Economics Group

Special Commentary

What’s Next for the New York Economy?

With COVID-19 now contained, the New York economy is on the path to recovery

Few areas in the entire world have felt the adverse impacts of the COVID-19 crisis as directly as New York. The state has so far registered almost 33,000 COVID-19 deaths, far more than any other state. The rapid spread of the virus at the onset of the initial outbreak in New York City necessitated shelter-in-place-orders, business closures and strict adherence to social distancing, which led to the deepest economic contraction in the state’s history. Fortunately, the strict measures have been very successful in tamping down the coronavirus. New COVID-19 cases and deaths have plummeted from the highs seen in April and remain fairly low.

With the spread of the virus dissipating (the test positivity rate has been below 1% for most of August), state lawmakers have slowly eased restrictions. Schools have been permitted to reopen, while low risk indoor and outdoor arts and entertainment activities are now allowed. Professional sports (with no fans) and media production can resume. Indoor dining is still forbidden in New York City, but is allowed at reduced capacity elsewhere in the state. Gyms have also been given the go-ahead to reopen with occupancy limitations once they receive the clear. Nevertheless, there is still a lot of work to be done to repair the economic damage brought on by the COVID-19 crisis.

During March and April, employers in the state shed over 1.9 million from payrolls and have only recouped about 30% of those jobs through July. Even though the state has seen hiring begin to recover, the unemployment rate remains extremely high at nearly 16%. The still lofty unemployment rate is mostly owed to still-dismal labor market conditions in the greater New York City area, where the jobless rate (18.5%) has pressed higher this summer as officials have been cautious in reopening. The exodus of professional workers has also meant less business for restaurants, and tourism has been practically nonexistent. Upstate, which has a heavier manufacturing base, appears to be recovering faster. The Empire State Manufacturing Index waned a bit in August, but manufacturers are reporting a vast improvement in activity. Unemployment rates in Albany, Rochester, Buffalo and Syracuse have all trended lower in recent months.

Figure 1

Tracking the New York Recovery

Change in Monthly Employment; Thousands

<table>
<thead>
<tr>
<th>Month</th>
<th>Employment Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>March &amp; April</td>
<td>-1.0M</td>
</tr>
<tr>
<td>July</td>
<td>+58k</td>
</tr>
<tr>
<td>June</td>
<td>+274k</td>
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</tbody>
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Source: U.S. Department of Labor and Wells Fargo Securities

Figure 2

New York State Unemployment Rates
Seasonally Adjusted

- New York State: Jul @ 15.9%
- New York City DMSA: Jun @ 16.5%
- Albany: Jul @ 10.4%
- Rochester: Jul @ 11.5%
- Syracuse: Jul @ 12.0%

During the lockdown months of March and April, employers shed over 1.9 million jobs.
New York, New York

Of course, New York City was the epicenter of the first iteration of the COVID-19 crisis. Queens and Brooklyn saw the worst of it, but things weren’t that much better in the Bronx, Staten Island, Manhattan, or on Long Island. The ensuing economic catastrophe has been just as widespread. The five boroughs lost roughly 945,000 jobs during March and April, and have only regained about 161,000 jobs in the months since. New York is also home to a large and difficult to measure contractor workforce that ranges from ride-share and car service drivers to sole proprietors and media figures. These jobs, which don’t show up in the payroll data, have also been decimated. The city still looks like a shadow of its former self—strange for a city that is used to casting shadows. Gone are the hordes of tourists that would frequently clog Times Square and Central Park. Formerly packed subway cars and buses are now relatively sparse, and overall MTA ridership is running well below prior year levels. Tight seating has made Broadway, music venues, comedy clubs and indoor dining untenable. The nation’s largest and most valuable stock of commercial real estate also appears to have been hollowed out. Most retailers are closed or boarded up, and office workers are at home or working from far-off remote locations. Hotel occupancy remains a fraction of prepandemic levels, as business travel and tourism have all but evaporated. The economic damage is beginning to seep in, and office, apartment and retail vacancy rates have begun to climb. Landlords appear to have begun slashing rents in an effort to hold onto tenants.

Figure 3

Source: U.S. Department of Labor, New York Times and Wells Fargo Securities

The recent turmoil has spurred something of an existential crisis for New York. How can one of the densest cities in the world operate while a virus, which thrives in dense environments continues to circulate? How can the city survive the loss of office workers, business travelers and tourists that fuel so many other parts of the New York City economy? Why pay the astronomically high rents when so many bars, nightlife and other urban amenities are off-limits and technology affords you the ability to be virtually anywhere?

Answering those questions is difficult considering the trajectory of COVID-19 is still unknown. That said, a lot of progress has been made in terms of compliance with social distancing and mask-wearing. A potential vaccine looks promising, and rapid antigen tests, which are cost-effective and produce test results in a matter of minutes, could accelerate a return to the office and even unlock some of the shuttered close-contact businesses well before a vaccine is developed and widely distributed. Even without these new interventions, firms appear to be adapting and slowly bringing back employees to the office in staggered shifts. Bearing this in mind, while the short term outlook is certainly bleak, there are some reasons to be cautiously optimistic longer-term.

For starters, the New York City economy is primarily based around advanced service providing industries, such as finance and professional business services. The ability to work remotely in these industries has, for the most part, shielded employees from the mass layoffs occurring elsewhere. This divergence in job losses is echoed by [research](#) from Opportunity Insights that shows...
employment among workers earning more than $60K a year is about 5% below prepandemic levels, while employment among workers earning up to $27K remains off by almost 20%. These uneven outcomes are concerning, however relatively fewer job losses in the core advanced service sectors should eventually allow jobs in the hard hit leisure and hospitality and retail sectors to bounce back more quickly once the pandemic is fully in the rearview mirror.

Along those same lines, New York City remains a global center for banking, finance, advertising, fashion, media and publishing, to name just a few. While lower cost cities have successfully lured some high-profile companies away in recent years, the heavy concentration of these industries will continue to have a gravitational pull on new investment from downstream service sectors such as law, specialty finance and management consultancy firms. Moreover, while more virtual learning is taking place, New York is still home to a number of high-caliber research universities that will continue to produce the highly educated labor force many firms seek. Before Amazon’s planned HQ2 in Long Island City was canceled, the ecommerce behemoth cited the area’s highly educated labor force as a primary reason for selecting New York. While HQ2 did not work out, Amazon still has about 5,000 employees in the Big Apple, which underscores the area’s status as a growing tech hub. Google and Facebook as well as a wide array of start-ups, accelerators and smaller tech firms maintain a sizable presence in the city.

That’s not to say there are not plenty of long-term headwinds. Even before the pandemic, the greater New York City area had been seeing more residents leave than move in, a consequence of expensive rents and middling job and income growth. The limitations placed on mortgage interest and SALT deductions a few years back has made residential real estate even more costly, which likely accelerated this trend. This outflow of residents has put tremendous strain on the state’s fiscal health, and the steep drop-off in tax revenue from the COVID-19 crisis will only inflict further damage. As a result, the state’s budget will be strained for years to come (absent significant federal relief), which will weigh heavily on both the metro and state economic recovery.

Overall economic conditions in New York have clearly improved compared to the early spring. How quickly the state recovers from here, however, largely depends on keeping the coronavirus at bay. If there is one thing that has been learned over the summer, it is that reopening the economy, particularly activities that require a great deal of social contact, cause the spread of the virus to accelerate. Once the spread accelerates, the recovery process stalls out. Furthermore, the warm summer weather has allowed some restaurants and retailers to operate outdoors, which becomes a less feasible solution later in the fall and in winter (especially Upstate). Even if a second wave of infections never materializes, the fear of another outbreak itself could lead to a withdrawal of consumer activity and weigh heavily on hiring in the second half of the year. Further progress on testing, therapeutics and a vaccine will be needed before New York City’s globally connected economy will be able to fully come back online. Until that time conditions are likely to gradually improve along with rest of the nation.

Figure 5

New York City MTA Ridership
March-August 2020; Percent Change from 2019

- Subway: Aug-24 @ -76.3%
- Bus: Aug-24 @ -42.0%
- Access-A-Ride: Aug-24 @ -38.4%
- Bridges and Tunnels: Aug-24 @ -12.4%

Source: U.S. Census Bureau, Metropolitan Transportation Authority and Wells Fargo Securities

New York is still home to high-caliber research universities that will continue to produce the highly educated labor force many firms seek.

Figure 6

New York MSA Population Growth
NYC-Jersey City Division, In Thousands

2019: -57.37K

Source: U.S. Census Bureau, Metropolitan Transportation Authority and Wells Fargo Securities
New York Economic Conditions

New York State Employment Growth
Year-over-Year Percent Change of 3-MMA

- New York Nonfarm: Jul @ -15.9%
- New York QCEW: Mar @ 0.6%
- United States: Jul @ -9.4%

New York Employment Rates
Percent Change from January 2020 by Wage Level

- Total: Jun-26 @ -10.6%
- Low Wage (<$27K): Jun-26 @ -19.6%
- High Wage (>=$60K): Jun-26 @ -4.7%

Empire State Manufacturing
Shipments Index

- Shipments Index: Aug @ 6.7

New York Employment Growth By Industry
Year-over-Year Percent Change, 3-MMA

New York Employment Growth By Industry
Year-over-Year Percent Change, 3-MMA

New York, NY Vacancy Rates
By Property Type, Percent

- Apartment Vacancy: Q2 @ 3.2%
- Office Vacancy: Q2 @ 8.4%
- Retail Vacancy: Q2 @ 4.0%
- Industrial Vacancy: Q2 @ 4.3%

New York, NY Asking Rents
By Property Type, Year-Over-Year Percent Change

- Apartment: Q2 @ -0.3%
- Office: Q2 @ 0.1%
- Retail: Q2 @ 0.2%
- Industrial: Q2 @ 4.8%

Source: U.S. Department of Labor, Federal Reserve Bank of New York, Opportunity Insights, CoStar and Wells Fargo Securities
New York High-Frequency Data

New York Cumulative COVID-19 Cases
Thousand

- New York State: Aug-24 @ 430 (Left Axis)
- New York City: Aug-24 @ 237 (Left Axis)
- Albany: Aug-24 @ 3 (Right Axis)
- Erie: Aug-24 @ 9 (Right Axis)
- Monroe: Aug-24 @ 5 (Right Axis)

Time Spent at Residential Locations
Percent Change from Baseline, 7-Day MA, Google Data

Visits to Retail & Recreation Locations
Percent Change from Baseline, 7-Day MA, Google Data

Visits to Workplaces
Percent Change from Baseline, 7-Day MA, Google Data

Seated Diners
Year-over-Year Percent Change, 7-Day MA, OpenTable Data

Source: Google, OpenTable, New York Times, Apple and Wells Fargo Securities