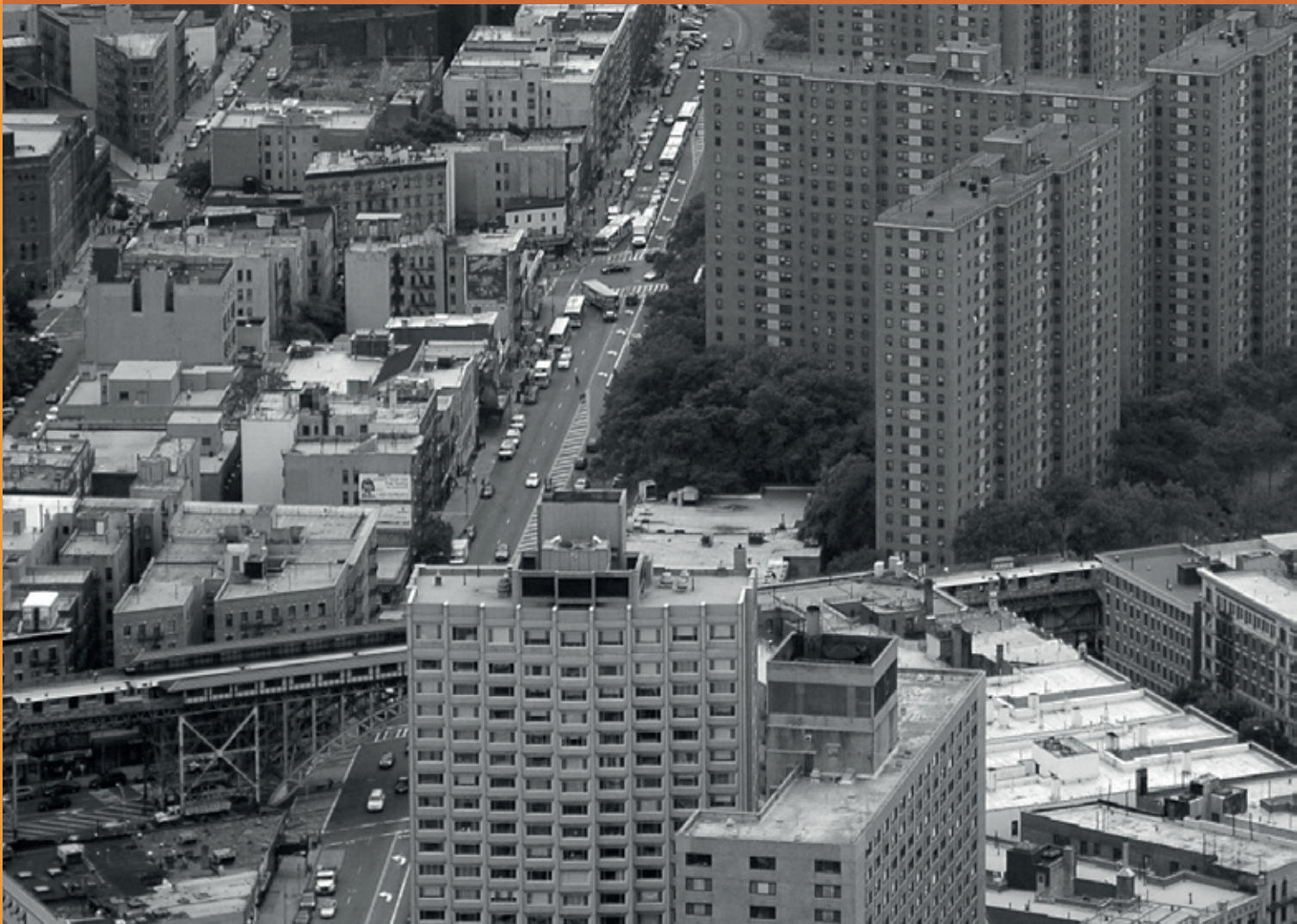




THE RECESSION OF 2008-09

Impact on New York City, Implications
for the Morningside Area Alliance



The recession of 2008-09: impact on New York City

Entering the summer of 2009, New York City is feeling the effects of the first truly global recession since the Second World War, and the worst national recession since at least the early 1980's. Since the last quarter of 2007 – when payroll employment in New York City peaked at just over 3.8 million – the City has lost approximately 110,000 payroll jobs – a decline of 2.9 percent. Many of those lost include highly-paid jobs in finance, business services, manufacturing and construction as well as entry-level jobs in retailing, restaurants and other sectors.

As the number of jobs in the City has declined, unemployment among City residents has risen. Between the end of 2007 and February 2009, the City's unemployment rate rose from 5.2 to 8.4 percent, before falling back to 7.8 percent in April.

1) The recession in perspective: NYC vs. the US, and 2008-09 vs. previous recessions

While the loss of jobs and the accompanying increase in unemployment has been painful, New York has to date not been hit as hard as many other parts of the U.S. Nationwide, the U.S. has lost 6.6 million payroll jobs since the last quarter of 2007 – a decline of 4.8 percent.

During the same period, the nationwide unemployment rate has risen from 4.6 percent to 8.6 percent.

New York City's economy is holding up relatively well not only when compared to the U.S. as a whole – but also when compared to the City's experience during other recent recessions. As Figure 2 shows:

- Between the second quarter of 1990 and the first quarter of 1993, New York City suffered a net loss of 351,000 payroll jobs – a decline of 9.8 percent.
- Between the last quarter of 2000 and the first quarter of 2003, the City suffered a net loss of 275,000 jobs – a loss of 7.3 percent.

During both of the preceding recessions, job losses were greater in New York City (in percentage terms) than at the national level. This time – at least

Figure 1: U.S. and New York City percentage of job loss, Fourth Quarter 2007 – April 2009

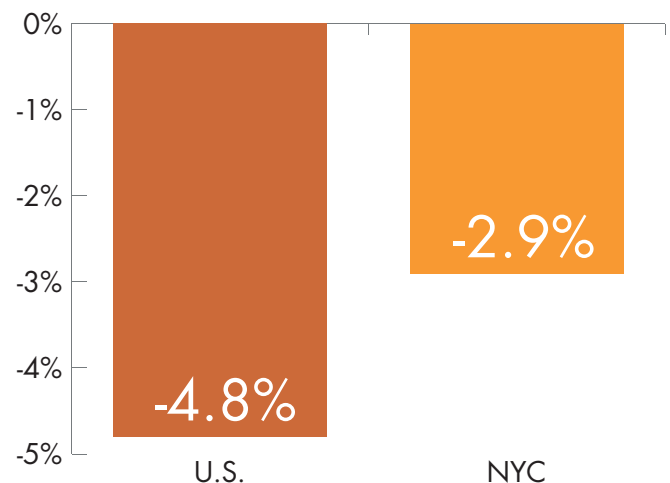
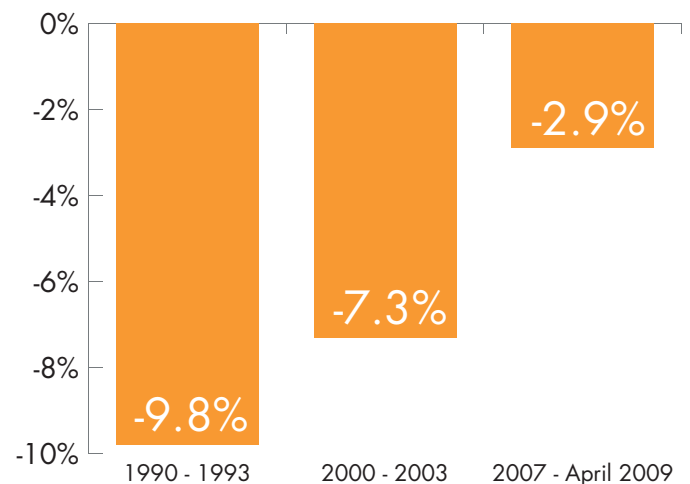


Figure 2: New York City job losses in the current and two preceding recessions



to date – the opposite has been true – job losses have been greater at the national level.

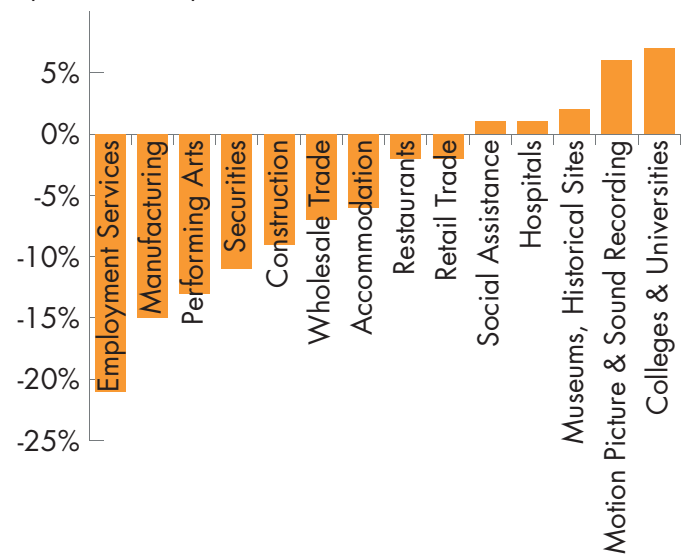
2) Which industries have been hardest-hit? Which have done relatively well?

The severity of job losses in New York City has varied significantly from industry to industry. Figure 3 shows the extent of job losses (or in some cases, gains) in selected New York City industries between April 2008 and April 2009.

Industries that suffered significant losses between April 2008 and April 2009 include the following:

- The securities industry lost 20,200 jobs – a decline of 10.9 percent;
- The long-term decline of the City’s manufacturing sector accelerated, with a loss of 14,400 jobs in twelve months – a decline of 14.9 percent.
- The employment services industry, which includes temp services, lost 13,600 jobs – a decline of 20.5 percent.
- The construction industry lost 12,000 jobs – a decline of 9.1 percent.
- The wholesale trade sector lost 10,000 jobs – a decline of 6.7 percent.
- Employment in retailing fell by 5,900 jobs – a loss of 2.0 percent; and
- Restaurant employment fell by 4,200 – a loss of 2.1 percent.

Figure 3: New York City job losses and gain by industry, April 2008 – April 2009



Despite the downturn, employment in several industries held steady between April 2008 and April 2009 – and a few registered significant gains.

- “Social assistance” agencies added 1,000 jobs – an increase of 0.6 percent.
- Hospital employment rose by 1,400 – an increase of 0.9 percent.
- Employment in motion picture and sound recording rose by 2,300 – an increase of 6.1 percent.
- Employment in higher education rose by 6,900 – an increase of 7.2 percent.

3) How has the recession affected Upper Manhattan?

Data on changes in employment and unemployment over the course of the recession are generally not available below the City level. We can, however, use data on unemployment in Upper Manhattan prior to the recession, on the composition of employment in Upper Manhattan, and on the recession’s citywide impact to engage in some “informed speculation” about the likely impact of the recession on the local area.

Before the advent of the recession, unemployment rates in most of Upper Manhattan, as Table 1

shows, were significantly higher than the citywide rate. (The exception was Community Board 9, where the unemployment rate in 2007 was slightly below the city-wide rate.)

Higher pre-recession unemployment rates in Central and East Harlem and in Washington Heights-Inwood also reflect racial and ethnic disparities. In 2007, the citywide unemployment rates for black and Hispanic New Yorkers were more than double the rate for non-Hispanic whites.

Table 1: Resident unemployment rates by CB district, 2007

CB District	Unemployment rate, 2007	Rank among all 59 NYC CB Districts
CB 9	6.9 %	24th
CB 10	12.8 %	5th
CB 11	12.9 %	4th
CB 12	12.2 %	6th
NYC	7.1 %	

Thus, Upper Manhattan residents were already experiencing relatively high levels of unemployment even before the recession began. And while the rates for 2007 are the most recent available at the neighborhood level, it is likely that unemployment rates in community board districts 9, 10, 11 and 12 have risen along with the citywide rate during the past year.

In some other respects, however, Upper Manhattan may be shielded from some of the worst impacts of the current downturn.

In 2007, about 259,000 residents of Upper Manhattan were employed. (Upper Manhattan accounted for about 6.8 percent of the City's resident work force.) As Figure 4 shows, employment by industry among Upper Manhattan residents tends to vary somewhat from that of other New York City residents.

Table 2: Unemployment rates among NYC residents, by ethnicity, 2007

	Unemployment rate, 2007
Non-Hispanic White	4.2 %
Black	10.2 %
Hispanic	9.2 %
Asian	5.7 %

- In 2007, 25 percent of all working New Yorkers were employed in four sectors that have been hit hard by the subsequent recession – construction, manufacturing, wholesale trade and finance. Among employed Upper Manhattan residents, however, only 16 percent worked in these sectors.
- Conversely, 24 percent of all employed New Yorkers – but 30 percent of all employed Upper Manhattan residents – worked in education, health and social assistance – all industries in which employment has held up relatively well during the recession.
- On the negative side, a somewhat larger percentage of Upper Manhattan residents

Figure 5: Upper Manhattan employment by industry, Third Quarter 2008

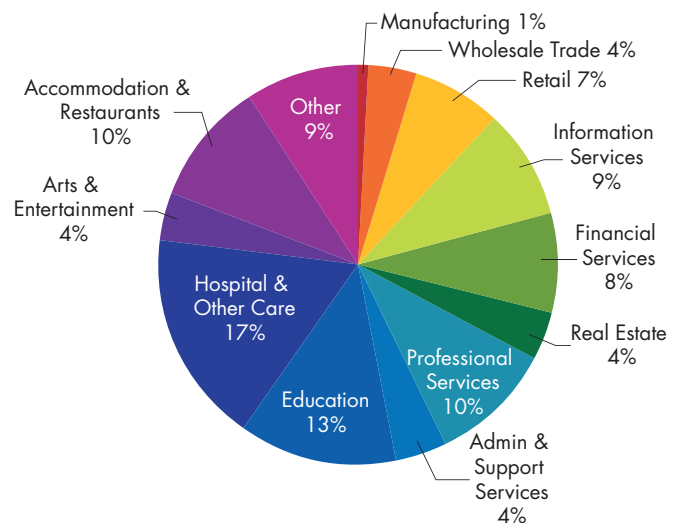
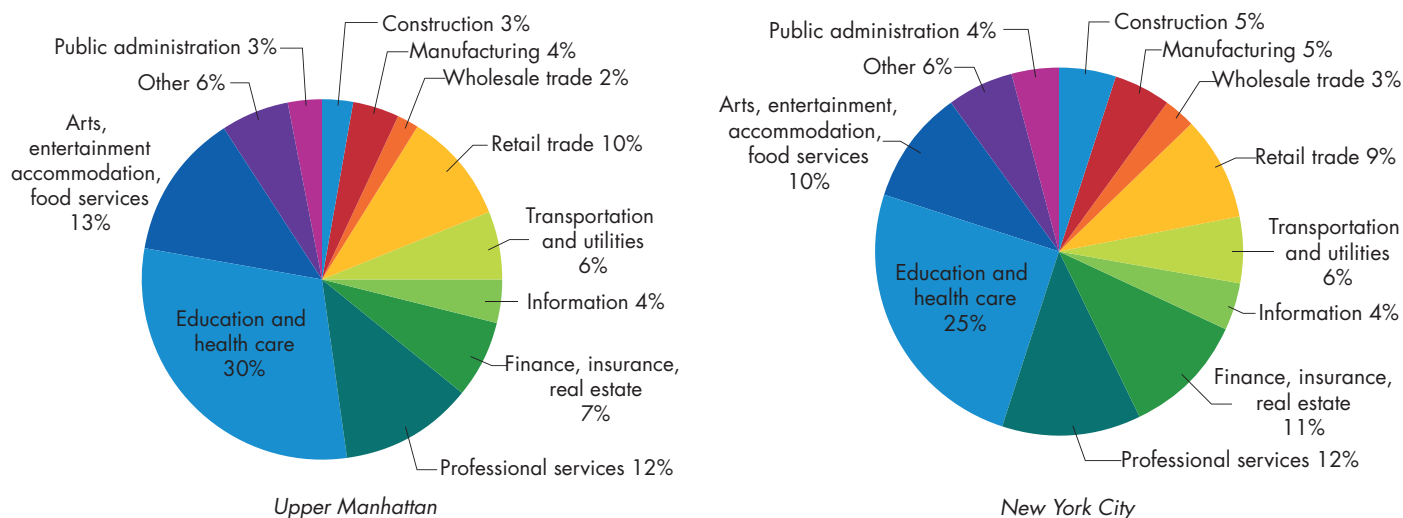


Figure 4: Resident employment by industry in Upper Manhattan and New York City, 2007



than of all New York residents (13 vs. 10 percent) were employed in the “leisure and hospitality” sector (the arts, entertainment, hotels and restaurants); payroll employment in this sector declined by 3.6 percent between April 2008 and April 2009.

On balance, the *mix of industries* in which Upper Manhattan residents are employed has probably made them somewhat less vulnerable to this particular recession than New York City residents in general. (It should be noted, however, that Upper Manhattan residents’ vulnerability to layoffs could be adversely affected by a variety of factors other than industry mix – seniority, workplace discrimination, etc.).

We can view the impact of the recession not only in terms of the industries in which Upper Manhattan residents work, but also in terms of which industries are located in Upper Manhattan. As with resident employment, Upper Manhattan’s industry mix is tilted toward industries that have held up relatively well during this recession.

Figure 5 shows employment in Upper Manhattan by industry as of the third quarter of 2008. Leading sectors of the local economy include hospitals and other health services, educational services, other professional services, hotels and restaurants, and information services.

While the mix of industries located in Upper Manhattan has a significant impact on the structure of opportunity for Upper Manhattan residents, it is important to recognize that most employed residents of Upper Manhattan work elsewhere. Data from the 2000 census (the most recent journey-to-work data available at a detailed geographic level) indicate that only about 26 percent of all employed residents of Upper Manhattan work in Upper Manhattan. About 60 percent work elsewhere in the borough, and 14 percent outside Manhattan.

Outlook for New York's (and Upper Manhattan's) economy

While the recession's impact on New York City has to date been less severe than many forecasters had expected, it is by no means over. Further job losses are likely in several major sectors of the City's economy, including construction, manufacturing, finance and business and professional services.

In May, the City's Independent Budget Office reduced its estimate of payroll job losses in the City from 2008 through the second quarter of 2010 from 270,000 to 254,000. Even this somewhat improved outlook, however, implies that to date the City has not yet lost half the total number of jobs it will lose over the course of the recession – IBO believes we are not yet halfway to the bottom.

Others have been more pessimistic. In January, the Office of Management and Budget had forecast a loss of 294,000 jobs over the course of the recession; in May, OMB increased its estimate of total jobs lost through the third quarter of 2010 to 328,000. In OMB's view, the City is only a third of the way to the bottom.

Based on the recession's impact to date, Appleseed is (cautiously) more optimistic than either IBO or OMB about the outlook for New York City's economy. We believe the peak-to-trough decline in payroll employment is more likely to be in the range of 180,000 to 220,000 jobs, and that employment is likely to start growing again by the second quarter of 2010. Even this more optimistic outlook would mean the loss of 70,000 to 110,000 additional jobs; but it also means that in New York City the recession of 2008-09 would in the end prove to be less severe than the two recessions that preceded it.

1) Which industries will lead the recovery?

How quickly the New York City's economy begins to recover, and how strong the recovery will be, depends in part on which industries (if any) emerge over the course of the next year as major contributors to the process of economic growth. Based on our reading of recent trends, and of factors likely to shape the City's future, we believe the following sectors and industries could play leading roles in the growth of the city's economy during the next five to ten years:

- **Higher education**

While demographic pressures on higher education may ease during the next five to ten years, the demand for higher education is likely to remain strong, as the growth of knowledge-based industries increases demand for higher skill levels. New York City institutions should continue to benefit from the City's attractiveness to college students – and from their continued attractiveness to international students.

- **Biomedical research**

New York City is one of the nation's leading centers of biomedical research, and should benefit from increased federal investment in this area.

- **Health care**

While institutions that provide direct patient care will remain under pressure to contain costs, the next decade could offer new opportunities for both health care providers and other businesses that are finding ways to increase productivity, reduce cost and improve patient outcomes.

- **Media and communications**

Despite the continuing problems of "traditional" print and broadcast media companies, New York City remains the media and communications capital of the world, and could in the next five to ten years see continued growth in areas such as film and TV production, cable networks and online media.

- **Internet-based businesses**

In addition to the growth of online media (both stand-alone online ventures and the online platforms of traditional media companies), New York has in recent years seen strong growth in a number of other segments of the Internet economy – online business, professional and consumer information services; online marketing and advertising; Internet retailing; web-based business applications and services; and the development of mobile Internet applications, services and content. These are all likely to be growth areas for New York City during the next five to ten years.

- **The arts and entertainment**

Although some segments of the City's arts and entertainment sector have been hit hard by the recession, it is still one of the foundation stones of the City's economy – not only as a major industry in itself, but also as part of what helps New York attract and retain the talent required to keep its other leading industries competitive.

- **Finance (?)**

In terms of its role in City's economic recovery, the financial services sector remains something of a wild card. To date, job losses in New York's financial services industries have been far less severe than many analysts had predicted last fall. This has been attributed to several factors – generous severance packages that keep employees "officially" on the payroll for months after they have stopped working; the impact of TARP and other federal programs that have reduced the need for banks to cut payroll; the relative health of some of the City's major financial institutions; and the desire of many institutions to retain people they need not only to work through their

current difficulties, but to take advantage of opportunities for growth.

On the other hand, even though the financial markets appear to have stabilized in recent months, additional shocks could be on the way – for example, from commercial real estate and credit card defaults. Job losses could thus continue throughout the rest of 2009.

Nevertheless, finance remains one of the core strengths of New York City's economy. Compensation in this sector may not soon return to pre-crisis levels. But despite numerous transformations, finance has been an important source of job and income growth in every New York City recovery in the past forty years – and it could well be again.

2) The outlook for Upper Manhattan

How is Upper Manhattan likely to fare during the remainder of the recession, and in the recovery that, by mid-to-late 2010, will follow? Below we highlight some of the strengths and the challenges that will shape the outlook for Upper Manhattan during the next five to ten years.

Upper Manhattan's strengths include:

- **Major institutional strengths in key industries**

Upper Manhattan has some notable strengths in several of the industries that could help lead New York City out of the recession – in higher education, health care, biomedical research and the arts. The member institutions of the Morningside Area Alliance are themselves an important part of Upper Manhattan's strength in these areas; other important assets include City College, Yeshiva University, New York Presbyterian Hospital and Harlem Hospital.

- **Neighborhoods on the rise**

As the economy begins to recover, Upper Manhattan should benefit from the significant progress that has been made during the past twenty years in revitalizing neighborhoods throughout the area. Neighborhoods that are perceived as good places to live and work will attract new residents and new investments in both housing and commercial development.

Community organizations and institutions such as Abyssinian Development Corporation, Harlem Congregations for Community Improvement and Alianza Dominicana have played an important role in the revitalization of Upper Manhattan neighborhoods during the past twenty years – and could similarly contribute to the coming recovery.

- **History and culture**

Upper Manhattan's historic role as a center of African-American and Latino culture can also be a source of economic vitality. Its resources include major cultural institutions such as the Studio Museum, the Schomburg Center, El Museo del Barrio and the Apollo Theater – local arts

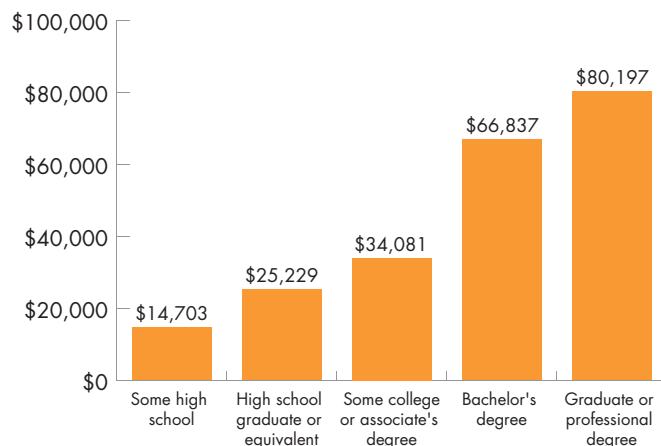
organizations – and artists of all kinds who live and work in the community.

Even as it seeks to take advantage of these strengths, Upper Manhattan confronts a number of challenges that could limit its opportunities for growth.

- **Large numbers of residents with limited education, skills**

While the percentage Upper Manhattan residents who have not completed high school has declined significantly since 2000 – from 40 to 30 percent – it is still relatively high. Using data collected through the American Community Survey between 2005 and 2007, the Census Bureau estimates that there are approximately 115,000 residents of Upper Manhattan age 25 and older who have not graduated from high school.

Figure 6: Median earnings by level of educational attainment, Manhattan, 2007



Low levels of education have a direct impact on earnings. As Figure 6 shows, in 2007 the median earnings of employed Manhattan residents who had not finished high school were just over \$14,700 – only about 58 percent of the median earnings of Manhattan high school graduates and only 22 percent of the median earnings of Manhattan residents with bachelor's degrees.

- **School performance and student achievement**

Closely related to Upper Manhattan's low levels of adult educational attainment are the relatively low levels of student achievement that characterize the area's public schools. As Table 3 shows, schools in community board districts 9, 10, 11 and 12 all lag behind their counterparts citywide in terms of the percentage of students performing at or above grade level in reading and math.

Table 3: Percent of Upper Manhattan public school students performing at or above grade level in reading and math, 2007

	Reading		Mathematics	
	% of students at grade level	Rank among all 59 NYC CB districts	% of students at grade level	Rank among all 59 NYC CB districts
CB 9	39.2 %	52nd	56.1 %	46th
CB 10	43.1 %	42nd	58.0 %	42nd
CB 11	43.1 %	42nd	56.4 %	44th
CB 12	33.8 %	58th	53.2 %	53rd
NYC	50.8 %		65.1 %	

- **Little space available for development**

Upper Manhattan is a densely developed area, with relatively few sites available for new development. Assembling sites for new development – and, where necessary, securing City approval – can be an arduous process. Both the physical constraints imposed by limited availability of development sites and the political complications associated with competing demands for such sites limit Upper Manhattan’s ability to capitalize on the opportunities that recovery will present.

Implications for the Alliance and its member institutions

The current recession presents both challenges and opportunities for the Morningside Area Alliance and its member institutions – and so will the recovery that follows.

Challenges include the following:

- **Financial constraints**

Like their counterparts across the country, Alliance members are struggling with the recession’s impact on their own finances. Educational institutions have seen the value of their endowments decline substantially since the summer of 2008. Institutions are also facing pressure to hold down tuition and other student costs – and at the same time, to provide increased financial aid. For many of those involved in the delivery of health care, financial constraints are even more severe.

- **City and state financial problems**

Morningside area institutions could also be affected by the long-term fiscal problems now confronting New York City and (especially) New York State. These problems could lead to:

- Further pressure on health care reimbursement;
- A renewed focus on finding new ways to extract revenues from non-profit institutions and organizations;
- Reduced state funding for development projects.

- **Potential deterioration of Upper Manhattan neighborhoods**

The ability of Morningside area institutions to attract people and resources depends in part on conditions in the surrounding neighborhoods. The combination of a weak economy and severe constraints on City and State spending could affect conditions in Upper Manhattan in several ways:

- By reducing the funds available for maintenance of parks, transit, streets and other public spaces and facilities;
- By adversely affecting public schools that are already performing below Citywide averages; and
- By making it more difficult for property-owners to invest in repair and maintenance.

Despite these challenges, both the current downturn and the recovery that follows can be a source of **new opportunities** for the Alliance and its member institutions. We conclude this report by highlighting just a few examples.

- **New opportunities for collaboration**

Difficult as the current economic environment may be, it also breeds opportunities for closer and more creative collaboration. Institutions and organizations of all sizes are generally less able to afford a “go-it-alone” approach to the problems that confront them – and financial necessity may in some cases make it easier to overcome the institutional and cultural barriers that in easier times might discourage cooperation.

The recession thus might present the Alliance’s member institutions with new opportunities for collaboration – among themselves, and with community partners, the business community and public agencies.

- **Innovative approaches to community problems**

Even after the recovery gets under way, New York will face serious imbalances in state and city finances. These pressures will heighten the need for innovative solutions to a wide range of problems confronting both the city and the state, such as how to improve schools and expand educational opportunity, how to prepare New Yorkers for the opportunities a recovering economy will offer, and how to meet the need for affordable housing and health care.

In many of these areas, the Alliance’s member institutions and their partners can offer the intellectual, human and organizational resources needed to develop and test new responses to some of New York’s most pressing problems.

- **Resources for recovery**

During the next two years, New York City will benefit from an infusion of federal resources under the American Recovery and Reinvestment Act (ARRA). Some ARRA funding has already been allocated to projects in Upper Manhattan, such as a \$1.9 million investment in the reconstruction of West 125th Street, more than \$11 million in infrastructural improvements at Upper Manhattan housing projects, and \$2 to \$5 million investment per year for an Energy Frontier Research Center at Columbia University. More ARRA funding will be allocated in the months ahead.

Beyond the direct benefits that some Alliance member institutions will be able to derive from ARRA, the Act presents an opportunity for the Alliance, its members and their community partners to work together to secure new resources that can be used to address the needs of upper Manhattan communities. Areas of opportunity could for example include:

- The National Telecommunications and Information Administration’s “broadband stimulus” program; \$4.7 billion will be available nationwide.
- Supporting efforts by community partners to secure funding under HUD’s Neighborhood Stabilization Program (\$2 billion is available nationwide).
- The Education Department’s “What Works and Innovation Fund,” a competitive grant program that will seek to engage non-profit organizations, local school districts and colleges and universities in developing, evaluating and “scaling up” innovations at the local level.

- **Lower costs**

After several years of rapid escalation in real estate prices and construction costs, the recession could provide some breathing room in which Alliance member institutions (individually or in concert) may be able to undertake carefully selected new development initiatives at lower costs than they would have faced only a year ago.

In New York City as elsewhere – and in Upper Manhattan – 2009 is proving to be a difficult year. But the recession and the recovery that follows will present opportunities as well – opportunities that the Alliance and its member institutions may be well-positioned to seize.

