

## An Update on Emerging Issues in Banking

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### New York City's Economy Shows Early Signs of Stabilizing

May 23, 2002

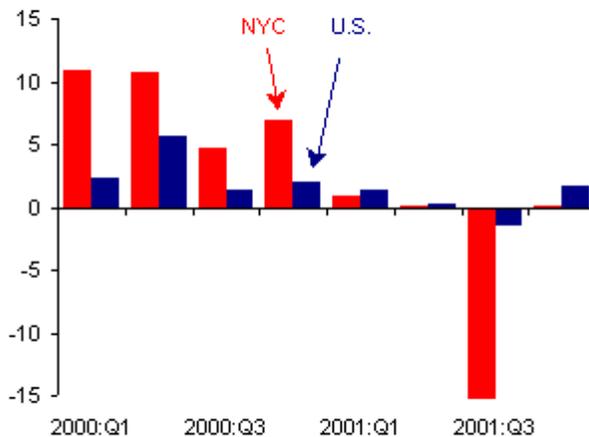
#### Summary

The September 11, 2001 attack on the World Trade Center severely shocked the New York City economy. The magnitude of the shock pushed the City's slowing economy into a recession, resulting in employment declines that were greater than the national average. Recent economic data indicate, however, that while the City has suffered major trauma, the economy now may be beginning to stabilize. Many residents and businesses have returned to Lower Manhattan, and the rate of job decline appears to have eased through April 2002.<sup>1</sup> The site cleanup is virtually complete, and plans to fully restore and upgrade transportation systems to Lower Manhattan will contribute to the area's recovery. Nonetheless, the City's economy faces significant challenges, largely related to a weakened financial services sector and the long process ahead to rebuild Lower Manhattan.

Chart 1

#### After a Strong 2000, 9/11 Shocked NYC's Economic Growth in Third Quarter 2001

Annualized Percentage Change in Real Gross Product



Source: National Income and Product Accounts, Economy.Com.

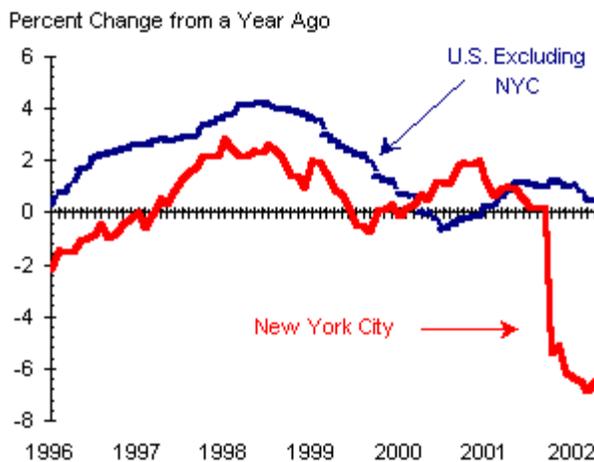
Note: NYC data are Economy.com's May 2002 estimates for the PMSA, which includes the Bronx, Kings (Brooklyn), Manhattan, Queens, Richmond (Staten Island), Putnam, Rockland and Westchester Counties.

Prior to September 11, 2001, the New York City's economy, although slowing, was outperforming the nation. After declining to near zero growth in the second quarter of 2001, the City's economy contracted sharply following September 11.<sup>2</sup> The World Trade Center attack destroyed offices, damaged consumer and business confidence, and resulted in closing the stock exchange for four days. The City's gross metro product decreased at an

annual rate of approximately 15 percent in the third quarter of 2001, compared with a 1.3 percent annual rate of decline in the nation's Gross Domestic Product, or GDP (see Chart 1). Employment declines have been deep and widespread over the past eight months, with some of the most significant declines in the finance, insurance, and real estate (FIRE) sector, a key driver of the City's economy (see Chart 2).<sup>3</sup> Job declines in the City's financial sector have been more severe than in other parts of the country because of a greater reliance on investment banking and equity-related activities which have been adversely affected by the difficulties of the U.S. corporate sector.

Chart 2

### FIRE-Sector Employment Declines Have Been More Severe in New York City than the Nation



Source: Bureau of Labor Statistics.  
FIRE refers to Finance, Insurance and Real Estate Services

### Outlook for New York City Economy and Insured Institutions

Most analysts expect a slower and weaker economic recovery for New York City than for the nation. The **New York City Office of Management and Budget** and the **New York City Comptroller's Office** forecast that the City may have to wait until 2005 or 2006 to regain 2000 employment levels.<sup>4</sup> The timing and strength of a rebound in the FIRE sector will play an important role in the City's near-term outlook. The FIRE sector accounts for approximately 13 percent of the City's workforce but 30 percent of annual earnings, primarily wages and salaries.<sup>5</sup> Despite \$20 billion in federal assistance for the reconstruction of Downtown Manhattan, the potential for a lackluster recovery in the financial markets is expected to dampen the City's immediate economic prospects. Nevertheless, recent employment data suggest that the rate of job loss in the City's business services, tourism, travel-related services and FIRE sectors has decelerated.<sup>6</sup>

The long-term outlook for New York City depends on the restoration of services and amenities, and the return of confidence, which are essential for Lower Manhattan's future business competitiveness. Quality of life improvements in the 1990s and a reputation that attracts domestic and

international talent support New York City's economic vitality. Eight months after the attack businesses, residents, and visitors are returning to Lower Manhattan and the cleanup of Ground Zero has been virtually completed. Equally important, a redevelopment plan for Lower Manhattan is being debated and will take time for all parties to agree on how to proceed. Reconstruction investment would be expected to make a significant contribution to the New York economy once underway.

Despite significant economic weakening in New York City during the past year, credit quality deterioration reported by insured institutions headquartered in the area tracked national and regional trends.<sup>7</sup> During 2001, the median percent of past due loans reported by the 86 local and regional banks in the New York metropolitan area increased from 1.14 percent to 1.58 percent.<sup>8</sup> In the months following the attack, bankers in the New York City area remained optimistic about economic recovery in the second half of 2002, according to a survey conducted by the **American Bankers Association (ABA)**.<sup>9</sup> Nonetheless, credit quality is typically a lagging indicator. Because the recession affected New York City later than other parts of the nation and the City's economic recovery is expected to lag the nation, credit quality among the City's insured institutions could weaken further relative to banks in other metropolitan areas.

For the full Bank Trends report, entitled "The New York City Economy: Post 9/11," go to:

<http://www.fdic.gov/bank/analytical/bank/index.html>

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<sup>1</sup> April 2002 employment data subject to revision.

<sup>2</sup> The area refers to the New York City Primary Metropolitan Statistical Area (PMSA), which includes the Bronx, Brooklyn, Manhattan, Queens, Staten Island, Putnam, Rockland, and Westchester Counties.

<sup>3</sup> For the purposes of this article the financial services industry includes securities firms, commercial banks, insurance companies, and real estate businesses.

<sup>4</sup> New York City Office of Management and Budget (OMB), *The City of New York Executive Budget Fiscal Year 2003: Message of the Mayor*, April 17, 2002. Office of the New York City Comptroller. The Comptroller's Comments on the Economic Assumptions Underlying the Executive Budget for Fiscal Year 2003. A separate analysis by DRI-WEFA, an economic forecasting and consulting company, indicates that the New York City PMSA may recover approximately a year faster than OMB or the City Comptroller estimates.

<sup>5</sup> Source: Report by the Federal Reserve Bank of New York to Congresswoman Carolyn Maloney. April 18, 2002.

<sup>6</sup> Leslie Eaton. "Did Somebody Say Recovery? (Shhh.)" *New York Times*. May 19, 2002. Note: April 2002 employment numbers are subject to revision.

<sup>7</sup> For purposes of this report, insured institutions with total assets greater than \$30 billion and credit card banks are excluded because the operations of these banks extend much beyond the New York metropolitan area.

<sup>8</sup> Past due loans are defined as loans more than 30 days past due or loans in non-accrual status.

<sup>9</sup> American Bankers Association. "Post Sept. 11 Survey Shows Nation's Bankers Are Optimistic," ABA Press Release, December 3, 2001.

Chart 1

**After a Strong 2000, 9/11 Shocked NYC's Economic Growth in Third Quarter 2001**

Annualized Percentage Change in Real Gross Product

<b>Year and Quarter</b>	<b>US</b>	<b>New York City</b>
2000:Q1	2.35	10.90
2000:Q2	5.69	10.74
2000:Q3	1.34	4.70
2000:Q4	1.91	6.89
2001:Q1	1.32	0.88
2001:Q2	0.31	0.14
2001:Q3	-1.33	-15.16
2001:Q4	1.65	0.12

Source: National Income and Product Accounts, Economy.Com.

Note: NYC data are Economy.com's May 2002 estimates for the PMSA, which includes the Bronx, Kings (Brooklyn), Manhattan, Queens, Richmond (Staten Island), Putnam, Rockland and Westchester Counties

Chart 2

**FIRE-Sector Employment Declines Have Been More Severe in New York City than the Nation**

Total Employment in Finance, Insurance and Real Estate Services (FIRE)  
Percent Change from A Year Ago

<b>Month and Year</b>	<b>U.S. Total, Excluding New York City</b>	<b>New York City</b>
Jan-96	0.4	-2.2
Feb-96	0.8	-1.5
Mar-96	0.8	-1.5
Apr-96	1.2	-1.5
May-96	1.7	-1.0
Jun-96	1.8	-0.9
Jul-96	2.1	-0.8
Aug-96	2.2	-0.4
Sep-96	2.3	-1.0
Oct-96	2.4	-0.8
Nov-96	2.5	-0.4
Dec-96	2.5	-0.2
Jan-97	2.7	0.0
Feb-97	2.7	-0.6
Mar-97	2.7	0.0
Apr-97	2.9	0.5
May-97	2.9	0.3
Jun-97	2.8	0.8
Jul-97	2.9	1.3
Aug-97	2.9	1.5
Sep-97	3.0	1.8
Oct-97	3.4	2.2
Nov-97	3.4	2.2
Dec-97	3.6	2.2
Jan-98	3.7	2.9
Feb-98	3.9	2.5
Mar-98	4.2	2.2
Apr-98	4.2	2.2
May-98	4.2	2.4
Jun-98	4.3	2.3
Jul-98	4.3	2.6
Aug-98	4.0	2.4

Sep-98	4.1	2.1
Oct-98	4.0	1.5
Nov-98	4.0	1.4
Dec-98	3.8	1.0
Jan-99	3.7	2.0
Feb-99	3.5	1.9
Mar-99	3.1	1.6
Apr-99	2.9	1.0
May-99	2.7	0.8
Jun-99	2.5	0.3
Jul-99	2.3	-0.4
Aug-99	2.2	-0.5
Sep-99	1.8	-0.7
Oct-99	1.5	0.1
Nov-99	1.3	0.1
Dec-99	1.2	0.4
Jan-00	0.8	-0.1
Feb-00	0.8	0.2
Mar-00	0.6	0.3
Apr-00	0.1	0.7
May-00	-0.1	0.5
Jun-00	-0.4	1.2
Jul-00	-0.7	1.2
Aug-00	-0.5	1.1
Sep-00	-0.3	1.8
Oct-00	-0.2	2.0
Nov-00	-0.1	1.9
Dec-00	-0.1	2.0
Jan-01	0.3	1.3
Feb-01	0.4	0.7
Mar-01	0.7	1.0
Apr-01	0.9	1.1
May-01	1.3	0.9
Jun-01	1.2	0.5
Jul-01	1.2	0.3
Aug-01	1.1	0.2
Sep-01	1.0	0.2
Oct-01	1.3	-5.4

Nov-01	1.2	-5.1
Dec-01	1.1	-6.1
Jan-02	1.1	-6.3
Feb-02	0.7	-6.5
Mar-02	0.5	-6.9
Apr-02	0.6	-6.5

Source: Bureau of Labor Statistics.