

# Western New York ECONOMIC NEWS

## Canisius College

### Richard J. Wehle School of Business

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The national economic contraction that started in the spring of 2001 is apparently over, barring any external shocks like catastrophic terrorist attacks or surprisingly rapid increases in energy prices. Western New York has historically lagged the rest of the nation in recovery from recession, though it is difficult to separate the secular decline of the region from the cyclic variations around the long-term downward trend. The issuance of the BEA earnings report for the year 2000 as well as the most recent Census information, gives every indication that the past is indeed a precursor to the economic future of Western New York. The full text and supporting documents of this newsletter appear on the Internet under the address <http://www.canisius.edu/wnyeconomicnews>.

#### **The National Economic Outlook**

Advance estimates of first quarter 2002 real GDP show the US economy growing at an annual rate of 5.8%, after annual rates of 1.3%, .3%, -1.3%, and 1.7% during the four quarters of 2001. The GDP data suggests that the recession of 2001 is history. If the economy does, in fact, avoid a double dip recession, the 2001 downturn will have been relatively minor in magnitude and short in duration. Consumers were responsible for preventing a more severe recession from occurring, as real consumption growth remained positive through the four quarters of 2001. Declining business investment appears to have been the main cause of the recession.

The inflation outlook appears mild as the Consumer Price Index advanced at a 1.64% rate from April 2001 to April 2002, moderating from its more rapid 3% pace in 1999 and 2000 <http://www.bls.gov>. The Federal Reserve, which cut the federal funds target several times in 2001, has kept short-term interest rates very low. Three month US Treasury security yields are at 1.75%, 244 basis points below their May 2001 level. Ten year US Treasury note yields are largely unchanged from May 2001.

The economic slowdown has had a considerable impact on labor markets. The national unemployment rate has edged up to 6.0%, its highest level since August 1994. Payroll employment increased by 43,000 in April as the economy seems to be rebounding from the layoffs that the recession precipitated. The Buffalo area unemployment rate declined to 5.8% in April from its 6.5% level in March.

#### **The Economic Outlook for the Buffalo Region**

The Bureau of Economic Analysis of the US Department of Commerce <http://www.bea.gov> released revised personal income data for the Buffalo region in May 2002. The data and growth rates for Buffalo, the US, and New York State, appear in Table 1.

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Real personal income growth in the Buffalo area increased at an anemic .63% in 2000 after stagnating in 1999. These growth rates are far below those of the nation as a whole and New York State. In fact, while the national economy soared during the decade of the 1990's, the Buffalo region failed to share in this growth. Furthermore, there appears to be no local economic developments on the horizon that suggest a reversal in the region's fortunes over the next decade. Given the national recession during 2001 and national real personal income growth amounting to only 2%, it is likely that the Buffalo region will have experienced a decline of real personal income in 2001. The economic performance of the region during 2002 depends largely upon the robustness of the national recovery.

**TABLE 1**

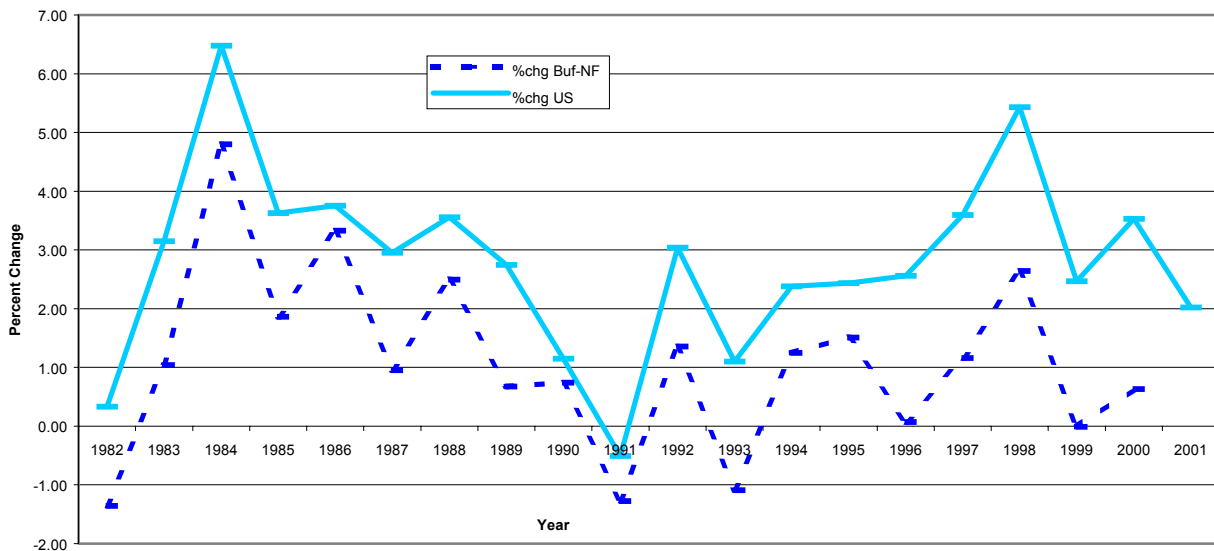
**Real Personal Income Growth Rates: Buffalo, US, New York State**

<b>YEAR</b>	<b>BUFFALO PERSONAL INCOME (MILLIONS OF 1982\$)</b>	<b>BUFFALO PERCENT CHANGE</b>	<b>US PERCENT CHANGE</b>	<b>NEW YORK STATE PERCENT CHANGE</b>
1990	17,130.9	0.74	1.15	0.81
1991	16,912.9	-1.27	-0.50	-1.31
1992	17,141.9	1.35	3.04	2.47
1993	16,955.1	-1.09	1.10	-1.09
1994	17,166.2	1.25	2.38	0.53
1995	17,425.5	1.51	2.44	2.24
1996	17,437.4	0.07	2.56	2.50
1997	17,639.6	1.16	3.59	1.91
1998	18,106.0	2.64	5.43	5.02
1999	18,103.4	-.01	2.47	1.96
2000	18,217.5	.63	3.53	3.57
<b>2001</b>		<b>-.50</b>	2.02	
<b>2002</b>		<b>1.50</b>		

Historic growth rates of real personal income in the US and Buffalo are used to generate the forecast of the change in personal income for Buffalo in 2001 and 2002 (bold face). This forecast assumes that US real personal income will grow by 3% in 2002. The growth rate of real personal income in the Buffalo area has been strongly correlated with the growth of US real personal income over the period 1982-2000 (Pearson correlation coefficient = .88). It should be noted that this correlation has weakened slightly since 1996. Each 1% growth in US real personal income has been met by a .85% growth in Buffalo area real personal income. The historic relationship between these growth rates is shown in Figure 1. The cyclical slowdown in the growth of personal income has historically been felt more intensely in the local economy. If past patterns hold then the Western New York economy will contract in real terms in 2001 and will take longer to recover than the nation as a whole.

Over the period April 2001-April 2002, employment in the US has declined by approximately .95% while Buffalo employment increased by .35%. New York State employment declined by 1.29% over the same period, a continuation of the decline that began in May 1991.

Figure 1: WNY v. US Real Personal Income Growth Rates



There is a significant difference between employment and earnings, however. Earnings per worker in Buffalo fell below the national average in 1989 and remained so throughout the following decade. Whether or not earnings per worker will continue to fall relative to the national economy, is the crucial question about the health of the regional economy. This decline will negatively impact per capita income, which defines the ability of local residents to obtain the goods and services produced elsewhere. In the year 2000, 110 U.S. metropolitan areas had higher average annual earnings per worker than those received by the worker in Buffalo. The trend is obvious and ominous, what we produce in Western New York is becoming less and less desirable to the rest of the world. This is the key issue for those of us who call this region home and would like to see the region provide employment and earning opportunities for our children. A more important question than how many new jobs are created in the region is how much does each job pay. What are the opportunities for current and future workers?

The apparent demise of Adelphia Communications and its implications on the Western New York economy needs clarification. If Adelphia sells its cable system components around the nation, the need for a centralized technical center may well evaporate, along with the jobs that were trumpeted by the firm and community economic developers. The technical jobs that Adelphia promised were reputed to pay substantially more than the regional average salary. The loss of these jobs, and the subsequent decline in earnings capacity, will have a profound negative impact on the community. Historically, the Buffalo region has entered recessions before the nation, fallen more deeply than the nation, taken more time to recover, and recovered less fully than the nation from national economic contractions. The potential collapse of Adelphia, and the loss of the high-end jobs that were promised (jobs that pay more than the \$31,420 per year average), will only help to guarantee that the Buffalo region will continue its recent history of economic decline. One can only wonder whether the Adelphia debacle will alter future policies of state and local development officials in their quest for *new jobs*. It would seem that the crucial question is the earnings potential for each worker and the viability of the firms promising to deliver those earnings.

# NATIONAL, STATE & LOCAL BUSINESS INDICATORS

	% change				
<b>NATIONAL INDICATORS</b>	<b>2001:I</b>	<b>2001:III</b>	<b>2001:IV</b>	<b>2002:I</b>	<b>2001:I-2002:I</b>
Real GDP (billions of chained 1996\$) (1)(a)	9,334.5	9,310.4	9,348.6	9,482.1	1.6
US Personal Income (billions of \$)	8,640.2	8,771.8	8,767.2	8,877.2	2.8
	<b>Apr-01</b>	<b>Feb-02</b>	<b>Mar-02</b>	<b>Apr-02</b>	<b>Apr-01 - Apr-02</b>
Leading Indicators Index (1996=100) (1)(a)*	108.8	112.2	112.3	111.7	2.67
Consumer Price Index (1982-84=100) (2)	176.9	177.8	178.8	179.8	1.64
Exchange Rate Canadian/US \$ (3) (b)	65.1	62.5	62.8	63.8	-2.01
10 Year Treasury Bond Yield (%) (3) (b)	5.33	4.89	5.39	5.09	-0.24
3 Month Treasury Bill Yield (%) (3) (b)	3.80	1.73	1.75	1.76	-2.04
S&P 500 Stock Index (3) (b)	1,249.5	1,106.7	1,147.4	1,076.9	-13.81
Dow-Jones Industrial Average (3) (b)	10,735.0	10,106.1	10,403.9	9,946.2	-7.35
<b>LABOR MARKET TRENDS (2)</b>					
Nonag Civilian Employment					
US (1000's) (a)	132,489	131,208	131,187	131,230	-0.95
NY State (1000's) (a)	8,645.6	8,547.9	8,541.3	8,534.4	-1.29
WNY (1000's)	545.9	543.6	546.2	547.8	0.35
Unemployment Rate (%)					
US (a)	4.5	5.5	5.7	6.0	1.50
NY State (a)	4.5	5.9	5.9	6.1	1.60
WNY	4.8	7.1	6.5	5.8	1.00
Ave. Wkly. Hours in Mfg. WNY	42.0	42.1	42.4	42.7	1.67
Ave. Wkly. Earnings in Mfg. WNY (\$)	764.96	790.22	800.51	809.17	5.78
Ave. Wkly Hours in Mfg. US	41.0	40.5	40.9	40.8	-0.49
Ave. Wkly. Earnings in Mfg. US (\$)	588.13	610.95	620.45	620.98	5.59
<b>WNY EMPLOYMENT BY SECTOR (1000's) (2)</b>					
Construction and Mining	20.3	16.9	17.4	19.1	-5.91
Manufacturing	84.5	80.9	80.7	80.3	-4.97
Transportation and Public Utilities	26.2	26.9	26.9	26.5	1.15
Wholesale and Retail Trade	128.0	125.0	125.1	125.4	-2.03
Finance, Insurance and Real Estate	30.3	31.0	31.2	31.2	2.97
Services	172.3	169.6	171.2	172.3	-0.52
Government	91.6	93.3	93.7	93.0	1.53

(1) US Dept. of Commerce

(a) Seasonally Adjusted

(2) US Dept. of Labor

(b) End of month data

(3) Wall Street Journal