

Western New York ECONOMIC NEWS

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Richard J. Wehle School of Business

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This issue of *Western New York Economic News* analyzes the personal income data issued in May 2000 by the Bureau of Economic Analysis of the US Department of Commerce for the Buffalo-Niagara Falls and Rochester metropolitan areas. We also examine the trends in the growth rates of employment across the major metropolitan areas of New York State. The full text and supporting documents of the newsletter appear on the Internet under the address <http://www.canisius.edu/wnyeconomicnews>.

The National Economic Outlook

Preliminary estimates of second quarter 2000 real GDP show the US economy growing at an annual rate of 5.3%, after a 4.8% annual rate during the first quarter of 2000. Increases in nonresidential fixed investment, inventory investment and federal government spending fueled the economy's impressive but now aged expansion. An increase in imports was responsible for moderating the pace of growth. The Consumer Price Index increased at a 3.5% rate from July 99 to July 00, moderating slightly from its 3.7% pace over the period March 1999 to March 2000 <http://www.bls.gov>. Energy costs, increasing by almost 23% during the first seven months of 2000, have been responsible for the accelerated rate of growth in the CPI.

The Federal Reserve has left interest rates unchanged since the 50 basis point hike in the federal funds target was announced at the FOMC's May meeting. Apparently, the Fed anticipated that the economy was cooling-off from the unusually high rates of growth it has exhibited over the past two years. When will the present expansion end? Has the business cycle effectively been abolished? We think not. The Conference Board's leading economic indicators have declined three months in a row, pointing to a slowdown in economic growth over the next year. An old rule of thumb was that three consecutive months of decline in the leading indicators was a forecast of recession. The problem with this rule of thumb is that it has forecast eight of the last two recessions.

The US Treasury yield curve is presently inverted with the three-month yield at 6.13%, 42 basis points above the 10-year yield. Many analysts interpret an inverted yield curve as a harbinger of recession since this situation often precedes recessions. One theory of the yield curve hypothesizes that long term interest rates are directly related to the market's perception of the level of future short-term rates. Consequently, an inverted yield curve may indicate that the market expects future short term rates to decline precipitously as a result of a decline in future real economic activity. Further evidence of the cooling-off of

the economy can be observed in the labor market. The unemployment rate edged up to 4.1% in August from 4.0% in July as the US economy shed 115,000 jobs.

The Economic Outlook for the Buffalo Region

The Bureau of Economic Analysis of the US Department of Commerce <http://www.bea.doc.gov/> released revised personal income data for the Buffalo region in May 2000. These data and their growth rates are exhibited in Table 1 for the period 1991-1998. The historic growth rates of real personal income in the US and Buffalo are used to generate the forecast of the change in personal income shown in the table below. Our forecast for the period 1999-2001 is presented in bold face. This forecast assumes 3.6%, 5.0% and 4.0% growth rates of US real personal income over the period 1999-2001, respectively. For the years 1998 and 1999, US real personal income grew by 4.2% and 3.6%, respectively. From 1999:II to 2000:II, US real personal income has grown by 6.5%. We expect a more moderate growth rate of 5% to occur for the balance of 2000.

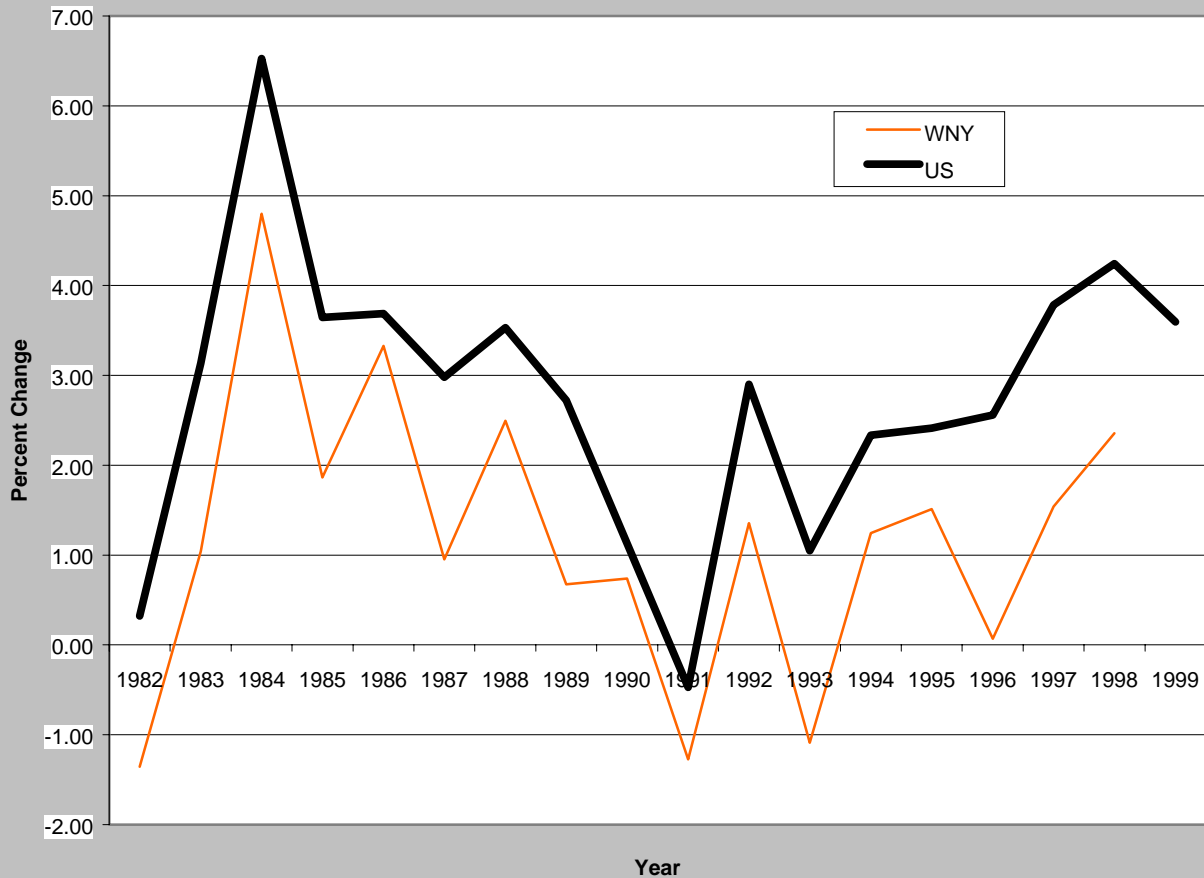
TABLE 1

Buffalo Area Real Personal Income

YEAR	BUFFALO PERSONAL INCOME (MILLIONS OF 1982\$)	ANNUAL PERCENT CHANGE
1991	16,912.9	-1.27
1992	17,141.9	1.35
1993	16,955.1	-1.09
1994	17,166.2	1.25
1995	17,425.5	1.51
1996	17,437.4	0.07
1997	17,706.2	1.54
1998	18,123.1	2.35
1999	*18,479.0	*1.96
2000	*19,077.1	*3.24
2001	*19,522.4	*2.33

The growth rate of Buffalo area real personal income and US real personal income has been strongly correlated over the period 1982-98 (Pearson correlation coefficient = .92). For each 1% growth in US real personal income, Buffalo area real personal income has grown by .9%. The historic relationship between these growth rates is shown in Figure 1.

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



The Economic Outlook for the Rochester Region

A similar historical analysis is performed for the Rochester metropolitan area in comparison with the US. Actual real personal income in the Rochester area and their growth rates are exhibited in Table 2. It should be noted that a somewhat weaker correlation exists between the growth of Rochester area real personal income and US real personal income than exists for Buffalo and the US. The Pearson correlation coefficient over the period 1970-1998 is .79. Over the period 1982-1998 the correlation coefficient falls to .69. Each 1% growth in US real personal income has been met by a .71% growth in Rochester area real personal income from 1970-1998. The historic relationship

between the Rochester and US growth rates is shown in Figure 2. The significance of the linkage between a region and the national economy during the period of the longest recorded expansion of the American economy would be hard to overstate. The estimated relationship of Buffalo to the US economy, and Rochester to the US economy suggests that these metropolitan areas have been falling behind the national levels in relative terms. The principal factor driving the level of income and the change in the level of income in the two Western New York metropolitan areas is employment and the earnings of each employee in the regions. It is here we must look to see what has happened to regional income.

TABLE 2

Rochester Area Real Personal Income

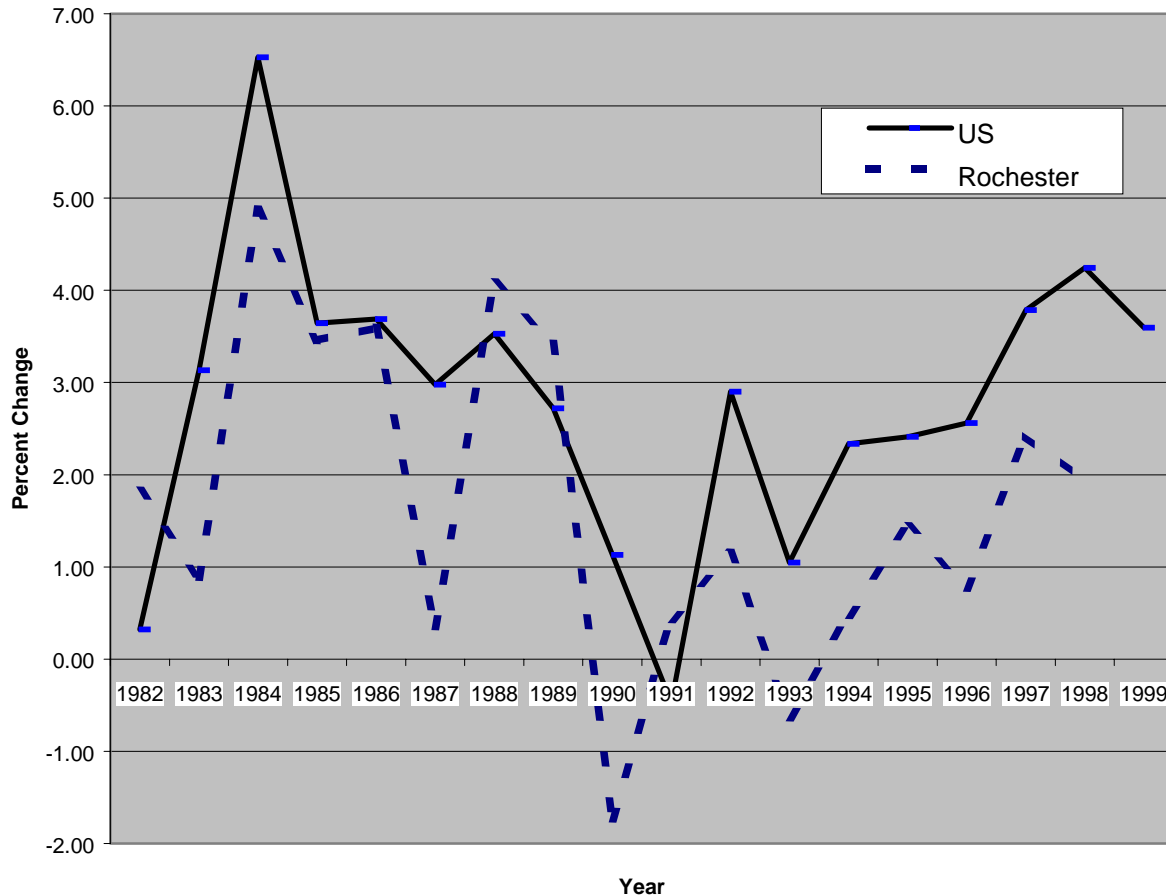
YEAR	ROCHESTER PERSONAL INCOME (MILLIONS OF 1982\$)	ANNUAL PERCENT CHANGE
1991	16,852.4	0.43
1992	17,046.3	1.15
1993	16,938.4	-0.63
1994	17,019.3	0.48
1995	17,264.4	1.44
1996	17,397.1	0.77
1997	17,818.4	2.42
1998	18,161.5	1.93
1999	*18,539.3	*2.08
2000	*19,110.3	*3.08
2001	*19,563.2	*2.37

Employment Trends

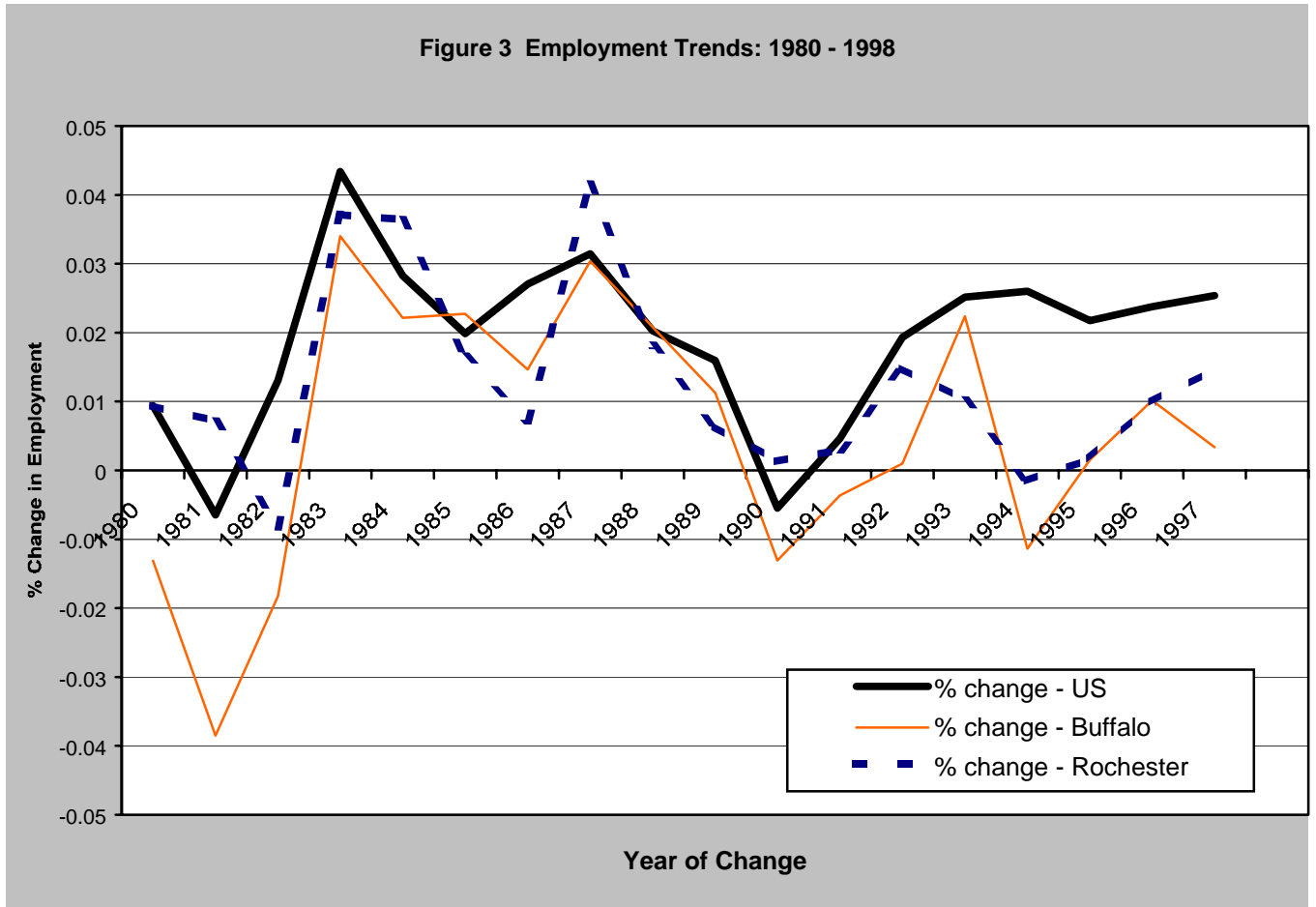
A great deal of interest has arisen concerning the future of the New York State economy. The state was recently ranked near the bottom in the growth rate of the estimated state domestic product. Over the summer the New York State Department of Labor modestly revised estimates of the growth of employment in upstate labor market areas. The data presented in the following figures is based upon the U.S. Department of Commerce's data series for metropolitan areas in New York State. This employment information for Buffalo, Rochester and the nation as a whole, show the similarities that existed among these economies through 1998 and the differences that have emerged recently. The transition of

the upstate economy is frightening and should generate real concern about the future of the region.

Figure 2: Comparison of Real Personal Income Growth Rates: US v. Rochester



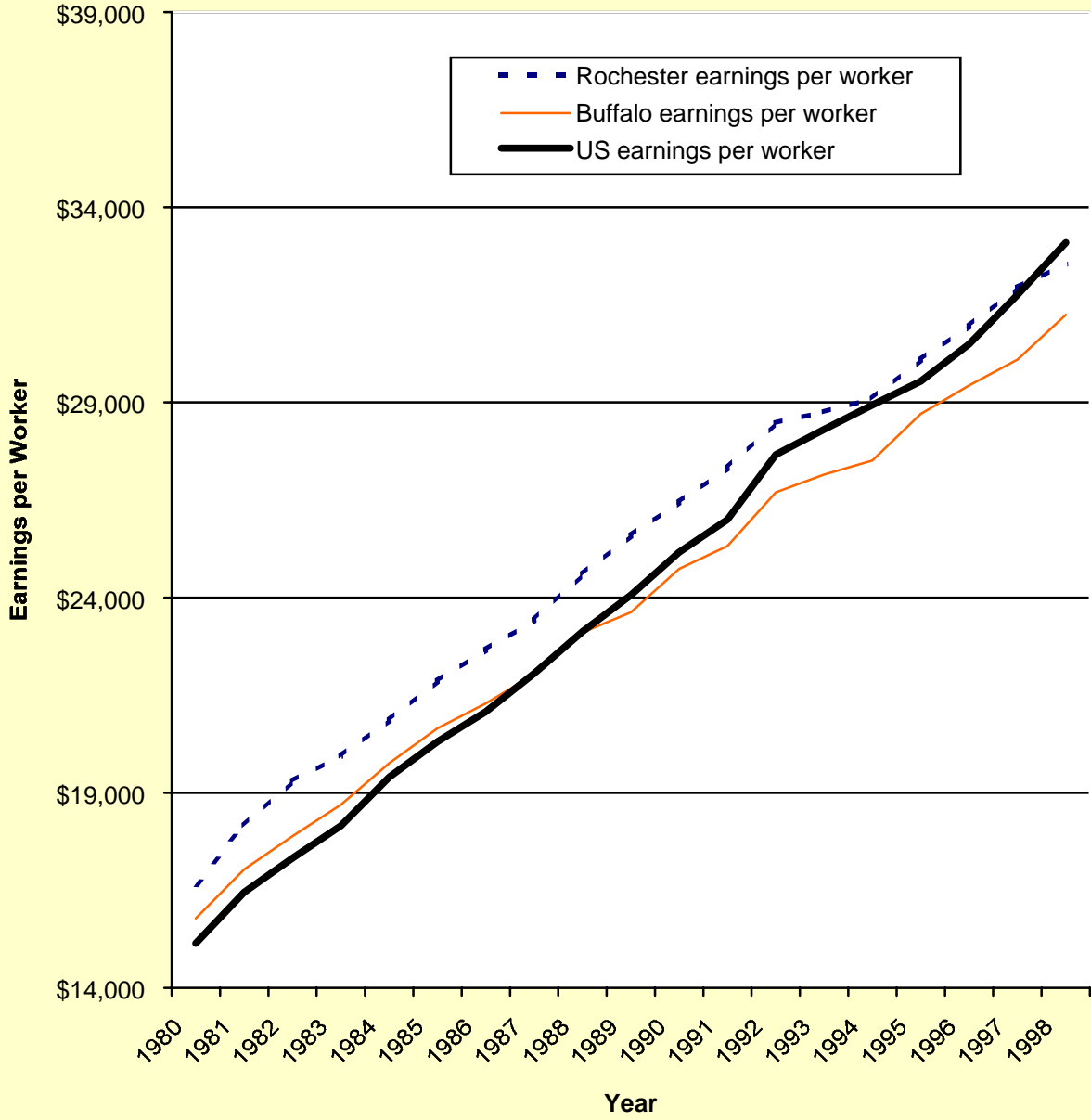
The information provided in Figure 3 compares the changes in total employment that have occurred in Western New York and nationally since 1980. The recessions of 1981 - 82 and 1990 - 91 had similar effects locally and nationally. What is disturbing is the dip in 1994 for both Buffalo and Rochester combined with the fact that employment growth rates in both metropolitan areas have stayed well below national levels for most of the last decade. Additionally, of local interest is the fact that the Bureau of Economic Analysis data shows that during 1995 Rochester reached employment levels equal to those found in the Buffalo metropolitan area and since 1997 has actually exceeded the employment levels in Buffalo. The cause of this change however is not Rochester's remarkable growth, but rather a much slower growth of employment in the Buffalo region. This has been true despite an upward trend in the employment growth rates nationally.



Compounding the effects of a sluggish local economy in terms of employment is the recent change in earnings per worker in the two Western New York metropolitan areas, Figure 4. Where historically Rochester workers had average earnings that were substantially higher than the national average, and Buffalo workers earned the national average; the decade of the nineties has brought a relative decline to both areas. In Rochester, earnings per worker have steadily eroded to the point that by 1997 they were lower than the national average. Workers in Buffalo had their earnings fall below the national average in 1989 and the trend increased throughout the following decade. Whether or not earnings per worker will converge in the Buffalo and Rochester labor markets remains to be seen, but it seems that they continue to fall relative to the national economy. This decline will negatively impact per capita income and is probably related to the relative declines discussed above.

In conclusion, the Western New York economy as measured by the US Bureau of Economic Analysis continues to fall behind the remainder of the country. If this leads to future increases in employment and earnings in the region due to the expansion of existing firms or the attraction of new firms is an important question. Also of import, is what will happen locally when the national economy has a recession, as it surely must some day?

Figure 4 Earnings per Worker: 1980 - 1998



NATIONAL, STATE & LOCAL BUSINESS INDICATORS

	% change				
NATIONAL INDICATORS	99:II	99:IV	00:I	00:II	99:II - 00:II
Real GDP (billions of chained 1996\$) (1)(a)	8,783.2	9,084.1	9,191.8	9,308.8	6.0
US Personal Income (billions of \$)	7,732.6	7,972.9	8,105.8	8,233.6	6.5
	Jul-99	May-00	Jun-00	Jul-00	Jul 99 - Jul-00
Leading Indicators Index (1996=100) (1)(a)*	105.6	106.0	105.9	105.8	0.19
Consumer Price Index (1982-84=100) (2)	166.7	171.3	172.3	172.6	3.54
Exchange Rate Canadian/US \$ (3) (b)	66.4	66.8	67.6	67.2	1.28
10-Year Treasury Bond Yield (%) (3) (b)	6.10	6.28	6.01	6.03	-0.07
3-Month Treasury Bill Yield (%) (3) (b)	4.62	5.49	5.70	6.03	1.41
S&P 500 Stock Index (3) (b)	1328.7	1420.6	1454.6	1430.8	7.68
Dow-Jones Industrial Average (3) (b)	10655.2	10522.3	10447.9	10522.0	-1.25
LABOR MARKET TRENDS (2)					
Nonag Civilian Employment					
US (1000's) (a)	128816.0	131590.0	131647.0	131596.0	2.16
NY State (1000's) (a)	8461.1	8635.7	8614.6	8614.5	1.81
WNY (1000's)	554.9	564.0	563.9	556.1	0.22
Unemployment Rate (%)					
US (a)	4.3	4.1	4.0	4.0	-0.30
NY State (a)	5.2	4.6	4.5	4.2	-1.00
WNY	5.4	5.0	5.6	4.9	-0.50
Ave. Wkly. Hours in Mfg. WNY	42.5	43.2	43.4	42.5	0.00
Ave. Wkly. Earnings in Mfg. WNY (\$)	722.1	758.6	766.0	737.4	2.12
Ave. Wkly Hours in Mfg. US	41.2	41.4	41.6	41.7	1.21
Ave. Wkly. Earnings in Mfg. US (\$)	573.5	595.2	598.0	590.6	2.98
WNY EMPLOYMENT BY SECTOR (1000's) (2)					
Construction and Mining	23.7	22.3	23.3	24.1	1.69
Manufacturing	86.9	85.9	86.7	86.0	-1.04
Transportation and Public Utilities	26.0	27.0	27.4	26.4	1.54
Wholesale and Retail Trade	130.5	130.4	131.5	130.7	0.15
Finance, Insurance and Real Estate	31.1	30.8	31.0	31.3	0.64
Services	171.9	175.6	175.9	173.9	1.16
Government	84.8	92.0	88.1	83.7	-1.30
OTHER LOCAL ECONOMIC INDICATORS					
Construction Contracts (\$millions) (4)*	60.9	88.9	92.7		33.57

(1) US Dept. of Commerce

(a) Seasonally Adjusted

(2) US Dept. of Labor

(b) End of month data

(3) Wall Street Journal

*Jun 99 - Jun 00% change

(4) FW Dodge Division of McGraw-Hill, Inc.

