

# Western New York ECONOMIC NEWS

## Canisius College

### Richard J. Wehle School of Business

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*Weakness in real GDP growth during the first quarter of 2016 was due to a decline in inventory and non-residential fixed investment, declining state and local government expenditures, and a continuing deterioration in our trade balance. Relatively low oil prices and a weak economy have kept the consumer inflation rate below the 2% Federal Reserve's target. Without acceleration of GDP growth in 2016, it is unlikely that the FOMC will increase the federal funds rate target to above its present 25 to 50 basis point range. Locally, revised CES data, released in January 2016, suggest that the Buffalo MSA is not growing as quickly as pre-revised data made it appear. While the metropolitan area has finally eclipsed the level of employment from before the 2008 recession, it has not yet returned to 2001 levels.*

## The National Economic Outlook

The BEA's [[www.bea.gov](http://www.bea.gov)] second estimate of real GDP growth during 2016:Q1 was reported to be 0.8% after having grown by 1.4% during 2015:Q4 (see Figure 1). The slowdown of GDP growth was attributed to a decline in exports, inventories, non-residential fixed investment, state and local government expenditures and an increase in imports. The appreciation of the U.S. dollar versus the currencies of our major trading partners that was reported in the January issue of this newsletter has been reversed. The Yen, Euro and Canadian dollar have appreciated by 4%, 7.1% and 6.5%, respectively, versus the U.S. dollar over the past 4 months. Table 1 shows exchange rates measured in foreign currency units per US dollar for each of the aforementioned currencies. The Chinese Yuan is the only one of the four currencies listed in Table 1 that has depreciated versus the dollar (.4%) over the past four months. The slowdown in Chinese economic growth that has been widely reported recently is a factor in the relative value of the currency.

With advanced estimates of real GDP at only .8% during the first quarter, an obvious question of concern is if the slowdown in growth will be followed by recession or if the slowdown is an anomaly. The US economy has experienced ten recessions since October 1949 [[www.nber.org](http://www.nber.org)]. The average length of expansion over this period has been 60.5 months or a little more than 5 years. The age of the current expansion will be 7 years in June. It's important to recognize that exogenous shocks are impossible to predict and can occur at any time.

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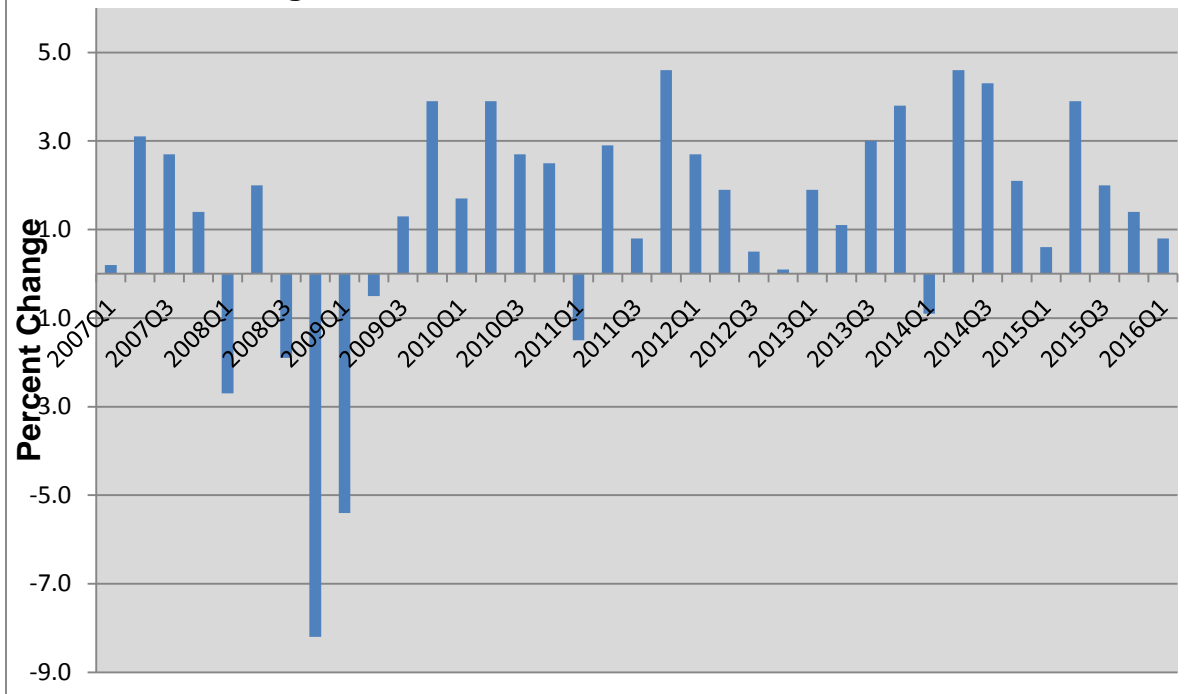
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See: <http://www.canisius.edu/economics-finance/wny-economic/> .

**Figure 1. Real GDP Growth Rates: 2007:Q1 - 2016:Q1**



**TABLE 1**

**U.S DOLLAR EXCHANGE RATES (FCU PER US \$)**

<b>MONTH-YEAR</b>	<b>EURO</b>	<b>CHINESE YUAN</b>	<b>JAPANESE YEN</b>	<b>CANADIAN DOLLAR</b>
January 2015	0.861	6.218	118.760	1.2122
February	0.881	6.252	120.395	1.2499
March	0.924	6.239	119.510	1.2618
April	0.924	6.201	120.798	1.2337
May	0.895	6.204	123.719	1.2176
June	0.891	6.205	123.311	1.2365
July	0.909	6.209	123.004	1.2863
August	0.898	6.338	120.148	1.3147
September	0.891	6.368	120.048	1.3266
October	0.891	6.351	122.643	1.3072
November	0.932	6.364	121.635	1.3279
December	0.918	6.449	117.906	1.3713
January 2016	0.921	6.573	118.226	1.4208
February	0.902	6.550	114.616	1.3797
March	0.898	6.503	112.932	1.3226
April	0.881	6.475	109.552	1.2818

The historical geometric growth rates of real GDP in the U.S. are exhibited in Table 2. Over the period 1950-2015, real GDP growth averaged 3.15% on an annual basis. The decline in the average annual growth rate in more recent time periods is apparent viewing Table 2. The 2008-2009 recession was of such a severe magnitude that real growth rates since 2000 are below 2%. What level of growth can we expect to occur in the future? Something on the order of 2.5% seems reasonable.

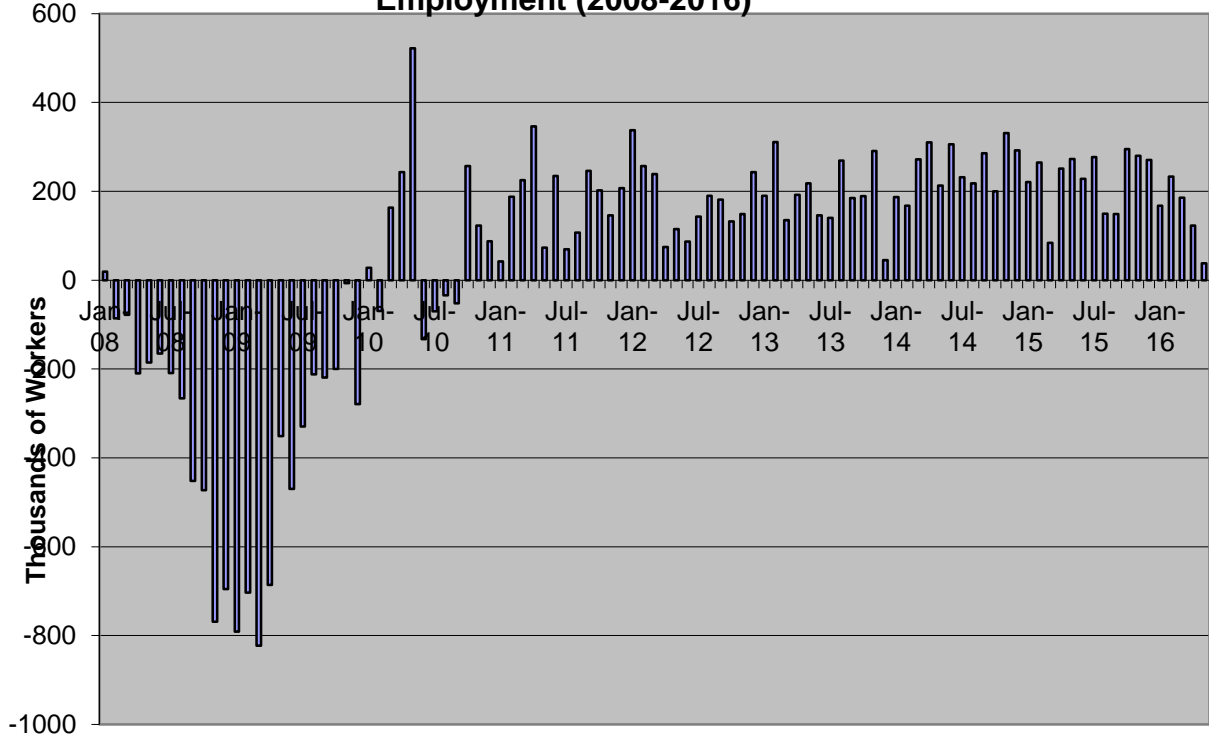
<b>TABLE 2</b>	
<b>AVERAGE ANNUAL GROWTH RATE OF REAL GDP</b>	
<b>TIME FRAME</b>	<b>GROWTH RATE OF REAL GDP (%)</b>
1950 - 2015	3.15
1960 - 2015	3.06
1970 - 2015	2.80
1980 - 2015	2.69
1990 - 2015	2.44
2000 - 2015	1.77
2005 - 2015	1.39

U.S payroll employment improved steadily in 2015 with the average addition of 229,000 jobs per month (see Figure 2). Through the first four months of 2016, the average number of new jobs added to payrolls was 177,500. The May 2016 data showed only a 38,000 increase in payroll employment, attributable in large part to the strike by Verizon workers. The expansion in employment has been steady, but the increase in the number of new jobs has slowed recently.

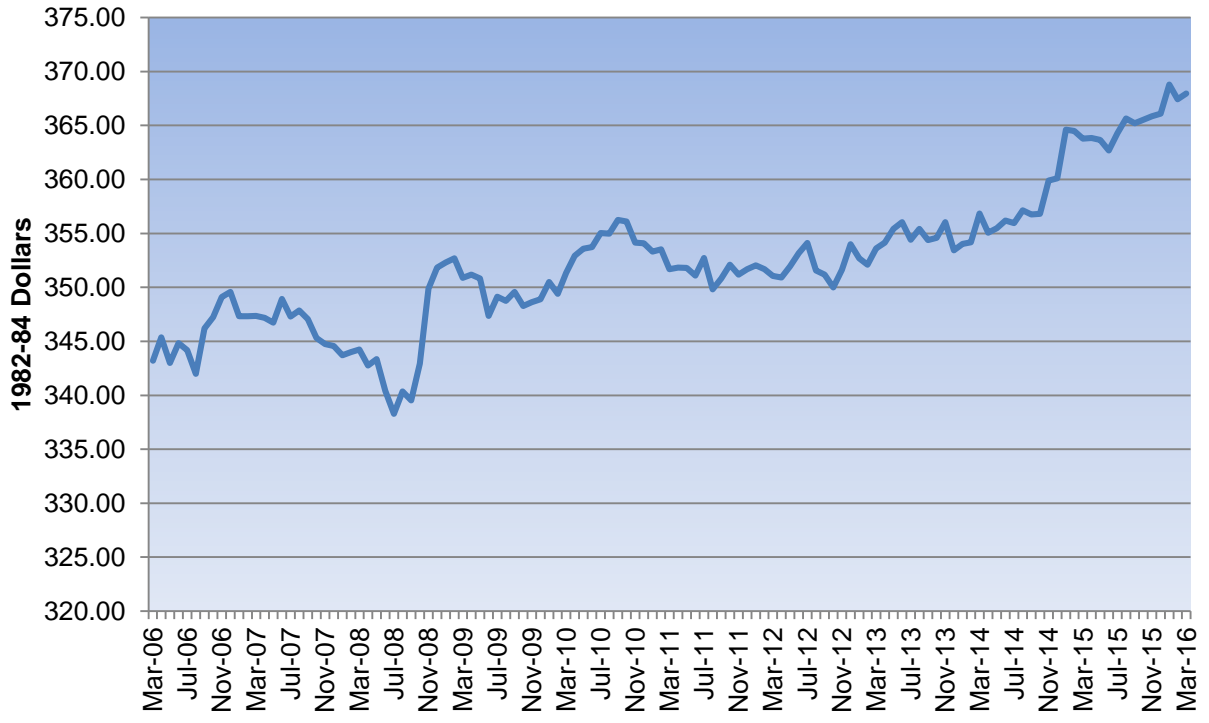
The behavior of real weekly wages of all employees (see Figure 3) since the end of the last recession has been troubling however. Real weekly wages have grown by only .86% on an annual basis since June 2009. The national unemployment rate decreased to 4.7% in May 2016 after having ranged between 4.9% and 5.0% since October 2015.

During their March 2016 meeting, the FOMC decided to keep its federal funds rate target in the range of 25 to 50 basis points ([www.federalreserve.gov](http://www.federalreserve.gov)). Although the committee announced their intention to increase the federal funds rate over the next few years, the fact that economic growth has been weak and that inflation has been running below the 2% target prompted the committee to leave rates unchanged. It seems likely that recent developments in the labor market will result in no changes to the FOMC's interest rate target at their June meeting.

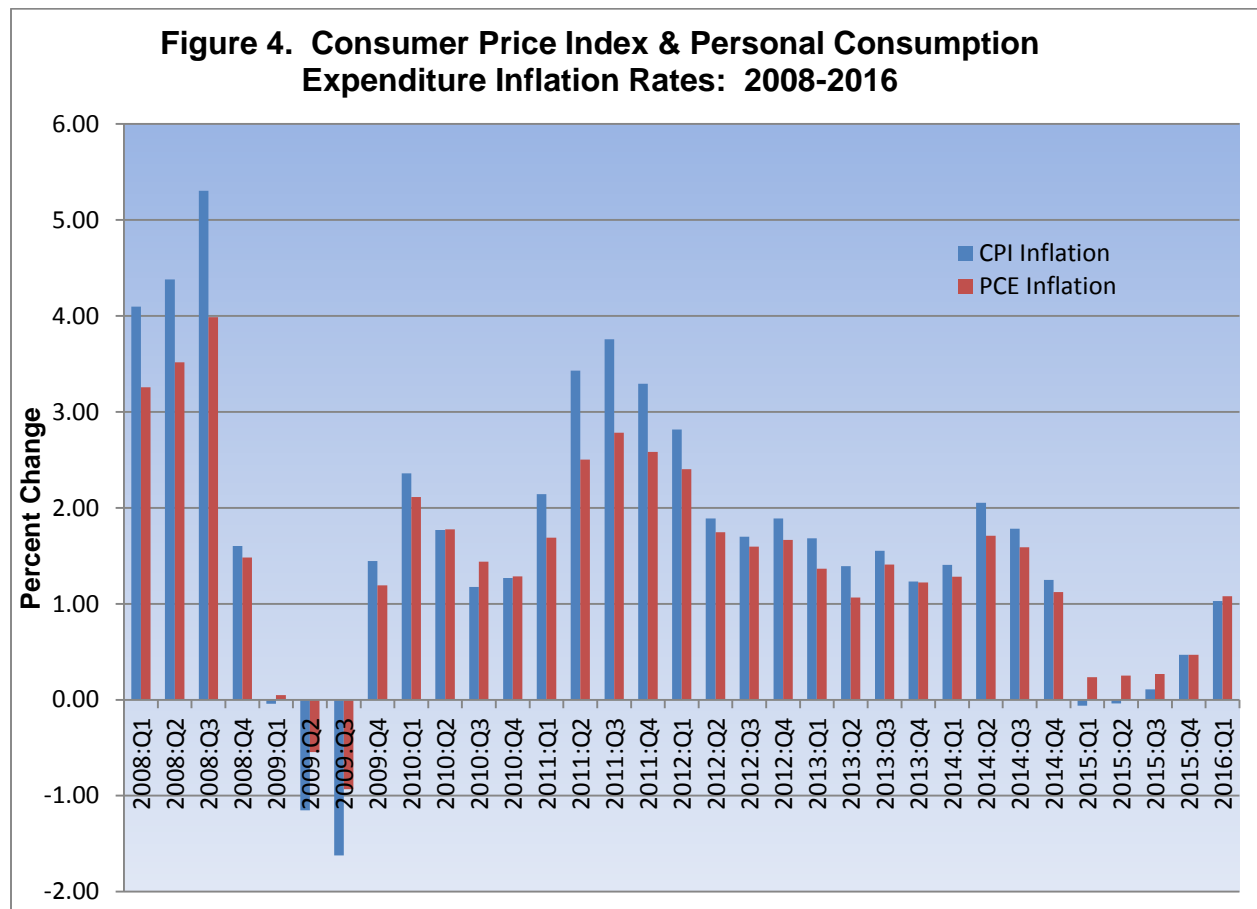
**Figure 2. Monthly Change in Total Non-Agricultural Employment (2008-2016)**



**Figure 3. Real Wages of All Workers (March 2006-March 2016)**



Inflation rates based on the CPI have been running at or below 2% since early 2012 (see Figure 4). The same is true of inflation based on the deflator for personal consumption expenditures. Over the first 3 quarters of 2015, both indices indicated that inflation was running below 1%. In the first quarter of 2016, inflation eclipsed the 1% level and may be returning to a more comfortable level for monetary policy makers in the second half of 2016. The one year U.S. Treasury note was yielding 50 basis points while the ten year Treasury bond yield was at 1.74% when this report was written. It appears that Treasury market is predicting relatively low inflation rates far into the future.



## The Economic Outlook for the Buffalo Region

The Buffalo economy seems to be improving by a number of measures, though that improvement is not as great as seemed to be the case in the fall and winter of 2015. The re-benchmarked regional employment data that was recently made available by the BLS has reduced the level of enthusiasm that analysis of the old data generated. Figures 5a and 5b present seasonally adjusted monthly employment data for the Buffalo MSA from 1990 through April of 2016 and December 2015 respectively. This information is based on the payrolls of establishments drawn from CES data (<http://www.bls.gov/sae/>). This survey is timelier than others because of its size and sampling techniques. While it presents an opportunity to get an early glimpse into trends in the labor market, it is not as reliable as larger surveys that lag in release time.

The survey that generates the data presented in Figures 5a and 5b is re-benchmarked periodically. An excerpt from the site that discusses the timing and rationale of the re-benchmarking of data released from these surveys appears below:

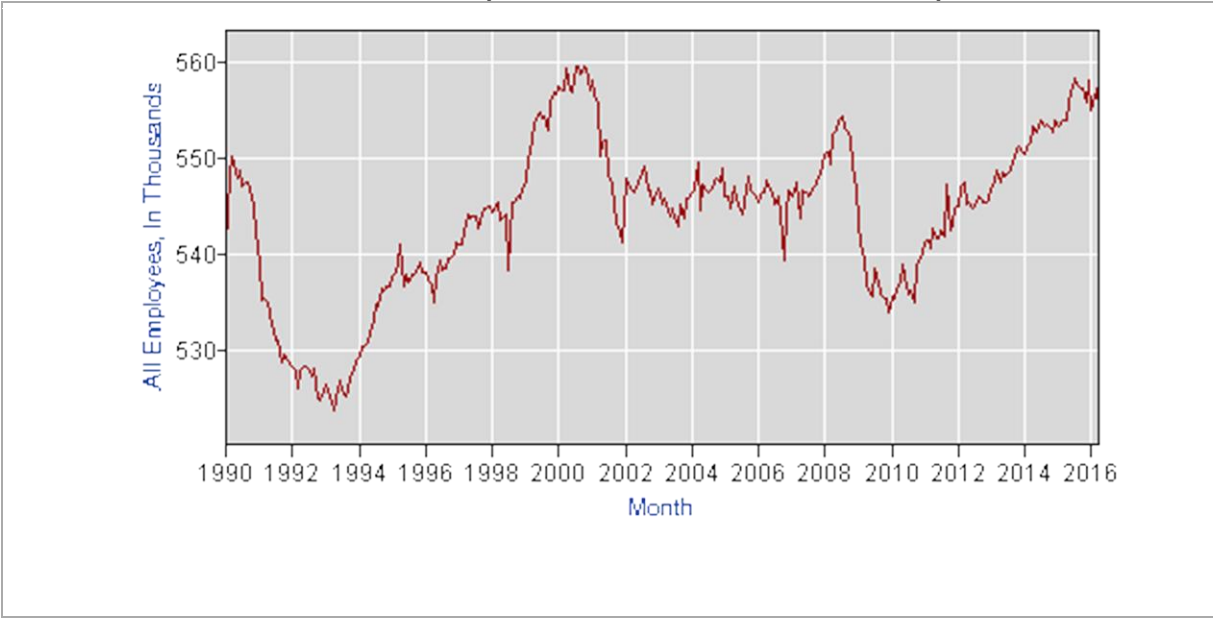
*To control potential survey (CES) error, the estimates are benchmarked annually to universe counts derived from administrative files of employees covered by unemployment insurance (UI). Original sample-based estimates are replaced with benchmark data from the previous year through at least March of the benchmark year. In the current 2016 benchmark, the estimates from April 2014 to September 2015 were replaced with UI-based universe counts. For more info, see our Benchmark article at [www.bls.gov/sae/benchmark2016.pdf](http://www.bls.gov/sae/benchmark2016.pdf). Once the new September 2015 level was determined, the subsequent estimates were recalculated by applying the appropriate sample links to the new levels. These links may differ slightly from those used to derive the original estimates, because they account for late reporters. The entire period from October 2015 forward is referred to as the post-benchmark projection period. This process was completed and the revised data were released with the January 2016 estimates*

Figure 5b is based on the data available in January 2016, before the post-benchmarked data was released. The January 2016 issue of this newsletter stated:

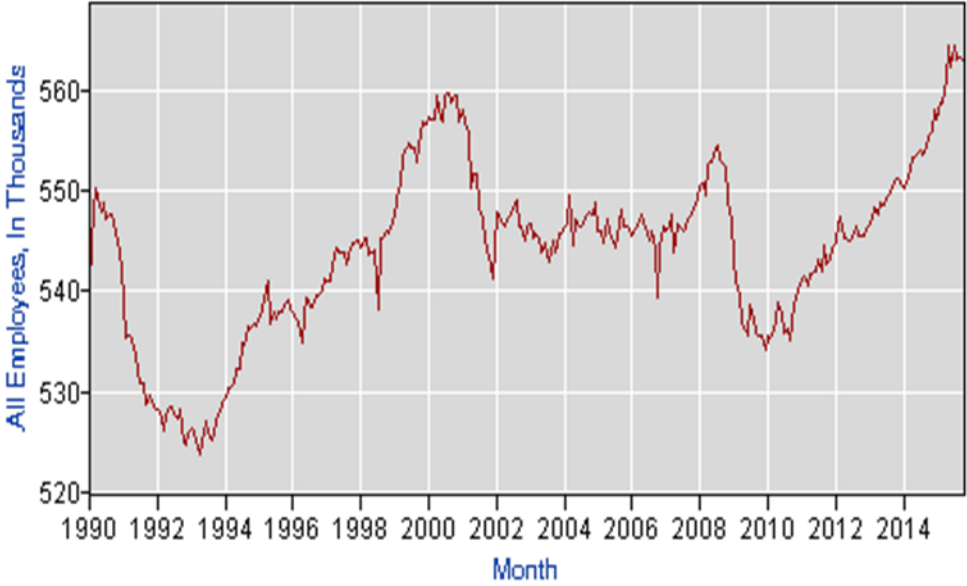
*From 2010 through 2015 the average annual growth rate of employment in the Buffalo metropolitan area has been about .8% compared to 1.6% nationally. While local employment growth still lags the US trend, the gap was reduced to .8% from 1% last year at this time. Additionally, the drop-off of local employment that occurred during the second quarter of 2014 was reversed over the remainder of that year and through 2015. This is good news when placed in the context of the failed local recovery from the period between the 2001 and 2008-2009 recessions, when total employment in the MSA never returned to its pre-recession 2001 level.*

While the growth in employment is not as substantial as had been reported in January, the recent increase in the labor force, along with total non-agricultural employment is good news. Continued improvement of these measures, as well as the changing composition and level of compensation for labor in the regional market, will determine if the Buffalo MSA is finally going to end its sustained period of economic and demographic decline.

**Figure 5a. WNY Non-Agricultural Employment: Seasonally Adjusted 1990-2016 (Based on Post-Revision Data)**



**Figure 5b. WNY Non-Agricultural Employment: Seasonally Adjusted 1990-2015 (Based on Pre-Revision Data)**



A comparison of the data underlying Figures 5a and 5b shows that employment in the Buffalo MSA has not yet returned to the level it attained before the 2001 recession. It also suggests that it is somewhat premature to proclaim a *Buffalo Renaissance*, though the slow and generally steady growth in the regional economy will be beneficial if it continues. While Figure 5a shows that employment in the Buffalo MSA has still not reached the levels that occurred prior to the 2001 recession; it does seem that during 2015, employment in the Buffalo MSA eclipsed the level it had reached before the 2008 recession. As previously noted, the decline in employment that began in late 2014 has abated, but seasonally adjusted monthly data do not indicate a resumption of the rate of growth that had preceded the decline.

The data that reflects the new benchmarks reveals that no matter how cautiously written, it was possible to overstate the economic recovery in the Buffalo MSA. To that end, this newsletter follows employment, wages and income from a variety of sources. At times, this practice may make it appear that the authors are skeptical or lacking in enthusiasm for newly released data that provides, at best, new information for a single point in time.

With increasing frequency, we have found it informative to compare CES data to information derived from the broader based and larger *Quarterly Census of Employment and Wages* (QCEW). Table 3 provides employment patterns for Erie County for 2010, 2014 and the average annual rate of growth in wages by sector between 2010 and 2014. Later this summer, the QCEW will release annual employment and wage information for 2015.

Based on a preliminary estimate of employment growth for Erie County, as reported in QCEW data for the first 9 months of 2015, Erie County employment seems to have grown at a rate of 1%, nearly twice the average rate of the period between 2010 and 2014. The actual growth rate for all of 2015 will be discussed in the September newsletter.

## **Conclusion**

The revised CES employment data, released in March 2016, suggests that the Buffalo MSA is not growing as quickly as pre-revised data made it appear. The decline in employment noted last summer has abated, but has not yet been reversed. The metropolitan area has finally eclipsed the level of employment from before the 2008 recession, but has not yet returned to 2001 levels. Thus, it is difficult to say that the region has recovered from recession as well as the rest of the nation has. Nationally, employment losses from the 2001 recession were replaced by 2005 and employment losses from the 2008-2009 recession were replaced by 2014.



**Table 3: Employment Patterns in Erie County: 2010 – 2014**

<b>Erie County QCEW Employment and Location Quotients: 2014*</b>	<b>LQ's</b>	<b>Employment 2010</b>	<b>Employment 2014</b>	<b>Annual % Change Wages per Worker 2010-14</b>
Base Industry: Total, all industries **	1.00	447,037	456,856	2.3%
NAICS 23 Construction	0.79	15,488	16,226	1.9%
NAICS 31-33 Manufacturing***	1.06	41,119	42,970	2.5%
NAICS 54 Professional and technical services ***	.85	24,967	23,613	2.5%
NAICS 55 Management of companies and enterprises ***	1.76	10,738	12,677	5.6%
NAICS 56 Administrative and waste services ***	.91	26,027	26,077	-0.3%
NAICS 61 Educational services ***	1.37	11,375	12,230	2.7%
NAICS 62 Health care & social assistance***	1.05	61,619	62,953	2.4%
NAICS 52 Finance and insurance ***	1.26	22,796	23,624	2.8%
NAICS 72 Accommodation and food services ***	1.01	38,872	42,214	3.2%
NAICS 81 Other services, except public administration ***	1.03	16,132	17,313	1.0%

\* LQ (Location Quotient): Ratio of analysis-industry employment in Erie County to total base-industry employment in the county divided by the ratio of analysis-industry employment in the US to base-industry employment in the US *from BLS Quarterly Census of Employment and Wages (QCEW)* \*\* All employers, public and private \*\*\*private sector wages

<b>NATIONAL, STATE &amp; LOCAL BUSINESS INDICATORS</b>					
<b>NATIONAL INDICATORS</b>					<b>% change</b>
	<b>2015:I</b>	<b>2015:III</b>	<b>2015:IV</b>	<b>2016:I</b>	<b>2015:I - 2016:I</b>
Real GDP (billions of chained 2009\$) (1)(a)	16,177.3	16,414.0	16,470.6	16,505.1	2.0
Real GDI (billions of chained 2009\$) (1)(a)	16,408.6	16,581.5	16,661.7	16,753.8	2.1
US Personal Income (billions of \$) (1)(a)	15,079.8	15,443.7	15,602.1	15,746.0	4.4
					<b>% change</b>
	<b>Apr-15</b>	<b>Feb-16</b>	<b>Mar-16</b>	<b>Apr-16</b>	<b>Apr-15 - Apr-16</b>
Consumer Price Index (1982-84=100) (2)	236.599	237.111	238.132	239.261	1.13
Exchange Rate Canadian cents/US \$ (3) (b)	120.750	135.43	130.00	125.54	3.97
10 Year Treasury Note Yield (%) (3) (b)	2.034	1.736	1.771	1.834	-0.20
3 Month Treasury Bill Yield (%) (3) (b)	0.013	0.313	0.209	0.214	0.20
S&P 500 Stock Index (3) (b)	2,085.51	1,932.23	2,059.74	2,065.30	-0.97
Dow-Jones Industrial Average (3) (b)	17,840.52	16,512.52	17,685.09	17,773.64	-0.37
<b>LABOR MARKET TRENDS (2)</b>					
Nonag Civilian Employment					
US (1000's)(a)	141,223	143,547	143,733	143,856	1.86
NY State (1000's)(a)	9,209.8	9,320.3	9,332.9	9,343.3	1.45
WNY (1000's)	552.1	547.3	548.7	555.2	0.56
Unemployment Rate (%)					
US (a)	5.4	4.9	5.0	5.0	-0.4
NY State (a)	5.5	4.8	4.8	4.9	-0.6
WNY	5.6	5.5	5.3	5.0	-0.6
Ave. Weekly Hours in Mfg. US (a)	41.8	41.8	41.7	41.8	0.00
Ave. Weekly. Earnings in Mfg. US \$(a)	828.06	844.78	846.09	852.72	2.98
US Private Employment (1000's)(a)	119,252	121,483	121,650	121,780	2.12
<b>WNY EMPLOYMENT BY SECTOR (1000's) (2)</b>					
Mining, Logging & Construction	19.1	17.2	17.8	19.7	3.14
Manufacturing	51.9	50.9	50.8	50.1	-3.47
Trade, Transportation & Utilities	101.7	102.7	104.0	105.3	3.54
Durable Goods	32.6	32.2	32.1	32.3	-0.92
Finance Activities	33.1	33.8	34.2	34.1	3.02
Government	89.7	90.8	91.0	90.6	1.00
(1) US Dept. of Commerce	(a) Seasonally Adjusted				
(2) US Dept. of Labor	(b) End of month data				
(3) Wall Street Journal					