New York City’s Unemployment Picture

From the fourth quarter of 1994 to the second quarter of 1997, unemployment in New York City rose 2 full percentage points, from 7.8 percent to 9.8 percent. In the past, only a recession has brought about such a steep rise. This trend contrasts sharply with joblessness in other areas: in recent years, unemployment in the nation and throughout the rest of the New York–New Jersey region has declined steadily (Chart 1).

Surprisingly, the rise in New York City’s unemployment rate does not stem from job losses. Indeed, the city has been creating jobs at a relatively healthy pace in the past few years. From 1994 to 1997, local employment growth averaged about 1 percent annually, close to the pace of the 1980s. Although banking, government, and manufacturing have experienced substantial job cuts, strong job creation in other industries—including business and health services, construction, and retail—has more than offset these losses.¹

What, then, accounts for the increase in unemployment in New York City? This issue of Second District Highlights briefly examines several explanations that have been offered for the rise.

A Commuter Economy?
One explanation holds that New York City’s unemployment rate is increasing because virtually all new jobs in the city are being filled by people who reside outside the five boroughs. Indeed, from June 1996 to June 1997, New York City payroll employment, which is based on place of work, rose 1 percent. At the same time, household employment, which is based on place of residence, rose just 0.1 percent. At first glance, the gap between these two measures suggests that almost all of the net new jobs went to commuters residing outside the five boroughs.

A closer look, however, suggests that a discontinuity in the data—not jobs going to suburbanites—best explains the sharp difference in the growth of payroll and household employment. For 1996, household employment estimates for New York City were based on preliminary assumptions about the city’s demographic profile. When new information became available, it was incorporated in the 1997 calculations of household employment, while the 1996 data were left unrevised. This time series break resulted in a reported drop of 28,000 in seasonally adjusted employment between December 1996 and January 1997 (Chart 2).

Once we adopt a broader time frame for our measurement of employment changes, we find that most of the jobs created have in fact gone to New York City residents. From the fourth quarter of 1994 to the second
quarter of 1997, the period when unemployment was on
the rise, payroll employment increased 2.4 percent while
household employment rose 2.1 percent.

**LABOR FORCE PARTICIPATION AND UNEMPLOYMENT**

If the rise in unemployment did not result from job
losses, then it must reflect an increase in the labor supply.
Adults who are not employed fall into one of two cate-
gories: unemployed or not in the labor force.\(^2\) As Chart 3
shows, the rise in New York City’s unemployment rate
parallels a steep climb in the city's labor force participa-
tion rate—the fraction of the adult population holding or
seeking jobs. From the fourth quarter of 1994 to the sec-
ond quarter of 1997, New York City’s labor force participa-
tion rate rose from 55 percent to 57.3 percent.\(^3\) As a
result, even though the adult population was virtually
flat, the labor force expanded by 138,000 workers.

During the same period, employment rose 0.8 percent
annually, generating a total of approximately 62,000
new jobs, or less than half the number of jobs needed to
accommodate the flood of new job seekers. If not for
the rise in labor force participation, the unemployment
rate would have fallen below 6 percent by mid-1997.

Note, however, that New York City’s labor force par-
icipation figures are based on a relatively small survey
of 2,400 individuals. Because of the small sample size
and other difficulties in compiling the data, the labor
force participation figures are subject to some measure-
ment error. For example, the steep dip in participation
in 1994 seems suspicious given the improving eco-
nomic conditions at the time. If the decline was more
mild than reported, then the ensuing rise in labor force
participation from late 1994 to mid-1997 would be
overstated. Nonetheless, even when we take these data
problems into account, labor force participation has
exhibited a clear upward trend in recent years.

**FACTORS BOOSTING LABOR FORCE PARTICIPATION**

What is driving the increase in labor force participa-
tion? Some commentators maintain that the large
number of new immigrants to New York City—
roughly 113,000 each year—is a significant contribu-
tor. As noted earlier, however, the city’s population has
not increased, suggesting that the effect of immigra-
tion on population is being offset by outmigration.
Still, immigration could affect the labor supply if the
recent arrivals were more likely to hold or seek jobs
than were other residents. According to calculations
based on the Current Population Survey, however,
recent immigrants’ labor force participation rates are
no higher than average.

One factor that does help explain the rise in labor
force participation is economic growth. During a reces-
sion, labor force participation typically falls because
some job seekers grow discouraged about finding work
and give up their search. As the economy begins to
recover, these workers reenter the workforce and participa-
tion begins to rise. Although this phenomenon does
not typically cause a sustained rise in unemployment, it
can for a time put pressure on the unemployment rate.
Perhaps the most important stimulus to labor force participation has been the tightening of eligibility standards for public assistance benefits. In early 1995, New York City began imposing more stringent work requirements on some welfare recipients, particularly Home Relief recipients (childless adults). By the end of 1996, the number of Home Relief recipients had fallen by more than a third. In addition, during that period enrollment in AFDC (Aid to Families with Dependent Children), which accounts for a larger percentage of the welfare population, declined 12 percent (Chart 4). Altogether, 200,000 people left the city’s public assistance rolls in a relatively short period of time. Policy changes probably explain most of this outflow, although some aid recipients may have elected to reenter the labor force as a result of the brightening job outlook.

**Adding it All Up**

The sharp growth in labor force participation effectively accounts for the 2 percentage point increase in New York City’s unemployment rate since 1994. Although measurement error may have exaggerated the reported rise in the participation rate, the trend is clearly an upward one. A small part of this rise reflects economic growth, which prompts discouraged job seekers to reenter the workforce. The increase has also coincided with reform in the city’s welfare policies: in the past few years, welfare rolls have declined by 200,000 people. Although local employment growth has been fairly healthy, it has not been strong enough to accommodate the flood of new workers.

The rise in unemployment, however, has probably run its course. In recent months, employment growth in New York City has accelerated to about 2 percent, and unemployment has moved down from its peak of nearly 10 percent. Moreover, despite continued shrinkage in welfare rolls, labor force growth appears to be moderating. We do, however, expect job growth to slow to an average rate of about 1 percent in 1998. Still, so long as we do not see a renewed surge in labor force participation, the unemployment rate should continue to decline gradually.

—Jason Bram, David Brauer, and Elizabeth Miranda

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**Notes**


2. To be counted as unemployed, a person must be available for work and have made some effort to find work during the previous month. Persons who are not seeking work, either because they do not want a job or because they have decided not to look, are classified as not in the labor force.

3. These figures are seasonally adjusted.

4. Our employment forecast for New York City is available at the Bank’s regional economy website (www.ny.frb.org/rimaghome/regional).

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The views expressed in this article are those of the authors and do not necessarily reflect the position of the Federal Reserve Bank of New York or the Federal Reserve System.
Economic Trends in the Second District

**Payroll Employment**
Index: 1990 = 100 (seasonally adjusted)

![Payroll Employment Graph](image)

**Payroll Employment in Selected Sectors**
New York and New Jersey Combined
Index: 1990 = 100 (seasonally adjusted)

![Payroll Employment in Selected Sectors Graph](image)

**Unemployment Rates**
Percent (seasonally adjusted)

![Unemployment Rates Graph](image)

**Job Growth in the Nation and Selected Metropolitan Areas**
August-October 1996 to August-October 1997

![Job Growth in the Nation and Selected Metropolitan Areas Graph](image)

**Regional and National Inflation**
Twelve-Month Percentage Change in Consumer Price Index

![Regional and National Inflation Graph](image)

**Housing Permits in New York and New Jersey Combined**
Twelve-Month Moving Average, Annual Rate
Thousands

![Housing Permits in New York and New Jersey Combined Graph](image)


°FIRE = finance, insurance, and real estate.

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The northern suburbs of N.Y.C. comprise Dutchess, Orange, Putnam, Rockland, and Westchester Counties, N.Y., and Pike County, Pa.