

# CURRENT ISSUES

IN ECONOMICS AND FINANCE

## Second District highlights

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### Is Upstate New York Showing Signs of a Turnaround?

The economy of upstate New York has fared poorly during much of the decade. Between 1990 and 1996, employment upstate declined 1.3 percent, while the United States enjoyed 15.0 percent job growth.<sup>1</sup> But in 1997 and 1998, signs of a turnaround seemed to emerge. Jobs increased, unemployment rates were low, and home sales rose dramatically. Upstate added roughly 35,000 new jobs in 1997 and almost 38,000 in the following year. Significantly, the region’s 1.2 percent growth in 1998 represented its best showing since 1990 (see table).

At the local level, such news would likely be cause for optimism. A look at the broader picture, however, puts upstate’s recent employment growth in sharp contrast with that of other states.<sup>2</sup> Despite some evidence of improvement over the past two years, growth upstate still critically lags that of the nation and New York State as a whole. Furthermore, upstate’s employment growth remained among the slowest of all states in 1997 and 1998.

In this edition of *Second District Highlights*, we examine the recent performance of upstate New York’s economy—including the economies of Buffalo, Rochester, Albany, Syracuse, Utica, and Binghamton<sup>3</sup>—to determine if a turnaround is occurring. Factors such as growing employment, low unemployment rates, and rising home sales suggest an economy on the upswing following a sluggish recovery from the 1990-92 recession. Yet changes in the industrial mix of employment, a declining population, and a shrinking labor force are likely moderating growth. Upstate New York has shown signs of improvement recently, but its growth is still fairly small compared with that of the entire state and the nation.

#### THE INDUSTRIAL MIX OF EMPLOYMENT

Upstate New York turned an important corner in 1997, when employment rose more than 1 percent after showing no growth in the preceding year. In 1998, upstate saw employment advance by 1.2 percent—or almost 38,000 jobs—its largest jump since 1990. In addition, all of the six largest metro areas except Buffalo posted sizable job increases from the previous year (see box).

Despite this favorable news on the job front, the rate of employment growth upstate was still less than half the national rate in 1997 and 1998. One explanation for this

#### Average Annual Employment Growth Nonagricultural Employment

Year	Upstate New York (Percent)	Upstate Ranking (Out of Fifty-One) <sup>a</sup>	New York State (Percent)	United States (Percent)
1990	1.31	36	-0.42	1.41
1991	-2.21	41	-3.97	-1.06
1992	-0.84	45	-1.99	0.32
1993	0.35	47	0.39	1.95
1994	0.75	50	0.92	3.12
1995	0.67	50	0.77	2.65
1996	0.00	50	0.59	2.06
1997	1.17	50	1.63	2.58
1998	1.24	49	2.00	2.56

Sources: New York State Department of Labor; U.S. Department of Labor, Bureau of Labor Statistics; authors’ calculations.

Note: “Upstate” refers to a total of fifty-two counties in New York State. It does not include downstate New York: New York City; Westchester, Putnam, and Rockland counties (considered part of the New York City primary metropolitan statistical area); and Nassau and Suffolk counties on Long Island.

<sup>a</sup>The ranking sample of fifty-one is upstate New York, downstate New York, and the forty-nine other states.

shortfall can be found in the changing industrial mix of employment. Most notably, the manufacturing industry—once a major source of growth—has been declining in importance in upstate’s employment mix. Although Albany, Syracuse, Utica, and Binghamton increased average manufacturing employment last year, the industry’s share of jobs upstate fell from 30 percent to just 16 percent between 1970 and 1998.

To be sure, manufacturing employment has also been slowing across the country.<sup>4</sup> In 1998, the nation saw very little growth, just 0.3 percent, in these jobs. Yet the U.S. economy compensated for sluggish growth in manufacturing jobs by enjoying sizable increases—on the order of 4.1 percent—in the service sector. Although upstate New York also experienced an accompanying rise in service employment—driven in large part by growth in business services—its 2.7 percent growth did not approach the nationwide average. The difference in these averages helps explain why upstate’s *total* employment growth could not keep pace with the nation’s in recent years and why, compared with other states, upstate ranks near the bottom in job growth.

### THE UNEMPLOYMENT PARADOX

Does low unemployment necessarily go hand in hand with a robust economy? Much of upstate New York boasted record-low unemployment rates in 1998. During the year, parts of upstate even mirrored the national unemployment lows of nearly 4 percent.

Upstate New York’s impressive unemployment rates, however, do not stem from strong job growth. Rather, population and labor force declines—factors that diminish the number of potentially unemployed—account for the low rates (see chart). Continuing a decade-long trend, upstate lost approximately 0.4 percent of its population and 0.5 percent of its labor force in 1998.<sup>5</sup> In particular, each of the six largest metro areas lost population last year. Meanwhile, the United States saw population and labor force gains of almost 1.0 percent. The upstate economy, then, has evidently been losing workers to other parts of the country. Surprisingly, upstate New York’s low unemployment—a factor that one might associate with job growth—reflects labor shortages across the region and has actually limited the potential for growth.

### 1998 EMPLOYMENT GROWTH UPSTATE

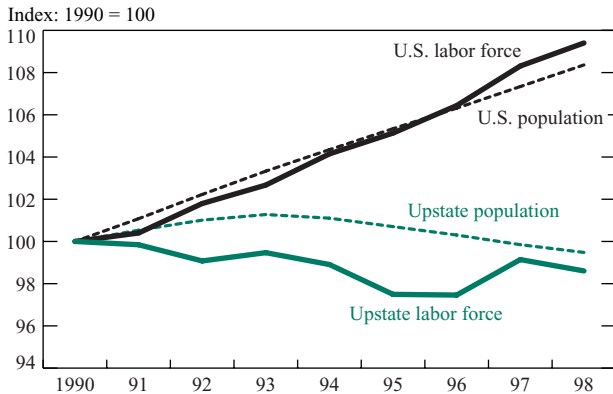
Upstate New York’s 1.2 percent job growth last year was its highest since 1990. A glimpse at employment trends within the region suggests that the economies of the largest metro areas—except for Buffalo—are generally on the upswing (see box chart).<sup>a</sup>

- *Buffalo*: Job growth continued at a sluggish pace last year, reaching only 0.1 percent and yielding just 500 new jobs. Losses in manufacturing were not offset by gains in other sectors. Retail employment fell significantly, hurt by a weak Canadian dollar, which hit record lows and hampered wholesale and retail trade. Jobs in construction—especially in commercial construction—also declined, despite recent strength in the housing market. Buffalo’s other industries simply grew very slowly.
- *Rochester*: Employment growth of 1.2 percent—or 6,240 new jobs—largely reflected Rochester’s ability to overcome pronounced manufacturing declines in 1998. The city’s manufacturing base is heavily dependent on the area’s large corporate employers, and downsizings at these firms had a weighty negative effect on growth. Nevertheless, Rochester—like

the nation—was able to offset lost manufacturing jobs through increases in services. Other sectors grew moderately—except for finance, insurance, and real estate, which shed almost 2 percent of its jobs.

- *Albany*: Growth climbed for the second year in a row and reached 1.6 percent. The city added 7,130 new jobs in 1998—mainly in services, with a notable uptick in business services. Albany’s government sector declined in 1995 and 1996 because of federal and state cutbacks, but the private sector has taken up the slack since then; employment there rose 2.1 percent last year. There was a drop in federal and state government employment in 1998, but local government saw a rise. Only the retail sector experienced an overall decline, of slightly less than 1 percent.
- *Syracuse*: Although growth in Syracuse has proceeded slowly since mid-1995, it still reached 1.2 percent in 1998, accounting for 3,940 new jobs. Manufacturing—the largest contributor to growth—increased for the second year in a row, driven primarily by durable goods production. Construction was also strong, climbing by more than 3 percent. The

### Population and Labor Force Trends in Upstate New York and in the United States, 1990-98



Sources: U.S. Department of Commerce, Bureau of the Census; U.S. Department of Labor, Bureau of Labor Statistics.

### THE RISE IN HOME SALES

Like unemployment rates, home sales can send out misleading signals about an economy's health. Sales

flourished almost everywhere in upstate New York last year—a development that could be interpreted as indicating an influx of people into the region. Upstate, along with the nation, benefited from the low mortgage rates that prevailed in 1998. Furthermore, the New York State Association of Realtors (1999) reports that single-family home sales upstate were up for the third straight year in 1998—rising almost 32 percent—while the median sales price was up 11 percent. However, upstate's declining population and labor force suggest that many of these home sales may have been to people who already lived in the region, such as renters. Therefore, last year's high-percentage increase in sales is not necessarily a clear indicator of an economic turnaround.

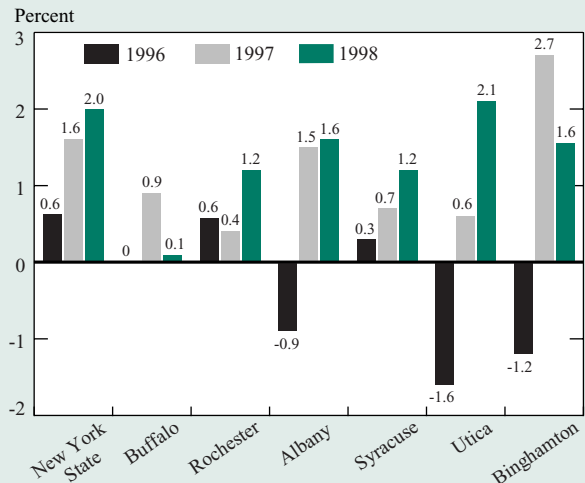
### CONCLUSION

After a period of sluggishness, upstate New York has improved its economic performance in the past two years. Employment has been growing, unemployment has been low, and home sales have been escalating. However, a declining population and labor force continue to contribute to tight labor markets and hinder the

service sector and all government sectors grew modestly. Retail employment, however, shrank.

- *Utica*: Employment hit record highs in 1998 as Utica added 2,700 new jobs and enjoyed 2.1 percent growth. The service industry, driven by business services, was the foremost contributor to the rise in jobs. Employment in manufacturing grew 2.7 percent, primarily in durable goods production. Utica's economy appears to have withstood severe job reductions from earlier in the decade that were due to the closing of a major air force base and the departure of a large defense contractor.
- *Binghamton*: Shocks linked to defense spending cutbacks in the 1980s and corporate downsizings in the mid-1990s are essentially over. Employment fell sharply—by 7.6 percent—between 1990 and 1996, but evidence of a recovery appeared in 1997 when the city posted 2.7 percent job growth. The following year, growth was more moderate—1.6 percent, or 1,750 new jobs. Manufacturing employment increased, and the rise in retail employment was a particularly strong contributor to growth.

### Employment Growth in New York State and in Upstate's Six Largest Metro Areas, 1996-98



Source: U.S. Department of Labor, Bureau of Labor Statistics.

<sup>a</sup> See Steindel and Banks (1994) and Bram (1996) for earlier studies of regional employment trends across the Second District.

potential for more growth. In addition, shifts in upstate's industrial job mix are likely having a negative effect on growth. Upstate may be showing signs of a turnaround, but its economic performance is still well behind that of New York State and the nation.

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#### NOTES

1. "Upstate" refers to a total of fifty-two counties in New York State. It does not include downstate New York: New York City; Westchester, Putnam, and Rockland counties (considered part of the New York City primary metropolitan statistical area); and Nassau and Suffolk counties on Long Island.

All employment and labor force data are from the U.S. Department of Labor, Bureau of Labor Statistics. When determining percentage changes and net job gains or losses, we use average annual employment figures instead of December-to-December figures. By doing so, we reduce the risk that high or low results in a particular December will distort our calculations.

2. In this article, we treat upstate New York as a separate state. The upstate economy is quite distinct from the downstate economy, which is heavily influenced by New York City's financial industry.

In addition, upstate New York could be considered as a separate state on the basis of population. With roughly 6.3 million residents—about the same number as Massachusetts—upstate New York would qualify as the fourteenth most populous state in the nation.

3. According to the U.S. Census Bureau, these economies represent upstate New York's six largest metro areas in terms of population, ranging from Buffalo's roughly 1.2 million residents to Binghamton's approximately 250,000.

4. Note that manufacturing employment trends do not always mirror manufacturing output trends. For example, productivity gains can reflect the fact that the same amount of output is attributable to fewer workers.

5. Between 1990 and 1998, upstate's population fell by 0.7 percent and its labor force declined by 1.4 percent, while the nation saw rises of 8.4 percent and 9.4 percent, respectively.

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