



Recent Trends in the Long Island Economy

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Highlights

- Revised employment data released by the State Department of Labor showed that instead of gaining jobs during 2002, Long Island experienced a decline in both total and private sector employment.
- During 2002, total employment on Long Island declined by 0.5 percent and private sector employment declined by 0.8 percent. These rates are comparable with other downstate areas and better than many areas in upstate New York. This trend has continued into February 2003.
- Two sectors in the service industry, education and health services and leisure and hospitality, added the most jobs in 2002, while there was a significant decline in employment in the trade, transportation, and utilities industry. The number of manufacturing jobs has declined over the last three years.
- Long Island's average unemployment rate rose to 4.2 percent in 2002, up from 3.3 percent in 2001. The unemployment rate in Suffolk County is slightly higher than in Nassau County.
- Wages on Long Island grew by 0.3 percent during the first half of 2002, after growing by 1.6 percent in 2001. Wages declined in Suffolk (-0.1 percent), but increased in Nassau (0.7 percent).
- Preliminary data from the National Association of Realtors shows that home values have increased significantly in 2002.
- The overall vacancy rate for commercial property on Long Island has remained relatively stable, fluctuating between 10.4 percent and 11.3 percent since the end of 2000.

Employment

Recently, the New York State Department of Labor published revised employment data for the State and its localities. The revisions resulted in lower employment figures for the State and most localities in both 2001 and 2002. In addition, industry data in the revisions was restated from the Standard Industrial Code (SIC) to the North American Industry Classification System (NAICS). The new system has increased the number of sectors and some industries have been reclassified. To allow for annual comparisons, the Department of Labor has provided data based on NAICS for the larger metropolitan areas of the State, including Long Island, from 1990 to the present.

The data for Long Island showed that in 2001 total employment increased only 0.1 percent, compared with an increase of 0.6 percent before the revision. Private employment declined 0.3 percent in 2001, instead of the 0.4 percent increase stated in the earlier estimate.

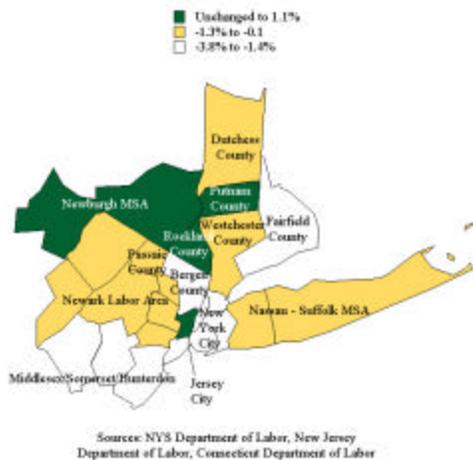
	2000	2001	2002
Total	1,218.0	1,218.7	1,212.1
Private	1,027.8	1,024.6	1,016.6
Mining & Construction	61.0	62.4	63.8
Manufacturing	105.5	98.9	91.9
Trade, Transportation & Utilities	273.1	272.0	268.5
Information	31.8	32.9	32.1
Financial Activities	84.2	81.4	82.1
Professional & Business Services	155.6	157.7	152.4
Education & Health Services	178.5	180.9	186.1
Leisure & Hospitality	86.0	88.8	89.8
Other Services	52.1	49.7	49.8
Government	190.2	194.1	195.6

Source: NYS Department of Labor

The preliminary data showed that in 2002, total employment on Long Island increased by 0.3 percent and private sector employment was virtually unchanged. The revisions show that both total employment and private employment declined in 2002, with total employment lower by 0.5 percent and private sector employment lower by 0.8 percent.

Nonetheless, Long Island performed better than most of the State, where private employment declined by 2.4 percent in 2002. The counties in the metropolitan New York City area¹ experienced either smaller rates of decline in private employment, or in some instances (in Orange, Putnam, and Rockland counties), job gains. Of the metropolitan areas upstate, only Albany had an employment decline lower than Long Island. Long Island's level of employment was greater than in all other areas except the City, and accounted for 14 percent of all jobs in the region. Compared with the counties in the metropolitan area that are not part of New York State, private sector employment also declined in Fairfield County, Connecticut, and in all areas of northern New Jersey except Jersey City (see Figure 1).

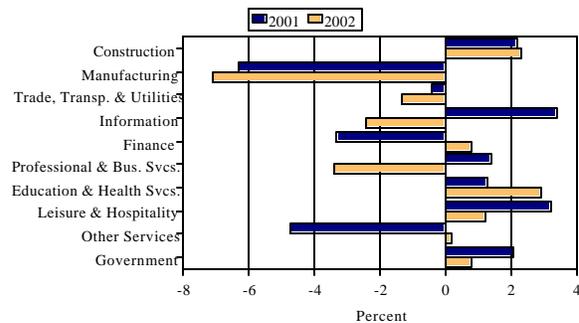
Figure 1
Annual Changes in Private Sector Employment
New York Metropolitan Area, 2001 to 2002



¹ The metropolitan New York City area includes New York City; the New York counties of Dutchess, Putnam, Rockland, and Westchester; the Nassau-Suffolk PMSA; the New Jersey counties of Bergen and Passaic; the Jersey City PMSA; the Middlesex-Somerset-Hunterdon PMSA; the Newark PMSA; the Newburgh PMSA; and Fairfield County, Connecticut.

Government employment increased in 2002 by 0.8 percent, a growth rate that is slightly less than half of the prior year's rate of 2.1 percent. In addition to government, the private sector industries of construction, education and health services, and leisure and hospitality also experienced job growth in each of the past two years (see Figure 2). The 2002 rate of job growth in leisure and hospitality was 1.2 percent, less than half the 2001 rate of 3.2 percent. For the other two industries, the rate of growth was higher in 2002 than in 2001, though for construction the increase was small, going from 2.2 percent to 2.3 percent. The rate for education and health services more than doubled, to 2.9 percent in 2002 from 1.3 percent in 2001. Both the growth rate and the number of new jobs in education and health services were greater than all other industries on Long Island. Some of Long Island's largest employers are in health services (see Figure 3).

Figure 2
Employment Growth by Industry for
Long Island in 2001 and 2002



Source: NYS Department of Labor

Employment also increased during 2002 for other services and financial activities, each of which experienced job losses in 2001. In other services, the rate of job increase and the number of jobs added were small, but the industry accounts for only 4.1 percent of Long Island's jobs, making it the region's second smallest industry after information. For financial activities, the employment increase of 0.8 percent in 2002 was a remarkable turnaround from the prior year, when employment fell by 3.3 percent. Still, financial activities is also not a major employer in the area, accounting for just 6.8 percent of all jobs, and this increase will therefore only offset a portion of the job losses in other industries.

Employment in each of the remaining industries—manufacturing; trade, transportation, and utilities;

Figure 3

Large Private Sector Employers on Long Island

1. North Shore-Long Island Jewish Health System
2. Catholic Health Services
3. J.P. Morgan Chase & Co.
4. Waldbaum's
5. Cablevision Systems
6. Winthrop-South Nassau University Health System
7. Verizon
8. The Home Depot
9. Federated Department Stores
10. KeySpan

Source: New York Newsday; Long Island Regional Planning Board

information; and professional and business services—declined during 2002. Whereas employment in manufacturing and trade, transportation, and utilities also declined in 2001, the drop in the number of jobs in information and professional and business services follows an increase during the previous year.

Information had been a growing industry on Long Island, and the job decline of 2.4 percent in 2002 was the first decline since 1995. Between 1995 and 2001, the number of information jobs grew by 24 percent. Many of these new jobs were related to broadcasting, where the number of jobs doubled to 5,800 between 1995 and 2001. Employment in broadcasting also increased in 2002 by 3.2 percent, but was more than offset by job cuts of 9.8 percent in the publishing industry. Whereas employment in professional and business services had been growing since 1991—between 1991 and 2001 it increased by 42.8 percent—it declined in 2002 by 3.4 percent.

The decline in employment in trade, transportation, and utilities is particularly important because this is Long Island's largest industry. Retail trade makes up 59.4 percent of the jobs in this sector, and in 2002 employment in this industry fell 0.9 percent. It was the second consecutive year in which retail trade employment declined, although the rate of decline in 2002 was lower than in the previous year. Prior to 2001, retail trade had experienced consistent

employment growth since the early 1990s, increasing since 1993 by 18.6 percent. Retail trade accounted for nearly all of the employment growth between 1993 and 2001 in trade, transportation, and utilities, while the remaining industries—wholesale trade, transportation, and utilities—combined had job growth of only 0.8 percent.

Manufacturing employment declined in 2002 by 7.1 percent, which was greater than the decline in 2001 and the largest decline among all industries on Long Island. While this is a significant decline, it was slightly lower than the drop in manufacturing employment Statewide. Since 1990, the earliest year for which the revised employment data are available, the number of manufacturing jobs on Long Island has fallen by 32.5 percent, while the decline Statewide has been 33.7 percent. Since 1990, there has been growth of 48.6 percent in manufacturing jobs on Long Island related to the production of chemical products. Some of Long Island's large manufacturing job losses have been associated with the production of transportation equipment (70.7 percent), and electronic and computer products.

Initial 2003 Developments

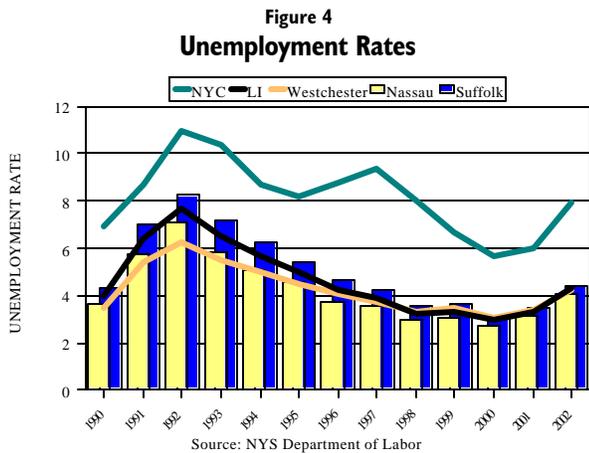
In the first two months of 2003, Long Island's total employment declined by 0.2 percent when compared to the same period one year earlier. The financial difficulties felt by many local governments have resulted in declining public sector employment (by 1.6 percent) on Long Island, which is offsetting modest job gains (of 0.1 percent) in the private sector.

Within the region's private sector industries, the largest—trade, transportation, and utilities—had a 1 percent increase in employment, as a result of a 2.1 percent increase in retail trade jobs combined with growth of 11.7 percent in utilities employment. Employment also increased through February in the smaller private sector industries of other services (3.5 percent), leisure and hospitality (1.6 percent), financial activities (1.4 percent) and education and health services (0.9 percent). Manufacturing employment on Long Island has continued to decline in 2003 (5.3 percent), and employment in professional and business services has dropped by 0.2 percent. Although employment in broadcasting remains unchanged, employment

in the information sector is lower by 5.3 percent, reflecting job losses in publishing (4 percent) and telecommunications (4.2 percent).

Unemployment Rate

The annual unemployment rate² on Long Island rose by 1 percentage point to 4.3 percent in 2002. It was the second consecutive annual increase since a record low of 2.9 percent in 2000 (see Figure 4). Nevertheless, the unemployment rate was still 3.4 percentage points lower than its peak in 1992 during the recession of the early 1990s. A continued rise in the unemployment rate at the beginning of a recovery is normal, and occurs when many people who had previously become discouraged and stopped looking for work reenter the labor market before enough jobs are available.



The preliminary data released by the New York State Department of Labor show signs of improvement in Long Island’s labor market in early 2003. Compared to early last year, people have begun to reenter the labor market—the labor force has grown by 1.6 percent—and a high proportion of those job seekers have been successful. Consequently, the unemployment rate declined by 0.3 percentage points, to 4.4 percent, in the first two months of 2003 compared to the

² The unemployment rate is defined as the proportion of labor force without jobs, and the rate varies in response to both the number of people unemployed and the size of the labor force. The labor force consists of members of the population aged 16 and older who are currently either employed or unemployed but seeking jobs. People who are not working and are not actively seeking jobs (such as full-time students and homemakers) are not in the labor force, and therefore are not considered to be unemployed.

same period one year earlier. The decline occurred only in Nassau, where the unemployment rate dropped 0.3 percentage points to 4 percent in the first two months of 2003. Suffolk’s unemployment rate stayed the same, at 4.8 percent, during the same period. By comparison, Westchester County’s unemployment rate dropped 0.4 percentage points to 4.2 percent, while the City’s rate jumped 1.3 percentage points to 9.1 percent.

The proportion of Long Island’s labor force that is jobless has stayed relatively low for some time. In 2002, Long Island’s unemployment rate was the third-lowest among the 13 metropolitan areas in the State, behind the Albany metropolitan area (3.8 percent) and Dutchess County (4.1 percent).

Of Long Island’s two counties, the annual unemployment rate in Nassau has been consistently lower than in Suffolk since 1980. In 2002, the unemployment rate rose in both Nassau and Suffolk, to 4.1 percent and 4.4 percent, respectively. Compared to neighboring areas, the unemployment rates in Nassau and Suffolk were close to the rate in Westchester County (4.2 percent) but much lower than the rate in New York City (7.9 percent).

Population and Demographics

The Census Bureau estimates that between July 1, 2000 and July 1, 2001, the population of Long Island grew to 2,773,621, a gain of 0.5 percent or 13,986 people. This is more than half of the downstate region’s gain of 25,817 people. The State as a whole is estimated to have had a smaller gain (22,046 people) during this period because the upstate regions lost population.

In the 1990s, Suffolk’s population growth rate was twice that of Nassau’s (7.4 percent versus 3.7 percent). The Census Bureau estimates that at the start of the 2000s, virtually all of the region’s population growth has been in Suffolk County. Suffolk is one of the few counties in the State that show an increase in domestic migration (i.e., more U.S. residents moving in than moving out) during the early 2000s. Population growth in Suffolk has also increased because of international immigration.

Data from the 2001 Census Bureau Supplementary Survey³ provide an updated picture of the demographics of Long Island. In 2001, married couples headed 79.1 percent of all households, while single parents headed 16 percent. In contrast, married couples headed only 59.3 percent of households in New York City, while single parents led 25 percent of households. Percentages of married households and single-parent households in Nassau County were similar to those in Suffolk County.

Long Island continued to enjoy high educational attainment levels in 2001. Of the population aged 25 years and older, 88.6 percent held at least a high school diploma, and 33.1 percent held at least a bachelor's degree. Both educational attainment levels were higher than in the City, where of the population aged 25 and older, only 76.4 percent held at least a high school diploma and only 27.3 percent held at least a bachelor's degree. In Suffolk County, the number of adults who possess a high school diploma was 1.4 percentage points higher than in Nassau County, but was 8 percentage points lower for those holding at least a college degree.

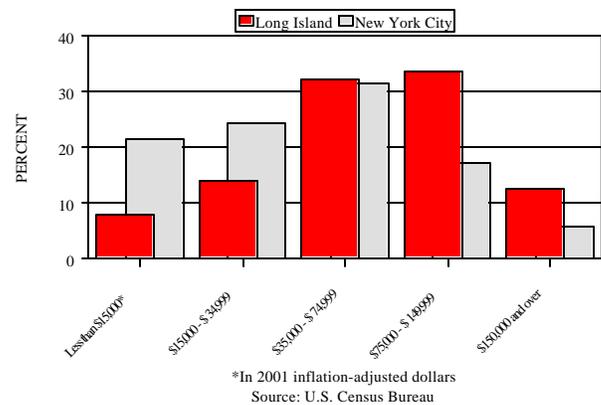
The percentage of the population on Long Island that spoke a language other than English at home increased to 18.6 percent in 2001, when the foreign-born population comprised 14.5 percent of the total population. The City had much higher proportions of non-English speaking and foreign-born populations: 45.1 percent and 35.1 percent, respectively. The non-English speaking and

³ The American Community Survey (ACS), a major part of the Census Bureau's effort to reengineer the decennial census, is conducted annually in order to provide more timely demographic data for users. Since 1996, the Census Bureau has conducted the ACS annually in selected counties in the U.S. When fully implemented in 2003, the ACS will provide the same detailed demographic data as collected for the decennial census long form, based upon a sample of three million households for every county in the U.S. Before the full implementation of the ACS, the Census Bureau conducted Supplementary Surveys (SS) every year between 2000 and 2002 to experiment and test the quality and reliability of its data collection methods. The Supplementary Surveys used the questionnaire and methods developed for the ACS to collect data. However, the results from the SS or the ACS cannot be directly compared to decennial census data due to methodological differences.

foreign-born populations were both greater in Nassau County than in Suffolk County (by 7.2 percentage points and 6.1 percentage points, respectively).

In 2001, the real (inflation-adjusted) median household income on Long Island was \$68,986, much higher than in the City (\$38,866). The income distribution of Long Island differed from the City (illustrated in Figure 5), with more middle-income and wealthy families living on Long Island and more poor families living in the City. The median household income was higher in Nassau County than in Suffolk County by \$5,202 in 2001.

Figure 5
Household Income Distribution



Wage Growth

Following growth that ranged from 4.5 percent in 1995 to 7.6 percent in 2000, total wages on Long Island rose by only 1.6 percent during 2001.⁴ This sharp slowdown continued into 2002, with wages rising by only 0.3 percent during the first half of the year (the most recent period for which data is available). Reversing a trend that characterized the last seven years—when growth in wages was higher in Suffolk County than in Nassau—wages in Suffolk declined 0.1 percent, but increased in Nassau by 0.7 percent in the first half of 2002. During the last several years, employment gains have been larger in Suffolk than in Nassau,

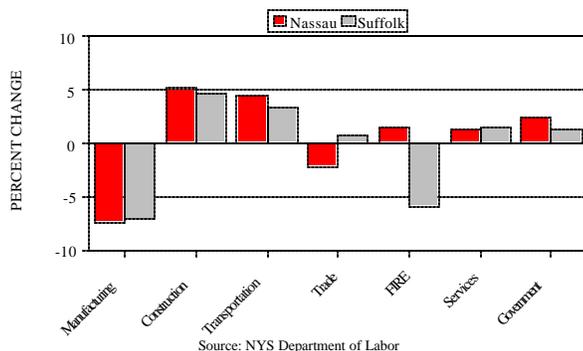
⁴ This section utilizes the industry organization used in the SIC system. As with payroll employment data, the New York State Department of Labor is converting the wage data to a NAICS basis. Data beginning with the first quarter of 2000 will be restated on a NAICS basis, but earlier data will remain in the SIC format. Our future reports will utilize wages on a NAICS basis.

resulting in greater wage gains. However, in the first half of 2002, job losses in Suffolk were greater than in Nassau.

Another reversal of a long-term trend was that growth in average salaries in Suffolk (0.3 percent) was also less than in Nassau (1 percent) in the first half of 2002. Average salaries have typically been higher in Nassau than in Suffolk, and during the first half of 2002 this continued as they reached \$40,853 in Nassau but only \$38,413 in Suffolk. Average salaries were higher in Nassau for all of the major industry sectors except for the FIRE sector, which was more than 6 percent higher in Suffolk. Nevertheless, the growth in average salaries in both counties in the first half of 2002 was considerably less than for most of the years since the mid-1990s.

Total wages in the first half of 2002 increased in both counties by similar rates in construction, transportation, services, and government, and fell by comparable amounts in manufacturing (see Figure 6). However, the remaining two sectors showed significant differences in wage growth. Of particular interest is the FIRE sector, where wage growth in depository and non-depository institutions in Nassau helped ease a decline in security firm wages, resulting in overall sector growth in that county of 1.5 percent. FIRE wages fell by 6 percent in Suffolk due to significant declines in the wages earned in depository institutions. In trade, wages rose 0.7 percent in Suffolk but fell 2.2 percent in Nassau. Although both counties experienced large declines in wholesale trade wages, the decline in Nassau was about twice that in Suffolk. Suffolk also benefited from better growth in retail trade wages.

Figure 6
Wage Growth by Industry in First Half of 2002 in Nassau and Suffolk Counties

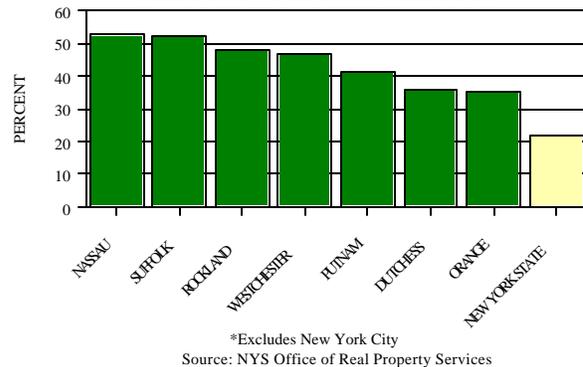


Housing

In 2001, 82.6 percent of Long Island’s households lived in their own homes, a rate much higher than those of the United States (67.8 percent) and New York State (53.9 percent). In fact, of the 75 largest metropolitan areas in the country, the rate of home ownership on Long Island in 2001 is second only to Monmouth-Ocean, New Jersey. The high rate of home ownership has long been prevalent on Long Island, and has shown little change since 1986, when it was 81.8 percent.

In addition to the high rate of ownership, property values on Long Island are among the highest in the State. As measured by the State Office of Real Property Services for 2001, the median sales price for a single-family home was \$290,000 in Nassau County and \$225,000 in Suffolk County. These values were well above the Statewide median of \$140,000, with Nassau ranked third and Suffolk ranked fifth among the 56 counties in the State.⁵ Additionally, home values on Long Island experienced strong growth in 2001, with Suffolk values rising 14.8 percent—the highest growth in the State—and values higher in Nassau by 11.5 percent, making it seventh in the State. Since 1996, home values have increased at a faster rate on Long Island than anywhere else in the State (see Figure 7). For Nassau, the value of homes has increased by 52.6 percent, slightly higher than Suffolk’s 52.5 percent. Preliminary data from the

Figure 7
Counties with the Fastest Growing Home Values Between 1996 and 2001*



⁵ Data for New York City in 2001 was discontinued, but based on median sales prices for 2000, home prices in Nassau were higher than in the City (\$217,500), while the median value for Suffolk was lower.

National Association of Realtors show that home values continued to increase significantly in 2002.

For those Long Island households living in rental apartments, the cost of housing is higher than elsewhere in the State, and among the highest in the nation. Based on data from the Census Bureau, the fair market rent for a two-bedroom apartment on Long Island in 2003⁶ was \$1,275 per month, the eighth-highest metropolitan area in the nation (see Figure 8). In New York State, the only other areas with monthly rents that exceeded \$1,000 were Westchester County (\$1,242), New York City (\$1,032), Putnam County (\$1,031), Rockland County (\$1,031), and Dutchess County (\$1,014).

Figure 8

Highest Fair Market Rents for a Two-Bedroom Apartment in 2003

	Fair Market Rent
1 San Francisco, CA	\$ 1,940
2 San Jose, CA	1,760
3 Stamford-Norwalk, CT	1,436
4 Nantucket, MA	1,423
5 Oakland, CA	1,374
6 Boston, MA	1,343
7 Santa Cruz-Watsonville, CA	1,298
8 Nassau-Suffolk, NY	1,275
9 Westchester, NY	1,242
10 San Miguel, CO	1,209

Source: U.S. Census Bureau

Commercial Real Estate

Steady demand and limited new supply have contributed to the stability of Long Island’s office market over the last few years. The overall vacancy rate has remained relatively stable, fluctuating between 10.4 percent and 11.3 percent since the end of 2000. At the end of 2002, the vacancy rate was 11.3 percent, up from 10.6 percent in 2001.

Nassau County, which has 61 percent of the commercial inventory on Long Island and a tighter office market than Suffolk County, showed an increase in its vacancy rate from 8.9 percent in 2001 to 9.8 percent in 2002—the highest level

since 1998. Suffolk County’s vacancy rate remained unchanged at 13.6 percent.

During the second half of 2002, Long Island’s office market showed a 5 percent decline in leasing activity compared to the first half of the year. However, leasing for the entire year outpaced 2001 by 1 percent to total 2.09 million square feet. Leasing activity was dominated by smaller transactions, with none exceeding 100,000 square feet and only four over 50,000 square feet. All of these “large” leases were signed during the first half of the year. Solomon Smith Barney’s lease of 38,000 square feet in Melville dominated the second half of the year, followed by S.C. Trading Company’s lease of 35,000 square feet in Woodbury.

Average asking rents fell steadily throughout 2002, down 4 percent from \$25.28 per square foot to \$24.29. Both Class A and Class B asking rents decreased since the end of 2001, to \$26.64 and \$22.03 per square foot, respectively.

Several speculative office projects are slated to begin this year as developers remain bullish on Long Island’s economic outlook. The overall mood in commercial real estate is cautiously optimistic, awaiting sure signs of a national recovery.

Sales Tax Revenues

According to data provided by the Office of the New York State Comptroller, during 2002 sales tax collections grew by 5.3 percent in Nassau County, and by almost 16.5 percent in Suffolk County. Suffolk increased its sales tax rate by one quarter of a percentage point on June 1, 2001, which has contributed to the sizable gain in collections in 2002. Collections in both counties benefited in the fourth quarter from an administrative tax change that affected the timing of vendors’ payments. During 2001, sales tax collections declined by 1.5 percent in Suffolk, but grew by 2.2 percent in Nassau.

⁶ On September 30, 2002, the U.S. Department of Housing and Urban Development published fair market rents to April 1, 2003.

Outlook

The national recession and the World Trade Center attack have weakened New York State's economy, striking New York City's economy particularly hard. Long Island's economic growth has also slowed, but over the past two years it has declined at a much slower rate than most of the rest of the State. The island's residential real estate market remains strong and its commercial real estate market is stable.

Although the region's employment base is likely to emerge from the current economic downturn in relatively good shape, several problems face Long Island's economy that could limit future growth

rates. Fiscal pressures are escalating for both counties—especially Nassau, which was already in fiscal stress and which could eventually face reduced services and higher taxes. Declining profits and bonuses on Wall Street will lower incomes for the large concentration of commuters in the financial industry, which could lead to a slowdown in consumer spending. Rapid growth in home values and rental rates over the past few years has outpaced income growth, intensifying home affordability problems for many families. If prices begin to fall, however, the shortage of housing in the region should limit the price decline. Indeed, much of the recent population and job growth on Long Island has shifted to Suffolk, where homes are more affordable and additional units are being constructed.

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