Lower Manhattan Economy
Still on the Rise

The Downtown New York City economy made steady gains in May, with the Pace Downtown Index registering 0.06% growth over the previous month, from 103.05 to 103.11 (July 1996 = 100). The May level of 103.11 was 3.37 percent higher than the 99.73 registered a year ago. The increase is relatively small, but is considered a sure sign that New York’s economy is improving.

“Despite skepticism about the downtown economy and the difficulties in reaching a consensus on Ground Zero redevelopment plans, the economy is reviving quite nicely,” said Joseph C. Morreale, Ph.D., PDI co-investigator and Pace University’s Provost and Executive Vice President of Academic Affairs.

If the downtown economy continues at this pace, he said, the PDI, which gauges economic and business progress as a weighted average of variables reflecting activity in essential sectors, will show an annual growth rate of more than 3.6%, which is on par with a national growth rate of nearly 4% for gross domestic product.

Underlying growth in jobs and real estate accounted for much of the PDI gain (see page 2).

Early barometer: What the PDI tracks

The Pace Downtown Index (PDI) is the most up-to-date measure that tracks economic progress in Lower Manhattan. It has proven to be an early economic barometer for the area, producing impartial findings that are regularly supported several months later by data from federal and local agencies.

Since downtown data usually are not broken out from units like the Borough of Manhattan or the city as a whole, the PDI calculates Downtown economic health indirectly. Extensive statistical tests discovered four proxy variables and a way of weighting their relative impacts to produce an average that mimics the area’s economic behavior. The use of multiple variables smoothes out potentially-misleading volatility in the individual factors. The PDI algorithm gauges and combines

- The financial markets (S&P 500 index, Federal Funds Rate)
- The commercial real estate market (changes in total commercial real estate vacancy rate for Lower Manhattan, supplied by Cushman & Wakefield)
- The overall health of the city’s economy (20% of the Gross City Product, reported by the City Comptroller’s office).

During its development, the PDI was found to be accurate in tests against historical data for Lower Manhattan from January 1996 to 2004. The PDI defines Downtown as the postal zip codes between the East and Hudson Rivers from Canal Street to Battery Park. It was launched by Pace University’s Center for Downtown New York in July, 2004.
May Analysis

In the midst of depressing business news domestically and globally, the Lower Manhattan economy seems to be defying the market. According to the Wall Street Journal (June 13, 2006), The DOW Industrials fell significantly. "...on interest rate worries", The NASDAQ dropped, the S&P 500 dropped, and there is still the fear that the Fed will continue raising the rates. The Global market was not an exception to this gloomy picture. However, the economy of Lower Manhattan kept its pace of improvement and registered an increase. The increase of 0.06 percent in May is less than expected, following an annualized 3.49 percent increase in April.

The Federal Reserve raised its key operating rate 16 times since June of 2003 from the low of 1.00 percent to 5.00 percent on its May 10, 2005 meeting. The rate increase has a dual interpretation; one, the market finds the rate hike unattractive for investment, two, the economy is strong to warrant worries about inflationary pressures. The increase of 0.06 percent of the Pace Index is capturing this duality nicely. Even though the consumer spending was up slightly, only 1% in May, and the commercial real estate market stable, but the economy of the Lower Manhattan seems to be a bit cautious. With the news of Ground Breaking for the Freedom-Towers in the picture, and relatively reasonable weather condition, we expect a better June-data ahead.

Upward Trend Since August '03
The PDI went public in July, 2004, but the Pace team tested it against data on the Lower Manhattan economy going back to 1996. A chart of the index shows a relatively stable upward trend, with economic activity peaking in November 2000. A downward slide began before 9/11, was magnified by the attack, and reached a low point in July and August 2003. After July, 200XX, the index began to rise steadily.

For the complete data and analysis, please go to www.pace.edu/paceindex.

Assumptions of the PDI Model
Entities like the Alliance for Downtown New York, Inc. have identified five major economic markets in the Downtown area – office space, residential space, retail, tourism and commercial activities. The area contains a combination of commuter employees and residents, as well as entertainment and cultural establishments. Furthermore, the financial markets influence the economy of Lower Manhattan, as do the economies of the City of New York and the nation. The PDI was created to reflect these influences.