Western New York ECONOMIC NEWS
Canisius College
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Volume 7, Number 1 January 2004

The full text and supporting documents of this and all previous newsletters appear on the net under the address http://www.canisius.edu/wnyeconomicnews. The emergence of an economic recovery appears to be more evident than at this time last year. The combination of fiscal stimulus, accommodative monetary policy, and a weakening dollar may finally trigger an economic expansion of some magnitude. There may be some undesirable consequences from these triggering factors that suggest some degree of caution when viewing the national scene. Locally, the continued decline of the historic driver of the community's economic base, durable goods employment, is a cause of much concern here. Continued discussions of a jobless recovery at the national level do not bode well for the local economy.

The National Economic Outlook

The national economy has finally emerged from the period of lackadaisical performance that ensued after the end of the 2001 recession. Final estimates of 2003:Q3 real GDP shows the economy growing at the enormous annual rate of 8.2%. This comes after 1.3%, 2.0% and 3.1% annual rates of increase over the period 2002:Q4 and 2003:Q2. The primary drivers of this robust growth were personal consumption expenditures, gross private domestic investment and exports, increasing by 6.9%, 14.8% and 9.9%, respectively. The failure of business investment to pick up had been largely responsible for the sluggishness in GDP growth during 2002. Quarterly GDP growth rates from recently re-benchmarked data published by the Bureau of Economic Analysis (www.bea.doc.gov) are shown in Figure 1. We consider the torrid 8.2% pace of expansion to be unsustainable and expect real GDP growth in the 4% range during 2004.

The Conference Board's index of leading economic indicators (www.conference-board.org) has increased over the past six months by 2.1%. The index increased by .5% in October and .2% in November and December pointing toward continued economic expansion over the next year. We project the likelihood of recession over the next twelve months at less than 10%.

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:
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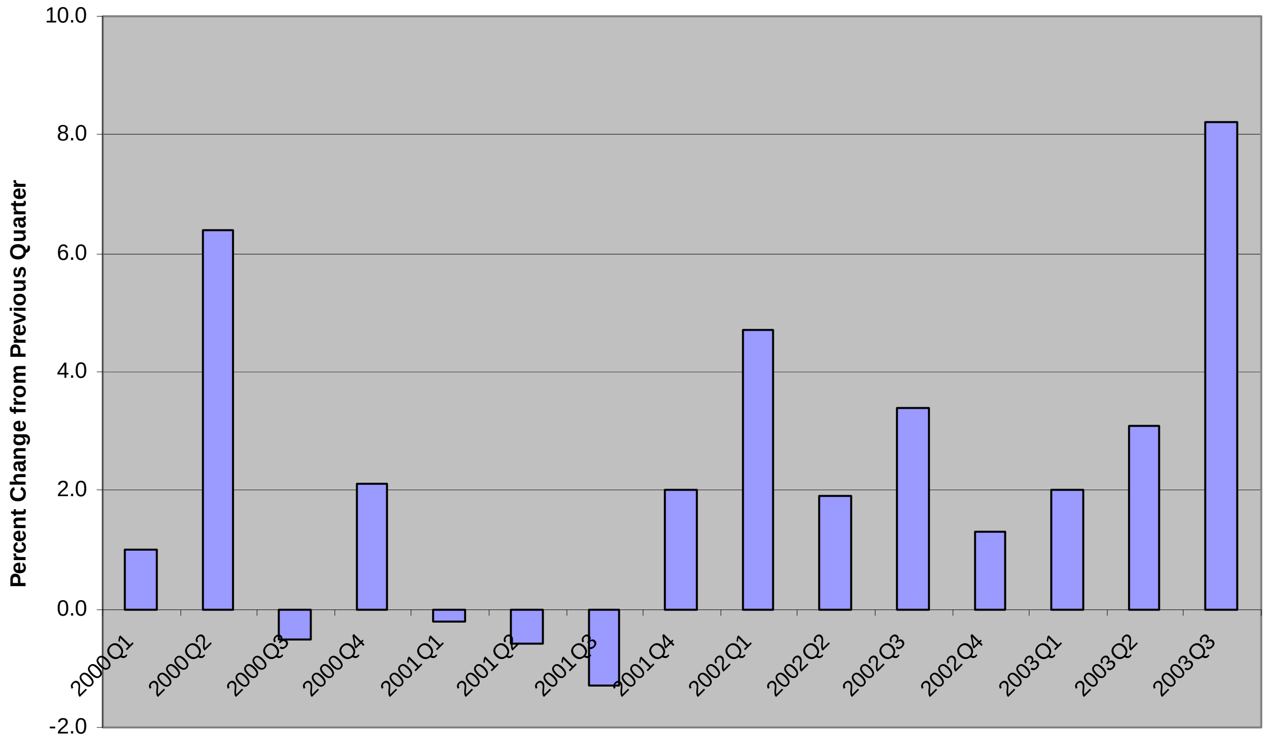
Figure1: Real GDP Growth Rates: 2000 - 2003

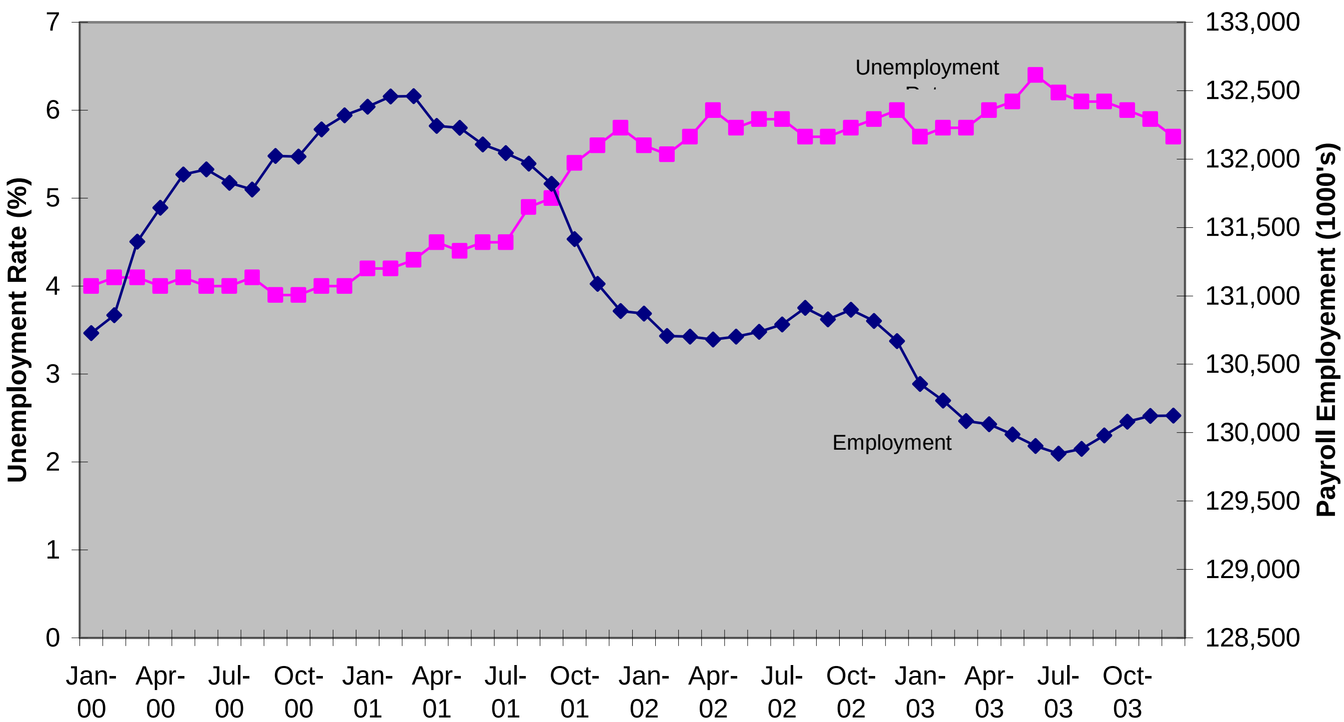


The Federal Open Market Committee has kept its federal funds rate target stable at 1% since June 2003. The Treasury yield curve has continued to steepen as short term rates have declined while long term rates have remained relatively stable. Three month US Treasury security yields are at .85%, while ten-year US Treasury note yields are at 4.26% as of January 8. Although inflation expectations have remained low, we expect the demand for credit to increase substantially over the next year as the economy continues its expansion. Strong economic growth can be expected to result in faster tightening of credit markets than would be the case if the expansion slows again. Although the Fed appears to be committed to keeping interest rates low, in order to fuel the economic expansion, one should expect that they will tighten monetary policy if the rate of inflation begins to accelerate. We, however, see no evidence of an acceleration of the inflation rate as the economic expansion continues, and expect no rate increases in the immediate future.

The US dollar has depreciated significantly against the currencies of most of the major trading partners of the US. This has been particularly noticeable with regard to the Canadian dollar. A weaker dollar could help the US export market recover in the face of a still relatively sluggish European economy. The reverse side of the weak dollar is the degree to which consumers will substitute domestic products for imports, as the dollar price of those imports rise. Complicating the matter is the extent of foreign content in US produced goods. A weaker dollar could raise the price of domestic products with high levels of non-domestic inputs. OPEC's use of a dollar denominated price for a barrel of oil has increasingly affected its pricing and output behavior. As the dollar gets weaker, OPEC has been decreasing its output to maintain increasingly higher target prices. Due to America's well documented reliance on foreign energy sources, the falling dollar has led to higher oil prices and higher dollar values of oil imports.

The national labor market continues to improve, albeit at a very slow pace. The December unemployment rate stands at 5.7%, down from its peak of 6.4% in June 2003. Payroll employment has finally begun to increase from its cyclical low in July 2003. As economic growth continues pick up, we expect the economy to create a significant number of new jobs. The national unemployment rate and payroll employment since January 2000 are shown in Figure 2.

Figure 2: U.S Payroll Employment and Unemployment Rate

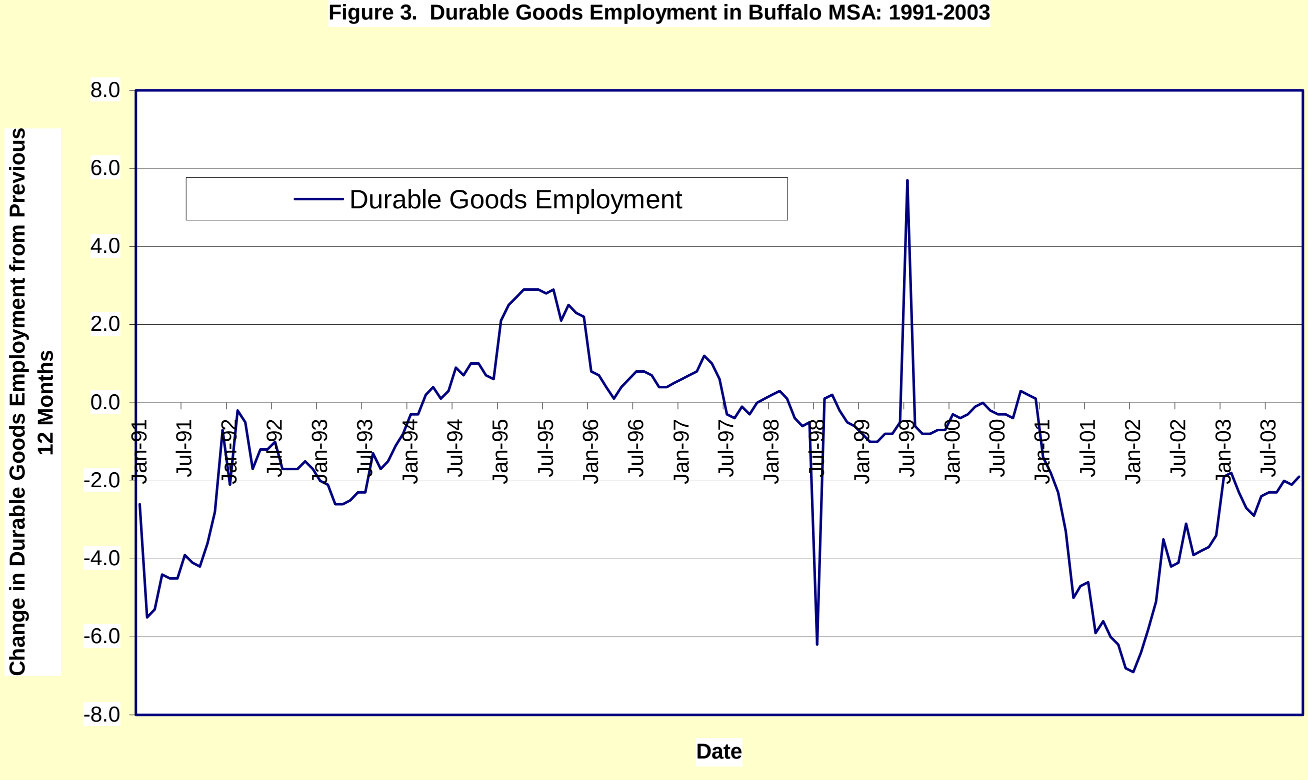


The Economic Outlook for the Buffalo Region

Data from the New York State Department of Labor **http://www.labor.state.ny.us/** indicate that the Buffalo is still in the midst 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 has recovered less fully from economic contractions than the nation as a whole.

As shown in Figure 2, the Buffalo metropolitan area is still declining. Durable goods employment continues fall in year over year monthly rates. In November 2003 there were about 2,000 fewer durable goods workers than in November 2002 which was 3700 fewer than 2001, which in turn was a reduction of 6200 from November of 2000. That is a decline of 12,000 durable goods producing workers over the three year period.

Figure 3. Durable Goods Employment in Buffalo MSA: 1991-2003



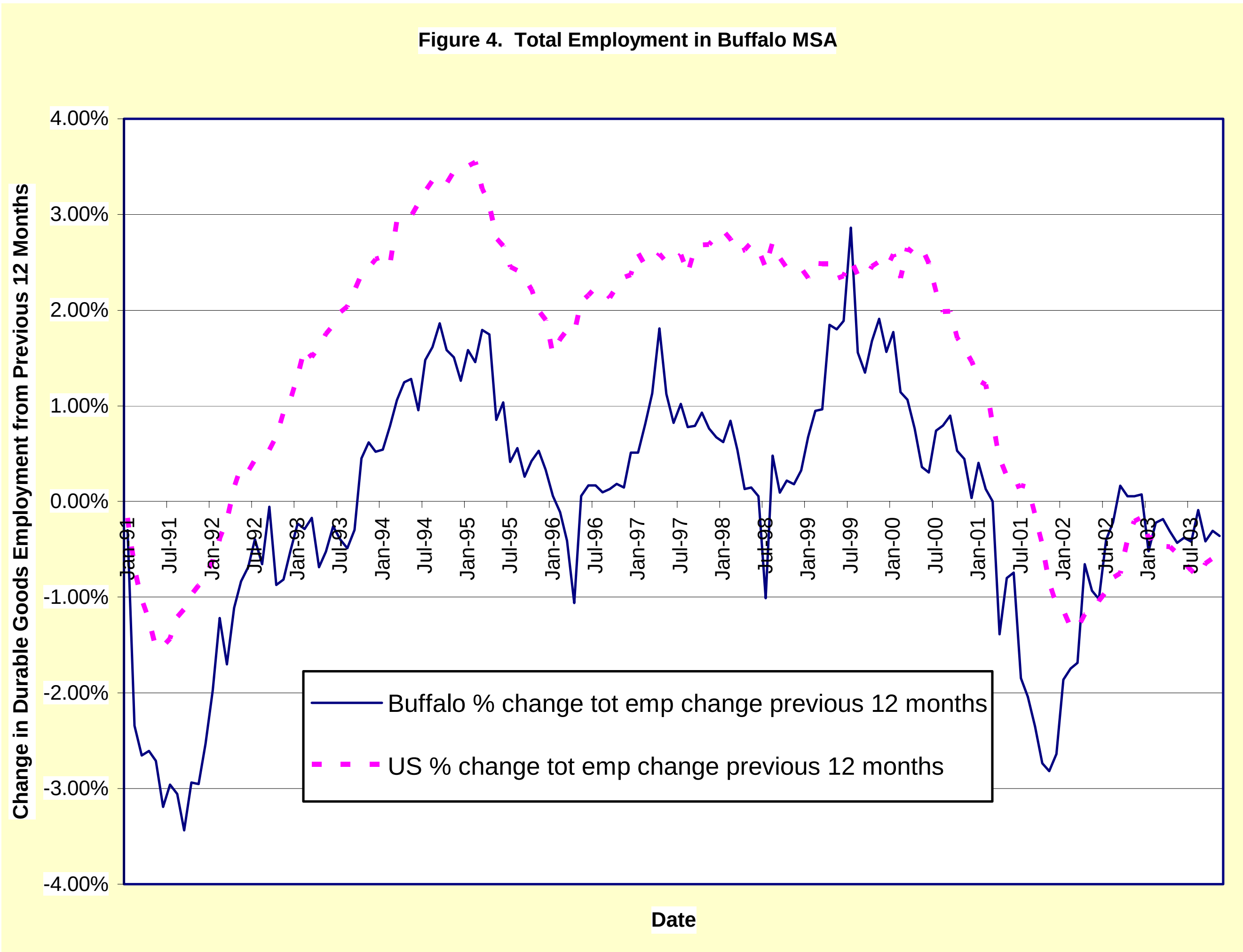
The average annual wage for manufacturing workers in the Buffalo region was $49,019 in 2002. The loss of 12,000 jobs at $49,000 each will have a substantial impact on the Western New York economy. While much has been said about the potential benefit of 2500 new service sector jobs associated with the announcement of the relocation of Geico facilities to the region, relatively little attention has been paid to what amounts to a hemorrhaging of the traditional economic base of the community, durable goods production. Since average insurance industry workers in Western New York earn approximately $41,650, it would take nearly five relocations the size of the Geico move to offset the loss that has occurred in the durable goods sector in Western New York over the last three years.

The dynamics of the economic impact multiplier are a little complicated, but they are none-the-less important to understand. Regional economic activity can be divided into two sectors. The local population oriented sector is the economic activity that produces goods and services for the local population primarily and as such the level of activity in this sector can be influenced by changes in the level of local income, but changes in this local population oriented sector rarely change the overall level of income within the region. For example, the opening of a retail super market generally will cause an increase in income for workers in that particular store, but generally one would expect the contraction of income and employment in another store, as shoppers change their buying behavior, resulting in no net growth in the regional economy. Thus, the growth of Wegmans in Western New York will generally be off-set by a decline in another provider such as Tops or Quality markets.

The second sector of economic activity is not local population oriented. This type of activity creates employment and income that can change the overall level of activity in the region. The goods producing sector is a good example of such activity, automobile engines made within the region are generally purchased as components of automobiles by people who live outside the region. Goods do not have to be physically exported to be part of this sector. Finance and insurance services provided to a national or international market can have the same affect on the level of economic activity within the region. Growth or decline in this sector will have a multiplied effect throughout the regional economy. The multiplier effect is the result of a series of rounds of induced spending caused by the inflow of income to workers in this sector. Thus the increased presence of Geico Insurance in the region can have a positive effect on the local economy greater than the incomes earned by Geico workers, similarly, the lost earnings of durable goods workers will have a multiplied effect, often between 2 and 2.5 times, beyond the income lost directly by those workers.

While 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, it is unclear how much of the loss in durable goods related income will return to the region over the economic expansion that will eventually follow. The Federal Reserve Bank of New York reported 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. Figure 4 shows the relationship between the national change in total employment and the regional change for the period from 1991 through 2003. Over this period, the relationship between employment growth in the national economy and employment growth in the Buffalo region weakened from its historic levels. For the period following the 1991 recession there was a .67% increase in local employment for each percentage point increase in the nation, down from .89% over the 1969 – 2001 period. From this we can expect that a prolonged slow national expansion of employment will be even slower in the Western New York region. Employment, and perhaps more importantly, what has happened to earnings per worker, nationally and regionally will be the focus of our next issue in May.

National, State & Local Indicators

National Indicators	2002:III	2003:I	2003:II	2003:III	%change 2002:III - 2003:III
Real GDP (billions of chained 2000$) (1)(a)	10,128.4	10,210.4	10,288.3	10,493.1	3.6
US Personal Income (billions of $)	8,944.0	9,048.7	9,145.9	9,242.5	3.3

	Dec-02	Oct-03	Nov-03	Dec-03	%change Dec-02 - Dec-03
Leading Indicators Index (1996=100) (1)(a)	111.2	113.9	114.1	114.3	2.79
Consumer Price Index (1982-84=100) (2)	180.9	185.0	184.5	184.3	1.88
Exchange Rate Canadian/US $ (3) (b)	63.4	75.8	77.0	77.1	21.60
10 Year Treasury Bond Yield (%) (3) (b)	3.82	4.29	4.34	4.25	0.43
3 Month Treasury Bill Yield (%) (3) (b)	1.19	0.95	0.92	0.91	-0.28
S&P 500 Stock Index (3) (b)	879.8	1,050.7	1,058.2	1,111.9	26.38
Dow-Jones Industrial Average (3) (b)	8,341.6	9,801.1	9,782.5	10,453.9	25.32
LABOR MARKET TRENDS (2)					
Nonag Civilian Employment					
US (1000's) (a)	130,670	130,080	130,123	130,124	-0.42
NY State (1000's) (a)*	8,412.9	8,401.9	8,410.8		-0.12
WNY (1000's)	550.3	549.7	549.8	548.0	-0.36
Unemployment Rate (%)					
US (a)	6.0	6.0	5.9	5.7	-0.3
NY State (a)	6.3	6.2	6.1	6.1	-0.2
WNY	6.2	6.0	6.6	6.5	0.3
Ave. Wkly Hours in Mfg. US (a)	40.9	40.6	40.8	40.7	-0.49
Ave. Wkly. Earnings in Mfg. US ($)	646.57	643.47	653.84	664.83	2.82
WNY EMPLOYMENT BY SECTOR (1000's) (2)*					
Natural Resources, Mining & Construction	20.7	21.9	20.7	20.6	-.48
Manufacturing	70.5	68.8	68.4	68.1	-3.40
Trade, Transportation & Utilities	107.4	106.2	108.1	108.5	1.02
Durable Goods	43.3	41.6	41.7	41.3	-4.62
Finance Activities	33.6	34.0	34.1	34.4	2.38
Service Providing	459.1	459.0	460.7	459.3	0.04
Government	93.4	92.2	92.7	91.6	-1.93

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

(a) Seasonally adjusted
(b) End of month data
*Indicates Nov-02-Nov-03 percent change