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The US economic recovery continues at a steady, if unspectacular, pace. Unemployment rates have fallen to the range generally proclaimed to be "*maximum employment consistent with stable prices*." Inflation rates are low in relative terms and within the acceptable range. Income and earnings growth has been slow, but the growth in employment has spread the benefits of the recovery across most economic classifications. The Fed is proceeding with a slow upward adjustment of federal funds rates. Within the Western New York region employment growth continues, though at rates substantially lower than those occurring throughout the rest of the US. For previous newsletters see: http://www.canisius.edu/wnyeconomicnews

The National Economic Outlook

The BEA's [www.bea.gov] advanced estimate of real GDP growth during 2017:Q1 was reported to be 0.7% after having grown by 2.1% during 2016:Q4 (see Figure 1). The slowdown of GDP growth was attributed to a decline in inventories, federal, state and local government expenditures and a slowdown in the growth of personal consumption expenditures. Is the slowdown in growth a sign of future recession or an anomaly? Since first quarter GDP growth data has been less than 1% or negative in three of the past four years, we believe that the seasonal adjustment process is the cause of below par growth figures in the first quarter. If real GDP growth rates remain positive during 2017:Q2, then the age of the current business cycle expansion will be 8 years. This is 3 years longer than the average post-WWII expansion, which has been approximately 5 years.

Given the recent increases in the fed funds target range, it does not appear as though the Fed is worried about a recession on the near term horizon. The FOMC increased the upper and lower endpoints of their fed funds target by 25 basis points at their March 2017 meeting. They previously increased their rate target by 25 basis points in December 2015 and December 2016. The behavior of yields on 3 month Treasury bills and 10 year Treasury notes since January 2007 are shown in Figure 2. Three month yields have been increasing since August 2015 as market participants were expecting the Fed to increase rates in December. Ten year Treasury yields were trending downward over the period December 2013 - June 2016, were increasing from July 2016 to January 2017, and have been decreasing over the past several months. The 10-year yield was at 2.232% at the time this was written.

The Wehle School of Business at Canisius College publishes the *Western New York Economic News* as a public service to the Western New York community with research and analysis performed by
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Figure 1. Real GDP Growth Rates: 2007:Q1 - 2017:Q1

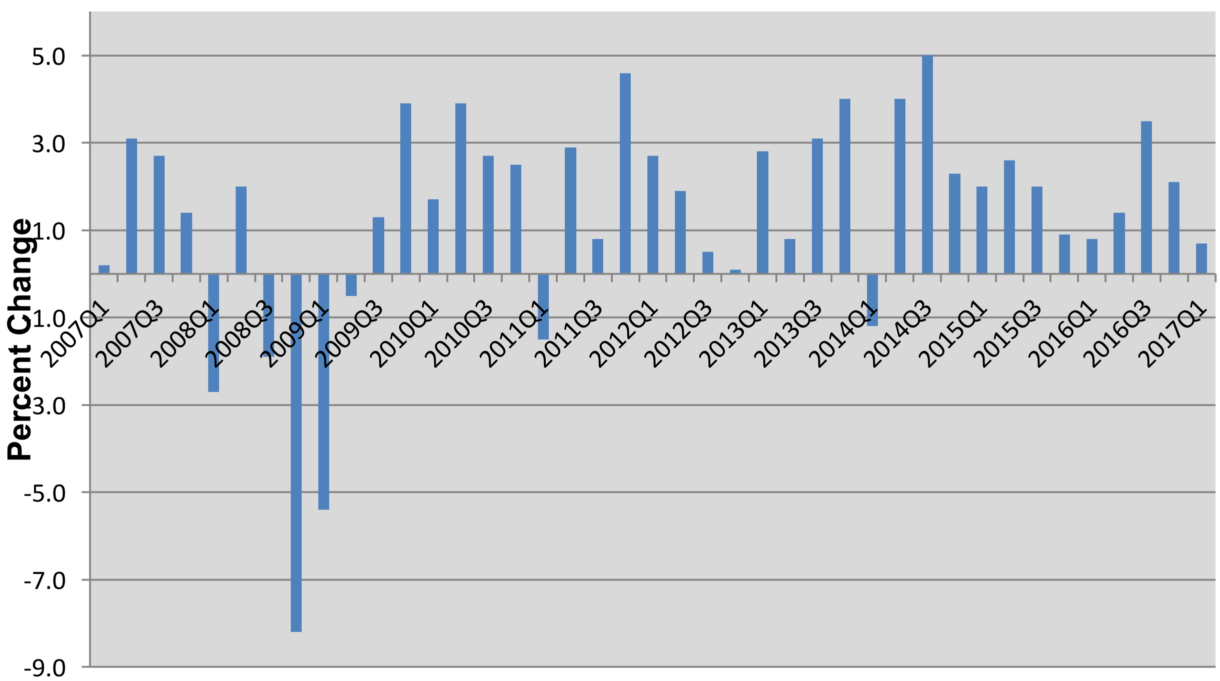
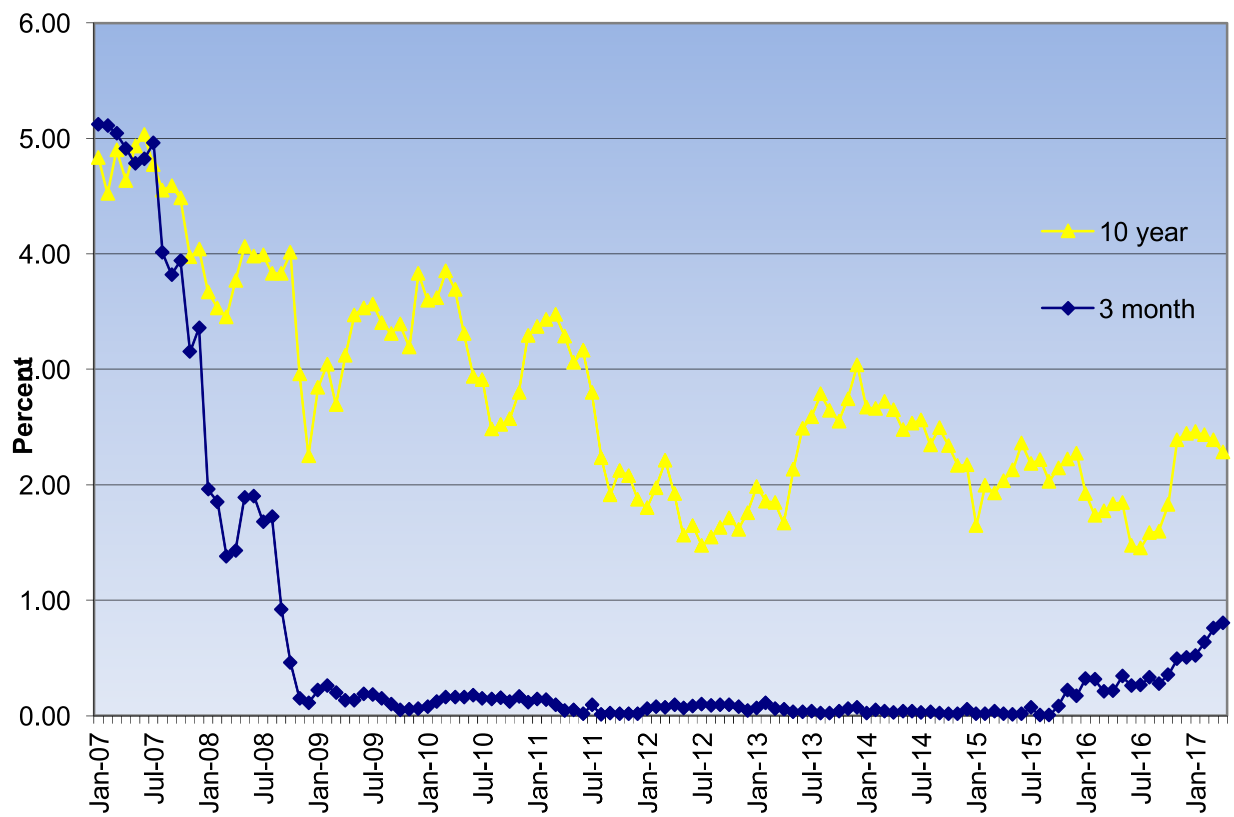
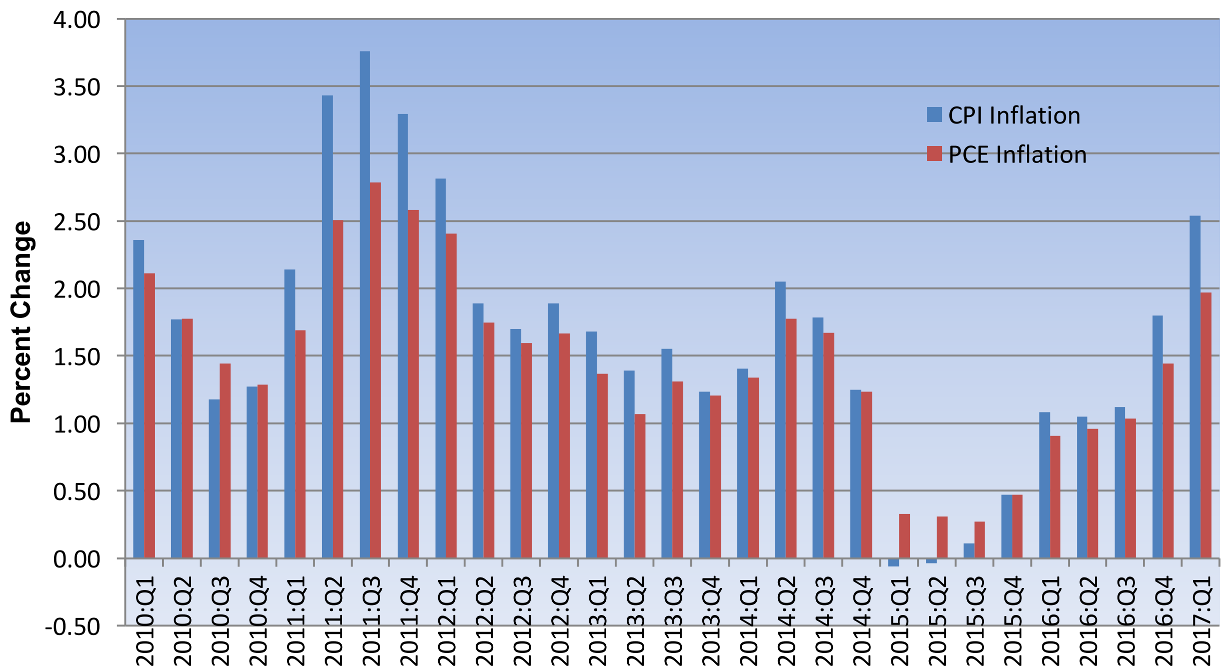


Figure 2. 3-Month T-Bill and 10-ear T-Note Yields : 2007-2017



Inflation based on the personal consumption expenditure (PCE) deflator, which is the Fed's preferred measure, has gradually ascended to their 2% target in the first quarter of 2017. Quarterly inflation rates since 2010 based on both the PCE deflator and the CPI are shown in Figure 3. During 2017:Q1, the inflation rate based on the CPI was 2.54% while PCE inflation stood at 1.97% compared to their values in 2016:Q1. The very low inflation that the economy has experienced has kept the Fed from more aggressively increasing short term rates over the past two years. Movement of the inflation rate to near the Fed's target is likely to result in further 25 basis point increments in the fed funds target this year.

Figure 3. CPI & PCE Inflation Rates: 2010-2017



An additional factor that has influenced the Fed's interest rate decisions is the improving behavior of labor markets. Payroll employment has been consistently growing since February 2010, while the unemployment rate has been declining since October 2009. These series are exhibited in Figure 4. The unemployment rate stood at 4.4% in April 2017. Although payroll employment has increased and the unemployment rate has fallen, real weekly wages of all employees have been relatively flat since January 2016 (see Figure 5). One would expect real wages to increase once the slack has been taken out of labor markets. The link between increasing wages and inflation is something that the Fed will keep a close eye on in coming months. It appears as though the economy has room to grow before wages increase significantly and lead to problematic inflation rates that generally lead to significant Fed tightening.

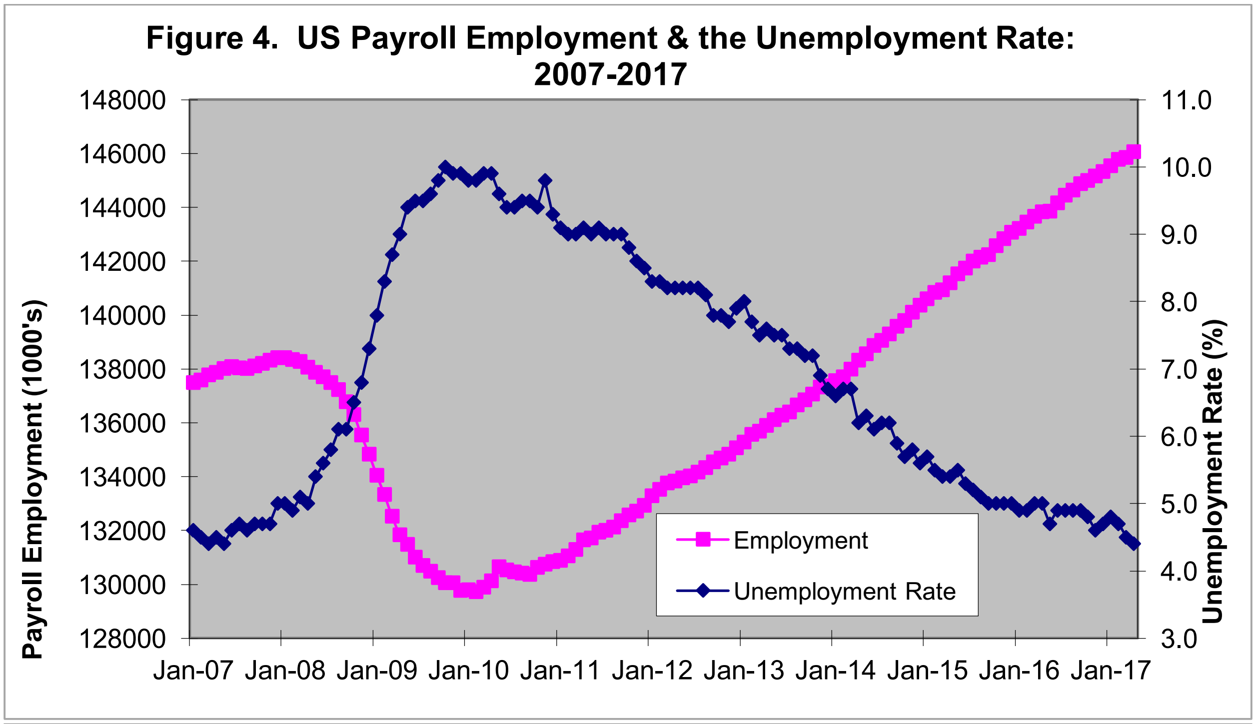


Figure 4. US Payroll Employment & the Unemployment Rate: 2007-2017
Payroll Employment (1000's)
Unemployment Rate (%)
148000
146000
144000
142000
140000
138000
136000
134000
132000
130000
128000
11.0
10.0
9.0
8.0
7.0
6.0
5.0
4.0
3.0
Employment
Unemployment Rate
Jan-07 Jan-08 Jan-09 Jan-10 Jan-11 Jan-12 Jan-13 Jan-14 Jan-15 Jan-16 Jan-17

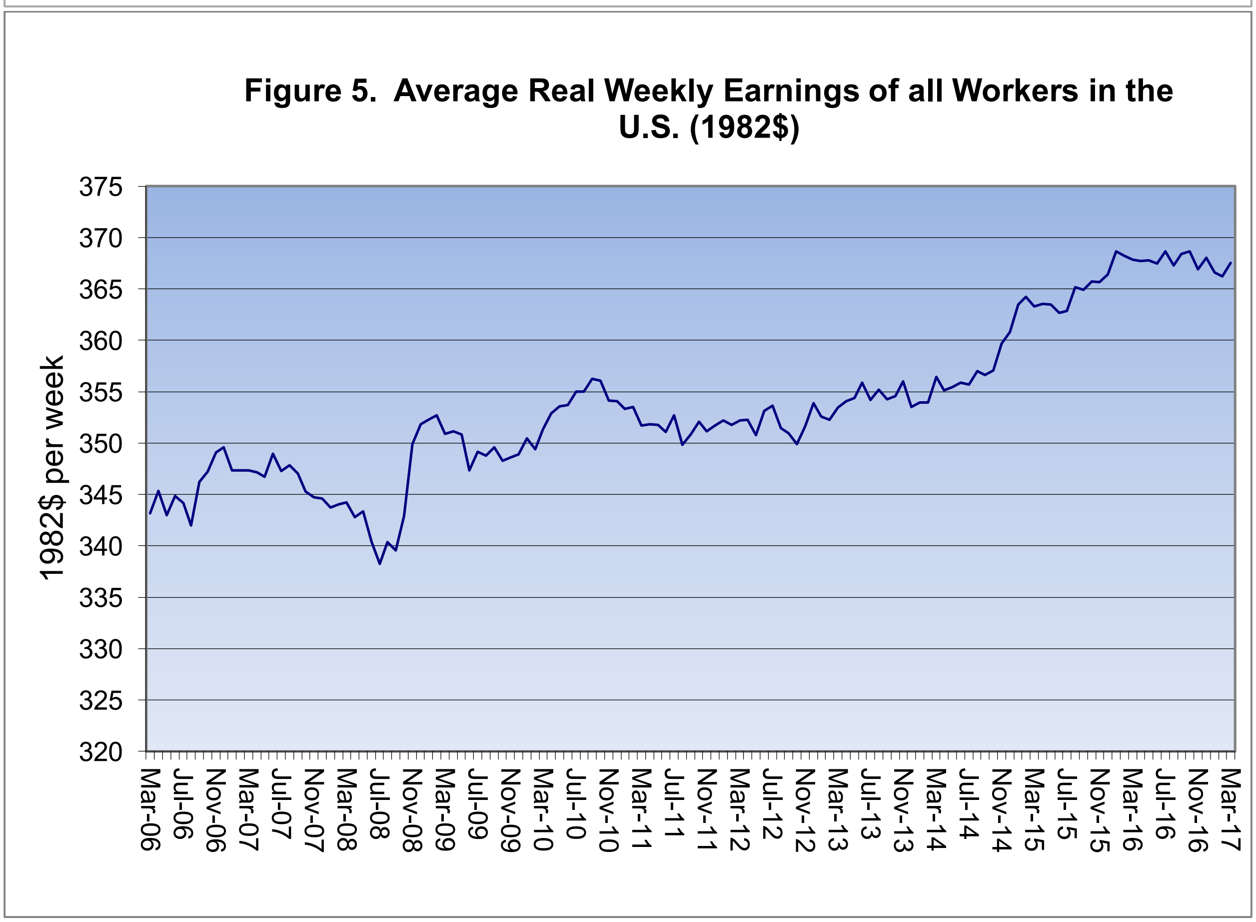


Figure 5. Average Real Weekly Earnings of all Workers in the U.S. (1982$)
1982$ per week
375
370
365
360
355
350
345
340
335
330
325
320
Mar-06 Jul-06 Nov-06 Mar-07 Jul-07 Nov-07 Mar-08 Jul-08 Nov-08 Mar-09 Jul-09 Nov-09 Mar-10 Jul-10 Nov-10 Mar-11 Jul-11 Nov-11 Mar-12 Jul-12 Nov-12 Mar-13 Jul-13 Nov-13 Mar-14 Jul-14 Nov-14 Mar-15 Jul-15 Nov-15 Mar-16 Jul-16 Nov-16 Mar-17

The Economic Outlook for the Buffalo Region

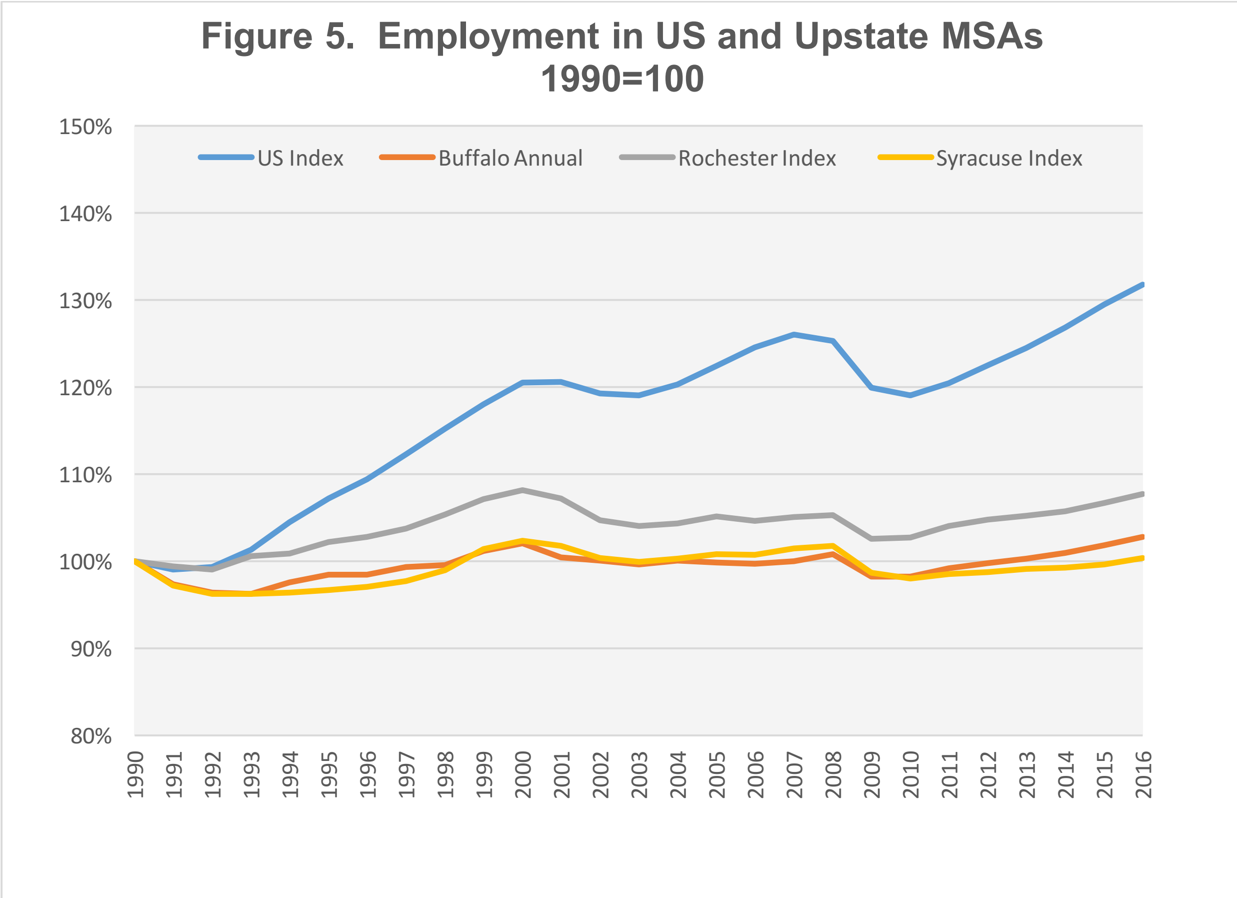
Undoubtedly the Buffalo MSA has recovered from the employment losses of the “great recession”. Equally clear, unlike the case for so many post-World War II recessions, the Buffalo region did not lead the nation into recession, and in terms of employment loss and unemployment rates it did not fall more deeply than the nation as a whole. What does seem to be apparent though is that the region does not seem to be recovering as rapidly, or as fully as the rest of the nation. In this edition of the newsletter, the changes in employment since 1990, and since 2008 are compared and contrasted to the US economy, as well as to the other upstate metropolitan areas.

Table 1: Average Annual Rate of Change of Total Employment

Average Annual Rate of Change:Total Employment			
	1990-2016	2008-2016	
US	0.96%	0.99%	
Buffalo MSA	0.22%	0.12%	
Rochester MSA	0.19%	0.19%	
Syracuse MSA	0.09%	0.01%	

As has been stated repeatedly, the upstate New York MSAs have experienced employment growth that has not matched that of the rest of the United States for quite some time. As presented in Table 1, the growth rate of total employment as measured in BLS terms has been between five and ten times higher in the US than upstate rates. The contrast has increased dramatically since the 2007-2009 recession. In terms of total employment growth, it is hard to make a case for a significant improvement in Buffalo, or any of the upstate MSAs. In the next newsletter, QCEW data will be examined to analyze sectoral growth and decline, as well as the income generating capacity of the sectors.

Figure 5 graphically depicts the differences in the annual growth patterns of total employment from 1990-2016, where all years are indexed to employment in 1990. The data in Figure 5 is reported as a percent of 1990 levels. The chart shows the gap between the nation and upstate New York. It also reveals the growing gap since the end of the recession (2010).



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

While some economic analysts seem to see good times behind every political promise or headline, the actual data is a little less compelling. In its affirmation of the City of Buffalo's 2015 A1 rating, Moody's Investors Service warns that "… of the 100 largest US metropolitan areas only Cleveland, Rochester and Detroit are predicted to lose more residents over the next decade." The employment picture shown in Figure 5 appears to support this expectation.

The seasonally adjusted data presented in Figures 6a-6d through March of 2017 is consistent with the annual employment information presented above. As previously stated, the last recession was less devastating to the local economy than previous recessions. While this newsletter has focused on the slow growth rate of total employment, the next will analyze industrial sectors and use QCEW data for wages by sector and earnings per worker regardless of industrial sector. Last fall this analysis was somewhat more positive than the employment picture.

Figure 6a. U.S. Non-Ag Employment: 1990 - 2016

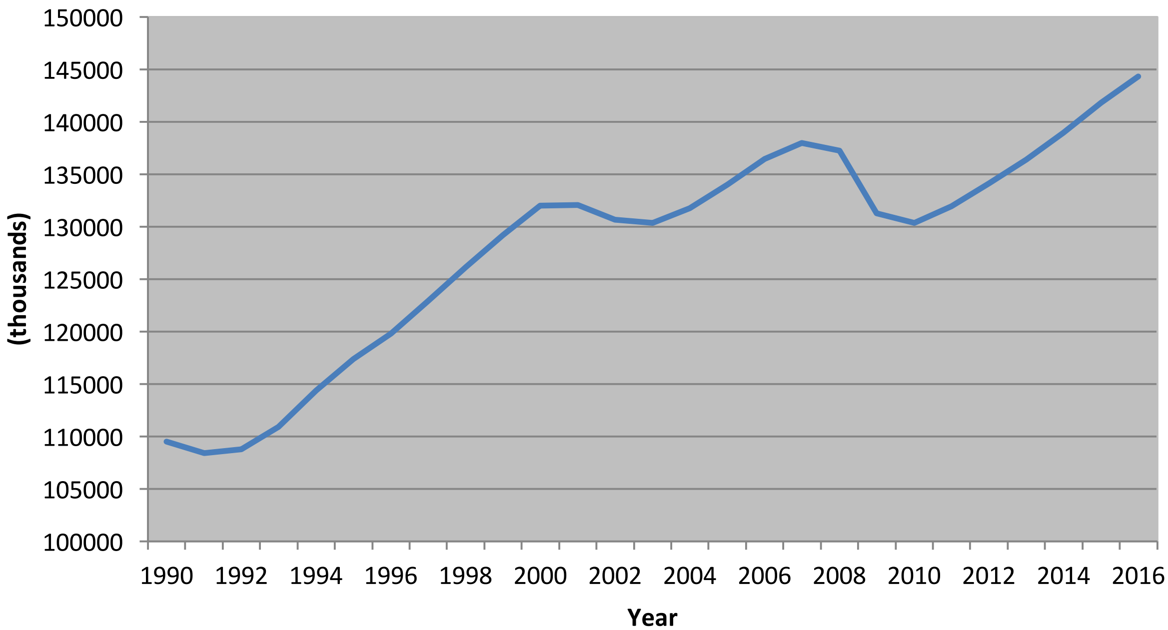


Figure 6b. Buffalo MSA Non-Agricultural Employment: Seasonally Adjusted 1990-2017

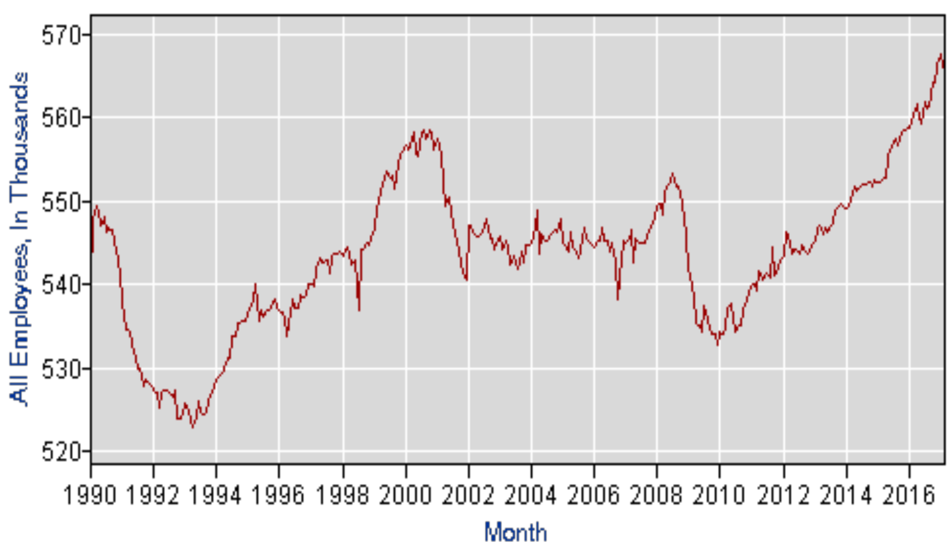


Figure 6c. Rochester MSA Non-Agricultural Employment: Seasonally Adjusted 1990-2017

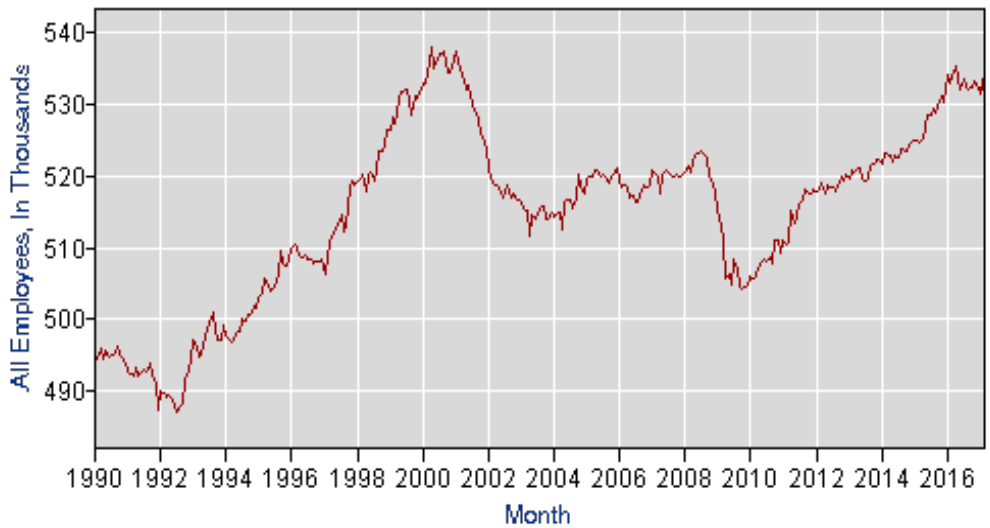
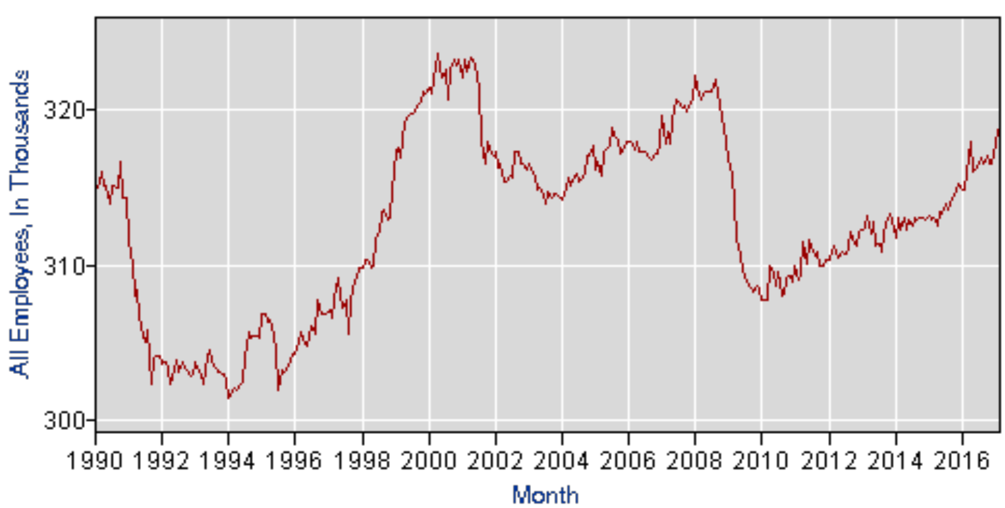


Figure 6d. Syracuse MSA Non-Agricultural Employment: Seasonally Adjusted 1990-2017



NATIONAL, STATE & LOCAL BUSINESS INDICATORS

NATIONAL INDICATORS	2016:I	2016:III	2016:IV	2017:I	% change 2016:I - 2017:I
Real GDP (billions of chained 2009$) (1)(a)	16,525.0	16,727.0	16,813.3	16,842.4	1.9
Real GDI (billions of chained 2009$) (1)(a)	16,763.9	16,999.8	17,042.1		
US Personal Income (billions of $) (1)(a)	15,740.1	16,111.1	16,265.7	16,427.6	4.4

	Apr-16	Feb-17	Mar-17	Apr-17	% change Apr-16 - Apr-17
Consumer Price Index (1982-84=100) (2)	239.261	243.603	243.801	244.524	2.20
Exchange Rate Canadian cents/US $ (3) (b)	125.54	133.340	133.190	136.560	8.78
10 Year Treasury Note Yield (%) (3) (b)	1.834	2.430	2.386	2.281	0.45
3 Month Treasury Bill Yield (%) (3) (b)	0.214	0.635	0.757	0.805	0.59
S&P 500 Stock Index (3) (b)	2,065.30	2,363.64	2,362.72	2,384.20	15.44
Dow-Jones Industrial Average (3) (b)	17,773.64	20,812.24	20,663.22	20,940.51	17.82
LABOR MARKET TRENDS (2)					
Nonag Civilian Employment					
US (1000's)(a)	143,826	145,773	145,852	146,063	1.56
NY State (1000's)(a)*	9,388.4	9,498.0	9,493.8		1.22
WNY (1000's)*	559.4	556.8	556.9		0.92
Unemployment Rate (%)					
US (a)	5.0	4.7	4.5	4.4	-0.6
NY State (a)*	4.8	4.4	4.3		-0.5
WNY*	5.0	5.9	5.2		-0.1
Ave. Weekly Hours in Mfg. US (a)	41.8	41.9	41.7	41.8	0.0
Ave. Weekly. Earnings in Mfg. US ($)(a)	852.30	864.82	862.77	866.10	1.62
US Private Employment (1000's)(a)	121,665	123,452	123,529	123,723	1.69
WNY EMPLOYMENT BY SECTOR (1000's) (2)*					
Mining, Logging & Construction	20.7	17.9	18.1		-4.74
Manufacturing	52.0	51.8	51.8		0.00
Trade, Transportation & Utilities	102.6	101.4	101.3		-0.30
Durable Goods	32.3	31.8	31.8		-0.93
Finance Activities	34.5	34.3	34.1		-0.29
Government	90.8	92.3	92.5		1.65

(1) US Dept. of Commerce — (a) Seasonally Adjusted
(2) US Dept. of Labor — (b) End of month data
(3) Wall Street Journal — *March 2016 - March 2017 % change