

# ***Western New York ECONOMIC NEWS***

**Canisius College**

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The mission of *Western New York Economic News* is to provide analysis and forecasts of economic trends in the Buffalo-Niagara Falls Metropolitan Statistical Area and contrast these trends with those in New York State and the nation. The focus of this issue will be an examination of taxes and other fiscal factors in New York State versus the nation and a comparison of Erie and Niagara Counties to the rest of New York State.

The full text and supporting documents of the newsletter will appear on the internet under the address <http://www.canisius.edu/wnyeconomicnews>.

## **The National Economic Outlook**

The national expansion continued in the fourth quarter of 1998 as preliminary estimates of real GDP growth accelerated to a 5.6% annual rate after expanding at a 3.7% rate during the third quarter [<http://www.bea.doc.gov>]. The economy is approaching its eighth consecutive year of expansion since the trough of the 1990-91 recession. The robust expansion was due primarily to an increase of investment spending as gross private domestic investment increased by 12% over the previous quarter. The economy's ability to overcome the political turmoil in Washington and the continuing Asian recession while maintaining very low rates of inflation has been nothing short of amazing. The Conference Board's index of leading economic indicators [<http://www.conference-board.org>], designed to forecast economic conditions six to nine months ahead, increased in October 98 - December 98, after holding steady over the period July 98 - September 98. There appears to be no solid evidence that a recession is on the horizon. Although we forecast only a small probability of recession in 1999, we do not expect real GDP growth to be sustainable at the current rate of growth in excess of 5%. A 3% growth rate for real GDP in 1999 seems more likely.

The economy-wide inflation rate, as measured by the CPI, exhibited a 1.6% growth rate in 1998. This is the smallest inflation rate since 1964-65. US financial markets rebounded during the fourth quarter, after experiencing a correction in August. In the bond markets, 30-year Treasury security yields declined by approximately 13 basis points while 3-month Treasury bill yields

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increased by approximately 18 basis points over the period July 98 - December 98, resulting in a flattening of the yield curve. The combination of low inflation and high real rates of interest continue to support the boom in the equities market.

## The Economic Outlook for the Buffalo Region

US personal income has continued to grow at a 5% annualized rate in nominal dollars, exceeding the rate of inflation by 3.4%. Since 1982 the percentage change in US real personal income has been strongly correlated with the percentage change in Buffalo real personal income. The following table presents our forecast of the annual growth rate of real personal income in the Buffalo MSA. Data from 1989 through 1996 are presented below along with our forecast for the period 1997-1999. The 1997-98 forecast uses the actual growth rate of real US personal income of 3.22% in 1997 and 3.39% in 1998. We expect the growth in US real personal income to slow to 3% in 1999. The resulting growth rates in Buffalo MSA real personal income over the period 1997-99 are 1.99%, 1.94% and 1.77%, respectively.

### Buffalo Area Real Personal Income

YEAR	PERSONAL INCOME (MILLIONS OF 1982\$)	ANNUAL PERCENT CHANGE
1991	16689.7	-1.34
1992	16803.6	0.68
1993	16876.2	0.43
1994	17177.2	1.78
1995	17552.3	2.18
1996	17639.7	0.50
<b>1997</b>	<b>*17991.6</b>	<b>*1.99</b>
<b>1998</b>	<b>*18382.0</b>	<b>*2.17</b>
<b>1999</b>	<b>*18707.4</b>	<b>*1.77</b>

\* forecast

Nonagricultural civilian employment in the Buffalo MSA increased by an anemic .07% from December 97 to December 98. This compares with a 1.73% growth rate in New York State and 2.31% in the nation. The Buffalo area unemployment rate stood at 4.5% in December 98 compared with 5.2% the previous December, comparable to the change in the State unemployment rate which fell from 6.1% to 5.5% over the same period. Although the Buffalo unemployment rate remains low, employment growth continues to lag that of the state and the nation. The continuing disparity between the growth of personal income in the Buffalo area compared to the rest of the state and the nation is a cause of concern. Perhaps this low growth rate of real personal income reflects the displacement of high wage manufacturing jobs by lower wage, service sector jobs.

## Taxes and the Business Climate in New York State

In a recent financial newsletter, the residents of the city of Buffalo have been identified as among the most heavily taxed citizens in the US. Using the information provided by the Governments Division of the US Census Bureau [<http://www.census.gov/govs/www/index.html>], the tax payments of New York State residents can be compared to the rest of the nation. In a similar manner, Erie County's taxes can be compared to the rest of New York State using information provided by the New York State Comptroller's office. While it is true that Buffalo residents pay high state and local taxes, an analysis of per capita state and local tax payments reveals Buffalo residents are not even the highest taxed individuals in the state. For the tax burden borne by local residents to be accurately identified, knowledge of the degree to which taxes have affected the prices of goods and services produced here, as well as the earnings of local employers and employees must be determined. The following discussion simply outlines the fundamental issues and raises some important questions.

The responsibility to raise revenues for local government varies with the degree of decentralization of state government activities. In states where more public services are delivered at the county level, local taxes are often relatively high. In states where the state government centralizes the delivery of services, state taxes are relatively high and local taxes relatively low. This variation of responsibility makes it preferable to compare tax revenues on the basis of state and local government totals. For example, county governments in NY State are required to collect taxes to provide social services that are provided by state governments in other states. If county governments were compared across states, those states without this responsibility would have considerably lower tax collections, all other things equal. The following table compares state and local government revenue collections in NY State to state and local taxes in the rest of the US.

### PER CAPITA STATE & LOCAL GOVERNMENT REVENUES US AND NY STATE

REVENUES	NY STATE & LOCAL GOVERNMENTS	US STATE & LOCAL GOVERNMENTS
Own Source General Revenue	\$5,175	\$3,580
Total Taxes	\$3,933	\$2,514
Property Taxes	\$1,256	\$774
Individual Income Tax	\$1,171	\$525
Corporate Income Tax	\$275	\$120

It is apparent that total taxes and general revenues collected by the state and local governments are higher in NY State than the average for the rest of the US. The relative differences are presented in Figure 1. In NY State, own source general revenues are 45% higher than the national average; total taxes are 56% higher; property taxes are 62% higher; the personal income tax is 123% higher; and the corporate income tax is 130% higher than the rest of the US.

FIGURE 1. STATE & LOCAL GOVT REVENUES: US vs. NY

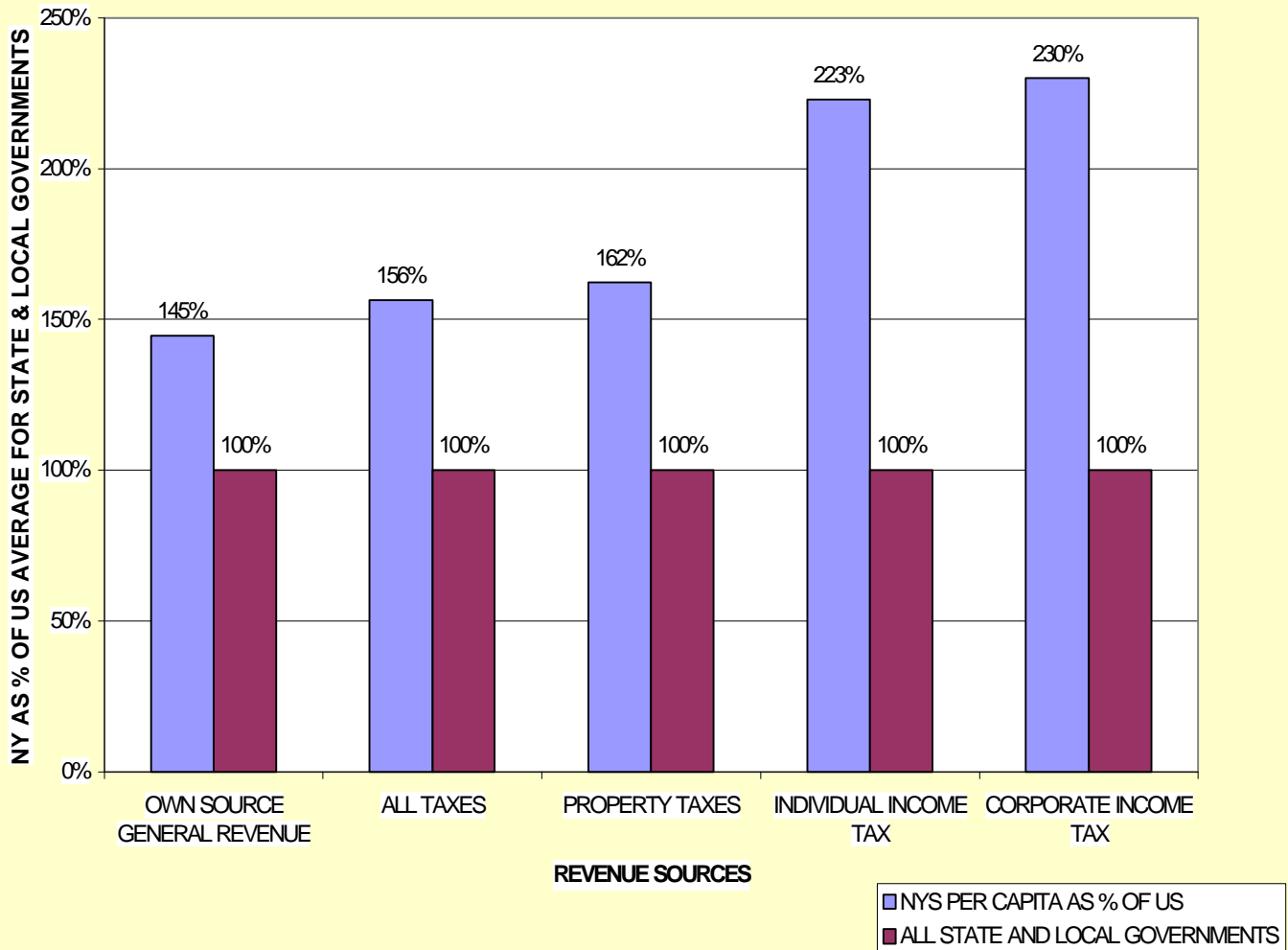
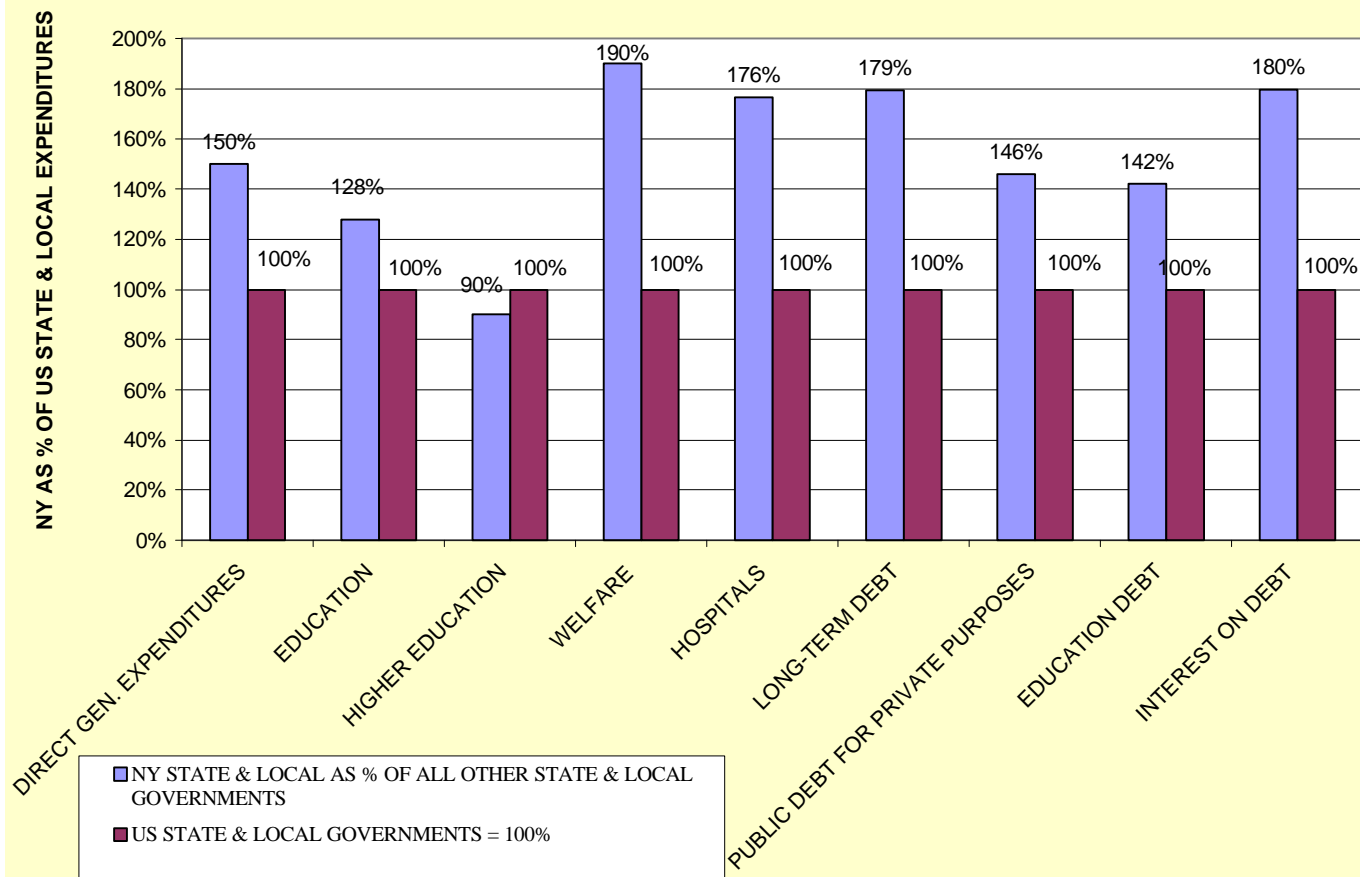


Figure 1 leaves little doubt that NY State is a high tax state, but it does not address the level of public service provision in NY State compared to the rest of the nation. Figure 2 compares per capita expenditures in NY State to the rest of the country. The importance of elementary and secondary education in NY State is reflected in the fact that the governments in NY spend 28% **more** per capita on education. NY State governments, however, spend 10% **less** than the national average on higher education. Additionally, the State and its local governments in NY expend almost twice as much per capita on welfare than the national average and 76% more per capita on hospitals.

High long-term debt levels generate per capita interest payments that are 80% higher than the national average. Per capita public debt for private purposes in New York State, which is in part linked to economic development activity, is 46% higher than the national average. The impact this borrowing has had on the state and its local areas' economic base is difficult to determine.

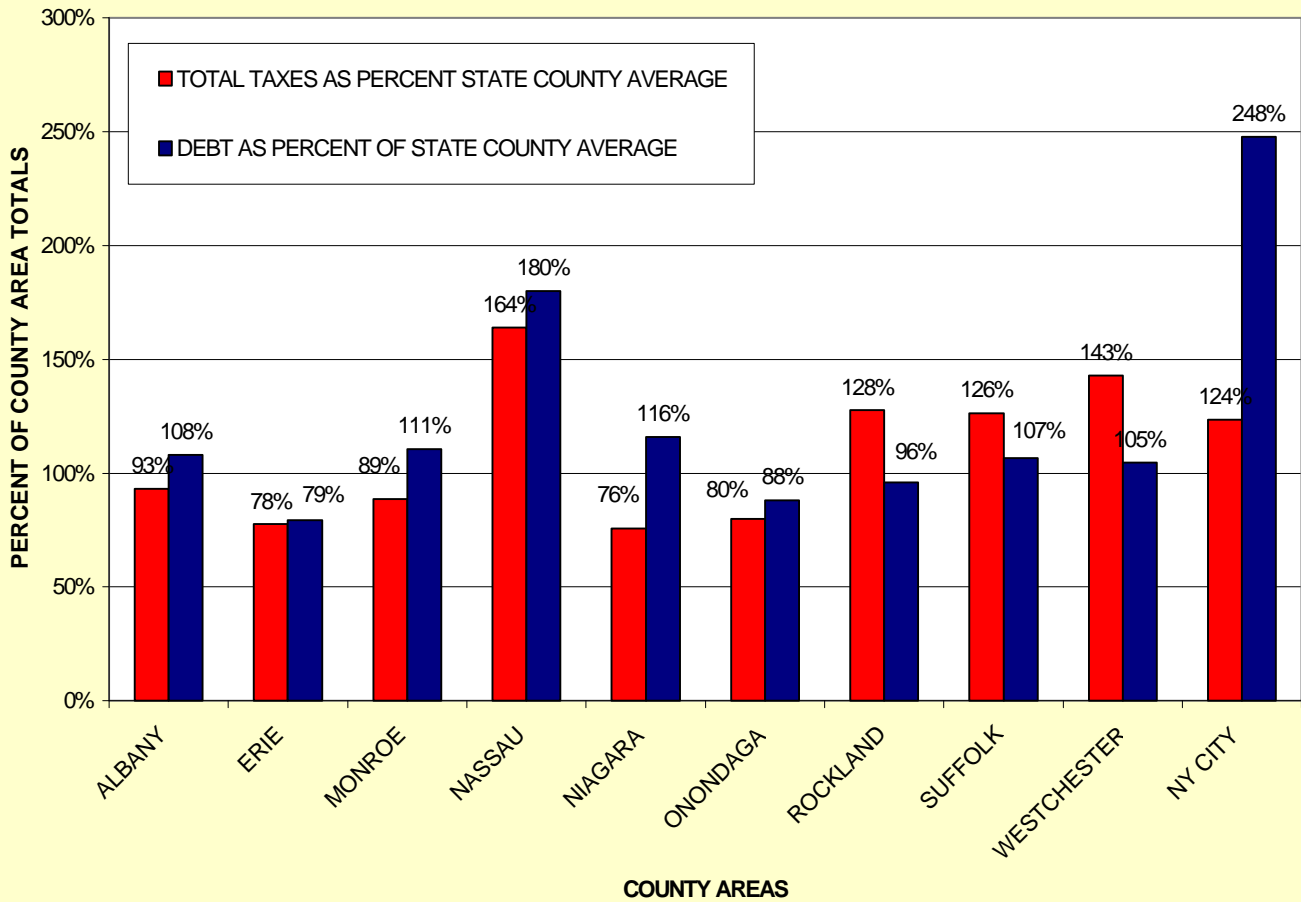
FIGURE 2. PUBLIC EXPENDITURES PER CAPITA: US vs NY



## Taxes and the Business Climate in Western New York

Accepting the fact that Erie County is in a high tax state, how does it compare to other places in New York State? The data presented by the NY State Comptroller in his *Special Report on Municipal Affairs* allows a comparison of Erie and Niagara Counties to the rest of NY State. From Figure 3, it is clear that on a per capita basis, taxes in Erie County and Niagara County are substantially lower than the average for all counties in NY State. Even when compared to other major urban counties in NY State, Erie County and Niagara County are at the bottom of the list. The upstate urban counties, which have been experiencing economic decline, have lower per capita taxes than the downstate urban counties that have been growing. Therefore, we are hesitant to reach the conclusion reached by others, that Western New York is declining because of higher taxes. The net fiscal impact of NY State government activities on the level of economic activity in the state is a complex issue and requires a sustained and systematic appraisal before any specific conclusion is reached.

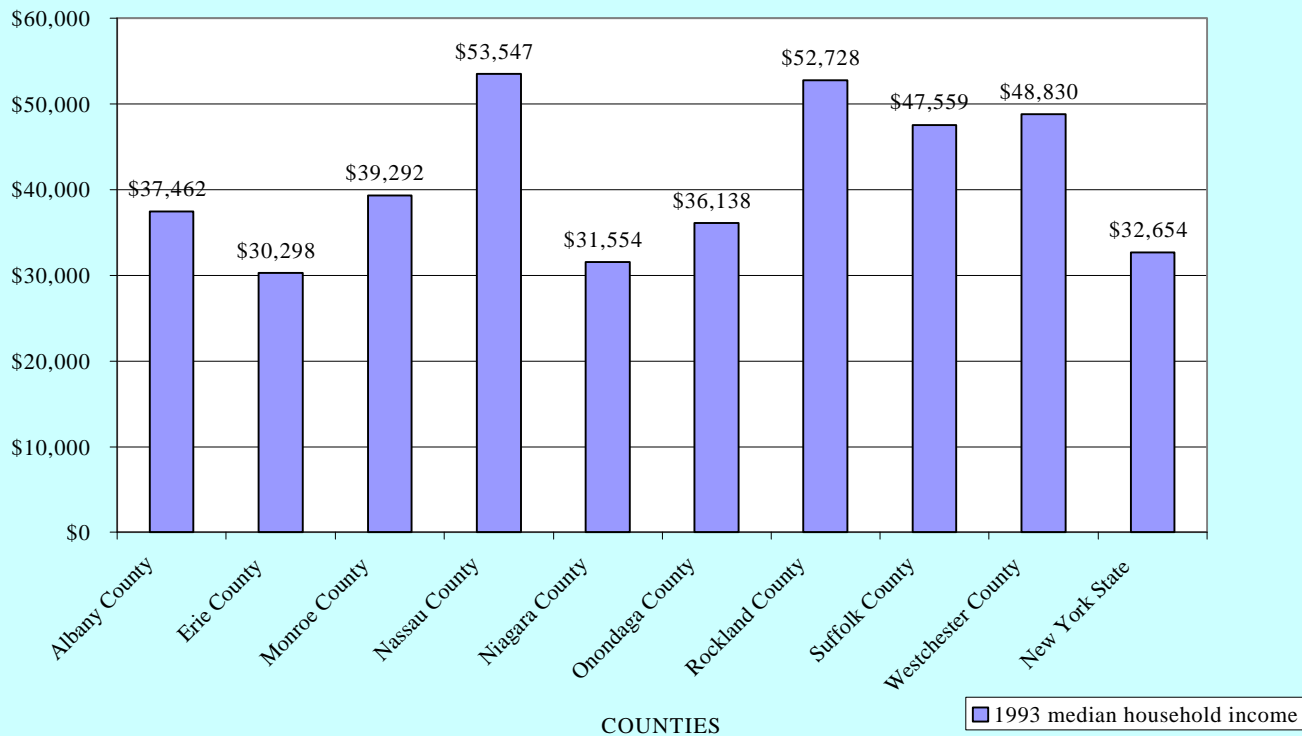
**FIGURE 3. PER CAPITA TAXES AND DEBT AS % OF COUNTY TOTALS**



The burden of these taxes is not clear, for it depends upon such things as the ability of firms to export these taxes in the form of higher prices as well as the relative incomes upstate and downstate. The composition of the taxes is also important. The relative importance of the residential property in the tax base could help us understand the burden these taxes place on the firms and the residents of NY State's counties.

To provide some insight into the relative abilities of residents to pay state and local taxes, Figure 4 presents 1993 median household income for selected NY State counties. At \$30,298, Erie County's median household income is the lowest of any of the urban counties presented. Since this Census based information is on a county basis, there is no estimate for New York City, but of the five component counties of New York City only Richmond County (Staten Island), at \$44,175 was appreciably higher than Erie and Niagara Counties. New York County (Manhattan) and Queens County had only slightly higher median household income levels than Erie County.

**Figure 4. 1993 MEDIAN HOUSEHOLD INCOME**



## CONCLUSIONS

Blanket statements about taxes and economic activity might obscure the vital issues. What is the impact of corporate and individual income taxes in NY State being so much higher than the national average? It is these taxes that potentially affect the individual who is considering locating in New York or relocating from New York the most. Economic development agencies have focused their efforts on the property tax, which does not deviate from the national norm nearly as much as the corporate and individual income taxes. It is also unclear what the impact of property tax abatements has been on the location decisions of non-abated taxpayers.

Since downstate economic growth rates have substantially exceeded upstate rates, even though per capita taxes are considerably higher downstate, one must be careful about drawing conclusions about the effects of taxes on economic activity.

## NATIONAL, STATE & LOCAL BUSINESS INDICATORS

<b>NATIONAL INDICATORS</b>	<b>97:IV</b>	<b>98:II</b>	<b>98:III</b>	<b>98:IV</b>	<b>%change 97:IV - 98:IV</b>
Real GDP (billions of chained 1992\$) (1)(a)	7,364.6	7,498.6	7,566.5	7,670.0-	4.1
US Personal Income (billions of \$)	6,904.9	7,081.9	7,159.9	7,247.9	5.0
	<b>Dec 97</b>	<b>Oct 98</b>	<b>Nov 98</b>	<b>Dec 98</b>	<b>%change Dec 97 - Dec 98</b>
Leading Indicators Index (1992=100) (1)(a).0	104.5	105.7	106.2	106.5	1.90
Consumer Price Index (1982-84=100) (2)	161.3	164	164	163.9	1.61
Exchange Rate Canadian/US \$ (3) (b)	69.62	64.79	65.23	65.35	-6.54
30 Year Treasury Bond Yield (%) (3) (b)	5.92	5.15	5.07	5.09	-0.83
3 Month Treasury Bill Yield (%) (3) (b)	5.18	4.21	4.41	4.44	-0.74
S&P 500 Stock Index (3) (b)	970.43	1098.67	1163.63	1229.23	26.67
Dow-Jones Industrial Average (3) (b)	7908.25	8592.10	9116.55	9181.43	16.10
<b>LABOR MARKET TRENDS (2)</b>					
Nonag Civilian Employment					
US (1000's) (a)	124289	126527	126778	127156	2.31
NY State (1000's) (a)	8095.6	8207.4	8217.8	8235.7	1.73
WNY (1000's)	552.8	551.9	553.3	553.2	0.07
Unemployment Rate (%)					
US (a)	4.7	4.5	4.4	4.3	-0.04
NY State (a)	6.1	5.4	5.5	5.5	-0.60
WNY	5.2	4.2	4.5	4.5	-0.70
Ave. Wkly. Hours in Mfg. WNY	44.8	43.0	42.8	43.6	-2.68
Ave. Wkly. Earnings in Mfg. WNY (\$)	771.46	730.14	727.17	750.36	-2.74
Ave. Wkly Hours in Mfg. US	42.2	41.7	41.6	41.8	-0.95
Ave. Wkly. Earnings in Mfg. US (\$)	564.20	567.33	572.56	583.19	3.37
<b>WNY EMPLOYMENT BY SECTOR (1000's) (2)</b>					
Construction and Mining	19.2	22.6	21.7	20.1	4.69
Manufacturing	90.5	89.4	89.3	89.2	-1.44
Transportation and Public Utilities	25.5	26.9	26.5	26.4	3.53
Wholesale and Retail Trade	135.7	130.4	133.4	135.0	-0.52
Finance, Insurance and Real Estate	29.1	29.3	29.3	29.3	0.69
Services	164.5	165.1	164.2	164.5	0.00
Government	88.4	88.2	88.8	88.8	0.45
<b>OTHER LOCAL ECONOMIC INDICATORS</b>					
Construction Contracts (\$millions) (4)*	84.6	68.4	35.3		-11.31

(1) US Dept. of Commerce

(2) US Dept. of Labor

(3) Wall Street Journal

(4) FW Dodge Division of McGraw-Hill, Inc.

(a) Seasonally Adjusted

(b) End of month data

\*Nov 97 - Nov 98 % change