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Inter-Departmental Memo

To: Hon. Howard J. Kopel, Chairperson Budget Review Committee
All Members of the Nassau County Legislature

From: Maurice Chalmers, Director
Office of Legislative Budget Review

Date: February 13, 2015

Re: First Quarter 2015 Economic Report

Attached is a copy of the Office of Legislative Budget Review's first quarter 2015 economic report. This report is being circulated to assist the Legislature in making policy decisions and in assessing budgetary or planning forecasts. The data included is the most current as of the date of issuance. Additionally, the data is the most geographically relevant.



OFFICE OF LEGISLATIVE BUDGET REVIEW

The Regional and National Economic and Fiscal Year End 2014 and Forecast for 2015 to 2019

February 2015

Both the national and regional economies moved forward in 2014, and positive growth is expected for 2015. Annual national economic activity as measured by the Commerce Department's index of Real Gross Domestic Product, (GDP) grew by 2.4% in 2014. That was greater than 2013's 2.2% and 2012's 2.3% growth. Had it not been for the severe winter weather experienced during the first quarter of 2014, annual economic growth would have been higher. The harsh winter weather which consisted of 18 snow occurrences from January to April 2014, 7.4 occurrences above the normal level, was seen as causing first quarter 2014 national real GDP to decline 2.1%.¹

Table 1

National Climatic Data Center (NCDC), Preliminary Monthly Climate Data JFK Weather Station					
Number of Snow Occurrences					
	Norm	2014	2015	14 vs. Norm	15 vs Norm
Jan	4.6	8	6	3.4	1.4
Feb	3.4	8		4.6	NA
Mar	2.3	1		-1.3	NA
Apr	0.3	1		0.7	NA
Nov	0.2	1		0.8	NA
Dec	2.8	1		-1.8	NA
Total	13.6	20	6	6.4	

To date, the winter of 2015 has also recorded above normal snow levels, and may impact County sales tax collections. According to Moody's Analytics, the blizzard of January 26 - 27, 2015 caused New York City (NYC) to lose

\$200 million in economic activity.² NYS Department of Taxation & Finance figures reveal that on average historically, Nassau County taxable sales have represented 20% of New York City taxable sales. Applying that percentage, to Moody's NYC estimate, Nassau County is estimated to have lost \$39.8 million in economic activity from the storm. Applying the County's 4.25% sales tax rate this equates to \$1.69 million in lost sales tax revenue. This loss was not considered crippling. Consumers who would have otherwise brought cars or made other major purchases were expected to do so in a day or so. The economic loss was mitigated by worker's telecommuting and the precautionary actions taken prior to the storm.³

From a regional perspective, excluding mortgage refinancings, Moody's Analytics Forecast expects the local economy to move in a positive direction for all variables surveyed. Moody's forecast has Nassau's Gross County Product (GCP) growing 3.3% in 2015, 3.3% in 2016, 2.3% in 2017, 1.6% in 2018, and 1.4% in 2019. The regional economic growth forecast is greater than that of the nation. Throughout the nation, GDP is expected to be 3.2% in 2015 and 2.9% in 2016 on average.

¹ The Associated Press, "US Economy Slows to 2.6% Growth in 4Q", *Long Island Business News*, January 30, 2015.

² The Associated Press, "Blizzard, Transit Closures Cost NYC Economy Estimated \$200M", *Foxnews.com*, January 28, 2015.

³ Same as above.

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Table 2 details the Moody's Economy.com forecast for Nassau County's major economic indices.

Table 2

2015 to 2019 Nassau County Economic Forecast					
Forecast Annual Growth Rates*					
	2015	2016	2017	2018	2019
GDP	3.3%	3.3%	2.3%	1.6%	1.4%
Personal Income	5.2%	6.4%	5.5%	4.7%	3.6%
Employed	2.8%	3.0%	1.3%	0.1%	0.0%
Unemployed	-9.7%	-3.3%	-3.8%	-1.2%	-0.3%
Unemployment %	-11.6%	-5.8%	-4.8%	-1.3%	-0.2%
Non Farm Jobs	2.6%	2.2%	1.2%	0.5%	0.1%
New Mortgages	42.8%	11.9%	-13.0%	2.6%	12.3%
Mortgage Refinances	-4.4%	-19.4%	-44.8%	-26.0%	33.0%
Retail Sales	4.1%	4.1%	4.4%	3.4%	3.1%
Median Home Sale Price	6.2%	2.7%	1.5%	1.3%	3.0%
Regional CPI	1.4%	2.9%	3.3%	3.3%	3.1%

Source: Moody's Economy.com

The housing market was a source of weakness for the local economy in 2014. The number of Nassau homes sales in 2014 fell 5.2% from the prior year. The housing market is expected to be a source of strength in 2015 with new mortgages increasing 42.8% and median prices rising 6.2%.

Resident employment growth is forecast to be positive from 2015 through 2018 with 2019 flat. In 2015 non-farm job growth is projected to grow at 2.6%.

The areas of concern for 2015 are wage and price growth. According to the current forecast, Nassau County personal income growth will exceed regional price growth from 2015 to 2019. This will allow consumers to sustain their current level of spending.

However, the 2015 forecast for regional and national CPI growth is below the Federal Reserve 2% target. The historically low inflation is seen as eliminating more than 8 million jobs and slowing consumer spending nationwide since the recession of 2008. When

people feel that lower prices will be available in the future, they delay purchases now which diminishes economic activity.⁴

Additionally, despite the strong job growth and expected personal income growth, in December 2014 average hourly earnings nationwide fell five cents. The soft wage growth has been mentioned by the Federal Reserve as a reason to be patient with raising interest rates.⁵ Moreover a recent survey found that 47% of US households say they spend all of their income, go into debt or dip into savings to meet their annual expenses. It was found that 55.6% of US consumers have subprime or near prime credit scores which increases their interest charges and limits their likelihood of qualifying for loans.⁶ These factors will limit both regional sales tax and economic growth.

Consumption

Real GDP is a measure of the goods and services provided within an economy. When it increases, it indicates that more goods and services are being provided and therefore, more jobs and personal income are being generated.

According to the Commerce Department, December 2014 national retail sales fell 0.9% from the previous month. Compared to the the previous year, sales increased 3.2%. Some attributed the monthly decline to the fall in gasoline prices coupled with consumers shopping earlier in the holiday season.⁷ Others

⁴ The Associated Press, "Low Inflation Likely to Keep Fed Patient About a Rate Hike", Long Island Business News, January 26, 2015.

⁵ Chance, David, "US Seems Stuck with Slow Wage Growth Despite Strong Jobs Data", Reuters.com, January 9, 2015.

⁶ The Associated Press, "Almost Half of US Households Exhaust their Salaries", Long Island Business News, January 29, 2015.

⁷ Al-Muslim, Aisha, "Holiday Sales Topped \$616.1B, Retail Group Says", Newsday.com, January 14, 2015.

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attributed the monthly decline to frugal consumers and stagnant wages.⁸

The Moody's Analytics January 2015 forecast shows retail sales are expected to be positive throughout 2015 and 2016. Table 3 details Moody's current forecast for Nassau County income, GCP and retail sales. All variables forecast are expected to register positive growth rates in 2015 and 2016.

Table 3

Nassau County Consumption Growth by Quarter				
2015				
	Q1	Q2	Q3	Q4
GCP	0.94%	1.00%	0.98%	0.90%
Retail Sales	1.03%	1.01%	0.99%	0.97%
Total Personal Income	1.24%	1.33%	1.49%	1.62%
2016				
	Q1	Q2	Q3	Q4
GCP	0.81%	0.74%	0.68%	0.63%
Retail Sales	0.98%	1.02%	1.10%	1.17%
Total Personal Income	1.65%	1.61%	1.52%	1.42%

Source: Moody's Economy.com

It should be mentioned that Table 3's retail sales quarterly forecast translates to an annual growth rate of 4.1%. That is 0.8 percentage points lower than the 4.8% sales tax growth required to make the 2015 Adopted Sales Tax Budget.

According to the most recent Siena Research Institute's (SRI) Consumer Sentiment Report, in November 2014 all metro NYC consumer confidence indices are up from June 2014 and November 2013. The November 2014 overall index increased 9.4% from June 2014 and 14.2% from November 2013. The November 2014 figures were the highest recorded since February 2013. According to Dr. Lonnstrom, the founding director of SRI, "Overall consumer sentiment is up dramatically reaching a number we haven't seen since early 2007. New Yorkers

⁸ The Associated Press, "Holiday Shopping Slump, US Retail Fell in December", Long Island Business News, January 14, 2015.

trail the nation in the present tense but lead when looking to the future driven by stronger downstate optimism."⁹

The strong regional consumer confidence was echoed nationally. The Conference Board reported that in January 2015, national consumer confidence climbed to 102.9, the highest level since August 2007. They found that 20.5% of consumers described jobs as plentiful.¹⁰

Labor Market

According to NYS Department of Labor figures, Nassau County's unemployment rate fell to 4.1% in December 2014, down from November 2014's 4.4% rate and December 2013's 4.8% rate. The December 2014 figure represented the lowest rate recorded since April 2008. Factored into the unemployment rate, was a monthly increase in employed residents. Compared to the prior month, 300 more residents were employed.

The labor news was not all positive since much of the decline in the unemployment rate could be attributed to unemployed workers choosing to leave the labor force. Local economists opined that discouraged workers gave up looking for work since they couldn't find any. Included in the group were individuals whose unsuccessful job searches led them to retire early.¹¹ Additionally, from an annual perspective, Nassau County has 7,200 fewer employed residents.

Table 4 reveals that the labor market conditions are expected to improve through 2019, with

⁹ Lonnstrom, Doug, "New York State Index of Consumer Sentiment including Gas and Food Analysis", The Siena Research Institute, December 8, 2014.

¹⁰ The Associated Press, "Consumer Confidence Jumps

¹¹ Mason-Draffen, Carrie, "LI Unemployment Rate Drops to 4.4% as Jobs Grow, Labor Force Shrinks", Newsday.com, January 27, 2015.

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positive increases in the number of employed residents coupled with decreases in the number of unemployed residents. Moody's is forecasting the number of employed residents to increase by 2.8% in 2015, 3.0% in 2016, 1.3% in 2017, and 0.1% in 2018. Nassau's unemployment rate is expected to decline through 2019. The current forecast has the average annual County unemployment rate falling to 4.4% in 2015, 4.1% in 2016, 3.9% in 2017 and 3.9% in 2018.

Table 4

Nassau Labor Market Projected Annual Growth Rates					
	2015	2016	2017	2018	2019
Total Employed	2.8%	3.0%	1.3%	0.1%	0.0%
Total Unemployed	-9.7%	-3.3%	-3.8%	-1.2%	-0.3%
Average Unemploy % Change	-11.6%	-5.8%	-4.8%	-1.3%	-0.2%

Source: Moody's Economy.com

Non-Farm Jobs

Throughout the nation, 2014 was a strong year for job growth. As of December 2014, the US added 252,000 jobs, making it the best year for hiring in 15 years.¹² It also marked the 11th consecutive month of job growth greater than 200,000, the level needed to alter the employment landscape.¹³

Regionally, annual Long Island job growth was positive. As of December 2014, there were 13,700 more non-farm jobs than in the prior year. The annual job growth was widespread with only the manufacturing and financial activities areas recording annual losses greater than 1%. Analysts noted that although the annual job growth recorded in December was positive, the rate of job growth diminished in the fourth quarter of 2014

According to analysts, the annual loss of 3,400 financial activities sector jobs was the result of

¹² The Associated Press, "US Adds a Strong 252K Jobs", Long Island Business News, January 9, 2015.

¹³ Prial, Dunstan, "US Economy Adds More Jobs than Views in December", Foxnews.com, January 9, 2015.

consolidation of the financial services industry nationwide.¹⁴

Nationwide, job growth is expected to continue in 2015. The US Labor Department's index of job openings reached a 14 year high in November 2014. This indicates that businesses will continue to add staff because they are confident that economic growth will create demand for their goods and services.¹⁵

Nassau County is similarly expected to generate positive total non-farm job growth from 2015 to 2019. Table 5 details projected Nassau County job growth by sector. In 2015, only the government and leisure and hospitality sectors are forecast to register job losses. From a five year perspective, Nassau is forecast to record non-farm job growth of 6.6%. Over the next five years only the government sector is expected to see a decline in jobs.

Table 5

Nassau County Annual Job Growth By Sector, 2015 to 2019						
	2015	2016	2017	2018	2019	5 Yr.
Construction	5.4%	4.3%	1.7%	-0.3%	-0.4%	10.7%
Education & Health	4.8%	2.9%	2.1%	1.6%	1.2%	12.5%
Financial Activities	0.7%	1.6%	1.0%	0.2%	-0.4%	3.1%
Government	-0.3%	0.3%	0.0%	-0.2%	-0.2%	-0.4%
High Tech	4.2%	4.3%	3.0%	1.9%	1.3%	14.7%
Professional & Business Svs.	4.6%	3.4%	2.2%	0.9%	-0.2%	11.0%
Leisure and Hospitality	-0.1%	2.3%	1.7%	0.6%	0.3%	4.9%
Retail Trade	3.1%	1.2%	0.4%	0.1%	0.0%	4.9%
Non-Farm Jobs	2.6%	2.2%	1.2%	0.5%	0.1%	6.6%

Housing

The Nassau County housing market moved forward in 2014. Multiple Listing Service of Long Island (MLS LI) figures show that annual average median home prices increased 3.0% from 2013 and 6.4% compared to 2012. Moreover, although the annual number of homes sold in 2014 fell 5.2% from 2013's level,

¹⁴ Solnik, Claude, "LI Private Job Count Up 1.4%", Long Island Business News, January 22, 2015.

¹⁵ The Associated Press, "US Job Openings at a 14 Year High", Long Island Business News, January 14, 2015.

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home transactions increased 13.4% from 2012. The number of 2013 home sales was artificially high due to Superstorm Sandy.

Table 6

Nassau County Housing Actuals					
Current	Dec-13	Nov-14	Dec-14	Mthly %	Yrly %
	Closed Sales	1,008	827	930	12.5%
Median Sale Price	409,000	425,000	431,250	1.5%	5.4%
Pending	Dec-13	Nov-14	Dec-14	Mthly %	Yrly %
	Contract Sales	709	850	820	-3.5%
Median Contract Price	418,000	405,000	410,000	1.2%	-1.9%

Source: Multiple Listing Service of Long Island, Zone Activity Report

On a monthly basis, closed home sales fell 7.7% from the prior year and rose 12.5% from the prior month. December 2014 median sale prices rose 5.4% from the prior year and 1.5% from the prior month.

Looking forward, using MLSLI's pending sales data as an indicator of future market conditions reveals that 2015 should see strong home sale growth. December 2014 contract sales rose 15.7% from the prior year. The increased sales are expected to occur at slightly diminished prices since median contract prices fell 1.9% from the prior year.

Table 6 details the actual MLSLI figures.

Table 7 depicts Moody's current Nassau County housing market forecast. Moody's forecast mirrors the strong contract sales data, recording robust growth, above 5.0% in all quarters in 2015. Moody's forecast differs from MLSLI median contract price data, in that they are forecasting positive median sale prices throughout 2015.

Table 7

Nassau County Housing Forecast by Quarter				
	2015			
	Q1	Q2	Q3	Q4
New Mortgages	10.60%	9.31%	7.52%	5.38%
Refinances	0.76%	0.86%	-0.57%	-2.81%
Median Sale Price	1.87%	1.71%	1.30%	0.81%
	2016			
	Q1	Q2	Q3	Q4
New Mortgages	3.12%	0.77%	-1.76%	-3.92%
Refinances	-5.11%	-7.54%	-10.37%	-13.26%
Median Sale Price	0.47%	0.31%	0.32%	0.39%

Source: Moody's Economy.com

Drilling down on the Nassau data by region reveals that much of the growth is occurring on the south shore and in the luxury market. The Elliman report parses the Nassau MLSLI data into several regions, the Long Island luxury market (not shown in Table 8), Nassau's north shore (NNS), Nassau's south shore (NSS) and the middle of Nassau (NMI). Table 8 reveals the number of home sales, median sale prices and number of pending sales by region.

Table 8

Nassau Home Statistic by Region				
Location	Year	Sold #	Avg. Median Sale	Pending
NMI	2013	5,562	381,813	6,291
	2014	5,051	394,375	5,606
Annual Change		-9.2%	3.3%	-10.9%
NNS	2013	2,554	721,250	2,479
	2014	2,302	745,111	2,311
Annual Change		-9.9%	3.3%	-6.8%
NSS	2013	3,020	374,875	2,956
	2014	3,260	389,250	3,129
Annual Change		7.9%	3.8%	5.9%

The south shore is the only region that recorded increases in both home transactions and annual average median prices. All other regions recorded decreases in actual homes sold and pending home sales, while home prices appreciated. The Long Island luxury market similarly saw home price appreciation coincide

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with a fall in annual home sales. However, pending luxury home sales increased 17.3% from the prior year. According to Jonathan Miller, Chief Executive of Miller Samuel, higher-priced housing markets are outperforming more modest-priced housing markets throughout the Country. He opined that the middle-class demographic is making less than it did 10 years ago after adjusting for inflation. Higher wage earners were seen as experiencing increased wages and investment returns.¹⁶ Additionally, Dottie Herman, Chief Executive of Douglas Elliman, stated that the forecast increase in luxury home sales may be due to more high-end homes being purchased by all-cash buyers. Middle class purchasers are hampered more by strict lending standards.¹⁷

Prices

The Consumer Price Index (CPI) is a measure of the average change in prices over time of goods and services purchased by households. According to the US Bureau of Labor Statistic's, in December 2014 US consumer prices fell 0.4% from the prior month. This was the largest monthly decline since December 2008 and represented the second consecutive monthly decline. The decrease was a function of reduced gas prices. The core index, which doesn't include volatile energy prices was unchanged from the prior month.

From an annual perspective, US consumer prices rose 0.8% and core prices increased 1.6%.¹⁸

Looking forward, regional consumer prices are expected to increase from 2015 through 2019.

¹⁶ McDermott, Maura, "Long Island Home Values Barely Edge Up in 2014, Prices Rise for Luxury Residences", [Newsday.com](http://www.newsday.com), January 29, 2015.

¹⁷ Same as above.

¹⁸ The Associated Press, "US Consumer Prices Drop 0.4% in December", [Long Island Business News](http://www.longislandbusinessnews.com), January 16, 2015.

The quarterly forecast for regional consumer prices from 2015 through 2019 is shown in Table 9. The annual growth rates may be seen on Table 1.

Table 9

Regional Consumer Price Forecast by Quarter				
	Q1	Q2	Q3	Q4
2015	0.22%	0.68%	0.65%	0.71%
2016	0.72%	0.79%	0.75%	0.81%
2017	0.84%	0.82%	0.81%	0.80%
2018	0.82%	0.79%	0.80%	0.79%
2019	0.77%	0.74%	0.71%	0.72%

Source: Moody's Economy.com

Sales Tax Predictors

In the Adopted 2015 Budget, sales tax revenue accounts for approximately 38.4% of the County's five major funds revenue, making it an important trend to monitor and forecast. Common predictors that help project sales tax growth are personal income, consumer price growth, and resident employment levels. The current Moody's regional forecast is positive for all of these variables. That should positively impact County sales tax collections.

The decline in consumer prices was driven by reductions in gasoline prices. Lower gas prices result in less sales tax collections on gasoline purchases. However, according to Goldman Sachs Group Inc., the gas price decline has acted as a tax cut worth as much as \$125 billion, resulting in additional taxable purchases. Recent consumer interviews have suggested that lower gas prices have made Americans start to travel, eat out and hit the mall more. Yet, many have not spent wantonly since they believe the gas price decline will be short lived. The net impact may not be realized yet. Analysts opine

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that it typically takes 12 months before shoppers start spending their gas savings.¹⁹

As of Monday February 2, 2015, national gasoline prices rose 2.5 cents per gallon from the prior week. That was the first increase in seven months.²⁰ This supports Moody's forecast of positive consumer price growth throughout 2015.

Additional sales tax revenue is anticipated from future construction. According to Dodge Data & Analytics, the number of future construction contracts signed in the metropolitan New York area increased 32% from 2013 to 2014. The majority of the increase was attributed to residential construction.²¹

Lodging Industry

Table 10 illustrates average hotel/ motel occupancy and daily rental rates in Nassau for each year from 2010 to 2014. As table 9 indicates, the lodging industry registered a strong performance in terms of occupancy and rental rates in 2014.

The 2014 daily rate growth is significant as it exceeded both the 2012 and 2013 levels that were inflated as a result of Superstorm Sandy.

First quarter 2014 occupancy rates were bolstered by the harsh winter weather that caused many to revise their travel plans.

Market demand has grown steadily over the last five years. The average occupancy rate has risen 8.1 percentage points from 2010, while the average daily rate has appreciated 13.2% during

this time. Not only does this five year trend bode well for County sales and hotel/motel tax collections, but it is also a positive sign for the approximately 95,700 people employed in the accommodation and food service industry on Long Island²².

Table 10

Year	Average Occupancy Rate	Average Daily Rate
2010	67.50%	\$126.40
2011	71.66%	\$128.79
2012	75.26%	\$135.32
2013	78.87%	\$141.99
2014	75.60%	\$143.03

Source: Long Island Convention & Visitors' Bureau

In our Mid-Year 2014 Economic Forecast, this office reported on the possibility that the County's hotel/motel tax collection would be less than budgeted, as Sandy's effect on the lodging industry waned. While our prediction bore out, hotel/motel tax revenue was off target by about \$40,947, or only 0.9% as of February 13, 2015. The relatively strong hotel/motel tax performance in 2014 lends further support to the idea that Nassau's lodging industry is in the midst of a resurgence.

Conclusion

Both the national and regional economies moved forward in 2014. More positive growth is anticipated in 2015. The main area of weakness in 2014, a fall in housing transactions and a drop in the labor force, are expected to ameliorate in 2015.

Wage and price growth are two areas being monitored by the Federal Reserve in its decision on raising short term interest rates. Moreover, they are important to monitor since they can have significant impacts on economic activity.

¹⁹ Soper, Spencer and Bradley Olson and Matt Townsend, "How Americans are Spending their Windfall from Cheap Gas", Bloomberg.com, February 2, 2015.

²⁰ Callegari, John, "Gas Price Declines Come to End", Long Island Business News, February 2, 2015.

²¹ Winzelberg, David, "NY-Area Construction Spending Rises", Long Island Business News, January 30, 2015.

²² New York State Department of Labor, "Current Employment Statistics", December 2014.

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At the County level, it is important to monitor retail sales, resident employment and wage growth. As a result of 2014 sales tax collections falling short of budget, 4.8% growth is required to make the 2015 Adopted Sales Tax Budget. Currently, Moody's is forecasting 4.1% retail sales and 5.2% personal income growth for Nassau County in 2015.

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