



Partnership for New York City

Assessing New York's Recovery after 9/11

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Panel on Economy and Workforce

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The 9/11 attack severely damaged New York City's economy, with both immediate and long-term implications. According to a study conducted for the Partnership for New York City by a team of top management consultants, the direct cost of the attack was more than \$83 Billion in lost economic output, as well as a loss of 125,000 jobs. Insurance proceeds and federal aid have helped the city recoup a portion of this loss, but these funds are coming into the local economy slowly and there remains a huge gap that continues to dampen recovery.

In Lower Manhattan, projects are underway to improve pedestrian and vehicular access downtown. These interim improvements, together with the reopening of the PATH in November and imminent construction starts on rebuilding 7 World Trade Center and development of the new transit hub certainly will accelerate economic recovery downtown, which is still 70,000 jobs short of its pre-9/11 employment levels. Unfortunately, hundreds of small businesses ran out of funds during the past two years and will not be around to participate in the recovery.

Over and above the direct economic losses, 9/11 created a number of new challenges for the city's economy that we are struggling to understand and address. The cost and availability of insurance (property, liability, life and workers comp), for example, continues to be a far more serious issue in Manhattan than anywhere else in America, despite the federal antiterrorism insurance program. The cost of security, both for local government and the business community, has created another huge new burden on our tax base that has been only partially offset by federal Homeland Security aid to high-risk cities.

Other implications continue to unfold. The possibility of another attack has resulted in businesses reviewing their concentrations of employees in Manhattan, to insure business continuity under all foreseeable circumstances. Virtually every large Manhattan-based company is reviewing its ability to maintain operations in the event that Manhattan Island is shut down. In the case of financial institutions, federal regulators have aggressively pushed for creation of redundant operating facilities outside the city. The Partnership has joined with the Bloomberg Administration in efforts to encourage Manhattan-based companies to relocate secondary operations within the five boroughs, but there are competitive issues of cost, amenities and accessibility that must be addressed to make borough business districts beyond Midtown and Lower Manhattan attractive for key business functions. This requires public investment that the city cannot afford on its own.

Many businesses have also reduced their on-site work force and cut back on business travel, encouraging workers to telecommute from home and to utilize videoconferencing rather than getting on an airplane. This change in work patterns, allowed by technology but accelerated by 9/11, has resulted in at least a 10% drop in international business travel, damaging the airline, hotel and retail industries. It has also led to reduced demand for Manhattan office space, as many large firms -- especially in professional services -- learned from their 9/11 experience that employees could work from home or a laptop office. Pre 9/11 averages of about 500 square feet of leased office space per employee have gone down to around 200 square feet for many businesses, with a dramatic impact on the office vacancy rate.

What is the state of NYC's economic recovery two years after the attack? There is reason to be cautiously optimistic, based on indications that we have hit bottom and are headed in a positive direction, following the course of the national economy and the apparent recovery of the stock market. Typically, New York lags the nation in economic recovery by almost a year, due to our dependence on Wall Street and financial service industry bonuses. So it is not surprising that our recovery is slower than the rest of the country, only partially due to 9/11:

- The Gross City Product, as measured by the City Comptroller's office, has fallen steadily since early 2001 and dropped another 2.7% in the second quarter of 2003. (By comparison, the national GDP grew by 1.4% in that period.)
- Both the Mayor and Comptroller estimate that the city's GCP will continue to drop this year. The Mayor's estimate is 3.3%; the Comptroller's is 1.6%.
- The city's unemployment rate continues to run higher than that of the rest of the country. The city unemployment rate (not seasonally adjusted) was 8.1% in July; the state rate was 6.1% and the national rate was 6.3%.
- Both the Mayor and the Comptroller predict that the city will lose jobs in 2003. The Mayor's estimate of job loss is 75,000; the Comptroller's estimate is 54,900.

However, there is a general consensus that the city economy will begin to expand next year. The Mayor is predicting job growth of 20,000; the Comptroller 12,800. Similarly, both predict growth in the city GCP. The Mayor predicts 2.9% growth; the Comptroller predicts 2% growth. In addition, the Federal Reserve is predicting that both economic growth and productivity will increase next year. However, they will likely increase at the same rate, which translates into little or no job growth.

City tax revenues are currently running ahead of projections. The City Council Finance Division forecasts that the city will raise \$401 million more in tax revenue in the 2003-04 fiscal year than originally projected, reflecting improved earnings among taxpayers.

Many of the sectors of the economy most affected by 9/11 are still struggling, including financial services, professional services and the media. Employment in the financial services sector has dropped by 45,000 since June 2001, a decrease of 9.3% (483,500 then to 438,600 now).

Professional services also lost substantial jobs – 51,000 in the last two years, a drop of nearly 8.8% (585,000 then, 543,100 now). The informational sector, which includes publishing and broadcast media, lost 37,000 jobs – an 18% drop (201,600 then, 164,400 now).

The retail and tourism sectors of the economy have stabilized. Retail employment has dropped only 6,000 in the last two years (2.3%). However, Manhattan high-end retail, dependent on international travel, is still lagging.

Tourism is beginning to approach pre-2001 levels. It is estimated that the city will attract nearly 36 million tourists this year, which is close to the 36.2 million that came in 2000. However, the mix is different. We are now attracting more domestic tourists and fewer international tourists. That affects how much money tourists spend, since foreign tourists spend more money here. According to NYC & Company, tourists will spend \$15.5 billion this year, compared to \$17 billion in 2000.

Federal aid to date has been vital to stabilizing downtown, keeping many businesses from leaving, and attracting new residents to the area. The federal commitment to finance a new transportation infrastructure downtown is also critically important, although it is clear that more than the \$4.5B currently available for this purpose will be needed to efficiently connect Lower Manhattan firms to the regional labor pool. Further concerns are with Homeland Security, where the federal high-risk pool has helped this year but future funding is still uncertain. The worst thing for the New York economy – and the national economy – would be to shortchange our terrorism prevention and intelligence efforts that are needed to preclude another attack. The Liberty Bonds have emerged as an important tool for helping finance economic development and housing, but the December 2004 deadline imposed by Congress must be extended to allow the city to utilize these bonds. Recovery has not happened quickly enough to meet the original deadline.

In summary, it is critical that the federal government continue to work closely with New York City to understand the far-reaching consequences of 9/11, to insure that the city recovers from that attack, and to prevent a recurrence. Clearly this will require more resources and a renewal of the same sense of urgency that generated the initial \$21B commitment to the city's rebuilding in the days following the attack.