

Western New York ECONOMIC NEWS

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The U.S. unemployment rate was at 3.9% in April 2018, after having remained at 4.1% since October 2017. Monthly additions to non-farm payrolls have averaged 187,000 since January 2017. Over the same period, monthly payroll employment growth in the Buffalo-Niagara Falls MSA has averaged 4,573 jobs. While the upstate New York MSAs have experienced employment growth, it has not matched that of the rest of the United States. There has been an increase in both long term and short term Treasury yields over the past year. Along with lagging employment growth, private sector real average weekly earnings for the Buffalo, Rochester and Syracuse MSAs has been below the national average since 2012.

The National Economic Outlook

Advanced estimates of real GDP during the first quarter of 2018 had the economy growing by 2.3% after having grown by 3.2% and 2.9% during the third and fourth quarters of 2017. Growth was fueled by non-residential fixed investment and inventory investment. Although personal consumption expenditures, residential fixed investment and government expenditures grew, their pace decelerated in 2018:Q1. Figure 1 shows real GDP growth rates over the past ten years.

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The Federal Reserve kept its federal funds target in the range 1.50%-1.75% during their May 2018 meeting. This follows the three 25 basis point increments in 2017 and a 25 basis point increase in March 2018. The FOMC has signaled that there will be further rate hikes in 2018. At present, we are enjoying a “Goldilocks” economy with consistent GDP and payroll employment growth and low inflation. Inflation based on both the consumer price index and personal consumption expenditure price deflator (the Fed’s preferred measure of inflation) has remained relatively tame, but has exhibited an upward trend since 2015. This is shown in Figure 2.

The economic expansion since the 2008-2009 recession will be 9 years old in June 2018. Although there are no signs at present that a recession is imminent, it is instructive to review some of the leading indicators of recession. The first is the slope of the Treasury yield curve.

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Figure 1. Real GDP Growth Rates: 2007:Q1 - 2018:Q1

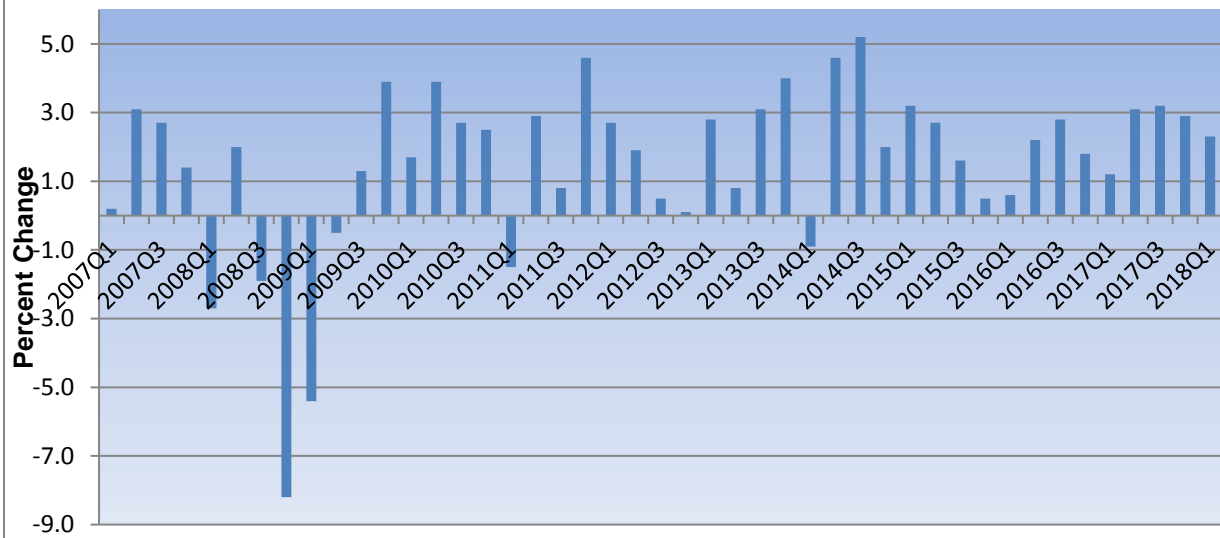


Figure 2. CPI & Personal Consumption Expenditure Inflation Rates: 2010-2018

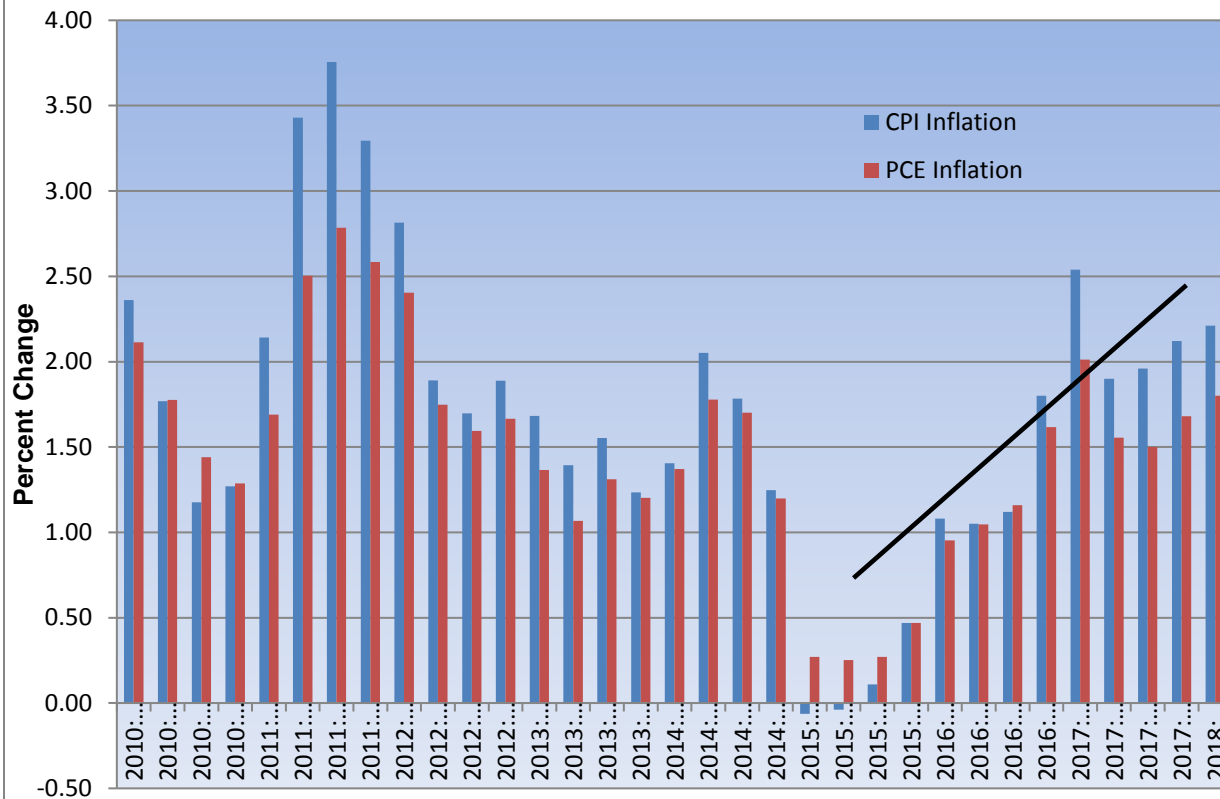


Figure 3a. 10 Year - 1 Year Treasury Yield Spread: 1999-2000

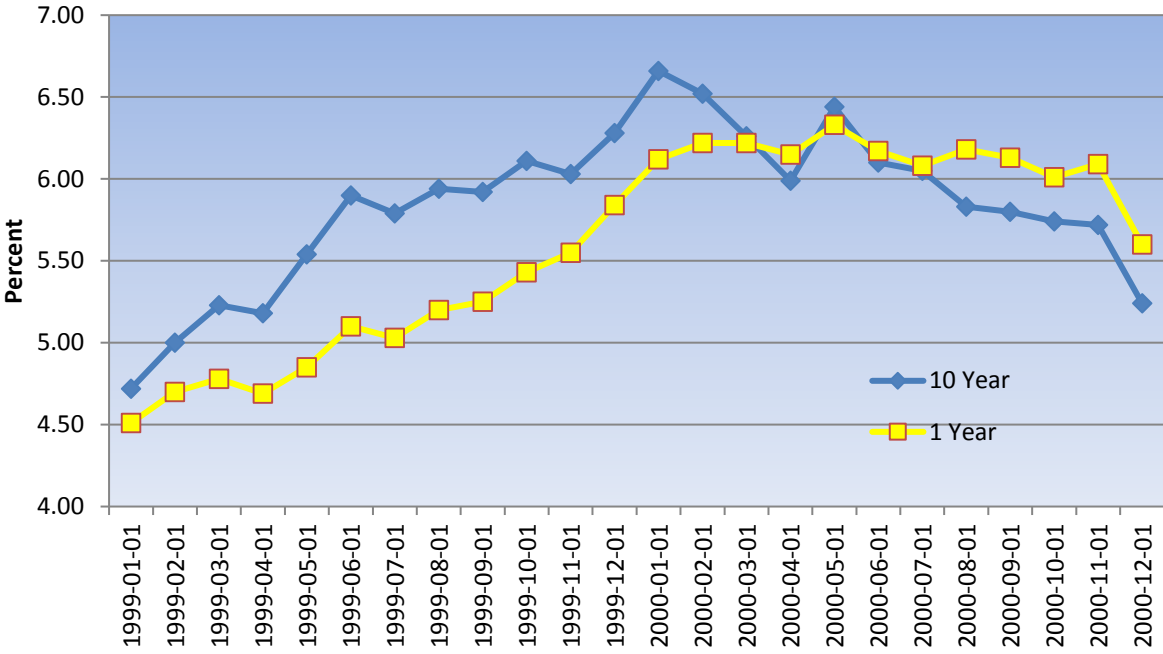
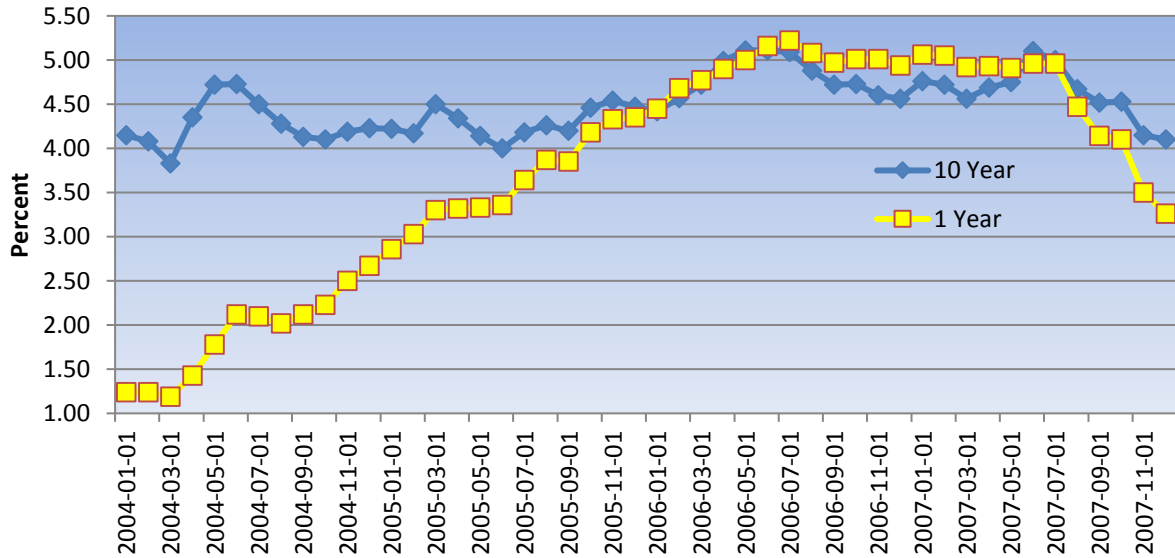
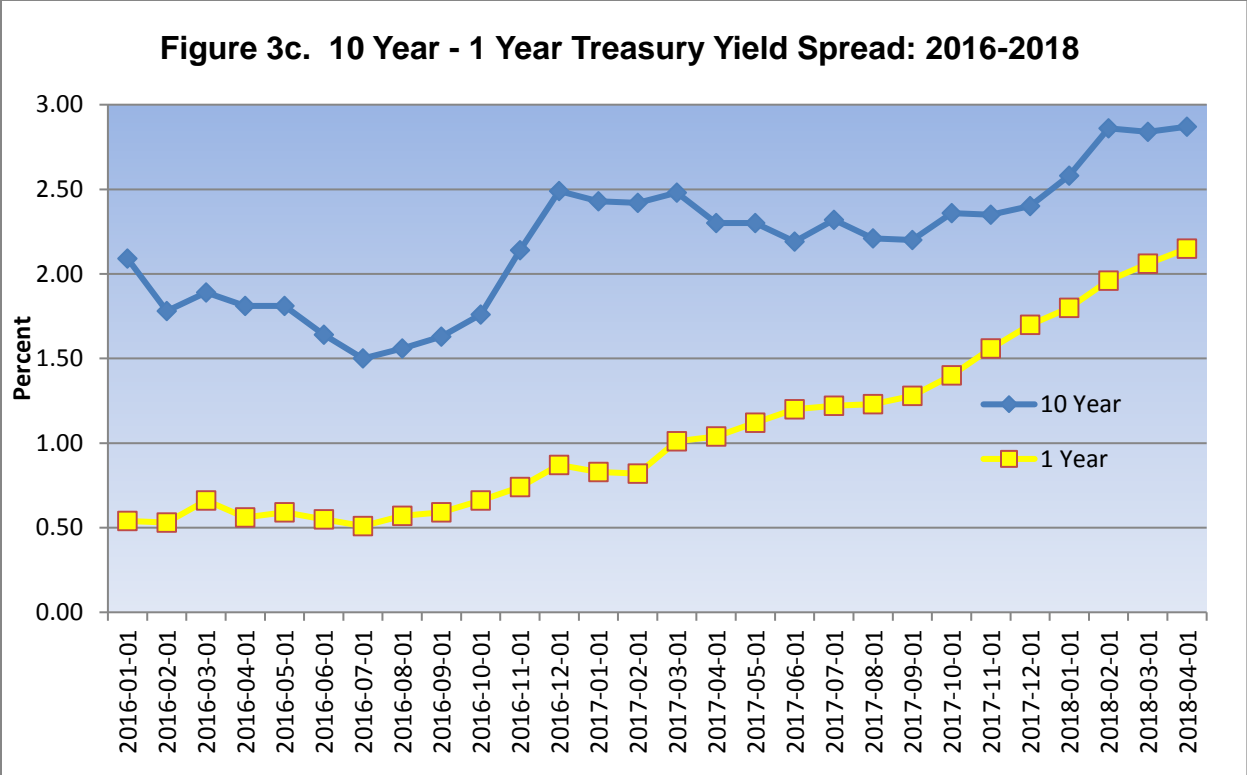


Figure 3b. 10 Year - 1 Year Treasury Yield Spread: 2004-2007

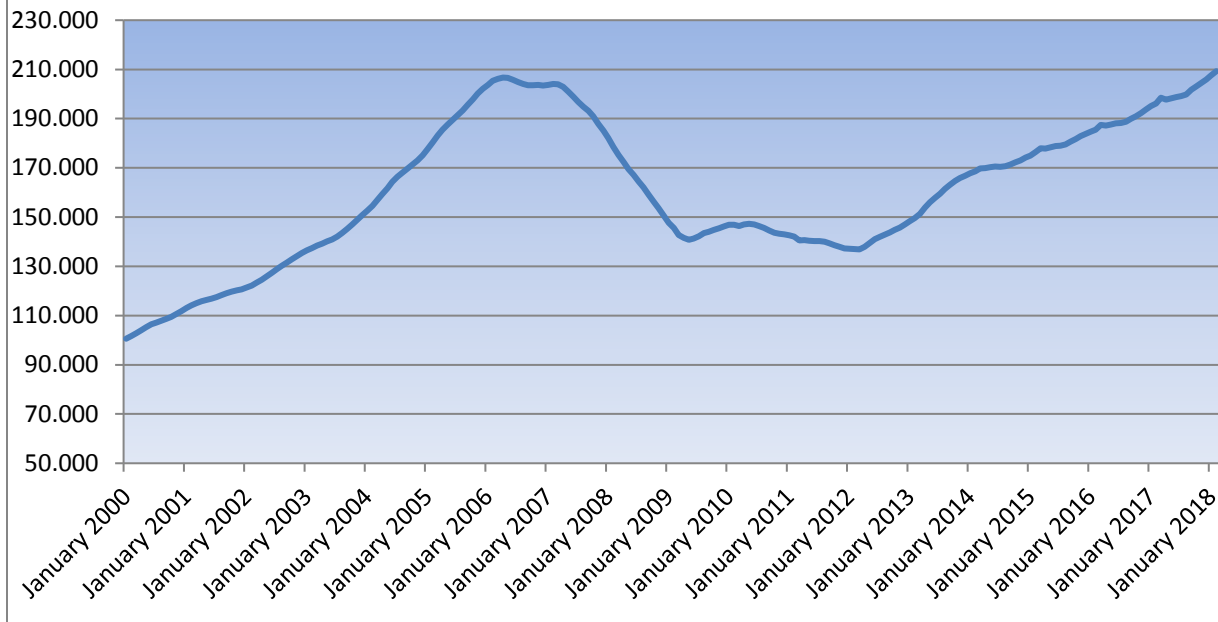




There has been an increase in both long term and short term Treasury yields over the past year. Short term Treasury yields have increased more than long term yields resulting in a flattening of the yield curve. An inverted yield curve is a fairly reliable indicator of future recession. The 10 year - 1 year Treasury yield spread has turned negative prior to all recessions in the U.S. since 1957, with one false signal in 1966. Examples of this yield spread prior to the 2001 and 2008-2009 recessions is shown in Figures 3a and 3b, respectively. The yield spread since January 2016 is shown in Figure 3c. On May 21, 2018 this spread stood at 71 basis points. Although recession doesn't appear to be on the short term horizon, this indicator of future recession bears watching.

A major factor leading to the 2008-2009 recession was the housing market bubble and the financial market collapse. It is interesting to note that housing prices have surpassed their pre-housing bubble peak. The Case-Shiller 20 city housing price index is shown in Figure 4. Prior to its rapid decent which began in March 2007, this index rose to 204.07 more than twice its January 2000 base. The index dropped to a value of 136.85 in March 2012 prior to beginning its ascent to 209.3 in February 2018. One wonders whether it is pent up demand that is pushing housing prices upward or the poor lending practices and rampant speculation that led to the previous bubble.

Figure 4. Case Shiller 20 City Home Price Index



The Economic Outlook for the Buffalo Region

Table 1 and Figure 5 show the disparity between the metropolitan areas of Upstate New York and the rest of the nation in the recovery of total employment following the last recession. None of the upstate MSAs have recovered as rapidly, nor as fully as the nation as a whole. As presented in Table 1, the annual growth rates of total employment for the Buffalo, Rochester and Syracuse metropolitan areas have averaged between .1% and .2% per year since 1990, while the national average has been almost 1% per annum over the same period. Since 2008, the overall average annual rate of employment growth in the U.S. has been 1.12%, while Buffalo and Rochester have averaged nearly .5% and Syracuse less than .1%.

Table 1: Average Annual Rate of Change of Total Employment

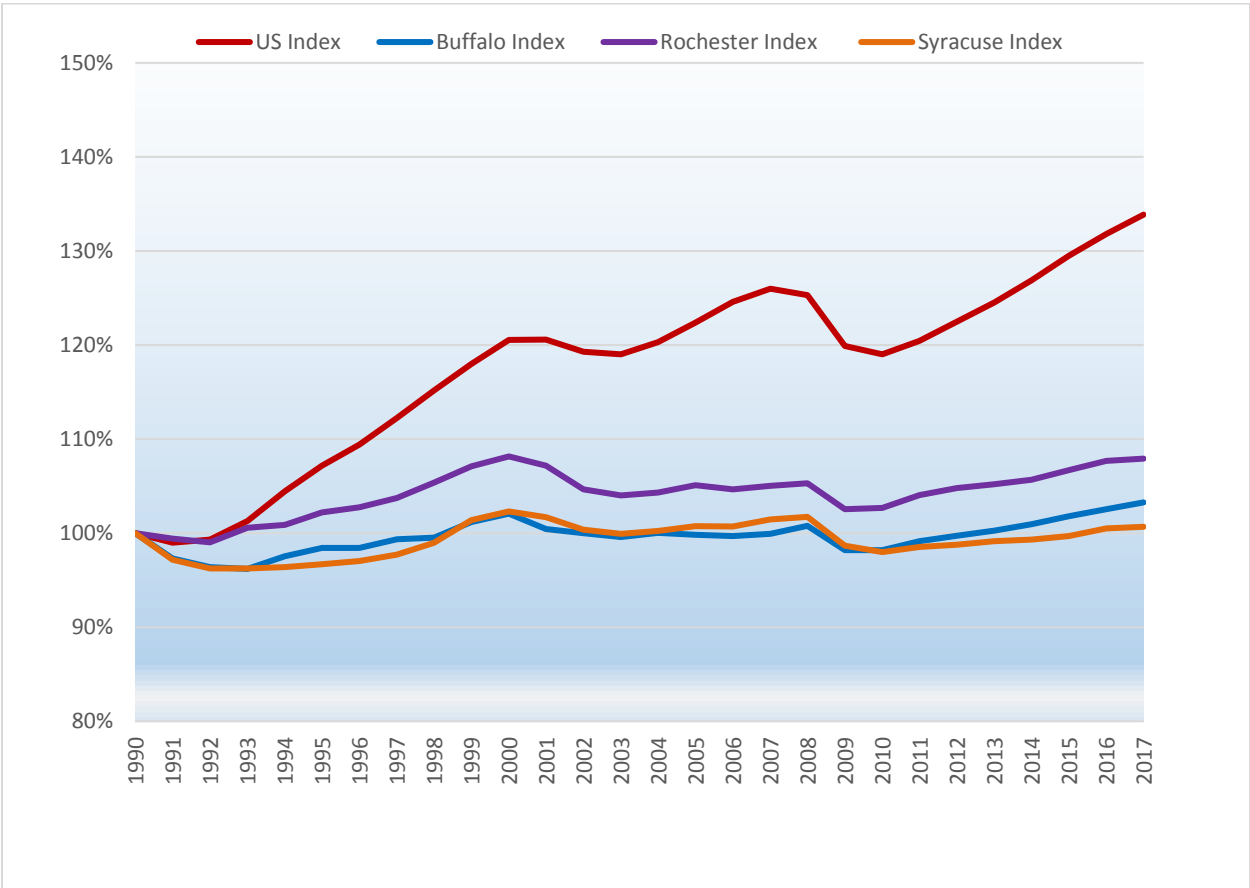
	1990-2017	2008-2017
U.S.	0.96%	1.12%
Buffalo MSA	0.17%	0.46%
Rochester MSA	0.19%	0.49%
Syracuse MSA	0.10%	0.09%

As has been stated repeatedly in this newsletter, the upstate New York MSAs have experienced employment growth that has not matched that of the rest of the United States. 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, *Quarterly Census of Employment and Wages* (QCEW) data will be examined to analyze sectoral employment 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 1990-2017 using annual data from the BLS’s Current Employment Survey(<https://www.bls.gov/sae/>). All years are indexed to employment in 1990 and are reported as a percent of 1990 levels. The chart shows a persistently increasing gap between the nation and Upstate New York metro areas.

Figure 5. Employment in the U.S. and Upstate MSA’s (1990=100)



The seasonally adjusted data presented in Figures 6a - 6d through April of 2018 is consistent with the annual employment information presented above. As we have previously indicated, the 2008-2009 recession was less devastating to the Buffalo economy than previous recessions.

Figure 6a. U.S. Non-Agricultural Employment: 1990-2018

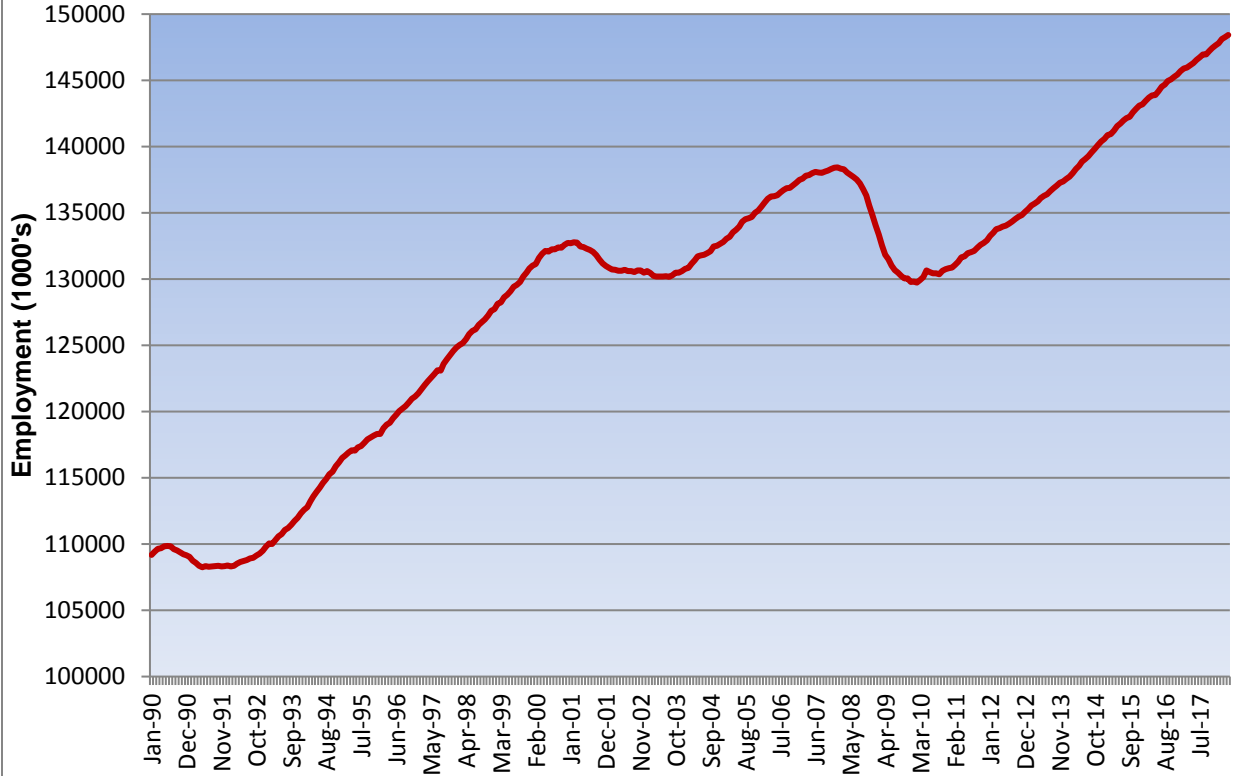


Figure 6b. Buffalo MSA Non-Agricultural Employment: 1990-2018



Figure 6c. Rochester MSA Non-Agricultural Employment: 1990-2018

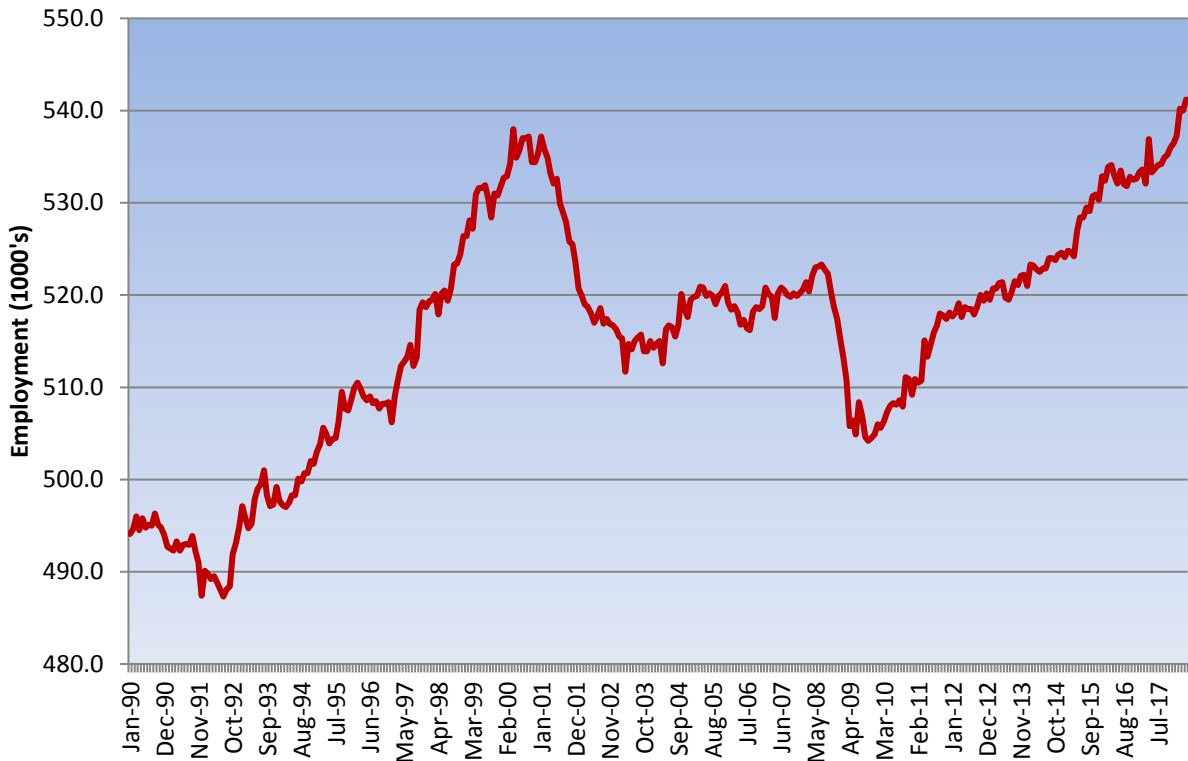


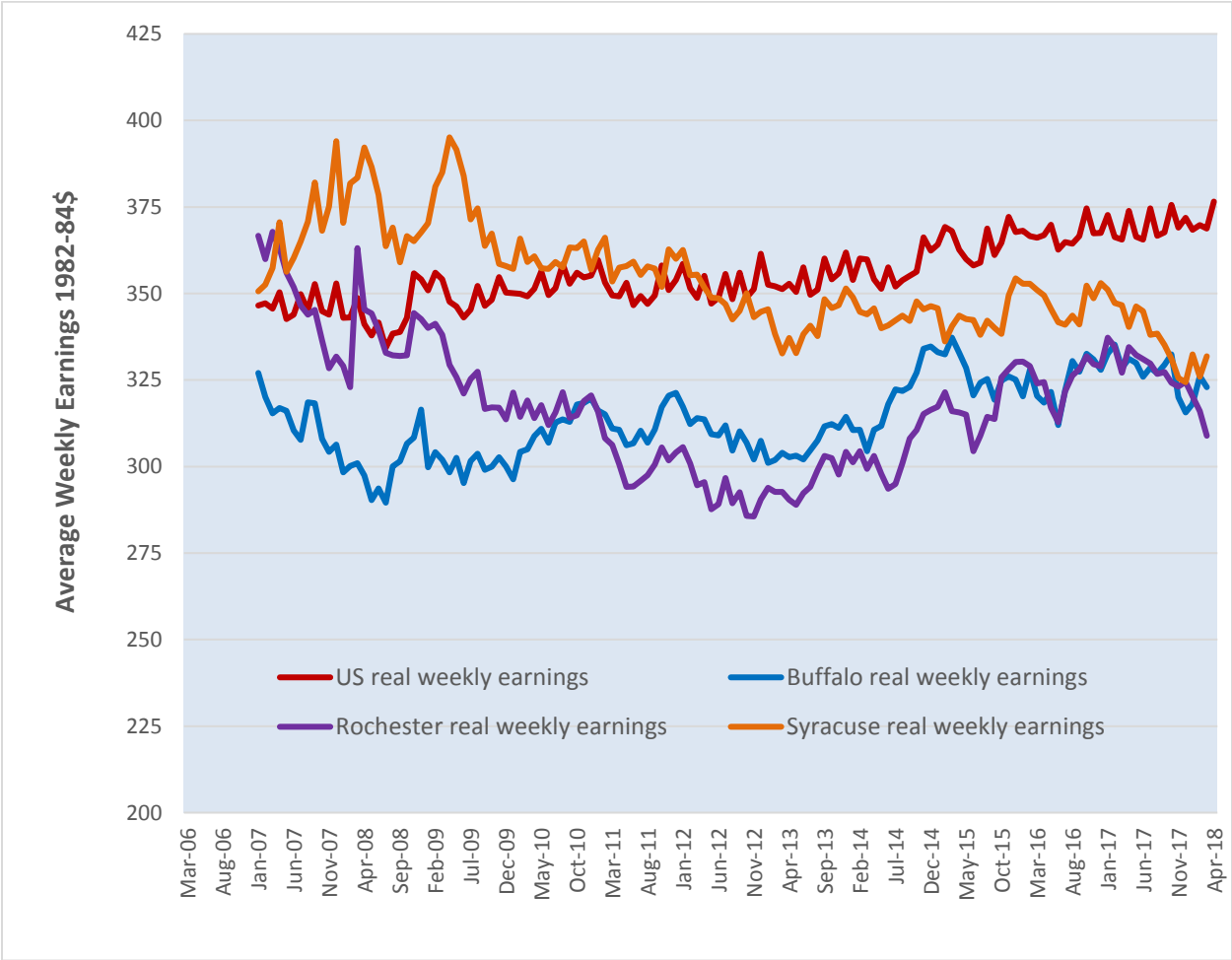
Figure 6d. Syracuse MSA Non-Agricultural Employment: 1990-2018



Of particular interest in the above figures is the fact that the downturn noted in mid-2016 for the Buffalo MSA has been reversed, as is the case in the Rochester MSA. Interestingly, among the three upstate MSA's, only Syracuse has not yet recovered its pre 2008-2009 recession peak.

Perhaps more distressing than the laggard nature of employment growth in Upstate New York is the dramatic change in the relationship between real weekly earnings in these metropolitan areas and the rest of the nation shown in Figure 7 below.

Figure 7. Real Weekly Earnings in Private Sector Employment: 2007-2018



Prior to the 2007-2009 recession, real (1982-84\$) average weekly private sector earnings in the Rochester and Syracuse MSAs were above the national average. Since 2012, Syracuse MSA real earnings have fallen below the rest of the country. Recently, real weekly earnings in the three upstate MSA's have converged and appear to be moving in the opposite direction as the nation as a whole.

The next edition of this newsletter will use *QCEW* data to examine relative wages by industrial sector in Western New York.

NATIONAL, STATE & LOCAL BUSINESS INDICATORS					
NATIONAL INDICATORS					% change 2017:I - 2018:I
	2017:I	2017:III	2017:IV	2018:I	2018:I
Real GDP (billions of chained 2009\$) (1)(a)	16,903.2	17,163.9	17,286.5	17,385.8	2.9
Real GDI (billions of chained 2009\$) (1)(a)**	16,994.1	17,193.8	17,231.2		2.1
US Personal Income (billions of \$) (1)(a)	16,245.2	16,468.9	16,655.3	16,837.4	3.6
					% change Apr-17 - Apr-18
	Apr-17	Feb-18	Mar-18	Apr-18	Apr-18
Consumer Price Index (1982-84=100) (2)	244.524	248.991	249.554	250.546	2.46
Exchange Rate Canadian cents/US \$ (3) (b)	136.560	128.320	128.980	128.420	-5.96
10 Year Treasury Note Yield (%) (3) (b)	2.281	2.862	2.739	2.953	0.67
3 Month Treasury Bill Yield (%) (3) (b)	0.805	1.665	1.723	1.810	1.01
S&P 500 Stock Index (3) (b)	2,384.20	2,713.83	2,640.87	2,648.05	11.07
Dow-Jones Industrial Average (3) (b)	20,940.51	25,029.20	24,103.11	24,163.15	15.39
LABOR MARKET TRENDS (2)					
Nonag Civilian Employment					
US (1000's)(a)	146,144	148,125	148,260	148,424	1.56
NY State (1000's)(a)	9,488.7	9,602.2	9,599.1	9,605.9	1.24
WNY (1000's)	558.6	560.9	563.6	565.7	1.27
Unemployment Rate (%)					
US (a)	4.4	4.1	4.1	3.9	-0.5
NY State (a)	4.7	4.6	4.6	4.6	-0.1
WNY*	5.0	6.4	5.8		0.6
Ave. Weekly Hours in Mfg. US (a)	41.9	42.3	42.2	42.4	1.19
Ave. Weekly. Earnings in Mfg. US (\$)(a)	871.10	901.84	901.39	907.78	4.21
US Private Employment (1000's)(a)	123,829	125,803	125,938	126,106	1.84
WNY EMPLOYMENT BY SECTOR (1000's) (2)					
Mining, Logging & Construction	18.0	18.0	18.3	20.7	15.00
Manufacturing	51.8	52.5	52.1	51.8	0.00
Trade, Transportation & Utilities	99.7	99.1	99.2	99.3	-0.40
Durable Goods	31.6	32.2	32.0	31.8	0.63
Finance Activities	36.7	37.2	37.0	36.6	-0.27
Government	92.2	92.5	92.5	92.3	0.11
(1) US Dept. of Commerce	(a) Seasonally Adjusted				
(2) US Dept. of Labor	(b) End of month data				
(3) Wall Street Journal	*March 2017-March 2018 change				
	**2016:IV to 2017:IV growth				