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ECONOMIC PERSPECTIVES

GAUGING LOCAL ECONOMIC PERFORMANCE SINCE THE GREAT RECESSION

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HIGHLIGHTS:

» *Indexes of Hours Worked Can Provide Timely Readings on Current Economic Activity*

» *Activity in Most of the FHLBNY's District Has Lagged Behind Nation Since the Financial Crisis*

» *Underperformance of Empire State Reflects Sluggish Activity Outside New York City*

» *Excluding the Big Apple, Activity Has Varied Widely Across New York State During the Expansion*

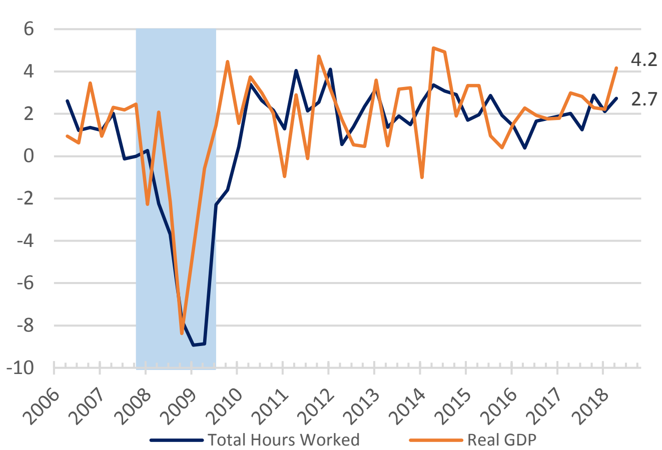
» *Divergences in Relative Economic Performance in New Jersey Slightly Narrower than in New York*

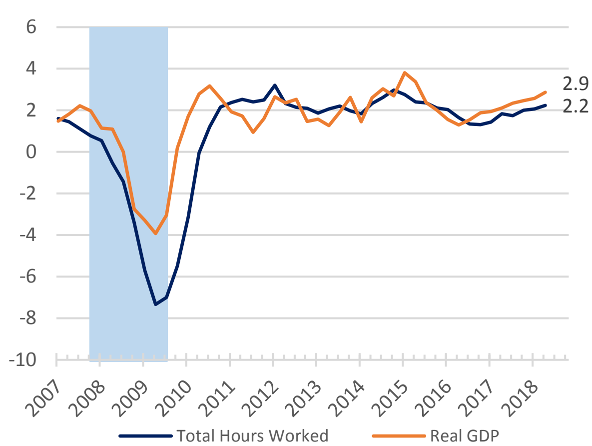
INDEXES OF HOURS WORKED CAN PROVIDE TIMELY READINGS ON CURRENT ECONOMIC ACTIVITY

Real gross domestic product (GDP) – the inflation-adjusted value of all final goods and services produced in the country – remains the most widely followed measure of overall economic performance. Released at the end of the first month after the quarter just passed, the Bureau of Economic Analysis' estimates provide market participants and policymakers with timely updates on business activity. What about smaller economic subdivisions such as states and metropolitan areas? Government statisticians produce estimates of GDP by state, but those reports are issued with a four-month lag. Moreover, it takes almost nine months for prior-year figures on GDP by metropolitan areas to be released. Fortunately, there are gauges that can be constructed using data supplied by the Bureau of Labor Statistics that can serve as proxies for state and local activity in the prior month: indexes of total hours worked (see Exhibit 1). Abstracting from temporary changes in productivity, changes in total hours worked have very high correlations with the pace of real GDP nationally of 0.67 using seasonally adjusted annual rates and 0.86 when calculated on a year-to-year basis. As a result, it is fair to use such measures to gauge economic activity and relative economic performance in states and metropolitan areas since the end of the Great Recession.

Exhibit 1: Total Hours Worked in the Private Sector and Real GDP

Percentage Change from Prior Quarter, Annualized (Left); Percentage Change from Year Ago (Right)





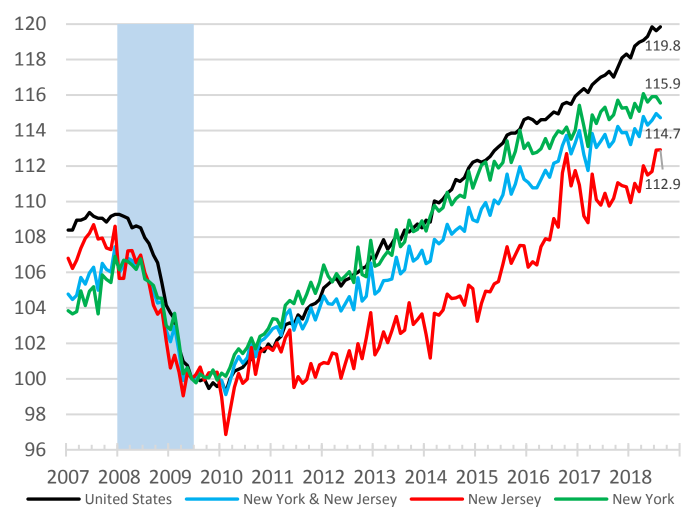
Note: Shaded areas denote recession. Sources: Bureau of Economic Analysis, Bureau of Labor Statistics and FHLBNY estimates.

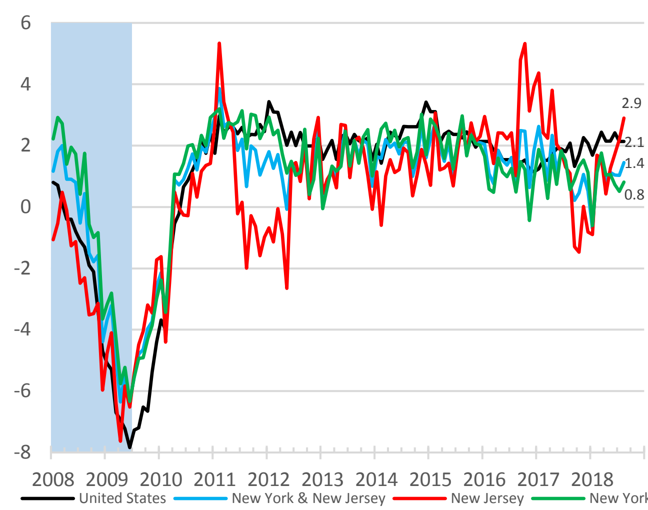
ACTIVITY IN MOST OF THE FHLBNY'S DISTRICT AREA HAS LAGGED BEHIND NATION SINCE THE FINANCIAL CRISIS

Total hours worked in the private sector of the U.S. economy have risen at an annual rate of 2.0% since the trough of the Great Recession in June 2009, essentially matching the 2.3% pace of real GDP recorded over the course of the almost ten-year-old expansion. Using available data on private payrolls and the average workweek of all such employees, the majority of the Federal Home Loan Bank of New York (FHLBNY) coverage area has experienced considerably slower growth (see Exhibit 2, left). Total hours worked by private employees in New York and New Jersey have expanded at an average annual clip of just 1.5% since the last business cycle downturn, with both states recording below-average performances. Both items in our hours worked calculation (private employees and their average work weeks) clocked in below national means. The Empire and Garden States together created an estimated 50.5 million hours worked over the aforementioned span, but the annualized percentage rise of 1.5% was two ticks shy of the 1.7% countrywide result. Not only was the 33.5-hour workweek recorded locally a full 60 minutes below the national average, but it was also unchanged from the mean work span posted at the last economic trough. More recent results have been far more encouraging, however. Owing to a sharp pickup in total hours worked in New Jersey since April, the gap between 12-month changes in local and national hours worked gauges has closed to its narrowest since July 2017 (see Exhibit 2, right).

Exhibit 2: Private Sector Hours Worked in the FHLBNY District

Indexes June 2009 = 100 (Left); Percentage Change From a Year Ago (Right)





Note: Shaded areas denote recession. Sources: Bureau of Labor Statistics and FHLBNY estimates

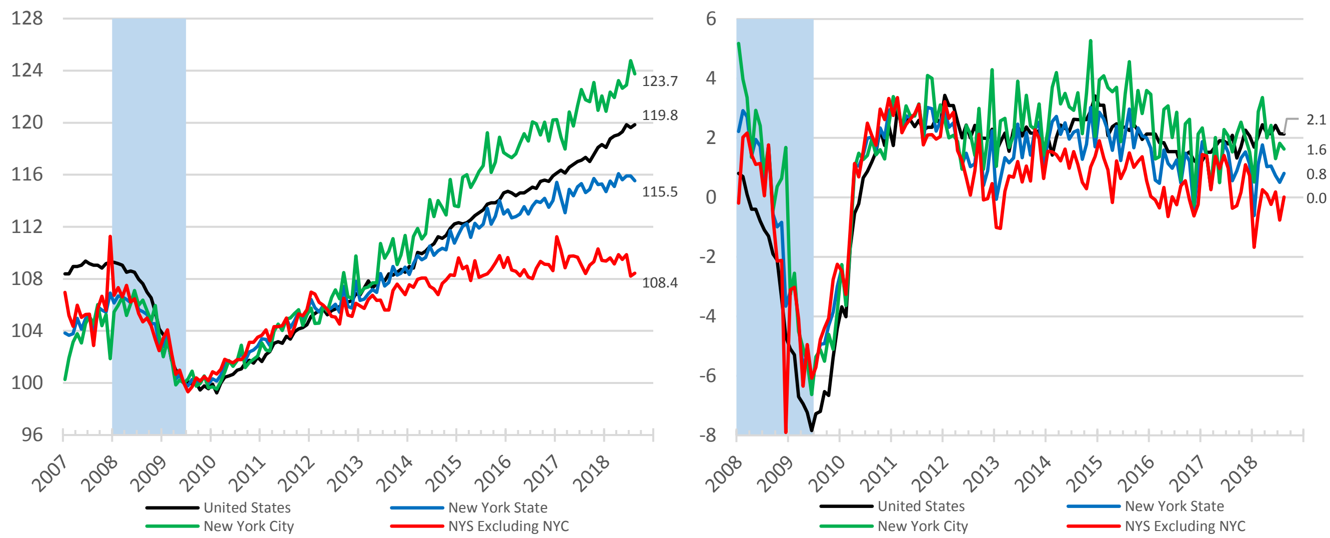
UNDERPERFORMANCE OF EMPIRE STATE REFLECTS SLUGGISH ACTIVITY OUTSIDE NEW YORK CITY

From the end of the Great Recession through the end of 2015, total hours worked in the Empire State rose by 2.1% annualized, matching the countrywide result. Since the beginning of 2016, however, generally sluggish activity outside of New York City (NYC) has resulted in a significant underperformance (see Exhibit 3, left). Indeed, since the end of 2015, total hours worked in New York State have expanded at an annualized clip of just 0.8% – less than half the 1.7% national average. Moreover, the gap between the growth rates of total hours worked in the Big Apple and the rest of the state over the most recent period has become truly yawning. At an estimated 1.9%, the annualized advance in our proxy for real GDP growth in NYC has eclipsed the U.S. result. By contrast, hours worked in the remainder of New York have contracted by 0.2% annually. While one might think that hiring alone is responsible for the aforementioned divergent performances between NYC and the rest of the state – the Big

Apple was responsible for 204,500 of the 291,500 jobs created since December 2015 – a sharp reduction in the mean work span of private employees has also played a significant role. Indeed, the average workweek of private employees outside of the Big Apple contracted by an estimated 48 minutes over that period to 32.3 hours, well below the average 34.1 hours spent on the job by employees in NYC. Over the 12 months ended August, the growth in total hours worked by private employees in the aforementioned segments of New York State has been below the U.S. average (see Exhibit 3, right).

Exhibit 3: Private Sector Hours Worked in New York State

Indexes June 2009 = 100 (Left); Percentage Change From a Year Ago (Right)



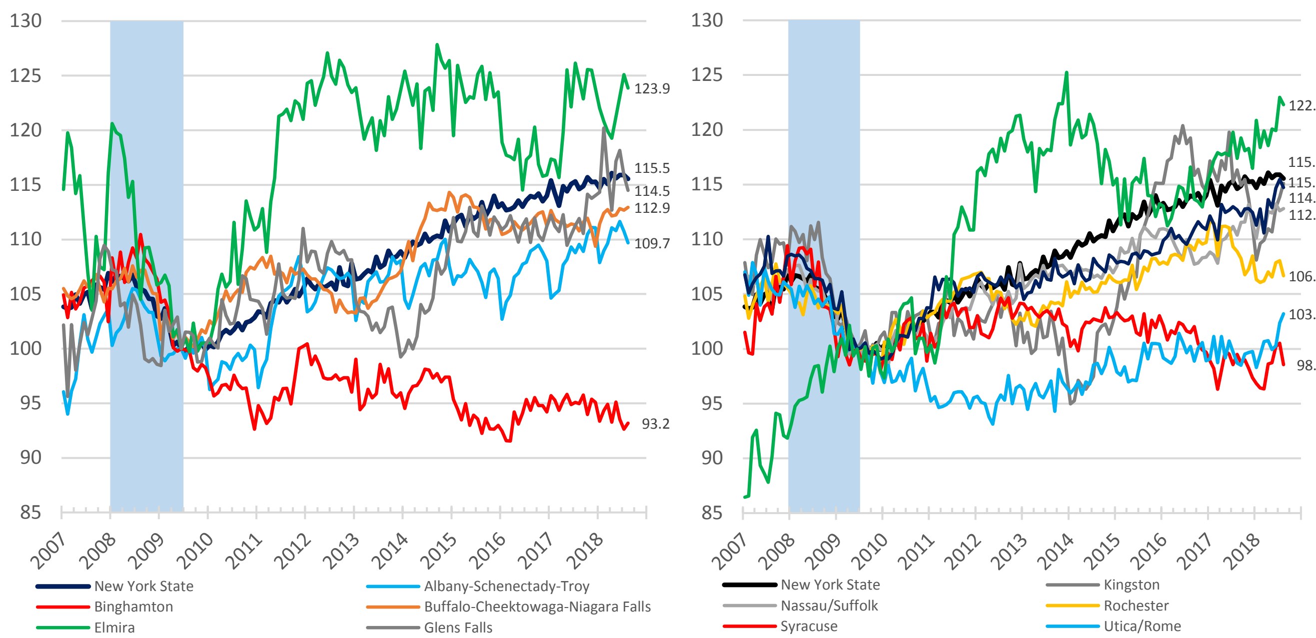
Note: Shaded areas denote recession. Sources: Bureau of Labor Statistics, FHLBNY estimates.

EXCLUDING THE BIG APPLE, ACTIVITY HAS VARIED WIDELY ACROSS NEW YORK STATE DURING THE EXPANSION

While it is often said that "all politics is local," the same can be said of economic activity across the majority of the FHLBNY coverage area. Indeed, dividing New York State into just two areas masks a tremendous amount of useful information on the relative performances of segments outside NYC (see Exhibit 4). Based on indexes of total hours worked, the expansions in business activity in Elmira and Ithaca since the Great Recession trough of June 2009 have bested the statewide average by a wide margin and can go toe-to-toe with that of the Big Apple. An interesting observation about those two areas is that they achieved their results through different means. The private job count in Elmira has fallen by 500 to 30,600, but the length of the average workweek has soared from a recession low of just 28.4 hours to 35.8 hours in August. In Ithaca, private payrolls have increased by 19.3%, or by 19,300, over that span to 58,000, while the average workweek has risen by 150 minutes to 33 hours. Although exhibiting far more volatility over the current business cycle expansion, Glens Falls, Kingston, and Orange, Rockland and Westchester counties have essentially matched the statewide average. Though separated by geography and industrial composition, the Buffalo-Cheektowaga-Niagara Falls region and Nassau and Suffolk counties have registered nearly identical performances based on increases in total hours worked. Using total hours worked as our proxy for overall economic activity, Binghamton and Syracuse have suffered the most since the last cyclical downturn ended with local activity 6.8% and 2.5%, respectively, below the level recorded in June 2009.

Exhibit 4: Private Sector Hours Worked in Selected Areas of New York State

Indexes June 2009 = 100



Note: Shaded areas denote recession. Sources: Bureau of Labor Statistics, FHLBNY estimates.

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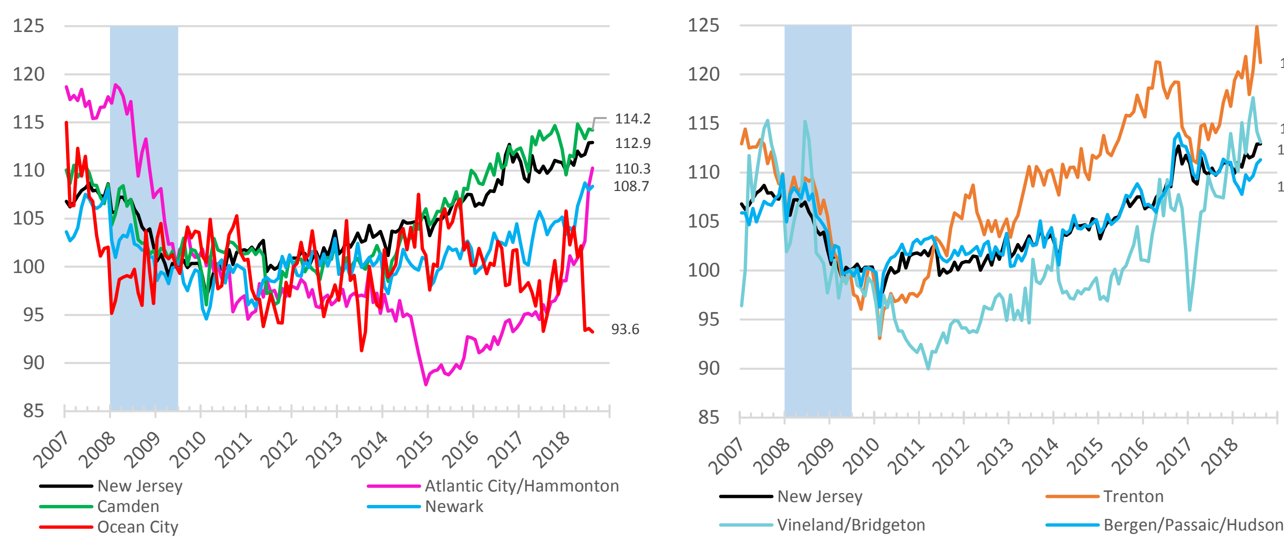
DIVERGENCES IN RELATIVE ECONOMIC PERFORMANCE IN NEW JERSEY SLIGHTLY NARROWER THAN IN NEW YORK

From the recession trough of June 2009 to August, total hours worked in New Jersey expanded at an annual rate of 1.3%, falling shy of both the corresponding respective national and New York paces of 2.0% and 1.6%. As was the case with its neighbor, that figure camouflages a tremendous amount of useful information on relative activity across the Garden State (see Exhibit 5). Constructing local gauges of total hours worked, the gap in index points – June 2009 equals 100 – between the best and worst performing areas of New Jersey since the Great Recession stood at 27.6 – a touch below the corresponding 30.7 figure for New York. With total hours worked by non-government employees climbing at an annual rate of 2.1% during the current expansion, Trenton has enjoyed the strongest economic performance on this measure by far since the Great Recession. Indeed, at 121.2 in August, that city's reading stood just 2.5 points shy of the latest sounding for NYC. At 1.5% annualized, the expansion of our business activity gauge for the Camden metro area since June 2009 also eclipsed the statewide average. Not reaching its cyclical nadir until March 2011, the Vineland/Bridgetown area has since caught up to match the Garden State average. Bergen, Passaic and Hudson counties moved almost in lockstep with the New Jersey mean until the end of last year but have faltered over the course of 2018. Trending lower for the first five years of the current expansion, the surge in total hours worked in the Atlantic City/Hammonton area since December 2014 has been truly impressive. With private payrolls rising by 8,000 and the mean work span of all workers expanding from 34 to 35.1 hours, total hours worked have been expanding at a breakneck pace of 6.4% annualized since that point. Business conditions appear to be most challenging in Ocean City, where total hours worked remain 6.4% below the level tallied at the bottom of the national recession.

Exhibit 5: Private Sector Hours Worked in New Jersey and Selected Areas of the Garden State
Indexes June 2009 = 100



Note: Shaded areas denote recessions. Sources: Bureau of Labor Statistics, FHLBNY estimates.

QUESTIONS / COMMENTS?

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