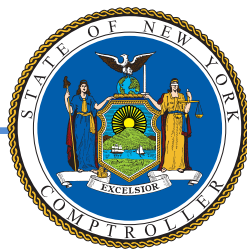

The Securities Industry in New York City



OFFICE OF THE NEW YORK STATE COMPTROLLER

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Introduction

The COVID-19 pandemic has significantly impacted the securities industry in New York City, affecting both operations and profitability. After a period of market turmoil in March, monetary stimulus and fiscal relief actions have injected massive liquidity into the economy and buoyed industry profitability. Much of the industry's work force began working remotely in March. The industry has remained relatively stronger than other sectors, which have experienced a more severe downturn (i.e., hotels, bars, restaurants and retail).

Securities industry profits grew by 82 percent in the first half of 2020 (to \$27.6 billion), the best first half since 2009. In the first two quarters of 2020, the industry has nearly eclipsed the total amount of annual profits reported for 2019.

As a result of the increase in profitability, the amount set aside for compensation this year increased by 4.8 percent through the first half of 2020, but year-end bonuses will be dependent on full-year results. For 2019, the bonus pool totaled \$29.3 billion, a 3 percent growth rate.

While industry profitability has grown, employment in New York City's securities industry has declined slightly. The sector is on pace to lose 7,300 jobs in 2020, erasing close to half the job gains (45 percent) since 2013.

The current employment decline looks milder than in the previous two economic downturns (2001 and 2009), where the industry faced three consecutive years of job losses before growth resumed. The current downturn poses new questions, however, regarding the duration of the public health crisis and associated changes to behavior, including an accelerated adoption of technology. Its full impact remains uncertain.

Highlights

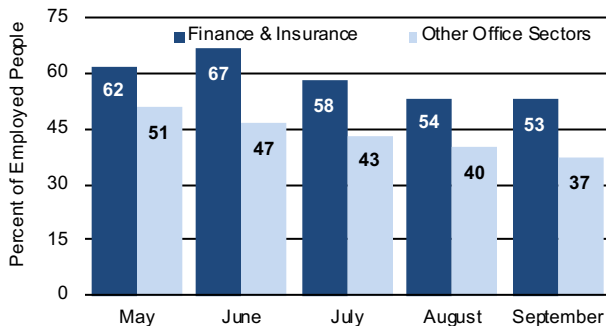
- Securities industry profits from the first half of 2020 totaled \$27.6 billion, the best first-half results since 2009. Profits rose from an increase in trading and underwriting activity, along with lower interest rates.
- Revenues from underwriting activities totaled \$10.7 billion for the second quarter, the strongest quarterly results on record. Commission and trading income increased by 22 percent in the first half, the strongest first half since 2009.
- The average bonus paid to securities industry employees in New York City increased by 3 percent to \$164,100 in 2019, in line with profits.
- The average salary (with bonuses) of industry employees in New York City was \$406,700 in 2019, five times higher than the average in the rest of the private sector (\$82,900).
- The securities industry accounted for less than 5 percent of New York City's jobs in 2019, but one-fifth of all private sector wages paid.
- In 2019, immigrants made up over one-third of industry employees in New York City, a higher share than in 2008.
- Commuters from outside of the City represented 41 percent of industry employees, the highest share of any major industry.
- The securities industry accounted for an estimated 18 percent of State tax collections and 6 percent of City tax collections in the past fiscal year—slightly lower than in recent years as a result of the City's economic diversification.

COVID-19 Impact

The pandemic has significantly affected the way industries operate, including the securities sector. On March 23, physical trading on the New York Stock Exchange (NYSE) was closed, and the NYSE moved to fully electronic trading. The NYSE stayed closed for two months, and firms conducted business remotely. Since the NYSE reopened on May 26, industry employees have slowly returned to trading on premises, although at a limited capacity to adhere to social-distancing restrictions and other safety protocols.

Recent data released by the Bureau of Labor Statistics show that as a result of the pandemic, on average across the nation, 6 out of 10 workers in the finance and insurance industry have either teleworked or worked from home since April (the latest data available). This is a higher rate than in other office sectors through September (see Figure 1).¹

FIGURE 1
Percent of Employed People Teleworking or Working from Home



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

According to the latest U.S. Census Household Pulse Survey, nearly 44 percent of households living in the New York-Newark-Jersey City metropolitan area had members who teleworked in the most recent week of available data.

¹ Other office sectors include: information, professional and business services, and financial activities excluding finance and insurance.

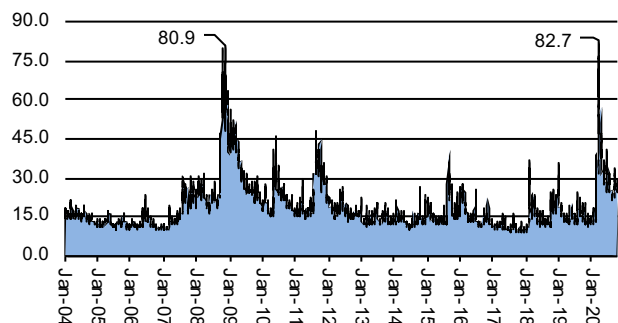
Prior to the pandemic, according to U.S. Census data, slightly more than 5 percent of workers across the nation worked from home. For the broader financial activities industry, the rate was below 10 percent.

Recently, some of the larger financial institutions headquartered in New York City have begun to require a growing number of their workers to return to their offices. The pace of return may fluctuate because safe returns will depend on the rate of contagion as well as development of a vaccine. However, it is likely that some portion of workers in the industry will continue to telecommute or work from home on an ongoing basis.

There is a risk that some firms and employees may relocate. A recent Siena College survey indicates that 44 percent of high-income-earning adults (\$100,000 or more) have considered moving outside of New York City as a result of pandemic-related impacts. About 70 percent of employees in the securities industry earn wages of at least \$100,000.

The pandemic and its effects also have significantly disrupted financial markets. In March, volatility as measured by the Cboe Daily Volatility Index (VIX) increased to levels not witnessed since the 2009 financial crisis (Cboe owns the Chicago Board Options Exchange; see Figure 2).

FIGURE 2
Stock Market Volatility

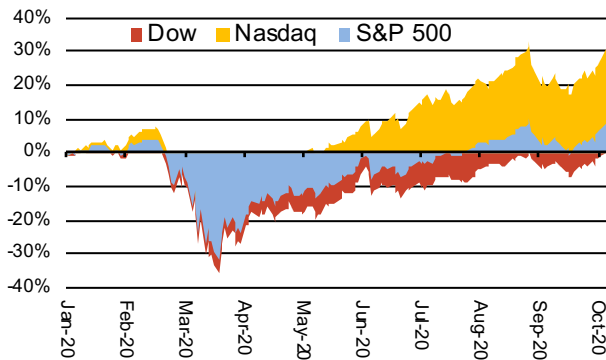


Sources: Cboe Daily Volatility Index (VIX); OSC analysis

On March 16, the Dow Jones Industrial Average plummeted 3,000 points (13 percent), the worst one-day drop since Black Monday in 1987. While the Dow has recovered a large share of its losses, it remains volatile and below its pre-pandemic peak.

Each of the major indices reached their lows for the year (thus far) in late March. The Dow declined the most, falling 36 percent, and the S&P 500 lost 31 percent. Nasdaq has fared the best, dropping by 25 percent in March from the beginning of the year and rebounding significantly over the summer months (see Figure 3). Nasdaq's strong performance reflects its high concentration of technology companies, which have generally been less disrupted by the economic effects of the pandemic, and even able to benefit from an increase in demand.

FIGURE 3
Year-to-Date Return of Major Stock Indices

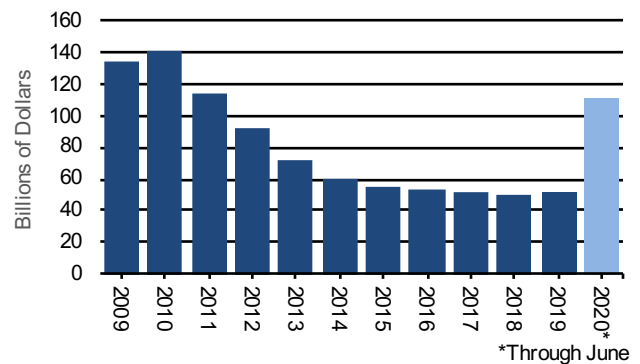


Sources: Yahoo! Finance; OSC analysis

The increased volatility caused a flurry of trading activity beginning in February and through the summer, resulting in a jump in commission and trading income of 22 percent for NYSE member firms in the first half of 2020. (For further discussion, see “Industry Profitability.”)

For the larger bank holding companies, profitability fell despite stable revenue because regulations require banks to set aside funds for credit losses in anticipation of projected defaults. Figure 4 shows that allowances for credit losses at the top six banking firms have more than doubled, from \$51.0 billion in 2019 to \$109.9 billion at the end of the second quarter of this year.

FIGURE 4
Allowance for Credit Losses at Large Bank Holding Companies



Sources: Securities and Exchange Commission filings; OSC analysis

Policy Actions and Market Impact

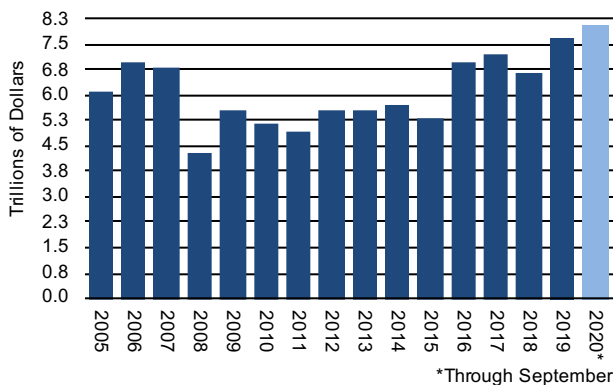
In response to the pandemic, Congress passed four relief and stimulus bills in the spring totaling \$2.4 trillion to support the economy. Congress is currently negotiating another large stimulus bill, but bipartisan support has waned as elections approach, and progress has stalled. Since March, governments across the globe (including the United States) have injected about \$11 trillion in capital into the world economy.²

In March, the Federal Reserve lowered interest rates to near zero and increased its efforts to support the credit markets. The Fed's balance sheet has grown by over \$3 trillion in 2020 to more than \$7 trillion.

As a result of this tremendous influx of liquidity and with the Federal Reserve acting as a credit backstop, there has been record growth in securities offerings, particularly debt.

According to Refinitiv (formerly Thomson Reuters), in the first nine months of 2020, global debt offerings totaled \$8.1 trillion, the largest opening nine-month period on record (since 1980) and surpassing the full-year record volume achieved in 2019 (\$7.7 trillion; see Figure 5).

FIGURE 5
Volume of Global Debt Offerings

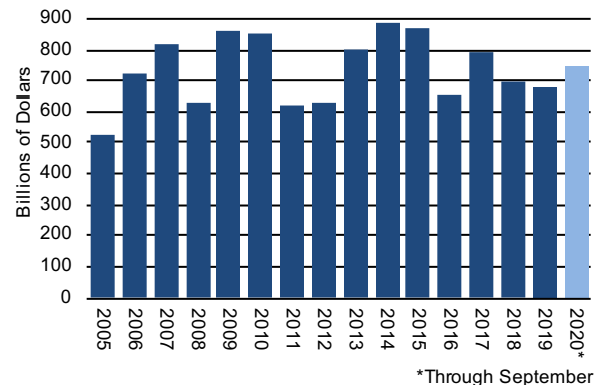


Sources: Refinitiv; OSC analysis



Global equity offerings totaled \$750.7 billion (see Figure 6) for the first nine months of 2020, representing a 59 percent increase from a year ago and the strongest nine-month period for global equity capital markets on record. This was driven by an increase in global secondary offerings (stock issuances of companies already listed on the exchange), up 78 percent from a year ago and totaling \$475.7 billion.

FIGURE 6
Volume of Global Equity Offerings



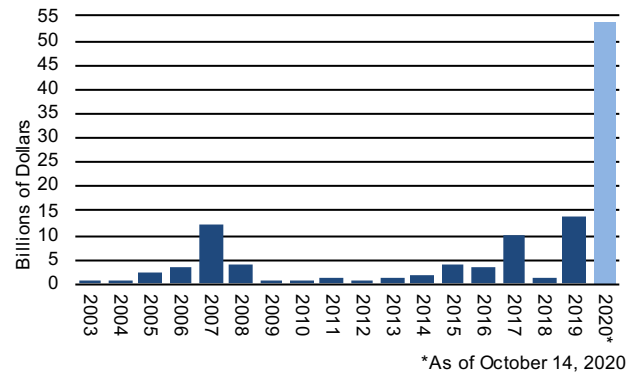
Sources: Refinitiv; OSC analysis

² International Monetary Fund, World Economic Outlook Update, June 2020.

Initial public offerings (IPOs) totaled \$137 billion during the first nine months of 2020, an increase of 26 percent and the strongest first nine months since 2018. This data excludes the impact of SPACs (or special purpose acquisition companies, which are formed to raise money through an IPO to buy another company).

SPACs, also referred to as “blank-check companies,” experienced increased popularity this year. A record number of SPAC IPOs has been issued thus far in 2020, totaling over \$48 billion, whereas these products have raised a total of \$59.4 billion during the previous 17 years (2003 to 2019), according to SPAC Analytics, a leading provider of SPAC data and research (see Figure 7).

FIGURE 7
Special Purpose IPO Issuances



Sources: SPAC Analytics; OSC analysis

Industry Profitability

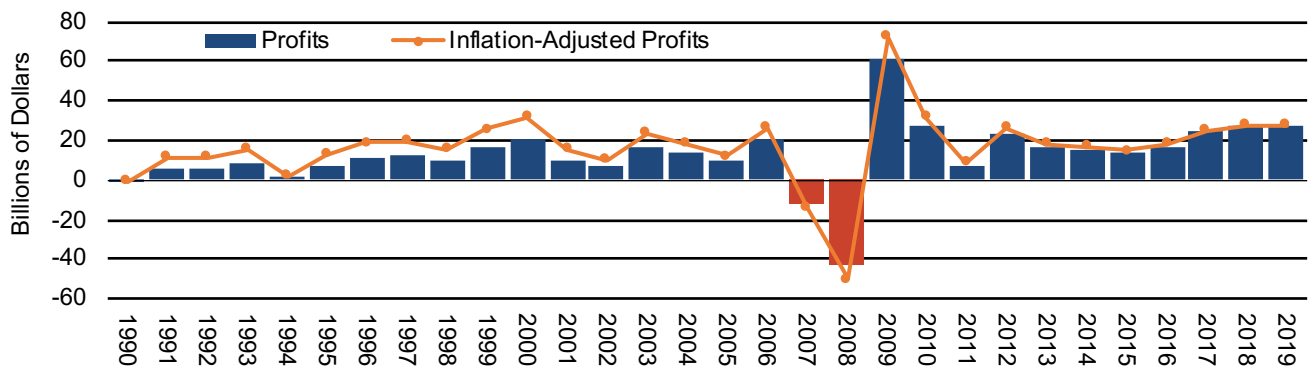
Securities industry profitability is traditionally measured by the pretax profits of the broker/dealer operations of NYSE member firms. Other business lines of the member firms, such as retail and commercial banking, are not included.

Pretax profits in 2019 increased by 2.8 percent to \$28.1 billion, the fourth consecutive year of increased profitability and the highest level since 2009 (see Figure 8). During this period, the levers of profitability shifted from a focus on lowering expenses to higher revenue generation (see Figure 9). Net revenue (i.e., gross revenue less interest expenses, which is the preferred industry measure) grew by 3.8 percent in 2019, slower than in the prior two years.

Revenue from other income related to the securities business accounted for 52 percent or \$87.3 billion of net revenues in 2019 (\$169.2 billion), the strongest level since 2008. This increase was primarily driven by fees generated from negotiated and private transactions.



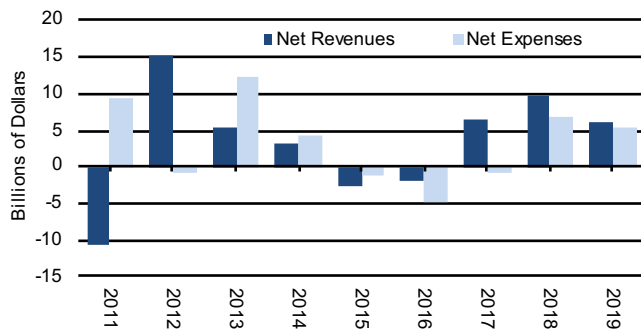
FIGURE 8
Securities Industry Profits



Note: Pretax profits for broker/dealer operations of New York Stock Exchange member firms.

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

FIGURE 9
Annual Change in Net Revenues and
Net Expenses at NYSE Member Firms



Sources: Securities Industry and Financial Markets Association; OSC analysis

Pretax profits totaled \$27.6 billion in the first half of 2020, an 82 percent increase from the prior year's first half that nearly approaches full-year 2019 levels. The first half results for 2020 are the strongest since 2009. Profits rose because of an increase in trading and underwriting activity, along with lower interest rates.

The initiation of federal and local government actions in the wake of COVID-19 resulted in a flurry of trading activity beginning in late February. Average daily volume on the NYSE Composite increased significantly in late February and remained elevated through the summer, reaching the highest levels since the global financial crisis of 2008. As a result, commission and trading income increased by 22 percent for the NYSE member firms in the first half to \$28.8 billion, the strongest first half since 2009.

Revenues from underwriting activities totaled \$10.7 billion for the second quarter, the strongest quarterly results on record, representing an increase of almost 40 percent from the prior year. For the first half of 2020, underwriting revenues were up more than 34 percent to \$17.3 billion.

The City has not updated its revenue assumptions associated with the securities industry since April, and is currently forecasting a loss of \$6.4 billion for the industry in 2020. The industry's performance in the first half of the year, however, suggests that the industry will be markedly profitable for the year, barring any further unforeseen events.

Employment

Employment in the securities industry in New York City totaled 182,100 jobs in 2019, the highest level since the financial crisis (see Figure 10, which shows annual changes along with the historical trend line). While the industry has added jobs in five of the past six years (16,200 jobs total), it has been losing jobs since January. The sector is on pace to lose 7,300 jobs in 2020, erasing close to half (45 percent) of all the job gains since 2013.

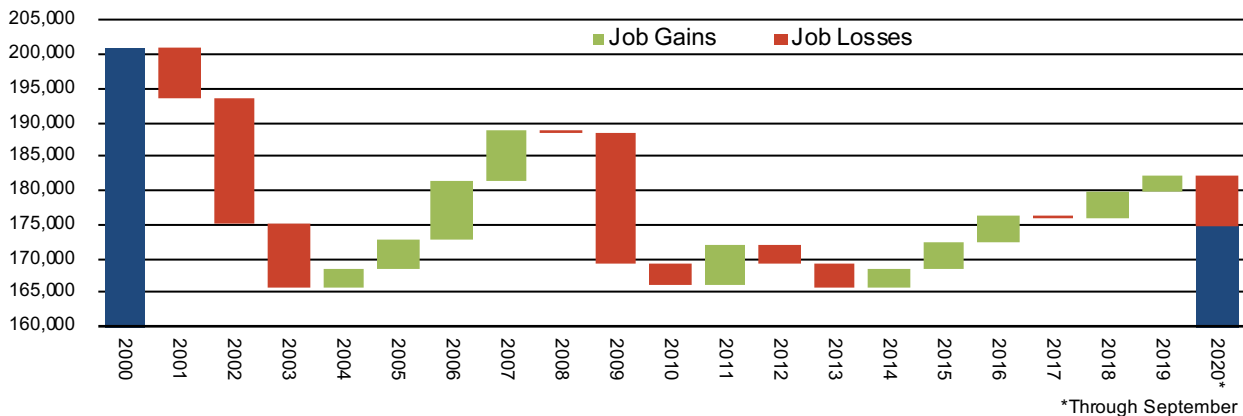
The industry in 2019 was 4 percent (6,800 jobs) smaller than in 2007 and 9 percent (19,000 jobs) below its peak in 2000. Securities employment in the City reached 201,100 jobs in 2000, but then declined by 35,200 through 2003 following the 9/11 terrorist attacks and the collapse of the dot-com bubble. Before the industry could fully recover, it lost another 22,700 jobs between 2007 and 2010 in the wake of the Great Recession. Since then, the industry had added over 16,000 jobs prior to the latest downturn, but growth has been uneven. Employment losses resulting

from the pandemic-induced recession are so far milder for the industry than they were in 2002 and 2009.

While New York City remains the center of the nation's security industry, its share of the nation's securities industry employment has been in long-term decline as jobs have been shifted to lower-cost regions, firms have geographically diversified their operations, and other regions have experienced stronger economic growth. The City's share of total industry jobs has declined, from 33 percent in 1990 to 21 percent in 2007, and was down to 19 percent in 2019.

New York State had 202,300 securities industry jobs in 2019, more than any other state in the nation (California was second with 97,600 jobs), but it has lost 8,700 jobs since 2007. New York City accounted for 90 percent of industry employment in New York State, a similar share as in 2007.

FIGURE 10
New York City Securities Industry Employment



Sources: NYS Department of Labor, Current Employment Statistics; OSC analysis



Half of the industry jobs in New York State outside of New York City in 2019 were located in Nassau, Suffolk and Westchester counties, with the rest concentrated in the metropolitan areas around Albany, Buffalo, Rochester and Syracuse. Industry employment outside of New York City has also declined since 2007, falling by 5 percent (1,000 jobs) to 19,900 in 2019.

Securities industry employment in New Jersey has fallen precipitously since the 2007 financial crisis. The industry has contracted by 29 percent since 2007 (or 15,400 jobs), a much larger contraction than in New York City and a larger loss than in any other state. The five states with the largest industry job gains since 2007 include Texas (26,400), Pennsylvania (17,200), North Carolina (8,700) Arizona (8,100) and Colorado (7,700).³

³ The report used data from the U.S. Bureau of Labor Statistics Quarterly Census of Employment and Wages series for this analysis, since data for the securities industry was not available for all 50 states from the Current Employment Survey.

Bonuses

Compensation practices in the securities industry before the 2007 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. Nonetheless, the securities industry accounted for more than half (52 percent) of all private sector bonus payments and one-fifth of wages in New York City in 2019, even though it made up less than 5 percent of private sector employment.

In March 2020, the Office of the State Comptroller (OSC) estimated that the bonus pool for industry employees in New York City during the traditional December-March bonus season had increased by 3 percent to \$29.3 billion (see Figure 11). OSC’s bonus estimate includes bonuses paid for work performed in 2019, as well as bonuses deferred from prior years.

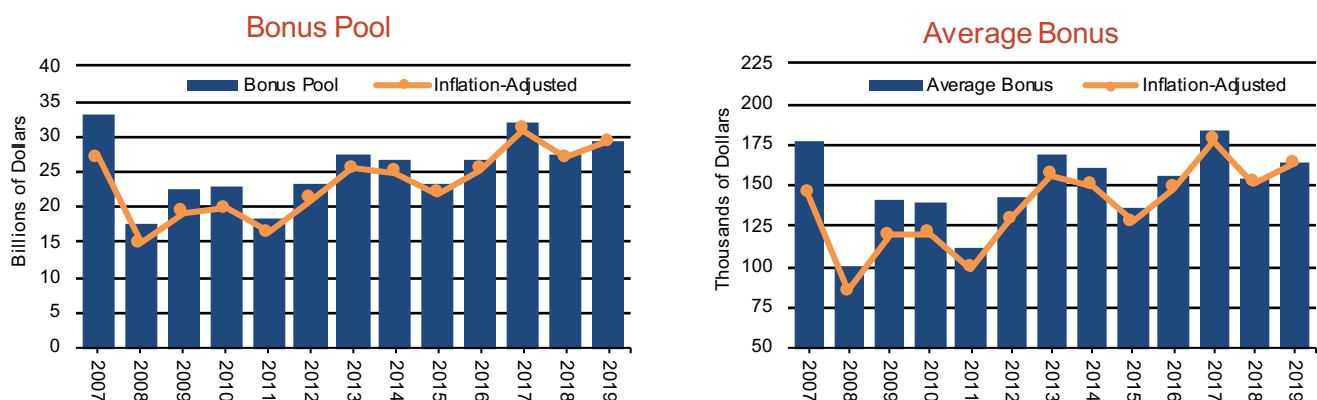
The average bonus paid to industry employees in New York City increased in 2019 by 3 percent to \$164,100 (see Figure 11). The increase was similar to the increase in the bonus pool. Bonuses accounted for an estimated 40 percent of securities industry wages, a larger share than in any other major industry in the City.

Despite the increase last year, the bonus pool and average bonuses remain below the record level in 2017, when the bonus pool was boosted by changes in federal tax law that encouraged taxpayers to shift income into 2017 from future years, as well as a 2008 federal law that required the repatriation of deferred compensation held overseas by the end of 2017.

The securities industry increased the amount set aside for compensation by almost 5 percent in the first half of 2020. The size of 2020 bonuses will depend heavily on economic activity in the second half of the year. As the larger securities businesses are embedded within bank holding companies where profitability has been declining, the overall bonus pool is likely to be affected. An August report by Johnson Associates (a compensation consulting firm) suggests that management and staff bonuses for 2020 could fall by as much as 15 percent to 20 percent, offsetting the increase in product areas (i.e., investment banking, sales and trading).

The City has not updated its estimates from earlier in the year, which forecasted that bonuses would decline by more than a third (34 percent) in 2020. Declines of larger magnitudes occurred only during the last two recessions. In March 2021, OSC will release its 2020 bonus estimate for industry employees in New York City based on tax withholding trends.

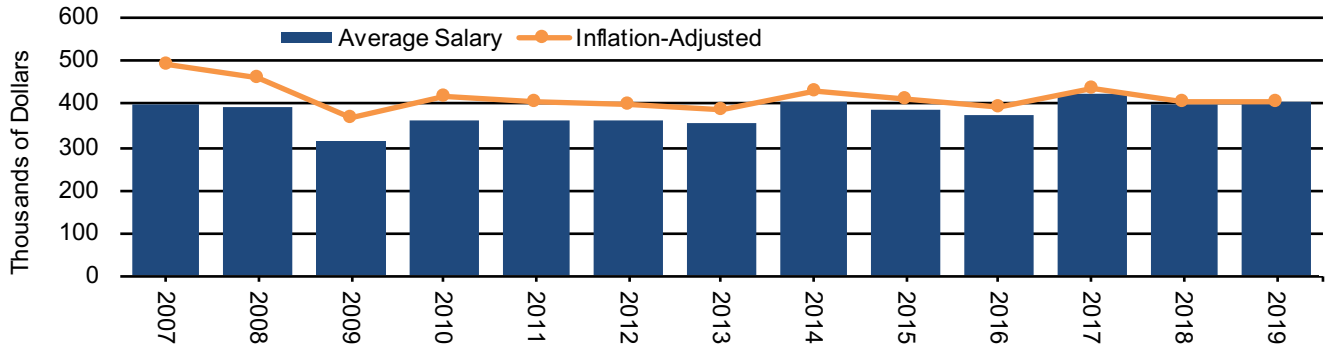
FIGURE 11
Securities Industry Bonuses in New York City



Sources: NYS Department of Labor, Current Employment Statistics; OSC analysis

Average Salaries

FIGURE 12
Securities Industry Average Salaries in New York City



Sources: NYS Department of Labor, Quarterly Census of Employment and Wages; OSC analysis

In 2019, the average salary (including bonuses) in New York City’s securities industry increased by 2 percent to \$406,854 (see Figure 12), the highest average salary of any major industry in the City. It was almost twice the second-highest average (\$208,877 in the banking industry). Other industries with high average salaries include data processing (\$198,866), investment funds (\$197,487) and company management (\$196,726).

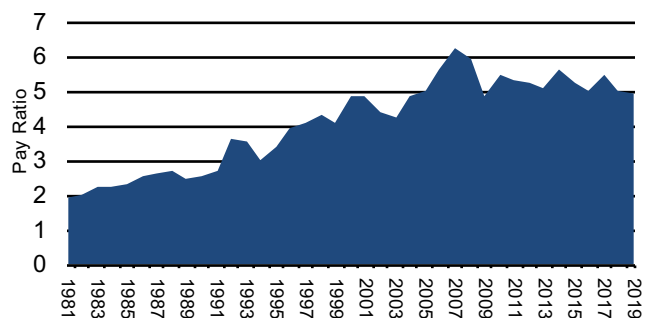
The average salary in the securities industry was nearly five times (4.9) higher than the average in the rest of the private sector (\$82,938; see Figure 13).⁴ While the pay gap has narrowed slightly since 2007 (when it peaked at six times higher), it is much wider than in 1981, when the average salary in the securities industry was twice the average in the rest of the private sector.

The average salary in the securities industry in New York State was \$390,019 in 2019, almost 70 percent more than the average in the rest of the nation (\$231,982). Since 2007, the industry’s average salary in New York has been higher than in any other state (previously, Connecticut had the highest average salary). The industry’s

high average salary in New York reflects the concentration of highly compensated employees, such as chief executive officers, in New York City.

The Dodd-Frank Act requires publicly traded companies to report the ratio of the salary of their chief executive officer to the median salary of all employees. According to 2019 data, the CEOs of finance companies listed on the S&P 500 and headquartered in New York State earned an average of 216 times more than the median for all company employees. This was much higher than the national average of 179 times more.

FIGURE 13
Ratio of Average Salaries in the City’s Securities Industry to the Rest of the Private Sector



Sources: NYS Department of Labor, Quarterly Census of Employment and Wages; OSC analysis

⁴ 1981–1999 data is based on the Standard Industry Classification. Data from 2000 onward is based on the North American Industry Classification.

In 2019 (the latest year for which data are available), 27 percent of industry employees who worked in the City had salaries of more than \$250,000, compared with 9 percent in the rest of the nation.

In Manhattan, where 99 percent of New York City's securities jobs are located, the average salary was \$410,905 in 2019. In comparison, the industry's average salary in the outer boroughs was \$123,227.

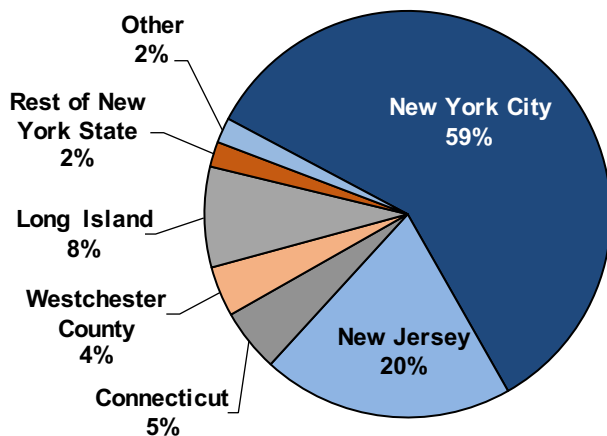
The counties surrounding the City also had relatively high average salaries for the industry. In Westchester County, the average salary (\$260,020) was among the highest of all industries in the county, despite a nearly 6 percent decline in 2019. The same was true for Long Island, where the average grew by more than 2 percent, reaching \$386,520 in 2019. Long Island's high average reflects the presence of hedge-fund firms in Suffolk County. The county has an average industry salary of \$621,368, the highest of any county in the nation.



Work Force Characteristics

In 2019 (the latest year for which data are available), 59 percent of the employees in New York City's securities industry resided in the City (see Figure 14). Commuters represented 41 percent of industry employees, the highest share among any major industry. One-fifth came from New Jersey, 8 percent came from Long Island and 5 percent came from Connecticut, followed by Westchester County at 4 percent.

FIGURE 14
Place of Residence
Employees in New York City's Securities Industry



Sources: U.S. Census Bureau; OSC analysis

While almost a quarter (22 percent) of City residents employed in the industry earned more than \$250,000, over half of the commuters from Connecticut and Westchester earned more than \$250,000 (52 and 55 percent, respectively). Commuters accounted for 48 percent of the wages paid by the industry in New York City.

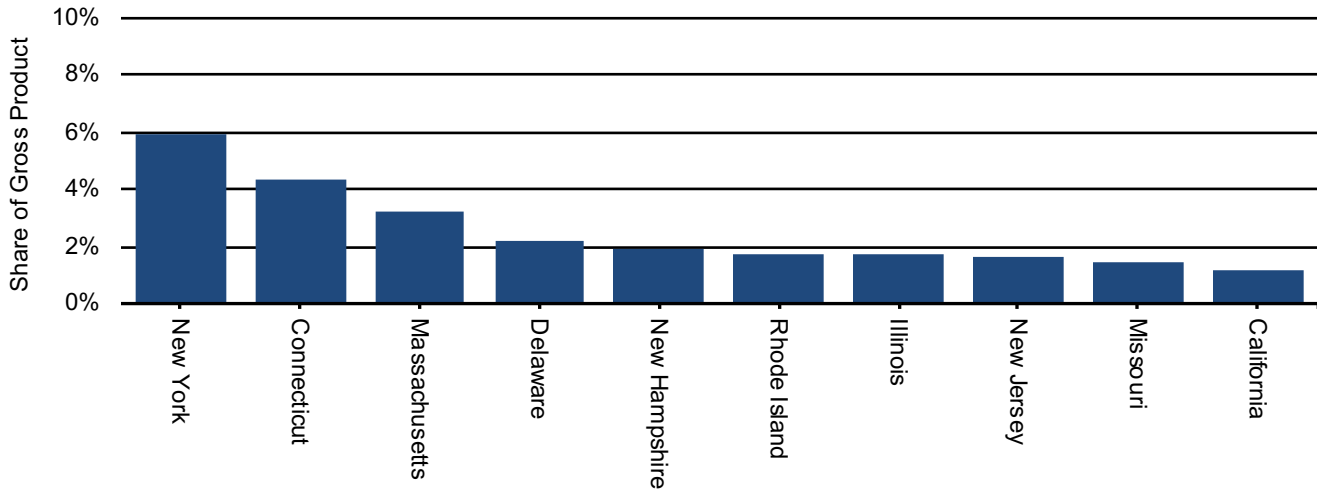
Almost three-fifths of industry employees were White, 22 percent were Asian American, 9 percent were Hispanic and 7 percent were African American. Immigrants (primarily from Asia and Europe) made up over one-third (35 percent) of the employees, a higher share than in 2008 (29 percent), but lower than the immigrant share of all City employment (40 percent).

Two-thirds of the employees in the industry were men, a share that has remained relatively constant over the past decade. While 53 percent of employees had earned a bachelor's degree, 37 percent had an advanced degree (almost twice the citywide share), up from 34 percent in 2008. Employees in tech occupations made up 12 percent of the workers in the securities industry.

Besides direct employees, the securities industry also enters into contracts with individuals (e.g., financial advisors or sales agents). These self-employed workers accounted for only a small share of the work force (less than 5 percent) in 2019. Compared with industry employees, self-employed workers were less likely to earn more than \$250,000. A larger share of these workers lived in the City and a smaller share were immigrants, and they were less likely to have advanced degrees.

Economic Contribution

FIGURE 15
Securities Industry as Share of Gross State Product for Top Ten States, 2019



Sources: U.S. Bureau of Economic Analysis; OSC analysis

In 2018, the securities industry was responsible for more than 17 percent of all economic activity in the City, according to the New York City Office of Management and Budget. While this share was lower than the industry’s prerecession share (25 percent), it was higher than in any other industry.

The securities industry makes up a large share of the State’s economy. In total, the securities industry in 2019 accounted for 5.9 percent of the State’s economy, according to the U.S. Bureau of Economic Analysis (see Figure 15). This is down from a peak of 8.2 percent in 2006, but remains (since 1997) well above other states. In 2019, the states with the next-largest shares were Connecticut (4.4 percent) and Massachusetts (3.2 percent). All other states’ financial sectors make up less than 3 percent of their economies (with the majority at less than 1 percent)

The high incomes earned by many industry employees create economic activity in other employment sectors. Using IMPLAN, an economic modeling software, OSC estimates that 1 in 10 jobs in New York City and 1 in 15 jobs in New York State are associated with the securities industry. OSC also estimates that each job gained or lost in the industry leads to the creation or loss of three additional jobs in other industries in the State.

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

New York City

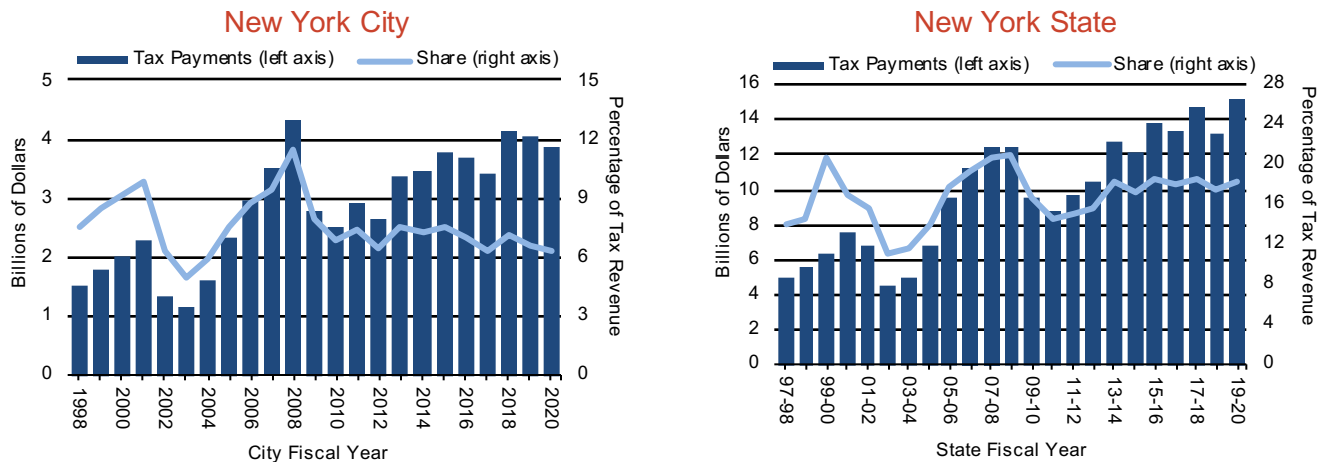
OSC estimates that tax collections attributable to the industry decreased by 5 percent to \$3.9 billion in City Fiscal Year (CFY) 2020 (see Figure 16), which ended June 30, 2020, reflecting a decline in jobs and capital gains that offset higher profits.⁵ The industry accounted for an estimated 6 percent of City tax collections in CFY 2020, down from 7 percent in the prior year and the lowest level since 2004, as the City's economy has become more diversified.

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 does not levy a general real property tax. As a result, the industry accounted for an estimated 18 percent of total tax collections in State Fiscal Year (SFY) 2019-20 (see Figure 16).

OSC estimates that tax payments attributable to the securities industry in SFY 2019-20 increased by 15 percent to \$15.1 billion. The difference between the State's and the City's trends is attributable to timing differences between the City and State fiscal years and to taxpayers delaying payments from the previous fiscal year to SFY 2019-20 in response to federal tax law changes.

FIGURE 16
Securities Industry-Related Tax Payments



Sources: NYS Department of Labor, Current Employment Statistics; OSC analysis

⁵ 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.

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