

New York in Crisis

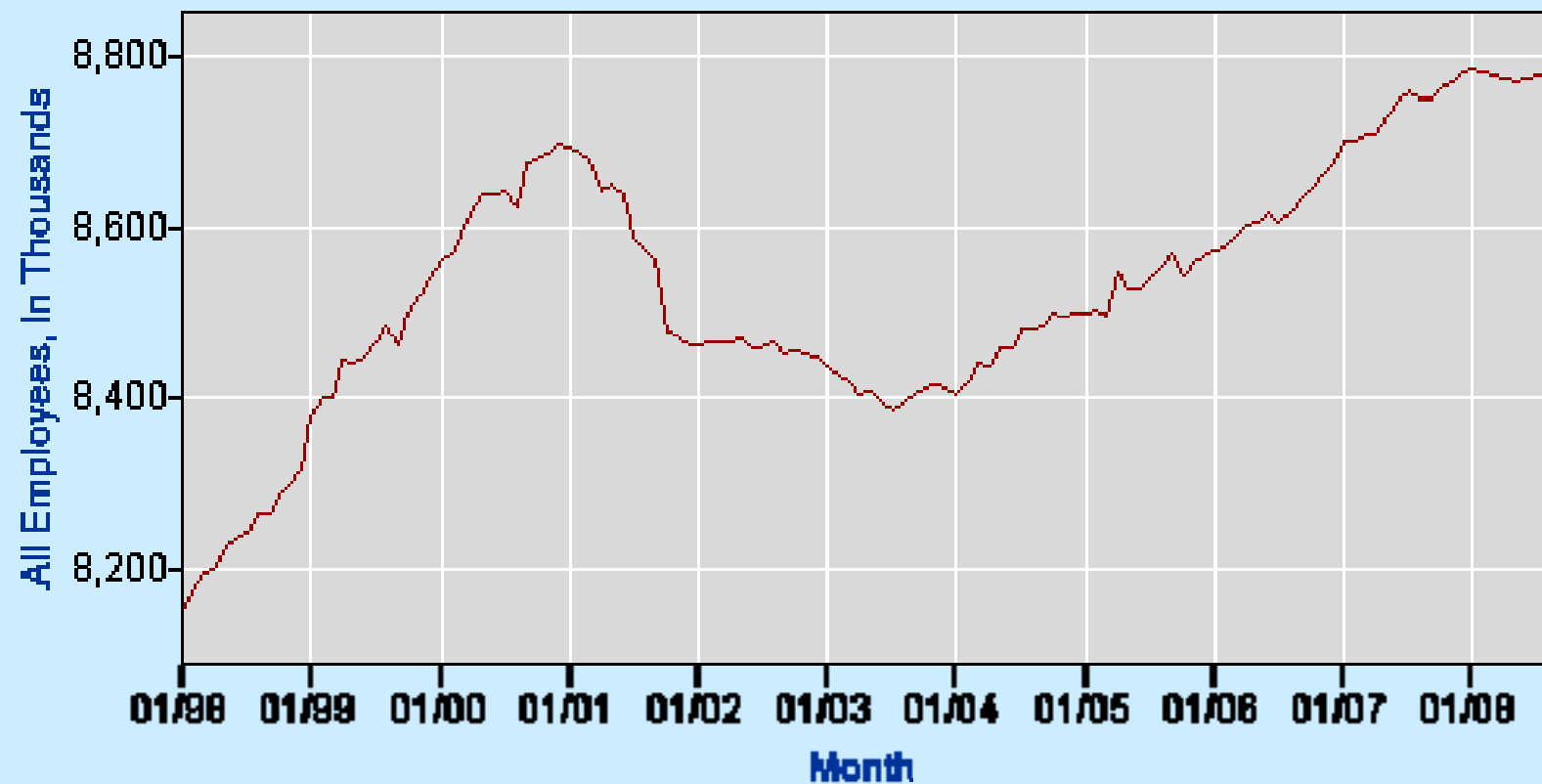
Presentation by

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Rockefeller Institute

Albany, NY October 6, 2008

New York State: Strong Recovery Since 2003

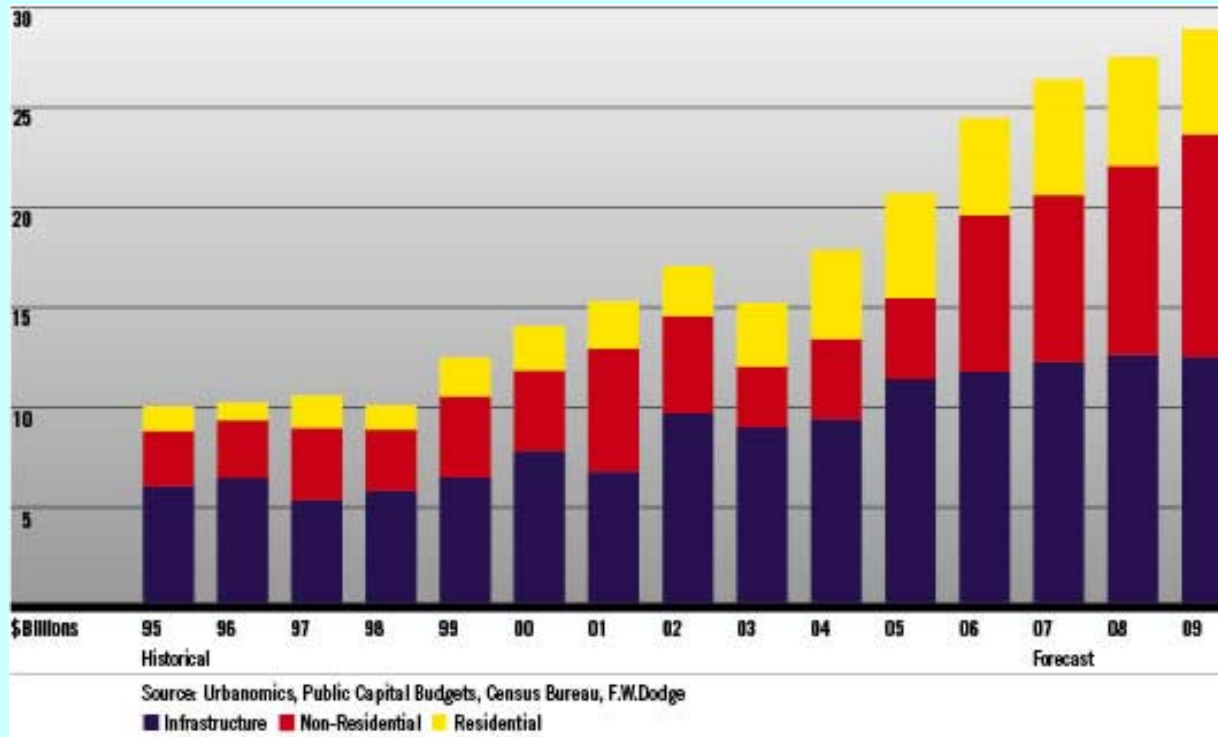


New York City: Remarkable Comeback after 2001

Employment Trends in New York City 1997-2007

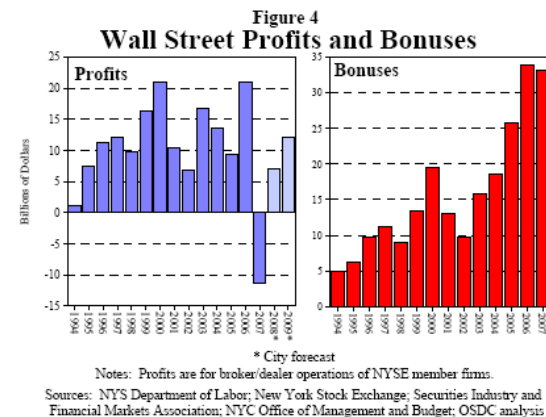


Total Construction Activity



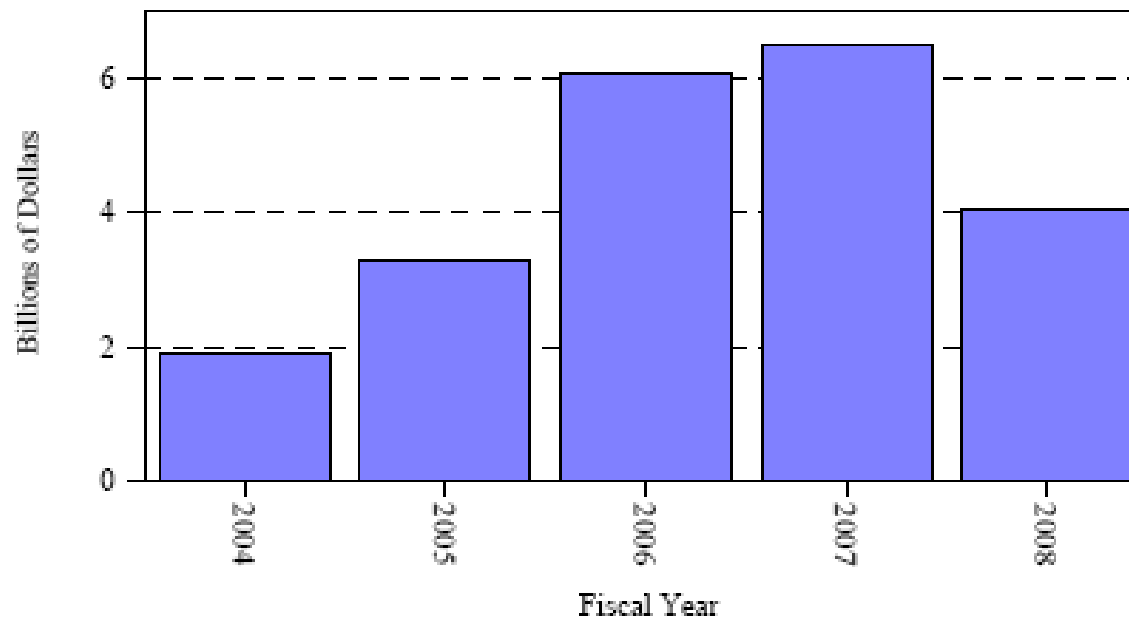
Since Finance Drives NYC Economy

- New York City (and State) benefit in good times
- Bonus Payments in Financial Industry



NYC Budget Surplus 2004-2008

Figure 10
Surplus Resources Generated
in the Current Year



Sources: NYC Office of Management and Budget; NYC Comptroller; OSDC analysis

New York State GDP

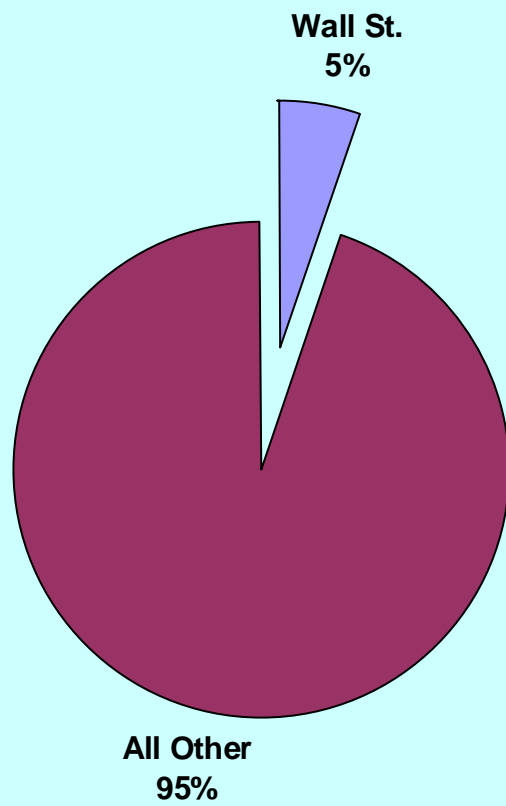
- \$1.1 Trillion in 2007
 - Financial Sector 32%
 - Prof. & Business Services 13.6%
 - Trade (Wholesale & Retail) 9.8%
 - Information Sector 7.5%

Major concentration is Downstate, primarily
NYC

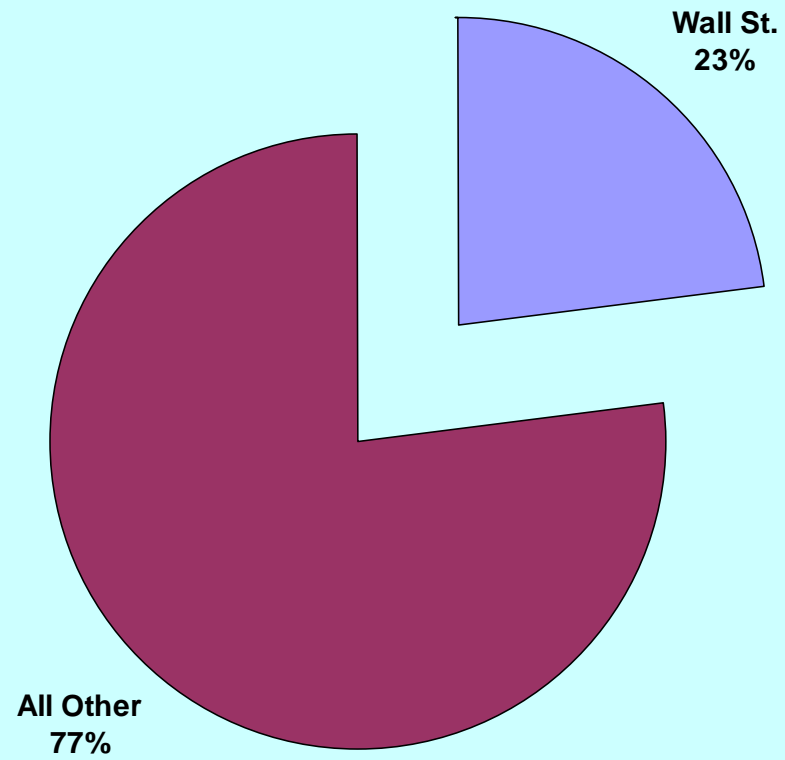
Financial Crisis now our major concern

- Over one year since first evidence of “Credit Crunch”
- Since early September, dizzying pace of change
- Dire Forecasts of Financial Meltdown
- Rapid transformation of U.S. and NYC Financial and Insurance industries
- New York City once again “Ground Zero”

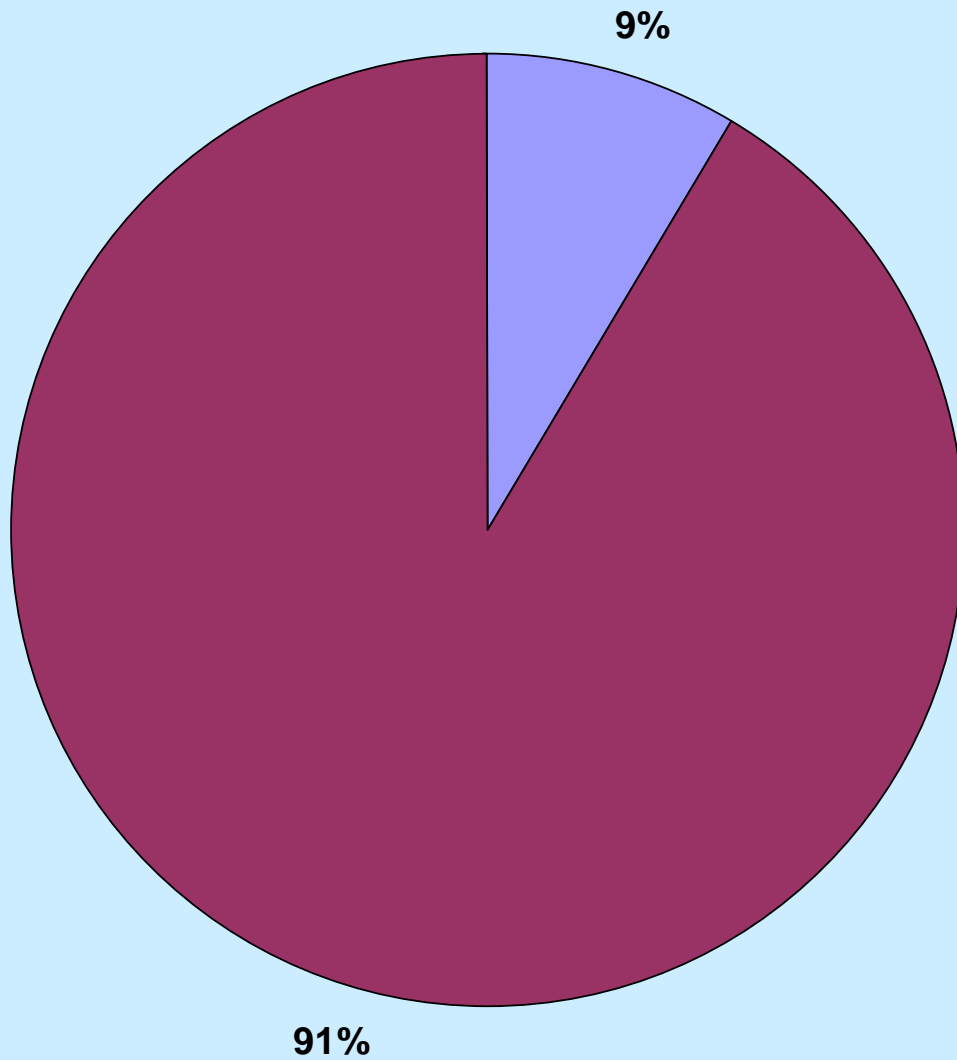
'Wall Street' Jobs as Share of NYC Employment



Wall St. Wages as Share of NYC Total



Finance & Insurance Employment in New York City Share of Total Employment 2007



Wages in Fin & Ins are One-Third of All Wages in NYC 2007

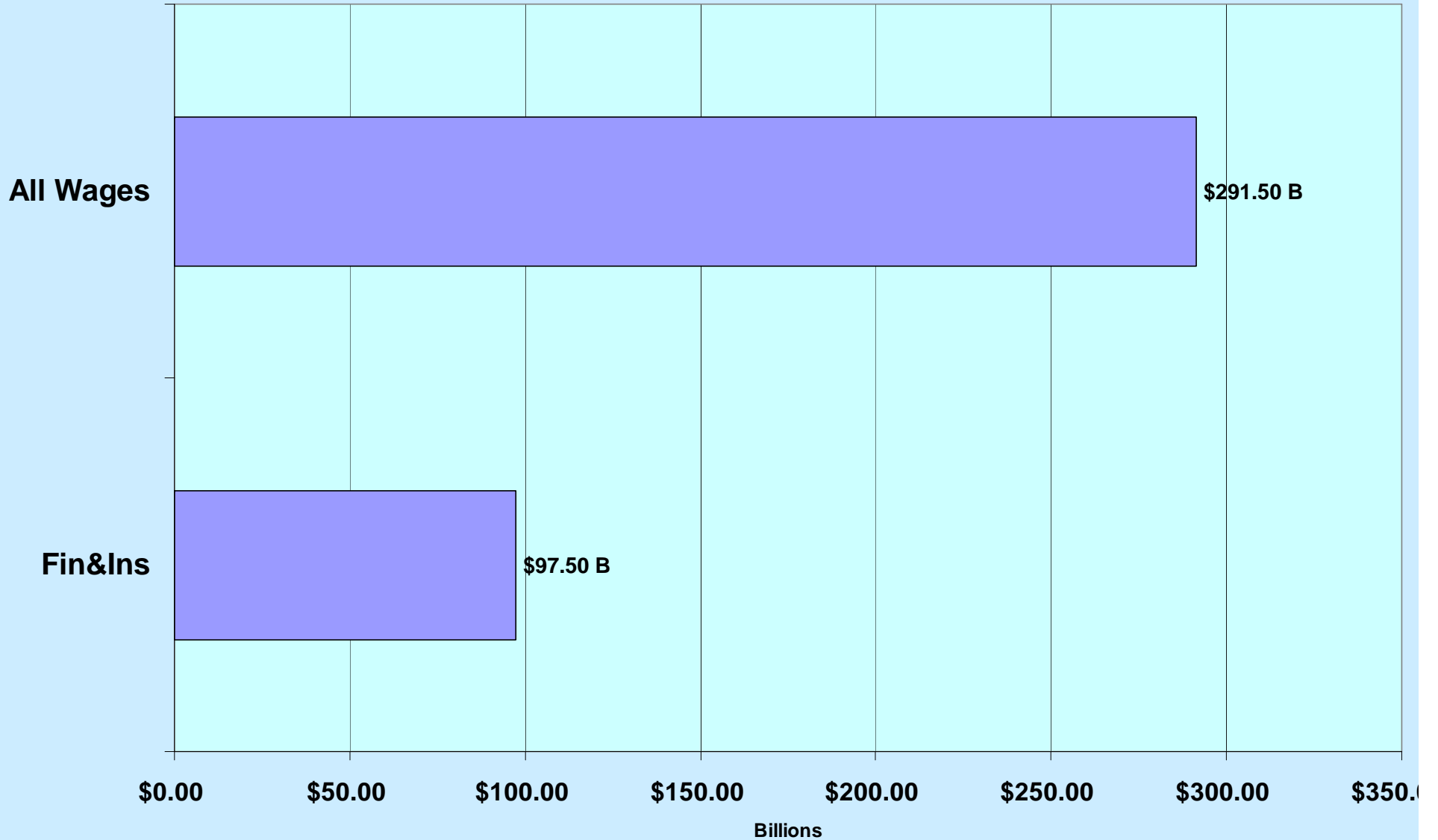
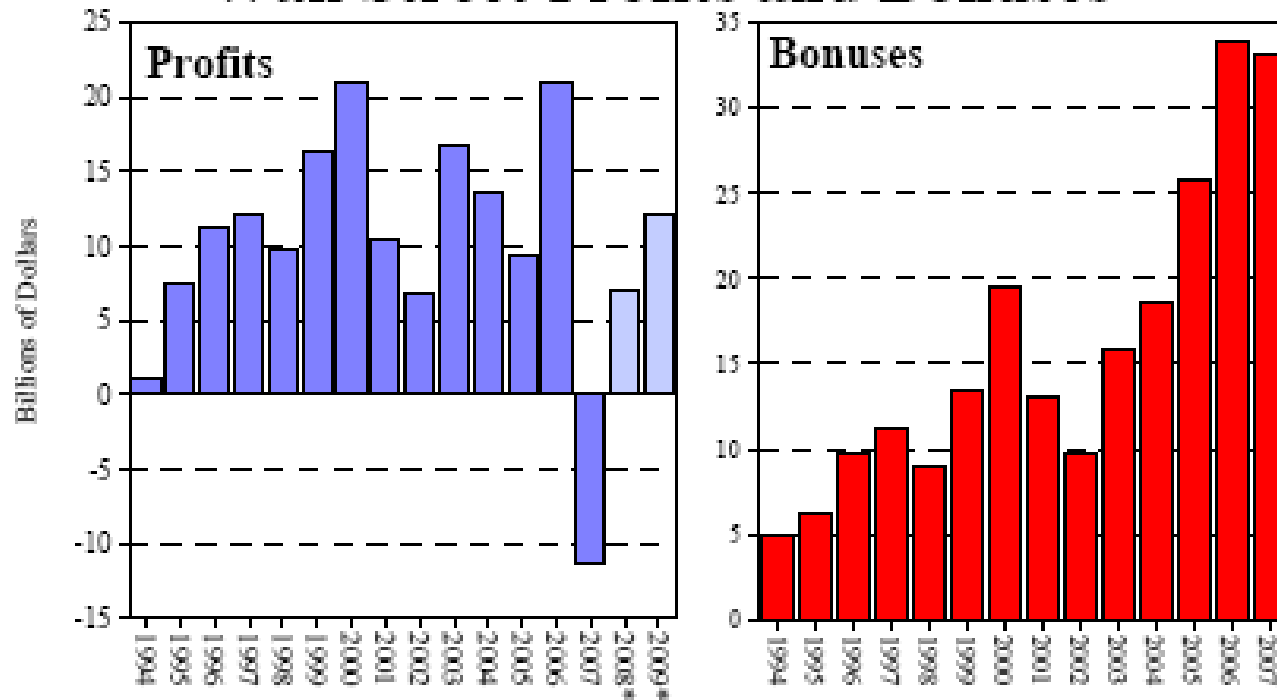


Figure 4
Wall Street Profits and Bonuses



* City forecast

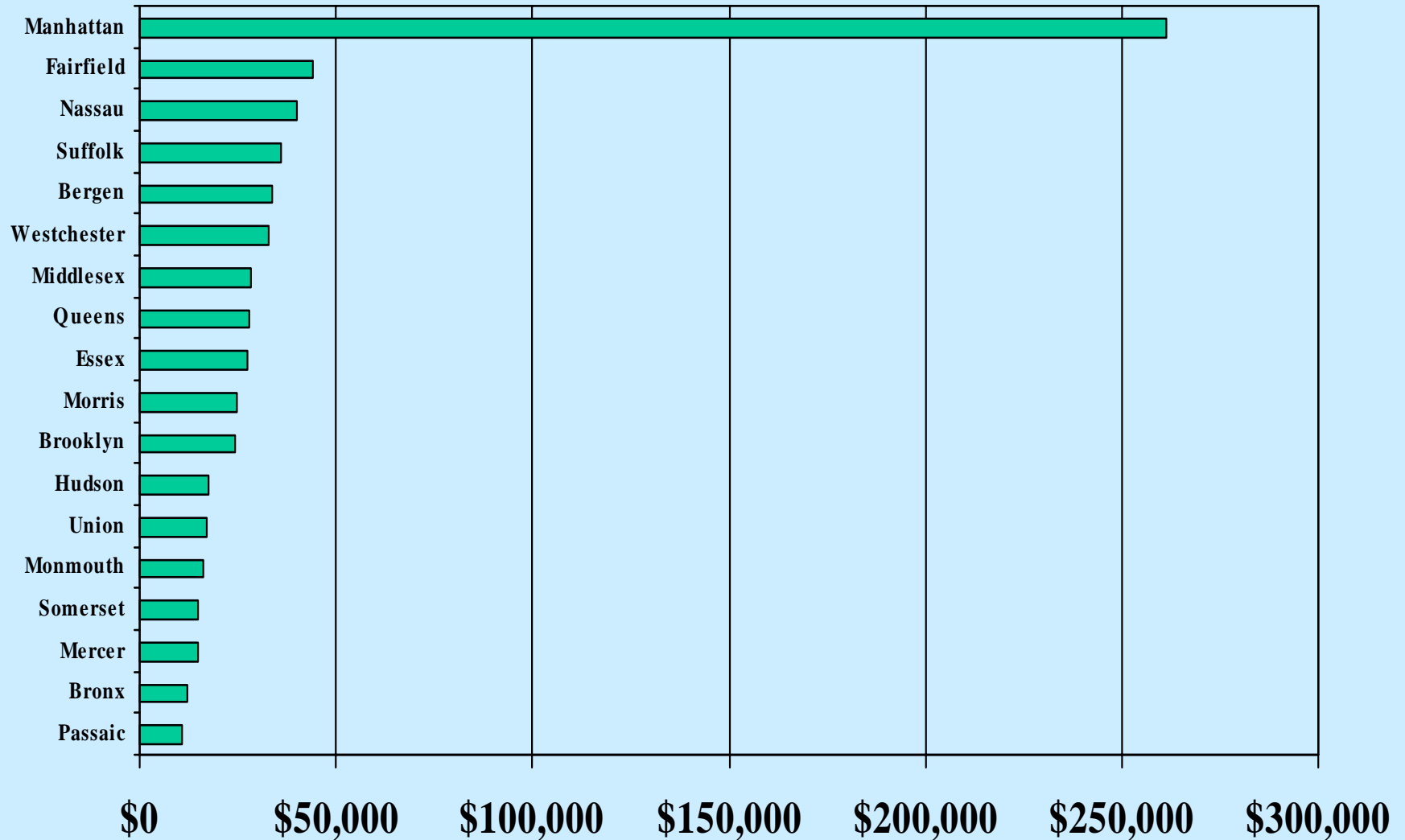
Notes: Profits are for broker/dealer operations of NYSE member firms.

Sources: NYS Department of Labor; New York Stock Exchange; Securities Industry and Financial Markets Association; NYC Office of Management and Budget; OSDC analysis

Financial Industry Wages Five Times all other in New York City

- In 2007, average wages in Finance & Insurance sector were \$285,600
- In all other industries in NYC, were \$58,800

Personal Income, Where Earned (2004)



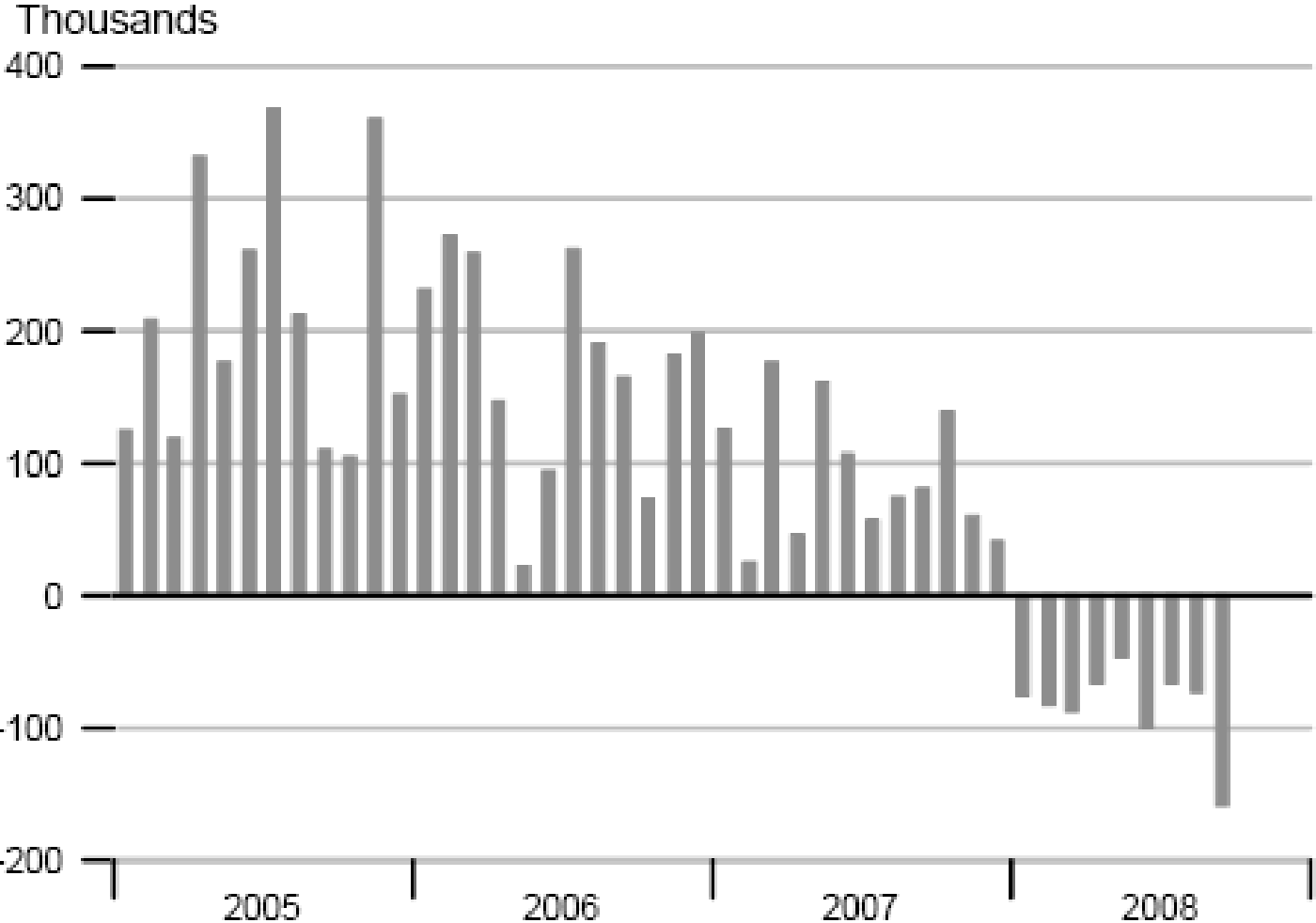
NYC Financial Wages Dominant

- In 2007, were 86 % of all Finance and Insurance Wages earned in New York State
- (NYC Employment in Fin & Ins was 63% of NYS)

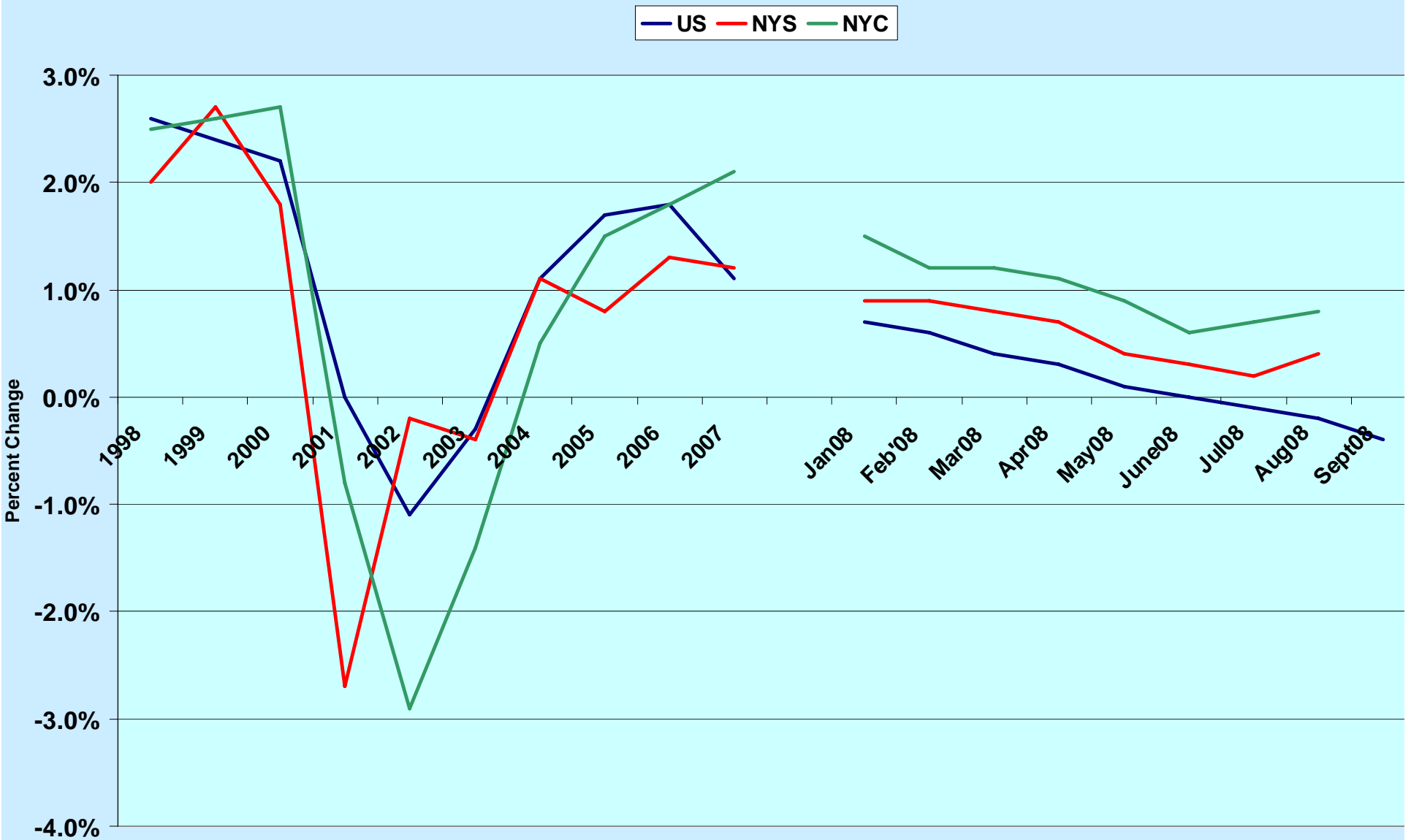
Are We Headed for Recession?

- Despite moderate growth in U.S. GDP through 2nd Quarter 2008, up 2.8%
- Job declines more telling, with loss of 159,000 in Sept /08, 9th consecutive month
- And 760,000 loss this year

Change in Nonfarm Payrolls

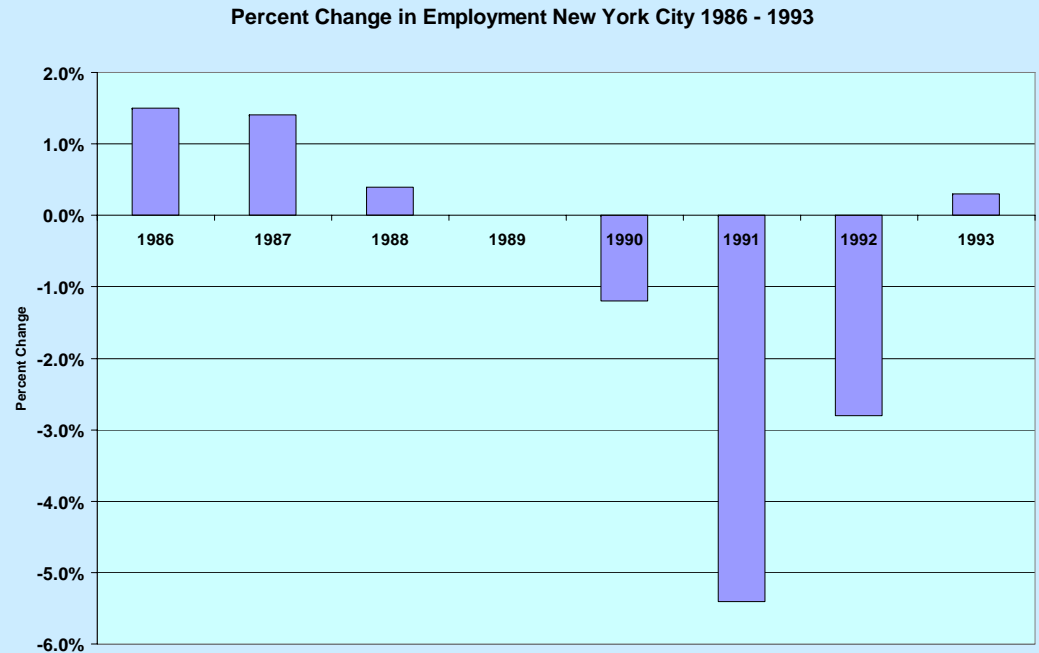


Percent Change in Employment U.S. NYS, NYC 1998 2007, Jan-Sept'08



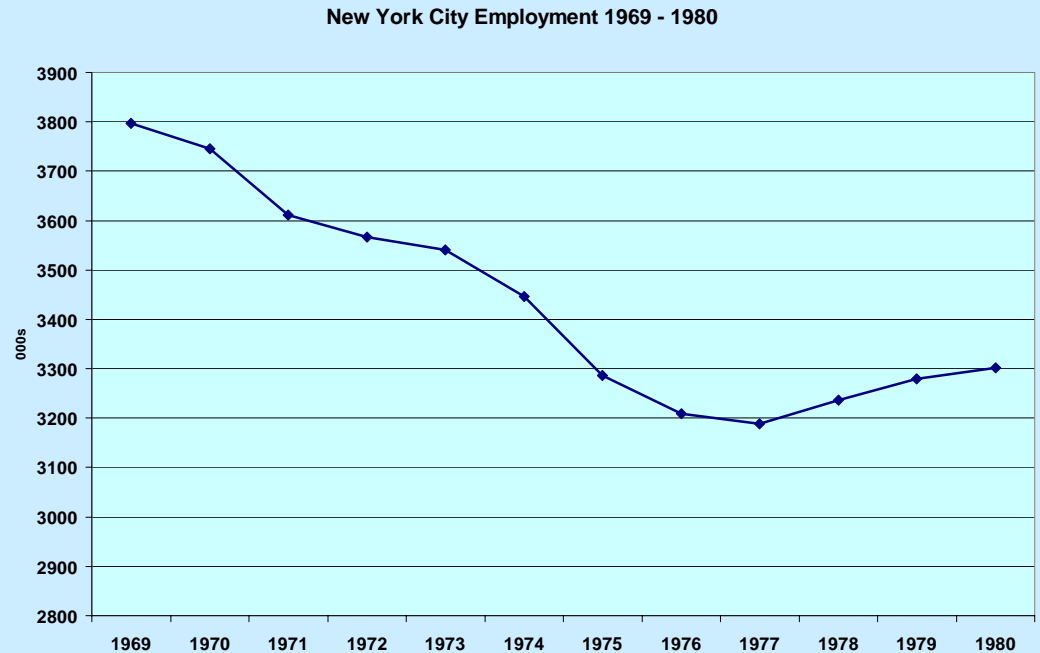
Since Finance Drives NYC Economy

- NYC economy always suffers most from a financial sector downturn
- Notable example is 1989-1993 recession, following Oct. /87 Crash



..and suffered terribly 1969-77

- NYC lost 600,000 jobs
- 825,000 population
- DJIA did not reach 1969 levels until Spring 1980

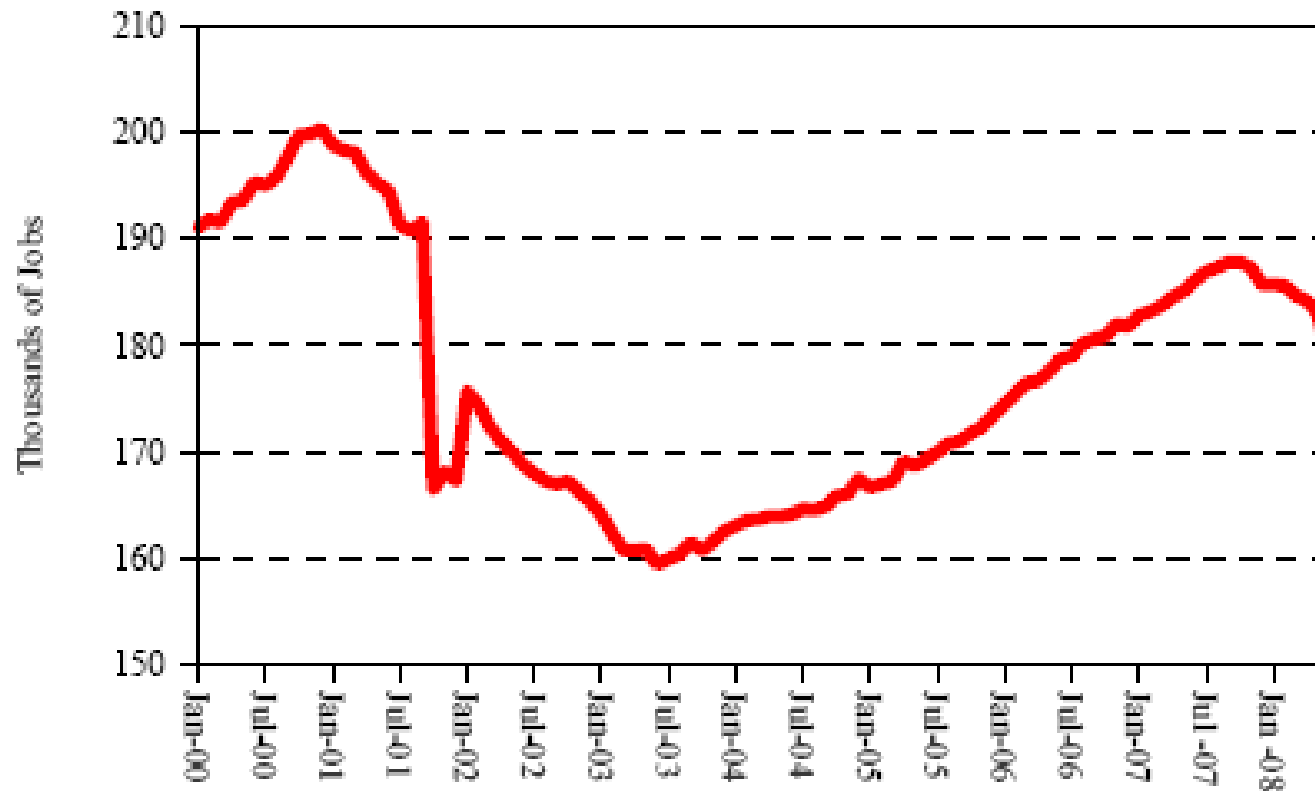


Financial Job Losses

- Could well exceed 40,000 in NYC (State Comptroller)
- And concerns that Bonus Pool could drop by half, to c. \$16 B (to parallel rate of decline between 2001-2002)

Figure 5

New York City Securities Employment



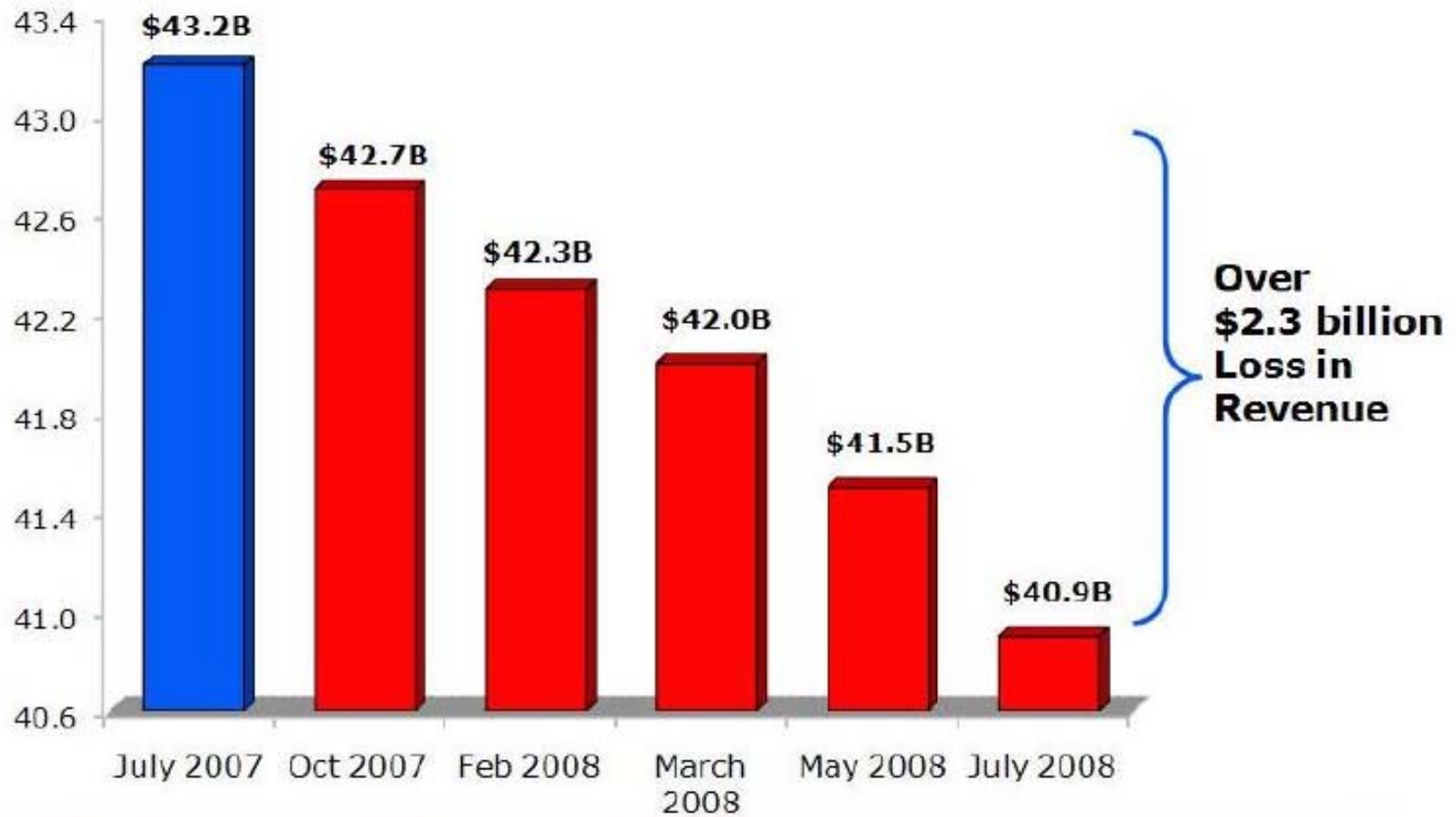
Note: Data has been seasonally adjusted.

Sources: NYS Department of Labor; OSDC analysis

Concern over Budget Impact on NY State

- Finance Sector provides c. 20% of New York State Revenues
- NYS DOB now expects budget shortfall of \$1.2 billion in current fiscal year (Oct.3)
- Estimates of \$3.5 billion loss to budget by March 2010 (State Comptroller Sept.29)

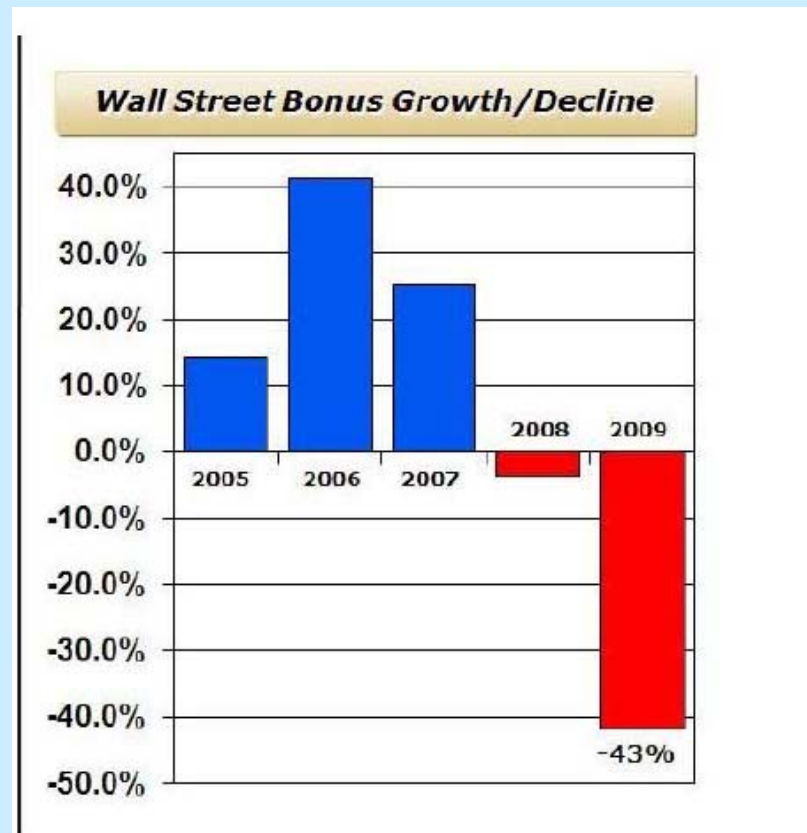
Projected 2008-09 General Fund Receipts (Billions)*



***Excludes Changes to Law**

NYS Budget on Bonuses

- Estimates a decline of 43% in volume for 2009 (Oct.3)



What Lies Ahead?

- Initially, a ‘transformation’ of NYC’s financial industry:
 - End of Investment Banking (at least for now)
 - Intense Consolidation of Commercial Banking
 - now, the “Big 3”?
 - Possible loss of global dominance, damage to the reputation of New York and London bankers (“too clever by half”?)

What Lies Ahead?...

- Likelihood of Recession
- Possibility of severe recession in U.S., with effects felt throughout all industries, states and cities, state and local governments
- More ‘downside worries’ than we now know about, much less understand (‘credit default swaps’)
- Gov’t fiscal and monetary policy stretched thin

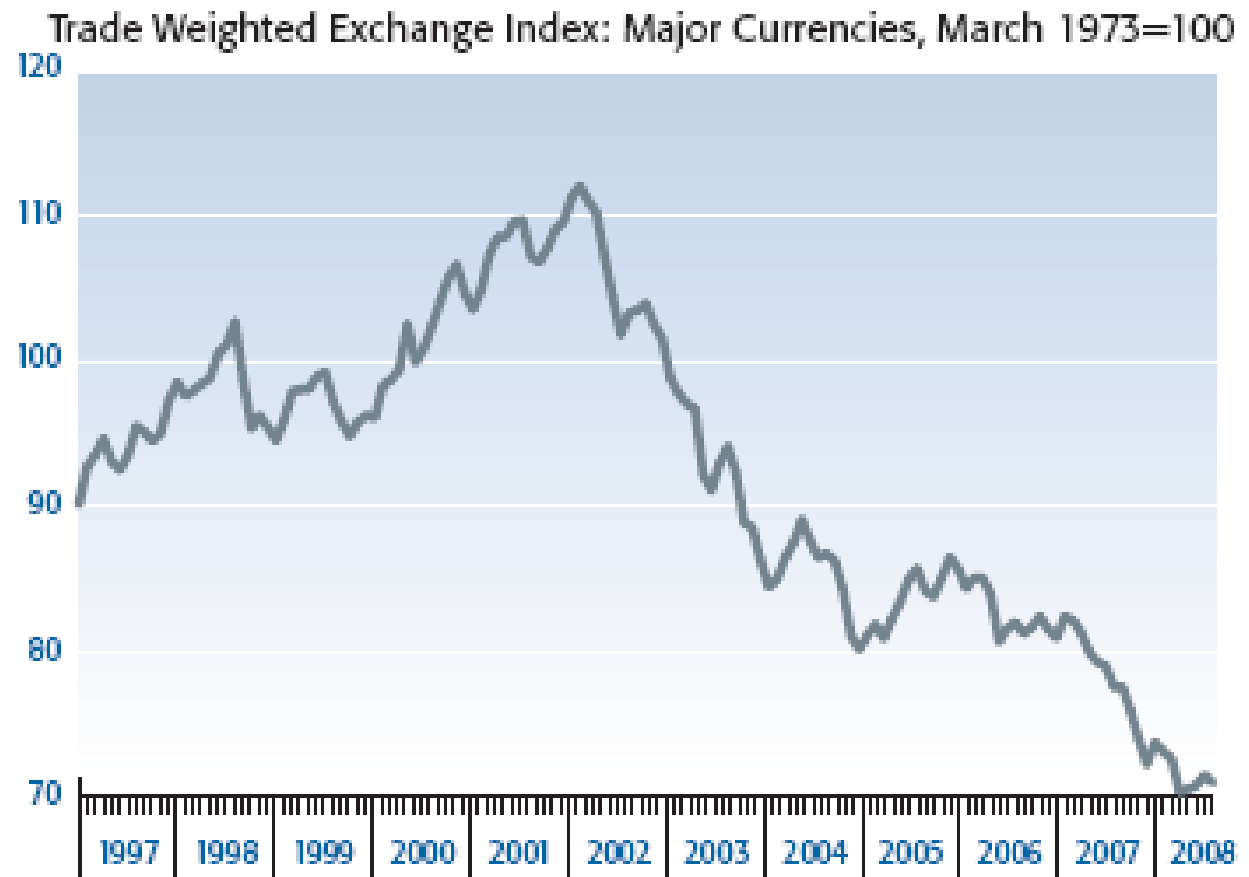
Yet:

- This may not be the “End of Everything”
- The U.S. and the Financial Sector in NYC and NYS has been through dark days before
- And has always recovered, Wall St. has always bounced back
- Difference is, this time great financial reserves are elsewhere, in China, Japan, Middle East

NY State is 3rd Largest in Goods Exports

- Exports totaled \$69 billion in 2007
- And have grown by 64 percent since 2001
- Leading Items:
 - Precious stones, gold and jewelry
 - Machinery and Electrical Machinery
 - Computers & Equipment
 - Art & Antiques
 - Transportation Equipment
- > Falling Dollar has helped boost exports from U.S. and major states

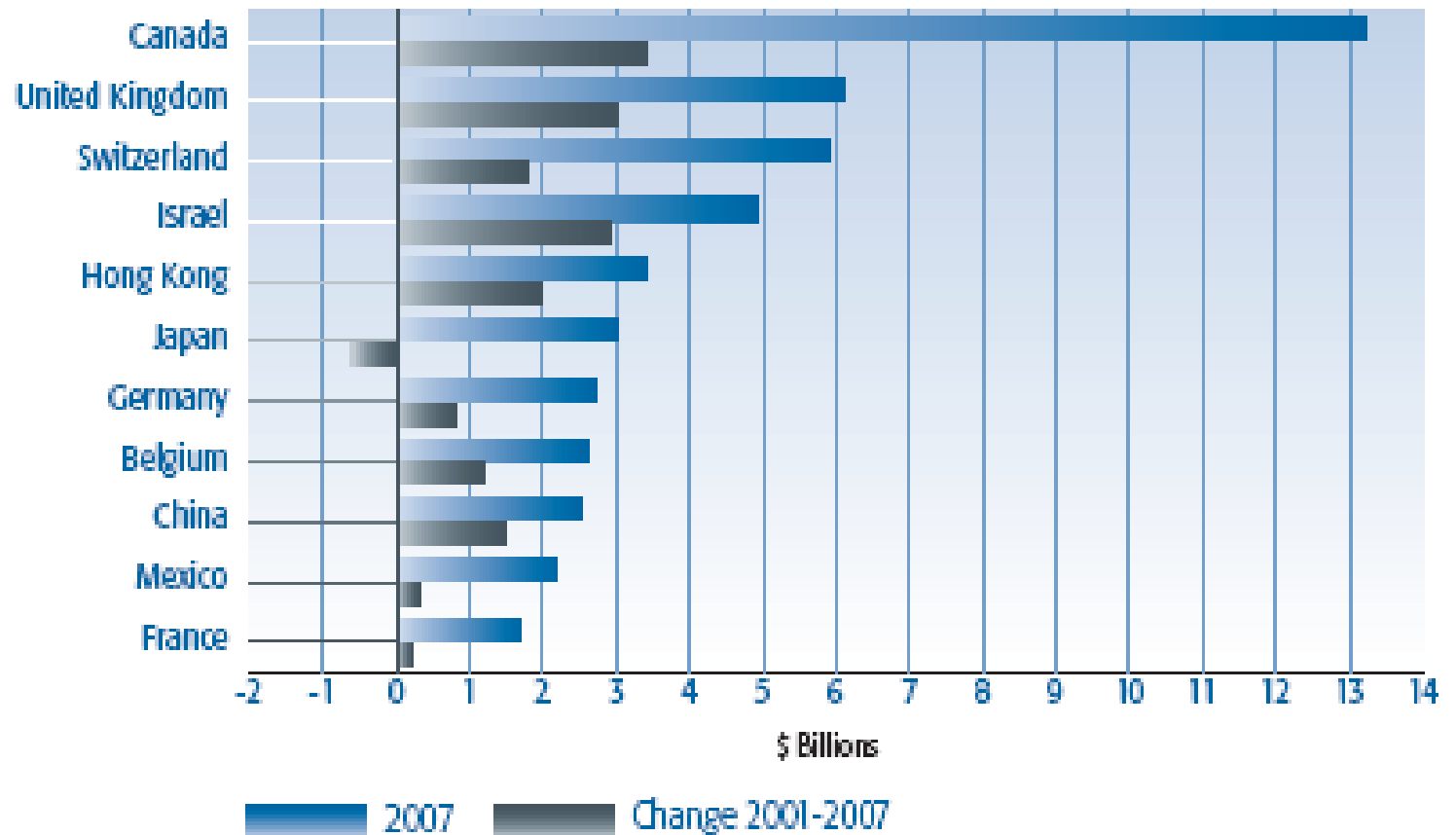
EXHIBIT 34
THE U.S.
DOLLAR
DEPRECIATED
SHARPLY SINCE
2002



SOURCE: BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, FEDERAL RESERVE BANK OF ST. LOUIS

EXHIBIT 36
**NEW YORK'S
LARGEST
TRADING
PARTNER IS
CANADA**

State of New York - Leading Trading Partners
in 2007 and Change in Exports (2001-2007)



SOURCE: U.S. DEPARTMENT OF COMMERCE

Services Exports...

- ...data scarce & elusive
- But, this must be the major area, with Finance & Insurance, Prof. Business Services, Travel & Tourism, etc.
- U.S. Services Exports were \$500 Billion in 2007:
 - NYS must be leading state, with Finance, Prof. & Business Services, Travel & Tourism

Competitive Rankings

- U.S. and NYC ranking top or near top in recent surveys
- And, office costs in NYC highly competitive v/v other world cities
- But, all of these measures may suddenly be outdated

Longer Term... Past this probable downturn.

- ..Important to look separately at Upstate/Downstate economic issues, potential, and strategies
 - * More investment in upstate cities and regions
 - Invest in Education in local areas, higher education in State system and R & D, good infrastructure, in arts and tourism, perhaps even agriculture (less than \$1b.exports'07,#27)
 - Encourage Immigration to offset population loss

New York State could emphasize....

- Capitalize on Tourism and the Arts
 - The Arts are a \$26 Billion industry for New York State, of which \$4.5 billion economic value is outside New York City)
 - Entire Sector returns \$1.2 Billion in taxes to NYS
 - Combined with Tourism, could be important strategy for many upstate cities and towns

International Role

- First, look to Northern neighbor, Canada to improve investment, trade flows, travel and tourism
- Free flow of goods and people vital to NYS
- Export position overall more favorable now
- Asia – China, India are the giant markets