Western New York ECONOMIC NEWS

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Since the appearance of the last issue of this newsletter, the BEA earnings report for the year 2002, and a revised New York State Department of Labor report have been released. Employment declines in the region again preceded those for the nation during the 2001 recession. Especially hard hit has been durable goods employment, which generates some of the highest levels of earning per worker in the region and the nation. Hopes of escaping the past patterns of cyclical decline may have been misplaced. The region may indeed have fallen deeper into recession and recover less fully than the rest of the nation. There are those who feel that the restructuring of the economic base will lead to a moderation of economic downturns. If it does, it will have been at the cost of trading high wage jobs for those that pay substantially less, providing cold comfort to those that care about the level, not just the variability of income. The full text and supporting documents of this newsletter appear on the Internet at http://www.canisius.edu/wnyeconomicnews.

The National Economic Outlook

Preliminary estimates of 2004:Q1 real GDP show the national economy growing at an annual rate of 4.4%, after growing at annual rates of 2.0%, 3.1%, 8.2%, and 4.1% during the four quarters of 2003. Growth rates of real GDP since the first quarter of 2001 are shown in Figure 1. Over the past three quarters, real GDP growth has remained above the post WWII average of 3%, a necessary prerequisite for improvement in the labor markets. The main contributors to the strong performance of the national economy have been personal consumption expenditures, business fixed investment and federal government expenditures. The long awaited acceleration in business investment spending has finally arrived. Over the past four quarters, the growth in business fixed investment has averaged 9.2%, indicating an improved perception of expectations in the business sector.

Indeed, the outlook for continued overall growth in the national economy looks promising as indicated by the continued increases in the Conference Board's www.conference-board.org index of leading economic indicators. The index, designed to predict economic growth over the coming year, increased by 3.5% on an annual basis over the past year. We expect real GDP growth to be in the 3% to 4% range over the coming year.

Significant improvement in the labor market has finally put to rest the issue of the jobless recovery of 2002 and 2003. The economy has added over one million jobs since the low point in payroll employment in July 2003. Similarly, the national unemployment rate stands at 5.6%, off its peak of 6.4% in June 2003. U.S. payroll employment and the unemployment rate since January 2001 are shown in Figure 2.

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Figure1: Real GDP Growth Rates

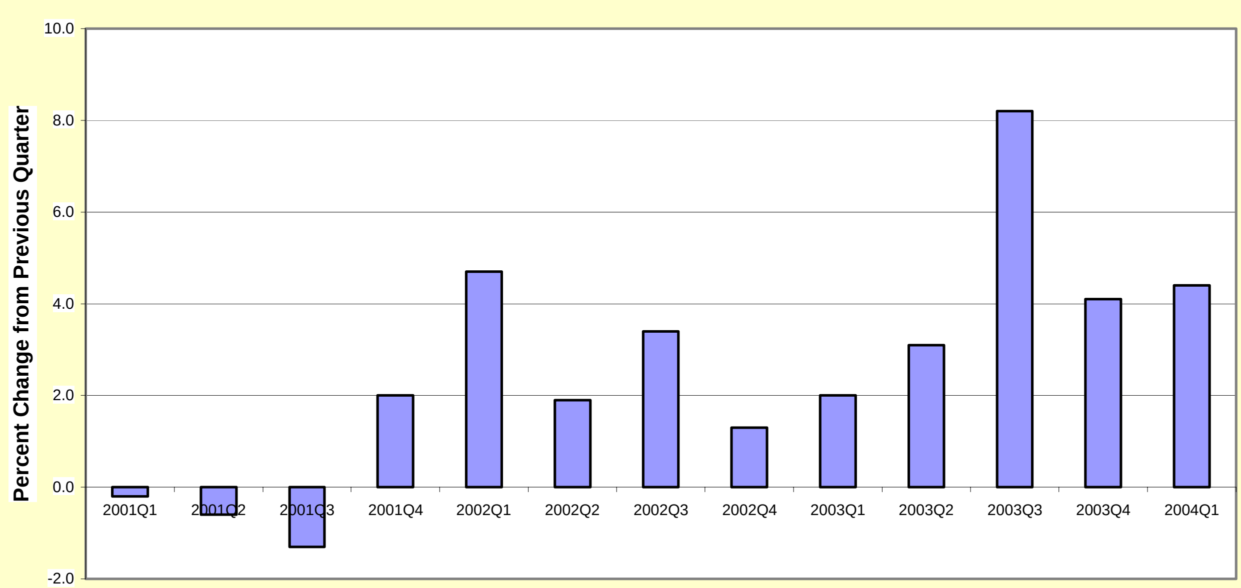


Figure 2: U.S Payroll Employment and Unemployment Rate

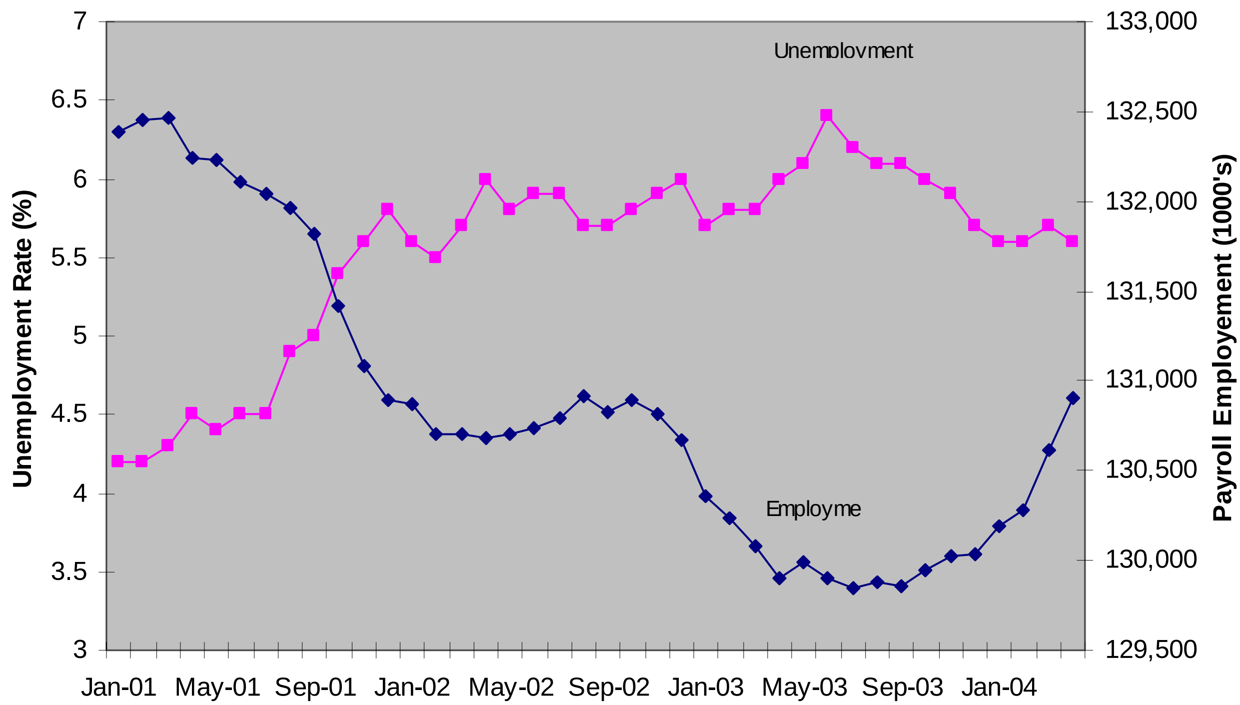
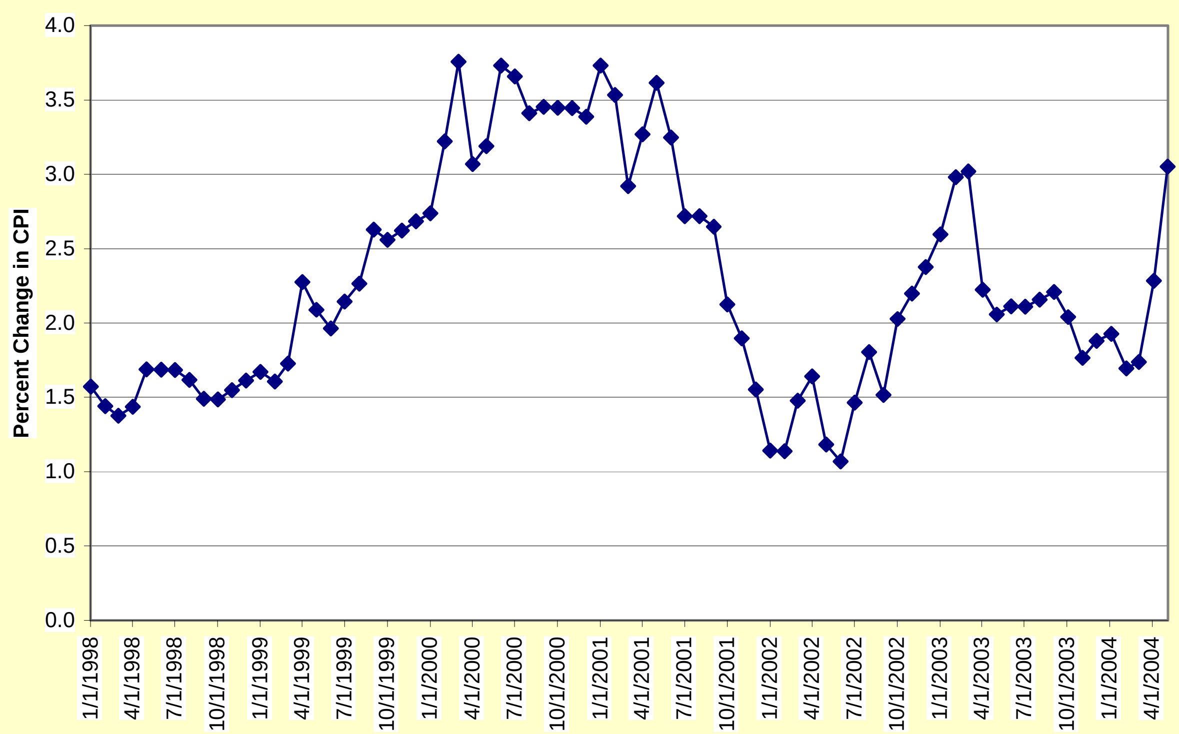


Figure 3 shows the inflation rate based on 12 month changes in the Consumer Price Index www.bls.gov (CPI) from 1998 to the present. Over the past year, the inflation rate has hovered around 2%. The economy-wide inflation rate has accelerated to 3.1% over the May 2003 – May 2004 period. Developments in the energy market have been particularly important to this acceleration. Energy prices have risen at a 29.7% compound annual growth rate over the three month period ending in May 2004 and by 15% from May 2003 to May 2004. Energy market participants have credited tensions in the Middle East, a continuation of terrorist activity in Iraq, and the recent attack at the Saudi Arabian oil hub of Khobar for the precipitous rise in energy prices. The potential for supply disruption and the increase in worldwide demand has led crude oil futures prices to rise to a record high of $42.33 per barrel on June 1, 2004. Consumers have seen retail gasoline prices rise above $2.00 per gallon. Unless offset by substantial and sustained increases in OPEC oil production, these developments, accompanied by a strongly growing economy, have the potential to lead to a substantial acceleration in the rate of inflation and the level of inflation expected by consumers and firms.

Figure 3: US CPI Inflation Rate (12 Month Percent Change)



Since the Federal Reserve's primary responsibility is to control the rate of inflation, it is widely expected that the FOMC will raise its federal funds target rate at its next meeting. Indeed, Alan Greenspan has been preparing markets for such an increase in his public testimony. The Fed has kept the federal funds target at 1% since June 2003. Market participants appear to be anticipating either an increase in the federal funds target or an increase in inflation, or both. Ten-year U.S. Treasury yields stood at 4.87% on June 14, 2004, 151 basis points higher than their low point in May 2003. Three-month Treasury bill yields are presently 52 basis points higher than they were at their low point in June 2003.

Buffalo and the National Economy

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 2004. The data and growth rates for the Buffalo area, the U.S., and New York State, appear in Table 1. Surprisingly, the Buffalo region outperformed the national economy in 2002, growing by 1.22% while the national rate of growth was only .67%. This was the first time that this has occurred over the past 35 years. The reasons for this may be related to the timing of the recessionary impact and the structure of the region's economic base, both of which are discussed below. Real personal income growth in New York State was -.75% in 2002 and a meager .27% in 2003. Real U.S personal income grew by 1.27% in 2003.

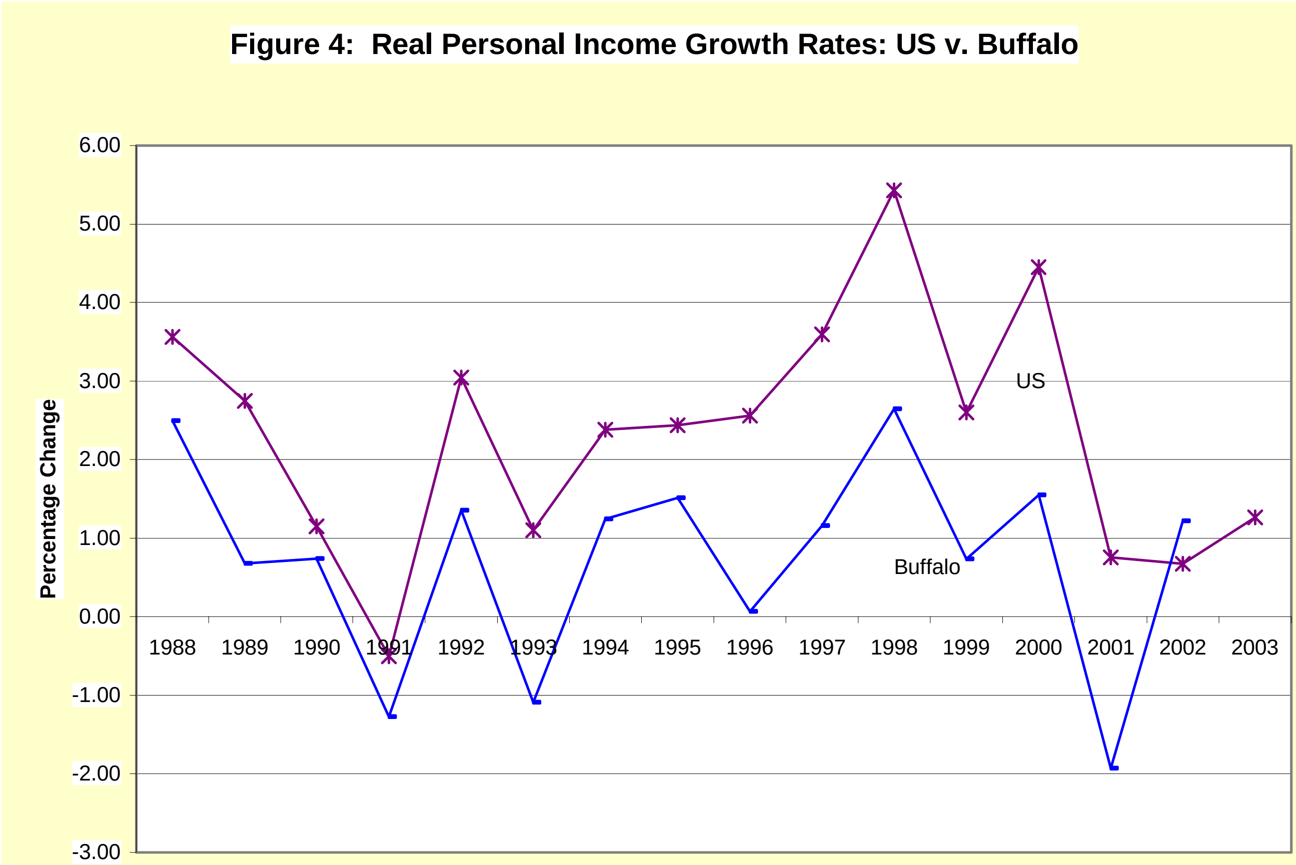
Historic growth rates of real personal income in the US and Buffalo are used to generate the forecast of the change in personal income for Buffalo in 2003 and 2004 (bold face). This forecast assumes that US real personal income will grow by 2.9% in 2004. The growth rate of real personal income in the Buffalo area has been strongly correlated with the growth of US real personal income over the period 1980-2002 (Pearson correlation coefficient = .88). Each 1%

TABLE 1

Real Personal Income Growth Rates: Buffalo, US, New York State

YEAR	BUFFALO PERSONAL INCOME (MILLIONS OF 2001$)	BUFFALO PERCENT CHANGE	US PERCENT CHANGE	NEW YORK STATE PERCENT CHANGE
1994	30,401.3	1.25	2.38	0.45
1995	30,860.5	1.51	2.44	2.49
1996	30,881.6	0.07	2.56	2.30
1997	31,239.7	1.16	3.59	3.06
1998	32,065.7	2.64	5.43	4.62
1999	32,301.3	0.73	2.60	2.44
2000	32,802.1	1.55	4.45	3.52
2001	32,168.7	-1.93	0.75	-0.34
2002	32,561.5	1.22	0.67	-0.75
2003	**32,822.0**	**.80**	1.27	0.27
2004	**33,150.2**	**1.00**	**2.90**	

growth in US real personal income has been met by a .85% growth in Buffalo area real personal income. The historic relationship between these growth rates is shown in Figure 4.



While the rate of growth of real personal income in the Buffalo metropolitan area edged ahead of the growth rate for the nation in 2002, after almost 20 years of lagging behind the national average due to falling earnings per worker and a declining population; the level of per capita personal income in the Buffalo is still well below the national average ($28,489 regionally compared to $30,906 nationally in 2002).

The closure of the gap between Buffalo and the rest of the nation between 2001 and 2002 is most likely due to the differential impact of the recession of 2001 on the region and the nation, and the restructuring of the local economic base. Comparing the region's earnings per worker to the national measure reveals that Buffalo workers receive approximately 7% less than the national average. The average manufacturing worker in the Buffalo region earns 15% more than the national average. The good news for the region is that local manufacturing workers earn much more than their national counterparts, the bad news is that manufacturing employment continues to decline in the region.

Table 2A shows the most important elements of Buffalo's economic base determined by the percent of total earning in the region, and the change in earnings from 2001 to 2002 for these industries nationally. With nearly 21% of the local earnings in the Buffalo metropolitan area originating in the manufacturing sector, the decline in this sector hurt the local economy the most. The group of governmental services, including education, is second in importance to manufacturing as a source of local income. This sector did not suffer greatly during the recent recession, and thus could be a source of stability to the local economy.

Table 2A: Buffalo and the National Economy

Industry Sectors Generating the Most Earnings in the Buffalo MSA:	% of Local Earnings 2001	U.S. Change in Earnings 2001-2002
Manufacturing	20.95%	-3.02%
Durable goods manufacturing	13.45%	-4.55%
Government and government enterprises	17.59%	5.64%
State government	4.48%	4.93%
Health care and social assistance	11.06%	7.11%
Ambulatory health care services	5.33%	6.41%
Proprietors' income	8.34%	3.44%
Non-farm proprietors' income	8.27%	5.07%
Professional and technical services	7.17%	-0.76%
Retail trade	6.54%	2.28%
Finance and insurance	6.04%	0.46%
Wholesale trade	4.93%	-0.23%
Construction	4.59%	1.62%

Table 2B: U.S. Industries Hardest Hit by the Recession of 2001

U.S. Industries with Greatest Decline in Earnings 2001 to 2002:	% of Local Earnings 2001	Change in Earnings 2001 to 2002
Pipeline transportation	(d)	-44.75%
Farm proprietors' income	0.07%	-39.67%
Farm earnings	0.19%	-23.30%
ISPs, search portals, and data processing	0.37%	-15.93%
Internet publishing and broadcasting	0.01%	-15.57%
Computer and electronic product **Manufacturing:**	0.78%	-11.87%
Leather and allied product manufacturing	(d)	-10.59%
Securities, commodity contracts, investments	0.90%	-7.82%
Scenic and sightseeing transportation	(d)	-7.47%
Primary metal manufacturing	0.65%	-7.44%
Telecommunications	1.08%	-7.34%
Apparel manufacturing	0.28%	-7.04%
Electrical equipment and appliance	0.84%	-6.85%
Machinery manufacturing	1.34%	-6.39%
Publishing industries, except Internet	0.49%	-6.32%

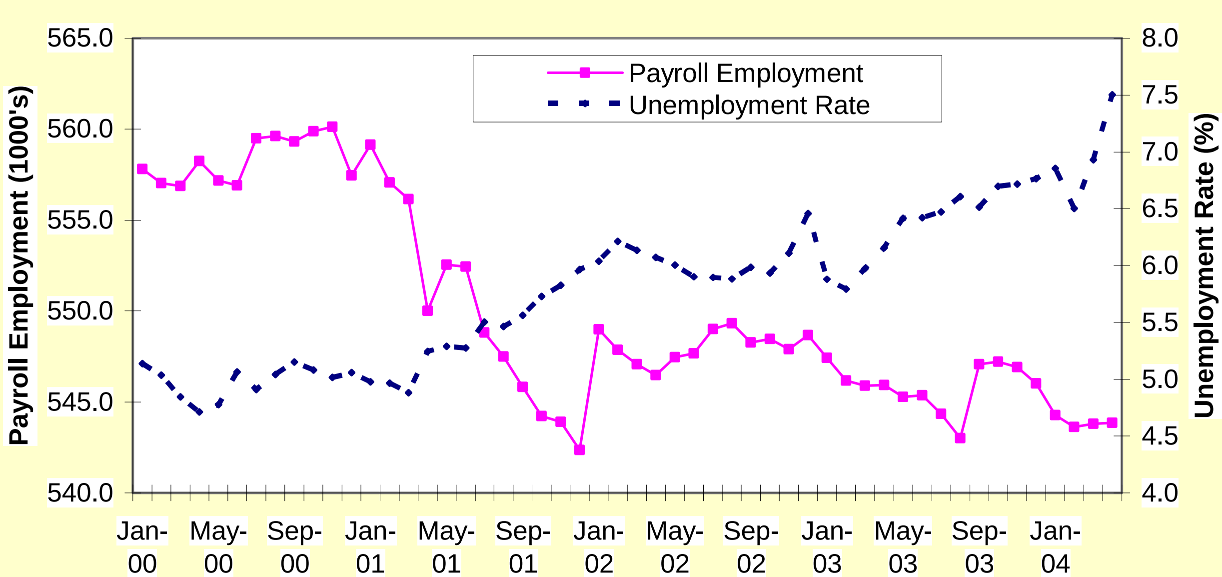
(d) disclosure

Of the next most important generators of local income, only professional & technical services and wholesale trade had negative changes in the level of earnings nationally during the recession of 2001. These factors help explain the slight convergence in real in real personal income over the period. They might also lead to a cushioning of the total impact of the recession in the Buffalo region.

Table 2B presents the industry groups that were most severely affected on the national level by the recession of 2001. Of importance to the local economy is the fact that not one element of the manufacturing sector that declined the most nationally during the 2001 recession has any significant presence in the Western New York economy. None of the non-manufacturing sectors with the largest declines in earnings has a substantial presence in Western New York either. Thus the evolving nature of the Western New York economy provided some buffer between the national and the regional economy.

This change in the relationship between the national and regional economies may affect the timing of the impact of the national economy on the region, as well as the degree of the decline. The duration of the impact of the recent recession on the local economy and the eventual depth of the decline bear watching. The changing relationship between the nation and the region may also affect our estimates of local personal income growth in the future.

Figure 5: WNY Payroll Employment & Unemployment Rate

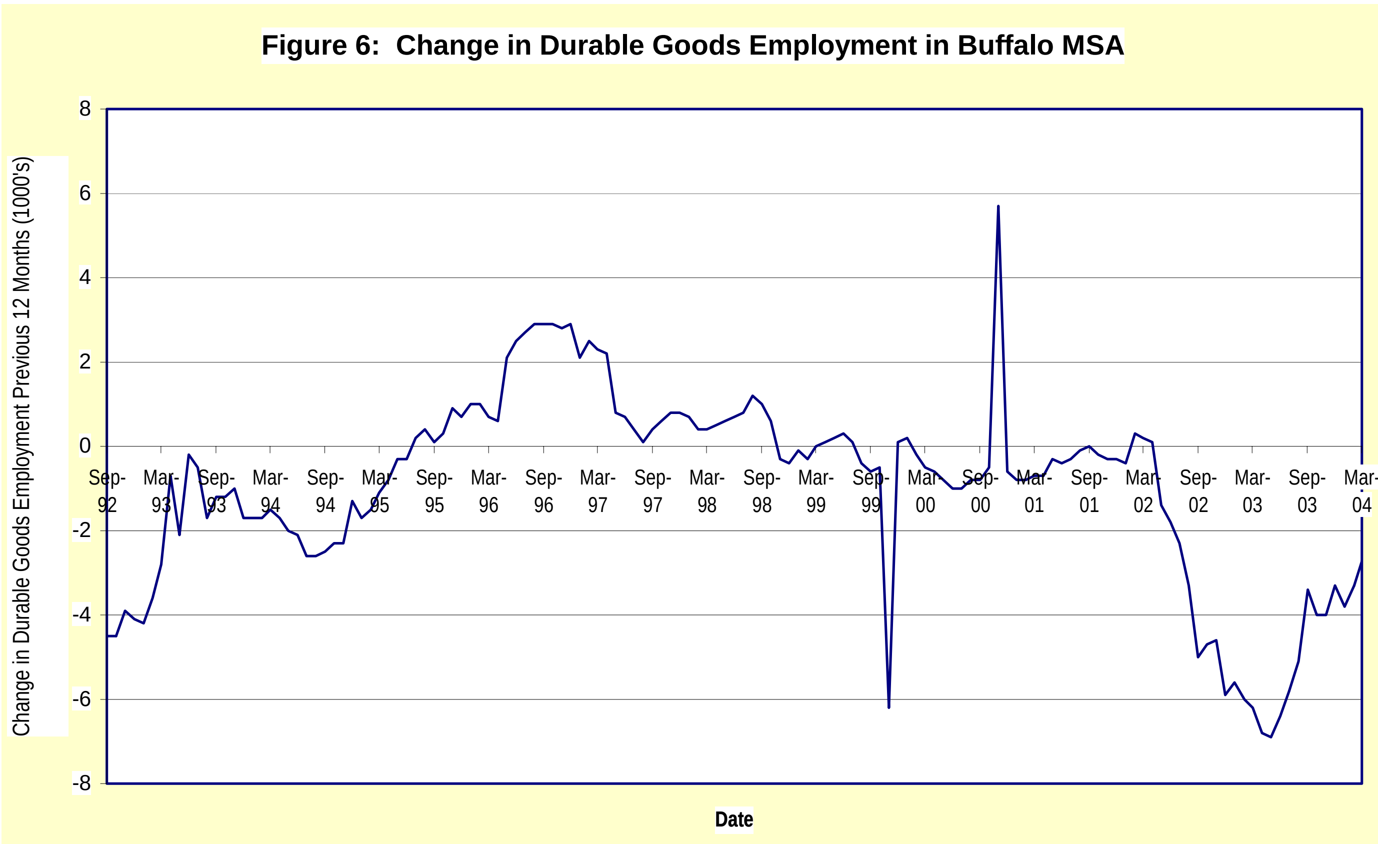


The Economic Outlook for the Buffalo Region

Is the recession over in the Western New York economy? This is not a question of whether or not the long term secular decline that has plagued the region since the mid-1970s has been reversed, but rather if the recent decline due to the national recession is at an end. Figure 5 shows the pattern of employment and the unemployment rate in Western New York since January 2000. The unemployment rate in April 2004 is higher than at any time since the beginning of the 2001 recession. Employment levels in April 2004 are not substantially different from the levels they reached at the bottom of the 2001 recession.

This data from the New York State Department of Labor **http://www.labor.state.ny.us/** indicates that the Buffalo region is has once again entered recession before the rest of the nation, has fallen deeper, has stayed in recession longer and may recover less fully from economic contractions than the nation as a whole.

As discussed above, the heart of the economic base has been durable goods manufacturing. Figure 6 shows that durable goods employment the Buffalo metropolitan area continues fall in year over year monthly rates. In March 2004 there were about 3,000 fewer durable goods workers than in March 2003, which was about 7000 fewer than in 2002. There is no way to construe this as good news for the region or its workers.



NATIONAL, STATE & LOCAL BUSINESS INDICATORS

NATIONAL INDICATORS	2003:I	2003:III	2003:IV	2004:I	% change 2003:I-2004:I
Real GDP (billions of chained 2000$) (1)(a)	10,210.4	10,493.1	10,600.1	10,716.0	5.0
US Personal Income (billions of $)	9,048.7	9,256.3	9,381.0	9,518.3	5.2
	May-03	**Mar-04**	**Apr-04**	**May-04**	**May-03 - May-04**
Leading Indicators Index (1996=100) (1)(a)	111.5	115.3	115.7	115.9	3.95
Consumer Price Index (1982-84=100) (2)	183.5	187.4	188.0	189.1	3.05
Exchange Rate Canadian/US $ (3) (b)	73.1	76.3	72.9	73.3	0.34
10 Year Treasury Bond Yield (%) (3) (b)	3.36	3.85	4.50	4.65	1.29
3 Month Treasury Bill Yield (%) (3) (b)	1.09	0.93	0.96	1.07	-0.02
S&P 500 Stock Index (3) (b)	963.6	1,126.2	1,107.3	1,120.7	16.30
Dow-Jones Industrial Average (3) (b)	8,850.3	10,357.7	10,225.6	10,118.5	14.33
LABOR MARKET TRENDS (2)					
Nonag Civilian Employment					
US (1000's) (a)	129,986	130,630	130,976	131,224	0.95
NY State (1000's) (a)*	8,403.0	8,431.1	8,434.3		0.37
WNY (1000's)*	548.9	538.5	540.7		-1.49
Unemployment Rate (%)					
US (a)	6.1	5.7	5.6	5.6	-0.5
NY State (a)*	6.3	6.5	6.2		-0.1
WNY*	6.1	7.3	7.2		1.1
Ave. Wkly Hours in Mfg. US	40.2	40.9	40.7	41.1	2.24
Ave. Wkly. Earnings in Mfg. US ($)	628.73	653.21	652.04	658.42	4.72
WNY EMPLOYMENT BY SECTOR (1000's) (2)*					
Natural Resources, Mining & Construction	20.2	16.2	17.9		-11.39
Manufacturing	69.2	66.6	66.3		-4.19
Trade, Transportation & Utilities	102.1	100.4	100.2		-1.86
Durable Goods	42.1	40.1	39.8		-5.46
Finance Activities	33.4	33.2	33.2		-0.60
Service Providing	459.5	455.7	456.5		-0.65
Government	96.2	98.8	97.5		1.35

(1) US Dept. of Commerce — (a) Seasonally Adjusted
(2) US Dept. of Labor — (b) End of month data
(3) Wall Street Journal — *May-03 – Apr-04 changes