



NYC Quarterly Economic Update

Office of the New York City Comptroller

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BUREAU OF FISCAL & BUDGET STUDIES

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The Economy in 2Q15: Back to the New Normal

Contained Growth Overall, but New York City Continues to Excel in Employment Indicators, Venture Capital Investment and Local Tourism

Overview: New York City’s economy continued to outperform the nation’s despite a more tempered pace in 2Q15. The U.S. economy bounced back from a first-quarter pause, but by less than many forecasters expected. Nonetheless, national economic growth for the first half of 2015 was consistent with its performance of the past several years. The city’s economy grew moderately in 2Q15, and while some indicators were lackluster, others posted their best second-quarter performance. Economic outcomes in New York City during the second quarter of the year include:

- Venture capital investment soared to its highest level since the turn of the century page 2
- The lowest unemployment rate in all of the boroughs in seven years..... page 4
- The largest quarterly gain to civilian employment in more than a decade page 5
- Commercial leasing activity in Manhattan was 13.5 percent higher than in the 2nd quarter of 2014 ... page 9
- Strong tourism reflected in high hotel occupancy..... page 13

**Table 1: Second Quarter of 2015 Key Economic Indicators
NYC Compared with U.S. for 1 Q15 and 2Q14**

		2Q15	1Q15	2Q14
GCP/GDP Growth, SAAR	NYC	2.6	4.0	1.5
	U.S.	2.3	0.6	4.6
Payroll-Jobs Growth, SAAR	NYC	2.0	3.0	3.0
	U.S.	1.7	2.2	2.3
PIT Withheld, Growth, NSA	NYC	9.1	3.3	6.6
	U.S.	5.2	4.9	7.6
Inflation Rate, NSA	NYC	0.0	-0.2	1.7
	U.S.	0.0	-0.1	2.1
Unemployment Rate, SA	NYC	6.3	6.6	7.4
	U.S.	5.4	5.6	6.2

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

Real gross city product (GCP) grew at an estimated annual rate of 2.6 percent in 2Q15, less than in 1Q15, but slightly better than the nation. The U.S. economy

grew 2.3 percent (advance estimate) in 2Q15 after growing only 0.6 percent in 1Q15.



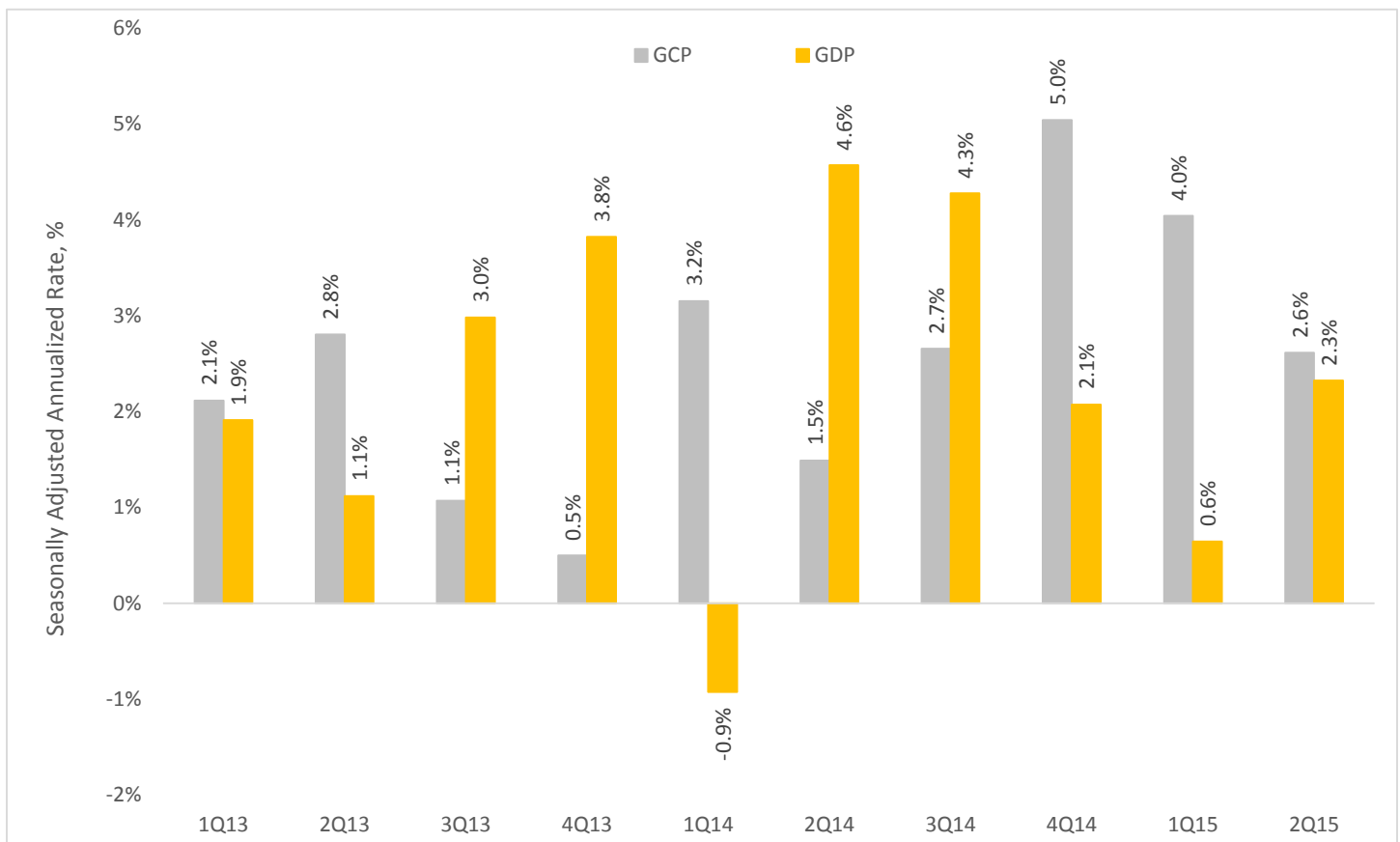
Several factors supported GCP growth in 2Q15. Venture capital investment in the city soared to its highest second-quarter level since 2000. Although the city’s labor market continued to tighten, the pace of job growth dropped slightly. Commercial real estate values soared as the vacancy rate fell to its lowest second-quarter rate since 2008, but residential market performances were mixed.

The national growth of 2.3 percent (advance estimate) in 2Q15 is lower than the July Blue Chip consensus estimate of 2.9 percent. Part of the reason for this weak growth was the annual historical revision. 1Q15 GDP growth was revised up to 0.6 percent, from -0.2 percent. In effect, the upward revision of the first-quarter figure reduced the growth in the second quarter.

Consumer spending grew 2.9 percent and contributed 2.0 percentage points to GDP growth. Goods consumption, especially motor vehicles and parts, was the main contributor. Government expenditures grew 0.8 percent, contributing 0.14 percentage points to GDP growth. The growth was due to state and local government expenditures which offset declines in Federal expenditures. Net exports contributed 0.13 percentage points to GDP growth, as export growth increased and import growth declined in the first quarter.

Gross private domestic investment was a weak component of GDP, increasing only 0.3 percent in 2Q15 and contributing just 0.06 percentage points to GDP growth. The strongest areas were industrial equipment, intellectual property products, and residential investment.

Chart 1. Percent Change in Real Gross City Product (GCP) and National Real Gross Domestic Product (GDP), 1Q13 to 2Q15



Source: BEA and NYC Comptroller

Venture capital investment in the New York metropolitan area soared in 2Q15. On a year-over-year basis, venture capital investment in the metro area rose 82.8 percent to over \$2.3 billion, the highest second-

quarter level since \$2.5 billion in 2000 (Chart 2). The number of venture capital deals rose to 136 in 2Q15, the highest since 214 in 2000. In the first half of 2015,



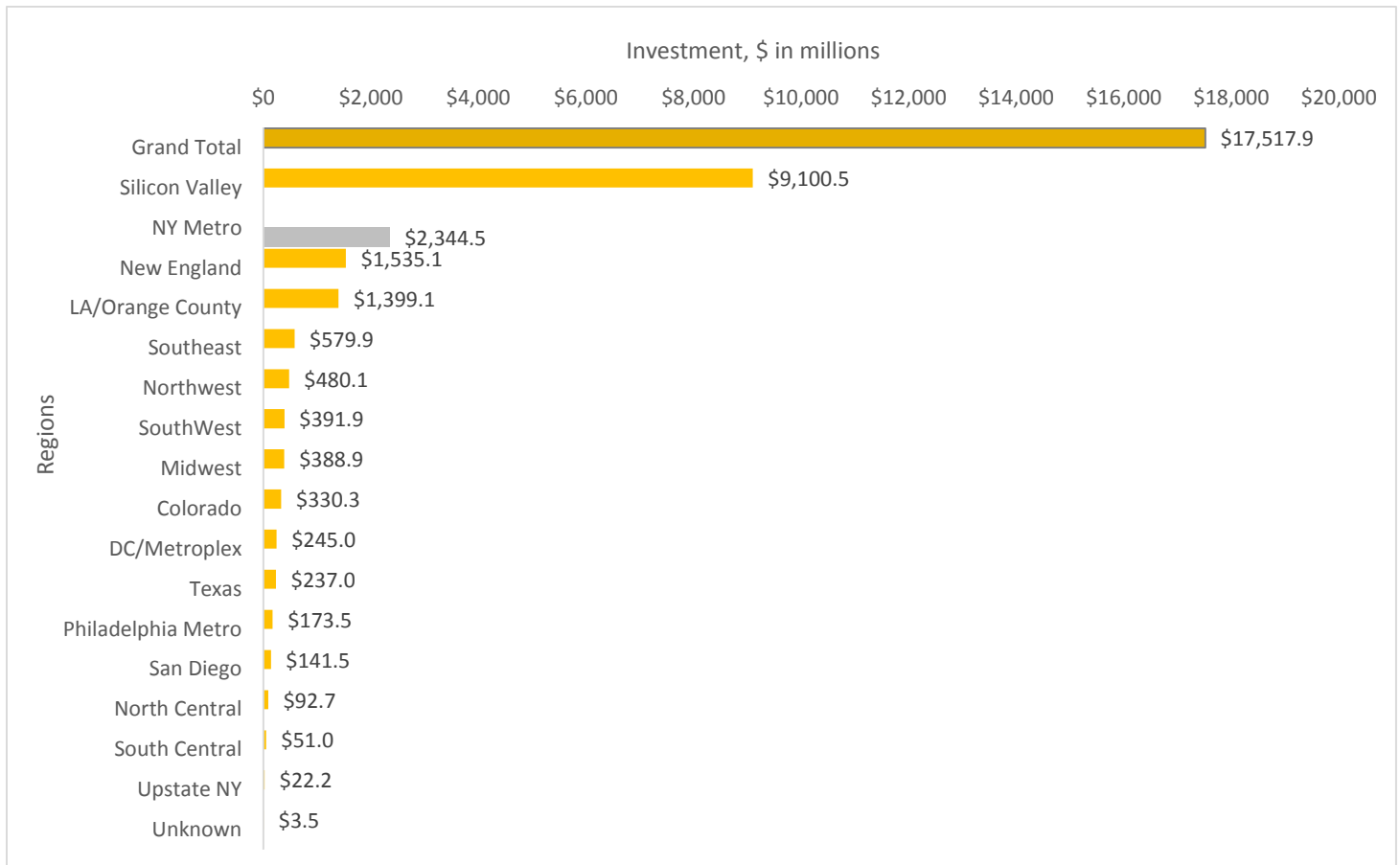
investment volume is up 67 percent in the metro area but the number of deals is down 1.6 percent.

The New York metro share of venture capital investment also increased. Of the \$17.5 billion of national venture capital investment in 2Q15, 13.4 percent was in the metro area compared with 9.4 percent in 2Q14. In contrast, Silicon Valley, which is the largest recipient of venture

capital investment, saw its share of total investment fall to 51.9 percent in 2Q15 from 57.1 percent a year earlier.

Venture capital investment in New York State increased 84.1 percent to almost \$2.1 billion in 2Q15 from \$1.1 billion in 2Q14. However, the number of deals in New York State fell 4.0 percent to 120 in 2Q15 from 125 in 2Q14.

Chart 2. Venture Capital Investment by Regions, 2Q15



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

New York City’s private sector added 20,300 jobs in 2Q15, a seasonally adjusted annualized rate (SAAR) of 2.3 percent, 11,000 less than in the first quarter. The nation’s total private jobs grew 2.0 percent (SAAR) in 2Q15, less than the 2.6 percent in 1Q15 (Chart 3).

With the exception of manufacturing and information, all major sectors posted gains, but only 31.5 percent of new private jobs were in high-wage sectors compared with 42.3 percent in the previous quarter. The growth in each sector was roughly the same but the medium-wage sector saw the biggest

improvement, accounting for a third of the new jobs, compared to just 3.5 percent in the previous quarter. Sectors that added jobs were construction (+5,700), professional and business services (+4,200), education and health services (+3,500), financial activities (+3,000), leisure and hospitality (+2,800), other services (+2,500), and trade, transportation and utilities (+100). Information lost 1,100 jobs and manufacturing lost 500 in 2Q15 since 1Q15.

Since the recessionary low in employment was reached in 1Q10, the number of jobs nationally increased 9.2 percent

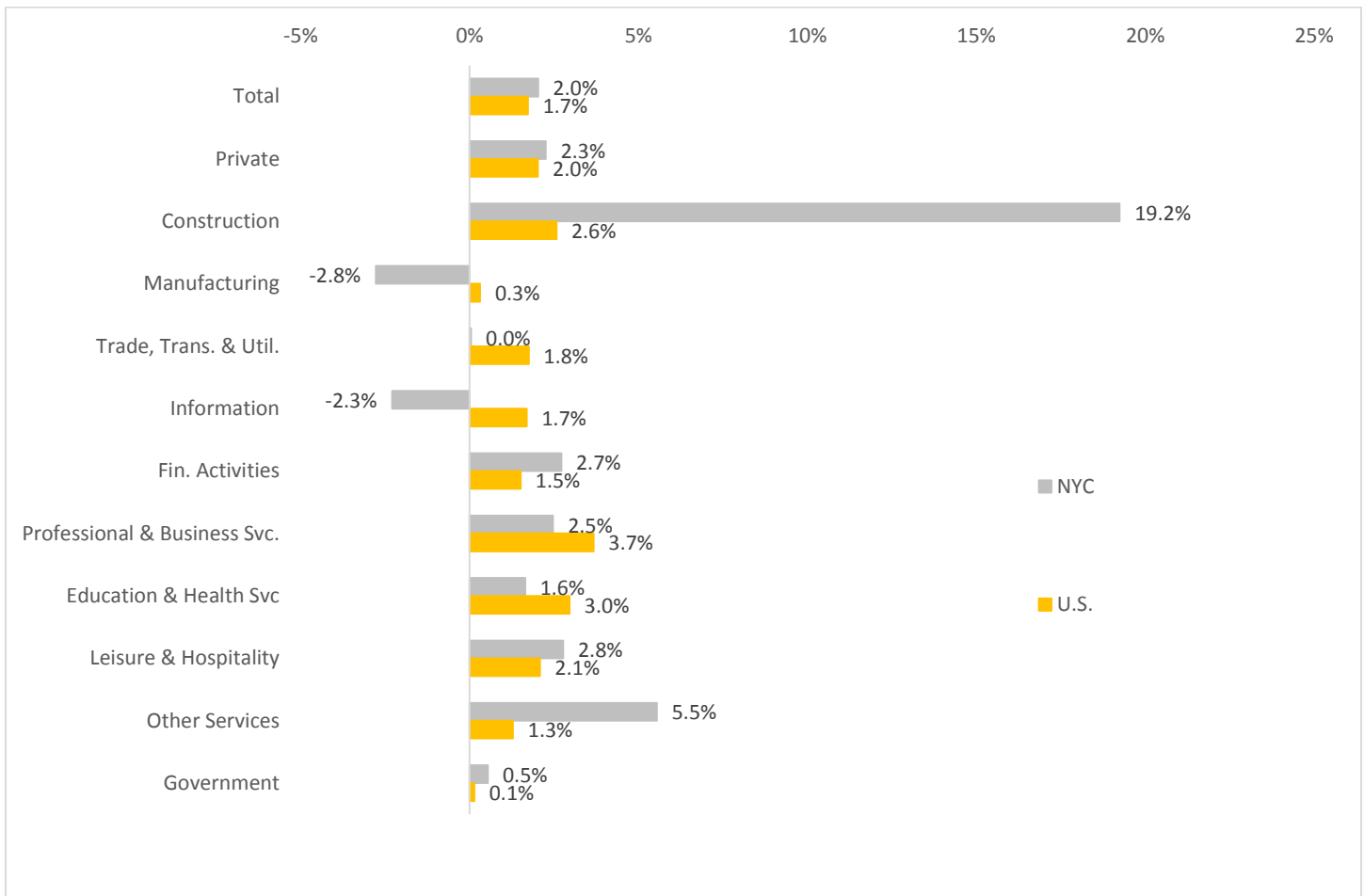


while the city’s jobs total increased 13.7 percent, or 506,000. Similarly, U.S. private-sector jobs rose 11.6 percent since 1Q10, while the city gained 16 percent, or 519,000 private sector jobs.

Furthermore, the city’s private sector jobs recovery since the last recession has been much stronger than after the two previous recessions. In the five years that followed the trough

of 1990-1991 recession, the city added 239,800 jobs, or 9.0 percent. In the five years following the trough of the 2001 recession, the city’s private-sector added 274,200 jobs, or 9.2 percent. In this recovery, the number of private-sector jobs reached a low in 3Q09, and in the five years that followed 472,600 jobs were added, or 15.2 percent.

Chart 3. Annualized Percent Change in Payroll-Jobs, NYC and the U.S., SAAR, 2Q15 over 1Q15



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

NYC’s unemployment rate, adjusted for seasonality, fell to 6.3 percent in 2Q15, the lowest in almost seven years.

The U.S. unemployment rate fell to 5.4 percent in 2Q15, also the lowest rate in almost seven years (Chart 4).

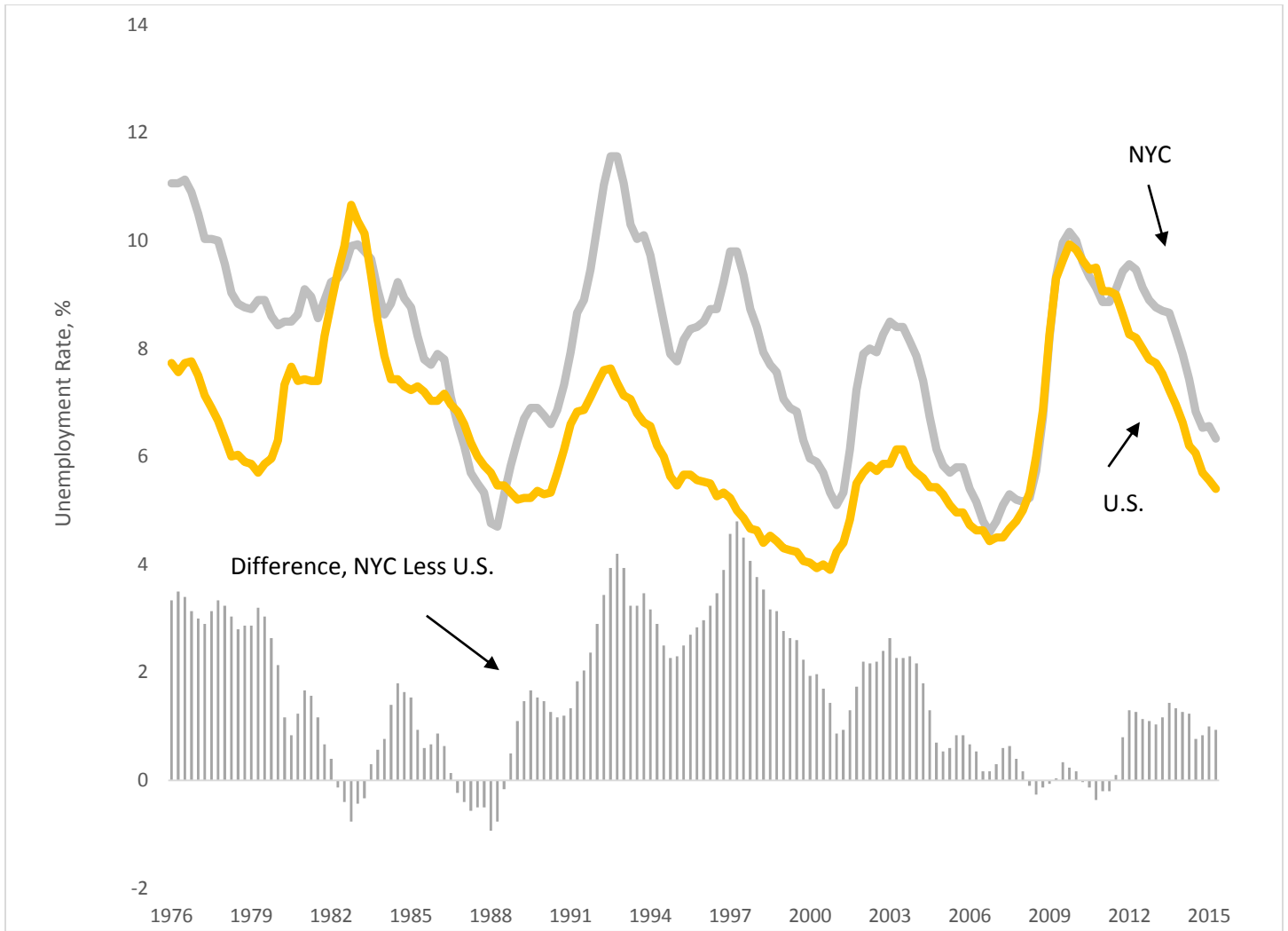
Since its all-time peak of over 400,000 in 4Q09, the number of unemployed city residents declined by almost 134,000, or 33.4 percent to 267,000 in 2Q15. This is even more impressive when one considers that during the same period the city’s labor force increased almost twice as much, or by

264,000. Many of those adding to the labor force may have been discouraged workers who had dropped out of the labor force when jobs were scarce.

While Manhattan had the lowest unemployment rate (not seasonally adjusted) of 5.0 in 2Q15, each of the other boroughs experienced the greatest second-quarter declines since 2008. Queens’ unemployment rate was 5.2 percent, Staten Island’s was 5.9 percent, Brooklyn’s was 6.2 percent and the Bronx’ remained the city’s highest at 8.0 percent.



Chart 4. Unemployment Rate, NYC, U.S. and NYC Less U.S., Quarterly (SA), 1Q76-2Q15



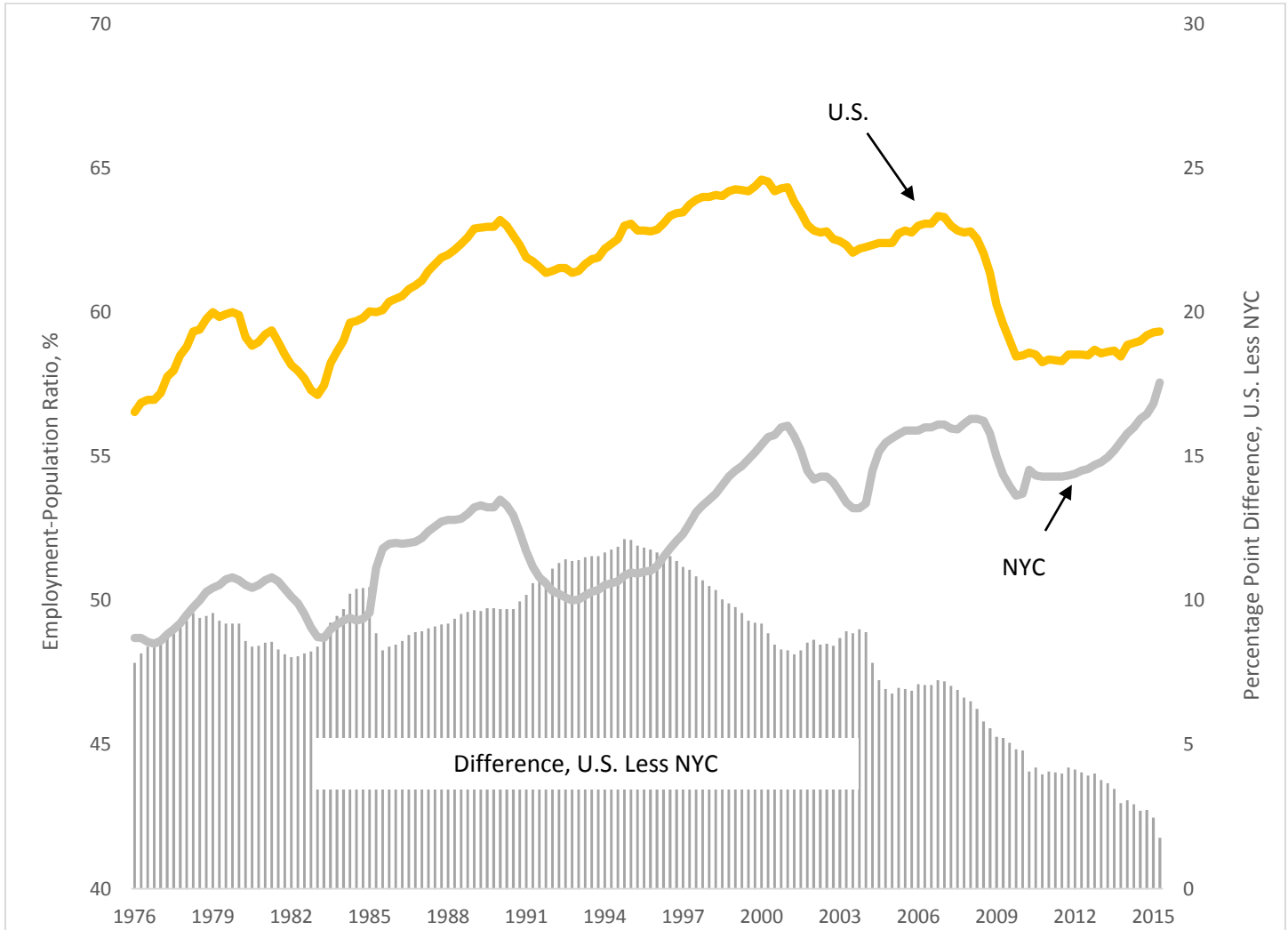
Source: U.S. Bureau of Labor Statistics (BLS) and NYS Department of Labor

Civilian employment increased by 58,800 in 2Q15, the biggest quarterly gain in more than a decade, since the 75,100 jump in 2Q04. Civilian employment measures the number of city residents who have jobs, regardless of where they are employed. Since its most recent trough in 4Q09, the city’s civilian employment has increased by almost 398,000 or 11.2 percent, to a record level of over 3.9 million in 2Q15. As

a result, the city’s employment-to-population ratio rose to a record high of 57.6 percent in 2Q15. It exceeded the last two peaks of 2Q08 and 1Q01 by 1.3 and 1.6 percentage points, respectively. While the ratio is still below the nation’s ratio of 59.3 percent, the spread between the U.S. and the city has fallen to a historical low of 1.8 percentage points (Chart 5).



Chart 5. Employment-Population Ratio, NYC, U.S. and NYC Less U.S., Quarterly (SA), 1Q76-2Q15



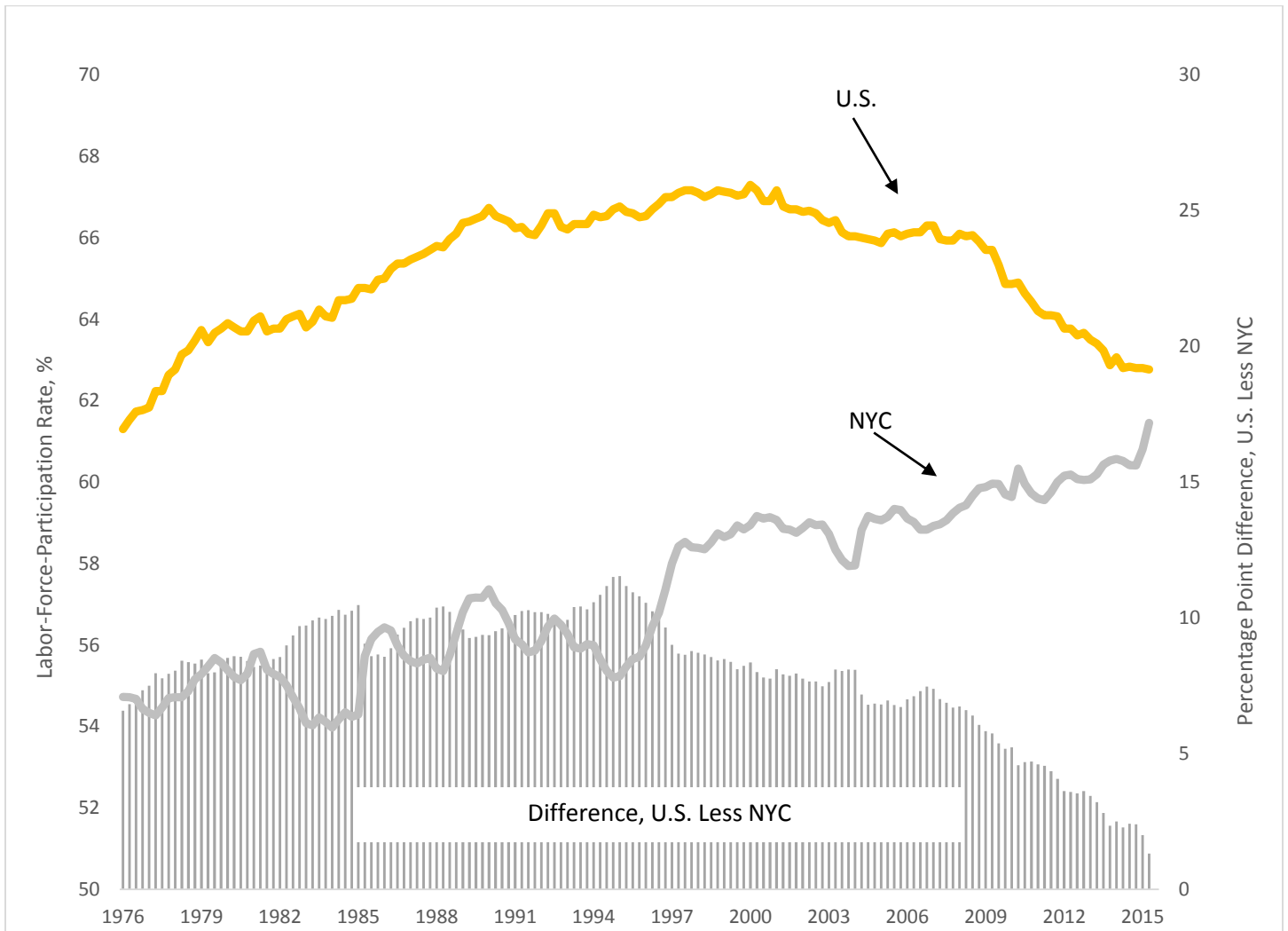
Source: U.S. Bureau of Labor Statistics (BLS) and NYS Department of Labor

The city’s labor force increased by 52,500 to over 4.2 million in 2Q15, a record high. This was the biggest quarterly increase in over ten years, since the 62,100 gain in 2Q04. 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 and over), reached a record high of 61.5 percent in 2Q15. The U.S. LFPR remained unchanged at 62.8 percent in 2Q15, the lowest since 1Q78. The spread between the U.S. and the city’s LFPR reached a record low in 2Q15 (Chart 6).

It is worth noting that while the city’s LFPR keeps trending upward, the national rate has been either falling toward a historical low or has been flat. The increase to the city’s LFPR implies a more vibrant economy. A reentry of previously-discouraged New York City residents to the labor force, and a changing demographic composition of the population, have most likely contributed to the increase.



Chart 6. Labor-Force-Participation Rate, NYC, U.S. and NYC Less U.S., Quarterly (SA), 1Q76-2Q15



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



Table 2: Second Quarter Economic Indicators Compared to 1Q15 and 2Q14

		2Q15	1Q15	2Q14
County Unemployment Rate, NSA (Source: NYS DOL)	Bronx	8.0	9.4	9.7
	Kings	6.2	7.1	7.7
	New York	5.0	5.8	6.0
	Queens	5.2	6.2	6.3
	Richmond	5.9	6.9	7.1
Commercial Vacancy Rate (Source: Cushman & Wakefield)	Midtown	8.9%	9.4%	11.0%
	Midtown South	6.2%	7.0%	8.2%
	Downtown	10.3%	10.4%	10.0%
	Manhattan Total	8.8%	9.2%	10.3%
Rental Rate (per sq ft) (Source: Cushman & Wakefield)	Midtown	\$76.45	\$75.44	\$70.82
	Midtown South	\$66.86	\$63.28	\$60.17
	Downtown	\$58.25	\$57.58	\$49.21
	Manhattan Total	\$70.52	\$69.39	\$64.82
Number of Apartment Sales (Source: Douglas Elliman)	Manhattan	2,674	2,661	3,342
	Brooklyn	1,735	1,507	2,086
	Queens	2,539	2,567	2,404
Case-Shiller Home Price Index (Source: Moody's)	NY Metro Area	179.30*	177.94	174.26*
	US 20-City Composite	179.23*	177.56	170.86*
Hotel Industry (Source: PKF Consulting)	Average Daily Occupancy Rate	92.3*	79.7	93.3*
	Average Daily Room Rate	\$302.50*	\$234.50	\$312.50*
MTA Average Weekday Ridership (Source: MTA)	NYC Transit	7,925,909	7,511,575	7,900,446
	Subway	5,802,285	5,486,850	5,708,121
	Bus	2,123,624	2,024,725	2,192,324
	Long Island Rail Road	306,546	288,591	300,116
	Metro North	294,837	270,717	293,904

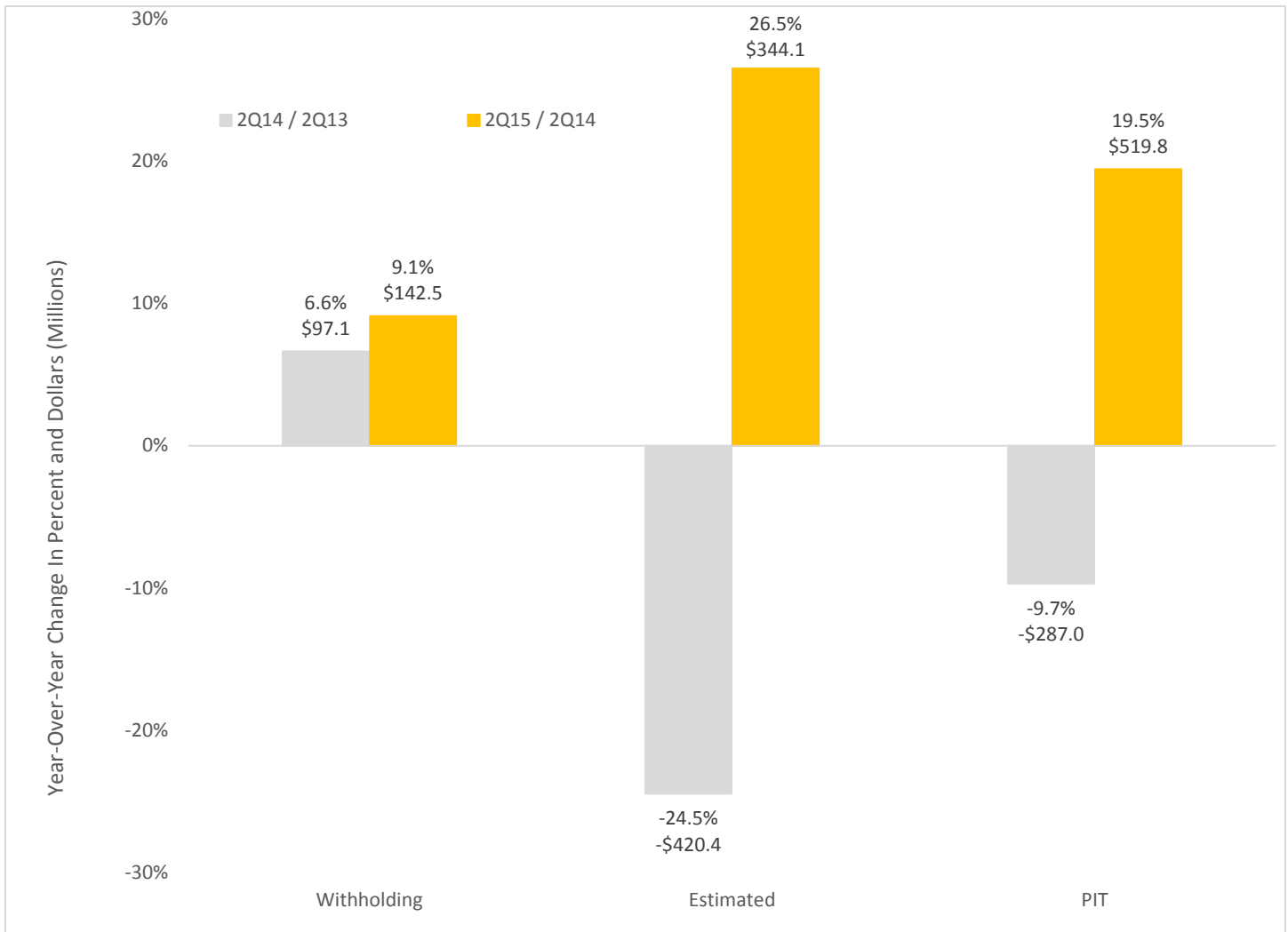
*Data includes April and May, excludes June

NYC personal income tax (PIT) revenues rose 19.5 percent on a year-over-year basis to about \$3.2 billion in 2Q15, the highest second quarter level on record. In addition to a stronger economy, the PIT surge reflects the stock market gains of calendar year 2014 and larger Wall Street bonus payments.

On a year-over-year basis, PIT withheld from paychecks rose 9.1 percent to over \$1.7 billion in 2Q15, the highest second quarter level on record. Income tax withholdings are the best indicator of income trends among people who derive their income from wages and salaries rather than investments.

Estimated tax payments, which reflect changes in taxpayers' asset values, including estimates of interest earned, rental income, and capital gains, rose to \$1.6 billion in 2Q15, 26.5 percent higher than the \$1.3 billion collected in 2Q14. Estimated tax payments in 2Q13 and 2Q14 were distorted by changes in federal tax policy that encouraged investors to accelerate capital gains realizations into tax year 2012; estimated tax payments in 2Q15 are believed to be relatively free of those distortions. (Chart 7).

**Chart 7. Changes in Personal Income Tax Revenues, in Percent and Dollars (millions),
2Q14 over 2Q13 and 2Q15 over 2Q14**



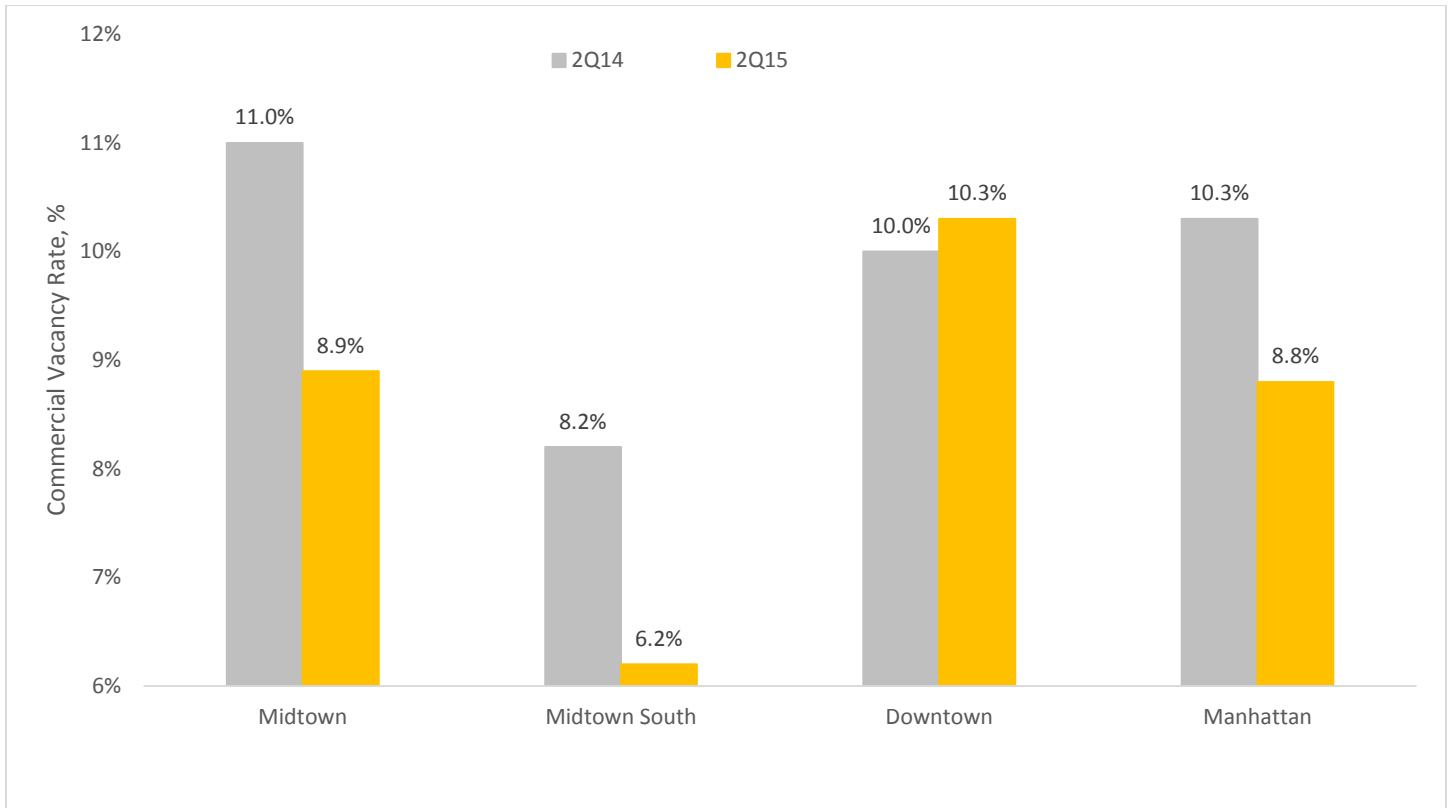
Source: NYC OMB

The Manhattan office vacancy rate, including sublease space, fell to 8.8 percent in 2Q15, the lowest second quarter since 2008, as reported by Cushman & Wakefield. On a year-over-year basis, the vacancy rate dropped 2.1 percentage points in Midtown and 2.0 percentage points in Midtown South, but increased 0.3 percentage points Downtown.

New leasing activity in 2Q15 totaled 8.4 million square feet (msf), 13.5 percent higher than 2Q14 and the highest second-quarter level since 2011. However, year-to-date leasing was 8.6 percent lower than last year. Most of the new leasing in 2Q15 took place in Midtown (5.7 msf) followed by Midtown South (1.7 msf) and then Downtown (0.9 msf). Overall asking rents increased in all the submarkets (Chart 8 and 9).

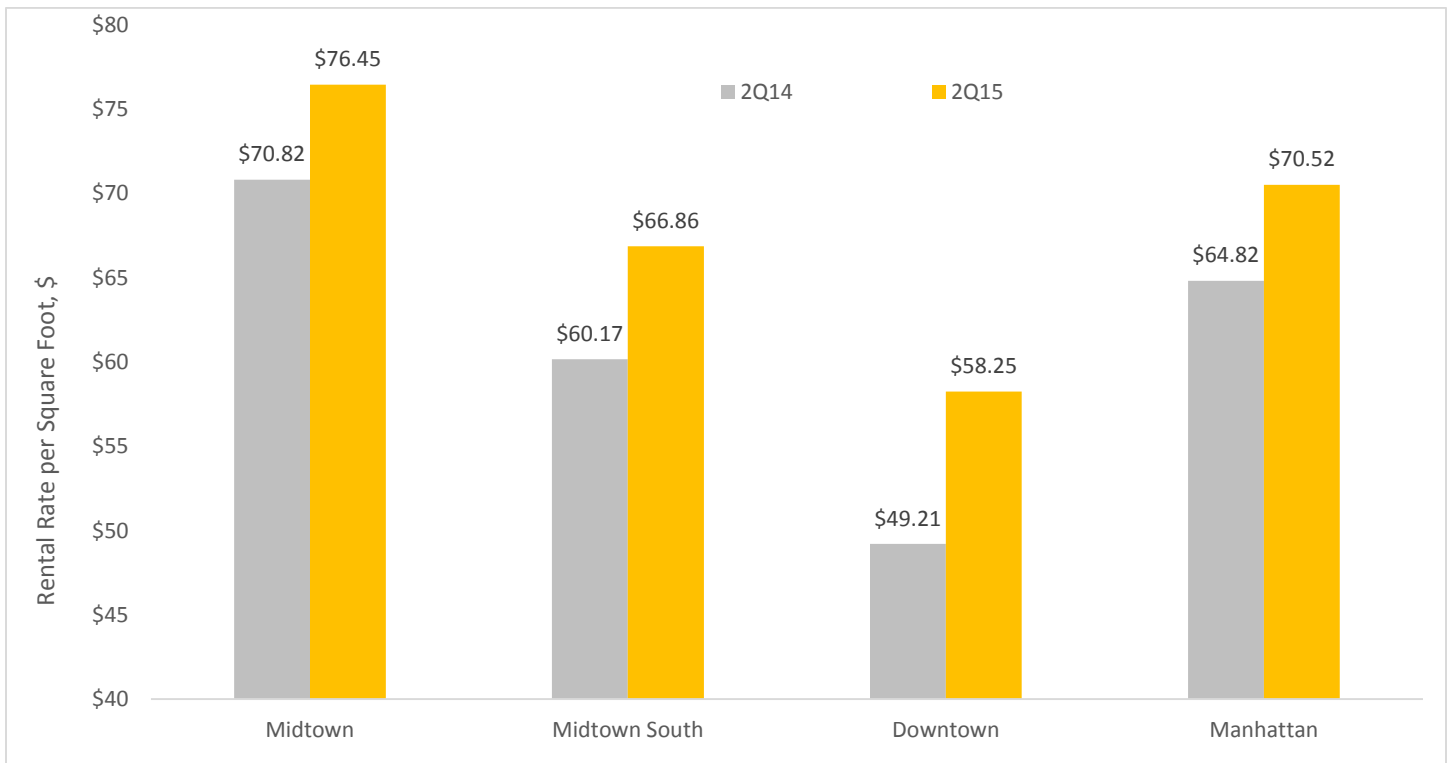


Chart 8. Overall Commercial Vacancy Rates, 2Q15 and 2Q14



Source: Cushman & Wakefield

Chart 9. Overall Commercial Rental Rate per Square Foot, 2Q15 and 2Q14



Source: Cushman & Wakefield



The city's housing market continues to do well, but 2Q15 data shows that pent-up demand has been absorbed in Manhattan and Brooklyn, but not in Queens. Manhattan, Brooklyn, and Queens condominium and co-op prices increased, but the number of sales (except for Queens) declined on a year-over-year basis, according to a report from Douglas Elliman. In Manhattan, the average sales price during the second quarter rose 11.4 percent to \$1.8 million, while the average price per square foot rose 5.7 percent to \$1,340, and the median sales price rose 7.7 percent to \$980,000 compared to 2Q14. Also, days on the market from last list date fell 2.1 percent in 2Q15 from the prior year. However, the number of sales closed fell 20 percent. Listing inventory rose 1.3 percent, and the listing discount (the percentage difference between the listing price at time of sale and the sales price) increased to 6.1 percent in 2Q15 from 2.8 at the same time last year.

Brooklyn's housing market tracked Manhattan's. The median sales price rose 5.2 percent and the average sales price rose 0.7 percent, while days on market (DOM) fell 33 percent in 2Q15 compared to the same quarter in 2014. However, the number of sales fell 16.8 percent. The listing inventory rose 38.6 percent and the listing discount rose to 8.0 percent in 2Q15 from 1.0 percent in 2Q14.

In contrast, Queens' housing prices continued to rise as supply remained inadequate to meet demand. The average sales price rose 9.1 percent and median sales price rose 8.5

percent in 2Q15 over 2Q14. Also, the number of sales rose 5.6 percent, while listing inventory fell 12.6 percent, DOM fell 16.4 percent, and the listing discount fell to 0.4 percent in 2Q15 from 1.3 percent in 2Q14 (Chart 10).

Douglas Elliman reports that the number of 1- to 3-family homes sold in Brooklyn fell 19.8 percent, but rose 11.9 percent in 2Q15 over 2Q14 in Queens. However, the average sales price per square foot rose 8.4 percent in Brooklyn and 6.6 percent in Queens, compared to a year earlier.

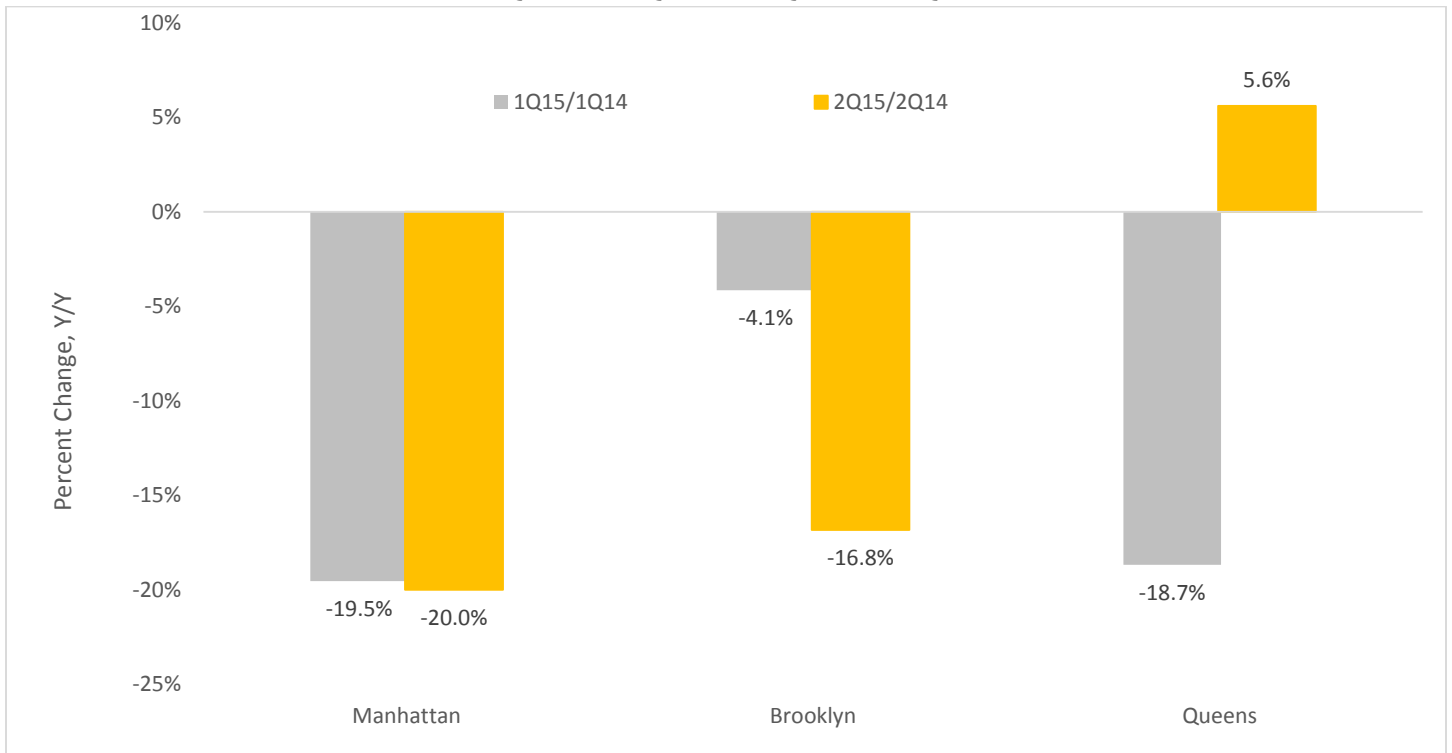
According to the Case-Shiller index, which tracks the single family home prices, the seasonally adjusted New York metro area home price index fell 0.1 percent to 179.25 in May 2015 from its six-year high of 179.34 in April. On a year-over-year basis, New York metro area home prices increased 3.0 percent.

The U.S. 20-city composite index fell 0.2 percent in May to 179.07, but rose 4.9 percent on a year-over-year basis. The Denver area showed the largest increase (10 percent) and Washington, D.C. had the smallest increase (1.3 percent) in May 2015 over the prior year.

As of May 2015, the New York metro area home price index was 11.3 percent higher than at its trough in March of 2012, but still 17.2 percent below the peak reached in May 2006. In comparison, the U.S. 20-city composite index was 30.6 percent higher than its trough but 13.3 percent below its peak (Chart 11).

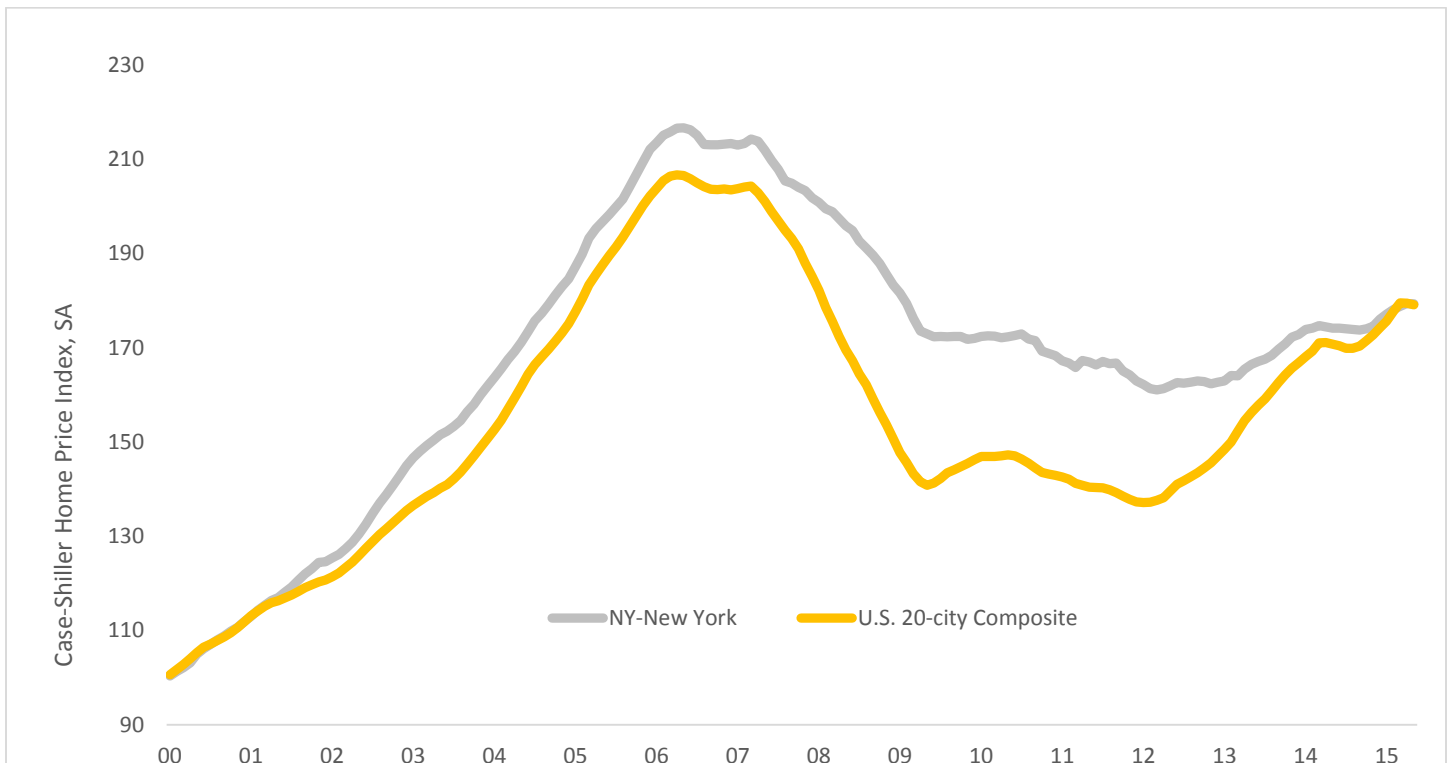


Chart 10. Percent Change in the Number of Apartment Sales, Manhattan, Brooklyn, Queens, 1Q15 over 1Q14 and 2Q15 over 2Q14



Source: Douglas Elliman

Chart 11. Case-Shiller Home Price Index, Monthly SA, January 2000 to May 2015

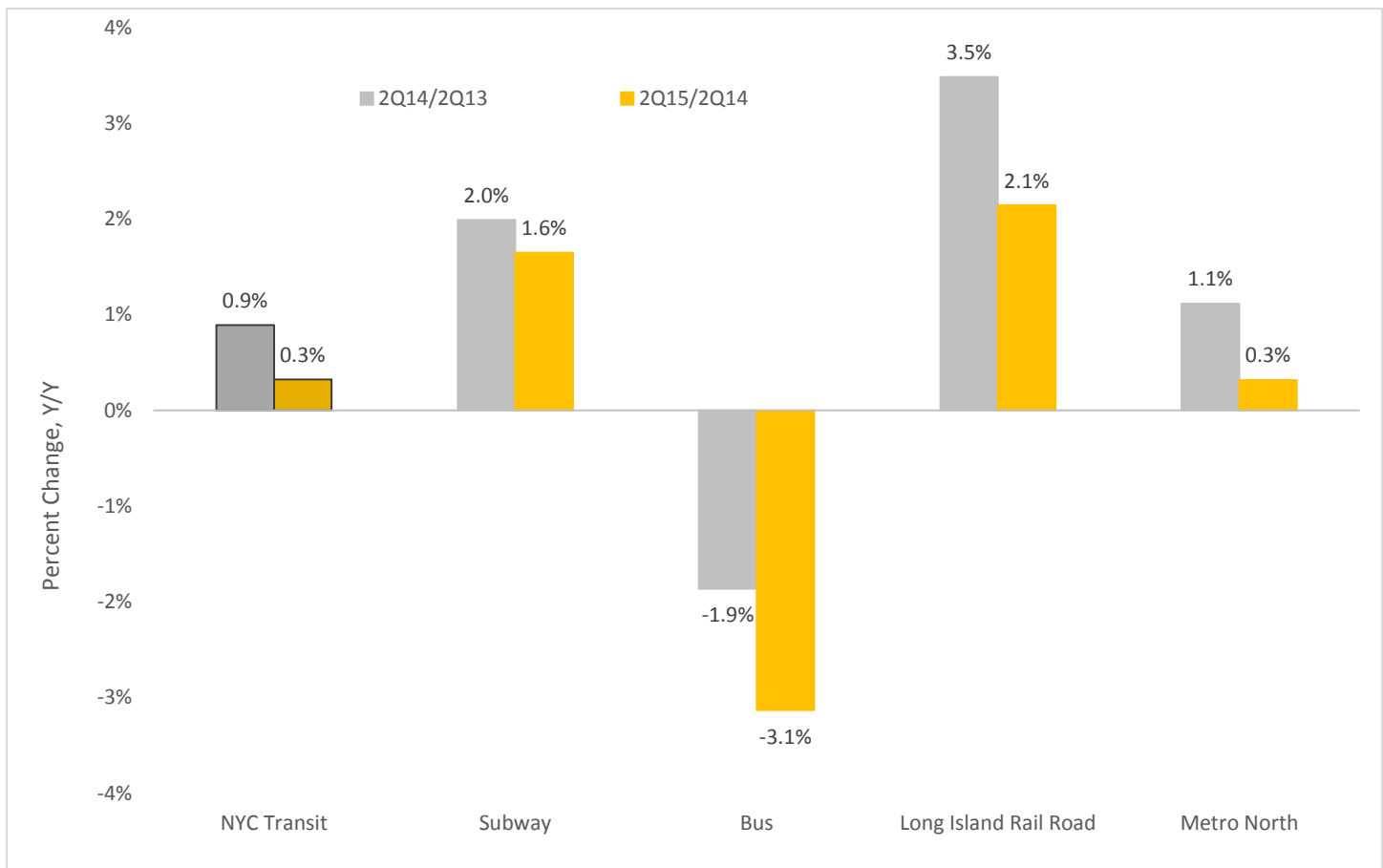


Source: Standard and Poor's

Average weekday ridership on MTA subways rose 1.6 percent (94,163 more riders) in the second quarter of 2015 on a year-over-year basis. Strong growth in subway ridership was offset by a decline in bus ridership. As a result, overall, average weekday ridership on MTA NYC Transit

which includes both subways and buses rose 0.3 percent. During the same period, Long Island Rail Road ridership rose 2.1 percent and Metro North ridership rose 0.3 percent (Chart 12). Higher ridership usually reflects an increase in the city's economic activities and employment.

Chart 12. Percent Change in MTA Average Weekday Ridership, 2Q15 over 2Q14 and 2Q14 over 2Q13



Source: Metropolitan Transportation Authority

The city's hospitality industry enjoyed its second best April-May performance in 2015 (June numbers are not yet available). According to PKF Consulting, Manhattan's hotel occupancy rate averaged 92.3 percent in April-May of 2015, the second highest April-May average since 1980. The highest April-May occupancy rate was 93.3 percent in 2014 and the lowest was 66.9 percent in 1992.

The hotel average daily room rate was \$303 in April-May 2015, falling from \$313 in April-May 2014. The drop in occupancy rates may be an early indicator of the stronger dollar, which makes visiting New York more expensive for

many tourists. Large additions to the city's room inventory, and competition from apartment-sharing services, could have also played a role.

Broadway show ticket sales and attendance also fell slightly. According to the Broadway League, total gross weekly Broadway ticket sales were about \$363 million in 2Q15, 6.3 percent lower than the \$387 million sold in 2Q14. Similarly, total attendance was about 3.6 million in 2Q15, 5.6 percent lower than 3.8 million in 2Q14.

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