Economic Conditions in the Region

Jaison R. Abel

Buffalo Niagara Association of Realtors – April 20, 2023

The views expressed here are those of the presenter and do not necessarily represent those of the Federal Reserve Bank of New York or the Federal Reserve System.
Overview of Regional Conditions

• Economic activity has been weak.

• Despite remarkable progress, the region has not gained back the jobs that were lost during the pandemic recession.

• Inflationary pressures remain persistent but have moderated.

• The housing market has slowed and, since peaking last summer, home prices have plateaued.
Current Economic Conditions
Regional Growth Has Stalled
New York Fed Regional Business Surveys

Shading indicates NBER recession

Source: Federal Reserve Bank of New York.
The Region’s Jobs Recovery

Percent Change in Total Employment Since Feb 2020

Shading indicates NBER recession

Job Shortfalls and Job Gains in Buffalo
Change in Employment by Sector, Feb 2020 to Feb 2023

Overall Shortage: 12,000 Jobs

Exceptionally Tight Labor Markets

Unemployment Rates Before, During, and After the Pandemic Recession

Solid Wage Growth

Median Percent Increases, Past 12 Months

Source: Federal Reserve Bank of New York Supplemental Survey.
Difficulty Finding Workers in Buffalo

Labor Force, Thousands

Buffalo’s Workforce Has Been Shrinking for Years

Labor Force, Thousands

Shading indicates NBER recession

Inflation Remains High

Annual Percent Change in PCE Price Indexes

Source: U.S. Bureau of Economic Analysis via Haver Analytics.
Supply Disruptions Are Easing
New York Fed Regional Business Surveys

Source: Federal Reserve Bank of New York.
The Pandemic Housing Boom
The Region’s Pandemic Home Price Boom

Home Price Growth Since Feb 2020

Source: Zillow Home Value Index U.S. Census Bureau, and Moody’s Analytics.
Rents also Increased Sharply

Percent Change of Typical Rent Since Feb 2020

Source: Zillow Observed Rent Index.
What Explains the Pandemic Boom?

• **Substantial fiscal support and a favorable financial environment**
  - Pandemic relief provided support to the housing market.
  - Low mortgage rates boosted demand.
Financial Conditions Have Tightened

30-Year Fixed Rate Mortgage Average in the United States

Source: Freddie Mac and fred.stlouisfed.org.
What Explains the Pandemic Boom?

• **Substantial fiscal support and a favorable financial environment**
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  - Low mortgage rates boosted demand.

• **Increased demand for less dense areas, facilitated by the rise of remote work**
  - Value of urban amenities fell early in the pandemic.
  - Working from home reduced the need to live near jobs.
  - Increased demand for physical space.
The “Donut Effect” In and Around New York City

Percent Change in Home Prices by Zip Code

First Year of Pandemic (Feb 20 to Mar 21)

Source: Zillow Home Value Index.
The Geography of the Pandemic Boom

Percent Change in Home Prices, Feb 2020 to Jul 2022

Source: Zillow Home Value Index.

- 25% or Less
- 25% to 40%
- 40% to 42%
- 45% to 55%
- 55% or More
Remote Work Is Sticking
Average Share of Work Done Remotely

Source: Abel, Bram, and Deitz “Remote Work is Sticking,” FRBNY Liberty Street Economics, August 18, 2022.
What Explains the Pandemic Boom?

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• **Historically low for-sale inventory**
  - Low inventory before the pandemic declined substantially during the boom.
  - Homebuilding response muted by worker shortages and supply chain disruptions.
Low Inventory Particularly Severe in Upstate NY

For-Sale Inventory Per Capita (000’s), 12 Month Moving Average

Source: Zillow For Sale Inventory, U.S. Census Bureau, Moody’s Analytics.
Where Are Home Prices Falling the Most?

Percent Change in Home Prices

Source: Zillow Home Value Index.
Some Homeowners Are Coming Under Financial Stress

New Foreclosures Appearing on Credit Reports

Looking Ahead
Consumer Confidence is Rebounding

Overall Consumer Confidence

Source: Sienna Research Institute, University of Michigan.
Businesses Do Not Expect Much Improvement

FRBNY Regional Business Surveys

Future Conditions

Empire State Manufacturing Survey

Business Leaders Survey

Shading indicates NBER recession

Source: Federal Reserve Bank of New York.
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