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Real GDI increased by 0.7% during 2015:Q2 after having increased by 0.4% during the first quarter. The national economy has added an average of 212,000 jobs through the first eight months of 2015 and the national unemployment rate stood at 5.1% in August. Inflation remains below the FED's target of 2% and is uncomfortably close to negative territory. This is the main reason why the FOMC has kept the Federal Funds target rate unchanged. Locally, the recent increase in total non-agricultural employment combined with the reduction in the unemployment rate is good news, since the Buffalo region has rarely recovered as fully as the rest of the nation following recessions. These measures, as well as the changing composition and level of compensation for labor in the regional market will determine if the Buffalo MSA is finally going to end its sustained period of economic and demographic decline.

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The National Economic Outlook

The third estimate of 2015:Q2 real GDP growth showed that the economy grew by 3.9% after having grown by 0.6% during 2015:Q1. Exports, personal consumption expenditures, non-residential fixed investment and inventories were largely responsible for the acceleration of growth since the first quarter. The BEA has augmented their quarterly report to include real Gross Domestic Income (GDI) and the average of the real GDP and real GDI growth rates. Since GDP and GDI are assembled from different data sources, the idea is that averaging these two series may give a more comprehensive picture of how the economy is performing, as opposed to exclusively concentrating on GDP. Gross domestic income is comprised of the costs incurred and the incomes earned in the production of goods and services. It adds gross employee compensation to gross profits, depreciation, and taxes on production and imports.

Real GDI increased by 0.7% during 2015:Q2 after having increased by 0.4% during the first quarter. Growth rates of real GDP and real GDI from 2007:Q1 to the present are shown in Figure 1. The wide disparities that have occurred between these two measures are apparent when viewing Figure 1. It may be the case that the average of these two figures yields the most accurate picture of how the economy has performed. The average of the real GDP and real GDI growth rates since 2007 are shown in Figure 2.

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
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Figure 1. Real GDP & GDI Growth Rates: 2007:Q1 - 2015:Q2

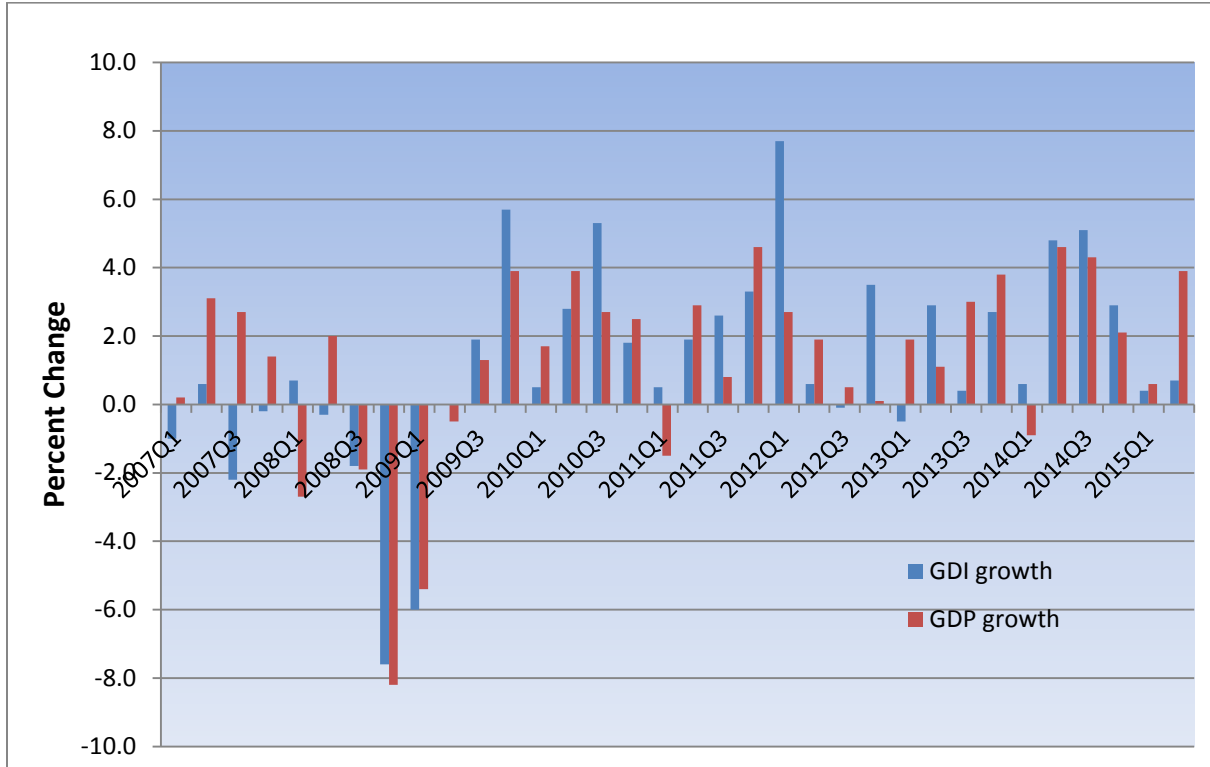
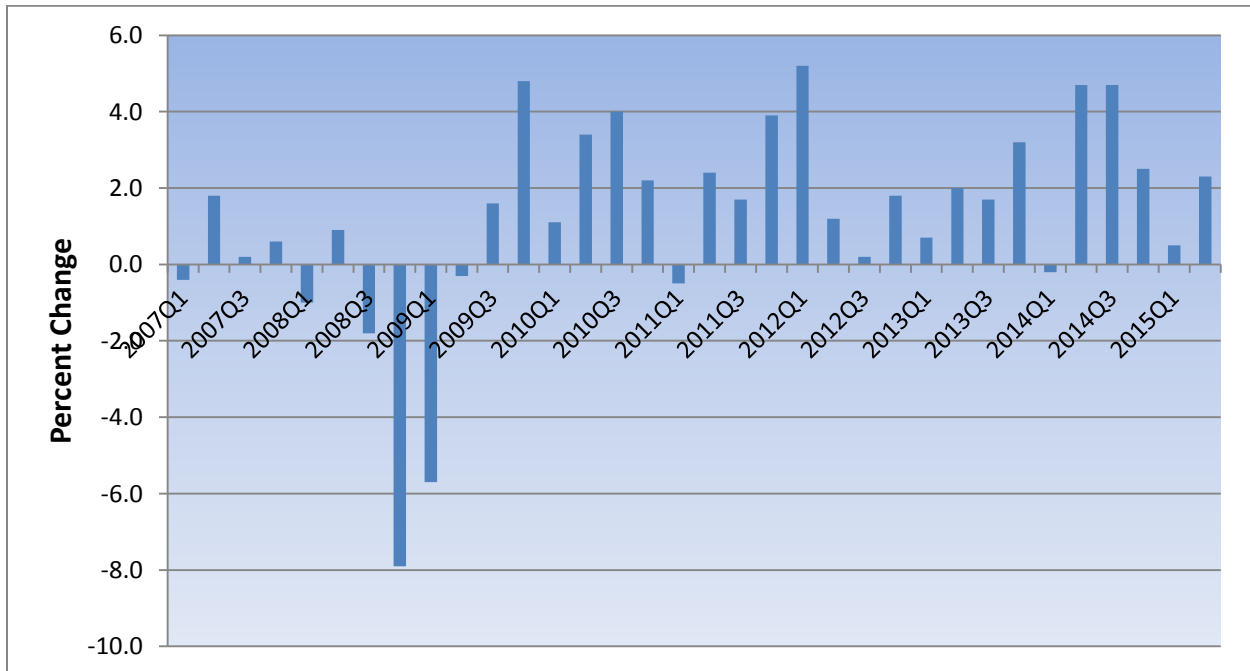


Figure 2. Average of GDP & GDI Growth Rates: 2007Q1 – 2015Q2



The national economy has added an average of 212,000 jobs through the first eight months of 2015 (see Figure 3). The national unemployment rate stood at 5.1% in August 2015, very close to what economists consider NAIRU (Non-accelerating Inflation Rate of Unemployment). This is the unemployment rate at which labor market tightness begins to cause inflation to increase. So far in the recovery from the 2008-2009 recession, inflation has been subdued, hovering around zero percent based on the CPI since January 2015. Year over year quarterly CPI data indicated that inflation in the first two quarters of 2015 was -.06% and -.04%, respectively. The FED's preferred inflation indicator, the personal consumption expenditure deflator (PCE), grew by only .23% and .24% respectively in the first and second quarters of 2015. The inflation data is exhibited in Figure 4.

Inflation remains below the FED's target of 2% and is uncomfortably close to negative territory. We believe that this is the main reason why the FOMC left its Federal Funds target rate unchanged from the 0% to .25% range during their September meeting. The worldwide economic slowdown has led to decreases in commodity prices and when combined with slow wage growth has kept inflation near or at zero percent recently. This has occurred concurrently with the dramatic reduction of oil prices that reflect technology improvements and OPEC responses.

Figure 3. Monthly Change in U.S. Non-agricultural Employment (2008-2015)

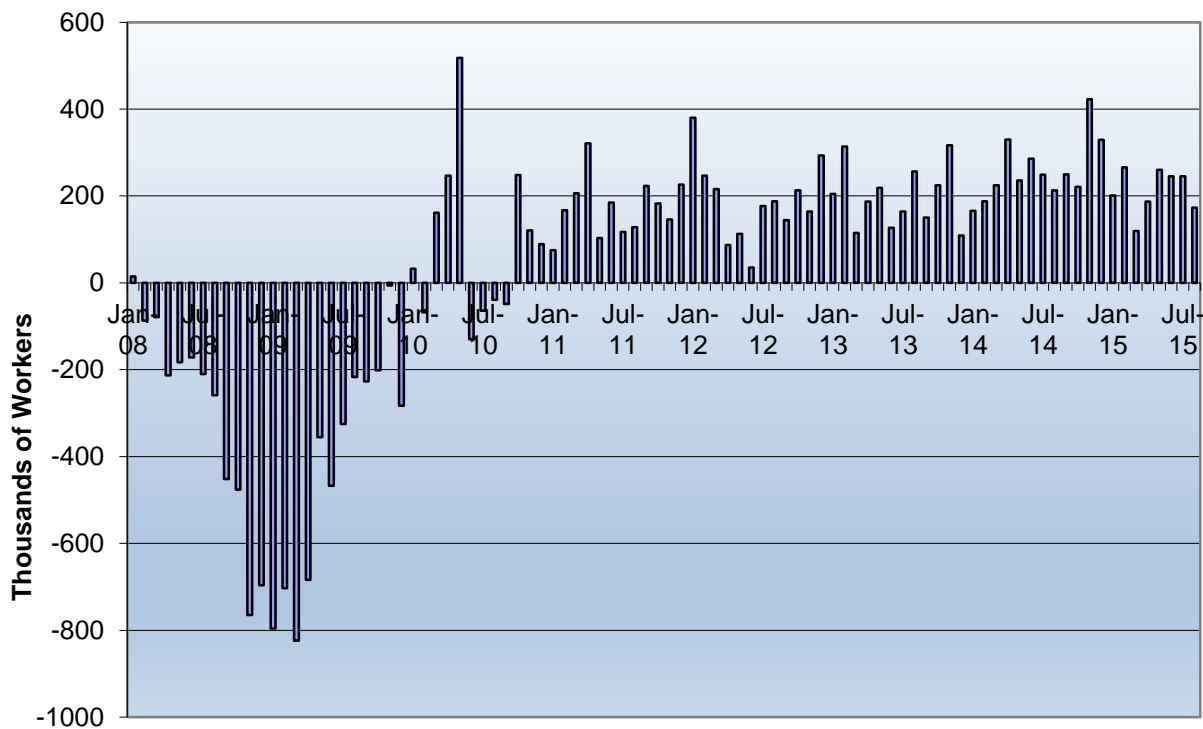
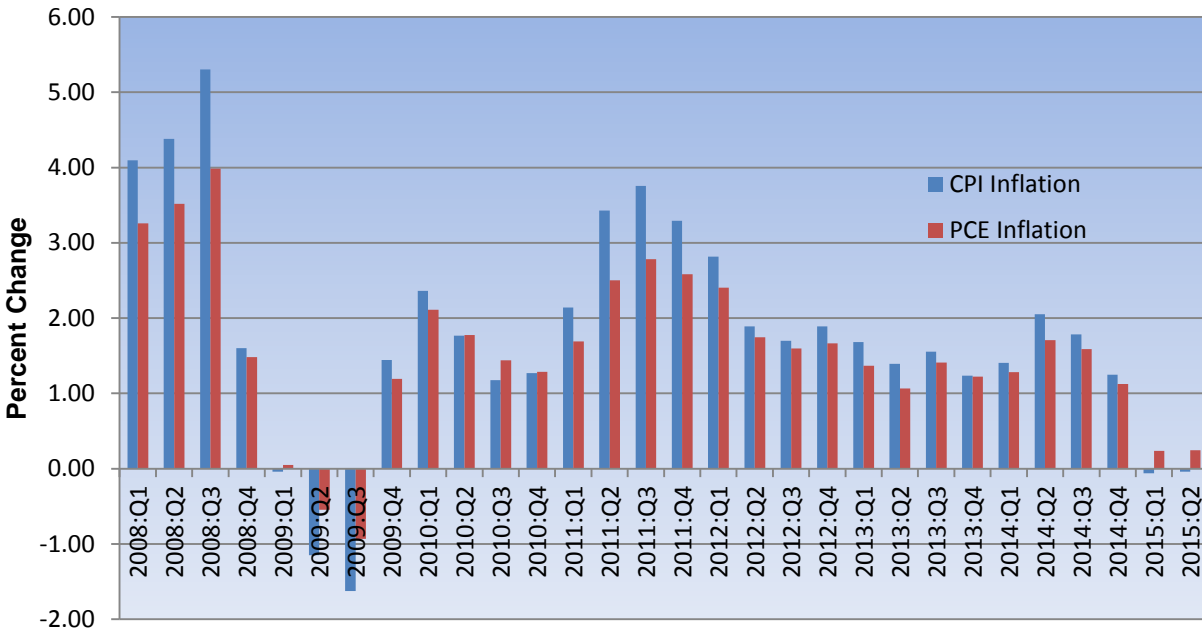


Figure 4. CPI & PCE Inflation Rates: 2008-2015

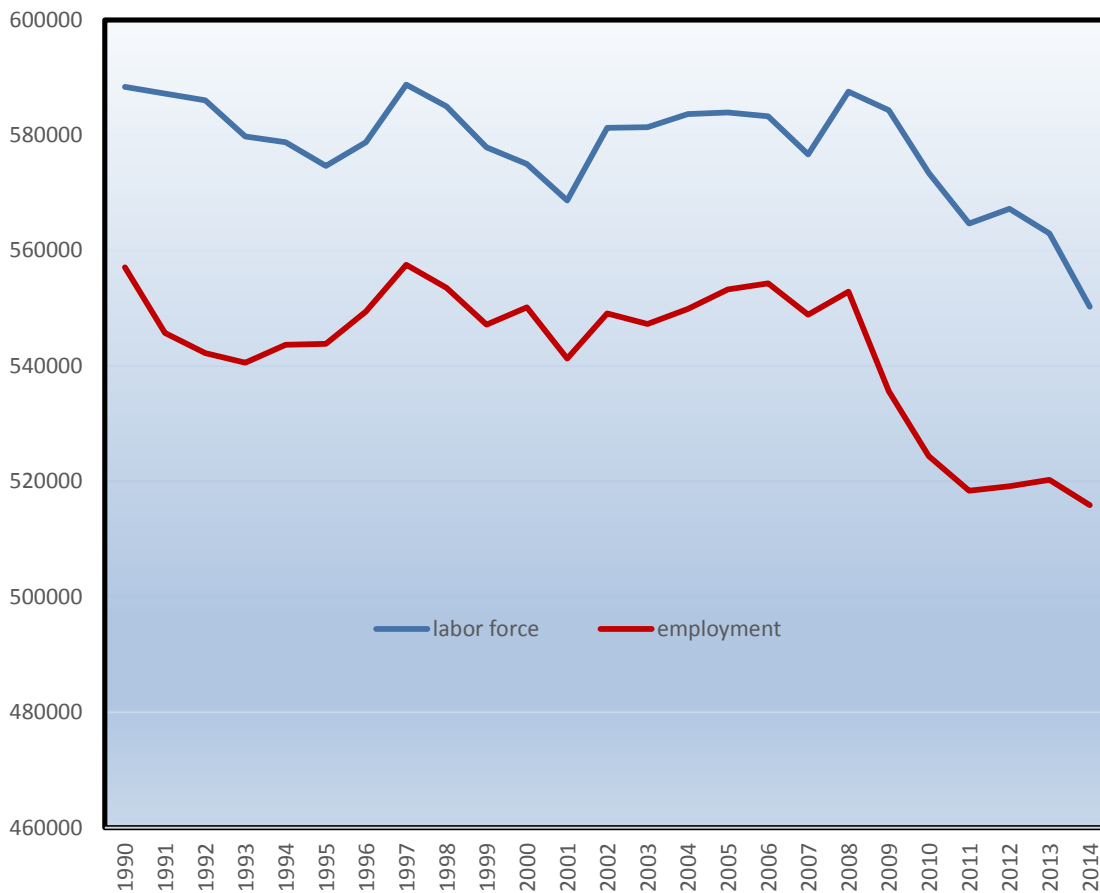


Trends in the labor force are somewhat more difficult to interpret. The FOMC's concern about declining labor forces seems to have abated somewhat, though it still maintains that it will be "...appropriate to raise the target range for the federal funds rate when it has seen some further improvement in the labor market and is reasonably confident that inflation will move back to its 2 percent objective over the medium term." The labor force has declined on a seasonally adjusted basis in four of the eight months reported for 2015. Since 2008, the labor force participation rate has continuously declined from 66% to 62%. The extent to which this reflects the behavior of an aging population rather than the impact of the financial markets collapse and recession has yet to be determined.

The Economic Outlook for the Buffalo Region

Since monthly labor force participation rates are not available at the MSA level, labor force and employment data for the Buffalo MSA from the Labor Department's household survey is shown in Figure 5. The data exhibits the same downward trend that is shown by the national data. The significance of a declining labor force is that it could mask the nature of the local area unemployment rate. The reduction in the region's labor force continued through March 2015 when the pattern reversed itself. <http://www.bls.gov/lau/>

Figure 5. Buffalo MSA Labor Force and Employment: 2003 - 2015



The decline in the labor force has continued almost unabated since 2008. The one exception was during 2012. Month over month changes from 2014 to 2015 in Buffalo MSA employment and labor force data is shown in Table 1. The last four months reported in 2015 displays another interruption of the cycle. Only time will reveal the extent of the reversal of the pattern of decline. The employment and labor force data from the household survey cannot be directly compared to the establishment data discussed below. Consideration of both series however, may allow us to paint a more complete picture of the local economy.

**Table 1. Changes in Household Labor Force and Employment
in the Buffalo MSA: 2014 – 2015**

	Labor Force	Employment
Jan	-9,509	-4,837
Feb	-9,171	-2,476
Mar	-7,299	-377
Apr	2,269	4,994
May	7,245	10,378
Jun	4,314	8,091
Jul	5,012	7,843

Table 2 presents annual employment data for the nation and the Buffalo MSA from 2001 through 2014. Unlike the household data presented in Table 1, this information is based on the payrolls of establishments (<http://www.bls.gov/sae/>). The recent increase in the labor force, along with total non-agricultural employment is good news, since the Buffalo region has rarely recovered as fully as the rest of the nation following recessions. These measures, as well as the changing composition and level of compensation for labor in the regional market, will determine if the Buffalo MSA is finally going to end its sustained period of economic and demographic decline.

In 2014, employment in the Buffalo MSA finally returned to its pre-2001 recession level. As stated previously, the region did not decline as fast as the rest of the nation during the 2008 recession for the years 2008, 2009 and 2010; but it had not yet fully recovered from the 2001 recession. While it may sound negative to state that employment in the Buffalo MSA did not grow as fast as the rest of the nation from 2011 through 2014, the overall recovery from the 2008-2009 recession is fairly positive. Indeed, as shown in Table 2, the average annual rate of growth rate of payroll employment between 2008 and 2014 was actually higher in the Buffalo MSA than in the United States as a whole.

Table 3 shows the percent changes in non-agricultural employment from the first eight months of 2014 to the same months in 2015. The average change by month from 2014 to 2015 is 1.8%, a number that is substantially higher than anything seen in the Buffalo MSA this century. A continuation of this pattern would be unambiguously good news for the region.

Table 2**Buffalo MSA vs. U.S. Changes in Total Nonfarm Employment: 2001 - 2014**

Year	U. S. Annual Payroll Employment (1000's)	% Change in U.S. Employment	Buffalo MSA Annual Payroll Employment (1000's)	% Change in Buffalo MSA Employment
2001	132,074	0.0%	549.3	-1.63%
2002	130,628	-1.1%	547.1	-0.40%
2003	130,318	-0.2%	544.8	-0.42%
2004	131,749	1.1%	547.4	0.48%
2005	134,005	1.7%	546.2	-0.22%
2006	136,398	1.8%	545.5	-0.13%
2007	137,936	1.1%	546.9	0.26%
2008	137,170	-0.6%	551.4	0.82%
2009	131,233	-4.3%	537.4	-2.54%
2010	130,275	-0.7%	537.5	0.02%
2011	131,842	1.2%	542.7	0.97%
2012	134,104	1.7%	545.9	0.59%
2013	136,393	1.7%	547.9	0.55%
2014	139,042	1.9%	552.8	0.71%
Average % change 2001 - 2014		0.5%		-0.07%
Average % change 2008 - 2014		.14%		.16%

Figure 6 and Table 4 show average earnings in Erie County as presented in the *Quarterly Census of Employment and Wages* <http://www.bls.gov/cew/>. Local earnings continued the pattern established following the 2008 recession of continuously falling behind the national average until 2013, when local average annual pay grew slightly faster than the national average. This change continued through 2014, when average annual pay in Erie County grew at a slightly faster rate than that of the nation. Though annual pay is still about 14% below the national average, the combination of employment growth, labor force stability and earnings growth is a positive sign for the local economy.

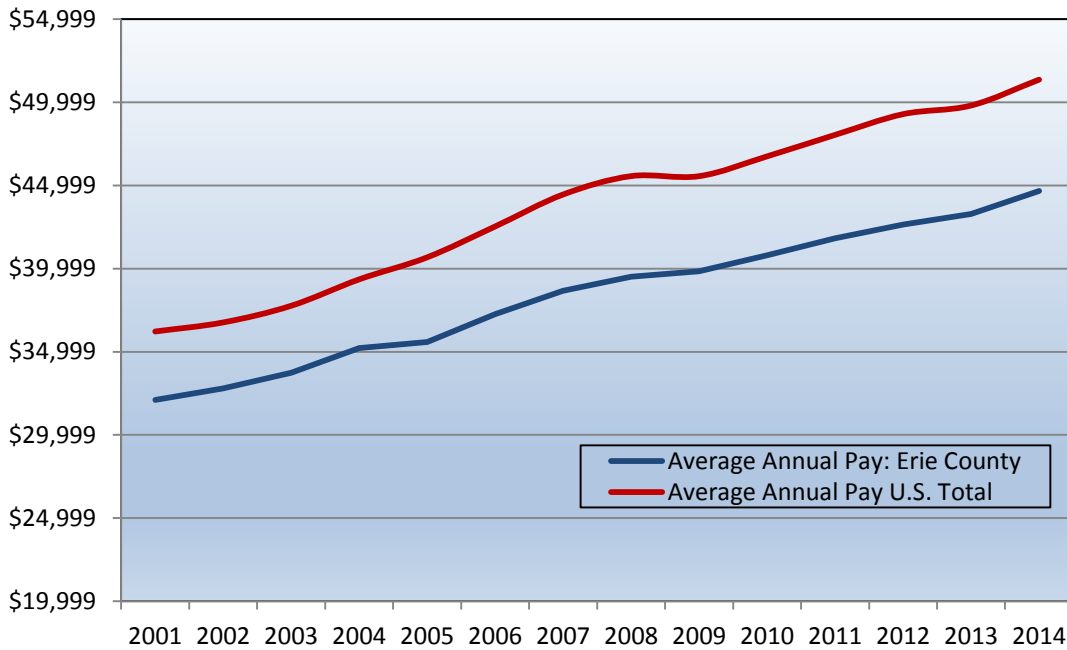
**Table 3. Changes Non-agricultural Payroll Employment
in the Buffalo MSA: 2014 – 2015**

Jan	1.4%
Feb	1.4%
Mar	1.5%
Apr	1.3%
May	2.0%
Jun	2.2%
Jul	2.4%
Aug	1.9%

**Table 4. Erie County vs. U.S. Changes in
Average Annual Pay: 2001 – 2014**

Year	Erie County Average Annual Pay	% Change in Erie County Average Annual Pay	U. S. Average Annual Pay	% Change in U.S. Average Pay
2001	\$32,103		\$36,219	
2002	\$32,798	2.16%	\$36,764	1.50%
2003	\$33,735	2.86%	\$37,765	2.72%
2004	\$35,220	4.40%	\$39,354	4.21%
2005	\$35,587	1.04%	\$40,677	3.36%
2006	\$37,252	4.68%	\$42,535	4.57%
2007	\$38,667	3.80%	\$44,458	4.52%
2008	\$39,510	2.18%	\$45,563	2.49%
2009	\$39,846	0.85%	\$45,559	-0.01%
2010	\$40,801	2.40%	\$46,751	2.62%
2011	\$41,814	2.48%	\$48,043	2.76%
2012	\$42,654	2.01%	\$49,289	2.59%
2013	\$43,286	1.48%	\$49,808	1.05%
2014	\$44,678	3.22%	\$51,364	3.12%
Average	\$38,425	2.58%	\$43,868	2.73%

Figure 6. Average Annual Pay: Erie County vs. U.S. Total Covered Employment



For readers who follow this newsletter closely, many local measures have been re-benchmarked since last year, so regional comparisons to the nation may be different from what was reported previously.

Much has been made recently of the improvements in the City of Buffalo. Such high profile projects as the HarborCenter and the Buffalo Niagara Medical Campus have led to speculation about increased opportunities in the City of Buffalo, and increased incomes for city residents. Table 5 is based on the *Annual Community Survey* data released for the cities and counties throughout the nation for 2010 and 2014.

The results of the latest survey show that there has been a marked improvement in household income since 2010. The city of Buffalo has higher income levels than Rochester, Cleveland, Detroit and Toledo; former “rust belt” cities that lost their manufacturing base. Buffalo is below Syracuse, Cincinnati, Columbus, Pittsburgh and Newark; places that have major universities, corporate headquarters, substantial government activity, or proximity to a major market center. The growth rate of income in Buffalo puts it in the top half of this group. Buffalo’s mean household income, when compared to its surrounding county, places Buffalo in the top half of this group. These measures are all positive, and for now indicate substantial improvement over our past. We will continue to view these measures going forward to chart our progress in the future.

Table 5. City Income 2010 – 2014

City	2014 Mean Household Income	Central City Income as % County	% Change 2010 - 2014
Buffalo	\$43,715	70%	9.4%
Rochester	\$42,024	63%	5.4%
Syracuse	\$44,194	64%	5.4%
Cleveland	\$36,274	60%	5.9%
Detroit	\$37,887	66%	1.1%
Newark	\$46,561	42%	24.3%
Toledo	\$41,978	74%	9.5%
Cincinnati	\$52,120	76%	2.4%
Pittsburgh	\$60,722	82%	9.6%
Columbus	\$59,508	82%	8.6%

NATIONAL, STATE & LOCAL BUSINESS INDICATORS					
NATIONAL INDICATORS	2014:II	2014:IV	2015:I	2015:II	% change
					2014:II - 2015:II
Real GDP (billions of chained 2009\$) (1)(a)	15,901.5	16,151.4	16,177.3	16,333.6	2.7
Real GDI (billions of chained 2009\$) (1)(a)	16,073.6	16,391.5	16,408.6	16,437.9	2.3
US Personal Income (billions of \$) (1)(a)	14,612.8	14,955.7	15,079.8	15,219.4	4.2
					% change
					Aug-14 - Aug-15
	Aug-14	Jun-15	Jul-15	Aug-15	Aug-15
Consumer Price Index (1982-84=100) (2)	237.852	238.638	238.654	238.316	0.20
Exchange Rate Canadian cents/US \$ (3) (b)	108.78	124.95	130.90	131.41	20.80
10 Year Treasury Note Yield (%) (3) (b)	2.345	2.359	2.184	2.217	-0.128
3 Month Treasury Bill Yield (%) (3) (b)	0.033	0.018	0.069	0.002	-0.031
S&P 500 Stock Index (3) (b)	2,003.37	2,063.11	2,103.84	1,972.18	-1.56
Dow-Jones Industrial Average (3) (b)	17,098.45	17,619.51	17,689.86	16,528.03	-3.34
LABOR MARKET TRENDS (2)					
Nonag Civilian Employment					
US (1000's)(a)	139,369.0	141,870.0	142,115.0	142,288.0	2.09
NY State (1000's)(a)	9,118.7	9,249.3	9,262.9	9,249.2	1.43
WNY (1000's)	551.8	569.2	564.0	562.1	1.87
Unemployment Rate (%)					
US (a)	6.1	5.3	5.3	5.1	-1.0
NY State (a)	6.0	5.5	5.4	5.2	-0.8
WNY	6.1	5.3	5.8	5.2	-0.9
Ave. Weekly Hours in Mfg. US (a)	42.0	41.8	41.8	41.8	-0.48
Ave. Weekly. Earnings in Mfg. US \$(a)	824.46	830.98	833.07	833.07	1.04
US Private Employment (1000's)(a)	117,504	119,929	120,153	120,293	2.37
WNY EMPLOYMENT BY SECTOR (1000's) (2)					
Mining, Logging & Construction	23.0	24.1	25.4	26.2	13.91
Manufacturing	52.6	53.3	53.6	53.1	0.95
Trade, Transportation & Utilities	102.0	104.2	103.1	102.3	0.29
Durable Goods	32.9	33.7	33.9	33.6	2.13
Finance Activities	32.9	34.5	34.6	34.2	3.95
Government	84.8	88.5	84.5	84.4	-0.47
(1) US Dept. of Commerce	(a) Seasonally Adjusted				
(2) US Dept. of Labor	(b) End of month data				
(3) Wall Street Journal					