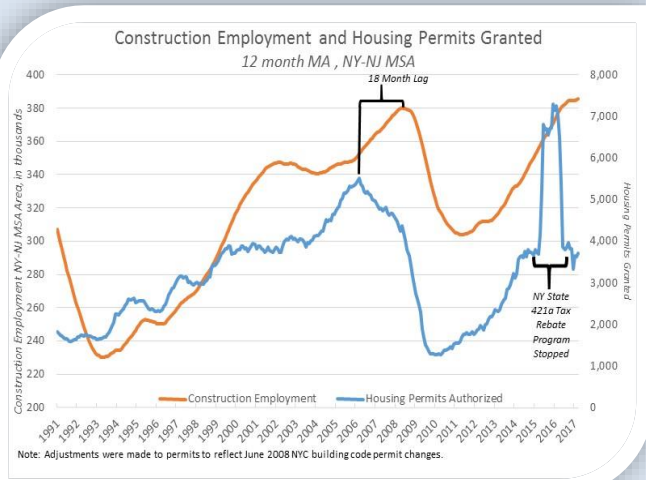


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Construction Boom in the Region: A Story of Separate Markets

There is little doubt that the Port Authority Region's real estate market over the past few years has been on a tear. New residential and commercial buildings in the region have been popping up at a pace not seen since the 2006 peak. With all of the construction going on it is justified to ask whether the construction labor market is getting too hot in New York. In addition, what is the situation in New Jersey? These questions have been posed by many of the region's public infrastructure providers as a tight regional construction labor market results in higher construction costs for infrastructure projects.

Indeed, authorized permits for housing construction in the metro-region exploded in 2015 and 2016 thanks in part to the suspension¹ of New York's 421a affordable housing tax abatement program, which caused many City developers to hand in their permit applications to take advantage of the program before it ended. Chart 1 shows that on average it takes about 18 months for permits to filter into actual projects that require construction labor. If this trend holds, even just a small fraction of funded and planned 421a permits will push the demand for construction workers higher in the region.



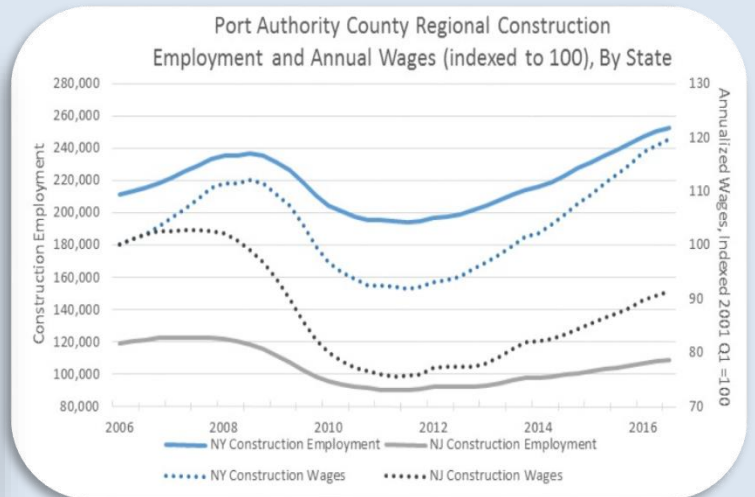
As a realitive measure of slack in the labor market, the number of construction workers in New York is nearly 20,000 workers higher than the 2007 peak, while New Jersey's workforce is roughly 15,000 workers below their peak. It would be anticipated that as construction workers become harder to find in New York and their wages are driven up by demand, New Jersey workers would be drawn into the market. However, only a slight uptick in New Jersey's construction labor pool is reflected in the next chart and their wages still remain fairly low in comparison.

The slowdown of major road construction work in New Jersey last year may have produced some slack in the workforce. Some

¹ Although the 421a program was recently reactivated, the current program, dubbed the "Affordable Housing NY Program", includes labor wage provisions that increases a construction worker's average pay. The new law requires developers to pay an average hourly wage, including benefits and employer-sided taxes, of \$60 in Manhattan, \$45 in Brooklyn and Queens, with the wage rate is automatically being increased by 5% every three years. These increases are currently above 25% of average hourly wages. This change may reduce the appetite for this program as it increases labor costs, but it does boost wages via legislation if the program is used.

THE WATCHLIST

Economic Variables	Current - One Year Trend		
UNITED STATES			
Real GDP [Annual Rate]	Q1 2017	1.1%	
Unemployment Rate	Apr-17	4.4%	
Consumer Price Index [Annual]	Apr-17	2.2%	
Gasoline Price [Regular]	May-17	\$2.39	
PORT AUTHORITY REGION			
Regional Employment [NY MSA]	Apr-17	9,603	
Consumer Price Index [Annual]	Apr-17	2.0%	
Port District Exports [\$Bill]	Mar-17	\$12.38	
Port District Imports [\$Bill]	Mar-17	\$20.30	
Case-Shiller Home Price Index	Mar-17	4.0%	
Commercial Real Estate Asking Rent			
Midtown	Q1 2017	\$84.64	
Downtown	Q1 2017	\$61.28	



Source: Bureau of Labor Statistics-QCEW

construction firms may be looking to diversify their work portfolio to include other public agency work. However, various contractual and labor relations issues have impeded some of New Jersey's construction industry in taking advantage of New York's construction boom, especially in the public sector.

Recently, Turner and Townsend's International Construction Market survey noted that New York has overtaken Zurich as the most expensive city in which to build, with an average cost of \$3,806.92 per m². With housing permits signaling persistent strength in residential construction in the region, a shallowing New York labor pool with increasing wages, and a fairly restricted labor market overall that cannot fully access the region's total labor resources, means that the costs of near term proposed projects for government infrastructure in the City will no doubt be influenced by the "hot" construction market.

MONTHLY ECONOMIC INDICATORS

THE PORT AUTHORITY OF NY & NJ

Planning and Regional Development Department

May 2017

AVIATION	Mar '17	YTD	Mar '17/16	YTD '17/16	PORT COMMERCE	Mar '17	YTD	Mar '17/16	YTD '17/16
Revenue Passengers (000's)	10,628.9	29,083.2	-0.1%	1.7%	Port Trade				
John F. Kennedy International Airport (JFK)	4,663.1	12,912.3	-2.0%	0.2%	Container Imports (TEUs)	249,788	773,388	-1.6%	1.9%
LaGuardia Airport (LGA)	2,421.8	6,352.3	-3.8%	-2.9%	Container Exports (TEUs)	115,104	331,700	-2.9%	0.3%
Newark Liberty International Airport (EWR)	3,520.7	9,753.2	5.5%	8.7%	Containers lifted on/off Express Rail	46,721	132,934	-2.8%	2.8%
Stewart International Airport (SWF)	23.4	65.5	2.8%	3.5%					
Revenue Freight (Short Tons)	186,998	509,474	5.9%	5.5%	TUNNELS, BRIDGES & TERMINALS	Mar '17	YTD	Mar '17/16	YTD '17/16
Domestic	66,551	180,830	2.6%	6.4%	Eastbound Vehicle Volumes (000's)	9,435	26,985	-4.5%	-0.7%
International	120,447	328,644	7.8%	4.9%	George Washington Bridge	4,063	11,649	-4.9%	-0.7%
Flights	106,310	299,958	-3.3%	-1.8%	Lincoln Tunnel	1,549	4,416	-5.0%	-1.9%
Domestic Air Carrier	77,445	217,739	-3.3%	-2.0%	Holland Tunnel	1,202	3,455	-8.1%	-4.2%
International Air Carrier	23,660	67,401	-3.5%	-2.5%	Bayonne Bridge	173	432	18.7%	8.3%
General Aviation	5,205	14,818	-2.3%	4.6%	Goethals Bridge	1,229	3,567	-4.5%	0.9%
Paid Parked Cars	553,113	1,594,446	-16.1%	-13.6%	Outerbridge Crossing	1,219	3,466	-1.6%	1.9%
Revenue AirTrain Passengers	812,979	2,230,429	-0.2%	4.6%	Eastbound Volumes by Vehicle Type (000's)				
					Autos	8,577	24,584	-4.6%	-0.7%
					Trucks	615	1,715	-2.7%	-1.0%
					Buses	242	684	-5.3%	-2.1%
FERRY OPERATIONS	Mar '17	YTD	Mar '17/16	YTD '17/16	PORT AUTHORITY PULSE	Oct '16	Sep '16	Change	
Passengers (000's)					(Seasonally Adjusted, 2010=100)				
New Jersey Ferries	661.2	1,852.8	-10.6%	-3.9%	PA Pulse (Transportation Activity Index)	100.7	101.0	-0.3%	
					PA Freight Pulse	98.7	95.6	3.2%	
					PA Passenger Pulse	102.7	106.4	-3.5%	
PATH	Mar '17	YTD	Mar '17/16	YTD '17/16	U.S. TRANSPORT. SERVICES INDEX	Mar '17	Feb '17	Change	
Passengers (000's)	6,875.0	19,139.0	-0.5%	2.5%	(Prelim., Seasonally Adj., 2000=100)				
Average Weekday	266.7	799.9	0.6%	3.2%	TSI - Combined Index	123.9	125.3	-1.1%	
Average Saturday	107.6	314.8	-10.3%	1.6%	TSI - Freight	124.0	125.9	-1.5%	
Average Sunday	77.5	236.4	-6.3%	3.8%	TSI - Passenger	123.3	123.9	-0.5%	

STATISTICS FOCUS

Producer Price of Other Securities Related Services Including Margin Lending and Mutual Fund Sales and Effective Funds Rate



What is causing this spike? We noticed that some producer pricing in parts of the brokerage world have spiked dramatically. We did our due diligence and made sure the statistic was correct from the BLS and we reached out to our contacts in the securities industry, but no definitive answers yet. Although much of this pricing is caused by interest rates, it does not explain this recent pop. Could the implications on Wall Street profits and therefore hiring be as dramatic?

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