Western New York ECONOMIC NEWS
Canisius College
Richard J. Wehle School of Business

Volume 6, Number 3 **Third Quarter 2003**

This issue of *Western New York Economic News* details the emerging national economic recovery, which has been accompanied by substantial weakness in the labor market, lost jobs and rising unemployment. Of special concern to Western New Yorkers is the on-going restructuring of the economic base which continues to shed relatively high wage manufacturing jobs, particularly in the durable goods sector. The rather stunning losses in manufacturing employment in Rochester since the end of the 1991 recession paint a picture of a region in transition to a lower standard of living.

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

The National Bureau of Economic Research's (NBER) business-cycle dating committee has finally called an official end to the recession that began in March 2001. The committee determined that the trough in business activity occurred in November 2001 (see www.nber.org). According to the NBER, the duration of the 2001 recession was 8 months. This is almost 3 months less than the 10.66 month mean duration of recessions that have occurred since the end of World War II. The duration and magnitude of the ten recessions that have occurred in the U.S. since the end of WW II are shown in Table 1 below. In determining the severity of a recession, the magnitude of decline in real GDP should be considered. Placing the .62% decline in real GDP from the recent recession in historical context shows that the 2001 recession was relatively mild. The mean decline in real GDP from post WW II recessions is 2.08%. By both duration and magnitude, the 2001 recession seems to have been mild compared to post WW II recessions.

Advance estimates of 2003:Q2 real GDP shows the economy growing at an annual rate of only 2.4%. This comes after 1.4% annual rates of increase during 2002:Q4 and 2003:Q1. A rebound in personal consumption expenditures on durable goods and an increase in government expenditures were largely responsible for the pick-up in the GDP growth rate. Anemic business investment and erosion in the trade balance have kept the recovery from being more robust.

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

TABLE 1

US BUSINESS CYCLE EXPANSIONS & CONTRACTIONS SINCE WW II

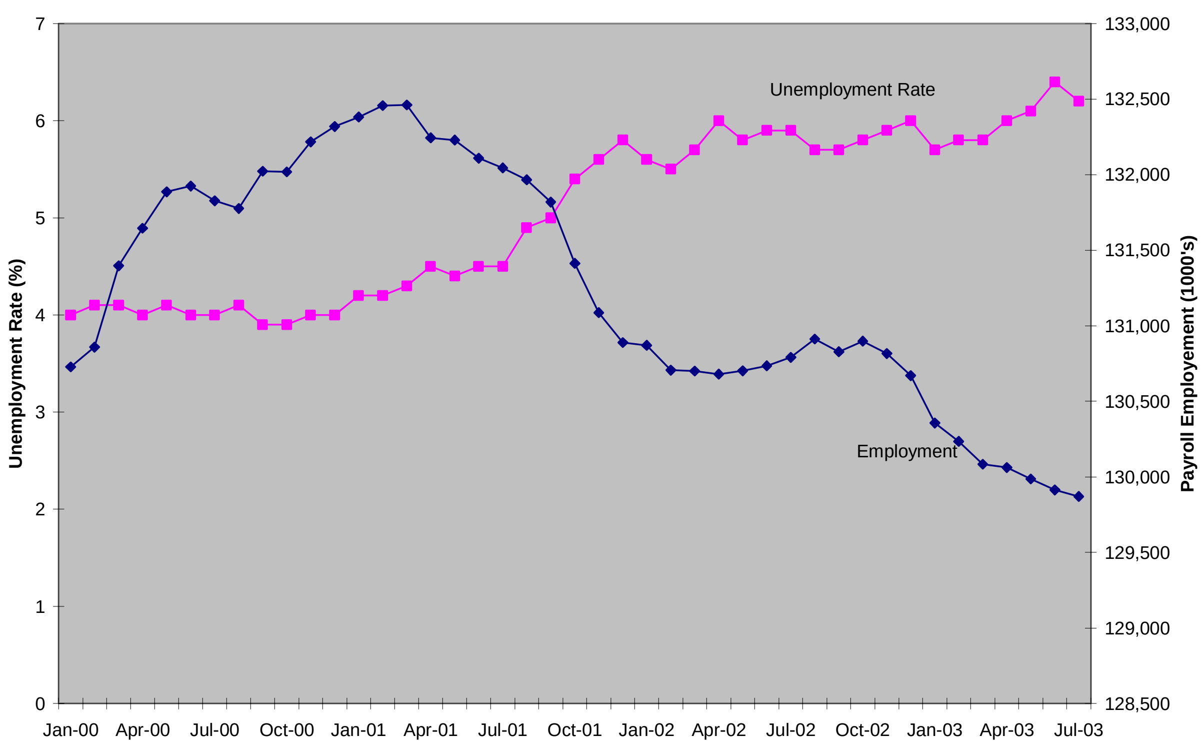
Peak Date	**Trough Date**	**Duration of Contraction**	**Duration of Expansion**	**Percent Decline in Real GDP**
November 1948	October 1949	11 months	47 months	1.59%
July 1953	May 1954	10 months	45 months	2.72%
August 1957	April 1958	8 months	39 months	3.71%
April 1960	February 1961	10 months	24 months	1.59%
December 1969	November 1970	11 months	106 months	0.61%
November 1973	March 1975	16 months	36 months	3.40%
January 1980	July 1980	6 months	58 months	2.19%
July 1981	November 1982	16 months	12 months	2.86%
July 1990	March 1991	8 months	92 months	1.49%
March 2001	November 2001	8 months	120 months	0.62%

The slow growth recovery has caused the national unemployment rate to rise to 6.2% in July 2003, .3% higher than its level in July 2002 (see Figure 1). The economy has shed 920,000 jobs since July 2002 and 2,591,000 jobs since the March 2001 peak in economic activity. These labor market developments are one reason why the NBER has taken so long to call an end to the 2001 recession. Indeed the NBER warned that further economic contractions would signal the beginning of a new recession rather than the continuation of the decline begun in March 2001. Rather than focusing strictly on the labor market, the NBER considered the modest, but positive, growth rates of real GDP, and real personal income, as well as increases in industrial production and wholesale and retail sales in calling an end to the 2001 recession. However, the NBER report also explains that through July, the income, production and employment series that they considered have shown less improvement than is typical in the months following an economic trough. Employment series has continued to fall more than one would expect during the recovery phase of the business cycle. Until economic growth picks up considerably, one can expect that the unemployment rate will remain stagnant or increase slightly while payroll employment stagnates or shows a modest decline.

The likelihood of a double dip recession remains a concern and could occur if a significant exogenous shock like another terrorist event, deterioration of the situation in Iraq, or a detrimental development in the energy market occurs. However, leading economic indicators have risen for several months in a row and point toward a future sustained economic expansion. At this point, we place the likelihood of another recession during the next six months at only 10%.

In its June 25 meeting, the Federal Open Market Committee announced a decrease in the federal funds rate target of 25 basis points to 1% along with an equal reduction in the discount rate for primary credit to 2%. Three month US Treasury security yields are at .95%, while ten-year US Treasury note yields are at 4.27% as of September 12. Historically, one must go back to the 1950's to see interest rates at these low levels. The three month Treasury yield has declined 326 basis points since the business cycle peak of March 2001. The ten year Treasury yield reached its nadir in May 2003, declining 155 basis points since March 2001. Two factors are primarily responsible for the downward trend in interest rates. Inflation expectations have declined considerably since March 2001, while the supply of credit has outstripped the demand for credit in the relatively weak economy. Weakness in the demand for credit by firms has dominated the strong credit demand by consumers in the housing and automotive markets. During the past month, there has been a significant change in this trend as the yield curve has steepened considerably. Short term yields have remained relatively stable while long term yields have increased by more than 100 basis points since May.

Figure 1: U.S Payroll Employment and Unemployment Rate



The impact of the rather substantial Federal government deficits, projected to be more than $500 billion in the near future, could have a chilling affect on the nascent recovery, at the national and regional level. However, given the relatively low interest rates and the huge level of cash assets that presently exist, this seems unlikely.

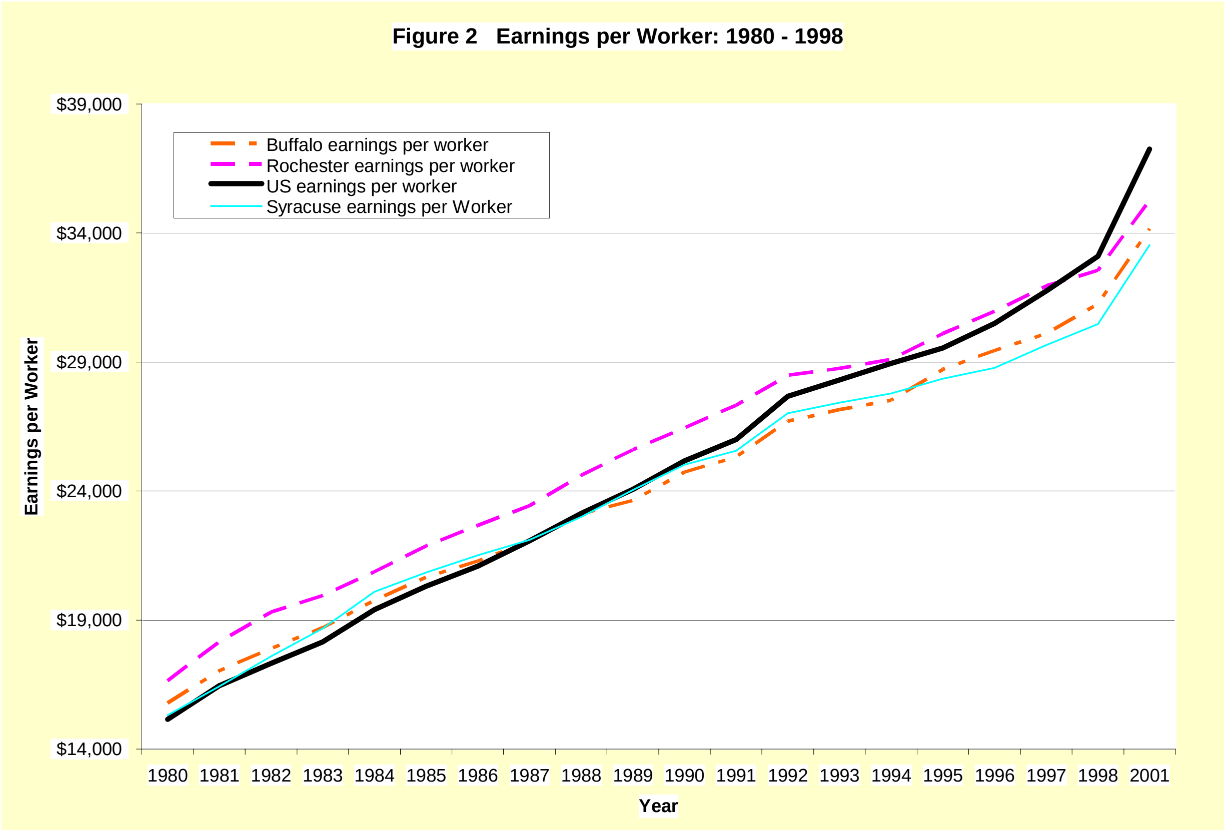
The Economic Outlook for the Buffalo Region

Data from the New York State Department of Labor **http://www.labor.state.ny.us/** indicate that the upstate metropolitan areas, in general, and the Buffalo area more seriously, are still in the throes of a long term economic restructuring. As shown in several previous issues of *Western New York Economic News,* the Buffalo region has historically entered recessions before the rest of the nation, has fallen deeper, has stayed in recession longer and recovered less fully from economic contractions than the nation as a whole. As shown in our last issue, Western New York again led the nation into this recession, and had somewhat greater declines in employment than the nation, especially in the durable goods sector. When measured by the unemployment rate, the Buffalo region has fared no worse than the rest of the country.

The durable goods industries have been the most cyclically sensitive sectors of the local economy with fabricated metals and automobiles the most sensitive to decline within the sector. For each percentage point of earnings decline in national economy during a recession, fabricated metals earnings in Western New York have historically declined 1.60 percent, primary metals 1.38 percent and automotive 1.28 percent. Of particular concern to the region are the findings of the Federal Reserve Bank of New York eported in *Current Issues in Economics and Finance*, that the job losses from the current recession are largely permanent in nature and recovery could be longer and more painful than from past recessions www.newyorkfed.org/rmaghome/curr_iss. This is particularly troublesome for Western New Yorkers who suffered through a prolonged recovery from the 1991 recession.

While the duration of the economic contraction in the Buffalo metropolitan area is yet to be determined, the relative decline in earnings per worker when the Buffalo region is compared to the nation may well have accelerated. In 2001, the average worker earned $34,156 in the Buffalo metropolitan area, compared to $37,258 nationally, 8.3% lower than the national average. In 1998 the average Buffalo worker only earned 5.6% less than the national average. As shown in Figure 2, the pattern has been getting progressively worse for more than 15 years. As the upstate New York manufacturing base continues to decline, the earnings per worker in the three major upstate metropolitan areas have all fallen below the nation average.

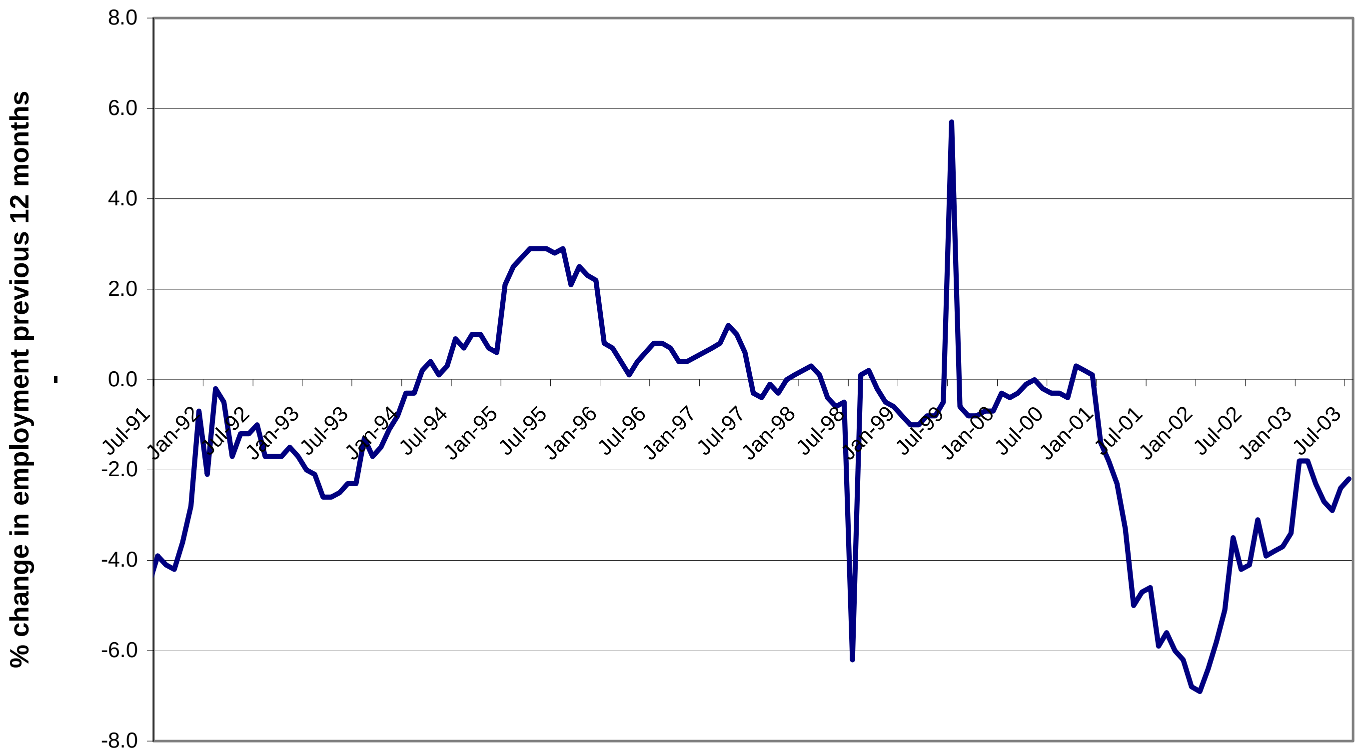
While this alone is very serious, the fact that national recessions have historically signaled continuing declines in the Western New York region is further cause for concern. When will the recession of 2001 end in Western New York and the rest of the upstate metropolitan areas? Following the end of the national recession in 1991, employment did not return to pre-recessionary levels until 1998 in Western New York. A similar result is likely to occur in Western New York's recovery from the 2001 recession.



The importance of earnings per worker to the economic well-being of the region cannot be overstated. It is labor earnings that generate income to the residents of the upstate economies, accounting for over 82% of personal income in the Buffalo region. It is income that drives consumption, housing values, the tax base and public services in the region. As earnings fall relative to the rest of the nation, our standard of living in the region falls. Manufacturing earnings has traditionally been the highest paying sector in the Buffalo region. Earnings per worker in manufacturing are almost 45% higher than the regional average. The decline in the manufacturing sector is a double edged sword that reduces the incomes of workers within the sector, as well as the incomes of those producing services for these workers and their families.

The decline in the manufacturing sector has been led by the decline in durable goods employment, see Figure 3 below. Since the end of the 1991 recession, manufacturing jobs have declined 11% nationally, 18% in the Syracuse area, 19% in the Buffalo MSA and an astounding 33% in the Rochester metropolitan area. The loss of these jobs, and their accompanying income, will forever change the upstate region. Compounding this long term economic restructuring has been the cyclical variation in employment demonstrated in Figure 3 below. The change in durable goods employment in the Buffalo metropolitan area continues its negative pattern. The best that can be said about it is that durable goods employment in July 2003 was only 2% lower than it had been in July 2002. It is likely that the rate of decay will continue to decline and may be replaced with an increase in this vital sector, but we are now more than 18 months after the declared end of the national recession of 2001. This is a cause of considerable concern for the Western New York economy.

Figure 3 Change in durable goods employment 1990 - 2003



Conclusions:

The Buffalo metropolitan area continues it long term decline. The national recession has ended, but employment in important sectors continues to fall. The upstate New York region is losing its manufacturing base and the income that goes along with it. Airports, sports arenas, gambling and convention centers continue to be promoted as keys to economic recovery by public figures in each of the metro areas, while earnings per worker continue to fall relative to the rest of the nation; and the regional standard of living continues to fall.

NATIONAL, STATE & LOCAL BUSINESS INDICATORS

NATIONAL INDICATORS	2002:II	2002:IV	2003:I	2003:II	% change 2002:II-2003:II
Real GDP (billions of chained 1996$) (1)(a)	9,392.4	9,518.2	9,556.0	9,608.1	2.3
US Personal Income (billions of $)	8,914.0	9,012.5	9,094.8	9,169.2	2.9
	Jul-02	**May-03**	**Jun-03**	**Jul-03**	**Jul-02 - Jul-03**
Leading Indicators Index (1996=100) (1)(a,c)	111.2	111.8	112.1	112.5	1.17
Consumer Price Index (1982-84=100) (2)(c)	180.1	183.5	183.7	183.9	2.11
Exchange Rate Canadian/US $ (3) (b)	63.2	73.1	74.2	71.2	12.69
10 Year Treasury Bond Yield (%) (3) (b)	4.47	3.36	3.51	4.43	-0.04
3 Month Treasury Bill Yield (%) (3) (b)	1.69	1.09	0.84	0.93	-0.76
S&P 500 Stock Index (3) (b)	911.6	963.6	974.5	990.3	8.63
Dow-Jones Industrial Average (3) (b)	8736.6	8850.3	8985.4	9233.8	5.69
LABOR MARKET TRENDS (2)					
Nonag Civilian Employment					
US (1000's) (a)	130,790	129,986	129,914	129,870	-0.70
NY State (1000's) (a, c)	8,432.4	8,394.3	8,389.5	8404.4	-0.33
WNY (1000's) (c)	544.8	549.3	551.1	543.0	-0.33
Unemployment Rate (%)					
US (a)	5.9	6.1	6.4	6.2	0.30
NY State (a,c)	6.2	6.1	6.1	6.1	-.0.10
WNY (c)	6.1	6.0	6.2	6.5	0.40
Ave. Wkly Hours in Mfg. US	40.7	40.2	40.3	40.1	-1.47
Ave. Wkly. Earnings in Mfg. US ($)	614.98	628.73	635.45	621.72	1.10
WNY EMPLOYMENT BY SECTOR (1000's) (2)					
Natural Resources, Mining & Construction	22.9	21.0	21.8	22.7	-0.87
Manufacturing	72.1	69.5	70.1	69.6	-3.47
Trade, Transportation & Utilities	104.4	103.4	104.6	103.3	-1.05
Durable Goods	44.3	42.0	42.6	42.1	-4.97
Finance Activities	33.1	34.1	34.5	34.7	4.83
Service Providing	449.8	458.8	459.2	450.7	0.20
Government	88.8	93.2	91.6	87.7	-1.24

(1) US Dept. of Commerce
(2) US Dept. of Labor
(3) Wall Street Journal

(a) Seasonally Adjusted
(b) End of month data