

# Western New York ECONOMIC NEWS

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This issue of *Western New York Economic News* uses the employment data issued in May 2000 by the Bureau of Economic Analysis of the US Department of Commerce in conjunction with the historical unemployment rates provided by the New York State Department of Labor for the Buffalo-Niagara Falls, Rochester and Syracuse metropolitan areas to discuss the potential impact on these areas of the next economic recession. 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

Advance estimates of fourth quarter 2000 real GDP show the US economy growing at an anemic annual rate of 1.4%, after 2.2% growth during the third quarter and 5.6% annual rate during the second quarter <http://www.bea.doc.gov/>. The increase in real GDP was fueled by increases in personal consumption expenditures and in government expenditures. The rapid deceleration in growth occurred primarily due to decreased business investment and personal consumption expenditures for goods. Fed chairman Greenspan surmised that the economy was dead in the water during his testimony to Congress last week. The rapid decline in economic performance was partially responsible for Mr. Greenspan's changed position in regard to President Bush's proposed tax cuts. Prior to the occurrence of the economic slowdown, Mr. Greenspan was on record as opposing tax cuts and favored paying down the national debt.

Labor markets have remained relatively tight as the economy added more than 2 million jobs in 2000 while the unemployment rate stood at 4%. The Consumer Price Index increased at a 3.4% rate from December-99 to December-00, continuing the moderation from its 3.7% pace over the period March 1999 to March 2000 <http://www.bls.gov>.

The Federal Reserve reduced its federal funds target twice in January. The first 50 basis points reduction occurred during an emergency meeting of the FOMC in early January while the second 50 basis points reduction occurred during a regularly scheduled January 31 meeting. This changed stance comes after FOMC policies that raised rates 175 basis points from June 1999 to May 2000 in an attempt to cool building inflationary pressures. One must question whether the Fed overreacted to inflationary fears and its tightening is partially responsible for an economy on the brink of recession. Will the Fed react in time to save the economy from recession or is the longest post-war expansion coming to an end?

The US Treasury yield curve has reverted to its standard upward slope after being inverted for a prolonged period. The three-month Treasury bill yield is presently 4.88%, 34 basis points below the 10-year yield at 5.22%.

## The Economic Outlook for the Buffalo Region

Real personal income data for the Buffalo area and the US are presented in Table 1 for the period 1990-2000. 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 growth rate of Buffalo personal income over the period 1999-2001 is presented in bold face. Our forecast for the Buffalo area has been revised from the third quarter of 2000 since the BEA revised 1999 US personal income data and year 2000 data has become available. This forecast uses the actual growth rates of US real personal income over the period 1999-2000 and a forecasted growth rate of -.5% for 2001.

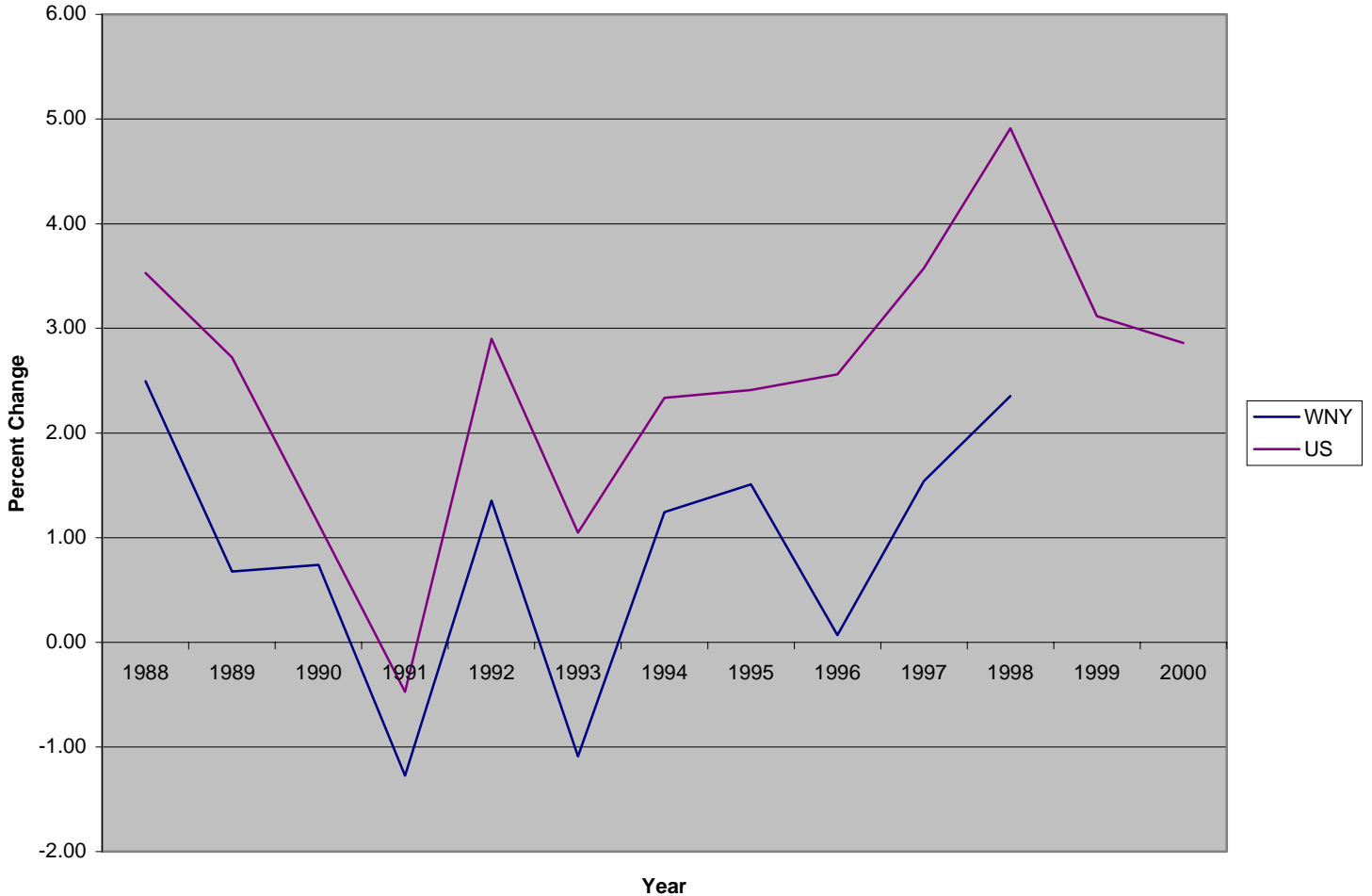
TABLE 1

### Real Personal Income – Buffalo versus the Nation

| YEAR | BUFFALO<br>PERSONAL<br>INCOME<br>(MILLIONS OF<br>1982\$) | ANNUAL<br>PERCENT<br>CHANGE | US<br>PERSONAL<br>INCOME<br>(BILLIONS<br>OF 1982\$) | ANNUAL<br>PERCENT<br>CHANGE |
|------|--|-----------------------------|---|-----------------------------|
| 1990 | 17,130.9   | 0.74                        | 3,751.5   | 1.13                        |
| 1991 | 16,912.9   | -1.27                       | 3,733.8   | -0.47                       |
| 1992 | 17,141.9   | 1.35                        | 3,842.1   | 2.90                        |
| 1993 | 16,955.1   | -1.09                       | 3,882.4   | 1.05                        |
| 1994 | 17,166.2   | 1.25                        | 3,973.0   | 2.34                        |
| 1995 | 17,425.5   | 1.51                        | 4,068.8   | 2.41                        |
| 1996 | 17,437.4   | 0.07                        | 4,173.0   | 2.56                        |
| 1997 | 17,706.2   | 1.54                        | 4,322.1   | 3.57                        |
| 1998 | 18,123.1   | 2.35                        | 4,534.4   | 4.91                        |
| 1999 | <b>*18,396.0</b>   | <b>*1.51</b>                | 4,675.6   | 3.12                        |
| 2000 | <b>*18,631.0</b>   | <b>*1.28</b>                | 4,809.3   | 2.86                        |
| 2001 | <b>*18,320.0</b>   | <b>*-1.67</b>               |   |                             |

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 = .91). 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: WNY v. US**



## The Economic Outlook for the Upstate Metropolitan Areas

The National Bureau of Economic Research (NBER) defines a recession as a marked period of contraction in many sectors of the economy. A more common view of recession is when real GDP growth is zero or negative for two consecutive quarters. The NBER looks at changes in total output, income, employment and trade, lasting for a period of time between six months and a year. Translating this concept to a regional level poses some problems since measures of gross regional product (GRP) are very difficult to obtain. The smaller the region, the greater the degree of difficulty in obtaining GRP estimates. Additionally, the issues associated with identifying the exact timing of expansions is significantly compounded when the discussion involves different regions. The regions may begin contractions or expansions at different times and may experience cycles of different duration.

Over the past 50 years, the NBER has identified peak and trough months for business cycles in the US. The trough and peak months of the national business cycles as identified by the NBER since 1961 are shown in Table 2. The last official reference date for the national economy is the trough month of March 1991. By comparison, using employment as the basis for identifying the turning points of the local business cycle, the last trough in the Buffalo MSA was January 1993. This is the case even though the peak employment month for the Buffalo region was June 1990, one month earlier than the national peak. Thus the Buffalo region's decline started one month before the nation's and lasted nearly two years longer. Clearly, there is no rigid connection between national and regional cyclic activity.

**TABLE 2**

**US BUSINESS CYCLE EXPANSIONS & CONTRACTIONS**

| <b>Trough Date</b> | <b>Peak Date</b> | <b>Duration of Expansion</b> | <b>Duration of Contraction</b> |
|--------------------|------------------|------------------------------|--------------------------------|
| February 1961      | December 1969    | 106 months                   | 10 months                      |
| November 1970      | November 1973    | 36 months                    | 11 months                      |
| March 1975         | January 1980     | 58 months                    | 16 months                      |
| July 1980          | July 1981        | 12 months                    | 6 months                       |
| November 1982      | July 1990        | 92 months                    | 16 months                      |
| March 1991         |                  |                              | 8 months                       |

If one considers upstate New York as anything north of the New York PMSA, the multiplicity of the timing and the differences in the duration of the regional economic cycles make comparisons of regional business cycles difficult. Therefore, for this analysis, the impact and length of recent business cycles are measured for the major upstate metropolitan regions and compared to the U.S. experience. The analysis is based on the dates of the peaks and troughs of these cycles using employment as the reference point and the Buffalo metropolitan area's duration as the dating mechanism. Since there has been a long-term redistribution of population and economic activity away from the urban areas of the Northeast to the South and the West, there is the potential for a confusion of secular and cyclical patterns. In an attempt to minimize this problem, business cycle trends are presented in terms of both employment and unemployment rates.

The data presented in Table 3 shows the declines in employment for the major metropolitan areas of upstate New York that have accompanied recent national economic recessions. In each case the decline is measured for the period that corresponds to the peak in employment to the trough in employment. While these landmarks are generally cited in months and years, we have only included the average values for the years involved. The impact of national recessions on the individual regions varies both over time and among regions. With the exception of Rochester for the 1990 to 1993 period and Albany between 1969 and 1971, every region had greater declines in employment over the

business cycle than the national average, possibly reflecting the long-term movement of employment out of New York State.

The percentage changes in employment over the recent recessions in Western New York have been greater than those that occurred in the nation. The duration of the economic contractions in Western New York have lasted substantially longer than national recessions. The problematic 1979 – 1983 downturn in Western New York has no national counter part. In the national economy, the January 1980 peak was followed by a July 1980 trough. This, in turn, was followed by a July 1981 peak and a November 1982 trough. In Buffalo, the contraction started in November 1979 and lasted through January 1983.

**TABLE 3**

**REGIONAL EMPLOYMENT CHANGES OVER THE BUSINESS CYCLE**

| <b>Metropolitan Area</b>      | <b>Employment change peak to trough 1969 - 71</b> | <b>Employment change peak to trough 1973 - 75</b> | <b>Employment change peak to trough 1979 - 83</b> | <b>Employment change peak to trough 1990 - 93</b> |
|-------------------------------|---|---|---|---|
| Albany-Schenectady-Troy, NY   | 4.09%   | -1.51%  | 0.75%   | 1.31%   |
| Binghamton, NY                | -1.59%  | -1.52%  | -1.18%  | -3.15%  |
| Buffalo-Niagara Falls, NY     | -1.49%  | -2.95%  | -8.99%  | -1.25%  |
| Rochester, NY                 | -0.36%  | -0.10%  | 0.60%   | 2.10%   |
| Syracuse, NY                  | 1.35%   | -2.06%  | 0.70%   | -1.41%  |
| United States                 | 1.49%   | 0.48%   | 2.44%   | 1.84%   |
| Buffalo difference from US    | -2.98%  | -3.43%  | -11.43%   | -3.09%  |
| Rochester difference from US  | -1.85%  | -0.58%  | -1.84%  | 0.26%   |
| Syracuse difference from US   | -0.14%  | -2.54%  | -1.75%  | -3.25%  |
| Binghamton difference from US | -3.08%  | -2.00%  | -3.62%  | -5.00%  |
| Albany difference from US     | 2.60%   | -1.99%  | -1.70%  | -0.53%  |

This disturbing pattern continued during the 1990 recession when the national contraction lasted from July 1990 to March 1991. In Buffalo, the contraction began in June 1990 and lasted to January 1993. Tables 3 and 4 suggest that the severity of these recessions was greater in Buffalo than in the nation, whether measured in terms of employment loss or unemployment rate increase.

Will the next recession follow these patterns, or has the economic restructuring of the region made it less sensitive to cyclical downturns? For some insight into this question we turn to what has happened in the region over the last 20 years. In the Buffalo, Rochester and Syracuse metropolitan areas, the automobile and transportation equipment sectors have become more important over this period. While disclosure problems prevent a precise measurement of the change in all areas, some data is available for the Buffalo

region. Earnings from automotive and related industries are 5 times higher in Buffalo than in the remainder of the U.S. This is an increase of approximately 20% since 1980. In the Rochester and Syracuse areas, the BEA no longer reports the automotive sector, due to disclosure problems. However, the reduction of the non-automotive sectors in these areas since 1980 suggests that they too are now more heavily dependent on the auto sector. The importance of the increased upstate dependence on the automotive sector to generate incomes is that the automobile industry is highly susceptible to cyclical fluctuations. This should cause concerns for the short-term future of the major metropolitan areas in upstate New York.

**TABLE 4**

**REGIONAL UNEMPLOYMENT RATE CHANGES OVER BUSINESS CYCLE**

| <b>Metropolitan Area</b>      | <b>Unemployment rate change peak to trough 1979 - 83</b> | <b>Unemployment rate change peak to trough 1990 - 93</b> |
|-------------------------------|--|--|
| Albany-Schenectady-Troy, NY   | 2.10   | 1.20   |
| Binghamton, NY                | 2.20   | 2.60   |
| Buffalo-Niagara Falls, NY     | 4.50   | 1.50   |
| Nassau-Suffolk, NY            |  |  |
| New York, NY                  |  |  |
| Rochester, NY                 | 3.50   | 1.20   |
| Syracuse, NY                  | 2.30   | -1.70  |
| United States                 | 3.80   | 1.30   |
|                               |  |  |
| Buffalo difference from US    | 0.70   | 0.20   |
| Rochester difference from US  | -0.30  | -0.10  |
| Syracuse difference from US   | -1.50  | -3.00  |
| Binghamton difference from US | -1.60  | 1.30   |
| Albany difference from US     | -1.70  | -0.10  |

**CONCLUSION**

In the view of many analysts, the recent deceleration of US real GDP growth that has occurred over the past two quarters has significantly increased the probability of recession in 2001. The occurrence of a national recession would likely hit the Buffalo area harder than the nation as a whole given that the Buffalo area tends to be more dependent on the cyclically sensitive automobile sector than the rest of the US. Based on historic trends, the regional downturn would likely begin earlier, end later, and be more severe than the downturn experienced by the nation as a whole.

## NATIONAL, STATE & LOCAL BUSINESS INDICATORS

|  | % change      |               |               |               |                        |
|--|---------------|---------------|---------------|---------------|------------------------|
| <b>NATIONAL INDICATORS</b>                   | <b>99:IV</b>  | <b>00:II</b>  | <b>00:III</b> | <b>00:IV</b>  | <b>99:IV - 00:IV</b>   |
| Real GDP (billions of chained 1996\$) (1)(a) | 9,084.1       | 9,318.9       | 9,369.5       | 9,401.5       | 3.5                    |
| US Personal Income (billions of \$)          | 7,972.3       | 8,242.1       | 8,349.0       | 8,429.8       | 5.7                    |
|  | <b>Dec-99</b> | <b>Oct-00</b> | <b>Nov-00</b> | <b>Dec-00</b> | <b>Dec 99 - Dec-00</b> |
| Leading Indicators Index (1996=100) (1)(a)   | 110.3         | 109.4         | 109.0         | 108.3         | -1.81                  |
| Consumer Price Index (1982-84=100) (2)       | 168.3         | 174.0         | 174.1         | 174.0         | 3.39                   |
| Exchange Rate Canadian/US \$ (3) (b)         | 69.2          | 65.7          | 65.1          | 66.7          | -3.64                  |
| 10-Year Treasury Bond Yield (%) (3) (b)      | 6.45          | 5.75          | 5.46          | 5.11          | -1.34                  |
| 3-Month Treasury Bill Yield (%) (3) (b)      | 5.19          | 6.16          | 6.02          | 5.73          | 0.54                   |
| S&P 500 Stock Index (3) (b)                  | 1469.3        | 1429.4        | 1315.0        | 1320.3        | -10.14                 |
| Dow-Jones Industrial Average (3) (b)         | 11497.1       | 10971.1       | 10414.5       | 10786.9       | -6.18                  |
| <b>LABOR MARKET TRENDS (2)</b>               |               |               |               |               |                        |
| Nonag Civilian Employment                    |               |               |               |               |                        |
| US (1000's) (a)                              | 129910        | 131789        | 131848        | 131953        | 1.57                   |
| NY State (1000's) (a)                        | 8530.7        | 8664.6        | 8677.9        | 8683.2        | 1.79                   |
| WNY (1000's)                                 | 562.7         | 564.9         | 565.4         | 565.9         | 0.57                   |
| Unemployment Rate (%)                        |               |               |               |               |                        |
| US (a)                                       | 4.1           | 3.9           | 4.0           | 4.0           | -0.10                  |
| NY State (a)                                 | 4.8           | 4.4           | 4.6           | 4.5           | -0.30                  |
| WNY*   | 4.8           | 4.6           | 4.8           |               | 0.10                   |
| Ave. Wkly. Hours in Mfg. WNY                 | 43.6          | 42.8          | 43.7          | 43.5          | -0.23                  |
| Ave. Wkly. Earnings in Mfg. WNY (\$)         | 767.8         | 764.0         | 793.2         | 784.3         | 2.15                   |
| Ave. Wkly Hours in Mfg. US                   | 42.5          | 41.4          | 41.2          | 40.4          | -4.94                  |
| Ave. Wkly. Earnings in Mfg. US (\$)          | 603.5         | 604.5         | 608.2         | 607.5         | 0.67                   |
| <b>WNY EMPLOYMENT BY SECTOR (1000's) (2)</b> |               |               |               |               |                        |
| Construction and Mining                      | 20.5          | 23.4          | 22.2          | 20.8          | 1.46                   |
| Manufacturing                                | 86.9          | 86.1          | 86.0          | 86.4          | -0.58                  |
| Transportation and Public Utilities          | 26.4          | 27.1          | 27.0          | 26.9          | 1.89                   |
| Wholesale and Retail Trade                   | 135.4         | 132.1         | 134.2         | 136.0         | 0.44                   |
| Finance, Insurance and Real Estate           | 30.9          | 30.9          | 31.0          | 31.2          | 0.97                   |
| Services                                     | 173.3         | 176.6         | 175.8         | 176.1         | 1.62                   |
| Government                                   | 89.3          | 88.7          | 89.2          | 88.5          | -0.90                  |

(1) US Dept. of Commerce

(2) US Dept. of Labor

(3) Wall Street Journal

(a) Seasonally  
Adjusted

(b) End of month data

\*Nov 99 – Nov 00% change

