

Western New York ECONOMIC NEWS

Canisius College

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Volume 2, Number 3

Second Quarter 1999

This issue of *Western New York Economic News* analyzes the personal income data for the Buffalo-Niagara Falls Metropolitan area issued in May 1999 by the Bureau of Economic Analysis of the US Department of Commerce. We also examine the long term trends in the growth rates of personal income and employment across the major metropolitan areas of New York State.

The full text and supporting documents of this newsletter appears on the internet under the address <http://www.canisius.edu/canhp/departments/ecofin/wnyen1>.

The National Economic Outlook

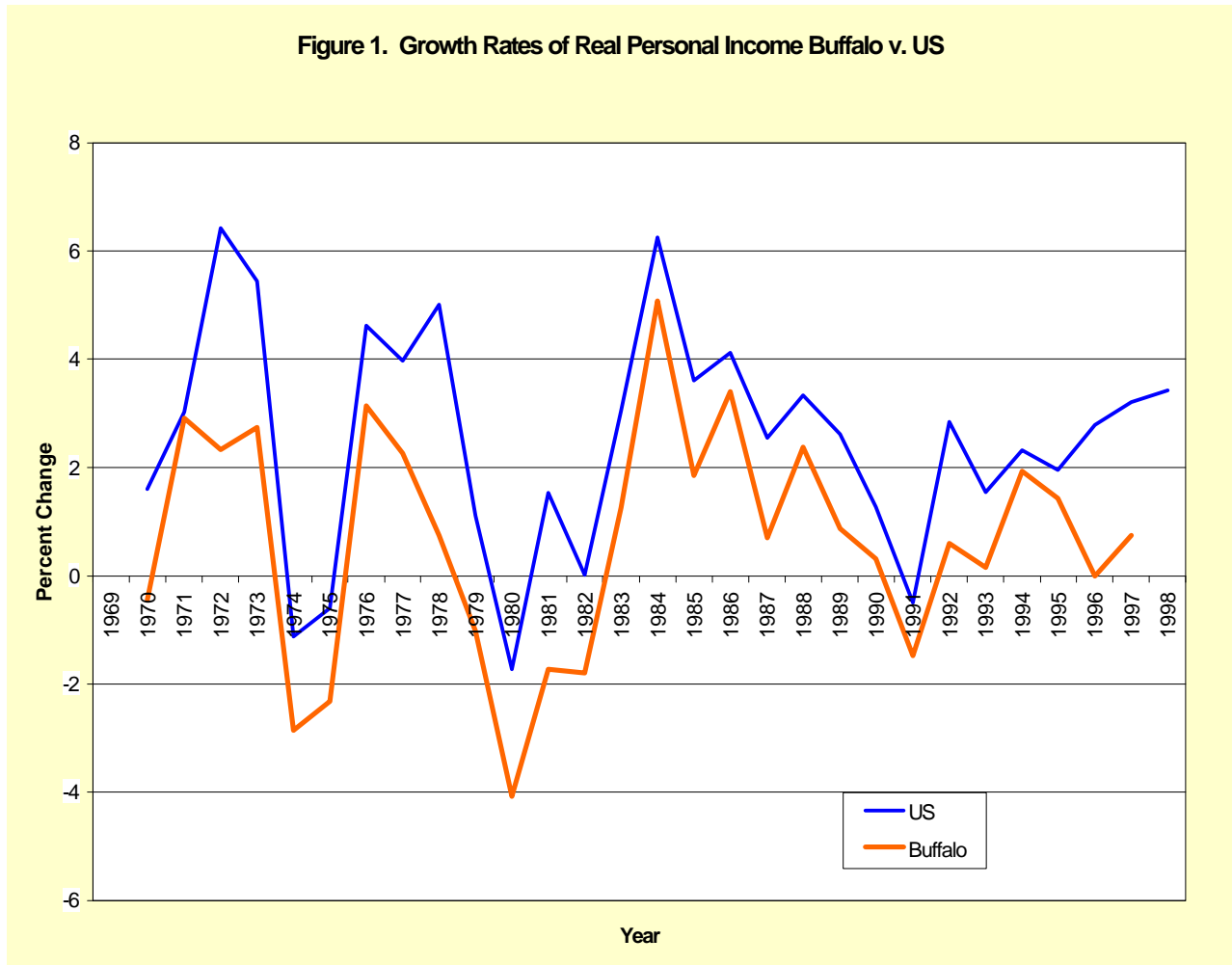
Revised estimates of first quarter 1999 real GDP show the US economy growing at an annual rate of 4.3%, after its torrid 6% annual rate during the fourth quarter of 1998. Increases in consumer spending and fixed investment continued to fuel the economy's growth while a decrease in exports combined with an increase in imports was responsible for moderating the pace of growth. Financial markets were keenly attuned to the Federal Open Market Committee meeting of June 29, where the Fed announced a 25 basis point increase in the federal funds rate. This controversial tightening by the Fed is viewed as a pre-emptive strike on the inflation monster that has yet to rear its ugly head. In terms of the Consumer Price Index, inflation has run at a 2.1% rate from May 98 to May 99, increasing from the 1.6% annual rate over the period 1997 to 1998 <http://www.bls.gov>.

Financial markets have responded favorably to the announced Fed policy as equity markets continued their surge, as both the Dow Jones industrial and the S&P 500 indexes have risen by approximately 19% since May 1998. The US Treasury yield curve has steepened slightly as three month yields have declined by 27 basis points since May 1998 while 30 year yields have risen above 6% for the first time since November 1997.

With the unemployment rate at 4.3% and inflation below 2%, the US economy is in a condition that has not been seen since before the Vietnam War. The recent pattern of low inflation combined with a high rate of growth of the US economy has benefited the Buffalo region.

The Economic Outlook for the Buffalo Region

While lower than the 5% growth of the previous year, US real personal income has grown 3% from May 1998 to May 1999. We expect more moderate rates of growth to continue through the remainder of 1999 and 2000. Since the growth rates of Buffalo area real personal income and US real personal income have been strongly correlated over the period 1982-97 (Pearson correlation coefficient = .91), we expect a similar change in Buffalo area personal income (see Figure 1).



The Bureau of Economic Analysis of the US Department of Commerce <http://www.bea.gov> released revised personal income data for the Buffalo region over the period 1969-1997 in May 1999. These data over the period 1991-1997 along with their growth rates are presented below. Our forecast for the period 1998-2000 (bold face) is also presented. This forecast assumes a 3.43%, 2.50% and 2.00% growth rate of US real personal income over the same period. The historic growth rates of real personal income in the US and Buffalo are used to generate the forecast of the change in personal income shown in the following table.

Buffalo Area Real Personal Income

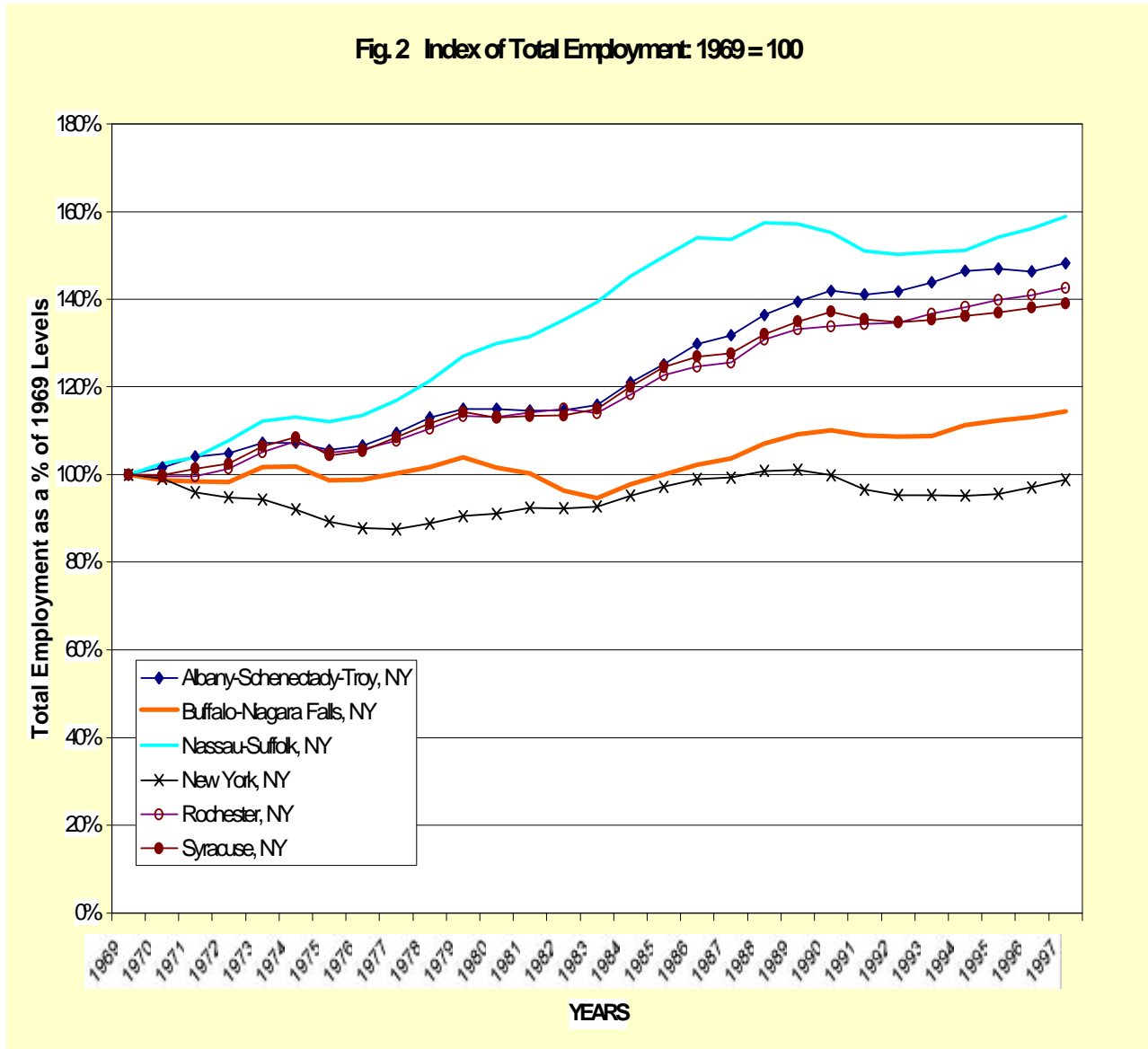
YEAR	PERSONAL INCOME (MILLIONS OF 1982\$)	ANNUAL PERCENT CHANGE
1991	16643.1	-1.47
1992	16743.3	0.60
1993	16769.2	0.16
1994	17092.0	1.93
1995	17337.6	1.44
1996	17335.9	-0.01
1997	17464.7	0.74
1998	*17801.5	*1.93
1999	*17984.9	*1.03
2000	*18083.8	*0.55

* forecast

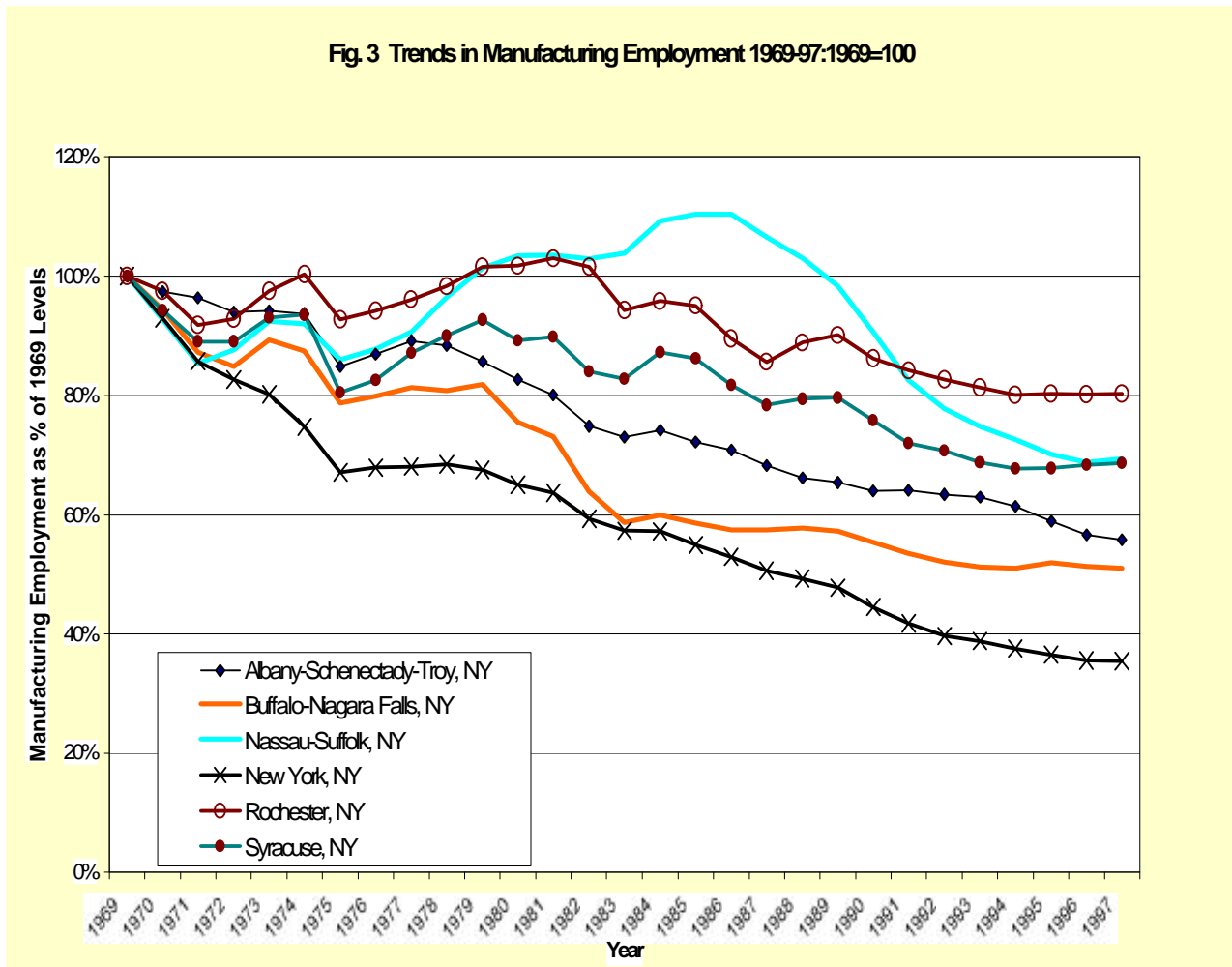
Employment Trends

Employment growth in the Buffalo MSA has continued to lag that of New York State and the nation as a whole. While the economic boom has resulted in a 2.63% increase in jobs in New York State and a 2.14% growth rate in US employment, the Buffalo region has experienced only a 0.42% growth rate in employment over the period from May 1998 to May 1999. This is cause for concern. Additionally, even though the Buffalo area unemployment rate for May 1999 declined .2% from its level a year earlier, it remains .1% higher than the rate for New York State and 1% higher than the US rate.

Figure 2 compares the long term decline in the Buffalo region to the other major metropolitan areas (MA's) in New York State. Employment indexes for the Albany, Buffalo, Rochester, Syracuse, New York City and the Nassau-Suffolk metropolitan areas from 1969-1997 are presented using the 1969 levels in each region as a base. Interestingly, the New York MA had the lowest growth of total employment over this period, followed closely by the Buffalo area. The fastest growing metropolitan area in terms of employment over the period was Nassau-Suffolk.

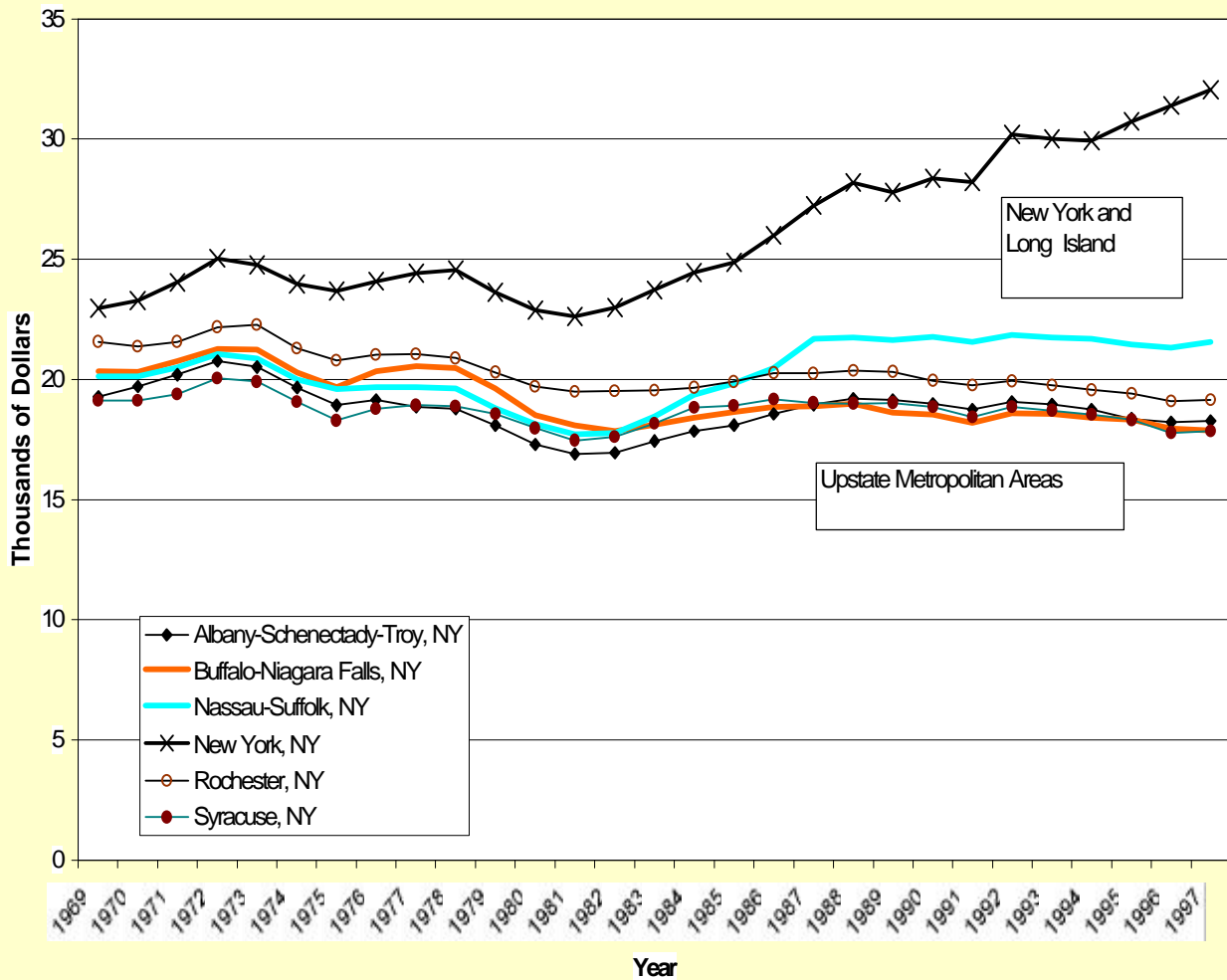


In contrast to total employment, no metropolitan area had a growth in manufacturing employment over the period (Figure 3). The New York MA lost almost two-thirds of its manufacturing employment and Buffalo lost approximately one-half. Of all the major metropolitan areas in the State, only Rochester maintained its manufacturing employment over the last decade, although current indicators suggest this may be changing.



What have the consequences been of such drastic declines in manufacturing employment once seen as the engine of growth and prosperity? Viewing real earnings per worker (Figure 4) as a measure of the change in the welfare of New York State workers reveals dramatically different consequences for upstate versus downstate workers. The downstate areas, that is the New York and Nassau-Suffolk PMSAs, both exhibited substantial growth in real earnings per worker, while this measure declined in every upstate metropolitan area. The remarkable growth of real earnings per worker in the New York MA occurred in the face of declines in total employment and manufacturing employment, suggesting that wage growth, not job growth is an important determinant of economic well-being.

Fig. 4 Real Earnings Per Worker 1969-97

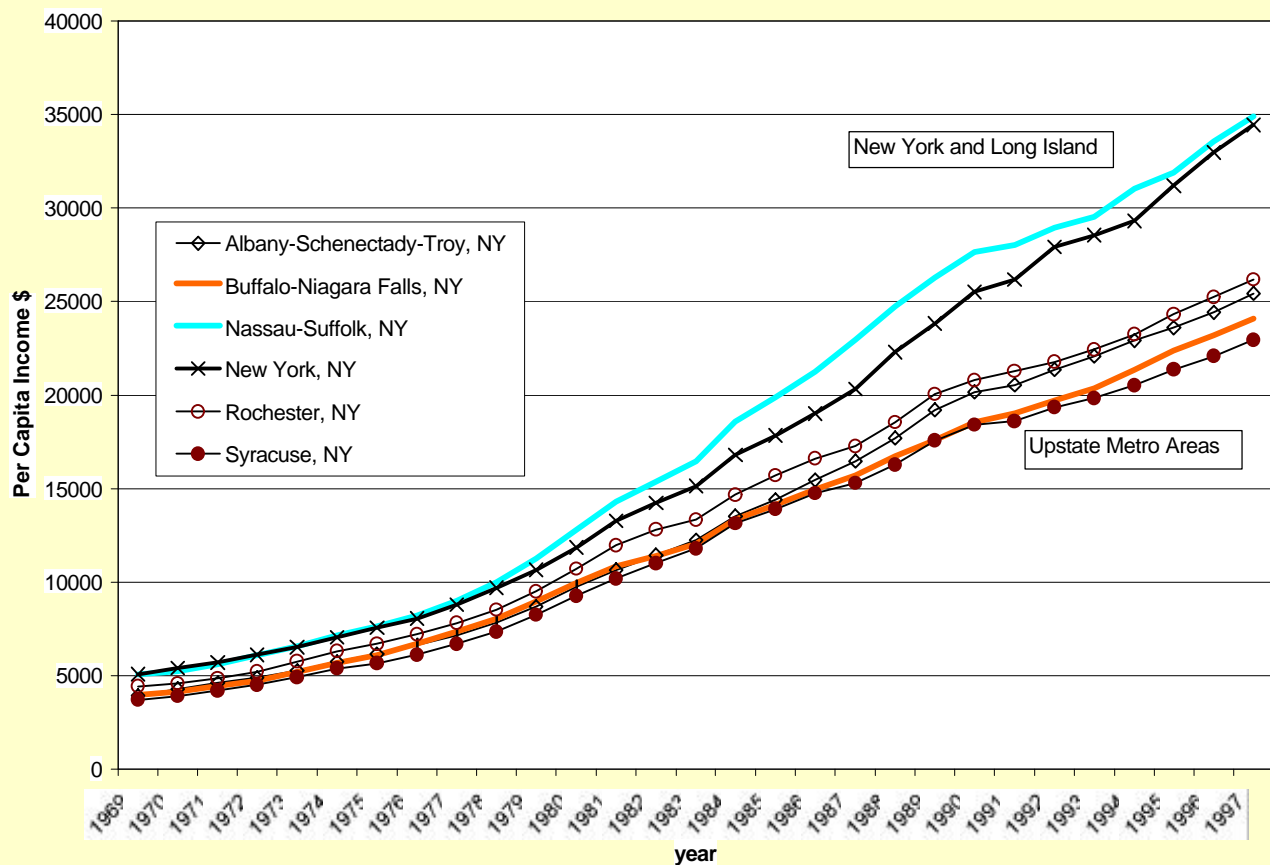


While there is no simple measure of economic well-being, much has been made about increases and decreases in employment. Public policy objectives might better serve the region if they focused on wage and productivity increases, rather than employment growth. Policy initiatives that result in increases in low wage employment such as clerical, back office and telemarketing functions, might not be the key to the region's economic revival. Focusing public policy initiatives on projects that will raise productivity and therefore real wages might lead to more desirable end results for the region.

The overall effect of the changes in real wages can be seen in the relative changes in personal income per capita amongst the upstate and downstate regions, as shown in Figure

5. While there is no single measure of regional welfare, changes in per capita income serve as a proxy for our region's claim on goods and services produced at home, in the nation, and in the rest of the world. As is evident in Figure 5, per capita income has grown significantly faster downstate than it has upstate. The de-industrialization of the economy which has occurred over the last 30 years, has left the upstate metropolitan areas relatively worse-off than the downstate economies. The challenge for these upstate economies is to replace the loss of their high wage manufacturing jobs.

Fig. 5 Personal Income Per Capita 1969-1997 NY Metropolitan Areas



Much has been made about the relative tax structure in New York State and its effects on economic development. The relative transition in the state economy, however, has occurred

in the same environment of New York State taxes and governmental structures. The empirical evidence is unclear about the effects of taxes on changes in economic activity (see for discussion *Taxation and Economic Development: The State of the Economic Literature* by Michael Wasylenko in the New England Economic Review, published by the Federal Reserve Bank of Boston). What is clear, is that the upstate and downstate economic conditions have moved along two increasingly divergent paths. Taxes are determined by the level of service provision, which should be evaluated on their merits, not in the name of economic development. The challenge of reviving the upstate economies is complex and difficult, and can not be answered with the simple idea that our problems can primarily be attributed to the New York State tax structure.

Locally the use of tax abatements by economic development agencies to promote growth, or at least forestall decline, have become increasingly problematic. If taxes do matter in the inter-regional location decisions of firms, then tax breaks, in the form of abatements to individual firms, increase the burdens on those firms not receiving preferential treatment, and could hasten their departure or demise. If taxes do not matter in the location and expansion decisions of firms, why should any property receive tax abatements, not received by the general population? Even if jobs are created or retained for the region, the bigger question would seem to concern the size of the wage base generated for the region. Historically, high productivity has been associated with high wages. The question for the next decade, and beyond, might well be, what can be done to increase productivity in the region and thereby increase real wages. This could reverse the relative decline in the standard of living in the region, which has occurred over the last quarter of a century.

Conclusions

The Buffalo region remains tied to the US economy in terms of direction of change, although it still lags behind in terms of employment and personal income growth. The loss of population and real earnings per worker in Western New York are similar to the other upstate labor market areas. The dramatic differences between upstate and downstate income and real earnings growth have been due in large part to a more successful transformation away from manufacturing in the New York City area.

While manufacturing accounted for 20% of New York City's total employment in 1969 and only 7% today, for Buffalo these figures are 31% and 14% respectively. Therefore, the challenge of replacing its declining industrial base has been and continues to be greater for the Buffalo region. But it is a challenge that is of crucial importance because it is the key to the continuous decline in real earnings per worker and personal income growth rates that have not kept pace with the remainder of the nation.

NATIONAL, STATE & LOCAL BUSINESS INDICATORS

NATIONAL INDICATORS	98:I	98:III	98:IV	99:I	%change 98:I - 99:I
Real GDP (billions of chained 1992\$) (1)(a)	7,464.7	7,566.5	7,677.7	7,762.5-	4.0
US Personal Income (billions of \$)	7,003.9	7,155.6	7,249.0	7,354.3	5.0
	May 98	Mar 99	Apr 99	May 99	%change May 98 - May 99
Leading Indicators Index (1992=100) (1)(a)*	105.2	107.2	107.1		1.71
Consumer Price Index (1982-84=100) (2)	162.8	165.0	166.2	166.2	2.09
Exchange Rate Canadian/US \$ (3) (b)	68.64	66.28	68.66	67.84	-1.17
30 Year Treasury Bond Yield (%) (3) (b)	5.80	5.62	5.65	5.83	0.03
3 Month Treasury Bill Yield (%) (3) (b)	4.93	4.35	4.39	4.51	-0.42
S&P 500 Stock Index (3) (b)	1090.82	1286.37	1335.18	1301.84	19.35
Dow-Jones Industrial Average (3) (b)	8899.95	9786.16	10789.04	10559.74	18.65
LABOR MARKET TRENDS (2)					
Nonag Civilian Employment					
US (1000's) (a)	125478	127813	128156	128167	2.14
NY State (1000's) (a)	8140.0	8336.5	8345.0	8354.4	2.63
WNY (1000's)	549.3	541.0	542.4	551.6	0.42
Unemployment Rate (%)					
US (a)	4.3	4.2	4.3	4.2	-0.10
NY State (a)	5.7	5.0	5.0	5.1	-0.60
WNY	5.4	6.0	5.2	5.2	-0.20
Ave. Wkly. Hours in Mfg. WNY	43.2	42.8	43.4	43.5	0.69
Ave. Wkly. Earnings in Mfg. WNY (\$)	748.66	758.84	783.80	785.61	4.94
Ave. Wkly Hours in Mfg. US	41.8	41.5	41.6	41.7	-0.24
Ave. Wkly. Earnings in Mfg. US (\$)	587.32	596.09	598.54	604.75	2.97
WNY EMPLOYMENT (1000's) (2)					
Construction and Mining	21.1	17.1	18.9	20.9	-0.95
Manufacturing	89.8	87.9	87.8	87.7	-2.34
Transportation and Public Utilities	25.6	25.6	26.1	26.6	3.91
Wholesale and Retail Trade	130.0	127.7	128.3	130.4	0.31
Finance, Insurance and Real Estate	29.6	29.4	29.4	29.5	-0.34
Services	165.0	164.6	164.7	167.2	1.33
Government	88.1	88.7	87.2	89.2	1.25
OTHER LOCAL ECONOMIC INDICATORS					
Construction Contracts (\$millions) (4)*	60.2	73.3	65.2		1.87

(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

*Apr 98 - Apr 99 % change