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This strong growth of real GDP over the past two quarters can be attributed to increasing consumption, residential and non-residential investment expenditures, government expenditures and exports. This strong performance is taking place in an environment where the European economy is stagnating. The FED has ended its bond buying program while the ECB is about to embark on its own program. The actions of OPEC that have led to lower energy prices should reverse the pattern of 40 years of output and price manipulation on their part. As a result, the tremendous wealth transfers that have occurred from energy consumers to owners of energy inputs in the past will diminish as long as lower oil prices persist.

The National Economic Outlook

The BEA www.bea.gov reported real GDP growth to be 5% during 2014:Q3 after having grown by 4.6% during 2014:Q2 (see Figure 1). This strong performance over the past two quarters can be attributed to increasing consumption, residential and non-residential investment expenditures, government expenditures and exports. This strong performance is taking place in an environment where the European economy is stagnating with a .2% GDP growth in 2014:Q3 and deflation of .2% in December 2014. China's explosive GDP growth has weakened considerably and is predicted to be in the 7% range, its lowest level since 2009:Q1. U.S economic performance is comparatively strong when viewed in a worldwide context.

Much has been written about the macroeconomic impact of the dramatic drop in crude oil prices. At present, the price per barrel for West Texas Intermediate is below $50, down from over $100 per barrel in July 2014. Table 1 shows monthly average spot prices since July 2014. Pundits have surmised that this price decline is bad for the economy and is likely to idle many of the domestic oil wells where the cost of production is equal to or higher than the present market price. While we agree that domestic oil market production is likely to slow as a result of market conditions, we disagree that lower oil prices are on net "bad" for the economy. In a commuter economy such as ours where the demand for gasoline is price inelastic, declines in oil and gasoline prices free resources for consumers to spend on non-energy items. Since consumption is such a large component of GDP, the additional consumption that lower gasoline prices allows

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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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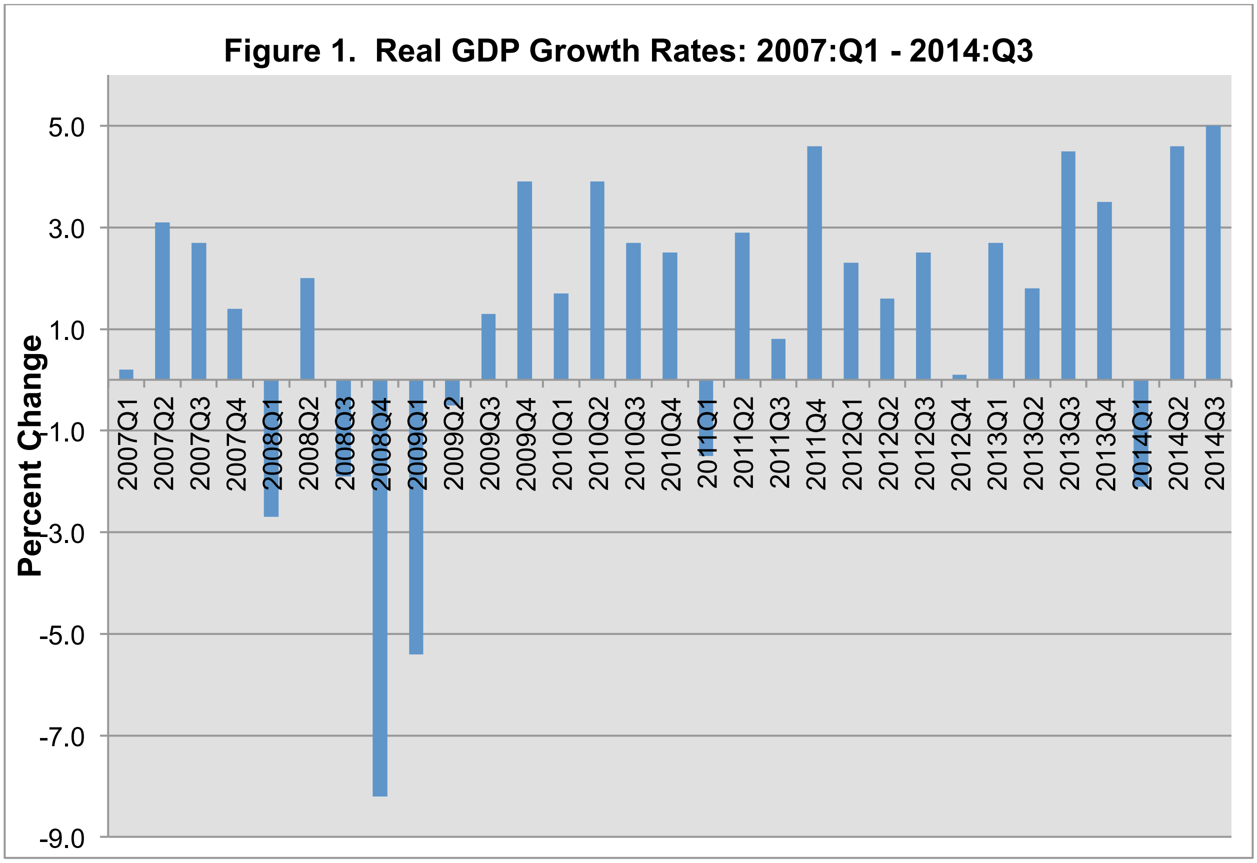


TABLE 1

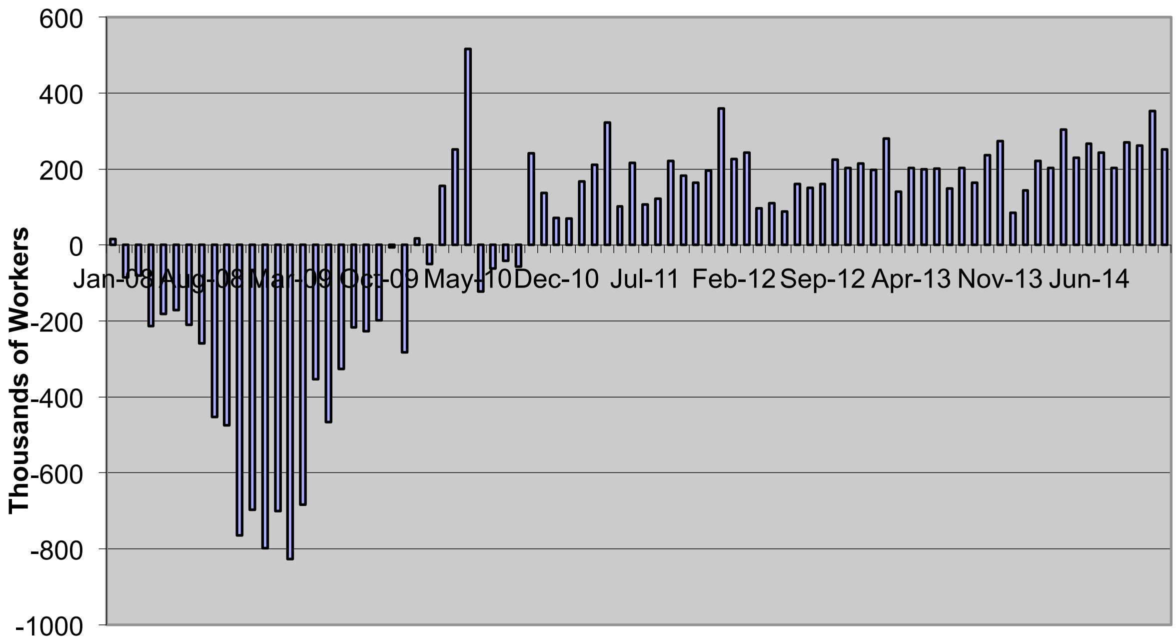
2014 SPOT CRUDE OIL PRICE
(WEST TEXAS INTERMEDIATE)

MONTH	PRICE PER BARREL
July	$103.59
August	$96.54
September	$93.21
October	$84.40
November	$75.79
December	$59.29

is likely to offset the negative impact of a slowdown in the domestic energy sector. However, if domestic consumers increase their purchases of goods produced outside of the United States or substitute imported oil for US oil, then the net long run economic impact of the energy price declines could result in a slowing of U.S. GDP growth. In sum, if the actions of OPEC over the last 40 years that have resulted in increased energy prices have transferred wealth from energy consumers to the owners of energy resources, then the recent decline in energy prices should slow this transfer. If oil exporters spend more on imported goods than their oil export revenue, then the wealth transfer could even reverse. There are long and short term implications to be revealed, but in our view consumers should be much better off with lower energy costs.

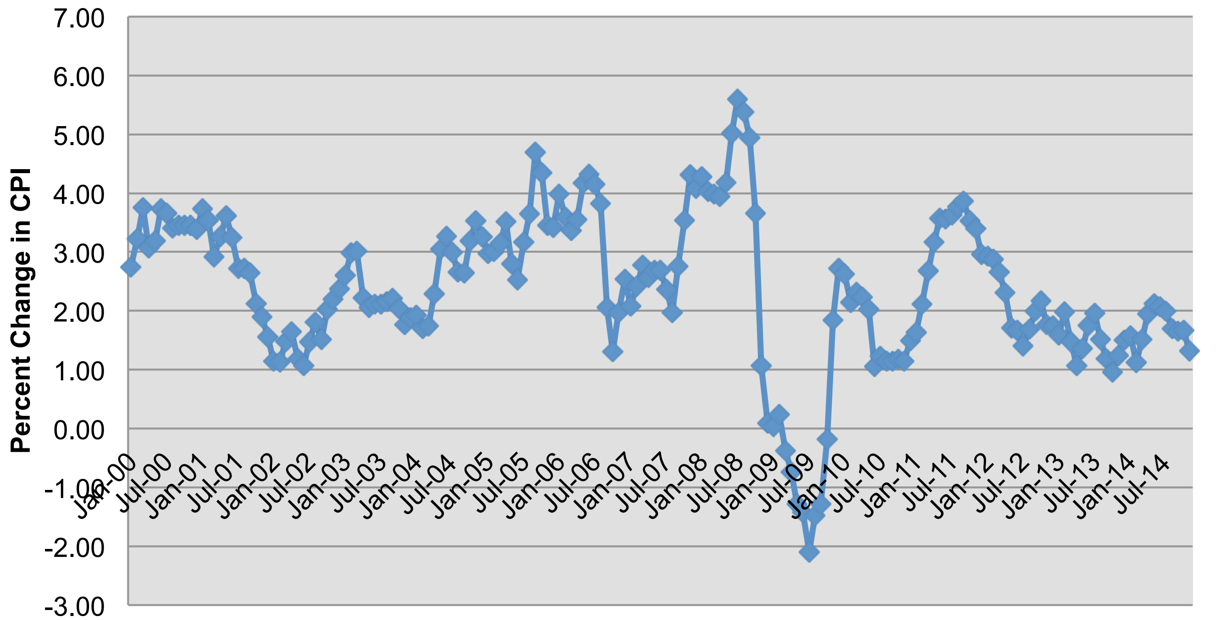
U.S. labor markets steadily improved in 2014. The economy has added an average of 246,000 jobs in 2014 compared to 194,000 in 2013 and 186,000 in 2012 (see Figure 2). The national unemployment rate stood at 5.6% in December 2014.

Figure 2. Monthly Change in Total Non-Agricultural Employment (2008-2014)



The FED has maintained its 0 to .25% federal funds rate target but finally put an end to its asset purchase program in October (www.federalreserve.gov). The FOMC has stated that they will reinvest principal payments from their holdings of agency debt and agency mortgage-backed securities while rolling over maturing U.S. Treasury holdings. The FED's most recent policy statement has indicated contentment with the steadily improving labor market, though without an explanation of the continuing decline in the labor force participation rate. Additionally, they are not overly concerned with the inflation rate remaining below their 2% target rate since the lower inflation rates recently experienced in the U.S. are mainly as a result of lower oil prices. Inflation rates based on the CPI has been running at or below 2% since early 2012 (see Figure 3). The ten year U.S. Treasury bond yield is presently below 2%. The financial market appears to be predicting relatively low inflation rates into the future.

Figure 3: CPI Inflation Rates 2000-2014 (12 Month % Change)



The ECB announced that it will begin its own quantitative easing program of €60 billion per month on January 22. They have finally come around to prescribing the same monetary policy regimen that the FED began years ago and only recently ended. Present unemployment rates in the Eurozone are at or above their historic high since the formation of the monetary union. Combining the fact that the ECB is comprised of 11 national banks, which serve their own countries, with the fact that these countries face differing levels of economic distress, has made asset purchases (quantitative easing) a much more difficult proposition in Europe than it was in the US. The implementation of the European quantitative easing program should keep European interest rates very low, and could potentially keep American interest rates at lower levels than would otherwise be the case. The cumulative effects of the declining euro versus the U.S. dollar, the incipient European recession and the ECB activity that will foster a low interest rate environment in Europe should lead to an inflow of financial capital into the U.S.

While critics have bemoaned the extended period of what is often referred to as an unnaturally low interest rate environment; the current strength of employment growth in the US, combined with relative price stability has been, and continues to be central to the FED's policy goals. While the generation that came of age when inflation expectations were between 5% and 7% per annum may have difficulty recognizing the problems of deflation; it should take comfort in the fact that the FED's policy response to the Great Recession has led to the relatively healthy U.S. macroeconomic performance.

The reluctance of the Swiss National Bank to continue its support of the euro has reinforced the downward pressure on this currency. As a result, the euro has reached its lowest level versus the dollar in more than a decade. In conjunction with the fall of the yen and the Canadian dollar (three of our four largest trading partners), this could cause US exports to fall and imports to rise, which would create a drag on the American economy.

The Economic Outlook for the Buffalo Region

As discussed in the last edition of this newsletter, the smooth post-recession growth of employment in the national economy was not matched locally in 2014 in the Buffalo MSA (see figures 4a and 4b). From 1990 through 2014, seasonally adjusted monthly total non-agricultural employment in the US grew at a year over year rate of about 1%. The average growth rate in the Buffalo MSA for the same period is approximately .04%.

Figure 4a: US Payroll Employment (1990-2014)

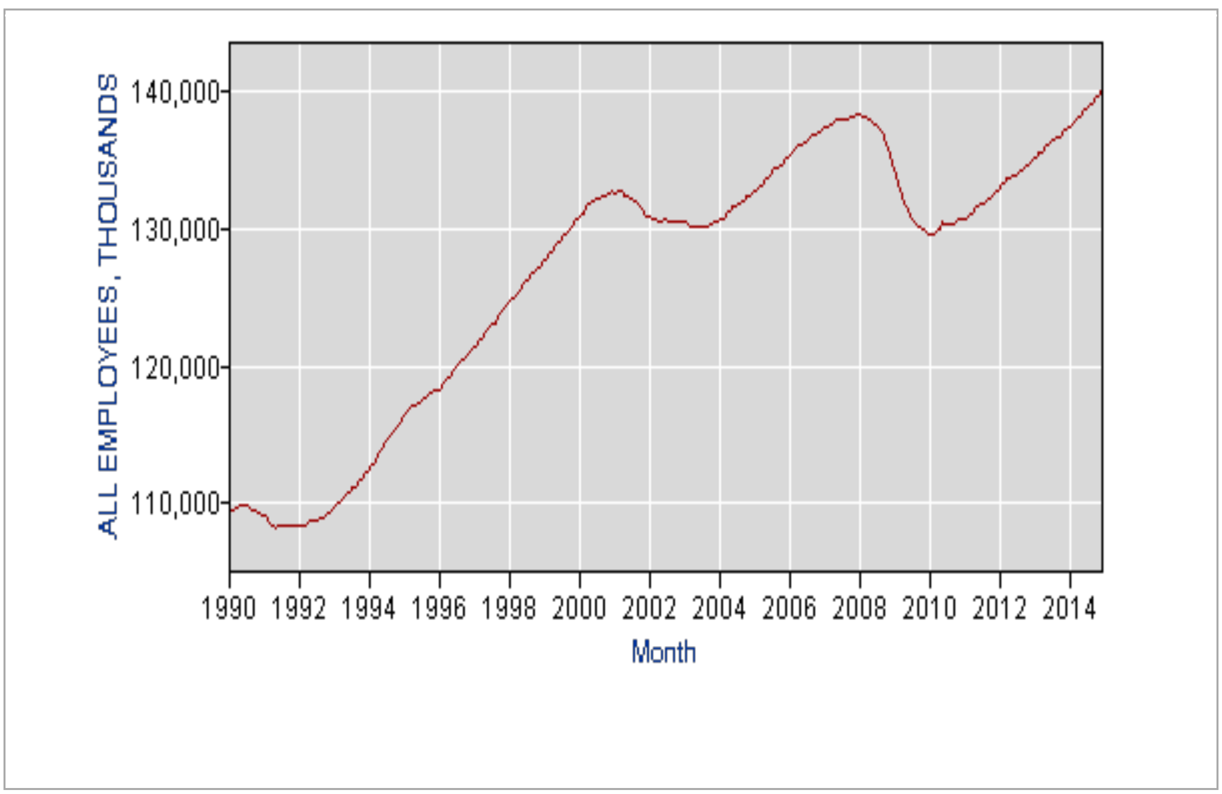
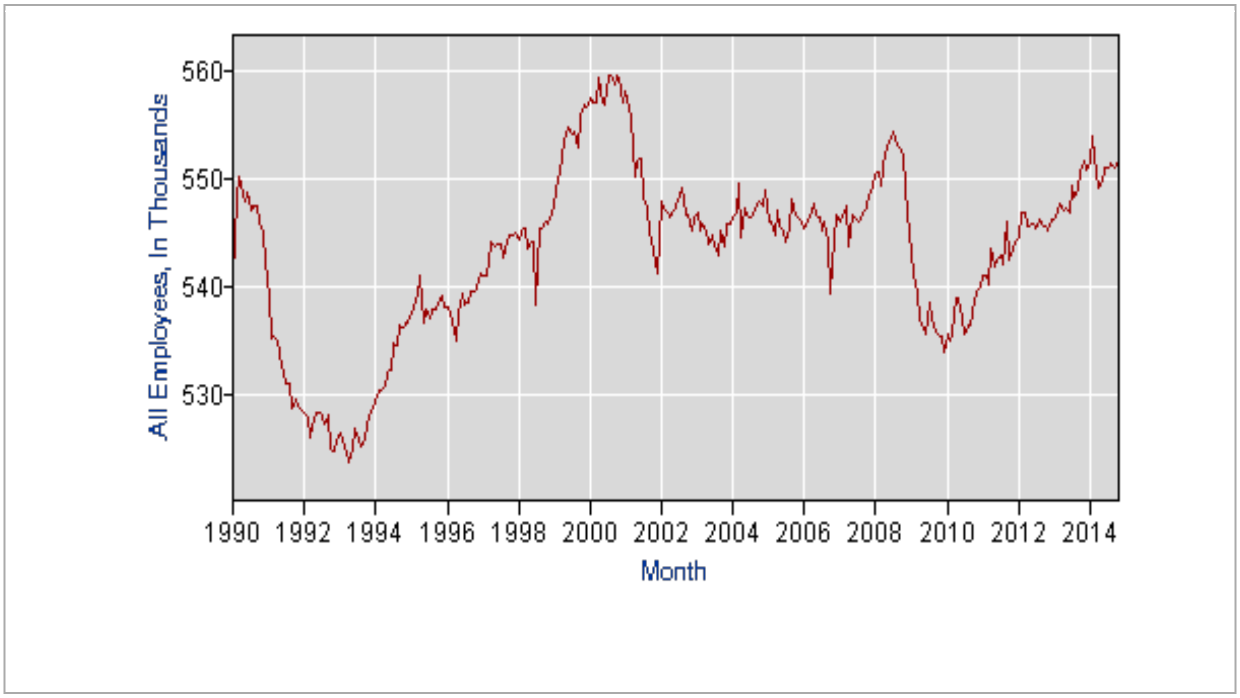


Figure 4b: WNY Payroll Employment (1990-2014)



From 2010 through 2014 the average growth rate in the Buffalo metropolitan area has been about .63% compared to 1.61% nationally. This suggests that while local employment growth still lags the US trend, the gap was reduced during the post *Great Recession* recovery. Additionally, the drop-off of local employment that occurred during the second quarter of 2014 seems to have been reversed over the remainder of year. This is pretty good news when placed in the context of the failed local recovery from the 2001 recession, when total employment in the MSA never returned to its pre-recession levels.

As shown in Table 2 below, the industrial sectors with location quotients (LQs) greater than 1 (finance and insurance, private education, and the management of companies) are areas of specialization in the local economy. The employment sectors of manufacturing, administrative and waste services, accommodation and food services, health and social services, and other services except public administration display LQs of approximately 1 and therefore have activity that is about the average share of total employment in the U.S. Even though Professional and technical services and construction employment are large employers, these sectors have LQ's less than 1, and therefore are a smaller share of total employment than the national average.

In Erie County, those sectors of high economic concentration (LQs>1) all have annual wages less than their national average. The greatest disparity is in the finance and insurance sector, which has wages that are about 2/3 of the national average. Perhaps this explains its recent growth (see Volume 17, no.3 for a detailed presentation of relative local and national growth).

Table 2

Employment Patterns in Erie County and Earnings

Erie County *QCEW* Employment and Location Quotients: 2013*	LQ's	Employ ment 2013	Erie County Average Annual Earnings 2013	US Average Annual Earnings 2013
Base Industry: Total, all industries	1.0 0	454,8 78	$43,286	$49,808
NAICS 23 Construction	0.83	15,696	$51,610	$53,181
NAICS 31-33 Manufacturing	1.04	42,402	$60,394	$61,102
NAICS 54 Professional and technical services	0.86	22,936	$59,570	$83,429
NAICS 55 Management of companies and enterprises	1.69	12,344	$81,056	$108,895
NAICS 56 Administrative and waste services	1.04	29,346	$31,637	$34,975
NAICS 61 Educational services - private	1.39	12,510*	$33,265	$45,424
NAICS 62 Health care and social assistance	1.06	62,331	$40,456	$44,909
NAICS 52 Finance and insurance	1.23	23,423	$62,536	$91,862
NAICS 72 Accommodation and food services	1.00	41,830	$15,864	$18,174
NAICS 81 Other services, except public administration	1.03	16,670	$23,968	$32,844

* 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)*

*** 2012 employment*

NATIONAL, STATE & LOCAL BUSINESS INDICATORS

					% change
NATIONAL INDICATORS					**2013:III -**
	2013:III	**2014:I**	**2014:II**	**2014:III**	**2014:III**
Real GDP (billions of chained 2009$) (1)(a)	15,779.9	15,831.7	16,010.4	16,205.6	2.7
US Personal Income (billions of $)	14,247.4	14,484.7	14,660.5	14,792.1	3.8
					% change
					Dec-13 -
	Dec-13	**Oct-14**	**Nov-14**	**Dec-14**	**Dec-14**
Consumer Price Index (1982-84=100) (2)	233.049	237.433	236.151	234.812	0.76
Exchange Rate Canadian cents/US $ (3) (b)	106.48	112.660	114.170	116.220	9.15
10 Year Treasury Note Yield (%) (3) (b)	3.036	2.337	2.168	2.171	-0.865
3 Month Treasury Bill Yield (%) (3) (b)	0.071	0.013	0.018	0.053	-0.018
S&P 500 Stock Index (3) (b)	1,848.36	2,018.05	2,067.56	2,058.90	11.39
Dow-Jones Industrial Average (3) (b)	16,576.66	17,390.52	17,828.24	17,823.07	7.52
LABOR MARKET TRENDS (2)					
Nonag Civilian Employment					
US (1000's)(a)	137,395	139,742	140,095	140,347	2.15
NY State (1000's)(a)*	8,966.9	9,045.6	9,042.8		0.94
WNY (1000's)*	553.9	559.0	559.6		0.13
Unemployment Rate (%)					
US (a)	6.7	5.7	5.8	5.6	-1.1
NY State (a)*	7.0	6.0	5.9		-1.2
WNY*	6.5	5.7	5.8		-0.8
Ave. Weekly Hours in Mfg. US (a)	41.9	42.1	42.2	42.2	0.72
Ave. Weekly. Earnings in Mfg. US ($)(a)	814.96	827.69	830.50	831.34	2.01
US Private Employment (1000's)(a)	115,541	117,817	118,162	118,402	2.48
WNY EMPLOYMENT BY SECTOR (1000's) (2)*					
Mining, Logging & Construction	18.1	20.8	20.1		0.00
Manufacturing	50.5	50.7	50.8		0.59
Trade, Transportation & Utilities	104.4	101.9	104.0		0.87
Durable Goods	31.0	31.4	31.5		1.61
Finance Activities	31.5	32.7	32.5		3.50
Government	93.1	91.8	92.1		-1.07
(1) US Dept. of Commerce	(a) Seasonally Adjusted				
(2) US Dept. of Labor	(b) End of month data				
(3) Wall Street Journal	*Nov-13 to Nov-14 % change				