

# EMPLOYMENT

## in New York State

David A. Paterson, Governor

June 2008

M. Patricia Smith, Commissioner

### Understanding the Financial Sector Meltdown...

## The Credit Crisis and NY's Financial Services Sector

Over the past 18 months, the U.S. economy has been buffeted by an array of problems in the nation's housing, credit and financial markets. Despite the seriousness of many of these issues, they are still not well understood by the general public. Here, in a two-part series, we trace the origins of the recent credit crunch, look at how it spread to other financial markets, and examine why it may ultimately lead to thousands of layoffs in New York State's financial services sector.

#### Overview

The roots of the current credit crisis extend back to the late 1990s. At that time, the U.S. mortgage system developed new

products for customer groups that had not traditionally been well served by the mortgage market. Two groups that received increased access to credit were: the subprime market (lower-income borrowers with spotty credit records) and the Alt-A market (aka alternative-documentation loans). Alt-A borrowers (mainly the self-employed) typically had clean credit records (making them better risks than subprime borrowers), but did not have proof of income from traditional employment.

Because these two groups were considered higher risk by lenders, they were charged higher interest rates and higher

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### At a Glance

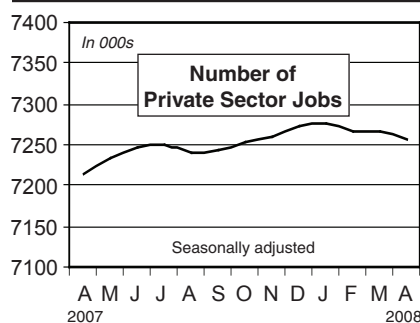
In April 2008, New York's seasonally adjusted unemployment rate was 4.7 percent, down from 4.8 percent in March 2008. (The nation's unemployment rate was 5.0 percent in April.) In April 2008, the state had 8,768,700 nonfarm jobs, including 7,256,900 private sector jobs, after seasonal adjustment. The number of private sector jobs in the state decreased by 0.1 percent from March. (The nation's private sector job count decreased by less than 0.1 percent over the month.) From April 2007 to April 2008, the number of private sector jobs increased by 0.6 percent in the state and increased by 0.1 percent in the U.S. (not seasonally adjusted). In addition, New York's employment-population ratio, a measure of labor force participation, increased in April.

### Change in Nonfarm Jobs April 2007 - April 2008 (Data not seasonally adjusted, numbers in thousands)

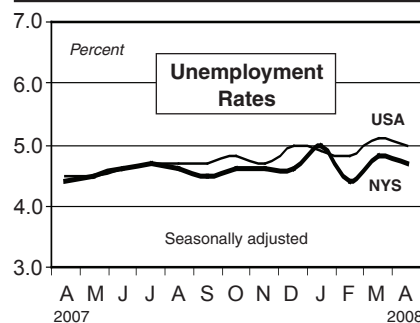
	Net	%
Total Nonfarm Jobs	61.4	0.7
Private Sector	45.7	0.6
Goods-producing	-15.7	-1.8
Nat. res. & mining	0.4	6.8
Construction	1.5	0.4
Manufacturing	-17.6	-3.2
Durable gds.	-7.4	-2.3
Nondurable gds.	-10.2	-4.5
Service-providing	77.1	1.0
Trade, trans., & util.	7.5	0.5
Wholesale trade	-3.2	-0.9
Retail trade	6.8	0.8
Trans., whrs., & util.	3.9	1.4
Information	4.0	1.5
Financial activities	-3.4	-0.5
Prof. & bus. svcs.	1.1	0.1
Educ. & health svcs.	36.5	2.3
Leisure & hospitality	10.8	1.6
Other services	4.9	1.4
Government	15.7	1.0

## IN APRIL...

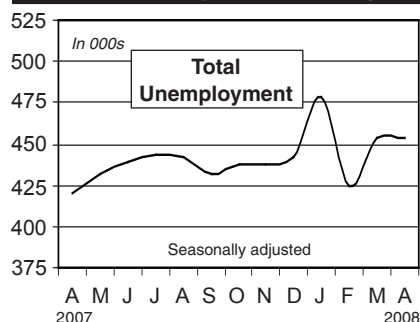
#### ...NYS private sector jobs decreased



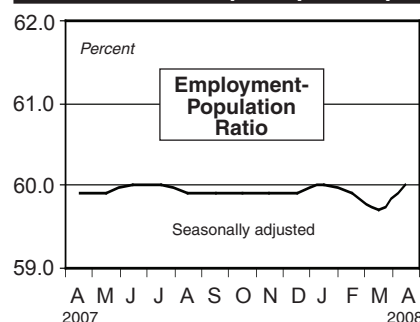
#### ...NYS unemployment rate decreased



#### ...NYS unemployment unchanged



#### ...NYS labor force participation up



# Focus on Western New York

## Service-Providing Sector Leads the Way

by John Slenker, Labor Market Analyst, Western New York

**T**he Western New York region -- Erie, Niagara, Chautauqua, Cattaraugus, and Allegany counties -- has added jobs over the past year despite a slowing national economy. From the first quarter of 2007 to the first quarter of 2008, the region's total nonfarm job count rose by 2,200, or 0.3 percent, to 645,400. The bulk of local job creation has been in service-providing industries, especially professional and business services. In contrast, job losses have been largely confined to goods-producing industries -- manufacturing and construction.

### Service-Providing Sector

Professional and business services experienced the strongest job growth in the region over the past year. This trend is expected to continue with the opening of a major call center in Cattaraugus County by The Connection, a Minnesota-based company, which eventually could provide 600 jobs.

Expansion in the gaming industry continues as the Seneca Nation further develops its three casinos in the region, which are in Niagara, Cattaraugus, and Erie counties. A temporary casino in Buffalo is being phased out, and will be replaced by a permanent one, which will employ over 1,000. (Note: Per federal regulations, employment at businesses operated by Native American tribes is counted as part of the local government sector.)



**“Some workers already have skills that they can easily transfer from one sector to another, but others may have to learn new or enhanced skills to compete in new or expanding fields.”**

*Pamela Eddy,  
Employment Services Team Leader  
Western New York Region*

The Center for Excellence in Bioinformatics & Life Sciences in Buffalo (Erie County) has been a major catalyst for the region's emerging biotech sector. Businesses such as ONY, Empire Genomics and PharmIdeas, which perform research, clinical trials or support analysis, were drawn to Western New York due to the center. Expansion at these companies has resulted in increased demand for workers with the appropriate skills. Medical and clinical laboratory technicians are in short supply.

### Goods-Producing Sector

In Western New York, the transportation equipment industry's share of regional employment is about 20 percent higher

than the national average. The local sector's above-average wage level (\$84,700) adds to its economic importance. Among the largest local employers in this sector include: General Motors, Ford Motors, and American Axle (Erie County); Delphi (Niagara County); and Cummins Engine (Chautauqua County). All of these companies have been downsizing over the past few years except for the Cummins Engine facility, which remains strong.

Over the last year, American Axle closed its Buffalo facility and eliminated 700 jobs. The recent strike settlement between the company and the United Auto Workers will result in the closing of their plant in Tonawanda and the loss of another 400 jobs over the coming year. Most production in these plants was focused on axle and driveline components used in SUVs. However, demand for these components has slowed as sales of SUVs have dropped dramatically with the steep run-up in gasoline prices.

While manufacturing continues to decline overall, some companies are expanding in the region. Globe Metallurgical will reopen its plant in Niagara Falls to produce the premium-grade silicon used in the solar power industry. The company is expected to invest \$60 million to retool the plant which will create 500 "green" jobs and be in full production by 2011.

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### The Credit Crisis...

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closing costs for their mortgages. It is important to note that many subprime and Alt-A borrowers received adjustable rate mortgages with low introductory rates, which later reset to significantly higher interest rates.

As the subprime and Alt-A mortgage markets expanded, Americans were taking on increasingly higher levels of indebtedness; the ratio of household debt to disposable income increased from 80% in the early 1990s, to 100% earlier this decade, to more than 130% today. The concurrent steep run-up in U.S. real estate prices provided homeowners with the collateral they needed for this huge increase in borrowing. But this also meant that many buyers couldn't afford a home with a conventional mortgage.

Consequently, many less credit-worthy subprime and Alt-A borrowers took out

mortgages to help them pay the higher home price. However, after back-to-back annual price increases of 14 percent in 2004 and again in 2005, U.S. housing prices peaked in August 2006. They subsequently dropped throughout 2007 and into the first quarter of 2008; the nation's real estate bubble was effectively burst.

### Mortgage Meltdown

Wall Street firms bundled mortgages into fixed-income securities and repackaged those bonds as investments, known as collateralized debt obligations (CDOs). The CDOs were attractive to investors because they offered higher yields than traditional mortgage-backed securities. The investment firms kept some CDOs and sold others to investors. The CDOs backed by the Alt-A mortgages were assumed to be safe, since the mortgage borrowers supposedly had clean credit re-

ords. This system worked well until the collapse of two Bear Stearns hedge funds in July 2007.

As housing values plummeted, many subprime and Alt-A borrowers, who had adjustable rate mortgages, faced escalating borrowing costs and experienced substantial increases in delinquencies. This, in turn, caused sharp decreases in the market values of the CDOs.

The Bear Stearns funds used leverage (borrowed money) to purchase CDOs that paid an interest rate higher than the cost of borrowing (e.g. the funds invested \$50 million with only \$1 million of their own money and \$49 million of debt). Since the funds had leveraged their positions substantially, they began to experience large losses. Soon, the hunt was on by investors to find whether they unknowingly held secu-

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## Unemployment Rates in New York State

Data Not Seasonally Adjusted

	APR '07	APR '08		APR '07	APR '08		APR '07	APR '08
<b>New York State</b>	<b>4.2</b>	<b>4.6</b>	<b>Hudson Valley</b>	<b>3.5</b>	<b>4.1</b>	<b>Finger Lakes</b>	<b>4.3</b>	<b>5.0</b>
<b>Capital District</b>	<b>3.8</b>	<b>4.4</b>	Dutchess	3.5	4.2	Genesee	4.4	5.4
Albany	3.5	4.2	Orange	3.9	4.6	Livingston	4.7	5.6
Columbia	3.7	4.1	Putnam	3.0	3.6	Monroe	4.1	4.8
Greene	4.9	5.4	Rockland	3.4	3.9	Ontario	4.0	4.7
Rensselaer	4.1	4.6	Sullivan	5.2	6.0	Orleans	6.0	6.5
Saratoga	3.4	4.1	Ulster	3.7	4.4	Seneca	4.4	5.2
Schenectady	3.9	4.5	Westchester	3.2	3.9	Wayne	4.6	5.4
Warren	4.9	5.5	<b>Mohawk Valley</b>	<b>4.7</b>	<b>5.5</b>	Wyoming	5.0	5.8
Washington	4.2	5.1	Fulton	5.3	6.3	Yates	4.0	4.4
<b>Central New York</b>	<b>4.3</b>	<b>4.8</b>	Herkimer	5.1	6.1	<b>Western New York</b>	<b>4.7</b>	<b>5.4</b>
Cayuga	4.1	4.7	Montgomery	6.1	6.7	Allegany	5.3	5.9
Cortland	5.1	5.8	Oneida	4.1	4.8	Cattaraugus	5.1	5.7
Madison	4.6	5.1	Otsego	4.6	5.0	Chautauqua	4.4	5.0
Onondaga	3.8	4.3	Schoharie	5.4	6.6	Erie	4.5	5.1
Oswego	5.6	6.3	<b>North Country</b>	<b>5.8</b>	<b>6.7</b>	Niagara	5.5	6.6
<b>Southern Tier</b>	<b>4.3</b>	<b>4.8</b>	Clinton	6.0	6.2	<b>Long Island</b>	<b>3.3</b>	<b>3.9</b>
Broome	4.3	4.9	Essex	6.3	7.1	Nassau	3.2	3.8
Chemung	4.4	4.7	Franklin	5.8	7.0	Suffolk	3.4	4.1
Chenango	4.7	6.2	Hamilton	6.6	8.8	<b>New York City</b>	<b>4.5</b>	<b>4.5</b>
Delaware	4.2	5.7	Jefferson	5.5	6.6	Bronx	6.1	6.1
Schuyler	5.3	5.7	Lewis	5.9	6.7	Kings	4.9	4.8
Steuben	4.9	5.4	St. Lawrence	5.7	6.6	New York	3.9	3.9
Tioga	4.8	4.6				Queens	4.0	4.0
Tompkins	3.0	3.2				Richmond	4.1	4.0

### Western NY...

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The region's construction sector remains weak, losing 1,800 jobs between the first quarter of 2007 and the first quarter of 2008. There is limited demand for new housing or commercial space in the area, but there are some bright spots. The renovation and creation of loft-style apartments in downtown Buffalo and the ongoing construction of the Buffalo Creek Casino are examples.

### Outlook

In recent years, job gains at service-providing industries have more than offset the losses experienced by goods-producing industries. One factor that will affect both sets of industries going forward is Western New York's long-term population decline. Out-migration continues to exceed in-migration. This situation, combined with the looming retirements of the baby boomers, creates opportunities for jobseekers. However, it is also expected to result in spot labor shortages.

Looking ahead, ongoing national economic problems -- especially record-high energy prices and the credit crunch -- will likely adversely affect the region's transportation equipment and construction industries. However, the region's diverse industry mix and the growing importance of emerging industries, such as biotech and green manufacturing, will help to buffer the region from these forces.

### The Credit Crisis...

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rities that had dropped in value. As investors began writing down the value of their portfolios, the crisis spread beyond the subprime and Alt-A markets to the prime residential and commercial real estate markets, consumer credit, and the low- to high-grade corporate credit markets.

### Losses Mount

From early 2007 through mid-May 2008, financial firms posted \$335 billion of writedowns and credit losses. To put that figure in perspective, it was about 30% of New York's Gross Domestic Product (total value of goods and services) in 2007. Alternatively, if that money represented the GDP of an individual state, it would be the 14th largest state economy in the U.S. (smaller than Massachusetts, but larger than Washington).

Certain firms have experienced substantial writedowns and credit losses over the past 18 months. The five firms with the greatest declines accumulated losses that topped \$140 billion (as of May 2008), or about 40% of total industry losses to date. These firms and their losses to date included: Citigroup, \$40.9 billion; UBS, \$38.2 billion; Merrill Lynch, \$31.7 billion; Royal Bank of Scotland, \$15.2 billion; and Bank of America, \$14.8 billion.

Many analysts believe that the fallout from the credit crisis will continue to spread through 2009. For example, the International Monetary Fund in April 2008 estimated that aggregate losses related to the

residential mortgage market and related securities (a combination of falling U.S. housing prices and rising delinquencies on mortgage payments) could reach \$565 billion, including the expected deterioration of prime loans. When you factor in other categories of loan origination and securities, total estimated losses from the credit crisis could reach \$945 billion. That would make it six times more costly than the U.S. savings and loan crisis of the late 1980s and early 1990s, according to the U.S. Government Accountability Office. (Editor's note: In our next issue, we conclude our analysis of the credit crisis and look at how it has affected New York's financial services sector.)

by Kevin Jack and James Brown

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## REGIONAL ANALYSTS' CORNER

### FINGER LAKES Tammy Marino 585-258-8870

Between April 2007 and April 2008, private sector employment in the Rochester metro area declined by 600, or 0.1 percent, to 429,700. Gains occurred in educational and health services (+2,400) and construction (+600). Declines were greatest in manufacturing (-3,100) and professional and business services (-600).

### CENTRAL NY Roger Evans 315-479-3388

For the 12-month period ending April 2008, the private sector job count in the Syracuse area rose 2,100, or 0.8 percent, to 264,000. Growth was concentrated in educational and health services (+900), natural resources, mining and construction (+700), and trade, transportation and utilities (+600). Job losses occurred in manufacturing (-400).

### MOHAWK VALLEY Mark Barbano 315-793-2282

For the 12-month period ending April 2008, the private sector job count in the Utica-Rome metro area increased 400, or 0.4 percent, to 98,000. Job gains were centered in educational and health services (+600), leisure and hospitality (+400), and trade, transportation and utilities (+400). Losses were largest in manufacturing (-600) and financial activities (-400).

### NORTH COUNTRY Alan Beideck 518-891-6680

Private sector employment in the North Country region rose over the year by 1,200, or 1.1 percent, to 113,700 in April 2008. The largest gains were in educational and health services (+400), natural resources, mining and construction (+300), and trade, transportation and utilities (+300).

### CAPITAL DISTRICT James Ross 518-462-7600

From April 2007 to April 2008, private sector jobs in the Albany-Schenectady-Troy area increased by 400, or 0.1 percent, to 337,300. Jobs rose in educational and health services (+1,200) and professional and business services (+1,200). Declines occurred in financial activities (-700), leisure and hospitality (-400), manufacturing (-400), and trade, transportation and utilities (-400).

### HUDSON VALLEY John Nelson 914-997-8798

Private sector jobs in the Hudson Valley increased over the year by 3,200, or 0.4 percent, to 752,000 in April 2008. Gains were greatest in educational and health services (+3,000) and professional and business services (+2,100). Losses were centered in financial activities (-1,700) and manufacturing (-1,300).

### WESTERN NY John Slenker 716-851-2742

Private sector employment in the Buffalo-Niagara Falls metro area increased by 1,700, or 0.4 percent, to 447,800, over the 12 months ending April 2008. Job gains were centered in professional and business services (+2,000), leisure and hospitality (+1,300), and financial activities (+1,100). Losses occurred in natural resources, mining and construction (-1,800) and manufacturing (-1,700).

### SOUTHERN TIER Christian Harris 607-741-4485

Private sector employment in the Southern Tier increased over the year by 1,100, or 0.5 percent, to 237,000 in April 2008. Job gains were largest in educational and health services (+900) and natural resources, mining and construction (+300). Losses were centered in other services (-200).

### NEW YORK CITY James Brown 212-775-3330

Private sector jobs in New York City rose 35,500, or 1.1 percent, to 3,203,900 for the period ending April 2008. Growth was largest in trade, transportation and utilities (+13,600), educational and health services (+7,700), information (+7,700), leisure and hospitality (+5,200), and professional and business services (+3,000). Manufacturing lost jobs over the year (-7,900).

### LONG ISLAND Gary Huth 516-934-8533

Private sector jobs on Long Island increased over the year by 2,100, or 0.2 percent, to 1,060,100 in April 2008, a new record for the month. The largest gains occurred in educational and health services (+3,800) and leisure and hospitality (+2,600). Job losses were greatest in financial activities (-2,400) and manufacturing (-2,200).

