Tale of Two Recessions: The Current Slowdown in NYC Compared to the Early 1990s

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Preface

This study is one in a continuing series of reports on the NYC and NYS economies prepared by the Fiscal Policy Institute. These reports have analyzed the economic impact of the World Trade Center attack as well as broad structural and cyclical changes in the city and state economies. In addition to its ongoing analysis of city and state budgets and fiscal policies, FPI also prepares labor market profiles on specific industries and reports on the economic and labor market dynamics of major industry sectors. This report was prepared by James Parrott and Oliver Cooke.

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Highlights

- The current economic slowdown in New York City, which began in January of 2001, has seen the loss of 159,000 jobs on a seasonally adjusted basis through October of 2002 (based on preliminary figures). When revised in the usual pro-cyclical manner, and taking into account the last two months of the year, the two-year employment decline in NYC will likely be 5%. This will not have been a mild slowdown, even if it were to end this month.

- The economic aftermath of the World Trade Center attack accounts for about half of the job loss suffered so far since the peak month of December of 2000. Sizable WTC-related job losses occurred in tourism, air transport, apparel manufacturing and building services. The job losses suffered in the industries hardest hit by the attack were five times as great in NYC as in the nation.

- While in many respects the current slowdown is much less severe than NYC's 1989-1992 recession, when the city lost 10% of its employment base over a 45-month period, the pace of NYC's job loss during this slowdown exceeds the losses incurred through the first 22 months of the 1989-1992 recession.

- In several respects, the 1989-1992 recession was much more severe than the current slowdown:

    - The unemployment rate rose by 7 percentage points during that recession and peaked at 11.6% in September of 1992. During this recession, unemployment rose by 2.7 percentage points to a high of 8% in May of 2002.
    - Job losses totaled 361,000, or 10.0%, in the last recession. To date, preliminary figures show a decline of 4.2% although the year-end figure might be 5% when likely revisions and two more months of data are factored in.

    - For the six-year period including the 1989-1992 years and the two following years, real NYC total personal income grew by a paltry 1% per year. The City's Office of Management and Budget projects only a single year, 2002, of decline in real NYC personal income.

- There is reason to be concerned about the city's near-term economic outlook, however, given the city's heightened economic and fiscal dependence on Wall Street. Restructuring on Wall Street in the wake of the October 1987 stock market crash ushered the city solidly into the 1989-1992 recession. The city's greater dependence now on Wall Street is best demonstrated by the fact that 48% of the growth in real earnings in NYC during the 1990s expansion came directly from Wall Street, up considerably from the 16% Wall Street share of earnings growth in the 1980s.

- Between the 2nd half of 2000 and the 2nd half of 2001, total wages paid in NYC fell by $3.7 billion, or 4.1%. Wall Street accounted for $2.3 billion, or more than 60% of the total decline. For Wall Street, this was a 12.3% decline. The other sector representing much of the job loss in the early, pre-WTC attack phase of the recession, was business services where total wages fell by $1.5 billion from the last half of 2000 to the last half of 2001, a 16.1% decline for that industry.

- For the current recession-to-date period (December 2000 to October 2002), 51 of 61 detailed industries (84%) have registered net job declines. Only five industries have had net job gains of 1,000 or more. Gaining industries were led by health care with a net increase of 10,900, followed by educational services (up 9,200) and social services (up 8,100). These three industries are all heavily influenced by government spending.

- The NYC industries with the greatest proportional job declines during this recession are: computer services (the industry housing the dot.com sector) with a job decline of 28%; temporary help agencies (-21%), advertising (-19%), and air transport (-18%). (For the 1st 3 industries mentioned the declines are measured from fourth quarter of 2000 through fourth quarter of 2001 since detail for these industries is only available from the insured employment series.)

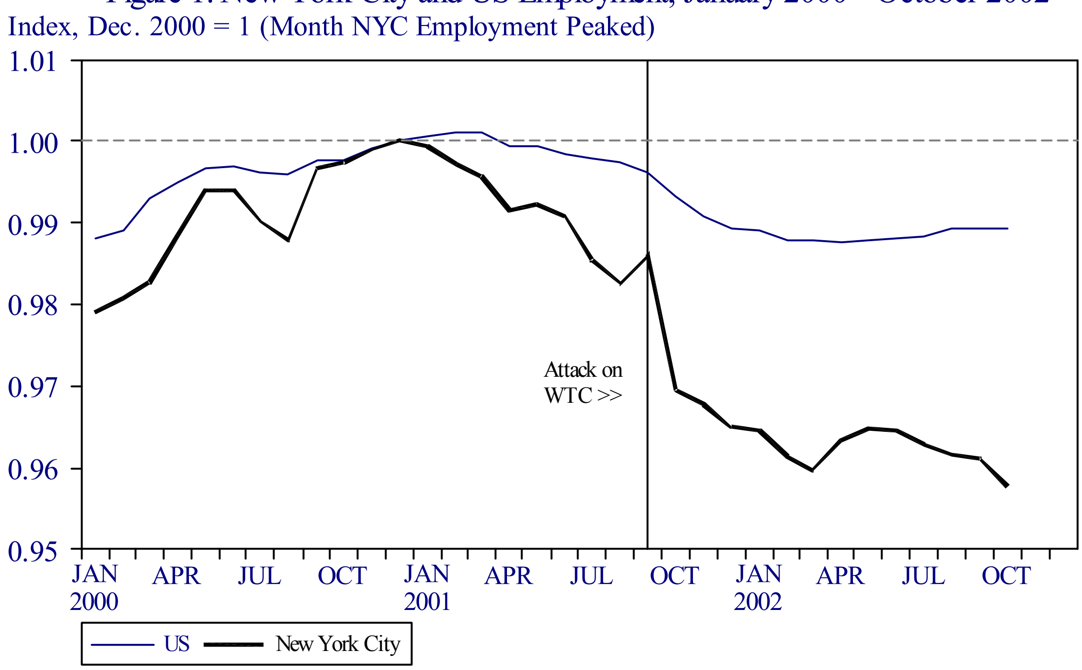
- Unemployment insurance, which was extended five times during the 1989-1992 recession, helped offset a cumulative decline in total wages of $22.2 billion over the four years from 1990-1993. Unemployment benefits are likely to play a much weaker role in restoring lost wages during the current slowdown since benefits have been extended only once by the federal government.

- It also appears that some major components of the social safety net will provide much less of a cushion during this downturn than during the last recession. For example, food stamp payments have risen by only 4.8% through the first 20 months of this downturn compared to a growth of 31.9% for the first 20 months of the last recession.

The Current Slowdown

The current economic slowdown in New York City began in January of 2001 in the wake of the bursting of the tech stock bubble on Wall Street. As the air escaped from the bubble, stock prices collapsed, dot.com jobs and whole companies evaporated, and eventually the public's stock-buying frenzy and Wall Street's merger-and-acquisition deal-making fizzled. Even before the terrorist attack on the World Trade Center in September of 2001, NYC had lost 52,400 jobs (1.4%) from the peak reached the preceding December and the city was already leading the country into recession. (see Figure 1)

Figure 1: New York City and US Employment, January 2000 - October 2002



Source: BLS and NYS DOL. NYC employment seasonally adjusted by Fiscal Policy Institute.

The September 11th World Trade Center attack resulted in the loss of nearly 80,000 jobs in the financial sector and in a range of industries from air transportation to tourism and from apparel manufacturing to wholesale and retail trade that were severely undermined in the aftermath of the attack. In the 4th quarter of 2001, the period when the economic fallout from the Trade Center attack was concentrated, NYC's 2.1% job decline was three times the nation's 0.7% job loss. In the industries hardest hit, NYC suffered job losses five times as great as the nation. (see Figure 2)

This year began with the loss of almost 20,000 jobs in the first quarter. While a glimmer of optimism appeared in the second quarter of this year when there was a net gain of

18,200 jobs in NYC, since the summer that glimmer has been erased by the resumption of job losses (24,300 from July through October) and the continuation of troubles on Wall Street.

FIGURE 2: 4TH QRT. 2001---SEPT. 2001 TO DEC. 2001

	Sept. 2001	Dec. 2001	% Change	Sept. 2001	Dec. 2001	% Change
Total Nonagricultural	3705.4	3626.2	-2.1%	131,819	130,890	-0.7%
Air Transportation	54.5	44.6	-18.2%	1,268	1,159	-8.6%
Wholesale Trade	182.3	178.0	-2.4%	6,747	6,702	-0.7%
Retail Trade	440.9	427.5	-3.0%	23,509	23,318	-0.8%
Restaurants	165.7	158.0	-4.6%	8,234	8,190	-0.5%
Hotels & Lodging	39.6	36.4	-8.1%	1,852	1,805	-2.5%
FIRE	492.2	465.5	-5.4%	7,739	7,748	0.1%
Total of Above Major Groups	1209.5	1152.0	-4.8%	41,115	40,732	-0.9%

Source: BLS, NYS DOL and Fiscal Policy Institute

The economic damage inflicted by the WTC attack is fundamentally different than what we normally associate with a recession. Nonetheless, since it has sapped thousands of livelihoods and some economic momentum from the city's economy, in that regard it has intensified the economic slowdown that had already been underway for nearly nine months prior to the attack. The combined effects of the recession and the attack have cost the city a total of 159,000 jobs from December 2000 through October of 2002. This represents a decline of 4.2% based on the preliminary monthly employment survey.

Knowing that the annual employment revision benchmarking the monthly survey data (the 790 series) to the UI administrative records (the 202 series) due in early March usually results in pro-cyclical adjustments, we can expect that the current slowdown through the end of this year could very well entail a 2-year job decline approaching 5%. This will not have been a mild slowdown, even if it were to end this month.

More over, should a recovery start next year, after a 5% employment drop, and if the pace at which we recover jobs is as modest as it was coming out of the last recession, which is not unlikely, it will take fully four years for the city to regain the jobs lost during the recession. Altogether, that means that the city's economy will have endured a 6-year stretch of decline, high unemployment and gradual recovery (2001 through 2006). Thus, it might be 2006 before the city again approaches the low unemployment conditions that were necessary at the end of the 1990s to enable significant numbers of former welfare recipients to become employed and for most families to experience real wage and income gains.

We do not yet know when the current NYC recession will end. Nationally, the recession may have already ended, the growth in 3rd quarter gross domestic product was a respectable 4%, and for the last four quarters has averaged about 3%. On the other hand, job growth nationally remains weak, the major world economies are mired in recession or something close to it, and there is concern that still rising debt levels will eventually force consumers to reduce spending, a development that would almost certainly retard a national recovery. In either case, if the last recession in NYC is any guide, a local recession could continue for many months after the national recession ends. The last national recession ended in March of 1991, but NYC's economy continued to contract for another 20 months, until November of 1992.

In order to better understand whether NYC's performance could repeat what happened during the last recession, it is necessary to develop a better understanding of the contours of the last recession and how the current recession compares to the last one. We undertake this comparison, not to suggest that the current downturn is going to be anywhere as deep or as long-lived as the 1989-1992 recession, but rather to develop a clearer picture of the last recession, to sharpen our understanding of the current one, and to explore the similarities and the differences.

For background purposes, it is useful to note that as seemingly strong as the expansions of the 1980s and the 1990s were, neither expansion took NYC back to its all-time peak employment level of 3.8 million reached in 1969. After losing over 600,000 jobs in the 1970s, the city regained 400,000 jobs from 1978 to 1989. The long climb back from the 1989-1992 recession included a net gain about 500,000, but still left the annual average for the peak year of 2000 roughly 75,000 below the average for 1969.

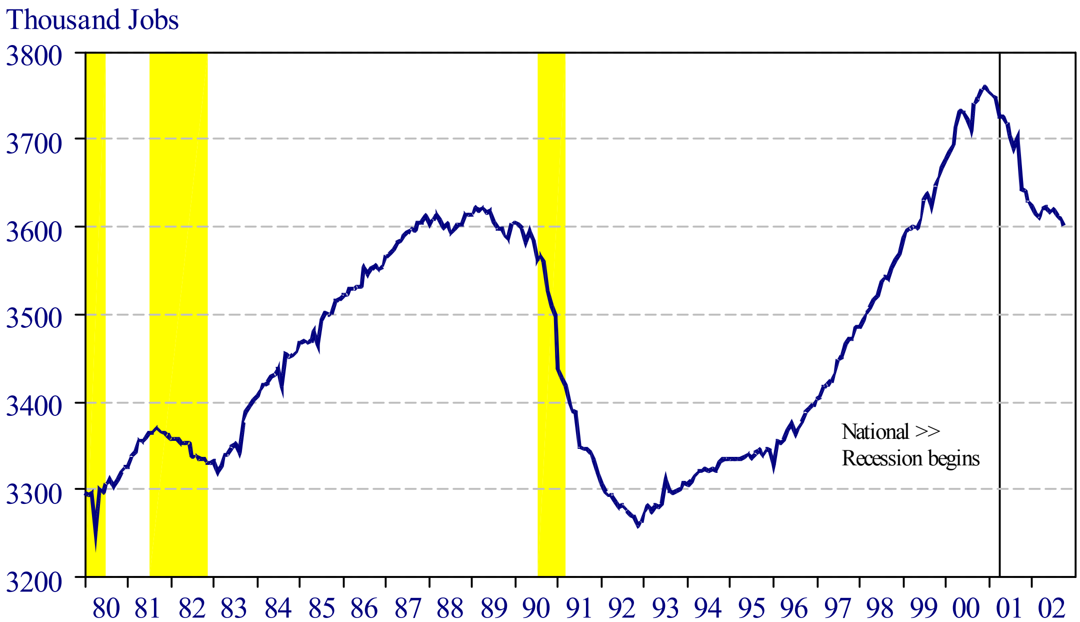
As the chart indicates, while the expansions of the 1980s and the 1990s were both characterized by extended Wall Street booms, these two expansion periods were different in several respects. (see Figure 3) Generally, the 1980s expansion was more diversified by industry sector and it provided more broadly shared benefits in terms of wages and incomes.

Comparison of NYC's Current Slowdown with the Early 1990s Recession

NYC Recession	**Feb. 1989 -Nov. 1992 recession**	**Current slowdown began in Dec.2000**
National Recession	June 1990 - March 1991	March 2001 - (not yet determined)
Duration, NYC recession	45 months	22 months (through Oct. 2002)
Job loss (peak-to-trough)	-361,200 jobs (10.0%)	-159,000 jobs (4.2%), through Oct. 2002
Unemployment rate ▪ Low point ▪ High point ▪ Increase	 ▪ 4.5% (Feb. 1988) ▪ 11.6% (Sept. 1992) ▪ + 7.1%	 ▪ 5.3% (Jan. 2001) ▪ 8.0% (May 2002) ▪ + 2.7%
Major characteristics of preceding expansion ▪ Dominant industries ▪ Diversity of growth ▪ Real wages ▪ Real family incomes	Wall Street and commercial construction boom fueled by high debt levels ▪ Wall Street 16% share of growth 8 inds. have > 5% share of growth ▪ Med. Wages rose 8.5%, 20th %tile wages fell 2.4%, 1979-1989 ▪ Median family income rose 15.3%, 1979-1989	Wall Street and dot com boom fueled by high stock prices ▪ Wall Street 48% share of growth 3 inds. have > 5% share of growth ▪ Med. wages and 20th %tile wages fell 3.3%, 1989-2001 ▪ Median family income fell 10.1%, 1989-1999
Triggers	Oct. 1987 Wall Street crash	Mar. 2000 tech bubble bursting
Phases	1. Wall Street downsizing, Feb. 89-Jul. 90 2. Gulf War & national recession, Aug.90-Apr.91 3. Corporate downsizing, May 91-Nov. 92	1. Demise of dot coms, Dec.00-Sept.01 2. WTC attack on Sept. 11, Oct.01-Dec.01 3. Corporate scandals/Wall St. contraction, Jan.02-
Sectors w/ greatest job loss Phase 1	 Securities, Banking, Retail, Mfg.	 Computer Services, Temp Agencies, Advertising, Mfg.
Phase 2	Mfg., Banking, Wh. & Retail trade, Construction, Tourism, Busn. Services, Legal & Mgmt. services	Securities, Banking, Air Transport, Tourism, Retail
Phase 3	Const., Gov't., Banking, Insurance, Wh. & Retail Trade, Air transport	Securities, Gov't., Mfg., Business Services
Sectors gaining jobs	Health services, Social services	Health services, Social services, Educational services
Unemployment Insurance	Fed. Gov't extended UI 5 times	Fed. Gov't extended UI once
Social Safety Net	Food stamps and SSI grew rapidly, public assistance grew moderately	Food stamps and SSI grow slightly, public assistance declines (through Aug. 2002)

Source: Fiscal Policy Institute, Dec. 2002.

Figure 3: New York City Total Nonag Employment
Seasonally Adjusted



Source: NYS Department of Labor. Seasonal adjustment by Fiscal Policy Institute

The securities industry, commonly referred to as the "Wall Street" sector, accounted for 16% of the growth in *total real earnings*[1] in NYC from 1983 to 1989, by far the largest of any single sector. However, during the 1990s expansion, from 1992 to 2000, Wall Street accounted for 48% of the growth in total real earnings. (see Figure 4) As an indication of the more diversified industrial growth the city experienced during the 1980s expansion, seven other industries besides Wall Street accounted for at least 5% of the total earnings growth over the period. In sharp contrast, during the 1990s expansion, only two other industries, business services and “holding companies and investment trusts”, recorded growth of over 5%.

The 1990s expansion lasted 8 years; the 1980s expansion ran for 6 years. On an annual average basis, job growth was faster in the 1990s (1.6% vs. 1.3%). Real gross city product (as calculated by City OMB) grew about the same in both expansions (4.3% in the 1980s, 4.2% in the 1990s), as did total wages (3.8% in the 1980s, 3.9% in the 1990s). However, real resident personal income grew much faster in the 1980s (3.7% annually) than in the 1990s (2.7% per year). No doubt this is due in large part to the fact that, during the 1991 to 1998 period, total commuter wages grew nearly twice as

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[1] Since a Gross Product series is not compiled by the federal government at a sub-state level, "earnings" (defined as wages, salaries, and proprietors' income) is the broadest measure of economic activity estimated by the federal government at an industry level for NYC. The "earnings" series is part of the Personal Income series produced by the federal Bureau of Economic Analysis.

fast as the wage of city residents.[2] This discrepancy results mainly because commuters are disproportionately employed in the Wall Street and corporate services areas where wages grew the fastest.

Figure 4: The City's Dependence on Wall Street Increased During the 1990s
Selected Industries Share of Real Earnings Growth

	Share of Real Earnings[a] Change (%)	
TOTAL	**100%**	**100%**
EXPORT INDUSTRIES	1983-1989	1992-2000
Security and commodity brokers	15.6%	48.4%
Depository and nondepository institutions	5.8%	0.6%
Holding & Investment Offices	-3.7%	7.7%
Other FIRE	5.9%	3.4%
Business services	5.9%	13.9%
Legal services	11.7%	2.5%
Engineering and management services	N/A	4.7%
Movies & Amusement/Recreational Services	5.6%	2.3%
Hotels	0.7%	1.1%
Manufacturing	-0.2%	-0.4%
LOCAL INDUSTRIES		
Health services	9.5%	1.4%
Social services	2.8%	1.0%
Retail trade	3.4%	3.5%
Construction & Mining	5.8%	3.3%
Wholesale trade	3.3%	0.5%
Transportation and public utilities	-2.7%	1.9%
Other Services	-2.5%	1.1%
Private earnings	90.1%	98.3%
Government and government enterprises	12.5%	0.7%

* Because other labor income is excluded from real earnings private and public do not sum to 100%.

a Real Earnings equal wages and salaries plus proprietors' income.
Source: Bureau of Economic Analysis.

Several measures indicate that the benefits of the 1980s expansion were more broadly shared than the expansion of the 1990s. Median hourly wages in NYC, adjusted for inflation, rose by 8.5% from 1979 to 1989, while during the 1990s, real median wages fell by 3.3% between 1989 and 2001 (even though 2001 was the beginning of the recession, wages continued to rise). Wages for the typical low-wage worker, defined as the worker at the 20th percentile wage, fell during both decades, but by less in the 1980s. 20th percentile wages fell 2.4% in the 1980s, and 3.3% from 1989 to 2001.[3]

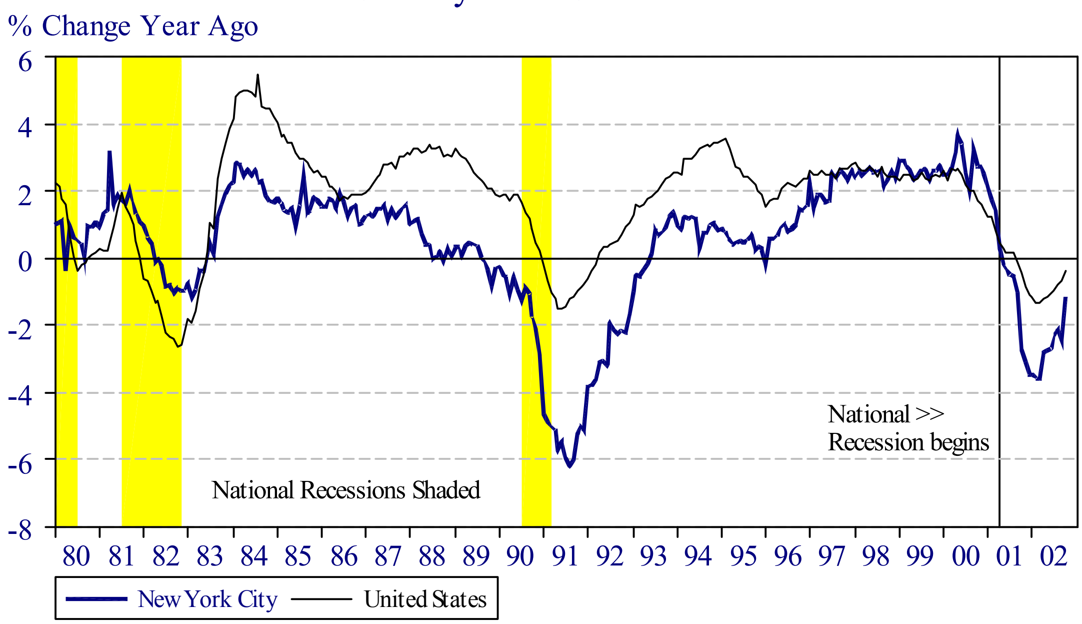
[2] As calculated by FPI.
[3] Current Population Survey.

Incomes for NYC families fared very differently over the two decades. During the 1980s, real median family income rose by 15.3%. In sharp contrast, from 1989 to 1999, Census figures show that real median family income fell by 10.1% in NYC. In a similar vein, NYC's poverty rate fell during the 1980s, from 20.0% in 1979 to 19.3% in 1989, but rose to 21.2% in 1999.[4]

Comparison of Employment Change, NYC and the Nation, 1980s and 1990s

Figure 5 charts employment growth for both NYC and the U.S. back to 1980. It is interesting to note that during the 1981-1982 recession, job loss was more moderate in NYC than in the nation. Figure 5 clearly demonstrates that the city fared much worse than the nation during the early 1990s recession, and that while NYC's job growth during the expansions of the 1980s and 1990s generally trailed the nation's, in 1999 and 2000, NYC surpassed the nation in job growth.

Figure 5: Employment Growth: New York City and US
January 1980-October 2002



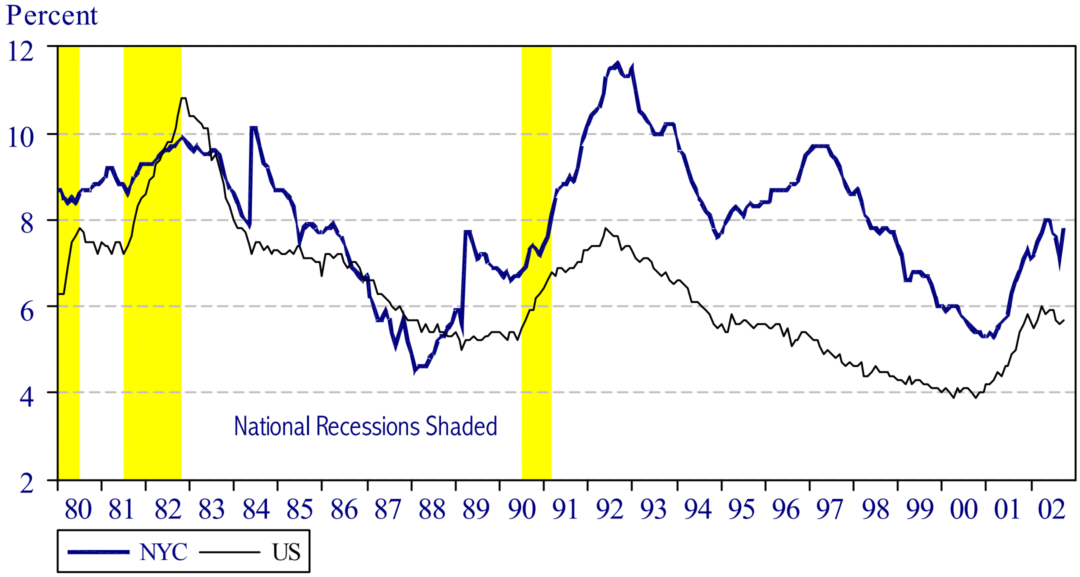
Source: NYS Department of Labor & US Bureau of Labor Statistics.

Figure 6 provides a comparison between the city and the nation for unemployment. While the city's unemployment rate fell below the nation's in 1987 and 1988, the

[4] Family income and poverty data are from the Decennial Census. The CPI-U-RS was used to convert the figures to constant dollars. For a discussion of how New York's wage and income trends compared to other major urban states and to the U.S., see FPI, The State of Working New York 2001: Working Harder, Growing Apart, January 2002, chapters 1 and 2. For a discussion of what accounts for the decline in NYC family incomes in the 1990s, see FPI, Learning from the '90s, How poor public choices contributed to income erosion in New York City, and what we can do to chart an effective course out of the current downturn, September 2002.

unemployment rate has stayed well above the national level since then. At the trough of the city's 1989-1992 recession, the city's unemployment rate rose to almost 12% and was one-and-a-half times the national rate. While the national unemployment rate steadily declined during the 1990s expansion, in NYC the unemployment rate fell at first, then started rising from 1995 to 1997.

Figure 6: Unemployment: New York City and US
January 1980 - October 2002
Seasonally Adjusted



Source: BLS

The Three Phases of the 1989-1992 NYC Recession

Phase 1: Wall Street Downsizing

The October 1987 stock market crash was the main event triggering the 1989-92 NYC recession. While some observers point to the fact that the broad market indices recovered within a year or so after the crash, the securities industry embarked on a major restructuring soon after the crash.[5] This restructuring triggered employment and payroll reductions for NYC beginning in 1988. Securities employment peaked during the fourth quarter of 1987 and from that quarter until the first quarter of 1989, which is officially taken as the start of the NYC recession since that is when total employment started to decline, fell by 16,000, almost 10%. This decline in Wall Street employment amounted to nearly half of the total drop from peak to the trough for the securities industry of 34,100.

[5] See Brett Illyse Graff, "Employment trends in the security brokers and dealers industry," Monthly Labor Review, September 1995, pp. 20-29.

Because base pay, bonuses and employment in the securities industry is so elastic and pro-cyclical, the decline in aggregate wages paid in the NYC securities industry accounted for 51% of the decline in total wages paid in NYC from 1987 to 1991.

Phase 2: Gulf War and National Recession

The middle 9 months of the 1989-1992 recession, from mid-1990 through the first quarter of 1991, was the period of sharpest contraction in NYC. The Gulf War occurred during this period and this was this 9-month stretch was considered by the National Bureau of Economic Research to be the period of national recession.

Consumer spending dropped sharply at this time, reverberating through the entire wholesale and retail trade sector as well as severely dampening tourism and eroding employment in many areas of consumer services. Consumer spending suffered from a triple whammy: the ripple effects of Wall Street's contraction setting in, along with the depressing effects of the national recession and the Gulf War. With the completion of many major Manhattan office buildings that were underway when the NYC recession set in, construction employment started its plummet during this period.

Altogether, the city lost 160,000 jobs between July of 1990 and April of 1991, 44.3% of the total 1989-1992 recession job loss. This was a monthly pace of job loss more than four times greater than during the first 17 months of the 1989-1992 NYC recession and over twice as great as the job loss that occurred during the last 19 months of that recession.

Phase 3: Corporate Downsizing

Even with the official end of the national recession in April of 1991, the recession continued in NYC for another 19 months, lasting until November of 1992. Nationally, the early stages of the recovery were deemed "the jobless recovery" since this period was marked by a wave of corporate downsizing. In New York City, many large banks, insurance, and communications companies significantly reduced employment during this period.

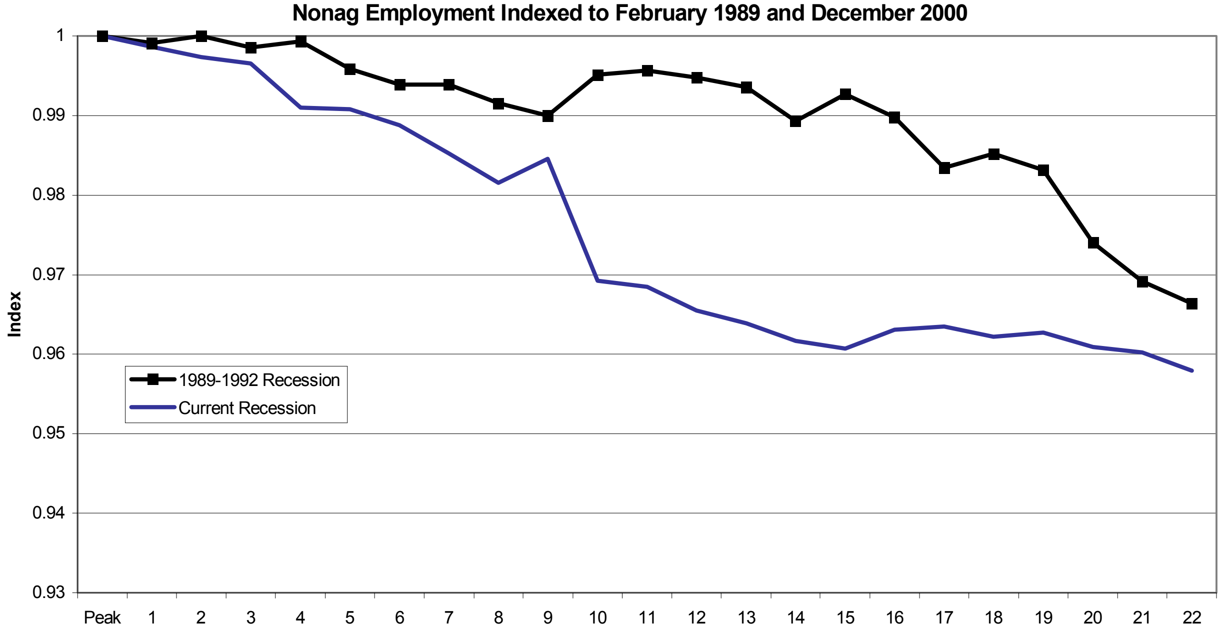
Air transport employment in NYC plummeted with the demise of Pan Am and Eastern Air Lines. And in addition to the continued decline in construction and trade jobs, government reduced employment sharply. Although Wall Street profits and compensation began rising in 1991, largely as a result of the Federal Reserve's policy of low interest rates to stave off the banking crisis, and securities employment bottomed out in early 1992, the beginnings of a new upswing on Wall Street did not start to lift the city's economy out of recession until 1994.

The Three Phases of the Current Slowdown

The opening of this paper sketched the outlines of the current slowdown in terms of the three phases discussed in the comparison chart and elaborated below. The combined effects of the recession and the September 11th attack have reduced employment in NYC by 159,000 jobs from the peak reached in December of 2000 through October of 2002, the latest month for which data are available at this point. This represents a recession-to-date job decline of 4.2% based on the preliminary monthly employment survey. By year-end, factoring in a modest downward adjustment when the employment data are benchmarked early next spring by the State Labor Department (the revisions are usually pro-cyclical), this recession could very well entail a 2-year job decline approaching 5%. This is not a mild recession, even if it were to end this month.

The immediate economic aftermath of the World Trade Center attack accounts for about half of the recession-to-date job loss suffered in NYC. It had a profoundly adverse impact in a short span of time, and while the economic damage inflicted by the attack is fundamentally different from what we normally associate with a recession, nonetheless, it intensified the economic slowdown that had already been underway at the time of the attack. Arguably, because of the far-reaching effects on psychological well-being, among other things, the attack-related economic damage is harder to recover from than a cyclical downturn. Combining the effects of the attack and the recession, the pace of job loss during this economic slowdown exceeds the losses incurred through the first 22 months of the 1989-1992 recession. (See Figure 7)

Figure 7: Through the 1st 22 months, the Current NYC Recession's Employment Trajectory is Worse than in the Last Recession
Nonag Employment Indexed to February 1989 and December 2000



Phase 1: Demise of the dot.coms

The main reason that NYC exceeded the nation's job growth rate in 1999 and 2000 was the frenzied pace of expansion of dot.coms. Employment in Computer Services and data processing, the Labor Department industry that many dot.com companies were classified in, and the broader Business Services sector grew rapidly during the late 1990s. With the bursting of the dot.com bubble in the stock market in March of 2000, the industry began a steep descent. Two other component industries within Business Services, Advertising and Temporary Help Agencies, declined almost as rapidly as Computer Services in the early days of the current slowdown.

Through the first nine months of the current slowdown, from December 2000 to September 2001, Business Services accounted for 52% of the net job loss in NYC. Manufacturing accounted for 27% of the net job loss. Based on the Insured Employment series (the "202 series") that provides employment at the three-digit level necessary to analyze the computer services, advertising and the temporary help agency industries in NYC, business services lost a total of 51,200 jobs between the fourth quarter of 2000 and the fourth quarter of 2001. Over this period, computer services employment fell by 18,700 (-28%), advertising jobs dropped by 8,900 (-19.1%) and temporary help agency employment contracted by 18,600 (-20.7%).

Phase 2: WTC September 11 Attack

The September 11th 2001 attack on the World Trade Center resulted in two types of job loss for NYC: the relocation (either temporary or permanent) out of NYC of jobs previously located in the WTC or the immediate vicinity, and the loss of jobs in industries that suffered from the economic fallout of the attack. This latter category, which is by far the greater of the two, includes sizable job effects in industries such as tourism (a sector encompassing hotels, restaurants, retail trade, culture and entertainment), air transport, apparel manufacturing (because of the proximity of the Chinatown garment industry to the WTC), and building services. In addition, the immediate and sharp blow to consumer spending that resulted, took a toll of thousands of jobs in the wholesale and retail trade area as well as consumer services.

FPI has worked on several studies of the economic and employment impact of the September 11th attack. Our March 8, 2002 report on the WTC-related employment impact concluded that an estimated 73,900 jobs were lost during the fourth quarter of 2001 as a direct result of the attack, and that another 13,000 jobs (primarily in the FIRE sector) had been relocated outside of NYC. [6] These estimates factored out a portion of fourth quarter job loss that could be attributed to the ongoing recession but included

[6] FPI, The Employment Impact of the September 11 World Trade Center Attack: Updated Estimates based on the Benchmarked Employment Data. March 8, 2002. (available on the FPI website: www.fiscalpolicy.org.

adjustments for likely 2002 benchmark employment revisions. Thus, the sum of these two job loss figures does not match the 79,300 job loss during the fourth quarter of 2001 referred to earlier and detailed in the Appendix table.

As noted earlier (Figure 2), the job losses suffered in the industries hardest hit by the attack, were five times as great in the city as in the nation.

An earlier FPI report, released on November 5, 2001, estimated that 60% of the workers likely to have lost their jobs as a direct result of the attack worked in what could be considered "low-wage" occupations, i.e, occupations with an average wage of $11.00 an hour or less.[7]

Phase 3: Corporate Accounting Scandals and Wall Street's Contraction

As noted earlier, the first quarter of this year began with a continuation of job loss from the previous months. However, following the loss of almost 20,000 jobs in the first quarter, the second quarter saw a net gain of 18,200 jobs. This came at a time when there was optimism that the national economy was poised for a rebound from what would have been a fairly brief recession. That optimism proved short-lived as investor confidence then suffered in the wake of a series of corporate accounting scandals and reports of questionable corporate research analyses issued by Wall Street firms. Consumer confidence began to erode in mid-year as the employment outlook failed to brighten and the prospect arose of heightened military action in the Mideast.

Through the first 10 months of 2002, NYC has lost a net total of 27,400 jobs. The biggest contributors to this job decline have been business services, manufacturing, government (largely local government), and securities.

The Appendix table provides the detailed employment change for 61 NYC industries for each of the three phases of the current slowdown. For the recession-to-date, 51 of 71 (84%) detailed industries have seen net job declines. Only five industries have had net job gains of 1,000 or more. With the exception of legal services, the industries gaining more than 1,000 jobs since December 2000 are all heavily influenced by government spending. The health care industry has added the most jobs over this period, 10,900, followed by educational services, up 9,200, and social services with a gain of 8,100 jobs. Health services and social services were the two industries that showed fairly steady job gains through the 1989-1992 recession.

Wall Street Accounts for the Bulk of Wage Declines

As in the last recession, with its highly elastic compensation and employment swings, the decline in total compensation paid out by Wall Street firms will be a major factor influencing the course of the local recession. The fourth quarter of 2001 is the latest

[7] FPI, World Trade Center Job Impacts Take a Heavy Toll on Low-Wage Workers: Occupational and Wage Implications of Job Losses Related to the September 11 World Trade Center Attack. November 5, 2001.

quarter for which wage data are available from the 202 series. Between the second half of 2000 and the second half of 2001, total wages paid in NYC fell by 4.1% (in nominal, not real terms). Of this half-year decline of $3.7 billion, Wall Street accounted for $2.3 billion and business services accounted for $1.5 billion. For Wall Street this was a 12.4% decline in total wages. For business services, the decline was 16.1%. Several other sectors, principally government and those industries heavily affected by the WTC attack, also paid out less in nominal wages while the health care industry led the way for those increasing total wages from the second half of 2000 to the second half of 2001.

With the prospect for additional downsizing on Wall Street and reduced bonus payments at the end of this year and early next year, it is likely that Wall Street will continue to exert significant downward pressure on total wages and incomes received in NYC over the next several months. In its most recent economic forecast, the city's Office of Management and Budget forecasts only one year, 2002, of decline in total real personal income for NYC.[8]

The Role of Transfer Payments in the Trend in Total Personal Income During the Last Recession

During the expansion of the 1980s, NYC real total personal income grew about 4% per year. Over the next six years, the four years of the 1989-1992 recession plus the following two years, NYC personal income managed only a 1% annual real growth.[9] Total real wages paid in NYC fell during five of those six years, increasing only in 1992. It was not until 1996 that the total wages paid in NYC surpassed 1988's level.

Total personal income in 1994, expressed in 2000 constant dollars, was $242.4B, only $13.6B, or 6%, higher than in 1988. Over this period, total wages fell by $6.9B, a decline of 4%. On the other hand, transfer payments, a category that includes social security, medicare and medicaid, unemployment insurance and safety net assistance, increased by $13.6B. The increase in transfer payments, without which there would have been no growth in total income over this six-year period, was almost 40%.

However, over 70% of the increase in transfer payments came in the "medical vendor payment" category, and most of that was medicaid payments to health care providers. Food stamps, SSI and unemployment insurance each increased about $700 million over the 1988 to 1994 period. Social security old age and survivor payments and public assistance both increased around $200 million.

Unemployment insurance payments in NYC reached a recession high of $2.8 B (in $2000) in 1992. Over the four years, 1990-1993, total wages fell a cumulative $22.2 B.

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[8] NYC Office of Management and Budget, "Monthly Report on Current Economic Conditions," October 31, 2002.

[9] There were real income declines in 1991 and 1993, the latter largely a function of the fact that many bonus payments that normally would have been made early in 1993 were paid at the end of 1992 in anticipation of President-elect Clinton's proposed increase in the top tax rate effective with the 1993 tax liability year.

Over the same four years, UI payments totaled $7.8 B, restoring 34.2% of the total wage loss.

The Outlook for the Safety Net During the Current Slowdown

Will the social safety net provide the protection that it did in the last recession during the current economic slowdown? Through the first 20 months of this slowdown (December 2000 to August 2002), food stamp payments in NYC grew by 4.8%. During the comparable period during the last recession (February 1989 to October 1990), however, food stamp payments rose by 31.9%. Public assistance increased by 17.9% in the first 20 months of the last recession, but fell by 15.6% during the first 20 months of this recession. SSI monthly payments have increased by 7.1% over the first 20 months of this recession. Comparable monthly data for SSI are not available for the last recession. Largely because of the expansion of Medicaid benefits in the aftermath of the WTC attack, Medicaid payments have risen by 38.4% from December 2000 to August 2002. (Monthly data for UI payments in NYC were not available before December 2001.)

APPENDIX TABLE, New York City Employment in the Current Slowdown, Dec. 2000 to Oct. 2002	**Employment, thousands**	**Pre 9/11 Change Dec.2000-Sept. 2001**		**4th Q 2001 Change Sept. 2001-Dec. 2001**		**Change This Year Dec.2001-Oct. 2002**		**Change Since Employment Peak Dec. 2000-Oct. 2002**		
	Dec. 2000	#	Sector's % Total Job Change	#	Sector's % Total Job Change	#	Sector's % Total Job Change	#	Sector's % Total Job Change	% change Dec.2000-Oct. 2002
Total Nonagricultural (10-97)	**3757.9**	**-52.4**	**100.0%**	**-79.3**	**100.0%**	**-27.4**	**100%**	**-159.0**	**100%**	**-4.2%**
Construction (15-17)	**125.8**	**-2.6**	**5.0%**	**0.4**	**-0.5%**	**-2.9**	**10.6%**	**-5.1**	**3.2%**	**-4.1%**
Special Trade Contractors (17)	89.1	-2.1	4.0%	0.0	0.0%	-2.8	10.2%	-4.8	3.0%	-5.4%
General Building Contractors (15)	28.6	-0.9	1.7%	-0.1	0.1%	-0.1	0.4%	-1.1	0.7%	-3.9%
Heavy Construction, Except Building (16)	8.0	0.7	-1.4%	0.1	-0.1%	0.0	0.2%	0.8	-0.5%	9.6%
Finance, Insurance & Real Estate (60-67)	**496.2**	**-4.0**	**7.7%**	**-26.7**	**33.6%**	**-6.7**	**24.4%**	**-37.3**	**23.5%**	**-7.5%**
Security & Commodity Brokers (62)	188.3	0.1	-0.1%	-13.7	17.2%	-7.7	28.3%	-21.3	13.4%	-11.3%
Depository Institutions (60)	99.7	-1.2	2.2%	-9.9	12.5%	1.2	-4.4%	-9.9	6.2%	-9.9%
Real Estate & Investment Offices (65-67)	127.6	-1.2	2.2%	-1.0	1.3%	-1.5	5.4%	-3.7	2.3%	-2.9%
Insurance Carriers (63)	47.9	-1.4	2.7%	-1.7	2.2%	0.6	-2.0%	-2.6	1.6%	-5.3%
Insurance Agents, Brokers, Service (64)	24.2	-0.1	0.1%	-0.9	1.2%	0.2	-0.9%	-0.8	0.5%	-3.1%
Nondepository Institutions (61)	8.5	0.2	-0.3%	0.1	-0.1%	0.5	-2.0%	0.8	-0.5%	9.9%
Total Government (91-97)	**563.0**	**3.0**	**-5.8%**	**-4.7**	**5.9%**	**-9.0**	**32.8%**	**-10.6**	**6.7%**	**-1.9%**
Total Federal Government (91-97)	63.4	-0.2	0.5%	0.6	-0.8%	-0.7	2.7%	-0.4	0.2%	-0.6%
Total State Government (91-97)	49.5	0.7	-1.3%	-0.1	0.1%	-0.7	2.7%	-0.2	0.1%	-0.3%
Total Local Government (91-97)	450.2	3.3	-6.3%	-5.8	7.3%	-8.0	29.3%	-10.5	6.6%	-2.3%
Manufacturing (20-39)	**239.6**	**-13.9**	**26.5%**	**-3.6**	**4.5%**	**-9.4**	**34.5%**	**-26.9**	**16.9%**	**-11.2%**
Apparel & Other Textile Products (23)	55.7	-5.2	10.0%	-1.0	1.2%	-1.5	5.3%	-7.7	4.8%	-13.8%
Printing & Publishing (27)	76.9	-1.4	2.7%	-2.4	3.0%	-1.6	5.7%	-5.3	3.4%	-6.9%
Miscellaneous Manufacturing (39)	20.7	-2.1	4.0%	0.0	0.0%	-2.1	7.6%	-4.2	2.6%	-20.1%
Electronic & Electrical Equipment (36)	12.1	-1.2	2.4%	-0.3	0.4%	-0.3	1.0%	-1.9	1.2%	-15.4%
Fabricated Metal Products (34)	9.7	-0.4	0.7%	-0.6	0.7%	-0.2	0.8%	-1.2	0.7%	-12.2%
Food & Kindred Products (20)	13.3	0.0	0.1%	-0.3	0.4%	-0.7	2.7%	-1.1	0.7%	-8.4%
Chemicals & Allied Products (28)	15.4	-0.2	0.3%	-0.4	0.5%	-0.3	1.2%	-0.9	0.6%	-6.0%
Industrial Machinery & Equipment (35)	4.1	-0.2	0.5%	-0.1	0.1%	-0.1	0.3%	-0.4	0.2%	-9.6%
Textile Mill Products (22)	6.1	-0.6		0.3	-0.4%	-0.6	2.1%	-0.9	0.6%	-14.4%
Paper & Allied Products (26)	5.0	-0.2	0.5%	0.0	-0.1%	-0.3	0.9%	-0.5	0.3%	-9.4%
Leather & Leather Products (31)	2.0	-0.4	0.8%	0.1	-0.2%	-0.4	1.3%	-0.6	0.4%	-32.5%
Lumber & Wood Products (24)	2.6	0.0	0.0%	-0.2	0.2%	-0.1	0.5%	-0.3	0.2%	-13.2%
Furniture & Fixtures (25)	4.5	-0.3	0.6%	0.0	0.0%	-0.1	0.4%	-0.4	0.3%	-9.2%
Primary Metals Industries (33)	0.9	-0.2	0.4%	0.0	0.0%	-0.1	0.4%	-0.3	0.2%	-33.3%
Transportation Equipment (37)	1.9	-0.1	0.1%	-0.1	0.2%	0.0	0.0%	-0.2	0.1%	-10.6%
Rubber & Misc. Plastic Products (30)	2.8	-0.2	0.4%	0.0	0.0%	0.0	0.0%	-0.2	0.1%	-7.1%
Instruments & Related Products (38)	2.8	-0.1	0.2%	0.0	0.0%	0.0	-0.1%	-0.1	0.1%	-3.0%
Stone, Clay, Glass Products (32)	2.2	0.0	0.1%	0.3	-0.4%	-0.3	1.0%	0.0	0.0%	0.9%

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	Dec. 2000	#	Sector's % Total Job Change	#	Sector's % Total Job Change	#	Sector's % Total Job Change	#	Sector's % Total Job Change	% change Dec.2000-Oct. 2002
Retail Trade (52-59)	**441.5**	**-0.7**	**1.3%**	**-13.3**	**16.8%**	**1.7**	**-6.2%**	**-12.3**	**7.7%**	**-2.8%**
Misc. Retail (59)	77.5	-2.0	3.8%	-2.9	3.6%	0.7	-2.6%	-4.2	2.6%	-5.4%
Eating & Drinking Places (58)	163.3	2.4	-4.6%	-7.7	9.8%	0.7	-2.5%	-4.7	2.9%	-2.9%
General Merchandise Stores (53)	32.4	-1.5	2.8%	-0.6	0.7%	-0.3	1.1%	-2.3	1.5%	-7.1%
Food Stores (54)	62.5	-0.7	1.3%	-0.4	0.5%	0.9	-3.4%	-0.2	0.1%	-0.2%
Furniture, Home Furnishings & Equip. Stores (57)	24.7	0.4	-0.8%	-1.3	1.6%	-0.6	2.3%	-1.5	0.9%	-6.0%
Building Materials & Garden Supplies (52)	9.7	-0.1	0.2%	-0.1	0.1%	0.1	-0.3%	-0.1	0.1%	-1.2%
Automotive Dealers & Service Stations (55)	14.9	0.2	-0.4%	-0.1	0.1%	0.2	-0.8%	0.3	-0.2%	2.1%
Apparel & Accessory Stores (56)	56.2	0.7	-1.3%	-0.2	0.3%	0.2	-0.9%	0.7	-0.4%	1.2%
Wholesale Trade (50-51)	**187.0**	**-4.7**	**9.0%**	**-4.3**	**5.4%**	**3.1**	**-11.2%**	**-5.9**	**3.7%**	**-3.2%**
Wholesale Trade, Durable Goods (50)	80.8	-1.5	2.8%	-2.0	2.6%	-0.3	0.9%	-3.7	2.4%	-4.6%
Wholesale Trade--Nondurable Goods (51)	106.3	-3.3	6.3%	-2.2	2.8%	3.3	-12.0%	-2.3	1.4%	-2.1%
Services (70-89)	**1483.0**	**-20.4**	**38.9%**	**-20.9**	**26.3%**	**6.5**	**-23.9%**	**-34.7**	**21.9%**	**-2.3%**
Business Services (73)	349.6	-27.4	52.3%	-10.8	13.7%	-11.6	42.3%	-49.8	31.3%	-14.2%
Engineering & Management Services (87)	127.6	-4.7	9.0%	-3.1	3.9%	-0.6	2.0%	-8.4	5.3%	-6.6%
Hotels & Other Lodging Places (70)	41.1	-1.5	2.9%	-3.1	4.0%	1.7	-6.1%	-3.0	1.9%	-7.3%
Museums, Arboreta, Zoos (84)	11.4	-0.6	1.1%	-0.2	0.3%	0.2	-0.6%	-0.6	0.4%	-5.7%
Motion Pictures (78)	52.4	-1.8	3.5%	-0.8	1.0%	-0.9	3.3%	-3.5	2.2%	-6.7%
Automotive & Misc. Repair Services (75-76)	32.0	0.4	-0.8%	-1.4	1.8%	0.2	-0.8%	-0.8	0.5%	-2.4%
Legal Services (81)	79.4	0.8	-1.5%	0.8	-1.0%	-0.2	0.7%	1.4	-0.9%	1.8%
Amusement & Recreation Services (79)	47.7	-0.2	0.4%	-2.2	2.8%	2.3	-8.3%	-0.1	0.1%	-0.3%
Personal Services (72)	32.5	0.3	-0.5%	-0.7	0.8%	1.0	-3.7%	0.6	-0.4%	1.8%
Membership Organizations (86)	69.9	2.8	-5.3%	-0.2	0.3%	0.5	-1.9%	3.1	-1.9%	4.4%
Social Services (83)	181.4	2.7	-5.1%	-0.6	0.8%	6.1	-22.3%	8.1	-5.1%	4.5%
Health Services (80)	323.7	4.6	-8.8%	0.3	-0.3%	6.0	-22.0%	10.9	-6.8%	3.4%
Educational Services (82)	124.1	6.9	-13.1%	-1.7	2.1%	4.0	-14.8%	9.2	-5.8%	7.4%
Transportation & Public Utilities (40-49)	**217.1**	**-4.0**	**7.7%**	**-11.0**	**13.9%**	**-6.8**	**25.0%**	**-21.9**	**13.7%**	**-10.1%**
Transportation By Air (45)	54.9	-0.4	0.8%	-9.9	12.5%	0.4	-1.4%	-10.0	6.3%	-18.1%
Communications (48)	70.8	-1.8	3.4%	1.5	-1.9%	-4.5	16.5%	-4.8	3.0%	-6.8%
Trucking & Warehousing (42)	22.6	-0.6	1.2%	-0.3	0.3%	-2.1	7.6%	-3.0	1.9%	-13.1%
Transportation Services (47)	20.3	-1.0	1.8%	-0.2	0.3%	-0.3	1.2%	-1.5	1.0%	-7.5%
Local & Interurban Passenger Service (41)	25.5	-1.0	1.9%	-0.6	0.8%	-0.1	0.4%	-1.7	1.1%	-6.8%
Electric, Gas, Sanitary Services (49)	16.4	0.2	-0.4%	-0.9	1.2%	-0.2	0.8%	-0.9	0.6%	-5.6%
U. S. Postal Service (43)	29.9	0.3	-0.5%	-0.1	0.2%	-0.6	2.1%	-0.5	0.3%	-1.5%
Railroad Transportation (40)	2.2	-0.1	0.2%	0.0	0.0%	0.0	0.0%	-0.1	0.1%	-4.0%

Source: NYS DOL. Seasonal adjustment by Fiscal Policy Institute.