



NYC Quarterly Economic Update

Office of the New York City Comptroller

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BUREAU OF BUDGET

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New York City Economy Continues Expansion in First Quarter, But Signs of a Slowdown Emerge

Overview: The city’s economy stayed on course with strong job growth and increased labor market participation in the first quarter of 2016. However, possible harbingers of more moderate economic growth to come include stagnant average hourly private-sector earnings, a slight decrease in personal income tax collections, the first decline in venture capital investment since 2012, a fall in Wall Street profits, and a drop in Manhattan commercial leasing activity.

Economic outcomes in New York City during the first quarter of the year include:

- [Continuation of overall city economic growth](#) page 2
- [Dominance of low-wage sectors in new job creation](#) page 3
- [Record increase in labor force participation](#) page 6
- [Stagnant private-sector average wages and personal income tax collections](#) page 9
- [Drop in venture capital investment](#) page 10
- [Decline in commercial leasing activity](#) page 11

**Table 1: First Quarter of 2016 Key Economic Indicators
NYC Compared with U.S. for 4Q15 and 1Q15**

		1Q16	4Q15	1Q15
GCP/GDP Growth, SAAR	NYC	3.4	2.2	4.3
	U.S.	0.5	1.4	0.6
Payroll-Jobs Growth, SAAR	NYC	4.0	1.0	2.7
	U.S.	1.9	2.0	2.1
PIT Withheld, Growth, NSA	NYC	3.1	1.8	3.3
	U.S.	6.0	1.8	4.9
Inflation Rate, NSA	NYC	0.7	0.6	-0.2
	U.S.	1.1	0.5	-0.1
Unemployment Rate, SA	NYC	5.4	5.2	6.2
	U.S.	4.9	5.0	5.6

SAAR=Seasonally adjusted annual rate. SA=Seasonally adjusted. NSA=Not seasonally adjusted.



Real gross city product (GCP) grew at an estimated annual rate of 3.4 percent in 1Q16, the fastest growth since 1Q15 and much faster than the national economic growth rate of only 0.5 percent (advance estimate). The city’s quarterly gains in employment were the largest since at least 1990, yet other aspects of the city’s economy recorded signs of a slowdown. Moreover, similar divergences in city and national economic growth were also recorded in the first quarters of 2014 and 2015, but the gap narrowed as the year progressed.

While the city’s labor market continued to expand, most of the new jobs created were in low-wage sectors. The dominance of low-wage job creation, as well as a decrease in Wall Street profits in 2015, contributed to lower personal income tax (PIT) revenue growth. The Manhattan commercial real estate vacancy rate fell to its lowest first-quarter level since 2008, even as commercial leasing activity contracted. Residential home prices rose in Manhattan and Brooklyn, but fell in Queens in 1Q16 on a year-over-year basis. Venture capital investment in the city declined, but much less than in the U.S. and Silicon Valley.

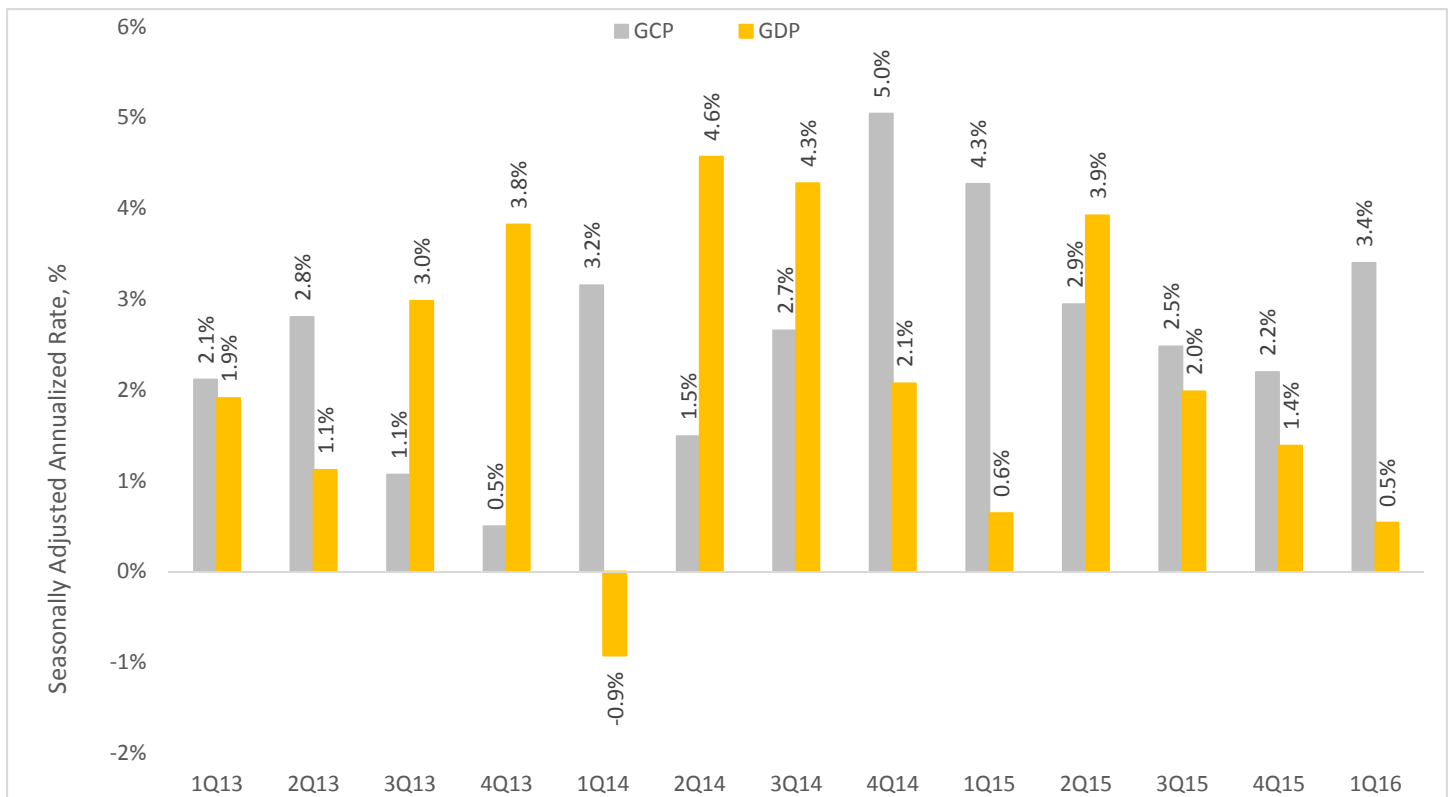
The U.S. economy grew 0.5 percent (advance estimate) in 1Q16, the smallest gain since -0.9 percent in 1Q14 and

slower than the Blue Chip consensus forecast of 1.3 percent, published on April 10, 2016. In a further sign of national economic weakness, corporate profits have continued to decline since the second quarter of 2015, amid a global economic slowdown and collapsing energy prices.

Consumer spending grew 1.9 percent and contributed 1.27 percentage points to the GDP growth. Household consumption expenditures on services was the main contributor to consumer spending. Government expenditures grew at an annual rate of 1.2 percent and contributed 0.2 percentage points to the GDP growth, mainly because of state and local governments. Net exports deducted 0.34 percentage points from the GDP growth as imports grew and exports declined. The deteriorating trade balance is attributable to the stronger dollar and a weak global economy.

Gross private domestic investment fell 3.5 percent and deducted 0.6 percentage points from GDP growth in 1Q16. A decline in the change in private inventories and a 5.9 percent contraction in non-residential investment contributed negatively to GDP growth while residential investment remained strong and contributed positively.

Chart 1. Percent Change in Real Gross City Product (GCP) and National Real Gross Domestic Product (GDP), 1Q13 to 1Q16



Source: BEA and NYC Comptroller



New York City's private sector added 41,700 jobs, or 4.6 percent (seasonally adjusted annualized rate), in 1Q16, after adding a moderate 8,800 jobs in 4Q15. It was the largest quarterly increase since the data series began in 1990. The nation's private-sector jobs total grew 2.1 percent (SAAR) in 1Q16, less than the 2.4 percent increase posted in 4Q15 (Chart 2).

Since the recession, low-wage industries have dominated new job creation in New York City. Of the 115,000 private-sector jobs created in 2015, more than 50 percent were in low-wage industries. Continuing this trend, in 1Q16 nearly half of the 41,700 new private-sector jobs created (19,100) were in low-wage industries. Another 15,000 new jobs were in medium-wage industries and 7,600 were in high-wage industries. Jobs in high-wage industries pay over \$117,000 annually on average, jobs in medium-wage industries pay average salaries between \$59,000 and \$117,000, and low-wage industries pay average salaries below \$59,000.

In general, the average salary of an employee in a low-wage sector job was about \$41,000 annually, about \$73,000 annually in a medium-wage sector job, and about \$188,000 annually in a high-wage sector job as of 2014.

Further detracting from the economic boost provided by the city's strong employment gains, real wages have been falling in low-wage industries. Since the end of recession

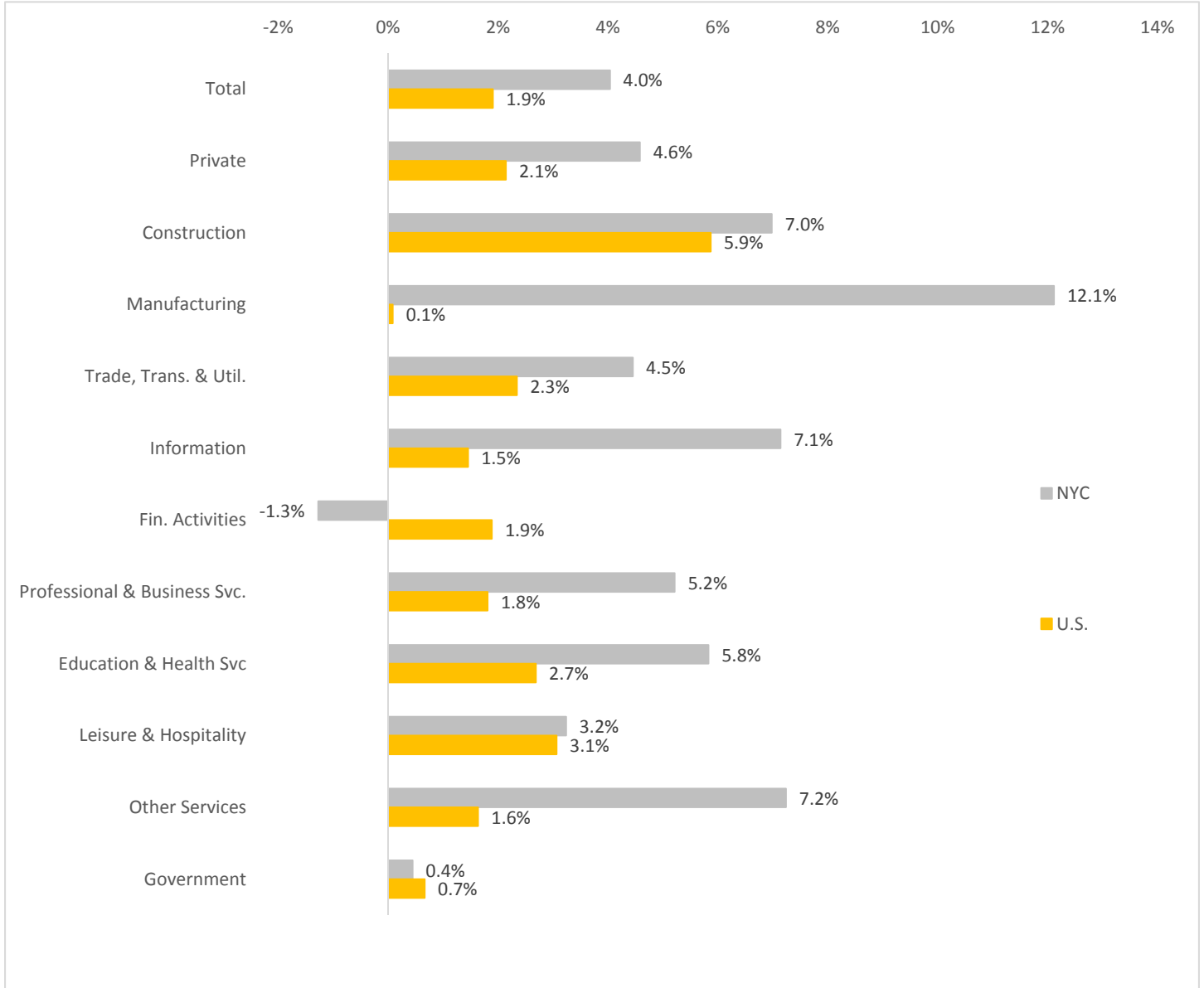
in 2009, through 2014, the most current year for which data is available, the wage gap between low-, medium-, and high-wage earners widened. During that time the average pay in high-wage industries increased by about 10.3 percent after inflation, while it decreased by about 3.2 percent in low-wage industries. Wages of workers in mid-wage industries gained about 4.1 percent in real terms over those five years.

Education and health services added 12,500 jobs, the biggest quarterly gain on record. Professional and business services added 9,100 jobs; trade, transportation and utility added 6,900 jobs; leisure and hospitality added 3,400 jobs; information and other services each added 3,300 jobs; and construction gained 2,400 jobs in 1Q16 compared to the previous quarter. Manufacturing added 2,300 jobs in 1Q16, the largest quarterly gain on record. The only sector to lose jobs was financial activities.

Of the new private-sector job gains, 60 percent or 25,100 jobs were in the local-sector industries and 40 percent, or 16,600 jobs, were in the export-sector industries. Export industries primarily provide goods and services to customers outside of the city, while local sector industries generally provide support for the export sector and the local population.



Chart 2. Annualized Percent Change in Payroll-Jobs, NYC and the U.S., SAAR, 1Q16 over 4Q15



Source: U.S. Bureau of Labor Statistics (BLS) and NYS Department of Labor



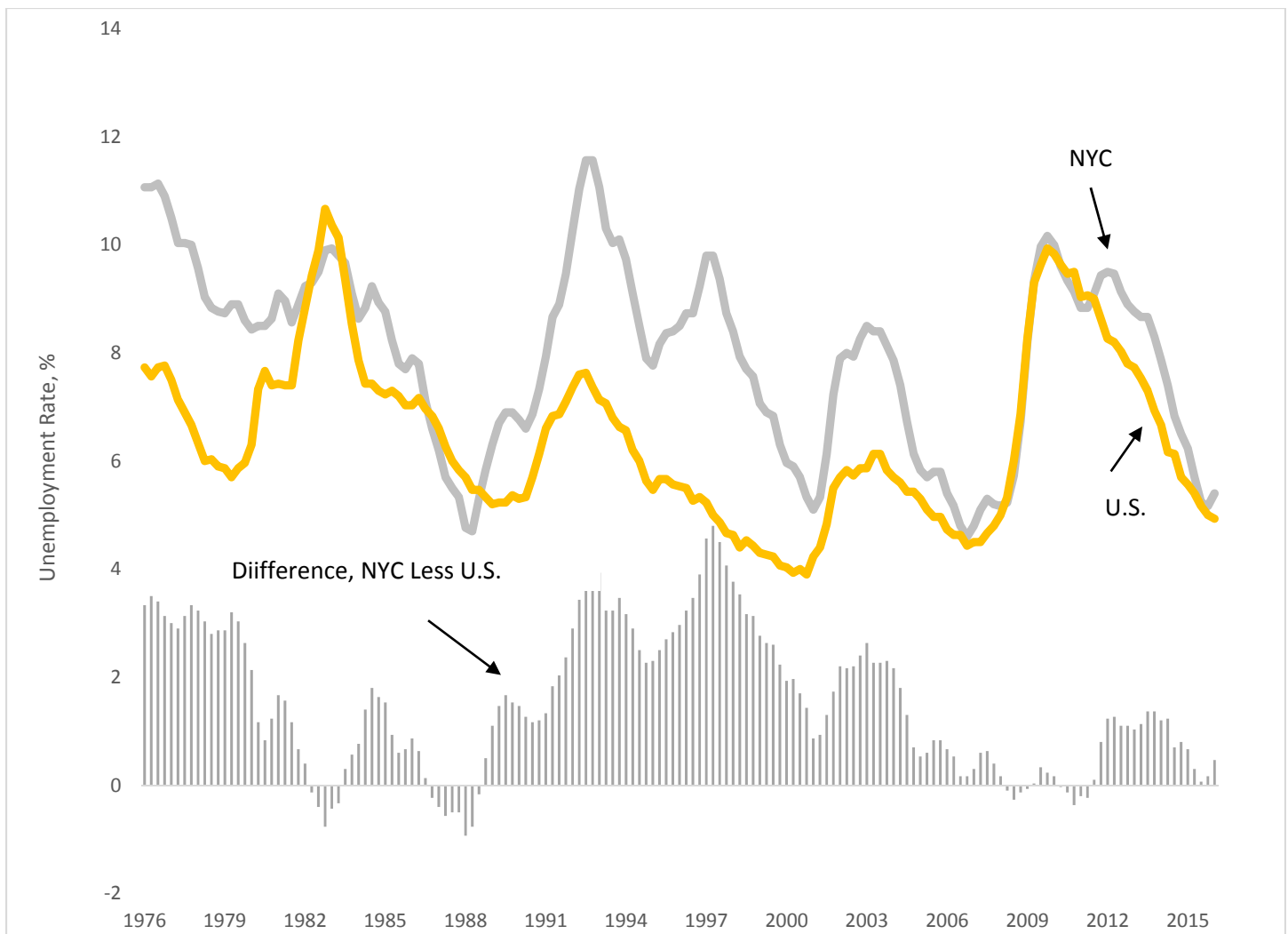
NYC’s unemployment rate, adjusted for seasonality, rose to 5.4 percent in 1Q16, from the seven-year low of 5.2 percent in 4Q15. The U.S. unemployment rate fell to 4.9 percent in 1Q16, the lowest rate in eight years (Chart 3).

The rise in the city’s unemployment rate was due to an increase in the size of the city’s labor force, as the number of employed residents also increased. The number of unemployed New Yorkers increased in 1Q16 after declining for the previous nine quarters. That suggests that the city’s discouraged job seekers are flooding back into the labor market.

The seasonally-adjusted number of unemployed NYC residents rose by 10,800 and the labor force increased by 32,000 in 1Q16 from the previous quarter.

Among the five boroughs, Manhattan and Queens had the lowest unemployment rates (not seasonally adjusted) in 1Q16, at 5.1 percent. Staten Island’s unemployment rate was 5.8 percent, Brooklyn’s was 6.0 percent, and the Bronx’s was 8.0 percent. Unemployment rates in all boroughs in 1Q16 were the lowest first quarter since 1Q08.

Chart 3. Unemployment Rate, NYC, U.S. and NYC Less U.S., Quarterly (SA), 1Q76-1Q16



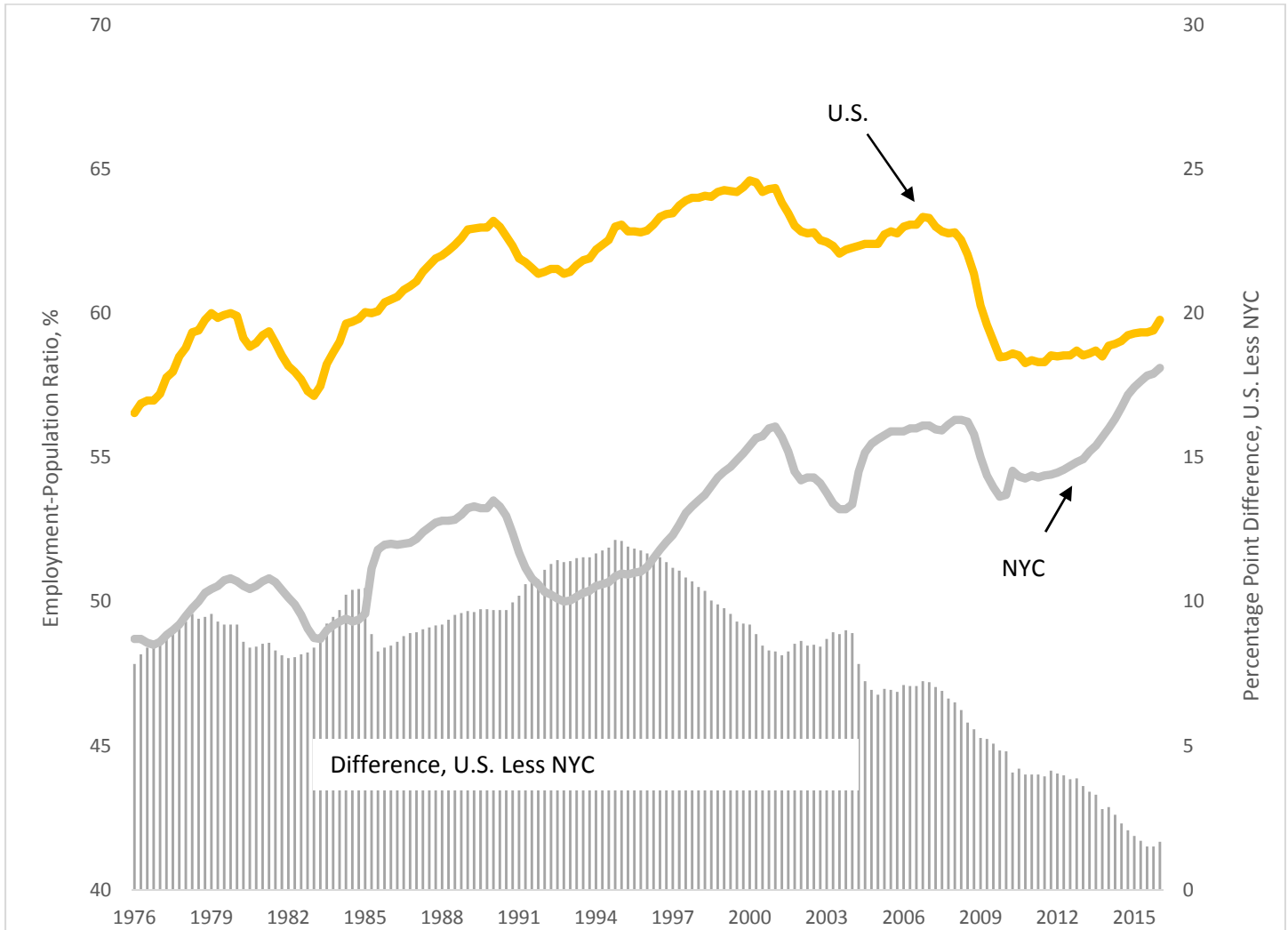
Source: U.S. Bureau of Labor Statistics (BLS) and NYS Department of Labor



Civilian employment increased by 21,200 in 1Q16, after rising by 16,600 in 4Q15. Since its most recent trough in 4Q09, the city’s civilian employment count has increased by more than 460,000, or 13 percent, to a record level of over four million. As a result, the city’s employment-to-population ratio rose to

a record high of 58.1 percent in 1Q16. Although it is still below the national ratio of 59.8 percent, the spread between the U.S. and the city has narrowed to 1.7 percentage points, which is close to its historical low (Chart 4).

Chart 4. Employment-Population Ratio, NYC, U.S. and NYC Less U.S., Quarterly (SA), 1Q76-1Q16



Source: U.S. Bureau of Labor Statistics (BLS) and NYS Department of Labor

The city’s labor force rose by 32,000 in 1Q16, the largest quarterly increase in 12 years (since 2Q04). As a result, the city’s labor-force-participation rate (LFPR), which is the total number of city residents employed or looking for a job as a portion of the total non-institutional population (16 years old and over), rose to 61.4 percent in 1Q16, the highest on record.

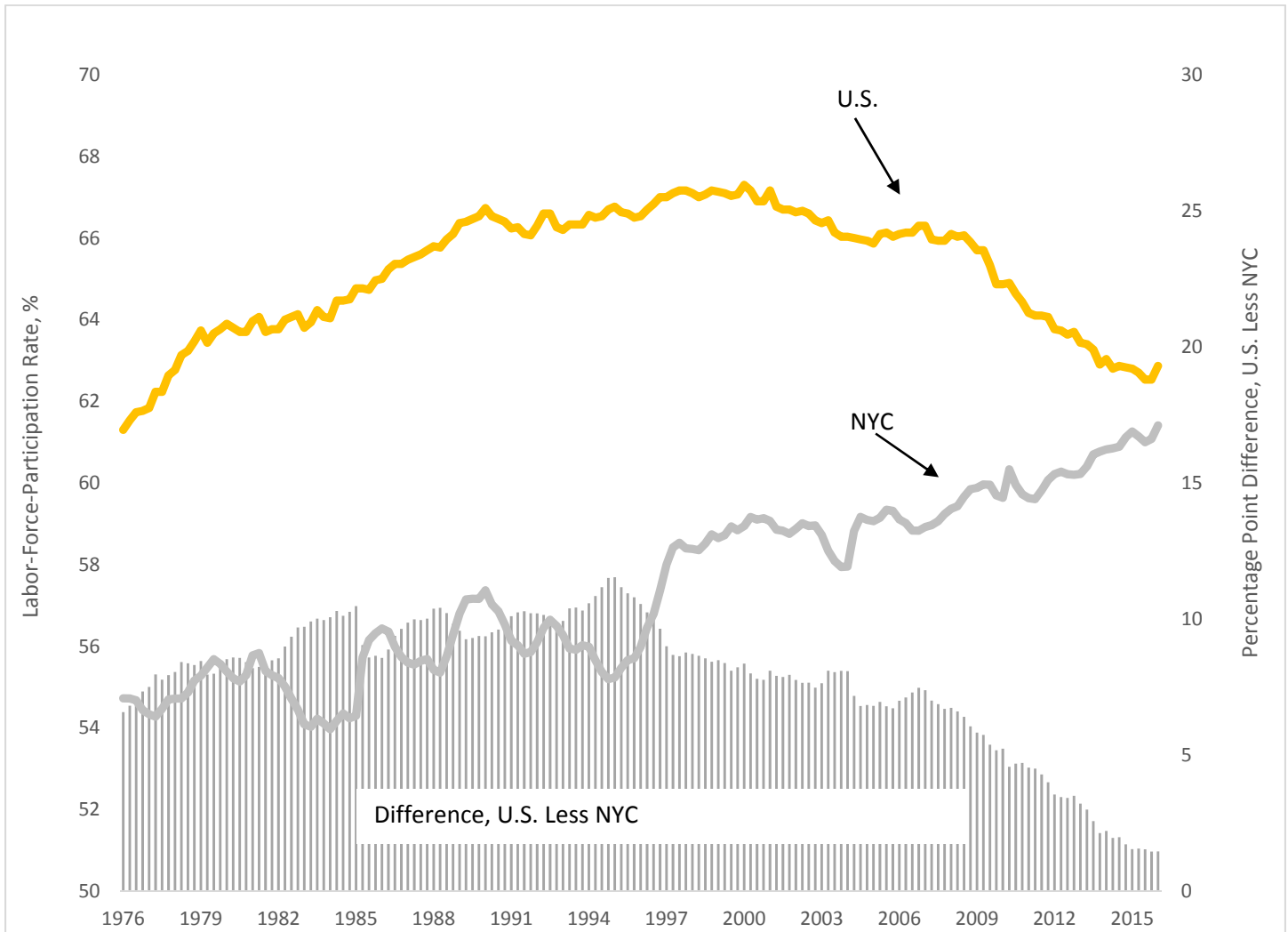
The U.S. LFPR rose to 62.9 percent in 1Q16, the highest since 3Q14. The spread between the U.S. and the city’s LFPR

remained at its record low of 1.5 percentage points for the third consecutive quarter (Chart 5).

The convergence of the local and national LFPRs probably reflects the city’s strong economic performance as well as migration and immigration trends that are producing a more favorable demographic for employment in the city.



Chart 5. Labor-Force-Participation Rate, NYC, U.S. and NYC Less U.S., Quarterly (SA), 1Q76-1Q16



Source: U.S. Bureau of Labor Statistics (BLS) and NYS Department of Labor



Table 2: First Quarter 2016 Economic Indicators Compared to 4Q15 and 1Q15

		1Q16	4Q15	1Q15
County Unemployment Rate, NSA (Source: NYS DOL)	Bronx	8.0	7.1	8.9
	Kings	6.0	5.3	6.8
	New York	5.1	4.4	5.5
	Queens	5.1	4.5	5.8
	Richmond	5.8	5.1	6.7
Commercial Vacancy Rate (Source: Cushman & Wakefield)	Midtown	9.3%	8.8%	9.4%
	Midtown South	6.3%	6.2%	7.0%
	Downtown	10.2%	9.4%	10.4%
	Manhattan Total	9.0%	8.5%	9.2%
Rental Rate (per sq ft) (Source: Cushman & Wakefield)	Midtown	\$78.42	\$76.65	\$75.44
	Midtown South	\$68.58	\$69.66	\$63.28
	Downtown	\$59.28	\$59.58	\$57.58
	Manhattan Total	\$72.40	\$71.58	\$69.39
Number of Apartment Sales (Source: Douglas Elliman)	Manhattan	2,877	2,973	2,661
	Brooklyn	1,912	2,112	1,507
	Queens	2,517	3,436	2,567
Case-Shiller Home Price Index (Source: Moody's)	NY Metro Area	181.25*	179.81	177.07*
	US 20-City Composite	185.95*	182.41	176.24*
Hotel Industry (Source: CBRE Hotels)	Average Daily Occupancy Rate	74.7*	89.7	73.9*
	Average Daily Room Rate	\$204.9*	\$329.8	\$216.7*
MTA Average Weekday Ridership (Source: MTA)	NYC Transit	7,663,149	7,908,453	7,523,707
	Subway	5,605,821	5,790,981	5,486,850
	Bus	2,057,327	2,117,472	2,036,857
	Long Island Rail Road	297,549	313,049	288,561
	Metro North	272,930	298,799	270,717

*Data includes January and February, excludes March

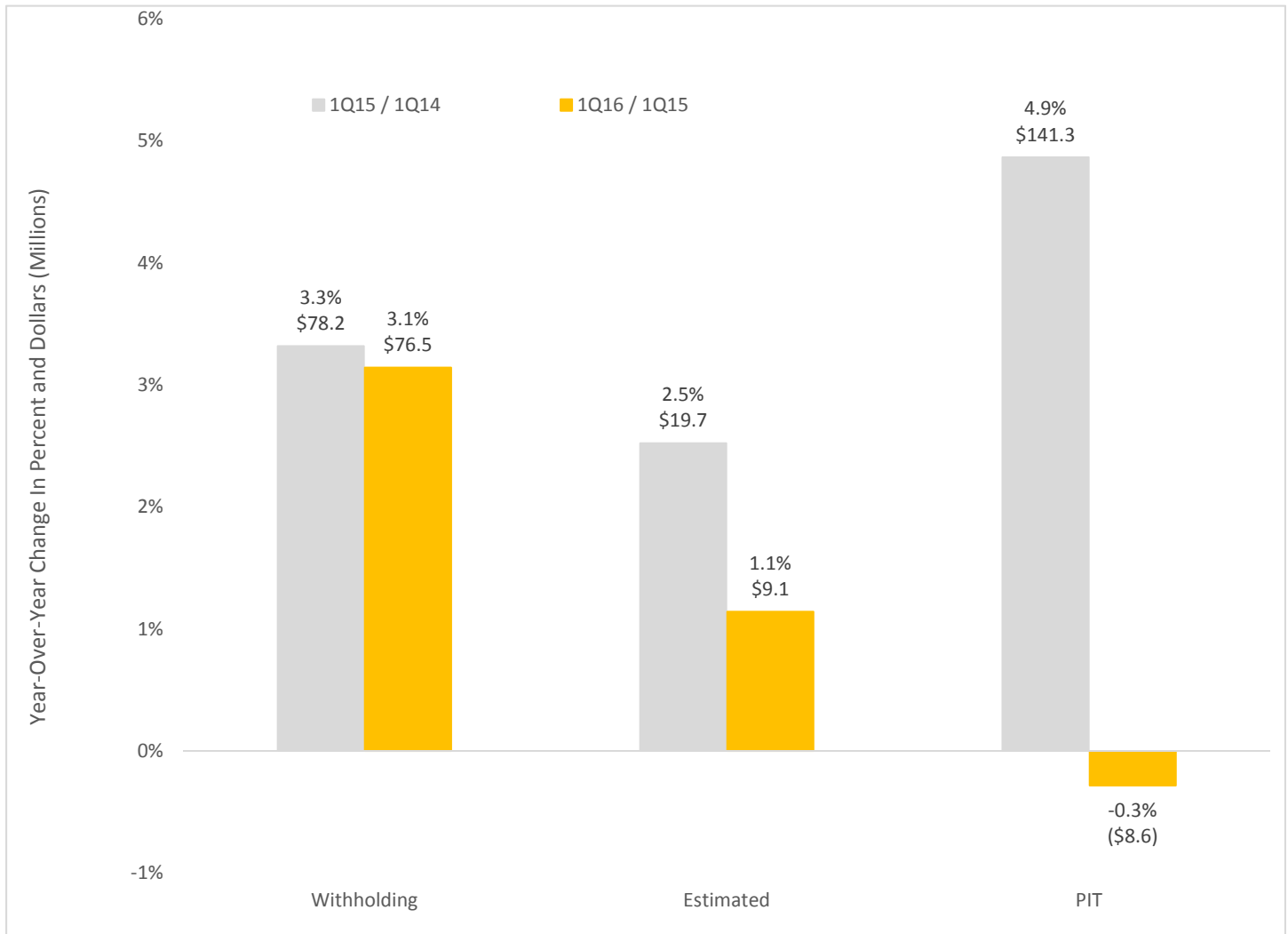


NYC personal income tax (PIT) revenues, a proxy for personal income, fell 0.3 percent on a year-over-year basis to over \$3 billion in 1Q16, due to weak collections and a higher volume of refunds. Refunds increased by about \$107 million or 28.3 percent to over \$483 million in 1Q16. On a year-over-year basis, personal income taxes withheld from paychecks rose 3.1 percent to over \$2.5 billion in 1Q16. The modest increase from the prior year reflects a diminution in the financial industry’s bonus payouts. Wall Street bonuses are estimated to have been \$23 billion in the 2015 bonus season, 15.9 percent less than \$27.5 billion in 2014, and the lowest level since 2011.

Estimated tax payments, which reflect trends in taxpayers’ non-wage income, including interest earned, rental income, and capital gains, rose to about \$810 million in 1Q16, 1.1 percent higher than the \$801 million in 1Q15. The modest increase in estimated tax payments in 1Q16 reflects the financial volatility and absence of overall stock market appreciation in the second half of 2015 (Chart 6).

Average hourly earnings (AHE) of total private NYC employees, another proxy for personal income, rose just 0.1 percent to \$33.88 in 1Q16 on a year-over-year basis after rising 1.6 percent in 4Q15. However, U.S. average hourly earnings grew 2.0 percent to \$25.49 in 1Q16 from 1Q15.

Chart 6. Changes in Personal Income Tax Revenues, in Percent and Dollars (millions), 1Q15 over 1Q14 and 1Q16 over 1Q15



Source: NYC OMB



Venture capital investment in the New York metro area fell 6.2 percent, to about \$1.4 billion in 1Q16 from almost \$1.5 billion in 1Q15, the first year-over-year decline since 3Q12 (Chart 7). However, the New York metro area’s decline was much less than the national total and that in Silicon Valley, which has the biggest concentration of venture capital investment. Total investment in the U.S. fell 11.3 percent to \$12.1 billion, while in Silicon Valley it fell 19.5 percent to \$4.9 billion in 1Q16.

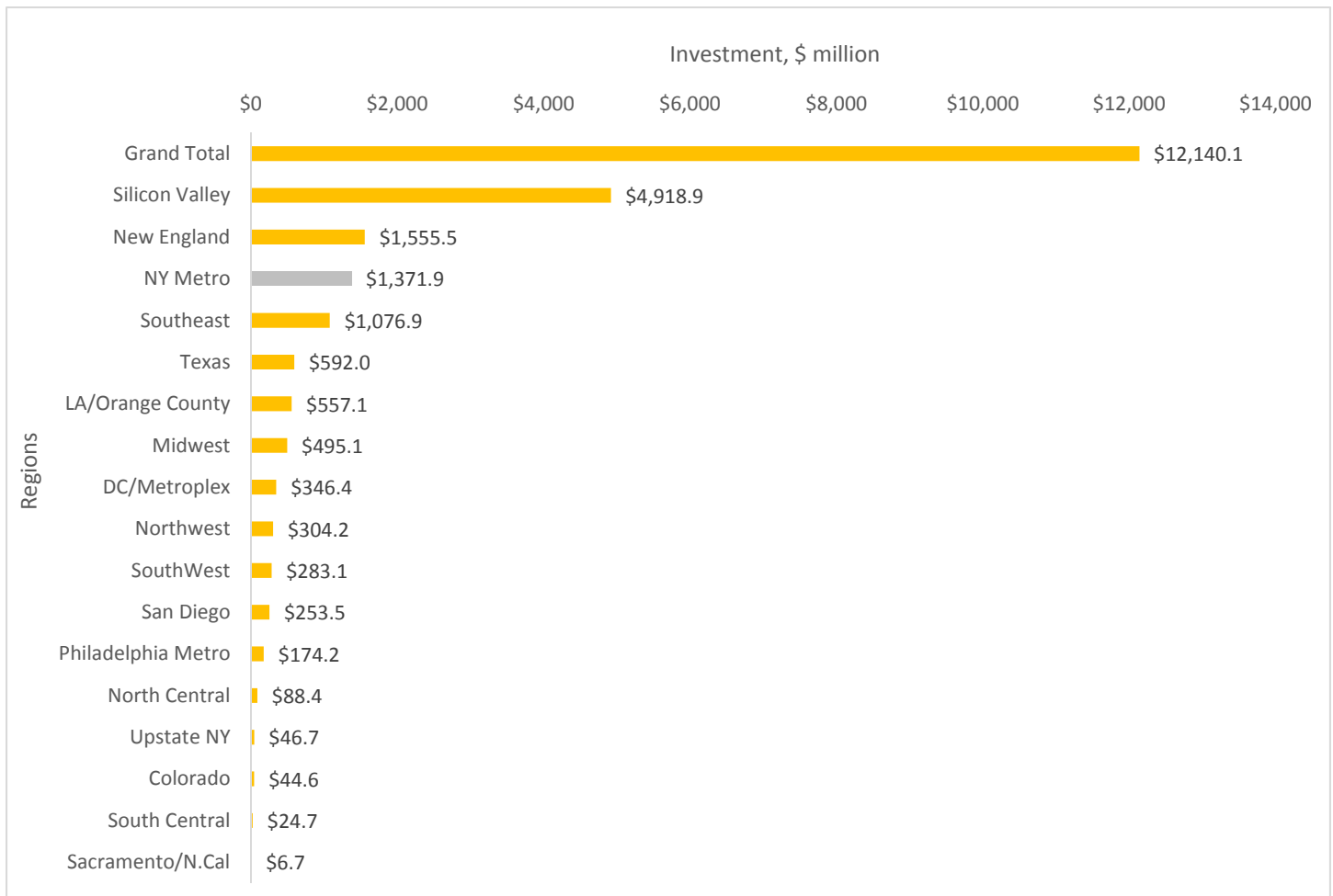
The average size of venture capital deals was also smaller in the first quarter. Despite the drop in the amount of investment, the number of venture capital deals in the New York metro area rose to 133 in 1Q16 from 113 in 1Q15. The number of deals in the U.S. fell to 969 and in Silicon Valley to 279 in 1Q16 from 1,085 and 339, respectively, in 1Q15.

The NY metro area’s share of venture capital investment was 11.3 percent in 1Q16, an increase from 10.7 percent in 1Q15. On the other hand, Silicon Valley’s share fell to 40.5 percent in 1Q16 from 44.6 percent in 1Q15. Similarly, the share of deals in the NY metro area increased to 13.7 percent in 1Q16, from 10.4 percent in 1Q15, but for Silicon Valley, it fell to 28.8 percent in 1Q16, from 31.2 percent in 1Q15.

The biggest increases in investment were in the Southeast and Texas. Venture capital investment in the Southeast region more than doubled to over \$1 billion in 1Q16, from \$415 million in 1Q15. In Texas, it rose about 40 percent to \$592 million in 1Q16 from \$424 million in 1Q15.

Venture capital investment in New York State in 1Q16 increased 5 percent from a year ago, to about \$1.4 billion. The number of deals in New York State rose 30.3 percent to 129 in 1Q16 from 99 in 1Q15.

Chart 7. Venture Capital Investment by Regions, 1Q16



Source: PricewaterhouseCoopers/National Venture Capital Association, MoneyTree™ Report, Data: Thomson Reuters



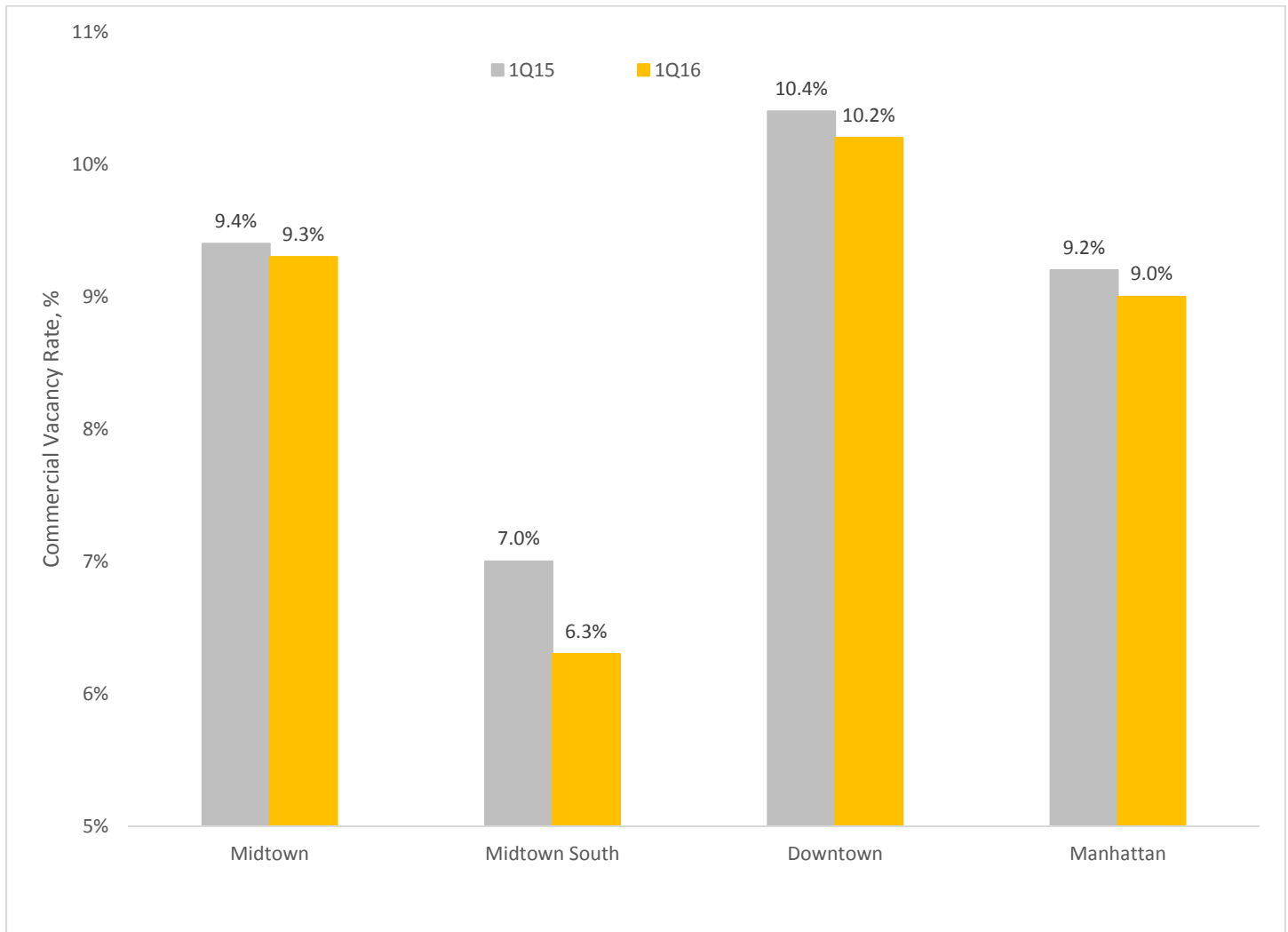
New Manhattan commercial leasing activity in 1Q16 totaled 6.5 million square feet (msf), 6.0 percent lower than in 1Q15. Most of the new leasing in 1Q16 took place in Midtown (4.1 msf) followed by Midtown South (1.4 msf) and then Downtown (1.0 msf).

According to Cushman & Wakefield, the highest leasing sector in 1Q16 was TAMI (technology, advertising, media and information services). It accounted for almost 37 percent of all new leases 10,000 square feet and larger. However, in Midtown, it was financial services that outpaced all other

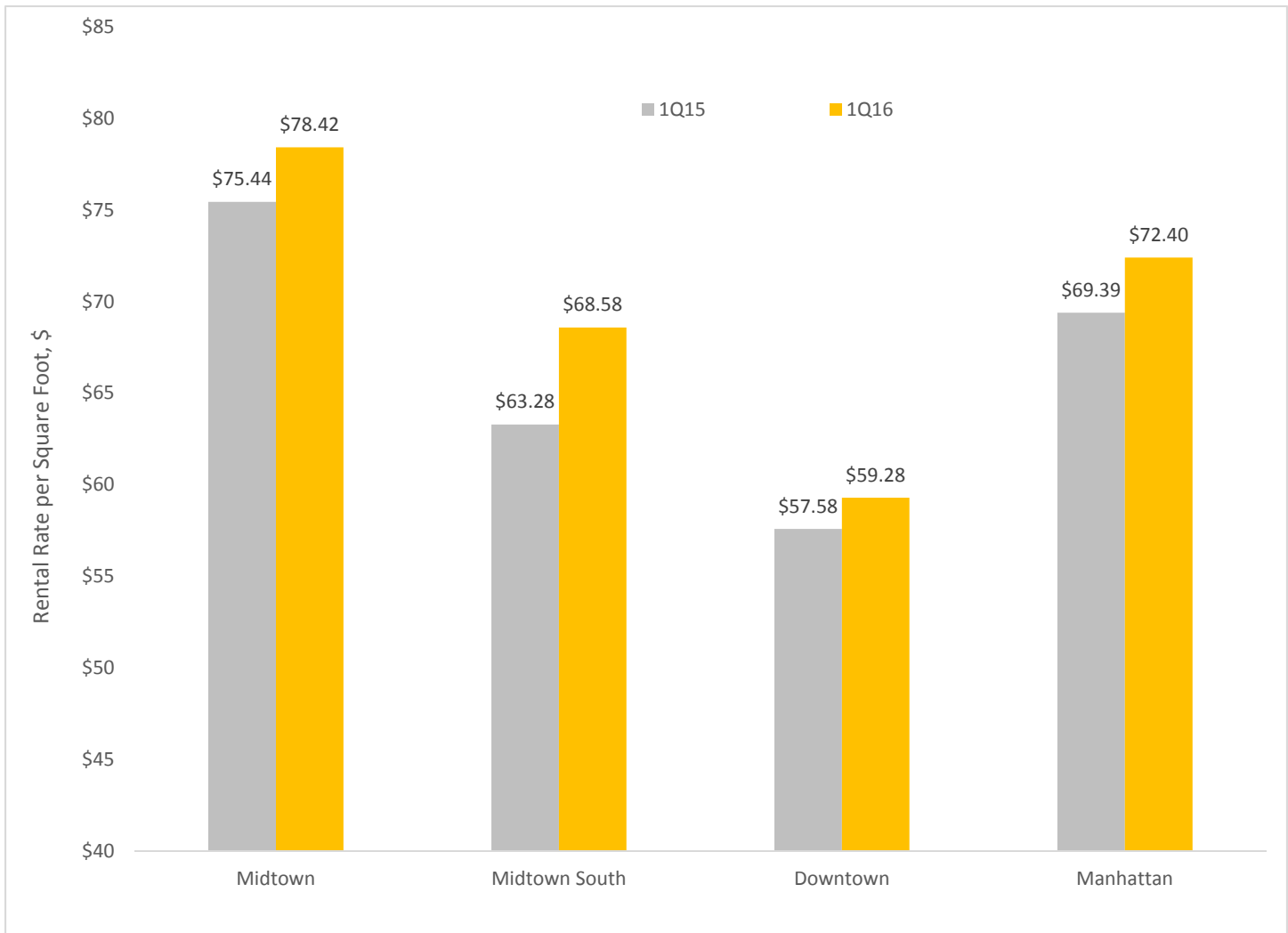
industries by leasing 33.2 percent of spaces over 10,000 square feet.

Despite the decline in leasing activity, the Manhattan office vacancy rate, including sublease space, fell to 9.0 percent in 1Q16, the lowest first quarter rate since 2008, according to Cushman & Wakefield. On a year-over-year basis, the vacancy rate dropped 0.7 percentage points in Midtown South, and 0.2 percentage points in Downtown, and 0.1 percentage point in Midtown. Overall asking rents increased in all the submarkets (Chart 8 and 9).

Chart 8. Overall Commercial Vacancy Rates, 1Q16 and 1Q15



Source: Cushman & Wakefield

**Chart 9. Overall Commercial Rental Rate per Square Foot, 1Q16 and 1Q15**

Source: Cushman & Wakefield

The city's housing market continued to do well in 1Q16 as prices and transactions climbed on a year-over-year basis.

According to a report from Douglas Elliman, the number of condominium and cooperative sales in Manhattan rose to 2,877 in 1Q16, an increase of 8.1 percent from the first quarter of 2015, while the average sales price rose 18.4 percent to about \$2.1 million. The average price per square foot also rose, by 35.6 percent to \$1,713, while the median sales price increased 17.3 percent to over \$1.1 million. The average sales price of Manhattan apartments in 1Q16 exceeded the previous record average for a first quarter, established in 1Q09, by 12.3 percent. The average sales price per square foot exceeded its previous first-quarter peak, established in 1Q14, by 25.7 percent.

Manhattan's listing inventory rose 5 percent to 5,506 during the same period, and the absorption rate, defined as the number of months to sell all inventory at the current rate of sales, fell to 5.7 months in 1Q16 from 5.9 months in 1Q15. Also, days on the market from last list date fell to 93 days in 1Q16 from 100 days the prior year.

Brooklyn apartment and 1- to 3-family home prices also increased. The average sales price rose 6.2 percent to \$795,409 and the median sales price rose 8.4 percent to \$662,431 in 1Q16, compared to 1Q15. The number of sales rose 26.9 percent to 1,912 in 1Q16, while the listing inventory fell 34 percent to 2,860 compared to the same period in 2015. Also, the absorption rate fell to 4.5 months and days on the market fell to 70 in 1Q16, both trends indicating tighter market conditions.



Apartment and home sales in Queens fell 1.9 percent to 2,517 in 1Q16, compared to 1Q15, and the listing inventory fell 11.6 percent to 4,150 during the same period. The average sales price fell 3.4 percent to \$475,498 and the median sales price fell 10.4 percent to \$399,888, 1Q16 over 1Q15. The absorption rate fell 10.9 percent to 4.9 months and days on the market fell 4.7 percent to 81 days in 1Q16 from 1Q15 (Chart 10).

Douglas Elliman reports that the number of 1- to 3-family homes sold in Brooklyn rose 34.5 percent, but in Queens fell 18.8 percent in 1Q16, compared to the previous year. The average sales price per square foot rose 17.9 percent in Brooklyn and 11.8 percent in Queens in 1Q16 compared to 1Q15.

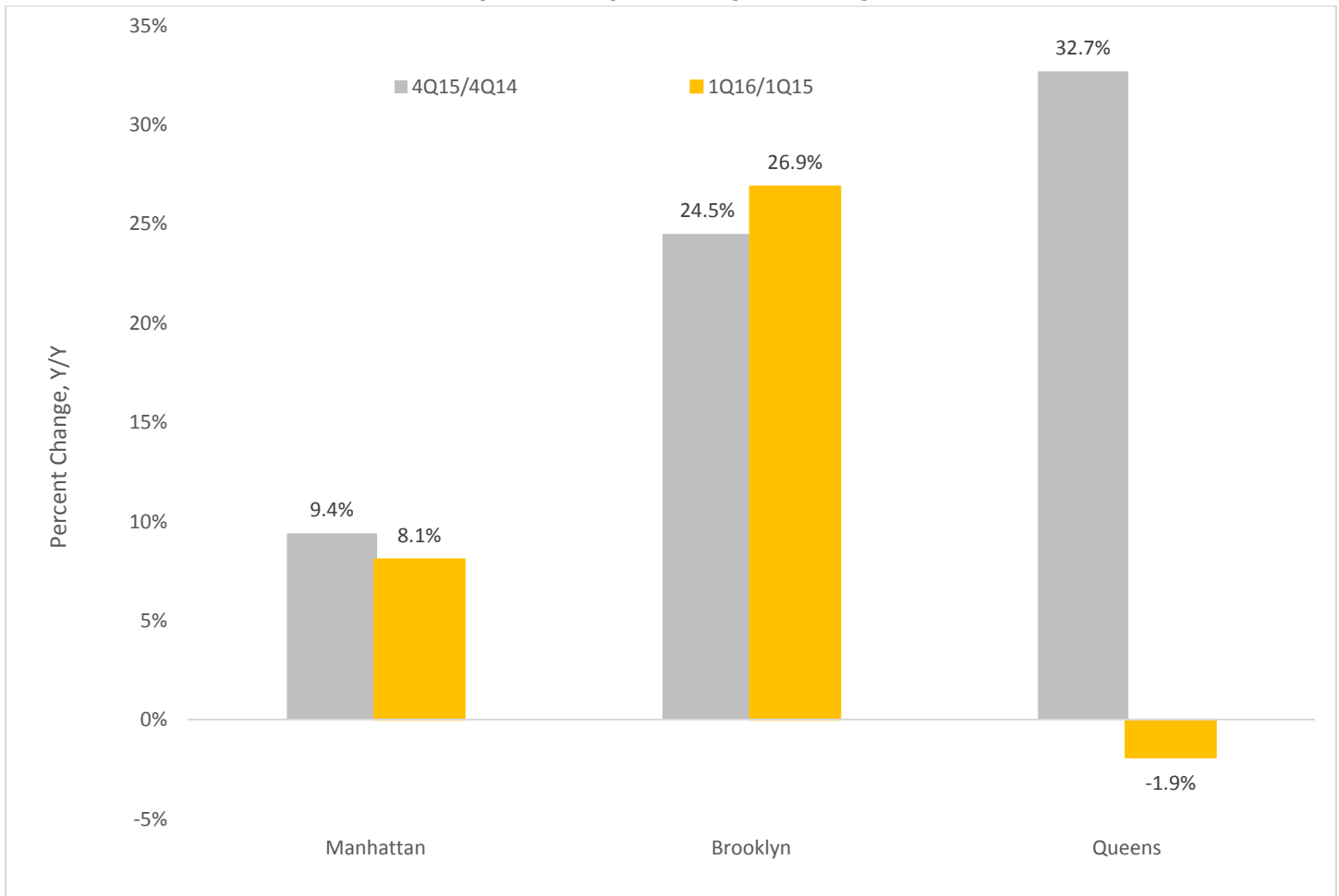
According to the Case-Shiller index, which tracks single family home prices, the not-seasonally-adjusted New York metro area home price index increased 2.1 percent in February 2016

over February 2015. During the same period, the New York metro area's inflation rate rose 0.6 percent, indicating a modest increase in real home prices. The home price index for the metro area in February 2016 was the highest since January 2009.

The U.S. 20-city composite index rose 5.4 percent in February 2016 on a year-over-year basis, to 182.79, its highest level since November 2007. The Portland, Oregon metro area saw the largest jump in home prices (11.9 percent) while the Washington DC metro area had the smallest increase (1.4 percent) in February 2016, compared to the prior year.

As of February 2016, the New York metro area home price index was 12.7 percent higher than at its trough in March of 2012, but was still 16.3 percent below the peak reached in May 2006. In comparison, the U.S. 20-city composite index was 36.1 percent higher than its trough and 9.7 percent below its peak (Chart 11).

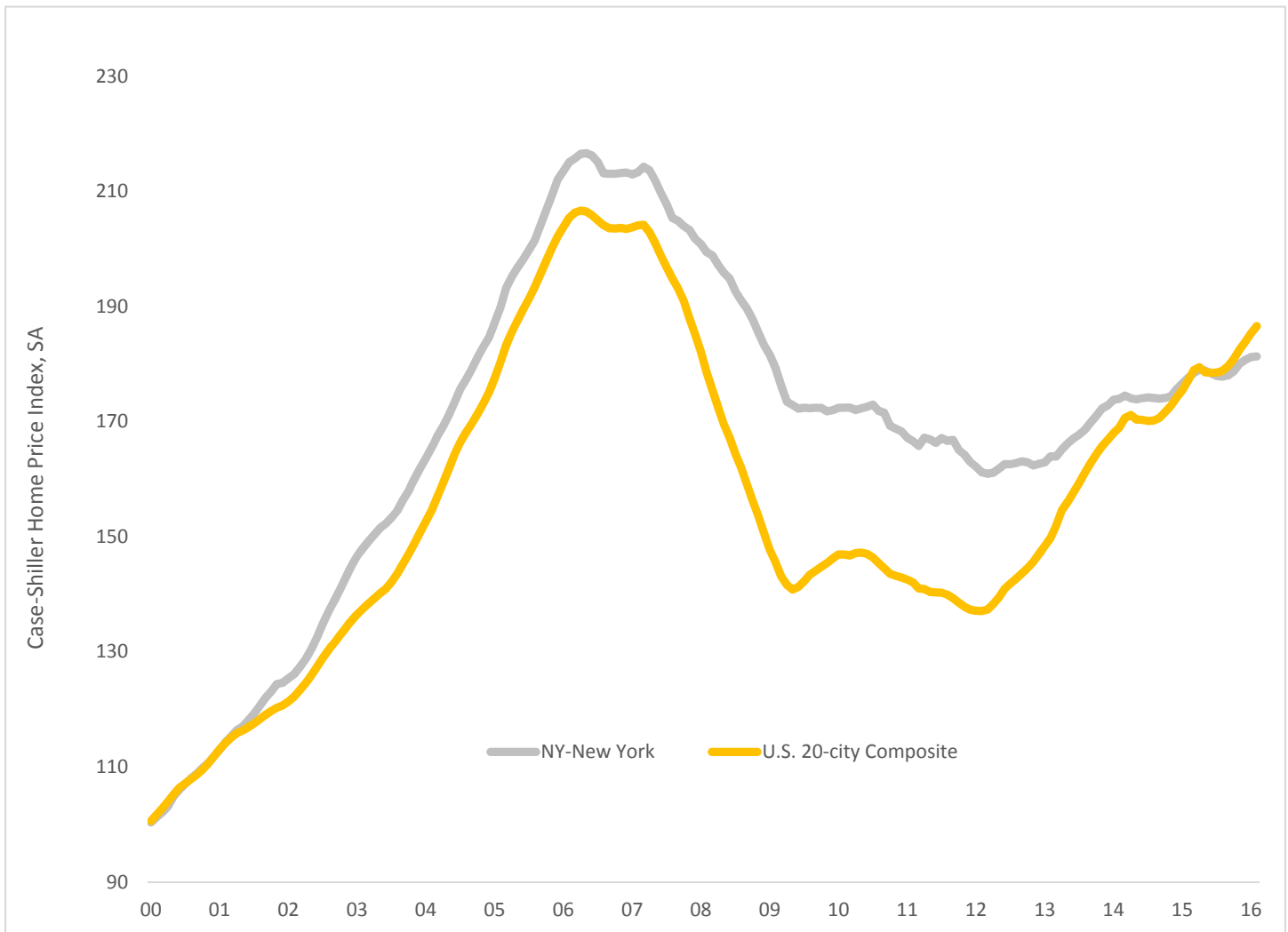
Chart 10. Percent Change in the Number of Apartment and Home Sales, Manhattan, Brooklyn, Queens, 4Q15 over 4Q14 and 1Q16 over 1Q15



Source: Douglas Elliman



Chart 11. Case-Shiller Home Price Index, Monthly SA, January 2000 to February 2016



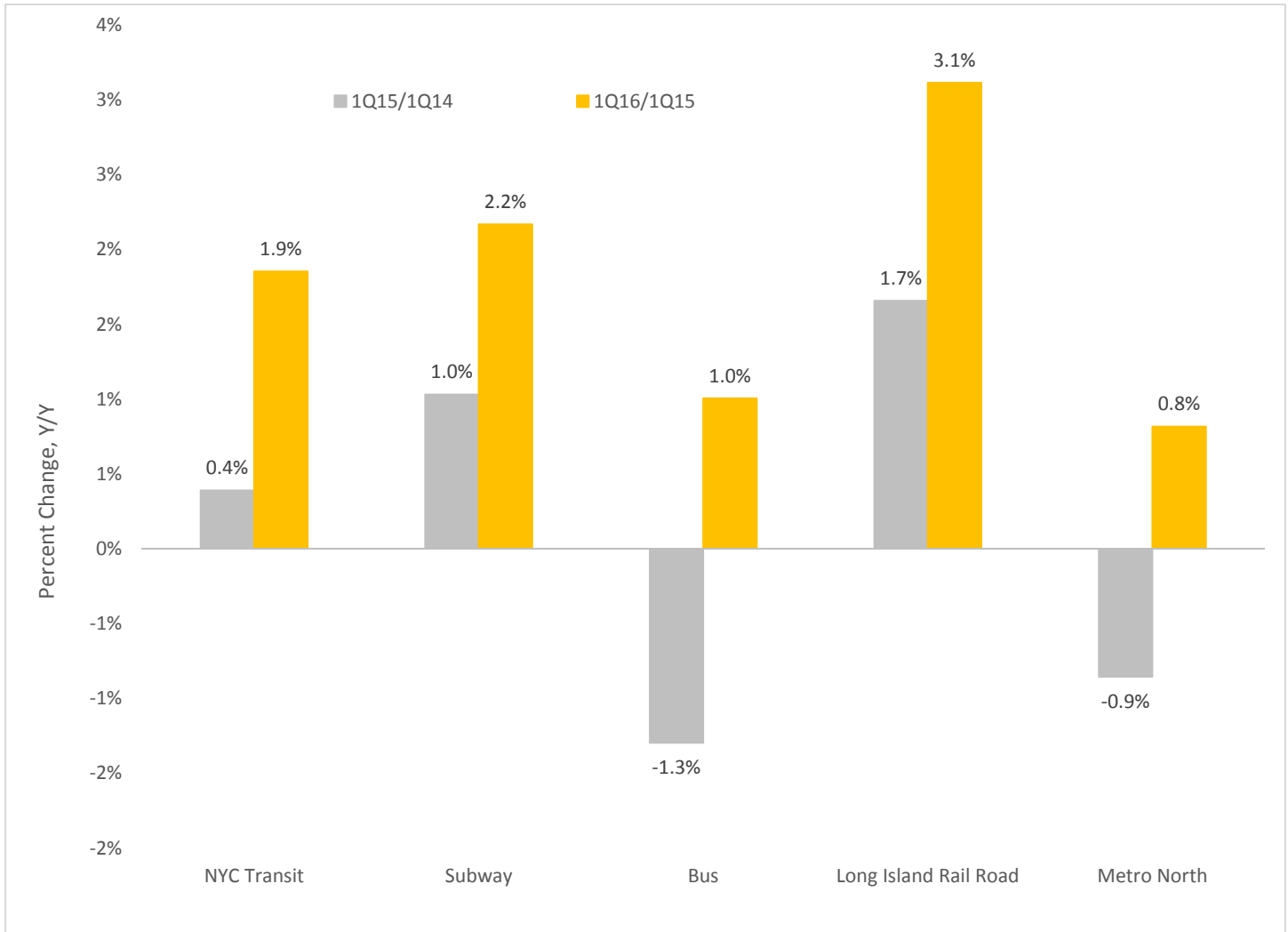
Source: Standard and Poor's

Average weekday ridership on MTA NYC Transit rose 1.9 percent in 1Q16, on a year-over-year basis. Average weekday ridership on the system's subways rose 2.2 percent and bus ridership rose 1.0 percent. During the same period, ridership on the Long Island Rail Road rose 3.1 percent and ridership on Metro North rose 0.8 percent (Chart 12).

Higher ridership usually reflects an increase in the city's economic activity and employment. However, a rise in income and more taxi rides, including the use of Uber and similar services, could counteract this effect.



Chart 12. Percent Change in MTA Average Weekday Ridership, 1Q16 over 1Q15 and 1Q15 over 1Q14



Source: Metropolitan Transportation Authority

Broadway show ticket sales and attendance increased substantially in 1Q16. According to the Broadway League, total gross weekly Broadway ticket sales were more than \$331 million in 1Q16, 7.5 percent higher than the \$308 million sales in 1Q15. Total attendance was about 3.3 million in 1Q16, 10.8 percent higher than in 1Q15.

Hotels, the hotel occupancy rate in Manhattan averaged 74.7 percent in January-February 2016, higher than 73.9 percent in January-February 2015. However, the average daily room rate fell on a year-over-year basis to \$204.9 in January-February 2016, from \$216.7 in January-February 2015.

The city’s hospitality market improved incrementally in January-February 2016 compared to January-February 2015 (March numbers are not yet available). According to CBRE



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