2023 Minimum Wage Report

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Report on New York's Minimum Wage Increases Scheduled for 2023

Introduction

As provided under NYS Labor Law § 652, this report is intended to provide insights into the impact of recent minimum wage increases on the health of the New York State economy in each of the three regions defined under the law, i.e., New York City; combined counties of Nassau, Suffolk, and Westchester; and the remainder of the State. Given the importance of a job to the dignity and material well-being of families and individuals, this report focuses on the state of the New York labor market in the context of a weakening national and global economy, the highest inflation in 40 years, rising interest rates, the war in Ukraine, and increasing global geopolitical risks.

This report recommends that on December 31, 2022, the Upstate minimum wage rise by the sum of the annual growth rates for the Consumer Price Index for all Urban Wage Earners and Clerical Workers and labor productivity, as defined by real output per hour of all persons in the nonfarm business sector, where annual growth is measured for the 12-month period ending in June 2022. This rule implies a combined growth rate of 7.5 percent and a minimum wage of $14.20 for the Upstate area for the 2023 calendar year, after rounding to the nearest 5 cents.

Table 1: Minimum Wage Schedule

		New York City			Long Island & Westchester		Upstate*	
Date of Increase	Calendar Year(s) in Effect	Minimum Wage (Large employers)	Minimum Wage (Small employers)	Fast Food Wage Board Schedule	Minimum Wage	Fast Food Wage Board Schedule	Minimum Wage	Fast Food Wage Board Schedule
July 24, 2009	2009 - 2013	$7.25	$7.25	$7.25	$7.25	$7.25	$7.25	$7.25
December 31, 2013	2014	$8.00	$8.00	$8.00	$8.00	$8.00	$8.00	$8.00
December 31, 2014	2015	$8.75	$8.75	$8.75	$8.75	$8.75	$8.75	$8.75
December 31, 2015	2016	$9.00	$9.00	$10.50	$9.00	$9.75	$9.00	$9.75
December 31, 2016	2017	$11.00	$10.50	$12.00	$10.00	$10.75	$9.70	$10.75
December 31, 2017	2018	$13.00	$12.00	$13.50	$11.00	$11.75	$10.40	$11.75
December 31, 2018	2019	$15.00	$13.50	$15.00	$12.00	$12.75	$11.10	$12.75
December 31, 2019	2020	$15.00	$15.00	$15.00	$13.00	$13.75	$11.80	$13.75
December 31, 2020	2021	$15.00	$15.00	$15.00	$14.00	$14.50	$12.50	$14.50
December 31, 2021	2022	$15.00	$15.00	$15.00	$15.00	$15.00	$13.20	$15.00
December 31, 2022	2023	$15.00	$15.00	$15.00	$15.00	$15.00	$14.20	$15.00

*Values for 2022 and 2023 are based on the combined annual growth in the CPI-W and labor productivity through June 30 of the preceding year.

The Pace of New York's Jobs Recovery Compared with the Nation

The shutdown of the economy to control the spread of Covid-19 resulted in the unprecedented loss of 2.0 million jobs in New York over the two months of March and April 2020, a loss of 20.2 percent. Of the jobs lost, 1.9 million were in the private sector, a loss of 23.0 percent. Table 2 indicates that as the epicenter of the first wave of the pandemic, New York's private sector losses far outstripped those of the nation over the two-month period on a proportional basis. The State's low-wage sector was the most severely impacted by the pandemic: 1.1 million jobs were either furloughed or eliminated completely from the three industries where minimum wage workers are most concentrated – retail trade; health care and social assistance; and leisure and hospitality. Although these sectors represented only 42.4 percent of private employment at the February 2020 pre-Covid peak, they accounted for 57.0 percent of total private sector losses. In just two months, the State's low-wage sector experienced a combined loss of 31.0 percent of its jobs, compared to 23.9 percent for the nation.

Table 2 indicates that as of July 2022, fully 27 months after the labor market trough in April 2020, New York had regained more than 1.6 million private sector jobs, or 83.8 percent of March and April's losses. This compares to 102.7 percent for the nation. Indeed, as of July, the nation had more than recovered all its private sector losses, but only 33.1 percent of its government losses. The state and local government sector more than accounts for the remaining losses in the public sector. On balance, the nation had not quite closed its overall job gap as of July 2022, though that gap appears to have closed in August based on the most recent data. New York had recovered 37.9 percent of its government sector losses as of July and retains a job gap of significant size. Table 2 also indicates that neither the State nor the nation have reached their pre-pandemic low-wage job peaks. As of July 2022, New York had recovered 83.0 percent of low-wage jobs lost, compared to 91.1 percent for the nation.

Table 2: Labor Market Recovery Comparison Through July 2022
(Jobs in Thousands)

	New York					U.S.				
	Job Losses Through April 2020	% Jobs Lost	Jobs Recovered as of July 2022	% Jobs Recovered	Remaining Job Gap	Job Losses Through April 2020	% Jobs Lost	Jobs Recovered as of July 2022	% Jobs Recovered	Remaining Job Gap
Total	**(1,985.6)**	**20.2%**	**1,634.4**	**82.3%**	**(351.2)**	**(21,991.0)**	**14.4%**	**21,916.0**	**99.7%**	**(75.0)**
Private	(1,922.5)	23.0%	1,610.5	83.8%	(312.0)	(21,016.0)	16.2%	21,593.0	102.7%	577.0
Government	(63.1)	4.2%	23.9	37.9%	(39.2)	(975.0)	4.3%	323.0	33.1%	(652.0)
Low-wage	(1,096.1)	31.0%	909.5	83.0%	(186.6)	(12,762.3)	23.9%	11,591.5	90.8%	(1,170.8)

Notes: Low-wage industries include retail trade; healthcare and social assistance; and leisure and hospitality.
Source: Current Employment Statistics via Moody's Analytics.

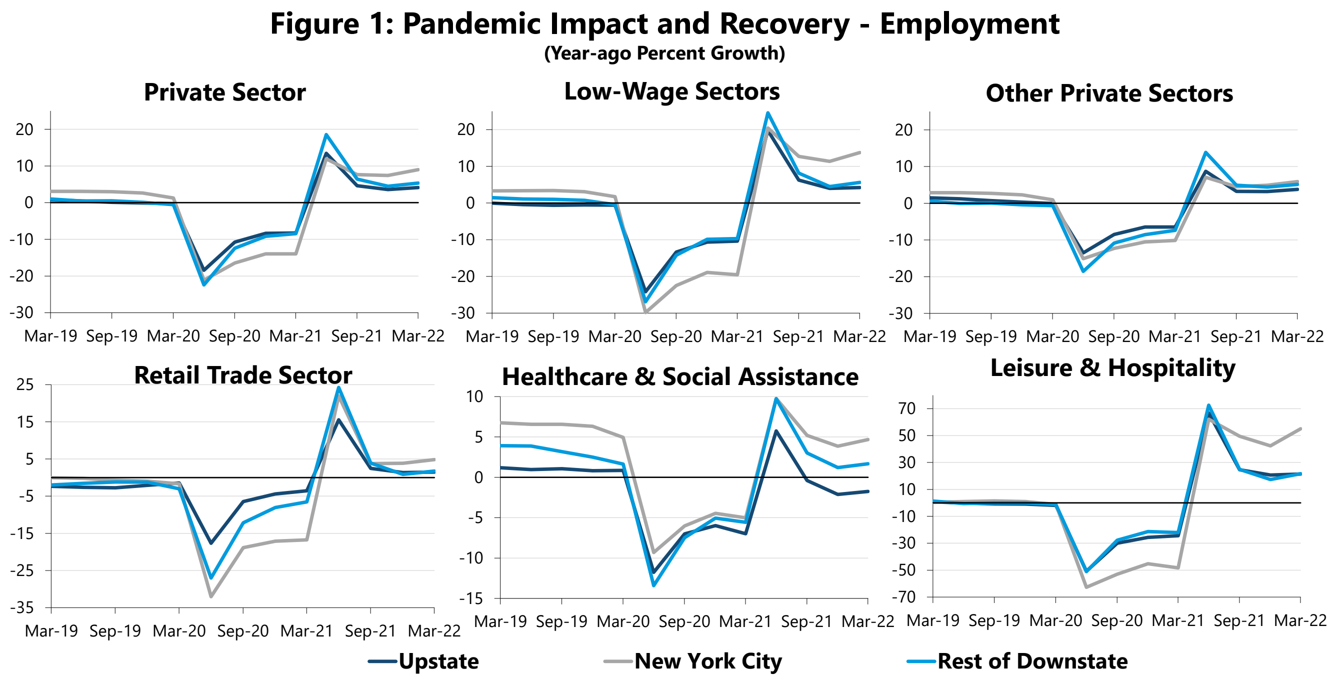
Current Trends in the Low-Wage Employment Sector

The adverse impact that the Covid-19 pandemic has had on low-wage workers and the slow recovery of low-wage employment relative to the remainder of the private sector remains the overwhelming message of virtually every source of New York employment data. The most recent State labor market trends are portrayed in Figure 1 based on the most accurate source for assessing the underlying trends in regional job growth, the Quarterly Census of Employment and Wages (QCEW).

The first panel in Figure 1 indicates that among the three minimum-wage regions, New York City entered the pandemic period with the strongest pace of private sector growth, with year-ago growth averaging 2.9 percent over the four quarters of 2019. This compares with average growth of 0.5 percent for the Long Island-Westchester area and 0.3 percent for Upstate. The second panel isolates the State's low-wage sector, comprising retail trade; healthcare and social assistance; and leisure and hospitality. Prior to the pandemic, these industries are estimated to have accounted for almost 60 percent of the State's minimum wage workforce.[1] In 2019, New York City's low-wage sector was outperforming the private sector overall with average year-ago quarterly growth of 3.3 percent. This compares with 1.1 percent for the Long Island-Westchester area and a decline of 0.4 percent for Upstate. Thus, prior to the pandemic, the low-wage sector had been a growth engine for both New York City and Long Island-Westchester, while for Upstate, the low-wage sector had become a significant drag.[2]

[1] This estimate is based on the 24 months of Current Population Survey (CPS) data for the period from March 2018 through February 2020.

[2] Anecdotal evidence from the period suggests that labor shortages were associated with sluggish growth. *The Beige Book* released by the Federal Reserve in November 2019 reported, "The labor market has remained tight across the District but



Note: Rest of Downstate includes Nassau, Suffolk, and Westchester counties.
Source: NYS Department of Labor (QCEW).

New York City was hit the hardest by the pandemic for reasons that are now well known and lagged the remaining regions during the early quarters of the recovery phase. But by the third quarter of 2021, Upstate had once again become the laggard, posting the weakest growth both within and outside of the low-wage sector. These data suggest that regional growth is likely to return to its pre-pandemic pattern, though challenges unique to New York City could persist should new COVID-19 variants emerge.

The bottom three panels of Figures 1 further decompose the low-wage sector to examine the most recent trends in the industries where minimum wage workers are predominantly employed. Due largely to the growth of e-commerce, which only accelerated during the pandemic, the retail trade industry has been a drag on job growth consistently across regions. Figure 1 shows the steep declines experienced during the pandemic and the subsequent rebound. Despite four consecutive quarters of year-ago growth, retail employment for 2022Q1 remained 3.5 percent below its 2019Q1 level Upstate, 7.8 percent below in the Long Island-Westchester region, and 14.2 percent below in New York City.

In contrast to retail trade, the healthcare and social assistance sector had been a growth engine for all three regions, though growth had dwindled below 1 percent on the eve of the pandemic in Upstate. The figure shows that since the first quarter of 2020, Upstate has seen only a single quarter of growth, in 2021Q2, while both New York City and the Long Island-Westchester region continued to add jobs in this sector. As of 2022Q1, healthcare

hiring has slowed. Business contacts have continued to report trouble finding workers to fill a wide range of jobs such as software developers and engineers, accountants, retail clerks, mechanical engineers, machinists, and welders. Two major employment agencies noted that almost all job candidates are already working, and that many are reluctant to switch jobs, particularly at this time in the year." <https://www.federalreserve.gov/monetarypolicy/files/BeigeBook_20191127.pdf>

and social assistance employment was 8.0 percent below its 2019Q1 level in the Upstate region, 2.5 percent below in the Long Island-Westchester region, but 4.4 percent above in New York City.

The State's leisure and hospitality sector continues to bear the scars of the Covid-19 pandemic. As of 2022Q1, employment in this sector, which is estimated to have accounted for more than 20 percent of the State's minimum wage workforce prior to the pandemic, was down 9.9 percent Upstate compared with 2019Q1, 6.4 percent in Long Island-Westchester, and down 20.8 percent in New York City. However, the final panel in Figure 1 also shows that this sector had been losing considerable steam prior to the pandemic and was becoming a significant drag on the State labor market, particularly Upstate, with labor shortages likely a chief culprit.

The Impact of Covid-19 on the Minimum Wage Workforce

As demonstrated in Figure 1, COVID-19 had an extraordinary impact on the size of the low-wage workforce. Indeed, had the pandemic not radically altered the structure of the New York State labor market, the State's 2022 minimum wage workforce would have been expected to comprise almost 1.3 million workers, or 14 percent of total State employment (see Table 3). However, averaging over the 12 months of data ending in July 2022 suggests that the current size of the minimum wage workforce is far below this hypothetical estimate.[3] Table 3 presents estimates for total employment and minimum wage employment by selected worker characteristics. The size of the 2022 minimum wage workforce is estimated to have fallen to about 831,000, or about 35 percent below the pre-pandemic estimate. In contrast, the general workforce is estimated to be about 4 percent below what it otherwise would have been.

Table 3 indicates that minimum wage workers appear to have fallen below 10 percent as a share of the total workforce. That decline is thought to be largely attributable to two phenomena. As Table 2 confirms, low-wage industries are overrepresented among the State's remaining job losses due to the early impact of the pandemic. A portion of these jobs have likely not fully disappeared but remain unfilled.[4] But it is also likely that in many instances entry-level wages are rising above the minimum wage floor due to the fierce competition for workers in the wake of what has become commonly referred to as the Great Resignation. Although the minimum wage worker share is likely to rise as the low-wage sector recovery proceeds, the size of the minimum wage workforce is likely to continue to be constrained by a rise in entry-level wages as firms compete for workers.

Table 3 also indicates some subtle shifts in the profile of minimum wage workers. The share working part-time appears to have grown between the two periods. In addition, the age profile appears to have shifted in favor of older workers (35 and above), while the share of workers aged 24-35 has fallen and the share aged 16-24 has

[3] The Current Population Survey (CPS) is the only data source that reports individual workers' hourly wages. Due to the small sample size, two years of monthly datasets are normally averaged to obtain reliable estimates. To estimate the characteristics of the State's minimum wage workforce just prior to the pandemic, a 24-month sample is constructed ending February 2020, the State's most recent employment peak. Because the impact of COVID-19 on the State labor market has been so transformative, averaging over the most recent 24 months creates too large a distortion. Consequently, we average over the 12 months ending in July 2022 to obtain the most current possible snapshot of the minimum wage workforce. But the uncertainty surrounding these estimates is high and results should be interpreted with caution.
[4] Based on the most recent Job Openings and Labor Turnover Survey (JOLTS), the number of unemployed persons per job opening is near a historic low for New York at 0.8 and at a historic low for the nation at 0.5 for June 2022. These data begin in January 2001.

stayed roughly the same. Nevertheless, female, non-white, part-time, and young workers are still expected to be overrepresented within the minimum wage workforce relative to the workforce overall.

Table 3: Selected Low-Income Worker Characteristics Estimated for 2022 and Change from Pre-pandemic Level

	Total Employed			Minimum Wage Workers					
	Pre-pandemic	Current	Pre-pandemic Share	Pre-pandemic	Current	Pre-pandemic Share	Current Share	Pre-pandemic Share of Total Employed	Current Share of Total Employed
Total	9,204,753	8,881,947	100.0%	1,276,656	830,681	100.0%	100.0%	13.9%	9.4%
New York City	3,944,390	3,701,139	42.9%	538,341	394,590	42.2%	47.5%	13.6%	10.7%
Long Island & Westchester	1,873,339	1,928,516	20.4%	273,600	243,105	21.4%	29.3%	14.6%	12.6%
Upstate	3,387,024	3,252,293	36.8%	464,715	192,985	36.4%	23.2%	13.7%	5.9%
Gender									
Male	4,791,268	4,691,005	52.1%	545,961	349,521	42.8%	42.1%	11.4%	7.5%
Female	4,413,485	4,190,943	47.9%	730,694	481,160	57.2%	57.9%	16.6%	11.5%
Race									
White Only	6,599,083	6,338,431	71.7%	798,509	513,154	62.5%	61.8%	12.1%	8.1%
Black Only	1,474,115	1,417,276	16.0%	309,839	202,232	24.3%	24.3%	21.0%	14.3%
All other races	1,131,554	1,126,241	12.3%	168,307	115,295	13.2%	13.9%	14.9%	10.2%
Full-Time/Part-Time Status									
Usually Full-Time, Total	7,668,337	7,407,882	83.3%	716,640	446,199	56.1%	53.7%	9.3%	6.0%
Usually Part-Time, Total	1,536,415	1,474,065	16.7%	560,016	384,482	43.9%	46.3%	36.4%	26.1%
Age									
16-24	945,830	898,608	10.3%	407,397	267,018	31.9%	32.1%	43.1%	29.7%
25-34	2,259,728	2,041,804	24.5%	296,775	144,578	23.2%	17.4%	13.1%	7.1%
35 and above	5,999,195	5,941,536	65.2%	572,484	419,085	44.8%	50.5%	9.5%	7.1%

Note: Estimates are based on Current Population Survey (CPS) data for August 2021-July 2022; the pre-pandemic estimates used for comparison purposes are based on CPS data for March 2018-February 2020.
Source: Census Bureau; DOB staff calculations.

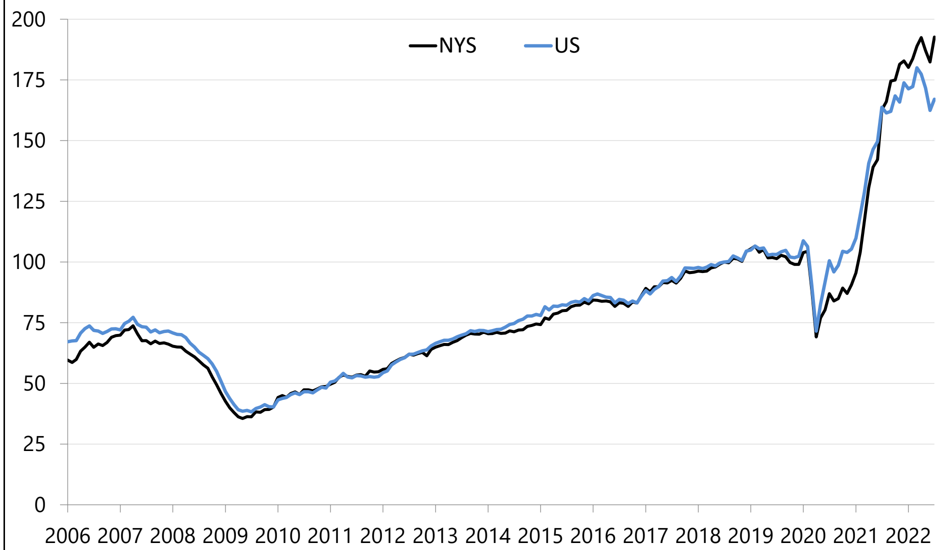
Labor Shortages or Sluggish Demand?

Table 2 indicates that New York is experiencing a job gap of 351,000 relative to its pre-pandemic peak. Meanwhile, national employment is now above its February 2020 pre-pandemic peak. Anecdotal evidence combined with alternative data sources argue that labor shortages could account for much of New York's remaining job gap, particularly Upstate. That evidence is encapsulated in the July 2022 edition of *The Beige Book,* the Federal Reserve's summary of national economic activity and labor market conditions.[5] The July 2022 release of *The Beige Book* reports that despite the slowdown in economic growth "to a crawl" in the Second District, which covers New York State, "Businesses continued to report widespread labor shortages, restraining both new hiring and retention .... Particularly acute labor shortages were reported in technology and healthcare occupations."[6] Though national and regional labor markets show signs of slowing, businesses continue to report widespread wage increases.

[5] *The Beige Book* is the Federal Reserve's periodic compendium of "mostly qualitative information … collected from a wide range of contacts through a variety of formal and informal methods", including "reports from Bank and Branch directors, plus interviews and online questionnaires completed by businesses, community organizations, economists, market experts, and other sources. As *The Beige Book* is published eight times a year, it is relatively timely.
<https://www.federalreserve.gov/monetarypolicy/files/BeigeBook_20220713.pdf>
[6] *Ibid*. p.B-1.

The abundance of job openings throughout the State provides additional evidence of the ongoing severity of the State's labor shortage. Figure 2 presents the Conference Board®-Burning Glass® Help Wanted OnLine® Index for both New York and the U.S. The Index data indicate that job postings are at record highs for both New York and the nation, exhibiting strong growth over the course of 2021 and early 2022. The average New York Index value over the first seven months of 2022 was 46.7 percent above the average over the same period in 2021, compared with 25.4 percent growth for the nation.

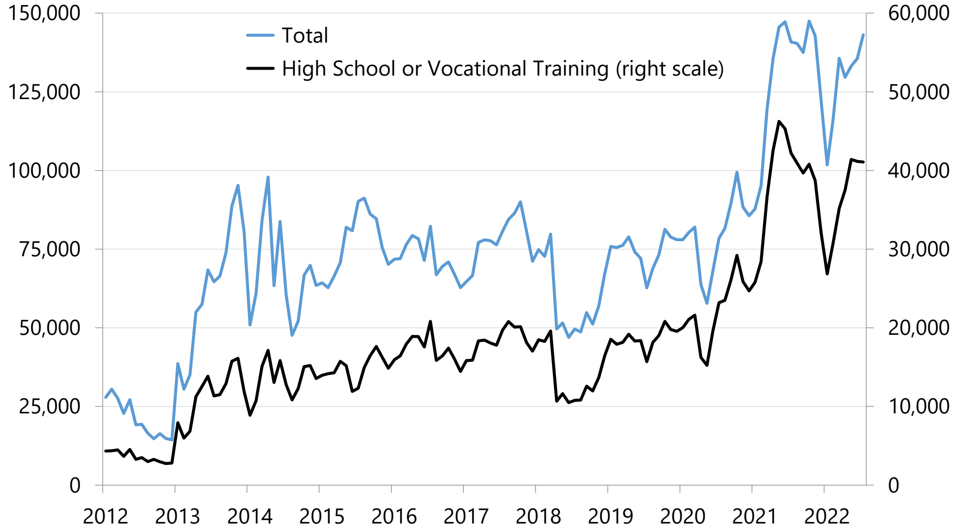
Figure 2: Statewide Job Postings Index at Record Levels



Source: The Conference Board®-Burning Glass® Help Wanted OnLine® Index via NYS Department of Labor.

Figure 3 isolates the Upstate area and indicates that while recent levels of job postings are slightly below their 2021 peaks, they are well above their pre-pandemic highs. Indeed, the average level of total job postings for the first seven months of 2022 is 73.6 percent above the same period in 2019. Restricting even further to those postings that specify a high school education or vocational training yields growth of 101.2 percent over the same three-year period, indicating a particularly severe shortage of low-skill/low-wage labor.

Figure 3: Upstate Job Postings: Total and Those Specifying High School Education or Vocational Training



Source: The Conference Board®-Burning Glass® Help Wanted OnLine® Data Series via NYS Department of Labor.

Recent increases in reservation wages provide additional evidence of a tightly constrained supply of labor. Results from the labor market module of the Survey of Consumer Expectations (SCE), compiled by the Federal Reserve Bank of New York, suggest that the pandemic has caused some workers to reassess the value of their labor.[7] The survey elicits each respondent's reservation wage by asking what is the lowest wage that would be sufficient to induce them to accept a job in their chosen line of work. The responses are then averaged after eliminating suspected errors and outliers. Survey results indicate that the nationwide reservation wage posted at $72,873 for July 2022, a 17.2 percent increase from July 2019. This three-year growth rate compares to growth of 5.3 percent for the three-year period from July 2016 to July 2019.

Changes in the reservation wage are expected to correlate with the rate of inflation. The three-year inflation rates for the period ending in the second quarter of 2016 and 2019 are 14.3 percent and 6.5 percent, respectively. Table 4 shows that the three-year growth in workers' July 2022 reservation wages exceeds the comparable rate of inflation for workers age 45 or below, workers with less than a college degree, men, those with incomes at or below $60,000, as well as the average overall. In July 2019, only workers age 45 and below exhibited reservation wage growth in excess of the rate of inflation.

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[7] Source: Survey of Consumer Expectations, © 2013-2021 Federal Reserve Bank of New York (FRBNY). <https://www.newyorkfed.org/microeconomics/sce/labor#/>.

Table 4: Impact of the Pandemic on U.S. Reservation Wages									
	Average	Age 45 or Below	Age Above 45	Less than college degree	College degree or higher	Women	Men	Income $60K or Below	Income Above $60K
July 2019	$62,194	$63,308	$61,262	$51,120	$81,690	$52,863	$70,026	$39,607	$82,575
3-Year Growth	5.3%	7.6%	3.4%	5.5%	4.0%	5.7%	2.4%	1.0%	5.1%
July 2022	$72,873	$76,971	$68,874	$60,059	$92,144	$59,543	$86,259	$45,814	$90,962
3-Year Growth	17.2%	21.6%	12.4%	17.5%	12.8%	12.6%	23.2%	15.7%	10.2%

Source: Federal Reserve Bank of New York (Survey of Consumer Expectations).

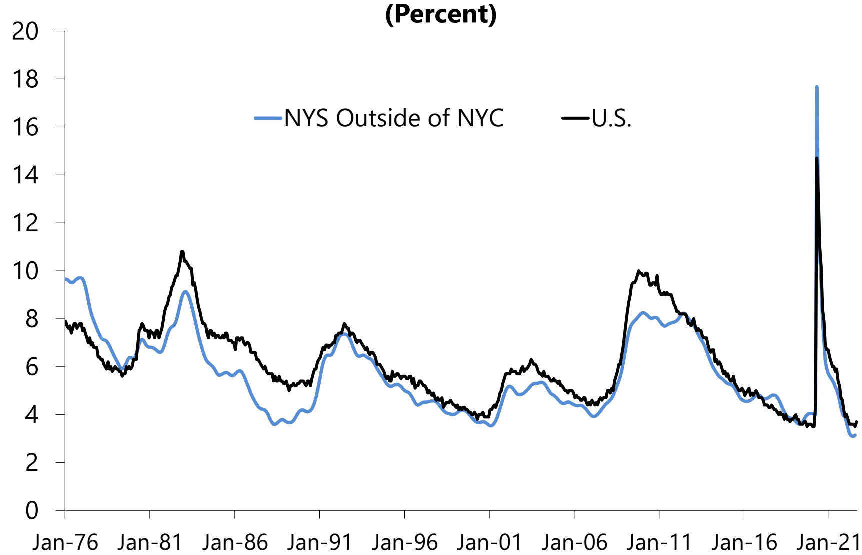
Reduced rates of immigration are another factor constraining labor supply. International immigration had been falling both nationally and in New York since spiking in 2016, perhaps in anticipation of a more hostile environment, and took a nosedive during the pandemic as a result of the myriad travel bans put in place to stop the spread of Covid-19. U.S. net immigration fell by approximately 324,000 or 57 percent between 2019 and 2021; net immigration to New York similarly fell by 23,000 or 56 percent over the same two-year period. The decline in the number of foreign workers could be of particular concern for New York given their importance to the leisure and hospitality sector.

Recent research based on Census Bureau survey data collected in June 2022 suggests that long COVID may be yet another factor significantly constraining the workforce.[8] These data suggest that approximately 16.3 million working-age adults aged 18 to 65 suffer from long COVID nationally. The number of these adults estimated to be out of work reportedly due to long COVID ranges from 1.8 million to 4.1 million. Recent Job Openings and Labor Turnover (JOLTS) data indicates that as of July 2022 there were 11.2 million job openings in the U.S., implying that long COVID could account for 16 percent to 36 percent of the current labor shortage.

Additional research finds that an accelerated rate of retirement during the pandemic accounts for a significant portion of the labor shortage.[9] As of July 2022 the civilian employment-to-population ratio was 0.9 point below its July 2019 level, compared to a 1.6 percentage point difference for the age 65 and above group. The authors show that roughly half of the decline in the civilian employment-to-population ratio from its pre-pandemic level is due to workers aged 65 and older exiting the labor force at unusually high rates. Further, the authors find evidence of increased movement out of low-wage service jobs and into professional and other occupations that tend to be both higher paying and offer lower exposure to health risks. Thus, these excess retirements "appear to have facilitated movements up the job ladder for lower skilled workers." These results help to explain the large wage increases recently observed in the low-wage sector.

[8] Katie Bach, "New data shows long Covid is keeping as many as 4 million people out of work," Brookings, August 24, 2022. <https://www.brookings.edu/research/new-data-shows-long-covid-is-keeping-as-many-as-4-million-people-out-of-work/>.
[9] Eliza Forsythe, Lisa B. Kahn, Fabian Lange, and David G. Wiczer, "Where Have All the Workers Gone? Recalls, Retirements, and Reallocation in the COVID Recovery," *NBER Working Paper No. 30387*, August 2022.

Figure 4:
State Unemployment Rate Outside of NYC at Historic Low
(Percent)



Source: Moody's Analytics.

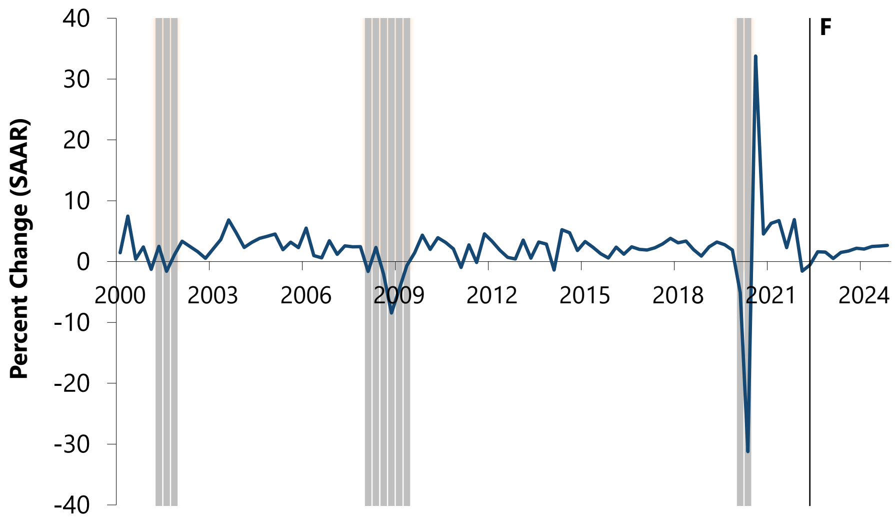
Finally, regional unemployment rates outside of New York City are at historic lows. As of July 2022, the Long Island-Westchester and Upstate areas posted unemployment rates of 2.9 percent and 3.3 percent, respectively, on a seasonally adjusted basis. Although seasonally adjusted unemployment rate data at the regional level are unavailable prior to 1990, Figure 4 presents unemployment rate data for the State outside of New York City. The 3.1 percent rate for this area for the four months from April through July 2022 is the lowest in the history of the data going back to 1976 and is lower than the national 3.5 percent rate for the same month, although the national rate ticked up to 3.7 percent in August due in part to a large influx of workers into the labor force. These data confirm the unprecedented tightness of the State labor market outside of New York City.

The Economic Outlook

The U.S. and New York economies are facing considerable headwinds. Inflation is at 40-year highs. The vestiges of the COVID-19 pandemic continue to vex a nation that is hungry for normality. The war in Ukraine could have a sustained effect on food and energy prices, even as supply chain woes resulting from pandemic lockdowns gradually resolve. The housing market is in the throes of a major adjustment due to the increase in remote work while simultaneously being in the crosshairs of Federal Reserve monetary tightening, with mortgage rates hitting 6 percent for the first time since the fall of 2008. Equity prices, as represented by the S&P 500, lost over 20 percent of their value over the first six months of 2022 and remained 17.5 percent below their January 3, 2022, value as of the end of August.

The Budget Division's near-term outlook for quarterly real GDP growth appears in Figure 5. U.S. real GDP fell 1.6 percent in the first quarter of 2022 and another 0.6 percent in the second quarter. These declines were largely driven by declines in nondurable goods household spending, government spending, and the change in private inventories. A weak foreign sector contributed to the decline the first quarter, while residential fixed investment fell sharply in the second quarter. Growth in the second half of the year is expected to be weak but positive, resulting in estimated annual U.S. real GDP growth of 1.6 percent in 2022 and 1.2 percent in 2023. But with the Federal Reserve expected to raise interest rates another 150 basis points before the end of the year, slowing global growth, and the risk of yet another COVID-19 variant emerging, the uncertainty surrounding this forecast is extremely high.

Figure 5: Outlook for US GDP Quarterly Growth



Note: Shaded areas represent U.S. recessions.
Source: Moody's Analytics; DOB staff estimates.

While the strength of the labor market has been a bright spot, it too is slowing. Total nonfarm employment rose above its pre-pandemic level in July 2022, but U.S. nonfarm employment growth is expected to decelerate from 3.9 percent for 2022 to 0.8 percent for 2023. The U.S. unemployment rate regained its pre-pandemic low of 3.5 percent in July 2022, but it is expected to increase in the second half of 2022 and to continue rising to 4.1 percent in 2023 from 3.7 for all of 2022.

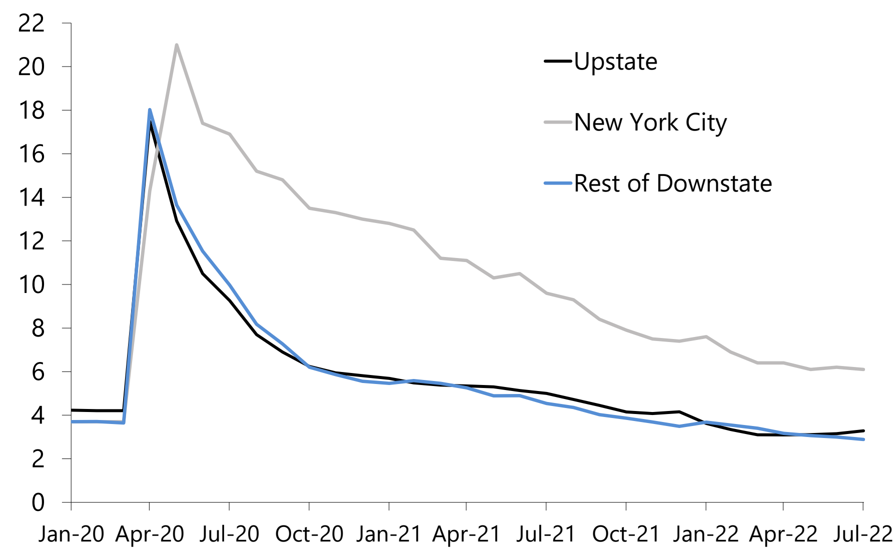
Headline CPI inflation of 8.4 percent is estimated for 2022 but slowing growth both globally and domestically, combined with rising interest rates, have fueled recession fears. These fears have in turn resulted in sharply falling commodity prices, with other prices expected to follow. Moreover, rising interest rates are expected to take a bite out of housing price growth. As a result, inflation is expected to cool to 3.8 percent for 2023.

Like the nation, the New York labor market is expected to continue to slow during 2022. Because of the importance of financial markets to the State economy, the Federal Reserve's apparent shift to aggressively battling inflation will have a disproportional impact in New York. Moreover, the ongoing entrenchment of remote work is expected to continue to squeeze growth. As a result, State employment growth is projected to slow from 4.3 percent in 2022 to 0.8 percent in 2023. State employment is not expected to reach its pre-pandemic level until 2026.

The stock market's sharp pullback during the first half of 2022, placing equity prices in bear market territory, is expected to take a toll on finance industry revenues. The weaker stock market and softening growth are expected to weigh on State total wage growth. Bonus income is expected to post two consecutive years of decline in 2022 and 2023, pulling total wage growth down from 8.7 percent in 2021 to 5.8 percent in 2022 and 3.2 percent in 2023.

In contrast, non-bonus wage growth, which is more representative of trends in the low-wage sector. Nevertheless, non-bonus wage growth is also projected to slow from 8.0 percent in 2021 and 7.9 percent in 2022 to 4.3 percent in 2023. The large swing in transfer income between 2021 and 2022, reflecting the expiration of the benefits of the American Rescue Plan, is estimated to result in a large decline in that component of personal income of 18.5 percent for 2022. Total State personal income is estimated to fall 0.4 percent in 2022, followed by growth of 3.5 percent in 2023.

Figure 6: New York State Regional Unemployment Rates
(Percent)



Note: Rest of Downstate includes Nassau, Suffolk, and Westchester counties.
Source: Moody's Analytics.

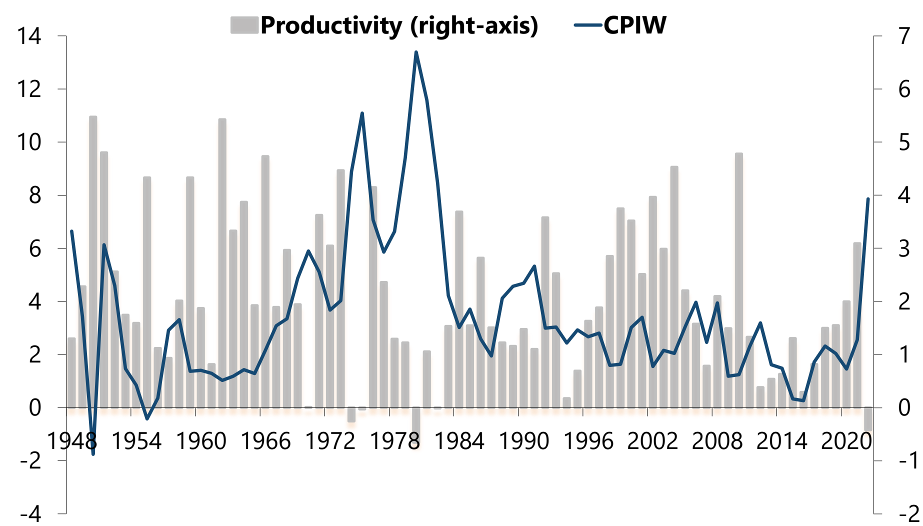
Although the statewide unemployment rate posted at 4.4 percent in July 2022, there exists a wide disparity between New York City and the rest of the State. As seen in Figure 6, unemployment rates have continued to fall steadily, but with New York City remaining elevated, while the Long Island-Westchester and Upstate regions post historic lows. However, the statewide unemployment rate is expected to rise to 5.0 percent in 2023 as labor market growth cools from an estimated 4.6 percent for all of 2022.

Wage dynamics within the low-wage segment of the labor market in New York and all across the country are being dominated by an ongoing labor shortage. This implies that, despite the highest inflation in 40 years, rising wages are predominantly not a reflection of the type of demand-pull inflation observed in the 1970s. Should the economy fall into recession within the next 12 to 18 months as many fear, the steep shedding of jobs that typically occurs during a downturn could be constrained, as many businesses may not want to chance losing and then having to rehire and retrain the workers that were so hard to find and retain during the current expansion. Nevertheless, there are many risks as we enter 2023.

Recommendation

Amid an unprecedentedly tight Upstate labor market, and evidence that employers are raising wages in order to hire and retain workers, this report recommends that the Upstate minimum wage rise by the sum of both consumer price inflation, as measured by growth in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W), and nonfarm business labor productivity growth, for the period ending in June of 2022. Figure 7 presents the historical growth rates for both inflation and labor productivity growth. For the 12-month period through June 2022, inflation rose to 7.9 percent, and has been posting some of the highest rates in 40 years. In contrast, slow output growth combined with a strong jobs market is depressing growth in labor productivity in 2022 and is expected to do the same in 2023. Over the 12 months through June 2022, labor productivity is estimated to have fallen 0.4 percent. Thus, an increase of 7.5 percent in the Upstate minimum wage is recommended for 2022, bringing it up to $14.20 for the 2023 calendar year after rounding to the nearest 5 cents (see Table 1 on page 1).

Figure 7: US Inflation and Labor Productivity Growth
(Percent change)



Note: Data represent annual growth for the 12-month period ending in June of the designated year.
Source: Moody's Analytics; DOB staff estimates.