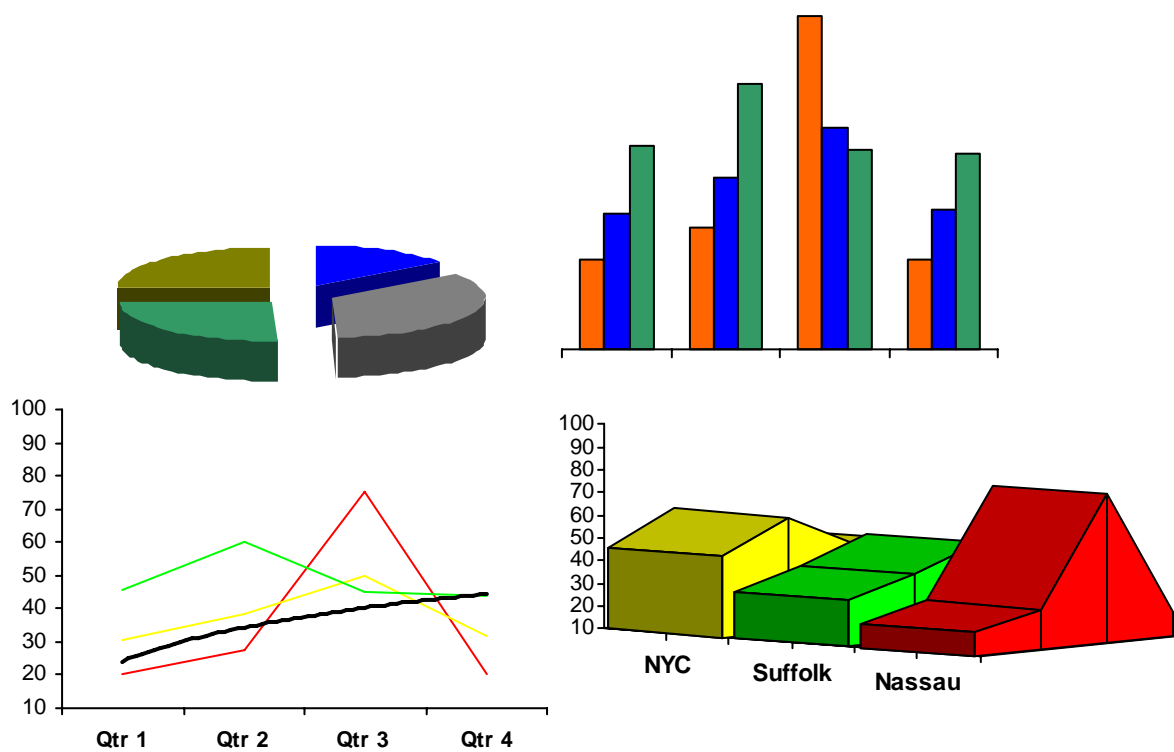




NASSAU COUNTY LEGISLATURE

Office of Legislative Budget Review

Nassau County Economic Indicators



February 2006




ERIC C. NAUGHTON
DIRECTOR
OFFICE OF LEGISLATIVE
BUDGET REVIEW

NASSAU COUNTY LEGISLATURE
ONE WEST STREET
MINEOLA, NEW YORK 11501
(516) 571-6292

Inter-Departmental Memo

To: Hon. Lisanne Altmann, Chairperson
Members of the Budget Review Committee

From:  Eric C. Naughton, Director
Legislative Budget Review

Date: February 16, 2006

Re: February 2006 Economic Report

Attached is a copy of the Office of Legislative Budget Review's monthly economic report. This report is intended to assist the Legislature in making policy decisions and in assessing budgetary forecasts. From time to time it will be modified to include data that relates to specific events. The data presented is the most current as of the date of circulation and is the most geographically relevant.

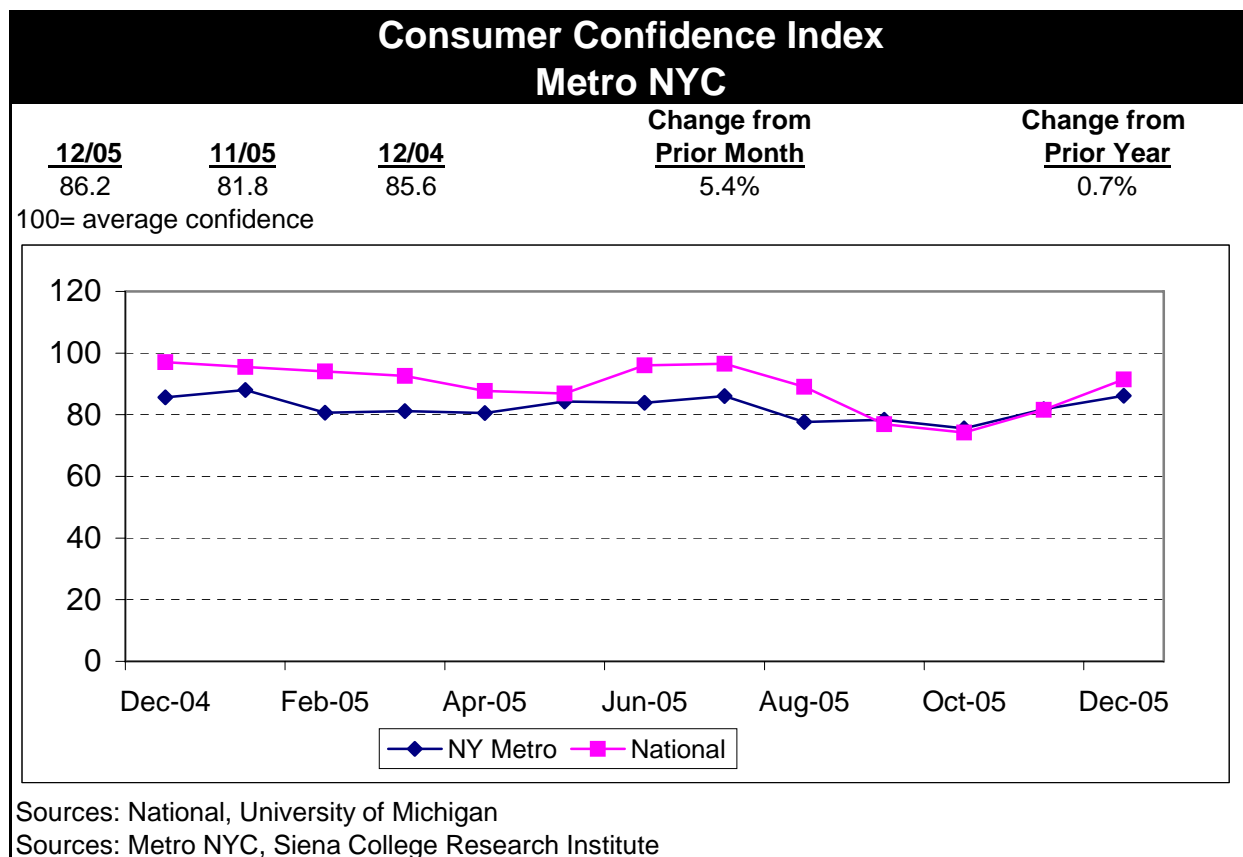
cc: Hon. Howard Weitzman, County Comptroller
David Gugerty, Majority Counsel
Mark Young, Budget Director
Richard Luke, Executive Director, NIFA
Dan McCloy, Special Assistant Minority
Ed Ward, Special Assistant to Minority
Tom Stokes, Deputy County Executive
Carol Trottere, Majority Press Secretary
Marilyn Gottlieb, Director of Legislative Affairs
Bill Geier, Clerk of the Legislature
Fran Evans, Majority Chief of Staff

February 2006 Monthly Economic Indicators Report

The national economy surprised everyone registering 1.1% real GDP growth in the fourth quarter of 2005; the slowest pace in three years. Analysts were expecting growth of 2.8%. The slow real GDP growth was a function of declines in consumer spending, government spending and restrained business capital spending.¹ Although fourth quarter real GDP growth was weak, the Federal Reserve felt that the economy was secure enough to withstand another interest rate increase. On January 31, 2006, the Federal Reserve raised rates another quarter percent. The Federal Funds rate now stands at 4.5%.² The local economy similarly showed signs of sluggishness. The housing sector continues to cool off. In the labor market, not only was job growth below the level indicative of healthy growth, but the wages being paid to local residents have barely managed to keep up with inflation. Assuming the housing market continues to cool, wages continue to struggle to keep pace with inflation, and interest-rates increase a couple more times, it will be difficult for the economy to register robust growth in 2006.

Consumer Confidence Index

In December 2005 consumer confidence rose regionally and nationally from a monthly perspective. From an annual perspective regional consumer confidence increased 0.7% and national consumer confidence fell 5.8%. The chart below details the monthly changes recorded by both the national and regional consumer confidence indices over the prior year.



¹ Aversa, Jeannine, "Economy Grows at Slowest Pace in 3 Years", 1010Wins.com, January 27, 2006.

² "Fed Hints End Near for Rate Hikes", CNN/Money.com, January 20, 2006.

According to Douglas Lonnstrom, Director of the Siena Research Institute, the decline in gasoline prices coupled with mild December weather contributed to the monthly increase in consumer confidence.³

Coinciding with the heightened consumer confidence, consumer spending rose 0.9% in December. Unfortunately, the 0.9% consumer spending increase was more than double the 0.4% monthly increase in incomes.⁴ To finance their spending consumers ran up credit card debt and dipped into savings. If wages remain stagnant and interest rates continue to rise, it is doubtful that the current rate of consumer spending can be sustained in the future.

However, the 0.9% December increase in consumer spending did not appear to translate into higher County sales tax collections. The gains in consumer spending may have been offset by the strong growth in non-taxable Internet sales exhibited during the holiday season. According to Nielsen/NetRatings, total web purchases over the holiday season increased 30% from the prior year. In 2005, online purchases represented 27% of holiday spending. That is up from 22% in 2004 and 16% in 2002.⁵

Consumer Price Indexes

| New York-Northern Jersey-Long Island, NY-NJ-CT-PA region | | | | | |
|--|--------------|--------------|--------------|------------------------------------|-----------------------------------|
| | <u>12/05</u> | <u>11/05</u> | <u>12/04</u> | <u>Change from Prior Month</u> | <u>Change from Prior Year</u> |
| US City, CPI-U | 196.8 | 197.6 | 190.3 | -0.4% | 3.4% |
| Regional CPI-U | 214.2 | 215.3 | 206.8 | -0.5% | 3.6% |
| Core CPI-U (All Items less energy) | 219.1 | 219.7 | 213.6 | -0.3% | 2.6% |
| Medical | 332.8 | 331.4 | 322.2 | 0.4% | 3.3% |
| Housing | 228.5 | 229.3 | 218.4 | -0.3% | 4.6% |
| Gasoline (all types) | 172.0 | 183.3 | 154.2 | -6.2% | 11.5% |

Source: Bureau of Labor Statistics, figures are not seasonally adjusted

Consumer prices fell both nationally and regionally from a monthly perspective in December 2005. Monthly regional declines in the apparel, other, housing and transportation categories caused the all-items index to fall. The monthly decline in the transportation category was a result of the 6.2% fall in gasoline prices. The decline in gasoline prices was short-lived. According to the American Automobile Association's survey of gas price on Long Island, from December 2005 to January 2006 gasoline prices rose 14 cents a gallon.⁶

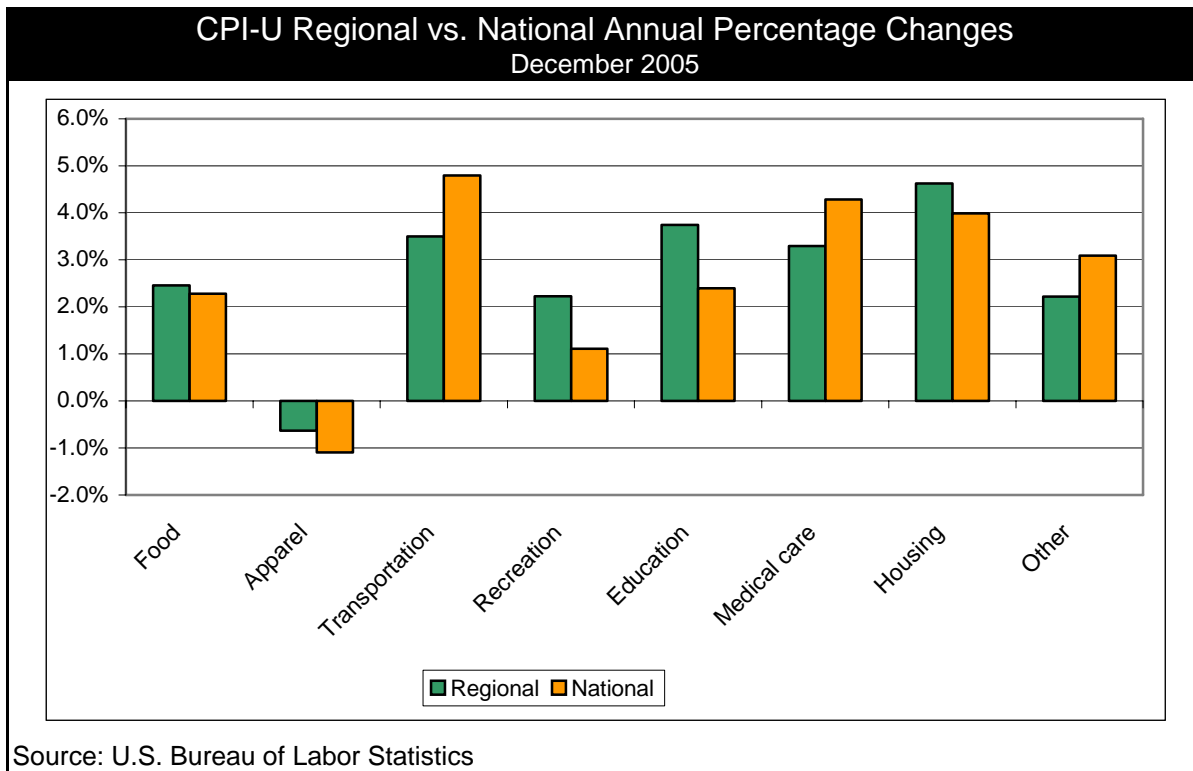
³ "NYS Consumer Confidence Jumps", Monthly Consumer Confidence Survey, Siena Research Institute, January 20, 2006.

⁴ Crutsinger, Martin, "Savings Rate at Lowest Level Since 1933", 1010Wins.com, January 30, 2006.

⁵ Barbaro, Michael, "Internet Sales Show Big Gains Over Holidays", NYTimes.com, December 30, 2006.

⁶ Incantalupo, Tom, "Gas Prices on the Rise Again", Newsday.com, January 5, 2006.

From an annual perspective, national and regional prices rose. Regional prices appreciated 0.2% more than national prices. The chart below details the annual changes seen in both the regional and national consumer price indices. Regionally, the greatest increases were posted in the housing and education sectors. Nationally, the transportation and medical care sectors recorded the highest annual growth.



Unfortunately, average weekly wages have been experiencing a difficult time keeping pace with the consumer price increases detailed above. According to U.S. Bureau of Labor Statistics data, Nassau County real average weekly wages fell 3.2% between the first quarter of 2002 and the first quarter of 2005. In Suffolk County real average weekly wages fell 4.2% over the same time period.⁷ However, in the past two years, wages did make some strides but were barely able to keep up with inflation. The chart on the next page details the average real wage growth by County during the 24-month period ending June 30, 2005.⁸

⁷ Marshall, Randi F., and Keiko Morris, "Inflation Undermines LI Wages", [Newsday.com](http://www.newsday.com), January 26, 2006.

⁸ Christie, Les, "Real Wages are Having Trouble Keeping Up with Prices", [CNN/Money.com](http://www.cnn.com), January 30, 2006.

| Real Wages by County | | | | |
|-----------------------------|-------------------|-------------------|----------------|-------------|
| County | 2003 Wages | 2005 Wages | Nominal | Real |
| Westchester | \$919 | \$1,001 | 8.92% | 2.85% |
| New York | \$1,250 | \$1,350 | 8.00% | 1.98% |
| Richmond | \$645 | \$694 | 7.60% | 1.60% |
| Suffolk | \$757 | \$814 | 7.53% | 1.54% |
| Erie | \$625 | \$671 | 7.36% | 1.38% |
| Monroe | \$730 | \$783 | 7.26% | 1.28% |
| Nassau | \$805 | \$863 | 7.20% | 1.23% |
| Kings | \$626 | \$671 | 7.19% | 1.22% |
| Rockland | \$775 | \$826 | 6.58% | 0.64% |
| Oneida | \$560 | \$596 | 6.43% | 0.50% |
| Dutchess | \$738 | \$785 | 6.37% | 0.44% |
| Bronx | \$693 | \$733 | 5.77% | -0.12% |
| Albany | \$744 | \$779 | 4.70% | -1.13% |
| Onondaga | \$670 | \$700 | 4.48% | -1.34% |
| Queens | \$725 | \$755 | 4.14% | -1.66% |
| Broome | \$604 | \$625 | 3.48% | -2.29% |

Local Area Employment Figures

The Long Island area experienced strong employment growth in December 2005. Not only did Nassau and Suffolk experience labor force growth from both a monthly and an annual perspective, but also most of the new entrants were able to find work since the number of employed residents rose while the number of unemployed residents fell. The net result of all these forces was a monthly and annual decrease in the unemployment rate.

In New York City, although the area experienced growth in the number of employed residents coupled with a decline in the number of unemployed residents, this was accomplished by shrinking its labor force. New York City's labor force declined 0.03% from a monthly basis and 0.02% from an annual perspective.

Nationwide, from a monthly perspective there was no growth in employed residents and the labor force declined. However, the monthly declines were not sufficient to erase the growth made over the past year. From an annual perspective throughout the nation, the labor force has grown, there are more employed residents and fewer unemployed residents.

The chart below details these labor market changes.

| Comparison of Employment Statistics (figures in thousands) | | | | | |
|--|--------------|--------------|--------------|------------------------------------|-----------------------------------|
| | <u>12/05</u> | <u>11/05</u> | <u>12/04</u> | Change from Prior Month | Change from Prior Year |
| Nassau | | | | | |
| Employed | 675 | 668 | 667 | 1.0% | 1.2% |
| Unemployed | 27.5 | 29.1 | 29.0 | -5.5% | -5.2% |
| Unemployment rate | 3.9% | 4.2% | 4.2% | -7.1% | -7.1% |
| | 702.5 | 697.1 | 696.0 | | |
| Suffolk | | | | Change from Prior Month | Change from Prior Year |
| Employed | 752.7 | 744.9 | 743.8 | 1.0% | 1.2% |
| Unemployed | 31.6 | 33.2 | 33.3 | -4.8% | -5.1% |
| Unemployment rate | 4.0% | 4.3% | 4.3% | -7.0% | -7.0% |
| | 784.3 | 778.1 | 777.1 | | |
| NYC | | | | Change from Prior Month | Change from Prior Year |
| Employed | 3,523.5 | 3,503.9 | 3,502.8 | 0.6% | 0.6% |
| Unemployed | 214.2 | 235.0 | 235.8 | -8.9% | -9.2% |
| Unemployment rate | 5.7% | 6.3% | 6.3% | -9.5% | -9.5% |
| | 3737.7 | 3738.9 | 3738.6 | | |
| Nation | | | | Change from Prior Month | Change from Prior Year |
| Employed | 142,918.0 | 142,968.0 | 140,278.0 | 0.0% | 1.9% |
| Unemployed | 6,956.0 | 7,271.0 | 7,599.0 | -4.3% | -8.5% |
| Unemployment rate | 4.6% | 4.8% | 5.1% | -4.2% | -9.8% |

Source: New York State Department of Labor and US Bureau of Labor Statistics

Nassau-Suffolk Non-agricultural Employment

| Non-agricultural Employment Nassau-Suffolk Area (figures in thousands) | | | | | |
|---|-----------------------|-----------------------|-----------------------|------------------------------------|-----------------------------------|
| | <u>12/05</u> | <u>11/05</u> | <u>12/04</u> | <u>Change from Prior Month</u> | <u>Change from Prior Year</u> |
| Educational & Health Services | 205.5 | 204.7 | 201.9 | 0.4% | 1.8% |
| Financial Activities | 83.3 | 83.2 | 83.8 | 0.1% | -0.6% |
| Government | 202.5 | 202.0 | 202.3 | 0.2% | 0.1% |
| Information | 29.6 | 29.1 | 29.3 | 1.7% | 1.0% |
| Leisure & Hospitality | 94.9 | 95.7 | 94.2 | -0.8% | 0.7% |
| Manufacturing | 89.1 | 88.7 | 89.3 | 0.5% | -0.2% |
| Natural Resources, Construction & Mining | 67.8 | 69.2 | 67.3 | -2.0% | 0.7% |
| Other Services | 52.3 | 52.3 | 51.4 | 0.0% | 1.8% |
| Professional & Business Services | 161.5 | 160.7 | 157.8 | 0.5% | 2.3% |
| Retail Trade | 174.3 | 169.7 | 173.9 | 2.7% | 0.2% |
| Transportation, Warehousing & Utilities | 39.7 | 39.3 | 39.0 | 1.0% | 1.8% |
| Wholesale Trade | 73.5 | 72.9 | 73.7 | 0.8% | -0.3% |
| Total | <u>1,274.0</u> | <u>1,267.5</u> | <u>1,263.9</u> | <u>0.5%</u> | <u>0.8%</u> |
| Source: NYS Department of Labor | | | | | |

December 2005 was a positive, albeit a slow month on the regional job front. The Long Island region exhibited positive job gains from both a monthly and an annual perspective. However, neither the monthly nor annual job gains attained the 1% growth rate indicative of a healthy economy.

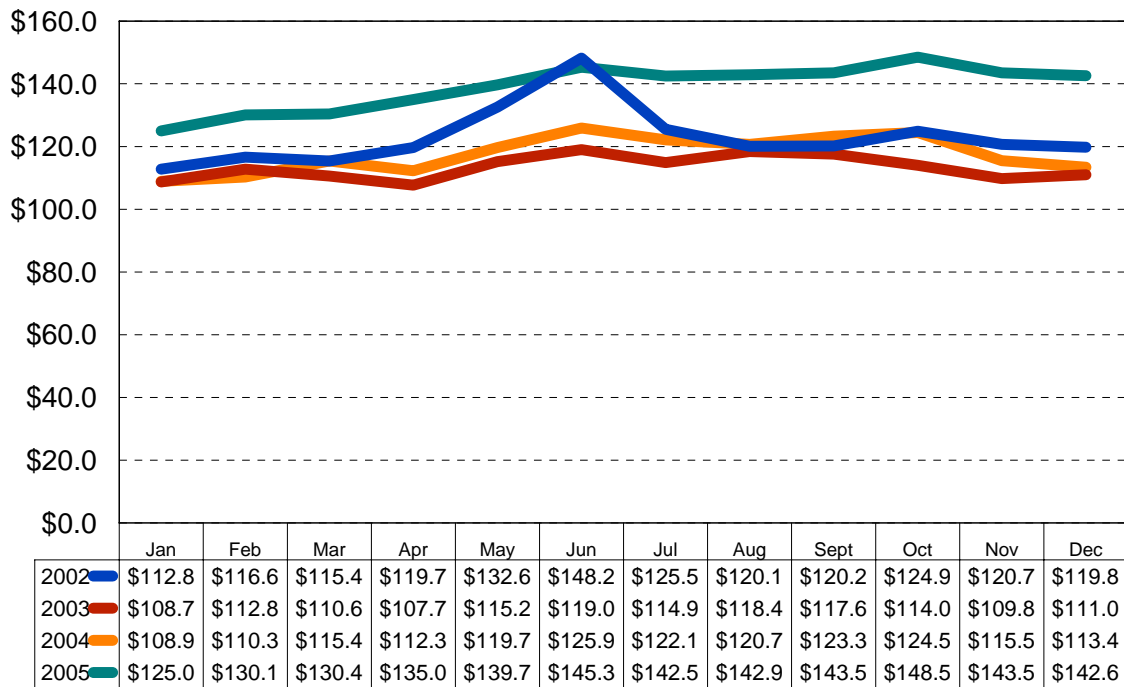
From a monthly perspective, the job gains were well diversified with 9 of the 12 sectors surveyed registering an increase. The greatest gains were in the Retail Trade sector. Gains in that sector are to be expected during the holiday season. The Transportation and Information sectors also experienced job growth of 1% or more. Job losses were recorded in the Natural Resources, Construction & Mining and Leisure & Hospitality sectors. These sectors typically slow down during the winter months.

From an annual perspective job gains were widespread with 9 of the 12 sectors showing an increase. The greatest annual percentage increase was in the Professional & Business Services sector. Within the Professional & Business Services sector, the greatest job growth was seen in the Administration & Supply and Waste Management & Remediation Services sub-sectors. The largest decrease was in the Financial Activities sector. Within the Financial Activities sector, the Depository Credit Intermediation and Insurance Carriers and Related Activities sub-sectors experienced the largest declines.

The Lodging Industry

From a monthly perspective Nassau’s average room rental rate and occupancy rate declined in December 2005. From an annual vantage point, Nassau’s average room rental rates rose while occupancy rates declined.

Nassau County Average Room Rental Rate



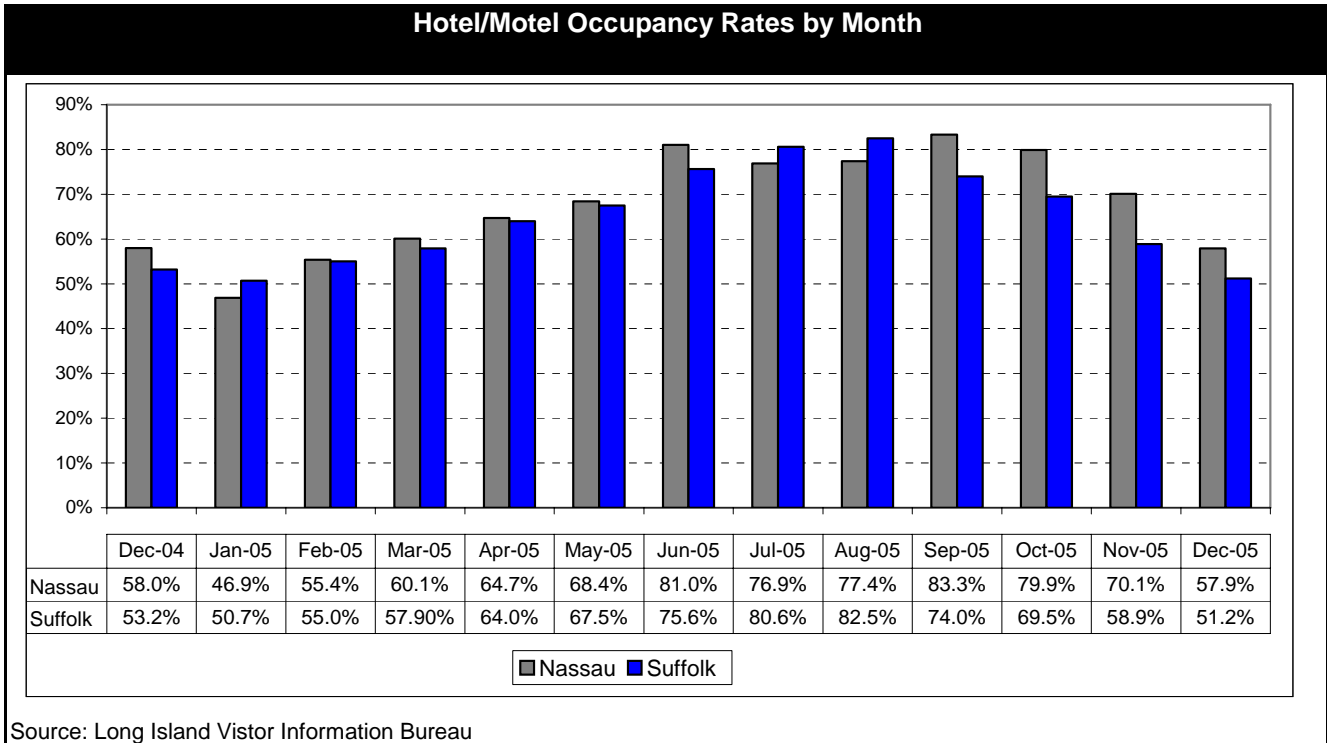
Source: Long Island Convention & Visitor’s Bureau

The chart above details average room rental rates in Nassau by month over the previous four years. December 2005’s average room rental rate in Nassau was \$142.60. That was 25.7% greater than December 2004 and was the highest December rate seen over the past four years.

| Nassau County Hotel / Motel Occupancy Rate | | | | | |
|---|--------------|--------------|--------------|------------------------------------|-----------------------------------|
| | <u>12/05</u> | <u>11/05</u> | <u>12/04</u> | <u>Change from Prior Month</u> | <u>Change from Prior Year</u> |
| Occupancy Rate | 57.9% | 70.1% | 58.0% | -17.4% | -0.2% |

Source: Long Island Convention and Visitors Bureau

The chart above page details hotel/motel occupancy rates in Nassau County from a monthly and an annual perspective. The chart below records Nassau and Suffolk County occupancy rates by month over the past year. In both Nassau and Suffolk, occupancy rates decreased on a monthly and an annual basis.



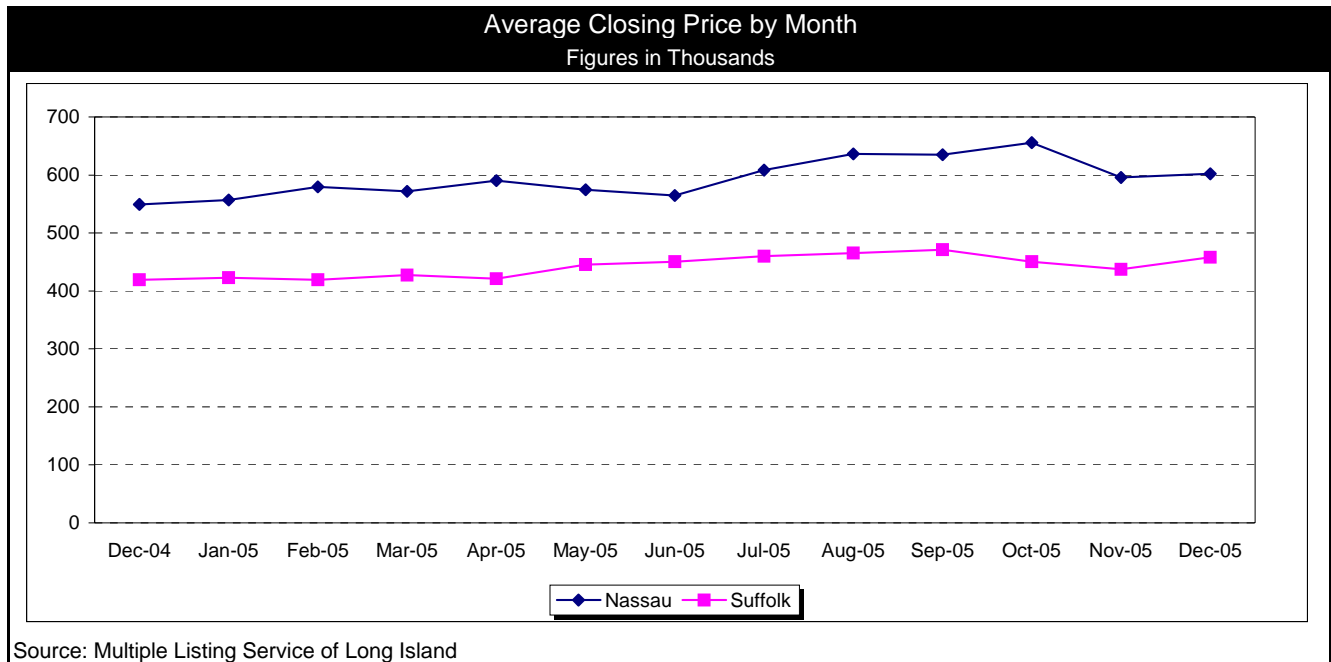
Residential Housing Market

Nationally, the real estate market cooled down in December 2005. According to the National Association of Realtors, sales of previously owned homes and condominiums dropped 5.7% in December 2005. December’s decrease was the third straight monthly decline. The decreases were not sizeable enough to erase the gains made over the year. At year-end, sales of existing homes were up 4.2% from the prior year.⁹

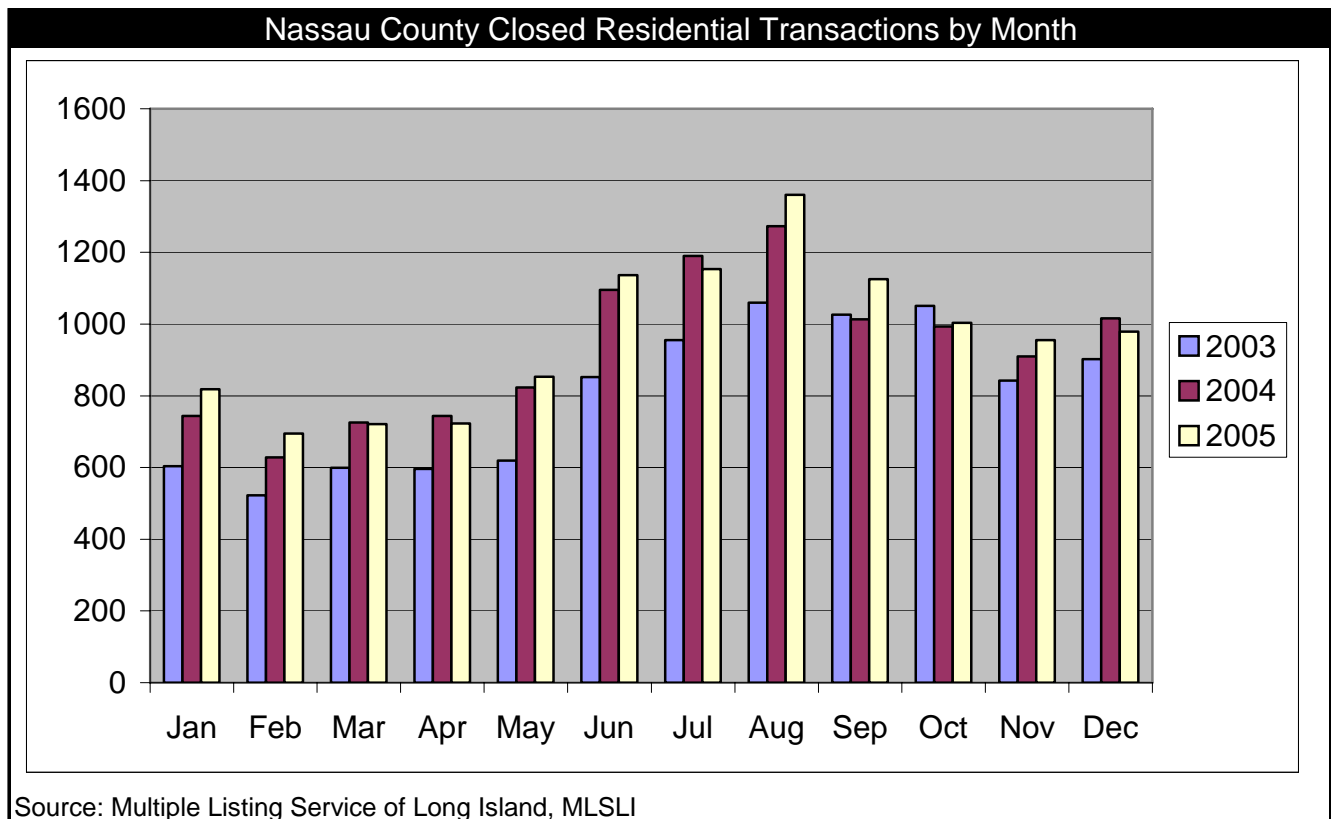
Similar trends were witnessed locally. In December 2005, the residential housing market on Long Island slowed down in terms of transactions and inventory levels. Housing prices ended the year on a high note. Average closing price in Nassau County ended the year up 9.6% from the prior year. In

⁹ Crutsinger, Martin, “Existing Home Sales Set Record but Cooling”, 1010Wins.com, January 25, 2006.

Suffolk, average closing price at year end had increased 9.3%. The chart below shows the average closing price in Nassau and Suffolk by month over the past year.



Long Island’s housing market is cooling off in terms of inventory levels. Compared to this time last year, the number of unsold homes in Nassau is up 58.2%. In Suffolk County residential inventory levels have increased 54.2% from December 2004.



The chart on the prior page details closed residential transactions in Nassau by month over the past four years. In December 2005 there were 979 closed transactions in Nassau County. That represents a 3.6% decrease from December 2004's level.

Looking forward, experts are expecting 2006 to be a slow year for housing on Long Island. Moody's Economy.com and Fiserv CSW analyzed home price appreciation in the 100 largest metropolitan regions in the Country. Based upon this research, they are projecting an average 7% real estate appreciation nationwide in 2006. In 2007, they envision no real estate appreciation on average nationwide. At a metropolitan level, the report forecasts a third of the nation's 100 largest metropolitan areas will see modestly declining housing prices. For Nassau and Suffolk counties, the report projects a 2.0% decline in 2006 and a 4.2% decline in 2007.¹⁰

Conclusion

Although fourth quarter 2005 real GDP growth was slow, annual 2005 real GDP grew 3.5% from the prior year.¹¹ Moreover, most economists view the fourth quarter weakness as a temporary set-back and expect real GDP growth in 2006 to be in the 3.4% to 3.5% range. Initial January consumer sales reports seem to confirm the assertion that the weak fourth quarter results were temporary. Retailers have been reporting better-than-expected sales for the month of January 2006.¹²

¹⁰ Kratz, Ellen Florian, "Real Estate: Is the Party Over?", CNN/Money.com, December 16, 2005.

¹¹ Aversa, Jeannine, "Economy Grows at Slowest Pace in 3 Years", 1010Wins.com, January 27, 2006.

¹² "Retail Sales Up on Gift Cards and Warm Weather", NYTimes.com, February 2, 2006.