

# Western New York ECONOMIC NEWS

## Canisius College

### Richard J. Wehle School of Business

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The national economy seems to be on the rebound, but the upstate metropolitan areas in New York continue their decline in goods producing employment and earnings per worker. Oil price increases and their impact on the cost of other energy sources could dampen economic growth, and may be a precursor to a slowdown in economic growth or even economic decline. The substantial growth in national income may not have lifted all boats at the same rate, and the declines in the goods producing sector that has been all too common in the upstate economy in the last two decades may be spreading throughout the national economy. The recent changes to NAICS from the older SIC coding system has led to a new series of employment and industry measures for employment that have been incorporated into this newsletter. The full text and supporting documents of this newsletter appear on the following internet address: <http://www.canisius.edu/wnyeconomicnews>.

## The National Economic Outlook

Real GDP during the second quarter of 2004 (2004:Q2) shows the national economy growing at an annual rate of 3.3%, after growing at annual rates of 4.1%, 7.4%, 4.2%, and 4.5% during the period 2003:Q2—2004:Q1. Real GDP growth rates since the first quarter of 2001 are shown in Figure 1. Business investment has continued to accelerate, rising by 19% during the 2004:Q2. Consumption expenditures, which account for approximately two-thirds of GDP, rose by only 1.6% during 2004:Q2, the primary reason for the deceleration in real GDP growth during the quarter. A key contributory factor in the consumer expenditure slowdown has been the dramatic rise in oil prices. Crude oil futures prices closed to a record high \$51 per barrel on October 5, 2004. This increase has led to increases in gasoline and home heating oil prices that act as a tax on consumer expenditures. The result is less dollars in consumer pocketbooks and a reduction in aggregate consumption for non-energy related items.

Rising oil prices threaten the economic recovery that has been in place since 2002. It is interesting to place the recent rise in oil prices in historical context. Figure 2 shows the real price of a barrel of West Texas intermediate crude oil measured in 2004 dollars. Nominal oil prices have been adjusted by the economy-wide consumer price index to place them on a 2004 constant dollar basis. The current \$51 per barrel price of crude oil is still far below the 1980 real peak price of \$92.41. The present price is on par with the real price of crude oil in October 1990.

Another interesting point about Figure 2 is the correlation between run-ups in real oil prices and the onset of recession. The twin recessions of 1980 and 1981-82, and the recessions of 1990-91 and 2001 all followed or are coincident with large increases in the real price of crude oil.

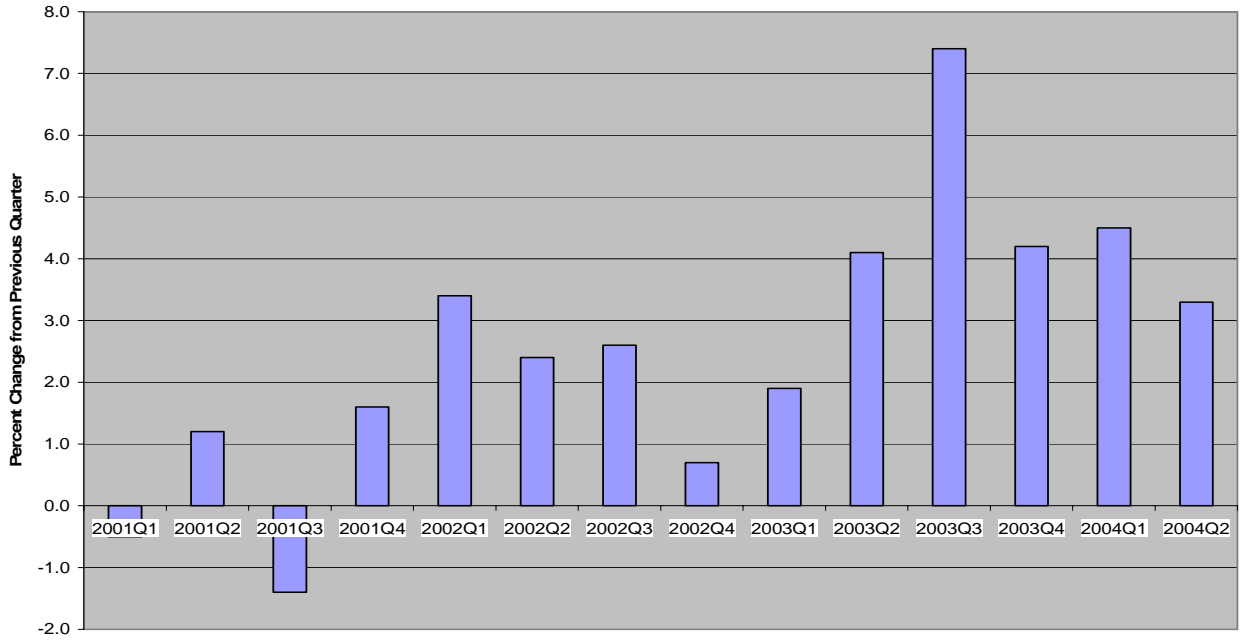
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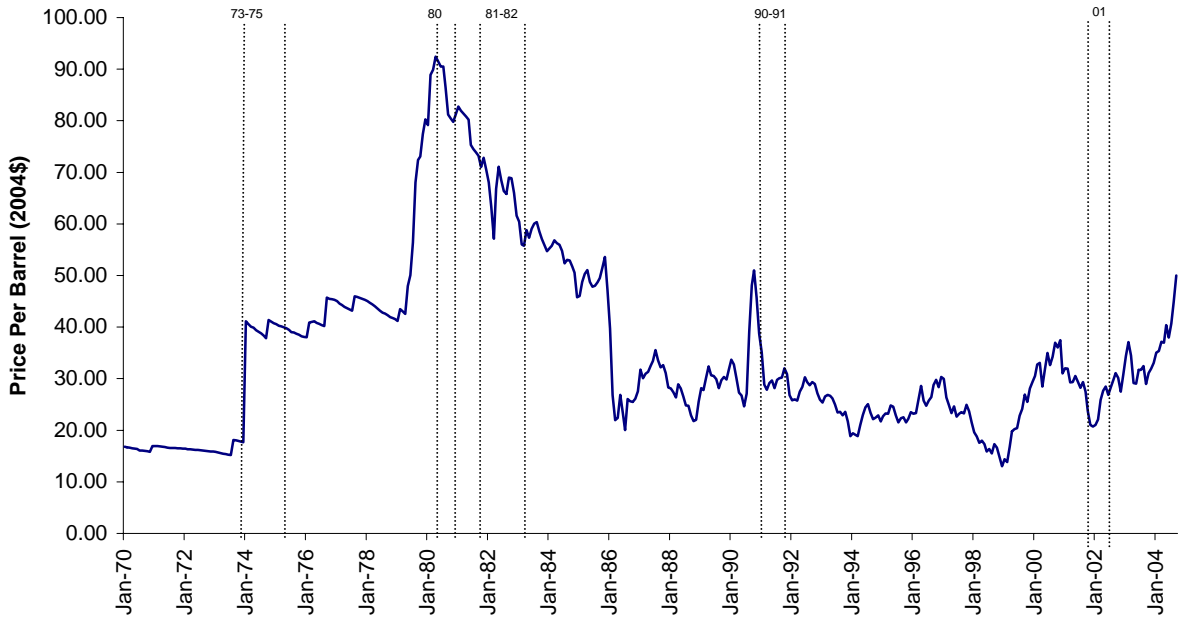
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**Figure1: Real GDP Growth Rates**



**Figure 2: Real Price of a Barrel of West Texas Intermediate Crude Oil (2004\$)**

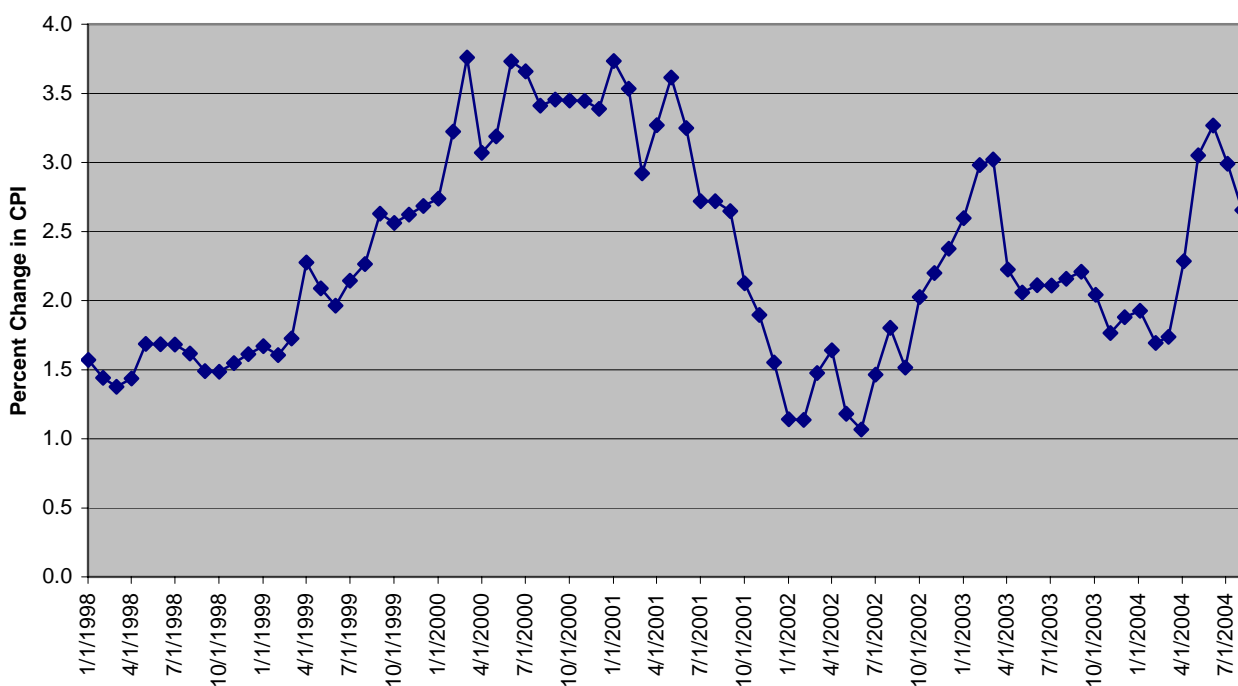


What is important in the present situation is if the worldwide acceleration in the demand for crude oil continues while supply disruptions occur as a result of the Iraqi War and the hurricane damage to offshore oil wells in the Gulf of Mexico. If this continues, oil prices will continue to rise and could slow down economic growth or produce another recession.

The Conference Board's [www.conference-board.org](http://www.conference-board.org) index of leading economic indicators has declined over the past three consecutive months. Over the past 44 years, the leading index has exhibited consecutive declines for three months in a row sixteen times. Although there have been only seven recessions over the same period, a declining leading index generally leads to a decline in the rate of growth of real GDP. These developments lead to a guarded outlook for future growth in the national economy.

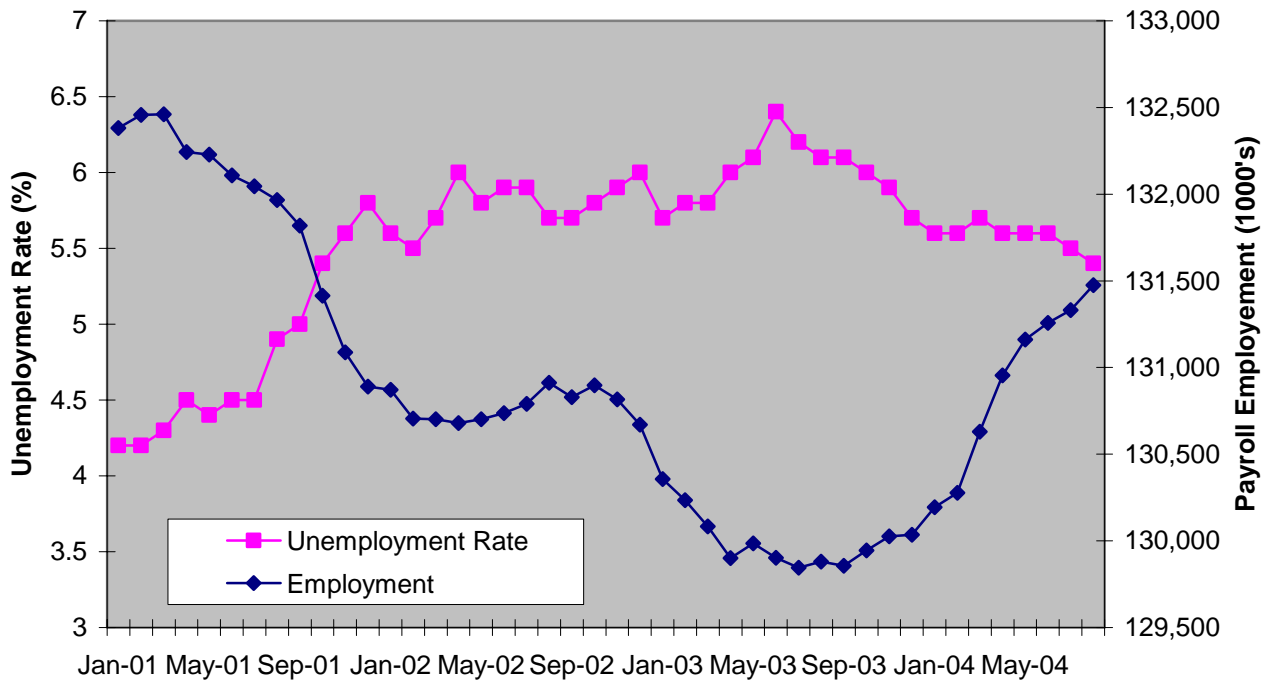
Figure 3 shows the inflation rate based on 12 month changes in the Consumer Price Index [www.bls.gov](http://www.bls.gov) (CPI) from 1998 to the present. In February 2004, the inflation rate stood at 1.7%. Inflation quickly accelerated to 3.3% in June 2004. Energy market developments have been particularly important to this acceleration. Energy prices based on the CPI for energy have risen by 10.6% from August 2003-August 2004 and by 11.9% from August 2002 to August 2003.

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



The labor market has continued to improve both in terms of a lower unemployment rate and in the number of new jobs added to payrolls. The economy has added approximately 1.6 million new jobs since the payroll employment trough in July 2003. However, slow labor market recovery since the end of the 2001 recession has left the economy with 986,000 fewer jobs in August 2004 compared to the March 2001 employment peak. The national unemployment rate stands at 5.4%, off its peak of 6.4% in June 2003. U.S. payroll employment and the unemployment rate since January 2001 are shown in Figure 4.

**Figure 4: U.S Payroll Employment and Unemployment Rate**



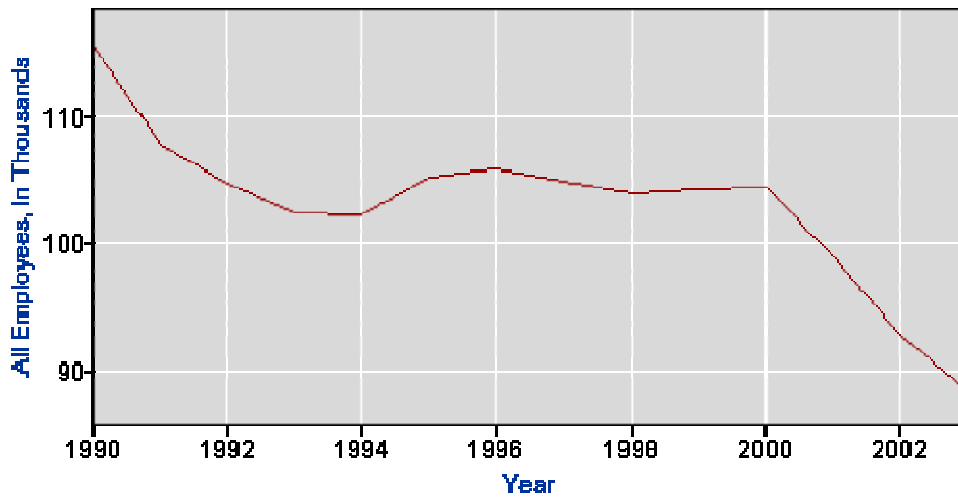
The Federal Reserve raised its federal funds target rate by 25 basis points at its June 30 meeting and by another 25 basis points at its August 10 meeting. FOMC statements and Alan Greenspan's testimony seem to indicate that future increases in the fed funds target are to be expected. The yield curve has flattened considerably with ten-year U.S. Treasury yields at 4.18% and three-month Treasury bill yields at 1.70% on October 5, 2004. The bond market seems to either be forecasting a slowdown in economic activity or do not believe that the FED will be able to increase short term rates in the future.

## The State of the Upstate Economies

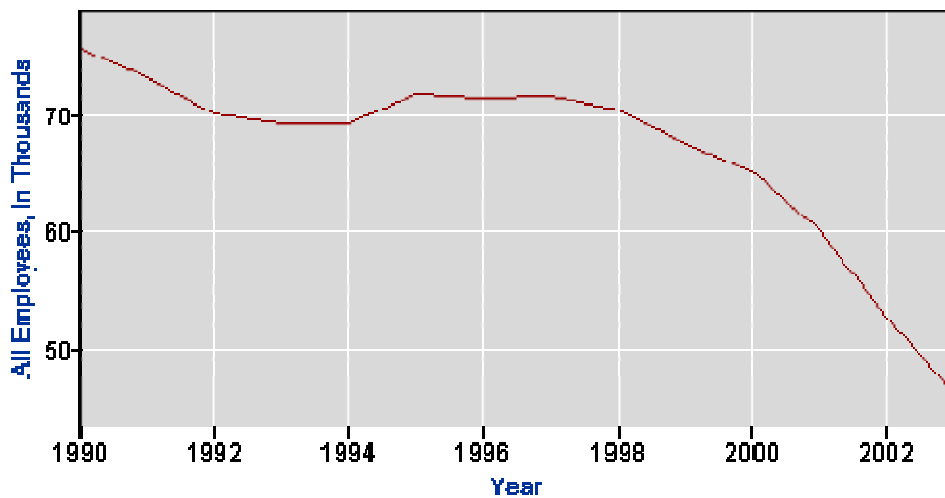
The major metropolitan areas in upstate New York; Buffalo, Rochester and Syracuse, share a similar history, a common transition, and an uncertain future. All three areas were manufacturing centers in the post-World War II era. All offered high wage jobs to a broad class of workers, and all three have suffered substantial declines over the last fifty years. While the industrial mix differed substantially for the three economic regions, the transition away from the traditional manufacturing base in the United States has affected each area in similar ways though at different times. In 1975, Buffalo manufacturing workers earned 25% more than the national average for the sector, with workers in Rochester and Syracuse exceeding the national average by 21% and 8% respectively. Since 1975, Buffalo has lost 52% of its manufacturing employment, with Rochester and Syracuse losing 44% and 31%, respectively. Although this story is not new, the dimensions of the decline and the impact on the overall levels of income in these regions are not frequently discussed. Over a similar period, national manufacturing employment has fallen from a high of nearly 19.5 million to under 14.5 million in 2004. The story of the upstate economy is the story of the American economy.

The NAICS has replaced the long standing Standard Industrial Classification (SIC) system as a method for classifying economic activity. The Current Employment Statistics (CES) survey of the Bureau of Labor Statistics [www.bls.gov](http://www.bls.gov) published national data based on the North American Industrial Classification System (NAICS) in May 2003. SIC-based data will no longer be produced or published. However, it will be still be available though not updated past April 2003. Historical time series were reconstructed as part of the NAICS conversion process for many data series back to 1990. The data in Figures 5a-5c, presents the 1990 to 2003 total goods producing employment on an NAICS basis for the Buffalo, Rochester and Syracuse metropolitan areas, respectively.

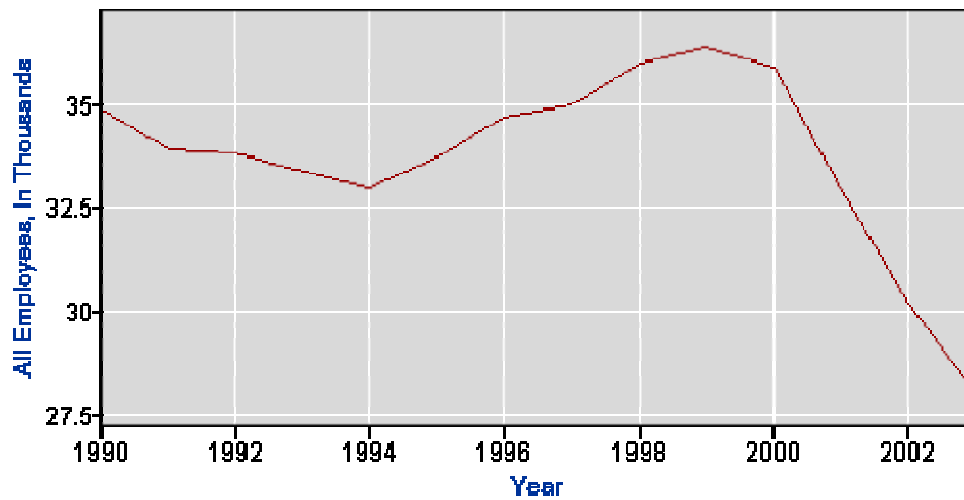
**Figure 5a: Total Employment in Goods Producing Sector  
Buffalo MSA: 1990 - 2003**



**Figure 5b: Total Employment in Goods Producing Sector  
Rochester MSA: 1990 - 2003**



**Figure 5c: Total Employment in Goods Producing Sector  
Syracuse MSA: 1990 - 2003**



Even as the recent employment decline due to the 2001 recession comes to an end, the upstate metropolitan areas continue to lose jobs. The long term secular decline that has plagued the Buffalo region since the mid-1970s has not been reversed. The other metropolitan areas along the New York State Thruway are beginning to look more like Western New York. What may be worse is that the national economy may be taking on a look that has long been associated with the Buffalo economy: a reduction in high paying manufacturing jobs and a movement toward lower paying non-manufacturing jobs.

The effects of the 2001 recession may take a long time to fully unfold, but a quick look at the trend in earnings per worker locally and nationally may demonstrate a valuable lesson. Over the period 1988 - 1999, real earnings per worker in the Buffalo metropolitan area were in constant decline. Though higher than the 1988 levels, real earnings per worker were lower in each year over the period 1999 - 2002 as measured by the BEA. This is well known and is not news to our readers. What might be news however is that earnings per worker were lower in 2001 than it was in 1988 in both the Rochester and Syracuse metropolitan areas. The constant drain away from the upstate metropolitan areas of high paying manufacturing jobs has had the expected effect on the workers of these regions. On average, they had less money in current dollar terms in their pockets at the beginning of the new century than they had in the previous decade. The decline in real terms has been far greater.

This trend was not true in the nation as a whole over the same period, where earnings per worker increased approximately 76% between 1988 and 2002. What has happened since the recession of 2001? In the United States, there were nearly 19.5 million workers in the manufacturing sector in 1979. By the year 2000, this number had diminished to 17.25 million. From 2000 to 2003, that number declined further to 14.5 million (This is roughly equal to the decline in goods producing employment over the same period). From August 2003 to August 2004, real hourly earnings in the US declined slightly. From second quarter 2003 to 2004, real median weekly earnings increased by less than 1 percent. Over the same period real corporate profits increased approximately 16%. Will this unbalanced *growth* continue? Have the upstate areas simply led the way to declining earnings per worker? Only time will tell.

# NATIONAL, STATE & LOCAL BUSINESS INDICATORS

	% change				
<b>NATIONAL INDICATORS</b>	<b>2003:II</b>	<b>2003:IV</b>	<b>2004:I</b>	<b>2004:II</b>	<b>2003:II-2004:II</b>
Real GDP (billions of chained 2000\$) (1)(a)	10,287.4	10,580.7	10,697.5	10,784.7	4.8
US Personal Income (billions of \$)	9,105.7	9,330.0	9,445.0	9,583.4	5.2
	<b>Aug-03</b>	<b>Jun-04</b>	<b>Jul-04</b>	<b>Aug-04</b>	<b>Aug-03 - Aug-04</b>
Leading Indicators Index (1996=100) (1)(a)	113.4	116.3	116.0	115.7	2.03
Consumer Price Index (1982-84=100) (2)	184.5	189.7	189.4	189.5	2.71
Exchange Rate Canadian/US \$ (3) (b)	72.2	75.0	75.2	76.2	5.52
10 Year Treasury Bond Yield (%) (3) (b)	4.47	4.59	4.48	4.12	-0.35
3 Month Treasury Bill Yield (%) (3) (b)	0.97	1.32	1.42	1.59	0.62
S&P 500 Stock Index (3) (b)	1,008.0	1,140.8	1,101.7	1,104.2	9.55
Dow-Jones Industrial Average (3) (b)	9,415.8	10,435.5	10,139.7	10,173.9	8.05
<b>LABOR MARKET TRENDS (2)</b>					
Nonag Civilian Employment					
US (1000's) (a)	129,881	131,258	131,331	131,475	1.23
NY State (1000's) (a)	8,386.7	8,464.9	8,451.0	8,456.2	0.77
WNY (1000's)*	542.2	550.1	541.5	541.5	-0.13
Unemployment Rate (%)					
US (a)	6.1	5.6	5.5	5.4	-0.7
NY State (a)	6.4	6.2	5.9	5.6	-0.8
WNY	6.4	6.6	6.6	6.2	-0.2
Ave. Wkly Hours in Mfg. US	40.2	40.8	40.9	40.9	1.74
Ave. Wkly. Earnings in Mfg. US (\$)	633.55	659.69	646.41	659.33	4.07
<b>WNY EMPLOYMENT BY SECTOR (1000's) (2)*</b>					
Natural Resources, Mining & Construction	22.4	20.4	21.4	21.7	-4.46
Manufacturing	68.1	66.9	66.2	66.0	-2.79
Trade, Transportation & Utilities	102.3	102.9	101.4	101.8	-0.88
Durable Goods	41.4	40.1	39.5	39.4	-4.59
Finance Activities	34.0	33.7	33.8	33.7	-0.59
Service Providing	451.7	462.8	453.9	453.8	0.49
Government	90.0	97.2	92.6	92.0	2.89

(1) US Dept. of Commerce

(a) Seasonally Adjusted

(2) US Dept. of Labor

(b) End of month data

(3) Wall Street Journal