

# Western New York ECONOMIC NEWS

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*The Corona Virus Pandemic devastated the national economy as real GDP declined by 31.4% during the second quarter of this year. An impressive 33.1% third quarter increase brought GDP to a level that is 2.9% below pre-pandemic levels. Western New York has regained about two-thirds of the employment lost in a historically bad second quarter. The employment sectors that suffered the largest losses generally were the sectors with lowest average annual earnings per worker. State and local governments will face fiscal stress that will remind decision makers of the last recession.*

### **The National Economic Outlook**

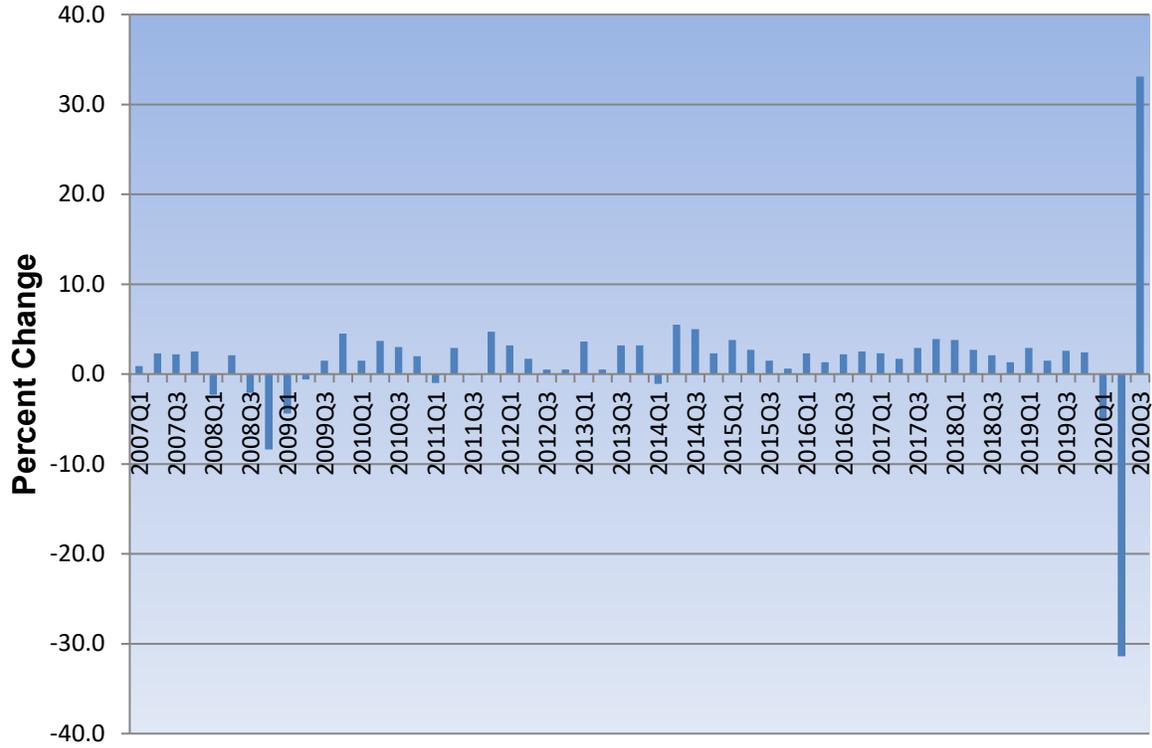
The economy rebounded strongly during the third quarter of 2020 according to advanced estimates of real GDP, growing by 33.1% after having contracted by 5% in 2020:Q1 and 31.4% during 2020:Q2. The COVID pandemic and the forced closure of many segments of the national economy and wreaked havoc on real GDP during 2020:Q2. The second quarter decline was the most severe since the Great Depression of the 1930's. Every component of expenditures declined except for federal government expenditures. This decline was led by a 41.8% decline in personal consumption of services and a 33.2% decline in overall personal consumption expenditures. Gross private domestic investment declined by 46.6% during the second quarter. The magnitude of the decline in real GDP growth and the third quarter rebound is shown in Figure 1. A V shaped recovery appears to be taking shape, but real GDP is still 2.9% below its 2019:Q4 level.

Since the US economy is largely driven by consumer expenditures, which comprise approximately 70% of GDP, it is interesting to look at monthly retail sales data since 2007 (see Figure 2). During the Great Recession of 2008-2009, which began in January 2008, retail sales peaked in November 2007 and reached its trough in March 2009, declining by approximately 13%. During the present COVID-induced recession, retail sales reached its peak in January 2020 and its trough in April 2020, declining by approximately 22% (see Figure 2). The rebound since April was dramatic and it appears as though retail sales has returned to its long run trend.

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**Figure 1. Real GDP Growth Rates: 2007:Q1 - 2020:Q3**



**Figure 2. Retail Sales 2007-2020 (Millions of Dollars)**

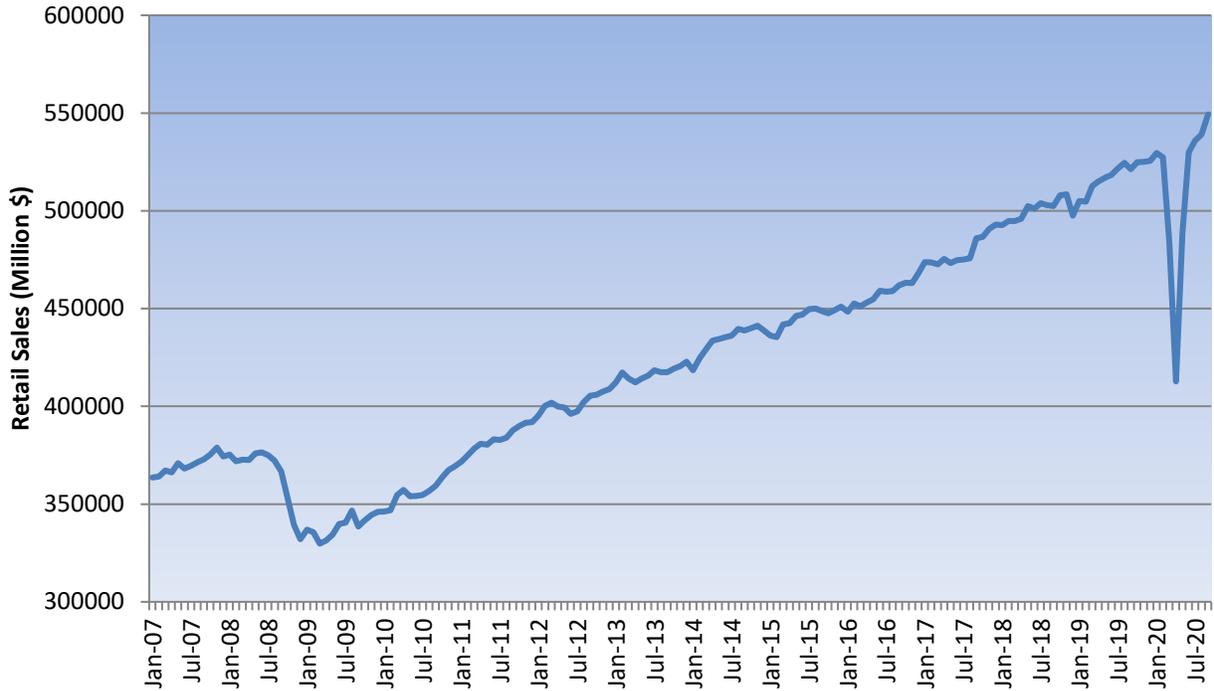
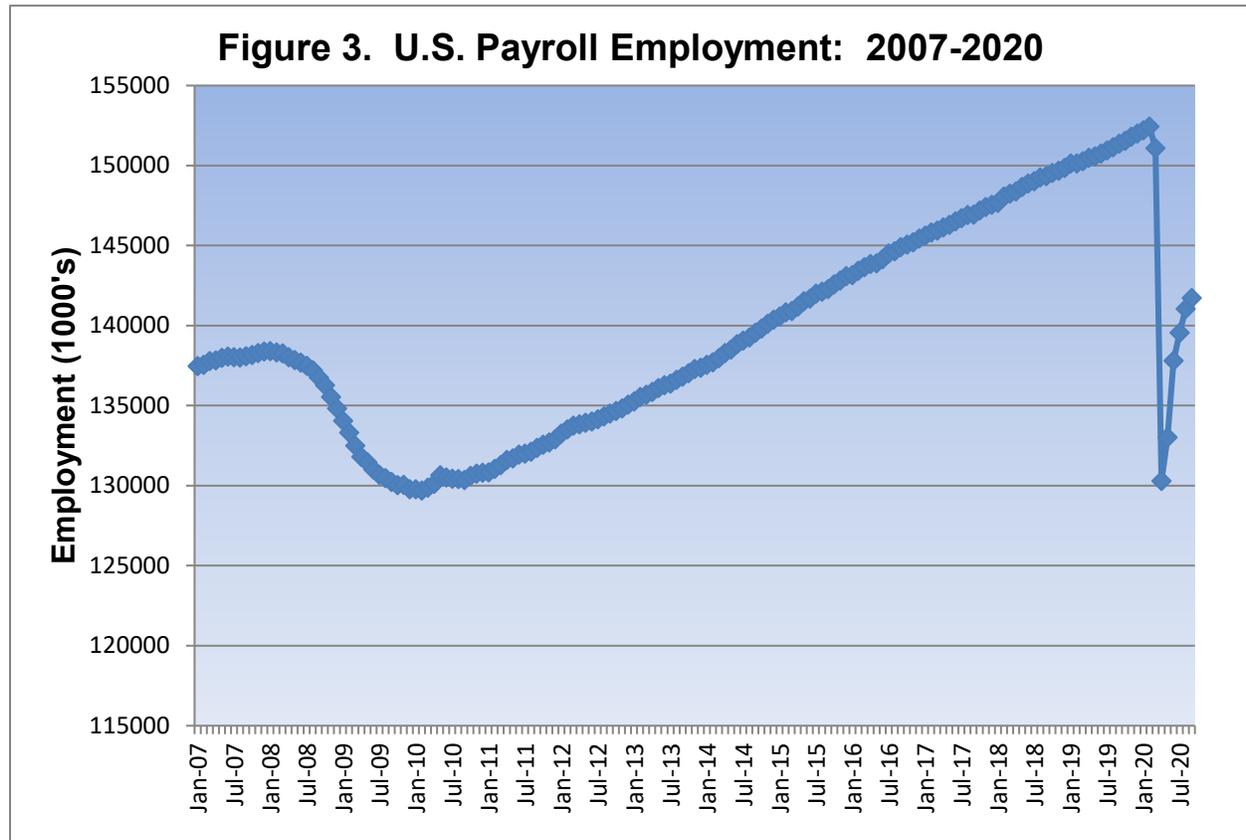


Figure 3 shows the level of U.S. non-agricultural payroll employment since January 2007. Over the period February 2020, when payroll employment peaked, to April 2020 when employment reached its trough, 22,139,000 jobs were lost. In September 2020, the economy had recovered approximately 50% of these jobs, a sign that labor market recovery from the exogenous shock is under way.



The national unemployment rate stood at 7.9% in September, down significantly from its 14.7% level in April. We caution against reading too much into the unemployment rate data since it is affected by changes in labor force participation. From the labor force peak that occurred in January 2020 to the trough in April, there was an 8.125 million reduction in the labor force. There has been a 3.662 million worker increase in the labor force in September from the April low.

### The Fiscal and Monetary Policy Response

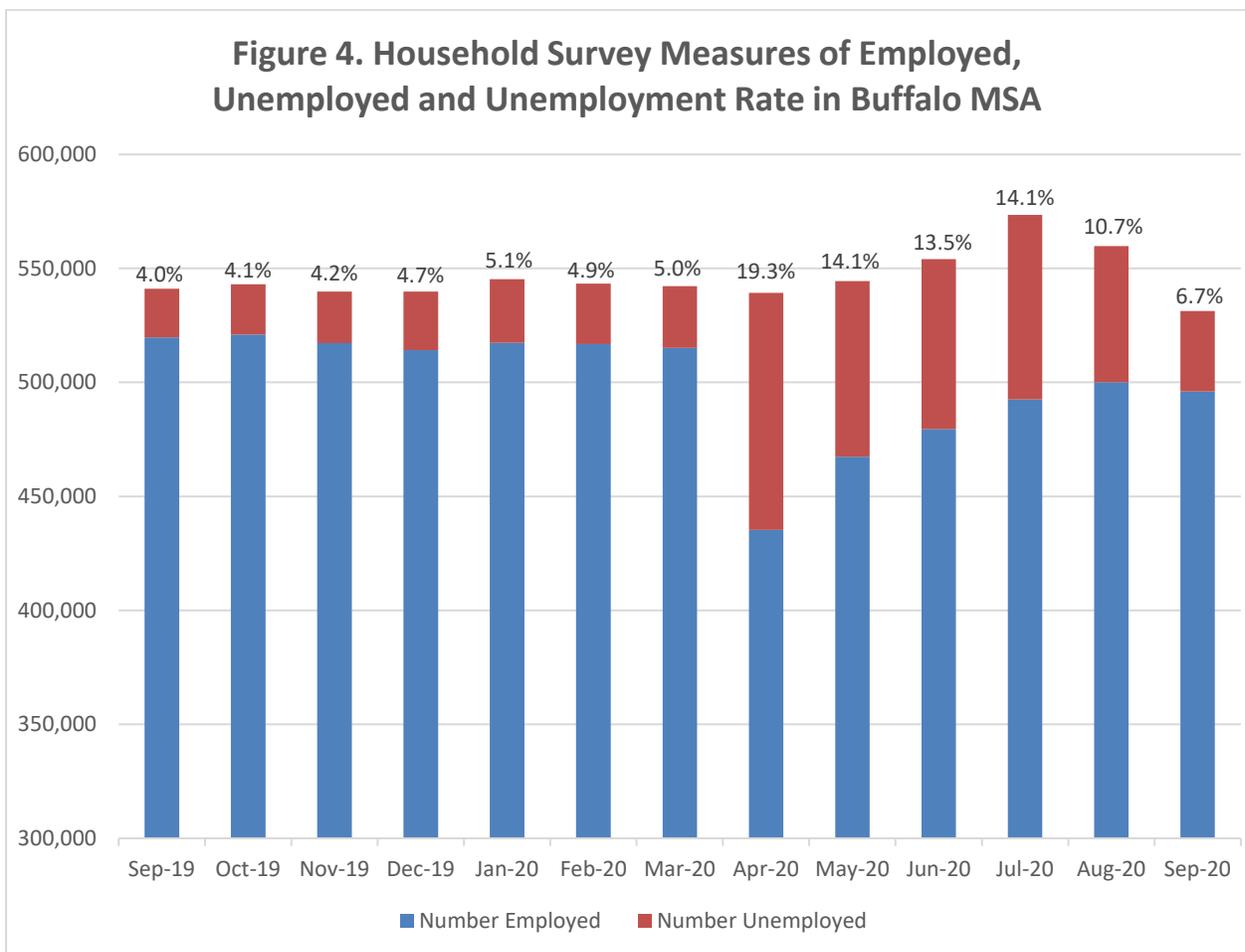
The Federal Reserve has responded aggressively to the economic downturn by increasing the assets on its balance sheet by more than \$3 trillion since mid-March. Monetary policy is presently limited to asset purchases by the Fed since interest rates are already so close to the zero lower bound. The Fed has indicated that they will keep short term interest rates near zero in the future. Monetization of the federal budget deficits by the Fed does cause worry about acceleration of inflation in the future.

If one adheres to the notion that equity prices are a leading indicator of economic activity, the recent rebound in the S&P 500 index off its March 2020 lows is a harbinger of robust economic recovery. The S&P 500 index has increased by 1200 points over the period March 23 to October 23, though of late, these indices have fluctuated.

The fiscal policy response to the crisis was initially accommodative with the passage of the \$2.2 trillion CARES Act. As of November 3, Congress has failed to pass an additional stimulus package

## The Economic Outlook for the Buffalo Region

As with the national unemployment rate, the unemployment rate in the Buffalo MSA has shown substantial improvement since April. April's unemployment rate of 19.3 percent was the highest it has been since the steel plants closed. From the April low point, the number employed in the area increased almost 15 percent through August based on data from the *Current Population Survey (CPS)*.



Though the official unemployment rate in September was 6.7 percent, this statistic considered on its own is misleading. As one can see in Figure 5, there have been dramatic changes in the size of the labor force (the sum of the number employed and the number unemployed) since May. The growth of the labor force in June and July was likely a reflection of the phenomenon seen at the national level of young adults moving home with their parents during their unemployment bouts. Then the labor force shrunk in August and September as individuals either retired, grew discouraged in their job searches, moved out of Buffalo, and/or stopped looking for jobs to remain home with their children, as many local schools have opted for hybrid education models. The decrease in the size of the labor force in September more than explained the 4-percentage point decrease in the unemployment rate – in fact, the count employed also decreased that month. So, using the unemployment rate to measure growth in economic activity is difficult. It is likely that a more accurate measure of unemployment exceeded 10 percent in September, a marked improvement from the 19.3 percent in April, but not as positive as one would conclude with the official unemployment rate.

*Current Employment Statistics (CES)* in conjunction with *Quarterly Census of Employment and Wages (QCEW)* data provide us with the most up to date information about where WNY was before the COVID pandemic, where we are now and where the region might be headed. Figure 5 shows that through September approximately 64% of the jobs lost in April were regained.

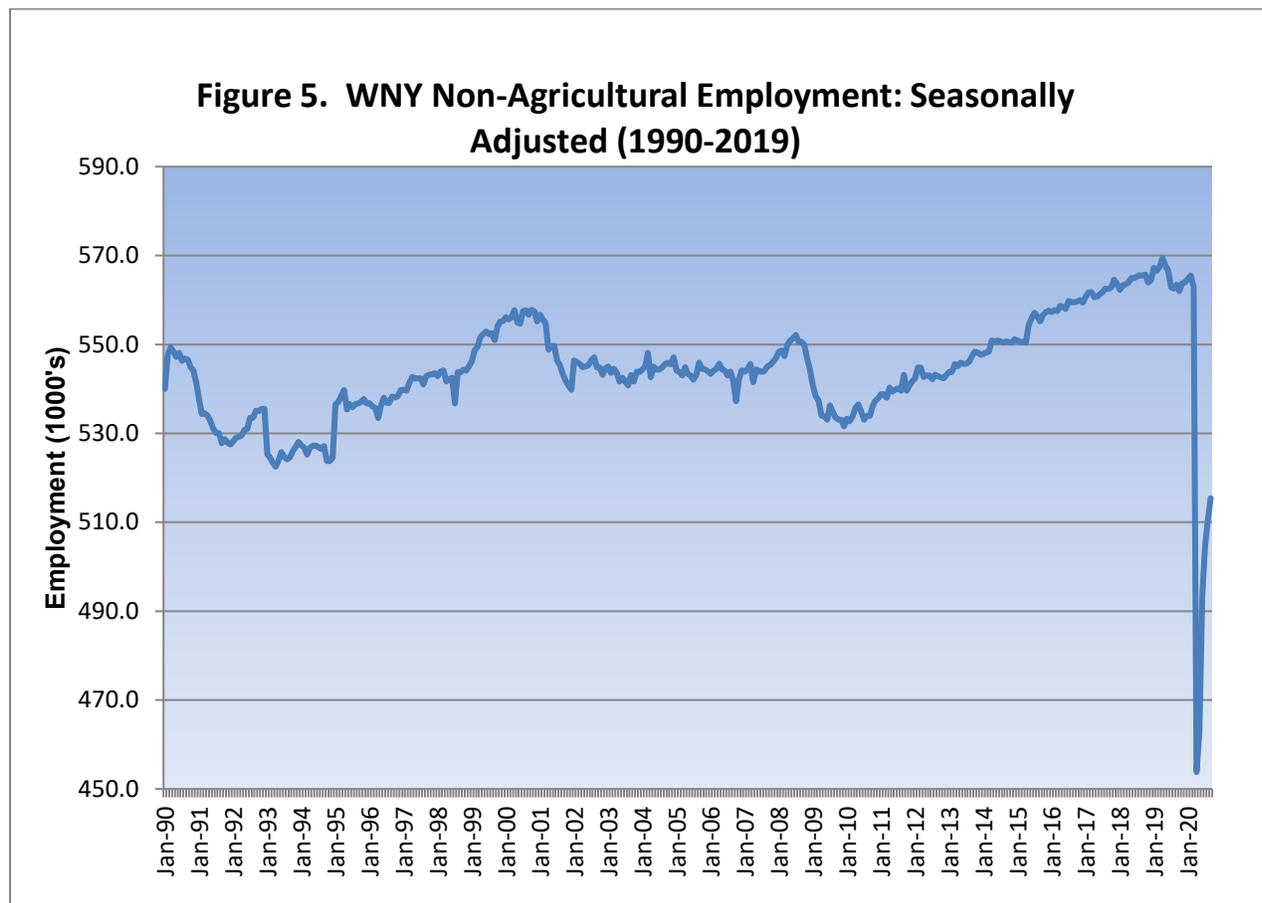


Table 1 presents various measures of the status of the local recovery, as measured with industry-level employment measures from the CES. In the Buffalo MSA, nearly 19 percent of payroll jobs disappeared in April, and though the majority have returned, the number of payroll jobs is still 8.6 percent below where it was in September 2019. Though the industries that were the hardest hit by the pandemic and subsequent lockdown (Accommodation and Food, Retail Trade, and Other Services) showed great progress as measured by the percent of jobs regained through September, each of the industries is down more than 9 percent from the same month last year. In fact, even after having recovered more than 80 percent of the jobs lost in hotels and restaurants, jobs in this area are down 18.4 percent from September 2019 with little hope of further recovery in the next few months.

**Table 1. Measures of Recovery from CES Employment in Buffalo MSA**

	<b>Percent Loss from March to April 2020</b>	<b>Percent of Lost Jobs Regained by September</b>	<b>Percent change from a year ago</b>
<b>Total</b>	-18.83%	63.96%	-8.61%
<b>Total Private</b>	-21.43%	67.30%	-9.64%
<b>Accommodation and Food</b>	-58.42%	80.43%	-18.39%
<b>Retail</b>	-20.85%	40.16%	-12.93%
<b>Wholesale</b>	-15.05%	22.58%	-12.50%
<b>Professional, Scientific and Technical Services</b>	-15.27%	47.62%	-10.28%
<b>Other Services</b>	-27.52%	61.97%	-9.41%
<b>Health and SA</b>	-16.00%	51.56%	-7.75%
<b>Education - Private</b>	-9.18%	-47.37%	-7.25%
<b>Management of Companies</b>	-10.39%	37.50%	-6.49%
<b>Administrative, Support, Waste Services*</b>	-18.08%	136.17%	-6.42%
<b>Trans and Utilities</b>	-27.13%	90.20%	-5.18%
<b>Mining, Logging and Construction*</b>	-29.38%	143.86%	-4.78%
<b>Information</b>	-4.41%	0.00%	-4.41%
<b>Financial Activities</b>	-2.51%	22.22%	-3.57%
<b>Government</b>	-5.67%	0.00%	-3.14%
<b>Manufacturing</b>	-13.29%	94.20%	-2.28%
<b>Hospitals</b>	-1.33%	0.00%	-1.33%

*\*Though there were more jobs in September than there were in March, the employment levels in Administrative, Support and Waste Services and Mining, Logging and Construction were lower than they were last September, which gives us a more accurate picture given the seasonality in those industries.*

An analysis of Table 1 also shows that industries were impacted very differently by the current economic downturn, primarily because of the pandemic and its effects. As shown in Table 2, the industries that suffered the brunt of the job losses were those in

the lowest paying industries, a phenomenon that exists in the majority of recessions but one that was made worse by the pandemic.

**Table 2. Buffalo MSA Employment and Earnings by Industry: 2019-20**

<b>Industry</b>	<b>Average Annual Employment 2019</b>	<b>Average Annual Pay (\$) 2019</b>	<b>1<sup>st</sup> Quarter Employment 2020</b>	<b>Average Annual Pay 1<sup>st</sup> Quarter 2020 est.</b>	<b>% of US Average Annual Pay</b>
Total, all industries	544123	\$50,912	536271	\$53,182	84%
Total, Federal Government	9391	\$79,265	9591	\$74,389	93%
Total, State Government	20285	\$74,375	20335	\$73,306	115%
Total, Local Government	55877	\$56,165	58438	\$55,617	104%
Total Private all industries	458570	\$48,653	447907	\$51,496	80%
Goods-producing	74259	\$64,985	71055	\$69,143	98%
Natural resources & mining	1745	\$40,622	1383	\$39,114	56%
Construction	20489	\$59,800	17795	\$59,304	92%
Manufacturing	52025	\$67,844	51876	\$73,319	98%
Service-providing	384312	\$45,497	376852	\$48,169	76%
Trade, transportation & utilities	96943	\$40,331	96193	\$42,486	82%
Information	6651	\$67,014	6313	\$77,324	56%
Financial activities	35555	\$67,313	35272	\$83,745	63%
Professional & business services	68357	\$61,021	66057	\$63,781	74%
Education & health services	95273	\$45,918	96013	\$45,126	87%
Leisure & hospitality	59967	\$25,882	55641	\$25,913	104%
Other services	20952	\$29,367	20474	\$29,554	72%
Unclassified	614	\$37,331	889	\$34,716	57%

The industries with higher annual wages were those that were protected by the nature of the employment, as work-from-home models were possible in those industries, and

the need for certain jobs, like those in the financial services industry and manufacturing, expanded in this environment.

Table 2 presents QCEW based annual employment and annual pay data for the Buffalo MSA and for the U.S. in 2019 and estimates for the first quarter of 2020. It also presents average earnings per worker for each industry sector and the average earnings per worker by industrial sector in the Buffalo MSA as a percent of the national average for that sector. The potential for error associated with seasonal variations in employment prevents comparisons of first quarter 2020 employment to the annual employment for 2019.

As has been the case for many years New York State government workers are paid 15% more than the national average for state employees. This might reflect the occupational mix of state employment in the Buffalo MSA that has higher paying jobs than the average of state workers in the nation. What is more difficult to explain, and possibly sustain, is the slightly higher level than the national average of local government employment and annual earnings per worker. While it may reflect the requirement that county level governments deliver social services in New York State, a function that is provided at the state level in most states, downward pressures on state and local revenues sources, including state and federal aid, may lead to earnings declines in these sectors.

While manufacturing has been a relatively stable employment sector recently in the Buffalo MSA, average pay in this sector is slightly lower than the national average. Similarly, financial service employment, professional services and education & health services are large and stable employment sectors. With the exception of education and health services, average wages per worker in these sectors are higher than the regional average, but lower than the national average. It is not surprising that there is employment growth and strength in an industrial sector where the average pay is lower than the national norm, for this behavior is consistent with properly functioning markets.

The dramatic collapse and then resurgence of economic activity to near normal levels has been aided by the implementation of monetary and fiscal policy. While well-timed and reasonably well-executed, the bulk of those benefits may have already been played out. It remains to be seen if the federal government and the Federal Reserve choose to continue this stimulus after the election. Additionally, even if the nation returns to the levels of income, output and employment that existed in the fourth quarter of 2019, it will not make up for the tax and intergovernmental aid revenues already lost to state and local governments during 2020. This could lead to a reduction in services provided by state and local governments, as well as reductions in public employment and per worker earnings. The impact of these reductions will become apparent over the next quarter.

**Table 3. US Employment and Earnings by Industry: 2019 - 2020**

<b>Industry</b>	<b>Average Annual Employment 2019</b>	<b>Average Annual Pay 2019</b>	<b>1<sup>st</sup> Quarter Employment 2020</b>	<b>Average Annual Pay 1<sup>st</sup> Quarter 2020 est.</b>
Total, all industries	148,105,092	\$59,209	147,409,135	\$63,548
Total, Federal Government	2,824,154	\$84,310	2,845,056	\$79,670
Total, State Government	4,666,127	\$62,830	4,682,193	\$63,791
Total, Local Government	14,256,068	\$53,112	14,619,888	\$53,580
Total Private all industries	126,358,743	\$59,202	125,261,998	\$64,336
Goods-producing	22,165,887	\$67,503	21,659,688	\$70,774
Natural resources & mining	1,938,254	\$61,862	1,754,768	\$69,724
Construction	7,451,476	\$64,826	7,233,704	\$64,203
Manufacturing	12,776,157	\$69,920	12,671,216	\$74,671
Service-providing	104,192,857	\$57,436	103,602,310	\$62,991
Trade, transportation & utilities	27,527,288	\$49,298	27,338,537	\$51,972
Information	2,849,185	\$119,605	2,897,528	\$138,070
Financial activities	8,319,844	\$98,516	8,337,909	\$132,028
Professional & business services	21,233,982	\$78,385	21,050,956	\$85,674
Education & health services	23,121,291	\$51,902	23,379,723	\$51,763
Leisure & hospitality	16,457,253	\$25,081	15,893,993	\$24,818
Other services	4,553,161	\$39,922	4,515,637	\$40,875
Unclassified	130,853	\$60,864	188,027	\$60,907

