Western New York Economic News
Canisius College
Richard J. Wehle School of Business

Volume 14, Number 3 **September 2011**

The national economy appears to be headed towards a double dip recession. Recent releases of macroeconomic data show flat payroll employment and retail sales and increased first time claims for unemployment insurance. Given the strong correlation between the national and WNY economies, the onset of a second recession is likely to cause considerable difficulties for the WNY region. This issue of *WNY Economic News* focuses on the property and sales tax burdens for residents of Erie and Monroe counties. The full text and internet links for this and all prior newsletters are available at http://www.canisius.edu/wnyeconomicnews.

The National Economic Outlook

The recovery from Great Recession of 2008-2009 appears to be in serious peril. The BEA's revision of the real GDP data shows growth rates of only 0.4% and 1.0% during the first and second quarters of 2011 (www.bea.gov, Quarterly real GDP growth rates since 2006 are shown in Figure 1). National payroll employment showed no gain from July to August 2011 (www.bls.gov). Private payrolls, having averaged gains of 133,000 since March 2010, grew by only 17,000 in August. Government payrolls, which have averaged declines of 33,000 over the same period, have been a drag on the total employment figures. The recession has obviously taken its toll on the financial position of local governments and has put downward pressure on government payrolls (see Figure 2).

Housing markets have continued their slow adjustment process to a new equilibrium which was temporarily interrupted by the housing tax credit in 2010. The Case-Shiller index of housing prices in the top 20 U.S. markets has been relatively flat since March 2009 when its precipitous decline came to a halt (www.standardandpoors.com). At present its value is at approximately the same level as in March 2003 when it was on the way up to its June 2006 peak.

The striking negative impact of the Great Recession on households became evident when the U.S. Census Bureau's report showed median household income in 2010 at approximately the same as it was in 1996; a clear sign of erosion in the standard of living for many families.

The Wehle School of Business at Canisius College publishes the *Western New York Economic News* as a public service to the Western New York community with research and analysis performed by faculty members:
George Palumbo, Ph.D. - Professor of Economics & Finance email: palumbo@canisius.edu
Mark P. Zaporowski, Ph.D. - Professor of Economics & Finance email: zaporowm@canisius.edu

Figure 1. Real GDP Growth Rates: 2006:Q1 - 2011:Q2

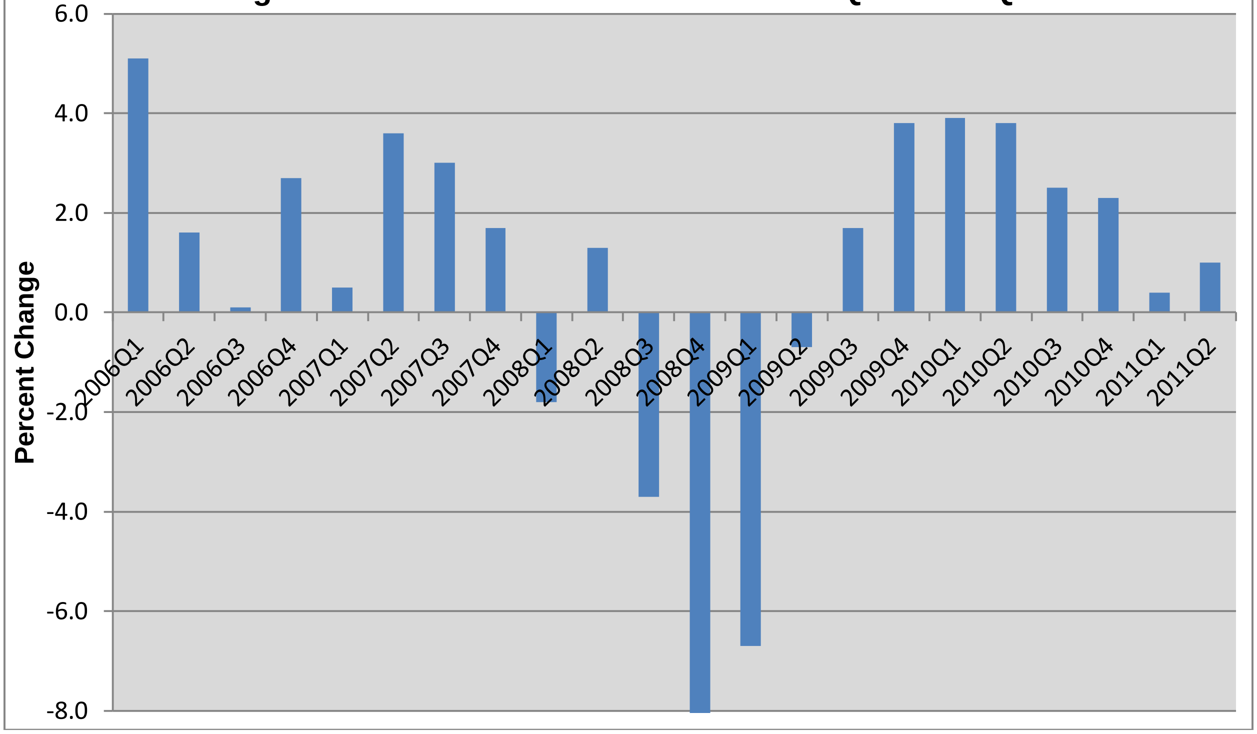
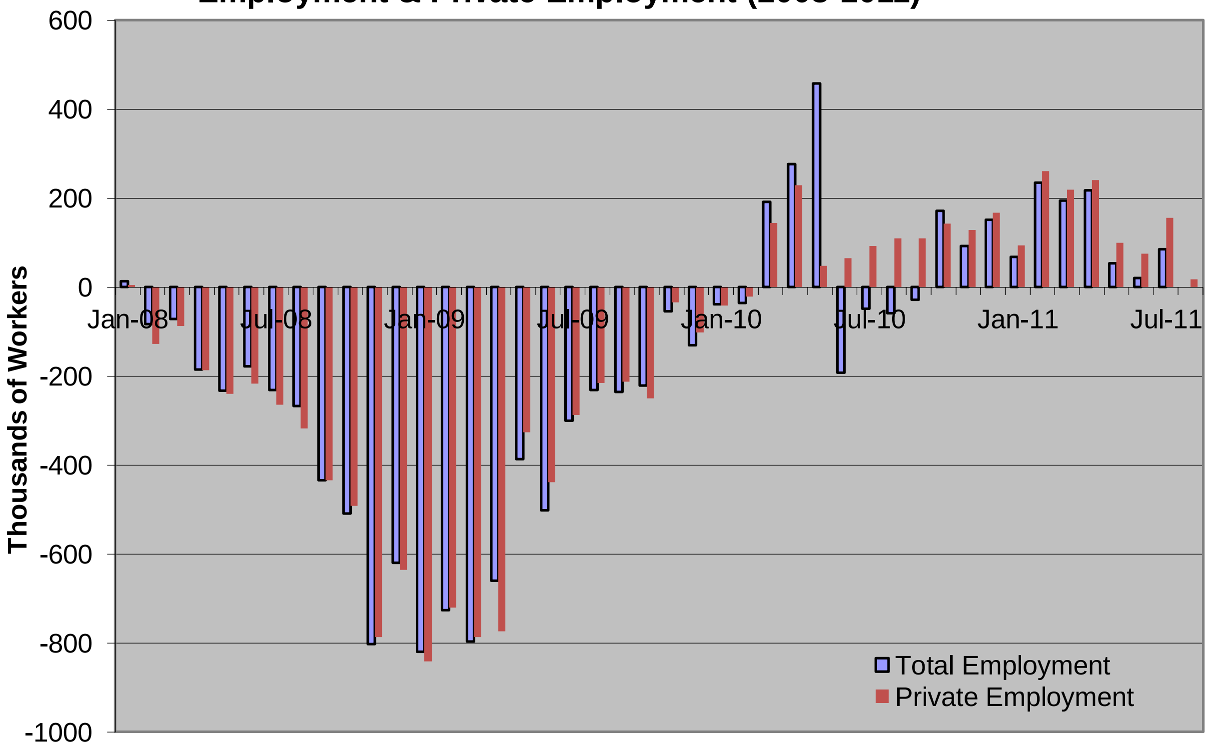
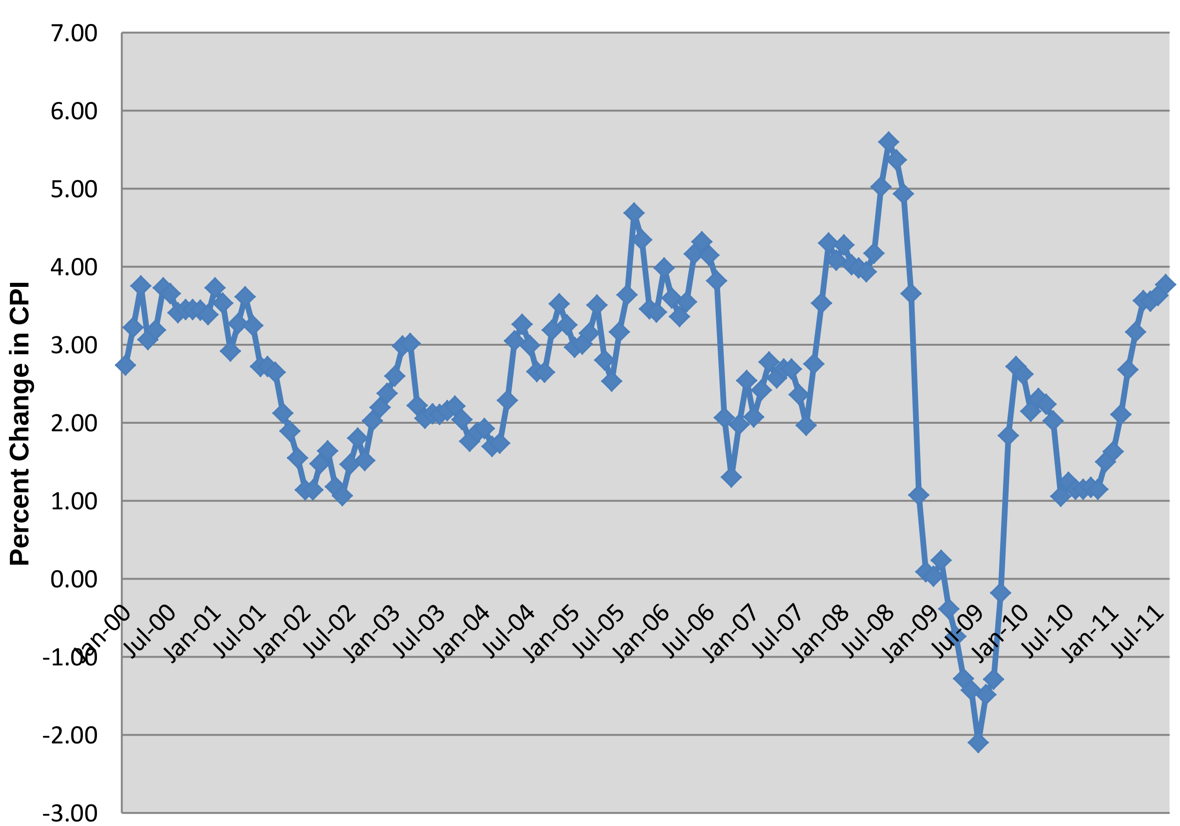


Figure 2. Monthly Change in Total Non-Agricultural Employment & Private Employment (2008-2011)



The CPI inflation rate has continued to trend upward since October 2010 and has hovered in the 3.6% - 3.8% range over the past four months (see Figure 3). The acceleration of the inflation rate along with the slowing economy has led to a monetary policy paradox for the Fed. The press release from the August 9 FOMC meeting indicates that the Fed expects weak macroeconomic conditions through mid 2013 and will maintain its balance sheet by reinvesting its security holdings that mature. Three of the ten FOMC members voted against the policy action, an unusual occurrence in times of economic turbulence. This is a clear indication that we are in uncharted waters concerning the optimal monetary policy response to the present economic malaise. With short term interest rates already at zero, one of the few policy options available for the Fed is Operation Twist, the purchase of long term securities with proceeds of maturing short term securities. The object is to lower long term Treasury yields which hopefully will translate to lower long term interest rates and increased investment. Our feeling is that given current circumstances, it is unrealistic to expect that monetary policy will be able to accomplish much more in spurring economic growth. However, Fed policy was largely responsible for keeping the Great Recession from turning into a second Great Depression. Given the recent releases of negative macroeconomic data, (flat retail sales, flat payroll employment, increased first time claims for unemployment insurance, brewing European debt crisis) we place the probability of a double dip recession at 50%.

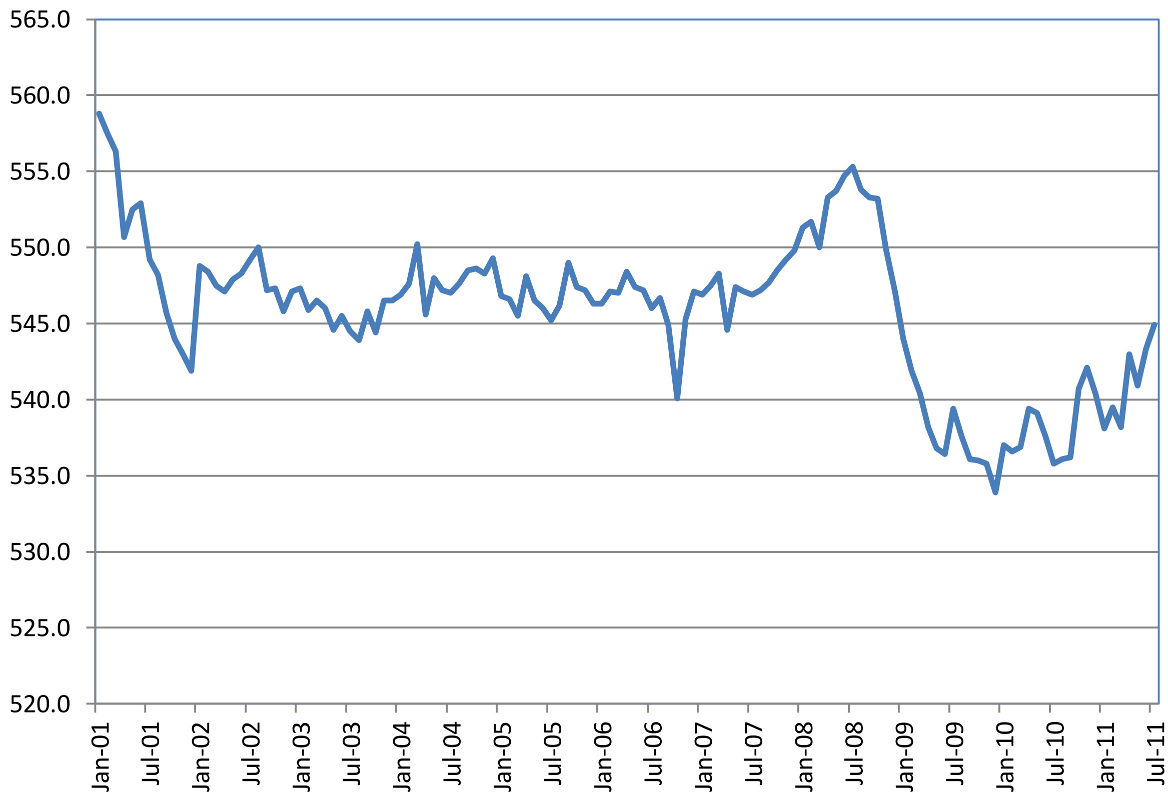
Figure 3. CPI Inflation Rates 2000-2011 (Twelve Month Percent Change)



The Economic Outlook for Western New York

Continuing the pattern begun in late 2009, total employment in the Buffalo metropolitan area has been growing in 2011. Though there are still nearly 10,000 fewer workers than in January 2009 and about 14,000 fewer than were working in the region before the 2001 recession. On an annual basis the labor force has grown a nearly imperceptible .85% and total employment has declined 2.9% over the decade. This is not the story of a strong regional economy, even though the unemployment rate is a relatively low 7.7%. The region has missed out on much of the last two national recoveries. At least some of the relatively lower unemployment rate is attributable to the region's ability to export its unemployment to the rest of the country. Over the decade total employment in the US declined 1.5%, but the labor force increased by 7.1%; thus the national unemployment rate is higher than that of the Buffalo region, though the percentage loss of employment was less for the nation.

Figure 4a. Total Non-farm Employment: Buffalo MSA January 2001 – July 2011



The pattern is similar in the Rochester metropolitan area. Total employment is approaching pre-recession levels, but is considerably below (5.2% lower) what it was in 2001. The labor force in the Rochester region declined 1.2%. It is of small comfort that the 7.5% unemployment rate is among the lowest in the state. The Rochester MSA, like Buffalo, is shrinking, and contraction leads to a host of other difficult problems.

Figure 4b. Total Non-farm Employment: Rochester MSA January 2001 – July 2011

To many people government is seen as an external agent that compels individuals and institutions to pay taxes, or fees and charges for expenditures they don't see or desire. To others, government activity can be seen as a reflection of the desires of the local population, and to some extent, local business, for the provision of essential services. In either case, the contraction of the local population and tax base leads to a greater burden on those that remain to pay for government services that have been established, and commitments that have been made. Most tax revenue in the upstate metropolitan areas is generated through property and sales taxes. The bases for these taxes are income, employment and both residential and non-residential property values. As noted above, total employment has declined over the first decade of the 21st century. Over the same period, in the central counties of the Buffalo and Rochester MSAs (Erie and Monroe), the full value of taxable property grew at an annual rate of 2.9 and 2.8 per cent respectively. These rates were slightly faster than the 2.45% annual rate of inflation.

This increase in taxable value corresponded with a decline in Erie County population of about 43,150 people and a smaller decline in Monroe County of roughly 5,190. Using data from various reports of the New York State Comptroller's Office http://www.osc.state.ny.us/localgov/datanstat/findata/index_choice.htm, we generate per capita property tax collections of $258 for Erie County residents versus $402 per Monroe County in 2010. These compare to 1998 burdens of $235 and $291 respectively. Sales tax collections per capita for Erie and Monroe Counties were $679 and $521 in 2010. These were up from $212 and $150 per capita in sales tax collections in 1998.

This means that total local county taxes per capita have grown at an annual rate of 6.36%, 2.6 times faster than the rate of inflation of 2.45%. This analysis does not include the property taxes per capita for sub-county governments like, cities, villages, towns and school districts, for which aggregate data on a county-wide basis is currently being collected.

The capacity to pay locally borne property and sales taxes is directly linked to local levels of income. The total establishment employment data illustrated in Figures 5a and 5b is taken from the BLS *Quarterly Census of Employment and Wages* http://www.bls.gov/cew/data.htm (QCEW). Using all available data, the changes in average earnings per worker in Monroe County and Erie County are similar.

Over the entire period for which the QCEW exists the average annual change in earnings per worker in Erie County is 2.8%, approximately the same as the growth rate of taxable property values. For the same period, the growth rate of earnings per worker in Monroe County was only 2.4% per annum, though Monroe County workers began the period at a higher base. In both counties the annual rate of growth of wages and taxable property were less than 50% of the growth rate of taxes per capita. Thus, the burden on the local population to pay county taxes has been increasing.

Figure 5a. Average Annual Wage: Erie County 2001 – 2010

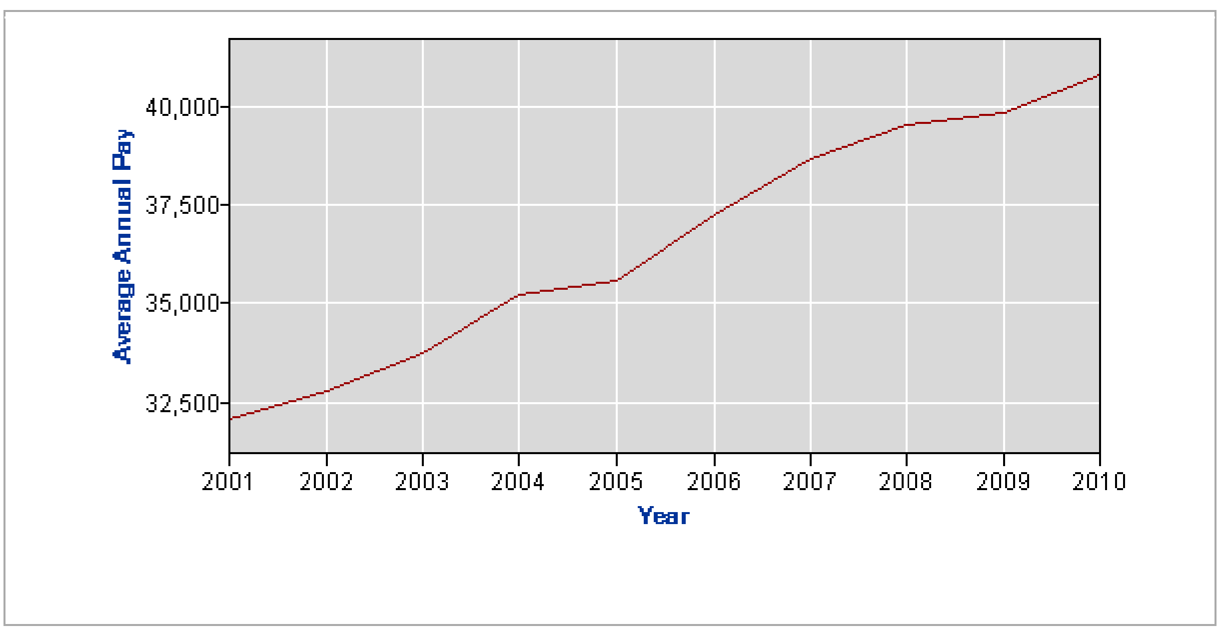
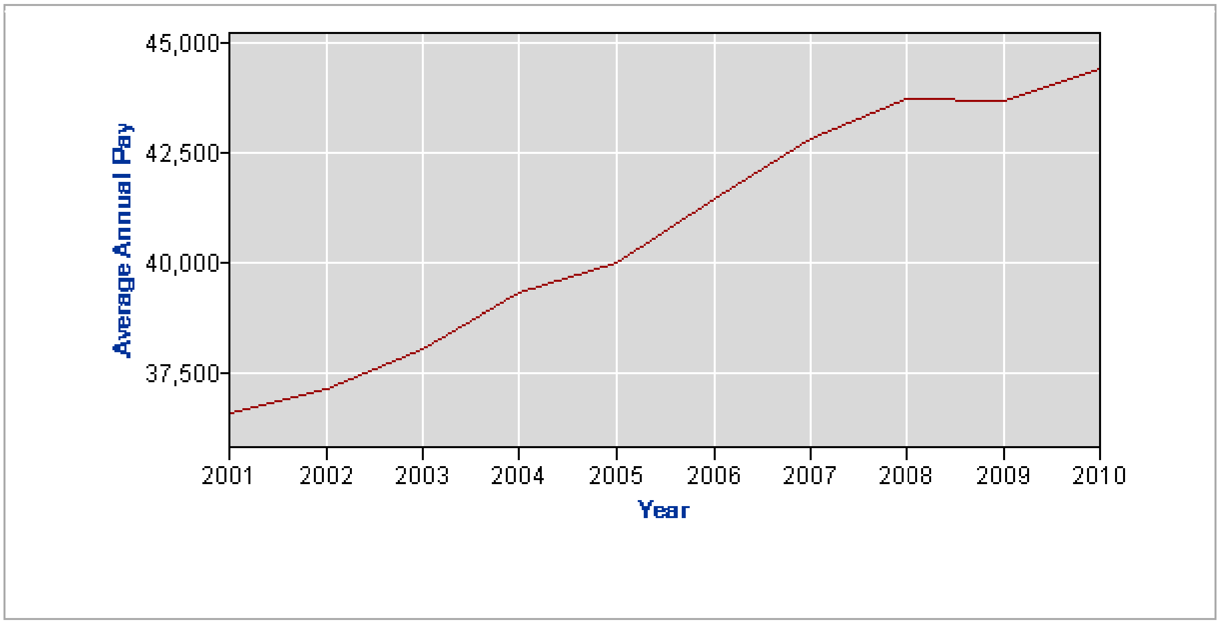


Figure 5b. Average Annual Wage: Monroe County 2001 – 2010



In conclusion, there has been a continuous pattern of population decline, employment decline, as well as limited tax base and wage growth for the upstate metropolitan areas that has led to an ever increasing tax burden for the remaining population. Whether one views local government services as vital, or an imposition, the fact is that tax rates as well as tax burdens are increasing.

Until the onset of the last recession, local governments in declining regions turned to the state and federal governments for ever increasing amounts of aid to offset the increased tax burden of delivering local services. The structural deficits that are now the reality for the state and federal governments would seem to suggest that source of relief will no longer be available, and the residents of Western New York need to accept higher tax burdens, or lower levels of government expenditures.

One might expect future cuts in services delivered, employment or compensation from the local public sector. It is also likely that social service spending, about 56% of Erie County's direct general expenditures, will face increased scrutiny at the federal, state and local level in the years ahead.

NATIONAL, STATE & LOCAL BUSINESS INDICATORS

NATIONAL INDICATORS	2010:II	2010:IV	2011:I	2011:II	% change 2010:II - 2011:II
Real GDP (billions of chained 2005$) (1)(a)	13,058.5	13,216.1	13,227.9	13,260.5	1.5
US Personal Income (billions of $)	12,325.6	12,577.6	12,846.9	12,994.9	5.4

	Aug-10	Jun-11	Jul-11	Aug-11	% change Aug-10 - Aug-11
Consumer Price Index (1982-84=100) (2)	218.312	225.722	225.922	226.545	3.77
Exchange Rate Canadian cents/US $ (3) (b)	106.64	96.380	97.840	97.640	-8.44
10 Year Treasury Note Yield (%) (3) (b)	2.481	3.167	2.807	2.220	-0.26
3 Month Treasury Bill Yield (%) (3) (b)	0.145	0.020	0.081	0.020	-0.13
S&P 500 Stock Index (3) (b)	1049.33	1,320.64	1,292.28	1,218.89	16.16
Dow-Jones Industrial Average (3) (b)	10014.72	12,414.34	12,143.24	11,613.53	15.96
LABOR MARKET TRENDS (2)					
Nonag Civilian Employment					
US (1000's)(a)	129873	131,047	131,132	131,132	0.97
NY State (1000's)(a)*	8554.1	8,627.3	8,656.7		1.25
WNY (1000's)*	534.9	549.3	542.4		1.86
Unemployment Rate (%)					
US (a)	9.6	9.2	9.1	9.1	-0.50
NY State (a)*	8.4	8.0	8.0		-0.50
WNY*	7.6	7.7	7.7		-0.30
Ave. Weekly Hours in Mfg. US (a)	41.1	41.4	41.4	41.3	0.49
Ave. Weekly. Earnings in Mfg. US ($)(a)	765.69	782.87	785.77	783.05	2.27
WNY EMPLOYMENT BY SECTOR (1000's) (2)*					
Natural Resources, Mining & Construction	21.3	22.6	23.8		12.80
Manufacturing	50.0	49.4	49.3		-0.80
Trade, Transportation & Utilities	97.1	100.8	99.6		3.11
Durable Goods	29.9	29.6	29.5		-0.34
Finance Activities	30.6	30.2	30.3		-1.30
Service Providing	463.6	477.3	469.3		1.65
Government	88.6	94.9	90.1		2.15

(1) US Dept. of Commerce — (a) Seasonally Adjusted
(2) US Dept. of Labor — (b) End of month data
(3) Wall Street Journal — *Percentage change is July 2010 to July 2011