New York City Independent Budget Office

Focus On:
The Preliminary Budget

March 2021

Outlook for the City's Economy: A Slow and Fragile Recovery

After suffering a severe economic contraction at the outset of the pandemic and the public health responses to contain it, New York City has entered a slow and uncertain period of recovery. The recovery will remain closely tied to the success of public health efforts to slow the spread of Covid-19 and reduce its impact on the economy. Local cases have been on a downward trajectory since the last peak in mid-January, but along with hospitalizations and deaths, remain high relative to the rates of last summer and fall. The vaccination roll-out is picking up steam, yet statewide, New York remains below the national average for the percentage of the population vaccinated. These concerns are compounded by the recent identification of new, more contagious, and potentially more vaccine-resistant variants of the virus in the New York City area. All of this suggests the city's economic recovery will remain slow and fragile until greater and more sustained progress is made to increase the vaccination rate and reduce the number of cases, allowing for the safe resumption of some semblance of regular economic activity.

The largest impacts on employment and earnings in the city have been concentrated among industries that rely heavily on consumer behavior and tourism. Meanwhile, real estate sales have been depressed for most of 2020, particularly in the commercial real estate market. In the short run, personal income grew due to a large increase in government aid, while other income categories including wages and proprietors' income have declined. All of these factors suggest the possibility of a substantial realignment to the local economy even after the threat of the virus subsides, which may be accelerated by longer-term population and labor force changes triggered by the crisis.

Employment, Unemployment Rate, and Labor Force. Changes in the city's employment in 2020 provide a clear illustration of the depth of the economic crisis created by the pandemic. Based on Bureau of Labor Statistics data through December, New York City lost 557,000 jobs for the year. (All annual job growth numbers in this brief are measured on a Q4-to-Q4 basis.) The severity of the losses is even starker considering the changes by quarter; during the first two quarters of 2020, as the pandemic took root, the city lost a total of 889,000 jobs, or 19.0 percent of total employment. A relatively strong initial recovery followed, with the city adding 210,000 jobs in the third quarter as the pandemic eased over the summer. But job growth subsequently slowed through the fall and even turned negative in December; during the entire fourth quarter of 2020, the city had a net increase of just 122,000 jobs. Local job growth is expected to remain positive throughout the financial plan period, but at a much slower pace than during the latter half of 2020, as many of the jobs that were easiest to add back have already been restored. IBO forecasts employment growth of 152,000 jobs in 2021, 149,000 in 2022, 107,000 in 2023, and an average of 53,000 per year in 2024 and 2025. By the end of the forecast period, total city employment will have nearly—but not quite—reached the levels seen at the end of 2019, before the pandemic began.

While job losses were recorded across all sectors of the economy in 2020, the largest losses were concentrated among major sectors closely tied to services and consumer activity, including leisure and hospitality (202,000 jobs), administrative and support services (53,000 jobs), and retail and wholesale trade (49,000 jobs). IBO expects these sectors to begin adding jobs again in 2021, although—as with overall employment—they are not forecast to reach pre-pandemic levels by the end of 2025. In particular, leisure and hospitality has the weakest projected recovery of any sector, with jobs at the end of the forecast period still down from pre-

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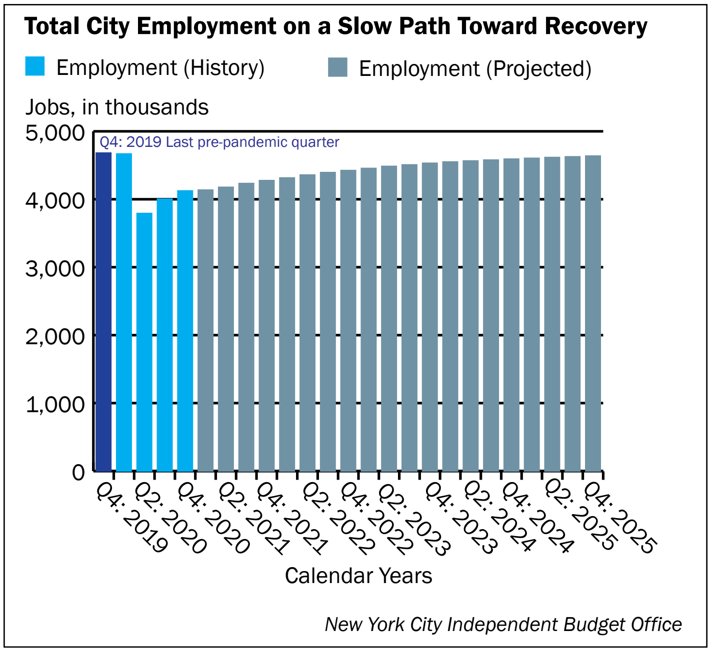
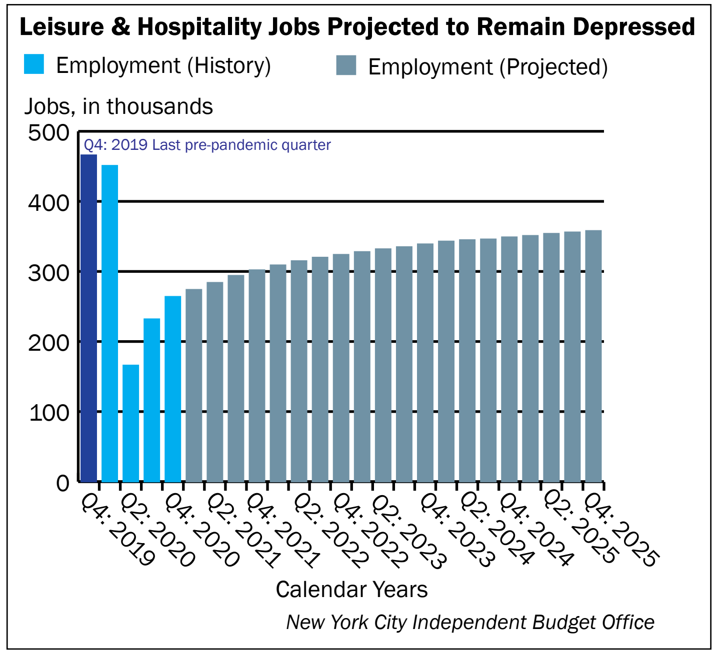
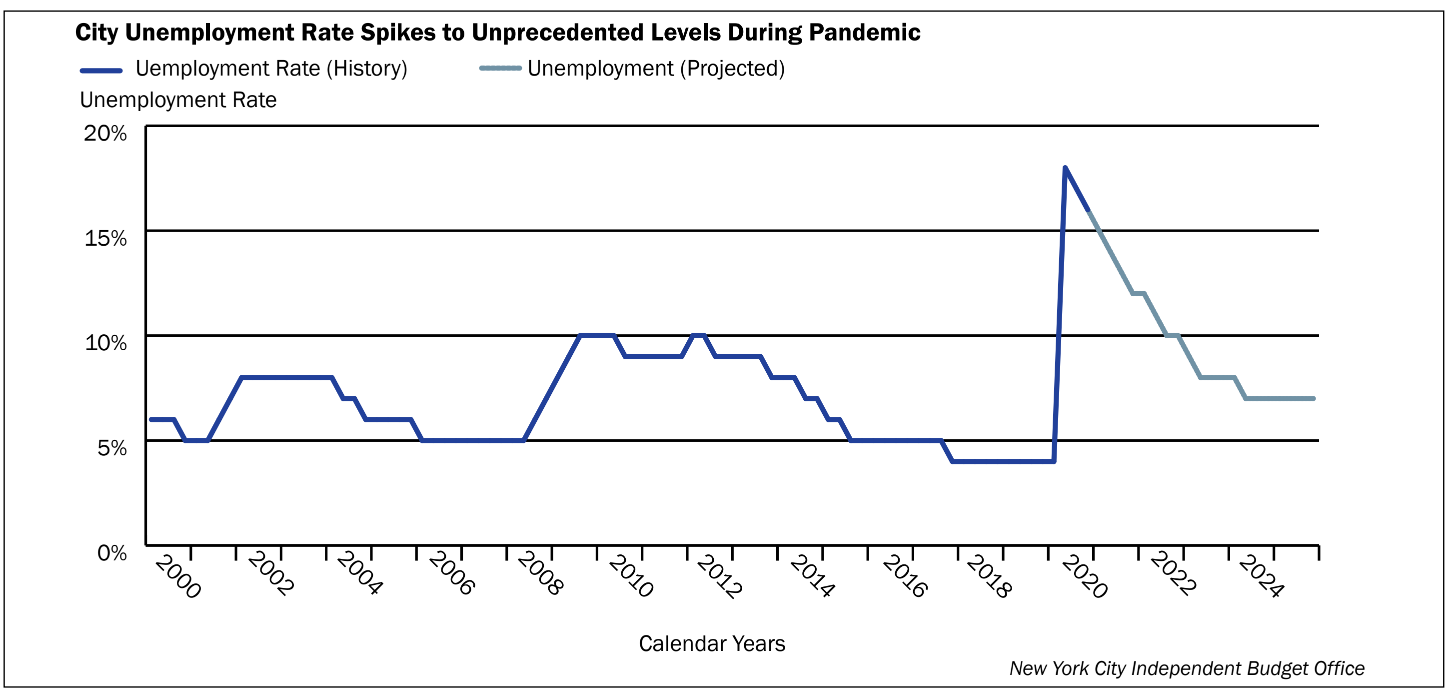




pandemic levels by 23.2 percent (466,000 jobs in 2019 versus 358,000 jobs in 2025). In contrast, we project that by 2025, employment in some sectors will exceed their 2019 levels, especially some service sectors best suited to resume operations amid a protracted public health emergency and its aftermath. These sectors include health care, information, professional/technical services, and financial services. All of this suggests a slow and uncertain path toward resuming the robust and diverse economic activity that the city previously enjoyed, with particular challenges for those sectors driven not only by the behavior of New Yorkers, but also heavily dependent on a steady flow of leisure and business travelers.

IBO expects that the gradual increase in local employment will be accompanied by a steady reduction in the unemployment rate, though it too has a long path toward recovery. At the end of the lengthy economic expansion following the financial crisis of 2007-2008, the unemployment rate in New York City reached a record low for the modern era, 3.6 percent in the fourth quarter of 2019. The heavy job losses sustained at the outset of the pandemic resulted in a sharp spike to 17.9 percent unemployment in the second quarter of 2020—by far the highest rate since 1976, when the current measure of the unemployment rate began. The unemployment rate remains high, an estimated 14.9 percent for the first



quarter of 2021, but IBO expects it to decline rapidly over the next two years before tapering off. By the end of 2025, IBO forecasts an unemployment rate of 7.1 percent, roughly equal to the rate in mid-2014, five years after peak unemployment in the aftermath of the financial crisis.

One complicating factor for the employment situation is the potential for changes to the size of the city's labor force, as the result of both shifting demographics and possible population shocks in response to the pandemic. Since 2016, there has been a small but steady decline in the city's population, and the pandemic has exacerbated the decline in 2020. Many city residents relocated out of the city in the months after the first Covid-19 cases were reported in the New York metro area, nearly one year ago. At this point in time there are no clear data to assess the extent to which these relocations are temporary or will become permanent. But as employers and employees have become more comfortable with remote working arrangements, demand for both commercial and residential real estate has declined. Permanent changes to employment-based location decisions could serve to encourage a shift toward employment in sectors that can more easily accommodate employees living outside of the city, at the expense of employment in local services for the city's resident population. All of this remains uncertain and will be affected by the speed and efficacy with which the impacts of the pandemic can be overcome.

Personal Income and Wages. While the city saw steep employment losses in 2020, personal income—the total of all sources of income received by city residents—increased by an estimated 2.9 percent in 2020, to $701.8 billion. This rate of growth is less than half the 6.2 percent average rate over the previous three years. Additionally, the increase was mostly the result of a sharp uptick in government transfer payments, including expanded unemployment benefits and federal stimulus checks, which grew by 46.2 percent over 2019 levels. All other major income categories declined, including wages and earnings (by 3.4 percent), proprietors income (by 8.4 percent), and dividends and interest (by 1.8 percent). IBO expects growth to resume in these categories as transfer payments return to more typical levels, resulting in continued but slow personal income growth of 1.0 percent in 2021 and 1.5 percent in 2022, before picking back up to an average of 4.5 percent in the final three years of the forecast period. In the near term, however, income growth could be boosted beyond these levels by additional stimulus from the federal government, including the most recent budget resolution passed by Congress, which appears to have paved the way for a $1.9 trillion relief package providing aid to states, localities, and individuals.

Wages and salaries are the largest single category of income for city residents, bringing in $439.8 billion—62.7 percent of total personal income—in 2020, a decline of 3.4 percent from 2019. Part of the reason that wages have not declined as precipitously as employment is due to a compositional effect both across and within industries, with job losses concentrated among lower-wage positions while many higher-wage positions were more easily shifted to remote work. Many of the lower-wage industries that saw the steepest employment losses also suffered large declines in aggregate wages, including leisure and hospitality (41.2 percent), administrative and support services (19.7 percent), and trade (13.4 percent). Meanwhile, certain higher-wage industries saw increases in aggregate wages, including information (10.5 percent), securities (6.1 percent), education (3.3 percent), professional/technical services (3.1 percent), and health (1.6 percent). There were also some smaller industries that did not experience as much of a decline in employment but still saw large reductions in wages, such as construction (21.3 percent) and manufacturing (20.4 percent). IBO projects overall wage growth to resume at an average of 4.2 percent per year from 2021 through 2025, ending the forecast period at $540.5 billion, about $100 billion above our initial estimate for 2020.

Real Estate. IBO estimates total taxable real estate sales of $61.3 billion for 2020, down from $99.8 billion in 2019 and the lowest sales on record since 2010. Additionally, the split between residential and commercial sales, which has been relatively even in recent years, has shifted more heavily toward residential sales, which made up about 60 percent of total sales in 2020. This sharper reduction in commercial sales reflects the ongoing uncertainty about the future of business operations and needs in the city. As discussed above, businesses in consumer-facing sectors have seen the largest losses in employment and earnings, and many existing jobs in professional and technical sectors have shifted toward alternative working arrangements, all of which puts downward pressure on demand for commercial real estate. Conversely, there has recently been a rebound in residential sales albeit at discounted prices, suggesting a resilience in the demand for New York City housing. As the nascent economic recovery strengthens, IBO projects that real estate sales will slowly begin to rise toward pre-pandemic levels, reaching $79.6 billion in 2021, $86.7 billion in 2022, and averaging $94.1 billion in 2023 through 2025.

Wall Street. Unlike the employment, wage, income, and real estate figures discussed above, which saw either a steep contraction or significant slowing in 2020, New York Stock Exchange member firms are estimated to have posted $45.8 billion in profits for the year, which is 63 percent greater than the $28.1 billion recorded in 2019. Profits this high have only been surpassed once before, in 2009, in the immediate recovery from the steep losses suffered during the financial crisis when a large influx of federal assistance aided key firms. The current profits are not driven by particularly high net operating revenue, which is down from 2019, but rather from a sharp reduction in net interest expenses as rates have been cut dramatically in response to the pandemic.[1] With the projection of rising interest costs as the national economy continues recovering, IBO forecasts that profits will return to more typical and stable levels in the coming years, at $26.7 billion in 2021, $27.2 billion in 2022, and averaging $28.7 billion from 2023 through 2025.

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Endnotes

[1]Net operating revenues are non-interest revenues less non-interest expenses. Net interest expenses are interest revenues less interest expenses.