

# Western New York ECONOMIC NEWS

## Canisius College

### Richard J. Wehle School of Business

Volume 19, Number 3

September 2016

*Over the past three quarters (2015:Q4 – 2016:Q2) real GDP growth has been 0.9%, 0.8% and 1.1%, respectively. The anemic U.S. growth rate has accompanied a slowdown in world-wide economic activity. The slowdown in GDP has, however, been accompanied by a steady improvement in the U.S. labor market. An average 182,000 jobs per month have been added to non-farm payrolls so far in 2016, compared to an average of 229,000 in 2015. In 2015, Erie County employment grew at a rate of 1.1%, nearly three times the average growth rate over the period from 2010 through 2014. The metropolitan area has finally eclipsed the level of employment from before both the 2001 and the 2008 recessions. Employment is growing in most industries as are average annual earnings. Prior editions at: <http://www.canisius.edu/wnyeconomicnews>.*

## The National Economic Outlook

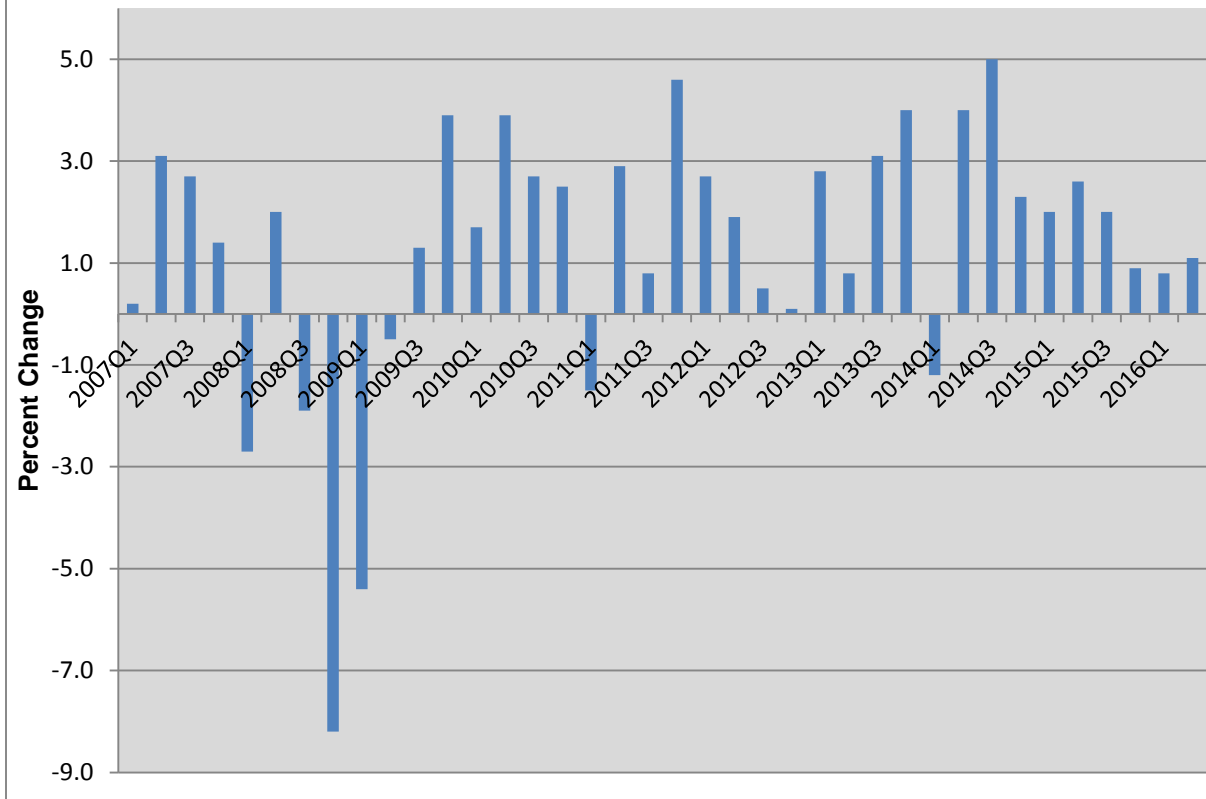
Over the past three quarters (2015:Q4 – 2016:Q2) real GDP growth has been 0.9%, 0.8% and 1.1%, respectively (see Figure 1) for an average of .93%. An increase in personal consumption expenditures is largely responsible for keeping the economy afloat, offsetting a three quarter decline in gross private domestic investment. The anemic U.S. growth rate has been accompanied by a slowdown in world-wide economic activity. Over the past three quarters, real GDP growth averaged .4% the Eurozone, .03% in Japan, and if you believe the “official government data,” 6.7% in China.

Table 1 shows geometric growth rates for both real GDP and per capita real GDP over the period 1950 to 2015. It is apparent that both growth rates have diminished significantly when the starting point of the time period under consideration is advanced beyond 1960. Most troubling is the decline in growth over the past 15 years to less than 2% in the real GDP series and below 1% in per capita real GDP. An interesting question is whether declining economic growth in the U.S. is part of a long term trend or can be blamed on the Great Recession of 2008-2009. Macroeconomists have offered several explanations for the declining growth rate [see N. Gregory Mankiw’s June 16, 2016 article in the *New York Times*]. One view is that recessions induced by financial crises like the Great Recession of 2008-2009 and the Great Depression of the 1930’s tend to be more difficult to recover from due to declining business investment and a reluctance of the banking system to lend. A second explanation, attributed to Robert Gordon, is that a slowdown in technological innovation is responsible for diminished economic growth. Gordon theorizes that the recent electronics and social media

---

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  
**George Palumbo, Ph.D. - Professor of Economics & Finance** email: [palumbo@canisius.edu](mailto:palumbo@canisius.edu)  
**Mark P. Zaporowski, Ph.D. - Professor of Economics & Finance** email: [zaporowm@canisius.edu](mailto:zaporowm@canisius.edu)

**Figure 1. Real GDP Growth Rates: 2007:Q1 - 2016:Q2**



**TABLE 1**

**AVERAGE ANNUAL GROWTH RATE OF  
OF REAL GDP AND PER CAPITA REAL GDP**

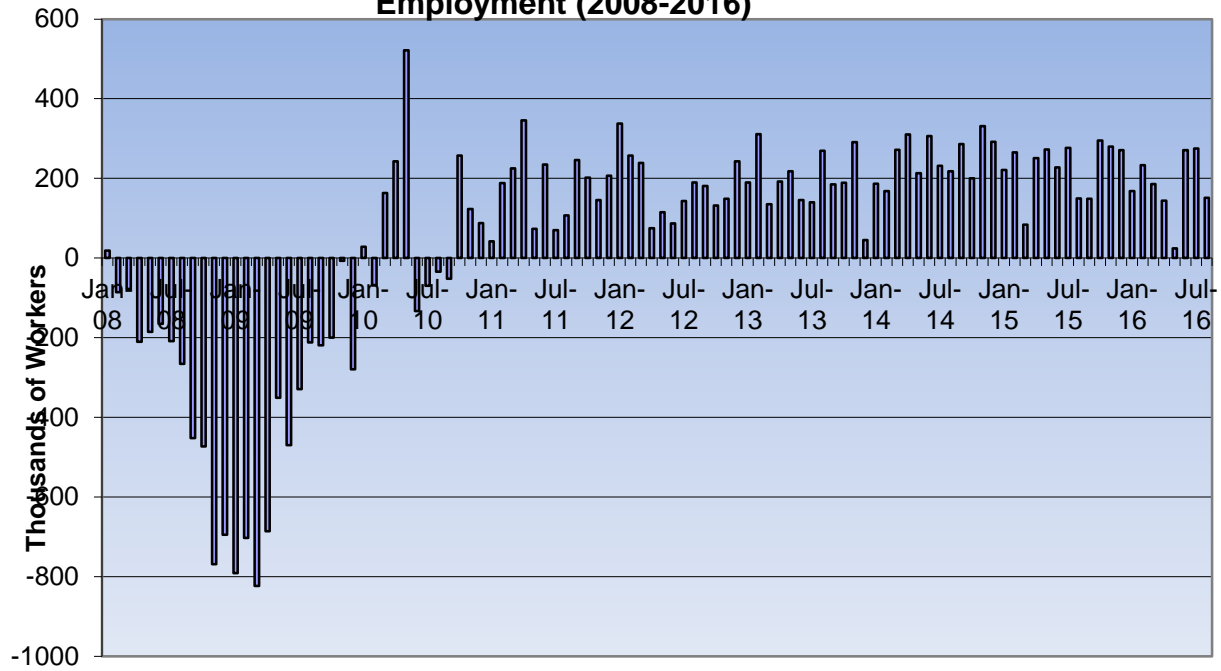
<b>TIME PERIOD</b>	<b>GROWTH RATE OF REAL GDP (%)</b>	<b>GROWTH RATE OF PER CAPITA REAL GDP (%)</b>
1950-2015	3.15	1.96
1955-2015	3.03	1.89
1960-2015	3.07	1.99
1965-2015	2.87	1.84
1970-2015	2.81	1.78
1975-2015	2.82	1.80
1980-2015	2.70	1.69
1985-2015	2.60	1.58
1990-2015	2.45	1.42
2000-2015	1.79	0.91
2005-2015	1.42	0.58

revolution has had a smaller impact on productivity than past innovations like the invention of the internal combustion engine and the electrification of homes and industry. Real GDP growth per capita generally has been closely linked to productivity increases. Historically, substantial productivity increases have been associated with more and/or better capital. The American economy has been evolving into a service oriented economy; the BEA recently estimated that 80% of private sector activity is service provision. Roughly 50 years ago, economists William Baumol and William Bowen postulated that the labor intensive service economy might not generate productivity increases as high as more capital intensive sectors of our economy. Thus, we experience lower productivity and lower growth rates of real GDP per capita. Whatever the explanation, GDP is clearly growing more slowly in the recent past than it has grown in the more distant past.

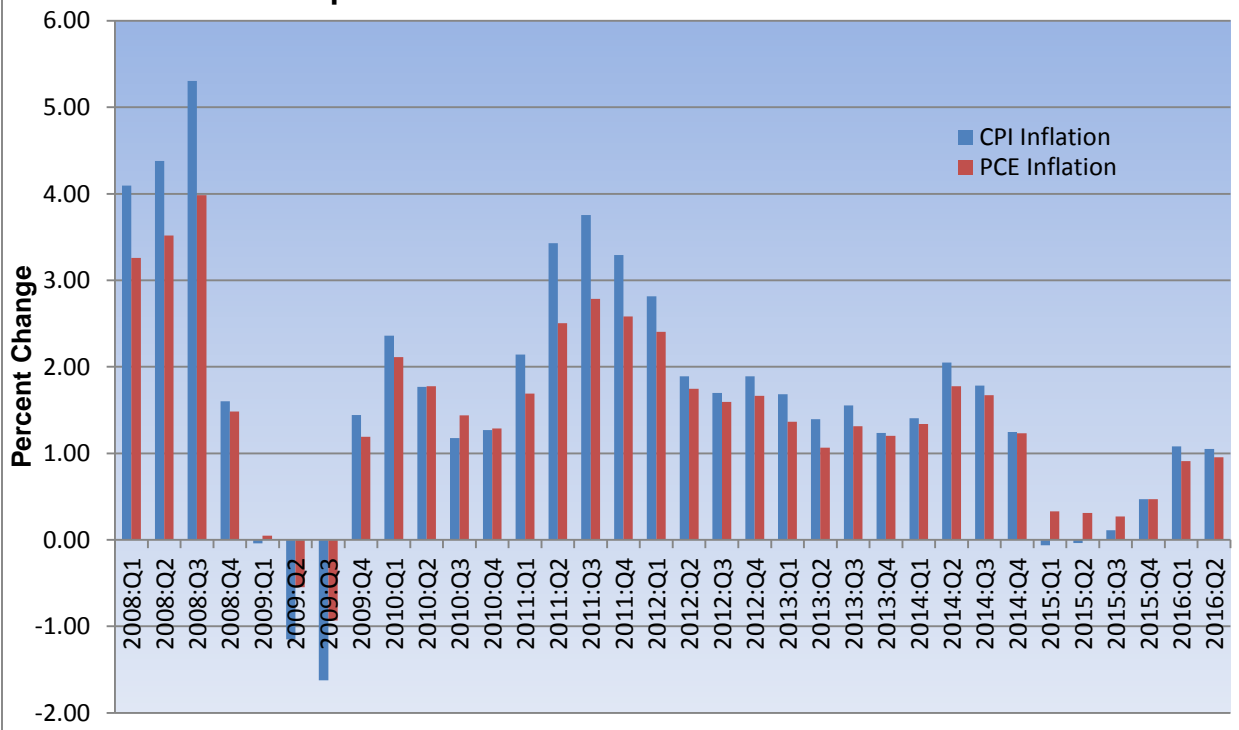
The slowdown in GDP has been accompanied by steady improvement in the U.S. labor market. An average 182,000 jobs per month have been added to non-farm payrolls so far in 2016 compared to an average of 229,000 in 2015 (see Figure 2). The national unemployment rate has been at or below 5% since October 2015. Many economists believe that when the unemployment rate sinks to this level labor market tightness begins to cause acceleration in wages and the rate of inflation. According to the BLS's *Quarterly Census of Employment and Wages*, real average annual wages in the U.S. increased by approximately 1.5% in 2014 and 3% in 2015 after having stagnated over the period 2009-2013. Although real wages have begun to grow, inflation has remained benign. CPI inflation rates and inflation rates based on the deflator for personal consumption expenditures (PCE) are exhibited in Figure 3. Both inflation series have been running at or below one percent since 2015:Q1. Factors influencing the deceleration in inflation are the decline in oil prices and other commodities, and the world-wide economic slowdown.

There have been rumblings that the FOMC is ready to ratchet up the federal funds target range at their September meeting. If they do so, they are likely to increase rates by a modest 25 basis points. It's important to recognize that the artificially low interest rate environment that we are presently operating in has had an important impact on the rise in equity prices to their present historically high levels.

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



**Figure 3. Consumer Price Index & Personal Consumption Expenditure Inflation Rates: 2008-2016**



## The Economic Outlook for the Buffalo Region

With increasing frequency, we have found it informative to compare the monthly Current Employment Statistics (CES) data series to the broader based and larger *Quarterly Census of Employment and Wages* (QCEW) data when drawing conclusions about trends in the regional economy. The re-benchmarked Buffalo MSA employment data (including both Erie and Niagara Counties) that was recently made available by the BLS reduced the level of enthusiasm that analysis of the old data generated (for a discussion of this see Volume 19 No. 2 of this newsletter or see [www.bls.gov/sae/benchmark2016.pdf](http://www.bls.gov/sae/benchmark2016.pdf)).

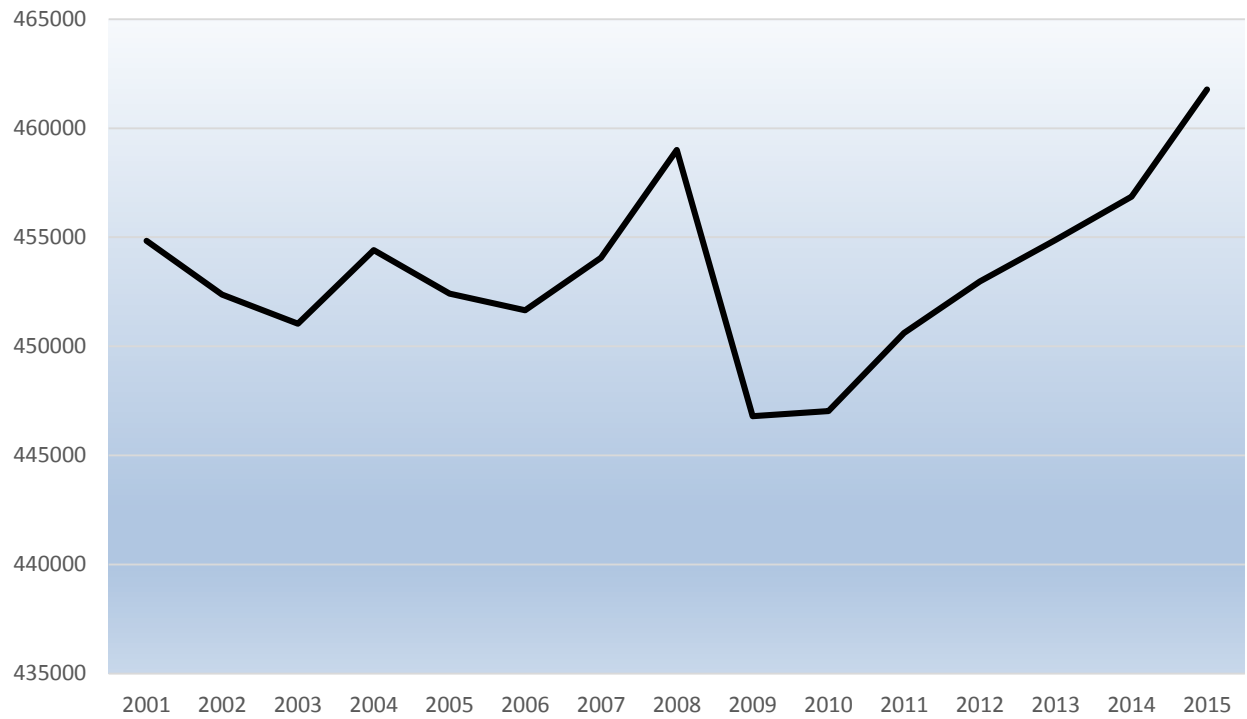
Based on estimates of employment growth for Erie County as reported in the QCEW data for 2015, Erie County employment grew at a rate of 1.1%. This is nearly three times the average growth rate over the period 2010-2014. Figure 4a shows the quarterly employment data for Erie County over the period 2001-2015 while Figure 4b shows the seasonally adjusted monthly employment data for the Buffalo MSA from 2001 through July 2016.

The Buffalo MSA data is based on the payrolls of establishments drawn from the CES survey (<http://www.bls.gov/sae/>). The data provided by this survey is timelier than that from the QCEW. 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 data for Erie County is from the broader based and larger *Quarterly Census of Employment and Wages* (QCEW) <http://www.bls.gov/cew/datatoc.htm> .

Both series show growth in employment since the end of the Great Recession, and the first quarter 2016 numbers for Erie County show a pattern consistent with the annual data presented in Figure 4a below. The average monthly increase for the first quarter of 2016 in Erie County is 1.3%, while the rate for the MSA was just .3%. Interestingly, the growth rate of Erie County employment is nearly double the .7% rate for Niagara County over the quarter.

The combination of sampling techniques and the underlying relative strength of the Erie and Niagara County economies explain much of the difference between Figures 4a and 4b. Employment in the Buffalo MSA has finally returned to the level it had attained prior to the 2001 recession, having exceeded its 2008 peak in 2015. Erie County employment growth is stronger than that of the MSA with a point of inflection that might portend even stronger growth to follow. While county data may not support the popularly proclaimed *Buffalo Renaissance*, it is consistent with an economic revival.

**Figure 4a. QCEW Employment 2001 - 2015 Erie County**



**Figure 4b. Buffalo MSA Non-Agricultural Employment: Seasonally Adjusted: 2001-2016**

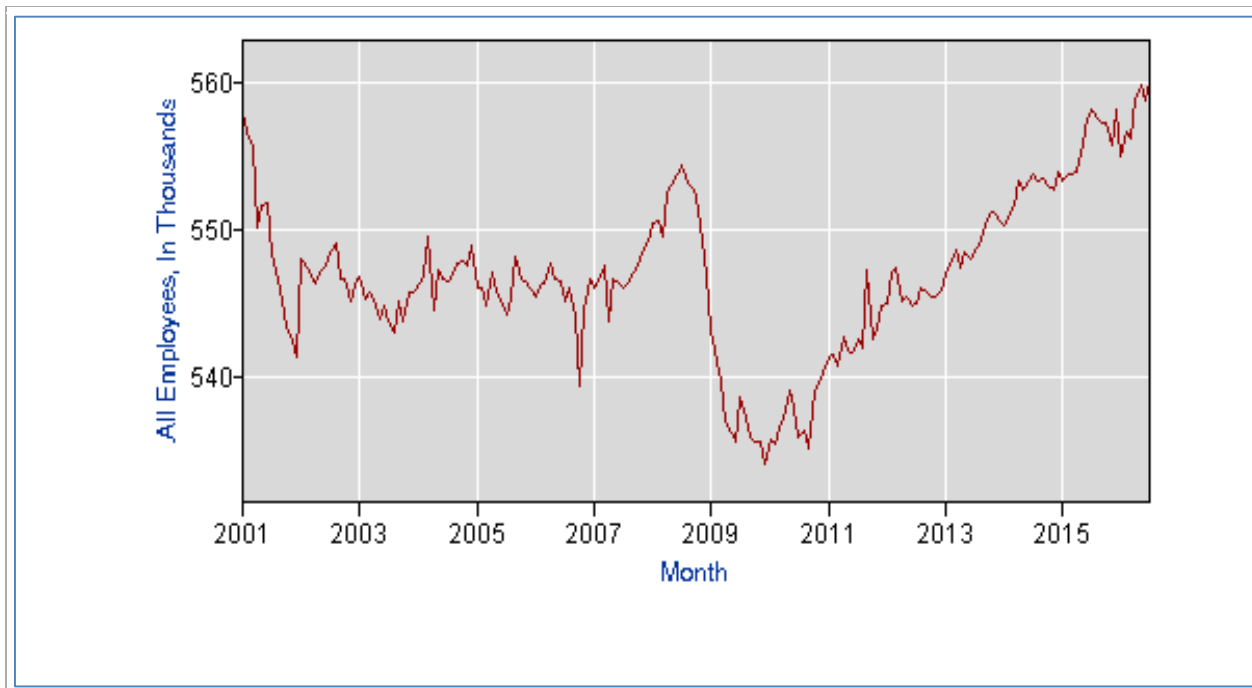


Table 2, based on QCEW data, presents a comparison of employment, employment growth, annual pay per worker, the ratio of local to national earnings per worker and local location quotients. These comparisons are made for the public and private sectors as well as specific industries in the private sector. As implemented by the BLS, the location quotients (LQ) are the ratio of industry employment in Erie County to total base-industry employment in the county divided by the ratio of industry employment in the US to base-industry employment in the US. Thus, the value of Erie County's LQ for construction (.8) means that the proportion of total employment made up by construction employment in Erie County is 80% of the average for all counties in the United States. The LQ's used here are employment based; the same calculation could be made using industry earnings compared to total earnings. An LQ substantially greater than 1 implies some degree of specialization in that industry for the region.

Taken by sector, employment at all levels of government: federal, state and local; fell between 2010 and 2015. Over that period, a common theme in this newsletter was that the tax base could no longer support the level of local government employment. Either the size of local government employment or the average compensation of government workers would need to fall. While local government employment declined by 6% over the period 2010-2015, the average wages of local government workers are 9% higher than the national average.

With the exception of the leisure and hospitality industry, the fastest growing private sector industries in Erie County had wages per worker at or below the national average. Financial services employment, second only to leisure and hospitality in growth, has average annual pay that is 69% of the national average. It should be noted that only manufacturing workers have higher average annual earnings than employees in the financial services sector. An LQ of 1.20 for the financial sector supports the statement made many times in this space that the region is attractive to those firms that need skilled workers that are willing to work for less than the national average annual salary. When this salary is higher than that which can be earned by workers in almost any other industry, then firms that relocate to this area, as well as newly employed residents working for them, are made better off by the move.

## **Conclusion**

The revised CES employment data, released in March 2016, suggested that the Buffalo MSA was not growing as quickly as pre-revised data made it appear. Current data for the MSA, as well as Erie County, show that the region has been growing. The decline in employment noted last summer has been reversed. The metropolitan area has finally eclipsed the level of employment from before both the 2001 and the 2008 recessions. Employment is growing in most industries. With a 1.9% growth in nominal average annual earnings in 2015, while increasing, wages are not approaching the national average with any degree of rapidity.

**Table 2**

**Erie County vs. US Employment and Earnings by Industry: 2015**

<b>Industry</b>	<b>Average Annual Employment</b>	<b>% Change in Employment 2010 - 2015</b>	<b>Average Annual Pay</b>	<b>Location Quotient Relative to U.S.</b>	<b>Local to U.S. Average Pay</b>
Total, all industries	461,775	3%	\$46,096	1.00	87%
Total, Federal Government	8,105	-14%	\$75,646	0.89	97%
Total, State Government	19,482	-1%	\$53,133	1.29	95%
Total, Local Government	43,334	-6%	\$51,672	0.94	109%
Total Private all industries	390,854	5%	\$44,514	1.00	84%
Goods-producing	60,802	5%	\$60,864	0.89	99%
Natural resources and mining	1,037	-1%	\$39,709	0.16	68%
Construction	16,955	9%	\$55,619	0.80	98%
Manufacturing	42,810	4%	\$63,454	1.05	99%
Service-providing	330,052	5%	\$41,502	1.02	81%
Trade, transportation, and utilities	85,206	5%	\$37,404	0.97	84%
Information	6,632	-5%	\$59,858	0.73	63%
Financial activities	31,010	9%	\$60,904	1.20	69%
Professional and business services	62,869	0%	\$54,015	0.97	78%
Education and health services	75,646	4%	\$41,824	1.08	88%
Leisure and hospitality	50,191	12%	\$23,652	1.00	108%
Other services	17,521	9%	\$25,927	1.23	74%
Unclassified	979	138%	\$24,827	1.13	49%

Source: <http://www.bls.gov/cew/datatoc.htm>

\*\* All employers, public and private \*\*\*private sector wages



## NATIONAL, STATE & LOCAL BUSINESS INDICATORS

					% change
<b>NATIONAL INDICATORS</b>					<b>2015:II -</b>
	<b>2015:II</b>	<b>2015:IV</b>	<b>2016:I</b>	<b>2016:II</b>	<b>2016:II</b>
Real GDP (billions of chained 2009\$) (1)(a)	16,374.2	16,490.7	16,525.0	16,570.2	1.2
Real GDI (billions of chained 2009\$) (1)(a)	16,567.8	16,730.3	16,763.9	16,771.6	1.2
US Personal Income (billions of \$) (1)(a)	15,401.9	15,690.2	15,740.1	15,900.0	3.2
					% change
					<b>Aug-15 -</b>
	<b>Aug-15</b>	<b>Jun-16</b>	<b>Jul-16</b>	<b>Aug-16</b>	<b>Aug-16</b>
Consumer Price Index (1982-84=100) (2)	238.316	241.038	240.647	*	0.84
Exchange Rate Canadian cents/US \$ (3) (b)	131.410	129.250	130.350	131.060	-0.27
10 Year Treasury Note Yield (%) (3) (b)	2.217	1.473	1.452	1.582	-0.64
3 Month Treasury Bill Yield (%) (3) (b)	0.002	0.261	0.266	0.332	0.33
S&P 500 Stock Index (3) (b)	1,972.18	2,098.86	2,173.60	2,170.95	10.08
Dow-Jones Industrial Average (3) (b)	16,528.03	17,929.99	18,432.24	18,400.88	11.33
<b>LABOR MARKET TRENDS (2)</b>					
Nonag Civilian Employment					
US (1000's)(a)	142,151	144,172	144,447	144,598	1.72
NY State (1000's)(a)	9,283.4	9,361	9,398	*	1.23
WNY (1000's)	557.0	566.4	560.7	*	0.79
Unemployment Rate (%)					
US (a)	5.1	4.9	4.9	4.9	-0.2
NY State (a)	5.0	4.7	4.7	*	-0.4
WNY	5.2	4.4	4.9	*	-0.8
Ave. Weekly Hours in Mfg. US (a)	41.8	41.7	42.0	41.8	0.00
Ave. Weekly. Earnings in Mfg. US \$(a)	836.84	851.93	860.16	858.15	2.55
US Private Employment (1000's)(a)	120,102	122,034	122,259	122,385	1.90
<b>WNY EMPLOYMENT BY SECTOR (1000's) (2)</b>					
Mining, Logging & Construction	23.1	22.9	23.5	*	2.17
Manufacturing	52.2	51.5	51.3	*	-1.91
Trade, Transportation & Utilities	103.2	108.2	106.6	*	3.39
Durable Goods	32.6	32.3	32.1	*	-1.53
Finance Activities	34.4	34.8	35.2	*	2.62
Government	85.4	89.5	85.5	*	0.35
(1) US Dept. of Commerce	(a) Seasonally Adjusted				
(2) US Dept. of Labor	(b) End of month data				
(3) Wall Street Journal	*indicates Jul-15 to Jul-16 percentage changes				