



The Securities Industry in New York City

October 2019

Highlights

- Pretax profits in the securities industry reached \$27.3 billion in 2018, the highest level since 2010. Despite economic uncertainties, the industry got off to a strong start in 2019.
- Profitability was driven in 2018 by higher revenues, which increased by 6.3 percent, the fastest rate of growth in six years.
- Although profitability increased in 2018, the average bonus paid to securities industry employees in New York City declined by 17 percent to \$153,700 in 2018.
- The average salary (including bonuses) of industry employees in New York City was \$398,600 in 2018, five times higher than the average in the rest of the private sector (\$79,800).
- The securities industry accounts for less than 5 percent of the jobs in 2018, but one-fifth of all private sector wages paid in New York City.
- In 2017, immigrants made up nearly one-third of industry employees in New York City, a slightly higher share than in 2007.
- Commuters from outside of the City represented 40 percent of industry employees, the highest share of any major industry.
- The securities industry accounted for an estimated 17 percent of State tax collections and 6 percent of City tax collections in the past fiscal year.
- New Jersey has lost nearly one-third of the jobs in its securities industry since the financial crisis (17,100 jobs), a larger loss than any other state.

Despite slower global economic growth and trade tensions, pretax profits for the securities industry grew by nearly 11 percent in the first half of 2019, reaching \$15.1 billion, the best first half in a decade. Although the securities industry has not yet reported on the third quarter, the nation's largest bank-holding companies have reported mixed results.

Securities industry profitability has increased for three consecutive years and, as noted, 2019 is off to an impressive start. At the same time, the growth in net revenue has slowed, reflecting weakness in certain business activities.

Although profitability increased significantly in the first half of 2019, the amount set aside for compensation declined by almost 1 percent. In 2019, bonuses will depend heavily on revenue growth in the second half of the year.

In New York City, the securities industry added 15,400 jobs in the past five years, with employment reaching 181,300 in 2018, the highest level since the 2008 financial crisis. Although the industry has recovered nationally, it was still 4 percent smaller in the City than before the recession. In addition, job gains in the early part of 2019 have been erased in recent months.

The securities industry accounts for 17 percent of New York City's economy. Although other sectors have added more jobs since the end of the recession, no other industry plays a larger role in the City's economy.

The current economic environment will continue to create challenges for the securities industry. However, New York City's role as the financial capital of the world could be boosted by Brexit and developments in Hong Kong.

Industry Profitability

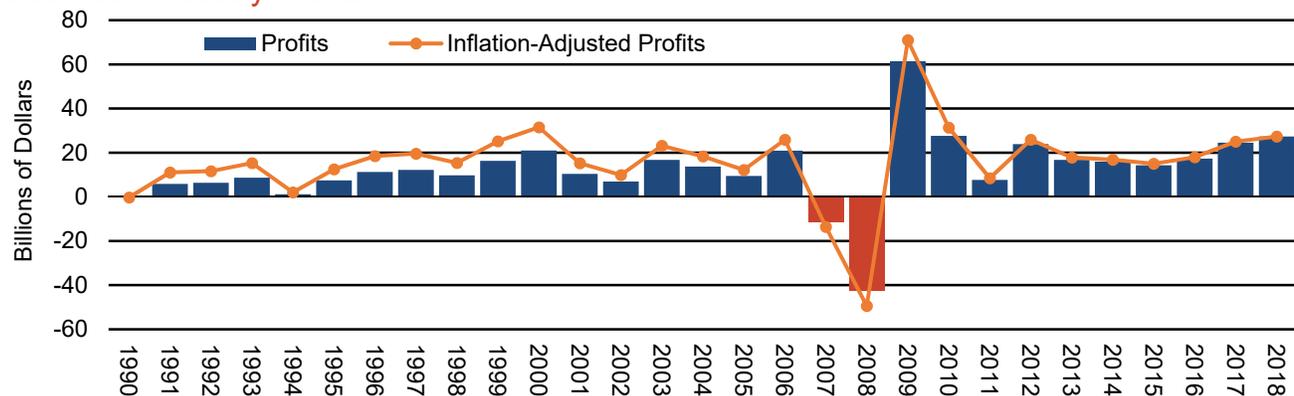
Securities industry profitability is traditionally measured by the pretax profits of the broker/dealer operations of New York Stock Exchange (NYSE) member firms. Other business lines of the member firms, such as retail and commercial banking, are not included.

Pretax profits increased by 11 percent in 2018 to \$27.3 billion, the third consecutive year of increased profitability and the highest level since 2010 (see Figure 1). In the past two years, profitability was driven by higher revenues, whereas it was driven by lower expenses in the prior year. Net revenue (i.e., gross revenue less interest expenses, which is the preferred industry measure) grew by 6.3 percent in 2018, the fastest rate of growth since 2012.

Revenue from wealth and account management has more than tripled since 2009 and was responsible for more than one-quarter of industry revenues in 2018. Although revenue from trading has been growing since 2015, the share of industry revenue derived from trading has fallen from 16 percent in 2009 to 6 percent in 2018.

Pretax profits totaled \$15.1 billion in the first half of 2019 (see Figure 2), nearly 11 percent higher than one year earlier and the best first half since 2009. This was the highest level since 2010 after adjusting for inflation. As growth in net revenue slowed to 2.4 percent, the industry held down expenses which increased by less than 1 percent.

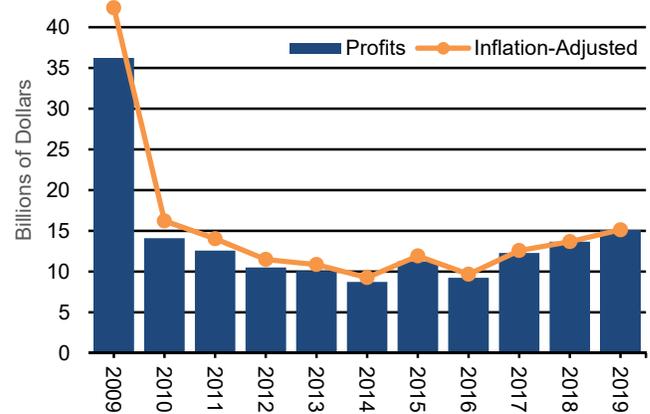
FIGURE 1
Securities Industry Profits



Note: Pretax profits for broker/dealer operations of New York Stock Exchange member firms.

Sources: Securities Industry and Financial Markets Association; NYSE/Intercontinental Exchange; U.S. Bureau of Labor Statistics; OSC analysis

FIGURE 2
Industry Profits, First Half of the Year



Sources: Securities Industry and Financial Markets Association; NYSE/Intercontinental Exchange; U.S. Bureau of Labor Statistics; OSC analysis

According to CRISIL Coalition (a private sector research firm), the revenue slowdown in the first half of 2019 reflects poor performance across a range of business activities, including equities, commodities and currencies. As a result, the industry's return on equity is on track to fall for the third year.

New York City's budget assumes that securities industry profits will fall by 21 percent in 2019. While the first half of the year suggests that profitability could exceed expectations, there are risks that could adversely affect profitability in the second half of the year, including slower global economic growth and political uncertainties.

Employment

Employment in the securities industry in New York City increased in four of the past five years (see Figure 3), reaching 181,300 in 2018, the highest level since the 2008 financial crisis. Despite these gains, the industry is still 4 percent smaller (7,600 jobs) than in 2007. In addition, job gains in the early part of 2019 have been erased in recent months. As of September, the industry was on pace to lose almost 500 jobs in 2019. Last year, the industry added 4,700 jobs.

Employment in the securities industry in the City peaked in 2000 with 201,100 jobs, but then declined by 35,200 through 2003 because of the terrorist attacks on the World Trade Center and the collapse of the dot-com bubble. Before the industry could fully recover, it lost another 22,600 jobs between 2007 and 2010 in the wake of the financial crisis. Since then the industry has added 15,400 jobs, although growth has been uneven.

New York City's share of the nation's securities industry has been in long-term decline as jobs have been shifted to lower-cost regions, firms have geographically diversified their operations, and other regions have experienced stronger economic growth. The City's share has declined

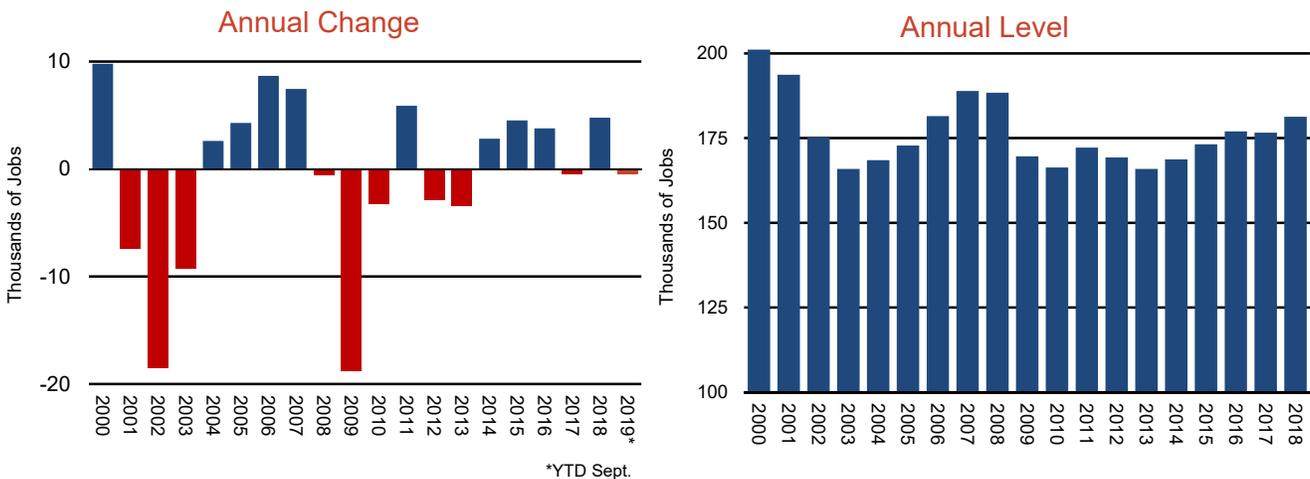
from 33 percent in 1990 to 21 percent in 2007 to 19 percent in 2018.

With 201,200 industry jobs statewide in 2018, New York has more securities industry jobs than any other state in the nation (California was second with 96,100 jobs), but it lost 9,800 jobs since 2007. New York City accounted for 90 percent of industry employment in New York State, a similar share as in 2007.

Half of the industry jobs outside of New York City were located in Nassau, Suffolk and Westchester counties, with the rest concentrated in the metropolitan areas around Albany, Buffalo, Rochester and Syracuse. Industry employment outside of New York City has also declined since 2007, falling by 10 percent (2,200 jobs) to 19,900 in 2018.

Securities industry employment in New Jersey has fallen precipitously since the financial crisis. The industry has contracted by 31 percent since 2007 (a net loss of 17,100 jobs), a much larger contraction than in New York City and a larger loss than any other state. The five states with the largest industry job gains include Texas (24,000), Pennsylvania (16,500), Arizona (8,400), North Carolina (8,000) and Colorado (7,400).¹

FIGURE 3
New York City Securities Industry Employment



Sources: NYS Department of Labor, Current Employment Statistics; OSC analysis

Bonuses

Compensation practices in the securities industry before the financial crisis encouraged excessive risk-taking. Since then, new regulations and guidelines have changed the way compensation is paid. Base salaries are higher, larger shares of bonuses are deferred to future years, and bonuses can be clawed back if performance targets are not achieved. Nonetheless, the securities industry accounted for more than half (55 percent) of all private sector bonus payments and one-fifth of wages in New York City in 2018, even though it made up less than 5 percent of private sector employment.

In March 2019, the Office of the State Comptroller (OSC) estimated that the bonus pool for industry employees in New York City during the traditional December-March bonus season had declined by 14 percent to \$27.5 billion (see Figure 4). OSC's bonus estimate includes bonuses paid for work performed in 2018, as well as bonuses deferred from prior years that were cashed in.

The bonus pool was boosted in 2017 by a 2008 federal law that required the repatriation of deferred compensation held overseas by December 31, 2017, as well as changes in federal tax law enacted in 2017 that encouraged taxpayers to shift income into 2017 from future

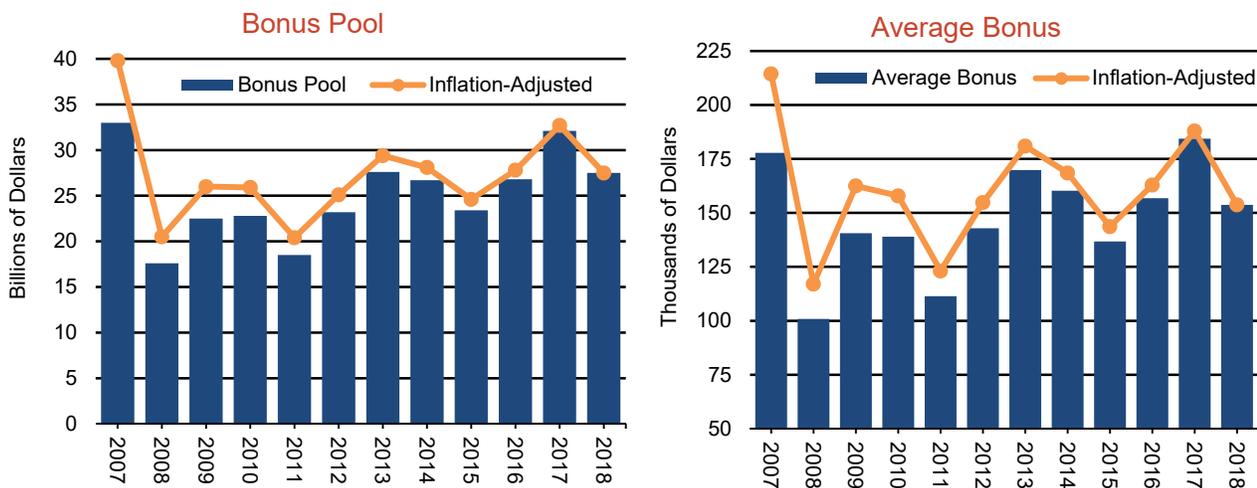
years. The absence of these factors in 2018 contributed to a decline in the pool, as well as year-end weakness in the financial markets that reportedly caused firms to scale back bonuses.

The average bonus paid to industry employees in New York City declined by 17 percent to \$153,700 in 2018 (see Figure 4). The decline was larger than the decline in the bonus pool because the pool was shared among a larger number of employees. Bonuses accounted for an estimated 39 percent of securities industry wages, a larger share than in any other major industry in the City.

The securities industry reduced the amount set aside for compensation by almost 1 percent in the first half of 2019. Consequently, the size of 2019 bonuses will depend heavily on revenue growth in the second half of the year. A recent report by Johnson Associates (a compensation consulting firm) suggests that while bonuses for hedge funds and private equity firms may rise, other business lines could experience small declines.

New York City's budget assumes that bonuses for industry workers in the City will increase by nearly 5 percent, while the State assumes a smaller increase in the larger finance and insurance sector. In March 2020, OSC will release its 2019 bonus estimate for industry employees in New York City based on tax withholding trends.

FIGURE 4
Securities Industry Bonuses in New York City



Sources: NYS Department of Labor; U.S. Bureau of Labor Statistics; OSC analysis

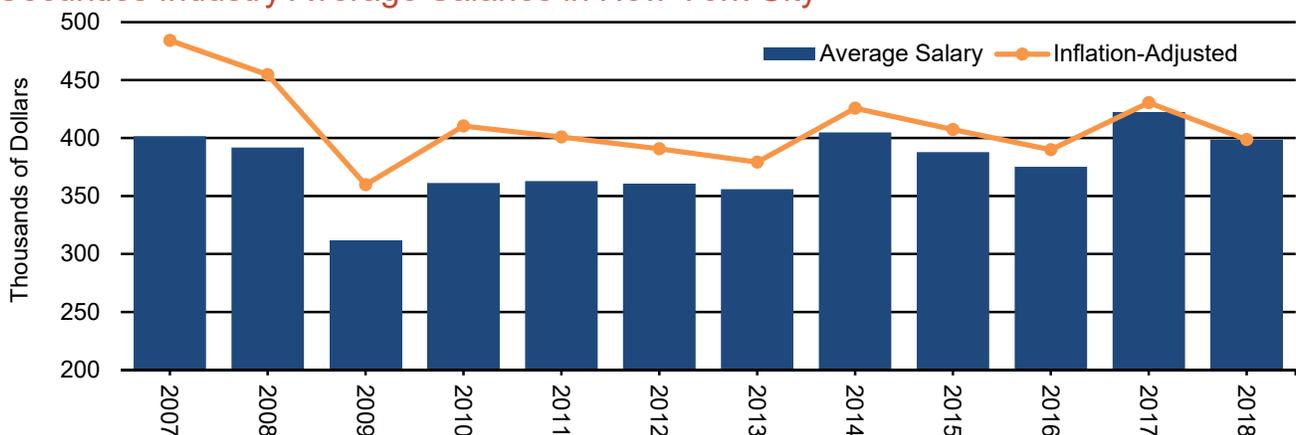
Average Salaries

In 2018, the average salary (including bonuses) in New York City's securities industry declined by 5.6 percent to \$398,600 (see Figure 5). Still, it was the highest average salary of any major industry in the City, almost twice the second-highest average (\$202,200 in the banking industry). Other industries with high average salaries include financial and other corporate holding companies (\$194,400), broadcasting (\$176,000), the tech sector (\$165,700) and insurance (\$161,100).²

The average salary in the securities industry was five times higher than the average in the rest of the private sector (\$79,800). While the pay gap has narrowed slightly since 2007 (when it peaked at six times higher), the gap is much wider than in 1981, when the average salary in the securities industry was twice the average in the rest of the private sector (see Figure 6).³

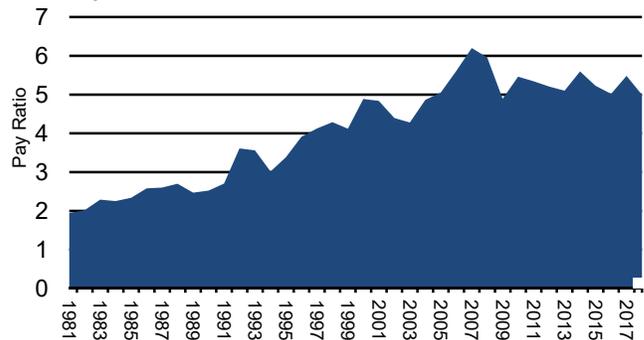
The average salary in the securities industry in New York State was \$382,500 in 2018, more than twice the average in the rest of the nation (\$187,400). Since 2007, the industry's average salary in New York has been higher than in any other state (previously, Connecticut had the highest average salary). The industry's high average salary in New York reflects the concentration of highly compensated employees, such as chief executive officers, in New York City.

FIGURE 5
Securities Industry Average Salaries in New York City



Sources: NYS Department of Labor, Quarterly Census of Employment and Wages; OSC analysis

FIGURE 6
Ratio of Average Salaries in the City's Securities Industry to the Rest of the Private Sector



Note: 1981-1999 data are on an SIC basis.

Sources: NYS Department of Labor, Quarterly Census of Employment and Wages; OSC analysis

The Dodd-Frank Act requires publicly traded companies to report the ratio of the salary for their chief executive officer to the median salary for all employees. According to 2018 data, the CEOs of finance companies listed on the S&P 500 that were headquartered in New York State earned an average of 224 times more than the median for all employees of their companies. This was much higher than the national average of 184 times more.

In 2017 (the latest available data), 24 percent of industry employees who worked in New York City had salaries of more than \$250,000, compared with 10 percent in the rest of the nation. (Only 2.6 percent of the employees in the rest of the City's work force earned more than \$250,000).

In Manhattan, where 98 percent of New York City’s securities jobs are located, the average salary was \$403,400 in 2018. In comparison, the industry’s average salary in the outer boroughs was \$122,000.

The counties surrounding the City also had relatively high average salaries for the industry. In Westchester, the average industry salary increased by 12 percent since 2007, reaching \$274,900 in 2018. Growth was even faster in Long Island, where the average grew by 21 percent, reaching \$376,800 in 2018. Long Island had a high average because of the presence of hedge-fund firms in Suffolk County, where the average was \$596,500, the highest of any county in the nation.

Work Force Characteristics

In 2017, 60 percent of the employees in New York City’s securities industry resided in the City (see Figure 7). Commuters represented 40 percent of industry employees, the highest share of any major industry. Nearly one-quarter (23 percent) came from New Jersey, 6 percent came from Long Island and 5 percent came from Westchester County.

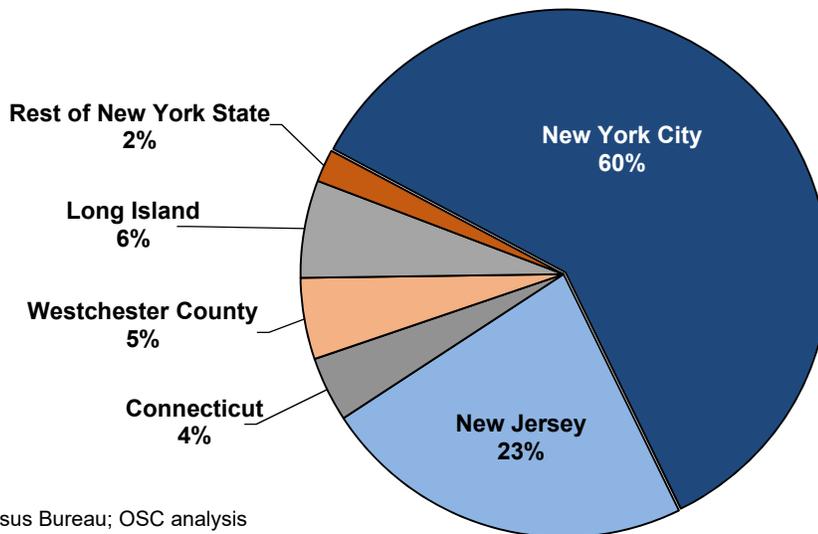
While 20 percent of City residents employed in the industry earned more than \$250,000, almost 40 percent of the commuters from Connecticut and half of those from Westchester earned more than \$250,000. Commuters accounted for 46 percent of the wages paid by the industry in New York City.

Two-thirds of industry employees were White, 19 percent were Asian, 8 percent were Hispanic and 6 percent were African American. Immigrants (primarily from Asia and Europe) made up nearly one-third (32 percent) of the employees, a slightly higher share than in 2007 (28 percent).

Men comprised two-thirds of the employees, a share that has remained relatively constant over the past decade. While 51 percent of the employees had earned a bachelor’s degree, 39 percent had an advanced degree (almost twice the citywide share). Employees in tech occupations made up 12 percent of the workers in the securities industry.

Besides direct employees, the securities industry also enters into contracts with individuals for services. These self-employed workers made up only a small share of the work force (less than 5 percent in 2017). Compared with industry employees, a larger share lived in the City, had advanced degrees, and earned more than \$250,000, while a smaller share were immigrants.

FIGURE 7
Place of Residence
Employees in New York City’s Securities Industry



Sources: U.S. Census Bureau; OSC analysis

Industry Challenges

The current economic and political environment could create challenges for the securities industry that could affect future profitability. After a difficult end to 2018, the financial markets rallied during the first half of 2019 on expectations of lower interest rates and an easing of trade tensions. The Dow Jones Industrial Average, for example, rose by 14 percent in the first half of the year before reaching a record level in July 2019.

Since then, however, the financial markets have weakened. Trade tensions have weighed on the economy as tariffs have taken effect, raising costs for businesses and consumers. The risk of a currency war is also rising, and global debt is approaching an unprecedented \$250 trillion.

Global economic growth has slowed and some foreign central banks have reduced interest rates into negative territory as they attempt to stimulate the economy. In July 2019, the Federal Reserve reduced U.S. short-term interest rates for the first time in more than a decade and it reduced them again in September 2019.

Most economists believe the risk of a recession has grown. A major concern has been the recent inversions of the yield curve, which have preceded every recession since the 1960s.

While Brexit could adversely impact the global economy, it could create opportunities for financial firms located in New York City.

According to many sources, U.S. firms are already playing a larger role globally. In 2018, U.S. firms earned 62 percent of global investment banking fees, up from 53 percent in 2011.

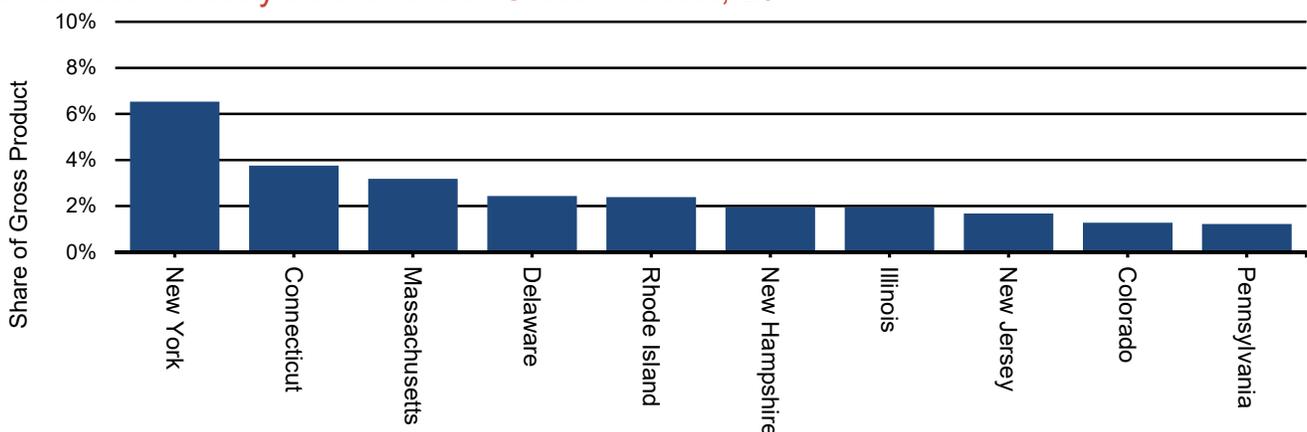
Economic Contribution

In 2018, the securities industry was responsible for more than 17 percent of all economic activity in the City, according to the New York City Office of Management and Budget. While lower than the industry's prerecession share (25 percent), it was higher than any other industry.

The securities industry makes up a large share of the State's economy. In total, the securities industry comprises 6.5 percent of the State's economy, according to the U.S. Bureau of Economic Analysis (see Figure 8). This is well above the states with the next-largest shares, Connecticut (3.8 percent) and Massachusetts (3.2 percent). All other states' financial sectors comprise less than 3 percent of their economies (with the majority at less than 1 percent).

The high incomes earned by many industry employees create economic activity in other employment sectors. OSC estimates that 1 in 10 jobs in New York City and 1 in 15 jobs in New York State are associated with the securities industry. OSC also estimates that each job gained or lost in the industry leads to the creation or loss of three additional jobs in other industries in the State.

FIGURE 8
Securities Industry as a Share of Gross Product, 2017



Sources: U.S. Bureau of Economic Analysis; OSC analysis

Tax Contribution

The securities industry is a major source of tax revenue for the State and the City. Firms pay business taxes on their profits, and employees pay personal income taxes on their salaries and bonuses. Nonwage income derived from the industry's activities, such as capital gains, also generate personal income tax revenue.

New York City

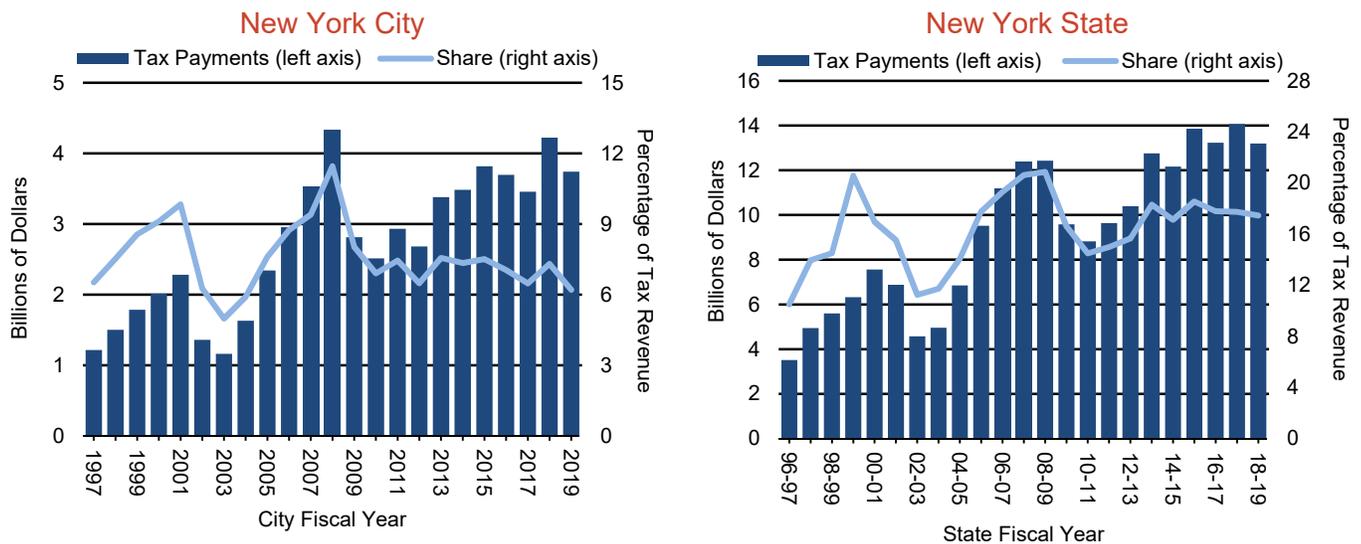
OSC estimates that tax collections attributable to the industry decreased by 11 percent to \$3.7 billion in City fiscal year (CFY) 2019 (see Figure 9), reflecting large declines in bonuses and capital gains that offset higher profits in calendar year 2018.⁴ The industry accounted for an estimated 6 percent of City tax collections in CFY 2019, down from 7 percent in the prior year.

New York State

New York State depends on Wall Street tax revenues even more than the City, because the State relies more heavily on revenue from personal income taxes and does not levy a general real property tax.

While the State also experienced a decrease in tax payments attributable to the securities industry, the decline was not as large as the City's because of timing differences between the City and State fiscal years. OSC estimates that payments from the industry in State fiscal year (SFY) 2018-19 declined by 6 percent to \$13.2 billion (see Figure 9). As a result, the industry accounted for an estimated 17 percent of total tax collections in SFY 2018-19.

FIGURE 9
Securities Industry-Related Tax Payments



Sources: NYC Department of Finance; NYS Department of Taxation; OSC analysis

¹ The report utilized data from the U.S. Bureau of Labor Statistics Quarterly Census of Employment and Wages series for this analysis since data for the securities industry was not available for all 50 states from the Current Employment Survey.
² See Report 4-2018, *The Technology Sector in New York City*, September 2017, for OSC's definition of the tech sector.
³ 1981 is when the Office of the State Comptroller's data series begins.
⁴ These estimates exclude revenue from real property taxes, real estate transaction taxes and sales taxes because OSC is unable to identify the securities industry's share of those tax payments.

