FEDERAL RESERVE BANK OF NEW YORK Volume 6 Number 5

CURRENT ISSUES IN ECONOMICS AND FINANCE

Second district highlights

April 2000

New York–New Jersey Job Expansion to Continue in 2000

James Orr and Rae D. Rosen

Employment in the New York–New Jersey region expanded for a seventh straight year in 1999. Total jobs grew 2.3 percent, outpacing the 2.1 percent growth rate set in 1998.

Within the region, jobs expanded faster in New York State than in New Jersey, in part because of New York City's continuing strong job gains. The city's overall rate of employment growth, 2.5 percent, equaled its 1998 rate, and its private-sector employment growth rate of 2.8 percent exceeded the corresponding rates for New Jersey and the nation as a whole.[1] An acceleration of job growth in Long Island and ongoing employment advances in several northern suburbs of New York City suggest that the current expansion is continuing at a healthy clip in the broader New York City metropolitan area. Rounding out the regional profile, other areas in upstate and western New York experienced a significant pickup in job growth in 1999.[2]

Last year, the services sector was the source of the vast majority of new jobs in New York State and New Jersey. A diverse group of business, consumer, health, and social services led the expansion, and the wide variety of these jobs suggests that the region continues to broaden its employment base. In New York City, the growth of the services sector was a particularly important source of the strong job performance. Wall Street retained a key role in the explanation of that strong performance: Although it produced a relatively small number of new jobs, Wall Street generated a disproportionately large share of earnings (wages and salaries). Accordingly, the earnings growth in the city's securities industry in 1999 likely accounted for roughly 30 percent of the earnings growth in the entire city economy.

Looking ahead, we expect that job growth in the New York–New Jersey region will continue in 2000, sustained by the ongoing expansion of the services sector throughout the region. With 1.8 percent growth projected, the region will see the creation of about 290,000 new jobs. However, some anticipated moderation in the growth in the national economy over the second half of 2000 may help slow the region's growth and prevent it from matching last year's rate.[3]

In this edition of *Second District Highlights*, we review employment developments in the New York–New Jersey region in 1999 and present our forecasts for job growth in 2000 separately for New Jersey, New York State, and New York City. We also focus on the sources of New York City's relatively rapid job growth in 1999. As part of that analysis, we examine the expansion of jobs in the city's services sector and the continuing concentration of earnings growth there. Finally, we assess the potential risks to the region in 2000.

1999 in Review

Overall, employment grew 2.3 percent in the New York–New Jersey region, representing the creation of 282,000 new jobs. Private-sector employment expanded 2.6 percent and continued the leading role that it played in the region's employment recovery throughout the 1990s. With the exception of manufacturing, all major sectors in the region showed a rise in job levels. Especially noteworthy was the fact that a diverse group of business and consumer service industries accounted for about 60 percent of the new jobs. These industries were business services, including temporary workers, computer and data-processing workers, brokers, and consultants; consumer services, including the restaurant and entertainment industries; health services; and social services.[4] Smaller contributions to growth were also made by the trade and construction sectors and by segments of the transportation, communications, and public utilities industries. Nonetheless, the rate of decline in manufacturing employment in 1999 exceeded that of the prior year and thus extended the contraction in this sector's employment levels.

In contrast to the U.S. trend of a mild slowing in employment growth, the job gains in New York State were so robust that they more than compensated for a mild deceleration of job growth in New Jersey and boosted the region's aggregate growth rate. Virtually all metropolitan areas in New York State are now seeing an expansion of employment, with the New York City metropolitan area experiencing an especially sharp acceleration in job growth in both 1998 and 1999.

New Jersey

The slowdown in the job growth rate seen in 1998 continued in 1999, with the rate falling to 1.6 percent from 2.1 percent. This deceleration was very much in line with the gradual down tick in the growth of national employment, which fell to 2.2 percent in 1999 from 2.6 percent in 1998. Although the state's trade and finance sectors experienced a pickup in growth, several sectors that had been expanding rapidly—particularly construction and transportation and communications—saw their rates slow. A significant and broad-based paring back of manufacturing jobs contributed to the overall slowing. At the same time, New Jersey added 8,400 finance jobs—considerably more than were added in New York City—suggesting some relocation of finance functions out of the city to less expensive locations in New Jersey.

New York State

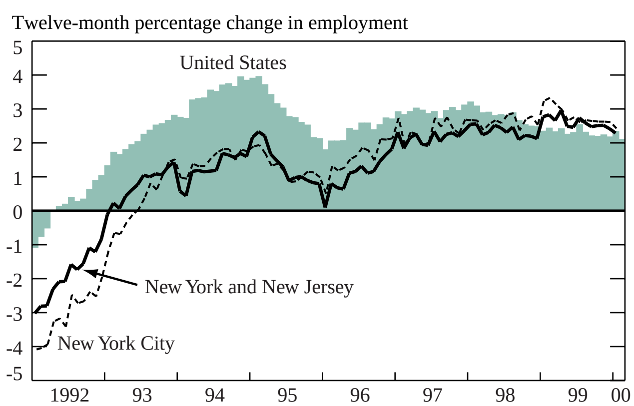
Employment growth in New York State accelerated to 2.6 percent in 1999, from 2.1 percent in 1998. The state's services and construction sectors showed the largest gains while the trade sector also expanded relatively rapidly. However, smaller gains in finance and in transportation and utilities, coupled with an increase in the pace of job declines in manufacturing, weighed on overall growth. Within New York State, employment gains in upstate and western communities were much stronger than the modest gains posted in 1998. Buffalo's 1.6 percent growth reflected broad gains in services, as did Rochester's 1.9 percent rate. The Syracuse and Albany metropolitan areas showed particularly strong growth—2.4 and 2.7 percent, respectively—a sharp pickup from 1998. Although small in absolute numbers, job growth reached a rate of 3.9 percent in Dutchess County, 3.8 percent in Newburgh, and 3.0 percent in Binghamton. Furthermore, in Long Island—a not-so-small economy of about 1 million jobs—job gains accelerated to 3.7 percent as all sectors, *including manufacturing*, expanded.

New York City

Both overall and private-sector job growth remained relatively strong in 1999, with private-sector job levels expanding 2.8 percent (Chart 1). Uncharacteristically, private-sector job growth rates in the city have exceeded those of the nation since September 1998; the sector added nearly 90,000 jobs to the state's economy in 1999. Underlying the city's job growth was a major expansion in service-sector employment and ongoing strength in financial market activity. Moreover, the city's 6.0 percent unemployment rate, recorded in December, was its lowest in a decade. The public sector, which had been a drag on job growth in the early 1990s, began to grow again as a result of a mild expansion of state and local government in the city and fewer losses of federal government jobs.

Chart 1

Private-Sector Job Growth in the New York–New Jersey Region and the United States



Sources: U.S. Department of Labor, Bureau of Labor Statistics; authors' calculations.

2000 FORECAST

A modest slowing of employment growth is forecast for the New York–New Jersey region in 2000. Overall, growth is expected to reach 1.8 percent, yielding about 290,000 new jobs (Table 1). In the private sector, job growth should reach 1.6 percent. However, the deceleration in growth expected at the national level over the second half of 2000 may contribute to downward pressure on regional growth. Job growth will be led by the services and construction sectors, although these sectors will gain at rates below those of 1999 in both states. Government employment will make minor gains, but manufacturing jobs will again decline.

Within the region, the pace of employment growth will continue the broad patterns set in 1999, and a somewhat more balanced job growth picture will emerge than in earlier years:

- In New Jersey, job growth will slow to 1.3 percent from the 1.6 percent growth seen in 1999. An acceleration in the decline of manufacturing employment will exert a significant drag on overall growth. Construction employment growth is expected to level off while growth rates in the trade, finance, and services sectors will slow modestly.

- In New York State, the job growth rate will slow to 2.0 percent, down from 2.6 percent last year. Services will lead growth, although all sectors will see a moderate slowing in their expansion. Government employment is expected to rise moderately.

Table 1
Employment in the New York–New Jersey Region: Past and Projected Growth
Annual Percentage Change

	1997	1998	1999	2000
New York and New Jersey	1.9	2.1	2.3	1.8
New Jersey	2.4	2.1	1.6	1.3
Private sector	2.8	2.5	2.0	1.4
Public sector	-0.1	0.0	0.1	1.0
New York State	1.6	2.1	2.6	2.0
Private sector	1.9	2.3	2.9	2.1
Public sector	0.4	1.2	1.2	1.2
New York City	2.2	2.5	2.5	2.0
Private sector	2.4	2.6	2.8	2.3
Public sector	1.0	1.8	0.9	0.3

Sources: U.S. Department of Labor; Federal Reserve Bank of New York projections.

Note: The 2000 figures are projections.

- In New York City, job growth will also slow to 2.0 percent, down from 2.5 percent in 1999, but will still be well above the city's long-run average performance. The services sector will be the main contributor to growth, with a rate of expansion just slightly below its strong 1999 rate. The construction sector will also closely match its 1999 pace, and the finance and trade sectors, while slowing, will make significant contributions to the expansion.

ACCOUNTING FOR NEW YORK CITY'S JOB AND INCOME GROWTH IN 1998-99

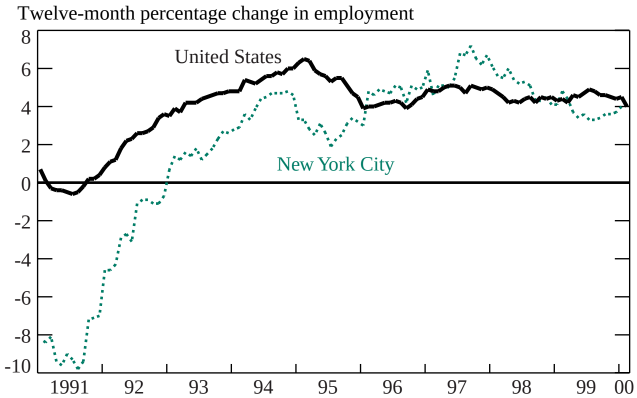
The recent job growth trends as well as projections for growth in 2000 suggest an interesting pattern of economic development within the region: New York City—and indeed its surrounding metropolitan area—has maintained a relatively high job growth rate for several years. In contrast, in the aggregate, jobs in the rest of the state have grown at a more moderate pace, and New Jersey has seen a deceleration in the rate of growth.[5] Furthermore, in terms of earnings, the city has generated more than half of the state's total wages and salaries for the past several years.

What distinguishes New York City's recent performance from that of the rest of the region? Moreover, what are the city's prospects for sustaining its growth in 2000? To answer these questions, we turn to the services sector. Although this sector represented the major source of new jobs throughout the region, its employment growth in New York City has been especially strong and persistent.

In 1998 and 1999, New York City's economy showed signs of pulling away from that of the region. In contrast to a deceleration in New Jersey, job growth in the city accelerated in 1998 to the fastest pace recorded in more than fifty years, and the pace was sustained in 1999. Business and consumer services industries accounted for much of the growth. Because these industries represent about 68 percent of all private-sector jobs in New York City—compared with 63 percent in New York State and just 55 percent in New Jersey—strong performance in these industries would contribute more to the overall growth rate of New York City than it would to the growth rate of the rest of New York State or New Jersey.

Over the 1998-99 period, the robust rate of job gains in business and consumer services in New York City closely matched that of the nation (Chart 2). The city's unusually strong performance was marked by substan-

Chart 2
Business and Consumer Services Employment in New York City and the United States



Sources: U.S. Department of Labor, Bureau of Labor Statistics; authors' calculations.

tial gains in computers and data processing and in temporary placements by personnel agencies. In addition, employment in health services grew nearly 1 percentage point faster in New York City than it did elsewhere in New York State and in New Jersey. Furthermore, jobs in the legal profession and in engineering and management consulting increased by 4 to 5 percent. Taken together, these advances were sufficient to maintain New York City's 1998 record employment growth rate for a second year in 1999.

Is the Growth of Services in New York City Signaling a Recentralization Trend?

The relatively rapid growth in the services sector could suggest a renewed trend toward consolidation of the nation's business and consumer services in New York City. Over the 1990-99 period, business and consumer services in New York City demonstrated remarkable vibrancy and diversity as the city's economy recovered and began its current cyclical upturn. Restaurants and fast-food outlets multiplied. Robust financial markets drove strong gains in security and commodity brokerage jobs. Employment in private education—especially at undergraduate colleges and graduate schools—and employment in engineering and management consulting each grew by thousands of jobs (Table 2). Particularly interesting is the rise in the level of temporary employment in the city, a development that highlights the increased flexibility of the local labor market.

Two new service industries also took hold and flourished during the period. First, New York City became the nation's second motion picture capital. The emergence of new film studios and the expansion of older ones, particularly in Queens and Manhattan, added more than 20,000 jobs to the city's economy. By 1999, New York City commanded 7.4 percent of the nation's jobs in motion picture production, a gain of 1.5 percentage points over 1990. Second, employment in computers and data processing also expanded rapidly, with the sector creating 25,000 new jobs for the city's economy over the 1990-99 period.

Health and social service employment also increased rapidly and contributed substantially to growth during the decade. Although hospitals merged and attempted to trim payrolls, health maintenance organizations staffed up and home health care services proliferated. Cumulatively, the expansion in health employment contributed roughly 64,000 jobs to the city's economy over the 1990-99 period, while social services added about 46,000 jobs. The image of the health and social services sector is sometimes overshadowed in the media by the arguably more glamorous jobs in new media, motion pictures, and finance. However, the sector's economic importance to the city should not be understated. That importance is demonstrated both by the number of jobs that health and social services bring to the city and by the wide range of skills required to fill those jobs.

Table 2
New York City Job Growth in Selected Services: 1990-99

Category	Jobs Added
Business and consumer services	
Eating and drinking	21,575
Security and commodity brokerage	32,975
Real estate firms	7,933
Private education	15,750
Engineering and management consulting	12,992
Temporary employment at personnel agencies	27,000[a]
Computers and data processing	25,000[a]
Motion pictures	20,450
Health and social services	
Health	64,467
Social services	46,275

Source: New York State Department of Labor.

[a]Includes authors' estimate for jobs added in 1999.

At first glance, these developments do appear to suggest a recentralization of the national market for business and consumer services. These services, in a broad sense, were the major contributors to New York City's job growth in the 1990s, and they increased their share of the city's employment. Nevertheless, the sector's cumulative gains in the city over the 1990-99 period, while impressive, still fell short of the national gains.

Indeed, New York City's share of U.S. employment for each industry declined for virtually every major industry in business and consumer services. The city continues to hold the dominant share of the nation's jobs in security and commodity brokerage, but that share dropped from 32.4 percent in 1990 to 25.1 percent in 1999. Furthermore, the city's share of employment in airline transportation fell 3.2 percentage points and its share of banking employment contracted by 2.2 percentage points. Smaller declines in market share were recorded for legal services, insurance, advertising, wholesale trade, and engineering and management. Even the market share of the emerging new industry—computers and data processing—declined, albeit nominally. The motion picture industry proved the one exception to the rule as the city added both jobs and market share.

Overall, then, there is little evidence to suggest that we are witnessing a renewed centralization of business and consumer services in New York City. Still, if the city has not fully recovered its share of jobs in these industries, it *has* succeeded in narrowing the gap between the national and city job growth rates.

The Increased Concentration of Earnings

All jobs, however, are not equal. Market share and job counts offer an incomplete picture of the labor market in New York City. In 1998—the latest year for which data are available—earnings paid in the city's securities sector totaled $32 billion. No other major sector comes close to such a pay level (Table 3). Moreover, the earnings gains in the securities sector, while highly cyclical, nonetheless outpaced the gains in all other sectors by a wide margin, rising an average of 14 percent per year in nominal terms (that is, without adjusting for inflation) during the 1990-98 period. This relatively rapid growth resulted in a 9-percentage-point rise in the city's earnings (private-sector payrolls) going to the securities industry—an increase that occurred even as the share of employment in securities rose just 0.9 percentage point.[6] Although full-year earnings data for 1999 are currently not available, the strength of the year's financial market activity suggests a continuation of the trends of the past several years.

Looking Ahead

The changes in earnings and employment shares have different implications for the stability of the New York City economy over the near term. The significant gains in earnings in the securities industry indicate that a relatively severe cyclical downturn in the financial markets—like the ones that preceded the city's two previous major downturns—would have a clear adverse effect on the city. Any impact on employment and earnings, however, is unlikely to occur immediately. For example, brokerage employment might be reduced in the short run, but the brokerage industry's aggregate employment is small and hence job cuts would also be relatively small. Although earnings declines could be severe, they are unlikely to have a significant effect in the short run because the salaries of brokerage professionals are small relative to bonus income and tend to be main-

Table 3
New York City Employment and Payroll Figures for Selected Services

Category	Percentage-Point Change in Share of: Employment 1990-99	Percentage-Point Change in Share of: Payroll 1990-98	1998 Payrolls (Billions of Dollars)	Increase from 1997 (Billions of Dollars)
Business and consumer services				
Eating and drinking	0.5	0.8	2.6	0.3
Security and commodity brokerage	0.9	9.0	32.0	4.6
Real estate firms	0.2	0.6	4.6	0.4
Private education	0.4	0	10.4	1.5
Engineering and management consulting	0.3	1.2	7.1	0.9
Temporary employment at personnel agencies	0.6[a]	0.6	2.3	0.4
Computers and data processing	0.6[a]	0.9	2.7	0.6
Motion pictures	0.6	0.4	1.9	1.2
Health and social services				
Health	1.7	0.9	14.8	0.6
Social services	1.2	0.1	7.5	0.3

Source: New York State Department of Labor.

[a]The 1999 value was estimated by the authors.

tained over the business cycle. Bonuses, of course, fluctuate sharply with the fortunes of the financial markets, but they are usually not paid until the end of the year or even as late as January or February of the following year. Thus, the lag between the start of a cyclical downturn and a reduction in bonus income could be as much as a year. Still, a failure of financial market activity to recover from a downturn would clearly reverse a large share of the recent job and employment gains in the industry and pose a significant risk to economic activity in the city (see Orr and Rosen [1998]).

Despite these risks, the broadening of New York City's employment base in recent years—particularly the growth of a number of sectors that are not directly tied to the financial industry—could help to stabilize employment in the event of a financial market downturn. For example, the city's expanding health and social services industries are largely insulated from the immediate impact of any such changes. Moreover, recall that the city's 1990-99 share of the national market for business and consumer services declined, despite the rapid growth of these jobs in the city, so there may still be room for further gains in business and consumer service employment in the years ahead. Finally, although the motion picture and computer services industries are still in their infancy, growing demand in these fields could help temper the short-run employment effects of financial sector problems.

Notes

1. In this article, we examine New York City—defined as the five boroughs of the Bronx, Brooklyn, Manhattan, Queens, and Staten Island—rather than the New York City primary metropolitan statistical area, which also includes Rockland, Putnam, and Westchester counties.

2. Interestingly, as late as January 2000, the New York State Department of Labor's figures had suggested that job growth in these areas was lackluster and lagged that in the nation and New York City. The Labor Department's revised data, released in March, now suggest otherwise.

3. GDP growth is projected to accelerate over the first two quarters of 2000, but slow down over the third and fourth quarters. This slowing is expected to contribute to a 4.1 percent GDP growth rate for the year, a pace equal to 1999's GDP growth (*Blue Chip Consensus Forecast* 2000).

4. The Federal Reserve Bank of New York departs from the U.S. Department of Labor's formal industry definitions by including securities industry employees in the business services category and restaurant workers in the consumer services category.

5. Of course, these trends may reflect the fact that the unemployment rate is considerably lower in New Jersey than it is in New York State, a phenomenon that could constrain the rate of job growth.

6. The indirect effects of job gains in the securities industry are relatively large—each additional job in the industry is estimated to support two additional jobs in other city industries. This large multiplier suggests that the securities industry's contribution to the generation of city jobs goes well beyond the direct measures of employment growth in the industry and can account for some of the job growth in the finance, trade, and services industries (Bram and Orr 1999).

References

Blue Chip Consensus Forecast. 2000. Vol. 25, no. 3, March 10.

Bram, Jason, and James Orr. 1999. "Can New York City Bank on Wall Street?" Federal Reserve Bank of New York *Current Issues in Economics and Finance* 5, no. 11 (July).

Orr, James, and Rae D. Rosen. 1998. "New York–New Jersey Region's Job Growth to Continue in 1999, but Risks Have Risen." Federal Reserve Bank of New York *Current Issues in Economics and Finance* 4, no. 14 (December).

About the Authors

James Orr is a research officer in the Domestic Research Function of the Research and Market Analysis Group; Rae D. Rosen is a senior economist and public information officer in the Bank's Public Information Area.

Second District Highlights, a supplement to *Current Issues in Economics and Finance*, is published by the Research and Market Analysis Group of the Federal Reserve Bank of New York. Dorothy Meadow Sobol is the editor. Back issues of *Second District Highlights* are available at **http://www.ny.frb.org/rmaghome/curr_iss/sec_dis**.