

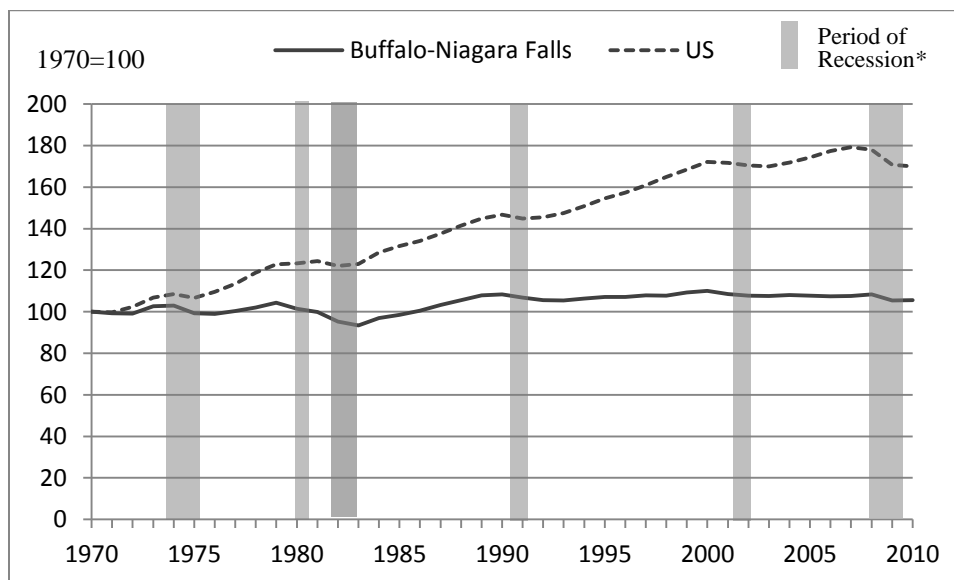
The Great Recession in Buffalo-Niagara

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At the end of the last decade, the U.S. experienced its most severe economic downturn since the Great Depression. The so-called “Great Recession” shocked the economies of virtually every metropolitan area in the nation. Officially, the recession began in December of 2007 and ended in June 2009. But for much of the country, recovery has been very slow; over three years since the expansion began the nation had gained back less than half of the jobs it had lost during the downturn. This brief examines the Great Recession’s effect on the Buffalo-Niagara metro’s economy and compares the region’s performance to that of the nation as a whole. The relative performance of the region has been mixed. For the first time in decades, the recession has been milder in the Buffalo-Niagara metropolitan area than in the U.S. overall, starting later and resulting in lower levels of joblessness. This change is tied to the decline of the region’s manufacturing base, which has left the economy more diverse and less volatile than in the past. However, stability has come at a price. More often than not, the service jobs that have been growing in the region pay lower wages than the manufacturing jobs they have replaced, and thus have tended to suppress workers’ wages.

Little Employment Growth in the Buffalo-Niagara Falls Metro Area over the Last Four Decades

Index of Total Employment, Buffalo-Niagara Falls MSA and the U.S., 1970-2010

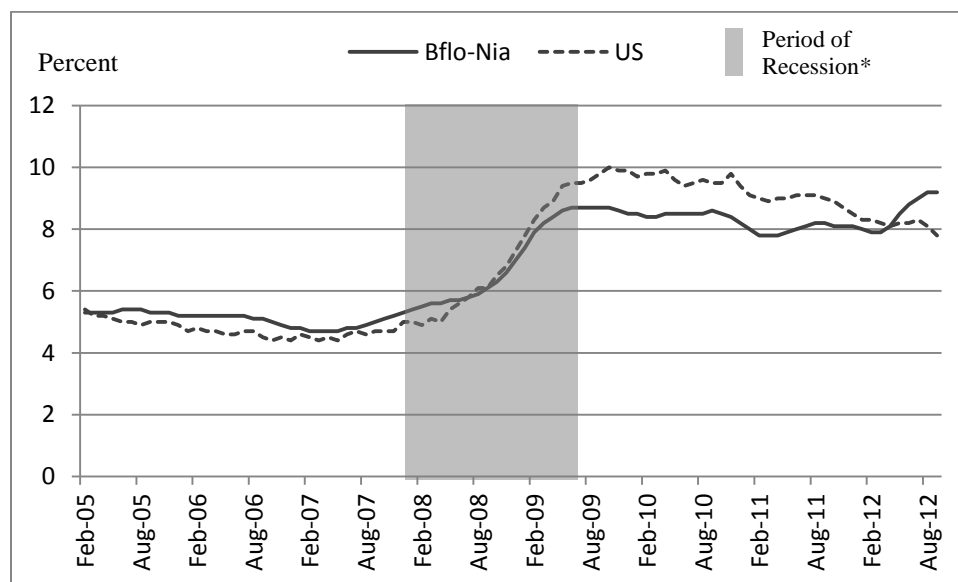


Source: Bureau of Economic Analysis, Regional Economic Information System; author’s calculations. *National recessions as determined by the National Bureau of Economic Research.

From 1970 to 2010, the number of jobs in the Buffalo-Niagara metro grew by a little over 5%, compared to an almost 70% increase for the nation as a whole. Over those four decades, the region's economy was reshaped by domestic and international forces: competition from manufacturers abroad, the relocation of factories from the Northeast to the South and West, and the emergence of high-level service industries in which the region was at a competitive disadvantage. There were five recessions over that period, not including the most recent, each one more severe for the Buffalo-Niagara metro than for the U.S. generally. And each one whittled away at the region's high-paying manufacturing base, making the region both smaller and poorer. By the onset of the Great Recession in 2007, the Buffalo-Niagara metro's manufacturing industry was about the same size as the national average.

While Severe, the Great Recession has been Milder for the Buffalo-Niagara Metro than for the Nation as a Whole

Unemployment Rate, Buffalo-Niagara Falls MSA and the U.S., Feb 2005-Sep 2012

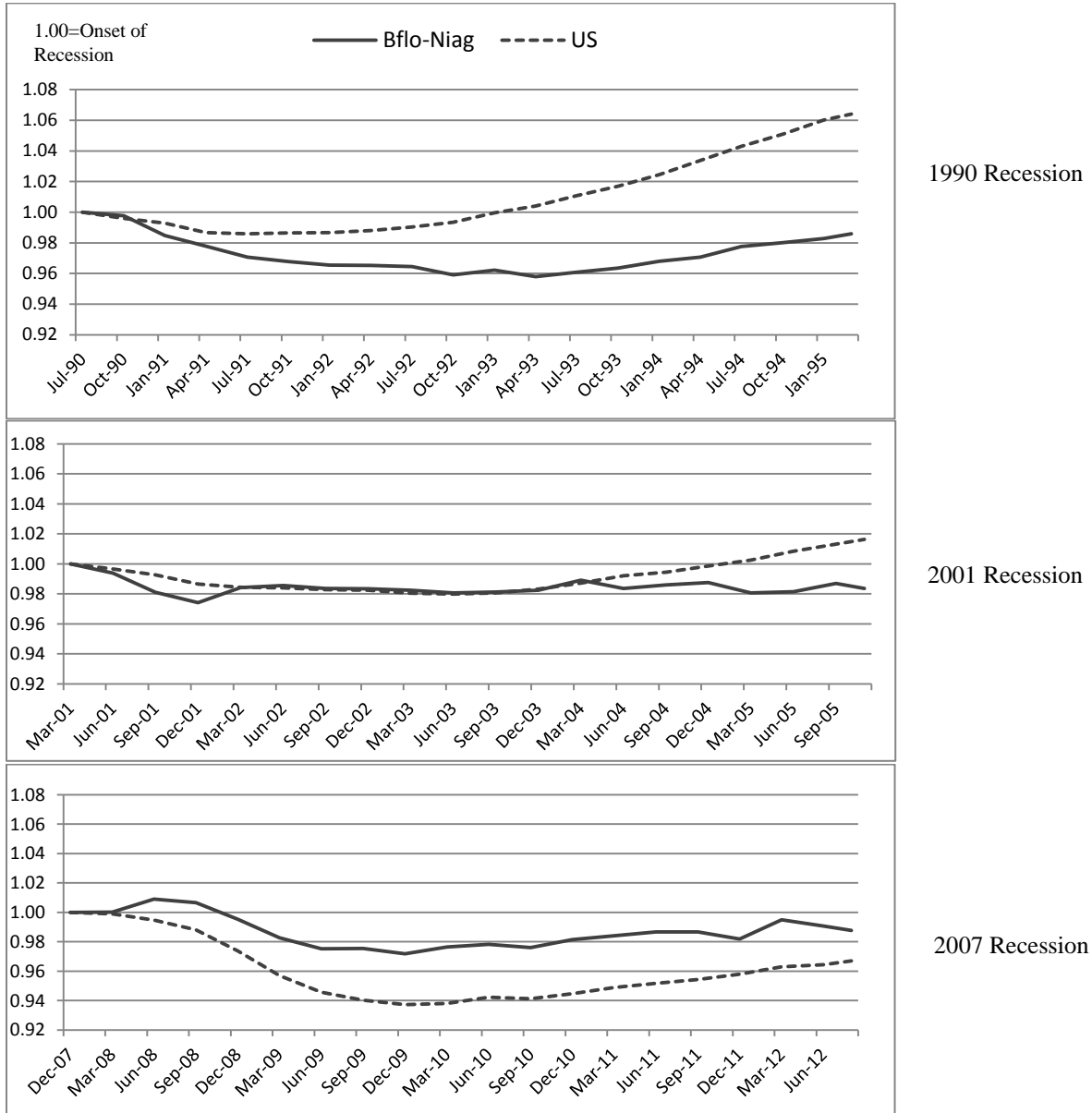


Source: Bureau of Labor Statistics, Local Area Unemployment Statistics; *National recession as determined by the National Bureau of Economic Research

Nationally, Great Recession unemployment rates reached as high as 10%, a level not seen since the early 1980s. Moreover, joblessness has been exceptionally persistent this time, with unemployment over 8% for almost four years, about twice the duration experienced in the 1980s. While severe, the recent recession has had less of an impact on the Buffalo-Niagara metro's economy than on the national economy. Over the course of the recession and recovery, the region's unemployment rate has generally been lower than the national average, sometimes by a percentage point or more. While that trend has been reversed in recent months—a fact that may be of future concern—for the most part, the region's economy has performed better than the national economy.

The Buffalo-Niagara Metro Economy is More Stable than in the Past

Indices of Employment Trends Subsequent to Onset of Past Three Recessions*, Buffalo-Niagara Falls MSA and the U.S.

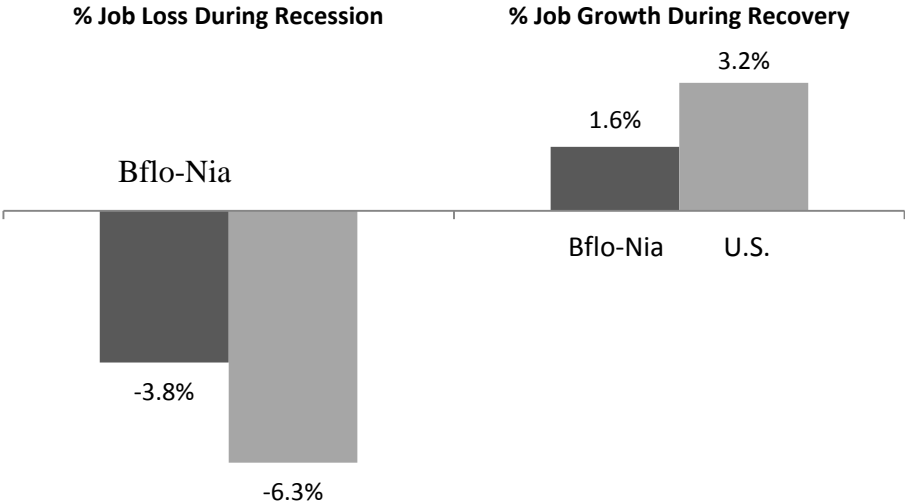


Source: Bureau of Labor Statistics, Current Employment Statistics; author's calculations; *National recessions as determined by the National Bureau of Economic Research

The improved performance of Buffalo-Niagara’s economy relative to that of the nation continues a decades’ old trend towards increasing stability. Over each of the last three recessions, the region’s economy has generally performed better than it did the previous recession. The 1990 recession was much deeper and lasted considerably longer for the Buffalo-Niagara metro than for the U.S. Despite a rather jobless recovery, the 2001 downturn was significantly less severe than the 1990 recession and more similar to the national downturn. The 2007 recession was slightly milder than the previous one in Buffalo-Niagara, which is noteworthy considering its severe impact on the national economy.

While the Recession was Relatively Less Severe for the Buffalo-Niagara Metro than for the Nation Overall, the Region’s Recovery has been Less Robust

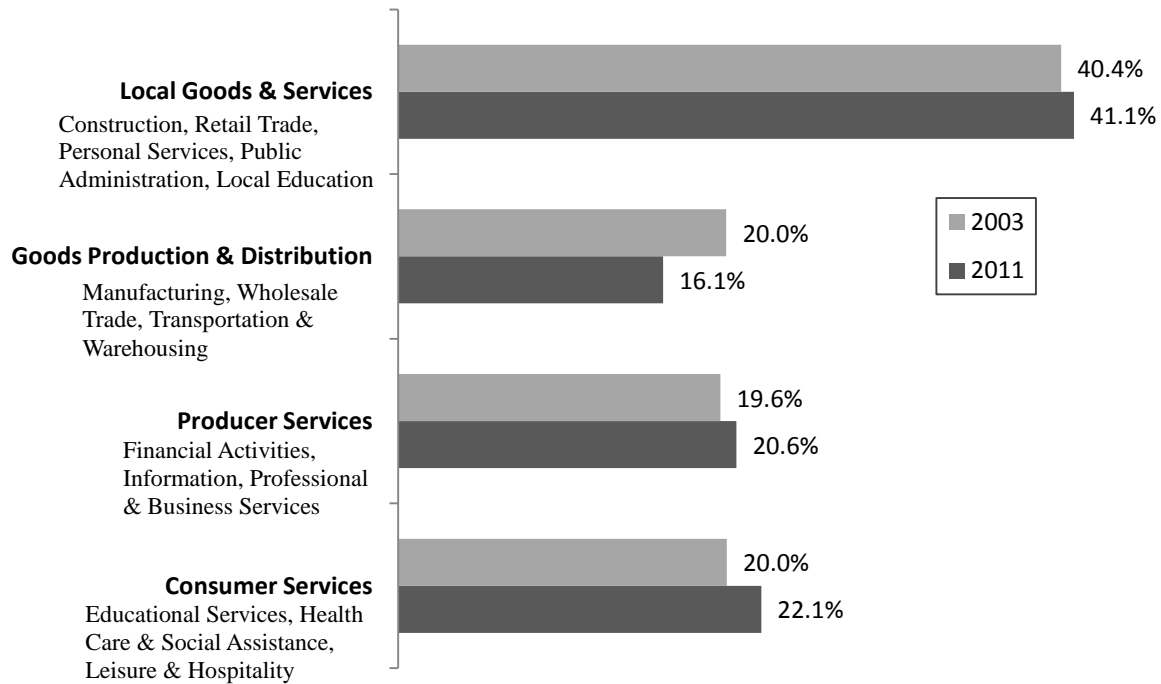
Percent Job Loss from Peak Employment to Trough and Percent Job Growth from Trough to Present, Buffalo-Niagara Falls MSA and the U.S., Post Onset of 2007 Recession



Source: Bureau of Labor Statistics, Current Employment Statistics; author’s calculations

Compared to the U.S., the Buffalo-Niagara metro lost a smaller percentage of jobs during the downturn, but job growth during the recovery has been slower. In part, this pattern reflects the enhanced stability of the region’s economy. However, it also suggests the region’s generally lower capacity for job growth compared to the U.S.; the Buffalo-Niagara economy did not grow much during the prior expansion, so it had fewer jobs to lose during the recession.

The Region Continued to Move away from Manufacturing and toward Providing Services
 Share of Jobs by Major Industry Category, Buffalo-Niagara Falls MSA, 2003 and 2011



Source: Bureau of Labor Statistics, Quarterly Census of Employment and Wages; author's calculations

Throughout much of the 20th century, the Buffalo-Niagara metro economy was largely focused on the production and distribution of goods, with much of the rest of the economy servicing the region's factory workers. Today, the region's economy is much more diverse, with a large segment of the labor force working in industries that provide services to businesses and consumers both inside and outside of the region. This trend continued over the previous expansion and the most recent recession and recovery. Goods production and distribution (consisting primarily of manufacturing, wholesale trade, and transportation and warehousing) is still important to the region, but this sector declined considerably from 2003-2011, dropping from about 20% to 16% of the region's workforce.

On the other hand, producer services (financial activities, information services, and professional and business services) and consumer services (education, health care and social assistance, and leisure and hospitality) saw their shares of employment rise, and at 20.6% and 22.1% respectively, each now provides more jobs than goods production and distribution. For the most part, producer and consumer service industries are less volatile than goods production and distribution, and their growing importance largely explains the improved stability of the region's economy. However, the region's strengths have tended to be in consumer services, which often pay less than producer services.

Over the Most Recent Business Cycle, the Region has tended to Gain Lower-Wage Jobs and Lose Higher-Wage Jobs

Number of Jobs Gained or Lost and Average Wages for Industries with Largest Change in Employment, Buffalo-Niagara Falls MSA, 2003-2011

Biggest Gainers

Industry	No. of Jobs	Avg. Wages
Health Care and Social Assistance	6,528	\$38,008
Food Services & Drinking Places	5,642	\$14,713
Professional & Technical Services	3,404	\$57,101
Management of Companies & Enterprises	3,254	\$77,276
Educational Services	2,719	\$30,207

Biggest Losers

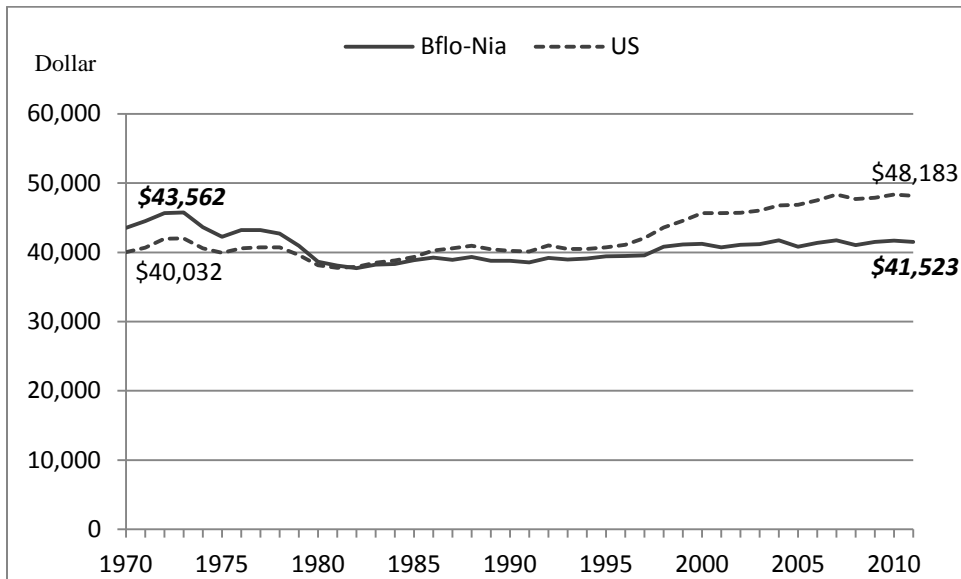
Industry	No. of Jobs	Avg. Wages
Manufacturing	-17,003	\$57,873
Public Administration (all levels of government)	-2,536	\$49,167
Information	-2,133	\$52,001
Finance & Insurance	-1,975	\$56,595
Transportation & Warehousing	-1,809	\$37,737

Source: Bureau of Labor Statistics, Quarterly Census of Employment and Wages; author's calculations

A closer look at which Buffalo-Niagara industries have grown and which have shrunk in recent years helps to show how the region's changing economy is affecting workers' earnings. Manufacturing, which pays relatively high wages, lost 17,003 jobs from 2003-2011, far more than any other industry. Two other well-paying industries, finance/insurance and information, lost a considerable number of jobs as well. This is of some concern since banking and insurance have been strengths of the region. However, there was some good news regarding two other important producer service industries: professional/technical services and management of companies/enterprises. Both saw significant employment gains in recent years and are considered to be sources of future job growth. Health care/social assistance and education services also saw robust growth over the period. The so-called "meds and eds" have been a consistent source of new jobs for the region for some time. However, such jobs tend to pay lower wages than the manufacturing jobs they are replacing.

Over the Past Few Decades, Wages have been Stagnant in the Buffalo-Niagara Metro while Rising in the U.S. Overall

Real Average Wage per Job,* Buffalo-Niagara Falls MSA and the U.S., 1970-2011

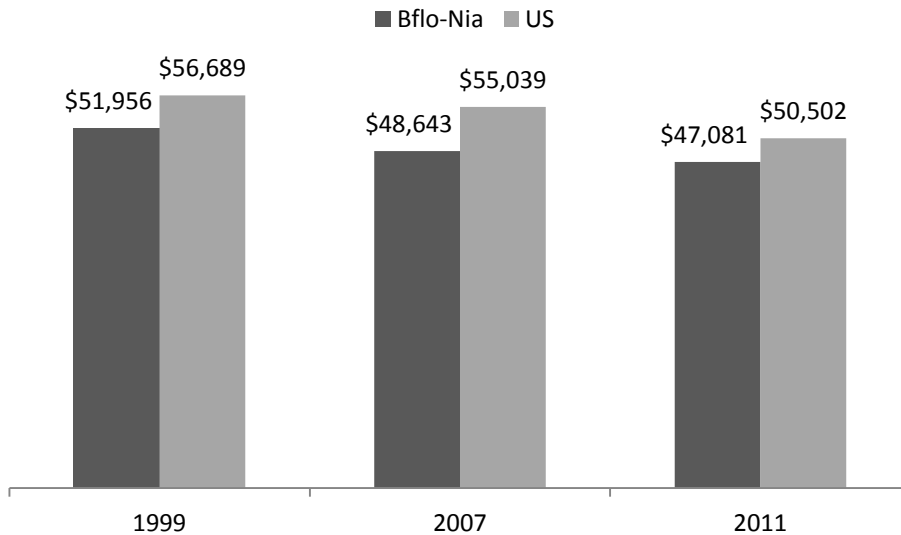


Source: Bureau of Economic Analysis, Regional Economic Information System; author's calculations. *Wages are in inflation adjusted 2011 dollars.

The changing economy and loss of higher-wage manufacturing jobs is reflected in the region's average wage per job. In 1970, the Buffalo-Niagara metro's average wage (total wages divided by the number of workers) was \$43,562 when adjusted for inflation, about 8% higher than that for the nation as a whole. By 2011, the region's average wage had actually declined to \$41,523, which was 16% lower than the average wage nationally. This relative decline suggests that the Buffalo-Niagara metro has become poorer relative to the nation as a whole.

Incomes for Typical U.S. and Buffalo-Niagara Metro Households Declined over the Course of the 2000's

Real Median Household Income*, Buffalo Niagara Falls MSA and the U.S., 1999, 2007, and 2011



Source: U.S. Census Bureau, Current Population Survey; *Incomes are in inflation adjusted 2011 dollars.

It would be expected that stagnant or declining wages would affect the financial condition of households. A good gauge of financial condition is median household income, and the trend of this metric over the past decade is striking. Between the start of the recession in 2007 and 2011, the typical Buffalo-Niagara household saw its income shrink by \$1,562, or 3.2%. For the U.S, the decline was \$4,537, or 8.2%, demonstrating the greater effect of the recession on the nation. While such declines are significant enough, they only continued a trend present before the recession hit; from 1999 to 2007, median household income had already dropped by \$3,313 for the Buffalo metro and \$1,650 for the nation as a whole.

The drop in household incomes occurred over a period when the national economic output was growing at a considerable pace. Moreover, the fact that nationally the average wage rose for most of the decade while median household income fell is indicative of the disturbing long-term growth in inequality between middle- and upper-income Americans.

A future brief will look more closely at how the Great Recession has affected the region's population, including the impact on the standard of living and poverty rates of people of different races and ethnicities and the way these attributes vary among cities and suburbs.

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