Office of the New York City Comptroller
William C. Thompson, Jr., Comptroller

ECONOMIC NOTES

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Recession Arrives in NYC

***Overview:* The city's economy has suffered three successive quarters of negative growth as the national economic downturn intensified. All indicators signal a severe recession.**

● **Real Gross City Product fell an estimated 5.5 percent in 4Q08 after a 2.7 percent decline in 3Q08.** The U.S. economy fell 0.5 percent (final) in 3Q08, and the Comptroller's Office estimates it to have fallen at a 4.0 percent annual rate in the fourth quarter. Economic growth in both the city and the nation is likely to be significantly negative during the first quarter of 2009. For the full year, real Gross City Product increased an estimated 0.2 percent, its smallest rise since 2003.

● **NYC lost 65,000 payroll jobs in the last three months of 2008.** From December 2007 to December 2008, the city lost 53,600 jobs, or 1.4 percent, while the country lost 2.8 million jobs, or 2.0 percent. NYC sectors recording job gains included Real Estate, Professional Services, Health Services, and Accommodations and Food Service. Sectors experiencing losses included Construction, Manufacturing, Wholesale and Retail Trade, Information, and Arts and Entertainment. Finance and Insurance suffered a 21,100 decrease in December-to-December payroll employment, with 17,500 of the jobs lost coming in the securities industry.

● **NYC's unemployment rate rose to 6.5 percent in 4Q08, compared to 5.5 percent in 3Q08.** The city's unemployment rate reached its highest level since the 3Q04. The U.S. unemployment rate rose to 6.9 percent, its highest since the 2Q93. The city's employment-population ratio fell slightly to 56.6 percent in 4Q08 from 56.7 percent in 3Q08. However, the labor-force-participation rate rose to a record 60.5 percent.

● **Although the amount of NYC personal income tax withheld from paychecks in 4Q08 ($1.42 billion) surpassed that of 3Q08 ($1.31 billion), the rate of growth declined.** On a year-over-year basis, personal income taxes withheld rose 4.9 percent in 4Q08 compared with 8.7 percent in 3Q08. However, estimated tax payments, which are based on taxpayers' estimates of interest earned, rental income, and capital gains, fell 55 percent in 4Q08, compared to a 6.1 percent increase in 3Q08, measured against the comparable quarters of 2007.

● **NYC sales tax collections dropped 5.1 percent in the 4th Quarter, after rising 6.0 percent in 3Q08, on year-over-year basis.** December sales tax collections dropped 12.2 percent from December 2007. Sales tax collections are an indicator of local consumer and business spending. The decline in sales tax collections in December suggests a very poor holiday season for city businesses.

INSIDE FOCUS: Residential Preferences of NYC Workers

● **The Manhattan office vacancy rate rose to 8.0 percent in 4Q08, the highest in over two years**, according to Cushman & Wakefield. For the first time since 2001, the Midtown vacancy rate surpasses that of Downtown. More than 9.4 million square feet of space was placed in the market in 2008, of which over 5.8 million square feet were in Midtown.

● **The average market value of 1-family homes in NYC fell 6.8 percent in 2008,** according to the Finance Department's Tentative Assessment Roll for fiscal year 2010. Manhattan, where the average single-family home value fell 9.9 percent to $5.1 million, had the largest value declines, followed by Queens, in which the average assessed full value fell 9.1 percent. Prudential Douglas Elliman reports that the number of Manhattan apartments sold in 4Q08 was down 9.4 percent from 4Q07, and that the number of 1- to 3-family homes sold in Brooklyn in 4Q08 dropped 46 percent from a year earlier.

● **Average weekday ridership on NYC subways, an indicator of the city's economic activity, rose just 0.9 in October-November,** after a 5.1 percent increase in 3Q08. Average weekday ridership on the Long Island Rail Road in October-November was up 0.7 percent from the same months of 2007, while Metro North weekday ridership rose 1.9 percent from a year earlier.

Summary Table. *Five Key Economic Indicators, NYC and U.S., 3Q08 and 4Q08*

	1. GCP/GDP Growth, SAAR		2. Payroll-Jobs Growth, SAAR		3. PIT Withheld, Growth, NSA		4. Inflation Rate, NSA		5. Unemployment Rate, SA	
	NYC	*U.S.*	*NYC*	*U.S.*	*NYC*	*U.S.*	*NYC*	*U.S.*	*NYC*	*U.S.*
3Q08/2Q08	-2.7% Worse	-0.5% Worse	0.4% Better	-1.1% Worse	8.7% Worse	3.3% Worse	5.2% Worse	5.3% Worse	5.5% Worse	6.0% Worse
4Q08/3Q08	-5.5% Worse	*-4.0% Worse*	-4.1% Worse	-3.7% Worse	4.9% Worse	-4.0% Worse	2.7% Better	1.6% Better	6.5% Worse	6.9% Worse

NSA means Not Seasonally Adjusted. SA means Seasonally Adjusted. SAAR means SA Annualized Rate. PIT means Personal Income Tax. Comparisons for "Better", "Worse", or "No Change" are with the prior quarter. Fourth quarter GDP growth is Comptroller's Office estimate.

Trends in City and Suburban Residential Location

Summary: ***An analysis of the residential location of metropolitan area families by income and household type indicates that single-person households, higher-income households, and higher-income households with children revealed a greater preference for city living in 2007 than they did in 1990. Those trends suggest that the city may be better able to withstand the current recession that it did previous downturns. However, the analysis also shows that middle-income households are falling as a percentage of all city households and that families with children, except those in the highest income group, increasingly favor suburban residence.***

With a once-in-a-lifetime financial crisis now bruising the city's economy, many people are asking whether the resulting downturn will be "another 1975" or "another 1990." Both of those recessions hit the local economy particularly hard. While the consensus among economic forecasters is that the current national recession will be on a par with those slumps, and possibly even worse, it does not necessarily follow that it will take a proportionately heavy toll on the city's economy.

One reason for optimism about the city's ability to withstand the current crisis is that New York's economic position has been strengthening over the past two decades. The downturns of 1974–1975 and 1990–1993 reinforced and intensified existing trends of companies relocating from the city,[1] whereas more recently that trend appears to have abated, if not reversed.[2] Likewise, for decades New York and other large central cities experienced a long-term migration of households, especially those with higher incomes, to their suburbs. Popular perception, supported by some research findings, suggests that this trend has also reversed.[3]

The question of whether jobs follow people or people follow jobs has been a long-standing puzzle in regional economics.[4] Like most other chicken-and-egg questions, the process is probably interactive, with the location preferences of businesses influencing population movements and the residential preferences of households influencing corporate siting decisions. Recent economic research confirms that interactive process.[5]

As part of a broader effort to understand changes in the city's economic structure, the Comptroller's Office recently looked at how the residential choices of people who work in the city have changed, and how they have affected the city's income distribution. The research revealed that, since 1990, the number of upper-middle and high-income households has grown more rapidly in the city than in its suburbs, and the relative attrition of the middle-income group has been slower. Moreover, upper-middle and high-income households with a least one person working in the city have increasingly chosen to reside in the city rather than commute, suggesting that there has been a true reassessment of the benefits of city living. Since affluent households have more resources to choose where they live, their residential decisions can be read as a barometer of residential preferences.

Our findings also contain some warnings about long-term changes in the city's income structure. There has been a gradual decline in the percentage of the city's households who can be considered "middle-income," and although that trend seems to be primarily a reflection of national trends, it raises the prospect of a more economically polarized city. Also, families with children have not "tipped" back to the city except for those in the highest income group, suggesting that families reliant on public schools continue to favor suburban residence.

The changes in residential preferences we detect have produced only slight shifts in the overall distribution of household incomes in the city and its suburbs. The income distribution of the city's households has, in fact, probably been more stable than most residents might suppose. Nevertheless, the reversal of the trend toward greater economic disparity between the city and its suburbs, which had occurred over many decades to the detriment of the city's social and fiscal stability, is significant.

Changes in the City's Income Distribution

For its analysis, the Comptroller's Office utilized microdata files from the 1990 Census and the 2007 American Community Survey (ACS). These two surveys represent national samples from which New York metropolitan area and New York City subsamples can be extracted. Similar microdata from the 2000 Census and the 2006 ACS were also evaluated, although those tabulations are not shown in the charts and tables below. Data from these sources are

[1] "Exodus From Fun City," *Time Magazine*, February 24, 1967. "City Seeking to Stem Exodus of Back Office Jobs," *New York Times*, November 21, 1981. "Exodus of Jobs Seen Continuing From New York," *New York Times*, September 23, 1987.

[2] "Top Executives Return Offices to Manhattan," *New York Times*, July 3, 2006. "AOL Moving Executives, Headquarters to New York," *Washington Post*, September 18, 2007.

[3] "A Rise in Downtown Living." Center on Urban and Metropolitan Policy, The Brookings Institution, 1998.

[4] Gerald Carlino and Edwin S. Mills, "The Determinants of County Growth." *Journal of Regional Science*, Vol. 27, No. 1, 1987.

[5] Gerke Hoogstra, Raymond Florax, and Jouke van Dijk, "Do 'jobs follow people' or 'people follow jobs'? A meta-analysis of Carlino-Mills studies." European Regional Science Association, 2005.

generally comparable, although there are some minor differences among them.[6]

The Comptroller's Office adjusted the reported total incomes of households in the metropolitan area for the inflation that occurred between 1989 and 2007.[7] All dollar values in this article are expressed in inflation-adjusted 2007 dollars.

The analysis found that the number of middle-income households in New York City (defined as those with total incomes between $40,000 and $120,001 in 1989 or 2007) increased by about 26,000 between 1990 and 2007.[8] (Table 1). However, because the total number of households in the city grew at a faster rate, the proportion of the city's households falling into that income band actually decreased, from 44.5 percent of all city households in 1990 to 42.1 percent in 2007. The attrition of the middle-income cohort, however, was much more rapid in the rest of the metropolitan area. In the suburbs,[9] the relative decline of the middle-income group was actually more pronounced than it was it the city, dropping from 51.6 percent to 46.2 percent of all suburban households. In fact, there was an absolute decline in the number of middle-income families in New York's suburbs between 1990 and 2007.

Table 1: City and Suburban Households by Annual Income Category

	1990		2007	
New York City	Number	%	Number	%
$40,000 and under	1,217,006	44.3	1,277,620	42.2
$40,001—$120,000	1,250,774	44.5	1,276,992	42.1
$120,001—$200,000	238,448	8.5	288,305	9.5
Over $200,000	104,020	3.7	187,306	6.2
Total	2,810,248	100.0	3,030,223	100.0
NYC Suburbs				
$40,000 and under	987,463	25.0	1,141,359	26.4
$40,001—$120,000	2,021,618	51.2	1,996,264	46.2
$120,001—$200,000	662,756	16.8	739,994	17.1
Over $200,000	273,155	6.9	439,087	10.2
Total	3,944,992	99.9	4,316,704	100.0
United States				
$40,000 and under	38,024,441	41.5	44,793,401	39.9
$40,001—$120,000	44,560,679	48.6	52,420,062	46.6
$120,001—$200,000	6,850,243	7.5	10,403,934	9.3
Over $200,000	2,273,115	2.5	4,760,566	4.2
Total	91,708,478	100.0	112,377,963	100.0

Source: NYC Comptroller from Census microdata

The relative decline of the middle-income group in both the city and its suburbs reflects a national trend, as the nationwide percentage of households earning between $40,000 and $120,001 declined from 48.6 percent in 1990 to 46.6 percent in 2007. In the city and nation, that trend was not necessarily adverse, as the share accounted for by the lower-income group also diminished. The difference was made up entirely by growth in the share of households earning above $120,000. In New York's suburbs, however, the lowest income group also grew, indicating that there was a downward shift in incomes as well as an upward shift in incomes.

Both the city and its suburbs experienced growth in the number of households falling into the lower income band. However, in the city such households declined as a proportion of all households while in the suburbs they increased. Although the percentage of them at or below the federal poverty threshold remained constant (40 percent in the city, 26 percent in the suburbs), and the proportion of them with minor children present also stayed roughly the same, the composition of the lower-income population changed in other notable ways. Fewer of the low-income households were headed by a person 65 years or older or by a person under 30 years of age. More of them had an employed head-of-household. The most dramatic change, however, was in the number of them who were not born in the United States. In the city, the share of lower-income households with a foreign-born head rose from 34 percent in 1990 to 47 percent in 2007. Increasingly, in both the city and its suburbs, the lower-income population is comprised of immigrant working households.[10]

[6] For the purposes of this article, the two most important differences are in the way income is surveyed and in the geographic contours of the metropolitan area are drawn. Income differences are explained below. The contours of metropolitan area differ slightly between 1990 and 2007, primarily in the Hudson Valley and the northwestern New York suburbs. We do not believe that the geographic differences alter the findings materially.

[7] Using the Consumer Price Index for All Urban Consumers.

[8] The 1990 Census asked households to report their income for calendar year 1989, while the American Community Survey, which is a "rolling survey" conducted throughout the year, asked respondents to report their income over the previous 12 months.

[9] For brevity, all areas outside of New York City are referred to as "suburbs," although some jurisdictions, such as Newark and Yonkers, are highly urbanized.

[10] The ACS does not ask respondents to report their immigration status, and is designed to count the unauthorized immigrant population as well as the legally resident population. However, it is believed that the undercount of the unauthorized population is greater. The Department of Homeland Security, in its official estimates, assumes that the ACS undercounts the unauthorized population by 10 percent, a rate four times higher than the assumed undercount rate for the legally resident population.

The number of upper middle-income households ($120,001 to $200,000) has grown in both the city and its suburbs, both in absolute numbers and as a share of all households. The trend was not unique to the New York metropolitan region and, in fact, this group increased considerably faster in the nation than it did in either the city or its suburbs. Adjusted for underlying population growth, the number of upper middle-income households increased nearly twice as fast in the nation as it did in the city between 1990 and 2007. During the seventeen-year period in question, the city gained about 50,000 upper middle-income households. We estimate that about 18,700 of that increase is attributable to the city's general population growth, about 12,600 is attributable to changes in the national and regional economies, and about 18,600 to more such households moving to or choosing to remain in the city.

Although 70 percent of the region's affluent families (over $200,000 annual income) still live in the suburbs, the city actually saw slightly faster growth in that income category from 1990 through 2007 as well. In 1990, New York City was home to 27.6 percent of the region's high-income households. By 2007, the city's share had increased to 29.9 percent. Had the city simply maintained its regional share of high-income households, it would have had about 14,400 fewer such households by 2007 than it actually did. That amounts to an "excess" growth of about 850 high-income families per year.

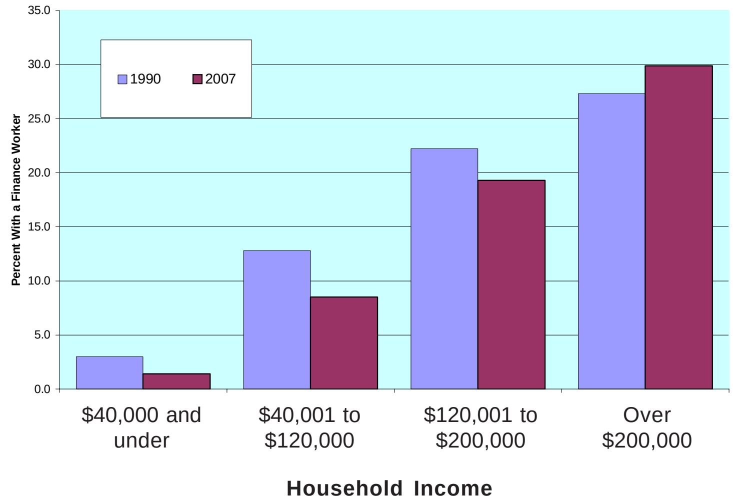
It is natural to ask whether the increase in the percentage of the city's households who can be categorized as upper middle-income or high-income is attributable entirely to the booming wages in the financial sector, which, given the current problems in that sector, are widely anticipated to deflate. Chart 1 shows the proportion of the city's households, by income category, with at least one worker employed in the financial services industry.

The chart reveals the disproportionate representation of "financial households" among the city's high-income families. Only in the highest income category, however, did the share of financial households increase between 1990 and 2007. As a result of the consolidation in the industry during the period in question, and the dispersal of back-office finance jobs out of the city, financial industry employment was actually less common among the city's middle- and upper middle-income households in 2007 than it was in 1990. While the number of high-income (over $200,000) finance households in the city grew by 97 percent, the number of high-income households with no finance workers also grew by a rapid 74 percent.

Residential Choice of City Workers

Overall changes in the city's household income distribution, while important, can result from many

Chart 1: Percent of NYC Households with At Least One Financial Sector Worker, 1990 vs. 2007



Source: NYC Comptroller from Census microdata

factors. Changes in the national or regional income distribution can affect the city's income composition, regardless of local efforts to make the city more appealing, affordable, and competitive. Demographic changes, particularly those that alter the ratio between working and non-working residents, can also affect the income distribution. By looking at only those households that have at least one adult working in the city, we can get a better sense of the residential choices people make and how their preferences are changing. Although residential preference sometimes influences where one chooses to work, within a metropolitan region it is thought that the job choice is usually made first (especially for the primary earner in a family), and that residential choice is conditioned upon place of employment.

For each income category, Table 2 shows the percentage of households with at least one primary earner (household head or spouse) working in the city who live in the city. Although the overall percentage stayed constant between 1990 and 2007, there was a clear trend among households who earned above $120,000 to live in the city. In the two higher-income categories, the proportion choosing to live in the city rather than commute increased by more than three percentage points.

The majority of the region's young single people (ages 22 to 40) do not live in the city. However, since many young people live with their parents and generally didn't choose where their parents live, it is useful to look at just those singles who have established their own residence, either as single-person households or with roommates.[11] Between 1990 and 2007, the number of young singles in the metro

[11] We have also excluded from these calculations unmarried adults who have children of their own living with them.

area living independently declined slightly to 830,000, but the proportion of them living in the city increased from 53 percent to 58 percent. Among those who work in the city, the overwhelming proportion (89 percent) also choose to live in the city, and that percentage has been growing. Perhaps most surprisingly, in 2007 over 25 percent of young singles who worked in the suburbs lived in the city, up from 21 percent in 1990. Between 1990 and 2007 the number of young, single reverse-commuters grew by almost 5,000, while the number of young single people working and living independently in the suburbs declined substantially.

Table 2: Percent of Households Who Work in NYC That Live in NYC

Household Type and Income	Percent Who Live in New York City	
	1990	2007
All Households with at least One Adult Working in City		
$40,000 and under	94.8	94.3
$40,001—$120,000	79.9	79.9
$120,001—$200,000	55.3	58.8
Over $200,000	50.7	53.8
Total	76.5	76.4
Single, Works in City (1)		
$40,000 and under	91.7	93.8
$40,001—$120,000	83.4	86.4
$120,001—$200,000	85.1	86.6
Over $200,000	92.1	87.3
Total	87.0	89.1
Married, One Spouse Works in City (2)		
$40,000 and under	91.3	90.7
$40,001—$120,000	62.4	61.8
$120,001—$200,000	30.4	31.5
Over $200,000	25.8	28.7
Total	56.6	56.7
Married, Both Spouses Work in City (2)		
$40,000 and under	95.5	97.8
$40,001—$120,000	92.0	91.3
$120,001—$200,000	76.1	77.8
Over $200,000	72.1	71.2
Total	86.0	86.1

(1) Aged 22–40, lives alone or with roommates
(2) Head of household aged 22–64

Source: NYC Comptroller from Census microdata

Trends in the residential preferences of married couples are a little more complex. As the population of the city has grown more rapidly than that of the suburbs, the city's share of all working-age people and the city's share of all working-age married people have also increased. Since, however, those who work in the suburbs have little economic incentive to live in the city (where housing costs are higher and from which commutes to suburban jobs will typically be longer), it is revealing to look at residential patterns of married-couple households in which at least one spouse works in the city.

The city's share of married-couple households in which only one spouse works in the city stayed essentially stable between 1990 and 2007, at 57 percent.[12] That stability, however, masks a trend back toward the city within each income category. In effect, there appears to be two trends working to offset one another. While more married couples with one spouse working in the city chose to live in the city within each income group, higher real incomes encouraged more married couples to seek suburban housing.

There are over 456,000 households throughout the region in which both spouses work in the city. Not surprisingly, the vast majority of them, 85 percent, chose to live in the city, as the rigors of commuting impose even greater burdens on dual-commuter families. Nevertheless, the number of families who chose to double-commute from the suburbs increased slightly from 1990 to 2007, while the number of households in which both spouses work in the city and live in the city also increased, but at a slower rate. Among this group of households, the trend in residential choice was mixed. The proportion of middle-income and upper middle-income households who chose to double-commute increased, while lower-income and high-income households appear to have shifted back toward the city.

Residential Choice of Families With Children

Some urban scholars emphasize a city's hospitality to families with children as a gauge of its vitality and future economic prospects.[13] In that light, it is useful to look at the residential decisions of families with children, and especially those in which at least one parent works in the city.

In 2007, there were nearly 5 million children under the age of 18 in the New York metropolitan area, and their numbers have grown more rapidly since 1990 than has the population of adults. Nevertheless, the percentage of households with minor children present declined slightly in both the city and the suburbs. About 39 percent of the region's children live within the city.

[12] Figures are for households in which the age of the household head is 22-64 years old.

[13] Joel Kotkin. "The Rise of Family-Friendly Cities," *The Wall Street Journal*, November 27, 2007.

In 2007, there were 960,000 families with minor children present in which at least one parent worked in New York City, an increase from 806,000 such families in 1990. Among those families that can be categorized as lower-income, middle-income, and upper middle-income, the proportion who chose to commute from the suburbs rather than live in the city increased. The increase in those commuter families with children was somewhat offset, however, by an increase in the number of high-income families with children living within the city. Although the number of such families increased by about 23,000 between 1990 and 2007, most of the increase was attributable to the number of high-income families in the region at large. Their apparent trend back toward the city probably added less than 1,000 high-income families with children to the city's population in 2007, compared to the number that would have pertained had the city-suburban share remained exactly the same as in 1990.

Table 3: Percent of Households with Children and at Least One Parent Who Works in NYC That Live In NYC

	Percent Who Live in New York City	
Household Income	**1990**	**2007**
$40,000 and under	95.1	94.5
$40,001—$120,000	74.2	73.7
$120,001—$200,000	46.1	45.8
Over $200,000	38.5	39.1
Total	70.7	69.0

Source: NYC Comptroller from Census microdata

Since families in which both parents work in the city are more likely to live in the city than those in which just one parent would have to commute, it might be supposed that the increase in high-income city families with children was caused by growth in the number of high-income families in which both parents worked in the city. That, apparently, was not the case. Fewer of those high-income, city-resident families with children had both parents employed in the city in 2007 than was the case in 1990. It is also improbable that improvement in the city's public schools has lured high-income households back; in 2007, 58 percent of the children of high-income households living in the city were enrolled in private schools.

Implications of Residential Trends

Our analysis indicates that, since 1990, New York City has made inroads in retaining and "recapturing" upper middle-income and high-income households, who in earlier decades had moved to the suburbs en masse. Although the overall effect on the city's income distribution has been small, the importance of reversing that pervasive demographic trend should not be minimized.

Previous recessions had a devastating impact on the city's economy because the cyclical stresses exacerbated and hastened the structural trend of businesses and households leaving the city. The current recession, serious as it may be, strikes at a time when the tide has been turning in the city's favor. This may help to mitigate the short-term damage of the downturn. In the longer-term, it offers hope that the city will be able to regain its economic vitality more quickly and retain its role as the commercial and cultural capital of the nation.

Although our research documents a gradual shift of upper middle-income and high-earning households back to the city, more research is necessary to determine why that trend has occurred. An improvement in city services and in the overall urban environment, a more competitive tax structure, and a renewed appreciation for the advantages of an urban lifestyle may all have played a role. From a public policy perspective it would be very useful to determine the degree to which each factor contributed to the reversal of the suburbanization trend. In particular, as the recession erodes the city's fiscal position, the dilemma of choosing between municipal service cuts or higher taxes is likely to become challenging.

Our research raises other questions with important public policy implications. For example, if the decline in the city's share of the region's lower-income households is attributable to the elimination of exclusionary barriers in the suburbs, it reflects a positive trend with very different implications than if it were merely due to low-income households being priced-out of the city's housing market. Similarly, it will be important to investigate whether the decline in the proportion of city households that can be categorized as "middle-income" is a matter of "moving up" or "moving out."

One critical question that only time will answer is whether the financial crisis will undo the improvement that has occurred in the city's income structure since 1990. In the short run that is almost inevitable, as higher unemployment rates and lower earnings for those who are employed take their toll on household incomes. It will also be unfortunate, however, if the damage to the city's financial sector interrupts the trend toward gradual convergence of city and suburban incomes. ●

Economic Notes
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