



NYC Quarterly Economic Update

Office of the New York City Comptroller

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BUREAU OF FISCAL & BUDGET STUDIES

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First Quarter of 2015 - Deja Vu of 1Q14

Overview: New York City's economy continued to thrive while the U.S. economy remained flat in the first quarter of 2015. The pattern is reminiscent of 2014, when a dip in national economic growth was also attributed to harsh winter weather. In 1Q15, the city added over 30,000 new jobs (an increase of 3.0 percent), while the labor-force-participation rate and the employment-population ratio hit record highs, venture capital investment reached its highest level in 14 years, and Manhattan office vacancy rates plunged.

**Table 1: First Quarter of 2015 Key Economic Indicators
NYC Compared with U.S. for 4 Q14 and 1Q14**

		1Q15	4Q14	1Q14
GCP/GDP Growth, SAAR	NYC	3.5%	2.9%	1.9%
	U.S.	0.2%	2.2%	-2.1%
Payroll-Jobs Growth, SAAR	NYC	3.0%	1.2%	2.2%
	U.S.	2.2%	2.5%	1.6%
PIT Withheld, Growth, NSA	NYC	3.3%	11.7%	10.3%
	U.S.	4.9%	8.2%	9.6%
Inflation Rate, NSA	NYC	-0.2%	0.8%	1.4%
	U.S.	-0.1%	1.2%	1.4%
Unemployment Rate, SA	NYC	6.6%	6.5%	7.9%
	U.S.	5.6%	5.7%	6.6%

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

Real gross city product (GCP) grew at an estimated annual rate of 3.5 percent in 1Q15 even as national economic growth stalled. The U.S. economy grew only 0.2 percent (advance estimate) in 1Q15, continuing the weak winter pattern of recent years.

The strong GCP growth in 1Q15 reflects strong venture capital investment and a resilient labor market. In addition, moderate increases in personal income tax withholdings and residential and commercial real estate activities helped growth in the quarter.

The U.S. economy started the year on a weak note. The most plausible explanations are the harsh winter weather, the strong dollar, and the West Coast port slowdown. In addition, since the recovery began first quarters have been notably weak, it is possible that seasonal patterns of business and consumer activity have changed, and those changes may not be fully taken into account in the seasonal adjustment calculations.

A 1.5 percent decline in state and local government expenditures and 0.7 percent drop in national defense expenditures also slowed the economy in the first quarter. Real government consumption expenditures and gross



investment had declined for four straight years and did so again in 1Q15. The portion of federal, state and local government expenditures that comprise the GDP were lower in 1Q15, adjusted for inflation, than they were six years earlier.

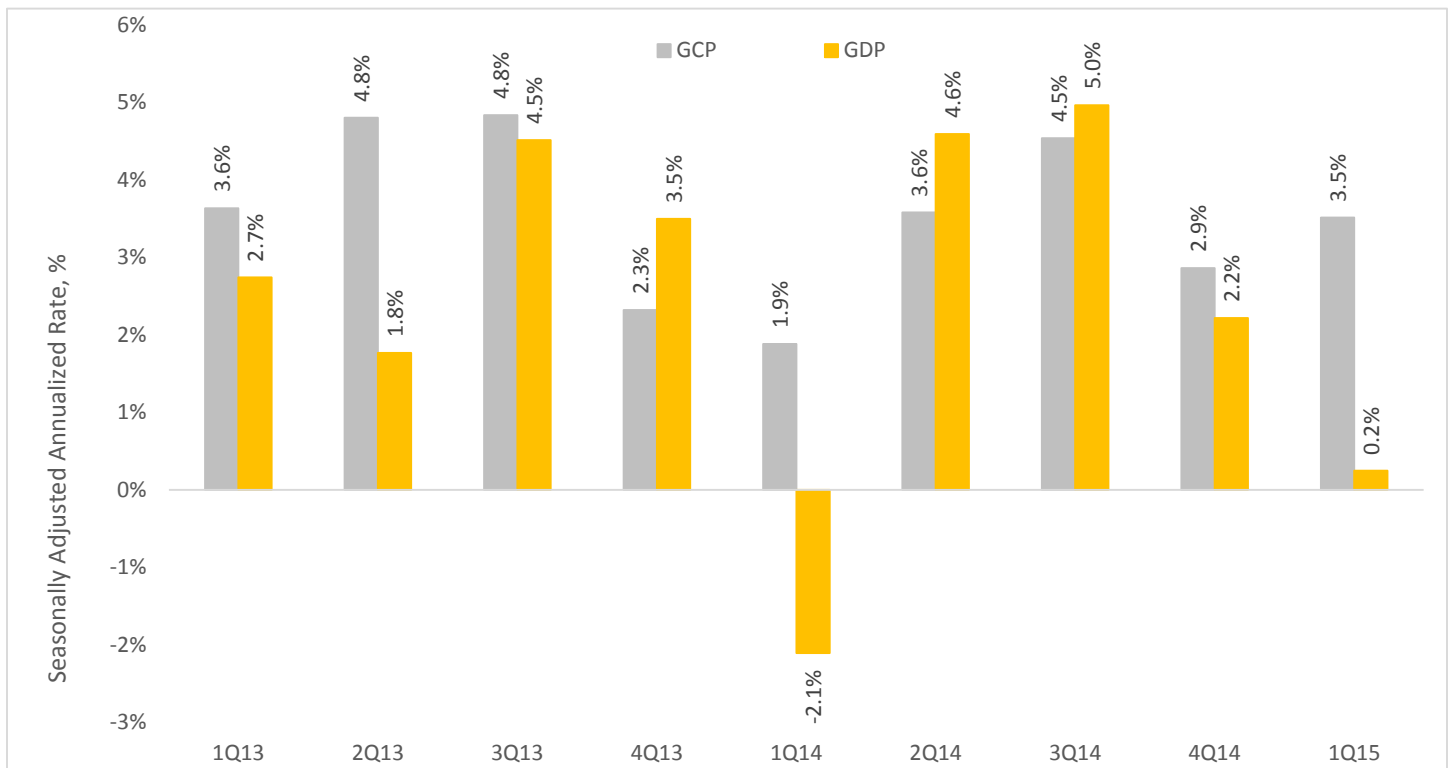
Consumer spending and private investment grew by 1.9 and 2.0 percent, respectively, at seasonally-adjusted annual rates (SAAR). Both figures were below their recent trend rates of growth. Despite lower energy prices and growing employment, consumers have spent money cautiously. In 1Q15, the rate of increase in consumer

spending on durable goods was the lowest since 2011, while the savings rate increased to 5.5 percent, the highest since 2012.

Growth in private investment was held back by a 23 percent drop in spending on nonresidential structures (commercial real estate), which, deducted 0.75 percentage points from GDP growth. Automation and online purchasing could be the reasons for the weak growth.

The city's GCP accounted for slightly more than 4.0 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 1Q15



Source: BEA and NYC Comptroller

Venture capital investment in the New York metro area (NYMA) soared in 1Q15. On a year-over-year basis, venture capital investment in the NYMA rose 45.2 percent to about \$1.4 billion, the highest first-quarter level in 14 years (Chart 2). However, the number of venture capital deals fell 13.4 percent to 103 in 1Q15 from 119 in 1Q14, indicating that the average size of deals is getting larger.

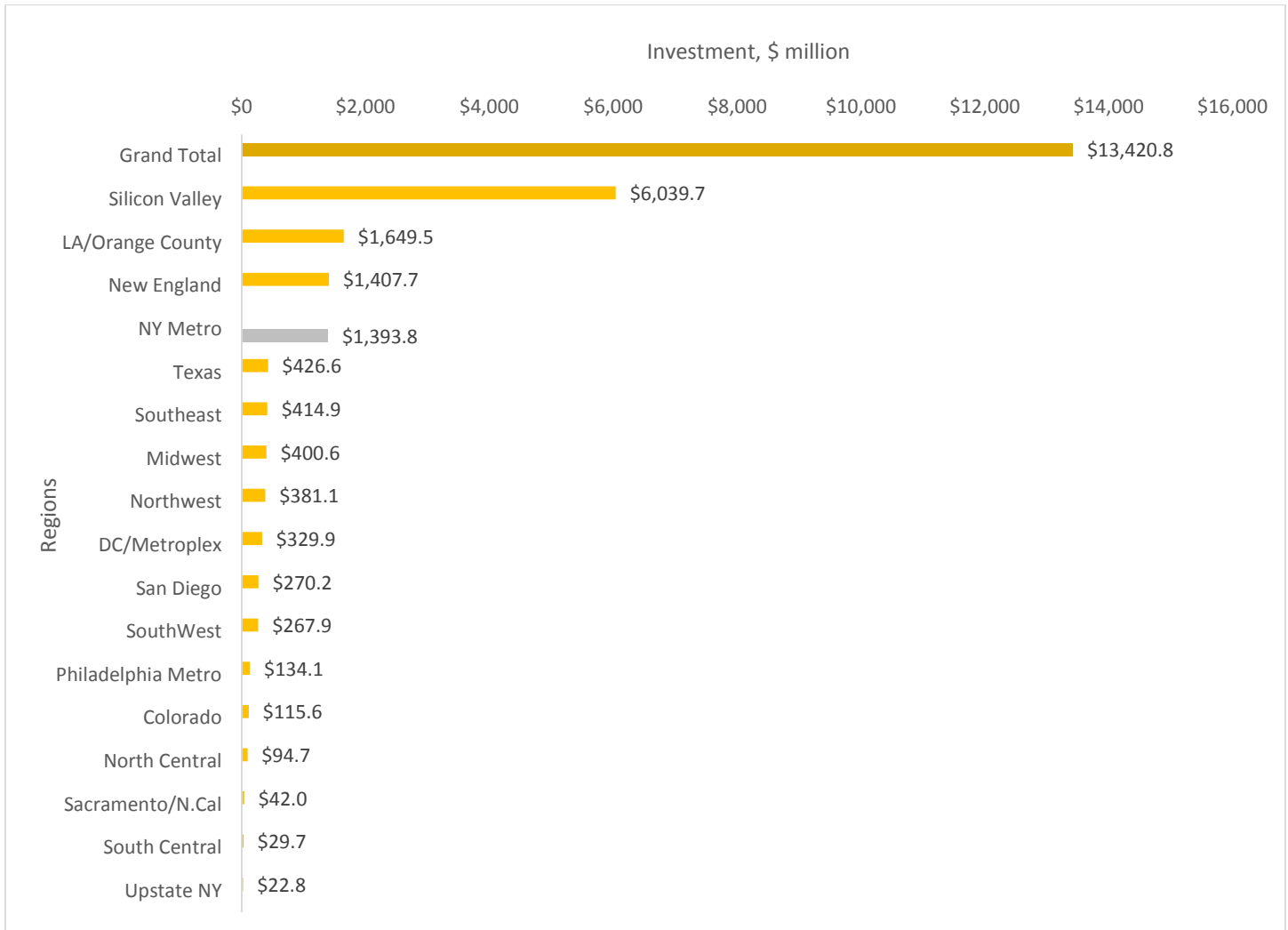
The NYMA share of venture capital investment also increased. Of the \$13.4 billion of national venture capital

investment in 1Q14, 10.4 percent was in the NYMA, compared with 9.0 percent in 1Q14. In contrast, Silicon Valley's share of total investment fell to 45 percent in 1Q15 from 53.4 percent a year earlier.

Venture capital investment in New York State increased 75.6 percent to over \$1.3 billion in 1Q15 from \$0.7 billion in 1Q14. However, similar to the NYMA, the number of deals in New York State fell to 96 in 1Q15 from 111 in 1Q14.



Chart 2. Venture Capital Investment by Regions, 1Q15



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

New York City’s private-sector added 31,300 jobs, or 3.5 percent (seasonally adjusted annualized rate) in 1Q15, almost three times the 10,600 increase in 4Q14. The nation’s total private jobs grew 2.6 percent (SAAR) in 1Q15, slightly less than 2.8 percent in 4Q14 (Chart 3).

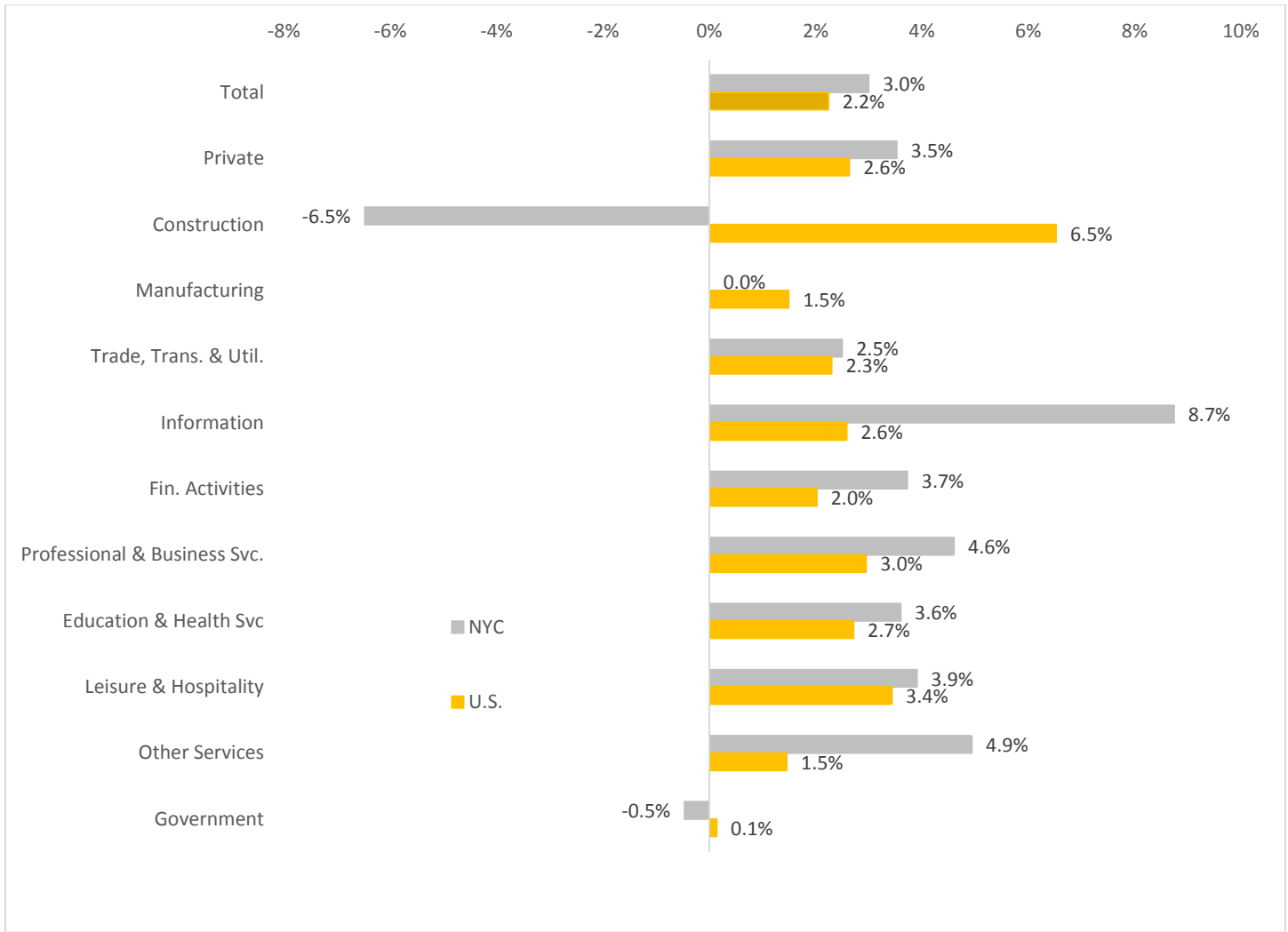
Except for construction and manufacturing, all sectors posted gains. Furthermore, over half of the new private-sector jobs were in high-wage sectors. Sectors that added jobs were professional and business services (+7,700), education and health services (+7,600), financial activities (+4,100), leisure and hospitality (+4,000), information (+3,900), and trade,

transportation and utilities (+3,900). Construction lost 2,100 jobs which could be due to the cold weather, a possible slowdown in construction activity, or a greater use of informal workers who are not reported.

Although the national recession ended in 2Q09, payroll jobs continued falling until 1Q10. Since the trough in 1Q10, total national jobs have increased 8.7 percent while the city’s total jobs have increased 13.2 percent (a gain of 485,000). Similarly, U.S. private-sector jobs have increased 11.1 percent since 1Q10, while the city has gained 16 percent, or almost half a million private-sector jobs.



Chart 3. Percent Change in Payroll-Jobs, NYC and the U.S., SAAR, 1Q15 over 4Q14



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

NYC’s unemployment rate, adjusted for seasonality, rose to 6.6 percent in 1Q15 from 6.5 percent in 4Q14. However, the U.S. unemployment rate fell to 5.6 percent in 1Q15, the lowest rate in almost seven years (Chart 4).

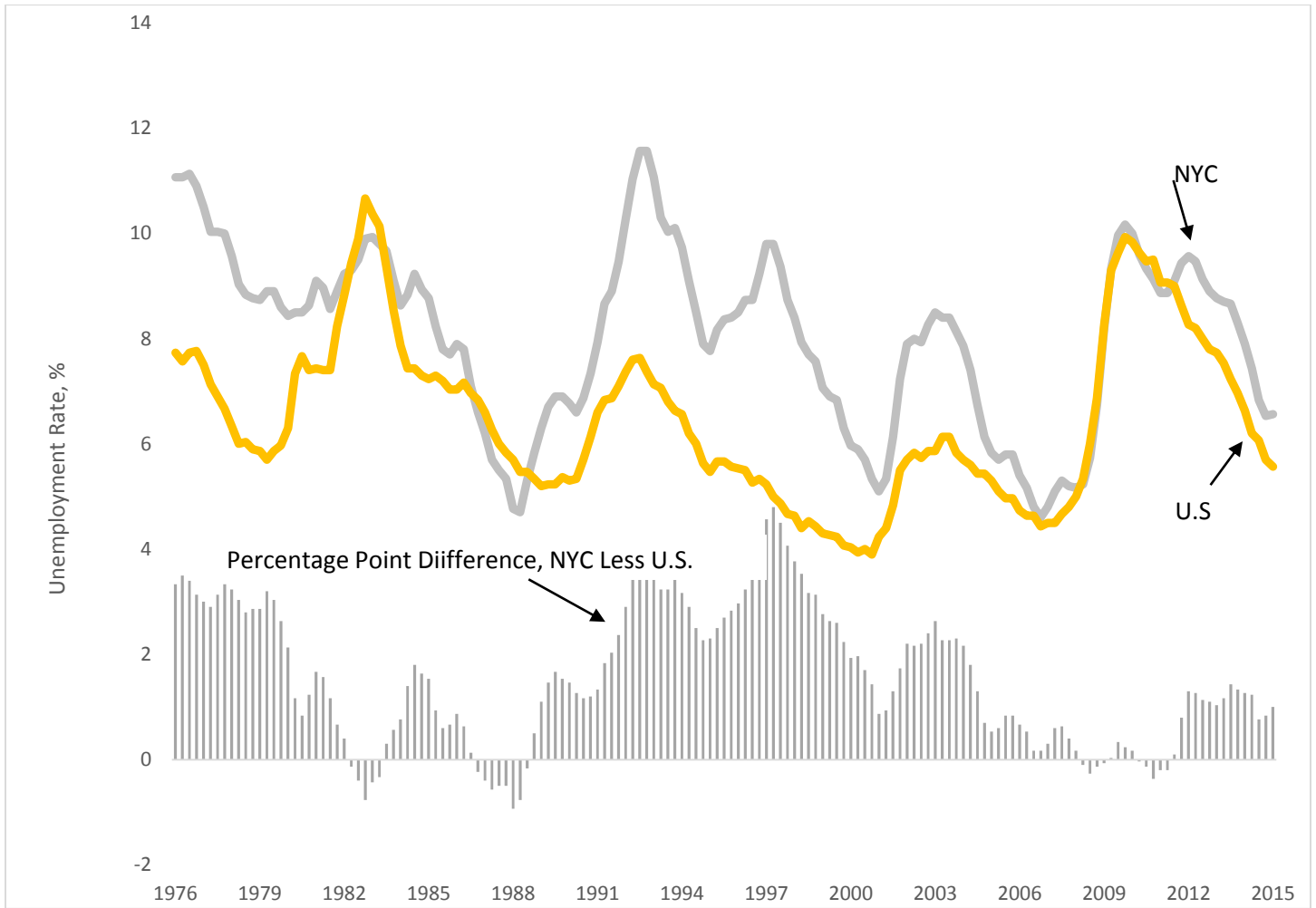
The city’s higher unemployment rate represented 3,100 more unemployed residents in 1Q15, compared to 4Q14, the first quarterly increase in over a year. This is not an inherently negative development. Rather, it is an indication that more

previously-discouraged residents are re-joining the labor force.

Among the five boroughs, Manhattan had the lowest unemployment rate (not seasonally adjusted) at 5.8 percent. Queens’ unemployment rate was 6.2 percent, Staten Island’s was 6.9 percent, Brooklyn’s was 7.2 percent, and the Bronx’ was 9.4 percent in 1Q15. All of those are the lowest first-quarter rates since 2008.



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



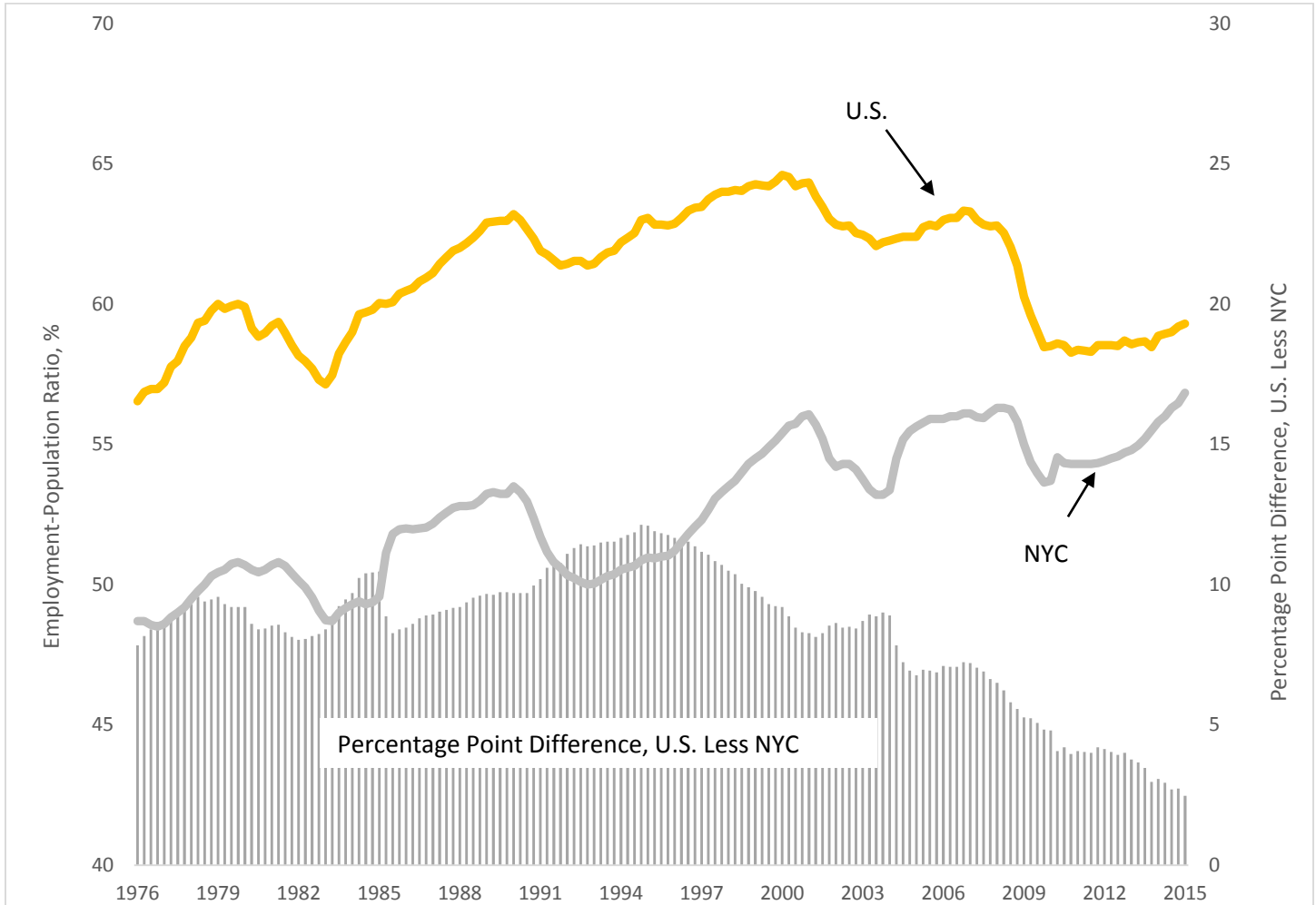
Source: U.S. Bureau of Labor Statistics (BLS) and NYS Department of Labor

The city’s increase in both its unemployment rate and payroll jobs in 1Q15 do not necessarily contradict each other. Payroll jobs represent employment in NYC establishments regardless of where the employee resides, while the city’s civilian employment measures the number of employed NYC residents, regardless of where their jobs are located. In fact,

civilian employment increased by 32,300, the highest quarterly gain in over a decade. As a result, the city’s employment-to-population ratio rose to a record high of 56.8 percent in 1Q15, although it is still below the nation’s ratio of 59.3 percent. Nevertheless, the spread between the U.S. and the city has fallen to a historical low of 2.5 percentage points (Chart 5).



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



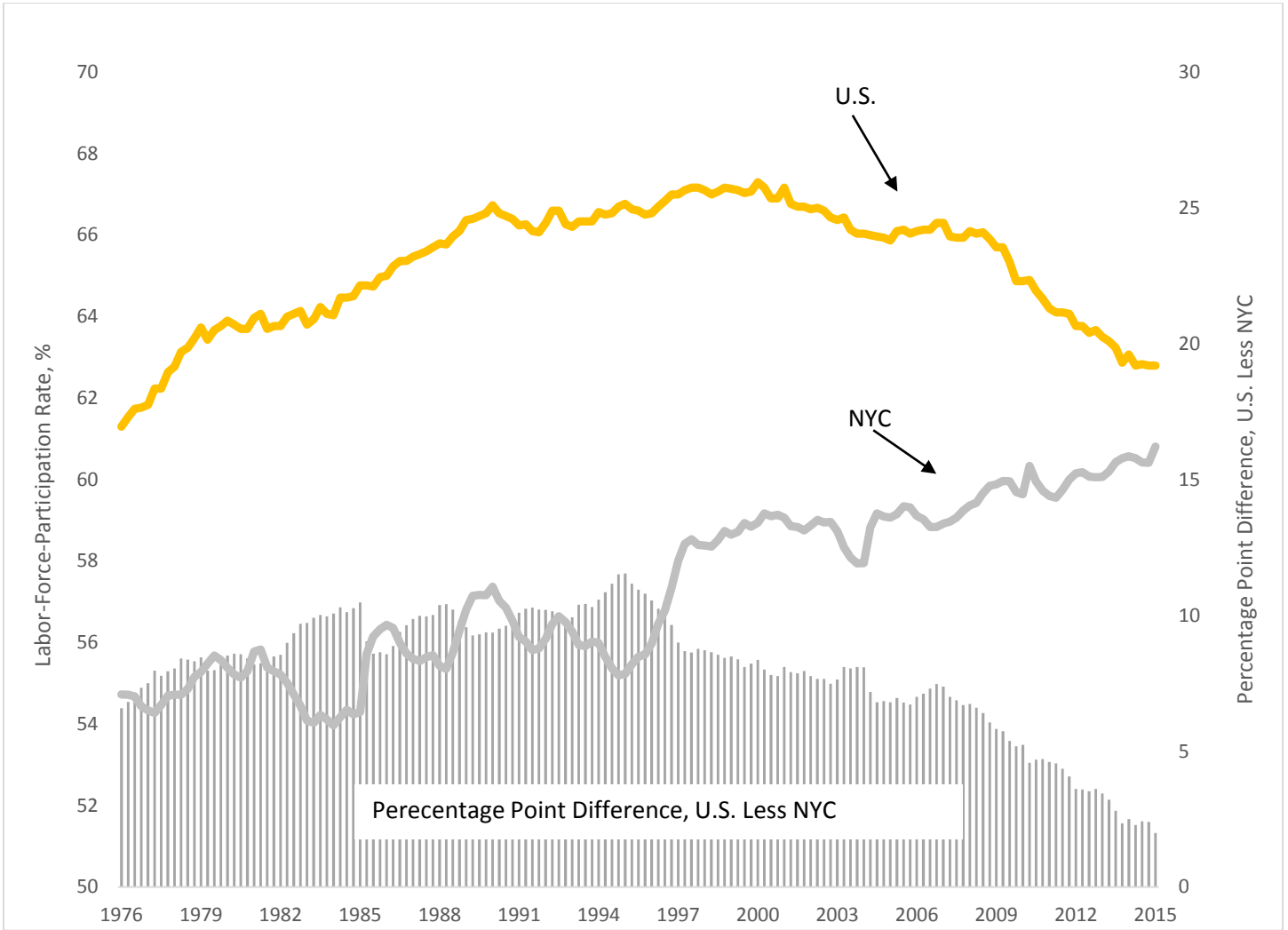
Source: U.S. Bureau of Labor Statistics (BLS) and NYS Department of Labor

The city’s labor force increased by 35,400 to about 4.2 million in 1Q15, the highest level since 1976. 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 60.8 percent in 1Q15. The U.S. LFPR remained unchanged at 62.8 percent in 1Q15, which is the lowest since 1Q78. The spread between the U.S. and the city’s LFPR reached a record low in 1Q15 (Chart 6).

It is worth noting that while the city’s LFPR keeps trending upward, the national rate has been falling toward a historical low. The increase to the city’s LFPR implies a more vibrant economy, more previously-discouraged NYC residents joining the labor force, and a changing demographic composition of the population.



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



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



Table 2: First Quarter Economic Indicators Compared to 4Q14 and 1Q14

		1Q15	4Q14	1Q14
County Unemployment Rate, NSA (Source: NYS DOL)	Bronx	9.4%	8.8%	11.2%
	Kings	7.1%	6.8%	8.8%
	New York	5.8%	5.4%	6.9%
	Queens	6.2%	5.7%	7.3%
	Richmond	6.9%	6.5%	8.2%
Commercial Vacancy Rate (Source: Cushman & Wakefield)	Midtown	9.4%	9.8%	11.1%
	Midtown South	7.0%	7.1%	7.9%
	Downtown	10.4%	9.7%	11.2%
	Manhattan Total	9.2%	9.3%	10.5%
Rental Rate (per sq ft) (Source: Cushman & Wakefield)	Midtown	\$75.44	\$75.14	\$70.06
	Midtown South	\$63.28	\$60.72	\$60.02
	Downtown	\$49.12	\$51.04	\$49.12
	Manhattan Total	\$69.39	\$67.70	\$63.96
Number of Apartment Sales (Source: Prudential Douglas Elliman)	Manhattan	2,661	2,718	3,307
	Brooklyn	1,507	1,697	1,572
	Queens	2,567	2,590	3,156
Case-Shiller Home Price Index (Source: Moody's)	NY Metro Area	177.95*	174.77	174.05*
	US 20-City Composite	176.56*	172.71	168.54*
Hotel Industry (Source: PKF Consulting)	Average Daily Occupancy Rate	75.9%*	91.0%	79.2%*
	Average Daily Room Rate	\$225.80*	\$337.40	\$239.80*
MTA Average Weekday Ridership (Source: MTA)	NYC Transit	7,296,920*	7,897,637	7,264,864*
	Subway	5,339,594*	5,737,292	5,300,709*
	Bus	1,957,326*	2,160,345	1,964,156*
	Long Island Rail Road	284,336*	306,221	279,825*
	Metro North	264,846*	287,209	269,905*

*Data includes January and February, excludes March



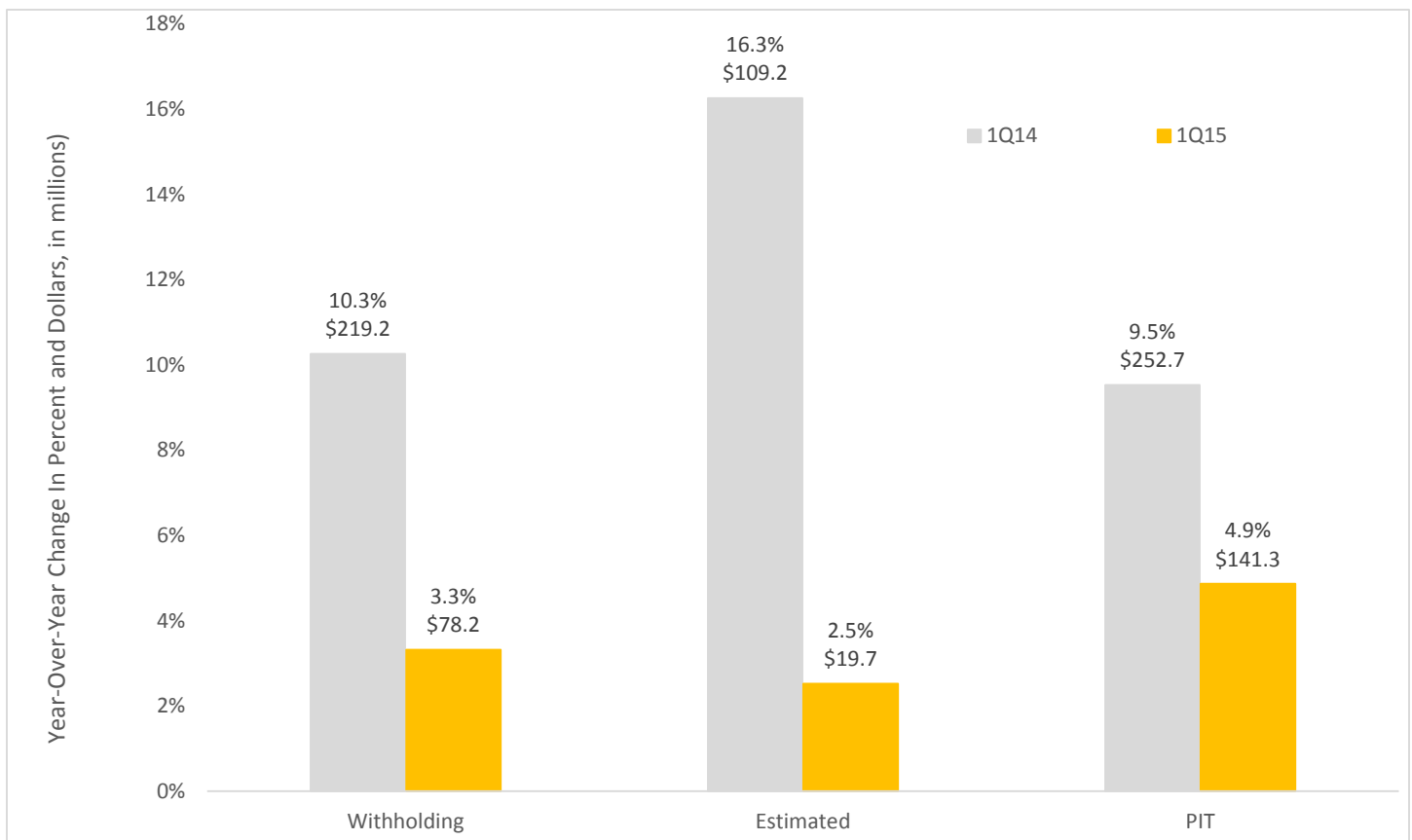
NYC personal income tax (PIT) revenues rose 4.9 percent on a year-over-year basis to over \$3 billion in 1Q15, the highest first quarter level on record. The biggest components of personal income tax revenues are paycheck withholding and estimated tax payments.

On a year-over-year basis, personal income taxes withheld from paychecks rose 3.3 percent to over \$2.4 billion in 1Q15, the highest first quarter on record. The year-over-year growth rate, however, was surprisingly low considering the increase in employment during the same period of time. Although the

total Wall Street bonus pool is not believed to have declined, there may have been some shifting of bonus payments to late 2014, as year-over-year PIT withholding in 4Q14 increased 11.7 percent.

Estimated tax payments, which reflect changes in taxpayers' asset values, including estimates of interest earned, rental income, and capital gains, rose to \$801 million in 1Q15, 2.5 percent higher than \$781 million in 1Q14. The city's estimated tax payments in 1Q15 were the highest first quarter on record (Chart 7).

Chart 7. Changes in Personal Income Tax Revenues, in Percent and Dollars (millions), 1Q14 over 1Q13 and 1Q15 over 1Q14



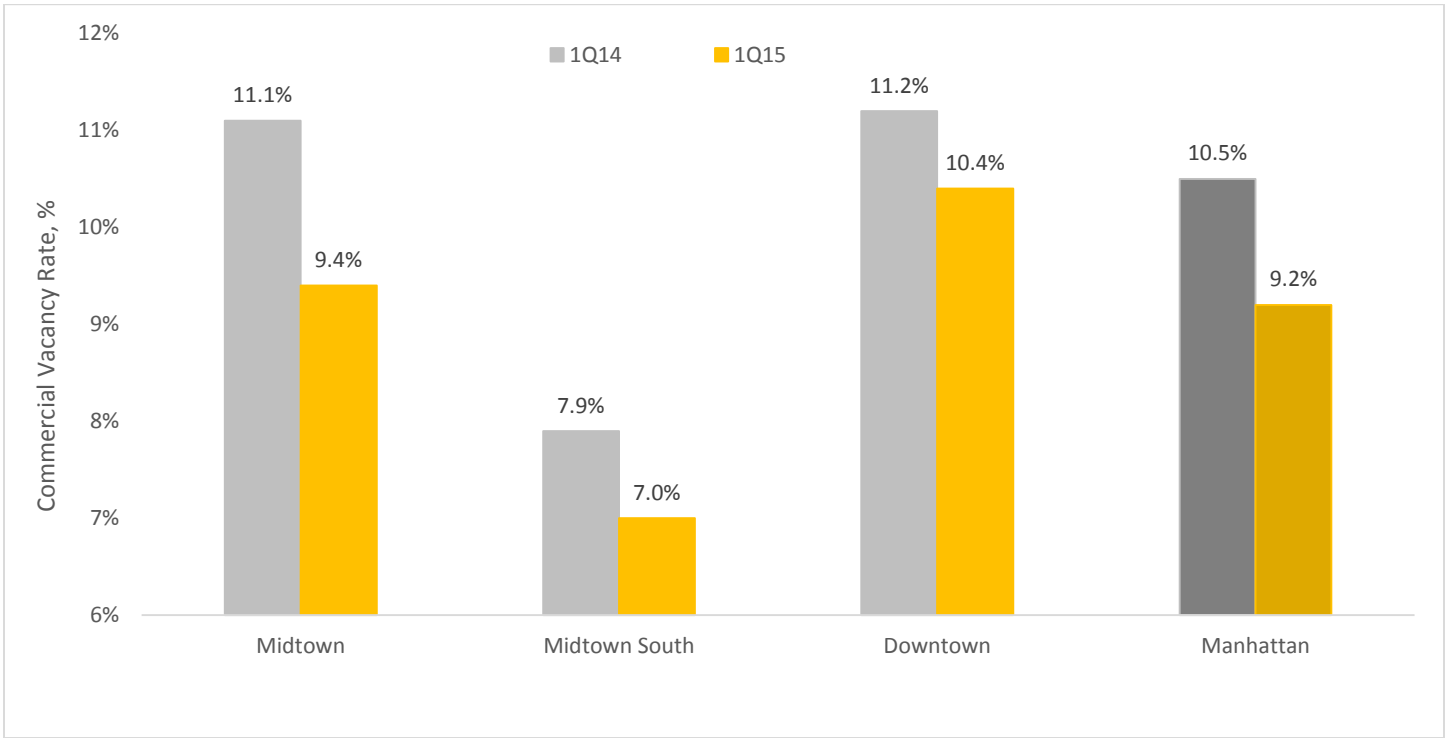
Source: NYC OMB

The Manhattan office vacancy rate, including sublease space, fell to 9.2 percent in 1Q15 from 10.5 percent in 1Q14, as reported by Cushman & Wakefield. On a year-over-year basis, all three major submarkets had lower vacancy rates. The Midtown vacancy rate dropped 1.7 percentage points, Midtown South's fell 0.9 percentage points, and Downtown's dropped 0.8 percentage points.

New leasing activity in 1Q15 totaled almost seven million square feet (msf), the lowest first-quarter level in two years, but still above average. Most of the new leasing in 1Q15 took place in Midtown (4.8 msf) followed by Midtown South (1.1 msf) and then Downtown (1 msf). Overall asking rents increased in all the submarkets (Chart 8 and 9).

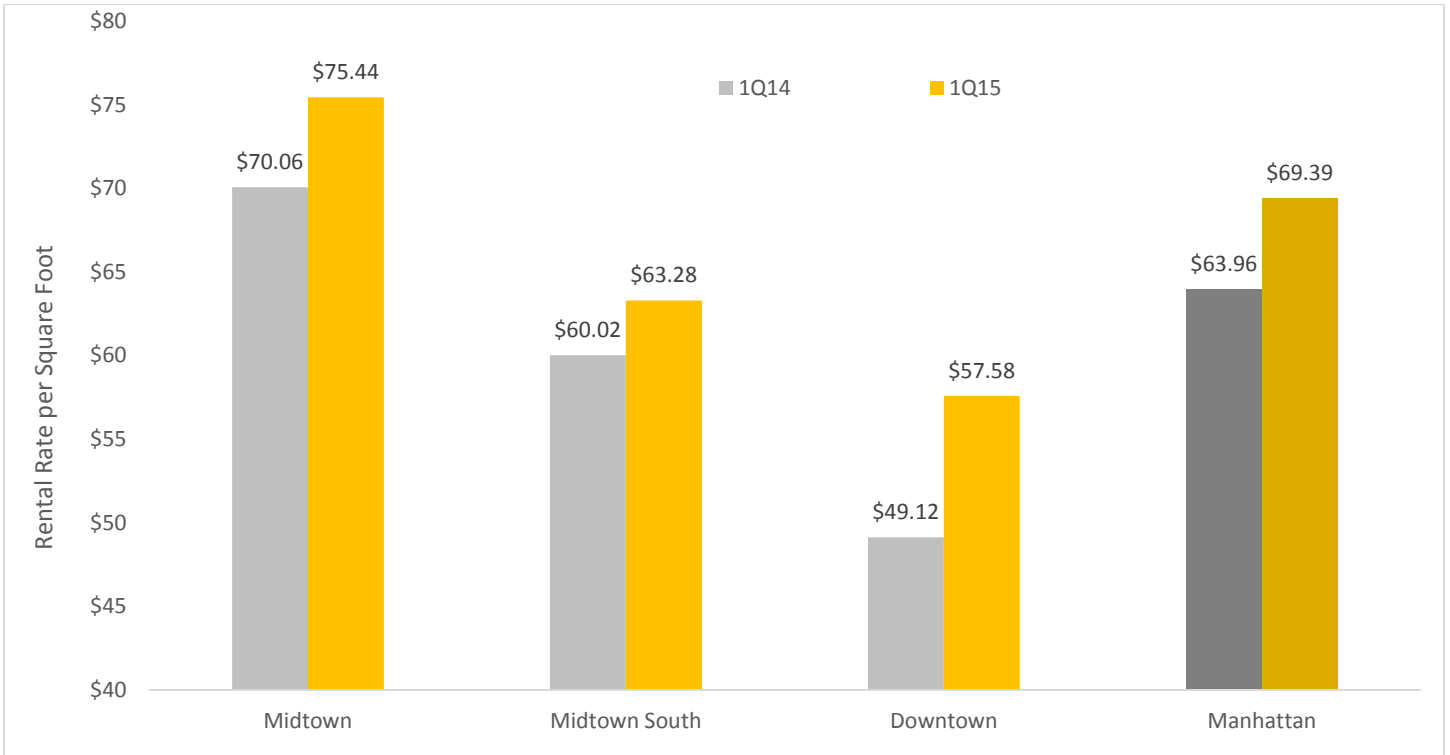


Chart 8. Overall Commercial Vacancy Rates, 1Q15 and 1Q14



Source: Cushman & Wakefield

Chart 9. Overall Commercial Rental Rate per Square Foot, 1Q15 and 1Q14



Source: Cushman & Wakefield



Manhattan, Brooklyn, and Queens condo and co-op prices were mixed, but the number of sales declined, according to a report from Prudential Douglas Elliman. In Manhattan, the average sales price during the first quarter fell 2.3 percent to \$1.7 million, while the average price per square foot fell 7.3 percent to \$1,263, and the median sales price fell 0.2 percent to \$970,000, compared to 1Q14. Also, the number of sales (closed) fell 19.5 percent. Days on the market from last list date fell 13 percent and listing inventory rose 5.5 percent in 1Q15, on a year-over-year basis.

The Brooklyn housing market continued to do well. In 1Q15, the median sales price rose 17.5 percent and the average sales price rose 10 percent, compared to 1Q14. Listing inventory rose 5.8 percent, but number of sales fell 4.1 percent in 1Q15 over 1Q14. However, days on market fell 14.5 percent.

Prices in the Queens' condo and co-op market tracked Brooklyn. The average sales price rose 14.6 percent and median sales price rose 20.7 percent, but the number of sales fell 18.7 percent in 1Q15 over 1Q14 (Chart 10).

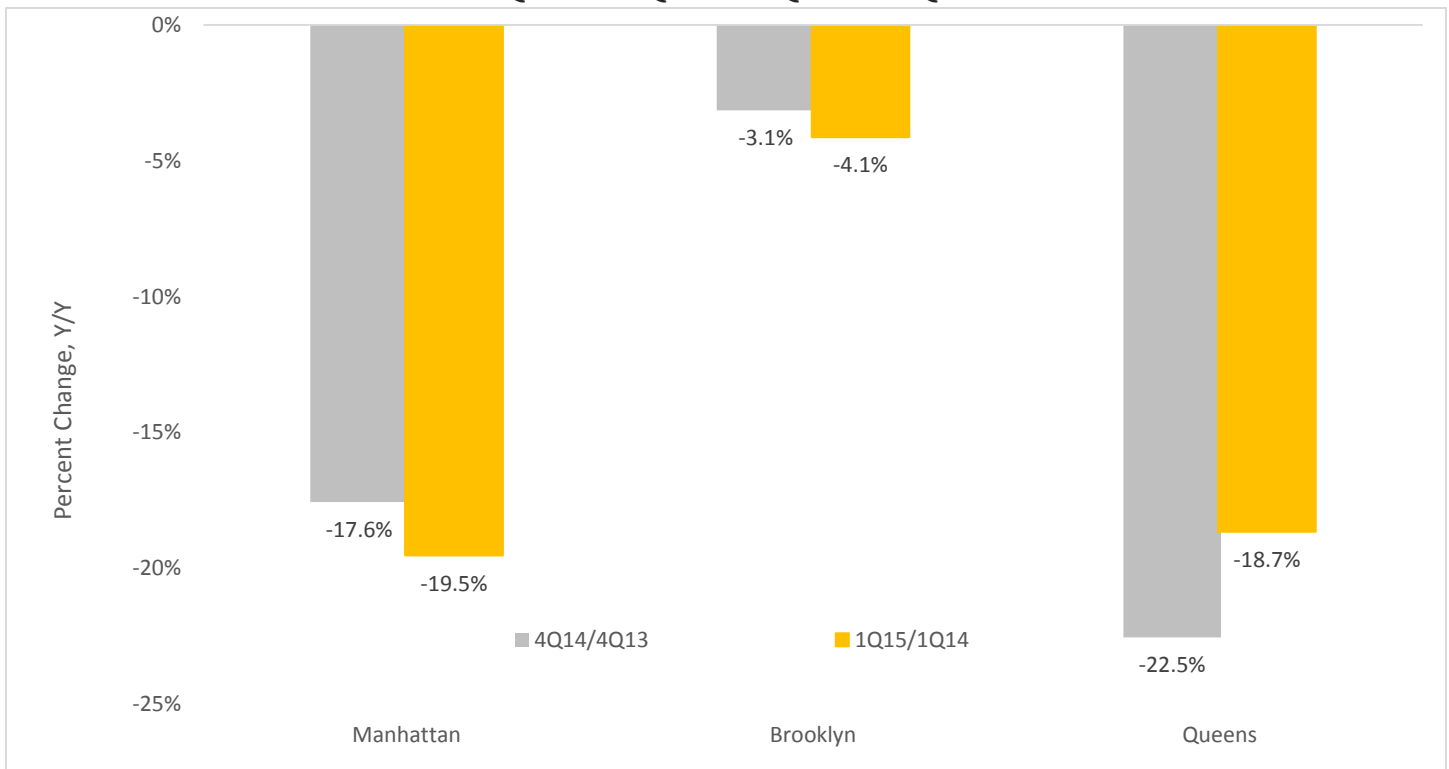
Prudential Douglas Elliman reports that the number of 1- to 3-family homes sold in Brooklyn fell 5.7 percent and in Queens fell 1.8 percent in 1Q15 over 1Q14. The average sales price per square foot rose 18 percent in Brooklyn and 5.9 percent in Queens, compared to a year earlier.

According to the Case-Shiller index, the seasonally adjusted New York metro area home price index rose 0.7 percent to 178.58 in February 2015, the highest level since February 2009. On a year-over-year basis, New York metro area prices were up 2.5 percent in February.

The U.S. 20-city composite index rose 0.9 percent in February to 177.38, which was the highest level since February 2008. This index rose 5.0 percent on a year-over-year basis.

As of November 2014, the New York metro area home price index was 11 percent higher than at its trough in March of 2012, but still 17.6 percent below the peak reached in May 2006. In comparison, the U.S. 20-city composite index was 29.5 percent higher than its trough but 14.1 percent below its peak (Chart 11).

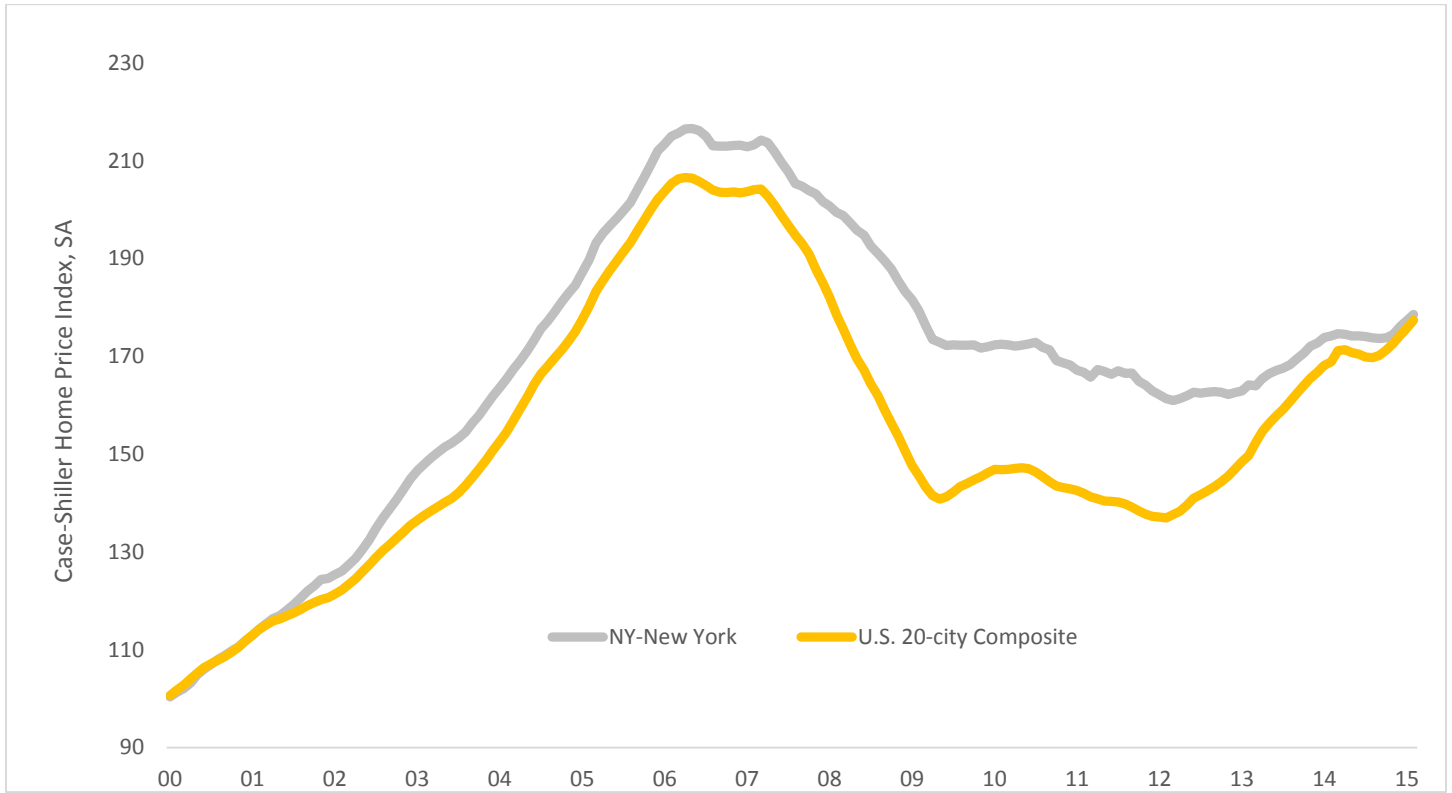
Chart 10. Percent Change in the Number of Apartment Sales, Manhattan, Brooklyn, Queens, 4Q14 over 4Q13 and 1Q15 over 1Q14



Source: Prudential Douglas Elliman



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



Source: Standard and Poor's

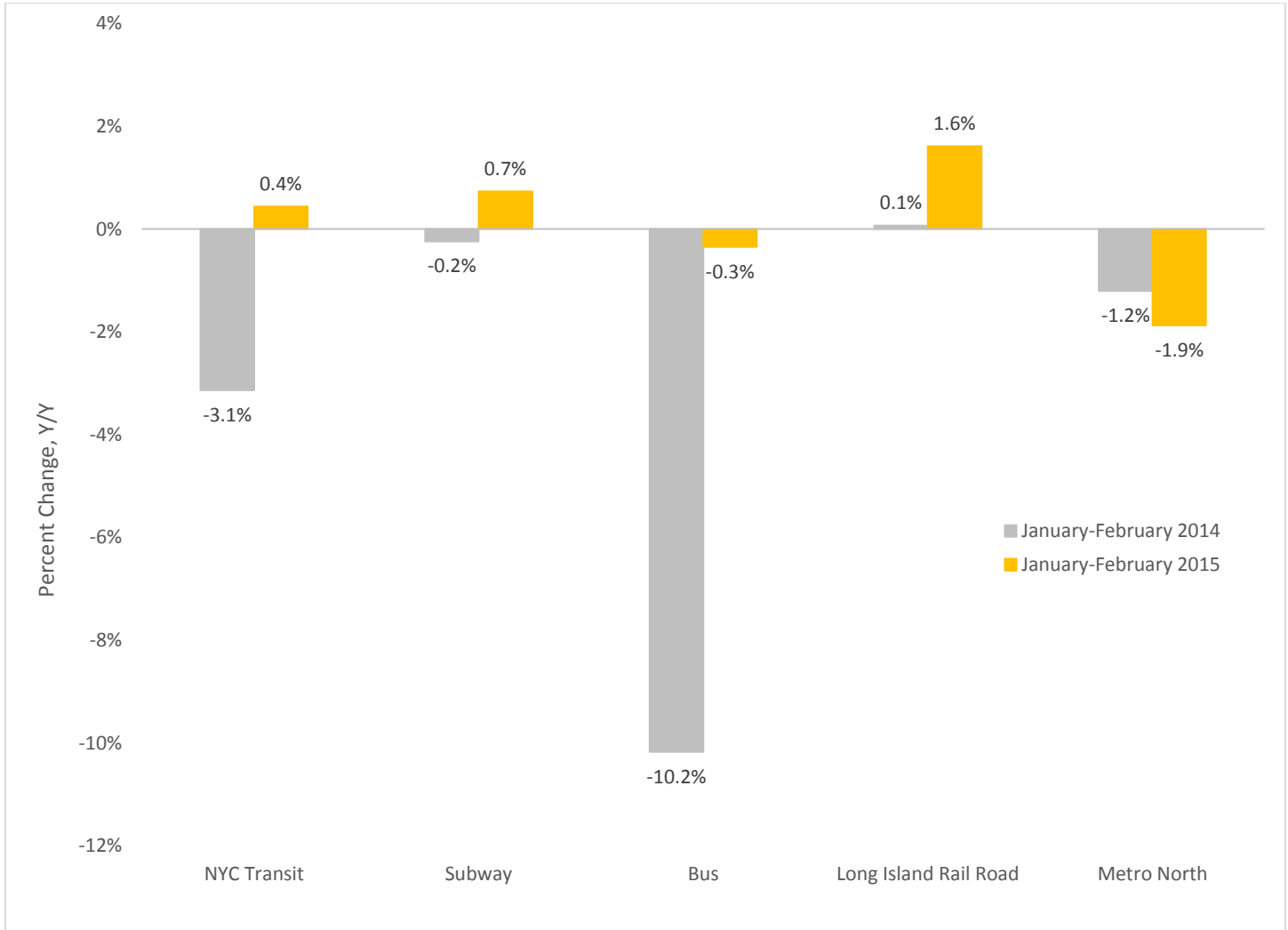
Average weekday ridership on MTA NYC Transit rose 0.4 percent in January-February of 2015, on a year-over-year basis. Average weekday ridership on the system's subways rose 0.7 percent, but bus ridership fell 0.3 percent. During the same period, Long Island Rail Road ridership rose

1.6 percent, but Metro North ridership fell 1.9 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, January -February 2015 over 2014 and January-February 2014 over 2013



Source: Metropolitan Transportation Authority

The city’s hospitality industry took a breather after three years of robust growth. According to PKF Consulting, the hotel occupancy rate in Manhattan averaged 75.9 percent in January-February of 2015, the lowest January-February average since 2012. (March numbers not yet available.) The highest January-February occupancy rate was 79.2 percent in 2014 and the lowest was 58.2 percent in 1993.

The average daily room rate also fell on a year-over-year basis. The hotel average daily room rate was \$226 in January-February 2015, compared to \$240 in January-February 2014.

The drop in occupancy rates may be an early manifestation of the stronger dollar, which makes visiting New York more expensive for many tourists. Large additions to the city’s room inventory could also play a role.

The weaker hotel numbers did not impact Broadway show ticket sales and attendance. According to the Broadway League, total gross weekly Broadway ticket sales were over \$308 million in 1Q15, 7.8 percent higher than the \$286 million sold in 1Q14. Similarly, total attendance was about three million in 1Q15, 3.5 percent higher than 2.9 million in 1Q14.



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