The 2009 Economic Landscape

Financial Sector Woes Pressure the Northeast

The downturn in U.S. housing markets that began in 2006 was arguably the catalyst for the nation's ongoing recession. However, turmoil in the financial sector has contributed to further deterioration in the U.S. and global economies. Since 2007, a succession of financial market disturbances has heightened risk aversion and credit spreads, and has severely limited the availability of credit across certain sectors of the economy. These developments have placed enormous pressure on some classes of financial companies, particularly those that exist outside of the regulatory umbrella and those that depend on the ability to sell loans or issue debt on the open market.

The severity and duration of the recent distress has resulted in considerable job losses in the financial sector. Initially, job cuts were centered in residential-related financial employment, such as mortgage brokers, consistent with the nation's housing downturn. However, as financial stress permeated the capital markets, job losses became widespread across the financial industry. By fourth quarter 2008, employment in the U.S. financial sector had declined by 2.4 percent from a year earlier, the sharpest decline since World War II.[1]

Retrenchment in the Nation's Financial Sector Is Centered in New York

Contraction in the nation's financial sector is magnified in **New York State** and particularly **New York City**—the nation's financial center (see text box at right for the effects of financial sector contraction on other Northeast economies). Statewide, the contribution of financial jobs to total wages has increased in recent years. At its peak in 2007, wages from financial jobs accounted for 25 percent of statewide wages, considerably more than their contribution at the national level (see Chart 1).

In New York City, the economy ebbs and flows with fluctuations in the financial sector because the city has a large share of financial jobs. Indeed, the proportion of financial jobs to total employment in New York City is

Contraction in the Financial Sector Is Weighing on Other Northeast Economies

Financial employment is a major economic driver in other parts of the Northeast, including some cities in New England and metropolitan areas along the East Coast. Like New York, these markets are vulnerable to contraction in financial employment.

New Jersey, particularly the metropolitan areas around New York City, has a slightly higher concentration of financial employment than the nation. In fourth quarter 2008, New Jersey lost 12,500 financial jobs, about 4.6 percent, from one year ago. This rate of decline was nearly double the national rate and was the largest percentage decline for the state since first quarter 1991.

Boston, **Massachusetts**, and **Hartford**, **Connecticut**, also had high concentrations of financial sector employment at 7.2 percent and 11.7 percent, respectively, at year-end 2008. Employment in Boston's financial sector fell by 4.0 percent in fourth quarter 2008, the largest decline since fourth quarter 1991. Much of the decline was centered in commercial banks and securities firms, although real estate employment also reported job losses. Employment in Hartford's financial sector also continues to contract. During the fourth quarter, the area's financial employment declined 0.8 percent from one year ago.

The financial sector in **Charlotte**, **North Carolina**, is also contracting. This sector, which accounted for 8.5 percent of the metro area's total jobs in fourth quarter 2008 and 40.5 percent of the area's economic output in 2006 (the most recent data available), has been losing jobs since mid-2007. The rate of decline rose during 2008, reaching 5.4 percent in the fourth quarter.

Wilmington, **Delaware**, also shed financial sector jobs in the fourth quarter, although the rate of loss was less than that of the nation. Employment associated with credit card banking, which has a substantial presence in Wilmington, has been relatively steady over the past year.

[1] Bureau of Labor Statistics.

Chart 1

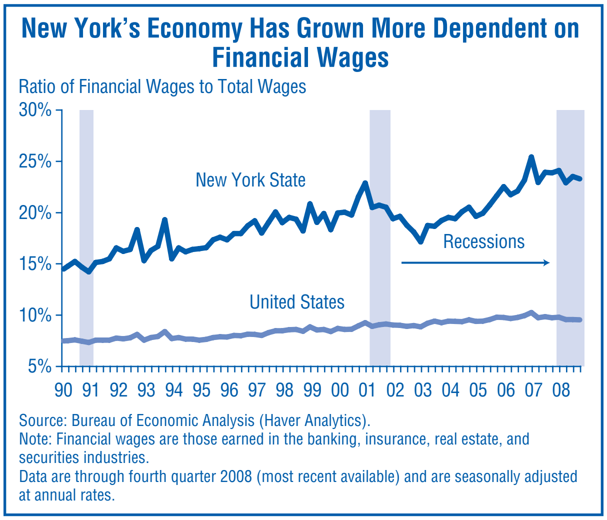
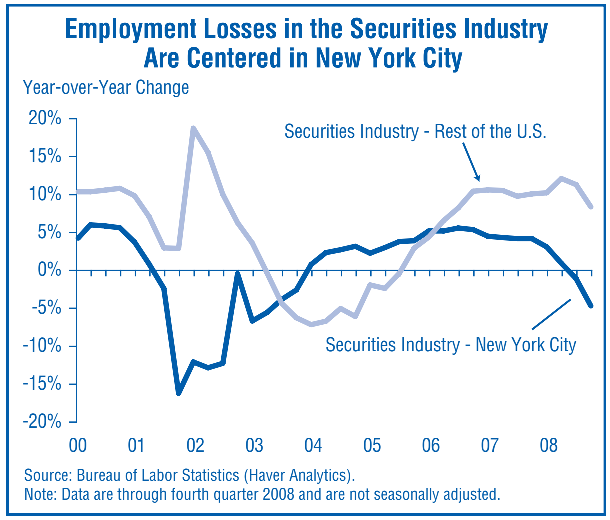


Chart 2



12 percent, or double the national share. Perhaps more important, wages in the securities industry, a key component of the city's financial sector, account for a disproportionate share of total wages paid in the city. Wages in the securities industry accounted for more than 25 percent of total wages paid in the city, but the industry itself accounted for only 5 percent of total jobs. Securities industry wages increased almost four times faster than wages in the rest of New York City between 2003 and 2007.[2]

As the disruption in financial markets persisted during 2008, job losses in New York City's financial sector continued to mount. The securities industry was particularly hard hit. During fourth quarter 2008, the city's securities industry lost more than 9,000 jobs, a 4.8 percent decline compared with one year earlier and the worst percentage decline since second quarter 2003 (see Chart 2).

Job losses in the city's securities industry will be amplified across other sectors of the economy. According to the ***New York State Comptroller***, for every new job in the securities industry, three additional jobs are created in New York City and its suburbs. Conversely, losses in the securities industry will have a ripple effect across the area's economy. Estimates suggest that during the 2001 recession, this sector directly and indirectly contributed to more than half of the private sector jobs lost in the city.[3]

In addition, the sharp downturn in New York's financial sector is negatively affecting state and local tax budgets. In fiscal year 2007–2008, tax collections from the securities industry accounted for almost 20 percent of total tax collections in New York State. The New York State Comptroller estimated that state tax collections from the securities industry, including business and personal filings, could drop by 38 percent in fiscal 2010.[4]

Job losses and reduced compensation in New York City's financial sector are also having a detrimental effect across real estate markets. Home prices in the New York City metro area declined by 9.2 percent on average in 2008. This year-over-year decline in home prices was the largest in the 22-year history of these data, slightly exceeding the previous high recorded in March 1991.[5] Still, New York City home prices fell much less during 2008 than in some other major cities, which saw double-digit declines.

New York City's commercial real estate market is also showing signs of weakness, particularly in **Manhattan**.

[2] New York State Comptroller, *The Securities Industry in New York City,* November 2008. Data are as of 2007. The securities industry—a component of the broader financial industry—is composed of jobs classified as securities and commodities brokers, portfolio managers, and investment advisors. This sector accounted for more than one-third of financial jobs in New York City in fourth quarter 2008.

[3] Ibid.

[4] Ibid.

[5] S&P/Case-Shiller Home Price Index. This index defines the New York metro area as the New York City metropolitan statistical area plus other counties in New York State, Connecticut, New Jersey, and Pennsylvania that are within commuting distance of New York City. Declines are calculated based on the year-over-year percentage change in home prices.

The financial sector occupies as much as 30 percent of Manhattan's office space.[6] With intensifying pressure in the financial sector, office rents are dropping. The area's vacancy rates are also on the rise but remained below the national average at year-end 2008.[7] However, a sizeable amount of office space is estimated to return to the market, which may further pressure rental and vacancy rates. Some estimates suggest that the percentage of available office space in Manhattan may soon rise to its highest level since 1996.[8]

New York City's Financial Industry Has Been Resilient in Past Cycles

Forecasts suggest that job losses in New York City's financial industry will get worse before they get better. A March 2009 report by the ***New York City Independent Budget Office*** states that the city could lose 51,000 securities industry jobs through third quarter 2011, which would be a decline of about 27 percent from the 2008 peak.[9] Job losses of this magnitude would exceed the number of securities jobs lost in the city during either the 1990–91 or 2001 recession.[10] In addition, job losses in New York City's overall financial sector are projected to reach 89,800.[11] According to the March report, job growth in the financial sector is forecast to resume in 2012 and 2013, but at a slow pace.

Although the near-term outlook for the financial services industry in New York City remains tenuous, the city's financial sector should recover as it has following every recession since World War II. During its long history, New York's financial sector has proven resilient and resurgent following periods of adversity.

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[6] Grubb and Ellis Research, *Office Market Trends: New York City,* second quarter 2008.

[7] Torto Wheaton Research, fourth quarter 2008.

[8] David M. Levitt, "Banks Vacate Towers Pushing Empty NYC Space to Record," Bloomberg.com, February 26, 2009, www.bloomberg.com/apps/news?pid=newsarchive&sid=aSYcApYsh.Dw (accessed on March 2, 2009).

[9] New York City Independent Budget Office, *Analysis of the Mayor's Preliminary Budget for 2010: IBO's Reestimate of the Mayor's Preliminary Budget for 2010 and the Financial Plan through 2013*, March 2009.

[10] FDIC analysis, quarterly data from the Bureau of Labor Statistics, and annual data from the Securities Industry and Financial Markets Association.

[11] David Belkin (senior economist, New York City Independent Budget Office), in discussion with FDIC staff, April 2009, regarding the *Analysis of the Mayor's Preliminary Budget for 2010* dated March 2009.