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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

A handwritten signature in blue ink, appearing to be "M. Chalmers", is written over the "From:" line.

Date: February 17, 2017

Re: February 2017 Economic Report

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Attached is a copy of the Office of Legislative Budget Review's February 2017 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 Forecast for 2017 to 2021

February 2017

The Office of Legislative Budget Review, (OLBR), has received Moody’s Analytics February 2017 forecast of significant Nassau County economic variables. OLBR has compiled, analyzed and illustrates Moody’s current economic forecast for planning and forecasting purposes. Throughout the report, OLBR presents Moody’s forecast and provides its insights.

Real US gross domestic product (GDP) grew at a 1.6% annual rate in 2016 according to the US Commerce Department.<sup>1</sup> Looking forward, Mortgage Bankers Association and Fannie Mae economists expect national economic growth to average 2.1% in 2017. In December 2016, the Federal Reserve Bank raised its benchmark short-term rate for the first time since December 2015. It indicated that it expects to raise rates three more times in 2017.<sup>2</sup>

Locally, according to Moody’s Analytics, Nassau’s economy grew 1.0% from 2015 to 2016. Moody’s data reveals that Nassau’s economic growth was broad based, with positive growth recorded in the employment, housing, tourism and non-farm job sectors.

Table 1 details the current Moody’s Analytics forecast for Nassau County’s major economic indices from 2017 to 2021.

**Table 1**

2017 to 2021 Nassau County Economic Forecast					
	Annual Growth Rates*				
	2017	2018	2019	2020	2021
GCP	1.9%	2.5%	1.7%	1.1%	1.6%
Personal Income	4.1%	4.3%	4.2%	3.7%	3.2%
Employed	-0.2%	0.6%	0.3%	-0.1%	-0.1%
Unemployed	3.7%	-8.9%	-1.9%	7.6%	10.9%
Unemployment % *	4.0%	3.6%	3.5%	3.8%	4.2%
Non Farm Jobs	0.7%	0.8%	0.9%	0.4%	0.1%
New Mortgages	0.5%	3.7%	-4.5%	-2.3%	3.1%
Mrt Refinances	-58.6%	-79.2%	-32.6%	-25.0%	226.0%
Retail Sales	5.2%	5.0%	3.5%	2.2%	2.5%
Median Home Sale Price	2.9%	0.0%	0.2%	1.1%	3.1%
Regional CPI	3.0%	3.5%	3.8%	3.5%	3.0%

\*Unemployment % Details Annual Average  
Source: Moody’s Economy.com

Looking forward, Moody’s Analytics currently expects the local economy to not only move in a positive direction for all years surveyed, but to move at a quicker pace than that of 2016. Moody’s current forecast has Nassau’s Gross County Product (GCP) growing 1.9% in 2017, 2.5% in 2018, 1.7% in 2019, 1.1% in 2020, and 1.6% in 2021.

Correlating with the projected 2017 interest rate increases Moody’s Analytics forecasts mortgage refinancings to decrease 58.6% in 2017.

The number of housing market transactions is expected to record positive growth in 2017 with new mortgages increasing 0.5% and median prices rising 2.9%.

From 2017 to 2021, personal income growth is expected to exceed consumer price growth; thus,

<sup>1</sup> “Fed Leaves Key Interest Rate Unchanged”, [The Associated Press](#), February 1, 2017.

<sup>2</sup> Same as above.

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on a real basis individuals will have more income available and greater buying power.

The major area of concern for 2017 is resident employment growth, Moody's is currently forecasting negative -0.2% resident employment growth for 2017. Robust online sales may be seen as contributing to the decline in resident employment. During the holiday season, sales at brick-and-mortar stores fell 10.3%, up from 0.4% in 2015. This leads to layoffs and store closures. Macys, Sears, The Limited<sup>3</sup>, and Lowe's have all announced store closures and/or layoffs in 2017.<sup>4</sup> Online sales growth may be seen as dampening County sales tax growth. This occurs both when a sale is completed untaxed and through the dis-employment impact of online sales where decreased foot traffic and same store sales results in layoffs and store closures.

## 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.

Nationally, according to the Commerce Department, December 2016 national retail sales rose 0.5% from the previous month. The retail sales growth was attributed to strong motor vehicle and service sales.<sup>5</sup>

The current Moody's Analytics forecast shows retail sales are expected to be positive for the remainder of 2017 and 2018. Table 2 details Moody's current forecast for Nassau County personal income, GCP and retail sales. All variables forecast are expected to register

positive annual growth rates in 2017 and 2018 as well.

**Table 2**

Nassau County Consumption Growth by Quarter				
	2017			
	Q1	Q2	Q3	Q4
GCP	0.49%	0.54%	0.60%	0.64%
Total Personal Income	0.97%	0.98%	1.02%	1.07%
Retail Sales	1.57%	1.67%	1.56%	1.34%
	2018			
	Q1	Q2	Q3	Q4
GCP	0.64%	0.62%	0.57%	0.51%
Total Personal Income	1.08%	1.08%	1.09%	1.07%
Retail Sales	1.16%	1.05%	1.01%	0.98%

Source: Moody's Economy.com

The fourth quarter 2016 Siena College Research Institute Consumer Confidence Poll found that throughout the metropolitan region, consumer confidence has risen 0.2% from an annual perspective. Additionally, the 2017 Long Island Economic Survey and Opinion Poll found that Long Island economic confidence rose to 6.3 from 6.1, the highest since 6.7 in 2003 and 2004.<sup>6</sup> This supports Moody's consumption forecast.

## Labor Market

Nassau's labor market moved forward in 2016. According to NYS Department of Labor figures, compared to the 2015 annual average, the number of employed residents grew by 1.1%. This is significant as the employment growth occurred while the annual average labor force grew 0.6%. That means that the annual 0.5 percentage point drop in Nassau's unemployment rate is due to residents obtaining jobs rather than individuals ceasing their job searches and dropping out of the labor force.

2016's positive labor market growth is not expected to continue in 2017. As mentioned previously, in 2017 the labor market is projected

<sup>3</sup> Curan, Catherine, "Online Sales are Putting a Dent in Brick-and- Mortar Retailers", [NYPPost.com](http://nypost.com), January 8, 2017.;

<sup>4</sup> English, Carleton, "Online Shoppers take a Bite Out of Popular Retailers", [NYPPost.com](http://nypost.com), January 18, 2017.

<sup>5</sup> Mutikani, Lucia, "U.S. Consumer Spending Increases Solidly in December", [Reuters.com](http://reuters.com), January 30, 2017.

<sup>6</sup> Solnik, Claude, "Liers Cautiously Optimistic about the Economy", [Long Island Business News](http://longislandbusinessnews.com), January 5, 2017.

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to register an increase in unemployed residents and a decrease in employed residents. This sector is important to monitor in 2017.

## Non-Farm Jobs

From an annual perspective, Long Island non-farm job growth was positive in December 2016. According to New York State Department of Labor figures, total non-farm jobs increased by 1.3% compared to December 2016, the strongest growth seen in nine months. The strongest growth was in the private-education and health services sectors.<sup>7</sup>

Nassau County is expected to generate positive total non-farm job growth from 2017 to 2021. Table 3 details projected Nassau County job growth by sector. The growth is projected to be broad based with six of the eight sectors surveyed forecast to record positive job growth. In 2017, the strongest job growth, at 2.0%, is expected to occur in the education and health sector.

In 2017, the construction and financial activities sectors are expected to lose jobs. Some of this loss may be attributed to completion of on-going projects as well as rising interest rates which may make projects unviable.

**Table 3**

Nassau County Annual Job Growth By Sector, 2017 to 2021					
	2017	2018	2019	2020	2021
Construction	-1.6%	0.8%	2.1%	-0.1%	-1.1%
Education & Health	2.0%	1.2%	1.4%	1.1%	0.6%
Financial Activities	-1.4%	0.0%	0.1%	0.0%	-0.1%
Government	0.0%	0.4%	0.5%	0.5%	0.6%
High Tech	1.1%	1.4%	1.5%	1.0%	0.4%
Leisure and Hospitality	0.3%	1.0%	1.0%	0.7%	0.5%
Professional and Business Services	1.8%	2.2%	2.1%	0.9%	0.3%
Retail Trade	0.8%	-0.3%	-0.3%	-0.6%	-0.5%
<b>Total Non-Farm Jobs</b>	<b>0.7%</b>	<b>0.8%</b>	<b>0.9%</b>	<b>0.4%</b>	<b>0.1%</b>

The 2017 Long Island Economic Survey & Opinion Poll completed by the Long Island

<sup>7</sup> Mason-Draffen, Carrie, “Report: Long Island Job Market Posts Strongest Growth in 9 Months”, [Newsday.com](http://Newsday.com), January 19, 2017.

Business News supports the positive job growth forecast. It found that in 2017 95.0% of Long Island businesses expect to either maintain or grow their headcount.

## Housing

Multiple Listing Service of Long Island (MLS LI) figures show that 2016 was a strong housing year in Nassau County. On a year to date basis, through December 2016 in Nassau, 12,948 transactions closed, a 7.8% increase from 2015. Moreover, demand was sufficient to allow more sales to close at higher prices. On average, throughout 2016 in Nassau, median monthly prices increased 5.6% compared to 2015’s average.

According to real estate experts, the robust demand by young professionals is strong for communities closer to the city. They state that young families are competing with baby boomers for entry-level and moderately priced homes especially close to downtowns and train stations.<sup>8</sup>

**Table 4**

Nassau County Housing Forecast by Quarter					
	2017				
	Q1	Q2	Q3	Q4	
New Mortgages	-0.65%	-0.38%	0.53%	1.45%	
Refinances	-20.26%	-23.78%	-27.87%	-32.18%	
Median Sale Price	0.76%	0.51%	0.24%	0.01%	
	2018				
	Q1	Q2	Q3	Q4	
New Mortgages	1.67%	1.20%	0.13%	-1.03%	
Refinances	-36.36%	-39.17%	-34.34%	-12.87%	
Median Sale Price	-0.12%	-0.15%	-0.09%	0.02%	

Source: Moody’s Economy.com

Looking forward, Table 4 depicts Moody’s current Nassau County housing market forecast by quarter. Moody’s envisions positive annual new mortgage growth in 2017 (Table 1, page 1),

<sup>8</sup> McDermott, Maura, “Report: LI Home Prices up 4.9% over Last Year”, [Newsday.com](http://Newsday.com), January 26, 2017.

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where negative first half 2017 quarterly growth is more than offset by the positive second half 2017 quarterly growth.

Mortgage refinances are expected to decrease each quarter throughout 2017 and 2018 as interest rates are expected to rise.

## Prices

The Consumer Price Index (CPI) is a measure of the average change in the prices of goods and services purchased by households over time. Regional consumer prices were up 2.1% in December 2016 from the prior year. The Bureau of Labor statistics attributed the increase to escalating residential rents, natural gas prices, gasoline prices, and health care costs.<sup>9</sup>

**Table 5**

Regional Consumer Price Forecast by Quarter				
	Q1	Q2	Q3	Q4
2017	0.94%	0.76%	0.77%	0.87%
2018	0.83%	0.90%	0.88%	0.96%
2019	0.95%	0.93%	0.93%	0.86%
2020	0.85%	0.85%	0.86%	0.85%
2021	0.82%	0.56%	0.53%	0.65%

Source: Moody's Economy.com

Looking forward, regional consumer prices are expected to rise from 2017 to 2021. The quarterly forecast for regional consumer prices for this period is shown in Table 5.

Much of the forecast price growth may be attributed to projected increases in the price of oil. Industry analysts state that oil prices in 2017 are on track for their biggest annual gain since 2009 due to OPEC and other major producers' agreement to cut crude output.<sup>10</sup>

<sup>9</sup> Madore, James T., "NY Metro Area Prices Rise at Fastest Pace in 3 Years", [Newsday.com](http://www.newsday.com), January 18, 2017.

## Sales Tax Predictors

Sales tax collections are a significant revenue source for the County, as such it is an important revenue to monitor and forecast. Common predictors of sales tax growth are GCP, personal income growth, consumer price growth, and resident employment levels.

Excluding resident employment levels, the current Moody's regional forecast envisions positive annual growth for all of these variables in 2017. Moreover, the 2017 forecast for personal income growth exceeds the forecast for consumer prices, resulting in increased consumer purchasing power.

Individuals require both the means and motivation to make a purchase. Siena Research Institute's survey of New Yorker buying plans reveals that the motivation to make a major purchase over the next six months is increasing. Table 6 shows that New Yorkers' overall buying plans have increased 0.9% from the prior year. This should positively impact 2017 sales tax collections.

**Table 6**

New York Statewide Buying Plans Survey			
Category	4th Qtr 15	4th Qtr 16	%
Car/Truck	16.8	14.6	-13.1%
Consumer Electronics	43.0	46.3	7.7%
Furniture	27.7	24.4	-11.9%
Home	7.7	8.8	14.3%
Major Home Improvement	19.9	22.0	10.6%
Total	115.1	116.1	0.9%

Source: Siena College Research Institute

Automobile sales are a significant driver of sales tax collections. According to the National Automobile Dealers Association, 2016 US sales are expected to reach a record of 17.5 million. However, due to rising interest rates and vehicle

<sup>10</sup> Zawadzki, Sabina, "Update 4-Oil Prices on Track for Biggest Yearly Gain since 2009", [CNBC.com](http://www.cnbc.com), December 30, 2016.

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prices, sales are forecast to fall to 17.1 million in 2017.<sup>11</sup>

An additional inhibitor to County sales tax collection growth is a recent saving trend. An analysis by Fidelity found that workers are contributing more to their 401(k)s and taking out fewer loans from them. Only 21% of workers were found to have a loan outstanding from their 401(k), the lowest level in seven years.<sup>12</sup> Savings is good for long-term economic growth, but can stymie annual sales tax growth.

## Lodging Industry

Table 7 displays the annual average Nassau County hotel / motel occupancy rate and average daily room rate from 2012 to 2016.

**Table 7**

Year	Average Occupancy Rate	Average Daily Rate
2012	75.26%	\$135.32
2013	78.87%	\$141.99
2014	75.56%	\$142.76
2015	78.30%	\$143.00
2016	79.69%	\$148.11

Source: Long Island Convention & Visitors' Bureau

Nassau's tourism industry experienced robust demand in 2016 as rates were able to rise without dampening occupancy levels. Indeed, Nassau County hotels and motels recorded five-year highs both in terms of occupancy and price; surpassing levels seen in 2013 when the federal government sheltered a number of County residents displaced by Superstorm Sandy in local hotels and motels.

The strong tourism demand may be seen in the job data. According to NYS Department of

Labor figures, Long Island leisure and hospitality jobs have risen 3.3% over the past year. Moreover, according to Moody's, Nassau County leisure and hospitality jobs are forecast to grow 0.3% in 2017 and 3.4% over the next five years.

## Conclusion

Both the national and local economies moved forward in 2016 and are forecast to record positive growth in 2017. The pace of 2017 economic growth is expected to exceed that of 2016. Moreover, 2017's growth is projected to be broad based with positive non-farm job, residential housing, tourism, personal income, and consumer prices all registering positive annual economic activity. Lastly, recent consumer surveys found that households feel confident enough to increase their purchases.

However, there are risks to the forecast. These include interest rate rising higher than forecast, resident employment falling more than forecast and individuals saving and / or paying down debt more than forecast.

**Prepared by:**  
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<sup>11</sup> The Associated Press, "U.S. Auto Sales Near Record Highs in 2016", [Newsday.com](http://www.newsday.com), January 4, 2017.

<sup>12</sup> The Associated Press, "Workers Contributing More to, Borrowing Less from 401(k)