

12 JAN 2001

FINANCIAL DIGEST

AN ANALYSIS OF TRI-STATE BUSINESS TRENDS

U.S. ECONOMIC RESEARCH

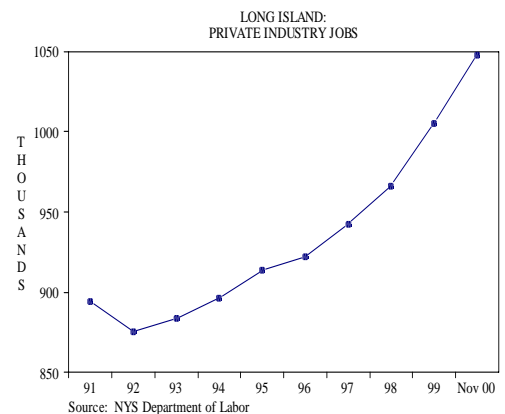
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VOLUME XXXVIII, No 2

Long Island Bellwether

Since the vibrant New York City economy has so far proven to be stubbornly immune to the contagion of business fatigue taking hold throughout much of the rest of the nation (*Financial Digest #1—Extending A Global Welcome; January 2, 2001*), it is hardly surprising that the beneficial echo of the Big Apple’s boom is being heard throughout the entire tri-state region. For despite the building wall of worry that the tri-state metropolitan area cannot march to the tune of a different economic drummer indefinitely, it obviously is for the moment—the jobless rate in Connecticut tumbled to an all-time low of 1.7 percent in November; the unemployment rate in fast-growing Rockland County, just to the north of the Big Apple, dipped to 2.6 percent in November, the lowest rate of joblessness on record for the month, with only one exception; the job count in neighboring Westchester County is vaulting deep into record territory and the economy of northeastern New Jersey is expanding at a healthy clip. But arguably the most reliable, and important, bellwether of tri-state conditions, other than events within the five boroughs themselves, is Long Island, if for no other reason than its sheer size—the economy is nearly as large as that of the entire state of Connecticut—and its rich diversity of cutting edge and other industries—everything from information technology and telecommunications to biosciences and banking to retailing and tourism. Any stumbling of Long Island’s economy would assuredly be a harbinger of tough times throughout the region; don’t fret yet, there are few signs that this is about to happen.

Long Island’s current prosperity is derived from the fact that the economy of the bi-county Nassau-Suffolk area bears little resemblance to its defense manufacturing-dominated forebear of 15 years ago. At that time, factories loomed large, accounting for more than 16 percent of all jobs directly, and twice as many indirectly. Indeed, if Long Island bore a resemblance to anything, it was strikingly similar in structure to the local economies of several manufacturing-dependent upstate metros—and all of them got clobbered at the same time a decade ago. They suffered several punishing years arising from a sharp slashing of military spending by Washington, the imposition of ill-timed taxes and fees by Albany and a deep-seated belief that the likelihood of improvement was remote. What’s more, Long Island had to cope with the impact of New York City’s severe economic tailspin and the erosion of jobs, incomes and confidence that subsequently occurred.



All of this was a prescription for two things: First, the immediate pain that resulted from tens of thousands of jobs lost between 1989 and 1993, most of which were in such better-paying occupations as manufacturing and construction and, second, the hurried hunt for a longer-term remedy, which ultimately resulted in a profound reshaping of the local industry mix. By rearranging the economic landscape, Long Island has not only transformed itself into one of the principal propellents of New York State’s economic reawakening, but it also offers a glimpse into the state’s

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LONG ISLAND BELLWETHER (CONTINUED)

economic future, namely, a business base dominated by high value-added, environmentally-friendly companies employing well-paid workers. These businesses dot the once fallow fields of eastern Nassau and western Suffolk Counties, and they have been hiring at a heady clip in recent years.

A Tentative Genesis . . .

The business rebound on Long Island began with little fanfare, and even less oomph, in 1995; its genesis was largely concentrated in such traditional mainstay industries as healthcare, retailing and construction and seemed to be tentative at best. But while the naysayers were skeptical that the upturn would be sustained, subsequent events, and a timely surge of information technology, would prove them wrong—since then, the upward momentum has faded little. Take, for example, the life support of any local economy, the strength of job growth. The total job count on the Island has been heading straight up, rising from just over 1.1 million in late 1994 to nearly 1.25 million in November of this year. The private sector is providing almost all of the spark; the *number* of private industry jobs vaulted over the one million mark for the first time ever during this business expansion (see chart), and the *growth* of private jobs is running well ahead of the national advance.

Nevertheless, in sharp contrast with the trend in private job growth in New York City—which is actually accelerating—job growth on Long Island is not. During the 12-months ending in November of last year, another 20,000-plus private industry jobs were created, a 2.1 percent gain. While the speed of this advance would be the envy of most communities in the state, it is far less than the 39,000 private industry jobs created during the November 1998 to November 1999 period, a 3.9 percent increase. But rather than reflecting the onset of hiring fatigue, the tapered pace of job growth is the consequence of a different type of exhaustion, specifically of the pool of available

SELECTED BUSINESS INDICATORS

(Seasonally adjusted unless otherwise indicated; All Dollar Figures in Billions)		Latest Period	Previous Period	Year Ago
Gross Domestic Product (Current Dollars)*	3rd Q'00r	\$ 10,039.4	\$ 9,945.7	\$ 9,340.9
Gross Domestic Product (1996 Chain Dollars)*	3rd Q'00r	\$ 9,369.5	\$ 9,318.9	\$ 8,905.8
Percent Change, Annual Rate	3rd Q'00r	2.2%	5.6%	5.7%
Industrial Production Index (1992=100)	Nov '00	148.6	148.9	141.9
Change in Consumer Prices*	Nov '00	2.4%	2.4%	2.4%
Change in Consumer Prices; NYC metro area	Nov '00	0.0%	1.2%	-1.2%
NAPM-NY Business Conditions Index ++	Dec '00	289.0	291.5	237.7

SELECTED TRI-STATE BUSINESS INDICATORS

Payroll Employment (Thousands of Persons; Nationwide)*	Dec '00	131,953.0	131,848.0	132,852.0
New York State Payroll Employment	Nov '00	8,779.8	8,741.2	8,616.3
New Jersey Payroll Employment	Nov '00	3,944.8	3,943.3	3,889.8
Connecticut Payroll Employment	Nov '00	1,698.5	1,698.2	1,678.2
Unemployment as % of Civilian Labor Force; Nationwide*	Dec '00	4.0%	4.0%	3.7%
New York State Unemployment Rate	Nov '00	4.6%	4.4%	4.9%
Upstate Unemployment Rate †	Nov '00	4.2%	3.8%	4.3%
Downstate Unemployment Rate †	Nov '00	4.4%	4.5%	5.0%
New York City Rate	Nov '00	5.6%	5.4%	6.2%
New Jersey Unemployment Rate	Nov '00	4.0%	3.8%	4.4%
Connecticut Unemployment Rate	Nov '00	1.7%	2.0%	2.9%

* Seasonally adjusted annual rate

++ National Association of Purchasing Management-NY

r-Revised

†-Calculated by Chase

workers. For despite the moderate growth of the local labor force throughout the business upswing, workers are increasingly difficult to find—the unemployment rate on Long Island touched 2.8 percent in November, far below the national and statewide averages, and matching the lowest November unemployment rate ever posted. In Nassau County alone, the unemployment rate dipped to 2-1/2 percent in November, the lowest jobless rate of any big county in the state.

The acute labor pinch is one of the principal features of the Long Island landscape today. There are others, some of which are clearcut pluses and some of which are not. Perhaps the biggest plus is not simply the job growth that has, and is, occurring, but rather its broad industry dispersal. Although manufacturing is still shedding employees, almost every other industry has been adding staff, with hefty job gains taking place in the construction industry, retailing, legal services and information technology. In the construction industry, a wave of residential and commercial activity, home improvements and public works has propelled the job count sharply higher. Between November 1995 and November of last year, the building trades created just about 20,000 jobs, a huge 45 percent gain; nearly one-quarter of all of the construction jobs created statewide during this period were on Long Island. And, these jobs are still increasing at a brisk clip.

. . . And A High Technology Denouement

While construction has provided some of the muscle powering Long Island's economy, it is the service-producing industries that have transformed a hesitant economic upswing into a full-fledged boom. These industries account for more than 85 percent of all jobs; they comprise the ever-denser fabric of the local economy. In virtually every service-producing industry, the job count has soared to record highs—the list includes retailing, which has added more than 20,000 jobs over the past five years, healthcare, legal services, telecommunications and biotechnology, endowing Long Island with the second largest biotech workforce in the Empire State, trailing only Westchester County. Social and private educational services have also ramped up hiring—commercial banking and local government, in contrast, are doing the opposite, cutting sizeable numbers of employees.

But pride of place in the local industry mix belongs to the 1,600-plus companies that comprise the Island's high technology cluster, the highly-prized denouement of aggressive efforts to nurture the growth of businesses that can profitably produce high value-added products in a costly economic climate—and are, hopefully, less sensitive to the vagaries of the business and interest rate cycles. And, herein lies the rub. After achieving an enviable degree of success in constructing a high tech-centered economic base, Long Island now faces the challenge of keeping it. With labor shortages mounting, public and private educational institutions must ensure that skills preparation matches the needs of local employers; retaining the newly-graduated in the area is equally problematic, especially when you consider that Nassau and Suffolk Counties have some of the costliest housing in the state—and it's becoming more expensive, with the average selling price of existing homes in both counties rising by more than 20 percent over the past two years. What's more, in the wake of the boom, traveling between point A to point B can be a tough task, too—but the same thing was said ten years ago, when the distance to be transversed was conceptual, rather than physical, and technology began the journey of overtaking manufacturing. The daunting challenges of a decade ago were successfully tackled, and there is no reason to believe that today's won't be, either.