

**Western New York ECONOMIC NEWS**  
**Canisius College**  
**Richard J. Wehle School of Business**

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The BEA earnings report, which has historically served as the basis for our projection of the region's economic health, has been released for the year 2015. This issue of *WNY Economic News* focuses on the relationship between the regional economies of Western New York and the national economy. The internet links for this newsletter are available at <http://www.canisius.edu/wnyeconomicnews>.

### **The National Economic Outlook**

Real GDP growth during 2016:Q3 accelerated to a 3.5% rate after having increased by .8% and 1.4% during the first two quarters of 2016. Growth rates of real GDP from 2007:Q1 to the present are shown in Figure 1. This is the first time real GDP has grown by more than 3% since the third quarter of 2014. Consumption expenditures increased by 3% from the previous quarter, while non-residential fixed investment increased 12% and exports 10%. Federal government expenditures increased by 2.4%. A 14% increase in imports, possibly related to U.S. dollar appreciation, and a 4.1% drop in residential investment were responsible for moderating the GDP growth rate.

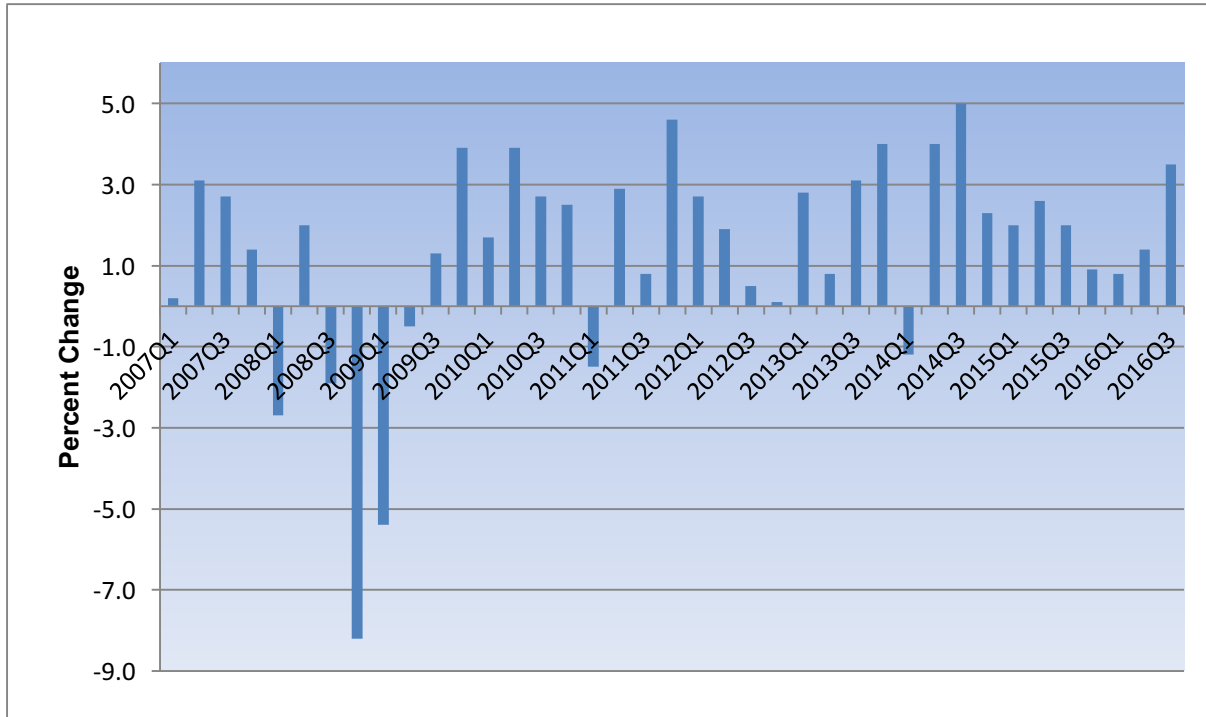
The growth in non-agricultural payroll employment averaged 180,000 jobs per month during the first 11 months of 2016. Payroll employment increased by 156,000 in December, and the November estimate was revised upward. (see Figure 2). Over the same period, monthly payroll employment growth in the Western New York region averaged an increase of 3,500 jobs per month compared to employment levels in the first 11 months of 2015. During 2014, the WNY economy added an average of 3,800 jobs per month. During 2015 this figure amounted to 2,900.

Both the national and WNY unemployment rates have hovered around the 5% level since the fall of 2015. The national unemployment rate stood at 4.7% in December, while the rate in WNY was 4.9% in November.

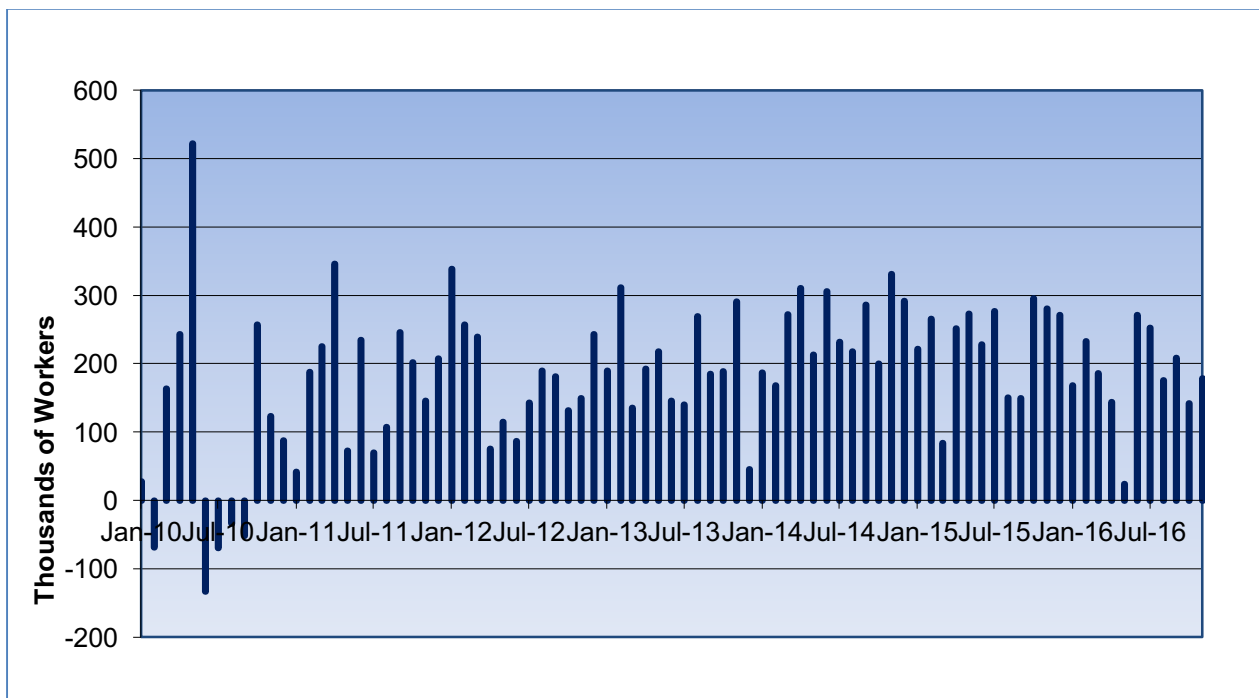
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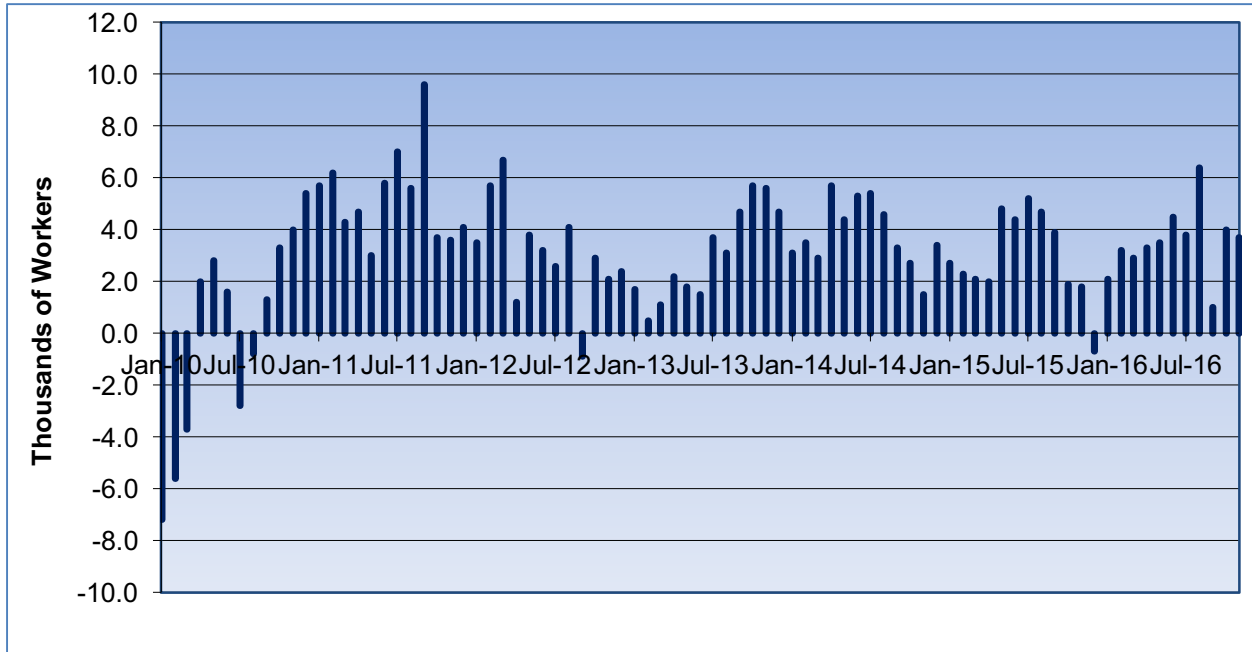
**Figure 1. Real GDP Growth Rates: 2007:Q1 - 2016:Q3**



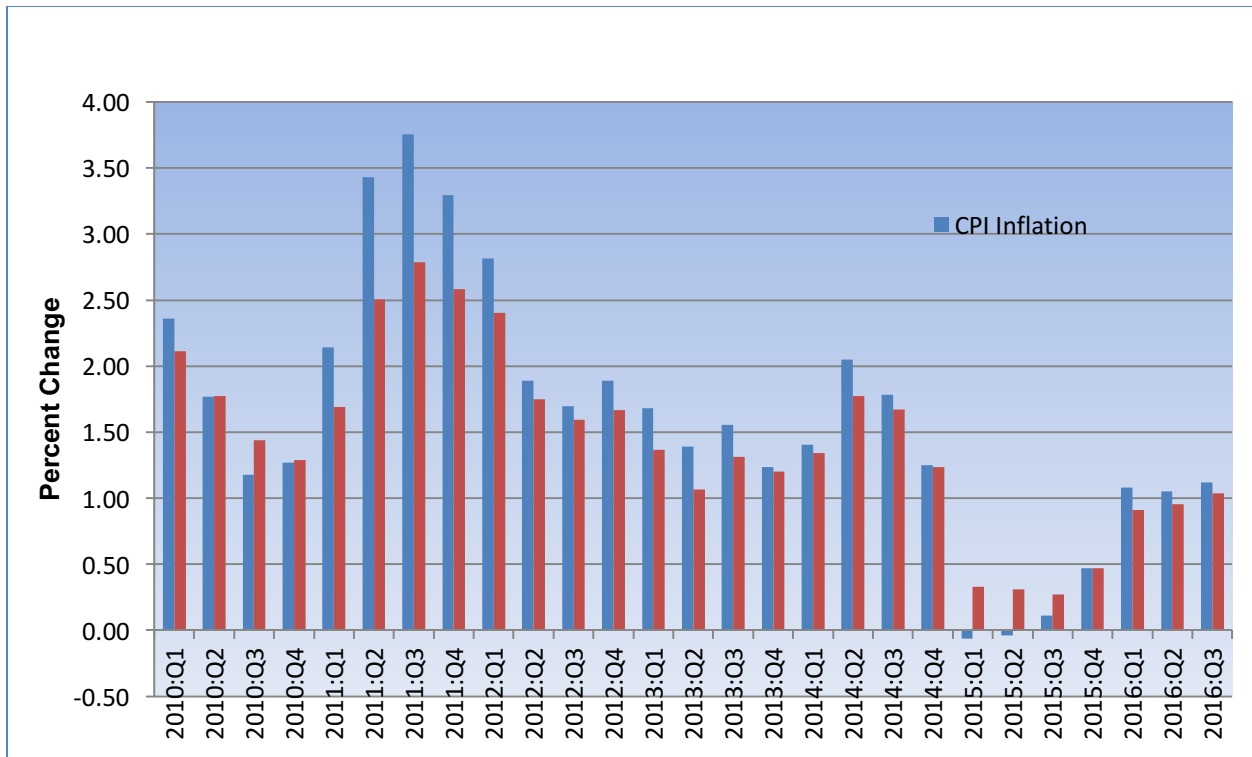
**Figure 2. Monthly Change in Total Non-Agricultural Employment (2010-2016)**



**Figure 3. Monthly Change in WNY Payroll Employment from Previous Year (2010-2016)**



**Figure 4. Consumer Price Index & Personal Consumption Expenditure Inflation Rates: 2010-2016**



In a move that was widely anticipated by financial markets, the policy making body of the Federal Reserve (FOMC) increased its target federal funds rate by 25 basis points during the mid-December 2016 meeting. At present the federal funds target is 50 to 75 basis points. The Fed noted that the economy has been expanding at a moderate pace since mid-year with improving labor markets and household expenditures; though the declining labor force participation rate that pre-occupied these policy makers for nearly 2 years is at the same level, 62.7% as it was in January 2015. The second issue with which the Federal Open market Committee expressed deep concern was an inflation rate below the 2-4% target range. Low inflation may have been the result of falling commodity prices, led by oil, and as long as real income is growing one can find few compelling reasons to obsess about the 2% goal. The Fed's favorite measure of inflation, the personal consumption expenditure (PCE) deflator, increased by 1% during the 2016:Q3. However, the trend in PCE inflation has been upwards over the past four quarters. Quarterly inflation rates based on the PCE deflator and the Consumer Price Index (CPI) over the period 2010-2016 are shown in Figure 4.

In anticipation of the December increase in the FOMC's Fed funds target, three month Treasury bill yields finally broke through the 40 basis point level after having remained below this level since November 2008. On November 7, 2016, three month yields closed at .41%. The three month yield has since breached 50 basis points. Yields on 10 year U.S. Treasuries have increased to approximately 260 basis points while the thirty year Treasury bond is above 300 basis points. Equity price indexes have been at historic highs the past couple of months. Financial markets seem to be expecting continued economic growth and a normalization of inflation and interest rates.

## **The Economic Outlook for the Buffalo Region**

Regional personal income (RPI) figures for the year 2015 were recently released by the BEA <http://www.bea.gov/regional>. Real Personal income growth rates (2009\$) over the period 2007-2015 are shown in Table 1 along with 2015 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.

In 2013, Buffalo MSA RPI declined more slowly than the nation, while the Rochester RPI declined more quickly than the nation. In 2014, the nation's RPI grew almost 3 times more quickly than Buffalo's and 5.5 times more quickly than Rochester's. In 2015, growth in both Buffalo and Rochester caught up to that of the nation.

Real personal income growth rates for the Buffalo and Rochester MSA's over the period 1988 - 2015 are shown in Figures 5a and 5b. It is likely that both Buffalo and Rochester will experience moderate real personal income growth in 2016, although at a slower rate than the nation. We project the national growth RPI growth rate to be 2.29% in 2016.

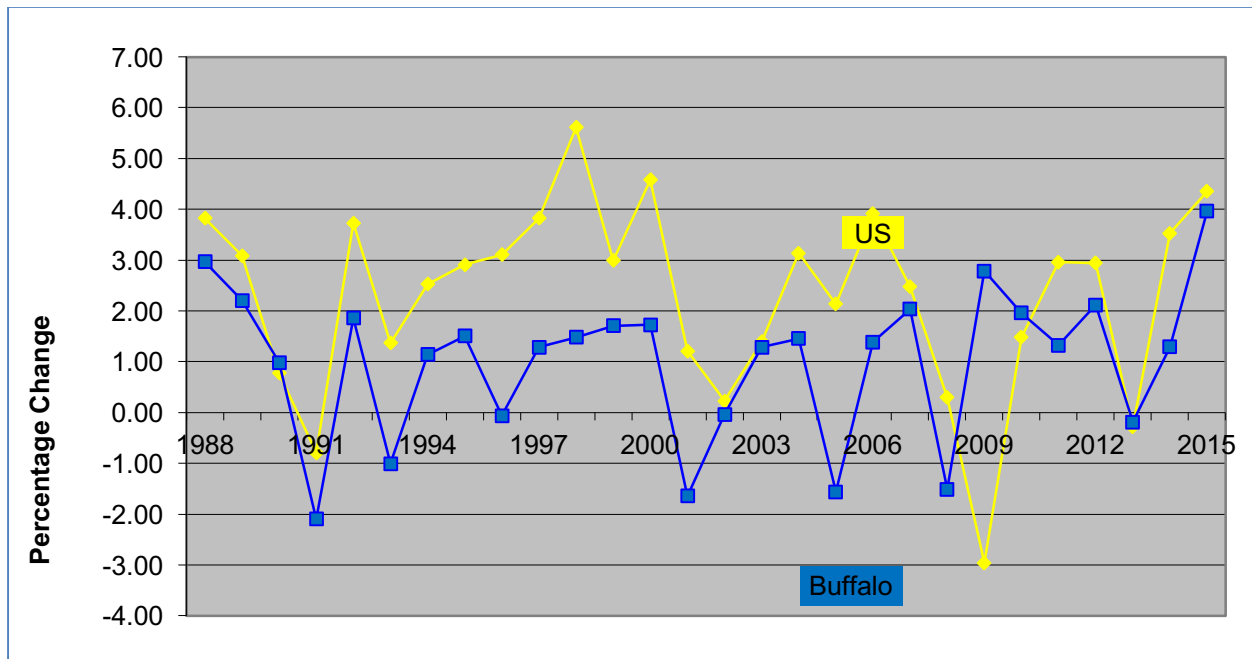
Given the historical relationship between each region's growth rate and that of the nation, we project 2016 RPI growth in Buffalo to be 1% and that of Rochester to be 1.32%.

**Table 1**

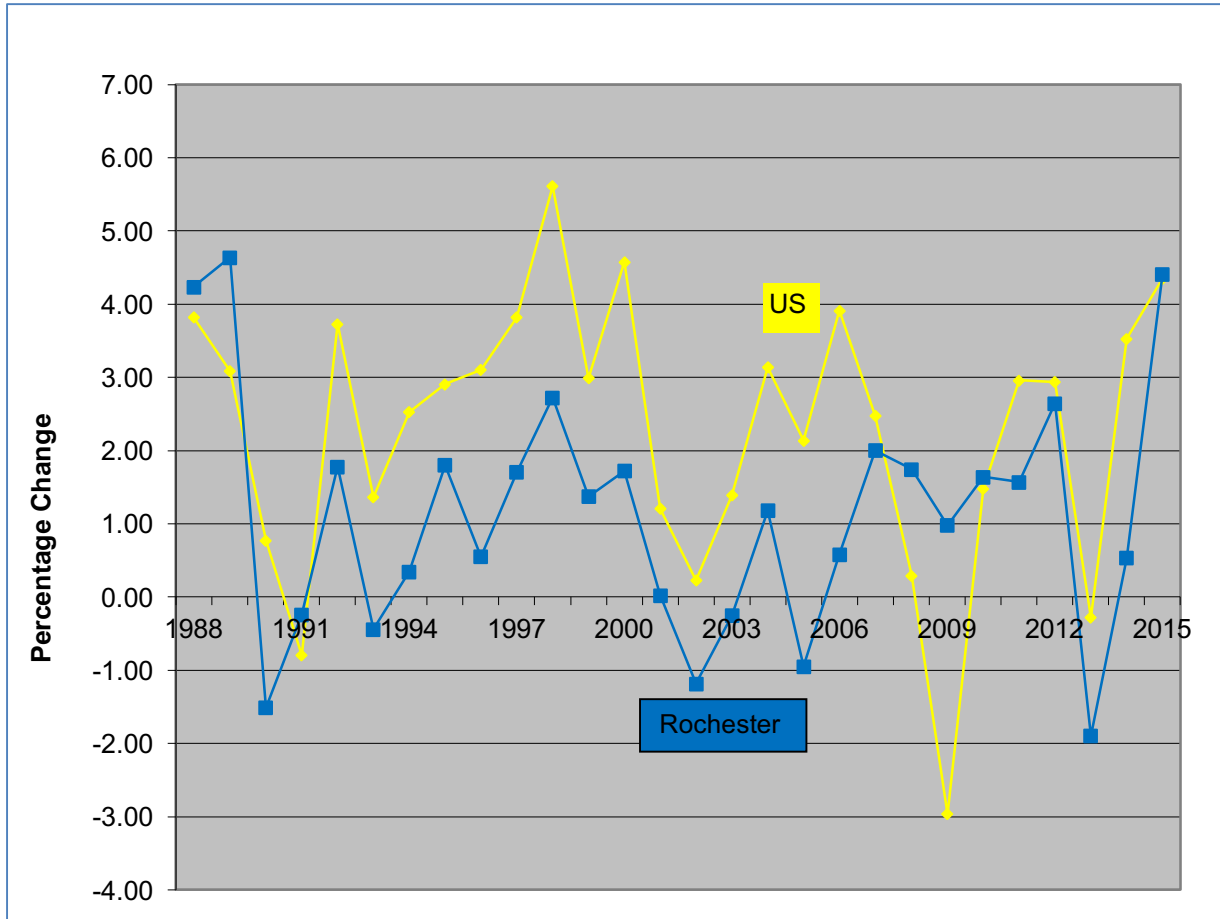
**Real Personal Income Growth Rates: U.S. Buffalo & Rochester MSAs**

Year	US	Buffalo MSA	Rochester MSA
2007	2.48	2.03	2.00
2008	0.29	-1.51	1.75
2009	-2.96	2.78	0.98
2010	1.48	1.96	1.64
2011	2.96	1.33	1.57
2012	2.94	2.12	2.64
2013	-0.28	-0.19	-1.90
2014	3.53	1.29	0.54
2015	4.35	3.96	4.41
2016	<b>2.29</b>	<b>1.00</b>	<b>1.32</b>
<b>2015 per capita income</b>	<b>\$48,112</b>	<b>\$45,769</b>	<b>\$46,076</b>

**Figure 5a. Real Personal Income Growth Rates: US v. Buffalo**

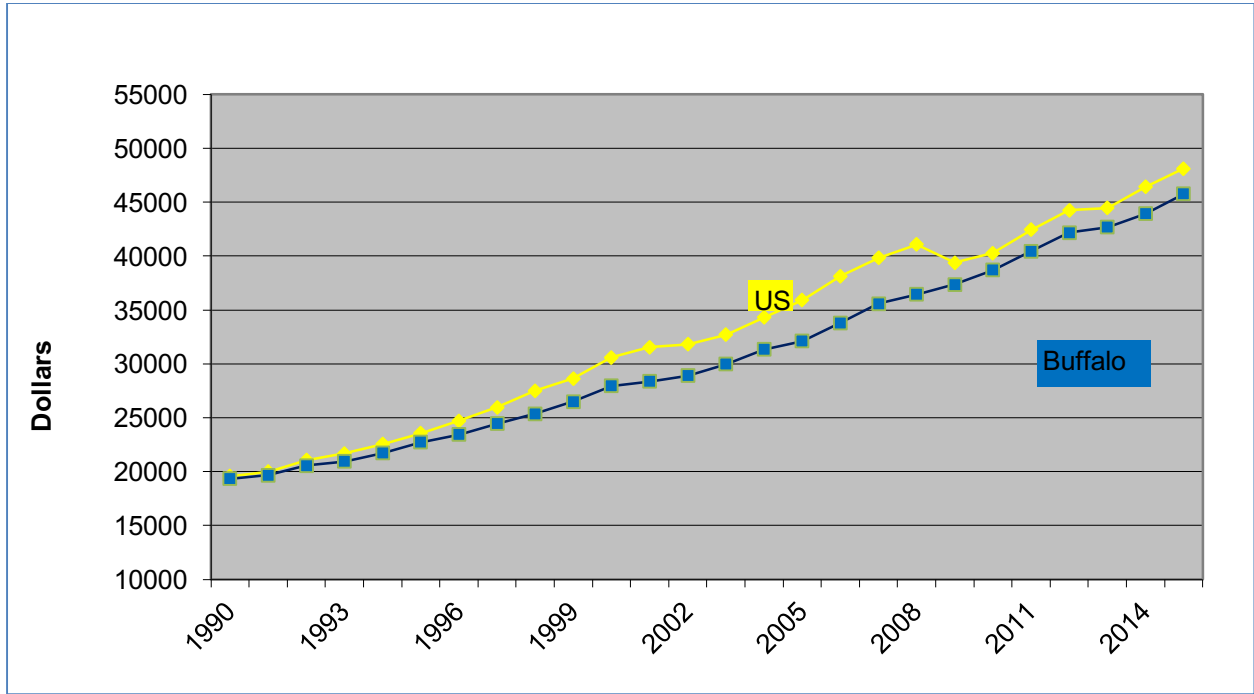


**Figure 5b. Real Personal Income Growth Rates: US v. Rochester**

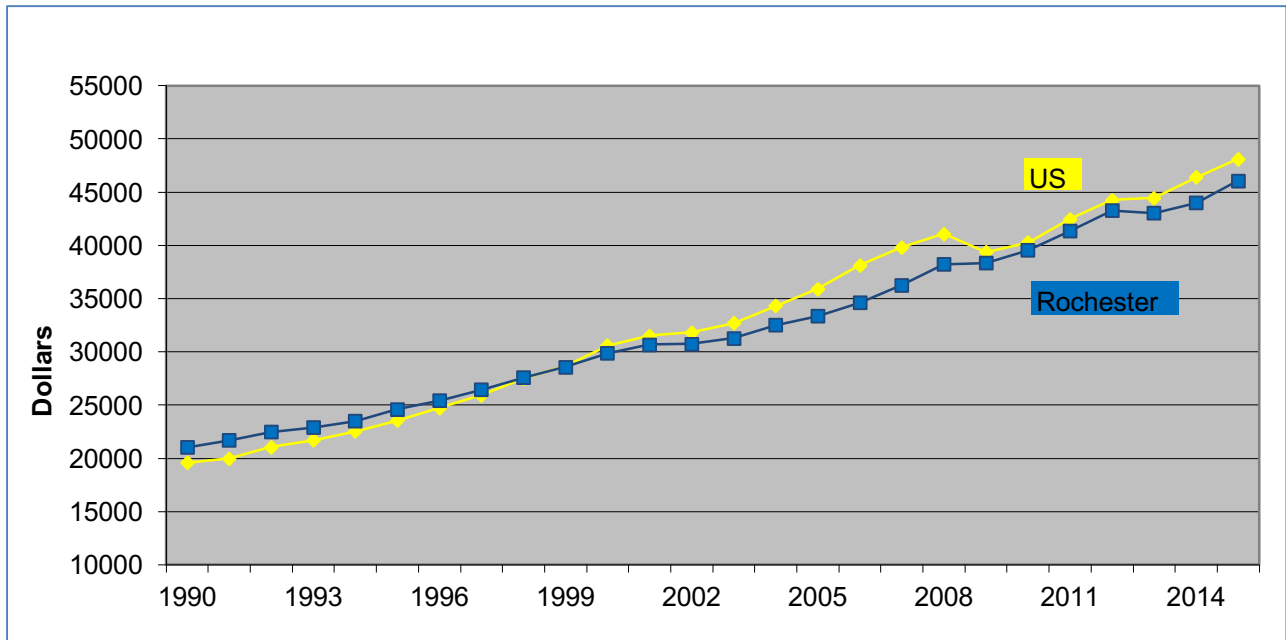


Per capita personal income for Buffalo and the U.S. is shown in Figure 6a, while that for Rochester and the U.S. is shown in Figure 6b. It is apparent from these figures that both regions weathered the 2008-2009 recession better than the nation as a whole. Although the gap between Buffalo and U.S. per capita income narrowed significantly in 2009 and 2010, the gap has been increasing since 2010. The story is very similar for the Rochester area.

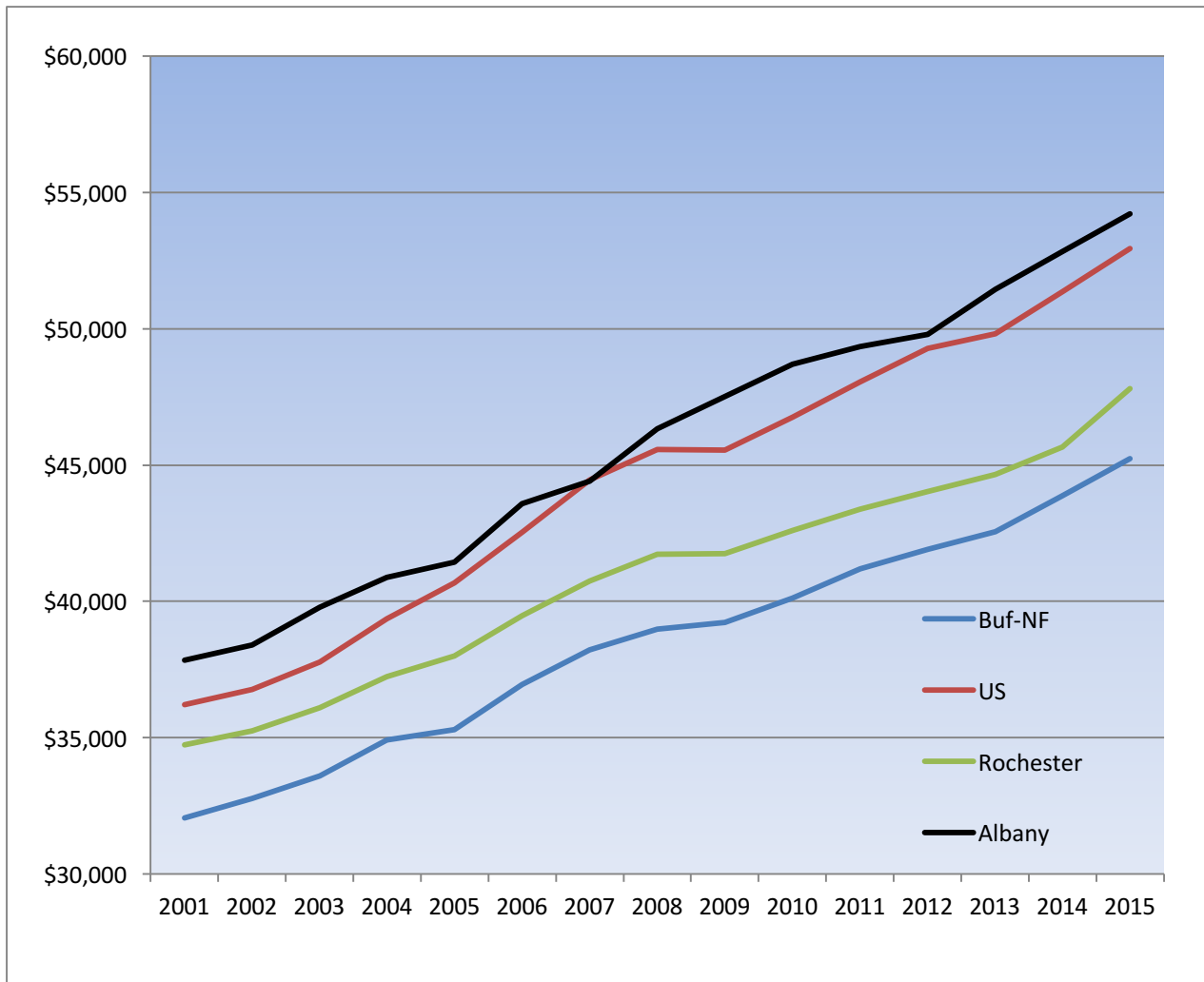
**Figure 6a. Per Capita Personal Income: US v. Buffalo**



**Figure 6b. Per Capita Personal Income: US v. Rochester**



**Figure 7. Average Annual Pay: Buffalo-Niagara Falls, Rochester & Albany v. US**



Since the bulk of personal income is made up of wages, it is instructive to view average annual pay for the upstate regions of Buffalo-Niagara Falls, Rochester and Albany versus that of the U.S. The only upstate region that has exhibited superior performance based on average annual pay versus that of the U.S. is the Albany region. This has been true for a number of years. The stability of the Albany labor market, and the higher than average earnings per worker there, may be more closely linked to the existence of massive state employment, with higher than average wages (\$63,318 QCEW Albany County state government employees vs. \$46,169 QCEW Erie County all workers in 2015), rather than to any underlying economic factors. The behavior of the state capital also includes “state sponsored” re-allocations of economic resources. The recent problems associated with the public-private partnership, especially as seen with the “Buffalo Billion” and the SUNY-Polytechnic Institute, should give pause to any claims made concerning the state’s ability to identify the economic actors that will be valued in the future.



## NATIONAL, STATE & LOCAL BUSINESS INDICATORS

					% change
<b>NATIONAL INDICATORS</b>					<b>2015:III -</b>
	<b>2015:III</b>	<b>2016:I</b>	<b>2016:II</b>	<b>2016:III</b>	<b>2016:III</b>
Real GDP (billions of chained 2009\$) (1)(a)	16,454.9	16,525.0	16,583.1	16,727.0	1.7
Real GDI (billions of chained 2009\$) (1)(a)	16,669.0	16,763.9	16,793.4	16,990.2	1.9
US Personal Income (billions of \$) (1)(a)	15,556.1	15,740.1	15,929.4	16,101.7	3.5
					% change
					<b>Nov-15 -</b>
	<b>Nov-15</b>	<b>Sep-16</b>	<b>Oct-16</b>	<b>Nov-16</b>	<b>Nov-16</b>
Consumer Price Index (1982-84=100) (2)	237.336	241.428	241.729	241.353	1.69
Exchange Rate Canadian cents/US \$ (3) (b)	133.81	131.29	133.56	134.02	0.16
10 Year Treasury Note Yield (%) (3) (b)	2.221	1.597	1.870	2.387	0.17
3 Month Treasury Bill Yield (%) (3) (b)	0.221	0.277	0.351	0.490	0.27
S&P 500 Stock Index (3) (b)	2,080.41	2,168.27	2,126.15	2,198.81	5.69
Dow-Jones Industrial Average (3) (b)	17,719.92	18,308.15	18,142.42	19,123.58	7.92
<b>LABOR MARKET TRENDS (2)</b>					
Nonag Civilian Employment					
US (1000's)(a)	142,875	144,808	144,950	145,128	1.58
NY State (1000's)(a)	9,293.8	9,388.1	9,393.9	9,398.3	1.12
WNY (1000's)	563.0	561.4	568.5	566.7	0.66
Unemployment Rate (%)					
US (a)	5.0	5.0	4.9	4.6	-0.4
NY State (a)	4.9	5.0	5.2	5.1	0.2
WNY	5.0	5.0	4.9	4.9	-0.1
Ave. Weekly Hours in Mfg. US (a)	41.7	41.8	42.0	41.8	0.24
Ave. Weekly. Earnings in Mfg. US \$(a)	836.92	859.41	866.88	861.92	2.99
US Private Employment (1000's)(a)	120,847	122,592	122,727	122,883	1.68
<b>WNY EMPLOYMENT BY SECTOR (1000's) (2)</b>					
Mining, Logging & Construction	22.1	23.1	22.9	21.8	-1.36
Manufacturing	52.0	50.9	51.0	51.0	-1.92
Trade, Transportation & Utilities	106.4	105.9	106.0	108.0	1.50
Durable Goods	32.5	31.9	32.0	32.0	-1.54
Finance Activities	33.9	34.2	34.5	34.5	1.77
Government	91.5	88.3	91.2	91.5	0.00
(1) US Dept. of Commerce	(a) Seasonally Adjusted				
(2) US Dept. of Labor	(b) End of month data				
(3) Wall Street Journal					