



The Securities Industry in New York City

Highlights

- Pretax profits in the securities industry totaled \$24.5 billion in 2017, the highest level since 2010 (2012 after adjusting for inflation).
- Profits totaled \$13.7 billion in the first half of 2018, the highest level since 2010 (2011 after adjusting for inflation).
- Net revenues grew by 4.5 percent in 2017, the largest increase in five years. Growth was even stronger in the first half of 2018 (8.6 percent).
- The average bonus paid to industry employees in New York City increased by 17 percent in 2017 to \$184,220, the highest in a decade after adjusting for inflation.
- The average salary (including bonuses) increased by 13 percent to \$422,500 in 2017 (the highest since 2008 and higher than in any other major industry).
- The average salary in the industry was 5.5 times higher than the average in the rest of the private sector in New York City.
- The average salary in the securities industry in New York State increased by 12 percent in 2017 to \$403,100 (the highest since 2008 and the highest of any state in the nation).
- The securities industry in New York City added 10,600 jobs between 2010 and 2017, bringing employment to 176,900 jobs, the highest level in a decade.
- Immigrants comprised one-third of the securities industry work force in New York City. Commuters from outside of New York City represented 38 percent of the work force.
- The securities industry accounted for an estimated 18 percent of State tax collections and 7 percent of City tax collections in the past fiscal year.

Securities industry pretax profits grew by 42 percent in 2017 on higher revenue from core activities. That momentum has carried into 2018, with profits rising by 11 percent during the first half of 2018.

The securities industry has the highest average salary of any major industry in New York City. Despite its small size (less than 5 percent of private sector employment), the industry accounts for more than one-fifth of all private sector wages paid in the City.

Bonuses made up 40 percent of securities industry wages in 2017, a much larger share than in any other industry. Bonuses are likely to increase in 2018 for the third consecutive year based on compensation and profitability trends in the first half of the year, although it is too early to predict with certainty.

While the securities industry in New York City reported a small job loss in 2017, it had solid job gains in the three prior years. Although industry employment has recovered nationally, in New York City it was still 6 percent smaller than before the financial crisis.

Nevertheless, the industry remains an important part of the City's economy. In 2018, the industry was on pace to add 1,700 jobs during the first half of the year, which bodes well for the local economy as well as State and City tax collections.

The securities industry has been profitable every year since the recession ended in 2009, and salaries are higher than at any time since the financial crisis. The industry is on track for another good year in 2018, barring unforeseen developments later in the year.

Industry Profitability

The traditional measure of profitability in the securities industry is the pretax profits of the broker/dealer operations of New York Stock Exchange (NYSE) member firms. Other business lines, such as retail and commercial banking, are excluded.

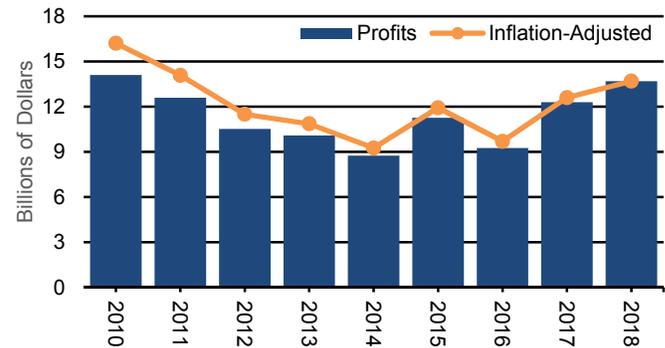
In 2017, pretax profits grew by 42 percent to \$24.5 billion (see Figure 1), the highest level since 2010 (or 2012 after adjusting for inflation). Profits increased by 21 percent in 2016 because of lower costs, while in 2017 profits rose on higher revenues. Net revenue (the preferred industry measure) grew by 4.5 percent in 2017, the largest increase in five years.¹

Gross revenue grew by almost 14 percent in 2017, the largest increase in 11 years. Revenue growth was strongest in wealth management and account supervision (21 percent), underwriting (16 percent), trading (10 percent), and other income related to the securities business (24 percent).

Revenue from wealth management and account supervision has more than tripled since 2009, and was responsible for more than one-quarter of industry revenues. Although revenue from trading increased in 2016 and 2017, the share of industry revenues derived from trading has declined from 16 percent in 2009 to 6 percent in 2017.

The positive momentum from 2017 has carried into 2018. Pretax profits totaled \$13.7 billion in

FIGURE 2
First Half Securities Industry Profits



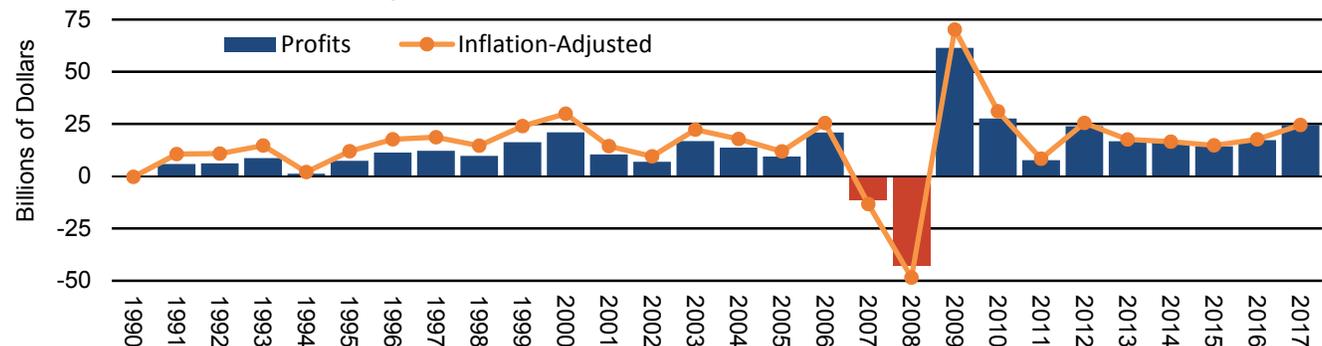
Sources: Securities Industry and Financial Markets Association; NYSE/Intercontinental Exchange; U.S. Bureau of Labor Statistics; OSC analysis

the first half of the year (see Figure 2), 11 percent higher than last year and the highest level since 2010 (2011 after adjusting for inflation).

Profits rose during the first half of 2018 because revenues grew faster than expenses. Net revenue rose by 8.6 percent, while expenses (excluding borrowing costs) were up 8 percent, driven by higher noncompensation costs. Wealth management continues to be a leading source of industry revenue, growing by 14 percent. Revenue from trading was up 22 percent on the strength of the financial markets.

The industry is on track for another good year barring an unforeseen setback later in the year. In the longer term, there are risks that could derail economic growth and hence profitability, including trade tensions, rising interest rates, the growing federal deficit and a record level of global debt.

FIGURE 1
Annual Securities Industry Profits



Note: Pretax profits for broker/dealer operations of New York Stock Exchange member firms.
Sources: Securities Industry and Financial Markets Association; NYSE/Intercontinental Exchange; OSC analysis

Employment

Nationally, employment in the securities industry has recovered from the financial crisis, but in New York City it remains 6 percent below the 2007 level. The industry added 91,100 jobs across the country between 2010 and 2017, reaching a record of 941,500 jobs in 2017. It is on pace to add another 26,300 jobs in 2018, which would be the largest one-year gain since 2007.

New York has more industry jobs (197,300 in 2017) than any other state in the nation, more than twice as many as second-ranked California and nearly three times as many as third-ranked Texas. Industry job growth in the rest of the nation has been three times faster than in New York since 2010, when the national job recovery began. As a result, New York State's share of the nation's securities industry jobs edged down from 22 percent in 2010 to 21 percent by 2017. (In 1990, New York accounted for 34 percent.)

New York City's share of the nation's securities industry jobs fell from 33 percent in 1990 to 19 percent in 2017. The decline reflects a shift to lower-cost regions, economic growth in other cities, and geographic diversification in the aftermath of the attacks on the World Trade Center.

New York City accounts for 90 percent of the industry jobs in New York State. Half of the jobs in the rest of the State are located in Long Island

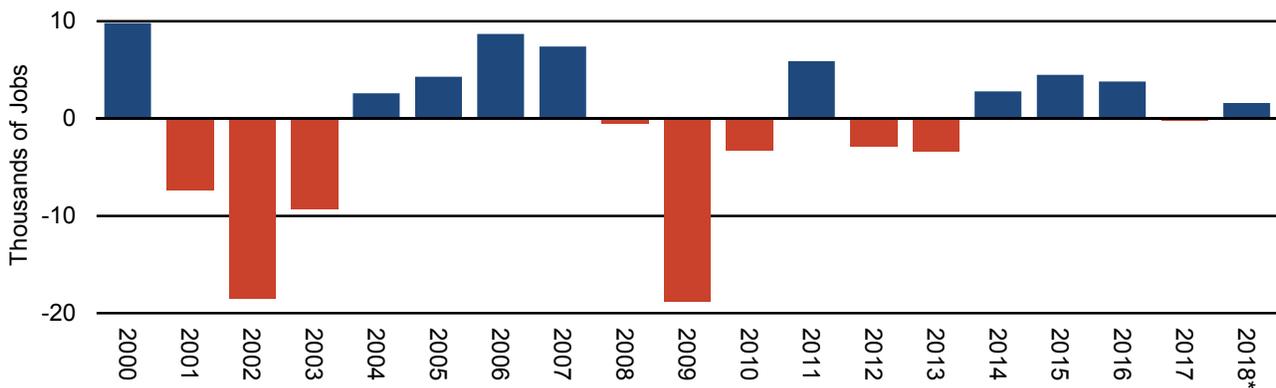
and in Westchester County, and the rest are mostly concentrated in the metropolitan areas around Albany, Buffalo, Rochester and Syracuse. Although industry employment outside of New York City more than tripled between 1990 and 2010, it has declined by 12 percent since then, to 20,400 jobs in 2017.

Employment in the securities industry in New York City peaked in 2000 at 201,100 jobs, but declined by 35,200 through 2003 as a result of the terror attack on the World Trade Center and the burst of the dot-com bubble. Before the industry could fully recover, it lost another 22,600 jobs between 2007 and 2010 as a result of the financial crisis.

Overall, the industry added 10,600 jobs between 2010 and 2017, bringing employment in the City to 176,900 jobs (the highest level in a decade). Preliminary data suggested the industry was on track to add 2,300 jobs in 2017, but the anticipated gains were erased after the New York State Department of Labor revised its employment estimates in March 2018 to show a loss of 100 jobs in 2017 (see Figure 3).

The industry was on pace to add 1,700 jobs in 2018 based on employment trends during the first half of the year. It remains to be seen whether those gains can be sustained during the second half, and whether the gains will remain after the next annual revision in March 2019.

FIGURE 3
Annual Change in New York City Securities Industry Employment



Sources: NYS Department of Labor; OSC analysis

* First Half of Year

Bonuses

Compensation practices in the securities industry before the financial crisis encouraged excessive risk-taking. Since then, new regulations and guidelines have changed the way compensation is paid. Base salaries are higher, larger shares of bonuses are deferred to future years, and bonuses can be “clawed back” if performance targets are not achieved.

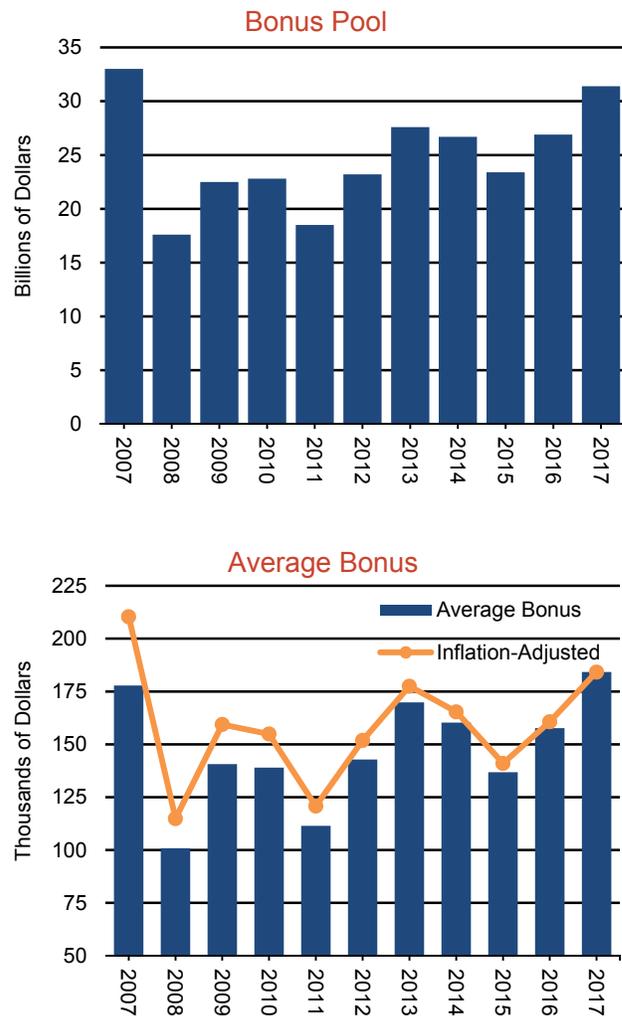
In March 2018, OSC estimated that the bonus pool for industry employees in New York City during the traditional December-March bonus season increased by 17 percent to reach \$31.4 billion, the highest level in a decade (see Figure 4). The securities industry accounted for more than half of all private sector bonus payments in the City in 2017, even though it made up less than 5 percent of employment.

OSC’s bonus estimate includes bonuses paid for work performed in 2017, as well as bonuses deferred from prior years that were cashed in. The increase in the bonus pool was driven, in part, by recent changes in the federal tax code that encouraged the acceleration of deferred compensation into 2017 while it was still a deductible business expense.

Another factor was a federal law enacted in 2008 that required the repatriation of deferred compensation held overseas. The law offered taxpayers 10 years to repatriate income (and to pay taxes on such income), with a deadline of December 31, 2017. According to the *Wall Street Journal*, many hedge fund managers were affected by the law.

The average bonus for industry employees in New York City increased by 17 percent to \$184,220 in 2017 (see Figure 4). After adjusting for inflation, it was the highest average bonus in a decade and the fourth-highest on record. Bonuses accounted for an estimated 40 percent of wages, a larger share than in any other major industry in New York City.

FIGURE 4
Securities Industry Bonuses in New York City



Sources: NYS Department of Labor; OSC analysis

Bonuses are likely to increase in 2018 for the third consecutive year, based on compensation and profitability trends in the first half of the year. The amount set aside for compensation by NYSE member firms in the first half of 2018 increased by 4 percent. Johnson Associates (an executive compensation consulting firm) also expects higher bonuses in investment banking, trading and wealth management. In March 2019, OSC will release its 2018 bonus estimate for industry employees in New York City based on tax withholding trends during the bonus season.

Average Salaries

In 2017, the average salary (including bonuses) of industry employees in New York City increased by 13 percent to \$422,500 (see Figure 5), the highest average since 2008 and the third-highest on record after adjusting for inflation. (Salaries before the financial crisis were boosted by incentives that rewarded risky behavior.)

The securities industry has the highest average salary of any major industry in New York City.² Because of its high salaries, the industry was responsible for 21 percent of all private sector wages paid in New York City in 2017, although it accounted for less than 5 percent of private sector employment.

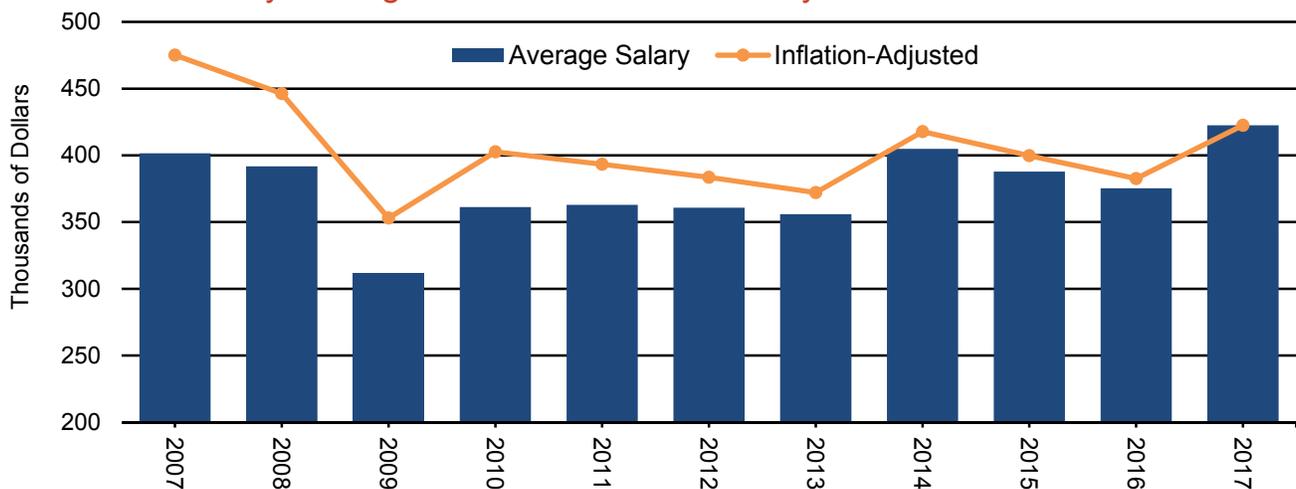
The high incomes earned by many industry employees create economic activity not just in New York City, but in the surrounding region. OSC estimates that 1 in 11 jobs in the City and 1 in 17 jobs in the State are either directly or indirectly associated with the securities industry. Each job gained or lost in the industry leads to the creation or loss of three additional jobs in other industries in the State.

Although the industry has been gradually moving away from its traditional home in Lower Manhattan, 98 percent of the City's securities industry employees still work in Manhattan. The industry's average salary in Manhattan reached \$427,800 in 2017, more than three times higher than the average in the other boroughs (\$121,800).

In 2016, nearly one-quarter (24 percent) of industry employees who worked in New York City earned more than \$250,000, compared with just 10 percent in the rest of the nation. (Only 2.5 percent of the workers in the rest of the City's work force earned more than \$250,000).

The disparity between the average salary in the securities industry in the City and the rest of the private sector grew sharply in the years leading up to the financial crisis (see Figure 6 on the next page). The disparity peaked in 2007 when the average salary in the industry was more than six times higher than the average in the rest of the private sector (compared with twice as large in 1981). The gap narrowed after the financial crisis, but the ratio has remained at least 5 to 1 since 2010 (the ratio was 5.5 to 1 in 2017).

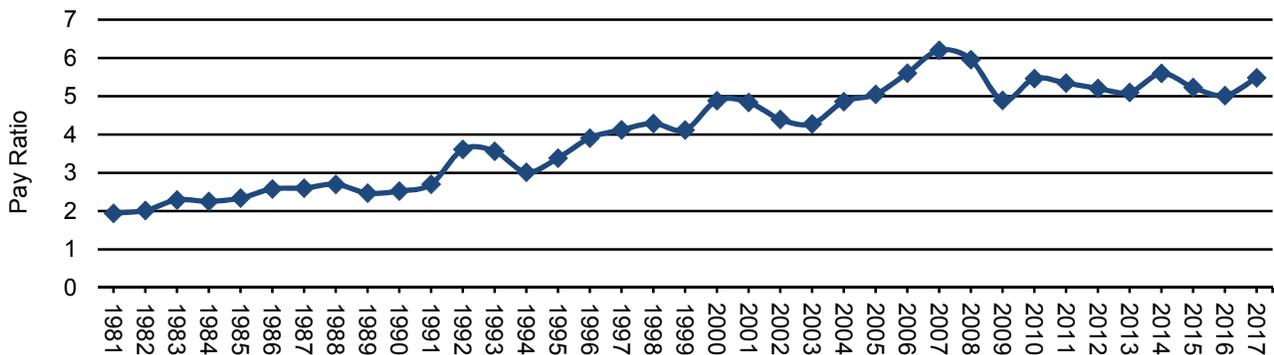
FIGURE 5
Securities Industry Average Salaries in New York City



Sources: NYS Department of Labor; U.S. Bureau of Labor Statistics; OSC analysis

FIGURE 6

Ratio of Average Salaries in the City's Securities Industry to the Rest of the Private Sector



Note: 1981-1999 data are on an SIC basis; 2000-2017 are on a NAICS basis.
Sources: NYS Department of Labor; OSC analysis

The average salary in the securities industry in New York State grew by 12 percent in 2017 to \$403,100. This was the highest average since 2008 and the third-highest on record after adjusting for inflation.

New York had the highest average salary of any state in the nation (see Figure 7), reflecting the concentration of highly compensated employees, such as chief executive officers, in New York City. The average salary in New York also grew faster than in any other state besides New Mexico and Wyoming, which have small securities industries.

The average salary in the industry in Long Island is nearly as high as in New York City. In Long Island, the average salary grew by 10 percent in 2017 to \$389,000. The level was boosted by the presence of hedge-fund firms in Suffolk County, where the average salary was \$599,800, the highest of any county in the nation.

The average salary in Westchester County grew by 3 percent to \$264,700 in 2017, while in the rest of the State it rose by 6 percent to \$155,800. According to the U.S. Census Bureau, 13 percent of industry employees working in the City's suburbs (i.e., Nassau, Putnam, Suffolk and Westchester counties) earned more than \$250,000 in 2016, a higher share than in the rest of the nation (10 percent).

The Dodd-Frank Act requires publicly traded companies to report the ratio of the salary for the chief executive officer (CEO) to the median salary for all employees. According to a report prepared by Congressman Keith Ellison, average CEO pay in the financial industry (i.e., banking, securities and insurance) was 208 times greater than the median for all employees in the industry. The ratio was even higher in other industries.

FIGURE 7
States with the 10 Highest Securities Industry Average Salaries

	2017 Average	Growth Rate
New York	\$403,100	12%
Connecticut	\$316,400	7%
Massachusetts	\$284,500	8%
California	\$252,700	9%
Illinois	\$230,900	4%
Maryland	\$202,900	10%
New Jersey	\$186,700	4%
Georgia	\$183,300	8%
Rhode Island	\$180,700	10%
New Hampshire	\$171,100	6%
United States	\$229,000	8%

Sources: U.S. Bureau of Labor Statistics; OSC analysis

Work Force Characteristics

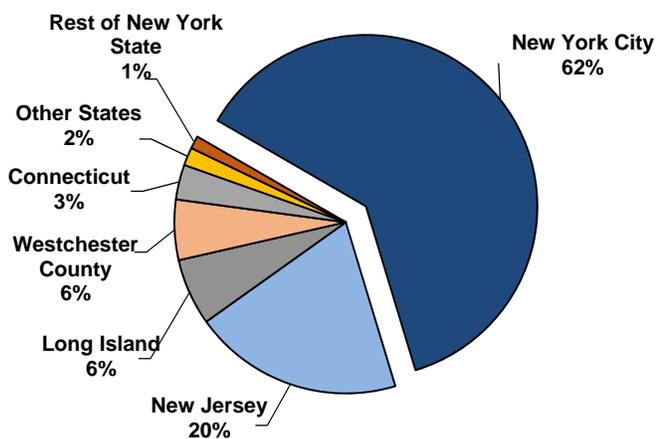
In 2016, more than two-thirds of the workers in New York City's securities industry were male, according to data from the U.S. Census. While 87 percent of the work force had earned at least a bachelor's degree, 37 percent had an advanced degree (almost twice the citywide share).

Nearly two-thirds (62 percent) of the work force were White, 22 percent were Asian, 7 percent were Hispanic and 6 percent were African American. Immigrants (primarily from Asia and Europe) made up one-third of the work force.

While 62 percent of the workers resided in New York City (see Figure 8), 38 percent commuted from outside of the City, the highest share of any major industry in New York City. One-fifth came from New Jersey, 6 percent came from Long Island and another 6 percent came from Westchester County. More than half (55 percent) of the commuters from Connecticut and 38 percent of those from Westchester earned more than \$250,000 per year.

In 2016, the industry's top five occupations were sales agent (18 percent), personal finance advisor (10 percent), financial analyst (8 percent), financial manager (8 percent) and supervisor of sales workers (6 percent). Employees in tech-related occupations, such as programmers, made up 12 percent of the work force.

FIGURE 8
Place of Residence
Employees in New York City's Securities Industry



Sources: U.S. Census Bureau; OSC analysis

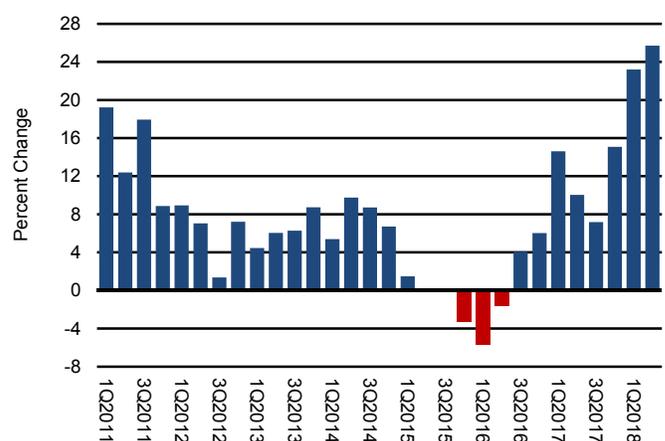
Financial Markets

The Dow Jones Industrial Average fell from 14,165 on October 9, 2007 to 6,547 on March 9, 2009, a decline of 54 percent. Over the next seven years the index tripled, reaching 19,763 by the end of 2016. Stronger economic growth, deregulation, solid corporate profits and the prospect of federal tax cuts contributed to a 25 percent increase in 2017.

The Dow reached a record high of 26,617 on January 26, 2018, but lost 10 percent of its value over the next two weeks, falling to 23,860. Concerns about rising interest rates, tech stocks and trade tensions weighed down the market in the first half of 2018. The Dow has grown over the past two months, exceeding 26,000 in late August on the strength of corporate earnings and an easing of trade tensions. Both the Nasdaq and the S&P 500 have also reached record highs.

Earnings per share for the firms in the S&P 500 rose by 23 percent in the first quarter of 2018 and by 26 percent in the second quarter (see Figure 9), according to Thomson Reuters. The firm also reported that in the first half of 2018, the value of announced mergers and acquisitions grew by 79 percent in the United States, while initial public offerings increased by 24 percent.

FIGURE 9
Change in S&P 500 Quarterly Reported
Earnings per Share Results



Sources: Thomson Reuters; OSC analysis

Tax Revenue

The securities industry is a major source of tax revenue for both the State and the City. Firms pay business taxes to the State and the City on their profits. Industry workers pay personal income taxes on base salaries and bonuses. Nonwage income derived from Wall Street's activities, such as capital gains, also generate personal income tax revenue.

New York City

OSC estimates that tax collections attributable to the industry grew by 29 percent to \$4.2 billion in City fiscal year (CFY) 2018, the highest level in 10 years (see Figure 10).³ The growth resulted from large increases in profits, bonuses and capital gains in calendar year 2017. Recent changes in the federal tax code as well as a 2008 law that required the repatriation of deferred compensation held overseas by the end of 2017 contributed to the growth. The industry accounted

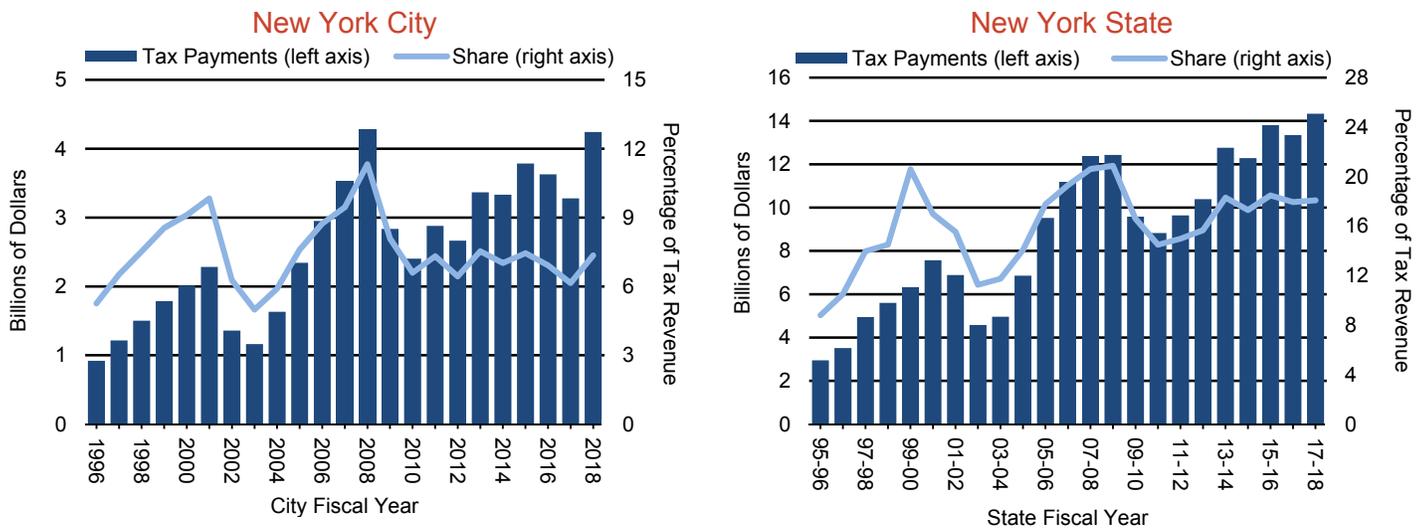
for an estimated 7 percent of City tax collections in CFY 2018, up from 6 percent in the prior year.

New York State

New York State depends on Wall Street tax revenues even more than the City because the State relies more heavily on revenue from personal income taxes and it does not levy a general real property tax.

While the State also experienced a large increase in tax payments attributable to the securities industry, the increase was not as large as the City's because of timing differences between the City and State fiscal years. OSC estimates that payments from the industry in State fiscal year (SFY) 2017-18 rose by 7 percent to \$14 billion (see Figure 10), the highest level in a decade after adjusting for inflation. As a result, the industry accounted for an estimated 18 percent of tax collections in SFY 2017-18.

FIGURE 10
Securities Industry-Related Tax Payments



Sources: NYC Department of Finance; NYS Department of Taxation; OSC analysis

¹ Net revenue is defined as gross revenue less interest expense.

² The securities industry had the highest average salary in 2017 of any three-digit industry in the North American Industrial Classification System (NAICS) in New York City.

³ These estimates exclude revenue from real property taxes, real estate transaction taxes and sales taxes because OSC is unable to identify the securities industry's share of those tax payments.