



# NYC Quarterly Economic Update

Office of the New York City Comptroller

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BUREAU OF FISCAL & BUDGET STUDIES

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## 4Q14: Weaker End to a Strong Year

**Overview:** The New York City and U.S. economies slowed down in the fourth quarter of 2014, but it was still a strong year for the city on many economic fronts. Overall, the city grew faster than the nation in 2014, adding a healthy 86,400 new jobs (an increase of 2.2 percent), one of its best performances in years. While job growth declined slightly in the fourth quarter, unemployment fell to the lowest rate in six years, the largest ever one-quarter drop. The city's labor-force-participation rate reached a record high in the fourth quarter, and NYC personal income tax revenues rose to over \$2.3 billion, the highest fourth quarter on record. At 8.4 million square feet, commercial leasing had its most active fourth quarter in ten years, and the hotel industry is on pace to have its highest-ever fourth quarter occupancy rate.

**Table 1: Fourth Quarter of 2014 Key Economic Indicators  
– NYC Compared with U.S. for 3Q14 and 4Q13**

		4Q14	3Q14	4Q13
GCP/GDP Growth, SAAR	NYC	2.8%	4.2%	2.3%
	U.S.	2.6%	5.0%	3.5%
Payroll-Jobs Growth, SAAR	NYC	-0.1%	4.5%	1.5%
	U.S.	2.5%	2.2%	1.9%
PIT Withheld, Growth, NSA	NYC	11.7%	8.8%	2.9%
	U.S.	8.2%	4.4%	-3.7%
Inflation Rate, NSA	NYC	0.8%	1.3%	1.3%
	U.S.	1.2%	1.8%	1.2%
Unemployment Rate, SA	NYC	6.3%	7.3%	8.2%
	U.S.	5.7%	6.1%	7.0%

**Real gross city product (GCP) grew at an estimated annual rate of 2.8 percent in 4Q14, a healthy but still weaker pace than the 4.2 percent registered in 3Q14.** The U.S. economy grew 2.6 percent (advance estimate) in 4Q14, also a much slower rate of growth than in the previous quarter (Chart 1). Overall, GCP grew 3.1 percent in 2014, compared to 4.0 percent in 2013, while U.S. GDP grew 2.4 percent in 2014, slightly faster than its 2.2 percent growth in 2013.

The weak GCP growth in 4Q14 reflects flat venture capital investment and a decline in payroll jobs. However, an increase in personal income tax withholdings, rising residential and commercial real estate activities, and strong tourism signal continued growth in 2015.

The main drags on the U.S. economy were net exports and government expenditures, which deducted 1.02 and 0.4 percentage points, respectively, from GDP growth.



Neither of those factors were expected to remain as favorable as they were in 3Q14, when together they boosted GDP growth by more than 1.5 percentage points.

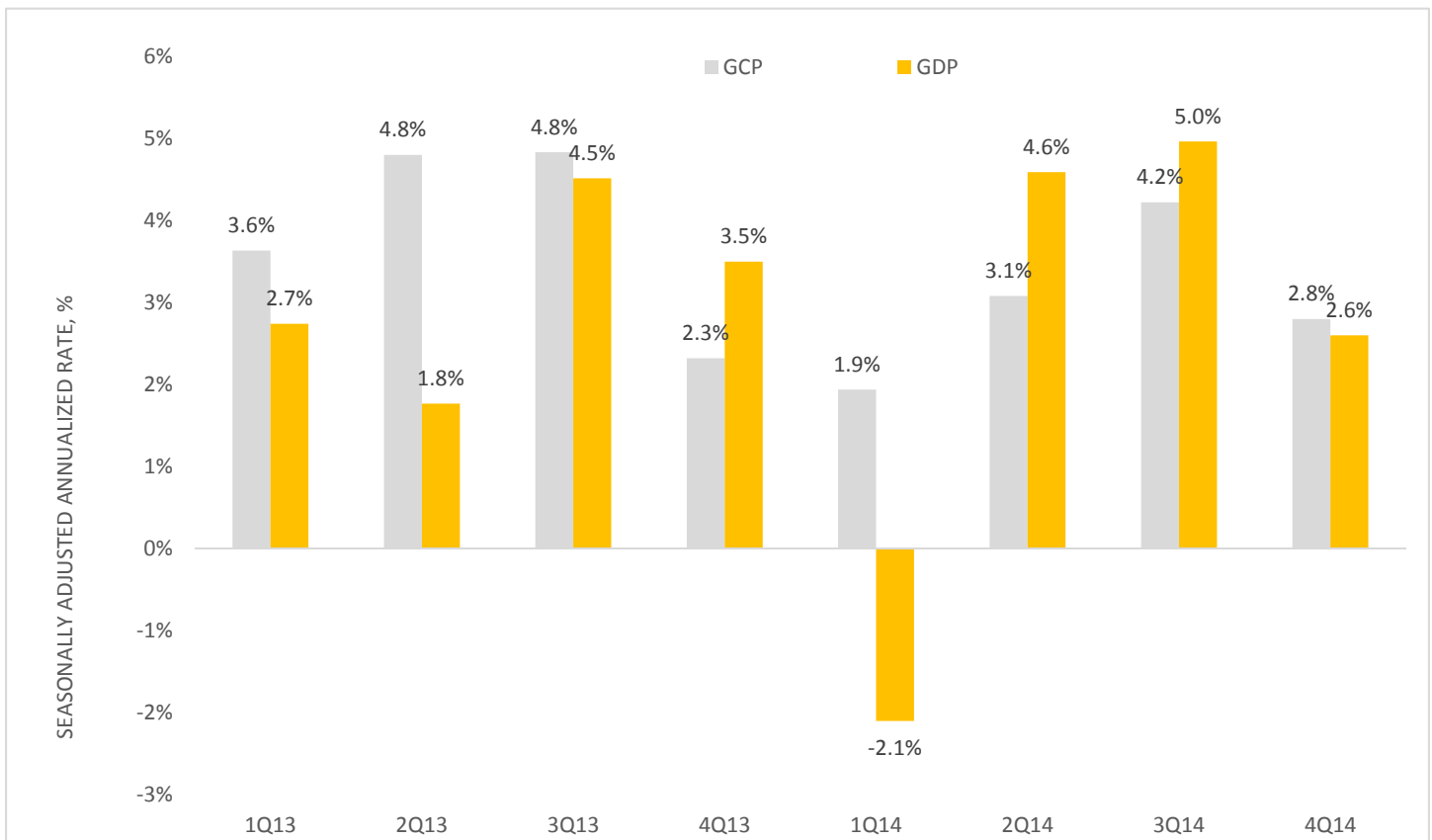
On the other hand, consumer spending and private investment contributed 2.9 and 1.2 percentage points, respectively, to 4Q14 GDP growth. Consumer spending was driven by rising employment and lower gasoline and heating oil prices. Most of the new spending was on

health care, financial services and insurance, and housing and utilities.

The biggest contributors to the growth in private investment were a change in private inventories, intellectual property products, and information processing and equipment. Business investment in new structures and equipment was disappointingly low.

The city's GCP accounted for slightly more than four percent of the nation's total economic output in 2014.

**Chart 1. Percent Change in Real Gross City Product (GCP) and National Real Gross Domestic Product (GDP), 1Q13 to 4Q14**



Venture capital investment in the New York metro area was about \$1.2 billion in 4Q14, the same as last year's fourth quarter, but below the \$1.7 billion in 3Q14 (Chart 2). Nonetheless, total venture capital investment in 2014 surpassed \$5 billion, which was about 59 percent higher than the \$3.2 billion in 2013.

The number of venture capital deals fell to 107 in 4Q14 from 132 in 4Q13 and 123 in 3Q14. However, there were a total of 478 deals in 2014, about two percent more than the 469 deals in 2013.

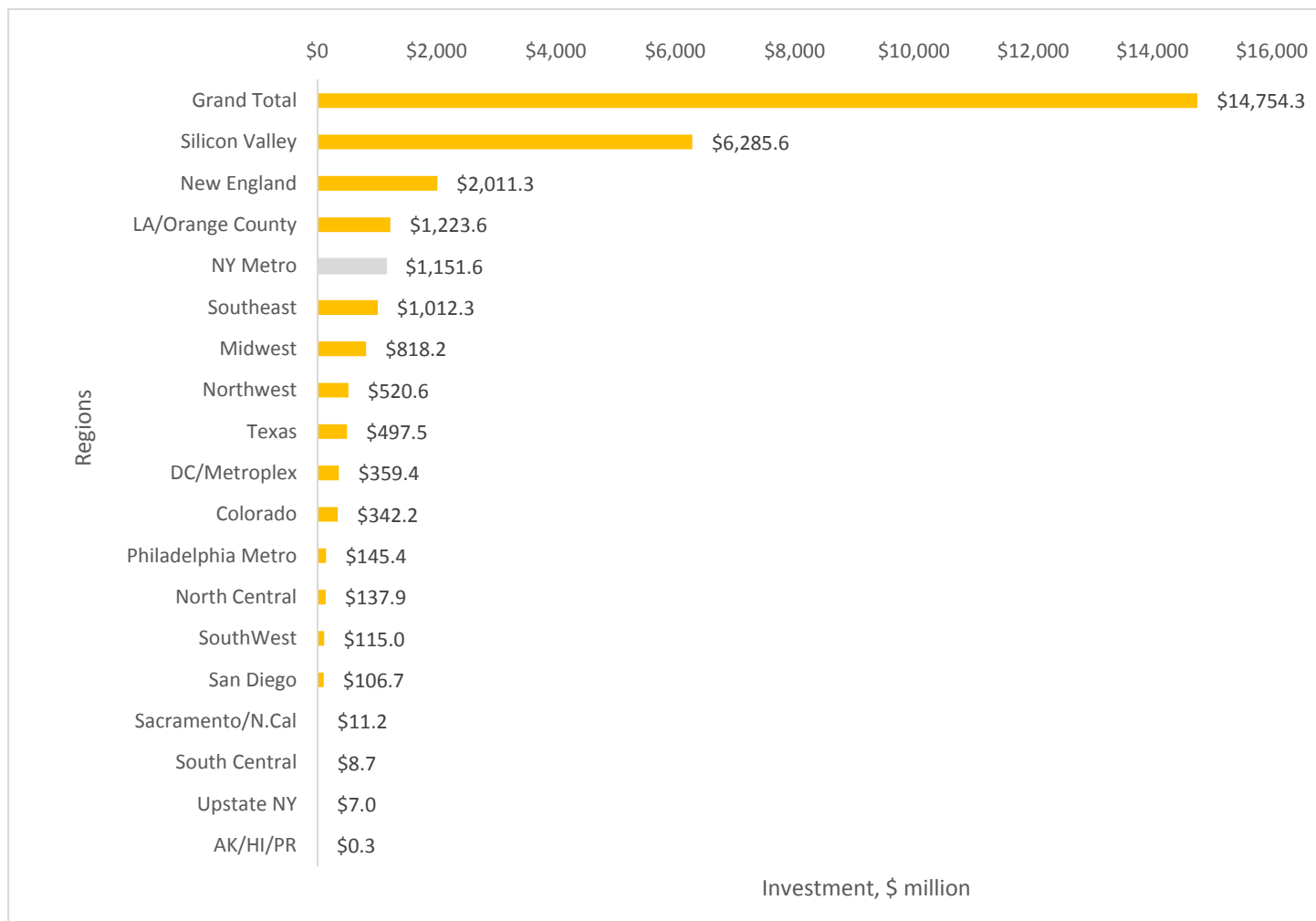
Of the \$48.3 billion national venture capital investment in 2014, only 10 percent was in the New York metro area, compared with 11 percent in 2013. This decline occurred mostly in 4Q14. The New York metro area's share of total venture capital amount fell to 8.0 percent in 4Q14, from 13 percent in 4Q13.

Venture capital in New York State also declined to 94 deals, amounting to \$965.9 million in 4Q14 from 125 deals amounting to \$1.1 billion in 4Q13. However, the number of deals rose to 434 and the dollar amount rose



to \$4.3 billion in 2014, compared with 427 and \$2.8 billion in 2013.

**Chart 2. Venture Capital Investment by Regions, \$ Million, 4Q14**



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

**New York City’s total and private-sector payroll jobs posted a loss in 4Q14 for the first time since 3Q10 and 3Q09, respectively.** The city’s private-sector lost 1,500 jobs or -0.2 percent on a seasonally adjusted annualized rate (SAAR) basis in 4Q14. Moderate job growth in November and December was not enough to offset declines in September and October. The quarterly average number of total jobs decreased by 900, a loss of 0.1 percent (SAAR). It was the biggest quarterly loss since 3Q10. These numbers will change in early March when the NYS Department of Labor releases its regular annual revisions.

In contrast to the city’s job decline, the nation’s total jobs grew 2.5 percent (SAAR) and private-sector jobs grew 2.8 percent

(SAAR) in 4Q14, the best job creation performance since 1Q12.

The NYC job losses were across the board, mostly in education and health services (-4,800), information (-2,300), construction (-2,200), trade, transportation and utilities (-2,100), and leisure and hospitality (-300). On the positive side, professional and business services added 9,700 jobs, the biggest gain in over 13 years (since 2Q00). Financial activities remained unchanged (Chart 3).

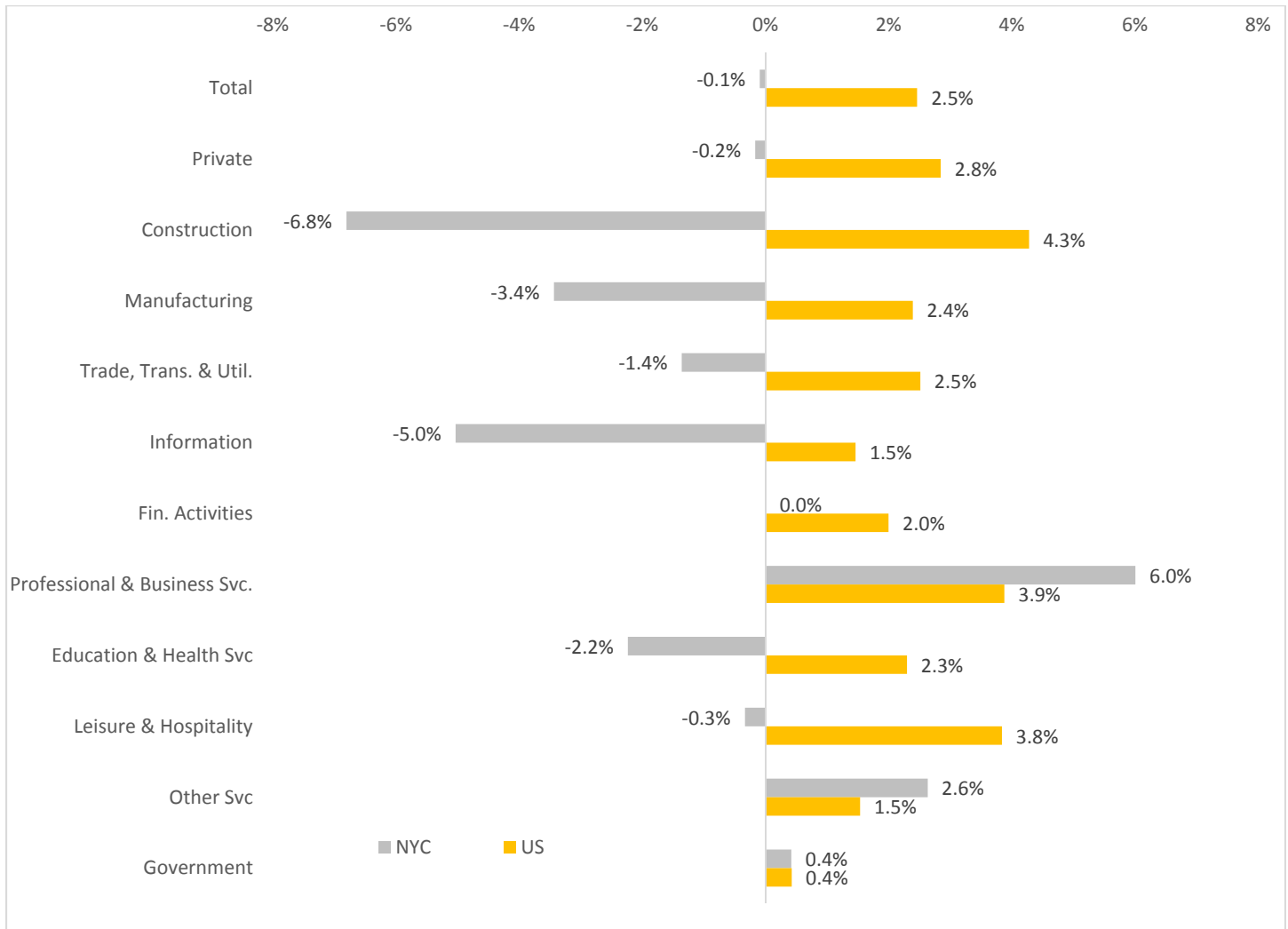
Despite the weak fourth quarter, 2014 was one of the best job-producing years for New York City. The total number of jobs increased by 86,400 (2.2 percent) and private-sector jobs



rose by 88,900 (2.6 percent) on an annual basis. The city’s job gains in 2014 exceeded that of 2013 and were stronger than

the national average in percentage terms. In the U.S., total jobs grew 1.9 percent and private jobs grew 2.3 percent in 2014.

**Chart 3. Percent Change in Payroll-Jobs, NYC and the U.S., SAAR, Quarter-over-Quarter, 4Q14**



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

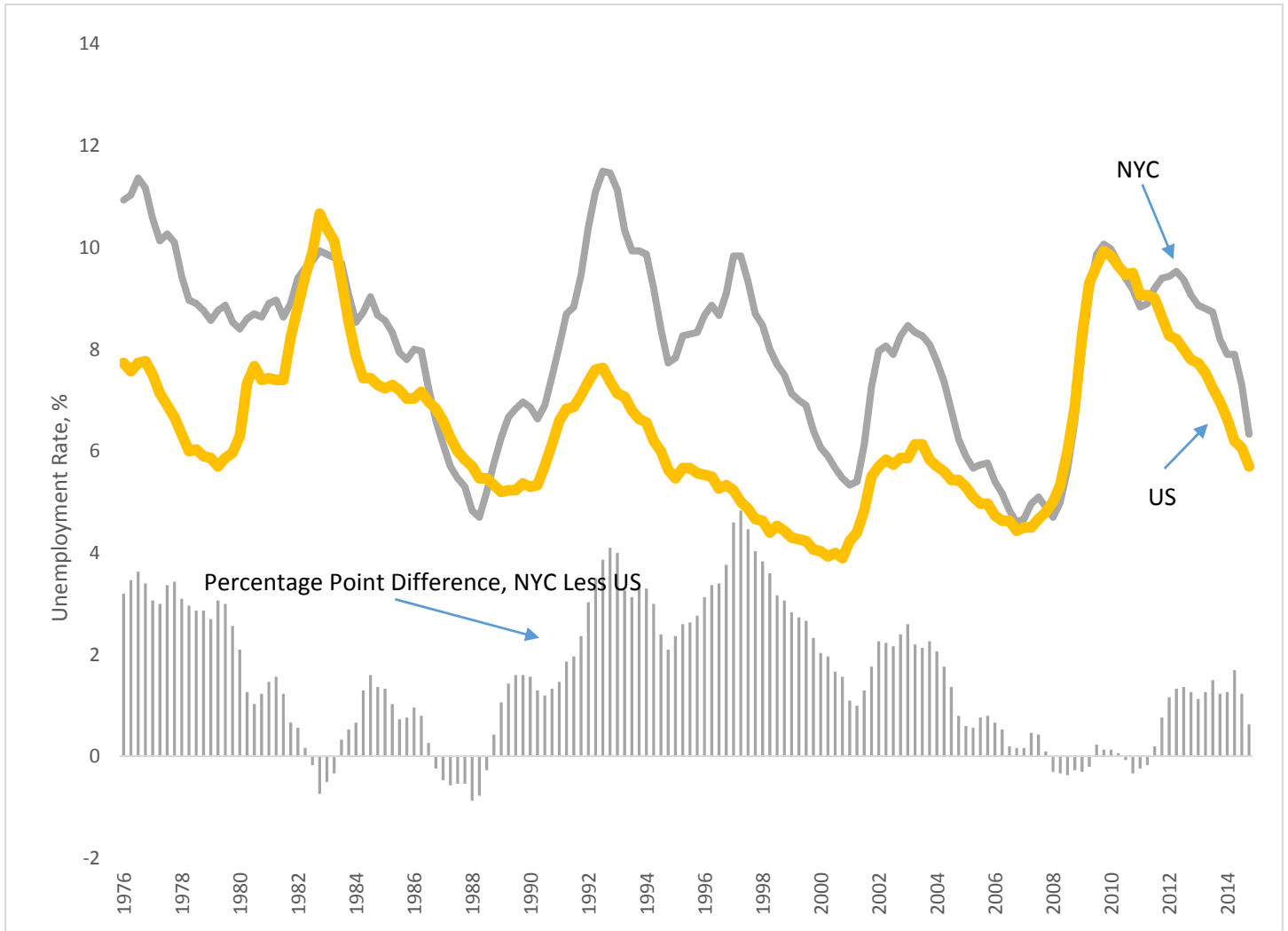
**NYC’s unemployment rate (seasonally adjusted) fell to 6.3 percent in 4Q14, the lowest quarterly average rate in over six years.** The fall reflected a 38,600 decline in the number of unemployed residents in 4Q14 from the previous quarter, the biggest one-quarter drop ever. The U.S. unemployment rate fell to 5.7 percent in 4Q14, also the lowest rate in over six years (Chart 4).

Among the five boroughs, Manhattan had the lowest unemployment rate (not seasonally adjusted) of 5.2 percent in 4Q14, the smallest fourth-quarter rate since 2007. Queens’ unemployment rate was 5.8 percent, Staten Island’s was 5.9 percent, Brooklyn’s was 6.9 percent, and the Bronx’ was 9.3 percent in 4Q14. All of those are the lowest fourth-quarter rates since 2008

The NYC and the U.S. unemployment rates averaged 7.3 and 6.2 percent respectively, in 2014. Both rates were the lowest since 2008.



Chart 4. Unemployment Rate, NYC, U.S. and NYC Less U.S., Quarterly (SA), 1Q76-4Q14



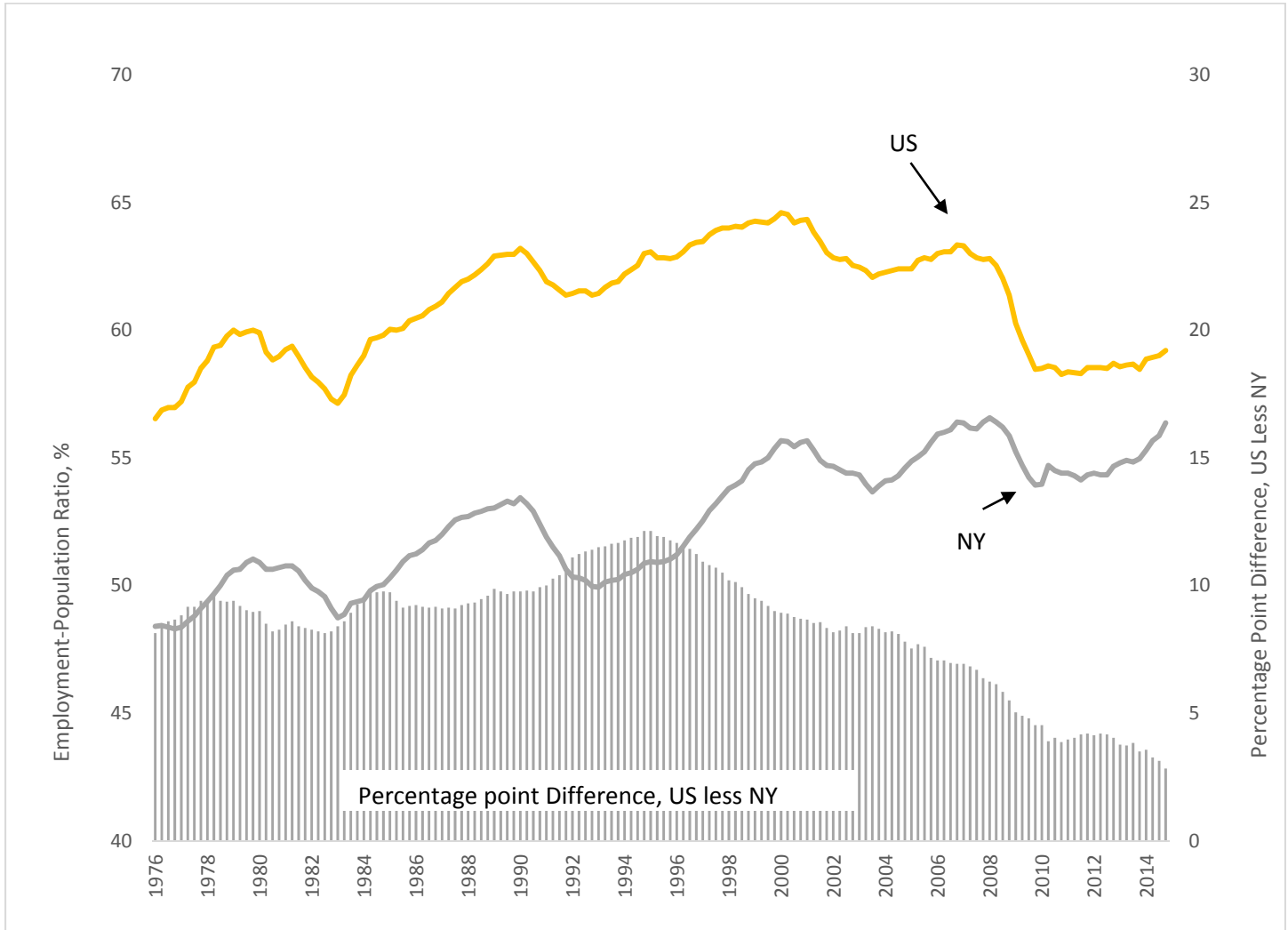
Source: U.S. Bureau of Labor Statistics (BLS) and NYS Department of Labor

The city’s lower unemployment rate is not necessarily contradictory with the lower number of payroll jobs recorded during the quarter. Payroll jobs represent employment in NYC establishments regardless of who holds them, while the city’s civilian employment measures the number of NYC residents with jobs, regardless of where those jobs are located. In fact, civilian employment increased by 40,700, the highest

quarterly gain ever. As a result, the city’s employment-to-population ratio rose to 56.4 percent in 4Q14, the highest level since 1Q08, although it is still below the nation’s ratio of 59.2 percent. Nevertheless, the spread between the U.S. and the city has fallen to an historical low of 2.8 percentage points (Chart 5).



Chart 5. Employment-Population Ratio, NYC, U.S. and NYC Less U.S., Quarterly (SA), 1Q76-4Q14



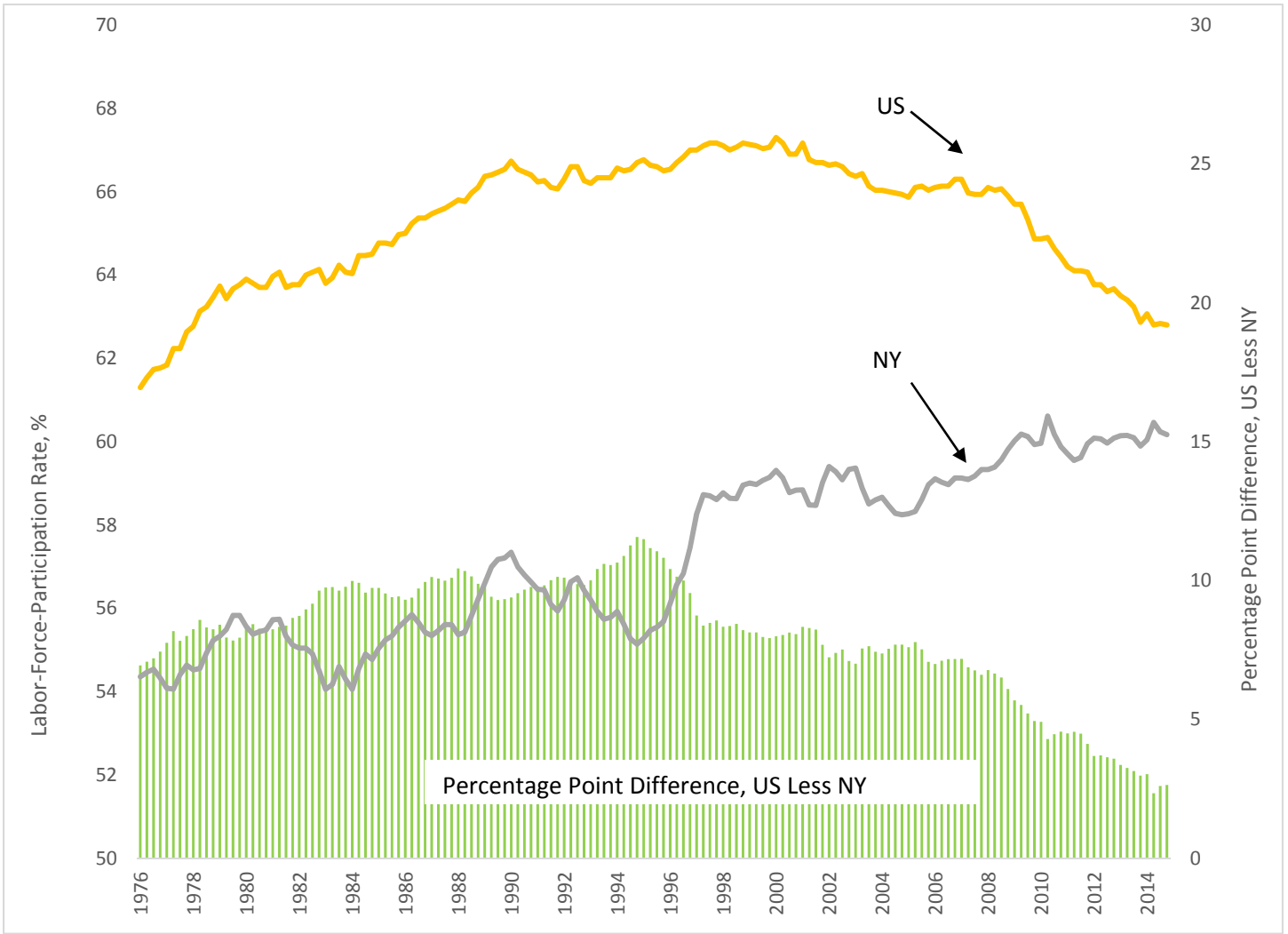
Source: U.S. Bureau of Labor Statistics (BLS) and NYS Department of Labor

The city’s labor force increased by 2,100 to over 4.1 million in 4Q14, the second highest level since 1976. The highest was in 2Q14. 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), was 60.2 percent in 4Q14, same as in 3Q14. The U.S. LFPR remained flat at 62.8 percent in 4Q14. The spread between the U.S. and the city’s LFPR has been declining for the past 20 years, reaching a record low in 2Q14. It remained unchanged in 4Q14 (Chart 6).

It is worth noting that while the city’s LFPR is hovering around a historical high, the national rate has been falling toward an historical low. In fact, the city’s LFPR reached a record high of 60.3 percent in 2014 while the US rate fell to 62.9 percent, its lowest since 1977. The increase to the city’s LFPR implies a more vibrant economy and changing demographic.



Chart 6. Labor-Force-Participation Rate, NYC, U.S. and NYC Less U.S., Quarterly (SA), 1Q76-4Q14



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

**Table 2: Fourth Quarter Economic Indicators Compared to 3Q14 and 4Q13**

		4Q14	3Q14	4Q13
County Unemployment Rate, NSA (Source: NYS DOL)	Bronx	9.3%	9.8%	11.2%
	Kings	6.9%	7.6%	8.8%
	New York	5.2%	5.7%	6.7%
	Queens	5.8%	6.2%	7.2%
	Richmond	5.9%	6.6%	7.2%
Commercial Vacancy Rate (Source: Cushman & Wakefield)	Midtown	9.8%	11.0%	11.2%
	Midtown South	7.1%	8.5%	8.6%
	Downtown	9.7%	9.0%	12.2%
	Manhattan Total	9.3%	10.2%	11.0%
Rental Rate (per sq ft) (Source: Cushman & Wakefield)	Midtown	\$75.14	\$73.72	\$69.52
	Midtown South	\$60.72	\$58.08	\$62.61
	Downtown	\$51.04	\$48.43	\$48.26
	Manhattan Total	\$67.70	\$66.62	\$63.40
Number of Apartment Sales (Source: Prudential Douglas Elliman)	Manhattan	2,718	3,328	3,297
	Brooklyn	1,697	2,077	1,752
	Queens	2,590	2,213	3,344
Case-Shiller Home Price Index, (Source: Moody's)	NY Metro Area	174.28*	173.84	171.78
	US 20-City Composite	172.04*	169.89	165.42
Hotel Industry (Source: PKF Consulting)	Average Daily Occupancy Rate	91.4%*	92.5%	90.2%
	Average Daily Room Rate	\$335.70*	\$294.90	\$339.70
MTA Average Weekday Ridership (Source: MTA)	NYC Transit	7,896,551	7,586,458	7,780,534
	Subway	5,736,769	5,513,022	5,593,294
	Bus	2,159,782	2,073,770	2,187,241
	Long Island Rail Road	306,145	303,597	297,099
	Metro North	297,209	293,196	287,736

\*Data includes October and November, excludes December

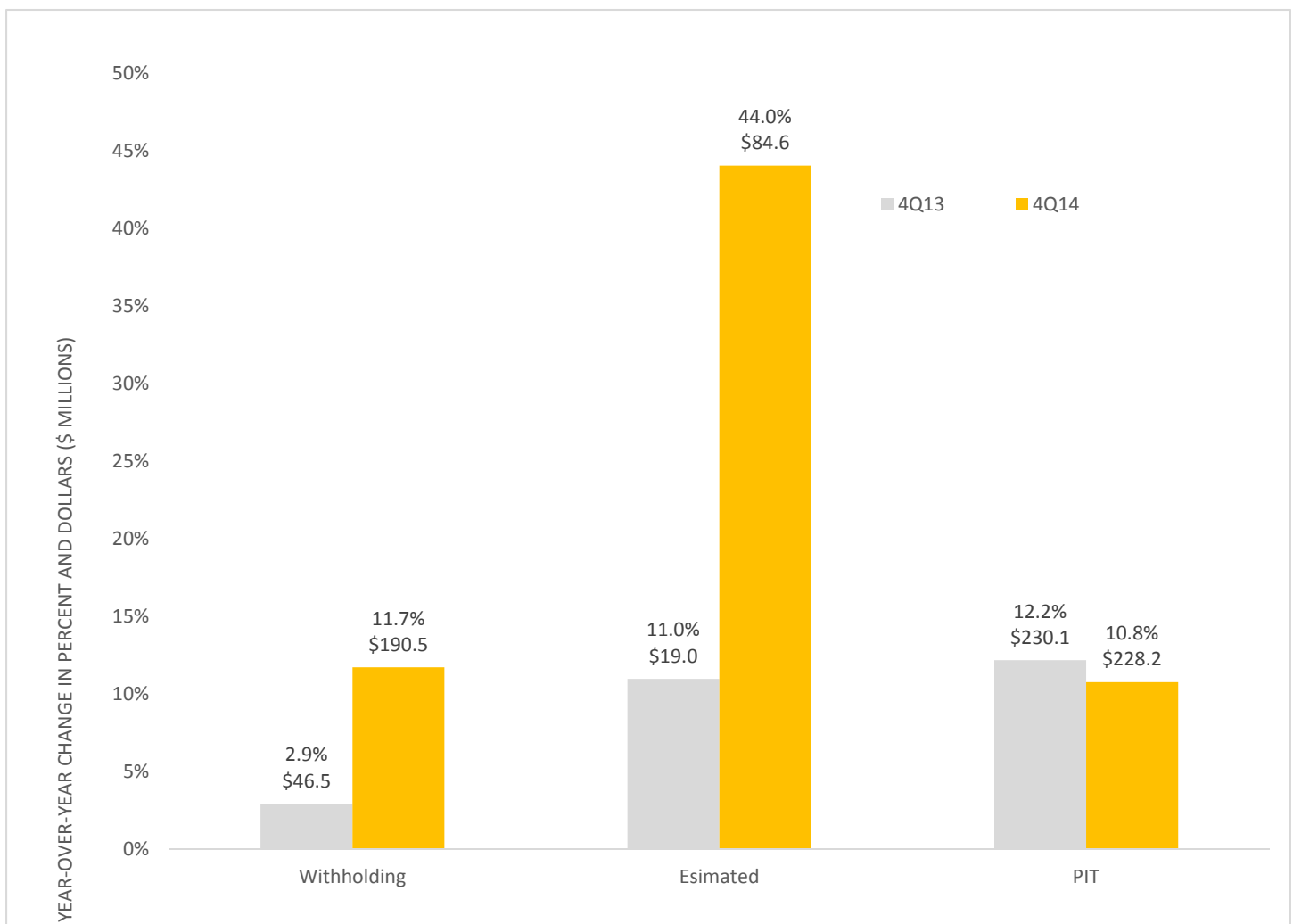


NYC personal income tax revenues rose 10.8 percent on a year-over-year basis to over \$2.3 billion in 4Q14, the highest fourth quarter level on record. The biggest components of personal income tax revenues are paycheck withholding and estimated tax payments. On a year-over-year basis, personal income taxes withheld from paychecks rose 11.7 percent to over \$1.8 billion in 4Q14, the highest fourth quarter since 1994. This reflects the city’s employment growth and possibly some redemptions of previously-awarded restricted stock bonuses. It may also indicate an improvement in wage rates and salaries, which have been stagnant through much of the recovery. Estimated tax payments, which reflect

changes in taxpayers’ asset values including estimates of interest earned, rental income, and capital gains, rose to \$277 million in 4Q14, 44 percent higher than \$192 million in 4Q13 (Chart 7).

The city’s estimated tax payments in 4Q14 were the highest in a fourth quarter since 2007. This could be due to some end-of-the-year profit taking, reflecting the future uncertainty regarding the financial markets. Issues like the end of the Federal Reserve Bank’s quantitative easing, sanctions on Russia, and the Middle East unrest were fueling those uncertainties.

**Chart 7. Changes in Personal Income Tax Revenues, Year-Over-Year, in Percent and Dollars, 4Q13 and 4Q14**



Source: NYC OMB

The Manhattan office vacancy rate, including sublease space, fell to 9.3 percent in 4Q14 from 11 percent in 4Q13, as reported by Cushman & Wakefield. On a year-over-year basis, all three major markets had lower vacancy rates.

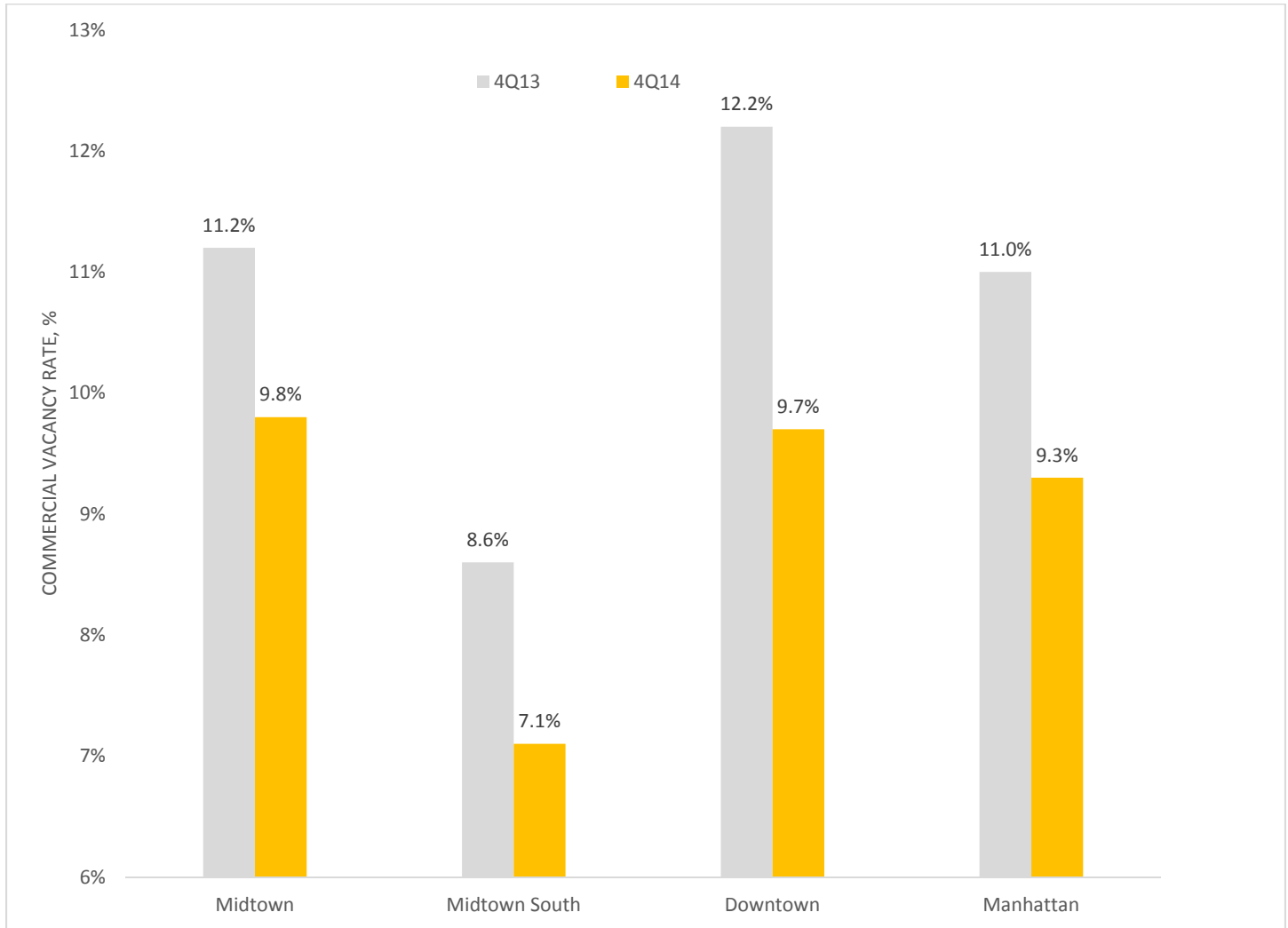
Downtown dropped 2.5 percentage points, Midtown dropped 1.4 percentage points, and Midtown South fell 1.5 percentage points.



New leasing activity in 4Q14 totaled almost 8.4 million square feet (msf), over 16 percent higher than 4Q13 and the best fourth quarter since 2004. As a result, leasing activity was about 32.8 msf in 2014, about 28 percent higher than 2013 and the highest level since 1998. Most of the new leasing in

4Q14 took place in Midtown (5.6 msf) followed by Midtown South (1.5 msf) and then Downtown (1.4 msf). Overall asking rents increased in all the submarkets except Midtown South (Chart 8 and 9).

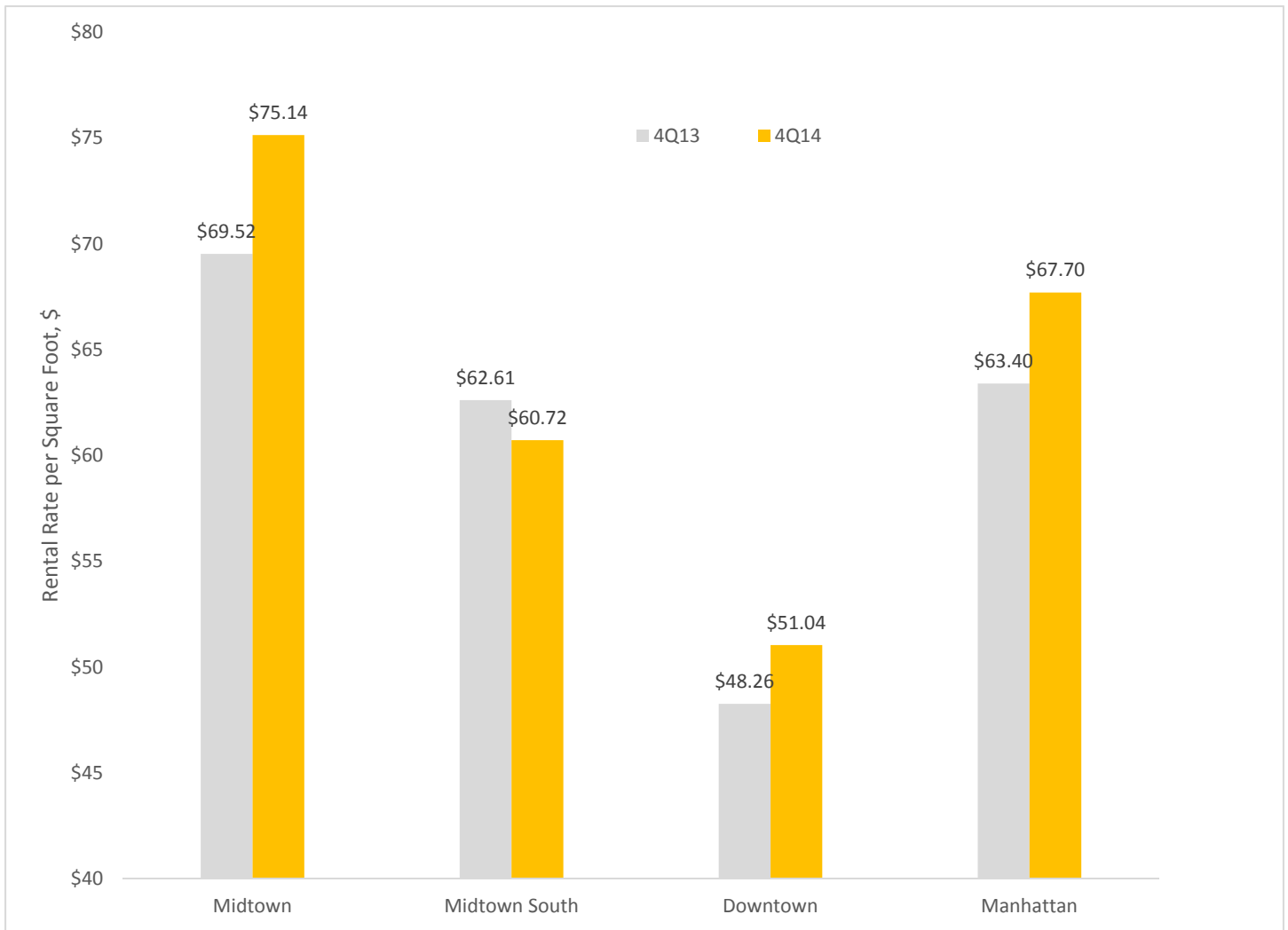
**Chart 8. Overall Commercial Vacancy Rates, 4Q14 and 4Q13**



Source: Cushman & Wakefield



Chart 9. Overall Commercial Rental Rate per Square Foot, 4Q14 and 4Q13



Source: Cushman &amp; Wakefield

**All price indicators for Manhattan, Brooklyn, and Queens condos and co-ops continued to rise, but the number of sales declined** according to a report from Prudential Douglas Elliman. In Manhattan, average sales price rose 13.1 percent to about \$1.7 million, while the average price per square foot rose 9.0 percent to \$1,284, and the median sales price rose 14.6 percent to \$980,000 in 4Q14 over 4Q13. However, the number of sales fell 17.6 percent, days on the market from last list date rose 10.5 percent, and listing inventory rose 20 percent in 4Q14, on a year-over-year basis.

The Brooklyn housing market also continued to do well. The median sales price rose 2.6 percent and the average sales price rose 9.9 percent compared to the same period of 2013. The listing inventory rose 77.7 percent and number of sales fell 3.1

percent in 4Q14 over 4Q13. However, days on market fell 20.4 percent.

The Queens condo and co-op market tracked Manhattan and Brooklyn. The average sales price rose 14.1 percent and median sales price rose 15.5 percent, but the number of sales fell 22.5 percent in 4Q14 over 4Q13 (Chart 10).

The firm reports that the number of 1- to 3-family homes sold in Brooklyn fell 28.4 percent and in Queens fell 6.5 percent in 4Q14 over 4Q13. The average sales price per square foot rose 25.7 percent in Brooklyn and 6.7 percent in Queens, compared to a year earlier.

According to the Case-Shiller index, the seasonally adjusted New York metro area home price index rose 0.3 percent in November 2014, on a month-over-month basis. It was the



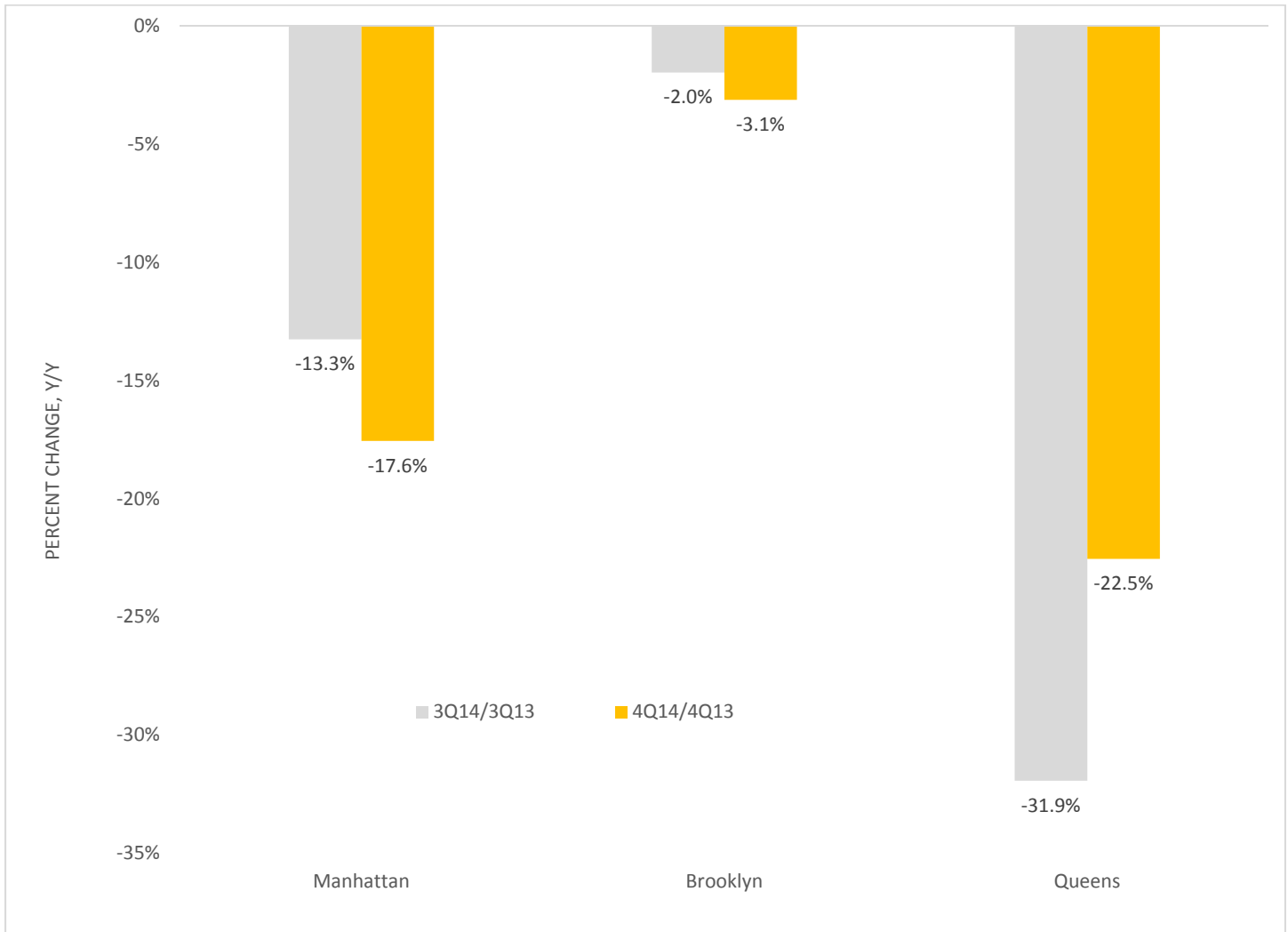
second consecutive month of increases and the biggest one-month gain since March 2014. As a result, the Case-Shiller index for the New York metro area has returned to its April 2014 level. On a year-over-year basis, New York metro area prices were up 1.5 percent in November, marking the slowest 12-month rate of increase since January 2013.

The U.S. 20-city composite index rose 0.7 percent in November, which was the fourth consecutive monthly

increase. This index rose 4.3 percent on a year-over-year basis, the smallest increase since October 2012.

As of November 2014, the New York metro area home price index was 8.3 percent higher than at its trough in March of 2012, but still 19.4 percent below its peak in May 2006. In comparison, the U.S. 20-city composite index was 26 percent higher than its trough, but 16.4 percent below its peak (Chart 11).

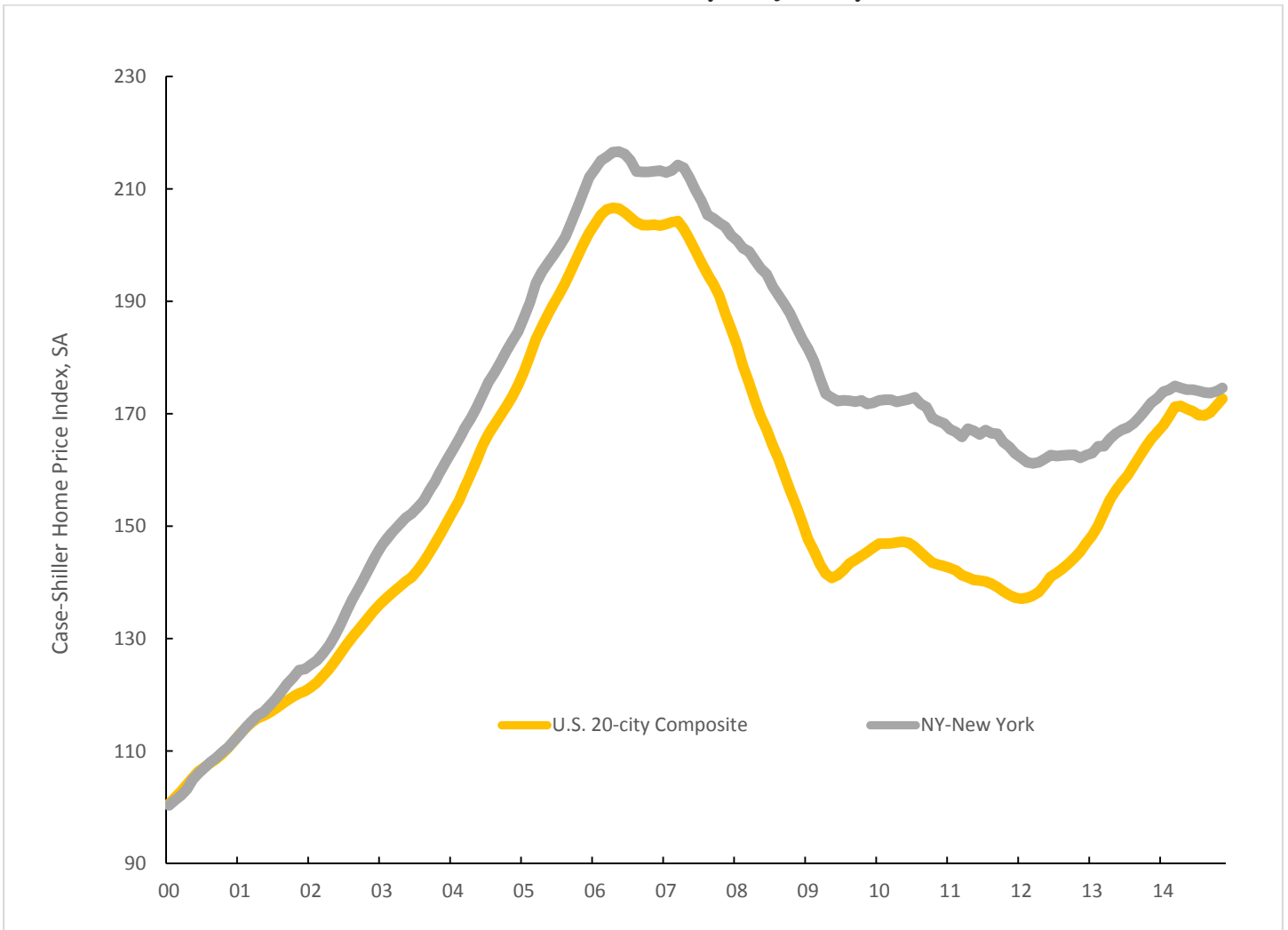
**Chart 10. Percent Change in the Number of Apartment Sales, Manhattan, Brooklyn, Queens, Year-over-Year, 3Q14 and 4Q14**



Source: Prudential Douglas Elliman



Chart 11. Case-Shiller Home Price Index, Monthly SA, January 20089 to November 2014



Source: Standard and Poor's

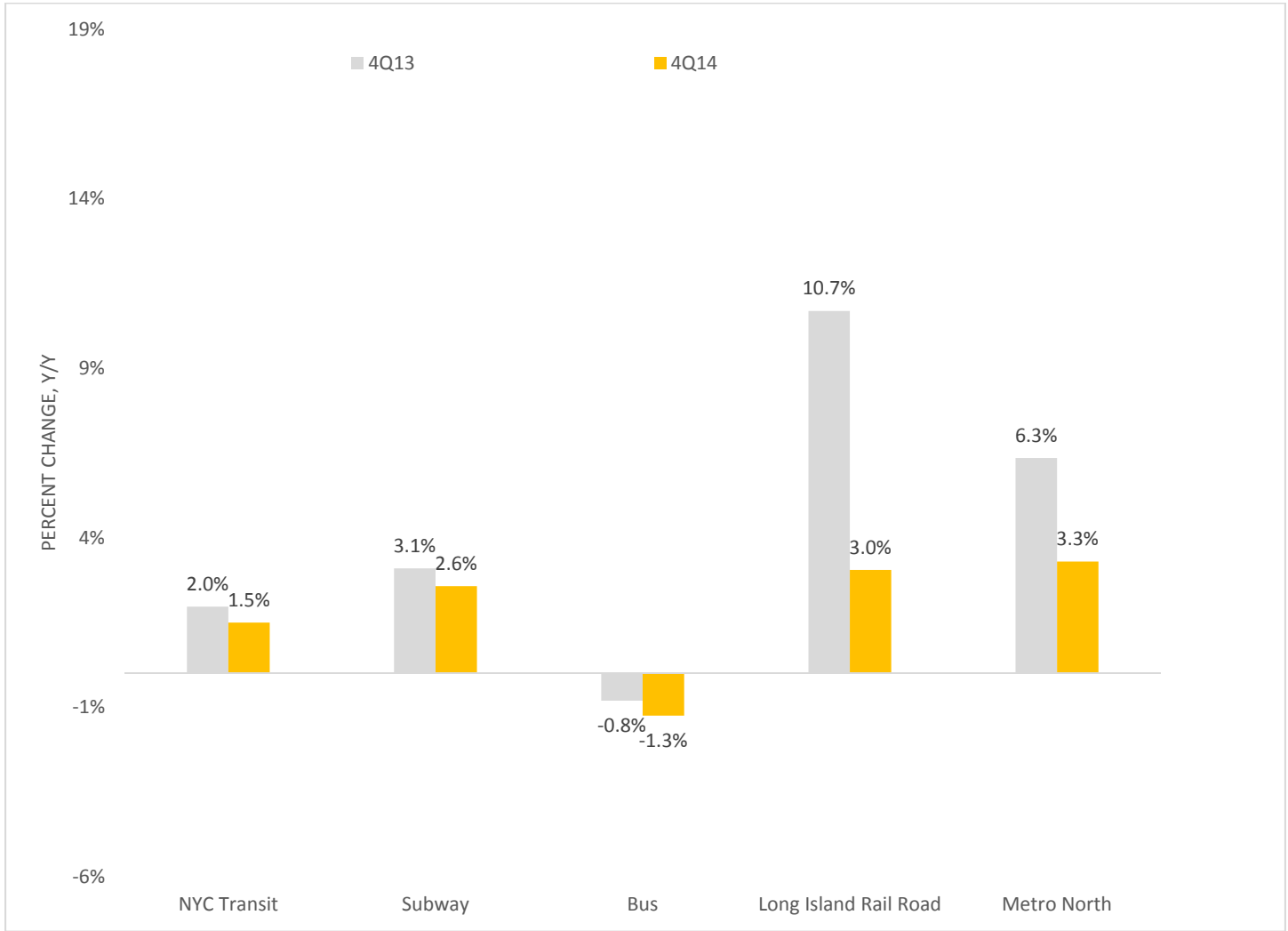
**The average weekday ridership on MTA NYC Transit rose 1.5 percent in 4Q14, on a year-over-year basis.** Average weekday subway ridership rose 2.6 percent, but bus ridership fell 1.3 percent, according to the MTA. Long Island

Rail Road ridership rose 3.0 percent and Metro North ridership rose 3.3 percent in 4Q14 over 4Q13 (Chart 12).

Higher ridership reflects the increase in the city's economic activities and employment.



**Chart 12. Changes in MTA Average Weekday Ridership, Percent, 4Q14 over 4Q13 and 4Q13 over 4Q12**



Source: Metropolitan Transportation Authority

**It was another strong quarter for the city’s hospitality industry as the average occupancy rate remains above 90 percent.** December numbers are not yet available, but according to the PKF consulting, the hotel occupancy rate in Manhattan averaged 91.4 percent in October-November of 2014, compared to 90.1 percent in 2013. The highest fourth-quarter average occupancy rate ever was 90.2 percent in 4Q13, but 4Q14 is shaping up to beat that. In general, any occupancy rate above 90 percent is viewed as very good and a sign of a thriving hospitality industry.

The average daily room rate rose on a year-over-year basis but remained below its all-time high of \$374 in 4Q07. The hotel average daily room rate was \$336 in October-November of 2014, compared to \$334 in 2013.

Despite a large increase in room supply in recent years, the average hotel occupancy rate was 89.1 percent and the average daily room rate was \$290 in the first 11 months of 2014, compared with 88.1 percent and \$284 in 2013.

Milder weather and more visitors helped Broadway show ticket sales and attendance. According to the Broadway League, total gross weekly Broadway ticket sales were about \$373 million in 4Q14, higher than both 3Q14 (\$315.5 million) and 4Q13 (\$341.8 million). Similarly, total attendance was about 3.5 million in 4Q14, higher than both 3Q14 (3 million) and 4Q13 (3.2 million).



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