MONTHLY ECONOMIC INDICATORS

THE PORT AUTHORITY OF NY & NJ

Planning and Regional Development Department

January 2013

UNEMPLOYMENT RATE (percent of labor force)	DEC 2012	PREVIOUS 3 MONTHS AVERAGE	DEC 2011
U.S. (seasonally adjusted)	7.8	8.0	8.5
U.S. (not seasonally adjusted)	8.1	8.0	8.3
REGION (not seasonally adjusted)	8.4	8.9	8.2

NON-FARM EMPLOYMENT (thousands)	DEC 2012	PREVIOUS 3 MONTHS AVERAGE	% CHANGE DEC 2012/ DEC 2011
U.S.	134,021	133,713	1.4
REGION	8,329	8,250	2.6
Construction and Manufacturing	619	627	-0.2
FIRE / Professional / Business	2,102	2,087	5.5
Government	1,164	1,149	-0.9
All Others	4,444	4,386	2.6

REAL GDP (percentage change)	2012Q4	2012Q3	2012Q2
U.S. (seasonally adjusted at annual rates)	-0.1	3.1	1.3
REGION (Oxford Economics Estimate)	1.9	2.4	2.1

CONSUMER PRICE INDEX (percentage change)	DEC '12 / DEC '11	DEC '12 / NOV '12	NOV '12 / NOV '11
U. S.	1.7	0.0	1.8
Core	1.9	0.1	1.9
REGION	2.1	-0.3	2.0
Core	2.0	0.0	1.7
Food & Beverages	1.8	-0.2	2.7
Housing	2.1	0.1	1.7
Transportation	2.9	-1.1	3.0
Energy	3.6	-2.9	3.9

CONSTRUCTION COST INDEX (percentage change)	DEC '12 / DEC '11	DEC '12 / NOV '12	NOV '12 / NOV '11
U.S. 20-CITY	2.6	0.1	2.5
NY REGION	5.0	-0.1	5.1

GASOLINE PRICES (US dollars per gallon)	JAN 2013	A month ago	A year ago
U.S. (all types NSA)	$3.54	$3.45	$3.57
New York City (all types NSA)	$3.98	$3.97	$3.89
Newark, NJ (all types NSA)	$3.60	$3.57	$3.55

HOUSING PRICES (12-month percentage change)	NOV '12 / NOV '11	OCT '12 / OCT '11	SEP '12 / SEP '11
U.S. 20-CITY COMPOSITE	5.5	4.2	3.0
NY METROPOLITAN AREA	-1.2	-1.6	-2.3

INTERNATIONAL TRADE (billions of dollars)	NOV 2012	% CHANGE VS. NOV 2011	% CHANGE YTD 2012 VS NOV2011
U.S.	324.5	2.6	4.1
NY CUSTOMS DISTRICT	33.0	-6.3	-1.4
NY Imports	21.3	-5.6	-1.2
NY Exports	11.7	-7.4	-1.6

MANHATTAN COMMERCIAL REAL ESTATE (Class A Office Market)	DEC 2012	NOV 2012	DEC 2011
Vacancy Rate			
OVERALL	9.8	9.9	9.9
Midtown	10.9	10.9	10.6
Downtown	8.2	8.8	8.6
Average Asking Rent ($/square foot)			
OVERALL	69.2	68.7	64.1
Midtown	75.9	75.7	70.9
Downtown	44.5	44.2	42.5

REGIONAL ECONOMIC FORECAST	2013	2014	2015
Real GDP (%)	2.2	2.6	2.9
Nonfarm Employment Growth (%)	1.7	1.7	1.8

Sources available upon request.

The views expressed herein are solely those of the authors and do not reflect the official positions of PANYNJ or its leadership.

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SPECIAL FOCUS

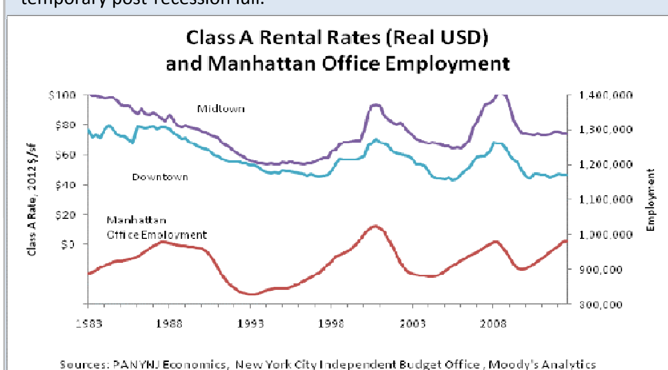
Class A Office Space and Manhattan Office Employment: An On-Again/Off-Again Relationship

The close association between Manhattan office employment and demand for Class A real estate— New York City's most expensive class of office real estate—has not recovered since the Great Recession. Since 2008, when Class A real estate commanded an average rent of nearly $75 per square foot, the asking rent for Class A buildings has yet to climb back to $70 feet per square foot as of November 2012 even as Manhattan office employment has grown to exceed its pre-recession peak of 980,000 workers. Changes in the composition of office-using industries in New York City and greater cost consciousness within the business community are likely drivers behind the current lack of demand for Class A office space.

Although Manhattan office employment and Class A rents have moved together since the late 1990s, the relationship has not always been a stable one. In 1982, a New York City rezoning measure opened up Manhattan's West Side for commercial development. This measure, combined with the introduction of national and local tax incentives that promoted commercial real-estate development, spurred a speculative boom in New York City's commercial real estate market. Class A rents *declined* in real dollars throughout the 1980s as supply outpaced demand from rising Manhattan office employment during the decade. Class A rents remained flat through most of the 1990s as growing demand from finance and professional services slowly absorbed the abundance of new office stock. Rents for Class A real estate rose dramatically in the mid-2000s, driven by business demand and investment speculation, ultimately peaking in 2008.

The faster growth of professional and business service and information sectors relative to the financial service sector since the recession and a more cost-conscious business climate are among the main factors that may be contributing to the slow growth in the price of Class A rents. According to the Quarterly Census of Earnings and Wages, the number of jobs in professional and business services (marketing, consulting, accounting, etc.) increased by 2.4 percent from March 2009 to March 2012 and information sector employment grew 8.1 percent. Over the same period, employment in financial services declined by 1.2 percent. As a result, professional and business services and information sector jobs now account for a slightly larger share of the office employment market relative to finance workers than they did in March 2009. Many companies in the business service and information sectors, particularly in creative fields, may prefer offices with open architecture not available in older Class A buildings. In addition, cost-conscious businesses of all stripes may be shrinking the size of their employees' workspaces or actively seeking out cheaper space to save money. Changes in technology that have made telecommuting more affordable for businesses may also be contributing to reduced demand for high-end office real estate.

Demand for Class A office space may eventually kick into high gear if U.S. economic growth picks up substantially, but more time is required to understand whether the low growth of Class A rents signals a permanent shift in the business models of New York City's office-using companies, or just a temporary post-recession lull.



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January 2013

AVIATION	Nov '12	Nov '11	Change
Revenue Passengers (000's)	**8,428.6**	**8,478.7**	**-0.6%**
John F. Kennedy International Airport (JFK)	3,738.7	3,696.6	1.1%
LaGuardia Airport (LGA)	2,084.5	2,039.3	2.2%
Newark Liberty International Airport (EWR)	2,580.4	2,709.5	-4.8%
Stewart International Airport (SWF)	25.0	33.3	-24.8%
Revenue Freight (Short Tons)	**178,455**	**179,771**	**-0.7%**
Domestic	68,987	66,810	3.3%
International	109,468	112,961	-3.1%
Flights	**98,303**	**100,189**	**-1.9%**
Domestic Air Carrier	71,244	73,937	-3.6%
International Air Carrier	21,587	20,868	3.4%
General Aviation	5,472	5,384	1.6%
Paid Parked Cars	**655,104**	**683,197**	**-4.1%**
Revenue AirTrain Passengers	**560,936**	**661,738**	**-15.2%**

FERRY OPERATIONS	Nov '12	Nov '11	Change
Passengers (000's)			
New Jersey Ferries	890.4	647.9	37.4%

PATH	Nov '12	Nov '11	Change
Passengers (000's)	**2,944.0**	**6,377.0**	**-53.8%**
Average Weekday	121.7	264.1	-53.9%
Average Saturday	49.6	123.2	-59.7%
Average Sunday	36.5	95.5	-61.8%

PORT COMMERCE	Nov '12	Nov '11	Change
Port Trade			
Container Imports (TEUs)	224,732	226,040	-0.6%
Container Exports (TEUs)	106,603	131,470	-18.9%
Containers lifted on/off Express Rail	26,112	32,780	-20.3%

TUNNELS, BRIDGES & TERMINALS	Nov '12	Nov '11	Change
Eastbound Vehicle Volumes (000's)	**9,041**	**9,722**	**-7.0%**
George Washington Bridge	3,892	4,101	-5.1%
Lincoln Tunnel	1,520	1,624	-6.4%
Holland Tunnel	1,046	1,360	-23.1%
Bayonne Bridge	281	291	-3.3%
Goethals Bridge	1,154	1,170	-1.3%
Outerbridge Crossing	1,148	1,176	-2.4%
Eastbound Volumes by Vehicle Type (000's)			
Autos	8,149	8,844	-7.9%
Trucks	644	630	2.2%
Buses	248	247	0.5%

PORT AUTHORITY PULSE (Seasonally Adjusted, 2010=100)	Nov '12	Oct '12	Change
PA Pulse (Transportation Activity Index)	94.4	90.3	4.6%
PA Freight Pulse	95.8	84.7	13.1%
PA Passenger Pulse	93.0	95.8	-2.9%

U.S. TRANSPORT. SERVICES INDEX (Prelim., Seasonally Adj., 2000=100)	Nov '12	Oct '12	Change
TSI - Combined Index	111.2	109.9	1.2%
TSI - Freight	108.9	107.1	1.7%
TSI - Passenger	117.6	117.5	0.1%

TRANSPORTATION **FOCUS**

The Year 2012 – A look back

In January 2012, we published our economic forecasts for the nation and the 18-county Port Authority region. Now, we want to revisit these forecasts and assess their accuracy in light of actual year-end data. A year ago, our assessment was that 2012 would be a rather slow year with 2.5 and 2 percent Real GDP growth for the country and region, respectively. While complete annual data is not yet available, we expect that largely because of the hurricane's impact in October and November, actual 2012 economic growth now might come in somewhat slower than our forecasts suggested. Otherwise, actual economic performance may have slightly exceeded out forecasts in part due to a revitalized consumer sector, strong light vehicle sales, improving housing statistics, and confidence returning among businesses.

The US unemployment rate was projected to fall to 8.6 percent on average for the year but somewhat ahead of schedule, unemployment fell below 8 percent by year-end. The US employment rate [U-3] now stands at 7.8 percent. The improvement in the labor market turned out to be noticeable even though labor force participation did not bounce back post-recession, which was a factor that we included in our forecast for the year. Employment in the PA region was forecast to increase by 1.1 percent and exceed 8 million. In reality, total employment for the region may have come in ahead of our prediction. New York City experienced record job growth in the second half of 2012 and that, combined with some improvements in labor market conditions in New Jersey counties, pushed up total employment slightly above our predicted number. However, it will not be until the release of the spring benchmark release by the Bureau of Labor Statistics that these actual numbers can be confirmed.

We expected that India and China would continue a moderate growth path, and, in particular, that China would avoid a hard landing. That forecast proved to be correct even though we were slightly too optimistic about GDP growth in both countries. In fact, we overstated expected real economic growth by roughly 1 percent, respectively. Our forecast for the Eurozone was already pessimistic in calling for a recession in 2012 and early 2013 but actual data now suggests an even deeper downturn largely driven by contractions in countries such as Spain, Italy and Greece. While the financial crisis in Europe seems to have been at least temporarily contained, it is likely that it will weigh heavily on the performance of the Eurozone economy in coming years.

On balance, our baseline forecasts have been roughly in line with the actual headline economic data for 2012. There have been some discrepancies, for instance we did not anticipate what now looks like the beginning of a recovery in housing in 2012. But 2012 also teaches us that forecasts are notoriously difficult and likely wrong. Superstorm Sandy hit the region unexpectedly and created large damage for private and public assets while also creating an at least temporary hit on economic output. The region is still recovering, some infrastructure assets are still being negatively affected, and policy makers are busy discussing potential strategies to mitigate damages from [now more] likely future storms. The shift in mindset is far reaching and is going to affect our and other forecasters' predictions.

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