

# Western New York ECONOMIC NEWS

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The BEA earnings report, which has historically served as the basis for our projection of the region's economic health, has been released for the year 2016. This issue of *WNY Economic News* focuses on the relationship between the regional economies of Western New York and the national economy. The trends in local employment and earnings are analyzed on the basis of both CES and QCEW measures.

### The National Economic Outlook

Advanced estimates of real GDP during the fourth quarter of 2017 had the economy growing by 2.6% after having grown by 3.1% and 3.2% during the second and third quarters. These growth rates are nearly double the rates of growth during 2016:Q4 and 2017:Q1 (1.8% and 1.2% respectively). Figure 1 shows real GDP growth rates over the past ten years. Personal consumption expenditures, residential and non-residential investment, and government expenditures were the main drivers of growth.

The recent reduction in the corporate tax rate from 35% to 20% in the tax bill passed by Congress promises to fuel economic growth nationally. However, elimination of the state income tax deduction and personal exemptions on federal income taxes is likely to have a depressing effect on personal income in high tax states like New York.

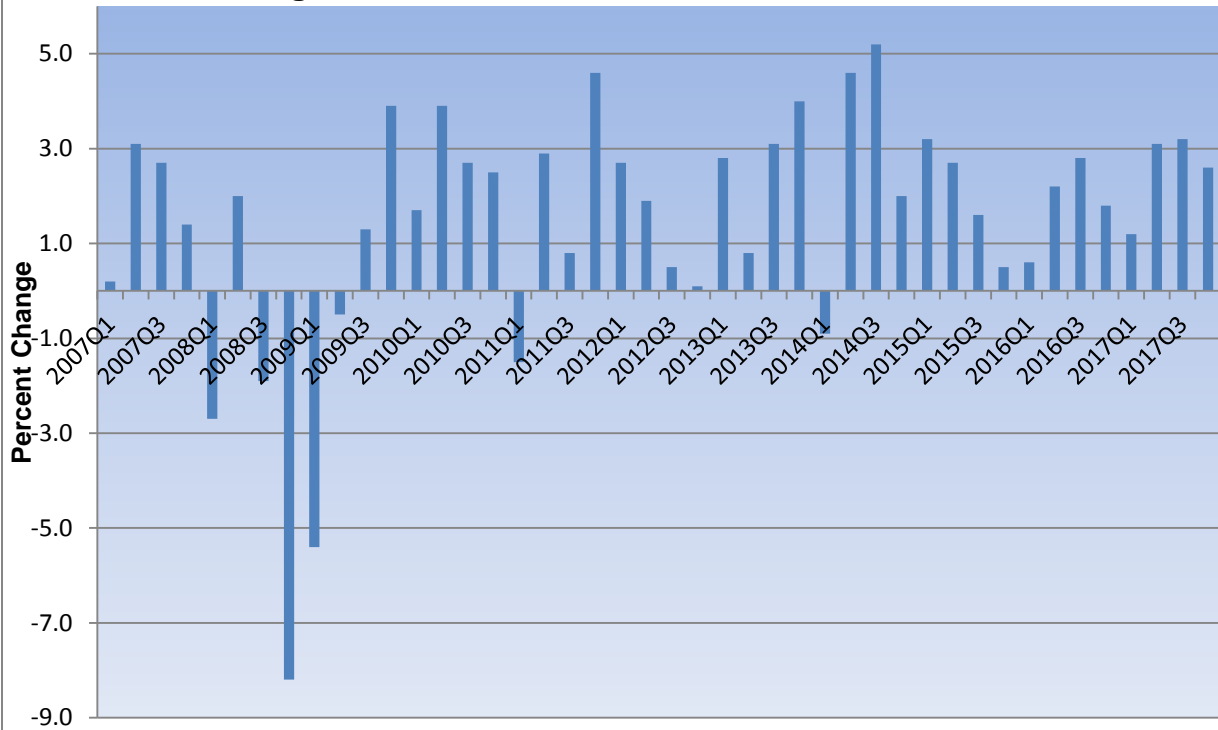
Monthly additions to non-agricultural payrolls ([www.bls.gov](http://www.bls.gov)) averaged 187,000 during 2016 and 171,000 during 2017. Payroll employment in the Buffalo-Niagara Falls MSA increased by an average of 5,500 during 2016. In 2017, this figure was 1,725, a sharp reduction in the rate of local job growth. The national unemployment rate has been 4.1% over the past three months while the WNY unemployment rate averaged 5.2% during 2017.

Equity markets have continued their impressive gains as the major indexes are at historic highs. The Federal Reserve raised its federal funds target by 25 basis points three times in 2017. The December 2017 rate increase follows increments in March and June. The FOMC promises further hikes in 2018. These policy changes have increased three month Treasury yields to 1.45% in January 2018 from the 50 basis point level at the beginning of 2017. Ten year Treasury yields have remained relatively

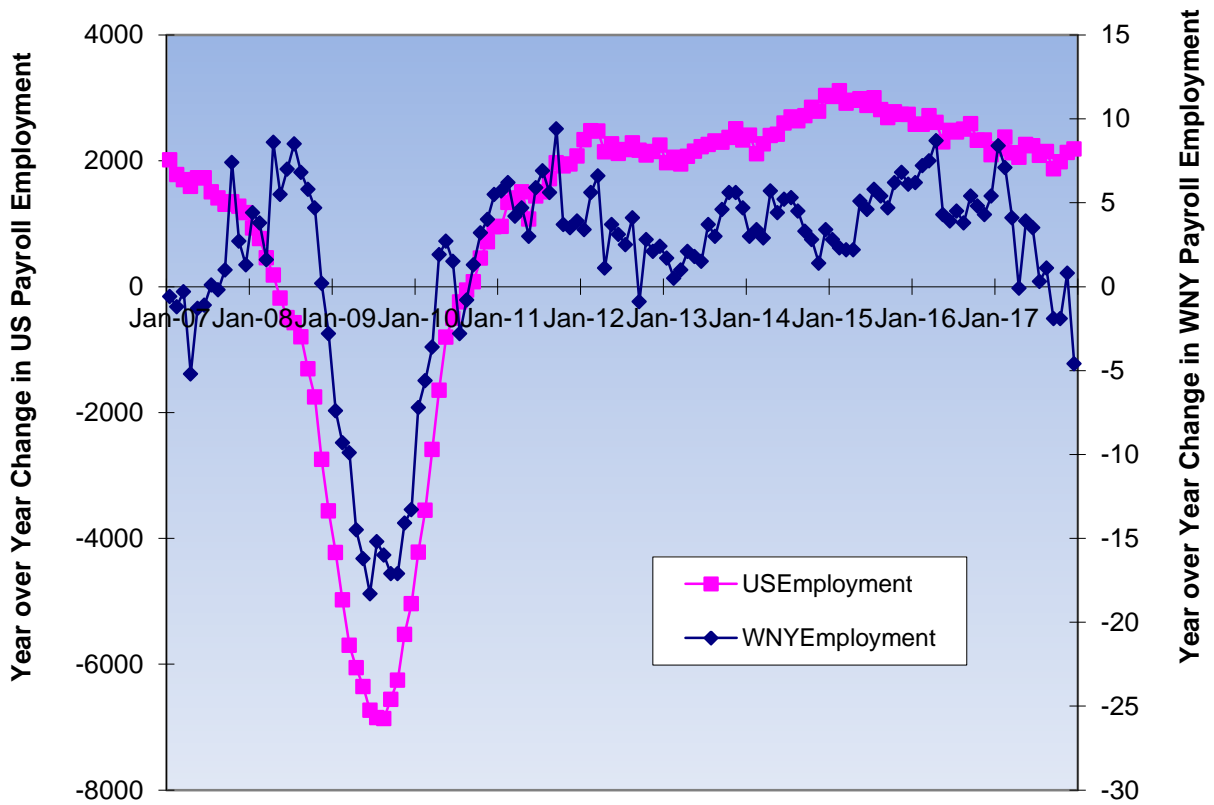
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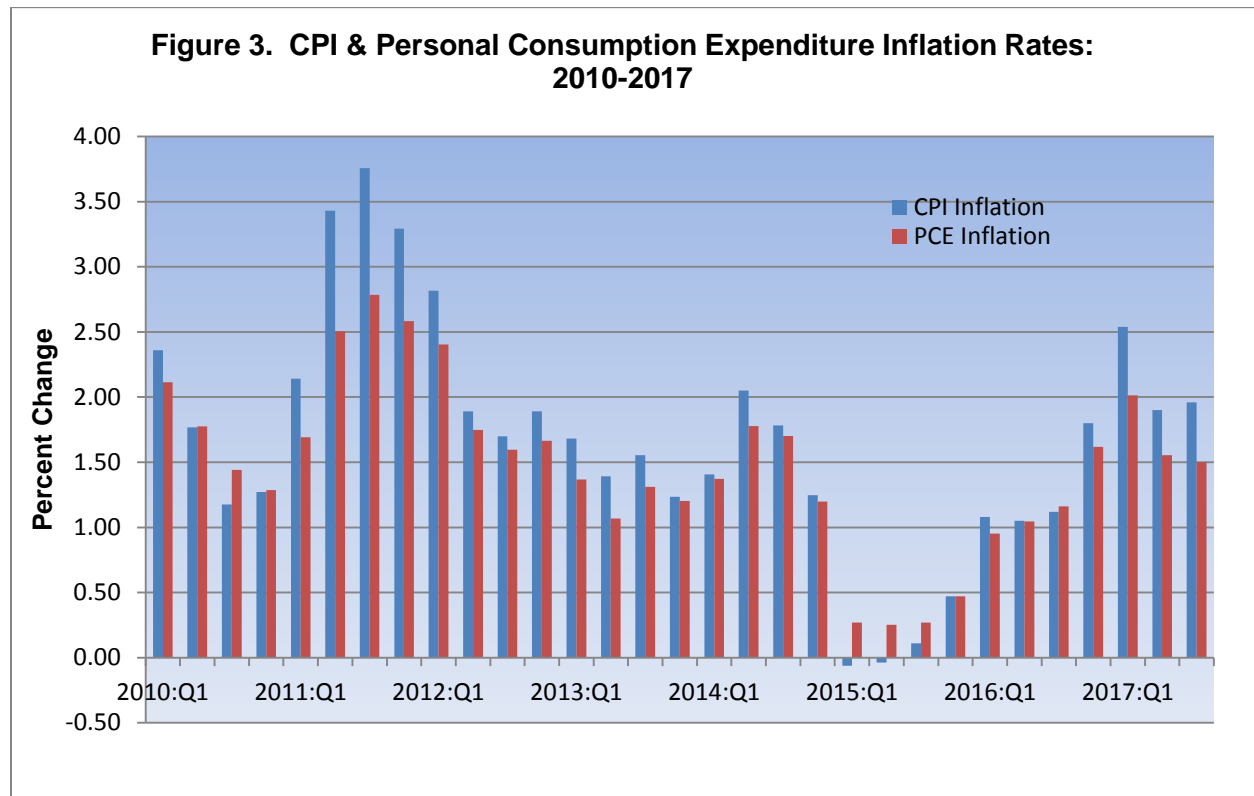
**Figure 1. Real GDP Growth Rates: 2007:Q1 - 2017:Q4**



**Figure 2. US v. WNY Changes in Payroll Employment: 2007-2017**



stable in the 2.4% range during 2017. This is due to a benign inflation environment and market inflation expectations in the 2% range over the next decade. Quarterly inflation rates based on the Consumer Price Index and the Personal Consumption Expenditure deflator are shown in Figure 3. Even though the PCE deflator, the Fed's preferred inflation measure, remains below their 2% inflation target, they have been willing to increase short term interest rates since macroeconomic performance has been so strong.



Regional personal income (PI) figures for the year 2016 were recently released by the BEA <http://www.bea.gov/regional>. Real personal income growth rates measured in 2009 dollars over the period 2007-2016 are shown in Table 1 along with 2016 per capita income. One long standing concern we have expressed about the BEA personal income estimates is the dramatic swings that occur when the underlying series is revised. While the *QCEW* estimates provide a more stable measure, there is some value in reviewing the BEA data as well.

In 2013, real PI in the Buffalo MSA declined more slowly than the nation, while the Rochester PI declined more quickly than the nation. In 2014, the nation's real PI grew by 3.6% while Buffalo's real PI grew by only .89% and Rochester's growth was essentially zero. In 2015, both Buffalo and Rochester showed strong growth, but at a rate less than the nation.

We project the national growth rate for PI to be 1.02% in 2017 (only an advanced estimate of 2017Q4 national PI was available at the time this was written). Real personal income growth rates for the Buffalo and Rochester MSAs over the period 1988 - 2016 are shown in Figures 4a and 4b. It is likely that both Buffalo and Rochester will experience near zero real personal income growth in 2017, given the nation's very low 1% growth rate and the fact that both Buffalo and Rochester have exhibited smaller growth rates than the nation as a whole in the past.

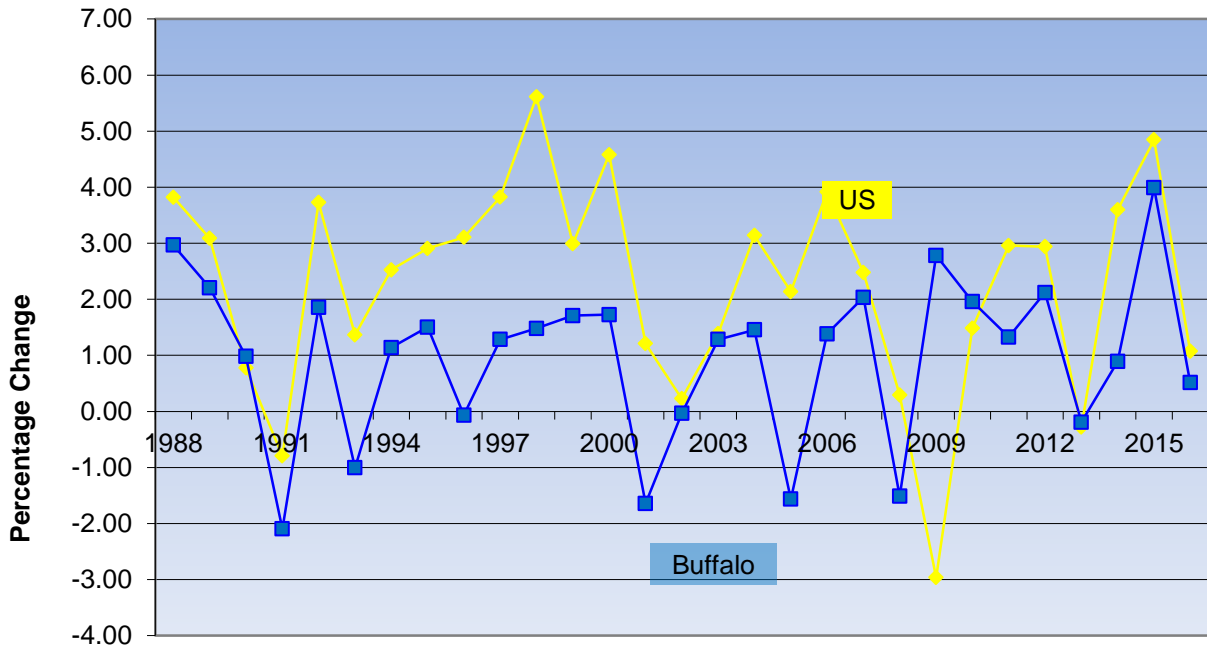
**Table 1**

**Real Personal Income Growth Rates: U.S. Buffalo & Rochester MSAs**

<b>Year</b>	<b>US</b>	<b>Buffalo MSA</b>	<b>Rochester MSA</b>
2007	2.48	2.03	2.00
2008	0.29	-1.51	1.75
2009	-2.96	2.78	0.98
2010	1.48	1.96	1.64
2011	2.96	1.33	1.57
2012	2.94	2.12	2.64
2013	-0.28	-0.19	-1.90
2014	3.60	0.89	-0.02
2015	4.85	3.99	4.78
2016	1.07	0.51	-0.59
2017	<b>1.02</b>	<b>0.10</b>	<b>0.10</b>
<b>2016 per capita income</b>	<b>\$49,246</b>	<b>\$46,511</b>	<b>\$46,421</b>

Per capita personal income for Buffalo and the U.S. is shown in Figure 5a, while that for Rochester and the U.S. is shown in Figure 5b. It is apparent from these figures that although both regions weathered the 2008-2009 recession better than the nation, in recovery both regions have fallen behind the nation.

**Figure 4a. Real Personal Income Growth Rates: US v. Buffalo**



**Figure 4b. Real Personal Income Growth Rates: US v. Rochester**

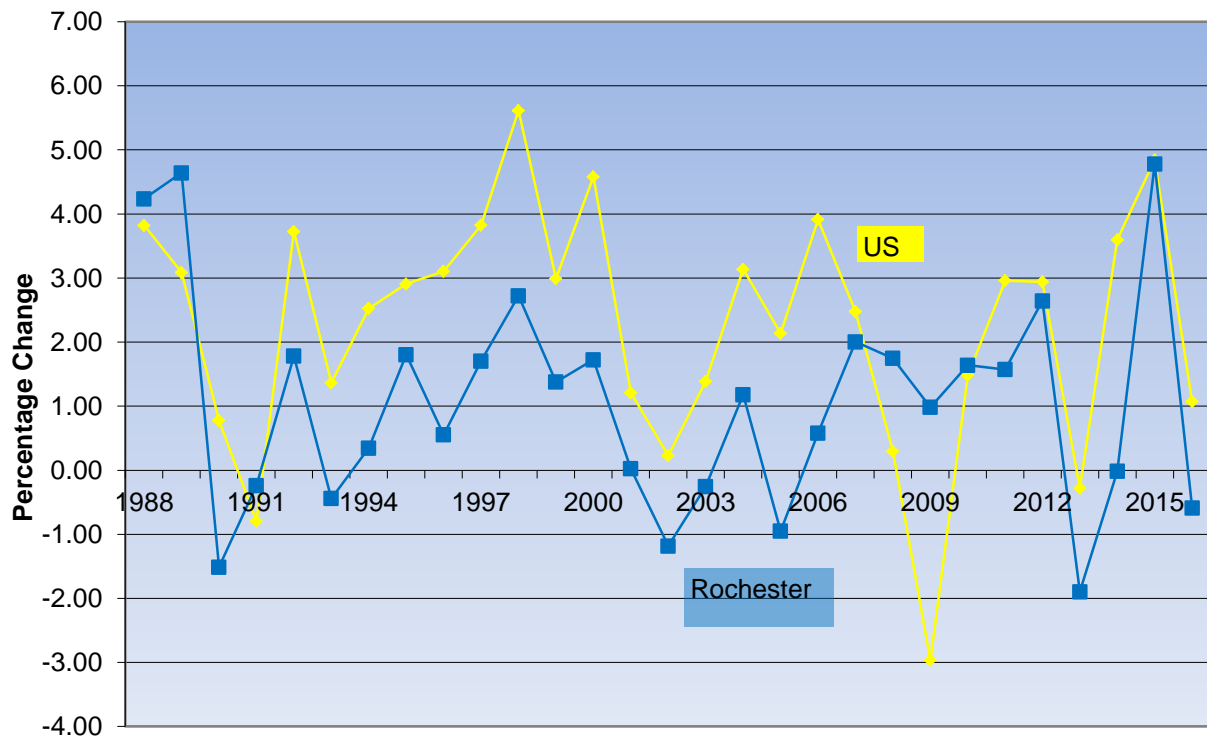


Figure 5a. Per Capita Personal Income: US v. Buffalo

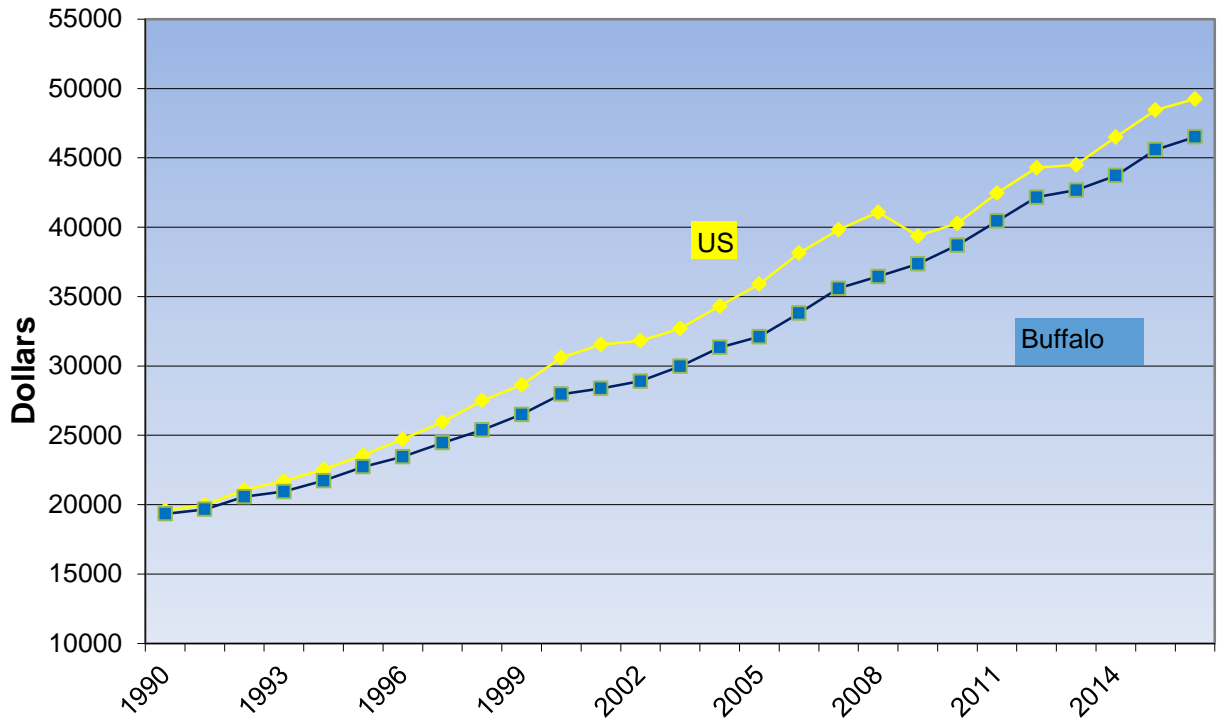
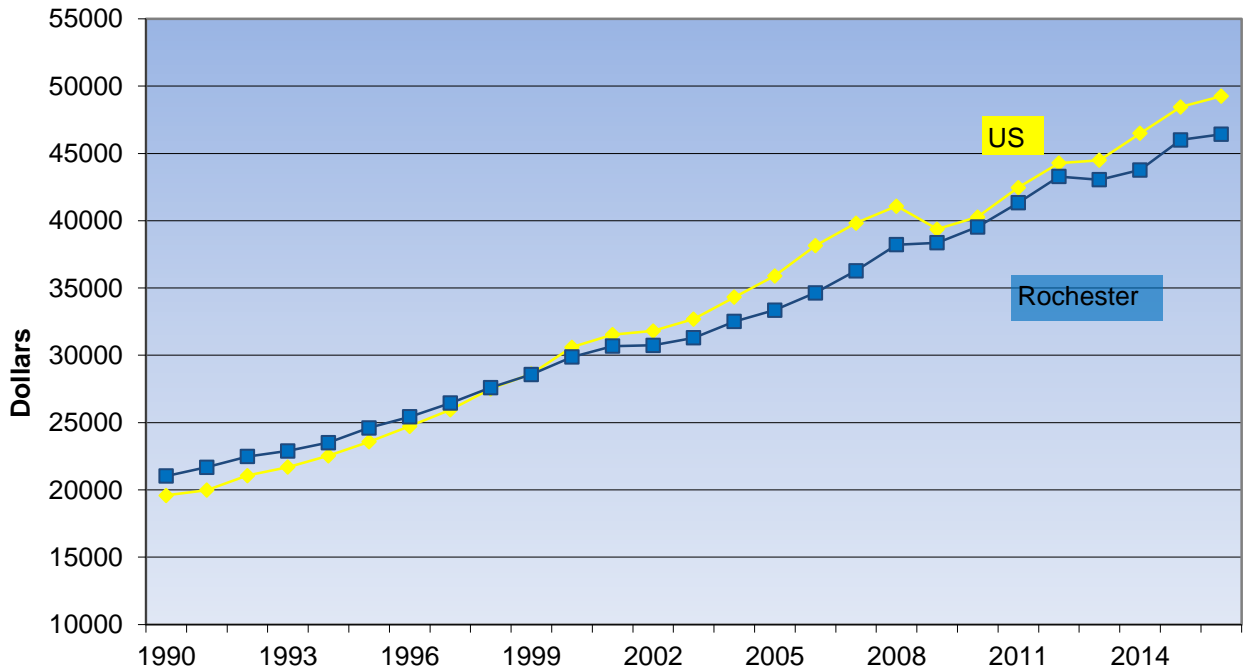


Figure 5b. Per Capita Personal Income: US v. Rochester



## The Economic Outlook for the Buffalo Region

We have found it informative to complement the monthly *Current Employment Statistics* (CES) data series to the broader based and larger *Quarterly Census of Employment and Wages* (QCEW) data when attempting to draw conclusions about trends in the regional economy.

The QCEW data for 2017 <https://www.bls.gov/cew/datatoc.htm> shows that while Erie County employment has continued to grow, it is at a slower rate than in 2014 and 2015. In 2016 and the first half of 2017 employment growth rates were approximately half of the growth rates in 2014 and 2015. The increasing disparity in employment growth during the economic recovery can be clearly seen in Figure 6a, which shows the quarterly employment data for Erie County and the nation over the period 2001 through the first half of 2017 (annualized), as a percent of its 2001 level.

Figure 6b shows the seasonally adjusted monthly employment data for the Buffalo MSA from 2001 through July 2017. This Buffalo MSA data is based on the payrolls of establishments drawn from the CES survey <http://www.bls.gov/sae/>. The data provided by this survey is timelier than that from the QCEW, though, and perhaps because, it is drawn from a smaller sample. While it presents an opportunity to get an early glimpse into trends in the labor market, it is probably not as reliable as the larger survey that lags in release time.

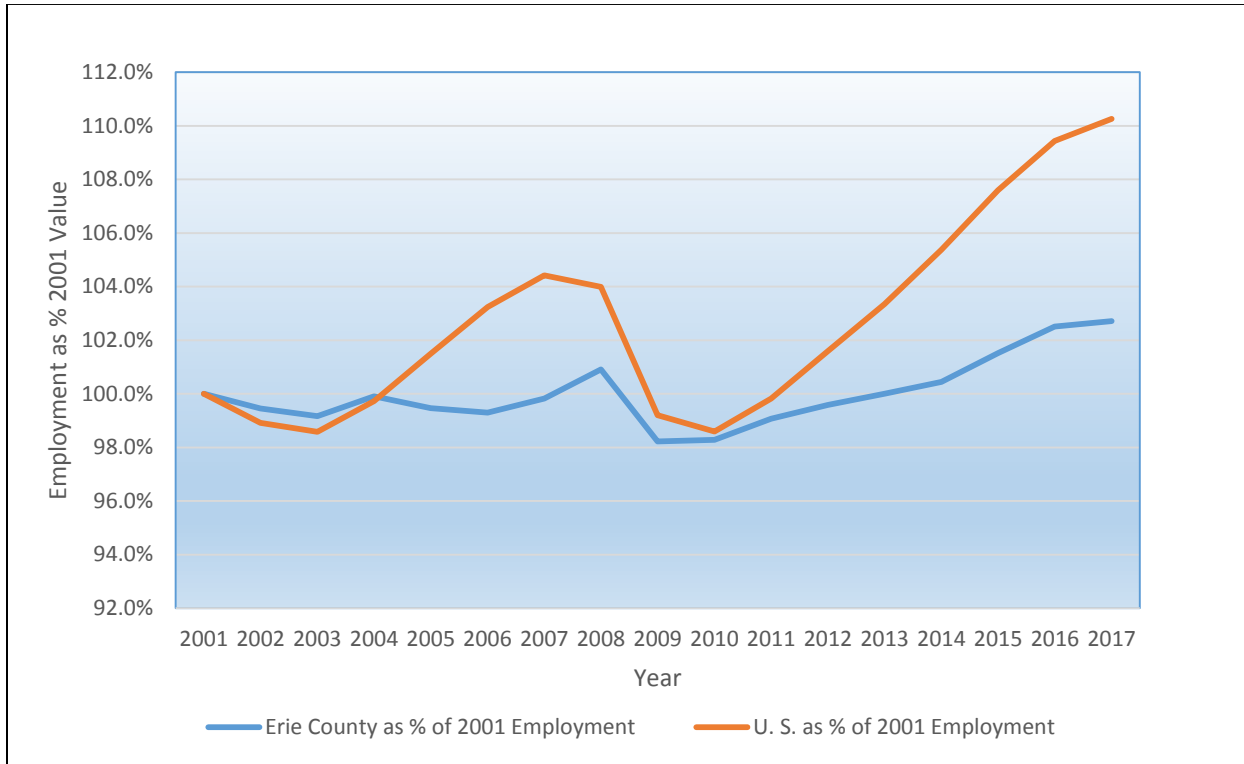
The combination of sampling techniques and the underlying relative strength of the Erie and Niagara County economies could lead to some difference between Figures 6a and 6b. While employment in the Buffalo MSA finally returned to the level it had attained prior to the 2001 recession, having previously exceeded its 2008 peak in 2015, it experienced declines in the first two quarters of 2017. These declines were partially offset during the remainder of 2017.

The QCEW data still suggests that Erie County employment growth is stronger than that of the MSA. For the first six months of 2017 the QCEW based measure of the year over year growth rate of employment averaged .7%. Our estimate of the CSE growth for the Buffalo MSA is .3% for 2017. While more than twice as high, we are hesitant to call this a substantial difference. Thus, the subtle signs of employment weakness that first appeared in the second quarter of 2016, seem to have re-surfaced. This trend bears watching.

Table 2, based on QCEW data, presents a comparison of the annual pay per worker by industry group for the upstate metropolitan areas in 2016. The most obvious conclusion to be drawn from this table is that Buffalo workers generally earn less than their upstate counterparts. These comparisons are made for total employment in the public and private sectors, as well as for specific industries in the private sector.

Average annual pay for all workers in the Buffalo MSA is lower than in any other large upstate metropolitan area.

**Figure 6a. Employment Changes Erie County vs. US: 2001 - 2017**



**Figure 6b. Buffalo MSA Seasonally Adjusted Non-Agricultural Employment: 2001 – 2017**





The same is true for all private industry employees, private service providing employees; trade transportation and utility industry employees, information industry employees; financial activities employees; professional and business services employees; education and health services employees; as well as other services and unclassified employees. Once again, these are all private sector employees, and all earn lower pay than in any of the upstate metropolitan areas. In goods producing and manufacturing, Buffalo workers were last, but for workers in the Rochester MSA. This is not a sign of a healthy, growing and robust economy. Those who have been proclaiming the “Buffalo Resurgence” seem to be blissfully unaware of what has been happening to the principal source of most people’s income: their wages.

Perhaps as surprising as the relative earnings of the private sector employees in the Buffalo MSA are the relative earning for public sector workers in the region. With average annual pay of \$73,973, Federal government employees in the Buffalo MSA earn more per worker than their counterparts in the other major upstate metropolitan areas, though the average annual pay of state workers in the Buffalo MSA are above only that of state employees in Syracuse.

A puzzling fact is that the average annual pay of local government workers in the Buffalo MSA, is higher than local government workers earn in any of the other upstate MSAs. This mismatch between private sector annual earnings, at the bottom of the rankings and local government workers who are at the top of the rankings of earnings, would seem to be both contradictory and unsustainable.

There are three components of the general revenue from which the wages and salaries of local government employees are paid: taxes; fees & charges; and intergovernmental transfers (aid). The principal local government tax is the property tax. Residential property tax revenues are heavily dependent on local area income, as is a major share of non-residential property taxes. The next most important tax revenue source are sales and excise taxes. These are virtually completely dependent on local area income, tourism expenditures are an example of non-local sales tax revenue producers that are an exception. The final component of own-source revenue is fees and charges. It would be hard to make a case that water, sewerage, public housing, post-secondary education and health care revenues are not closely related to local income. Without intergovernmental aid that is substantially higher than that received by its upstate counterparts, one can only wonder how local government wages as a fraction of private sector pay in the Buffalo MSA can continue to outpace the rest of the upstate MSAs.

Table 3 presents the ratio of the annual pay in each sector to the average pay in all industries divided by the national average of the same ratio in each industry. Thus, the ratio of federal government average pay to the average annual pay of all workers in the Buffalo MSA is 10% higher than that same ratio for the entire nation. In relative terms federal, state and local employees are paid better in Buffalo in relationship to all workers in Buffalo than federal, state and local workers are paid in relation to all workers throughout the US. The more the value exceeds 100, the higher the relative pay is to the rest of the country. Beside government employees, goods producing employees are

relatively highly paid in the Buffalo MSA compared to their counterparts in the rest of America. Workers in financial activities and information services, however, have relative earnings that are 18 and 28% lower respectively than the relative pay for those workers in the rest of the country. Employment sectors with ratios below 100 are the employment sectors which have the highest potential to generate private sector employment growth in the Buffalo MSA in the future.

**Table 2**

**Annual Pay Upstate MSAs by Industry: 2016**

<b>Industry</b>	<b>Buffalo MSA \$</b>	<b>Rochester MSA \$</b>	<b>Syracuse MSA \$</b>	<b>Albany MSA \$</b>
Total, all industries	46,190	47,672	47,389	52,820
Total, Federal Government	73,973	63,877	70,207	71,656
Total, State Government	57,279	58,202	46,215	64,244
Total, Local Government	52,162	46,890	49,217	49,304
Total Private all industries	44,388	47,360	46,761	51,275
Goods-producing*	60,310	58,700	61,728	72,210
Natural resources & mining*	35,514	33,976	31,356	42,332
Construction*	55,495	55,218	58,494	64,245
Manufacturing*	63,101	62,157	65,173	79,757
Service-providing*	41,283	44,679	44,000	48,044
Trade, transportation & utilities*	36,526	39,028	43,124	40,507
Information*	61,204	72,071	63,651	78,333
Financial activities*	62,637	65,936	64,276	74,360
Professional & business services*	54,847	60,828	56,974	69,795
Education & health services*	42,100	46,960	47,429	45,911
Leisure & hospitality*	23,708	17,798	17,699	20,550
Other services*	25,538	28,313	30,713	33,698
Unclassified*	25,284	27,565	26,116	28,128

Source: <http://www.bls.gov/cew/datatoc.htm>

\*private sector wages

**Table 3**

**Relative Annual Pay Upstate MSAs by Industry: 2016**

<b>Industry</b>	<b>Buffalo MSA**</b>	<b>Rochester MSA**</b>	<b>Syracuse MSA**</b>	<b>Albany MSA**</b>
Total, all industries	100%	100%	100%	100%
Total, Federal Government	110%	92%	101%	93%
Total, State Government	116%	115%	91%	114%
Total, Local Government	125%	109%	115%	103%
Total Private all industries	96%	100%	99%	97%
Goods-producing*	113%	106%	112%	118%
Natural resources & mining*	73%	68%	63%	77%
Construction*	110%	106%	113%	111%
Manufacturing*	113%	108%	114%	125%
Service-providing*	93%	97%	96%	94%
Trade, transportation & utilities*	95%	98%	109%	92%
Information*	72%	82%	73%	81%
Financial activities*	82%	83%	82%	85%
Professional & business services*	91%	98%	92%	101%
Education & health services*	102%	110%	112%	97%
Leisure & hospitality*	123%	89%	89%	93%
Other services*	83%	89%	97%	95%
Unclassified*	57%	60%	57%	55%

Source: <http://www.bls.gov/cew/datatoc.htm>

\*private sector wages \*\* (annual pay in industry<sub>i</sub> MSA<sub>j</sub>) / (annual pay in all industries MSA<sub>j</sub>) / (annual pay in industry<sub>i</sub> US average) / (annual pay in all industries US average)

In conclusion, both the CES and QCEW measures employment growth, while still positive, seem to be slowing down in the Buffalo MSA. Private sector average annual pay has fallen behind the rest of the upstate areas, though federal and local government employees lead the upstate region in wages per worker in these sectors. The September edition will report both employment and earnings for 2017.

## NATIONAL, STATE & LOCAL BUSINESS INDICATORS

					% change
NATIONAL INDICATORS					2016:IV -
	2016:IV	2017:II	2017:III	2017:IV	2017:IV
Real GDP (billions of chained 2009\$) (1)(a)	16,851.4	17,031.1	17,163.9	17,272.5	2.5
Real GDI (billions of chained 2009\$) (1)(a)*	16,882.1	17,090.3	17,176.6		1.3
US Personal Income (billions of \$) (1)(a)	16,025.7	16,339.6	16,451.9	16,630.8	3.8
					% change
					Dec-16 -
	Dec-16	Oct-17	Nov-17	Dec-17	Dec-17
Consumer Price Index (1982-84=100) (2)	241.432	246.663	246.669	246.524	2.11
Exchange Rate Canadian cents/US \$ (3) (b)	134.420	128.880	128.940	125.730	-6.46
10 Year Treasury Note Yield (%) (3) (b)	2.445	2.377	2.410	2.410	-0.03
3 Month Treasury Bill Yield (%) (3) (b)	0.505	1.147	1.269	1.394	0.89
S&P 500 Stock Index (3) (b)	2,238.83	2,575.26	2,647.58	2,673.61	19.42
Dow-Jones Industrial Average (3) (b)	19,762.60	23,377.24	24,272.35	24,719.22	25.08
LABOR MARKET TRENDS (2)					
Nonag Civilian Employment					
US (1000's)(a)	145,325	146,980	147,232	147,380	1.41
NY State (1000's)(a)	9,458.3	9,527.7	9,557.1	9,556.6	1.49
WNY (1000's)	572.3	570.2	571.5	567.7	2.02
Unemployment Rate (%)					
US (a)	4.7	4.1	4.1	4.1	-0.6
NY State (a)	4.8	4.8	4.7	4.6	-0.2
WNY	5.1	4.8	5.3	5.5	0.4
Ave. Weekly Hours in Mfg. US (a)	41.9	42.0	42.0	41.9	0.0
Ave. Weekly. Earnings in Mfg. US (\$)(a)	864.40	884.52	884.94	885.77	2.47
US Private Employment (1000's)(a)	123,026	124,654	124,893	125,039	1.64
WNY EMPLOYMENT BY SECTOR (1000's) (2)					
Mining, Logging & Construction	20.2	22.5	21.6	20.0	-8.47
Manufacturing	52.4	52.2	52.3	52.7	0.19
Trade, Transportation & Utilities	106.0	101.3	103.8	104.1	1.37
Durable Goods	32.0	31.8	32.1	32.3	0.94
Finance Activities	35.5	33.7	33.3	33.7	-5.93
Government	92.9	93.0	93.3	93.2	8.36
(1) US Dept. of Commerce	(a) Seasonally Adjusted				
(2) US Dept. of Labor	(b) End of month data				
(3) Wall Street Journal	*2016:III to 2017:III growth				