



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 Economic Growth Slowed in Second Quarter

Overview: Real gross city product (GCP) grew at an estimated annual rate of 1.7 percent in the second quarter of 2016, the slowest pace since the fourth quarter of 2013, but still faster than the national economic growth rate of 1.2 percent. The city’s payroll annualized job growth slowed down substantially from 4.1 percent in the first quarter to 1.4 percent, and the city’s labor force declined by 34,200, the biggest decline on record. Further signs of weakness in the economy included the second consecutive quarter of decline in commercial leasing activity and the first quarterly drop in venture capital investment since 2012. At the national level, total payroll jobs grew 1.3 percent on an annual basis. The national economy in the second quarter was weighed down by the largest drop in private domestic investment in seven years, amid uncertainty over the Fed’s rate hike and low energy prices.

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

- [Slowdown of overall city economic growth](#) page 2
- [Deceleration in private-sector job creation](#) page 3
- [Record decrease in labor force participation](#) page 4
- [Lower personal income tax collections](#) page 9
- [Drop in venture capital investment](#) page 10
- [Decline in commercial leasing activity](#) page 11



**Table 1: Second Quarter of 2016 Key Economic Indicators
NYC Compared with U.S. for 1Q16 and 2Q15**

| | | 2Q16 | 1Q16 | 2Q15 |
|---------------------------|------|------|------|------|
| GCP/GDP Growth, SAAR | NYC | 1.7 | 4.0 | 2.2 |
| | U.S. | 1.2 | 0.8 | 2.6 |
| Payroll-Jobs Growth, SAAR | NYC | 1.4 | 4.1 | 2.5 |
| | U.S. | 1.3 | 1.9 | 1.9 |
| PIT Withheld, Growth, NSA | NYC | 0.5 | 3.1 | 9.1 |
| | U.S. | -2.0 | 6.0 | 5.2 |
| Inflation Rate, NSA | NYC | 0.9 | 0.7 | 0.0 |
| | U.S. | 1.1 | 1.1 | 0.0 |
| Unemployment Rate, SA | NYC | 5.2 | 5.4 | 5.7 |
| | U.S. | 4.9 | 4.9 | 5.4 |

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

Real gross city product (GCP) grew at an estimated annual rate of 1.7 percent in 2Q16, the slowest pace since 4Q13, but faster than the national economic growth rate of 1.2 percent (advance estimate). Payroll job growth in the city also decelerated substantially from 4.1 percent in 1Q16 to 1.4 percent in 2Q16.

Despite a slowdown in job growth, the city unemployment rate declined as more people left the labor force. In 2Q16 most of the city's private sector job gains (85 percent) were in medium-wage industries, yet personal income tax collections declined because of stagnant private-sector earnings and a large drop in estimated tax revenues, which reflect non-wage income. Following a decline in 1Q16, commercial leasing activity contracted further in 2Q16, and venture capital investment experienced its first decrease since 2012.

The U.S. economy was also dragged down in 2Q16 by continued contractions in business investment. U.S. GDP grew 1.2 percent (advance estimate) in 2Q16, slightly better than 0.8 percent in 1Q16, but much slower

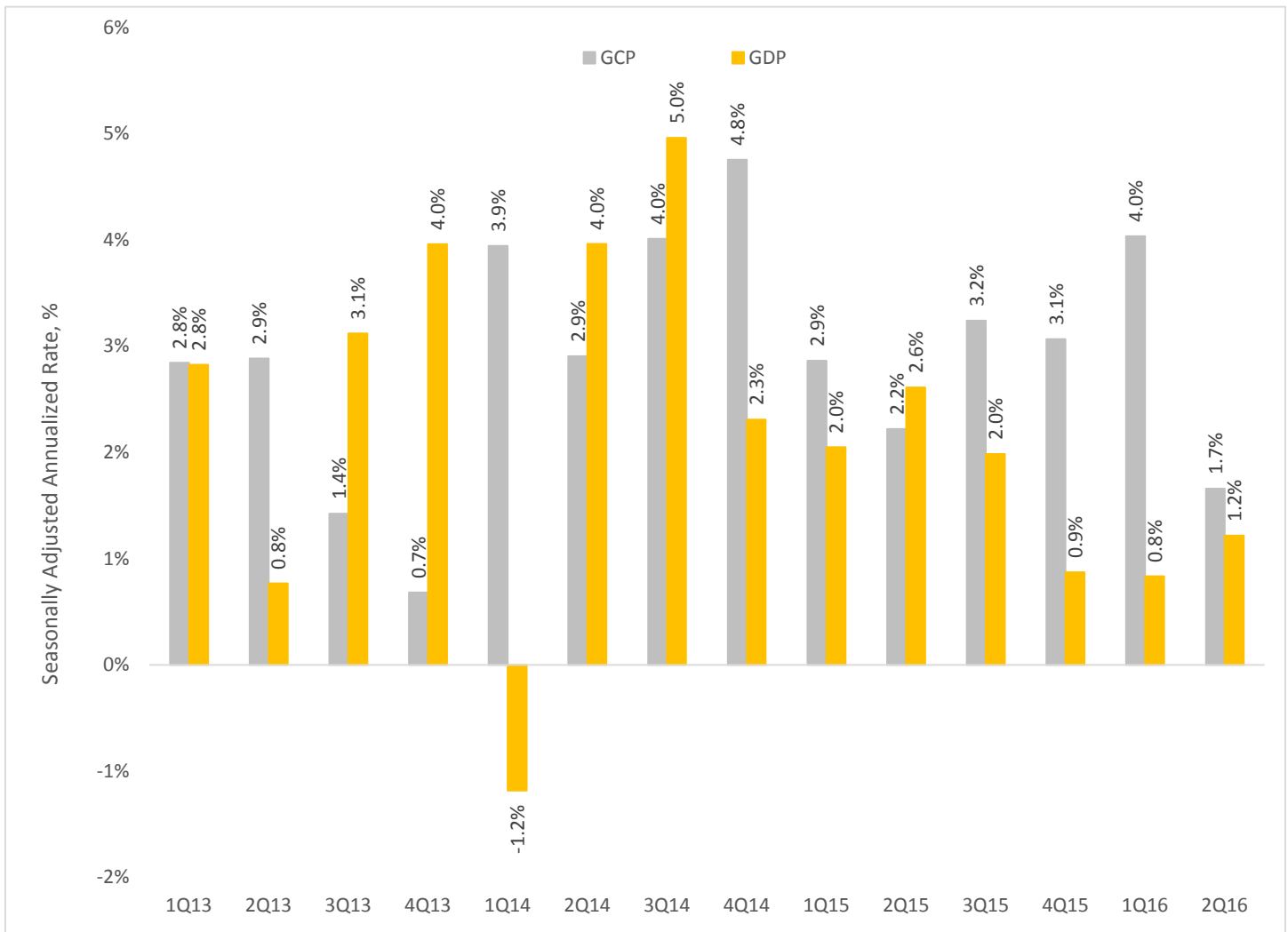
than the Blue Chip consensus forecast of 2.5 percent, published on July 10, 2016. Declines in private investment and government expenditures were the main drivers of the slowdown.

Gross private domestic investment fell 9.7 percent in 2Q16, the biggest drop in seven years (since 2Q09) and the third consecutive quarter of decline. It deducted 1.68 percentage points from GDP growth in 2Q16. A decline in private inventories and a contraction in residential and non-residential investment also contributed negatively to GDP growth. Government expenditures declined 0.9 percent and deducted 0.16 percentage points from GDP growth, mainly due to decreased state and local government spending.

Offsetting these declines, consumer spending grew 4.2 percent and contributed 2.83 percentage points to GDP growth. Household consumption expenditures on goods and services contributed almost equally to consumer spending. Net exports added 0.23 percentage points to GDP growth as exports grew and imports declined.



Chart 1. Percent Change in Real Gross City Product (GCP) and National Real Gross Domestic Product (GDP), 1Q13 to 2Q16



Source: BEA and NYC Comptroller

New York City’s private sector added 13,400 jobs, or 1.4 percent (seasonally adjusted annualized rate), in 2Q16, after posting a record increase of 42,100 jobs in 1Q16. The nation’s total private jobs also grew 1.4 percent (SAAR) in 2Q16, less than the 2.1 percent increase posted in 1Q16 and the lowest increase in almost six years (since 3Q10) (Chart 2).

Most of the 13,400 private-sector jobs created in 2Q16 in the city were in medium-wage industries (11,400 or 85 percent) followed by low-wage industries (2,500 or about 19 percent). High-wage industries lost 500 jobs or about 4 percent.

The average salary of an employee in a low-wage sector job was about \$42,000 annually, about \$75,000 annually

in a medium-wage sector job, and about \$187,000 annually in a high-wage sector job as of 2015.

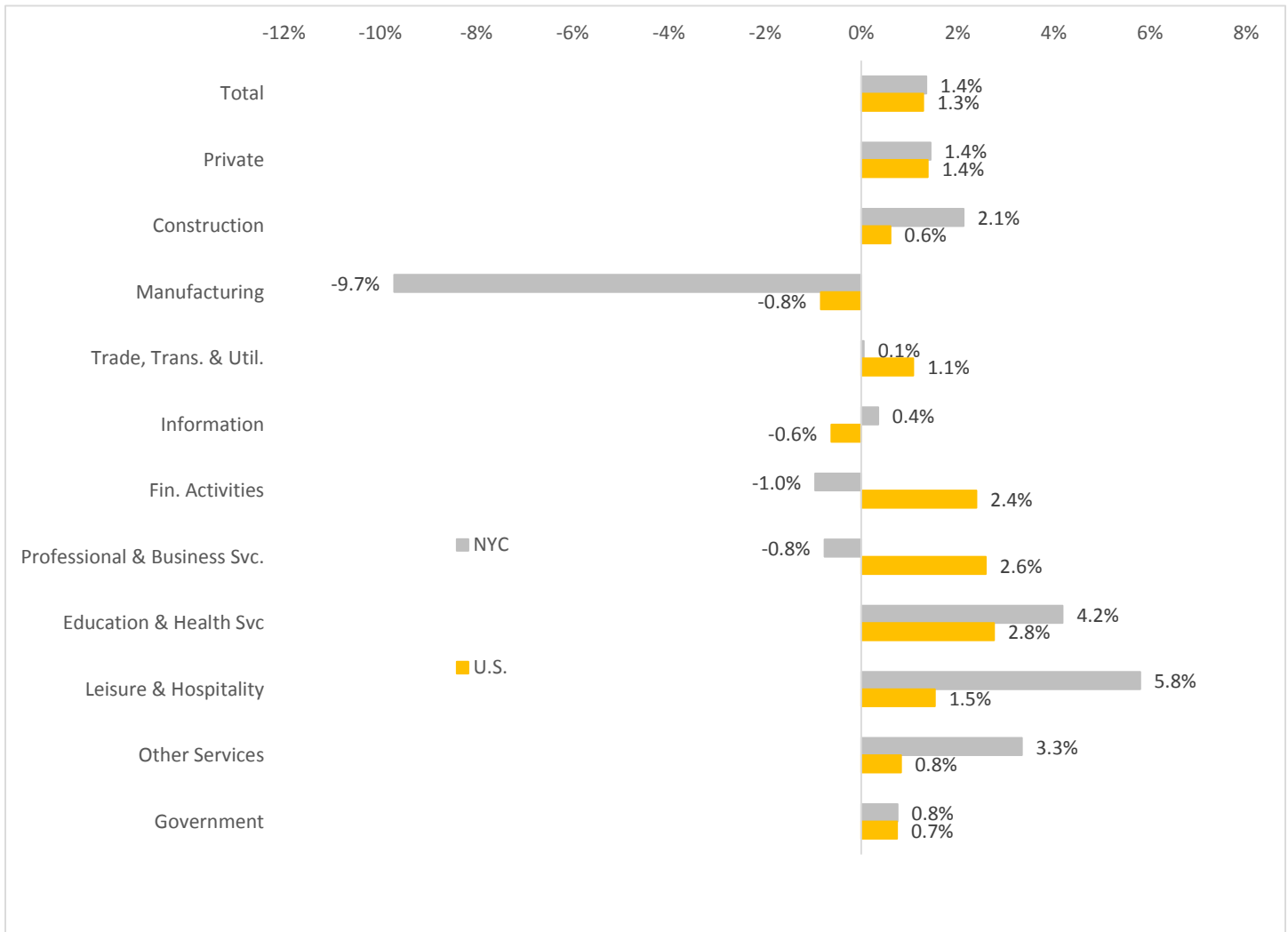
Mirroring increases in national consumer spending, industries supported by local consumption expanded as industries dependent on the national and global economy showed weakness. Of the new private-sector job gains, 87 percent or 11,600 jobs were in the local-sector industries and 13 percent, or 1,800 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.



Among the industries that added jobs in 2Q16, the fastest growing industries were education and health services, which added 9,200 jobs compared to the previous quarter, and leisure and hospitality, which added 6,100 jobs. Industries

experiencing declines included manufacturing, which lost 2,000 jobs, professional and business services, which lost 1,400 jobs, and financial activities, which lost 1,100 jobs.

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



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

Wages have been stagnant in the low-wage segment of the labor market since the recession but improved in 2015. Since the end of recession in 2009 through 2015, the most current year for which data is available, the average wage in low-wage industries did not change at all in real terms. However, over those six years average pay increased by 9.3 percent in high-wage industries after adjusting for inflation and increased by 7.4 percent in mid-wage industries, widening the wage gap between

low-, medium-, and high-wage earners. While over the period, wage growth has been strongest for the highest-paid workers, the gap shrank last year. In 2015 wages grew 3.3 percent for low-wage industries and 3.1 percent for mid-wage industries but fell 0.9 percent for high-wage industries.



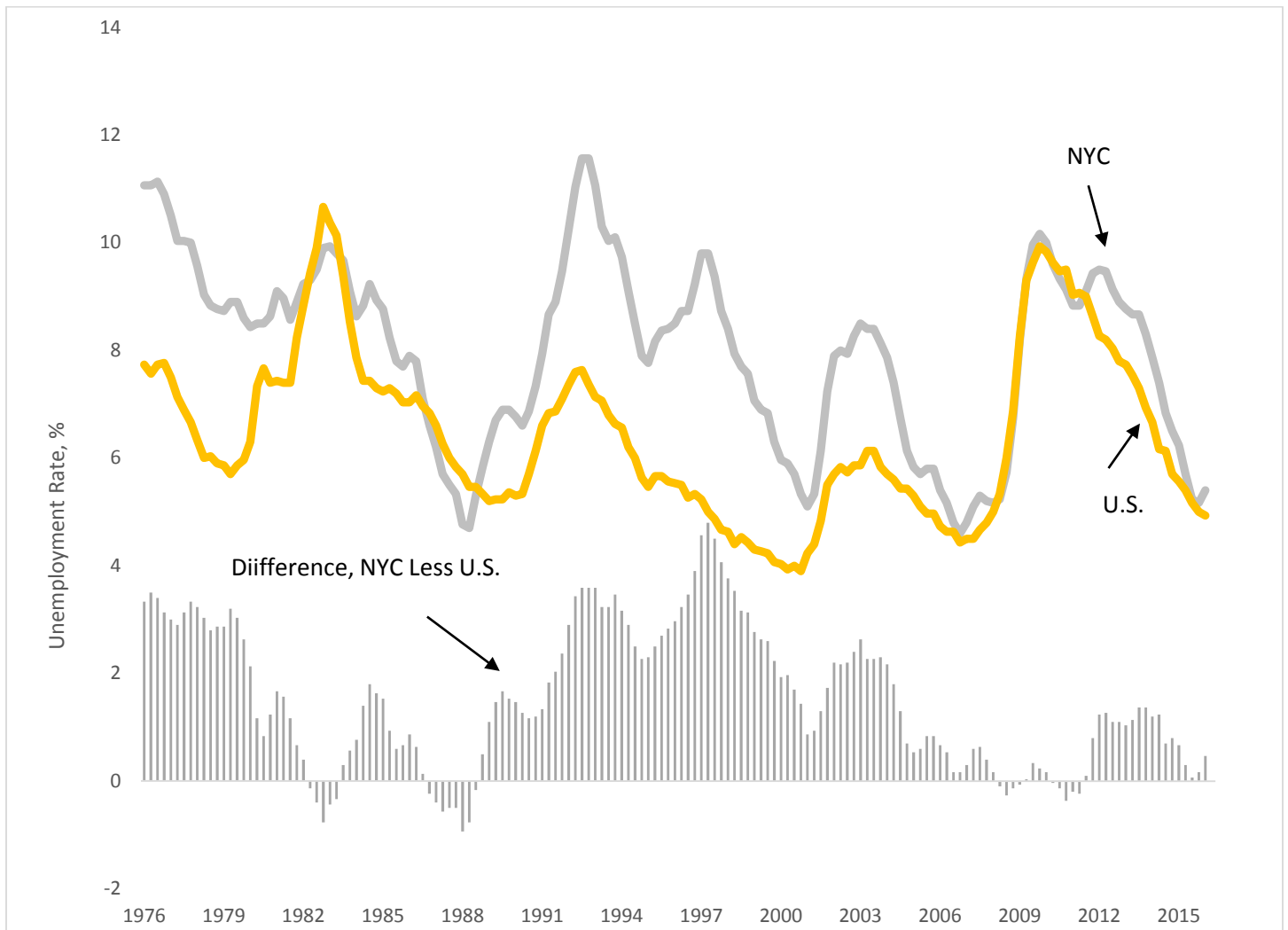
Due to the largest quarterly decline in the city’s labor force on record, NYC’s unemployment rate, adjusted for seasonality, fell to 5.2 percent in 2Q16 from 5.4 percent in 1Q16. The number of employed residents also decreased in 2Q16, the first decline in almost six years. The U.S. unemployment rate remained unchanged at 4.9 percent in 2Q16 (Chart 3).

The city’s unemployment rate fell due to a decrease in the city’s labor force, which declined by 34,200 in 2Q16. A shrinking labor force may signal that the city’s discouraged job seekers are leaving the labor market. However, the decline in 2Q16 follows a record labor

force increase of 32,000 in 1Q16. The number of unemployed New Yorkers also fell by 9,800 in 2Q16 after increasing in the previous quarter.

Among the five boroughs, Queens had the lowest unemployment rate (not seasonally adjusted) in 2Q16, at 4.1 percent, followed by Manhattan (4.2 percent), Staten Island (4.8 percent), Brooklyn (4.9 percent), and the Bronx (6.6 percent). Unemployment rates in Brooklyn and Queens were the lowest second quarter on record in 2Q16, but in the Bronx, Manhattan, and Staten Island, they were the lowest since 2Q08.

Chart 3. Unemployment Rate, NYC, U.S. and NYC Less U.S., Quarterly (SA), 1Q76-2Q16



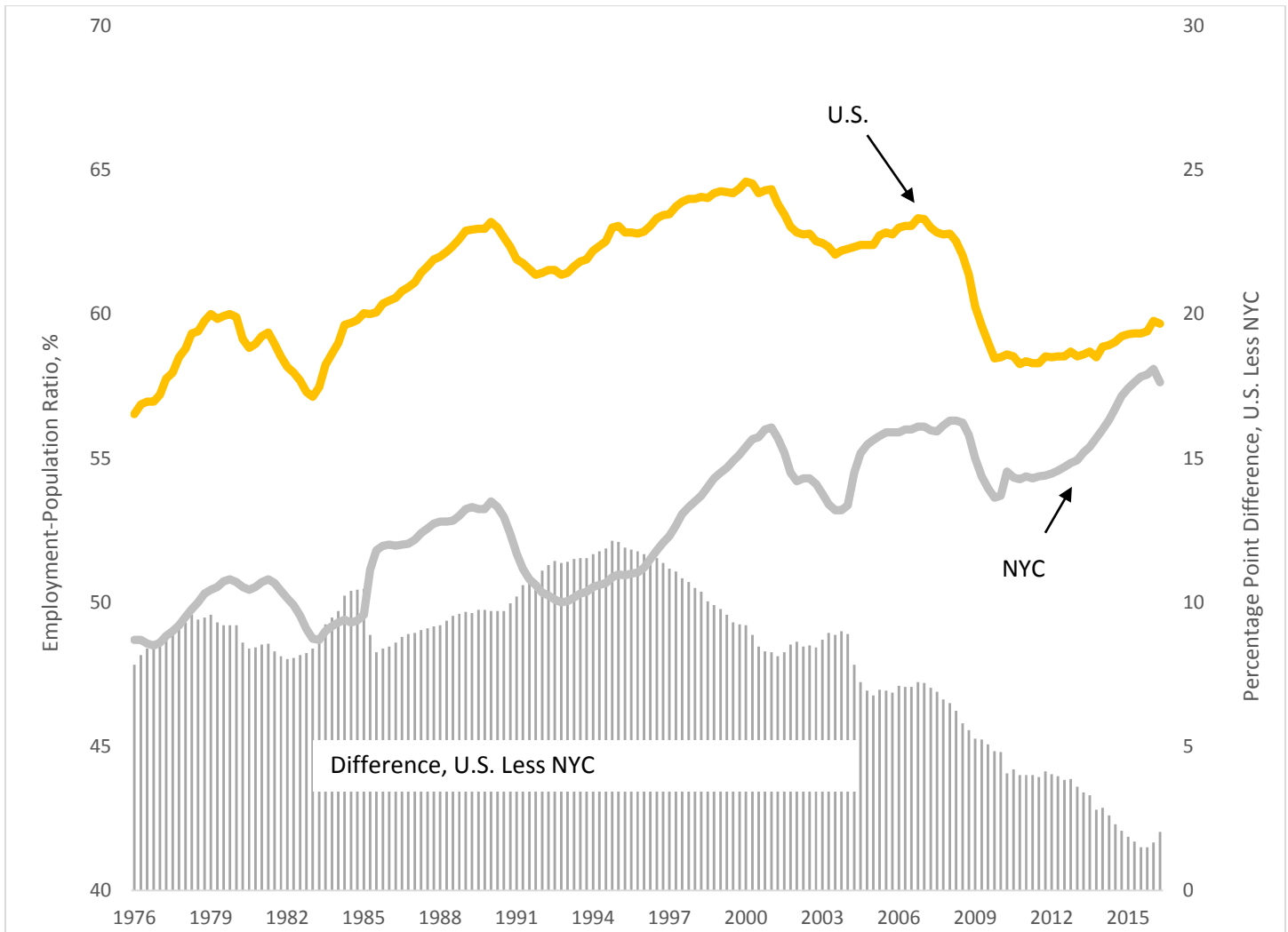
Source: U.S. Bureau of Labor Statistics (BLS) and NYS Department of Labor



The number of employed city residents decreased by 24,400 to about four million in 2Q16, the first decline in almost six years. The drop may have been influenced by the six and a half week Verizon labor strike, which began in mid-April. As a result, the city’s employment-to-population ratio fell to 57.6 percent in 2Q16 from a record high of 58.1 percent in 1Q16. The national employment-to-population ratio also fell to 59.7 percent in 2Q16 from 59.8 percent in 1Q16. City’s employment-to-population ratio fell more than the nation, resulting in the spread between the two widened to 2.0 percentage points, the biggest in six quarters (Chart 4).

The city’s strong economic performance since the recession as well as migration and immigration trends have produced a more favorable demographic for the city’s residential employment. Since its most recent trough in 4Q09, the city’s civilian employment has increased by 12.3 percent while the national employment has increased by 9.2 percent. As a result, the city’s employment-to-population ratio has increased by 4.0 percentage points compared with the nation’s 1.2 percentage points.

Chart 4. Employment-Population Ratio, NYC, U.S. and NYC Less U.S., Quarterly (SA), 1Q76-2Q16



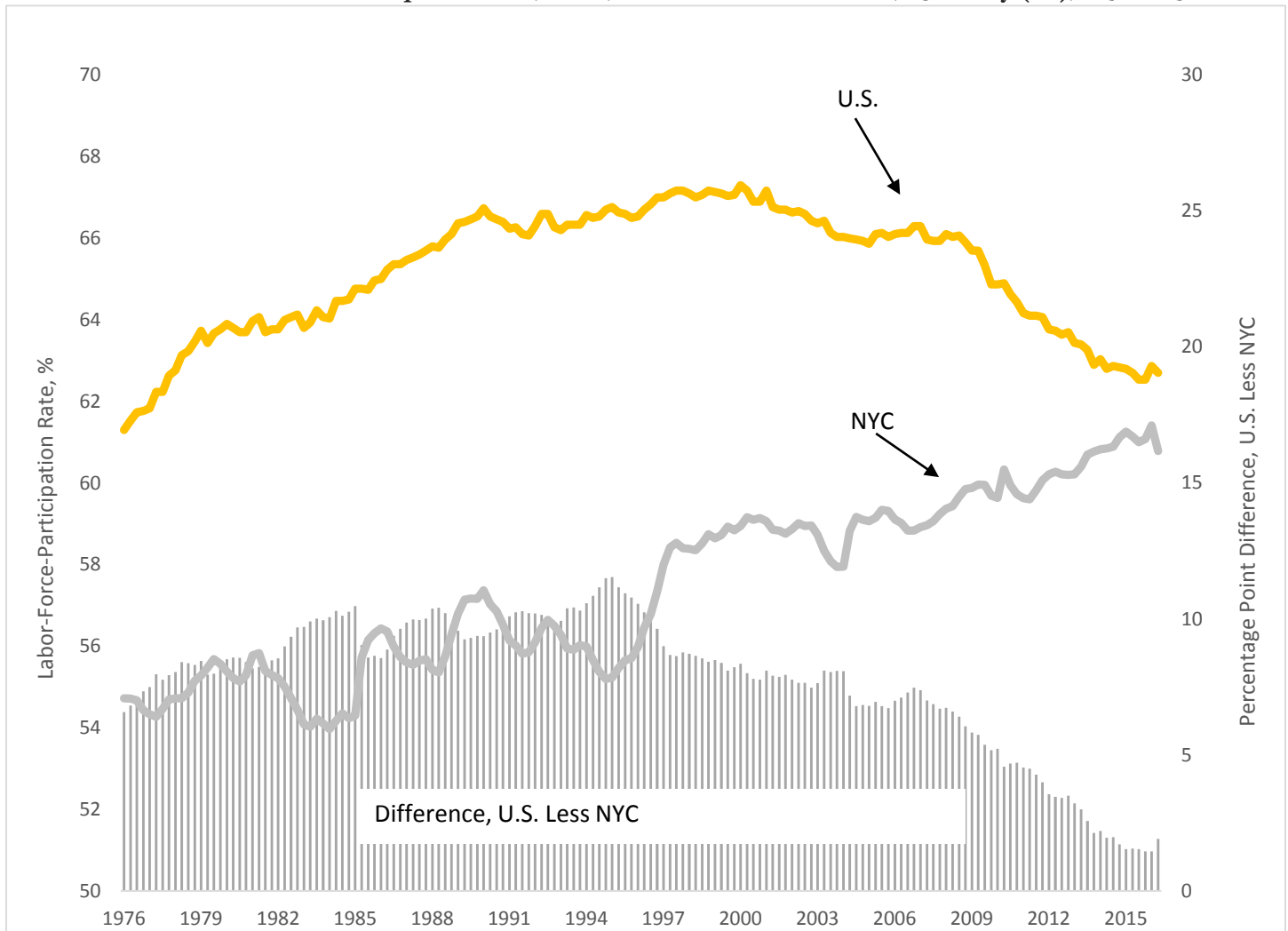
Source: U.S. Bureau of Labor Statistics (BLS) and NYS Department of Labor



The city's labor force decreased by 34,200 in 2Q16, the largest quarterly decline on record. 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), fell to a 60.8 percent in 2Q16 from a record high of 61.4 percent in 1Q16.

The U.S. LFPR also fell to 62.7 percent in 2Q16 from 62.9 percent in 1Q16. The spread between the U.S. and the city's LFPR rose to 1.9 percentage points from its record low of 1.5 percentage points in 1Q16 (Chart 5).

Chart 5. Labor-Force-Participation Rate, NYC, U.S. and NYC Less U.S., Quarterly (SA), 1Q76-2Q16



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



Table 2: Second Quarter 2016 Economic Indicators Compared to 1Q16 and 2Q15

| | | 2Q16 | 1Q16 | 2Q15 |
|---|------------------------------|------------|-----------|------------|
| County Unemployment Rate, NSA (Source: NYS DOL) | Bronx | 6.6 | 8.0 | 7.7 |
| | Kings | 4.9 | 5.9 | 5.9 |
| | New York | 4.2 | 5.1 | 4.8 |
| | Queens | 4.1 | 5.1 | 5.0 |
| | Richmond | 4.8 | 5.8 | 5.7 |
| Commercial Vacancy Rate (Source: Cushman & Wakefield) | Midtown | 9.2% | 9.3% | 8.9% |
| | Midtown South | 6.3% | 6.3% | 6.2% |
| | Downtown | 9.8% | 10.2% | 10.3% |
| | Manhattan Total | 8.8% | 9.0% | 8.8% |
| Commercial Rental Rate (per sq ft) (Source: Cushman & Wakefield) | Midtown | \$79.18 | \$78.42 | \$76.45 |
| | Midtown South | \$68.62 | \$68.58 | \$66.86 |
| | Downtown | \$59.14 | \$59.28 | \$58.25 |
| | Manhattan Total | \$72.99 | \$72.40 | \$70.52 |
| Number of Apartment Sales (Source: Douglas Elliman) | Manhattan | 2,736 | 2,877 | 2,674 |
| | Brooklyn | 1,888 | 1,912 | 1,735 |
| | Queens | 2,611 | 2,517 | 2,539 |
| Case-Shiller Home Price Index (Source: Moody's) | NY Metro Area | 182.87* | 182.18 | 178.75* |
| | US 20-City Composite | 188.01* | 186.81 | 178.55* |
| Hotel Industry (Source: CBRE Hotels) | Average Daily Occupancy Rate | 89.0** | 79.1 | 91.3** |
| | Average Daily Room Rate | \$271.14** | \$221.32 | \$286.42** |
| MTA Average Weekday Ridership (Source: MTA) | NYC Transit | 7,927,379* | 7,663,149 | 7,987,906* |
| | Subway | 5,798,482* | 5,605,821 | 5,816,508* |
| | Bus | 2,128,897* | 2,057,327 | 2,171,398* |
| | Long Island Rail Road | 308,528* | 297,549 | 304,460* |
| | Metro North | 282,068* | 272,930 | 291,719* |

*Data includes April and May, excludes June

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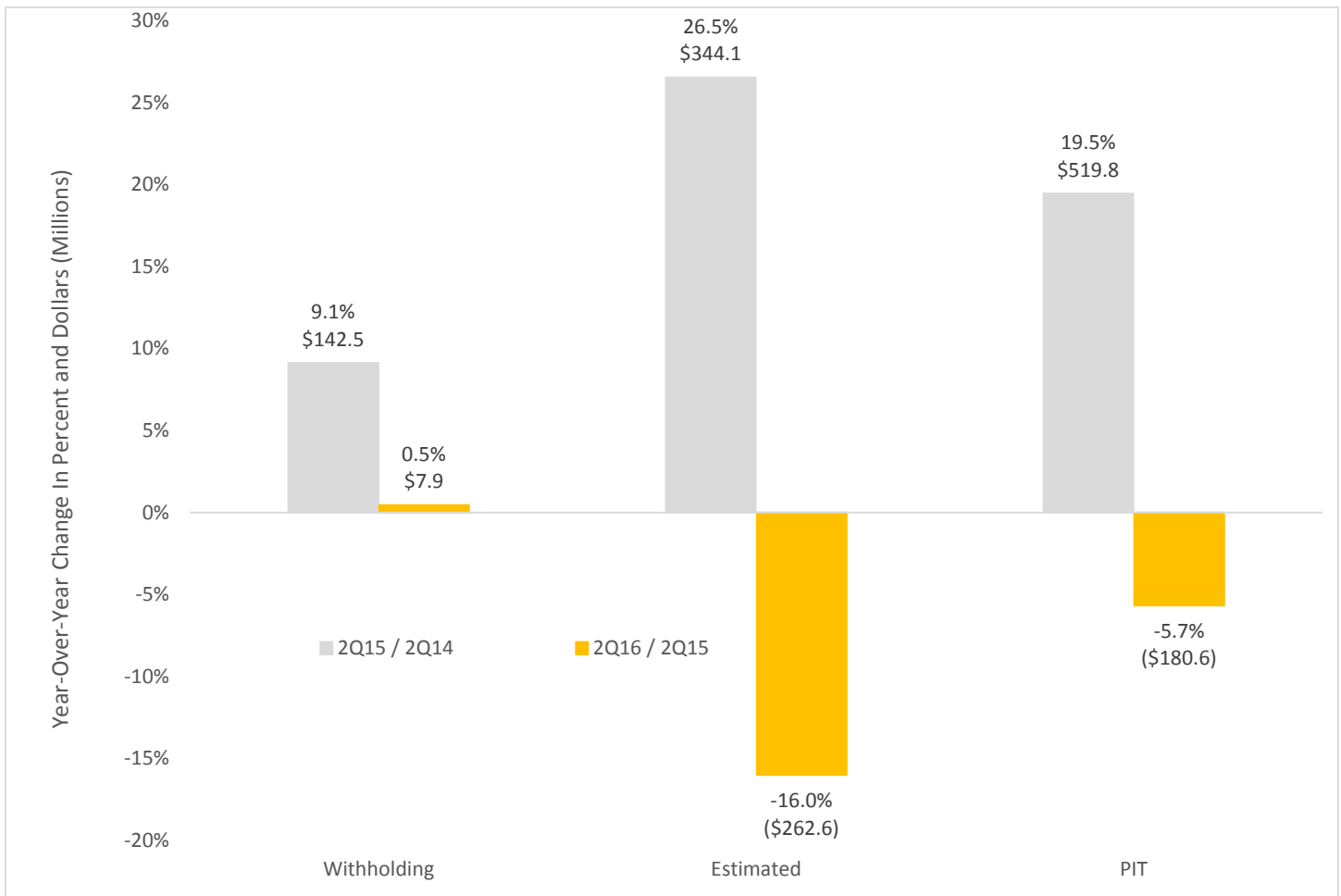
NYC personal income tax (PIT) revenues, a proxy for personal income, fell 5.7 percent on a year-over-year basis to over \$3 billion in 2Q16. Two main components of the PIT revenues are withholding taxes and estimated tax payments. On a year-over-year basis, personal income taxes withheld from paychecks rose 0.5 percent to over \$1.7 billion in 2Q16. Estimated tax payments, which reflect trends in taxpayers' non-wage income, including interest earned, rental income, and capital gains, fell to about \$1.4 billion in 2Q16, 16.0 percent lower than the \$1.6 billion in 2Q15 (Chart 6).

Most of the decline in withholding and estimated tax revenues happened in April. On a year-over-year basis, withholding taxes fell 11.3 percent (\$71 million) and estimated taxes fell 15.9 percent (\$190 million) in April. The decline in withholding was influenced by a slight decline in private-sector earnings as well as the Verizon strike.

Average hourly earnings (AHE) of total private NYC employees, another proxy for personal income, fell 0.1 percent to \$33.48 in 2Q16 on a year-over-year basis, the first decline in almost seven years. The city's AHE had increased only 0.1 percent in 1Q16. On the other hand, the U.S. average hourly wages grew 2.8 percent to \$25.57 in 2Q16 from 2Q15, the biggest quarterly increase in seven years.

The decline in estimated taxes reflects increased economic uncertainty caused by weak global economic growth, the rising level of troubled corporate loans particularly in the energy sector, speculation over the Fed's rate hike, and the Brexit referendum. Estimated taxes fell about 20 percent (\$85 million) in June.

Chart 6. Changes in Personal Income Tax Revenues, in Percent and Dollars (millions), 2Q15 over 2Q14 and 2Q16 over 2Q15



Source: NYC OMB



Venture capital investment in the New York metro area fell 40.3 percent, to \$1.4 billion in 2Q16 from almost \$2.4 billion in 2Q15, the first year-over-year decline since 3Q12 (Chart 7). Upstate NY performed even worse. Total investment in Upstate NY fell 90.6 percent to \$2.4 million in 2Q16 from 2Q15. Total investment in the U.S. fell 12.2 percent to \$15.3 billion and in Silicon Valley, which has the biggest concentration of venture capital investment, fell 9.6 percent to \$8.2 billion in 2Q16.

Similarly, the number of venture capital deals in the New York metro area fell to 124 in 2Q16 from 147 in 2Q15. The number of deals in the U.S. fell to 961 and in Silicon Valley to 311 in 2Q16 from 1,231 and 391, respectively, in 2Q15.

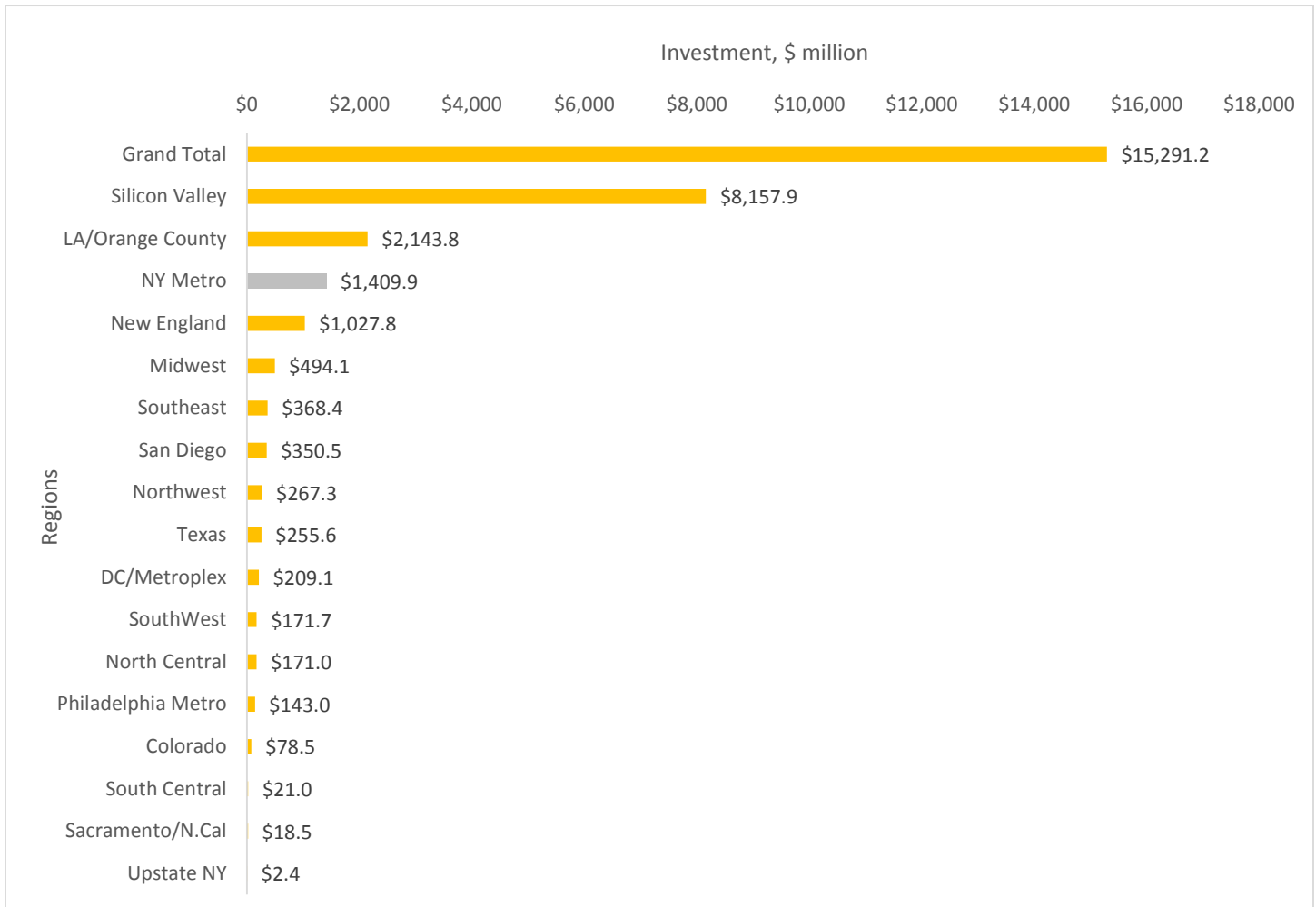
The NY metro area’s share of venture capital investment declined to 9.2 percent in 2Q16 from 13.6 percent in

2Q15, but the share of deals increased to 12.9 percent in 2Q16 from 11.9 percent in 2Q15. Silicon Valley’s share of venture capital investment rose to 53.4 percent in 2Q16 from 51.8 percent in 2Q15 and its share of deals rose to 32.4 percent in 2Q16 from 31.8 percent in 2Q15.

The biggest increases in investment were in Los Angeles/Orange County and San Diego. Venture capital investment in Los Angeles/Orange County rose to \$2.1 billion in 2Q16 from \$1.4 billion in 2Q15 and more than doubled in San Diego to about \$351 million in 2Q16 from \$134 million in 2Q15.

Venture capital investment in New York State in 2Q16 decreased 45.3 percent from a year ago, to about \$1.2 billion. The number of deals in New York State fell 19.5 percent to 103 in 2Q16 from 128 in 2Q15.

Chart 7. Venture Capital Investment by Regions, 2Q16



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



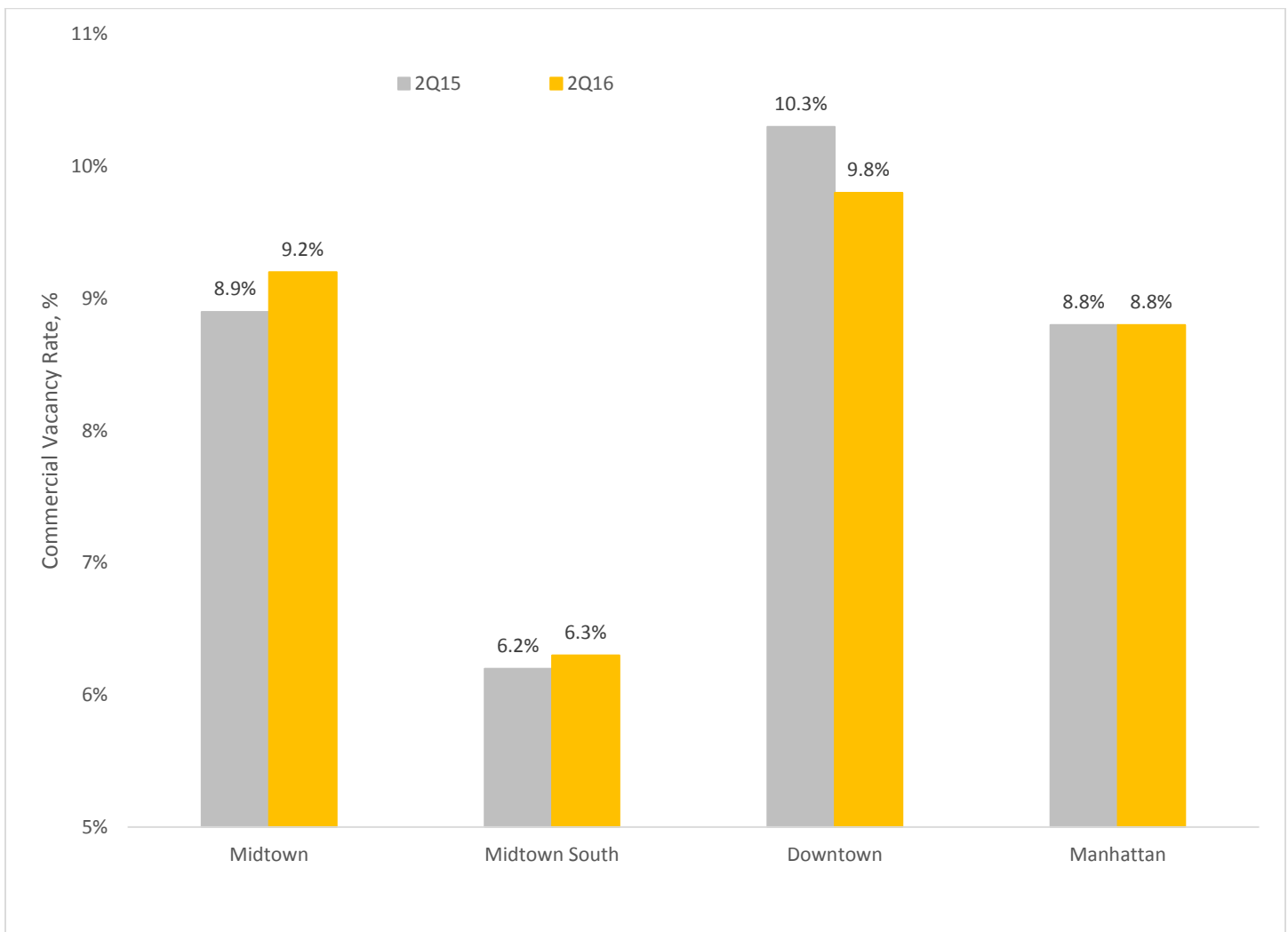
New commercial leasing activity in 2Q16 totaled seven million square feet (msf), 15.6 percent lower than in 2Q15. The 2Q16 contraction follows a 6.0 percent year-over-year decline in 1Q16. Most of the new leasing in 2Q16 took place in Midtown (4.4 msf) followed by Midtown South (1.5 msf) and then Downtown (1.1 msf).

According to Cushman & Wakefield, the highest leasing sector in 2Q16 was TAMI (technology, advertising, media and information services). It accounted for almost 41 percent

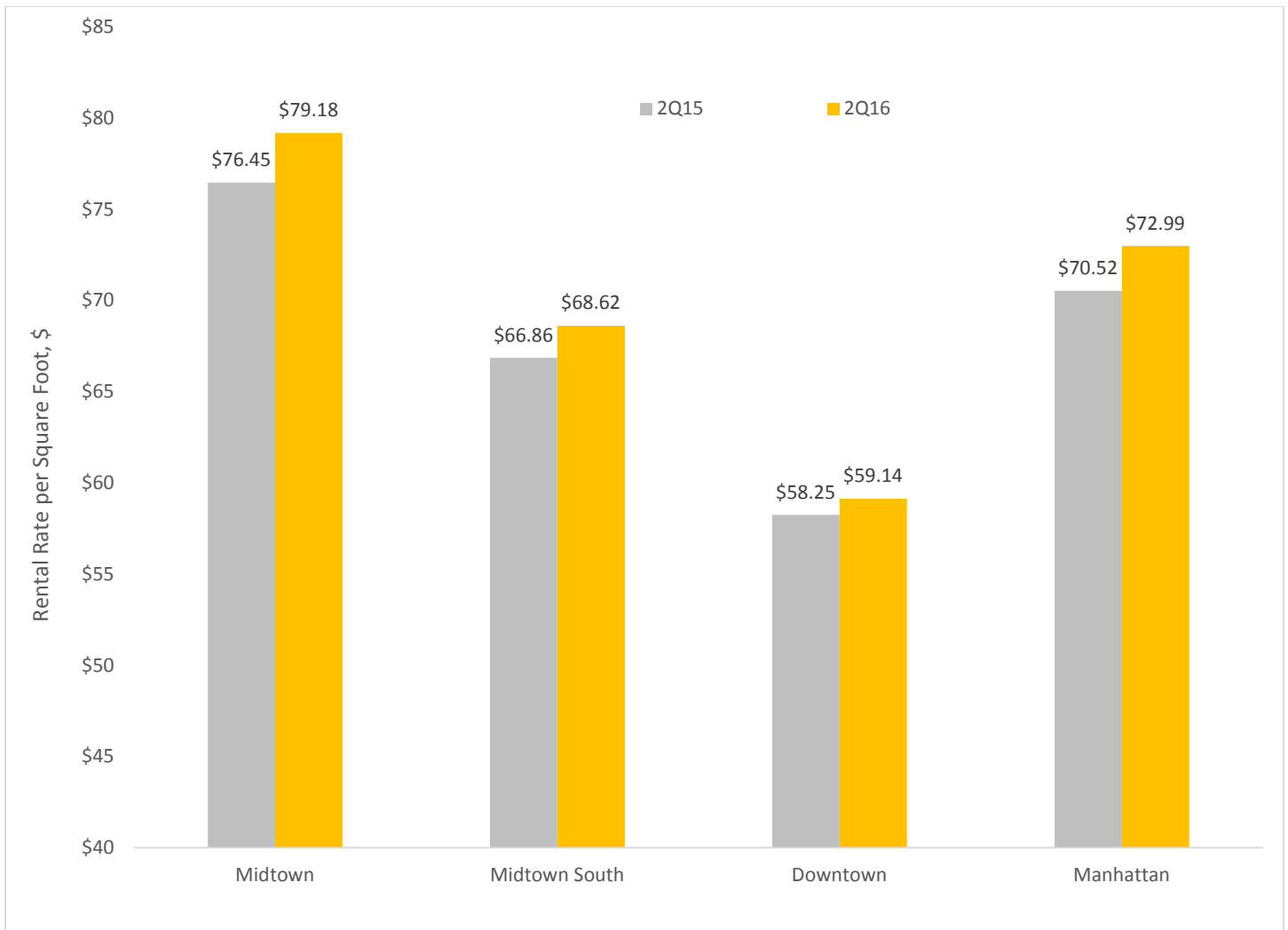
of all new leases 10,000 square feet and larger, mainly because of Google’s 264,000 sf lease.

Despite the decline in leasing activity, the Manhattan office vacancy rate, including sublease space, was 8.8 percent in 2Q16, same as 2Q15, according to Cushman & Wakefield. On a year-over-year basis, the vacancy rate dropped 0.5 percentage points in Downtown, but increased 0.3 percentage point in Midtown and 0.1 percentage points in Midtown South. Overall asking rents increased in all the submarkets (Chart 8 and 9).

Chart 8. Overall Commercial Vacancy Rates, 2Q16 and 2Q15



Source: Cushman & Wakefield

**Chart 9. Overall Commercial Rental Rate per Square Foot, 2Q16 and 2Q15**

Source: Cushman & Wakefield

The city's housing market continued to do well in 2Q16 due to low interest rates as both prices and the number of sales increased on a year-over-year basis. According to a report from Douglas Elliman, the average sales price in Manhattan rose 8.4 percent to over \$2.0 million, the median sales price increased 13.1 percent to over \$1.1 million, and the average price per square foot rose 31.3 percent to \$1,759 in 2Q16 over 2Q15. Meanwhile, days on the market from last list date fell to 89 days in 2Q16 from 94 days the prior year.

The listing inventory grew faster than the number of sales leading to an increase in the absorption rate. The number of sales in Manhattan rose to 2,736 in 2Q16, an increase of 2.3 percent from 2Q15. The listing inventory rose 10.9 percent to 6,352 and, as a result, the absorption rate, defined as the number of months to sell all inventory at the current rate of

sales, rose to seven months in 2Q16 from 6.4 months in 2Q15.

Brooklyn housing prices also increased. The average sales price rose 3.6 percent to \$816,827 and the median sales price rose 8.9 percent to \$659,000 in 2Q16, compared to 2Q15. On a year-over-year basis, the number of sales rose 8.8 percent to 1,888 in 2Q16, the listing inventory fell 37.4 percent to 2,672 and the absorption rate fell to 4.2 months. On the other hand, the days on market rose to 76 in 2Q16 from 73 in 2Q15.

Queens housing market conditions tightened as inventory declined and sales expanded. On a year-over-year basis, housing sales in Queens rose 2.8 percent to 2,611 in 2Q16 and the listing inventory fell 14.5 percent to 4,403 during the same period. Days on the market fell 13.0 percent to 80 days and the absorption rate fell 16.4 percent to 5.1 months in 2Q16



from 2Q15. The average sales price rose 16.5 percent to \$526,943 and the median sales price rose 20.8 percent to \$465,000, 2Q16 over 2Q15 (Chart 10).

Douglas Elliman reports that the number of 1- to 3-family homes sold in Brooklyn rose 17.4 percent and in Queens rose 20.4 percent in 2Q16, compared to the previous year. The average sales price per square foot fell 5.4 percent in Brooklyn, but rose 4.9 percent in Queens in 2Q16 compared to 2Q15.

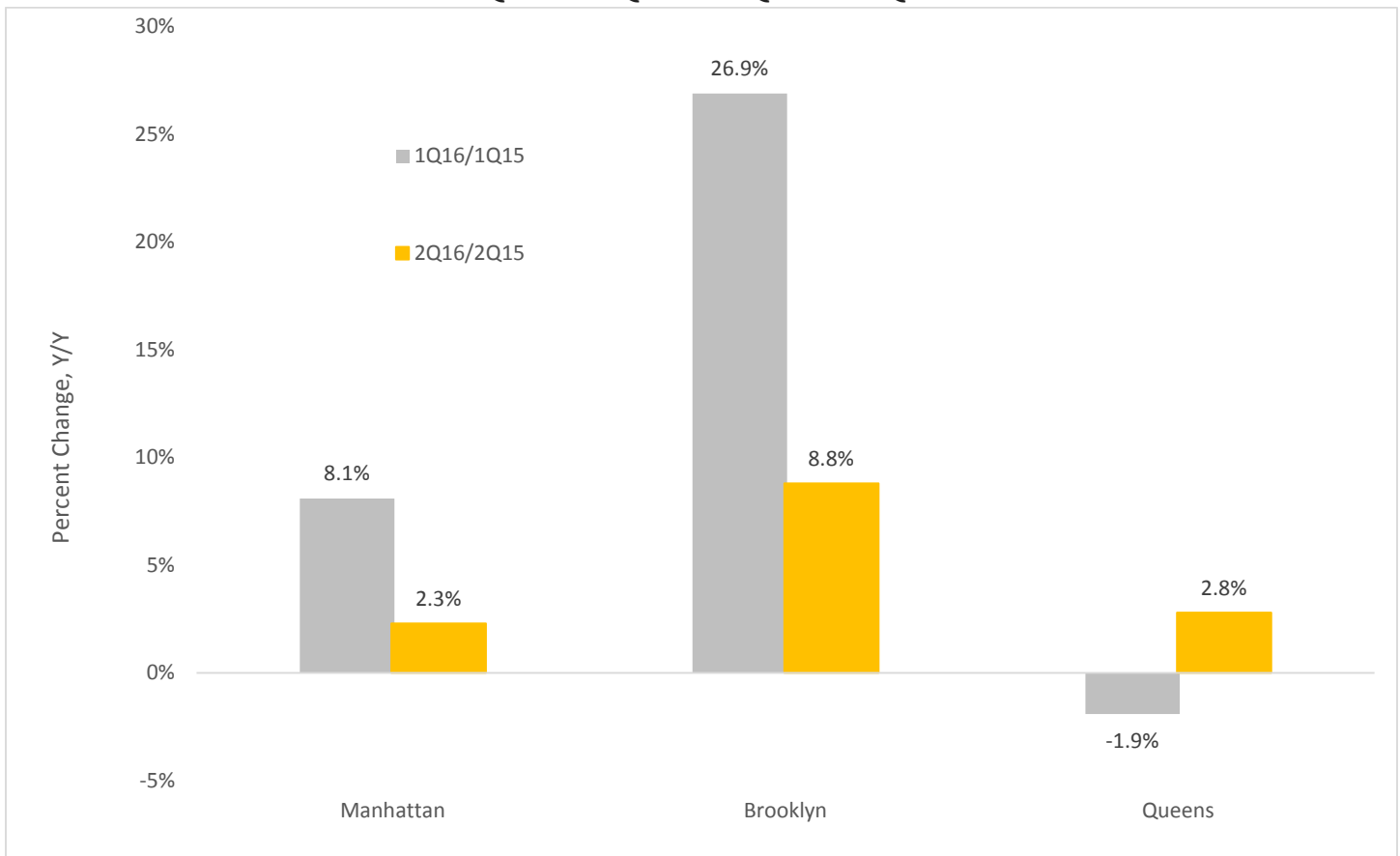
According to the Case-Shiller index, which tracks single family home prices, the not-seasonally-adjusted New York metro area home price index increased 2.0 percent in May 2016 over May 2015. During the same period, the New York metro area's inflation rate was 0.9 percent, indicating a modest increase in home real prices. However, on a month-over-month basis, New York metro area home prices fell 0.5 percent, the first drop since July 2015.

The U.S. 20-city composite index rose 5.2 percent in May 2016 on a year-over-year basis even though it fell 0.1 percent from April. The U.S. inflation rate was 1.0 percent in May on a year-over-year basis.

Among the Case-Shiller's 20 metro areas, the New York metro area saw the smallest growth (2.0 percent) while Portland, Oregon metro area saw the largest jump in home prices (12.5 percent) in May 2016, compared to the prior year.

According to the Case-Shiller, U.S. home prices had a sharper decline and a faster rebound than the New York metro. As of May 2016, the U.S. 20-city composite index was 37.1 percent higher than its trough and 9.0 percent below its peak. In comparison, the New York metro area home price index was 13.5 percent higher than at its trough in March of 2012, but was still 15.8 percent below the peak reached in May 2006 (Chart 11).

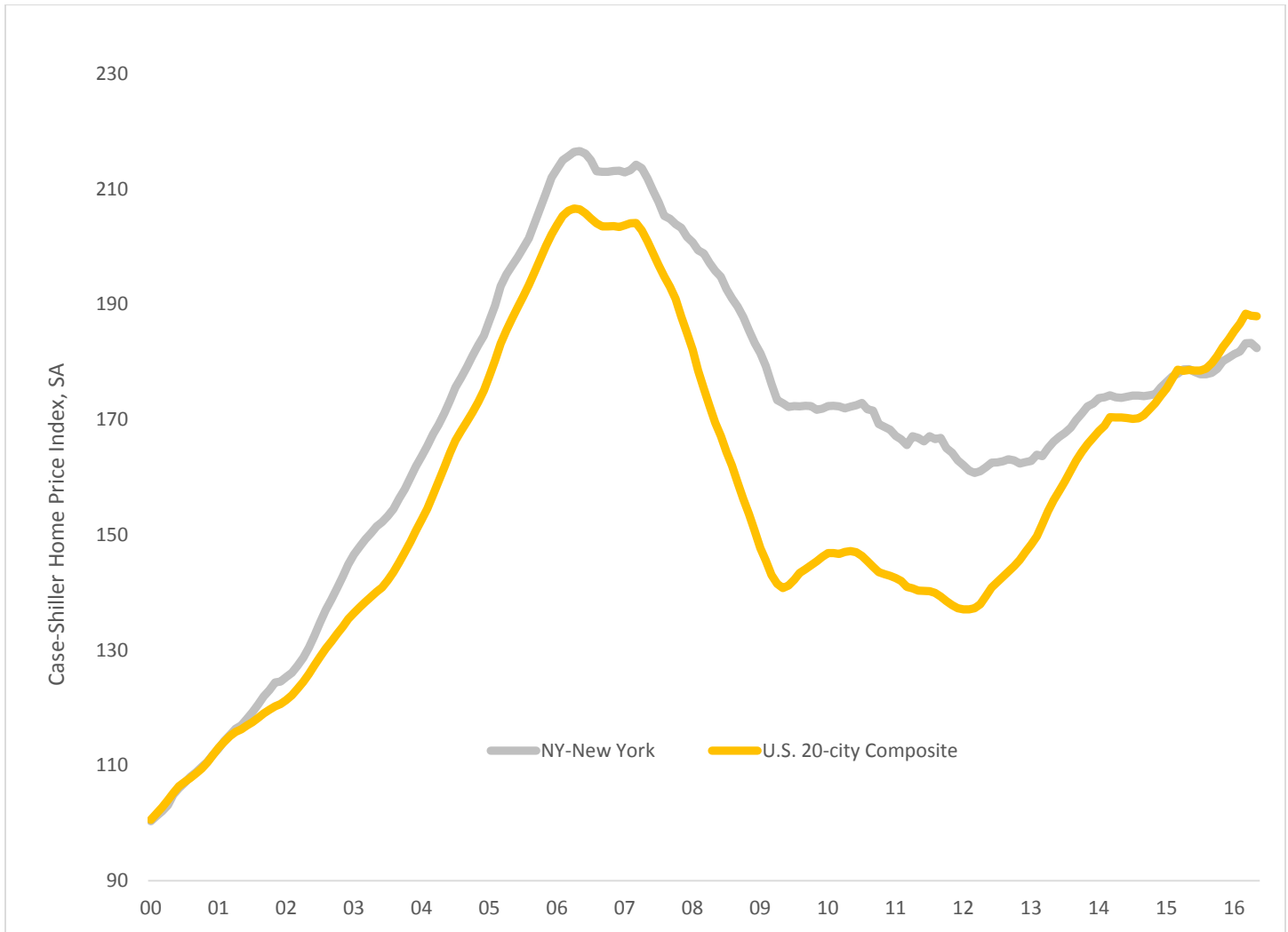
Chart 10. Percent Change in the Number of Apartment Sales, Manhattan, Brooklyn, Queens, 1Q16 over 1Q15 and 2Q16 over 2Q15



Source: Douglas Elliman



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



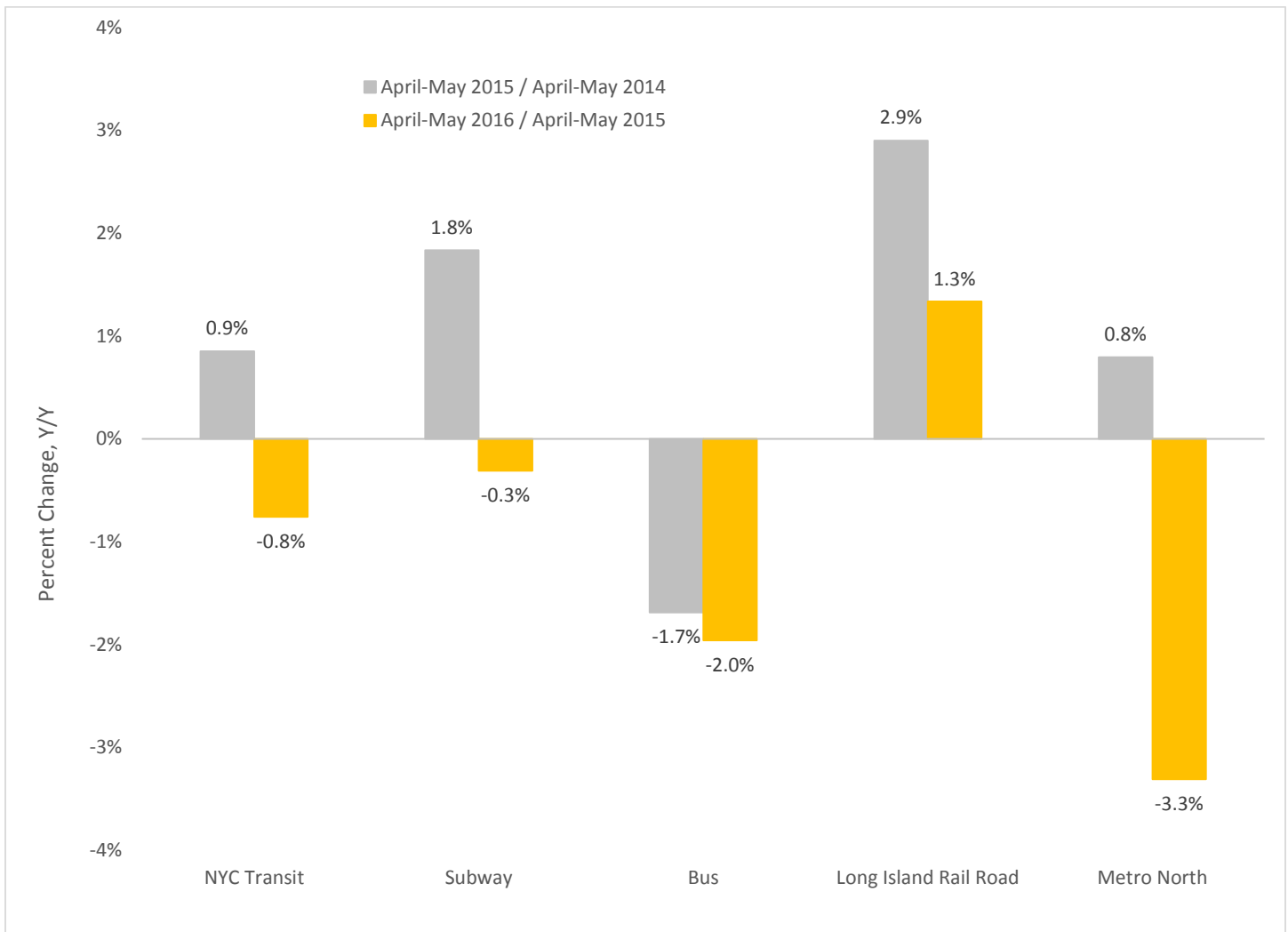
Source: Standard and Poor's

Average weekday ridership on MTA NYC Transit fell 0.8 percent in April-May 2016 from a year ago. Average weekday ridership on the system's subways fell 0.3 percent and bus ridership fell 2.0 percent. During the same period, ridership on the Long Island Rail Road rose 1.3 percent, but ridership on Metro North fell 3.3 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, April-May 2016 over 2015 and April-May 2015 over 2014



Source: Metropolitan Transportation Authority

Broadway show ticket sales and attendance increased in 2Q16. According to the Broadway League, total gross weekly Broadway ticket sales were about \$364 million in 2Q16, 0.3 percent higher than the \$363 million sales in 2Q15. Total attendance was about 3.7 million in 2Q16, 2.6 percent higher than in 2Q15.

However, the city’s hospitality market fell in April 2016 compared to April 2015 (May and June numbers are not yet available). According to CBRE Hotels, the hotel occupancy

rate in Manhattan averaged 89.0 percent in April 2016, lower than 91.3 percent in April 2015. Also, the average daily room rate fell on a year-over-year basis to \$271 in April 2016, from \$286 in April 2015.



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