Western New York ECONOMIC NEWS
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https://www.canisius.edu/academics/programs/economics/economics-wny-economic-news

Volume 25, Number 3 September 2022

There are mixed signals as to whether the national economy is in recession. The standard statement about what constitutes recession is two consecutive quarters of negative or zero real GDP growth. While GDP has contracted during the first two quarters of 2022, payroll employment continues to grow. We will have to wait until the official designator of economic turning points, the NBER, makes its call.

Extraordinary events over the last 12 months have caused the Fed to reverse its accommodative monetary policy, which had supported a relatively quick recovery from the Covid-19 induced recession. The inflationary consequences of aggressive monetary and fiscal policies, interacting with increased input costs related to global supply chain interruptions, resulted in an 8.3% increase in the CPI measure of the price level from August 2021 through August 2022. Over the year, the two-year treasury rate increased from .21 to 4.111%. The extent to which this move by the Fed will control inflation and derail the post-recession recovery of income and employment remains to be seen.

Regionally, the Buffalo MSA did not lead the nation into this pandemic related recession, though currently it has recovered employment at a lower rate than New York State and the rest of the nation. This is consistent with the pattern that has held over the last 40 years. While unemployment rates have fallen substantially since August 2020, the number of employed residents were 8,100 fewer than in August 2019.

The National Economic Outlook

Is the US economy in recession? One definition of recession is two consecutive quarters of negative or zero real GDP growth. By this definition, the US economy entered recession during the first quarter of 2022. Real GDP growth declined by 1.6% during 2022:Q1 while the second estimate of GDP growth during 2022:Q2 was -0.6. Another series that can be used as an indicator of the state of the national economy is Gross Domestic Income (GDI). The basic macroeconomic principle is that GDP can be measured via the expenditure approach where GDP is the sum of personal consumption expenditures, gross private domestic investment, government expenditures and investment, and net exports. Theoretically, the sum of expenditures on finished goods and services should equal the sum of incomes earned from the production of final goods and services (wages, profits, rent and interest).

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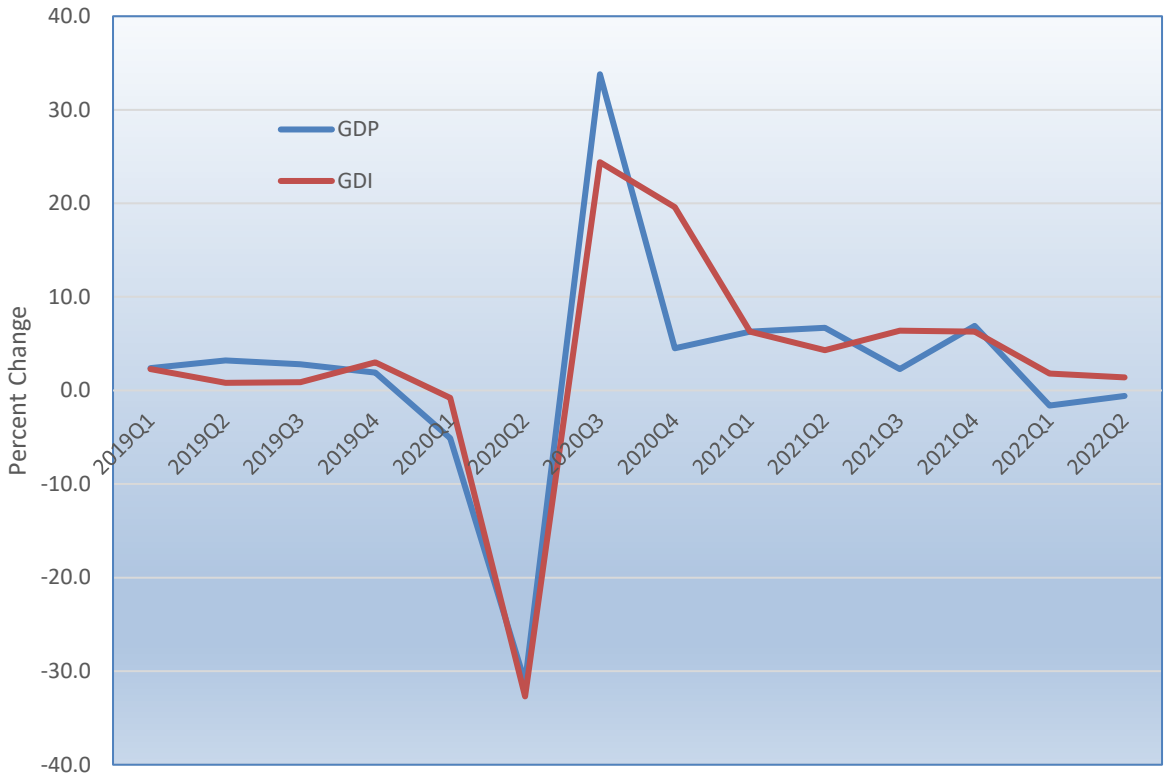
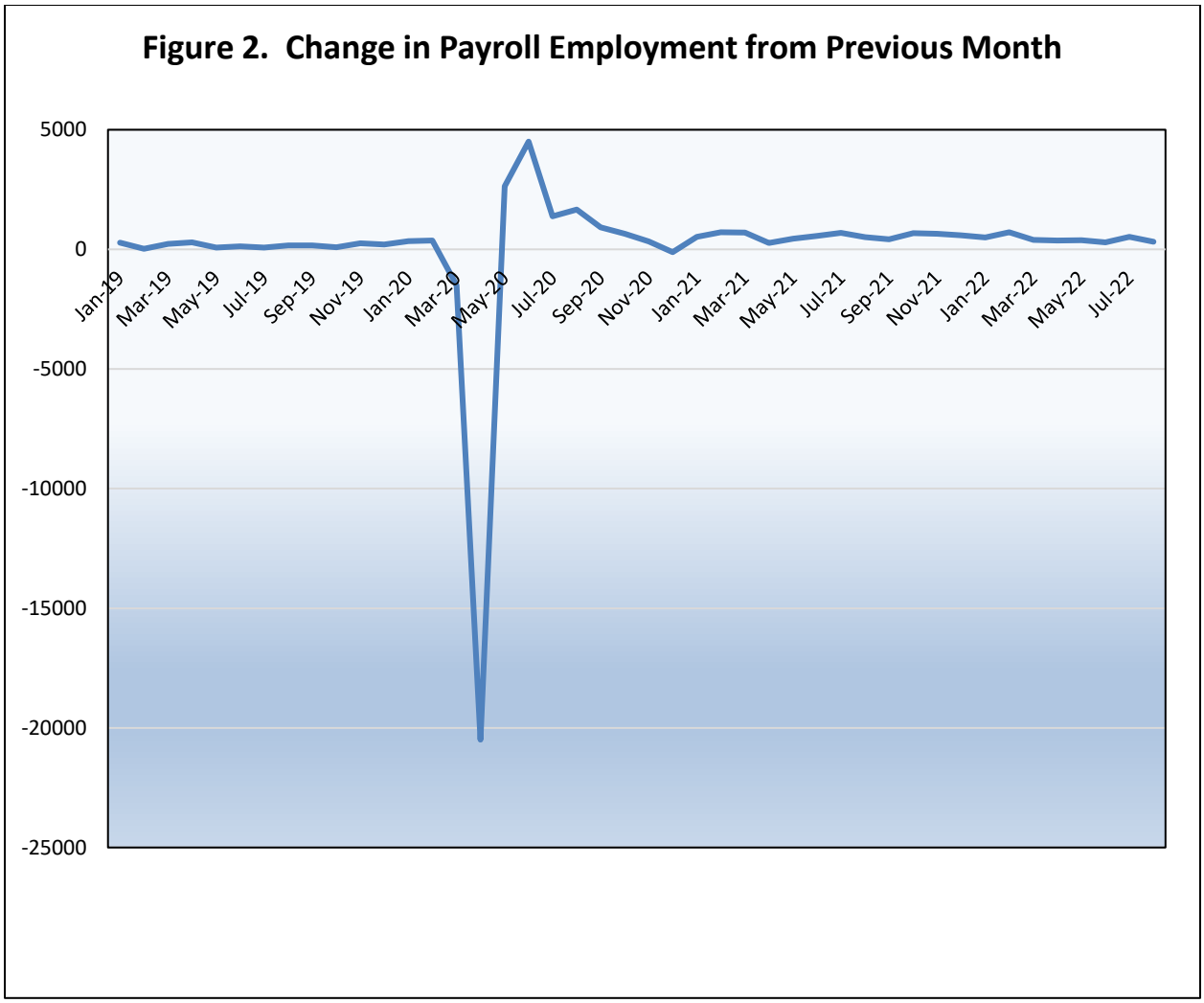
During the first two quarters of 2022, real GDI growth amounted to 1.8% and 1.4% respectively. Although the trends in GDI and GDP growth are similar, close inspection of these two series show discrepancies during 2022. The growth rates of real GDP and real GDI since 2019:Q1 are shown in Figure 1 [www.bea.gov]. The annual update to the GDP and GDI data is scheduled for the end of September.

Figure 1. Percent Change in Real GDP & GDI: 2019Q1-2022Q2



Another approach in determining whether the economy is in recession is to examine payroll employment. Generally, if the economy is in recession, firms would be laying off workers and payroll employment would decline. This has not been the case during the first two quarters of 2022. The change in US payroll employment from the previous month over the period January 2019 to August 2022 is shown in Figure 2. Since January 2022, payrolls have increased between 293,000 and 714,000 workers per month. This does not typically occur during recessions.



A major concern for the US economy has been the acceleration in the rate of inflation and the Fed's policy response. The 12-month rates of change in the Consumer Price Index (CPI) and the Personal Consumption Expenditure deflator (PCE) since 2014 are shown in Figure 3. The acceleration of inflation that began in June 2020 when inflation was running at approximately one-half of one percent peaked in June 2022 at 9.1% for the CPI and 6.8% for the PCE. In July and August 2022, CPI inflation has moderately abated. The August 2022 CPI inflation rate was 8.3%.

Figure 3. CPI & PCE Inflation Rates 2014-2022
(12 Month % Change)

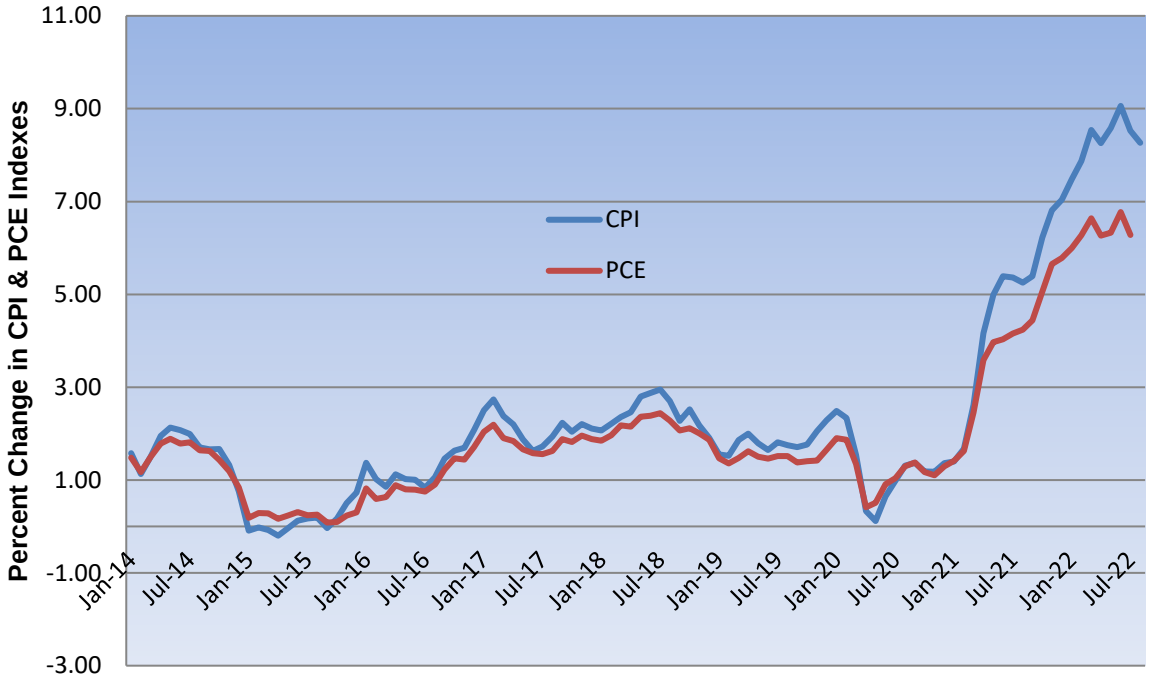


Figure 4 shows CPI inflation for some of the major expenditure categories for US consumers. Inflation in energy prices obviously stands out, as it exceeds that of each of the other categories by a substantial amount. In 2021, this was largely driven by the increase in demand associated with the reopening of the economy, and the increase was off a relatively low base during the height of the pandemic in 2020. In 2022, much of the increase was driven by the Russian war on Ukraine and the response of much of the rest of the world denying imports from Russia. Although food and beverages and rent showed lower inflation rates than energy, they were quite high historically and contributed a substantial amount to headline CPI inflation.

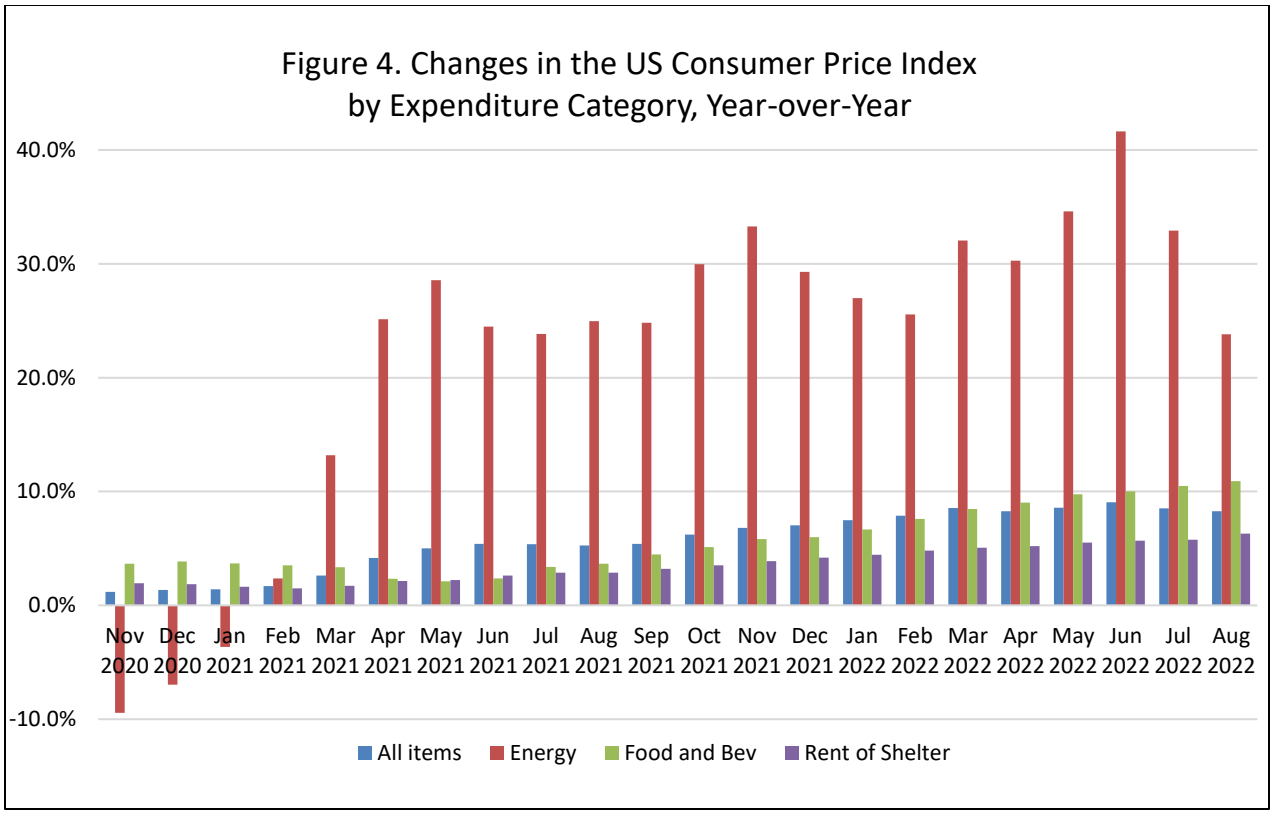
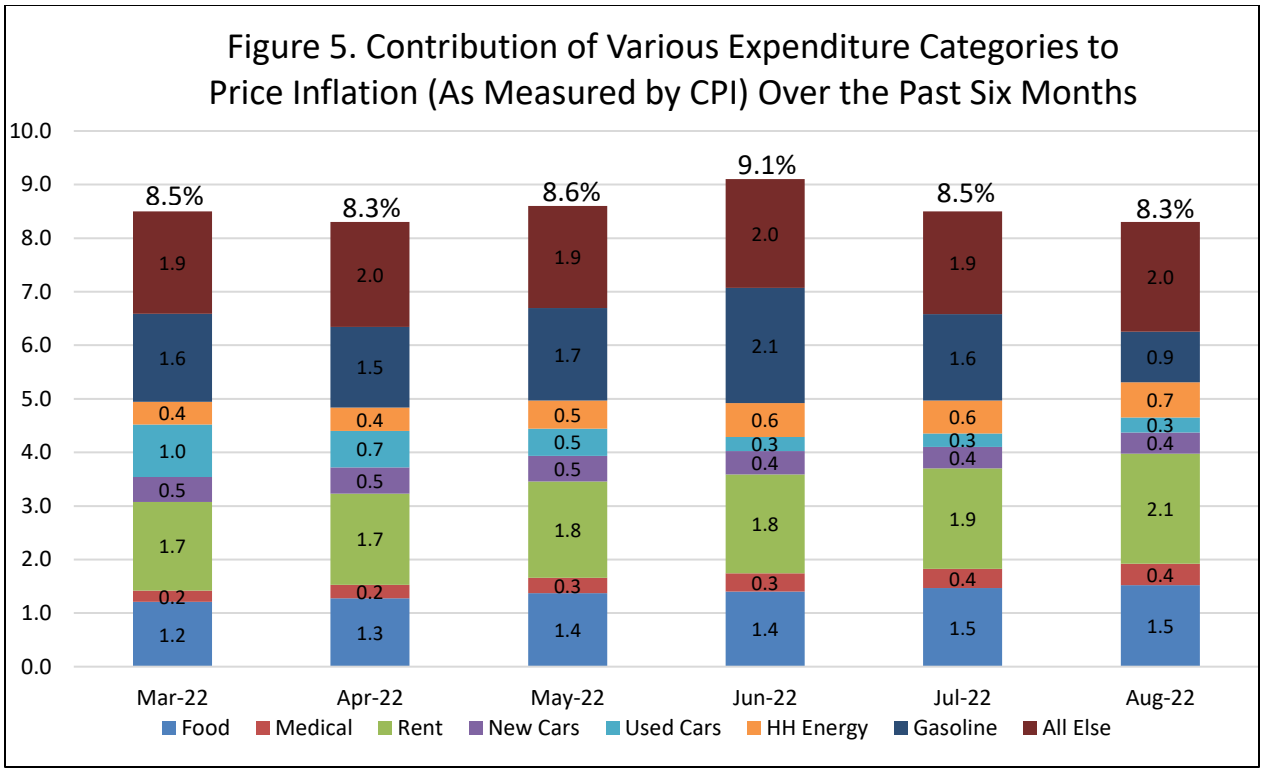


Figure 5 separates the CPI inflation rate into various expenditure categories for each of the most recent 6 months. While through the pandemic and through the early months of 2022, inflation in the prices of new and used cars contributed a sizeable amount to overall inflation, this impact has eased in the second quarter of 2022 and thereafter. Energy, rent, and food consistently explained the majority of the CPI inflation, with rent and food showing growth in inflation rates each month. July was the first month we saw a slowdown in the growth rate of energy prices, which explained the entire drop in inflation experienced between June and July. The continued rise in the prices of food and shelter has led to a persistent increase in inflation rates, even through August 2022. Of course, energy prices affect the prices of virtually all other expenditure categories. So, the drop in the growth rate of energy prices is expected to be seen in the other categories in coming months.

A major concern is that if inflation expectations become unanchored, this could lead to continued inflation that is difficult to bring down without a Fed policy induced recession. Typically, the Fed attempts to slow the economy down by raising federal funds target rates. Since March 2022 when the fed funds target was in the range of 25 to 50 basis points, the FOMC raised their target by 50 basis points in May 2022, and by 75 bp in June and again by 75 bp in July 2022. The widely expected increase 75 bp increase occurred at the FOMC's meeting near the end of September. The short-term interest rate increments by the Fed have led to a significant rise in mortgage rates and a cooling off in the housing market. Average interest rates on 30-year fixed rate mortgages are presently at 6.3% according to the *Wall Street Journal* website.



As we have mentioned in previous editions of this newsletter, expansionary monetary policy actions of the Federal Reserve, the aggressive federal expenditure bills passed by Congress, oil price shocks, the mismatch between supply and demand in the housing market, and the supply chain disruptions that have followed the pandemic have all contributed to the recent price inflation. In our view, the Inflation Reduction Act of 2022 will have mixed effects on current and future inflation, as federal expenditure increases and cost containment measures take effect.

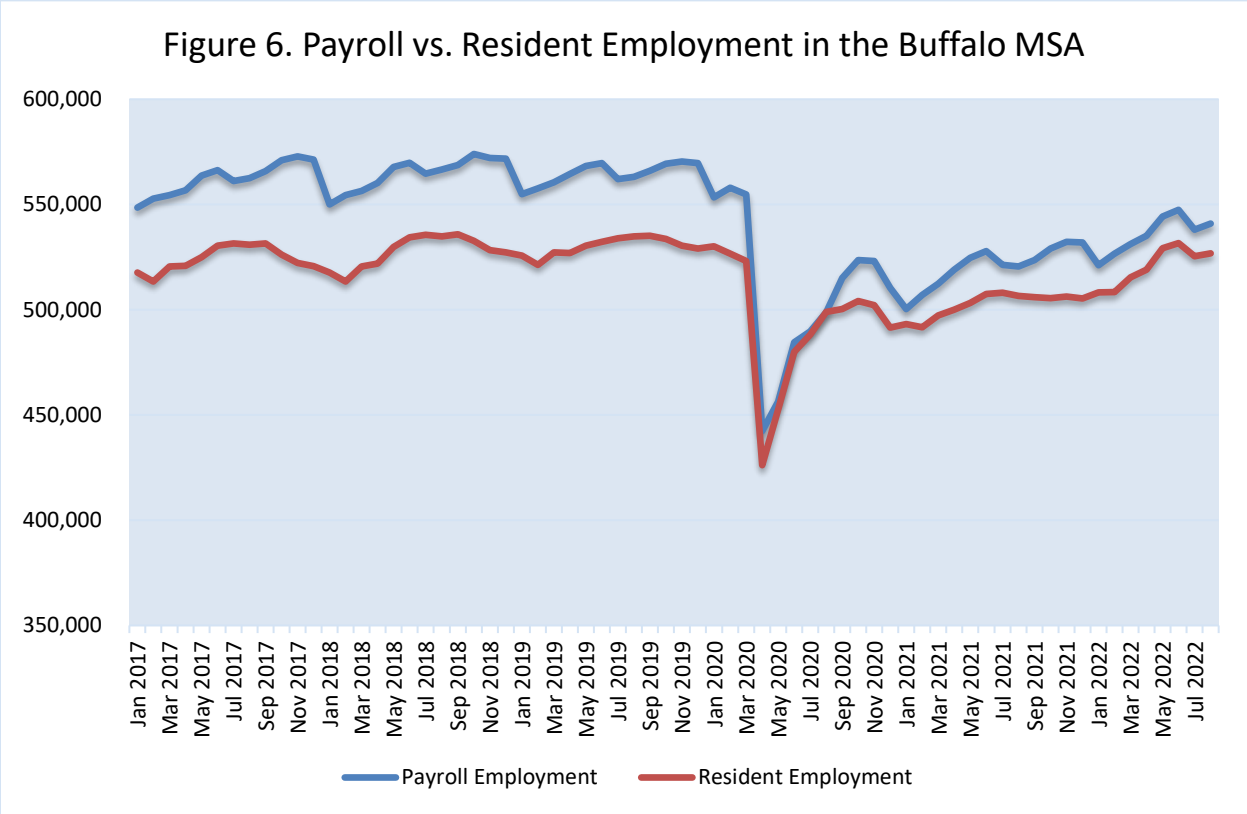
Until recently, the Fed thought the accelerating inflation rate was a transitory phenomenon. They have obviously changed their mind. The Fed's plan is to allow a monthly runoff of $60 billion of U.S. Treasury securities and $35 billion of mortgage-backed securities [www.federalreserve.gov] beginning in September 2022. This is a major reversal of their policies over the period February 2020 to April 2022, when the Fed increased its holdings of Treasury securities by $3.3 trillion and their holdings of mortgage-backed securities by $1.3 trillion. This change may be too little too late.

The high rates of inflation can be partially explained by a tight labor market that drove wages up. The labor market remains tight even as the Federal Reserve has pursued a quantitative tightening policy. The Fed increases interest rates to slow economic growth such that price inflation falls. Historically, the slower economic growth that results from increasing interest rates has resulted in increases in the unemployment rate. However, we have not yet seen this effect, and the impact on the labor market may be muted by the mismatch between labor supply and demand in recent months.

The Economic Outlook for the Buffalo Region

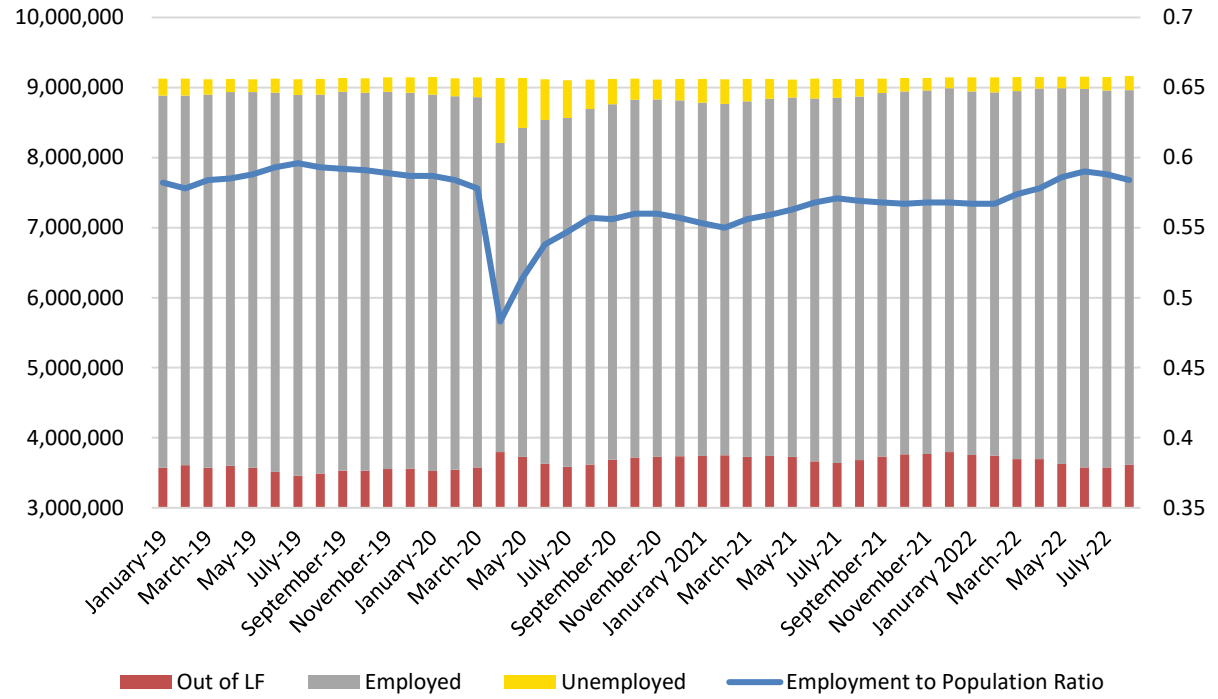
Locally, the market remains very tight. As we have noted in several previous editions of the newsletter, while the number of payroll jobs remains far below the pre-pandemic level, the

number of employed residents is much closer to that in 2019. Figure 6 shows those dynamics. In August 2022, the Buffalo MSA had 22,300 fewer jobs than in August 2019. Over that same period, there were 8,100 fewer employed residents.



To further understand the dynamics in the labor market, Figure 7 shows the make-up of the population age 16 and over in the balance of state (New York State excluding New York City). Since estimates of the population at the local level are largely not available on a monthly basis, except for New York City, a remainder of the state population can be determined by subtracting New York City estimates from estimates for the entire state. An examination of Figure 7 shows that the population 16 and over has not seen much change in the last three and a half years, increasing approximately 39 thousand between August 2019 and August 2022. The number who are out of the labor force (not working or actively seeking work) increased about 3.5 percent over that period, while the number of residents employed decreased by just over 1 percent. That figure looks roughly consistent with the estimates in the Buffalo MSA. So, it appears that the tightness in the labor market is not a result of a shrinking population, but rather shifts in the labor market, resulting from retirements, remote work arrangements, more self-employed individuals, and so on.

Figure 7. Make-up of the Population Age 16 and Over in the Balance of State (New York State minus New York City)



https://statistics.labor.ny.gov/laus.asp

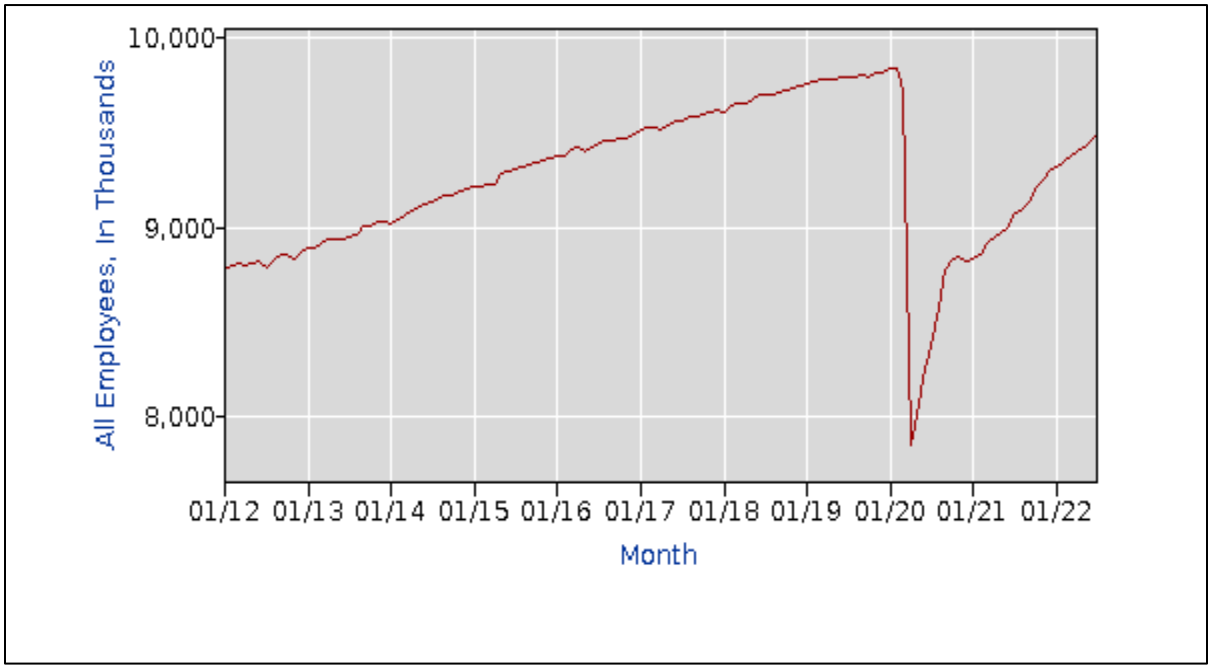
Seasonally adjusted payroll employment from the *Current Employment Statistics* (CES)* presented in Figure 8a and Table 1a show the recovery from the 2020 employment disaster in New York State through August 2022. Year over year comparisons between 2021 and 2022 indicate growth rates averaged about 5% from January through August. Inspection of the percentage changes from 2019 to 2022 reveals a different story for New York State. The change in monthly state employment over the three-year period were consistently negative, though they decline from -4.5% in January to -2.9% in August.

Table 1a. Year over Year % Change in Employment New York State

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
2021-22	5.5%	5.5%	5.1%	5.0%	5.0%	5.0%	4.6%	4.7%
2019-22	-4.5%	-4.3%	-4.2%	-3.9%	-3.7%	-3.5%	-3.1%	-2.9%

* A discussion of CES data can be found at **https://data.bls.gov/pdq/SurveyOutputServlet**

Figure 8a. NYS Non-Agricultural Employment: Seasonally Adjusted (2012-2022)



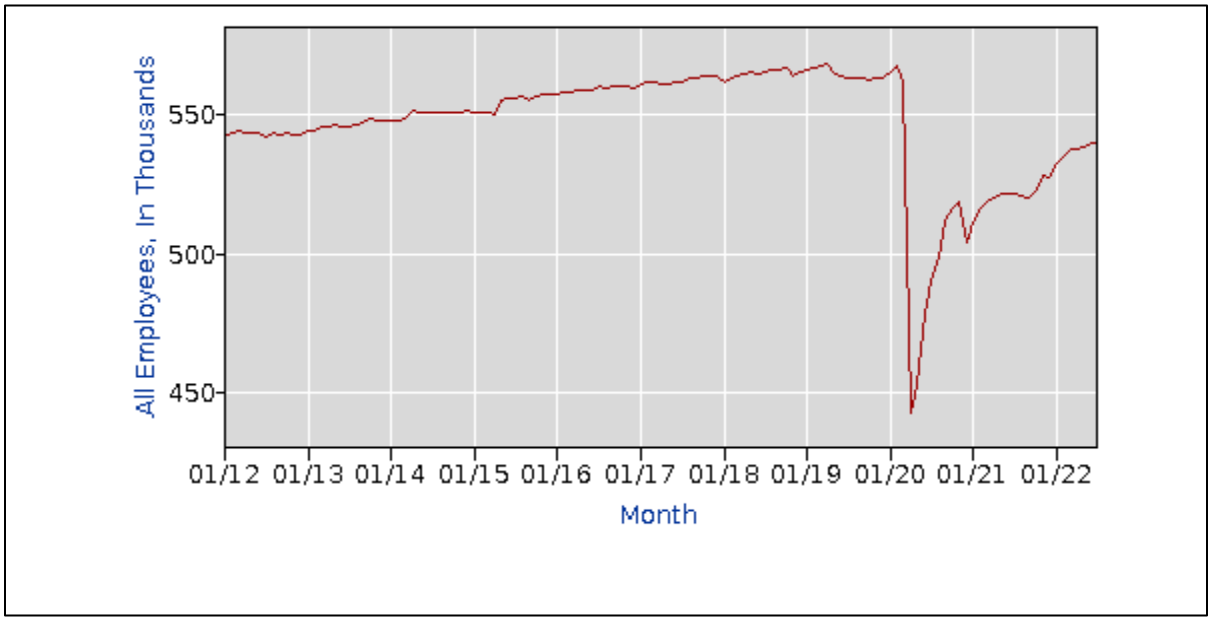
https://www.bls.gov/sae/data/

Seasonally adjusted *Current Employment Statistics* (CES) data presented in Figure 8b and Table 1b, for the Buffalo MSA reveal similar job destruction and recovery to that which occurred for New York State. Year over year comparisons between 2021 and 2022 indicate growth rates between 3 and 4% from January through August. As was the case for New York State, the percentage changes from 2019 to 2022 reveals a different story for the Buffalo MSA. The change in monthly MSA employment over the three-year period from January 2019 to August 2022 were consistently negative, though they declined from -6.0% in January to -4.0% in August. Thus, it appears once again that the Buffalo MSA declined further during the COVID recession and is recovering less fully than New York State as a whole.

Table 1b. Year over Year % Change in Employment Buffalo MSA

Year	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**
2021-22	4.0%	3.6%	3.6%	3.4%	3.3%	3.4%	3.5%	3.7%
2019-22	-6.0%	-5.6%	-5.2%	-5.4%	-4.6%	-4.3%	-4.1%	-4.0%

Figure 8b. WNY Non-Agricultural Employment: Seasonally Adjusted (2012-2022)



https://www.bls.gov/sae/data/

The QCEW** based annual employment and annual pay data for the Buffalo MSA, and for the U.S. in 2019 and 2021 are presented in Tables 2 through 4. They reveal that Buffalo fell farther than the nation in terms of employment loss between 2019 and 2021. The MSA lost 7.9% of its total employment compared to 2.9% for the nation. This is consistent with the CES based comparison of New York State and the Buffalo MSA above. On a more positive note, the QCEW data reveals that from the first quarter of 2021 to the first quarter of 2022, Buffalo's total employment grew faster than the U.S. average, 7.7% compared to 6.7%.

Average annual earnings per worker, however, remain below the national average, $55,756 compared to $67,610. The ratio of average earnings per worker ranges from 147.7% of the national average for New York State government workers, to 51% for employees in the leisure and hospitality industry. These relationships are little different from the pre-pandemic levels.

Table 2. U.S. Employment and Earnings by Industry: 2019-21

Industry	Average Annual Employment 2019	Average Annual Pay ($) 2019	Average Annual Employment 2021	Average Annual Pay ($) 2021
Total, all industries	148,105,092	$ 59,209	143,780,068	$67,610
Total, Federal Government	2,824,154	$84,310	2,883,380	$89,205
Total, State Government	4,666,127	$62,830	4,539,633	$68,835
Total, Local Government	14,256,068	$53,112	13,640,403	$58,870
Total Private all industries	126,358,743	$59,202	122,716,652	$68,029
Goods-producing	22,165,887	$67,503	21,483,469	$73,020
Natural resources & mining	1,938,254	$61,862	1,760,905	$61,478
Construction	7,451,476	$64,826	7,419,907	$69,855
Manufacturing	12,776,157	$69,920	12,302,657	$76,580
Service-providing	104,192,857	$57,436	101,233,184	$66,970
Trade, transportation & utilities	27,527,288	$49,298	27,545,755	$55,728
Information	2,849,185	$119,605	2,838,427	$152,651
Financial activities	8,319,844	$98,516	8,369,185	$115,238
Professional & business services	21,233,982	$78,385	21,300,970	$90,064
Education & health services	23,121,291	$51,902	22,699,817	$58,119
Leisure & hospitality	16,457,253	$25,081	14,135,511	$28,541
Other services	4,553,161	$39,922	4,149,858	$46,122
Unclassified	130,853	$60,864	193,660	$73,159

** A discussion of QCEW data can be found at
QCEW Data Files : U.S. Bureau of Labor Statistics (bls.gov)

Table 3. Buffalo MSA Employment and Earnings by Industry: 2019-21

Industry	**Average Annual Employment 2019**	**Average Annual Pay ($) 2019**	**Average Annual Employment 2021**	**Average Annual Pay ($) 2021**
Total, all industries	544,123	$50,912	501,342	$55,756
Total, Federal Government	9,391	$79,265	9,725	$80,305
Total, State Government	20,285	$74,375	18,790	$75,573
Total, Local Government	55,877	$56,165	52,159	$60,596
Total Private all industries	458,570	$48,653	420,669	$53,587
Goods-producing	74,259	$64,985	71,423	$67,375
Natural resources & mining	1,745	$40,622	1,714	$42,578
Construction	20,489	$59,800	19,847	$64,446
Manufacturing	52,025	$67,844	49,862	$69,380
Service-providing	384,312	$45,497	349,246	$50,776
Trade, transportation & utilities	96,943	$40,331	94,019	$45,122
Information	6,651	$67,014	5,559	$73,858
Financial activities	35,555	$67,313	32,249	$72,467
Professional & business services	68,357	$61,021	62,547	$64,760
Education & health services	95,273	$45,918	87,787	$50,038
Leisure & hospitality	59,967	$25,882	47,951	$30,325
Other services	20,952	$29,367	18,136	$32,574
Unclassified	614	$37,331	999	$45,816

Table 4. U.S. vs Buffalo MSA Employment and Earnings by Industry: 2019-22

Industry	U. S. % Change in Total Employment 2019 - 2021	Buffalo MSA % Change in Total Employment 2019 - 2021	U. S. % Change Employment Q1:2021 to Q1:2022	Buffalo MSA % Change Employment Q1:2021 to 2022	Buffalo MSA Earnings per worker Q1:2022 as % of US
Total, all industries	-2.9%	-7.9%	6.7%	7.7%	83.4%
Total, Federal Government	2.1%	3.6%	3.7%	3.2%	92.2%
Total, State Government	-2.7%	-7.4%	6.7%	35.0%	147.7%
Total, Local Government	-4.3%	-6.7%	4.4%	4.4%	100.6%
Total Private all industries	-2.9%	-8.3%	6.9%	6.8%	79.0%
Goods-producing	-3.1%	-3.8%	7.2%	6.3%	96.4%
Natural resources & mining	-9.1%	-1.8%	11.8%	10.2%	59.3%
Construction	-0.4%	-3.1%	5.6%	2.7%	93.6%
Manufacturing	-3.7%	-4.2%	7.6%	7.3%	95.3%
Service-providing	-2.8%	-9.1%	6.9%	6.9%	75.3%
Trade, transportation & utilities	0.1%	-3.0%	9.6%	11.1%	80.7%
Information	-0.4%	-16.4%	-1.3%	3.5%	52.8%
Financial activities	0.6%	-9.3%	7.8%	12.8%	61.6%
Professional & business services	0.3%	-8.5%	8.2%	7.3%	120%
Education & health services	-1.8%	-7.9%	7.0%	7.7%	90%
Leisure & hospitality	-14.1%	-20.0%	12.8%	1.5%	51%
Other services	-8.9%	-13.4%	6.0%	12.6%	58%
Unclassified	48.0%	62.7%	6.7%	-1.9%	73%

NATIONAL, STATE & LOCAL BUSINESS INDICATORS

NATIONAL INDICATORS	2021:II	2021:IV	2022:I	2022:II	% change 2021:II - 2022:II
Real GDP (billions of chained 2012$) (1)(a)	19,368.3	19,806.3	19,727.9	19,681.7	1.6
US Personal Income (billions of $) (1)(a)	20,669.9	21,010.0	21,257.2	21,611.0	4.6
	Aug-21	Jun-22	Jul-22	Aug-22	% change Aug-21 - Aug-22
Annual CPI Inflation Rate (%) (2)	5.25	9.06	8.52	8.26	3.01
Exchange Rate Canadian cents/US $ (3)(b)	126.15	128.73	127.96	131.29	1.43
10 Year Treasury Note Yield (%)(3)(b)	1.31	3.01	2.65	3.19	1.34
3 Month Treasury Bill Yield (%)(3)(b)	0.04	1.67	2.38	2.93	2.33
S&P 500 Stock Index (3)(b)	4,522.68	3,785.38	4,130.29	3,955.00	-12.55
Dow-Jones Industrial Average (3)(b)	35,360.73	30,775.43	32,845.13	31,510.43	-10.89
LABOR MARKET TRENDS (2)					
Nonag Civilian Employment					
US (1000's)(a)	146,904	151,903	152,429	152,744	3.98
Change from previous month	517	293	526	315	
NY State (1000's)(a)*	9,091.4	9,453.1	9,492.3		4.41
WNY (1000's)(a)*	521.0	539.5	539.7		3.59
Unemployment Rate (%)					
US (a)	5.2	3.6	3.5	3.7	-1.5
NY State(a)*	6.6	4.4	4.4		-2.2
WNY*	5.3	3.6	4.0		-1.3
Ave. Weekly Hours in Mfg. US (a)	41.4	41.0	41.1	40.9	-0.5
Ave. Weekly. Earnings in Mfg. US ($)(a)	994.84	1,023.36	1,029.97	1,027.82	3.32
US Private Employment (1000's)(a)	124,808	129,725	130,202	130,510	4.57
WNY EMPLOYMENT BY SECTOR*					
Mining, Logging & Construction	22.5	22.4	22.6		0.44
Manufacturing	50.1	52.2	52.0		3.79
Trade, Transportation & Utilities	95.9	101.0	99.9		4.17
Durable Goods	30.0	31.5	31.4		4.67
Finance Activities	34.0	34.3	34.5		1.47
Government	78.0	85.4	79.3		1.67

(1) US Dept. of Commerce	(a) Seasonally Adjusted				
(2) US Dept. of Labor	(b) End of month data				
(3) Wall Street Journal	*% change from Aug-21-Jul-22				