

Western New York ECONOMIC NEWS

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Nationally, real economic growth was 3% over the period 2017:Q3 - 2018:Q3; even with nine 25 basis point increases since the Fed tightening began in 2015. Employment continues to grow at high levels averaging 206,000 per month in 2018. Unemployment rates are at, or near, 50 year lows and inflation is in the desired 2% range. Locally, the unemployment rate is below 4%, and total employment is growing, though still lagging behind the national rate. Per capita income in the region has grown faster than the national average for two successive years, and this year earnings per worker for the first half of 2018 is nearly equal to the national rate of growth, a positive trend worth watching.

The National Economic Outlook

Real GDP grew by 3.4% during 2018:Q3 after having grown by 2.2% and 4.2% during the first and second quarters of 2018. Real economic growth was 3% over the period 2017:Q3-2018:Q3. Figure 1 shows real GDP growth rates since 2007. Personal consumption expenditures, gross private domestic investment (particularly inventories) and government expenditures all contributed to growth during the third quarter while the decline in net exports were a drag on growth.

The national economic expansion is now 111 months or 37 quarters old, far surpassing the average duration of post WWII expansions of 58 months. Although national economic growth appears to be healthy at present, some business cycle indicators are beginning to point to a slowdown in the near future. The Treasury yield curve, which has inverted before all post WW II recessions, is presently flat or slightly inverted between the 2, 3 and 5 year maturities. The 10 year to 1 year and 10 year to 2 year spreads were a meager 15 and 12 basis point respectively. Equity markets have begun a steep decline from their early October highs. Both the S&P 500 index and the Dow Jones Industrial indexes have declined by approximately 19%. The Federal Reserve has continued to increase its federal funds rate target in 25 basis point increments. The most recent increase occurred at the December 20 meeting of the FOMC where the target was set in the range of 2.25% – 2.50%. This is the ninth 25 basis point increase since the Fed tightening began in 2015.

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Figure 1. Real GDP Growth Rates: 2007:Q1 - 2018:Q3

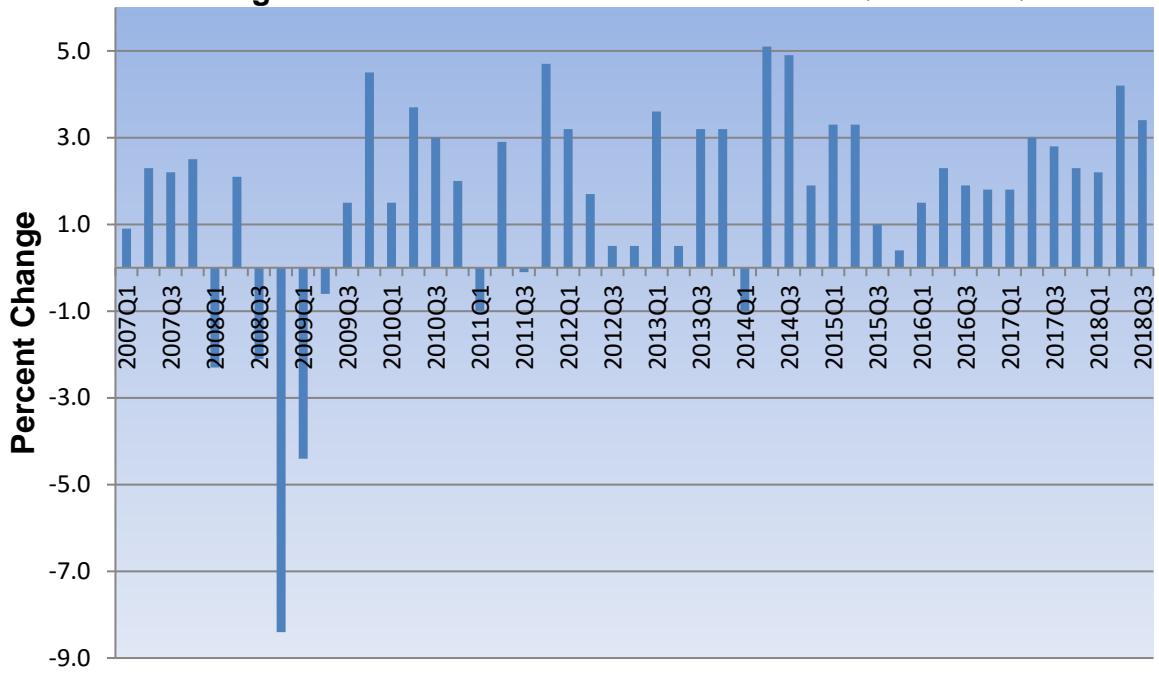
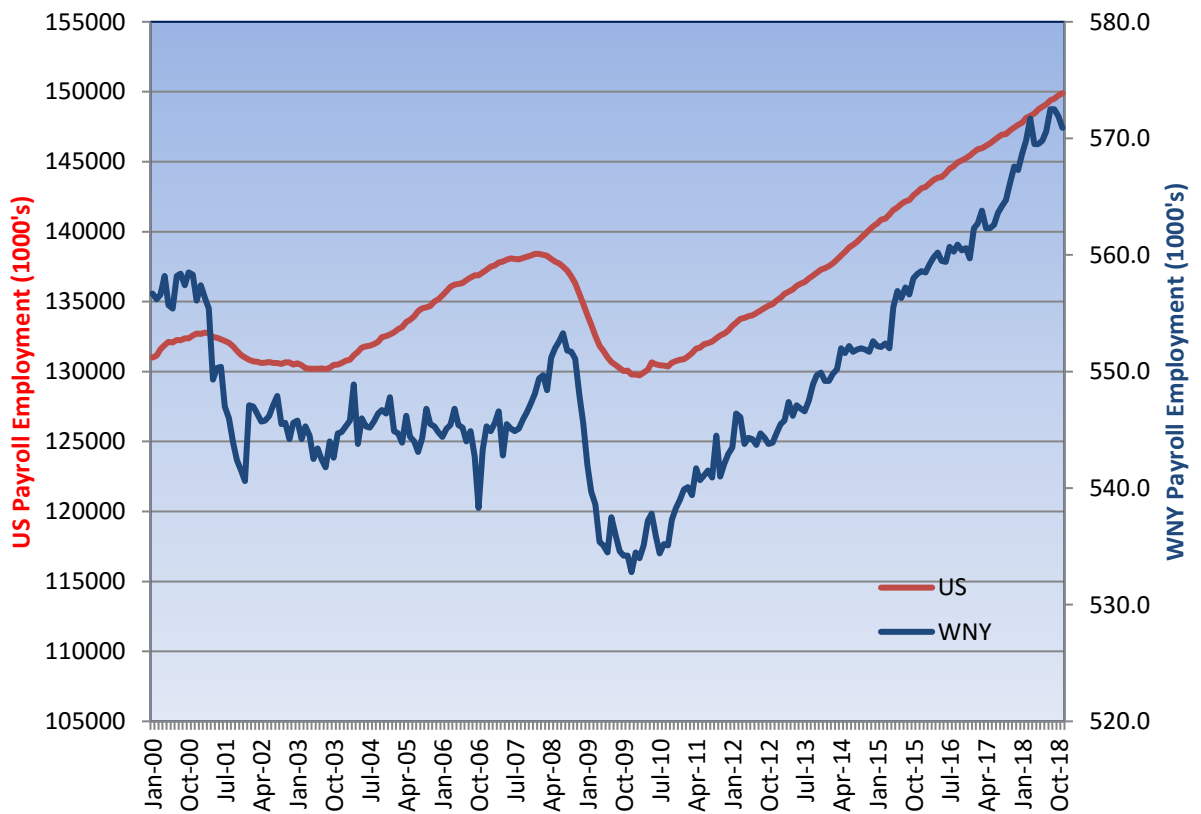
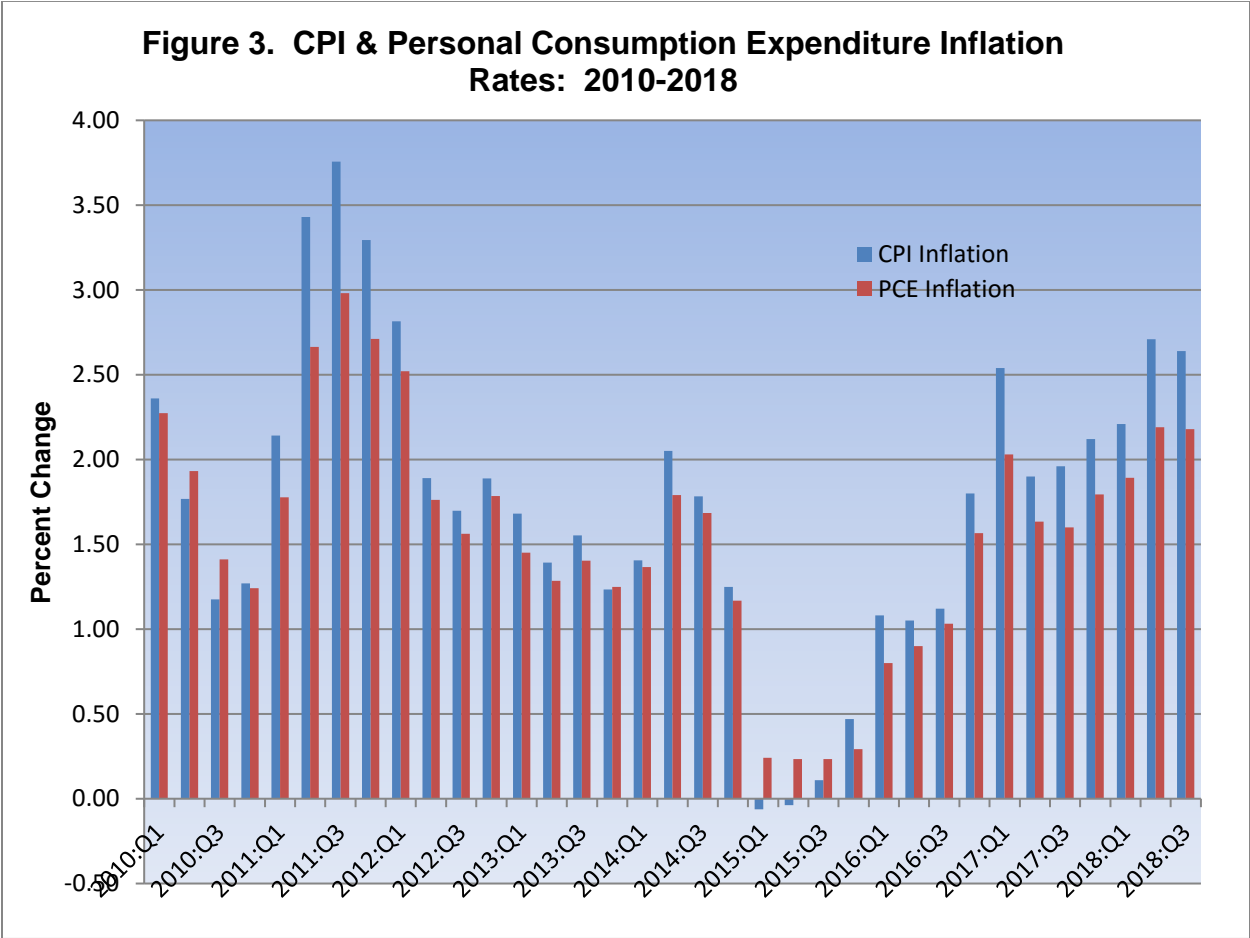


Figure 2. U.S and WNY Payroll Employment (2000-2018)



Monthly additions to national non-agricultural payrolls (www.bls.gov) averaged 206,000 during 2018. Monthly payroll employment in the Buffalo-Niagara Falls MSA increased by an average of 7,300 during 2018 compared to the 2017 monthly values (see Figure 2). Caution should be used in relying too heavily on the WNY CES figures since these are often revised significantly over time. We will discuss the more reliable QCEW figures below. The national unemployment rate stood at 3.9% in December and 3.6% in the Buffalo-Niagara Falls MSA in November.

Quarterly inflation rates based on the Consumer Price Index (CPI) and the Personal Consumption Expenditure (PCE) deflator are shown in Figure 3. The PCE inflation rate was in the Fed’s comfort zone (above 2%) during 2018:Q2 and 2018:Q3, posting inflation rates of 2.19% and 2.18%, respectively. CPI inflation was 2.7% and 2.6% over the same period.



The Economic Outlook for the Buffalo Region

Regional personal income (PI) figures for the year 2017 were recently released by the BEA (<http://www.bea.gov/regional>). Real personal income growth rates measured in 2012 dollars over the period 2007-2017 are shown in Table 1 along with 2017 per capita income. One long standing concern we have expressed about the BEA personal income estimates is the dramatic swings that occur when the underlying series is revised. While the QCEW estimates provide a more stable measure, there is some value in reviewing the BEA data as well.

Both Buffalo and Rochester seemed to have outperformed the nation as a whole during 2017. We project the national growth rate for real PI to be 4.39% in 2018 (data for 2018:Q4 national PI was not available at the time this was written). Our projection of real PI growth for Buffalo and Rochester in 2018 is 2.30% and 2.55%, respectively.

Table 1

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

Year	US	Buffalo MSA	Rochester MSA
2007	2.58	2.06	2.23
2008	-0.21	0.42	1.50
2009	-2.73	1.53	0.89
2010	2.40	1.91	2.38
2011	2.93	1.02	1.61
2012	3.00	1.61	2.92
2013	-0.24	-0.37	-2.05
2014	4.03	1.16	0.36
2015	4.73	3.99	4.55
2016	1.30	0.41	-0.11
2017	-0.31	2.59	2.39
2018	4.39	2.30	2.55
2017 per capita income	\$51,631	\$48,314	\$49,138

Real personal income growth rates for the Buffalo and Rochester MSAs over the period 1988 - 2017 are shown in Figures 4a and 4b. It is likely that both Buffalo and Rochester will experience lower real personal income growth in 2018 than the nation as a whole, given the fact that both Buffalo and Rochester area real PI growth rates have been less than the national rate in 8 of the past 12 years.

Figure 4a. Real Personal Income Growth Rates: US v. Buffalo

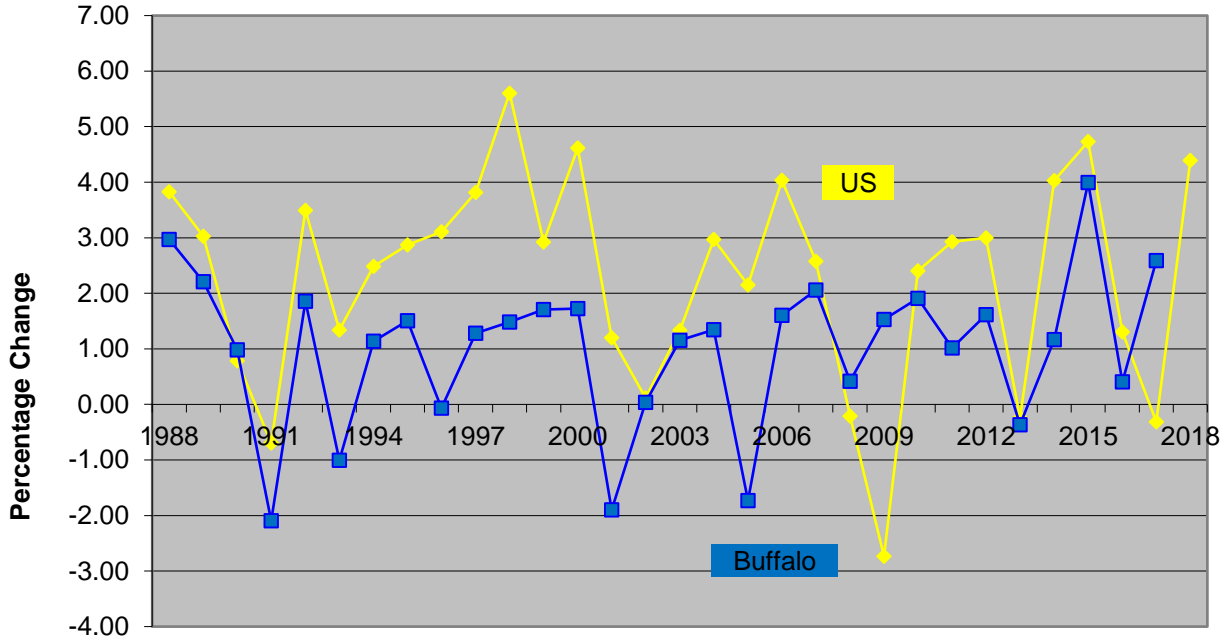
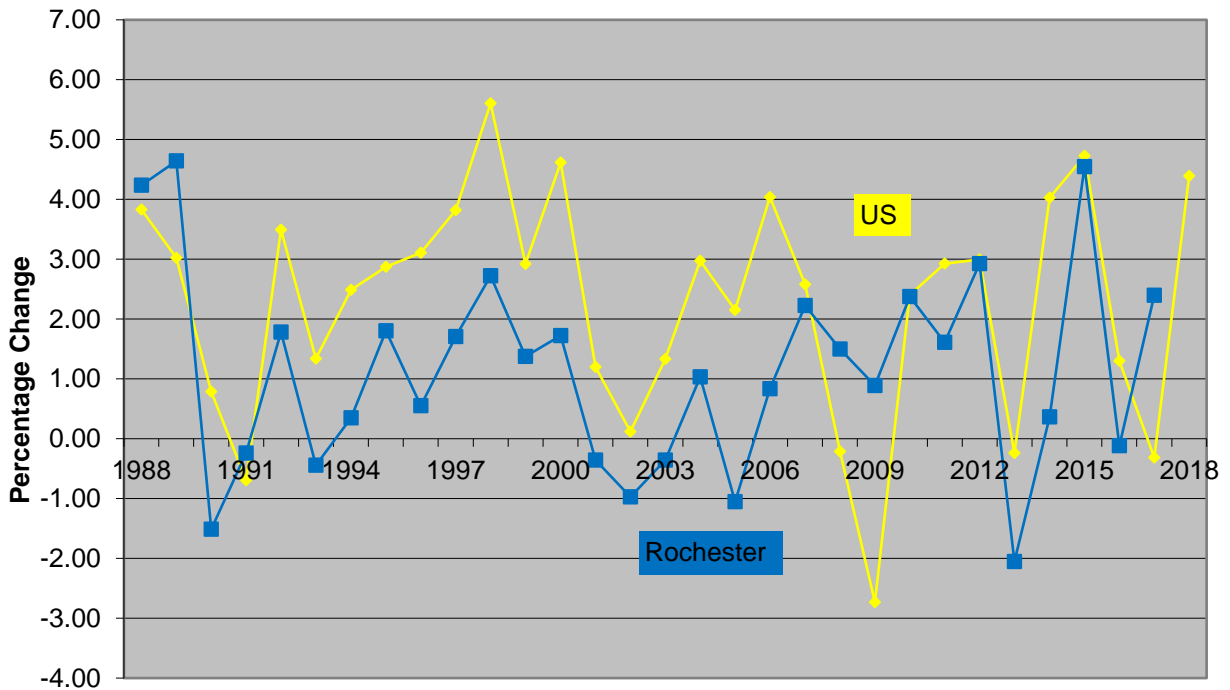


Figure 4b. Real Personal Income Growth Rates: US v. Rochester



Per capita personal income for Buffalo and the U.S. is shown in Figure 5a, while that for Rochester and the U.S. is shown in Figure 5b. It is apparent that both regions are underperforming the nation as a whole based on this metric.

Figure 5a. Per Capita Personal Income: US v. Buffalo

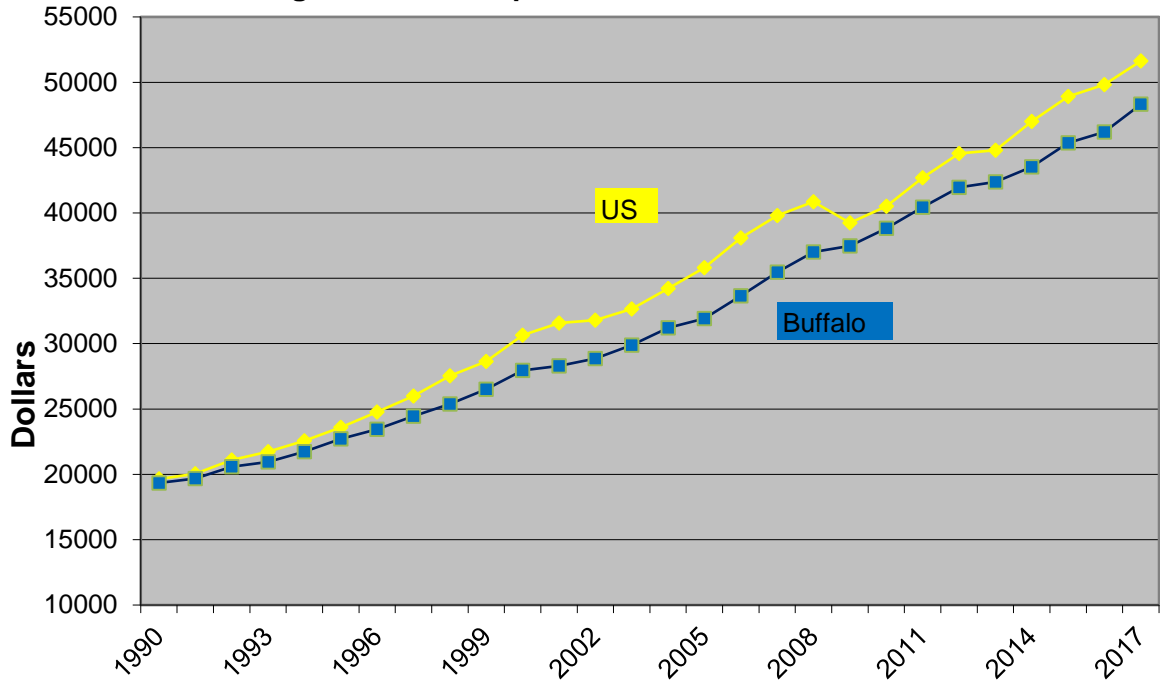
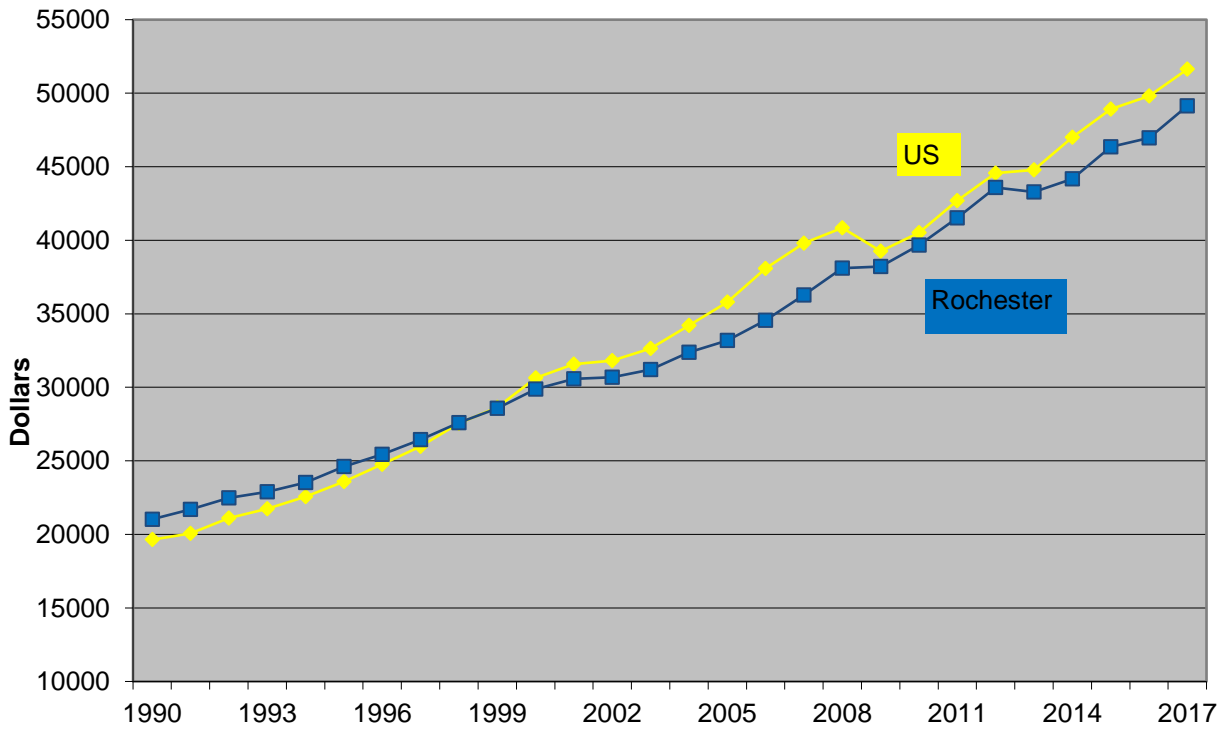


Figure 5b. Per Capita Personal Income: US v. Rochester



Figures 5a and 5b above suggest that in recent years personal income in Buffalo may not have been falling behind the rest of the country at the same rate as it had during the early years of the economic recovery. Indeed, using BEA per capita personal income measures for the Buffalo MSA and the average of all metropolitan areas, per capita income in Buffalo grew faster than the national average from 2015 to 2016 and then again from 2016 to 2017. Though regional per capita income is less than the national average, the rate of growth here is finally at or near the national rate. There is a sign of promise here that has been absent in the local economy for many years.

Tables 2(a-c) show the pattern of average annual pay in the upstate metropolitan areas compared to the average of all US metropolitan areas, based on QCEW data. While this information is for earnings rather than income, the results should give an indication of what has happened in the past and of what might be happening presently to per capita income in the region. Since earnings represent between 70 and 75% of total income, they may be a useful indicator of income patterns as they are emerging, but which can't be confirmed until next year's data is released.

Table 2a presents a comparison of the annual pay per worker by industry group for the upstate metropolitan areas in 2018 (an annualized measure of the first half of 2018). Tables 2b and 2c represent the annual values for 2017 and 2016 respectively. As noted in previous editions, for the Buffalo MSA in 2018, the only industrial sectors where workers earn more than the national average are state and local government employees.

While highly specialized state employment in the region could be the cause of this distinction, it is hard to believe that local government employment is somehow unique or more productive than local government workers in the rest of the nation. Higher local government pay per worker is thus hard to explain in economic terms. In addition, not only do private sector workers in Buffalo earn less than the national average, they also generally lag behind their counterparts in Rochester and Syracuse.

In 2018 it seems that the annualized estimate of the average pay for all workers in the Buffalo MSA is lower than in any other large upstate metropolitan area. The same is true for all private sector employees, construction employees, private service providing employees, trade transportation and utility industry employees, information industry employees, financial activities employees, education and health services employees, as well as other services.

Once again, these are all private sector employees, and all earn lower pay than in any of the upstate metropolitan areas. Earnings per worker in Buffalo in the goods producing and manufacturing sectors were lower than the average earnings in this sector nationally, though higher than for workers in the Rochester MSA. These levels of average pay are not a sign of a healthy, growing and robust economy.

Table 2a

Annual Pay Upstate MSAs by Industry: 2018**

Industry	Buffalo MSA \$	Rochester MSA \$	Syracuse MSA \$	U.S. Metro. Average \$
Total, all industries	49,465	50,147	50,536	57,357
Total, Federal Government	76,762	66,343	73,022	81,694
Total, State Government	72,124	63,303	63,197	60,171
Total, Local Government	56,916	50,400	54,011	51,562
Total Private all industries	46,924	49,626	48,810	57,380
Goods-producing*	63,261	63,000	63,407	65,710
Natural resources & mining*	36,866	39,204	32,534	60,867
Construction*	55,933	59,299	58,123	60,410
Manufacturing*	66,756	66,192	67,712	69,396
Service-providing*	43,833	46,570	46,053	55,626
Trade, transportation & utilities*	38,336	40,992	45,419	47,651
Information*	65,489	68,216	59,778	115,164
Financial activities*	68,895	72,446	71,443	103,368
Professional & business services*	59,779	61,956	59,242	75,220
Education & health services*	43,687	48,857	48,091	49,198
Leisure & hospitality*	23,080	18,592	18,876	23,259
Other services*	27,133	31,397	32,952	37,881
Unclassified*	31,050	34,078	26,560	52,890

Source: <http://www.bls.gov/cew/datatoc.htm>

*private sector wages

**Annualized from 1st half of 2018

Table 2b

Annual Pay Upstate MSAs by Industry: 2017

Industry	Buffalo MSA \$	Rochester MSA \$	Syracuse MSA \$	U.S. Metro. Average \$
Total, all industries	47,820	48,913	49,295	55,390
Total, Federal Government	75,800	64,302	71,479	80,432
Total, State Government	59,988	59,566	47,552	58,802
Total, Local Government	53,211	47,664	49,927	49,720
Total Private all industries	45,559	48,589	47,956	55,338
Goods-producing*	61,539	60,106	61,752	63,961
Natural resources & mining*	37,061	36,255	32,075	56,859
Construction*	56,281	57,836	57,213	60,735
Manufacturing*	64,418	63,136	65,820	66,840
Service-providing*	42,483	45,903	45,361	53,530
Trade, transportation & utilities*	37,521	39,788	45,197	46,151
Information*	63,500	72,564	60,972	105,722
Financial activities*	63,658	68,155	66,639	92,923
Professional & business services*	56,652	62,910	57,710	72,525
Education & health services*	43,096	48,199	48,603	49,201
Leisure & hospitality*	24,449	18,565	18,423	23,188
Other services*	26,470	28,659	31,882	37,320
Unclassified*	26,879	35,221	23,659	55,887

Source: <http://www.bls.gov/cew/datatoc.htm>

**private sector wages*

Table 2c

Annual Pay Upstate MSAs by Industry: 2016

Industry	Buffalo MSA \$	Rochester MSA \$	Syracuse MSA \$	U.S. Metro. Average \$
Total, all industries	46,190	47,672	47,389	53,621
Total, Federal Government	73,973	63,877	70,207	78,379
Total, State Government	57,279	58,202	46,215	57,168
Total, Local Government	52,162	46,890	49,217	48,440
Total Private all industries	44,388	47,360	46,761	53,515
Goods-producing*	60,310	58,700	61,728	62,089
Natural resources & mining*	35,514	33,976	31,356	56,115
Construction*	55,495	55,218	58,494	58,647
Manufacturing*	63,101	62,157	65,173	64,870
Service-providing*	41,283	44,679	44,000	51,720
Trade, transportation & utilities*	36,526	39,028	43,124	44,764
Information*	61,204	72,071	63,651	98,458
Financial activities*	62,637	65,936	64,276	88,841
Professional & business services*	54,847	60,828	56,974	69,992
Education & health services*	42,100	46,960	47,429	48,058
Leisure & hospitality*	23,708	17,798	17,699	22,445
Other services*	25,538	28,313	30,713	35,921
Unclassified*	25,284	27,565	26,116	51,837

Source: <http://www.bls.gov/cew/datatoc.htm>

*private sector wages

Table 3a**% Change in Annual Pay Upstate MSAs by Industry: 2016-17**

Industry	Buffalo MSA	Rochester MSA	Syracuse MSA	U.S. Metro. Average \$
Total, all industries	2.7%	2.6%	2.4%	3.3%
Total, Federal Government	2.5%	0.7%	1.8%	2.6%
Total, State Government	4.7%	8.1%	2.9%	2.9%
Total, Local Government	2.0%	1.7%	1.4%	2.6%
Total Private all industries	2.7%	2.6%	2.5%	3.4%
Goods-producing*	2.1%	2.4%	0.1%	3.0%
Natural resources & mining*	4.1%	6.7%	2.2%	1.3%
Construction*	1.5%	4.7%	-2.1%	3.6%
Manufacturing*	2.1%	1.6%	1.1%	3.0%
Service-providing*	2.9%	2.7%	3.0%	3.5%
Trade, transportation & utilities*	2.9%	1.9%	4.8%	3.1%
Information*	3.8%	0.7%	-4.2%	7.4%
Financial activities*	1.7%	3.4%	3.8%	4.6%
Professional business services*	3.3%	3.4%	1.3%	3.6%
Education & health services*	2.4%	2.6%	2.5%	2.4%
Leisure & hospitality*	3.1%	4.3%	4.1%	3.3%
Other services*	3.7%	1.2%	3.8%	3.9%
Unclassified*	14.2%	27.8%	-25.0%	7.8%

Source: <http://www.bls.gov/cew/datatoc.htm>

*private sector wages

Table 3b**% Change in Annual Pay Upstate MSAs by Industry: 2017-18****

Industry	Buffalo MSA	Rochester MSA	Syracuse MSA	U.S. Metro. Average \$
Total, all industries	4.3%	2.5%	4.1%	3.6%
Total, Federal Government	1.3%	3.2%	2.2%	1.6%
Total, State Government	20.2%***	0.6%	32.9%***	2.3%
Total, Local Government	7.0%	5.7%	8.2%	3.7%
Total Private all industries	3.0%	2.1%	1.8%	3.7%
Goods-producing*	2.8%	4.8%	2.6%	2.7%
Natural resources & mining*	-0.3%	8.1%	1.5%	7.0%
Construction*	-0.7%	2.5%	1.5%	-0.5%
Manufacturing*	3.6%	4.8%	2.8%	3.8%
Service-providing*	3.2%	1.5%	1.6%	3.9%
Trade, transportation & utilities*	2.0%	3.0%	0.5%	3.3%
Information*	3.1%	-6.0%	-1.9%	8.9%
Financial activities*	8.2%	6.3%	7.1%	11.2%
Professional business services*	5.5%	-1.5%	2.6%	3.7%
Education & health services*	1.4%	1.4%	-1.1%	0.0%
Leisure & hospitality*	-5.6%	0.1%	2.5%	0.3%
Other services*	2.4%	9.6%	3.3%	1.5%
Unclassified*	7.5%	-3.2%	35.6%	-5.4%

**private sector wages ** annualized earning from the first half of 2018*

**** These state annual earnings per worker are consistent with what QCEW reports for the central counties of these MSAs, we will follow QCEW reports for a future revision.*

Table 3a and 3b present the rate of change of average earnings per worker for the upstate metropolitan areas and the average of the metropolitan areas throughout the nation. It is here that there might be signs of a resurgence in Western New York. Though lower than the average for all U.S. metropolitan areas, for total employment, the rate of growth of average annual pay was higher in the Buffalo MSA than for the other two large upstate metropolitan areas between 2016 and 2017. From our estimates of 2018 average annual earnings, it is possible that this growth rate could be higher in the Buffalo MSA than the US or the other upstate metro areas between 2017 and 2018. If this turns out to be the case, then we may be seeing signs of a relative growth in income. A welcome change from the long term pattern.

NATIONAL, STATE & LOCAL BUSINESS INDICATORS

NATIONAL INDICATORS	2017:III	2018:I	2018:II	2018:III	% change
					2017:III - 2018:III
Real GDP (billions of chained 2012\$) (1)(a)	18,120.8	18,324.0	18,511.6	18,665.0	3.0
Real GDI (billions of chained 2012\$) (1)(a)	18,226.7	18,470.2	18,510.3	18,704.5	2.6
US Personal Income (billions of \$) (1)(a)	16,895.1	17,319.2	17,466.7	17,644.5	4.4
	Dec-17	Oct-18	Nov-18	Dec-18	% change
					Dec-17 - Dec-18
Consumer Price Index (1982-84=100)(2)*	246.524	252.885	252.038		2.24
Exchange Rate Canadian cents/US \$ (3)(b)	125.73	131.57	131.70	136.41	8.49
10 Year Treasury Note Yield (%) (3)(b)	2.410	3.142	3.029	2.684	0.27
3 Month Treasury Bill Yield (%) (3)(b)	1.394	2.348	2.368	2.454	1.06
S&P 500 Stock Index (3)(b)	2,673.61	2,711.74	2,760.17	2,506.85	-6.24
Dow-Jones Industrial Average (3)(b)	24,719.22	25,115.76	25,538.46	23,327.46	-5.63
LABOR MARKET TRENDS (2)					
Nonag Civilian Employment					
US (1000's)(a)	147,625	149,775	149,951	150,263	1.79
NY State (1000's)(a)*	9,573.0	9,676.00	9,682.00		1.14
WNY (1000's)*	572.2	579.90	578.90		1.17
Unemployment Rate (%)					
US (a)	4.1	3.8	3.7	3.9	-0.2
NY State (a)*	4.7	4.0	3.9		-0.8
WNY*	5.5	3.6	3.6		-1.9
Ave. Weekly Hours in Mfg. US (a)	41.8	42.0	42.0	42.0	0.5
Ave. Weekly. Earnings in Mfg. US \$(a)	886.58	910.56	913.92	915.60	3.27
US Private Employment (1000's)(a)	125,294	127,384	127,557	127,858	2.05
WNY EMPLOYMENT BY SECTOR (1000's)(2)*					
Mining, Logging & Construction	19.3	23.8	22.8		18.13
Manufacturing	52.1	52.4	52.2		0.19
Trade, Transportation & Utilities	103.9	101.7	105.1		1.15
Durable Goods	31.9	32.0	31.9		0.00
Finance Activities	37.3	37.7	37.5		0.54
Government	92.7	92.3	92.6		-0.11
(1) US Dept. of Commerce	(a) Seasonally Adjusted				
(2) US Dept. of Labor	(b) End of month data				
(3) Wall Street Journal	*Nov 2017 - Nov 2018 figures				