



The Securities Industry in New York City

Major Findings

- The securities industry added 11,100 jobs in New York City during the past three years, raising employment to 177,000 in 2016, the highest level since the financial crisis.
- Despite the job gains, there were 6 percent (11,900) fewer industry jobs than in 2007. In contrast, industry employment in the rest of the nation now exceeds the pre-crisis level.
- New York City's share of the nation's securities industry has stabilized at about 19 percent, down from one-third in 1990.
- The average bonus paid to securities industry employees in New York City was \$138,210 in 2016, one percent higher than in the prior year. The average salary (including bonuses) fell by 3 percent to \$375,300.
- Despite the decline, the average salary was more than five times higher than the average in the rest of the City's private sector (\$74,800).
- The industry was responsible for one-fifth of private sector wages even though it accounted for less than 5 percent of the jobs.
- In 2016, 38 percent of the employees in the securities industry commuted from outside of the City, almost twice the citywide share.
- Almost one-quarter of the employees in the securities industry in the City earned more than \$250,000, compared with one-tenth of the industry in the rest of the nation.
- One-third of industry employees in New York City were immigrants.
- Last fiscal year, the securities industry accounted for 18 percent of State tax revenues and 6 percent of City tax revenues.

Since the 2008 financial crisis, New York City's economy has become more diversified and less dependent on the securities industry. When the industry was restructuring and shedding jobs, other sectors were expanding. After years of job losses, however, the securities industry is again contributing to economic growth in the City, adding jobs in each of the past three years.

The industry is off to a very strong start in 2017, with profits of \$12.3 billion in the first half, 33 percent higher than one year earlier. Revenue from trading and underwriting rose 29 percent on the strength of the financial markets. Although trading revenue is easing, profits will likely exceed last year's level of \$17.3 billion, barring a major setback. This would be the second consecutive year of higher profits, following three years of lower profits.

The amount set aside by the industry for compensation in the first half of the year was 3.8 percent higher than one year earlier. This suggests bonuses could be higher than last year. After a weak start, job growth in the securities industry in New York City has strengthened and is now on track for a small gain in 2017.

The industry has reported solid profits for eight consecutive years despite weak revenue growth, new regulations and the high cost of legal settlements stemming from the financial crisis. Efforts to weaken reforms enacted in the aftermath of the crisis, if successful, could increase future profitability, but at the expense of the financial system's long-term stability.

Although the securities industry is smaller today than before the financial crisis, it remains one of New York City's most powerful economic engines. It also continues to be the nation's pre-eminent financial center.

Financial Regulation

The 2007-08 financial crisis highlights the consequences of financial institutions incurring too much risk without enough capital to absorb losses. Millions of Americans lost their homes and jobs, and many suffered large losses in the stock market. The United States and many other nations went into deep recessions, requiring monetary and fiscal interventions on a scale not seen since the Great Depression.

Ten years later, the financial industry is better capitalized and less leveraged, mostly because of regulatory changes enacted under the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Act requires large financial institutions to increase their capital reserves and to undergo stress tests to ensure that they have sufficient capital reserves to withstand severe economic conditions.

Dodd-Frank includes the Volcker Rule, which prohibits financial institutions from conducting certain investment activities, such as proprietary trading, or trading with their own accounts. Other rules required changes in compensation practices to discourage excessive risk-taking.

Dodd-Frank also created the Consumer Financial Protection Bureau (CFPB) as an independent agency funded by the Federal Reserve. The CFPB consolidated the rule-making and enforcement authority for consumer financial products (e.g., mortgages) that was previously spread among several agencies.

In February 2017, the President directed the Treasury Department to review regulations affecting the nation's financial system. So far, the Treasury has issued two reports, which include recommendations for consideration.

Some of the Treasury's recommendations have bipartisan support, such as those that focus on reducing regulations for community banks and credit unions. Other recommendations are more controversial, such as those affecting large firms with assets exceeding \$50 billion that have been

designated as systemically important banks (i.e., "too big to fail").

The Treasury has recommended significant changes to the Volcker Rule, including changes to the statute, regulations and supervision. While it supports, in principle, the Volcker Rule's limitations on proprietary trading and does not recommend its repeal, the Treasury believes banks with assets of \$10 billion or less should not be subject to the Volcker Rule.

Other recommendations include expanding the types of assets that can be used to meet capital requirements, increasing the asset threshold so fewer banks would be subject to stress tests (from \$10 billion in assets to \$50 billion), and reducing the frequency of stress tests. Another recommendation would eliminate the requirement that firms disclose how much the chief executive officer is paid compared with average workers.

The Treasury also recommends revisiting current capital requirements and allowing firms that elect to maintain a "sufficiently high level of capital" to be exempt from some regulations (including stress tests and the Volcker Rule). It also recommends changes to the regulatory authority and structure of the CFPB.

Many changes would require congressional approval, but some can be implemented administratively. For example, the Labor Department has delayed implementation of the fiduciary rule (which requires investment advisors to provide retirement advice that is in the best interest of the client) for 18 months while it undergoes additional review.

The State Comptroller has expressed concern that proposals to reform the Dodd-Frank Act could eliminate or weaken important safeguards intended to protect consumers, investors and the financial markets. While such efforts could lead to higher profits in the securities industry, they could also lead to greater risk-taking and increased volatility.

Industry Profitability

Securities industry profitability is traditionally measured by the pretax profits of the broker/dealer operations of New York Stock Exchange (NYSE) member firms. Other business lines of the member firms, such as retail and commercial banking, are excluded.

The securities industry had record losses in 2007 and 2008 during the financial crisis. Over the next two years, profitability rebounded to its highest levels on record, aided by the low-interest-rate policies of the Federal Reserve. Profits fell in four of the next five years, as the industry adjusted to new regulations and weak revenue growth, and absorbed the cost of legal settlements stemming from the financial crisis.

In 2016, profits increased by 21 percent to \$17.3 billion, reversing a three-year trend of declining profits (see Figure 1). Increased profitability was driven by cost-cutting and lower noncompensation expenses, which include the cost of legal settlements.

Over the past 25 years, income derived from trading activities has become a smaller share of total revenue. In 2016, trading accounted for less than 7 percent of revenue, down from 28 percent in 1991. As trading revenue has declined over the years, revenue from other sources has gained in importance. For example, revenue from account

supervision and wealth management was responsible for 26 percent of industry revenues in 2016, compared to just 4 percent in 1991.

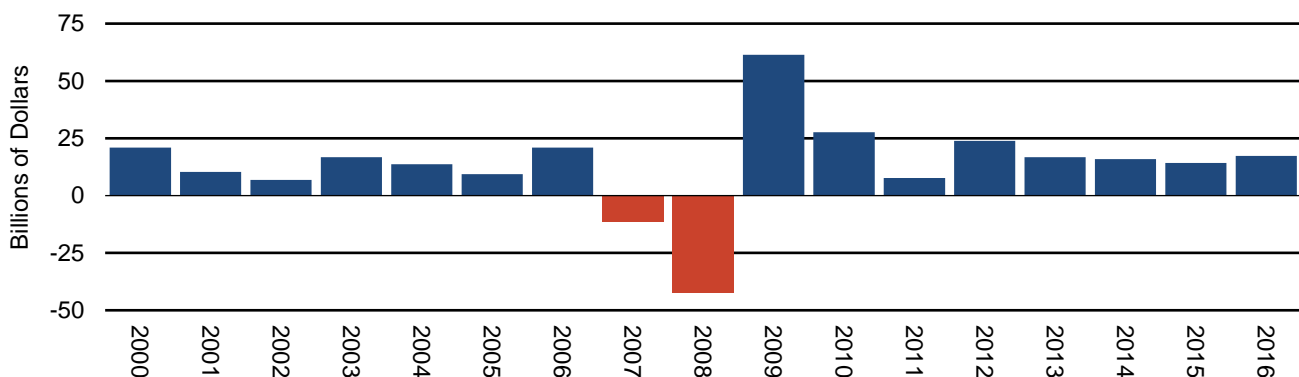
Profits totaled \$12.3 billion during the first half of 2017, 33 percent higher (\$3 billion) than one year earlier. Profits rose on higher revenue, which increased by 13.5 percent.¹

The strength of the financial markets since the presidential election has contributed to stronger revenue growth. While trading revenue was lower in the second quarter than in the first, it still totaled \$7.4 billion during the first half, 40 percent higher than one year ago. Revenue from underwriting securities totaled \$11.3 billion, an increase of 23 percent. Together, these revenue sources were higher by 29 percent (\$4.2 billion).

Other revenue sources were also higher. For example, account supervision and wealth management totaled \$24.7 billion, up 20 percent (\$4 billion) from one year ago.

While profits could be lower in the second half since large firms are reporting weaker trading revenue, profits are still likely to exceed last year's level of \$17.3 billion barring a major setback, such as a market correction. Notably, second-half profits have been lower in seven of the eight years since the 2008 financial crisis. The industry could also benefit from federal tax reform, which could lower corporate tax rates.

FIGURE 1
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

Employment

Nationally, the securities industry lost 65,800 jobs between 2008 and 2010, a decline of 7 percent. New York State accounted for one-third of these losses. Despite recent job gains, the industry in New York is still 6 percent smaller than before the financial crisis, while it exceeds the pre-crisis level in the rest of the nation by nearly 4 percent.

Since 2010, California and Texas have each added more securities jobs than New York and have had faster rates of job growth. New York still has many more industry jobs than any other state (197,700 in 2016), more than twice the number of second-ranked California and three times as many as third-ranked Texas.

Securities industry employment in New York City peaked at 201,100 jobs in 2000, but the industry lost 35,200 jobs through 2003 as a result of the terrorist attacks on the World Trade Center and the bursting of the dot-com bubble.

By 2007, the industry had regained two-thirds of the jobs it lost, but the financial crisis caused the industry to shed 22,600 jobs in the City between 2007 and 2010. Although employment rose in 2011, the industry was unable to sustain the recovery and resumed downsizing through 2013 (see Figure 2).

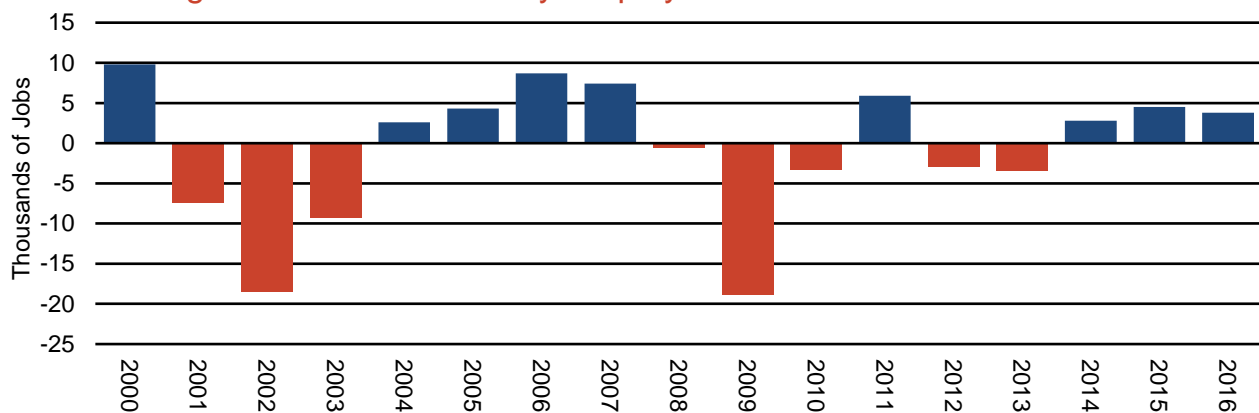
Over the next three years, the industry added 11,100 jobs, bringing employment to 177,000 in 2016, the highest level since the financial crisis. Despite the growth, there were still 6 percent (11,900) fewer industry jobs in New York City than before the financial crisis.

Preliminary employment data show that the industry lost jobs through the first five months of the year, but those losses were more than offset in the following four months, for a net gain of more than 300 jobs so far this year. As of September 2017, there were 178,000 jobs in the securities industry in New York City.

New York City's share of the nation's securities industry has shrunk over the past three decades, primarily because of geographic diversification, new technologies and cost-cutting. In 1990, New York City accounted for one-third of the nation's securities industry jobs, but its share fell to 24 percent by 2000. Since the attacks on the World Trade Center in 2001, the City's share has fallen further to 19 percent.

New York City's share of the industry in New York State declined from nearly 96 percent in 1990 to 93 percent in 2000. Since 2005, New York City has accounted for about 89 percent of the State's securities industry. Most of the job growth in the rest of the State since 1990 has been on Long Island and in Westchester County.

FIGURE 2
Annual Change in Securities Industry Employment



Sources: NYS Department of Labor; OSC analysis

Bonuses

Following the financial crisis, the securities industry changed its compensation practices in response to new regulations and guidelines designed to discourage excessive risk-taking. Firms raised base salaries, and now pay a smaller share of bonuses in the current year while deferring a larger share to future years.

Despite these actions, bonuses remain an important part of the compensation packages paid to securities industry employees. OSC estimates that bonuses account for about one-third of the average salary of industry employees working in New York City.

Like most businesses, financial firms report compensation (i.e., base salaries, fringe benefits, and bonuses including deferred remuneration) on an accrual basis of accounting. As such, most of the resources that are being set aside for performance-related compensation during 2017 will be paid in January through March of 2018.

In March 2017, the Office of the State Comptroller (OSC) estimated that the bonus pool paid to New York City's securities industry employees for work performed in 2016 (including bonuses deferred

from prior years) rose by 2 percent to \$23.9 billion (see Figure 3), the first increase in three years.

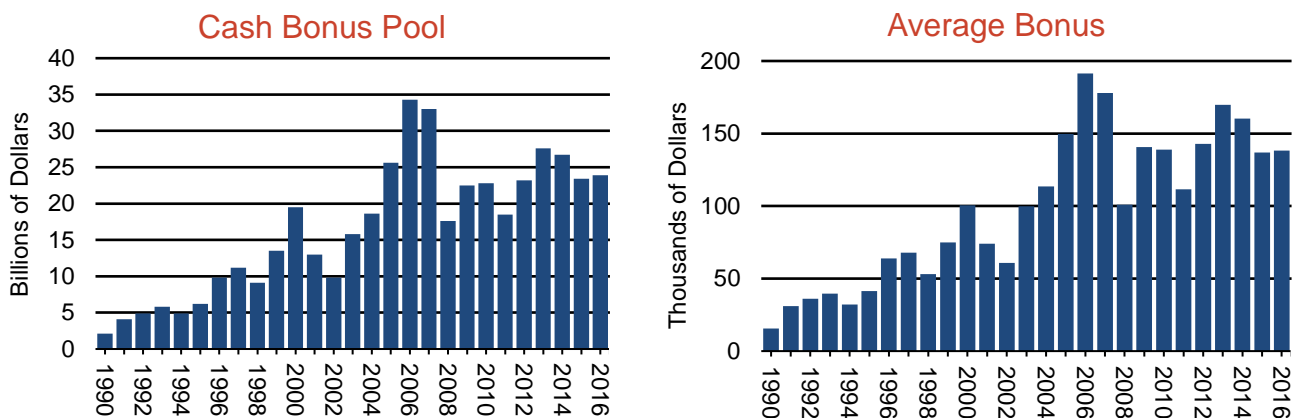
The average bonus was \$138,210 in 2016, which was 1 percent higher than in the prior year (also shown in Figure 3). The average bonus rose at a slower rate than the bonus pool because the pool was shared by a larger number of employees than in the previous year.

The amount set aside for compensation by the member firms of the New York Stock Exchange in the first half of 2017 was 3.8 percent higher than one year earlier, which suggests that bonuses could be higher than last year. OSC will release its estimate for 2017 bonuses for industry employees in New York City in March 2018.

Average Salaries

In 2016, the average salary (including bonuses) in New York City's securities industry declined by 3 percent to \$375,300. Nonetheless, the securities industry has the highest average salary, by far, of any major industry in New York City. Other high-wage industries include banking (\$185,000), broadcasting (\$162,100), insurance (\$159,200) and the tech sector (\$147,300).

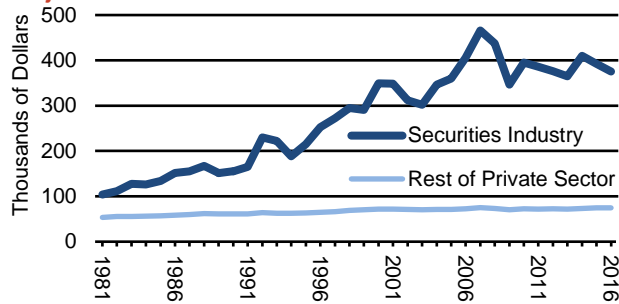
FIGURE 3
Securities Industry Bonuses in New York City



Note: Bonuses for securities industry employees who work in New York City. Estimates include deferred bonuses that have been realized. Sources: NYS Department of Labor; OSC analysis

The average salary in the securities industry has fallen by 19 percent since 2007, after adjusting for inflation. As shown in Figure 4, the decline has narrowed the pay gap between the securities industry and the rest of the private sector.

FIGURE 4
Average Salaries in New York City
Adjusted for Inflation



Note: 1981-1999 data are on an SIC basis; 2000-2016 are on a NAICS basis.
Sources: NYS Department of Labor; OSC analysis

The average securities salary was six times higher than the average in the rest of the private sector in 2007, but the pay gap narrowed to five times in 2016. Nonetheless, the gap is still much wider than in 1981, when the industry salary was twice as much as the average in the rest of the private sector.

Nationally, workers in the securities industry earned an average of \$212,000 in 2016. New York State had the highest average salary (\$359,100), followed by Connecticut (\$294,700), Massachusetts (\$263,200) and California (\$230,900). However, eight of the ten states with the largest securities industries have had stronger salary growth than New York since 2007.

The high average salary in New York is driven by New York City, where the average is substantially higher (\$375,300) than in the rest of the State (\$230,600) and in the rest of the nation (\$174,000). This reflects the concentration of highly compensated employees, such as chief executive officers. In 2016, 24 percent of industry employees who worked in New York City earned more than \$250,000, compared with 10 percent in the rest of the nation. (Only 2.5 percent of the workers in the rest of the City's workforce earned more than \$250,000.)

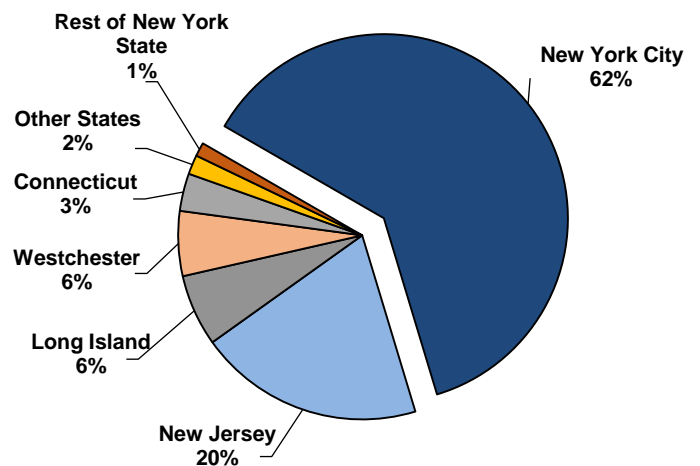
The average salaries of industry jobs in the suburbs have been growing faster than in New York City. In 2016, the average salary in Long Island was \$354,400, 18 percent higher than in 2007 after taking inflation into account. In Westchester County, the average salary grew by 9 percent to reach \$256,700.

Workforce Characteristics

In 2016, more than two-thirds of the workers in New York City's securities industry were male and 87 percent had a bachelor's degree or higher. Nearly two-thirds were white and more than one-fifth were Asian; only 13 percent were Black or Hispanic. One-third (32 percent) were immigrants and most (78 percent) came from Asia and Europe.

Commuters who reside outside of the City accounted for 38 percent of the workers in the securities industry in 2016, almost twice the citywide share (22 percent). One-fifth of all workers came from New Jersey, while 6 percent lived on Long Island and 6 percent came from Westchester County (see Figure 5). A total of 5 percent came from Connecticut and other states.

FIGURE 5
Place of Residence
Employees in New York City's Securities Industry



Sources: U.S. Census Bureau; OSC analysis

Role in New York City's Economy

Historically, the securities industry has been New York City's most powerful economic engine. In the two prior economic recoveries, it accounted for an average of 10 percent of the private sector job gains. In the current recovery, however, the industry has played a much smaller role.

Since the financial crisis, New York City's economy has become more diversified and less dependent on the securities industry. Other employment sectors, such as the tech sector and business services, are playing larger roles in job and wage growth. A more diversified economy helps insulate the City against downturns, making it less dependent on one industry for growth.

New York City lost 100,100 jobs in 2009 at the peak of the Great Recession, including 18,800 jobs in the securities industry. Since then, the City has added nearly 630,000 jobs, but the securities industry was responsible for less than 2 percent of those jobs. In fact, the industry was a drag on the economy during the first part of the recovery, losing 3,700 more jobs between 2009 and 2013 while other sectors were adding jobs.

Since then, the securities industry has been contributing to employment growth, adding 11,100 jobs between 2013 and 2016. The resumption of job growth has occurred while

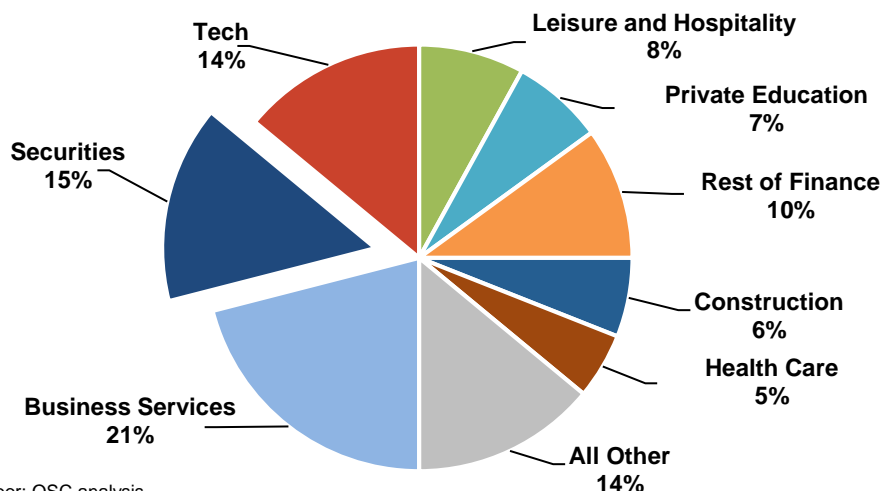
growth in some other sectors, such as retail, manufacturing, construction, and leisure and hospitality, has begun to slow. Even though the industry was responsible for just 3 percent of the job gains in New York City between 2013 and 2016, it was responsible for 15 percent of the increase in private sector wages, second only to business services (see Figure 6).

The securities industry is smaller today than before the financial crisis, but it remains an important part of New York City's economy. While it accounted for just 4.8 percent of private sector jobs in 2016, it was responsible for 20.1 percent of all private sector wages paid in New York City (down from 28.2 percent in 2007).

The high incomes earned by securities industry employees create economic activity not just in New York City, but in the surrounding region. OSC estimates that 1 in 10 jobs in the City and 1 in 16 jobs in the State are either directly or indirectly associated with the securities industry.

OSC had previously reported that each job gained or lost in the industry leads to the creation or loss of three additional jobs in other industries. However, the multiplier effect has declined to two additional jobs in recent years, as wages have fallen.²

FIGURE 6
Industry Share of the Growth in Private Sector Wages
2013 to 2016



Sources: NYS Department of Labor; 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 pursuant to the State's general business corporation tax (Article 9A) and the City's general corporation or unincorporated business taxes. In addition, high compensation in the industry boosts personal income tax receipts. Capital gains derived from Wall Street's activities are also subject to personal income tax.

New York City

OSC estimates that tax collections attributable to the securities industry fell by 13 percent to \$3.2 billion in City fiscal year (CFY) 2017 (see Figure 7).³ The fall-off resulted from a sharp decline in capital gains realizations in 2016. The securities industry's share of total New York City tax collections fell to 6 percent in CFY 2017, down from 7 percent in the prior year.

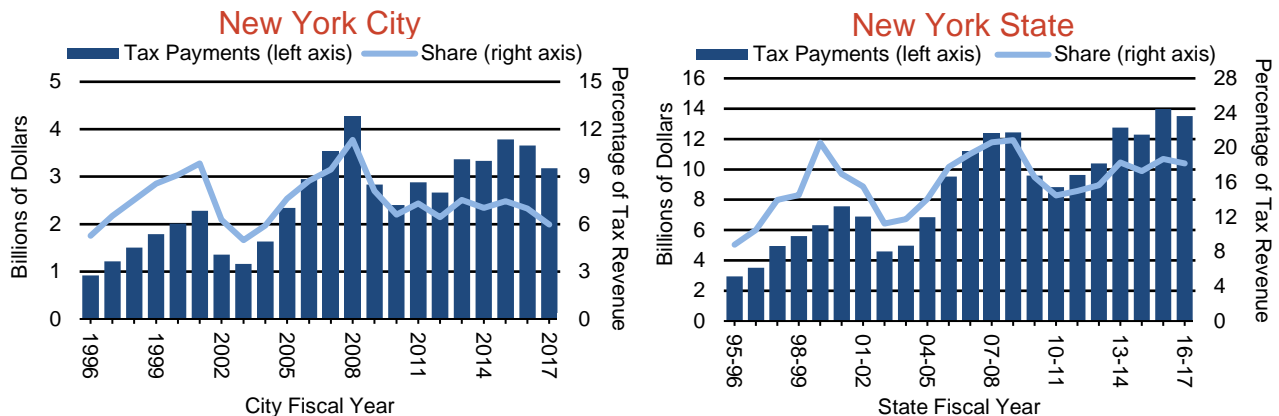
New York State

New York State depends on Wall Street tax revenues even more than New York City because the State relies more heavily on personal and business taxes, and does not levy a property tax as the City does.

Because of timing differences between the City and State fiscal years, the State did not experience as sharp of a decline in tax revenues as the City. OSC estimates that payments from the securities industry in State fiscal year (SFY) 2016-17 declined by 3 percent to \$13.5 billion.

The securities industry's share of all State tax collections fell slightly to 18 percent in SFY 2016-17. The drop-off in collections resulted largely from a decline in capital gains realizations in 2015. The larger decline in realizations in 2016 will affect securities industry-related tax payments in the current State fiscal year.

FIGURE 7
Securities Industry-Related Tax Payments



Note: Includes revenue from the personal and business income taxes. Personal income taxes include capital gains realizations.
Sources: NYC Department of Finance; NYS Department of Taxation; OSC analysis

¹ Total revenues were higher by \$11 billion in the first half of 2017. Net revenues, which reflect interest expenses, were higher by \$5.3 billion.
² OSC estimates the economic impact by utilizing the IMPLAN[®] model.
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.