

Western New York ECONOMIC NEWS

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Last year the national economy recovered much of the Covid-induced decline. Over the last year, a complex set of factors has led us to substantial employment growth, as well as real GDP increases, until the first quarter of 2022. Western New York has regained most of the employment lost in the historically bad second quarter of 2020. Persistent inflation has accompanied the recovery and the Federal Reserve has reacted in a predictable fashion, raising interest rates, and cutting its support of US Treasury and other bond prices begun in the March of 2020. The question now is how much worse will it make the decline in real GDP already observed in the first quarter? Additionally, what effect will it have on the partial employment recoveries occurring in the upstate metropolitan areas that historically move down with the U.S. economy, but lag it on the upturns?

The National Economic Outlook

First estimates of 2022:Q1 real GDP showed the economy contracting by -1.4% after growing by 6.9% during 2021:Q4. Weakness in inventory investment, government spending and exports along with rising imports were responsible for the decline. Consumption expenditures increased by a modest .7%, however. The changes in real GDP since 2015:Q1 are shown in Figure 1 [www.bea.gov].

At present, there are two major concerns for the national economy. The first is whether the first quarter decline in GDP is a precursor to recession. The second is the rising inflation that we have experienced since mid-year 2020 and whether it will abate. The COVID recession drove down the CPI inflation rate from 2.5% to .12% over the period January to May 2020 [www.bls.gov]. Since then, inflation has continued to rise to 8.54% in March and 8.26% in April 2022. The Federal Reserve's preferred inflation measure, based on the Personal Consumption Expenditure (PCE) deflator, is shown along with CPI inflation in Figure 2. The behavior of PCE inflation mirrors that based on the CPI. The March 2022 inflation rate based on the PCE series was 6.6%.

Responsibility for the acceleration in the inflation rate can be attributed to the expansionary monetary policy actions of the Federal Reserve, the very aggressive federal expenditure bills passed by Congress and signed by the President, oil price shocks, and the supply chain disruptions that have followed the pandemic. Apparently, until recently, the Fed thought the accelerating inflation rate was a transitory phenomenon. Only after the FOMC meeting on May 3-4 did their policy actions indicate that they perceived a serious inflation problem. The FOMC has increased the Fed funds target by 50 basis points to .75%

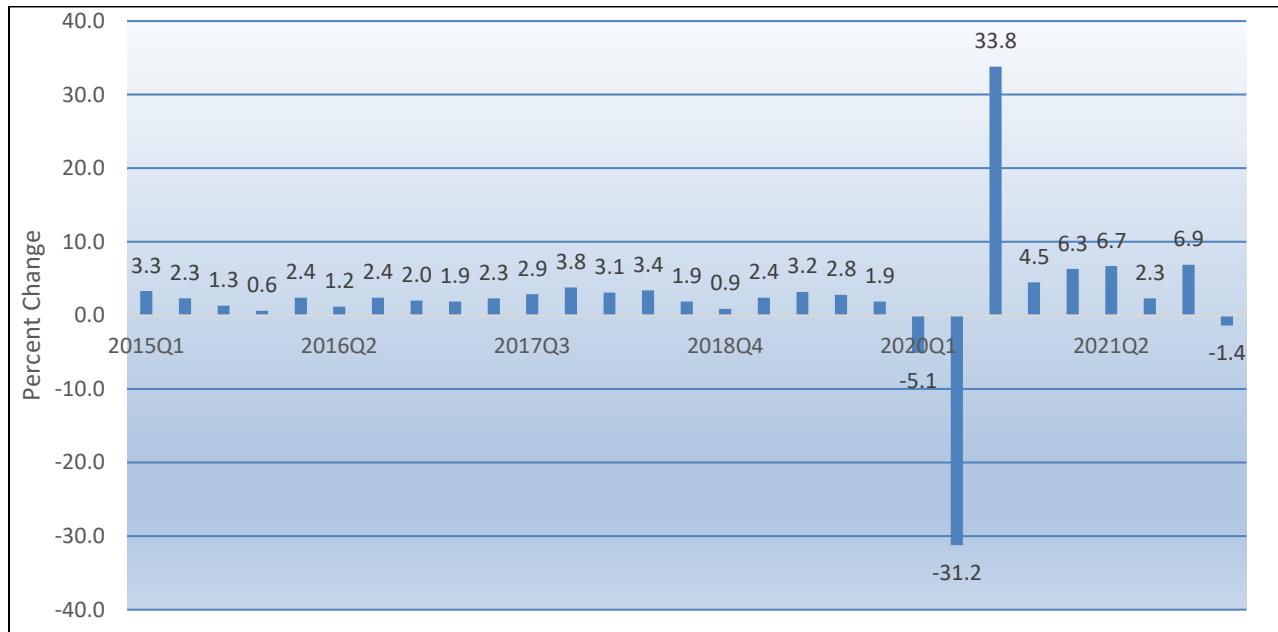
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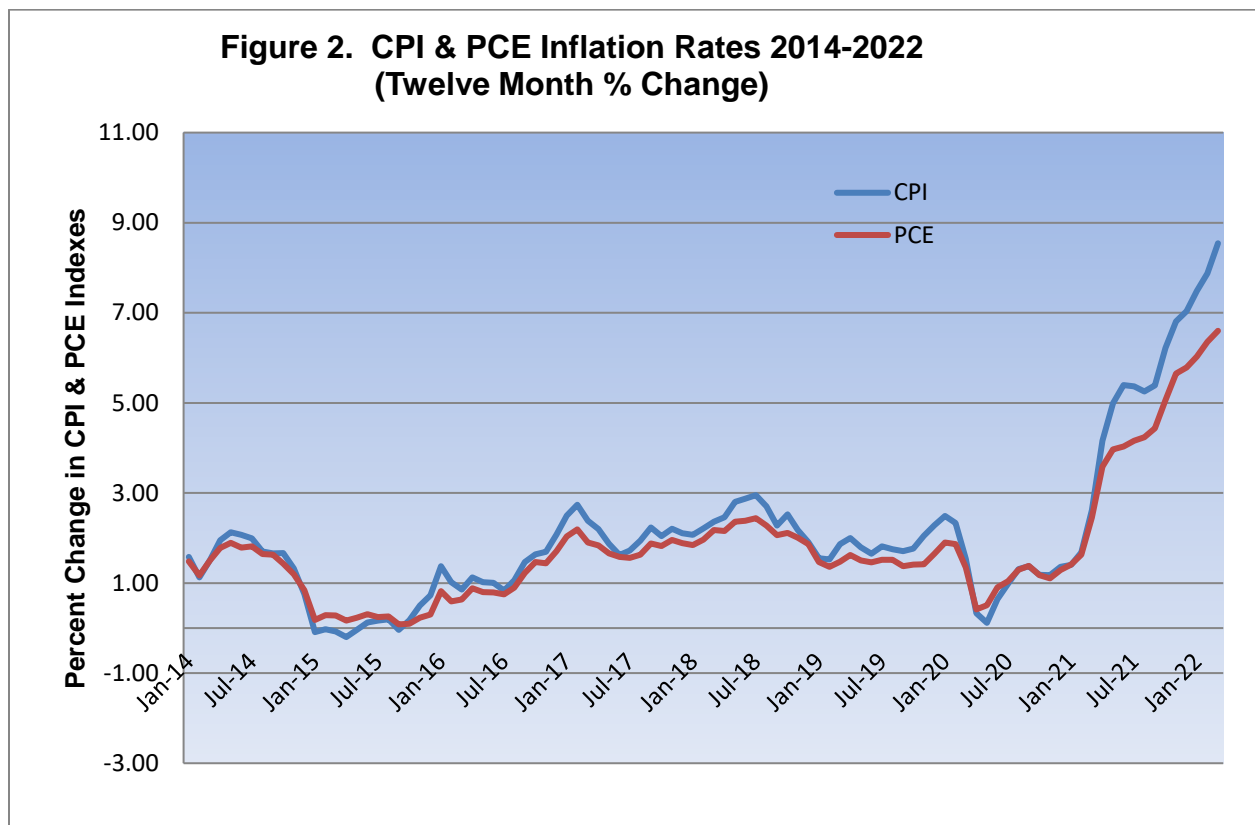
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Figure 1. Percent Change in Real GDP: 2015Q1-2022Q1

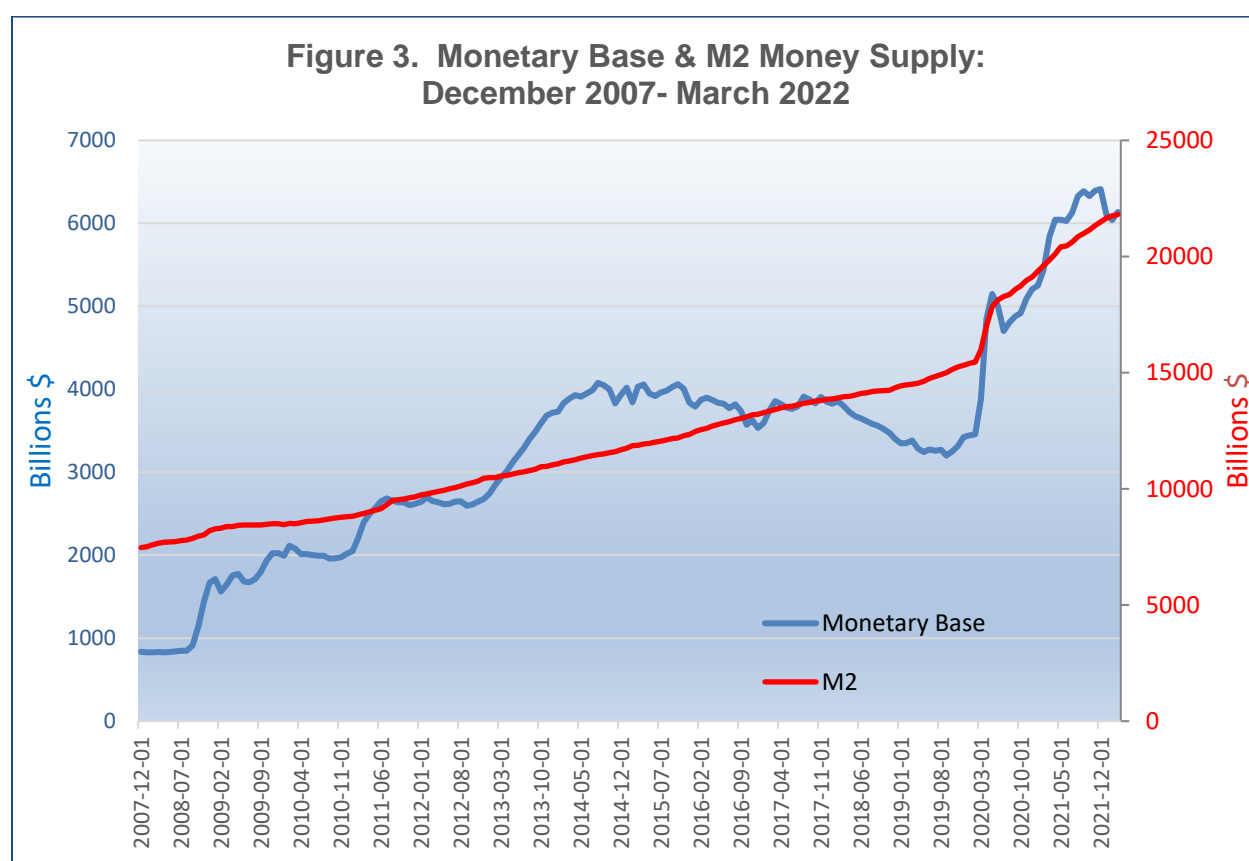


**Figure 2. CPI & PCE Inflation Rates 2014-2022
(Twelve Month % Change)**



and has indicated that they will allow their bloated balance sheet to decline by allowing a monthly runoff of \$60 billion of U.S. Treasury securities and \$35 billion of mortgage-backed securities [www.federalreserve.gov]. Over the period February 2020 to April 2022, the Fed increased its holdings of Treasury securities from \$2.5 trillion to \$5.8 trillion and their holdings of mortgage-backed securities from \$1.4 trillion to \$2.7 trillion.

The monetary base (currency in circulation plus bank reserves) and the M2 money supply since December 2007 are exhibited in Figure 3. Over the period February 2020 – December 2021, the monetary base increased from \$3.4 trillion to \$6.4 trillion. Over the same period, the M2 money supply increased from \$15.5 trillion to \$21.5 trillion. The monetization of the federal deficits by the Fed was meant to help the economy reverse the severe downturn it experienced during the second quarter of 2022. This worked but the continued expansion of the money supply led to the inflation problem that we are presently experiencing. It is worth remembering the statement made by the late Nobel laureate Milton Friedman, “Inflation is always and everywhere a monetary phenomenon.”



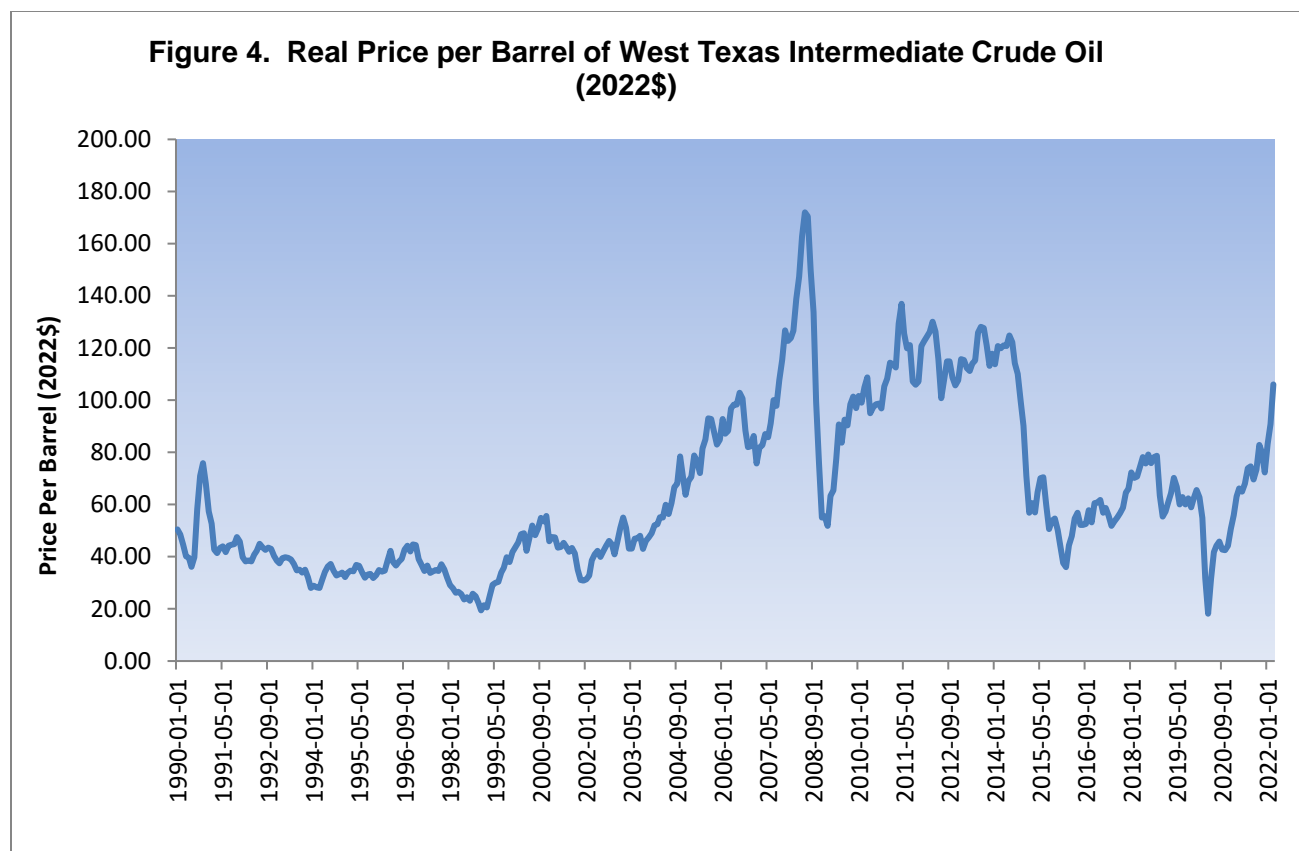
A deeper dive into the March-to-March percentage changes in the food and beverage, housing, motor vehicle, gasoline and energy components of the CPI is shown in Table 1. The pronounced acceleration in these indexes since 2020 is apparent. The fraction of each of these components in the consumer market-basket is shown in the last row of the table.

Table 1. Percentage Change in CPI Components (March - March of Prior Year)

Year	Food & Beverages	Housing	Motor Vehicles	Gasoline	Energy	All Items Less Energy
2015	2.27%	1.93%	0.04%	-28.47%	-17.68%	1.84%
2016	0.82%	2.11%	-0.45%	-18.41%	-11.43%	1.94%
2017	0.53%	3.11%	-0.94%	20.28%	11.14%	1.81%
2018	1.28%	2.96%	-0.55%	11.15%	7.11%	1.95%
2019	2.08%	2.92%	0.44%	-0.35%	-0.25%	2.06%
2020	1.90%	2.42%	-0.43%	-10.05%	-5.76%	2.09%
2021	3.37%	2.14%	4.42%	22.58%	13.35%	1.93%
2022	8.47%	6.35%	21.49%	47.99%	32.17%	6.78%
CPI Weights	14.3%	42.4%	9.2%	3.7%	7.4%	92.7%

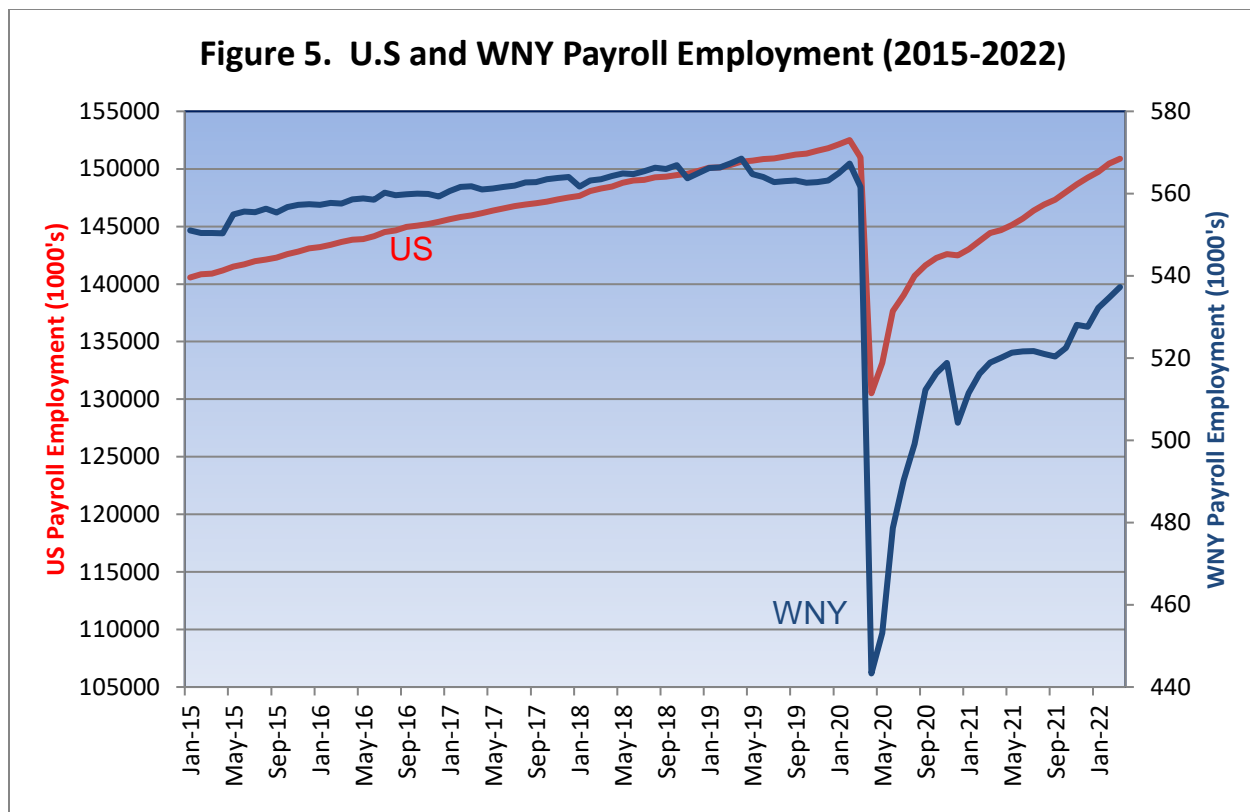
Past issues of this newsletter have pointed out the run-up of real crude oil prices that have taken place prior to recent recessions. Figure 4 shows the real price per barrel of West Texas Intermediate from January 1990 through March 2022 expressed in January 2022 dollars. The timing of the recent increase in oil prices corresponds with the rising inflation that has taken place since April 2020, however the real price of WTI in March 2022 remains below its June 2008 peak.

The oil price shocks of 1970's caused in the Paul Volker led the Federal Reserve to implement large increases in interest rates that resulted in the twin recessions of 1980 and 1981-82. It is important to recognize that contractionary monetary policy caused these recessions and the talk of a soft landing by the Fed in the current situation is questionable at best. In the past, recession has been the cure for accelerating inflation. Will the same be true in 2022-2023?



The Economic Outlook for the Buffalo Region

Figure 5 shows both national and Western New York payroll employment prior to and after the COVID recession. The peaks and troughs of both series were coincident, peaking in February 2020 and reaching a trough in April 2020. Complete labor market recovery after recession usually occurs with a significant lag. From peak to trough, national employment declined by 14.4% while WNY employment declined by 21.9%. From the trough to March 2022, national employment has increased by 15.6% while WNY employment increased 21.2%. WNY employment remains 5.3% below its February 2020 peak while national employment in April 2022 was .8% below its peak. This is consistent with the typical refrain that WNY falls deeper and recovers less fully from recession than the rest of the nation.



Unemployment rates since January 2015 in both the US and WNY are shown in Figure 6. While the Buffalo MSA far exceeded the peak rate of unemployment in the U.S. (21.6 percent versus 14.7 percent), the rates of unemployment have been similar during the period thereafter. Though, the unemployment rate has been a less reliable indicator of underlying economic activity because of the changes in labor force participation that occurred over the last two years. Labor force participation at the national level fell from 63.4 percent in February 2020 to 60.2 percent in April 2020.

Though there were many factors that contributed to that steep a drop (including, but not limited to, the way labor force participation is defined by the Bureau of Labor Statistics), the rate was steady in 2021 and stayed below 62 percent through the end of the year. In 2022, the labor force participation rate showed substantial improvement increasing to 62.4 percent in March 2022. Though we do not expect the labor force to completely recover to pre-pandemic levels, we do expect the rate to increase further in 2022.

As with the national labor force, the labor force in the Buffalo MSA has shown substantial improvement since December, increasing to 538,300 in March 2022 from 523,600 in December 2021. Though the unemployment rate showed a bit of an uptick over that same period, the growing labor force indicates a healthier labor market. These trends appear in Figure 7 and are based on data from the *Current Population Survey (CPS)*.

Figure 6. US and WNY Unemployment Rates (2015-2022)

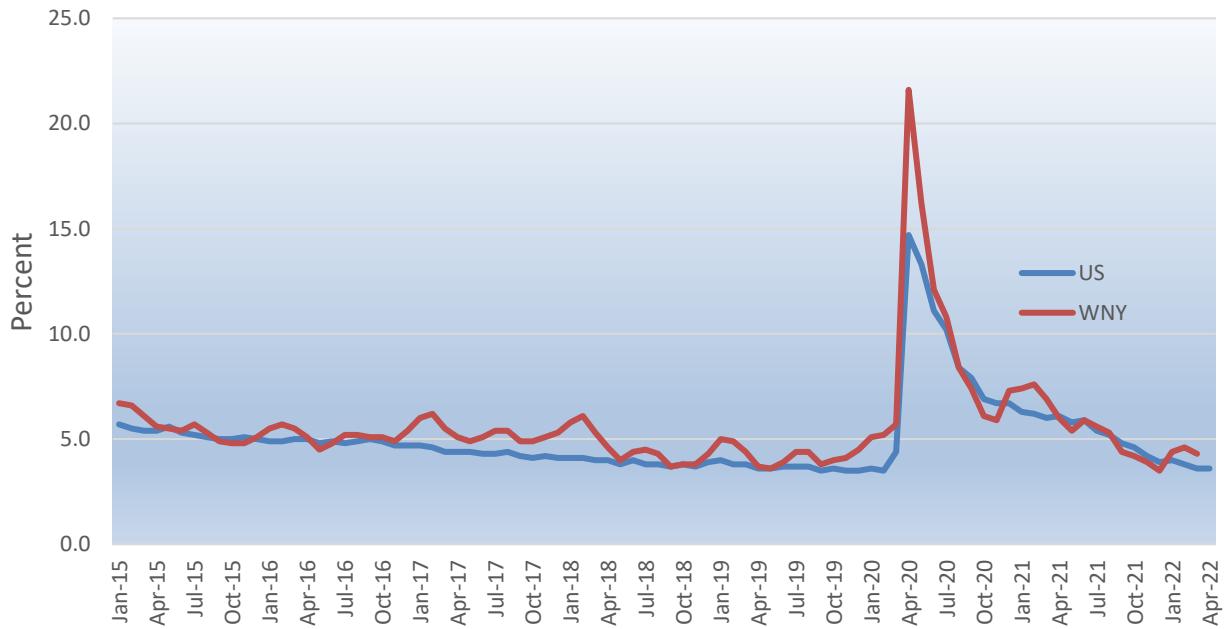
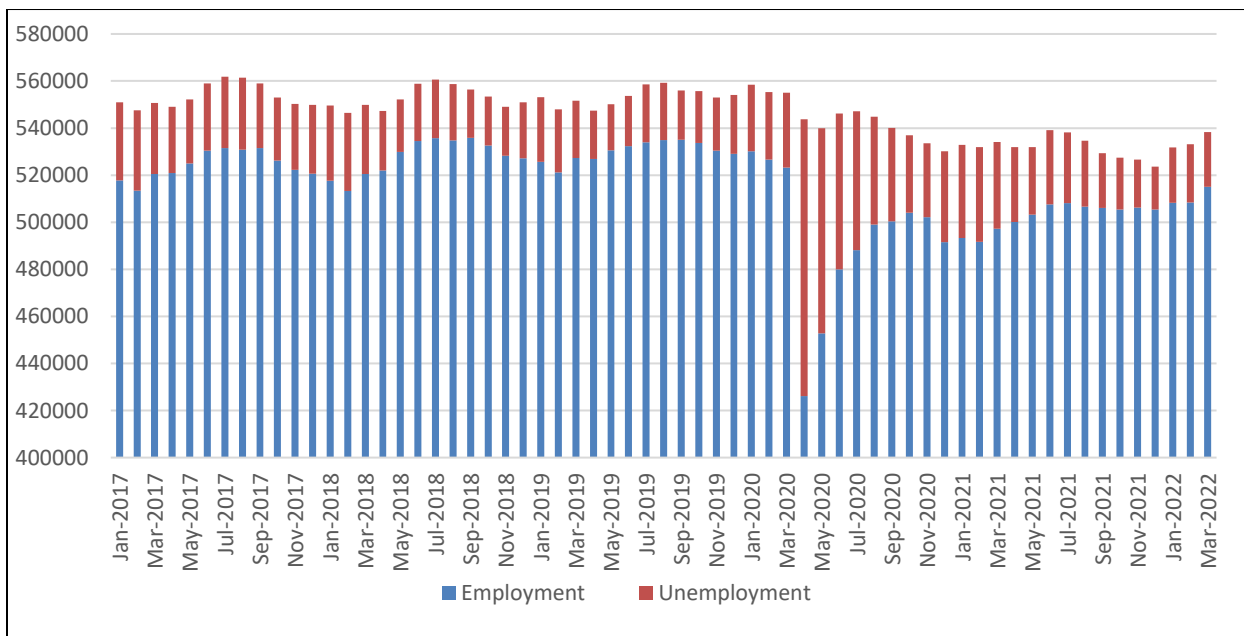


Figure 7. Labor Force in the Buffalo MSA: January 2017 – March 2022



https://www.bls.gov/eag/eag.ny_buffalo_msa.htm

Table 3. Payroll Employment Buffalo MSA March 2019 – March 2022

	Mar-19	Mar-20	Mar-21	Mar-22
Total	560.5	554.8	512.4	531.0
Mining, Logging and Construction	18.7	18.6	18.0	19.4
Manufacturing	52.6	52.3	49.7	51.9
Wholesale Trade	20.9	21.4	19.4	19.4
Retail Trade	58.6	57.6	55.3	57.8
Transportation and Utilities	18.7	19.0	19.9	20.9
Information	7.0	6.5	5.6	5.8
Financial Activities	36.4	36.6	33.7	34.7
Professional, Scientific, Technical Services	29.1	28.7	26.9	27.2
Management of Companies	15.1	15.1	13.3	13.7
Admin, Support, Waste	27.0	26.5	25.8	26.2
Education	20.6	20.6	19.0	19.0
Health and Social Assistance	80.8	80.0	74.6	75.5
Leisure and Hospitality	58.4	55.4	42.5	52.2
Other Services	25.7	25.2	22.3	23.9
Federal Government	9.3	9.6	9.8	9.7
State Government	22.3	22.5	21.5	20.6
Local Government	59.3	59.2	55.1	53.1

Table 3 shows employment data from the Current Employment Survey in March of the last four years. The employment level in March 2022 was still 29,500 lower than in March 2019. More than a third of the jobs still missing from the local economy are in health care and social assistance and in local government. The remainder are somewhat evenly spread across the remainder of the industries, indicating that the remaining needs in the local labor market may be economy-wide, as opposed to industry-specific.

One possible explanation of the slowness seen in the recovery of payroll jobs is a shortage of labor. Figure 8 shows the local payroll employment versus the resident employment. Whereas the payroll employment was down 29,500 jobs between March 2019 and March 2022, the number of residents employed was down only 12,150. This information indicates that the labor shortages may result from fewer individuals in the local area willing to take multiple jobs, fewer individuals traveling from outside the Buffalo MSA into it for work, more individuals being self-employed, and/or more individuals working remotely in Buffalo for companies outside of the Buffalo area. That, on top of retirements (either early or otherwise) and other exits from the labor force because of the increasing costs of childcare, could explain the remaining gap in the number of payroll jobs locally.

**Figure 8. Payroll vs. Resident Employment in Buffalo MSA:
January 2017 – March 2022**

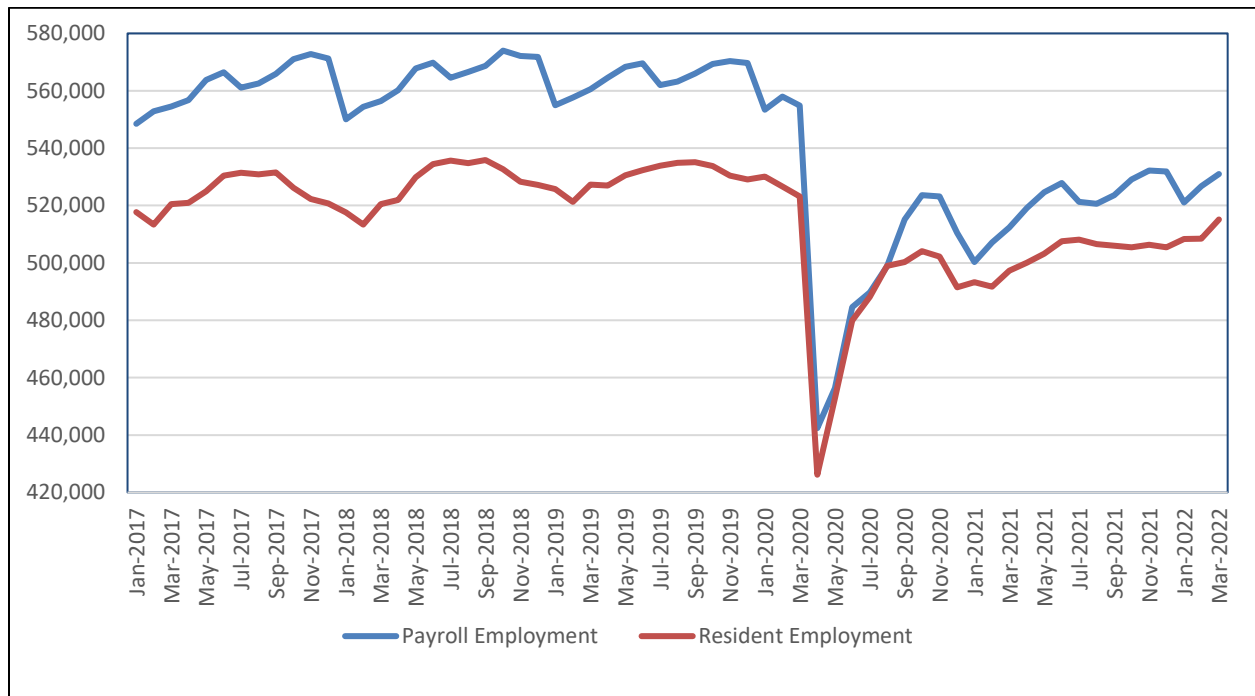
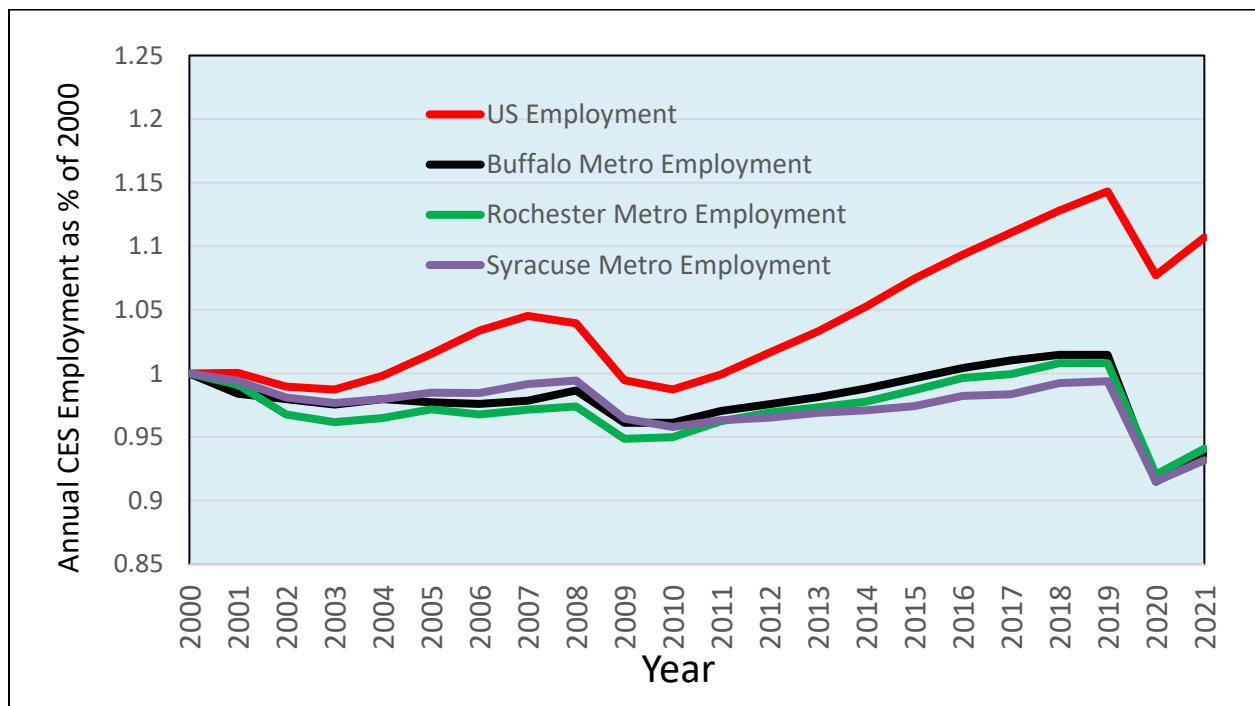


Figure 9. Annual Non-farm Employment as Percent of 2000 Level



Using CES payroll employment, Figure 9 shows the absolute and relative decline of the upstate metropolitan areas over the last two decades, as well as how they have been affected by the Covid recession of 2020. Annual employment has been indexed to the level of total employment in the year 2000 for the three upstate MSAs and the United States. Through observation it is apparent that the MSAs generally follow the changes in the national rates, though from 2003 forward, national growth following recessions consistently exceed local rates of growth. Declines follow national declines, but the nation has been growing faster, and the rate of the disparity has been increasing. With only one data point following the Covid recession, it is hard to determine if anything will change in the future.

Table 4 shows the trend in population and employment in the U.S. and the three upstate MSAs we have followed over the years. In all cases, the national population and employment grew more rapidly over the period from 2000 to 2020 than the metropolitan areas. The Rochester and Syracuse MSAs showed modest growth, while Buffalo was essentially stagnant over the period. Since 1950, New York State metropolitan areas have been statistically based on a consistent, though not constant measure of economically integrated counties.

After the 2000 decennial census, Genesee County was added to the Rochester MSA, though it was removed after the 2010 census; the same year Yates County was added. Similarly, Cayuga County was added to the Syracuse MSA after 2000 and removed after the 2010 census. Cayuga County became part of the Auburn micropolitan area and Genesee County is the Batavia micropolitan area. Thus, for consistency, the arc between 2000 and 2020 is reported in Table 4.

<https://www.census.gov/geographies/reference-files/time-series/demo/metro-micro/historical-delineation-files.html>

Erie and Niagara Counties have delineated the Buffalo metropolitan area since 1950. This is important because it helps to clarify our concept of Buffalo as an MSA with its international component missing. Never has the impact of this been felt more keenly than during the border closure that commenced in March of 2020.

Table 4. Census Year Population and CES Employment: 2000 – 2020

Census Population	2020	2010	2000	2020 as % of 2000 pop.
United States	331,501,080	308,745,538	281,421,906	118%
Buffalo MSA	1,165,506	1,135,509	1,170,111	~100%
Rochester MSA	1,088,776	1,079,671	1,037,831	105%
Syracuse MSA	660,894	662,577	650,154	102%
CES Payroll Employment	2020	2010	2000	2020 as % of 2000 emp.
United States	142,186	130,345	132,011	108%
Buffalo MSA	509.2	535.0	556.6	91%
Rochester MSA	492.8	508.5	535.4	92%
Syracuse MSA	295.0	308.8	322.4	92%

The long-term decline in total employment in the upstate metropolitan areas has been discussed in many previous editions of this newsletter, but in sum we feel that an 18% gap in population growth between Buffalo and the rest of the country is not inconsistent with a 17% gap in the growth of total employment.

The Covid induced recession had effects in the local labor market area (MSA) that differ from the rest of the nation. Based on *Quarterly Census of Employment and Wages (QCEW)* <https://www.bls.gov/cew/>, Tables 5a – 5c provide insight on the differential impact of this recession on the number of establishments, the level of employment and an annualized average of the earnings per worker by industry sector. The data is based on required reports about employees covered by unemployment insurance. It is comprehensive, complete, and more accurate than survey-based data.

Table 5a. Effects of Pandemic on the Number of Establishments in the Buffalo MSA and the Nation: 3rd Quarter 2019 to 3rd Quarter 2021

QCEW Establishments by Industry	2019 3rd Quarter	2019 3rd Quarter	2021 3rd Quarter	2021 3rd Quarter	2019 to 2021 Percent change	
	U.S.	Buffalo	U.S.	Buffalo	U.S.	Buffalo
Total Covered, all industries	10,275,524	29,480	11,021,414	29,406	7.3%	-0.3%
Total federal gov't all industries	61,227	145	61,382	150	0.3%	3.4%
Total state gov't, all industries	70,316	216	70,336	220	0.0%	1.9%
Total local gov't, all industries	171,171	464	171,315	464	0.1%	0.0%
Total private, all industries	9,972,810	28,655	10,718,381	28,572	7.5%	-0.3%
Goods-producing	1,331,507	4,034	1,391,880	4,146	4.5%	2.8%
Natural resources and mining	140,137	164	141,586	186	1.0%	13.4%
Construction	835,414	2,571	881,666	2,677	5.5%	4.1%
Manufacturing	355,956	1,299	368,628	1,283	3.6%	-1.2%
Service-providing	8,641,303	24,621	9,326,501	24,426	7.9%	-0.8%
Trade, transportation, and utilities	1,943,181	5,975	1,994,651	5,795	2.6%	-3.0%
Information	186,163	318	229,505	346	23.3%	8.8%
Financial activities	916,789	2,343	991,824	2,318	8.2%	-1.1%
Professional and business services	1,914,115	5,144	2,143,056	5,099	12.0%	-0.9%
Education and health services	1,775,055	3,423	1,939,224	3,369	9.2%	-1.6%
Leisure and hospitality	884,491	3,283	912,582	3,184	3.2%	-3.0%
Other services	865,181	3,053	848,599	2,904	-1.9%	-4.9%
Unclassified	156,328	1,082	267,060	1,411	70.8%	30.4%

Between 3rd quarter 2019 and the same quarter in 2021, the number of establishments in the nation grew by 7.3% while falling .3% in the Buffalo MSA. Of note, there was a 30.4% increase in the number of establishments that could not be classified in the Buffalo MSA and a 70.8% increase in the U.S., indicating a movement away from pre-pandemic norms.

Table 5b. Effects of Pandemic on QCEW Total Employment in the Buffalo MSA and the Nation: 3rd Quarter 2019 to 3rd Quarter 2021

QCEW Employment by Industry	Annualized 2019 3 rd Quarter	Annualized 2019 3 rd Quarter	Annualized 2021 3 rd Quarter	Annualized 2021 3 rd Quarter	Per Cent Change Annualized Employment	Per Cent Change Annualized Employment
	U.S.	Buffalo	U.S.	Buffalo	U.S.	Buffalo
Total Covered all industries	148,068,624	538,341	144,353,470	497,051	-2.5%	-7.7%
Total federal gov't all industries	2,848,293	9,378	2,891,550	9,702	1.5%	3.5%
Total state gov't all industries	4,632,349	20,179	4,537,147	18,577	-2.1%	-7.9%
Total local gov't all industries	13,297,604	47,310	12,915,694	43,603	-2.9%	-7.8%
Total private all industries	127,290,378	461,475	124,009,080	425,170	-2.6%	-7.9%
Goods-producing	22,575,230	76,970	21,809,604	73,492	-3.4%	-4.5%
Natural resources and mining	2,058,443	2,187	1,856,804	2,016	-9.8%	-7.8%
Construction	7,685,500	22,482	7,601,602	21,515	-1.1%	-4.3%
Manufacturing	12,831,287	52,302	12,351,198	49,961	-3.7%	-4.5%
Service-providing	104,715,148	384,504	102,199,475	351,679	-2.4%	-8.5%
Trade, transportation, and utilities	27,414,313	95,772	27,415,979	92,799	0.0%	-3.1%
Information	2,858,138	6,598	2,880,233	5,600	0.8%	-15.1%
Financial activities	8,382,459	35,625	8,409,242	32,274	0.3%	-9.4%
Professional and business services	21,391,610	69,313	21,392,857	63,029	0.0%	-9.1%
Education and health services	23,025,291	93,343	22,551,434	86,079	-2.1%	-7.8%
Leisure and hospitality	16,922,707	62,095	15,095,221	52,380	-10.8%	-15.6%
Other services	4,588,730	21,061	4,215,688	18,321	-8.1%	-13.0%
Unclassified	131,899	698	238,821	1,196	81.1%	71.5%

Total covered employment in all industries decreased by 2.5% and 7.7% in the nation and the MSA respectively. Only unclassified and federal government employment grew in the MSA, and with some very small exceptions, the same was true for the nation.

Table 5c. Effects of Pandemic on QCEW Wages per Worker in the Buffalo MSA and the Nation: 3rd Quarter 2019 to 3rd Quarter 2021

QCEW Earnings per Worker by Industry	Annualized 2019 3rd Quarter	Annualized 2019 3rd Quarter	Annualized 2021 3rd Quarter	Annualized 2021 3rd Quarter	Buffalo Wage per Worker as % of US Average 2019	Buffalo Wage per Worker as % of US Average 2021
	U.S.	Buffalo	U.S.	Buffalo	U.S.	Buffalo
Total Covered all industries	\$56,794	\$48,566	\$65,047	\$57,115	86%	88%
Total federal gov't all industries	\$83,123	\$79,001	\$84,355	\$77,016	95%	91%
Total state gov't all industries	\$63,675	\$73,085	\$70,093	\$104,230	115%	149%
Total local gov't all industries	\$52,220	\$49,461	\$58,022	\$55,609	95%	96%
Total private, all industries	\$56,432	\$46,784	\$65,144	\$54,757	83%	84%
Goods-producing	\$64,444	\$61,258	\$70,384	\$69,119	95%	98%
Natural resources and mining	\$57,804	\$40,242	\$58,665	\$42,186	70%	72%
Construction	\$63,609	\$58,227	\$68,670	\$65,048	92%	95%
Manufacturing	\$66,010	\$63,440	\$73,201	\$71,958	96%	98%
Service-providing	\$54,705	\$43,887	\$64,025	\$51,756	80%	81%
Trade, transportation, and utilities	\$48,039	\$40,241	\$55,112	\$46,970	84%	85%
Information	\$115,389	\$63,602	\$147,283	\$72,781	55%	49%
Financial activities	\$83,838	\$62,241	\$97,617	\$72,314	74%	74%
Professional and business services	\$73,730	\$57,744	\$85,177	\$67,195	78%	79%
Education and health services	\$51,778	\$45,714	\$58,596	\$53,775	88%	92%
Leisure and hospitality	\$24,900	\$23,669	\$28,781	\$29,585	95%	103%
Other services	\$39,442	\$29,513	\$45,748	\$34,985	75%	76%
Unclassified	\$54,000	\$32,885	\$68,582	\$38,773	61%	57%

Over the Covid recession, average earnings per worker in the Buffalo MSA increased from 86% to 88% of the U.S. average. Notably, state government workers earned 115% more than their counterparts across the country in 2019. Over the recession, their earnings increased to 149% of the national average. While the composition of employment may explain the initial differences, it is difficult to conclude anything other than that higher earning state employees kept their jobs and their salaries, while lower paid state workers lost theirs.

NATIONAL, STATE & LOCAL BUSINESS INDICATORS					
					% change
NATIONAL INDICATORS					2021:I -
	2021:I	2021:III	2021:IV	2022:I	2022:I
Real GDP (billions of chained 2012\$) (1)(a)	19,055.7	19,478.9	19,806.3	19,735.9	3.6
US Personal Income (billions of \$) (1)(a)	21,867.3	20,823.8	20,947.7	21,215.6	-3.0
					% change
					Mar-21 -
	Mar-21	Jan-22	Feb-22	Mar-22	Mar-22
Annual CPI Inflation Rate (%) (2)	2.62	7.48	7.87	8.54	5.92
Exchange Rate Canadian cents/US \$ (3)(b)	125.64	127.08	126.76	125.05	0.89
10 Year Treasury Note Yield (%) (3)(b)	1.75	1.78	1.83	2.43	0.08
3 Month Treasury Bill Yield (%) (3)(b)	0.02	0.23	0.68	0.52	0.67
S&P 500 Stock Index (3)(b)	3,972.89	4,515.55	4,373.94	4,530.41	14.03
Dow-Jones Industrial Average (3)(b)	32,981.55	35,131.86	33,892.60	34,678.35	5.14
LABOR MARKET TRENDS (2)					
Nonag Civilian Employment					
US (1000's)(a)	144,431	149,744	150,458	150,886	4.47
Change from previous month	704	504	714	428	
NY State (1000's)(a)*	8,919.1	9,313.9	9,347.1	9,375.2	5.11
WNY (1000's)(a)*	518.9	532.2	534.7	537.3	3.55
Unemployment Rate (%)					
US (a)	6.0	4.0	3.8	3.6	-2.4
NY State(a)	7.9	5.3	4.9	4.6	-3.3
WNY	6.9	4.4	4.6		-6.9
Ave. Weekly Hours in Mfg. US (a)	41.7	41.2	41.6	41.5	-0.2
Ave. Weekly. Earnings in Mfg. US (\$) (a)	975.78	1,009.81	1,021.70	1,025.47	5.09
US Private Employment (1000's)(a)	122,572	127,591	128,295	128,719	5.02
WNY EMPLOYMENT BY SECTOR					
Mining, Logging & Construction	18.0	19.6	19.3	19.4	7.78
Manufacturing	49.7	50.7	51.3	51.9	4.43
Trade, Transportation & Utilities	94.6	98.3	98.0	98.1	3.70
Durable Goods	30.0	30.9	31.0	31.3	4.33
Finance Activities	33.7	34.0	34.7	34.7	2.97
Government	86.4	82.1	83.4	83.4	-3.47
(1) US Dept. of Commerce	(a) Seasonally Adjusted				
(2) US Dept. of Labor	(b) End of month data				
(3) Wall Street Journal					