Western New York ECONOMIC NEWS
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Led by personal consumption expenditures, inventory investment and exports, US real economic growth was 3.2% in the first quarter of 2019. The FOMC kept its federal funds rate target in the 2.25% – 2.50% range, even though there is a 3.6% unemployment rate and monthly payroll employment growth has been averaging 218,000 workers. Despite the strong labor market, wage growth and inflation remain subdued. Locally, employment continued to grow, the April unemployment rate was 3.8%, and average weekly earnings increased .7% from the same month in the preceding year. However, both employment and wage growth still lagged behind the rest of the nation.

The National Economic Outlook

Advanced estimates of real GDP show the economy grew by 3.2% during 2019:Q1 after having grown by 3.4% and 2.2% during the third and fourth quarters of 2018. Personal consumption expenditures, inventory investment, state and local government expenditures and exports contributed to growth during the quarter. This strong growth occurred despite the uncertain trade situation with China and a world-wide economic slowdown. Germany, the largest European economy grew at only 0.6% in 2018:Q4, while the aggregate Euro economies grew at 1.2% during 2019:Q1.

Figure 1 shows real GDP growth rates since the beginning of 2009:Q3. The present expansion is now 39 quarters old, the longest duration since WWII. As we mentioned in the last issue of this newsletter, although economic growth appears to be healthy at present, some forward looking indicators are beginning to point to a recession. The Treasury yield curve, which has inverted before all post WWII recessions, is presently inverted between the 6 month and 7 year maturities. The 10 year to 1-year yield spread was a meager 6.4 basis points.

Equity markets have shown considerable growth. Both the S&P 500 and the Dow Jones Industrial indices are up by approximately 10 percent over the past year. During their May 1 meeting, the FOMC kept its federal funds rate target in the 2.25% – 2.50% range, even though labor markets are strong with monthly payroll employment growth that has averaged 218,000 workers over the past 12 months (see Figure 2). Additionally, the April unemployment rate is extremely low at 3.6%.

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Figure 1. Real GDP Growth Rates: 2009:Q3 - 2019:Q1

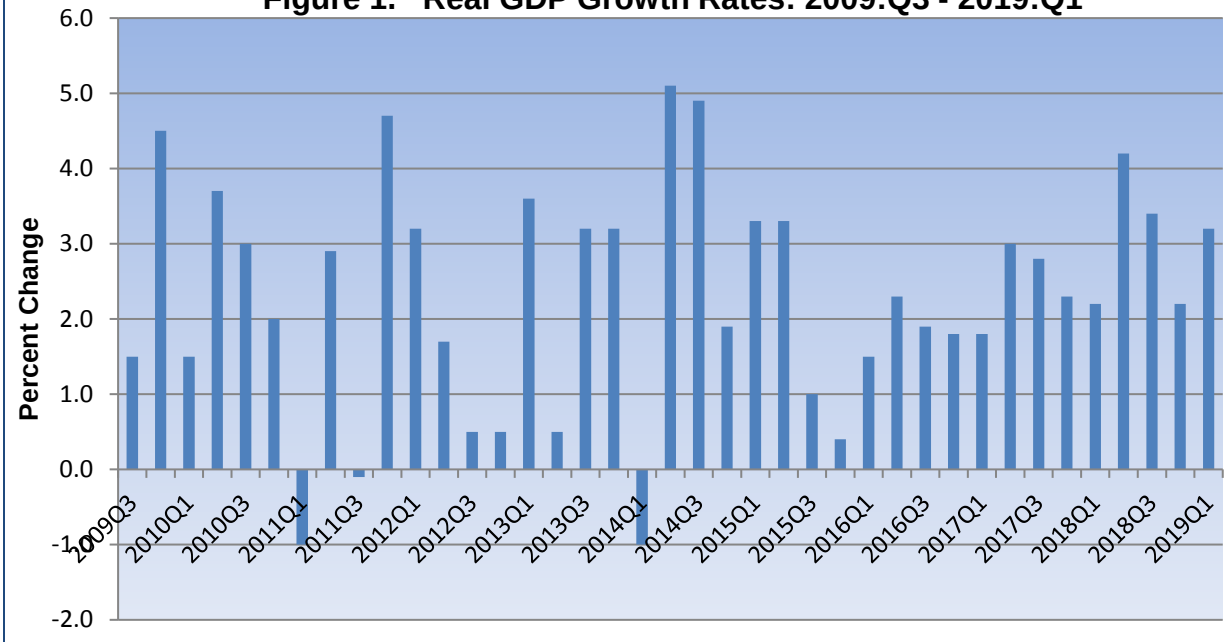
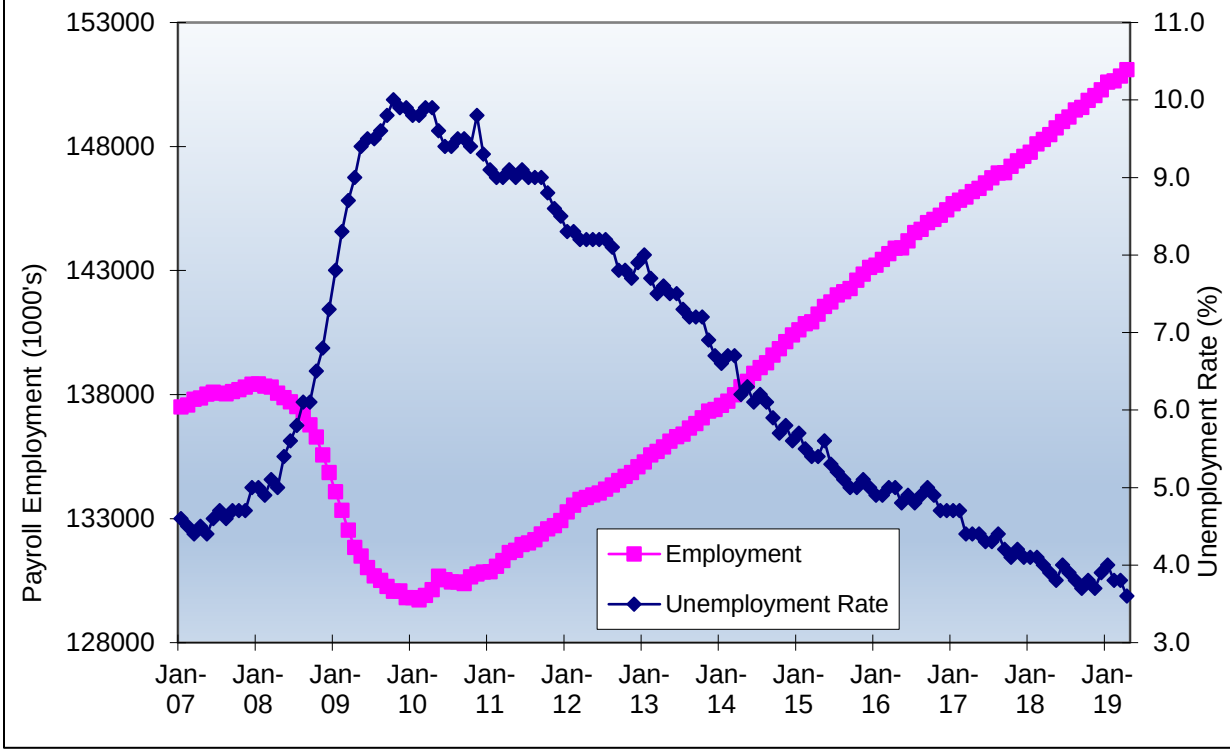
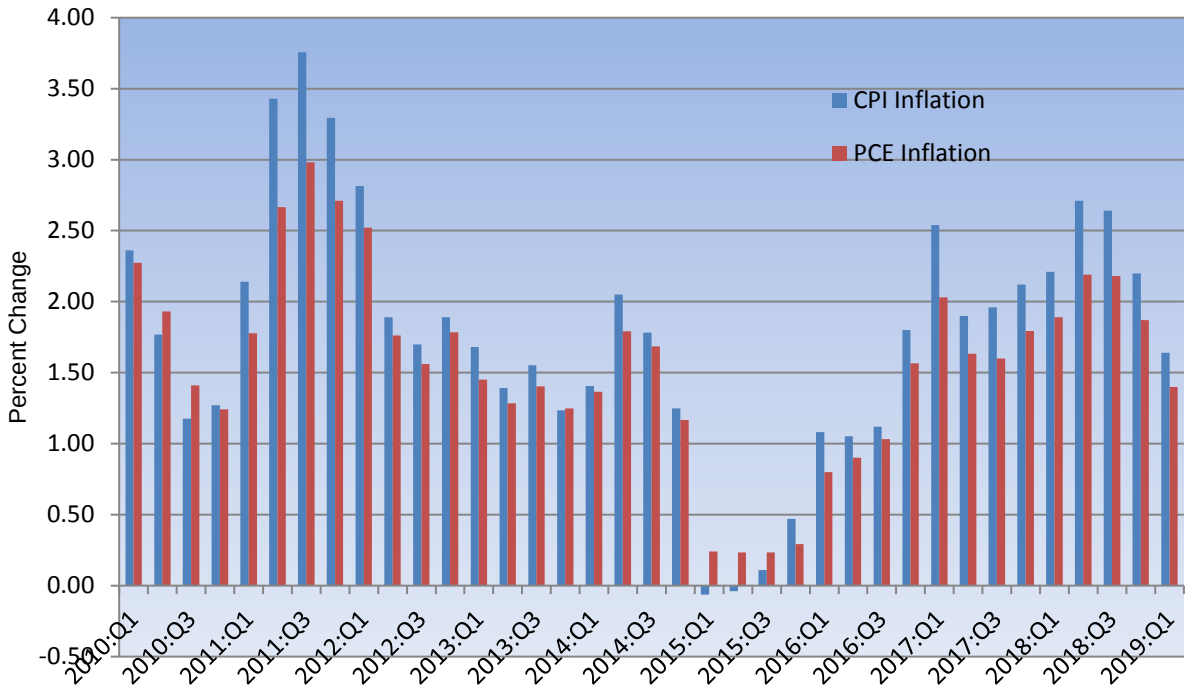


Figure 2. US Payroll Employment & the Unemployment Rate: 2007-2019



Despite the strong labor market, wage growth and inflation remain subdued. Quarterly inflation rates based on the Consumer Price Index (CPI) and the Personal Consumption Expenditure (PCE) deflator are shown in Figure 3. The PCE inflation rate of 1.4% was below the Fed's 2% target rate while CPI inflation was 1.64% between 2018:Q1 and 2019:Q1. The April 2019 CPI showed inflation of 2% from April 2018 to April 2019.

Figure 3. CPI & Personal Consumption Expenditure Inflation Rates: 2010-2019

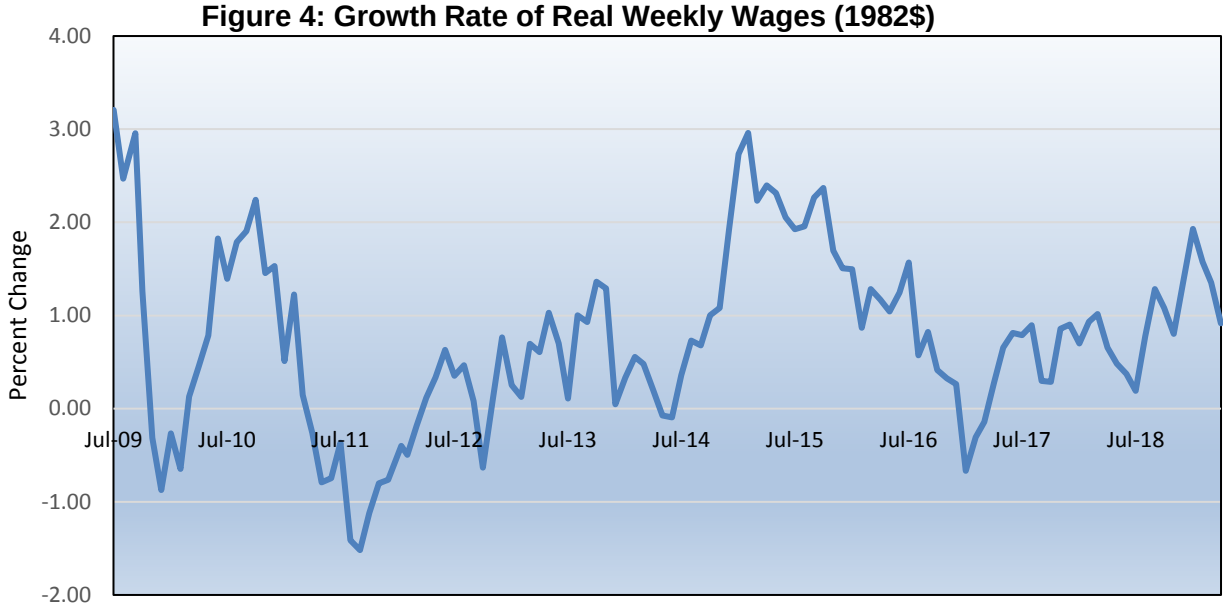


Policy makers have been puzzled by the relatively low inflation rates that have been accompanied by an unemployment rate that has been below the natural rate of unemployment for several months. The natural rate of unemployment is defined as the unemployment rate that would exist if cyclical unemployment was zero and the economy was operating at capacity. The natural rate is thought to be in the 4.5% - 5% range due to frictional (new entrants and re-entrants to the labor force) and structural unemployment (mismatch between skills desired by employers and those possessed by employees).

The Non-Accelerating Inflation Rate of Unemployment (NAIRU) formulation of the Phillips curve predicts that inflation should rise when the unemployment rate is below the natural rate. With tight labor markets, one would expect that real wages would increase and that increased production costs would be passed along to consumers in the form of higher prices. This has not been the case since 2018:Q3 as the inflation rate has fallen along with the unemployment rate. Real wages have been increasing since April 2017, but

these increases have been moderate (less than 2% on a year over year basis). The annual growth rates of real weekly wages for all employees measured in 1982 dollars are shown in Figure 4.

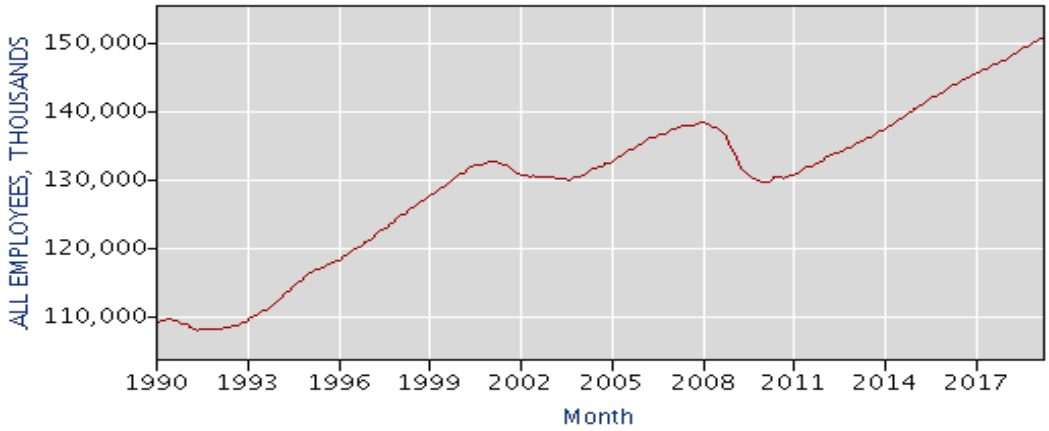
Figure 4: Growth Rate of Real Weekly Wages (1982$)



The Economic Outlook for the Buffalo Region

Figures 5 a – d, Table 1 and Figure 6 are based on data from the BLS's *Current Employment Survey* (CES) (https://www.bls.gov/sae/). This data provides a good summary of the long term trends in regional and national employment.

Figure 5a. U.S. Non-Agricultural Employment: 1990-2019



Seasonally adjusted monthly employment data over the period from 1990 through April 2019 presented in Figures 5a – 5d show an upward trend for the nation, as well as the upstate metropolitan areas. The rate of growth within the labor market areas, however, can be obscured by the aggregate level of activity. Table 1 summarizes the changes in employment activity for the US and the metropolitan areas presented in the accompanying figures.

Figure 5b. Buffalo MSA Non-Agricultural Employment: 1990-2019

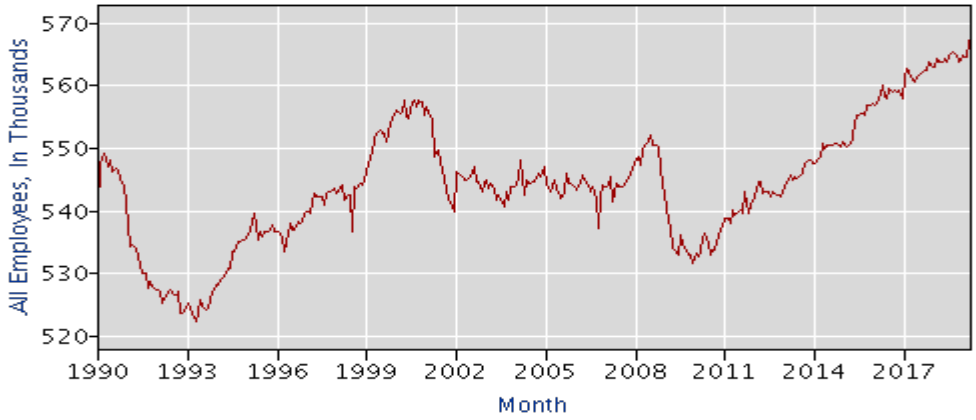


Figure 5c. Rochester MSA Non-Agricultural Employment: 1990-2019

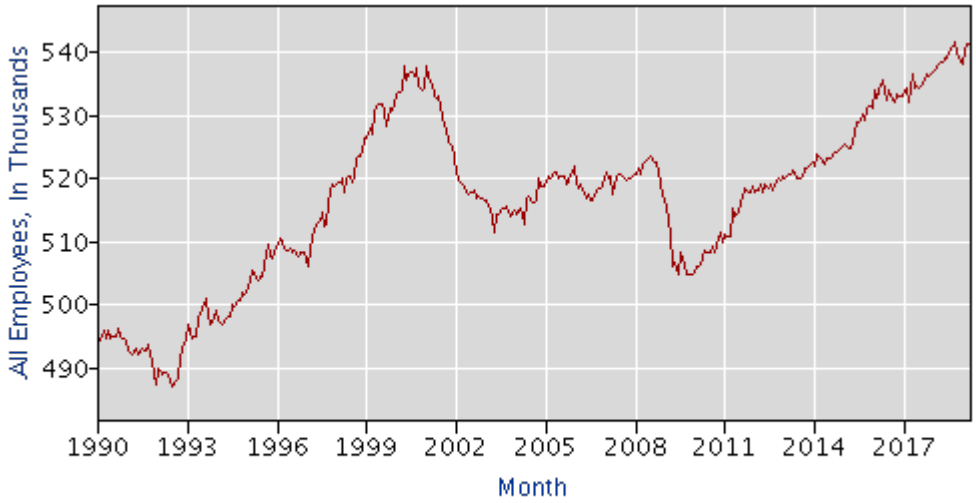


Figure 5d. Syracuse MSA Non-Agricultural Employment: 1990-2019

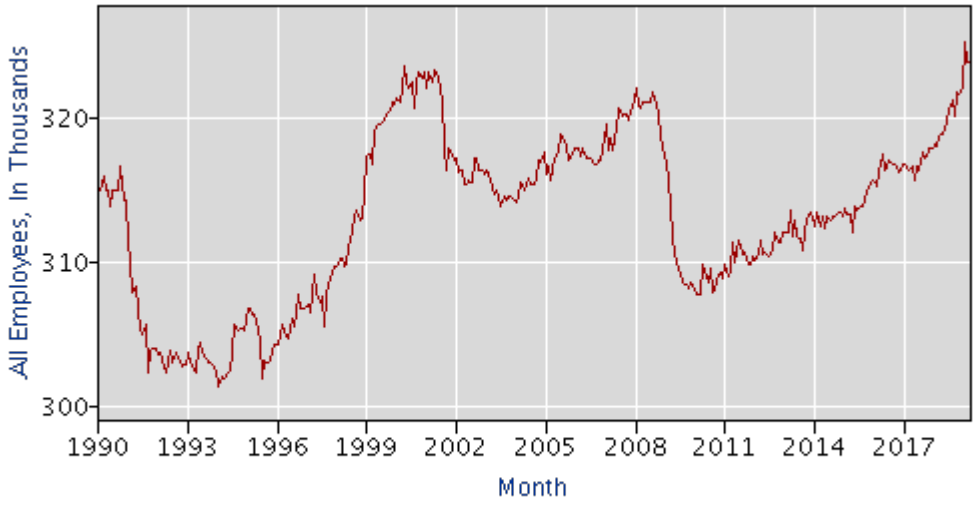


Table 1 indicates that none of the upstate MSA's have grown as rapidly as the US economy over the past 28 years. In fact, in all areas the gap continues to widen. However, since 2008, the degree to which US employment growth rate superseded the rates of employment growth in the upstate metropolitan areas was reduced slightly.

Table 1: Average Annual Rate of Change of Total Employment (CES)

	1990-2018	**2008-2018**
US	**0.97%**	**1.22%**
Buffalo MSA	**0.13%**	**0.48%**
Rochester MSA	**0.21%**	**0.52%**
Syracuse MSA	**0.10%**	**0.16%**

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 1.2%, while Buffalo and Rochester have averaged nearly .5% and Syracuse a little more than .1%.

To say that the upstate metropolitan areas are now falling behind the rest of the country less rapidly than previously is far different from saying we are actually catching up to the national average. It is hard to make a case for a significant improvement in the Buffalo,

Rochester or Syracuse metropolitan areas relative to the national employment growth rate. 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 6. Employment Indexes for the U.S. and Upstate MSA's (1990=1)

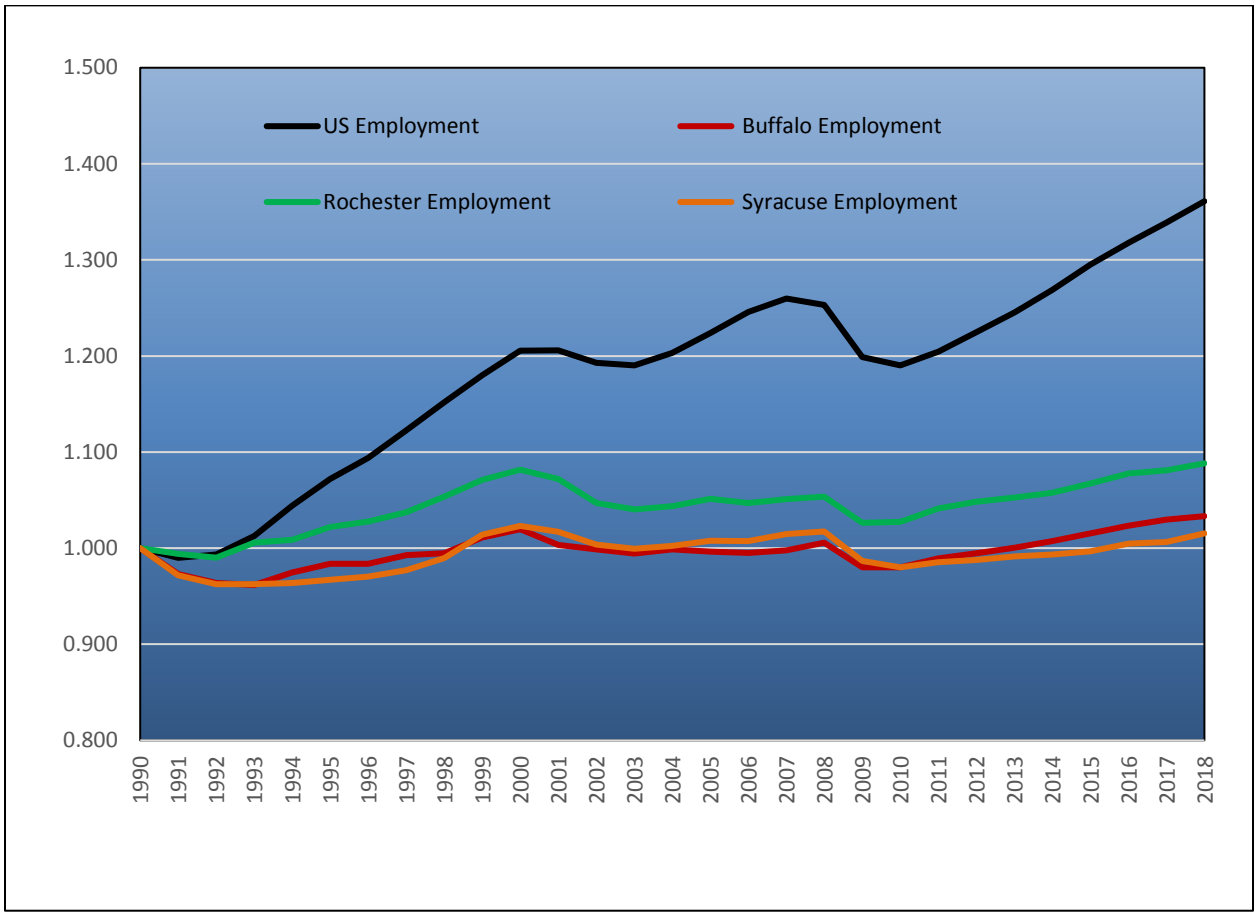


Figure 6 graphically depicts the differences in the annual growth patterns of total employment from 1990 to 2018. All years are indexed to employment in 1990 and are reported as a ratio of the 1990 level in each area. The chart shows a persistently increasing gap between the nation and Upstate New York metro areas.

Perhaps more distressing than the laggard nature of employment growth in Upstate New York is the dramatic change in the relationship between average weekly earnings in these metropolitan areas and the rest of the nation. This is shown in Figure 7 and summarized in Table 2 below. The data for is drawn from the *Quarterly Census of Employment and Wages* https://www.bls.gov/cew/data.htm .

Table 2 presents the average annual rate of change in weekly earnings from 2001 through the third quarter of 2018. It also presents the average weekly earnings for the US and the upstate metropolitan areas. *QCEW* is now using Combined Statistical Areas (CSAs) as the reporting unit. Thus for the Buffalo MSA, the CSA adds the Olean micropolitan area (Cattaraugus County), for the Syracuse MSA it adds the Auburn micropolitan area, and the Rochester CSA combines the Rochester metropolitan area with the Batavia and Seneca Falls micropolitan areas.

Table 2: Earnings by Place of Work and Rate of Change

	2008-2016	**Average Weekly Earnings***
US	**2.62%**	**$1055**
Buffalo CSA**	**2.41%**	**$896**
Rochester CSA	**2.14%**	**$916**
Syracuse CSA	**2.41%**	**$927**

* *QCEW* 2018:Q3
** https://www2.census.gov/geo/maps/metroarea/us_wall/Feb2013/csa_us_0213.pdf

While the rates of growth in average weekly earnings do not appear to differ from the national pattern as greatly as is the case for employment growth rates, the gap between the level of average weekly earnings between Buffalo ($896) and the US ($1055) is considerable and growing. This also holds true for the other upstate metropolitan areas.

Figure 7 shows the long term pattern of relative wages from 2001 through the third quarter of 2018 for the upstate CSAs and the US. Since it displays levels in each year as a ratio to the level in 2001, it is a gauge of relative wage improvement, rather than a comparison of the level of wages.

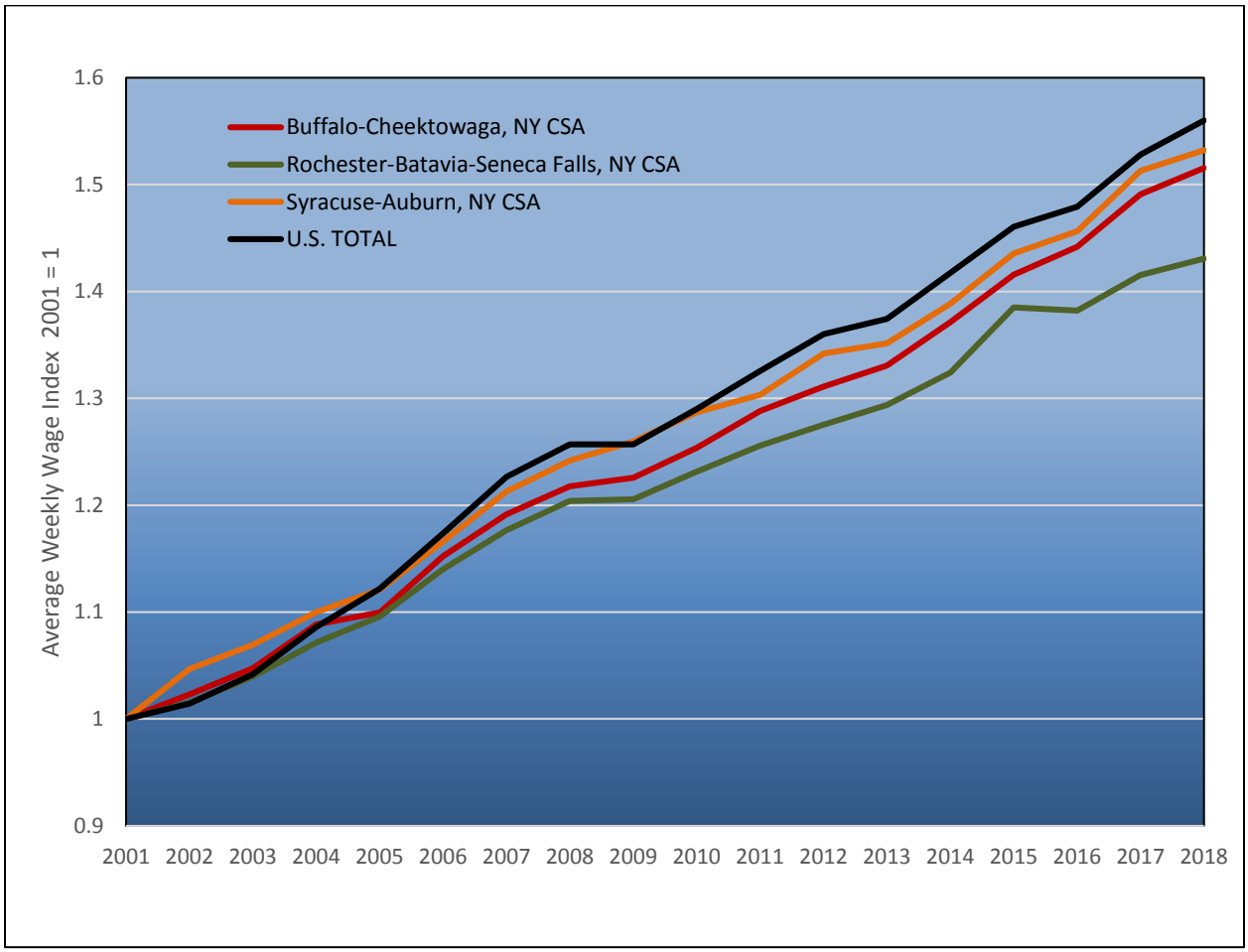
The Buffalo CSA had the lowest average weekly earnings of the three combined statistical areas in 2001 and again in 2018. The average annual rate of grow for the Buffalo CSA is the same as that in Syracuse, and exceeds that of the Rochester CSA.

All three areas have both lower levels of average weekly wages, as well as lower growth rates, than the US total. Thus, the gap in earnings between Upstate New York and the rest of the nation continues to grow.

The Albany metropolitan area has been, and will continue to be excluded from our analysis, since as the capital of the Empire State, much of its economic base is dependent

on tax revenues collected from the rest of the state. Therefore, it is our view that little of what happens in the Albany Region is comparable to other areas within New York.

Figure 7. 2001 – 2018 Average Weekly Wage as Ratio to 2001 Level



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

NATIONAL, STATE & LOCAL BUSINESS INDICATORS

NATIONAL INDICATORS	2018:I	2018:III	2018:IV	2019:I	% change 2018:I - 2019:I
Real GDP (billions of chained 2012$) (1)(a)	18,324.0	18,665.0	18,765.3	18,912.3	3.2
US Personal Income (billions of $) (1)(a)	17,319.2	17,657.3	17,886.3	18,033.5	4.1
	Apr-18	Feb-19	Mar-19	Apr-19	% change Apr 18 - Apr-19
Consumer Price Index (1982-84=100)(2)	250.546	252.776	254.202	255.548	2.00
Exchange Rate Canadian cents/US $ (3)(b)	128.42	131.76	133.50	133.90	4.27
10 Year Treasury Note Yield (%)(3)(b)	2.953	2.718	2.406	2.502	-0.45
3 Month Treasury Bill Yield (%)(3)(b)	1.810	2.440	2.396	2.425	0.62
S&P 500 Stock Index (3)(b)	2,648.05	2,784.49	2,834.40	2,945.83	11.25
Dow-Jones Industrial Average (3)(b)	24,163.15	25,916.00	25,928.68	26,592.91	10.06
LABOR MARKET TRENDS (2)					
Nonag Civilian Employment					
US (1000's)(a)	148,475	150,643	150,832	151,095	1.76
NY State (1000's)(a)*	9,655.7	9,745.1	9,764.6	9,790.9	1.40
WNY (1000's)*	559.5	556.0	559.2	565.2	1.02
Unemployment Rate (%)					
US (a)	3.9	3.8	3.8	3.6	-0.3
NY State (a)	4.6	3.9	3.9	3.9	-0.7
WNY*	5.1	4.7	4.5	3.8	-1.3
Ave. Weekly Hours in Mfg. US (a)	42.40	41.80	41.70	41.70	-1.65
Ave. Weekly. Earnings in Mfg. US ($)(a)	909.90	916.26	914.90	916.15	0.69
US Private Employment (1000's)(a)	126,054	128,133	128,312	128,548	1.98
WNY EMPLOYMENT BY SECTOR (1000's)(2)*					
Mining, Logging & Construction	19.6	18.4	19.0	19.8	1.02
Manufacturing	51.8	52.0	52.1	51.3	-0.97
Trade, Transportation & Utilities	98.8	98.4	98.4	99.8	1.01
Durable Goods	32.0	32.3	32.4	31.9	-0.31
Finance Activities	36.4	36.8	37.0	37.1	1.92
Government	90.1	90.8	90.8	90.7	0.67

(1) US Dept. of Commerce
(2) US Dept. of Labor
(3) Wall Street Journal

(a) Seasonally Adjusted
(b) End of month data