

Western New York ECONOMIC NEWS

Canisius College

Richard J. Wehle School of Business

Volume 9, Number 3

October 2006

Declining prices of oil and other energy sources could boost the growth rate of the national economy and result in major beneficial effects for the Western New York area. However, the growth in national income since the 2001 recession has not lifted all boats at the same rate. Average weekly earnings for private sector employees continue to decrease in real terms and are as low as at any time since the 2001 recession. Locally, the declining employment in the high paying goods producing sector that has been all too common in the upstate economy in the last two decades, continues. Following the practice of the past two years, this edition analyzes the employment changes that are occurring in the upstate New York metropolitan areas of Buffalo, Rochester and Syracuse and their possible linkage to the relative decline of per capita income, median household income and earnings per worker compared to the nation as a whole. The full text of this and all previous newsletters appear on the following internet address: <http://www.canisius.edu/wnyeconomicnews>.

The National Economic Outlook

Final estimates of 2006:Q2 real GDP shows the national economy growing at an annual rate of 2.6%, after growing at annual rates of 3.3%, 4.2%, 1.8% and 5.6% over the period 2005:Q2 – 2006:Q1 www.bea.gov. National economic growth slowed considerably during the second quarter after its outstanding performance in the first quarter of 2006. This growth was fueled primarily by personal consumption expenditures for services, investment in nonresidential structures and inventories, exports, as well as state and local government expenditures. Growth rates for real GDP since the first quarter of 2002 are shown in Figure 1.

The economy is precariously perched between economic slowdown and an accelerating inflation rate. A significant slowdown in the housing market, a decline in the leading economic indicators over the past two months, a negatively sloped Treasury yield curve, and a pause in interest rate hikes by the Federal Reserve all point towards a slowing economy. These negative events have been balanced by a drop in energy prices since the summer. Presently, oil prices are in the high \$50, low \$60 per barrel range, coming off their highs of \$77 per barrel in July and August. The run-up in the real price of crude (shown in Figure 2) has been persistent since 2002. In past newsletters we have pointed out that real oil price increases have coincided with all national recessions since 1973.

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:

George Palumbo, Ph.D. - Professor of Economics & Finance email: palumbo@canisius.edu
Mark P. Zaporowski, Ph.D. - Professor of Economics & Finance email: zaporowm@canisius.edu

Figure 1: Real GDP Growth Rates (2002:Q1 - 2006:Q2)

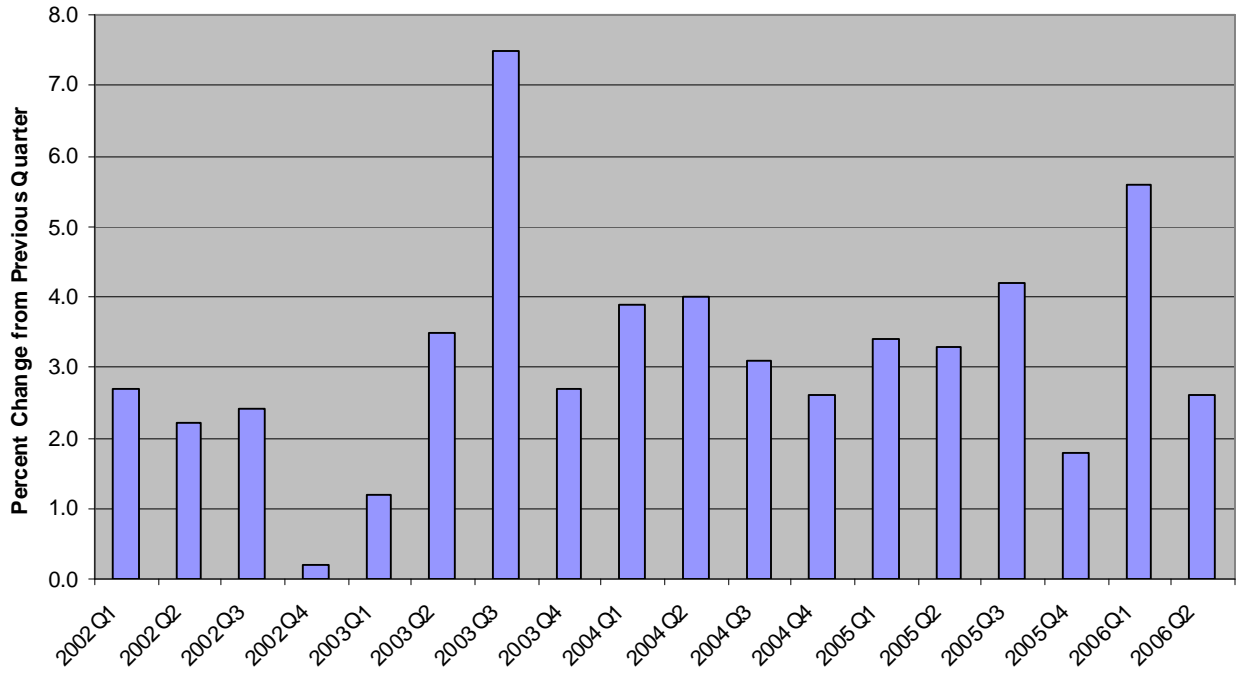
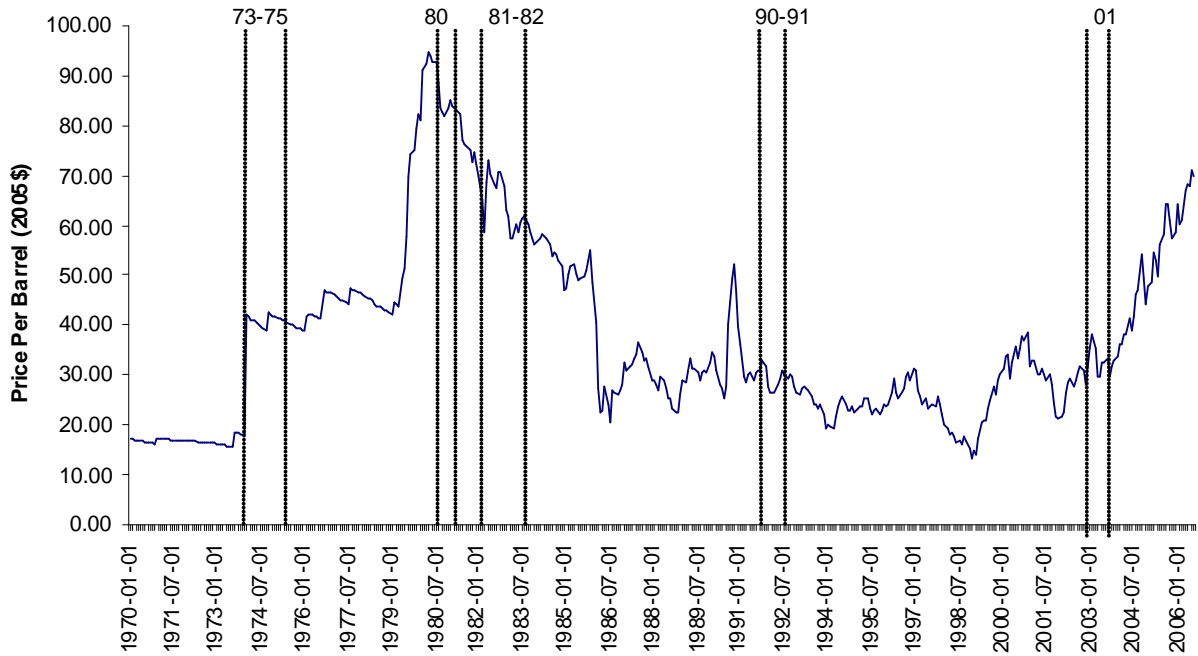
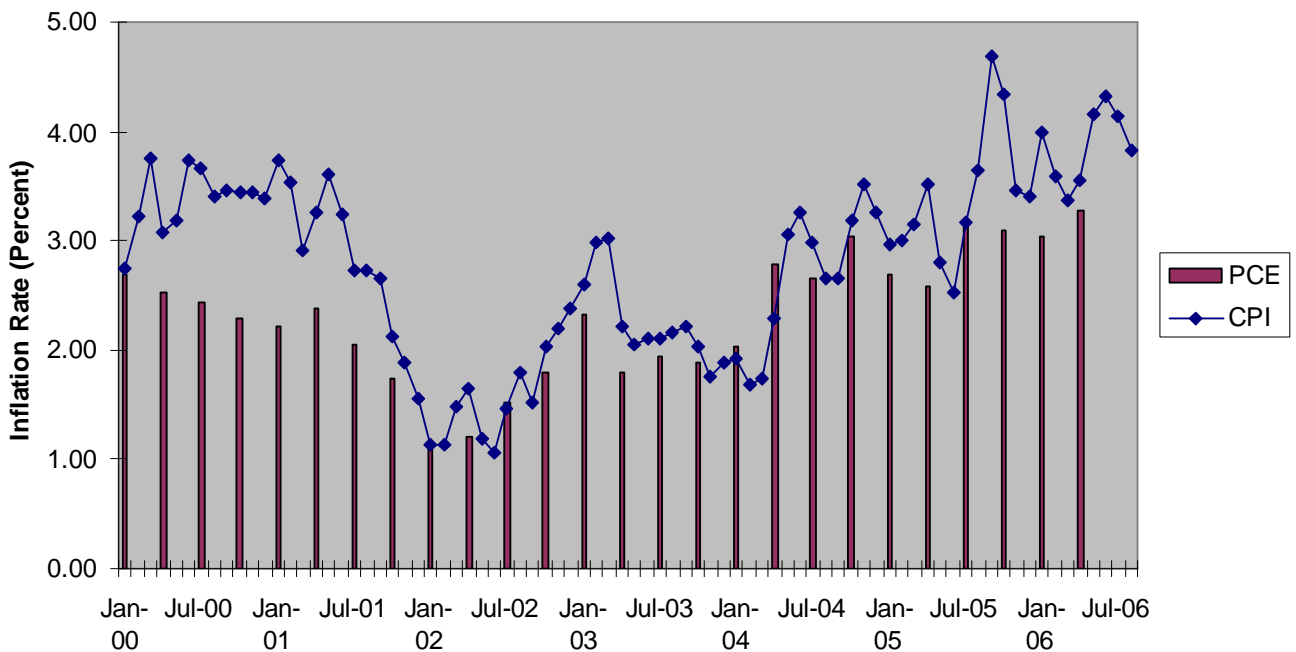


Figure 2: Real Price of a Barrel of West Texas Intermediate Crude Oil (2005\$)



Inflation based on the consumer price index (CPI) and the price deflator for personal consumption expenditures (PCE) is shown in Figure 3. The upward trend in inflation since 2002 has been a major concern of the Federal Open Market Committee (FOMC) as they raised their federal funds target at each meeting since June 2004. During the August and September 2006 meetings however, the FOMC voted to leave the federal funds rate unchanged at 5.25%. This was largely in response to the view that the economy was slowing and the housing market was showing signs of cooling. By its actions, one can infer that the FOMC views the economic slowdown as a higher priority than the threat of accelerating inflation.

Figure 3. CPI Inflation Rates & Inflation Rates based on the Price Deflator for Personal Consumption Expenditures

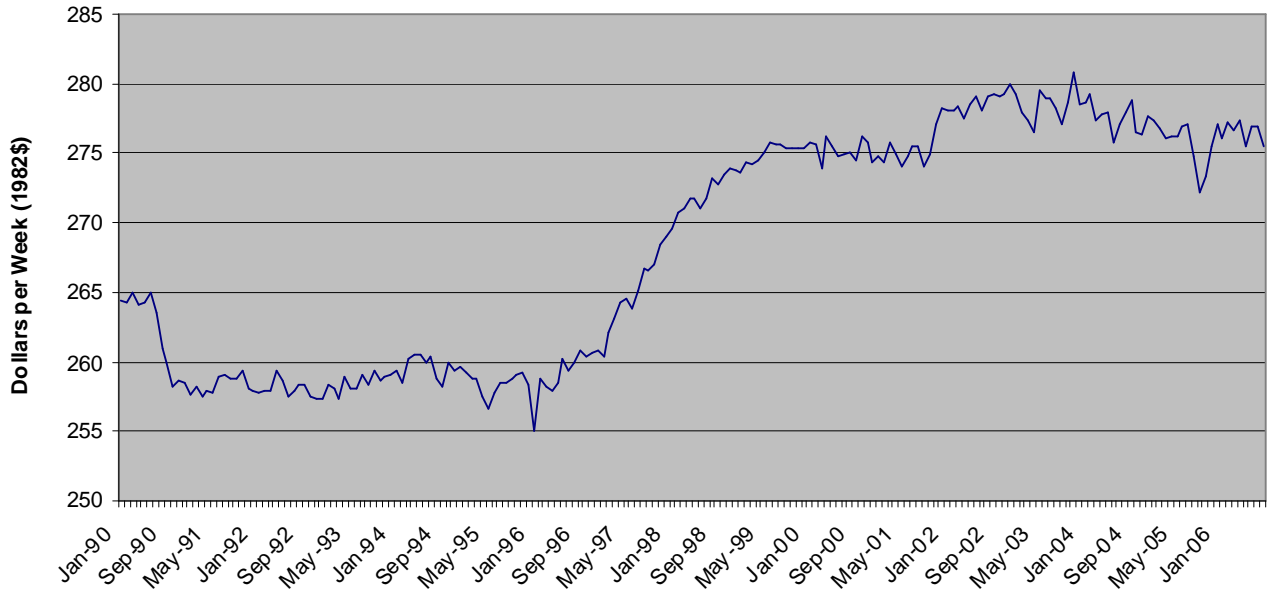


The economy has continued to add new jobs as payroll employment has increased each month since August 2003. The unemployment rate presently stands at 4.7%, off its high of 6.4% in June 2003 (www.bls.gov).

In spite of the dramatic increases in real GDP and National Income, the earnings of private sector American workers have failed to keep pace. In constant dollar terms, private sector employees have only recently had the purchasing power of their paychecks return to the purchasing power they had at the end of recession wracked 2001. In July 2006, real hourly and real weekly earnings were virtually at the same levels they had been the previous summer. While the unemployment rate has declined since the recession ended, the stagnancy of real wages causes one to wonder how much of the growth in real income following the recession of 2001 has gone to the

owners of capital and if the FED will once again tighten the money supply when and if real wages begin to increase.

Figure 4. Real Average Weekly Earnings for all Private Sector Employees in the U.S.: 1990-2006



The State of the Upstate Economies

Total employment on an NAICS basis for the Buffalo, Rochester and Syracuse metropolitan areas over the period 1990-2005 are presented in Figures 5a-5c. By the end of 2005, total employment in the Buffalo, Rochester and Syracuse metropolitan areas had not yet returned to its pre- 2001 recession levels. Total employment figures from the summer of 2006 are essentially the same or lower than they were in the preceding summer for the Buffalo and Rochester metropolitan areas. However, there was modest growth over the 12 month period in Syracuse.

An analysis of the composition of the employment recovery may lead one to predict further declines for the major upstate areas. Following the recession of 2001, there has been a continuous reduction in high paying goods producing jobs and a movement toward lower paying service providing jobs in each of the upstate metropolitan areas. The annual levels of goods producing employment are presented in Figures 6a-c, for the Buffalo, Rochester and Syracuse metropolitan areas.

Figure 5a: Total Non-Farm Employment Buffalo MSA: 1990 - 2005

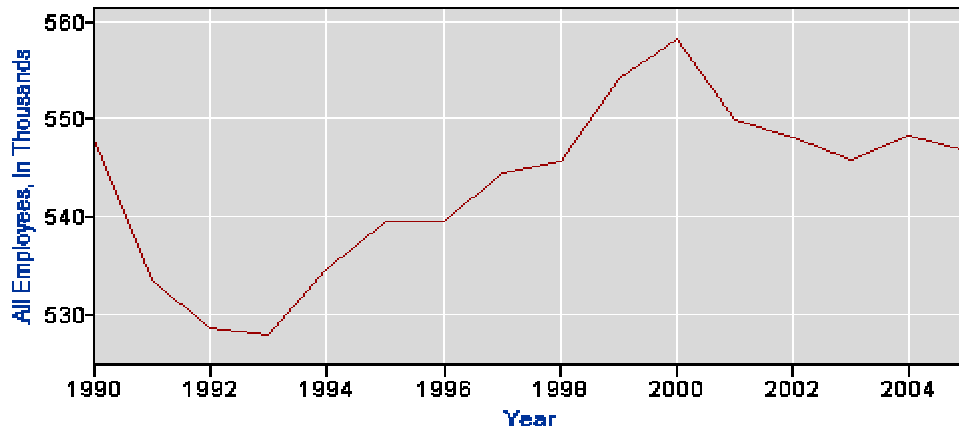


Figure 5b: Total Non-Farm Employment in Rochester MSA: 1990 - 2005

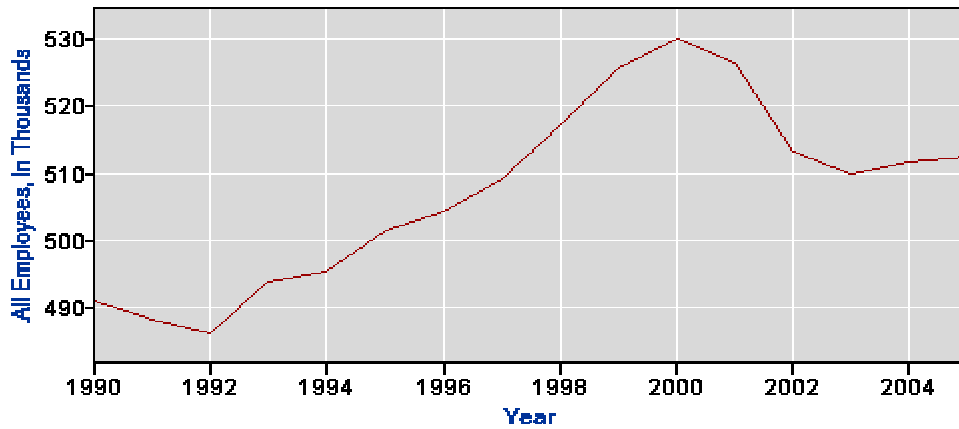
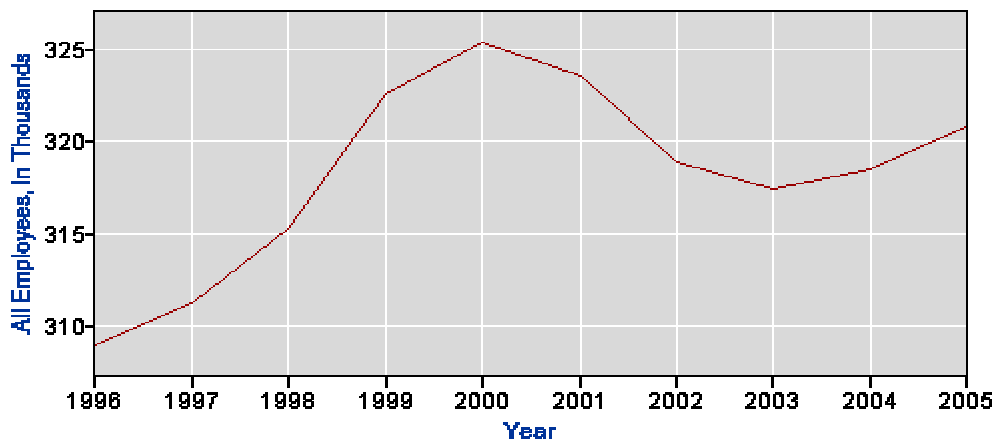
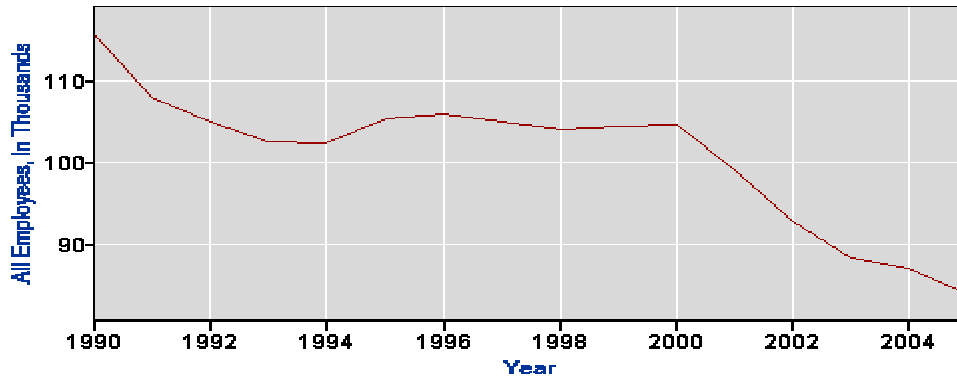


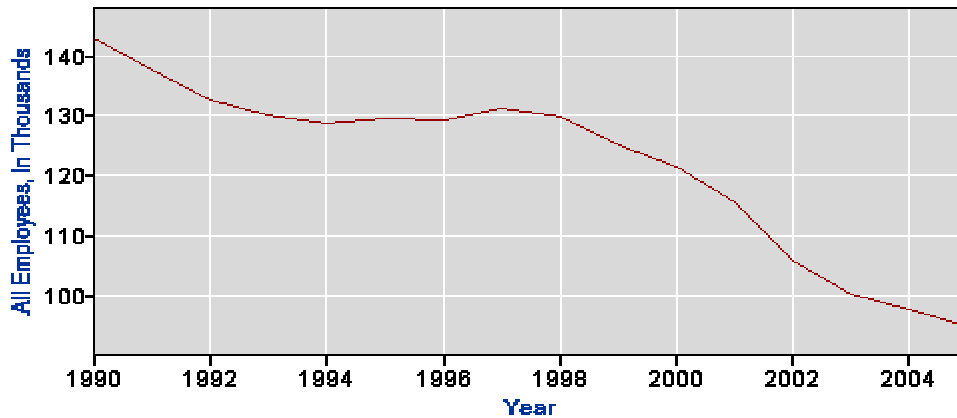
Figure 5c: Total Non-Farm Employment in Syracuse MSA: 1990 - 2005



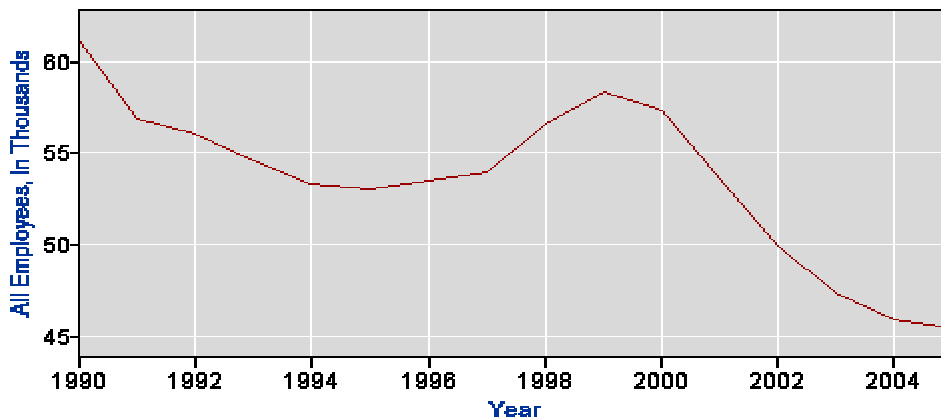
**Figure 6a: Total Employment in the Goods Producing Sector
Buffalo MSA: 1990 - 2005**



**Figure 6b: Total Employment in the Goods Producing Sector
Rochester MSA: 1990 - 2005**



**Figure 6c: Total Employment in the Goods Producing Sector
Syracuse MSA: 1990 - 2005**



The decline of goods producing employment since the mid-1990s has continued unabated for the metropolitan areas of upstate New York. Every region has lost a substantial number of goods producing jobs. There is no indication that this trend has been reversed in 2006. Conditions have worsened in the Rochester metropolitan area as Eastman-Kodak continues to shut down manufacturing operations, which leads other local firms that supported this operation to also close or restructure.

In the Buffalo metropolitan area, the uncertainty surrounding the automobile industry poses a threat to an economy whose growth potential was limited at best. The relatively low productivity at the Ford stamping plant leads to higher unit costs there than at other similar facilities. Current employees at the local Ford plant face an uncertain future, and without investment in new capital, one wonders about the long term prospects for the facility. General Motors workers are relatively more productive than workers at similar plants in North America, making unit costs lower in Western New York than in other places. The uncertainty for these workers is related to stability of GM. Other ominous developments are the loss of the work by the Buffalo area American Axle plant to a Mexican plant to supply parts for the Chevrolet Camaro and the large number of workers at the Lockport Deplhi Thermal plant that have accepted buyouts or early retirements. It is unlikely that these jobs will ever be replaced by jobs that pay comparable wages and fringe benefits.

The continuous decline in the goods producing sector is an important contributing factor in the decline in earnings per worker relative to the rest of the nation. Based on BEA data, workers in the Buffalo metropolitan area earned 7.8% less than the national average in 2004. Per capita income was 6.1% lower than the rest of the nation and transfer payments per person were 19.7% higher. Using median household income from the Census Bureau, household income was 7.6% below the national average in 2004.

Conclusion

In the last five years the Buffalo region has lost nearly 20,000 goods producing jobs that generated some of the highest earnings per worker in the area. Talk of tourism, an Erie Canal lock and a retail complex will not come close to replacing the earning power lost since the last recession. Economic development officials should be asked about the average earnings per worker generated or retained in the area when the likely impacts of a development project are discussed. Similarly, recipients of public support for private projects should be held accountable for any divergence from the projected levels of employment and earning associated with any locally supported economic development project.

NATIONAL, STATE & LOCAL BUSINESS INDICATORS

NATIONAL INDICATORS	% change				
	2005:II - 2006:II				
	2005:II	2005:IV	2006:I	2006:II	2006:II
Real GDP (billions of chained 2000\$) (1)(a)	11,001.8	11,163.8	11,316.4	11,388.1	3.5
US Personal Income (billions of \$)	10,161.5	10,483.7	10,721.4	10,901.0	7.3

	% change				
	Aug-05 - Aug-06				
	Aug-05	Jun-06	Jul-06	Aug-06	Aug-06
Leading Indicators Index (1996=100) (1)(a)	137.0	138.2	137.9	137.6	0.44
Consumer Price Index (1982-84=100) (2)	196.4	202.9	203.5	203.9	3.82
Exchange Rate Canadian/US \$ (3) (b)	84.24	89.57	88.37	90.46	7.39
10 Year Treasury Note Yield (%) (3) (b)	4.02	5.15	4.99	4.74	0.72
3 Month Treasury Bill Yield (%) (3) (b)	3.51	5.00	5.07	5.03	1.52
S&P 500 Stock Index (3) (b)	1,220.33	1,270.20	1,276.66	1,303.82	6.84
Dow-Jones Industrial Average (3) (b)	10,481.60	11,150.22	11,185.68	11,381.15	8.58

LABOR MARKET TRENDS (2)

Nonag Civilian Employment					
US (1000's)(a)	133,792	135,251	135,372	135,500	1.28
NY State (1000's)(a)	8,537.5	8,599.3	8,608.2	8,618.1	0.94
WNY (1000's)	543.2	551.5	541.9	543.9	0.13
Unemployment Rate (%)					
US (a)	4.9	4.6	4.8	4.7	-0.2
NY State (a)	4.9	4.6	5.1	4.7	-0.2
WNY	4.9	4.9	5.5	4.9	0.0
Ave. Weekly Hours in Mfg. US (a)	40.5	41.3	41.4	41.3	1.98
Ave. Weekly. Earnings in Mfg. US (\$)	675.99	693.01	683.85	692.19	2.40
Ave. Weekly Earnings (1982\$)(a)	274.77	276.94	276.91	275.49	0.78

WNY EMPLOYMENT BY SECTOR (1000's) (2)

Natural Resources, Mining & Construction	22.1	20.5	21.0	21.5	-2.71
Manufacturing	64.1	62.3	61.3	62.2	-2.96
Trade, Transportation & Utilities	103.6	104.3	102.7	103.3	-0.29
Durable Goods	39.2	38.0	37.1	37.8	-3.57
Finance Activities	34.8	35.4	35.3	35.3	1.44
Service Providing	457.0	468.7	459.6	460.2	0.70
Government	87.9	94.2	88.6	87.7	-0.23

(1) US Dept. of Commerce

(a) Seasonally Adjusted

(2) US Dept. of Labor

(b) End of month data

(3) Wall Street Journal