

# Western New York ECONOMIC NEWS

## Canisius College

### Richard J. Wehle School of Business

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Since the last issue of this newsletter, the BEA earnings report for the year 2007 has been released. This report has historically served as the basis for our projection of the region's income change and the relationship between the regional and national economies. The nation is presently in the midst of a severe recession with the economy contracting by more than 6 percent in real terms over the past two quarters. Since the WNY economy and the national economy are strongly linked, the region's economic performance is likely to be poor over the remainder of 2009, particularly given the historic tendency for the WNY economy to remain in recession longer than the rest of the nation. In addition, the importance of the automobile sector to WNY and the difficulties that this industry is having nationally paints a bleak picture for the region in the short term. The full text and internet links for this newsletter are available at <http://www.canisius.edu/wnyeconomicnews>.

## **The National Economic Outlook**

The recession that began in December 2007, having its origins in the housing market debacle, is giving indications of being the most severe downturn since the 1981-82 recession. The 2007-2009 recession is approaching a 16 month duration, on par with the twin recessions of 1980 and 1981-82. In terms of magnitude, the present recession is more severe than any recession since the early 1980's. Advance estimates of 2009:Q1 real GDP shows the national economy contracting by 6.1% after contractions of .5% and 6.3% during the third and fourth quarters of 2008, respectively. Real GDP growth rates since the first quarter of 2004 are shown in Figure 1 ([www.bea.gov](http://www.bea.gov)).

Although personal consumption expenditures grew by 2.2% during 2009:Q1, virtually every other category of expenditures showed double digit declines. The only positive spin that can be placed on these numbers is the rapid decline of inventory investment, which some view as indicative of an economy which has reached bottom. Once the economy reaches its trough, growth is likely to return with a vengeance. While the economy seems to have continued its downward spiral during the second quarter of this year, there is hope that it will begin growing again during the third or fourth quarters.

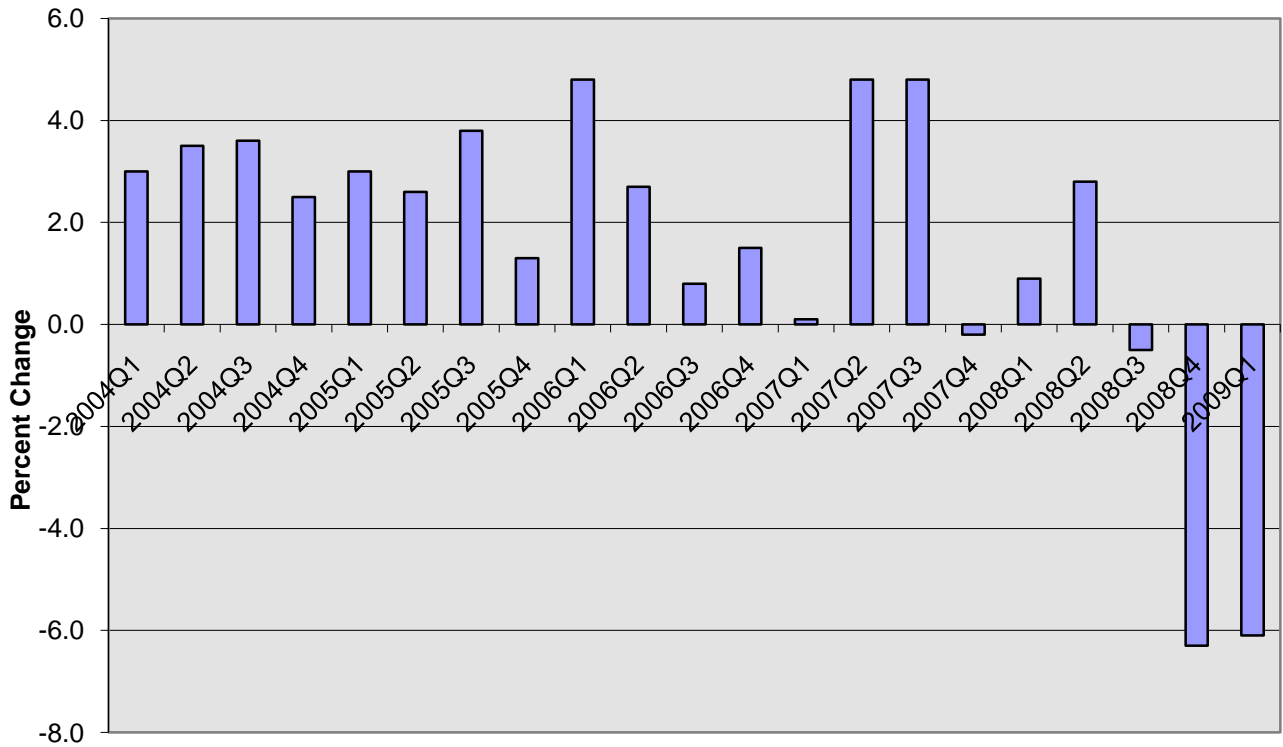
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The Wehle School of Business at Canisius College publishes the *Western New York Economic News* as a public service to the Western New York community with research and analysis performed by faculty members:

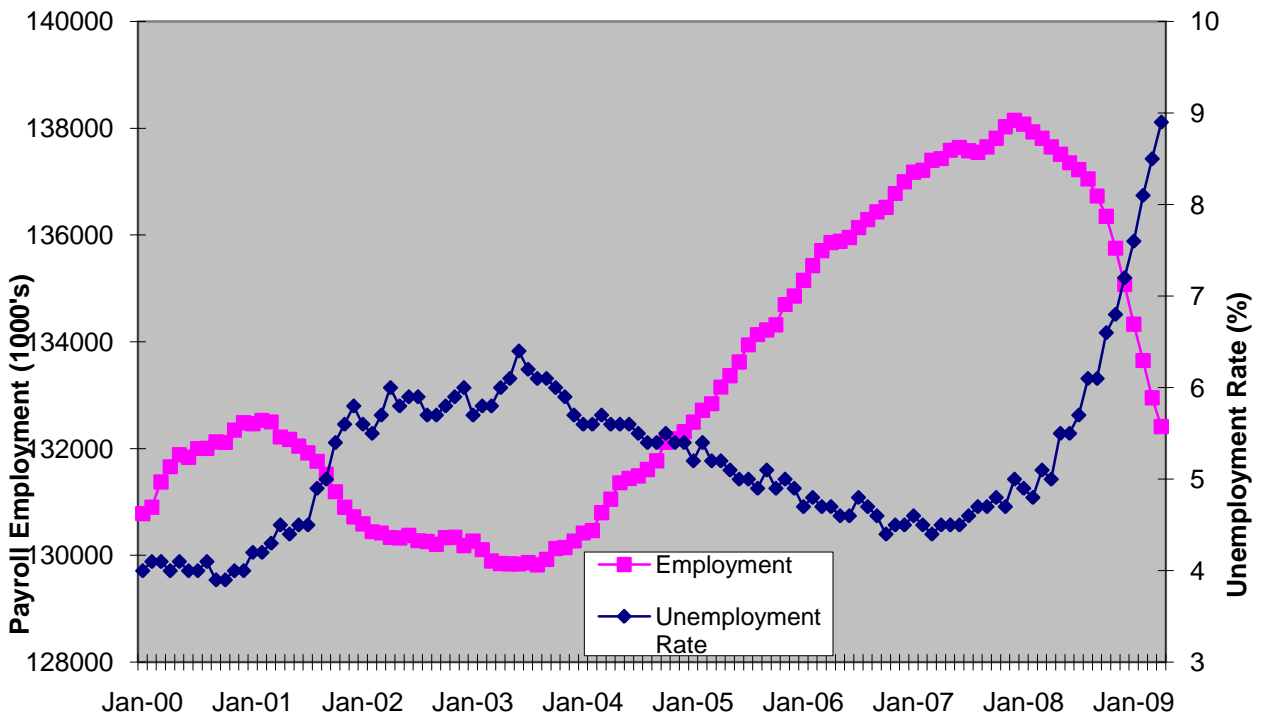
**George Palumbo, Ph.D. - Professor of Economics & Finance** email: [palumbo@canisius.edu](mailto:palumbo@canisius.edu)

**Mark P. Zaporowski, Ph.D. - Professor of Economics & Finance** email: [zaporowm@canisius.edu](mailto:zaporowm@canisius.edu)

**Figure 1. Real GDP Growth Rates (2004:Q1 - 2009:Q1)**

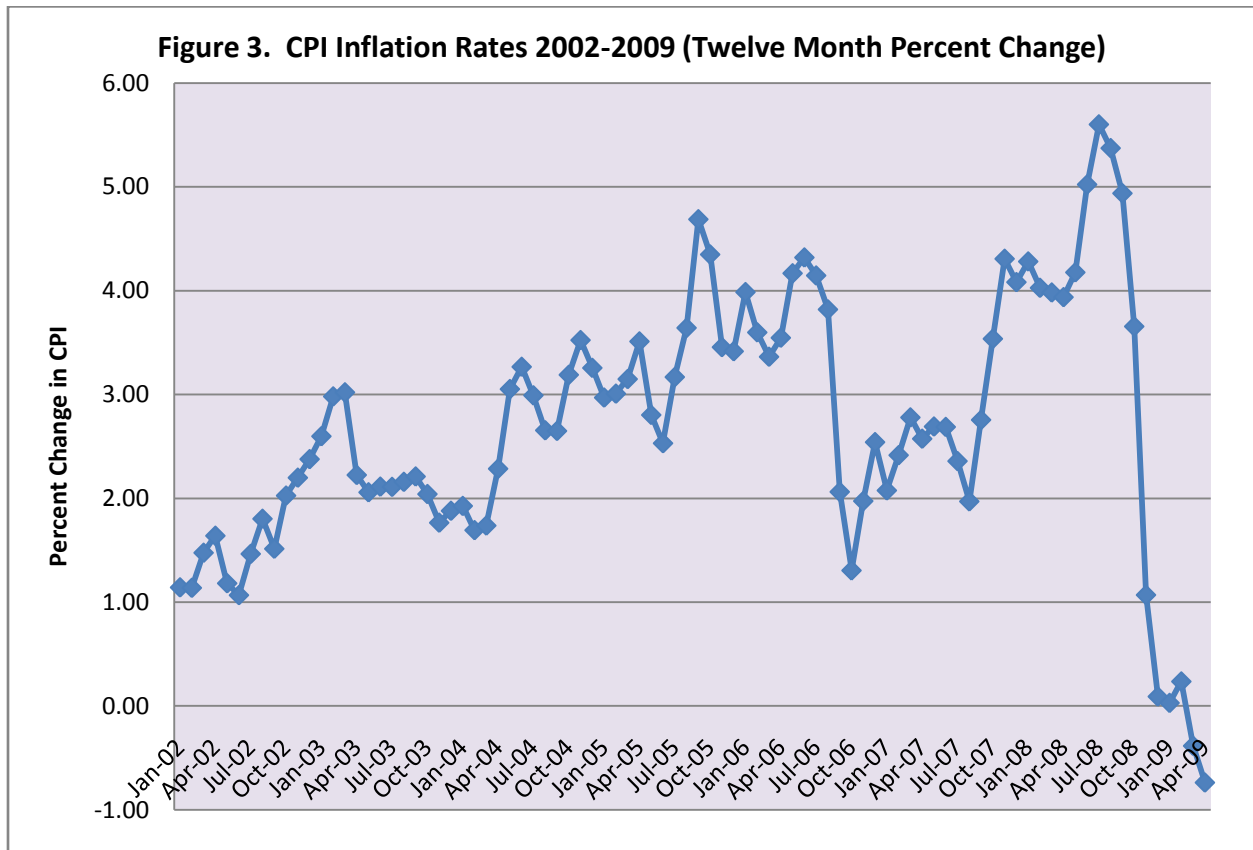


**Figure 2. US Payroll Employment & the Unemployment Rate**



Labor markets (see Figure 2) have deteriorated as one would expect during business cycle downturns. The April 2009 unemployment rate of 8.9% is at its highest level since September 1983 while the payroll employment data shows that more than 5.7 million jobs have been lost since the employment peak in December 2007 ([www.bls.gov](http://www.bls.gov)). It is likely that the unemployment rate will continue to rise and payrolls will continue to shrink during the second quarter.

The Consumer Price Index (see Figure 3), which was advancing at more than a 5% rate during the summer of 2008 has decelerated very rapidly and showed a decline of .74% between April 2008 and April 2009. This is the first year-over-year deflation based on the CPI since 1955.



The Federal Reserve has resorted to unusual policy maneuvers in order to add liquidity to the financial system. The Fed has reduced its federal funds (the rate at which banks lend reserves to one another) target range to between 0 and .25%. Traditionally, the Fed has stimulated the economy by adding reserves to the banking system via open market purchases of Treasury securities. These purchases lead to reductions in the federal funds rate and other market interest rates with the hope that interest sensitive expenditures such as housing, automobile purchases and business investment will increase along with GDP. Since the federal funds rate is already very close to zero, the Fed has run out of room with their traditional policy. The Fed has resorted to extensive expansion of its balance sheet through its Term Asset Backed Securities Loan Facility

(TALF) and through purchases of agency mortgage backed securities and commercial paper in an attempt to provide liquidity to the financial system. The Fed is offering \$200 billion of 3 year loans under TALF with AAA rated asset backed securities via auto loans, student loans and credit card loans acting as collateral. The Fed is on target to provide \$500 billion by June via its agency guaranteed mortgage backed security loan program. Clearly, the Fed has done its job of providing liquidity to a financial system which was in shambles.

## The Economic Outlook for the Buffalo Region

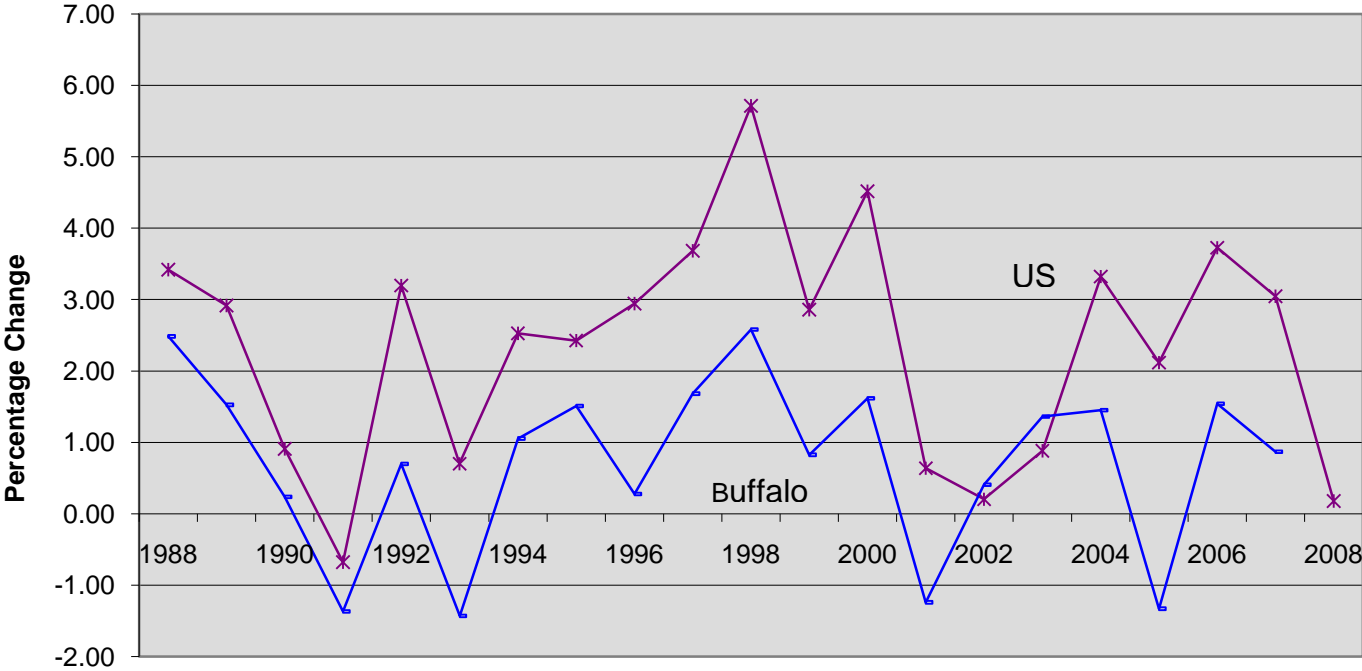
The Bureau of Economic Analysis of the US Department of Commerce <http://www.bea.gov> released personal income data for the Buffalo region in April 2009. Real personal income growth rates for the Buffalo area, the U.S., and the Rochester area, appear in Table 1. Real personal income grew by 1.09% in Rochester and by .87% in Buffalo in 2007. Both areas grew at a slower rate compared to the national economic growth rate of 3.05%. In 2008, real personal income grew by only .18% in the U.S. and is on track to decline by .29% in 2009. We project that real personal income will decline by 1.2% and 1.6% in Buffalo in 2008 and 2009. In Rochester, we expect real personal income to decline by .9% and 1.2%, respectively. The growth rate of real personal income in the Buffalo area has been strongly correlated with the growth of real personal income in the US over the period 1980-2007 (Pearson correlation coefficient = .85). We use historic growth rates of real personal income in the US and Buffalo to generate the forecast of the change in real personal income for Buffalo in 2008 and 2009 (bold face type in Table 2). Each 1% growth in U.S. real personal income has been met by a 0.84% growth in Buffalo area real personal income. The historic relationship between these growth rates is shown in Figure 4.

**Table 1**

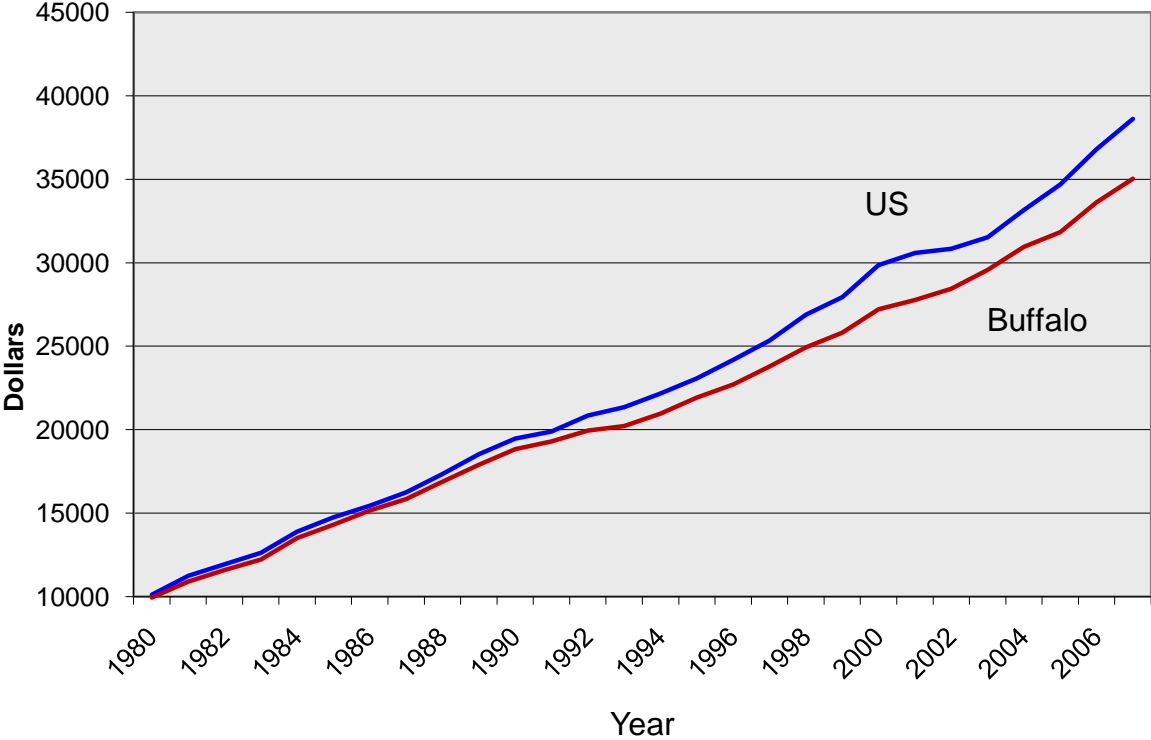
### Real Personal Income Growth Rates: Buffalo, US, Rochester

YEAR	BUFFALO PERSONAL INCOME (MILLIONS OF 2001\$)	BUFFALO PERCENT CHANGE	US PERCENT CHANGE	ROCHESTER PERCENT CHANGE
2000	32,711.5	1.62	4.52	1.46
2001	32,306.3	-1.24	0.64	-0.11
2002	32,438.4	0.41	0.20	-0.52
2003	32,880.9	1.36	0.88	-0.59
2004	33,358.5	1.45	3.32	2.81
2005	32,915.6	-1.33	2.12	0.28
2006	33,423.3	1.54	3.73	1.26
2007	33,714.2	0.87	3.05	1.09
<b>2008</b>		<b>-1.20</b>	0.18	<b>-0.90</b>
<b>2009</b>		<b>-1.60</b>	<b>-0.29</b>	<b>-1.20</b>

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

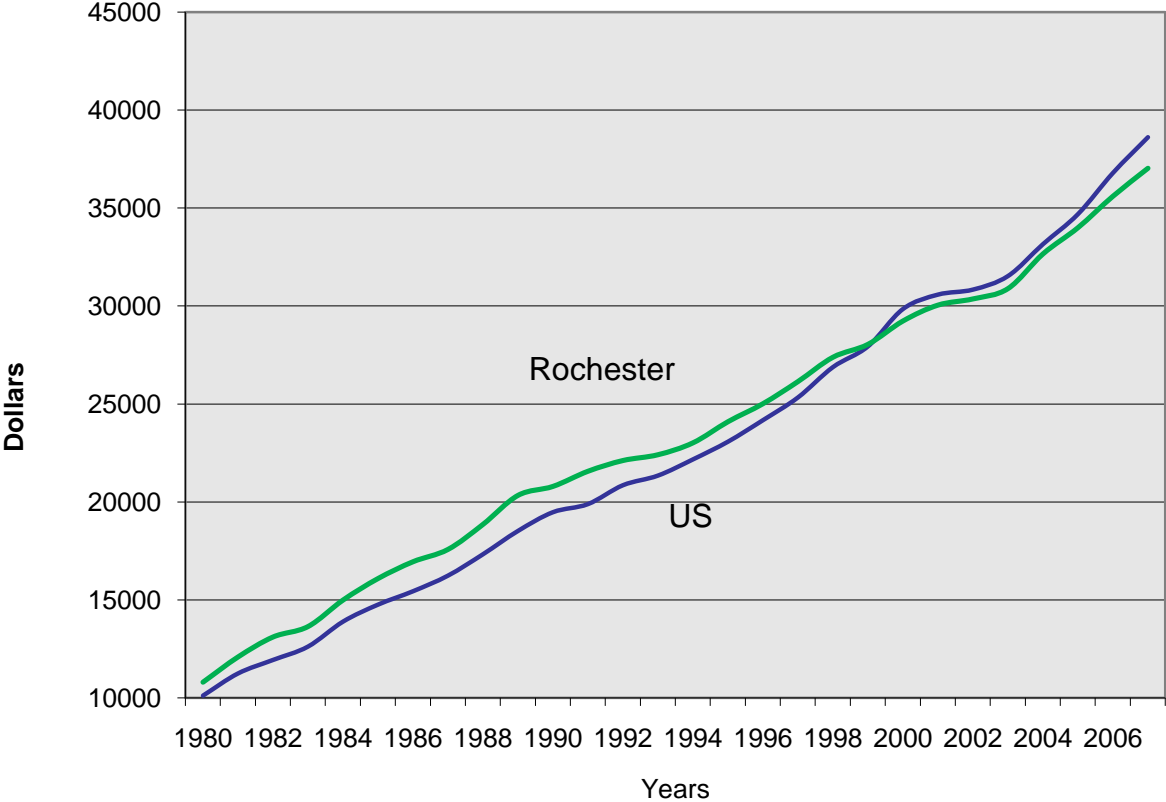


**Figure 5. Per Capita Personal Income: US v. Buffalo**



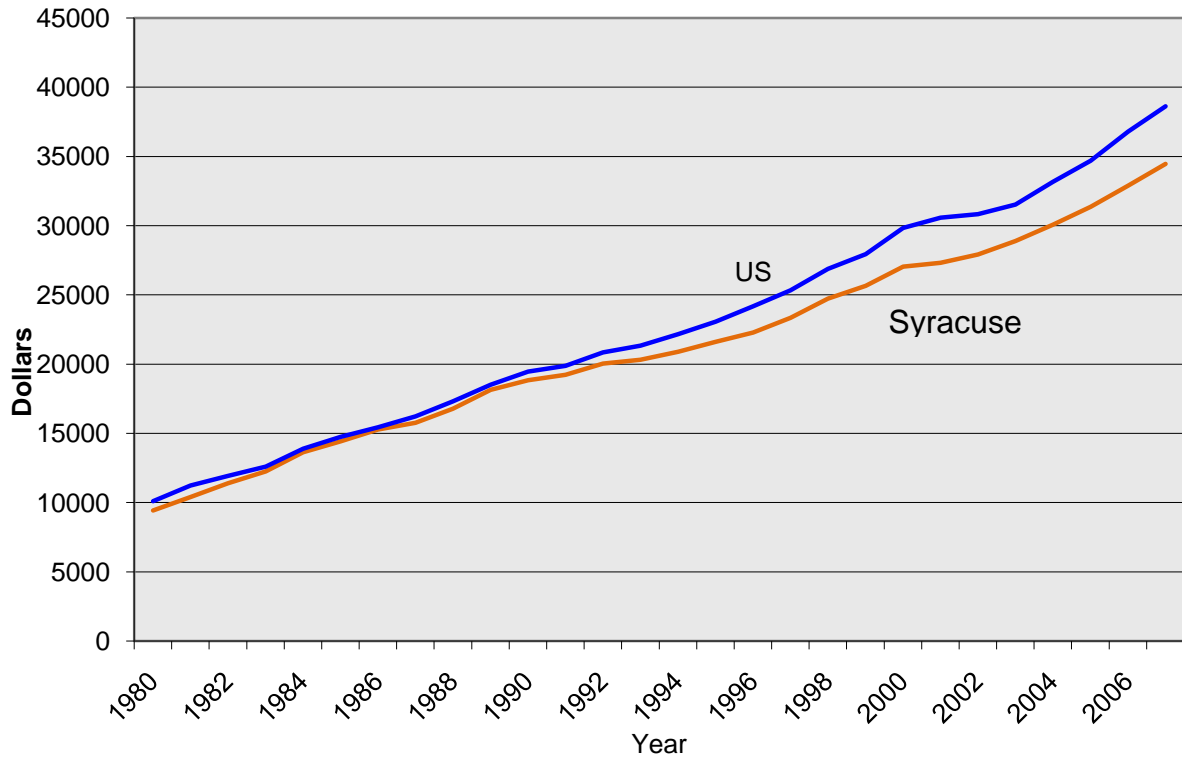
While the relative rates of change in real income are shown in Figure 4, the relationship between per capita income in the US and Buffalo are more easily identified in Figure 5. Personal income as measured by the BEA on a per capita basis in the Buffalo metropolitan area has persistently fallen below the US average for most of the last three decades. There is little reason to believe that this pattern will change in the near future. It is also clear that this persistent pattern has become pervasive throughout the upstate metropolitan areas, as can be seen in Figures 6 and 7.

**Figure 6. Per Capita Personal Income: US v. Rochester**

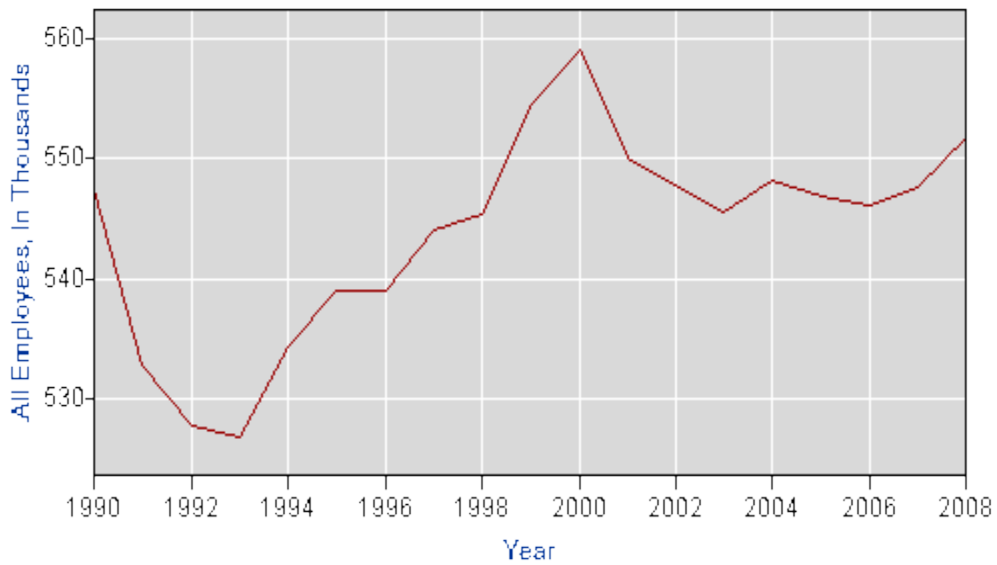


While the relative decline in the Rochester metropolitan area began later than in Buffalo, it is persistent and the gap continues to widen. The gap between the US average and per capita income in Syracuse started earlier than in Rochester and seems to be widening more dramatically than in either of the other major upstate areas. The conclusion seems inescapable, these three manufacturing centers of the mid-20<sup>th</sup> century, have lost the principal drivers of high wages and higher than average incomes.

**Figure 7. Per Capita Personal Income: US v. Syracuse**

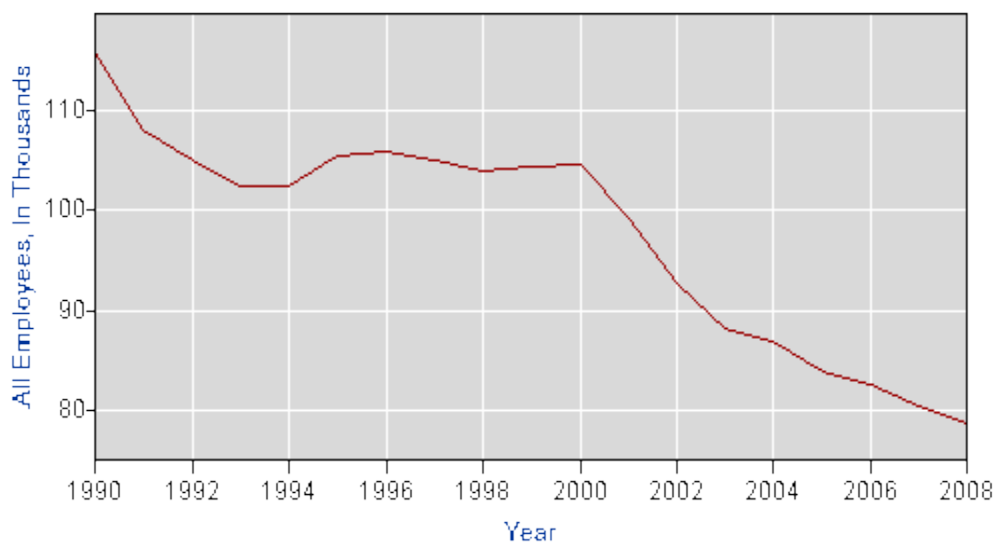


**Figure 8. Total Non-Farm Employment Buffalo MSA: 1990 - 2008**



Figures 8 through 10 provide some insight into the changing nature of the Western New York economy. The fall issue of this newsletter will provide a deeper analysis of the Rochester and Syracuse areas.

**Figure 9. Total Goods Producing Employment Buffalo MSA: 1990 - 2008**



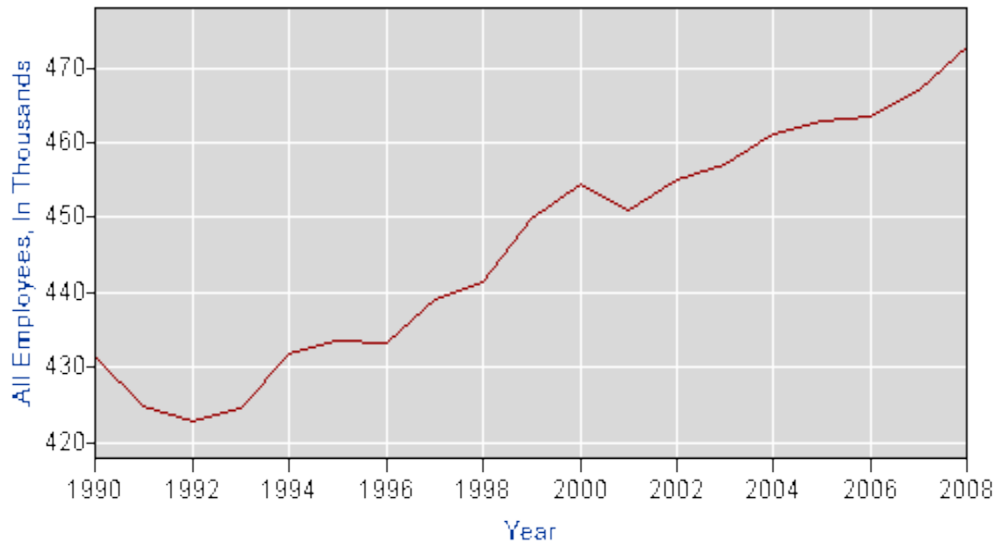
In 2008, total non-farm employment (Figure 8) in Buffalo was still below peak employment which occurred prior to the 2001 recession. Once again the Buffalo MSA followed the pattern of falling deeper into recession and recovering less fully from the last recession than did the nation as a whole. Employment levels in Buffalo so far in 2009 are approximately 10,000 lower for the first quarter of 2009 than they were in the first quarter of 2008. We do not see any reason to believe that there has been a fundamental structural change that would bring about a different result during the current recession. If it follows the traditional pattern, it will be more severe than the national recession, it will last longer, and the region will be worse off after the recovery than it was before the recession.

Figure 9 shows the sector of most concern to us. The continuous decline in the goods producing sector has had a substantial negative effect on the regional economy. It is likely the single biggest explanatory factor for the growing gap between US and Buffalo per capita income. Recessions are often most profoundly felt in the durable goods producing sector, though the upheaval in financial services at the outset of the current recession may have masked the problems in durable goods production.

The current uncertainty in the automobile industry, both narrowly defined as the auto producers, and more broadly identified as those firms supporting this sector poses a considerable threat to the local economy. Disclosure rules prevent an accurate

measurement of the impact of the ongoing calamity in the auto industry, but it would be hard to overstate the impact of bankruptcy proceedings on current and past auto workers in the region. The resultant contraction in income and spending would most certainly induce considerably more economic hardship on those of us who derive our income in part from their spending.

**Figure 10. Total Service Providing Employment Buffalo MSA: 1990 - 2008**



Service providing employment (Figure 10) has exhibited significant growth in contrast to the significant decline in goods producing employment. Since goods producing workers earn almost twice as much per capita compared to employees in the service sector, unless either service sector wages or employment grow substantially, it will take two service jobs for each goods producing job lost to keep the region's wage income at a constant level.

The present economic contraction might be felt in ways not familiar to most local residents. The combination of a decade of property value growth at half the rate of inflation and a continuing exodus of jobs and population from the region has made local taxpayers focus on cutting the cost of local government. The choice of residents in the future will be either a reduction in desirable and important public services like education, police and fire protection or a containment of costs in the form of reducing overall compensation of public employees. Public sector service workers may bear a greater share of the current economic contraction than has been the case in the past. This is the result of long term regional economic decline for Western New York.

<b>NATIONAL, STATE &amp; LOCAL BUSINESS INDICATORS</b>					
					<b>% change</b>
<b>NATIONAL INDICATORS</b>					<b>2008:I -</b>
	<b>2008:I</b>	<b>2008:III</b>	<b>2008:IV</b>	<b>2009:I</b>	<b>2009:I</b>
Real GDP (billions of chained 2000\$) (1)(a)	11,646.0	11,712.4	11,522.1	11,340.9	-2.6
US Personal Income (billions of \$)	11,960.5	12,170.4	12,127.5	12,067.6	0.9
					<b>% change</b>
					<b>Mar-08 -</b>
	<b>Mar-08</b>	<b>Jan-09</b>	<b>Feb-09</b>	<b>Mar-09</b>	<b>Mar-09</b>
Consumer Price Index (1982-84=100) (2)	213.528	211.143	212.193	212.709	-0.38
Exchange Rate Canadian cents/US \$ (3) (b)	102.67	122.900	127.210	126.090	22.81
10 Year Treasury Note Yield (%) (3) (b)	3.45	2.84	3.04	2.69	-0.76
3 Month Treasury Bill Yield (%) (3) (b)	1.38	0.22	0.26	0.20	-1.18
S&P 500 Stock Index (3) (b)	1,322.70	825.88	735.09	797.87	-39.68
Dow-Jones Industrial Average (3) (b)	12,262.89	8,000.86	7,062.93	7,608.92	-37.95
<b>LABOR MARKET TRENDS (2)</b>					
Nonag Civilian Employment					
US (1000's)(a)	137,814	134,333	133,682	133,019	-3.48
NY State (1000's)(a)	8,800.9	8,699.4	8,674.5	8,640.4	-1.82
WNY (1000's)	542.9	530.2	529.4	531.8	-2.04
Unemployment Rate (%)					
US (a)	5.1	7.6	8.1	8.5	3.4
NY State (a)	4.8	7.0	7.8	7.8	3.0
WNY*	6.1	9.1	9.6	9.2	3.1
Ave. Weekly Hours in Mfg. US (a)	41.2	39.8	39.5	39.3	-1.9
Ave. Weekly Earnings in Mfg. US (\$) (a)	726.77	716.00	713.37	710.54	-2.23
Ave. Weekly Earnings (1982\$)(a)	279.82	287.60	286.95	286.96	2.55
<b>WNY EMPLOYMENT BY SECTOR (1000's) (2)</b>					
Natural Resources, Mining & Construction	16.9	17.1	16.5	16.7	-1.18
Manufacturing	58.1	56.1	55.7	55.7	-4.13
Trade, Transportation & Utilities	101.2	100.5	98.1	98.1	-3.06
Durable Goods	35.3	33.9	33.6	33.6	-4.82
Finance Activities	32.6	32.4	32.4	32.5	-0.31
Service Providing	467.9	457.0	457.2	459.4	-1.82
Government	96.2	94.5	96.1	96.3	0.10
(1) US Dept. of Commerce	(a) Seasonally Adjusted				
(2) US Dept. of Labor	(b) End of month data				
(3) Wall Street Journal					