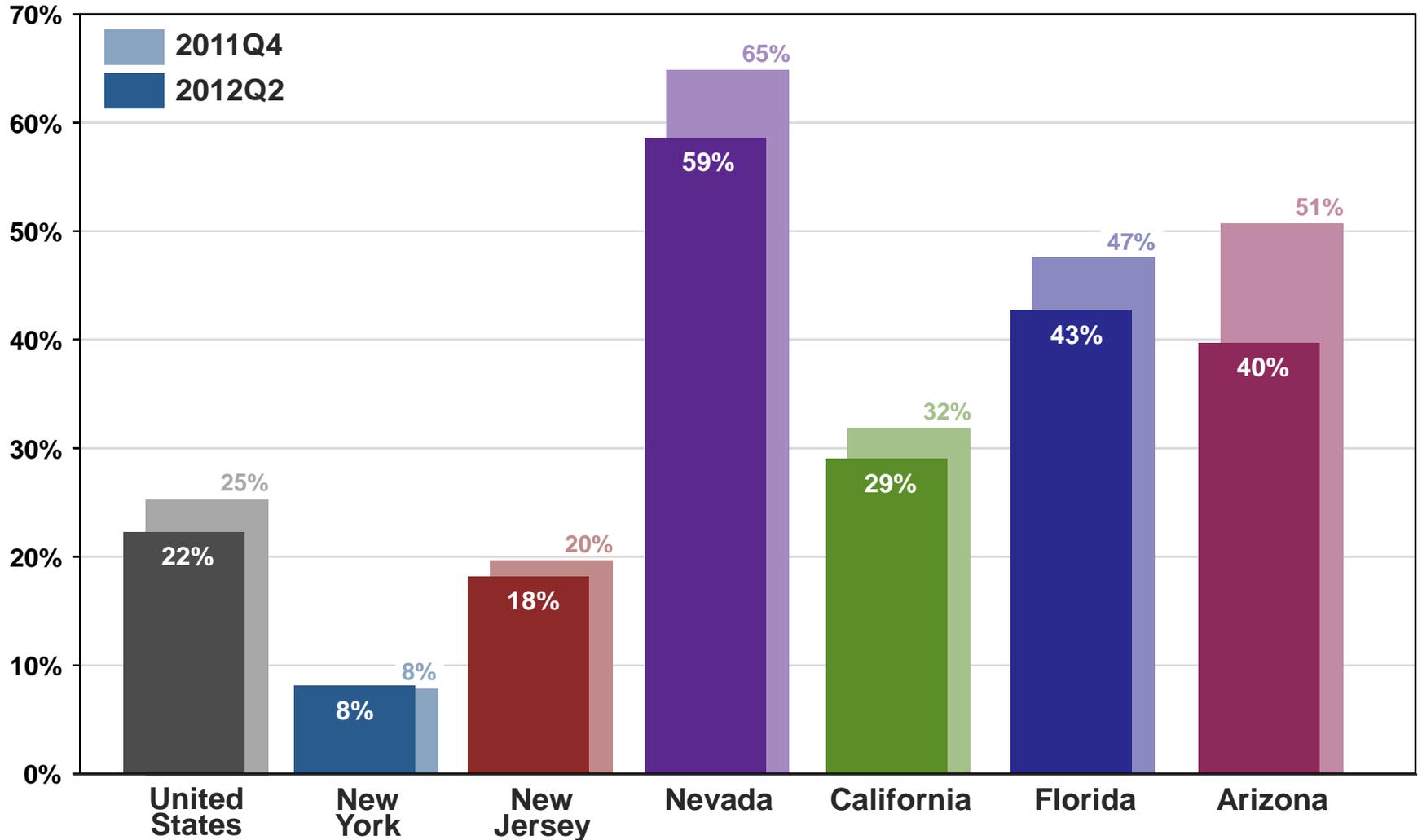
Share of First Mortgages



Measures of Housing Stress

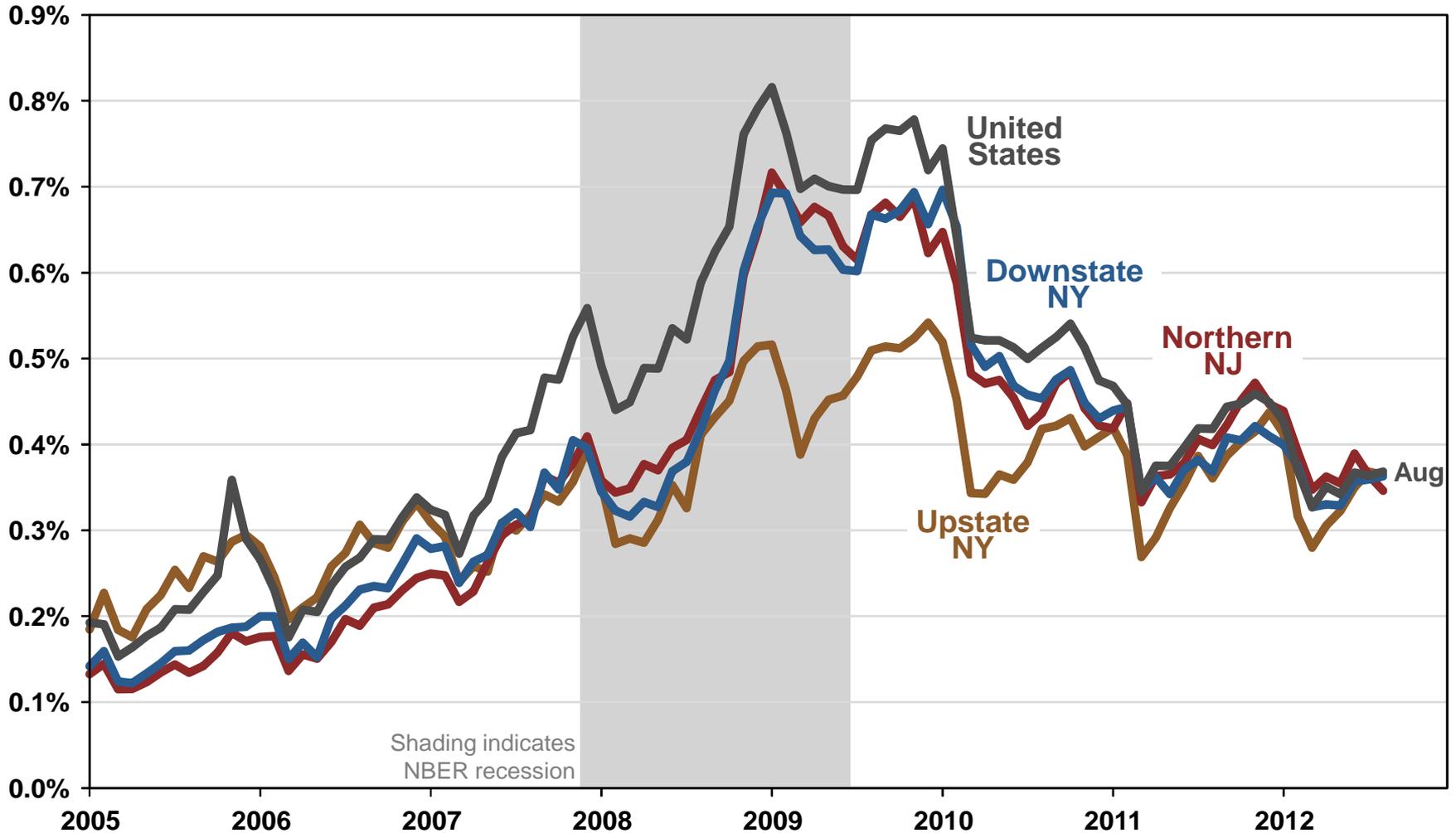
Negative Equity

Share of Mortgages with Amount Owed Greater Than Home Value



Pipeline of New Delinquencies

Share of Mortgages Entering Severe Delinquency (90+ Days) Since Previous Month

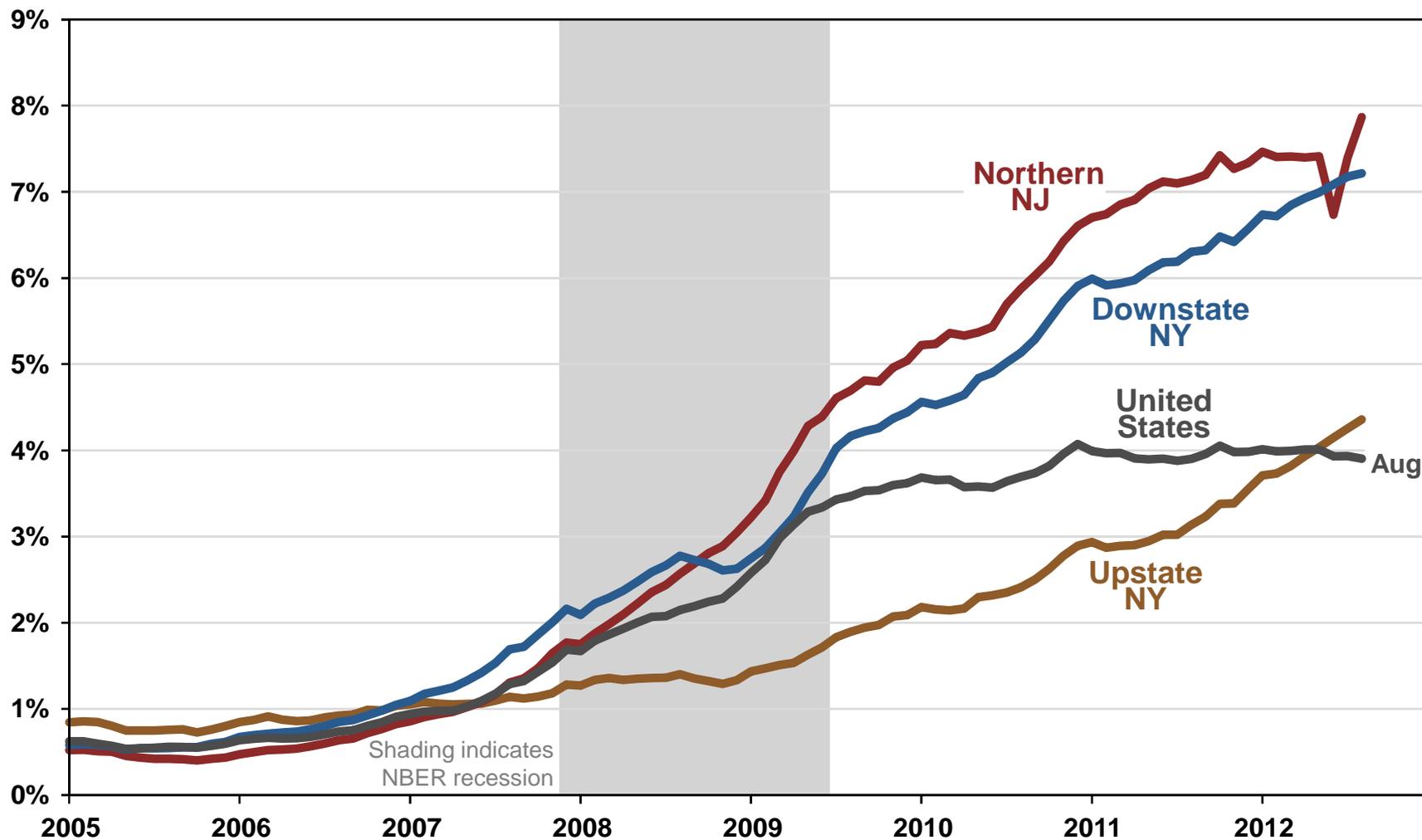


Shading indicates NBER recession

Aug

Backlog of Foreclosures

Share of Mortgages in Foreclosure

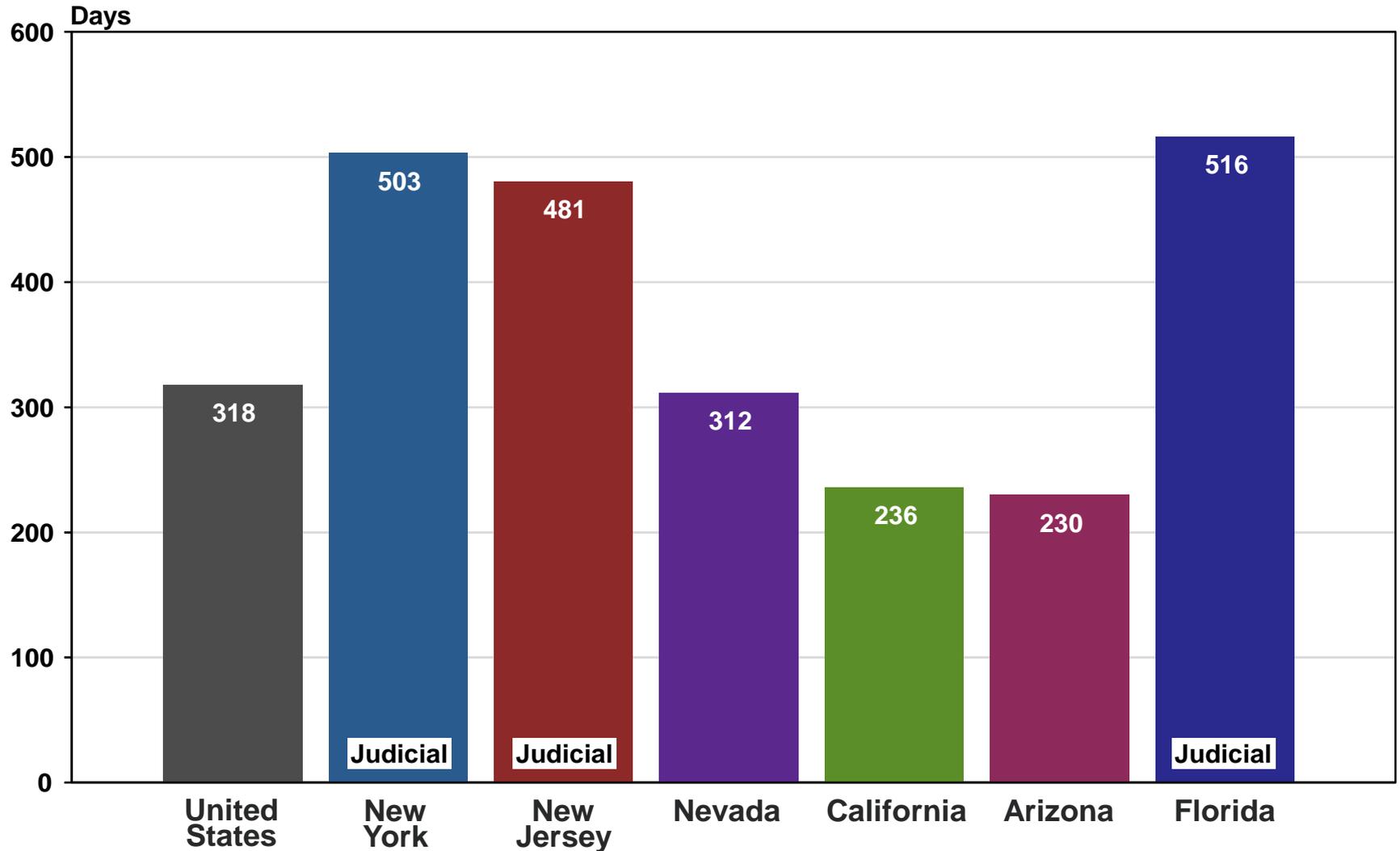


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Aug

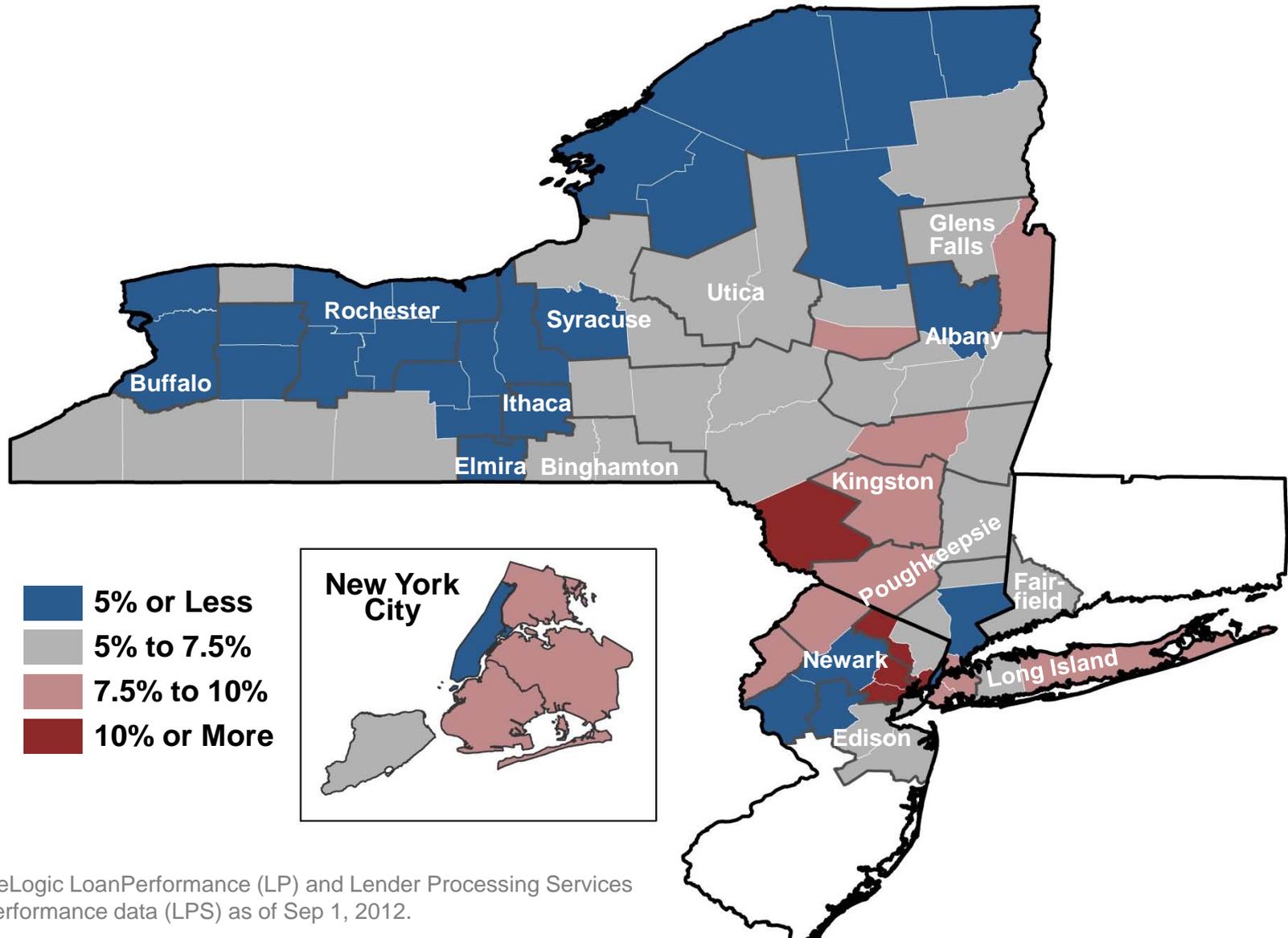
Average Number of Days in Foreclosure

2010 to 2012Q2



Geography of Regional Housing Stress

Percent of Mortgages in Foreclosure



- 5% or Less
- 5% to 7.5%
- 7.5% to 10%
- 10% or More



Source: CoreLogic LoanPerformance (LP) and Lender Processing Services Mortgage Performance data (LPS) as of Sep 1, 2012.

Summary

- Like the nation, housing conditions in the region have shown steady signs of improvement
 - Home prices have generally increased throughout the year
 - Other measures of housing-related activity have stabilized
 - Indicators of housing-related stress have eased somewhat
- However, many of the hardest hit places in the region continue to struggle
 - Housing stress is concentrated in northern New Jersey, parts of the Hudson Valley, and Long Island
- Going forward, a large and growing backlog of foreclosures presents a challenge to broadening and strengthening the region's housing recovery



Potential Impacts of Sandy

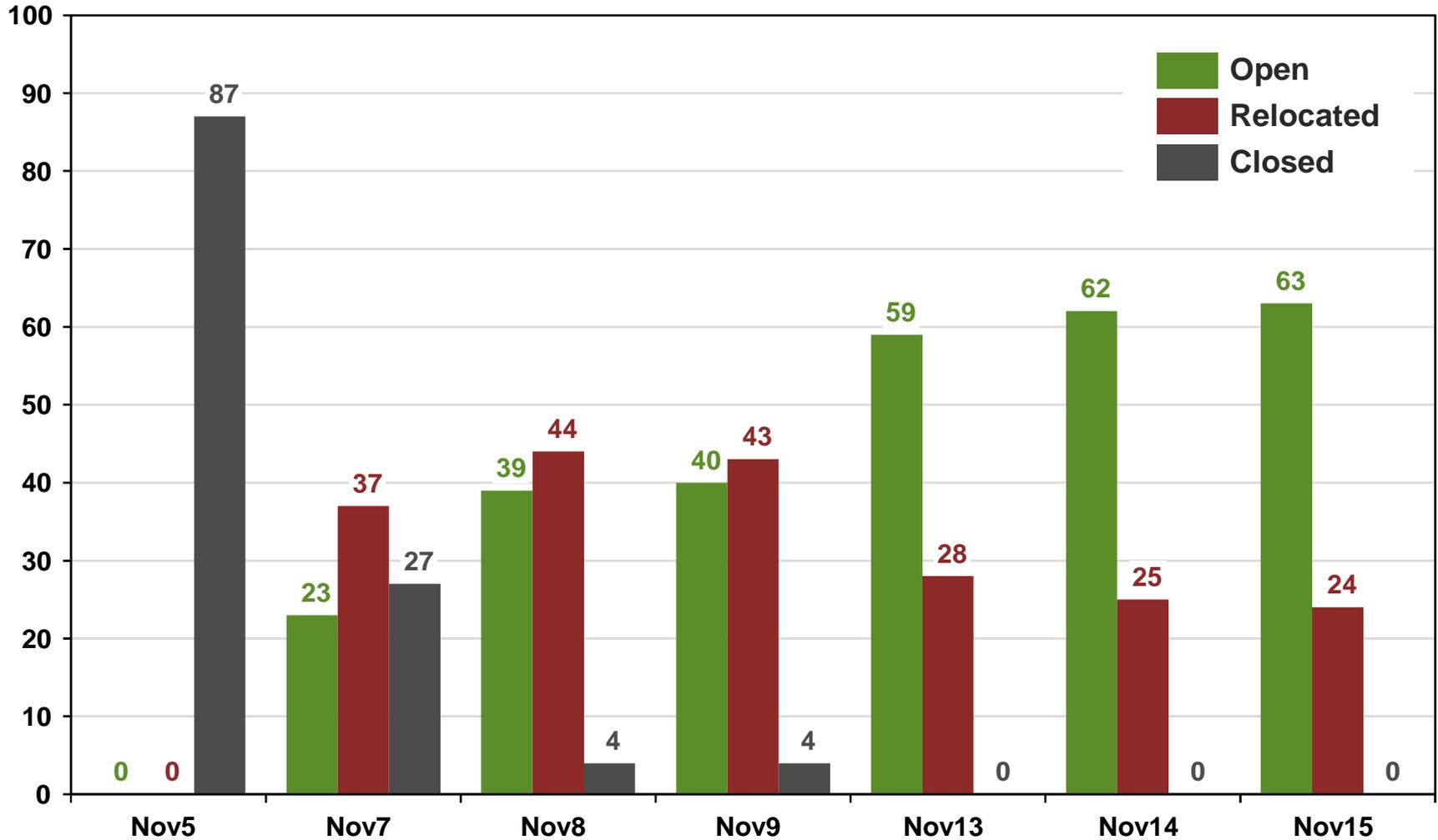
- A large number of homes were damaged or destroyed by Sandy, particularly along the coasts of NY, NJ, and CT
 - NY: +300,000 (~4% of housing stock)
 - NJ: +70,000 (~2% of housing stock)
- No doubt, rebuilding will be difficult and costly
- Research indicates that housing markets impacted by severe storms see a temporary dip in home prices and sales activity followed by a rebound
 - If enough homes are destroyed, prices may increase immediately
- Longer run questions following Superstorm Sandy:
 - Will demand for coastal properties fall?
 - Will costs of homeownership increase?



Appendix

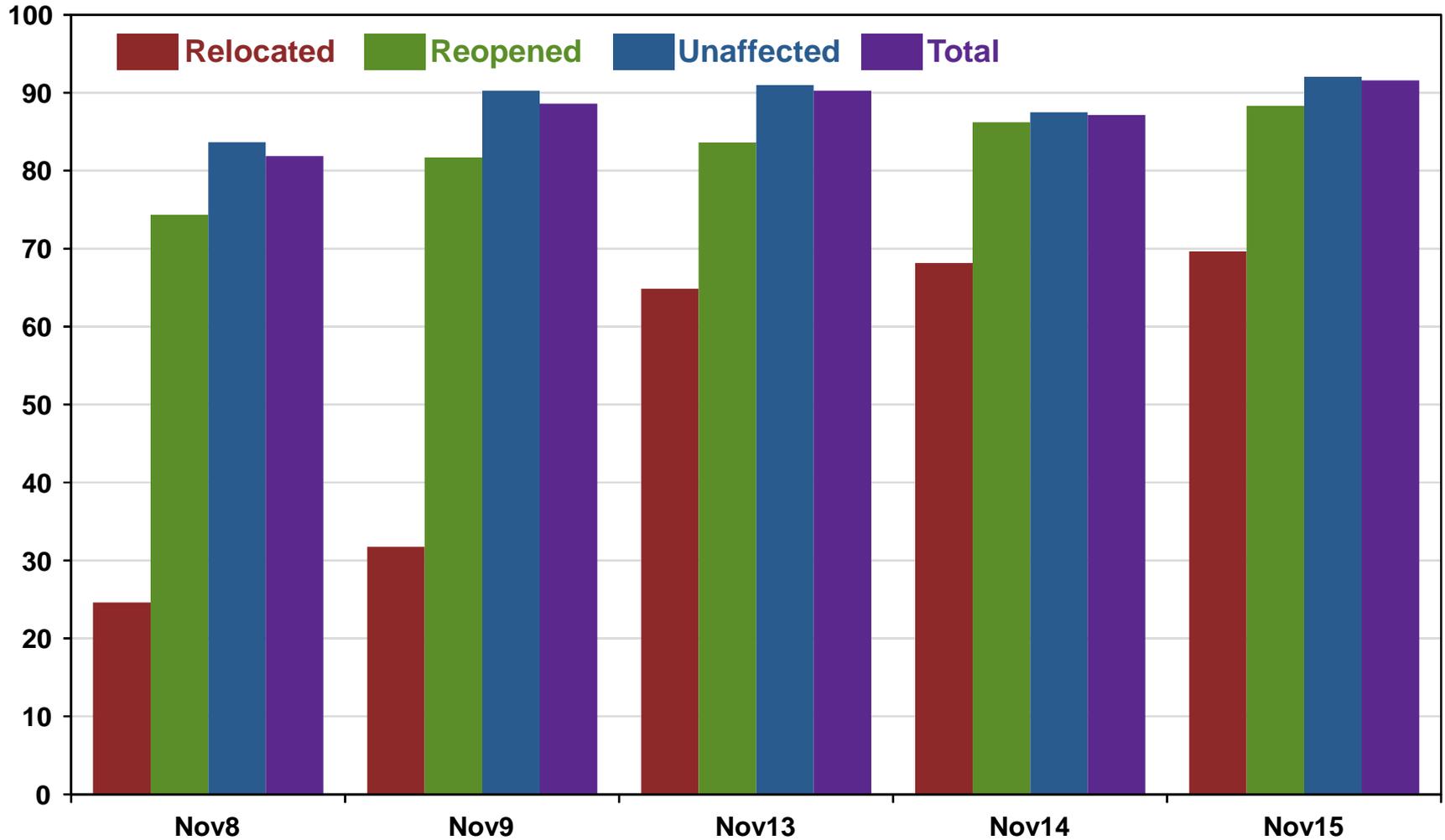
New York City Schools

Public School Reopening



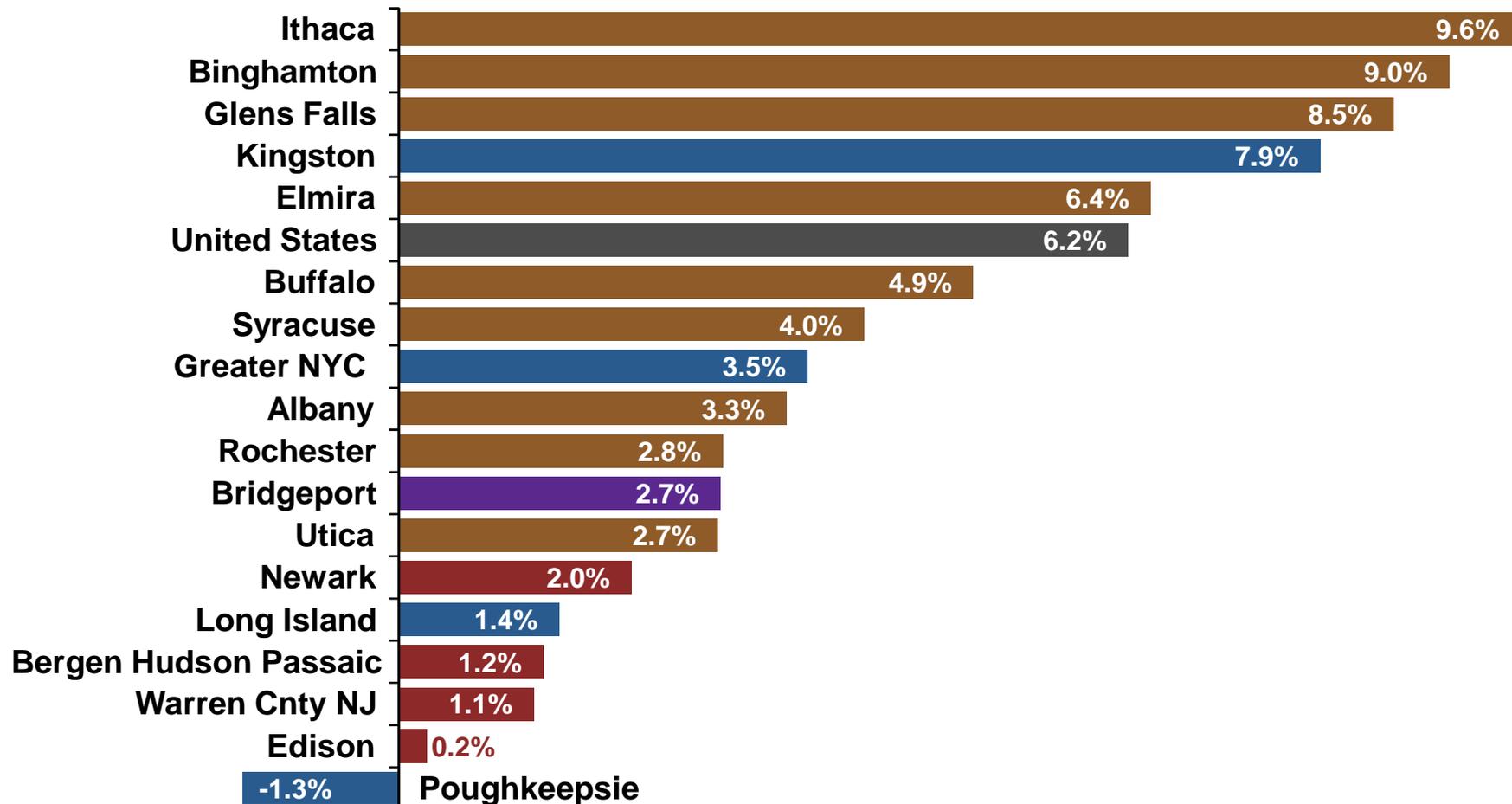
New York City Schools

Public School Attendance



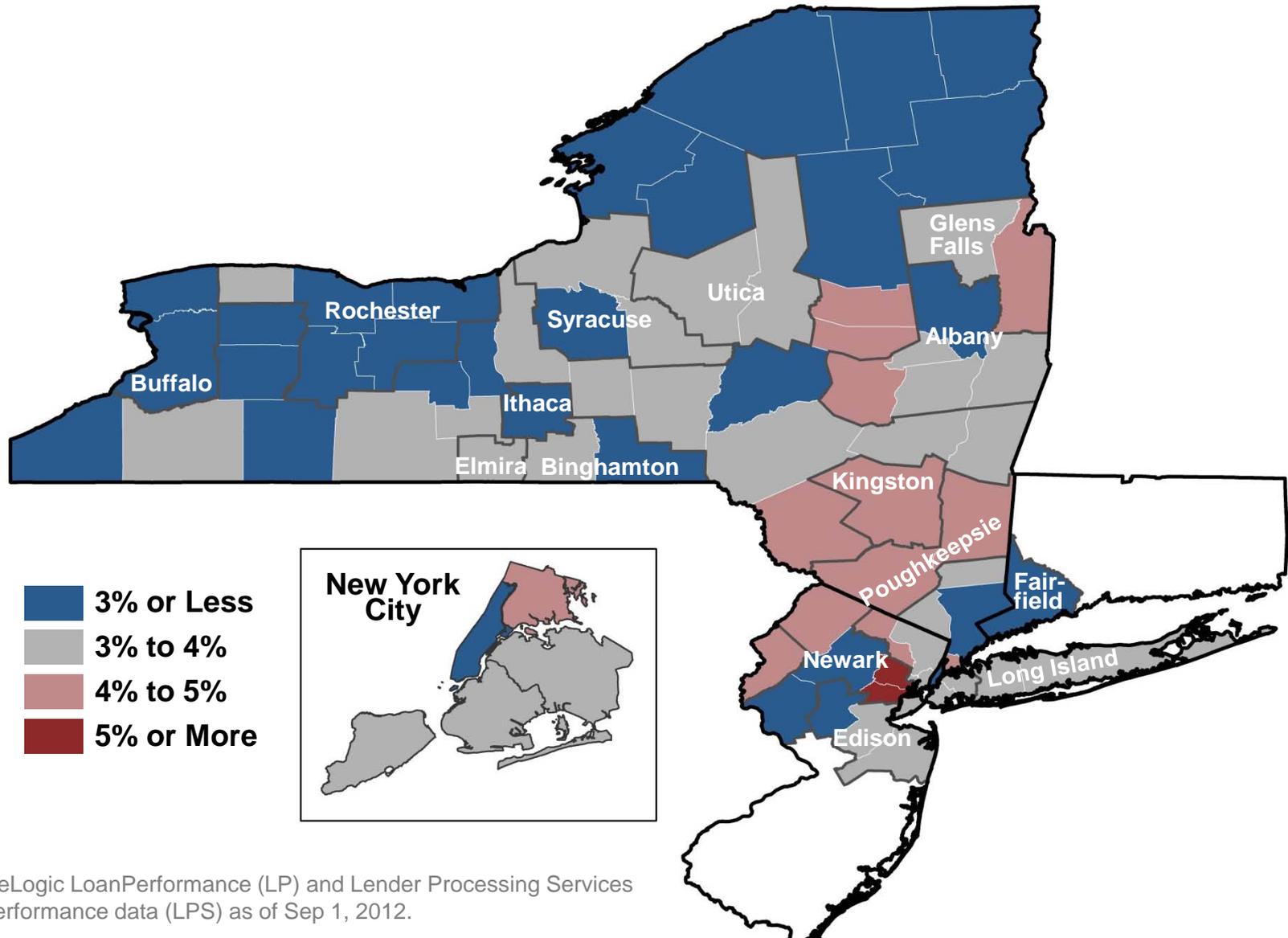
Recent Regional Home Price Appreciation

CoreLogic Single-Family Home Price Index, December-September



Geography of Regional Housing Stress

Percent of Mortgages Delinquent 90+ Days



Source: CoreLogic LoanPerformance (LP) and Lender Processing Services Mortgage Performance data (LPS) as of Sep 1, 2012.

Areas Included in Aggregate Regions

Upstate NY, Downstate NY, and Northern NJ

