

Western New York ECONOMIC NEWS

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<https://www.canisius.edu/academics/programs/economics/economics-wny-economic-news>

Volume 24, Number 1

January 2021

The national economy has partially recovered from COVID induced recession that began during the first quarter of 2020. Real GDP remains 3.4% below its peak in 2019:Q4, however. The Federal Reserve has aggressively lowered short term nominal interest rates to close to zero, following virtually the same monetary policy that was used during the 2008-2009 recession. Congress has been very generous with its fiscal policy response as well. Real personal income figures for the WNY region in 2019 have recently been released by the BEA. We analyze these figures along with regional employment and wages by industry, identifying the disproportionate economic impact of COVID on those with the lowest average earnings in the region.

The National Economic Outlook

Third quarter real GDP grew by 33.4%, recovering nicely from the disastrous 31.4% decline during the 2020:Q2. However, GDP is still 3.4% below its 2019:Q4 peak (see Figure 1). Personal consumption expenditures and gross private domestic investment led the rebound during the third quarter, growing by 41% and 86.3%, respectively, while government expenditures declined by 4.8% compared to figures during the second quarter [www.bea.gov]. The magnitude of both the economic decline and recovery during the past two quarters have not been seen since the Great Depression of the 1930's.

Payroll employment declined by 19.4 million from its peak in February 2020 to its trough in April (see Figure 2). The economy recovered 12.3 million jobs from April to November 2020. The national unemployment rate stood at 6.7% in November, down from 14.7% in April. The WNY unemployment rate declined from 19.3% in April to 6.9% in October. It is important to recognize that there has been a decline in both national and local area labor force participation as a result of the COVID pandemic. The national labor force participation rate peaked at 63.4% in February 2020, fell to 60.2% in April, and has only recovered to 61.5% in November.

Federal Reserve policy has followed the same script that was used during the 2008-2009 recession, pushing short term interest rates to near zero. At the end of December 2020, the 3-month Treasury bill yield stood at .079% while the 10-year T-note was yielding .919%. Equity markets have responded positively to the zero-interest rate policy with all the major indexes at record high levels.

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Figure 1. Real GDP Growth Rates: 2017:Q1 - 2020:Q3

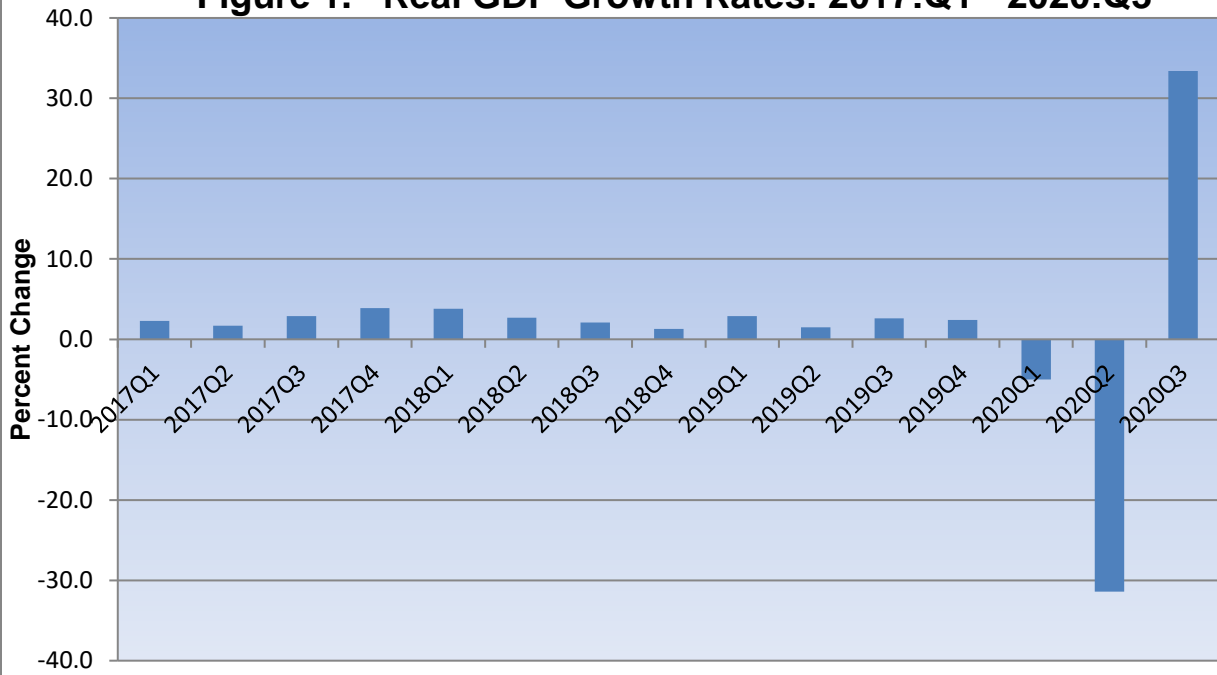
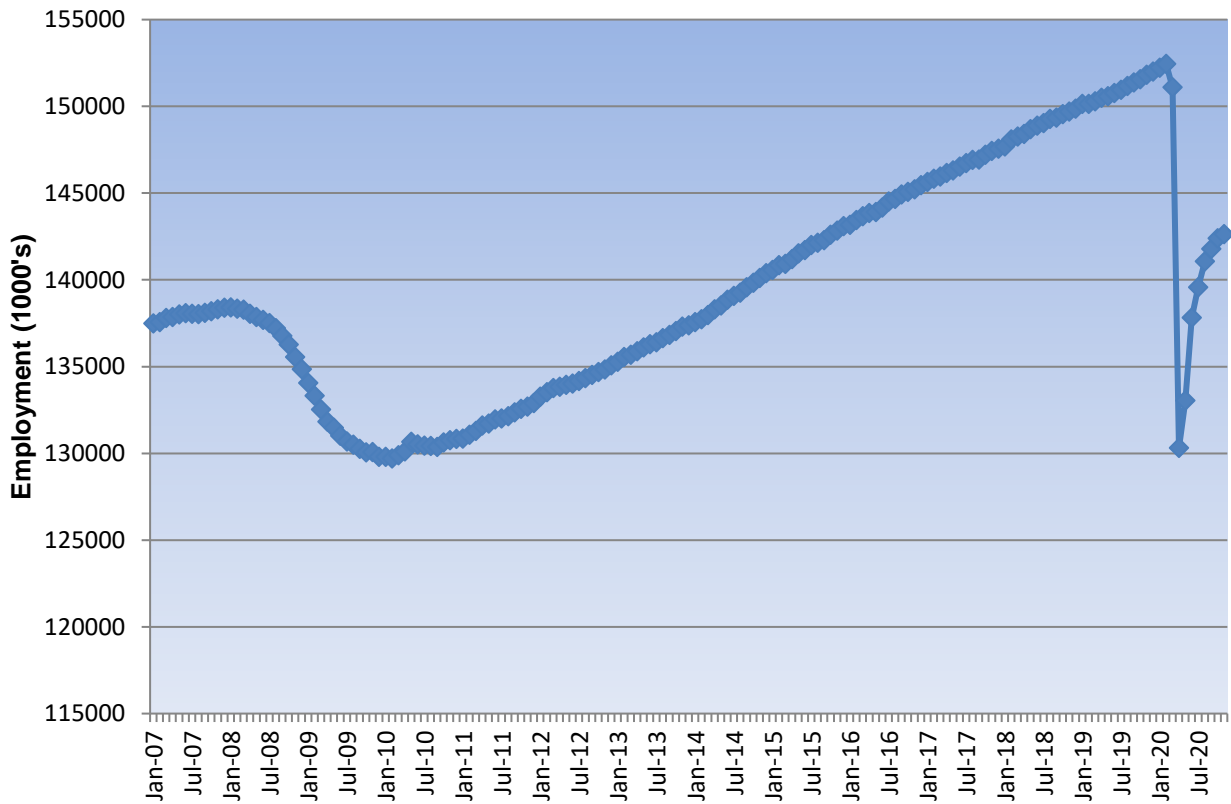


Figure 2. U.S. Payroll Employment: 2007-2020



Fiscal policy has also been extremely accommodative, with Congress passing several packages of COVID relief legislation. The most recent fiscal package continues enhanced unemployment insurance benefits and enacts another \$600 helicopter drop to individuals earning less than \$75,000, with an additional \$600 for each dependent child. Additionally, billions of dollars of aid was given to small businesses, schools and health care providers.

The Economic Outlook for the Buffalo Region

The BEA has recently constructed regional implicit price deflators that allow comparison of real personal income in the Buffalo and Rochester MSA's to the nation as a whole. In previous editions of this newsletter, we have deflated the nominal personal income figures by the Consumer Price Index to arrive at the regional and national real personal income series. The regional real personal income (PI) figures measured in chained 2012 dollars for the year 2019 were released by the BEA (<http://www.bea.gov/regional>) and appear below in Table 1. The BEA has also released 2019 real per capita income figures for local areas and the nation.

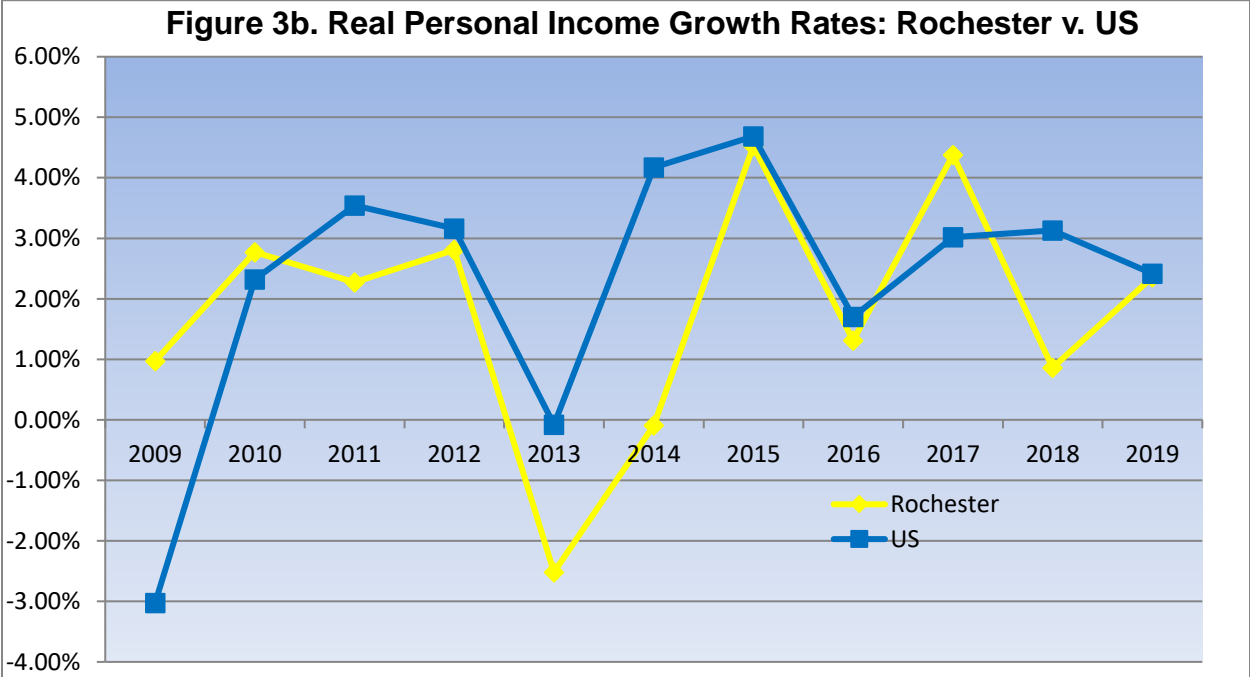
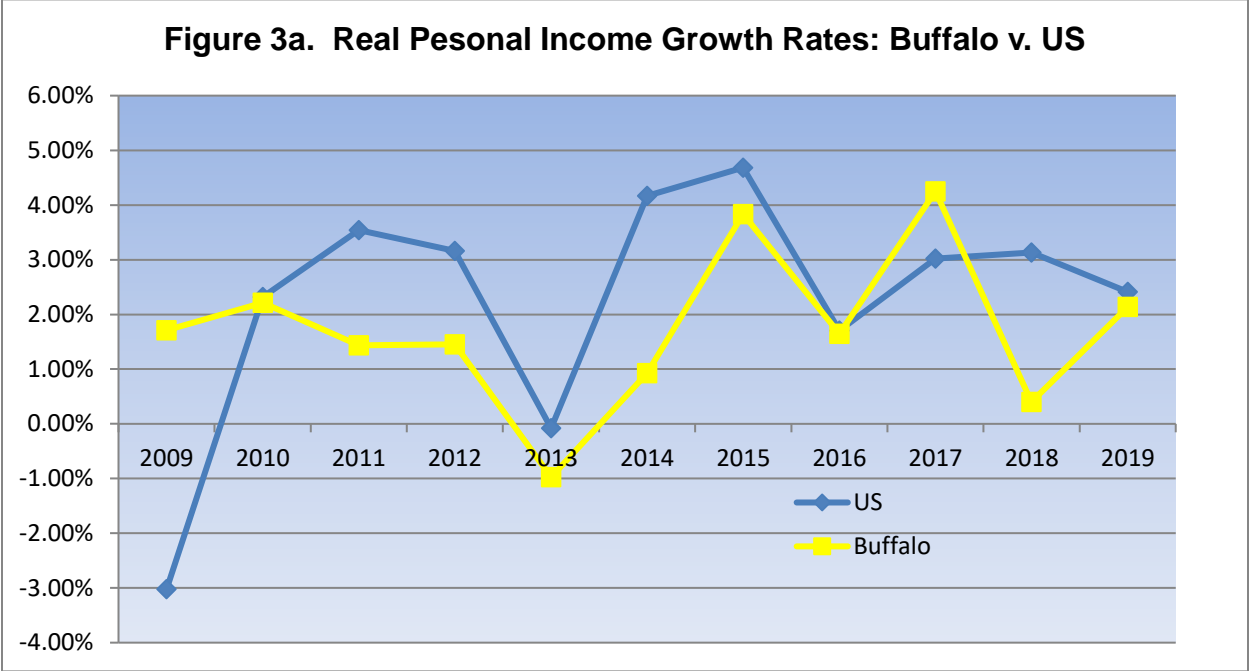
It has been common for Buffalo and Rochester to underperform the nation as a whole in terms of real personal income growth. Growth rates in Buffalo have been below that of the nation in 9 of the past 11 years. The exceptions occurred in 2009 and 2017. Rochester has performed slightly better, lagging the national growth rate in 8 out of the past 11 years. The exceptions were the years 2009, 2010 and 2017. Through the first three quarters of 2020, nominal personal income in the U.S. has averaged \$19.778 trillion. Surprisingly, despite the COVID recession, U.S. real personal income is projected to grow by 5% in 2020. We project real PI growth for Buffalo and Rochester in 2020 to be substantially below that of the nation.

Table 1

Real Personal Income Growth Rates: U.S. Buffalo & Rochester MSAs

Year	US	Buffalo MSA	Rochester MSA
2009	-3.02%	1.71%	0.97%
2010	2.32%	2.21%	2.77%
2011	3.54%	1.44%	2.27%
2012	3.16%	1.45%	2.81%
2013	-0.08%	-0.97%	-2.52%
2014	4.17%	0.92%	-0.09%
2015	4.68%	3.83%	4.52%
2016	1.70%	1.65%	1.31%
2017	3.02%	4.25%	4.38%
2018	3.13%	0.40%	0.86%
2019	2.42%	2.14%	2.36%
2019 personal income per capita	\$56,490	\$52,331	\$53,230

Real personal income growth rates for the Buffalo and Rochester MSAs over the period 2009 - 2019 are shown in Figures 3a and 3b.



Real per capita personal income for Buffalo and the U.S. is shown in Figure 4a, while that for Rochester and the U.S. is shown in Figure 4b.

Figure 4a. Real Per Capita Personal Income: Buffalo v. U.S.

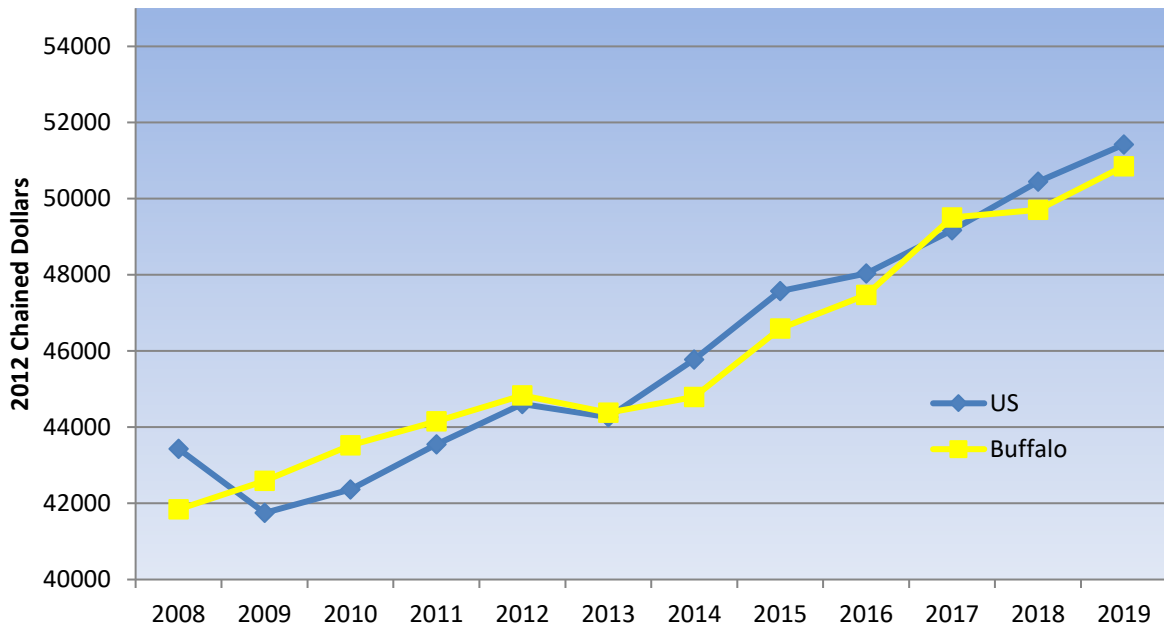
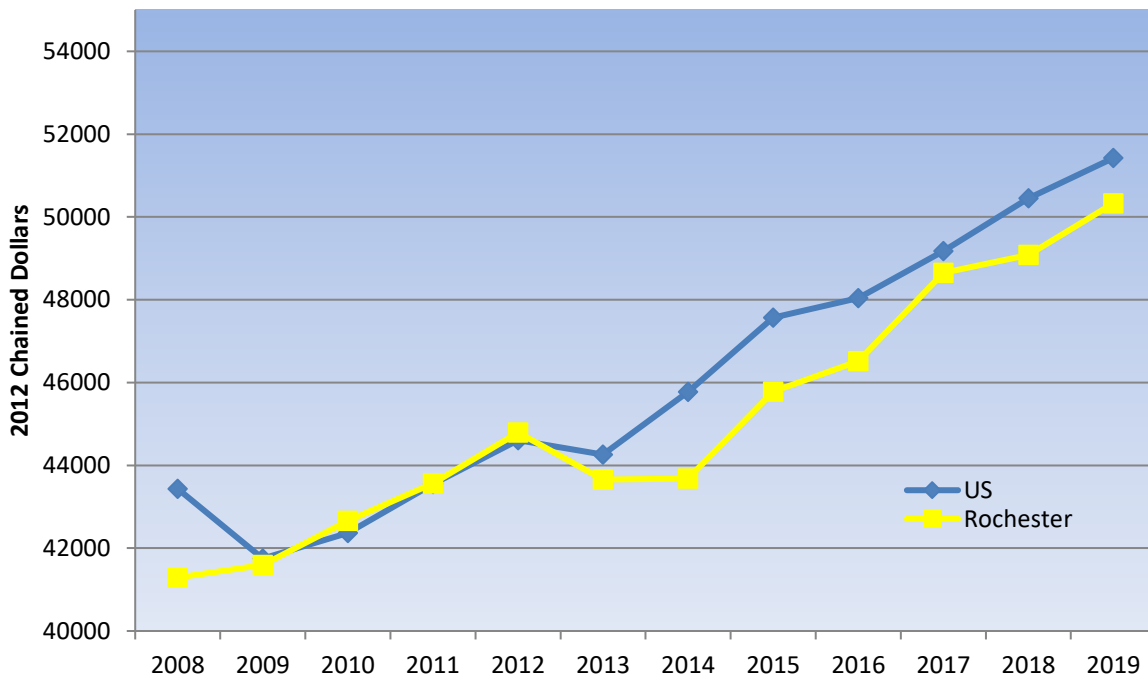


Figure 4b. Real Per Capita Personal Income: Rochester v. U.S.



BEA's blended regional price index allows us to measure real personal income at the regional level, with price levels that are connected to the regional economy. Using this price index (<https://www.bea.gov/data/prices-inflation/regional-price-parities-state-and-metro-area>), rather than the national CPI, as we have in previous editions of this newsletter to calculate real regional per capita personal income back to 2008 has generated changes in these relative values for the Buffalo MSA and the U.S. economy. As shown in Figure 4a, real per capita income in Buffalo was higher than the U.S. levels from 2009 through 2012. This relationship has not occurred since we began this newsletter and appears to have been the case as far back as 1980.

Since nominal per capita personal income was higher in the U.S. than in Buffalo, the adjustment to real per capita personal income reflects the lower costs of living in Buffalo. From Table 1 and Figures 4a & b, the same relationship holds between the Rochester and Buffalo MSAs; nominal income per capita is higher in Rochester, as is the cost of living. The predominant factor in this difference is the levels of rent paid. This new series is interesting and may prove to be useful in attracting workers and employers to the region.

While these new measures provide better insights to the region's recent history than what was previously available, they tell us nothing about the condition of the local economy post-pandemic, and perhaps more importantly, what we might expect in the near future. Tables 2a & 2b compare QCEW employment and wage levels during the second quarters of 2019 and 2020. These tables inform us about the industrial sectors that have felt the most impact, both positive and negative, and the effects of those changes on the levels of employment and earnings of workers in those sectors.

Table 2a shows that many industries experienced substantial increases in average annualized wages between 2019:Q2 and 2020:Q2. While at first glance, that may seem to be a positive sign in the local economy, but an examination of the underlying data reveals the troubling reason for the increase in average wages.

Table 2b identifies the industrial sectors that lost the most employment from 2019:Q2 to 2020:Q2. Total employment was almost 19 percent lower in 2020:Q2 than 2019:Q2, while total wages paid to workers fell only 9 percent. Private sector employment was down about 21 percent, while total private wages fell approximately 11 percent. The largest percentage declines in employment occurred in arts, entertainment and recreation, accommodation and food services, and other services with losses of 60.53%, 50.97%, and 36.22%, respectively. Though, corresponding decreases in total wages paid were lower in each of those industries.

Therefore, in a period of enormous economic dislocation and contraction, average earnings per worker have increased. This is possible because the three fastest declining sectors generally paid below average wages per worker. Additionally, in those rapidly declining sectors, it was above average earners that maintained their employment. That was true in every industry that experienced greater declines in

employment than in total wages so that even within relatively high wage industries, the jobs that were lost were among the lowest paid positions.

Table 2a. Year-over-Year Changes in Average Annualized Wages for the Second Quarter in the Buffalo MSA

	Average Annualized Wages in 2019 Q2	Average Annualized Wages in 2020 Q2	% Change in Average Wages
Total, All Industries	\$50,252	\$56,468	12.37%
Total, All Private	\$46,956	\$52,852	12.56%
Agriculture	\$33,420	\$36,984	10.66%
Mining	\$69,588	\$79,248	13.88%
Utilities	\$107,032	\$107,052	0.02%
Construction	\$56,848	\$64,396	13.28%
Manufacturing	\$63,960	\$63,896	-0.10%
Wholesale Trade	\$65,064	\$75,856	16.59%
Retail Trade	\$28,948	\$32,400	11.92%
Transportation & Warehousing	\$43,528	\$46,856	7.65%
Information	\$62,576	\$67,992	8.66%
Finance & Insurance	\$68,652	\$72,104	5.03%
Real Estate	\$44,132	\$48,404	9.68%
Professional & Technical Services	\$64,644	\$67,012	3.66%
Management of Companies	\$88,340	\$84,064	-4.84%
Administrative & Waste Services	\$37,048	\$42,488	14.68%
Educational Services	\$37,912	\$44,696	17.89%
Health Care & Social Assistance	\$47,376	\$51,016	7.68%
Arts, Entertainment & Recreation	\$50,844	\$82,772	62.80%
Accommodation & Food Services	\$19,828	\$21,956	10.73%
Other Services	\$28,728	\$33,508	16.64%
All Government	\$67,464	\$72,640	7.67%
Unclassified	\$30,812	\$44,948	45.88%

Table 2b. Year-over-Year Changes in Average Employment and Total Wages for the Second Quarter

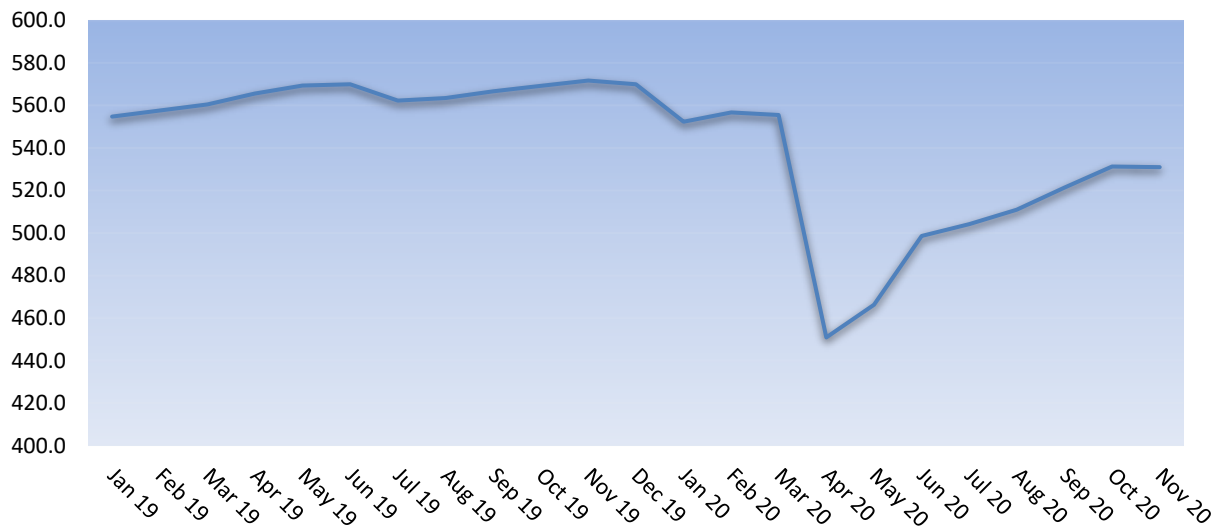
	2019 Q2		2020 Q2		% Change	% Change
	Average Emp.	Total Wages (in Millions)	Average Emp.	Total Wages (in Millions)	Average Emp.	Total Wages
Total, All Industries	549,521	\$6,904	445,567	\$6,290	-18.92%	-8.89%
Total, All Private	461,205	\$5,414	364,099	\$4,811	-21.05%	-11.15%
Agriculture	1,545	\$13	1,507	\$14	-2.46%	7.93%
Mining	189	\$3	180	\$4	-4.76%	8.46%
Utilities	1,239	\$33	1,158	\$31	-6.54%	-6.52%
Construction	21,164	\$301	15,961	\$257	-24.58%	-14.57%
Manufacturing	52,314	\$836	45,531	\$727	-12.97%	-13.05%
Wholesale Trade	19,518	\$317	17,780	\$337	-8.90%	6.20%
Retail Trade	58,752	\$425	46,814	\$379	-20.32%	-10.82%
Transportation & Warehousing	17,179	\$187	13,554	\$159	-21.10%	-15.07%
Information	6,652	\$104	5,678	\$97	-14.64%	-7.25%
Finance & Insurance	28,279	\$485	27,497	\$496	-2.77%	2.12%
Real Estate	7,249	\$80	6,038	\$73	-16.71%	-8.64%
Professional & Technical Services	27,668	\$447	24,888	\$417	-10.05%	-6.75%
Management of Companies	13,391	\$296	11,057	\$232	-17.43%	-21.43%
Administrative & Waste Services	28,085	\$260	21,615	\$230	-23.04%	-11.73%
Educational Services	14,078	\$133	11,818	\$132	-16.05%	-1.03%
Health Care & Social Assistance	81,059	\$960	69,941	\$892	-13.72%	-7.09%
Arts, Entertainment & Recreation	9,372	\$119	3,699	\$77	-60.53%	-35.74%
Accommodation & Food Services	51,700	\$256	25,349	\$139	-50.97%	-45.71%
Other Services	21,267	\$153	13,565	\$114	-36.22%	-25.61%
All Government	88,316	\$1,490	81,468	\$1,479	-7.75%	-0.68%
Unclassified	505	\$4	471	\$5	-6.73%	36.06%

Thus, the impact of the pandemic in the Buffalo MSA on employment and earnings during the second quarter of 2020 was born most heavily on those that earned the least and lost their employment first. The long-term effect of this economic calamity is as yet uncertain, but in the short run the burden has fallen on the most vulnerable members of the community.

From the end of the second quarter, there has been growth in employment. Figure 5 shows that almost half of the jobs lost in April were regained as the economy reopened after the initial lockdown. Then, the rate of job growth slowed gradually until November when it was virtually zero. After having recovered three-quarters of the jobs lost, the number of private payroll jobs in November was down more than 8 percent from the previous November.

As shown in Table 3, some of the industries that were initially hit the hardest by the pandemic and subsequent lockdown are those still furthest behind in the recovery. Accommodation and food services, retail trade, and other services are among those industries. In terms of the number of employees on payrolls, each of those industries are still down more than 9 percent from a year ago, and that was true even before the state designated parts of Erie county in the orange zone and parts of Niagara county in the yellow zone.

Figure 5. Buffalo Payroll Employment



On November 20, parts of Erie County were given the orange zone designation – personal care businesses and schools were closed, and restaurants were only open for takeout and delivery. This led to increased claims for unemployment insurance in Erie county, as shown in Figure 7. The yellow designation in Niagara county also contributed to an increase in claims there. In the 5 weeks beginning November 15, the Buffalo MSA saw approximately 9,000 more initial unemployment claims than in the preceding 5 weeks. Though this may overstate the impact on unemployment (as the Government Accountability Office found in a report issued November 30), it is indicative of an expected increase in unemployment and more payroll jobs lost that will be reflected in the month of December.

Table 3. Economic Recovery Status - Payroll Employment in Buffalo MSA

	Percent of Jobs Lost from March to April 2020	Percent of Lost Jobs Regained by November	Percent Change from November 2019
Total	-18.83%	76.58%	-7.12%
Total Private	-21.43%	75.65%	-8.38%
Accommodation & Food Services	-58.42%	78.29%	-15.15%
Retail Trade	-20.85%	59.84%	-12.70%
Wholesale Trade	-15.05%	22.58%	-12.08%
Professional, Scientific & Technical Services	-15.27%	42.86%	-12.54%
Other Services	-27.52%	64.79%	-9.69%
Transportation and Utilities	-27.13%	100.00%	-7.84%
Management of Companies	-10.39%	37.50%	-7.69%
Health & Social Assistance	-16.00%	61.72%	-7.51%
Educational Services	-9.18%	47.37%	-6.19%
Information	-4.41%	0.00%	-5.80%
Financial Activities	-2.51%	11.11%	-4.89%
Government	-5.67%	94.23%	-0.54%
Mining, Logging & Construction	-29.38%	136.84%	0.47%
Administrative & Waste Services	-18.08%	178.72%	1.37%
Manufacturing	-13.29%	115.94%	2.12%

These new claims will add to the unemployment rate as measured in November that was reflective of economic activity during the second week of the month.

Figure 8 shows the number of employed and unemployed individuals in the Buffalo MSA in 2020 as measured with data from the household survey. Since August, the count of those employed has remained largely the same, so most of the changes in the unemployment rate were due to changes in the size of the labor force locally, which fell from 543,300 in February to 529,100 in November. As we expect many of those individuals to return to the labor force, the November unemployment rate of 5.9% understates the impact of the pandemic on the local economy. If we add 10,000 of the 14,000 individuals back to the labor force in their unemployed status, the unemployment rate would be closer to 8%, and that is before the additional unemployment associated with the orange zone designation is considered.

Figure 7. Weekly Initial Unemployment Claims in Buffalo MSA

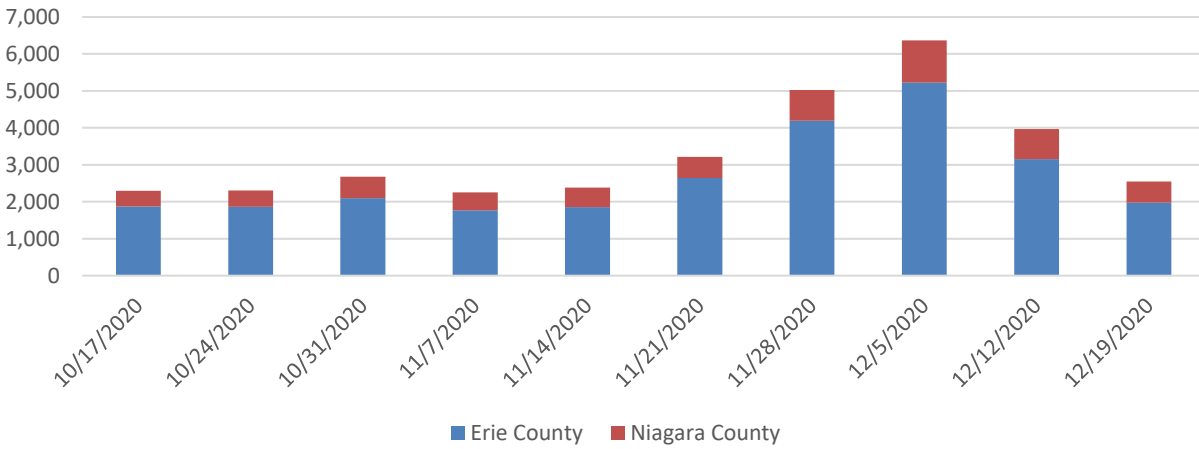
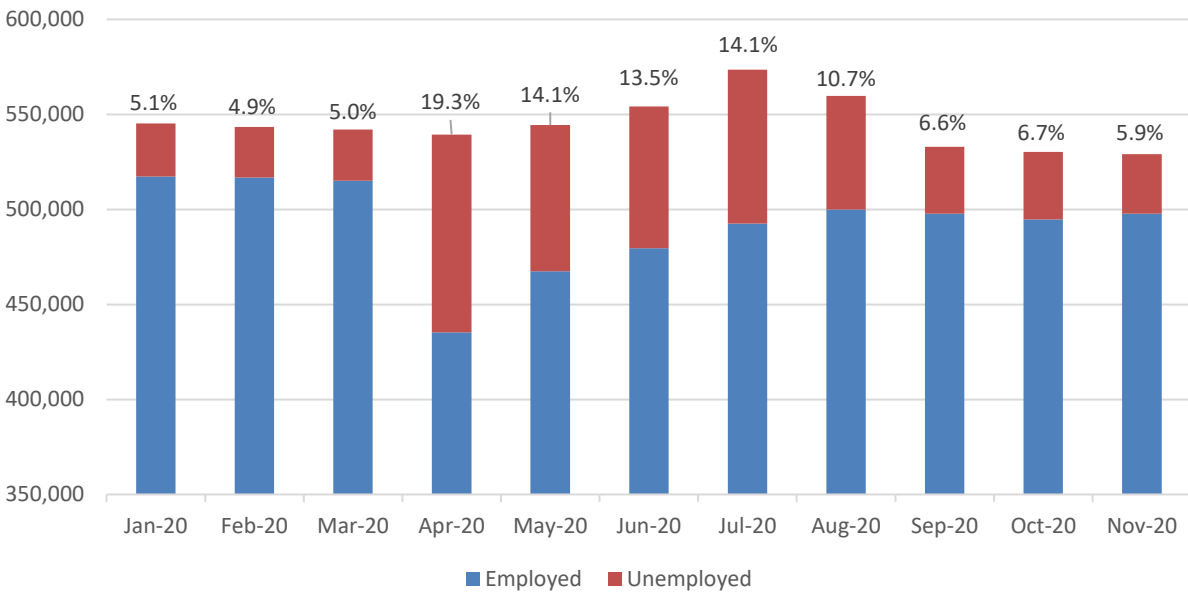


Figure 8. Employed, Unemployed and Unemployment Rates in Buffalo MSA



NATIONAL, STATE & LOCAL BUSINESS INDICATORS

					% change
NATIONAL INDICATORS					2019:III -
	2019:III	2020:I	2020:II	2020:III	2020:III
Real GDP (billions of chained 2012\$) (1)(a)	19,141.7	19,010.8	17,302.5	18,596.5	-2.8
US Personal Income (billions of \$) (1)(a)	18,597.6	18,951.0	20,457.3	19,915.8	7.1
					% change
					Nov-19 -
	Nov-19	Sep-20	Oct-20	Nov-20	Nov-20
Annual CPI Inflation Rate (%) (2)	2.05	1.37	1.18	1.17	
Exchange Rate Canadian cents/US \$ (3)(b)	132.81	133.22	133.28	129.98	-2.13
10 Year Treasury Note Yield (%) (3)(b)	1.78	0.68	0.88	0.85	-0.94
3 Month Treasury Bill Yield (%) (3)(b)	1.59	0.11	0.10	0.08	-1.51
S&P 500 Stock Index (3)(b)	3,140.98	3,363.00	3,269.96	3,621.63	15.30
Dow-Jones Industrial Average (3)(b)	28,051.41	27,781.70	26,501.60	29,638.64	5.66
LABOR MARKET TRENDS (2)					
Nonag Civilian Employment					
US (1000's)(a)	151,814	141,774	142,384	142,629	-6.05
Change from previous month	261	711	610	245	
NY State (1000's)(a)	9,820.0	9,840.4	9,847.3	9,723.1	-0.99
WNY (1000's)(a)	563.8	519.0	524.7	524.4	-6.99
Unemployment Rate (%)					
US (a)	3.5	7.9	6.9	6.7	3.2
NY State (a)	3.9	9.7	9.2	8.4	4.5
WNY	3.9	6.6	6.7	5.9	2.0
Ave. Weekly Hours in Mfg. US (a)	41.4	41.1	41.3	41.2	-0.48
Ave. Weekly. Earnings in Mfg. US (\$) (a)	926.95	945.30	949.49	950.07	2.49
US Private Employment (1000's)(a)	129,155	119,976	120,853	121,197	-6.16
WNY EMPLOYMENT BY SECTOR (1000's)(2)					
Mining, Logging & Construction	21.4	21.9	22.3	21.5	0.47
Manufacturing	51.9	51.8	53.2	53.0	2.12
Trade, Transportation & Utilities	102.5	88.1	88.6	90.6	-11.61
Durable Goods	31.8	31.9	32.7	32.8	3.14
Finance Activities	36.8	35.0	34.9	35.0	-4.89
Government	91.9	89.6	92.0	91.4	-0.54
(1) US Dept. of Commerce	(a) Seasonally Adjusted				
(2) US Dept. of Labor	(b) End of month data				
(3) Wall Street Journal					