

# Western New York ECONOMIC NEWS

## Canisius College

### Richard J. Wehle School of Business

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This issue of *Western New York Economic News* analyzes the personal income data issued by the US Department of Commerce in May 2001 for the upstate metropolitan areas of Buffalo-Niagara Falls, Rochester, Syracuse, Binghamton and Albany. Since personal income is the single best measure of economic activity in a region, these data are compared with personal income in the United States to gauge the relative health of the upstate economies and a caution of things to come.

## The National Economic Outlook

Preliminary estimates of first quarter 2001 real GDP show the US economy growing at an annual rate of 1.3%, after 4.8%, 5.6%, 2.2% and 1% annual growth rates during the first through fourth quarters of 2000. It is apparent that national economic activity has slowed substantially during the fourth quarter of 2000 and has continued to stagnate in early 2001. The focus is now on whether the economy will enter a recession or if its rate of growth has merely slowed. The fact that large decreases in inventories were in large part responsible for the economic slowdown has some analysts optimistic that the economy can avoid recession. Others worry that a number of negative events that occurred during 2000 and early 2001 will have the effect of plunging the economy into recession. Among these are: the series of Federal Reserve rate increases, the significant stock market correction, and the rapid increase in energy prices accompanied by the California electricity problem. The Consumer Price Index increased at a 3.3% rate from April 2000 to April 2001, moderating from its more rapid 3.7% pace over the period March 1999 to March 2000 <http://www.bls.gov>.

The Federal Reserve has reduced its Federal Funds target by 50 basis points four times so far in 2001. Among these was an inter-meeting cut on April 18 and another cut May 15. It is obvious that the Fed is worried about the possibility of recession.

The Treasury yield curve has normalized recently from its inverted position as short term rates have declined while long term rates have increased. The economic slowdown has also shown up in the labor market. The national unemployment rate has edged up to 4.5%, its highest level since October 1998. The economy has shed more than 276,000 jobs in 2001, as a series of large layoffs have taken their toll.

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## 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 2001. The data and growth rates are exhibited in Table 1 for the period 1990-1999. 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 2000-2001 is presented in bold face. This forecast assumes growth rates of US real personal income over the period 2000-2001, 2.86% and 2.00% respectively. In 2000, US real personal income grew by 2.86. From 2000:I to 2001:I, US real personal income has grown by 2%. We expect this growth rate to occur for the balance of 2001.

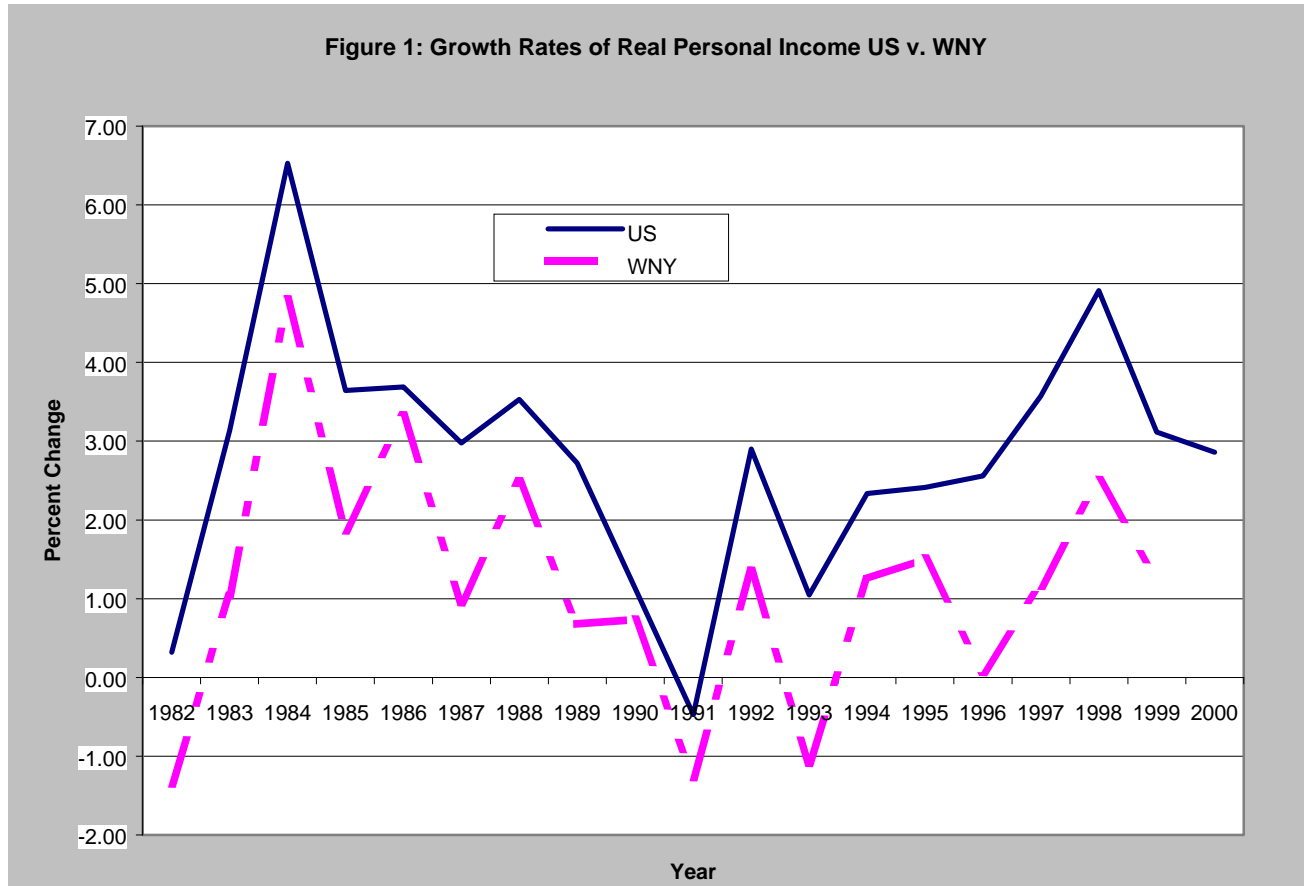
TABLE 1

### Buffalo Area Real Personal Income

YEAR	BUFFALO PERSONAL INCOME (MILLIONS OF 1982\$)	ANNUAL PERCENT CHANGE
1990	17,130.9	0.74
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	17,639.6	1.16
1998	18,081.8	2.51
1999	18,310.9	1.27
<b>2000</b>	<b>18,539.8</b>	<b>1.25</b>
<b>2001</b>	<b>18,632.5</b>	<b>.50</b>

The growth rate of Buffalo area real personal income and US real personal income has been strongly correlated over the period 1982-99 (Pearson correlation coefficient = .91). For each 1% growth in US real personal income, Buffalo area real personal income has grown by .88%. The historic relationship between these growth rates is shown in Figure 1. The slowdown in the growth of national income has historically been felt more intensely in the local economy. If past patterns hold then the Buffalo and Western New York economy will contract at an even greater rate than the nation as a whole. Thus,

we have modified our expectations for the local economy, projecting a growth in real personal income for 2001 that is less than half of the rate in 2000.



Employment growth in the Buffalo region has continued to lag that of the nation as a whole. Over the period April 2000-April 2001, US employment has grown by approximately .5% while the same in Buffalo shows a decline of .1%. New York State employment has shown a strong 1.36% growth rate over the same period, largely fueled by growth from New York City.

Historically, economic downturns in Western New York generally have preceded national contractions. Based on The Conference Board's Business Cycle Indicators, downturns in employment have preceded national economic downs in four of the last five recessions. During the fifth, in the December of 1973, Buffalo lagged the national pattern by one month. These employment contractions have also been more severe and lasted longer than those on the national level. While the industrial mix in the region and the nation have changed considerably over the last half-century, it remains to be seen if the local linkage to national cyclic swings has been dampened. The movement of personal income shown in Figure 1, suggests they have not.

## The Economic Outlook for Upstate New York

A similar historical analysis of the growth rates of real personal income for the major upstate New York metropolitan areas of Rochester, Syracuse, Binghamton and Albany is shown in Table 2. The change in personal income is more strongly correlated with the US changes in Buffalo than in any other upstate New York metro area.

TABLE 2

### Real Personal Income Growth Rates for Upstate New York Metro Areas

YEAR	BUFFALO PERCENT CHANGE	ROCHESTER PERCENT CHANGE	SYRACUSE PERCENT CHANGE	BINGHAMTON PERCENT CHANGE	ALBANY PERCENT CHANGE
1990	0.74	-1.73	-0.06	-2.04	-0.23
1991	-1.27	0.43	-1.13	-0.06	0.09
1992	1.35	1.15	1.87	0.36	2.14
1993	-1.09	-0.63	-0.83	-3.48	-0.03
1994	1.25	0.48	-0.06	-1.78	1.10
1995	1.51	1.44	0.28	-0.85	-0.31
1996	0.07	0.77	-0.32	0.04	0.43
1997	1.16	1.51	0.99	1.31	2.43
1998	2.51	2.32	2.67	1.92	4.30
1999	1.27	0.95	1.31	2.02	1.91

The linkage between local economies and the national economy is complex and not fully understood. Linkages can occur when goods or services are produced locally and used to directly satisfy final demand or as an intermediate input to final demand. In an economy that is increasingly integrated with the rest of the world, changes in the demand for goods and services are associated with both national and international changes in demand. The relationship between the local and national economy depends upon a number of factors including the local industrial mix, the relative dependence on international markets and the long-term redistribution of economic activity within the United States.

Western New York's traditional relationship to the national economy may reflect the historic importance of durable manufacturing activity in the region.

**TABLE 3**

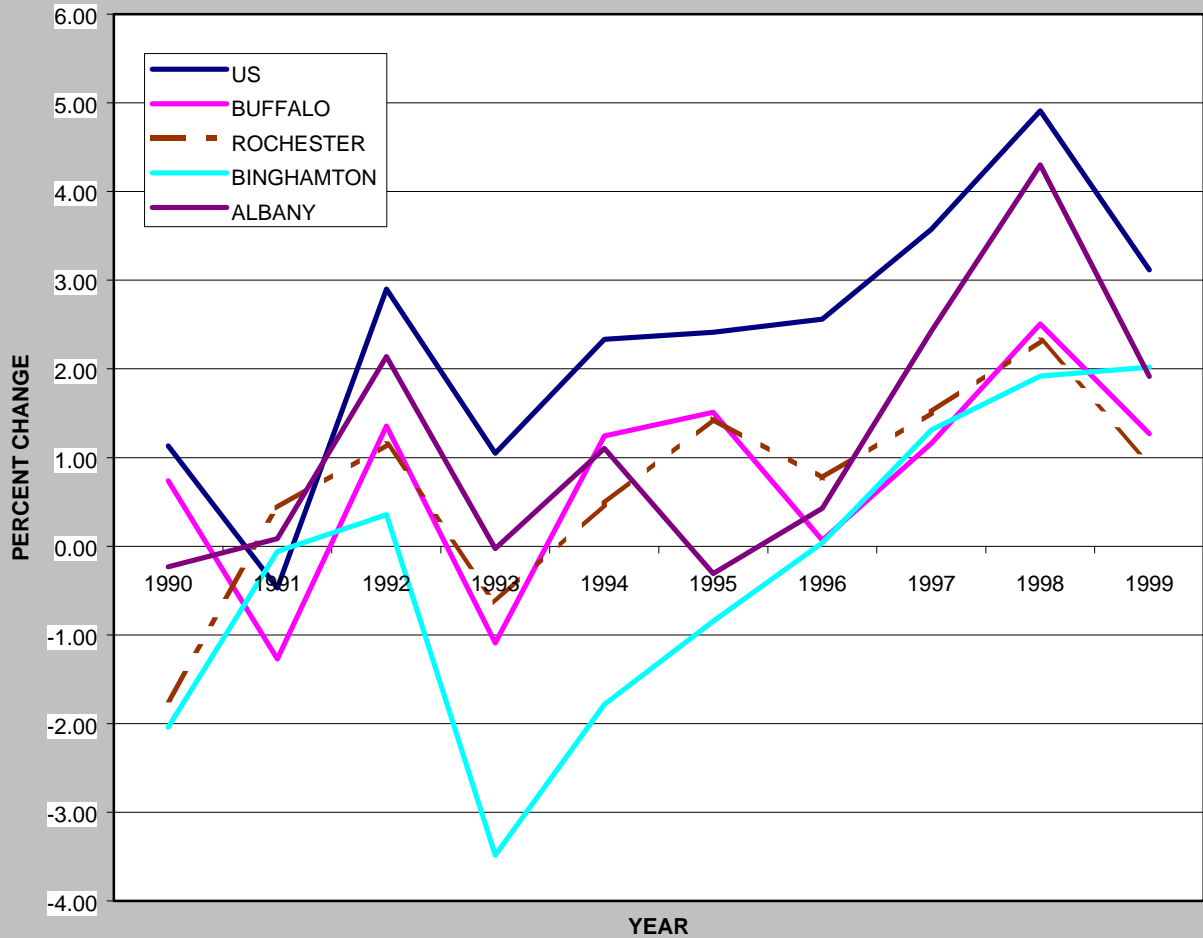
<b>RELATIVE IMPORTANCE OF SELECTED INDUSTRY GROUPS IN UPSTATE METROPOLITAN AREAS</b>						
US MSA Average = 100%	Durable LQ	Primary or Fabricated Metal LQ	Auto LQ	Chemicals LQ	Services LQ	Government LQ
<b>Buffalo - Niagara Falls MSA</b>						
<b>1980</b>	164%	326%	445%	553%	88%	96%
<b>1999</b>	138%	153%	231%	114%	91%	108%
<b>Albany MSA</b>						
<b>1980</b>	79%	d	33%	d	103%	162%
<b>1999</b>	55%	d	d	d	100%	183%
<b>Binghamton MSA</b>						
<b>1980</b>	238%	80%	0%	d	71%	93%
<b>1999</b>	234%	79%	0%	d	83%	114%
<b>Rochester MSA</b>						
<b>1980</b>	249%	d	11%	d	84%	72%
<b>1999</b>	227%	14%	d	d	88%	85%
<b>Syracuse MSA</b>						
<b>1980</b>	131%	51%	318%	149%	96%	98%
<b>1999</b>	135%	81%	237%	59%	88%	104%

The location quotients (LQs) presented in Table 3 are a measure of the relative specialization in the selected industries. Changes in durable goods activity have traditionally been seen as a leading economic indicator. With the exception of Albany, the upstate metropolitan areas are all more heavily involved in the production of durable goods than the nation as a whole. This could in part explain the pattern of having the areas that are centers of durable goods production lead the way into the economic contractions. The changing importance of durable goods activity in the Buffalo area, especially the decline in primary metals and chemicals, has changed the industrial mix. Whether the current industrial mix will be tied to the national economy in the same manner as the older pattern of the regional economy is uncertain.

An additional factor is the rate of movement of economic activity out of Western New York. One reason that the Buffalo area has recovered more slowly and less fully than the nation from economic contractions is that over the last 20 years the Northeast region has been a net exporter of population and manufacturing employment to the rest of the country. This redistribution of economic activity has made it difficult to predict the exact nature of the relationship between the Western New York economy and that of the rest of the nation prior to, during and following the next recession.

Figure 2 shows the patterns of change in real personal income in the United States and the Upstate metropolitan areas for the decade of the 1990s. The metropolitan areas of Upstate New York have followed the changes in national personal income quite closely over this decade. We see no reason to doubt the continuance of this pattern.

FIGURE 2: PERCENT CHANGE IN REAL PERSONAL INCOME



**CONCLUSIONS:**

The general concern about the possibility of a national recession should cause the participants in the Western New York regional economy to take notice. While there has been some restructuring of the industrial mix locally, there is no evidence that the local economy is in any way insulated from national fluctuations. The relative dependence on durable goods production of all the upstate economies except Albany continues to make the region vulnerable national contractions. This is true even though the importance of durable goods has somewhat diminished in Western New York over the last two decades.

# NATIONAL, STATE & LOCAL BUSINESS INDICATORS

	% change				
<b>NATIONAL INDICATORS</b>	<b>00:I</b>	<b>00:III</b>	<b>00:IV</b>	<b>01:I</b>	<b>00:I - 01:I</b>
Real GDP (billions of chained 1996\$) (1)(a)	9,191.8	9,369.5	9,393.7	9,439.9	2.7
US Personal Income (billions of \$)	8,105.8	8,349.0	8,429.7	8,550.9	5.5
	<b>Apr-00</b>	<b>Feb-01</b>	<b>Mar-01</b>	<b>Apr-01</b>	<b>Apr-00 - Apr-01</b>
Leading Indicators Index (1996=100) (1)(a)*	110.4	108.9	108.7	108.8	-1.45
Consumer Price Index (1982-84=100) (2)	171.3	175.8	176.2	176.9	3.27
Exchange Rate Canadian/US \$ (3) (b)	67.6	65.1	63.5	65.1	-3.69
10 Year Treasury Bond Yield (%) (3) (b)	6.2	4.9	4.9	5.3	-0.82
3 Month Treasury Bill Yield (%) (3) (b)	5.7	4.7	4.2	3.8	-1.85
S&P 500 Stock Index (3) (b)	1452.4	1239.9	1160.3	1249.5	-13.97
Dow-Jones Industrial Average (3) (b)	10733.9	10495.3	9878.8	10735.0	0.01
<b>LABOR MARKET TRENDS (2)</b>					
Nonag Civilian Employment					
US (1000's) (a)	131,419	132,303	132,250	132,027	.46
NY State (1000's) (a)	8,613	8,722	8,724	8,730	1.36
WNY (1000's)	554.6	549.4	551.6	554.1	-0.09
Unemployment Rate (%)					
US (a)	4.0	4.2	4.3	4.5	0.50
NY State (a)	4.6	4.3	4.0	4.3	-0.30
WNY	4.5	5.7	5.0	4.8	0.30
Ave. Wkly. Hours in Mfg. WNY	43.4	42.4	42.7	41.9	-3.46
Ave. Wkly. Earnings in Mfg. WNY (\$)	763.8	770.8	775.9	749.6	-1.87
Ave. Wkly Hours in Mfg. US	42.2	40.7	40.7	40.7	-3.55
Ave. Wkly. Earnings in Mfg. US (\$)	595.9	591.9	596.4	601.6	0.95
<b>WNY EMPLOYMENT BY SECTOR (1000's) (2)</b>					
Construction and Mining	20.1	17.8	18.3	20.3	1.00
Manufacturing	85.9	85.1	84.6	84.5	-1.63
Transportation and Public Utilities	26.2	26.3	26.3	26.3	0.38
Wholesale and Retail Trade	127.9	127.1	127.5	128.0	0.08
Finance, Insurance and Real Estate	29.8	30.1	30.2	30.3	1.68
Services	172.3	171.4	172.8	173.2	0.52
Government	92.4	91.6	91.9	91.5	-0.97

(1) US Dept. of Commerce

(a) Seasonally Adjusted

(2) US Dept. of Labor

(b) End of month data

(3) Wall Street Journal

