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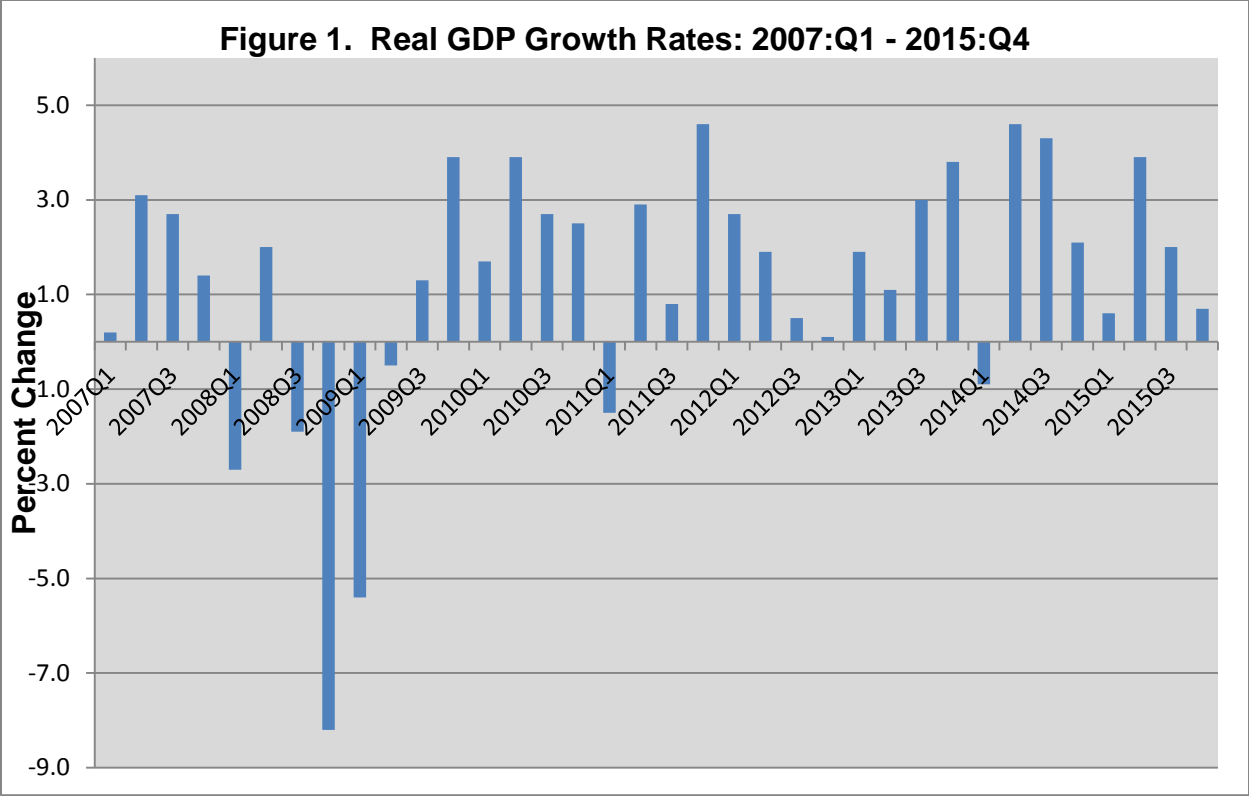
The slowdown in real GDP in the fourth quarter of 2015 was due to a decline in inventory and non-residential fixed investment and deterioration in our trade balance that is partially attributable to the appreciation of the U.S. dollar relative to our main trading partners. Oil prices have fallen dramatically (below \$30 per barrel at the time this was written) leading to an economy-wide inflation rate that has been below the Federal Reserve's target. This is likely to slow the FED's plan of increasing the federal funds rate to more normal levels in 2016. WNY employment growth has improved in comparison to that of the nation but wage growth, while positive, has lagged that of the nation.

The National Economic Outlook

The BEA www.bea.gov reported its advance estimate of real GDP growth to be 0.7% during 2015:Q4 after having grown by 2.0% during 2015:Q3 (see Figure 1). The slowdown of GDP growth can be attributed to a decline in exports, inventories, non-residential fixed investment and an increase in imports. The deterioration in the U.S. trade balance has been accompanied by a strong appreciation of the U.S. dollar versus our major trading partners. Table 1 shows exchange rates measured in foreign currency units per US dollar for the Euro, Chinese Yuan, Japanese Yen and Canadian dollar. Over the period July 2014 to January 2016, the US dollar has appreciated by 32.7% versus the Canadian dollar, 24.7% versus the Euro, 14.5% versus the Japanese Yen and by 6% versus the Chinese Yuan. The appreciation of the US dollar versus the Canadian dollar has important implications for Western New York businesses since US goods have become less affordable for Canadians. This has an adverse impact on cross border traffic.

Much has been written about the macroeconomic impact of the dramatic drop in crude oil prices. Recently the price per barrel for West Texas Intermediate fell below \$25, down from over \$100 per barrel in July 2014. Table 2 shows the monthly average spot prices from July 2014 through January 2015 and from July 2015 through January 2016. In 2014, it was unclear what the impact of the reduction of energy prices would be on the domestic economy. While all seemed to agree that domestic oil market production was likely to slow as a result of market conditions, few could have foreseen the dramatic reduction in oil prices that continued through 2015. The full impact of this dramatic

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reduction in oil and other energy related prices was hard to fathom. Lower energy costs would be good for the domestic economy, if it were sustained over a prolonged period of time. This time frame is more like decades, than months. While world oil prices were falling, there was substantial pressure on domestic producers to continue operations.

The cost of oil recovery in the United States is substantially higher than in many of the OPEC nations, whose chief goal, it seems, has been to disrupt the productive capacity of non-OPEC competitors. The short term effect of this behavior is lower prices for energy products, smaller profits or losses for producers of energy products. The long run impact on the US economy depends upon the OPEC strategy once competitors have left the market place. Will they cut output as they did in 2009 and drive prices up substantially, or will the potential re-entrants in production dampen the upward pressure OPEC output reductions would generate. A lot depends on the ability of the non-OPEC producers to maintain productive capacity even during prolonged periods of low prices.

In a commuter economy such as ours where the demand for gasoline is price inelastic, declines in oil and gasoline prices free resources for consumers to spend on non-energy items. Since consumption is such a large component of GDP, the additional consumption that lower gasoline prices allows is likely to offset the negative impact of a slowdown in the domestic energy sector.

TABLE 1**U.S DOLLAR EXCHANGE RATES
(FOREIGN CURRENCY UNITS PER U.S. DOLLAR)**

MONTH-YEAR	EURO	CHINESE YUAN	JAPANESE YEN	CANADIAN DOLLAR
2014				
July	0.739	6.198	102.944	1.0739
August	0.751	6.154	107.426	1.0926
September	0.776	6.138	108.026	1.1011
October	0.789	6.125	116.299	1.1212
November	0.802	6.125	119.323	1.1325
December	0.811	6.189	118.250	1.1532
2015				
January	0.861	6.218	118.760	1.2122
February	0.881	6.252	120.395	1.2499
March	0.924	6.239	119.510	1.2618
April	0.924	6.201	120.798	1.2337
May	0.895	6.204	123.719	1.2176
June	0.891	6.205	123.311	1.2365
July	0.909	6.209	123.004	1.2863
August	0.898	6.338	120.148	1.3147
September	0.891	6.368	120.048	1.3266
October	0.891	6.351	122.643	1.3072
November	0.932	6.364	121.635	1.3279
December	0.918	6.449	117.906	1.3713
2016				
January	0.922	6.571	117.906	1.4247
Percent Appreciation of U.S. Dollar	24.7	6.0	14.5	32.7

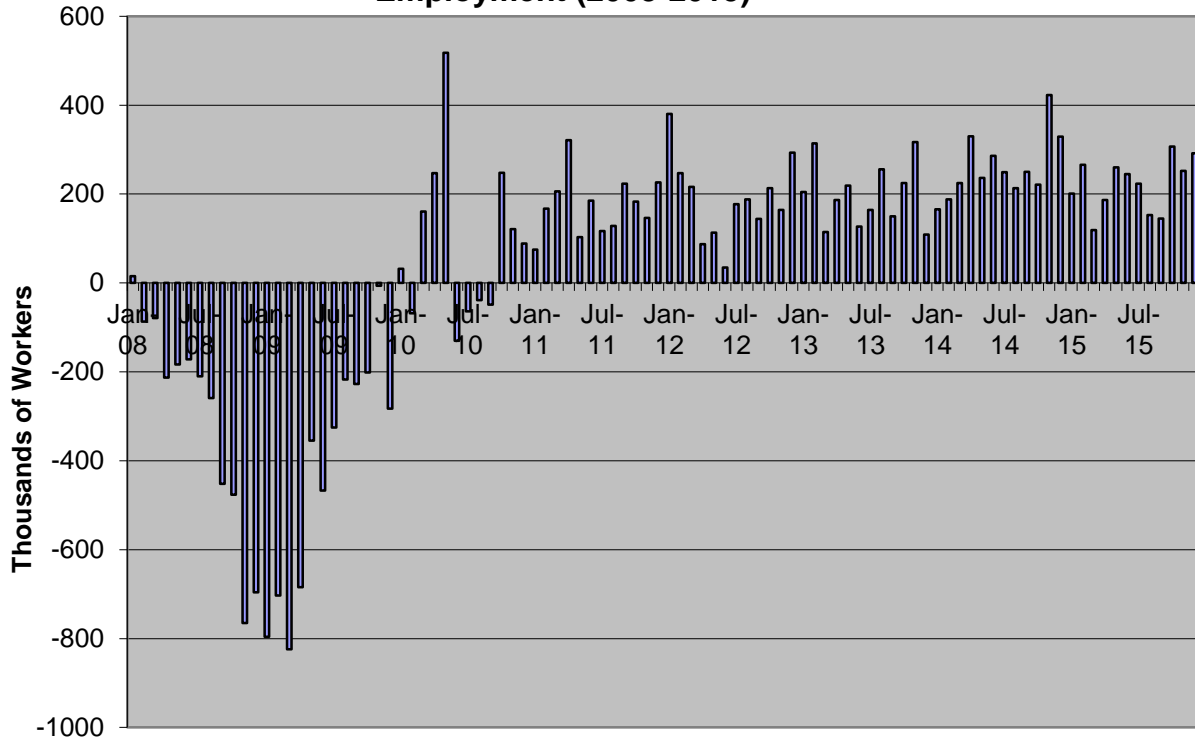
TABLE 2	
2014-2015 SPOT CRUDE OIL PRICE (WEST TEXAS INTERMEDIATE)	
MONTH-YEAR	PRICE PER BARREL
July 2014	\$103.59
August 2014	\$96.54
September 2014	\$93.21
October 2014	\$84.40
November 2014	\$75.79
December 2014	\$59.29
January 2015	\$47.22

July 2015	\$50.90
August 2015	\$42.87
September 2015	\$45.48
October 2015	\$46.22
November 2015	\$42.44
December 2015	\$37.21
January 2016	\$28.62

It was clear even a year ago that when domestic consumers increase their purchases of goods produced outside of the United States or substitute imported oil for US oil, then the net long run economic impact of the energy price declines would result in a slowing of US GDP growth. When this is combined with the appreciation of the US dollar compared to most of the major world currencies, one must conclude that the forces of economic contraction are on the rise. Additionally, the FED's recent 25 basis point increase in the federal funds rate target and their stated intent to continue rate increases in the face of interest rate declines in Europe and Asia, will only continue to provide monetary headwinds to be overcome by the US economy. If, however, energy prices remain low for an extended period of time, then lower energy costs should on net increase real economic growth in the US. WTI futures contracts of \$44 per barrel for delivery in 2024, might be an indication that the prevailing view is not a return to the OPEC controlled prices that have dominated over the last 40 years.

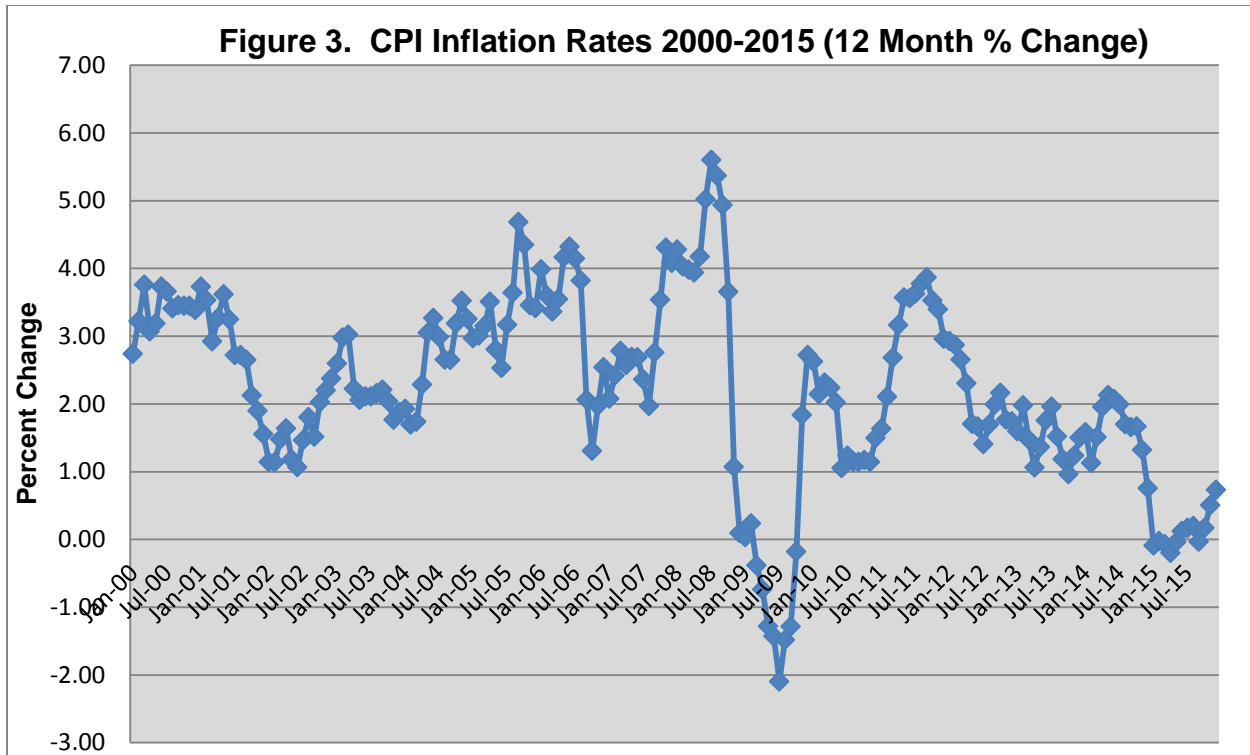
Labor markets steadily improved in 2015, adding approximately 2.65 million people to payrolls, or about 221 thousand per month (see Figure 2). Average weekly wages of production and non-supervisory employees grew by 2% in 2015. The national unemployment rate stood at 5% in December 2015.

Figure 2. Monthly Change in Total Non-Agricultural Employment (2008-2015)



The FOMC increased its target for the federal funds rate by 25 basis points at their December 2015 meeting. With a softening economy, the FOMC left the federal funds target range at 25 to 50 basis points in their January 2016 meeting (www.federalreserve.gov) but has made clear their intention to increase rate to more normal levels over the next few years. This policy assumes that no negative economic shocks occur which require rates to remain at their current level.

The FED's most recent policy statement indicated contentment with the steadily improving labor market. Additionally, they are not overly concerned with the inflation rate remaining below their 2% target since the lower inflation rates recently experienced in the US are viewed as transitory, mainly resulting from of lower oil prices. Inflation rates based on the CPI have been running at or below 2% since early 2012 (see Figure 3). The same is true of inflation based on the deflator for personal consumption expenditures. The ten year U.S. Treasury bond yield is presently below 2%. Financial markets appear to be predicting relatively low inflation rates far into the future.



The Economic Outlook for the Buffalo Region

While the smooth post-recession growth of employment in the national economy was not matched locally in 2014 in the Buffalo MSA, it seems to be a better match when the analysis is extended through 2015 (see figures 4a and 4b).

From 2010 through 2015 the average annual growth rate of employment in the Buffalo metropolitan area has been about .8% compared to 1.6% nationally. While local employment growth still lags the US trend, the gap was reduced to .8% from 1% last year at this time. Additionally, the drop-off of local employment that occurred during the second quarter of 2014 was reversed over the remainder of that year and through 2015. This is good news when placed in the context of the failed local recovery from the period between the 2001 and 2008-2009 recessions, when total employment in the MSA never returned to its pre-recession 2001 level.

Employment in the Buffalo MSA eclipsed the 2008 pre-recession high during 2014 and finally exceeded its 2001 peak level in 2015.

Figure 4a: US Payroll Employment (1990-2015)

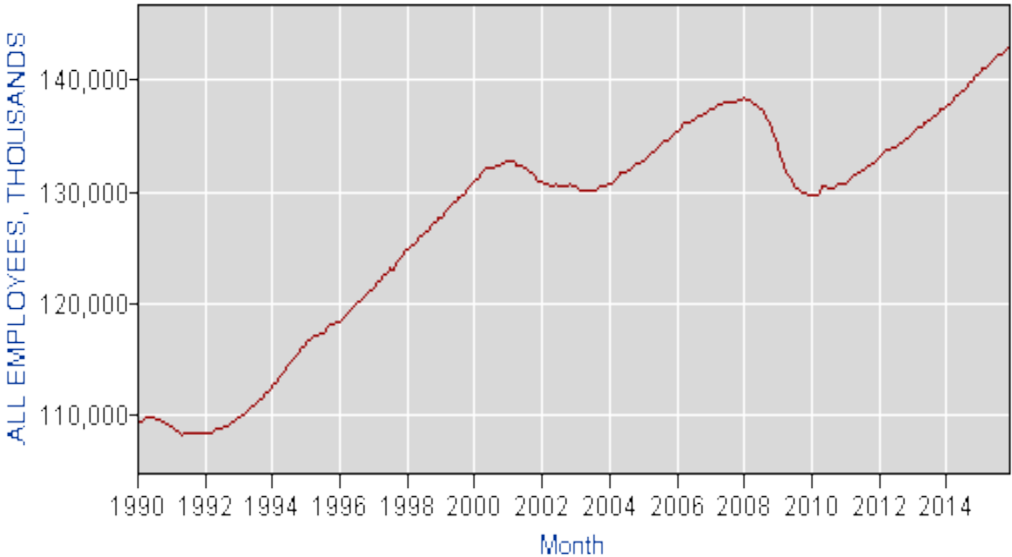
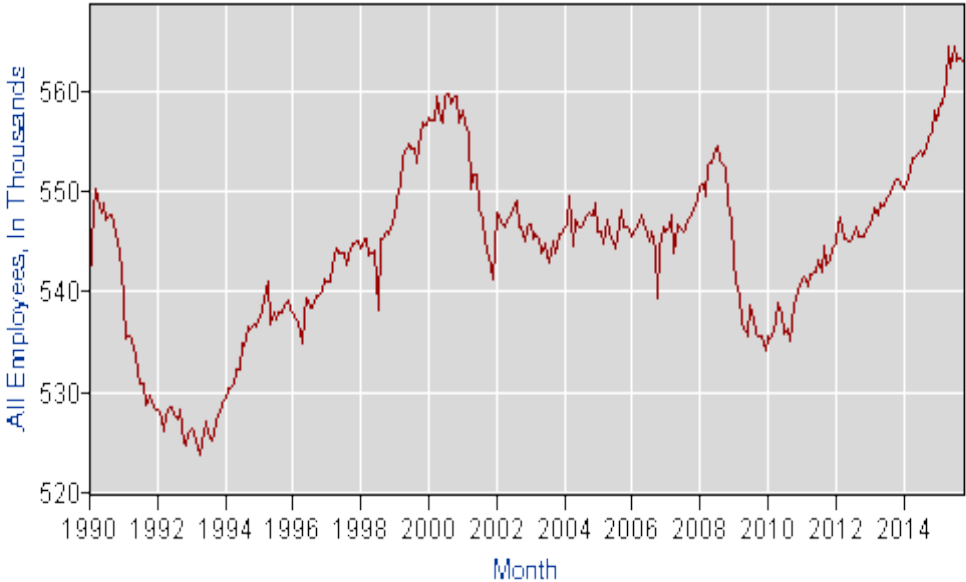


Figure 4b: WNY Payroll Employment (1990-2015)



Based on *Quarterly Census of Employment and Wages*, Table 2 shows the industrial sectors with location quotients (LQs) greater than 1 (finance and insurance, private education, and the management of companies) that are areas of specialization in the

local economy http://www.bls.gov/cew/doc/info/location_quotients.htm . The employment sectors of manufacturing, administrative and waste services, accommodation and food services, health and social services, and other services except public administration display LQs of approximately 1 and therefore have activity that is about the average share of total employment in the U.S.

Even though professional and technical services and construction employment are large employers, these sectors have LQ's less than 1, and therefore are a smaller share of total employment than the national average.

In Erie County, all employment sectors have annual wages that are less than the national average for that sector. The greatest disparities exist in the finance and insurance sector, which has wages that are about two-thirds of the national average, and in the management of companies and enterprises, which has wages that are about three quarters of the national average for that employment sector.

The trough in employment for both the region and the nation occurred in 2010. The change in employment in Erie County since 2010 is interesting since some industrial sectors have recovered more fully than others. This is not a trivial point, because in virtually all other post recessionary periods since 1969, the Buffalo labor market has lagged in the recovery, and in many sectors never fully recovered to their pre-recessionary employment levels. That manufacturing employment has increased slightly since 2010 is impressive because employment has declined in that sector nearly 45% since 1990.

Also of interest is the reduction in employment in the professional and technical services sector. Nationally, employment in this sector grew 12% from 2010 to 2014, but employment actually declined by 2.6% in Erie County. Somewhat surprising is the fact that local average earnings per worker in this sector are 30% below the national average. The departure from the expected pattern of growth in the region for employment sectors that have earnings below the national average bears watching in the future. For decades, observers of the Western New York economy have seen employment in relatively high wage sectors decline while there has been growth in sectors that have low wages relative to the national norm. The break in this pattern raises the question of whether the regional wage is being compared to a different standard, perhaps wages of an international worker, or whether there is something less desirable about Western New York professional and technical service workers or their employers when compared to other places.

Table 2: Employment Patterns in Erie County and Earnings

Erie County QCEW Employment and Location Quotients: 2014*	LQ's	Employment 2010	Employment 2014	Erie County Average Annual Earnings 2014	US Average Annual Earnings 2014
Base Industry: Total, all industries **	1.00	447,037	456,856	\$44,678	\$51,364
NAICS 23 Construction	0.79	15,488	16,226	\$53,629	\$55,037
NAICS 31-33 Manufacturing	1.06	41,119	42,970	\$62,179	\$62,976
NAICS 54 Professional and technical services	.85	24,967	23,613	\$59,899	\$86,391
NAICS 55 Management of companies and enterprises	1.76	10,738	12,677	\$86,319	\$112,901
NAICS 56 Administrative and waste services	.91	26,027	26,077	\$30,306	\$35,843
NAICS 61 Educational services	1.37	11,375	12,230	\$33,716	\$46,580
NAICS 62 Health care and social assistance	1.05	61,619	62,953	\$42,027	\$45,857
NAICS 52 Finance and insurance	1.26	22,796	23,624	\$64,254	\$97,380
NAICS 72 Accommodation and food services	1.01	38,872	42,214	\$16,530	\$18,676
NAICS 81 Other services, except public administration	1.03	16,132	17,313	\$24,702	\$33,936

* LQ (Location Quotient): Ratio of analysis-industry employment in Erie County to total base-industry employment in the county divided by the ratio of analysis-industry employment in the US to base-industry employment in the US *from BLS Quarterly Census of Employment and Wages (QCEW)*

** *all employers, public and private*

NATIONAL, STATE & LOCAL BUSINESS INDICATORS

					% change
NATIONAL INDICATORS					2014:IV -
	2014:III	2015:II	2015:III	2015:IV	2015:IV
Real GDP (billions of chained 2009\$) (1)(a)	16,151.4	16,333.6	16,414.0	16,442.3	1.8
Real GDI (billions of chained 2009\$) (1)(a)	16,391.5	16,498.0	16,606.6	*	2.0
US Personal Income (billions of \$) (1)(a)	14,955.7	15,277.0	15,467.8	15,604.9	4.3
					% change
					Dec-14 -
	Dec-14	Oct-15	Nov-15	Dec-15	Dec-15
Consumer Price Index (1982-84=100) (2)	234.812	237.838	237.336	236.525	0.73
Exchange Rate Canadian cents/US \$ (3) (b)	116.22	130.79	133.81	138.39	19.08
10 Year Treasury Note Yield (%) (3) (b)	2.171	2.145	2.221	2.269	0.098
3 Month Treasury Bill Yield (%) (3) (b)	0.053	0.084	0.221	0.173	0.120
S&P 500 Stock Index (3) (b)	2,058.90	2,089.41	2,080.41	2,043.94	-0.73
Dow-Jones Industrial Average (3) (b)	17,823.07	17,755.80	17,719.92	17,425.03	-2.23
LABOR MARKET TRENDS (2)					
Nonag Civilian Employment					
US (1000's)(a)	140,592	142,698	142,950	143,242	1.88
NY State (1000's)(a)	9,156.3	9,294.4	9,303.8	9,316.2	1.75
WNY (1000's)	561.6	570.5	569.4	567.7	1.09
Unemployment Rate (%)					
US (a)	5.6	5.0	5.0	5.0	-0.6
NY State (a)	5.8	4.8	4.8	4.8	-1.0
WNY	5.7	4.8	4.9	4.9	-0.8
Ave. Weekly Hours in Mfg. US (a)	42.1	41.7	41.7	41.7	-0.95
Ave. Weekly. Earnings in Mfg. US \$(a)	826.00	836.09	836.50	837.34	1.37
US Private Employment (1000's)(a)	118,690	120,726	120,966	121,241	2.15
WNY EMPLOYMENT BY SECTOR (1000's) (2)					
Mining, Logging & Construction	20.8	27.1	25.4	22.7	9.13
Manufacturing	52.7	52.7	52.5	52.5	-0.38
Trade, Transportation & Utilities	106.0	102.5	104.5	106.3	0.28
Durable Goods	33.1	33.3	33.2	33.2	0.30
Finance Activities	33.1	33.4	33.9	34.6	4.53
Government	90.7	89.7	89.9	89.7	-1.10
(1) US Dept. of Commerce (a) Seasonally Adjusted					
(2) US Dept. of Labor (b) End of month data					
(3) Wall Street Journal *2014:III to 2015:III % change.					