



NYC Quarterly Economic Update

Office of the New York City Comptroller

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BUREAU OF FISCAL & BUDGET STUDIES

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Third Quarter Job Creation in New York City Best in a Quarter Century

Overview: Private-sector jobs grew at an annual rate of 5.4 percent in the third quarter of 2014, the fastest increase since at least 1990. City Personal Income Tax (PIT) withholdings rose to \$1.6 billion, the highest third quarter level ever. New York City's economy grew 4.0 percent and the U.S. economy grew 3.5 percent in the third quarter of 2014. A surge in venture capital investment and a sharp increase in job growth were the outstanding features of the city's third-quarter economic performance. Tourism also contributed, with hotel occupancy experiencing its best third quarter on record.

Table 1: Third Quarter of 2014 Key Economic Indicators – NYC Compared with U.S. for 2Q14 and 3Q13

		3Q14	2Q14	3Q13
GCP/GDP Growth, SAAR	NYC	4.0%	3.1%	4.8%
	U.S.	3.5%	4.6%	4.5%
Payroll-Jobs Growth, SAAR	NYC	4.7%	2.1%	2.4%
	U.S.	2.1%	2.2%	1.6%
PIT Withheld, Growth, NSA	NYC	8.8%	6.6%	5.2%
	U.S.	4.4%	7.6%	9.3%
Inflation Rate, NSA	NYC	1.3%	1.7%	1.8%
	U.S.	1.8%	2.1%	1.6%
Unemployment Rate, SA	NYC	7.3%	7.9%	8.7%
	U.S.	6.1%	6.2%	7.2%

Real Gross City Product (GCP) grew at an estimated 4.0 percent annual rate, the fastest since 3Q13. A surge in venture capital investment, a sharp increase in payroll jobs, rebounding residential and commercial real estate activities, and tourism contributed to the city's growth (Chart 1).

The U.S. economy grew at a 3.5 percent (advance estimate) annual rate in 3Q14, a solid showing after the 4.6 percent seen in 2Q14. Despite the solid gains in the second and

third quarters, the annualized U.S. economic forecast for 2014 remains unimpressive due to the year's weak start. GDP growth is expected to be less than 2.5 percent in calendar year 2014.

The biggest single contributor to GDP growth in the third quarter was net exports of goods and services. Exports contributed 1.32 percentage points to GDP growth, the highest in five years (since 2Q09). This could be partly attributed to lower oil prices.



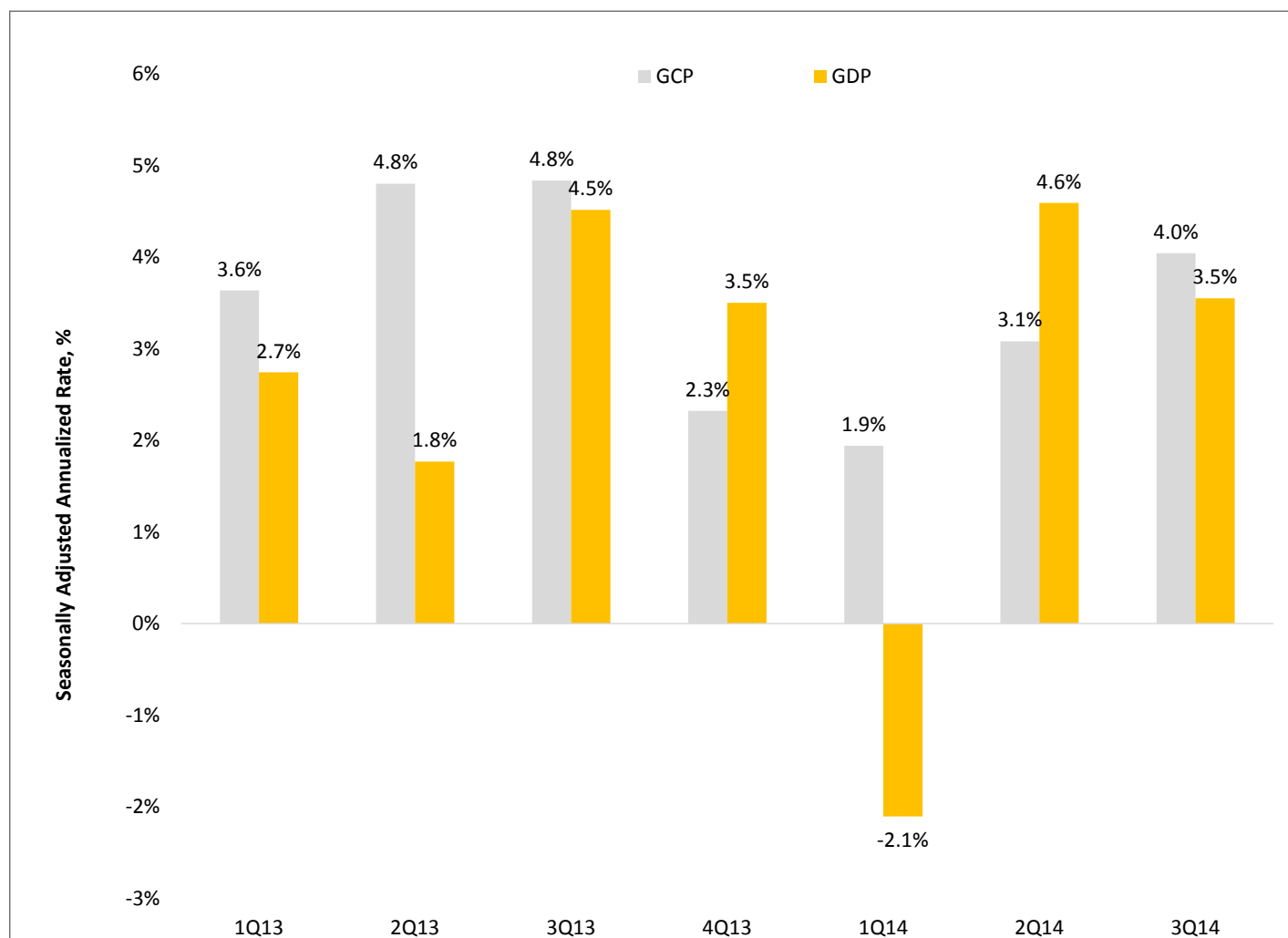
Personal consumption expenditures contributed 1.2 percentage points to GDP growth. Spending on financial services and insurance, motor vehicles and parts, recreational goods and vehicles, and health care were most robust. Government expenditures grew 4.6 percent in 3Q14, the fastest since 2Q09, and contributed 0.83 percentage points to GDP growth. This increase was attributable to a surge of spending on national defense. Private investment grew one percent in 3Q14 after posting a 19.1 percent jump in 2Q14. It contributed 0.17 percentage points to GDP growth. Residential and non-residential fixed investment increased by 1.8 percent and 5.5 percent, respectively, relatively sluggish rates of increase at this stage of an economic expansion.

The city's GCP remained at over four percent of the nation's total economic output.

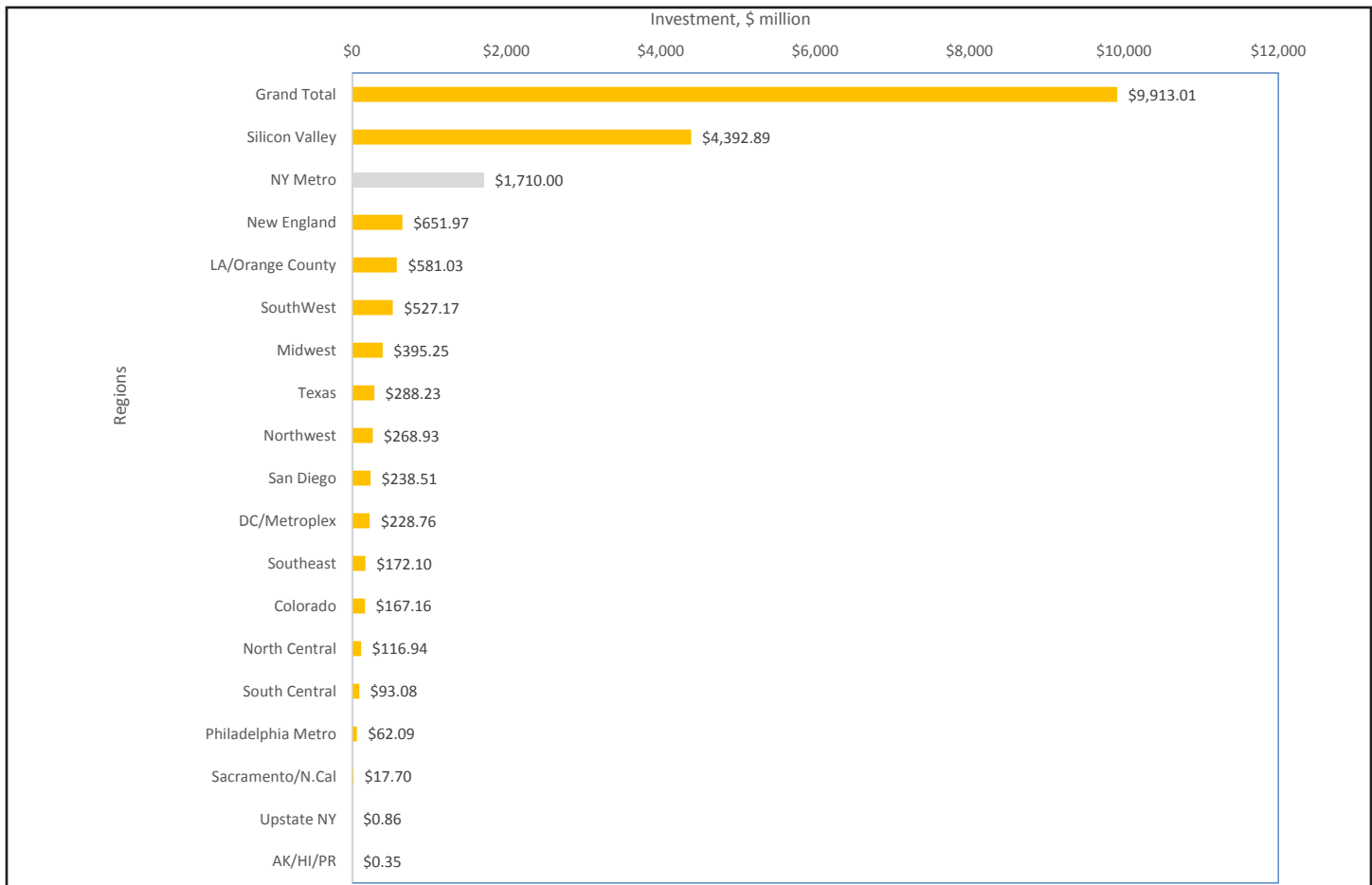
Venture capital investment in the New York metro area surpassed \$1.7 billion in 3Q14, more than double the \$0.72 billion invested in 3Q13 and about 43 percent higher than the \$1.2 billion invested in 2Q14. Both the number of deals and the dollar amount of transactions (Chart 2) were the second highest after \$4.4 billion in venture capital investments in Silicon Valley. There were 123 equity financing deals in the New York metro area in 3Q14, which was less than the 333 deals in Silicon Valley during the same period and slightly less than the 125 in the New York metro area in 3Q13.

Venture capital investment by state shows that after California, New York State ranked second in 3Q14 with 107 deals amounting to about \$1.5 billion.

**Chart 1. Percent Change in Real Gross City Product (GCP)
and National Real Gross Domestic Product (GDP), 1Q13 to 3Q14**



Source: BEA and NYC Comptroller

**Chart 2. Venture Capital Investment by Region, \$ in millions, 3Q14**

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

New York City's total and private-sector payroll jobs posted a record gain in 3Q14. The city's private-sector added 47,000 jobs, a seasonally adjusted annualized growth rate (SAAR) of 5.4 percent in 3Q14. Since there was no net growth in public sector jobs, total jobs also increased by 47,000. These gains in total jobs and private jobs are the largest quarterly gains since 1990, when comparable data became available.

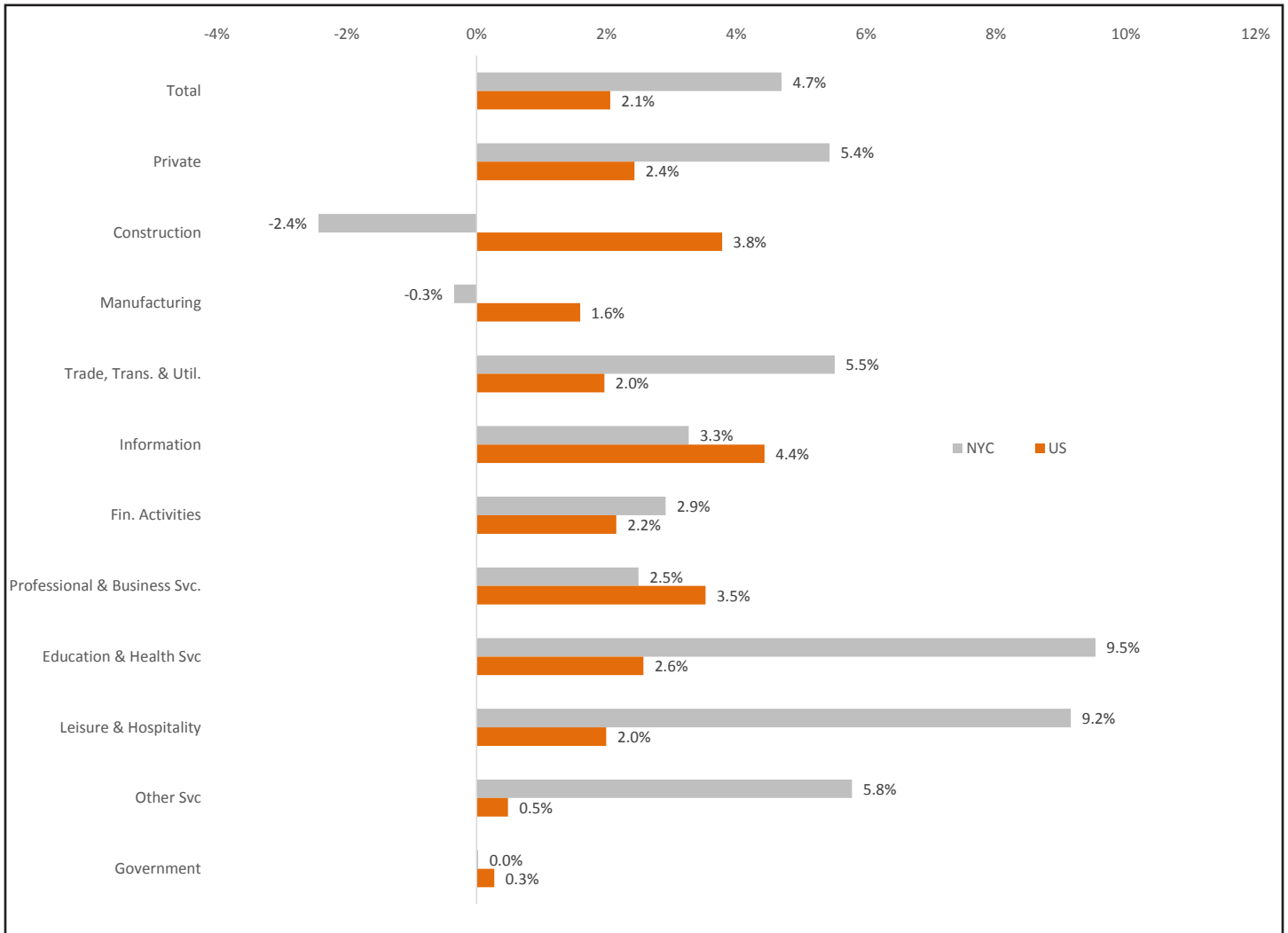
In terms of growth rate, the city's job gains dwarfed the nation's. The nation's total jobs grew 2.1 percent and private-sector jobs grew 2.4 percent in 3Q14, slightly below the rate of job creation in 2Q14, which were 2.2 percent and 2.5 percent, respectively.

NYC job gains were mostly concentrated in lower paying private industries. The biggest gains were in education and health services (+19,000), leisure and hospitality (+9,000), trade, transportation and utilities (+8,000), professional and business services (+4,000), and financial activities (+3,000). Only construction lost jobs, shedding 1,000 jobs (Chart 3).

According to the latest annual Quarterly Census of Employment and Wages (QCEW) data for 2013, average annual wages were approximately: \$37,000 for education and health services, \$51,000 for leisure and hospitality, and \$52,000 for trade, transportation and utility. The highest wages paid were approximately: \$356,000 in the financial activities sector, \$122,000 in information, and about \$103,000 for professional and business services.



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



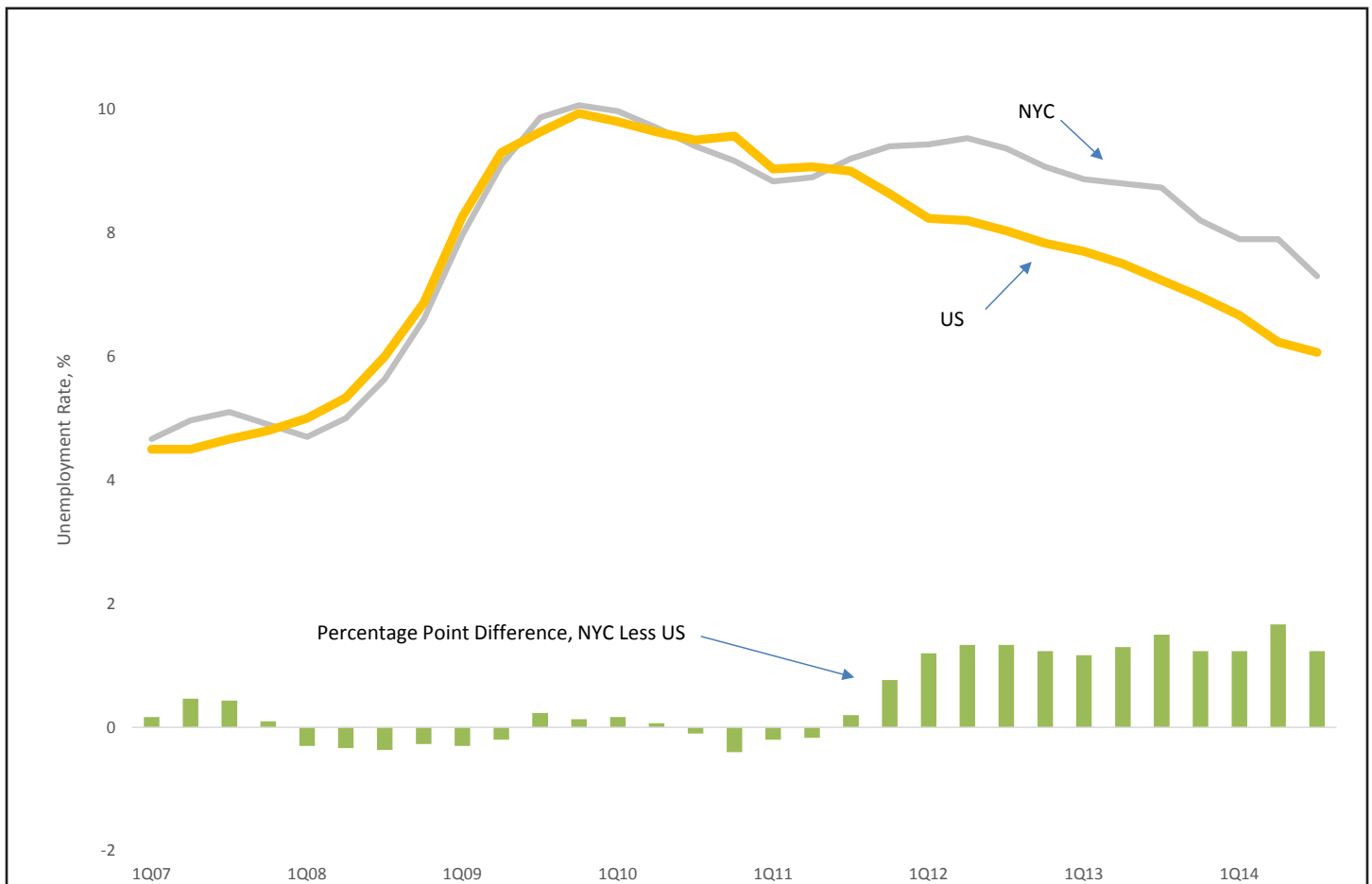
Source: U.S. Bureau of Labor Statistics (BLS) and NYS Department of Labor

NYC's unemployment rate fell to 7.3 percent in 3Q14, the lowest quarterly average since 4Q08, when unemployment was at 6.6 percent. The fall reflects a 26,000 decline in the number of unemployed residents in 3Q14 from the previous quarter, the biggest one-

quarter drop in at least 20 years (since 3Q94). The U.S. unemployment rate fell to 6.1 percent in 3Q14, the lowest in over five years (Chart 4).



Chart 4. Unemployment Rate, NYC, U.S. and NYC Less U.S., Quarterly (SA), 1Q07-3Q14



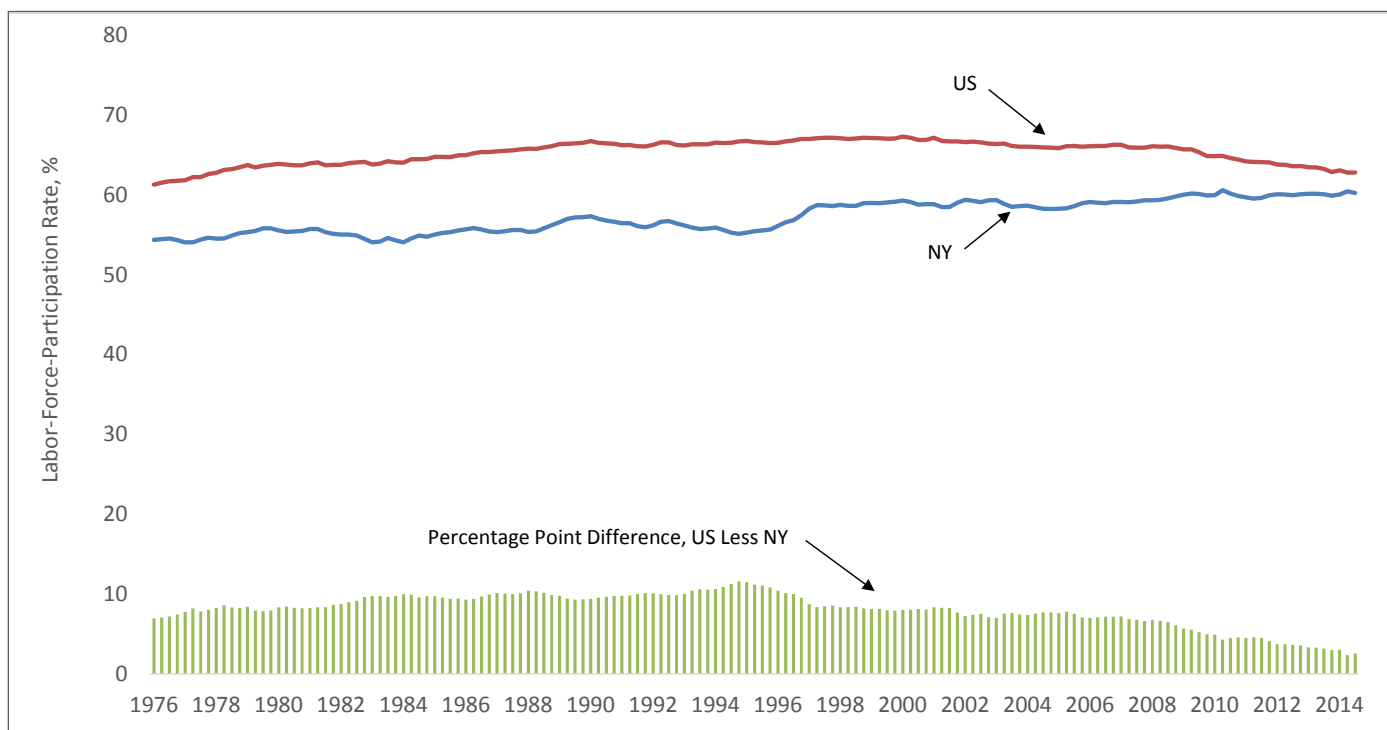
Source: U.S. Bureau of Labor Statistics (BLS) and NYS Department of Labor

The city's labor force in 3Q14 continued to hover around its record high levels. Although there was a 5,100 decline to 4,105,100 in 3Q14, it was still at its second highest level since 1976. The city's labor-force-participation rate, 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), fell to 60.2 percent in 3Q14. Except for the 60.5 percent in 2Q14, the 3Q14 was the highest since 3Q10. The U.S. labor-

force-participation rate remained flat at 62.8 percent in 3Q14. As a result, the spread between the U.S. and the city's labor force participation rate, which have been declining in the past 20 years and had reached its record low in 2Q14, increased slightly (Chart 5).



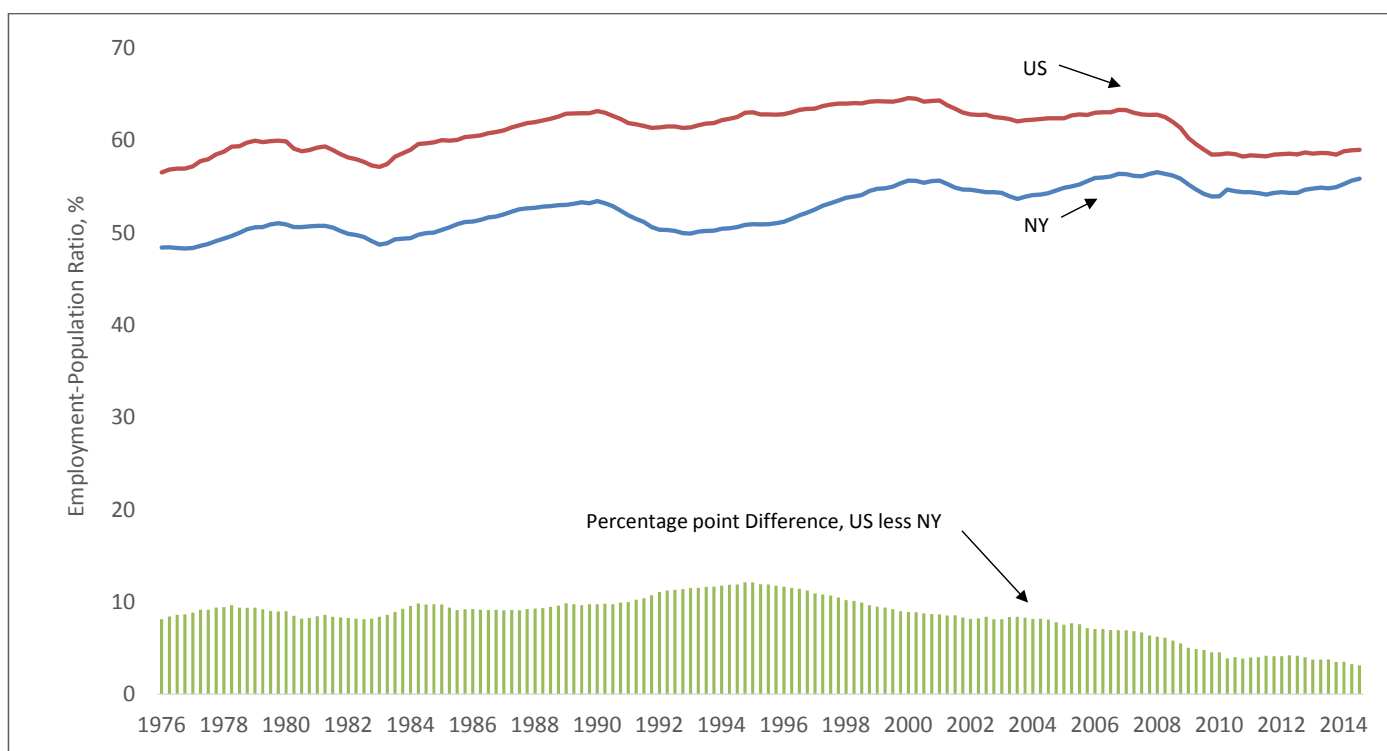
Chart 5. Labor-Force-Participation Rate, NYC, U.S. and U.S. Less NYC, Quarterly (SA), 1Q76-3Q14



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

Because of strong employment gains, the city's employment-to-population ratio rose to 55.9 percent in 3Q14, the highest since 4Q08. The spread between the U.S. and the city has fallen to a historical low of 3.1 percentage points. The gap between New York City and the nation in this area is narrowing as the city approaches the national ratio of 59 percent. (Chart 6).

Chart 6. Employment-Population Ratio, NYC, U.S. and U.S. Less NYC, Quarterly (SA), 1Q76-3Q14



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

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

		3Q14	2Q14	3Q13
County Unemployment Rate, NSA (Source: NYS DOL)	Bronx	9.8%	10.6%	12.1%
	Kings	7.6%	8.1%	9.7%
	New York	5.7%	6.3%	7.3%
	Queens	6.2%	6.8%	7.8%
	Richmond	6.6%	6.9%	8.1%
Commercial Vacancy Rate (Source: Cushman & Wakefield)	Midtown	11.0%	11.0%	11.4%
	Midtown South	8.5%	8.2%	7.6%
	Downtown	9.0%	10.0%	10.9%
	Manhattan Total	10.2%	10.3%	10.6%
Rental Rate (per sq ft) (Source: Cushman & Wakefield)	Midtown	\$73.72	\$70.82	\$68.41
	Midtown South	\$58.08	\$60.17	\$60.34
	Downtown	\$48.43	\$49.21	\$46.00
	Manhattan Total	\$66.62	\$64.82	\$62.51
Number of Apartment Sales (Source: Prudential Douglas Elliman)	Manhattan	3,328	3,342	3,837
	Brooklyn	2,077	2,086	2,119
	Queens	2,213	2,404	3,251
Case-Shiller Home Price Index, (Source: Moody's)	NY Metro Area	173.5*	174.4	168.4
	US 20-City Composite	169.6*	171.1	160.6
Hotel Industry (Source: PKF Consulting)	Average Daily Occupancy Rate	92.6%	93.3%	90.7%
	Average Daily Room Rate	\$294.02	\$305.28	\$288.05
MTA Average Weekday Ridership (Source: MTA)	NYC Transit	7,338,195*	7,900,031	7,395,770
	Subway	5,362,620*	5,708,121	5,328,227
	Bus	1,975,576*	2,191,910	2,067,543
	Long Island Rail Road	302,493*	300,116	292,695
	Metro North	290,794*	293,904	286,182

*Data includes July and August, excludes September

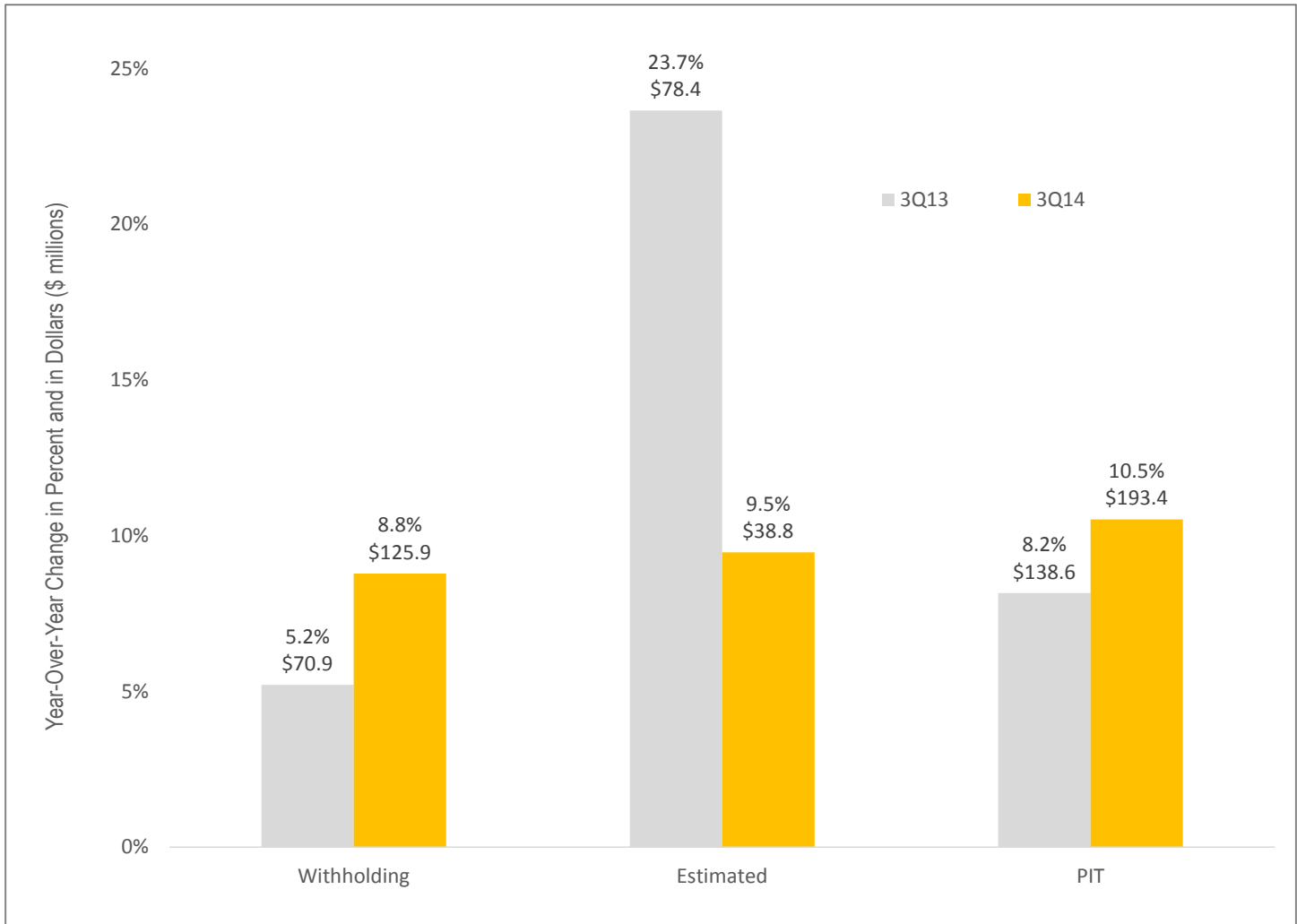
NYC personal income tax withheld from paychecks rose 8.8 percent or \$125.9 million in 3Q14, on a year-over-year basis, to about \$1.6 billion, from \$1.4 billion in 3Q13. The city had its best third quarter on record (since 1994) for personal income tax withholdings. This measure reflects the city's job gains and some salary growth in 3Q14.

Estimated tax payments, which are based on taxpayers' estimates of interest earned, rental income, and capital

gains, rose 9.5 percent or \$38.8 million in 3Q14, on a year-over-year basis, to \$449 million from \$410 million in 3Q13. The city's estimated tax payments in 3Q14 were also the highest on record. This could be due to some early profit taking, reflecting the future uncertainty regarding the financial market conditions (Chart 7). Issues like the end of the Fed's quantitative easing, sanctions on Russia, and the unrest in the Middle East are fueling those uncertainties.



**Chart 7. Personal Income Taxes, Year-over-Year
Percent Change, 3Q13 and 3Q14**



Source: NYC OMB

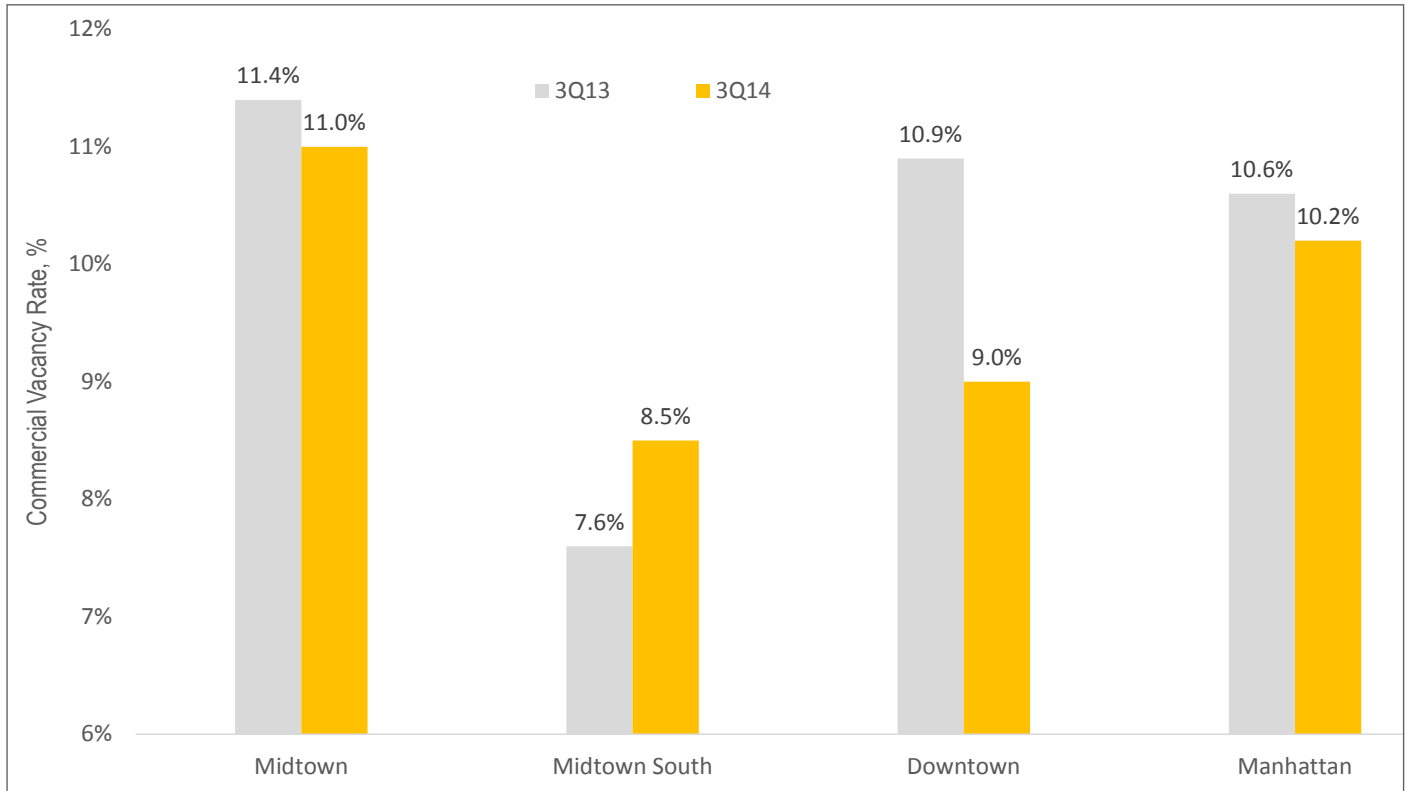
The Manhattan office vacancy rate, including sublease space, fell to 10.2 percent in 3Q14, lower than the 10.6 percent in 3Q13, as reported by Cushman & Wakefield. The vacancy rate fell in the Downtown and Midtown submarkets, but increased in Midtown South in 3Q14 from 3Q13.

New leasing activity in 3Q14 totaled over 7.6 million square feet, the best third quarter in eight years and

the highest since 1Q14. As a result, year-to-date leasing activity is about 24.4 million square feet, which is 32.4 percent more than a year ago at this time. Most of the new leasing in 3Q14 took place in Midtown, followed by Downtown and then Midtown South. Overall asking rents increased in all the submarkets except Midtown South (Charts 8 and 9).

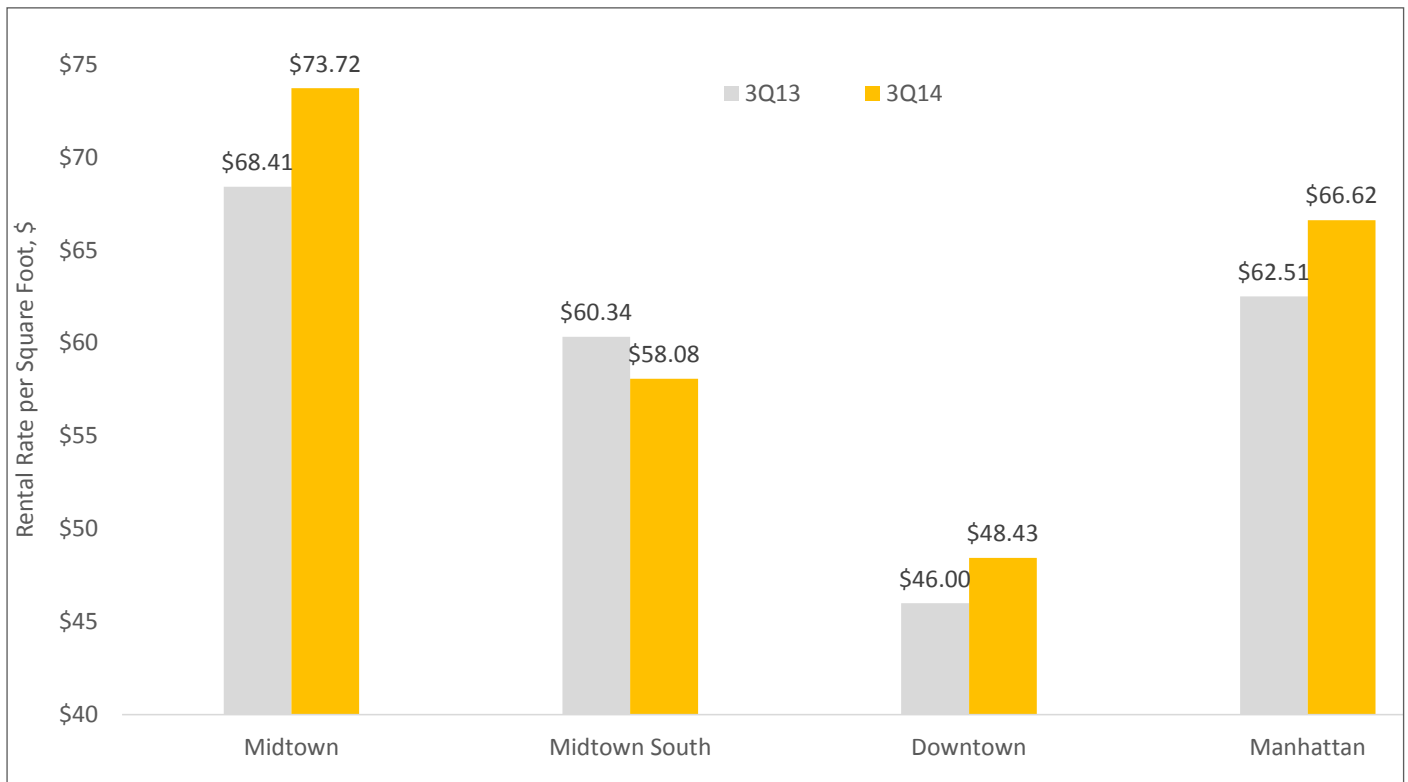


Chart 8. Overall Commercial Vacancy Rates, 3Q14 and 3Q13



Source: Cushman & Wakefield

Chart 9. Overall Commercial Rental Rate per Square Foot, 3Q14 and 3Q13



Source: Cushman & Wakefield



Manhattan, Brooklyn, and Queens housing prices (condos and co-ops) continued to rise, but the number of sales declined, according to a report from Prudential Douglas Elliman. In Manhattan, the average sales price rose 17.4 percent to about \$1.7 million, and the average price per square foot rose 11.7 percent to \$1,270 in 3Q14 over 3Q13. However, the number of sales fell 13.3 percent, the number of days on the market from last list date rose 4.5 percent, and listing inventory rose 27.6 percent in 3Q14, on a year-over-year basis.

The Brooklyn housing market also continued to do well. The median sales price rose 4.0 percent and the average sales price rose 4.5 percent. The listing inventory rose 3.4 percent while days on the market fell 35.7 percent in 3Q14 over 3Q13. However, the number of sales fell 2.0 percent in 3Q14 over 3Q13.

The Queens housing market tracked Manhattan and Brooklyn. The average sales price rose 3.7 percent and median sales price rose 6.2 percent, but the number of sales fell 19.4 percent in 3Q14 over 3Q13 (Chart 10).

The firm reports that the number of 1- to 3-family homes sold in Brooklyn fell 2.8 percent and in Queens

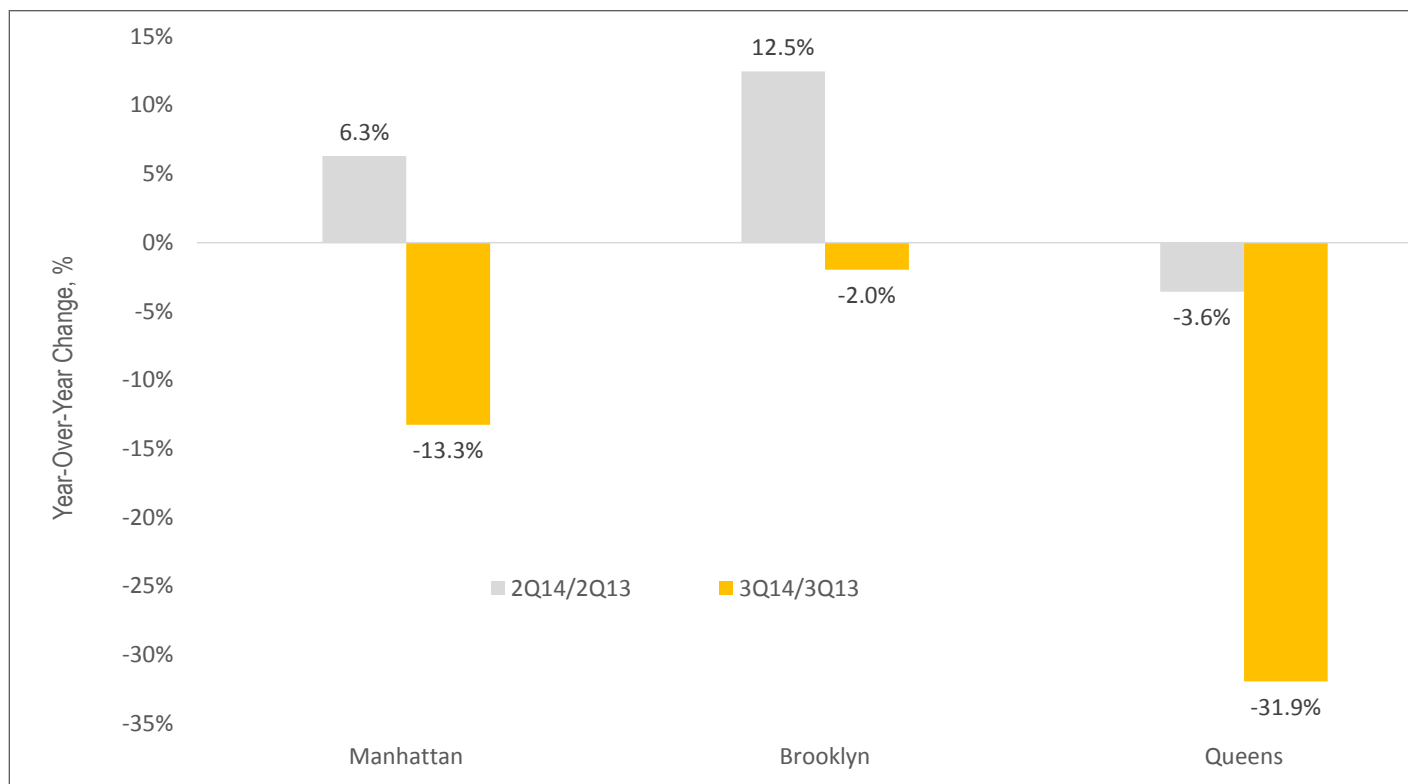
fell 25 percent in 3Q14 over 3Q13. The average sales price per square foot rose 14.3 percent in Brooklyn and 10.8 percent in Queens, compared to a year earlier.

According to the Case-Shiller index, the seasonally adjusted New York metro area home price index fell 0.2 percent in August 2014, on a month-over-month basis. It was the fifth consecutive month of decline. As a result, the New York metro area has lost all of its gains in 2014 and its index hovers around the December 2013 level. On a year-over-year basis, the New York metro area home price index in August was 3.0 percent higher than a year earlier.

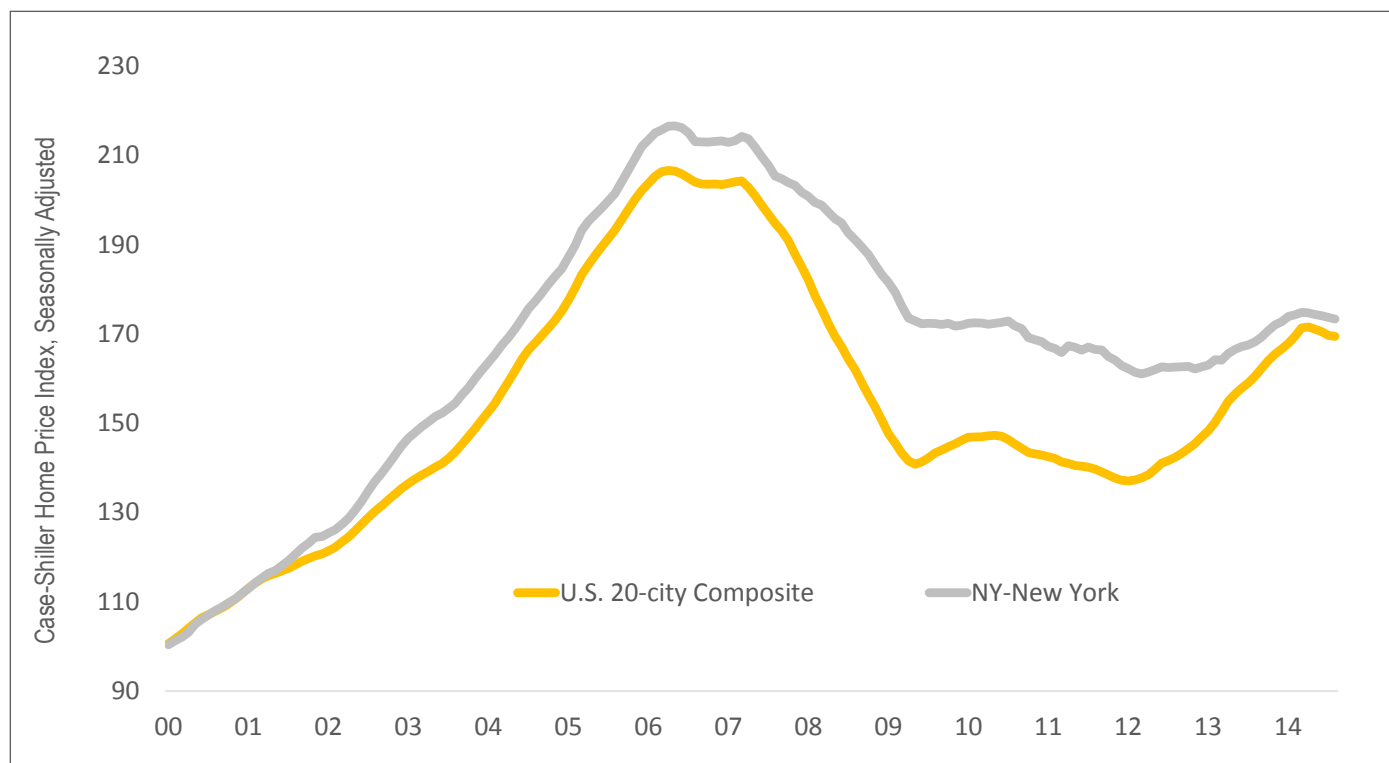
The U.S. 20-city composite index fell 0.1 percent in August, which was the fourth consecutive monthly decline. However, the index was up by 5.6 percent on a year-over-year basis.

As of August 2014, the New York metro area home price index was 7.6 percent higher than at its trough in March of 2012, but still remained 20 percent below its peak reached in May 2006. The U.S. 20-city composite index was 23.6 percent higher than its trough, but 18 percent below its peak (Chart 11).

Chart 10. Percent Change in the Number of Apartment Sales, Manhattan, Brooklyn, Queens, Year-over-Year, 2Q14 and 3Q14



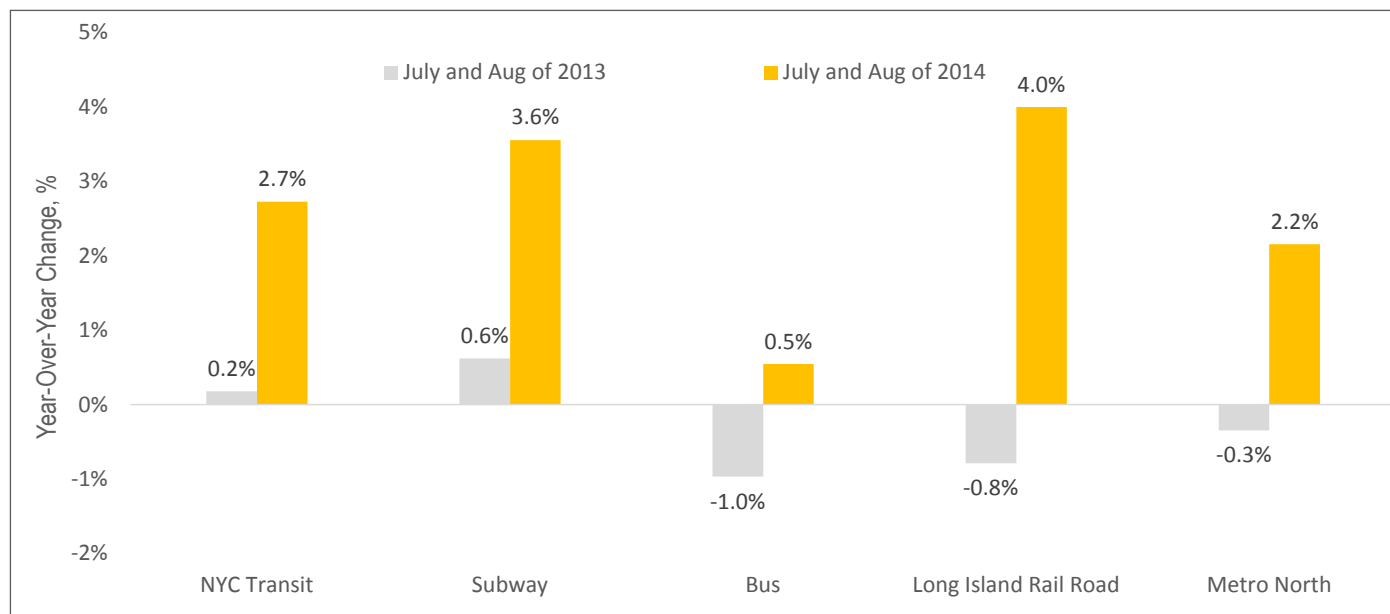
Source: Prudential Douglas Elliman

**Chart 11. Case-Shiller Home Price Index, Monthly SA, January 2000 to August 2014**

Source: Standard and Poor's

Average NYC Transit weekday ridership rose 2.7 percent in July and August of 2014 compared to the same period in 2013. Average weekday subway ridership rose 3.6 percent and bus ridership rose 0.5 percent, according to the MTA. Subway ridership hit a record of over 6.1 million customers on September 23, 2014.

Long Island Rail Road ridership rose 4.0 percent and Metro North ridership rose 2.2 percent in July and August of 2014, compared with the same period in 2013 (Chart 12). Higher ridership usually reflects an increase in the city's overall economic activity.

Chart 12. Change in MTA Average Weekday Ridership, Percent, July and August of 2014 over 2013, and 2013 over 2012

Source: Metropolitan Transportation Authority



The city's hospitality industry continued to prosper; 3Q14 was the best third quarter yet. According to PKF Consulting, the hotel occupancy rate in Manhattan averaged 92.6 percent in 3Q14, compared with 90.7 percent in 3Q13. In the previous best third quarter, which was 3Q13, the average occupancy rate was 90.7 percent. In general, an occupancy rate above 90 percent is viewed as very favorable and is a sign of a thriving hospitality industry.

The average daily room rate remained moderate. It rose on a year-over-year basis, but was not near an all-time high. The hotel average daily room rate was \$261 in July-

August of 2014, compared to \$256 in 2013. The highest average daily room rate is usually in the fourth quarter of the year and the highest on record was \$340 in 4Q13. The highest third quarter was \$308 in 3Q08. Daily room rates are not adjusted for inflation and need more caution.

Headed in the holiday season, the Great White Way continues to perform strongly. The Broadway League reported that gross weekly Broadway ticket sales were over \$315 million in 3Q14, 13 percent higher than during the same period in 2013. Total attendance was over three million, or 12.7 percent higher than in 3Q13.

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