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Economy Is Tough All Over, but in New York, It's Horrid

By LESLIE EATON

Michael Amodeo is New York's most prominent auctioneer of failed restaurants and bankrupt businesses, and these days he is a very busy man.

"It started right after the bubble ended in 2000, but after 9/11 it got really bad," said Mr. Amodeo, who was on the 50th floor of a skyscraper in Lower Manhattan one recent day selling off the contents of a cafeteria that once served a company that is now retrenching.

The economic slump, he added, is affecting all kinds of food businesses, "restaurants and caterers and delis."

The rest of the country may be debating whether the economy is recovering or heading into a second downturn, the dreaded "double dip." In New York City, there is no question.

The economy here is in recession.

New York City has lost almost 176,000 jobs in two years — more than the population of many cities. The unemployment rate, which in the spring of 2001 had fallen to 5.3 percent, has been climbing steadily and jumped to 8.4 percent in December.

While the national economy has shown at least some growth, as measured by gross domestic product, a similar measure of the city's economy shows that it has been shrinking for two years. The New York City comptroller's office is forecasting another decline this year.

Evidence of economic hardship in the city is increasing. There has been a big rise in the number of people who have been jobless for more than six months, and tens of thousands of people have exhausted their unemployment insurance benefits but remain out of work. The number of households not on welfare but receiving food stamps, which some analysts cite as an indicator of a bad economy, has risen 20 percent in the last year, to 124,000.

New York City has gone through boom and bust before, most recently during what Christine M. Cumming, director of research for the Federal Reserve Bank of New York, described as "the long economic winter" from 1989 through 1992. The entire region suffered then; Connecticut, New Jersey and New York State lost hundreds of thousands of jobs.

But what has surprised economists this time is that the economic carnage has been concentrated in New York City — and only New York City.

Connecticut and New Jersey, relatively small and urban states, have suffered in the economic slowdown, but the unemployment rates, 4.6 percent and 5.5 percent, respectively, remain below the national average of 6 percent. Upstate New York, often described as economically beleaguered and suffering from steep declines in population, has an unemployment rate of just 4.9 percent.

Even areas long considered suburbs of New York City, with economies that had been tightly linked, are faring far better than the city. On Long Island, employment has declined by fewer than 4,000 jobs in the last two years; Westchester County, home of many of the city's bedroom communities, has had a dip of fewer than 3,000.

In the past, "we always received an equal-opportunity clobbering," said Marc M. Goloven, a senior regional economist for J. P. Morgan.

But in other parts of the region, the economies have become more diverse and less reliant on a few big industries. Their new bases of small and medium-size businesses, Mr. Goloven said, "represent a sea wall beyond which New York City's recession tide could not spread."

New York City's economy is also more diversified than it was 20 years ago, when Wall Street was the be-all and end-all, Mr. Goloven and other economists say. There are more retail and tourism businesses and, despite the dot-com bust, more technology companies. Immigration has brought economic vibrancy to many city neighborhoods.

"It's not like a town with just one auto plant," said James P. Brown, who analyzes the city economy for the State Department of Labor. "But a lot of what New York City does is related to the same thing: we sell services to other businesses." So while the 2001 recession arrived more slowly than it did in some manufacturing towns, it hit home all the same.

Then came the attack on the World Trade Center. James Parrott, chief economist for the Fiscal Policy Institute, a labor-backed research group, has calculated that half of the job losses in the last two years can be traced to the economic aftershocks of Sept. 11.

Big financial firms were displaced. Thousands of small businesses in Lower Manhattan were destroyed.

The steep decline in travel and tourism hurt not only restaurant- and hotel-heavy Manhattan, but also Queens, where many people lost jobs in and around the airports.

The fallout continues all over the city. In Brooklyn, about 1,100 businesses recently filled out questionnaires on business conditions for the Brooklyn Chamber of Commerce. More than two-thirds said they had lost revenue as a direct result of 9/11, and almost half of that group had laid off workers, said Kenneth Adams, president of the chamber. Very few, 45 of 365 businesses that cut workers, have rehired people.

"People talk about the ripple effect of 9/11, but ripple is understating it," Mr. Adams said. "To many businesses, it was more like a tsunami."

The shadow of Sept. 11 continues to hang over many businesses.

"New Yorkers have taken a huge beating to our self-confidence and entrepreneurship," said Chan Suh, chief executive of Agency.com, the company whose cafeteria equipment and excess office furniture Mr. Amodeo was auctioning.

A rare survivor among the city's once flourishing Internet sector, Agency.com still has 75 employees in New York City, as well as offices in San Francisco, Chicago and Boston. Mr. Suh said the business climate in New York was different.

"People are more reluctant to make decisions, launch something, get something started," he said, adding that worries about war and terrorism made things worse. "We know New York is a focal point," he said. "That's not just hubris: we know New York is a symbol."

If New York was the terrorists' target, Wall Street was the bull's-eye. And the financial industry, possibly the most important to the city in income if not in jobs, is in dire straits.

The stock market has dropped for three straight years, the only time this has happened since World War II. December is usually a good month for the stock market; in 2002, it was the poorest since 1931.

Even worse for New York City's financial firms, corporations across America have largely stopped merging, making acquisitions or selling stock. Helping companies do those things — the business of investment banking — is where financial firms make the really big profits. At least, they used to.

Wall Street's revenues and profits have plunged. Bonus payments dropped to \$7.9 billion last year, from \$12.6 billion in 2001 and \$19.4 billion in 2000, according to estimates by Alan G. Hevesi, the state comptroller. On Wall Street, bonuses are not icing, they are the cake. (Bonuses often dwarf base pay, and almost nobody in high finance lives off the salary.) This means Wall Street workers have just taken a \$4.7 billion pay cut.

That bonus money has paid for a lot of things in New York City: high-priced apartments, private school tuition and lavish dinners at Alain Ducasse. But it has also provided paychecks for a lot of people, like nannies and housekeepers, livery car drivers, restaurant deliverymen and the like.

Taxes on those big bonuses and on stock-market profits also used to bring hundreds of millions of dollars into city government's coffers; their decline goes a long way toward explaining the city's fiscal crisis. The city is billions of dollars short of the money it needs to balance its budget, and analysts fear steep cutbacks in areas like health care, which has been one of the few bright spots in employment.

In the future, far fewer Wall Street employees are likely to be around to get whatever bonuses are paid. Brokerage firms have laid off more than 23,000 New Yorkers in two years. That is more than 12 percent of their work force, and they are not finished.

Even if the stock market rebounds, "the securities industry here will probably stagnate," said Frank Fernandez, chief economist for the Securities Industry Association. Wall Street firms have been cutting back the number of employees in New York for years, Mr. Fernandez said, and New York remains an expensive place to do business when companies are desperate to cut costs. The attack on the World Trade Center convinced some financial firms that they had to spread out their employees, decisions reinforced by federal regulators worried about the nation's financial markets if another disaster occurs.

For employment in New York City to improve, Mr. Fernandez said, investment banking must rebound, and that

does not appear to be on the horizon.

Even enactment of President Bush's proposal to cut taxes on corporate dividends would not provide much immediate increase in Wall Street business, he added, in part because few corporations are in a position to pay dividends.

What all the laid-off investment bankers are doing these days is unclear. Most received severance packages for which they were sworn to secrecy about their former employers. The last thing they want to do is appear as a hard-luck case in a newspaper article.

But they are out there. In certain neighborhoods of Manhattan, in certain suburban towns, there has been a sudden increase in people with time on their hands. Some are from Wall Street; others had high-paying jobs in advertising, publishing or consulting.

Now, they are "working at home," said Owen R. Berkowitz, who runs a bakery in Pelham, in Westchester County. Commuters he used to see at dawn before they crowded onto trains are now stopping by after they drop the children off at school. Normally, he added, "in Westchester, men are not around at 10 of 9."

Paul Bernard, a consultant who works with executives, said he used to tell clients that finding a new job might take six months; now he warns them to expect to hunt for up to 14 months.

Those who graduated from business school three or four years ago are in a particularly tough spot, he added. "There are very few jobs for people in that category, if they want to stay in New York." He has even had M.B.A.'s apply to be his office manager, a job that pays about \$60,000 a year. He said he had received almost 1,300 résumés from applicants.

One may well have come from Vicki Herschman, 43, who lives on the Upper East Side of Manhattan. She said she had been sending out hundreds of résumés a month. Laid off from her job as a magazine circulation assistant in July 2001, Ms. Herschman has not been able to find a job of any kind.

"I've applied to places like Starbucks, but they see me as overqualified or say I don't have a retail background," she said. The employment agency that helped her find her last job has gone out of business.

Her unemployment benefits ran out early last year, Ms. Herschman said, and she has found it increasingly hard to keep body and soul together. She continues to volunteer at a soup kitchen, but does it now to get free meals, and she says she considers it a good week when she can afford subway fare.

Recently, she overcame her embarrassment and applied for public assistance. She is still looking for a job, but she is considering leaving New York City.

"I find it, especially after 9/11, gloomy and negative and depressing," Ms. Herschman said. "Before, it was lights, camera, action."

College-educated workers like Ms. Herschman are more likely to find themselves unemployed than they were in previous recessions, economists say. But those most likely to find themselves out of a job in New York City are blue-collar workers, those without high school diplomas, the young, and black and Hispanic workers, said Mark Levitan, senior policy analyst for the Community Service Society, which helps the poor.

Despite the gloomy statistics, visitors can roam the streets of Manhattan without noticing signs of economic distress. And their presence is part of the reason: tourists have returned to Times Square, and if they do not spend as

much as business travelers or international visitors, they are keeping Broadway and other businesses alive.

Real estate remains relatively strong so far. Apartment prices have not tumbled, as they did in the last recession. An increasing number of small storefronts are empty, but retailers continue to open big new stores.

Vacancies in office buildings have risen in the last year, but the percentage of empty office space in Manhattan remains well below the average for city downtowns, said Bruce Mosler, president of United States operations for Cushman & Wakefield, real estate brokers. Much of the space available is being put up for sublease by retrenching companies, Mr. Mosler said.

That is the fate of the former cafeteria in the skyscraper, one reason the equipment had to be auctioned — to get it out of the way of potential tenants.

But also on display at that auction were the optimism and determination that New Yorkers like to think characterize them as much as their gift for complaining does. Despite the poor economy, several bidders were planning to open new bars or restaurants in the city.

One was Aricka Westbrook, 32, of Brooklyn. Until about a year and a half ago, Ms. Westbrook had one of those "only in New York" careers that combined fashion, public relations and the Internet. But after she was laid off — twice — she decided to go into business for herself, she said.

So, if all goes well, she will soon open a takeout restaurant in Brooklyn called Jive Turkey (after the house specialty, which will be deep-fried).

It is not at all what she expected when she moved to New York City seven years ago, she said, but she has no intention of moving back to Chicago.

"Never that," she said firmly. "Never, ever, that."