

Report on New York State Minimum Wage Increases Scheduled for 2021

Introduction

As provided under NYS Labor Law § 656, 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, the combined counties of Nassau, Suffolk, and Westchester, and the remainder of the State. This preliminary report focuses on the following:

- The current labor market downturn in the context of the COVID-19 pandemic;
- The impact of the pandemic on the low-wage segment of the labor market; and
- How future increases in the minimum wage might affect the path of the recovery.

Date of Increase	Calendar Year(s) in Effect	New York City			Long Island & Westchester		Upstate*	
		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	TBD	\$15.00

*A rule for allowable growth for 2022 and beyond will be determined in 2021.

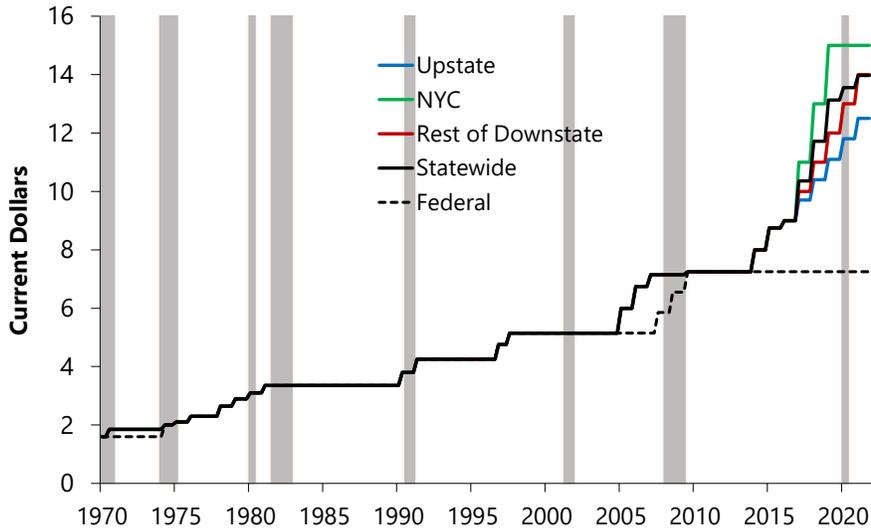
Current Minimum Wage Values

Since 2014 New York State has steadily raised its minimum wage during what was the longest economic expansion in both the State and the nation since the 1850s. Table 1 above reviews the recent history of the State's minimum wage changes.¹

As illustrated in Figure 1 below, the 2020 statewide average minimum wage of \$13.55 exceeds the Federal minimum wage of \$7.25 by 87 percent. The 87 percent cumulative growth in the statewide average minimum wage since 2013 far exceeds the 11.1 percent increase in inflation over the period. Figure 2 reprises the data presented in Figure 1 after adjusting for inflation. The inflation adjusted 2020 statewide average minimum wage exceeds its 1970 value by 10.4 percent. Since 2013, the real inflation-adjusted value of the statewide average minimum wage has risen 68.2 percent.

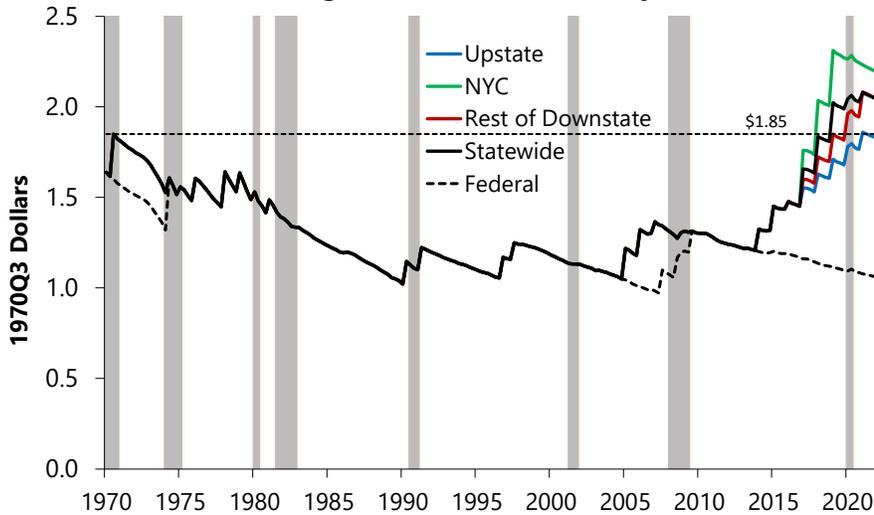
¹ Starting in 2015, the State's Fast Food Wage Board began to raise the minimum wage for fast food workers on a regionally bifurcated basis with the intention of raising the minimum wage for New York City fast food workers to \$15.00 by 2019, and to \$15.00 by 2022 for the remainder of the State. Starting in 2017, the State's minimum wage was increased for the remainder of the non-tipped workforce on a trifurcated regional basis in compliance with the FY 2017 Enacted Budget.

Figure 1: Statewide Average Minimum Wage Exceeds the Federal Minimum by 87 Percent in 2020



Note: Shaded areas represent U.S. recessions, the early 2020 recession is assumed to be subsumed by the first two quarters of 2020; the statewide average minimum wage is computed using QCEW total employment weights (2019 weights are used for 2020).
 Source: U.S. Department of Labor; NYS Department of Labor.

Figure 2: Inflation Adjusted 2020 Statewide Average Minimum Wage Exceeds 1970 Value by 11 Percent



Note: Shaded areas represent U.S. recessions, the early 2020 recession is assumed to be subsumed by the first two quarters of 2020; the statewide average minimum wage is computed using QCEW total employment weights (2019 weights are used for 2020 and 2021). The US CPI is used to deflate wages based on the DOB Mid-Year outlook for the forecast period.
 Source: U.S. Department of Labor; NYS Department of Labor; Moody's Analytics; DOB staff estimates.

Increases Scheduled for December 31, 2020

The next increase is scheduled for December 31, 2020, when the minimum wage is scheduled to rise to \$14.00 in Nassau, Suffolk, and Westchester counties and to \$12.50 in the remainder of Upstate. These increases would be distinguished from the previous increases in that they will be occurring during a fragile recovery from the COVID-19 pandemic.

Composition of New York State Low-Wage Employment

Table 2: Selected Low-Income Worker Characteristics Projected for 2021 Absent COVID19 Pandemic Impact					
	<u>Total Employed</u>		<u>Total Minimum Wage</u>		
	Level	% Share	Level	% Share of Minimum Wage Workers	% Share of Total Employed
Total	9,204,753	100.0%	1,437,911	100.0%	15.6%
Gender					
Male	4,791,268	52.1%	627,840	43.7%	13.1%
Female	4,413,485	47.9%	810,072	56.3%	18.4%
Race					
White Only	6,599,083	71.7%	885,409	61.6%	13.4%
Black Only	1,474,115	16.0%	359,675	25.0%	24.4%
All other races	1,131,554	12.3%	192,826	13.4%	17.0%
Full-Time/Part-Time Status					
Usually Full-Time, Total	7,668,337	83.3%	832,719	57.9%	10.9%
Usually Part-Time, Total	1,536,415	16.7%	605,192	42.1%	39.4%
Age					
16-24	945,830	10.3%	444,410	30.9%	47.0%
25-34	2,259,728	24.5%	346,569	24.1%	15.3%
35 and above	5,999,195	65.2%	646,933	45.0%	10.8%
Industry					
Mining, Agriculture, Forestry	71,552	0.8%	10,650	0.7%	14.9%
Construction	595,196	6.5%	40,573	2.8%	6.8%
Manufacturing	498,499	5.4%	56,098	3.9%	11.3%
Wholesale Trade	157,143	1.7%	13,214	0.9%	8.4%
Retail Trade	882,063	9.6%	277,459	19.3%	31.5%
Transportation & Warehousing	502,555	5.5%	69,625	4.8%	13.9%
Utilities	63,335	0.7%	3,571	0.2%	5.6%
Information	231,045	2.5%	15,374	1.1%	6.7%
Fire	775,882	8.4%	50,680	3.5%	6.5%
Professional & Business Svs.	1,190,284	12.9%	117,165	8.1%	9.8%
Educational Services	1,015,240	11.0%	101,210	7.0%	10.0%
Health Care	1,197,604	13.0%	184,212	12.8%	15.4%
Social Services	315,297	3.4%	68,150	4.7%	21.6%
Leisure and Hospitality	844,217	9.2%	303,430	21.1%	35.9%
Other Services	422,130	4.6%	92,006	6.4%	21.8%
Public Administration	442,712	4.8%	34,493	2.4%	7.8%

Note: Estimates are based on Current Population Survey (CPS) data for March 2018-February 2020.
Source: Census Bureau; DOB staff calculations.

Key Highlights:

- In the absence of the COVID-19 epidemic, the number of minimum wage workers would have been projected to rise to about 1.4 million in 2021, or 15.6 percent of the workforce (See Table 2).²
- Women are expected to continue to be overrepresented among minimum wage earners, representing 56.3 percent of the minimum wage workforce in 2021, compared with about 48 percent of the general working population.
- The minimum wage workforce continues to be both younger and more likely to be working part-time than the general workforce. By 2021, 31 percent of the minimum wage workforce would be expected to be age 16 to 24, compared with 10 percent for the general working population.
- Similarly, an estimated 42 percent of minimum wage workers are estimated to be part-time in 2021, compared with 16.7 percent of the general working population.
- By 2021, retail trade, leisure and hospitality, and the health care and social services sector combined are expected to comprise 58 percent of the minimum wage workforce, compared with 35 percent of general workforce.

The Impact of COVID-19

Isolating the Impact of COVID on Minimum Wage Employment

The Current Population Survey (CPS) is the only survey that reports hourly wages. However, due to the small sample size, we average over two years of monthly datasets to obtain reliable estimates. To obtain insights as to the relative impact of the pandemic on minimum wage employment, two 24-month samples are constructed, one ending February 2020, the State's most recent employment peak, and September 2020, the most recent month for which data are available.

A comparison of the two samples shows a decline of 329,000 in total State employment between the two time periods. Given that the two samples share 17 months of data, the difference can be ascribed entirely to the pandemic, although it vastly understates the extent of the losses. Limiting the comparison to minimum wage employees yields a difference of 226,000, with the implication that minimum wage employment accounts for 69 percent of the job losses, despite only accounting for an estimated 13.4 percent of overall employment in 2020 prior to the pandemic. This is not surprising given that retail trade, leisure and hospitality, and health care and social assistance account for 51 percent of the overall number of lost jobs based on these data.

Recent Trends in Employment Statistics and Unemployment Insurance (UI) Claims

The pandemic has resulted in an unprecedented number of job losses as reflected in both the monthly Current Employment Statistics (CES) data and the timelier UI claims data. Based on the most recent monthly CES data, New York private sector employment peaked in February 2020 before succumbing to the COVID-19 lockdown.

² Due to insufficient data, it remains highly uncertain how the recession caused by the Covid-19 pandemic will ultimately affect the composition of the minimum wage workforce. Consequently, this description is based on the 24 months of data through February 2020.

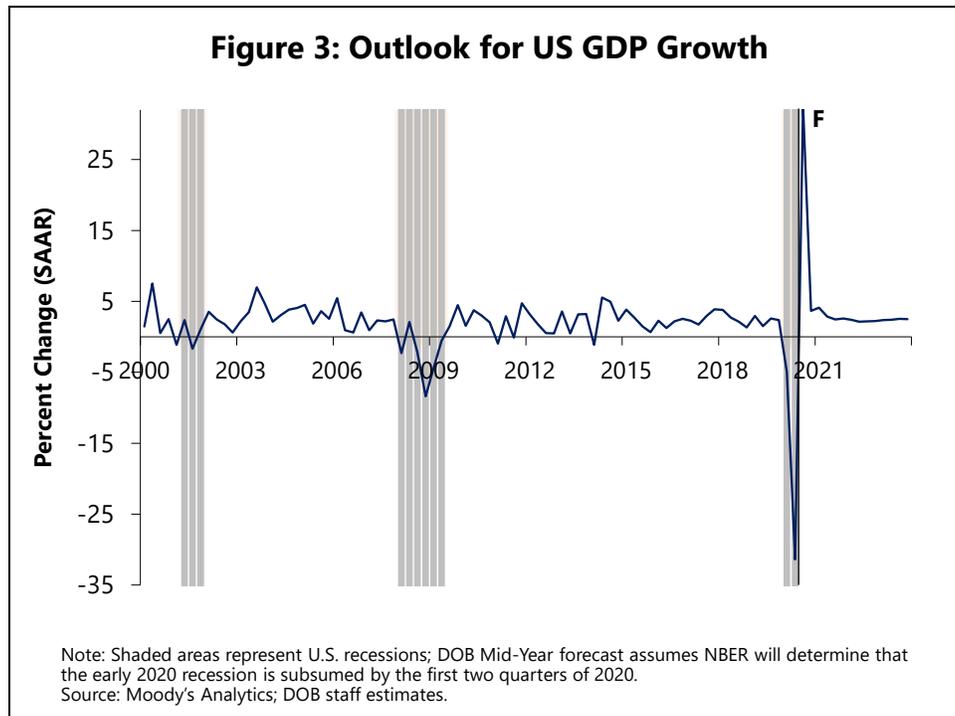
- The private labor market lost 1.9 million jobs (22.5 percent) over a two-month period, of which 56.3 percent were in those industries where minimum wage workers are disproportionately represented, retail trade, health care and social assistance, and leisure and hospitality. Jobs in these sectors represented only 42.3 percent of all private sector jobs at the February peak, an indication that low-wage workers have borne the brunt of the economic impact of the pandemic.
- But the labor market has been gradually recovering since May, with statewide private employment rising for six consecutive months as of October 2020, the most recent month available as of this writing. Since the April trough, 865,600, or 45.9 percent, of the private sector jobs lost have been recovered; 60.7 percent of those jobs have been in the minimum wage heavy industries.
- The recovery outside of New York City has been even stronger: 59.8 percent of the private sector jobs recovered as of October have been outside of the City. At the February peak, private employment outside of New York City represented 50.9 percent of the statewide total.

Initial claims data indicate a strong recovery from the most concentrated loss of jobs in the history of the series, particularly Upstate.

- Since the week ending March 21st, a cumulative total of 3.84 million initial claims above the same period in 2019 have been filed through the week ending December 5, 2020, the most recent week for which data are available as of this writing.
- Excluding the claims that cannot be classified by industry, the minimum wage heavy industries – retail trade, health care and social assistance, and leisure and hospitality – represent 48.4 percent of the cumulative total above the same period in 2019. For the same period in 2019, these industries represented only 29.4 percent of cumulative total claims excluding the unclassified, yet another piece of evidence that low-wage workers have been disproportionately impacted by the pandemic.
- However, there has been substantial improvement in initial claims since the middle of March. For the week ending December 5, 2020, 63,763 initial claims were filed, representing an uptick from the prior week, but well below the levels seen at the height of the pandemic. The minimum wage heavy industries continue to be overrepresented, accounting for 48.7 percent of the year-over-year increase in claims for that week.
- The initial claims data confirm that the upstate regions are leading the recovery in the labor market. Of the total number of claims filed by State residents since the middle of March, New York City accounts for 53.1 percent compared with only 43.7 percent of claims filed during the base period. Long Island and the Hudson Valley represent 13.0 percent and 9.4 percent of the cumulative number of initial claims, respectively, compared with 13.1 percent and 9.5 percent in the base year. The upstate regions account for only 24.5 percent, compared with 33.7 percent in the base year. For the four weeks ending December 5, 2020, Upstate accounts for an even lower 26.6 percent of total initial claims filed.

The Economic Outlook

The Budget Division outlook calls for the national economy to be profoundly affected by the COVID-19 pandemic for years to come. The Bureau of Economic Analysis (BEA) reported that U.S. real GDP plunged an annualized 31.4 percent during the second quarter of 2020, after slipping 5.0 percent in the first quarter. The second quarter decline marked the largest quarterly contraction in the 70 years that the government has been reporting quarterly GDP data (see Figure 3). The National Bureau of Economic Research (NBER) Business Cycle Dating Committee recently designated February 2020 as a business cycle peak. The peak-to-trough decline in real GDP from the fourth quarter of 2019 to second quarter of 2020 is an unprecedented 10.1 percent (not annualized).



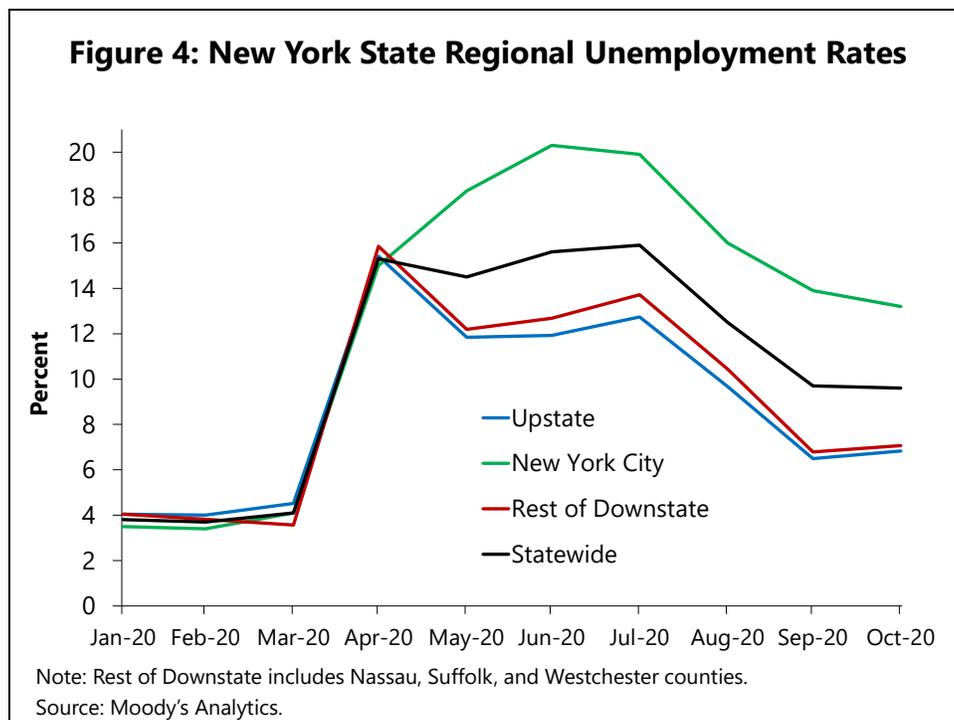
U.S. real GDP rebounded 33.1 percent in the third quarter of 2020, but growth of less than four percent is estimated for the fourth quarter. Based on these data, the Business Cycle Dating Committee is expected to ultimately declare a business cycle trough as having occurred during the second quarter. However, record breaking third quarter growth will still leave the level of economic activity well below its 2019Q4 pre-COVID level. Real GDP is estimated to contract 3.6 percent for all of 2020, followed by projected growth of 3.9 percent for 2021. Although the 2020 recession will only have lasted two quarters, the extent of the decline in activity will have been extraordinary. Indeed, economic activity is not expected to reach its pre-pandemic level until the final quarter of 2021.

The extraordinary loss of output during the first half of this year is expected to leave an enduring mark on both the national and State labor markets. The national unemployment rate is estimated to have peaked in April at 14.7 percent, the highest since the Great Depression, and is expected to remain elevated over much of the forecast horizon. Indeed, the unemployment rate is not expected to fall below 5.0 percent until the second half of 2022; it was 3.5 percent as recently as February 2020. As of November, less than 60 percent of the 22.2 million jobs that were lost in March and April have been recovered. With economic

growth projected to average 3.0 percent on a seasonally adjusted annualized quarterly basis over the four quarters of 2021, national employment is not expected to recover to its most recent 2020Q1 peak until the first quarter of 2023.

Early in the course of the COVID-19 pandemic, New York was the nation’s epicenter. New York State employment estimated to fall 8.6 percent in 2020 and is not expected to reach its pre-pandemic peak until 2025. State wages are estimated to fall 2.3 percent for 2020 and rise 3.5 percent for 2021, implying 1.2 percent growth over the two-year period, and a decline of 2.1 percent after adjusting for inflation.

However, the regional disparities in the State’s recovery are stark. As illustrated in Figure 4, the State’s unemployment rate rose from a historic low of 3.7 percent in February 2020 to 15.9 percent in July, likely its highest since the 1930s, although reporting is spotty for that period. In New York City, the hardest hit area in the nation, the unemployment rate rose from 3.4 percent in February to a peak of 20.3 percent in June. The unemployment rates in the rest of Downstate and Upstate peaked two months earlier in April and at the much lower rates of 15.9 percent and 15.4 percent, respectively.



As seen in Figure 4, unemployment rates appear to have fallen sharply in the three months since July to 9.6 percent in October. Though still elevated, the unemployment rates Upstate and in the Rest of Downstate have fallen to 6.8 percent and 7.1 percent, respectively. The regional bifurcation in the State’s recovery is highlighted in the two most recent editions of the Federal Reserve Beige Book. The October report characterized New York City’s tourism sector as depressed while “more rural tourist destinations across the region have reportedly fared reasonably well.”³ According to the December report, a New York City employment agency indicated that hiring has remained “moribund and anticipated a rough patch

³ See *The Beige Book Summary of Commentary on Current Economic Conditions By Federal Reserve District*, October 21, 2020, p. B-1, https://www.federalreserve.gov/monetarypolicy/files/BeigeBook_20201021.pdf.

through the winter but expressed hope for a pickup later in 2021.”⁴ In contrast, an upstate agency indicated “scattered signs of a pickup in hiring, especially for lower-wage workers” and “particular difficulty in recruiting customer-service representatives.” The agency also noted “a particular upward trend in wages at the lower end of the pay scale.”

Conclusion

The COVID-19 pandemic ended the longest national and State expansions since the 1850s. Prior to the pandemic, New York’s unemployment rate had fallen to 3.7 percent, its lowest level in the history of the current series. This implies that the recent minimum wage increases have been absorbed with negligible, if any, impacts on labor demand. Although New York has to-date been more successful than any other state in reducing the rate of disease transmission, COVID-19 has dramatically changed the economic landscape, casting doubt on whether the capacity to absorb minimum wage increases without adverse impact can continue over the near-term. However, close examination of the available economic data by region suggests that the labor market recovers in Long Island, Westchester, and the remainder of the Upstate are proceeding apace and are not likely to be substantially harmed by the minimum wage increases scheduled for the end of this year. Indeed, the accelerating spread of COVID-19 and the pace of approval and distribution of vaccines are likely to have a much greater impact on the State labor market than the level of the minimum wage.

Anecdotally, our research has found examples of job openings upstate offering wages well above \$12.50. Though anecdotal, these examples could be interpreted as evidence that upstate businesses are able to offer the wages necessary to attract the workers they need. It should be noted that these businesses are also competing with the fast-food industry minimum wage that is scheduled to rise to \$14.50 on December 31, 2020 and \$15.00 on July 1, 2021 for all areas of the State outside of New York City. Thus, even the increase to \$12.50 leaves the upstate minimum wage fully \$2.00 below the fast-food industry minimum wage. Finally, with many schools employing a hybrid model combining in-class and online learning, many parents are choosing to exit the labor market to facilitate their children’s education. Higher wages may very well be necessary to attract these workers back into the labor market when conditions permit.

⁴ See *The Beige Book Summary of Commentary on Current Economic Conditions By Federal Reserve District*, December 2, 2020, p. B-1, https://www.federalreserve.gov/monetarypolicy/files/BeigeBook_20201202.pdf.