



Recent Trends in the Long Island Economy

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Highlights

- Employment on Long Island is currently at record levels. During 2000, 26,200 jobs were created in the Long Island economy, a gain of 2.2 percent. During the first four months of 2001, employment has increased by 1.9 percent compared to the same period one year earlier. However, the pace of job creation has been slowing since 1999.
- Long Island's average unemployment rate fell to an historic low of 3 percent in 2000, with joblessness significantly lower in Nassau than in Suffolk.
- Long Island's population grew by 5.5 percent in the 1990s, although the rate of increase in Suffolk was twice that of Nassau. The minority population surged by 56.4 percent in the 1990s, and now accounts for 23.6 percent of Long Island's population. The increase in the minority population has contributed to a 15.1 percent increase in the number of children under age 18, a category which had declined in the 1980s.
- Total wages paid on Long Island grew 6.7 percent in 1999 and were up 7.8 percent in the first three quarters of 2000, when compared to the same period one year earlier, the best wage growth since the mid-1980s. Average salaries are higher in Nassau, although they are growing faster in Suffolk.
- Median housing prices are rising and are among the highest in the State. The percent of home ownership on Long Island is among the highest in the nation.

Long Island's Shares of New York State

Population (2000)	14.5%
Employment (2000)	14.1%
Personal Income (1999)	16.9%

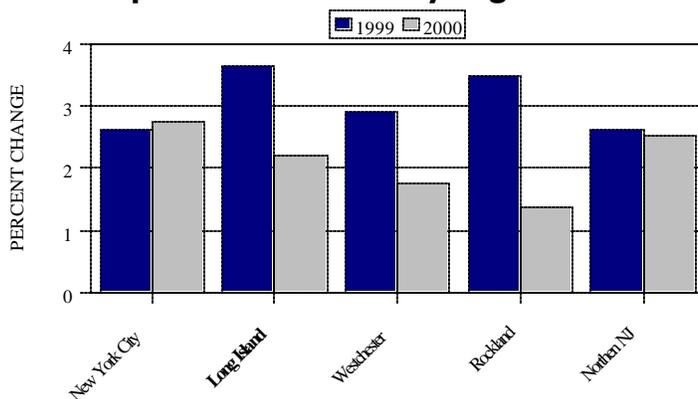
Employment Growth Has Begun to Slow

The Long Island economy (comprised of Nassau and Suffolk counties) is the second largest in the State after New York City, with over 1.2 million jobs in 2000, or about 14.1 percent of all jobs in the State. During the recession of the early 1990s, the number of jobs on Long Island declined by 7.8 percent, or over 88,000 positions. As was the case in New York City, Long Island was slow to recover from the recession, adding 52,000 jobs (a 5 percent gain) in the four years ending in 1996. However, during the four subsequent years, 1997 through 2000, employment increased by more than 115,000 positions, or 10.4 percent, as Long Island shared in the economic expansion throughout downstate New York. Long Island surpassed its pre-recession employment level during 1998, and employment is currently at record levels.

During 2000, 26,200 jobs were created on Long Island on an average annual employment basis, an increase of 2.2 percent compared to 1999. This rate of growth was above the statewide increase of 2.1 percent in 2000. Growth on Long Island has exceeded the statewide average gain in each year since 1992. However, the rate of employment growth on Long Island in 2000 was lower than the 3.7 percent gain reported for 1999. This slowdown in growth occurred throughout all the suburban parts of the metropolitan New York City area, but did not occur in the City (see Figure 1). However, in both 1999 and 2000, the pace of growth of Long Island employment was greater than the nearby New York counties.

For the first four months of 2001, the number of jobs on Long Island has continued to increase, with the region's employers adding an average of 23,100 positions compared with the same period last year. However, the 1.9 percent rate of job growth during the first four months of 2001 is slightly lower than the 2.1 percent rate of growth

Figure 1
Employment Growth Slows in Most of the Metropolitan New York City Region in 2000



Source: New York State Department of Labor

for the first four months of 2000, and significantly less than the 3.8 percent pace of job growth set during the first four months of 1999.

Employment Performance by Industry

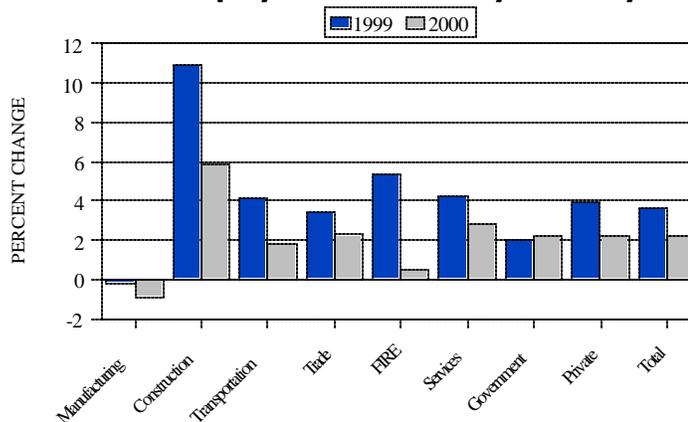
About 40 percent of the jobs lost on Long Island during the early 1990s recession were in the manufacturing sector. Manufacturing on Long Island hit its peak in 1986 when employment reached 180,000 positions, which represented 16.3 percent of the total jobs in the area. By 1996, manufacturing's share of Long Island's job base had fallen to 10.2 percent of total employment. Particularly hard hit was transportation equipment manufacturing, which declined from 24,000 positions in 1988 to 7,800 in 1995, due largely to defense cutbacks and the closing of many Grumman facilities. During 1997 and 1998, Long Island was among the few regions of the State where manufacturing employment increased, as 700 positions were added in each year. However, manufacturing employment has again resumed its decline, losing 200 jobs in 1999 and 1,000 jobs in 2000. In 2001, the rate of decline has increased, with another 2,000 jobs lost in the first four months of the year compared to the same period in 2000. Manufacturing is the only major industry that is declining on Long Island (see Figure 2).

Reflecting the strength of the region's economy, job growth in the construction industry has

outpaced all other industries on Long Island in recent years, increasing by 11.0 percent in 1999 and 5.9 percent in 2000. Strong growth was also experienced in the finance, insurance and real estate (FIRE) sector in 1999, with 4,300 new positions (5.4 percent) added despite continued downsizing in banking. However, FIRE employment growth abruptly slowed to only 400 positions (0.5 percent) in 2000, despite the addition of 200 new jobs in banking, the first increase since 1992.

Government is the only sector in which employment increased at a higher rate in 2000 (2.3 percent) than 1999 (2.0 percent), primarily reflecting increased growth in local government education jobs. The number of these education jobs grew by 3 percent in 1999 and by 3.7 percent in 2000, and accounted for about 80 percent of all new government jobs in the latter year. Nassau County, Suffolk County, New York

Figure 2
Annual Employment Growth by Industry



Source: New York State Department of Labor

State, the Long Island Rail Road, and the Federal government are among the top ten employers on Long Island. Figure 3 lists the largest private sector employers on Long Island.

Growth patterns are changing in 2001. In services, the largest employment sector (with about one-third of the Island's employment base), jobs were added at a higher rate for the first four months of 2001 (3.3 percent) than through April 2000 (2.8 percent). There has also been stronger

Figure 3
Largest Private Sector Employers in 2000

Employer	Number of Employees
North Shore - Long Island Jewish Health Systems	27,000
Diocese of Rockville Center	17,500
Chase Manhattan Bank	6,791
Verizon	6,400
Federated Department Stores	6,120
Home Depot	5,500
Cablevision	5,300
JC Penney	5,000
Waldbaum's	5,500
KeySpan	4,677

Source: New York Newsday

employment growth in Long Island's sizable trade sector, which accounts for nearly 20 percent of all jobs, where employment increased by 1.9 percent in the first four months of 2001 compared with a 1.6 percent gain in the same period last year. For all other industries, including government, employment has increased at a slower rate for the first four months of 2001 than for the same period in 2000. In particular, the rate of growth in construction employment has continued to slow, rising at 4.3 percent in the first four months of 2001 compared with 7.1 percent for the same period last year, and 12.1 percent for the first four months of 1999.

Unemployment Rate Reaches an Historic Low

Since the end of the last recession in 1992, Long Island's unemployment rate has steadily fallen in every year except for 1999. The region's jobless rate fell to an historic low of 3 percent in 2000, well below New York State's 4.6 percent unemployment rate and New York City's 5.7 percent rate (see Figure 4). However, Long Island's unemployment rate decline in 2000 results from the proportionally larger decrease in the size of its labor force compared to the decline in the level of

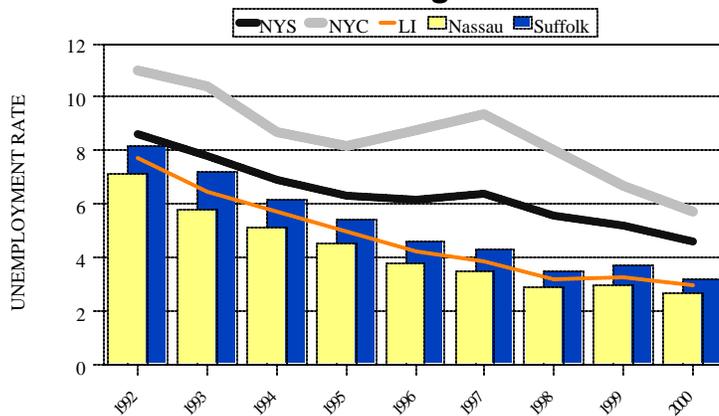
employment among its residents. The unemployment rate on Long Island has continued to fall in 2001, averaging 2.9 percent for the first four months of 2001, down from 3.0 percent one year earlier. Although the labor force has begun to grow again, employment is growing faster, which is pushing down the rate. The rate is still substantially lower than the State's 4.5 percent and the City's 5.5 percent for the same period.

Of the Island's two counties, the annual unemployment rate in Nassau has been lower than Suffolk's for all of the 1980s and 1990s, with the gap reaching over 1 percentage point in the early 1990s, but declining to a half of a percentage point by 2000. Nassau's rate is also among the lowest for all the counties in the State. In 2000, the annual unemployment rate of Nassau and of Suffolk fell to 2.7 percent and 3.2 percent, respectively. The average unemployment rates for the first four months of 2001 for Nassau and for Suffolk dropped to 2.5 percent and 3.2 percent, respectively, down from 2.7 percent and 3.3 percent one year earlier.

New Businesses Have Been Created

The number of business establishments on Long Island has increased by 6.7 percent from 1993 to 1999, the latest year for which data are available. Suffolk County showed a higher rate of increase in the number for firms (11.4 percent) than Nassau County (2.8 percent), although each county saw a decline in the number of the largest firms – those

Figure 4
Unemployment Rates on Long Island are Low and Still Falling



Source: NYS Department of Labor

with 1,000 or more employees. The number of firms that employ between 20 and 499 people increased by 16.3 percent on Long Island, from 7,887 in 1993 to 9,176 in 1999, with both counties showing an increase in excess of 10 percent.

One difference between the two counties centered on firms with between 500 and 999 employees. In Suffolk County, the number of these firms increased from 25 in 1993 to 38 in 1999, while during the same period the number of such establishments declined in Nassau County from 50 to 41. The increase in Suffolk County was in part the result of an increase in firms which provide educational services and professional, scientific and technical services. Also increasing in number among these larger businesses in Suffolk county was the number of manufacturing firms which employ between 500 and 999 people. They rose from 7 in 1993 to 10 in 1999, despite a decline of 74 in the total number of manufacturing firms in the county.

Minority Growth Boosts Population

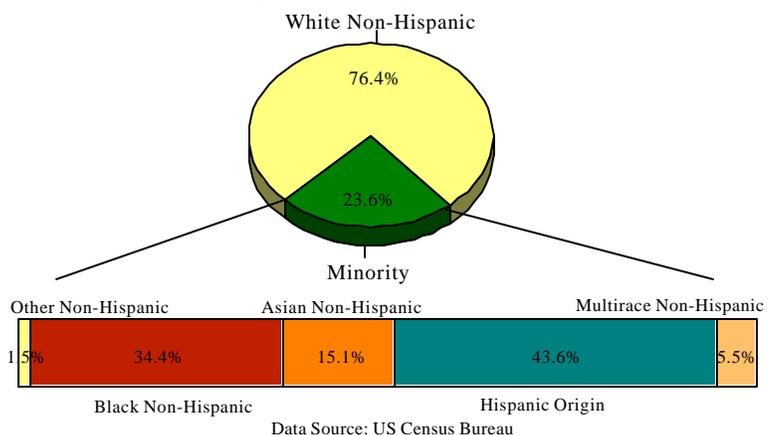
According to newly released Census data, the population of Long Island reached a record 2,753,913 as of April 1, 2000. This reflects 5.5 percent growth in the 1990s, on par with New York State but slower than New York City's 9.4 percent gain. Of the Island's two counties, the population of Suffolk grew at twice the rate of Nassau's in the 1990s (7.4 percent versus 3.7 percent). The population of Suffolk had grown during the 1970s and the 1980s and surpassed Nassau's in 1987, while Nassau lost population during these same periods. Though Nassau had about 85,000 fewer residents than Suffolk did in 2000, Nassau had about three times the population density of Suffolk (4,655 people per square mile compared to 2,299 per square mile).

The Census data also show that the minority population surged by 56.4 percent on Long Island over the last decade, and now accounts for 23.6 percent of the total population in 2000 (see Figure 5). The population of minority groups in Long Island grew at a much faster rate than its counterparts in New

York City (where it grew by 25.7 percent) in the 1990s, although minorities now account for 65 percent of the City's total population. In Nassau and Suffolk, white Non-Hispanics still outnumbered other racial groups, constituting 74 percent and 78.8 percent of their county's population, respectively, in 2000, although this segment declined during the 1990s. Hispanics have become the largest minority group, with a 10 percent share of Nassau's population and 10.5 percent share of Suffolk's. Just under 10 percent of Nassau's residents identified themselves as black Non-Hispanics and almost 5 percent as Asian/Pacific Islander Non-Hispanics. In Suffolk, the comparable shares were 6.6 percent and 2.4 percent. In addition, 1.3 percent of population in both counties identified themselves as multi-racial Non-Hispanics.

The growth of the minority population has helped fuel an increase in the number of children under age 18 on Long Island in the 1990s, with over 86 percent of the 91,869-person gain in this age group coming from minority groups. The population under age 18 grew by 15.1 percent over the last decade, a reversal of the patterns of the 1980s, when this group declined by 18.5 percent. This has contributed to the revitalization of the regional economy by increasing the demand for schools and housing. The number of residents under age 18 accounted for 24.7 percent of the total population in Nassau and 26.1 percent in Suffolk in 2000, compared to the 24.2 percent

**Figure 5
Long Island Population Share by Race and
Hispanic Origin in 2000**



share this group accounts for in New York City. Overall, the increase in the number of youths under age 18 has accounted for nearly two-thirds of the total change in Long Island's population during the 1990s.

Personal Income High on Long Island

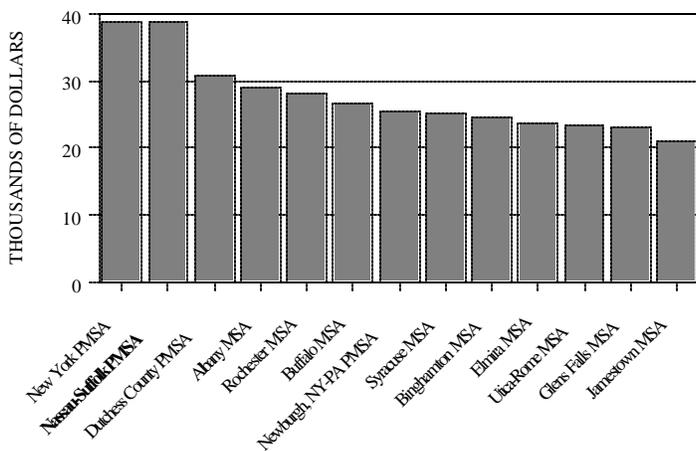
Total personal income, which includes not only wages but also income from partnerships, proprietorships, dividends, interest, rent, and transfer payments received by residents, grew by 4.4 percent in the Nassau/Suffolk region in 1999 (the last year for which data are available). Accounting for about 45 percent of personal income on Long Island, growth in Suffolk County was 4.7 percent, about one-half a percentage point higher than the growth in Nassau. Both areas underperformed the 5.3 percent Statewide average increase, which was boosted by a 9 percent gain in New York County/Manhattan. However, while per capita income on Long Island averaged \$38,751 in 1999, the level of income was much higher in Nassau (\$43,997) than in Suffolk (\$33,803). Among all the counties in New York State, Nassau's was third highest, exceeded only by New York County/Manhattan (\$81,665) and Westchester (\$51,033). For the State as a whole, per capita personal income averaged \$33,901 in 1999. When the counties are aggregated into metropolitan statistical areas, per capita income in the Nassau/Suffolk area exceeds that of all other areas in the State except that of the New York PMSA (see Figure 6).

Average Salaries Higher in Nassau, But Growing Faster in Suffolk

Wages, the largest component of personal income, have advanced steadily on Long Island, primarily fueled by large employment increases, especially in Suffolk. Total wages paid in all industries have grown by 6.1 percent in 1997, 6.5 percent in 1998, 6.7 percent in 1999, and are up 7.8 percent for the first three quarters of 2000 (the latest period for which data are available) compared to the same period in 1999. While this is the best wage growth Long Island has experienced since the mid-to-late 1980s, it is below the rate of growth in neighboring New York City, which is benefiting from the strong wage growth on Wall Street, but is similar to the pattern of growth in Westchester.

Because of higher employment growth in Suffolk county, wage growth has been stronger there than in Nassau for most years. In 1999, Nassau accounted for just over 51 percent of Long Island's employment base, but nearly two-thirds of the jobs created on Long Island that year were in Suffolk. Job growth in 2000 was similarly distributed. Like the growth in total wages, average salaries are also growing faster in Suffolk than in Nassau. Nonetheless, average salaries are consistently higher in Nassau (see Figure 7). Average salaries for transportation, communications, and public utilities workers in Nassau were more than 28 percent higher than similar workers in Suffolk. For workers in finance, insurance, and real estate, there is almost parity between the counties.

Figure 6
Per Capita Income in NYS Metro Areas in 1999

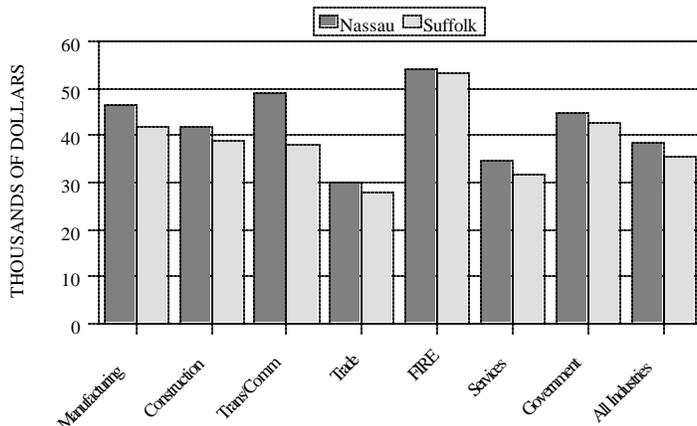


Source: US Department of Commerce, Bureau of Economic Analysis

Sales and Personal Income Tax Revenues

Current data are not available for wage and spending trends on Long Island. However, tax revenue collections can serve as a proxy measure of economic activity. Sales tax revenues reflect retail sales activity and personal income tax revenues can give an indication of personal income growth. Following is a discussion of trends for these two tax revenue streams on Long Island.

Figure 7
Average Salaries Higher in Nassau in 1999



Source: New York State Department of Labor

According to data provided by the New York State Comptroller's Office, sales tax revenues on Long Island grew by 9.6 percent in 2000 when compared to the previous year, despite the reduction in sales tax on clothing items costing less than \$110, which became effective in March 2000. When this cut was enacted, the State allowed counties the option of participating in the cut. Nassau and Westchester chose not to participate, while Suffolk and New York City reduced the tax. In the entire metropolitan region, only Westchester County had stronger growth, of over 14 percent. On Long Island, growth in sales tax revenues in Nassau County (10 percent) slightly outpaced that of Suffolk County (9 percent). However, during the first quarter of 2001, sales tax revenues declined by over 6 percent on Long Island when compared to the same quarter one year ago. Sales tax revenues in Suffolk County fell by over 11 percent and in Nassau County by almost 2 percent. Both Westchester County and New York City continued to see growth in these revenues into 2001.

Faced with a budgetary shortfall this year, Suffolk County will raise its sales tax rate by one-quarter of a percentage point effective June 1, 2001. This increase is currently scheduled to expire in December 2003. The county is not rescinding the sales tax exemption on clothing items costing less than \$110. The combined state and local sales tax rate in Suffolk will therefore be 8.5 percent, the same as in Nassau.

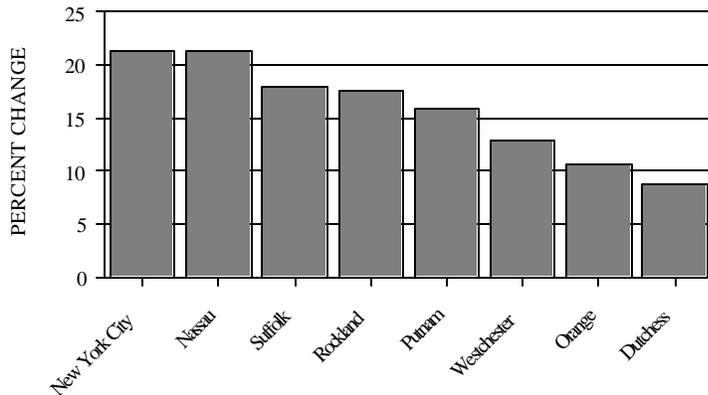
The latest detailed information currently available for New York State personal income tax is for tax year 1997. In that year, Nassau County residents contributed the second highest share (about 13 percent) of total New York State tax liability for full year residents, well above the county's 9.5 percent share of total New York State personal income. This discrepancy stems from high earnings and a progressive tax rate. Suffolk County was fourth with a share of total tax liability of 9 percent, while its share of State personal income was almost 8 percent. Manhattan residents paid the highest share (almost 23 percent) of State personal income tax, several percentage points above its 19 percent share of total State personal income, while Westchester's share of tax liability was the third highest (11 percent) and its share of personal income was over 7 percent. Thus, Long Island is not only one of the high-income regions of the State but is also a major contributor to State tax revenues.

Homeownership High, and Housing Prices are Rising

Home values in Nassau and Suffolk counties are among the highest in the State. Based on 1999 data, the most recent available from the State's Office of Real Property Service (ORPS), the median sales price of single-family homes in Nassau County was \$230,500, third highest in the State, behind only Westchester and Rockland counties. The median home sales price in Suffolk County for 1999 was \$174,000, which was ranked sixth in the State. Median home values increased by 21.3 percent in Nassau from 1996 to 1999, and by 18.0 percent in Suffolk (see Figure 8). Much of this growth took place from 1998 to 1999, when the median grew by 9.8 percent in Nassau and 8.8 percent in Suffolk. The rate of growth in property values for the two counties on Long Island, both for 1998-99 and the 1996 to 1999 period, were ranked near the top within the State.

The rate of home ownership on Long Island is high – 79.7 percent of households owned their own homes in 2000, according to the US Census Bureau. Among the 75 largest metropolitan areas

Figure 8
Growth in Median Home Sales Prices
From 1996 to 1999



Source: New York State Office of Real Property Services

in the nation, Long Island had the third highest percentage of households who were homeowners (behind Monmouth-Ocean, NJ and Grand Rapids, MI). Statewide, the percentage of homeownership averaged 53.4 percent, although this is heavily influenced by New York City, where the percentage of owners was 34.1 percent. For the other metropolitan areas of the State included in the study – Albany, Buffalo, Rochester and Syracuse – the ratio for homeowners was lower than for Long Island, ranging from 59.2 percent in Syracuse to 72.5 percent in Buffalo.

There is a relatively tight supply of homes in the Long Island residential market, which helps to keep prices high. This problem is particularly acute in Nassau, as Suffolk still has room to build new housing stock. In addition, most construction on Long Island consists of one-family homes or townhouses, rather than multi-family structures. The market for rental properties is therefore quite different from New York City, featuring more home rentals and less individual apartment units. For rental properties on Long Island, the vacancy rate during 2000 was 2.7 percent. Although this rate is higher than the 1999 vacancy rate of 1.9 percent, the rate is lower than in any other year since 1986.

Overall, housing availability and affordability is as much a problem on Long Island as it is throughout the New York metropolitan region. This factor threatens to ultimately restrict future economic

growth, as the area will not be able to attract and retain an affordable labor supply.

Electrical Usage Rising Sharply

An increasing population and several years of strong economic growth have boosted electrical usage on Long Island. According to the Long Island Power Authority (LIPA), recent electrical usage has been growing at an average annual rate of 3.5 percent, compared with a 1.7 percent increase statewide. For the summer of 2001, LIPA is projecting that normal summer weather conditions could create peak demands of 4,516 megawatts, while severe heat waves could push peak demand up to at least 5,023 megawatts. LIPA currently has a total peak capacity of 5,293 megawatts. This capacity is about 3 percent greater than in the summer of 2000, and parallels the increase in the forecast for peak demand.

To help meet the expected increase in electric demand in coming years, LIPA is upgrading parts of its transmission and distribution system, has proposed new tie lines to bring in power from the mainland and will share in the output from a new 250-megawatt power plant that Keyspan Energy has proposed to build in Melville.

Facing Transportation Needs

As passenger traffic continues to grow at the two New York City airports, more residents and businesses on Long Island are being attracted to MacArthur Airport. Located in Ronkonkoma, and owned by the town of Islip, MacArthur is the only major commercial airport in Nassau or Suffolk counties, and provides service for about 1.1 million passengers annually. The airport was built in 1942 for defense purposes and reacquired by Islip following World War II. Although regional commercial flights began in 1960, the airport began to prosper following airline deregulation during the 1970s. Currently, several major carriers are expanding their service to and from MacArthur, and facilities renovations worth around \$13 million are ongoing.

Connecting Nassau and Suffolk counties with New York City, the Long Island Rail Road (LIRR), a subsidiary of the Metropolitan Transportation Authority, has average daily ridership of more than 269,000 passengers, and carries 80.3 million passengers annually. With an operating budget of about \$1 billion in 2000, the LIRR maintains 595 miles of track, 124 stations, and 1,105 railroad cars. The proposed 2000-2004 capital plan for the LIRR amounts to \$2.147 billion, with almost half of the capital plan – \$1.0 billion – intended for upgrading the fleet of railroad cars, including the purchase of 472 new cars. Also included in the capital plan is a \$225 million renovation of the Jamaica station in conjunction with the light rail connection to JFK Airport currently being built by the Port Authority of New York and New Jersey.

Commercial Real Estate Healthy in 2000

Like the rest of the economy, the market for office space in Long Island has been improving over the last couple of years. Rental rates for all classes of office space in Long Island have increased in every year since 1996.¹ By the end of 2000, the rate had climbed to a record high of \$26.47 per square foot. The rate for Class A space alone increased by 2.9 percent, or 81 cents, to \$28.86 per square foot over the year.

The direct vacancy rate increased from 6.1 percent to 7.1 percent between the end of 1999 and the end of 2000 because almost 560,000 square feet of office space were added to the market through new construction and property conversions. The new construction reflects a belief on the part of developers that there is a very strong appetite for additional office space.

Although the amount of space leased in 2000 increased to 2.6 million square feet from 2.5 million square feet in 1999, the increase in

¹ Rental and vacancy rates are for space leased directly from landlords, and therefore exclude subleasing. The data are from Cushman & Wakefield.

leasing was insufficient to absorb all the new space coming on the market. In early 2001, two buildings in Melville, comprising 297,000 square feet of speculative Class A office space, were completed and added to the office market inventory. Still under construction in Hauppauge is a 170,000 square foot Class A structure that represents the first phase of a 408,000 square foot project known as Reckson Executive Park.

Although telecom-related companies accounted for one-third of the leasing on Long Island in 2000, firms within the FIRE sector dominated leasing in Melville, site of much of the recent new construction. The current statistics still reflect the vibrant market of last year, before the stock market declines accelerated and the pace of failures and downsizing in technology firms picked-up. Landlords were hoping to capitalize on their investments in this healthy real estate market, and several major properties are available for sale. Sales of commercial buildings in 2000 totaled over 1.2 million square feet, representing over 4 percent of the total 27 million square foot inventory of office space on Long Island at the end of 2000.

Outlook

Long Island's economy shared in the considerable growth experienced throughout downstate New York in recent years. Although job growth in early 2001 is still good, the local economy is slowing. The downturn in technology is a threat, as this industry has helped fuel some of the recent growth on the Island. Declining profits and bonuses on Wall Street are another threat to Long Island, as lower incomes for the large concentration of commuters in this industry translate into less spending. Although the national slowdown is not expected to develop into a full recession, Long Island will suffer with the rest of the region if it does. Longer term, the continued health of the region will depend on growth of a skilled labor force, the availability of affordable housing, and sufficient energy to meet local needs.

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