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David Robinson: Why consumers hold key to Buffalo Niagara economy as hiring slows, prices soar

David Robinson

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Employers and employment seekers converge at a job fair at the Walden Galleria earlier this year.
Sharon Cantillon

David Robinson

Buffalo Niagara businesses are still hiring – just not as rapidly as they were earlier this year.

All things considered, that's a good thing.

With interest rates rising, inflation soaring and businesses becoming more wary, the local job market is under increasing pressure. But so far, it hasn't buckled.

Local employers added 800 jobs last month – as many as they added during April and May combined – as the region has settled into a period of sluggish hiring, according to new data from the state Labor Department.

It's clear from the data that hiring has slowed. From October through March, the region added an average of 2,800 jobs each month as it broke out of the hiring doldrums that had depressed the job market throughout the spring and summer of last year.

But once the calendar turned to April – and interest rates started to rise more rapidly and inflation grew even worse – hiring has slowed to an average of a little more than 500 new jobs during each of the last three months.

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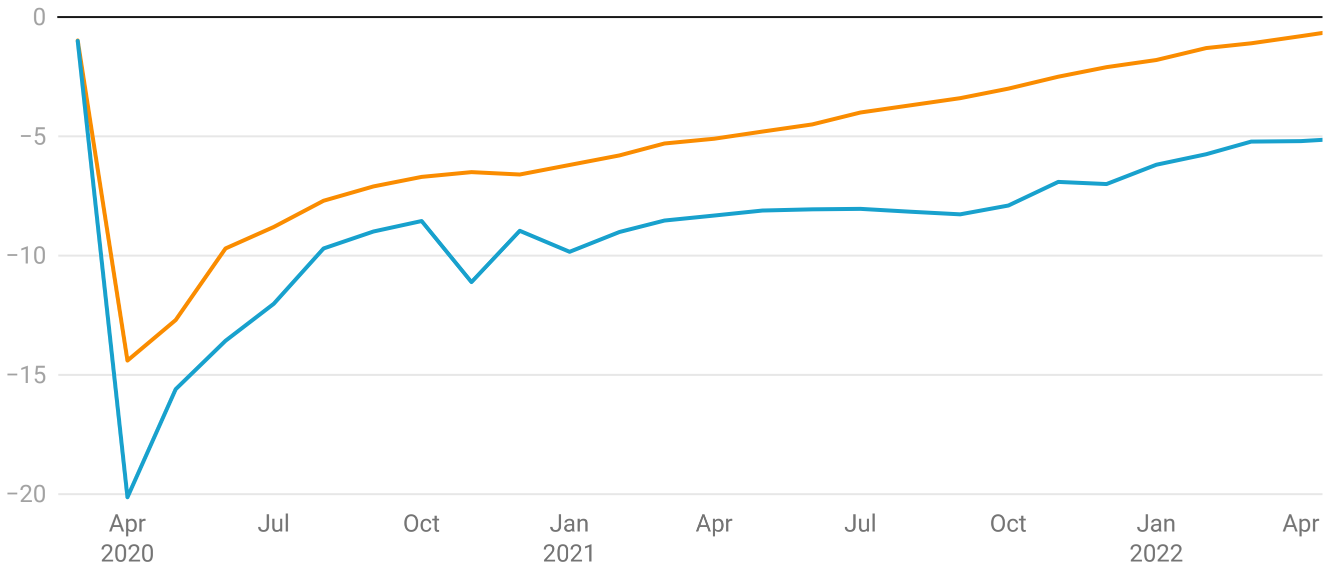
The lagging jobs recovery still has a long way to go

The Buffalo Niagara region has roughly 28,000 fewer jobs than it did before the pandemic began



Jobs, in thousands, seasonally adjusted

Source: State Labor Department; U.S. Bureau of Labor Statistics • Created with Datawrapper

But with growing fears that the economy is cooling – if not heading into a recession – it's a positive sign that local companies are doing any hiring at all.

"Any increase, at this point, is good news," said Julie Anna Golebiewski, a Canisius College economist. "It indicates we're still moving in the right direction."

So far, consumers aren't letting the spike in prices or the higher borrowing costs stop them from spending. Home prices locally continue to rise, even as mortgage rates have jumped above 5.5%, sales have slowed and the dearth of houses for sale has slowly begun to ease.

Most of the job growth last month was concentrated in sectors that depend on consumer demand, Golebiewski said. The region added nearly 10,000 service-providing jobs in May and June – about a third more than during the same period last year. Seasonal hiring at local bars and restaurants over the past two months was up about 14% from a year ago.

How the job market has changed

Change in jobs, by sector, since June 2019

Total

Total	−4.9%
Private	−3.5%
Manufacturing	−1.5%
Trade	−3.2%
Construction	−2.7%
Professional and business services	−5.9%
Financial activities	−4.9%
Education and health services	−4.9%
Health care and social assistance	−5.8%
Leisure and hospitality	−4.9%
Government	−6.8%

"I consider that to be a good sign, to this point," she said. "We'll see if it holds up as the summer goes on."

But there already are some signs that the job market could be starting to slow.

Weekly jobless claims filed by workers across the Buffalo Niagara region have ticked up during the first three weeks of July, rising to their highest level since February.

The four-week moving average of claims, which smooths out some of the week-to-week volatility, also are at their highest level in five months and are running roughly 45% above June levels, when claims had fallen to their pre-pandemic low.

But even that rise in jobless claims isn't terribly alarming. They're still around the same level they were at before the pandemic hit.

Businesses, however, are starting to brace for a slowdown. A pair of surveys this week from the Federal Reserve Bank of New York found that businesses are growing pessimistic about where things are headed over the next six months.

A survey of manufacturers in New York and the New York City area found that they now expect business to take a downward turn over the next six months – just the third times in the survey's history that's happened.

“Orders are not expected to increase and shipments are expected to be only slightly higher,” the survey found.

Hiring, however, remains a bright spot. While the manufacturers don't expect to hire as many workers, they still expect to add to their staffs.

Executives in the service industry said they already are seeing a downturn. The New York Fed's separate survey of service industry executives turned negative for the first time in more than a year – and they aren't expecting a quick bounce back, either.

“Looking ahead, firms no longer expect activity to increase over the next six months and they remained pessimistic about the expected future business climate,” Fed economists wrote.

But, as with manufacturers, the service industry executives still expect to keep hiring, only not quite as rapidly.

Part of that is because workers have been so hard to hire for such a long time. Firms already are short-staffed, and they don't have an excess of workers to lay off if business slows.

"We still have a labor shortage," said Timothy Glass, the Labor Department's regional economist in Buffalo. "Businesses are having a hard time finding people."

So firms are trying to hang on to the workers they have. That's why Golebiewski thinks that any downturn that occurs in the economy isn't likely to be result in the same level of job cuts that typically would occur during a recession.

"Where companies would usually make cuts on the margins, those margins don't exist now," she said.

Both Glass and Golebiewski believe consumers hold the key to the economy over the next six months. If they are able to shrug off the pain from rising prices and higher interest rates and continue spending, the economy may slow, but avoid a deeper recession.

And so far, consumers are still spending – and that's what makes up about 70% of all economic activity.

But Golebiewski thinks consumers soon will start to cut back as inflation and rising rates squeeze their budgets ever more tightly.

"We haven't seen the slowdown in consumer activity yet. But I do believe that will be coming in the short term," she said.

As the New York Fed surveys showed, businesses already are bracing for it. And as businesses cut back, it sends up a red flag to other firms - and consumers – that trouble could be coming.

"They're planning for it, which sometimes makes it a self-fulfilling prophecy," she said.

By David Robinson

Deputy Business Editor

I'm the News' deputy business editor. I grew up in New Hampshire, went to Syracuse University and started working at The News in 1985.