Is the recession over in New York?

By James A. Parrott

May 10, 2010

Job numbers are up, unemployment is down. Consumer confidence is up. Gross domestic product has increased for three quarters. It sounds like the recession is behind us and we're on the road to recovery.

Wait, don't pop that cork yet. Our economic house may not be burning down anymore, but it's not quite ready for us to move back in. It was badly burned and it will take quite a while to make it livable once again.

By the measures that matter, this recession has been worse for New Yorkers

While the Great Recession might be over in a technical sense for the nation and New York City, the recovery path will be rocky and long. It's true that New York City lost proportionately fewer payroll jobs in this recession than in the two previous downturns in the early 1990s and the early 2000s. Yet, by other measures such as the falloff in total wages or the rise in joblessness among city residents, this recession is every bit as bad as, or worse than, the two that preceded it. Also, given the more far-reaching changes we've seen in our economy and the finance sector, it is less likely that there will be a quick and steady rebound. This report examines why we are not out of the woods of economic adversity.

Consider the figures below, major indicators for New York City during this and the two prior recessions, both of which were widely recognized as very severe slumps that took a heavy toll on average New Yorkers.

New York City workers suffered worse wage decline in this recession

Percent change from prior year	**Worst year of each recession**		
	1991	**2002**	**2009**
Decline in NYC payroll jobs	-6.0%	-2.9%	-2.8%
Personal income change	1.8%	-1.0%	-3.0%
Total wage decline	-1.4%	-5.3%	-10.5%
Total Non-finance wage decline	**-2.3%**	**-1.3%**	**-4.9%**

Sources: U.S. Bureau of Economic Analysis; New York State Department of Labor; 2009 forecasts by FPI.

Taking 2009 as the worst year of the current recession, the single year decline in total wages (leaving aside the finance sector) during this recession was almost five percent, much greater than the falloff in total non-finance wages during the single worst years of the two previous downturns. Many more workers suffered pay cuts and/or were forced to work fewer hours during the current recession than during the last two. With wages dropping that much, households sharply curtailed their spending in neighborhood shops and restaurants.

New York City joblessness has more than doubled

Unemployment has also increased much more in this recession than in the last two, as the numbers below demonstrate. From early 2008 until December of 2009, the number of jobless city residents more than doubled, jumping by nearly 240,000. This was a much larger increase than in the early 1990s or the early 2000s. The unemployment increase this time has been about twice what it was during the 2001-2003 recession.

The increase in NYC's unemployment is much greater in this recession

Change from peak to trough months	**1989-1992 recession**	**2001-2003 recession**	**2008-2009 recession**
Total recession loss in payroll jobs located in NYC	-360,000	-235,000	-175,000
Increase in number of NYC residents unemployed	**174,900**	**120,400**	**238,700**
Percent increase in number of unemployed residents	84%	61%	133%
Percentage point increase in city resident unemployment rate	5.2%	3.1%	5.9%
Decline in city resident household employment	-158,100	-40,400	-160,600

Source: New York State Department of Labor.

How can it be that the increase in unemployment has exceeded the decline in the number of payroll jobs? The "payroll jobs" count comes from a survey of jobs in businesses located in the city, and does not include the self-employed. In part, people kept entering the labor force even as the economy soured, adding to the number of people who get reported as unemployed. But that's not all—it's also that there have been far fewer opportunities during this recession for people to turn to self-employment as a fallback when they lost a job working for someone else.

The other official monthly survey of the job market surveys households and what's called "household employment", which includes the self-employed. Household employment among city residents dropped by 160,000 in this recession, slightly more than in the early 1990s recession, and four times the household employment falloff in the early 2000s recession. Some of the decline in payroll jobs located in the city results from commuters losing their jobs. The fact that the gap between the loss of payroll jobs and household employment is so much smaller in this recession is because a much greater share of the city job loss was suffered by city residents. In the finance sector, which was spared in part by the bailout, commuters hold 40 to 50 percent of the highest paying jobs. In most moderate- and average-paying sectors, city residents hold 90 percent or more of the jobs.

The reality of the Wall Street-Main Street disconnect

New York City's job losses in this downturn have been heavily concentrated in moderate- and middle-income paying sectors largely populated by city residents. There is a lot of truth in the argument that the Great Recession has seen a sharp disconnect between Wall Street and Main Street.[1]

Main Street has borne the brunt of the Great Recession in job losses, much higher unemployment, and wage declines much greater than in the two prior downturns. Wall Street chalked up record profits in 2009—in fact, three times the previous record and more than the combined profits of the four years of the housing bubble from 2003 to 2007. For the average New Yorker, however, the bite of this recession is much worse and there is no end in sight.

We've seen that unemployment rates are much higher than the citywide 10 percent rate in certain communities within the city. In central and south Bronx, central and east Brooklyn, Harlem, and Washington Heights, unemployment rates among blacks and Hispanics are 15 to 20 percent, three or four times the unemployment rates among non-Hispanic whites on the Upper East and West Sides and in brownstone Brooklyn.[2]

Moreover, the standard unemployment rate does not include those who are under-employed or discouraged workers who have given up looking for work because job prospects are so bleak. When such workers are included, the "real" unemployment is 17 percent, compared to the 10 percent level based on the standard measure.[3]

Many parts of the local economy show the signs of the Great Recession's severity:

- Retail sales in New York City, as measured by sales tax collections, dropped by 11 percent in the 12 months following the September 2008 financial market meltdown.
- Bankruptcy rates among small and medium-sized businesses have soared and are three times the rate they were in 2006.
- The disaster of predatory subprime mortgage lending has devastated many minority neighborhoods in New York City.

As bad as this recession has been, it would have been much worse were it not for the unprecedented federal stimulus package—the American Recovery and Reinvestment Act of

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[1] Fiscal Policy Institute, *State of Working New York City 2009: A Tale of Two Recessions*, November 19, 2009. http://www.fiscalpolicy.org/SOWNYC2009.html.
[2] Fiscal Policy Institute, *New York City in the Great Recession: Divergent Fates by Neighborhood and Race and Ethnicity*, December 21, 2009. http://www.fiscalpolicy.org/SOWNYC2009.html#reportneighborhoods.
[3] Fiscal Policy Institute, Briefing on Mayor Bloomberg's Preliminary FY 2011 New York City Budget, February 9, 2010. http://www.fiscalpolicy.org/SOWNYC2009.html.

2009. The Recovery Act has pumped over $10 billion into the city economy so far and has created or saved an estimated 83,000 jobs in New York City and kept 250,000 city residents from falling into poverty last year.[4] The fact that the recession has taken such a heavy toll despite the substantial, beneficial effects of the stimulus underscores the profound crisis represented by the Great Recession.

400,000 jobs needed to return unemployment rate to pre-recession levels

To get the city's unemployment rate back down close to where it was before the recession, we will need to add 400,000 jobs. That reflects the jobs lost plus what's needed to accommodate growth in the size of the city's labor force.

Given that, it looks like long-term unemployment will stay pretty high for some time. Already, half of unemployed New Yorkers have been jobless for over six months. Long-term joblessness erodes a worker's earnings when they finally get re-employed and it will mean that young adults ages 20-24, for whom unemployment rates are 20 percent (37 percent for teenagers), will face a particularly uphill climb into the job market. Plus, there is already evidence that older workers, many of whom saw their retirement savings devastated by the stock market crash, are staying on the job longer.

Recent economic forecasts call for an unusually slow recovery. The Congressional Budget Office, for example, expects the unemployment rate to still be 9 percent at the end of 2011. Locally, the employment forecast by the city's Independent Budget Office indicates it will be sometime after 2014 before the unemployment rate would drop below 6 percent.

Bubbles to the rescue?

Although economists were surprised at how quickly New York City rebounded from the early 2000s recession and the effects of 9/11, we now realize that bubble conditions had a lot to do with that resurgence, even as fleeting as it was.

I don't think we can count on (or want) another bubble coming to the rescue. The extraordinarily low interest rates fueling Wall Street profits will not last. And it is doubtful that much of a sustained recovery is in the works, barring further national economic policy changes, particularly additional stimulus spending. The tenuousness of this "recovery" was made clear recently when the non-governmental body responsible for dating the turning points in the economic cycle stated that they could not rule out a "double-dip" recession.[5] We don't know what will happen when the effects of the big federal stimulus package wind down.

[4] Fiscal Policy Institute, "The Impact of the American Recovery and Reinvestment Act on New York City," testimony presented by James Parrott before the New York City Council General Welfare Committee, March 1, 2010. http://www.fiscalpolicy.org/FPI_TestimonyOnARRA_CityCouncil_20100301.pdf.
[5] National Bureau of Economic Research, Business Cycle Dating Committee, *NBER Confers: No Trough Announced*, April 12, 2010. http://www.nber.org/cycles/april2010.html.

The economy has changed forever …

For many reasons, we can't expect a garden-variety recovery. The housing market, usually a major engine of recovery, was crippled by the bubble. Consumer spending that makes up two thirds of the economy will be dampened for at least the next year or two by weak job growth, stagnant wages, and high debt burdens. Since the 1980s, periods of economic growth have been heavily influenced by financial excesses and bubbles. If financial regulatory reform and the Federal Reserve don't ensure that financial excesses are contained, the Federal Reserve might not survive to see its centennial anniversary in 2013.

… and we're still groping for the actions needed to fix the damage

More than anything else, the recovery of the city economy depends on a sustained recovery at the national level. We have an enormous stake in the President and Congress fixing the economy. Meaningful financial reform and additional economic stimulus are critical, but far from sufficient. We need proactive policies to spur job creation and investment, including wage subsidies, public service jobs,[6] and more infrastructure spending to build a better foundation for economic growth. We also need an increase in the minimum wage, the Employee Free Choice Act to break down barriers that thwart workers' efforts to form unions, and a reauthorization of national welfare reform that reduces poverty levels that haven't seen sustained improvement since the 1960s.

New York City government can support a real recovery by making sure that it doesn't worsen unemployment and the well-being of moderate and middle income New Yorkers by closing city budget gaps by slashing essential programs and services and laying off thousands of teachers and other city workers. The City can also do much more to use economic and workforce development resources to raise low wages that keep hundreds of thousands of city residents and their families below or near the poverty line. By the City's reckoning, the 2008 poverty threshold for a four-person family was $30,419.[7] Yet, median weekly earnings for city residents who are not managers or professionals were $504 in the last quarter of 2009. That would make yearly wages of $26,208, 14 percent below the poverty line. Relying on better wages for every New Yorker makes a lot more sense as an economic recovery strategy than waiting for Wall Street bonuses to trickle down.

The Fiscal Policy Institute (www.fiscalpolicy.org) is an independent, nonpartisan, nonprofit research and education organization committed to improving public policies and private practices to better the economic and social conditions of all New Yorkers. Founded in 1991, FPI works to create a strong economy in which prosperity is broadly shared.

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[6] Local Jobs for America Act, H.R.4812, sponsored by Rep. George Miller, introduced March 10, 2010. http://edlabor.house.gov/blog/2010/03/local-jobs-for-america-act.shtml.
[7] New York City Center for Economic Opportunity, *The CEO Poverty Measure, 2005-2008*, March 2010. http://www.nyc.gov/html/ceo/downloads/pdf/ceo_poverty_measure_v5.pdf.